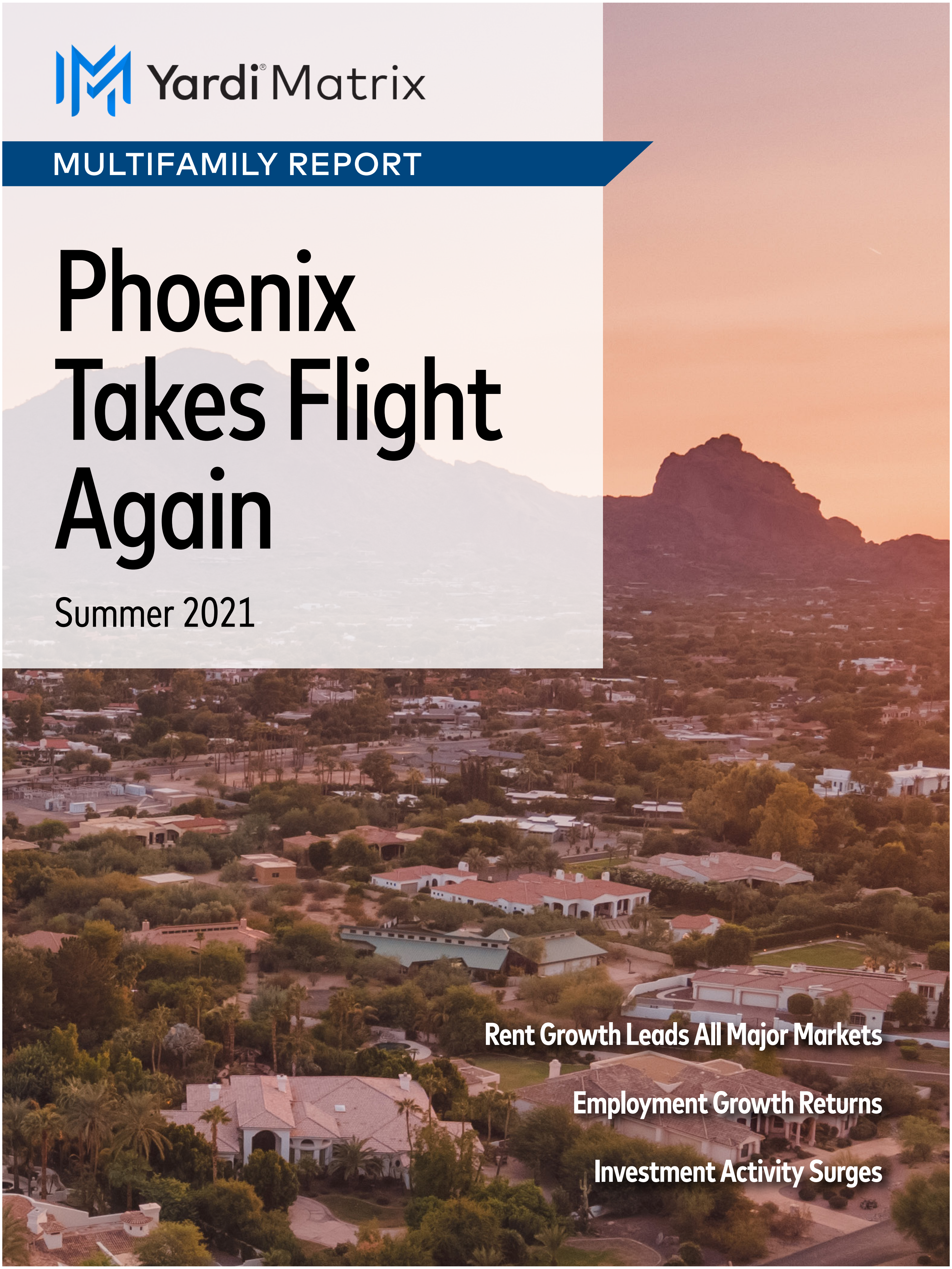


Yardi Matrix

MULTIFAMILY REPORT

Phoenix Takes Flight Again

Summer 2021

Rent Growth Leads All Major Markets

Employment Growth Returns

Investment Activity Surges

PHOENIX MULTIFAMILY

Yardi Matrix

Demand Pushes Metro To New Highs

Phoenix's multifamily market remained among the strongest in the country, driven by a diverse economy that continued to exert magnetism even in harsh times. This has led to robust population growth putting pressure on rents, which climbed 2.3% on a trailing three-month basis through July, to $1,453, and a whopping 18.9% on a year-over-year basis, placing Phoenix in the lead among major metros. The Lifestyle segment led rent gains, occupancy and inventory expansion.

The unemployment rate stood at 6.6% in June, trailing the 5.9% U.S. average. Still, employment has left the negative territory, as the metro added 132,900 jobs, up 0.1% in the 12 months ending in May, while the national rate was -1.9%. All but two sectors gained jobs, led by trade, transportation and utilities (40,300 jobs) and education and health care (23,700). Manufacturing has a promising future: TSMC broke ground on its multibillion-dollar factory and has plans to build six more over the next three years; KORE Power wants to build a facility that will create more than 3,000 jobs. Both projects have completions slated for 2023.

Multifamily sales totaled $5.6 billion in 2021 through July, placing Phoenix in the top spot for investment among major metros. Meanwhile, developers delivered 5,453 units and had another 33,985 under construction.

Market Analysis | Summer 2021

Contacts

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

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

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Author

Anca Gagiuc
Senior Associate Editor

On the cover: Photo by BCFC/iStockphoto.com

Recent Phoenix Transactions

The District at Scottsdale

City: Scottsdale, Ariz.
Buyer: KKR
Purchase Price: $151 MM
Price per Unit: $453,313

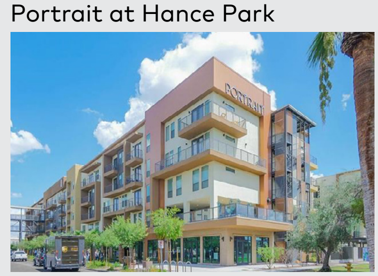
The Laurel

City: Chandler, Ariz.
Buyer: Sunroad Enterprises
Purchase Price: $125 MM
Price per Unit: $326,371

The Nines at Kierland

City: Scottsdale, Ariz.
Buyer: Sunroad Enterprises
Purchase Price: $109 MM
Price per Unit: $393,116

Portrait at Hance Park



City: Phoenix
Buyer: Knightvest Capital
Purchase Price: $100 MM
Price per Unit: $292,647

RENT TRENDS

- Phoenix rents posted exceptional performance, up 2.3% on a trailing three-month (T3) basis through July, to $1,453, narrowing the gap to the national average, which rose 1.6% to $1,510 during the same interval. On a year-over-year basis, rents in Arizona's capital marked an 18.9% climb, leading all major U.S. markets.

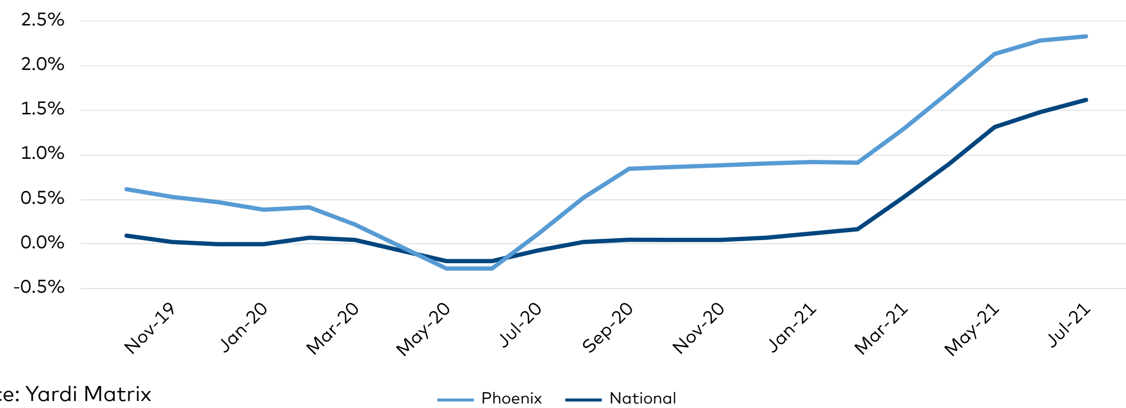
- The Lifestyle segment led growth, with the average rent improving by 2.6% on a T3 basis through July, to $1,698, while Renter-by-Necessity rents rose 1.9%, to $1,175.

- The dynamic is mirrored by the occupancy rate in stabilized properties: The Lifestyle segment led growth, with a 160-basis-point increase, to 96.5%, in the 12 months ending in June. Occupancy in the RBN segment rose 110 basis points, and overall, the occupancy rate increased 110 basis points.

- Rent development was widespread across the metro, with just two submarkets with an average rent below the $1,000 mark: Central West Phoenix (10.8% to $936) and Northwest Phoenix (11.1% to $973). All but one submarket recorded double-digit gains on a year-over-year basis, led by Chandler (25.4% to $1,655). The most sought-after areas in the metro were North Scottsdale (23.9% to $1,838), South Scottsdale (18.2% to $1,768) and Sky Harbor (14.9% to $1,756).

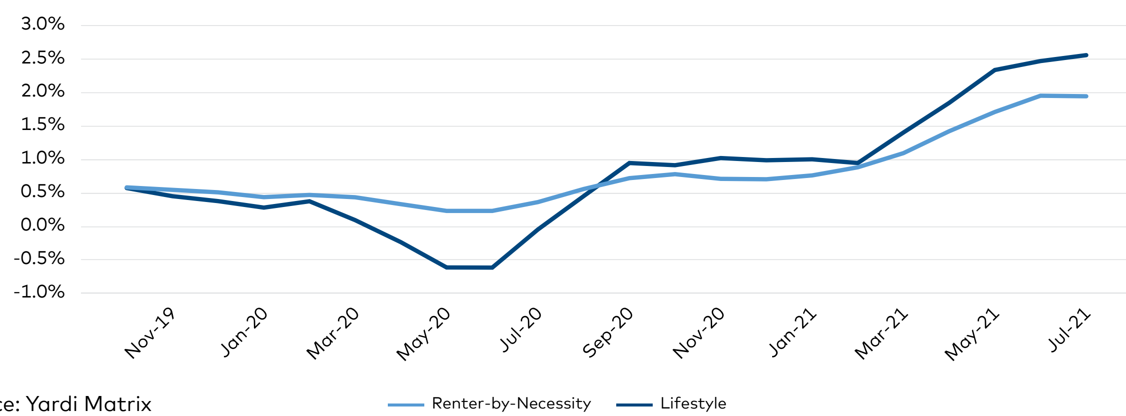
- Accounting for all market dynamics, Yardi Matrix expects rents to rise 15.7% in 2021.

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 unemployment rate was 6.6% in June, an uptick from 6.2% in the previous month, while the U.S. rate stood at 5.9%. The employment market, on the other hand, led the nation. Even though growth was minimal—up 0.1%, or 132,900 jobs, year-over-year as of May—it left negative territory, faring much better than the -1.9% U.S. rate.
- Only government (-1.3%) and construction (-0.1%) lost jobs during the interval. Mirroring the U.S. trend, leisure and hospitality entered recovery mode, regaining 44,500 jobs (26.9%). Next in line were Phoenix's largest sectors—trade, transportation and utilities (40,300 jobs, or 10.4%) and health care (23,700 jobs, or 7.3%). Phoenix Children's Hospital announced investments of nearly $200 million across the West Valley region, which will create 650 jobs.
- The metro's strength stems from a solid talent pool, business-friendly climate and land availability. Consequently, TSMC started construction on its multibillion-dollar factory—slated to begin commercial operation in 2024—and plans to build six more factories over the next three years. KORE Power will break ground on a battery manufacturing facility, which will be finalized in 2023 and will create more than 3,000 jobs.

Phoenix Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	210	9.7%
40	Trade, Transportation and Utilities	429	19.8%
65	Education and Health Services	348	16.0%
60	Professional and Business Services	364	16.8%
80	Other Services	66	3.0%
30	Manufacturing	136	6.3%
55	Financial Activities	205	9.4%
50	Information	37	1.7%
15	Mining, Logging and Construction	137	6.3%
90	Government	240	11.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Phoenix gained 111,706 residents in 2020, for a 2.3% uptick, well above the 0.4% U.S. rate. The metro is now the fifth-biggest city in the U.S. The increase has been fueled by immigration, retirees, the arrival of tech firms, and middle-class residents moving from more expensive markets.

Phoenix vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Phoenix Metro	4,761,694	4,857,962	4,948,203	5,059,909

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

SUPPLY

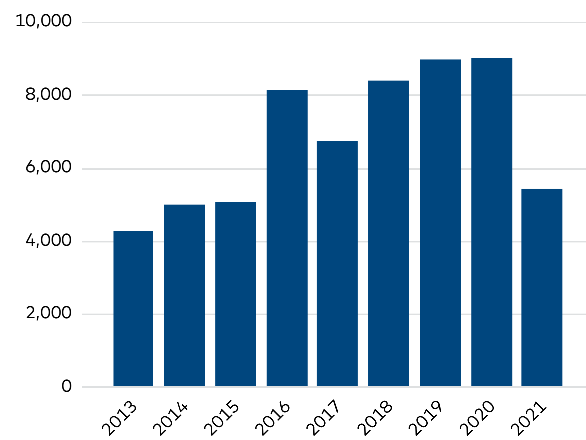
- The robust in-migration from denser and more expensive metros continued, and developers had 33,985 units under construction as of July and another 49,000 units in the planning and permitting stages. The construction pipeline is aimed mostly at the Lifestyle segment, with just 1,893 units in RBN assets. The working-class construction pipeline also contains 1,212 units in 12 fully affordable projects. Eleven of these fully affordable communities, or 975 units, are also located in core submarkets.

- This year through July, 5,453 units came online in Phoenix, 1.7% of total stock and 70 basis points above the national average. The bulk of deliveries comprises Lifestyle units because pressing demand for multifamily units encouraged developers to mainly build for the high-income renter. The Renter-by-Necessity segment expanded by just 686 units, 369 of which are in five affordable communities located within a 10-mile radius from downtown Phoenix.

- Development remained uneven across the map, but was most intense in three submarkets: Western Suburbs (4,685 units), Gilbert (4,506 units) and Sky Harbor (4,244 units).

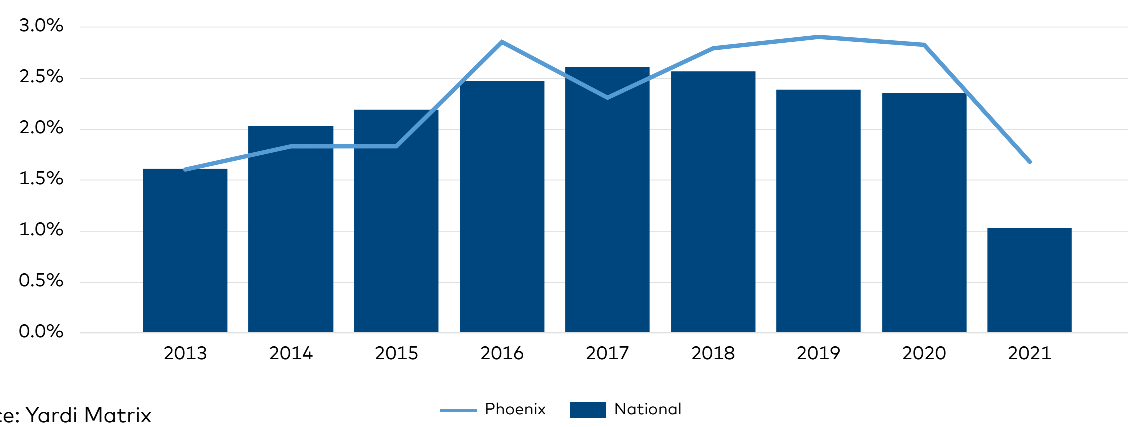
- The largest project underway is Scottsdale Entrada, a Banyan Residential asset, developed with aid from an $82 million construction loan originated by Bank OZK. The 735-unit Lifestyle property is located in South Scottsdale and slated for completion in late 2023.

Phoenix Completions (as of July 2021)



Source: Yardi Matrix

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

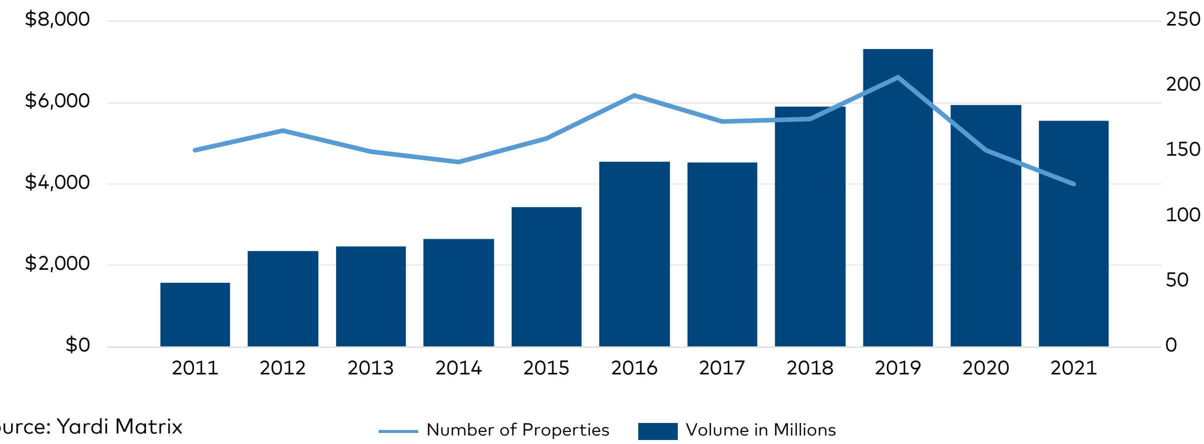


Source: Yardi Matrix

TRANSACTIONS

- Phoenix led the country in investment volume, with $5.6 billion in multifamily assets trading this year through July. Considering that during last year's final five months, investment surpassed $4.8 billion, 2021 looks on track to becoming the best year of the decade in multifamily transactions.
- The metro's affordability status is in jeopardy—even though two-thirds of the properties that changed ownership were Renter-by-Necessity projects, strong demand has pushed the price per unit up by 30.0% year-over-year, to $222,798, well above the $174,922 figure of 2020.
- North Tempe sales crossed $1 billion in the 12 months ending in July, followed by Chandler ($798 million). The largest deal was F&B Capital's sale of The District at Scottsdale. KKR paid $151 million, or 453,313 per unit for the asset.

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



Source: Yardi Matrix

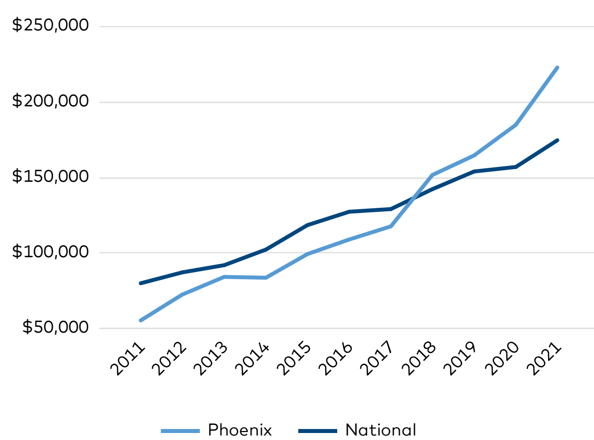
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
North Tempe	1,000
Chandler	798
Union Hills	686
Deer Valley	605
South Mesa	516
Maryvale	508
Glendale	491

Source: Yardi Matrix

[1] From August 2020 to July 2021

Phoenix vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MULTI-HOUSING NEWS

data by Yardi Matrix

Top Western Markets for Rent Growth

By Beata Lorincz

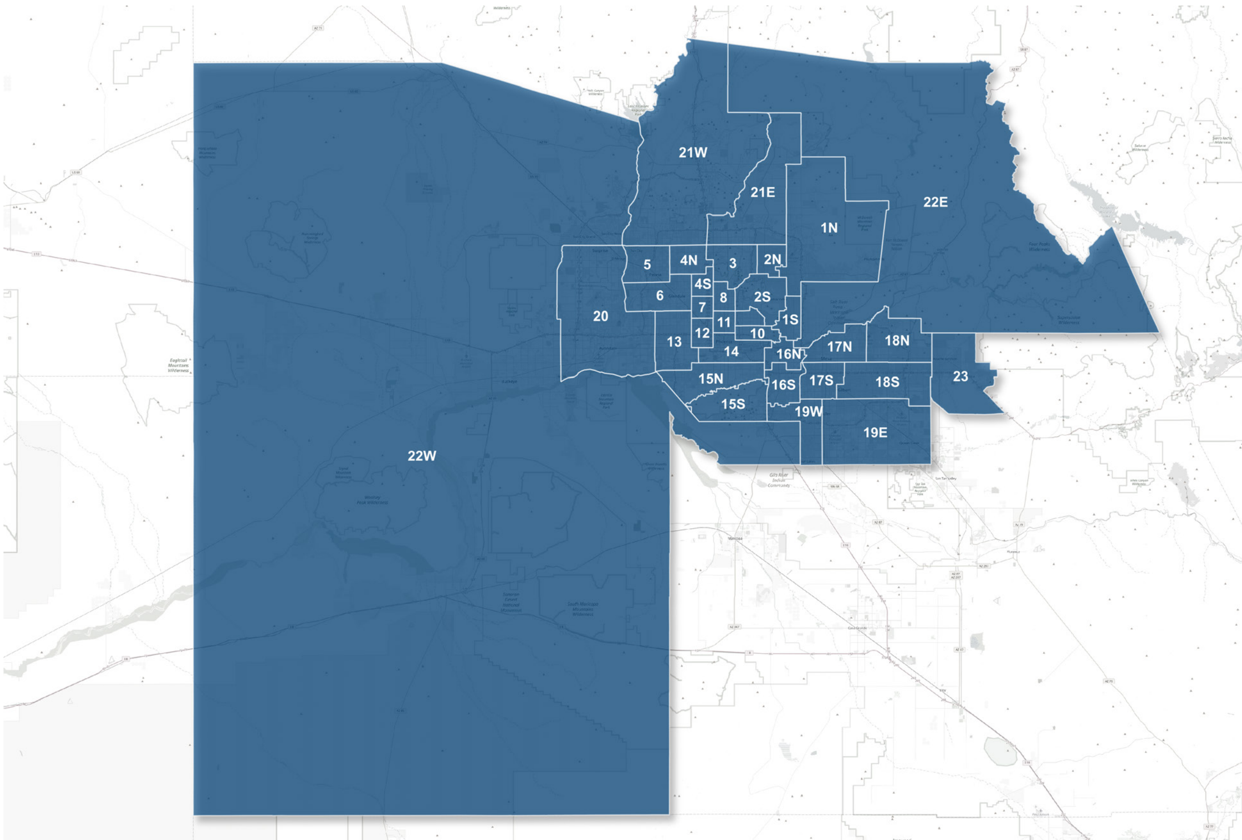
The multifamily sector is reaching record levels of rent growth across the country. Asking rents were up 6.3 percent year-over-year through June and registered a $62—or 4.4%—increase in the second quarter of the year, according to Yardi Matrix data. In June alone, national rents expanded by a whopping $23, ballooning to an average of $1,482. The list below highlights the top Western markets which registered the highest rent growth year-over-year through June, based on Yardi Matrix data.

Market	YoY Rent Change – June 2021	Occupancy Rate	Units Under Construction
Boise	20.67%	98.11%	3,308
Phoenix	17.00%	96.40%	33,554
Las Vegas	14.62%	96.42%	5,834
Tucson	14.38%	96.61%	1,765
Colorado Springs	14.34%	96.58%	3,593
Reno	14.25%	96.80%	4,169
Albuquerque	13.57%	96.77%	1,461
Salt Lake City	10.52%	96.88%	13,160
Denver	8.11%	95.05%	21,581

PHOENIX

The metro has continued to inspire relocations, as the pandemic secured Phoenix's status as the most popular destination for migration out of California's gateway markets. The Phoenix-Mesa-Chandler metro area saw a 2.1 percent population gain in 2020. The influx of new residents came mostly from higher-cost locations, driving longtime residents to downsize their living arrangements. The unemployment rate stood at 6.2 percent in May, down 40 basis points since January and exceeding the national average of 5.8 percent.

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

OTHER PROPERTY SECTORS

Office

- Phoenix's office pipeline posted a slow but steady development trend, with 1.7 million square feet underway as of June, 1.3% of existing stock, according to CommercialEdge data. Factoring in planned projects, the rate matches the 5.9% national figure. The construction pipeline comprised both traditional and medical office projects but was heavily tilted toward the traditional segment with 1.3 million square feet of space underway.

- The metro's office transaction activity also posted a steady rebound in June, with more than 900,000 square feet changing hands for $145 million. The volume represents a 338% uptick in square footage month-over-month, and a 135% increase in value compared to June 2020, when some 396,000 square feet sold for nearly $122 million. During the first half of 2021, office sales in Phoenix amounted to $678 million for about 4.2 million square feet. This performance marks a 37% increase from the same period in 2020.

- The largest transaction in the metro in 2021 through June was BPM Real Estate Group's purchase of PetSmart's corporate headquarters in March. CIM Group sold the 365,672-square-foot campus for $110 million, with 3650 REIT providing a 10-year, $68 million acquisition loan scheduled to mature in 2028.

Industrial

- With e-commerce enjoying a solid rise during the health crisis, the industrial sector saw remarkable performance too and inland markets in particular benefitted from this expansion. Phoenix boasts the main features attractive to industrial investors: plenty of available land at affordable costs relative to coastal regions. Consequently, Phoenix led all major markets in development on a percentage of stock basis: Of the 447 million square feet of space that make the national construction pipeline, nearly 9.0%, or 23.2 million square feet, were underway in the metro. An additional 32.9 million square feet were in the planning stages at the end of June, pushing Phoenix's pipeline to just under 21.0% of stock.

- Major projects announced in the metro include TSMC's $12 billion and Intel Corp.'s $20 billion chip-making plants, and KORE Power Inc.'s lithium-ion battery cell manufacturing facility. Cresset Real Estate Partners and Clarius Partners have also planned to break ground in October on a 1.8 million-square-foot logistics development slated for completion in 2023.

Self Storage

- Population expansion and corporate relocations positively impacted the self storage sector, too. Asking rates reached record-high growth in May, averaging $114 for the 10×10 non-climate-controlled units and $139 for the same-sized climate-controlled units. Phoenix also registered an uptick in development activity, with projects under construction or in the planning stages accounting for 11.8 percent of total stock, up 80 basis points since April.

- During the first half of 2021, nearly $202 million in self storage assets traded in Phoenix, nearly four times the $53 million recorded during the same period last year and above the $138 million closed throughout the entire 2020. The property value has also increased from $103.9 per square foot in 2020 to $151.2 in 2021.

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 or call Ron Brock, Jr., at 480-663-1149 x2404.

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.