MARKET REPORT

Multifamily

Phoenix Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

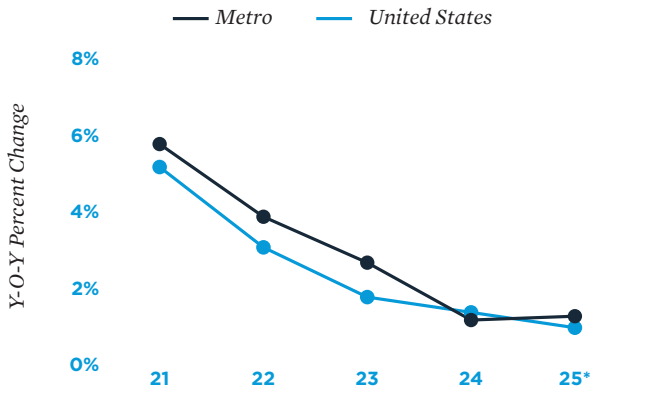
2Q/25

Strong Absorption Counters High Construction Activity; Concession Strategies Define Landscape

Supply wave meets resilient demand. Developers brought 27,700 units online in the 12 months ended March, lifting the three-year total to roughly 60,000 apartments — near one-sixth of the pre-2021 stock. Yet absorption kept pace. Net move-ins reached 30,000 units over the past year, cutting metro vacancy by 120 basis points to 6.1 percent. Most deliveries landed in Avondale-Goodyear-West Glendale and Peoria-Sun City-Surprise, where demand eclipsed 10,000 rentals in each submarket. Vacancies in supply-constrained areas like Southwest Mesa and South Tempe hover near 6 percent, but a faster construction pace across the metro will test leasing leverage, as the market records another year of historic deliveries.

Rent compression persists despite occupancy gains. The average effective rent ended March at $1,512 per month — down 3.9 percent year over year and marking a ninth consecutive quarterly decline. New Class A assets continue deploying concessions — typically six to eight weeks free — placing downward pressure on suburban Class B rents, which have absorbed most of the pricing strain. Although overall rents are anticipated to edge slightly lower through mid-2025 due to the substantial supply pipeline, modest gains could materialize by year-end, particularly in submarkets with lighter construction activity like Chandler and the Camelback Corridor. Meanwhile, heavy concession use in Downtown Phoenix, Tempe and the West Valley will persist until deliveries peak in 2026.

Employment Trends



** Forecast*

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

Multifamily 2025 Outlook

30,000 JOBS
will be created

EMPLOYMENT:

Employers will add 5,000 more jobs than last year. Still, annual growth will remain below the metro's long-term pace of 2.7 percent. Expansion in the semiconductor and health care sectors is set to lead job growth in 2025.

27,400 UNITS
will be completed

CONSTRUCTION:

Phoenix will have the second-largest percent increase in local inventory this year of any major metro at 6.4 percent. Around a quarter of new openings will be in Avondale-Goodyear-West Glendale.

10 BASIS POINT
decrease in vacancy

VACANCY:

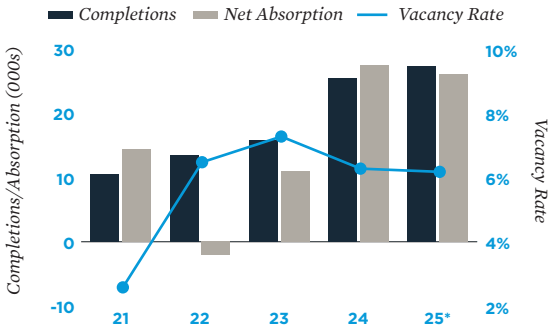
Vacancy tightens to 6.2 percent this year — the lowest rate since 2021, despite three years of record-level supply. Strong net in-migration and household formation will aid leasing activity, easing upward pressure.

1.0% INCREASE
in effective rent

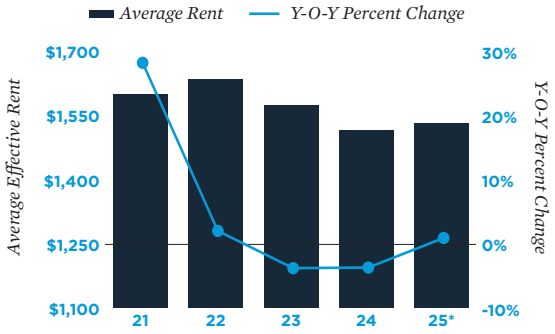
RENT:

Declining vacancies will prompt a return to rent growth for the first time in two years, albeit slight. The mean effective rent will end 2025 at $1,531 per month — still close to 2 percent off the five-year average.

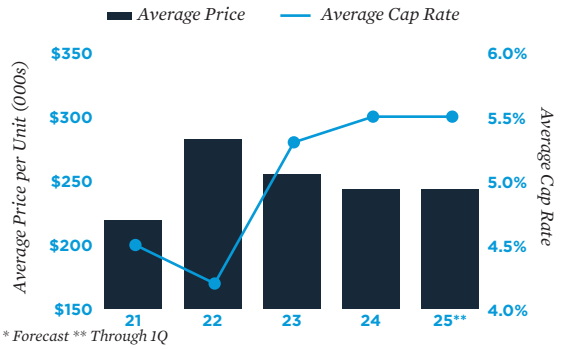
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

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

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1Q 2025 — 12-Month Period

CONSTRUCTION

27,707 units completed

- The metro's apartment inventory expanded by its fastest pace in over two decades — up 6.7 percent year over year as of April.
- Avondale-Goodyear-West Glendale had the most development in the past year with approximately 6,900 apartments. Peoria-Sun City-Surprise and Gilbert followed with about 3,400 and 1,900 units, respectively.

VACANCY

120 basis point decrease in vacancy Y-O-Y

- Overall vacancy declined to 6.1 percent over the year ended in March, with rates beginning to decrease last July. Each class had annual declines. Class C vacancy dropped the most, falling 140 basis points to 6.7 percent.
- Vacancy decreased in 20 of the 23 submarkets over the year ended in March. Northeast Phoenix recorded the lowest rate of 4.9 percent.

RENT

3.9% decrease in the average effective rent Y-O-Y

- Downward movement in the average effective rent continues for the second straight year as the mean dipped to $1,512 per month in March.
- Effective rents have declined across all but one submarket, though North Glendale saw the steepest decrease at 7 percent. Vacancy there has stayed above 6 percent, augmenting this downward pressure.

Investment Highlights

- Transaction velocity decreased 8 percent year over year through March as economic uncertainty tempered investment. Assets built after the year 2000 continued to dominate activity, accounting for almost 40 percent of total sales volume. Class A properties typically traded at cap rates near 5 percent, holding above the 4 percent band seen from 2018 to 2022.
- Price discovery remains ongoing across asset classes, reflecting divergent investor approaches based on vintage. Properties constructed since 2020 saw median pricing decline 12 percent year over year to $285,000 per unit. Meanwhile, older Class B and C assets experienced more significant value adjustments, generally trading around 30 percent below peak valuations.
- Investor focus in 2025 may pivot toward submarkets facing limited new supply, particularly northeast Phoenix and areas north of Downtown, where fewer deliveries are slated this year. These locales offer stable near-term rent and occupancy, attracting buyers prioritizing fundamentals. Conversely, areas with heavy pipelines, like Downtown Phoenix and Tempe, may see reduced investment. That said, the influx of post-2020 stock could create opportunities for Class A assets as supply pressures ease.