

Yardi® Matrix

# Phoenix's High Flight

Multifamily Report Fall 2019

Rent Growth Remains Elevated

Transaction Activity Intensifies

Construction Surge Continues



## Market Analysis

Fall 2019

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## Sustained Demand Outpaces Supply

Phoenix's sustained economic performance and demographic expansion continue to reflect in its multifamily market. Rent gains in the metro, up 6.1% year-over-year through September, ranked second among the country's major metros. The metro is still affordable, with its \$1,174 average rent heavily trailing the \$1,471 national rate.

Employment growth was equally robust; Phoenix gained 60,500 jobs in the 12 months ending in July, a 3.0% increase year-over-year, well above the 1.7% U.S. average. The only decline occurred in the information sector, which contracted by 1,500 positions, while the flourishing education and health services sector expanded by 18,700 jobs. Phoenix is establishing its position as a highly competitive bioscience market, with more than \$3 billion in capital expenditures planned over the next two years, \$1 billion of which is already underway. Upon completion, some 7,000 jobs will be created, with major companies and university campuses contributing to the growth. Intense development activity has also boosted the construction sector by 9.3%.

Transaction volume exceeded \$5.5 billion as of September, with a per-unit price that surpassed the national figure. Apartment construction is active, with more than 15,000 units underway and another 45,000 in the planning and permitting stages. We expect the average rent to grow by 6.3% in 2019.

## Recent Phoenix Transactions

Denim Scottsdale



City: Scottsdale, Ariz.  
Buyer: Bluerock Real Estate  
Purchase Price: \$141 MM  
Price per Unit: \$219,332

Sterling 920 Terrace



City: Tempe, Ariz.  
Buyer: Coastal Ridge Real Estate  
Purchase Price: \$115 MM  
Price per Unit: \$442,308

Biscayne Bay



City: Chandler, Ariz.  
Buyer: MG Properties Group  
Purchase Price: \$110 MM  
Price per Unit: \$215,332

San Valiente

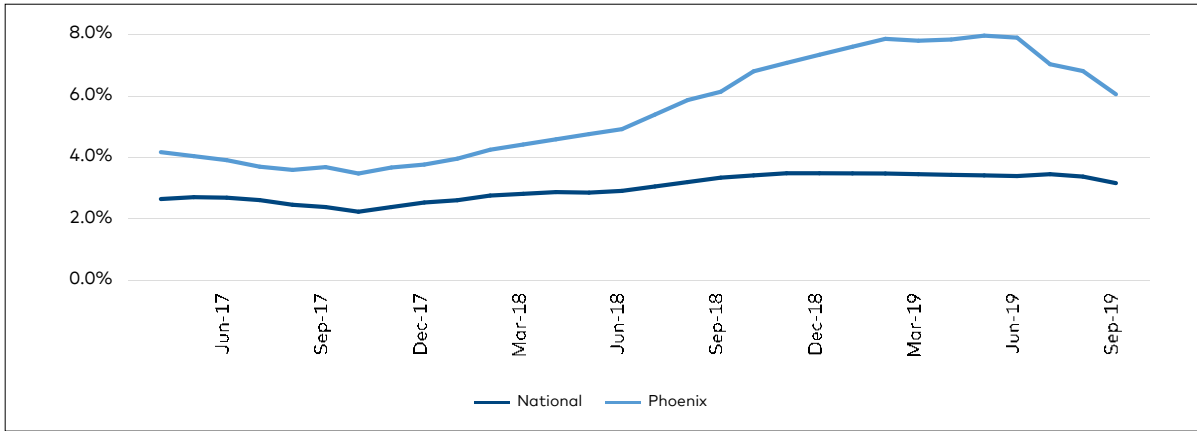


City: Phoenix, Ariz.  
Buyer: InterCapital Group  
Purchase Price: \$100 MM  
Price per Unit: \$165,563

## Rent Trends

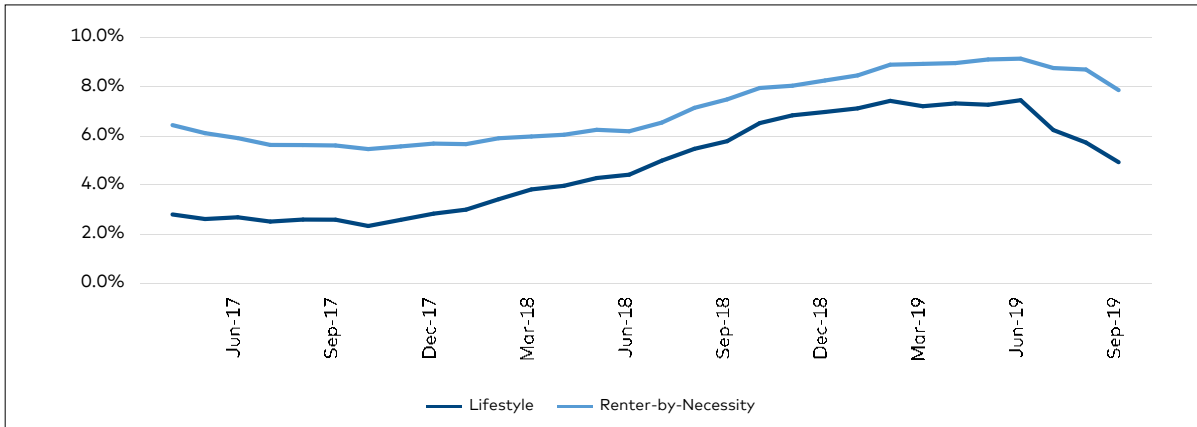
- Phoenix rents rose 6.1% year-over-year through September, well above the 3.2% U.S. rate. Despite strong deliveries in the past few years, Phoenix posted the second-largest increase in rents among the nation's major metros, having stayed above the 7.0% mark for 10 consecutive months. Even so, the metro remained fairly affordable, with the average rent reaching \$1,174 in September, trailing the \$1,471 national figure. We expect rents to rise by 6.3% by year's end.
- Rents in the working-class Renter-by-Necessity segment led growth, up 7.9% year-over-year through September, to \$961. Lifestyle rates were up 4.9% to \$1,363 during the same timeframe. RBN assets were in higher demand than Lifestyle units, reflected in the occupancy rate for stabilized properties: The rate for RBN apartments grew 20 basis points to 95.7% as of August, while Lifestyle units remained flat, at 94.9%.
- A quarter of the metro's submarkets posted rents below the \$1,000 mark. The most affordable rents were in Central West Phoenix (up 5.2% to \$748) and Northwest Phoenix (up 10.2% to \$824); Northwest Phoenix consists mostly of working-class properties, which also posted the sharpest hike in rent growth. As of September, the most expensive Phoenix submarkets were Sky Harbor (up 3.8% to \$1,600), South Scottsdale (up 3.7% to \$1,498) and North Tempe (up 4.3% to \$1,456).

### 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)

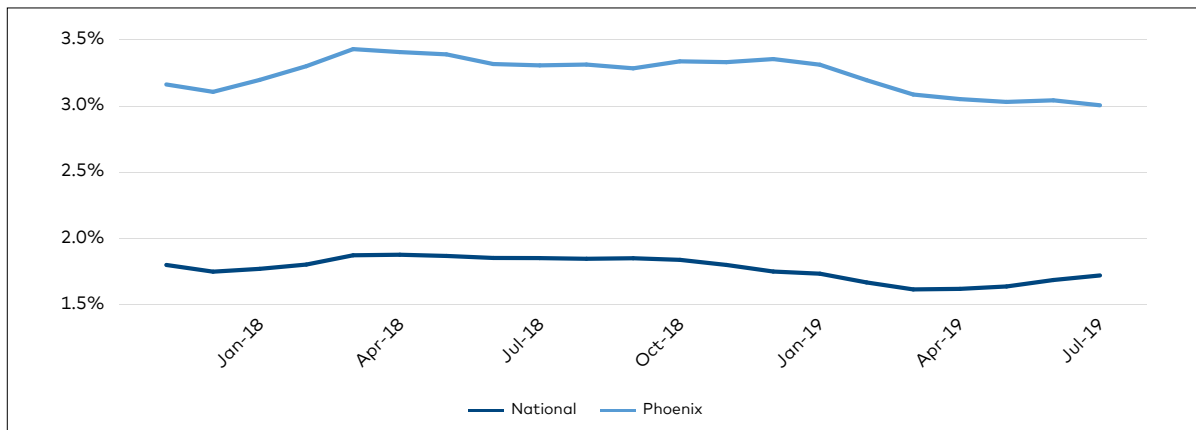


Source: YardiMatrix

## Economic Snapshot

- The metro gained 60,500 jobs in the 12 months ending in July, marking a 3.0% growth rate, well above the 1.7% U.S. figure. More than half of Phoenix's workforce is employed in advanced industries with low volatility such as tech, bioscience and manufacturing. The unemployment rate stood at 3.8% in August, 100 basis points below the national figure.
- The education and health services sector led growth with the addition of 18,700 jobs. The growing strength of the bioscience and health care sectors has turned Phoenix into a highly competitive bioscience market. The sector is poised for continued growth, as the metro plans for more than \$3 billion bioscience capital projects over the next two years, \$1 billion of which is already underway. Upon completion, some 7,000 jobs will be created, with Creighton University, Arizona State University, Mayo Clinic and Wexford Science & Technology contributing to growth.
- Development activity surged across the metro, boosting the construction sector by 9.3% (12,000 jobs) in the year ending in July. According to Yardi Matrix data, Phoenix had a total of 13.4 million square feet of office, industrial and self storage space underway as of mid-October, in addition to the metro's residential pipeline counting some 15,000 units under construction as of September.

### 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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	334	15.8%	18,700	5.9%
15	Mining, Logging and Construction	141	6.7%	12,000	9.3%
40	Trade, Transportation and Utilities	409	19.3%	8,200	2.0%
30	Manufacturing	136	6.4%	7,500	5.8%
60	Professional and Business Services	357	16.9%	6,000	1.7%
70	Leisure and Hospitality	227	10.7%	4,900	2.2%
90	Government	212	10.0%	3,200	1.5%
55	Financial Activities	194	9.2%	900	0.5%
80	Other Services	70	3.3%	300	0.4%
50	Information	38	1.8%	-1,200	-3.1%

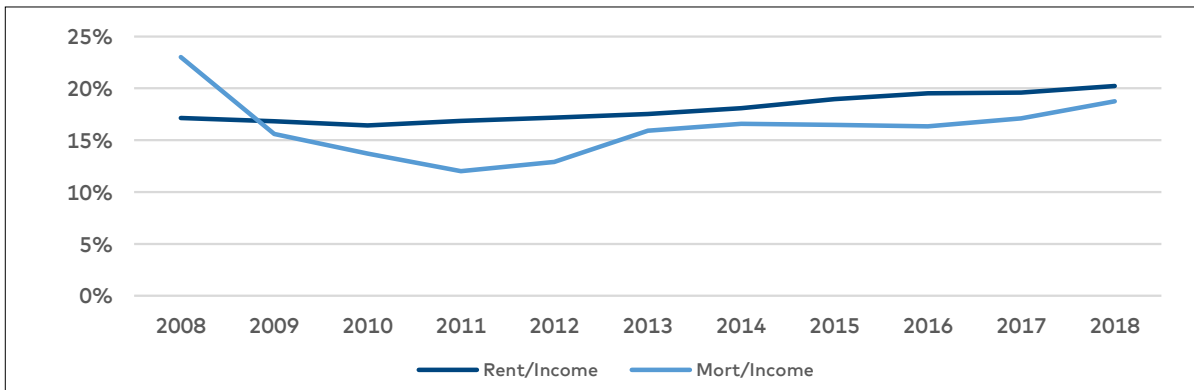
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

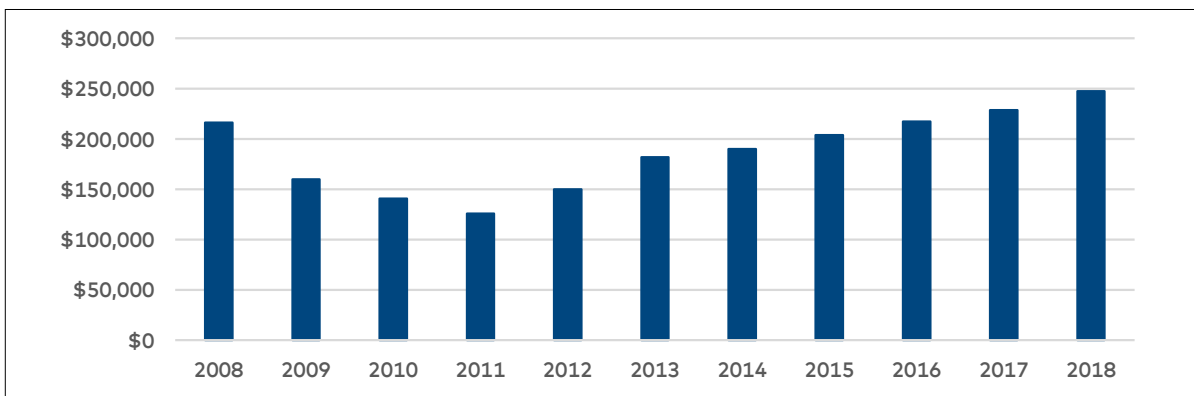
- The median home price in Phoenix rose to \$247,459 in 2018, up 14.4% from pre-recession levels. Owning and renting were almost on par in the metro last year, with owning accounting for 19% of the area median income, while renting equated to 20%. Sustained rent growth in Phoenix, paired with the strong influx of residents relocating here is deepening the metro's housing affordability issues.
- According to a national study from the Joint Center for Housing Studies at Harvard, 46% of Phoenix-area renters are spending more than 30% of their income on housing. This year, some 700 units in fully affordable properties came online in the metro, through September.

### 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 gained 96,268 residents in 2018, a population growth of 2.0% year-over-year, more than triple the 0.6% national rate.
- The metro's population growth is mainly supported by domestic net migration.

### Phoenix vs. National Population

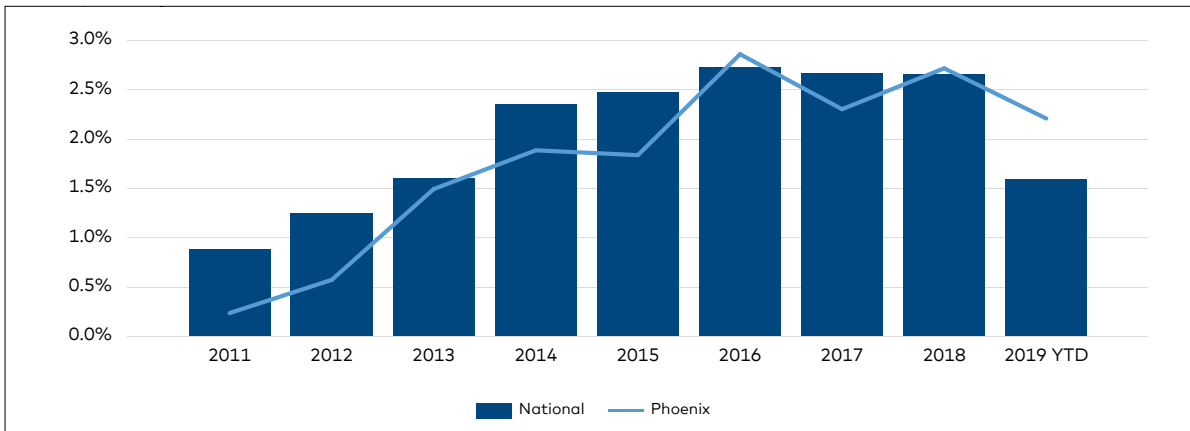
	2014	2015	2016	2017	2018
National	318,386,421	320,742,673	323,071,342	325,147,121	327,167,434
Phoenix Metro	4,491,423	4,581,122	4,675,966	4,761,694	4,857,962

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

## Supply

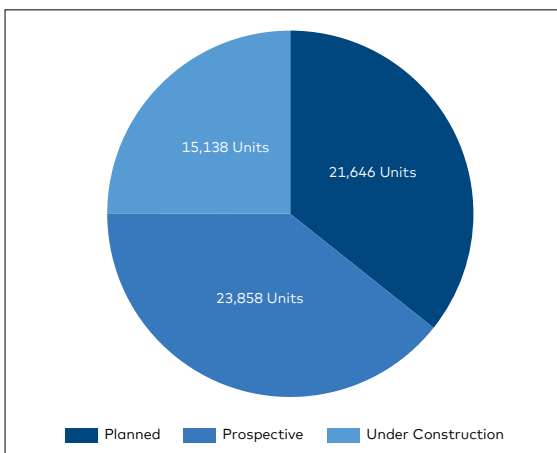
- Developers added some 6,700 units to the market's rental inventory this year through September, reaching 2.2% of total stock, and 60 basis points higher than the national rate. Since 2016, nearly 30,000 apartments have come online in the metro, but, despite the high rate of deliveries, demand continues to endure. As a result, the average occupancy rate in stabilized properties inched up 10 basis points year-over-year, to 95.3% as of August.
- Some 15,138 units were underway as of September, and nearly 11,000 of those are expected to be delivered by year's end. This will mark Phoenix's best year for deliveries this cycle, surpassing 2016's record when 8,165 units came online. Another 45,500 units were in the planning and permitting stages.
- Construction activity was strong across the map, particularly in three submarkets, each with more than 1,000 units underway. North Tempe continues to lead with 3,375 units under construction, followed by Sky Harbor (2,104 units) and Gilbert (1,753 units). The largest delivery of the third quarter is the 332-unit The District at Scottsdale, a Kaplan Cos. asset that includes 7,000 square feet of retail space.

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



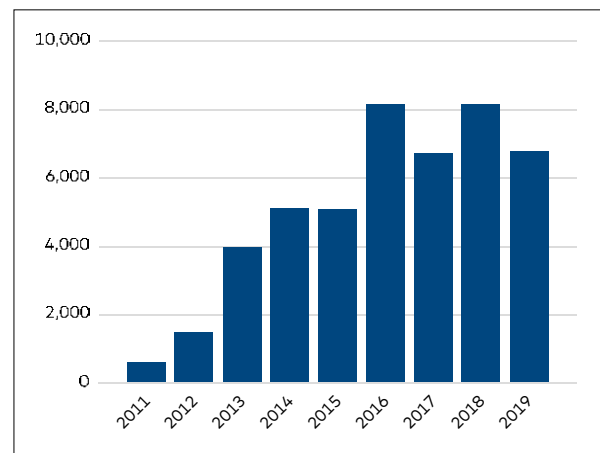
Source: YardiMatrix

**Development Pipeline** (as of September 2019)



Source: YardiMatrix

**Phoenix Completions** (as of September 2019)

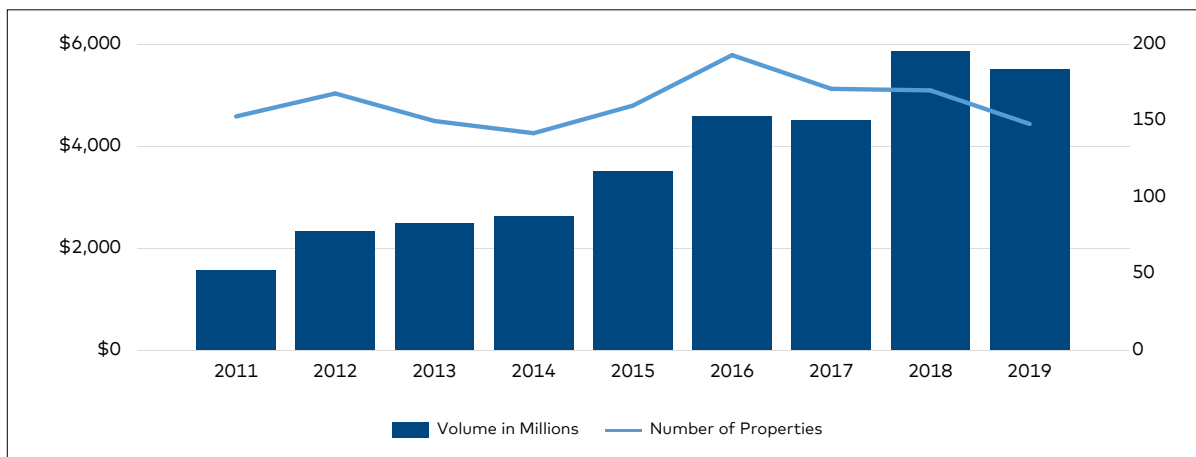


Source: YardiMatrix

## Transactions

- Some \$5.5 billion in multifamily assets traded in Phoenix as of September. Investor interest is increasing, and the metro will likely hit a new cycle high in 2019, exceeding last year's volume of \$5.8 billion. The price per unit rose 5.3% year-over-year to \$160,789, surpassing the national average of \$158,670.
- This year, investors focused more on value-add opportunities; of the 148 properties that changed hands in the metro, nearly two-thirds were in the Renter-by-Necessity segment. This preference resulted in a 6.7% increase in the average per-unit price for RBN assets to \$114,985, while the average price per unit for Lifestyle apartments rose 4.7% to \$204,269.
- The largest transaction of the year through September was Bluerock Real Estate's acquisition of Denim Scottsdale, a 644-unit property, which sold in July for \$141 million, or \$219,332 per unit.

### Phoenix Sales Volume and Number of Properties Sold (as of September 2019)



Source: YardiMatrix

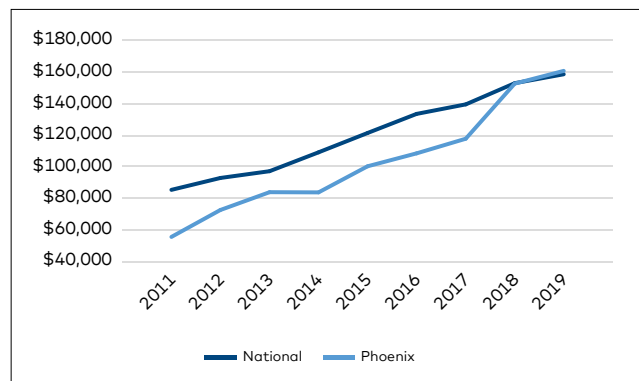
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
South Mesa	578
North Tempe	506
Western Suburbs	484
Mountain Park	464
North Scottsdale	416
Uptown	364
South Scottsdale	363
Union Hills	331

Source: YardiMatrix

<sup>1</sup> From October 2018 to September 2019

### Phoenix vs. National Sales Price per Unit



Source: YardiMatrix



## Optima Kierland: Arizona's Desert Oasis

By Anca Gagiuc

One notable project underway is Optima Kierland Center, a luxury four-tower enclave located about 30 miles from downtown Phoenix. The second phase of construction, consisting of two 10-story towers, is slated for delivery in 2020. Optima—the architect, developer and general contractor of the master-planned community—engineered the development to produce a zero-energy performance index of 49.8. *Multi-Housing News* talked to Optima President David Hovey Jr. about this pilot project and the city's newly adopted International Green Construction Code.

*What is the vision behind Optima Kierland, and what sets it apart from other projects in the area?*

Optima Kierland is the next step in the evolution of our architecture. From the start, we wanted to set the design and development standard for Kierland by creating a public park system. We made this possible by keeping parking 100 percent underground, which allowed for 70 percent of the space at grade-level to remain open. This arrangement enables our residents and neighbors to enjoy a lushly landscaped oasis in the urban Kierland setting.

We also wanted to improve the vertical landscape system that we implemented at Optima Sonoran Village. Our vision is to bring nature into our residents' homes by screening the sun, providing privacy and lowering the ambient temperature. One of the most unique design features of the project is on the negative-edge roof deck: The handrail on the concrete roof deck is placed 30 inches below the walking surface, enabling a wider, unobstructed downward view, which



gives a similar feeling to standing on the edge of an aircraft carrier.

*What is the current status of the project?*

The second phase of the development is underway, with construction ongoing for 7140 Optima Kierland, our second luxury rental tower, and 7180 Optima Kierland, our second condominium tower. Both will be delivered next year.

*Is there a standard suite of sustainable features Optima implements in its projects?*

Optima Kierland is the pilot project for Phoenix's International Green

Construction Code, an alternate sustainability program to LEED. The IGCC focuses on material resource efficiency, energy efficiency, water resource efficiency and indoor environmental quality. Optima's signature vertical landscape system and 70 percent open space not only filter the air but also reduce the ambient temperature by up to 10 degrees. Our use of high-performance glazing and overhangs, paired with the building's configuration and exterior shading devices, will provide anticipated energy savings of nearly 20 percent over the code's goals.

*How do you expect this new master-planned community to impact Scottsdale/Phoenix's multifamily market?*

The additional residential units, which command the highest rents in the valley, will further cement the area as an important urban core. The total economic output generated by the development is projected to be \$461 million.



## News in the Metro

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### MG Properties Buys Arizona Community For \$110M

Everest Holdings sold the 512-unit property in the Chandler submarket, which leads the Phoenix metro area in multifamily absorption.



### Tides Equities Extends Phoenix Shopping Spree

The investment firm picked up The Edge, a 380-unit community, from Baron Properties for \$57.3 million.



### Fore Property Closes \$79M Sale

The buyer financed the acquisition with a \$62.2 million loan from TPG Capital. The 344-unit Summerly at Zanjero is LEED Silver certified.



### Wood Partners Trades Class A Community for \$64M

The transaction comes on the heels of the developer's sale of another asset in the metro for \$72 million.



### Airport Community Changes Hands For \$56M

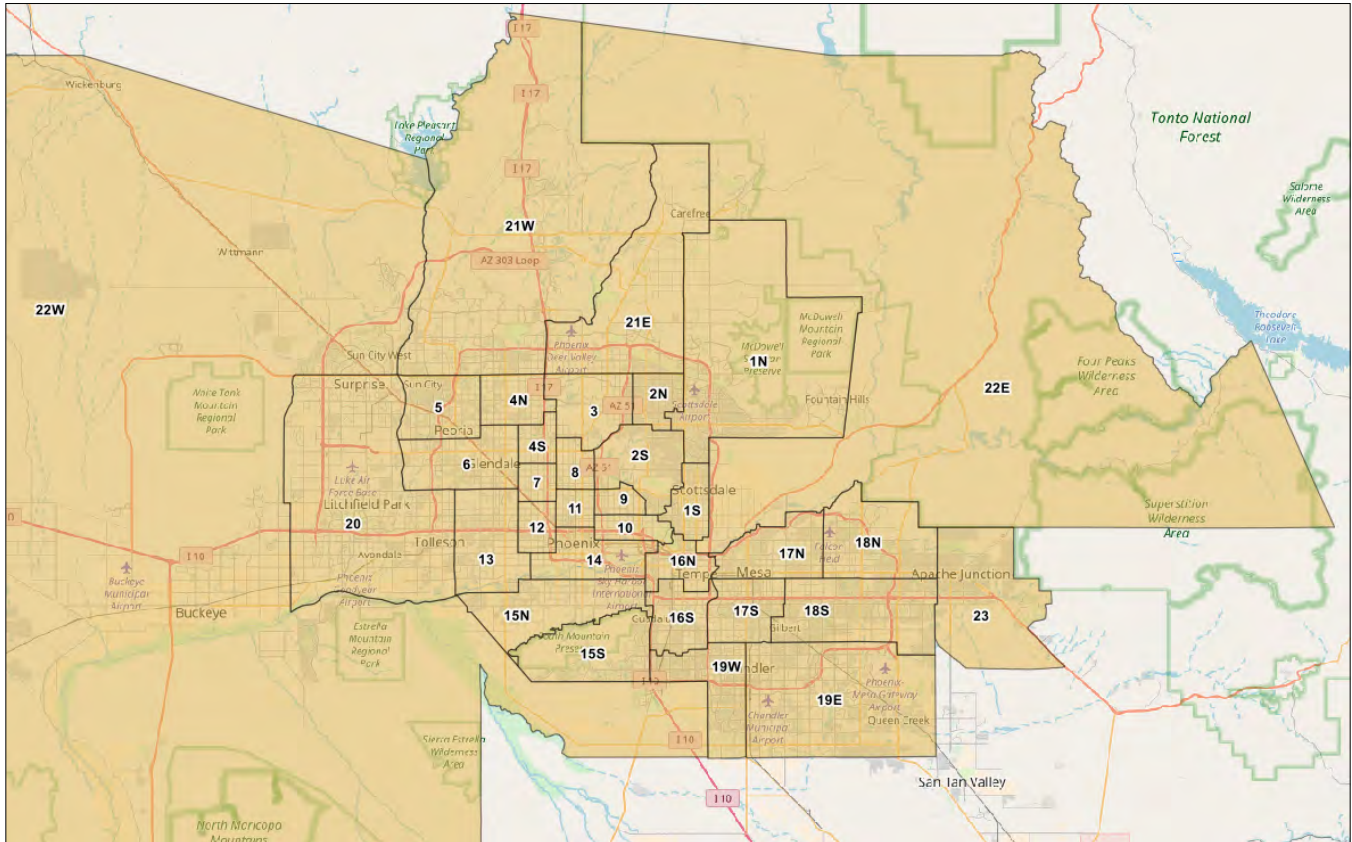
An affiliate of the ConAm Group bought the 297-unit property neighboring the Phoenix Sky Harbor International Airport.



### JLL Income Property Trust Buys Luxury Community for \$72M

Wood Partners sold Summit at San Marcos in downtown Chandler. The sale marks the first time the 273-unit luxury property has traded since its completion earlier this year.

## 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

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## 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](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.

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