



SEDONA, AZ

STR MARKET ANALYSIS AND ACQUISITION OPPORTUNITIES REPORT

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Executive Summary

Overall, the trailing 12 months of short-term rental data supports that the Sedona, AZ STR market is stable, and has dynamics to continue grow without near term saturation. Although the area has experienced 11% quarterly growth and an overall 27% active listing growth since 2019, occupancy has remained stable, fluctuating with typical seasonality. This fact indicates that the amount of available STR inventory is matching the current customer demand.

In depth analysis of market dynamics and metrics for single bedroom and two-bedroom accommodations indicate the following performance metrics are reasonable to use for financial modeling. If these performance metrics are considered a sound and conservative estimate of performance. Therefore, if an acceptable return on investment (ROI) is produced using these metrics, accounting for construction and operating costs, Sedona, AZ is considered a viable market for continued investment.

Single Bedroom:

ADR: \$210-\$251

Occupancy: 72.1%

2 Bedroom:

ADR: \$251-\$305

Occupancy: 71%

These metrics are derived from a revenue analysis approach and comparable property approach subjectively analyzed against the proposed project. Occupancy is derived from a cross average between reported occupancy data and demand analysis equally distributed over booked properties. This process provides a sound approach to give what is deemed the “most likely to occur” scenario for models. To model worst case and best-case scenarios, data suggests modeling a decrease or increase of 18% respectively will provide usable model data.

Sedona, like many American markets has seen massive appreciation over the last 5-8 years. Raw land has been subject to this appreciation. Current market conditions are softening with available land remaining on market longer, providing some room for buyer negotiation. The best available raw land analyzed for this report is 399 Canyon Dr. A 2.73-acre parcel, priced \$455,000. Zoning for this land supports construction of 2 dwellings per acre, bringing acquisition cost of land per dwelling to under \$230k. Public utilities and no HOA provide the correct conditions to pursue unique construction without any architectural restrictions. Overall, I would rate available land for the proposed project as low, thereby indicating that Sedona is lower on the investability side.

Sedona does not require overly burdensome regulatory requirements; however, traditional transient tax costs apply and STR operations must be registered. There is no meaningful call to action to limit STR operations currently.

Important to future modeling for the proposed project, models should account for lower initial STR performance due to lack of track record as hosts in the area. A cursory search through available listings in Sedona indicates properties with lower volume of reviews see less occupancy, leaving more open days on their calendar, than more mature operations.

Market Overview (1 Bedroom, 75th Percentile, Upscale)**Average Occupancy (75th percentile):**

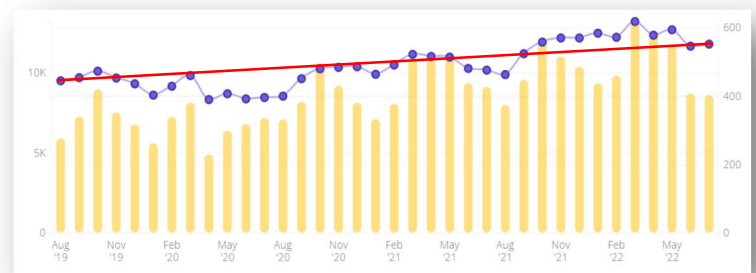
92.2%

Adjusted Occupancy: 72.1%**Active Listing Growth: 27%**

2019: 471

2022: 652

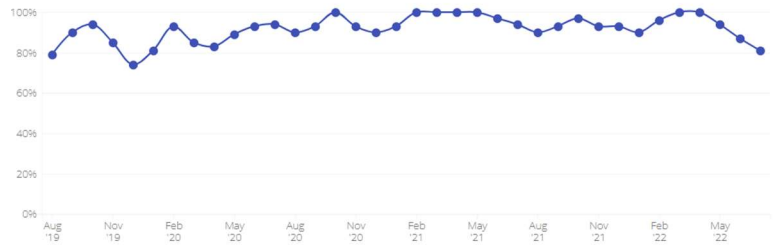
Occupancy figures can be somewhat misleading as they omit properties that do not have any reservations in a month, thereby allowing for the potential for a higher occupancy than may occur. Although it is likely rare that a listing is active with open days and receives zero bookings it is possible. Additionally, occupancy does not account for properties that may have calendars blocked for maintenance, personal use, etc. further skewing data. A safe rule of thumb is to look at demand signals and generate an adjusted occupancy as your expected performance metric to run financial analysis with. An average between demand signals found below and the reported occupancy indicate 71% occupancy is a safe metric to plan off.

Demand Growth Indicators:**2 BM Booked Nights Aug 19:** 5,869**Booked Accommodations:** 445**Average Nights Booked Per****Accommodation:** 13.18**2 BM Booked Nights Jul 22:** 8,576**Booked Accommodations:** 552**Average Nights Booked Per Accommodations:** 15.53*Figure 1: 1 BM Occupancy 2019-2022**Figure 2: Demand Growth 1 BM*

Demand signals for a single bedroom accommodation indicate 109 single bedroom accommodations have been added since 2019, increasing the total booked nights by 2707 nights. This indicates that the additional 109 properties only accounted for 3% of the increased in booked nights, suggesting that overall demand for a single room accommodation has increased. This is supported by the fact that nights booked per booked property edged higher from 13.18 to 15.53. However, data suggest that a 1-bedroom accommodation when averaged across all available single bedroom accommodations operates at 52% occupancy based on 30-day month. This is a different view on occupancy as it specifically measures booked listings against nights occupied per month omitting listings that were not available or booked on other platforms. Moreover, this method does not account for disproportionate distribution between listings. For example, 20% of the listings could have had 80% of the booked nights for the month, while very low performing properties are dragging the nights per month average down. It is however an important metric for planning purposes used to model worst case performance.

2 Bedroom (75th percentile, Upscale Accommodation)**Average Occupancy (75th percentile):**

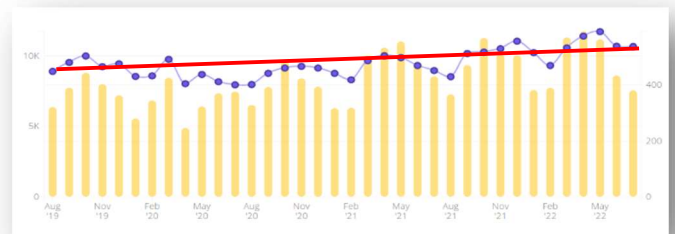
91.7%

Adjust Occupancy: 71%**Active Listing Growth:** 27%**2019:** 471**2022:** 652*Figure 3: 2 BM Occupancy 2019-2022*

Occupancy figures can be somewhat misleading as they omit properties that do not have any reservations in a month, thereby allowing for the potential for a higher occupancy than may occur in reality. Although it is likely rare, that a listing is active with open days and receives zero bookings it is likely. It also does not account for properties that may have calendars blocked for maintenance, personal use, etc. A safe rule of thumb is to look at demand signals and generate an adjusted occupancy as your expected performance metric to run financial analysis with. An average between demand signals found below and the reported occupancy indicate 70% occupancy is a safe metric to plan off.

Demand Growth Indicators:**2 BM Booked Nights Aug 19:** 6,346**Booked Accommodations:** 449**Average Nights Booked Per Accommodation:**

14.13

*Figure 4: Demand Growth 2 Bedroom***2 BM Booked Nights:** Jul 22: 7,527**Booked Accommodations:** 538**Average Nights Booked Per Accommodations:** 13.99

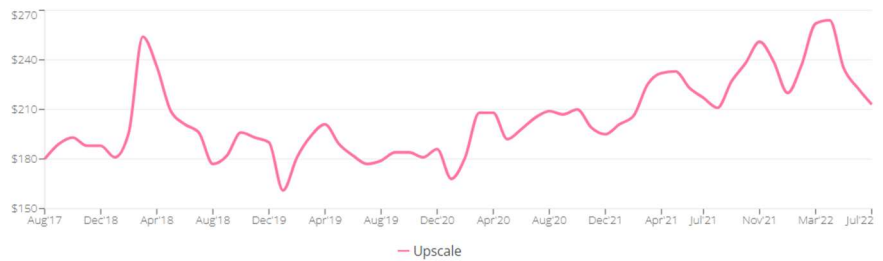
From August 2019 to July 2022 there was an increase of 89 2-bedroom accommodations booked per month while adding 1181 booked nights. This indicates that the additional 89 properties only accounted for a 7% increase in booked nights per month indicating the addition of properties has not collapsed demand. Additionally, average nights booked per month, per booked property, saw a small decline from 14.13 to 13.99 nights. This indicates that the 2-bedroom accommodation has a stable demand curve. However, data suggest that a 2-bedroom accommodation when averaged across all available single bedroom accommodations operates at 50% occupancy based on 30-day month. This is a different view on occupancy because it more specifically measures booked listings against nights occupied per month omitting listings that were not available or booked on other platforms.

Revenue Analysis

Average Daily Rate Analysis (1 Bedroom, Upscale)

Market Average July 2019: \$161
Market Average July 2022: \$203
Upscale: July 2019: \$177
Upscale: July 2022: \$212

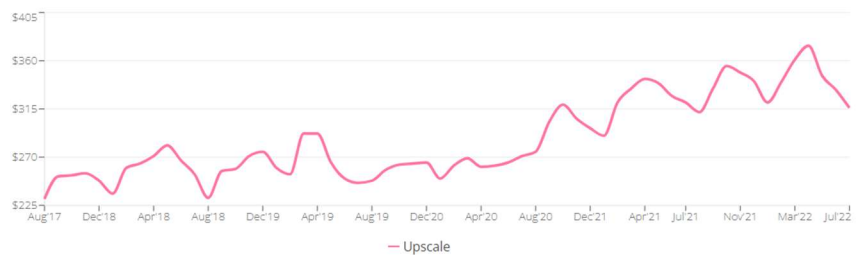
Adjusted ADR (Revenue Trend Approach): \$210



Average Daily Rate Analysis (2 Bedroom, Upscale)

Market Average July 2019: \$206
Market Average July 2022: \$269
Upscale July 2019: \$246
Upscale July 2022: \$316

Adjusted ADR (Revenue Trend Approach): \$305



RevPar (Revenue per available listing)

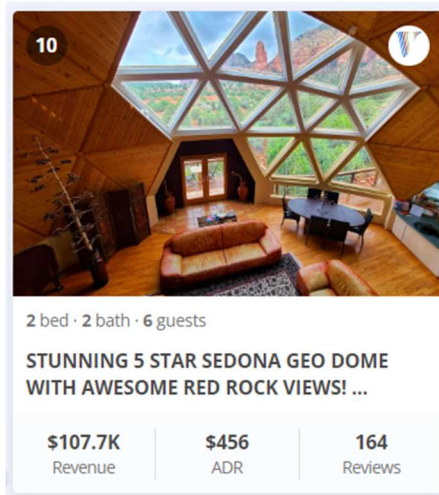
RevPar is a metric heavily used by the hotel industry to model the performance of a hotel complex. RevPar gives an overall market view if the total generated revenue was equally distributed across all available for rent properties of that asset class per month.

RevPar 1 Bedroom: March (Highest Performing): \$218, July (Worst Month): \$91

RevPar 2 Bedroom: March (Highest Performing): \$323, July (Worst Month): \$92

RevPar analysis directly speaks to how seasonality of the market affects the amount of revenue generated per available listing. This is another insight that can be used to adjust the occupancy and revenue projections as it gives you a dollar valuation of nights booked in that month. In this case, although occupancy data indicates relatively stable demand through the low season of July, RevPar analysis indicates that nights booked in that month on average earn just 41% of the income per night vs. high season for 1-bedroom accommodations and just 28% income per night vs. high season for 2-bedroom accommodations. These adjustment factors can be accounted for in over all model trends to provide a more reliable model.

Comparable Property Analysis



Architecturally Similar Property

Adjustments:

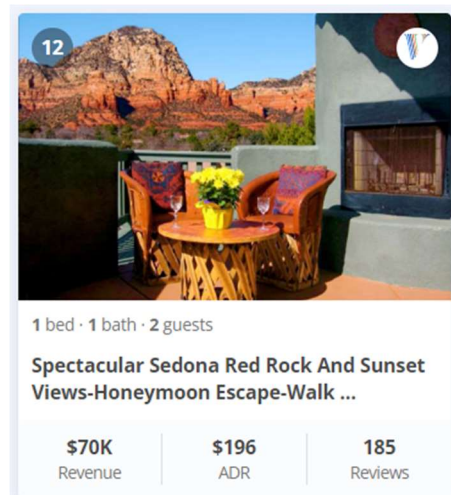
Size: < 14%

Unique View: < 4%

Established Operations: <6%

Luxury/ Uniqueness Level: 0%

Overall Performance Adjustment: <28%



Size Similar Property

Adjustments:

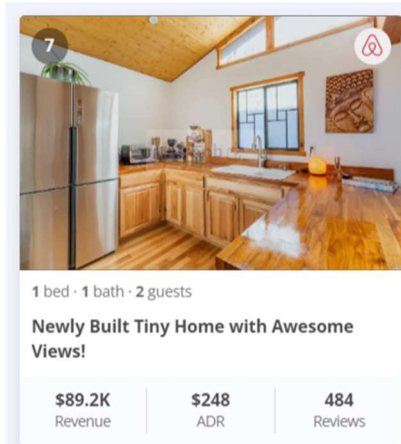
Size: >7%

Unique View: < 3%

Established Operations: <7%

Luxury/ Uniqueness Level: >4%

Overall Performance Adjustment: >1%



New Construction/Size Similar

Adjustments:

Size: >1%

Unique View: 0%

Established Operations: <10%

Luxury/ Uniqueness Level: >1%

Overall Performance Adjustment: <8%

Architecturally Similar Adjusted Performance:

ADR: \$328.32

Revenue: \$77,544

Size Similar Adjusted Performance:

ADR: \$197.96

Revenue: \$70,070

New Construction/Size Similar Adjusted Performance:

ADR: \$228.16

Revenue: \$82,064

Estimated Cross Averaged ADR: \$251.48

Estimated Cross Averaged Revenue:

\$76,559

Regulatory Review

Summary:

Currently there is no meaningful or restrictive legislation on the books or in the pipeline that will drastically effect STR operations of a property located within the city of Sedona jurisdictions. Additionally, the surrounding Yavapai County has little restrictions on STR operations. Limitations include hosting events, such as weddings, retreats, etc. As well as restricting rentals to permitted structures.

For all properties located within Sedona, AZ city limits the following requirements exist:

1. State Law requires property owners provide Sedona with an emergency contact.
2. A transaction privilege tax license from the [Arizona Department of Revenue](#) is required for all properties used for vacation rentals.
3. Property owners are responsible for ensuring that renters are complying with all applicable rules and regulations such as noise, nuisances, trash, etc.
4. If you will be improving your property, some improvements (that may not require a building permit) must also comply with the [Land Development Code](#).
5. Specifically, the regulation requires trash cans be placed at the curb no earlier than noon the day prior and removed by 11:59 p.m. the day of pickup. Additionally, material must be bagged and securely tied (with the exception of clean recyclables), all material must be fully contained within the waste receptacle with the lids fully closed and secure except when being loaded or emptied. Containers may not be overfilled.

Structure Limitations

What can be used as a short-term rental?

- Single-family houses
- 1 to 4 unit houses (duplexes, etc.)
- Condominiums, townhouses, cooperatives or timeshares
- Individual rooms within any of above
- Guest houses, casitas, mother-in-law quarters

What cannot be used as a short-term rental?

- The use of structures not approved as a dwelling unit; unsafe structures (garage, shed, etc.) that do not meet Uniform Residential or Building Code standards as adopted by the City
- Apartment complexes of 5 or more unit
- Recreational Vehicles (RV's) or Travel Trailers
- Temporary structures such as tents or inflatable dome tents

Source: <https://www.sedonaaz.gov/your-government/departments/community-development/vacation-rentals>

Yavapai County STR Regulations

(Unincorporated area surrounded Sedona, AZ)

Requirement:

Notification of Residential Rental Property determination must be filed through the assessor office.

Form: <https://yavapaiaz.gov/Portals/33/Forms/Notification-of-Residential-Rental-Property.pdf>

Restrictions:

As of January 1, 2017, Yavapai County allows the short-term rental of permitted habitable structures. This means that **ONLY** structures PERMITTED as habitable space for overnight occupancy can be used as short-term rentals. This includes single-family residences, guest houses, apartments and condominiums. This does **NOT** include travel trailers, recreational vehicles, tents, yurts, gazebos, teepees, sheds, garages, barns, caves, offices or any other structure not permitted for overnight occupancy. Short-term rentals do **NOT** allow events such as weddings, parties, specialized retreats or any commercial activities. Bed and Breakfasts do allow individual rooms to be rented as short-term rentals provided the home is owner occupied. Please [contact the Planning Unit](#) for more information on Bed and Breakfast requirements and short-term rentals.

Sedona Zoning Map & Residential Zoning

<https://www.sedonaaz.gov/home/showpublisheddocument/36242/637552794460770000>

RS-6,000 – Residential Single Family Zone This zone is intended for single family, urban residential development on minimum Lot Sizes of 6,000 square feet (SF) and maximum densities of six Dwelling Units per acre. Only those additional Uses are permitted that are complementary to, and can exist in harmony with, a residential neighborhood.

2. RS-10,000 – Residential Single Family Zone This zone is intended for low-urban-density single family residential development on minimum Lot Sizes of 10,000 square feet and maximum densities of four Dwelling Units per acre. Only those additional Uses are permitted that are complementary to, and can exist in harmony with, a residential neighborhood.

3. RS-18,000 – Residential Single Family Zone This zone is intended for low-density single family residential development on minimum Lot Sizes of 18,000 square feet and at maximum densities of two Dwelling Units per acre. Only those additional Uses are permitted that are complementary to, and can exist in harmony with, a suburban residential neighborhood.

4. RS-36,000 – Residential Single Family Zone This zone is intended for very low-density single family residential development on minimum Lot Sizes of 36,000 square feet and at maximum densities of one Dwelling Unit per acre. Only those additional Uses are permitted that are complementary to, and can exist in harmony with, a suburban residential neighborhood.

Available Raw Land

5 Buckskin Ln, Sedona, AZ 86336

Parcel ID: 408-49-023

Ask: \$199,900

Size: 5,227 sq ft (supports SFH)

Utilities: Sewer/Natural Gas/Electric/Private
Water / Cable

HOA: Yes. [Link to Covenants](#)

HOA Fee: \$182 quarterly

Subdivision: Crimson View

Local Zoning: Sedona PD
(residential)



Highlights:

HOA has design review board. Mobile homes, prefabricated homes, and manufactured housing strictly prohibited. Rental restricts unable to be determined from non-searchable county recording. Further due diligence will be required to understand any potential restrictions on STRs.

74 Quail Run LN, Sedona, AZ 86336

Parcel ID: 401-35-056C

Ask: \$249,000

Days On Market: 19

Size: 9,147

Utilities: Sewer/Natural

Gas/Electric/Private Water/ Cable

HOA: None listed, property annotates there are home only CC&Rs

HOA Fee: \$0

Subdivision: Chapel Hills 1-2

Local Zoning: R1-10 (Located within Sedona city limits)

[Property Listing Link](#)



Highlights

An initial search does not return an CC&Rs that are publicly recorded. Title search is likely required to see if covenants were applied as deed restrictions. Listing agent should be able to provide further CC&R information. Property appears to have panoramic views, but is a very well developed neighborhood. Based on neighboring properties I estimate there is likely a restriction on minimum square ft of around 1500 sq ft per dwelling.

123 Cougar Dr, Sedona AZ

Parcel ID: 401-51-035

Ask: \$275,000

Days On Market: 36

Size: .33 Acres

Utilities: Sewer/Natural Gas/Electric/Public Water/ Cable

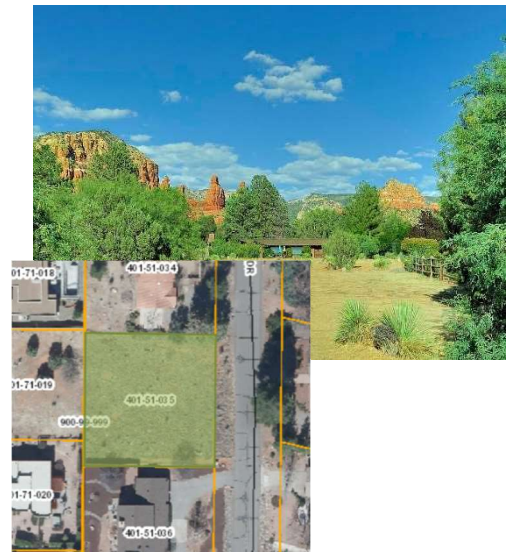
HOA: No HOA

HOA Fee: \$0

Subdivision: Chapel Bells Estates

Local Zoning: RS-10 (Located within Sedona city limits)

[Property Listing Link](#)



Highlights

Larger parcel, however, still resides within a well-established neighborhood. No publicly recorded restrictions are annotated everywhere but neighborhood composition indicates there is likely a sq ft requirement as well. Property provides a flat open build location with panoramic views. Zoning allows for 1 dwelling on the parcel.

342 Laurel Cir, Sedona AZ

Parcel ID: 401-56-016A

Ask: \$274,900

Days On Market: 136

Size: 1.82

Utilities: Sewer/Natural Gas/Electric/Public Water/
Cable

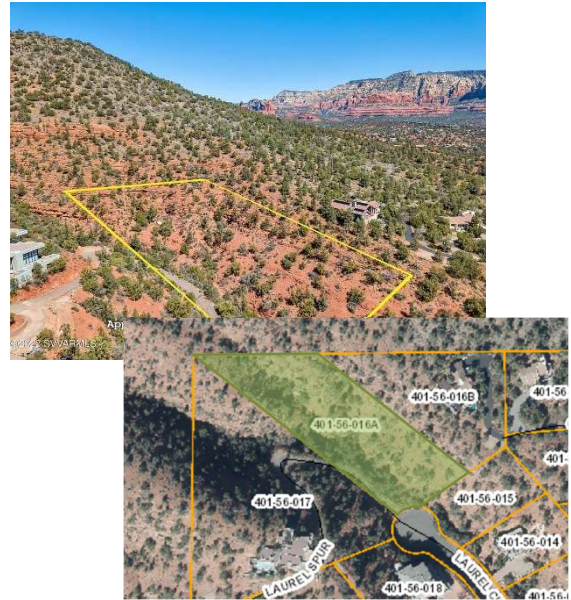
HOA: No HOA

HOA Fee: \$0

Subdivision: The Palisades

Local Zoning: RS-35 (City of Sedona, Coconino County)

[Property Listing Link](#)



Highlights

Of the available land, this property appears to be most conducive and desirable for the proposed project. Backing up to public land that cannot be developed on it is likely to provide a better customer experience. There is no stated HOA or publicly available restrictions. Zoning allows for 1 single family dwelling. Saw a price reduction in march and has been on the market for an extended period of time indicating there may be room for negotiation.

399 Canyon Dr. Sedona, AZ

Parcel ID: [40123002](#)

Ask: \$455,000

Days On Market: 136

Size: 2.73 acres

Utilities: Sewer/Natural Gas/Electric/Public
Water/ Cable

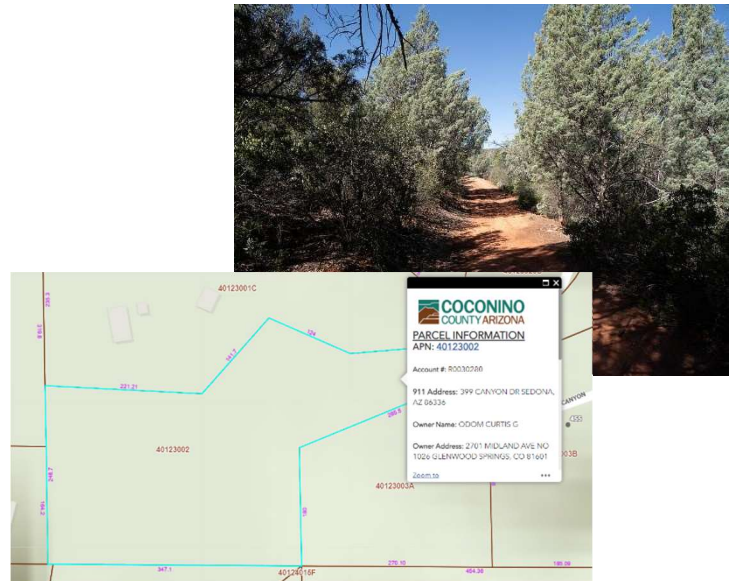
HOA: No HOA

HOA Fee: \$0

Subdivision: Oak Creek Knolls

Local Zoning: RS-18, City of Sedona

[Property Listing Link](#)



Highlights

Zoning density for this lot is RS-18 indicating that two dwellings per acre can be built. With the parcel coming in at over 2.73 acres, this means land acquisition cost for the two dwellings would actually be \$227,500 making this parcel the most economically feasible acquisition of available land analyzed. Further due diligence should be conducted to verify this with city planning division, as it being a single parcel may require additional permitting.