



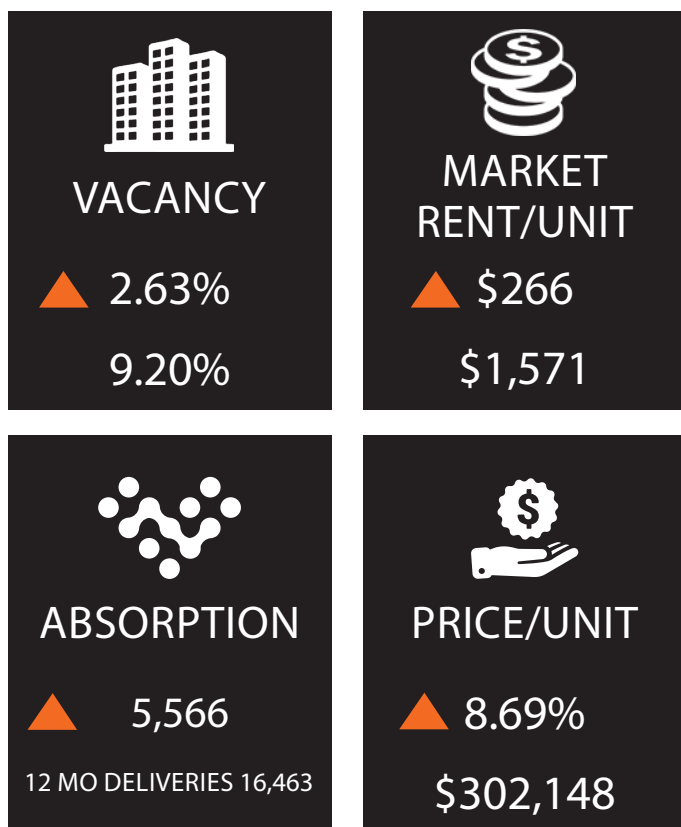
1Q2023 METRO PHOENIX MULTIFAMILY NEWSLETTER

CONTACT INFORMATION

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METRO PHOENIX MULTIFAMILY OVERVIEW

YEAR-OVER-YEAR



ECONOMIC HIGHLIGHTS

Employment Data (YOY)		
▶ 3.50% Unemployment Rate (USA)		-0.10%
▶ 2.90% Unemployment Rate (Metro PHX)		-0.10%
▶ 2.553MM Employed Residents (Metro PHX)		
Metro PHX Housing Trends (YOY)		
▶ \$419,000 Median Home Price		-8.70%
▶ 7,417 Closed Transactions		-22.10%
▶ 77 Days on Market		+45 Days
▶ 2.28 Months of Supply		+1.39 Months
10-Year Treasury		
▶ 3.48% as of 03/31/2023		
▶ +1.16% YOY -0.44% MOM		

Momentum has shifted in the Phoenix apartment market as the area transitions from being one of the hottest multifamily metros in the country during the pandemic, to facing substantial challenges today. Starting in late 2021, the surge in multifamily demand that drove unprecedented performance in the prior 18 months began to evaporate as potential renter households buckled under the weight of high inflation and economic uncertainty. The slowdown in rental demand came just as new supply was ramping up, an imbalance that sent vacancy rates soaring and rent growth negative. Moving forward, Phoenix has yet to feel the full impact of the current pipeline, and the market is expected to see further dislocation over the near term as new supply is digested.

Just 6,800 units of net absorption took place over the past 12 months, coming up well short of the 16,000 new units delivered. This supply and demand disconnect caused vacancy to climb from an all-time low of 5.1% in mid-2021 to 9.2% today, the highest level in a decade. Additionally, Phoenix's annual rent growth has sharply decelerated and recently turned negative, at -2.3%, a far cry from the more than 20% gains seen during its peak.

The supply waves will continue as about 35,000 units are currently underway, the majority of which is for luxury product. The focus by developers to build high-end properties is disproportionately impacting fundamentals in the 4 & 5 Star segment, especially in supply-heavy areas like Downtown Phoenix and Tempe. Indications from local property managers are that concessions of about six to eight weeks of free rent have become the norm at newly delivered complexes as competition at the top of the renter pool intensifies.

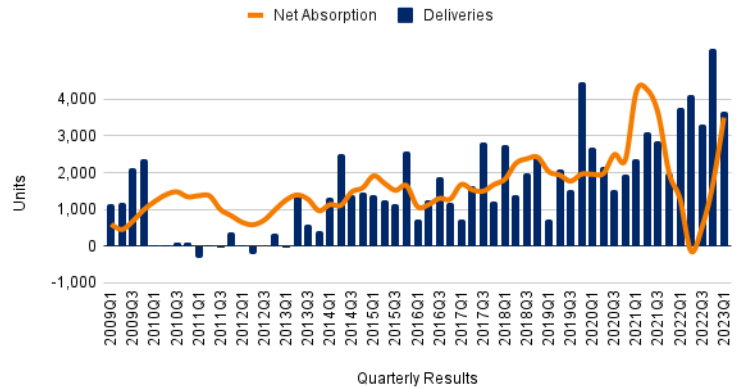
Although the current landscape is quite dour compared to where the market was just a few years ago, there are some signs of optimism heading into the key spring leasing season. Net absorption posted its strongest quarter in the past 18 months in 23Q1, and CoStar's daily asking rent series suggests that the decline in rental rates has bottomed out. Additionally, the long-term drivers that supported the outstanding apartment performance during the post-COVID boom are still in place. Phoenix's healthy job market and robust demographics will continue to strengthen underlying rental demand over the long term. The unaffordability of the for-sale housing

market will also play a role, as high prices and elevated mortgage rates force some would-be homeowners into the renter pool. To fill this niche, developers have increased the construction of single-family built-to-rent product, an emerging trend worth monitoring.

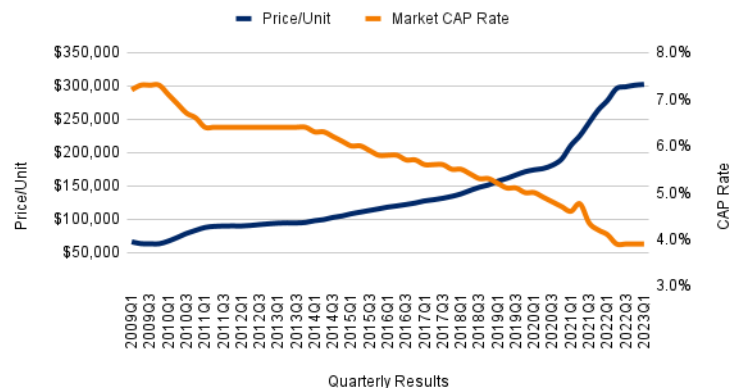
Elevated interest rates and softening property performance have had a noticeable impact on sales volume. About \$782 million worth of Phoenix apartments traded hands in the opening three months of 2023, one of the weakest quarters in the past five years. Buyers are contending with dramatically higher debt costs and are underwriting to lower rent growth assumptions, which is making it difficult for deals to pencil. Sellers, meanwhile, have not shown a great deal of urgency to voluntarily dispose of assets if they cannot achieve outsize pricing. As a result, the current investment climate is in a holding pattern, which may not be resolved until greater clarity emerges on the future of monetary policy or loans on existing properties come due. Additionally, apartment values, which were climbing rapidly in 2020-21, have begun to decline and cap rates have risen 75 to 100 basis points.

Downtown Phoenix has been a major area of focus for development, comprising about 15% of the current construction pipeline. The region is in the midst of a dramatic revitalization that has reshaped the submarket into a premier destination for young professionals. Roosevelt Row, in particular, has emerged as a walkable, urban residential district with numerous bars, restaurants, entertainment options, and boutiques. Multifamily builders have reshaped the Phoenix skyline, erecting luxury high-rise apartments that command steep rents. Construction is nearing completion on Skye on 6th, a 26-story apartment complex off Roosevelt Street that will consist of 309 units. Within a 1-mile radius of the apartment complex, development is underway on several other luxury multifamily projects that will bring thousands of units to the area including Saiya (389 units), Moontower PHX (326 units), PALMtower (334 units), and AVE Phoenix Sky (254 units). The abundance of high-end deliveries in Downtown Phoenix will test the submarket in the coming quarters, particularly in the 4 & 5 Star segment.

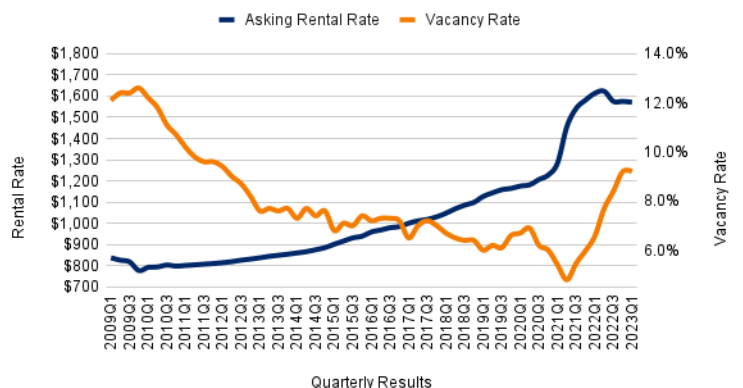
METRO PHOENIX DELIVERIES AND ABSORPTION



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	Sale Price/ Unit	Market Cap Rate
North Phoenix	6.70%	\$1,402	-0.5%	85	2,006	4.8%	-516	\$261,991	3.9%
Chandler	7.10%	\$1,723	-3.8%	624	1,742	5.8%	16	\$352,404	3.7%
Old Town Scottsdale	8.10%	\$1,910	-2.2%	472	379	2.8%	320	\$378,740	4.0%
North Scottsdale	8.40%	\$2,117	-1.4%	479	1,943	10.9%	809	\$421,193	3.8%
Deer Valley	8.80%	\$1,568	-2.8%	1,686	995	2.9%	601	\$310,757	3.7%
Camelback	10.10%	\$1,468	-3.2%	171	143	1.3%	-177	\$279,283	4.2%
South West Valley	10.40%	\$1,402	-2.7%	2,851	4,961	11.0%	896	\$256,193	3.8%
North West Valley	10.60%	\$1,494	-1.3%	1,149	2,208	15.3%	726	\$278,129	3.7%
South Phoenix	13.30%	\$1,562	-1.8%	934	1,342	15.5%	245	\$301,157	3.9%
Total Phoenix Metro	9.20%	\$1,571	-1.9%	8,451	15,719	7.2%	2,920	\$302,148	3.9%

PHOENIX METRO RENTS

Asset Class	March'22	March'23	Inc \$\$	% Change
Discretionary	\$2,066	\$2,013	-\$53	-2.57%
Upper Mid-Range	\$1,834	\$1,796	-\$38	-2.07%
Low Mid-range	\$1,491	\$1,456	-\$36	-2.41%
Workforce - Upper	\$1,256	\$1,289	\$33	2.63%
Workforce - Lower	\$1,115	\$1,182	\$67	6.01%
Totals	\$1,687	\$1,670	-\$17	-1.01%

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

NOTABLE TRANSACTIONS & MARKET STATS

10-99 UNITS

	Q1 2022	Q1 2023	Inc/Dec
Total Sales Volume	\$476,938,854	\$71,802,000	-84.9%
Avg Price/Unit	\$237,519	\$227,222	-4.3%
Avg Price/SF	\$265	\$271	2.4%
Avg Year Built	1970	1975	

100+ UNITS

	Q1 2022	Q1 2023	Inc/Dec
Total Sales Volume	\$2,512,695,000	\$715,945,000	-71.5%
Avg Price/Unit	\$313,382	\$259,213	-17.3%
Avg Price/SF	\$344	\$291	-15.3%
Avg Year Built	1991	1995	

10-99 UNITS

SUNSET AT HOME

150 S Home, Mesa, AZ 85204

Sale Date : 02/24/2023 Size : 10 Units
 Sale Price : \$4,250,000 Unit Mix : 10 - 4B
 Price/Unit : \$425,000 Year Built : 2022
 RBA : 22,000 SF



ADELIA

6821 N 45th Ave., Glendale, AZ 85301

Sale Date : 01/13/2023 Size : 28 Units
 Sale Price : \$7,950,000 Unit Mix : 28 - 2BR
 Price/Unit : \$283,929 Year Built : 1965
 RBA : 22,400 SF



LOS PORTICOS

1221 N 85th Pl., Scottsdale, AZ 85257

Sale Date : 01/05/2023 Size : 24 Units
 Sale Price : \$8,000,000 Unit Mix : 8 - 1BR | 16 - 2BR
 Price/Unit : \$333,333 Year Built : 1984
 RBA : 18,800 SF



100+ UNITS

TEMPE STATION

2323 E Apache Blvd., Tempe, AZ 85281

Sale Date : 03/15/2023 Size : 400 Units
 Sale Price : \$110,000,000 Unit Mix : 192 - 1B | 132 - 2B | 76 - 3B
 Price/Unit : \$275,000 Year Built : 2000
 RBA : 422,764 SF



PILLAR AT FOUNTAIN HILLS

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

Sale Date : 02/24/2023 Size : 147 Units
 Sale Price : \$68,300,000 Unit Mix : 47 - 1B | 86 - 2B | 14 - 3B
 Price/Unit : \$464,626 Year Built : 2022
 RBA : 100,000 SF



RISE ON MCCLINTOCK

2045 S McClintock Dr., Tempe, AZ 85282

Sale Date : 01/31/2023 Size : 112 Units
 Sale Price : \$26,500,000 Unit Mix : 30 - 1B | 82 - 2B
 Price/Unit : \$236,607 Year Built : 1980
 RBA : 90,490 SF



