Research &
Forecast Report

GREATER PHOENIX | MULTIFAMILY
Q1 2018

Colliers INTERNATIONAL

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Rents and Sales Prices on the Rise to Start 2018

Key Takeaways

- The Greater Phoenix multifamily market got off to a hot start to 2018. Vacancy continues to retreat even as new inventory comes online, while both rents and sales prices are trending higher.
- The local vacancy rate dipped by 50 basis points during the first quarter, falling to 5.4 percent. This is the second-lowest market vacancy in the past 20 years. Renter demand is being sparked by population growth and employers expanding payrolls.
- Asking rents gained 2.4 percent during the first quarter. Current asking rents are $1,018 per month, 7.3 percent higher than one year ago.
- Investors are responding to the market's tight conditions and persistent rent growth. The median price during the first quarter topped $120,000 per unit and cap rates have compressed to approximately 5 percent.

Market Indicators Relative to prior period	Market Q1 2018	Market Q1 2017
Vacancy	↓	↓
Rents	↑	↑
Transaction Activity	↓	↓
Price Per Unit	↑	↓
Cap Rates	↓	↑

Summary Statistics	Phoenix Market
Vacancy Rate	5.4%
Change from 1Q 2017 (bps)	-20
Asking Rents (per month)	$1,018
Change from 1Q 2017	7.3%
Median Sales Price (per unit YTD)	$120,600
Average Cap Rate (YTD)	5.0%

Greater Phoenix Multifamily Market

The Greater Phoenix multifamily market continued to strengthen in the first few months of 2018. Vacancy tightened and rents surged above $1,000 per month for the first time on record. Renter demand for multifamily units is being fueled by healthy employment gains and new household formation. For the second consecutive year, Maricopa County recorded greater population growth than any other county in the United States, with the county's total population expanding by approximately 74,000 residents in 2017.

This strong renter demand is driving the vacancy rate down near historically low levels. Vacancy ended the first quarter at just 5.4 percent, lower than one year ago even as nearly 9,000 units have been delivered during the past 12 months. Additional projects are in the pipeline and slated for delivery over the next 24 months.

Sales of apartment buildings slowed a bit from the pace recorded during the fourth quarter of last year, but investment conditions remain quite strong. Prices of units continue to rise, particularly in projects that have been completed during the current wave of new development. Cap rates have compressed to approximately 5 percent, even as interest rates have begun to creep higher. It remains to be seen if the current cap rates can be sustained or if they will more closely track the upticks in financing rates going forward.

SUBMARKET STATISTICS

Submarket Name	1Q 2018 Vacancy	1Q 2017 Vacancy	Annual Vacancy Change (BPS)	1Q 2018 Rents	1Q 2017 Rents
N Mesa	4.0%	4.4%	(40)	$867	$815
E Mesa/Apache Junction	4.0%	4.5%	(50)	$1,002	$936
W Central Phoenix	4.1%	4.5%	(40)	$860	$788
Peoria/Sun City	4.2%	8.3%	(410)	$1,010	$945
Goodyear/Avondale	4.5%	4.0%	50	$1,018	$961
Chandler	4.6%	5.7%	(110)	$1,125	$1,063
North Mountain	4.8%	6.0%	(120)	$908	$965
N Scottsdale/Fountain Hills	4.9%	5.0%	(10)	$1,271	$1,198
Gilbert/Superstition Springs	5.0%	5.2%	(20)	$1,053	$992
S Paradise Valley	5.1%	7.4%	(230)	$1,015	$889
NW Black Canyon	5.1%	5.4%	(30)	$854	$806
S Scottsdale	5.2%	4.6%	60	$1,366	$1,233
S Mesa	5.2%	5.3%	(10)	$939	$863
Union Hills/Cave Creek	5.2%	5.0%	20	$1,008	$947
Deer Valley/N Peoria	5.2%	5.1%	10	$1,050	$1,010
E Central Phoenix	5.3%	5.7%	(40)	$934	$883
N Paradise Valley	5.4%	5.3%	10	$1,147	$1,062
Glendale	5.4%	6.1%	(70)	$780	$726
Maryvale/Estrella	5.4%	6.0%	(60)	$785	$738
S Gilbert/Queen Creek	5.4%	6.4%	(100)	$1,205	$1,064
S Phoenix/Laveen	5.5%	5.4%	10	$932	$877
S Tempe	5.7%	5.8%	(10)	$1,080	$1,013
N Tempe	5.9%	6.0%	(10)	$1,192	$1,105
Central City/Sky Harbor	6.0%	5.8%	20	$1,356	$1,262
N Central Phoenix/Alhambra	6.1%	6.2%	(10)	$898	$868
Metrocenter	6.3%	8.9%	(260)	$804	$766
Ahwatukee Foothills	6.4%	5.8%	60	$1,113	$1,043
Central Phoenix/Encanto	7.0%	7.2%	(20)	$1,122	$1,055
Central Black Canyon	8.2%	6.9%	130	$695	$631
NE Central Phoenix	10.6%	7.3%	330	$1,099	$1,083

Employment:

- Employers accelerated the pace of hiring during the first quarter, adding approximately 24,000 net new jobs. During the past 12 months, payrolls have expanded by 3 percent with the addition of 61,600 new workers.
- With the local economy expanding and strong population growth being recorded, construction employment is on the rise. Year over year, employment in the construction sector has spiked by 8.7 percent with the addition of 9,500 new jobs. The residential/commercial building segment has expanded by 15.3 percent in the past year.
- Growth in Greater Phoenix is being fueled almost entirely by the private sector. Government employment has inched up by fewer than 1,000 jobs in the past year, or less than 0.4 percent. Employment in private-sector industries has expanded by more than 60,000 workers at an annual growth rate of nearly 3.5 percent.

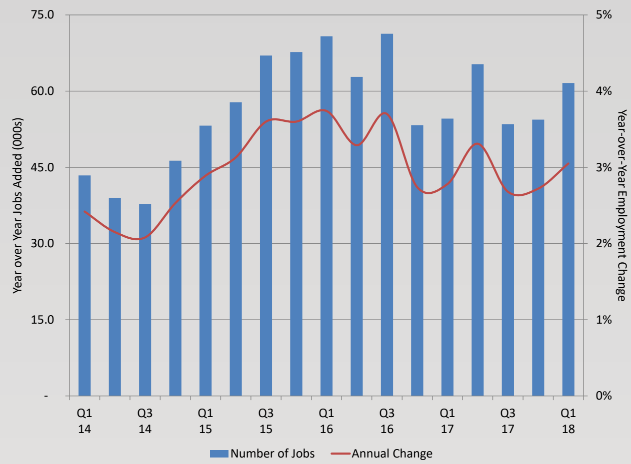
Construction:

- The pace of deliveries slowed a bit during the first quarter. After developers brought an average of more than 2,200 units per quarter online in 2017, fewer than 1,600 units were delivered during the first quarter of this year.
- There are approximately 10,500 units currently under construction throughout Greater Phoenix, nearly identical to the number of units that were under construction one year ago. New projects continue to enter the development pipeline due to vacancy declines and ongoing rental increases.
- Multifamily permitting totaled nearly 2,400 units during the first quarter, 3 percent higher than the total from the fourth quarter of last year. Multifamily pe rmitting was up more than 35 percent from the levels recorded during the first quarter of 2017.

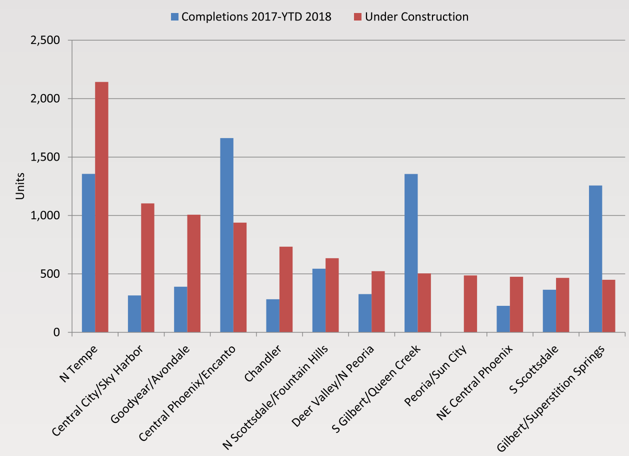
Vacancy:

- After inching higher at the end of last year, vacancy tightened to start 2018. The vacancy rate fell 50 basis points in the first quarter, dipping to just 5.4 percent. Vacancy is down 20 basis points year over year.
- The current vacancy rate in Greater Phoenix is the second-lowest quarterly figure in the past 20 years. The lowest figure in this current cycle occurred in the first quarter of 2016, when the rate reached 5.2 percent.
- While the overall vacancy dip is fairly modest, the improvement is widespread. Vacancy has declined on a year-over-year basis in 20 of the 30 submarkets in the Greater Phoenix market. This is a bit of an improvement from one year ago, when 19 submarkets had posted an improvement.

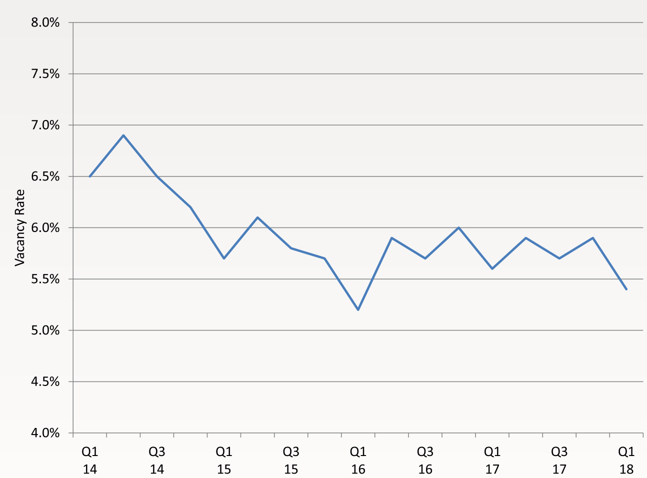
Employment Overview



Construction Trends: Major Submarkets



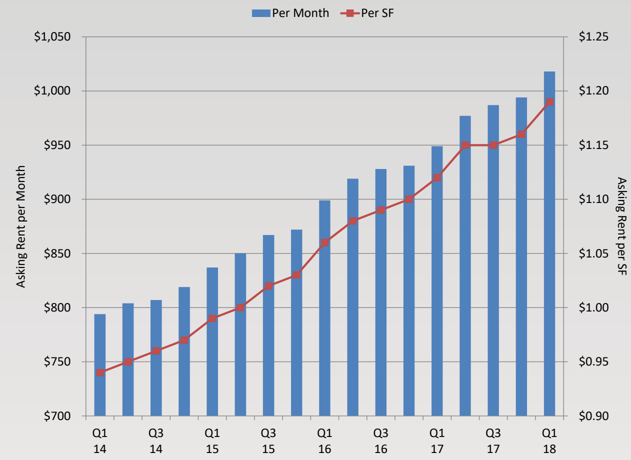
Quarterly Vacancy Trends



Rents:

- Asking rents shot up during the first quarter, spiking by 2.4 percent and topping $1,000 per month for the first time. The average asking rent in Greater Phoenix reached $1,018 per month in the first quarter, reflecting a 7.3 percent annual gain.
- While nearly all of the submarkets in Greater Phoenix are recording rent gains, some of the strongest increases are occurring in areas where significant numbers of newer, expensive units are being delivered. Submarkets including South Gilbert/Queen Creek, South Scottsdale and North Tempe have all posted above-average rent increases during the past year.
- Asking rents in Class A buildings surged during the first quarter, advancing by nearly 5 percent from the end of 2017 to $1,711 per month, or $1.77 per square foot, per month. If sustained, robust rent gains in the Class A segment will continue to support new development as more projects will pencil.

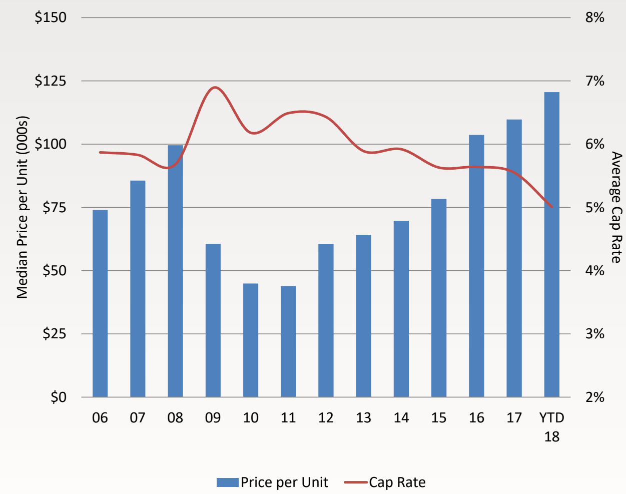
Quarterly Rent Trends



Investment Trends:

- Multifamily sales velocity slowed by approximately 15 percent from the fourth quarter of last year to the first quarter of 2018. Slowdowns in the first quarter are common, as many investors tend to try to close transactions before year end. The transaction count to start 2018 was nearly identical when compared to the first quarter of last year.
- Prices continue to push higher in response to improving property fundamentals. The median price during the first quarter of this year topped $120,000 per unit, up approximately 10 percent from the median price in 2017. Newer units are selling at significant premiums; the median price in buildings built since 2010 was over $251,000 per unit during the first quarter.
- Cap rates have continued to compress even as interest rates have pushed higher to start the year. The average cap rate in closed transactions during the first quarter was approximately 5 percent, down 50 basis points from the average in 2017.

Investment Trends



Recent Transactions in the Market

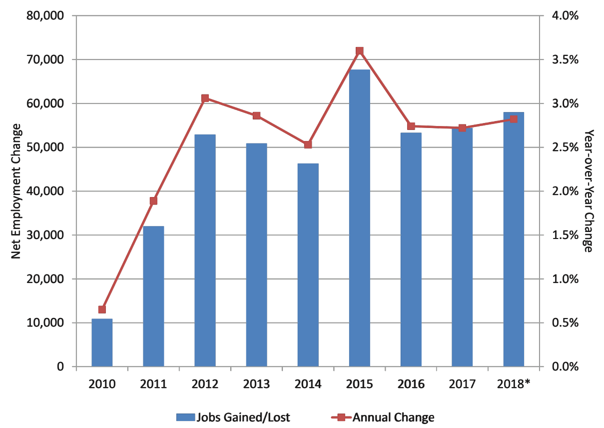
MULTIFAMILY SALES ACTIVITY				
Property Name	Street Address	Units	Sales Price	Price per Unit
TEN 01 on the Lake	1001 E Playa del Norte Dr., Tempe	523	$115,000,000	$219,885
Carlyle at South Mountain	5151 E Guadalupe Rd., Phoenix	552	$90,000,000	$163,043
Sky at P83	14300 N 83rd Ave., Peoria	296	$46,750,000	$157,939

Outlook:

The strong start to the year continues to brighten the outlook for the Greater Phoenix multifamily market. Renter demand was particularly strong during the first quarter of this year, with net absorption up more than 33 percent from the same period one year ago. Looking ahead, the second quarter is typically a period when conditions soften a bit, as some seasonal residents vacate for cooler climates. Net absorption was slightly positive in the second quarter of 2017, and if that trend repeats, it will be an indicator that a very active second half of the year is likely.

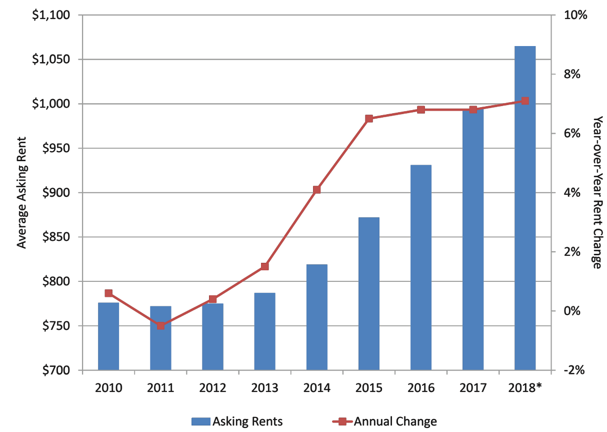
Strong property performance remains a catalyst for investment activity. Some of the increase in pricing is related to the mix of buildings changing hands—properties delivered in the past 10 years accounted for approximately 20 percent of all transactions during the first quarter—but heightened investor demand is also playing a role. Cap rates compressed to approximately 5 percent during the first quarter, even as interest rates rose. It is unclear how long this trend can be sustained, but a spike in cap rates appears unlikely in the months ahead.

Employment Forecast



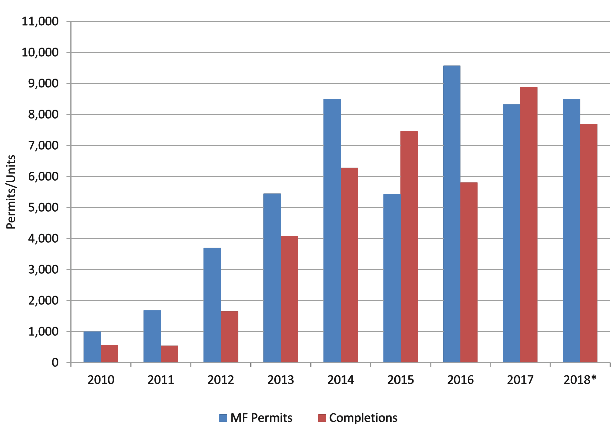
* Year End Forecast

Rent Forecast



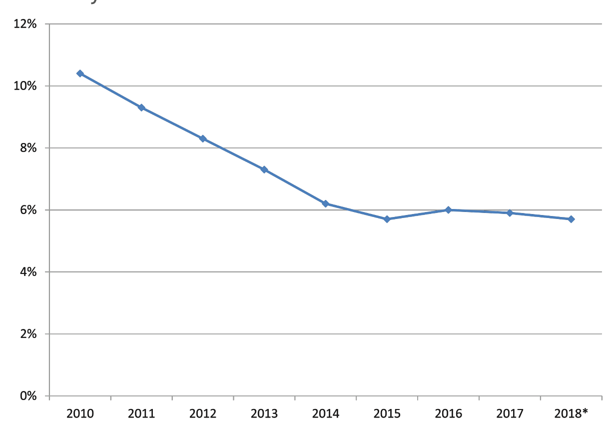
* Year End Forecast

Construction and Permitting Forecast



* Year End Forecast

Vacancy Forecast



* Year End Forecast

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