# Multifamily Research

## Market Report

Third Quarter 2017

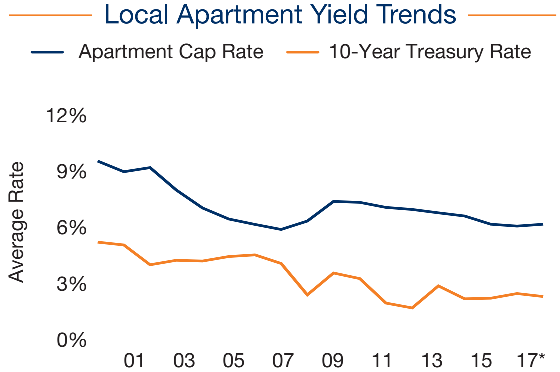
Phoenix Metro Area

## Economic Growth Attracting Investors, Developers to Phoenix

**Phoenix workforce growing faster than the nation, though cost of homeownership drives residents to rent.** Propelled by strong employment numbers and a growing number of households across the Valley, demand for apartments in the Phoenix metro remains high. Greater ease of doing business than several West Coast markets has spurred company expansions in the region, supplying Phoenix with high-paying positions in the tech industry. Growth in the number of households renting is also being supported by a median home price that continues to climb at a higher rate than the median household income. A higher propensity to rent will help fill new rentals across the market at a steady clip in 2017, dropping availability for the eighth consecutive year, nearing the tightest level of the cycle.

**Suburban markets lead construction.** More than 13,000 apartments are underway across the Valley. Areas of highest concentration include the North Tempe/University and North Central Phoenix submarkets, which will both add more than 2,300 units over the next two years. Several of the biggest complexes underway across the market are rising in Tempe to meet the needs of a growing workforce and Arizona State University. The largest project opening this year is the 399-unit market-rate Nexa in Tempe. High demand for limited available units combined with an influx of top-tier rentals across the market contribute to another year of stable rent gains.

### Local Apartment Yield Trends




* Trailing 12 months through 2Q17

Sources: CoStar Group, Inc.; Real Capital Analytics

## Multifamily 2017 Outlook

**6,550** units will be completed

### Construction:

Following the completion of 8,100 units in 2016, developers will deliver 6,550 rentals this year. Gilbert receives 1,226 units, the most of any submarket.

**10** basis point decrease in vacancy

### Vacancy:

The vacancy rate falls to 4.3 percent at year end, 850 basis points below the peak set in 2009. A 20-basis-point drop was posted last year.

**6.5%** increase in effective rents

### Rents:

Average effective rent growth surpasses a 6.0 percent pace for the third consecutive year in 2017, reaching $996 per month.

## Investment Trends

- Strong property operations are translating into increased income for apartment owners, fueling investor interest in Phoenix as the market strengthens. Rent gains above the market average in West Phoenix, Southwest and Northwest Mesa will fuel buyer activity in these areas this year.
- Going-in cap rates held relatively stable from June 2016 through June 2017, falling in the upper-5 percent band on average. Newer Class A assets commonly traded in the mid-4 to low-5 percent range, while Class C complexes fell in the low-6 to upper-7 percent territory.
- Buyers were especially active in the North Mountain submarket, which includes the neighborhoods of Hoffmantown and Sunnyslope, in the past 12 months. This centrally located corridor has a large inventory of turn-key multifamily properties that often yield a cap rate higher than 7 percent, attracting a mix of out-of-state investors.

# Phoenix

Marcus & Millichap

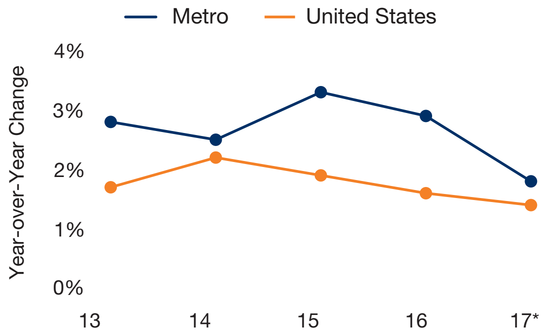
## 2Q17 – 12-Month Period

### EMPLOYMENT:

2.6% increase in total employment Y-O-Y

- The Phoenix workforce grew by 52,000 jobs over the past 12 months ended in June, expanding slightly below the 3.1 percent pace registered last year.
- The jobless rate dropped 20 basis points over the period to 4.4 percent. Job gains in the first half of the year have been led by the leisure and hospitality sector, which added 8,300 workers to payrolls.

Employment Trends

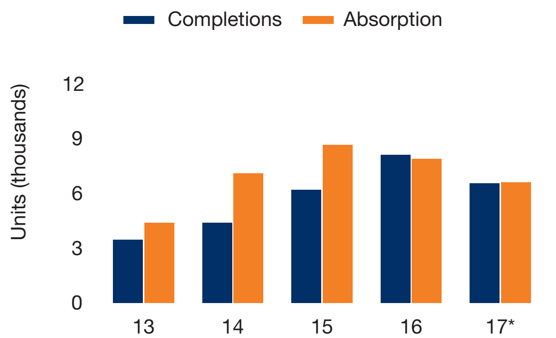



### CONSTRUCTION:

5,390 units completed Y-O-Y

- Deliveries over the past four quarters slowed from the 9,200 units added to the market in the prior period. In the second quarter 1,423 apartments opened.
- The largest delivery was the 388-unit San Milan in the Deer Valley submarket. Chandler led completions with 779 doors added over the period, followed by Southwest Mesa with 726 new apartments.

Completions and Absorption

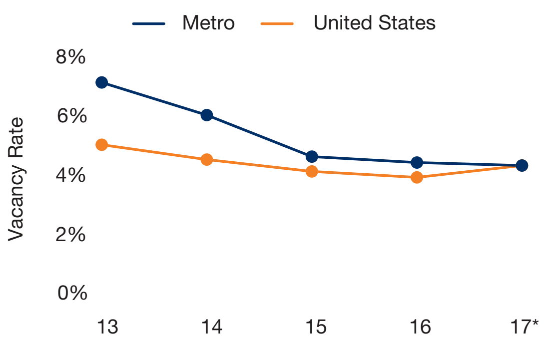



### VACANCY:

20 basis point decrease in vacancy Y-O-Y

- Net absorption of 4,930 units and the removal of 930 apartments drove down availability 20 basis points in the last 12 months to 4.2 percent in the second quarter.
- Vacancy at Class A rentals fell 160 basis points over the year ended in June to 6.2 percent while Class C complexes posted an availability rate of 2.5 percent, the lowest marketwide and down 70 basis points from 2016.

Vacancy Rate Trends

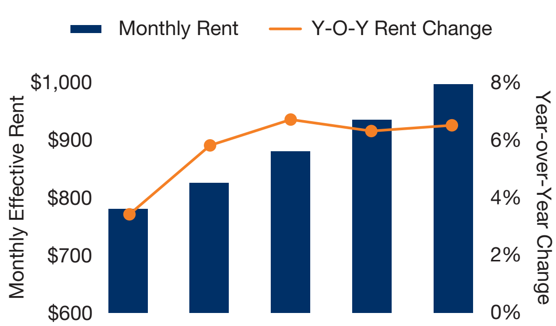



### RENTS:

6.0% increase in effective rents Y-O-Y

- The average effective rent climbed to $979 per month in the second quarter following an 8.1 percent increase at the same time last year.
- Class C apartments posted a 10.8 percent increase to the effective rent, reaching $813 a month in June. A 2.3 percent rise occurred at Class A units, where rents averaged $1,190 a month.

Rent Trends




* Forecast

## DEMOGRAPHIC HIGHLIGHTS

**$$**

2Q17 MEDIAN HOUSEHOLD INCOME

Metro **$60,970**

U.S. Median $58,672

2Q17 AFFORDABILITY GAP

Renting is **$391** Per Month Lower

Average Effective Rent vs. Mortgage Payment*

MULTIFAMILY (5+ Units) PERMITS❖

**7,246** 1H 2017

8% Compared with 1H 2014-2016

2Q17 MEDIAN HOME PRICE

Metro **$244,200**

U.S. Median $246,000

FIVE-YEAR HOUSEHOLD GROWTH**

**229,000** or **2.6%** Annual Growth

U.S. 1.1% Annual Growth

SINGLE-FAMILY PERMITS❖

**21,274** 1H 2017

15% Compared with 1H 2014-2016

*Mortgage payments based on quarterly median home price with a 30-year fixed-rate conventional mortgage, 90% LTV, taxes, insurance and PMI. **2017-2022 ❖ Annualized Rate

## SUBMARKET TRENDS

### Lowest Vacancy Rates 2Q17

| Submarket | Vacancy Rate | Y-O-Y Basis Point Change | Effective Rents | Y-O-Y % Change |
|---|---|---|---|---|
| Far West Phoenix | 2.2% | -180 | $766 | 5.9% |
| Avondale/Goodyear/West Glendale | 2.8% | -80 | $984 | 8.0% |
| Gilbert | 3.1% | -60 | $1,049 | 2.6% |
| West Phoenix | 3.2% | 40 | $692 | 12.9% |
| East Mesa | 3.4% | 20 | $985 | 4.8% |
| South Glendale | 3.5% | 20 | $724 | 7.4% |
| Northwest Mesa | 3.6% | 80 | $852 | 8.1% |
| Northeast Phoenix | 3.7% | -10 | $902 | 1.3% |
| Southwest Mesa | 3.8% | 100 | $870 | 10.0% |
| North Glendale | 3.9% | 70 | $997 | 3.6% |
| **Overall Metro** | **4.2%** | **-20** | **$979** | **6.0%** |

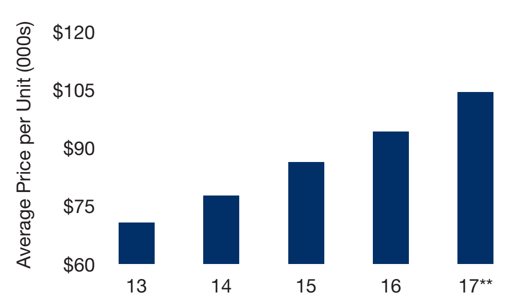
## SALES TRENDS

### Average Price Per Unit Pushes Past $100,000 For the First Time

- Deal flow remained robust over the past four quarters, up 2 percent from the prior period, led by sales in the Camelback/Biltmore submarket followed by the North Mountain and Peoria/Glendale/Maryvale submarkets.
- On a per unit basis prices climbed 16 percent on average over the year, reaching $104,300. Class A properties traded for $178,000 a unit on average.

Outlook: A nearly 10 percent rent increase and a 410-basis-point drop in the vacancy rate year over year in June will spike demand in the North Tempe/University submarket where 2,335 units are underway.

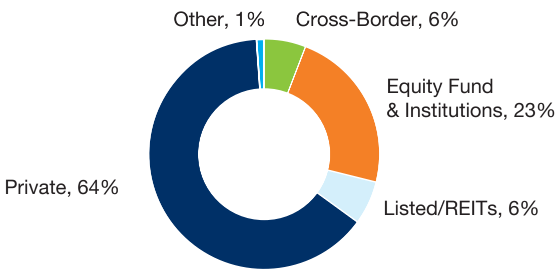
### Pricing Trends




** Trailing 12 months through 2Q17

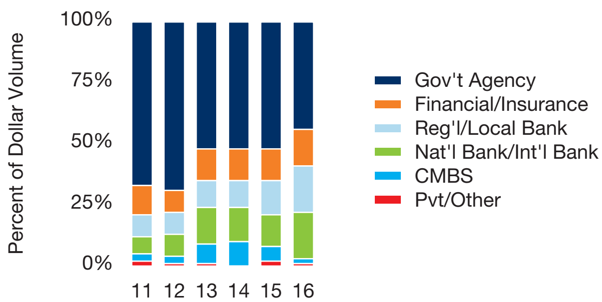
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

## Apartment Acquisitions By Buyer Type*




* Trailing 12 months through 2Q17

## Apartment Mortgage Originations By Lender




Sources: CoStar Group, Inc.; Real Capital Analytics

## CAPITAL MARKETS

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- **Monetary policy in transition.** Despite the Fed raising its benchmark short-term rate three times in seven months and signaling another rise before the end of the year, long-term rates have remained stable. The yield on the 10-year U.S. Treasury bond remained in the low- to mid-2 percent range throughout the second quarter of 2017. The Federal Reserve wants to normalize monetary policy and, in addition to rate hikes, will likely start paring its balance sheet.
- **Sound economy a balancing act for Fed.** With unemployment hovering in the low-4 percent range, the lowest level since 2007, the Federal Reserve will remain vigilant regarding the possible rapid increase in inflation if wage growth takes off. Additionally, business confidence and job openings are near all-time highs. Businesses finally have the assurance to expand their footprints after years of tepid growth following the Great Recession. These conditions are allowing pent-up households to form, creating new apartment demand. The Fed, however, must now balance economic growth and job creation against wage growth and inflationary pressures.
- **Underwriting discipline persists; ample debt capital remains.** Overall, leverage on acquisition loans has continued to reflect disciplined underwriting, with LTVs typically ranging from 65 percent to 75 percent for most apartment properties. At the end of 2016, the combination of higher rates, conservative lender underwriting and fiscal policy uncertainty encouraged some investor caution that slowed deal flow, a trend that has extended into 2017. A potential easing of regulations on financial institutions, though, could liberate additional lending capacity and higher interest rates may also encourage additional lenders to participate.


### National Multi Housing Group

*Visit www.NationalMultiHousingGroup.com*

**John Sebree**
First Vice President, National Director
National Multi Housing Group
Tel: (312) 327-5417
john.sebree@marcusmillichap.com

*Prepared and edited by*
**Michael Murphy**
Research Analyst | Research Services

*For information on national apartment trends, contact:*
**John Chang**
First Vice President | Research Services
Tel: (602) 707-9700
john.chang@marcusmillichap.com


Price: $250




### Phoenix Office:

**Ryan Sarbinoff**
Vice President/Regional Manager
Tel: (602) 687-6700
ryan.sarbinoff@marcusmillichap.com

2398 East Camelback Road
Suite 300
Phoenix, AZ 85016




Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; National Association of Realtors; Moody's Analytics; Real Capital Analytics; MPF Research; TWR/Dodge Pipeline; U.S. Census Bureau.