

# Greater Phoenix Multifamily

## Apartment Rents Remain on an Upswing

### Highlights

- > Conditions in the Phoenix multifamily market strengthened during the third quarter. Vacancy tightened and rents spiked. The investment market responded to the favorable fundamentals with an uptick in sales activity.
- > Vacancy in Phoenix fell 10 basis points during the third quarter, reaching 5.7 percent. The rate is unchanged from one year ago and has remained in a tight range since 2016.
- > Rents continue to rise at a rapid rate. Asking rents rose 1.8 percent from the second quarter to the third quarter, reaching \$1,056 per month. Asking rents have surged 8 percent during the past 12 months.
- > Apartment deliveries have been on the rise, with more than 2,500 units coming online in the third quarter. Completions have topped 6,300 units year to date.
- > Investment conditions were mixed during the third quarter, with activity picking up as the median price crept lower. Cap rates have remained very consistent throughout the year, averaging 5.3 percent.

### Phoenix Multifamily Market Overview

The Phoenix multifamily market is showing clear signs of being at equilibrium. The vacancy rate has remained in a very tight range even as deliveries of new units have accelerated. Completions thus far in 2018 are ahead of the pace established last year, but so is net absorption, which has outpaced the delivery of new units. It is this strong renter demand that is fueling rent growth, which topped \$1,000 per month earlier this year and continued to trend higher in the spring and summer months.

### Market Indicators

	3Q/2018
Vacancy .....	↓
Rents .....	↑
Transaction Activity.....	↑
Price Per Unit.....	↓
Cap Rates .....	→

### Summary Statistics

### Phoenix Market

Vacancy Rate.....	<b>5.7%</b>
- Change from 3Q 2017 (bps).....	<b>0%</b>
Asking Rents (per month).....	<b>\$1,056</b>
- Change from 3Q 2017.....	<b>8.0%</b>
Median Sales Price (per unit YTD).....	<b>\$113,400</b>
Average Cap Rate (YTD).....	<b>5.3%</b>

## Phoenix Multifamily Market Overview (cont.)

Investors are responding to the strong operating fundamentals. Sales of apartment buildings have accelerated, and sale prices have appreciated for the past several years. To this point in 2018, activity is ahead of last year's pace, and the median price is on the rise. Cap rates have

compressed into the low to mid-5-percent range, even as interest rates have ticked higher. This reflects the heightened investor demand in the market, as well as the expectation that rising rents will offset compressed cap rates.

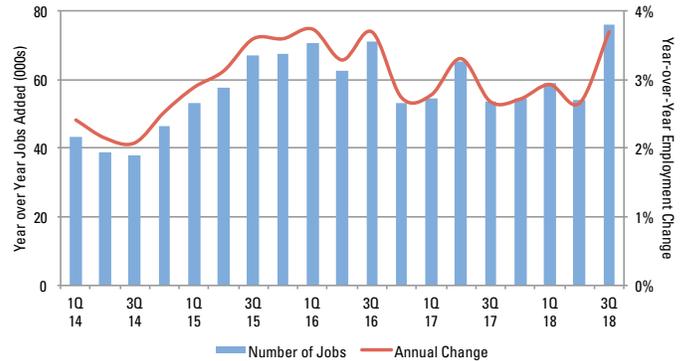
## Submarket Statistics

Submarket Name	3Q 2018 Vacancy	3Q 2017 Vacancy	Annual Vacancy Change (BPS)	3Q 2018 Rents	3Q 2017 Rents
Goodyear/Avondale	4.4%	4.5%	(10)	\$1,062	\$997
Chandler	4.8%	5.0%	(20)	\$1,197	\$1,107
N Mesa	4.8%	5.3%	(50)	\$894	\$829
Deer Valley/N Peoria	4.8%	5.7%	(90)	\$1,101	\$1,024
S Phoenix/Laveen	5.0%	5.1%	(10)	\$970	\$903
S Mesa	5.2%	5.7%	(50)	\$973	\$892
E Mesa/Apache Junction	5.2%	4.6%	60	\$1,015	\$933
Gilbert/Superstition Springs	5.3%	5.2%	10	\$1,106	\$1,023
NW Black Canyon	5.3%	5.3%	0	\$891	\$831
W Central Phoenix	5.3%	4.3%	100	\$735	\$814
Peoria/Sun City	5.4%	5.6%	(20)	\$1,025	\$954
E Central Phoenix	5.5%	5.2%	30	\$968	\$900
Metrocenter	5.5%	6.4%	(90)	\$809	\$777
S Tempe	5.6%	5.9%	(30)	\$1,140	\$1,080
Maryvale/Estrella	5.7%	5.6%	10	\$813	\$765
Ahwatukee Foothills	5.7%	6.5%	(80)	\$1,146	\$1,082
Union Hills/Cave Creek	5.8%	5.6%	20	\$1,046	\$982
S Gilbert/Queen Creek	5.9%	5.8%	10	\$1,246	\$1,136
Glendale	5.9%	6.1%	(20)	\$807	\$746
N Central Phoenix/Alhambra	5.9%	5.0%	90	\$949	\$883
S Scottsdale	5.9%	5.5%	40	\$1,403	\$1,307
N Scottsdale/Fountain Hills	5.9%	5.5%	40	\$1,313	\$1,232
N Tempe	5.9%	5.8%	10	\$1,190	\$1,140
N Paradise Valley	6.1%	5.0%	110	\$1,253	\$1,072
Central City/Sky Harbor	6.2%	5.9%	30	\$1,422	\$1,258
S Paradise Valley	6.2%	6.6%	(40)	\$1,051	\$1,010
North Mountain	7.1%	5.8%	130	\$928	\$855
Central Phoenix/Encanto	7.3%	8.5%	(120)	\$1,210	\$1,078
NE Central Phoenix	7.9%	8.8%	(90)	\$1,221	\$1,048
Central Black Canyon	8.6%	6.1%	250	\$740	\$669

## Employment

- > The Phoenix employment market is on a roll, expanding 3.7 percent during the past 12 months. Employers have added more than 75,000 net new jobs year over year. Last year at this time, gains were more modest with the local labor market expanding by about 53,000 jobs.
- > The construction sector is often an indicator of the overall health of the local economy. Construction jobs have been expanding at a rapid clip in the past few years as the housing market strengthens and commercial development is on an upswing. Nearly 15,000 construction jobs have been added in the past year, representing a 12.5 percent gain.
- > White-collar sectors are also adding workers. The professional and business services sector has grown 4.5 percent in the past year with the addition of 15,600 new jobs.
- > **Forecast:** After annual gains of approximately 55,000 jobs per year since 2013, the Phoenix market is forecast to post a more robust increase in 2018. Employers are likely to add nearly 80,000 jobs this year, a 3.9 percent gain.

## Employment Overview



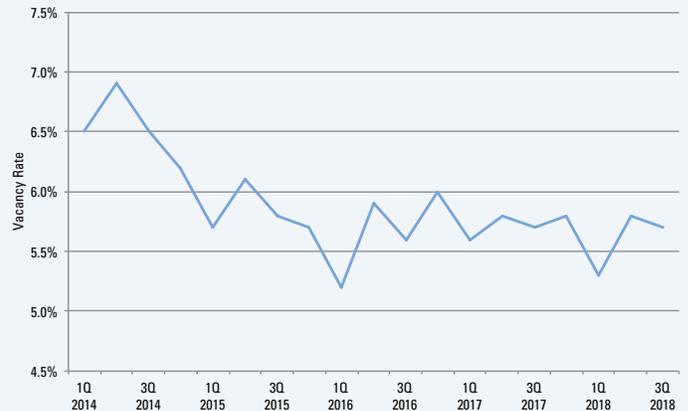
Sources: NorthMarq, Bureau of Labor Statistics

*Construction jobs have been expanding at a rapid clip in the past few years*

## Vacancy

- > Vacancy in Phoenix has been quite consistent over the past several quarters, remaining in a tight range between 5.3 percent and 6.0 percent. Vacancy ended the third quarter at 5.7 percent, down 10 basis points from the second quarter.
- > The current vacancy rate is identical to one year ago. This is the second straight quarter where the vacancy rate matched the figure from the same period in the preceding year. Annual vacancy declines averaged approximately 80 basis points from 2012-2015, but vacancy has been essentially flat since 2016.
- > While the vacancy rate has generally remained flat, the rate has ticked higher in half of the submarkets in the Valley over the past 12 months. Some of the submarkets where the rate has crept higher are in the centrally located submarkets where construction has accelerated in recent years.
- > **Forecast:** Vacancy in Phoenix will record its first annual increase since 2009 this year. The rate is forecast to tick up 20 basis points to 6 percent by the end of 2018.

## Vacancy Trends



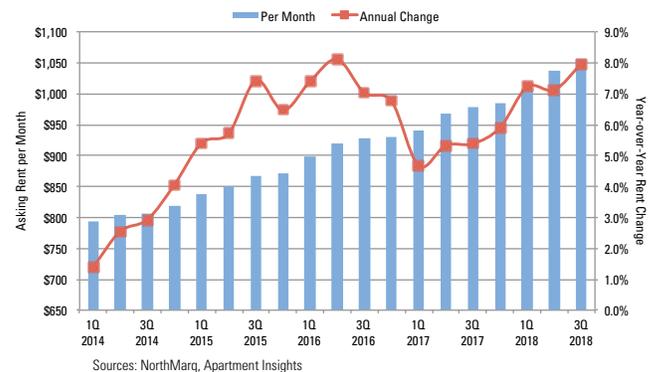
Sources: NorthMarq, Apartment Insights

*Vacancy ended the third quarter at 5.7 percent*

## Rents

- > Apartment rents are posting robust gains across the Phoenix metro area. Asking rents have spiked by 8 percent year over year, reaching \$1,056 per month as of the third quarter.
- > Asking rents increased by 1.8 percent from the second quarter to third quarter. In six of the past seven quarters, quarterly rent gains have topped 1 percent, and in three of those quarters, the increase has topped 2 percent.
- > There are five submarkets in the Phoenix metro that have posted double-digit annual rent gains, and four of these are located in Central Phoenix and surrounding areas. Rents in many of these submarkets are being pushed higher by the increased popularity of living closer to downtown and deliveries of newer, more expensive units.
- > **Forecast:** The Phoenix multifamily market is poised to post its strongest rent gains on record this year. After average gains of more than 6 percent per year since 2015, asking rents are forecast to spike by approximately 9 percent in 2018.

## Rent Trends



*Apartment rents are posting robust gains across the Phoenix metro area*

## Development and Permitting

- > Projects totaling more than 2,500 units were delivered during the third quarter, bringing the year-to-date total to more than 6,300 apartments. Completions have accelerated; the total through the first three quarters of this year is up 9 percent when compared to the same period in 2017 and up more than 25 percent from the first three quarters of 2016.
- > The continued wave of deliveries has thinned out the development pipeline a bit. Projects totaling approximately 9,900 units are currently under construction, the lowest figure in nearly two years.
- > After slowing during the second quarter, multifamily permitting bounced back in the third quarter. Permits for approximately 2,500 multifamily units were pulled in the third quarter, and more than 6,500 multifamily permits have been issued year to date. This reflects an increase of 6 percent from the same period in 2017.
- > **Forecast:** Developers are forecast to bring approximately 8,500 new units to the Phoenix market in 2018, down from the nearly 9,000 apartments that came online in 2017. Deliveries have averaged 6,300 units per year since 2013.

## Development Trends



*9,900 units are currently under construction*

## Multifamily Sales

- > Transaction activity accelerated for the second straight period, rising 9 percent from the second quarter to the third quarter. Year to date, sales velocity is up 9 percent when compared to the same time frame in 2017.
- > After spiking in the second quarter, prices dipped a bit during the past three months. The median price in the third quarter was approximately \$105,000 per unit. Thus far in 2018, the median price has reached \$113,400 per unit, up 11 percent from the median price in 2017.
- > Cap rates have been consistent throughout 2018, averaging 5.3 percent in each of the three quarters of 2018. Cap rates have compressed from the 2017 average even as interest rates have trended higher.

## Investment Trends



*Year to date, sales velocity is up 9 percent when compared to the same time frame in 2017*

## Recent Transactions in the Market

### MULTIFAMILY SALES ACTIVITY

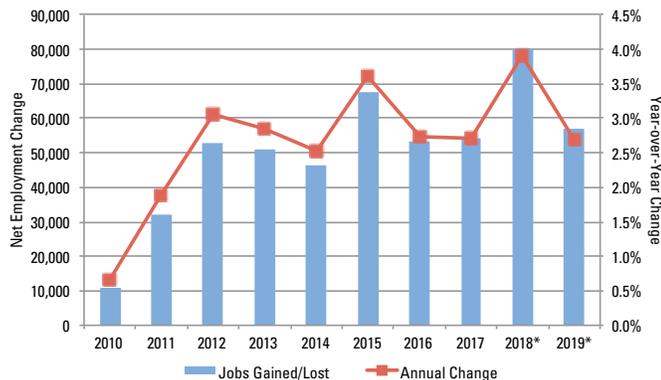
Property Name	Street Address	Units	Sales Price	Price/Unit
Coyote Portfolio (6 Properties)	Multiple	1,751	\$311,000,000	\$177,613
Country Brook Apartments	4909 W Joshua Blvd., Chandler	396	\$74,000,000	\$186,869
San Portella	2155 S 55th St., Tempe	308	\$64,680,000	\$210,000
The Nines Apartments	999 E Baseline Rd., Tempe	244	\$38,500,000	\$157,787
Azura	2800 W Sahuaro Dr., Phoenix	387	\$38,200,000	\$98,708
Casa Tierra	3815 N 16th St., Phoenix	200	\$16,050,000	\$80,250

## Looking Ahead

The primary drivers of multifamily demand are expected to remain firmly in place in Phoenix in the coming quarters. The market continues to add jobs with companies such as Deloitte and Nationwide Insurance committing to bringing thousands of workers to the Valley in the coming years. In addition, Maricopa County is leading the country in annual population growth. These new residents will need places to reside, and if current patterns hold, nearly 40 percent of the new households in the Phoenix metro area will choose rental housing.

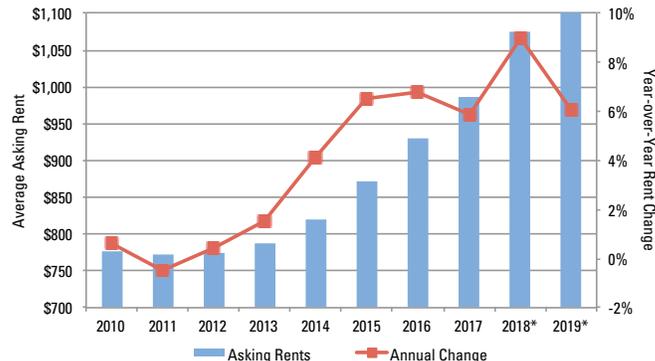
The local investment market is expected to remain active through the remainder of 2018 and into next year. For the past several years, the primary perceived threat in the market has been the impact of new construction as developers delivered dozens of complexes totaling more than 27,000 new units since 2015. The renter demand that has kept vacancy tight even as these new developments have come online has buoyed the investment market and should continue to support a healthy investment climate in the coming quarters.

### Employee Forecast



\* Year End Forecast

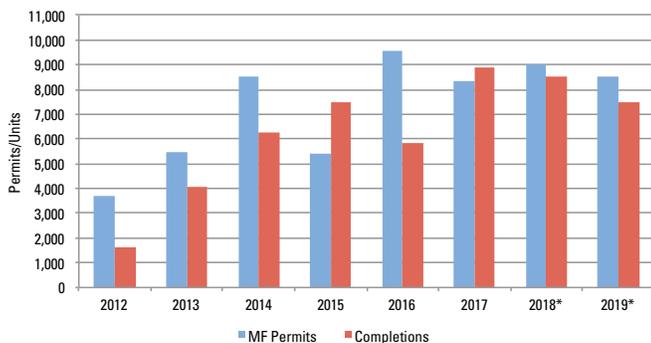
### Rent Forecast



\* Year End Forecast

Sources: NorthMarq, Apartment Insights

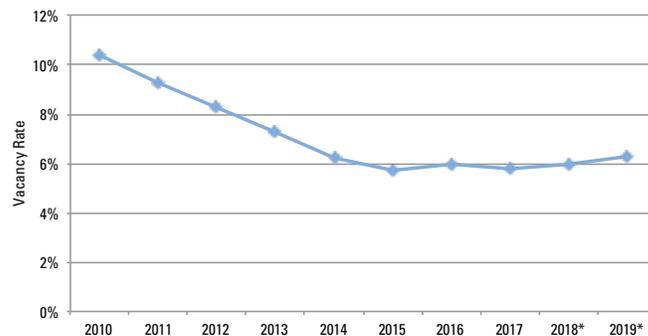
### Construction & Permitting Forecast



\* Year End Forecast

Sources: NorthMarq, Apartment Insights, Census Bureau

### Vacancy Forecast



\* Year End Forecast

Sources: NorthMarq, Apartment Insights

## About NorthMarq Multifamily

NorthMarq Multifamily has a market-leading position in multifamily property sales in markets across the U.S., offering commercial real estate investors a personalized approach to buying and selling multifamily and manufactured housing properties. These teams collaborate with NorthMarq Capital's debt and equity experts nationwide to provide a full range of capital markets services, developing innovative solutions for real estate investments.

**NorthMarq Capital**, the largest privately held commercial real estate financial intermediary in the U.S., provides debt, equity and commercial loan servicing through over 300 mortgage banking professionals in regional offices coast-to-coast and services a loan portfolio of more than \$53 billion. For more information, please visit [www.northmarq.com](http://www.northmarq.com).

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