

Greater Phoenix Multifamily

Rents Spike Again in Response to Strong Absorption

Highlights

- > The Phoenix multifamily market continued to post robust performance during the third quarter. Even as more than 3,200 units came online, the vacancy rate dipped and rents continued their upward climb.
- > Asking rents reached \$1,163 per month in the third quarter, 10.1 percent higher than one year ago. Rents rose 2.1 percent from the second quarter to the third quarter.
- > Vacancy dipped 10 basis points in the third quarter, retreating to 5.5 percent. The rate is down 20 basis points year over year.
- > Developers completed more than 3,200 units during the third quarter, and thus far in 2019, more than 7,300 units have come online. Projects totaling approximately 11,200 units are currently under construction.
- > Multifamily sales velocity slowed modestly from the second quarter to the third quarter, but activity to this point in the year is ahead of the 2018 pace. Year to date, the median price is approximately \$132,800 per unit, up more than 10 percent compared to the 2018 median price. Cap rates have averaged 5 percent.

Phoenix Multifamily Market Overview

The third quarter was an active period in both supply and demand growth for the Phoenix multifamily market. Developers delivered more new units during the third quarter than in any single quarter in more than 10 years, but renter demand fueled enough absorption to drive a modest vacancy decline. Employers have been steadily adding new workers across nearly all sectors of the local economy, driving demand for rentals. Consistently strong demand is supporting rent growth, which topped 10 percent during the latest 12-month period. The current pace of rent growth is unsustainable over the long term, but a few more quarters of rent gains in the 1.5- to 2.0-percent range are likely.

Q3 Snapshot

Phoenix Market



Market Fundamentals

Vacancy	5.5%
- Year Over Year Change	-20 bps
Asking Rent	\$1,163
- Year Over Year Change	+10.1%



Transaction Activity

Median Sales Price Per Unit (YTD)	\$132,800
Cap Rates (Avg YTD)	5.0%



Construction Activity

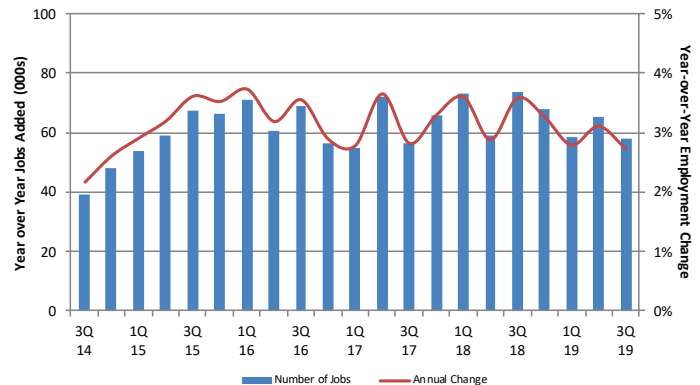
Units Under Construction	11,180
Units Delivered YTD	7,337

Investors remain active in Phoenix, drawn to the market by the combined forces of the strong pace of absorption of units and rapid rent growth. During the third quarter, property sales slowed slightly, but the number of transactions recorded to this point in 2019 is ahead of the 2018 pace. While the largest share of the local transaction activity remains in the \$20 million to \$35 million range, there has been a surge in activity at the higher end of the price spectrum. Through just three quarters of 2019, the total number of sales of more than \$75 million has already eclipsed the figure for all of 2018.

Employment

- > Employers in Phoenix have been expanding payrolls at a rapid pace. Total employment grew 2.7 percent in the past year, with the addition of 57,800 new jobs. Annual job growth has been above 50,000 jobs since the beginning of 2015.
- > With the Phoenix population base expanding, construction employment continues to post significant gains. Employment in the construction sector expanded by 8.7 percent, with the addition of 11,000 new jobs in the 12-month period ending in the third quarter.
- > Employment in the healthcare and social assistance sector has been a steady source of growth throughout business cycles. Year over year, 10,000 jobs have been created in the sector, a 3.7 percent expansion.
- > **Forecast:** Employers in Phoenix are forecast to add 60,000 net new jobs in 2019, a 2.8 percent expansion. Employment growth has averaged 3.1 percent annually for the past five years.

Employment Overview

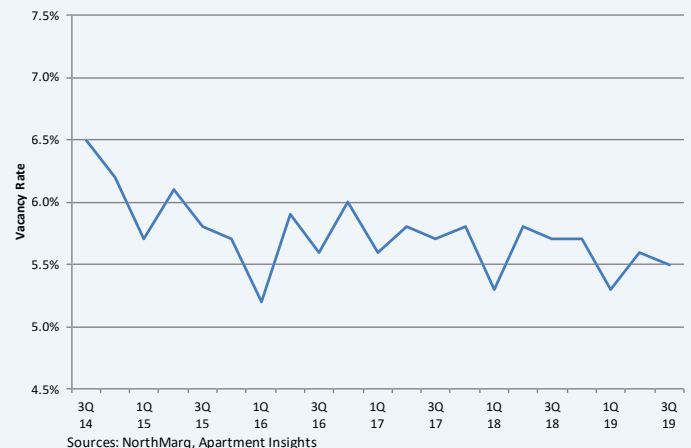


Total employment grew 2.7 percent in the past year, with the addition of 57,800 new jobs

Vacancy

- > Vacancy dipped 10 basis points in the third quarter, inching down to 5.5 percent. The rate has been very steady for the past few years, ticking up to 6 percent just one time in the past 17 quarters.
- > The current vacancy rate is 20 basis points lower than the figure one year ago. The market has recorded a year-over-year vacancy decline even as nearly 8,500 apartment units have been delivered in the past 12 months.
- > One of the primary drivers of the recent vacancy improvement has been the tightening recorded in Class A properties. Vacancy in Class A units ended the third quarter at 5.1 percent, down 180 basis points from one year ago.
- > **Forecast:** Multifamily vacancy in Greater Phoenix is declining even as construction remains active. The vacancy rate is forecast to end 2019 at 5.5 percent, down 20 basis points from the end of last year. This would mark the third consecutive year where the vacancy rate inched lower.

Vacancy Trends

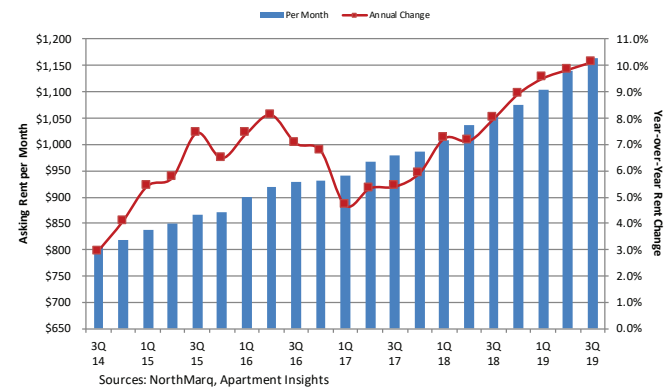


Multifamily vacancy in Greater Phoenix is declining even as construction remains active

Rents

- > Rents in the Phoenix multifamily market rose 2.1 percent from the second quarter to the third quarter. This marked the fifth time in the past eight quarters where rents posted a gain of at least 2 percent. Asking rents are up 8.3 percent thus far in 2019.
- > Year over year, asking rents have advanced 10.1 percent, ending the third quarter at \$1,163 per month. This marks one of the most rapid rent increases in the country.
- > Rents in North Tempe have been gaining momentum as the newer units coming into the submarket are being absorbed. Annual rent trends in the North Tempe submarket had been lagging gains in South Tempe for a few quarters, but as of the third quarter, rents in each submarket are up approximately 10 percent year over year.
- > **Forecast:** Asking rents in the Phoenix metro area are forecast to rise nearly 10 percent in 2019, ending the year at \$1,180 per month. This would represent an annual increase of more than \$100 per month.

Rent Trends

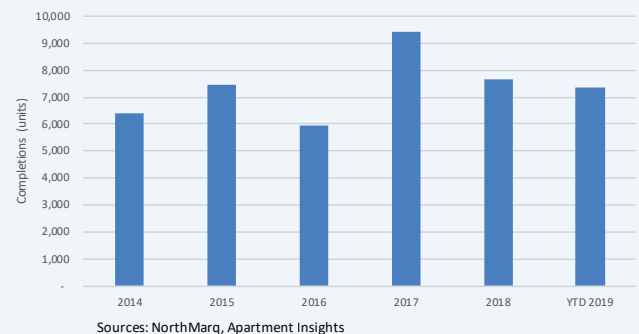


Year over year, asking rents have advanced 10.1 percent, one of the most rapid rent increases in the country

Development and Permitting

- > Deliveries of apartments accelerated during the third quarter, with projects totaling more than 3,200 units coming online. Through the first three quarters of this year, more than 7,300 units have been delivered, up 15 percent from the same period in 2018.
- > Projects totaling approximately 11,200 units are currently under construction throughout Greater Phoenix, an increase of 13 percent from one year ago. The North Tempe submarket has been one of the more active spots for construction in recent years, and nearly 2,500 units are currently under way in the submarket.
- > Permits for nearly 2,200 multifamily permits were issued during the third quarter, nearly identical to the figure from the same period in 2018. Year to date, approximately 6,900 multifamily permits have been issued, nearly matching the total for all of 2018.
- > **Forecast:** Developers are forecast to maintain the active pace of new construction to close the year. In 2019, a total of 10,500 apartment units are forecast to be delivered, up approximately 40 percent from the preceding year.

Development Trends

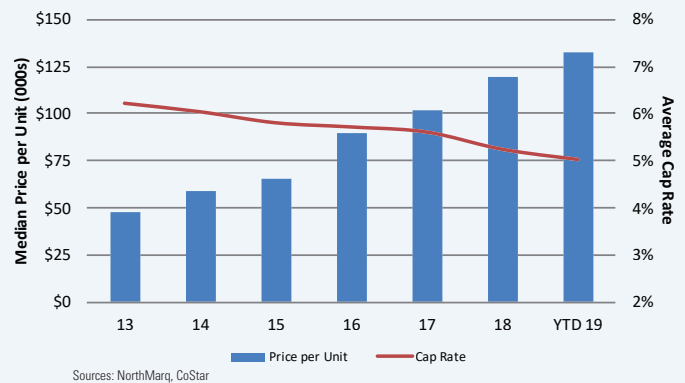


Through the first three quarters of 2019, more than 7,300 units have been delivered

Multifamily Sales

- > Sales of multifamily properties inched lower in the third quarter, dipping just 4 percent from levels recorded in the preceding period. Year-to-date transaction activity is up 8 percent when compared to the first three quarters of 2018.
- > Sales prices rose during the third quarter, with the median price topping \$150,000 per unit in transactions that closed in the third quarter. The median price thus far in 2019 is approximately 132,800 per unit, up more than 10 percent compared to the 2018 median price.
- > Cap rates have remained steady throughout 2019, averaging approximately 5 percent. Cap rates are down 20 basis points from the 2018 average.

Investment Trends



The median sales price thus far in 2019 is up more than 10 percent compared to the 2018 median price

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

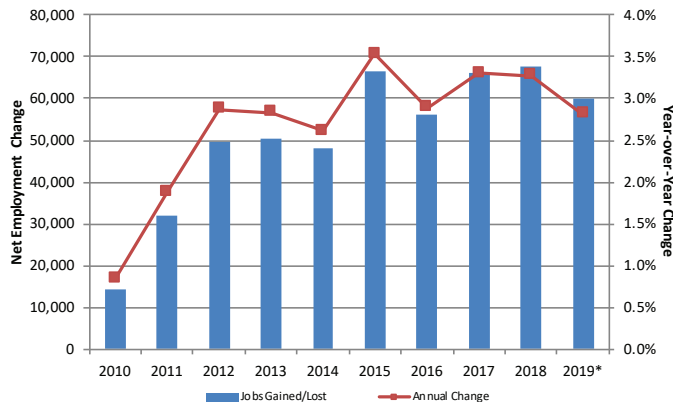
Property Name	Street Address	Units	Sales Price	Price/Unit
Denim Scottsdale	7791 E Osborn Rd., Scottsdale	645	\$141,250,000	\$218,992
Biscayne Bay	300 E Warner Rd., Chandler	512	\$110,250,000	\$215,332
San Valiente	2220 W Mission Ln., Phoenix	604	\$100,000,000	\$165,563
Aventerra at Dobson Ranch	1960 W Keating Ave, Mesa	576	\$85,750,000	\$148,872
The Park at Deer Valley	17425 N 19th Ave., Phoenix	436	\$56,700,000	\$130,046
Serafina	15400 W Goodyear Blvd., Goodyear	268	\$45,500,000	\$169,776

Looking Ahead

The Greater Phoenix multifamily market is forecast to end 2019 on another high note, with vacancy remaining near cyclical lows and rent posting strong gains. While this year will mark a 20-year high in the delivery of new units, absorption is quite active and accelerating, keeping vacancy in the mid-5-percent range. The metric that continues to attract the most attention is the pace of rent growth, which reached double digits in the third quarter.

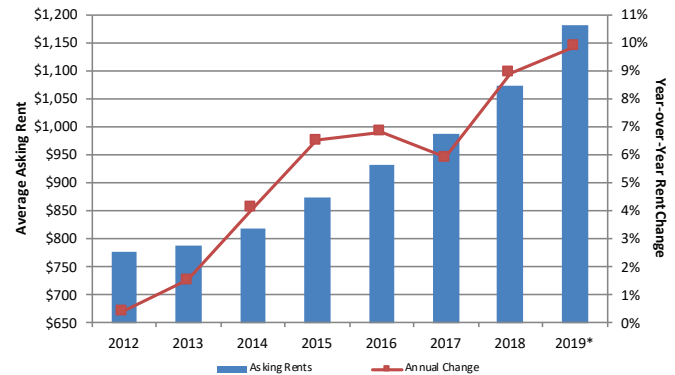
Multifamily investment activity is expected sustain the momentum that has been present in the market for the past several years. Transaction counts have been fairly consistent since 2014, and this steady and active pace of sales velocity is forecast to continue. Cap rates will likely remain near the current average of 5 percent, and with yields stable, pricing will be determined by the mix of assets changing hands and the rate of rent growth in the market.

Employment Forecast



* Year End Forecast

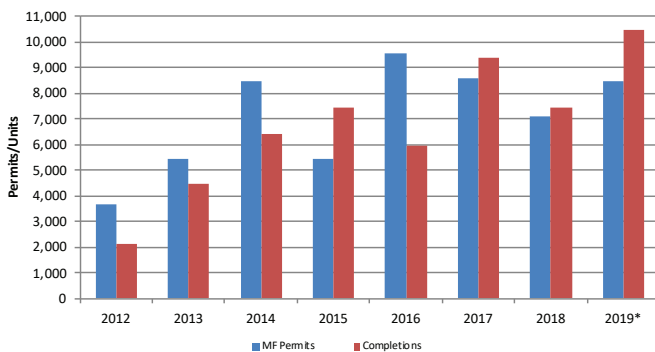
Rent Forecast



* Year End Forecast

Sources: NorthMarq, Apartment Insights

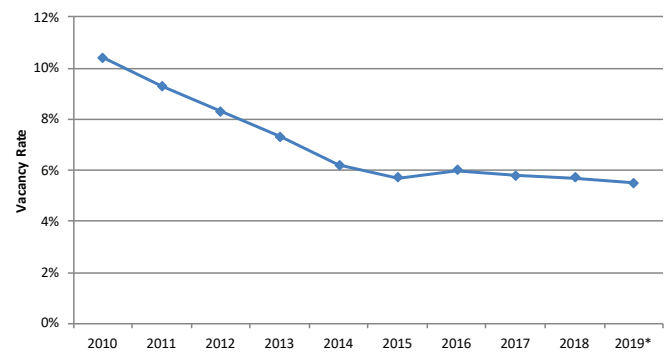
Construction & Permitting Forecast



* 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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