MARKET REPORT | 2Q/2021

Greater Phoenix Multifamily

Rents Spike in Response to Accelerating Demand Growth

Highlights

> A surge in demand and a lack of available supply resulted in a record-setting period of rent growth in the Phoenix multifamily market in the second quarter. Demand was fueled by a surging local labor market and in-migration from neighboring areas. Apartment construction is picking up, which should help bring supply and demand more closely in balance.

> Vacancy reached an all-time low during the second quarter, falling 40 basis points to 4.1 percent. Year over year, vacancy has tightened by 160 basis points.

> Rents spiked in the second quarter, reaching $1,401 per month. Rents were pushed higher by an accelerating pace of renter demand and extremely low vacancies.

> Net absorption during the second quarter totaled almost 5,000 units, nearly doubling the figure from the first quarter. Through the first half of 2021, net absorption has exceeded 7,600 units.

> After rising to start the year, sales of local apartment properties surged in the second quarter, spiking by approximately 50 percent. The median price year to date has risen to $197,500 per unit, while cap rates have compressed to 4.3 percent.

Q2 Snapshot	Phoenix Market
Market Fundamentals	
Vacancy	**4.1%**
- *Year Over Year Change*	**-160 bps**
Asking Rent	**$1,401**
- *Year Over Year Change*	**+18.3%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$197,500**
Cap Rates (Avg YTD)	**4.3%**
Construction Activity	
Units Under Construction	**23,937**
Units Delivered YTD	**4,767**

Phoenix Multifamily Market Overview

The Phoenix multifamily market had its strongest period on record during the second quarter. Fueled by net absorption of nearly 5,000 units during the second quarter—nearly doubling the figure from the first three months of the year—the vacancy rate tightened to an all-time low. The combined forces of record-low vacancies and an accelerating pace of demand allowed owners to push rents to new heights on new leases and renewals. Supply-demand conditions will likely come a bit more into balance in the second half, as developers are on pace to deliver more than 7,000 new rental units to the market by the end of the year.

Investors ramped up acquisition activity during the second quarter, with transactions spiking by nearly 50 percent from levels recorded at the beginning of the year. An increasingly competitive investment climate and the spike in rents have pushed prices higher, with the median price reaching nearly $200,000 per unit during the second quarter. Cap rates continue to compress, as buyers underwrite transactions anticipating additional rent increases following several years of gains. While newer properties continue to trade as they are leased up, there has been significant transaction activity in 1980s-vintage units in areas such as Maryvale, Metrocenter, and Deer Valley.

Employment

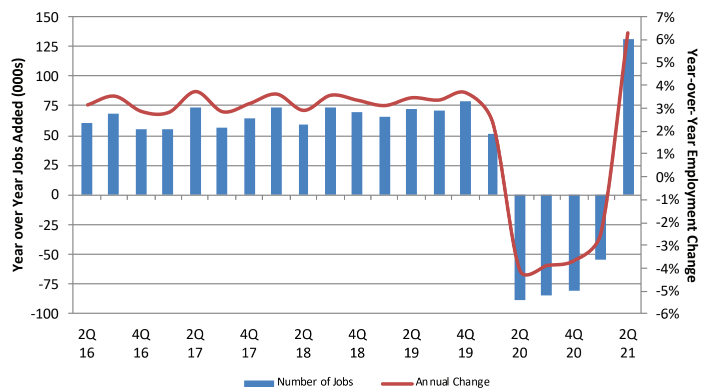
> After adding employees at a fairly steady pace since the second half of 2020, the pace of expansion spiked during the second quarter. Employers added more than 60,000 jobs in the past three months. Year over year through the second quarter, total employment is up 6.3 percent with the addition of 131,200 jobs.

> The local employment market has recovered nearly all of the jobs that were cut during the COVID-19 shutdowns. Current employment totals are down just 0.3 percent from the pre-COVID peak. The market is on pace to top the earlier employment peak during the third quarter.

> The Tempe area continues to attract companies looking to expand. During the second quarter, online auto retailer Carvana announced that it is seeking approval to expand its campus in Tempe to accommodate an additional 1,000 employees.

> **Forecast:** Employers in Phoenix are forecast to add 120,000 jobs in 2021, more than offsetting all of the jobs that were temporarily cut in the preceding year.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Employers added more than 60,000 jobs in the past three months

Vacancy

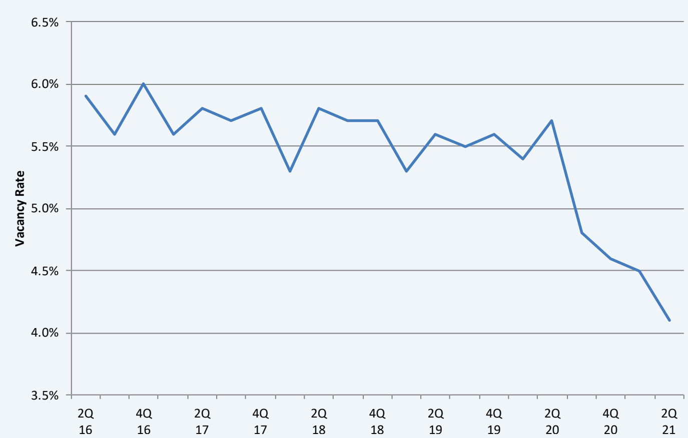
> Strong demand continues to cause the local vacancy rate to tighten. Vacancy fell 40 basis points during the second quarter, reaching an all-time low of just 4.1 percent.

> Year over year, vacancy in Phoenix is down 160 basis points. While nearly every submarket is posting improvements from one year ago, some of the strongest performance is being recorded in Scottsdale and the neighboring Paradise Valley submarkets. Year-over-year vacancy improvements in these submarkets have ranged from 260 basis points to 370 basis points.

> Robust levels of net absorption have fueled the vacancy decline. During the second quarter, absorption totaled nearly 5,000 units, and during the first half of 2021, renters have moved into a net of more than 7,600 units. In 2020, absorption for the full year was approximately 10,000 units.

> **Forecast:** Vacancy is forecast to end 2021 at 4.3 percent, 30 basis points lower than the rate at the end of last year. Vacancy in Phoenix has declined in each of the past four years.

Vacancy Trends



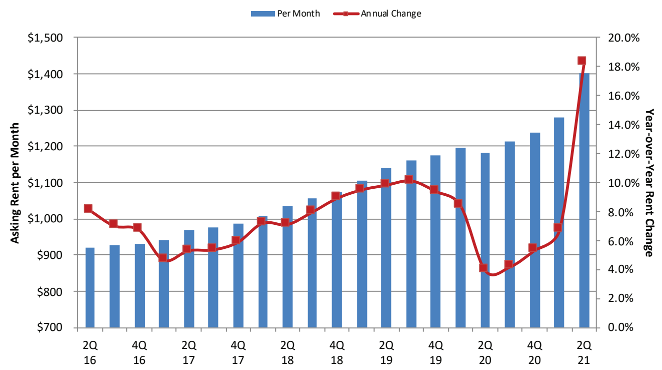
Sources: NorthMarq, Apartment Insights

Vacancy fell 40 basis points during the second quarter, reaching an all-time low of just 4.1 percent

Rents

- Rents recorded an unprecedented spike during the second quarter, rising 9.5 percent in just the past three months. Rents rose more than $100 per month during the second quarter.
- Year over year, rents in Phoenix have surged 18.3 percent, ending the second quarter at $1,401 per month. The pace of rent growth briefly slowed in the middle of last year when landlords and tenants adjusted to the coronavirus outbreak, but as demand has strengthened, rents have surged higher.
- The pace of recent rent increases has been strongest in submarkets where rents are already most expensive, reversing a trend from a year ago when rent growth was concentrated in more affordable submarkets. Rents in several expensive Northeast and Southeast Valley submarkets rose more than 20 percent year over year through the second quarter.
- **Forecast:** After the pace of rent growth slowed in 2020, this year will be a record period for rent increases. Rents are forecast to rise nearly 16 percent in 2021.

Rent Trends



Sources: NorthMarq, Apartment Insights

Rents recorded an unprecedented spike during the second quarter, rising 9.5 percent

Development and Permitting

- During the second quarter, developers delivered projects totaling approximately 2,800 units. Through the first half of this year, nearly 4,800 units have come online, after more than 7,200 units were delivered in the first half of 2020.
- The number of projects that are in the construction pipeline continues to push higher, as builders ramp up activity to meet renter demand. Developments totaling nearly 24,000 units are under construction. At this point one year ago, approximately 15,000 units were under construction.
- Developers pulled permits for approximately 3,000 multifamily units during the second quarter. Year to date, multifamily permit issuance has reached nearly 6,400 units, 16 percent lower than the total recorded during the first half of last year.
- **Forecast:** Developers are forecast to deliver approximately 12,000 units of new apartment construction in 2021, nearly identical to the total inventory growth from the previous year.

Development Trends

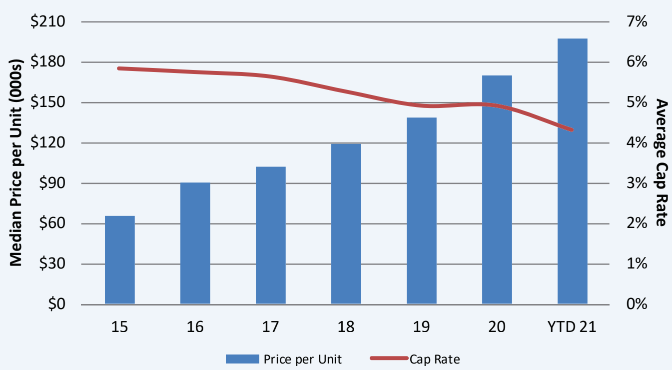
Sources: NorthMarq, Apartment Insights

Through the first half of this year, nearly 4,800 units have come online

Multifamily Sales

- Sales of area multifamily properties gained momentum during the second quarter. Transaction velocity rose nearly 50 percent from the first quarter to the second quarter. Sales thus far in 2021 are up more than 100 percent when compared to the first half of 2020, when activity was curtailed beginning in April because of COVID-19.
- Prices are on the rise in Phoenix. The median price during the second quarter was nearly $200,000 per unit, and the median price for the first half of the year was $197,500 per unit. The median price in 2020 was approximately $170,000 per unit.
- After dipping during the first quarter, cap rates have continued to compress in recent months. The average cap rate thus far in 2021 is approximately 4.3 percent, 60 basis points lower than levels recorded in 2020.

Investment Trends



Sources: NorthMarq, CoStar

Transaction velocity rose nearly 50 percent from the first quarter to the second quarter

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

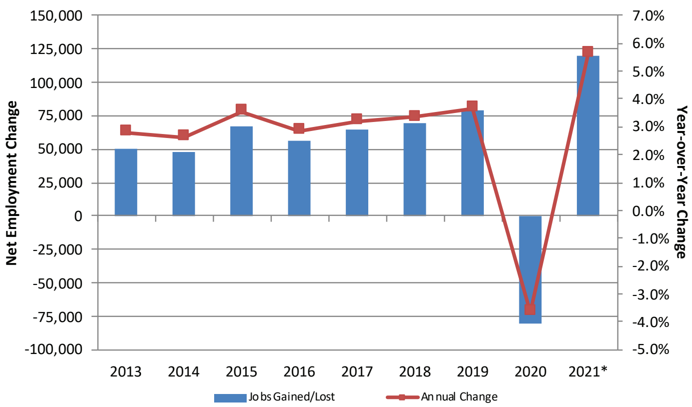
Property Name	Street Address	Units	Sales Price	Price/Unit
The Retreat	20808 N 27th Ave., Phoenix	480	$131,000,000	$272,967
Paragon at Kierland	15608 N 71st St., Scottsdale	276	$108,500,000	$393,116
Escape at Arrowhead	7951 W Beardsley Rd., Glendale	324	$103,750,000	$320,216
Portrait at Hance Park	1313 N 2nd St., Phoenix	340	$99,500,000	$292,647
1221 Broadway	1221 E Broadway Rd., Tempe	194	$64,750,000	$333,763
Desert Gardens	13517 W Glendale Ave., Glendale	307	$47,550,000	$154,886
Terrace Park	8130 W Indian School Rd., Phoenix	213	$37,860,000	$177,746

Looking Ahead

Unprecedented apartment performance was recorded during the first half of this year. Property owners leveraged tight inventory levels, elevated demand, and renters with stronger personal balance sheets to implement steep rent increases across all property classes throughout nearly every submarket in the Greater Phoenix market. While demand is likely to remain elevated and vacancies should remain tight, the recent pace of rent increases should prove to be unsustainable. More measured rent upticks are anticipated for the second half of the year.

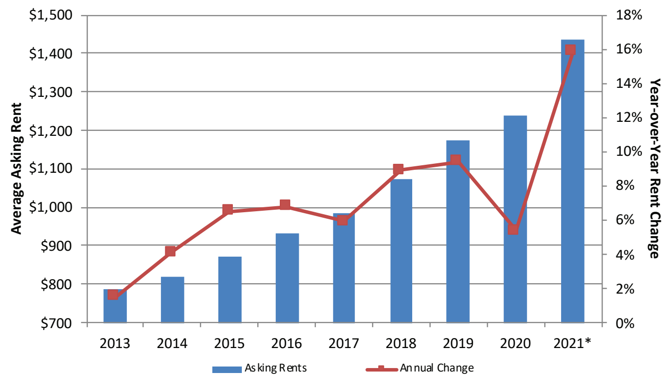
The multifamily transactions market is forecast to remain active in the second half of the year, as investors move aggressively to acquire properties during a period of rapid growth. The expectations of further strengthening of market fundamentals could continue to push cap rates lower, particularly given the current competition in the local investment market. While several older properties sold during the first half of the year, transaction activity is likely to gain momentum among newer assets that are leasing up quickly at elevated rents.

Employment Forecast



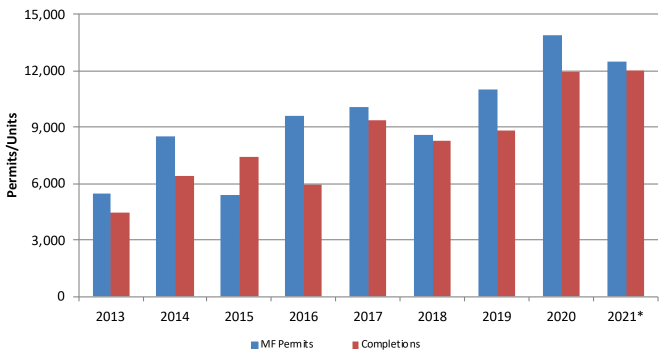
* Year End Forecast

Rent Forecast



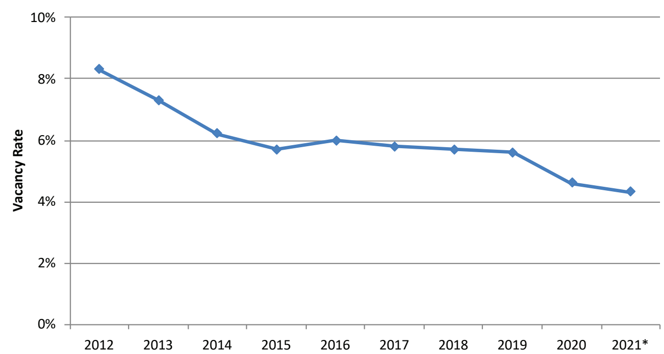
* Year End Forecast
Sources: NorthMarq, Apartment Insights

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 $16 billion, loan servicing portfolio of more than $65 billion and the multi-year tenure of our nearly 600 people.

For more information, contact:

Bill Hahn
EXECUTIVE VICE PRESIDENT – INVESTMENT SALES
602.952.4041
bhahn@northmarq.com

Brandon Harrington
MANAGING DIRECTOR – MULTIFAMILY DEBT & EQUITY
602.508.2204
bwharrington@northmarq.com

Trevor Koskovich
PRESIDENT – INVESTMENT SALES
602.952.4040
tkoskovich@northmarq.com

Pete O'Neil
DIRECTOR OF RESEARCH
602.508.2212
poneil@northmarq.com

NORTHMARQ