Northmarq

MARKET INSIGHTS

Absorption surges, but does not keep pace with deliveries

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	36,422
UNITS DELIVERED (YTD)	22,433

MARKET FUNDAMENTALS

VACANCY RATE	7.4%
YEAR-OVER-YEAR CHANGE	0bps
ASKING RENTS	$1,545
YEAR-OVER-YEAR CHANGE	-1.9%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$261,000

PHOENIX MULTIFAMILY
4Q 2024

HIGHLIGHTS

- Developers delivered more than 22,400 multifamily units across the Phoenix region in 2024, creating supply-side pressures. Despite the spike in completions, property fundamentals outperformed expectations, fueled by a healthy economy and elevated absorption levels.
- After recording minimal improvements earlier in the year, vacancy rates rose 30 basis points during the fourth quarter to 7.4 percent. The area vacancy ended 2024 unchanged from one year earlier.
- Rents fell 1.9 percent in 2024, ending the year at $1,545 per month. Rents posted minimal gains in the first half before declining in the final two quarters of the year. Current rents are down 7 percent from the market's all-time high.
- During the fourth quarter, investment activity slowed, but for the full year, transaction counts were 7 percent ahead of the pace recorded in 2023. Newer properties accounted for approximately 40 percent of all transactions, which kept overall per-unit prices near prior peaks. The median price in properties that sold in 2024 was $288,000 per unit.

PHOENIX MULTIFAMILY MARKET OVERVIEW

The Greater Phoenix multifamily market softened somewhat in the fourth quarter, but property performance for the full year was better than was originally forecast. Rents inched lower, particularly in the second half of the year, but vacancy rates ended 2024 at an identical level to one year earlier. This most recent year has been a period of heightened supply and demand growth. On the supply side, developers delivered more than 22,400 units in 2024, bringing the total new deliveries since the beginning of 2021 to approximately 67,000 units, or about 20 percent of the previous inventory. By comparison, employment in the region has expanded by 15 percent during this same time period. Rentals are proving to be a popular choice as the local economy expands and new households are formed. In 2024, net absorption reached 15,600 units, an all-time high and the third time in the past four years where absorption totaled more than 12,000 units.

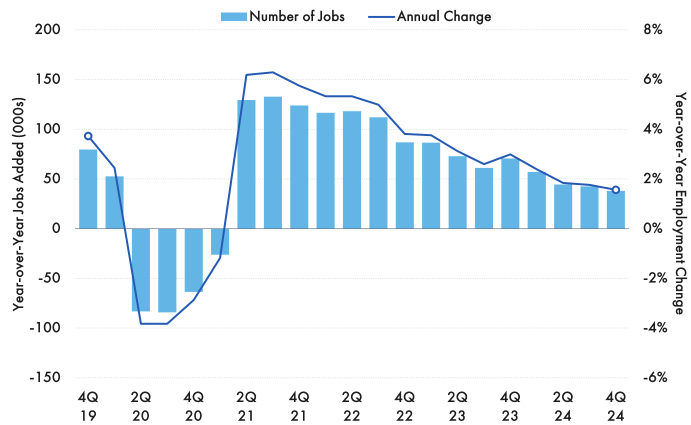
While developers were active in bringing new projects online and net absorption reached a new high, the investment market maintained a slower pace. Transaction counts in 2024 were up only slightly compared to year-earlier levels, and fewer properties sold in the fourth quarter than during the third quarter. Some of the recent slowing is likely explained by rising interest rates in the second half of the fourth quarter. Many of the assets that are selling are properties that have been delivered in the past few years. These newer developments have changed hands at a median price of $288,000 per unit, down from more than $390,000 per unit in 2022. The most pronounced declines in sales velocity have been recorded in Class B and Class C properties, where recent transaction volumes are down approximately 75 percent from 2022 levels. The influence of new properties in the transaction mix has kept cap rates low, averaging between 5.25 percent and 5.5 percent at the end of this year.

EMPLOYMENT

- In 2024, total employment in the Phoenix area grew by 1.6 percent with the addition of approximately 38,000 net new jobs. This trailed the gains recorded in the prior year, when the local labor market expanded by 3 percent.
- While most white-collar sectors in Phoenix recorded fairly soft conditions in 2024, the financial sector has outperformed. More than 3,000 positions have been added across the local financial activities industry in the past year, increasing total employment in the sector by 1.5 percent. This is an acceleration from prior years; in 2022, local financial employment contracted, and an uptick of only 0.2 percent was recorded in 2023.
- The manufacturing sector should receive a significant boost in 2025 as one of the state's largest ever capital investments comes online. Taiwan Semiconductor is on pace to begin mass production the first fab at its 1,100-acre Northwest Phoenix facility during the first quarter of 2025. The company has announced plans for three fabs to come online in phases over the next few years, with a total investment of $65 billion; the company's current headcount in Arizona is about 2,200 with that total expected to grow to more than 6,000.
- **FORECAST:** Employers are expected to add approximately 35,000 jobs in 2025, a 1.4 percent rate of increase. This would represent a below-trend pace of growth; since 2015, employment expansion in Phoenix have averaged 2.8 percent per year.

In 2024, total employment in the area grew by 1.6 percent.

EMPLOYMENT OVERVIEW



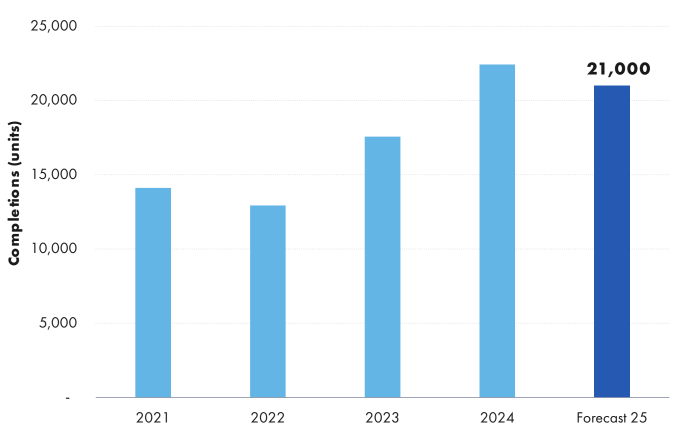
Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

- Projects totaling more than 22,400 units were delivered in 2024, up 27 percent from the annual completions total in 2023. More than 12,000 units came online in the West Valley in 2024, led by Goodyear and Avondale.
- As multifamily construction starts have slowed and new communities have been delivered, the development pipeline has thinned. Projects totaling 36,422 units were under construction as of the fourth quarter, the lowest total since the end of 2022. The number of units under construction has declined by 15 percent from one year ago.
- Multifamily permitting volumes slowed to their lowest level since 2019 during the past 12 months. Developers pulled permits for just 13,700 multifamily units in 2024, after nearly 19,000 permits were issued in both 2022 and 2023.
- **FORECAST:** The pace of deliveries should slow modestly in 2025, although completions will still represent the second-highest annual total on record. Developers are expected to deliver projects totaling 21,000 units in the next 12 months.

Developers pulled permits for just 13,700 multifamily units in 2024.

DEVELOPMENT TRENDS

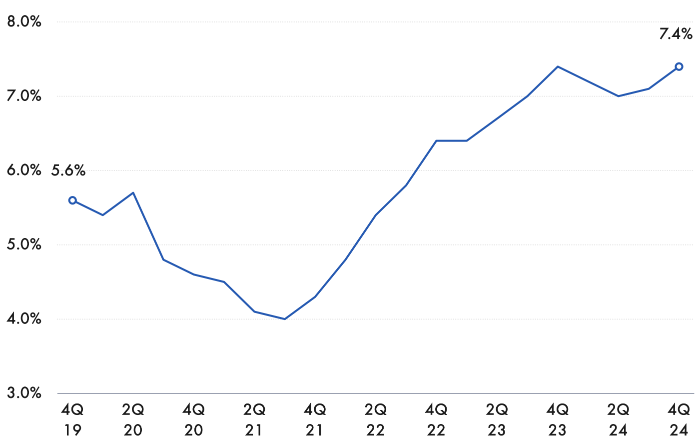


Sources: Northmarq, Apartment Insights

VACANCY

The current vacancy rate is identical to the figure from one year ago.

VACANCY TRENDS



Sources: Northmarq, Apartment Insights

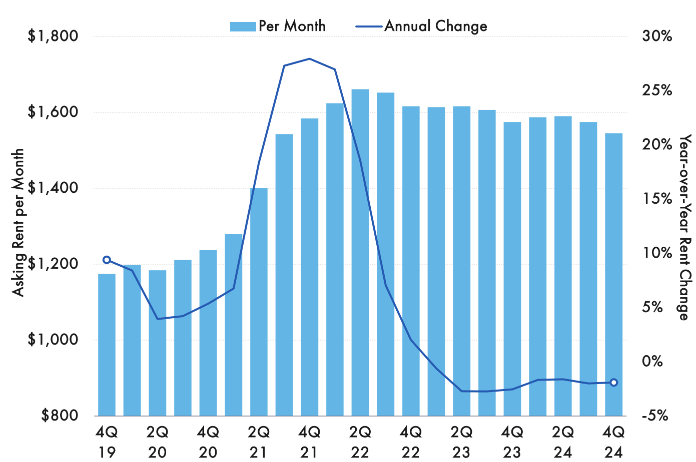
- Vacancies trended higher in the fourth quarter after some modest tightening earlier on the year. The rate rose 30 basis points in the final three months of the year, reaching 7.4 percent.
- The current vacancy rate is identical to the figure from one year ago. Vacancies had increased in both 2022 and 2023, following a period of five consecutive years of falling vacancies.
- The tightest conditions are being posted in and around the Scottsdale area, and rates in these submarkets trended lower in 2024. The North Scottsdale/Fountain Hills submarket has the lowest vacancy in the Greater Phoenix market. The rate ended 2024 at 5.1 percent, down 50 basis points year over year. Vacancy in South Scottsdale was 6 percent in the fourth quarter, while the rate in neighboring North Paradise Valley dipped to 5.9 percent.
- **FORECAST:** While the rate leveled off in 2024, vacancy will likely trend higher in the year ahead. The rate is forecast to rise to 8 percent in 2025. During the past decade, vacancy has averaged 5.9 percent.

RENTS

- Rents continue to creep lower as operators compete for residents in a high-supply environment. Rents declined 1.9 percent in the fourth quarter, retreating to $1,545 per month. This marked the seventh time in the past 10 quarters where rents have ticked lower. Quarterly declines have averaged 0.7 percent in this time.
- In 2024, rents retreated 1.9 percent. This was a more modest decline than was recorded in 2023 when the average rental rate dropped by 2.5 percent. Current rents are similar to levels last recorded in the third quarter of 2021, and are 7 percent lower than the market's all-time highs.
- A few parts of the Valley posted rent gains in 2024. The East Mesa/Apache Junction and North Mesa submarkets both led the way with 2 percent annual rent increases. Rents in the Ahwatukee Foothills and Glendale submarkets also posted gains of approximately 1 percent in 2024.
- **FORECAST:** Additional rent declines are likely across the Phoenix region in 2025, particularly in the first half of the year as deliveries remain elevated. For the full year, rents are expected to dip 1.3 percent to approximately $1,525 per month.

In 2024, rents declined 1.9 percent.

RENTS TRENDS



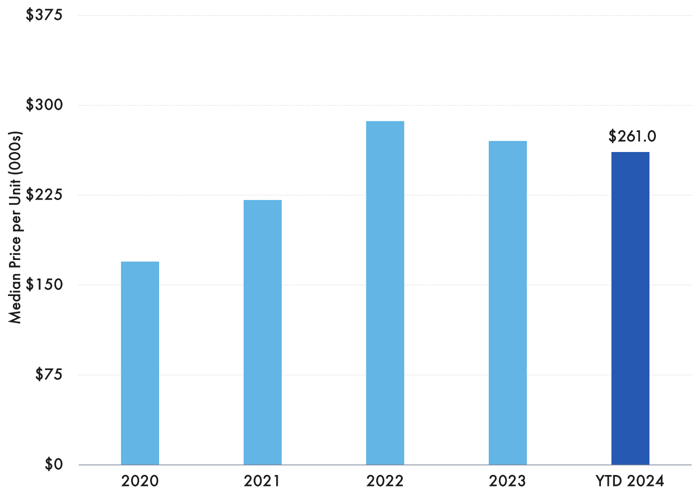
Sources: Northmarq, Apartment Insights

MULTIFAMILY SALES

- Rising interest rates in the second half of the fourth quarter restricted transaction activity levels. Sales velocity in the fourth quarter trailed levels from the preceding three-month period by 20 percent. Transaction counts in the fourth quarter were also down 20 percent from levels recorded during the same period in 2023.
- Despite a slower end to the year, transaction counts in the Phoenix market were up 7 percent from 2023 to 2024. There was a modest uptick in transactions involving newer properties in 2024 than during the prior year, while there was decreased transaction activity among Class B properties.
- Properties that were built since 2020 accounted for approximately 40 percent of the total transactions in 2024, a continuation of one of the prevailing trends from recent years. Historically, newer construction has accounted for between 20 percent and 25 percent of total sales velocity.
- Among the newer assets that have changed hands, prices trended lower in 2024. The median price in properties built since 2020 was $288,000 per unit, down 7 percent from 2023 levels.
- The median price across all sales in 2024 was $261,000 per unit, down from $270,300 per unit in 2023.
- Cap rates remained in a fairly tight band throughout 2024, averaging between 5.25 percent and 5.5 percent. At the end of 2023, cap rates were averaging 5.25 percent.

The median price in 2024 was $261,000 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

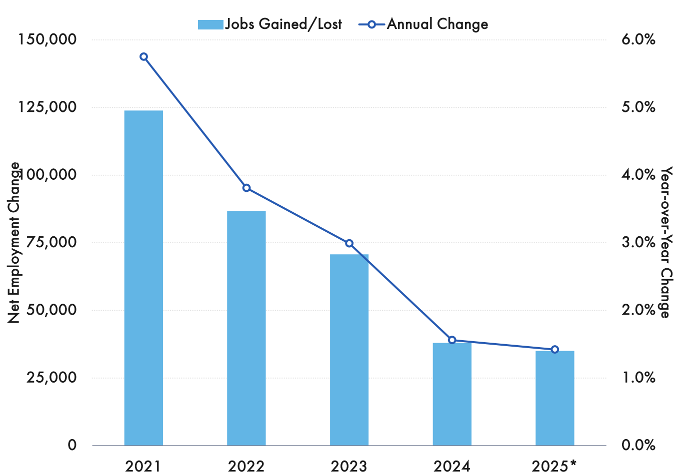
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Smith & Rio	1979 E Rio Salado Pky., Tempe	310	$106,250,000	$342,742
District at Civic Square	15400 W Monte Vista Rd., Avondale	352	$94,500,000	$268,466
Hampton Meridian	3000 W Southern Ave., Apache Junction	195	$56,500,000	$289,744
Farmhouse on Estrella	15545 W Hudson Way, Goodyear	183	$56,000,000	$306,011
Crofton at Sheely Farms	9200 W McDowell Rd., Phoenix	167	$46,500,000	$278,443

LOOKING AHEAD

In the year ahead, operating conditions in the Greater Phoenix multifamily market will likely soften somewhat, as the cumulative impact of elevated delivery totals will create supply-side pressures that drag on property performance. Not all geographies will be impacted equally however, as some of the submarkets with the tightest vacancies also are forecast to receive minimal increases to existing inventories in 2025. Submarkets including the Ahwatukee Foothills and South Tempe have vacancy rates in the low-6 percent range and have not been impacted significantly by new construction. To this point in the cycle, renter demand has been strong enough to offset new supply growth in North Scottsdale, South Scottsdale, and North Paradise Valley, but the pace of completions is forecast to accelerate in these areas, potentially creating conditions that could create a more competitive leasing environment for the next few years.

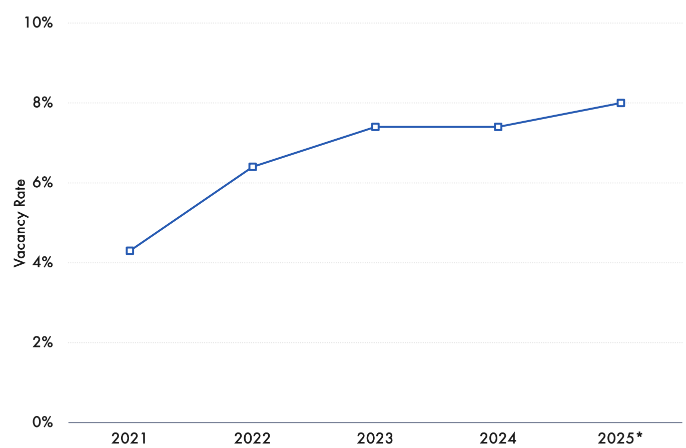
The local investment market is expected to gain some momentum in 2025. Newly constructed developments will likely lead the way once again from an investment standpoint, with buyers targeting assets either during lease-up or at stabilization. To this point, distress sales have accounted for a small share of the total number of transactions, as vacancy and rent conditions have outperformed expectations, supporting operational performance. There may be an increase in the number of distressed transactions in 2025, particularly if interest rates remain elevated and competition from new supply causes rents to dip further. Still, population gains and employment growth are strong enough to support renter demand throughout much of the market. Cap rates have remained steady in the low- to mid-5 percent range, although these averages reflect the premiums typically associated with new Class A construction.

EMPLOYMENT FORECAST



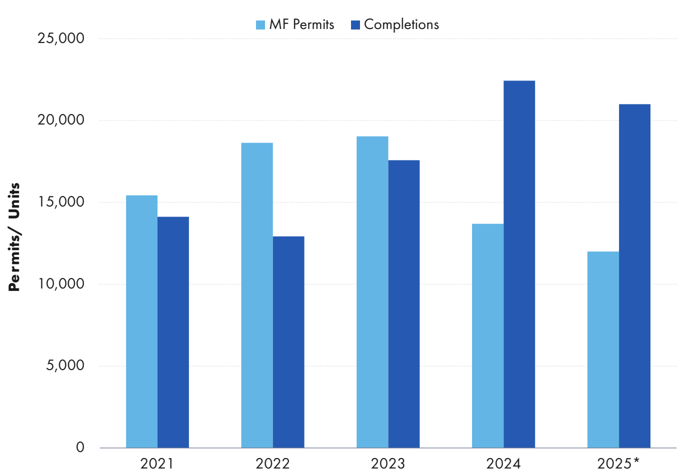
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



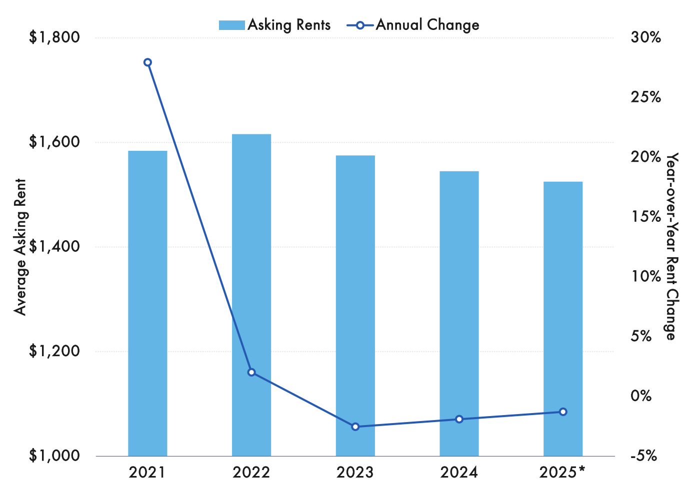
* Year End Forecast
Sources: Northmarq, Apartment Insights

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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