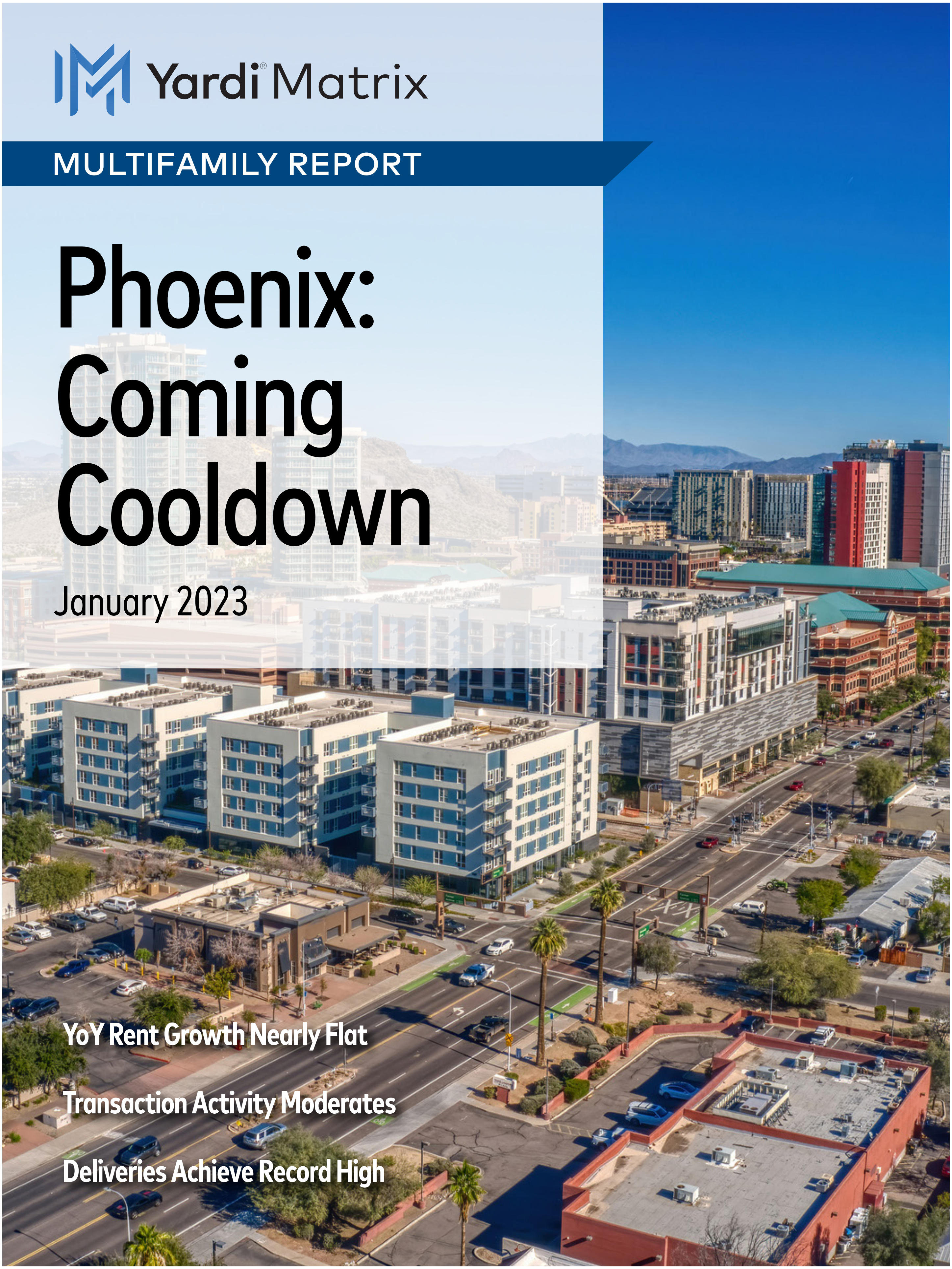
Yardi Matrix

MULTIFAMILY REPORT

Phoenix: Coming Cooldown

January 2023



YoY Rent Growth Nearly Flat

Transaction Activity Moderates

Deliveries Achieve Record High

PHOENIX MULTIFAMILY

Yardi Matrix

Record Supply Represses Rate Gains, Occupancy

Phoenix had a tepid year in 2022, affected by national and global events and will likely remain sensitive to upcoming shifts in the economy. The multifamily market is cooling down after a remarkable run, responding to record supply additions and tempering in-migration, which diluted demand. Consequently, rents declined 0.4% on a trailing three-month basis through November, faster than the 0.1% U.S. rate, and occupancy lost 160 basis points in the 12 months ending in October, decreasing to 94.3%.

Phoenix unemployment stood at 3.5% in October, outperforming the state (3.9%) and the nation (3.7%), according to preliminary data from the Bureau of Labor Statistics. The job market expanded just 3.9% in the 12 months ending in September, lagging the U.S. rate by 30 basis points. During the period, just the financial services sector lost jobs (1,400 jobs). Phoenix's largest sectors led employment growth—education and health services, professional and business services, and trade, transportation and utilities—with 55,600 positions combined. Company expansions in the metro include Sendoso, Nestle and XNRGY.

Deliveries marked a new record high, with 11,258 units completed through November. Another 38,406 units were underway, but the number of construction starts dwindled. Meanwhile, investment volume totaled $10.5 billion, with the price per unit rising 31.6% year-over-year, to $325,644.

Market Analysis | January 2023

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Recent Phoenix Transactions

Clifton on 7th

City: Phoenix
Buyer: Knightvest Capital
Purchase Price: $91 MM
Price per Unit: $270,833

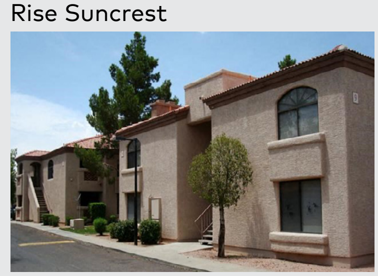
Desert Mirage

City: Gilbert, Ariz.
Buyer: Investors Capital Group
Purchase Price: $86 MM
Price per Unit: $333,333

Portola West McDowell

City: Phoenix
Buyer: SB Real Estate Partners
Purchase Price: $73 MM
Price per Unit: $229,063

Rise Suncrest

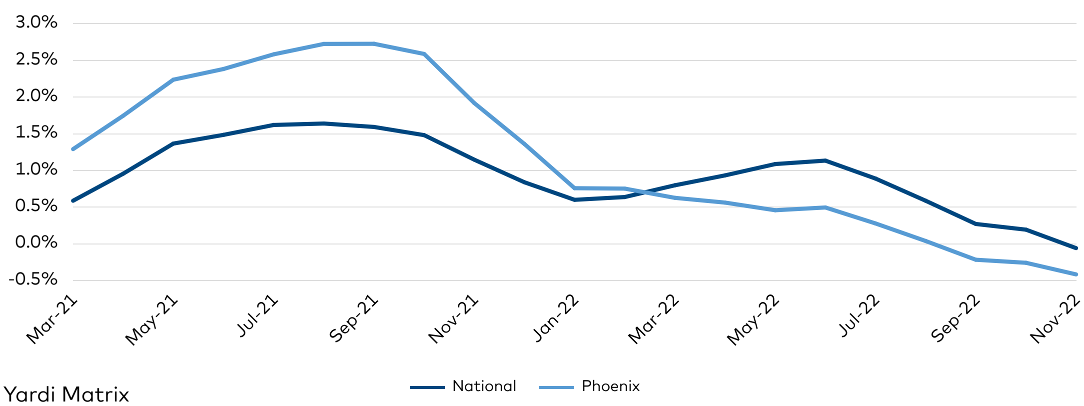


City: Tempe, Ariz.
Buyer: Rise48 Equity
Purchase Price: $50 MM
Price per Unit: $312,500

RENT TRENDS

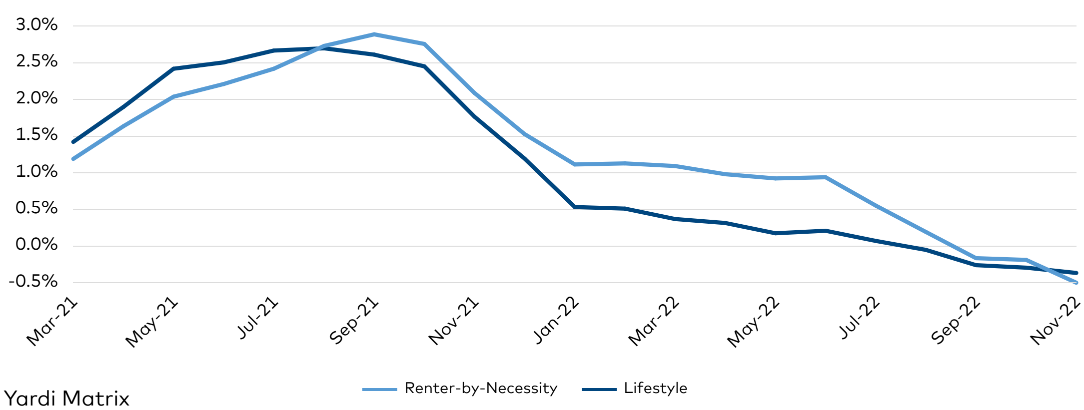
- Phoenix rents decreased 0.4% on a trailing three-month (T3) basis through November, marking the third consecutive month of deceleration. Meanwhile, the national rate slid just 0.1%. On an annual basis, rent growth was the second lowest in the country, up just 2.5%, while the U.S. rate posted a 7.0% increase. By value, the average asking rent in Phoenix clocked in at $1,667 in November, trailing the $1,719 U.S. rate.
- Rents depreciated across property segments, slightly more in the Renter-by-Necessity division, down 0.5% on a T3 basis through November, to $1,386. Lifestyle rates declined 0.4% to $1,896.
- Recent robust deliveries and the cooldown in demand have deteriorated the occupancy rate in stabilized properties, down 160 basis points year-over-year as of October, to 94.3%. Unlike the performance registered by rents, a steeper occupancy drop was recorded in the Lifestyle segment (down 1.8% to 94.2%) than in the RBN category (down 1.3% to 94.4%).
- Rent growth was spotty across Phoenix—of the 38 submarkets tracked by Yardi Matrix, the annual asking rent decreased in six submarkets and in another five, it posted double-digit increases. Downtown Phoenix remained the most expensive submarket (up 6.0% to $2,170), followed by Scottsdale-North (up 0.4% to $2,089) and Scottsdale-South (up 2.2% to $2,008).
- The SFR market posted a tepid annual performance, with rents rising 3.8% in November and occupancy dropping 1.3% in October.

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's labor market was tight, with unemployment at 3.5% in October, according to BLS data. This represented the highest value in 14 months, but still outpaced pre-pandemic levels. The metro outperformed the state (3.9%) and the nation (3.7%). A big concern is inflation, with prices rising much faster in Phoenix than at the national level.
- The employment market expanded 3.9%, or 91,100 jobs, in the 12 months ending in September, 30 basis points below the U.S. rate. Susceptible to interest rate changes, financial activities was the only sector to lose jobs, down 1,400 positions. Growth was led by education and health services (22,800 jobs), professional and business services (17,200 jobs) and trade, transportation and utilities (15,600 jobs), which are also the metro's largest sectors.
- Phoenix remained one of the fastest-growing markets. Employers in gateway markets chose to move or expand in the metro, due to affordability, fewer regulatory hurdles and bountiful talent, with employees also relocating for similar reasons. Among the companies expanding in or relocating to Phoenix in 2022 were Sendoso—which moved its headquarters from San Francisco, bringing 1,000 jobs to the area; Nestle—which invested $675 million in a manufacturing facility where it will employ 350 workers; and XNRGY—which is building a 1 million-square-foot manufacturing facility and creating more than 900 jobs.

Phoenix Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	369	15.9%
60	Professional and Business Services	387	16.7%
40	Trade, Transportation and Utilities	457	19.7%
70	Leisure and Hospitality	233	10.0%
30	Manufacturing	150	6.5%
15	Mining, Logging and Construction	151	6.5%
90	Government	248	10.7%
50	Information	43	1.9%
80	Other Services	71	3.1%
55	Financial Activities	214	9.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Although in-migration softened in 2021, Phoenix gained 78,220 residents, a substantial 1.6% expansion, 30 basis points below 2020's rate. Meanwhile, the U.S. population posted a growth rate of just 0.1%.
- Since 2018, Phoenix's population expanded by 1.9%.

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

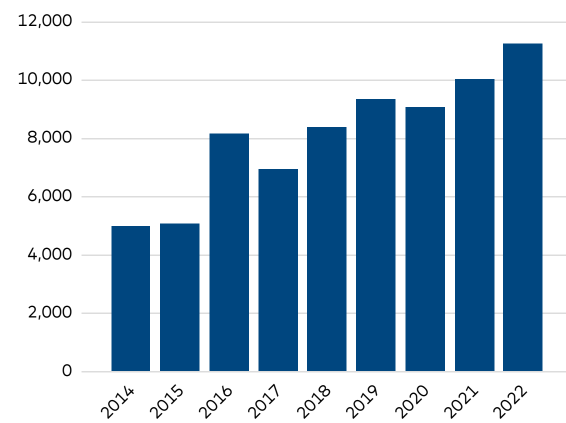
- Developers delivered 11,258 units, marking a new record high. This represents 3.3% of existing stock, well above the 2.0% national rate. About 85% of newly completed projects were in the upscale Lifestyle quality segment.

- The construction pipeline consisted of 38,406 units under construction and 83,000 units in the planning and permitting stages. Despite the high level of deliveries, the number of construction starts in 2022 through November dwindled, to 14,615 units, from 17,967 units during the same period last year. With solid demand for upscale housing, developer focus remained on the Lifestyle segment and a substantial 92% of the projects under construction were high-end properties. Another 4.2% were units in fully affordable communities.

- Construction activity was spread across the map with 34 of the 38 submarkets tracked by Yardi Matrix having at least 100 units underway. Moreover, 18 submarkets had more than 1,000 units under construction, led by Tempe-North (3,463 units), Maryvale (2,815 units) and Downtown (2,684 units). The largest projects under construction are in Tempe-North (the 761-unit Culdesac Tempe) and Scottsdale-South (the 735-unit Scottsdale Entrada), both slated for completion at the end of 2023.

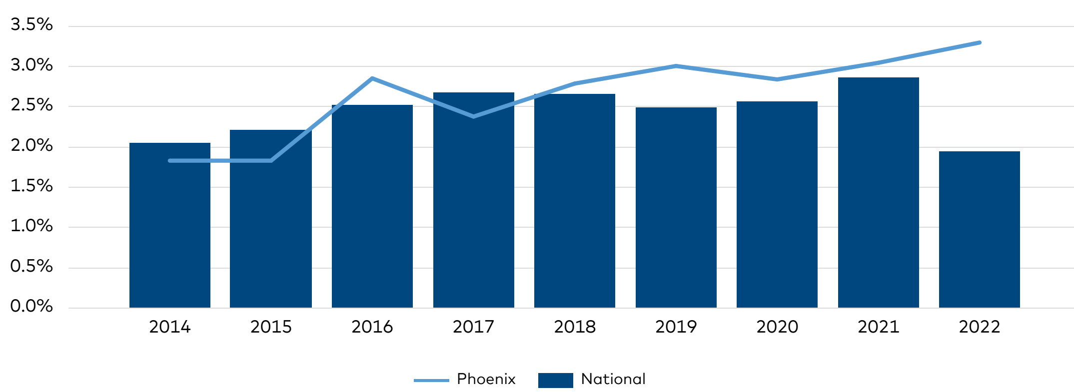
- The largest project delivered in 2022 through November was The Crossing at Colley Station, a 408-unit project located in Gilbert. The asset is owned by Management Support, which built it with aid from a $49 million construction loan funded by Wells Fargo Bank.

Phoenix Completions (as of November 2022)



Source: Yardi Matrix

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

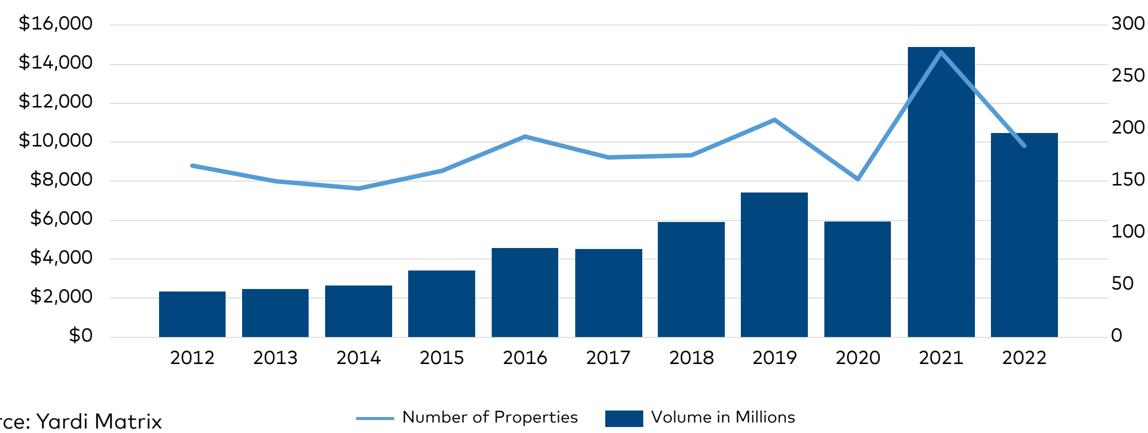


Source: Yardi Matrix

TRANSACTIONS

- As of November, the transaction volume totaled $10.5 billion, not far behind the $11.4 billion that changed hands during the same period last year. Investors were especially active during the second quarter, when $4.5 billion in multifamily assets traded. Due to increasing economic headwinds, transaction activity moderated, down to $2.4 billion during Q3 and on a downward trend.
- Nearly two-thirds of the properties that traded were value-add opportunities, but the intense investor competition dented the metro's housing affordability and pushed the price per unit up by 31.6% year-over-year, to $325,644, well above the $215,443 U.S. average.
- Notable recent transactions include AMC's sale of SEVENTYONE15 McDowell. The 274-unit property is located in Scottsdale-South and changed ownership prior to its completion date. The new owner paid $150 million, or $547,445 per unit, with aid from a $105 million loan issued by NewPoint Real Estate Capital.

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



Source: Yardi Matrix

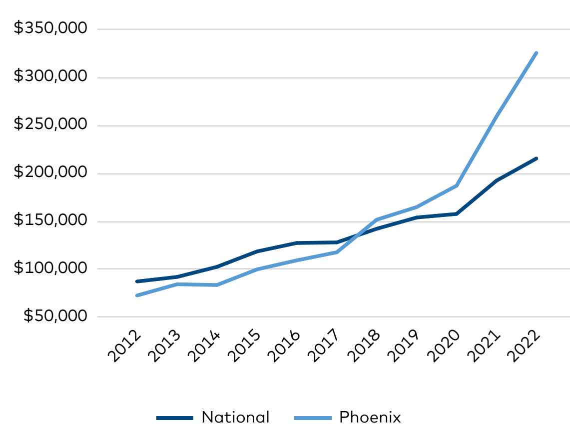
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Tempe-North	1,268
Chandler	1,093
Gilbert	942
Scottsdale-South	901
Glendale-South	712
Phoenix-Maryvale	693
Mesa-West	650

Source: Yardi Matrix

[1] From December 2021 to November 2022

Phoenix vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MULTI-HOUSING NEWS

data by Yardi Matrix

Top 5 Western Markets by Multifamily Investment Volume

By Anca Gagiuc

The national multifamily investment volume continued to break records, crossing $157 billion through the first three quarters of 2022. That's higher than the best year on record yet—2021—when $132 billion in multifamily assets changed hands across the U.S. through the same interval. However, this remarkable performance in investment is about to take a break following the Federal Reserve's repeated actions to stop inflation.

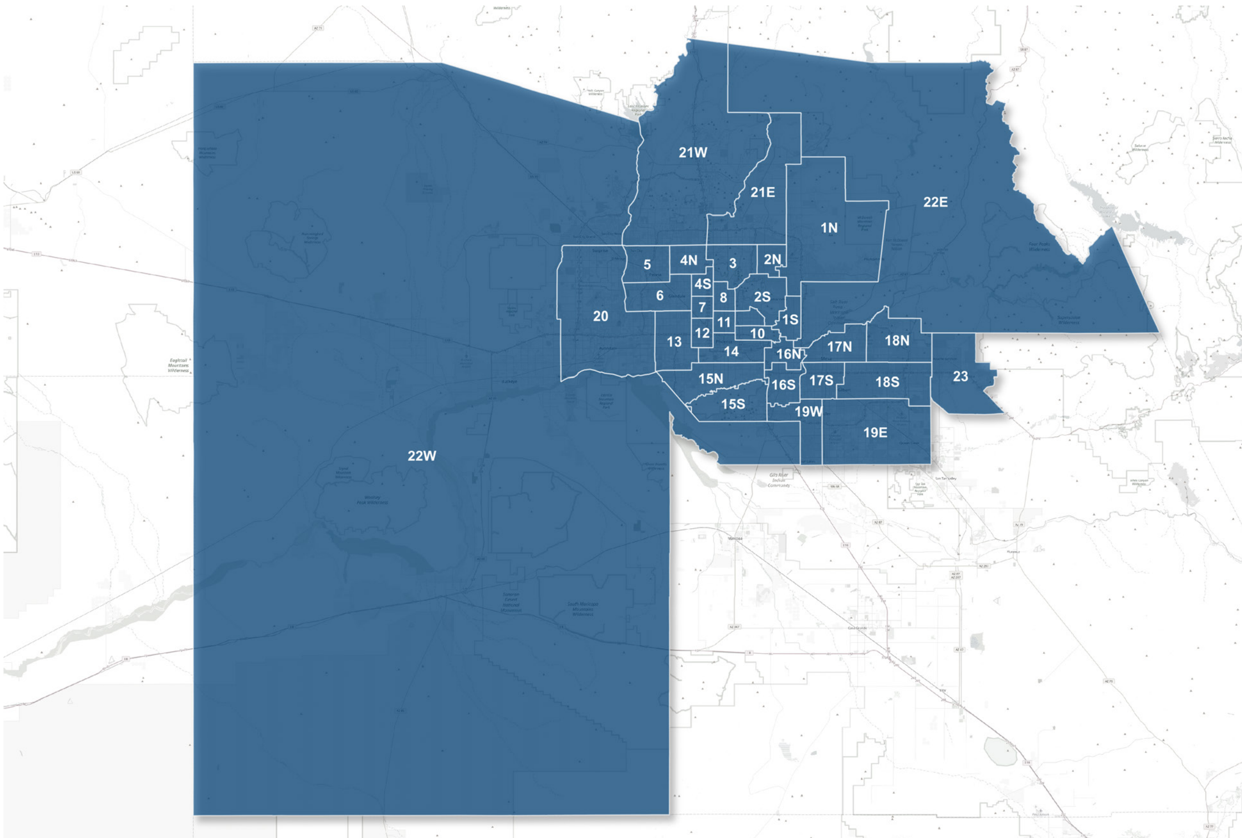
Market	Sales Volume $ 2022	Price per Unit 2022	PPU Growth Rate	Assets Sold 2022	Units Sold 2022
Phoenix	$9,727,714,167	$331,914.87	35.8%	164	32,421
Denver	$4,099,448,000	$331,811.27	6.1%	70	14,418
Las Vegas	$2,748,240,000	$262,211.62	34.7%	50	11,025
Tucson	$1,123,113,142	$173,507.36	23.1%	33	6,473
Salt Lake City	$869,505,586	$253,605.89	16.2%	30	4,423

Phoenix

Phoenix's allure materialized into a multifamily investment volume in excess of $9.7 billion through September, a 4.2 percent increase over the $9.3 billion that traded during the same interval last year. The number of properties that changed hands dipped from 194 (38,831 units) in 2021 to 164 (32,421 units) this year. However, solid appetite pushed the per-unit price up by 35.8 percent year-over-year, to $331,915, marking the highest increase among the western markets, as well as the highest overall average asking price.

Photo by Kruck20/iStockphoto.com

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

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.

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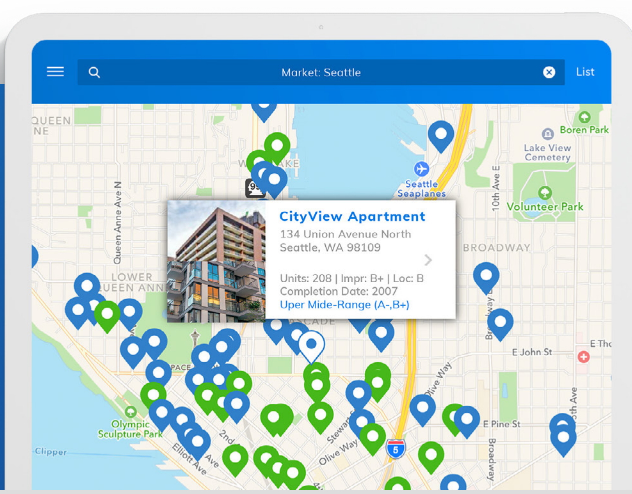
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



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

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