MARKET REPORT

Multifamily

Phoenix Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

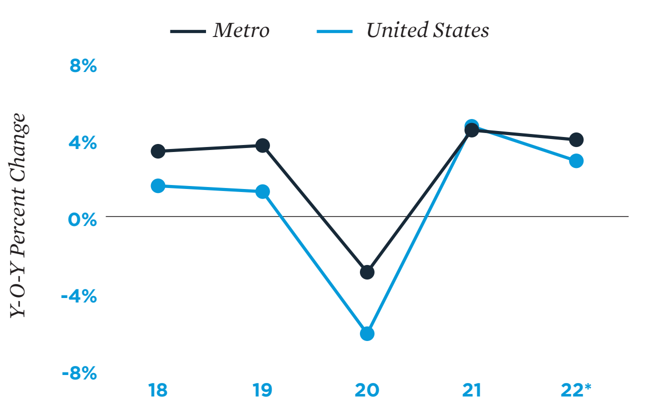
3Q/22

Phoenix Stays Among the Nation's Fastest-Growing Metros, Drawing Tech Companies

In-migration allows metro to overcome near-term hurdles. Movement to Phoenix in 2022 is expected to be the second highest in the nation, extending a stretch of robust population growth that recently supported a 41-quarter stretch of positive rental absorption. While this streak was halted in the second quarter of the year, the metro's 4.2 percent vacancy rate in June was 240 basis points below the long-term mean. Developers are maintaining a heightened pipeline in response to this robust demand. However, the average effective rent, which has increased by more than 40 percent since year-end 2019, is prompting some renters to seek roommates or move back with family. This combination will allow supply additions to surpass near-term demand. Still, over the long term, absorption is likely to return to previous levels, as projections call for rent growth moderation, a rise in traditional office-using jobs and wage gains.

Tech companies entering Phoenix prelude high-tier unit demand. Following the Taiwan Semiconductor Manufacturing Company breaking ground on its Phoenix-based production facility in late 2021, several other related companies have announced local developments. These include the entrance of Sunlit Chemical to Chandler and further expansion in the same area by Intel. Additional tech companies moving to the metro will create higher-paying positions and sustain elevated in-migration as firms recruit from outside the metro. This will facilitate greater demand for Class A units, a positive sign as developers maintain an elevated pace of construction.

Employment Trends



** Forecast*

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

Multifamily 2022 Outlook

90,000 JOBS
will be created

EMPLOYMENT:

The second quarter of 2022 reported 35,000 jobs being added. This allowed unemployment to hold at 2.7 percent over the three-month period. By year-end, total employment will expand by 4.0 percent.

9,800 UNITS
will be completed

CONSTRUCTION:

Rental inventory will expand by 2.6 percent during 2022, the fifth consecutive year that supply additions exceed the 8,000-unit mark. Projects in Central Phoenix are slated to account for roughly 35 percent of the expected deliveries in 2022.

180 BASIS POINT
increase in vacancy

VACANCY:

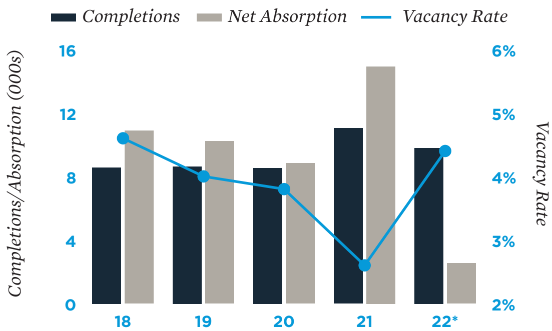
Metro vacancy will rise to 4.4 percent by year-end, the highest rate since 2018, as supply additions outpace renter demand. Still, unit availability will be below Phoenix's 10-year average of 5.3 percent.

10.6% INCREASE
in effective rent

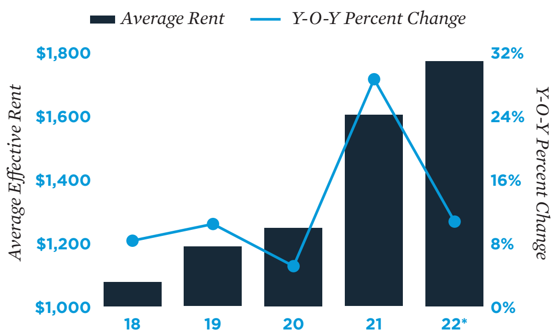
RENT:

Following last year's nearly 30 percent gain, Phoenix's average effective rent will begin to grow at a pace that more closely aligns with prior years. The metro's mean monthly rent will land at $1,770 by year-end, nearly $600 above the December 2019 number.

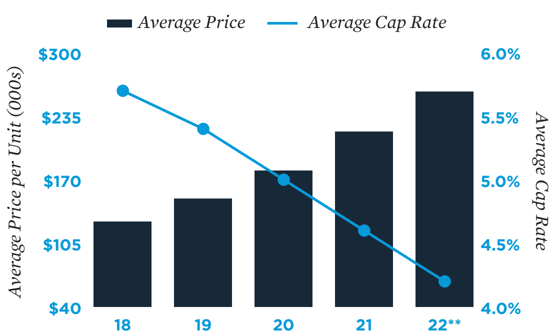
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

12,198 units completed

- The trailing yearlong period ended in June witnessed a record number of completions for a 12-month span, with stock expanding by 3.2 percent.
- The Avondale-Goodyear-West Glendale, Central Phoenix and Gilbert submarkets accounted for half of completions in the recent yearlong span. All three locales recorded inventory growth of over 10.0 percent.

VACANCY

100 basis point increase in vacancy Y-O-Y

- Vacancy rose in 22 of Phoenix's 23 submarkets in the yearlong interval, with West Phoenix registering a 110-basis-point compression.
- Class A vacancy logged the largest rise in availability as renter demand shifted to mid- and low-tier properties. Far West Phoenix was the only submarket to note a decrease in Class A availability during the second quarter.

RENT

20.9% increase in the average effective rent Y-O-Y

- Phoenix was one of 11 major U.S. markets that noted a rate gain greater than 20 percent over the past year, growth that lifted the metro's average effective rent to $1,673 per month.
- Central Phoenix recorded a 23.7 percent rise in its mean effective rate, outpacing the suburbs' 20.7 percent gain.

Investment Highlights

- Deal flow in Phoenix over the trailing 12-month period ended in June was the highest among secondary markets, with trading in the second quarter of 2022 setting a record for sales activity during a three-month window. Approximately half of the transactions closed in the quarter involved properties in the $20 million-plus price tranche, signaling a surge in institutional investment. Cap rates for these properties ranged from the low-3 percent to mid-4 percent range.
- In response to heightened investor activity, Phoenix notched the greatest increase in pricing among major U.S. markets during the yearlong interval at 31.0 percent. With a mean price point of $260,200 per unit, however, the metro still sits well below most California markets, drawing West Coast-based investors to local listings. Phoenix's average cap rate of 4.2 percent is an additional incentive for institutional buyers that historically focus on primary markets with lower first-year returns.
- Central Phoenix noted the highest number of trades in the first six months of 2022. The surge in groundbreakings of new luxury apartment towers here will present future opportunities for institutional investors, with older Class C stock previously comprising a large share of inventory in the locale.