



## Forecasting the future



Let us point you in the right direction -  
There are signs everywhere if you know where to look.

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### MAGNET FOR GROWTH

With all the impressive qualities that Phoenix exhibits as a major metropolitan area, it is certain to be a magnet both for new residents and substantial investment in the future. Poised to be one of the top employment and population growth markets in the country for the foreseeable future, new residents and businesses are moving to Metro Phoenix with high expectations for quality of life and affordability. This will have quite a significant impact on many factors affecting the multi-family industry. Here is what we are likely to see.

### MULTI-FAMILY RENTAL INVENTORY

In 2020, the consumer demand for rental units in a city that has grown by nearly 1.5 million residents will require a significant increase in the number of apartment buildings. The current inventory in Metro Phoenix of apartment buildings with over 100 units is approximately 880 buildings, totaling 220,000 units. This equates to approximately one 250-unit apartment building for every 4,300 residents. The aging of the current inventory coupled with robust population growth will require an enormous amount of new construction to take place. To keep up with consumer demand, 582 new apartment buildings will need to be added by 2020, equating to about 3.5 new buildings per month (Figure 1).

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#### ► FIGURE 1: INVENTORY CHANGE FOR 100+ UNIT APARTMENT BLDGS

City	Numbers of Buildings Becoming Functionally Obsolete By 2020 <sup>1</sup>	Numbers of Buildings Needed to Accommodate Population Growth
Avondale	1	13
Buckeye	0	30
Carefree	0	1
Chandler	1	13
Fountain Hills	0	1
Gila Bend	0	1
Gilbert	0	25
Glendale	20	15
Goodyear	1	27
Litchfield Park	0	2
Mesa	29	39
Peoria	2	16
Phoenix	122	127
Queen Creek	0	10
Scottsdale	15	12
Surprise	0	29
Tempe	23	5
Tolleson	0	1
Wickenburg	0	1
<b>TOTALS</b>	<b>214</b>	<b>368</b>
<b>BUILDINGS NEEDED BY 2020:</b>		<b>582</b>

<sup>1</sup>The average useful life for apartment buildings in Phoenix is estimated to be 35 years.

Source: Colliers International



## DIRECTION OF NEW DEVELOPMENT

While there will be a tremendous increase in the rental inventory by 2020, a substantial amount of the development that takes place will be in what is now considered the periphery of Metro Phoenix. Many cities in the Valley will exhibit tremendous population growth from 2007 to 2020, such as Buckeye (504%), Queen Creek (255%), Goodyear (249%), Surprise (142%), Gilbert (62%), and Mesa (38%), requiring a respective increase in the for-rent multi-family inventory (Figures 2 & 3, on back page). While there is more available land to build new product in the outlying areas, the real challenge will be to support the growth in areas such as the Phoenix core and Mesa where there is virtually no in-fill vacant land for development. These two cities combined will add over 700,000 new residents between now and 2020.

## AFFORDABILITY CHALLENGE

Metro Phoenix is a city that has traditionally been affordable relative to most large cities; however, that is beginning to change. This will be one of the biggest challenges facing the multi-family industry in 2020. The recent hyperinflation of home prices has forced many would-be home buyers to renting, dramatically increasing rental rates and adding unneeded financial pressure to the lower income population. We do not anticipate that this is a temporary condition. Expect real wage increases to continue to lag behind appreciation rates on single-family homes. Affordability will become more and more of an issue moving forward. Developers and city officials must work together to accommodate this sector of the population in order to appropriately manage growth. Affordable housing developments in Phoenix currently maintain a lower than average vacancy rate and will continue to do so into the future as these market conditions prevail.

### FAST FACTS

- ▶ Select cities in the Phoenix Metropolitan Area will see up to 500% growth by 2020.
- ▶ The inventory of multi-family properties with over 100 units in the Phoenix Metropolitan area will need to increase 40% by 2020.
- ▶ Affordability will become a greater concern for renters as the gap between income growth and rental rates dramatically increases.
- ▶ Density development will be necessary to accommodate the influx of population and scarcity of in-fill development sites.

## DENSITY DEVELOPMENT

While somewhat in its infancy in Phoenix, there will be an emergence in the vertical residential market (5+ stories). The limited supply and per-unit cost of multi-family land will necessitate a more vertically oriented multi-family rental market with pockets of mid and high-rise apartments and condominiums scattered throughout the employment corridors in the Valley. We are already seeing the beginning of this in downtown Phoenix and near Tempe Town Lake, but we are also likely to see it in areas such as South Scottsdale and West Mesa. Density for multi-family product has traditionally been between 18 and 24 dwelling units to the acre. In 2020, densities for vertical residential buildings will range between 50 and 100 dwelling units per acre for rental units and up to 400 dwelling units per acre for condominium units. Rents in these vertical developments will be upwards of \$2,000 per month, at a rate of \$2 to \$2.40 per square foot.

## BUILDING FOR THE FUTURE

It is an exciting time for Phoenix and we need to adequately plan for the growth that is going to take place. We will see an unbelievable amount of new construction and a more vertically oriented skyline. Our climate is desirable, job growth is first-rate and our new residents will need nice places to call home. Expect Metro Phoenix to thrive, not only as a place people want to live and work, but also as a city in which investors are eager to invest.

▶ (continued on back page)



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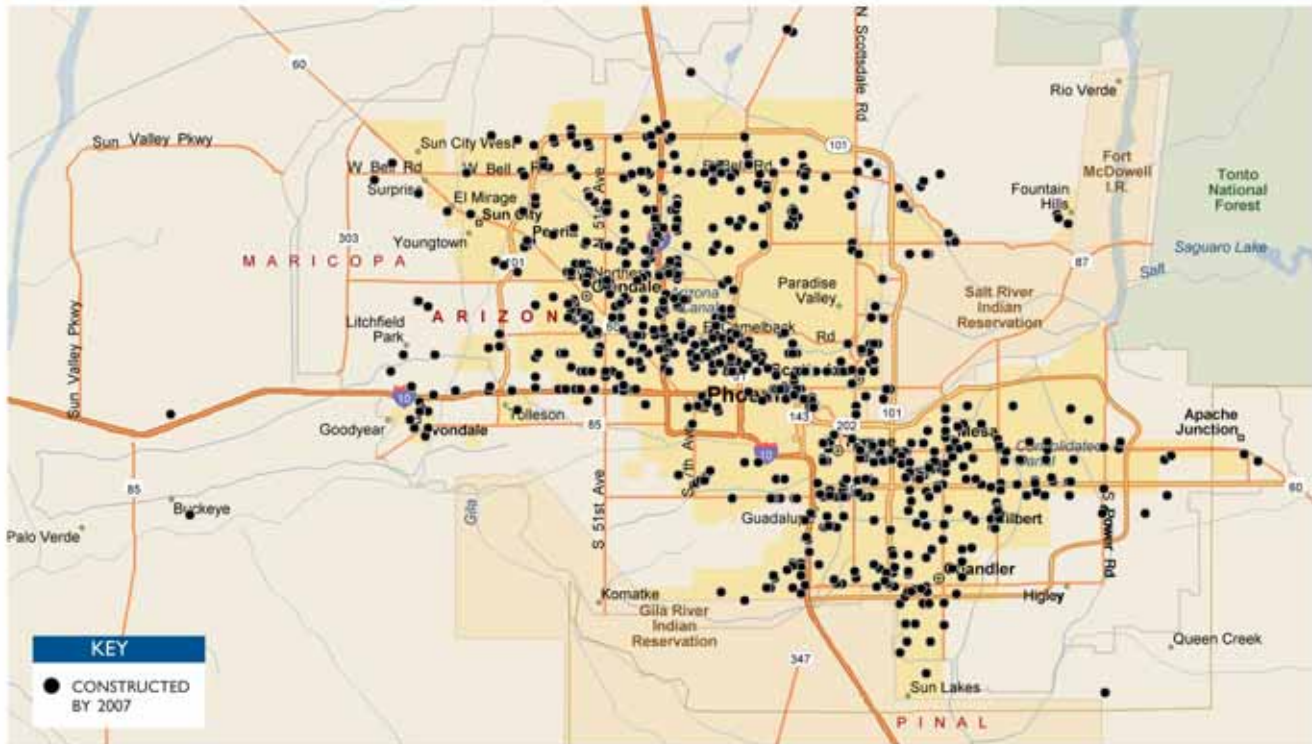
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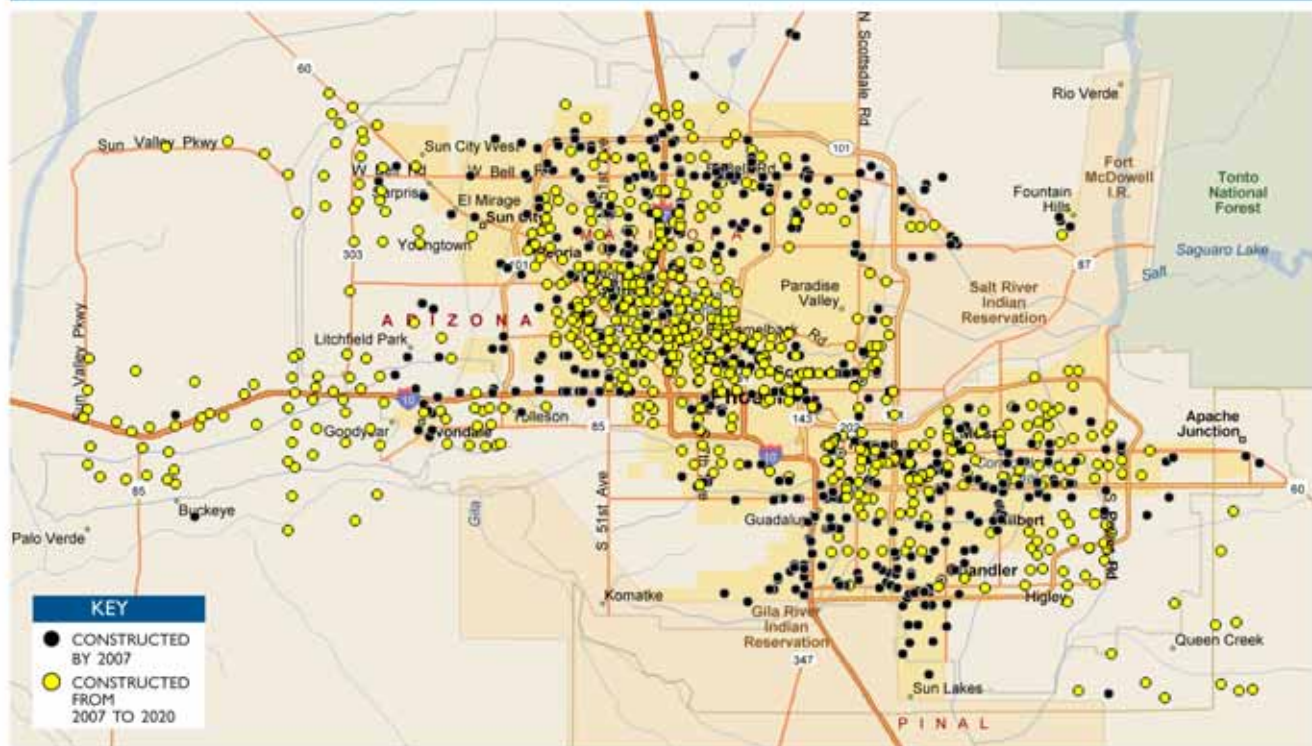
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*"To keep up with this consumer demand, 582 new apartment buildings will need to be added by 2020, equating to about 3.5 new buildings per month."*

▶ **FIGURE 2: INVENTORY OF 100+ UNIT APARTMENT BUILDINGS IN 2007**



▶ **FIGURE 3: INVENTORY OF 100+ UNIT APARTMENT BUILDINGS IN 2020**



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