

# Greater Phoenix Multifamily




## Apartment Market Roars Back in Third Quarter

### Highlights

- > The Phoenix multifamily market had a record period of absorption during the third quarter and the local vacancy rate is at its lowest point in more than 20 years. There is some ongoing economic uncertainty, and apartment construction remains active, so vacancy will likely creep higher by the end of the year.
- > Absorption totaled more than 4,500 units in the third quarter, pushing the vacancy rate down to 4.8 percent. Year over year, vacancy has declined 70 basis points.
- > After a decline in the second quarter, rents rebounded in the third quarter. Current asking rents are \$1,212 per month, 4.2 percent higher than one year ago.
- > The construction pipeline continues to fill with new projects. More than 16,700 rental units are under construction, up 50 percent from the figure one year ago.
- > Property sales accelerated in the third quarter, while prices remained elevated. The median price thus far in 2020 is \$161,500 per unit, up 16 percent from last year. Cap rates have held steady, averaging 4.9 percent.

### Phoenix Multifamily Market Overview

The Phoenix multifamily market posted surprisingly strong performance during the third quarter, fueled by robust levels of absorption that led to a steep decline in vacancy. Absorption levels from the third quarter were skewed higher, fueled in part by pent-up demand following a lack of activity during the second quarter because of the coronavirus shutdown. The pace of absorption should cool in the coming quarters, and it remains to be seen how the expiration of eviction moratoriums will impact short-term absorption patterns. While the market is in a bit of flux, the demand drivers that have fueled years of strong performance should remain in place.

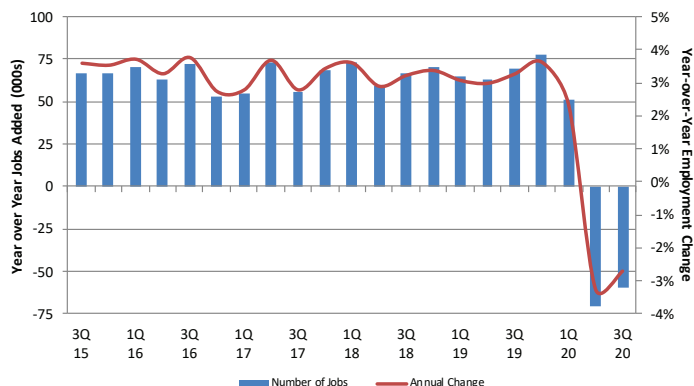
Q3 Snapshot	Phoenix Market
	<b>Market Fundamentals</b>
	Vacancy ..... <b>4.8%</b>
	- Year Over Year Change ..... <b>-70 bps</b>
	Asking Rent ..... <b>\$1,212</b>
	- Year Over Year Change ..... <b>+4.2%</b>
	<b>Transaction Activity</b>
	Median Sales Price Per Unit (YTD) ..... <b>\$161,500</b>
	Cap Rates (Avg YTD) ..... <b>4.9%</b>
	<b>Construction Activity</b>
	Units Under Construction ..... <b>16,721</b>
	Units Delivered YTD ..... <b>8,816</b>

Investment activity for Phoenix-area apartment properties returned to pre-COVID levels during the third quarter, setting the stage for a strong close to the year. Sales velocity in Phoenix has been consistently strong for the past several years, and investors appear to have moved past the pandemic and are back to doing deals. The median per-unit price has been on a steady upward trajectory for the past several years, a trend that has continued to this point in 2020, while cap rates have averaged a bit below 5 percent.

## Employment

- > Employment in the Phoenix area has been bouncing back in recent months. Local employers have added back approximately 125,000 jobs since May, after cuts totaled nearly 220,000 positions during the spring.
- > Year over year, employment in the Phoenix market has declined by 2.7 percent with a net loss of approximately 60,000 jobs. One year ago, employers had added nearly 70,000 positions; current employment levels are similar to the figure at the end of 2018.
- > While several industries have contracted, the leisure and hospitality sector accounts for approximately 80 percent of the total job losses in the market. Local leisure and hospitality employment is down approximately 20 percent year over year.
- > **Forecast:** Every major market in the country is forecast to record job losses in 2020, but cuts in Phoenix will be far more modest than in most markets. Net job losses are forecast to total approximately 60,000 positions for the year, a decline of 2.7 percent.

## Employment Overview



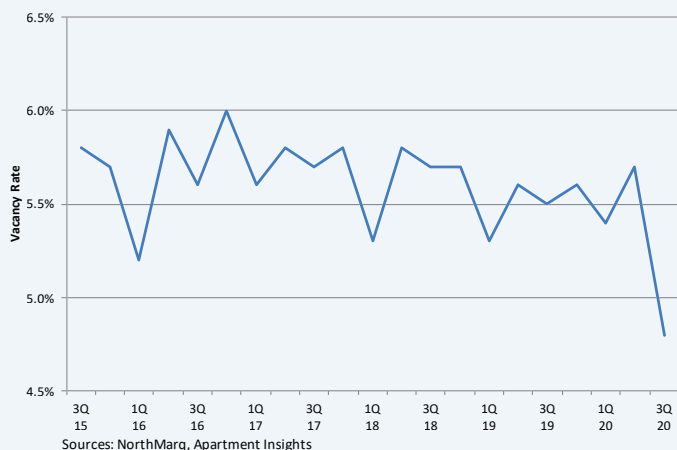
Sources: NorthMarq, Bureau of Labor Statistics

*Local employers have added back approximately 125,000 jobs since May*

## Vacancy

- > After rising during the second quarter, the vacancy rate fell 90 basis points in Phoenix during the third quarter. The rate broke through the 5-percent barrier, ending the third quarter at 4.8 percent.
- > Vacancy is 70 basis points lower than one year ago. Absorption totaled more than 4,500 units during the third quarter, a record figure that was pushed higher after conditions slowed during the second quarter.
- > One segment of the market where vacancy remains elevated is Class A properties. The vacancy rate in Class A units ended the third quarter at 7.5 percent, up 240 basis points year over year. The active pace of new development is putting supply-side pressures on the Class A market.
- > **Forecast:** Vacancy reached a cyclical low in the third quarter, but the rate is likely to creep higher by the end of the year. The vacancy rate is forecast to rise to 5.4 percent at year end, slightly lower than at the end of 2019.

## Vacancy Trends



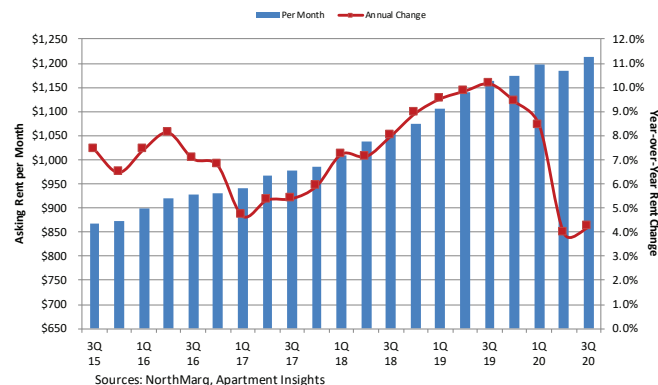
Sources: NorthMarq, Apartment Insights

*The vacancy rate fell 90 basis points in Phoenix during the third quarter*

## Rents

- > Following a dip in the second quarter, rents rebounded during the third quarter. Asking rents rose 2.4 percent in the third quarter, reaching \$1,212 per month.
- > Rents are rising, but at a more modest pace than in earlier periods. Year over year, asking rents in Phoenix have increased 4.2 percent. One year ago, Phoenix was leading the country in annual rent increases, recording gains of approximately 10 percent.
- > Some of the strongest rent growth is being recorded in areas along Interstate 17 in Northwest Phoenix. Annual rent growth in submarkets such as Metrocenter and surrounding areas has averaged approximately 8 percent in the past year.
- > **Forecast:** Rents have already advanced more than 3 percent in 2020, and the total increase for the full year is expected to reach 3.5 percent. Annual rent growth has averaged nearly 7 percent since 2014.

## Rent Trends

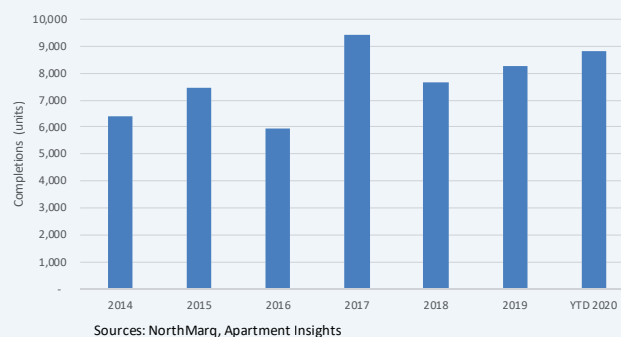


*Year over year, asking rents in Phoenix have increased 4.2 percent*

## Development and Permitting

- > Apartment construction has been active in the Phoenix area during the past several years and 2020 is on pace to be the highest annual total of completions on record. Approximately 1,500 units came online during the third quarter, bringing the total through the first three quarters to more than 8,800 units.
- > Multifamily development is expected to continue at an elevated pace for the next several quarters. Projects totaling more than 16,700 units are currently under construction. One year ago, approximately 11,200 units were under construction.
- > Permitting activity is on the rise. Developers have pulled permits for more than 11,000 units during the first three quarters of 2020, outpacing the total for all of 2019. During the third quarter, permits for nearly 3,500 multifamily units were issued.
- > **Forecast:** In 2020, multifamily developers are forecast to deliver 11,500 apartment units, after bringing more than 8,800 units online last year. Apartment construction has been active since 2015.

## Development Trends

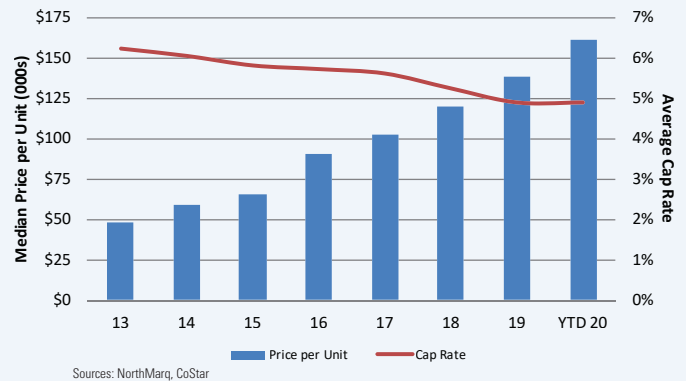


*Projects totaling more than 16,700 units are currently under construction*

## Multifamily Sales

- > Sales velocity returned to earlier levels during the third quarter, after stalling in the preceding three months. The number of properties sold in the third quarter was nearly identical to the total from the first quarter of this year.
- > The median price in properties sold thus far in 2020 is \$161,500 per unit, 16 percent higher than the median price in 2019. The median price in Phoenix topped \$100,000 per unit in 2017, and has risen in each subsequent year.
- > Cap rates have been consistent for much of the past 18 months. Cap rates have averaged 4.9 percent in 2020, matching levels from 2019. The average cap rate in sales during the third quarter was also 4.9 percent.

## Investment Trends



*The number of properties sold in the third quarter was nearly identical to the first quarter total*

## Recent Transactions in the Market

### MULTIFAMILY SALES ACTIVITY

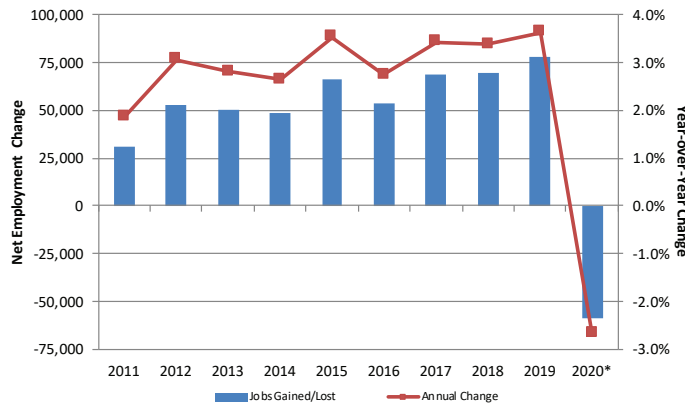
Property Name	Street Address	Units	Sales Price	Price/Unit
Arcadia Cove	2252 N 44th St., Phoenix	432	\$98,500,000	\$228,009
Cortland South Mountain	7017 S Priest Dr., Tempe	415	\$96,750,000	\$233,133
Liv North Valley	31113 N North Valley Pky., Phoenix	385	\$90,000,000	\$233,766
Tides on South Mill	3730 S Mill Ave., Tempe	515	\$77,000,000	\$149,515
The Vineyards	6706 N Dysart Rd., Glendale	300	\$41,000,000	\$136,667
Avenel on 16th	3815 N 16th St., Phoenix	200	\$25,950,000	\$129,750

## Looking Ahead

The Phoenix labor market recorded less severe job losses than nearly every other major market in the country during the coronavirus, and employers have begun to rehire at a faster pace than the national rate of recovery. While job losses are likely to linger into 2021, the market continues to attract businesses. During the third quarter, Amazon announced plans to open nearly a dozen new delivery stations in Phoenix by 2021, moves that will bring 3,000 new jobs to the area. The company is also adding another 500 office jobs in Tempe.

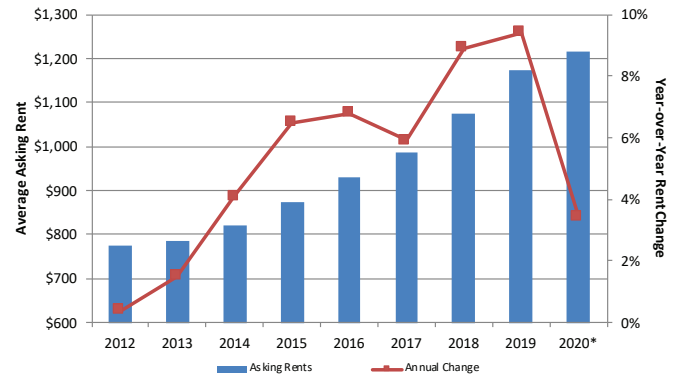
Investment conditions in Phoenix have picked up right where they left off after a three-month pause brought about by the coronavirus. The high-demand conditions that had fueled investment activity in recent quarters should remain in place in the coming quarters. Absorption of units surged during the third quarter, strengthening investor sentiment. Assuming collections data remain strong, apartment investment is likely to remain active, and with interest rates low, cap rates are expected to remain near their current averages.

### Employment Forecast



\* Year End Forecast

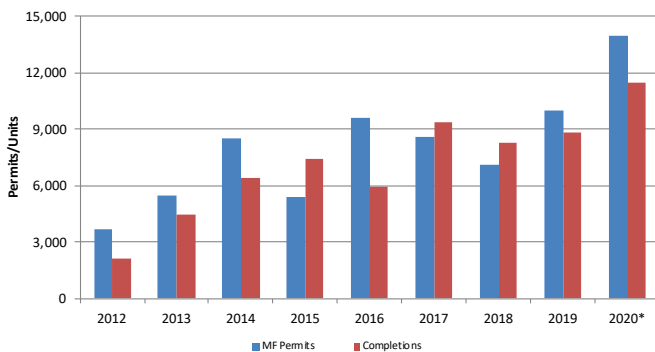
### Rent Forecast



\* Year End Forecast

Sources: NorthMarq, Apartment Insights

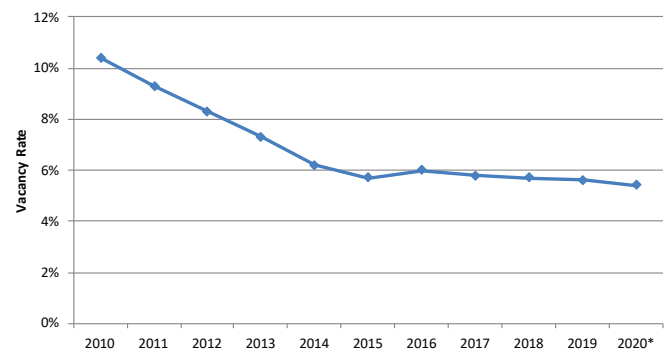
### Construction & Permitting Forecast



\* 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 more than \$14 billion, loan servicing portfolio of more than \$61 billion and the multi-year tenure of our nearly 600 people.

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