Yardi® Matrix

Phoenix: The Desert Is Calling

Multifamily Report Summer 2018

Hiring Rate Outpaces Nation

Development Activity Remains Solid

Robust Demographics Push Up Demand

Market Analysis
Summer 2018

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Demand Keeps Up With Supply

Thanks to its warm climate and low business costs, Phoenix has slowly turned into a magnet for companies relocating from nearby California, pushing healthy demographic trends and boosting housing demand in the process. As a result, rents rose 4.0% year-over-year as of April, with further improvement in the cards for the Valley of the Sun.

Phoenix added 60,000 jobs through February, up 2.7% year-over-year and well ahead of the national rate. Tech companies have flocked to the Silicon Desert of late, a case in point being Galvanize, the Denver-based technology learning community, which opened a refurbished 58,000-square-foot warehouse, transforming it into a startup hub and learning center for the industry. Intel is working on its $7 billion Fab 42 project, which at full capacity is expected to host as many as 3,000 engineers.

Investors have set their eyes on Phoenix: The transaction volume exceeded $1.4 billion in multifamily properties in the first four months of the year, pushing the per-unit price up to $144,603. Nearly two-thirds of the deals traded RBN assets, reflecting investor interest in Phoenix's ample value-add opportunities. Apartment construction is strong, with more than 16,600 units underway and 26,000 in the planning and permitting stages. As a result, we expect rent growth to reach 5.0% in 2018.

Recent Phoenix Transactions

Ten01 on the Lake

City: Phoenix
Buyer: PGIM Real Estate
Purchase Price: $115 MM
Price per Unit: $219,885

Modena

City: Phoenix
Buyer: Knightvest Capital
Purchase Price: $110 MM
Price per Unit: $143,229

Carlyle at South Mountain

City: Phoenix
Buyer: Western Wealth Capital
Purchase Price: $90 MM
Price per Unit: $163,043

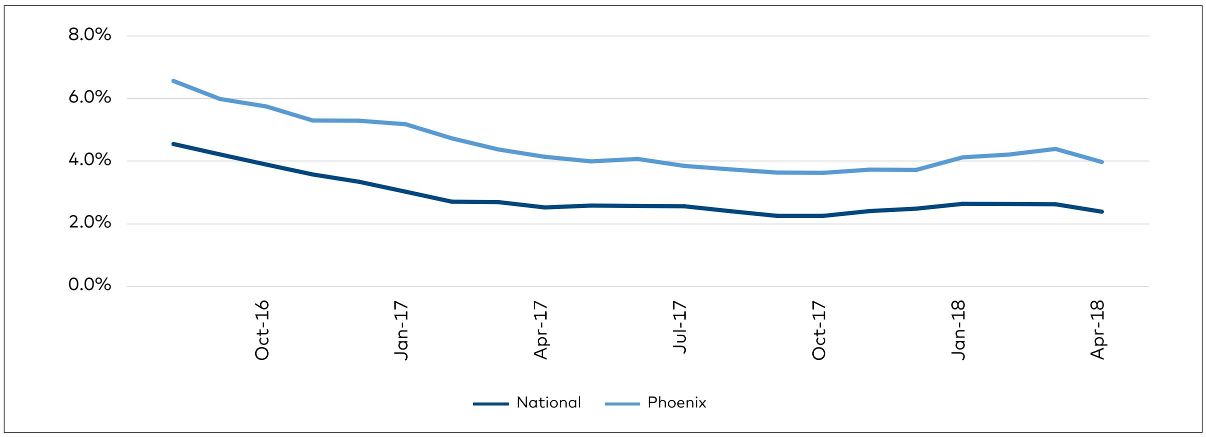
Broadstone Fashion Center

City: Phoenix
Buyer: Starlight Investments
Purchase Price: $84 MM
Price per Unit: $250,746

Rent Trends

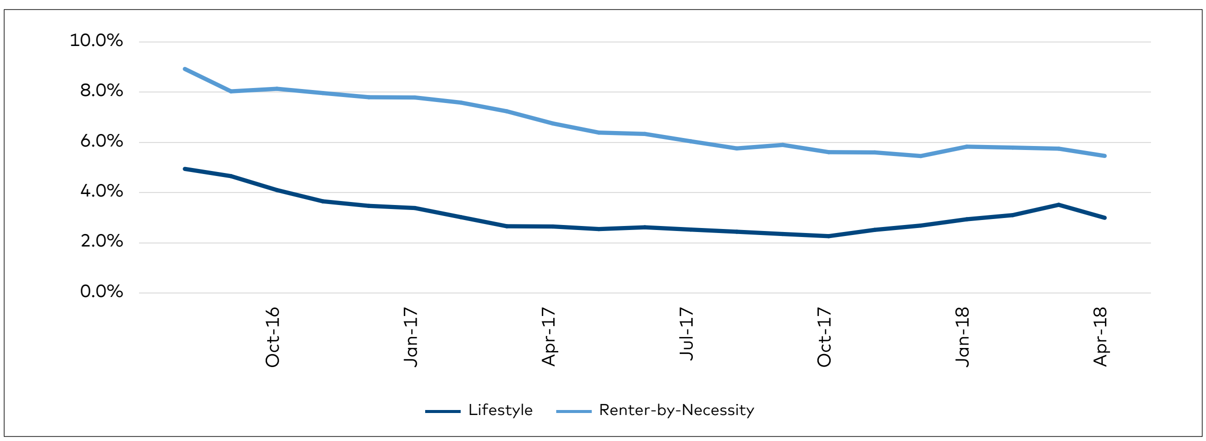
- Phoenix rents rose 4.0% year-over-year through April to an average of $1,048. While the metro's pace of rent growth was robust and well ahead of the 2.4% national rate, the rental amount was still below the $1,377 national average. Rent growth has stayed elevated due to healthy demographic trends and above-average employment.
- The Renter-by-Necessity segment led growth, up 5.5% year-over-year through April to $850. The Phoenix metro has traditionally been dominated by the single-family market, but recent development activity has skewed multifamily, as the relocation of various financial, professional services and manufacturing firms has resulted in a surge of rental households. Rents in the higher-end Lifestyle segment rose 3.0% to $1,237 over the same interval.
- Rent growth was positive across the board, led by Central West Phoenix (10.7%) and Northwest Phoenix (7.6%). The most affordable submarket is Central West Phoenix, where, despite the significant increase, the average rent was $685 in April. The highest rents were registered in Sky Harbor ($1,447), South Scottsdale ($1,375) and North Tempe ($1,359). Least affected by the rent surge was South Paradise Valley (up 0.4%). The occupancy rate for stabilized properties was 94.9% as of March. We expect rents to grow 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

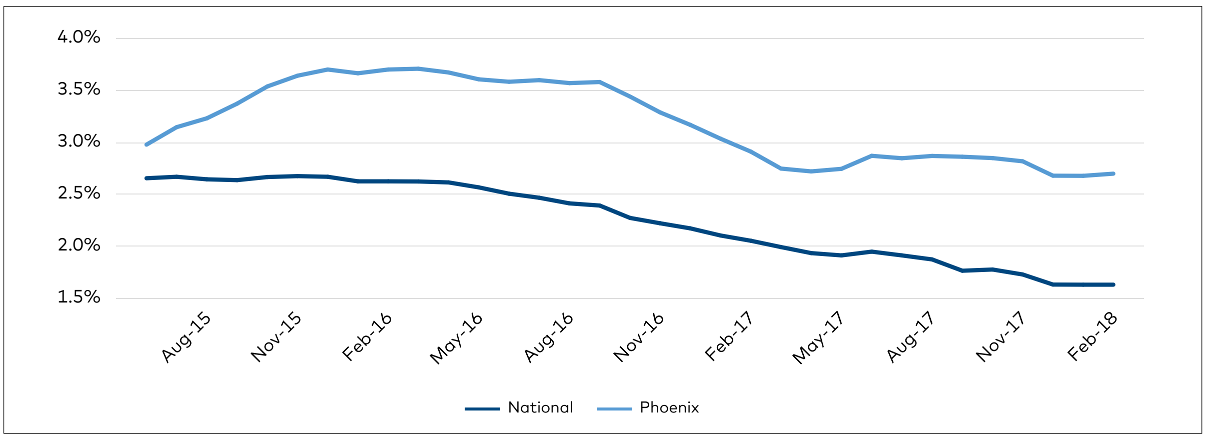
Economic Snapshot

- Even though it is slowing, employment growth in Phoenix continues to be among the strongest in the country, up 2.7% year-over-year, well ahead of the 1.6% national average. Phoenix added 60,000 jobs in the 12 months ending in February, while unemployment hovered around the 4.0% mark, roughly on par with the national rate.

- The education and health services sector led growth, with the addition of 14,700 jobs, followed by the construction sector, which gained 9,900 jobs and registered the highest year-over-year change (8.9%). The two sectors go hand in hand—aside from the robust multifamily development pipeline, Banner Health has 322 active construction projects totaling $1.9 billion, most of them throughout the state of Arizona, including the $418 million Banner-University Medical Center Phoenix, under construction since 2014 and slated for completion in 2020. Manufacturing is also on the rise, having added 6,800 jobs, a trend that is somewhat contrary to most major metros.

- Demand for office space is boosted primarily by company relocations; at 19.2%, the vacancy rate reached its lowest point since 2008, per JLL. Currently, Phoenix has 2.4 million square feet of space underway, 1.7 million square feet of which is slated for completion within the next 18 months. The first quarter of 2018 had more than 150,000 square feet of net absorption, according to CBRE.

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	319	15.3%	14,700	4.8%
15	Mining, Logging and Construction	121	5.8%	9,900	8.9%
40	Trade, Transportation and Utilities	399	19.2%	8,900	2.3%
30	Manufacturing	128	6.2%	6,800	5.6%
55	Financial Activities	190	9.1%	6,500	3.5%
60	Professional and Business Services	347	16.7%	6,100	1.8%
70	Leisure and Hospitality	228	11.0%	6,000	2.7%
90	Government	247	11.9%	1,400	0.6%
50	Information	36	1.7%	200	0.6%
80	Other Services	65	3.1%	-500	-0.8%

Sources: YardiMatrix, Bureau of Labor Statistics

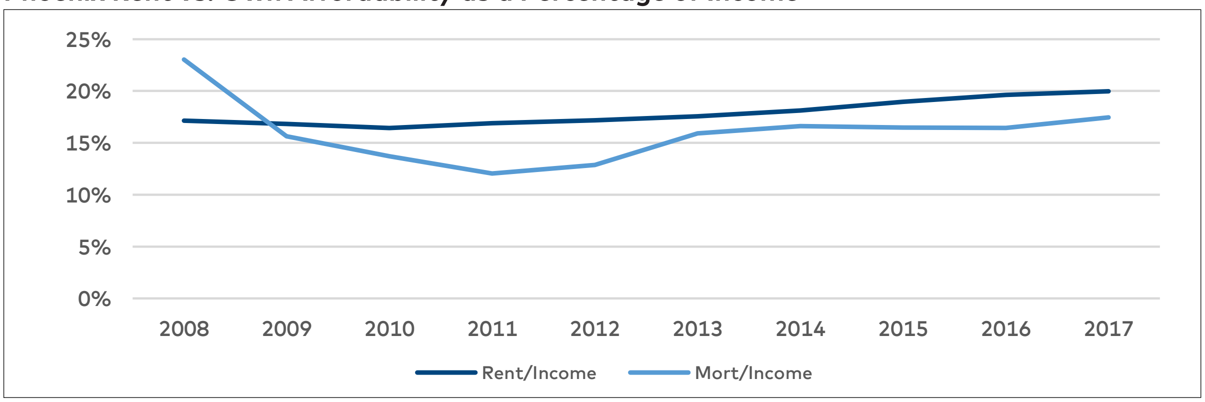
Demographics

Affordability

- The median home value in Phoenix reached $229,141 in 2017, surpassing its pre-recession value, up 5.3% year-over-year and 82% higher than it was in 2011, when the market bottomed out. Owning is more affordable than renting in the metro, the average mortgage accounting for 17% of the area's median income, while the average rent equated to 20%. However, rents continue to grow faster than incomes, which combined with the exceptional population growth will deepen affordability issues.

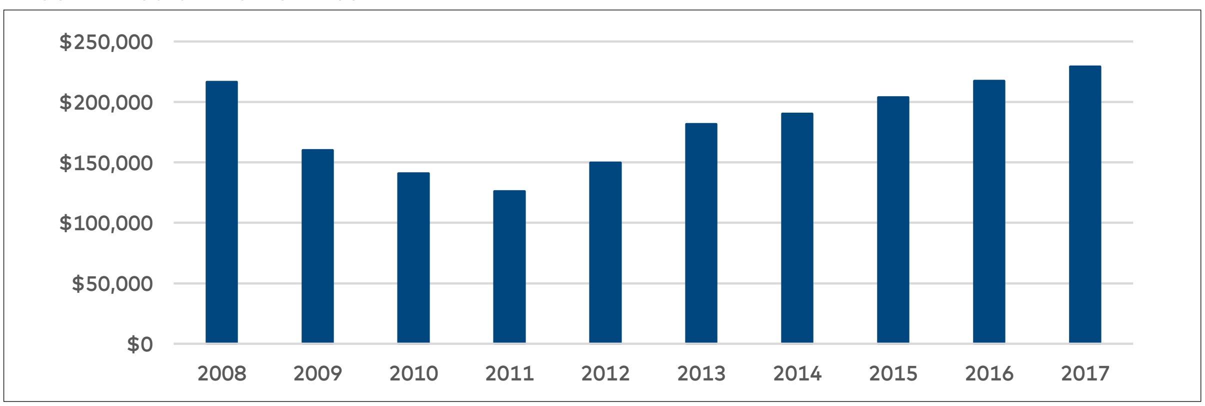
- Despite the surge in home prices, Phoenix is one of the most affordable metros and will continue to attract residents from neighboring markets, boosting demand from out-of-state homebuyers.

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 88,772 residents in 2017, up 1.9% year-over-year, nearly three times the 0.7% national average.
- Last year, the metro overtook Philadelphia as the fifth-largest city in the nation.

Phoenix vs. National Population

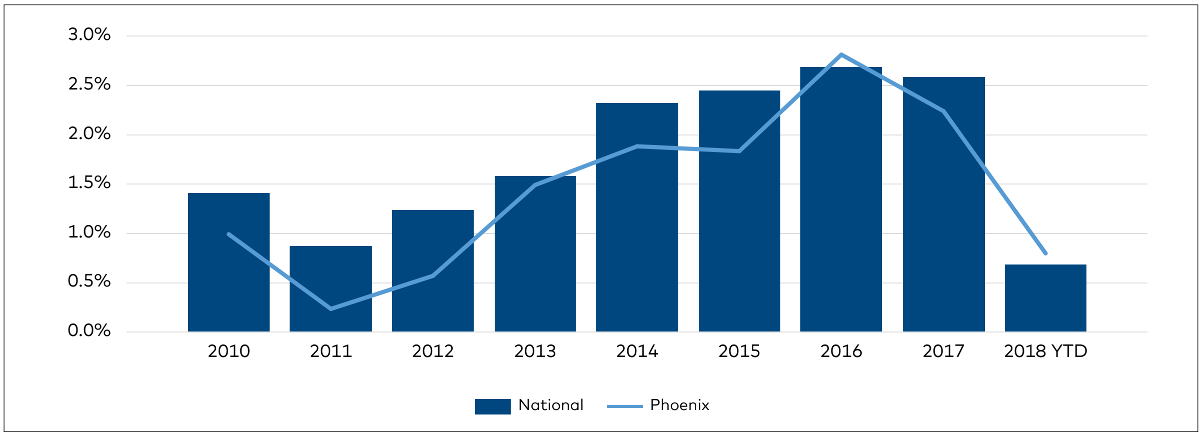
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Phoenix Metro	4,390,565	4,470,712	4,558,145	4,648,498	4,737,270

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

Supply

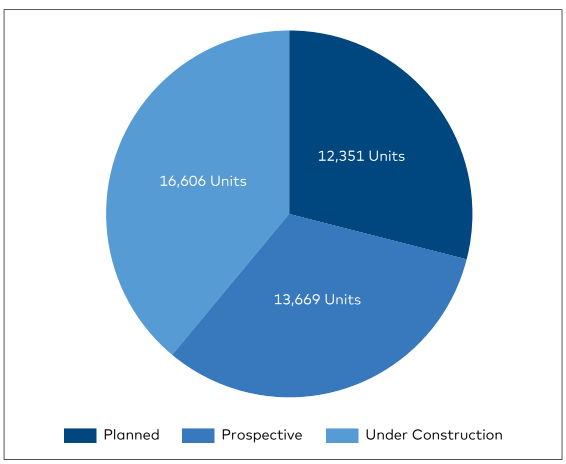
- Some 2,350 units were delivered in 2018 through April, 0.8% of total stock, 10 basis points above the national average. The consistent number of completions through April could signal a near-cycle peak, especially since more than 7,600 units are expected to be delivered for the entire year.
- Roughly 16,600 units were underway in Phoenix as of April, while the overall multifamily pipeline included 26,000 units in the planning and permitting stages. Robust incoming inventory doesn't raise the problem of oversupply, as deliveries are rapidly absorbed, due to the metro's strong demand. Occupancy in stabilized properties was 94.9% as of March, roughly in line with the nationwide trend.
- Construction activity is high across the map, as six submarkets had more than 1,000 units underway in April. Gilbert led the way with 2,590 units, followed by North Tempe (2,345 units), Sky Harbor (1,954) and Union Hills (1,434). The largest multifamily property underway in Phoenix was the 1,069-unit Camden North End, owned by Camden Property Trust. The community delivered a first batch of 441 units in March.

Phoenix vs. National Completions as a Percentage of Total Stock (as of April 2018)



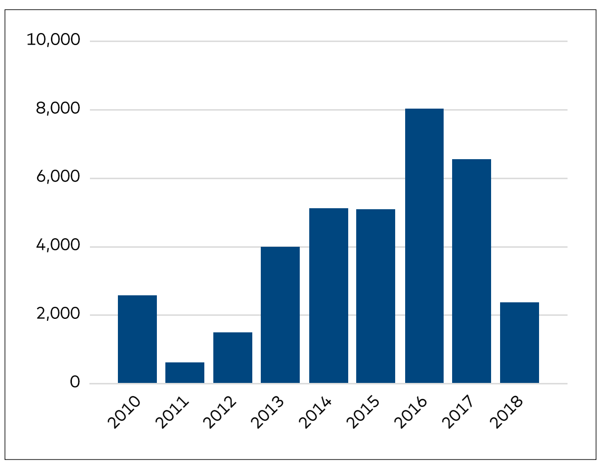
Source: YardiMatrix

Development Pipeline (as of April 2018)



Source: YardiMatrix

Phoenix Completions (as of April 2018)



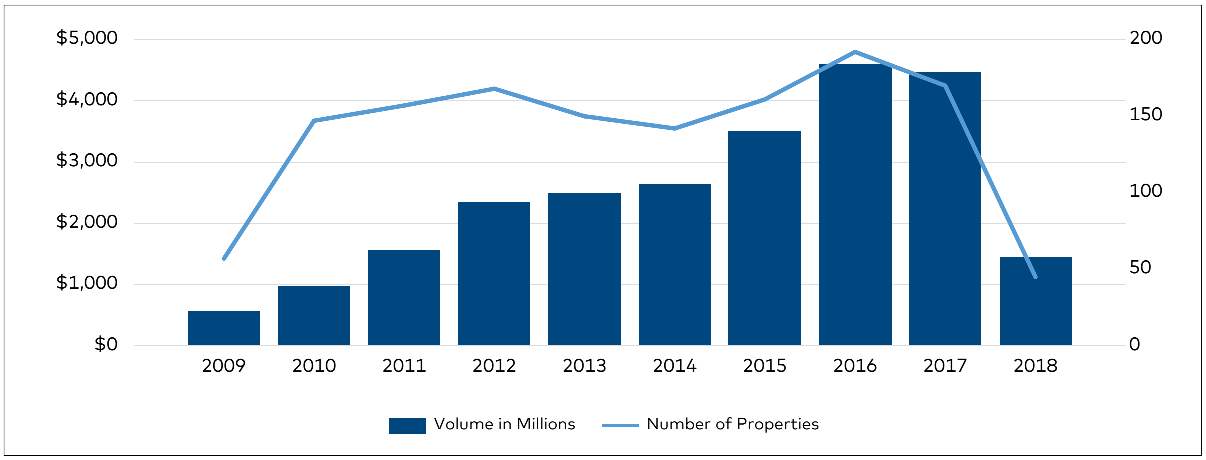
Source: YardiMatrix

Transactions

- Transaction volume exceeded $1.4 billion year-to-date through April 2018, a strong showing following 2017's full volume of nearly $4.5 billion. Of the 45 properties that traded in 2018, almost two-thirds were in the working-class Renter-by-Necessity segment, showcasing that investor interest is mostly focused on the metro's value-add opportunities.

- Property values continued their climb, as Phoenix's price per unit reached $144,603 in April, a 23% increase from 2017's value. The national average was up 4.9% to $146,694. The top five most active submarkets in Phoenix registered a combined sales volume of nearly $2 billion in the 12 months ending in April: North Tempe ($631 million), Chandler ($455 million), Deer Valley ($318 million), Central East Phoenix ($286 million) and Union Hills ($280 million). The most expensive asset to trade this year was Ten01 on the Lake, a 523-unit property acquired by PGIM Real Estate for $115 million.

Phoenix Sales Volume and Number of Properties Sold (as of April 2018)



Source: YardiMatrix

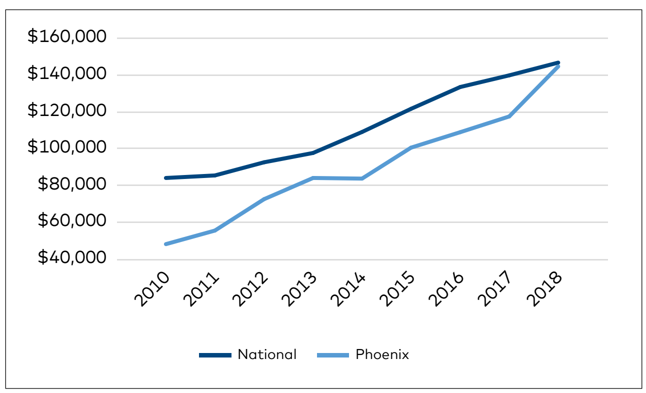
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
North Tempe	631
Chandler	455
Deer Valley	318
Central East Phoenix	286
Union Hills	280
Mountain Park	268
South Mesa	255
Gilbert	241

Source: YardiMatrix

[1] From May 2017 to April 2018

Phoenix vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

Brought to you by:

MHN MULTI-HOUSING NEWS

Downtown Phoenix's 2nd Tallest Residential Tower Underway

Parallel Capital Partners sold a one-acre parcel within Arizona Center to North American Development Group. The company intends to build a $100 million, 30-story tower there.

Canadian Investor Buys $46M Phoenix-Area Asset

The 360-unit community in Chandler last traded more than a decade ago, when PEM Real Estate acquired it as part of a portfolio deal.

IPA Facilitates $65M Phoenix-Area Transaction

Eaton Vance Investment Managers purchased the 303-unit Chandler property, which includes a volleyball court, two swimming pools and 458 parking spaces.

Security Properties Nabs $59M Phoenix Community

The company plans to upgrade Pavilions on Central, which includes 254 units and a spa, a fitness center and 400 parking spots.

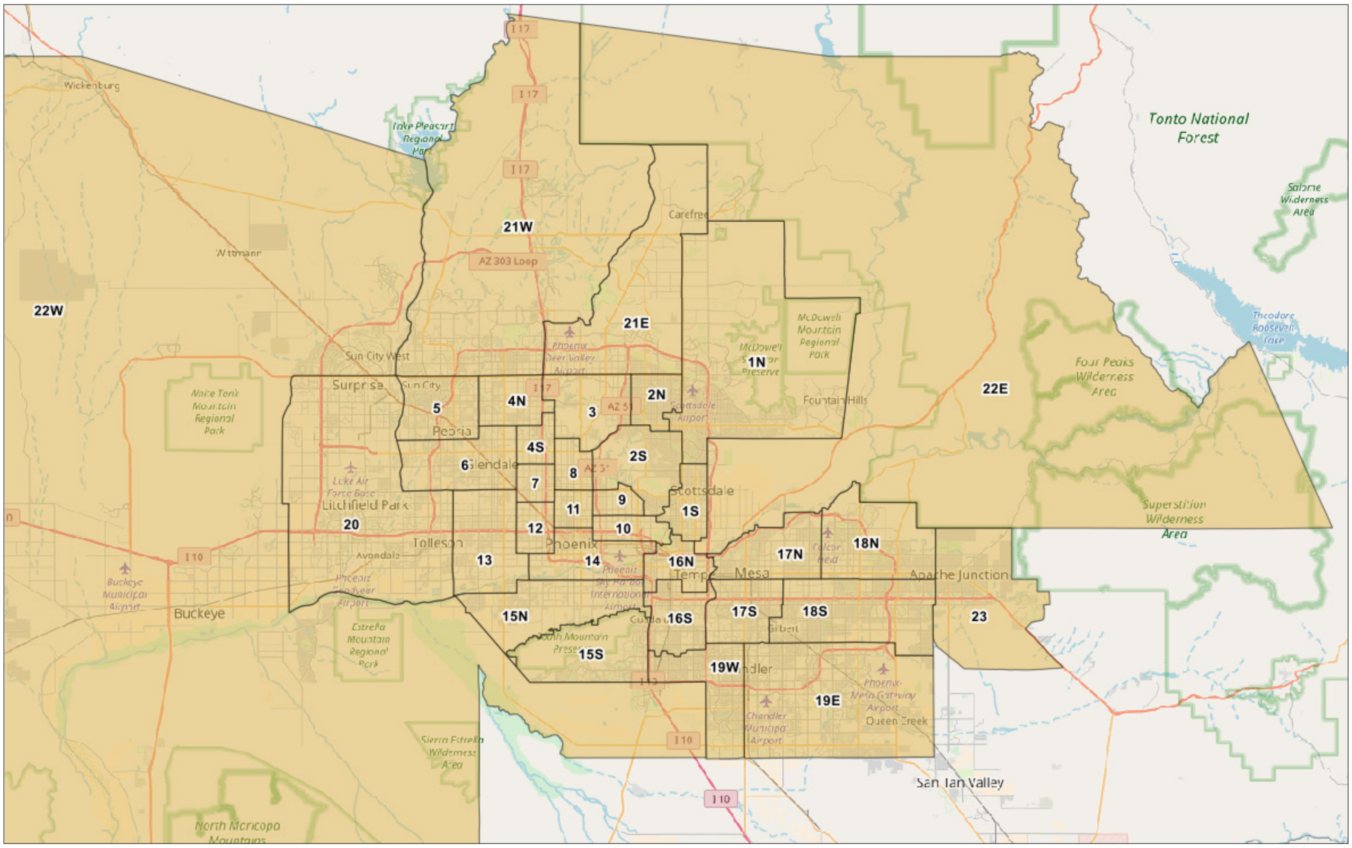
Goldman Sachs Buys AZ Luxury Property

The 341-unit Hanover Mill Avenue was purchased from The Hanover Co. and is situated three blocks from Arizona State University, within walking distance of the Metro Light Rail.

Baron Properties, Buchanan Street Sell $44M Phoenix Community

Vue Park West, which the joint venture acquired in 2014 for $30 million, is situated within the 250,000-square-foot Park West mixed-use development.

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
14	Sky Harbor

Area #	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 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.