



PHOENIX MSA | MULTIFAMILY | YE 2018 REPORT

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10+ UNIT PROPERTIES	YE 2018	INCREASE/DECREASE	YE 2017
Total Sales Volume	\$6.5B	+34%	\$4.9B
AVERAGE	Price/Unit	\$145,350 +25%	\$116,300
	Price/SF	\$176.15 +25%	\$140.88
	Year Built	1978 NO CHANGE	1978
10+	Average Rent	\$1,072 +6.3%	\$1,008
	Occupancy Rate	95.2% +0.3%	94.9%
	Units Delivered	8,118 +4%	7,785

4,737,270 **POPULATION**
CENSUS
^ +2.0%

4.5%
^ +0.6%
UNEMPLOYMENT
AS OF DECEMBER 2018 - BLS

+3.7%
EMPLOYMENT GROWTH
Y-O-Y AS OF DECEMBER 2018 - BLS

\$55,547
^ +4.1%
MEDIAN HH INCOME
CENSUS

\$43,249
^ +2.4%
PER CAPITA INCOME
CENSUS

ABI GEONEWS: PHOENIX MSA - YE 2018 SELECT NEWS

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Allstate Plans to Hire 2500 in Chandler; May Build Corporate Campus



Chandler Council Approves City's First Banner Health Hospital, to Employ 650 People Upon Completion



NY-Based, Voya Financial, to Open New Phoenix Office, Temp Office in North Tempe, Hire 1,000







14,451
Units (50+)

UNDER CONSTRUCTION

369,523
Units (10+)

TOTAL INVENTORY
AS OF DECEMBER 2018

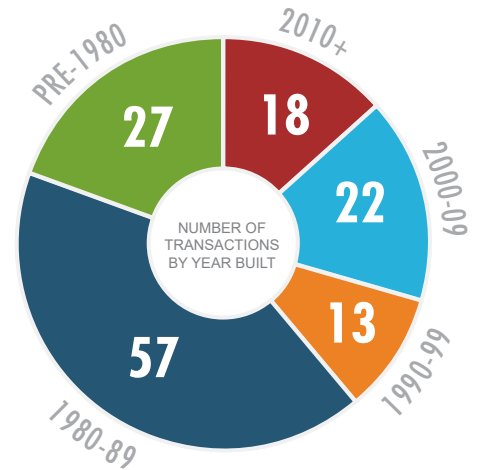
PHOENIX MSA - PER CITY ANALYSIS

PHOENIX MSA QUICK STATS		UNEMPLOYMENT RATE	MEDIAN HH INCOME	PER CAPITA INCOME	50+	
					TOTAL INVENTORY	UNDER CONSTRUCTION
	Phoenix MSA	4.5%	\$55,547	\$43,249	312,565	14,451
	Phoenix	3.5%	\$52,080	\$31,777	134,308	6,361
	Mesa	3.4%	\$52,155	\$26,535	39,576	568
	Scottsdale	2.8%	\$80,306	\$56,794	27,429	1,382
	Tempe	3.1%	\$51,829	\$28,602	33,694	2,980
	Glendale	3.5%	\$49,383	\$23,496	22,895	657

PHOENIX MSA - PER CITY ANALYSIS		Phoenix	Mesa	Scottsdale	Tempe	Glendale
RENT & OCCUPANCY STATS	Average Rent (YE 2018)	\$986	\$951	\$1,377	\$1,279	\$911
	% Change (y-o-y)	+6.4%	+6.4%	+5.3%	+5.0%	+6.7%
	Occupancy Rate (YE 2018)	95.1%	95.7%	95.1%	94.6%	95.9%
	% Change (y-o-y)	+0.4%	+0.2%	+0.6%	+0.1%	+0.5%
	Units Delivered (YE 2018, 50+)	681	--	432	--	--
SALES DATA (100+)	Total Sales Volume (YE 2018, 100+)	\$2,266,566,306	\$487,520,000	\$281,350,000	\$1,325,107,598	\$320,199,119
	Total Sales Volume (YE 2017, 100+)	\$1,710,631,379	\$700,970,716	\$345,250,000	\$571,670,000	\$338,016,500
	% Change (y-o-y)	+32%	-30%	-19%	+132%	-5%
	Avg P/U (YE 2018, 100+)	\$140,833	\$131,336	\$179,547	\$188,226	\$107,594
	Avg P/U (YE 2017, 100+)	\$109,340	\$106,725	\$192,233	\$131,328	\$101,506
	% Change (y-o-y)	+29%	+23%	-7%	+43%	+6%
SALES DATA (10-99)	Total Sales Volume (YE 2018, 10-99)	\$390,340,838	\$46,831,500	\$54,915,000	\$75,397,800	\$49,030,000
	Total Sales Volume (YE 2017, 10-99)	\$303,221,581	\$56,885,900	\$22,400,000	\$61,607,000	\$22,890,000
	% Change (y-o-y)	+29%	-18%	+145%	+22%	+114%
	Avg P/U (YE 2018, 10-99)	\$90,148	\$103,610	\$155,127	\$139,110	\$126,041
	Avg P/U (YE 2017, 10-99)	\$83,624	\$75,346	\$122,404	\$154,018	\$59,765
	% Change (y-o-y)	+8%	+38%	+27%	-10%	+111%

100+ UNIT MULTIFAMILY PROPERTY ANALYSIS

	YE 2018	INCREASE/DECREASE	YE 2017
Total Sales Volume	\$5.86B	+34%	\$4.38B
AVERAGE Price/Unit	\$153,058	+26%	\$121,160
AVERAGE Price/SF	\$183.83	+26%	\$145.46
AVERAGE Year Built	1990	+1 yr	1989



TOP 3 TRANSACTIONS BY PRICE/UNIT (100+)



The District on Apache (Student)

Tempe, 279 Units | \$158,081,449
\$566,600/Unit | \$432.83/SF | Built 2013

The Cottages of Tempe (Student)

Tempe, 159 Units | \$75,000,000
\$471,698/Unit | \$266.62/SF | Built 2015

Citrine

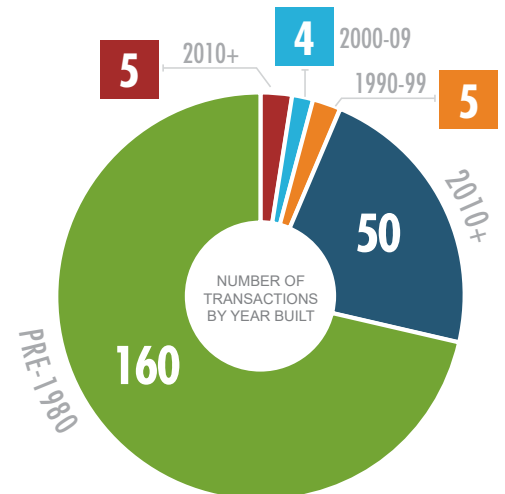
Phoenix, 312 Units | \$99,078,564
\$317,560/Unit | \$329.15/SF | Built 2016

YE 2018 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	18	\$268K	\$275
2000-09	22	\$177K	\$191
1990-99	13	\$178K	\$186
1980-89	57	\$124K	\$155
Pre-1980	27	\$102K	\$155

10 - 99 UNIT MULTIFAMILY PROPERTY ANALYSIS

	YE 2018	INCREASE/DECREASE	YE 2017
Total Sales Volume	\$670M	+37%	\$490M
AVERAGE Price/Unit	\$100,798	+18%	\$85,590
AVERAGE Price/SF	\$128.00	+16%	\$110.15
AVERAGE Year Built	1970	NO CHANGE	1970



TOP 3 TRANSACTIONS BY PRICE/UNIT (10-99)



Equinox

Scottsdale, 41 Units | \$11,600,000
\$282,927/Unit | \$269.56/SF | Built 2016

The Grove on Palm

Phoenix, 42 Units | \$11,350,000
\$270,238/Unit | \$150.61/SF | Built 2017

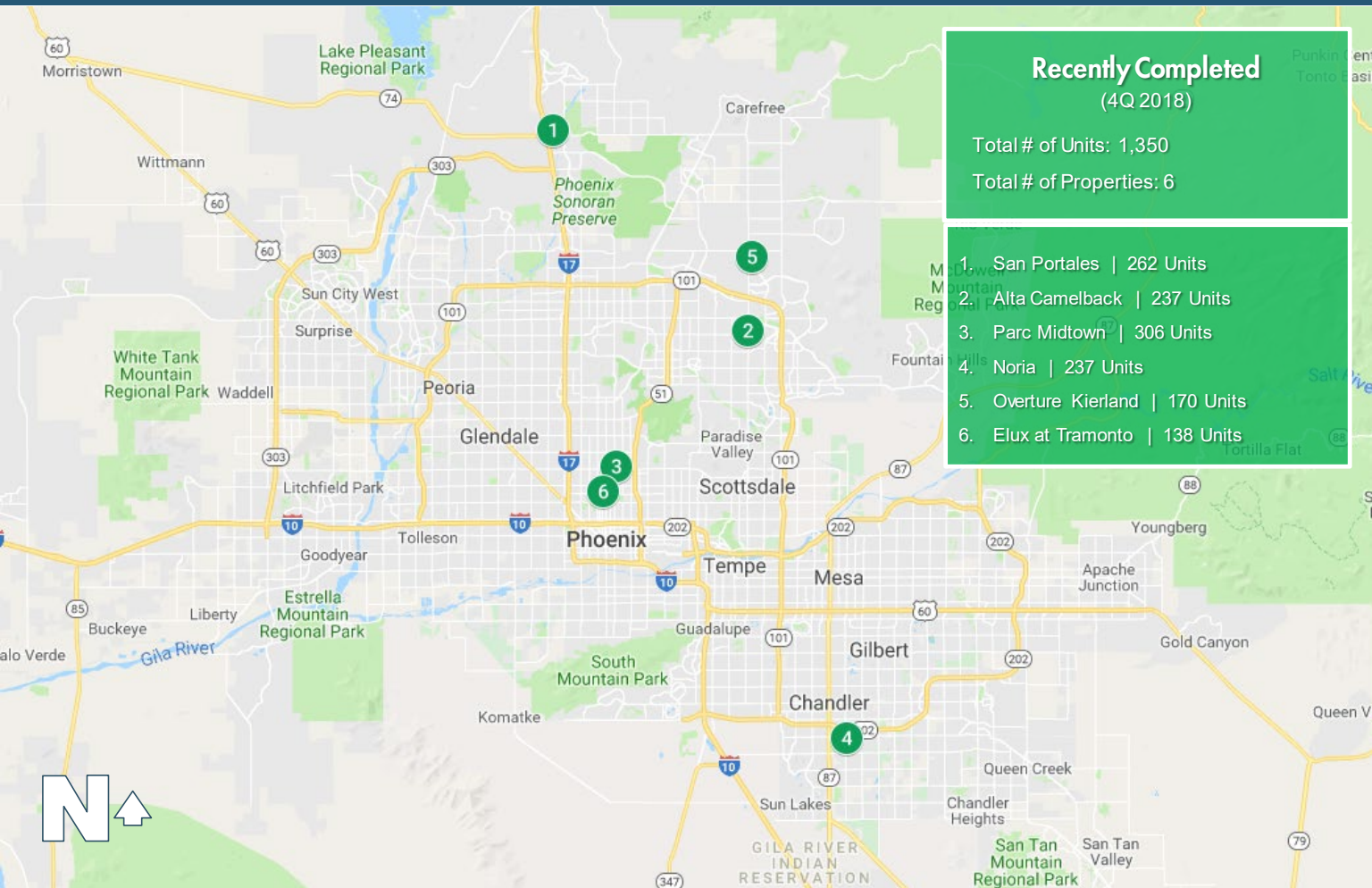
Sanctuary at Alta Mesa (Bulk SFR)

Mesa, 31 Units | \$8,200,000
\$264,516/Unit | \$120/SF | Built 2018

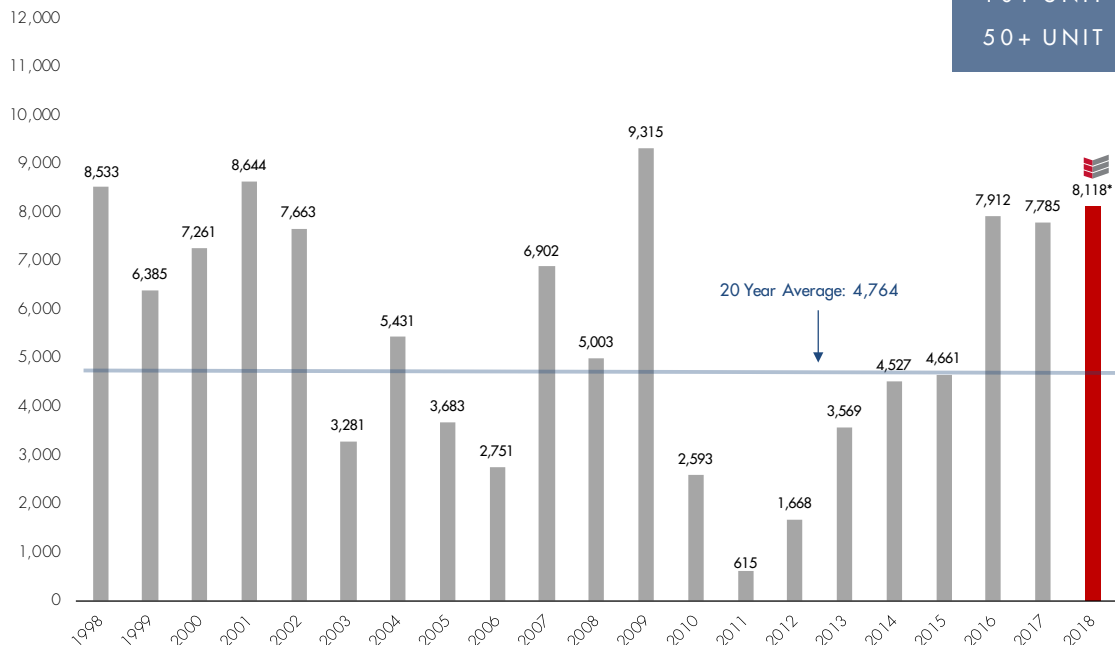
YE 2018 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	5	\$247K	\$171
2000-09	4	\$163K	\$138
1990-99	5	\$57K	\$86
1980-89	50	\$87K	\$117
Pre-1980	160	\$94K	\$129

COMPLETED CONSTRUCTION



PHOENIX MULTIFAMILY CONSTRUCTION PIPELINE YEAR END 2018



* Project Units Delivered. Project units delivered is based on when the total project is completed, not as individual buildings/units are delivered

TOTAL UNIT INVENTORY

10+ UNIT PROPERTIES: **369,523**

50+ UNIT PROPERTIES: **312,565**

PRE-LEASE ABSORPTION RATE

15

Units/Property/Month (2018 Avg)

Under Construction

Total # of Units: 14,451

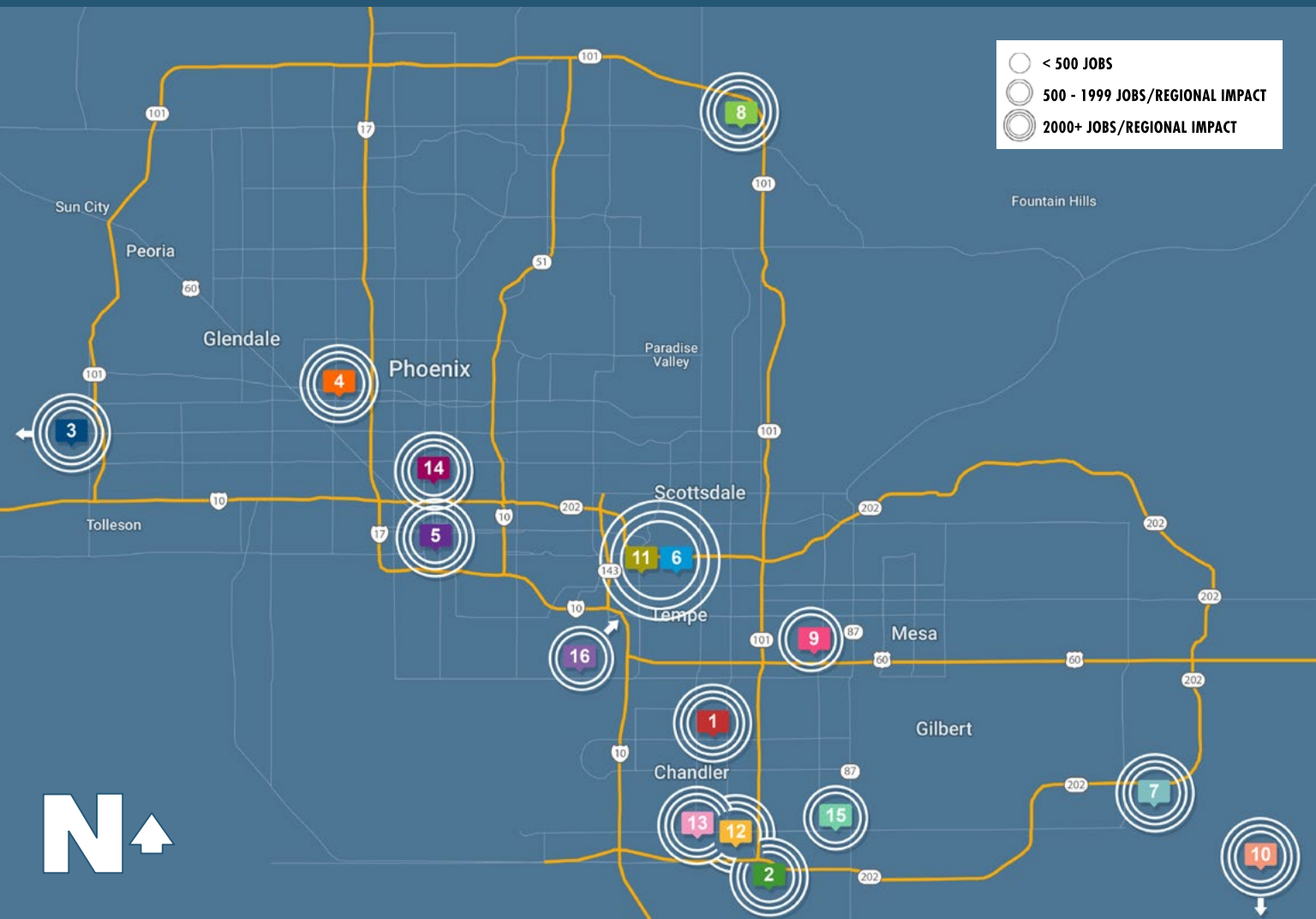
Total # of Properties: 60

Planned

Total # of Units: 17,607

Total # of Properties: 81

ABI GEONEWS: PHOENIX MSA - YE 2018 SELECT NEWS



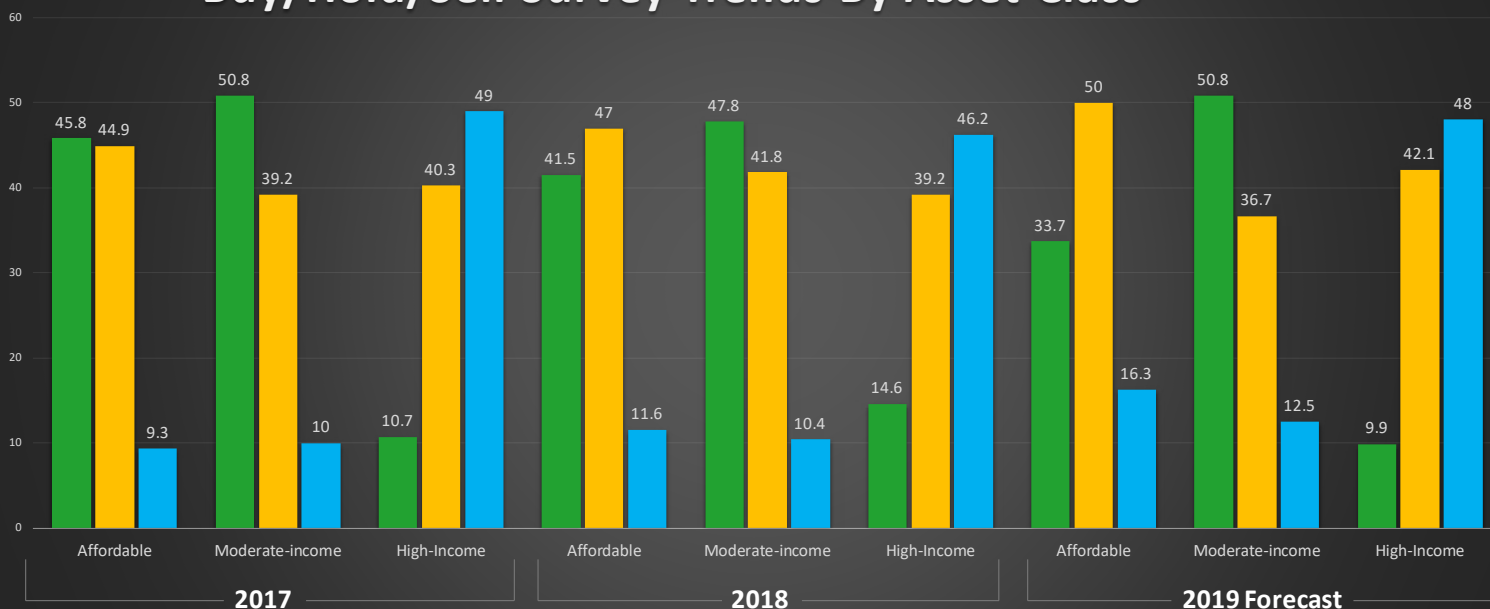
- 1** Northern Trust | Opening \$95M regional operations center in Tempe | Hiring 1,000
- 2** Wells Fargo opening new regional office in Price Corridor to bring 1,200 jobs, Liberty Mutual opening new office to bring 750 jobs
- 3** New UPS Hub to add processing capacity for e-commerce, add 1,500 jobs at Goodyear PV303
- 4** GCU continues massive campus expansion | 3,000+ employees and 14,000+ students expected by 2020
- 5** Quicken Loans finalizes deal to move 1,100-plus jobs to Downtown Phoenix
- 6** State Farm Regional Headquarters: Brings total State Farm Phoenix area employment to 3,000+
- 7** SkyBridge Arizona, nation's first international air cargo hub to house both Mexican and United States customs, expected to create 17,000 new jobs
- 8** Nationwide Insurance development opens 1,000 acres of desert to growth including 5,500 new jobs
- 9** Santander Consumer USA to hire 1,000+ workers for new regional operations center in Mesa's Fiesta District with avg salary of \$51,000
- 10** Nikola to build hybrid semi-truck manufacturing plant in Coolidge, as a result of Anheuser-Busch pre-order, to employ up to 2,000
- 11** New ADP office to bring 1,500 jobs to Tempe, AZ
- 12** Allstate plans to hire 2500 in Chandler; may build corporate campus
- 13** Intel to invest \$7 billion in new factory in Chandler, employ 3,000 workers
- 14** Creighton University to build \$150M medical school in midtown Phoenix
- 15** Chandler council approves city's first Banner Health hospital, to employ 650 people upon completion
- 16** NY-based, Voya Financial, to open new Phoenix office, temp office in North Tempe, hire 1,000

BY: ROLAND MURPHY, DIRECTOR OF RESEARCH

2019 FORECAST: PLUS ÇA CHANGE, PLUS C'EST LA MÊME CHOSE

Buy/Hold/Sell Survey Trends By Asset Class

■ Buy ■ Hold ■ Sell



Buy/Hold/Sell recommendations for multifamily properties for 2017, 2018, 2019. Data provided by PricewaterhouseCoopers/Urban Land Institute "Emerging Trends in Real Estate®"

In the acclaimed sci-fi novel *Time Enough* for Love, Robert A. Heinlein told us, "A fake fortuneteller can be tolerated. But an authentic soothsayer should be shot on sight." Thus, we have a pretty fair overview of the multifamily development world, at least as far as affordable assets are concerned.

Economists and market mystics across the board are pretty much all saying to expect 2019 to look a lot like 2018, with a slight cooling trend as we head into a relatively minor downturn in late 2020-early 2021.

Interestingly, in late 2017 and early 2018, many of these same crystal ball gazers were expecting the downturn to start late this year, but some foreseen events on the global and domestic economic fronts didn't happen while some unforeseen ones did.

Phoenix Market Metrics: *By the Numbers*

The Phoenix MSA had a great 4Q and an

outstanding 2018 overall. For 10-99 unit properties, 4Q saw \$166M in transaction volume. For the entire year, 10-99 volume was \$670M, a 37% Year-over-Year increase from 2017. In the 100+ unit category, 4Q took in \$1.65B. Year-end totals in 100+ were \$5.86B, a 34% jump over 2017.

Average Price-Per-Unit amounts increased as well, rising 18% to \$100,798 for 10-99 units, and 26% to \$153,058 for 100+. These translated to an Average Price/SF of \$128.00 in 10-99 (up 16%) and \$183.83 (up 26%) in 100+.

Inventory age stayed consistent, with Average Year Built for 10-99 being 1970. For 100+, things got one year newer than the year before, with an Average Year Built of 1990 across the MSA.

The MSA's occupancy rate remained high. 4Q occupancy for 10+ units was 95.3%, making for a year-end of 95.2%, an increase of 0.3% y-o-y. 4Q average rent was \$1,083, for a year-end average of \$1,072, up \$64 from 2017.

Phoenix MSA demographics continued their upward trends. The Census estimate of total population was 4,737,270, up 2% y-o-y. The unemployment rate finished at 4.5%, according to December's Bureau of Labor Statistics numbers.

Median Household Income increased to \$55,547, a positive change of 4.1%. Per Capita Income nosed upward to \$43,249, up 2.4%

In the realm of new construction, 1,350 units were delivered in 4Q, for a total project unit delivery of 8,118 in 2018. Earlier projections had targeted 9,000+ new units, but, while few projects were canceled, several encountered various production delays. As of year-end, 50+ unit construction projections show 17,607 total units in the planning stages across a total of 81 properties. A total of 14,451 units were listed as Under Construction in 60 properties.

Pre-lease absorption rates are still high across the region at a rate of 15 units/

BY: ROLAND MURPHY, DIRECTOR OF RESEARCH

property/month.

Across the MSA, year-end inventories by city were:

- Phoenix: 134,308
- Mesa: 39,576
- Tempe: 33,694
- Scottsdale: 27,429
- Glendale: 22,895

Past Meets Present, Yields Future

There's a view among many classical scholars that prophecy in ancient cultures was more of an allegorical way to explain current trends' near-term impacts, rather than predicting any kind of distant future. The last few years' worth of forecasts would seem to bear that view out, particularly in terms of the ongoing fears of oversupply in Class A and the market distortions of pent-up affordable and workforce availability that's going unaddressed.

While its spectacular rate of in-migration and job growth make Phoenix an outlier in some ways, it's from the edges we can often gain the best view of the middle. A June 2017 CoStar report pointed out 3 Star properties were gaining on top tier assets. "As of May, 4 and 5 Star multifamily properties were trading at roughly an 87% premium over 3 Star assets in Phoenix, a significant drop from the price premium observed in the years immediately following the recession when 4 and 5 properties traded at prices that were 200% higher than those for 3 Star properties."

Also, in mid-2017, the National Multifamily Housing Council and National Apartment Association released a report prepared by Hoyt Advisory Services, Dinn Focused Marketing, Inc. and Whitegate Real Estate Advisors, LLC entitled, "U.S. Apartment Demand — A Forward Look." This was the introductory salvo to the currently accepted prediction: "We need to build

4.6M units by 2030 to meet demand."

Nationally in 2017, we did pretty well from a raw number standpoint, hitting in the neighborhood of 319,000 units delivered, according to RentCafé. 2018 estimates dropped, however, down an estimated 11% to a mere 283,000.

Of course, when you look past the raw numbers, a less rosy but more detailed picture emerges. According to a Sept. 2018 RentCafé analysis, there were 80,000 large multifamily projects in development around the nation. However, 80% of the projected units were on the luxury end of the spectrum. That number jumps to 88% in the Southwest.

That's a great snapshot of the "Affordability Crisis." Unfortunately, "Crisis" is a hyperbolic term so overused as to actually diminish its impact. When everything is a crisis, nothing is a crisis, and [Cassandra](#) gets ignored.

Comparing the PricewaterhouseCoopers/Urban Land Institute "Emerging Trends in Real Estate®" reports for 2017, 2018 and 2019, the Buy/Hold/Sell surveys for multifamily can justify every mindset from The Glass is Half-Full to The Glass is Half-Empty to The Glass is Unnecessarily Large.

Half-full says we've known about all these conditions for some time and nobody's panicking.

Half-empty says we've known about these conditions for some time and haven't done much to either counter or take advantage of them.

Glass unnecessarily large says investors are more focused on warehouse/fulfillment/distribution anyway.

Looking at those three years of survey results provides some context for the most common worry I hear from our brokers: "I've got buyers around the block. Find me sellers!"

What's interesting, particularly in the 2019 report, is where the classes fall on the Investment Prospects and Development

Prospects rankings. Moderate income/workforce apartments rank fourth on the Investment list and fifth on Development. Affordable is #6 in Investment, #9 in development.

High income apartments are 17th on both prospect lists, out of 24 total categories. For reference, 22-24 on both are outlet centers, power centers and regional malls.

Now that it seems we're moving from warning bells to actual market impacts resulting from the over-focus on luxury properties, or, more correctly, the under-focus on anything else, we may expect to actually see some movement. Several single-family builders have started to shift part of their focus to workforce-affordable. Multifamily builders will likely follow suit to keep their appeal up and option streams open.

On the upside, there's still a healthy volume of capital available both to build and to buy. While it's great that banks are much more disciplined now than they were 15 years ago, the downside is that financing — particularly on the development side — has gotten more complex and cumbersome. Combine that with rising materials, labor and land costs, and we see the ongoing lengthening of development timelines, with no breakthroughs in sight for the foreseeable future.

A Feb. 1 GlobeSt column by Capital One Multifamily Finance President Jeff Lee summed things up nicely, saying, "Higher interest rates — combined with excess supply in some cities and flatter rent growth — suggest that valuations will not continue their upward climb. At the same time, there is no indication that sellers are ready to lower their prices," which reflects both the predictions and the predicaments of the past few years in a pithy nutshell.

Back in 1849 when [Alphonse Karr](#) said, "The more it changes, the more it's the same thing," (sounding much cooler and more profound in the original French...) it wouldn't have taken Cassandra to see he had hit on something universal.

ABI COMPARATIVE MARKET REVIEW: YE 2018



PHOENIX

TUCSON

SACRAMENTO

SAN DIEGO

DEMOGRAPHICS

RENT/OCC/CONST (50+)

SALES (50+)

Total Population	4,737,270	1,026,099	2,296,418	3,317,749
Unemployment Rate (as of Dec '18)	4.5%	4.2%	3.5%	3.2%
Employment Growth (y-o-y)	3.7%	3.1%	1.5%	1.9%
Median HH Income	\$55,547	\$46,764	\$62,813	\$66,529
Per Capita Income	\$43,249	\$39,541	\$51,370	\$55,168
Rent (YE 2018)	\$1,072	\$839	\$1,437	\$1,925
% Increase / Decrease	+6.3%	+4.2%	+5.5%	+5.0%
Occupancy (YE 2018)	95.2%	94.4%	96.3%	96.5%
% Increase / Decrease	+0.3%	+0.3%	-0.6%	-0.1%
Total Inventory (50+)	312,565	68,754	129,486	191,375
Total Under Construction (50+)	14,451	803	2,725	9,514
Units Delivered (50+, YE 2018)	8,118	50	1,367	3,497
Total Sales Volume (YE 2018)	\$6.16B	\$897M	\$1.25B	\$1.24B
y-o-y % Increase / Decrease	+36%	+47%	+44%	-32%
Average P/U (YE 2018)	\$149,097	\$91,993	\$157,871	\$253,451
y-o-y % Increase / Decrease	+26%	+40%	-4%	-4%

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NOTABLE RECENT ABI MULTIFAMILY TRANSACTIONS

100+ UNIT PROPERTIES

10-99 UNIT PROPERTIES



AVANTE

6161 West McDowell Road
Phoenix, AZ 85035

Price: \$51,500,000
Units: 428
Year Built: 1999

SANCTUARY ON 22ND

8530 North 22nd Ave
Phoenix, AZ 85021

Price: \$31,827,500
Units: 266
Year Built: 1985

EL DORADO

6825 East 4th Street
Scottsdale, AZ 85251

Price: \$5,780,000
Units: 33
Year Built: 1960

LA PATIO APARTMENTS

3109 North 36th Street
Phoenix, AZ 85018

Price: \$2,525,000
Units: 48 of 166
Year Built: 1973

APARTMENT BROKERAGE & ADVISORY FIRM

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