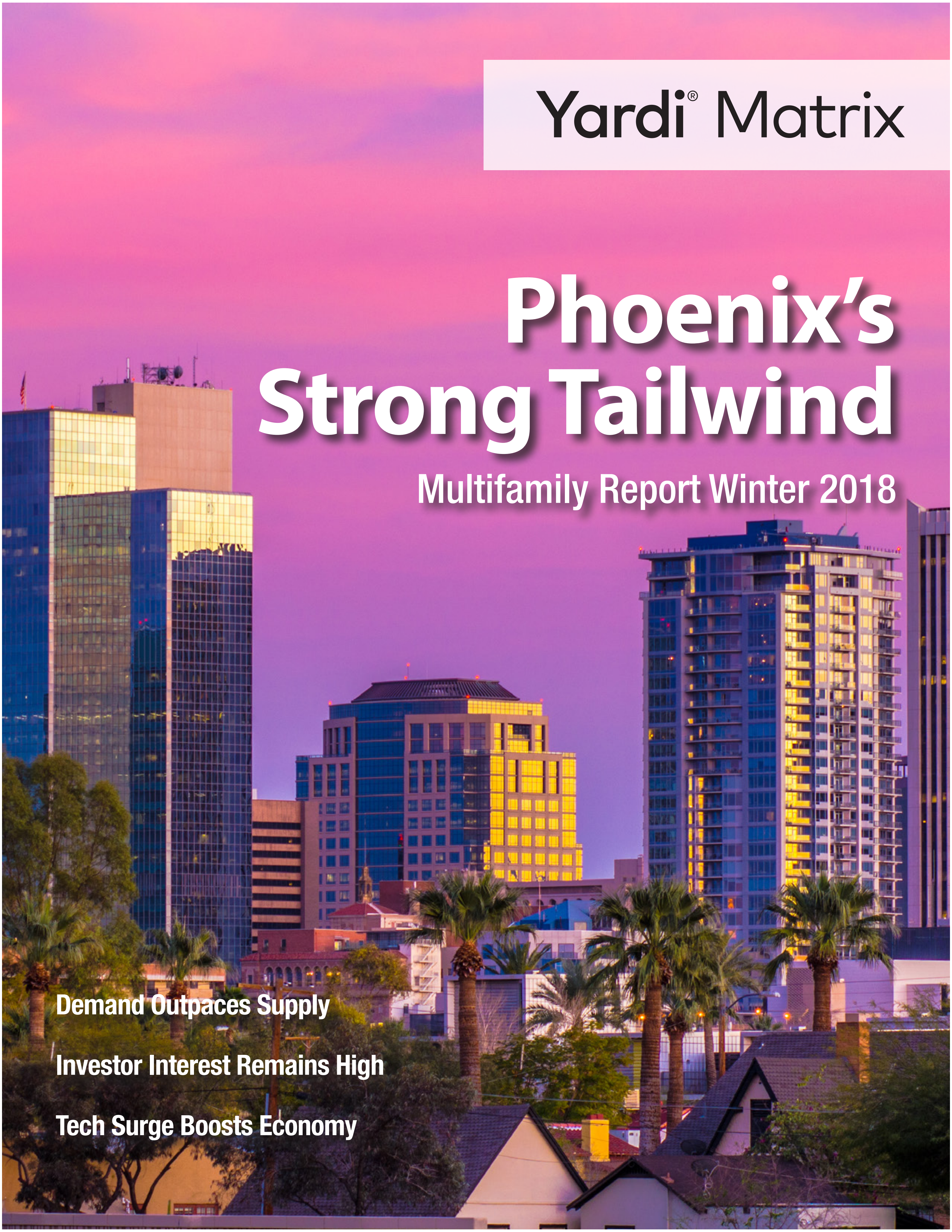
Yardi® Matrix



Phoenix's Strong Tailwind

Multifamily Report Winter 2018

Demand Outpaces Supply

Investor Interest Remains High

Tech Surge Boosts Economy

Market Analysis

Winter 2018

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Riding the Tech Wave

Phoenix is reinventing itself as a tech hub driven by a diverse economy, welcoming young professionals and investors looking for higher yields in secondary markets. The total transaction volume in 2017 was nearly $4.5 billion, almost on par with the 2016 cycle peak.

Education and health services led employment gains with 10,100 jobs added in the 12 months ending in October 2017. The technology sector is quickly catching up. Statistics from the Arizona Office of Economic Opportunity Employment show that the professional/scientific/technical services subcategory jumped 4.8% for the same period. Phoenix ranked third among the country's hottest cities for tech jobs in 2017, according to *Money* magazine, with several companies relocating or expanding in the metro. Intel announced a $7 billion expansion slated to bring 3,000 new jobs to Phoenix. The metro's industrial market is also performing well: Last year, Phoenix achieved its largest-ever annual net absorption gain, reaching 9.8 million square feet.

Development is not slowing down, as population growth and a thriving job market are fueling demand. Roughly 7,500 units are expected to come online in 2018, a projected 15% increase over 2017, when new units were quickly absorbed. Rent growth remains above the national average, despite deceleration in the last few months of 2017. Yardi Matrix forecasts a 5.0% rent growth for 2018.

Recent Phoenix Transactions

Heritage at Deer Valley

City: Phoenix
Buyer: Priderock Capital Partners
Purchase Price: $126 MM
Price per Unit: $150,841

Lakeview at Superstition Springs

City: Mesa, Ariz.
Buyer: MG Properties Group
Purchase Price: $101 MM
Price per Unit: $149,408

Andante

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

Onnix

City: Tempe, Ariz.
Buyer: Bridge Investment Group Partners
Purchase Price: $77 MM
Price per Unit: $116,742

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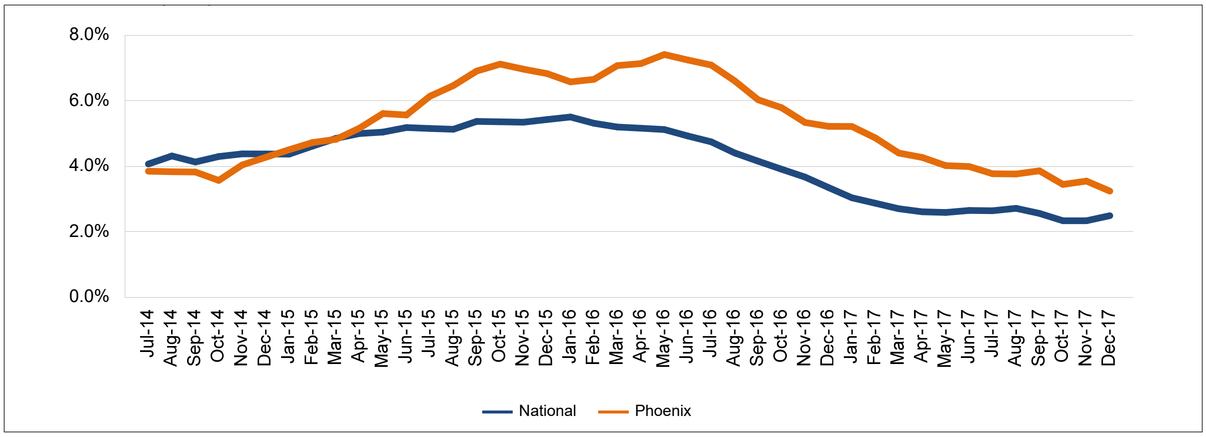
Rent Trends

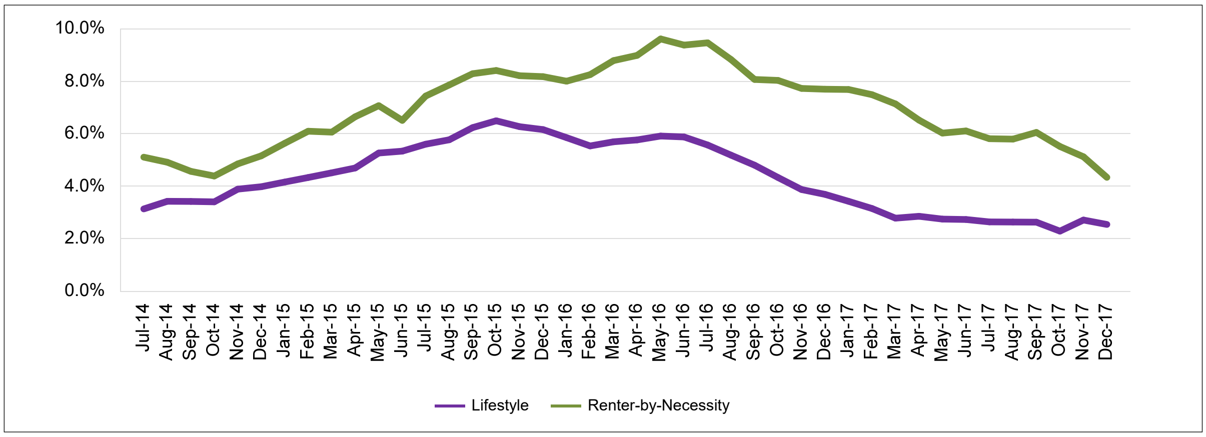
- Phoenix rents rose 3.2% in 2017, outpacing the 2.5% national growth rate. The average rate across the metro reached $1,020, below the $1,359 national average. Rents in the Lifestyle segment, at $1,210, are significantly higher than those in working-class Renter-by-Necessity communities ($818), driving demand for more affordable assets—a strong challenge for the metro's housing market.
- Rent growth in the Renter-by-Necessity segment decelerated in recent months, to 4.3% as of December, notably below the 7.7% rate of January 2017. Lifestyle growth also slowed down in the last quarter of 2017, to 2.5% as of December. Occupancy in stabilized properties remained flat in the second part of 2017, ending the year at 94.6%.
- With new supply largely covering the high-end segment and challenges in financing the development of low-income communities brought on by the tax reform, demand for affordable housing is expected to increase further, causing rents to surge. The metro's significant population growth and the thriving job market are also fueling demand for rental units, as the absorption of new apartments is almost instant. A study by the National Multifamily Housing Council and National Apartment Association found that the area will need more than 150,000 new apartments by 2030. We expect rents to rise 5.0% in 2018.

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

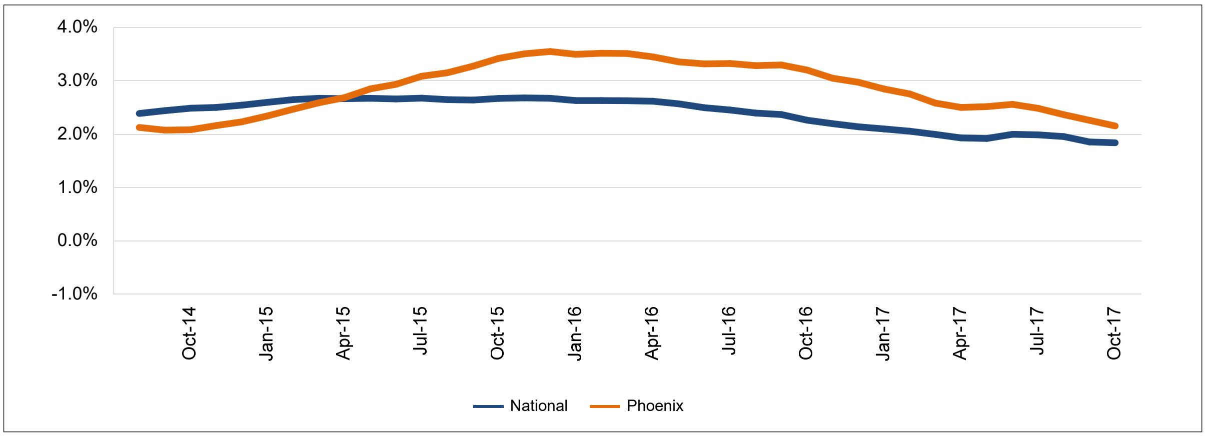
Economic Snapshot

- Employment growth in the metro slowed down last year, but still outpaced the U.S. average. Phoenix added 39,700 jobs in the 12 months ending in October 2017, up 2.2% year-over-year and 40 basis points above the national rate.

- Job gains were led by high-earning sectors such as education and health services, which added 10,100 jobs, as well as professional and business services (7,700) and financial activities (3,700). Phoenix continues to cement its status as a diverse technology hub, benefiting from a skilled workforce, relatively affordable office rents compared to nearby coastal cities, and a high quality of life. A Robert Half Technology survey estimated an 8% growth in tech employment for the first half of 2018. Intel announced a $7 billion expansion in Chandler, which is set to generate 3,000 new jobs. The metro's data center market is also getting stronger, favored by the state's low risk of catastrophes and natural disasters. QTS Realty Trust is planning to build a 2 million-square-foot data center campus in the metro.

- The tech industry is the larger consumer of office space nationwide and Phoenix is no exception. Scottsdale and Tempe are preferred by tech tenants, but the metro's 24/7 downtown is also proving to be a magnet. Fintech company Upgrade announced a 38,000-square-foot office lease and 300 new jobs in the area, according to JLL.

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	307	15.0%	10,100	3.4%
70	Leisure and Hospitality	227	11.1%	8,200	3.7%
60	Professional and Business Services	353	17.3%	7,700	2.2%
30	Manufacturing	124	6.1%	4,200	3.5%
15	Mining, Logging and Construction	114	5.6%	3,800	3.4%
55	Financial Activities	182	8.9%	3,700	2.1%
40	Trade, Transportation and Utilities	393	19.2%	1,400	0.4%
90	Government	248	12.1%	600	0.2%
50	Information	34	1.7%	-2,400	-6.6%
80	Other Services	61	3.0%	-2,700	-4.2%

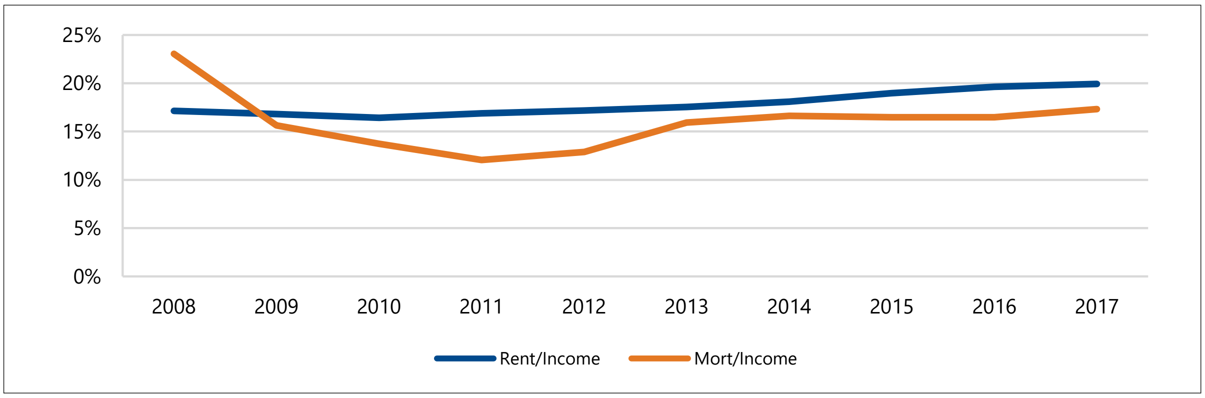
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

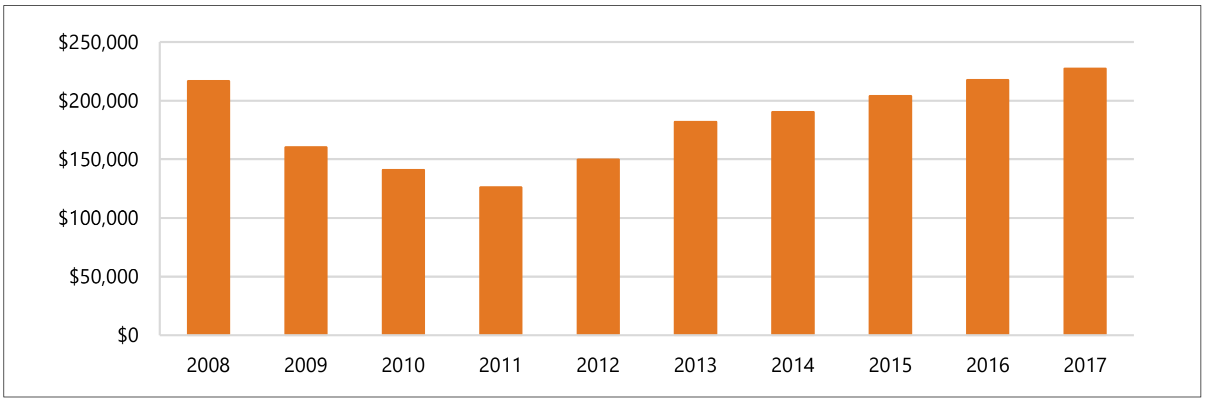
- Phoenix has become one of the tightest markets in the country when it comes to affordable housing, with new supply being almost entirely made up of high-end units. According to local housing services, for every 100 extremely low-income American households, there are 15 affordable and available places to live in the city. For Tempe, a dynamic market attracting young professionals, the number drops to 10.
- The median home value in Phoenix surged to $227,373 in 2017, a post-recession high and an 80% increase over the 2011 figure ($126,052, the cycle low). Owning is more affordable than renting, with the average mortgage payment accounting for 17% of the median income, while the average rent equated to 20%.

Phoenix Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Phoenix Median Home Price



Source: Moody's Analytics

Population

- The metro's population has been growing steadily over the past years, at a yearly rate of 2.0%, almost three times the national 0.7%.
- Phoenix added roughly 500,000 residents between 2010 and 2016.

Phoenix vs. National Population

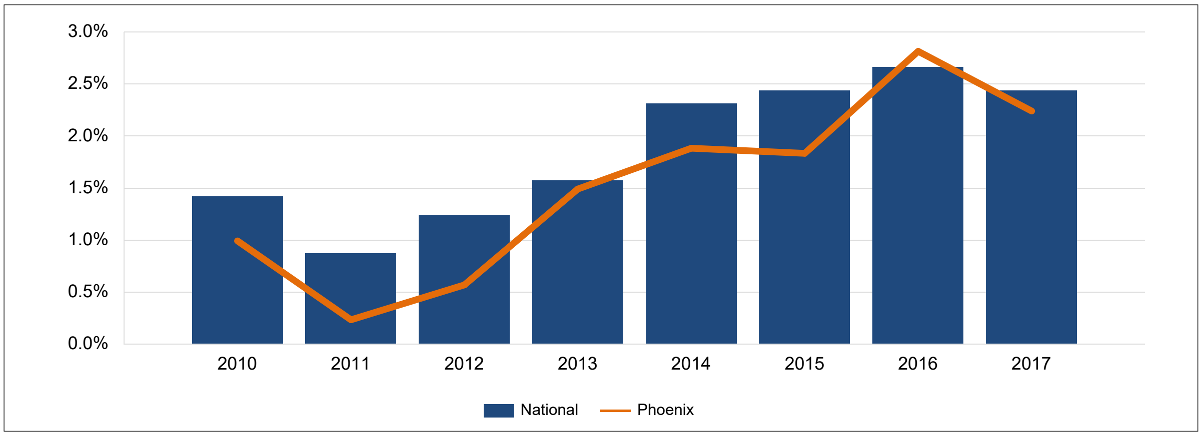
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Phoenix Metro	4,325,218	4,396,197	4,479,955	4,567,857	4,661,537

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

Supply

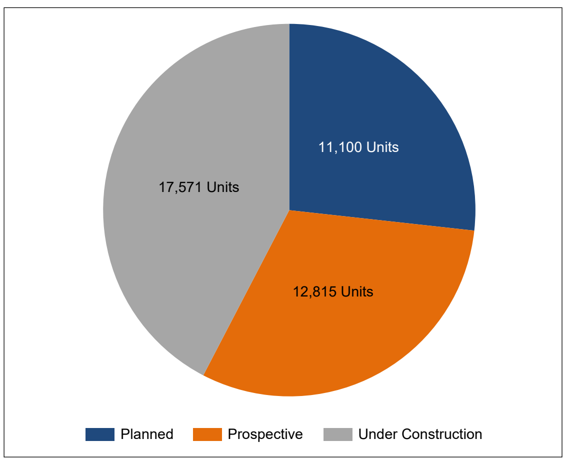
- Development activity in the metro remains robust, with demand exceeding supply. About 6,500 units were completed in Phoenix in 2017, a slight decrease from 2016's cycle peak, when more than 8,000 units came online. New supply represents 2.2% of total stock, in line with the national average of 2.4%. Development is mostly concentrated in the high-end sector, which adds more pressure on the heavily challenged affordable housing segment. The metro's net absorption in 2017 was 6,800 units, while occupancy remained flat.
- Demand is on the rise and construction is not slowing down. Some 7,500 units are slated to come online in 2018, with a total of 17,600 underway and an additional 23,400 units in the planning and permitting stages. Most residential projects are located in Tempe, where more than 3,000 units were completed in 2017. Demand is spurred by the many employers opening offices in the southeastern submarket. Three of the four-largest residential projects underway are located in North Tempe, with each bringing more than 400 units. The fourth is the 1,069-unit Camden North in Union Hills, scheduled for completion in early 2019.
- According to a report by the National Multifamily Housing Council and National Apartment Association, Phoenix will need roughly 150,000 new apartments by 2030.

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



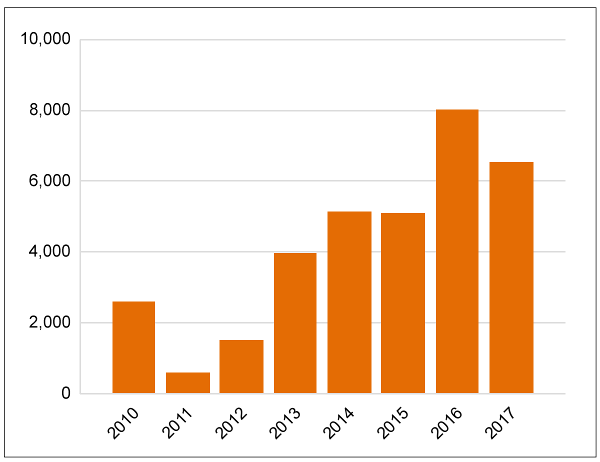
Source: YardiMatrix

Development Pipeline (as of December 2017)



Source: YardiMatrix

Phoenix Completions (as of December 2017)



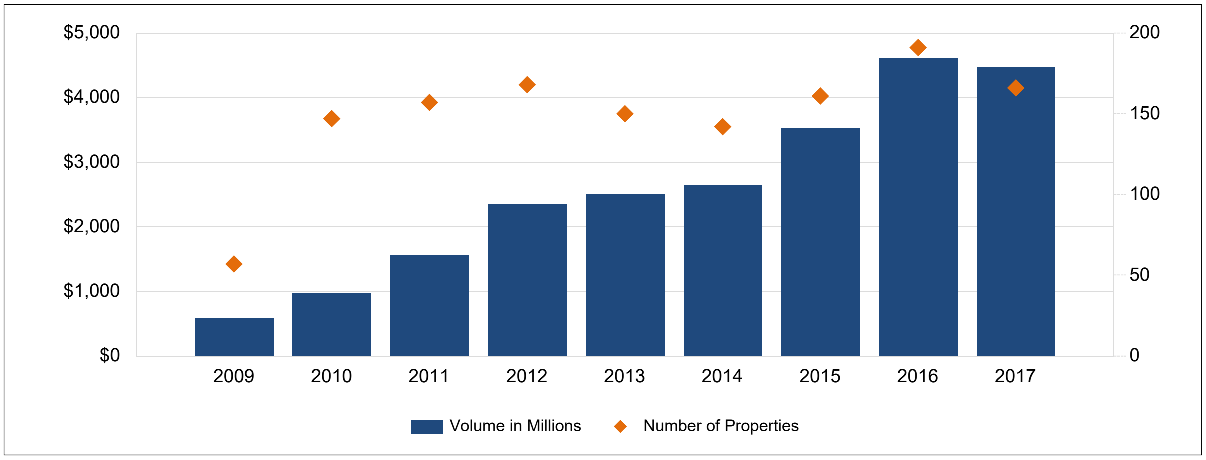
Source: YardiMatrix

Transactions

- Investment activity in Phoenix remains strong, as nearly $4.5 billion in multifamily properties changed hands in 2017, close to the 2016 cycle peak of roughly $4.6 billion. Opportunistic investment is becoming increasingly popular, with acquisition yields at about 5.0% for Class A properties, 6.0% for Class B assets and 6.5% for Class C. Per-unit prices spiked to $117,842 in 2017, the highest value of this cycle, up 8% for the year and 150% compared to the recession-hit prices of 2010. Despite the surge, the amount is still trailing the $137,967 national average.

- Phoenix is an attractive market for investors due to above-trend rent growth and demand fueled by prolonged demographic expansion and tech job gains. In 2017, investors mostly focused on assets located outside the metro's core, mainly in southeastern submarkets. Tempe, Mesa, Deer Valley, Gilbert and Chandler accounted for roughly half of the metro's total transactions volume.

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



Source: YardiMatrix

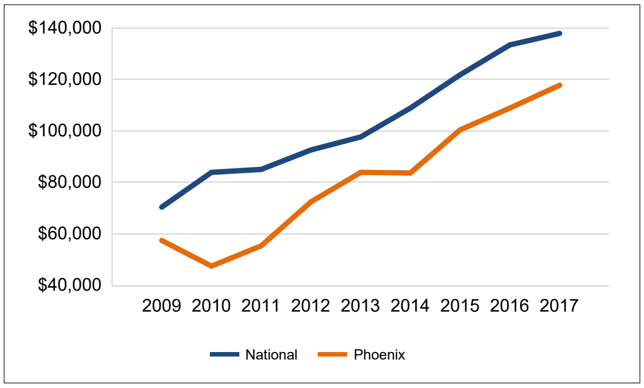
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
North Tempe	402
South Mesa	344
Deer Valley	342
Gilbert	257
Chandler	245
North Mesa	231
Western Suburbs	198
Union Hills	193

Source: YardiMatrix

[1] From January to December 2017

Phoenix vs. National Sales Price per Unit



Source: YardiMatrix

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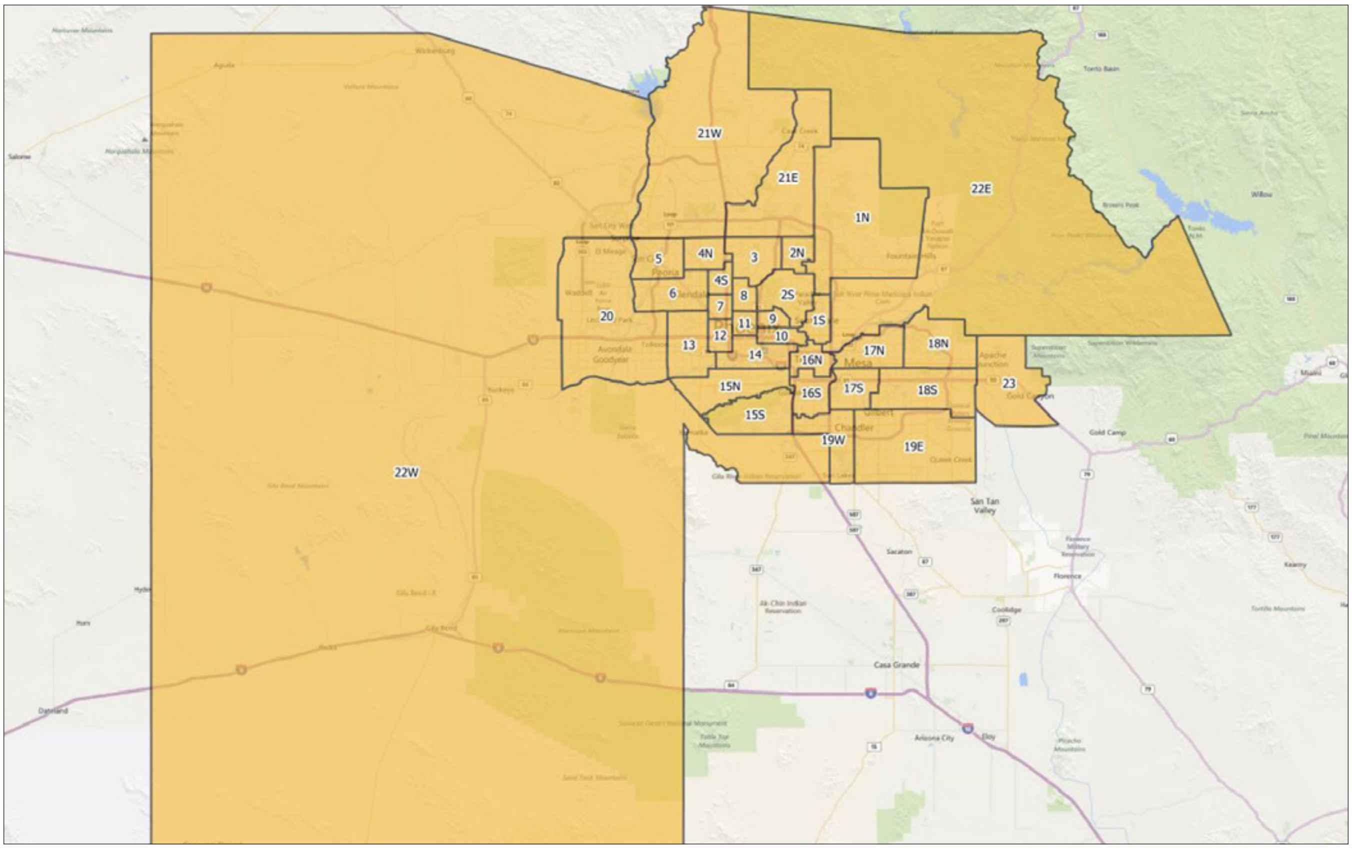
Phoenix Submarkets



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.