

# Phoenix: Riding The Updraft

Summer 2021

**Employment Market Outperforms Nation**

**Construction, Transactions Remain Elevated**

**Healthy Demand Keeps Rent Growth on US Podium**

# PHOENIX MULTIFAMILY



## Strong Demand Outpaces Consistent Supply

Some of Phoenix's strong points—including lower population density and an income tax rate that's roughly three times lower than California's—continued to encourage relocations to the area, with the pandemic fueling an existing trend. This has helped the metro's multifamily market remain a top national performer. The average rent increased by 0.9% on a trailing three-month basis through April to \$1,316, while the U.S. rate rose 0.5% to \$1,417. Year-over-year through April, the average rate grew by 8.1%. Meanwhile, the national figure was up just 1.6%.

Phoenix's unemployment rate slid to 6.7% in February and preliminary data for March pointed to 6.1%. The employment market posted a 3.7% contraction in the 12 months ending in February, outperforming the -7.2% national rate. The metro's largest sector—trade, transportation and utilities—was the only one that gained jobs during the period, expanding by 2.7%. Amazon's substantial expansion sustained job growth, and its plans for 2021 will likely help maintain the trend.

Last year's elevated transaction activity and stock expansion made 2020 the metro's second-best year this past decade. The trend continued in 2021: Through April, multifamily sales surpassed \$2.3 billion, while developers delivered 3,214 units and had an additional 28,804 under construction.

## Market Analysis | Summer 2021

### Contacts

#### Jeff Adler

Vice President & General Manager of Yardi Matrix  
[Jeff.Adler@Yardi.com](mailto:Jeff.Adler@Yardi.com)  
(303) 615-3676

#### Jack Kern

Director of Research and Publications  
[Jack.Kern@Yardi.com](mailto:Jack.Kern@Yardi.com)  
(800) 866-1124 x2444

#### Ron Brock, Jr.

Industry Principal, Matrix  
[JR.Brock@Yardi.com](mailto:JR.Brock@Yardi.com)  
(480) 663-1149 x2404

#### Author

#### Anca Gagiuc

Senior Associate Editor

On the cover: Photo by 4kodiak/iStockphoto.com

### Recent Phoenix Transactions

#### Heritage at Deer Valley



City: Phoenix  
Buyer: Millburn & Co.  
Purchase Price: \$179 MM  
Price per Unit: \$214,543

#### Ten01 on the Lake



City: Tempe, Ariz.  
Buyer: Oxford Properties Group  
Purchase Price: \$146 MM  
Price per Unit: \$279,158

#### Andante



City: Phoenix  
Buyer: MG Properties Group  
Purchase Price: \$145 MM  
Price per Unit: \$252,170

#### Almeria at Ocotillo

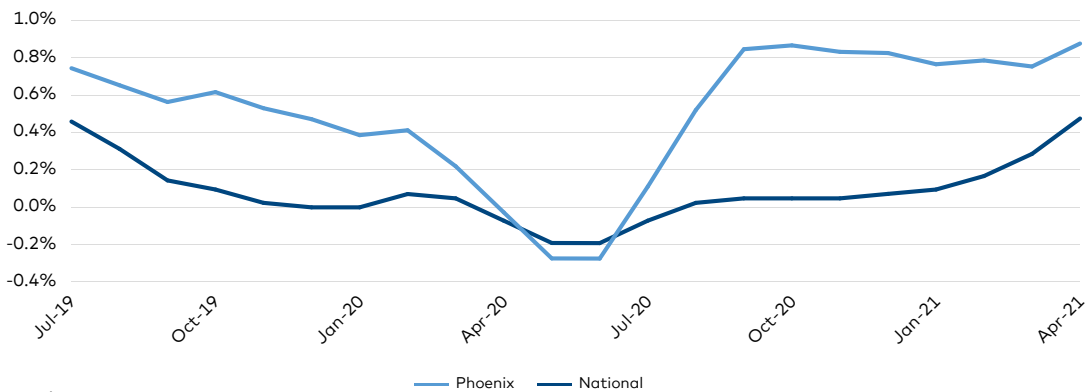


City: Chandler, Ariz.  
Buyer: Sentinel Real Estate  
Purchase Price: \$129 MM  
Price per Unit: \$332,262

## RENT TRENDS

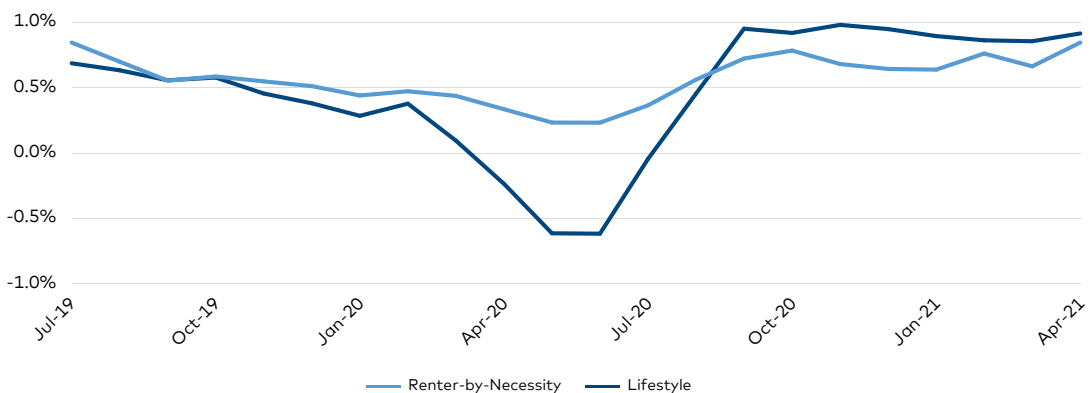
- Phoenix rents appreciated by 0.9% on a trailing three-month (T3) basis through April to \$1,316, outperforming the U.S. rate by 40 basis points, further reducing the gap from the \$1,417 national average. On a year-over-year basis, Phoenix rents were up 8.1%, ranking third among major U.S. markets, behind only the Inland Empire (9.4%) and Sacramento (8.4%).
- Rents in the Lifestyle segment led growth, up 0.9% on a T3 basis through April to \$1,522, but working-class Renter-by-Necessity rates followed closely, rising 0.8% to \$1,085. Demand remains strong for upscale units, reflected in the occupancy rate in stabilized properties, which climbed 110 basis points to 96.0% in the 12 months ending in March. RBN occupancy remained flat during the period, at 95.5%. Overall, Phoenix's occupancy rate increased by 60 basis points, to 95.8%.
- Of all Phoenix submarkets, only two posted rents below the \$1,000 mark as of April—Central West Phoenix (up 7.8% year-over-year to \$888) and neighboring Northwest Phoenix (6.3% to \$915). The average rent in the metro's most-expensive submarkets continued to hike, including North Scottsdale (10.3% to \$1,664) and Sky Harbor (7.2% to \$1,616).
- The best-performing submarkets during the 12 months ending in April were the Western Suburbs (14.3% to \$1,387) and Deer Valley (13.3% to \$1,410).

### 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 unemployment stood at 6.7% in February, with preliminary data for March pointing to a 60-basis-point improvement, according to the Bureau of Labor Statistics. The March rate was just 10 basis points above the U.S. average.
- Phoenix employment showed resilience during pandemic-induced turbulence, marking a relatively low 3.7% drop in the 12 months ending in February and outperforming the -7.2% U.S. rate. The metro's largest sector—trade, transportation and utilities—gained jobs during the period, marking a 2.7% expansion. Amazon was one of the main drivers, having added 11 new sites across Phoenix, which created more than 3,000 jobs. The company's plans for 2021 include more expansions, set to generate another 1,000 jobs, in addition to the expansion of the Phoenix Tech Hub, which will require 500 employees.
- Manufacturing shrunk just 0.6% during the 12 months ending in February, and signs of recovery are on the horizon. Lucid Motors finalized construction of its first electric vehicle factory, while recent multibillion-dollar plans from TSMC and Intel are expected to create approximately 5,000 direct, high-wage jobs. These ventures are also projected to generate thousands of indirect positions for suppliers and other firms in the semiconductor industry.

### Phoenix Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
40	Trade, Transportation and Utilities	428	19.9%
30	Manufacturing	135	6.3%
50	Information	39	1.8%
55	Financial Activities	203	9.4%
80	Other Services	67	3.1%
65	Education and Health Services	346	16.1%
15	Mining, Logging and Construction	133	6.2%
60	Professional and Business Services	362	16.8%
90	Government	243	11.3%
70	Leisure and Hospitality	198	9.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- Phoenix gained 90,241 residents in 2019, up 1.9%, well above the 0.3% U.S. rate and ranking among the country's fastest-growing MSAs.
- The pandemic accelerated in-migration, with Arizona ranking fifth in the nation for one-way truck rental destinations in 2020, according to U-Haul.

### 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

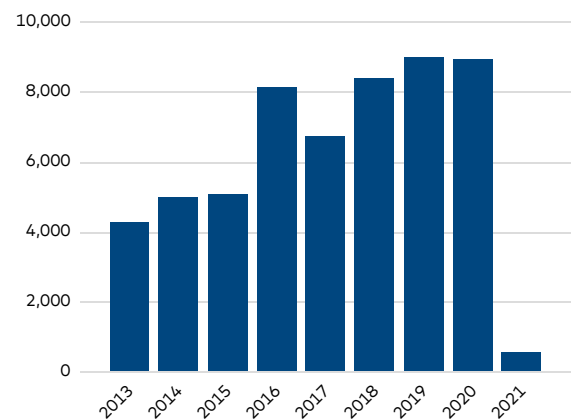
## SUPPLY

- ▶ Developers had 28,804 units under construction as of April and another 45,536 in the planning and permitting stages. The development pipeline included more than 1,300 units in fully affordable communities.
- ▶ This year through April, 3,214 units came on-line in Phoenix. This came on the heels of last year's 8,951 units, a figure that made 2020 the second-best year of the decade. Last year's deliveries tilted heavily toward the Lifestyle segment, as the robust in-migration from denser and more expensive markets kept up-scale units in high demand. In addition, 421 units in five fully affordable communities were added to the metro's housing stock.
- ▶ Continuing last year's trend, the bulk of the projects delivered in 2021 through April catered to the Lifestyle renter. Deliveries targeting the Renter-by-Necessity segment included 217 units in the affordable class.
- ▶ Development remained spotty across the map, with the top five submarkets accounting for more than half of projects underway. Sky Harbor remained in the lead with 4,236 units

under construction, followed by Gilbert (3,773 units) and the Western Suburbs (3,010 units).

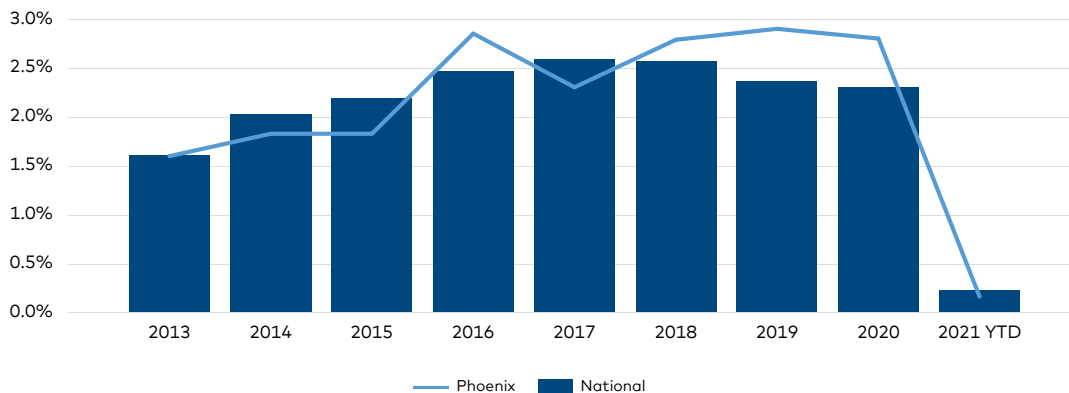
- ▶ The largest delivery of 2021 through April was San Villante, a 348-unit Lifestyle property in Mesa, built by Mark Taylor with aid from a nearly \$48 million construction loan issued by U.S. Bank.

**Phoenix Completions** (as of April 2021)



Source: Yardi Matrix

**Phoenix vs. National Completions as a Percentage of Total Stock** (as of April 2021)

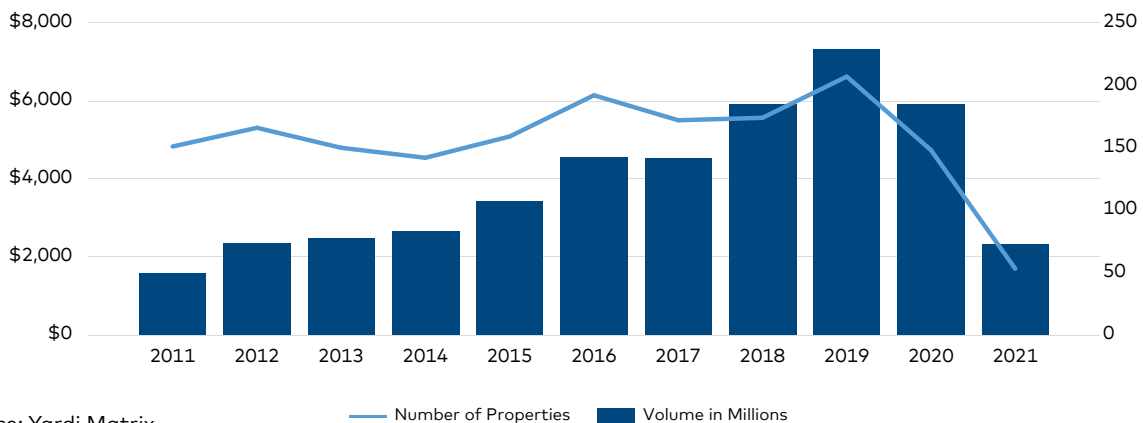


Source: Yardi Matrix

## TRANSACTIONS

- ▶ In 2021 through April, more than \$2.3 billion in multifamily assets traded in Phoenix, outperforming the \$1.4 billion volume registered during the same period in 2020.
- ▶ Phoenix's allure has been increasing over the past few years, attracting investment even in pandemic times—2020 marked the second-best year of the decade, with a sales volume in excess of \$5.9 billion. The price per unit responded to the sustained demand, and, even though two-thirds of the assets that changed hands were RBN properties, the per-unit price rose by 17.6% year-over-year, to \$211,594. Since 2011, the average price per unit has appreciated by 282%.
- ▶ The largest deal in 2021 through April was the sale of the 832-unit Heritage at Deer Valley. The Lifestyle property was sold by Priderock Capital Partners and acquired by Millburn & Co. for \$179 million, or \$214,543 per unit, with aid from an \$88 million loan from KeyBank.

### Phoenix Sales Volume and Number of Properties Sold (as of April 2021)



Source: Yardi Matrix

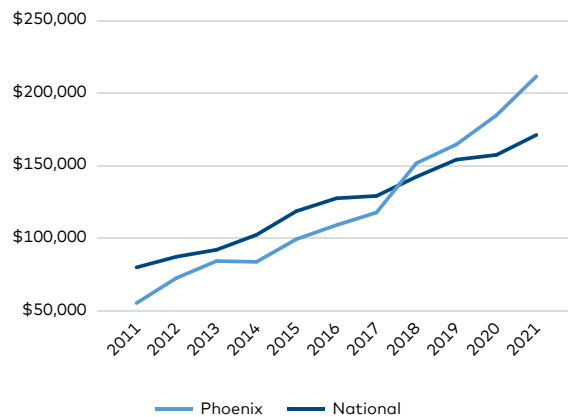
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
North Tempe	876
Chandler	617
Union Hills	509
South Tempe	460
Deer Valley	429
South Mesa	399
North Mesa	304

Source: Yardi Matrix

<sup>1</sup> From May 2020 to April 2021

### Phoenix vs. National Sales Price per Unit



Source: Yardi Matrix

## Top 5 Western Markets for Multifamily Transactions

By Jeff Hamann

Multifamily investment stayed moderate into the new year. According to Yardi Matrix data, in the first two months of 2021, transaction volume nationwide hit \$16.9 billion. While a far cry from the \$38.6 billion in deals closed in the fourth quarter of last year, investors are continuing to seek out deals even amid ongoing economic uncertainty.

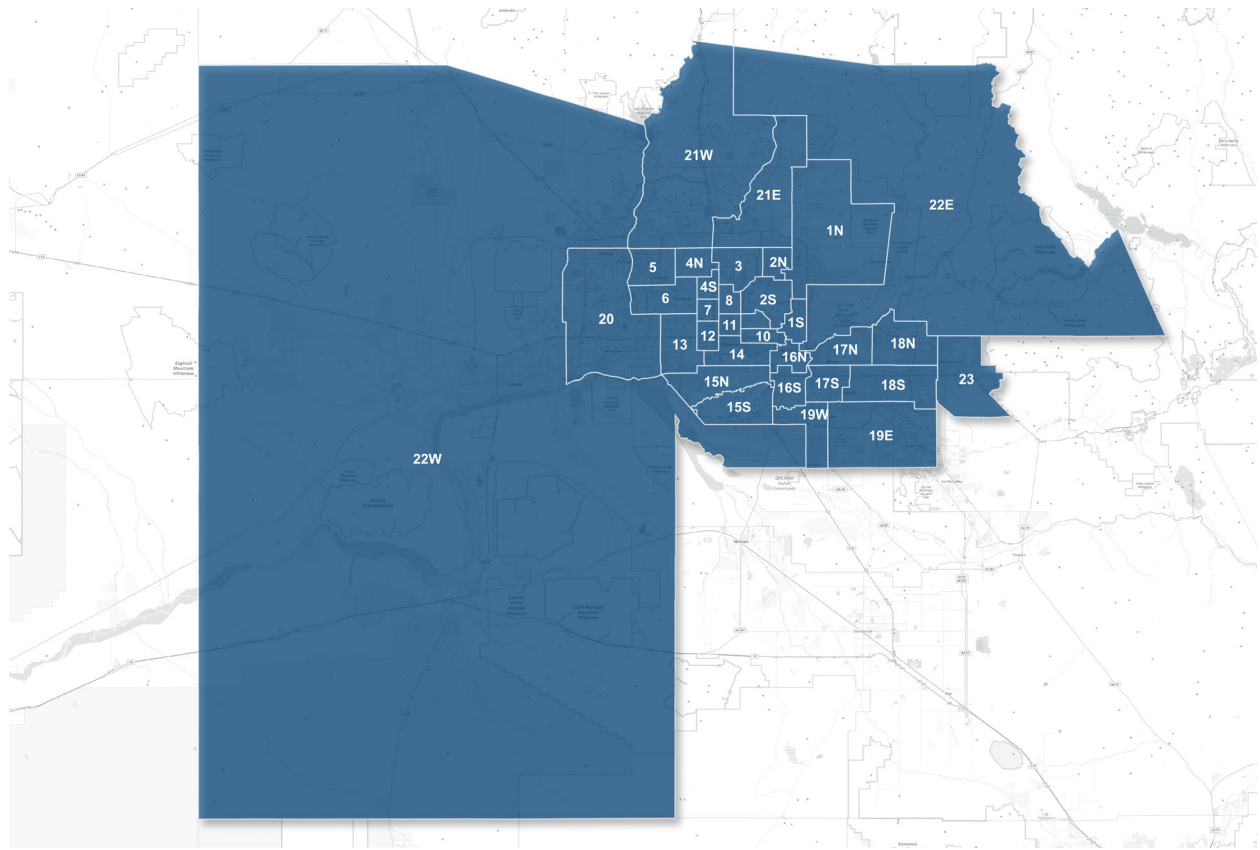
Rank	Market	Units	Transaction Volume (\$MM)	Price Per Unit
1	Phoenix	6,433	\$1,436.07	\$223,235
2	Denver	1,861	\$517.10	\$277,859
3	Tucson, Ariz.	1,045	\$131.95	\$126,268
4	Las Vegas	636	\$77.65	\$122,091
5	Albuquerque, N.M.	855	\$53.85	\$62,986

### PHOENIX

The top metro on our list, Phoenix logged more than \$1.4 billion in multifamily deals in the first two months of the year, a 66 percent increase compared to the \$864 million transacted during the same period last year. The market has also set itself apart nationally in other respects, with annual rent growth hitting 6 percent through February, bolstered by strong population growth and corporate migrations.



# 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 December 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 December 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, December 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.

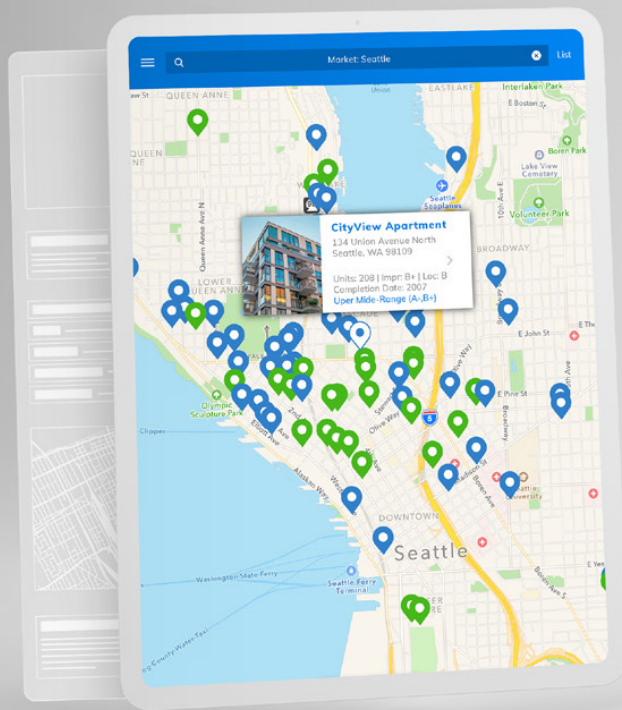
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit [www.yardimatrix.com](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.



# Yardi<sup>®</sup> Matrix

Power your business with the industry's leading source for originating, pre-underwriting and managing assets for profitable loans and investments.



Yardi Matrix Multifamily provides accurate data on 19+ million units, covering over 90% of the U.S. population.

## Key features

- Pierce the LLC every time with true ownership and contact info
- Leverage patented improvement and location ratings, unit mix, rental, occupancy and current manager information
- Gain complete new supply pipeline information at the asset, competitive set and market level
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access exclusive aggregated and anonymized residential revenue and expense comps

See how we can help you achieve your investment goals.  
Request a personalized demo at [yardimatrix.com/contact-us](https://yardimatrix.com/contact-us)

(800) 866-1144 | [yardimatrix.com/multifamily](https://yardimatrix.com/multifamily)

© 2021 Yardi Systems, Inc. All Rights Reserved. Yardi, the Yardi logo, and all Yardi product names are trademarks of Yardi Systems, Inc.



#### DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

#### COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2021 Yardi Systems, Inc. All Rights Reserved.