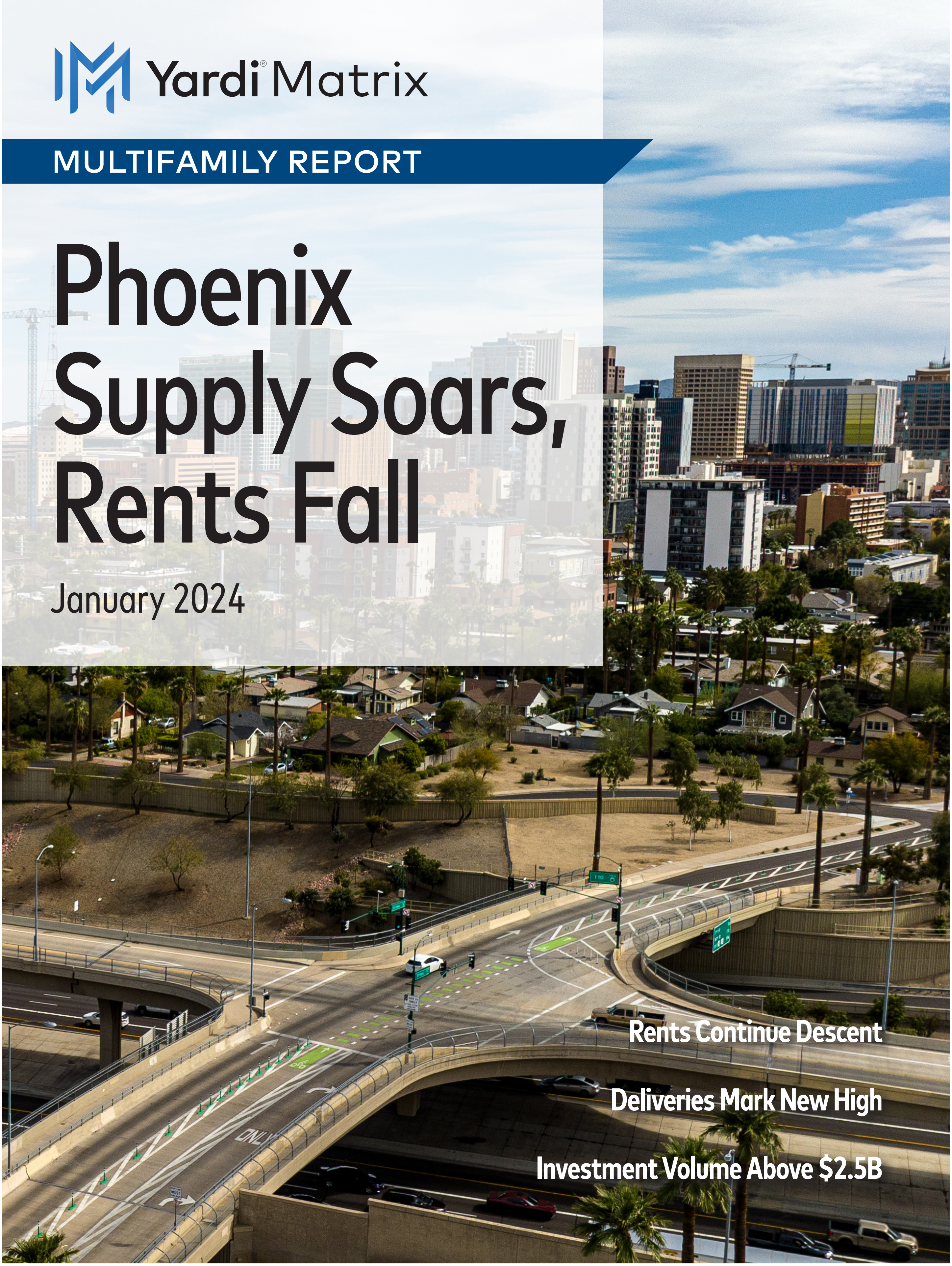
Yardi Matrix

MULTIFAMILY REPORT

Phoenix Supply Soars, Rents Fall

January 2024



Rents Continue Descent

Deliveries Mark New High

Investment Volume Above $2.5B

PHOENIX MULTIFAMILY

Yardi Matrix

Supply Marks New Record, Rents Decline

Responding to the surge in demand and rent growth, developers expanded Phoenix's pipeline in recent years, but now the metro has reached the tail end of its stellar post-pandemic performance. The average asking rent contracted 3.7% on a year-over-year basis through November, posting the second weakest performance among Yardi Matrix's top 30 metros. At $1,583, Phoenix was still affordable compared to the U.S. figure, which inched up 0.4% during the year, to $1,713. Meanwhile, occupancy held on surprisingly well, declining just 60 basis points in the 12 months ending in October, to 93.4%.

Phoenix's employment market expanded 2.1% in the 12 months ending in September, 20 basis points behind the U.S. rate. While three sectors lost jobs—information (-2,700 jobs), other services (-1,500) and manufacturing (-500)—the bulk of the 51,700 positions added were in the education and health services (20,700 jobs), leisure and hospitality (9,600) and government (7,700) sectors.

Deliveries marked a new decade-high, amounting to 11,980 units through November, and unlike the national trend, new construction starts in 2023 increased from 2022's volume. The pipeline had 35,088 units under construction. Meanwhile, investment moderated, with $2.5 billion in multifamily assets changing hands, for a price per unit that fell 14.6% from 2022 rates, to $272,467 as of November.

Market Analysis | January 2024

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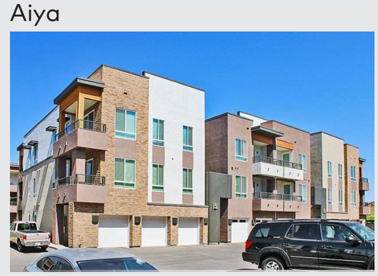
Recent Phoenix Transactions

The District at Scottsdale

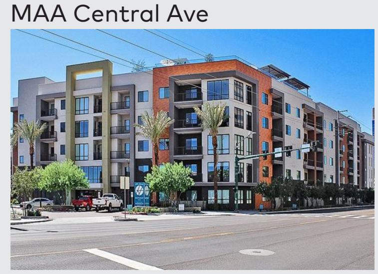
City: Scottsdale, Ariz.
Buyer: Fairfield Residential
Purchase Price: $162 MM
Price per Unit: $486,446

Aiya



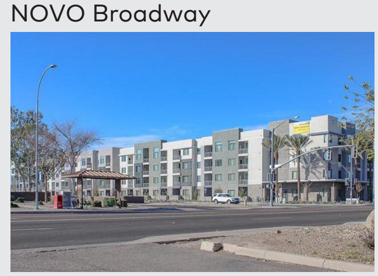
City: Gilbert, Ariz.
Buyer: Olympus Property
Purchase Price: $112 MM
Price per Unit: $311,111

MAA Central Ave



City: Phoenix
Buyer: MAA
Purchase Price: $102 MM
Price per Unit: $316,873

NOVO Broadway



City: Tempe, Ariz.
Buyer: MG Properties
Purchase Price: $100 MM
Price per Unit: $309,414

RENT TRENDS

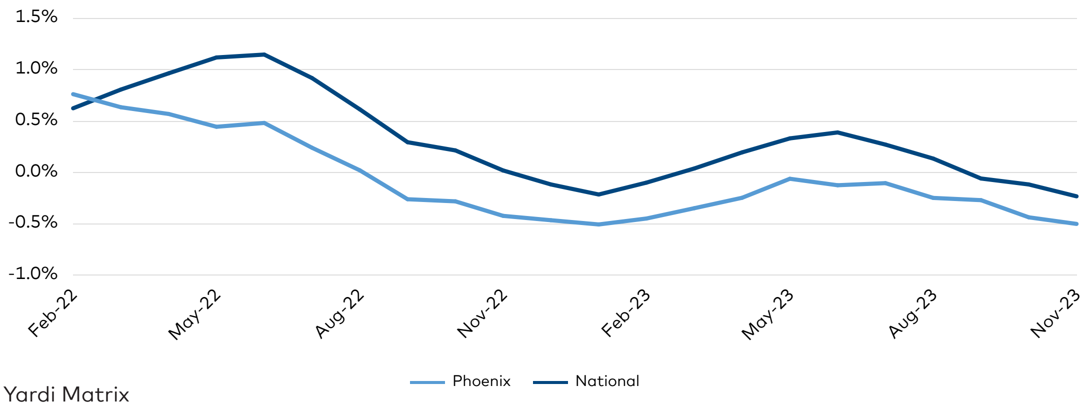
- Phoenix rents contracted 0.5%, on a trailing three-month (T3) basis through November, to $1,583, while the U.S. rate decreased 0.2%, to $1,713. On a year-over-year basis, rents were down 3.7% in November, marking the second steepest drop among Yardi Matrix's top 30 metros, only outpaced by Austin. Meanwhile, the U.S. rate remained in expansion mode, up 0.4%. Phoenix's weak rent performance can be partially attributed to substantial stock expansion—the metro added 23,000 new units in the past 23 months.

- Rent growth was negative across asset classes—Lifestyle figures declined 0.6% on a T3 basis through November, to $1,781, marking the 16th straight month of negative growth. RBN figures fell 0.4%, to $1,343, down for 14 of the past 15 months. Another consequence of bountiful supply was an occupancy drop, with the rate in stabilized properties decreasing 60 basis points, in the 12 months ending in October, to 93.4%. RBN occupancy decreased 110 basis points, to 92.7%, and Lifestyle dipped 20 basis points, to 94.0%.

- In four submarkets, rent growth remained positive on a year-over-year basis, led by Phoenix–South (1.1% to $1,318). Two submarkets had rents above the $2,000 mark, from four a year ago. Paradise Valley Village and Phoenix Downtown clocked in at $2,007; in Paradise Valley Village rents inched up 0.1%, while in Phoenix Downtown they fell 6.4%.

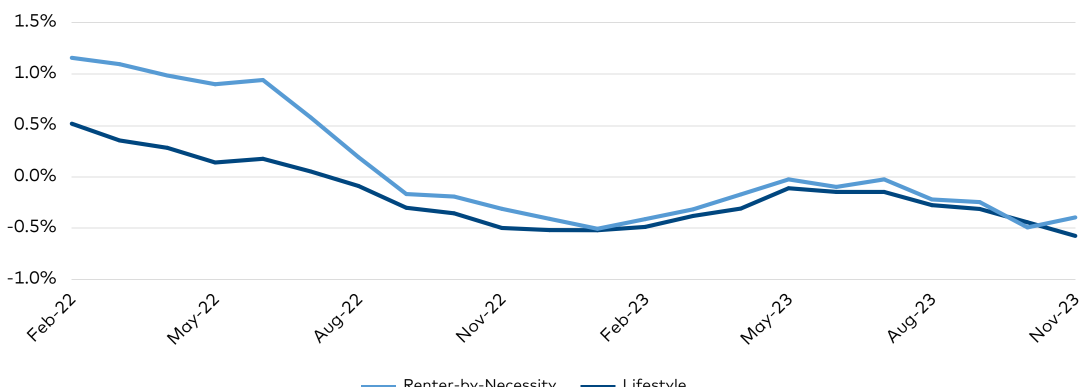
- Single-family rental figures declined 3.9% in November, to $2,034, and occupancy in stabilized properties decreased 110 basis points, to 93.1%.

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

- The Phoenix employment market continued to grow in 2023, but at a slower rate. In the 12 months ending in September, the metro gained 51,700 jobs, for a 2.1% expansion, trailing the U.S. rate by 20 basis points. Meanwhile, unemployment was 3.9% in October, 100 basis points higher than it was at the beginning of 2023, according to data from the Bureau of Labor Statistics. The metro's jobless rate was on par with the U.S. and surpassed the 4.2% state figure.

- Three sectors lost jobs in the 12 months ending in September—information (-2,700 jobs), other services (-1,500) and manufacturing (-500). The latter is part of a sector that is in full expansion—Phoenix's industrial pipeline leads the nation with 47.3 million square feet underway as of October, surpassing other established industrial markets such as Dallas and the Inland Empire.

- Meanwhile, employment gains were led by education and health services (20,700 jobs), and the sector's outlook is bright. Multiple education and health care developments are underway across Phoenix including Arizona State University's $185 million Interdisciplinary Science and Technology Building 12. The project is intended to address the expected surge in tech jobs in the state. Another project underway is the Discovery Oasis, a 120-acre biotechnology innovation hub adjacent to Mayo Clinic Hospital in North Phoenix, with zoning approved in late 2023.

Phoenix Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	388	16.3%
70	Leisure and Hospitality	244	10.3%
90	Government	251	10.6%
55	Financial Activities	223	9.4%
15	Mining, Logging and Construction	164	6.9%
60	Professional and Business Services	399	16.8%
40	Trade, Transportation and Utilities	450	18.9%
30	Manufacturing	150	6.3%
80	Other Services	70	2.9%
50	Information	40	1.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Phoenix gained 78,220 residents in 2021, a 1.6% annual expansion and far above the 0.1% national rate.

- The metro's demographic has been rising every year since the 2010 Census, with the exception of 2020, when the population declined.

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 11,980 units through November of 2023, surpassing all other annual totals on record. The new supply is the equivalent of 3.5% of existing stock, well above the 2.1% national rate. A small 4.0% portion of the pipeline comprises units in fully affordable communities, while upscale Lifestyle units make up most of the new supply.

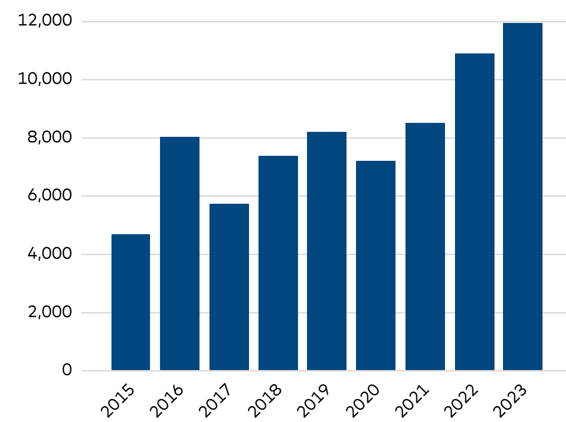
- Construction activity remained elevated with 35,088 units underway in November and another 95,700 in the planning and permitting phases. The pipeline composition remained heavily tilted toward upscale properties, with Lifestyle units accounting for 91.1%. The fully affordable segment accounted for 7.1%.

- Based on the number of units that started construction in 2023 through November, the metro bucked the national trend, indicating increasing developer confidence—16,872 units across 64 properties broke ground during the period, up from 15,657 units across 66 properties during the corresponding interval in 2022.

- Tempe–North posted the highest construction activity with 3,081 units underway, followed by Glendale–South (2,622 units) and Phoenix–Downtown (2,583 units). Two more submarkets had more than 2,000 units under construction, and another eight surpassed the 1,000 mark. Overall, of the 46 submarkets tracked by Yardi Matrix, developers were active in 32.

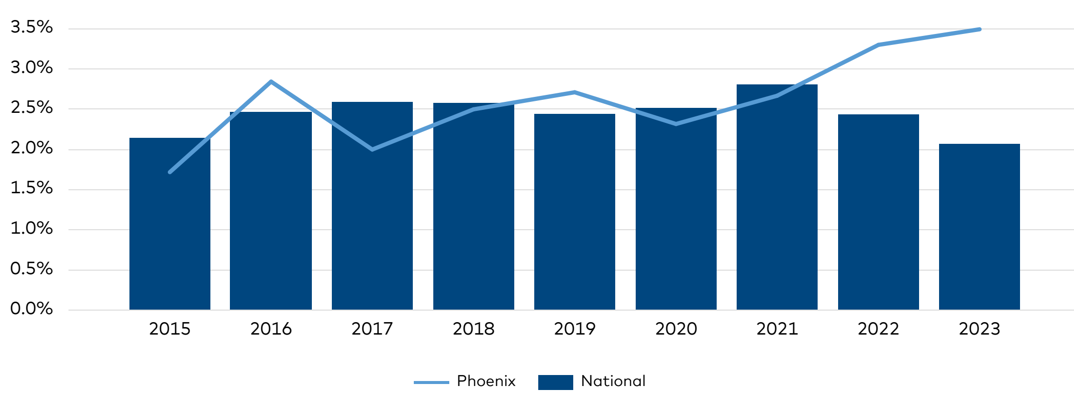
- The largest project completed in 2023 through November was Rehoboth Place Phase II, a 476-unit Lifestyle property located in Queen Creek. The property is owned by IDM and was built with aid from a $65 million construction loan originated by Wells Fargo Bank.

Phoenix Completions (as of November 2023)



Source: Yardi Matrix

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

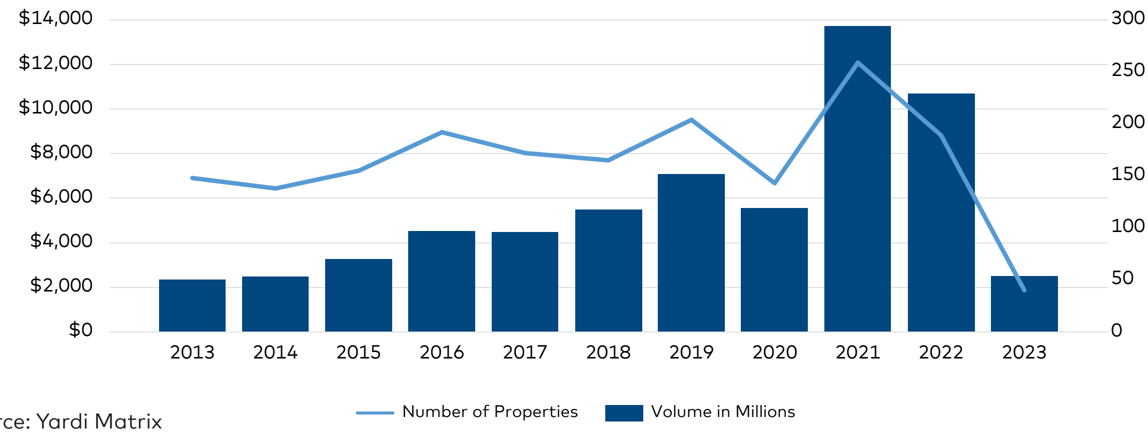


Source: Yardi Matrix

TRANSACTIONS

- Investors traded $2.5 billion in multifamily assets in 2023 through November, well behind the $10.6 billion recorded in 2022. The figure is the third lowest for deal volume in the past decade.
- Sales composition was dominated by Lifestyle properties, which accounted for 57.5% of all sales registered through the first eleven months of last year. Even so, the slowdown in investment activity resulted in slashed per-unit prices, down 14.6% year-to-date as of November, to $272,467. Meanwhile, the U.S. average price per unit decreased to $186,300.
- Notable transactions included Fairfield Residential's $161.5 million acquisition of The District at Scottsdale, a 332-unit asset sold by Kohlberg Kravis Roberts & Co. for $486,446 per unit. The new owner assumed the outstanding balance of an $84.6 million loan held by Metropolitan Life Insurance Co.

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



Source: Yardi Matrix

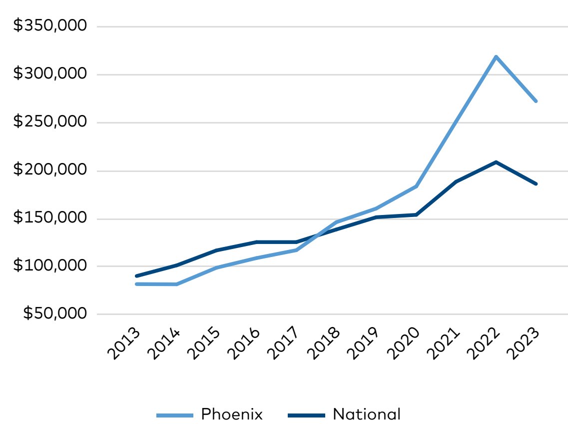
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Gilbert	337
Scottsdale — North	303
Tempe — North	298
Scottsdale — South	297
Chandler	177
Phoenix — Happy Valley	170
Phoenix — Midtown	161

Source: Yardi Matrix

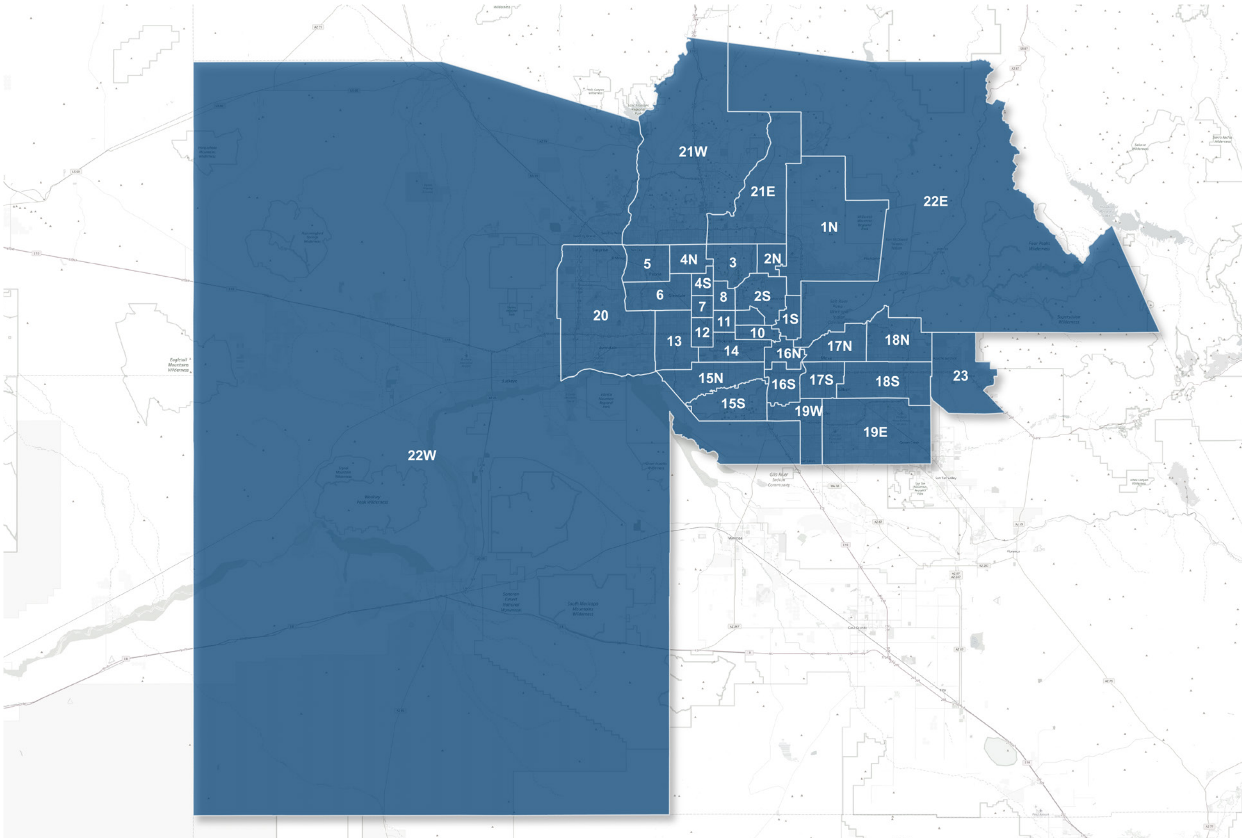
[1] From December 2022 to November 2023

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.

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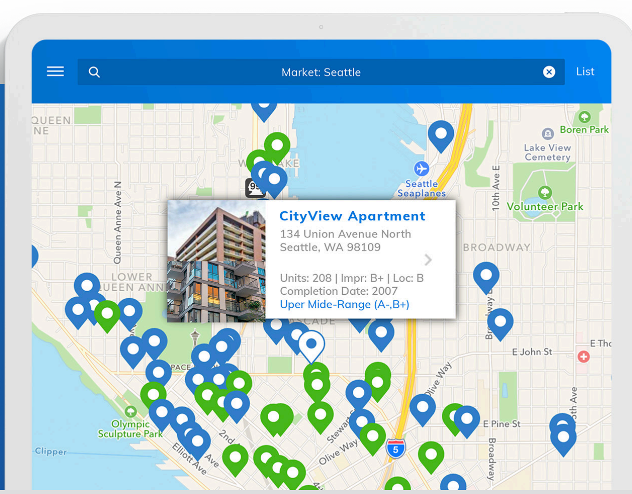
MULTIFAMILY KEY FEATURES

- 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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