

Yardi® Matrix

MULTIFAMILY REPORT

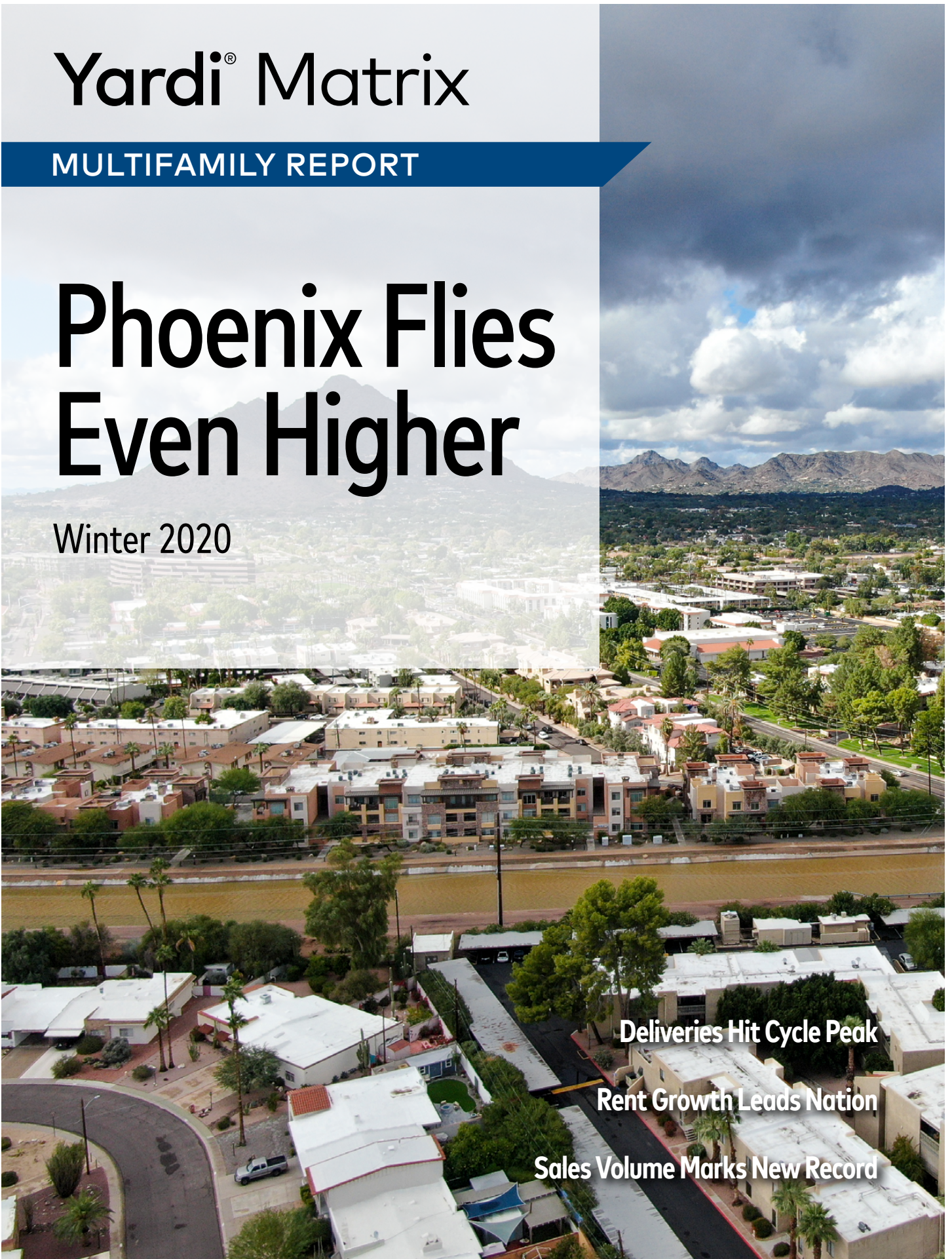
Phoenix Flies Even Higher

Winter 2020

Deliveries Hit Cycle Peak

Rent Growth Leads Nation

Sales Volume Marks New Record



PHOENIX MULTIFAMILY

Yardi® Matrix

Robust Demand Keeps Up With Supply

Phoenix's multifamily market is in full bloom, nurtured by one of the nation's fastest-growing economies and a robust demographic expansion that indicates an overall trend. This has boosted demand and put pressure on rents, up by 7.4% to \$1,195 year-over-year through January. While leading the nation in rent growth, the average rent price was far behind the \$1,463 national figure.

Although showing slight signs of moderation by its recent standards, Phoenix's employment numbers were strong, with expansion up 2.8%—100 basis points above the national rate—year-over-year through November. Phoenix gained 56,500 jobs, with all sectors expanding except information and government, which contracted by 1,000 jobs. Education and health services (14,100 jobs) led gains, followed closely by trade, transportation and utilities (12,500 jobs). Both sectors will likely continue to progress; the former has multiple health-care projects underway, including Creighton University's new health sciences campus in midtown Phoenix and Barrow Neurological Institute's new research facility downtown.

Both transactions and completions marked new cycle highs in 2019, which is unusual this late in the cycle. Last year, nearly \$7.3 billion in multifamily assets traded for a per-unit price of \$164,497, while deliveries totaled 8,874 units. We expect rent growth to continue at a moderate 3.7% in 2020.

Market Analysis | Winter 2020

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On the cover: Photo by Thomas De Wever/iStockphoto.com

Recent Phoenix Transactions

The Griffin



City: Scottsdale, Ariz.
Buyer: Starwood Capital Group
Purchase Price: \$96 MM
Price per Unit: \$ 347,112

Avana Desert View



City: Scottsdale, Ariz.
Buyer: Greystar
Purchase Price: \$96 MM
Price per Unit: \$233,010

Arches at Hidden Creek



City: Chandler, Ariz.
Buyer: Blackstone Group
Purchase Price: \$84MM
Price per Unit: \$194,444

Oxford



City: Phoenix, Ariz.
Buyer: Knightvest Capital
Purchase Price: \$75 MM
Price per Unit: \$173,611

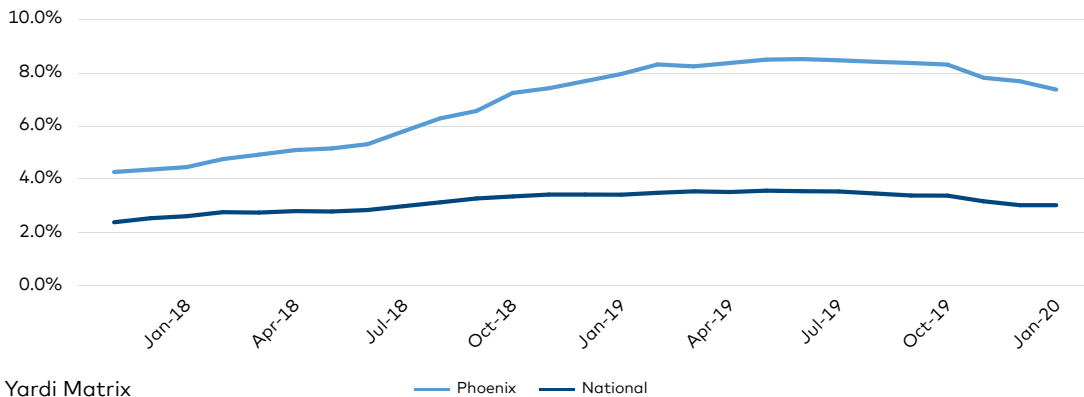
RENT TRENDS

- Rents in Phoenix rose by 7.4% year-over-year through January, once again leading the nation. The growth rate in the metro was more than double the 3.0% national average. However, the metro's average rent stood at \$1,195, trailing the \$1,463 national figure. While rents maintained an upward trend following the delivery of 17,169 units last year, occupancy in stabilized properties dropped by 30 basis points over 12 months, to 95% as of December.
- Rents in the working-class Renter-by-Necessity segment rose by 8.1% to \$984, while Lifestyle rates were up by 6.9% to \$1,395. Demand across asset classes remained strong in Phoenix, bolstered by one of the strongest demographic trends in the country, robust household forma-

tion and consistent employment gains—especially in high-paying professional services.

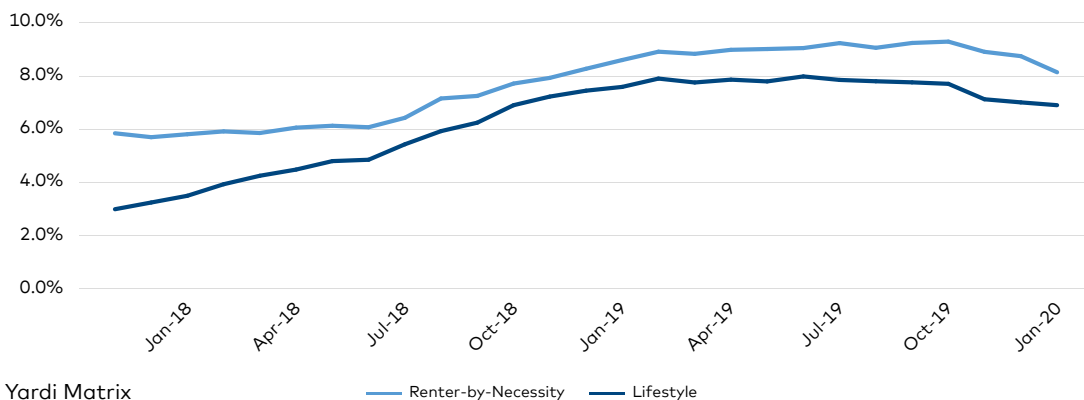
- Rents climbed in all submarkets, with the sharpest growth seen in Maryvale (11.2% to \$942), Superstition Springs (10.8% to \$1,272) and the North Paradise Valley (10.6% to \$1,449). The most expensive rents remained in Sky Harbor, where rates registered the smallest hike (3.4% to \$1,539). The South and North Scottsdale completed the top three most sought-after areas in Phoenix, with rents rising by 6.3% and 6.8% to \$1,514 and \$1,504, respectively. The most affordable rents were in the Central West Phoenix (up 7.2% to \$772) and neighboring the Northwest Phoenix (up 7.7% to \$837) submarkets, where stock mostly consists of working-class assets.

Phoenix vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

Phoenix Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

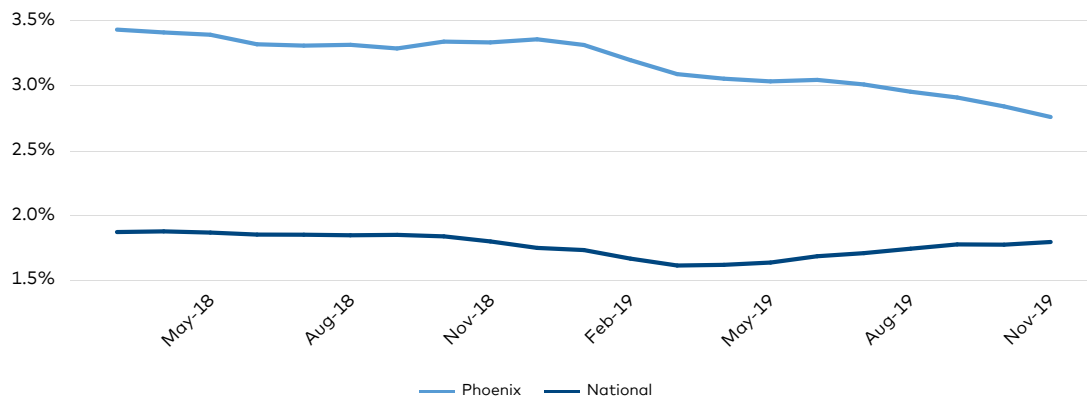
ECONOMIC SNAPSHOT

- Phoenix gained 56,500 jobs in the 12 months ending in November, a 2.8% year-over-year increase and 100 basis points above the national rate. The metro boasts one of the nation's fastest-growing economies, fueled by the local talent pool, favorable business environment and relatively affordable housing. The unemployment rate stood at 3.8% in November, 30 basis points above the national figure.
- Education and health services led gains with 14,100 jobs. Growth in this sector will likely continue; various developments are underway, such as the \$77 million, 200,000-square-foot Phoenix Biomedical campus expansion, expected to open

later this year. The project is a private-public partnership among Wexford Science & Technology, Arizona State University, Ventas and the city of Phoenix. Creighton University's \$100 million, 200,000-square-foot health campus is also under construction at Park Central in midtown Phoenix and scheduled for completion in 2021.

- Trade, transportation and utilities—Phoenix's largest employment sector—came in second with 12,500 jobs. Arizona's close economic ties with Mexico have materialized into SkyBridge Arizona, a master-planned development that will house the nation's first joint U.S.-Mexico air-cargo hub and customs facility.

Phoenix vs. National Employment Growth (Year-Over-Year)



Sources: Yardi Matrix, Bureau of Labor Statistics (not seasonally adjusted)

Phoenix Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	349	15.7%	14,100	4.2%
40	Trade, Transportation and Utilities	433	19.5%	12,500	3.0%
60	Professional and Business Services	374	16.8%	7,400	2.0%
30	Manufacturing	137	6.2%	6,800	5.2%
15	Mining, Logging and Construction	140	6.3%	6,500	4.9%
55	Financial Activities	197	8.8%	3,800	2.0%
80	Other Services	75	3.4%	3,400	4.8%
70	Leisure and Hospitality	235	10.6%	3,000	1.3%
90	Government	248	11.1%	-300	-0.1%
50	Information	38	1.7%	-700	-1.8%

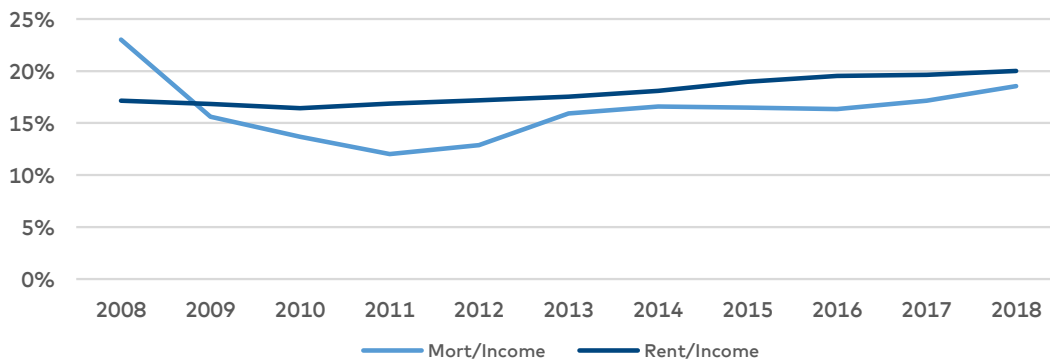
Sources: Yardi Matrix, Bureau of Labor Statistics

DEMOGRAPHICS

Affordability

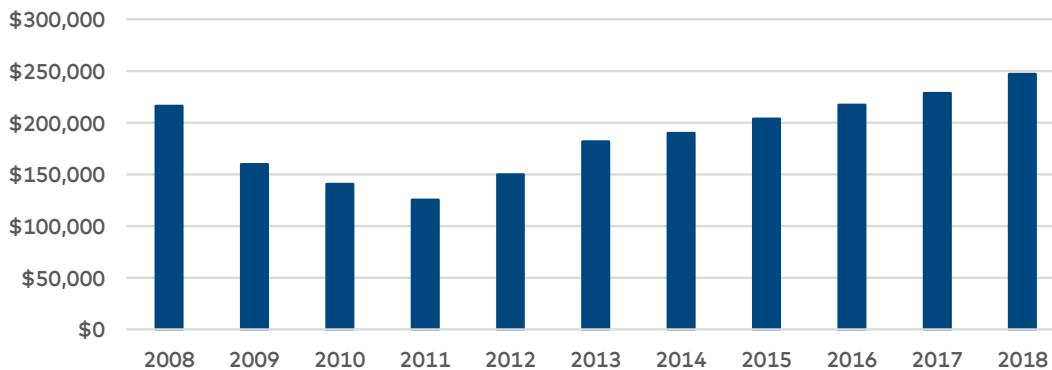
- ▶ The median home price in Phoenix rose to a cycle peak of \$247,238 in 2018, up 8.2% from 2017 and 96.8% from 2010 during the housing collapse. In 2018, the average rent and average mortgage payment were nearly on par, accounting for 20% and 19% of the area median income, respectively.
- ▶ Arizona ranked third among the worst metros for affordable housing in the nation, according to the 2018 annual report released by the National Low Income Housing Coalition. The state's rental housing supply can meet merely a quarter of Arizona's need and is behind only California and Nevada in that regard. Since 2018, 1,041 units in 12 fully affordable communities have been delivered in Phoenix.

Phoenix Rent vs. Own Affordability as a Percentage of Income



Sources: Yardi Matrix, Moody's Analytics

Phoenix Median Home Price



Source: Moody's Analytics

Population

- ▶ Phoenix gained 96,268 residents in 2018, a 2.0% jump that indicates an overall trend. The rate is also well above the 0.6% national figure.
- ▶ The metro's population has increased by 6.0% since 2015, reflecting high migration and modest immigration.

Phoenix vs. National Population

	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Phoenix Metro	4,581,122	4,675,966	4,761,694	4,857,962

Sources: U.S. Census, Moody's Analytics

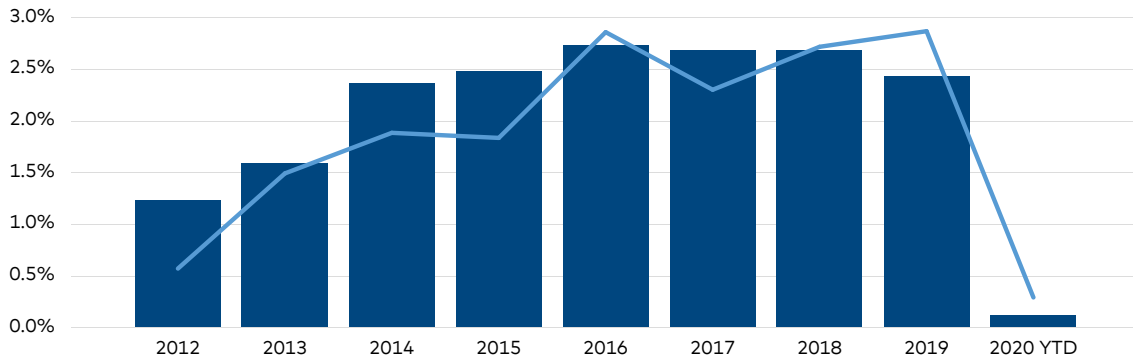
SUPPLY

- Strong demand for apartments in Phoenix maintained development going into 2020, with 17,169 units underway as of January, while another 46,600 units were in the planning and permitting stages.
- Also in early 2020, some 904 units were delivered, all catering to Lifestyle renters. This comes after last year's cycle peak in deliveries, when 8,874 units—2.9% of total stock—came online in the metro, registering 50 basis points over the national figure. The bulk of last year's completions were geared toward the Lifestyle segment. Despite the high number of apartments added to inventory, demand was vigorous, with the occupancy rate for stabilized

properties sliding just 30 basis points year-over-year to 95% as of December.

- Construction activity is high across the map, with the top five submarkets accounting for more than half of the pipeline, each with at least 1,000 units underway. The top three areas most targeted by developers remained the North Tempe (3,338 units), Sky Harbor (1,948 units) and Gilbert (1,865 units). The largest project in development is The Pier, a 586-unit mixed-use property located in an Opportunity Zone in North Tempe. The asset—owned by a private investor—is slated for completion in the second quarter of 2021 and includes some 18,500 square feet of retail space.

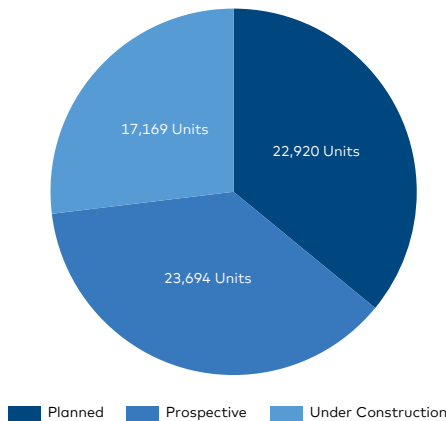
Phoenix vs. National Completions as a Percentage of Total Stock (as of January 2020)



Source: Yardi Matrix

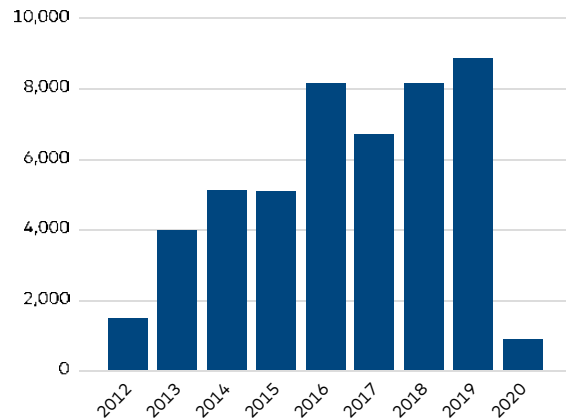
— Phoenix ■ National

Development Pipeline (as of January 2020)



Source: Yardi Matrix

Phoenix Completions (as of January 2020)

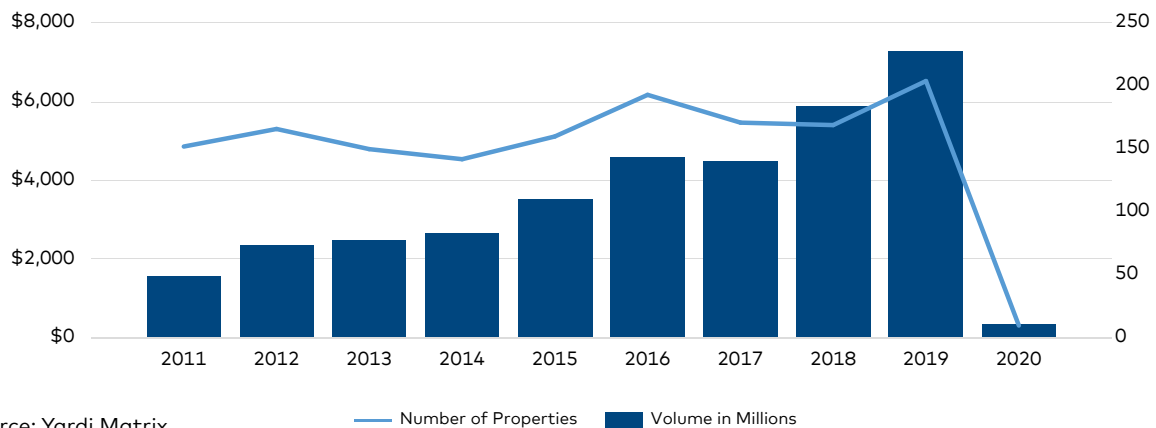


Source: Yardi Matrix

TRANSACTIONS

- ▶ Last year, nearly \$7.3 billion in multifamily properties changed ownership in the metro at an average of \$164,497, slightly below the \$168,177 national average. Despite the extended market cycle, the volume of assets that traded in Phoenix in 2019 marked a new cycle high. Of the 204 properties that traded in Phoenix, nearly two-thirds were value-add plays.
- ▶ Acquisition yields towards the end of 2019 ranged between 4.5% and 5.0% for stabilized, core Class A assets and went up to 6.3% for suburban value-add opportunities. Investor activity was most intense in the Western Suburbs, South Mesa and South Scottsdale submarkets, each with sales in excess of \$500 million. In January 2020, investors spent \$342 million on multifamily assets, almost equally distributed between RBN and Lifestyle properties.

Phoenix Sales Volume and Number of Properties Sold (as of January 2020)



Source: Yardi Matrix

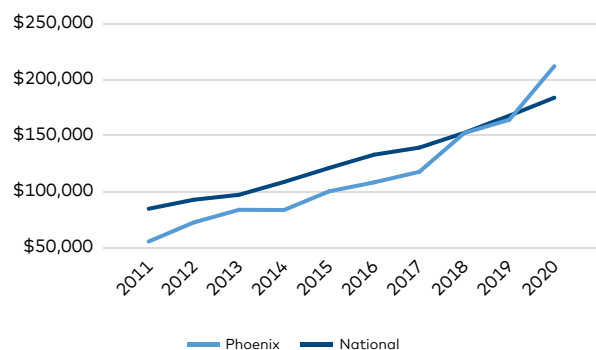
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Western Suburbs	567
South Mesa	565
South Scottsdale	553
North Tempe	401
Union Hills	397
Glendale	374
Gilbert	363

Source: Yardi Matrix

¹ From February 2019 to January 2020

Phoenix vs. National Sales Price per Unit



Source: Yardi Matrix

TOP 5 WESTERN MARKETS FOR MULTIFAMILY DELIVERIES



By Anca Gagiuc

data by
Yardi Matrix

Multifamily construction has been strong lately, with deliveries on a national level averaging 300,000 units per year since 2015. We've taken a look at Yardi Matrix data for the Western region—Albuquerque, N.M.; Boise, Idaho; Colorado Springs, Colo.; Denver; Las Vegas; Phoenix; Reno, Nev.; Salt Lake City; and Tucson, Ariz.—and selected the top five metros with the most multifamily completions as a percentage of existing stock in 2019.

Rank	Metro	Percentage of stock	Units Completed
5	Reno	2.49%	1,281
4	Phoenix	2.82%	8,874
3	Colorado Springs	2.86%	1,217
2	Denver	4.37%	12,464
1	Boise	5.31%	1,258

PHOENIX

Phoenix has seen strong population growth thanks to an attractive climate that doesn't face natural disasters, pro-business environment and robust talent pool from Arizona State University. Moreover, the metro is establishing its position as a bioscience market—home to the Barrow Neurological Institute, the largest neurological disease treatment and research facility in the world—with more than \$3 billion in capital expenditures planned over the next two years. This has heightened the demand for housing, and construction has been intense in recent years, as the state still has abundant land ripe for development.





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Equity Residential Sells Boutique Community for \$31M

The buyer financed the acquisition with a \$19.6 million Freddie Mac loan secured by Newmark Knight Frank.



Harbor Group Acquires Asset For \$66M

The new owner will invest \$418,000 in improvements to the common areas at the Scottsdale property.



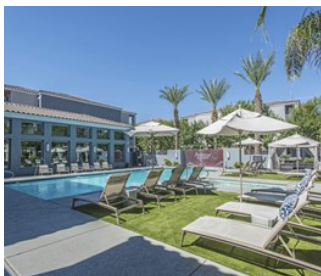
Sparrow Partners Kicks Off Senior Living Project

The 193-unit development will be the first active adult community in Surprise.



Sares Regis Expands Portfolio

The company acquired its latest property as part of its Fund III that targets communities in the Western states.



Bluerock Purchases Luxury Property

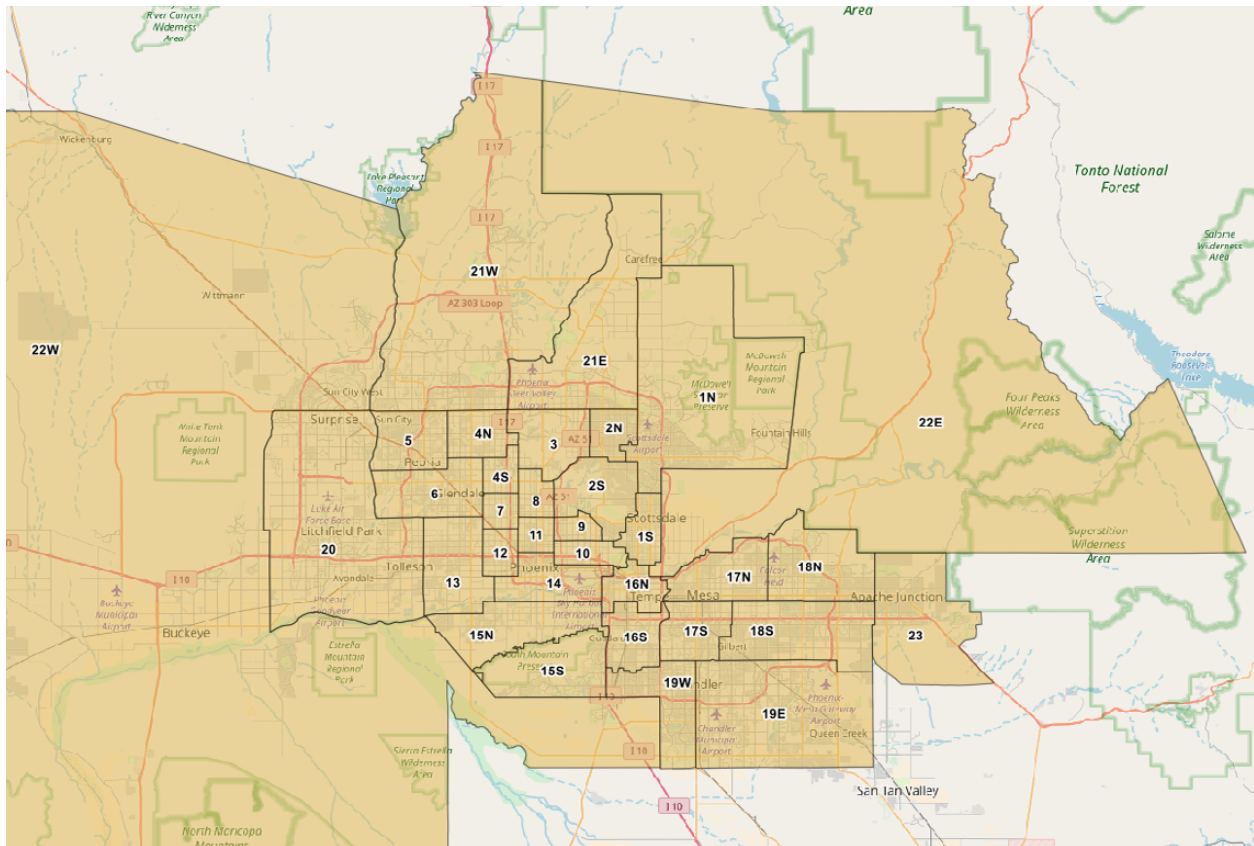
The 254-unit upscale community, Avenue 25, last traded in 2017 for more than \$40 million.



Uptown Mid-Rise Changes Hands For \$61M

Weidner Investment Services purchased the building using a \$39.7 million acquisition loan from MUFG Bank.

PHOENIX SUBMARKETS



Area No.	Submarket
1N	North Scottsdale
1S	South Scottsdale
2N	North Paradise Valley
2S	South Paradise Valley
3	Sunnyslope
4N	North Black Canyon
4S	Metrocenter
5	Sun City-Youngtown-Peoria
6	Glendale
7	Northwest Phoenix
8	Christown
9	East Camelback
10	Central East Phoenix
11	Uptown
12	Central West Phoenix
13	Maryvale
14	Sky Harbor

Area No.	Submarket
15N	South Phoenix
15S	Mountain Park
16N	North Tempe
16S	South Tempe
17N	North Mesa
17S	South Mesa
18N	East Mesa
18S	Superstition Springs
19E	Gilbert
19W	Chandler
20	Western Suburbs
21E	Union Hills
22E	Northeast Maricopa County
22W	Southwest Maricopa County
23	Apache Junction

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;*
- *Students, who also may span a range of income capability, extending from affluent to barely getting by;*
- *Lower-middle-income ("gray-collar") households, composed of office workers, policemen, firemen, technical workers, teachers, etc.;*
- *Blue-collar households, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;*
- *Subsidized households, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;*
- *Military households, subject to frequency of relocation.*

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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