

# MARKETBEAT

## Phoenix Multifamily Q2 2018



### PHOENIX MULTIFAMILY

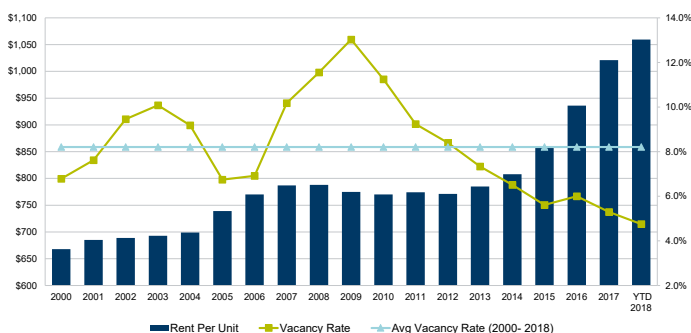
Economic Indicators*	Q2 17	Q2 18	12-Month Forecast
Phoenix Employment	2,029k	2,086k	▲
Phoenix Unemployment	4.2%	4.2%	▬
U.S. Unemployment	4.3%	3.8%	▼

Q2 data is based on the U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm in Phoenix-Mesa-Scottsdale, AZ (MSA).

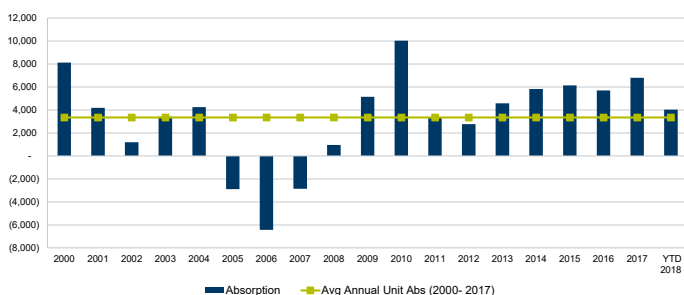
### Market Indicators (Overall, All Classes)

	Q2 17	Q2 18	12-Month Forecast
Overall Vacancy	5.1%	4.8%	▼
Net Absorption	1,600	1,400	▲
Under Construction	33,100	15,400	▲
Average Asking Rent	\$1,003	\$1,060	▲

### Overall Asking Rent vs. Overall Vacancy <sup>(1)</sup>



### Overall Absorption <sup>(1)</sup>



### Economy

The Metro Phoenix job market continues to improve, adding 56,700 jobs year-over-year through the second quarter of 2018. During the same time period, the unemployment rate remained constant at 4.2%.

### Market Overview

The Metro Phoenix multifamily market finished the second quarter of 2018 with strong rent growth, absorption and completions. The market absorbed nearly 1,400 units during the second quarter. The year-to-date absorption total of 4,032 units is running ahead of the 18 year annual absorption rate of 3,347 units. The West Phoenix (569 units), Central Phoenix (344 units) and East Phoenix (256 units) submarkets recorded the highest net gains in positive absorption in the second quarter of 2018. Mesa/Gilbert (-78 units) and Scottsdale (-68 units) submarkets saw the largest negative absorption in the second quarter of 2018.

Along with the strong net absorption, vacancy decreased 30-basis-points (bps) from the first quarter of 2018 (5.1%) to the second quarter of 2018 (4.8%), setting a historic low. The West Phoenix submarket vacancy rate declined from 6.0% to 4.6% in the second quarter of 2018, making its 140 bps drop in vacancy the largest decrease recorded in the second quarter of 2018. The Tempe (-70 bps), Chandler/Queen Creek (-20 bps) and Scottsdale (-10 bps) submarkets saw an increase in vacancy quarter-over-quarter.

Asking rent growth remained positive in the second quarter, marking the seventeenth straight quarter in which average asking rates increased. Average asking rates increased from \$1,032 per unit in the first quarter of 2018 to \$1,060 per unit in the second quarter of 2018, nearly 5.7% higher than the second quarter of 2017 rate of \$1,003. The Chandler/Queen Creek (\$1,209 per unit) and Northeast Valley (\$1,048 per unit) submarkets saw the largest asking rate increases of 3.9% and 3.6%, respectively. Other notable increases in the average asking rates were in the Glendale/West Phoenix (3.1%) and Mesa/Gilbert (3.1%) submarkets. The Scottsdale submarket (0.4%) saw the lowest quarter-over-quarter rental rate increase, growing from \$1,350 in the first quarter of 2018 to \$1,356 in the second quarter of 2018. None of the submarkets recorded negative rental rate growth quarter-over-quarter.

Multifamily development continues to grow in the Metro Phoenix market with 9,646 units completed across 45 properties, year-to-date. Roughly half of the new completions were delivered in the Central Phoenix (1,953 units), Tempe (1,901 units) and Chandler/Queen Creek (1,270 units) submarkets. Cushman & Wakefield is currently tracking over 15,000 units that are under construction and an additional 33,000 units planned for development. Central Phoenix (2,641 units), Tempe (2,495 units) and Chandler/Queen Creek (2,475 units) submarkets have the most units under construction. Central Phoenix (7,791 units), Tempe (4,476 units) and Chandler/Queen Creek (3,821 units) submarkets had the most planned units in the second quarter of 2018. Rental rates, net absorption and construction starts and deliveries are expected to remain high as the Metro Phoenix market continues to experience robust population growth.

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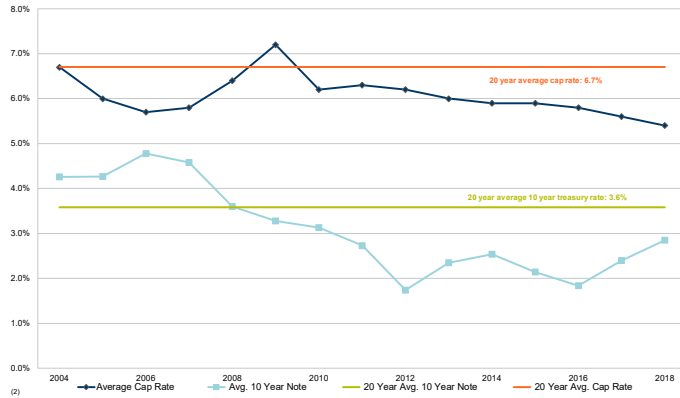
## Phoenix

### Multifamily Q2 2018



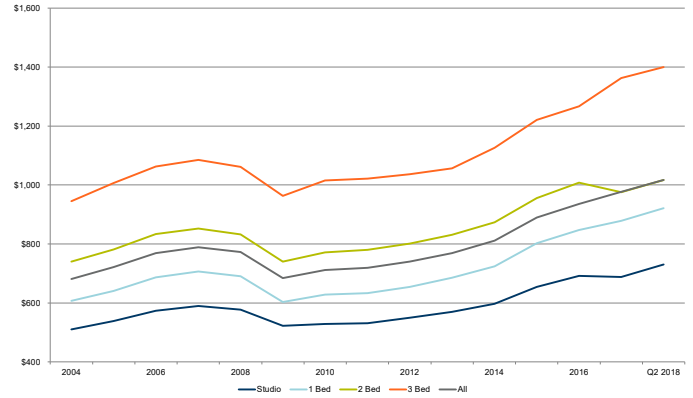
#### Average Cap Rate <sup>(2)</sup>

METRO PHOENIX CAP RATE AND THE 10 YEAR U.S. TREASURY RATE ARE BELOW HISTORICAL AVERAGE AND BELOW THE HISTORICAL AVERAGE CAP RATE SPREAD OF 3.1%



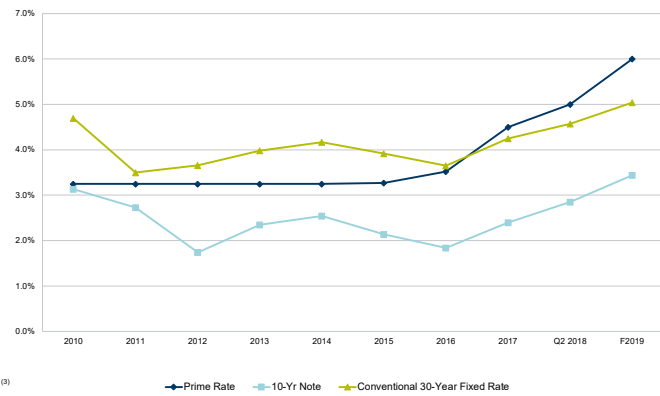
#### Average Price Per Unit History <sup>(5)</sup>

3 BED UNITS ARE 38% MORE EXPENSIVE THAN THE COMBINED AVERAGE OF ALL UNIT TYPES



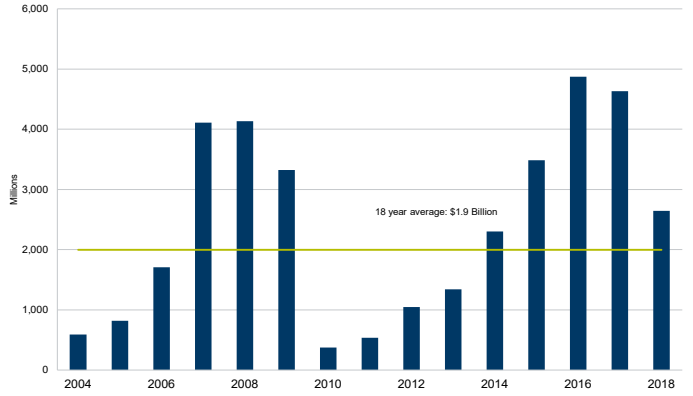
#### Interest Rates <sup>(3)</sup>

FEDERAL FUNDS TARGET RATE FORECASTED TO CONTINUE TO RISE IN THE NEAR FUTURE



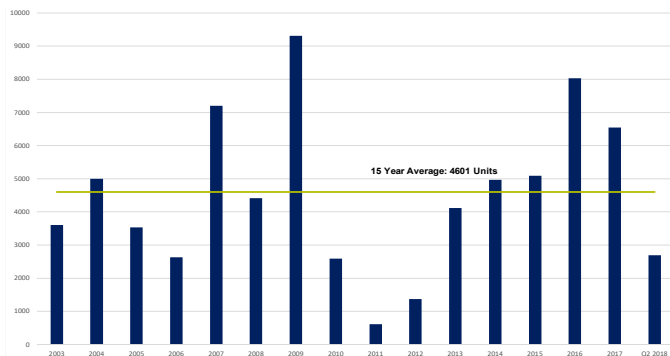
#### Sales Transaction Volume <sup>(5)</sup>

YTD 2018 TRANSACTION VOLUME WAS OVER 132% OF THE 18 YEAR ANNUAL AVERAGE OF \$1.9 BILLION



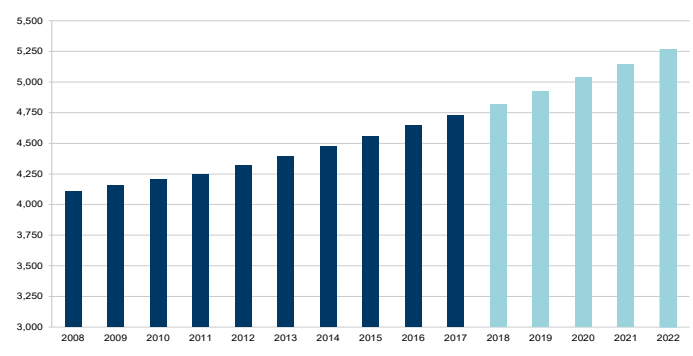
#### New Inventory <sup>(4)</sup>

TOTAL NUMBER OF NEW INVENTORY YTD 2018 WAS NEARLY 59% OF THE 15 YEAR AVERAGE OF 4601 UNITS



#### Population <sup>(6)</sup>

POPULATION GROWTH IS EXPECTED TO STRENGTHEN THROUGH 2022 PROJECTIONS



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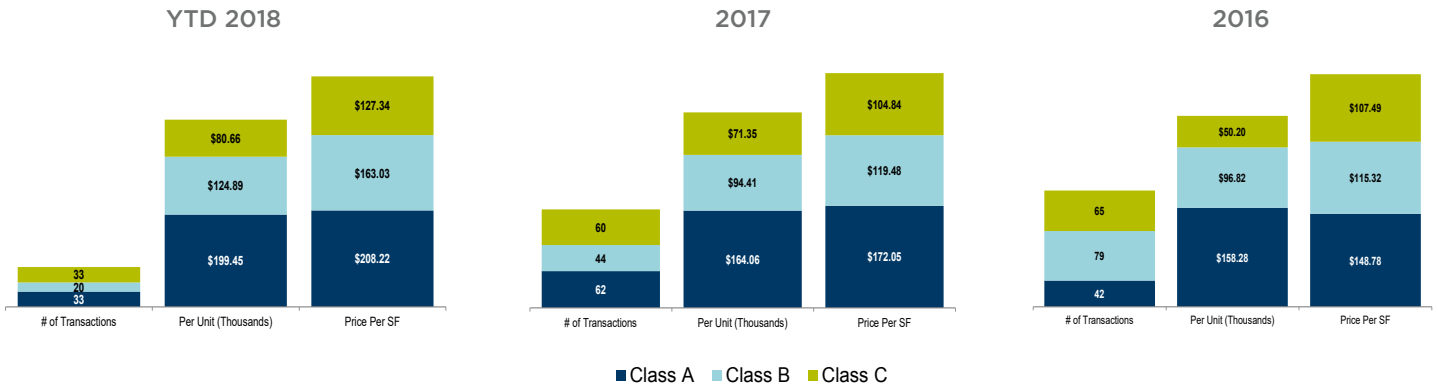
### Multifamily Q2 2018



SUBMARKET	INVENTORY UNIT	Q2 VACANCY RATE	NET ABSORPTION IN UNITS		RENTAL RATE PER UNIT	UNITS UNDER CONSTRUCTION	UNITS PLANNED
			Q2	2018 TOTAL			
Ahwatukee	12,175	5.7%	-1	-27	\$1,056	0	1,212
Central Phoenix	22,401	5.0%	344	846	\$1,178	2,641	7,791
Chandler / Queen Creek	23,040	4.8%	174	327	\$1,209	2,475	3,821
East Phoenix	19,936	4.7%	256	1,057	\$998	253	1,296
Glendale / West Valley	29,473	4.3%	23	239	\$937	1,704	2,766
Mesa / Gilbert	43,949	4.0%	-78	268	\$972	1,091	2,675
Northeast Valley	31,857	4.8%	-14	84	\$1,048	1,795	2,796
Northwest Valley	27,178	4.4%	176	891	\$1,011	856	2,321
Scottsdale	21,549	4.7%	-68	-19	\$1,356	1,939	3,694
Tempe	31,261	6.1%	0	-87	\$1,274	2,495	4,476
West Phoenix	32,082	4.6%	569	453	\$786	156	785
<b>TOTAL MARKET</b>	<b>294,901</b>	<b>4.8%</b>	<b>1,381</b>	<b>4,032</b>	<b>\$1,060</b>	<b>15,405</b>	<b>33,633</b>

(1)

### Year Over Year Sales Comparison <sup>(5)</sup>



### 2018 Key Sales Transactions <sup>(5)</sup>

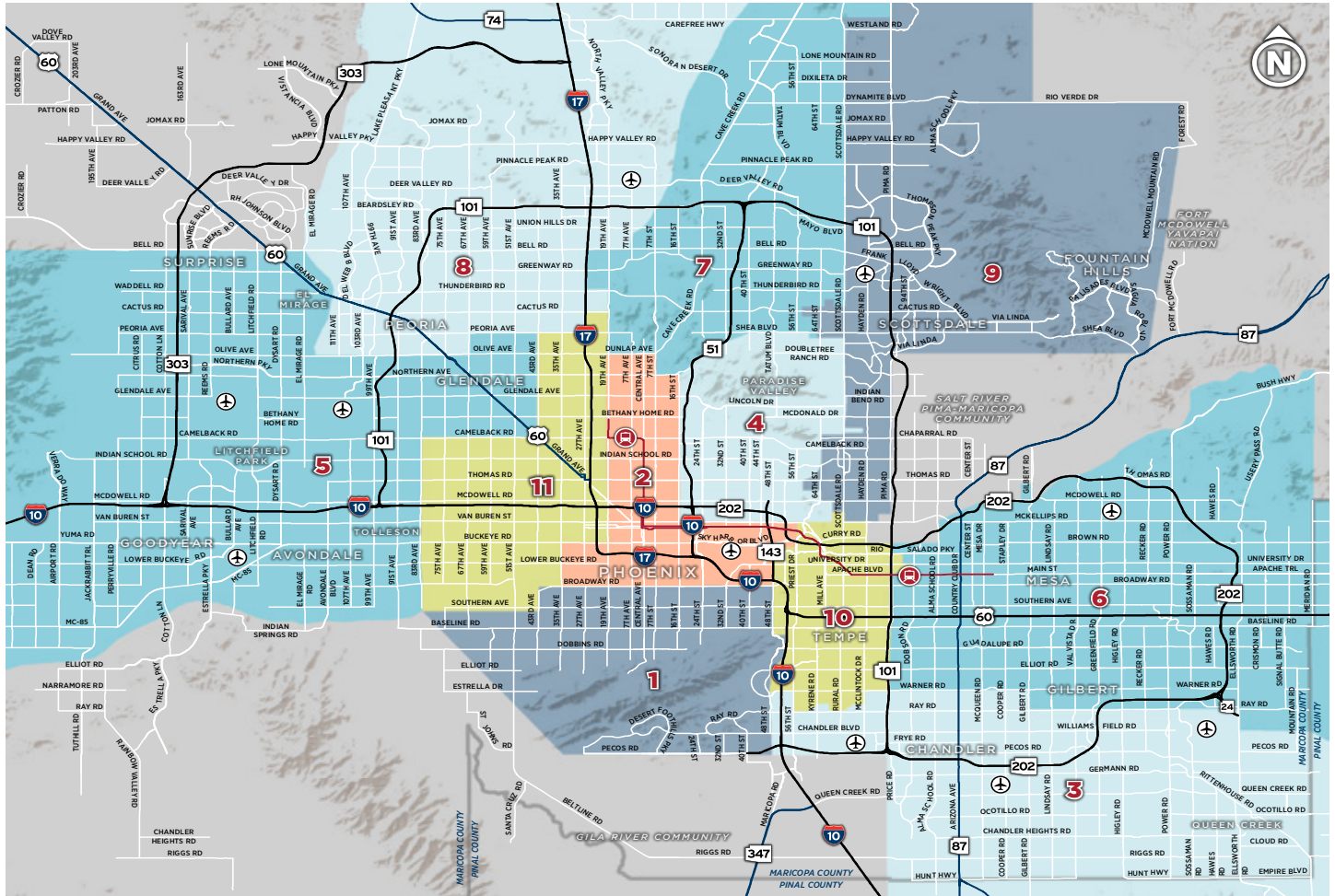
PROPERTY NAME	CITY	SALE DATE	UNITS	YEAR BUILT	AVG SF	PRICE	PRICE/UNIT	PRICE/ SF	CLASS	SELLER / BUYER
Optimate Sonoran Village	Scottsdale	1/30/2018	627	2014	1,012	\$200,000,000	\$318,979	\$315	CORE	Optima, Inc/ Principal Real Estate Investors
Ten01 on the Lake	Tempe	3/28/2018	523	2007	833	\$115,000,000	\$219,885	\$264	A	Picerne Group/ PGIM Real Estate
Modena	Phoenix	1/24/2018	768	1988	775	\$110,000,000	\$143,229	\$185	B	Weidner Investment Services/ Knightvest Capital
Hanover Mill Avenue	Tempe	5/7/2018	341	2015	826	\$95,100,000	\$278,886	\$338	CORE	The Hanover Company/ Goldman Sachs
Carlyle at South Mountain	Phoenix	2/15/2018	552	1995	1,032	\$90,000,000	\$163,043	\$158	A	FPA Multifamily/ Western Wealth Capital
Broadstone Fashion Center	Chandler	2/9/2018	335	2017	892	\$84,000,000	\$250,746	\$281	CORE	Alliance Residential Company/ Starlight Investments
Capri on Camelback	Phoenix	5/10/2018	566	1970	691	\$81,250,000	\$143,551	\$208	B	Greystar/ TH Real Estate
Pinnacle at McDowell Mountain Ranch	Scottsdale	5/2/2018	368	1997	979	\$80,677,843	\$219,233	\$224	A	eSI Enterprises/ Rincon Partners
Dakota at McDowell Mountain Ranch	Scottsdale	5/2/2018	368	1998	979	\$79,422,157	\$215,821	\$220	A	UBS Realty Investors/ CBRE Global Investors LLC
56 North	Phoenix	3/29/2018	344	2016	912	\$77,000,000	\$223,837	\$245	A	Greystar/ Pillar Communities

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## Phoenix Multifamily Q2 2018



### MULTIFAMILY SUBMARKETS



- |                        |                        |                    |                 |
|------------------------|------------------------|--------------------|-----------------|
| 1 Ahwatukee            | 4 East Phoenix         | 7 Northeast Valley | 10 Tempe        |
| 2 Central Phoenix      | 5 Glendale/West Valley | 8 Northwest Valley | 11 West Phoenix |
| 3 Chandler/Queen Creek | 6 Mesa/Gilbert         | 9 Scottsdale       |                 |

- (1) Yardi Matrix, Cushman & Wakefield  
 (2) Yardi Matrix, Federal Reserve Board, Cushman & Wakefield  
 (3) Federal Reserve Board, Wells Fargo  
 (4) Yardi Matrix, Greater than \$2.5 Million  
 (5) Yardi Matrix, Cushman & Wakefield  
 (6) Moody's & U.S. Census Bureau

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