Northmarq

CONSTRUCTION ACTIVITY

| | |
|---|---|
| UNDER CONSTRUCTION | 41,012 |
| UNITS DELIVERED (YTD) | 9,418 |

MARKET FUNDAMENTALS

| | |
|---|---|
| VACANCY RATE | 7.0% |
| YEAR-OVER-YEAR CHANGE | +30bps |
| ASKING RENTS | $1,590 |
| YEAR-OVER-YEAR CHANGE | -1.6% |

TRANSACTION ACTIVITY (YTD)

| | |
|---|---|
| MEDIAN PRICE PER UNIT | $266,800 |

PHOENIX MULTIFAMILY
**2Q 2024**

MARKET INSIGHTS

# Strong renter demand supporting market fundamentals

## HIGHLIGHTS

- The Phoenix multifamily market is off to a better-than-expected start to 2024. The vacancy rate ticked lower in the second quarter, and rents are showing signs of stabilizing. Heightened renter demand for units is nearly keeping pace with a very active development pipeline.
- Vacancies dipped 20 basis points in the second quarter, tightening to 7 percent. Despite the recent improvement, the rate is still up 30 basis points from one year ago and is expected to trend higher in the second half.
- Rents ticked higher by a few dollars in the second quarter, but have declined on a year-over-year basis. Average rents ended the first half of 2024 at $1,590 per month, down 1.6 percent in the past 12 months.
- The local investment market bounced off of lows recorded at the beginning of this year. Transaction activity rose by more than 50 percent from the first quarter to the second quarter, and sales velocity during the first half of 2024 was slightly higher than in the same period in 2023. Sales of newly constructed properties are accounting for the bulk of the activity.

## PHOENIX MULTIFAMILY MARKET OVERVIEW

Renter demand remained elevated through the first half, which has resulted in rents and vacancy levels holding mostly steady to this point in 2024. Net absorption in the first two quarters of this year was up 13 percent compared to the same period in 2023. Net move-ins were particularly strong in the second quarter, when absorption reached nearly 4,300 units, closely tracking the number of units that came online during the period. Vacancy ticked lower in the second quarter, fueled by this continued stream of renters leasing units, although the rate is still higher than levels achieved one year ago. Rents were mostly flat in the second quarter, but nearly every submarket in the region features rents that have posted year-over-year declines. New units continue to come online, and while starts have begun to slow, 2024 is on track to be the most active year for new deliveries since the mid-1980s.

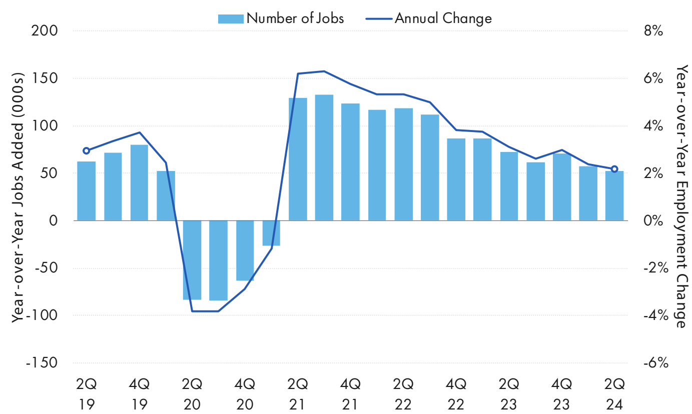
Investment activity gained momentum during the second quarter, but the number of properties changing hands remains considerably lower than the peak levels from just a few years ago. Sales velocity to this point in 2024 is ahead of the 2023 pace, with properties delivered in recent years accounting for approximately half of the total transactions year to date. While these newer properties are trading at the higher-end of the market's pricing range, per-unit pricing is down slightly from 2023 and about 25 percent lower than levels recorded in 2022. Cap rates appear to have stabilized between 5.5 percent and 5.75 percent, and the continued renter demand for units is supporting investor sentiment. A few Class B and Class C assets have traded, including some value-add properties that were acquired during the most recent surge in activity.

## EMPLOYMENT

- The Phoenix area continues to add workers. Year over year through the second quarter, employers added more than 52,000 jobs, a 2.2 percent rate of increase. Last year at this time, growth was averaging about 3 percent.
- The trade, transportation, and utilities sector has been expanding. The sector, which includes retail employment as well as warehousing and logistics jobs, has grown by 2.5 percent in the past year, with the addition of 11,600 net new jobs.
- The local labor market is expected to be bolstered by gains in the manufacturing sector. During the second quarter, Kohler opened a new facility in Casa Grande that will result in 400 jobs, while XNRGY broke ground on a new manufacturing facility and U.S. headquarters that will support more than 900 jobs when it opens in 2025.
- **FORECAST:** Employers will continue to add workers throughout the rest of 2024, but the pace of expansion will lag levels recorded in prior years. Gains in the Phoenix labor market are forecast to reach nearly 2 percent this year, with the addition of approximately 48,000 jobs. In 2023, growth totaled 3 percent.

*Year over year, employers added more than 52,000 jobs.*

EMPLOYMENT OVERVIEW

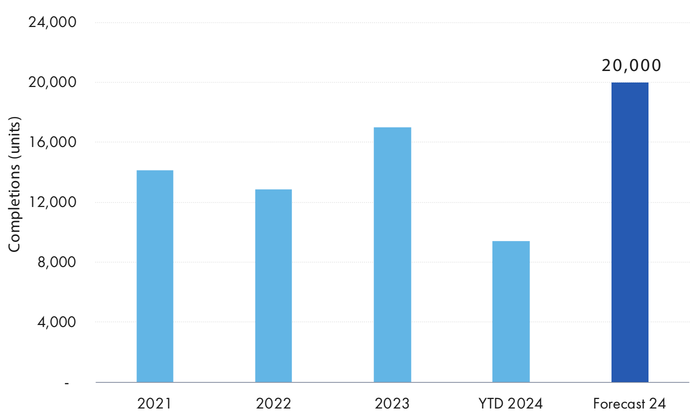



*Sources: Northmarq, Bureau of Labor Statistics*

## DEVELOPMENT & PERMITTING

*More than 4,500 units came online in the past three months.*

DEVELOPMENT TRENDS




*Sources: Northmarq, Apartment Insights*

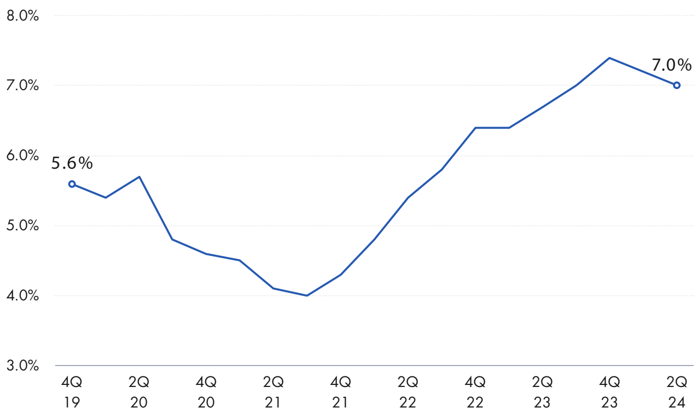
- Multifamily deliveries continued at an elevated pace during the second quarter. Projects totaling more than 4,500 units came online in the past three months, and more than 9,400 units have been added to inventory year to date. Completions in the first half of this year are up 32 percent from the same period in 2023.
- Projects totaling approximately 41,000 units are currently under construction, up 5 percent from one year ago. This marked the fourth consecutive quarter where the number of units that were under construction exceeded 40,000.
- Permitting for multifamily properties slowed considerably in the second quarter. Developers pulled permits for fewer than 2,500 units during the past three months, the lowest quarterly total since 2019. Year to date, multifamily permitting volumes are down 29 percent compared to the same period in 2023.
- **FORECAST:** After nearly 17,000 units were delivered in 2023, developers are on pace to complete approximately 20,000 multifamily rental units this year. Inventory growth began to accelerate a few years ago; completions have averaged nearly 14,000 units per year since 2020.

## VACANCY

*The vacancy rate fell 20 basis points during the quarter.*

- Strong renter demand for units allowed vacancy to dip slightly in the second quarter. The rate fell 20 basis points during the most recent period, ending the quarter at 7 percent.
- While the rate has ticked lower in recent months, current vacancy levels are higher than one year ago. Vacancy is up 30 basis points year over year. This marked the 10th consecutive quarter where the area vacancy rate had posted an annual increase.
- Vacancy rates have begun to trend lower in some of the more established East Valley submarkets in primary employment corridors. Vacancy rates in the Chandler, North Mesa, and South Mesa submarkets averaged 5.9 percent as of the second quarter, down from 6.3 percent one year ago.
- **FORECAST** Vacancy is forecast to trend higher in the second half of 2024, with the rate expected to end the year at 8 percent. Demand is likely to remain elevated but will not keep pace with continued additions to inventory.

VACANCY TRENDS



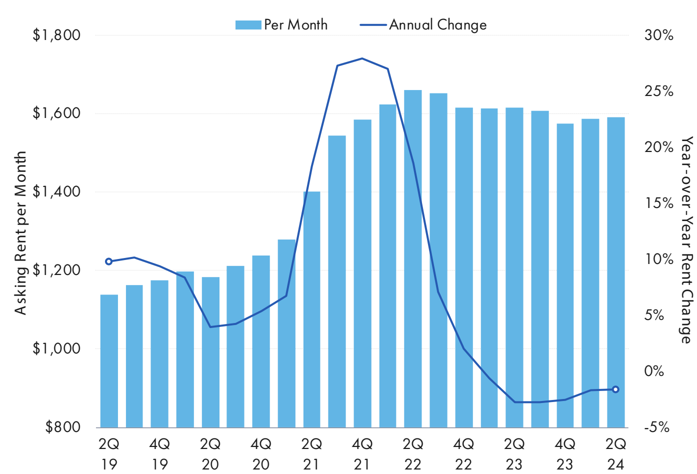

*Sources: Northmarq, Apartment Insights*

## RENTS

- Rents ended the second quarter at $1,590 per month, up a few dollars from the first quarter average. Active demand has supported rental rates to this point in 2024.
- Recent upticks in rents have not fully offset the losses recorded in the second half of 2023. Average rents are down 1.6 percent year over year. Rents peaked in the second quarter of 2022 and are down 4.2 percent from those levels.
- Most submarkets have recorded rent declines during the past year. A few scattered submarkets have posted rents that are essentially unchanged from one year ago. Glendale, Chandler, North Tempe, and Gilbert are among the top performers.
- **FORECAST:** Rents have outperformed expectations to this point in 2024 but will likely inch lower in the second half of the year as competition for renters intensifies. Rents are forecast to end 2024 at $1,555 per month, down 1.3 percent for the full year.

*Rents ended the second quarter at $1,590 per month.*

RENTS TRENDS



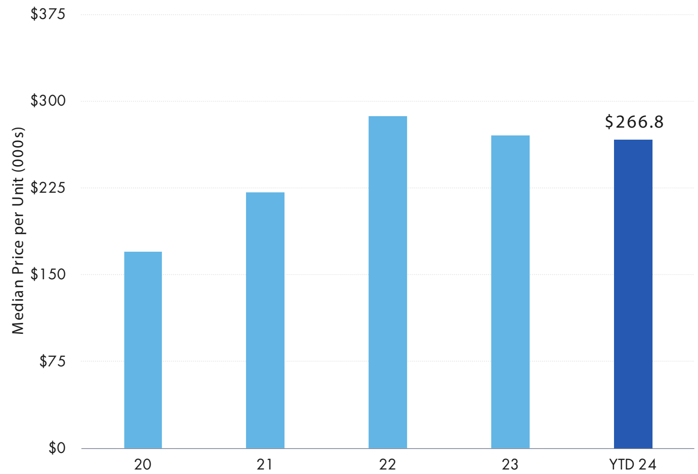

*Sources: Northmarq, Apartment Insights*

## MULTIFAMILY SALES

- The investment market demonstrated some signs of gaining momentum during the second quarter. Transaction activity rose by more than 50 percent from the first quarter to the second quarter. Despite the recent increase in sales velocity, transaction counts are still down about 75 percent from 2022 levels.
- Prices closely tracked 2023 levels during the first half, although newer assets accounted for a larger share of total sales activity. The median price in all transactions year to date was $266,800 per unit, nearly identical to the 2023 median price.
- Properties built since 2021 have accounted for approximately half of the total number of transactions to this point in the year. The median price in these sales of newer assets has reached $305,000 per unit, although a few properties have traded at $400,000 per unit or more. Last year, recently delivered communities sold for a median price of $317,000 per unit.
- Investors who went into the year expecting deeply discounted assets are finding few opportunities. The median price in the older properties that have traded to this point in 2024 is about $200,000 per unit, down from $213,000 per unit last year.
- Cap rates during the second quarter were generally between 5.5 percent and 5.75 percent, similar to levels from the first few months of the year.

*The median price year to date was $266,800 per unit.*

INVESTMENT TRENDS




*Sources: Northmarq, CoStar*

## **RECENT TRANSACTIONS** MULTIFAMILY SALES ACTIVITY

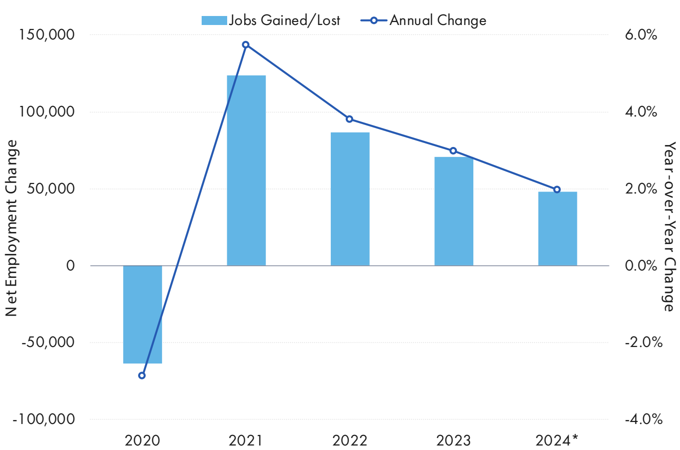
| PROPERTY NAME | STREET ADDRESS | UNITS | SALES PRICE | PRICE/UNIT |
|---|---|---|---|---|
| The Blake | 4568 E Cactus Rd., Phoenix | 400 | $183,000,000 | $457,500 |
| Carter | 3300 N Scottsdale Rd., Scottsdale | 365 | $161,400,000 | $442,192 |
| Bask Deer Valley | 26800 N 27th Ave., Phoenix | 242 | $64,000,000 | $264,463 |
| Parc Lofts | 8727 W McDowell Rd., Tolleson | 258 | $62,750,000 | $243,217 |

## LOOKING AHEAD

An accelerated pace of development is forecast to place additional supply-side pressures on the Phoenix multifamily market during the second half of 2024. To this point, absorption has been elevated, nearly keeping pace with new additions to inventory. That trend is unlikely to continue in the second half, however, with the rate of job growth forecast to slow and deliveries poised to accelerate. These forces should combine to push area vacancies higher and the increasingly competitive environment will likely result in modest rent declines. Despite the short-term challenges, the local rental market has outperformed expectations to this point and the outlook will brighten as the development pipeline thins and construction permitting and starts continue to slow.

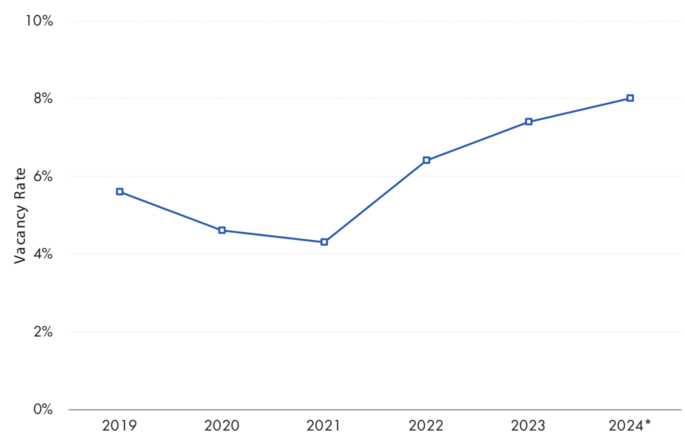
The increased transaction activity recorded in recent months may carry over into the second half of the year. Cap rates have risen high enough to move some buyers off of the sidelines, and the anticipated decline in interest rates is beginning to emerge. The greatest supply of properties available for acquisition is expected to continue to be newer projects. Only about 10 percent of the properties that have been delivered since the beginning of 2023 have sold, with additional assets likely to transact in the coming quarters. Outside of newly constructed properties, activity has been modest, a trend that may spill over into 2025.

### EMPLOYMENT FORECAST



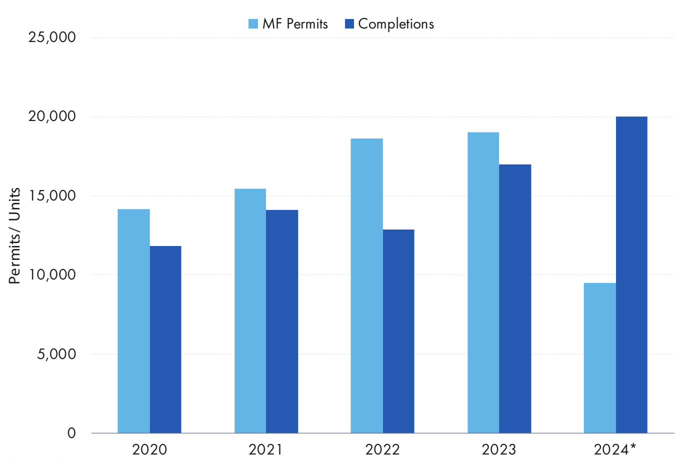

* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

### VACANCY FORECAST



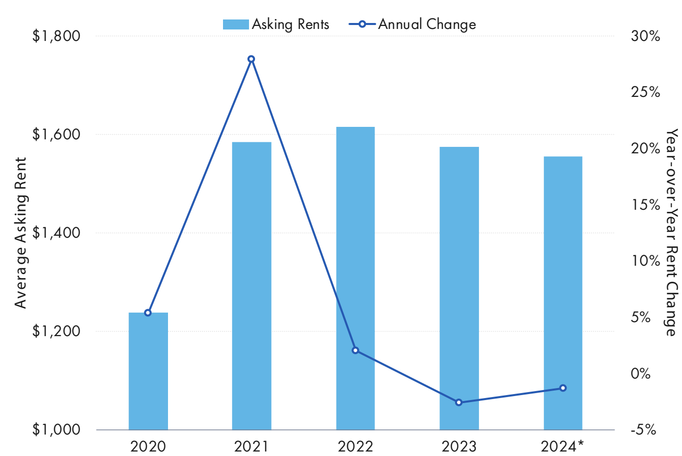

* Year End Forecast
Sources: Northmarq, Apartment Insights

### CONSTRUCTION & PERMITTING FORECAST




* Year End Forecast
Sources: Northmarq, Apartment Insights, Census Bureau

### RENTS 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 1,000 employees, loan servicing volume approaching $80 billion, and $39+ billion in transaction volume.