

Market Insights

Greater Phoenix Multifamily 3Q 2021



Construction Activity



25,206

Units under construction

8,216

Units delivered (YTD)

Market Fundamentals



4.0%

Vacancy

-80bps

Year over year change

\$1,543

Asking Rent

+27.3%

Year over year change

Transactions Activity



\$204,500

Median sales price per unit (YTD)

4.0%

Cap rates (YTD)

Rapid Rent Growth Fueling Investment Market

Highlights

- The Phoenix multifamily market continued to post some of the strongest operating conditions in the country during the third quarter. Rents spiked again, building on gains from the preceding three months, while vacancy rates ticked lower for the fifth consecutive quarter.
- After reaching its lowest point on record during the second quarter, the local vacancy rate tightened again in the third quarter. Local vacancy fell 10 basis points to 4 percent in the third quarter; year over year, the rate has declined 80 basis points.
- Rents continued to spike in the third quarter, reaching \$1,543 per month. Area rents have increased 27.3 percent in the past year, with the greatest increases occurring in the second and third quarters.
- Sales of multifamily properties remained quite active during the third quarter, closely tracking levels recorded in the second quarter. Transaction activity has surged among newer properties. Prices are rising, with the median price year to date up more than 20 percent from 2020 levels. Cap rates have continued to compress as investor demand has intensified.

Phoenix Multifamily Market Overview

The Phoenix multifamily market continued to post unprecedented gains during the third quarter, building on unseasonably strong operating conditions in the second quarter. Rents advanced by more than 10 percent—or more than \$100 per month—from the second quarter to the third quarter, placing Phoenix among the top markets in the country for rental growth. Vacancies inched lower after posting an all-time low at midyear. Vacancy rates are trending lower even as construction activity is accelerating. Developers delivered more than 3,400 apartment units to the Phoenix market in the third quarter, bringing the total for the full year to more than 8,200 units. Demand is outpacing the rapid pace of supply growth; year to date, net absorption has exceeded new construction by more than 2,500 units.

After transaction activity spiked in the second quarter, investors continued to acquire properties at an accelerating pace during the past three months. Year-to-date sales activity has already topped levels from all of 2020 and is ahead of the pace established in peak years from 2016 to 2019. While activity is strong throughout the market, there has been a sharp acceleration in larger transactions. The number of sales topping \$100 million to this point in 2021 has nearly tripled levels from the past two years, with several large transactions closing in the final few weeks of the third quarter. Some of the increase in large transactions is due to rising per-unit prices. Additionally, sales of new projects are pushing prices higher; more than a dozen properties that were delivered in either 2020 or 2021 have already sold this year.

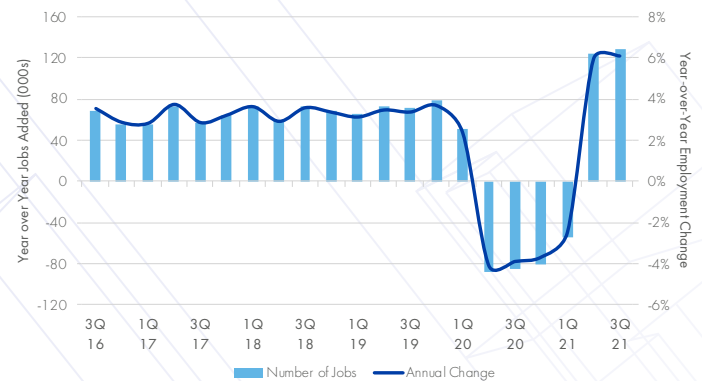
Employment

- The Phoenix employment market continues to expand. Year over year through the third quarter, total area employment has grown by 6.1 percent with the addition of approximately 128,000 jobs. During the third quarter, employment in the Phoenix area exceeded the pre-COVID peak.
- The professional and business services sector has been rebounding at one of the fastest rates in the Phoenix metro area. During the past 12 months, nearly 30,000 professional jobs have been added, a growth rate of 8.2 percent.
- Distribution and warehousing employment expanded by nearly 20,000 jobs in the 12-month period ending in the third quarter, and the sector is forecast to record further gains in the coming years. During the third quarter, developers announced plans for more than 10 million square feet of new industrial projects. The bulk of the new developments and the associated jobs will be in the Goodyear area.
- **Forecast:** Employers in Phoenix are forecast to continue to add workers to payrolls through the remainder of this year. The market is on pace to add 125,000 jobs in 2021, an increase of nearly 6 percent for the year.



Year over year through the third quarter, total area employment has grown by 6.1 percent.

Employment Overview

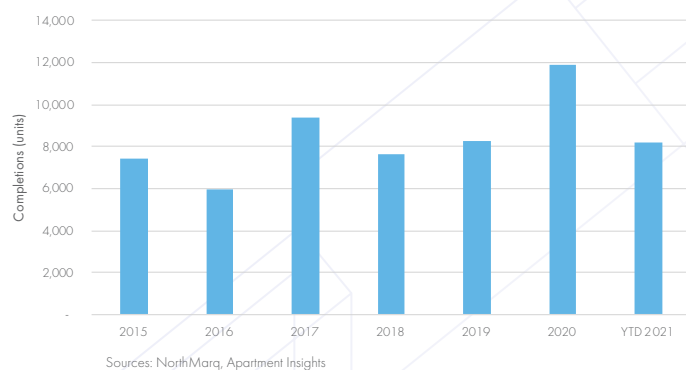


Sources: NorthMarq, Bureau of Labor Statistics



During the third quarter, projects totaling more than 3,400 units were delivered.

Development Trends



Sources: NorthMarq, Apartment Insights

Development and Permitting

- Construction activity has ramped up to meet rising renter demand for units. During the third quarter, projects totaling more than 3,400 units were delivered, 25 percent higher than the total during the second quarter. To this point in 2021, more than 8,200 units have come online.
- Developers are moving new projects into the construction pipeline. At the end of the third quarter, approximately 25,200 units were under construction, 23 percent higher than the total at the beginning of this year.
- Permitting trends during the third quarter closely tracked levels from the preceding period. Developers pulled permits for approximately 3,800 multifamily units in the third quarter, bringing the total for the first nine months of the year to nearly 11,000 permits. Year to date, multifamily permitting is up 5 percent when compared to the same timeframe in 2020.
- **Forecast:** Apartment deliveries are forecast to total approximately 11,500 units this year, nearly identical to the number of units that came online in 2020. This will mark the second consecutive year where more than 10,000 units are delivered; completions averaged nearly 8,000 units per year from 2015 to 2019.

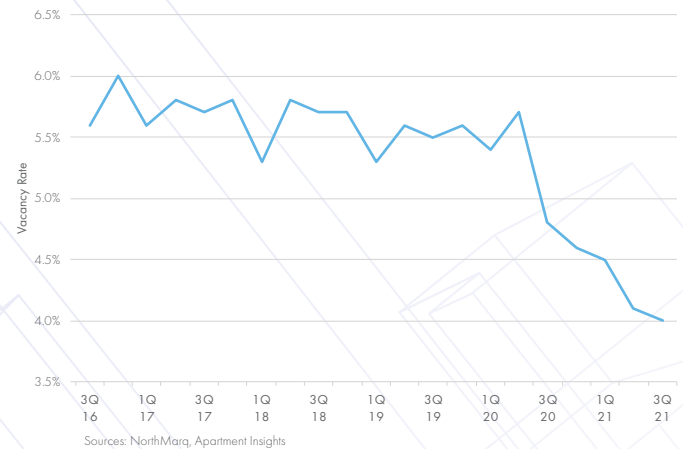
Vacancy

- After falling to an all-time low during the second quarter, the vacancy rate inched down an additional 10 basis points in the third quarter. At just 4 percent, local vacancy is down 80 basis points year over year. This marked the fifth consecutive quarter where vacancy has tightened.
- Class A vacancy ended the third quarter at 4.4 percent, 80 basis points lower than the rate in the second quarter. Vacancy in the Class A segment of the market has averaged more than 6 percent since the beginning of 2017, but the rate has been below 5 percent in three of the past four quarters.
- The Tempe area is recording tight conditions as demand has increased with Arizona State University fully returning to in-person classes. The average vacancy rate in the Tempe submarkets is 3.6 percent, down nearly 200 basis points from levels recorded one year ago.
- Forecast:** The vacancy rate is on pace to end the year at 4.2 percent, 40 basis points lower than the figure at the end of 2020.



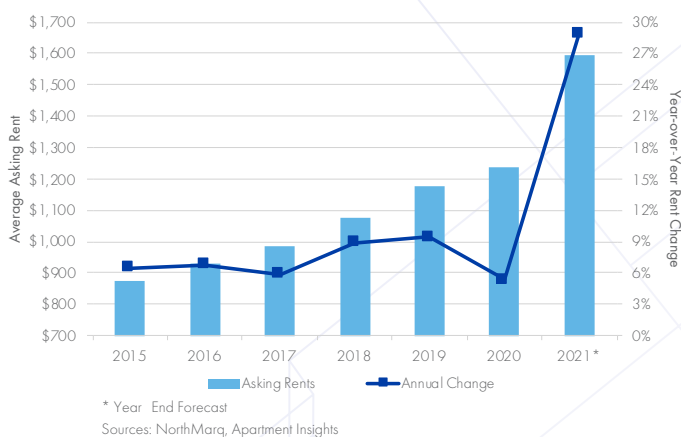
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Vacancy Trends



Average rents reached \$1,543 per month at the end of the third quarter.

Rent Trends



Rents

- Rents continued to spike during the third quarter. After a 9.5 percent increase in the second quarter, rents rose an additional 10.1 percent in the third quarter. Average rents reached \$1,543 per month at the end of the third quarter.
- Year over year, average rents in the Phoenix area have increased 27.3 percent. Rents have been trending higher at a rapid pace for the past several years before the unprecedented levels of gains recorded in the past two quarters. Rent growth averaged 7.1 percent annually from 2015 to 2020.
- All submarkets in Greater Phoenix are posting steep rent increases, but some of the most robust gains are being achieved in the northern suburban regions of the market. The Deer Valley, Union Hills/Cave Creek, and North Scottsdale submarkets have all recorded annual rent increases in excess of 30 percent.
- Forecast:** This year will mark a record-setting period for rent growth in the Phoenix market. Average rents are forecast to spike nearly 30 percent in 2021, reaching \$1,595 per month by year end.

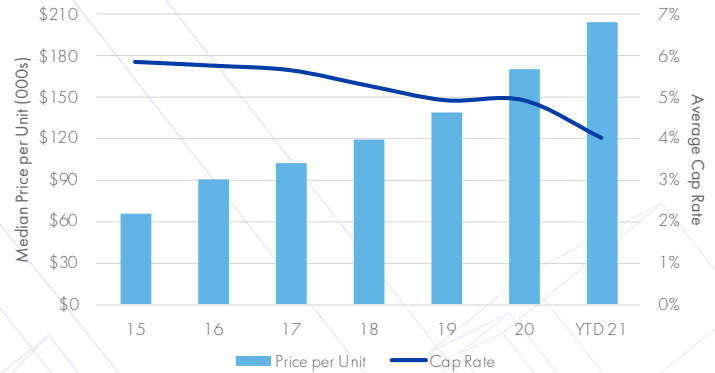
Multifamily Sales

- After a spike in the second quarter, sales velocity maintained a very active pace during the third quarter. Transaction activity through the first three quarters of this year has exceeded the total volume for all of 2020.
- Prices continued to trend higher in the third quarter. The median price in sales that closed during the third quarter was nearly \$240,000 per unit. Year to date, the median price has spiked by more than 20 percent to \$204,500 per unit.
- Cap rates for most transactions are between 4 percent and 4.25 percent, although there is a bit of a trading range. At the low end, some properties have traded with cap rates between 3 percent and 3.25 percent. Additionally, a handful of transactions have closed with cap rates at 5 percent or higher, but these deals are becoming increasingly difficult to find.



Activity through the first three quarters of this year has exceeded the total volume for all of 2020.

Investment Trends



Recent Transactions

Multifamily Sales Activity

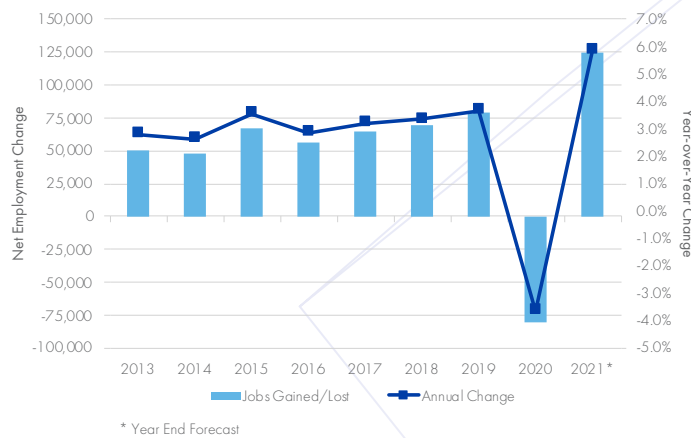
Property Name	Street Address	Units	Sales Price	Price/Unit
Ascend at Kierland & Elite North Scottsdale	6633 & 6735 E Greenway Pky., Scottsdale	724	\$312,500,000	\$431,630
Christopher Todd Communities Estrella Commons & Happy Valley	15385 W Fillmore St., Goodyear & 11903 W Happy Valley Rd., Peoria	508	\$174,240,000	\$342,992
Accolade Apartment Homes	220 W Bell Rd., Phoenix	548	\$155,000,000	\$282,847
Scottsdale Grand	15501 N Dial Blvd., Scottsdale	285	\$130,000,000	\$456,140
Tides at Lakeside	999 E Baseline Rd., Tempe	244	\$64,500,000	\$264,344
Soleil	725 N Dobson Rd., Chandler	188	\$63,000,000	\$335,106
Portola at Papago	3434 E McDowell Rd., Phoenix	128	\$27,500,000	\$214,844

Looking Ahead

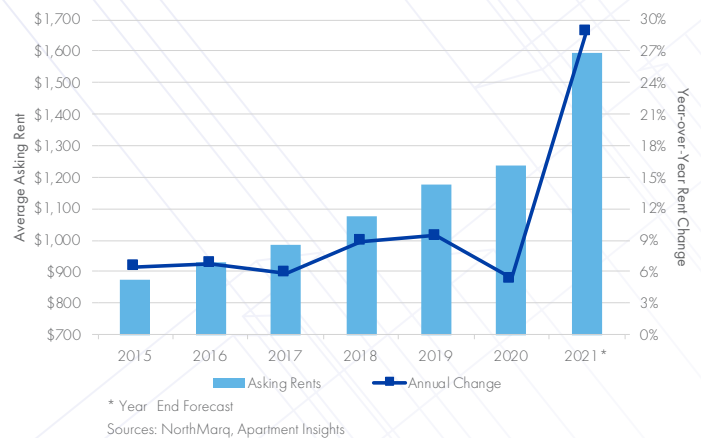
The Phoenix multifamily market has already posted a record-setting year of operational performance, and additional gains are likely in the coming months. Vacancy rates are at historical lows, despite an active pace of new apartment development. Absorption is outpacing supply growth, and the combined forces of low vacancy and elevated demand are fueling steep upward climbs in rents. These conditions should persist for the next several quarters, although the current pace of rent increases is likely to prove to be unsustainable. Construction of new units will remain active including a wave of new single-family rental units; more than 30 projects totaling nearly 5,000 single-family rental units are currently under construction.

The local investment market is on strong footing heading into the fourth quarter, which is often the most active period of the year for sales velocity. The acquisitions market is competitive as investors are attempting to allocate capital into Phoenix-area properties. Cap rates have compressed for the past several years and may continue to inch lower in the coming months, with buyers confident that future rent increases will more than offset low initial cap rates to reach return objectives. Elevated renter demand levels are fueling rapid lease-up of new properties, which should lead to increased transaction activity as these projects become stabilized.

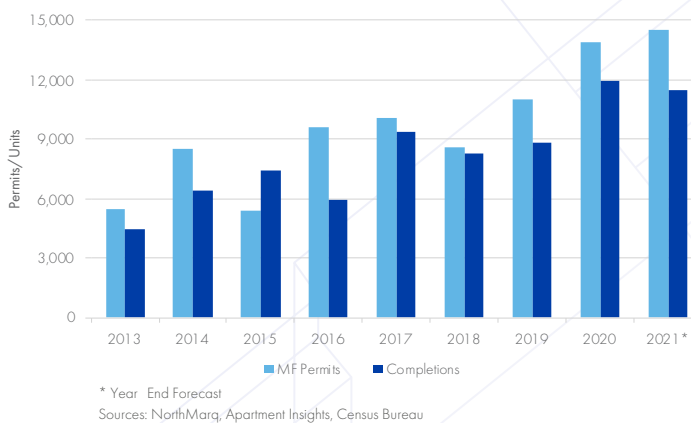
Employment Forecast



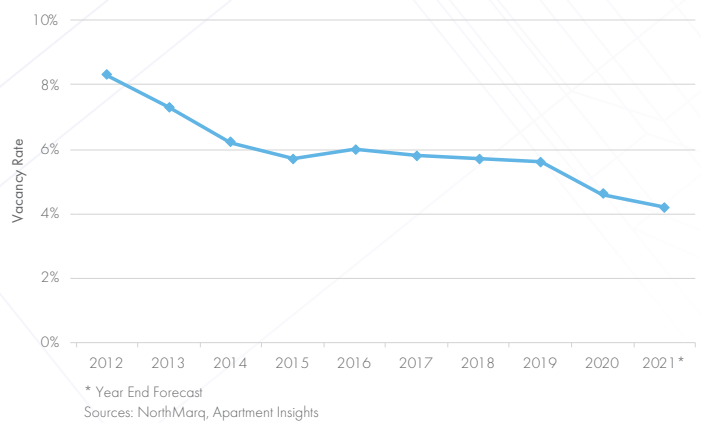
Rent Forecast



Construction & Permitting Forecast



Vacancy Forecast





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About Northmarq

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 700 employees, loan servicing volume approaching \$70 billion, and \$30+ billion in transaction volume.