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Zillow Rated 5 ★★★★★

The Skarphol Rapport©

Q2-2018

SCOTTSDALE AREA ASSOCIATION OF REALTORS® MEMBER

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TOP5%

DIAMOND CLUB MEMBER 2017

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Monsoon 2018
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RECORD SALES!

"People who say it cannot be done should not interrupt those who are doing it."

George Bernard Shaw

QUARTERLY MARKET UPDATE - FOR BUYERS, SELLERS, AND INVESTORS

EXECUTIVE SUMMARY – RESIDENTIAL REAL ESTATE MARKET IN 60 SECONDS

One of the interesting developments in the LUXURY market, homes priced $1 million and above, is the significant drop in inventory in the highest priced zip codes (85253, 85255, 85257, 85258, 85262). In fact, these premium areas are recording a steady decline to the lowest inventory levels in 3 years. Paradise Valley has made the biggest move favoring sellers with the **Cromford Market Index** improving 23% from June 2018.

This trend is energized by wealthy individuals purchasing homes and perhaps even parking some capital in the most expensive properties as investment diversification out of stocks and bonds continues. Anxiety over the impact of burdensome tariffs causing trade wars with our allies and adversaries is ricocheting through the global economy.

On the other end of the home price spectrum, properties under $250k, the inventory has declined 30% on average year-over-year. Great news for sellers, but increasingly challenging for buyers since this includes many in the first-time homebuyer category.

iBuyers like **OpenDoor**, **OfferPad**, **Cerebus** and **Signpost (Zillow)** also are impacting the market below $350k. This group currently represents a 4.4% market share, up 53% from last year's 2.2%. Billions of dollars are flowing into these private-equity funded companies. The impact is constraining the supply, but these entities are essentially fixing and flipping, so improved and updated homes are then put back into the market for sale, albeit at higher prices. First time homebuyers looking to purchase with the intent of making some repairs are substantially precluded as the homes are being purchased for cash. The constrained inventory is perhaps having the unintended consequence for these **iBuyer** entities as prices move up on the purchase side and margins are being compressed.

Counter to the trend of declining inventory, 85006, downtown central Phoenix has the highest level of active listings since the recovery began in 2011. Looking at the inventory, 20% of the homes are 2005 or newer with a concentration on 2016, 2017, and 2018 representing new infill housing. The remaining homes in this zip-code's inventory are 1978 or older with the majority 1960 to 1909, representing a concentration of fix-n-flips. In addition, 85008 is now at a 2 year high with 85015 reaching a 4 year high in active listings.

In conclusion, we remain an affordable housing market with constrained supply. New home builders are ignoring the dearth of demand for affordable housing and continue to ramp up production of homes in the $350k to $800k; move-up and luxury price points.

EXECUTIVE SUMMARY – COMMERCIAL REAL ESTATE MARKET IN 60 SECONDS

Multi-family: This investment class remains very strong with vacancies falling to 5.4%, the second lowest level in nearly 2 decades. Rents are also up 7.3% year-over-year resulting in an average rent of $1,018 and $120,000 per unit on purchase. Cap rates compressed to 5%.

Office: This segment is also strengthening with the vacancy rate at 15.5% showing steady improvement over the past 4 quarters. Rents are now averaging $24.68 per sq. ft., a 3% YOY increase with a 4.5% increase predicted for 2018. Sales have softened some so cap rates have edged higher.

Industrial: The last 7 quarters have posted over 1 million sq. ft. of net absorption lowering the rate 7.6%, lowest level in 10 years. Average industrial gross rents are $.58 per sq. ft. per month, which is 2.5% higher YOY. Over 6.2 million sq. ft. of space is under construction with 3.5 million sq. ft. being built as new spec space. Buildings have been sold at an average $97 per sq. ft. which is 17% higher than this time last year. Cap rates for this asset class are averaging 6.8%

Retail: Improving over the last 5 of 6 quarters, retail vacancy is now at 8.1% for the retail segment. Rents are averaging $14.65 per sq. ft. which is up 4.3% YOY. Cap rates are settling in the low 7% range.

Land: Infill land remains a hot commodity for well located parcels in Phoenix, Scottsdale and Tempe. Multifamily zoned R-3, and R-4 is in high demand as are building lots and parcels that can be subdivided for single family residential and R1-6 zoning.

FEATURED LISTING:

2065 E Lemon St
Tempe, AZ 85281

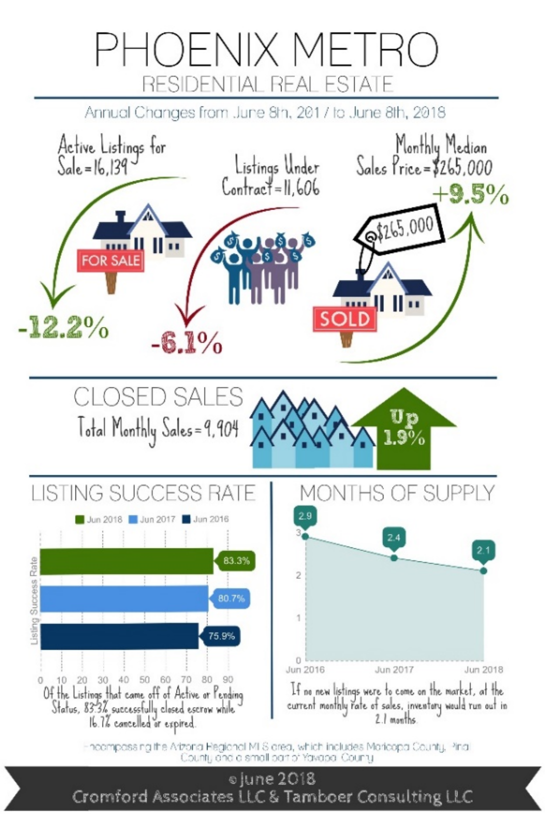
Up to 8 SFR Attached Units

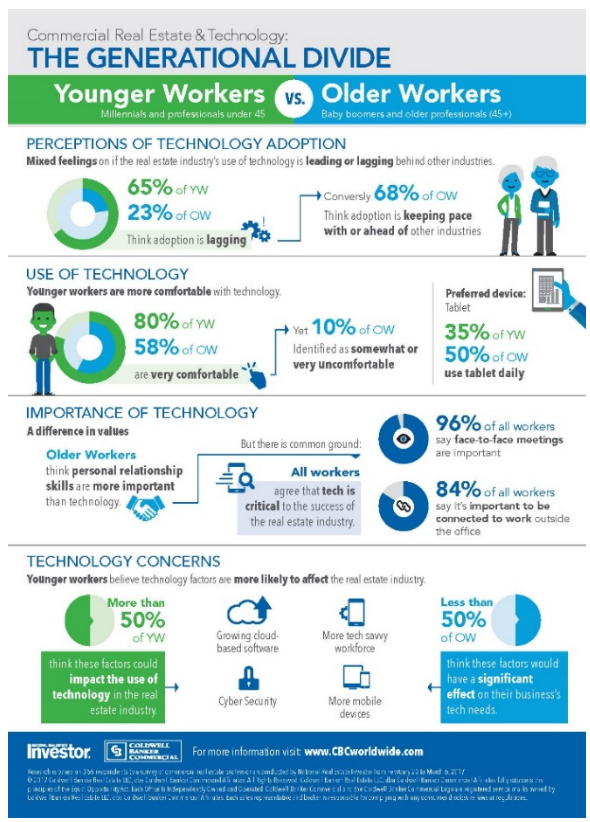
VACANT LAND
ZONED R-4

Lofts on Lemon

Less than 600' from Smith Dr Light-rail Station.

TESTIMONIAL: ***"Steve, thanks for preparing the…best Tenant Improvement package submitted I've ever seen, and everything we needed was there first time!"*** **P.S. Senior Commercial Agent - National Commercial RE Firm**





SOURCES: ***Michael Orr, The Cromford Report, The Information Market,***

***ARMLS** - the most accurate and comprehensive Arizona Real Estate Statistics and Data available.*

Phoenix Business Journal, The Rose Law Group /Belfiore – Dealmaker.