

Multifamily Metro Outlook:

Phoenix - Q1 2021

Overview

- While not immune from the pandemic, Phoenix has fared better than most other metros supported, in part, by ongoing migration to the metro. Over 76,000 residents flocked to Phoenix in 2020, on par with 2019’s 78,000 new residents. As a result, not only does the average vacancy rate remain low by historic standards at just 4.75% as of Q1 2020, but the average rate has returned to pre-pandemic levels already. Further, rents grew just 2% during Q1 2021, recording some of the strongest metro-wide rent growth in the nation.
- While new supply underway is accelerating, Phoenix is still poised to be one of the best performing markets in 2021, provided the economy continues to reopen and job growth continues along its current trajectory.

Market Strengths:

- Phoenix has much lower business and living costs than neighboring California. This is expected to keep attracting businesses and residents to the area long-term. In fact, 3 out of the top 5 metros from which residents relocated in 2020 were in California. The arbitrage has also benefited the well-paying high-tech sector in Phoenix, dubbed the Silicon Desert. It now accounts for about 5.7% of employment, +0.4% above the national average. Further, the local tech industry, is concentrated in semiconductors and computer systems design according to Moody’s Analytics, both of which have fared well over the past year.
- The metro’s economy has transitioned over the past 20 years and is now a hub for the expansion and relocation of banks, insurance companies, and business services firms which include higher-paying jobs. It is now a financial center with about 9% of jobs in this sector compared to 6% nationally, and 17% of jobs are in the well-paying professional services sector compared to about 14% nationally. As a bonus, these jobs can also be done remotely.
- Phoenix has a favorable demographic profile for apartments, with Millennials making up about 21% of the population. This cohort is expected to grow faster than the national average over the next 5 years. Arizona State University, which helps keep Phoenix young, had over 122,000 students enrolled for spring 2021 with about 69,000 attending classes in person, in line with fall’s figures.

Market Weaknesses:

- Phoenix is becoming less affordable. Currently, Moody’s Analytics estimates that the metro’s business costs have risen to about 9% above the national average and living costs have risen to 3% above the national average.
- According to CoStar, for-profit companies such as NexMetro and Christopher Todd Communities have built and are renting thousands of single-family homes in the West and East valleys. This could compete with traditional multifamily for renters.
- Water shortages are a constant problem which may limit growth. In addition, a 2019 report from Yale University indicated that Phoenix needs to build \$500 million of infrastructure to pipe water to northern parts of the city that now rely on Colorado River water.

Development:

- Development is likely to be a headwind for this otherwise robust market. Given strong job and household growth over the past 5 years, the 41,000 new apartments delivered were easily absorbed. However, the pace of development is growing with 22,200 units underway as of Q1 2021, representing a 6.1% increase in inventory, up from 19,600 units as of Q4 2020. While 17% of units underway are in Central Phoenix, development does appear to be spread out around the metro currently.

Outlook:

- Phoenix and Maricopa county will receive over \$97 million from December’s Federal Consolidated Appropriations Act to assist renters in arrears, among other things. In addition, Moody’s Analytics projects that Phoenix should recover all jobs lost in 2020 by the end of 2021 which bodes well for the multifamily market. Nevertheless, the apartment market may continue to see some volatility over the next couple of quarters as Phoenix continues to grapple with the pandemic and new supply adds pressure to market. However, overall, Phoenix remains one of the best performing apartment markets currently.
- Although the COVID 19 vaccine is starting to be administered, the economy will still face pressure over the next few months. Longer-term, Phoenix is likely to remain one of the strongest economies in the country due to a warm climate and relatively low business and living costs. This and the vast amount of available land should continue to attract both employers and population long-term. Even so, Phoenix will continue to have high cyclical due to dependence on investment and population inflows.

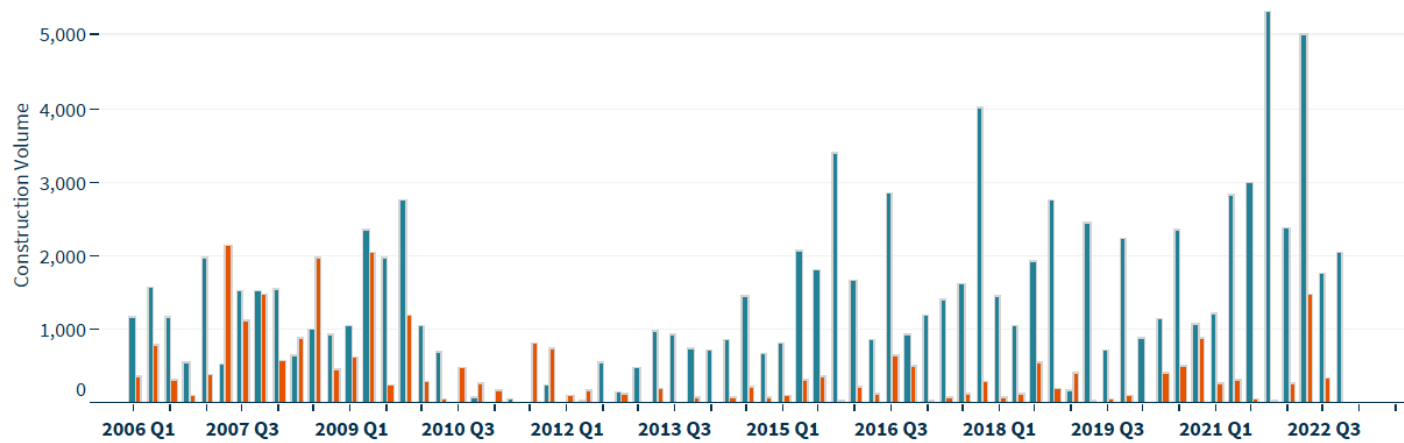
Five Year Metro Area Growth Forecast

| Source: Moody’s Analytics | Q4 2020 | Q4 2025 | Phoenix Metro (5-Year Annual Average Change) | National (5-Year Annual Average Change) |
|---|-----------|-----------|---|--|
| Population (000s) | 5,079 | 5,487 | 1.56% | 0.52% |
| Households (000s) | 1,805 | 2,073 | 2.81% | 1.41% |
| Renting Cohort (Ages 20-34) (000s) | 1,062 | 1,123 | 1.12% | -0.26% |
| Total Employment (000s) | 2,158 | 2,416 | 2.28% | 1.71% |
| Median Household Income | \$68,636 | \$76,316 | 2.14% | 2.83% |
| Median SF Home Price | \$356,510 | \$384,072 | 1.50% | 4.30% |
| Net Migration | 49,084 | 65,432 | | |

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



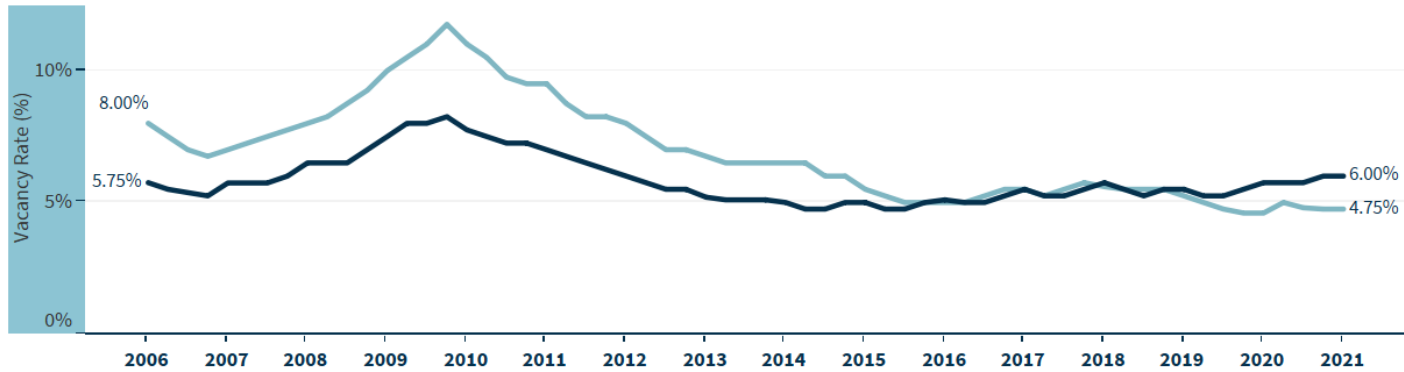
Vacancy & Rent Composite Estimates

Vacancy Rates

Phoenix | National

Q1 2021 Vacancy Rate:

4.75%

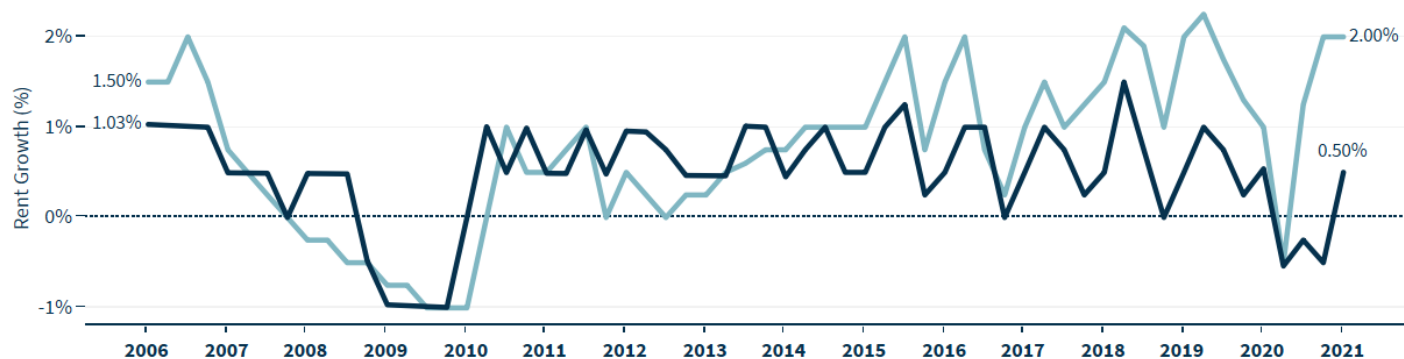


Asking Rent Growth

Phoenix | National

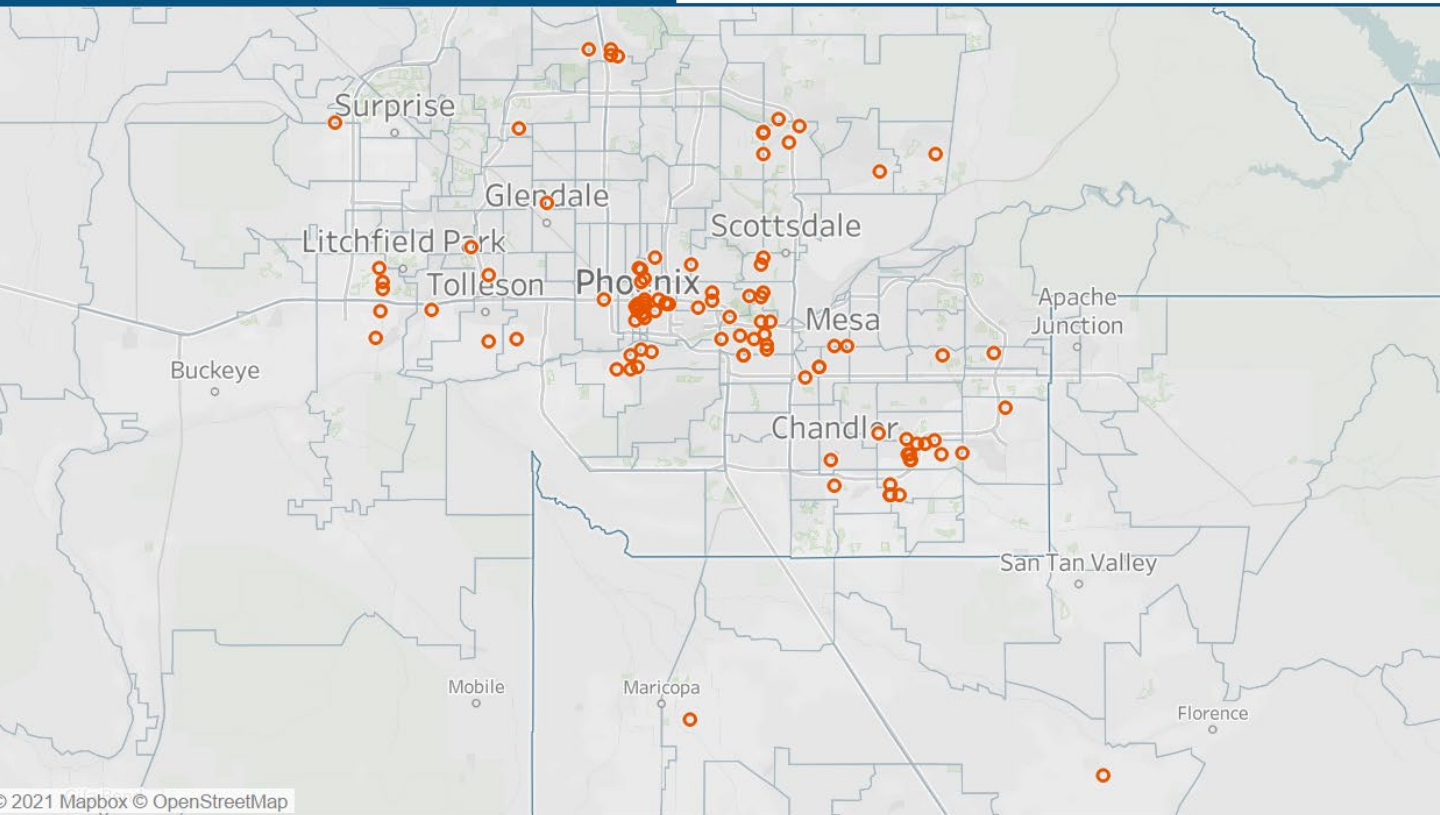
Q1 2021 Asking Rent:

\$1,220



Source: Multifamily Economics and Research

Construction: Bidding & Underway



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| <i>Sub-Market</i> | <i>Projects</i> | <i>Units</i> | <i>Sq. Ft. (M)</i> |
|---------------------------------|-----------------|---------------|--------------------|
| Avondale/Goodyear/West Glendale | 9 | 2,458 | 2.67M |
| Central Phoenix | 19 | 3,944 | 5.00M |
| Chandler | 2 | 321 | 0.43M |
| Deer Valley | 3 | 892 | 1.01M |
| East Mesa | 3 | 521 | 0.58M |
| East Phoenix | 5 | 1,670 | 1.88M |
| Far West Phoenix | 1 | 166 | 0.16M |
| Gilbert | 17 | 2,243 | 2.51M |
| North Central Phoenix | 5 | 1,357 | 1.77M |
| North Glendale | 1 | 325 | 0.41M |
| North Scottsdale | 8 | 2,025 | 2.19M |
| North Tempe/University | 8 | 2,111 | 3.22M |
| Northwest Mesa | 1 | 200 | 0.25M |
| Peoria/Sun City/ Surprise | 2 | 352 | 0.36M |
| Pinal County | 2 | 131 | 0.16M |
| South Glendale | 1 | 96 | 0.09M |
| South Phoenix | 6 | 674 | 0.87M |
| South Scottsdale | 4 | 726 | 0.86M |
| South Tempe | 2 | 648 | 0.65M |
| Southwest Mesa | 4 | 1,069 | 1.05M |
| West Phoenix | 1 | 260 | 0.24M |
| Grand Total | 104 | 22,189 | 26.35M |

Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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