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- Regional Sales Executive

Metro Phoenix Apartment Market



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Metro Phoenix Apartment Market

April 27, 2021

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About Jim and Chris

Jim Kasten, CCIM received a Master's Degree in geology in 1975 from the Univ. of New Mexico and conducted worldwide mineral exploration for major mining companies. He retired from this career and in 1998 he joined RE/MAX Commercial Investment in Scottsdale, AZ – forming the Kasten Long Apartment Team that received International recognition. In 2008, Jim formed the Kasten Long Commercial Group. Over the past 22 years, the Team / Group's agents brokered more than 1,200 apartment communities, in excess of \$1 Billion in value.

Chris Norton received a Bachelor's Degree in Computer Science with a minor in film & video production in 1991 from Drexel University in Philadelphia, PA. He has actively invested in the metro Phoenix real estate market and is committed full-time to his commercial real estate brokerage clients. His passion for building stronger communities also translates into unique market insights for clients. He lives in downtown Phoenix and has huge insight into the existing and planned activities in this area.

Metro PHX Apt. Market Presentation Outline

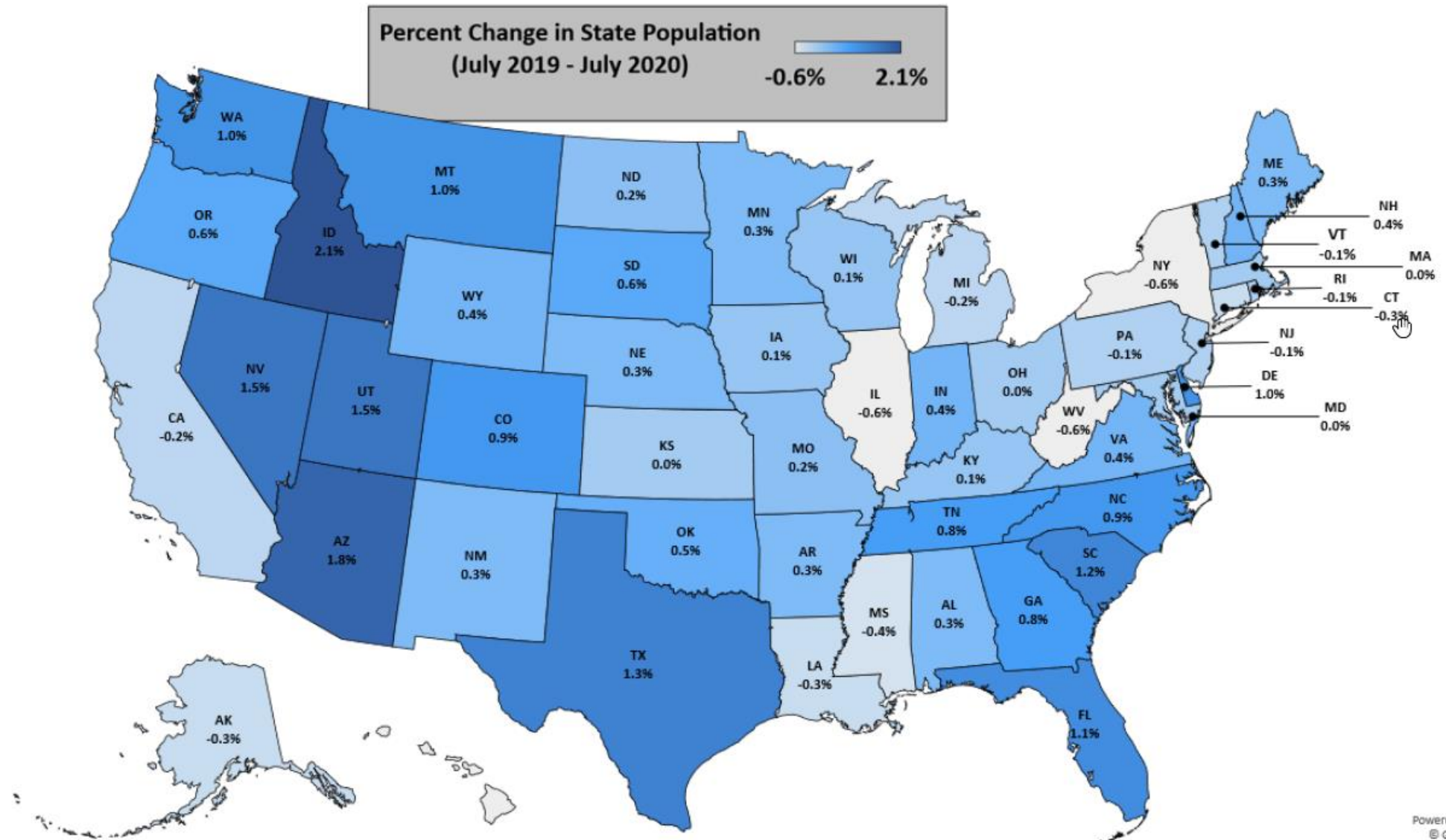
- What's Driving our Amazing Multifamily Market
- New Apt. Construction – Are We Overbuilding
- Occupancy / Vacancy / Rental rates – What's the future
- Sales – history of volume and CAP Rates - Can CAP Rates go Lower?
- Factors Driving Downtown Phoenix & Massive New Apt. Construction
 - Where do Investors Find Land to Build or Units to Reposition?
- The residential market on its impact of our multifamily market
- Concerns for in the Future

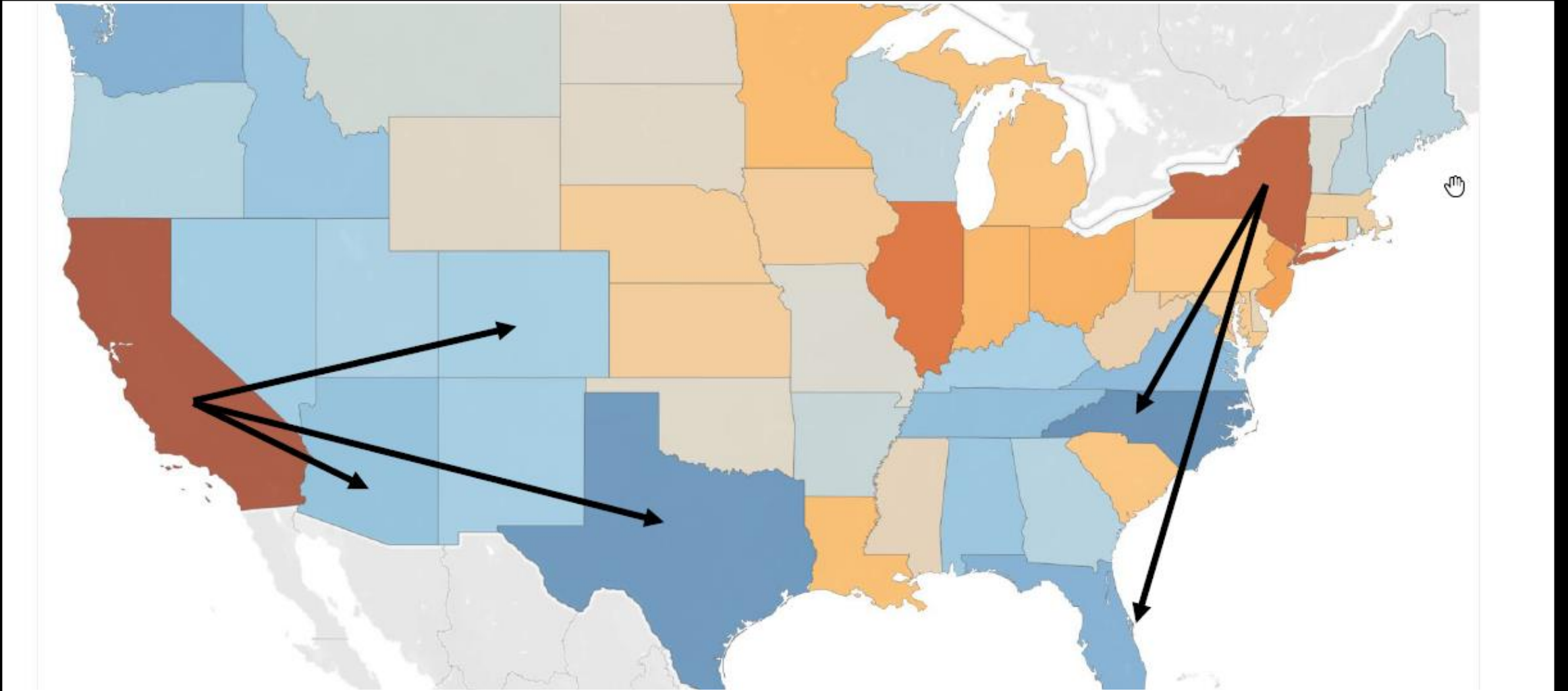
Factors Driving New Apartment Construction

Population Growth

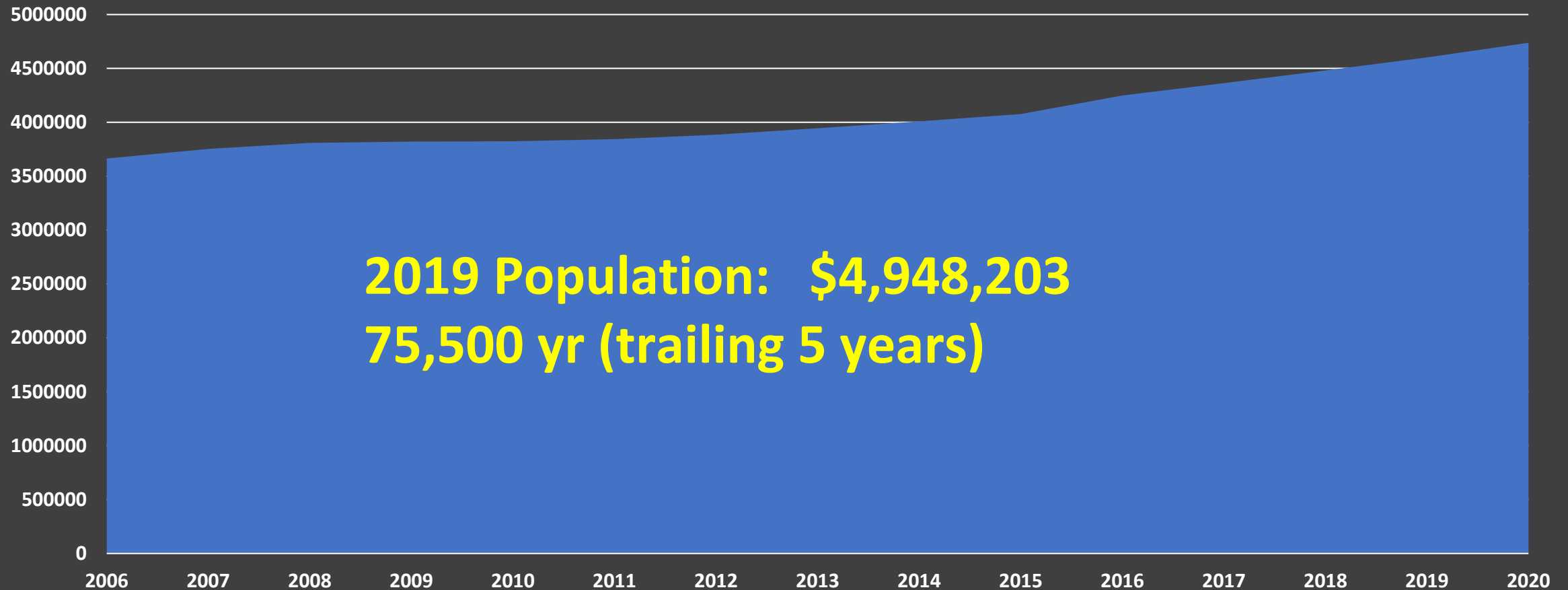
- Demand and lack of Supply
- Jobs, **Semiconductor Hub**
- Diversified Economy
- Climate – 365 day airport
- Business-Friendly State
- No Natural Disasters
- Infrastructure (Power, Water, IT, **Workforce**)
- Affordable Rents (compared to nearby cities)

12-Month US Population Growth





Mass Exodus from Gateway Markets – Strong Benefit for Arizona



Metro Phoenix
Population Growth

Maricopa County (essentially Metro Phoenix)
is the fastest growing county in the US

Data US Census Bureau

Diversified Employment

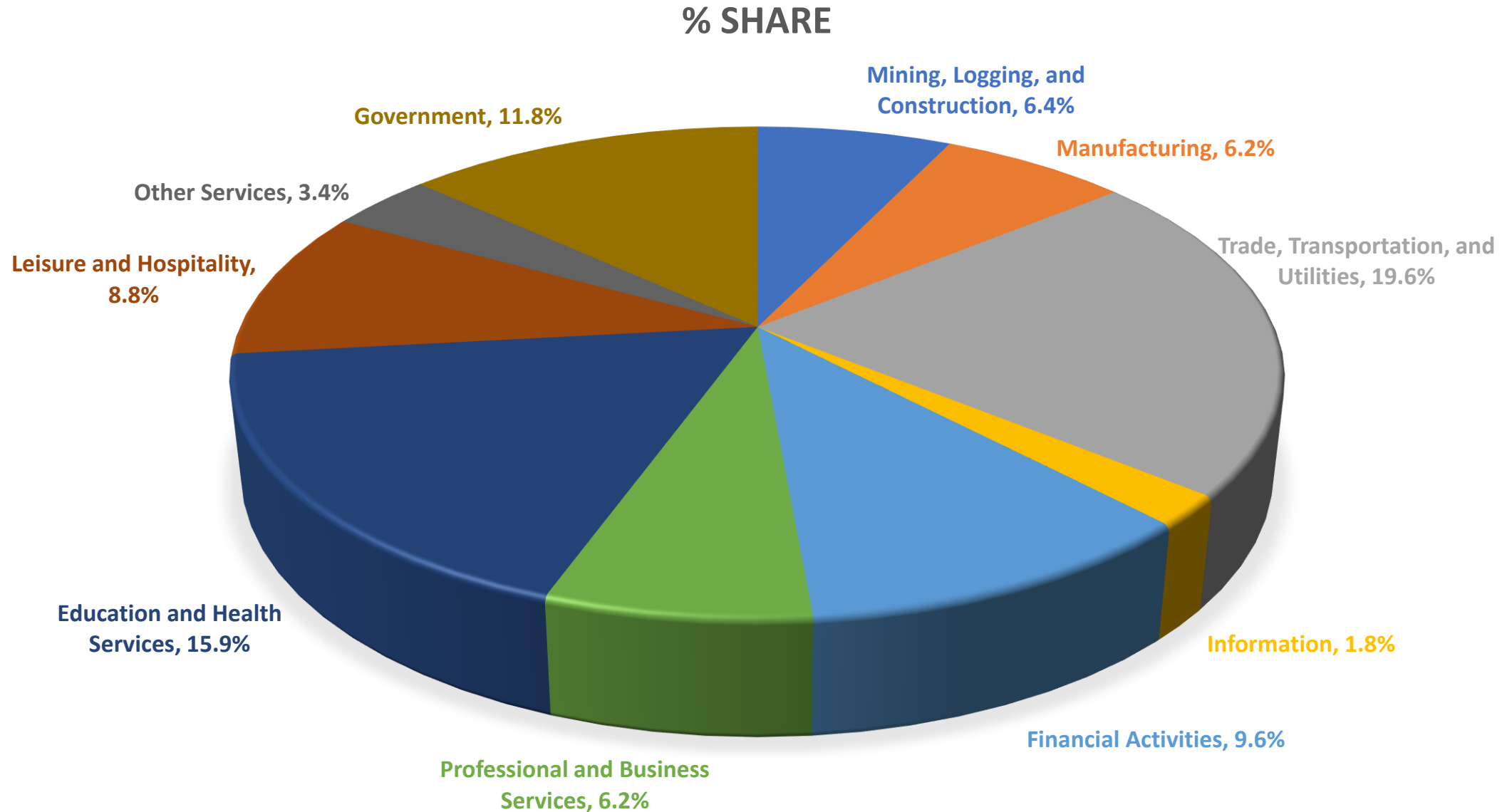
Phoenix Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
40	Trade, Transportation and Utilities	417	19.6%
80	Other Services	72	3.4%
55	Financial Activities	205	9.6%
90	Government	250	11.8%
50	Information	38	1.8%
15	Mining, Logging and Construction	137	6.4%
65	Education and Health Services	339	15.9%
30	Manufacturing	131	6.2%
60	Professional and Business Services	350	16.5%
70	Leisure and Hospitality	187	8.8%

Sources: Yardi Matrix, Bureau of Labor Statistics



Metro Phoenix Diversified Employment



Metro Phoenix

New Apt. Construction and Vacancy (50+ units)



Year	Const.	Vacancy
2011	614	9.7%
2012	1,372	8.3%
2013	3,655	7.3%
2014	4,820	6.1%
2015	5,089	5.7%
2016	8,024	5.8%
2017	6,543	5.4%
2018	8,162	5.0%
2019	9,008	5.1%
2020	8,817	4.5%
2021 (1)	2,867	4.3%

Metro Phoenix
New Apt.
Construction –
as of 4.1.2021

28,838	Under Construction
24,787	Planned
<u>19,547</u>	Prospective
72,761	Total in Pipeline

Metro Phoenix New Apt. Construction

2020 **8,817 units (42 Projects) Completed**

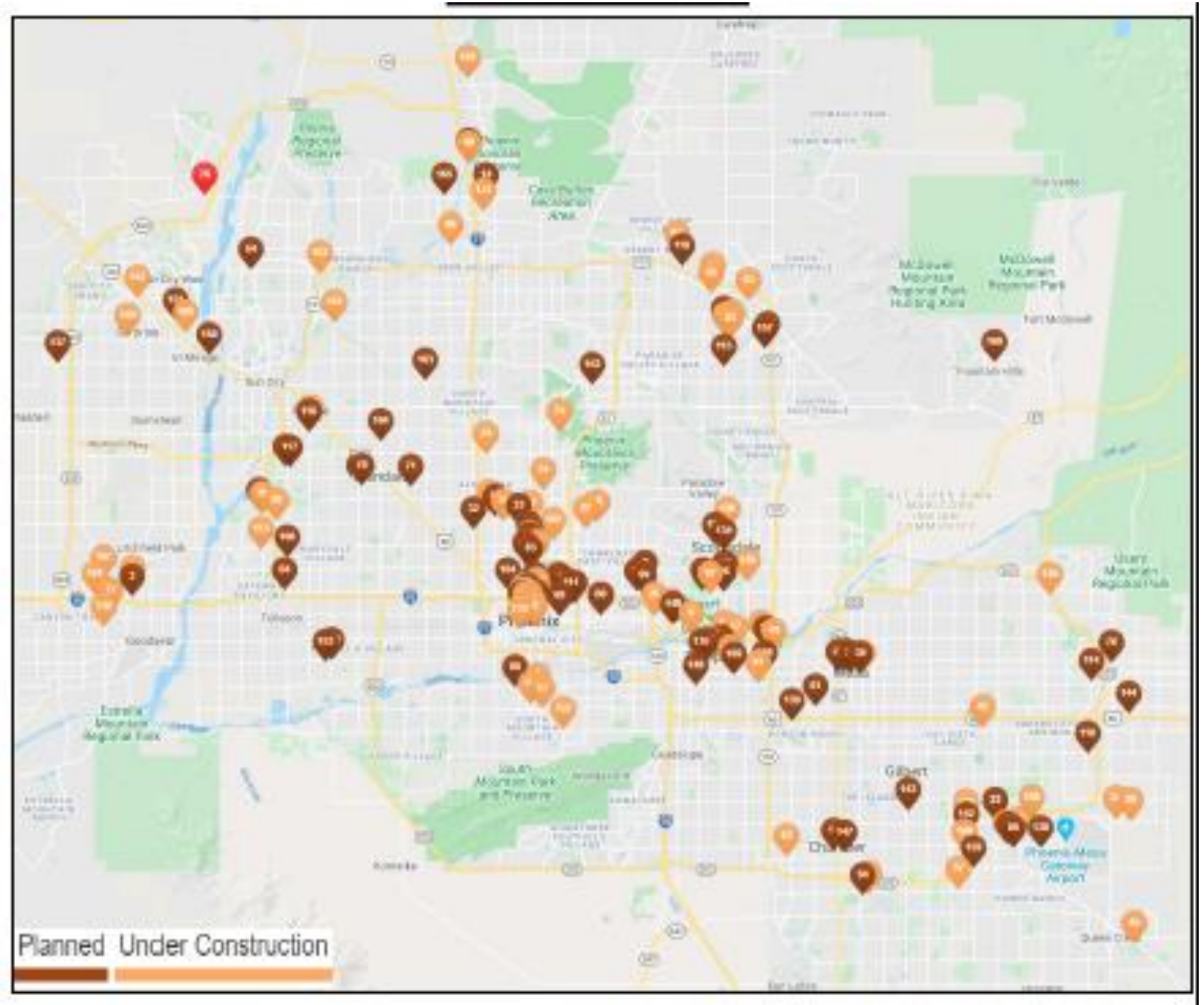
2021 **17,679 units (84 Projects) Projected**



Location of Apartments Under Const. and Planned

Note the activity
in the Suburbs!

List and map available on
MetroPhoenixCommercial.com

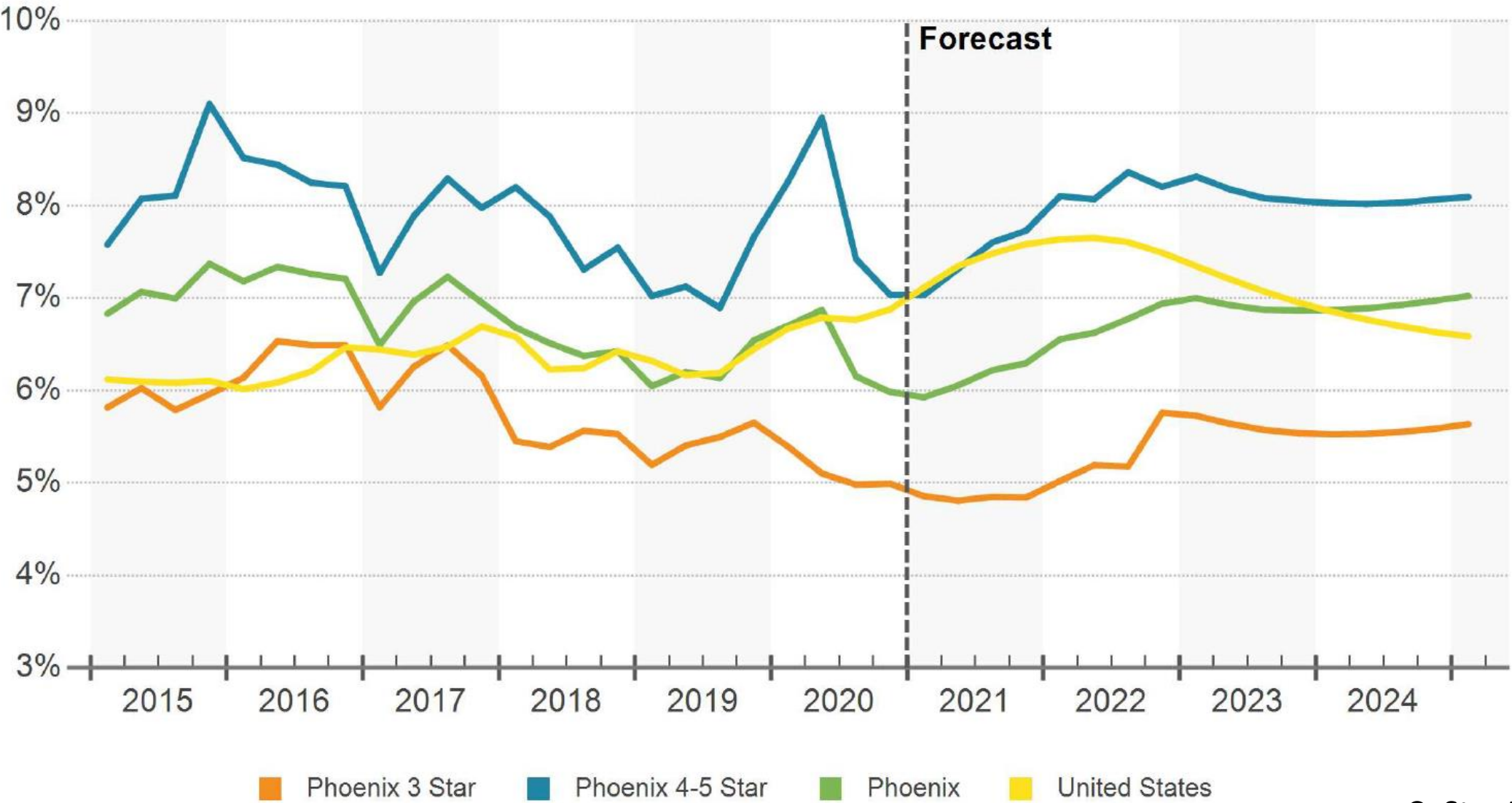




Occupancy - 95.7%
Vacancy – 4.3%

As of Q1 2021, Occupancy is at an Historic High. Essentially this is 100% occupancy with the time to turn units between tenants always taking a few days. **High Occupancy Drive Rents.**

VACANCY RATE



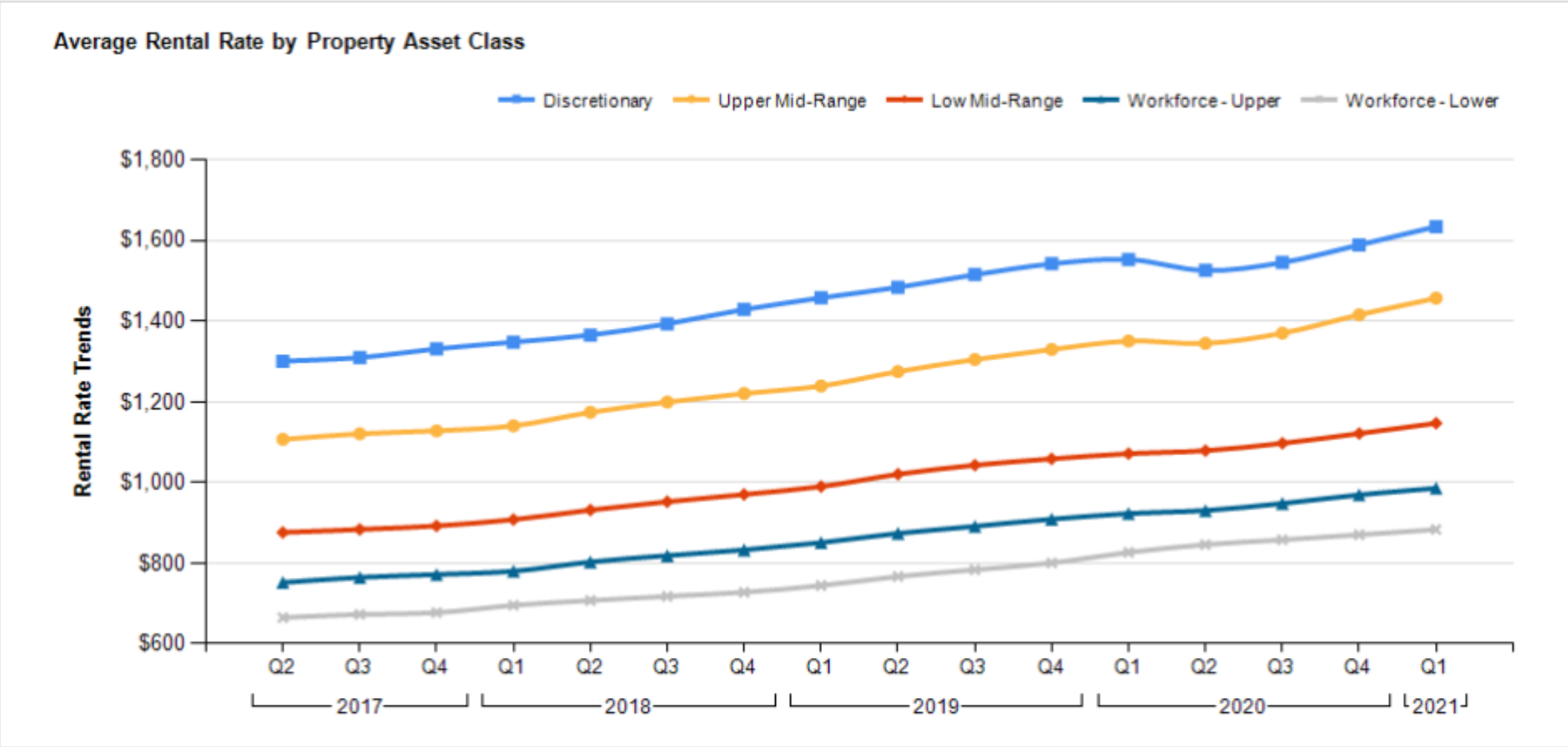
Rent Increases Almost Leading the US

Rent growth slipped a bit in Q2 2020, but has continued to rebound. Over the past 4 quarters, we've had an **increase of 7.0%**. Each asset class reported an increase, with very strong numbers reported for the higher-priced apartments.

On a rent/sf basis, we still are less than many neighboring cities – so **room to grow**.

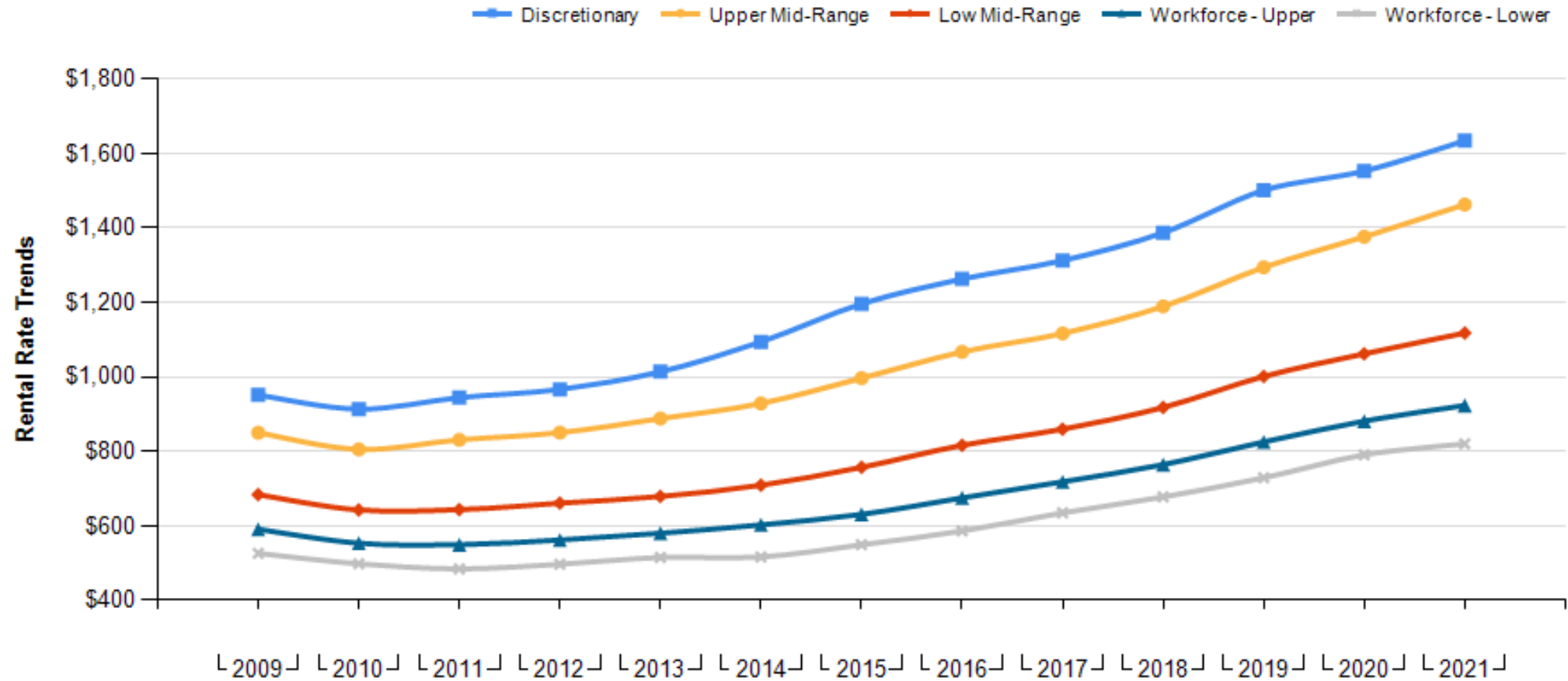
The US Average rental rate increase was essentially flat.

Metro Phoenix Average Rental Rate - Last Four Years

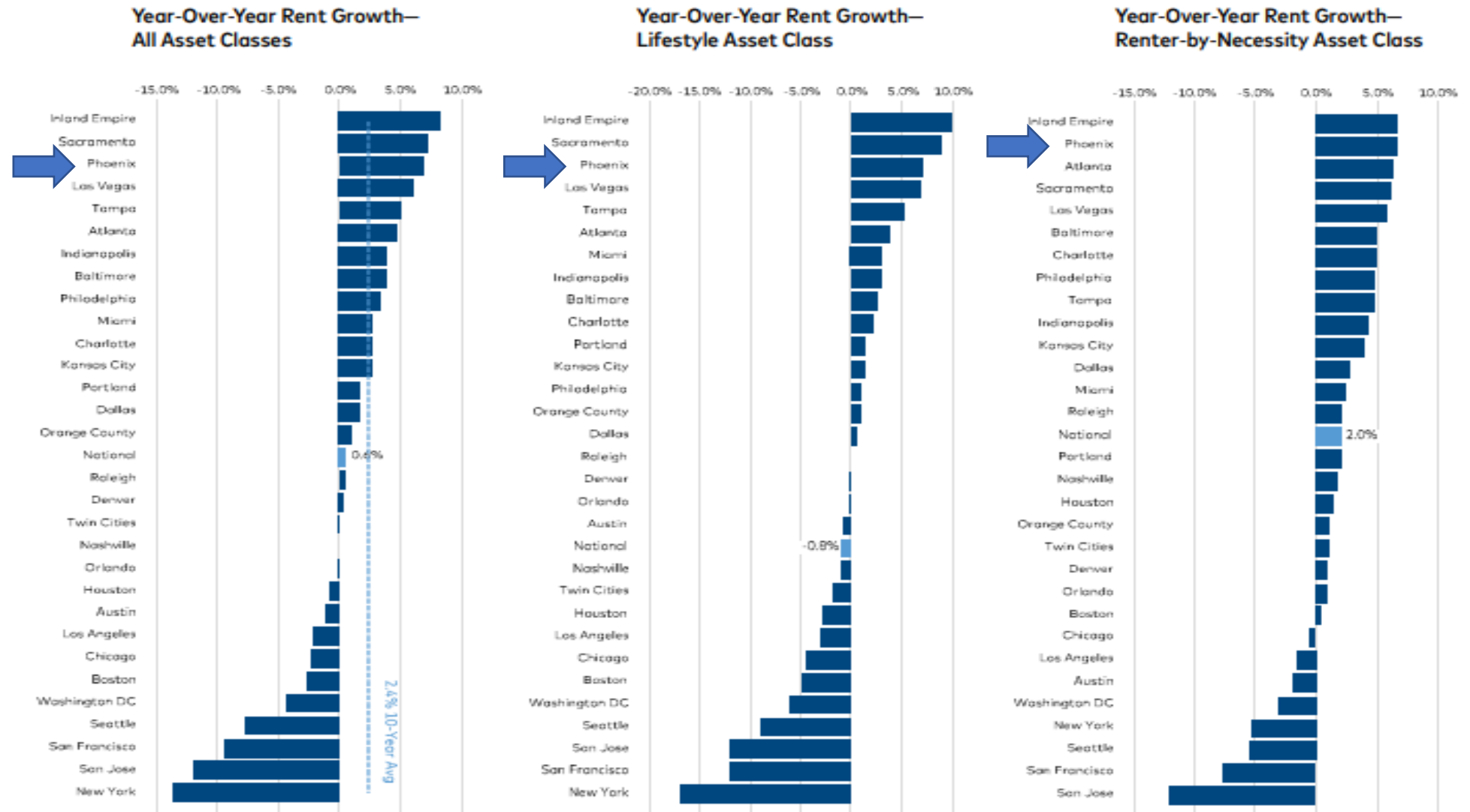


Metro Phoenix Average Rental Rate - Last Ten Years

Average Rental Rate by Property Asset Class



Metro Phoenix One of Top Cities in the US for Rent Growth



RENTAL RATE AND OCCUPANCY FORECAST

Forecast Revised on 03/17/2021

Market ↕	History (Quarterly)				1-Year Forecast (Quarterly)				2-5 Year Forecast (4Q)				10-Year
	2020				2021				2022	2023	2024	2025	2030
	1	2	3	4	1	2	3	4	4	4	4	4	4
Phoenix													
<i>Average Rental Rate (\$)</i>	\$1,247	\$1,240	\$1,258	\$1,290	\$1,313	\$1,324	\$1,334	\$1,345	\$1,402	\$1,459	\$1,516	\$1,572	\$1,857
<i>Year-over-year Rent Change (%)</i>	6.9%	3.8%	3.3%	4.3%	5.3%	6.8%	6.1%	4.3%	4.2%	4.1%	3.9%	3.8%	3.2%
<i>Occupancy Rate (%)</i>	95.2%	95.2%	95.2%	95.3%	95.4%	95.3%	95.2%	95.1%	94.9%	95.1%	95.2%	95.0%	94.6%

Data – Yardi Matrix

OVERBUILDING ??

Overbuilding is not an immediate concern. Here's why. About 30% of the population live in apartments and on average, there are two persons per apartment.

+77,500 new residents/year

x 30%

23,250 / 2 persons / apt = **11,625 new units needed / yr**

9,008 apt units completed in 2019

8,817 apt units completed in 2020

17,679 apt units FORECAST for 2021

A Concern: We are not building B and C class apartments – and the demand is growing!

History of Apartment Sales (10+ units)

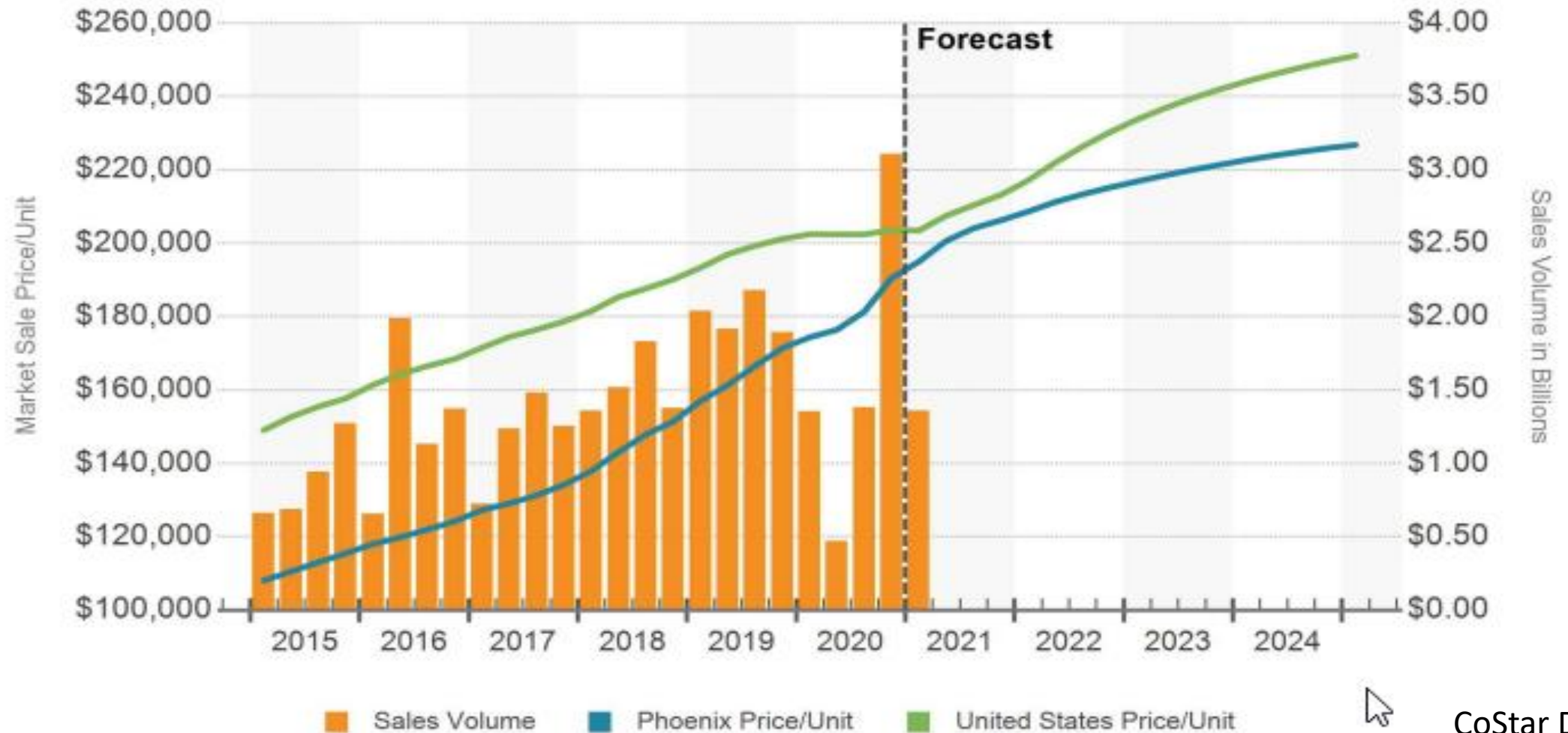
Individual Sales – not including Portfolio Sales

Year	Sales	Avg/qtr
2011	205	51
2012	236	59
2013	237	59
2014	267	67
2015	309	77
2016	326	82
2017	317	79
2018	314	79
2019	341	85
2020	280	70
2021 (1)	79	

Note the consistency of Sales over the past six years

SALES VOLUME & MARKET SALES PER UNIT

SALES VOLUME & MARKET SALE PRICE PER UNIT

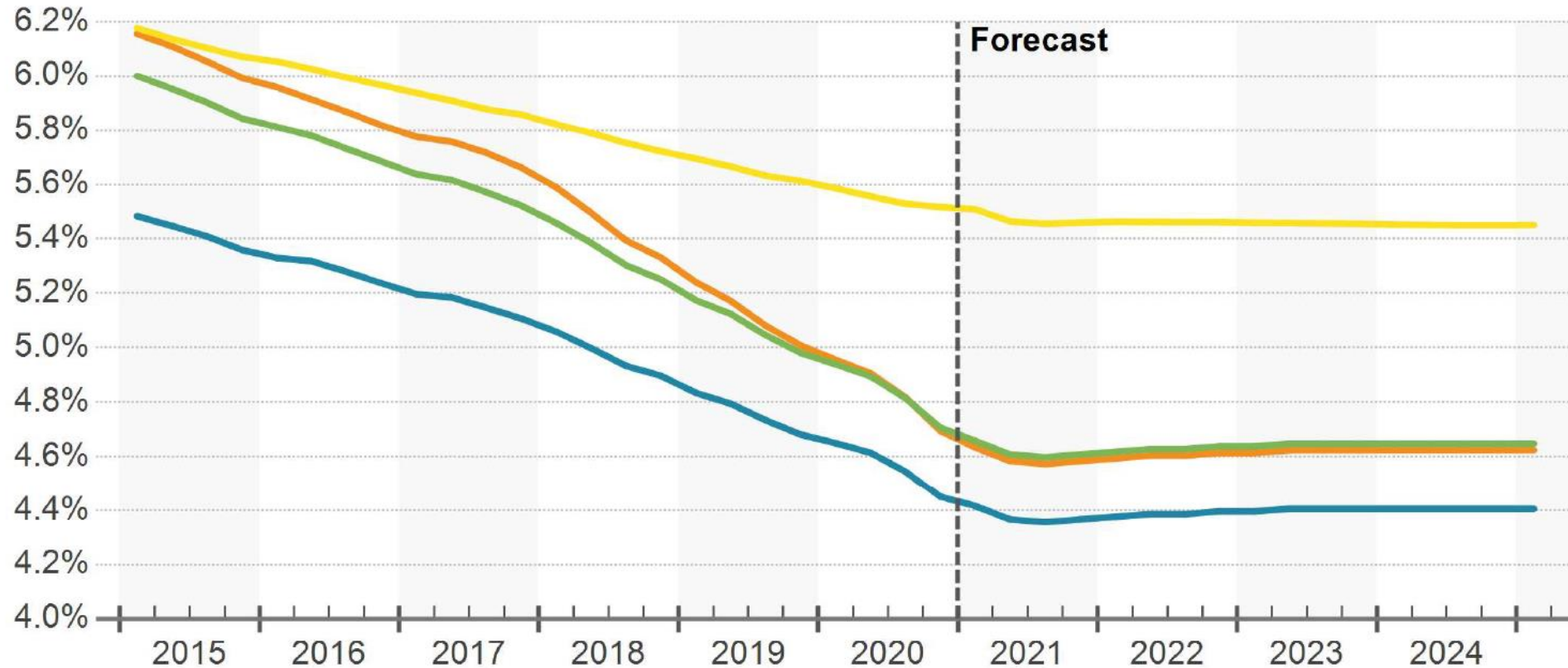


History & Forecast of Apartment CAP Rates

Sales

Phoenix Multi-Family

MARKET CAP RATE



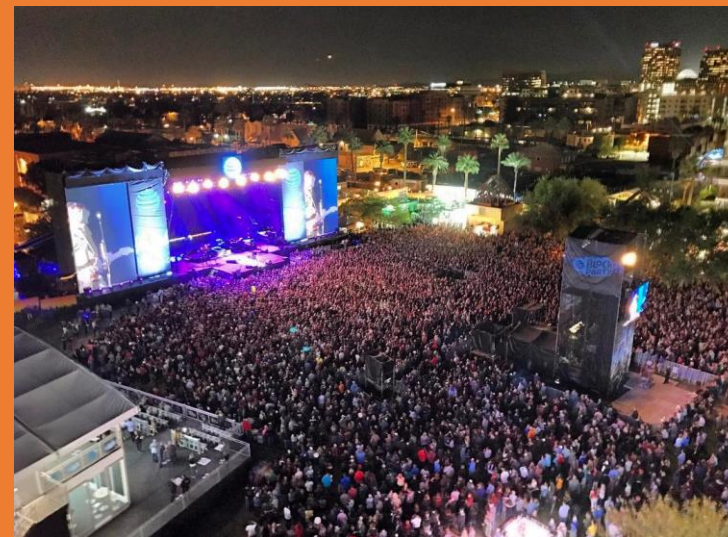
CoStar Data

ARE “CAP” RATES IMPORTANT?

YES AND NO

YES - For properties that are fairly new or have recently been repositioned – CAP rates will determine value. These CAP rates typically range from 5.0% to 6.0%

NO - For properties that offer reposition potential, through out CAP rates, the value will be determined by the amount of money to reposition the asset, the time to do the work, the future rents and the return the buyer wants to achieve upon a future sale.



Vibrant Downtown Phoenix

Where Is Downtown?

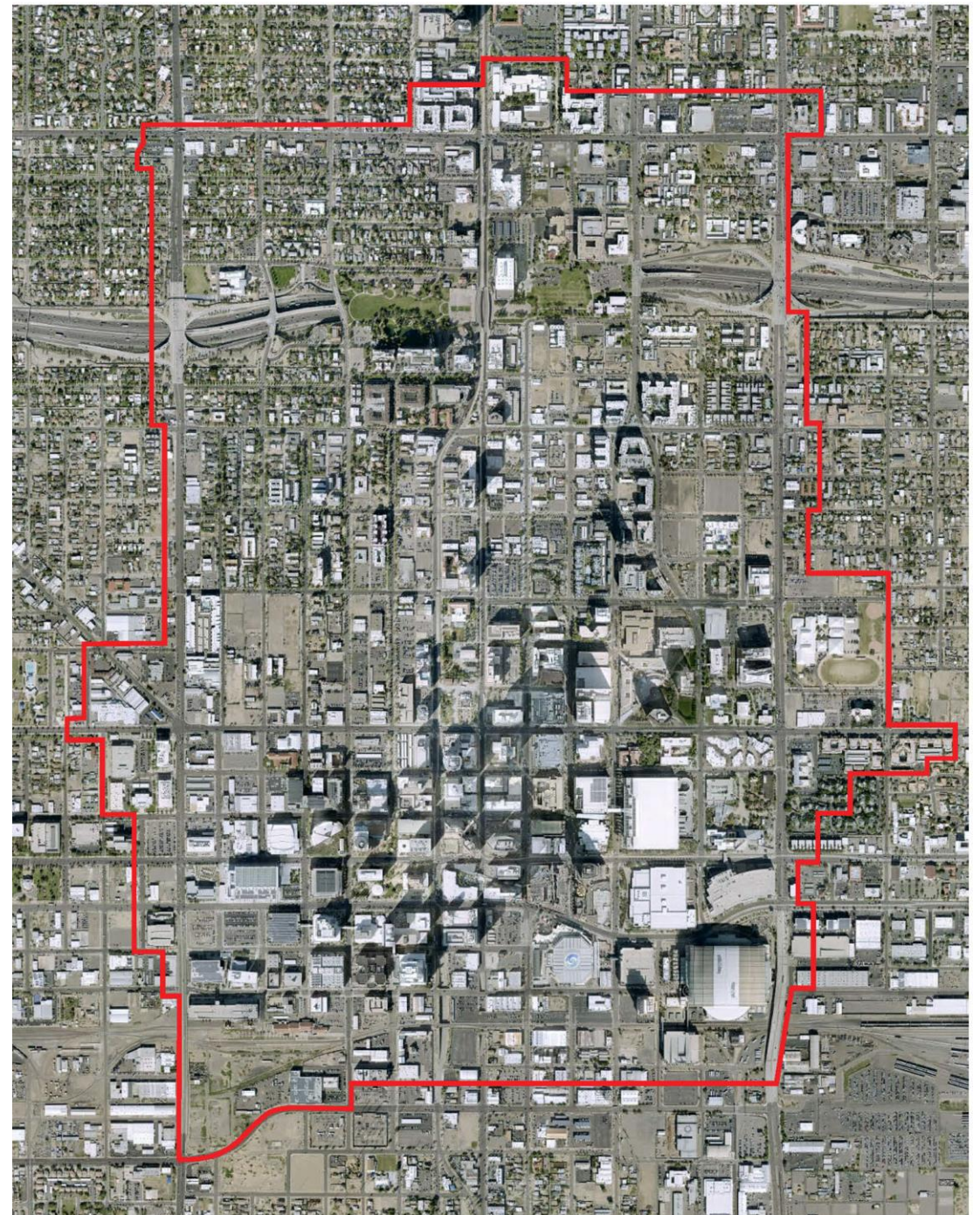
The current Downtown Phoenix redevelopment area is commonly what people consider “downtown”

North to South

McDowell Rd to Grant St
(Warehouse District)

East to West

7th Ave to 7th St



What's Driving Downtown Development?

Technology & Startups

400 companies MOST in downtown

Ranked #1 in Entrepreneurial Activity

Education - Skilled and Available Workforce

ASU ~12,000 students

Thunderbird School of Global Mgmt.

Univ. of Arizona (U of A)

College of Medicine

Cancer Center at Dignity Health

Biomedical Campus

ASU, NAU, & City of Phoenix

30 Acres

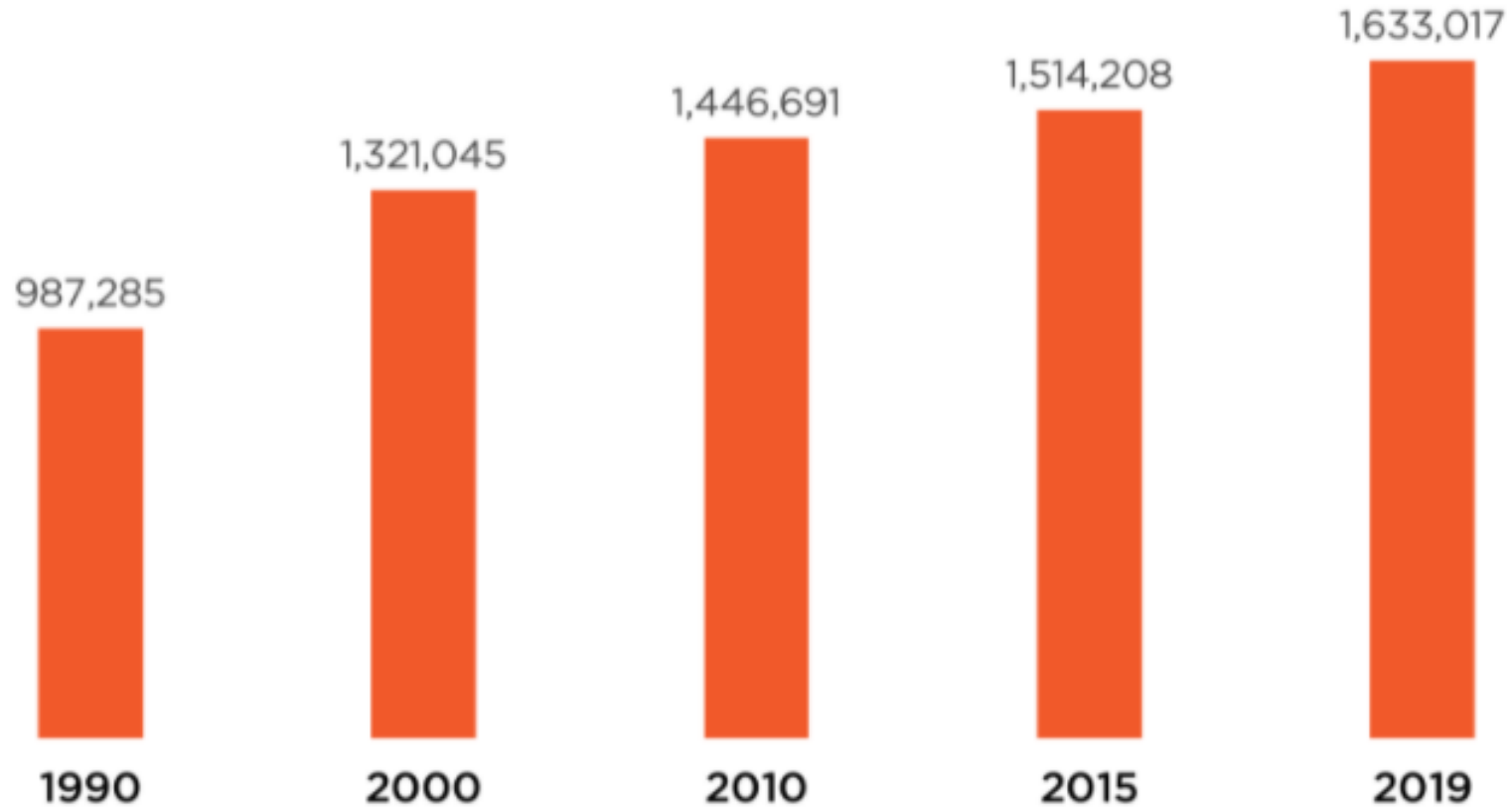
\$3.25B in investments

5M+ Square Footage

8000+ New Jobs

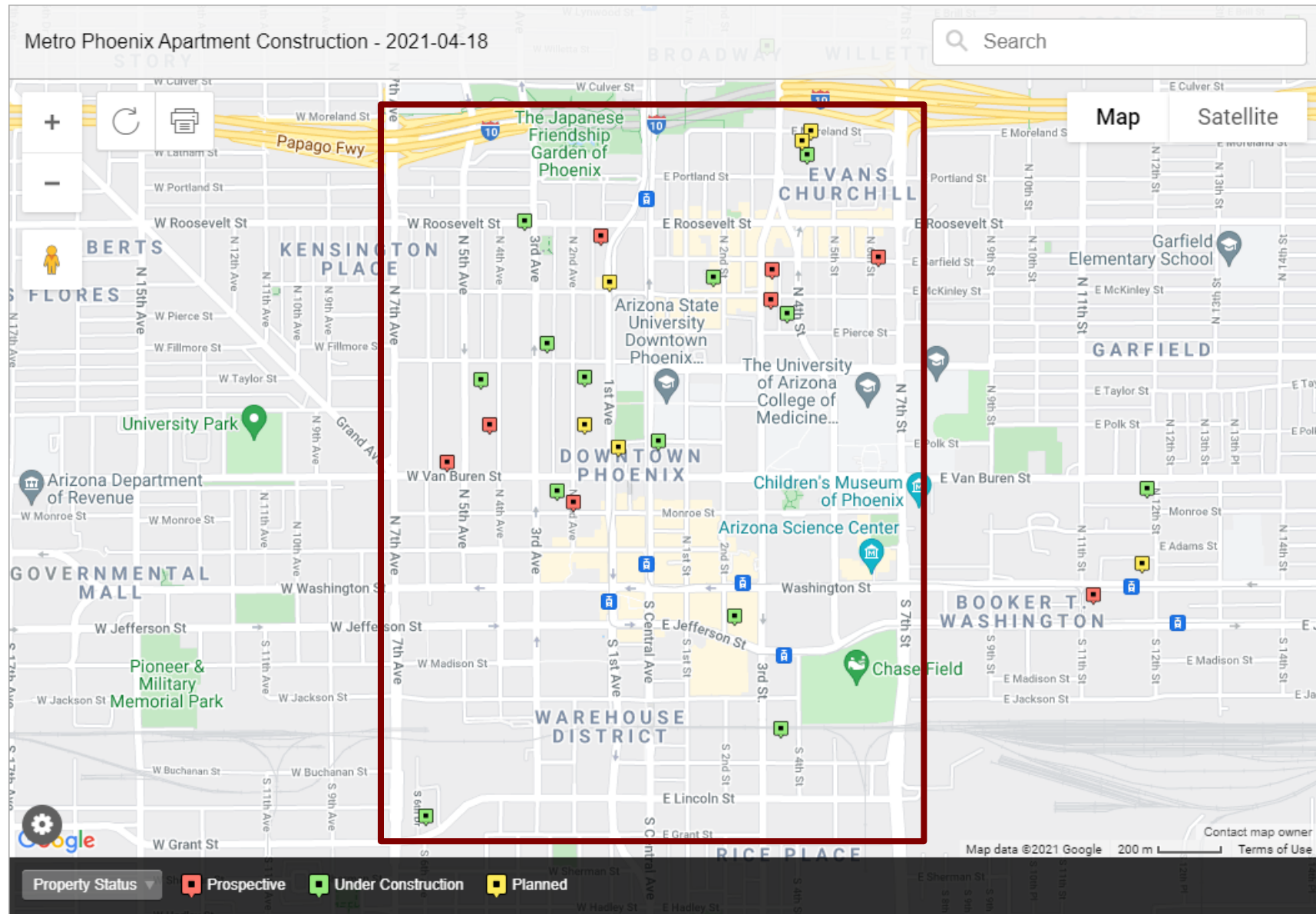
City Of Phoenix Population Growth

29,702 avg/year last four years



Data US Census Bureau

New Apartment Construction – Downtown Phoenix



<https://www.metrophoenixcommercial.com/market-insights/apartment-construction>

New Apartment Construction Downtown Phoenix Projects w/50 units or more

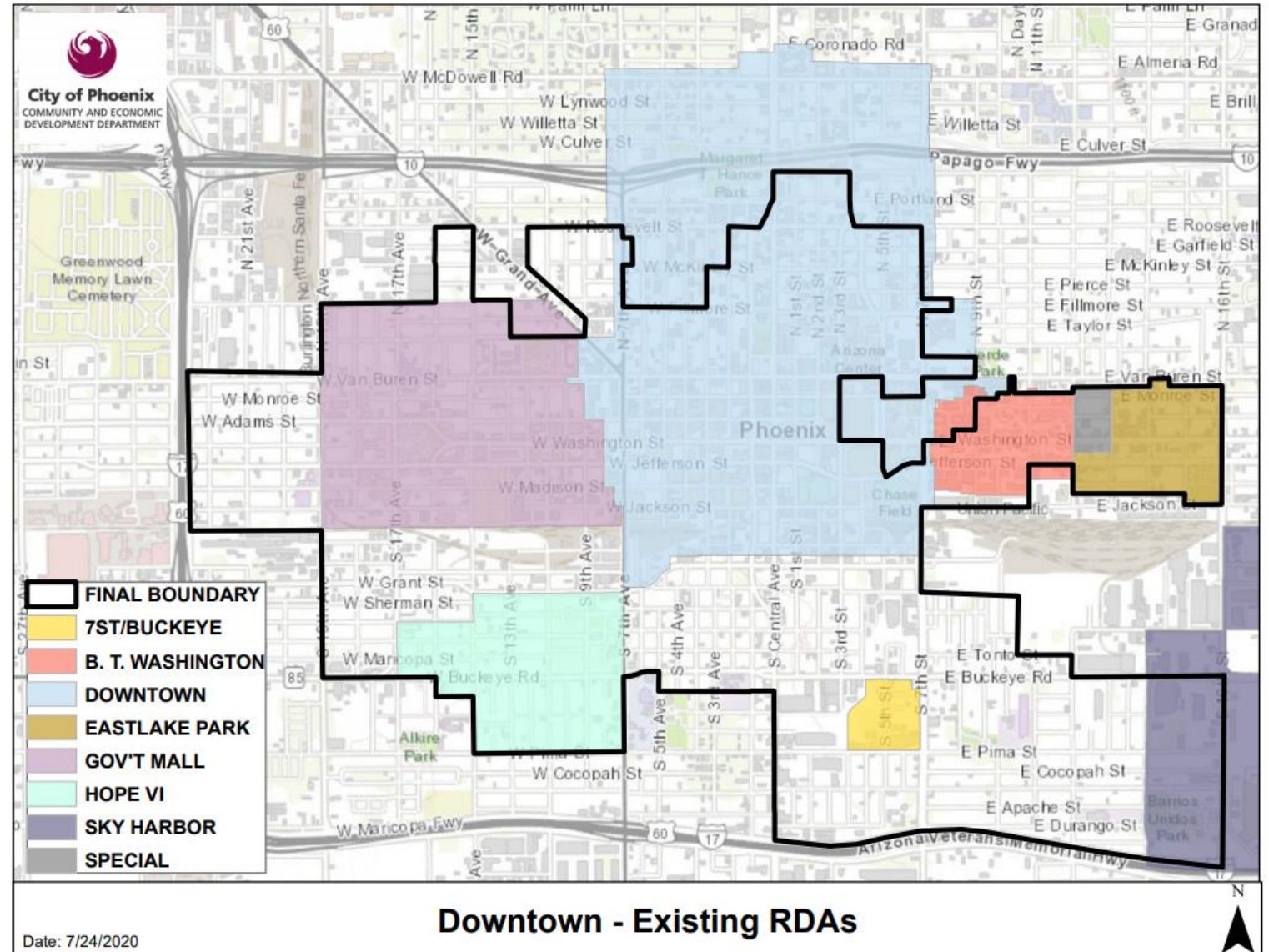
	Units	Projects
Under Construction	3,072	12
Planned	1,358	3
Prospective	<u>1,222</u>	<u>6</u>
TOTALS	5,652	21



Active Redevelopment Areas (RDAs) – Locations to Build or Reposition Assets Near Downtown Phoenix

City Of Phoenix Community &
Economic Development

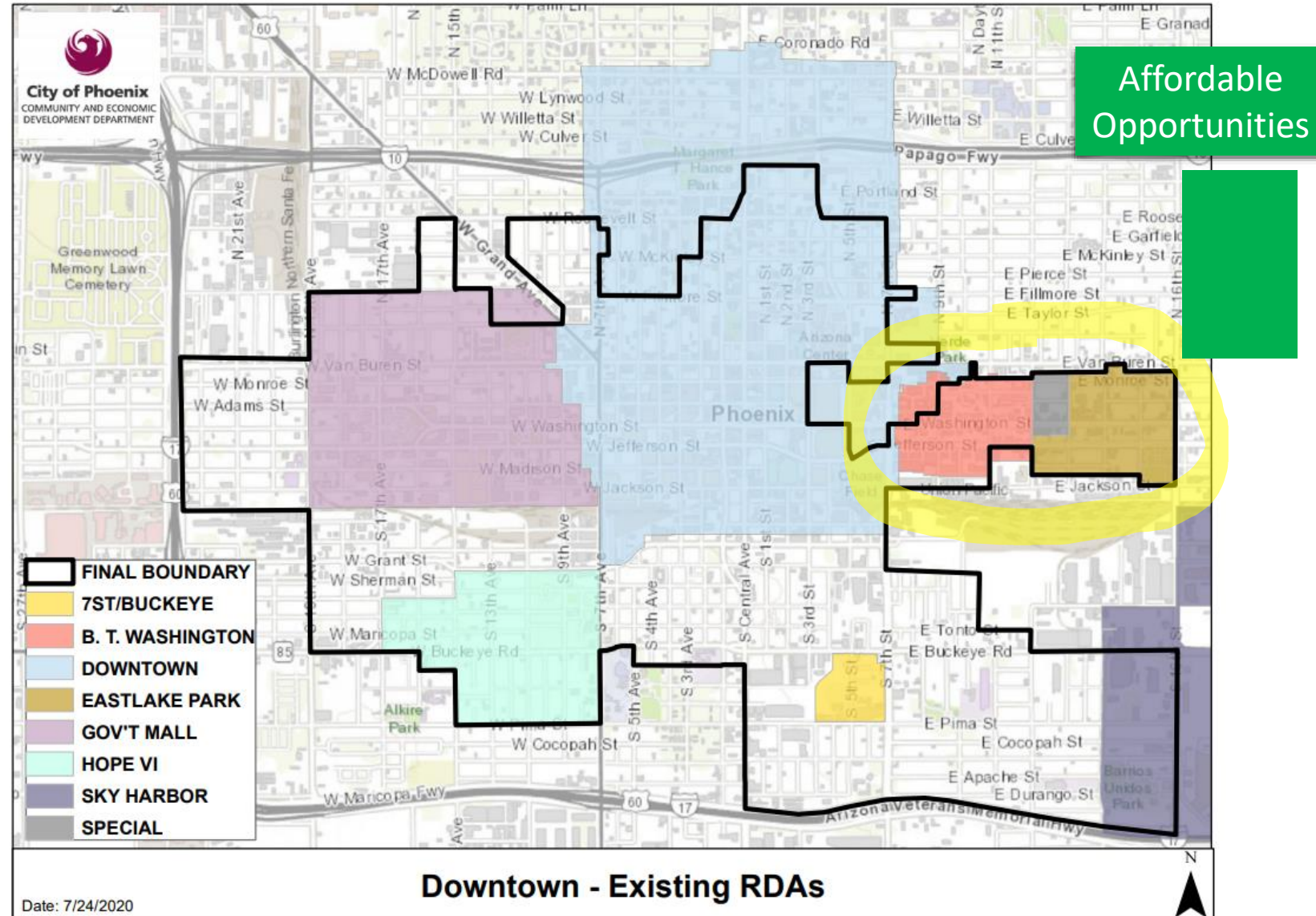
[https://www.phoenix.gov/econdev/
downtown-rda-update](https://www.phoenix.gov/econdev/downtown-rda-update)



Active Redevelopment Areas (RDAs) – Locations to Build or Reposition Assets Near Downtown Phoenix

Sheree Bouchee, City of Phoenix
Affordable Housing Advocate
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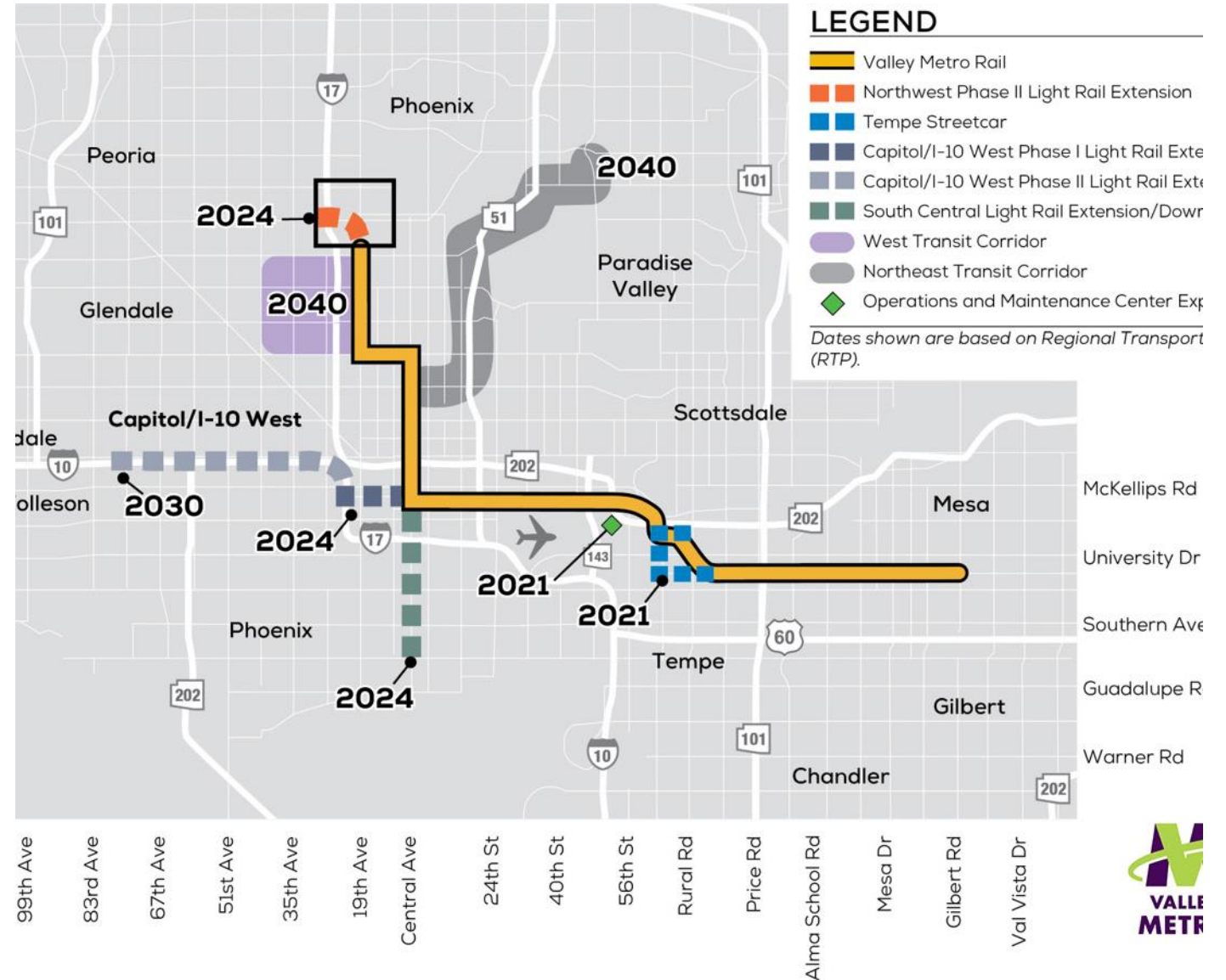
<https://www.phoenix.gov/housing>



Valley Metro Light Rail

Reposition and Build
Opportunity

Along Existing and
Proposed Light Rail
Routes

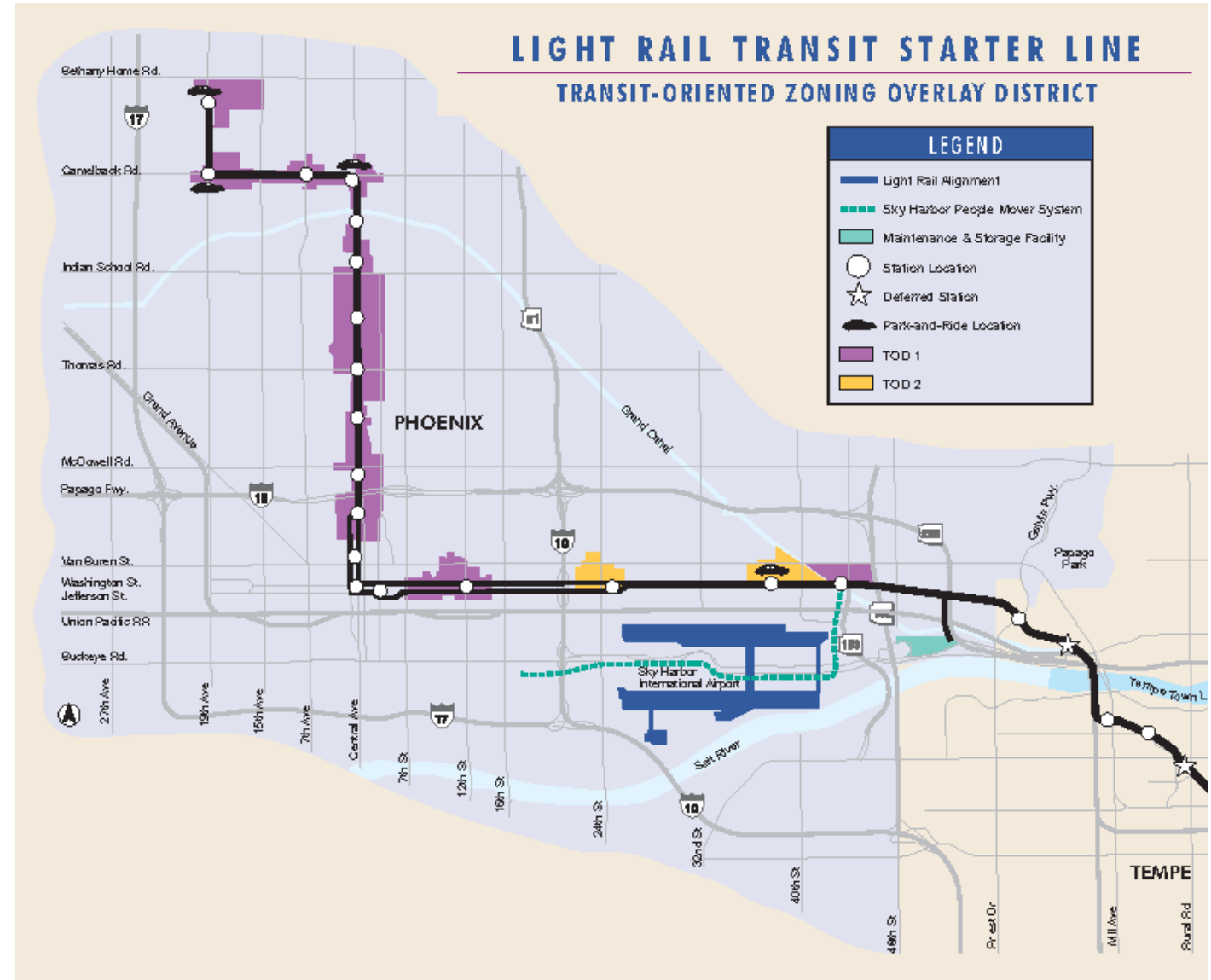


Valley Metro Light Rail

Development Benefits:

TOD Overlay and Downtown
WU Code: “Walkable
Urban” building code

Higher Density
Reduced Parking Ratios
Minimized Setbacks

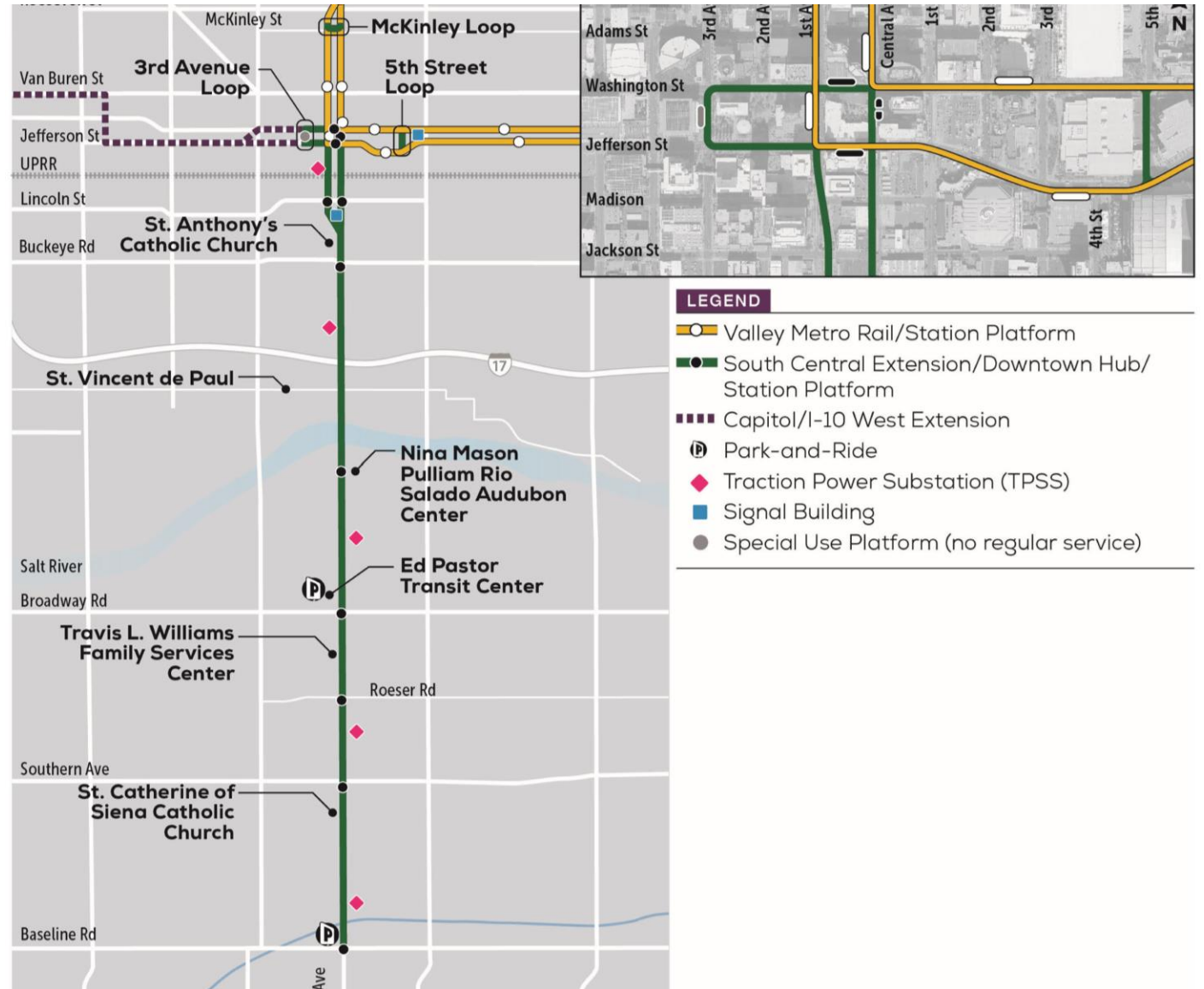


More Info: <https://www.phoenix.gov/pdd/tod/walkable-urban-code>
https://www.valleymetro.org/images/uploads/light_rail_publications/TOD_Brochure.pdf

Valley Metro Light Rail

In 2016, the Phoenix City Council approved advancing the opening date of the extension from 2034 to 2023

The South-Central Extension is expected to open for operations in 2024





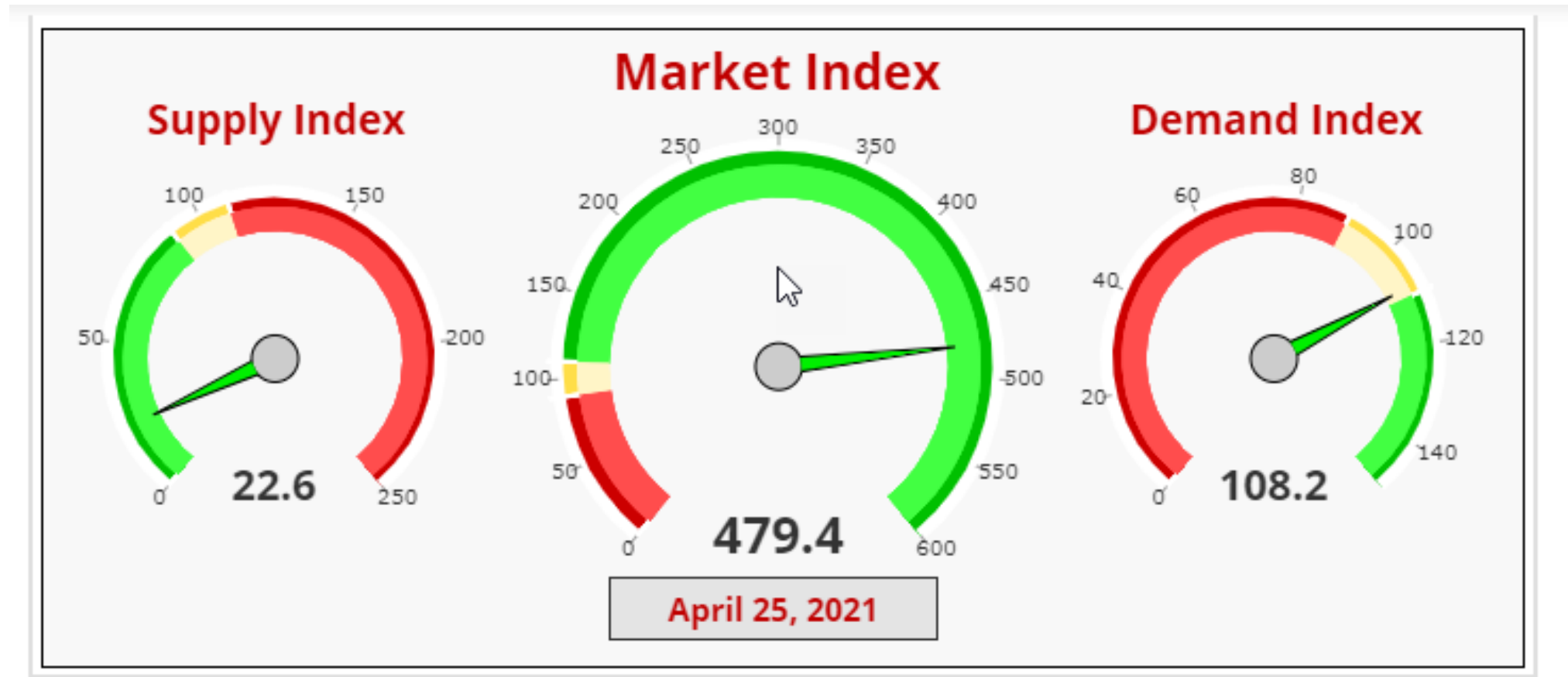
Metro Phoenix Current Housing Market

Huge Competition from out-of-state buyers is devouring our inventory and driving prices much higher – **highest appreciation and the largest net population inflow in the US** (AZ Big Media)

The competition is sometimes so fierce the buyers are often waiving appraisals and finance contingencies, having the earnest non-refundable upon a much-shortened Due Diligence period.

Inventory was down 34% compared to a year ago (Redfin.com)

The Housing Market – per The Cromford Report



Impact of the Housing Market on Apartments



The increased house values will make it more difficult to purchase. This will increase the demand for apartments.



Rental houses will have increased rental rates – this will support higher rents for apartments.

Immediate Local Concerns for Apartment Owners

Many of our new residents are coming here from California. The concern is that they bring with their unfriendly business ideas. **Fiscal irresponsibility will not be good for apt. values.**

- Prop 208 – AZ Wealth Tax Will Discourage Some Company Relocations
- Tenant-friendly laws/evictions and restrictions on rents.
- Increased capital gains and other taxes, possible restrictions on 1031 exchanges & indirect taxes.
- Massive influx of Immigrants Across our Southern Border.
- “Affordable Housing” an issue yet to be resolved

US Pro's and Con's for Apartment Owners

Arizona's Economy is Impacted by the US Economy and Policies

PRO's

- Money and JOBS from Stimulus Packages Will Drive GDP
- Pent-up Demand to Spend Money as Covid Concerns Diminish

CON's

- Higher Corporate and Wealth Taxes May Drive Companies out of US
- Property Rights - Gov't Pressure on Rents and for Affordable housing
- Increased Inflation and Lending Rates – Will Drive CAP Rates Up and Values Down
- Less Supply of Oil will Drive Up Costs on Lots of Products
- CMBS Defaults for Office and Retail, Continued high Unemployment
- Real Estate is Cyclic – Ten years of positive growth is longest in history

BUYER OPPORTUNITIES

Repositioning C-class Properties in B areas



```
graph TD; A[Repositioning C-class Properties in B areas] --> B[Along Light Rail & Future Extensions]; B --> C[Previously Passed Over Areas]; C --> D[Properties With Below Market Rents];
```

Along Light Rail & Future Extensions

Previously Passed Over Areas

Properties With Below Market Rents

Metro Phoenix Apartment Forecast

- Population Growth to Continue
- Rental Rates to Continue to Increase – but a bit less than previous years
- Apt. Occupancy to Remain Strong – but Will Start to have Pressure from New Construction
- Apt. Sales Activity will Stay Strong but will Decrease as Inflation and Lending Rates Increase
- CAP Rates will Bottom this Year
- Wave of New Construction to Be Completed in 2021.
- Increased 1031 Activity if Capital Gains Tax Rates are Increased!!
- Increased Single Family Homes Built for Rentals
- More New Apt. Const. in the Suburbs – in-part from “work from home”

USEFUL RESOURCES

CoStar & Loopnet

Yardi Matrix

VIZZDA

AZREIA

American Title

Avant Garde RPM

Catylist

Crexi

GPEC

MAG

ACA

BREW

AZDRE

PBJ

Gina Ducey

Francis Boley

Keith Thompson

Alan Langston

Helena Donohoe

Bob Myers

Greater Phoenix Economic Council

Maricopa Assoc. of Governments

Arizona Commerce Authority

Business Real Estate Weekly

AZ Dept. of Real Estate

Phoenix Business Journal

The Cromford Report

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Crexi.com

Focused On Providing the Best Service to Apartment Owners and Buyers for 20+ Years

Metro Phoenix Commercial – working under West USA Commercial

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For Apartment data, newsletters and updated info. - see
www.MetroPhoenixCommercial.com



2021 Apartment Market Beware of Headwinds!

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