PHOENIX MULTIFAMILY MARKET

Q3 2023

TRANSWESTERN

REAL ESTATE SERVICES

ECONOMIC SNAPSHOT FOR PHOENIX

AVERAGE WAGE GROWTH	3.9%
UNEMPLOYMENT RATE	4.0%
INFLATION RATE	3.7%

MULTIFAMILY SNAPSHOT

CURRENT AVAILABLE UNITS	39,598
UNITS UNDER CONSTRUCTION	37,532
UNITS PROPOSED	52,330
MARKET CAP RATE	5.3%
AVERAGE ASKING RENT	$1,570
AVERAGE SALE PRICE/UNIT	$278,000
MARKET VACANCY RATE	9.3%

NAVIGATING MIXED SIGNALS IN THE PHOENIX CRE MULTIFAMILY MARKET

The commercial real estate market in Phoenix began sending mixed signals as of Q3. The unemployment rate nudged up slightly to 4.0% from 3.8% a year ago. Meanwhile, multifamily unit net absorption saw a significant jump, going from 428 to 3,027 units year-over-year. On the downside, the overall vacancy rate has increased to 10.0% from last year's 8.1%, and the total number of vacant units has grown to 42,394 causing downward pressure on effective rents, resulting in a slight price decrease year-over-year. On the horizon, there are concerns about a potential market downturn due to rising interest rates combined with growing commercial loan maturities over the next twelve to eighteen months. Many are watching TSMC's newest push in production to 2025 as it could create a few waves for multifamily, especially in North Phoenix. Overall, the Phoenix market seems to be in a state of flux, with higher absorption rates being offset by rising vacancies, declining rents, increased unemployment, and other looming economic factors.

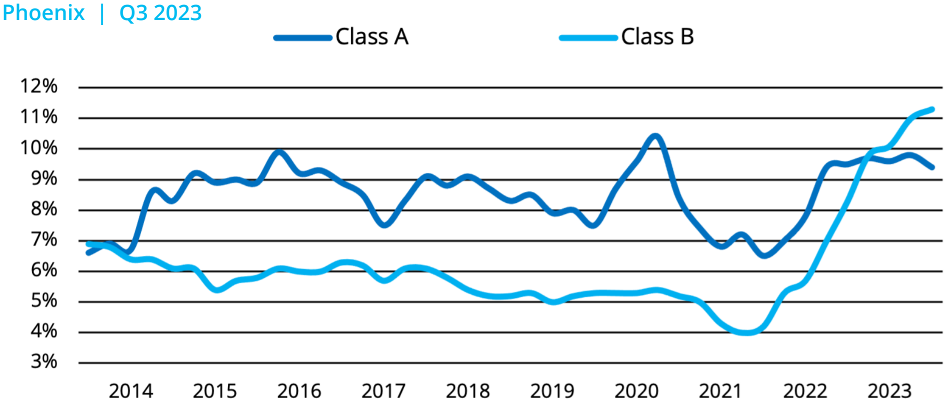
TRENDLINES

	Q3 2023	Q3 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	4.0	3.8	↑	4.6	↑
NET ABSORPTION (Units)	3,027	428	↑	2,230	↔
OVERALL VACANCY RATE	10.0%	8.1%	↑	6.8%	↑
OVERALL VACANT SF (Units)	42,394	33,010	↑	26,616	↔
UNDER CONSTRUCTION (Units)	35,413	36,283	↓	26,486	↓
EFFECTIVE RENT (Unit)	$1,542	$1,583	↓	$1,393	↓
SALES VOLUME (Millions)	$1,236	$3,146	↓	$2,438.2	↓

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

OVERALL VACANCY RATE BY CLASS

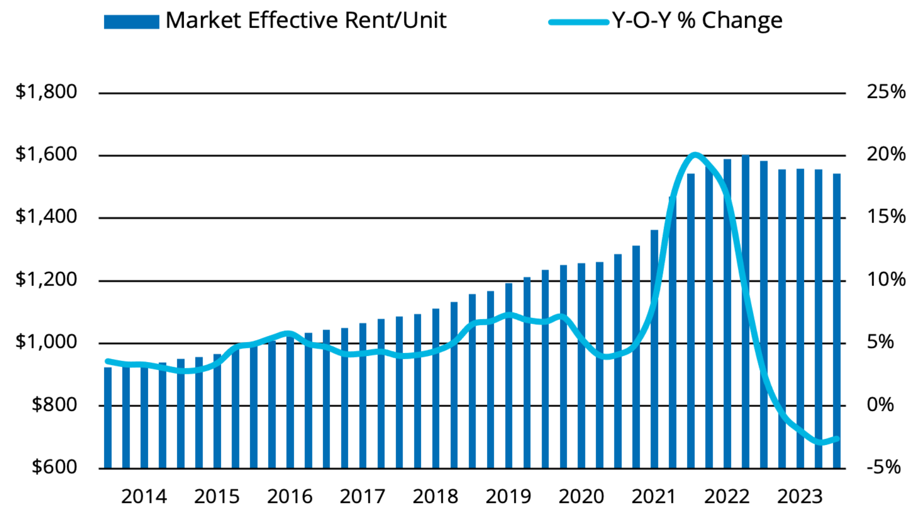
Phoenix | Q3 2023



Source: CoStar, Transwestern

EFFECTIVE RENT

Phoenix | Q3 2023

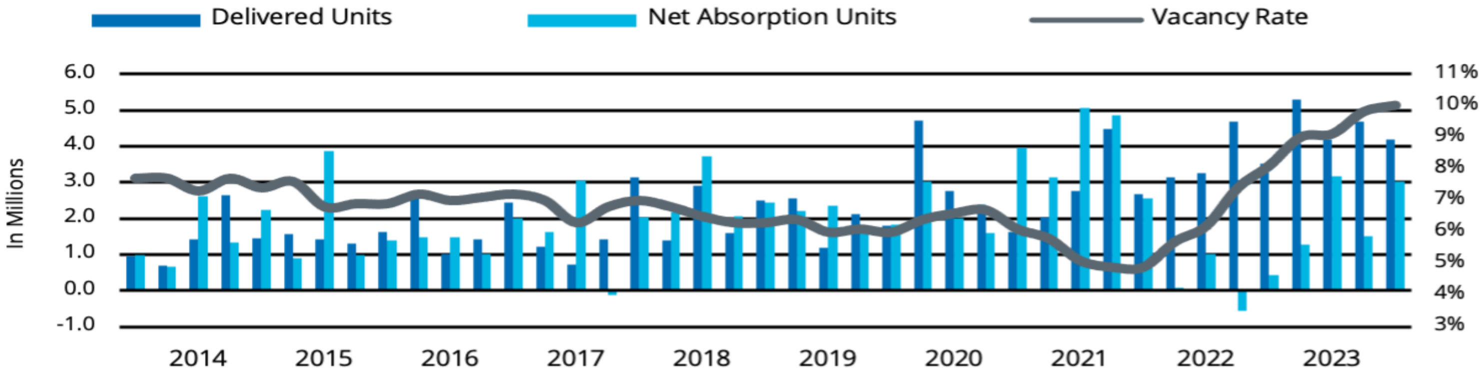


Source: CoStar, Transwestern

A CAUTIOUS TURN: SALES VOLUME AND CONSTRUCTION TRENDS

In the third quarter of 2023, sales volume and under-construction units are drawing attention in the Phoenix CRE multifamily market. Sales volume has seen a notable decrease, falling from $3.15B in Q3 2022 to $1.24B this year. This downward trend is indicative of the overall pause of investment activity and a cautious approach by investors. On the construction front, the number of units under construction also declined, albeit slightly, going from 36,283 to 35,413 units year-over-year. This dip may suggest that developers are becoming more conservative in initiating new projects. Both trends are positive signs of the market taking a more measured approach amid broader economic uncertainty, an approach that lends to greater market agility in the long term.

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

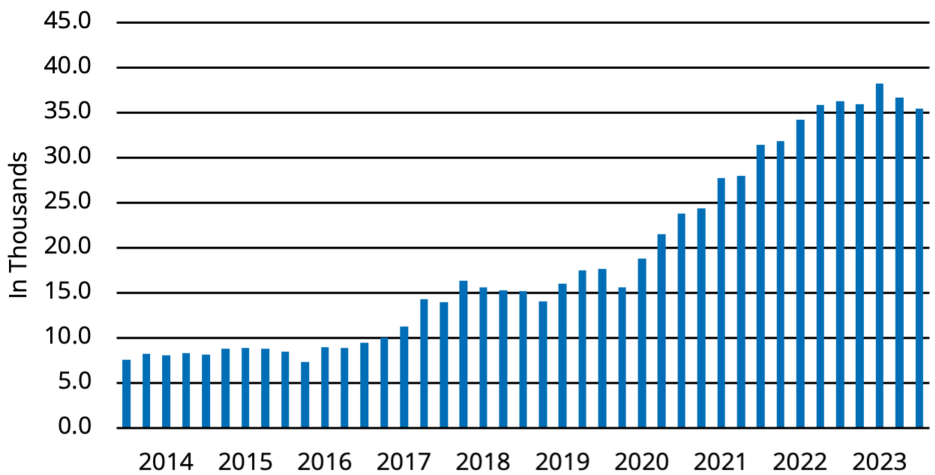
MARKET INDICATORS

All Classes of Space | Q3 2023

SUBMARKET	INVENTORY UNITS	VACANT UNITS	VACANCY RATE	UNDER CONSTRUCTION UNITS	NET ABSORPTION UNITS	Y-O-Y NET ABSORPTION UNITS	EFFECTIVE RENT PER UNIT	EFFECTIVE RENT PSF
AIRPORT AREA	21,956	1,554	7.1%	515	(45)	184	$1,606	$1.71
DOWNTOWN/MIDTOWN (CBD)	31,406	3,366	10.8%	3,743	405	1,764	$1,544	$1.98
CAMELBACK CORRIDOR	17,426	1,373	7.9%	780	(2)	100	$1,514	$1.88
TEMPE	27,651	2,468	8.9%	3,353	265	334	$1,655	$1.97
EAST VALLEY	108,848	10,262	9.4%	6,514	699	2,741	$1,575	$1.76
NORTH PHOENIX	29,795	2,782	9.3%	1,341	145	1,027	$1,511	$1.71
WEST VALLEY	72,641	9,325	13.1%	11,828	1,306	3,716	$1,498	$1.69
SCOTTSDALE	34,788	3,461	9.9%	2,664	449	976	$2,086	$2.18
NORTH CENTRAL PHOENIX	68,756	5,909	8.6%	2,936	(359)	(1,424)	$1,237	$1.65
TOTAL/AVERAGE	**413,267**	**40,500**	**9.4%**	**33,674**	**2,863**	**1,046**	**$1,581**	**$1.84**

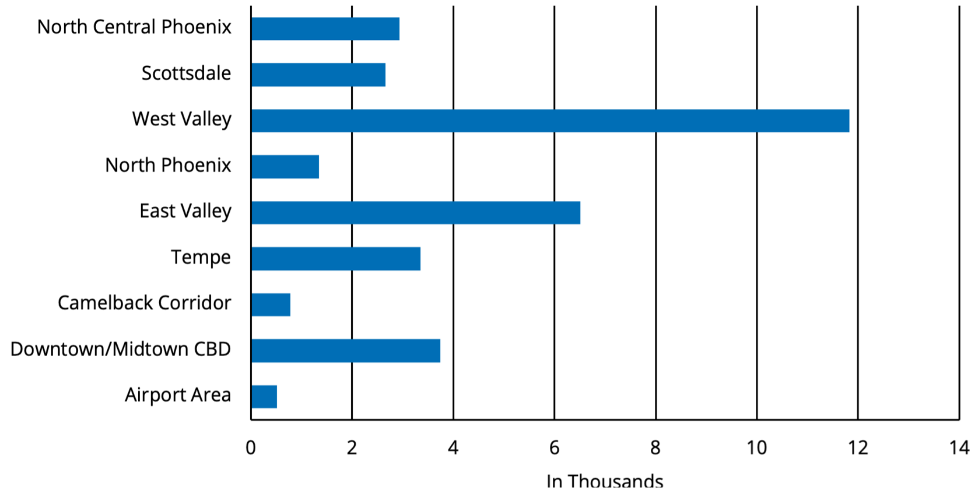
Source: CoStar, Transwestern

UNDER CONSTRUCTION



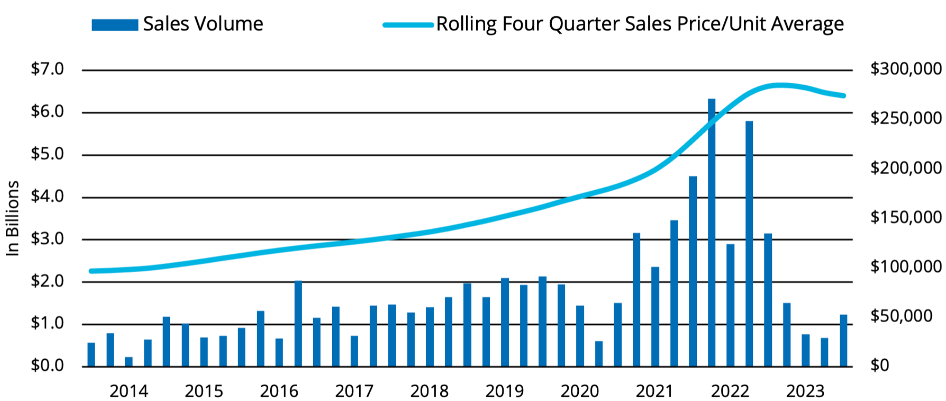
Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

SALES VOLUME



Source: CoStar, Real Capital Analytics, Transwestern

RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on multifamily properties located in the Phoenix area. This report includes multifamily properties 10 units and larger.

FOR MORE INFORMATION

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