

**YARDI**<sup>®</sup> Matrix

# Phoenix on Fire

Multifamily Winter Report 2017

**Occupancy Rates  
Withstand New Supply**

**High-Wage Industries  
Expand Employment**

**Big Yields Attract  
West Coast Attention**

## Market Analysis

Winter 2017

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## Jobs, Yields Keep Needle on “Hot”

Phoenix tends to ride hot and cold, and currently it's in hot mode. Arizona is among the top handful of U.S. states for economic and population growth, creating strong demand for multifamily. Units that were built before the last downturn are filled, and the next wave of development has started.

Employment gains are diversified, with education and health services, mining, logging and construction, and professional and business services leading the activity. Arizona's four largest health systems announced in December 2015 the opening of 8,500 new positions, planned to be filled in 2016. Additionally, a new State Farm campus in Tempe next to a Home Depot service center was completed last fall, and it continues to hire.

Rents rose 5.9% year-over-year through November, well above the national average, and occupancy for stabilized properties climbed to 95.2%. Homeownership remains less costly than renting in Phoenix, and the affordability issue is slowly creeping in. Future supply is robust, with more than 10,500 units currently underway and over 23,000 in planning stages. Improving property fundamentals and relatively high yields are intensifying demand for multifamily assets, while transaction volume climbed 25% year-over-year through November, peaking at \$4.6 billion.

## Recent Phoenix Transactions

Citrine



City: Phoenix  
Buyer: Simpson Housing  
Purchase Price: \$94 MM  
Price per Unit: \$301,000

Crescent Scottsdale Quarter



City: Phoenix  
Buyer: Nevada Public Employees Retirement System  
Purchase Price: \$87 MM  
Price per Unit: \$177,644

Almeria at Ocotillo



City: Phoenix  
Buyer: PASSCO Real Estate  
Purchase Price: \$82 MM  
Price per Unit: \$201,765

Scottsdale Springs

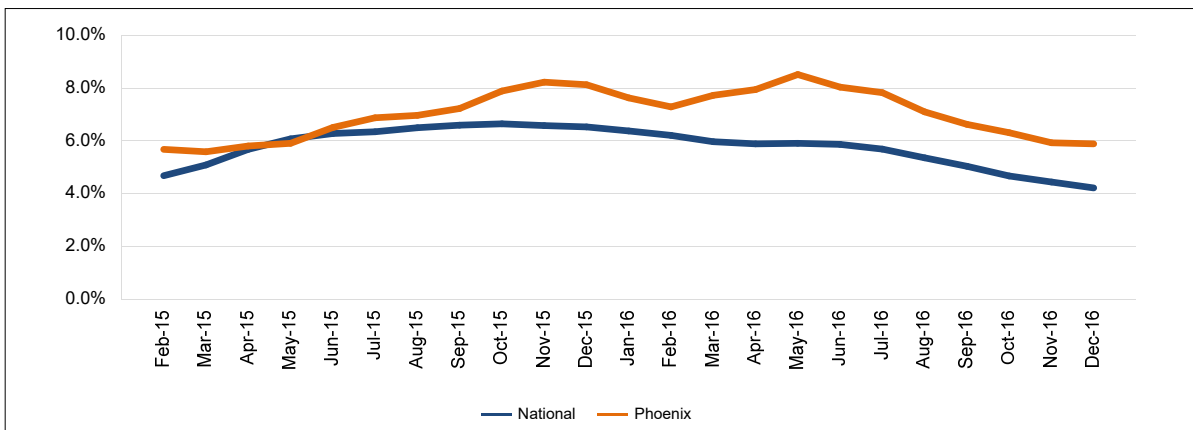


City: Phoenix  
Buyer: TruAmerica Multifamily  
Purchase Price: \$81 MM  
Price per Unit: \$125,621

## Rent Trends

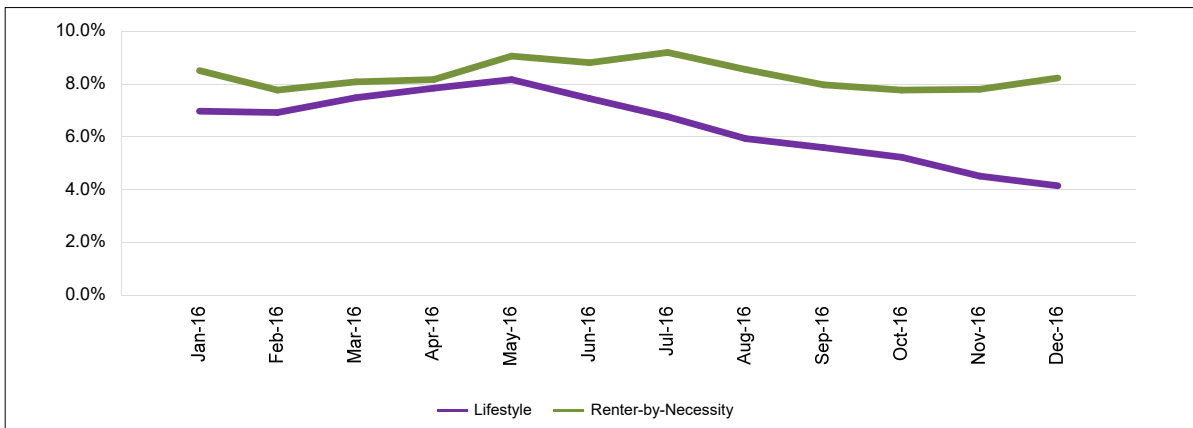
- Rents in Phoenix rose 5.9% year-over-year through November, outperforming the 4.4% national average. At \$906, rents were well below the \$1,214 national average. Rent growth resulted from healthy demographics and strong employment, which has enabled occupancy of stabilized properties to hover around 95%, despite a steadily increasing supply.
- Gains were led by the working-class Renter-by-Necessity segment, which saw a 7.8% year-over-year gain through November to \$751. As the relatively lower pay in the growing retail and healthcare sectors continues to expand, occupier interest in low- and mid-priced assets will remain high. Rents for the higher-end Lifestyle assets rose 4.5% to \$1,083 over the same period.
- All of Phoenix's submarkets recorded increases, led by Christown (18.6%), East Mesa (12.7%), Central East Phoenix (11.3%), Sun City–Youngtown–Peoria (10.5%) and Metrocenter (10.4%). The most affordable space is located in Central West Phoenix, where rent averages \$569 per month. The submarkets of North Scottsdale (\$1,321), South Scottsdale (\$1,264), Chandler (\$1,126), Gilbert (\$1,079) and Mountain Park (\$1,042) posted the highest rental rates.

### Phoenix vs. National Rent Growth (Sequential 3-Month, Year-Over-Year)



Source: YardiMatrix

### Phoenix Rent Growth by Asset Class (Sequential 3-Month, Year-Over-Year)

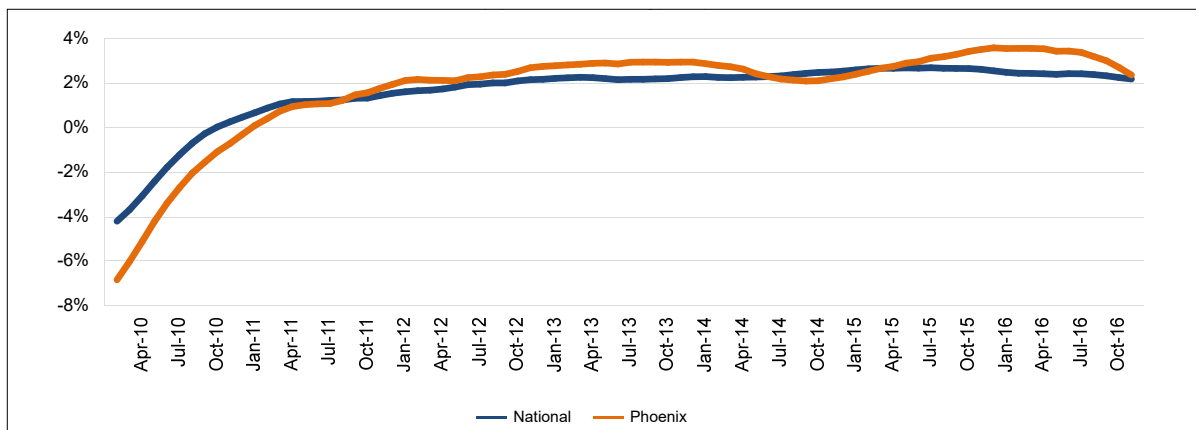


Source: YardiMatrix

## Economic Snapshot

- Phoenix added nearly 48,000 jobs in the year ending in September, marking a 3% uptick, well above the 2.3% national rate. Expansion was fairly diverse, with some of the strongest gains in high-wage industries such as health care and professional and business services.
- Education and health services led employment growth, with 13,800 new hires, up 4.9%, primarily due to Arizona's four largest health systems, which planned to add 8,500 workers in 2016. Additionally, the Mayo Clinic and Arizona State University (ASU) formed an alliance that will materialize into a medical school, which is slated to open in 2017. Also in 2017, the Mayo Clinic will open the state's third allopathic medical school, with ASU as its partner.
- Mining, logging and construction contributed 9,600 jobs, up 9.3% year-over-year. Some of the increase stemmed from rising multifamily construction activity.
- Professional and business services added 6,500 positions, in part because Phoenix offers investors a cost-effective workforce and location that are attractive to companies from California. Absorption of office space has totaled upwards of 3 million square feet in each of the past two years, led by Scottsdale.

### Phoenix vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

### Phoenix Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	298	15.1%	13,800	4.9%
15	Mining, Logging and Construction	113	5.7%	9,600	9.3%
60	Professional and Business Services	328	16.7%	6,500	2.0%
40	Trade, Transportation and Utilities	384	19.5%	6,300	1.7%
70	Leisure and Hospitality	212	10.8%	6,100	3.0%
55	Financial Activities	174	8.8%	6,000	3.6%
50	Information	37	1.9%	1,700	4.8%
90	Government	240	12.2%	-100	0.0%
80	Other Services	64	3.3%	-600	-0.9%
30	Manufacturing	119	6.0%	-1,700	-1.4%

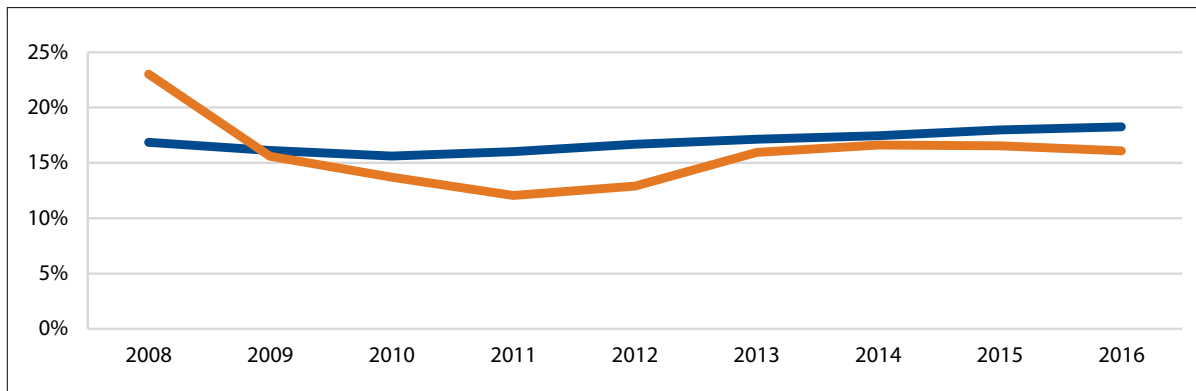
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

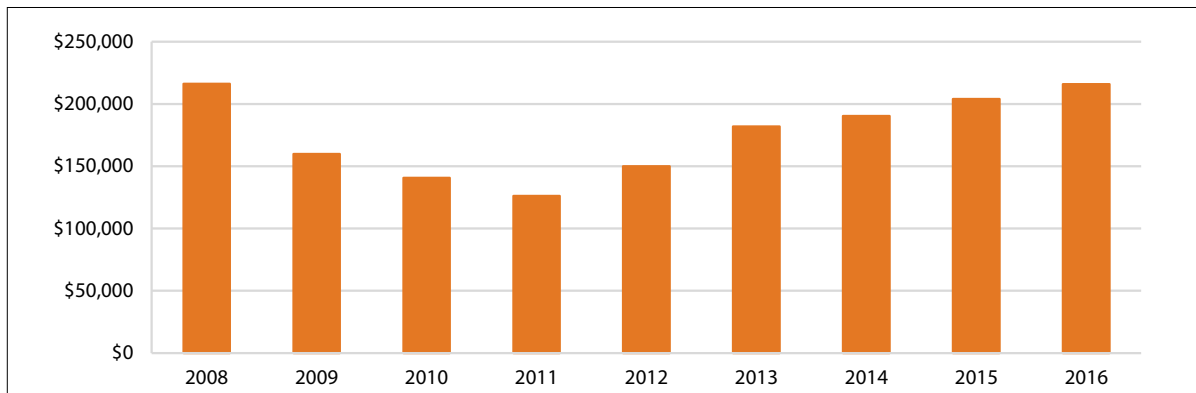
- Arizona ranks among the top five U.S. states for economic and population growth, but its rapid expansion is affecting affordability for homeowners and renters alike.
- The median home price reached \$215,943 in 2016, up 5.8% year-over-year. With the average mortgage accounting for 16% of the area's median income and the average rents reaching \$906 (18% of the area's median income), owning is still the less costly option. The affordability issue could become more pressing, as most of the new supply was designed to meet the demand for luxury units in high-demand corridors.

### Phoenix Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

### Phoenix Median Home Price



Source: Moody's Analytics

### Population

- Phoenix's population has expanded by 8.8% since 2010, one of the highest growth rates in the country.
- The metro's population rose 2% in 2015, outperforming the 0.8% national average.

### Phoenix vs. National Population

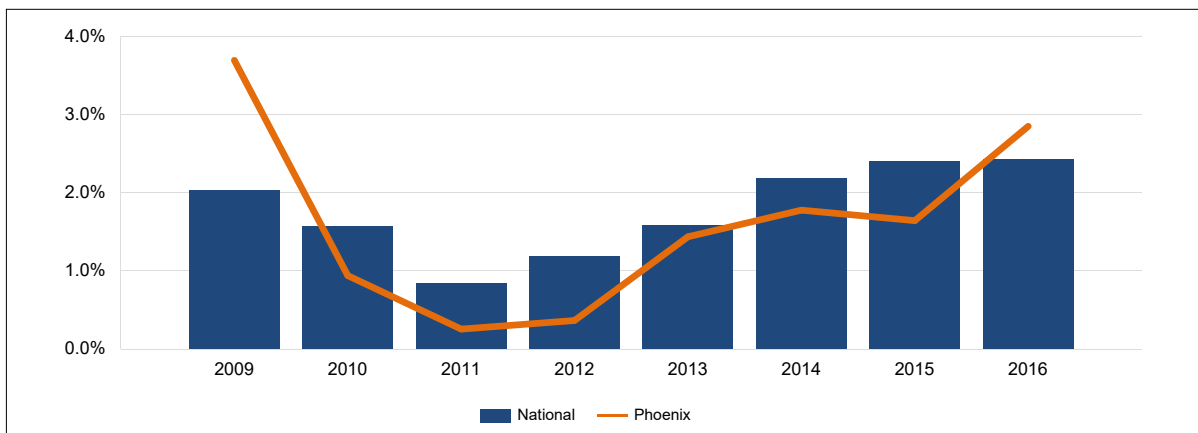
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
AZ Metro	4,250,001	4,327,809	4,400,688	4,486,543	4,574,531

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

## Supply

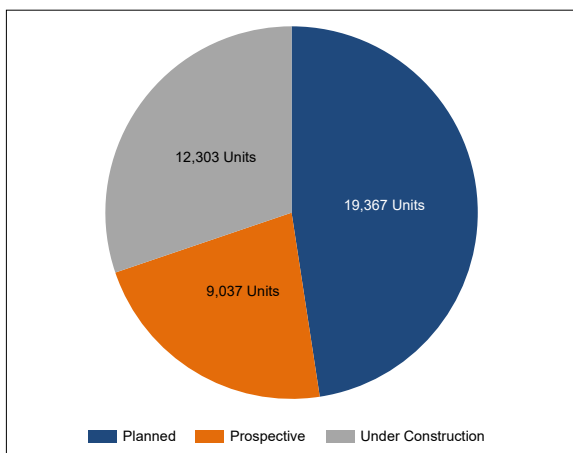
- Nearly 8,100 units were added to multifamily supply in 2016, up 1.7% and double the number of completions the prior year. However, Phoenix still trails the 2.4% national growth rate.
- Construction is slowly gaining steam, in part because the regulatory environment is not as stringent as in areas where land is scarce. Because Phoenix overbuilt during the last economic cycle, it has taken a long time to absorb surplus units.
- More than 41,700 units are currently in various stages of development, with 10,500 under construction and nearly 23,000 units in the planning stage.
- Most construction activity is concentrated in the Central and Southeastern submarkets. North Tempe is the most active submarket, based on a pipeline of 1,870 units under construction. Uptown and Gilbert are also experiencing a surge in planned developments. The Motley, Lennar Multifamily Communities' 399-unit project in North Tempe, is the metro's largest residential development, slated for completion at the end of October 2017.

### Phoenix vs. National Completions as a Percentage of Total Stock (as of January 2017)



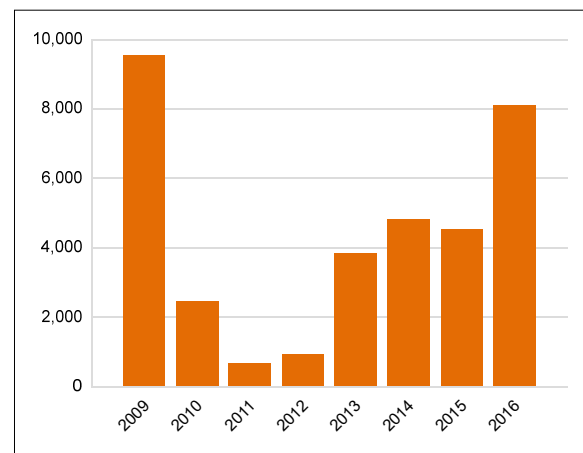
Source: YardiMatrix

### Development Pipeline (as of January 2017)



Source: YardiMatrix

### Phoenix Completions (as of January 2017)

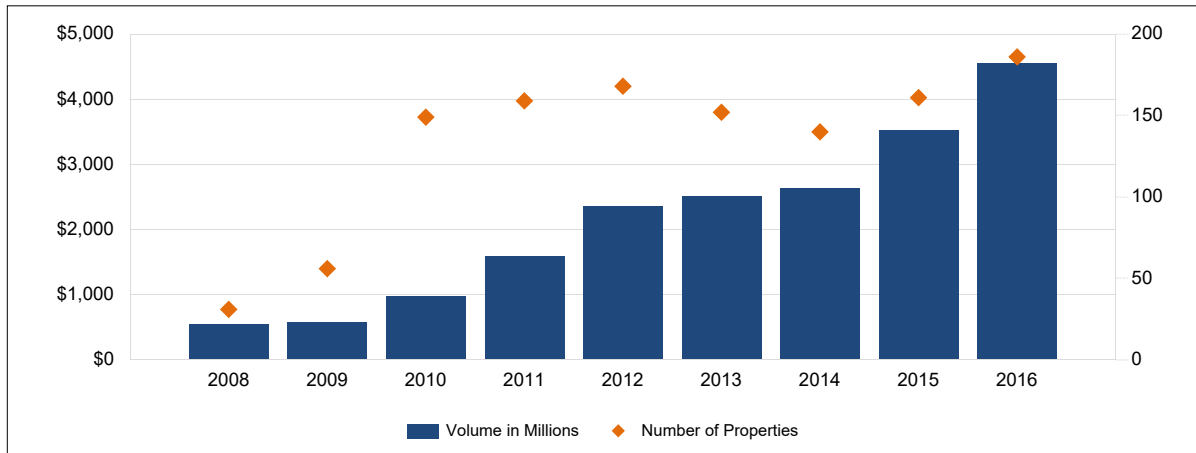


Source: YardiMatrix

## Transactions

- Transaction volume exceeded \$4.3 billion year-to-date through November 2016, up 25% from 2015's full-year volume of \$3.6 billion. Phoenix is an increasingly attractive target for institutional investors that have been priced out of prime West Coast markets. The metro offers higher yields than California markets and features a strong growth potential.
- The average price per unit reached \$111,116 in 2016, still behind the \$134,575 national average, with nearly two thirds of the 175 assets traded belonging to the Renter-by-Necessity class.
- Chandler, Union Hills, Deer Valley and South Tempe appealed the most to investors. Citrine in South Paradise Valley was the most expensive property to trade in 2016. Simpson Housing acquired the asset from JLB Partners in June for \$94 million, or \$301,000 per unit.

### Phoenix Sales Volume and Number of Properties Sold (as of January 2017)



Source: YardiMatrix

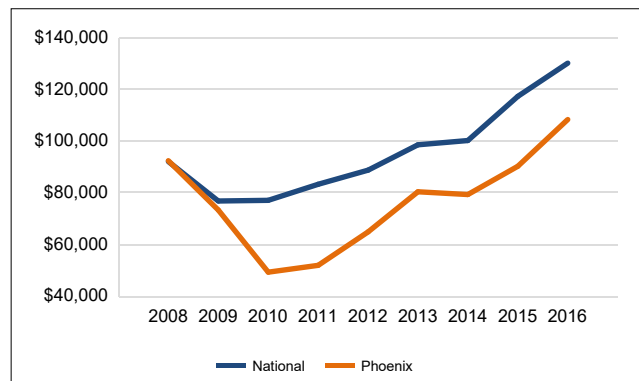
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Chandler	485
Union Hills	421
Deer Valley	416
South Tempe	336
Western Suburbs	319
South Scottsdale	306
South Mesa	269
North Scottsdale	264

Source: YardiMatrix

<sup>1</sup> From December 2015 to November 2016

### Phoenix vs. National Sales Price per Unit



Source: YardiMatrix

# Read All About It!



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Hines Snags 1.2 MSF  
Industrial Park in Arizona



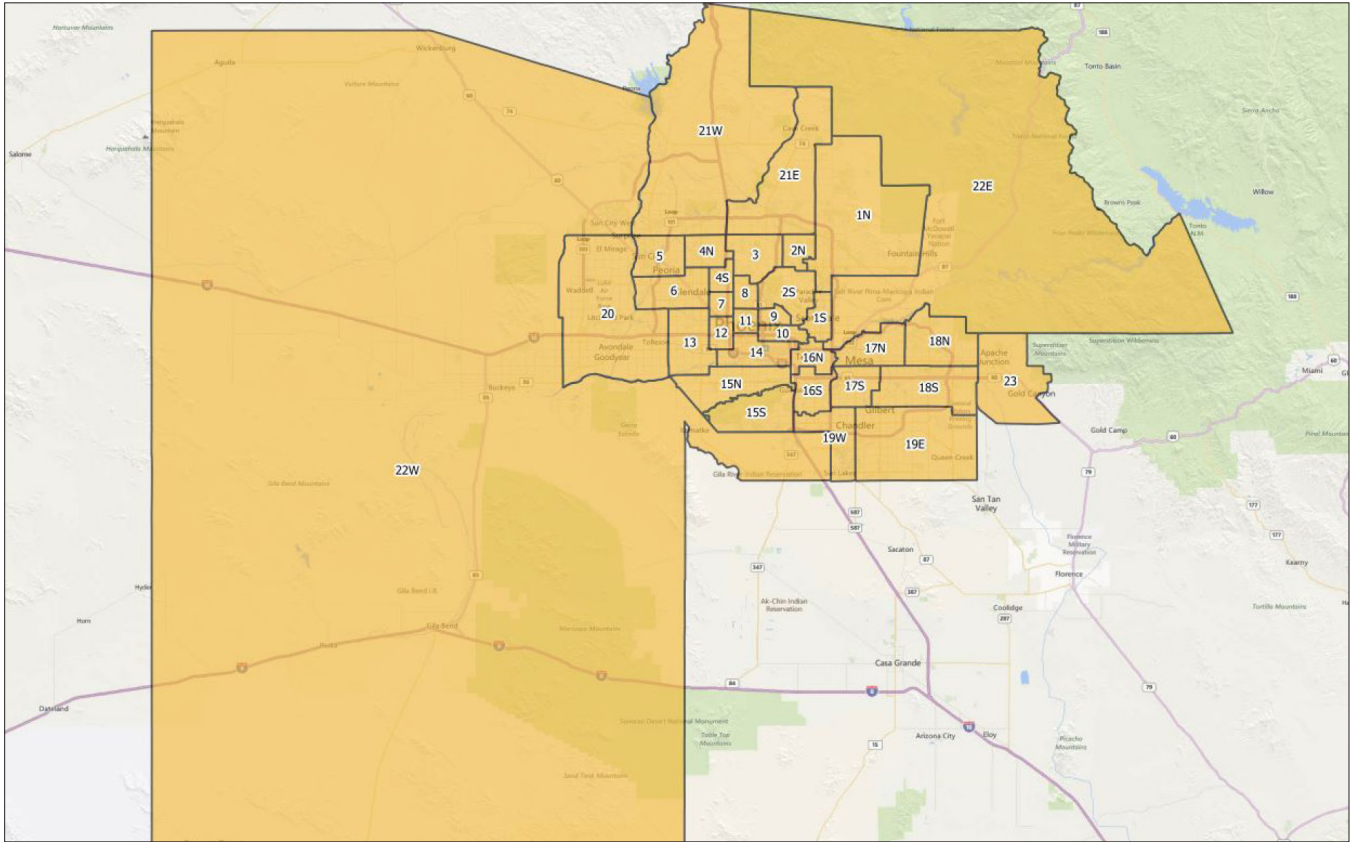
Monument Capital  
Management Buys First  
Asset in Phoenix Area

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## Phoenix Submarket Map



Area #	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

Area #	Submarket
14	Sky Harbor
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
22W	Southwest Maricopa County
23	Apache Junction

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## 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 may 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 may 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, may 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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