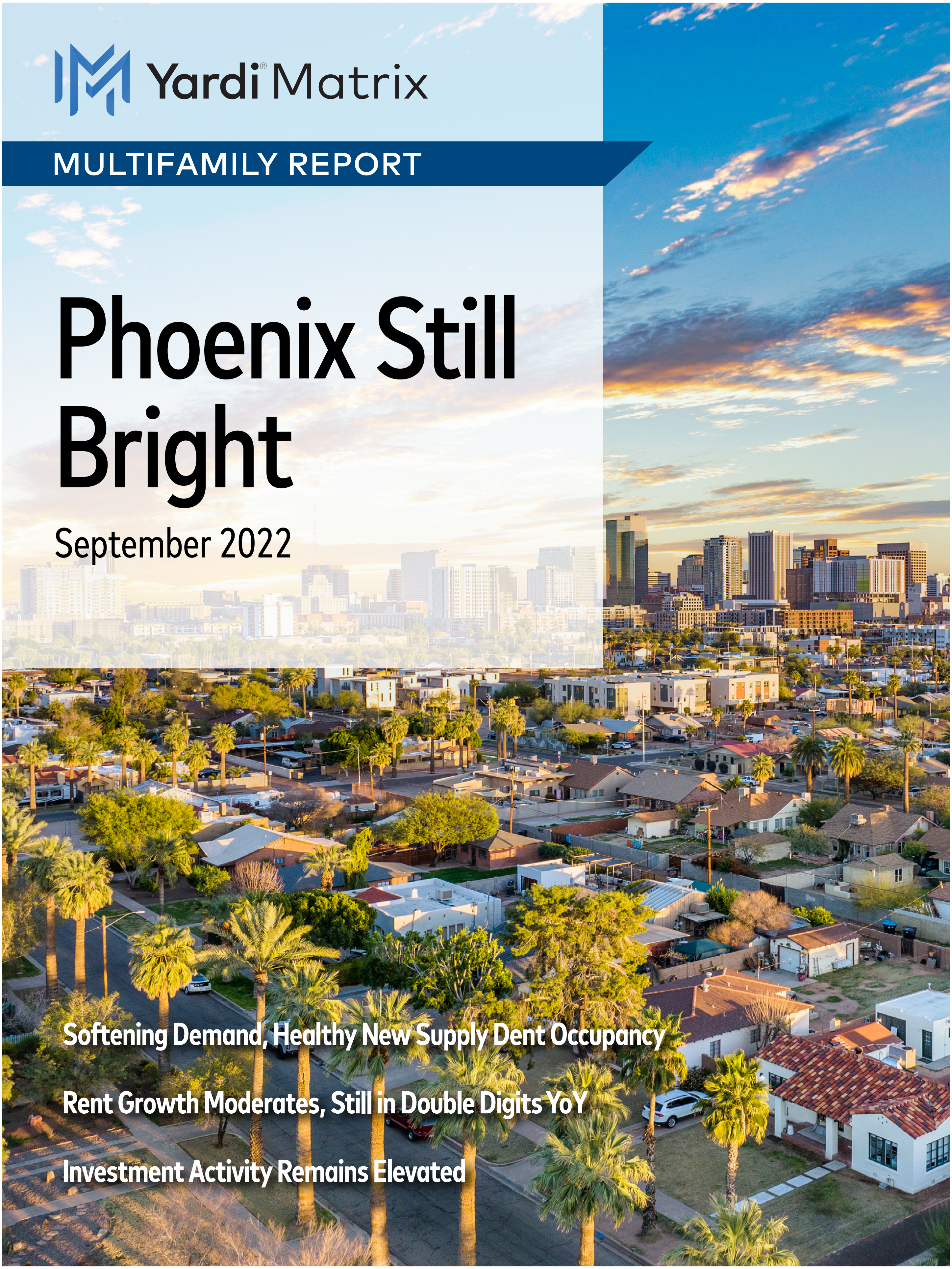
Yardi Matrix

MULTIFAMILY REPORT

Phoenix Still Bright

September 2022



Softening Demand, Healthy New Supply Dent Occupancy

Rent Growth Moderates, Still in Double Digits YoY

Investment Activity Remains Elevated

Yardi Matrix

Robust Supply Outpaces Softening Demand

Phoenix's economy has been in expansion mode since late last year, when it recovered all jobs lost during the pandemic. Its prospects are mostly dependent on national and global events. Expectedly, the multifamily market reacted to the positive economic performance with robust fundamentals, especially on the supply and investment scenes, delivering all-time high figures. Consequences of the recent substantial supply volume reverberated in rent growth—moderating since the start of the year and up just 0.3% on a T3 basis through July, to $1,690—and pushed occupancy down 110 basis points in the 12 months ending in June, to 95.3%.

Phoenix unemployment stood at 3.4% in June, according to preliminary data from the Bureau of Labor Statistics, leading the U.S. (3.6%) and trailing the state (3.3%). The job market added 81,000 positions, up 4.0% in the 12 months ending in May, with gains led by the leisure and hospitality segment (23,300 jobs). The financial activities and government sectors lost 2,800 jobs combined, but overall, the metro had 15,000 more office-using positions than it did pre-pandemic.

Developers delivered 7,701 units in 2022 through July and had another 34,700 units under construction. Meanwhile, investment activity exceeded $7.5 billion, above the volume recorded during the same period last year, with the price per unit surpassing the $300,000 mark following a 48% annual increase.

Market Analysis | September 2022

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Recent Phoenix Transactions

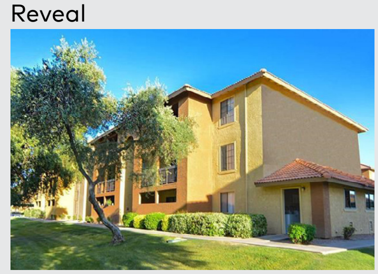
The Moderne

City: Scottsdale, Ariz.
Buyer: JB Partners
Purchase Price: 260 MM
Price per Unit: $704,607

Skywater at Town Lake

City: Tempe, Ariz.
Buyer: KB Investment Development
Purchase Price: $160 MM
Price per Unit: $487,805

Reveal



City: Phoenix
Buyer: Aukum Group
Purchase Price: $142 MM
Price per Unit: $323,295

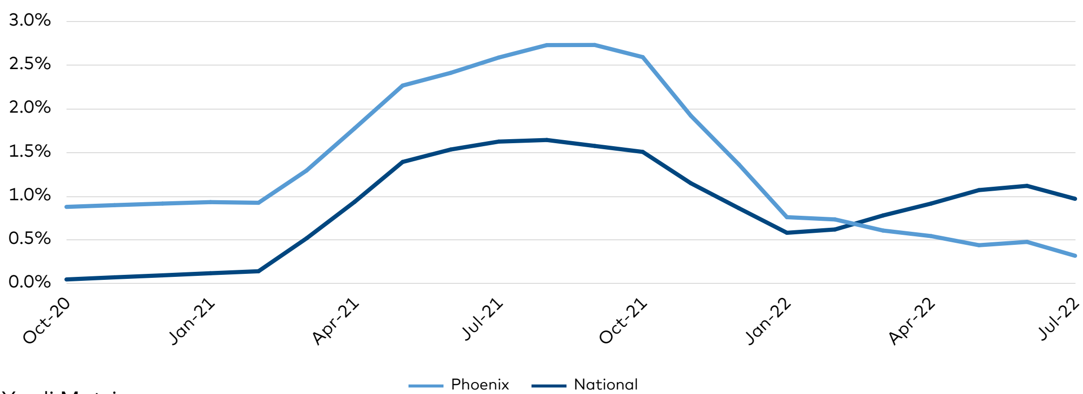
Indian Springs

City: Mesa, Ariz.
Buyer: Rise48 Equity
Purchase Price: $142 MM
Price per Unit: $308,696

RENT TRENDS

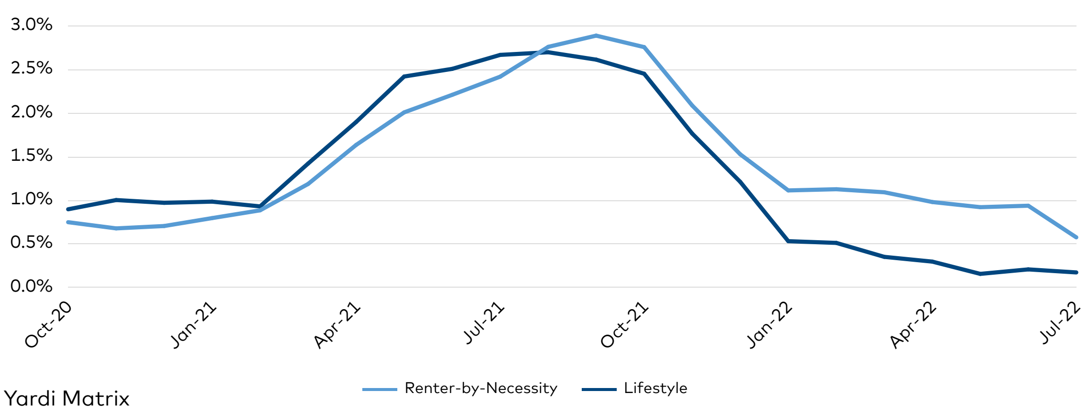
- Phoenix rents rose just 0.3% on a trailing three-month (T3) basis through July, the lowest improvement in 24 months, trailing the 1.0% U.S. rate. At $1,690, the average rate in the metro is slightly behind the $1,717 national average. On a year-over-year basis, Phoenix rents posted a 13.3% increase, leading the 12.6% U.S. rate.
- Working-class Renter-by-Necessity units led in rent expansion, up 0.6% on a T3 basis through July, to $1,409. Meanwhile, rents for Lifestyle apartments inched up 0.2% to $1,920.
- The softening in rent gains is likely the result of the substantial supply expansion—since January 2021, more than 17,000 units have come online in Phoenix—coupled with slowing in-migration. The dynamic is also illustrated by the occupancy rate in stabilized properties, which dropped 1.1% in the 12 months ending in June, to 95.3%. The decline was 20 basis points deeper in the Lifestyle segment (-1.3% to 95.2%) than in the RBN communities (-1.1% to 95.2%).
- Of the 38 submarkets tracked by Yardi Matrix, 35 posted double-digit rent increases year-over-year through July. The robust increases rose the average rate above the $2,000 mark in five submarkets, from none a year ago. Phoenix Downtown (16.2% to $2,208) and Scottsdale North (9.1% to $2,044) remained the most sought-after areas.
- The single-family sector recorded an annual 11.5% increase in the average rent and a 0.7% decline in occupancy. With rising interest rates, occupancy is likely to rebound.

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 stood at 3.4% in June, according to preliminary data from the BLS, up from 2.4% in March. Although the June rate was 10 basis points behind the state, it led the U.S. by 20 basis points.
- The employment market expanded 4.0%, or 81,000 jobs, in the 12 months ending in May, trailing the U.S. rate by 70 basis points. The financial services and government sectors lost 2,800 jobs combined. Leisure and hospitality led gains (23,300 jobs), followed closely by trade, transportation and utilities (21,000 jobs). While the recent growth in Phoenix has been slow—the rate trailed the U.S. average for the third consecutive month in May—the metro has recovered its pandemic losses and currently has 15,000 more office-using jobs than it did in early 2020, emerging as a reputable technology hub. In the past year, professional and business services added 7,300 jobs, accounting for 16.6% of the total workforce. The University of Arizona Health Sciences announced plans for the Center for Advanced Molecular and Immunological Therapies, a $325 million research, business incubator and education facility, anticipated to attract more than 150 companies and generate at least 7,500 new bioscience-related jobs.
- As of June, Phoenix had 43.8 million square feet of industrial space underway, benefiting from the spillover effect from Southern California.

Phoenix Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	236	10.4%
40	Trade, Transportation and Utilities	451	19.8%
65	Education and Health Services	357	15.7%
60	Professional and Business Services	377	16.6%
30	Manufacturing	143	6.3%
50	Information	43	1.9%
15	Mining, Logging and Construction	144	6.3%
80	Other Services	71	3.1%
90	Government	240	10.6%
55	Financial Activities	213	9.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Migration to Phoenix slowed in 2021 compared to 2020. The metro gained 78,220 residents overall, a 1.6% expansion and 30 basis points below 2020's rate of growth. Even so, it remained one of the leading metros in population expansion and well above the 0.1% national rate.

Phoenix vs. National Population

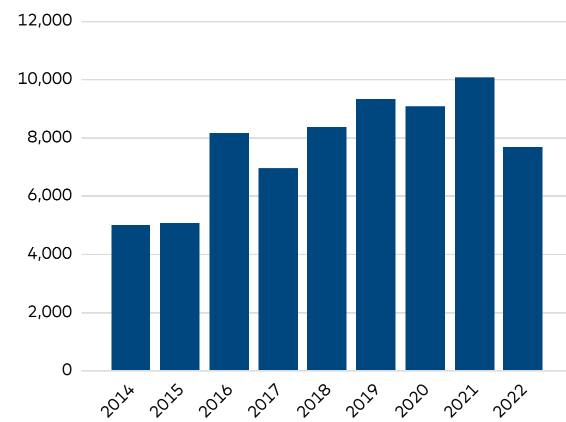
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Phoenix Metro	4,851,830	4,953,901	4,867,925	4,946,145

Source: U.S. Census

SUPPLY

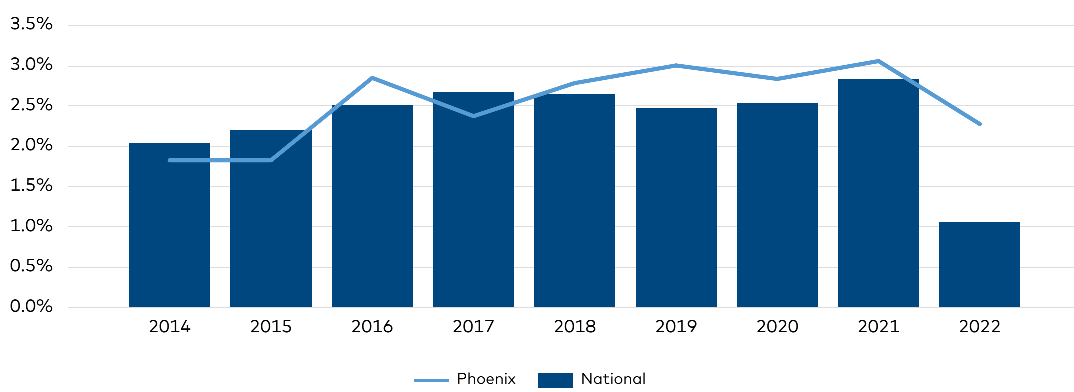
- Through July, developers delivered 7,701 units, a solid 2.3% of existing stock, more than double the 1.1% U.S. rate. Except for a 177-unit fully affordable community, all recently delivered units were in upscale Lifestyle properties.
- The development pipeline comprised 34,762 units under construction and another 74,000 units in the planning and permitting stages. Of the projects underway, 8,135 units broke ground this year, a decline from the 12,146 units recorded during the same interval last year. By year's end, nearly 18,000 units are slated for completion, but the economic challenges of the current landscape will most likely push delivery into the next year.
- The pipeline's composition remained uneven, favoring the Lifestyle segment (92.4%), and the remaining split into Renter-by-Necessity (2.5%) and fully affordable units (4.3%).
- Of the 38 submarkets tracked by Yardi Matrix, 31 had projects under construction, 16 of which had more than 1,000 units underway. Tempe-North (2,948 units), Phoenix Downtown (2,554 units) and Gilbert (2,311 units) remained the most active in multifamily development. Tempe-North also has the largest project currently underway—Culdesac Tempe, a 761-unit project slated for completion by the end of 2023.
- The largest project delivered in 2022 through July was Soltra at San Tran Village, a 380-unit Lifestyle property in Gilbert, built by Leon Capital Group with aid from a $54 million construction loan originated by Citizens Financial Group.

Phoenix Completions (as of July 2022)



Source: Yardi Matrix

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

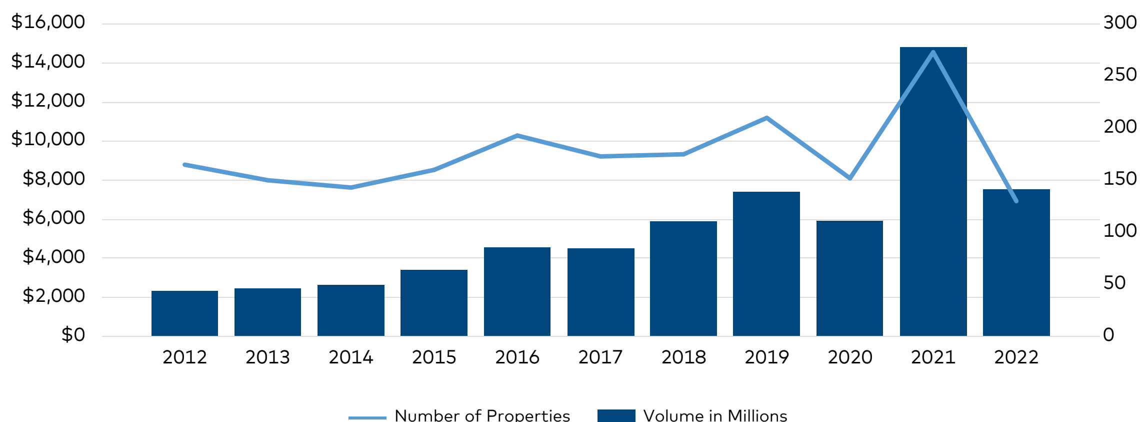


Source: Yardi Matrix

TRANSACTIONS

- More than $7.5 billion in multifamily assets traded in 2022 through July, already surpassing most annual totals of the past decade. Multifamily investment volume continued to stay elevated in Phoenix, following a stellar 2021, which ended with $14.4 billion in total sales.
- Investor preference remained with value-add opportunities, as 64% of the properties that changed hands were Renter-by-Necessity assets. The keen competition in the investment market pushed up the price per unit another 48.2% year-over-year through July, to an all-time high of $340,653, well above the $216,893 U.S. average. Since 2019, the per-unit price marked a 106.7% increase.
- The largest trade of the year through July was JB Partners' $260 million acquisition of The Moderne in Scottsdale, with aid from a $169 million loan issued by Aegon. The 369-unit asset was sold by JLB Partners for $704,607 per unit.

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



Source: Yardi Matrix

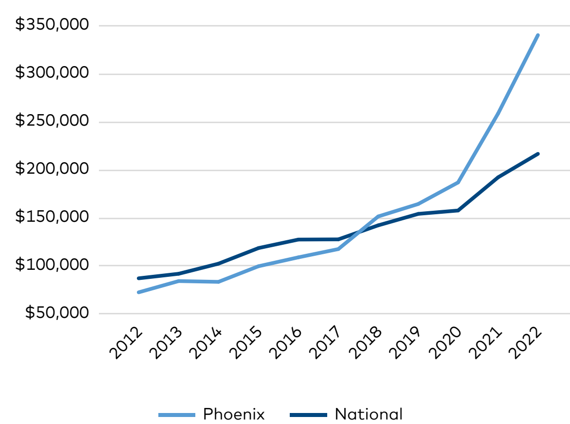
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Tempe–North	1,781
Chandler	1,175
Mesa–West	1,068
Phoenix–Maryvale	897
Phoenix–Deer Valley	803
Scottsdale–North	791
Phoenix–Paradise Valley Village	744

Source: Yardi Matrix

[1] From August 2021 to July 2022

Phoenix vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MHN MULTI-HOUSING NEWS

data by Yardi Matrix

Top 10 Multifamily Markets by Sales Volume in 2022 H1

By Anca Gagiuc

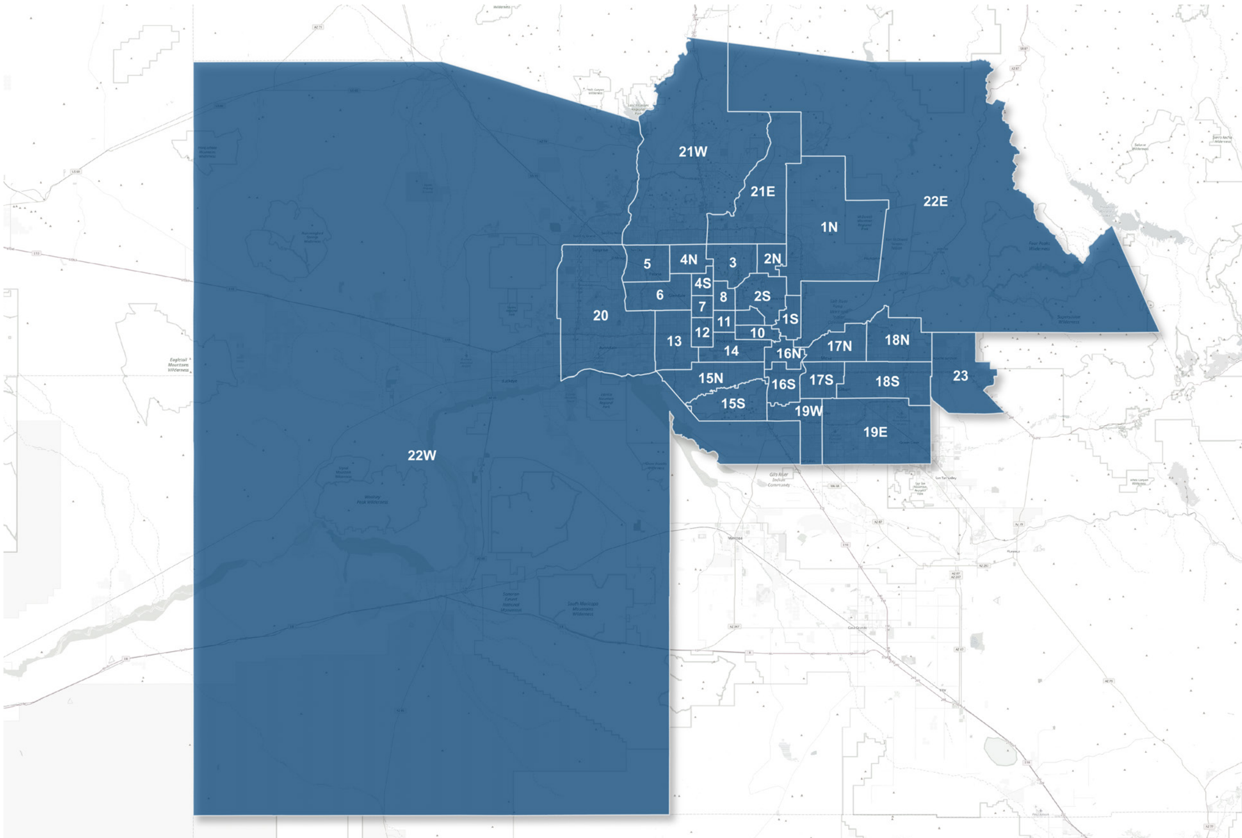
The U.S. multifamily market had an exceptional performance from an investment standpoint during the first half of the year, according to Yardi Matrix data. Overall national multifamily sales volume surpassed $101 billion in the first six months of 2022, outperforming the $67 billion volume registered in 2021 during the same interval, while the average price per unit rose 28.4 percent year-over-year, to a new high of $218,377.

Rank	Metro	Sales Volume $ H1 2022	Price Per Unit H1 2022	PPU Evolution YoY	Units Sold H1 2022
1	Phoenix	$7,351,109,167	$339,622	58.3%	24,787
2	Atlanta	$7,012,412,048	$204,312	27.0%	39,113
3	Dallas	$6,568,096,859	$186,049	22.7%	64,213
4	Houston	$6,401,791,606	$155,780	25.6%	56,895
5	New York	$3,997,523,782	$642,482	-7.8%	7,524

Phoenix

Phoenix was one of the first markets to recover all the jobs lost during the pandemic, entering the expansion phase late last year. Its multifamily investment volume rose to $7.4 billion during the first half of the year, a substantial increase from the $5.1 billion registered during the same time last year. However, last year, investor activity increased progressively from quarter to quarter, a dynamic that is more likely to be reversed in 2022 due to the current economic woes.

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 occupied once again the third position for office pipeline relative to total stock, office developments amounting to 2.2 million square feet as of June, 1.7% of existing stock, according to Commercial Edge data. The figure is 69.2% higher than the volume recorded during the same period last year. Of the total, 850,000 square feet were added during the second quarter of 2022 and prospects look good—the metro has another 10.5 million square feet in the planning stages. Among the planned projects is University of Arizona Health Sciences' Center for Advanced Molecular and Immunological Therapies, a $325 million research, business incubator and education facility, anticipated to attract more than 150 companies and generate at least 7,500 new bioscience-related jobs.
- Leasing activity also picked up in the second quarter of 2022—the vacancy rate stood at 13.9% in June, marking the third straight month of improvement and 240 basis points lower year-over-year. In June, the full-service equivalent rate dropped back to March's value of $26.96 per square foot, trailing the $37.58 U.S. rate.
- Total investment during the first half of the year rose to $1.4 billion, according to CommercialEdge, at an average price of $292 per square foot, 6.8% above the $272 U.S. figure. One of the largest properties to change hands through June was Paradise Village Office Park, a Class B, 268,516-square-foot office building acquired by Time Equities for $43 million and sold by a joint venture between Sterling Equities and Lincoln Property Co.

Industrial

- Despite elevated inflation and many signs of a possible recession around the corner, demand for industrial space remained high in Phoenix. The metro occupied the second position for industrial pipeline, totaling 43.8 million square feet underway, or 15.2% of existing stock, according to CommercialEdge data. When adding the projects in the planning stage, the percentage rises to 37.7%.
- The metro ranked third in new inventory delivery year-to-date, with 7.7 million square feet brought online through June, behind Dallas and Indianapolis. One notable project announced in the metro is the 1.5-million-square-foot campus in Glendale, a five-building development dubbed Virgin Industrial Park, slated to break ground in November under a joint venture formed with IndiCap and Invesco. IndiCap has two other industrial developments underway in Greater Phoenix: the 1.6 million-square-foot, 113-acre Eastmark Center of Industry in Mesa, Ariz., and the 4.1 million-square-foot, 292-acre The Ranch, in Gilbert, Ariz.
- Transaction volume rose to nearly $2.1 billion during the first half of 2022, according to CommercialEdge, for an average price of $248 per square foot, more than double the $129 U.S. rate. This volume placed Phoenix on the fourth rank in the country, behind Houston, Chicago and Los Angeles.

Self Storage

- Phoenix was one of the 12 metros with no monthly change in the combined average 10x10 street rate, clocking in at $138 in June, almost on par with the $139 national average, according to Yardi Matrix data. On a year-over-year basis, the average rate for non cc 10x10 rate in the metro marked a 7% increase, nearly double the 4% national growth rate.
- The metro's new supply pipeline accounted for 12.9% of total stock in June, a 20-basis-point increase from May, which placed it on th efifth 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.

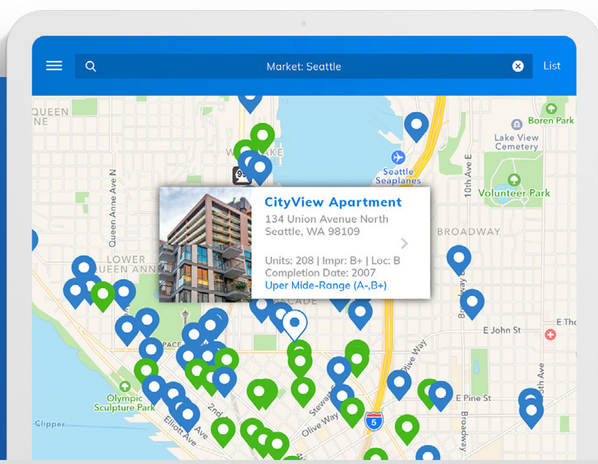
To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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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