

## CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **39,097**

UNITS DELIVERED (YTD) **16,003**

## MARKET FUNDAMENTALS



VACANCY RATE **7.1%**

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

ASKING RENTS **\$1,575**

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

## TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$262,600**

PHOENIX MULTIFAMILY  
3Q 2024

## MARKET INSIGHTS

# Investment activity ticks higher, but remains well below prior peak

## HIGHLIGHTS

- The Phoenix multifamily market is recording tighter vacancy conditions than were forecast, but construction remains elevated, with more than 39,000 units under construction. Absorption has been particularly strong but is unlikely to keep pace with new inventory growth.
- After creeping lower in the first half, vacancies inched higher in the third quarter. The rate rose 10 basis points to 7.1 percent; year over year, vacancy is also up 10 basis points.
- Rents dipped, falling 1 percent during the past three months and ending the quarter at \$1,575 per month. Over the course of the past year, rents have contracted by 2 percent.
- Transaction activity has slowly gained momentum during the past few quarters. Year to date, sales velocity is up 22 percent compared to 2023 levels. The median price to this point in 2024 is \$262,600 per unit, down slightly from last year's figure.

## PHOENIX MULTIFAMILY MARKET OVERVIEW

Vacancy in the Greater Phoenix multifamily market continues to come in lower than expected. The rate ended the third quarter at 7.1 percent, just 10 basis points higher than the figure at midyear; vacancy has also increased only 10 basis points year over year. While vacancies are lower than originally forecast, they are about 130 basis points higher than the market's 10-year average and are expected to trend higher during the next few quarters. Renter demand is elevated, and absorption has totaled nearly 25,000 units since the beginning of 2023. Still, move-ins are not expected to keep pace with completions. This quarter marked the first time in more than a year where there were fewer than 40,000 units under construction, but deliveries will remain elevated into 2026.

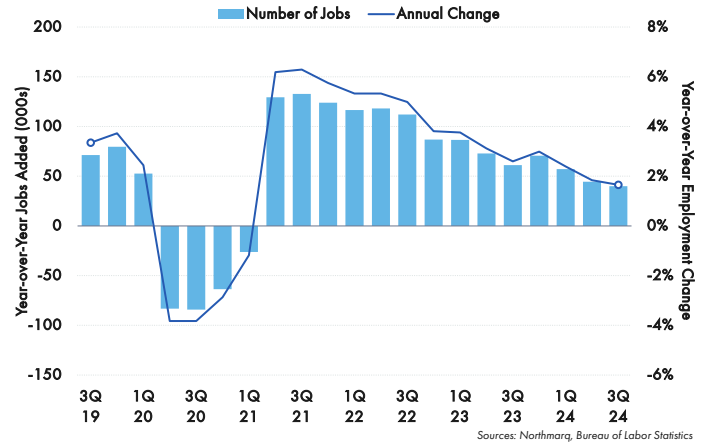
Investment activity has been accelerating gradually to this point in 2024. Transaction counts in the third quarter reached their highest total since the end of 2022, and sales velocity year to date is up more than 20 percent when compared to levels from the same period in 2023. While newer assets account for nearly half of the total properties that have sold year to date, a few more older Class B and Class C communities traded in the third quarter. With investors acquiring a greater mix of assets than in earlier periods, cap rates have begun to trade within a wider range. Cap rates start at approximately 5.25 percent but have exceeded 6 percent in some recent transactions.

## EMPLOYMENT

- The pace of employment growth has cooled in recent quarters, but the Phoenix market is still recording gains. During the 12-month period that ended in the third quarter, total employment in the area expanded by 1.7 percent with the addition of 40,000 net new jobs.
- The region's transportation and warehousing sector is proving to be a source of steady job growth. Year over year, transportation and warehousing employment has surged by 8,500 workers, a 3.9 percent increase to payrolls. More growth is likely, with Phoenix one of the top markets in the country for industrial construction and absorption.
- During the third quarter, auto parts manufacturer Magna International announced plans for a new 230,000-square-foot facility in Mesa. The company is one of the largest auto parts suppliers in North America and the move is expected result in hundreds in new jobs.
- **FORECAST:** Softer conditions in office-using employment sectors will drag on overall job growth in 2024. Employers are on pace to expand payrolls by 1.6 percent this year, with the addition of 38,000 jobs.

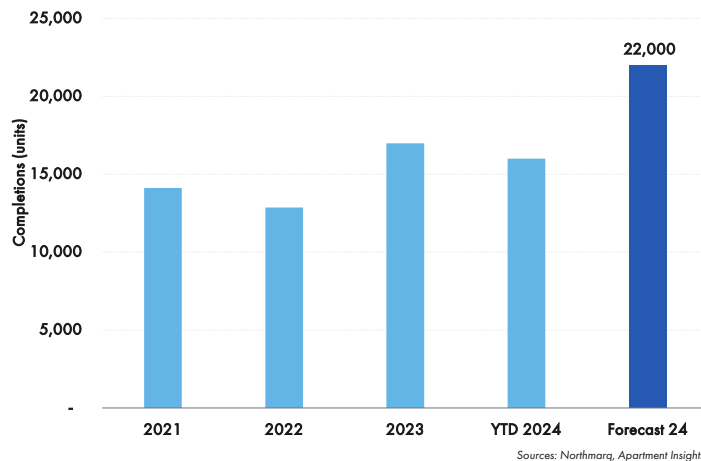
*Total employment in the area expanded by 1.7 percent.*

### EMPLOYMENT OVERVIEW



*Approximately 39,100 units are currently under construction.*

### DEVELOPMENT TRENDS

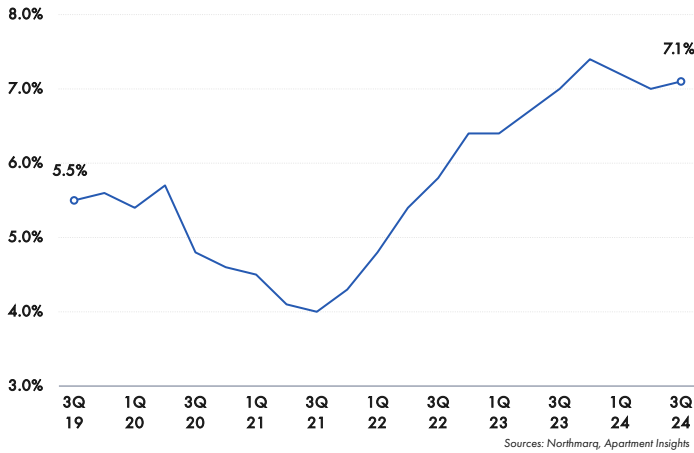


## DEVELOPMENT & PERMITTING

- Developers are adding new multifamily properties to the local rental inventory at an accelerated pace. Year to date, approximately 16,000 new units have come online, a 40 percent increase when compared to deliveries during the same period in 2023.
- Projects totaling approximately 39,100 units are currently under construction. This figure is down about 9 percent from peak levels at the end of 2023, but still well above the long-term average. From 2017-2022, the region averaged about 17,500 units under construction.
- Multifamily permitting volumes have slowed in 2024. Developers have pulled permits for nearly 10,500 multifamily units year to date, down 25 percent from the same period in 2023. Multifamily permitting totals have averaged about 15,500 units per year since 2019, but the figure is expected to be closer to 12,000 units in 2024.
- **FORECAST:** This year will be an active one for new rental construction, with developers expected to deliver projects totaling approximately 22,000 units in 2024. Last year completions totaled more than 16,000 units.

*Vacancy has increased only 10 basis points year over year.*

#### VACANCY TRENDS



#### VACANCY

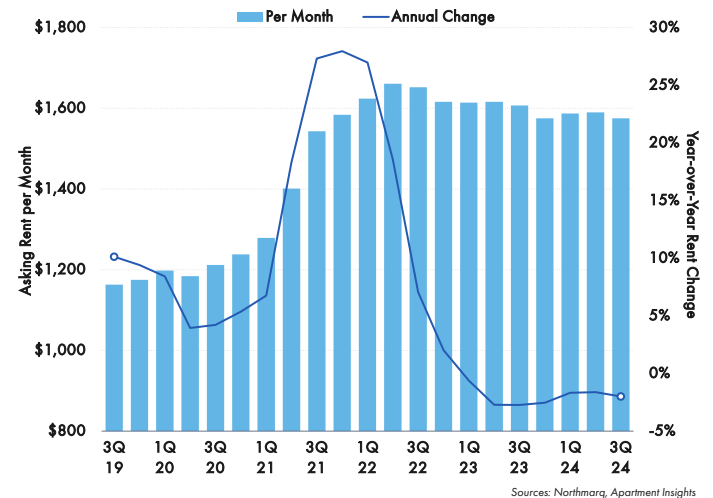
- Vacancy levels have remained in a tight range for the past five quarters. During the third quarter, the rate ticked up 10 basis points, reaching 7.1 percent. This followed a decline of 20 basis points in the prior period.
- Vacancy has increased only 10 basis points year over year, the smallest annual increase in the Phoenix region in nearly three years. To this point in the cycle, renter demand for units has been strong enough to offset much of the new inventory that has entered the market, limiting vacancy increases.
- Class A vacancy levels have declined after peaking at nearly 9 percent in early 2023. The rate in the top tier ended the third quarter at just 7.2 percent, similar to the overall market rate. The highest vacancies are in Class C properties, where the rate averages 7.9 percent.
- FORECAST:** Absorption traditionally slows in the fourth quarter, and deliveries are expected to remain elevated through the remainder of the year. These forces should combine to push vacancy higher. The rate is forecast to end the year at 7.9 percent, 50 basis points higher than at the end of 2023.

#### RENTS

- Rents dropped 1 percent in the third quarter, dipping to \$1,575 per month. This followed modest increases in the first two quarters of the year.
- While quarterly rent movements have been mixed, the prevailing trend has been for a gradual decline. Current rents are down 2 percent from one year ago and are 5.2 percent lower than the peak levels recorded in the middle of 2022.
- The Goodyear/Avondale submarket has been significantly impacted by new construction and operators are reducing rents in the more competitive leasing environment. Rents in the submarket have dropped 3.1 percent in the past year to \$1,574 per month.
- FORECAST:** Rents are expected to tick lower in the final few months of 2024. Rents are forecast to end the year at \$1,555 per month, a 1.3 percent annual decline.

*Current rents are down 2 percent from one year ago.*

#### RENTS TRENDS

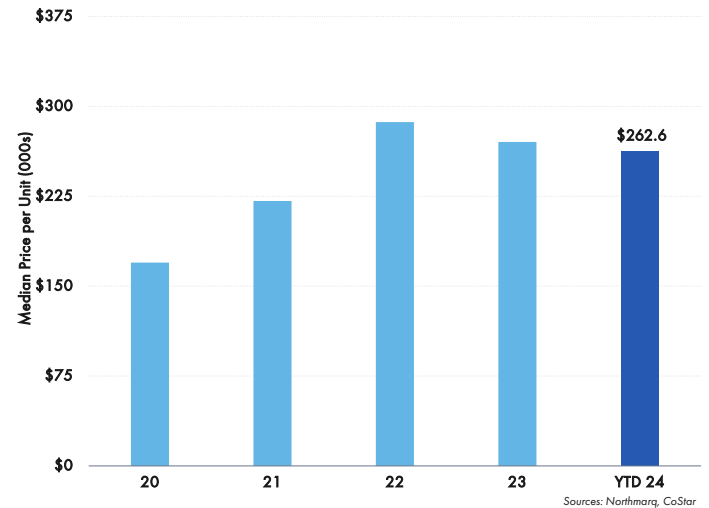


## MULTIFAMILY SALES

- Transaction activity accelerated during the third quarter. The total number of properties that sold in the third quarter was up 25 percent from the second quarter figure. Year to date, sales velocity is 22 percent ahead of the pace posted during the same timeframe in 2023.
- Prices have been steady for most of this year, but are lower than in both 2022 and 2023. The median price in transactions that have closed to this point in 2024 is \$262,600 per unit, down 3 percent from the 2023 median price.
- Properties built since 2018 have accounted for 47 percent of the total transaction count in 2024. The median price in these sales is \$304,000 per unit. Last year, the median price in these transactions was \$316,900 per unit.
- Approximately 25 percent of the properties that have changed hands in 2024 have been Class C assets. The median price for these lower-tier assets was \$162,900 per unit. In 2022, prices for Class C properties reached \$252,000 per unit and in 2023, the median price in Class C apartments was \$196,700 per unit.
- Cap rates averaged between 5.25 percent and 5.75 percent during the third quarter, although a few properties have sold with cap rates over 6 percent.

*Cap rates averaged between 5.5 percent and 5.75 percent.*

### INVESTMENT TRENDS



## RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

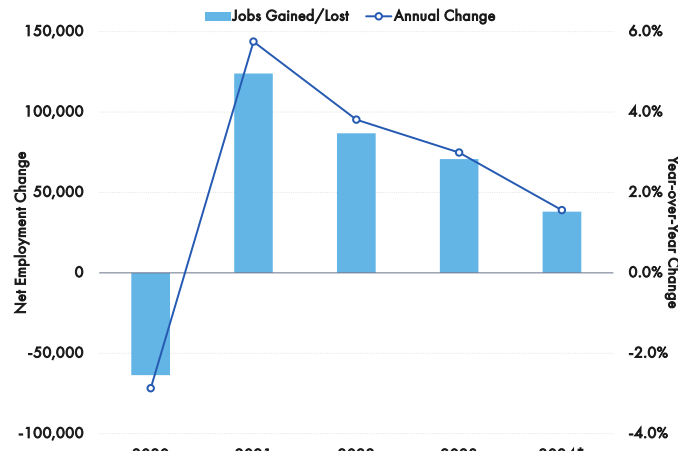
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Desert Club	6901 E Chanucey Ln., Phoenix	497	\$187,500,000	\$377,264
Pearl Biltmore	2323 E Highland Ave., Pheonix	472	\$152,000,000	\$322,034
Village of Chandler	6075 S Gilbert Rd., Chandler	109	\$39,240,000	\$360,000
Melrose 3130	3130 N 7th Ave., Pheonix	162	\$19,000,000	\$117,284

## LOOKING AHEAD

Operating conditions are expected to soften somewhat in the coming quarters across the Phoenix multifamily market. While properties are expected to continue to record net move-ins, supply growth is forecast to exceed absorption, putting upward pressure on vacancies. This supply-demand imbalance is expected to persist throughout the remainder of this year and into 2025. Coming into 2024, the greatest uncertainty in the market surrounded rents. To this point, rents have trended lower but at a moderate pace. Annual rent declines have averaged around 2 percent since the beginning of 2023, and similar decreases are likely into 2025. The market will eventually work through the pressures brought about by the new supply. The number of units under construction has come down from peak levels and multifamily permitting is slowing as developers proceed more cautiously in the current environment.

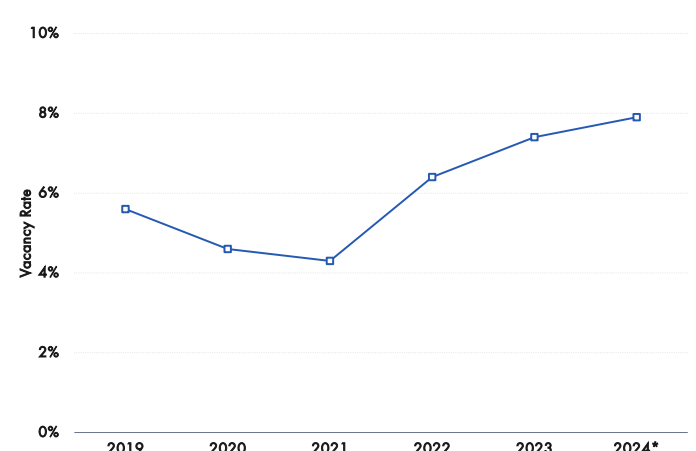
While recent transaction volumes still lag peak levels by more than 65 percent, the local investment market has gained some modest momentum in recent quarters, a trend that is expected to be sustained through the remainder of this year and into 2025. Earlier this year, transactions were made up almost entirely of newer properties and few investors were considering purchases of older assets, anticipating that prices would creep lower as rising vacancies and operational costs pressured existing owners. That pattern has begun to shift, and some buyers who had remained on the sidelines are returning in small numbers. Interest rates could influence the velocity in the investment market. Most forecasts call for interest rate cuts that could spill over into lower borrowing costs for multifamily acquisitions. While financing costs may inch lower, cap rates will likely remain near recent ranges.

### EMPLOYMENT FORECAST



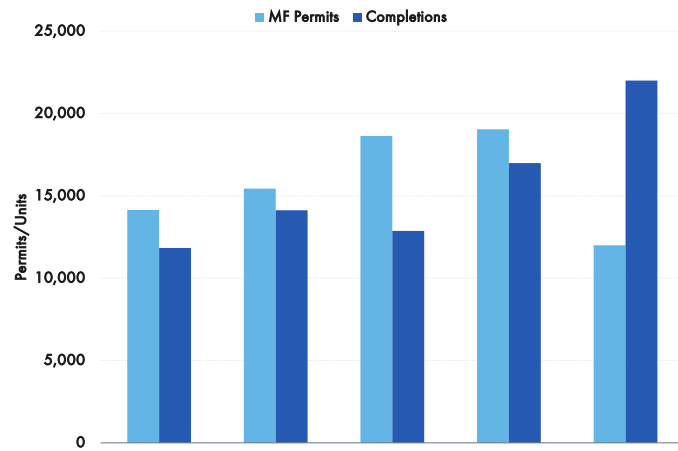
\* Year End Forecast  
Sources: Northmarq, Bureau of Labor Statistics

### VACANCY FORECAST



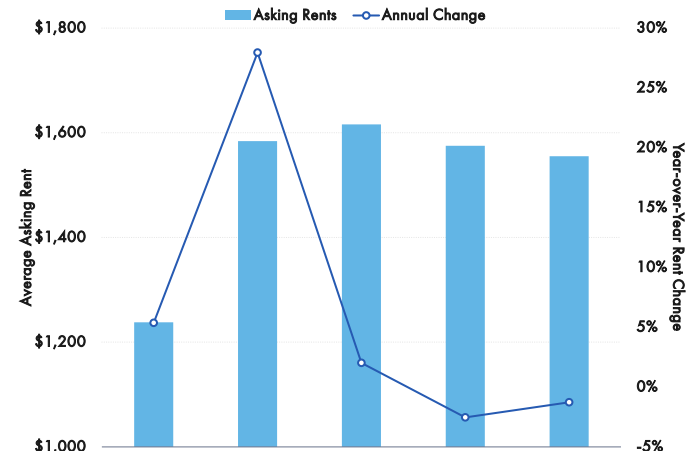
\* Year End Forecast  
Sources: Northmarq, Apartment Insights

### 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

##### WINSLOW LEE

*Vice President, Investment Sales*

602.501.5855

wlee@northmarq.com

##### BRANDON HARRINGTON

*Managing Director, Debt & Equity*

602.508.2204

bwharrington@northmarq.com

##### CHRIS MICHL

*Associate Vice President, Investment Sales*

602.952.4051

cmichl@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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