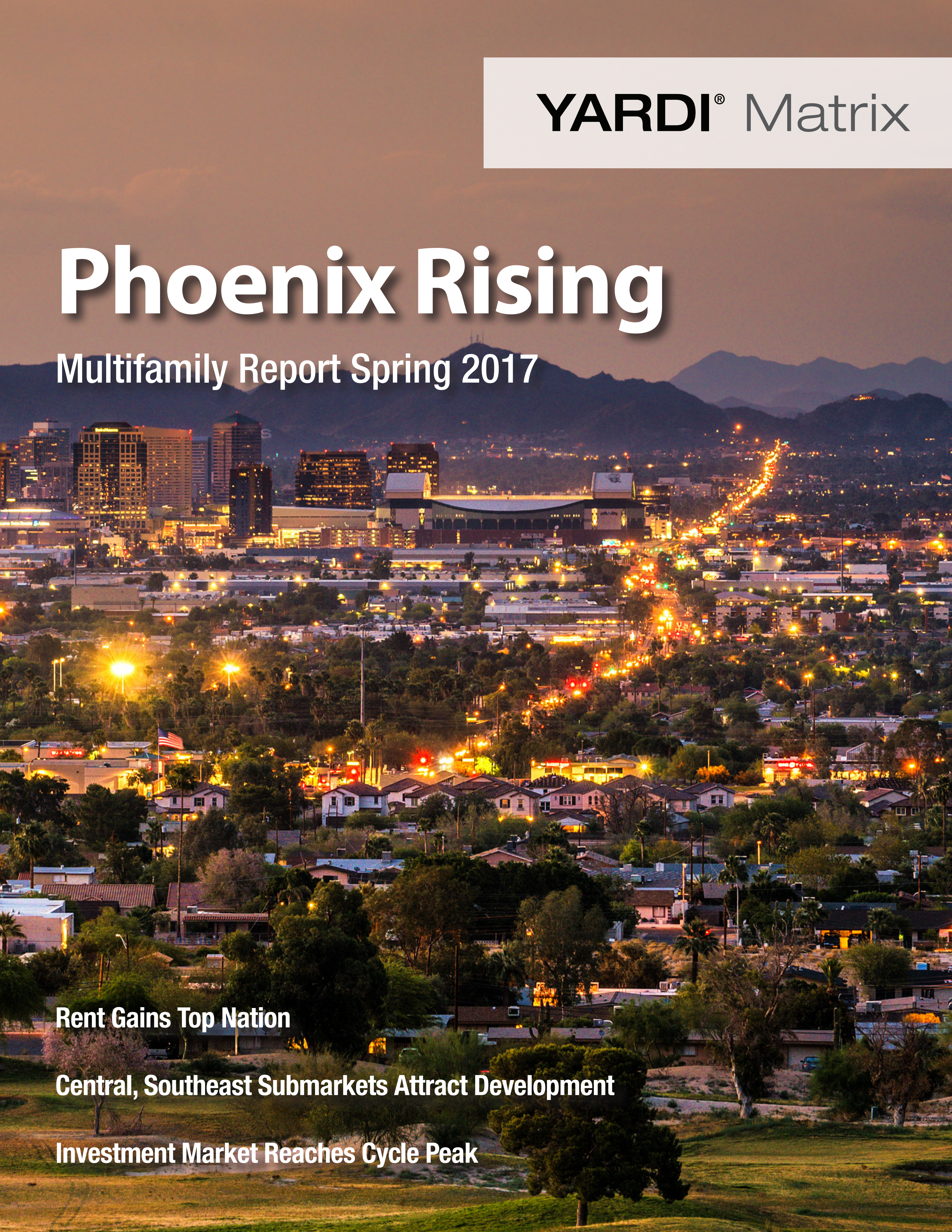
YARDI® Matrix

Phoenix Rising

Multifamily Report Spring 2017



Rent Gains Top Nation

Central, Southeast Submarkets Attract Development

Investment Market Reaches Cycle Peak

Market Analysis

Spring 2017

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Investor Demand on the Rise

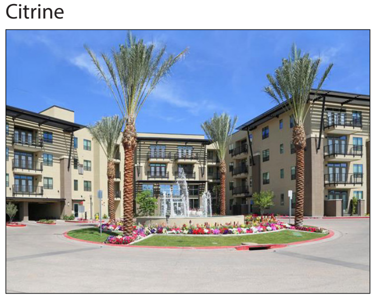
Phoenix is riding a wave of solid performance. New supply is keeping pace with demand, helping to maintain healthy vacancy rates. Employment is improving, and while its rate has slowed from previous years, job growth in the Sun Belt is expected to be among the nation's highest in 2017, thanks to the region's warm climate and relatively low cost of living. Both of these benefits attract people from across the country.

Mining, logging and construction; leisure and hospitality; and education and health services are Phoenix's main economic drivers. The metro's burgeoning economy attracts investment and development; some 784,000 square feet of speculative office product is scheduled for delivery by the end of 2017. Among new deliveries is Ryan Cos.'s 271,000-square-foot regional headquarters for healthcare company McKesson, currently under construction in South Scottsdale.

Rents rose 5.1% year-over-year through March, well ahead of the national average. Although homeownership remains less costly than renting, and Phoenix is less expensive than many major markets, affordability is becoming more challenging. Upcoming supply is robust, with more than 9,000 units currently under construction and 16,000 in the planning stages. Investor demand is also strong: More than $5 billion worth of multifamily properties have changed hands since the start of 2016.

Recent Phoenix Transactions

Citrine



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

Mirabella/Lux

City: Phoenix
Buyer: Priderock Capital Partners
Purchase Price: $88 MM
Price per Unit: $122,378

Crescent Scottsdale Quarter

City: Phoenix
Buyer: Nevada Public Employees' Retirement System
Purchase Price: $87 MM
Price per Unit: $316,364

Almeria at Ocotillo

City: Phoenix
Buyer: PASSCO Real Estate
Purchase Price: $82 MM
Price per Unit: $210,765

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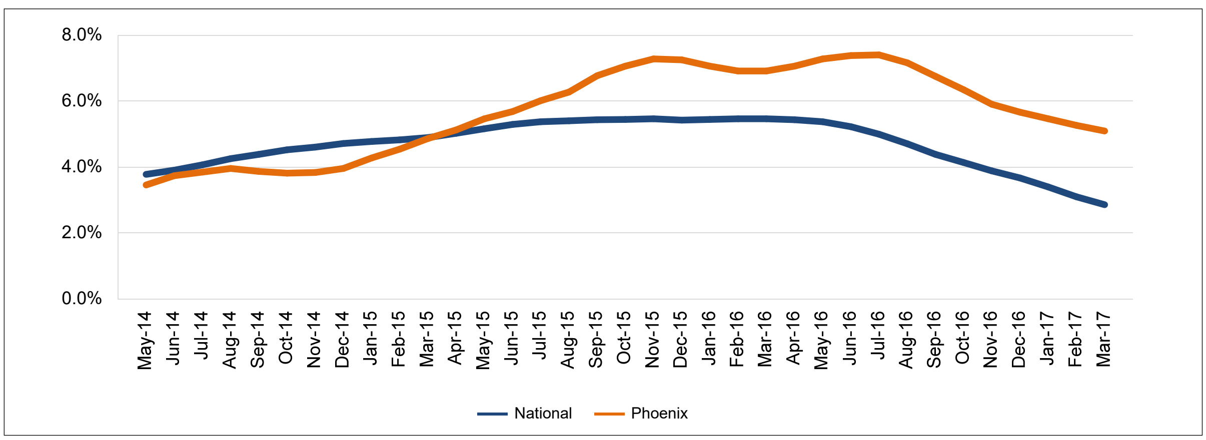
On the cover: Photo by miroslav_1/iStockphoto.com

Rent Trends

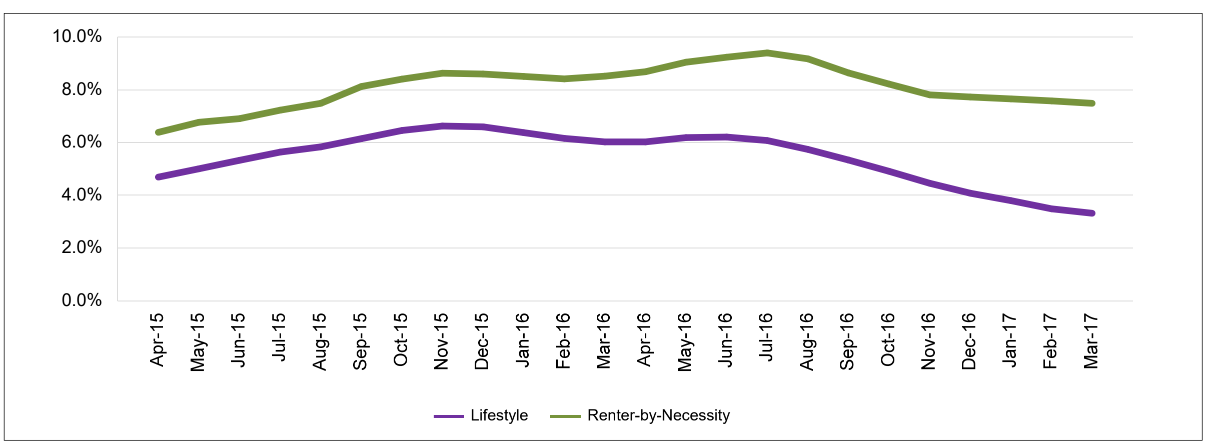
- Rents rose 5.1% year-over-year through March, far exceeding the national rate of 2.7%, to $975 per month, which was far below the nation's $1,312 average. After topping out at 9.2% last June, the growth rate mirrored the countrywide trend of deceleration.
- The Renter-by-Necessity segment led gains. A 7.5% year-over-year increase brought average rent in this category to $796. Demand for low- and mid-price properties will remain elevated, due to job growth in low-paying health-care and hospitality sectors. Rents for the higher-end Lifestyle assets rose 3.3% to $1,157 over the same period.
- Rent growth occurred in all but one of Phoenix's submarkets, led by Southwest Maricopa County (10.1%), Maryvale (8.7%), Sun City–Youngtown–Peoria (8.6%), Northwest Phoenix (8.4%), Metrocenter (8.3%) and North Mesa (7.2%).
- With employment growth higher than population growth and wages rising, demand for multifamily units will remain robust. New supply entering the market has kept pace with demand, maintaining occupancy of stabilized properties at slightly above 94%. We expect rents to continue growing at an above-trend 6.0% in 2017.

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)

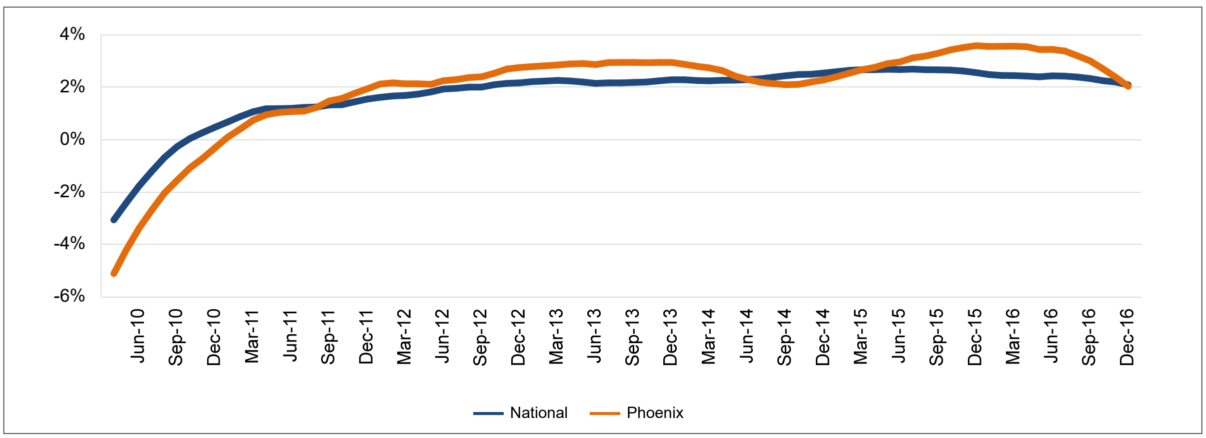


Source: YardiMatrix

Economic Snapshot

- Last year, Arizona's economy grew jobs first, rooftops second. Phoenix added 27,500 jobs in 2016, up 2.0% and roughly in line with the national rate, while unemployment reached its lowest post-recession rate.
- Education and health services (9,500); leisure and hospitality (8,200); and mining, logging and construction (5,800) led employment gains in the Valley of the Sun. In the education and health services sector, nonprofit Banner Health added more than 1,500 personnel to its local hospitals and medical centers. In the leisure and hospitality sector, which grew by 3.9%, Marriott hired more than 450 workers at hotels and resorts across the metro, supported in large part by its acquisition of Starwood Hotels & Resorts.
- Manufacturing was the worst-performing sector, having lost 900 positions in 2016. ABB Ltd. closed a solar manufacturing plant, keeping only some sales and operations at the Phoenix office, which employed 200 workers. Yet, the sector could recover. Intel announced its $7 billion investment in the Fab 42 plant. The project could create around 10,000 positions in the area, including 3,000 Intel workers, plus contractors and suppliers.
- While professional and business services added only 500 positions in 2016, more than 3 million square feet—the highest level since 2005—of office space was absorbed. In addition, more than 1.1 million square feet of office space was delivered in the first quarter of 2017.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	302	15.0%	9,600	3.3%
70	Leisure and Hospitality	219	10.9%	8,200	3.9%
15	Mining, Logging and Construction	110	5.5%	5,800	5.6%
55	Financial Activities	176	8.7%	4,400	2.6%
40	Trade, Transportation and Utilities	401	19.9%	2,200	0.6%
60	Professional and Business Services	343	17.0%	500	0.1%
90	Government	240	11.9%	500	0.2%
50	Information	38	1.9%	-200	-0.5%
30	Manufacturing	120	6.0%	-900	-0.7%
80	Other Services	63	3.1%	-2,600	-4.0%

Sources: YardiMatrix, Bureau of Labor Statistics

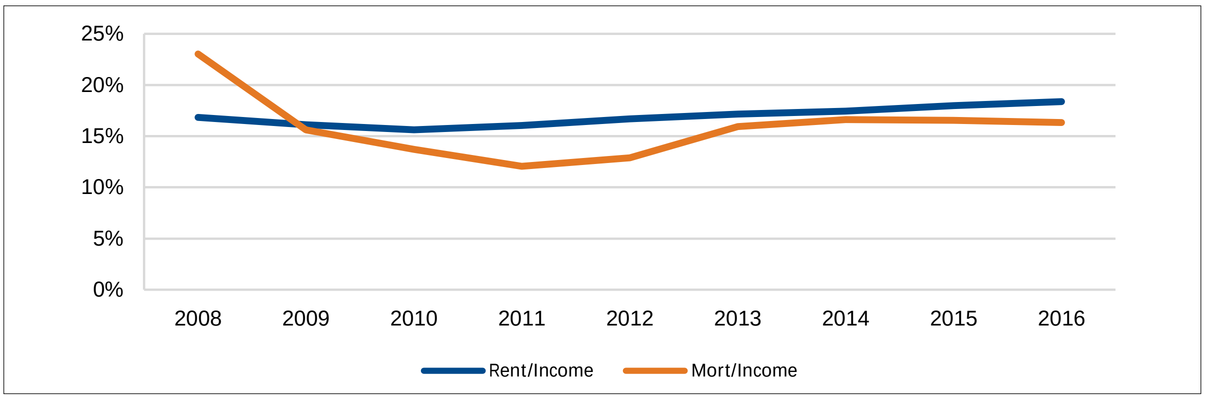
Demographics

Affordability

- Home prices in Phoenix have continued to increase during the cycle. The median home value reached $218,129 in 2016, marking an all-time high, up 73% from the 2011 trough. Owning is the less costly option: The average mortgage accounted for 16% of the area's median income in 2016, while the average rent accounted for 18%.

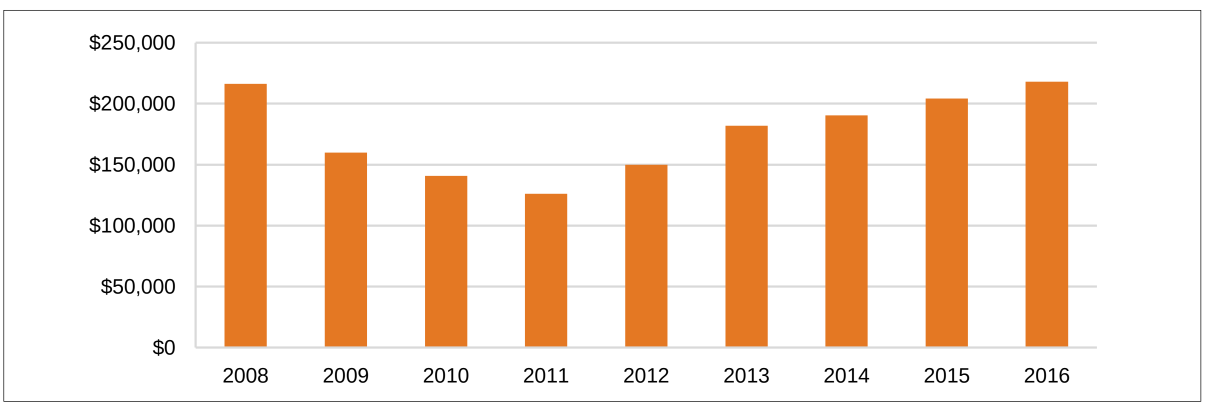
- Although Phoenix experienced price gains, housing affordability remains high compared to neighboring California markets, which will continue to drive housing demand from out-of-state homebuyers. However, the affordability issue is a deepening concern.

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 grew by 77,300 residents in 2016, according to a population estimate released by The Arizona Office of Economic Opportunity.

- The 1.7% growth rate is more than double the 0.8% national average.

Phoenix vs. National Population

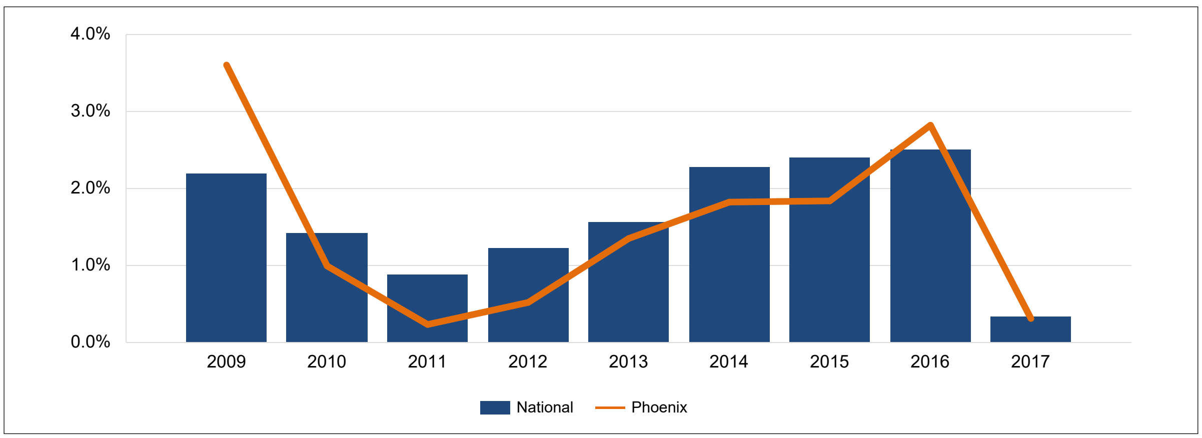
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Arizona Metropolitan Statistical Area	4,250,001	4,327,809	4,400,688	4,486,543	4,574,531

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

Supply

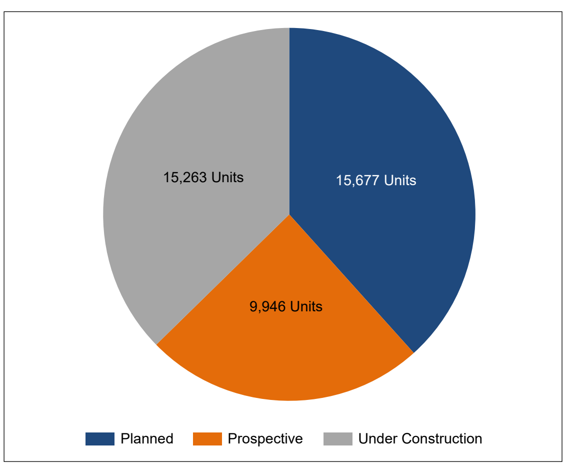
- More than 8,000 units came online in 2016, boosting inventory by 2.8% and surpassing the national rate of 2.5% for the first time since 2010. Healthy population and employment growth in Phoenix triggered demand for housing.
- Development is slowly accelerating and should keep up with demand in coming years. Some 9,000 units are slated for completion by the end of the year. The development pipeline is robust, with more than 15,000 units currently under construction and another 25,000 units in various stages of planning.
- Most of the construction activity is concentrated in the central and southeastern submarkets. North Tempe is the most active, with 2,594 units under construction. Gilbert (2,445 units) and Uptown (2,072 units) closely follow. Camden North End, Camden Property Trust's 1,069-unit project in Union Hills, is the metro's largest residential development, slated for completion in April 2019.
- Developers focusing mainly on luxury units in high-demand corridors may contribute to rent deceleration in the Lifestyle segment.

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



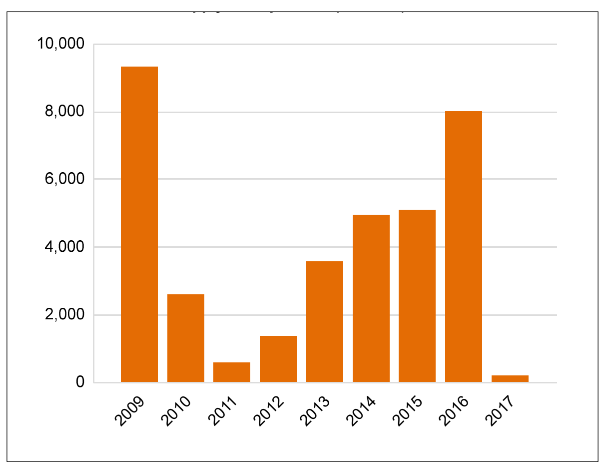
Source: YardiMatrix

Development Pipeline (as of March 2017)



Source: YardiMatrix

Phoenix Completions (as of March 2017)

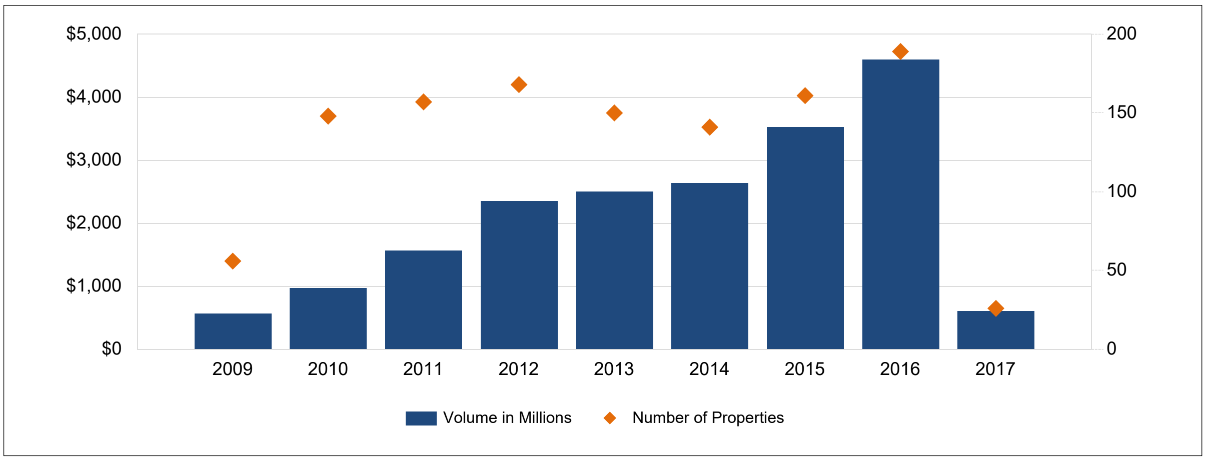


Source: YardiMatrix

Transactions

- After reaching a cyclical high in 2016, when transaction volume totaled $4.6 billion, investor appetite in Phoenix remains elevated. More than $600 million worth of properties traded in 2017's first quarter. Since the last downturn, investors have become more interested in the metro's high growth potential.
- The combination of new, high-end product, low vacancy and rising rents has fueled price growth. The median price in 2016 topped $109,299 per unit, though it still trailed the national average. Of the 26 assets that have traded in 2017 year-to-date, nearly two-thirds are in the Renter-by-Necessity class.
- Deer Valley, South Tempe, South Mesa, Chandler and North Scottsdale appealed the most to investors in 2016. The 312-unit Citrine in South Paradise Valley was the most expensive property to trade in 2016. Simpson Housing paid JLB Partners $94 million for the asset, or $301,000 per unit, in June.

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



Source: YardiMatrix

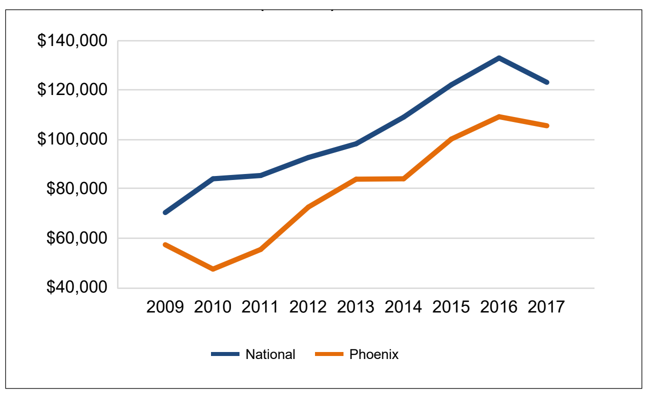
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Deer Valley	448
South Tempe	389
South Mesa	354
Chandler	350
North Scottsdale	320
North Tempe	297
Western Suburbs	284
Union Hills	267

Source: YardiMatrix

[1] From April 2016 to March 2017

Phoenix vs. National Sales Price per Unit



Source: YardiMatrix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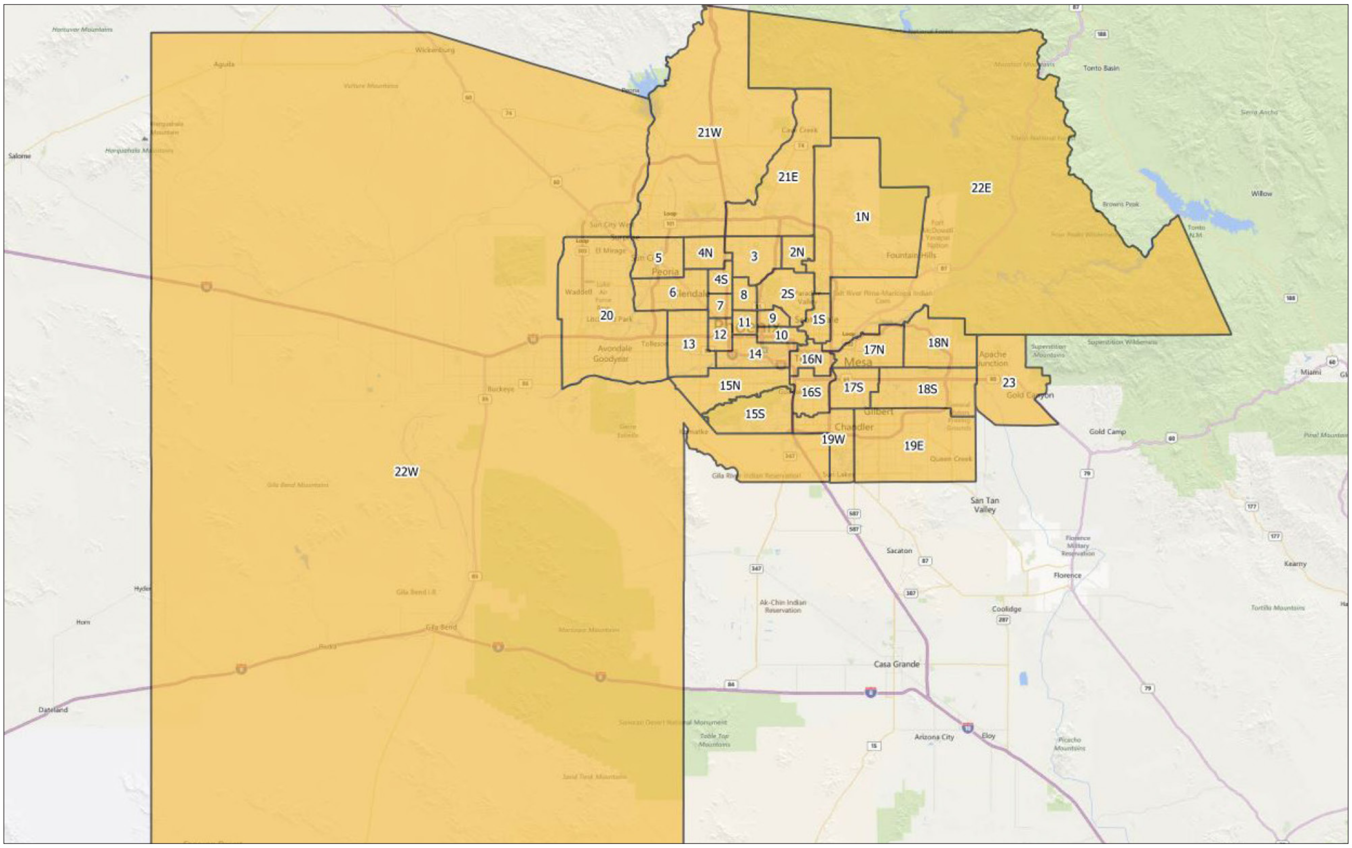
Phoenix Submarket Map



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

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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