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Residential Real Estate

Apartment investors, developers bullish despite higher interest rates than expected

Scottsdale-based Greenlight Communities plans to break ground this year on its first Tempe project, the 229-unit Cabana Kyrene.
GREENLIGHT COMMUNITIES

By Angela Gonzales – Senior Reporter, Phoenix Business Journal
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Multifamily developers and investors are bullish on metro Phoenix, despite interest rates staying higher than expected.

The new year promises changes, with supply growth waning and different economic policies likely to impact demand, according to a Yardi Matrix National Multifamily Report issued Jan. 13.

The multifamily sector finished 2024 on the downswing, with the average U.S. advertised rent falling $4 nationally in December to $1,742, according to the report. Year-over-year rent growth was down 10 basis points to 0.6%.

The Phoenix multifamily market is showing signs of recovery as easing inflation and rising consumer confidence have boosted renter demand, said Doug Ressler, manager of business intelligence for Yardi Matrix.

"Over the past 12 months, Phoenix recorded 20,000 units of net absorption, significantly higher than the pre-COVID annual average," Ressler said. "Despite the increased demand, the market faces high vacancy rates. This is largely due to a surge in new construction, with 2,100 new units delivered in the past year and an additional 23,000 units under construction."

Mid-priced properties have shown a strong turnaround, while luxury properties are facing more challenges with higher vacancy rates and declining rents, Ressler said.

"Due to heightened competition, many properties are offering rent concessions, such as up to eight weeks of free rent in lease-ups and four weeks at stabilized communities," he said.

Rob Lyles, partner with Scottsdale-based Greenlight Communities, said the interest rates are frustrating but won't hinder his bullish plans for future development in metro Phoenix.

Greenlight has delivered 3,500 units in metro Phoenix since its launch in 2016 – including the construction of 696 units in 2024 with a total development cost of $150 million, Lyles said.

The developer is on track to deliver around the same number of units in 2025, he said. It announced plans in October to build a 229-unit apartment community in Tempe.

Greenlight focuses on building workforce or attainable housing for essential workers, such as teachers, emergency responders, construction workers and military forces near Luke Air Force Base.

Much of the product being built today is Class A, which is too expensive for essential workers, Lyles said.

"We're offering the missing middle," he said.

Meanwhile, High Street Residential, the residential subsidiary of Trammell Crow Co., has 634 luxury units under construction and another 1,267 units in the pipeline in metro Phoenix, said Paul Tuchin, Phoenix market leader and principal for HSR's Phoenix office.

The Dallas-based company delivered 502 units in 2024, he said. That includes the 192-unit Huxley Scottsdale, which wrapped up in October, along with the 310-unit Smith & Rio apartment complex in Tempe.

"Our outlook for 2025 is positive," Tuchin said. "We expect apartment demand to continue outpacing the national average while we work. through the healthy supply pipeline that has developed over the past few years."

Phoenix market has growing base of renters

Phoenix is forecast to outperform the national average in employment and population growth, two major drivers of the rental housing market, Tuchin said.

HSR teamed up with joint venture partner Mitsui Fudosan America build a 215-unit luxury apartment community at 10050 N. Scottsdale Road, Scottsdale. Replacing a vacant retail center on 4.2 acres, the project is expected to be completed by mid 2027.

ESG Architects designed the project, while Wespac Construction is general contractor.

A rendering of a 215-unit luxury community that will replace a vacant retail center on 4.2 acres in Scottsdale.

HIGH STREET RESIDENTIAL

Despite the bullish outlook, elevated construction costs and time-consuming, costly entitlements are challenges HSR is facing today, Tuchin said.

"Elevated interest rates are also an issue, and property values continue to be suppressed through upward pressure on cap rates," he said.

That said, strong population growth and the high cost of for-sale homes have resulted in more people looking to rent, he said.

"Phoenix's relatively strong employment and wage growth provide a solid base of qualified renters for well-designed apartments in well-located areas," Tuchin said.

Meanwhile Scottsdale-based MC Cos. closed on the acquisition of Boulder Creek Apartments near Papago Park in Phoenix on Jan. 10.

Paying $20.1 million for the property, plans call for renovations to common areas, signage and exteriors while performing selective interior value-add improvements, said Charles Koznick, chief investment officer for MC Cos.


Image: MC Marketing

Scottsdale-based MC Cos. paid $20.1 million for Boulder Creek Apartments, which was 75% occupied when the transaction closed Jan. 10.
MC MARKETING

With this acquisition, MC Cos. now owns seven properties totaling about 1,400 units in metro Phoenix.

"The Phoenix market is highly attractive due to its rapid growth as one of the fastest expanding metropolitan areas in the U.S.," Koznick said. "The city has seen a substantial influx of new residents driven by a strong job market, particularly in key industries, such as technology, health care and manufacturing."

This dynamic growth creates a robust demand for housing, which aligns well with its property management presence in the area and headquarters in Scottsdale, he said.

MC Cos. currently is raising capital from accredited investors on a 312-unit new construction deal in Tucson, he said.

"At MC Cos., we are strategically capitalizing on the current multifamily market dynamics, focusing on high-quality projects in prime locations, all at compelling entry points," Koznick said. "Our commitment remains unwavering: to deliver solid returns to our investors while effectively mitigating risk. We are continually identifying and pursuing opportunities that offer strong financial performance and align with our focus on long-term, sustainable growth."
