MARKET REPORT | 1Q/2021

Greater Phoenix Multifamily

Prices Rise, Cap Rates Compress to Start 2021

Highlights

- Healthy operations in the first quarter set the stage for another strong year in the Phoenix multifamily market. Vacancies continued to tighten, and rents posted one of the strongest quarterly gains on record.
- Vacancy dipped 10 basis points to 4.5 percent in the first quarter. Year over year, the rate has fallen 90 basis points.
- Asking rents spiked 3.3 percent in the first quarter, reaching $1,279 per month. Rent growth in the past 12 months has totaled 6.8 percent.
- This year will be an active one for new construction, as developers move projects through the pipeline to meet renter demand. Projects totaling nearly 23,000 units are currently under construction, up from 13,000 units one year ago. Deliveries are forecast to total approximately 11,000 units in 2021.
- Sales of multifamily properties surged in the first quarter, with sales velocity outpacing year-earlier levels by 16 percent. Prices rose, with the median price reaching $197,500 per unit to start the year, and cap rates compressed.

Q1 Snapshot	Phoenix Market
Market Fundamentals	
Vacancy	**4.5%**
- *Year Over Year Change*	**-90 bps**
Asking Rent	**$1,279**
- *Year Over Year Change*	**+6.8%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$197,500**
Cap Rates (Avg YTD)	**4.7%**
Construction Activity	
Units Under Construction	**22,866**
Units Delivered YTD	**2,004**

Phoenix Multifamily Market Overview

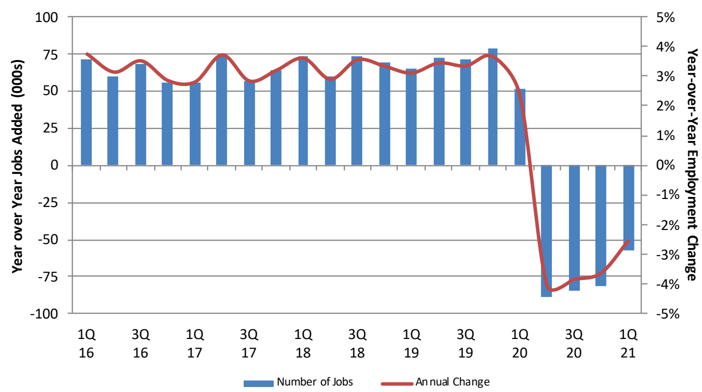
The Phoenix multifamily market recorded a strong start to 2021, fueled by accelerating renter demand for apartments. Net absorption in the first quarter was up 40 percent compared to the same period one year earlier, allowing owners to implement healthy rent increases. The persistent demand is fueling new development; since the beginning of 2018, net absorption has been nearly identical to the number of units added to inventory. With new supply growth and demand closely aligned, vacancy has gradually tightened.

The local investment market remained active in the first quarter, with the number of properties changing hands ahead of the pace established in 2020, and prices on the rise. Sales velocity spiked 16 percent compared to levels from the first quarter of last year, including an uptick in sales in excess of $100 million. Pricing remained on an upward trajectory, with the median per-unit price in the first quarter up 15 percent from the median price in 2020. Elevated investor demand also caused cap rates to compress; average cap rates were down 20 basis points from last year's average.

Employment

- Employers in Phoenix have added back workers in each of the past three quarters, following steep losses in the second quarter of last year. During the first quarter of 2021, nearly 18,000 local jobs were added.
- Year over year through the first quarter, total employment in Phoenix is down 2.6 percent. One segment of the economy that has outperformed is the trade, transportation, and utilities sector, which includes warehousing and distribution employment. The sector has expanded by 2.7 percent with the addition of approximately 11,500 jobs in the past year. Big-box industrial users were particularly active in 2020.
- Intel, which is one of the Phoenix area's largest employers, announced a major expansion during the first quarter. The chipmaker is investing $20 billion to open two additional factories at its Chandler campus. Intel intends to hire an additional 3,000 local workers in the coming years.
- **Forecast:** Total employment in Phoenix is forecast to expand by approximately 80,000 workers in 2021, for growth of 3.7 percent. Local employment growth averaged 3.1 percent from 2011 to 2019.

Employment Overview



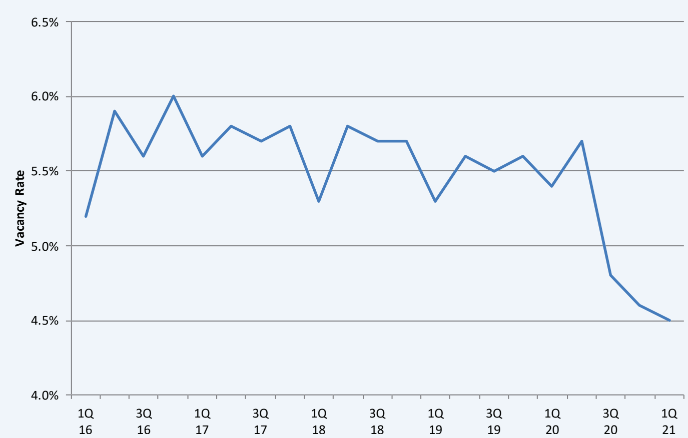
Sources: NorthMarq, Bureau of Labor Statistics

Intel intends to hire an additional 3,000 local workers in the coming years

Vacancy

- Vacancy fell 10 basis points in the first quarter, dipping to 4.5 percent. The rate has tightened by 90 basis points year over year, despite volatility in the labor market and a steady pace of supply growth.
- During the past 12 months, the Goodyear/Avondale area has posted the strongest absorption of any submarket, fueling a healthy vacancy decline. The rate has dropped 110 basis points year over year, reaching 3.9 percent as of the first quarter.
- Vacancy has been tightening in submarkets along Interstate 17. During the past year, vacancy has dropped 220 basis points in the Metrocenter submarket, while the rate has contracted 320 basis points in the Central Black Canyon submarket.
- **Forecast:** While new units are forecast to continue to come online in 2021, renter demand should be quite strong, fueled by a rise in employment. Apartment vacancy is forecast to dip 20 basis points this year, declining to 4.4 percent.

Vacancy Trends



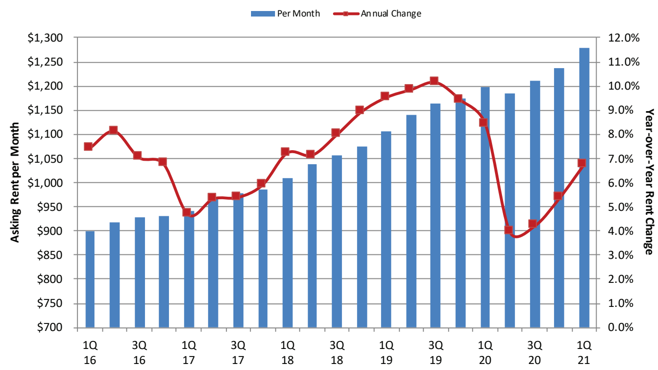
Sources: NorthMarq, Apartment Insights

Vacancy fell 10 basis points in the first quarter, dipping to 4.5 percent

Rents

- Rents spiked to start the year, advancing 3.3 percent in the first quarter. This marked the strongest rent increase in a first quarter on record, slightly outpacing the gain recorded during the first three months of 2016.
- Asking rents have advanced 6.8 percent year over year to $1,279 per month. The pace of rent growth slowed in the first half of 2020 as owners and tenants adjusted to the coronavirus outbreak, but strong demand has returned, fueling recent rent gains.
- Rents in Class A properties topped $2,000 per month at the end of 2020 and continued to push higher during the first quarter. Class A asking rents have increased 8.2 percent in the past 12 months, ending the first quarter at $2,152 per month.
- **Forecast:** Rent growth should accelerate in 2021, fueled by healthy levels of renter demand. Asking rents are forecast to rise 7.5 percent this year, reaching approximately $1,330 per month.

Rent Trends



Sources: NorthMarq, Apartment Insights

Asking rents have advanced 6.8 percent year over year to $1,279 per month

Development and Permitting

- Following a very active year of new construction, deliveries cooled to start 2021. Developers delivered projects totaling approximately 2,000 units during the first quarter, less than half of the total completions during the first quarter of 2020.
- Apartment projects continue to enter the development pipeline. Projects totaling nearly 23,000 units are currently under construction, which will be delivered in 2021 and 2022. One year ago, approximately 13,000 units were under construction.
- Multifamily permitting was active during the first quarter, with developers pulling permits for approximately 3,600 multifamily units to start the year. Permitting peaked in the first quarter of last year, when permits for 4,600 units were issued.
- **Forecast:** With renter demand elevated and the economy gaining momentum, apartment construction will be active in 2021. Projects totaling approximately 11,000 units are forecast to be delivered this year.

Development Trends

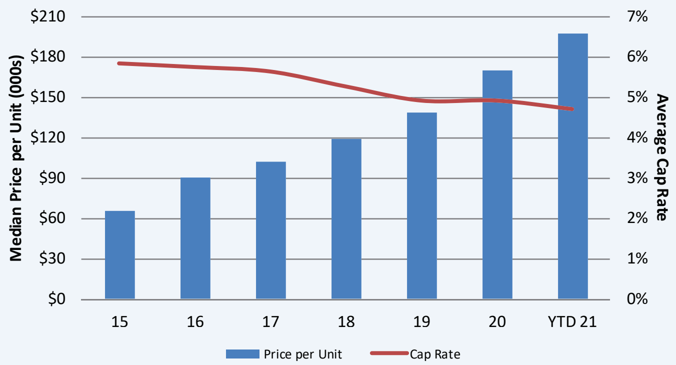
Sources: NorthMarq, Apartment Insights

Developers delivered projects totaling approximately 2,000 units during the first quarter

Multifamily Sales

- The multifamily investment market got off to a strong start to 2021. Sales velocity for the first three months of the year was up 16 percent when compared to the same period in 2020.
- After prices spiked by nearly 25 percent in 2020, the market remained on an upward trajectory during the first quarter. The median price in properties that sold during the first quarter was $197,500 per unit, up 15 percent from the median price in 2020.
- With investor demand elevated, cap rates compressed to start the year. Cap rates averaged 4.7 percent in the first quarter, with several properties trading with cap rates near 4 percent. On average, cap rates are down 20 basis points from 2020 levels.

Investment Trends



Sources: NorthMarq, CoStar

The median price in properties that sold during the first quarter was $197,500 per unit

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

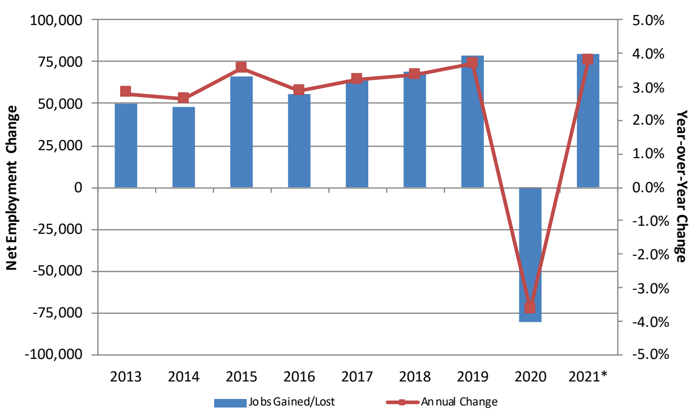
Property Name	Street Address	Units	Sales Price	Price/Unit
Heritage at Deer Valley	3010 W Yorkshire Dr., Phoenix	832	$178,500,000	$214,543
Ten01 on the Lake	1001 E Playa del Norte Dr., Tempe	523	$146,000,000	$279,159
Montreux	5550 E Deer Valley Dr., Phoenix	335	$117,000,000	$349,254
Tides at Downtown Chandler	868 S Arizona Ave., Chandler	374	$54,250,000	$145,053
HUE97	9736 E Balsam Ave., Mesa	184	$42,750,000	$232,337
Seventh Apartments	5145 N 7th St., Phoenix	286	$38,325,000	$134,003

Looking Ahead

The Phoenix multifamily market is expected to continue to post healthy performance in 2021. Renter demand for units is fueling the market, and absorption should regain momentum in the coming quarters as the economy fully reopens, employers add back workers, and the local population continues to swell. Developers are responding to the ongoing renter demand growth by ramping up construction; the number of units under construction has spiked by 80 percent in the past year. While the local inventory continues to grow, absorption is likely to closely track the pace of new development.

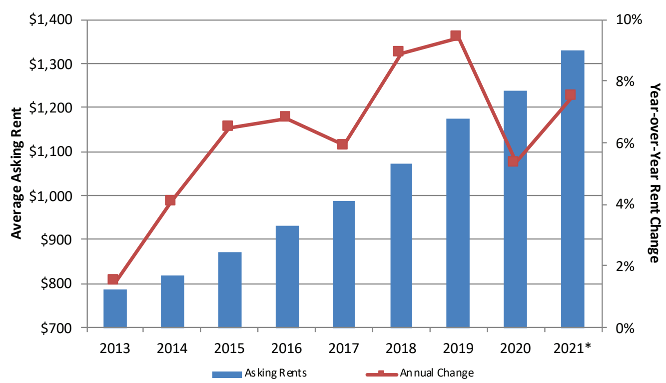
Investors are expected to remain very active through the remainder of this year. Sales of multifamily projects have been trading at a rapid pace for the past several years, with only a short-lived interruption in the middle of last year in response to the COVID-19 outbreak. That decline in activity lasted less than six months, and sales velocity has surged since the end of last year. Cap rates have generally compressed in response to robust demand and strong rent growth but may level off by the end of the year if interest rates continue to push higher.

Employment Forecast



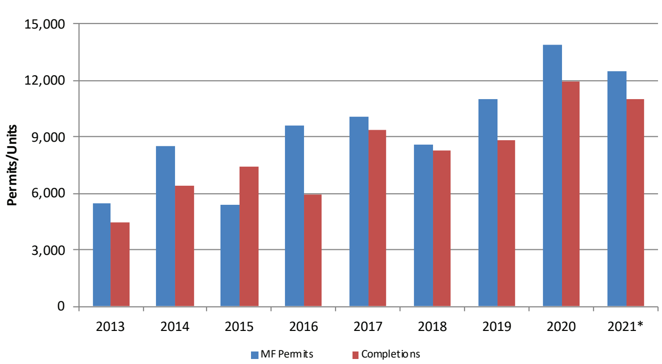
* Year End Forecast

Rent Forecast



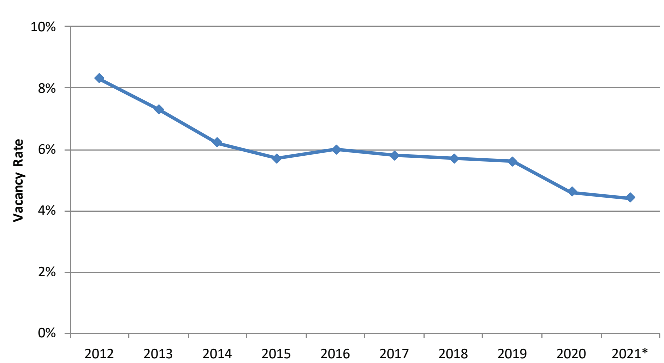
* Year End Forecast
Sources: NorthMarq, Apartment Insights

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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