DESERT COMMERCIAL ADVISORS

4Q2023 METRO PHOENIX MULTIFAMILY NEWSLETTER

CONTACT INFORMATION

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QUARTERLY MULTIFAMILY STATS

VACANCY
10.90%
4Q2022: 9.2%
YOY: +1.70%

MARKET RENT/UNIT
$1,566
4Q2022: $1,575
YOY: -$19

NET ABSORPTION
9,552
12 MO DELIVERIES: 17,603

PRICE/UNIT
$262,000
4Q2022: $301,000
YOY: -12.96%

ECONOMIC HIGHLIGHTS

Employment Data (YOY)	
3.70% Unemployment Rate (USA)	-0.10%
3.50% Unemployment Rate (Metro PHX)	-0.30%
2.596MM Employed Residents (Metro PHX)	
Metro PHX Housing Trends (YOY)	
$430,000 Median Home Price	+4.40%
4,820 Closed Transactions	-3.30%
62 Days on Market	-9 Days
3.54 Months of Supply	-0.27 Months
10-Year Treasury	
3.88% as of 12/29/2023	
+0.00% YOY | -0.49% MOM |	

Though renter demand rebounded in 2023, Phoenix's aggressive delivery schedule overwhelmed sturdy leasing activity, causing market conditions to weaken for back-to-back years. Vacancy has been on an upward trend over the past eight quarters and now stands at the highest level in over a decade at 10.8% as of early 2024. Amid increased competition, local operators have shifted their focus to maintaining occupancy at the expense of revenue gains, keeping rent growth decidedly negative at -2.1% and concession usage elevated. This persistent imbalance between supply and demand is expected to continue in the coming quarters as the full effect of the construction pipeline is felt.

The Valley recorded 9,600 units of positive net absorption over the past 12 months, the sixth most in the country. High inflation and economic uncertainty, the primary culprits for weak demand in 2022, both improved last year, helping unlock renter household formation. The mid-priced segment saw a turnaround, posting positive performance in 2023.

Though underlying demand has improved, the substantial construction pipeline will likely remain a headwind over the next 12 to 18 months. About 35,000 units are currently underway, representing 9.3% of existing inventory. The wave of supply has already weighed on rent growth and could keep gains tepid in 2024. Supply-heavy areas like Downtown Phoenix and Tempe may be disproportionately impacted as developers continue to pour new supply into these dynamic neighborhoods.

Construction starts have eased over the past few quarters, indicating supply pressure could moderate over the midterm once the current glut is digested. Developers are reporting more expensive financing costs, lower revenue growth projections, and higher exit cap rates as barriers to groundbreaking. As a result, by late 2025 or early 2026, market conditions could become more favorable. Phoenix still boasts several long-term structural demand drivers, including nation-leading demographics, relative housing affordability, and a diverse and expanding local economy.

Following a surge in investment activity in 2021 and 2022, sales volume slowed to just $3.6 billion last year, representinge a 70% decline in deal flow. A near doubling in borrowing costs coupled with softer property performance has made it difficult for buyers to pencil deals at current price points. Cap rates for higher-quality assets have already risen about 200 basis points to the low-to-mid 5% range. Large deals that get across the finish line are typically newly delivered assets by merchant developers or those that can offer assumable loans.

Diving into the construction pipeline, supply-side challenges plague the Phoenix multifamily market as a wave of deliveries overshadows rebounding rental demand. Over the past 12 months, apartment builders delivered a staggering 17,000 net new units, outpacing the pre-COVID five-year average of about 7,100 units per year. The surge in construction activity has kept vacancies on an upward trajectory since mid-2021 and turned rent growth negative.

The effect of the construction pipeline will be felt through 2024 and could linger into early 2025. Phoenix stands as one of the most aggressively built markets in the country, with much of the development activity focused on luxury properties. Supply pressure has been most acute in the 4 & 5 Star segment, though weakness has extended to 3 Star properties, as well.

In 2023, however, construction starts fell by about 25% from 2021 and 2022's record level. Lower rent growth projections, rising expenses, and higher exit cap rates have made it difficult for developers to profitably break ground. Additionally, higher interest rates and tighter lending standards have reduced the availability of new construction financing. One local lender noted that developers will likely need to bring more cash to the table to ensure they meet their debt service coverage, which is the primary determinant of loan size. As a result, the market could see a pullback in supply additions by late 2025.

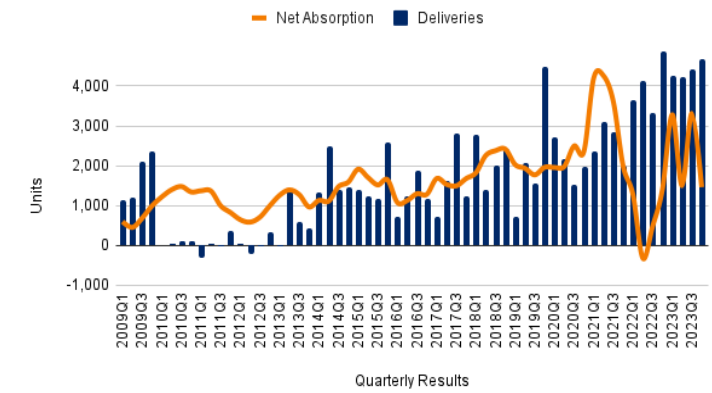
Downtown Phoenix and Tempe have been the primary recipients of new construction, comprising about a quarter of the current pipeline. These areas both offer some of the only live/work/play neighborhoods in the Valley, making them a favorite among young professionals and renters by choice. Skye on 6th is the latest luxury project to open its doors downtown. The 309-unit residential tower was developed by Hubbard Street Group and is located in the Roosevelt Row Arts District. Asking rent for one-bedroom units averages over $2,100/month, and community amenities include a resort-style rooftop pool, state-of-the-art fitness center, yoga room, and dog spa. In a 1-mile radius surrounding Skye on 6th, an additional nine properties totaling more than 2,900 units are currently underway, many of which are luxury high-rises targeting the top of the renter pool.

The Valley's fast-growing west-side suburbs have also been a target of new development. Relative affordability and growing employment opportunities have spurred aggressive population growth in areas like Goodyear, Buckeye, Surprise, and Glendale. Builders have responded, adding more than 12,000 units to the North West Valley and South West Valley submarkets since 2020. Build-to-rent (BTR) developers have been particularly active. Single-family BTRs have the interior layout and backyard that a residential home provides, but they still perform like a multifamily rental and appear in CoStar analytics as such. More than a third of deliveries in the West Valley since 2020 have been BTR projects, outpacing garden-style developments during that time.

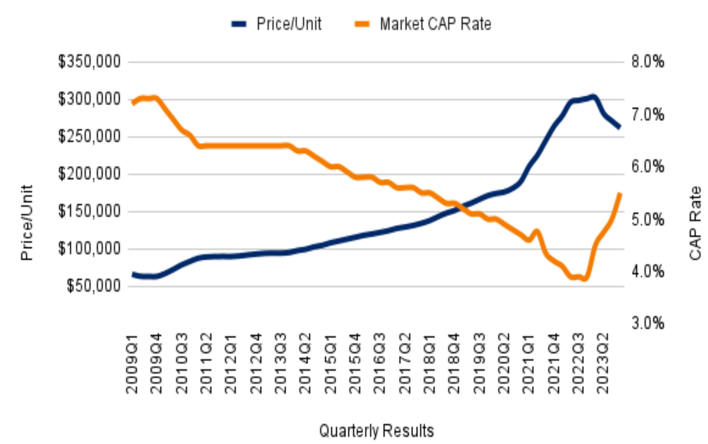
Phoenix continues to be a great place to invest, but like every great race car, eventually, it comes time for a tune-up. Why not reach out to your SVN Advisor today for a portfolio check-up?

Sources: CoStar Realty Information, Inc; U.S. Department of the Treasury; AZ Commerce Authority; ARMLS; U.S. Census Bureau; U.S. Bureau of Labor Statistics; Elliott D. Pollack and Company; Yardi Matrix

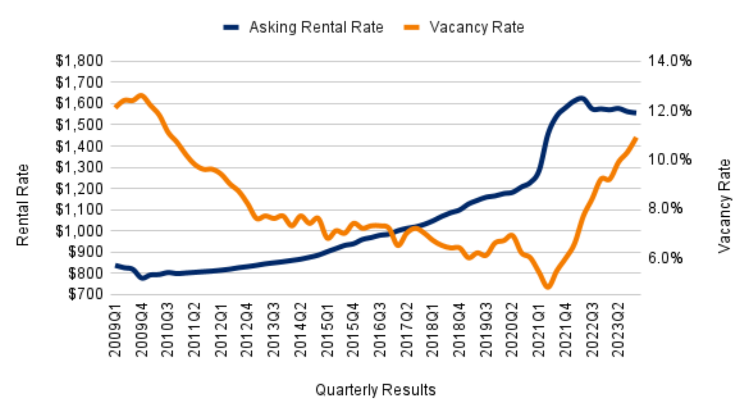
METRO PHOENIX DELIVERIES AND ABSORPTION



PRICE AND CAP RATE TRENDS



RENTAL AND VACANCY RATES



SUBMARKET ANALYTICS

Submarket	Vacancy Rate	Market Asking Rent/Unit	Annual Rent Growth	12 Month Delivered Units	Under Construction Units	**Under Construction % Of Inventory**	12 Month Absorption Units	Market Sale Price/Unit	Market Cap Rate
Old Town Scottsdale	7.3%	$1,889	-1.6%	0	379	2.8%	383	$341,829	4.50%
Chandler	7.4%	$1,696	-2.6%	635	1,282	4.2%	400	$317,038	5.00%
North Phoenix	8.2%	$1,375	-2.1%	83	1,536	3.5%	-851	$229,213	4.40%
Camelback	8.7%	$1,479	-3.9%	206	112	1.0%	128	$253,586	4.40%
N Scottsdale	8.7%	$2,145	-0.1%	402	2,132	12.0%	471	$377,564	4.50%
Deer Valley	9.0%	$1,513	-4.2%	1,641	753	2.1%	985	$272,363	4.30%
Tempe	10.1%	$1,591	-3.3%	2,242	3,353	7.3%	1,376	$297,083	4.30%
East Valley	10.3%	$1,451	-3.4%	2,510	3,638	7.9%	1,583	$245,283	4.40%
Gilbert	10.4%	$1,757	-2.6%	749	1,311	8.6%	822	$336,964	4.20%
Downtown Phoenix	11.0%	$1,510	-2.5%	1,612	5,648	14.0%	1,271	$264,681	4.60%
NW Valley	11.5%	$1,472	-1.8%	1,102	2,550	17.0%	873	$243,249	4.30%
South Phoenix	12.5%	$1,586	-1.3%	1,255	1,005	10.8%	822	$271,308	4.50%
SW Valley	13.9%	$1,395	-3.6%	3,409	5,566	11.9%	938	$228,443	4.80%
W Maricopa County	22.2%	$1,692	-1.3%	971	2,184	69.9%	678	$276,150	4.60%
SE Valley	22.3%	$1,360	-1.5%	644	1,112	28.4%	-18	$124,121	5.50%
Total	10.9%	$1,556	-1.2%	17,603	32,561	13.4%	9,552	$262,000	4.6%

PHOENIX METRO RENTS

Asset Class	December'22	December'23	Inc $$	% Change
Discretionary	$2,036	$1,95	-$71	-3.49%
Upper Mid-Range	$1,817	$1,754	-$63	-3.47%
Low Mid-range	$1,476	$1,421	-$55	-3.73%
Workforce - Upper	$1,306	$1,256	-$50	-3.83%
Workforce - Lower	$1,189	$1,164	$25	2.10%
Totals	$1,692	$1,640	-$52	-3.07%

Actual rents by asset class of properties with 50+ units; from Yardi Matrix. Submarket data from CoStar.

NOTABLE TRANSACTIONS & MARKET STATS

10-99 UNITS

	FY 2022	FY 2023	Inc/Dec
Total Sales Volume	$1,515,717,474	$380,474,000	-75.0%
Avg Price/Unit	$263,191	$236,760	-10.0%
Avg Price/SF	$280.97	$274.15	-2.0%

100+ UNITS

	FY 2022	FY 2023	Inc/Dec
Total Sales Volume	$9,188,223,735	$2,775,569,000	-70.0%
Avg Price/Unit	$325,951	$273,105	-16.0%
Avg Price/SF	$357.12	$296.97	-17.0%

10-99 UNITS

ARCADIA VIEWS

2640 N 52nd St., Phoenix, AZ 85008

Sale Date : 10/26/2023
Sale Price : $8,500,000
Price/Unit : $531,250
RBA : 21,104 SF

Size : 16 Units
Unit Mix : 10 - 1B | 6 - 2B
Year Built : 2023

CYRENE AT ESTRELLA

15430 W Baden St., Goodyear, AZ 85338

Sale Date : 10/27/2023
Sale Price : $25,600,000
Price/Unit : $400,000
RBA : 75,000 SF

Size : 64 Units
Unit Mix : 48 - 3B |16- 4B
Year Built : 2022

NIDO 18

1506 N 35th St., Phoenix, AZ 85008

Sale Date : 12/01/2023
Sale Price : $6,200,000
Price/Unit : $344,444
RBA : 25,254 SF

Size : 18 Units
Unit Mix : 18 - 2B
Year Built : 2023

100+ UNITS

MAA CENTRAL AVE

31 E Thomas Rd., Phoenix, AZ 85012

Sale Date : 10/24/2023
Sale Price : $102,350,000
Price/Unit : $316,873
RBA : 367,100 SF

Size : 323 Units
Unit Mix : 50 - Studio | 118 - 1B | 155 - 2B
Year Built : 2022

ICON AT COOLEY STATION

2550 S Recker Rd., Gilbert, AZ 85296

Sale Date : 12/20/2023
Sale Price : $80,000,000
Price/Unit : $322,581
RBA : 200,000 SF

Size : 248 Units
Unit Mix : 8 - Studio | 147 - 1B | 74 - 2B | 19 - 3B
Year Built : 2023

VILLAS ON ASH

1381 N Gilbert Rd., Gilbert, AZ 85234

Sale Date : 12/27/2023
Sale Price : $63,275,000
Price/Unit : $383,485
RBA : 100,000 SF

Size : 165 Units
Unit Mix : 40 -1B | 83 - 2B | 42 - 3B
Year Built : 2023

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