

Metro Housing Outlook:

Phoenix - Q1 2024

Overview

- While Phoenix's high-tech industries and financial sectors have pulled back since experiencing the negative impact from rising interest rates, job growth is on the upswing again according to Moody's Analytics. In fact, Phoenix is expected to have one of the highest rates of job growth in the nation and is projected to add almost 90,000 jobs in 2024 and 2025.
- Multifamily fundamentals continue to weaken in Phoenix largely due to a prolonged surge in deliveries. Despite some of the strongest job growth in the nation, new supply has outstripped demand. As a result, the average vacancy rate of 7.5% in Q1 2024 is now almost 3 percentage points above the pre-pandemic level in Q1 2020. Still more supply is underway likely leading to additional softening of in the multifamily market in the second half of 2024.

Market Strengths:

- While 10.4% of jobs remain in the housing sector, close to the 10.6% national average, the economy has diversified over the past 20 years. About 8.8% of jobs are in finance compared to 5.9% nationwide, and 16.2% of jobs are in the well-paying professional services sector compared to about 14.6% nationwide. While job growth in finance and insurance has slowed due to the increase in interest rates, scientific, professional and technical services jobs will grow this year according to Moody's.
- Phoenix has the third-highest rate of in-migration among metro areas with at least 1 million residents. Moody's expects net migration to pick back up in 2024, at an expected 58,000 newcomers compared with 38,000 residents added in 2023, providing continued strong demand for all types of housing. In addition, the primary renting cohort, ages 20-34, makes up about 21% of the population. This cohort is expected to grow faster than the national average over the next 5 years aided by enrollment at Arizona State University and Grand Canyon University. Combined, they had a fall 2023 enrollment of 145,000 students over five campuses.
- Many migrate for jobs in the well-paying high-tech sector, dubbed the Silicon Desert. It now accounts for about 5.6% of employment, +0.1% above the national average. The high-tech manufacturing core includes major employers Intel and Honeywell Aerospace. Intel is in the middle of a \$20 billion expansion at its Chandler campus with plans to hire more than 3,000 workers by the end of 2024. In April 2024, the U.S. Department of Commerce and Taiwan Semiconductor Arizona announced up to \$6.6 billion in direct funding under the CHIPS and Science Act for additional investment in semiconductor fabrication facilities. In addition, Microsoft, Google, and Apple have invested in data centers throughout the metro due to affordable energy prices.

Market Weaknesses:

- Water shortages and climate change remain a problem with prior year 2023 recording one of the driest years on record. According to the City of Phoenix's water services website, Colorado River water, which includes water from Lake Meade, supplies roughly 40% of the City's water. Phoenix does have water conservation measures including recycling nearly all its wastewater, which it uses in agriculture and energy production, among other things. It remains to be seen whether such measures will be sufficient.
- Investors have built to rent thousands of single-family homes in the West and East valleys and rehabbed less expensive single-family homes into rentals. This has influenced the inventory of single-family homes for sale, which remains low. Some would-be homeowners may leave the area to find markets with more affordable homes for purchase.
- Double digit rent growth in 2021 resulted in significant deterioration of rental affordability. This was followed by 2.5% in 2022 and relatively flat growth in 2023. In Q1 2024, growth appears to remain low at 0.3%, but affordability remains a concern in the metro.

Multifamily Development:

- The pace of development is growing with an estimated 30,900 units underway as of Q1 2024, representing a 7.6% increase in inventory. While about 15% of units underway are in Central Phoenix, and another 15% are in the Avondale/Goodyear/West Glendale submarket, development currently appears to be spread out around the metro. However, most of the new supply underway consists of expensive class A units. Only an estimated 4.8% on units involve subsidies to build new affordable units.

Multifamily Outlook:

- Based on expected job growth, Phoenix will likely find demand for 18,000 new units over the next two years falling far short of the 30,900 units underway. This will likely further soften the multifamily.

Economic Outlook:

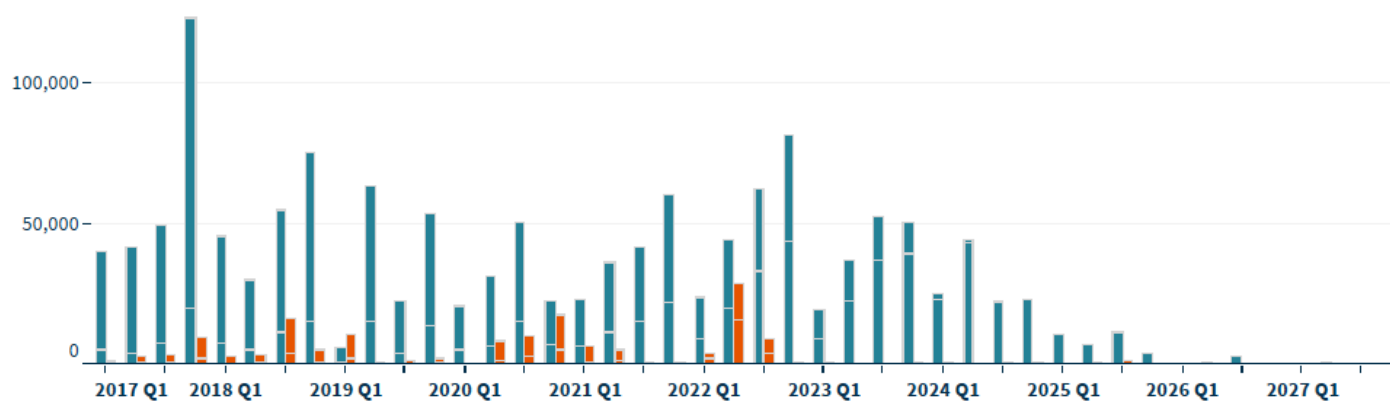
- Long-term, Phoenix is likely to remain one of the stronger economies in the country due to a pro-business environment and low living costs relative to other West Coast metros. This and the vast amount of available land should continue to attract both employers and population long-term. Even so, Phoenix will continue to have high cyclical volatility due to the economy's dependence on investment and population inflows. In addition, it remains unclear what the long-term impact of climate change and water shortages will be.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



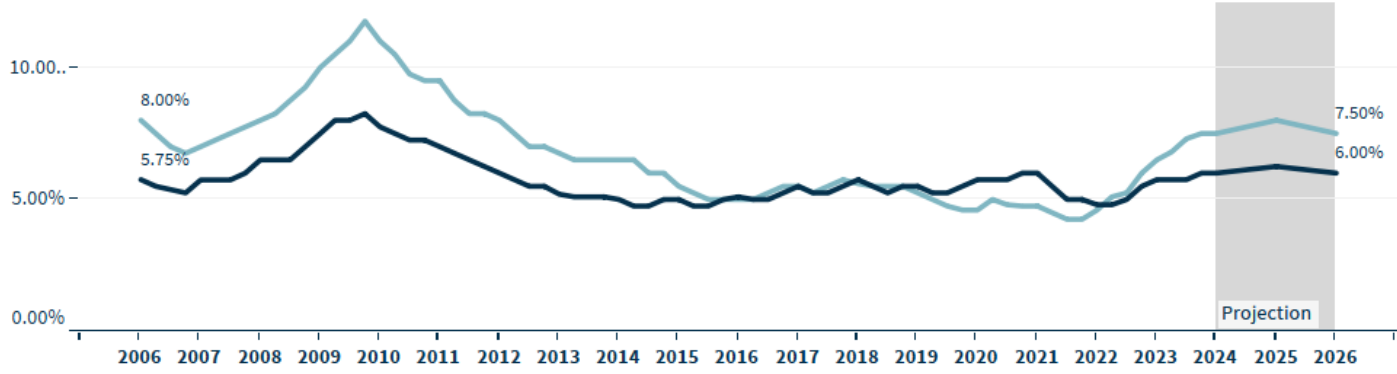
Source: Dodge Data & Analytics SupplyTrack Pipeline

Multifamily Vacancy & Rent Estimates

Vacancy Rates

Phoenix | National

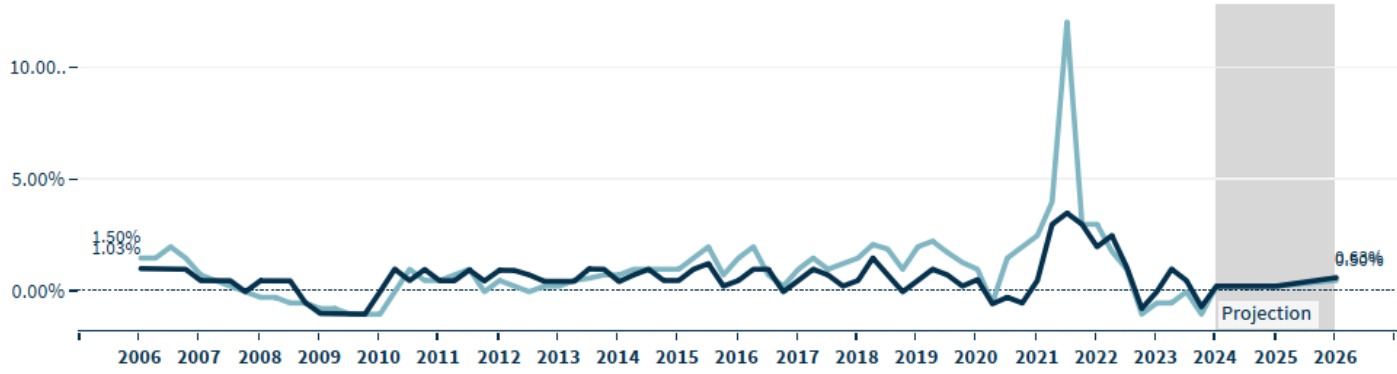
Q1 2024 Vacancy Rate:
7.50%



Asking Rent Growth

Phoenix | National

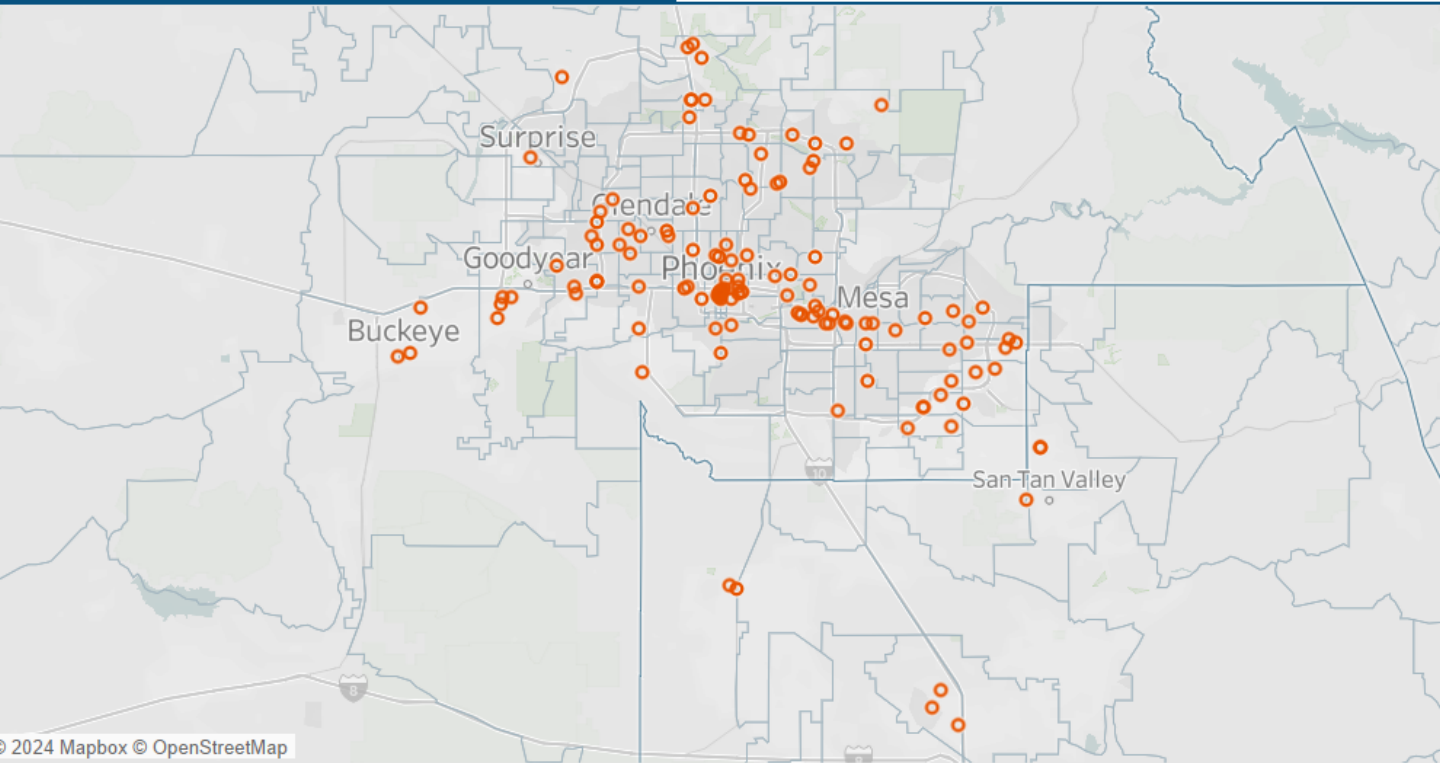
Q1 2024 Asking Rent:
\$1,550



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Avondale/Goodyear/West Glendale	15	5,238
Central Phoenix	18	4,760
Chandler	2	845
Deer Valley	9	2,190
East Mesa	14	3,255
East Phoenix	3	402
Far West Phoenix	3	568
Gilbert	6	736
North Central Phoenix	5	922
North Scottsdale	6	1,821
North Tempe/University	9	3,189
Northeast Phoenix	5	1,186
Northwest Mesa	4	724
Northwest Phoenix	2	294
Peoria/Sun City/ Surprise	5	844
Pinal County	6	1,313
South Glendale	5	1,046
South Phoenix	4	422
South Scottsdale	2	526
Southwest Mesa	2	96
West Phoenix	4	497
Grand Total	129	30,874

Source: Dodge Data & Analytics SupplyTrack Pipeline



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Multifamily Economics and Market Research Team

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Sources Used

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

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