REAL ESTATE

PV housing market slowing down

Low inventory, high prices creating 'clogged market'

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Joan Levinson is a premier luxury real estate expert, nationally ranked as one of "America's Best Realtors, 2020" and No. 1 realtor in Arizona.

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Paradise Valley's luxury housing market is unlike much of the Valley, as many wealthy buyers are unaffected by high interest rates and pay cash; however, real estate professionals say there is an issue with a lack of inventory and climbing prices at a median of $2.5 million and $3.5 million.

"I feel like we have a clogged market – like a chessboard with no place to go," said Joan Levinson. "PV prices have gone up substantially and we have a very large lack of inventory that's really driving the market more than anything else."

Levinson has 35 years of experience in luxury real estate. She has sold many estates in Paradise Valley and can likely tell prospective buyers the last three people who have lived in a house. She also handles pocket listings for private buyers.

It's a seller's market in Paradise Valley right now, according to Butch Leiber, president of Phoenix Realtors and managing broker of Realty Executives with 20 years of experience.

However, some sellers are struggling to put their homes on the market because they haven't found what they want or where they're going to move, added Scott Grigg, founder of The Grigg's Group with 16 years in real estate, primarily in the luxury market.

The lack of inventory is due to multiple factors, according to Levinson, who says about half of the high-end properties in active listings are sitting in paper not built or under construction, and those that are available are not the style, age or location people want. And builders are trying to buy the least expensive lot to build the most expensive home in areas that haven't demanded those prices.

"The wealthier you get, the more locational you get," Levinson said. "There's a variety of really good places, but a lot of people, if they've lived here, want to stay in similar neighborhoods and some of the properties aren't built yet and some of the properties are overpriced, so it makes it difficult."

Levinson often closes two deals with one client but said it's easier now when they move to another city, otherwise, she doesn't know where to put them.

While there is not a lot of new home inventory, lot sales and tear-downs have been hot over the summer, according to Darwin Wall, team lead for Realty One Group who received his license in 1999 and has family in the luxury home business as builders.

"I mean, inventory is up 40% in PV the last 30 days, which seems like a lot, but it's been so low for so long, they actually need it," Wall said.

While interest rates may not be driving the housing market in Paradise Valley, Leiber and Wall think inventory is low because sellers aren't selling.

Most homeowners are paying 3-4% interest on their mortgages and don't want to buy a new home at double the interest rate of 7%, which is where rates have hovered for the past couple of months.

"We've gotten really spoiled at the 3-4% interest rates and housing costs have skyrocketed the last couple of years," Leiber said.

Interest rates affect these buyers' portfolios and businesses as well, Wall added.

Inventory is a problem for the whole Valley, not just Paradise Valley. This is mainly because of interest rates, inflation and affordability.

In a smaller, compact market, Grigg said, "the lack of inventory is continuing to drive prices up, especially for new builds and immediate moving products."

Higher prices

The price of Paradise Valley homes are climbing overall. And higher prices mean higher expectations for luxury home buyers.

"No one has to buy and no one has to sell and that differentiates the high-end market," Levinson said.

Almost every one of Levinson's clients are cash sales.

Between 2014 and 2020, the median sale price in Paradise Valley hovered between $1 million and $1.5 million. In the last two years, it's now between $2.5 million and $3.5 million, according to Leiber, who looks at data from Multiple Listing Service (MLS) and The Cromford Report.

MLS data on Sept. 12 showed the median list price has plateaued at $4.75 million in Paradise Valley, according to Wall.

Paradise Valley primarily has single-family homes. Forty-six single-family homes sold in Paradise Valley in the last two months. The least expensive house was $1.5 million.

"You used to say you couldn't buy anything for under $1 million in Paradise Valley," Leiber said. "But now you can't buy anything under $1.5 million. And if you talk to people looking in that price range, they're like, 'This house is worth that much?'"

Property values have appreciated quickly in recent years. Between 2020 and 2022, property values in the Valley went up about 50%, Leiber said.

"If you've owned your home for more than three or four years, you've got tremendous equity in your house," he explained. "But if you want to sell and buy a similar house, it's going to cost you that same growth."

Some pricing per square foot has increased to a record-breaking $2,000 when it used to be $605-$685 per square foot before the COVID-19 pandemic, according to Grigg. That would make an 8,000-square-foot home $16 million.

"We very well might see $2,000 per square foot as the norm for our Paradise Valley market, which is crazy to think we're getting close to where California prices are," Grigg said.

Home sales over $10 million have slowed this summer, which is typical for Paradise Valley because of second homeowners, but for the first two quarters of the year, the market was on fire, Wall said.

The average list price is up 15% from last year, and sales prices are up 6%.

"Our houses in Paradise Valley are still a lot less expensive than the other states that have good weather like California and Florida," Levinson said.

More people moving to luxury

In general, more people are looking for luxury homes as incomes and corporate profits have increased, Leiber explained. People have more money today than they had before and the wealthy are doing well.

Demand is good and wealthy buyers from California, New York, Chicago and Seattle are moving to Paradise Valley for the quality of life, sunny weather, open space, affordability and lower tax status.

"Luxury homes used to be about 1.2% of our market and you can expect the house to take six to eight months to go under contract. Today, it's going under contract within two or three months and it makes up close to 10% of the market," Leiber said.

Some people are also buying in the summer because they have been looking for a while, so if it's available they're going to buy it, Levinson explained.

Heat and water have not slowed population growth in the Valley, Leiber added.

Both Levinson and Grigg have seen New Yorkers moving because they were locked down during the pandemic with nowhere to go, so they came to Arizona, which remained a more open state with hiking, golf and other activities.

"They rented vacation homes during that period of time. They fell in love with the lifestyle, the weather, the affordability, and then we really started to see a lot of these folks start purchasing properties and migrating here," Grigg said.

Levinson has seen the number of homes sold in the range of $5 million to $13 million increase from last year to this year. From May to September 2022, there were 26 houses sold. This year, that number went up to 44 houses sold in the same price range.

However, many potential buyers are still waiting for the market to shift with inventory and interest rates.

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