MARKET REPORT | 1Q/2019

Greater Phoenix Multifamily

Sales Activity Spikes as Rents Continue to Rise

Highlights

- The Greater Phoenix multifamily market started 2019 with a continuation of the prevailing trends from 2018. Renter demand for apartments was strong, construction continued at a fairly steady pace, and rents posted another quarter of sizeable increases.
- Vacancy fell 40 basis points during the first quarter, reaching 5.3 percent. The rate is unchanged from one year ago.
- Asking rents rose by nearly 3 percent in the first quarter, and at $1,105 per month, are up 9.5 percent year over year. The Phoenix metro area is forecast to lead the country in rent growth in 2019.
- Developers delivered nearly 2,000 apartment units during the first quarter, and approximately 10,500 additional units are currently under construction.
- Apartment property sales accelerated in the first quarter, and activity is well ahead of last year's pace. The median price pushed higher to start the year, and the average cap rate has compressed to approximately 5 percent.

Phoenix Multifamily Market Overview

After posting some of the strongest performance of any multifamily market in the country in 2018, the Phoenix apartment market continued to improve to start 2019. The local vacancy rate dipped to start the year, and the current figure is just a few ticks higher than the cyclical low. This tight vacancy is being achieved even as developers continue to bring new units to the market. Renter demand remains elevated, with absorption totaling more than 3,000 units during the first quarter, nearly identical to the absorption during the first quarter of last year. With renters continuing to fill units, rents are pushing higher. Asking rents rose by nearly 3 percent during the first quarter alone, setting the stage for a fifth consecutive year of above-average rent growth.

Market Indicators

Quarterly Changes	1Q/2019
Vacancy	↓
Rents	↑
Transaction Activity	↑
Price Per Unit	↑
Cap Rates	↓

Summary Statistics	Phoenix Market
Vacancy Rate	5.3%
- Change from 1Q 2018 (bps)	0
Asking Rents (per month)	$1,105
- Change from 1Q 2018	+9.5%
Median Sales Price (per unit YTD)	$137,600
Average Cap Rate (YTD)	5.0%

Phoenix Multifamily Market Overview (cont.)

Investment activity got off to a strong start in 2019, with far more properties changing hands in the first quarter of this year compared with the first or fourth quarters of 2018. Investor demand is elevated due to the underlying strength of recent property performance and the positive outlook for coming years. Cap rates compressed to start the year, averaging approximately 5 percent in closed transactions.

Per-unit prices rose by approximately 15 percent from the 2018 median price. Part of the increase in prices is being fueled by the increase in newer properties changing hands. Properties built since 2015 accounted for more than 20 percent of the total transactions in the first quarter, with these newer properties selling for a median price of approximately $235,000 per unit.

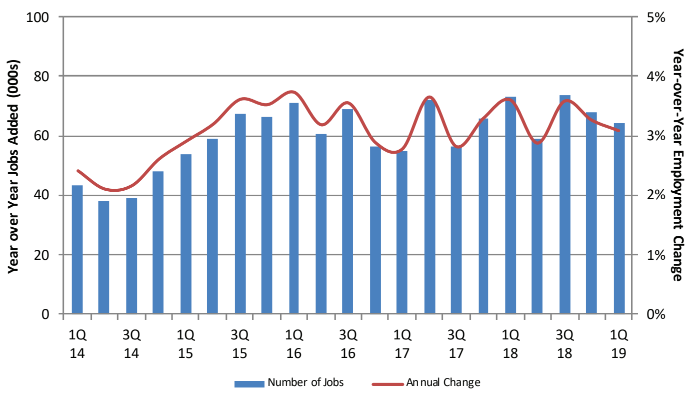
Submarket Statistics

Submarket Name	1Q 2019 Vacancy	1Q 2018 Vacancy	Annual Vacancy Change (BPS)	1Q 2019 Rents	1Q 2018 Rents
S Phoenix/Laveen	3.6%	5.5%	(190)	$1,030	$927
N Scottsdale/Fountain Hills	4.2%	4.9%	(70)	$1,393	$1,271
W Central Phoenix	4.2%	4.2%	-	$761	$712
S Scottsdale	4.4%	5.1%	(70)	$1,454	$1,362
Central City/Sky Harbor	4.4%	6.0%	(160)	$1,509	$1,345
S Mesa	4.4%	5.1%	(70)	$1,014	$936
N Mesa	4.5%	4.2%	30	$946	$864
Gilbert/Superstition Springs	4.7%	5.0%	(30)	$1,165	$1,049
NW Black Canyon	4.8%	5.0%	(20)	$912	$854
E Central Phoenix	4.8%	5.1%	(30)	$1,000	$912
Chandler	4.9%	4.6%	30	$1,236	$1,125
Peoria/Sun City	5.0%	4.1%	90	$1,074	$993
Ahwatukee Foothills	5.0%	6.4%	(140)	$1,203	$1,113
Goodyear/Avondale	5.0%	4.4%	60	$1,092	$1,011
N Paradise Valley	5.3%	5.3%	-	$1,324	$1,146
Metrocenter	5.3%	6.2%	(90)	$838	$799
Glendale	5.3%	5.4%	(10)	$837	$778
Maryvale/Estrella	5.4%	5.3%	10	$845	$787
Union Hills/Cave Creek	5.4%	5.2%	20	$1,098	$1,014
Deer Valley/N Peoria	5.5%	5.2%	30	$1,141	$1,050
N Tempe	5.7%	5.7%	-	$1,238	$1,164
S Gilbert/Queen Creek	5.7%	5.4%	30	$1,297	$1,201
E Mesa/Apache Junction	5.9%	4.1%	180	$1,031	$959
S Tempe	6.0%	5.6%	40	$1,192	$1,080
Central Phoenix/Encanto	6.2%	6.7%	(50)	$1,281	$1,103
N Central Phoenix/Alhambra	6.5%	5.7%	80	$975	$897
North Mountain	6.8%	4.7%	210	$999	$886
Central Black Canyon	7.3%	7.4%	(10)	$781	$703
NE Central Phoenix	7.5%	9.9%	(240)	$1,236	$1,068
S Paradise Valley	9.1%	5.2%	390	$1,078	$1,006

Employment

- Employment growth in Greater Phoenix expanded by 3.1 percent during the past 12 months with the addition of 64,300 jobs. Annual growth has been averaging in the 3-percent range since 2015.
- Continued population growth and the strength in both for-sale and rental housing markets are fueling the construction sector. During the past 12 months, local construction employment has expanded by 10 percent with the addition of nearly 12,000 jobs.
- Another industry that is performing well in response to the growing population is education and health services. This employment sector has expanded by 4.7 percent year over year as more than 15,000 net new jobs have been created.
- **Forecast:** The Phoenix economy is expected to continue to grow at a pace similar to recent years. This year, the local employment market is forecast to expand by 2.8 percent with the addition of 60,000 jobs.

Employment Overview



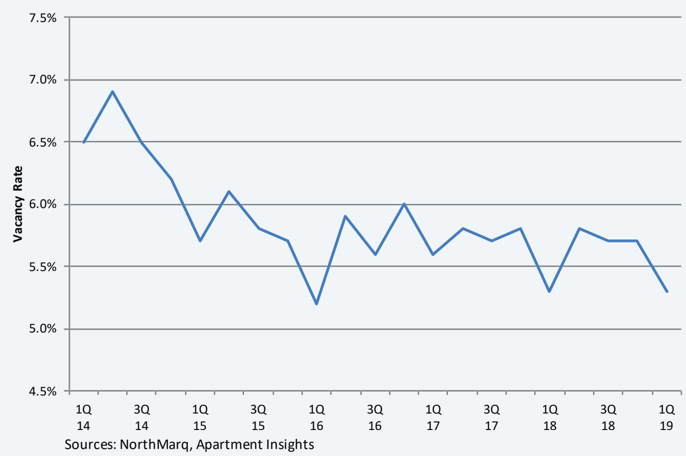
Sources: NorthMarq, Bureau of Labor Statistics

> *During the past 12 months, local construction employment has expanded by 10 percent*

Vacancy

- Strong renter demand for apartments drove down the vacancy rate to start 2019. Vacancy fell 40 basis points during the first quarter.
- At 5.3 percent, vacancy is identical to the figure from one year ago. The current rate is just 10 basis points higher than the cyclical low, which was recorded in early 2016.
- The pace of construction in Scottsdale has slowed, while renter demand has remained elevated. As a result, vacancy in each of the two Scottsdale submarkets has declined year over year.
- **Forecast:** With renter demand likely to remain heightened in the year ahead, multifamily vacancy in Greater Phoenix is forecast to end 2019 at 5.5 percent, 20 basis points lower than at year-end 2018.

Vacancy Trends



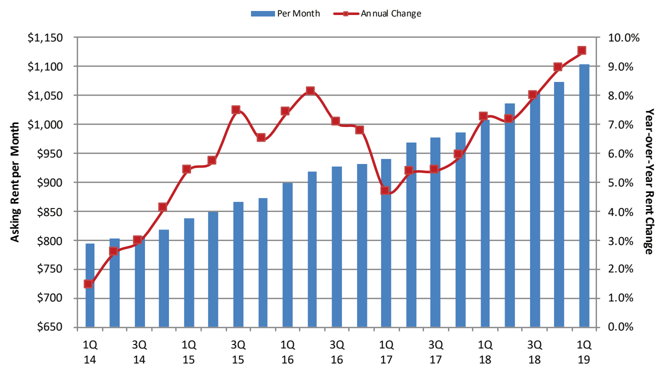
Sources: NorthMarq, Apartment Insights

> *Vacancy fell 40 basis points during the first quarter*

Rents

- The pace of rent growth accelerated during the first quarter. Asking rents in Greater Phoenix rose by nearly 3 percent in the first quarter, reaching $1,105 per month, 9.5 percent higher than one year earlier.
- Rents in newer units are elevated to the point to support new construction. Asking rents in apartments built since 2010 were $1,506 per month—or $1.56 per square foot, per month—in the first quarter.
- Class B properties have been posting some of the strongest rent gains, particularly as value-add strategies are implemented. The average asking rent in Class B apartments was $1,214 per month in the first quarter, up 11.3 percent from one year earlier.
- **Forecast:** The Greater Phoenix multifamily market is expected to record another year of robust rent growth in 2019. Asking rents are forecast to rise 7 percent this year, matching the average increase since 2015.

Rent Trends



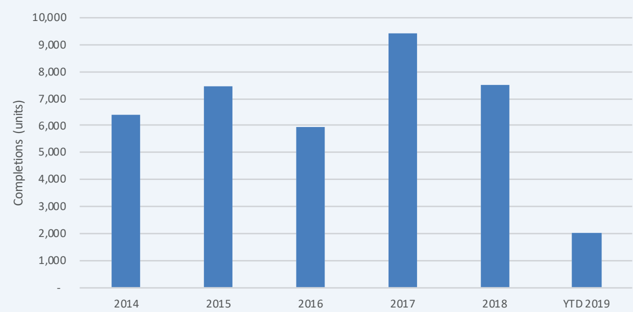
Sources: NorthMarq, Apartment Insights

> *Class B properties have been posting some of the strongest rent gains*

Development and Permitting

- Approximately 2,000 apartment units were delivered in the first quarter of 2019, and nearly 8,000 units have come online during the past four quarters. Developers have been delivering an average of approximately 1,800 units per quarter since the beginning of 2015.
- Approximately 10,500 units were under construction at the end of the first quarter, closely tracking the figure from the same period one year ago. Construction has been active in recent years, but the pace of new development has been fairly consistent.
- Multifamily permitting got off to a sluggish start in 2019. During the first quarter, permits for fewer than 1,000 multifamily permits were issued; this was a decline of more than 50 percent from the total in the first quarter of 2018.
- **Forecast:** Development is likely to maintain a fairly consistent pace throughout the year, and approximately 8,000 new units are forecast to come online in 2019.

Development Trends



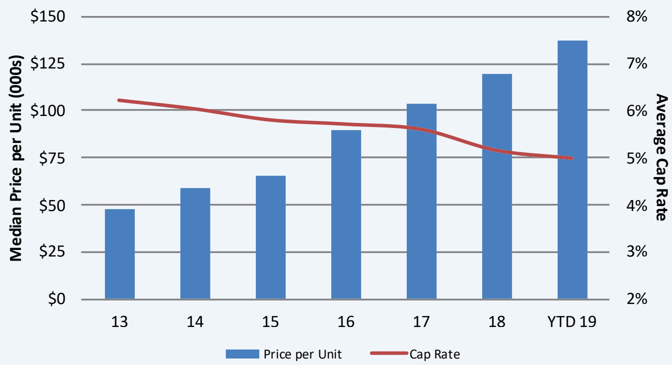
Sources: NorthMarq, Apartment Insights

> *Approximately 10,500 units were under construction at the end of the first quarter*

Multifamily Sales

- Sales activity accelerated during the first quarter of 2019, outpacing transaction levels from the final quarter of last year by more than 40 percent. Sales velocity in the first quarter of 2019 is also approximately 25 percent ahead of the pace recorded in the same period of 2018.
- The median price in multifamily sales during the first quarter was $137,600 per unit, an increase of 15 percent from the median price recorded in 2018. The increase in pricing in the first quarter was supported in part by newer properties accounting for a larger share of the total transaction count.
- Cap rates compressed to an average of approximately 5 percent during the first quarter, and cap rates for some newer properties are as low as 4.5 percent. The strong demand for multifamily assets and a dip in lending rates have contributed to lower cap rates.

Investment Trends



Sources: NorthMarq, CoStar

Sales activity outpaced transaction levels from the final quarter of last year by more than 40 percent

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

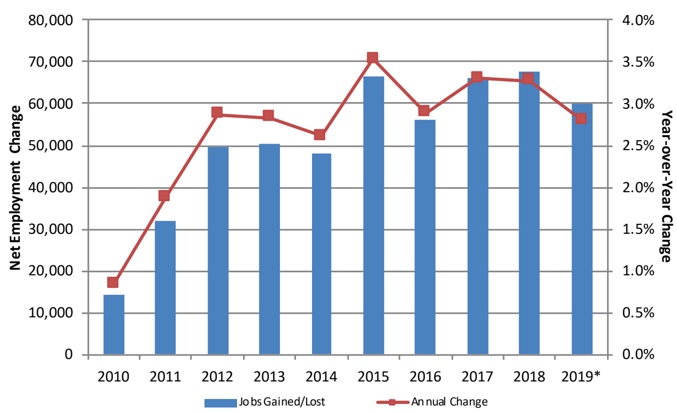
Property Name	Street Address	Units	Sales Price	Price/Unit
Camden Old Town Scottsdale	7350-7426 E Stetson Dr., Scottsdale	316	$97,000,000	$306,962
Tempo at McClintock Station	1831 E Apache Blvd., Tempe	424	$89,200,000	$210,377
Sonoran	13625 S 48th St., Phoenix	429	$84,250,000	$196,387
Alante at the Islands	2222 N McQueen Rd., Chandler	320	$59,600,000	$186,250
Maravilla	13621 W Glendale Ave., Glendale	225	$37,000,000	$164,444
Sonora Vista	9736 E Balsam Ave., Mesa	184	$22,500,000	$122,283

Looking Ahead

The Greater Phoenix multifamily market is expected to continue to post strong performance in 2019. After the market recorded a rapid pace of rent growth in 2018, the Phoenix area is forecast to build on those increases and record the strongest rent growth of any major market in the country this year. These rising rents are a function of a consistently healthy pace of absorption of units and an extended run of low vacancy rates. Vacancy has averaged less than 6 percent since 2014, compared to the metro's long-term average vacancy rate of approximately 8 percent.

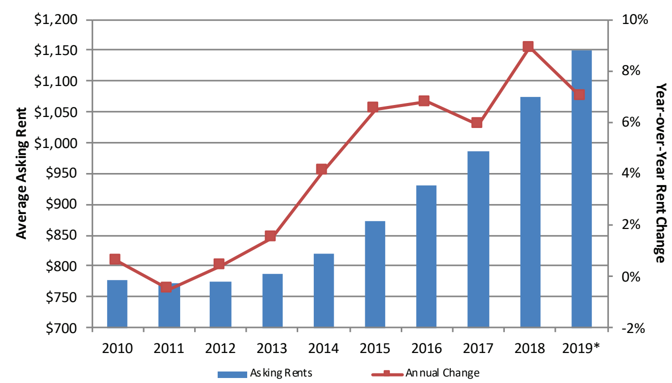
The local investment market got off to a fast start to 2019, setting the stage for what will likely be a very active year. The segment of the market where activity has picked up the most thus far is in sales of $50 million and greater—the number of properties trading in the first quarter nearly doubled the total from the same period one year ago. Cap rates have compressed in 2019, as the outlook for property performance has remained bright, competition has picked up, and interest rates have retreated slightly.

Employee Forecast



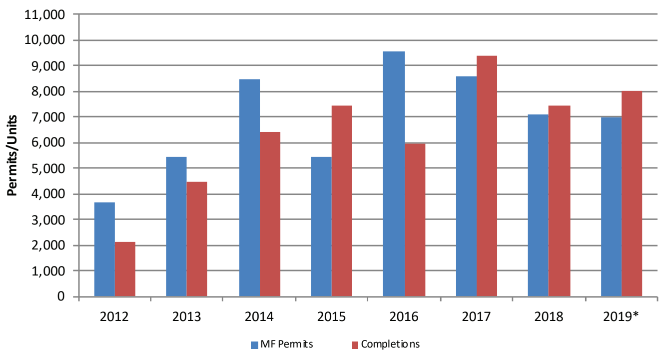
* Year End Forecast

Rent Forecast



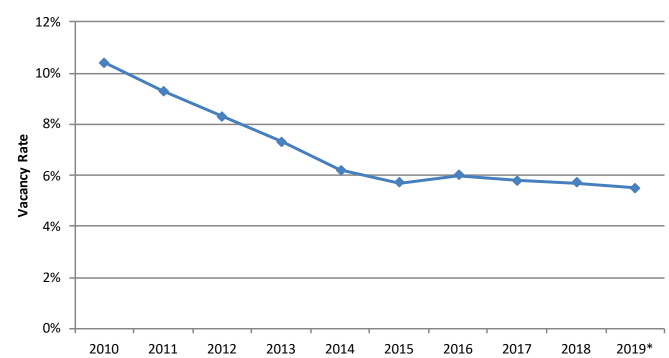
* Year End Forecast
Sources: NorthMarq, Apartment Insights

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Apartment Insights

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of $13 billion, loan servicing portfolio to more than $57 billion and the multi-year tenure of our more than 550 people.

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