Market Insights

Greater Phoenix Multifamily 1Q 2022

Northmarq

Construction Activity

28,979
Units under construction

2,138
Units delivered (YTD)

Market Fundamentals

4.8%
Vacancy

+30bps | Year over year change

$1,624
Asking Rent

+27.0% | Year over year change

Transaction Activity

$270,800
Median sales price per unit (YTD)

Investment Activity in 1Q Ahead of 2021 Pace

Highlights

- Apartment properties posted mixed performance in the first quarter with rents rising, investment activity elevated, but a rise in vacancy. The mixed conditions followed a year of unprecedented growth in 2021, and the market is forecast to remain healthy throughout the remainder of this year.
- After vacancy trended lower throughout nearly all of 2020 and 2021, the rate has risen in each of the past two quarters. During the first quarter of this year, vacancy rose 50 basis points to 4.8 percent. Year over year, vacancy is up 30 basis points.
- Rents in Greater Phoenix continue to trend higher, increasing 2.5 percent in the first quarter to $1,624 per month. In the past 12 months, rents have spiked 27 percent, one of the most rapid increases of any market in the country.
- The investment market remained active during the first quarter. More properties sold in the first three months of this year than during the same period in 2021. Prices continue to push higher at a rapid clip, with the median price reaching $270,800 per unit. Cap rates have begun to level off, averaging 3.25 percent in the first quarter.

Phoenix Multifamily Market Overview

Renter demand in the Phoenix multifamily market persisted at a healthy level in the first quarter, but absorption was outpaced by the delivery of new units, pushing the vacancy rate slightly higher. Even after accounting for the recent uptick, the rate is only moderately higher than the market's all-time low figure that was achieved in the second half of last year. Vacancy rates are low enough to support continued rent growth; rents rose 2.5 percent in the first quarter and are up 27 percent from one year ago. Renter demand has been intensifying in recent years as the local population has posted rapid growth, and developers have increased the number of projects in the construction pipeline to meet the new demand levels; projects are widespread across the market.

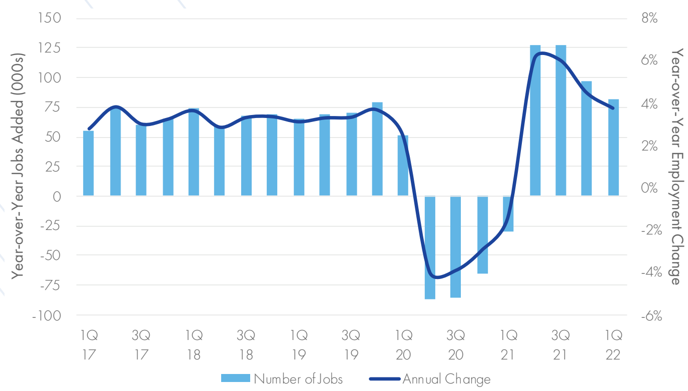
The momentum in the local multifamily investment market carried over from a record-setting 2021 into the first quarter of this year. Sales velocity in the first three months of 2022 was ahead of the pace established during the same period in 2021, and dollar volume was up by approximately 40 percent. Investors are acquiring properties with the expectation of continued rent increases. Cap rates have remained low, averaging around 3.25 percent, although there are a few transactions where cap rates are at the higher end of recent ranges. Prices have continued to push higher at a fast clip, sparked by rapid rent growth. The median price in sales during the first quarter topped $270,000 per unit, up 22 percent from the 2021 median price.

Employment

- Employers in Phoenix continue to add jobs at a rapid pace. Total employment expanded by 3.8 percent during the past 12 months, with the addition of 81,900 net new positions.
- Rapid population growth is supporting gains in the education and health services sector. Year over year through the first quarter, education and health employment has expanded by 3.6 percent with the addition of 12,300 net new jobs.
- During the first quarter, electronics giant LG announced plans to open a $2.8 billion advanced manufacturing plant in the Southeast Valley city of Queen Creek. The new facility is scheduled to open in 2024 and should add 2,800 new workers. LG signed an agreement with electric truck manufacturer Nikola to supply vehicle batteries. Area manufacturing employment has increased 4 percent in the past year.
- **Forecast:** Employers are forecast to continue to expand payrolls as the economy grows. Area employment is expected to rise 3.3 percent in 2022, with employers adding 75,000 jobs.

> Employment expanded by 3.8 percent during the past 12 months.

Employment Overview



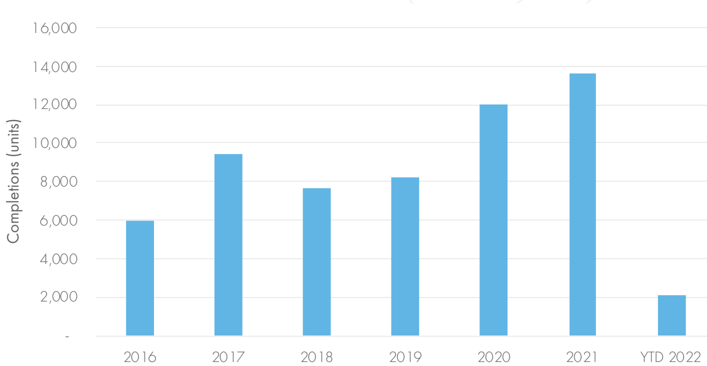
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

> Nearly 29,000 units are under construction.

- After a surge in the delivery of new multifamily complexes in the second half of last year, the pace of deliveries slowed modestly during the first quarter. Developers completed projects totaling more than 2,100 units to start 2022.
- Multifamily developers continue to increase construction activity. At the end of the first quarter, nearly 29,000 units were under construction, up 27 percent from the total 12 months earlier. Construction activity has surged in recent years; as recently as two years ago, about 12,500 units were under construction.
- Multifamily permitting activity in the first quarter of this year closely tracked levels recorded at the start of 2021. Developers pulled permits for approximately 2,900 multifamily units in the first three months of this year. Permitting peaked at the end of 2021 when permits for more than 5,100 multifamily units were issued.
- **Forecast:** Apartment construction activity will remain heightened in 2022, with developers on pace to deliver approximately 14,500 units. In 2021, completions totaled more than 13,500 units.

Development Trends



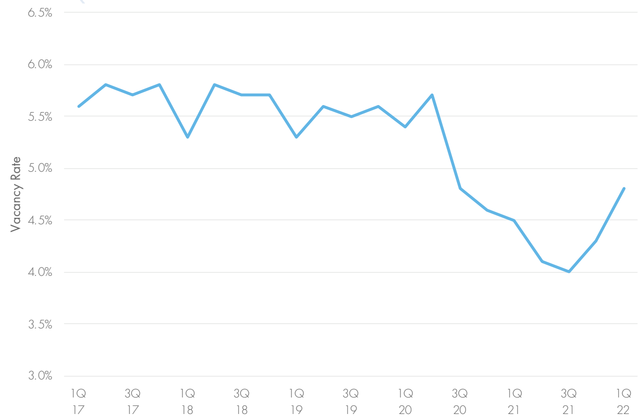
Sources: Northmarq, Apartment Insights

Vacancy

- Vacancy in Phoenix rose 50 basis points in the first quarter, reaching 4.8 percent. This marked the second consecutive quarter where the rate ticked higher, after the rate reached an all-time low in the middle part of last year.
- Year over year, vacancy has crept up 30 basis points. Despite the recent increases, vacancy remains lower than the recent trend. The average vacancy rate since the beginning of 2017 is 5.2 percent.
- The impact of new development is reflected in the vacancy rate in Class A properties. The Class A vacancy rate ended the first quarter at 5.9 percent, 130 basis points higher than one year earlier. Vacancy in Class A units has generally averaged between 6 percent and 7 percent.
- **Forecast:** The local vacancy rate declined every year from 2017 to 2021 but is expected to trend higher this year. Vacancy is forecast to rise 40 basis points in 2022, with the rate expected to end the year at 4.7 percent.

> Vacancy ended the first quarter at 4.8 percent.

Vacancy Trends



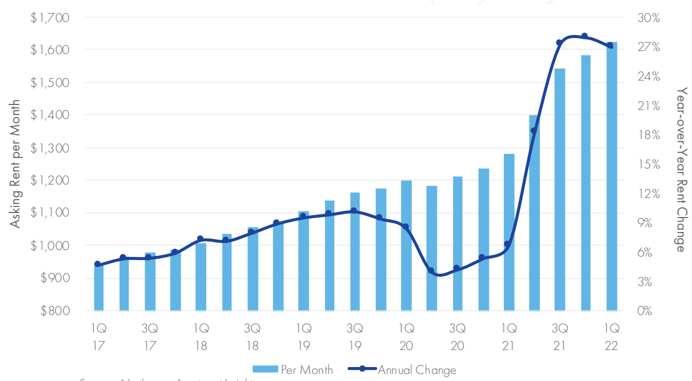
Sources: NorthMarq, Apartment Insights

Rents

- Rents continued to push higher in the first quarter, although the pace of gains leveled off a bit after significant spikes in the middle part of last year. Rents rose 2.5 percent in the first quarter; during the first quarter of 2021, rents advanced 3.3 percent.
- Rents in Phoenix have climbed at one of the fastest rates in the country during the past several quarters. Year over year, rents in the market have spiked 27 percent to $1,624 per month, increasing by nearly $350 per month.
- Rents in the Mesa submarkets are lower than the market average, but the pace of growth in the city is rapid. Rents in North Mesa have spiked by nearly 30 percent in the past year to $1,385 per month, while rents in South Mesa have advanced 27.5 percent to almost $1,500 per month.
- **Forecast:** Rents in the Phoenix area are expected to advance 9.5 percent in 2022, ending the year at $1,735 per month. Before the spike that was posted last year, annual gains had averaged 7.1 percent since 2015.

> Year over year, rents in the market have spiked 27 percent.

Rent Trends



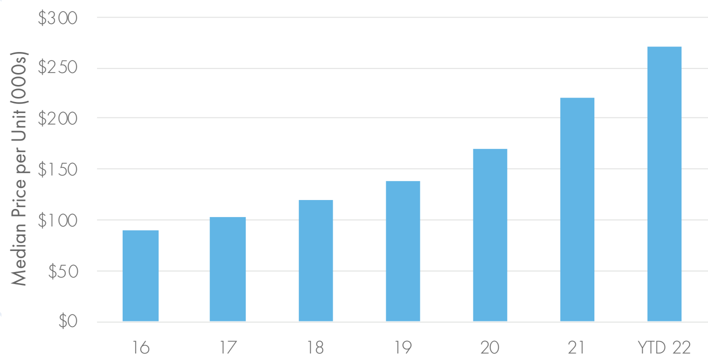
Sources: Northmarq, Apartment Insights

Multifamily Sales

- After investment activity reached an all-time high in 2021, the Phoenix market got off to a stronger start to the year in 2022. Sales velocity in the first quarter of this year was up 9 percent when compared to the same period in 2021. Peak transaction volume occurred in the fourth quarter of last year.
- Prices continued on an upward trajectory, following steep gains in 2021. The median price during the first quarter reached $270,800 per unit, 22 percent higher than the median price recorded last year. Price growth is being fueled by rapid and continued rent growth and intense investor competition to acquire multifamily properties.
- After a year in which the average cap rate dropped 100 basis points, the trend was mixed during the first quarter. The average cap rate remained essentially unchanged at around 3.25 percent. There was a bit more of a range, however, with some properties still changing hands with cap rates around 2.5 percent, and a few more trades occurring around 3.75 percent.

> "The median price during the first quarter reached $270,800 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

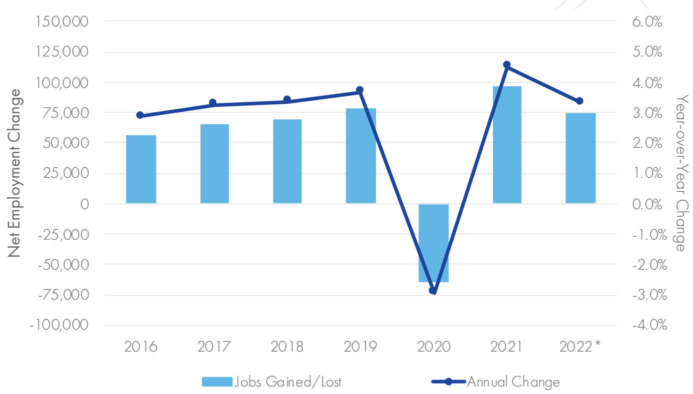
Property Name	Street Address	Units	Sales Price	Price/Unit
Tides on 71st	7007 W Indian School Rd., Phoenix	1,012	$255,000,000	$251,976
Roadrunner on McDowell	6601 E McDowell Rd., Scottsdale	356	$193,500,000	$543,539
Ascent at Papago Park	4950 E Van Buren St., Phoenix	270	$107,500,000	$398,148
Tides on 44th	4030 N 44th Ave., Phoenix	256	$50,950,000	$199,023

Looking Ahead

The Phoenix multifamily market is expected to record another year of heightened activity in 2022. Renter demand has been fueled in recent years by rapid population growth; Maricopa County has recorded average population growth of nearly 75,000 residents per year over the past decade. For most of the past several years, the supply of new housing has not kept up with the rapid pace of demand growth, and vacancies have gradually tightened over this period. This year will likely mark a bit of a reversal of that trend. Multifamily developers are on pace to increase deliveries for the fourth consecutive year, and completions should outpace absorption in 2022. Still, overall vacancy levels should be low enough to support healthy levels of rent increases this year.

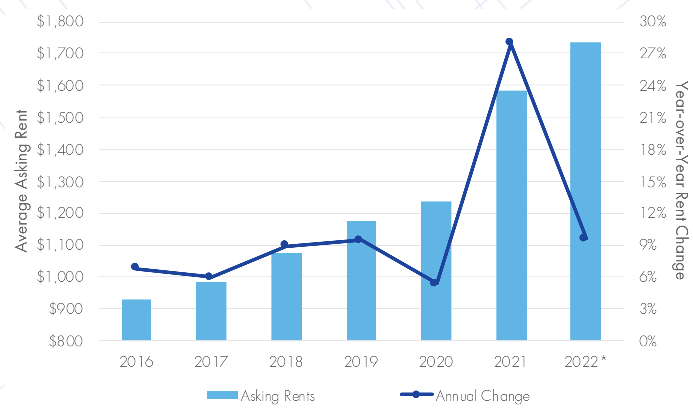
Following a year of activity that surpassed all expectations, the multifamily investment market is expected to record some adjustments through the remainder of 2022. Investors remained motivated at the start of this year, with more properties trading in the first quarter than during the same period in 2021 and prices posting strong gains. With interest rates on the rise, there will likely be some upward pressure on cap rates in the near term. To this point, surging rents have offset the impact of rising borrowing costs and kept cap rates low, but as interest rate increases appear likely to be in place for a while, buyers may become less aggressive when pricing acquisitions. Investors will monitor the pace of rent growth and lease-up of new communities in the second and third quarters to shape underwriting expectations.

Employment Forecast



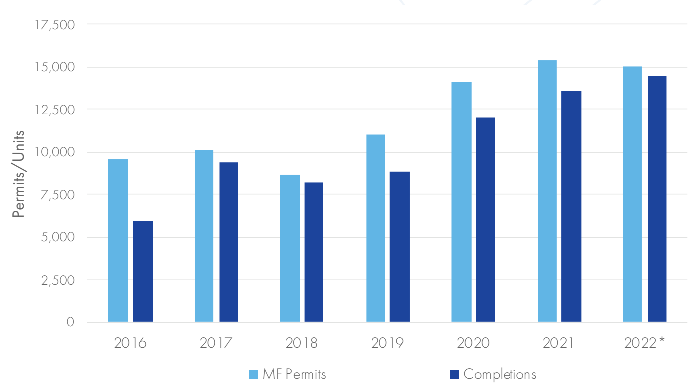
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



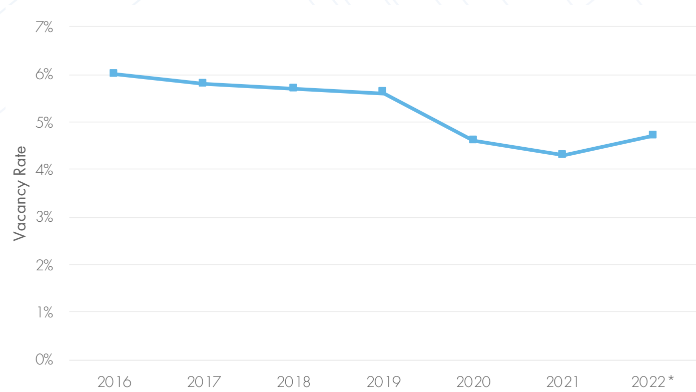
* Year End Forecast
Sources: Northmarq, Apartment Insights

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Apartment Insights

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