

Greater Phoenix Multifamily

Rents Continue their Upward Climb

Highlights

- > The Greater Phoenix multifamily market posted healthy performance during the second quarter. Renter demand is being fueled by continued hiring and with absorption active, rents are pushing higher at an accelerating pace. Asking rents ended the second quarter at \$1,139 per month, up 3.1 percent from the first quarter and 9.8 percent higher than one year earlier.
- > Vacancy ticked up 30 basis points in the second quarter, reaching 5.6 percent. The current rate is down 20 basis points year over year.
- > Developers delivered approximately 2,100 apartment units to the market during the second quarter, similar to the total that came online in the first quarter. The number of units currently under construction has increased.
- > Sales of apartment complexes accelerated during the second quarter, and cap rates remained flat at an average of approximately 5 percent.

Phoenix Multifamily Market Overview

The Greater Phoenix multifamily market remained on its extended upswing during the second quarter. The clearest indication of the health of the market is the robust pace of rent growth. Rents spiked by more than 3 percent during the second quarter, building on strong gains recorded during the first few months of the year. Current rents are up nearly 10 percent from one year ago, representing one of the largest increases recorded in any market in the country. The local vacancy rate inched higher during the second quarter, but this happens nearly every year in Phoenix as some renters leave the market for a few months in search of cooler temperatures. On the supply side, new units are being delivered at a very steady pace, and the number of projects in the construction pipeline is higher than one year ago as strong property performance continues to spur new development.

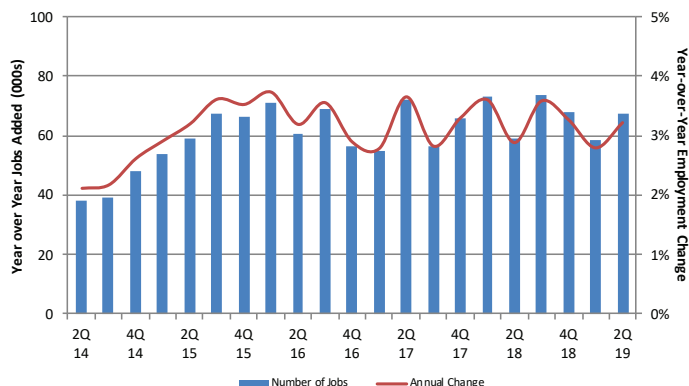
| Q2 Snapshot | Phoenix Market |
|---|------------------|
| Market Fundamentals | |
| Vacancy | 5.6% |
| - Year Over Year Change | -20 bps |
| Asking Rent | \$1,139 |
| - Year Over Year Change | +9.8% |
| Transaction Activity | |
| Median Sales Price Per Unit (YTD) | \$128,600 |
| Cap Rates (Avg YTD) | 5.0% |
| Construction Activity | |
| Units Under Construction | 11,901 |
| Units Delivered YTD | 4,098 |

The local investment market got off to a healthy start to the year in the first quarter and activity accelerated in the second quarter. Sales velocity is ahead of last year's pace, and the mix of properties that are changing hands is becoming more comprehensive as owners bring a diverse mix of properties to market amid heightened demand. Some evidence of this trend was reflected in pricing during the second quarter. The median price dipped from the first quarter to the second quarter, as several older properties of 1970s and 1980s vintages changed hands. Despite the recent activity, the median price for all sales to this point in 2019 is up about 7 percent from last year and cap rates are averaging approximately 5 percent.

Employment

- > Employment growth in the Phoenix market accelerated during the second quarter. Year over year, employers expanded payrolls 3.2 percent with the addition of 67,500 new jobs. One year ago, annual growth totaled 58,800 new positions.
- > The professional and business services sector continues to maintain its momentum. Year over year, professional employment has grown 3.7 percent with the addition of 12,800 jobs. Gains in the sector have averaged 2.5 percent in the past three years.
- > The local manufacturing employment base has been posting rapid growth. During the past 12 months, manufacturing employment in Phoenix has spiked by more than 6 percent as 7,600 jobs have been added. The sector made headlines during the second quarter when Nike announced plans to open a manufacturing facility in Goodyear, a move that is expected to result in 500 new jobs.
- > **Forecast:** The Phoenix job market is forecast to grow at a similar pace in 2019 as it has in recent years. Employers are expected to add 65,000 jobs in 2019, a 3 percent expansion.

Employment Overview



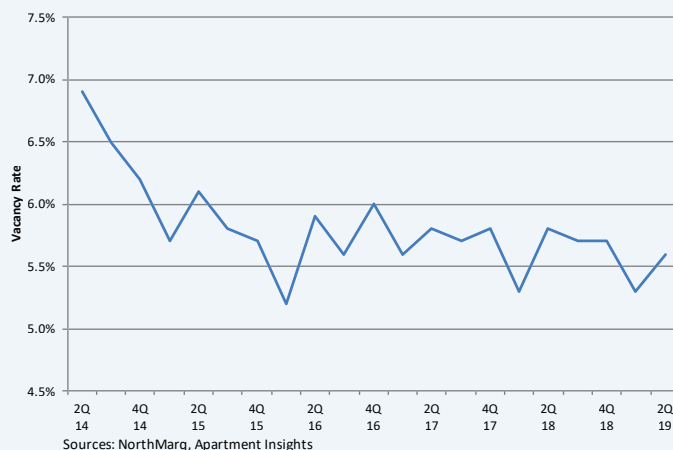
Sources: NorthMarq, Bureau of Labor Statistics

The local manufacturing employment base has been posting rapid growth

Vacancy

- > After a sharp drop to start the year, vacancy ticked higher during the second quarter. The rate rose 30 basis points to 5.6 percent. Vacancy increases are common during the summer months; vacancy has risen in every second quarter for more than 10 straight years.
- > The current vacancy rate is down 20 basis points from the same period one year ago. Vacancy has very gradually been trending lower in recent years despite a very active development environment.
- > The neighboring South Scottsdale and North Tempe submarkets are recording some of the strongest vacancy improvements in the area. Each of these submarkets posted a year-over-year vacancy decline of at least 100 basis points as of the second quarter.
- > **Forecast:** The modest seasonal rise recorded during the second quarter will be offset when renter demand for apartments gains momentum in the second half of the year. Multifamily vacancy in Greater Phoenix is forecast to end 2019 at 5.5 percent, down 20 basis points from the end of last year.

Vacancy Trends



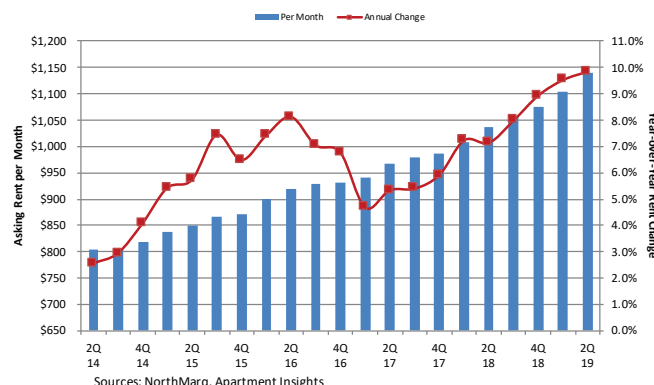
Sources: NorthMarq, Apartment Insights

The current vacancy rate is down 20 basis points from the same period one year ago

Rents

- > Rents in the Phoenix metro continued to record some of the strongest gains in the country. During the second quarter, asking rents spiked 3.1 percent, reaching \$1,139 per month. Through the first two quarters of 2019, asking rents are up 6.1 percent, compared to an increase of 5.2 percent in the first half of last year.
- > Asking rents have advanced 9.8 percent year over year through the second quarter, with the strongest gains being recorded in the most recent periods. This sets the stage for additional increases in the second half of 2019.
- > The Central Phoenix area is recording some of the strongest rent growth in the Phoenix metro area. Nearly all of the submarkets in and around Central Phoenix have recorded annual rent increases in excess of 10 percent.
- > **Forecast:** Rents are expected to rise by approximately \$100 per month this year. Asking rents are forecast to rise 9.4 percent in 2019, ending the year at \$1,175 per month.

Rent Trends

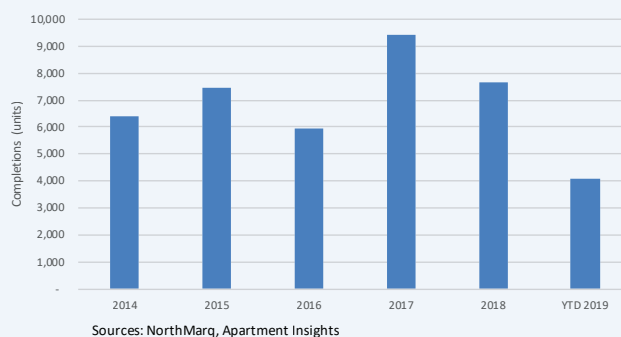


Asking rents have advanced 9.8 percent year over year through the second quarter

Development and Permitting

- > Approximately 2,100 apartment units came online during the second quarter, a slight increase from deliveries in the first three months of the year. More than 7,700 units have been completed during the past four quarters.
- > Nearly 12,000 apartment units are currently under construction across nearly 20 submarkets in the Greater Phoenix area. The number of units under construction is up approximately 5 percent from the figure one year ago.
- > After getting off to a slow start to the year, multifamily permitting accelerated during the second quarter. Developers pulled permits for approximately 2,800 multifamily units during the second quarter, more than doubling the total from the first quarter. The total multifamily permit issuance in the first half of the year is nearly identical to levels from the first half of 2018.
- > **Forecast:** The steady pace of deliveries that occurred during the first half is likely to persist in the final six months of the year. Developers are forecast to deliver approximately 8,000 new apartment units to the market in 2019, representing an increase of more than 7 percent from the 2018 total.

Development Trends



Nearly 12,000 apartment units are currently under construction

Multifamily Sales

- > Sales of multifamily properties accelerated by approximately 7 percent from the first quarter to the second quarter, and the pace recorded in the first half of 2019 was up 15 percent from the same period in 2018. While activity across most price ranges was fairly consistent, the largest rise in sales velocity occurred in property sales of less than \$10 million.
- > The median price inched a bit lower during the second quarter, in part due to the mix of some of the smaller, older properties that changed hands. The median price was approximately \$120,000 per unit during the second quarter; in transactions closed year to date, the median price is \$128,600 per unit.
- > Cap rates remained consistent in the second quarter, averaging approximately 5 percent. Cap rates are down approximately 30 basis points from the 2018 average.

Investment Trends



The largest rise in sales velocity occurred in property sales of less than \$10 million

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

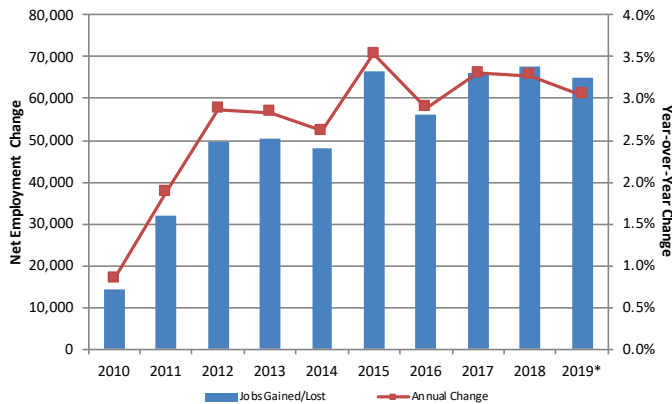
| Property Name | Street Address | Units | Sales Price | Price/Unit |
|----------------------------------|-----------------------------------|-------|---------------|------------|
| Carter | 3300 N Scottsdale Rd., Scottsdale | 365 | \$117,800,000 | \$322,740 |
| Bella Mirage | 1831 E Apache Blvd., Tempe | 715 | \$112,000,000 | \$156,643 |
| Harper | 13625 S 48th St., Phoenix | 367 | \$93,800,000 | \$255,586 |
| Solano Ridge I & Solano Ridge II | 2222 N McQueen Rd., Chandler | 561 | \$56,700,000 | \$101,070 |
| Canyons on Colter | 13621 W Glendale Ave., Glendale | 304 | \$34,300,000 | \$112,829 |
| Delano | 9736 E Balsam Ave., Mesa | 265 | \$30,000,000 | \$113,207 |

Looking Ahead

The Greater Phoenix multifamily market is positioned to post additional improvement in the second half of 2019 following a strong first half of the year. The market continues to expand its workforce at a fast pace, fueling demand for rentals. While supply growth is active, new units have been brought online at a very steady pace, keeping the vacancy rate in check and allowing for a consistent upward climb in rental rates. Rents should continue to rise in the second half of the year, but the rapid pace of gains recorded in the first half of 2019 are unlikely to be duplicated in the coming months.

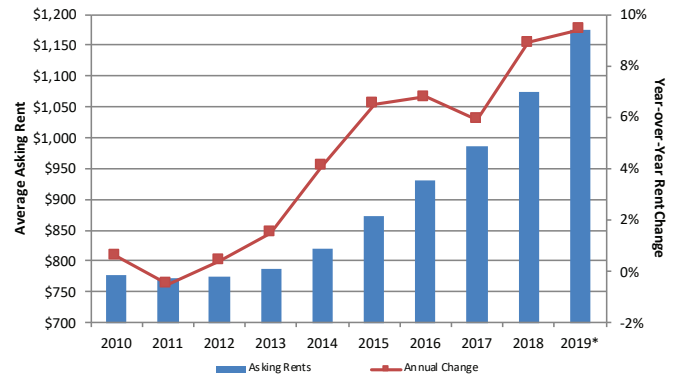
The local investment market is expected to maintain the strength that has been on display during the past several quarters. The primary driver of the investment market will remain the hearty performance of local apartment properties, but this will be supplemented by the favorable interest rate environment after rates fell in the second quarter and with the Fed sending signals rate cuts are likely in the second half. The area of the market that may benefit the most from lower interest rates is smaller properties, where private capital will likely more directly feel the impact of lower borrowing costs.

Employment Forecast



* Year End Forecast

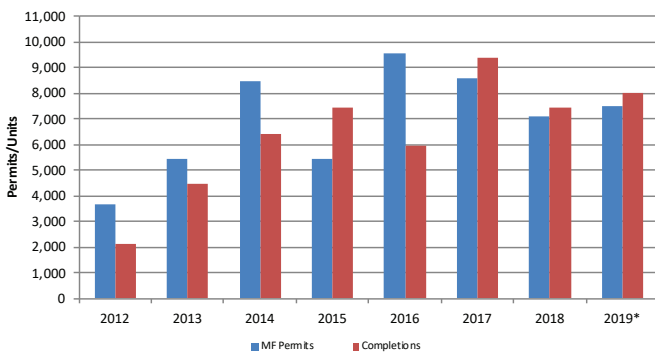
Rent Forecast



* Year End Forecast

Sources: NorthMarq, Apartment Insights

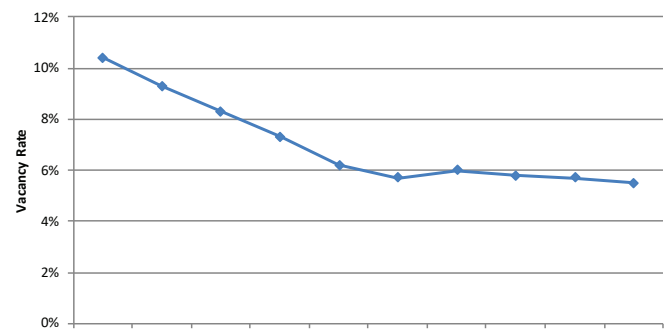
Construction & Permitting Forecast



* 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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