

PHOENIX, AZ MULTIFAMILY REPORT

2023 | MIDYEAR

BERKADIA[®]
INSTITUTIONAL SOLUTIONS



Jobs Added / Lost

LAST 12 MONTHS

45,600

↑ 2.0%

NEXT 12 MONTHS*

26,000

↑ 1.1%

Unemployment

MIDYEAR 2023

3.3%

↓ 10 BPS YOY

MIDYEAR 2024*

4.1%

↑ 80 BPS YOY

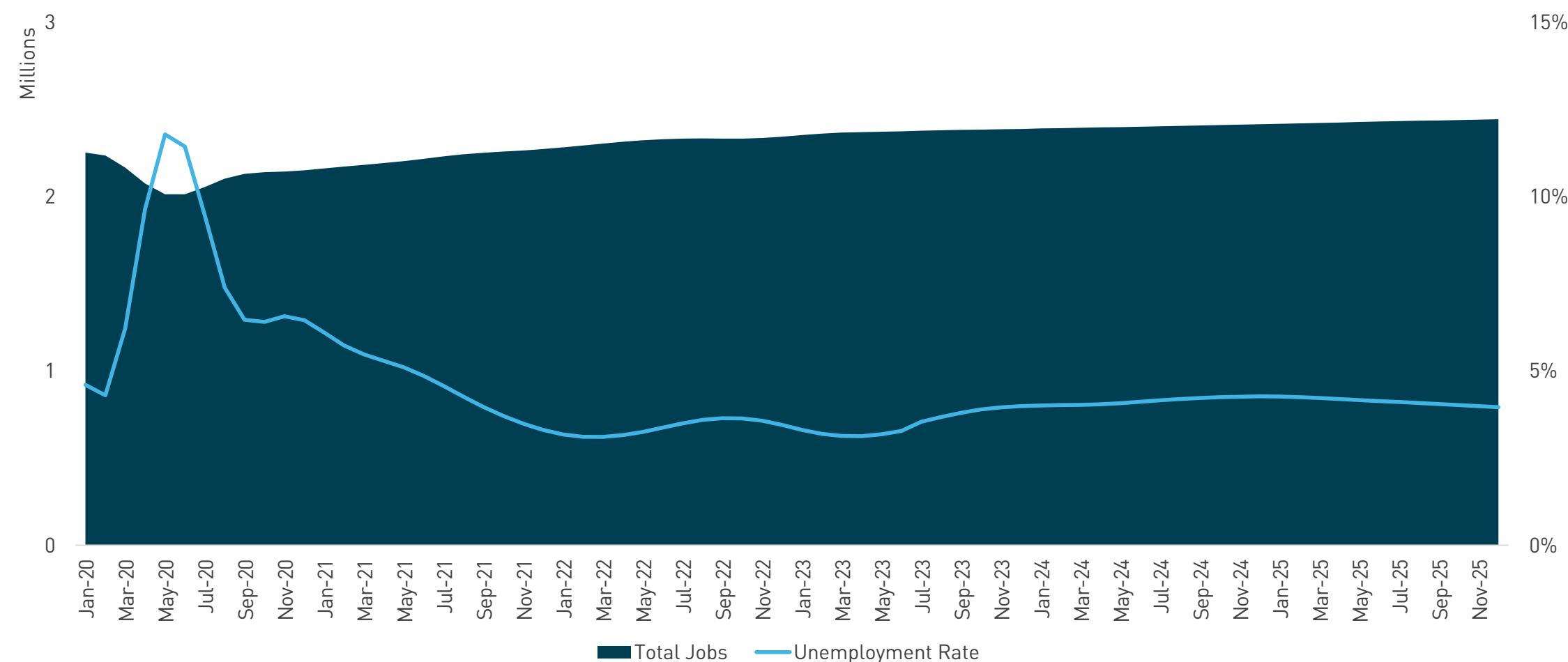
*Projected

PHOENIX, AZ EMPLOYMENT

During the trailing 12-month period ending in June 2023, metro Phoenix experienced significant employment growth, demonstrating its robust economic vitality. A combination of factors contributed to this positive trend, including steady population growth, increased business investments, and job creation across a range of industries. The private education and healthcare sector played a crucial role in the employment growth in metro Phoenix, as it accounted for nearly half of the 45,600 net jobs added in the metro over the past year. Hospitals and medical centers have had to boost staffing levels to meet the demand brought on by the continuing population growth. This trend will likely continue well beyond 2023 as Mayo

Clinic, Phoenix Children’s Hospital, and Banner Health all have major expansion projects underway. Additionally, the construction industry has experienced a notable boom stimulated by major infrastructure projects, commercial development, and a growing housing market. Construction companies hired 5,100 new employees over the past year to keep up with the demand for new buildings and renovations. Growth in construction induced growth in the professional and business services sector, as development projects have created employment opportunities for white-collar roles such as engineering and architecture, which rank among the highest average annual salaries in metro Phoenix at roughly \$92,100.

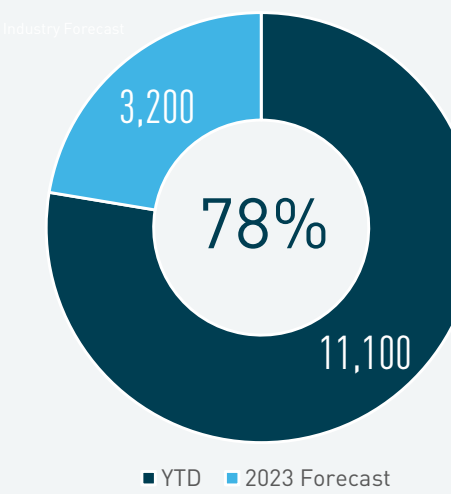
Employment Trends



Source: Moody's Analytics

Who's Hiring?

EDUCATION & HEALTH SERVICES INDUSTRY



16%
OF ALL JOBS IN THE METRO

\$94,200
AVERAGE ANNUAL SALARY

Top Education & Health Services Employers

Banner Health®	42,200 JOBS
ARIZONA STATE UNIVERSITY	34,400 JOBS
THE UNIVERSITY OF ARIZONA	19,800 JOBS

In The News

- [JA Solar Bringing Solar Manufacturing to Phoenix](#)
- [Phoenix Children's Hospital Adding 650 Jobs to support expansion at multiple Valley sites](#)
- [Blue Origin opens new office in Phoenix](#)



PHOENIX, AZ DELIVERIES & ABSORPTION

2023 Units*

DELIVERIES

22,050

ABSORPTION

18,105

2024 Units*

DELIVERIES

32,068

ABSORPTION

29,819

*Projected

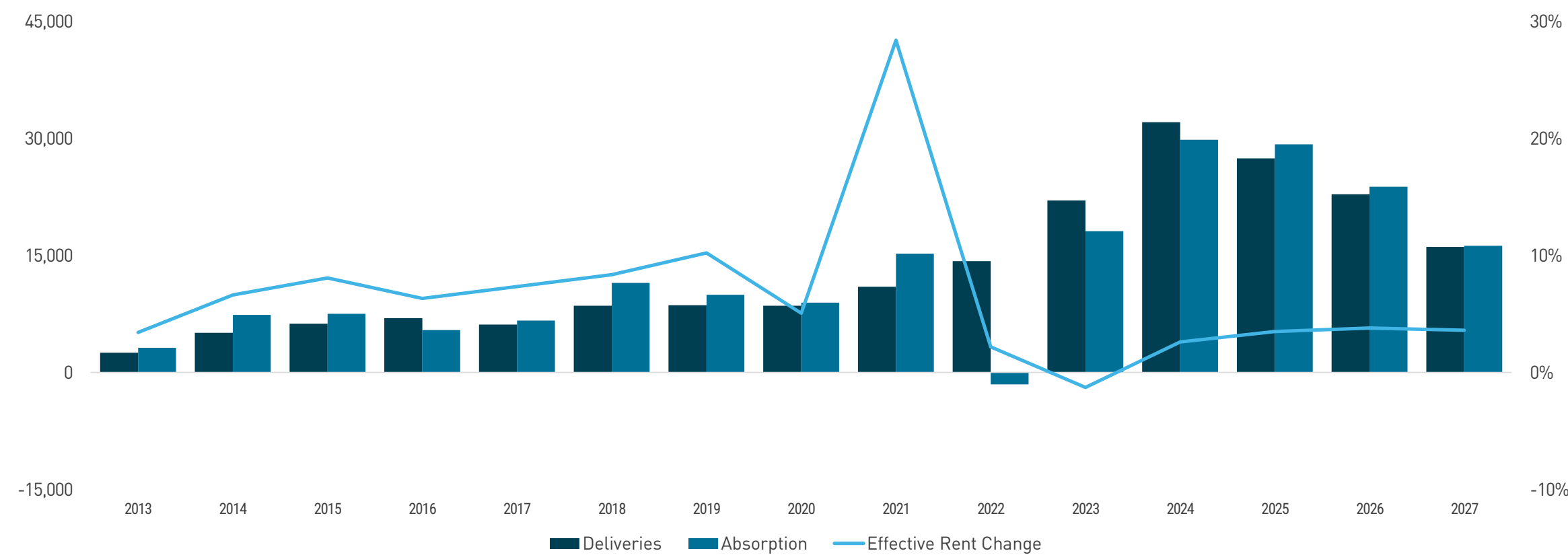
Record-setting multifamily property performance paired with an all-time low in single-family housing inventory for sale during 2021 and 2022 set off a flurry of apartment construction activity, which started to hit the Phoenix market during mid-year 2023. This activity produced the second-most plentiful development pipeline in the country, with over 68,540 combined units in the under construction/lease up phase, only exceeded by Dallas-Fort Worth. The 9,070 units added to the market inventory during the first half of this year have already surpassed the average annual total from 2011 to 2021.

After a slow first half of 2022, leasing activity in metro Phoenix has returned to pre-pandemic five-year historical

levels in 2023 as renters signed 6,480 net new leases. The first half of the year, particularly the second quarter, has traditionally been the market's busiest time for multifamily leasing. While that trend has continued this year, look for leasing activity to remain elevated during the third quarter and spike at the tail end of the year, generating a favorable long-term outlook.

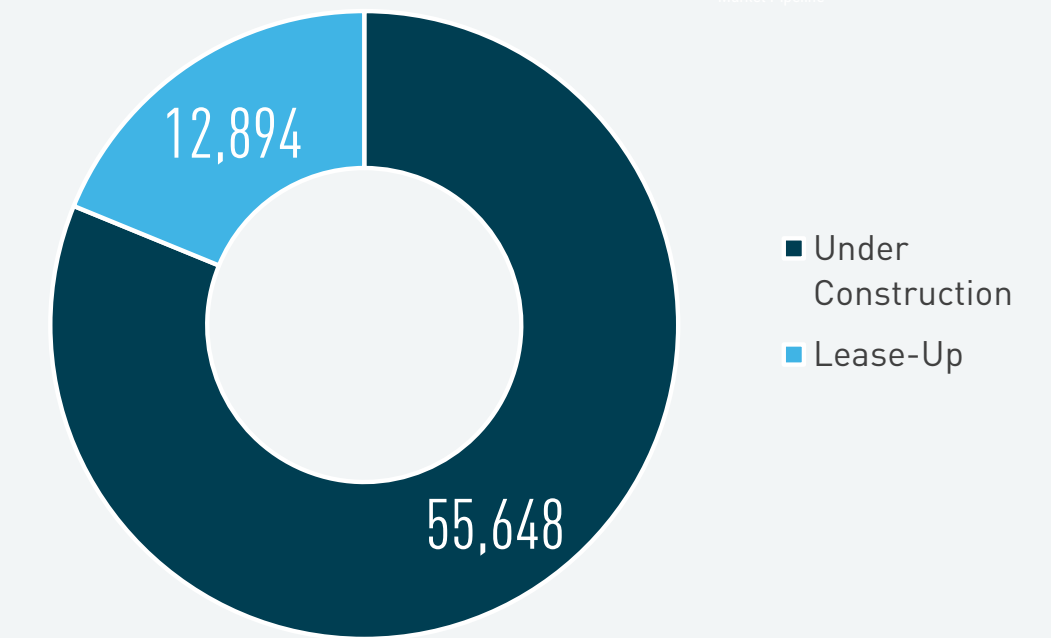
Phoenix was also one of the hardest hit metros by inflation last summer, peaking at 13%. As of the end of second quarter of 2023, year-over-year inflation had dropped to 4.4%, creating the potential for renters to drop roommates in favor of their own apartment, helping year-end net absorption totals surpass 18,000 units.

Deliveries, Absorption, & Effective Rent Change

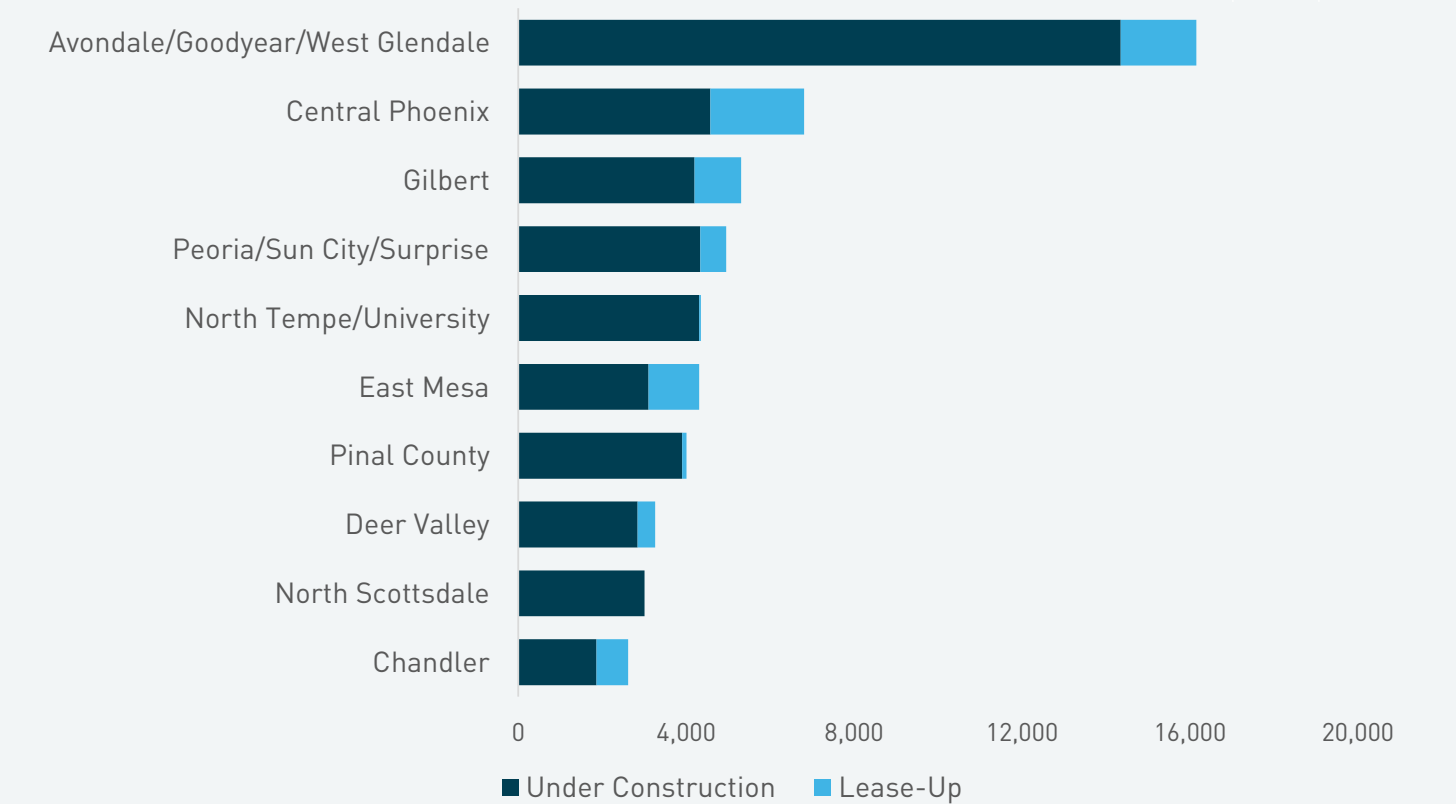


Source: RealPage

Market Pipeline



Top 10 Submarket Pipelines

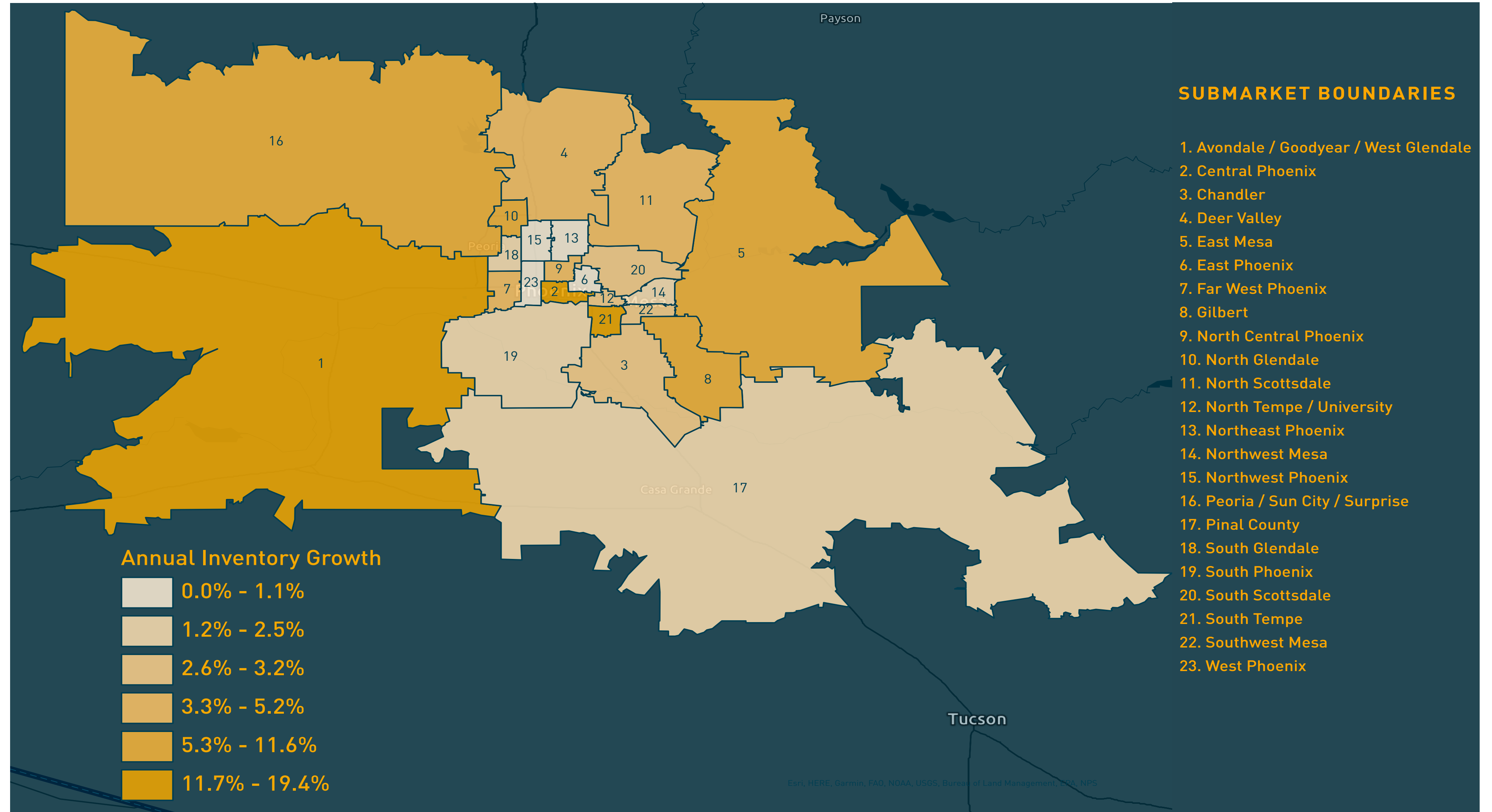




PHOENIX, AZ

SUBMARKET ANNUAL INVENTORY CHANGE

Available developable land, favorable zoning regulations, and a growing population and employment base established a ripe environment for construction in the West Valley. Comprised of the Avondale/Goodyear/West Glendale and Peoria/Sun City/Surprise submarkets, the West Valley saw inventory expand by 3,985 units over the last 12 months, which accounted for 40% of all metro Phoenix's new development. Phoenix's western suburbs have been among the fastest-growing cities in the country and the recent completion of Loop 303 created an ideal pocket for logistics and distribution companies. Downtown Phoenix also remained a major area of focus for development with over 2,760 units added in the Central and North Central submarkets combined. Urban infill projects have reshaped Downtown into a popular destination for young professionals and the 11,420 students attending ASU's downtown campus.





PHOENIX, AZ RENT & OCCUPANCY

Effective Rent

Q2 2023
\$1,612
↓ 3.6% YOY

Occupancy

Q2 2023
93.2%
↓ 260 BPS YOY

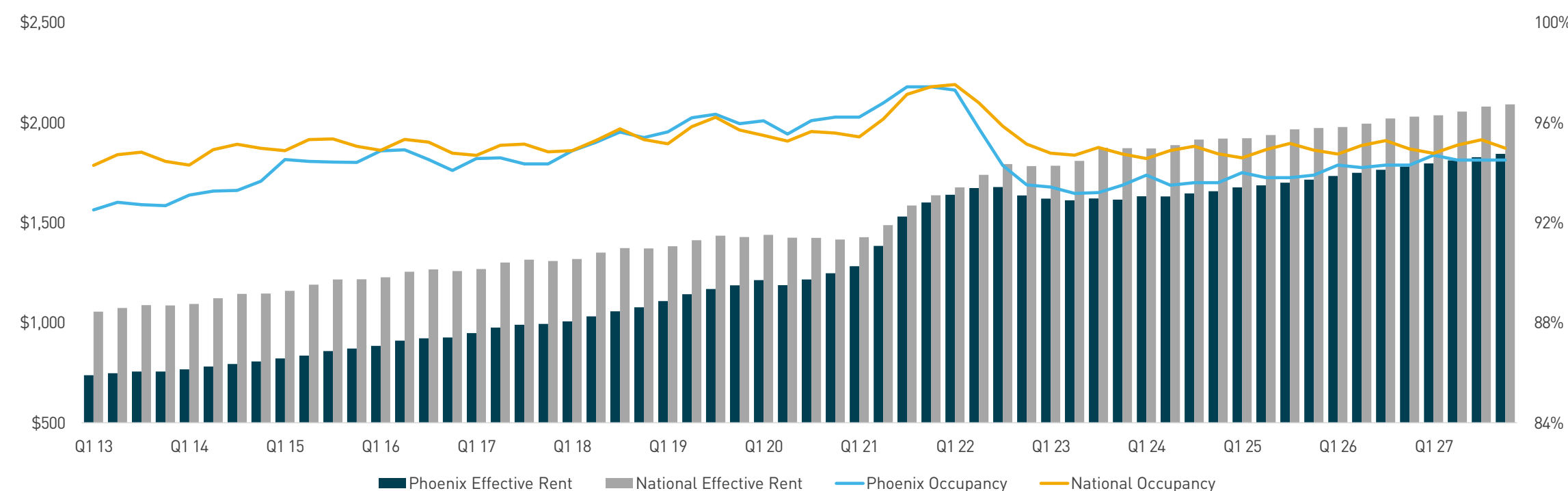
Across the market, operators are increasingly relying on concessions to attract and retain residents in their communities. The percentage of units offering concessions increased to 21.7% at the end of June 2023, up from 8.0% one-year prior. This put the concession ratio in line with where it was roughly five years ago, but because rents increased by 56% over the same period, concession values doubled. With concessions on the rise, effective rent declined 3.6% annually to \$1,612 in the second quarter of 2023. Of the 23 submarkets in the metro, only Northwest at 0.2% and North Phoenix at 1.4%, saw annual rental growth.

Despite the reduction in the effective rent, the outsized

gains seen in 2021 and the first half of 2022 produced rent levels that are still about 10% above where they would have been if the market maintained the pre-pandemic growth rate.

Phoenix's nationally recognized construction pipeline shackled occupancy growth. Every submarket in the metro recorded more new supply than leasing activity, thus the average occupancy rate dropped 260 basis points annually to 93.2% at the conclusion of the second quarter of 2023. A lack of for-sale single-family inventory and prevalence of renter-by-choice lifestyles will stabilize apartment occupancy for now, and keep the rate from falling below 93%, which hasn't happened in the last decade.

Phoenix vs. National Effective Rent & Occupancy



Source: RealPage

Submarket Performance

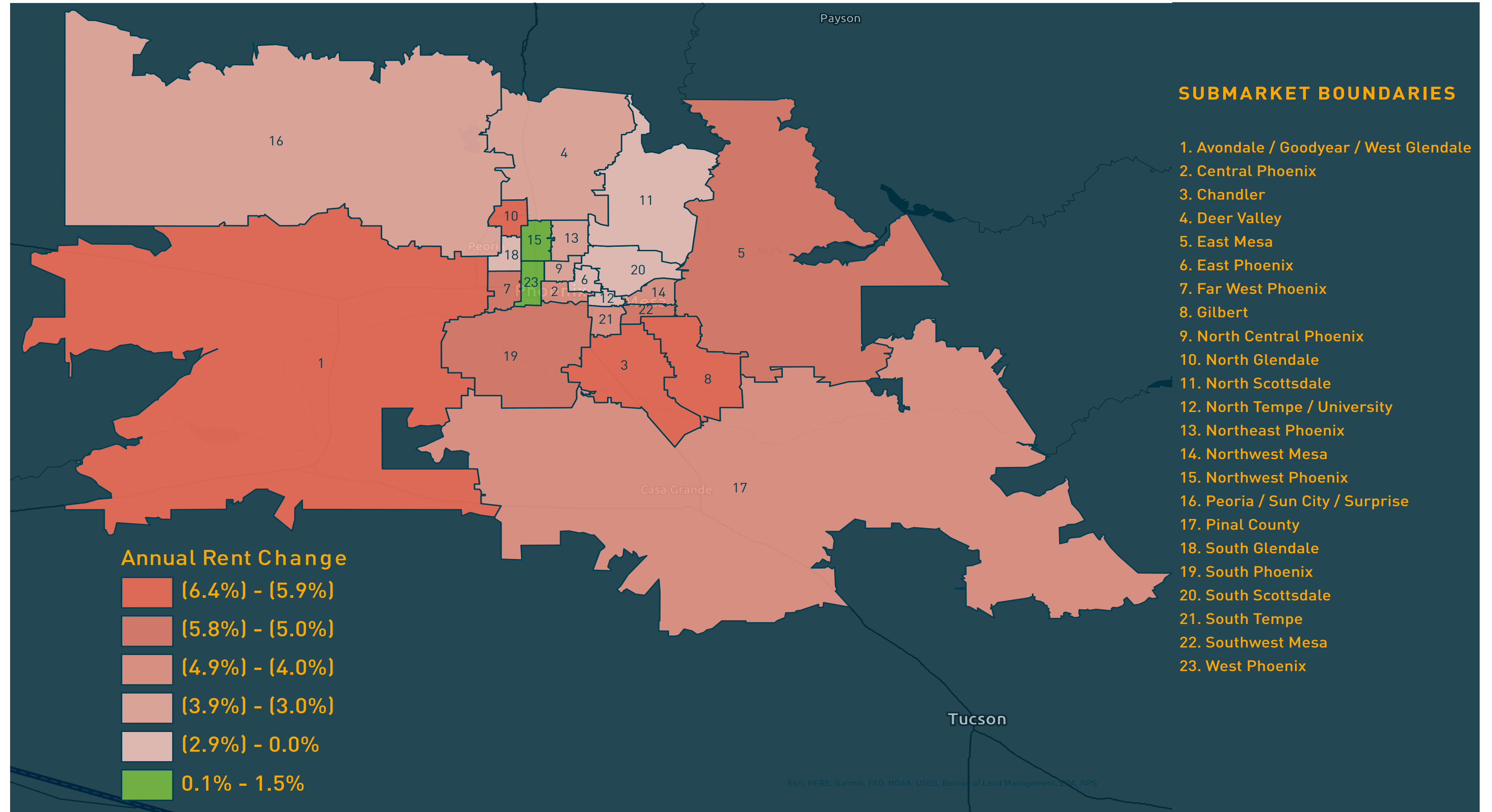
SUBMARKET NAME	Q2 2023 OCCUPANCY	YOY (BPS)	Q2 2023 EFFECTIVE RENT	YOY
Avondale/Goodyear/West Glendale	92.7%	-300	\$1,636	-5.9%
Central Phoenix	93.1%	-200	\$1,793	-4.8%
Chandler	93.7%	-240	\$1,735	-6.1%
Deer Valley	93.1%	-230	\$1,757	-3.8%
East Mesa	93.6%	-240	\$1,678	-5.3%
East Phoenix	93.0%	-310	\$1,497	-2.0%
Far West Phoenix	92.9%	-290	\$1,381	-5.0%
Gilbert	92.8%	-270	\$1,741	-6.3%
North Central Phoenix	92.5%	-290	\$1,616	-3.0%
Northeast Phoenix	93.7%	-220	\$1,517	-3.7%
North Glendale	93.3%	-160	\$1,601	-6.4%
North Scottsdale	93.4%	-210	\$2,031	-1.6%
North Tempe/University	92.9%	-260	\$1,748	-1.7%
Northwest Mesa	93.6%	-200	\$1,420	-4.2%
Northwest Phoenix	93.3%	-240	\$1,303	0.2%
Peoria/Sun City/Surprise	94.0%	-220	\$1,648	-3.3%
Pinal County	91.3%	-640	\$1,371	-4.0%
South Glendale	92.6%	-340	\$1,281	-1.5%
South Phoenix	94.2%	-160	\$1,648	-5.1%
South Scottsdale	93.5%	-230	\$1,950	-2.7%
South Tempe	93.6%	-220	\$1,640	-4.6%
Southwest Mesa	92.7%	-330	\$1,421	-5.8%
West Phoenix	91.5%	-490	\$1,175	1.4%



PHOENIX, AZ

SUBMARKET ANNUAL RENT CHANGE

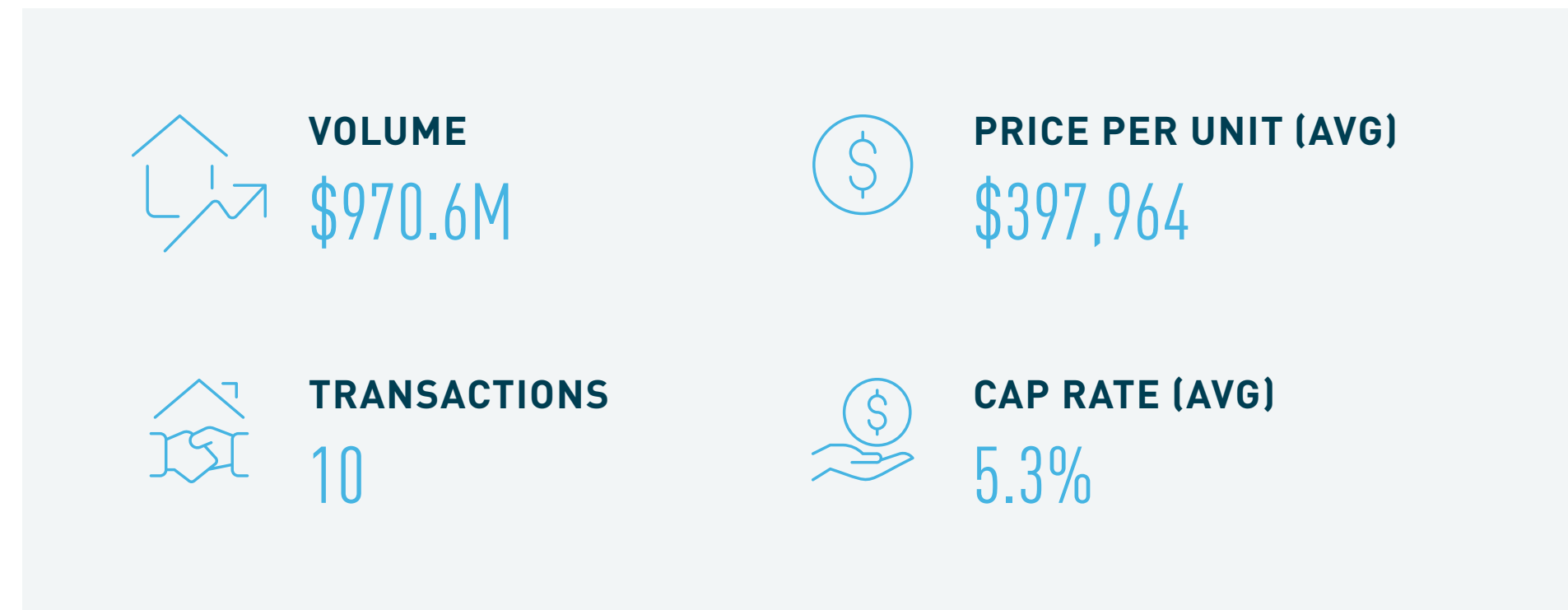
As 12-month leases that renters signed in 2022 begin to turn over and as concessions rise, many owners were willing to lower rents to retain occupancy instead of trying to drive rent growth. As a result, a decline in annual effective rent has touched every part of the Phoenix multifamily market. The two exceptions were the West and Northwest Phoenix submarkets, located along the I-17 corridor between Loop 101 in the North Valley and I-10. These two submarkets were among the lowest in terms of new construction activity, with just 62 new units combined over the past 12 months, all of which were in the Northwest submarket. Because these submarkets are comprised of mostly older, class B and C properties, operators do not see the same pressure as those operating Class A properties from new construction, therefore they can limit concessions and create positive effective rent growth.





PHOENIX, AZ SALES

2023 Year to Date*



What's Trading?*



Source: Real Capital Analytics
*\$50m+

Top Buyers**

BUYER	LOCATION
Ctvrlik & Ctvrlik	Long Beach, CA
Blackstone	New York
First Pointe Management Group	Calabasas, CA
Tides Equities	Los Angeles
Apartment Management Consultants	Cottonwood Heights, UT

Top Sellers**

SELLER	LOCATION
The Bascom Group	Irvine, CA
Pacific Life	Newport Beach, CA
JLB Partners	Dallas
Praedium Group	New York
Trammell Crow Co.	Dallas

**Past 24 Months



Sources: RealPage; Moody's Analytics; Real Capital Analytics

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