Yardi® Matrix

Phoenix Hits Cruise Speed

Multifamily Report Fall 2018

Investment Sales Stay Strong

Demand Fuels Completion Rate

Job Growth Firing on All Cylinders

Market Analysis
Fall 2018

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Phoenix Plays to Its Strengths

With rent growth rebounding to nearly double the national rate, Phoenix is experiencing a sudden sprint in rent improvement, as positive demographic trends and one of the most active economies in the U.S. prop up the metro's multifamily market. Rents were up 5.4% year-over-year as of September, to an average of $1,085. Despite high completion rates, average occupancy in stabilized properties actually rose to 95.2% in August, up 40 basis points year-over-year.

Employment growth continued at an elevated rate, with 61,300 jobs added in the 12 months ending in July. Improvement was widespread, with all but one sector recording net job gains. Construction added 12,900 positions, as the sector continued to benefit from an expanding multifamily pipeline, with 15,700 units underway as of September. The metro's office pipeline also remains strong, as more than 4.2 million square feet of space was underway as of October.

Strengthening market fundamentals have proved appealing to investors, leading total sales to $4.4 billion through the year's first nine months. Going forward, Phoenix is likely to continue having strong delivery rates, as 6,800 units had already been added as of September, and another 3,000 were expected to come online by year's end. All in all, rents are likely to continue their rise.

Recent Phoenix Transactions

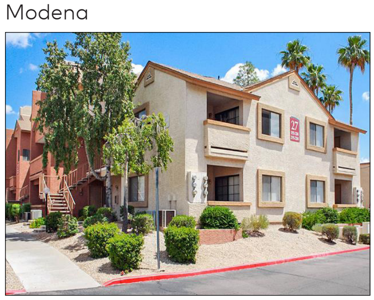
Kota North Scottsdale

City: Scottsdale, Ariz.
Buyer: CBRE Global Investors
Purchase Price: $160 MM
Price per Unit: $217,527

Ten01 on the Lake

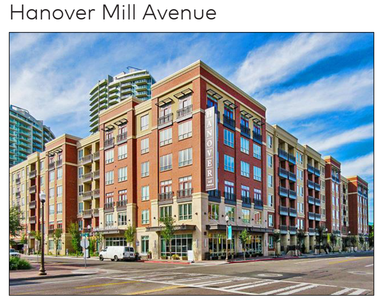
City: Tempe, Ariz.
Buyer: PGIM Real Estate
Purchase Price: $115 MM
Price per Unit: $219,885

Modena



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

Hanover Mill Avenue

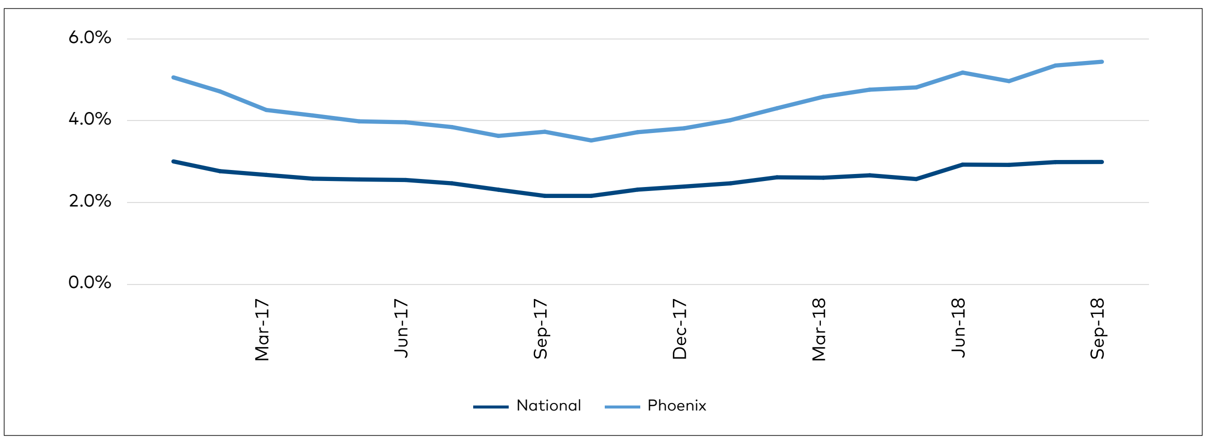


City: Tempe, Ariz.
Buyer: Goldman Sachs & Co.
Purchase Price: $95 MM
Price per Unit: $278,886

Rent Trends

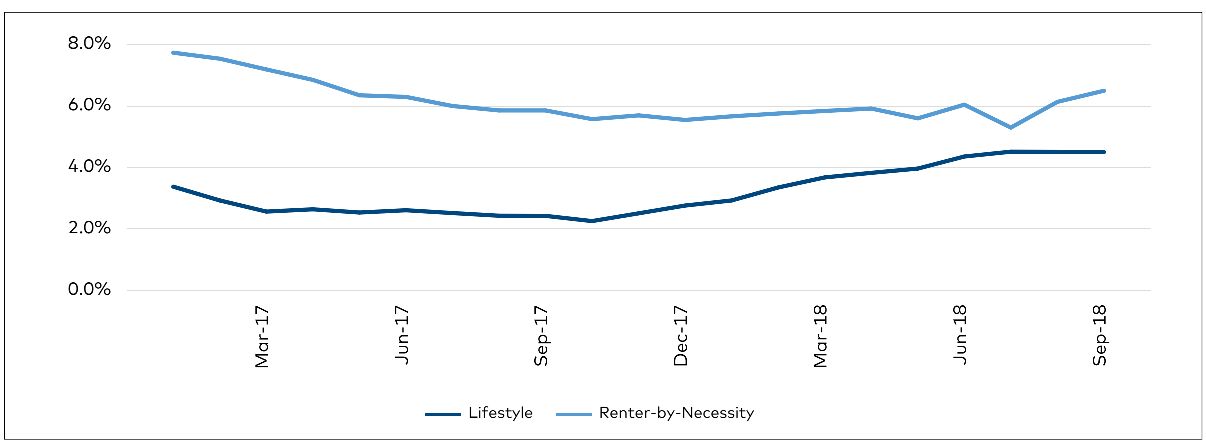
- Rents in Phoenix rose 5.4% year-over-year through September, 240 basis points over the national growth rate. The overall average rent was $1,085, still more than $300 below the national figure, which remains one of the metro's most significant appeals. As talent continues to pour in from nearby California, Phoenix's population has been growing at a high rate, creating demand for rental properties in the process.
- Working-class Renter-by-Necessity properties claimed the higher growth rate (up 6.5% year-over-year), pushing the average rent to $884. Rents in the Lifestyle segment climbed 4.5% year-over-year, to $1,274 as of September. With demand levels still high across the quality spectrum, rent growth continued to stay strong, with only the limited number of workforce-level completions pushing Renter-by-Necessity rates a little further.
- The top-performing Phoenix submarkets were those located in more affordable areas of the metro's northwestern quadrant: Central West Phoenix (up 9.9% year-over-year), Sunnyslope (up 9.2%), Metrocenter (up 8.0%), Sun City-Youngtown-Peoria (up 7.4%) and Northwest Phoenix (up 7.4%).
- Although completions are rising, a bustling job market should mean continued rent growth in the metro.

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)

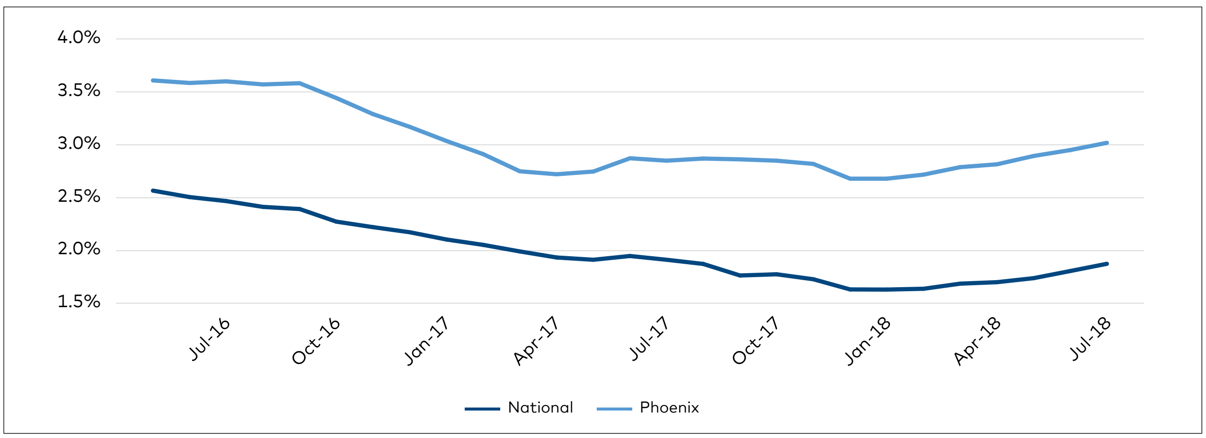


Source: YardiMatrix

Economic Snapshot

- Phoenix added 61,300 jobs in the 12 months ending in July, remaining a top nationwide performer for employment. The year-over-year employment growth rate was 3.0%, well above the 1.9% U.S. figure. The metro's major employment sectors all exhibited growth.
- A bustling multifamily and commercial development pipeline led to the addition of 12,900 construction jobs. That's an improvement rate of 10.9% year-over-year. With 15,700 rental units underway as of September and another 35,000 in the planning and permitting stages, odds are the sector will continue to expand in the metro.
- Continued improvement in the metro's population and employment metrics is prompting local policy to ensure that the city is prepared for further development. As a result, a partnership between the Arizona State University Center for Smart Cities and Regions, the Arizona Institute for Digital Progress and the Greater Phoenix Economic Council has taken shape. The public-private nonprofit, called the Greater Phoenix Smart Region Initiative, aims to further the metro's progress as a genuine presence in the Smart City landscape.

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)

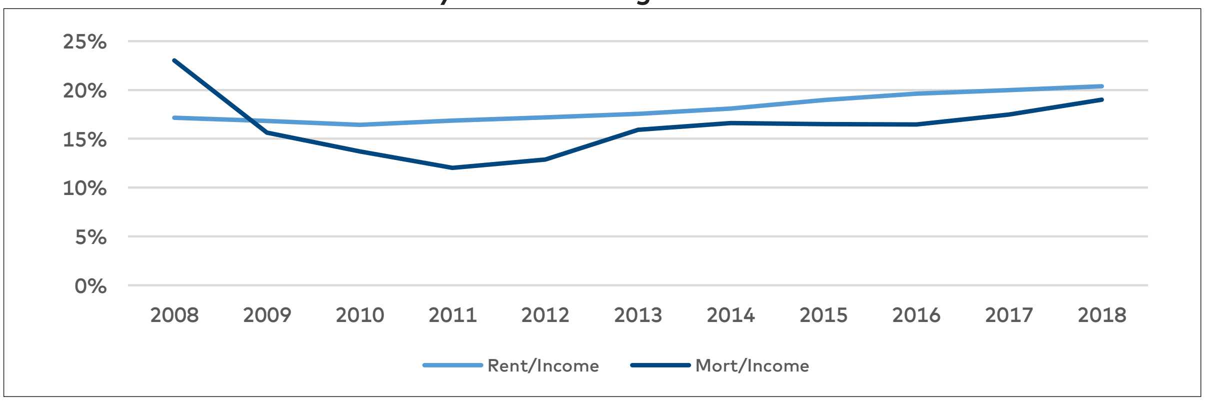
		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
15	Mining, Logging and Construction	132	6.4%	12,900	10.9%
65	Education and Health Services	313	15.3%	12,500	4.2%
60	Professional and Business Services	351	17.1%	11,700	3.4%
30	Manufacturing	132	6.4%	7,400	6.0%
70	Leisure and Hospitality	223	10.9%	6,200	2.9%
40	Trade, Transportation and Utilities	396	19.3%	5,100	1.3%
90	Government	211	10.3%	3,100	1.5%
55	Financial Activities	189	9.2%	2,500	1.3%
50	Information	37	1.8%	600	1.7%
80	Other Services	65	3.2%	-700	-1.1%

Sources: YardiMatrix, Bureau of Labor Statistics

Demographics
Affordability

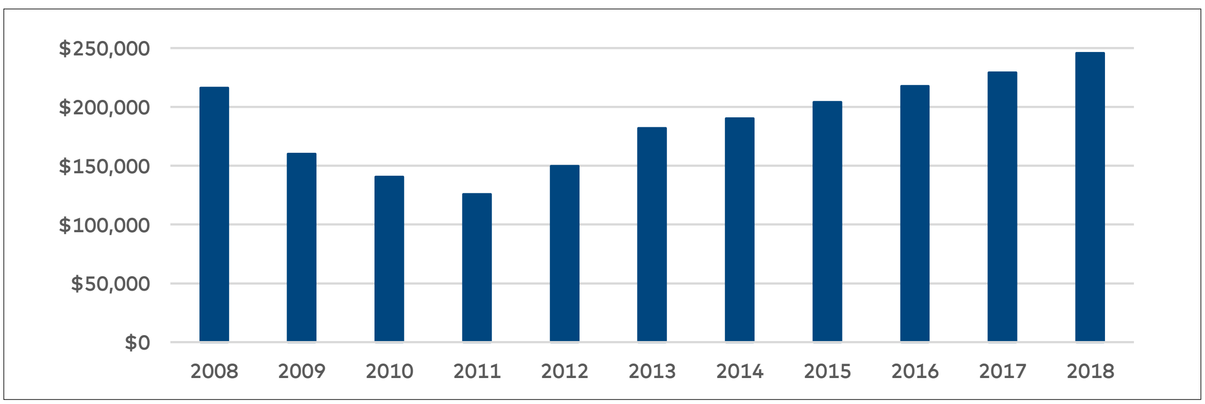
- Phoenix's emergence as a strong employment market has yielded significant population gains, which have directly translated into escalating housing demand. The availability of land has made it easy for supply growth to pick up, but both rents and occupancy levels increased significantly over the past 12 months.
- With the median home price at $245,890 as of 2018's midway point, owning accounted for 19% of the area's median income, while renting encompassed 20%. Although rents are now well into a significant growth spurt, residents favor renting when creating households, making a greater spread likely.

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, a population growth rate of 1.9%. That's nearly three times the 0.7% U.S. figure.
- The metro added nearly 350,000 people since 2013, for a 7.9% expansion.

Phoenix vs. National Population

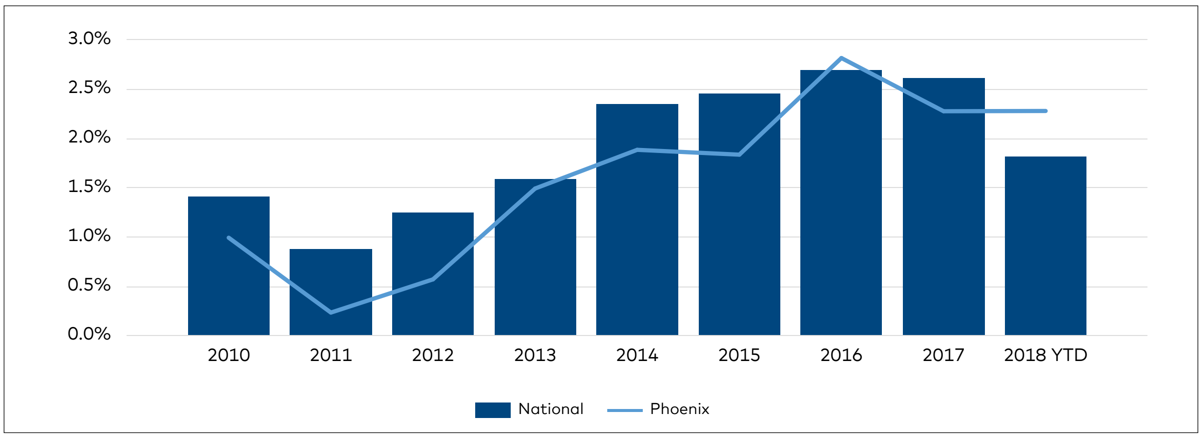
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Phoenix Metro	4,390,565	4,470,712	4,558,145	4,648,498	4,737,270

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

Supply

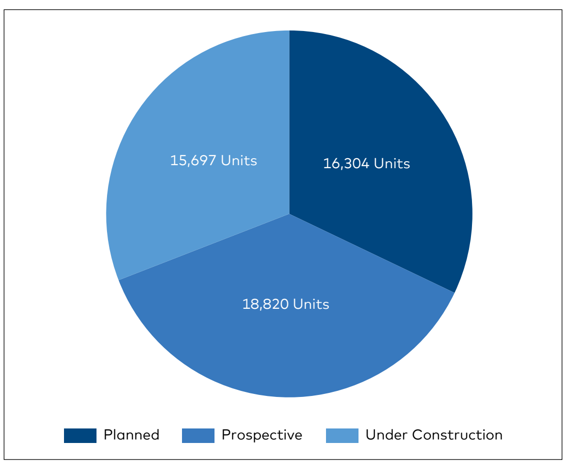
- With 6,812 units added to the rental inventory in 2018 through September, Phoenix continues to expand its rental stock at a rapid pace. More than 21,000 units have been delivered since the start of 2016, as development has picked up over the second half of the cycle. Rapid population growth and one of the strongest employment markets in the U.S. have both pushed demand to high levels, galvanizing the appearance of new multifamily projects throughout the metro.
- There were 15,700 units underway in metro Phoenix as of September, while another 35,000 were in the planning and permitting stages. Although deliveries have stayed elevated throughout the past 12 months, the average occupancy rate in stabilized properties remained strong, up 40 basis points year-over-year, to 95.2%.
- Development activity was highest in the same submarket where investors targeted existing rental stock: North Tempe (2,233 units underway as of September, $660 million in transactions through the 12-month period ending in September). Gilbert (1,716 units), Uptown (1,485 units), Sky Harbor (1,400 units), the Western Suburbs (1,366 units) and Union Hills (1,365 units) followed for pipeline size.

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



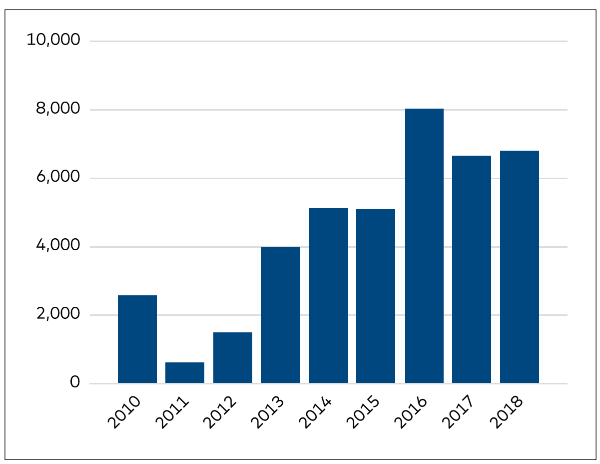
Source: YardiMatrix

Development Pipeline (as of September 2018)



Source: YardiMatrix

Phoenix Completions (as of September 2018)



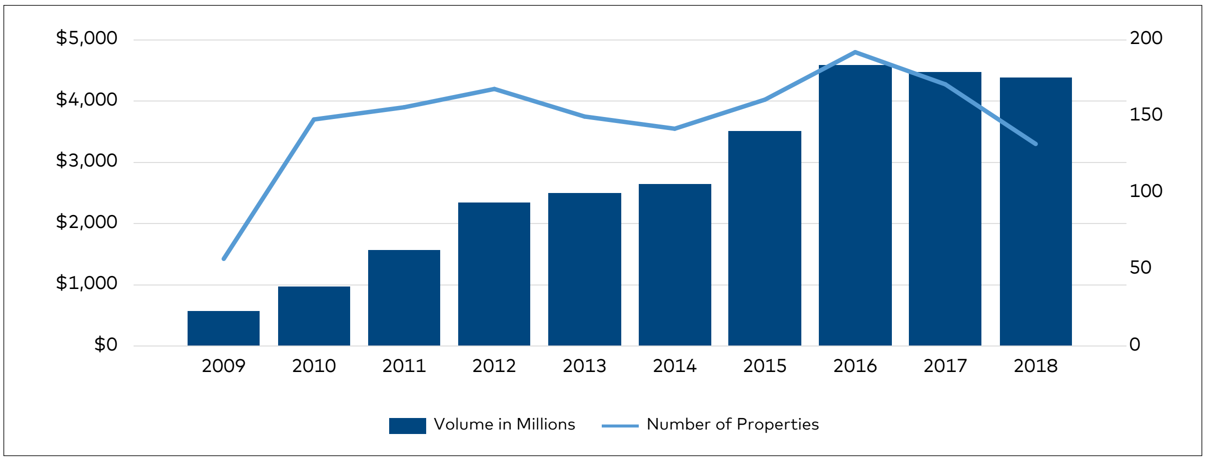
Source: YardiMatrix

Transactions

- Investment sales hit $4.4 billion in 2018 through September, making a new cycle peak for multifamily transactions well within reach. The current high point was recorded in 2016, when $4.6 billion in multifamily assets traded.

- Investors targeted Renter-by-Necessity assets at twice the rate they purchased properties in the Lifestyle segment, with value-add opportunities continuing to make up the bulk of Phoenix deals. Property values reached $147,661 per unit as of September. That's just $4,000 shy of the national average, the smallest spread recorded this cycle. Acquisition yields for area assets remain low, as both Class A and B stabilized assets typically net investors yields in the 4.5 to 5.3% range. Tempe was a hotbed for investment in the 12 months ending in September, as more than $1 billion in assets traded across North Tempe ($660 million) and South Tempe ($386 million) through the interval.

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



Source: YardiMatrix

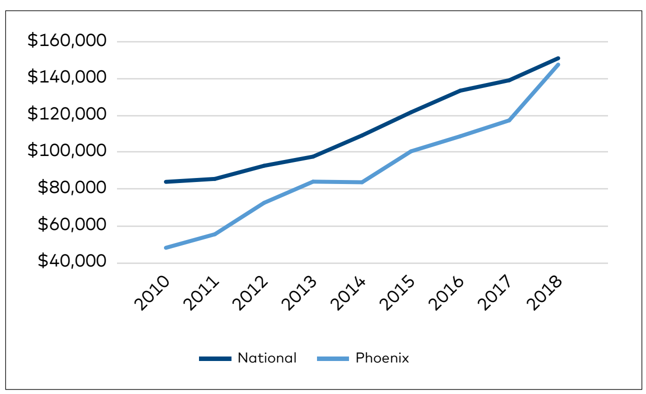
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
North Tempe	660
Chandler	470
South Tempe	386
Deer Valley	307
Glendale	288
Uptown	263
Superstition Springs	262
Union Hills	255

Source: YardiMatrix

[1] From October 2017 to September 2018

Phoenix vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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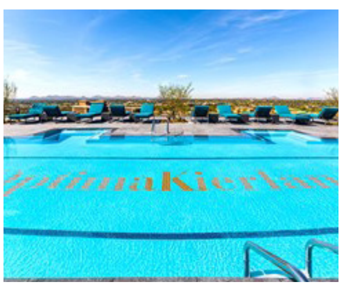
MHN MULTI-HOUSING NEWS

Affordable Phoenix-Area Community Trades for $16M

Johnathan Smith, Brian Smuckler and Jeff Seaman of CBRE facilitated the sale of the 152-unit property in Peoria, Ariz., to a local investor.

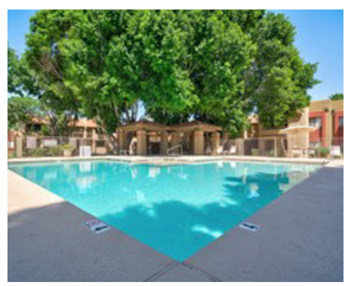
Inland Empire Builders Sells Phoenix Asset for $52M

Capital Foresight is the new owner of Avante Apartment Homes, a 428-unit community located near the city's downtown area.



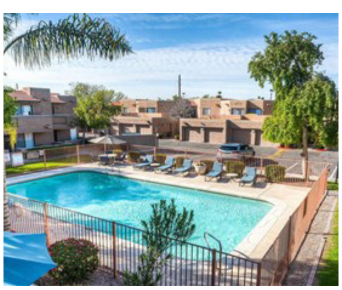
Optima Breaks Ground on Luxury Community in AZ

The company has broken ground on phase II of Optima Kierland Center in Scottsdale, which will include 202 units. The project is slated for completion in 2020.



Phoenix Asset Sells for $49M

Knightvest Acquisitions purchased Siena on Baseline Apartments from P.B. Bell Cos. The 352-unit community includes three pools, covered parking and a playground.



Western Wealth Sells 79 Units In Phoenix Area

Scottsdale Haciendas previously traded in 2014, when the current seller shelled out $9.1 million for the value-add asset located close to McDowell Road.

3rd Ave Investments Buys Phoenix-Area Asset for $22M

The 276-unit Casa Bellisima is located in Glendale, a submarket with limited inventory but more affordable rents than the urban core.

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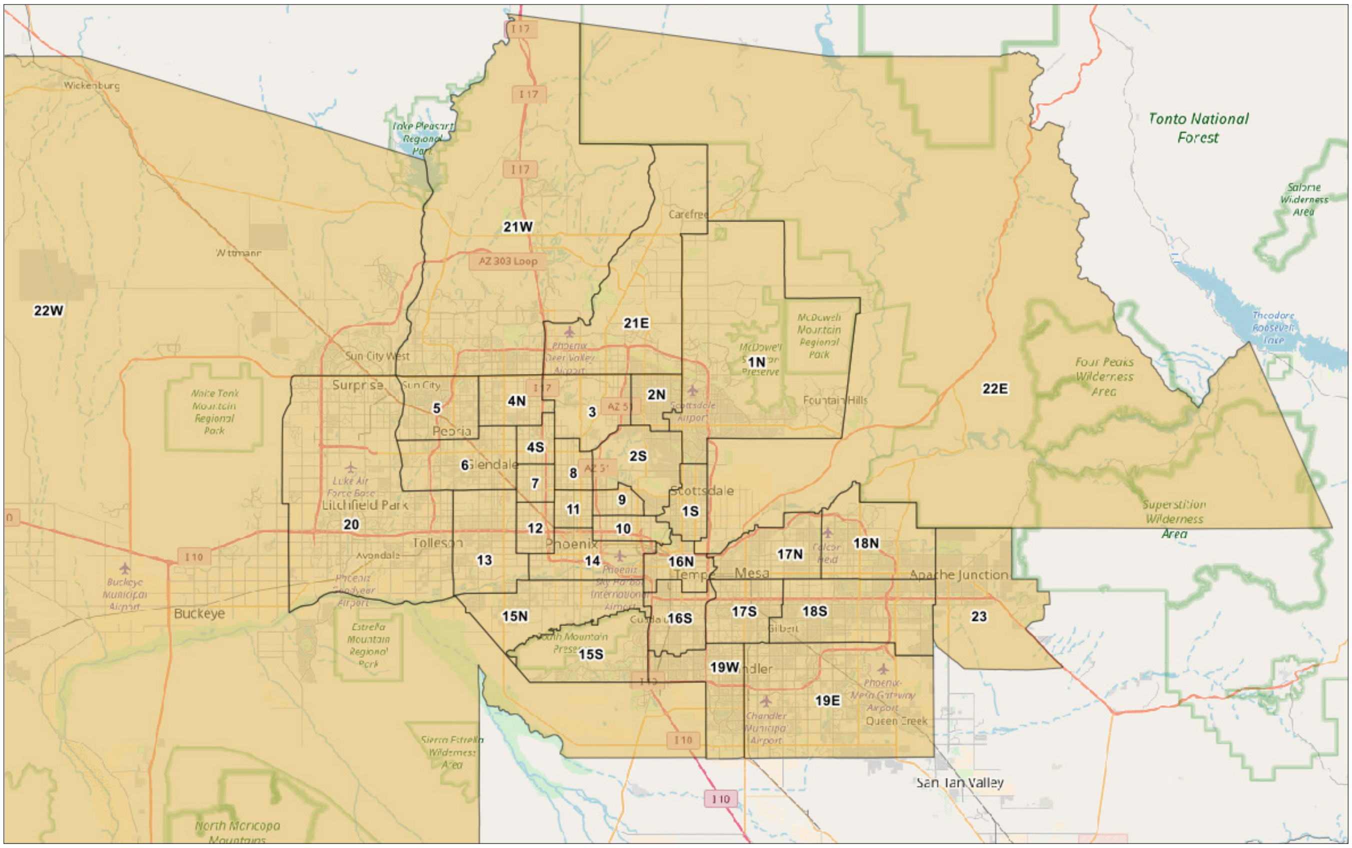
Phoenix Submarkets



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
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.