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# The Skarphol Rapport<sup>©</sup>

**Q4-2021**



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**Bounding into 2022**  
**A Fast-Paced**  
**Market Indeed!**



**"Leap of faith – yes, but only after reflection."**  
 Søren Kierkegaard

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

**Again, sincere thanks to all my valued existing and new clients who contributed to me having another record year; your continued loyalty and referrals are much appreciated.**

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

The Q4 results are in and punctuate a year of superlatives and extremes! Record level sales volume, sales prices and units sold contrasts sharply against the dearth of listings of homes for sale. Add in the abysmal failure of Zillow Offers as an iBuyer in our market armed with \$2B in private equity abruptly pulling out of the business in anticipation of a \$500 million dollar loss. Clearly technology and AI gone haywire to fail in a time when pricing jumped 35% YOY! Couple this with the chaos caused by everything pandemic and a full-on assault of our democracy on Jan 6<sup>th</sup> by our former President. Bottom line is we survived and thrived, now stronger with greater determination to progress towards a better future and robust 2022.

#### KEY STATISTICS – Single-family homes:

Active Listings: **5,397 - down 5% YOY, but lowest level for January in the last 20 years.**  
 Listings Under Contract: **10,380 – down 5% YOY, but January 9,393 represents less than a 3-week supply of homes.**  
 Sales: **108,000 units – up 5% YOY, but 2021 is a new summit bypassing 2020 and supplanting prior 2006 peak.**  
 Sales Volume: **\$100.6B – up up and away...a new summit for Valley resales.**

**LUXURY MARKET:** Record corporate profits and surging economic strength have bolstered the luxury home sales market to new levels as evidenced by over 25% of these sales closing at an average of \$50k over the list price. Price appreciation is over 28% YOY and a continuing strong seller's market projected for 2022.

**BUYERS:** A difficult year for buyers at all price levels whether first-time, move-up or luxury. Competition has been intense with best properties attracting dozens of offers, cash offers, appraisal waivers, inspection waivers and endearing letters from buyers to sellers all in efforts to secure a property. Much of this will continue into the foreseeable future as considerable time in years is required to add new inventory. Further supply chain issues and labor shortages in the construction industry are hindering the new home builders in their efforts to respond to the demand. The best time to buy is during a seller's market as pricing continues to move up. Hopefully appreciation will cool a bit, but do expect to pay more for less in the years ahead.

**SELLERS:** At all prices levels, sellers own the market. The caveat for sellers is to be strategic and capitalize on the market conditions. That said, if a sale is planned, make those repairs and updates to position the property for the best financial outcome. As a part of the strategy sellers need to anticipate the cost of the replacement property and expect to pay more for less. Alternate strategies include converting the property to an investment property because the rental market is extremely strong as well. Creating a portfolio of rental income properties is a great hedge against inflation and a solid source of long-term income.

**LAND OPPORTUNITIES:** Purchasing land or a building lot and building a custom home is moving to main street. Currently working with several clients to locate a buildable lot for a current or future custom home. A great strategy to counter-balance price appreciation in the resale home market because replacement cost or new construction cost is still competitive so value can be created in the process. This is a one-to-two-year process, so not everyone's situation can accommodate this timeline. However, access to custom builders and production builders with standard plans is expanding to create more opportunity for this option. Further, accelerating innovation in modular and factory production creates a whole new palette of options as home buyers seek everything from a tiny home to top-of-the-line net-zero luxury custom homes. Exciting times!

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

**Multi-family:** Almost 12,000 units were absorbed in 2021 with 8,000 new units added and 24,000 units under construction. Average rents were \$1,457, up 20% YOY while the vacancy rate fell 17% to 4.7%. Rents are projected to increase another 18% in 2022 to an average of \$1,750. Demand was insatiable pushing the GRM to 16 and cap rates to 5.0%. Sales volume topped \$13.2B with the average price per unit settling at \$256,000 per key, a 33.2% increase. This segment obviously continues to attract vast amounts of PE capital investment as mortgage rates remain low. This segment is also experiencing expansion in the form of single-family-for-rent communities and single-family portfolios.

**Medical Office:** Private equity investment in this segment with 2021 setting a new record for deals. Healthcare service providers and physician practices facilities are in high demand as the world adapts to the new normal exacerbated by the COVID pandemic. Expansion to serve a growing population as we add nearly 300 persons per day is an accelerator. This has also caused inventory to shrink, new speculative construction to be absorbed; all reflected in increased sales price per square foot and reduced cap rates that follow.

**Office:** Heavily impacted by the COVID pandemic, the office segment is slowing recovering as companies return to work or adapt to an evolving remote tele-workforce. Rents should remain stable or decline slightly while vacancies will increase. Net result for this segment is increasing cap rates and continuing volatility.

**Industrial:** Off the charts! The volume and scale of the industrial market is exploding as new factories, warehousing, and logistics demands attract major investment. One west side developer is planning over 7 million square feet of speculative space in anticipation of the continuing demand as companies expand and relocate to the valley. Vacancy rates, cap rates and rents will continue to be volatile as projects are announced and existing inventory absorbed to meet market demands.

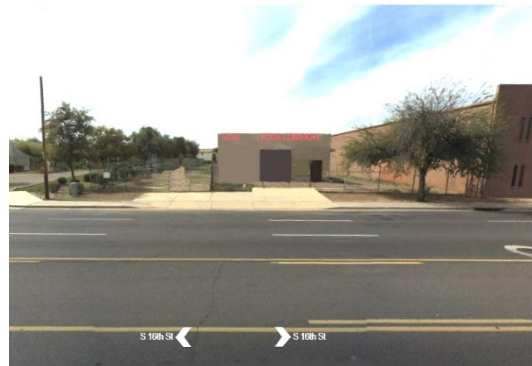
**Retail:** Impacted by store closings and the pandemic-stimulated consumer on-line shopping 'tsunami' has caused this segment to be pummeled financially. The end result is regional malls like Metro Center and Paradise Valley Mall are literally being demolished to give way to new open air shopping districts with residential, food, entertainment, employment, and transit elements.

**Land:** Many opportunities exist in residential, commercial, industrial, and long-term investment land. One example is the Howard Hughes Corporation just purchased a \$600m position in the 33,000 acre Douglas Ranch project created by JDM and Eldorado Holdings. Look for transformational development to occur in the west valley as world-class design and construction change the landscape.

### FEATURED NEW LAND LISTINGS: MULTI-FAMILY DEVELOPMENT SITE & AN INDUSTRIAL BUILDING SITE

Multi-Family or Mixed-Use Development  
Affordable and LIHTC housing opportunity!  
Prime Phoenix Intersection – I-17 & Indian School Rd  
Zoned C-3, R-5 - potential for - 320+ units

Owner-User Opportunity - 5020 S 16<sup>th</sup> St, Phoenix, AZ 85040  
Low Down & Interest SBA Loans Available!  
Manufacturing, Assembly, Distribution, or Storage Yard!  
A-2 Zoned – Heavy Industrial



Offered at \$13,650,000 - 6.19 acres

Asking \$795,000 - .98 acres

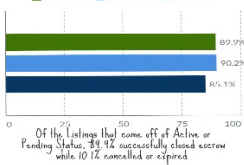
Call me for details! 602-317-5164

# PHOENIX METRO RESIDENTIAL REAL ESTATE

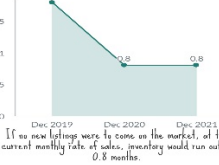
Annual Changes from December 7th, 2020 to December 7th, 2021



### LISTING SUCCESS RATE



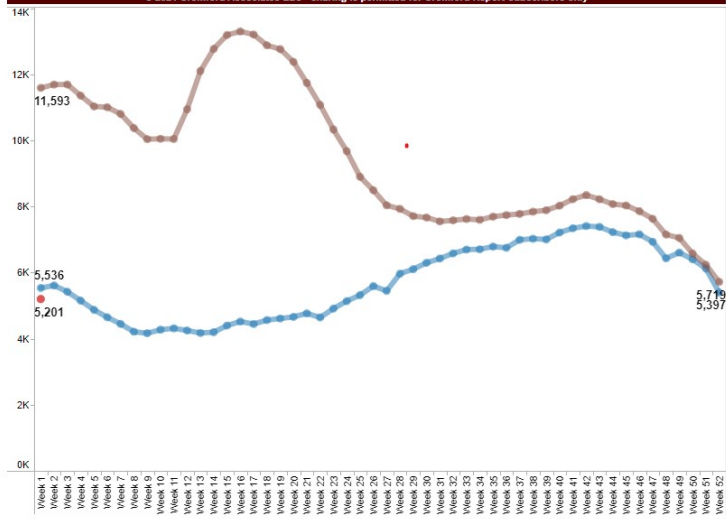
### MONTHS OF SUPPLY



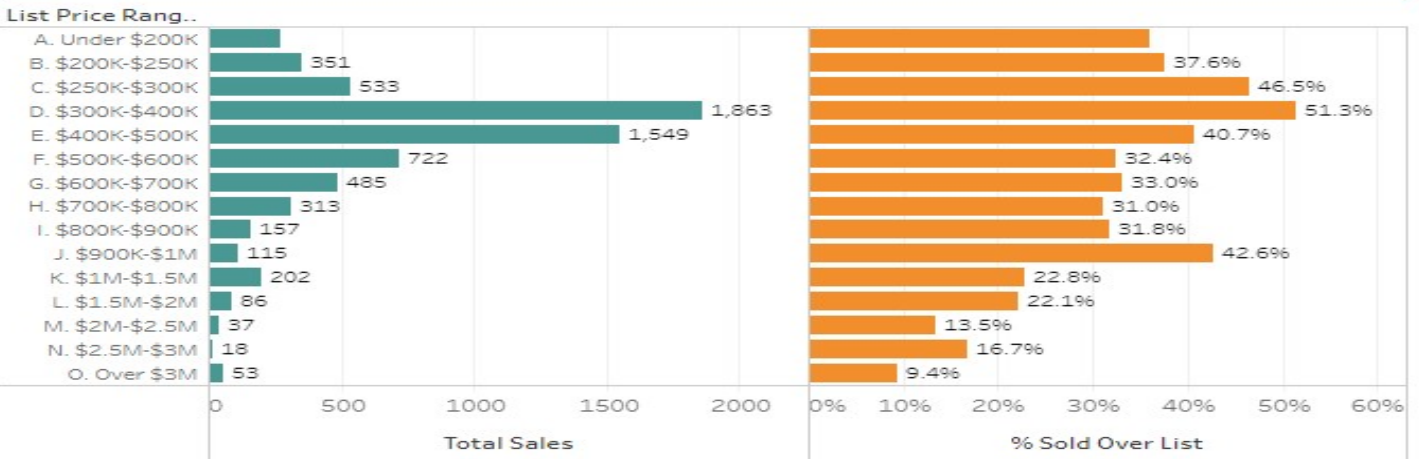
Excludes the Arizona Regional MLS area, which includes Maricopa County, Pinal County and several other Arizona Counties.  
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Cromford Associates LLC & Tamboer Consulting LLC

Year of LogDate  
2020  
2021  
2022

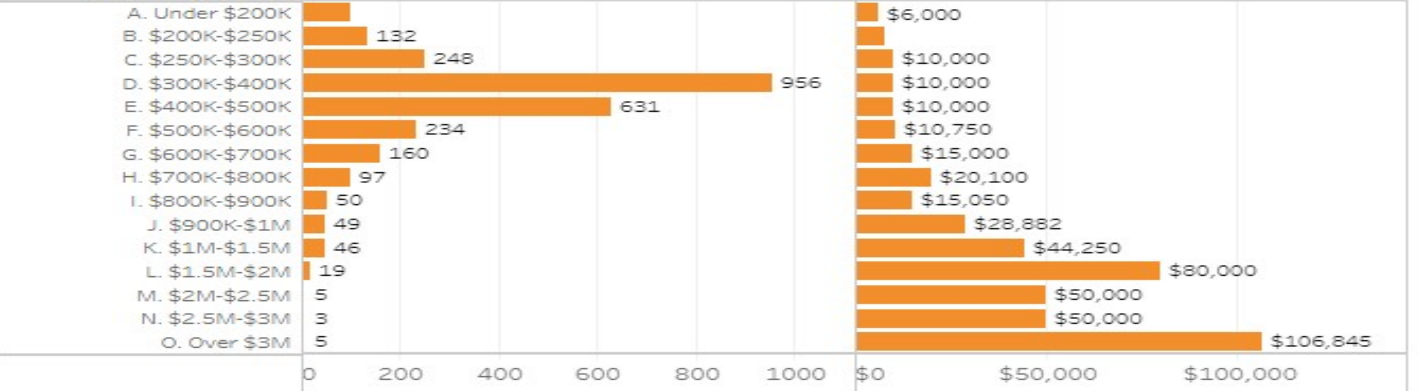
## Active Listing Weekly Counts - Compared by Year Greater Phoenix - ARMLS Residential - Measured Weekly



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



### 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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