

MARKET REPORT

Multifamily
Phoenix Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

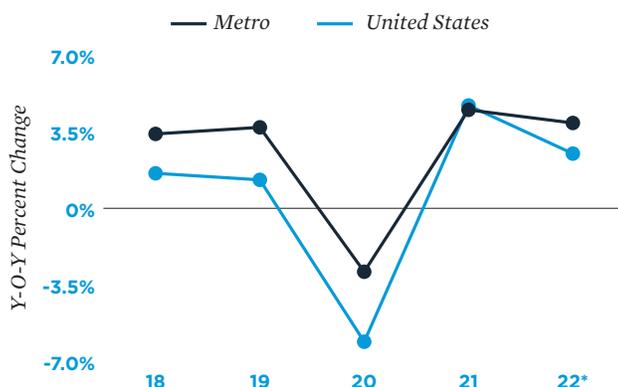
2Q/22

Near Nation Leading Job Growth Propels Historical Demand in Thriving Market

Robust in-migration squeezes housing supply. Phoenix's labor market has proven to be one of the most resilient during the pandemic, with the metro adding jobs at a brisk pace, even after restoring the total headcount to the pre-2020 level. A lower cost of living and access to job opportunities have brought many new residents to the metro recently, driving the need for additional housing in the Valley — both for renters and buyers. Demand from newly arrived households led the median home price to rise 22 percent last year, while a record number of apartments were also absorbed, lifting rents by more than 28 percent. In 2021, Phoenix recorded the highest rent growth of any major metro west of the Mississippi River.

Developers boost activity in tight Phoenix market. The demand surge recorded in 2020 and 2021 has prompted developers to accelerate construction schedules in 2022. While the corresponding 5 percent rise in total inventory scheduled for this year will apply pressure to vacancy, especially in the Class A tranche, the addition of many units is warranted. Entering this year, no single submarket had more than 800 units available to rent, with most of the metro's 23 submarkets reporting vacancy below 3 percent. Metrowide vacancy is expected to grow in the short term, as a result of the current pipeline; however, net absorption is likely to set another record this year, preventing a major increase in the quantity of empty units.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook



**87,000
JOBS**

will be created

EMPLOYMENT:

New arrivals and expansions from established firms drive the 3.9 percent growth to Phoenix's workforce this year. Payrolls had already surpassed the pre-pandemic job count by the start of 2022, highlighting the rapid rate of labor growth in the metro.



**19,000
UNITS**

will be completed

CONSTRUCTION:

Builders are set to significantly ramp up development in 2022, with this year's anticipated volume ahead of the previous metro record by more than 7,000 units. The resulting 5.0 percent inventory growth is the fourth largest across the nation's major metros.



**20
BASIS POINT**

increase in vacancy

VACANCY:

Vacancy inches up to 2.8 percent this year as a record number of new units enter the market. Demand is still strong, preventing a larger jump in vacancy, as net absorption is set to surpass 17,000 units in a calendar year for the first time since at least 2000.



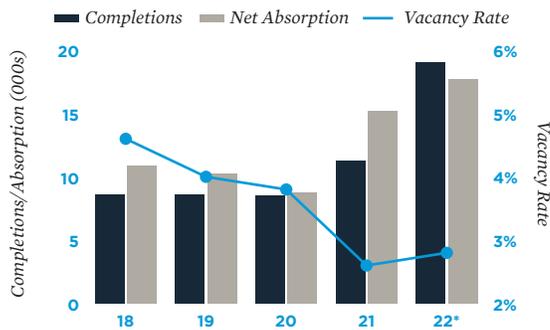
**9.1%
INCREASE**

in effective rent

RENT:

One of the lowest vacancy rates on record for the metro leaves renters scrambling for available product. This contention between tenants for the empty stock will raise the average rental cost to roughly \$1,748 per month by year-end.

Supply and Demand



Rent Trends



Sales Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

IPA Multifamily
John Sebree

Senior Vice President

Tel: (312) 327-5400 | jsebree@ipausa.com

For information on national multifamily trends, contact:

John Chang

Senior Vice President, National Director | Research Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

12,990 units completed

- Phoenix's builders have ramped up activity in the 12-month period ended in March, completing roughly 5,000 more units than they did in the prior yearlong interval here.
- Downtown and Midtown Phoenix have been a focal point for developers. An additional 5,600 units are currently under construction here.



VACANCY

110 basis point decrease in vacancy Y-O-Y

- A sharp rise in population during the pandemic and strong job figures led the metro to reach 2.7 percent vacancy in the first quarter of this year — the lowest quarterly figure since at least 2000.
- Phoenix reported surging demand for all apartment tiers, with net absorption crossing 17,000 units in the 12-month period ended in March.



RENT

27.7% increase in the average effective rent Y-O-Y

- Limited availability helps lift rent to \$1,638 per month in the first quarter of this year, almost \$400 per month higher than a year prior.
- Rent growth has been largest for Class A units, at 27.4 percent in 2021. Class B rents have started accelerating at a similar rate, as a dearth of vacant units applies upward pressure to rates across rental tiers.

Investment Highlights

- Transaction velocity continued rising in the second half of last year, coinciding with historic fundamental improvements. Widespread economic growth has resulted in increased targeting of all quality levels, but activity has climbed most sharply for Class B/C properties.
- Tempe and North Phoenix remain some of the most traded locales, and have seen more assets change hands than usual over the past 12 months. At the same time, rising activity in the rejuvenating Downtown Phoenix and South West Valley submarkets has resulted in these areas recording sales volumes among the highest in the metro.
- The average cap rate dipped roughly 40 basis points last year to 4.7 percent. Heightened buyer interest led to this compression, as per-unit sales pricing in the metro nearly doubled from the end of 2017 to more than \$205,000 per unit at the start of 2022.
- Cap rates above those in California have drawn institutions toward large Class A assets in Phoenix. North Scottsdale has recorded a sharp rise in such trades, and its proximity to upscale shopping and entertainment districts allows for sizable rent growth.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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