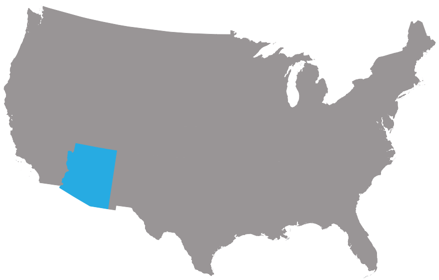
COLLIERS INTERNATIONAL | PHOENIX

RESEARCH & FORECAST REPORT



Robust Leasing Offsets Delivery of New Units, Vacancy Continues to Dip

THE BROADER VIEW

The Greater Phoenix multifamily market continued to strengthen in the fourth quarter, with vacancy inching lower, rents surging and newly constructed units securing tenants. The apartment market has been rebounding for the past five years, but the greatest change in recent quarters has been the surge in construction of new units. Many of these new projects feature dense construction, high-end finishes and amenities similar to resort hotels. These new projects are commanding rent premiums and leasing quickly, trends that continue to support additional development. Looking into 2015, new construction will accelerate and vacancy should remain near current ranges. While new supply is on the way, demand will be fueled by population growth and employment expansion, both of which have outpaced earlier forecasts, suggesting gains in 2015 could once again outperform expectations.

CURRENT CONDITIONS

Multifamily vacancy in Greater Phoenix continued to improve, ending the fourth quarter at 6.2 percent. The rate fell 30 basis points from the third quarter and ended the year 110 basis points lower than at the end of 2013. This marked the fifth consecutive year of multifamily vacancy improvement, during which time the rate has fallen by more than 700 basis points. The current vacancy rate is at its lowest point since 1998.

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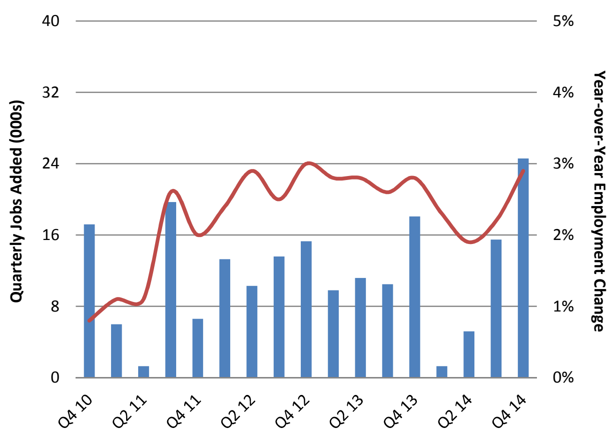
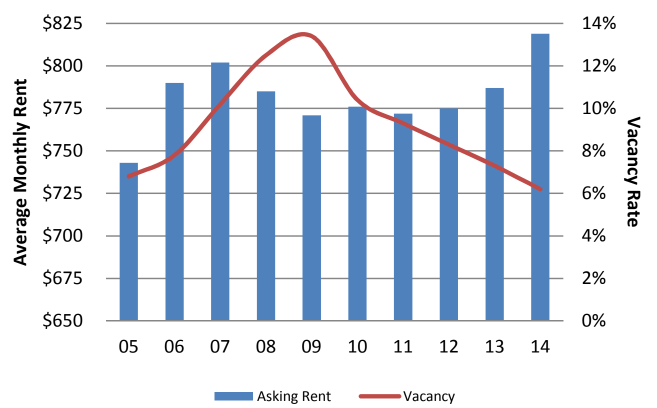
MARKET INDICATORS

	2014 Q4	2013 Q4
VACANCY	↓	↓
RENTS	↑	↑
TRANSACTION ACTIVITY	↑	↓
PRICE PER UNIT	↑	↓
CAP RATES	↓	↑

EMPLOYMENT TRENDS



AVERAGE RENT AND VACANCY



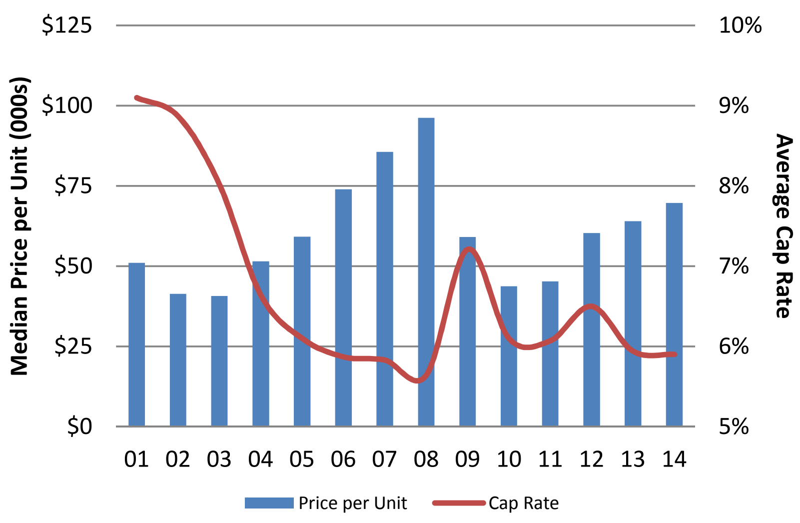
Net absorption surged in 2014, reaching more than 5,800 units and topping the 2013 total by more than 25 percent. Net absorption has been positive in each of the past 12 quarters and has been negative in only one quarter in the past six years. This ongoing growth in renter demand for units continues to prompt new development. More than 5,500 apartment units were delivered in 2014, and approximately 6,500 units are slated to come online in 2015.

Rent growth gained momentum to close 2014, ending the year at $819 per month, 4.1 percent higher than at the end of 2013. Asking rents gained 1.5 percent in the fourth quarter alone, the strongest three-month period of rent growth since 2006. At the submarket level, South Scottsdale posted the greatest gain, with asking rents surging 12.9 percent in 2014 to $1,048 per month. Other areas in the market where above-average rent gains are being posted include Chandler, South Gilbert and South Tempe. Many of these submarkets are benefitting from the boost to rents from newer, more expensive units coming online.

After spikes in the middle part of the year, sales activity ticked up 3 percent in the fourth quarter. For the year, transaction activity surged 24 percent, following a decline in 2013. Investors continue to favor larger deals. For the second straight year, deals over $20 million accounted for more than 40 percent of the total transaction activity. In these transactions at the higher end of the spectrum, the median price was approximately $112,000 per unit, significantly higher than the median price in all deals.

Prices continued to creep higher in 2014. The median price over the past year was more than 69,700 per unit, nearly 10 percent higher than the 2013 median price. The combined impact of low vacancy and rising rents should support pricing, particularly with investors favoring large Class A and Class B properties in top submarkets. Average cap rates dipped below 6 percent for the year, and for newer product, cap rates are in the mid-4 percent to low-5 percent range. While market fundamentals are flourishing, the primary external threat to the multifamily investment climate is the prospect of Federal Reserve action. Rising interest rates—perhaps as early as the second half of 2015—would add a layer of uncertainty to the market that could stifle transaction activity.

SALE TRENDS



RECENT SALES ACTIVITY

PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE PER UNIT
Mirabella I & II	3800 N El Mirage Rd., Avondale	715	$66,500,000	$93,007
San Norterra	28515 N North Valley Pky., Phoenix	388	$62,500,000	$161,082
Autumn Ridge	1944 W Thunderbird Rd., Phoenix	672	$35,900,000	$53,423

485 offices in 63 countries on 6 continents

United States: 146
Canada: 44
Latin America: 25
Asia Pacific: 186
EMEA: 84

- $2.1 billion USD in annual revenue
- 1.46 billion square feet under management
- 15,800 professionals worldwide

(Based on 2013 results)

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