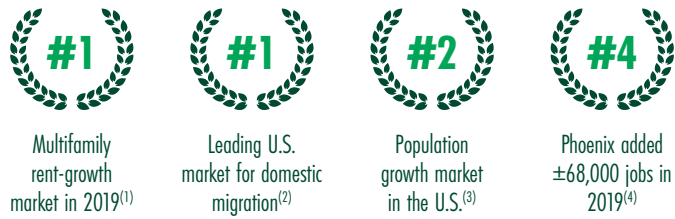


# Market Insider

May 2020

## STRONG ECONOMIC FUNDAMENTALS PROVIDE RESILIENCE

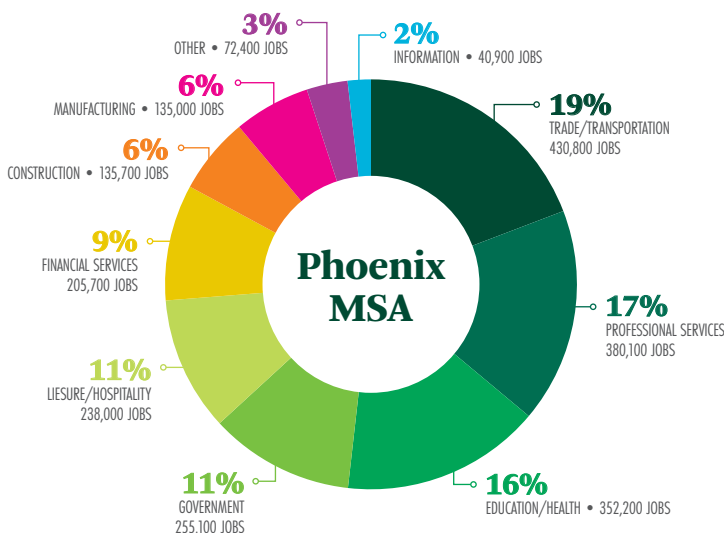
Phoenix was a leading growth market going into the COVID-19 pandemic, benefiting from an increasingly diverse employment base, relative affordability, and structural tailwinds resulting in above-trend net-migration. Through Q4'19, Y-o-Y rent growth was 8.0%, the metro added ±99,000 new residents, and the economy created ±68,000 new jobs. Strong economic and multifamily fundamentals in Phoenix insulate the market from outsized risk in the near-term and position Phoenix to experience strong post-COVID growth.



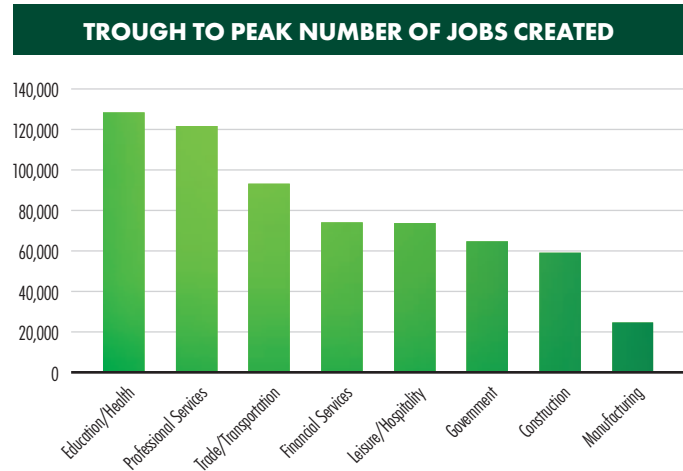
Sources: (1) Yardi. (2) CBRE Research, U.S. Census Bureau, Bloomberg. (3) U.S. Census Bureau. (4) U.S. Bureau of Labor Statistics.

## DIVERSE EMPLOYMENT BASE

Phoenix is a top employment growth market in the U.S., adding 68,000 jobs in 2019, which ranked fourth among all markets. The local economy entered the COVID-19 crisis in a strong position relative to peer markets and compared to previous downturns.



Since the Great Financial Crisis (GFC), the largest employment growth industries in Phoenix have included healthcare and education (128,000 new jobs), professional and business services (121,900 new jobs), trade and transportation (93,300 new jobs) and financial services (74,000 new jobs). Access to talent, relative affordability, and a pro-business environment have attracted significant investments in Phoenix from a more diverse collection of industries than previously seen, resulting in enhanced depth throughout the local workforce.



## INDUSTRIES/INSTITUTES LEADING COVID-19 RESEARCH

Phoenix's fast-growing healthcare and biotech sectors are leading the charge in COVID-19 research. The Translational Genomics Research Institute (TGen) has joined with the University of Arizona and Northern Arizona University to create the Arizona COVID-19 Genomics Union (ACGU). The group is analyzing COVID-19's genetic codes to reveal details that could provide critical information for diagnostics, antiviral drug targets, and vaccine development.

Several recent job announcements in Phoenix during the shutdown illustrate the region's attractive economic fundamentals. Video conferencing tech pioneer Zoom announced it will open an R&D facility in Phoenix creating 500 jobs and Taiwan Semiconductor Manufacturing Company will create a massive \$12 billion factory in Phoenix bringing 1,600 jobs to the Valley.



### STRONG PRE-COVID-19 FUNDAMENTALS

Multifamily vacancy in Phoenix remained near record lows in Q1 2020 at 3.9% and strong fundamentals continued to deliver outperforming returns. Phoenix once again ranked #1 in the NCREIF multifamily index, generating an average 13.1% one-year total return for institutionally owned buildings. Through April, multifamily occupancy and rent collections have generally remained strong across the market.

Phoenix remains an undersupplied housing market. In each of the previous nine years, household formations substantially outpaced new multifamily and single-family residential construction, resulting in favorable long-term supply/demand fundamentals in the market. From 2013-2019, 5.6 new households were formed in Phoenix for each new multifamily unit built.

<b>3.9%</b>	Q1 2020 near all-time low MF vacancy rate
<b>5.6</b>	New household formations per new MF unit deliveries
<b>13.1%</b>	Nation's highest Q1 one-year multifamily return

### LOW RENT-TO-INCOME RATIO HELPS RESIDENTS IN AFFECTED INDUSTRIES

Although Phoenix led the nation in rent growth over the last two years, rental growth has largely been offset by wage gains. The average rent-to-income ratio in Phoenix is 20%, which represents a marginal increase from the beginning of the expansion in 2011, when the average rent-to-income in Phoenix was 18%.

Given the unprecedented number of unemployment claims nationwide and in Arizona, the Phoenix market presents a unique rent to income dynamic based on available unemployment benefits that range from \$170 to \$240 a week from the state and an additional \$600 in federal assistance for a maximum total of \$3,360 a month per recipient. The average monthly rent in Phoenix is \$1,172 equating to a 35% rent-to-income ratio for an individual receiving the maximum monthly benefits. The low rent-to-income ratio will aid in renters staying current on rent and temper any potential vacancy increase.

	Max Monthly Benefits <sup>1</sup>	RTI Ratio	Min Monthly Benefits <sup>2</sup>	RTI Ratio
<b>Phoenix One-Income HH</b>	\$3,360	34.9%	\$3,080	38.1%
<b>Phoenix Two-Income HH</b>	\$6,720	17.4%	\$6,160	19.0%

1) Maximum monthly unemployment benefits include four weeks of Arizona benefits (\$240/week) and four weeks of federal Pandemic Unemployment Assistance via the CARES Act (\$600/week).  
 2) Minimum monthly unemployment benefits include four weeks of Arizona benefits (\$170/week) and four weeks of federal Pandemic Unemployment Assistance via the CARES Act (\$600/week).

# Phoenix is Positioned to Outperform in Recovery



Arizona is a pro-growth and business-friendly state that generated outsized population and job growth leading into the current recession



Attractive affordability, a relatively low cost of living, and an appealing quality of life in Phoenix will continue to draw residents from other markets with higher costs of living



Housing construction was substantially overbuilt leading into the GFC creating a surplus of single-family and multifamily inventory



As of 2020, the residential market in Phoenix is undersupplied with significantly more household formations than single-family and multifamily construction deliveries, creating a favorable and sustainable supply-demand dynamic



Vacancy is considerably lower at the onset of the COVID-19 crisis than at the beginning of the GFC



Unlike the GFC, this economic downturn is not driven by lack of a liquidity and overarching financial distress



Ample capital needs investment opportunities and will be attracted to Phoenix's solid economic fundamentals and high-growth projections

### FOR MORE INFORMATION, PLEASE CONTACT:

#### Tyler Anderson

Vice Chairman  
 +1 602 735 5557  
 tyler.anderson@cbre.com

#### Sean Cunningham

Vice Chairman  
 +1 602 735 1740  
 sean.cunningham@cbre.com

#### Asher Gunter

Executive Vice President  
 +1 602 735 5542  
 asher.gunter@cbre.com

#### Matt Pesch

Executive Vice President  
 +1 602 735 5618  
 matt.pesch@cbre.com

#### Mark McFate

Associate  
 +1 602 735 1720  
 mark.mcfate@cbre.com

