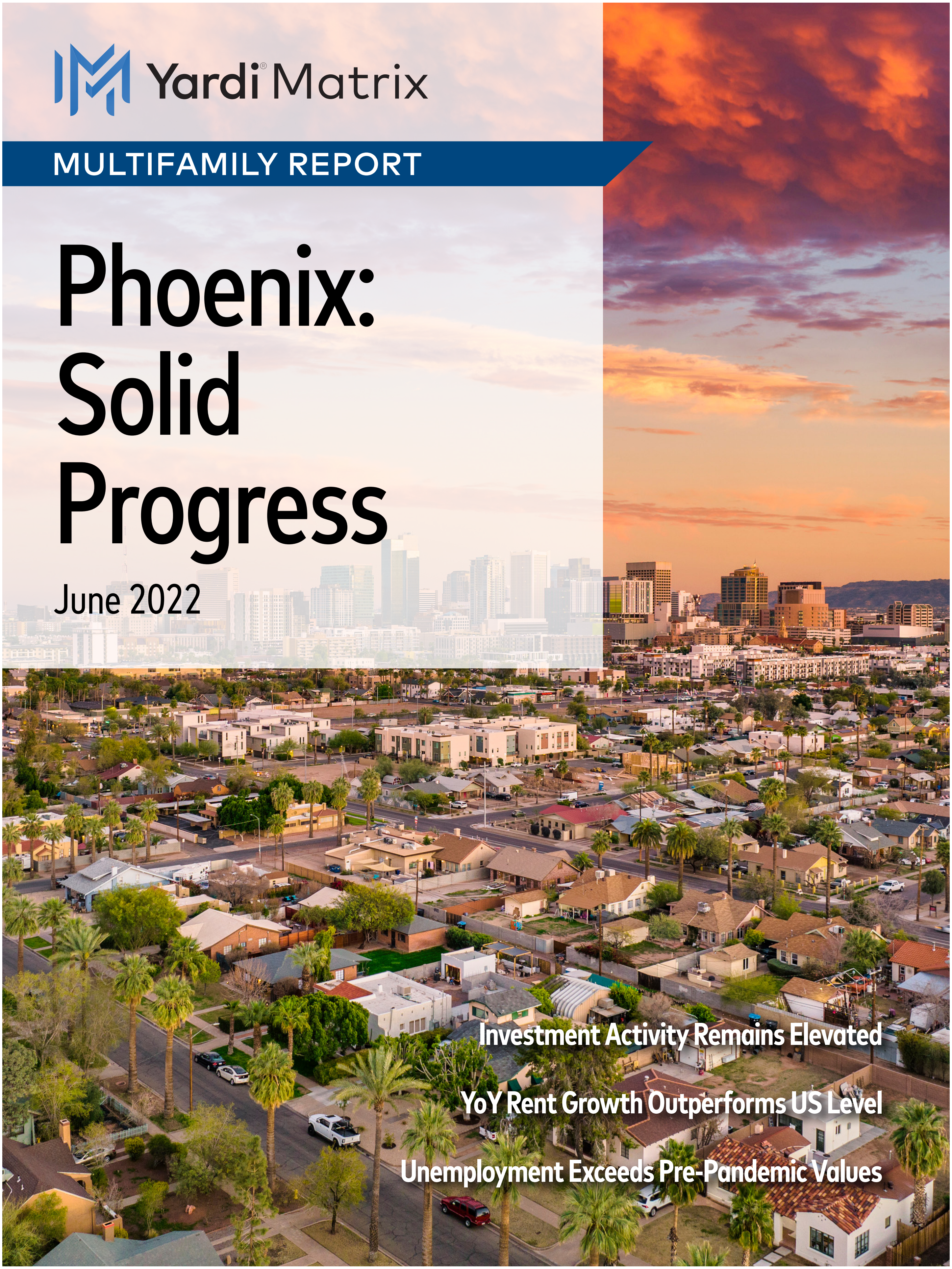
Yardi Matrix

MULTIFAMILY REPORT

Phoenix: Solid Progress

June 2022



Investment Activity Remains Elevated

YoY Rent Growth Outperforms US Level

Unemployment Exceeds Pre-Pandemic Values

PHOENIX MULTIFAMILY

Yardi Matrix

Robust Supply Moderates Rents, Occupancy

The Phoenix multifamily market had one of the strongest performances of 2021, sustained by a robust and diverse economy and an ideal location. Expectedly, in the first quarter of 2022, this stellar performance moderated, with rents up just 0.4% on a trailing three-month basis through April, to an average of $1,645. Record deliveries in 2021, paired with slowed in-migration, have left a mark on the occupancy rate in stabilized properties, down 50 basis points in the 12 months ending in March, to 95.7%.

The unemployment rate stood at 2.4% in March, surpassing pre-pandemic values, according to data from the Bureau of Labor Statistics. The rate was ahead of both the state (3.3%) and the nation (3.6%). Phoenix's employment market posted a 4.7% expansion in the 12 months ending in February, on par with the U.S. rate. All sectors expanded except government, which lost 200 jobs. The metro's largest employment areas led job gains and are poised for sustained expansion; the metro ranked fifth nationally in the data center industry and first in industrial construction volume.

Developers delivered 2,772 units through April and had 38,650 units under construction. Meanwhile, transaction volume amounted to $3 billion, for a price per unit that increased by a substantial 40.4% year-over-year, to $295,789.

Market Analysis | June 2022

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Recent Phoenix Transactions

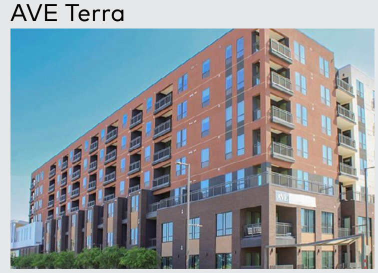
Tides on 71st

City: Phoenix
Buyer: Tides Equities
Purchase Price: $255 MM
Price per Unit: $251,976

Roadrunner on McDowell

City: Scottsdale, Ariz.
Buyer: KB Investment Development
Purchase Price: $194 MM
Price per Unit: $543,539

AVE Terra



City: Phoenix
Buyer: RXR Realty
Purchase Price: $145 MM
Price per Unit: $431,547

Mountainside

City: Phoenix
Buyer: TA Realty
Purchase Price: $136 MM
Price per Unit: $470,486

RENT TRENDS

- Phoenix rent growth moderated to 0.4% on a trailing three-month (T3) basis through April, half the 0.8% national rate. Even so, the metro's $1,645 average rent is right behind the $1,659 U.S. rate. On a year-over-year basis, Phoenix rates rose 20.7%, outperforming the national rate by 640 basis points.

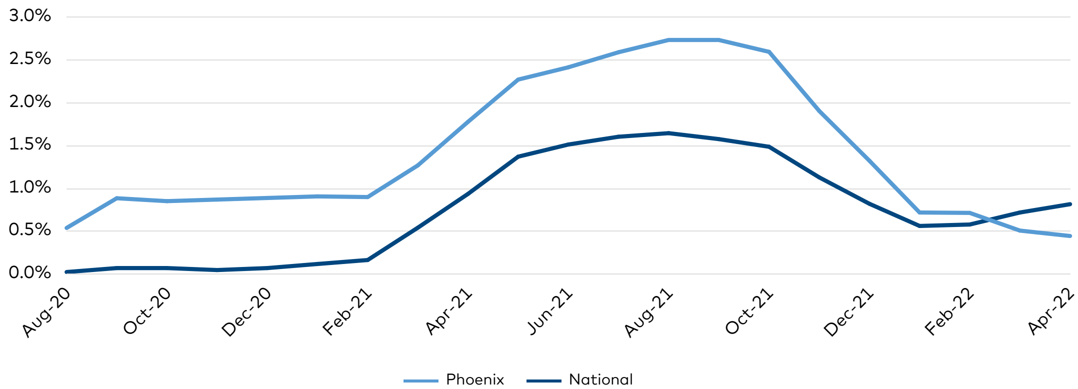
- Rent expansion was led by the working-class Renter-by-Necessity segment, up 0.7% on a T3 basis through April to $1,372, while Lifestyle rates rose 0.3% to $1,911. The bifurcation in demand by asset class occurred in August 2021; additionally, recent deliveries and the rental pipeline consist of mostly upscale properties, leading to heightened demand for RBN apartments.

- Last year's robust inventory additions slashed the occupancy rate in stabilized properties by 50 basis points in the 12 months ending in March, to 95.7%. This could also be a sign that in-migration is weakening. RBN occupancy decreased by 50 basis points to 95.5%, and Lifestyle occupancy fell 40 basis points, to 95.9%.

- All 38 submarkets tracked by Yardi Matrix posted double-digit increases in annual rent growth, with 24 submarkets registering above 20%. The average asking rate rose above the $2,000 threshold in five submarkets from none a year ago. Downtown Phoenix (23.6% to $2,217) and Scottsdale—North (26.1% to $2,157) remained the most expensive areas.

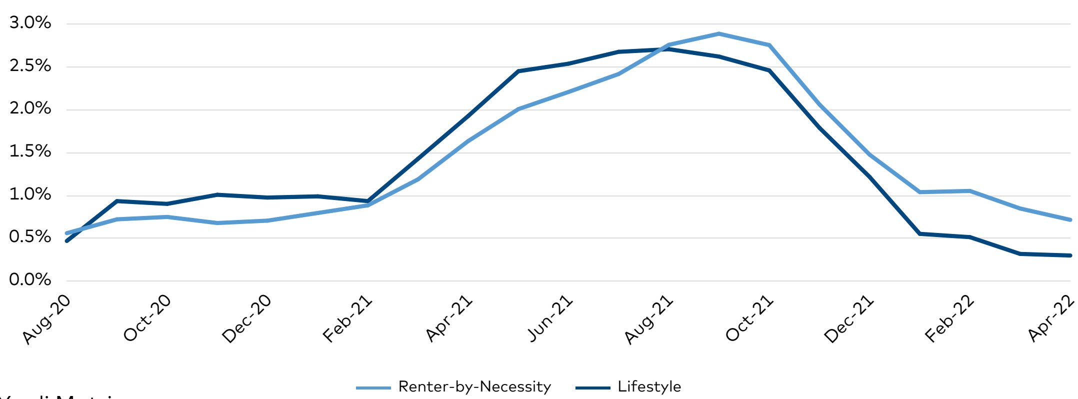
- The asking rent for single-family rentals was up 15.4% year-over-year, but occupancy slid 0.3%.

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 exceeded pre-pandemic values, clocking in at 2.4% in March, which marks a 300-basis-point improvement year-over-year according to data from the BLS. The rate led both the state (3.3%) and nation (3.6%).

- The employment market growth moderated, expanding 4.7%, or 26,200 jobs, in the 12 months ending in February, on par with the U.S. rate. Despite the gains in most sectors, government lost 200 positions. Mirroring the national trend, leisure and hospitality (26,200 jobs) led increases, followed by the metro's largest sectors—trade, transportation and utilities (24,600 jobs), professional and business services (11,600 jobs) and education and health (9,600 jobs).

- Phoenix has emerged as a go-to destination for webscale, cloud and enterprise companies—the metro is the fifth-largest data center market in the U.S. With operational costs cheaper by one-third than in California, a wave of headquarter relocations surged, and the highly skilled workforce expanded significantly during the pandemic. In addition, Phoenix ranks first nationally in industrial construction volume, thanks to spillover effect from Southern California, where demand is higher than the region's supply.

- The economic growth outlook for the rest of 2022 looks promising, but Phoenix also must overcome rising inflation and interest rates, supply chain issues and the coronavirus.

Phoenix Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	226	10.0%
40	Trade, Transportation and Utilities	458	20.2%
60	Professional and Business Services	379	16.7%
65	Education and Health Services	352	15.5%
80	Other Services	71	3.1%
30	Manufacturing	141	6.2%
15	Mining, Logging and Construction	144	6.3%
50	Information	41	1.8%
55	Financial Activities	215	9.5%
90	Government	243	10.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Phoenix gained 78,220 residents in 2021, up by a robust 1.6%, significantly above the 0.1% U.S. rate, but 30 basis points below the growth rate of 2020.

- In the decade ending in 2021, the metro's population expanded 14.2%, leading the 5.7% U.S. rate.

Phoenix vs. National Population

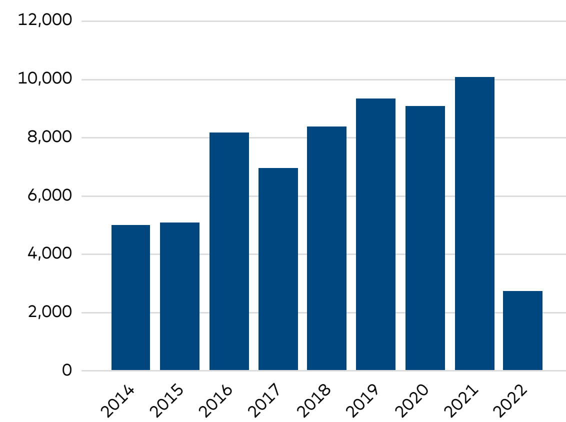
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Phoenix	4,851,830	4,953,901	4,867,925	4,946,145

Source: U.S. Census

SUPPLY

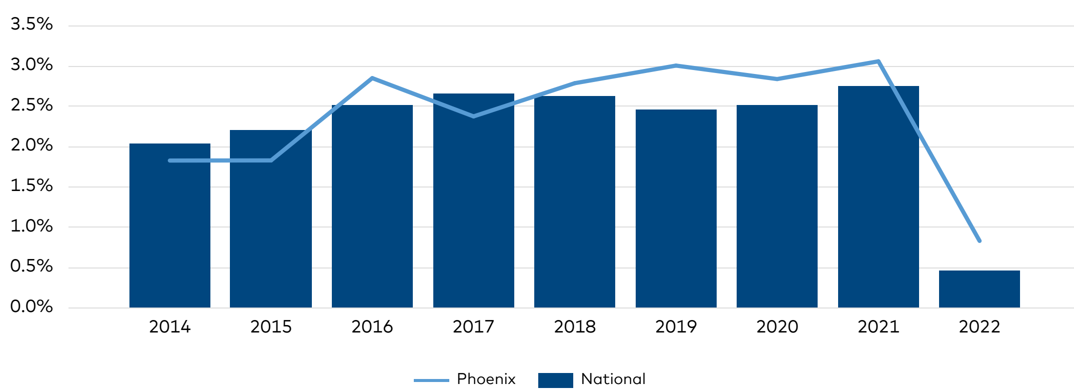
- Through April, developers delivered 2,772 units, or 0.8% of total stock, 30 basis points above the national rate. This comes at the heels of an all-time high inventory expansion, as 10,108 came online in 2021. Since 2018, Phoenix's inventory growth has consistently outperformed the U.S. rate.
- The construction pipeline comprised 38,650 units underway and 64,500 in the planning and permitting stages. Of these, more than 25,500 units are slated for completion in 2022, but the current economic conditions—such as rising inflation and the Federal Reserve's response to it, ongoing supply chain hurdles and increasing construction costs—will likely cause delays. Construction starts in 2022 through April totaled 7,058 units, slightly below the volume recorded during the same period last year (8,260 units).
- Similar to recent deliveries, strong demand for apartments kept developers focused on Lifestyle projects, with more than 90% of the pipeline consisting of upscale properties. Less than 5% were fully affordable communities and just 2.5% of the pipeline comprised market-rate units.
- Downtown (3,997 units underway), Gilbert (3,646 units) and Tempe-North (3,066 units) led in construction activity, with the latter also housing the largest project underway—the 761-unit Culdesac Tempe, slated for completion in the final quarter of 2023.
- The largest projects delivered through April were Liv Crossroads in Chandler and Roadrunner in McDowell in Scottsdale-South, each totaling 356 units. The latter was sold prior to completion.

Phoenix Completions (as of April 2022)



Source: Yardi Matrix

Phoenix vs. National Completions as a Percentage of Total Stock (as of April 2022)



Source: Yardi Matrix

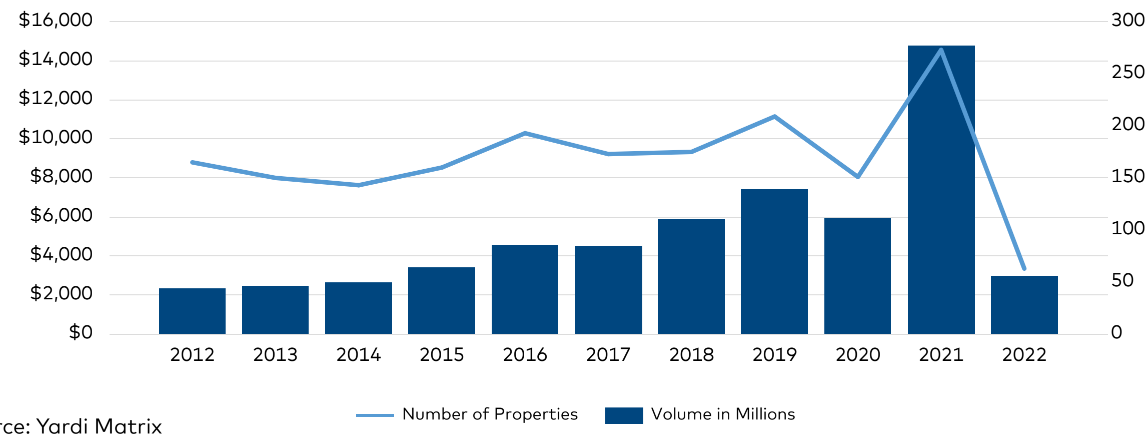
TRANSACTIONS

- Phoenix remained highly attractive to investors, with the multifamily transaction volume rising to nearly $3 billion in 2022 through April, slightly above the $2.8 billion registered during the same interval in 2021. Overall, nearly $14.8 million in multifamily assets traded in 2021, an all-time high.
- Through April, investor interest remained primarily focused on value-add plays, with 73% of sales involving Renter-by-Necessity assets.

Increased investor competition pushed the per-unit price up another 40.4% year-over-year, to $295,789, widening, the gap to the $209,274 U.S. average.

- Through April, Tides on 71st held the highest sale price— $255 million or $251,976 per unit—paid by Tides Equities. However, the 356-unit Roadrunner on McDowell, sold for the highest price per unit—$543,539—acquired by KB Investment Development from JLB Partners, with aid from a $125.5 million loan originated by Heitman.

Phoenix Sales Volume and Number of Properties Sold (as of April 2022)



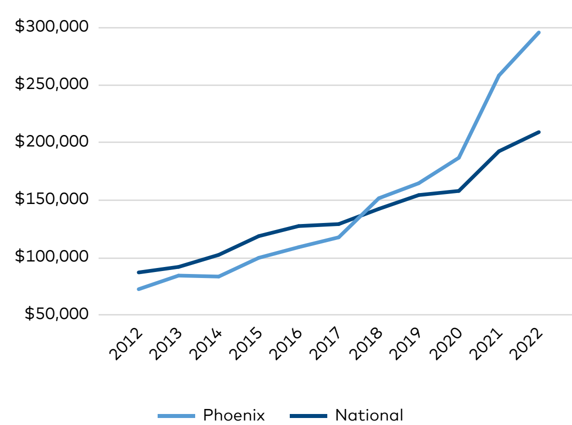
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Tempe-North	1,120
Maryvale	1,052
Deer Valley	975
Chandler	897
Mesa-West	867
Paradise Valley Village	853
Glendale South	734

Source: Yardi Matrix
[1] From May 2021 to April 2022

Phoenix vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

Top Western Markets by Investment Activity

By Beata Lorincz

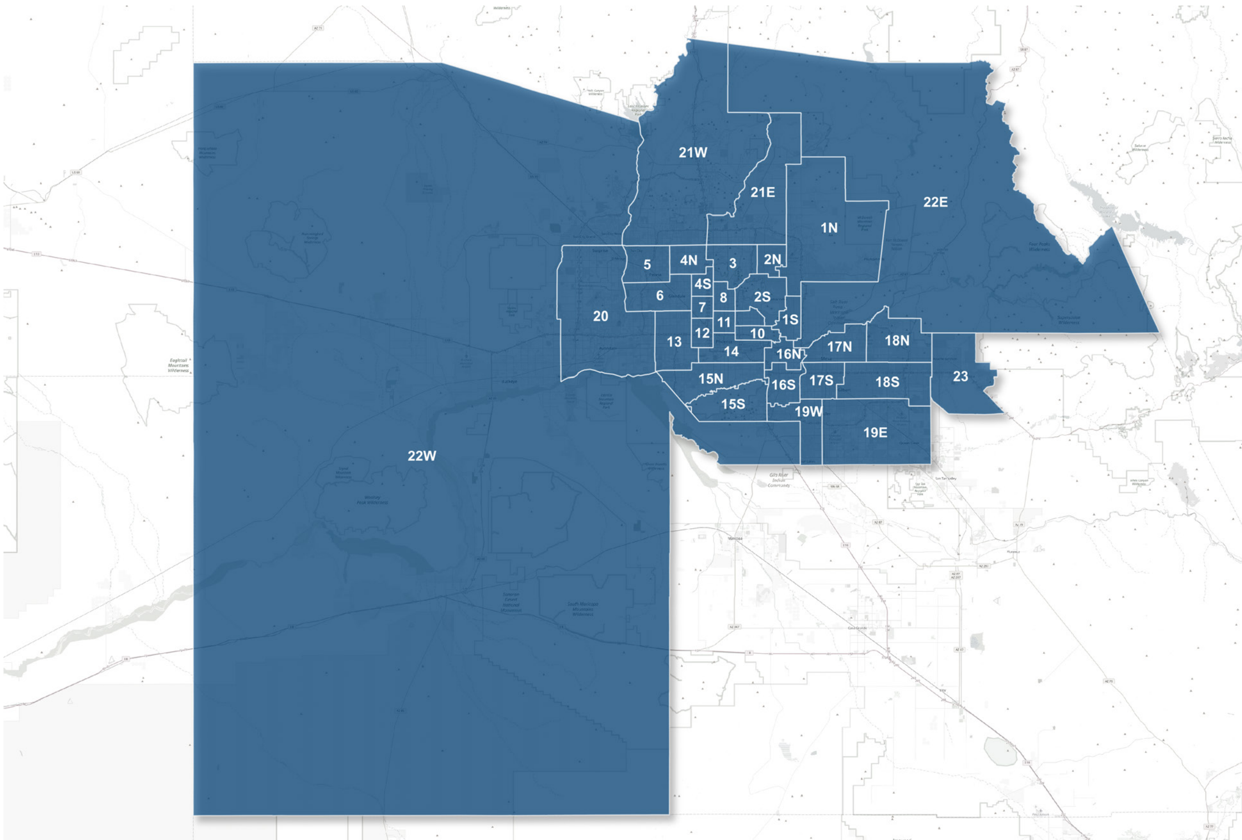
U.S. multifamily investment has been riding a wave of expansion and despite ongoing global issues, the sector's steam is still holding up. With the country's economy contracting 1.4 percent in the first quarter of 2022 due to multiple reasons, such as inflation, supply chain issues and the ongoing pandemic, Yardi Matrix is expecting deceleration of this growth.

Rank	Market	Sales Volume Q1-2022	Price Per Unit Q1-2022	Sales Volume 2021	Price Per Unit 2021
1	Phoenix	$2.5 billion	$312,430	$14.7 billion	$261,054
2	Denver	$1.3 billion	$409,475	$9.9 billion	$322,151
3	Las Vegas	$979 million	$267,905	$4.6 billion	$217,022
4	Reno	$320 million	$308,687	$700 million	$246,510
5	Colorado Springs	$255 million	$301,241	$887 million	$220,278

Phoenix

Phoenix has become one of the hotspots of commercial and residential development in the past year, recording exceptional growth on all levels. The metro's multifamily investment volume in the first quarter of 2022 amounted to $2.53 billion, outperforming Denver's figure by more than 92 percent. In the same period, Phoenix registered the second-highest price per unit on the same list, reaching $312,430.

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

- Following several bountiful years—between 2015 and 2021, Phoenix added 16.9 million square feet of space—the pipeline moderated and as of March it had only 1.0 million square feet, or 0.8% of total stock under construction, according to CommercialEdge data. Only 413,000 square feet of office space came online.

- While development softened, investment activity remained elevated, with more than 2.8 million square feet of office space having traded in Greater Phoenix in the first quarter of 2022, which is 12% higher year-over-year. More than 1.5 million square feet changed hands in urban submarkets and 86.2% of the total space traded consisted of traditional office properties.

- Total investment amounted to $875 million as of March, according to CommercialEdge, more than double the volume recorded last year during the same interval. The average price of $339 per square foot, led the $280 national average. The largest transaction of the quarter was the $503.7 million sale of The Esplanade, a four-building, 906,459-square-foot office complex in Camelback East submarket. A partnership between Monarch Alternative Capital and Tourmaline Capital Partners purchased it from a joint venture between Clarion Partners and LBA Realty.

- The vacancy rate stood at 15.1% in March, a 340-basis-point improvement year-over-year. The asking rent decreased to $26.73 per square foot, a 3.6% decrease year-over-year, and trailing the $38.65 national rate.

Industrial

- As the industrial market continues to expand across the country, metros like Phoenix are benefiting from the effects of spillover demand from established industrial markets. Specifically, industrial demand in Southern California is higher than the region's current supply abilities, and developers and tenants are looking to Phoenix to solve their needs.

- Phoenix led in construction volume with 41.6 million square feet of industrial space underway, according to Commercial Edge, the equivalent of 14.8% of existing stock. Moreover, the momentum is expected to persist as the percentage rises to 34.7% when adding projects in the planning stage.

- Transaction volume rose to $564 million as of March, for an average $170 price per square foot, well above the $125 national rate. Among the assets that traded in Phoenix in 2022, was the seven-building Landing 3, a 525,342-square-foot industrial property in Mesa, Ariz., acquired for $130 million by an affiliate of Cohen Asset Management in partnership with ASB Real Estate Investments.

Self Storage

- The remarkable performance of Phoenix's multifamily markets spilled over the self storage market too. The street rate for 10x10 non-climate-controlled units rose 12.5% year-over-year through March, behind only Miami (16.7%) and Atlanta (15.0%), according to Yardi Matrix.

- Phoenix's new-supply pipeline rose to 13.4% of existing stock in March, a 40-basis-point uptick from February, which placed it on the fourth position among major metros.

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 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 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, 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.

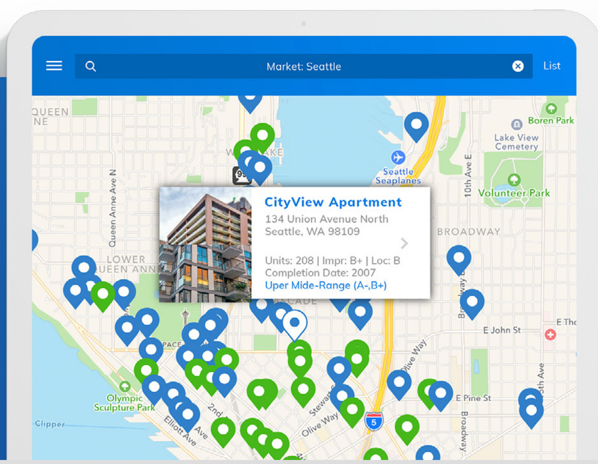
To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

Yardi Matrix

Power your business with the industry's leading data provider

MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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