

INVESTMENT FORECAST

Multifamily
Phoenix


IPA
INSTITUTIONAL
PROPERTY
ADVISORS


2020

Migration to Phoenix Highest in the Nation, Driving Continued Housing Demand

Positive business and lifestyle climates draw new residents and companies to the Valley. Phoenix stands out this year with one of the nation's fastest-growing economies as firms are drawn to the favorable business environment, lower expenses and an increasingly educated workforce. Many businesses are moving operations out of high-cost markets and into the Valley, tapping into the deep roots that finance, insurance and software firms have grown. This will propel Phoenix to the top spot in net migration in 2020, adding more than 77,000 new residents, many of which being young professionals. The Valley is a prime example of activity picking up in secondary markets at this point in the cycle as the single-family sector has been unable to meet the needs of an expanding metro. Reflective of this is the exceptionally limited availability of traditional workforce housing as the Class B and C vacancy rates sit in the mid-3 percent and high-2 percent ranges, respectively. This will restrain absorption this year, resulting in the majority of new leases stemming from luxury apartments.

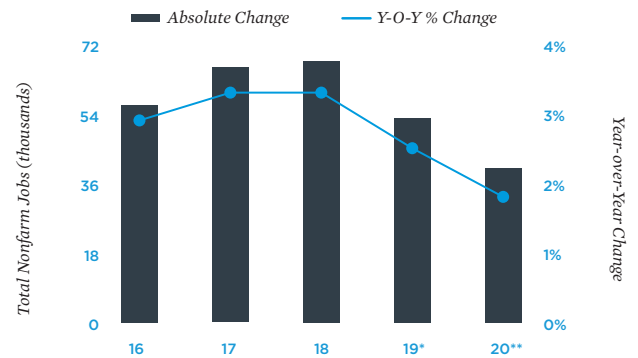
Liquidity soaring as investors see further upside growth. Skyrocketing investment sales activity for properties above \$20 million has placed Phoenix as one of the highest transacting metros in the nation and investor enthusiasm shows no sign of slowing down. The market fundamentals are driving strong underwriting assumptions, which combined with robust demand for assets has created a highly competitive bidding environment for all asset types and locations. Cap rates have compressed to historical lows and the average price per unit sits at an all-time high. Newly developed properties will be the primary focus of institutional buyers, especially for projects in Scottsdale, Tempe and Central Phoenix with strong live-work-play emphasis. These locations tend to attract highly valued professional renter profiles coveted by institutional capital. In addition, capital seeking value-add properties will be expanding their search parameters into new submarkets and neighborhoods radiating out from central Phoenix and East Valley cities as most closer in opportunities have been exhausted. Buyers will also begin noticing the excellent growth potential for the western suburbs as rent growth matches or exceeds the overall market. Without a doubt, both buyers and sellers view current pricing as highly advantageous with pro forma rent growth staying well above the national average and creating one of the highest liquidity markets for the next 12 months.

21.0%  2019 share of local population between 20 and 34 years old

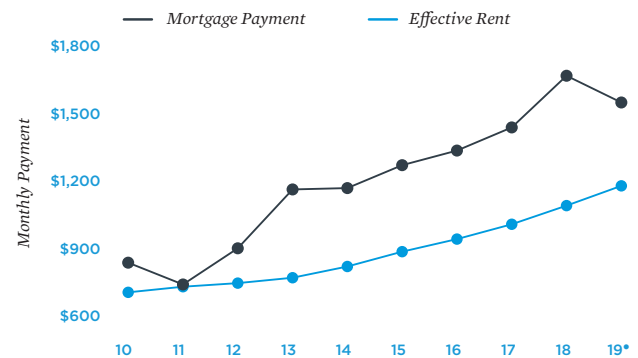
29.8%  of local population hold bachelor's degree or higher*

\$285,677  2019 median home price

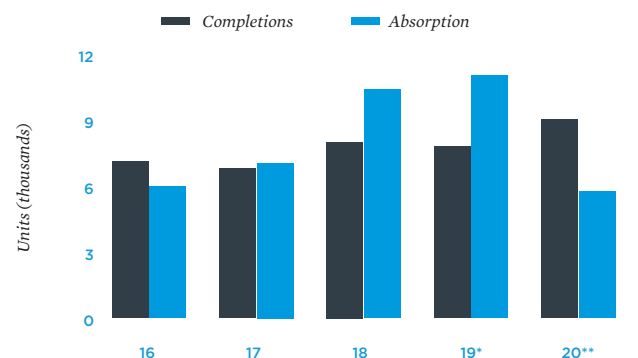
Employment Trends



Housing Affordability Gap



Supply and Demand



* Estimate ** Forecast * Through 3Q
* 2019: 25+ years old

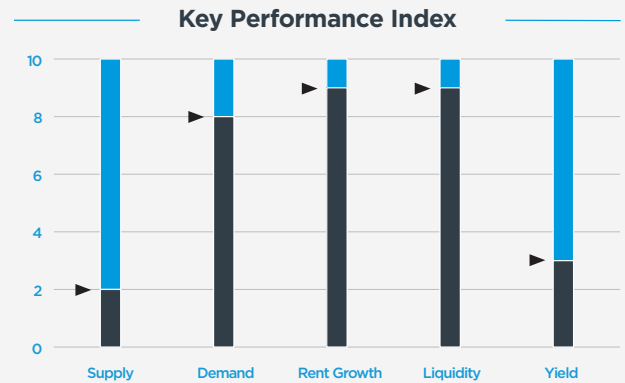
Sources: Marcus & Millichap Research Services; RealPage, Inc.

2020 Investment Outlook

Phoenix's Key Performance Index highlights it is one of the nation's top markets for rent growth. With a current rent growth index of 9 and demand signaling no immediate concern regarding the ability to fill units being delivered, the fundamentals for the coming year appear solid.

The liquidity index for Phoenix sits at the peak level for all metros, highlighting the strong transaction market as both buyers and sellers are capitalizing on the positive fundamentals outlook. The yield index dropped a point but still remains highly attractive at 3.

Note: The Key Performance Index provides a metro-level relational benchmark scaled from 1-10 for five key metrics.



2020 Market Forecast

Employment
40,000 jobs



Metro **1.8%**
U.S. **1.0%**

Construction
as % of inventory*



Metro **2.5%**
U.S. **1.7%**

Class A Vacancy
Up 60 bps



Metro **5.3%**
U.S. **5.3%**

Class A Rent
\$1,616 per month

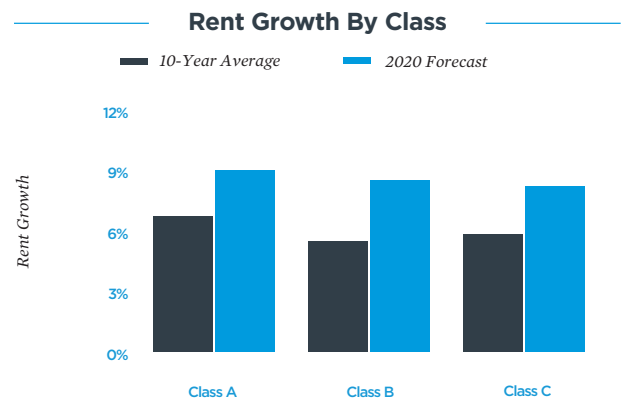
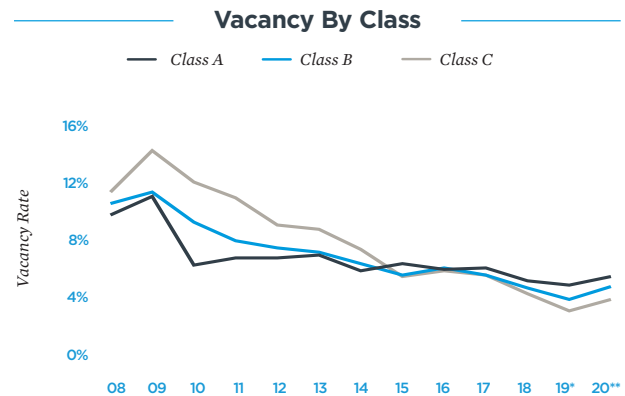


Metro **9.0%**
U.S. **3.3%**

Investment
3-yr. avg. activity
\$20+ million



Deals: **108**
Volume: **\$5.4 billion**



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* Estimate ** Forecast

† Arrow reflects completions trend compared with 2019
Sources: Marcus & Millichap Research Services;
CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics