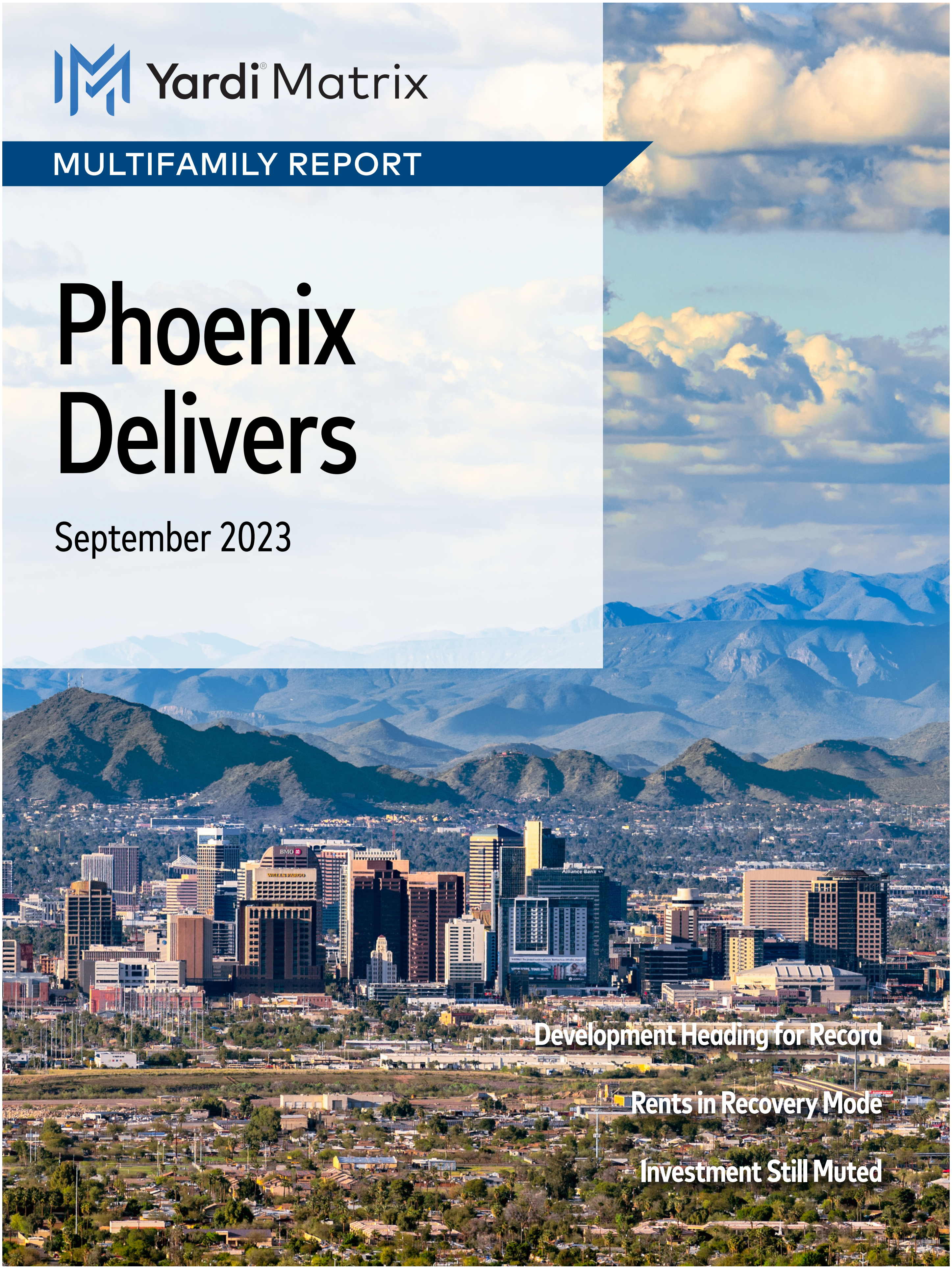

Yardi Matrix

MULTIFAMILY REPORT

Phoenix Delivers

September 2023

Development Heading for Record

Rents in Recovery Mode

Investment Still Muted

PHOENIX MULTIFAMILY

Yardi Matrix

Strong Supply Hits Rents, Occupancy

Phoenix rents stabilized on a trailing three-month basis through July, after 10 months of negative values, still under the pressure of consistent completions. The average rate was down year-over-year, at -3.5% as of July, marking the second-slowest rate of growth among major U.S. metros. Meanwhile, national growth decelerated to 1.6%, reaching $1,729. Phoenix occupancy slid 60 basis points in the 12 months ending in June, to 93.9%.

Unemployment stood at 3.9% in June, slightly higher than both the Arizona (3.5%) and U.S. (3.6%) averages. Employment grew by 2.4%, or 37,500 jobs. Education and health services (19,700 jobs) led the way, while trade, transportation and utilities continued to shed positions, down by 3,300 jobs. Information, financial activities and other services also experienced losses. Meanwhile, construction expanded, as Phoenix held the country's largest industrial pipeline as of June (58.8 million square feet).

Developers delivered 5,892 units this year through July and had an additional 37,606 units underway. Yardi Matrix expects 18,571 units to come online across Phoenix during 2023, for a decade high and the country's second-largest expected delivery volume after Austin (24,145 units). Meanwhile, investment activity slowed, with $1.3 billion trading year-to-date through July, for a price per unit that was 34% higher than the national average.

Market Analysis | September 2023

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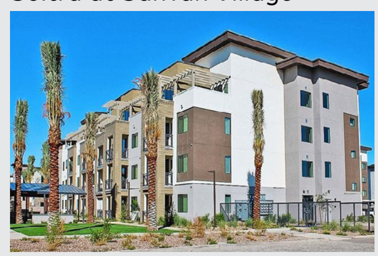
On the cover: Photo by Gregory Clifford/iStockphoto.com

Recent Phoenix Transactions

The Aston Scottsdale

City: Scottsdale, Ariz.
Buyer: The Connor Group
Purchase Price: $142 MM
Price per Unit: $428,788

Soltra at SanTan Village



City: Gilbert, Ariz.
Buyer: Premiere Residential
Purchase Price: $140 MM
Price per Unit: $ 368,421

The Griffin

City: Scottsdale, Ariz.
Buyer: Eaton Vance Management
Purchase Price: $128 MM
Price per Unit: $461,300

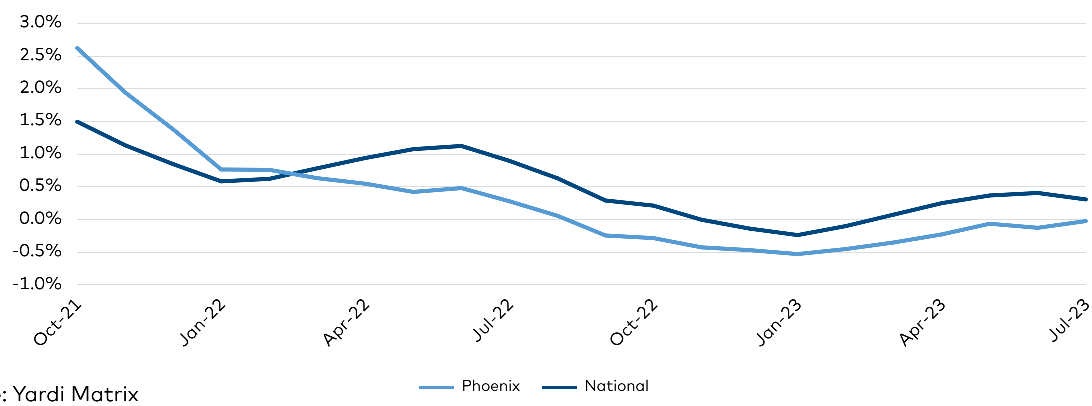
Phoenix Manor

City: Phoenix
Buyer: Reliant Group
Purchase Price: $50 MM
Price per Unit: $111,111

RENT TRENDS

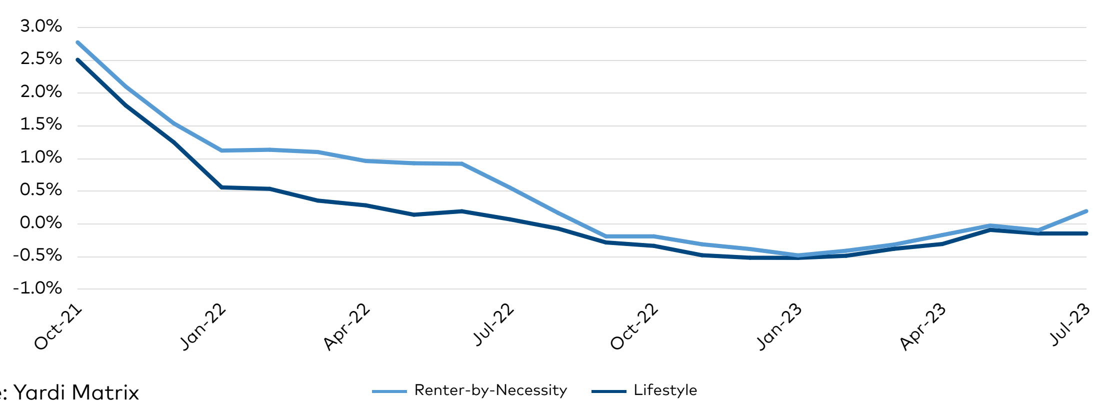
- Phoenix rents were flat on a trailing three-month (T3) basis through July, after being negative for 10 straight months. On a year-over-year basis, rents posted a 3.1% decrease, the largest drop among major U.S. metros after Las Vegas (-3.5%). Both Sun Belt cities saw strong supply after a few years of stellar rent growth. Despite deteriorating affordability, the average Phoenix rate stood at $1,618 in July, still below the $1,729 national figure.
- Working-class Renter-by-Necessity units performed well, with rates up 0.2% on a T3 basis through July, to $1,373. Meanwhile, Lifestyle rents declined for the 12th consecutive month amid strong supply, down 0.1% on a T3 basis, to $1,820.
- Rent contractions were correlated with strong supply and slowing in-migration. Occupancy in stabilized properties dropped 60 basis points in the 12 months ending in June, to 93.9%.
- Of the 39 submarkets tracked by Yardi Matrix, only five recorded rent gains year-over-year through July. The list included Buckeye (up 8.8% to $1,731), Phoenix-West Uptown (1.4% to $1,324) and Phoenix-South (0.9% to $1,605). Meanwhile, Phoenix-Downtown (-3.5% to $2,119), Scottsdale-North (-1.9% to $2,010) and Scottsdale-South (-0.4% to $2,003) remained the most expensive.
- Phoenix single-family rents were down 2.5% year-over-year as of July, to $2,077, with occupancy also declining 110 basis points.

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

- Metro Phoenix unemployment grew 100 basis points since March, to 3.9% in June, according to data from the Bureau of Labor Statistics. The rate lagged both the state (3.5%) and U.S. (3.5%) figures.

- Employment expansion continued to moderate, up 2.4%, or 37,500 jobs, in the 12 months ending in May. Education and health services (19,700 jobs) led the way in job growth. Trade, transportation and utilities continued to shed positions, down 3,300 jobs, as did information, financial activities and other services. Leisure and hospitality grew by 3.1%. Meanwhile, the national job growth rate clocked in at 2.8%.

- Phoenix's economy is currently somewhat disrupted, with some pockets cooling off while the larger economy indicates positive movement. Electric truck manufacturer Nikola recently laid off 230 employees in Phoenix and Coolidge, Ariz., for example. However, manufacturing and logistics are going strong, with Phoenix leading the way for industrial development in the U.S.

- The metro had 58.8 million square feet of industrial space under construction as of June, while also sporting more than 37,000 apartments and 1.4 million square feet of office space underway.

Phoenix Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	378	16.1%
90	Government	249	10.6%
70	Leisure and Hospitality	246	10.5%
15	Mining, Logging and Construction	160	6.8%
60	Professional and Business Services	395	16.8%
30	Manufacturing	150	6.4%
55	Financial Activities	216	9.2%
50	Information	42	1.8%
40	Trade, Transportation and Utilities	450	19.1%
80	Other Services	70	3.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Phoenix gained 78,220 residents in 2021, for a 1.6% expansion rate. Although not a historic high, the rate was still way ahead of the 0.1% U.S. figure.

- Between 2018 and 2021, Phoenix grew by 1.9%, ahead of the 1.5% national figure.

Phoenix vs. National Population

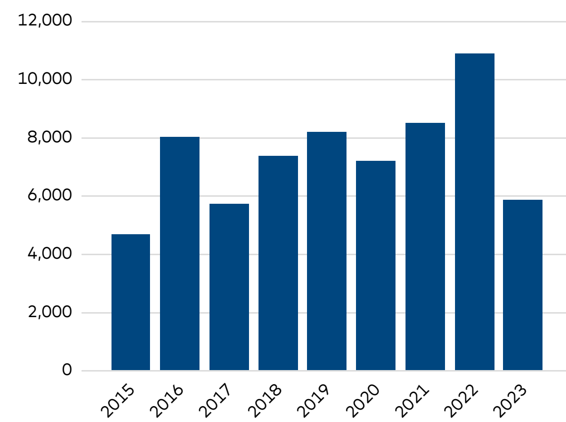
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Phoenix	4,851,830	4,953,901	4,867,925	4,946,145

Source: U.S. Census

SUPPLY

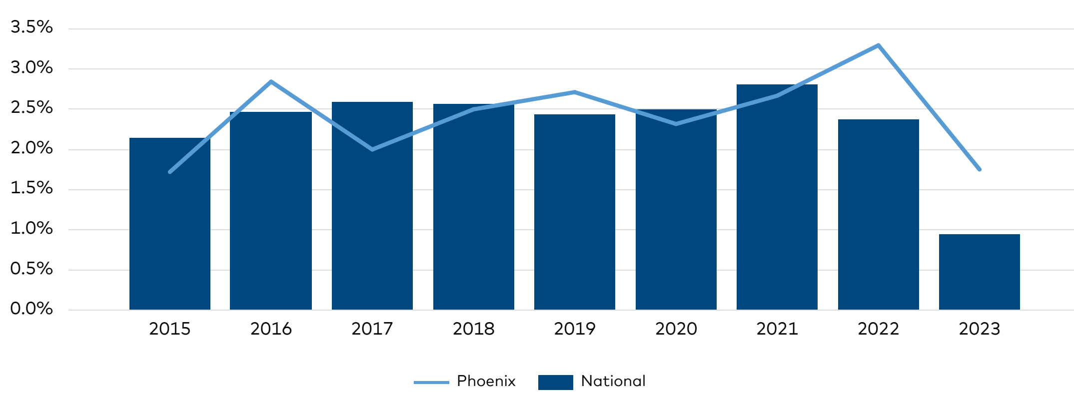
- This year through July, developers delivered 5,892 apartments in metro Phoenix, a solid 1.8% of existing stock and almost double the 0.9% U.S. rate. All recently delivered units were in upscale Lifestyle properties.
- The development pipeline comprised 37,606 units under construction and another 92,000 units in the planning and permitting stages. Of apartments underway, 10,888 units broke ground this year through July, roughly on par with the 10,312 units recorded during the same interval last year. For 2023, Yardi Matrix expects 18,571 units to come online. That would mark a new peak for the metro and also account for one of the country's highest figures, second only to Austin (24,145 units).
- The pipeline's composition remained uneven, favoring the Lifestyle segment (94.0%), with the remainder including small shares of Renter-by-Necessity projects (0.9%) and fully affordable developments (5.0%).
- Of the 39 submarkets tracked by Yardi Matrix, 32 had at least one project of more than 50 units under construction. Seventeen submarkets had more than 1,000 units underway each. Tempe-North (3,058), Phoenix-Downtown (2,919) and Phoenix-Maryvale (2,825) were the most active for multifamily development. Tempe-North also had the largest project underway—the 761-unit Culdesac Tempe, being developed by Sunbelt Holdings and expected to wrap up in early 2025.
- The largest project delivered in Phoenix this year through July was Camden Tempe II, a 397-unit property also in Tempe-North, built by Camden Property Trust.

Phoenix Completions (as of July 2023)



Source: Yardi Matrix

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



Source: Yardi Matrix

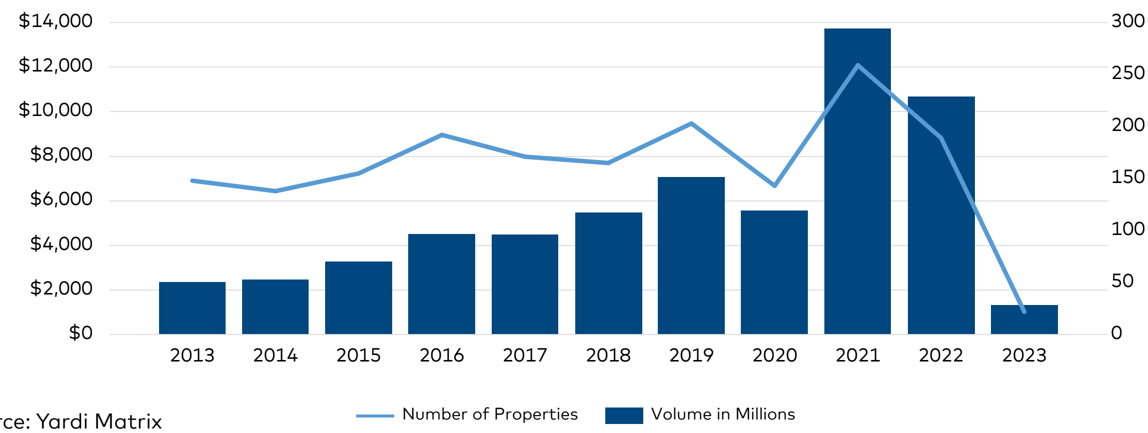
TRANSACTIONS

- Some $1.3 billion in multifamily assets (22 properties) traded in 2023 through July. Transaction activity continued to taper off, with interest rate hikes playing a major role. In the previous two years, transactions totaled a record $24.4 billion combined.

- Investor preference was equal between Lifestyle (11) and Renter-by-Necessity (11) assets year-to-date through July. Meanwhile, the price per unit dropped to $263,389, down from $280,736 during the same time frame last year.

- Phoenix's largest transaction of the year through July was The Connor Group's $141.5 million acquisition of The Aston Scottsdale, with aid from a $120 million loan issued by Morgan Stanley. The 330-unit property, sold by Wood Partners, traded at $428,787 per unit. The community came online last year and was previously known as Alta Raintree.

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



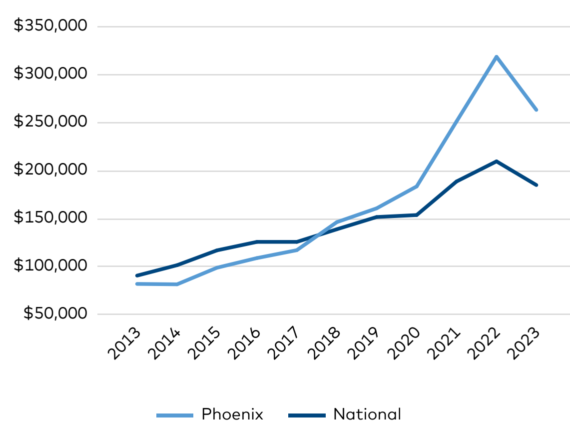
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Gilbert	464
Scottsdale-South	447
Chandler	318
Glendale-South	311
Phoenix-East Camelback Village	306
Phoenix-Maryvale	206
Tempe-North	198

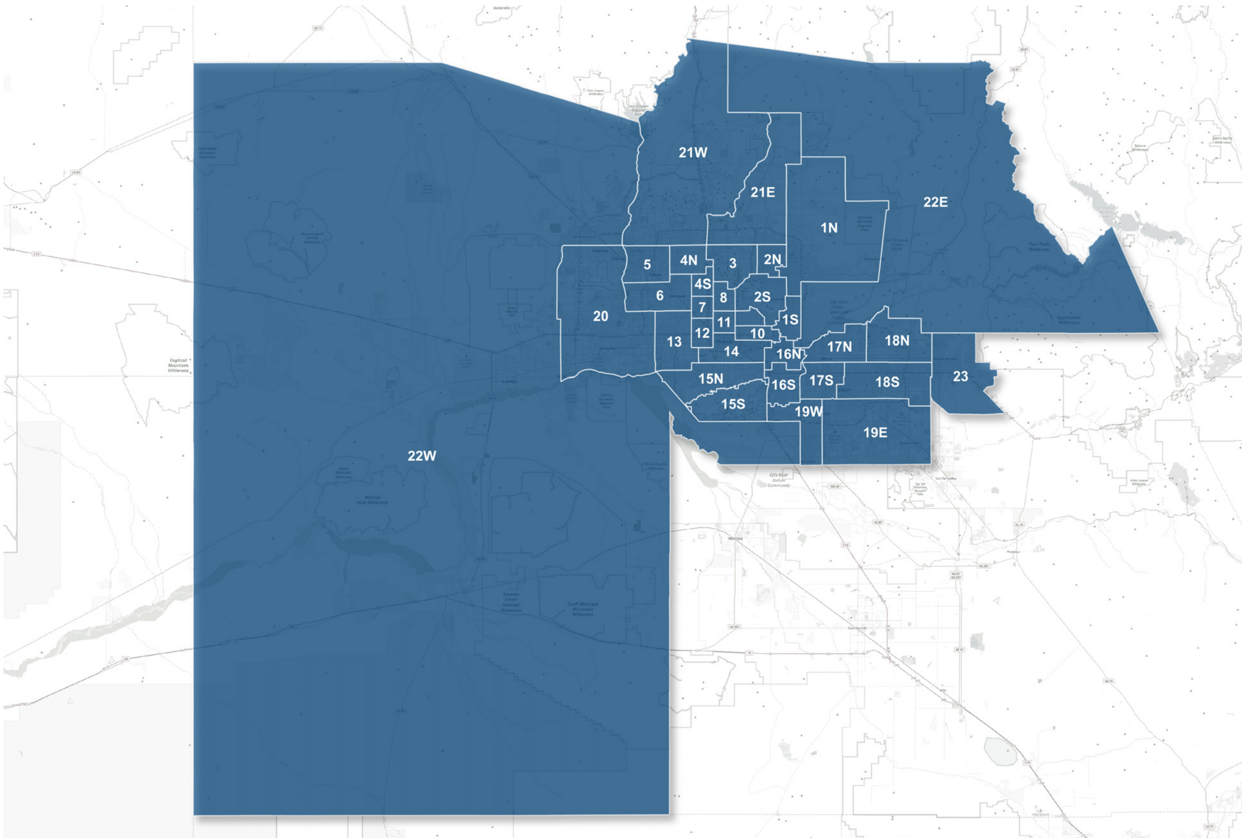
Source: Yardi Matrix
[1] From August 2022 to July 2022

Phoenix vs. National Sales Price per Unit



Source: Yardi Matrix

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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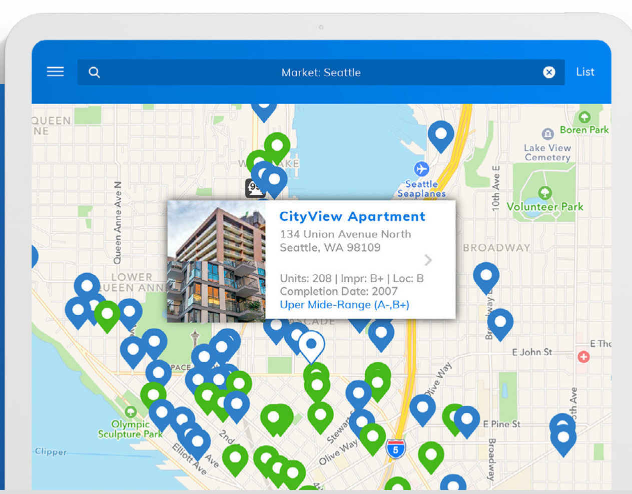
MULTIFAMILY KEY FEATURES

- 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



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

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