

# INVESTMENT FORECAST

Office  
Phoenix Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS



2024

## Population Growth Necessitates Retail Expansions, Helping Minimize Impact of Elevated Supply

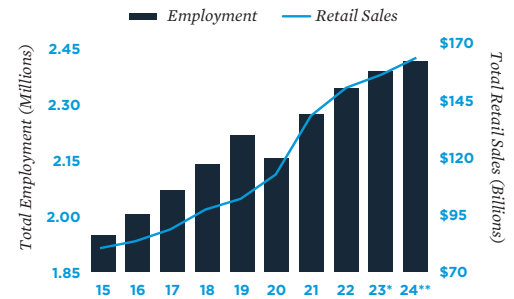
**Wave of new households keeps tenant demand heated.** Phoenix was one of just three major markets to boast record-low vacancy in both its multi- and single-tenant sectors exiting 2023. While a 15-year high delivery slate this year will bump up these metrics, Phoenix's historical tightness should thwart any potential of a substantial rise. Overall vacancy entered the year at 5.0 percent, nearly 250 basis points below its prior five-year mean, which was the largest difference among any major market. This shortage of viable spaces across the metro will competitively position new available supply to attract tenants, allowing vacancy to close out the year below any rate noted prior to 2023. Also limiting upward pressure, Phoenix's appealing demographics should help keep net absorption above the long-term annual mean of 1.9 million square feet in 2024. Regionally strong population growth is fueling rapid housing creation, in turn raising consumer demand for necessity-based and experiential retailers in areas of heightened multifamily construction. Avondale, Goodyear and greater West Phoenix stand out in this regard, as they collectively expect the delivery of over 8,000 apartments this year.

**Greater financial market clarity adds fuel to lively investment landscape.** Phoenix hosted an estimated one in every eight retail deals completed across secondary markets in 2023. With household growth continuing at an elevated clip — and a developing trend of lenders coming back into the retail landscape — the metro may be poised to capture an even larger share of U.S. trading this year. Investors may favor assets in West and North Phoenix, as well as the East Valley, after the submarkets ranked first, third and fourth in the U.S. for net absorption in 2023. Single-tenant options are most coveted, with each area noting record-high rent growth in the sector through last year.

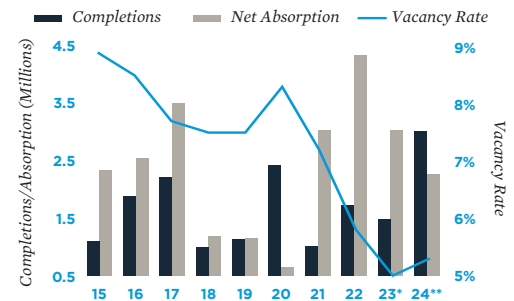
## 2024 MARKET FORECAST

- +1.1%**  **EMPLOYMENT:** Job growth aligns with the national pace this year as fewer than 27,000 roles are added. In 2025, however, the opening of several marquee manufacturing expansions may improve hiring.
  - 3,000,000 sq. ft.**  **CONSTRUCTION:** Deliveries reach their highest level since 2009, with most new supply underway in West Phoenix. Marketwide, over one-half of all retail construction is intended for multiple tenants.
  - +30 bps**  **VACANCY:** Driven by a minimal rise in single-tenant vacancy, the metro's overall rate ticks up to 5.3 percent. Nearly 75 percent of single-tenant deliveries slated for 2024 were pre-leased as of January.
  - +5.3%**  **RENT:** While higher vacancy will slow asking rent growth to just over 5 percent, this year's climb to a mean of \$20.80 per square foot will still mark the second-fastest pace among major U.S. markets.
- INVESTMENT:** *Taiwan Semiconductor Manufacturing Company opens its fabrication plant in Deer Valley in 2025. Eventually employing thousands, buyers may capitalize by targeting nearby dining and fast food assets.*

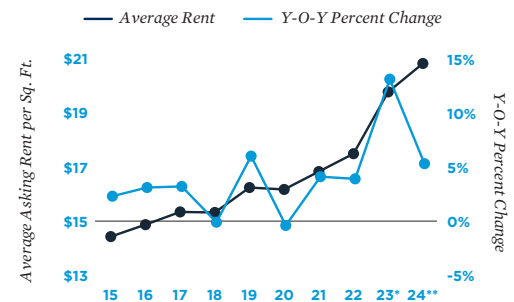
### Economic Trends



### Supply and Demand



### Rent Trends



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of January 3, 2023. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. 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.