2nd QTR 2021

METRO PHOENIX
APARTMENT OWNER'S NEWSLETTER

In order to provide apt. owners and investors the best up-to date information, on our website we post data on recent apt. sales, apt's for sale and new apt. construction. www.MetroPhoenixCommercial.com

New Apt. Construction – Be Prepared!

In the 1st half of this year, there were 5,094 units (26 projects) completed and **12,469 units (61 projects) forecast for completion in the next six months**. This would bring the total for 2021 to 17,563 units (87 projects) – **almost double the amount completed annually for the past three years**. The final total is typically less than forecast, but still expect many to meet the anticipated year-end time-frame.

In the first half of 2021, there were 9,953 units (43 projects) started. In the pipeline, there are currently 32,870 units (137 projects) under constructions, 24,072 units (99 projects) planned and 24,868 units (116 projects) prospective. Are we overbuilding? At this point with the shortage of housing, the continued strong net migration and the very low vacancy, the short-term answer is "no". Having said that, with more than 12,000 units forecast to be completed in the last half of this year, we expect an increase in vacancy rates and probably some pressure on rental rates for the higher-end apartments.

Occupancy Sets Record - Rent Lead US

With the occupancy again reaching another record high (**96.4%**), it's obvious that the demand is out-pacing the supply of new construction. Occupancy ranged from 96.1% to 96.6% in all class assets except the lower work force which was still strong at 94.%. **With record setting VERY LOW vacancy (3.6%) rental rates JUMPED an average of 17.0% in the trailing 12 months.** This LEADS THE US, followed by Tampa and the Inland Empire. The upper mid-range was the highest (18.5%) and the lowest being the lower work force (10.2%).

As noted above, unless there is a slowdown in construction, the more than 12,000 units scheduled for completion in the 2nd half of this year will increase vacancy and possible rent competition may drive down the rental rate increase primarily in the upper price range units. Except for a few smaller projects, no class B and C properties are being built and with the increasing demand - rents will increase.

A new variable quickly entering our market are the single-family homes being built to rent. For the communities with 50 or more homes being built for rent, 2,536 homes are scheduled to be completed this year and 4,403 in 2022.

For a complete list of all
Q2 2021 Individual Apt. Sales
CLICK HERE

WHAT WILL BE THE IMPACT OF:
- 12,000+ new apt's possible July – Dec.
- Rising inflation and mortgage rates
- Projected tax increases and new gov't laws
- Eviction moratorium being dropped
- The lack of affordable housing

See our website for our apt. presentation on 8/17/2021 addressing and/or register below.

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Register

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Kasten Long Commercial Group 2008-2021
Kasten Long Apartment Team 1998 - 2007

Metro Phoenix Multifamily Data

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%
2021 (2)	2,227	3.6%

Primary Data Sources: Yardi Matrix (50+ units)

Resources on our new website:
www.MetroPhoenixCommercial.com

Apt. Newsletter – Quarterly since 1998
- Recent Apartment sales
- New Apt. Construction Pipeline
- Metro Phoenix Commercial News
- Apartments For Sale (10+ units)

If interested and you're not already on our email distribution list, just let us know.

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The Metro Phoenix Apartment Market (Q2 2021)

TODAY'S OPPORTUNITY – Worth Repeating

"Today" our apartment industry is very strong and investors, many out-of-state, are targeting our area but there are concerns that could have a significant negative impact on rental rates and values. Some of these concerns include inflation, increasing mortgage interest rates, proposed higher taxes, new administration's policies, a "perception" that we are getting over-priced, increased supply of new apartments, an increase in rental homes, a growing concern for affordable housing for "tenants by necessity", Covid and more owners deciding now is the time to sell and increasing the inventory of properties "for sale". **Today, investors are paying top-dollar!** If you share some of these concerns and might consider entertaining a strong offer – please let us know. **Another option**, if you have not done this already, is to reposition your property and obtain much higher rents and value. Let me know if you need contractor contacts.

Transaction Volume Setting Records

In Q1 2021 we had 79 individual sales (10+ units) with a total gross sales volume of $2,020,189,665. In Q2 2021 we had a 35% jump with 107 individual sales (10+ units) and a gross sales volume of $2,571,695,500. The breakdown was 45 projects with less than 100 units and 62 projects with more than 100 units. **Maybe the important thing to note is that there were 107 owners deciding to sell.**

On the Very Positive Side

Metro Phoenix leads the US in apt. rental rate increase with the trailing 12 months being a staggering 17.0% and vacancy rates at an all time low (3.6%). Few folks think these extreme numbers will hold, but our demographics suggest our economy and apartment market will remain very strong. Compared to year's ago, our employment base is diversified and offers significant quality JOBS. In addition, our housing is still more affordable than California and our laws and taxes are also much more favorable. Combine this with our strategic location, no natural disasters, plenty of water and power (not solar or wind driven), friendly business climate, and a 365-day open airport, our POPULATION is expected to continue to climb to record numbers. Our CAP rate on stabilized, quality assets is now roughly 4.5%, but this is still more attractive than California.

Where are the Opportunities Today?

Here are some obvious ones. Any infill properties that can either be repositioned, any under-valued assets, fringe areas adjacent to higher-priced neighborhoods (Sunnyslope for example), and areas near the original downtowns of the East Valley cities and Glendale. On a bigger picture, along transit routes leading into the major employment hubs. Downtown is the best example of a hub. Values will continue to jump to the north and east, but what about to the nearby west and south. Another area primed to explode is between Tempe and South Scottsdale. A portion of the County Island, just north of Tempe Town Lake was recently annexed by the City of Tempe and new apartments are already being built. As Tempe finds ways to annex the balance (all the way over to Scottsdale Road), the entire area between the two cities will explode in value. Clearly there are also strong employment hubs in Mesa, Chandler and Gilbert, but major employment hubs are being developed in the West Valley, to the west of the 101 and soon Levine. The best option might be to call a good commercial agent!!

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