Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	27,735
UNITS DELIVERED (YTD)	13,628

MARKET FUNDAMENTALS

VACANCY RATE	7.2%
YEAR-OVER-YEAR CHANGE	+10bps
ASKING RENTS	$1,527
YEAR-OVER-YEAR CHANGE	-3.0%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$219,000

PHOENIX MULTIFAMILY
Q3 2025

MARKET INSIGHTS

Absorption elevated, but rents still inching lower

HIGHLIGHTS

- The third quarter was an active period for new supply and demand growth across the Phoenix multifamily market. Absorption and deliveries both topped 5,000 units for the quarter. For the full year, net absorption has totaled nearly 14,000 units, slightly higher than the number of new units that have entered the local inventory.
- Vacancy ended the third quarter at 7.2%, up 10 basis points from one year earlier. After inching lower in the first half, this marked the first quarterly vacancy increase in 2025.
- Rents retreated for the second consecutive period, ending the third quarter at $1,527 per month. Current rents are down 3.0% year over year.
- After gaining momentum at midyear, transaction activity cooled in the past three months. A wider range of property vintages and classes have resumed trading, weighing on prices. The median price to this point in 2025 is $219,000 per unit, while cap rates are averaging between 5.0% and 5.5%.

PHOENIX MULTIFAMILY MARKET OVERVIEW

Despite softening a bit, the Phoenix multifamily market continued to post better-than-expected operating performance during the third quarter. Absorption has been elevated and has kept pace with heightened levels of new supply coming online. The vacancy rate for stabilized properties ended the third quarter at 7.2%, just 10 basis points higher than one year earlier. While stabilized properties, particularly in mature submarkets, are outperforming earlier forecasts, there are still stresses in the market. Newly delivered units still in lease-up are continuing to create a supply-demand imbalance in some of the market's most active areas for new construction, led by Goodyear/Avondale, Downtown Phoenix, and the area surrounding the Paradise Valley Mall redevelopment. These supply-side pressures are continuing to weigh on rents throughout the Phoenix metro area. Current rents are down 3.0% from one year ago and are more than 8.0% lower than peak levels recorded in 2022.

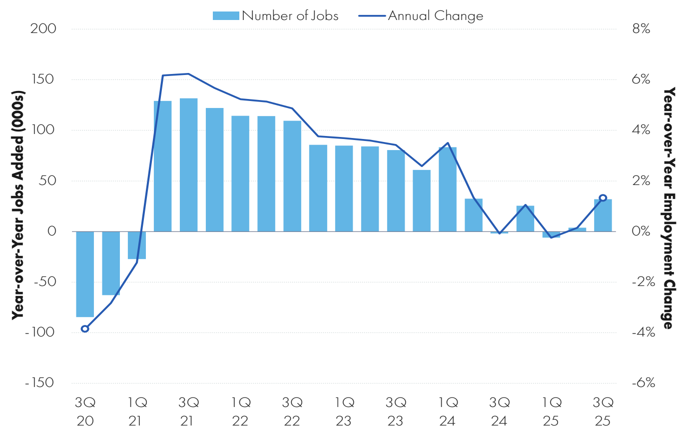
Sales velocity cooled somewhat during the third quarter although year-to-date transaction counts are slightly ahead of the 2024 pace. The biggest shift in the multifamily investment market from last year to this year has been the mix of properties that are being acquired. In 2024, recently delivered properties accounted for a large share of the transactions, while only a handful of older assets changed hands. To this point in 2025, the pace of newer property sales has slowed, while sales of 1970s- and 1980s-vintage properties have nearly doubled. With older Class B and Class C properties accounting for a broader mix of total transactions, the market's median per-unit price has fallen by about 15% from 2024 to 2025, even as cap rates have held mostly steady in the low- to mid-5% range.

EMPLOYMENT

- Recent employment trends rebounded closer to the Phoenix market's long-term trend as of the third quarter. Year over year, total employment has increased by 1.3% with the addition of 32,000 net new jobs.
- Key private-sector industries have begun to add workers in some of the area's higher-wage sectors. Employers in the financial activities and professional and business services sectors have combined to add more than 6,000 jobs during the past 12 months, gains of 1.9% and 0.6%, respectively.
- The manufacturing sector is expected to be a source of long-term growth in the Phoenix area, as several large chip facilities come online in the coming years. Growth to this point has been limited however, with total manufacturing employment as of the third quarter nearly identical to levels from the beginning of 2023.
- **FORECAST:** Area employment growth in 2025 should closely track levels from the prior year. Businesses are on pace to expand payrolls by approximately 1.0% for the full year, with the addition of 25,000 jobs.

Year over year, total employment has increased by 1.3%.

EMPLOYMENT OVERVIEW



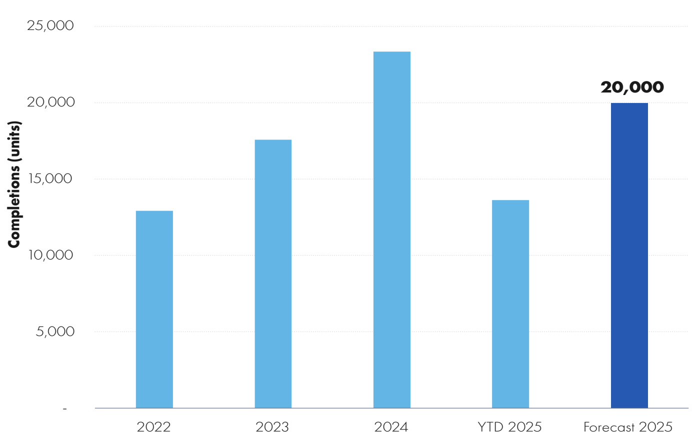
Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

- After a slower start to the year, developers delivered nearly 6,000 units during the past three months, similar to completion totals from the third and fourth quarters of 2024. Through the first three quarters of this year, deliveries have totaled more than 13,600 units, down from approximately 16,000 units during the same period in 2024.
- The construction pipeline continues to decline as more units are delivered than break ground each quarter. There are projects totaling approximately 27,300 units currently under construction, the lowest total since the fourth quarter of 2021. The number of units currently under construction is down 29% from levels one year ago and 35% lower than the peak at the end of 2023.
- Developers pulled permits for approximately 2,800 multifamily units in the third quarter, after the figure topped 3,700 units in the second quarter. Year to date, multifamily permitting volumes are down 19% compared to the same period in 2024.
- **FORECAST:** Developers have completed an average of nearly 16,000 units per year across Greater Phoenix since 2020, and this year deliveries are forecast to reach 20,000 units. Annual completions peaked in 2024.

Deliveries have totaled more than 13,600 units.

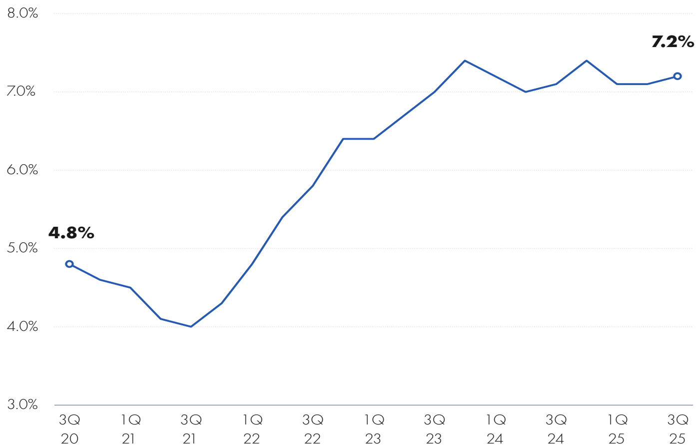
DEVELOPMENT TRENDS



Sources: Northmarq, Apartment Insights

The Class A vacancy rate ended the third quarter at 7.6%.

VACANCY TRENDS



Sources: Northmarq, Apartment Insights

VACANCY

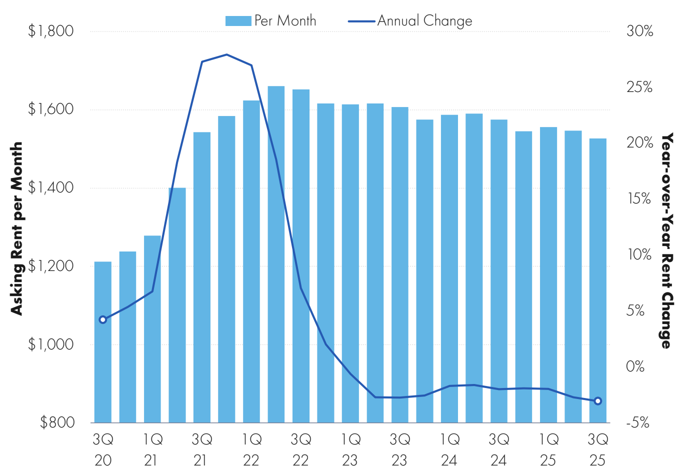
- Area vacancies inched up 10 basis points in the third quarter, reaching 7.2%. The rate has remained between 7.0% and 7.4% for each of the past nine quarters. The current vacancy rate is up 10 basis points compared to the level from one year ago.
- About one-third of the Phoenix area's submarkets have posted year-over-year vacancy improvements. Some of the region's most expensive submarkets, such as North Scottsdale, South Scottsdale, and South Gilbert/Queen Creek, all posted annual vacancy declines. Some of the submarkets where rents are below the market average have posted significant vacancy increases.
- While the overall vacancy rate has been mostly flat in recent periods, Class A vacancies have increased in each of the past three quarters. The Class A vacancy rate ended the third quarter at 7.6%, 160 basis points higher than at the beginning of the year. Deliveries in the area began to accelerate in 2020; since 2020, Class A vacancy has averaged 6.5%.
- **FORECAST:** Vacancy is forecast to end 2025 at 7.5%, up 10 basis points for the full year. This would mark the second consecutive year where area vacancies remained essentially unchanged.

RENTS

- Rents declined during the third quarter, falling 1.3% to $1,527 per month. Current rents are now 3.0% lower than one year ago, and 8.1% lower than the 2022 peak.
- Rents in some of the metro area's most expensive submarkets have been among the best performers. The North Paradise Valley, South Scottsdale, and Central City submarkets have posted either slight rent gains or modest dips despite having rents that range from $300 per month to $550 per month above the metro average.
- Rents in the Phoenix area's Class C properties have declined after topping $1,300 per month from 2022 to 2024. Class C rents ended the third quarter at $1,270 per month, down 2.5% from one year earlier.
- **FORECAST:** Average rents are on pace to decline 1.9% in 2025, matching the 2024 decline. Rents are expected to end the year at $1,515 per month.

Rents in the most expensive submarkets have outperformed.

RENTS TRENDS



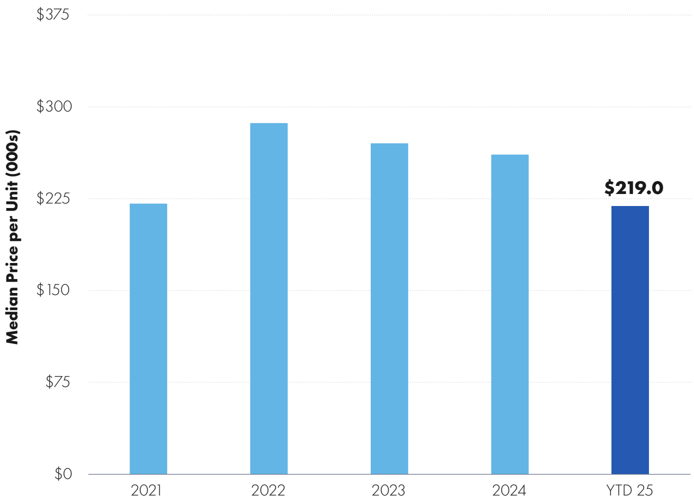
Sources: Northmarq, Apartment Insights

MULTIFAMILY SALES

- Sales activity slowed during the third quarter, with transaction counts dipping 17% from the second quarter. Despite the recent cooling, total transactions year to date are up 4% when compared to the same period in 2024.
- While the number of properties that have sold to this point in 2025 is similar to activity levels in 2024, the mix has broadened out. Year to date, properties built since 2020 have accounted for about 25% of total transactions; in 2024, these newer assets represented 40% of sales activity.
- Prices have trended lower, reflecting softer operating conditions and a more varied mix of properties changing hands. The median price in transactions through the first three quarters of this year is $219,000 per unit, after prices topped $260,000 per unit in 2024.
- Newer vintages continue to command top prices. The median price in properties built since 2020 that have sold to this point in 2025 is more than $337,000 per unit. Sales of properties built in the 1980s have transacted with a median price of $192,000 per unit, while communities built prior to 1980 have sold at a median price of $143,750 per unit.
- Cap rates have mostly held steady throughout much of the year. Most properties are trading with cap rates between 5.0% and 5.5%.

The median price this year is $219,000 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

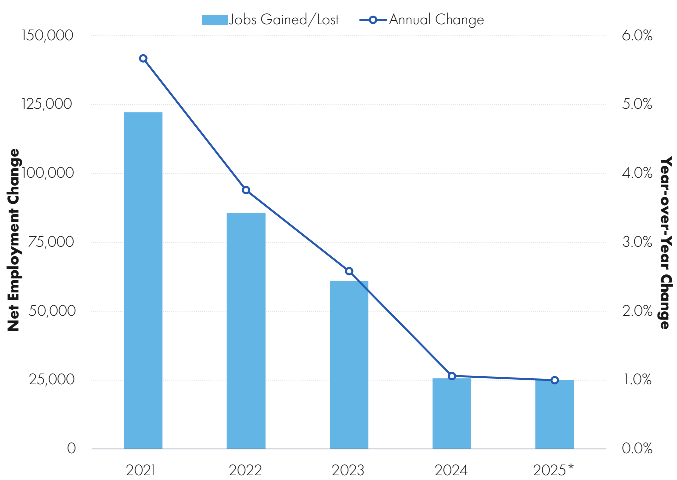
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Country Brook	4909 W Joshua Blvd., Chandler	396	$109,500,000	$276,515
Mason Oliver	11 S 12th St., Phoenix	292	$62,300,000	$213,356
Annex at Cadence	9411 E Cadence Pky., Mesa	135	$49,000,000	$362,963
U at 19th Apartments	4802 N 19th Ave., Phoenix	236	$36,060,000	$152,797
Solana Place at Carlton Commons	18 S Boniface Ln., Casa Grande	113	$30,000,000	$265,487

LOOKING AHEAD

Operating conditions in the Phoenix multifamily market are expected to soften a bit further in the final few months of 2025. While the number of units currently under construction has reached its lowest total in nearly four years, the pace of new deliveries is expected to remain elevated for a few more quarters, and developers will be bringing fewer new units online after several consecutive years of above-trend inventory growth. Vacancies will likely continue to creep higher in the coming periods despite continued renter demand for units. The competitive leasing conditions should persist into 2026, dragging on rents. While much of the new construction has been located in the West Valley, several properties are expected to come online in North Scottsdale, which features one of the lowest multifamily vacancy rates in the Phoenix area.

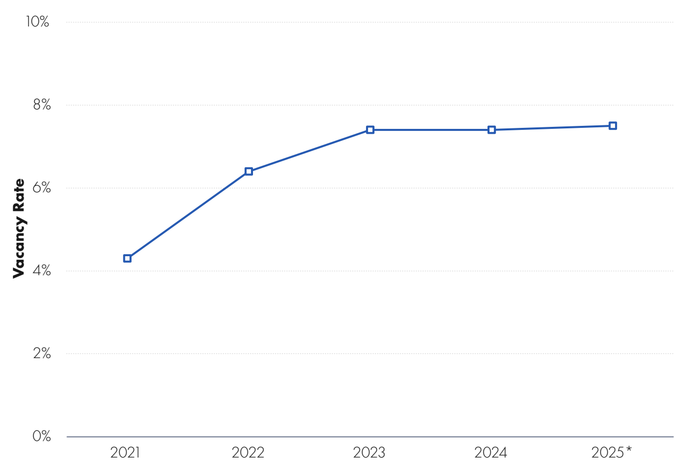
The dip in investment activity during the third quarter is likely to change course in the coming months. In recent quarters, the transaction mix has expanded, with trades involving older vintages playing an increasing role after investors focused primarily on new properties in lease-up or at stabilization in 2024. The investment market should benefit from the combined forces of investors considering a broader range of potential acquisitions and a period of lower interest rates. Investor interest in area properties will also be influenced by renter demand levels. Year to date, area net absorption is up more than 10% compared to the same period in 2024, offsetting some of the supply-side pressures on operations and supporting investor sentiment. If a similar leasing momentum proves to be sustainable into 2026, it will likely result in a greater number of properties being acquired.

EMPLOYMENT FORECAST



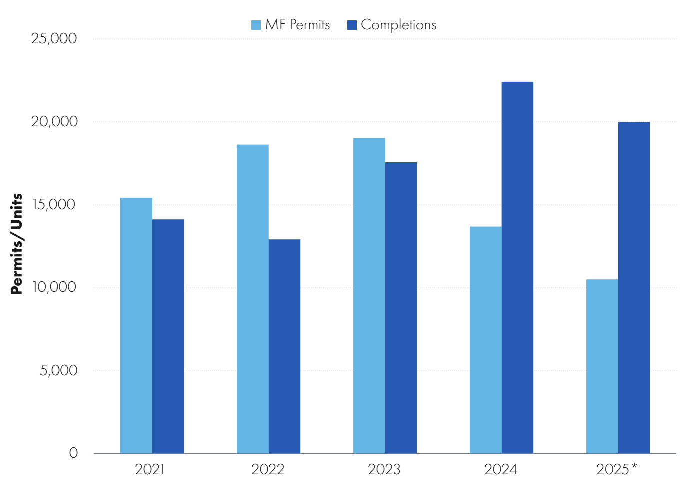
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



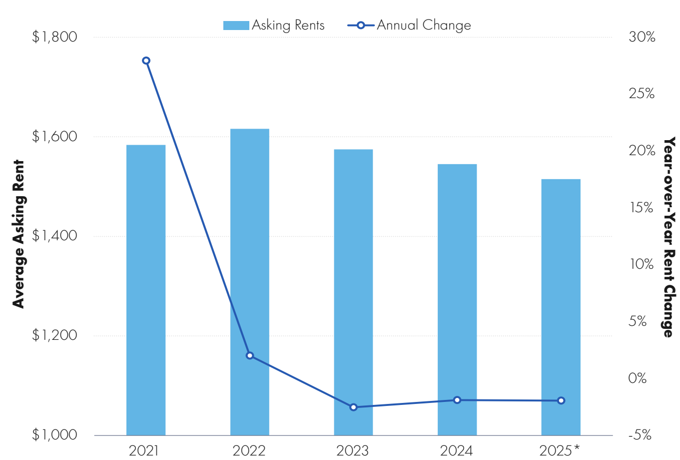
** Year End Forecast*
Sources: Northmarq, Apartment Insights

CONSTRUCTION & PERMITTING FORECAST



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

RENTS FORECAST



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

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ABOUT **NORTHMARQ**

Northmarq is a full-service capital markets resource for commercial real estate investors, offering seamless collaboration with top experts in debt, equity, investment sales, loan servicing, and fund management. The company combines industry-leading capabilities with a flexible structure, enabling its national team of experienced professionals to create innovative solutions for clients. Northmarq's solid foundation and entrepreneurial approach have built a loan servicing portfolio of more than $76 billion and a two-year transaction volume of $52 billion. Through the 2022 acquisition of Stan Johnson Company, Northmarq established itself as a provider of opportunities across all major asset classes. For more information, visit www.northmarq.com.