MARKET REPORT

MULTIFAMILY

Phoenix Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

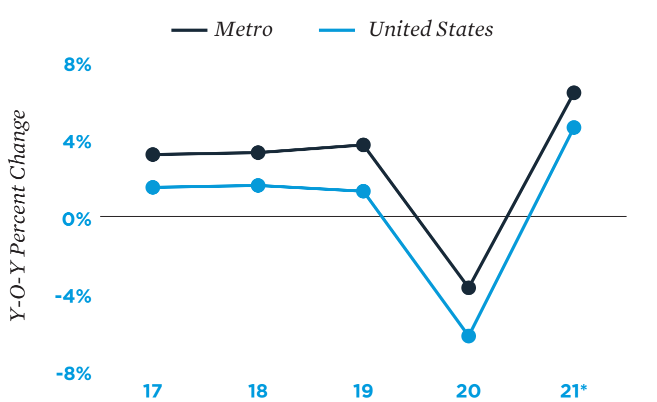
3Q/21

Phoenix Registered the Fastest Rent Climb in the Country as Robust Migration Strained Supply

Extremely tight vacancy powers U.S.-leading rent growth. Several demand drivers supporting the need for rentals converged to produce a record-setting performance in Phoenix over the past 12 months. Availability fell to a 20-plus-year low in the second quarter, providing a tailwind for rent to grow at a pace nearly four times as fast as the national gain during the yearlong period ended in June. More than 40,000 new households were created during that stretch, with relocations to the metro accelerating as job openings grew. A lower cost of living relative to West Coast cities and a favorable quality of life also motivated migration. Meanwhile, the median home price in Phoenix surged 24 percent in the past year, elevating the barrier to homeownership. A large portion of the demand from new residents is going toward apartments, which was evident in the historic second quarter improvement. Net absorption during the April through June time frame exceeded 5,500 units, the largest quarterly total in over 15 years.

Strong demand warrants elevated construction. Builders will finalize more units in 2021 than in any year dating back to at least 2000. The forward-looking pipeline is also weighty. Additional supply is necessitated by record-low vacancy, though, and will not present distinct supply headwinds to the market as a whole. Net absorption has outpaced completions in each of the past four years despite the arrival of nearly 32,000 units during that span. Piloted by an especially strong leasing period in the second quarter, net absorption will likely again surpass deliveries this year, keeping vacancy on a downward path and catalyzing rent growth.

Employment Trends



* Forecast

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

Multifamily 2021 Outlook

137,000 JOBS
will be created

EMPLOYMENT:

Job gains in 2021 push the Phoenix headcount over the pre-pandemic level by roughly 46,000 workers. The employment total will expand by 6.4 percent this year, the fastest annual growth rate since 1996.

10,000 UNITS
will be completed

CONSTRUCTION:

Delivery volume in 2021 will be about one-third larger than the trailing-five-year annual average. Submarkets where supply will expand by an estimated 10 percent or more this year include Central Phoenix, Gilbert and Peoria-Sun City-Surprise.

70 BASIS POINT
decrease in vacancy

VACANCY:

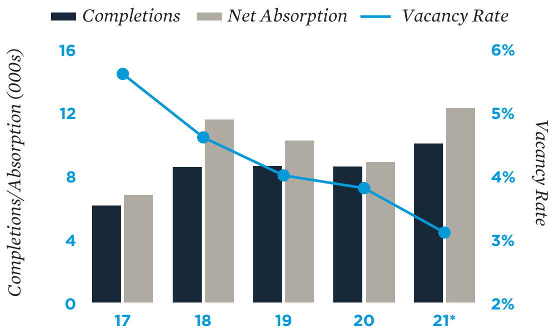
At the end of this year Phoenix is expected to have one of the 10 lowest vacancy rates among major U.S. markets, at 3.1 percent. Net absorption will notch a two-plus-decade high amounting to 12,250 units, fueled by in-migration and household creation.

12.2% INCREASE
in effective rent

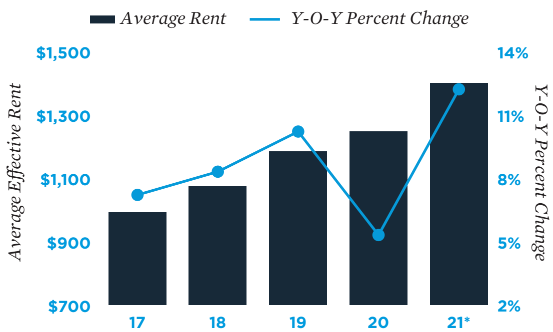
RENT:

The average effective monthly rent will be roughly $1,400 at the end of 2021. The market may not sustain the trajectory from the first half when rates jumped by nearly 11 percent in a six-month period, but this year's gain will still be the fastest in over 20 years.

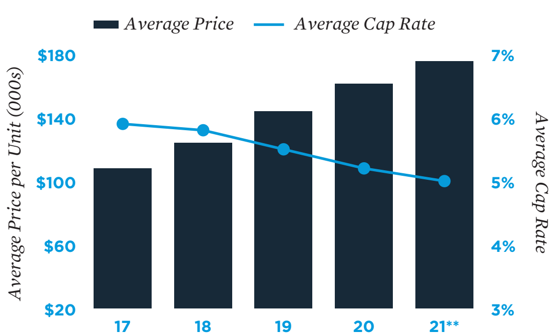
Supply and Demand



Rent Trends



Sales Trends



** Forecast; ** Through 2Q*

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

2Q21 — 12-Month Period

CONSTRUCTION

10,182 units completed

- Delivery volume during the past 12 months ended in June was the largest over a yearlong time frame in at least the past two decades. As of July, an additional 30,000-plus units are projected to finalize by 2023.
- Deviating from the market trend, additions in the North Tempe-University submarket shrunk by about 50 percent from the previous year.

VACANCY

120 basis point decrease in vacancy Y-O-Y

- Availability waned to 3.2 percent with all three apartment tiers noting year-over-year vacancy declines of at least 80 basis points. Class A led with a 170-basis-point reduction to a 15-year low of 3.8 percent.
- Over the past year, 15 of the 23 submarkets had vacancy drops of more than 100 basis points. Far West Phoenix had the only vacancy rise.

RENT

16.6% increase in the average effective rent Y-O-Y

- The average effective rent has moved up in each quarter since falling at the onset of the health crisis, highlighted by a 7.9 percent jump in the April through June period, which brought the monthly rate to $1,384.
- Both the Class A and B tiers had annual rent growth of nearly 17 percent. The Class C average grew at about half that pace during the past year.

Investment Highlights

- Trading activity has surged as the Phoenix economy began recovery ahead of many other metros. Multifamily fundamentals strengthened as a result of job gains and in-migration, which caught the attention of buyers from more disrupted markets. Competition for assets has escalated, stimulating a 15 percent annual hike in the average price per unit to $176,000. The mean cap rate for assets that traded above $1 million during the past four quarters ended in June dipped to 5.0 percent.
- Deal velocity in the North Phoenix and Tempe submarkets has increased significantly. Out-of-state investors, particularly from California, are homing in on the locales as they are registering strong household formation, apartment absorption and rent growth. In these two areas, buyers have accepted initial returns in the 4 percent range for Class A buildings and as high as the 6 percent band for Class C assets.
- Investors seeking below-market entry costs typically look for Class C apartments in the East and Southwest Valley. Assets in Maryvale and Mesa are garnering notable buyer interest. Lower-tier properties here change hands for an average of roughly $150,000 per unit.

IPA Multifamily

Richard Matricaria

Executive Vice President of Brokerage Operations

Tel: (818) 212-2250 | rmatricaria@ipausa.com

For information on national multifamily trends, contact:

John Chang

Senior Vice President, National Director | Research Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: $250