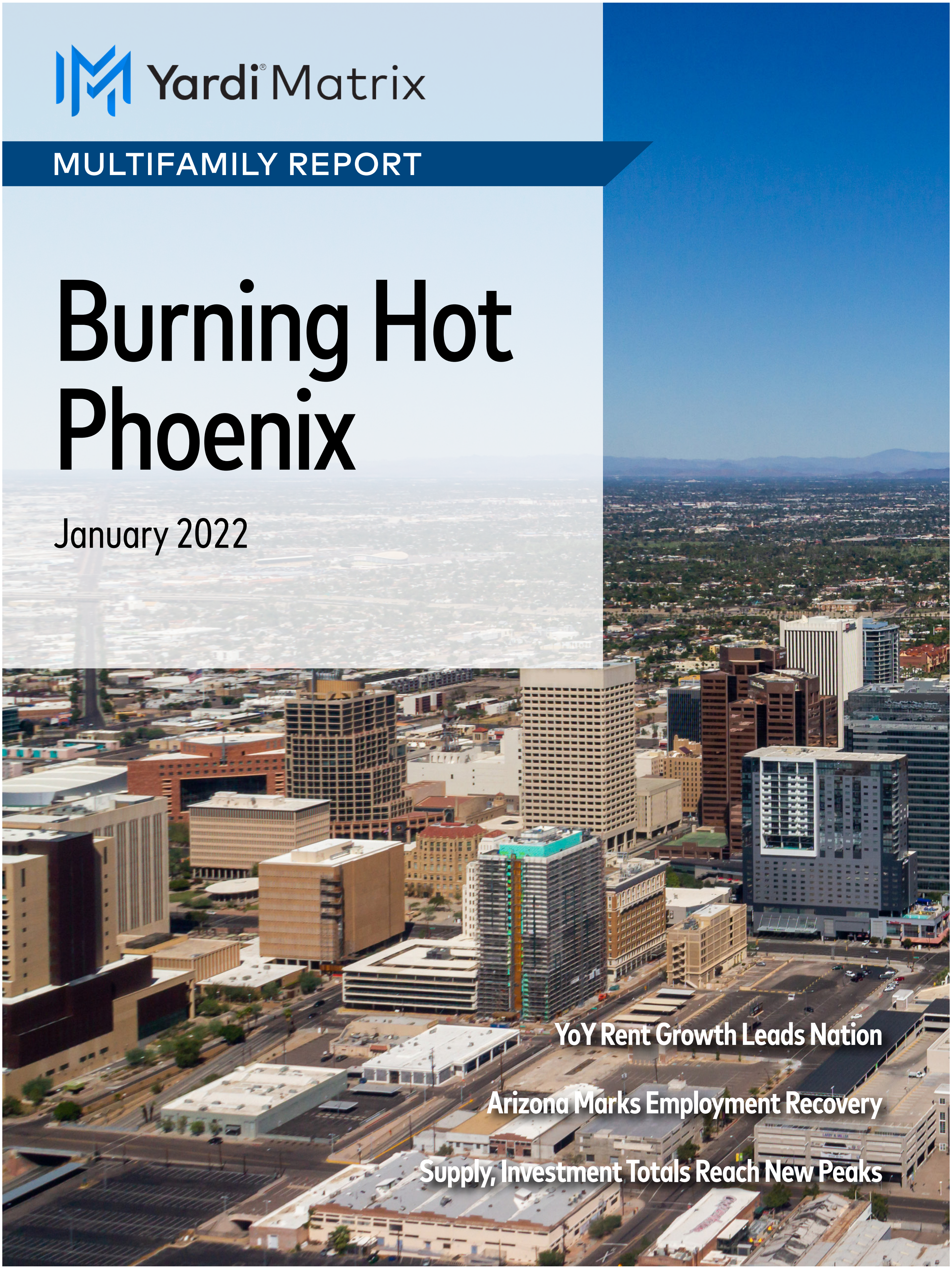
Yardi Matrix

MULTIFAMILY REPORT

Burning Hot Phoenix

January 2022



YoY Rent Growth Leads Nation

Arizona Marks Employment Recovery

Supply, Investment Totals Reach New Peaks

PHOENIX MULTIFAMILY

Yardi Matrix

Demand Boosts Fundamentals

Phoenix's multifamily market posted an exceptional performance throughout 2021, with rents, supply and sales all marking new decade highs. Rents rose 25.9% on a year-over-year basis through November, to $1,607, surpassing the U.S. rate, which marked a 13.5% increase to $1,590. The occupancy rate in stabilized properties stood at 96.3% in October, following a 70-basis-point year-over-year increase.

The unemployment rate dropped to 3.2% in October, outperforming the 4.6% national figure. Arizona was one of the few metros that had made a full employment recovery less than a year and a half into the pandemic, with the job market posting a 7.0% expansion in the 12 months ending in September 2021, leading the U.S. rate by 60 basis points. Phoenix added 126,500 jobs during the period, despite the financial services sector's 3.2% contraction. Leisure and hospitality led gains (34,900 jobs), followed by trade, transportation and utilities and professional and business services, which accounted for 55,500 jobs combined.

Developers delivered 9,479 units in 2021 through November—a new decade high—and had another 36,080 units under construction. Meanwhile, investment activity rose by 31% over the previous peak, totaling 10.6 billion in multifamily assets as of November, for a per-unit price that increased to $245,253.

Market Analysis | January 2022

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Recent Phoenix Transactions

Skye at McClintock Station

City: Tempe, Ariz.
Buyer: AMC
Purchase Price: $160 MM
Price per Unit: $378,251

The Cyprus

City: Phoenix
Buyer: Knightvest Capital
Purchase Price: $155 MM
Price per Unit: $282,847

Elliot's Crossing

City: Tempe, Ariz.
Buyer: Knightvest Capital
Purchase Price: $136 MM
Price per Unit: $274,949

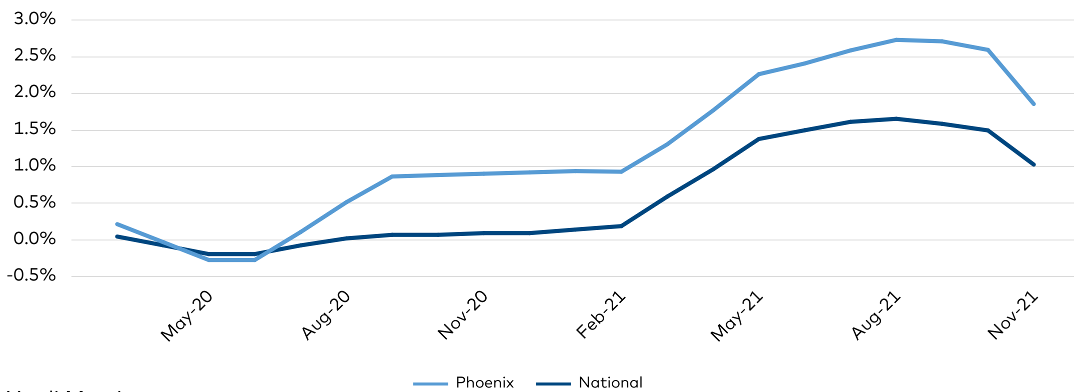
Oxford

City: Phoenix
Buyer: S2 Residential
Purchase Price: $128 MM
Price per Unit: $296,007

RENT TRENDS

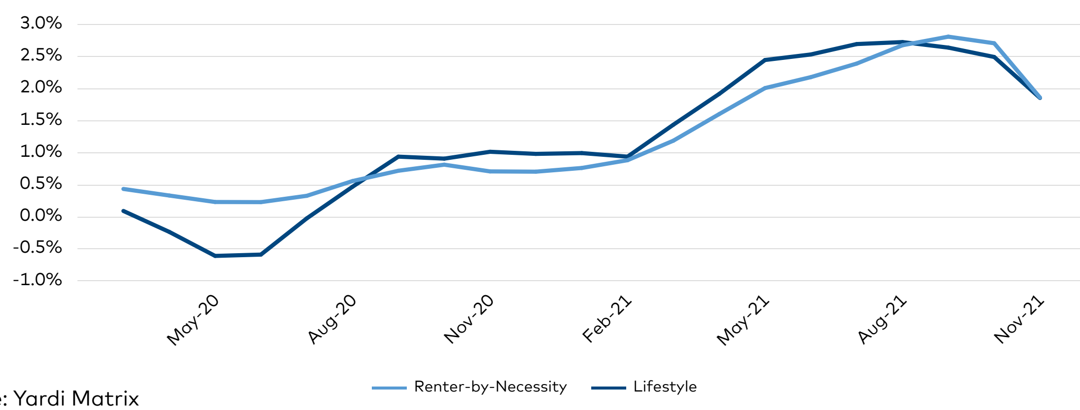
- Mirroring the national trend, rent expansion in Phoenix softened to 1.9% on a trailing three-month (T3) basis through November, but was still 90 basis points above the U.S. rate. At $1,607, Phoenix surpassed the nationwide $1,590 average. On a year-over-year basis, Phoenix rents posted a hefty 25.9% increase, leading all major U.S. markets.
- Rent growth was even across the quality spectrum, rising 1.9% on a T3 basis for both Lifestyle and Renter-by-Necessity units, to averages of $1,867 and $1,304, respectively.
- The occupancy rate in stabilized properties signals a tight market, having risen 70 basis points, to 96.3%, for both upscale and workforce apartments in the 12 months ending in October.
- Of the 32 submarkets tracked by Yardi Matrix, only one posted single-digit rent growth on a year-over-year basis, while the top five submarkets in rent performance recorded gains above the 31% mark, led by Union Hills (31.5% to $1,692), Mountain Park (31.5% to $1,777) and North Scottsdale (31.5% to $2,074). The latter is also the most-sought-after area, followed by North Paradise Valley (27.6% to $2,036).
- No submarkets had average rents below the $1,000 mark, compared to three areas clocking in below that rate one year earlier.

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 improved from 6.6% in January to 3.2% in October, surpassing pre-pandemic levels and outperforming the 4.6% U.S. rate, according to preliminary data from the Bureau of Labor Statistics. In fact, less than a year and a half into the health crisis, Arizona had recovered all jobs lost during the pandemic, according to a report issued by the Arizona Office of Economic Opportunity. The U.S. recovered just 79% of private sector jobs.

- The employment market recorded a 7.0% gain in the 12 months ending in September, outperforming the national rate by 60 basis points and marking the fifth-consecutive month of growth.

- Phoenix added 126,500 jobs during the interval, with only financial activities contracting (-3.2%). Mirroring the national trend, leisure and hospitality led gains with 34,900 positions. Next in line were trade, transportation and utilities and professional and business services, which accounted for 55,500 jobs combined.

- The state has promising economic prospects, with several companies, including TSMC, Intel, Lucid Motors and KORE Power, choosing Arizona to build and expand their operations. However, the winter season brought a spike in the number of virus cases, which could have a greater impact on overall economic performance.

Phoenix Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	216	9.7%
40	Trade, Transportation and Utilities	444	19.9%
60	Professional and Business Services	377	16.9%
65	Education and Health Services	360	16.1%
15	Mining, Logging and Construction	141	6.3%
30	Manufacturing	136	6.1%
55	Financial Activities	207	9.3%
80	Other Services	69	3.1%
90	Government	246	11.0%
50	Information	36	1.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Phoenix maintained its ranking among the fastest growing MSAs in the country, gaining 111,706 residents in 2020, up 2.3% and above the 1.9% rate of 2019.

- Last year, the U.S. population expanded by 0.4%, 10 basis points above the 2019 rate.

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

- Phoenix's robust demand for rentals kept developers busy; some 9,500 units were delivered through November, leading to a new decade high. The volume was equivalent to 2.9% of total stock, surpassing the 2.1% U.S. rate.

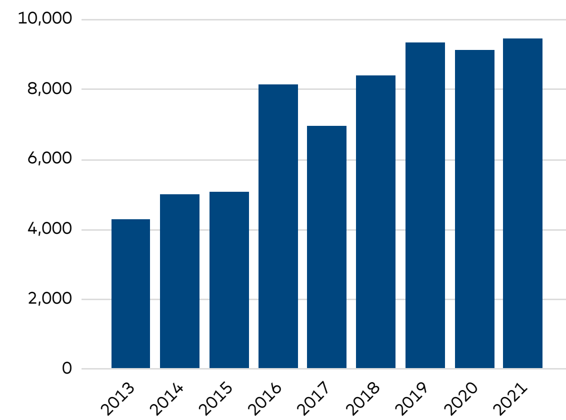
- The robust in-migration from more expensive metros has encouraged developers to maintain focus on the high-income renter, thus the bulk of deliveries were Lifestyle properties. Consequently, the Renter-by-Necessity segment remained overlooked, accounting for just 11.3% of all deliveries, or roughly 1,100 units, 727 of which were in fully affordable communities.

- Expectedly, the construction pipeline—which had more than 36,000 units underway—also comprised mainly Lifestyle apartments: The RBN segment had just 1,782 units under construction, 1,101 of which were in fully affordable communities. Another 56,000 units were in the planning and permitting stages.

- The top three submarkets accounted for half the pipeline: Western Suburbs (5,694 units underway), Gilbert (5,015 units) and Sky Harbor (4,542 units). Western Suburbs also led in deliveries (1,119 units), followed by North Tempe (1,116 units).

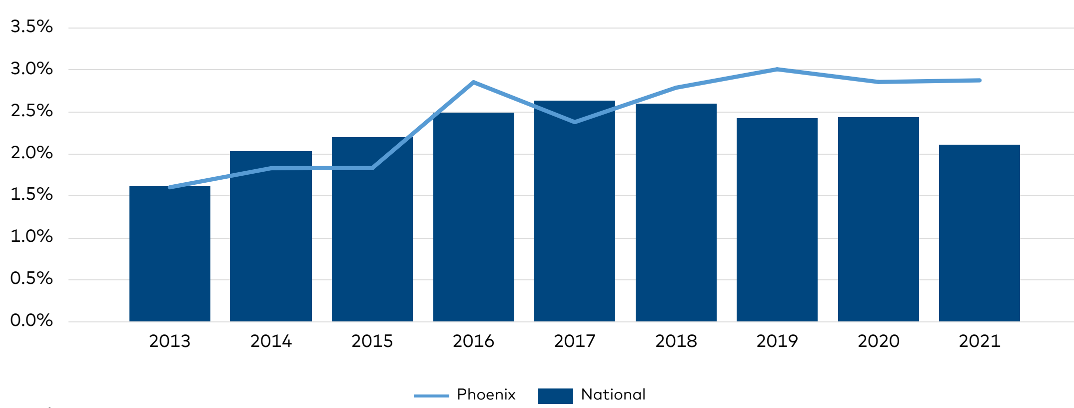
- The largest project delivered in 2021 through November was Pearl Biltmore, a 470-unit Lifestyle property in the East Camelback submarket. Development was finalized in late October and Morgan Group built it with aid from a $66.3 million construction loan issued by Comerica Bank, with the maturity date and term set for November 2021.

Phoenix Completions (as of November 2021)



Source: Yardi Matrix

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



Source: Yardi Matrix

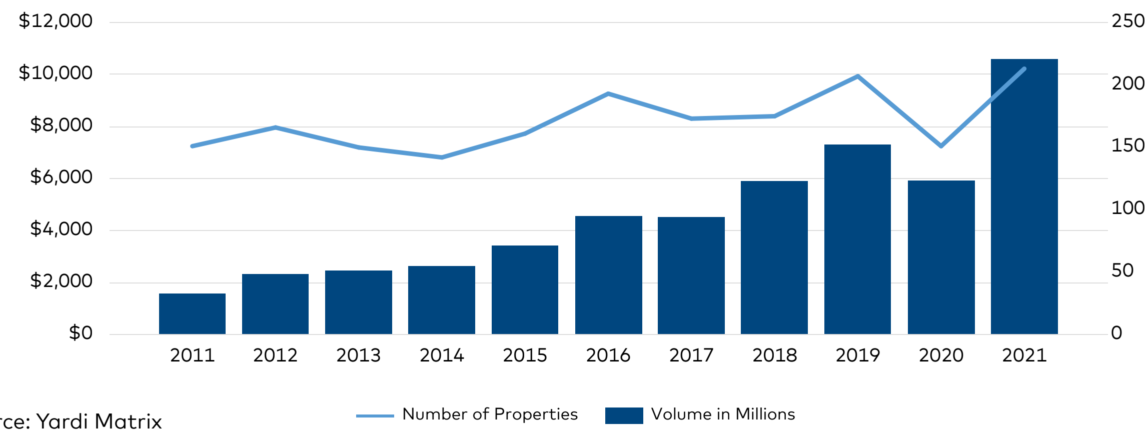
TRANSACTIONS

- With more than $10.6 billion in multifamily assets trading in 2021 through November, Phoenix was red hot for investment. That's an astounding figure for the metro, 31% higher than the previous record of $7.3 billion that traded in 2019.

- About two-thirds of the properties that traded were working-class Renter-by-Necessity assets, but even so, the price per unit rose by a hefty 31.3% year-over-year to $245,253, well above the $185,466 U.S. figure. At this point, Phoenix has joined the ranks of metros where housing affordability is a rising concern.

- The largest transaction of the year was recorded in February, when Millburn & Co. acquired Heritage at Deer Valley from Priderock Capital Partners for $178.5 million, or $214,543 per unit, with aid from an $88 million loan originated by KeyBank. Tides Equities has been one of the most-active buyers in the metro, having acquired 10 properties for $465 million combined.

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



Source: Yardi Matrix

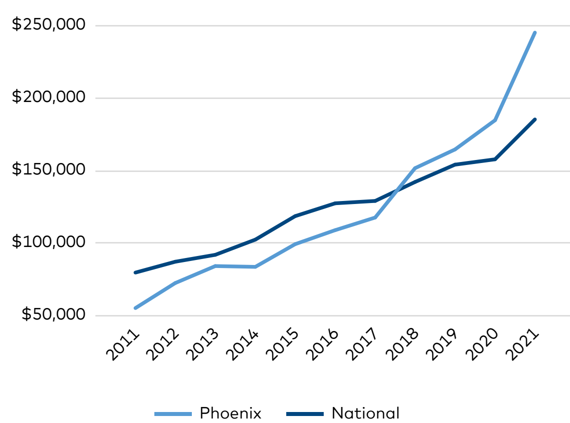
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
North Tempe	1,175
Deer Valley	810
Union Hills	782
Chandler	649
North Scottsdale	601
South Mesa	594
North Paradise Valley	558

Source: Yardi Matrix

[1] From December 2020 to November 2021

Phoenix vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

Top 5 Markets for Multifamily Development

By Anca Gagiuc

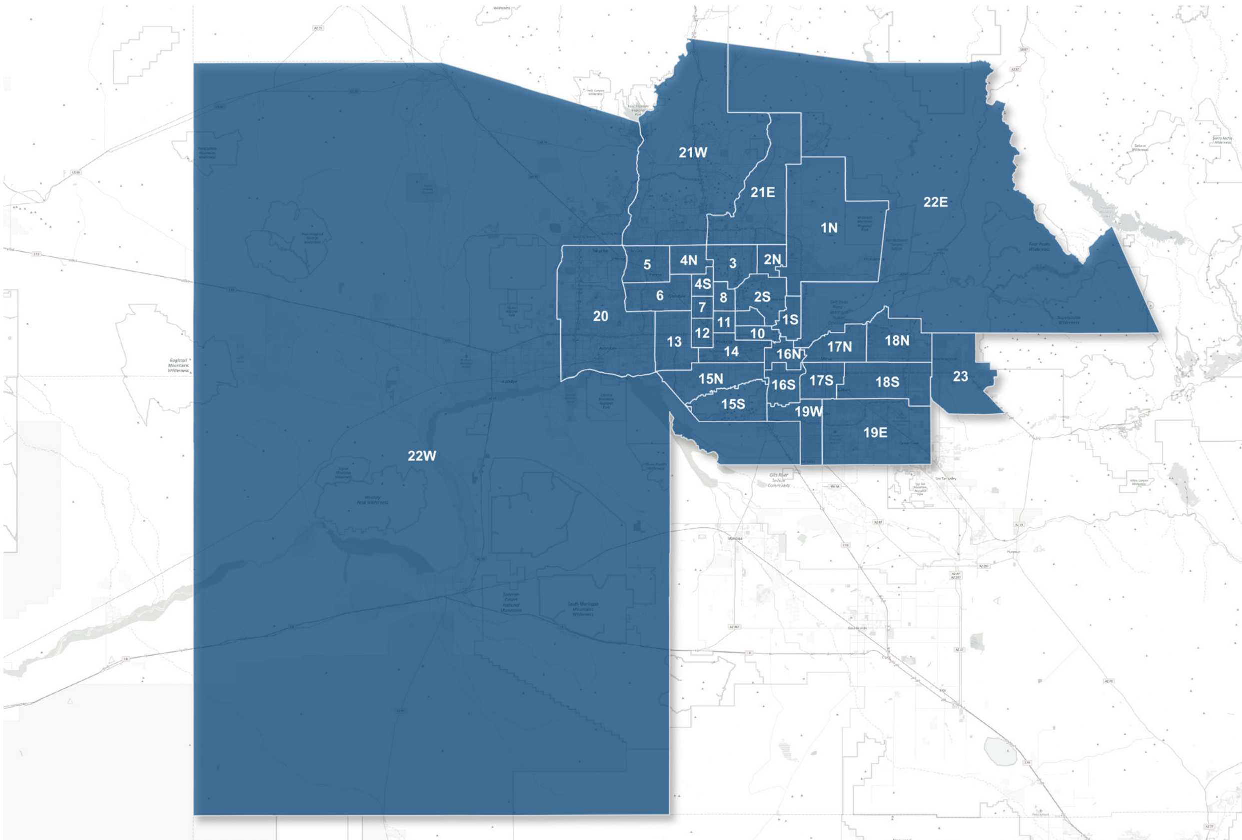
Multifamily has been one of the best-performing industries throughout the pandemic. According to Yardi Matrix data, robust demand pushed rent growth to record highs, placing 2021 on track to be among the best years since the 2008 downturn. Demand continues to fuel development and, following a moderate slope during the first weeks of the health crisis, construction activity largely bounced back in 2021. Yardi Matrix expects deliveries to amount to roughly 334,000 units by year-end.

Rank	Market	No. of Units Delivered in 2021	No. of Units Under Construction	Occupancy as of July 2021
1	Dallas	12,654	47,486	94.7
2	Houston	9,511	30,078	92.9
3	Atlanta	8,596	21,007	95.7
4	Miami	7,173	38,147	96.3
5	Phoenix	6,234	34,195	96.5

Phoenix

The fast-growing tech hub consistently ranks among top metros for rent growth, bolstered by strong demand and insufficient supply. Developers strived to meet demand and brought online 6,234 units in 2021 through July, well above the 4,691 units delivered during the same period last year. In addition, the metro's pipeline comprised 34,195 units underway. Robust in-migration from more expensive markets prompted developers to keep their focus on the Lifestyle segment, which led both in deliveries as well as in units under construction.

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 had 2.7 million square feet of space underway as of October, according to CommercialEdge, 1.1 million of which were slated to come online by the end of the year. Another 39.9 million square feet were in the planning and permitting stages. Most projects will add traditional office space and 386,000 square feet of medical space.

- Tempe-Mill will see its stock expand by more than 750,000 square feet, which equates to nearly 28% of the pipeline. The submarket houses one of the largest office developments underway, the 279,500-square-foot One Hundred Mill, a Cousing Properties asset slated for completion by the end of the year.

- Despite consistent new deliveries, the average vacancy rate in Phoenix decreased to 16.0% in September, marking a 120-basis-point drop on a month-over-month basis and a 150-basis-point improvement year-over-year. The metro outperformed Atlanta (19.9%) and trailed Charlotte (14.6%).

- More than 1.7 million square feet of office space traded across the metro in September alone, as per CommercialEdge data, and surpassed the $1 billion mark by the end of November. The largest deal closed in Tempe—Strategic Office Partners acquired two buildings totaling 300,000 square feet for $132 million, or $440 per square foot, from Boyer Co.

Industrial

- Phoenix's proximity to the west coast coupled with the sustained rise of e-commerce and elevated demand for space has placed the metro on the second rank among major markets based on the square footage under construction, as of the start of November. Developers had nearly 31 million square feet underway, the equivalent of 11.4% of total stock, according to CommercialEdge data.

- The largest industrial project in Phoenix is the first, 3.8 million-square-foot phase of TAMC's plant, 25 miles north of downtown. The $35 billion center broke ground in May and is slated to begin commercial operations in 2024.

- Phoenix occupied the fourth position among major metros in sale volume with a total of $2.9 billion in industrial assets trading in 2021 through October, and the average price per square foot clocked in at $153.

Self Storage

- The metro's dynamic multifamily market affected the storage market and, as of early November, Phoenix had more than 4.1 million square feet of storage under construction or in the planning stages, according to Yardi Matrix. This accounts for 11.9% of the total stock, which places the metro on the third rank among major markets.

- On an annual basis through October, rents rose 14.8% and 13.9% for 10x10 climate- and non-climate-controlled uunits. The asking rate was $147 for climate-controlled and $123 for non-climate-controlled units.

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.

Yardi® Matrix

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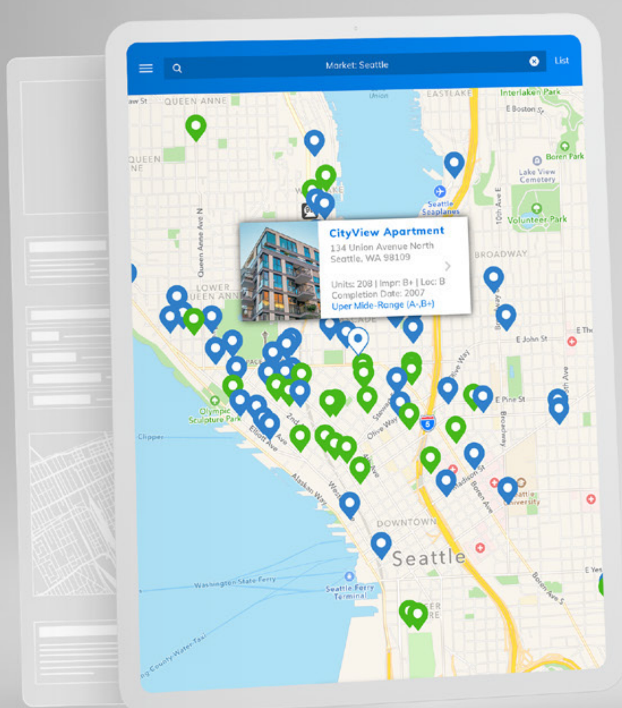

Yardi Matrix Multifamily provides accurate data on **19+ million units**, covering over **90% of the U.S. population**.

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