Research &
Forecast Report

GREATER PHOENIX | MULTIFAMILY

4Q 2016

Colliers INTERNATIONAL

Accelerating success.

After an Extended Run, a Pause to Close 2016

Key Takeaways

- The Greater Phoenix multifamily market closed a strong 2016 with some cooling off in the final three months of the year. During the fourth quarter, the market recorded a slight rise in the vacancy rate, a more modest pace of rent growth and a slowdown in the number of properties sold.
- Vacancy ended 2016 at 6.0 percent, up from 5.7 percent one year ago. This marked the first annual vacancy increase in Greater Phoenix since 2009. Despite the rise, the current vacancy rate is 300 basis points lower than the market's long-term average and absorption of units remains robust.
- Rents rose in the fourth quarter, but at a more modest pace than in preceding quarters. Asking rents ended 2016 at $931 per month, 6.8 percent higher than at year-end 2015. Further increases are anticipated in the year ahead.
- Investment activity in the fourth quarter was impacted by the rise in interest rates in the final weeks of the year. Sales velocity cooled to close 2016, but more properties sold over the past 12 months than changed hands in 2015. Prices rose throughout the year, but cap rates crept higher in the fourth quarter.

Market Indicators Relative to prior period	Market 4Q 2016	Market 4Q 2015
Vacancy	↑	↓
Rents	↑	↑
Transaction Activity	↓	↑
Price Per Unit	↑	↑
Cap Rates	↑	↓

Summary Statistics	Phoenix Market
Vacancy Rate	6.0%
Change from 4Q 2015 (bps)	+30
Asking Rents Per Month	$931
Change from 4Q 2015	6.8%
Median Sales Price Per Unit (YTD)	$103,700
Average Cap Rate	5.7%

Greater Phoenix Multifamily Market

The Greater Phoenix multifamily market recorded strong conditions for much of 2016, although the vacancy rate did tick higher to close the year. The rise in vacancy was expected, as the rate had been driven to a 20-year low earlier in the year, and the delivery of new units remains significant. With renter demand strong, developers have been active in recent years, completing more than 18,000 apartment units since the beginning of 2014.

Rental rates have been on the rise, surging ahead at a robust pace for 10 consecutive quarters before finally slowing at the end of 2016. Even after factoring in the modest gains in the fourth quarter, annual growth in 2016 was the strongest in the market in more than 10 years, and further increases are anticipated in 2017 due to the still-low vacancy rate and ongoing growth in the economy.

Sales of apartment properties slowed in the final few months of the year, but total transaction activity for 2016 was higher than the 2015 pace. The combination of new high-end product, low vacancy and rising rents has fueled price growth, with the median price in 2016 topping $100,000 per unit. Cap rates ticked higher in the fourth quarter and were up from 2015, mirroring interest rate trends.

SUBMARKET STATISTICS

Submarket Name	4Q 2016 Vacancy	4Q 2015 Vacancy	Annual Vacancy Change (BPS)	4Q 2016 Rents	4Q 2015 Rents	Annual Rent Change (%)
E Mesa/Apache Junction	4.7%	5.5%	(80)	$926	$851	8.8%
W Central Phoenix	4.9%	5.9%	(100)	$821	$585	40.3%
S Scottsdale	4.9%	4.9%	-	$1,187	$1,103	7.6%
N Mesa	5.1%	4.7%	40	$800	$734	9.0%
S Gilbert/Queen Creek	5.1%	5.0%	10	$1,054	$1,026	2.7%
N Paradise Valley	5.3%	4.9%	40	$1,046	$1,067	-2.0%
Deer Valley/N Peoria	5.4%	5.5%	(10)	$974	$909	7.2%
Maryvale/Estrella	5.6%	5.6%	-	$721	$672	7.3%
Central City/Sky Harbor	5.6%	4.5%	110	$1,271	$1,243	2.3%
S Phoenix/Laveen	5.6%	6.4%	(80)	$851	$861	-1.2%
Peoria/Sun City	5.8%	6.2%	(40)	$942	$860	9.5%
Union Hills/Cave Creek	5.8%	5.2%	60	$916	$840	9.0%
Goodyear/Avondale	5.8%	5.1%	70	$943	$871	8.3%
Gilbert/Superstition Springs	5.8%	5.0%	80	$982	$914	7.4%
N Scottsdale/Fountain Hills	5.8%	4.3%	150	$1,181	$1,117	5.7%
NW Black Canyon	5.9%	6.1%	(20)	$798	$744	7.3%
N Tempe	5.9%	6.6%	(70)	$1,086	$1,027	5.7%
S Tempe	5.9%	5.3%	60	$991	$945	4.9%
Chandler	5.9%	4.4%	150	$1,043	$1,000	4.3%
E Central Phoenix	6.1%	6.5%	(40)	$856	$808	5.9%
Central Phoenix/Encanto	6.1%	8.7%	(260)	$1,067	$1,013	5.3%
S Mesa	6.3%	5.0%	130	$853	$787	8.4%
Ahwatukee Foothills	6.4%	5.1%	130	$1,013	$951	6.5%
North Mountain	6.4%	4.7%	170	$846	$812	4.2%
Glendale	6.6%	6.0%	60	$723	$670	7.9%
N Central Phoenix/Alhambra	6.9%	9.2%	(230)	$855	$852	0.4%
Central Black Canyon	7.1%	11.1%	(400)	$615	$598	2.8%
NE Central Phoenix	7.7%	9.3%	(160)	$1,077	$1,060	1.6%
Metrocenter	8.4%	7.3%	110	$765	$671	14.0%
S Paradise Valley	10.0%	5.4%	460	$945	$863	9.5%

Employment:

- Employment growth was positive in 2016, but lagged the pace recorded in recent years. In 2016, 29,400 net new jobs were created, a 1.5 percent increase. In 2015, approximately 72,000 new positions were added.
- One segment of the local economy that has continued to add workers throughout the latest cycle has been education and health services. In the past year, more than 9,500 jobs have been added in this sector, an expansion of more 3 percent.
- The Greater Phoenix market continues to attract new and expanding companies. Freedom Financial Network recently announced plans to expand the company's local presence, a move that will result in approximately 1,000 new jobs.

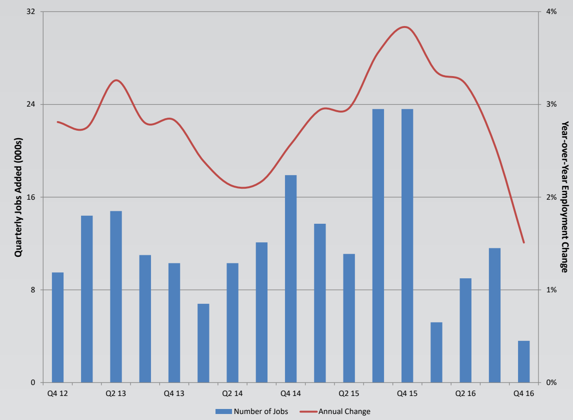
Construction:

- Deliveries slowed at the end of 2016, with approximately 800 units coming online. In 2016, more than 5,800 units were completed, after nearly 7,400 apartments were delivered in 2015.
- Projects totaling approximately 8,200 units are currently under way, 4 percent higher than during the third quarter. Looking ahead, developers are forecast to bring approximately 7,000 apartments to the market in 2017.
- Multifamily permitting ticked lower in the fourth quarter by approximately 6 percent, and the number of permits issued in the second half of the year was 12 percent lower than during the first half of the year. Even after slowing in the second half, multifamily permitting in 2016 was up more than 50 percent from 2015 levels.

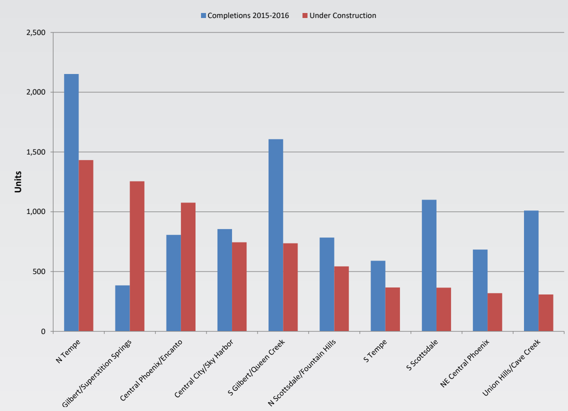
Vacancy:

- Multifamily vacancy in Greater Phoenix ticked higher to close 2016, ending the year at 6 percent, up 30 basis points from the third quarter.
- Vacancy in Greater Phoenix rose 30 basis points from 2015 to 2016, the first annual increase since 2009. Prior to this year, the vacancy rate had declined by an average of approximately 100 basis points annually over the past five years.
- The vacancy rate crept higher in the Class A segment, where the supply has been growing as new high-end complexes are delivered. Vacancy in Class A properties rose to 6.8 percent in the fourth quarter, 70 basis points higher than one year ago.

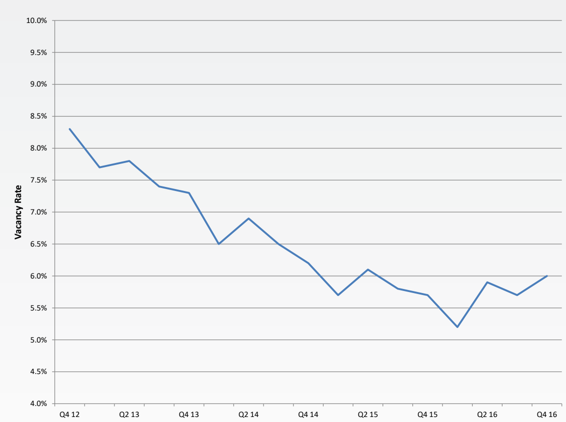
Employment Overview



Construction Trends: Major Submarkets



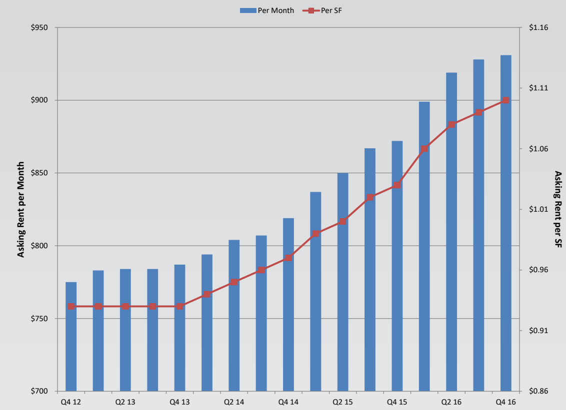
Quarterly Vacancy Trends



Rents:

- Asking rents pushed higher to close the year, reaching $931 per month. Rents increased 6.8 percent in 2016, building on a 6.5 percent gain in 2015.
- Rents rose for the thirteenth consecutive quarter, although the pace slowed from the robust rate recorded earlier in the year. Asking rents advanced 0.3 percent in the fourth quarter, after average quarterly growth of 1.8 percent since the beginning of 2015.
- Rents have been rising across the board, with all property classes recording healthy gains. After rent gains were led by the Class A segment for the past few years, momentum been building in the lower tiers. Class B asking rents rose 7.0 in 2016, while Class C rents spiked 7.5 percent.

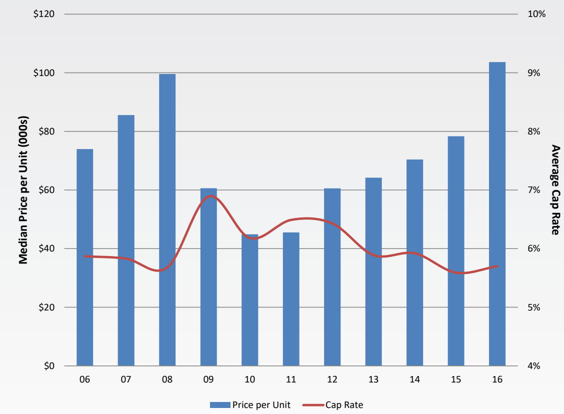
Quarterly Rent Trends



Investment Trends:

- Sales velocity cooled by approximately 8 percent from the third quarter to the fourth quarter. Even after accounting for a modest dip in the final months of the year, transaction activity in 2016 was 17 percent higher than the 2015 total.
- The median price in sales during the fourth quarter was $102,500 per unit, 5 percent higher than the third quarter median price. For the year, the median price spiked to $103,700 per unit, up more than 30 percent from the 2015 median price.
- Cap rates crept higher in the fourth quarter, following an uptick in the preceding three months. Cap rates averaged 5.9 percent in the final three months of the year and were 5.7 percent for all of 2016, slightly higher than in 2015.

Investment Trends



Recent Transactions in the Market

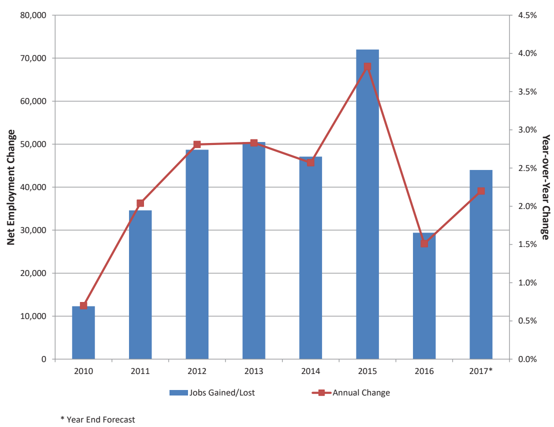
MULTIFAMILY SALES ACTIVITY				
Property Name	Street Address	Units	Sales Price	Price per Unit
Crescent Scottsdale Quarter	15345 N Scottsdale Rd., Scottsdale	275	$87,000,000	$316,363
Almeria at Ocotillo	2471 W Edgewater Way, Chandler	389	$79,784,000	$205,100
La Privada at Scottsdale Ranch	10255 E Via Linda, Scottsdale	350	$64,000,000	$182,857
Solara at Mill Avenue	3730 S Mill Ave., Tempe	515	$47,500,000	$92,233
Arcadia Walk	2606 N 44th St., Phoenix	148	$13,660,000	$92,297

Outlook:

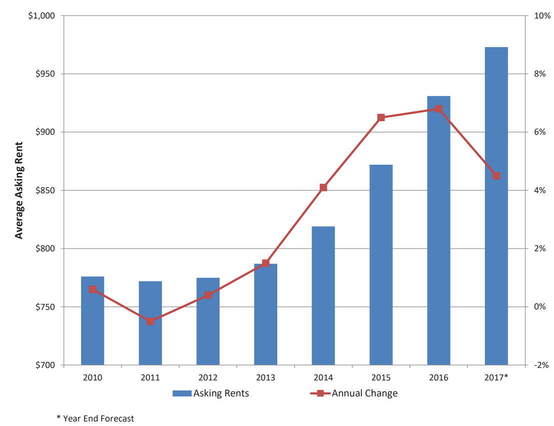
The Greater Phoenix multifamily market has been strengthening for the past several years, but that improvement leveled off in the second half of 2016. Looking ahead to 2017, vacancy may tick higher, but the rate will remain well below the market's long-term average. Rents will continue to push higher, although the pace of gains will likely slow from the robust growth recorded over the past two years. After construction slowed in 2016, deliveries will accelerate in the year ahead, with more than 7,000 units forecast to come online.

The investment market is likely to remain in flux at least in the first few months of 2017. The interest rate spike at the close of 2016 added uncertainty to the market and it may take a bit of time for rates to stabilize. The slight change in property fundamentals could also impact the investment market. It will likely take a few more quarters to determine if the late-2016 trend of slowing rent growth will carry over into 2017, or if it was a simple pause in the improvement cycle.

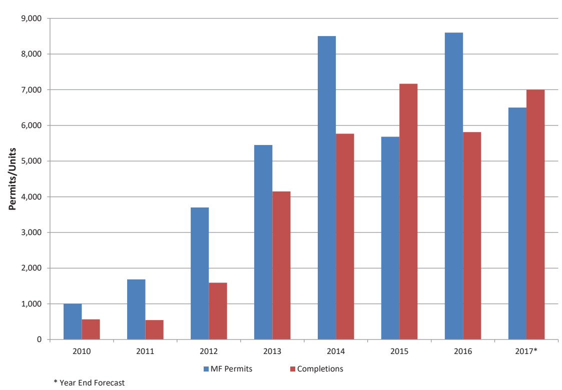
Employment Forecast



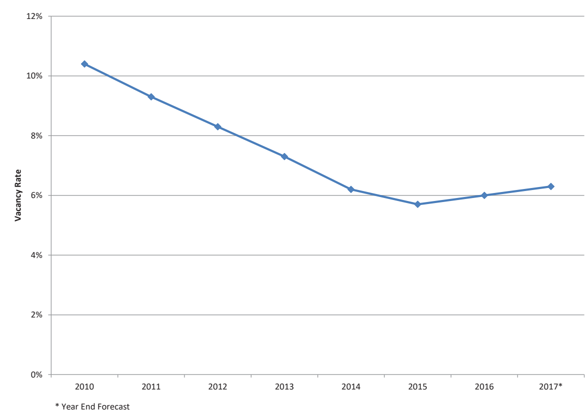
Rent Forecast



Construction and Permitting Forecast



Vacancy Forecast



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