Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	41,795
UNITS DELIVERED	4,912

MARKET FUNDAMENTALS

VACANCY RATE	7.2%
YEAR-OVER-YEAR CHANGE	+80bps
ASKING RENTS	$1,587
YEAR-OVER-YEAR CHANGE	-1.7%

TRANSACTION ACTIVITY (YTD)

MEDIAN SALES PRICE	$324,700

Phoenix Multifamily
1Q 2024

MARKET INSIGHTS

Vacancy ticks lower, but supply-side pressures loom

HIGHLIGHTS

- The Greater Phoenix multifamily market posted some modest improvement during the first quarter, with results boosted by a strong local economy and some seasonal leasing factors. New supply growth is expected to remain a prominent force in the market through the remainder of the year and into 2025.
- For the first time in more than two years, area vacancies dipped during the first quarter, falling 20 basis points to 7.2 percent. The recent improvement did not reverse the longer-term trend; year over year, vacancies in Greater Phoenix are up 80 basis points.
- After trending lower in the second half of last year, rents inched higher to start 2024. Average rents posted a gain of 0.8 percent in the first three months of the year. Still, at $1,587 per month, rents are down 1.7 percent from levels recorded one year ago.
- Fewer properties traded in the first quarter, and newer assets accounted for approximately half of the total transaction mix. The median sales price reached $324,700 per unit to start the year, with cap rates ranging between 5.25 percent to 5.75 percent.

PHOENIX MULTIFAMILY MARKET OVERVIEW

The Greater Phoenix multifamily market posted a stronger than expected start to 2024, fueled by elevated demand. The vacancy rate recorded its first quarterly decline in more than two years, although the rate remains higher than the market's five-year average. The recent performance does not mask the longer-term trends. Inventory growth remains elevated, and the current construction pipeline includes projects that will result in supply-side pressures throughout the market for at least the next two years. There are high-demand segments of the market where new development will be limited in the coming years. Very few projects are under construction in the North Scottsdale, Chandler, and South Tempe submarkets, although developers are active in areas that surround these parts of the East Valley.

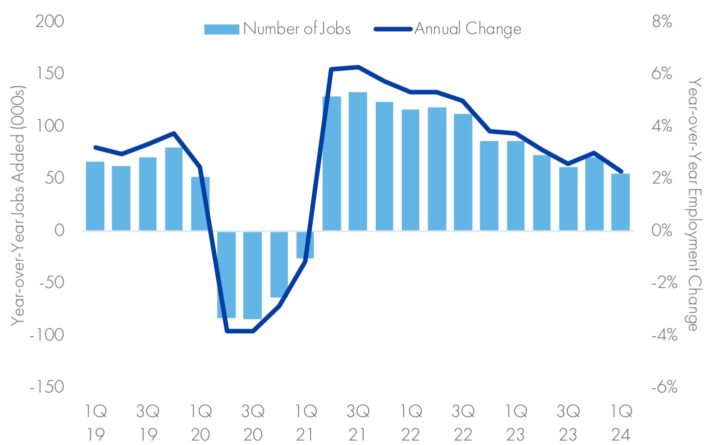
Investment activity in the Phoenix multifamily market slowed at the start of the year, although a handful of newer properties changed hands during the first quarter. The mix of properties that have sold year to date has resulted in inconsistent per-unit pricing trends. The median price in sales during the first quarter is up from 2023, although this likely does not reflect the prevailing pricing trends across the market. The median price in Class A properties that have sold at the start of this year was approximately $325,000 per unit, down from closer to $400,000 per unit in 2022. Outside of Class A sales, the median price was closer to $170,000 per unit, about 30 percent lower than in 2023. Current cap rates are generally ranging between 5.25 percent and 5.75 percent.

EMPLOYMENT

- Employers in Phoenix have expanded payrolls by 2.3 percent in the past 12 months, adding 55,000 net new jobs. The recent pace of hiring is slightly lower than the area's long-term trend. During the past decade, employment growth in Phoenix has averaged 2.9 percent per year.
- The construction sector has been a source of local labor growth for the past few years, but the pace of expansion is slowing. During the past 12 months, more than 7,000 construction jobs have been added, a 4.5 percent increase. One year ago, construction jobs were being added at more than twice the current pace.
- Taiwan Semiconductor and the U.S. Department of Commerce announced plans for direct funding to expand the company's manufacturing campus in north Phoenix. The company is now committed to create three chip fabs in a $65 billion investment, with the first facility coming online in the first half of 2025. Taiwan Semiconductor is expected to hire 6,000 area workers.
- **FORECAST:** The pace of hiring in Phoenix is forecast to slow in 2024, with employers expected to add approximately 40,000 workers, down from more than 70,000 new jobs in 2023. Area payrolls are forecast to expand by 1.6 percent.

Employers have expanded payrolls by 2.3 percent in the past 12 months.

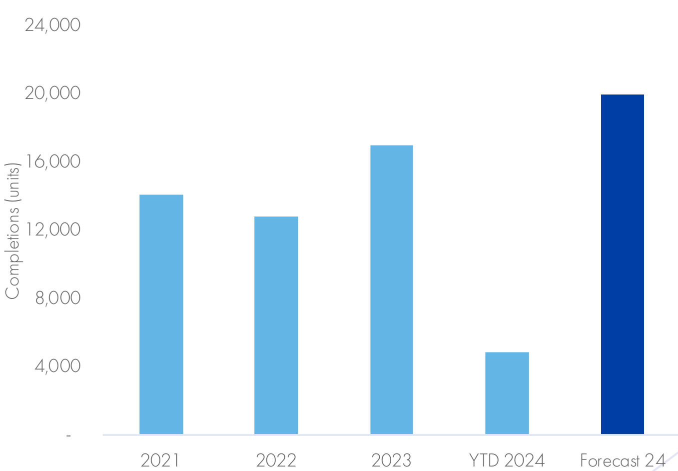
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Permitting dropped more than 35 percent from the first quarter of 2023.

DEVELOPMENT TRENDS



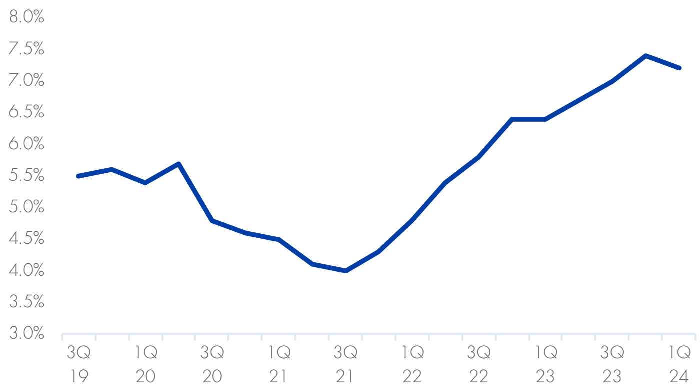
Sources: Northmarq, Apartment Insights

DEVELOPMENT & PERMITTING

- Construction has remained elevated throughout the Phoenix region for the past few years. Developers completed more than 4,900 units in the first quarter, the fourth consecutive quarter where more than 4,000 units came online. Completions in the first few months of this year nearly doubled the total from the same period in 2023.
- The number of units under construction peaked at the end of 2023, and has inched a bit lower year to date. Projects totaling 41,795 units are currently under way, about 3 percent below the prior peak. One year ago, approximately 37,500 units were in the construction pipeline.
- Multifamily permitting dropped more than 35 percent from the first quarter of 2023 to the same period in 2024. Permitting peaked in late 2022 and developers are forecast to be much less active in starting new projects in the coming years.
- **FORECAST:** Developers are on pace to deliver approximately 20,000 rental units throughout the Phoenix area this year, an increase of about 18 percent from 2023 levels.

Area vacancy has risen 80 basis points year over year.

VACANCY TRENDS



Sources: Northmarq, Apartment Insights

VACANCY

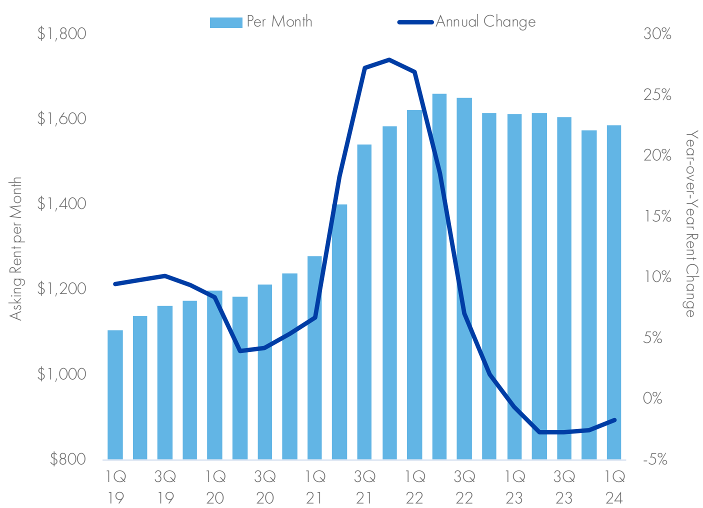
- The local vacancy rate dipped 20 basis points during the first quarter, the first quarterly tightening in more than two years. Some of the decline was likely seasonal; the first quarter is typically the strongest period for leasing activity in the Greater Phoenix area. Absorption has averaged more than 3,100 units per quarter since the beginning of 2023.
- Despite the recent improvement, area vacancy has risen 80 basis points year over year to 7.2 percent in the first quarter. The current vacancy rate is 170 basis points higher than the market's five-year average.
- Vacancies in Class B buildings have begun to stabilize in recent periods. The Class B vacancy rate dipped 40 basis points in the first quarter, reaching 6.2 percent. Year over year, Class B vacancy has declined by 20 basis points.
- **FORECAST:** Vacancy is expected to push higher as competition for renters intensifies with new units coming online. The rate is forecast to reach 8.6 percent by year end, a 120 basis point annual increase.

RENTS

- With leasing strong, rents inched higher at the start of the year. Average rents ended the first quarter at $1,587 per month, a gain of 0.8 percent from the end of 2023. Rents were essentially flat in the first half of last year before dropping 2.5 percent in the second half.
- Current rents are down 1.7 percent from one year ago, and 4.5 percent lower than the peaks recorded in mid-2022. Class A rents are posting the softest performance, dropping 3 percent year over year, and recording a decline of nearly 10 percent from peak levels.
- While rents are declining across most of the market, there are a handful of high-demand submarkets where rents have been flat or inched higher during the past year. The Gilbert/Superstition Springs, North Scottsdale, and North Tempe submarkets have all outperformed the market average in the past year.
- **FORECAST:** Rents are expected to end the year at approximately $1,550 per month, a decline of 1.6 percent. This would be the second consecutive year of rent contraction in Greater Phoenix, following a five-year period where the market posted average rent increases of more than 10 percent per year.

Current rents are down 1.7 percent from one year ago.

RENT TRENDS



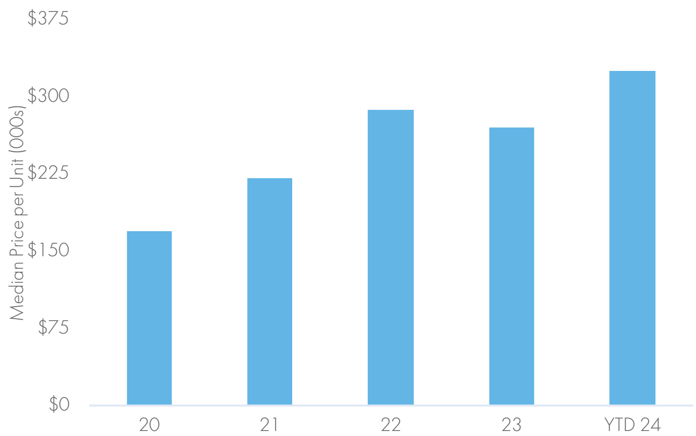
Sources: Northmarq, Apartment Insights

MULTIFAMILY SALES

- After a bit of an uptick at the end of last year, sales activity slowed during the first quarter. Transaction counts declined 50 percent from the fourth quarter of 2023 to the first quarter of this year. Sales velocity was down 23 percent from one year ago.
- Pricing trends have been mixed to this point in 2024. The median price for all transactions is $324,700 per unit, about 20 percent higher than the median price in 2023. The increase in prices is entirely related to the mix of assets that have sold.
- During the first quarter, approximately half of all sales involved Class A properties that had been delivered during the past decade. These properties traded for between $325,000 per unit and $400,000 per unit. In 2023, newer assets sold for an average of $380,000 per unit.
- Cap rates have inched a bit higher year to date, ranging between 5.25 percent and 5.75 percent. Cap rates were closer to 5.25 percent on average during the second half of last year.

During the first quarter, half of all sales involved Class A properties.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

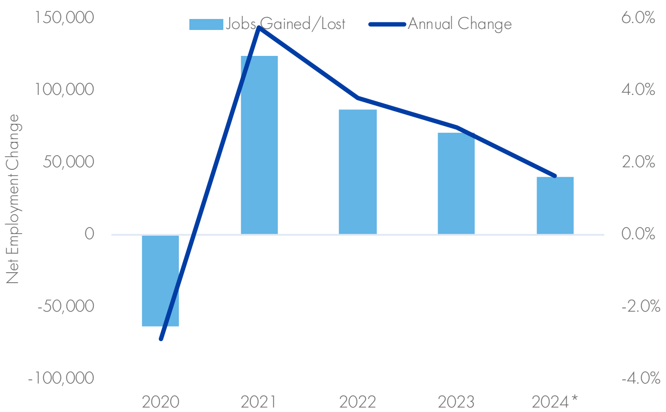
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Skywater at Town Lake	601 W Rio Salado Pky., Tempe	328	$112,000,000	$341,463
Sentio	3600 W Happy Valley Rd., Glendale	325	$108,000,000	$332,308
Olympus Chandler at the Park	1333 N Parklane Blvd., Chandler	291	$94,500,000	$324,742
Cambria	130 W Guadalupe Rd., Gilbert	174	$51,300,000	$294,828
Urban 357	2912 E Indian School Rd., Phoenix	357	$41,000,000	$114,846

LOOKING AHEAD

Despite a strong first quarter of property operations, an elevated number of deliveries will create significant supply-side pressures in the Greater Phoenix multifamily market through the remainder of this year and into 2025. Completions have been accelerating for the past few years, and developers are on pace to deliver 20,000 units in 2024, up from an average of about 8,000 units per year from 2015-2019. From a demand standpoint, absorption has topped 12,000 units in two of the past three years, and renters are on pace to move into a similar number of rental units in 2024. With new supply outpacing demand, vacancy is forecast to rise for the third consecutive year. The rate is on pace to end the year approximately twice as high as the lows achieved in 2021. The supply-demand imbalance should result in modest rent declines throughout much of the region.

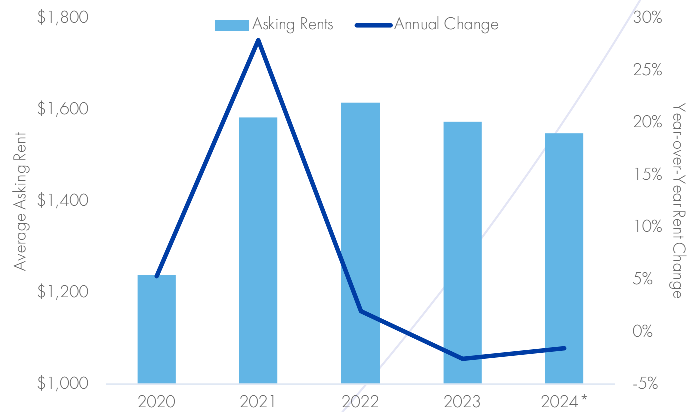
The prospect of rising vacancies and an increasingly competitive leasing environment is expected to limit investment activity throughout much of the remainder of this year. Investors are taking a cautious approach when evaluating potential acquisitions, a trend that is expected to continue in the coming quarters. Interest rates also continue to create an obstacle to transactions. At the beginning of 2024, there was a prevailing expectation that interest rates would be trending lower, creating an environment where more transactions might pencil. Instead, rates have remained elevated, and cap rates are unlikely to move appreciably lower before the end of this year. The bulk of the transactions that are expected to close in 2024 will likely be newly constructed properties, either after stabilization or during lease-up. Included in this mix will likely be a handful of build-to-rent properties.

EMPLOYMENT FORECAST



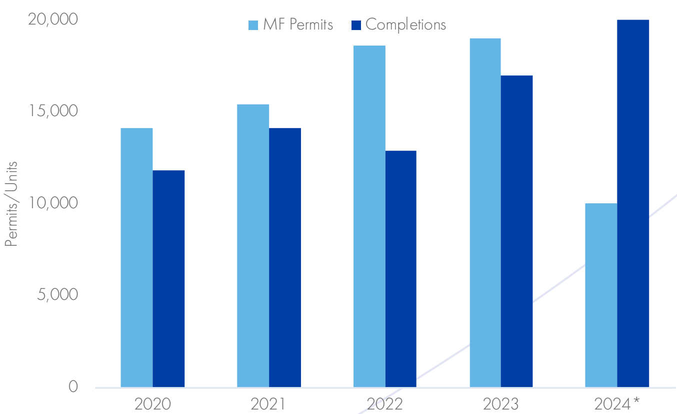
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



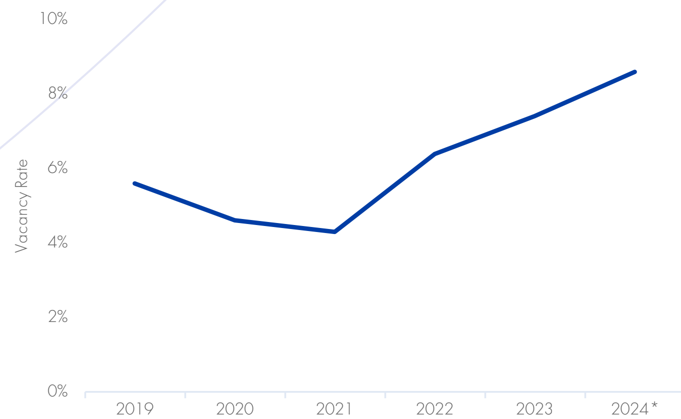
** Year End Forecast*
Sources: Northmarq, Apartment Insights

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



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

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