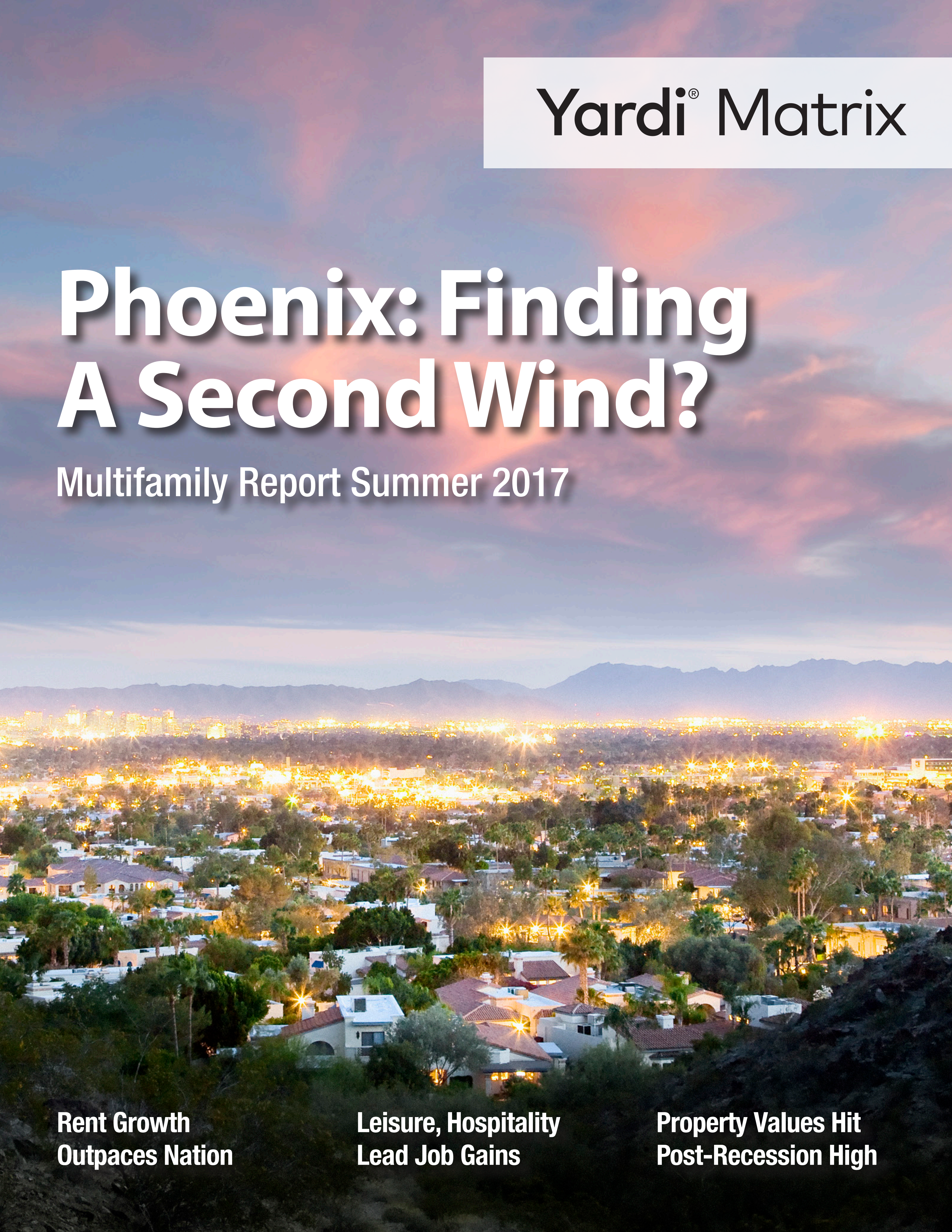
Yardi® Matrix



Phoenix: Finding A Second Wind?

Multifamily Report Summer 2017

Rent Growth Outpaces Nation

Leisure, Hospitality Lead Job Gains

Property Values Hit Post-Recession High

Market Analysis
Summer 2017

Contacts
Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author
Anca Gagiuc
Associate Editor

Maintaining Momentum in the Desert

Outpacing the country in job creation and population growth, Phoenix is appealing to multifamily developers and investors looking for opportunities in second-tier markets. Although rent growth decelerated in the first half of 2017, rents rose by 3.4% year-over-year through July, which is still well above the 2.6% national average.

Employment growth is diversified, with leisure and hospitality, education and health services, and professional and business services occupying top positions in the number of jobs added. Companies such as Facebook, Boeing and Intel are planning expansions in the metro, while JP Morgan Chase is developing a 67-acre campus in Tempe, where it aims to locate more than 4,000 jobs.

The metro's investment activity remains strong, with nearly $2.4 billion in multifamily properties trading in 2017 through July. As the city competes with California, Texas and the Mountain States to attract talent, jobs and companies, housing demand has exceeded supply in recent years. As a result, development is robust, with 17,000 units under construction, some 5,600 of which are slated for completion by year-end. Although the occupancy rate was just 94.9% as of July, down 60 basis points in 12 months, we expect demand to remain strong, with the average rent rising by 5.3% in 2017.

Recent Phoenix Transactions

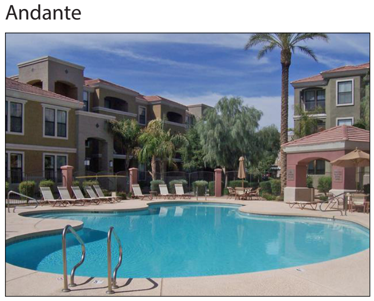
Mirabella/Lux

City: Avondale, Ariz.
Buyer: Priderock Capital Partners
Purchase Price: $88 MM
Price per Unit: $122,377

Broadstone Scottsdale Quarter

City: Scottsdale, Ariz.
Buyer: Public Employees' Retirement System of Nevada
Purchase Price: $87 MM
Price per Unit: $316,364

Andante



City: Phoenix
Buyer: Security Properties
Purchase Price: $85 MM
Price per Unit: $148,003

Almeria at Ocotillo

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

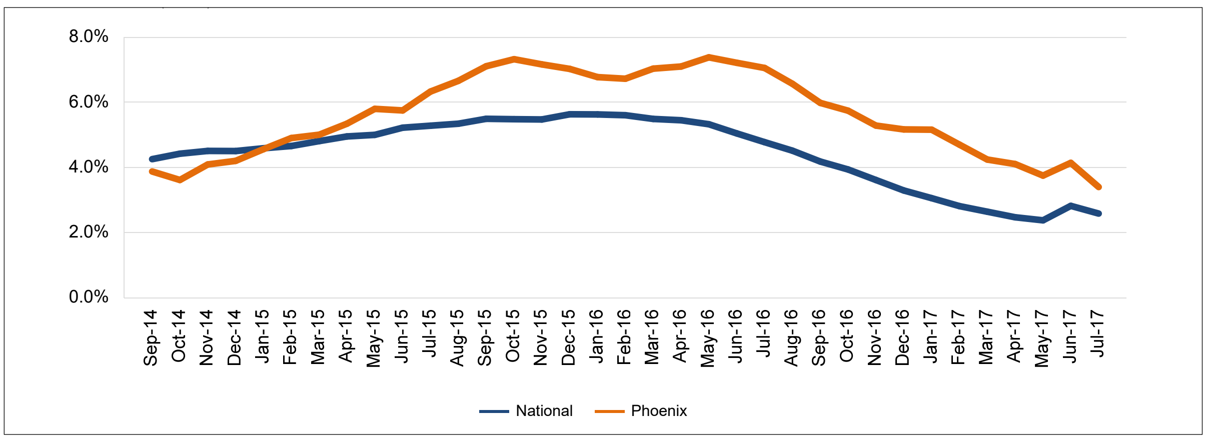
To Subscribe
Hollie Zepke
Audience Development Specialist
Hollie.Zepke@Yardi.com
(800) 866-1124 x5389

On the cover: Photo by Craig Stocks/iStockphoto.com

Rent Trends

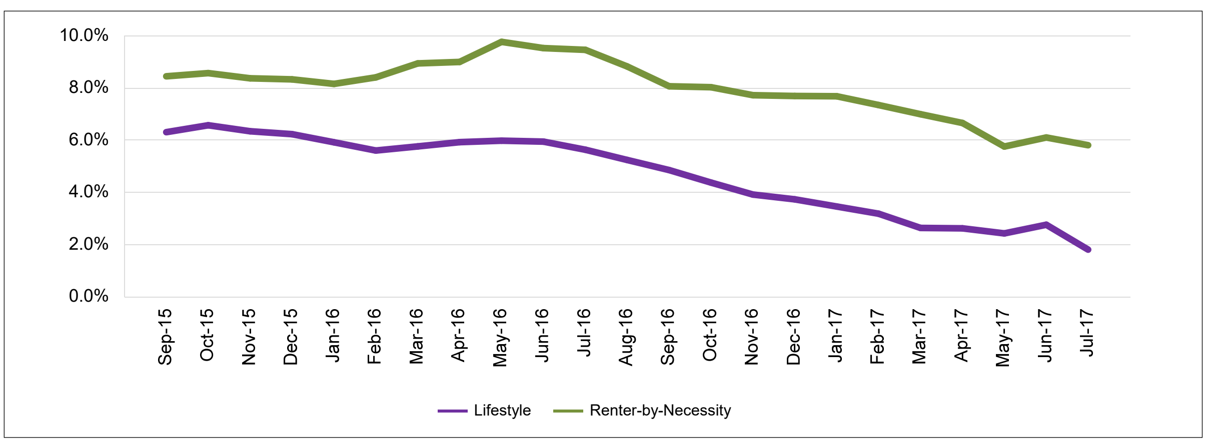
- Phoenix rents were up 3.4% year-over-year through July, continuing to outpace the 2.6% national average. While still trailing the $1,349 national rate, the average rent in the Valley of the Sun has surpassed the $1,000 threshold for the first time, reaching $1,004.
- The working-class Renter-by-Necessity segment continues to lead growth, up 5.8% year-over-year to $820. Lifestyle rents increased by 1.8%, climbing to $1,183. With developers focusing on delivering high-end assets, this deepening disparity is mainly affecting blue-collar households.
- All but two submarkets recorded positive rent growth. Core areas posted the highest rates, with Sky Harbor ($1,366), North Tempe ($1,307) and South Scottsdale ($1,297) occupying the top spots. In fact, rents in Sky Harbor—the most expensive submarket—have dropped (-2.8%). The highest growth occurred in Northwest Phoenix (9.2%), Southwest Maricopa County (7.7) and Central East Phoenix (6.8%). The most affordable submarkets are Maryvale ($780), Northwest Phoenix ($668) and Central West Phoenix ($640).
- Occupancy for stabilized properties was 94.9% as of July, down 60 basis points in one year. However, the strong economy and expanding population should help produce rent growth of 5.3% 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)

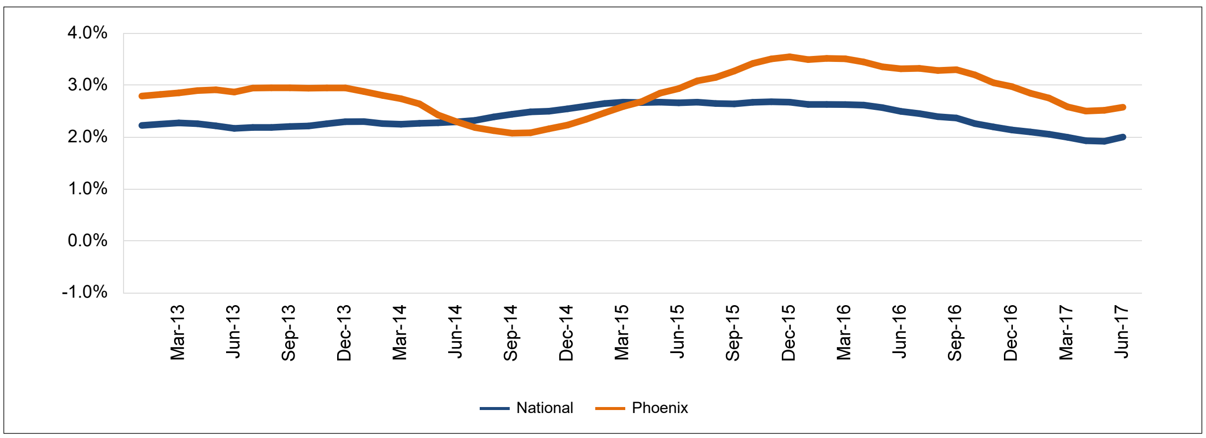


Source: YardiMatrix

Economic Snapshot

- Phoenix added 58,000 jobs in the year ending in June, up 2.6% year-over-year and 60 basis points above the U.S. average. Although still outpacing nationwide trends, the metro's job growth has slowed in recent quarters.
- Leisure and hospitality, fueled by business and recreational travel, led job gains with the addition of 15,000 positions, marking the sector's fastest pace of expansion in more than a decade.
- Education and health services added 11,900 jobs. Growth in the sector was led by Banner Health, which purchased 32 urgent-care facilities and hired 4,000 workers in the first half of 2017. Education employment could benefit from a recently approved plan of spending $1 billion on research and development infrastructure at three Arizona state universities.
- Strong demand for space has compressed the office vacancy rate, which dropped to 16.2% at the end of the second quarter, down 30 basis points in three months, according to Colliers International. Five new projects broke ground in the second quarter, amounting to more than 600,000 square feet of office space. Developers delivered more than 1.2 million square feet in the first quarter, with the largest project being a 443,000-square-foot State Farm building in Tempe.

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	%
70	Leisure and Hospitality	226	11.4%	15,000	7.1%
65	Education and Health Services	298	15.0%	11,900	4.2%
60	Professional and Business Services	342	17.2%	10,100	3.0%
55	Financial Activities	181	9.1%	7,600	4.4%
40	Trade, Transportation and Utilities	388	19.5%	6,000	1.6%
90	Government	217	10.9%	5,300	2.5%
15	Mining, Logging and Construction	113	5.7%	4,000	3.7%
30	Manufacturing	123	6.2%	2,500	2.1%
50	Information	35	1.8%	-1,300	-3.6%
80	Other Services	61	3.1%	-3,100	-4.8%

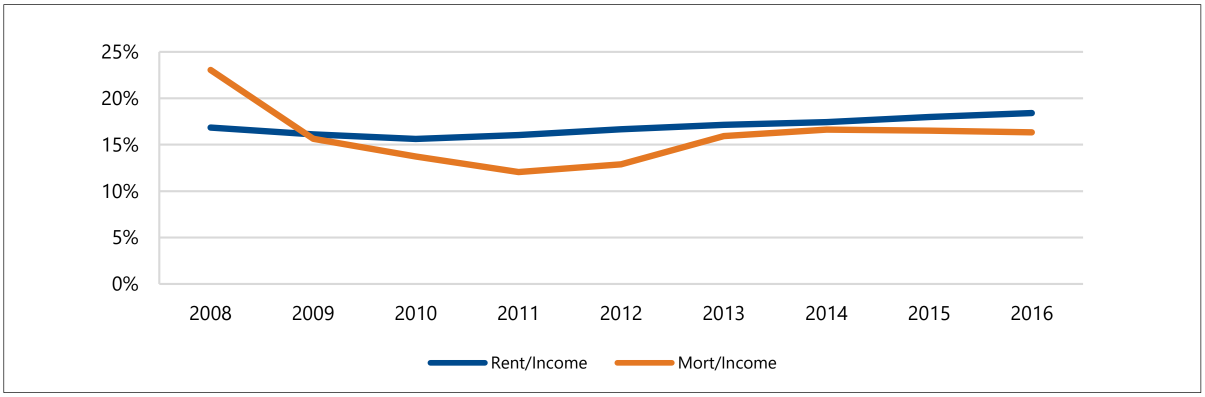
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

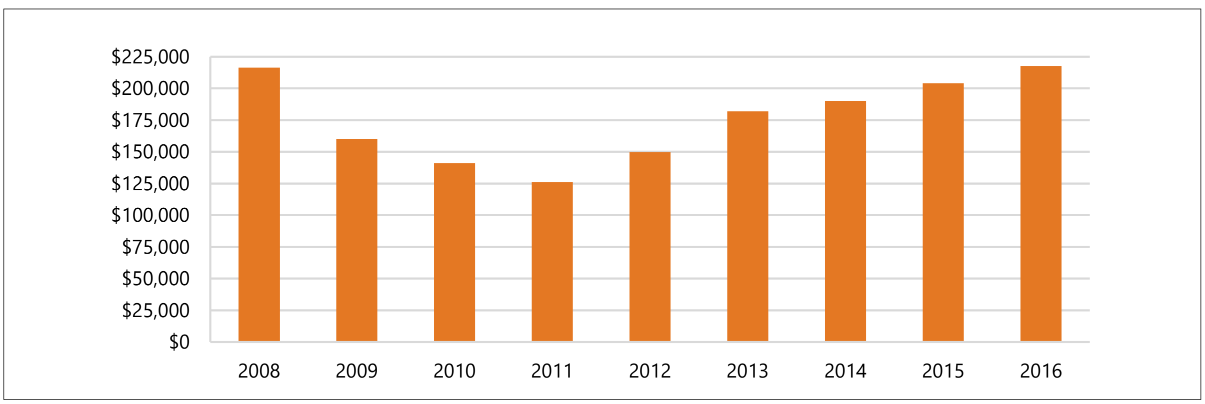
- Demand for affordable housing is skyrocketing in Phoenix, far outpacing supply. According to a U.S. Department of Housing and Urban Development report to Congress, more than half of the metro's renters are in need of affordable housing.
- The median home price reached $217,743 in 2016, surpassing pre-recession levels. Owning continues to be the less costly option, with the average mortgage accounting for 16% of the area's median income, while the average rent of $1,004 comprises roughly 18%.

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 added 93,680 residents in 2016, a 2.0% year-over-year increase, more than double the 0.8% national average. Phoenix has added more than 456,500 residents since 2010.

Phoenix vs. National Population

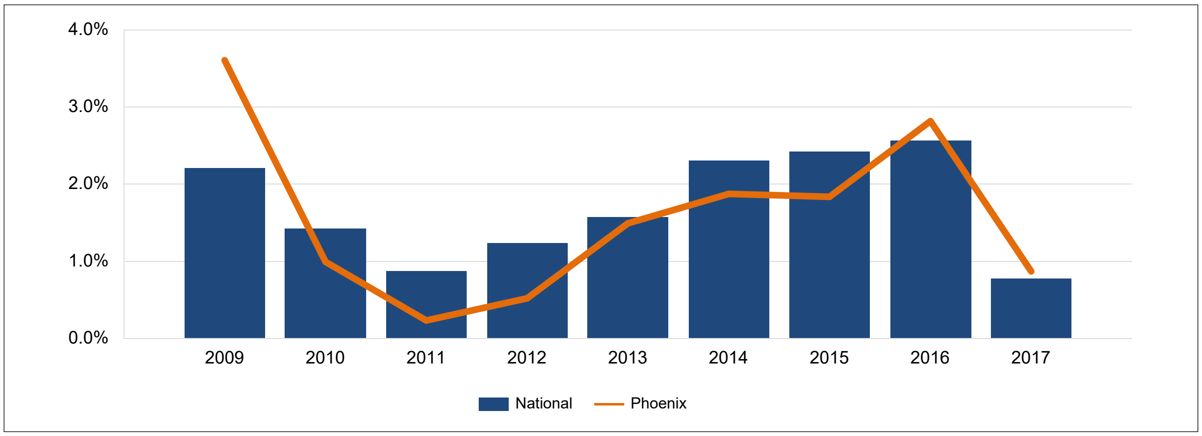
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Phoenix metro	4,325,218	4,396,197	4,479,955	4,567,857	4,661,537

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

Supply

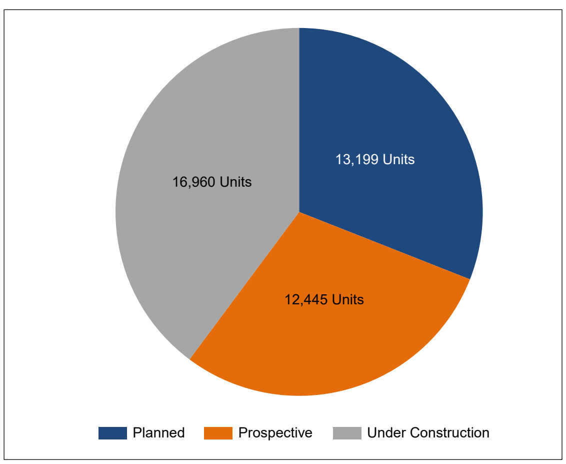
- Nearly 2,000 units came online in 2017 through July, marking a slight slowdown after three years of intense building. However, a robust job market and healthy population growth continue to boost housing demand.
- Developers are focusing on high-end assets near employment hubs, a fact that is putting pressure on working-class renters. Out of the roughly 17,000 units delivered since the beginning of 2015, almost all have been luxury properties. At the same time, the city added only 591 units in fully affordable communities.
- Roughly 17,000 units were under construction as of July, more than 5,600 of which are slated for completion by year-end. The development pipeline comprised roughly 42,500 units in various stages of development, of which some 13,200 were in the planning stages.
- The submarkets with the highest development activity include North Tempe (2,746 units), Gilbert (2,547), Uptown (2,293) and Superstition Springs (1,344). The largest development underway in Phoenix is Camden North End in Union Hills, anticipated for delivery by April 2019. The multi-phase project owned by Houston-based Camden Property Trust is slated to deliver 1,069 units, making it the one of the largest multifamily communities under construction nationwide.

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



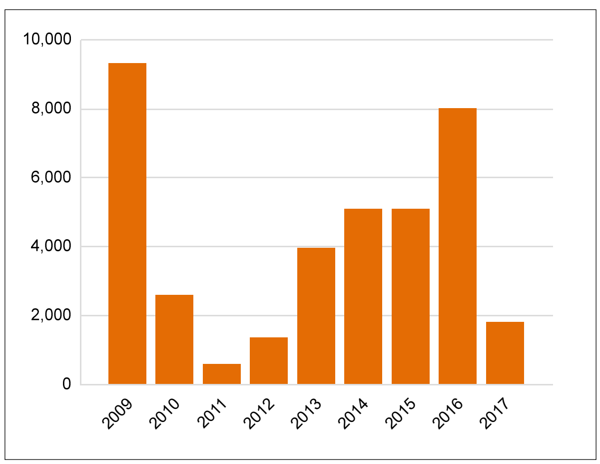
Source: YardiMatrix

Development Pipeline (as of July 2017)



Source: YardiMatrix

Phoenix Completions (as of July 2017)

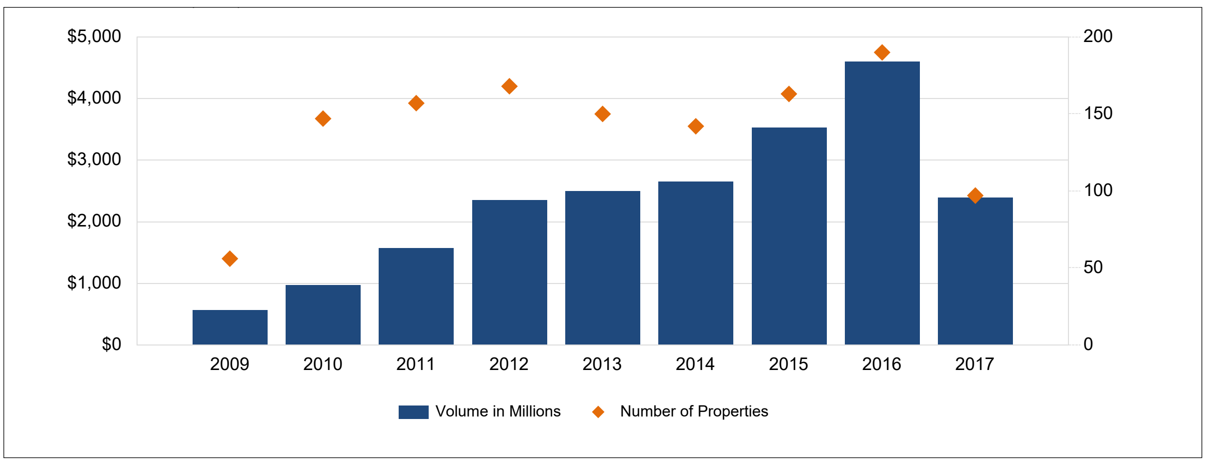


Source: YardiMatrix

Transactions

- Phoenix's investment market is steadily strengthening, with nearly $2.4 billion in assets having traded this year through July. As a result of stable fundamentals and growing market competition, acquisition yields for stabilized properties have compressed, reaching 4.5-5.0% for Class A assets in mid-2017.
- Per-unit prices rose steadily over the last nine years, climbing to $110,467 for the first half of 2017, more than double the average for 2010, when the market bottomed out. Two thirds of the properties changing hands in the first two quarters were in the Renter-by-Necessity segment, reflecting interest for value-add assets.
- During the 12 months ending in July, submarkets in or around Tempe and Mesa drew the most interest, followed by the northern and western suburbs of Phoenix, including Deer Valley, Union Hills, North Scottsdale, Avondale and Glendale.

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



Source: YardiMatrix

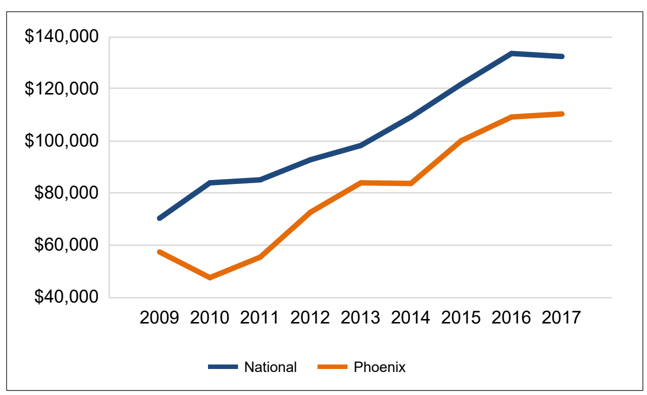
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
South Mesa	459
North Tempe	413
Chandler	308
Deer Valley	282
Union Hills	253
Western Suburbs	246
North Scottsdale	237
South Tempe	223

Source: YardiMatrix

[1] From August 2016 to July 2017

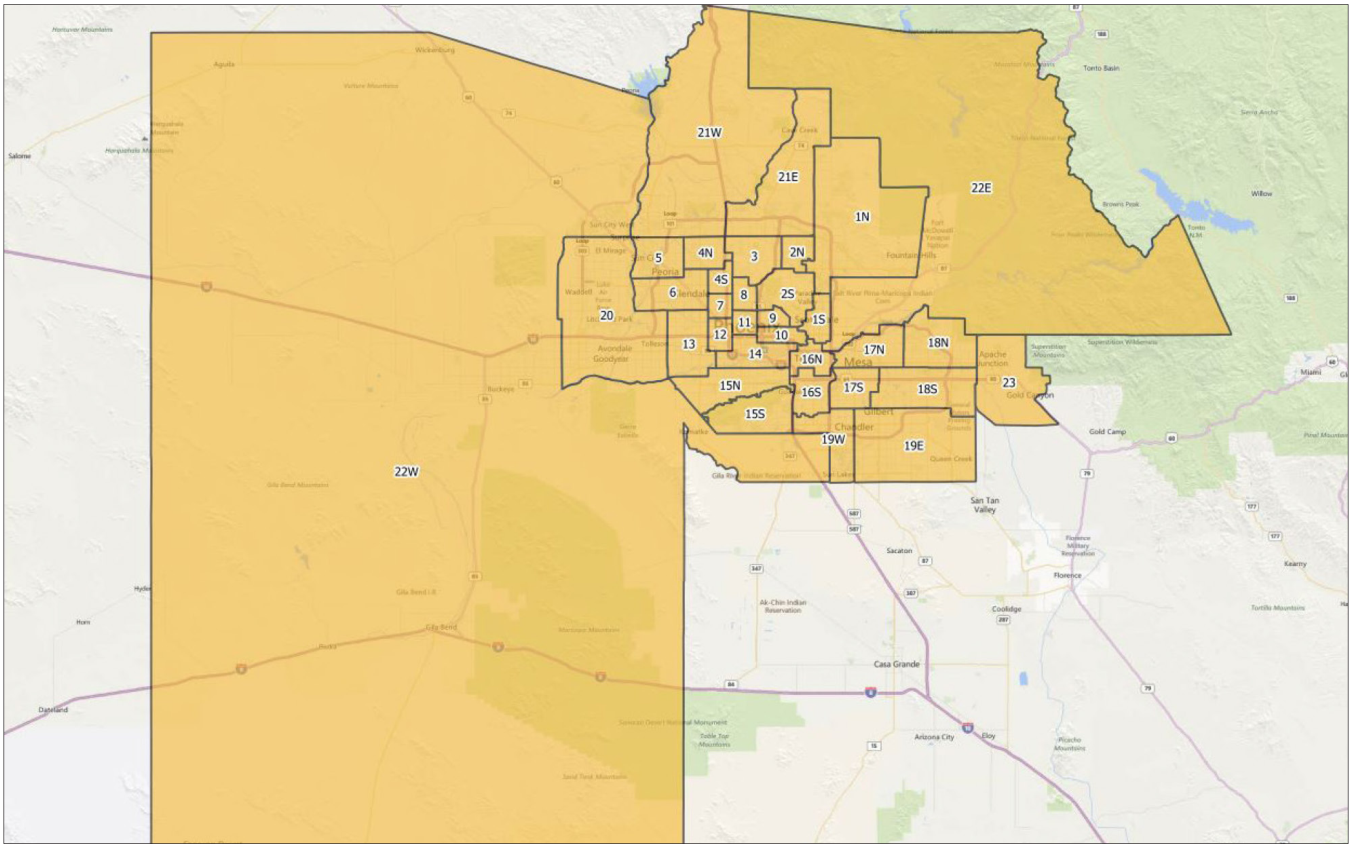
Phoenix vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!
Parallel Capital Brings New Tenants To Phoenix Office Tower
CBRE Facilitates $33M Sale Of Phoenix-Area Community
Hines JV to Develop 250 KSF Phoenix Office
Security Properties Expands Portfolio With $98M AZ Buy
Get the latest Phoenix real estate news at
COMMERCIAL PROPERTY EXECUTIVE
MHN MULTI-HOUSING NEWS
Photo by King Wu/iStockphoto.com

Phoenix Submarkets



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.

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