Steven Skarphol, PLLC
Associate Broker
MBA, LEED Green Associate
Superior Court Real Estate
Special Commissioner
Zillow Rated 5 ★★★★★

The Skarphol Rapport©

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8388 E Hartford Dr, Suite 100
Scottsdale, AZ 85255-7806
602-317-5164: Steve@Skarphol.com

Pandemic Pause…
Or
Corona Crash?

"Because you are alive, everything is possible."

Thích Nhất Hạnh

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

EXECUTIVE SUMMARY – RESIDENTIAL REAL ESTATE MARKET IN 60 SECONDS

On a personal note, I hope this market update finds you and your family healthy and adapting to our new normal as we navigate through the COVID-19 pandemic as a Nation.

The combination of a slow chaotic response of our government to the pandemic and the resultant financial market crash caused by the sudden stock market free-fall is impacting the real estate market. As with all things human, there is good news and bad news.

I will do my best to sort out the good news and reflect on the bad news with the goal of keeping you informed. Although I hear from many of you regularly looking for investment opportunities, etc.; please feel free to contact me anytime as I welcome your questions, concerns, input and perspectives.

As an optimistic and generally positive person, I would like to take a moment to reflect on the bad news first. The global loss of life is stunning and the worst yet to play out. The good news is the dramatic impact has triggered a new explosion of innovation, a revitalized focus on planning for the next pandemic and 'created' quality time to reflect on life's priorities.

For VRBO and AirBnB investors, the rapid shutdown of tourism has directly impacted the related real estate. These 'empty' properties in the local high season are now showing up as new rental listings as investors seek to restore cash flows. Some investors in this segment are taking more drastic action and putting the properties on the market for sale. All good news for real estate as rental and for sale inventories are down 55% from this time last year, so more purchase options are becoming available for buyers and long-term tenants.

The stock market crash of over 11,000 points on the Dow in 4.5 weeks is beyond shocking particularly when you compare to the crash in the Great Depression of 8,500 points on the Dow over 18 months. The good news here is that in 3 of the last five recessions, real estate values actually increased. That will likely be the case again as we recover although, with the rate of appreciation cooling to 3%-5% from nearly 10%. Still, appreciating 2 -3 times the rate of inflation makes real estate a good bet for stable income, less volatility in asset value and outperforming stocks and bonds over the long term. The bottom line is to view real estate as a long-term hold, unless you are flipping, and recognize the added intrinsic value of owning real estate for shelter and investment.

The stock market crash also caused the iBuyers like Opendoor, Offerpad, Zillow and Refin to hit the pause button on purchases. Good news for traditional real estate as we can take back some market share with professional services helping seller's move homes quickly for a better financial outcome.

Luxury market has taken a lightning-bolt as well, with reduced liquidity causing some cancellations and a noticeable slowdown in activity. Even so, pending sales (under contract) of homes over $1M is up 60% YOY. As the nation opens up for business again in the months ahead, businesses and buyers from California should return in droves when travel restrictions are lifted. The first quarter for luxury was 20% above 2019 and 2018, also record years, before the crash, so there is still a healthy level of activity in this segment as investors and owners move money into residential holdings. Inventory is good and quality properties are available at all luxury price points.

The last week of the quarter had 10 of the 17 area sub-market cities continuing movement towards seller's advantage, with all 17 markets strongly favoring sellers because of the low inventory anyway. Then, BOOM, a week later the COVID-19 pandemic and stock market crash caused a sudden CMI index pivot sending 14 of the sub-markets in the opposite direction. However, the market still has a long way to go to return to a balanced CMI market index of 100; weeks and months ahead could create some buyer opportunities as markets resolve themselves.

Rank	March 26, 2020	Cromford® Market Index Now	
1	Avondale	489.1	↑
2	Glendale	382.0	↑
3	Chandler	363.3	↓
4	Gilbert	343.5	↓
5	Mesa	300.8	↑
6	Phoenix	282.8	↑
7	Maricopa	259.2	↑
8	Surprise	254.7	↑
9	Tempe	253.9	↑
10	Queen Creek	250.9	↓
11	Peoria	234.0	↓
12	Cave Creek	218.4	↓
13	Fountain Hills	209.4	↑
14	Scottsdale	208.9	↑
15	Goodyear	205.4	↓
16	Buckeye	200.8	↑
17	Paradise Valley	168.0	↓

Rank	April 2, 2020	Cromford® Market Index Now		Chg	Cromford® Market Index Last Month
1	Avondale	433.5	↓	-4%	453.1
2	Glendale	347.7	↓	-6%	371.0
3	Chandler	325.8	↓	-13%	373.1
4	Gilbert	307.8	↓	-16%	365.4
5	Mesa	276.9	↓	-7%	298.3
6	Phoenix	263.7	↓	-4%	275.6
7	Maricopa	251.2	↑	8%	231.9
8	Surprise	241.2	↓	-2%	246.9
9	Tempe	233.4	↓	-9%	255.8
10	Queen Creek	228.6	↓	-12%	260.9
11	Peoria	217.8	↓	-7%	235.4
12	Cave Creek	207.5	↓	-10%	229.5
13	Fountain Hills	204.0	↑	3%	197.8
14	Buckeye	197.3	↑	12%	176.2
15	Scottsdale	193.4	↓	-7%	208.2
16	Goodyear	192.5	↓	-9%	211.5
17	Paradise Valley	156.8	↓	-14%	182.8

 CMR1

EXECUTIVE SUMMARY – COMMERCIAL REAL ESTATE MARKET IN 60 SECONDS

Multi-family: Continuing rent growth momentum from a 9% YOY rate at the beginning of 2020 combined with an estimated short fall of 32,000 units needed for 2020-2021-time-frame makes multi-family in all forms a hot investment asset class. Even with 9,500 units slated for delivery in 2020, cap rates are compressing to the low 5% and the 95.2% occupancy resides well above the 20-year average.

Medical Office: Rents are up 3.1% YOY to an average of $20.99 per sq ft while the segment vacancy rate hovers around 14.4%. New projects are being delivered and planned as the healthcare industry expands. Maricopa County is the fastest growing County for population for the 3rd year in a row, with 69,000 new residents for 2019. Further, Arizona is #4 in the top five job growth markets. Population and job growth are both leading indicators for expansion in healthcare.

Office: As I mentioned, Metro Phoenix was ranked 4th for job growth and the area job strength is further supported by top 10 rankings for Scottsdale(1st), Chandler (6th) and Tempe (8th) among the 180 cities ranked by Wallethub in a "Best Cities for Jobs" study. The Metro area is evolving as a new technology hub. The office market segment is also experiencing declining vacancy rate below 12.7%, increased rents at $24.99 per sq. ft up 3%, sales price per sq. ft. up 4.16% to $175 per sq. ft., and cap rates trending at 7.5%. This segment may take a hit as open flexible workspace offerings like WeWork suffer short term losses from the pandemic shut down and social distancing. It is unknown what future restructuring to this concept will be required to protect work environments and ward off future pandemics.

Industrial: This segment continues to benefit from the explosion in distribution and logistics precipitated by the Amazon on-line purchasing model and accelerated out of necessity as brick and mortar restaurants, grocery stores and big box retailers rapidly adapt to home delivery and on-line order processing. Vacancy in this segment is already a low 7.1% with substantial new inventory coming to market and rapidly absorbed. Investments in this segment look outstanding for the short and long term.

Retail: Retail had a strong finish in 2019 with submarket rents increasing as much as 12% year over year and cap rates declining to an average of 6.7%. Sales price per sq. ft. increased 54% YOY, so the dynamics of repositioning in this segment are taking hold in an environment of record-breaking job and population growth. On the side of caution, this segment will be impacted by the national stay at home initiative during the effort to mitigate the pandemic. For example, restaurants tenants are struggling to make rapid adaptations to take-out and home delivery models in an effort to support employees and maintain viable businesses.

Land: The land market has been robust as this segment has been getting attention from home builders, owners looking to buy and build, investors seeking buy and hold opportunities. Commercial, industrial, office and retail sites are also in demand as developers attempt to build inventory into the market with expanding population and job growth.

 # 9 Steven Skarphol PLLC

PHOENIX METRO

RESIDENTIAL REAL ESTATE

Annual Changes from March 7th, 2019 to March 7th, 2020

Active Listings for Sale = 11,087

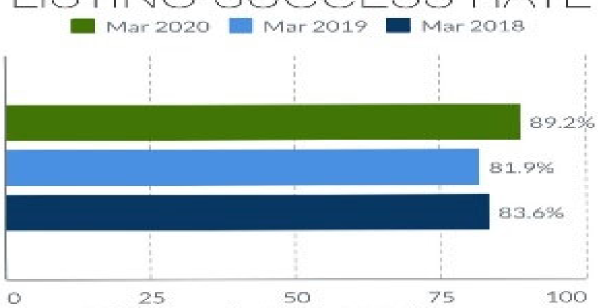
Listings Under Contract = 12,260

Monthly Median Sales Price = $297,000

CLOSED SALES

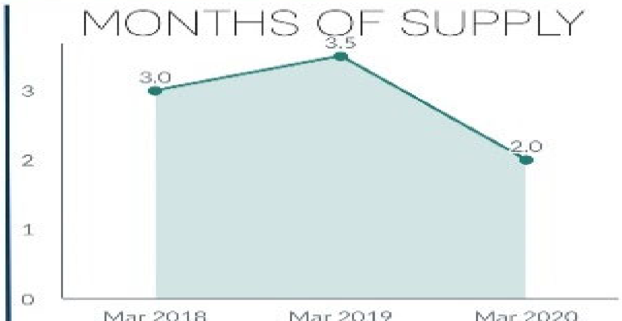
Total Monthly Sales = 8,253

LISTING SUCCESS RATE



Of the Listings that came off of Active or Pending Status, 89.2% successfully closed escrow while 10.8% cancelled or expired.

MONTHS OF SUPPLY



If no new listings were to come on the market, at the current monthly rate of sales, inventory would run out in 2.0 months.

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

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*

If you want to opt-out of this Quarterly Market Update, click here info@skarphol.com and type REMOVE in subject line.