Multifamily Metro Outlook: Phoenix Winter 2018

Phoenix's economy is moving beyond its traditional reliance on single-family construction and retirees. It has become a magnet for the relocation of financial, professional services, and manufacturing firms. As a result, the surge of new residents is providing a boost to jobs in the retail, hospitality, construction, and healthcare sectors. This trend is likely to continue for the next couple of years. Moody's Analytics estimates healthy job growth of 2.4 percent, resulting in just under 100,000 jobs added through year-end 2019.

The cost of doing business in Phoenix is slightly lower than the national average, which should continue to attract businesses relocating from high-cost California. The well-paying, high-tech sector here – dubbed the Silicon Desert – now accounts for about 5.4 percent of employment, well above the national average of 4.8 percent. Intel is investing $7 billion to complete the Fab42 microprocessor plant in Chandler and will hire 3,000 employees. Meanwhile, the West Valley is home to mid-wage jobs in distribution for E-commerce, and UPS is building a new facility that will create an estimated 1,500 jobs.

Continued solid economic growth is reflected in the multifamily market. The average vacancy rate remains low by historical standards at an estimated 5.5 percent as of Q3 2017, and concessions of 0.8 percent of asking rents are well below the 6.2 percent long-term average.

Phoenix has also maintained its excellent demographic profile. The metro's population of 4.7 million is projected to increase 2.3 percent per year on average annually through 2021, amounting to more than 100,000 people per year, nearly triple the national rate. This population growth should provide stable ongoing demand for housing. Also, Millennials are about 21 percent of the population, and they are expected to grow locally at five times the national rate.

Even so, although the economy has transitioned to now include higher-paying sectors, tourism is the fifth-largest sector by employment at 11 percent and has a below-average annual income of just $28,000. Also, while the construction sector represents about 5.5 percent of employment and provides better-paying jobs, it is often volatile and can result in sudden layoffs.

Development

Since 2012, approximately 29,000 apartment units were delivered, mostly in the East Valley neighborhoods of Chandler, Gilbert, Tempe, and Mesa. There are an additional 14,500 units underway, representing an estimated 4.2 percent increase in inventory, which, although elevated, is needed due to robust net migration trends. The largest of these is the Pacific Proving Grounds Master Planned Community, which will deliver an estimated 3,500 units in 2019.

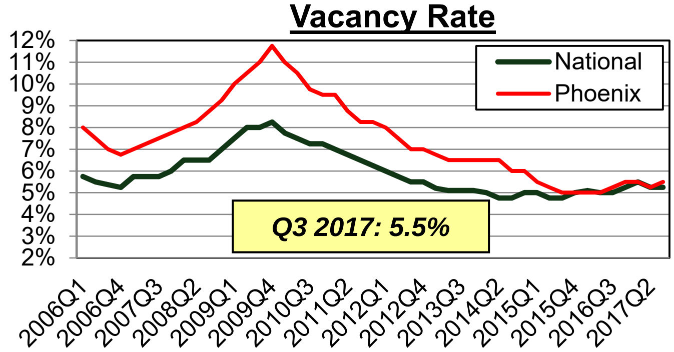
Outlook

While slowing, Phoenix should see some of the best job growth in the country in 2018. As a result, enough new multifamily rental households should be formed to keep net absorption positive, thereby moderating any increases in vacancy rates due to the ongoing delivery of new supply. Still, over the next 18 months, rent growth is likely to slow to about 3.0 percent on average annually, returning to a more normalized level.

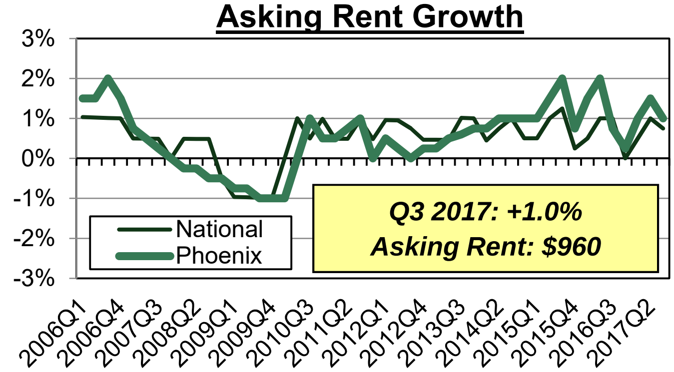
Above average job and population growth bode well over the longer-term, five-year forecast. With the metro's 20-to-34 year-old population cohort expected to expand, the multifamily sector seems well positioned to meet future demand.

Vacancy and Rent Composite Estimates

Vacancy Rate

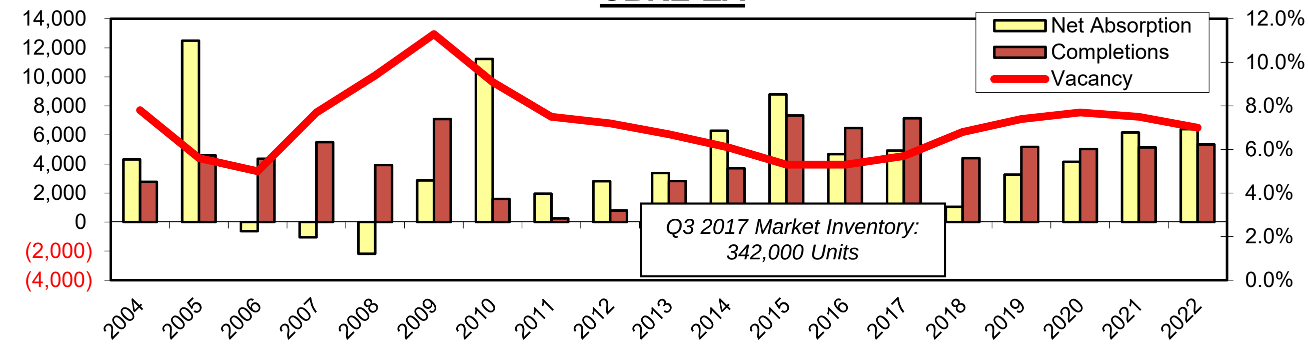


Asking Rent Growth

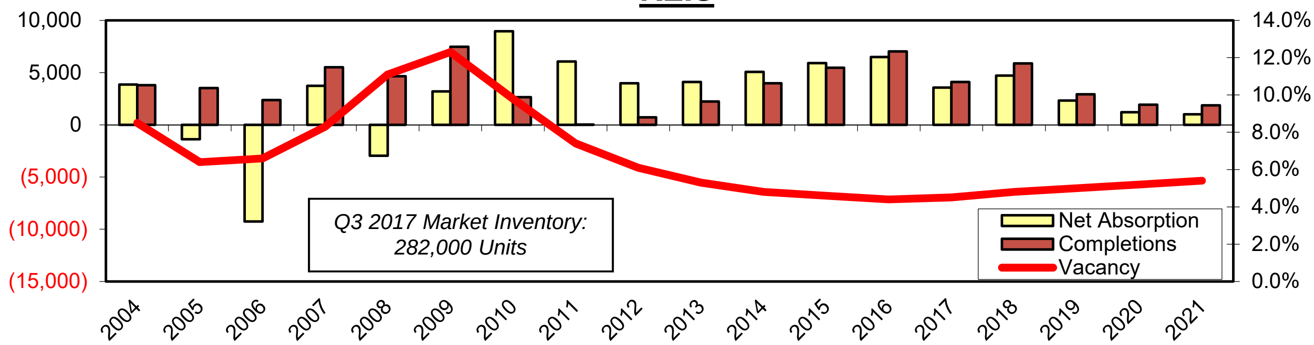


Source: Fannie Mae Multifamily and Economics Research

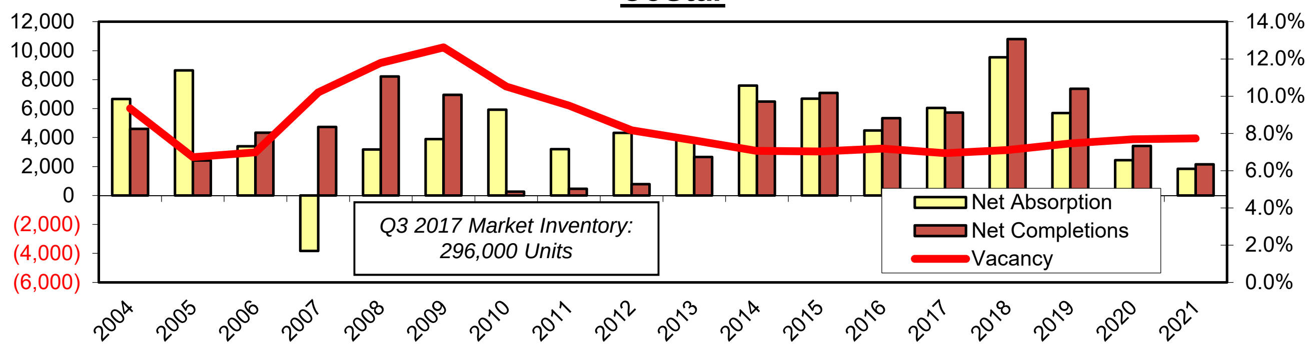
CBRE-EA



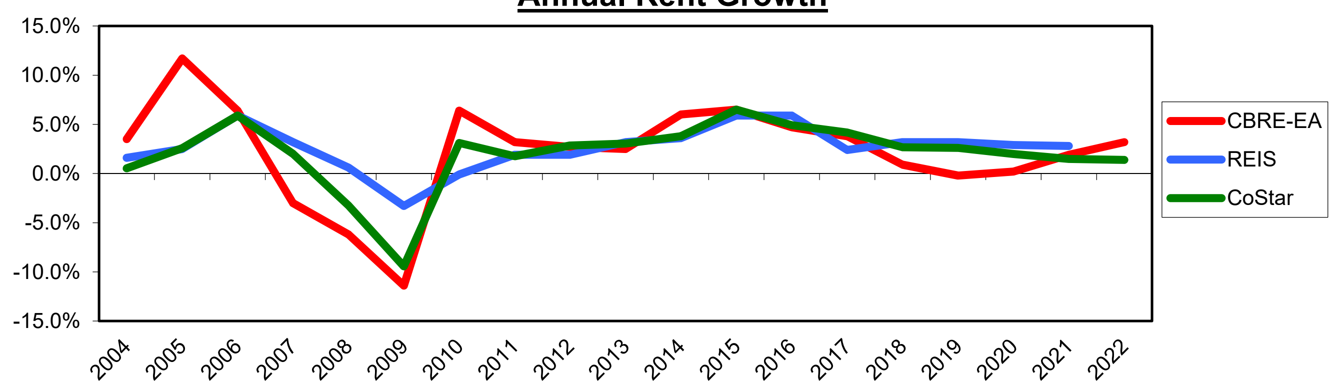
REIS



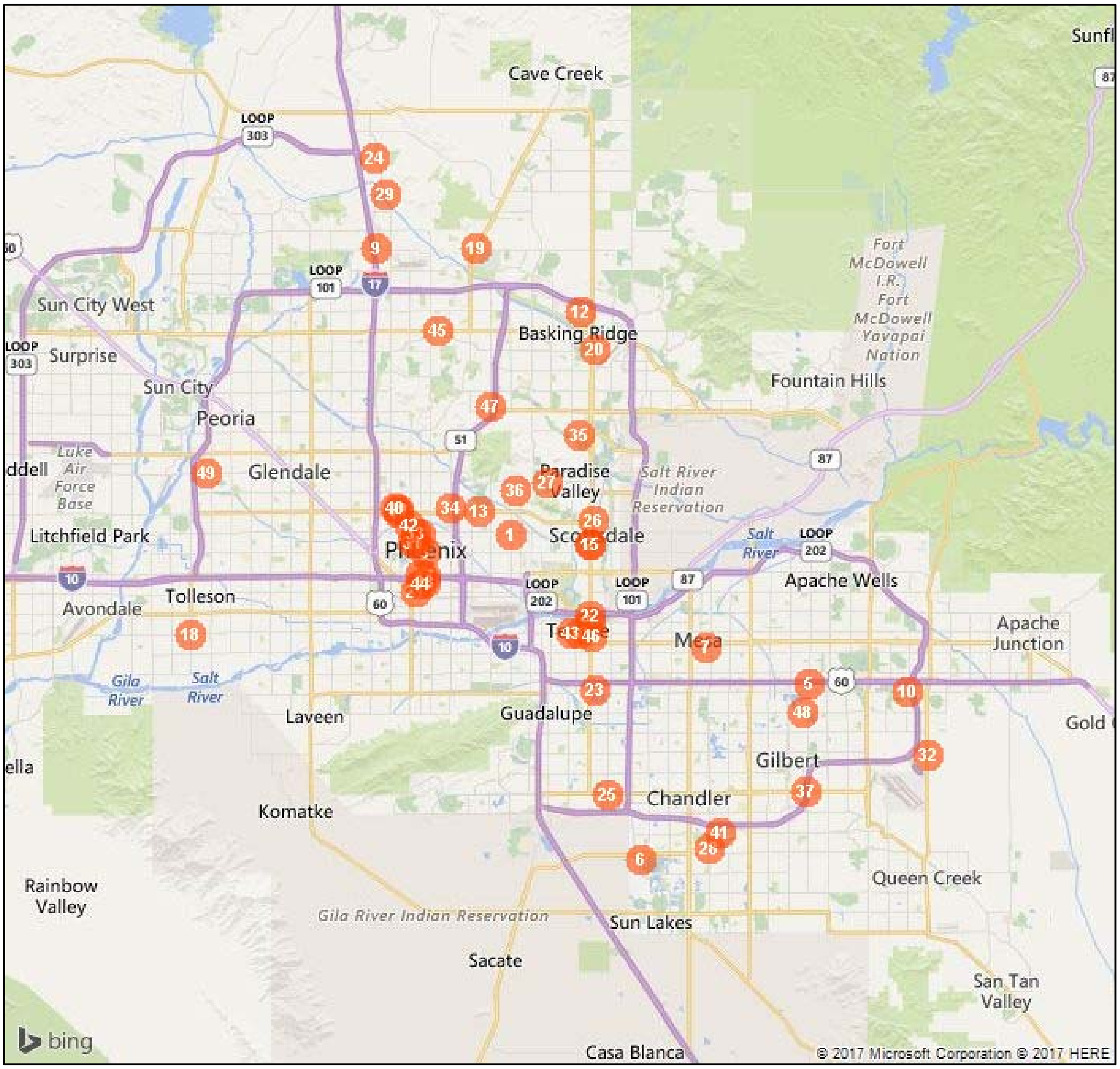
CoStar



Annual Rent Growth



Construction Bidding/Underway
(49 projects/14,800 Units/14.4 M Sq. Feet)



CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
East Mesa	3	1721	4171
North Scottsdale/Fountain Hills	6	2309	2015
Central Phoenix South	6	2304	1673
North Tempe	5	2154	1561
Chandler/Gilbert	5	1500	1397
Central Phoenix North	8	1561	1292
South Scottsdale	6	935	711

CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
South Tempe/Ahwatukee	2	425	653
Northeast Phoenix	3	651	494
Deer Valley	1	327	306
Glendale South	1	214	230
Goodyear/Avondale/Tolleson	1	127	154
Paradise Valley	1	101	135

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Fannie Mae Multifamily Economics and Market Research

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Sources Used

- AxioMetrics
- CBRE-Econometric Advisors
- Bureau of Labor Statistics
- Census Bureau
- CoStar
- Dodge Data & Analytics
- Moody's Analytics
- Real Capital Analytics
- Reis, Inc.