SVN
DESERT COMMERCIAL ADVISORS

3Q2023 METRO PHOENIX MULTIFAMILY NEWSLETTER

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METRO PHOENIX MULTIFAMILY OVERVIEW

QUARTERLY MULTIFAMILY STATS

VACANCY

10.30%

3Q2022: 8.4%
YOY: +1.90%

MARKET RENT/UNIT

$1,562

3Q2022: $1,575
YOY: -$13

NET ABSORPTION

9,497

12 MO DELIVERIES: 17,855

PRICE/UNIT

$271,000

3Q2022: $298,607
YOY: -9.25%

ECONOMIC HIGHLIGHTS

Employment Data (YOY)	
3.80% Unemployment Rate (USA)	0.30%
3.80% Unemployment Rate (Metro PHX)	0.20%
2.575MM Employed Residents (Metro PHX)	
Metro PHX Housing Trends (YOY)	
$431,000 Median Home Price	-1.80%
5,423 Closed Transactions	-14.30%
56 Days on Market	+8 Days
2.90 Months of Supply	-0.67 Months
10-Year Treasury	
4.59% as of 09/29/2023	
+0.83% YOY | +0.47% MOM|	

A persistent mismatch between supply and demand continues to hamper the Phoenix multifamily market. Though leasing showed signs of rebounding this year, it was not enough to absorb the record amount of new construction coming online, causing the Phoenix vacancy rate to move higher. The increased competition from new deliveries has kept rent growth negative since the end of last year as operators reduce rental rates and increase concessions to attract tenants. Expectations are for tepid conditions to remain over the near term as the market digests the largest supply pipeline in four decades.

More than 8,000 units were absorbed in the first three quarters of 2023 amid a pickup in consumer sentiment and easing inflation. This outpaced the pre-COVID five-year average of about 5,300 units. The stronger performance was a welcomed sign for property owners and managers who were contending with a near evaporation of demand during the same period last year. A recovery in the 3 Star segment has led the turnaround, going from the primary drag on net absorption in 2022 to posting modestly positive performance so far in 2023.

Although the demand picture has improved, a wave of deliveries has kept vacancy on a clear trend upward. Over the past 12 months, developers completed 18,000 units in the Valley, outpacing the 9,900 units of net absorption. This imbalance has contributed to metro-wide vacancy increasing from an all-time low of 5.1% in mid-2021 to 10.3% today and caused rents to decline -2.8% over the past year. With the majority of the pipeline focused on high-end luxury properties, rent growth has held up better in the 1 & 2 Star segment, which doesn't directly compete with much of the new supply. These properties have seen rental rates decrease just -0.6%.

Moving forward, the 33,000 units under construction, which represents a sizable 8.7% of total inventory, will continue to pressure fundamentals into 2024. Expectations are for revenue to be flat or modestly positive in the coming year with higher expenses and lower renewal rates softening gains. Construction-heavy submarkets like Downtown Phoenix and Tempe may face a longer road to recovery with supply-side challenges lingering at the top of the quality spectrum.

Although the market has fluctuated considerably over the past few years, the long-term drivers supporting the Valley's multifamily market remain in place. Nation-leading demographic patterns, a growing and diversifying economy, and an attractive quality of life continue to stoke underlying housing demand.

About $1.2 billion traded in 23Q3, marking the first time a quarter didn't have less sales volume than its predecessor in over a year. Though it's an improvement, sales activity remains well below levels seen over the past half-decade as elevated debt costs, tighter underwriting standards, and lower rent growth projections make it difficult for deals to pencil. The resulting period of price discovery has led to an increase in average cap rates of 150 basis points from their recent all-time low, negatively impacting values. Newly delivered assets by merchant developers and those facing a loan maturity may be a source of deal flow over the near term.

Local property managers are reporting a decline in retention rates. This has led many to place increased focus on maintaining occupancy at the expense of higher rents. This "heads in beds" strategy often includes offering concessions at the time of renewal as well as price-matching competitors.

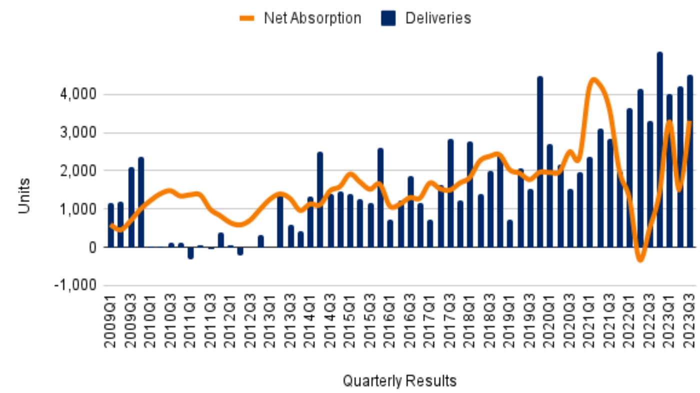
Newly built properties are also getting more competitive with their discounts. About six to eight weeks of free rent is becoming the standard at brand-new luxury properties, particularly in high-construction areas like Downtown Phoenix and Tempe. For example, Moontower Phoenix, a newly built luxury hi-rise in Downtown Phoenix, is offering up to eight weeks of free rent as the property works through lease up. In 2021 when leasing activity was strongest, less than 10% of Phoenix multifamily properties were offering rent discounts. That share has climbed to over 30% as of September.

Although annual rent growth is negative in every Phoenix submarket, some areas have held up better than others. When comparing rents from pre-COVID levels, a clear trend has emerged regarding cost. The Valley's most expensive submarkets, Old Town Scottsdale and North Scottsdale, have seen rents increase about 20% since 19Q4, compared to 25% at the metro level. Conversely, the South East Valley, which has the lowest rents in Phoenix, recorded a cumulative increase of more than 33% during the same time period.

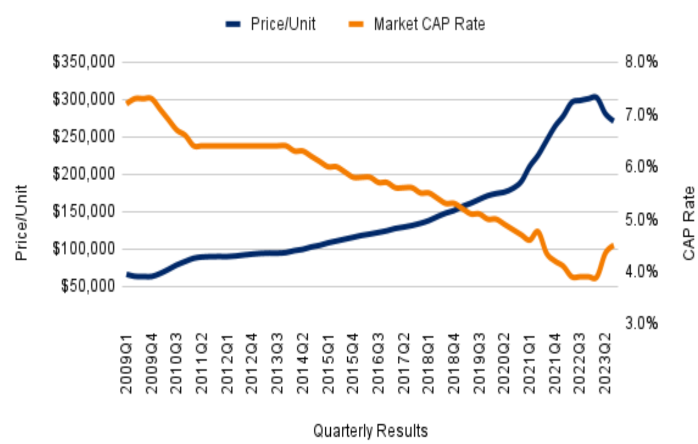
Phoenix continues to be a great place to invest, but like every great race car, eventually, it comes time for a tune-up. Why not reach out to your SVN Advisor today for a portfolio check-up?

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

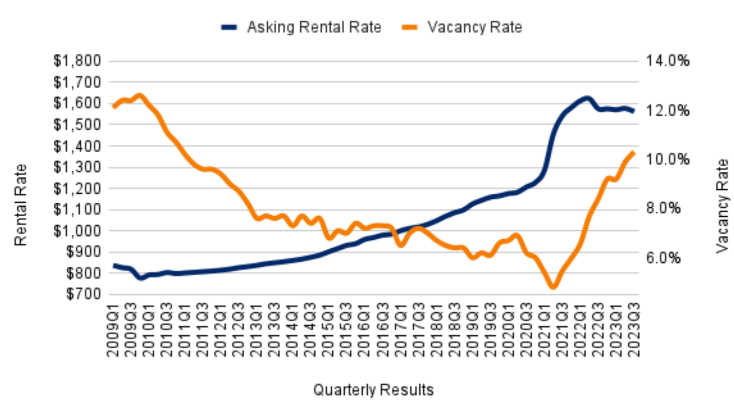
METRO PHOENIX DELIVERIES AND ABSORPTION



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	4.5%
Chandler	7.4%	$1,696	-2.6%	635	1,282	4.2%	400	$317,038	5.0%
North Phoenix	8.2%	$1,375	-2.1%	83	1,536	3.5%	-851	$229,213	4.4%
Camelback	8.7%	$1,479	-3.9%	206	112	1.0%	128	$253,586	4.4%
N Scottsdale	8.7%	$2,145	-0.1%	402	2,132	12.0%	471	$377,564	4.5%
Deer Valley	9.0%	$1,513	-4.2%	1,641	753	2.1%	985	$272,363	4.3%
Tempe	10.1%	$1,591	-3.3%	2,242	3,353	7.3%	1,376	$297,083	4.3%
East Valley	10.3%	$1,451	-3.4%	2,510	3,638	7.9%	1,583	$245,283	4.4%
Gilbert	10.4%	$1,757	-2.6%	749	1,311	8.6%	822	$336,964	4.2%
Downtown Phoenix	11.0%	$1,510	-2.5%	1,612	5,648	14.0%	1,271	$264,681	4.6%
NW Valley	11.5%	$1,472	-1.8%	1,102	2,550	17.0%	873	$243,249	4.3%
South Phoenix	12.5%	$1,586	-1.3%	1,255	1,005	10.8%	822	$271,308	4.5%
SW Valley	13.9%	$1,395	-3.6%	3,409	5,566	11.9%	938	$228,443	4.8%
W Maricopa County	22.2%	$1,692	-1.3%	971	2,184	69.9%	678	$276,150	4.6%
SE Valley	22.3%	$1,360	-1.5%	644	1,112	28.4%	-18	$124,121	5.5%
Total	10.3%	$1,562	-0.8%	17,855	32,561	13.4%	9,497	$271,000	4.5%

PHOENIX METRO RENTS

Asset Class	September'22	September'23	Inc $$	% Change
Discretionary	$2,052	$2,003	-$58	-2.81%
Upper Mid-Range	$1,841	$1,799	-$60	-3.23%
Low Mid-range	$1,519	$1,456	-$63	-4.15%
Workforce - Upper	$1,305	$1,287	-$18	-1.38%
Workforce - Lower	$1,177	$1,181	$4	0.34%
Totals	$1,715	$1,674	-$41	-2.39%

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

NOTABLE TRANSACTIONS & MARKET STATS

10-99 UNITS

	Q3 2022	Q3 2023	Inc/Dec
Total Sales Volume	$345,589,222	$122,606,000	-65.0%
Avg Price/Unit	$313,317.52	$256,497.91	-18.0%
Avg Price/SF	$304.54	$290.46	-5.0%

100+ UNITS

	Q3 2022	Q3 2023	Inc/Dec
Total Sales Volume	$2,348,371,000	$715,945,000	-70.0%
Avg Price/Unit	$317,305	$259,213	-18.0%
Avg Price/SF	$365.55	$294.41	-19.0%

10-99 UNITS

VILLAGE CROSSING AT BROADWAY

3165 E Broadway Rd., Mesa, AZ 85204

Sale Date : 09/26/2023
Sale Price : $14,928,000
Price/Unit : $414,667
RBA : 50,000 SF

Size : 36 Units
Unit Mix : 36 - 3B
Year Built : 2022

FARMER TOWNHOMES

410 W 7th St., Tempe, AZ 85281

Sale Date : 08/30/2023
Sale Price : $7,500,000
Price/Unit : $331.13
RBA : 22,650 SF

Size : 15 Units
Unit Mix : 15- 2B
Year Built : 2023

LINQ AT SOUTH MOUNTAIN

1700 E Baseline Rd., Phoenix, AZ 85042

Sale Date : 07/31/2023
Sale Price : $27,200,000
Price/Unit : $340,000
RBA : 88,476 SF

Size : 80 Units
Unit Mix : 24 - 1B | 41 - 2B | 15 - 3B
Year Built : 2023

100+ UNITS

MOUNTAIN PARK RANCH

4221 E Ray Rd., Phoenix, AZ 85044

Sale Date : 02/17/2023
Sale Price : $70,015,000
Price/Unit : $291,729
RBA : 230,660 SF

Size : 240 Units
Unit Mix : 72 - 1B | 118 - 2B | 50 - 3B
Year Built : 2094

PILLAR AT FOUNTAIN HILLS

16550 E Avenue of the Fountains., Fountain Hills, AZ 85268

Sale Date : 02/24/2023
Sale Price : $68,300,000
Price/Unit : $464,626
RBA : 100,000 SF

Size : 147 Units
Unit Mix : 47 - 1B | 86 - 2B | 14 - 3B
Year Built : 2022

IRONWOOD AT HAPPY VALLEY

24025 23rd Ave., Phoenix, AZ 85085

Sale Date : 03/03/2023
Sale Price : $90,280,000
Price/Unit : $305,000
RBA : 296,000 SF

Size : 296 Units
Unit Mix : 42 - Studio | 96 -1B | 134 - 2B | 24 - 3B
Year Built : 2021

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