

GREATER PHOENIX | LAND

2H 2016

Accelerating success.

Land Sales Accelerate to Close 2016

Key Takeaways

- The Greater Phoenix housing market continued its steady pace of improvement in the second half of 2016. Home prices are on the rise and permitting ticked higher in 2016. These trends are forecast to continue in the year ahead.
- Permitting for both single-family and multifamily housing rose from 2015 to 2016, although the strongest activity was recorded in the first half of the year. In 2016, developers pulled approximately 18,600 single-family permits and more than 9,400 multifamily permits.
- Land sales accelerated in the second half and total activity in 2016 was nearly identical to 2015 levels. Sales of land parcels for residential uses spiked in the final six months of 2016. Land prices dipped in the second half, but the median price in 2016 was up more than 30 percent from the 2015 median price.
- The local commercial real estate market is improving. Vacancy is tightening and rents are creeping higher. Commercial development has been concentrated in a few large build-to-suit office and industrial projects. Spec development is likely to accelerate in 2017.

Market Indicators

Relative to prior period

Market
2H 2016

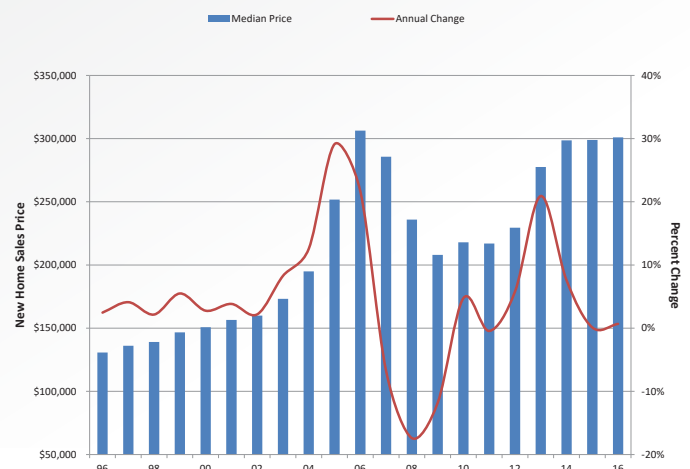
Market
2H 2015

Land Sales	↑	↑
Land Prices	↓	↑
Residential Sales	↑	↑
Single-Family Permits	↓	↑
Multi-Family Permits	↓	↑
Construction Employment	↓	↓

Residential Market Overview

- Local home prices continue to rise at a steady pace. According to the S&P/Case Shiller Home Price Index, sales prices in Greater Phoenix rose 5.2 percent year over year through November. This was a bit lower than the national rate of price growth.
- New home prices have remained very consistent from 2014. The median new home sales price in 2016 reached \$301,000, up approximately 1 percent from the 2015 median price. While the annual increase was modest, 2016 marked the first year since 2006 where the median price topped \$300,000 per unit.

New Homes Sales Price



Residential Market Overview (Continued)

- › The apartment market was strong in 2016, although vacancy did tick higher in the final few months of the year and the rate is forecast to rise again in the coming years. Multifamily vacancy ended 2016 at 6 percent, after remaining below 6 percent for five consecutive quarters.
- › Multifamily vacancy remains 300 basis points below the long-term average, and rents are at all-time highs. These trends are prompting new development as approximately 8,200 apartments are under construction, with 7,000 units likely to come online in 2017.

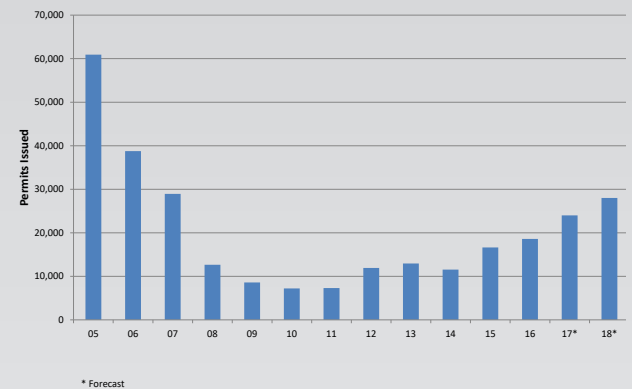
Permitting Overview:

- › Permitting slowed in the second half of 2016, but the total for the year was ahead of the 2015 pace. The residential market is slowly bouncing back, supporting permitting activity, while the expanding local population is fueling demand for housing.
- › Single-family permitting dipped 11 percent from the first half of 2016 to the second half. Permitting typically cools off in the second halves of years in Greater Phoenix. For the full year, single-family permitting rose 10 percent to 18,600 units. Looking ahead to 2017, single-family permitting is forecast to reach 24,000 units.
- › Permitting for multifamily units slowed by approximately 5 percent from the first half to the second half, although there was a spike in the final few months of the year. In 2016, more than 9,400 multifamily permits were issued, up from permits for 5,400 units in 2015.
- › Apartment vacancy has been tight for the past few years, but the rate ticked higher in the fourth quarter. The robust construction activity occurring in the market will likely continue to push the vacancy rate higher in the years to come. Multifamily permitting is forecast to slow by approximately 30 percent in 2017.

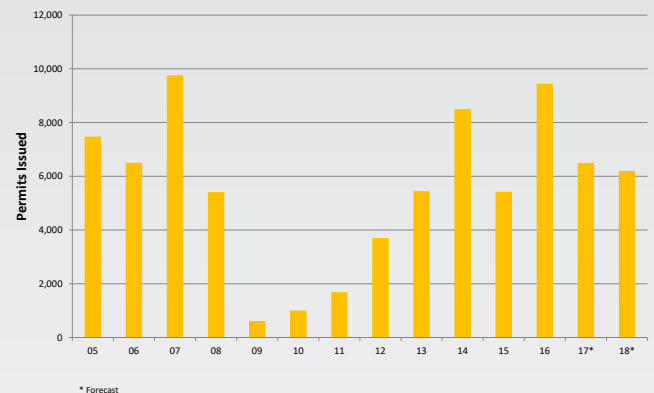
Land Sales:

- › Sales of land parcels accelerated by more than 30 percent from the first half of the year to the second half. The spike in activity was fueled by a surge in sales of land parcels for residential development. Sales velocity in 2016 slightly outpaced 2015 levels.
- › While activity surged in the second half of the year, prices ticked lower. The median price in land sales was \$3.39 per square foot, down from \$3.89 per square foot in the first six months of the year. The median price for the full year was \$3.65 per square foot, up more than 30 percent from the median price in 2015.
- › Sales of land parcels for residential uses spiked by more than 55 percent from the first half of 2016 to the second half. This surge in the second half caused total transaction activity in 2016 to outpace the 2015 total by 5 percent.

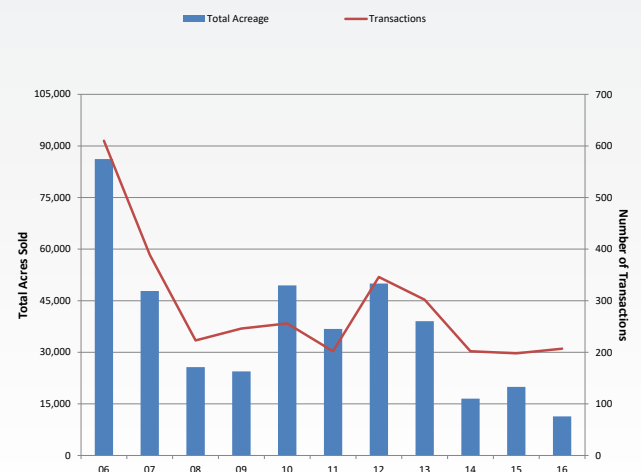
Single Family Permits



Multi Family Permits



Residential Land Sales



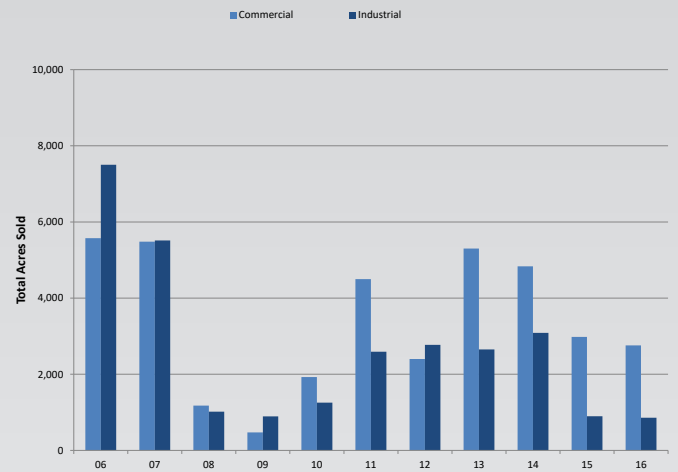
Land Sales (Continued)

- Prices of land for residential development dipped in the second half of 2016, with the median price falling 14 percent from the first half of the year. The median price was \$3.10 per square foot in the second half. Even after a dip in the second half, the median price in residential land sales for 2016 was \$3.39 per square foot, 50 percent higher than the median price in 2015.
- Sales velocity of land for commercial uses was flat from the first half of 2016 to the second half. In 2016, sales of land for commercial development inched up 4 percent from the 2015 total. The steady improvement in the commercial real estate market should support additional land sales for commercial development.
- Pricing for land for commercial uses dipped by 19 percent in the second half of 2016. The median price in the second half was \$3.68 per square foot, and for the full year, the median price in land deals for commercial uses was \$4.08 per square foot, 11 percent below the 2015 median price.
- Land sales for industrial uses gained momentum in the second half, accelerating by 13 percent. Even after factoring in the rise in the second half of the year, sales velocity in 2016 was down 15 percent from the 2015 total.
- Prices for land for industrial uses dipped in the second half of the year, but the median price in 2016 was nearly identical to the median price in 2015. Industrial development has remained active, with a mix of spec and build-to-suit projects making their way through the construction pipeline.

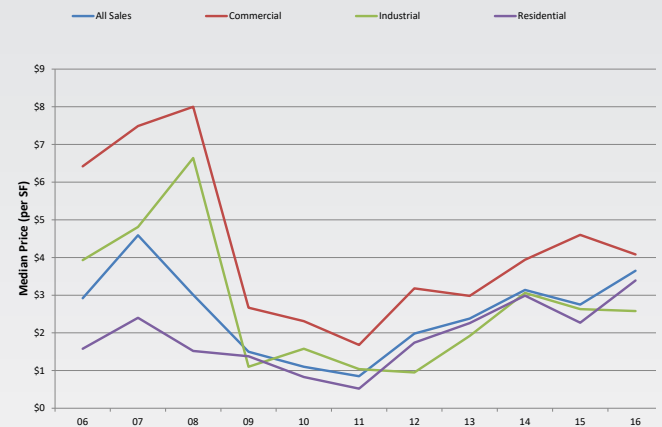
Commercial Property Overview:

- The Greater Phoenix commercial real estate market improved in 2016. Vacancies trended lower and rents rose. New spec development has been modest to this point in the cycle, but there have been large build-to-suit projects for both the office and industrial property segments. The greatest development activity has been occurring in multifamily construction.
- Net absorption in the office market totaled more than 1.8 million square feet in the second half of 2016, including 936,000 square feet in the fourth quarter. Absorption in the second half of the year was up 9 percent from the first half. Office vacancy ended the year at 16 percent, 110 basis points lower than one year earlier.
- Office rents are on the rise, reaching \$23.50 per square foot. This marked the fifteenth straight quarter of rent growth. Asking rents rose by 5.1 percent in 2016, although the pace of growth was more robust in the first half than in the final six months of the year.

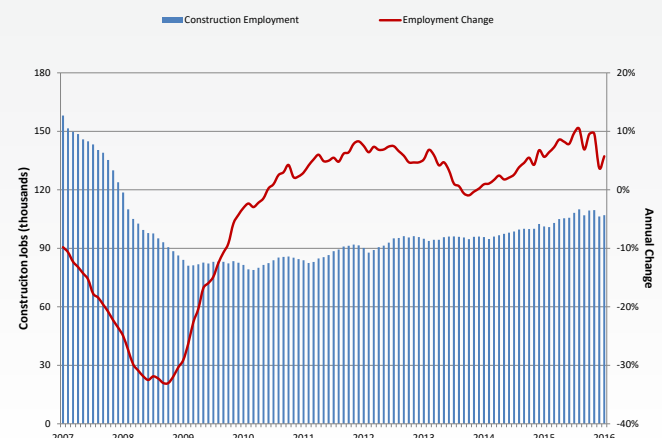
Total Acres Sold



Land Sales Pricing Trends



Greater Phoenix Construction Employment



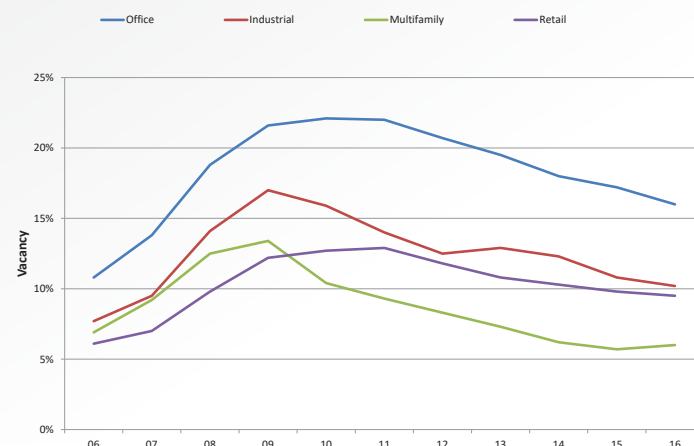
Commercial Property Overview (Continued)

- The industrial market strengthened in the second half of the year. Net absorption in the second half topped 3.6 million square feet, including nearly 2.4 million square feet in the fourth quarter. This was a 72 percent increase from the first half of the year. Net absorption in the Southwest Valley exceeded 3 million square feet in 2016. The healthy absorption drove vacancy in Greater Phoenix down to 10.2 percent to close 2016.
- With tenants actively leasing large blocks of space, developers are bringing new industrial projects to the market. More than 2.1 million square feet came online in the second half of 2016 and more than 4 million square feet is currently under way. Approximately 3 million square feet of spec projects are under construction.
- The local retail market posted modest gains in 2016, although conditions have been slow to improve. Net absorption totaled more than 1.5 million square feet in 2016, up from less than 1.4 million square feet in 2015. Net absorption reached nearly 550,000 square feet in the fourth quarter.
- Retail vacancy was very steady in 2016, ranging from 9.4 percent to 9.6 percent. The rate dipped to 9.5 percent in the fourth quarter, 10 basis points lower than one year earlier. Retail vacancy has improved in each of the past five years, although the rate of improvement slowed in both 2015 and 2016.

Outlook

The Greater Phoenix land market is forecast to continue to post steady gains in activity in 2017. The local housing market is slowly gaining momentum, although to this point in the cycle, much of the new demand for housing has been filled by high-end multifamily development. This trend is expected to lessen in the years ahead, and forecasts for 2017 call for an acceleration in single-family permitting and a decline in multifamily permit issuance. One factor that could slow the momentum in the housing market is interest rates, which rose at the end of 2016 and will likely tick higher a few more times in 2017. An increase in borrowing costs would increase monthly mortgage payments for those renters considering a transition into home ownership.

Commercial Vacancy Rates



CASE-SHILLER HOUSING INDEX

METRO AREA	NOVEMBER 2016 VALUE*	MONTHLY CHANGE	ANNUAL CHANGE
Seattle	205.30	0.2%	10.4%
Portland	208.57	0.2%	10.1%
Denver	189.69	0.6%	8.7%
Dallas	168.72	0.2%	8.1%
Tampa	189.11	0.8%	8.1%
Detroit	110.04	-0.1%	6.6%
Atlanta	133.43	0.0%	6.1%
Miami	219.31	0.5%	6.1%
Las Vegas	153.41	0.3%	6.0%
Charlotte	142.82	0.3%	5.9%
San Diego	228.89	0.3%	5.8%
Boston	193.24	0.4%	5.5%
Los Angeles	252.61	0.2%	5.5%
Minneapolis	155.54	0.1%	5.5%
San Francisco	229.82	-0.1%	5.3%
Phoenix	164.44	0.3%	5.2%
Chicago	135.51	-0.8%	4.0%
Cleveland	112.93	0.0%	3.8%
Washington	218.14	0.2%	3.7%
New York	184.83	0.4%	2.4%

Source: Standard & Poor's * Index Value based on Jan 2000 data as 100 for each Metro Area

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