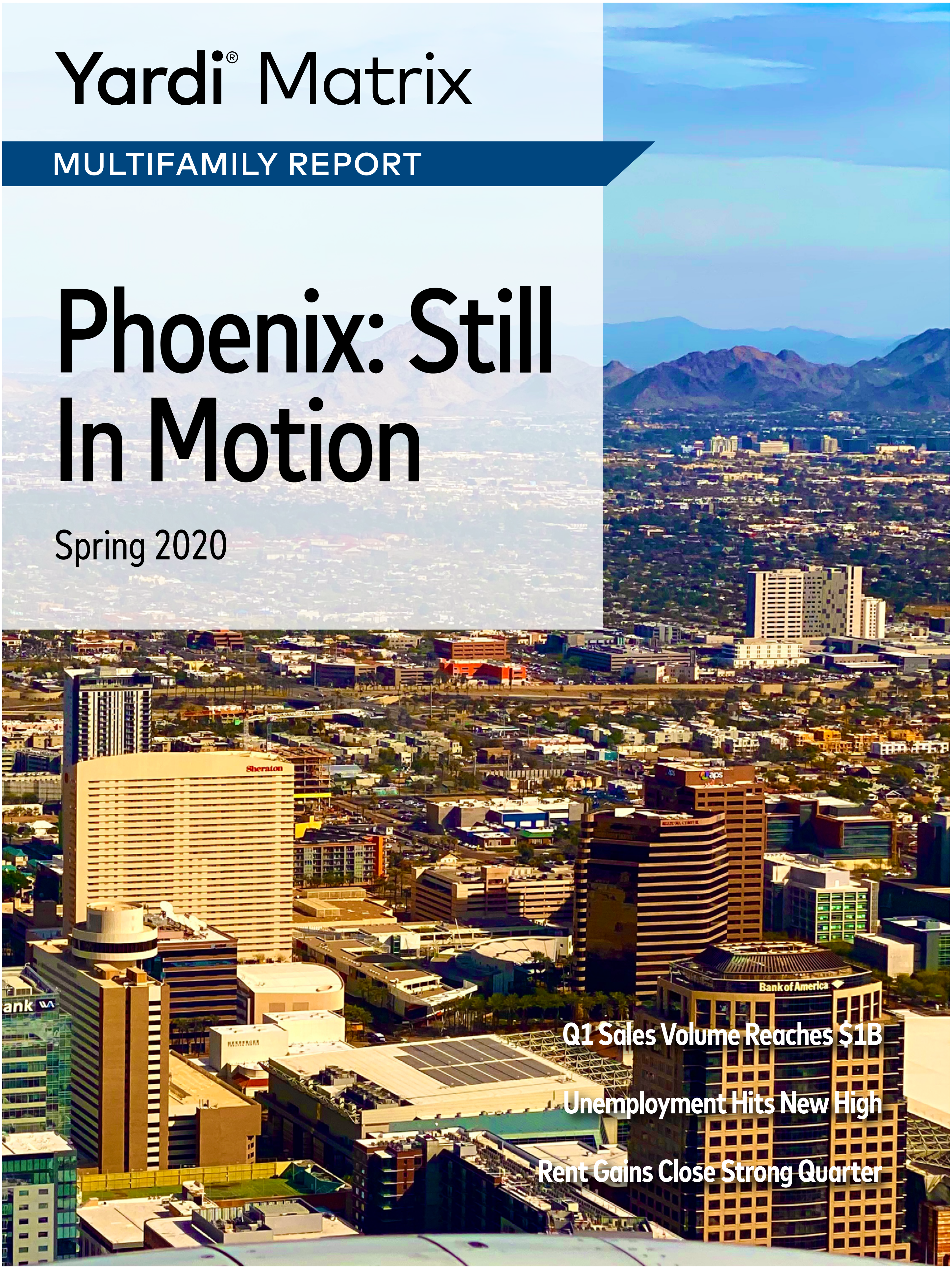
Yardi® Matrix

MULTIFAMILY REPORT

Phoenix: Still In Motion

Spring 2020



Q1 Sales Volume Reaches $1B

Unemployment Hits New High

Rent Gains Close Strong Quarter

PHOENIX MULTIFAMILY

Yardi® Matrix

Metro Ends Cycle On a High Note

Phoenix multifamily maintained its vigor going into 2020, with rents rising by 0.5% in the first quarter, ahead of the 0.2% national rate and again leading all major markets. The $1,216 average rent remained behind the $1,474 national figure. Robust rental demand, however, faces strong short-term headwinds as a result of the COVID-19 pandemic, with rent growth likely to significantly temper.

Phoenix has shown exceptional performance in recent years, turning into one of the nation's fastest-growing economies and ending 2019 with a 2.8% year-over-year job increase—100 basis points above the U.S. rate. Phoenix gained 68,800 jobs in 2019, with all sectors except information expanding. The novel coronavirus health crisis, however, is putting nearly one-third of the metro's employment at risk. In the first five weeks since the state shutdown, nearly 580,000 unemployment claims were filed in Arizona, amounting to more than 10% of the state's workforce.

The cycle ended on a high note for Phoenix, with transactions and completions marking cycle peaks last year. The strong performance extended into the first quarter of 2020, when $1 billion in multifamily assets traded and developers brought 1,399 units online, with another 17,898 underway. Both metrics are slated to moderate, at least in the short term.

Market Analysis | Spring 2020

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Recent Phoenix Transactions

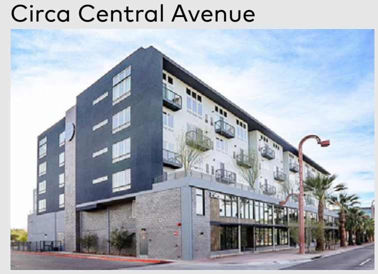
Parc Midtown

City: Phoenix
Buyer: FSC Realty
Purchase Price: $79 MM
Price per Unit: $ 256,536

Broadstone Osborn

City: Phoenix
Buyer: Logan Capital Advisors
Purchase Price: $60 MM
Price per Unit: $300,000

Circa Central Avenue



City: Phoenix
Buyer: PrivatePortfolio Group
Purchase Price: $58 MM
Price per Unit: $253,304

Avenue 25

City: Phoenix
Buyer: Bluerock Real Estate
Purchase Price: $56 MM
Price per Unit: $218,898

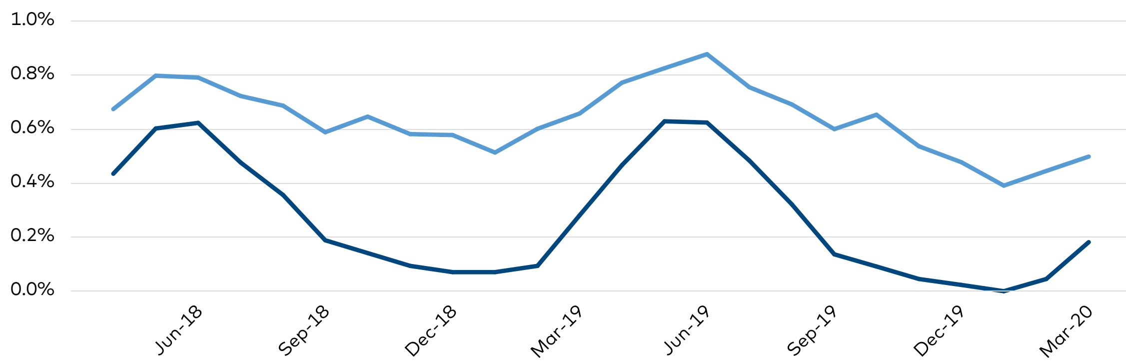
RENT TRENDS

- Phoenix rents rose by 0.5% on a trailing three-month basis as of March, once again leading the list of major U.S. metros. The metro surpassed the 0.2% national growth rate—recording an average rent of $1,216 behind the $1,474 U.S. average. Despite the multifamily market's sustained expansion in recent quarters, the numbers do not yet reflect COVID-19's impact on the metro. The pandemic is expected to flatten rental demand and rein in rent increases.

- Rents in the working-class Renter-by-Necessity segment rose on par with those in upscale Lifestyle assets, both up by 0.5% on a trailing three-month basis to $1,000 and $1,416, respectively. Demand across asset classes was bolstered by one of the most durable demographic trends in the country, robust household formation and consistent employment gains in all sectors. Future quarters, however, are set to bring a slowdown, as unemployment rates stabilize following social distancing and stay-at-home orders. To protect renters across income brackets, Arizona has halted evictions for those affected by the pandemic for at least 120 days.

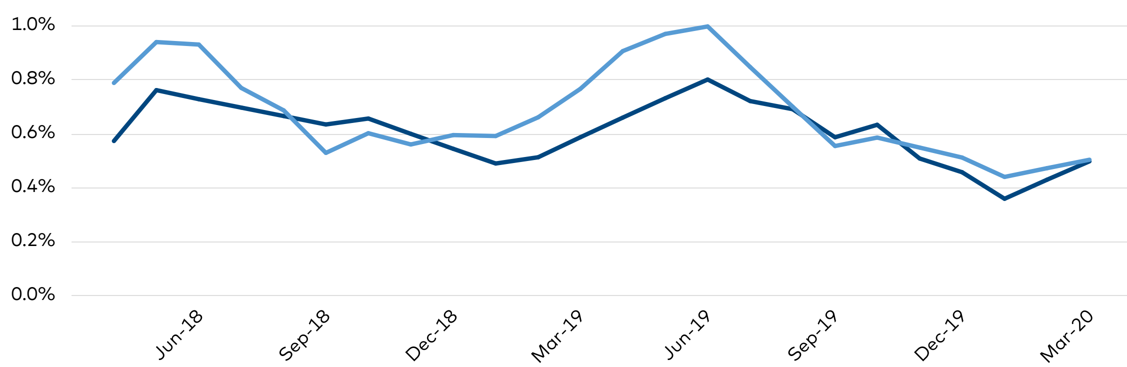
- The highest-performing submarkets during the 12 months ending in March were the North Paradise Valley (average rent up 12.5% to $1,501), the East Mesa (10.8% to $1,128) and the North Scottsdale (10.1% to $1,563). The North Scottsdale is also the metro's most expensive submarket, followed by the South Scottsdale (7.5% to $1,547) and Sky Harbor (2.6% to $1,546).

Phoenix vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Phoenix Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- Phoenix gained 68,800 jobs in 2019—a 2.8% year-over-year increase and 100 basis points above the national rate. Until recently, the metro had one of the country's fastest-growing economies, attracting technology companies and workers seeking an affordable middle-class life. While the pandemic is undoubtedly casting a long shadow over Phoenix's economic prospects, the city is relatively well positioned to weather the storm, at least when compared to more tourism- or energy-reliant economies in the Sun Belt.

- The city's unemployment rate—at 4.0% as of January—is expected to rise considerably in the coming months, as nearly 580,000 unemployment claims were filed in the first five weeks following the shutdown. Arizona's unemployment rate jumped by 100 basis points from February to March, reaching 5.5%, and April figures could take that number into double-digit territory.

- With 16,700 jobs—a share of 19.5%—Phoenix's trade, transportation and utilities sector led gains in 2019. One major project facing delays is Arizona's master-planned SkyBridge Arizona, slated to house the nation's first joint U.S.-Mexico air-cargo hub and customs facility. With construction and transportation heavily affected, this project will likely be on hold.

Phoenix Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
40	Trade, Transportation, and Utilities	437	19.5%
65	Education and Health Services	351	15.7%
15	Mining, Logging, and Construction	143	6.4%
60	Professional and Business Services	373	16.7%
30	Manufacturing	137	6.1%
70	Leisure and Hospitality	238	10.6%
80	Other Services	75	3.4%
55	Financial Activities	198	8.8%
90	Government	249	11.1%
50	Information	38	1.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

Phoenix gained 96,268 new residents in 2018, a 2.0% jump indicating an overall accelerating trend. The rate was more than triple the 0.6% national figure.

The metro's population, mainly boosted by domestic in-migration, grew by 6.0% between 2015 and 2018.

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

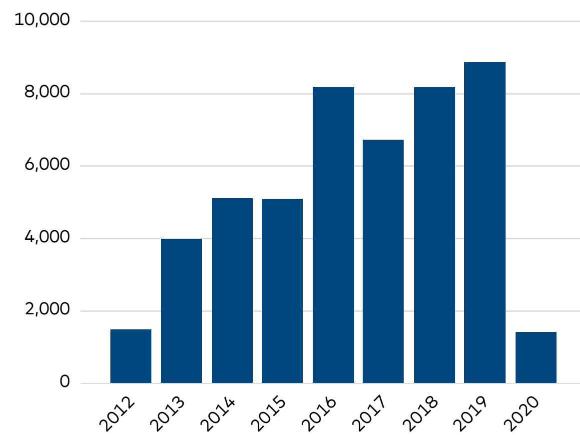
- Strong rental demand maintained an elevated pipeline at the start of 2020, with 17,898 units underway in Phoenix as of March. Nearly 1,400 apartments were delivered during this year's first quarter—0.5% of total stock—with the vast majority catering to Lifestyle renters.

- The current pipeline comes on the heels of 2019's cycle peak, when 8,874 units—2.9% of total stock—came online in the metro, climbing 50 basis points above the national rate. Considering the steady pipeline and the economic downfall caused by the pandemic, rental demand is slated to dampen in the short term.

- With housing construction deemed an essential service in Arizona, activity is ongoing across the map. As supply chain disruptions and social distancing guidelines continue, construction is moving at a slower pace and delivery dates will likely be pushed back.

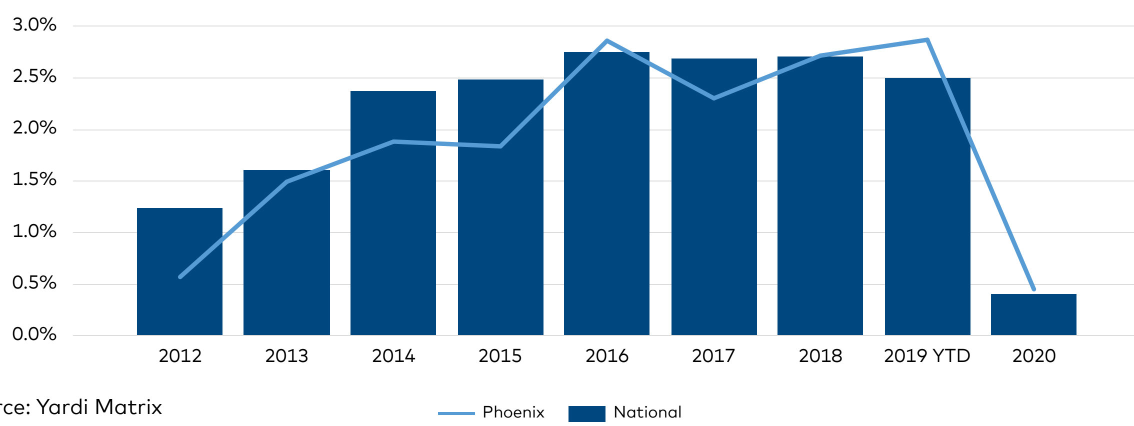
- In March, five submarkets accounted for more than half of the pipeline, each with at least 1,000 units underway. The top three areas remained the North Tempe (3,070 units), Sky Harbor (2,340 units) and Gilbert (1,866 units). The largest project underway is Pier 202, a 586-unit mixed-use property located in an Opportunity Zone in North Tempe. The community is slated for completion in 2021 and includes some 18,500 square feet of retail space.

Phoenix Completions (as of March 2020)



Source: Yardi Matrix

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

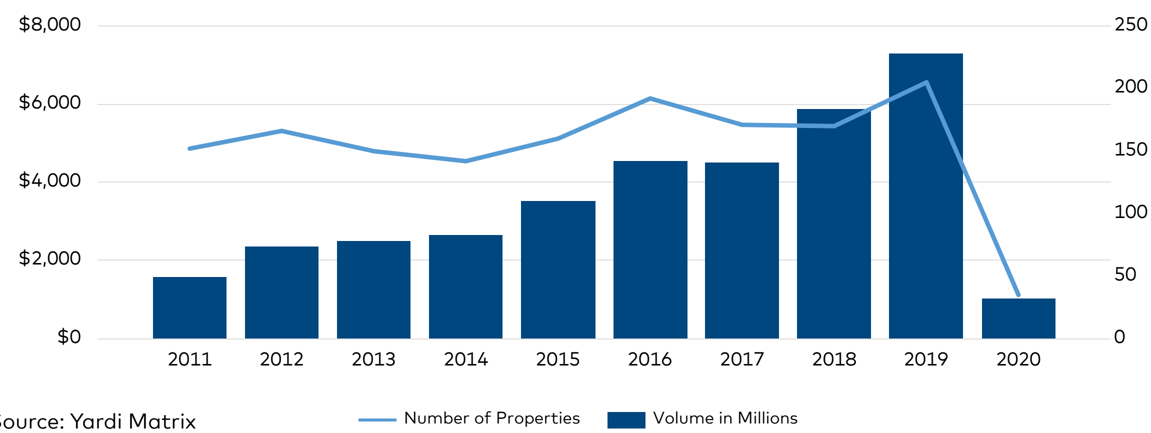


Source: Yardi Matrix

TRANSACTIONS

- A slowdown is expected after the first quarter of 2020, which produced $1 billion in Phoenix multifamily deals, with investors primarily focused on value-add plays. This followed a 2019 cycle high, which totaled nearly $7.3 billion in sales.
- Acquisition yields dropped to historic lows in the second part of 2019, from 4.5% to 5.0% for stabilized core Class A assets and up to 6.3% for suburban value-add plays. The metro proved highly attractive to investors thanks to the pairing of healthy multifamily fundamentals and strong economic drivers, especially booming population, job growth, rapid absorption and rent gains that top the nation.
- Suburban locations were the most sought after in the 12 months ending in March, with nine of the top 10 submarkets by transaction volume located in the suburbs.

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



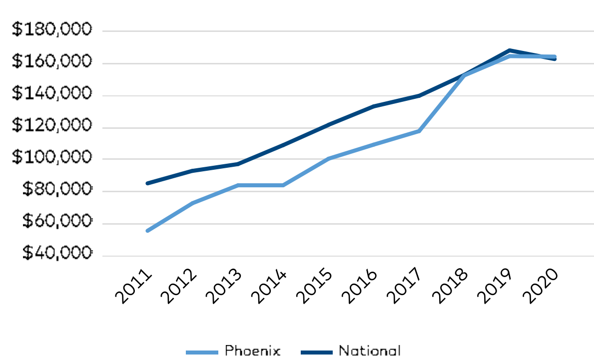
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Western Suburbs	646
Union Hills	464
South Scottsdale	456
South Mesa	356
Glendale	353
Chandler	292
South Tempe	290

Source: Yardi Matrix
[1] From April 2019 to March 2020

Phoenix vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

Black Creek's Multifamily Leader Has Big Plans for the Sun Belt

By Holly Dutton

The acquisitions come first in Black Creek Group's focus on the Sun Belt, where strong job and population growth continue to drive deals. Chris Westcott, the company's senior vice president of multifamily acquisitions, talked with *Multi-Housing News* about the company's interest in suburban markets, multifamily sectors it's looking at closely and challenges posed by demands from renters of the Millennial and the Baby Boomer generations.

Your company has been buying multifamily properties in suburban areas of the Sun Belt. Tell us why you chose that region.

We have chosen to go the suburban route versus the core route for primarily two reasons. One, we have better returns than what we're seeing in the core space today. And two, we're looking at a lot of construction pipelines and a lot of them are in core markets. We think that will put a little supply-and-demand pressure on those locations, as opposed to some of the suburban locations where we're buying, with less supply pockets and less future deliveries coming in.

Do you have a favorite market?

I don't know if I have a favorite market. I like the Sun Belt, I like Atlanta, I like Raleigh and I love Phoenix—that's partially because I live in Phoenix (laughs), but also because demand drivers and the diversification of the employment base really has changed Phoenix as an overall market. If you look at Atlanta, Raleigh and Phoenix, they

have very similar characteristics as far as what's driving their employment, what's driving their population growth and what's driving their multifamily fundamentals.

Will Black Creek invest in more senior housing projects?

We've spent a little time doing some research on senior housing and we're not shying away from it, but we're not jumping full-fledged into it right now. We're watching some of the supply get absorbed and as we see a little more success there, we may spend more time focused on it. But at this point we're really, primarily focused on multifamily and market-rate multifamily deals.

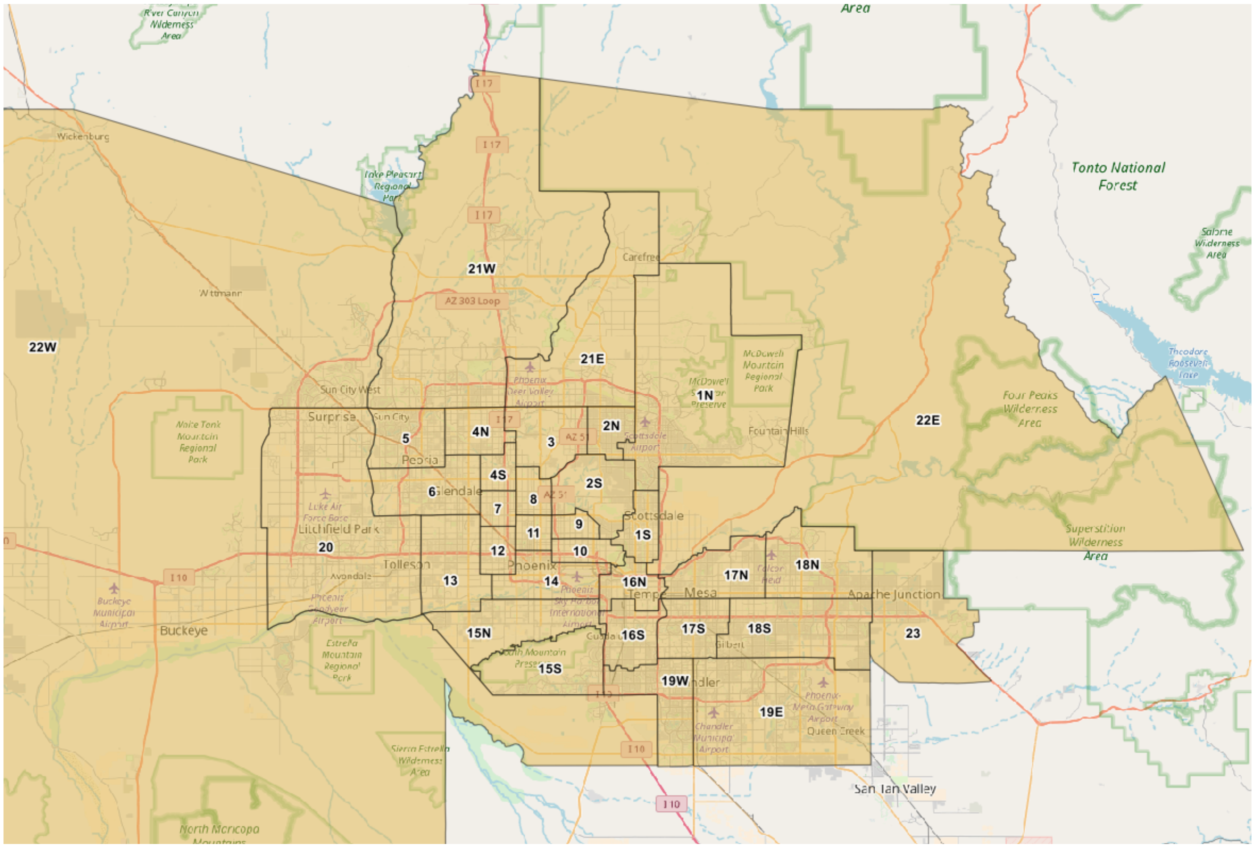
Are the demographic trends and habits of Millennial and Gen-Z renters a driving force in your business strategy?

It'd be hard to say it's not a driving force. Between the Millennials and Gen Zers, they really are the driving force of multifamily today. It's between those two groups and the Baby Boomers. We look at all three groups and say that is our target audience today. Based on the demands of those three major age cohorts, we're looking at Class A deals and renovating Class B deals that are offering common areas and unit interior finishes that are such a step above where things were even four years ago. We're hyper-focused on what's trending with Millennials and Baby Boomers.

Would you consider expanding into international markets?

There's no real thought at this point of advancing internationally at this point. I think that would be a conversation for later.

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
21W	Deer Valley
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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