MARKET REPORT | 4Q/2019

NORTHMARQ

Greater Phoenix Multifamily

Investment Volume Surges to Close 2019

Highlights

- The Phoenix multifamily market recorded a very strong 2019, with rents posting sizable gains and vacancy creeping lower. Conditions cooled slightly during the fourth quarter, which may be an early indication of a more modest pace of growth in 2020.
- Vacancy ended 2019 at 5.6 percent, 10 basis points lower than at the end of the preceding year. The rate ticked up 10 basis points from the third quarter to the fourth quarter.
- Asking rents spiked 9.4 percent in 2019, one of the most significant rises in the country. Rents ended the fourth quarter at $1,175 per month.
- Projects totaling more than 8,200 apartment units were delivered in 2019, and the development pipeline includes nearly 13,200 additional units currently under construction. In recent years, demand has been sufficient to absorb the new development while keeping vacancy in a tight range.
- Multifamily investment activity surged in 2019, with momentum growing throughout the year. The median price spiked, reaching $138,600 per unit for the full year and approaching $150,000 per unit in the second half. Cap rates averaged 5 percent in 2019, with lower rates recorded in the closing months of the year.

Q4 Snapshot	Phoenix Market
Market Fundamentals	
Vacancy	**5.6%**
- Year Over Year Change	**-10 bps**
Asking Rent	**$1,175**
- Year Over Year Change	**+9.4%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$138,600**
Cap Rates (Avg YTD)	**5.0%**
Construction Activity	
Units Under Construction	**13,190**
Units Delivered YTD	**8,255**

Phoenix Multifamily Market Overview

The Phoenix multifamily market closed a very strong 2019 with a modest softening in the fourth quarter. The local vacancy rate inched higher in the final three months of the year, but even after that modest uptick, the rate ended 2019 lower than it ended 2018. This occurred in a year when developers delivered more than 8,000 new apartment units to the market. Renter demand for units has continued to be fueled by healthy employment growth, which approached 60,000 net new positions in 2019. In 2020, supply growth in the form of new construction is forecast to accelerate, while demand growth is expected to slow slightly.

In 2019, investment in Phoenix multifamily properties reached its highest point since 2006, with the fourth quarter being a particularly active period. Investors were motivated by the area's ability to maintain stable occupancy levels and implement significant rent increases even as thousands of new units were introduced into inventory. Prices rose throughout the year, with the most pronounced gains occurring in the second half of the year when the median price approached $150,000 per unit. Cap rate trends followed a similar trajectory, dipping in the first half of the year before compressing further in the second half. With investor demand elevated and attractive financing available, these trends could continue in 2020.

Employment

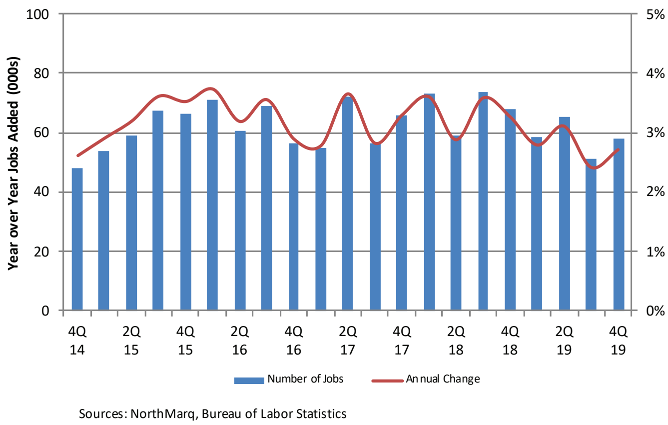
> Employers in Phoenix expanded payrolls at a healthy pace in 2019, adding 58,000 workers, a 2.7 percent rate of growth. This marked the fifth consecutive year of local employment growth of more than 50,000 new jobs in Phoenix.

> Recent freeway infrastructure expansion is attracting a number of companies looking to establish distribution and manufacturing facilities in Phoenix. The region's transportation and warehousing sector added more than 14,000 jobs in 2019, a growth rate of approximately 7.5 percent.

> The North Scottsdale area will be home to some of the Phoenix area's most significant corporate growth in 2020 and 2021. Choice Hotels announced plans to bring the company's technology headquarters to North Scottsdale, a move that will result in 500 new jobs. The company will be locating at a facility that will include Nationwide Insurance's new regional headquarters, which will have a workforce of 2,200 employees when it opens in late 2020.

> **Forecast:** Employers in Phoenix are forecast to add approximately 52,000 net new jobs in 2020, a growth rate of 2.4 percent. Phoenix will once again be among the top-10 markets for total employment additions.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

The region's transportation and warehousing sector added more than 14,000 jobs in 2019

Vacancy

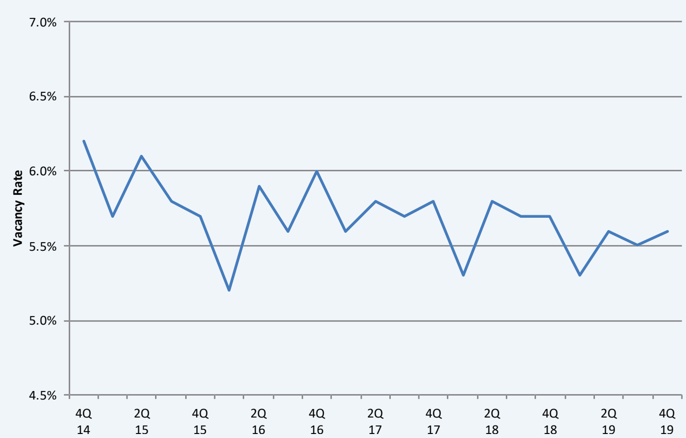
> Vacancy ticked up 10 basis points during the fourth quarter, reaching 5.6 percent. Since dipping below 6 percent in early 2017, the rate has been mostly steady, averaging 5.6 percent during the past 12 quarters.

> Vacancy dipped 10 basis points from year-end 2018 to the end of 2019. This marked the third consecutive calendar year that vacancy improved.

> One area of the market that has been supporting the overall market has been Tempe, where healthy demand for units has driven vacancy rates lower in recent quarters, following a steep increase in supply. Both the North Tempe and South Tempe submarkets recorded annual vacancy improvements of more than 100 basis points in 2019.

> **Forecast:** The local multifamily vacancy rate is forecast to inch up 30 basis points in 2020, ending the year at 5.9 percent. This would mark the first annual vacancy increase since 2016.

Vacancy Trends



Sources: NorthMarq, Apartment Insights

Vacancy dipped 10 basis points in 2019, the third straight year where the rate improved

Rents

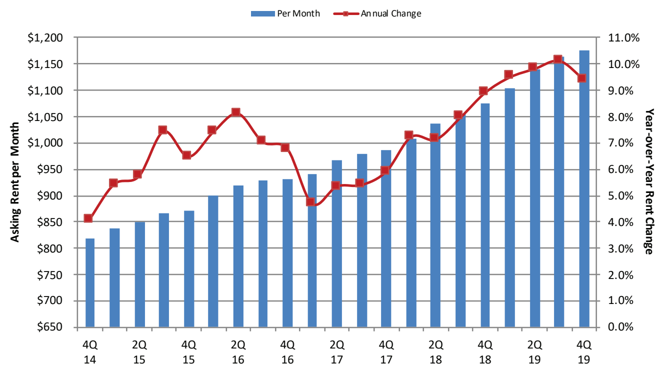
> After steep gains for several consecutive quarters, the pace of rent increases eased slightly to close 2019. Asking rents rose 1 percent in the fourth quarter, ending the year at $1,175 per month.

> In 2019, asking rents in Phoenix rose 9.4 percent, recording one of the strongest paces of rent gains in the country. This marked the second consecutive year of rapid rent growth; in 2018, asking rents spiked 8.9 percent.

> While rents are rising throughout the market, some of the strongest gains are being recorded in areas in the Southeast Valley, where several companies are adding new employees. Rent growth in the Gilbert/Superstition Springs submarket was one of the highest in the Phoenix area, rising more than 12 percent in 2019.

> **Forecast:** After robust rent gains in recent years, the pace of growth is forecast to cool to approximately 6 percent in 2020.

Rent Trends



Sources: NorthMarq, Apartment Insights

Some of the strongest rent gains are being recorded in the Southeast Valley

Development and Permitting

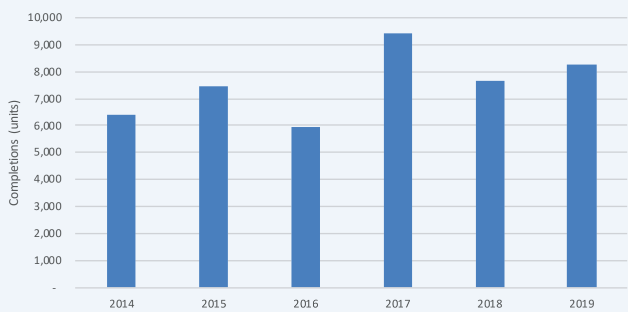
> Developers delivered more than 8,200 units in 2019, up approximately 8 percent from the 2018 total. After averaging 6,000 units per year from 2013-2016, deliveries have averaged nearly 8,500 units per year since 2017.

> More projects continue to fill the development pipeline. Nearly 13,200 units were under construction at the end of 2019, up 16 percent from one year earlier.

> During the fourth quarter, developers pulled permits for approximately 3,000 multifamily units, up more than 30 percent from the third quarter. For the year, permits for approximately 9,600 units were issued, up 35 percent from the 2018 total.

> **Forecast:** Developers are forecast to deliver projects totaling approximately 8,500 apartment units in 2020, a slight increase from 2019 levels. The North Tempe submarket is on pace to have more than 1,000 new units delivered.

Development Trends



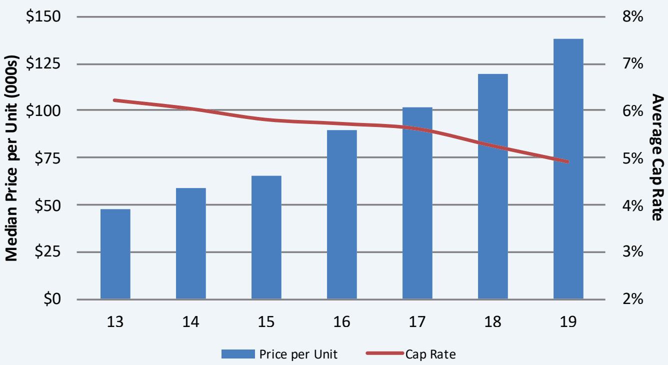
Sources: NorthMarq, Apartment Insights

Deliveries have averaged nearly 8,500 units per year since 2017

Multifamily Sales

- Sales velocity rose at the end of 2019, with the number of property sales advancing 10 percent from the third quarter. Transaction activity in 2019 was up 18 percent from 2018. The number of properties sold in 2019 was the highest annual total in the Phoenix market since 2006.
- Sales prices rose in 2019, with the median price reaching $138,600 per unit for the year, 16 percent higher than the 2018 median price. During the second half of 2019, prices rose even higher; in the second half of the year, the median price was approximately $150,000 per unit.
- Cap rates dipped a bit to close the year. The average cap rate in 2019 was 4.9 percent, 30 basis points lower than in 2018.

Investment Trends



Sources: NorthMarq, CoStar

The number of properties sold in 2019 was the highest annual total since 2006

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

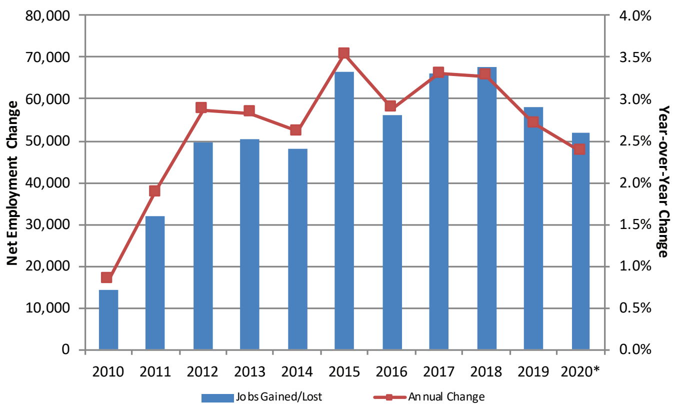
Property Name	Street Address	Units	Sales Price	Price/Unit
Griffin	3234 N Scottsdale Rd., Scottsdale	277	$96,150,000	$347,112
Avana Desert View	17030 N 49th St., Phoenix	412	$96,000,000	$233,010
Arches at Hidden Creek	1586 W Maggio Way, Chandler	432	$84,000,000	$194,444
Liv Goodyear	15361 W Virginia Ave., Goodyear	326	$75,500,000	$231,595
The Julia	546 S Country Club Dr., Mesa	320	$46,000,000	$143,750
Soleil	725 N Dobson Rd., Chandler	188	$40,060,000	$213,085

Looking Ahead

The Phoenix multifamily market is forecast to record continued health in 2020, but the rate of rent growth is likely to moderate in the year to come. Sparked by strong renter demand and the introduction of newer, more expensive apartment complexes, rents have risen an average of more than 8 percent per year since 2017, but gains are forecast to slow in 2020. Vacancy is expected to inch higher this year but should remain below 6 percent for the fourth consecutive year.

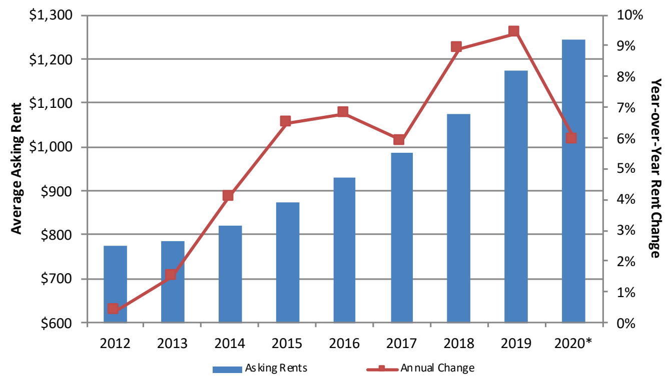
The Phoenix multifamily market had its strongest year in more than a decade in 2019, with transaction activity levels spiking, prices rising, and cap rates compressing. While the underlying fundamentals in the market are expected to remain quite strong in 2020, it is unlikely that the investment market will repeat the performance from the preceding year. Sales during the second half of 2019 have set the starting point for 2020. During the second half, the median price reached $150,000 per unit and cap rates dipped below 5 percent on average.

Employment Forecast



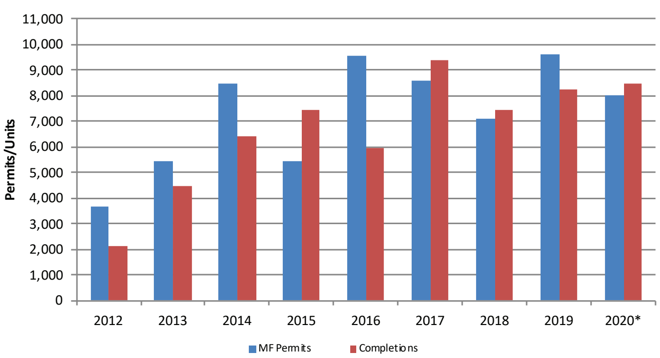
* Year End Forecast

Rent Forecast



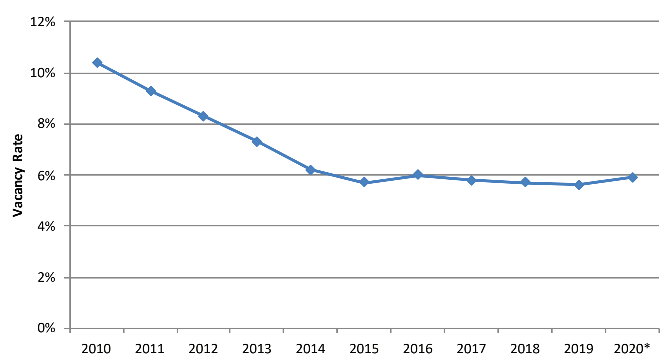
* Year End Forecast
Sources: NorthMarq, Apartment Insights

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 $14 billion, loan servicing portfolio of more than $60 billion and the multi-year tenure of our nearly 600 people.

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