



MULTIFAMILY REPORT

Rents Still Cooling In Phoenix

June 2023

Deliveries Point to New Record

Investment Slows, PPU Down 25%

Rate Expansion Trails All Major Markets

PHOENIX MULTIFAMILY



Strong Supply Dents Rent Growth, Occupancy

Phoenix's robust stock expansion continues to impact rates and occupancy. The average rate posted the weakest performance among major U.S. markets, down 2.8% year-over-year through April, to \$1,608. Meanwhile, the national figure decelerated to 3.2%, reaching \$1,709. Occupancy slid 130 basis points in the 12 months ending in March, to 94.0%, with a larger decline in the Renter-by-Necessity segment.

Unemployment stood at 2.9% in March, flat for four consecutive months, leading the state and U.S. figures, both at 3.5%. Employment grew by 3.1%, or 54,900 jobs, in the 12 months ending in February, with only trade, transportation and utilities contracting, down by 5,600 positions. Education and health services and leisure and hospitality led gains, and both are poised for continued growth. Moreover, Phoenix's industrial market continues to expand. Notable planned and underway projects include LG Energy Solution's \$5.5 billion battery-manufacturing complex and KORE Power's \$1.3 billion gigafactory.

Developers delivered 3,159 units this year through April and had an additional 33,201 units underway, with a substantial number of these slated for completion by year-end. Meanwhile, investment activity slowed, amounting to \$667 million year-to-date through April, for a price per unit that slid 25%, to \$241,227. However, the rate was still significantly above the \$178,275 U.S. figure.

Market Analysis | June 2023

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Recent Phoenix Transactions

Tempe Station



City: Tempe, Ariz.
Buyer: Alliance Residential Co.
Purchase Price: \$110 MM
Price per Unit: \$275,000

Lennox



City: Avondale, Ariz.
Buyer: Knightvest Capital
Purchase Price: \$103 MM
Price per Unit: \$251,225

Ironwood at Happy Valley



City: Phoenix
Buyer: Hamilton Zanze & Co.
Purchase Price: \$90 MM
Price per Unit: \$305,000

Mountain Park Ranch

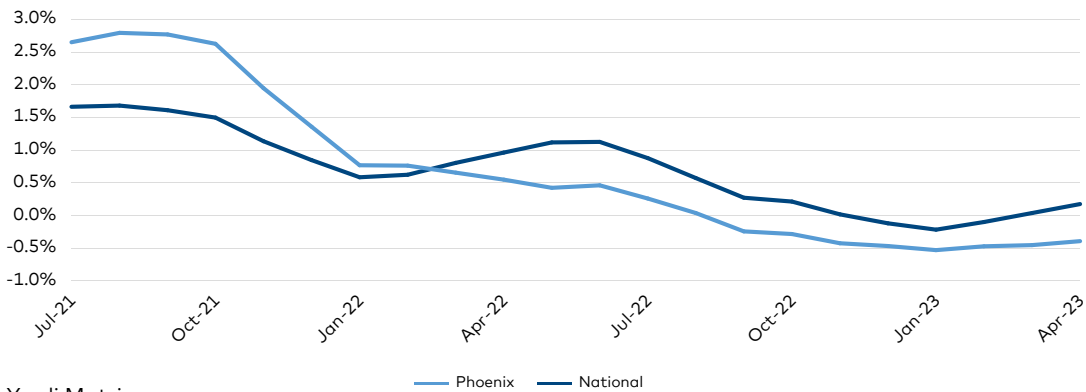


City: Phoenix
Buyer: LaSalle Investment
Management
Purchase Price: \$70 MM
Price per Unit: \$291,729

RENT TRENDS

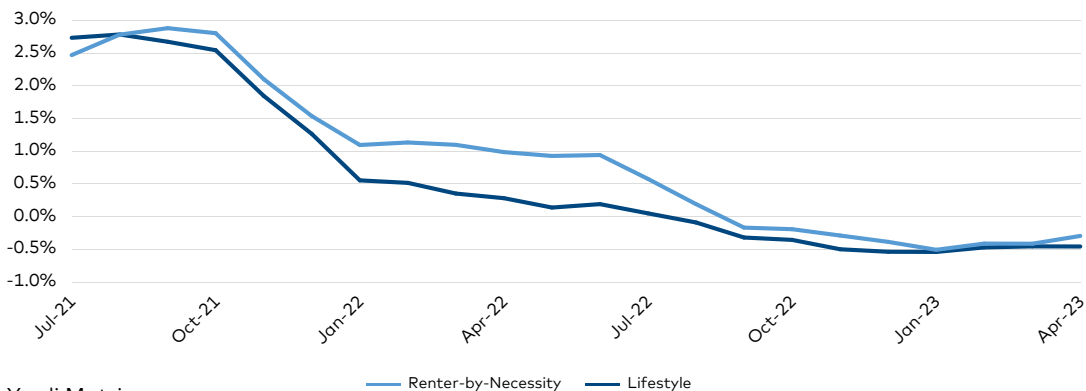
- ▶ Phoenix rents declined 0.4% on a trailing three-month (T3) basis through April, marking the eighth straight month of contractions. Meanwhile, the U.S. rate stabilized, up 0.2% on a T3 basis. Year-over-year, the metro's average asking rent posted the largest decrease in the country, down by 2.8% as of April, while the national figure decelerated to a positive 3.2%. Despite deteriorating affordability, Phoenix's average stood at \$1,608 in April, below the \$1,709 U.S. figure.
- ▶ Lifestyle rates declined for the ninth consecutive month—spending the last six at -0.5%—on a T3 basis, to \$1,819 as of April. Meanwhile, working-class Renter-by-Necessity rents decreased 0.3%, to \$1,359. The occupancy rate in stabilized properties mirrored rate performance, down 1.2% year-over-year through March, to 94.0%. Lifestyle occupancy slid 0.9% to 94.4%, while RBN properties recorded a steeper drop, down 1.8% to 93.4%.
- ▶ On an annual basis, rents rose in eight of the 38 submarkets tracked by Yardi Matrix. Scottsdale-South (-1.8% to \$1,971) fell below the \$2,000 threshold. The list still includes Scottsdale-North (-1.5% to \$2,066), Phoenix-Downtown (-8.3% to \$2,053) and Paradise Valley (0.1% to \$2,024).
- ▶ Phoenix's lagging rent performance results from factors including mellowing in-migration and robust supply growth, as well as an expected slowdown following an unprecedented year-and-a-half. With strong deliveries scheduled for the rest of the year, Yardi Matrix still expects Phoenix rents to advance 1.5% in 2023.

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 remained flat, at 2.9% in March, for the fourth consecutive month, pointing to a tighter labor market than before the pandemic, according to data from the Bureau of Labor Statistics. The rate outperformed the state and U.S. figures, both at 3.5%.
- Employment expansion moderated to 3.1%, or 54,900 jobs, in the 12 months ending in February. Trade, transportation and utilities was the only sector to lose jobs, down by 5,600 positions. Education and health services (21,300 jobs) and leisure and hospitality (12,700 jobs) led the way. The former is poised for sustained growth due to the area's robust system of universities and health-care institutions, while leisure and hospitality received a couple of boosters in the first quarter via the WM Phoenix Open and the Super Bowl.
- Phoenix's economy continues to diversify, expanding through notable developments in the semiconductor and electric vehicle industries. In addition to Taiwan Semiconductor Manufacturing Co.'s \$12 billion investment, the list of megaprojects includes LG Energy Solution's \$5.5 billion battery manufacturing complex in Queens Creek and KORE Power's recently announced \$1.3 billion battery gigafactory in Buckeye. What's more, these factories are creating demand for adjacent ventures, such as Ecobat's battery recycling facility in Pima County.

Phoenix Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	381	16.1%
70	Leisure and Hospitality	245	10.4%
15	Mining, Logging and Construction	158	6.7%
60	Professional and Business Services	395	16.7%
30	Manufacturing	149	6.3%
90	Government	248	10.5%
55	Financial Activities	221	9.3%
50	Information	43	1.8%
80	Other Services	72	3.0%
40	Trade, Transportation and Utilities	454	19.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Phoenix posted one of the strongest population gains in 2021, adding 78,220 residents, for a 1.6% increase. Meanwhile, the U.S. rate inched up 0.1%.
- Between the 2010 Census and 2021, Phoenix grew by 17.6%, well ahead of the 7.3% national figure.

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

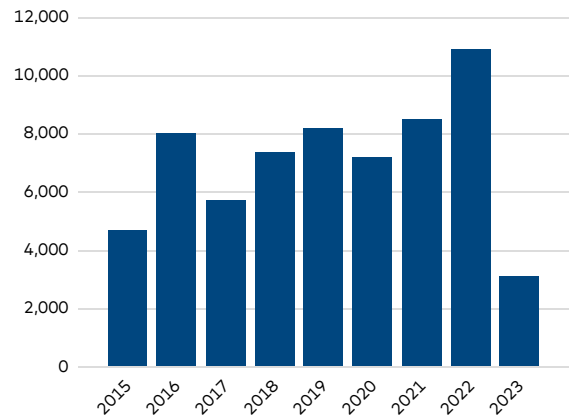
SUPPLY

- ▶ Phoenix's inventory expanded by 3,159 units in the first four months of 2023, representing 1.0% of total stock and double the U.S. rate. Except for a 60-unit fully affordable project, all deliveries were Lifestyle communities.
- ▶ As of April, the construction pipeline consisted of 33,201 units underway and 90,000 in the planning and permitting phases. Projects were split, comprising 91% Lifestyle and 9% RBN properties. Overall, Yardi Matrix expects a total of 16,456 units to come online in Phoenix during 2023, which would mark a 50% rise over the peak registered last year. Year-end deliveries totaling more than 11,000 units will mark a new high.
- ▶ The tightening of underwriting standards and rising interest rates are impacting new development. The number of construction starts in 2023 through April declined to 2,952 units in 13 multi-family properties, from 7,511 apartments in 32 properties during the same period of 2022. Overall, construction began on 18,902 units last year.
- ▶ Construction activity was high across most of the map, with 32 of the 38 submarkets tracked by Yardi Matrix having at least 100 units underway. The top five accounted for one-third of the total volume, led by Tempe–North (3,326

units), Maryvale (2,370 units) and Glendale–South (2,354 units).

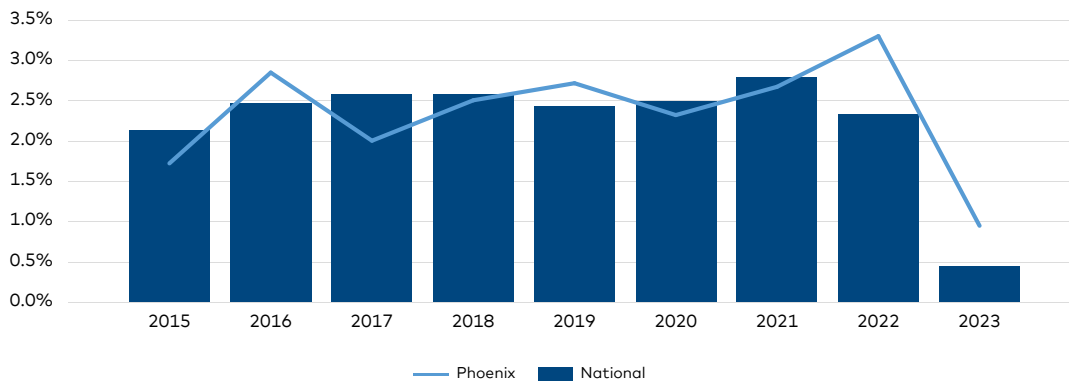
- ▶ A Tempe–North Opportunity Zone houses one of the metro's largest projects underway—the 621-unit Northbend, slated for completion this year. The property is being built by Banyan Residential and Milhaus Development, with aid from a \$52.5 million loan from UMB Bank.

Phoenix Completions (as of April 2023)



Source: Yardi Matrix

Phoenix vs. National Completions as a Percentage of Total Stock (as of April 2023)



Source: Yardi Matrix

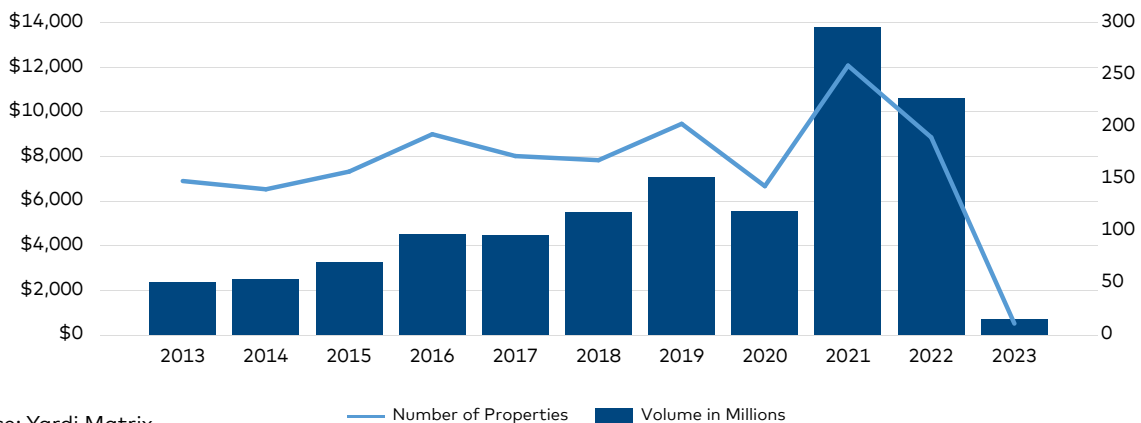
TRANSACTIONS

- ▶ Transaction activity tapered off in Phoenix, to \$667 million in multifamily sales this year through April. The amount represents a 16.4% fraction of the figure registered during the same period last year, when interest rates were early into their current trajectory.
- ▶ Lifestyle units accounted for 80% of sales this year. Still, the price per unit slid nearly 25%, to \$241,227 through April, likely impacted by the financing landscape and the economy at large.

Despite the depreciation, Phoenix per-unit prices remained well ahead of the \$178,275 U.S. figure.

- ▶ Kennedy Wilson's sale of the 400-unit Tempe Station marked the highest price this year through April. Alliance Residential Co. acquired the asset for \$110 million, or \$275,000 per unit, with aid from a \$70 million loan originated by AXA Equitable Life Insurance Co. Meanwhile, Ironwood at Happy Valley sold for the highest per-unit price—\$305,000—paid to Continental Properties by Hamilton Zanze & Co.

Phoenix Sales Volume and Number of Properties Sold (as of April 2023)



Source: Yardi Matrix

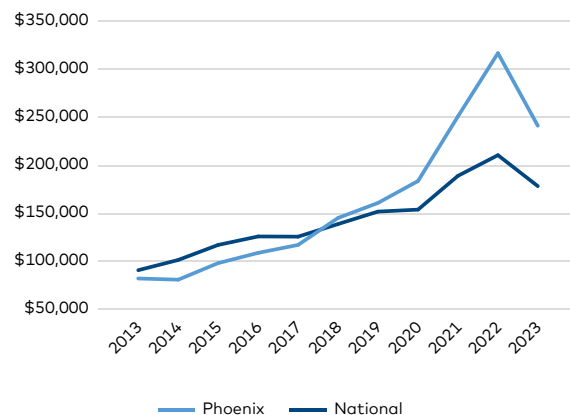
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Scottsdale-South	755
Tempe-North	752
Chandler	682
Gilbert	499
Mesa-West	459
Glendale-South	410
Phoenix-North Mountain Village	357

Source: Yardi Matrix

¹ From May 2022 to April 2023

Phoenix vs. National Sales Price per Unit



Source: Yardi Matrix

Top 10 Markets for Multifamily Construction

By Anca Gagiuc

U.S. multifamily construction was robust at the start of the new leasing season, with the pipeline amounting to nearly 1.1 million units underway across 4,910 properties, according to Yardi Matrix data. However, deliveries were slow, with just 73,506 units coming online this year through April. That's less than 7% of the national pipeline and accounts for just 20% of last year's 369,827-unit total.

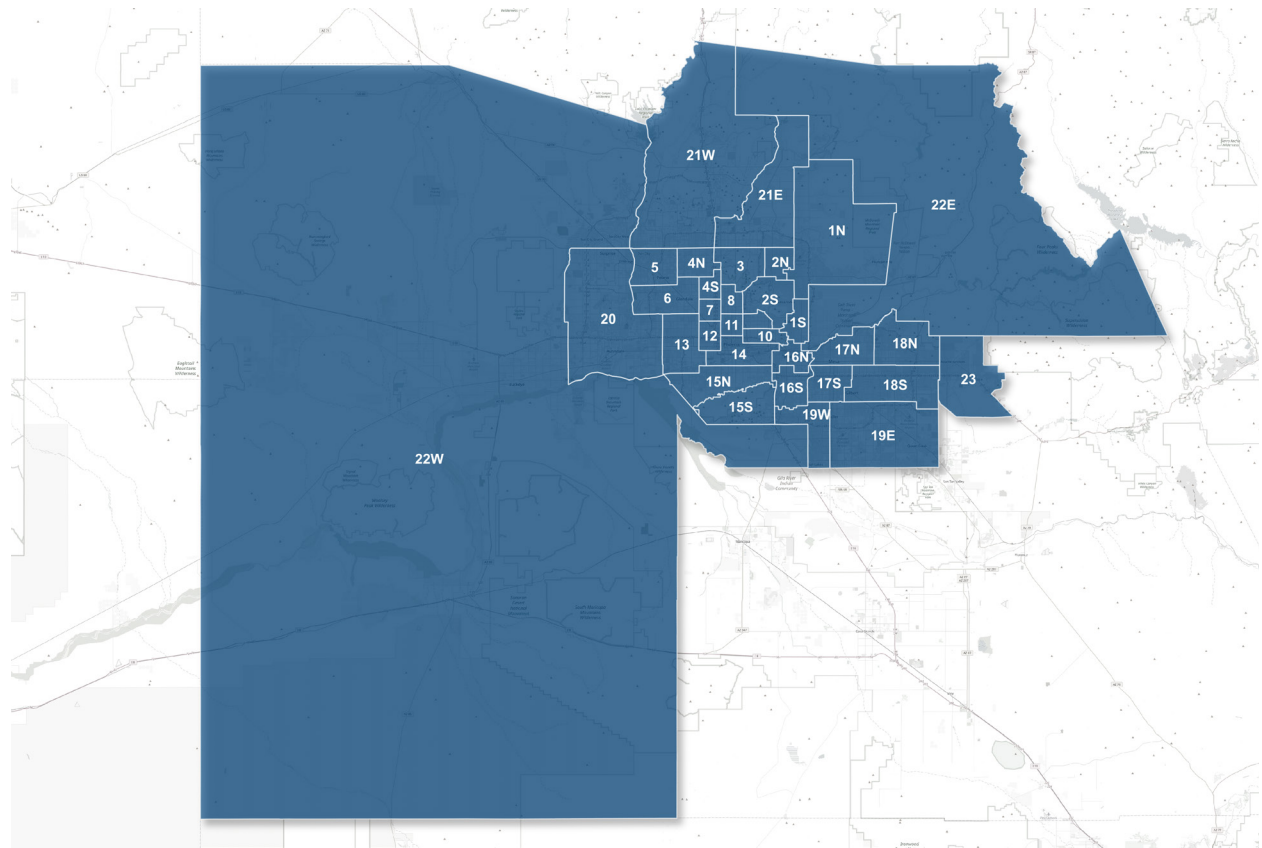
Metro	Units Under Construction	Units Completed Year-to-Date	Construction Starts/Units January-March 2023
Austin	61,873	2,547	6,013
Dallas	60,532	2,016	5,864
Miami	44,533	2,732	3,612
Atlanta	41,204	2,679	4,120
Phoenix	39,875	3,811	1,985
New York City	38,859	137	3,304
Denver	35,893	1,696	1,580
Houston	34,709	1,686	1,660
Los Angeles	32,306	1,926	814
Charlotte	32,188	1,538	1,459

Phoenix

As of May, Phoenix had 39,875 units in 167 properties under construction. The pipeline comprised another 98,000 units in the planning and permitting stages. While it lags in volume of units under construction, the metro led by far in completions as of early May; during this four-month period, 3,811 units came online, representing 5.3% of existing inventory. In construction starts, the trend is less promising—only 1,985 units broke ground during the first quarter of 2023, a substantial 70% decline from the 6,580-unit volume posted during the same interval last year.



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.



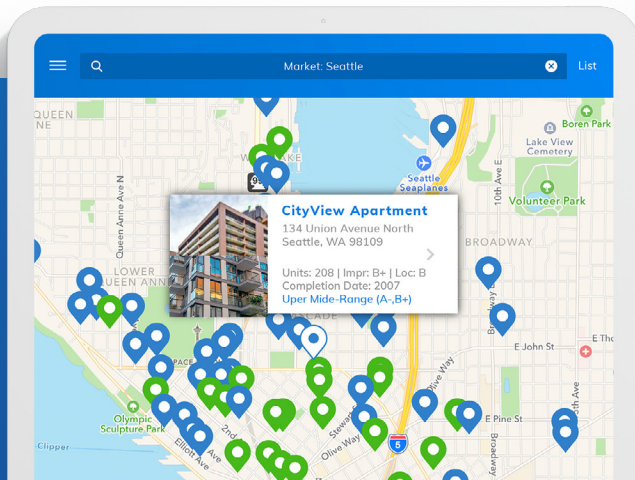
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MULTIFAMILY KEY FEATURES

- 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



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