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The Skarphol Rapport[©]

Q1 - 2024

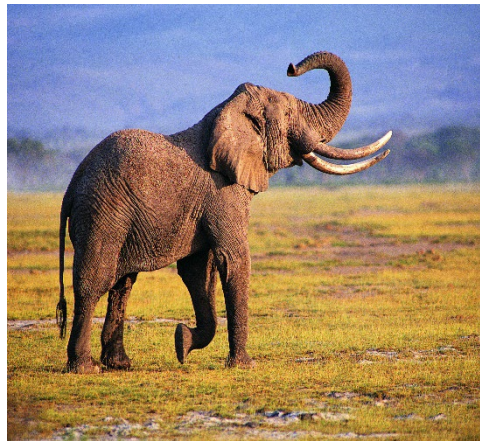
**A QUARTERLY MARKET
 UPDATE - FOR BUYERS,
 SELLERS, AND INVESTORS**



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*An elephant in the
 room...
 what's REALLY
 going on in Real
 Estate?*



*"Truth will always be truth,
 regardless of lack of understanding,
 disbelief, or ignorance."*

W. Clement Stone

"Class-action litigations could spell major changes for the residential real estate industry."

Major headlines about recent litigation and proposed settlements affecting the residential real estate industry have been prominent in the mainstream media. As a practitioner actively engaged in the business of commercial real estate and residential real estate, it is timely for me to address the real factual issues and proposed settlement resolutions.

The core issue litigated is that at least on the surface, the seller was unfairly required to pay a marketing fee that included compensation being offered in the MLS and paid to an agent representing the buyer. This marketing fee has always been negotiable and is disclosed up front to all parties in the transaction and recorded in the final settlement according to Federal and State laws. The process has successfully served millions of buyers and sellers for over one hundred years.

Unfortunately, the fee transparency became conflated with conspiracy allegations alleging anti-trust business practices between brokerage firms, Multiple Listing Services (MLS), and the National Association of Realtors (NAR) trade organization. The proposed resolution will result in some positive changes for the industry eventually. However, the settlement as proposed will negatively impact buyers and sellers in the short run; ironically, the hypothetical "beneficiaries" of the litigation. The plaintiff-sellers in the class action lawsuit are expected to receive less than \$500 each while the class-action lawyers are anticipating a \$138 million payout plus about \$13.8 million in legal fees so far!

The issues are far from resolved so I will continue to follow up on this litigation and eventual settlement in future market updates.

EXECUTIVE SUMMARY – RESIDENTIAL REAL ESTATE MARKET IN 60 SECONDS



LUXURY MARKET: This market continues to improve with job growth, Wall Street, and tempered inflation signaling a robust economy, this is particularly evident in Arizona. Inventory is up 33% YOY to 2,547 units with 938 units under contract, up 17% YOY. Suitable time for buyers because of the availability of quality listings including substantial well designed and amenity-rich new builds. Sellers can also expect satisfactory results provided the property is carefully and professionally updated with curb appeal to stand out in the market. Price concessions are still relevant as buyers and sellers reconcile the perceived values.



BUYERS (under \$1M): Rates for buyers under \$1M are persisting .5% to 1% too high. The PCE rate is closing in on the Fed's 2% target, so hopefully Fed rate cuts later this year will ripple into a lower 10-year treasury rate pushing the 30-year fixed rate to 5% - 5.5% level which should unleash buyer pent-up demand. Active listings are up to 15,622, low historically, but up 22% YOY. The listings under contract total 6,917 representing a 53% success rate; still less than a 2-month inventory. FHA loan rates have remained the most competitive and first-time homebuyer incentives are available. Challenging, but still a good time to buy with more choices and price increases have slowed to the 5% range.



SELLERS (under \$1M): Rates are impacting sellers because it is increasing the number of days to go under contract. Further, rate buydowns and concessions are still required on over 41% of the closed sales. The average amount of concessions is \$9,060. Fundamentals like curb appeal, updated kitchens and baths, and consistent finishes decrease the time a property will remain on the market. However, pricing consistent with and responsive to comparable sales data will position the property to the top of the market for most buyers targeting properties by budget.



RESIDENTIAL RENTALS: Volatility continues with single family rental rates trending at 2021 levels and leases closing 5% below asking on average. A substantial increase in the construction and supply inventory of luxury apartments competing for tenants by offering amenity-rich communities is generating rate competition. Further, Arizona has over 7,000 units of build-for-rent single family homes in master-planned communities competing with older single-family inventory and new luxury apartment communities. A better time for tenants as rents are declining under the competitive pressure as more rental opportunities become available.



RESIDENTIAL INVESTORS: Buy and hold for rent is a less attractive opportunity except for the high-end luxury rentals which still command top rents for updated premium properties. This buy-and-hold strategy is less attractive due to average rents declining in the non-luxury segment where the bulk of the fix-n-flip activity occurs. Buy, fix and flip activity has declined to 2014 levels due to interest rates inhibiting buyers from entering the market. In addition, iBuyers like Opendoor continue to sustain losses from increased inventory acquired in the 2021 up-cycle because they paid too much, spent too much on improvements, and then struggle to adapt the business model in response. Opendoor reported another \$91M loss in Q1 2024 as they attempt to manage their inventory and related carrying costs. Investors with systems and contractors in place can still profit in this market with careful due diligence on the acquisition and renovating judiciously to attain an after repair value (ARV) competitive with surrounding resale home sale comps. Non-iBuyer investors are averaging a gross margin of about 26%.



LAND OPPORTUNITIES: The active inventory of residential lots up to one acre is 1,489 parcels in Maricopa County. The challenge in this inventory is that many of these lots are impacted by flood plains, no water, no power, steep terrain, and other access issues. However, my land development experience allows me to locate buildable lots and negotiate a competitive price as most sellers are dealing with over 9 months on the market on average. I also have lender resources to provide the acquisition, construction, and permanent financing to help my clients build that perfect dream home.

KEY STATISTICS – Single-family homes:

Active Listings: 16,886 – up 14.3% YOY (Well below 25K average). Listings Under Contract: 8,854 – down 6.9% YOY.
Sales: 67,153 – lowest level in decades Sales Volume: \$9.3B Q1 2024 versus \$9.0B Q1 2023 (DEMAND STEADY)

EXECUTIVE SUMMARY – COMMERCIAL REAL ESTATE MARKET IN 60 SECONDS



MULTI-FAMILY: Interest rates and low inventory are negatively impacting this market segment. Cap rates are being inflated to attract interest, but a review of the financials typically reveals an aspirational seller faced with an underperforming asset. Rent increases have stalled and renovation costs have increased dramatically making it more difficult to make an acquisition pencil. Opportunities may develop in this segment as commercial loans mature and refinancing interest rates and deal structures require sellers to take on a distress sale strategy to dispose of the asset.



OFFICE: High interest rates, high inventory, and continuing challenges trying to incentivize employees to return to the office environment after experiencing the positive benefits of remote work mandated by the COVID-19 pandemic, plague this market segment. These factors have accelerated the sub-lease segment growth, increased vacancies, pummeled net absorption, and positioned the segment for significant defaults as loans expire and refinance rates make the asset distressed. However, the A+ market remains healthy as firms consolidate space in the best properties and new mixed-use properties develop with amenities to retain and attract employment. Office building conversion to residential units is continuing albeit on a rocky road as this adaptive re-use gains experience in the market



MEDICAL OFFICE: Consolidation continues as the healthcare companies scale up to meet demand and make strategic acquisitions for operating efficiencies at scale. Rents are showing modest increases as inventory remains low. New build and expansion are evident, as companies position hospitals and medical office buildings in anticipation of expanding residential development in the Southwest, Northwest, and Southeast market quadrants.



INDUSTRIAL: This segment continues an explosive unparalleled growth cycle as logistics, manufacturing, semiconductors, and data centers demand and absorb existing and under construction facilities in the millions of square feet. Recent technology leaps in the development of AI are fueling the data center requirements, increasing demand for power and water to mitigate the heat generated by the hosted servers. Growth is again focused in the Southwest, Northwest, and Southeast market quadrants where large acreage in the thousands of acres are available at reasonable prices. The expansion has also impacted Pinal County as numerous semiconductor supply chain companies locate in the area to support an emerging 'Silicon Valley' for semiconductors, EV, solar and battery manufacturing. It also looks like NASA establishing a standard time zone for the moon now, will help to accommodate new entrepreneurial data center missions to the moon!



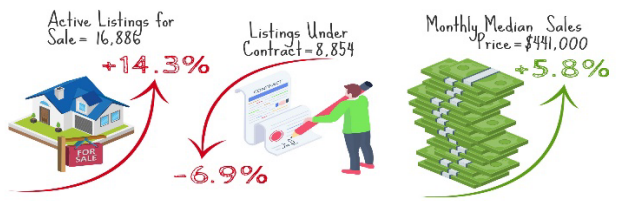
RETAIL: Millions of square feet of retail space are being demolished as aging regional malls are redeveloped as mixed-use for retail, office, employment, and residential uses. Smaller shopping centers have adjusted tenant mix with a strong emphasis on food, fitness, and entertainment. Medical uses are also being relocated to traditional retail centers. The result is low vacancy rates and improved rental rates in retail portfolios. The retail segment has been quick to adapt from the pandemic crisis, but a percentage of large box centers are struggling as national chains close stores and consolidate to emerge from bankruptcy or avoid it.



LAND: All land use zoning categories are being requested as companies, developers, home builders, and investors look for niche opportunities to expand in the Arizona market. Low inventories of currently zoned property have kept upward pressure on land prices. Interest rates have made projects more difficult to plan and construct while making the financial structures work. Supply chain and labor shortages have further impacted the ability to bring projects to fruition in a timely fashion. Arizona's economy is experiencing a phenomenal long term growth cycle, so investing in land today has short-term challenges that will be overcome by significant long-term gains.

PHOENIX METRO RESIDENTIAL REAL ESTATE

Annual Changes from March 11, 2023 to March 11, 2024



CLOSED SALES
 Total Monthly Sales = 5,998



MEDIAN DAYS BEFORE ACCEPTED CONTRACT



50% of listings that went under contract last week had been active for 28 days or more and 50% had been active for 28 days or less.

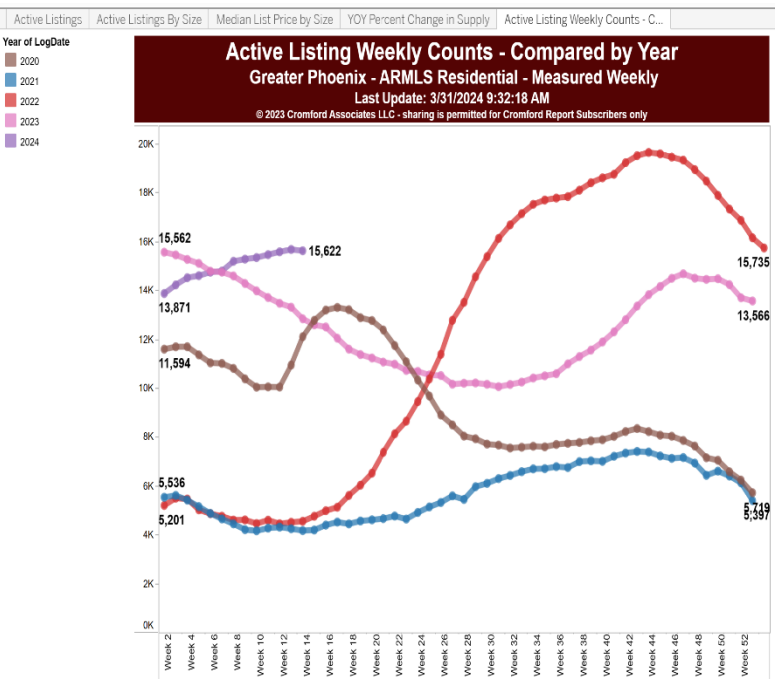
DAYS OF SUPPLY



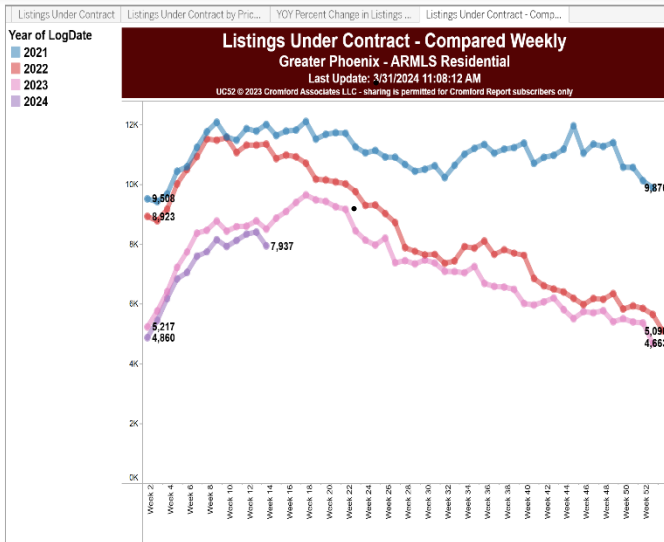
If no new listings were to come on the market, at the current annual rate of sales, inventory would run out in 86 days.

Encompassing the Arizona Regional MLS area, which includes Maricopa County, Pinal County and all of unincorporated Yavapai County.

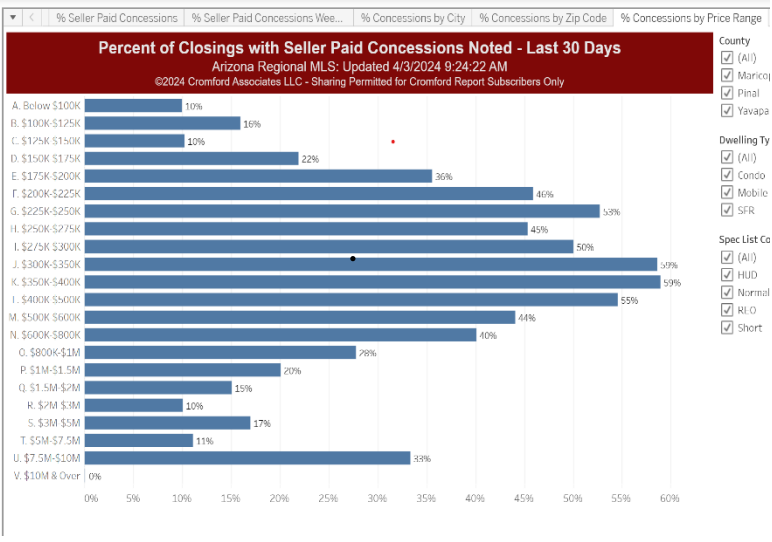
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Listings Under Contract



Seller Concessions to Buyer



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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