



MULTIFAMILY REPORT

No Sunset In The Valley Of The Sun

Winter 2021



Employment Market Outperforms Nation

Lifestyle Units Lead Rent Growth

Surges In Supply, Property Value

PHOENIX MULTIFAMILY



Strong Demographics Support Rental Demand

Phoenix's proximity to denser, more expensive cities had been fueling migration of both residents and businesses during the second part of the last cycle and the pandemic has exacerbated that trend. This has benefited the metro's multifamily market, boosting demand for multifamily units, which pushed the average rent up 0.8% on a trailing three-month basis through November, to \$1,259. Even so, the figure trailed the \$1,465 U.S. average, which was flat for the fourth consecutive month.

Employment growth in the 12 months ending in September marked a 4.2% decline, well above the -9.3% national level. The unemployment rate slid to 6.2% in September, following a spike in the number of virus cases in midsummer. October preliminary data pointed to an increase to 7.5%. Two sectors added jobs in the year ending in September, including the metro's largest—trade, transportation and utilities—which expanded 2.6%. The sector benefited from its ability to adapt to the current situation and from Amazon's planned expansion, which was projected to bring 3,000 new jobs ahead of the holiday season.

Development maintained pace, with 8,218 units delivered in 2020 through November and another 26,483 under construction. Meanwhile, nearly \$4.4 billion in assets traded, for a per-unit price that rose 12.8% year-over-year to \$182,669.

Market Analysis | Winter 2021

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Recent Phoenix Transactions

Onnix



City: Tempe, Ariz.
Buyer: Western Wealth Capital
Purchase Price: \$118 MM
Price per Unit: \$178,300

Cortland Biltmore



City: Phoenix
Buyer: Cortland
Purchase Price: \$117 MM
Price per Unit: \$462,451

Maxwell on 66th



City: Phoenix
Buyer: DWS Group
Purchase Price: \$113 MM
Price per Unit: \$322,350

Arcadia Cove



City: Phoenix
Buyer: Priderock Capital Management
Purchase Price: \$99 MM
Price per Unit: \$228,009

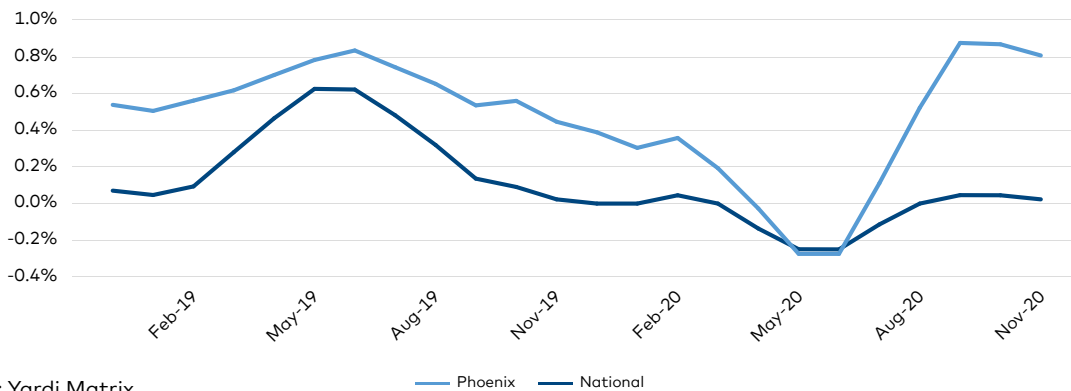
RENT TRENDS

- Phoenix rents rose 0.8% on a trailing three-month (T3) basis through November to \$1,259, while the U.S. figure remained flat at \$1,465 for the fourth consecutive month. The average rent in the metro outperformed the national rate throughout the second half of the last cycle; this performance has continued during the pandemic, as seen by consistent gains and just two months of negative growth.
- Despite recording three consecutive months of depreciation at the start of the health crisis, the Lifestyle segment led rent expansion on a T3 basis through November, rising 1.2% to \$1,464. The evolution of upscale units was bolstered by the high influx of residents relocating from more expensive cities. Meanwhile, rents in the working-

class Renter-by-Necessity segment performed positively and rose 0.3% to \$1,031. The rental market is poised for sustained growth, especially with the recently passed pandemic relief package, which includes \$25 billion for rental assistance and an extension of the federal eviction moratorium for an unspecified amount of time.

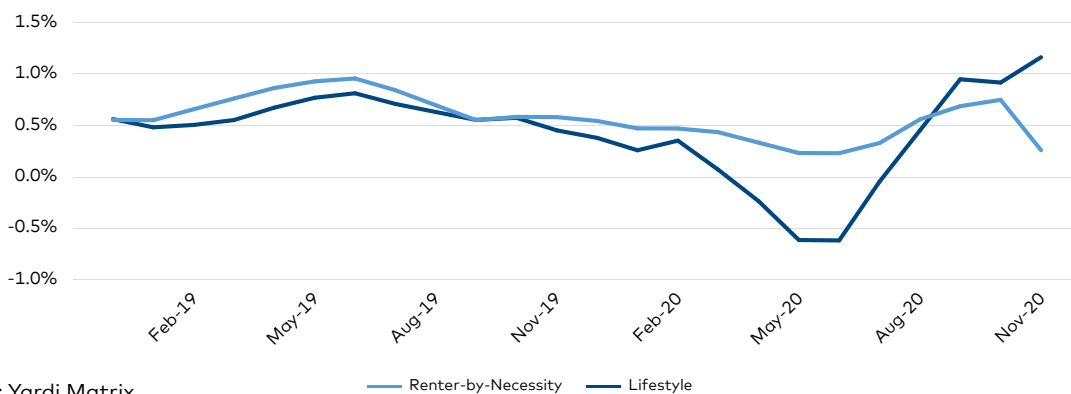
- Rents contracted in just two submarkets—South Paradise Valley (-0.6% to \$1,255) and South Scottsdale (-0.4 to \$1,534). The latter is also one of the most expensive areas in the metro, behind only North Scottsdale (+6.4% to \$1,583) and Sky Harbor (+1.0% to \$1,545). Central West Phoenix was the most affordable submarket but marked one of the best performances in the metro, rising 9.3% to \$849.

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's resilience helped it occupy a high spot among the nation's Top 10 best-performing metros during the health crisis, having lost fewer jobs than most. Unemployment stood at 6.2% in September following a spike in infections that slowed hiring, while preliminary data for October pointed to a new rise to 7.5%.
- ▶ Job development in the 12 months ending in September marked a 4.2% drop but was well ahead of the 9.3% national rate. Three sectors added jobs during the period, including the metro's largest sector—trade, transportation and utilities—which expanded 2.6%. Its second- and third-largest sectors—professional and business services and education and health services—held up well during the same time frame, contracting by just 5.5% and 1.0%, respectively. Amazon continued its local expansion and announced 3,000 new jobs for the holiday season. The heavily affected leisure and hospitality sector shrunk by 18.3%.
- ▶ The metro's performance could be hindered by Proposition 208, which would impose a 3.5% tax surcharge on taxable annual income for persons earning more than \$250,000 and is aimed at increasing funding for public education. The initiative—being contested in court—would put Arizona in the Top 10 states for high income tax, which would increase from 4.5% to 8.0%.

Phoenix Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
40	Trade, Transportation and Utilities	417	19.6%
80	Other Services	72	3.4%
55	Financial Activities	205	9.6%
90	Government	250	11.8%
50	Information	38	1.8%
15	Mining, Logging and Construction	137	6.4%
65	Education and Health Services	339	15.9%
30	Manufacturing	131	6.2%
60	Professional and Business Services	350	16.5%
70	Leisure and Hospitality	187	8.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Phoenix gained 90,241 residents in 2019, up 1.9% and well above the 0.3% national rate. The metro climbed among the Top 10 most populous metros in the U.S.
- ▶ Between 2016 and 2019, the metro's population expanded by 5.8%, or 272,237 residents.

Phoenix vs. National Population

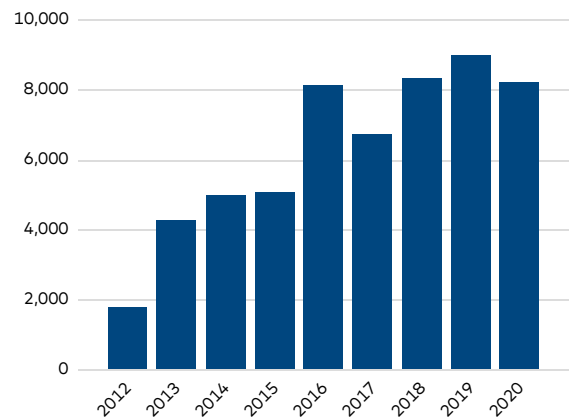
	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Phoenix Metro	4,675,966	4,761,694	4,857,962	4,948,203

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

SUPPLY

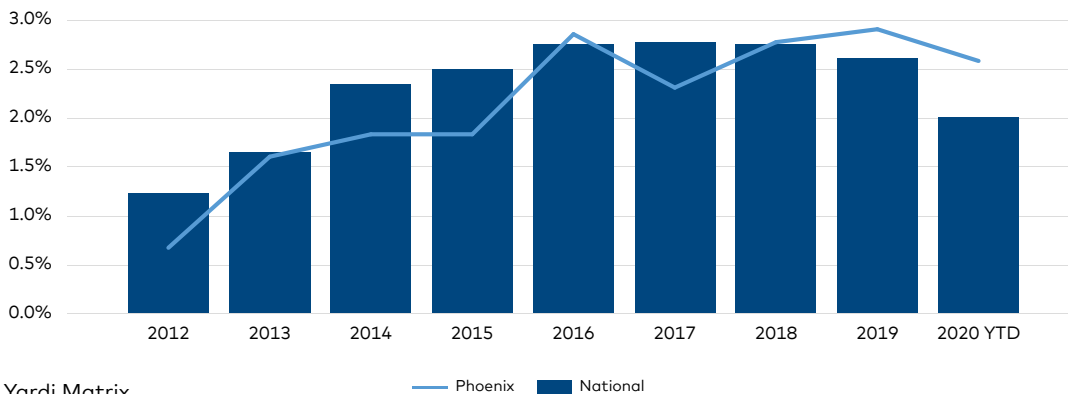
- ▶ In 2020 through November, 8,218 units came online in the metro, equal to 2.6% of total stock and 60 basis points above the national rate, with the bulk geared toward the Lifestyle segment. Development remained intense in Phoenix, despite safety restrictions imposed by the pandemic.
- ▶ Developers had 26,483 units under construction in November and another 47,596 in the planning and permitting stages. Their focus remained on upscale Lifestyle units, to meet demand from residents relocating from denser and more expensive metros. The development pipeline also included 15 fully affordable communities totaling 1,297 units, while this year's deliveries encompassed 343 units in four fully affordable projects.
- ▶ Development was uneven across the map, with the Top 4 submarkets accounting for half of the projects underway. Sky Harbor led construction activity with 4,471 units under construction, followed by Gilbert (2,130 units) and Western Suburbs (3,046 units). These areas were also among the submarkets with the highest average rent in the metro.
- ▶ By November, the largest project under development was Scottsdale Entrada, a 735-unit Lifestyle asset located in an Opportunity Zone in South Scottsdale. Owned by Banyan Residential, the community is slated for completion in 2023 and holds an \$82 million construction loan issued by Bank OZK.

Phoenix Completions (as of November 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

TRANSACTIONS

- ▶ In 2020 through November, nearly \$4.4 billion in multifamily assets traded in the metro—\$2.1 billion less than the amount registered during the same time frame in 2019.
- ▶ Phoenix's resilient economy and robust demographics have maintained strong property values. Although 66 of the 108 properties that changed ownership were Renter-by-Necessity assets, the price per unit rose a solid 12.8% year-over-year through November to \$182,669,

above the \$167,022 U.S. average, which slid 0.8% during the period.

- ▶ One of the most active investors in 2020 through November was Tides Equities. The company spent more than \$360 million on seven assets. Meanwhile, the metro's largest deal was Western Wealth Capital's acquisition of Onnix for which it paid \$117 million to Bridge Investment Group, with aid from a \$79 million loan held by Freddie Mac.

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



Source: Yardi Matrix

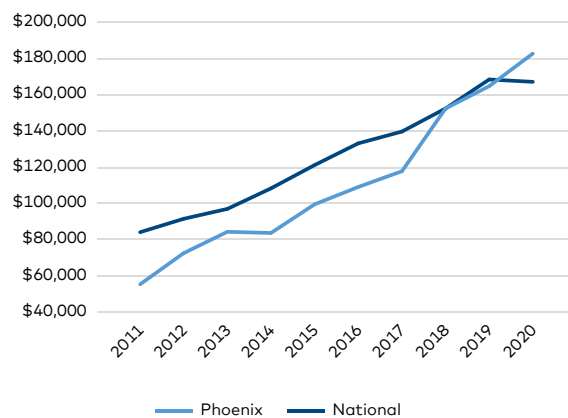
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
South Tempe	536
Chandler	448
North Tempe	412
Union Hills	387
Western Suburbs	387
Glendale	283
Deer Valley	264

Source: Yardi Matrix

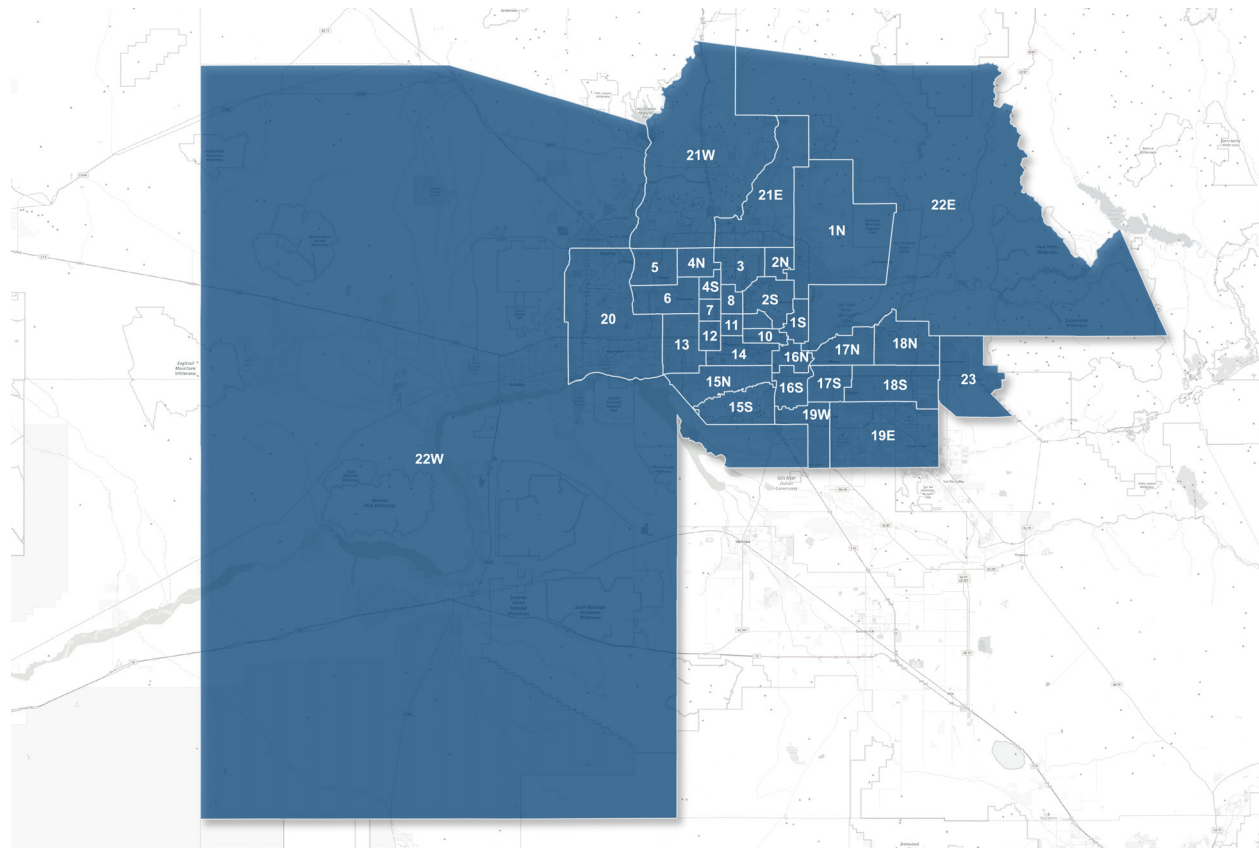
¹ From December 2019 to November 2020

Phoenix vs. National Sales Price per Unit



Source: Yardi Matrix

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 November 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 November 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, November 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.

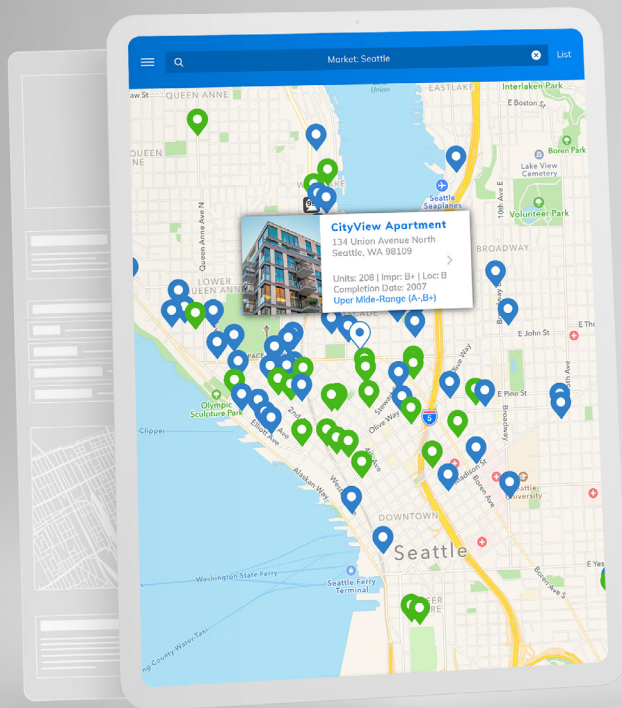
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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