MARKET REPORT | 4Q/2020

Greater Phoenix Multifamily

Property Sales Accelerate and Prices Spike to Close 2020

Highlights

- The Phoenix multifamily market posted strong performance in 2020, particularly in the second half of the year when absorption spiked, vacancy tightened, and rents rose. Healthy levels of absorption are forecast to persist into 2021, and developers will continue to bring thousands of new units to the market to meet this demand.
- Vacancy reached an all-time low during the fourth quarter, tightening to 4.6 percent. The rate fell 100 basis points in 2020, with all of the improvement recorded during the second half of the year.
- With vacancy improving, asking rents rose 2.1 percent in the fourth quarter, reaching $1,238 per month. For the full year, rents rose 5.4 percent.
- Developers continue to move new projects into the construction pipeline. Nearly 11,000 rental units were delivered in 2020, and more than 20,000 units are currently under construction.
- Sales of multifamily properties gained momentum during the fourth quarter. With activity picking up, prices rose. The median price spiked 24 percent in 2020, reaching $170,900 per unit. Cap rates were steady for most of the year, averaging 4.9 percent.

Q4 Snapshot	Phoenix Market
Market Fundamentals	
Vacancy	**4.6%**
- Year Over Year Change	**-100 bps**
Asking Rent	**$1,238**
- Year Over Year Change	**+5.4%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$170,900**
Cap Rates (Avg YTD)	**4.9%**
Construction Activity	
Units Under Construction	**20,411**
Units Delivered YTD	**10,943**

Phoenix Multifamily Market Overview

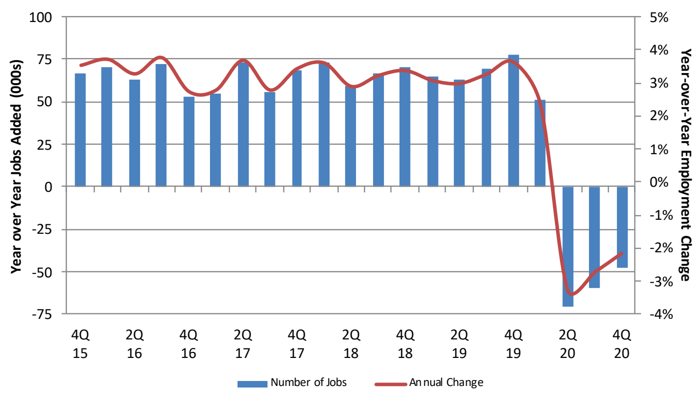
The Phoenix multifamily market gained momentum during the second half of the year, posting robust levels of absorption that closely tracked the pace of new development. The strong renter demand for units fueled a decline in the local vacancy rate, which ended 2020 at an all-time low. Most submarkets are recording vacancy improvements, with some of the steepest declines occurring in suburban areas. In the East Valley, Chandler and Gilbert recorded annual vacancy improvements in excess of 100 basis points, while West Valley areas such as Peoria, Avondale, and Goodyear posted similar performance. The continued vacancy tightening allowed for significant rent increases in the second half of the year.

The investment market strengthened at the end of 2020. For most of the year, transaction activity lagged levels from 2019, but that trend changed course in the fourth quarter. Sales in the fourth quarter of 2020 outpaced levels from the same period in 2019, setting the stage for an active year to come. Prices pushed higher throughout the year, fueled by continued rent growth, strengthening occupancies, and a mix of new, high-end projects being sold. The median per-unit price spiked by 24 percent in 2020, with cap rates holding steady at below 5 percent. With interest rates low, and investor demand elevated, cap rates will likely remain near current ranges.

Employment

- Employers in Phoenix have been adding workers back at a fairly steady pace for the past several months. During the fourth quarter, nearly 40,000 jobs were returned to the market, similar to gains from the third quarter.
- In 2020, net job losses totaled approximately 48,000 positions, a 2.2 percent contraction. Phoenix has been one of the nation's healthiest labor markets during the past several years; from 2015-2019, employers added an average of 67,000 jobs per year.
- During the fourth quarter, Taiwan Semiconductor Manufacturing acquired more than 1,100 acres in northwest Phoenix. The company, which makes silicon chips for Apple and several other technology companies, is planning to develop a $12 billion manufacturing facility, a move that is forecast to bring at least 1,600 high-wage jobs to the area.
- **Forecast:** The pace of the employment rebound will likely be fueled by how quickly vaccines are distributed, and the scope of reopening among service industries including hotels and restaurants. Preliminary estimates call for employment growth of approximately 75,000 new jobs in the Phoenix market in 2021, similar to annual totals achieved in 2017-2019.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Taiwan Semiconductor Manufacturing acquired more than 1,100 acres in northwest Phoenix to develop a $12 billion manufacturing facility

Vacancy

- Vacancy continued to decline to close 2020. After a 90-basis point decline in the third quarter, vacancy in the Phoenix metro area fell an additional 20 basis points during the fourth quarter. The rate ended the year at 4.6 percent, the lowest figure on record.
- In 2020, vacancy fell 100 basis points. This marked the fourth consecutive year of vacancy declines, but previous improvements were more modest. Vacancy had not fallen 100 basis points in a year since 2014.
- One of the factors driving the local vacancy rate lower has been improvement in the Class A sector. After topping 8 percent in the middle of 2020, Class A vacancy ended the year at 4.9 percent.
- **Forecast:** Construction is forecast to continue at an active pace in 2021, putting upward pressure on the local vacancy rate. Vacancy in Phoenix is forecast to rise 40 basis points in 2021, reaching 5 percent by the end of the year.

Vacancy Trends

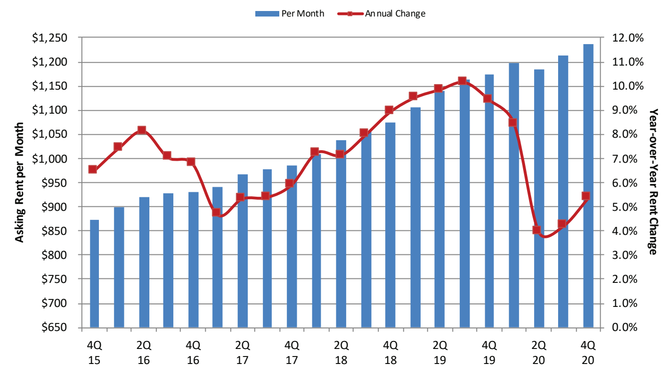
Sources: NorthMarq, Apartment Insights

In 2020, vacancy fell 100 basis points to 4.6 percent

Rents

- Rent growth continued to advance at an aggressive pace. Following an increase of 2.4 percent during the third quarter, asking rents rose 2.1 percent in the fourth quarter, reaching $1,238 per month.
- Strong growth in the second half of the year fueled an annual rent increase of 5.4 percent in 2020. Annual rent growth has averaged more than 7 percent since 2015.
- Rent growth was strongest in suburban areas, particularly those submarkets with new complexes and larger unit sizes. Areas such as Goodyear, Avondale, and Peoria posted rent gains ranging from 8.5 percent to 11 percent in 2020.
- **Forecast:** Rent growth in 2021 is forecast to total approximately 5 percent, with asking rents forecast to reach $1,300 per month.

Rent Trends



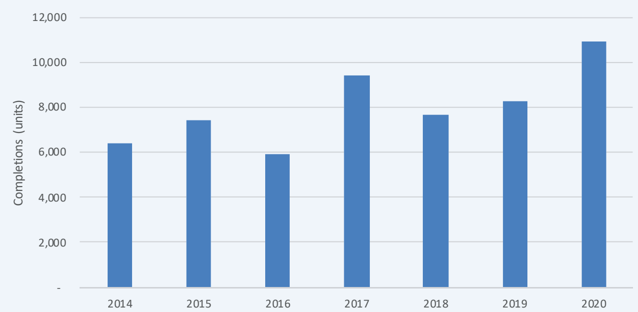
Sources: NorthMarq, Apartment Insights

Asking rents rose 2.1 percent in the fourth quarter, reaching $1,238 per month

Development and Permitting

- Apartment construction accelerated in the fourth quarter, with projects totaling more than 2,100 units coming online. In 2020, nearly 11,000 units were completed, up 32 percent from deliveries in 2019.
- With vacancy rates low and rents on the rise, apartment development will continue at a heightened pace. Approximately 20,000 units are currently under construction, up more than 50 percent from one year ago.
- Permitting activity reached a 20-year high in 2020. Developers pulled permits for more than 13,000 multifamily units during the past 12 months, up nearly 30 percent when compared to 2019 levels. During the fourth quarter, permits for approximately 3,000 multifamily units were issued.
- **Forecast:** After nearly 11,000 units were delivered in 2020, developers are forecast to complete approximately 10,000 apartment units in the Phoenix market in 2021. Since 2017, apartment deliveries have averaged more than 9,300 units per year.

Development Trends



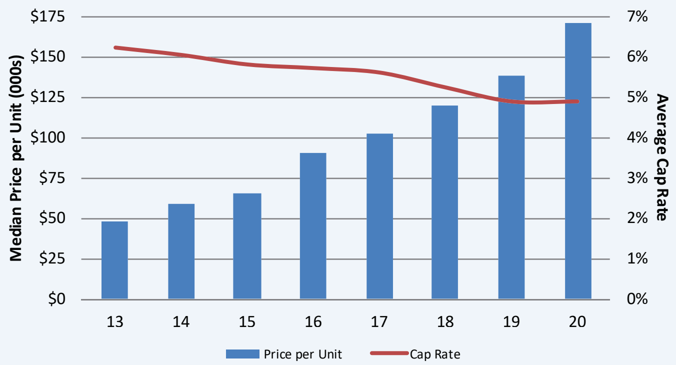
Sources: NorthMarq, Apartment Insights

In 2020, nearly 11,000 units were completed

Multifamily Sales

- Transaction activity surged during the fourth quarter. Sales velocity spiked by more than 50 percent from the third quarter to the fourth quarter. Transaction levels during the last three months of 2020 outpaced counts from the same period in 2019 by 12 percent.
- Prices rose throughout 2020, including a spike in the fourth quarter. For the full year, the median sales price reached $170,900 per unit, 24 percent higher than the median price in 2019. In transactions that closed in the fourth quarter, the median price rose to $178,000 per unit.
- Cap rates have been very steady for nearly two years. Cap rates averaged 4.9 percent in 2020, nearly identical to the average in the preceding year. Cap rates compressed slightly during the fourth quarter.

Investment Trends



Sources: NorthMarq, CoStar

The median sales price reached $170,900 per unit, 24 percent higher than the median price in 2019

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

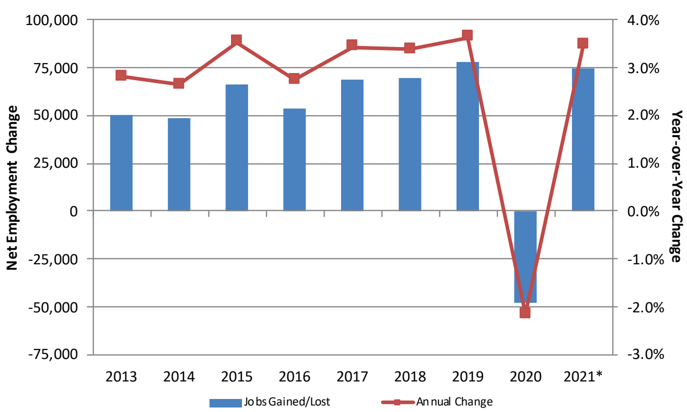
Property Name	Street Address	Units	Sales Price	Price/Unit
Maxwell on 66th	6611 E Mayo Blvd., Phoenix	349	$122,500,000	$351,003
Onnix	1500 E Broadway Rd., Tempe	659	$117,500,000	$178,300
Cortland Biltmore	2727 E Camelback Rd., Phoenix	253	$117,000,000	$462,451
Lao Apartments	875 W Pecos Rd., Chandler	346	$84,000,000	$242,775
Christopher Todd Communities at Stadium	9999 W Missouri Ave., Glendale	313	$82,945,000	$265,000
Tides at East Glendale	4141 W Glendale Ave., Phoenix	430	$53,500,000	$124,419

Looking Ahead

The Phoenix multifamily market is forecast to post strong performance in 2021, continuing an extended period of elevated demand and rising rents. Demand is forecast to persist, as in-migration to the area continues, and the labor market bounces back. Developers are increasing construction of rental units to meet demand. In 2020, nearly 11,000 rental units came online, and a similar total is forecast to be delivered in 2021. The elevated pace of new development is likely to continue; the number of units currently under construction is up significantly from recent years.

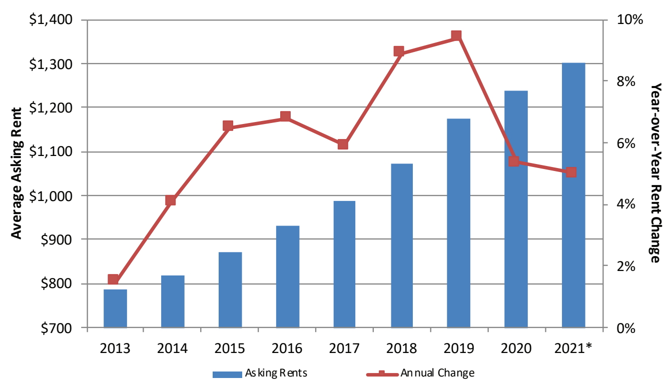
The local investment market is positioned for another strong year in 2021. Continued absorption and rising rents are fueling investor demand, while low interest rates are keeping cap rates near cyclical lows. The recent wave of new development is working its way through the investment market. In each of the last two years, more than 20 new construction projects have been sold, changing hands at a median price of approximately $270,000 per unit. With several new developments scheduled to come online in the next few years, these new projects are expected to continue to dominate the high end of the price scale.

Employment Forecast



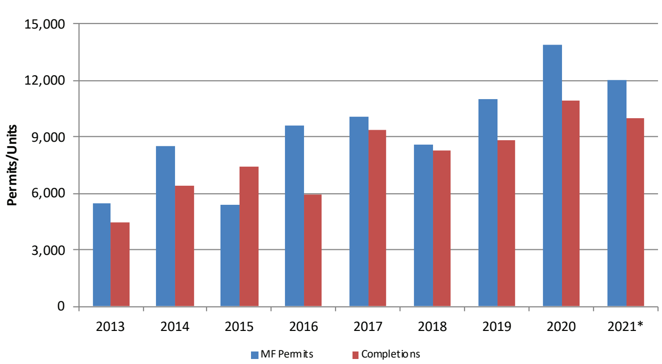
* Year End Forecast

Rent Forecast



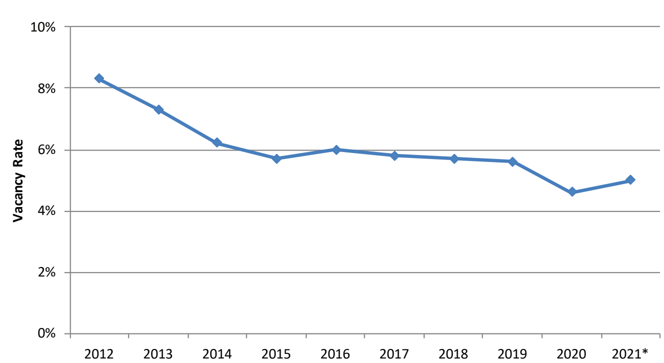
* Year End Forecast
Sources: NorthMarq, Apartment Insights

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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