

# Economic and CRE Update



PHOENIX

# Table of Contents

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- 03 Introduction
- 04 CRE Performance
- 06 Economic Performance
- 08 Growth and Forecasts
- 11 Conclusion

# Introduction

To truly have one's finger on the pulse of post-pandemic recovery in America, it's necessary to look at two key areas: **the economy and commercial real estate** (CRE). Luckily, these two areas are closely intertwined — which means insights from one can be used to inform analysis of the other.

In this eBook, we're taking a closer look at the economic and CRE landscapes in one particularly noteworthy area: **Phoenix, Arizona**. Through data gathered and analyzed by Moody's Analytics CRE, we'll paint a portrait of this city as a beacon of hope, leading the way for recovery efforts in other areas across the country.



# CRE Performance

First, let's look at market data from three key areas: multifamily, office, and industrial real estate segments.



The **multifamily** CRE market in Phoenix saw record effective rent growth of nearly 25% in 2021, up from around 5% in 2020.



Phoenix's **office** market is steadily recovering from reduced effective rent growth in 2020. It's now at nearly 2%, while the overall U.S. office market has declined.



The **industrial** market saw record performance with effective rent growing more than 8%, doubling its effective rent growth rate from 2020. This is partially due to the explosion of e-commerce, as illustrated by the high number of Amazon locations in Phoenix.



Although multifamily, office, and industrial data are key, no discussion of CRE would be complete without a look at retail market performance.

The U.S. retail space saw minimal effective rent growth in 2021; however, numbers were down in Phoenix. While the data shows improvements since 2020, performance is hindered by older retail centers and malls.

This doesn't necessarily indicate the downfall of brick-and-mortar retail in favor of e-commerce, however. In fact, U.S. in-person retail spending rates were healthy in 2021, indicating the perpetuation of the omnichannel shopping experience.

In summary, most segments of Phoenix's CRE landscape performed well in 2021, suggesting the area is well-positioned for post-pandemic economic recovery.

# Economic Performance

Economic performance is not, of course, limited to CRE data. It's equally important to analyze indicators from other areas, including U.S. Real Gross Domestic Product (GDP), U.S. employment, and inflation.



**U.S. Real GDP** is improving more quickly than anticipated, beginning to exceed pre-pandemic expectations going into 2022.



**Employment** has fully recovered in Phoenix — an experience shared by only 14 of 82 Primary Metros. This stands in contrast to the country at large, where 2021 employment numbers still had a gap of 3.6 million from pre-pandemic numbers.

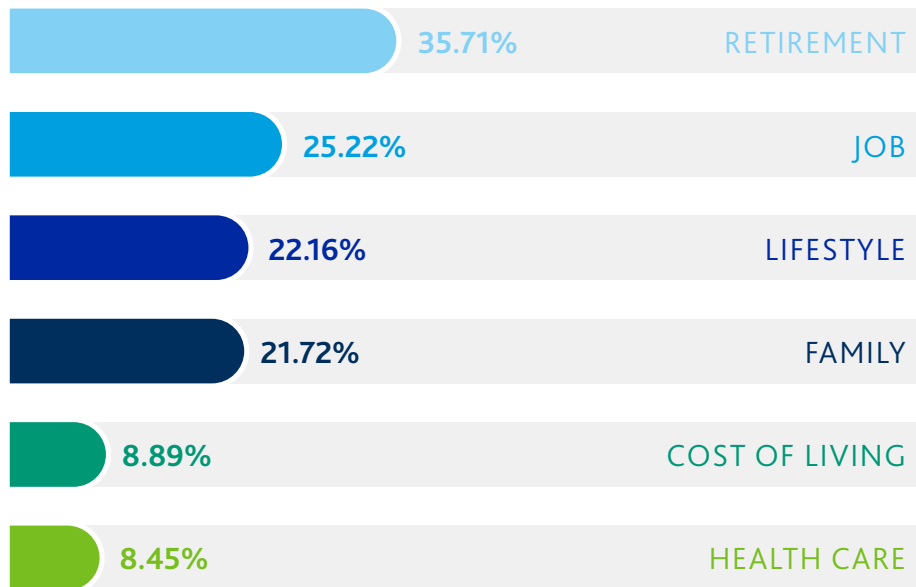


**Inflation** has been a national concern, especially regarding the prices of gasoline, new and used vehicles, and grocery items like meat and poultry. The U.S. Supply Chain Stress Index shows a significant spike in the later months of 2021; however, numbers have begun to stabilize.

Overall, this data indicates slow but steady economic progress across the country — which, in turn, more clearly highlights the outstanding progress in Phoenix.

Current economic conditions are an important factor in any CRE decision-making process, but equally critical is one key indicator of future performance: population growth.

Between June 2020 and June 2021, Arizona's population grew by nearly 100,000 people. This puts the state at the third-highest growth rate in the country, surpassed only by Texas and Florida. Here's a breakdown of why people moved to Arizona:



Of Arizona's moving population, **54.1%** were inbound, while **45.9%** were outbound. A growing population means more demand for CRE including multifamily, office, industrial, and retail.

## Growth and Forecasts

Although data from Arizona's CRE and economic landscapes currently tells a glowing story, it's vital to look ahead to see whether these trends will continue.

Two significant factors in Phoenix's future performance are inflation and climate risk concerns. Our experts expect to see a gradual decline in inflation rates throughout 2022, which will impact the demand for CRE and the economy in the area. However, climate risk concerns don't show signs of decreasing, which means factors like water and heat stress could begin having a more significant impact on Phoenix's population growth, CRE performance, and other economic indicators.

The key takeaway from such forecasts is that, while Phoenix currently shows impressive numbers in a variety of areas, it's still possible for outside forces to rapidly change the landscape.



Of course, inflation and climate risk aren't the only forces in Phoenix's future. Multifamily CRE also has a significant part to play, especially as population numbers increase.

Because Phoenix is still relatively affordable, inbound migration is likely to continue. Moody's data suggests this may lead to an abundance of young, diverse labor, which promotes expansion and drives the demand for multifamily CRE. Our experts expect effective rent growth to average 4.3% through 2025, making multifamily a significant driver of Phoenix's economic performance going forward.

**4.3%**

RENT GROWTH  
THROUGH 2025



Naturally, other CRE areas — most notably office, retail, and industrial — also have influence over Phoenix's future growth.

**Office CRE**, driven by a strong supply of workers, will likely perform well going forward. Our experts expect effective rent growth to average 2% through 2025.

The **retail** market will likely remain steady. Our experts expect that increasing numbers of retirees and tourists will drive local and experiential retail, defying suggestions that e-commerce will eliminate brick-and-mortar CRE.

**Industrial** properties in Phoenix, though somewhat limited by building delays and supply shortages, are expected to average an impressive 4.6% effective rent growth through 2025.

Two things make Phoenix poised for additional industrial growth:

1. It's a convenient alternative to the increasingly expensive Inland Empire, making it an important part of the logistics network needed to support the growing population in the sunbelt.
2. There are skilled workers and existing infrastructure to support advanced manufacturing.

## Conclusion

Although much of the country is still recovering from the social and economic impacts of COVID-19, Phoenix seems to have mastered the art of bouncing back. With impressive numbers in multifamily, office, and industrial CRE and employment rates unmatched by the rest of the country, this metropolitan city has the potential to become a beacon of hope for a somewhat shaken America.

To learn more about the economic and CRE landscapes in Phoenix or compare data to other U.S. cities, [explore further insights](#) from Moody's Analytics CRE.

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