

# Phoenix, Arizona

Multifamily Housing Update

June 2011

## EXECUTIVE SUMMARY

Following a deep recession and roughly 18 months of a jobless recovery, payroll employment trends turned positive in early 2011. Through the first four months of the year, area establishments added a monthly year-over-year average of 9,400 (0.6%) jobs. By contrast, losses averaged -74,500 (-4.2%) y-o-y in the comparable period of 2010. Moreover, seasonally-adjusted job growth accelerated as 9,400 jobs were created year-to-date.

The largest gains were observed in the health care sector, one of the metro's steadfast growth industries. The pace of y-o-y job growth rose from 6,900 jobs in 4Q10 to 9,600 jobs in 1Q11. Additionally, health care providers added 11,900 workers in the year-ended in April. Manufacturing, retail and financial service employers were the latest to join the ranks of net job creating sectors, adding a total of 3,000 new jobs y-o-y in April.

Improved hiring among business service employers evaporated in recent months. Demand for employment services diminished in March and April as temporary workers were replaced with permanent employees. Furthermore, job attrition among professional, scientific and technical service employers rose from -1,700 y-o-y in 1Q11 to -3,400 y-o-y in April.

The Manpower Employment Outlook Survey suggests that hiring will continue to improve in the second quarter. Indeed, the percentage of surveyed firms that planned to add workers (17%) outnumbered the share that anticipated cutting staffs (4%). The **RED CAPITAL Research (RCR)** econometric payroll model is more optimistic, projecting annual job growth of 15,300 (0.9%) this year and 59,700 (3.5%) in 2012.

The firming job market has yet to

translate into improving home price trends. The National Association of Realtors report that the median single-family MSA home price decreased -10.1% y-o-y to \$126,700, and the metro registered a -13.3% annual decline in the FHFA purchase-only home price index in 1Q11.

Conditions in the apartment market improved, on the other hand. The metro occupancy rate increased 80 basis points sequentially to 91.1% as positive net absorption totaled 1,992 units in the first three months of the year. Demand was strong for both Class-A (1,028 units) and Class B/C (964 units) space. As a result, Class-A occupancy rose 90 basis points to 93.2% and Class B/C occupancy rose 70 basis points to 89.3%.

Rent trends also improved. Property managers pushed effective rent up 0.7% sequentially, comparing favorably to the 0.2% fourth quarter gain, largely due to the performance of Class-A assets. Indeed, Class-A asking rent rose 0.9% to \$905 in the first quarter, whereas Class B/C asking rent increased only 0.3%.

Reis expect rent and occupancy trends to continue to improve over the next few years. The service predicts that effective rent will advance at 4.0% and 3.7% annual rates in 2011 and 2012, while occupancy rebounds to 92.6% by December 2012.

Transwestern count 109 apartment transactions in the twelve-month period ended in March, including 21 in the first quarter. The source calculates an average 1Q price per unit of \$43,043. **RCR** estimate a 9.3% expected rate of total return, above the 9.0% **RED** 50 average. On the other hand, the metro posted the 38<sup>th</sup> highest measure of risk-adjusted return in the group, owing to elevated levels of historic NOI growth trend volatility.

## SNAP SHOT

	Y-o-y change	Projected 2011
Vacancy (8.9% - 1Q11)	↓ 320bps	↓ 90bps
Effective Rents (\$685 - 1Q11)	↑ 1.5%	↑ 4.0%
Cap Rate (6.9% - 1Q11)	↓ 50bps	↓
Employment (1694.9m - 1Q11)	↑ 8.8m	↑ 15.3m

## KEY POINTS

- The metro vacancy rate decreased 80 basis points sequentially and 320 basis points year-over-year to 8.9% in 1Q11. Developers completed 2,267 units in the twelve-month period ended in March, none of which were delivered in the first quarter.
- After rising at a 0.9% year-over-year pace in the fourth quarter, the average effective rent rose 1.5% year-over-year in 1Q11. Falling concessions contributed to the annual gain. The size of the average concession package fell from 9.9% of asking rent in 1Q10 to 9.3% in the same period this year.
- Reis were aware of only two apartment projects under construction. Both sites are located in the North Tempe submarket and are expected to add a total of 372 apartment units.
- According to the National Association of Realtors, the median price of a single-family MSA home decreased -10.1% year-over-year from \$140,900 in 1Q10 to \$126,700 in 1Q11.
- Based on an assumed 5.5% cap rate, **RCR** calculate a 9.3% expected rate of total return.



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