INVESTMENT FORECAST

Multifamily

Phoenix

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Scorching Rental Market Met With Historic Pipeline; Institutional Activity on the Rise

Phoenix positioned to register outsized rent growth again. Several indicators showcase the impressive demand tailwinds in Phoenix. The market is projected to add nearly 50,000 households this year, growing at a pace more than twice as fast as the national average. Robust in-migration is the driving force, with many individuals and families relocating from colder weather climates or more expensive metros along the coasts. At the same time, the local economy is welcoming. The job total surpassed the pre-recession crest by the third quarter of 2021, yet the unemployment rate held above 5 percent, keeping job availability elevated and leaving room for further gains. This multitude of demand drivers is catalyzing remarkable rent growth amid very tight vacancy. Phoenix was one of only three major U.S. metros to record an annual rent increase exceeding 20 percent in 2021 and will remain near the top of the pack this year. Nonetheless, completions in 2022 will practically double the previous annual peak across the past two decades, putting some upward pressure on vacancy. The additions are necessary, however, as availability entered 2022 more than 100 basis points below the next-lowest year-end rate going back to the turn of the century.

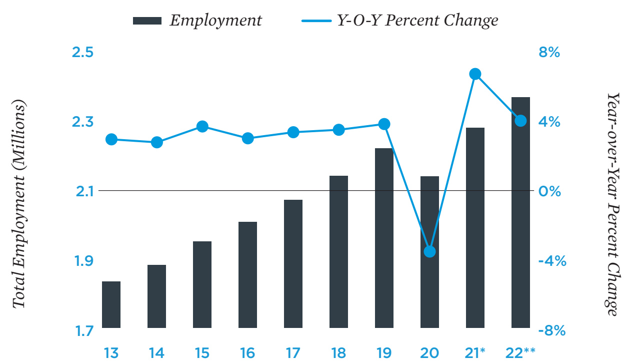
Price appreciation and lower cap rates are byproducts of competition. Many institutions and overseas buyers are aware of the stellar performance in Phoenix and are retooling their strategies, placing a higher priority on acquiring assets in the Valley as some primary markets face a longer rebound from the pandemic. An enlarged investor pool with an appetite for apartment buildings throughout Phoenix has translated to robust price appreciation. In 2021, the average sale price jumped to a level more than twice as high as the same metric in 2016. Over that same span, the mean cap rate fell 120 basis points to 4.9 percent and higher-quality properties are often trading at least 100 basis points below that mean. Institutions willing to pay premium entry costs for buildings in areas that appeal to young adults focus on Tempe, Old Town Scottsdale and Downtown Phoenix. Upper-tier assets transact with initial yields in the low-3 percent to mid-4 percent range in these submarkets, depending on location and vintage. Comparatively higher yields in the suburbs on the far east and west sides of the Valley attract institutions with broader scopes. The wave of new development also presents various opportunities to investors favoring modern facilities that require minimal upkeep and renovations to competitively attract tenants in the coming years.

21.0% *2021 share of local population between 20 and 34 years old*

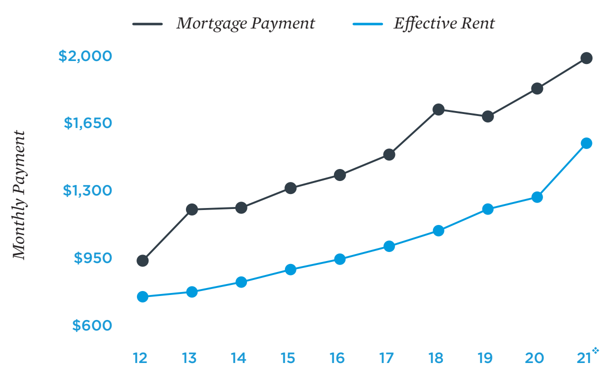
29.0% *of local population hold bachelor's degree or higher*[✲]

$385,600 *2021 median home price*

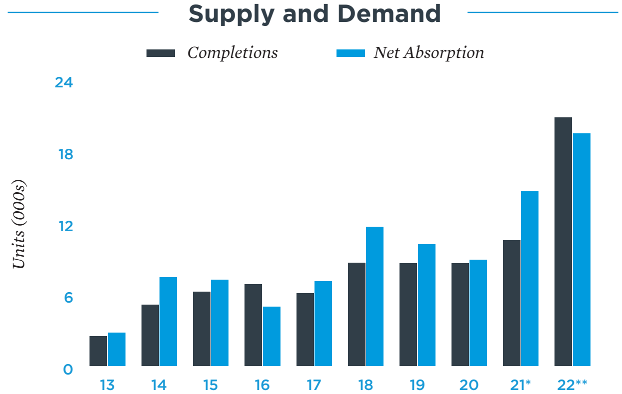
Employment Trends



Housing Affordability Gap



Supply and Demand



** Estimate ** Forecast ✣ Through 3Q*

✲2021: 25+ years old

Sources: Marcus & Millichap Research Services; BLS; Freddie Mac; National Association of Realtors; RealPage, Inc.

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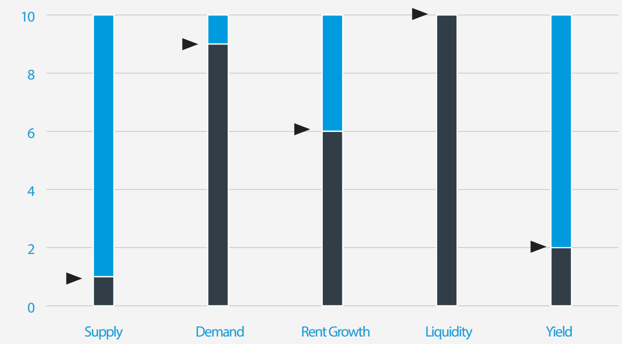
2022 Investment Outlook

Developers are responding to the recent surge in demand in a big way, with the market projected to have a record-setting delivery volume in 2022. Therefore, Phoenix receives a 1 on the supply segment of the Index, though the new units should be absorbed quickly with demand at a 9.

The Valley gets a top-notch score on the liquidity section of the Key Performance Index. Deal flow will remain very strong following an historic year for rent growth and extremely tight vacancy. While the active bidding market boosts liquidity, it also presses down on yields.

Note: The Key Performance Index provides a metro-level relational benchmark scaled from 1-10 for five key metrics.

Key Performance Index



2022 Market Forecast

Employment
88,000 jobs
Metro **3.9%**
U.S. **2.5%**

Construction
as % of inventory❖
Metro **5.5%**
U.S. **2.2%**

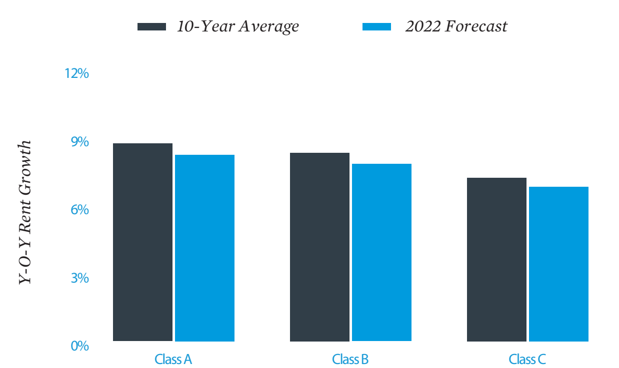
Class A Vacancy
Up 40 bps
Metro **3.4%**
U.S. **3.6%**

Class A Rent
$1,965 per month
Metro **8.2%**
U.S. **7.5%**

Investment
3-yr. avg. activity
$20+ million
Deals: **99**
Volume: **$5.4 Billion**

Vacancy By Class

Rent Growth By Class



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** Estimate ** Forecast*
❖ Arrow reflects completions trend compared with 2021
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics