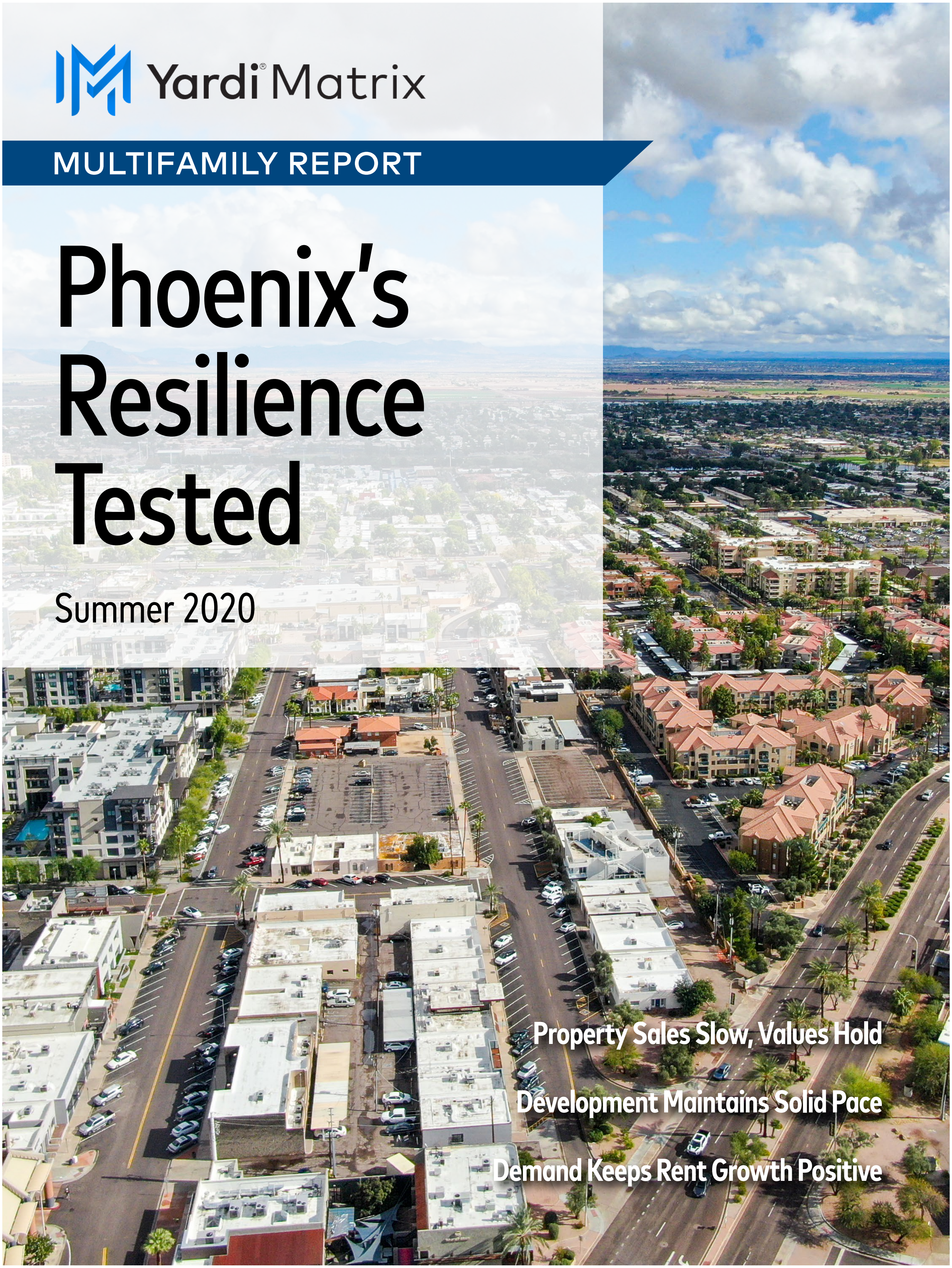
Yardi® Matrix

MULTIFAMILY REPORT

Phoenix's Resilience Tested

Summer 2020



Property Sales Slow, Values Hold

Development Maintains Solid Pace

Demand Keeps Rent Growth Positive

PHOENIX MULTIFAMILY

Yardi Matrix

Diversified Employment Holds Up Economy

Compared to other large metros, Phoenix seems to have been better-equipped to withstand the blows dealt by the health crisis—at least for now. Following two months of contractions, the metro's average rent was up 0.1% on a trailing three-month basis through July, and 20 basis points above the U.S. rate. The $1,209 rate remained well behind the $1,460 U.S. figure. Occupancy in stabilized assets declined just 30 basis points year-over-year, to 95.0% as of June.

The unemployment rate slid to 8.4% in May from 12.5% in April, but the spike in virus cases will likely affect the economy; preliminary June data pointed to an additional increase to 9.7%. Leisure and hospitality contracted by 26.8%, while the metro's main economic drivers—trade, transportation and utilities and professional and business services—contracted by 0.6% and 6.7%, respectively. Since the outbreak of COVID-19 and through the end of July, roughly 840,000 unemployment claims were filed across the state.

Development maintained the robust pace of recent years with nearly 22,000 units underway as of July, while deliveries amounted to 3,746 apartments this year through July. Meanwhile, transactions slowed down, totaling just $1.7 billion, with the per-unit price improving slightly. We expect the average Phoenix rent to rise 0.4% in 2020.

Market Analysis | Summer 2020

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Recent Phoenix Transactions

Tides at South Tempe

City: Tempe, Ariz.
Buyer: Federal Capital Partners
Purchase Price: $72MM
Price per Unit: $162,132

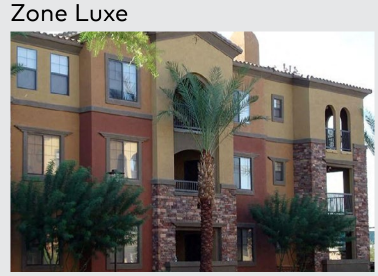
Park Place at Fountain Hills

City: Fountain Hills, Ariz.
Buyer: Button Capital
Purchase Price: $63 MM
Price per Unit: $275,000

Mason Oliver

City: Phoenix
Buyer: Knightvest Capital
Purchase Price: $59 MM
Price per Unit: $202,000

Zone Luxe



City: Glendale, Ariz.
Buyer: Sunroad Enterprises
Purchase Price: $55 MM
Price per Unit: $219,000

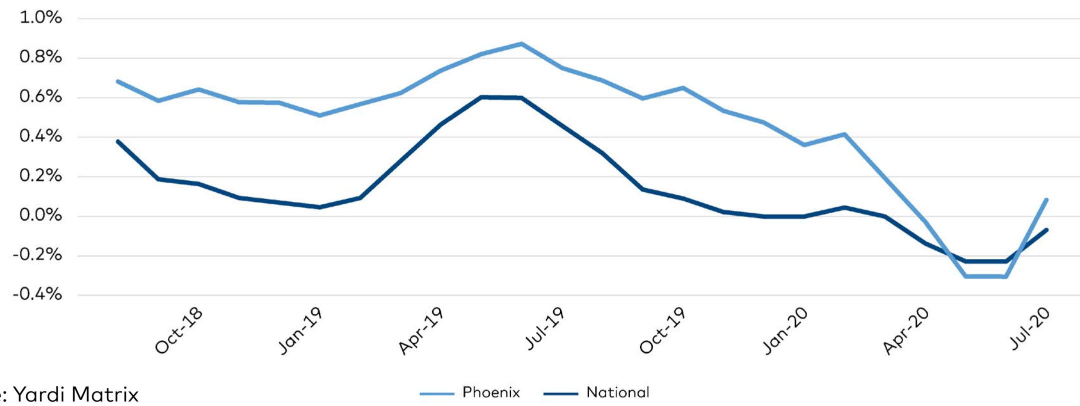
RENT TRENDS

- Rents inched up 0.1% on a trailing three-month (T3) basis through July, 20 basis points above the U.S. figure. Rent gains have been among the highest in the U.S. in recent years, boosted by strong employment and household growth. The average rent clocked in at $1,209, trailing the $1,460 national rate.

- Demand remained relatively even across quality segments, with both Lifestyle and working-class Renter-by-Necessity rents rising 0.1% on a T3 basis to $1,398 and $1,003, respectively. Among other factors, the metro's friendly business environment, affordable lifestyle and geographic position have contributed to fueling demand, even during a pandemic. Yet, the health crisis, robust deliveries—more than 20,000 units delivered since early 2018—and a steady pipeline are bound to put some pressure on rental performance, especially in the case of upscale units. For now, occupancy in stabilized properties declined just 30 basis points to 95.0% in the 12 months ending in June.

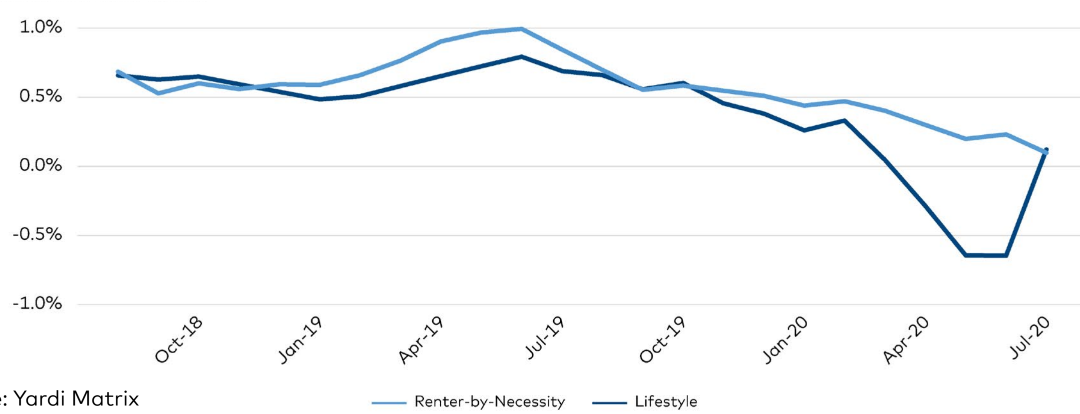
- The best-performing submarket by year-over-year rent movement as of July was also the most affordable—Central West Phoenix, where rents rose 11.5% to $836. The average rate contracted only in Gilbert (-0.7% to $1,379). The most sought-after area remained Sky Harbor, where rents continued to rise, up 2.8% to $1,553. The submarket also had the highest number of units underway (4,247 units).

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 kicked off 2020 with a 4.0% unemployment rate, which, by April, had risen to its highest point at 12.5%, as the state went into lockdown. With the restart of the economy in May, the rate decreased to 8.3%, but preliminary data for June pointed to a steeper dip—9.7%—as COVID-19 cases spiked.

- Unemployment claims surpassed 840,000 in Arizona from the onset of the pandemic through the end of July. COVID-19 cases spiked back in July, and officials closed bars, gyms, movie theaters and water parks for an additional 30 days. Still, the metro is weathering the pandemic better than the U.S. average. Of the country's 30 largest metros, Phoenix ranked in the top third for the lowest June unemployment rates. However, all sectors except construction and financial services contracted over the 12 months ending in May.

- Phoenix diversified its economy this past cycle, attracting jobs in advanced industries and creating an alternative to nearby coastal markets. While leisure and hospitality slid 26.8%, the metro's main economic drivers, namely trade, transportation and utilities (19.5% of workforce) and professional and business services (16.5%), contracted by 0.6% and 6.7%, respectively.

Phoenix Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
55	Financial Activities	202	9.9%
15	Mining, Logging and Construction	138	6.7%
40	Trade, Transportation and Utilities	399	19.5%
50	Information	38	1.9%
90	Government	242	11.8%
80	Other Services	67	3.3%
30	Manufacturing	126	6.2%
65	Education and Health Services	327	16.0%
60	Professional and Business Services	338	16.5%
70	Leisure and Hospitality	171	8.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Phoenix gained 90,241 residents in 2019, a 1.9% uptick and well above the 0.3% national rate.

- Growth was mostly sustained by domestic migration and the metro's proximity to expensive West Coast metros, which helps attract residents in search of a cheaper alternative.

Phoenix vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Phoenix Metro	4,675,966	4,761,694	4,857,962	4,948,203

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

SUPPLY

- Phoenix had 21,965 units under construction as of July, keeping true to the strong development trend of recent years. Since 2016, more than 35,700 units have come online in the metro.

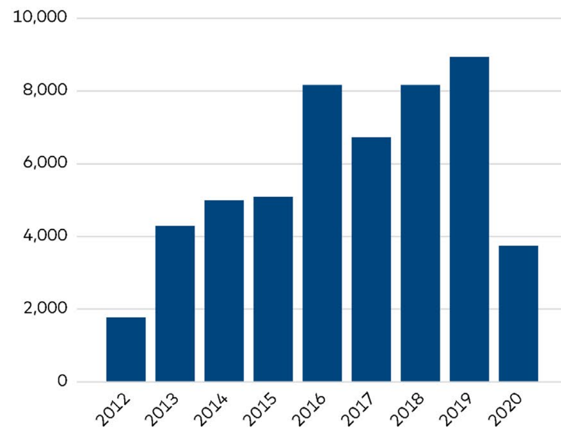
- Developers added 3,746 units to the metro's stock this year through July, pointing to a resilient delivery rate. While the pipeline remained consistent, delays brought by the health crisis, directly or indirectly, are slated to push some projects significantly past their initial deadlines. We expect an additional 1,900 units to come online until the end of 2020, bringing the year's tally to roughly 5,600 units.

- Both recent deliveries and the underway pipeline are heavily geared toward the Lifestyle segment. This does not immediately raise concerns, as demand in the segment is sustained by robust population expansion, mostly consisting of residents relocating from more expensive West Coast markets and Texas. However, if overall fundamentals deteriorate, upscale projects in preleasing would be the first to feel the pinch.

- By midyear, half of the construction pipeline was clustered in just four submarkets: Sky Harbor (4,247 units underway), North Tempe (2,876 units), Gilbert (2,720 units) and the Western Suburbs (1,726 units).

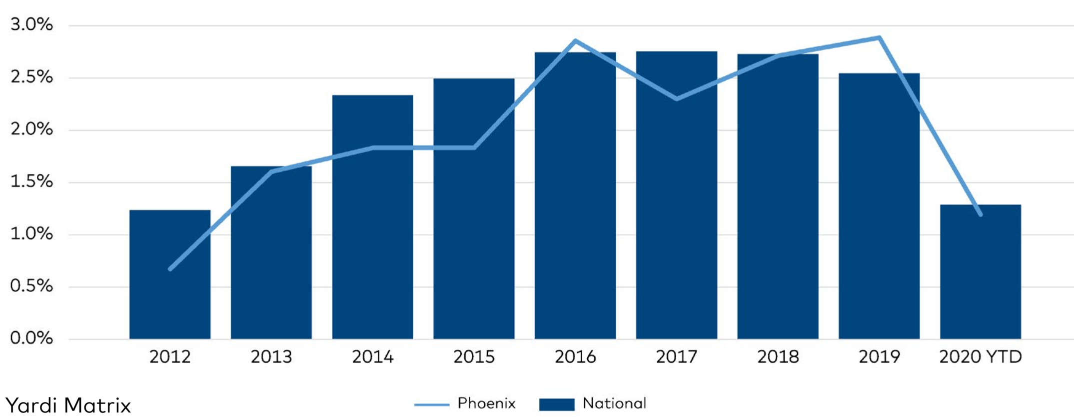
- The largest project completed in the first half of 2020 was Sky at Chandler Airpark in the Gilbert submarket, a 504-unit Lifestyle asset owned by Management Support.

Phoenix Completions (as of July 2020)



Source: Yardi Matrix

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

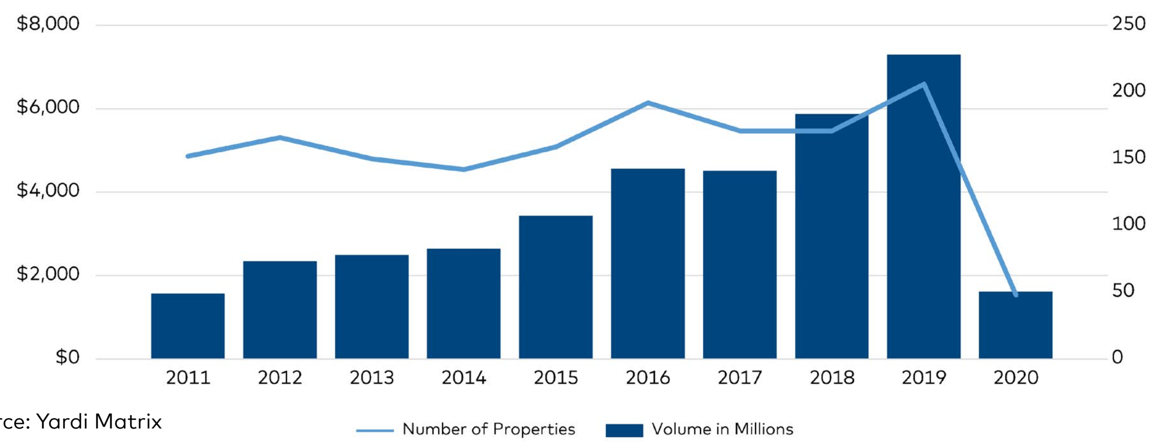


Source: Yardi Matrix

TRANSACTIONS

- Some $1.7 billion in assets traded through July, which was less than half the volume recorded last year during the same time frame. Following a strong 2019, when $7.3 billion in communities traded, investors toned down the flow of capital in Phoenix once the pandemic started.
- Investor interest remained balanced: Of the 51 properties that changed hands year-to-date through July, 23 were in the Lifestyle segment and 28 were Renter-by-Necessity assets. Despite the volume decrease, property values held strong, with the average price per unit inching up 1% to $166,540, and surpassing the U.S. average for the first time this decade. The figure is also nearly four times higher than it was in 2010.
- Logan Capital Advisors' acquisition of the 200-unit Broadstone Osborn for $60 million, or $300,000 per unit, was the metro's highest transaction by per-unit price in 2020. The Uptown asset was sold by Alliance Residential Co.

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



Source: Yardi Matrix

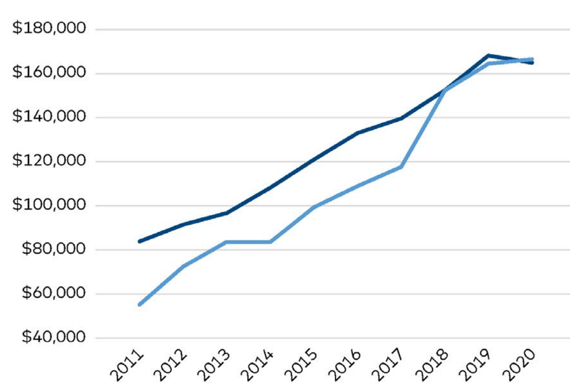
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Western Suburbs	383
Glendale	339
Uptown	337
South Tempe	288
North Tempe	274
Union Hills	261
Chandler	261

Source: Yardi Matrix

[1] From August 2019 to July 2020

Phoenix vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MULTI-HOUSING NEWS

data by Yardi Matrix

Top 10 Multifamily Projects Under Construction in Phoenix

By Corina Stef

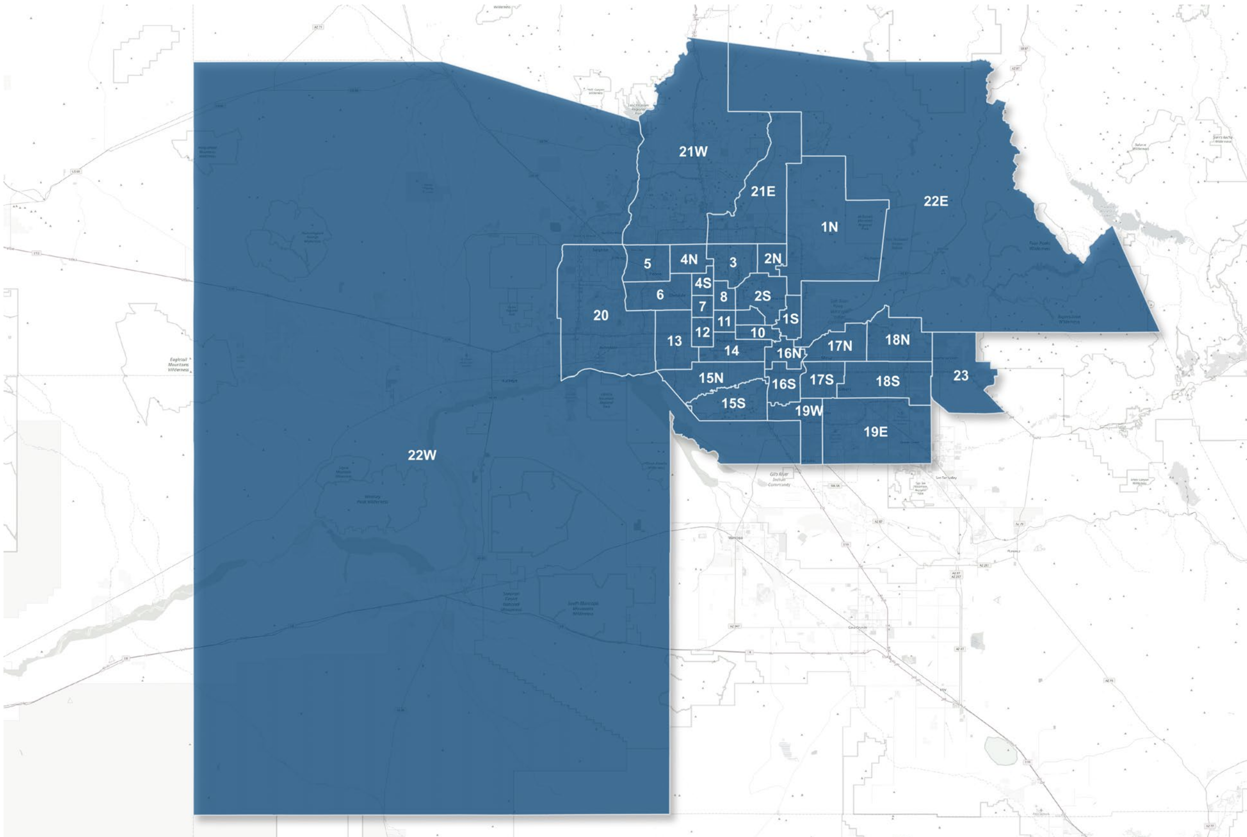
The Phoenix multifamily market continues on solid ground despite the ongoing pandemic-induced economic slowdown. According to Yardi Matrix data, more than 108 multifamily projects totaling nearly 22,000 units were underway in the metro as of July, most of which were in upscale communities. Development activity was concentrated in the Sky Harbor and North Tempe submarkets, where a respective 4,247 and 2,876 units were under construction as of July.

Rank	Property Name	No. of Units	Submarket	Owner
1	The Fillmore	609	Sky Harbor	High Street Residential
2	The Pier	586	North Tempe	Springbrook Development
3	San Artes	552	North Scottsdale	Mark-Taylor
4	Pearl Biltmore	470	East Camelback	Morgan Group
5	The Crossing at Cooley Station	408	Gilbert	Management Support
6	Soltra at SanTan Village	380	Gilbert	Leon Capital Group
7	Adeline	379	Sky Harbor	Hines
8	Aiya	366	Gilbert	The Wolff Co.
9	The McDowell	358	South Scottsdale	JLB Partners
10	Acero Estrella Commons	352	Western Suburbs	IDM Cos.
11	Paradise at P83	352	Sun City–Youngtown–Peoria	The Opus Group

THE FILLMORE

The largest upcoming project on the list is The Fillmore, a 609-unit, partially affordable community developed by High Street Residential, a subsidiary of Trammell Crow Co. The two-phase, $140 million mixed-use project broke ground in February 2020 and is expected to come online in the fall of 2022. Upon completion, it will also feature ground-floor retail and an urban paseo spanning from Fourth Avenue to Sixth Avenue. CHASSE Building Team serves as the general contractor. A $53 million construction financing was provided by Alliance 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
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 July 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 July 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, July 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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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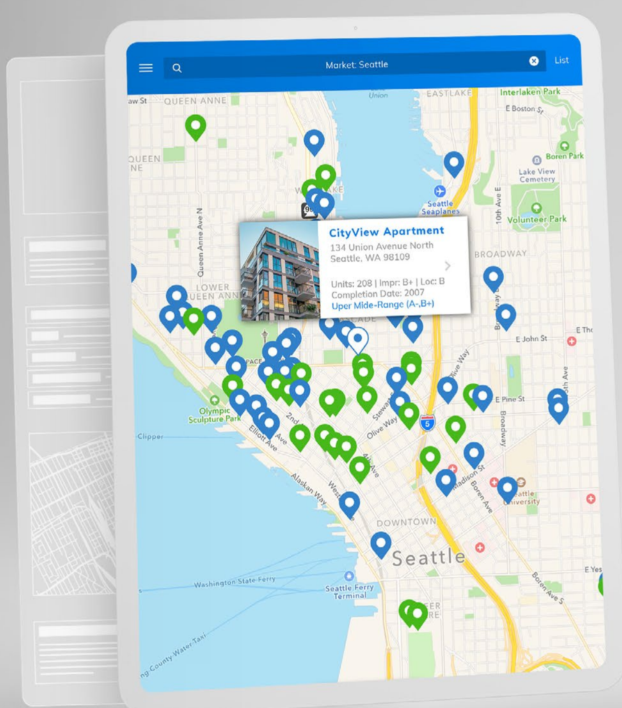

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