BLUE LAKE CAPITAL

Multifamily Outlook

PHOENIX, AZ

Date:

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Phoenix Multifamily Outlook

Phoenix's meteoric rise as a Sun Belt powerhouse is often cited as a testament to the region's dynamic job market, compelling lifestyle, and pro-growth policies. Despite recent volatility stemming from rampant construction and slight shifts in household formation, Phoenix remains one of the country's fastest-growing metros, drawing in-migration from costlier states like California, Oregon, and Illinois. The city's fusion of long-term economic upside and near-term headwinds creates a multifaceted environment where both risks and opportunities abound.

Market Overview

Few metros can match Phoenix's sheer volume of new multifamily supply over the past year (25,000 units delivered against a backdrop of around 19,000 units in net absorption). This imbalance has raised market-wide vacancy to approximately 11.6%, a notable climb from the sub-7% range witnessed during 2021's frenzy. Concessions have also become a staple, particularly in top-tier lease-ups, contributing to a -1.8% year-over-year dip in average rents. Still, the market's core strengths, economic diversification, consistent in-migration, and robust household formation, indicate that short-term softness should eventually give way to renewed stability.

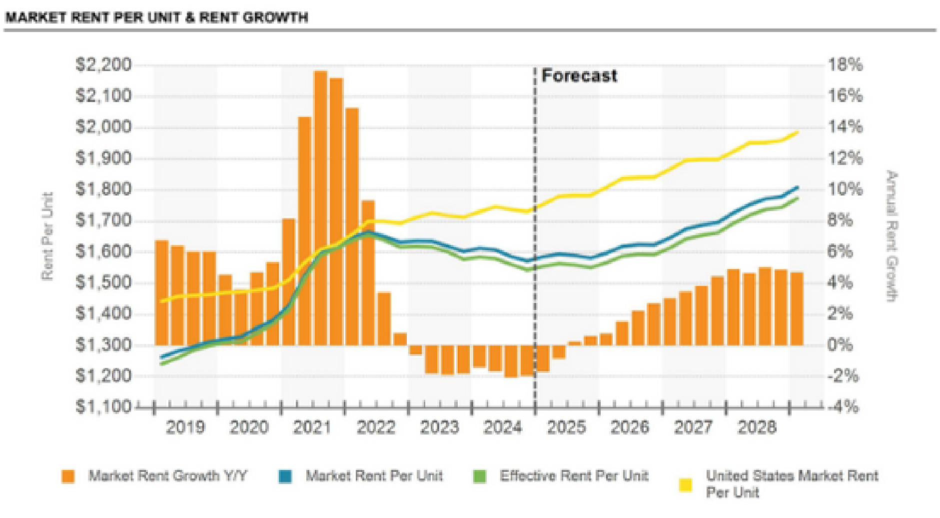


Fig 1. Market Rent Per Unit & Rent Growth comparison between Phoenix and United States (Source: CoStar)

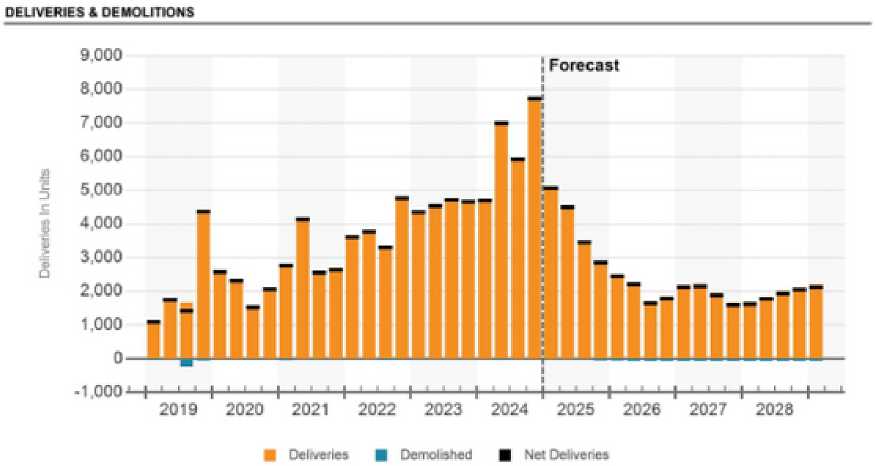


Fig 2. Deliveries and Demolitions trend for Phoenix. The forecast suggests tightening in Net Deliveries for the next 5 years. (Source: CoStar)

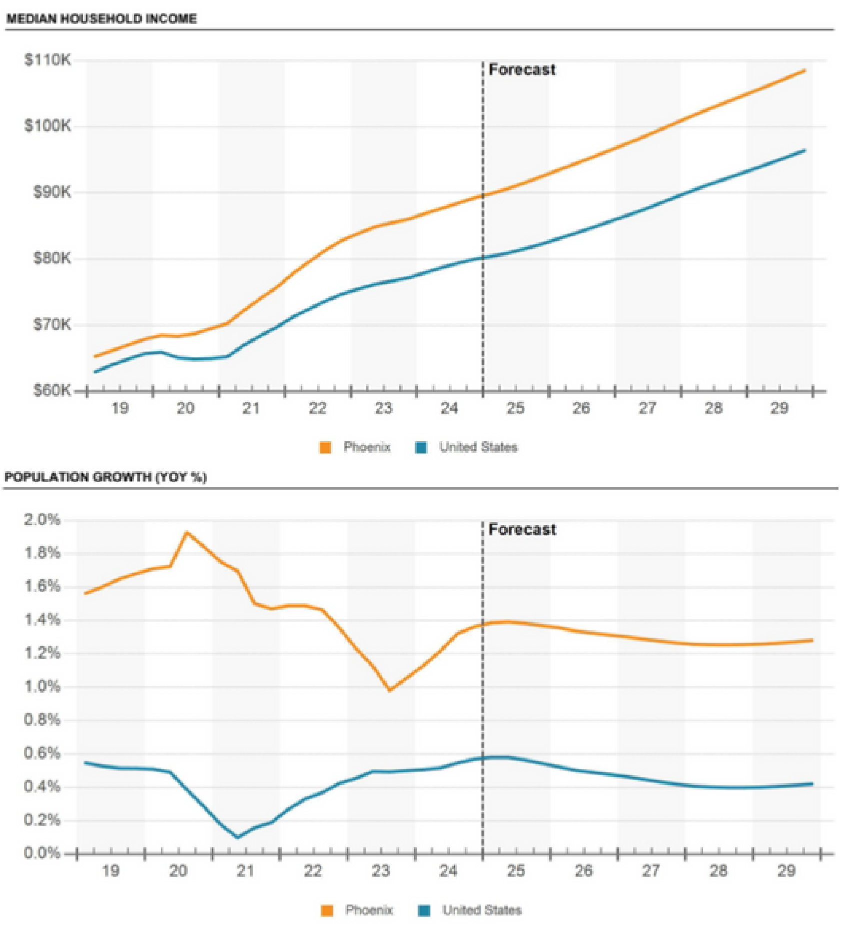
Supply & Demand Dynamics

- **Surging Construction Pipeline:** An additional 27,000 units remain under construction (6.7% of inventory), positioning Phoenix as a top-five metro nationally for ongoing development. Class A projects dominate, intensifying competitive pressure at the high end.
- **Rebounding Midpriced Demand:** After struggling in 2022, 3 Star properties have turned a corner, posting healthy absorption and steadier occupancy, reflecting renters' budget-conscious shift.
- **Demographic Momentum vs. Oversupply Concerns:** Phoenix continues to lure new residents with its affordable cost of living, ample job opportunities, and desirable climate. However, the near-term challenge of absorbing current and future deliveries weighs on operators, especially in central and West Valley submarkets.

Investment Landscape & Capital Markets

Phoenix remains on many investors' radar, albeit with tempered deal volume compared to 2022. Capitalization rates are inching upward as higher interest rates and uncertain rent trends curb enthusiasm. Assets in prime submarkets like Downtown Phoenix, Tempe, and Scottsdale still garner competitive bids; however, owners increasingly deploy concessions and engage in price negotiations to preserve occupancy. Meanwhile, the growing build-to-rent (BTR) sector, especially in suburban areas, has become a noteworthy segment capturing both institutional and private equity interest.

Key Indicators For Phoenix



(Source: CoStar/Oxford Economics)

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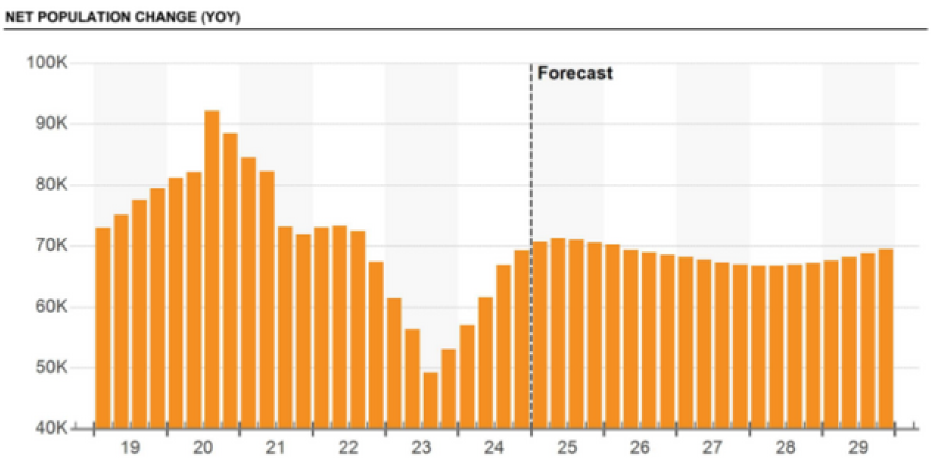

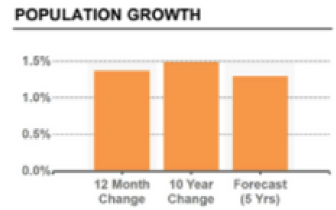

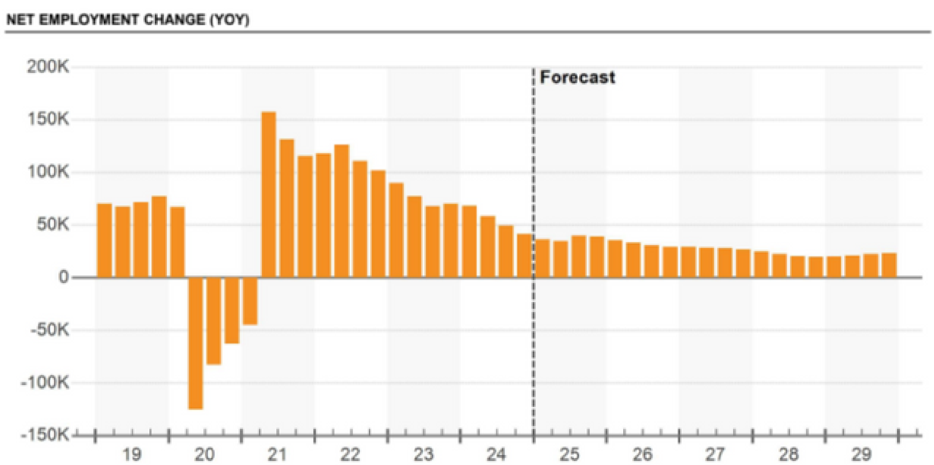

(Source: CoStar/Oxford Economics)

Why Phoenix Remains Poised for Growth

1. **Top Relocation Destination:** Strong net in-migration propels steady housing demand, offsetting some of the supply headwinds.
2. **Economic Diversification:** Expanding tech, healthcare, and finance sectors embed resilience into Phoenix's once construction-heavy economy.
3. **Sun Belt Fundamentals:** A pro-business climate, favorable taxes, and an entrepreneurial ecosystem promise robust long-term growth, even with cyclical bumps.

Key Takeaways for Investors

- **Short-Term Headwinds, Long-Term Potential:** Elevated vacancy and subdued rent growth could persist into 2025, necessitating conservative underwriting and strategies for lease-up challenges.
- **Concessions Culture:** Deep discounts (6–8 weeks free) are widespread, requiring operators to emphasize resident retention and creative marketing.
- **Window of Opportunity:** Softening prices on assets with near-term occupancy issues may offer favorable acquisitions for those positioned to weather the lease-up phase and capture the market's inevitable rebound.

Conclusion

While Phoenix faces one of the nation's largest development-driven headwinds in multifamily, its underlying fundamentals remain too strong to dismiss. In-migration flows, corporate relocations, and sustained job creation continue to underpin demand; the main pressure point is timing—absorption simply hasn't kept pace with the surge in new supply. Consequently, rent growth has retreated, and concessions have soared, dampening short-term returns. Yet, for investors with the capital structure and time horizon to ride out this oversupply cycle, Phoenix's innate advantages—pro-business policies, population growth, and a broadening economic base—augur a subsequent upswing. By late 2025 or early 2026, the market should be on firmer ground, poised for a renewed cycle of rent gains and above-average ROI.

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