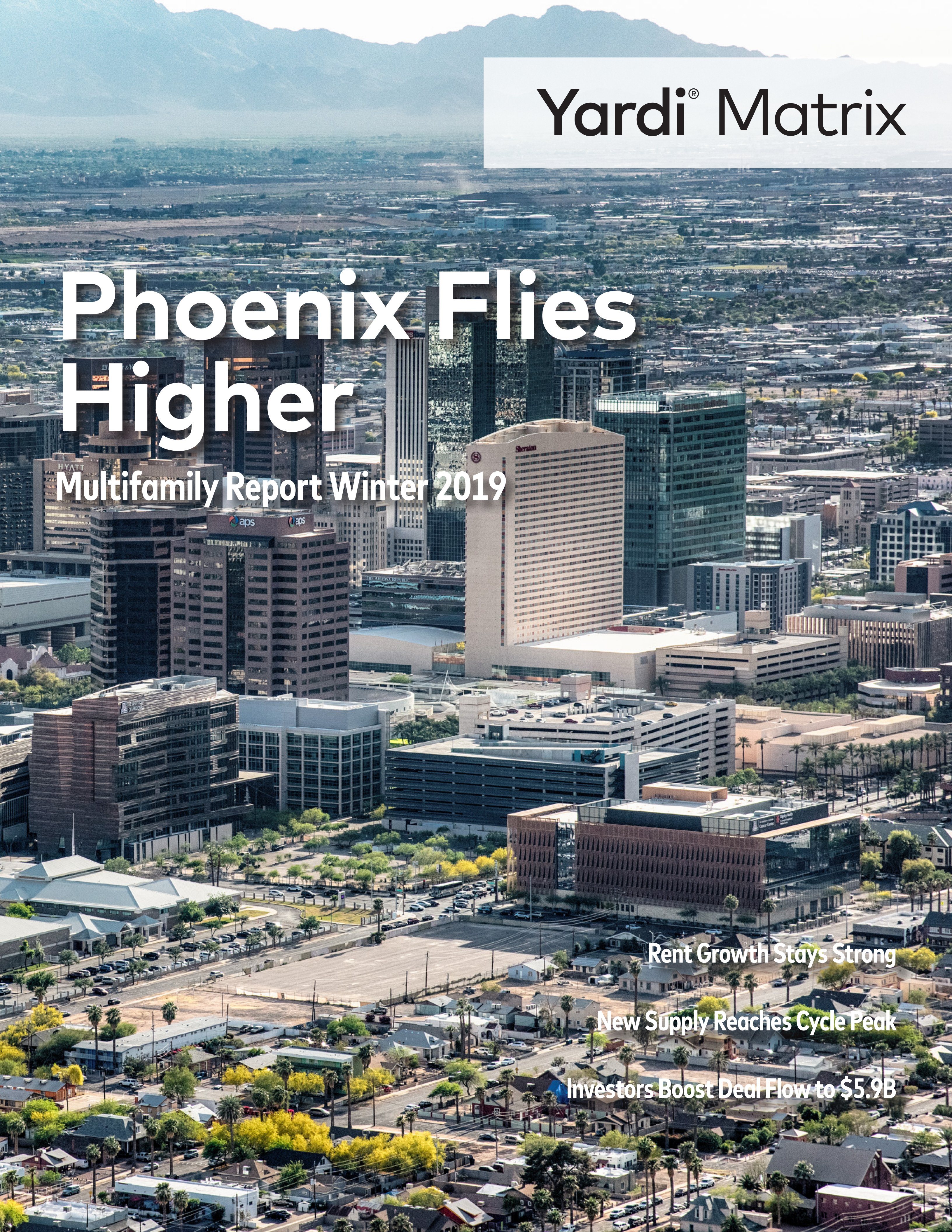
Yardi® Matrix

Phoenix Flies Higher

Multifamily Report Winter 2019



Rent Growth Stays Strong

New Supply Reaches Cycle Peak

Investors Boost Deal Flow to $5.9B

Market Analysis
Winter 2019

Contacts
Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author
Adriana Pop
Senior Associate Editor

Supply, Sales Hit Cycle Peaks

A diversified economy, coupled with a business-friendly environment and a skilled workforce, is driving employment and population gains in Phoenix, while boosting multifamily demand.

The metro added 86,800 jobs in the year ending in November, a 3.6% increase, well above the 2.1% U.S. average. Growth was led by professional and business services (19,700 jobs), followed by construction (17,600 jobs), and education and health services (12,900 jobs). This trend will likely continue as more companies expand in Phoenix, especially in the East Valley. In Gilbert, Deloitte announced the creation of 2,500 high-wage technology jobs, while Chandler could soon see the addition of 1,200 Wells Fargo Co. jobs as well as 2,500 Allstate Insurance Co. positions. Voya Financial also announced an expansion and 1,000 new jobs, in addition to the 200 employees who work in the company's Scottsdale office.

Attracted by the market's strong fundamentals, investors closed $5.9 billion in multifamily sales in 2018, a new cycle peak. Developers also marked a high point with the delivery of 8,162 units, while occupancy climbed 50 basis points year-over-year to 95.3% as of December, indicating a rapid absorption of new product. In 2019, intense construction activity is expected to continue, leading rent growth to a more moderate 3.9%.

Recent Phoenix Transactions

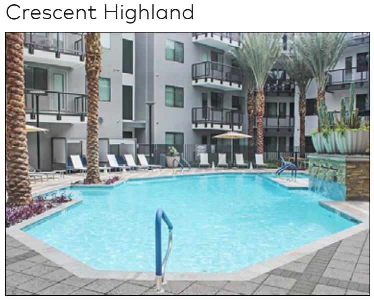
San Melia

City: Phoenix
Buyer: LaSalle Investment Management
Purchase Price: $105 MM
Price per Unit: $ $215,779

Array South Mountain

City: Phoenix
Buyer: Bridge Investment Group
Purchase Price: $99 MM
Price per Unit: $164,958

Crescent Highland



City: Phoenix
Buyer: Greystar
Purchase Price: $90 MM
Price per Unit: $257,880

Avia McCormick Ranch

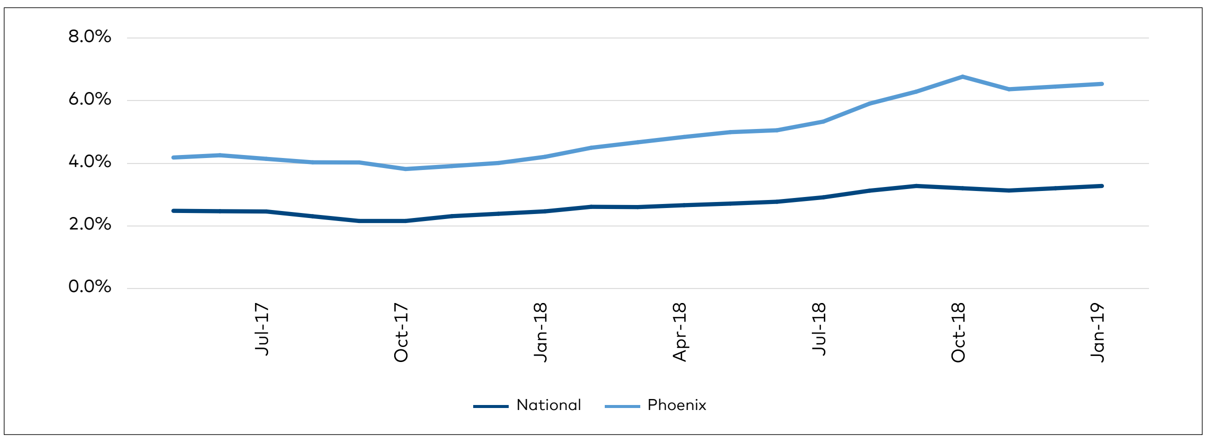
City: Scottsdale, Ariz.
Buyer: Harbor Group International
Purchase Price: $64 MM
Price per Unit: $193,009

On the cover: Photo by Art Wager/iStockphoto.com

Rent Trends

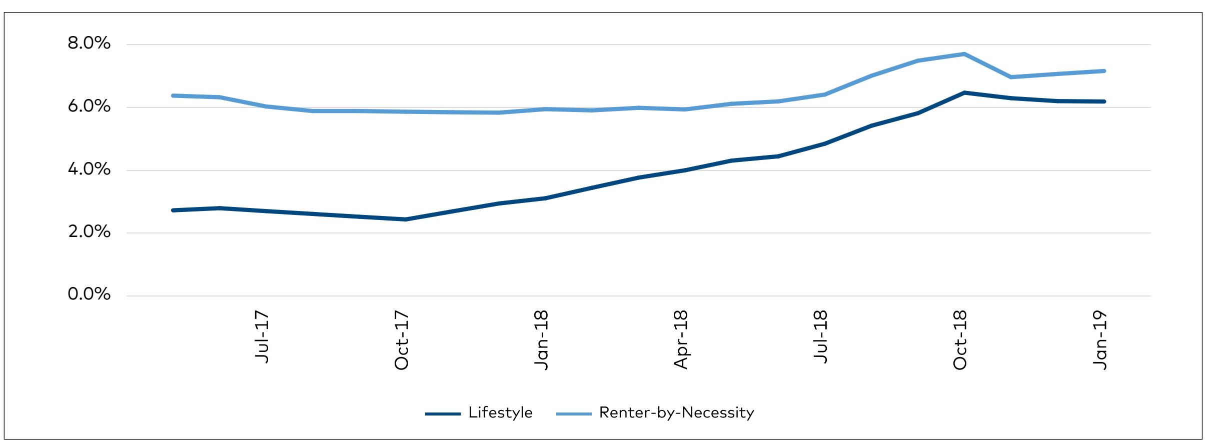
- Rents in Phoenix rose 6.5% year-over-year through January, outpacing the 3.3% national rate. The metro's average rent stood at $1,109, below the $1,420 U.S. average. Despite a new cycle high in the number of deliveries in 2018, occupancy in stabilized properties rose 50 basis points year-over-year, to 95.3% as of December, showcasing the metro's solid demand.
- Rents in the working-class Renter-by-Necessity segment rose 7.2% to $897, while Lifestyle rates, where the bulk of new construction lands, increased by 6.2%, to $1,303. Strong population and employment gains, especially in high-paying industries, maintain a robust demand across the board.
- Submarkets that saw the highest year-over-year rent growth were also among the most affordable: Apache Junction (up 14.2% to $925), Northwest Phoenix (up 9.3% to $696), Maryvale (up 7.6% to $795) and Central West Phoenix (up 7.5% to $670). The metro's most expensive submarkets are Sky Harbor and North Tempe, which had the largest number of apartments underway at the beginning of the year, while commanding average rents of $1,417 and $1,360.
- Demand is expected to keep up with the spate of new supply scheduled to come online in 2019. As a result, Yardi Matrix expects that rent growth will come in at 3.9% this year.

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)

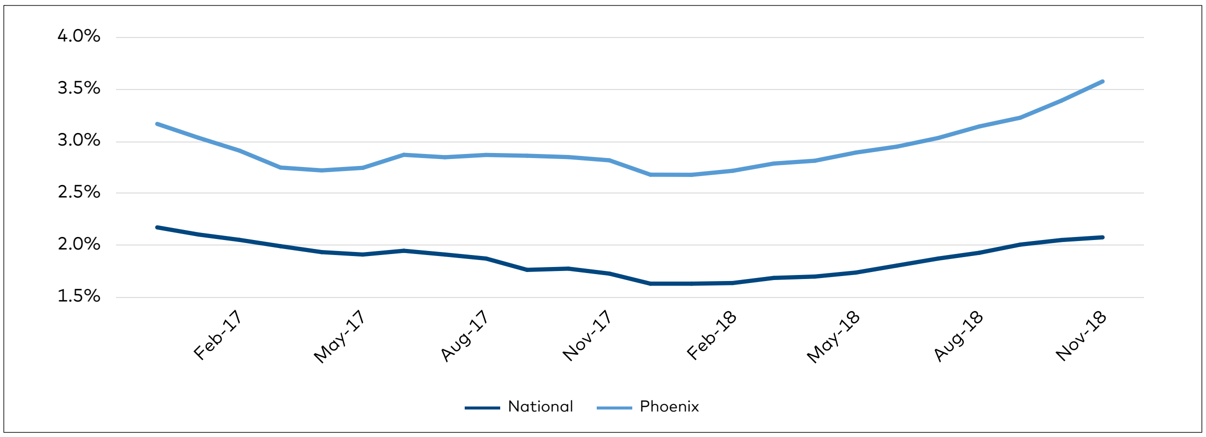


Source: YardiMatrix

Economic Snapshot

- Phoenix added 86,800 jobs in the 12 months ending in November, up 3.6% year-over-year, outpacing the 2.1% national rate. Following nationwide trends, the metro's unemployment rate dropped to record lows throughout 2018, standing at 3.9% as of November, slightly above the 3.7% U.S. figure.
- Growth was led by professional and business services, which added 19,700 jobs. This trend will likely continue, as more companies choose to expand in Phoenix, especially in the East Valley. In Gilbert, financial consulting firm Deloitte is planning a $50 million capital investment in a 100,000-square-foot delivery center that will create as many as 2,500 high-wage technology jobs. Wells Fargo & Co.'s 190,000-square-foot expansion of its massive campus in Chandler will account for 1,200 new jobs, while Allstate Insurance Co. announced the creation of 2,500 positions in Chandler and possibly a new corporate center. Furthermore, Voya Financial plans to expand as well and bring another 1,000 jobs to the metro; it currently employs 200 in its Scottsdale office.
- Mining, logging and construction gained 17,600 jobs, followed by education and health (12,900 jobs) and leisure and hospitality (11,000 jobs). Manufacturing gained 8,500 jobs, as companies relocate or grow in the region, especially in Mesa, which has established the Pecos Advanced Manufacturing Zone, drawing firms such as AQST Space Systems, Piper Plastics, Eclipse Automation and CMC Steel.

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	%
60	Professional and Business Services	373	17.2%	19,700	5.6%
15	Mining, Logging and Construction	139	6.4%	17,600	14.5%
65	Education and Health Services	328	15.1%	12,900	4.1%
70	Leisure and Hospitality	235	10.8%	11,000	4.9%
30	Manufacturing	134	6.2%	8,500	6.8%
40	Trade, Transportation and Utilities	416	19.1%	7,300	1.8%
50	Information	40	1.8%	4,300	12.1%
90	Government	252	11.6%	4,100	1.7%
80	Other Services	66	3.0%	800	1.2%
55	Financial Activities	191	8.8%	600	0.3%

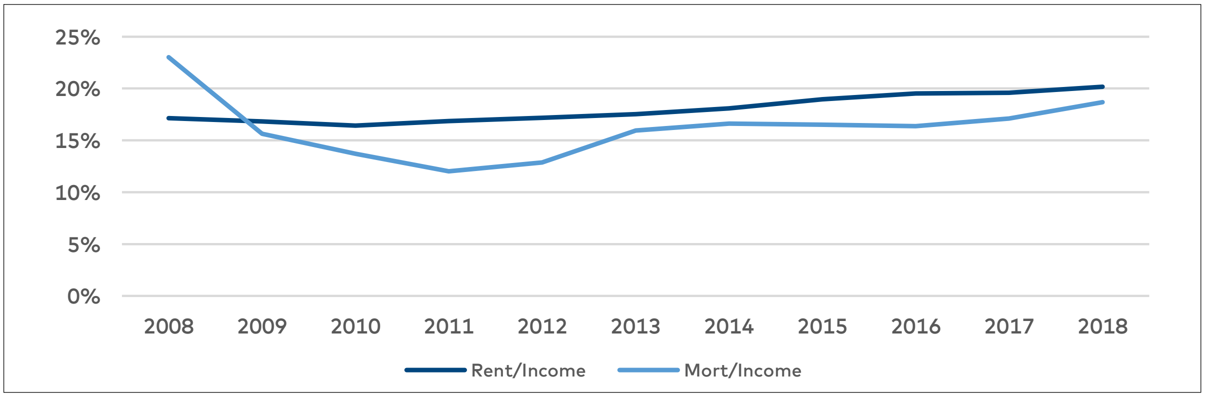
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

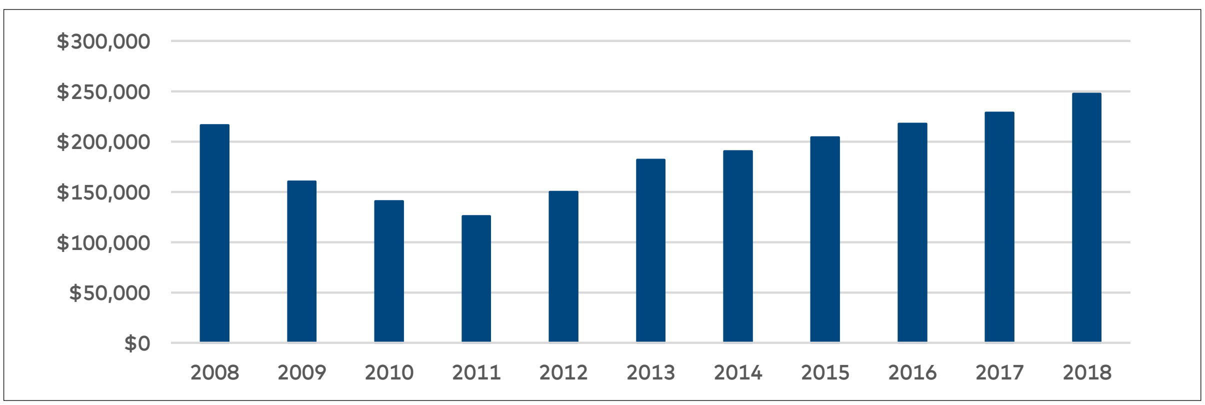
- The median home price rose to a cycle peak of $247,349 in 2018, up 8.2% since 2017 and 96.8% above the 2011 figure, this cycle's low point. The average mortgage payment accounted for 19% of the area's median income, while the average rent equated to 20%.
- Despite the ongoing rise in property values, buying a home in Phoenix remains attractive for many would-be homeowners who choose to relocate from pricier West Coast markets like Los Angeles and San Francisco. In 2018, homebuilding reached a decade high. Belfiore Real Estate Consulting forecasts that construction will remain hot, which could lead to 26,000 new houses built in 2020.

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 of 1.9%, well above the 0.7% national rate.
- Between 2013 and 2017, the population rose by 346,705 residents, up 7.9%, outpacing the 3.0% U.S. average.

Phoenix vs. National Population

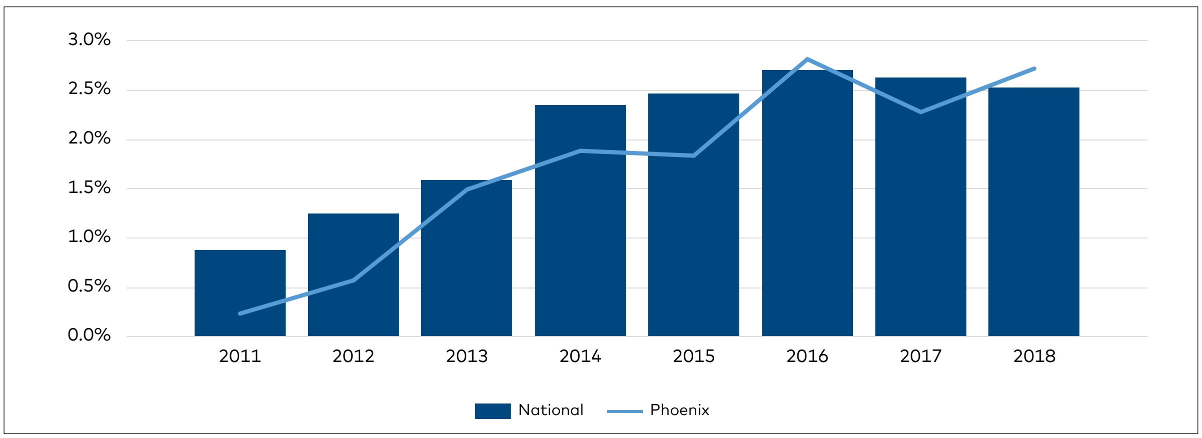
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Phoenix Metro	4,390,565	4,470,712	4,558,145	4,648,498	4,737,270

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

Supply

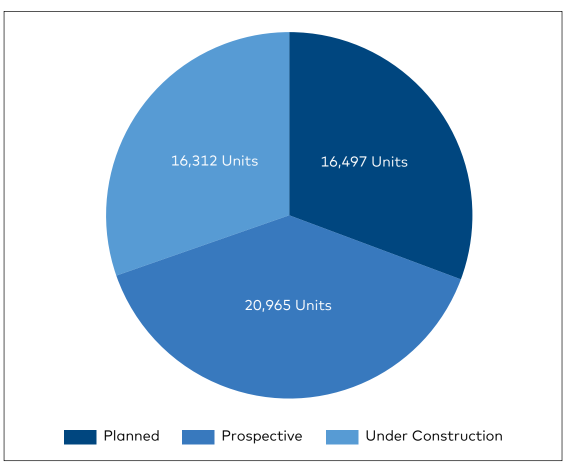
- Developers added 8,162 apartments to the market in 2018, accounting for 3.2% of total stock, a cycle peak for deliveries. In line with national trends, most of these properties cater to Lifestyle renters. As rental demand holds strong, an estimated 7,620 units are scheduled for completion in 2019, representing 2.5% of total stock.
- Some 16,300 units were underway as of January, while another 37,500 units were in the planning and permitting stages. Driven by population and job gains, demand is expected to keep up with the level of new supply, while rent growth should see a moderate deceleration in 2019.
- Submarkets with the largest number of new units under construction as of January were North Tempe (2,980 units), Sky Harbor (1,825 units), Gilbert (1,525 units), the Western Suburbs (1,131 units), Union Hills (1,125 units), Uptown (942 units) and North Scottsdale (933 units).
- Sky at Chandler Airpark, a 504-unit community close to the city's youngest employment corridor in Gilbert, ranked as the metro's largest multifamily development under construction as of January.

Phoenix vs. National Completions as a Percentage of Total Stock (as of January 2019)



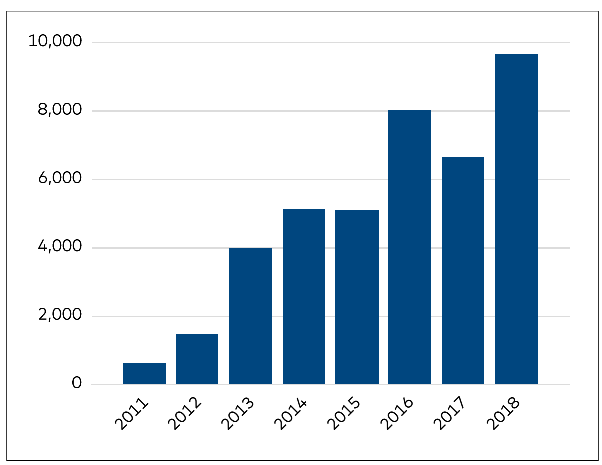
Source: YardiMatrix

Development Pipeline (as of January 2019)



Source: YardiMatrix

Phoenix Completions (as of January 2019)

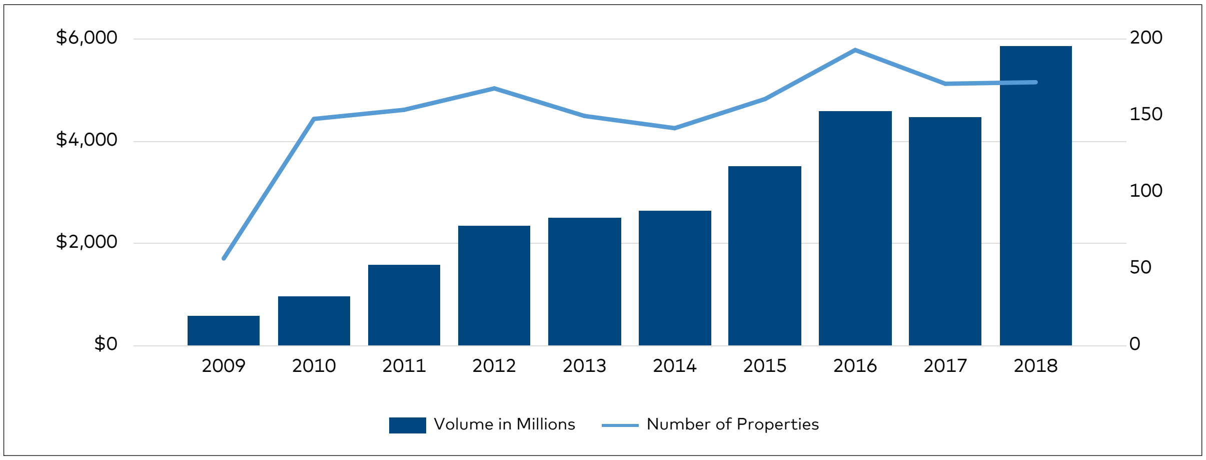


Source: YardiMatrix

Transactions

- Multifamily investment sales reached $5.9 billion in 2018, marking a new cycle high. Rental transactions completed in 2018 commanded an average per-unit price of $152,179, just under the U.S. figure of $154,634.
- Drawn to the market's solid fundamentals, investors targeted all asset classes, with acquisition yields going from 4.5 to 5.0% for stabilized Class A properties in infill locations and to 7.0% for suburban Class C communities where value-add opportunities provide appeal.
- Greystar was one of the metro's most active buyers in 2018, when the company purchased six properties in separate transactions, for a combined $445.7 million. The most recent deal was the acquisition of the 349-unit Crescent Highland in Uptown for $90 million, or $257,880 per unit.

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



Source: YardiMatrix

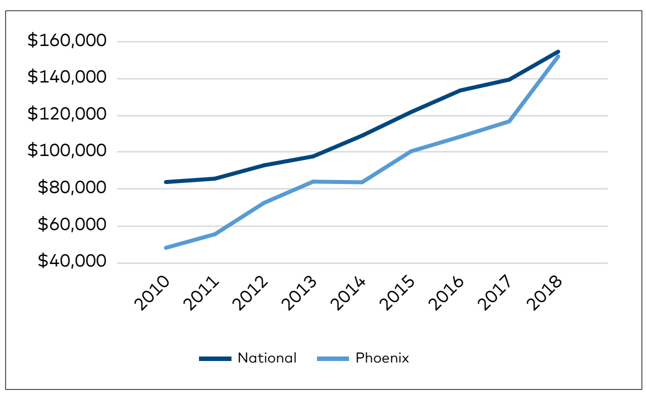
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
North Tempe	895
Mountain Park	500
South Tempe	475
Chandler	447
Uptown	397
Union Hills	287
Deer Valley	284
North Scottsdale	276

Source: YardiMatrix

[1] From January 2018 to December 2018

Phoenix vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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MULTI-HOUSING NEWS

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Scottsdale Property Receives $24M Refi

HFF secured the loan on behalf of The Sunset Group. The 134-unit community is located roughly 12 miles from downtown Phoenix.

Rincon Partners Sells Phoenix Community For $34M

LoanCore Capital provided the buyer with nearly $30 million in acquisition financing. The new owner rebranded the asset and chose a new property manager.

Phoenix Community Commands $62M

Kasten Long Commercial Group's Linda Fritz-Salazar and Scott Trevey brokered the transaction. Green Leaf Partners purchased the 306-unit asset from Evergreen Development.

Weidner Trades Phoenix Asset For $37M

Weidner Apartment Homes sold Monterra Apartments for $37.2 million after almost a decade of ownership. The buyer financed the acquisition through a loan.

LaSalle Property Fund Purchases AZ Community

The firm acquired the 488-unit luxury San Melia property in the desirable Ahwatukee Foothills submarket on behalf of its U.S. core open-end real estate fund.

Phoenix Property Changes Hands In $33M Deal

NorthMarq represented the seller in the disposition of the 308-unit Breckenridge Apartments and facilitated financing for the buyer, 3rd Ave Investments.

Executive Insight

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Shelton-Cook Seeks Prudent Growth

By Keith Loria

A 36-year veteran in real estate, Thomas Shelton runs Shelton-Cook Real Estate Services Inc. in Phoenix, along with partners Pamela Shelton (his wife) and Scott Cook. Since acquiring the company in 2010, the trio has increased its portfolio from 4,400 units to more than 24,000 units.

Shelton previously served as president of Western National Property Management in Irvine, Calif., and worked as a regional partner at Greystar in Phoenix for 11 years.

Talk about the genesis of Shelton-Cook Real Estate Services. What led you to buy the firm?

The firm was founded in 1984 and acquired in 2010. It was an excellent opportunity that presented itself and I was fortunate to have the resources to execute the transaction. I knew the lady who owned it at the time—Vicki Allison—and she was looking for someone to come in and be her partner and stabilize the business so it could grow. When we got here, the portfolio was about 4,500 units, and almost nine years later, we've grown that to where we are today, which is about 24,000 units.

How did your past experiences prepare you for this role?

I've had excellent mentors and teachers, who have helped me with my decision-making ability, showing me how to hire the right people and do the right thing.

How would you characterize 2018 and the growth the company experienced?

It was a solid year. We added 17 communities and almost 4,000 units. The prior five years saw 15 to 20 percent annualized growth. We track our NOI growth relative to several market indices and we continue to outperform the market. That success drives clients to monetize that increase in value.

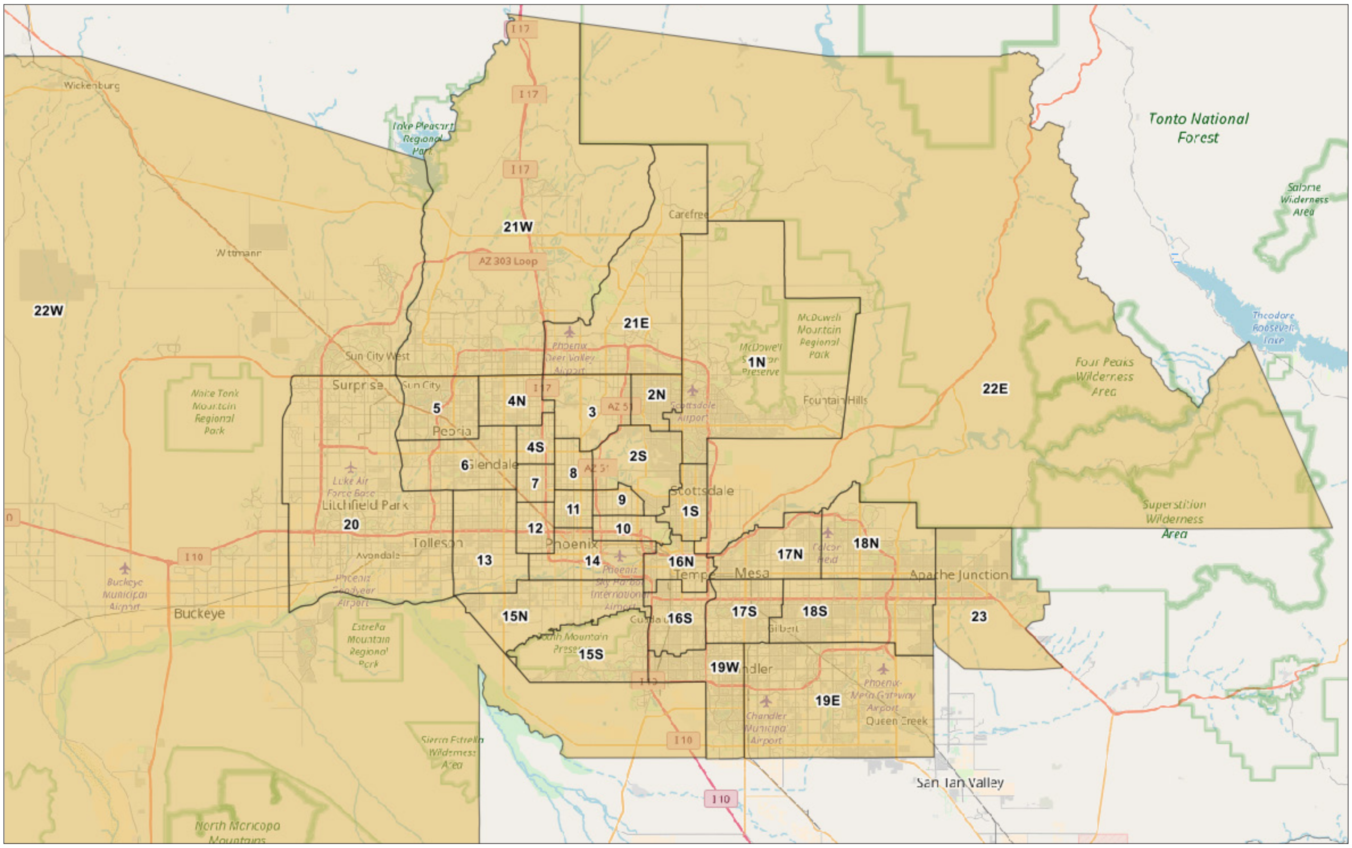
What is the company's strategy for 2019?

To continue to provide best-in-class services to our clients and continue to get better at what we do. We will explore ways to be more efficient, be relevant and make tough decisions when necessary. You need to understand the demographics, understand the neighborhoods, understand what the comp set is doing. In this business, sometimes it's easy to over-improve real estate. I think there'll be a cap on renovations. It's just a question of making sure that you check all the boxes and that you're making a strategic determination about how much money you spend and where you spend it and making sure that you're going to get a return on that investment.

What other growth do you foresee in the years ahead?

We will continue to look for companies to acquire and add additional markets—possibly in the West and Southwest—and create new strategic partnerships. Our growth has been fueled 100 percent by referrals and word-of-mouth recognition. We operate in five states—Arizona, Texas, Colorado, New Mexico and Florida—and the reason is our clients have taken us to other states, and we expect it to be a trend that will continue for 2019.

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.