

Market Insights

Greater Phoenix Multifamily 4Q 2021



Construction Activity



26,002

Units under construction

13,452

Units delivered (YTD)

Market Fundamentals



4.3%

Vacancy

-30bps

Year over year change

\$1,584

Asking Rent

+27.9%

Year over year change

Transaction Activity



\$221,000

Median sales price per unit (YTD)

After a Year of Rapid Growth, Further Gains Likely in 2022

Highlights

- The Phoenix multifamily market recorded its strongest year on record in 2021. Continued demand fueled rent growth that was as rapid as any major market in the country. Developers are moving projects through the construction pipeline to keep pace with demand growth, while investors are aggressively pursuing potential acquisitions.
- Rents in Greater Phoenix spiked 27.9 percent in 2021, one of the strongest increases in the country. Rents reached \$1,584 per month at the end of the fourth quarter, nearly \$350 per month higher than at the end of 2020.
- The local investment market reached new highs in 2021. Transaction activity spiked throughout the year, particularly in sales of large complexes. Per-unit prices pushed higher, surging 30 percent from 2020 to 2021. Cap rates compressed throughout the year with many properties changing hands with cap rates between 3 percent and 3.25 percent in the fourth quarter.
- After reaching an all-time low during the third quarter, the vacancy rate crept up 30 basis points in the fourth quarter, reaching 4.3 percent. For the full year, vacancy retreated 30 basis points; this marked the fifth consecutive year vacancy has tightened.

Phoenix Multifamily Market Overview

The Phoenix multifamily market closed 2021 with significant momentum. The past year marked cyclical highs for both new supply and demand growth. The pace of deliveries accelerated at the end of 2021, resulting in the first quarterly increase in the local vacancy rate in more than a year. Despite the modest uptick in the final three months of the year, vacancy ended 2021 lower than one year earlier and only marginally higher than the market's all-time low. Rent growth continued in the fourth quarter, although recent gains did not match the explosive growth recorded during the second and third quarters. Still, the pace of rent growth in Phoenix in 2021 was one of the fastest of any major market in the country, a trend that will likely continue in the year ahead.

The multifamily investment market gained momentum throughout 2021, and the fourth quarter was the most active period for sales velocity in more than 15 years. With vacancies low and rents spiking, many owners who acquired properties a few years ago have already achieved return objectives and are executing exit strategies. Investors looking to add to portfolios are finding a competitive acquisitions market. During the fourth quarter, activity picked up in deals over \$100 million, particularly in the final month of the year. There were more property sales topping \$100 million in the final month of 2021 than closed in all of 2020. Prices pushed higher as the year went on, and cap rates continued to trend lower. The median per-unit price rose 30 percent from 2020 to 2021.

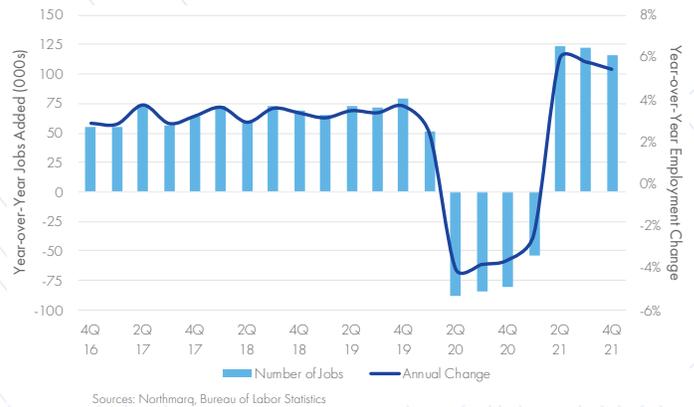
Employment

- The Phoenix employment market added workers throughout 2021. Growth reached 5.5 percent in 2021, with employers adding 116,000 jobs. Total employment in the market topped the pre-COVID peak during the third quarter.
- The leisure and hospitality sector is forecast to continue to be a source of employment gains in the year ahead. The sector added back more than 27,000 jobs in 2021, but employment totals remain 10 percent below early-2020 levels. The sector is forecast to add back more than 15,000 positions in 2022.
- Two of the largest entities in the Phoenix market are teaming up on a massive project in North Phoenix. During the fourth quarter, the Mayo Clinic acquired a 228-acre parcel next to its expanding Phoenix campus. Mayo Clinic and Arizona State University have plans to deliver a massive biotechnology corridor at the site.
- **Forecast:** Employers in Phoenix are forecast to remain active in 2022. Total employment in the market is expected to grow by 3.6 percent with the addition of approximately 80,000 net new jobs.



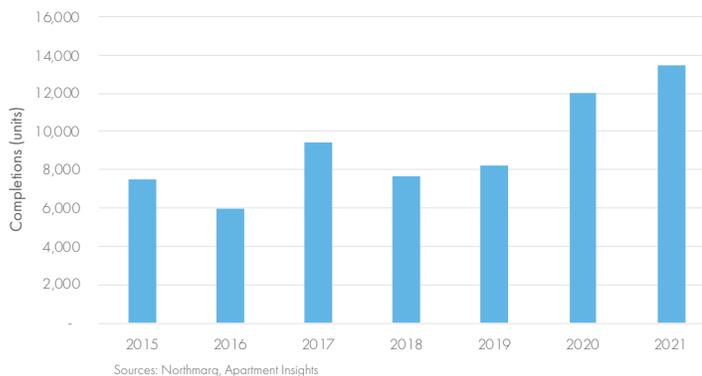
Growth reached 5.5 percent in 2021, with employers adding 116,000 jobs.

Employment Overview



Projects totaling more than 26,000 units were under construction at the end of 2021.

Development Trends



Development and Permitting

- The pace of deliveries accelerated throughout 2021, as developers stepped up activity levels to keep up with renter demand. Completions in 2021 totaled approximately 13,450 units, up 12 percent from the number of units delivered in 2020. This has marked the two highest-volume years of new apartment construction since 1990.
- An increasing number of multifamily projects are moving through the development pipeline. Projects totaling more than 26,000 units were under construction at the end of 2021, up 27 percent from the total one year earlier.
- The pace of permitting gained momentum in the fourth quarter. Developers pulled permits for approximately 14,500 multifamily units in 2021, with permits for more than 4,250 units issued in the fourth quarter. This marked the second consecutive year where more than 14,000 multifamily permits were issued, up from the previous five-year average of about 8,200 permits.
- **Forecast:** After nearly 13,500 apartment units were delivered in 2021, developers are forecast to complete projects totaling approximately 14,500 units in 2022.

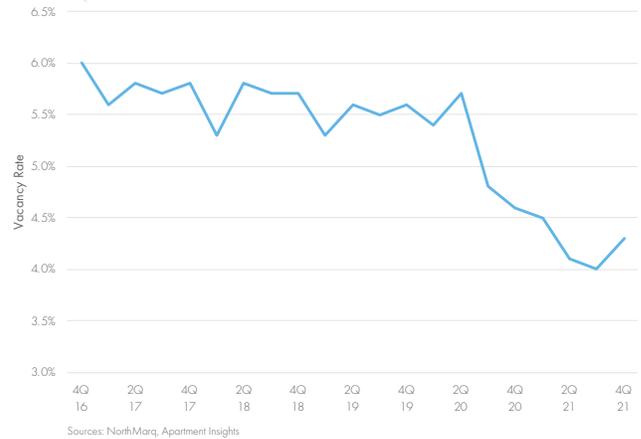
Vacancy

- After five consecutive quarterly declines drove vacancy to an all-time low, the rate inched higher at the end of 2021. Vacancy crept up 30 basis points in the fourth quarter, ending the year at 4.3 percent. Despite the uptick in the fourth quarter, vacancy still tightened by 30 basis points during 2021.
- The continued low vacancy rates in Class A apartments will support new development. Vacancy in Class A units ended 2021 at 4.5 percent, down 40 basis points year over year and 150 basis points lower than the market's five-year average.
- Vacancy rates in the Gilbert and Chandler submarkets trended higher at the end of 2021. Developers have been particularly active in these parts of the Valley in recent years, and vacancy rates have ticked up from about 3.5 percent to between 4 percent and 4.5 percent in recent months.
- **Forecast:** After five consecutive years of tightening, the local vacancy rate is forecast to inch higher in 2022, as new supply growth will likely outpace demand. Vacancy in Greater Phoenix is forecast to reach 4.5 percent in 2022, reflecting a 20-basis point uptick.



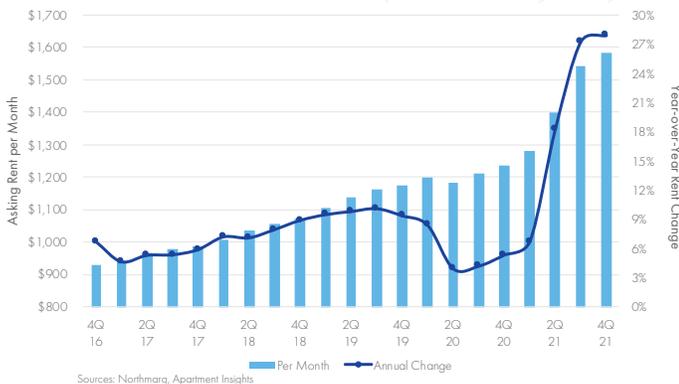
Vacancy tightened by 30 basis points during 2021.

Vacancy Trends



Rents increased by nearly \$350 per month in 2021.

Rent Trends



Rents

- Rents rose in the fourth quarter, although the increases were more modest than during the middle parts of the year when quarterly rent spikes averaged nearly 10 percent. Asking rents ended 2021 at \$1,584 per month, 2.7 percent higher than in the third quarter.
- In 2021, average rents in Greater Phoenix spiked 27.9 percent, one of the fastest increases in the country. Rents increased by nearly \$350 per month in 2021.
- With the exception of a few close-in areas in the Phoenix city core, nearly all submarkets of the Valley recorded annual rent increases ranging from 25 percent to 35 percent in 2021. Rents in some traditionally lower-cost submarkets such as Metrocenter and Northwest Black Canyon rose more than 30 percent in 2021.
- **Forecast:** Area rent growth in 2022 is forecast to average approximately 8 percent, similar to the pace recorded from 2015 to 2020. Rents are expected to top \$1,700 per month by the end of the year, nearly \$500 per month higher than the average monthly rent at the end of 2020.

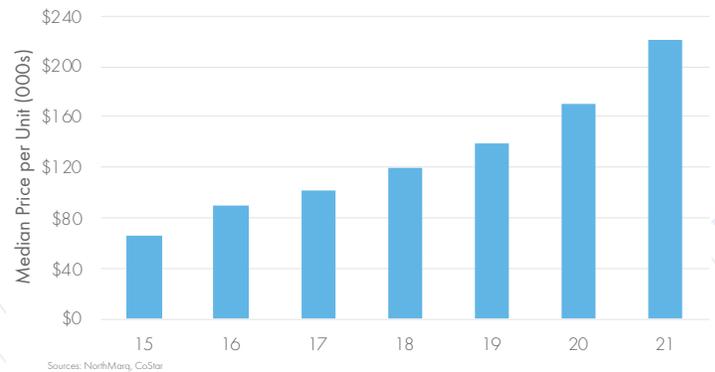
Multifamily Sales

- Sales activity continued to accelerate during the fourth quarter. The number of properties that sold rose 15 percent from the third quarter to the fourth quarter, and activity in the final few months of 2021 was up 22 percent from the fourth quarter of 2020. For the full year, sales activity spiked 66 percent.
- Increasing investor demand and rapid rent growth fueled a sharp increase in prices throughout 2021. The median price for the full year was \$221,000 per unit. During the fourth quarter, prices continued to push higher; the median price in transactions that closed in the final three months of the year was \$255,000 per unit.
- Cap rates compressed significantly in the second half of 2021. During the fourth quarter, cap rates were generally between 3 percent and 3.25 percent on average. With many investors acquiring properties with value-add strategies in place, some transactions closed with trailing cap rates below 3 percent.



For the full year, sales activity spiked 66 percent.

Investment Trends



Recent Transactions

Multifamily Sales Activity

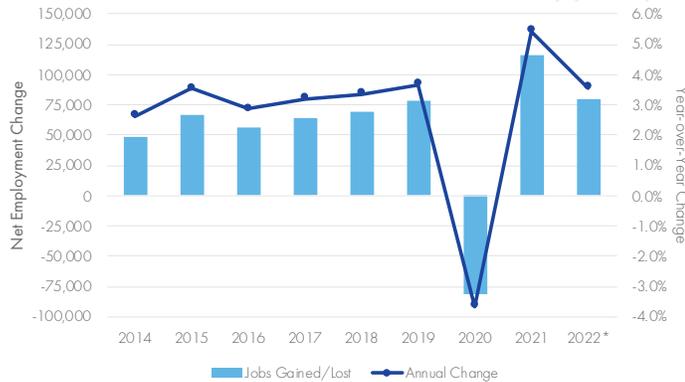
Property Name	Street Address	Units	Sales Price	Price/Unit
Metro Phoenix 5 Portfolio	Multiple	1,448	\$414,500,000	\$286,257
Vaseo	16220 N 7th St., Phoenix	1,222	\$325,000,000	\$265,957
Tempo at McClintock Station	1831 E Apache Blvd., Tempe	423	\$160,000,000	\$378,251
Trevi	635 S Ellis St., Chandler	290	\$114,385,000	\$394,431

Looking Ahead

Following a year of unprecedented growth, the Phoenix multifamily market is poised for additional strengthening in 2022. Renter demand for units is expected to remain quite strong but will likely be outpaced by new deliveries, which should accelerate for the fourth consecutive year. This is forecast to result in a modest vacancy rise, but the rate will remain considerably lower than the market's five-year average, allowing for continued rent growth. Rents spiked by nearly 28 percent in 2021 and are expected to increase another 8 percent in the coming year. The strengthening labor market, particularly in high-wage industries, will support area rent growth.

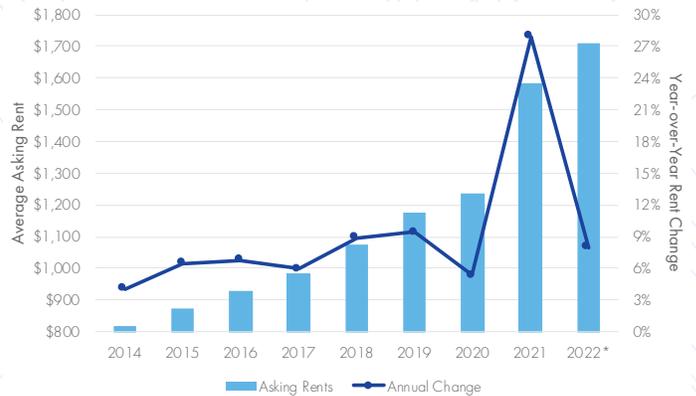
The Phoenix multifamily market is positioned for another year of strong investment activity in 2022. The rapid rent growth recorded in the past several quarters and forecasts for additional increases will continue to attract investors looking for upside potential in a compressed cap rate environment. While dozens of value-add transactions have closed in recent quarters, the market's large inventory of 1980s-vintage units should support another wave of similar transactions in the year ahead. While interest rates are expected to rise in the coming quarters, strong investor demand and rising rents will likely keep cap rates near current ranges.

Employment Forecast



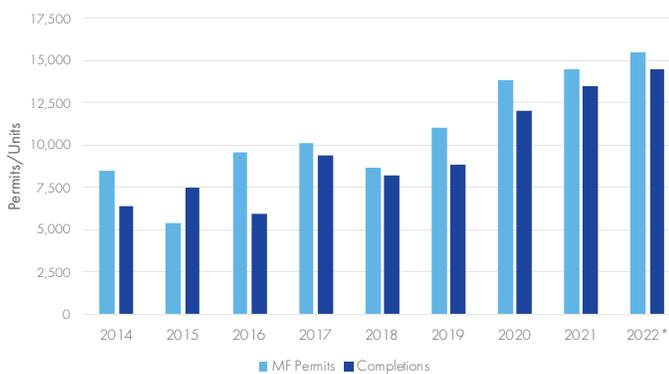
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



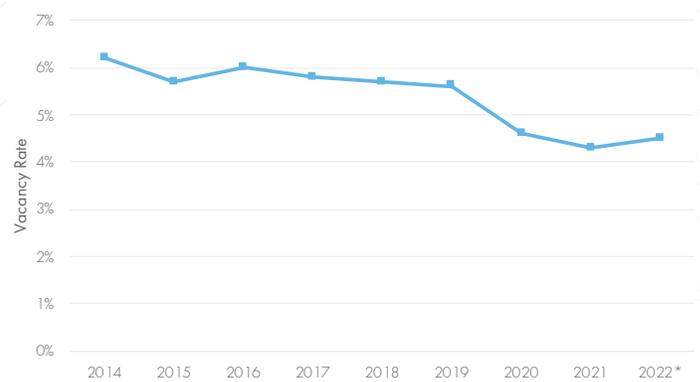
* Year End Forecast
Sources: Northmarq, Apartment Insights

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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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.