Market Report

MULTIFAMILY 2Q/26

Phoenix Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

2026 FORECAST

EMPLOYMENT
32,000 Jobs will be created
1.3% Increase Y-O-Y

CONSTRUCTION
15,900 Units will be added
3.5% Inventory increase Y-O-Y

VACANCY
5.4% Vacancy rate
70 BPS decrease Y-O-Y

RENT
$1,510 Average effective rent by year-end
2.8% Increase Y-O-Y

Record Absorption Highlights Market Strength Amid Still Elevated New Supply

Mid- to high-end leasing holds firm. Robust apartment demand in Phoenix drove the metro's highest first-quarter absorption on record in early 2026, contributing to year-over-year vacancy declines across all class cuts. This occurred despite a 0.6 percent year-over-year slowdown in population growth, though the metro remained in the top third among major markets. Phoenix has also recorded the seventh fastest pace of inventory expansion among major markets over the past five years. During this same period, Class A properties experienced a 100-basis-point increase in vacancy, compared to 160 basis points in Class B and 300 basis points in Class C, highlighting stronger renter appetite for newer, higher-quality stock.

Demand remains strong in peripheral submarkets. Outlying suburbs anticipate heavy delivery slates again in 2026. Nonetheless, these areas continue to absorb new supply, as highlighted by submarkets such as Avondale-Goodyear-West Glendale, East Mesa, Deer Valley, and Pinal County each recording vacancy declines over the year ended in March, despite inventory growth exceeding 10 percent. However, prevalent use of concessions across class cuts in these locales suggests that renter retention may remain challenging as new supply comes online.

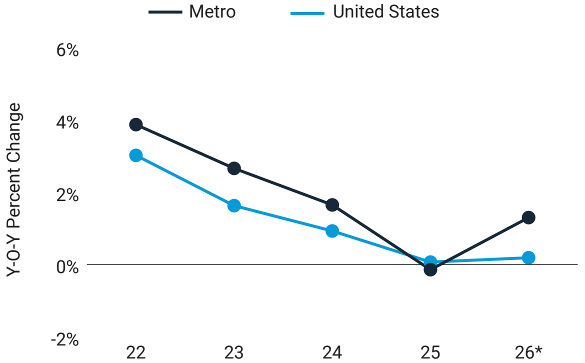
EMPLOYMENT

Job growth in Phoenix has decelerated each year since 2021, culminating in a 0.1 percent annual decline in 2025 before turning positive again in early 2026. Healthcare and social assistance hiring remain robust, supported by major healthcare expansions including HonorHealth's $170 million Deer Valley Medical Center buildout. Over the next several years, semiconductor manufacturing and related supply-chain expansion, led by TSMC, Amkor, and other advanced manufacturing firms, will drive incremental job creation.

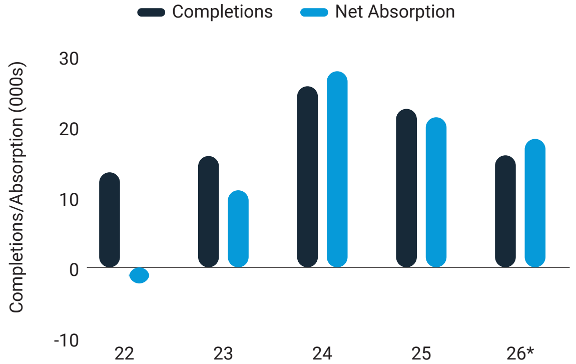
CONSTRUCTION

New supply is set to decelerate for the second consecutive year in 2026, though the metro still anticipates the second fastest pace of inventory expansion among major markets. With one-third of this year's delivery slate already completed in the first quarter, supply pressure will ease through the remainder of the year. Avondale-Goodyear-West Glendale will see a sharp deceleration, yet still expects over 3,000 new units, while Deer Valley and Central Phoenix each anticipate over 2,000 apartments.

EMPLOYMENT TRENDS



CONSTRUCTION TRENDS



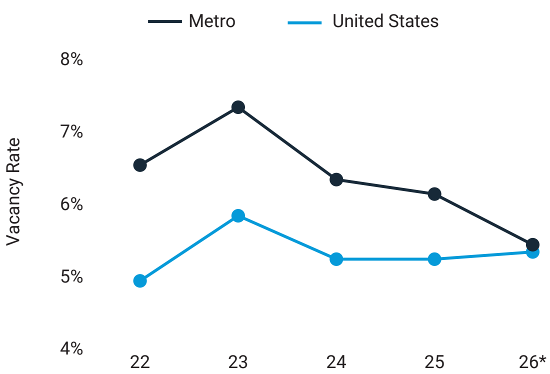
* Forecast

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

VACANCY

After reaching a trailing decade high of 7.3 percent in early 2024, vacancy has steadily trended lower. The near-record 7,360 units absorbed in the first quarter drove the metric down to 5.6 percent, below the long-term average of 6.7 percent. Accelerating hiring, coupled with moderating deliveries, is expected to allow vacancy to decline by an additional 20 basis points by year-end. As of the first quarter, all submarkets fell within a moderately tight range of mid-4 percent to low-7 percent.

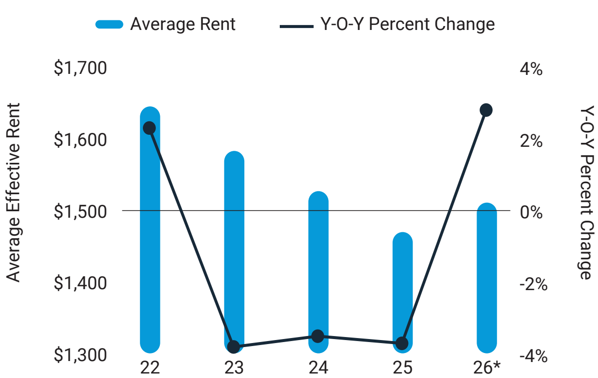
VACANCY TRENDS



RENT

The metro's average effective rent fell across all classes during the year ended in March, with Class C noting the steepest loss at 4.1 percent, followed by Class B at 2.9 percent and Class A at 1.1 percent. Following three years of decline between 2023 and 2025, however, the metro's quarter-over-quarter increase in early 2026 was the largest recorded since 2022. With vacancy near its lowest level since that same period, a modest year-end gain in the average effective rent appears well supported.

RENT TRENDS



* Forecast ** Through 1Q

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

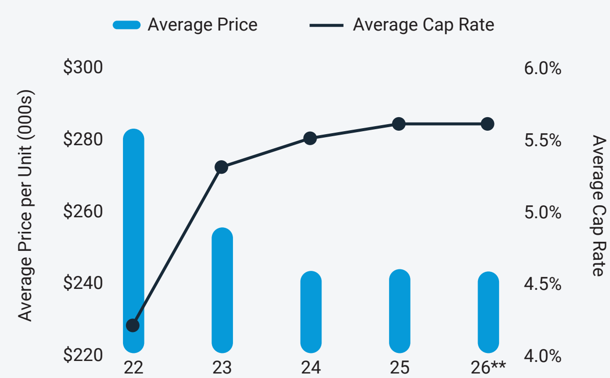
INVESTMENT HIGHLIGHTS

- Transaction velocity continued to climb in Phoenix during the year ended in March, though activity remained roughly 40 percent below the annual average of 2015-2019. The $1 million to $10 million price tranche was the primary laggard, with activity nearly 50 percent below that historical benchmark.

- Class C properties recorded the sharpest increase in transaction velocity over the trailing 12 months ended in March, followed by Class B assets, while Class A activity held relatively steady. As occupancy continues to tighten alongside moderating deliveries, Class C properties appear well positioned for rent recovery in the coming years. The corridor from Midtown to North Phoenix should continue to attract investors targeting the segment. This is supported by strong transit connectivity, healthcare employment density, and limited land availability that has constrained development relative to much of the metro in recent years, helping preserve the area's Class C demand base.

- Investors are also likely to continue targeting Class B and C properties in and around Mesa proper, where these segments have maintained mid-5 percent vacancy despite rapid inventory growth in recent years. The area benefits from a growing retail landscape, recording the third-highest inventory growth among submarkets over the past decade while also maintaining a sub-6 percent vacancy rate in the first quarter. Combined with convenient access to major freeways and employment corridors, these factors should continue to support stable demand for workforce housing.

SALES TRENDS



IPA Multifamily

ANDREW LEAHY

Senior Managing Director, National Division Leader

Tel: (202) 536-3700

aleahy@ipausa.com

For info on national multifamily trends, contact:

JOHN CHANG

Senior Vice President, Chief Intelligence & Analytics Officer

Tel: (602) 707-9700

jchang@ipausa.com

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