

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **32,161**

UNITS DELIVERED (YTD) **3,288**

MARKET FUNDAMENTALS



VACANCY RATE **7.1%**

YEAR-OVER-YEAR CHANGE **-10bps**

ASKING RENTS **\$1,556**

YEAR-OVER-YEAR CHANGE **-2.0%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$215,200**

PHOENIX MULTIFAMILY 1Q 2025

MARKET INSIGHTS

Absorption gains momentum while deliveries slow

HIGHLIGHTS

- More rental units were absorbed during the first few months of 2025 than were delivered, causing vacancies to tighten and rents to gain some ground. Construction should pick up in the coming quarters before slowing significantly beginning next year.
- Area vacancies inched lower in the first quarter, dropping 30 basis points to 7.1%. The rate is 10 basis points lower than one year ago, the first year-over-year vacancy improvement since 2021.
- Rents ticked higher to start the year, rising 0.7% to \$1,556 per month. Despite the recent increase, overall rents are down 2% from one year ago.
- Fewer properties sold in the first quarter than in any three-month period in more than five years. The decline in activity was most pronounced among newer assets, while there was an increase in the sales of older Class B and Class C properties. Per-unit prices dipped, but cap rates remained flat.

PHOENIX MULTIFAMILY MARKET OVERVIEW

The Phoenix multifamily market began 2025 on a healthy note, with quarterly absorption totals outpacing deliveries for the first time in two years, driving vacancies lower and allowing for a modest uptick in rents. Supply growth has been the prevailing theme in the local multifamily market in recent years, but the development pipeline is thinning, with deliveries peaking in 2024. This year will mark the conclusion of a six-year period when approximately 100,000 units of new inventory were delivered to the market. Renter demand has remained healthy in recent periods, including a first quarter where net absorption totaled more than 3,750 units, about 10 percent higher than the total from one year earlier. During the past 12 months, absorption has totaled nearly 16,000 units, 28% higher than the annual total from 12 months ago. The continued strength in demand has kept vacancy in a tight range, with the rate ending the first quarter down 10 basis points year over year.

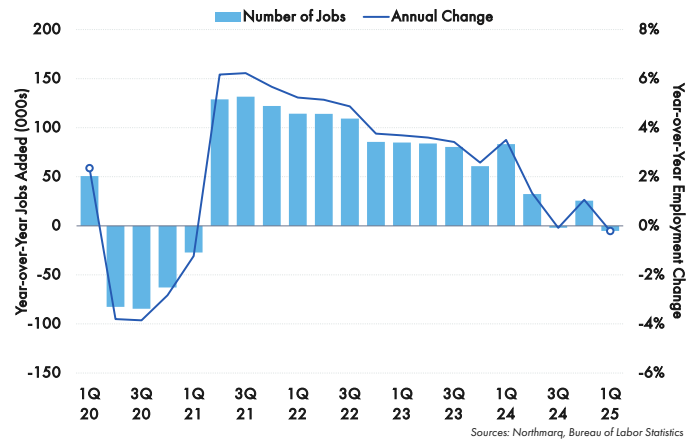
Investment activity in the Phoenix multifamily market was limited to a handful of transactions in the first quarter, following fairly steady transaction levels during the second half of last year. In the deals that did close at the start of 2025, there was an increase in older Class B and Class C properties, after the market was fueled by sales of new Class A communities in recent years. While the mix of assets being sold has varied and interest rates have fluctuated, cap rates have remained fairly steady in recent quarters, averaging approximately 5.25%. There has been a wider range in per-unit prices, with newer builds trading at approximately \$340,000 per unit, while Class C properties have sold for between \$155,000 per unit and \$180,000 per unit in most cases.

EMPLOYMENT

- The local employment market has softened in recent quarters, dragged down by losses in construction, retail, and a few other sectors. During the past 12 months, total employment has contracted with a net job loss of 5,200 positions, a 0.2% dip.
- The healthcare and social assistance sector continues to add workers as the local population expands. Employment in the sector has surged by 4.2% in the past year with the addition of 14,500 new jobs.
- Employment in the leisure and hospitality sector has leveled off after a rapid rebound in recent years. In the past 12 months, approximately 1,500 jobs in the sector have been eliminated, a 0.5% reduction.
- **FORECAST:** The local employment market should gain momentum as the year progresses, and gains are forecast across several industries. Employers are expected to add approximately 32,000 jobs to the market in 2025, an annual increase totaling 1.3%.

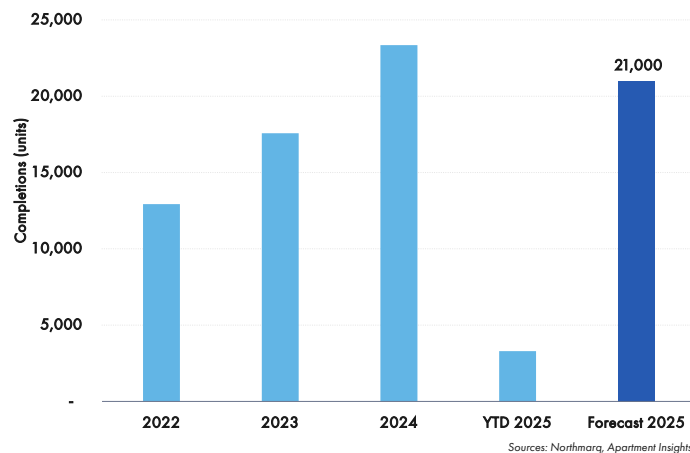
Employers are expected to add approximately 32,000 jobs in 2025.

EMPLOYMENT OVERVIEW



Projects totaling fewer than 3,300 units came online.

DEVELOPMENT TRENDS

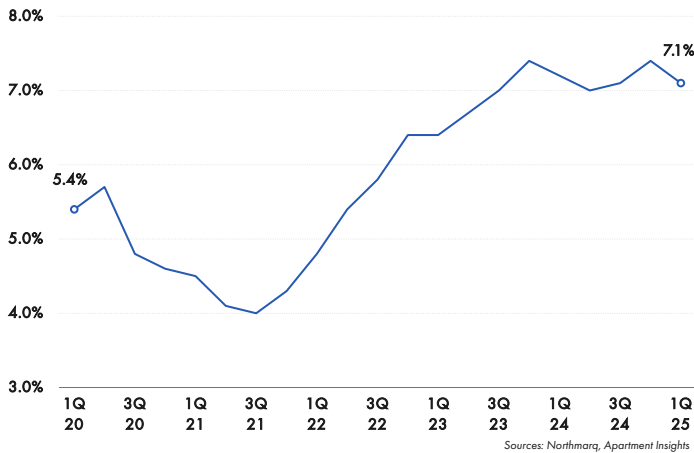


DEVELOPMENT & PERMITTING

- The pace of new development slowed during the first quarter. Projects totaling fewer than 3,300 units came online during the first few months of the year, after more than 6,400 units were completed in each of the final two quarters of 2024. The number of units that were added to inventory during the first quarter was down 33 percent compared to delivery totals from the same period in 2024.
- The development pipeline continues to be thinned out, with completions outpacing new starts. Approximately 32,100 units were under construction at the end of the first quarter, down from a peak of more than 42,000 units 15 months earlier. The current total of units that are under construction is the market's lowest figure since the third quarter of 2022.
- Permitting for multifamily properties slowed significantly at the beginning of 2025. Permits fewer than 2,100 units were pulled in the first quarter, down 50 percent from one year earlier. This marked the lowest quarterly permitting total in the Phoenix region since 2019.
- **FORECAST:** While there are fewer properties under construction and the pace of starts is slowing, 2025 is still expected to be an active year for multifamily deliveries. Developers are on pace to complete projects totaling 21,000 units this year, about 10 percent fewer units than were delivered in 2024.

The vacancy rate dropped 30 basis points in the first quarter.

VACANCY TRENDS



VACANCY

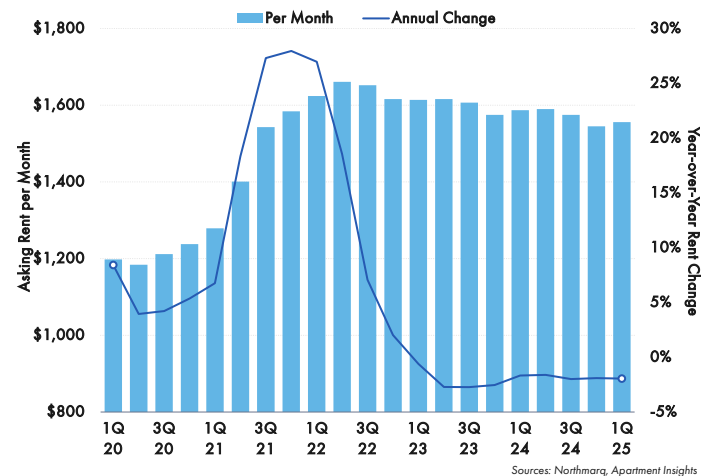
- After rising in the final few months of 2024, vacancies ticked lower at the start of this year. The average vacancy rate dropped 30 basis points in the first quarter, retreating to 7.1%. Vacancies have remained between 7% and 7.4% since the third quarter of 2023.
- The current vacancy rate is 10 basis points lower than the level from one year ago. This marks the first year-over-year vacancy decline in the Phoenix region since the end of 2021.
- While the overall market vacancy rate has remained fairly steady for nearly two years, trends have been mixed across submarkets. Approximately half of the submarkets in the Phoenix area continued to post year-over-year vacancy increases as of the first quarter. Deer Valley and Glendale are submarkets where the vacancy rate has trended higher in the past year, while vacancies have tightened in North Tempe, South Tempe, and North Scottsdale.
- FORECAST:** Multifamily development is expected to remain active in 2025, resulting in a rising vacancy rate. Area vacancies are forecast to reach 7.7% in 2025, an annual increase of 30 basis points.

RENTS

- Following declines in each of the prior two quarters, rents inched higher in the first quarter of 2025. Rents gained 0.7% in the first quarter, reaching \$1,556 per month.
- Current rents are 2% lower than levels from one year earlier. Area rents peaked in mid-2022 and have declined 6.3%, or about \$100 per month, in subsequent periods.
- A few areas in the Phoenix area have posted annual rent increases, but most submarkets are recording annual declines between 1.5% and 3%. North Mesa and East Mesa are two areas where rents have crept higher.
- FORECAST:** Rents are expected to contract slightly this year. The average rent across the Phoenix region is forecast to dip 1% by the end of 2025 to \$1,530 per month.

Rents gained 0.7% in the first quarter, reaching \$1,556 per month.

RENTS TRENDS

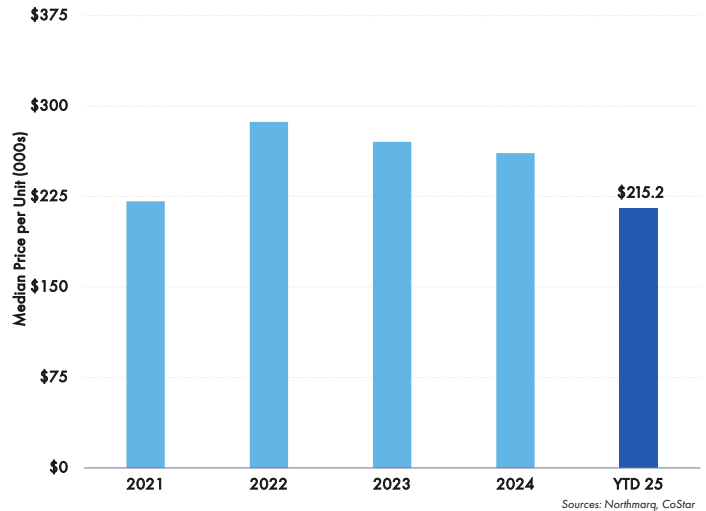


MULTIFAMILY SALES

- Sales activity was light during the first quarter. Total transaction counts were down 50% compared to the same period in 2024. This marked the lightest quarter of transaction activity in the Phoenix market in more than five years.
- New developments accounted for about 40% of the total transaction activity in 2024, but sales of newer assets have gotten off to a slower start this year. More than half of the properties that sold during the first quarter involved 1970s- or 1980s-vintage communities.
- Newer assets are still commanding the highest per-unit pricing. In the new construction communities that changed hands during the first quarter, the median price was nearly \$340,000 per unit.
- In properties that have sold year to date, the median price was \$215,200 per unit, down 18 percent from pricing levels recorded in 2024. The large concentration of newer assets selling last year held per-unit prices higher than they would have been if a more representative mix of assets had changed hands.
- Cap rates averaged approximately 5.25% in the first quarter, with most properties trading with cap rates between 4.75% and 5.5%. Current cap rates are about 25 basis points lower than averages from one year ago.

The median price was \$215,200 per unit.

INVESTMENT TRENDS



RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

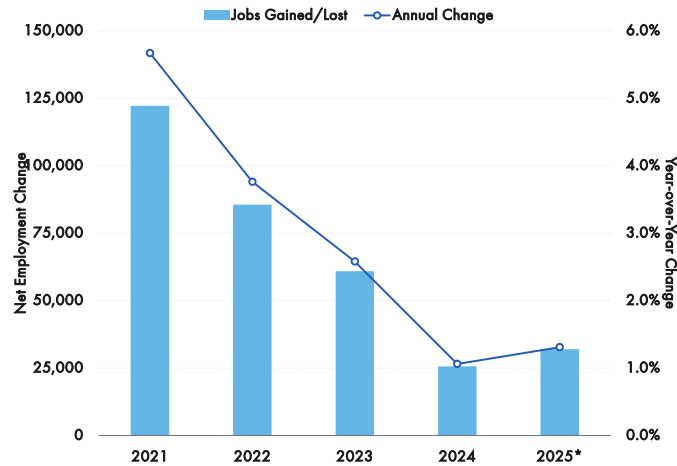
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Town Deer Valley	24100 N 19th Ave., Phoenix	388	\$131,100,000	\$337,887
Marquis at Desert Ridge	21155 N 56th St., Phoenix	370	\$126,000,000	\$340,541
Arches at Hidden Creek	1586 W Maggio Way, Chandler	432	\$95,446,000	\$220,940

LOOKING AHEAD

The Phoenix multifamily market has continued to post healthy operational fundamentals in recent periods despite a slowing pace of economic growth and ongoing development that has increased competition for operators. These trends are expected to persist through the remainder of 2025, as developers move properties through the development pipeline. Employers are expected to add workers in greater numbers in the coming quarters, after losses in a few sectors dragged on growth totals in recent months. Longer term, the outlook brightens as the pace of new development is expected to slow from 2026 to at least 2028, which should result in vacancy rates ultimately returning closer to 5%.

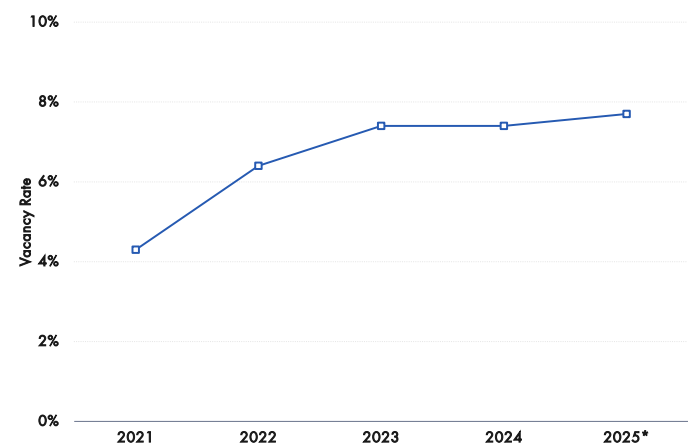
The slow start to the year in the investment market is expected to reverse course in the coming months. The trend has already begun to emerge, with a flurry of sales closing in the first few weeks of the second quarter. More multifamily properties traded in April than in the entire first quarter, setting the stage for continued investment activity throughout the remainder of this year. The types of properties that are selling is also evolving. In 2023 and 2024, the investment market was fueled by newly completed properties being sold either during lease-up or at stabilization. These assets should continue to sell in the coming quarters, but there will also be properties that traded at the height of the market selling again at a time where operating conditions are softer and financing costs are higher.

EMPLOYMENT FORECAST



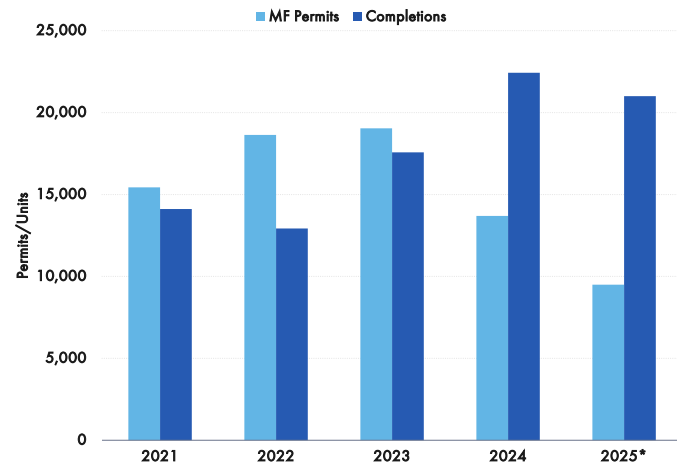
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



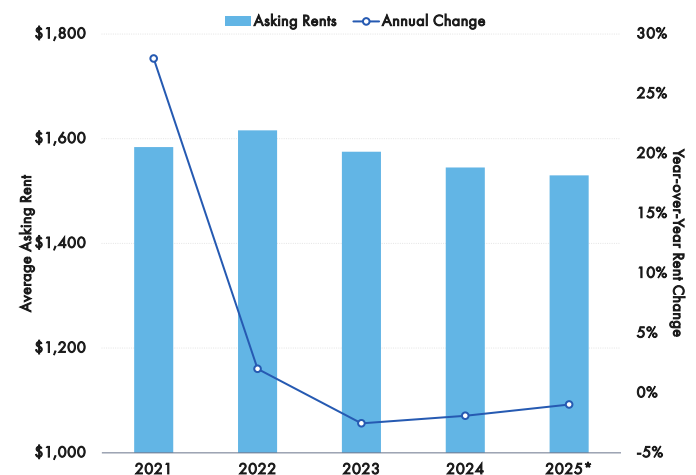
* Year End Forecast
Sources: Northmarq, Apartment Insights

CONSTRUCTION & PERMITTING FORECAST



* Year End Forecast
Sources: Northmarq, Apartment Insights, Census Bureau

RENTS FORECAST



* Year End Forecast
Sources: Northmarq, Apartment Insights



FOR MORE INFORMATION, PLEASE CONTACT

TREVOR KOSKOVICH

President, Investment Sales

602.952.4040

tkoskovich@northmarq.com

RYAN BOYLE

Vice President, Investment Sales

602.952.4050

rboyle@northmarq.com

JESSE HUDSON

Regional Managing Director, Investment Sales

602.952.4042

jHUDSON@northmarq.com

CHRIS MICHL

Vice President, Investment Sales

602.952.4051

cmichl@northmarq.com

BRANDON HARRINGTON

Managing Director, Debt & Equity

602.508.2204

bwharrington@northmarq.com

LOGAN BACA

Senior Associate, Investment Sales

602.952.4052

lbaca@northmarq.com

PETE O'NEIL, *Director of Research* | 602.508.2212 | poneil@northmarq.com

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