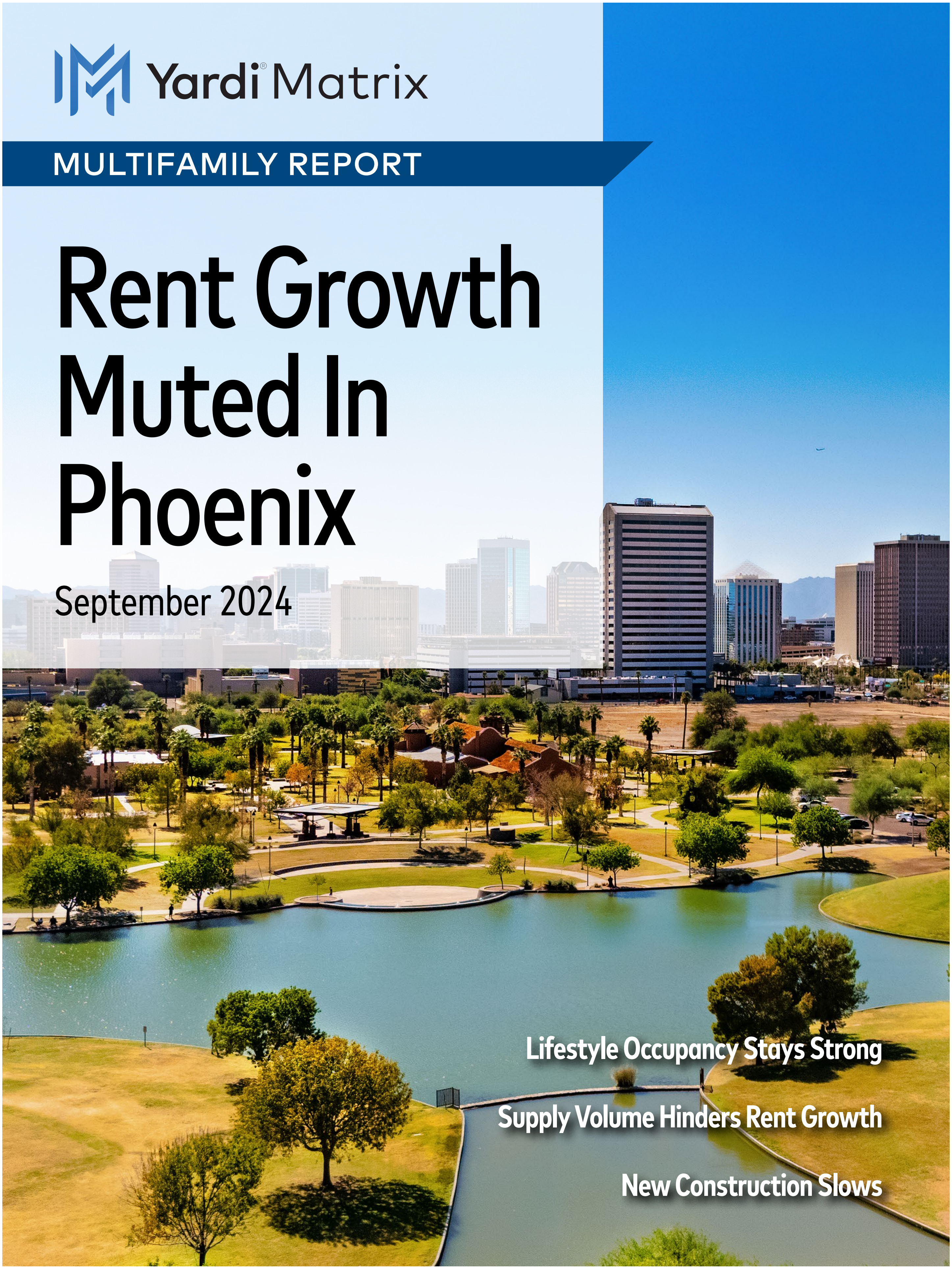
MULTIFAMILY REPORT

Rent Growth Muted In Phoenix

September 2024



Lifestyle Occupancy Stays Strong

Supply Volume Hinders Rent Growth

New Construction Slows

PHOENIX MULTIFAMILY

Yardi Matrix

Steady Demand For Upscale Units

Phoenix's job and population growth continue to prop up the market, while rent performance has been limited at best. With the bulk of multifamily deliveries focusing on the Lifestyle segment, fundamentals held up well, as occupancy in stabilized assets in the segment remained flat year-over-year through June, to 94.3%, while the metro's overall occupancy declined 0.3%, to 93.4%. Increased supply dampened rent growth, with advertised asking rents down 0.1%, on a trailing three-month basis in July, to $1,579.

The job market expanded 2.4% in the 12 months ending in May, well above the 1.3% U.S. average, while unemployment rose to 3.5% in June, 60 basis points higher than the previous month but still below pre-pandemic levels. Phoenix gained 52,300 jobs in the 12 months ending in May, with four sectors cutting 8,500 jobs combined. Education and health services saw the largest gains (30,300 jobs). Growth prospects remain positive for the sector, with projects such as the Mayo Clinic's planned 120-acre campus, which will add 3.3 million square feet of medical and life sciences space.

Deliveries totaled 7,730 units year-to-date in July, while the pipeline had another 36,260 units under construction, with the volume heavier on the upscale side. New construction slowed to half the volume recorded last year through July. Investment remained limited, as multifamily sales volume amounted to only $1.7 billion. Meanwhile, the per-unit price rose 4.0% year-to-date, to $282,397.

Market Analysis | September 2024

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Recent Phoenix Transactions

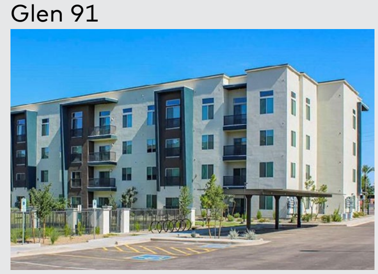
Carter

City: Scottsdale, Ariz.
Buyer: Kairoi Residential
Purchase Price: $161 MM
Price per Unit: $442,192

The Scottsdale Grand

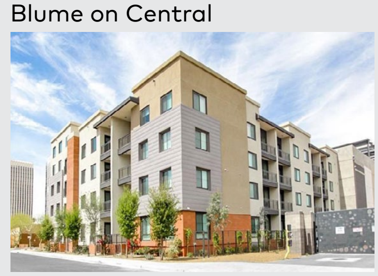
City: Scottsdale, Ariz.
Buyer: Goodman Real Estate
Purchase Price: $117 MM
Price per Unit: $410,526

Glen 91



City: Glendale, Ariz.
Buyer: Bridge Investment Group
Purchase Price: $76 MM
Price per Unit: $258,445

Blume on Central

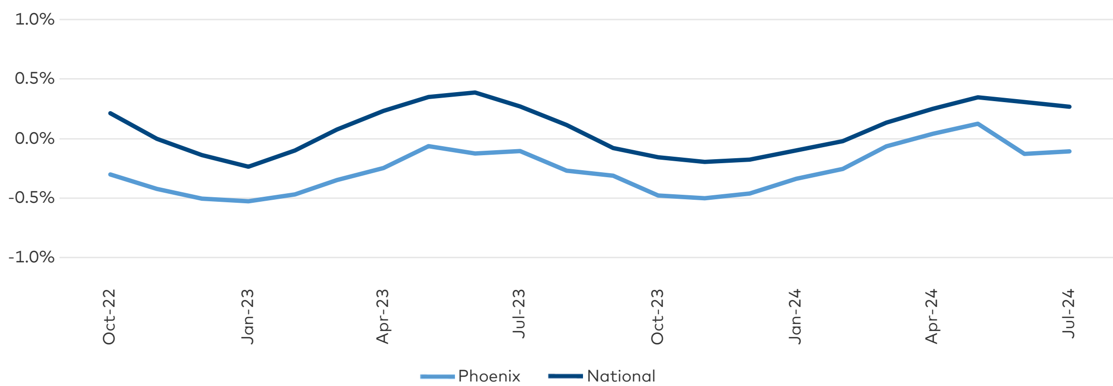


City: Phoenix
Buyer: Global Mutual
Purchase Price: $70 MM
Price per Unit: $278,884

RENT TRENDS

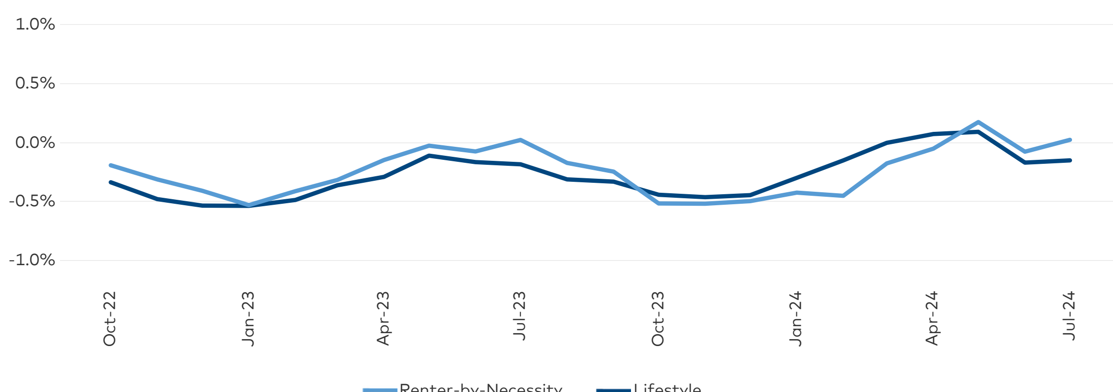
- Phoenix advertised asking rents were down 0.1%, on a trailing three-month (T3) basis through July, to $1,579. Substantial deliveries continue to make rent movement tepid. The U.S. average rose 0.3% for the fourth consecutive month, to $1,743.
- Year-over-year through July, rent growth continued to lag. Of Yardi Matrix's top 30 major markets, 12 posted declines, with Phoenix ranking fourth by largest decrease. The advertised asking rent declined 2.6%, with three other high-supply metros seeing even steeper declines—Raleigh (-2.8%), Atlanta (-3.3%) and Austin (-5.7%). Meanwhile, the average U.S. rate rose 0.8%. Previously, Phoenix's most expensive submarket was Phoenix–Downtown (-6.4% to $1,967), but Paradise Valley Village (0.7% to $2,007) took this spot, with 2,306 units underway as of July.
- Lifestyle advertised asking rents outperformed Renter-by-Necessity rates over the last years, with RBN rents typically strengthening by peak leasing season. On a T3 basis through July, rents stayed flat, at $1,328, in RBN and slid 0.1%, to $1,579 in Lifestyle. Despite high volumes of Lifestyle deliveries, Lifestyle occupancy stood at 94.3% in June, flat on a year-over-year basis, while RBN occupancy declined 60 basis points to 92.4%. Overall, the metro's occupancy rate in stabilized properties declined 30 basis points, to 93.4%.
- Advertised asking rents in the SFR segment fell 4.1% year-over-year in July, to $1,986, while occupancy slid 0.4% year-over-year, to 92.9%, in June.

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 employment growth slowed, but was still at a strong 2.4% year-over-year as of May and remained well above the 1.3% U.S. average. The metro's job growth ranked high among the best performing markets, on par with Austin and Raleigh, and trailing Houston, Miami and Las Vegas. Meanwhile, Phoenix's unemployment rate stood at 3.5% in June, up 60 basis points month-over-month, but still below pre-pandemic values. It outperformed the U.S. (4.1%) and trailed the state (3.3%).

- Phoenix gained 52,300 jobs in the 12 months ending in May, but not all sectors expanded. Four, including leisure and hospitality (-5,200 jobs) and information (-2,400 jobs) lost 8,500 positions combined. Job growth was led by education and health services (30,300 jobs), with trade, transportation and utilities (11,600 jobs) and government (10,400 jobs) next in line.

- Notable changes in Phoenix's project pipeline include the opening of the $945 million Valleywise Health Medical Center. The 673,000-square-foot facility has been under development since 2014 and replaces a hospital that operated for more than 50 years. Meanwhile, current plans include Discovery Oasis, a 120-acre campus in northeast Phoenix, with 3.3 million square feet of medical and life sciences space, submitted by Mayo Clinic. In 2021, the institution acquired the lot that wraps around its existing hospital campus.

Phoenix Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	413.2	16.9%
40	Trade, Transportation and Utilities	475.7	19.4%
90	Government	262.1	10.7%
60	Professional and Business Services	394.4	16.1%
15	Mining, Logging and Construction	174.5	7.1%
80	Other Services	78.8	3.2%
55	Financial Activities	211.2	8.6%
30	Manufacturing	148.6	6.1%
50	Information	40.7	1.7%
70	Leisure and Hospitality	250.8	10.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Phoenix's population dropped only once between 2010 and 2022—a 1.5% decrease in 2021. A year later, the metro recovered, gaining 76,398 residents, for a 1.6% increase. Meanwhile, the U.S. rate decreased from 1.0% in 2021 to 0.4% in 2022.

Phoenix vs. National Population

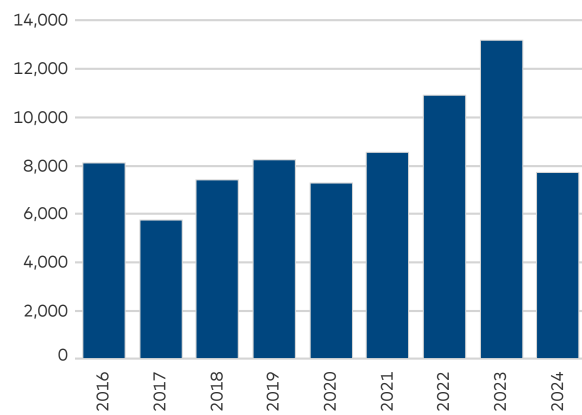
	2019	2020	2021	2022
National	324,697,795	326,569,308	329,725,481	331,097,593
Phoenix	4,761,603	4,860,338	4,787,811	4,864,209

Source: U.S. Census

SUPPLY

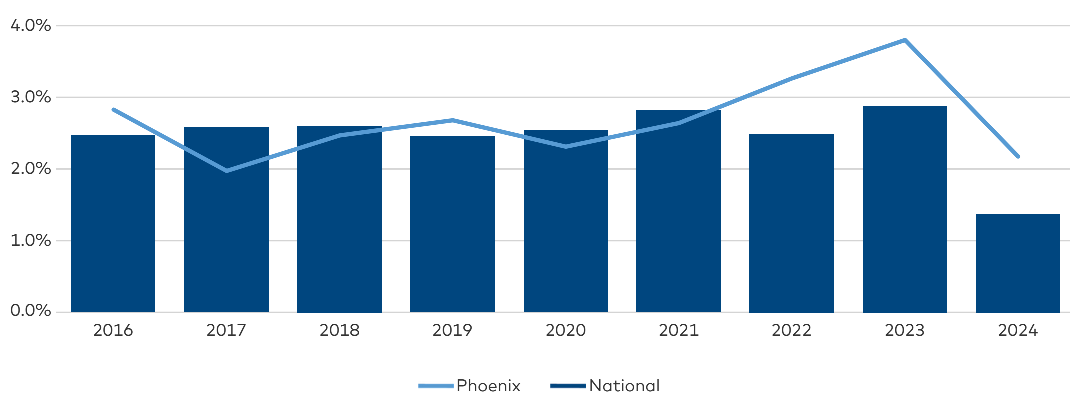
- Developers added 7,730 units in 2024 through July, accounting for 2.2% of existing inventory and outperforming the 1.4% national rate. A solid 85% of deliveries were Lifestyle properties and 7.5% were units in fully affordable communities.
- The construction pipeline remained robust, with 36,260 units underway in July and another 109,000 in the planning and permitting stages. Lifestyle remained the main choice, representing 89% of the units under construction. The fully affordable component accounted for 8.7% and RBN for 2.3%. Yardi Matrix expects that the new inventory will add 23,407 units in 2024.
- New construction slowed, with 6,871 units across 24 properties breaking ground in 2024 through July, half of the 13,578 units across 50 properties that started construction during the same period last year. The figure was still higher than the 4,955 units that broke ground in 2022 through July.
- Construction activity was spread across the map, present in 34 of the 46 submarkets tracked by Yardi Matrix. Of these, 13 had more than 1,000 units underway, led by Tempe–North (3,294 units) and Glendale–South (3,243 units).
- The largest project delivered so far in 2024 was Scottsdale Entrada, a 735-unit Lifestyle asset completed in June and owned by a joint venture comprising Banyan Residential and Bridge Investment Group. The property is located in an Opportunity Zone in Scottsdale–South and includes 7,000 square feet of retail space.

Phoenix Completions (as of July 2024)



Source: Yardi Matrix

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



Source: Yardi Matrix

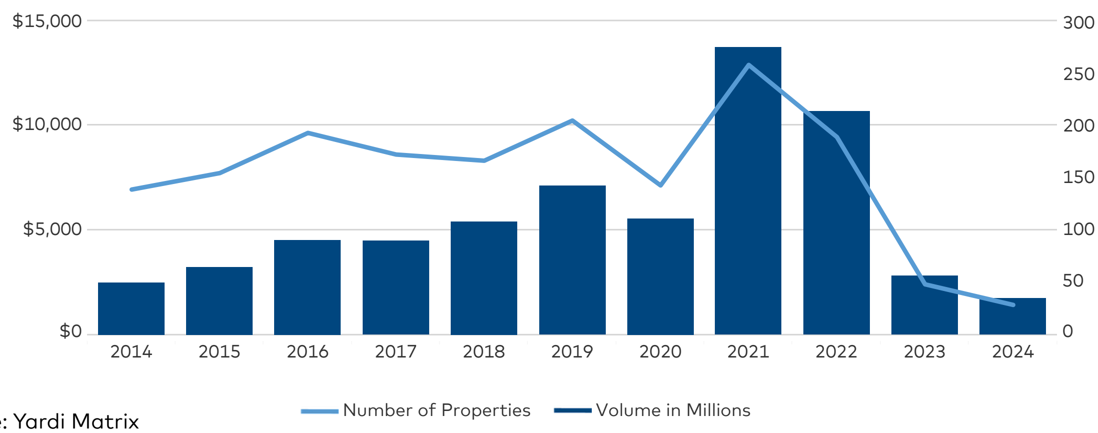
TRANSACTIONS

- Multifamily investment slowed to $1.7 billion in 2024 through July—one of the lowest volumes recorded over the past decade. Still, transaction activity increased in the second quarter, up by 40% for the number of assets sold and by 63% in sales volume.

- Lifestyle properties sold in 2024 through July accounted for 63% of all transactions, which contributed to a 4.0% increase in the metro's average per-unit price, to $282,397 this year through July. That was still 11.4% below the 2022 peak, but well above the $182,423 U.S. figure.

- The largest multifamily sale price so far this year was recorded in June for AVE Paradise Valley, a 400-unit property still under construction in an Opportunity Zone and slated for completion in 2025. The asset was acquired by Korman Communities from StreetLights Residential for $183 million. The sale includes a $130 million loan issued by Apollo Global Management.

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



Source: Yardi Matrix

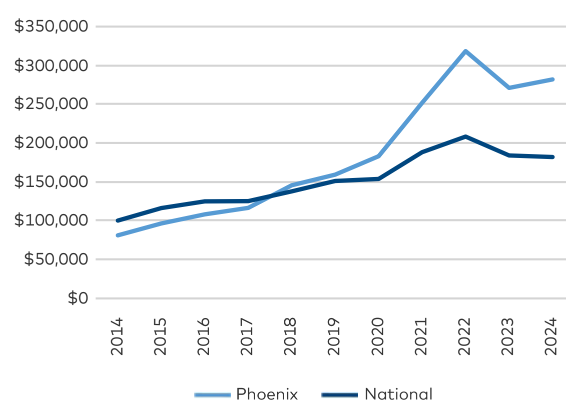
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Gilbert	395
Scottsdale–North	375
Phoenix–Happy Valley	251
Mesa–West	224
Tempe–North	212
Chandler	210
Phoenix–Paradise Valley Village	183

Source: Yardi Matrix

[1] From August 2023 to July 2024

Phoenix vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MULTI-HOUSING NEWS

data by Yardi Matrix

Top Western Markets for Multifamily Development

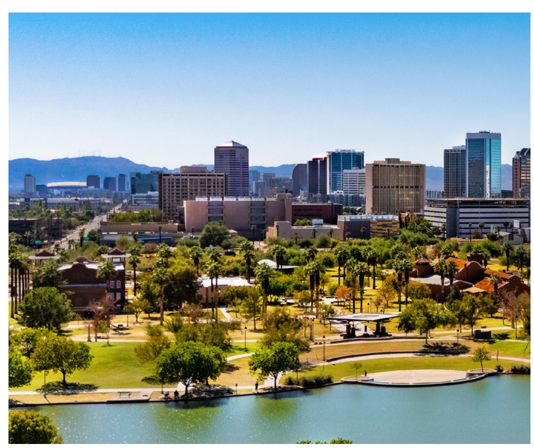
By Tudor Scolca

Multifamily development across the U.S. stalled at the beginning of the year, with major Western markets also recording a slowdown in terms of new construction starts. Economic headwinds and high interest rates have led to developers slowing or halting activity nationwide. Still, a few metros stood out among the rest with significant construction pipelines, according to the latest Yardi Matrix data.

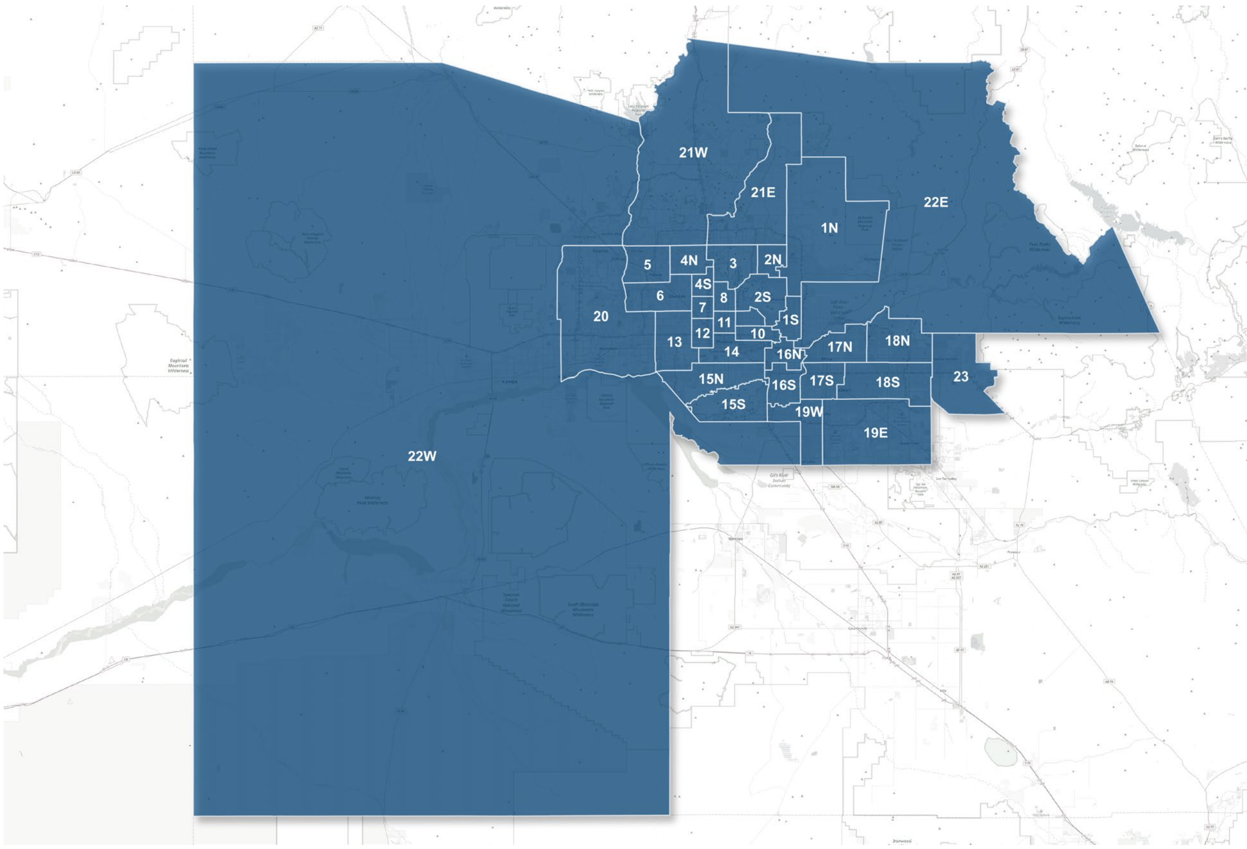
Rank	Metro	Region	Units Under Construction	Deliveries Year-to-Date
1	Phoenix	Western	45,384	6,807
2	Denver	Western	41,086	5,286
3	Los Angeles	Southern California	32,226	2,789
4	Salt Lake City	Western	18,057	3,949
5	San Francisco	Southern California	16,519	3,622

Phoenix

With 45,384 units under construction, Phoenix ranked first on our list for multifamily development. The metro continued its economic expansion at a steady pace, despite worsening circumstances nationwide. An additional 122,000 units were in the planning and permitting stages. During the same period, Phoenix added 6,807 units to its inventory, also taking the top spot among Western markets for completions. Bucking nationwide trends, deliveries in the metro decreased by about 1,000 units year-over-year, while most major markets saw a more dramatic slowdown.



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:

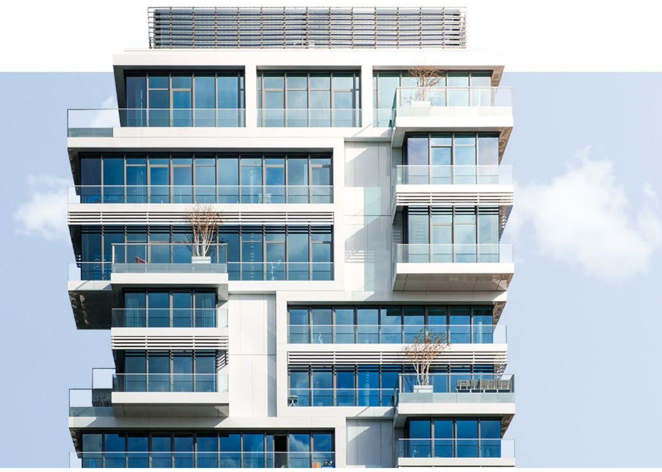
Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

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 x14006.

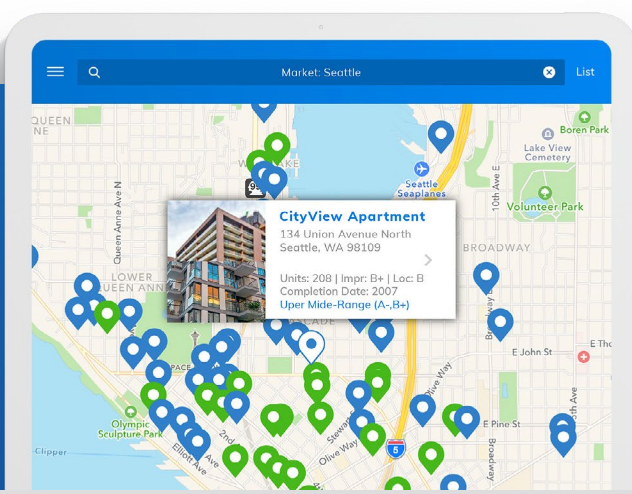
Yardi Matrix



Power your business with the industry's leading data provider

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 **22.3+ million units**, covering over **92% of the U.S. population.**

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