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 Zillow Rated 5 ★★★★★

# The Skarphol Rapport<sup>©</sup>

**Q1-2021**



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SELLERS STILL  
 CELEBRATING...  
 BUYERS  
 RECALIBRATING



*"Doubt is not a pleasant state of mind,  
 but certainty is absurd."  
 Voltaire*

## QUARTERLY MARKET UPDATE - FOR BUYERS, SELLERS, AND INVESTORS

Hope this market update finds you well and adapting to a new normal. That new normal however, has a much higher level of uncertainty and unprecedented events. I sense a level of optimism and witness a remarkable resilience and our country adapts with aspirations for a better future for all. As evidence of this for example, Arizona's labor force has now grown to a level higher than before the pandemic. Further, Arizona's population growth is 4x's the level of the US population!

### EXECUTIVE SUMMARY – RESIDENTIAL REAL ESTATE MARKET IN 60 SECONDS

#### BUYERS:

Buyer demand is still 10% above normal, but intense competition and limited inventory has pushed demand in the direction of a normal range. What this means is that instead of 30 offers for a new listing, agents may now be getting only 12-15. The frustration for buyers is also exacerbated by upward pressure on interest rates coupled with continuing price escalation. The result is appreciation of 28% YOY. Further, 54% of sales are now closing over the list price with a median of \$15k over list.

The supply of new homes has not kept up with the in-migration and new household formation for the last decade thus creating a substantial deficit of over 200,000 homes. This can take a decade or more to correct because of lag time in developing new lot inventory, labor shortages, material shortages and escalating material costs. Building innovation in materials and methods is connecting with technology to force a long-over-due disruption of the home building industry.

What is my advice for buyers? If homeownership is your goal, then find the best property that meets your critical needs and submit your best offer. Including a personal note to the seller can sometimes be helpful. The best opportunities are those that maybe are 80%-90% of what your critical needs are and then accept a property that might need some additional investment or work to make it your 100% home. Being flexible is key to success. The seller's market is going to continue for the next few years, so anything you buy today will benefit from a 5%-15% annual appreciation. Remaining inflexible as a buyer means you will eventually get your 100% house, but it may take months or years and cost an additional 10%-30%. I use my experience and insight to find these opportunistic purchases for my Buyers and we win contracts!

#### SELLERS:

Current inventory of single-family homes is currently 80% below a normal seasonally adjusted level. Further, new listings coming to market are just keeping up with homes going under contract, so supply is still trending downward.

What is my advice for sellers? If you have a home on the market and it has not sold within the first 2 weeks, it is time to adjust price and or buyer incentives offered to secure a buyer, particularly if the goal is to sell in this market cycle to move on to something better or right sized. Time on the market is not your ally in this market. If you are contemplating selling, then put a little extra money, time, and effort to put the property in the best possible condition so when it hits the market you can secure a great first round buyer. If you are considering selling, but need to secure a new property first, then I suggest you get your home

ready to sell but test the market to determine if there are opportunities for you to buy and move before you list. One new option that might be a good fit if this is your situation is the Knock home swap program. See my comments on this below.

#### **KNOCK Home Swap Program:**

Sellers under \$750k have plenty of equity, but the move-up is extremely challenging because if they sell, can they find that new move-up home? A startup called KNOCK launched a Home Swap program to address this challenge. They provide a no interest bridge loan against existing equity to allow sellers to make non-contingent offers on a new property. The program provides up to \$25,000 towards making the home to be sold market ready and competitive. It will also advance up to 6 months of loan payments on the home to be sold. The seller can buy, move and then have up to 6 months to sell. I am certified to assist with this program, so if the stress of selling and buying concurrently has kept you from entering the market, just call me for details. This program works up to a purchase price of \$750k.

#### **LUXURY MARKET:**

The \$1M and up luxury market is surging with 3,000sq ft – 10,000 sq ft homes showing an annual appreciation rate of 30%-33% YOY! Further, 28% of sales are closing above the list price with \$53k being the median offer over asking price. Demand is fueled by buyers relocating from California, Illinois, Iowa, and Ohio, primarily paying cash. Inventory is also declining, but the year in luxury is on pace to break unprecedented levels in sales volume and units.

**LUXURY LAND OPPORTUNITIES:** Call me if you are interested in luxury living on acreage with privacy, security, and views! Large parcels some with spectacular homes, many with no HOA. From 20 to 70-acre estates and/or acreage currently available in Cave Creek.

#### **LUXURY TESTIMONIALS:**

*"Steve was referred to us from a friend. He was on the task from day one. He could always be reached and responded immediately to anything we needed. We appreciated that most of all. We never had to wait for an answer from him. He is a very professional realtor. He takes the sale of your home seriously and he gets the job done. THANK YOU, Steve!"*

K.S. \$2.5M Single Family Estate

*"Steve was instrumental in helping us secure a land lot for which to build a house. He was so knowledgeable about each area we looked at, incredibly patient with our search, and was just so responsive at all times. We are in Florida, and it was almost as if he was keeping eastern time zone hours. He stayed on top of all deadlines as the closing process came to a head. And has put us in touch with some trusted referrals to get us on our path to build our home."*

J.D. \$2M Single Family New Build - Luxury Lot

*"Steve was both the seller and buyer agent. He did a great job of walking the line between us. He was always very professional, knowledgeable, and showed great patience in negotiating and completing the deal. We had some issues to be completed after the deal and Steve has been very helpful and focused on seeing them through. I would use him again and recommend him to others."*

M.H. \$1.4M Townhouse – Limited Dual Agent

#### **EXECUTIVE SUMMARY – COMMERCIAL REAL ESTATE MARKET IN 60 SECONDS**

**Multi-family:** Remaining one of the strongest asset classes for demand and investment, pushing cap rate to the low 5% and averages sales price per unit above \$180k. Rents are averaging over \$1200 per month with the vacancy now trending at 5%. Over 10K units have sold in Q1 while the gross rent multiplier has declined from 12 to 8.5. Sans inventory constraints more records ahead for all the fundamental measures in this market.

**Medical Office:** The health care sector is recovering jobs after a 6.4% decline in employment in 2020. Telehealth services are leading the recovery with new investor attention focused on these assets looking forward in 2021. Sales volume improved with prices moving up, albeit modestly from a 3.7% gain in 2020. I expect some attractive investment opportunities with 6%-8% cap rates to develop in the months ahead as the pandemic mitigates.

**Office:** Absorption is down 33% in Q1, reflecting the impact of the pandemic on this segment. Asking rents remain near record highs, but still represent a significant value when compared to other major metropolitan areas. Subleasing is the highest in 15 years and doubled YOY, so companies continue to respond to a new normal in a growing economy.

**Industrial:** Record supply of 18M sq ft in 2020 has been surpassed by over 16M sq ft under construction in Q1 of 2021. The pandemic has fueled last-mile and eCommerce demand for warehouse in the southwest valley. This surging demand has also pushed rental rates to a new high of \$.65 NNN and sales prices to \$139 per sq ft. Completion of major freeway projects on the 202 and 303 have also contributed to the inventory expansion in the region.

**Retail:** Brick-and-mortar retail continues to struggle as a result of the pandemic resulting in a 500,000 sq ft negative absorption last year for the first time since the Great Recession. This factor increased the average retail vacancy up to 7.7%. Retail is responding in a refined and disciplined manner with an optimistic forward look as jobs, wage and population growth portend new demand for retail. Sales in this asset class may be impacted with proposed changes in the 1031 exchange tax provisions impacting investors with incomes over \$400k, which represent 40 to 50 percent of multi-tenant retail transactions.

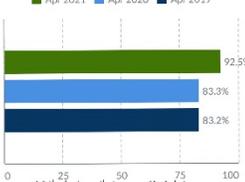
**Land:** "BOOM!" describes the land market. Road completions on the loop 303 and 202 corridors have accelerated industrial, manufacturing and warehouse land absorption. All finished home building lots were absorbed by mid-2019, so homebuilders extended land acquisitions to west of the White Tanks, Southeast Buckeye, City of Maricopa, San Tan Valley and Pinal County. With over 100,000 new residents arriving each year recently, land will be in high demand for years to come.

# PHOENIX METRO RESIDENTIAL REAL ESTATE

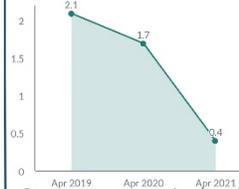
Annual Changes from April 7th, 2020 to April 7th, 2021



### LISTING SUCCESS RATE



### MONTHS OF SUPPLY



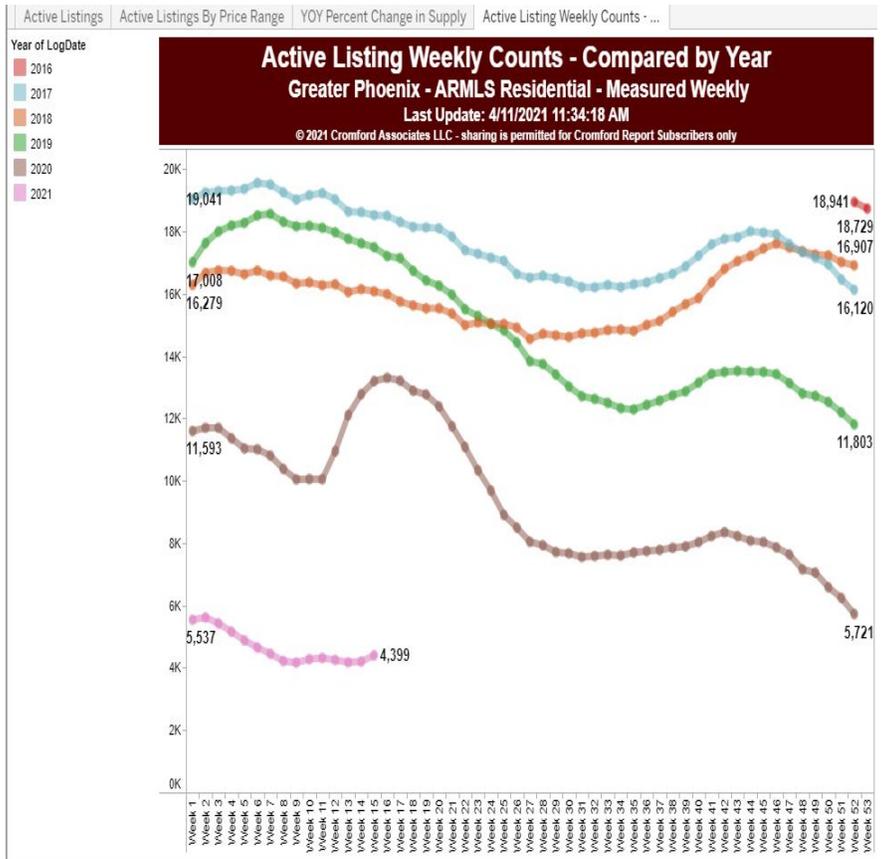
Of the Listings that came off of Active or Pending Status, 92.5% successfully closed escrow while 15% cancelled or expired.

If no new listings were to come on the market, at the current monthly rate of sales, inventory would run out in 0.4 months.

Encompassing the Arizona Regional MLS area, which includes Maricopa County, Pinal County, and a small part of Yavapai County.

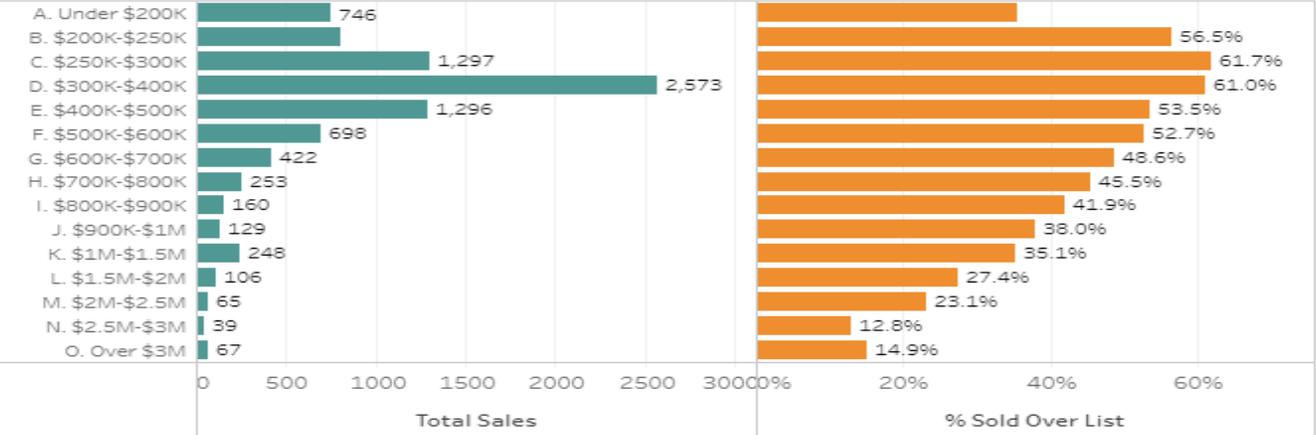
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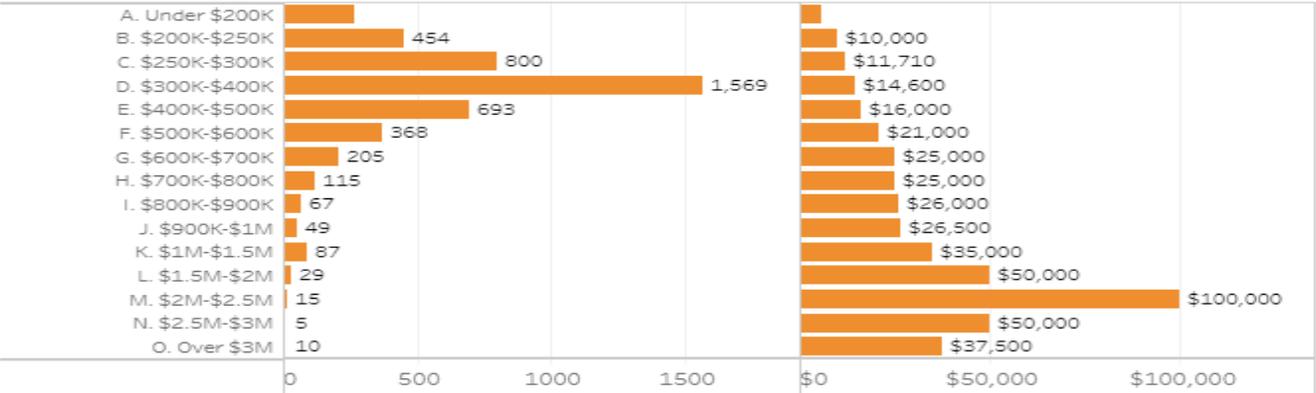


## Closings over List Price - by Price Range Last 30 Days

### List Price Rang..



### List Price Ranges



SOURCES: Michael Orr, The Cromford Report, The Information Market, Phoenix Business Journal, The Rose Law Group/Belfiore – Dealmaker  
ARMLS - the most accurate and comprehensive Arizona Real Estate Statistics and Data available

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