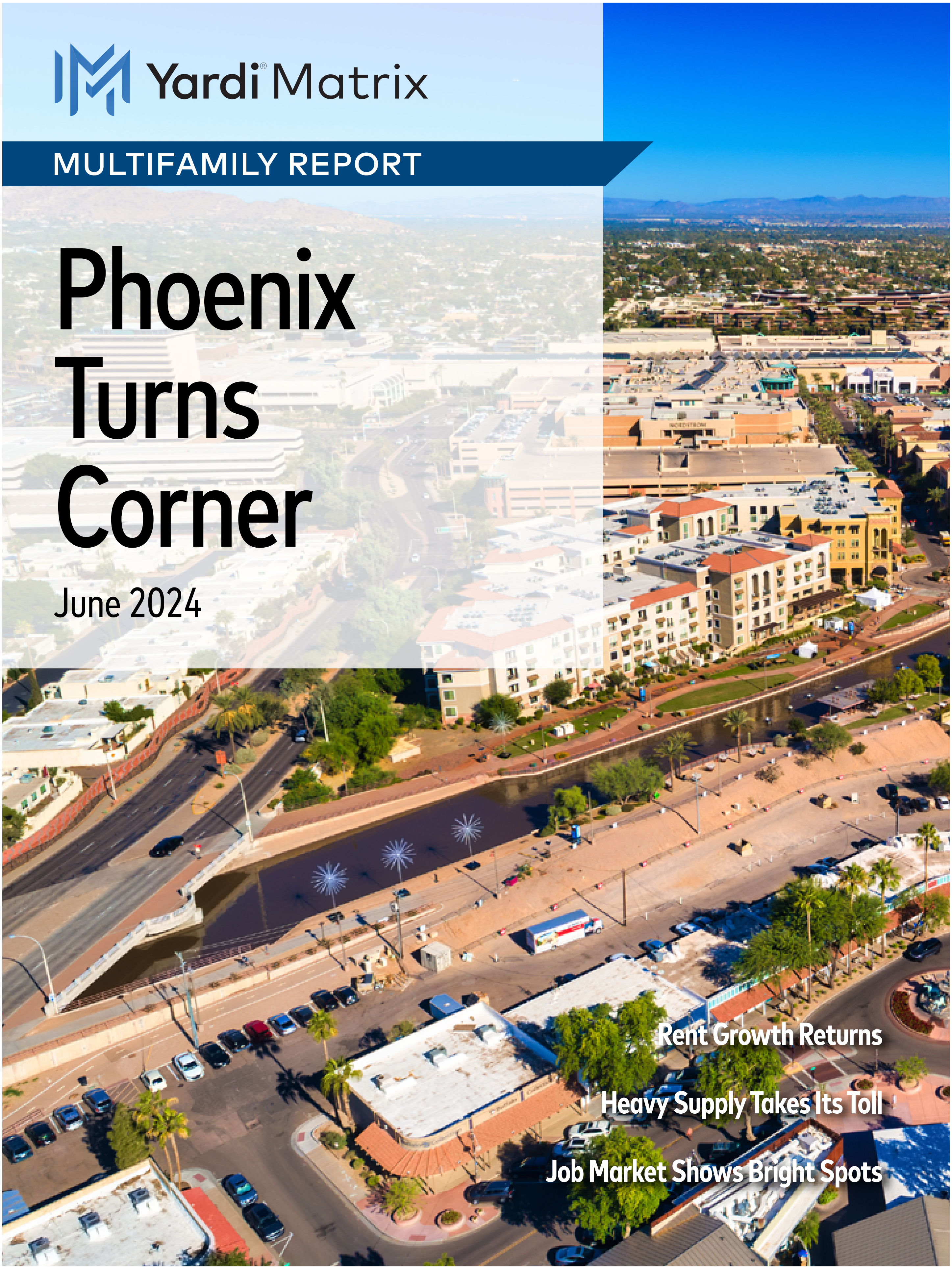
Yardi Matrix

MULTIFAMILY REPORT

Phoenix Turns Corner

June 2024



Rent Growth Returns

Heavy Supply Takes Its Toll

Job Market Shows Bright Spots

PHOENIX MULTIFAMILY

Yardi Matrix

Rents Stable, Occupancy Down

Phoenix's multifamily fundamentals were stable as the new leasing season began, with rents inching up 0.1% on a trailing three-month basis through April, to $1,587. This followed 20 months of flat or negative performance. Last year's strong supply volume took its toll, with occupancy down 80 basis points year-over-year through March, to 93.1%. However, overall absorption still points to steady demand.

The Phoenix job market added 52,700 net jobs in the 12 months ending in February, for a 2.5% expansion rate, outperforming the U.S. figure by 100 basis points. Unemployment fell to 2.6% in March, reflecting tighter employment than the national and state averages, which were both at 3.8%. Four sectors—information, leisure and hospitality, manufacturing and financial activities—lost a combined 8,300 jobs during the period. Meanwhile, education and health services (27,200 jobs) and government (11,800 jobs) led gains. Despite the current slowdown, manufacturing has bright prospects, with several projects underway, including massive facilities from Intel, TSMC and Amkor Technology.

Developers delivered 3,134 units this year through April and had an additional 35,972 apartments underway. Construction starts, however, declined to 2,120 units in the first four months of the year. Meanwhile, investment remained tepid, with $715 million in assets trading through April, for a per-unit price that stood its ground.

Market Analysis | June 2024

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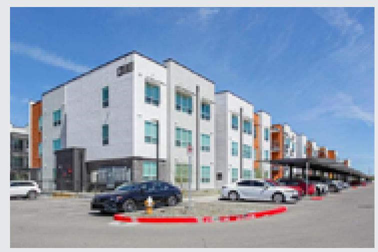
On the cover: Photo by Davel5957/iStockphoto.com

Recent Phoenix Transactions

Skywater at Tempe Town Lake

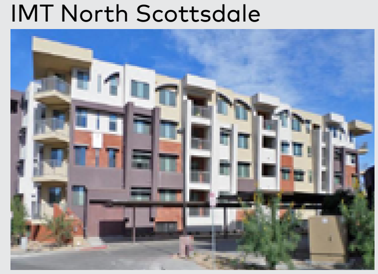
City: Tempe, Ariz.
Buyer: Weidner Investment Services
Purchase Price: $112 MM
Price per Unit: $341,463

Sentio



City: Glendale, Ariz.
Buyer: IDEAL Capital Group
Purchase Price: $108 MM
Price per Unit: $332,308

IMT North Scottsdale



City: Scottsdale, Ariz.
Buyer: IMT Capital
Purchase Price: $96 MM
Price per Unit: $400,000

Alta Chandler at the Park

City: Chandler, Ariz.
Buyer: Olympus Property
Purchase Price: $95 MM
Price per Unit: $324,742

RENT TRENDS

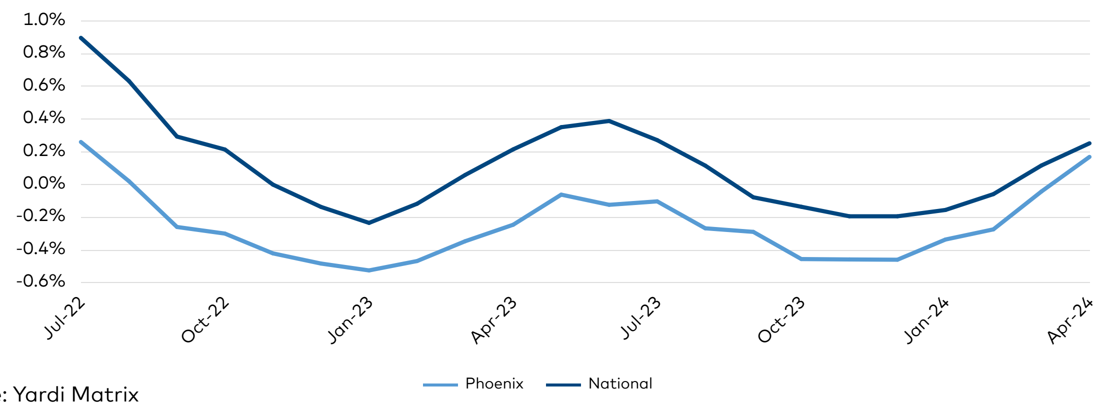
- April was the first month in almost two years that rent growth improved on a trailing three-month (T3) basis. The T3 figure was up 0.1% through April, to $1,587, 10 basis points behind the national rate, which landed at $1,725. Last year's supply expansion—the largest in 10 years—is affecting rents, down 2.2% year-over-year. Meanwhile the U.S. annual rate posted its second month of gains, up 0.7%.

- Bucking the national trend, rent growth was higher in the Lifestyle segment, up 0.2% on a T3 basis through April, to $1,792. Meanwhile, working-class Renter-by-Necessity rates were up 0.1%, to $1,334. The occupancy rate in stabilized properties slid 90 basis points year-over-year through March, to 93.1%. RBN occupancy dropped 150 basis points, to 92.0%, and Lifestyle slipped just 50 basis points, to 94.0%. Despite the declines, the 3.5% absorption rate as a percentage of stock in the 12 months through April points to steady demand.

- Year-over-year through April, rent movement was positive in just six of the 46 submarkets tracked by Yardi Matrix, including Phoenix–Paradise Valley Village (1.4% to $2,063), which also had one of the largest pipelines as of April.

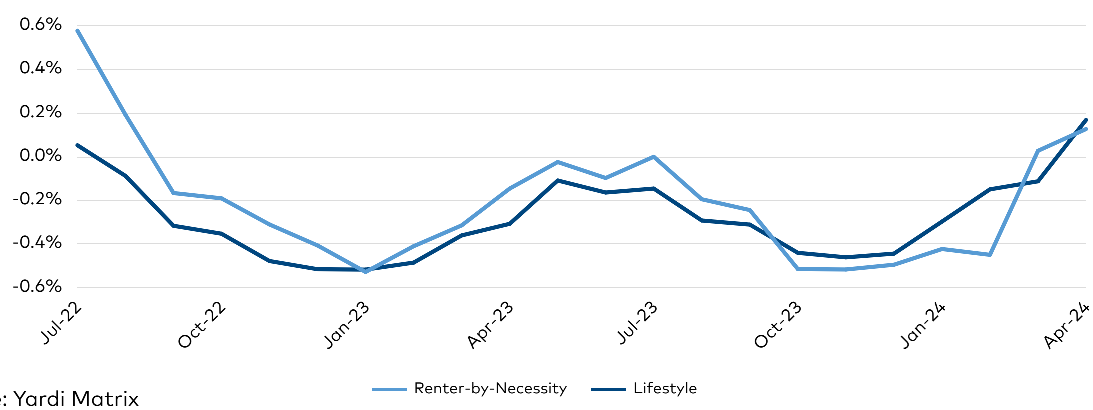
- The average rate in the single-family rental class declined 4.4% year-over-year through April, outperforming only Austin among Yardi Matrix's top 30 metros. Meanwhile, SFR occupancy in the metro was down just 0.2% year-over-year through March 2024.

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 fell to 2.6% in March, the lowest rate registered over the past decade, according to preliminary data from the Bureau of Labor Statistics. The metro outperformed the U.S. and Arizona, both at 3.8%.

- In the 12 months ending in February, the metro added 52,700 net jobs, achieving a 2.5% rate of growth that has remained consistent for the past four months. Meanwhile, the national average softened to 1.5%. Four sectors lost jobs: information (-3,200 jobs), leisure and hospitality (-2,200 jobs), manufacturing (-1,700 jobs) and financial activities (-1,200 jobs).

- Education and health services (27,200 jobs), government (11,800 jobs) and trade, transportation and utilities (10,700 jobs) led gains.

- Although growth has somewhat decelerated, there is no shortage of megaprojects in the metro. One is from Intel, which has two fabs underway in Ocotillo, a multibillion-dollar investment expected to create thousands of high-tech and indirect jobs once completed. Taiwan Semiconductor Manufacturing Co. is also planning to add a third fab for a total investment of more than $65 billion over the next decade. Meanwhile, Amkor Technology will build a $2 billion semiconductor facility, which will create 2,000 jobs in Peoria.

Phoenix Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	409	16.7%
90	Government	263	10.8%
40	Trade, Transportation and Utilities	476	19.5%
15	Mining, Logging and Construction	174	7.1%
80	Other Services	78	3.2%
60	Professional and Business Services	395	16.2%
55	Financial Activities	211	8.6%
30	Manufacturing	148	6.1%
70	Leisure and Hospitality	251	10.3%
50	Information	41	1.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Phoenix gained 76,398 residents in 2022, for a 1.6% expansion, four times the national rate. In the prior year, the metro's population contracted by 1.5%.

- Between 2019 and 2022, Phoenix's population expanded 2.2%, just above the 2.0% U.S. rate.

Phoenix vs. National Population

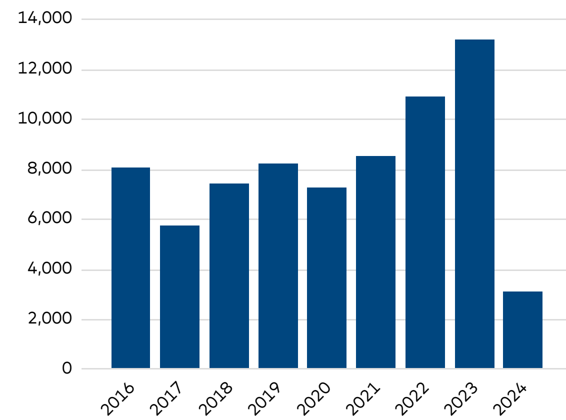
	2019	2020	2021	2022
National	324,697,795	326,569,308	329,725,481	331,097,593
Phoenix	4,761,603	4,860,338	4,787,811	4,864,209

Source: U.S. Census

SUPPLY

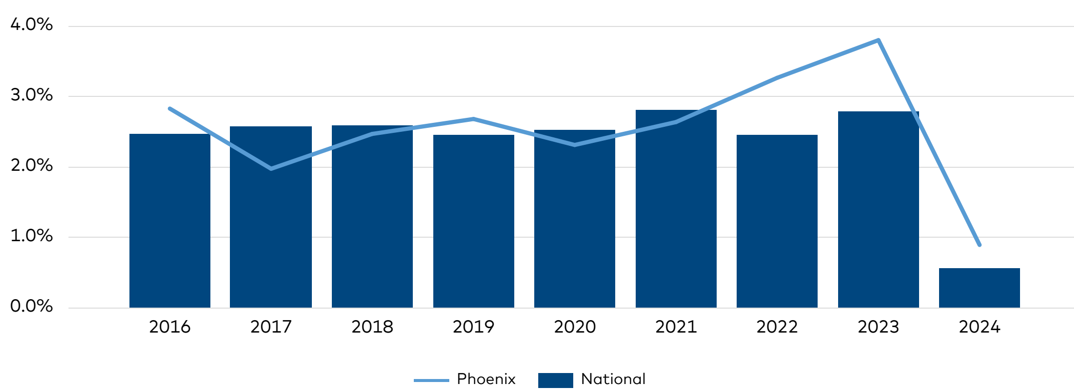
- Developers delivered 3,134 units this year through April, 0.9% of existing stock and 30 basis points above the national rate. Only 200 units were in RBN assets, with the rest in Lifestyle properties. Last year marked a decade-high delivery volume, with 13,208 units completed. Yardi Matrix forecasts that Phoenix's inventory will grow by 3.3% this year, ranking ninth for projected inventory expansion among the country's top 30 metros.
- The pipeline encompassed 35,972 units under construction as of April and another 110,000 in the planning and permitting stages. Nearly 92% of the volume underway was in Lifestyle communities, followed by fully affordable assets (7.0%), while RBN properties accounted for a marginal 1.0%.
- Development is moderating in Phoenix, too, following nationwide trends. Construction starts dropped to 2,120 units across nine properties in 2024 through April, down from the 8,207 units across 32 properties that broke ground during the same period last year.
- Of the 46 submarkets tracked by Yardi Matrix, developers were active in 34 as of April, with 10 having at least 1,000 units underway each. Glendale–South led with 3,057 units under construction, followed by Tempe–North (2,769) and Phoenix–Paradise Valley Village (2,572).
- The largest project delivered in 2024 through April was the 552-unit San Artes in Scottsdale–North, owned by Mark-Taylor. The Lifestyle property carries a $110 million construction loan issued by Wells Fargo Bank.

Phoenix Completions (as of April 2024)



Source: Yardi Matrix

Phoenix vs. National Completions as a Percentage of Total Stock (as of April 2024)

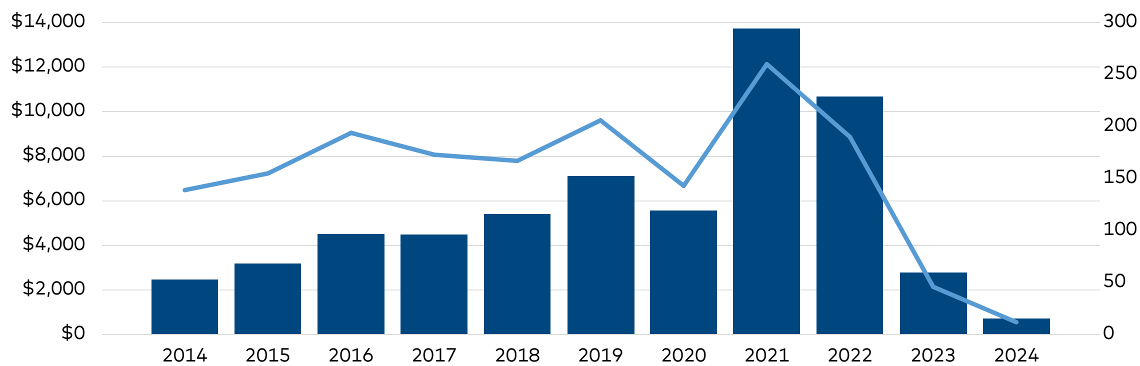


Source: Yardi Matrix

TRANSACTIONS

- Investors traded $715 million in multifamily assets in 2024 through April. Last year, sales totaled $2.8 billion, representing the second-lowest annual volume over the last decade.
- Despite the slowdown, the average price per unit improved, up 2.0%, to $277,029 in April, well ahead of the $181,913 national figure. With Lifestyle sales accounting for two-thirds of completed deals, local prices held steady, even as the U.S. average slid.
- Three core submarkets had more than $1 billion in combined sales in the 12 months ending in April. Gilbert led with $535 million, followed by Scottsdale–North ($399 million) and Tempe–North ($241 million).
- The largest sale through April was Weidner Investment Services' acquisition of the 328-unit Skywater at Tempe Town Lake from KB Investment Development. The asset sold for $112 million, or $341,463 per unit.

Phoenix Sales Volume and Number of Properties Sold (as of April 2024)



Source: Yardi Matrix

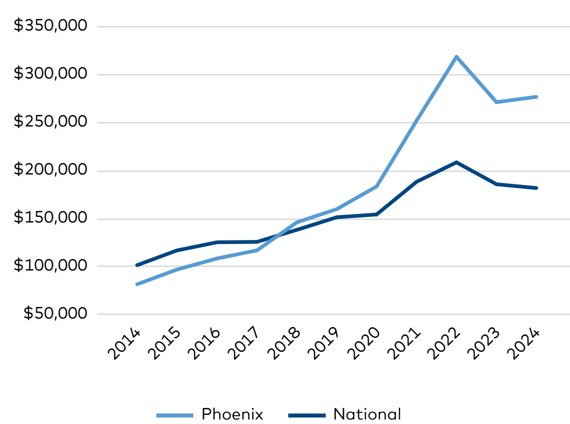
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Gilbert	535
Scottsdale–North	399
Tempe–North	241
Phoenix–Happy Valley	187
Chandler	155
Phoenix–Midtown	139
Mesa–East	129

Source: Yardi Matrix

[1] From May 2023 to April 2024

Phoenix vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MULTI-HOUSING NEWS

data by Yardi Matrix

Top Markets for Multifamily Investment in 2023

By Tudor Scolca

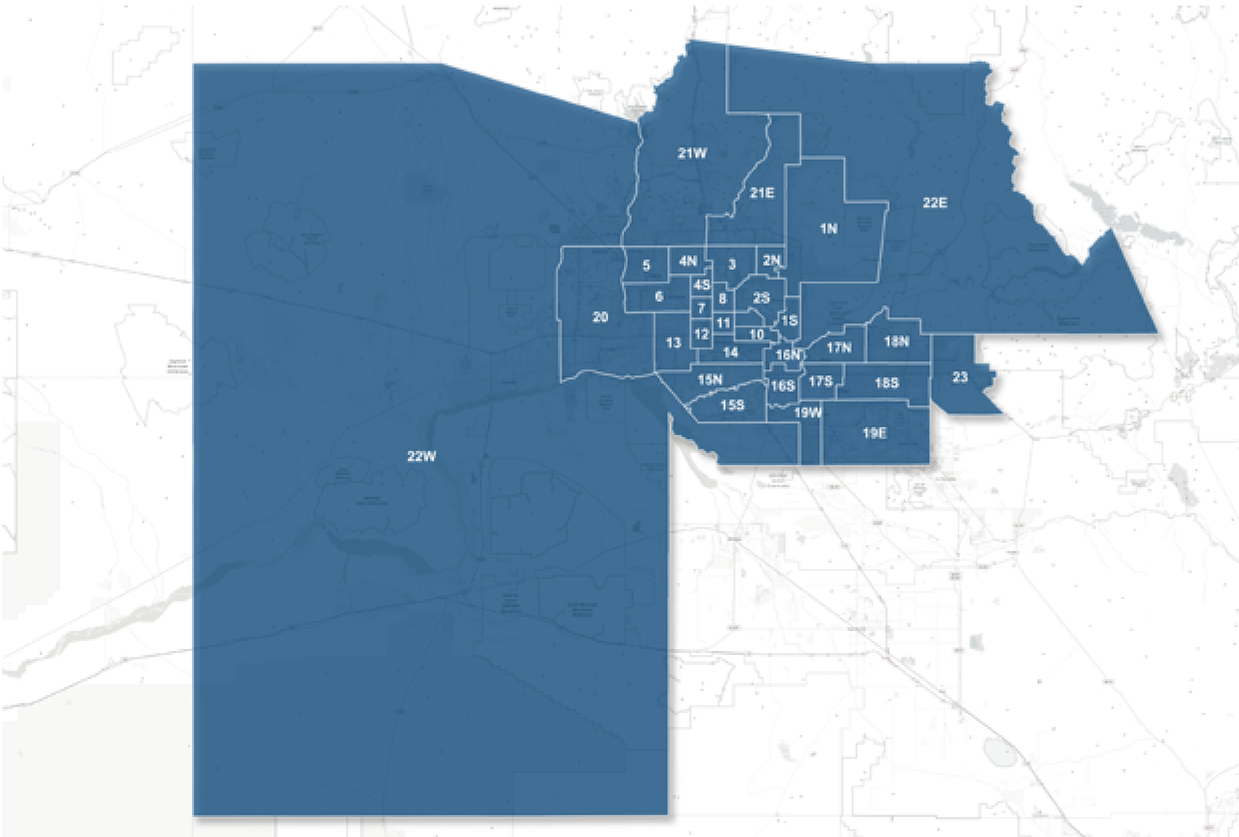
Multifamily investment dropped sharply in 2023 after two years of outstanding performance. The high cost of capital led to a pause in activity across the U.S., seriously denting sales volumes. In this context, we're taking a look at the top markets for multifamily investment last year, leveraging Yardi Matrix data.

Metro	Price Per Unit	Properties Traded	Units Traded	Sales Volume
National	$187,744.92	2,451	439	$69,388,075,254
Dallas	$151,108.78	183	40	$4,174,529,639
Atlanta	$196,139.81	100	20	$3,731,255,605
Phoenix	$289,302.52	51	11	$3,217,333,332
Chicago	$207,465.22	73	14	$2,646,076,052
Denver	$320,997.13	45	7	$2,532,618,716
Boston	$429,169.79	28	5	$2,513,541,750
Miami Metro	$266,828.36	48	10	$2,477,684,737
Washington, D.C.	$261,684.55	44	10	$2,236,427,318
Charlotte	$223,421.00	50	10	$1,981,747,182
Tampa	$197,224.27	50	11	$1,963,452,980

Phoenix

Rounding out the top three was Phoenix, another mainstay of multifamily and commercial real estate performance over the past couple of years. In 2023, investors in the metro traded $3.2 billion in multifamily assets, down 71.5% year-over-year. As with most major metros, Phoenix's performance cooled off in 2023 after several years of outstanding growth.

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.

Yardi Matrix

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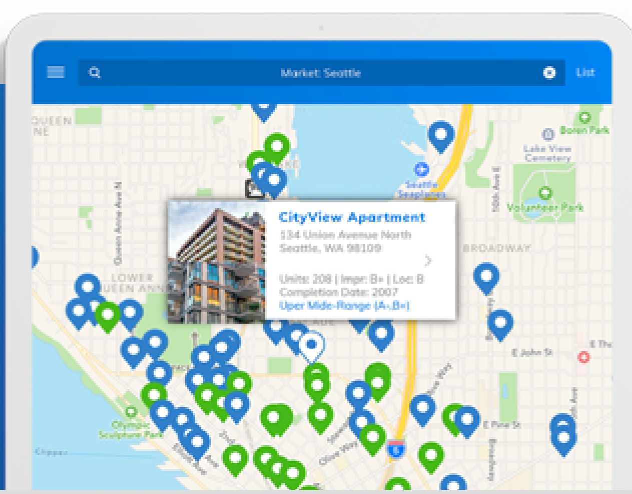
MULTIFAMILY KEY FEATURES

- 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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