



BUILDING A *More Affordable* PLACE TO LIVE

While coastal cities are known for their outrageous living expenses, Phoenix continues to see an increase in rents and home prices. Homebuilders are taking notice, but don't look for affordable houses too close to the city center.



The Urban Communities executive team, from left, Maximiliano Palacio, Peter Thomas and Kirk Howell: Trying to keep apartment rents affordable for workers.



PHOENIX INVESTOR GROUP TARGETS WORKFORCE APARTMENT HOUSING

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A team of local developers is working to tackle some Phoenix-area affordable housing issues with lower-cost apartments appealing to middle-class workers.

The group behind Urban Communities LLC is transforming older apartments in more desirable locations into so-called workforce housing to compensate for the “drive until you qualify” rush to find affordable new homes in outlying areas.

When Maximiliano Palacio first met Peter Thomas, a long-time developer, Palacio was buying properties one at a time and fixing them himself. Together, they have created a syndicated fund that is financing acquisitions and renovations on a larger scale.

Urban Communities bought its first property at 1601 W. Camelback Road in Phoenix in November 2015. At the time, the apartments were overflowing with gangs, drugs and prostitution, Palacio said.

After renovating the property and ridding the area of the bad actors, that complex is nearly 100 percent leased. Last summer, Urban Communities bought the complex next door and is in the midst of renovating that property and leasing it, Palacio said.

Such efforts are in focus these days as Phoenix ranks on the upper end of apartment rent hikes. To rent a median-priced two-bedroom apartment in Phoenix, a renter will need an annual

income of \$42,320 to avoid becoming cost-burdened, meaning they spend between 30 percent and 50 percent of their income on rent, according to a study from Apartment List. The actual median household income in Phoenix is \$53,747.

In nearly a quarter of the 100 largest U.S. cities, renting a median-priced two-bedroom apartment is becoming increasingly difficult and potentially unaffordable for a median-income renter, according to the report.

While Phoenix doesn't make the list of cities without high enough wages to afford a median-priced two-bedroom apartment, the hourly wage recommended to rent such accommodations in Phoenix is \$20 an hour – at a time when the minimum

wage in Arizona was recently hiked to \$11 an hour, and rises to \$12 in 2020.

Urban Communities serves as general partner of a \$20 million syndicated fund being used to buy more properties across the Valley. Another \$50 million fund will be created to expand nationally, said Kirk Howell, COO of Urban Communities.

Christine Mackay, the city of Phoenix's economic development director, said she is pleased to see the work being done by Urban Communities and would like to help the company take advantage of opportunity zones and HUD financing so lower income people can qualify for housing.

“We want to remain an affordable workforce market,” Mackay said. “From

an economic development standpoint, the importance of affordability in our housing stock is critical to our continued success of attracting new companies here.”

Phoenix City Council recently approved incentives to apartment developers if they set aside 10 percent of their units for workforce housing.

“Affordability is something that's very important to the City Council,” Mackay said. “They want to make sure that we don't become an unaffordable market.”

Nonetheless, it can be difficult in many cases for developers to deliver affordable units when faced with high land and supply costs as well as workforce shortages.

“Apartment developers across the country would love to deliver some apartments at a little bit lower price point,” said Greg Willett, chief economist for RealPage Inc. “But it's a struggle to get that lower price point.”

These struggles come as apartment rents continue to rise, with Phoenix leading the way, he said.

Phoenix topped the nation's rent growth leaders during the first quarter of 2019, with an 8 percent average increase, according to RealPage data.

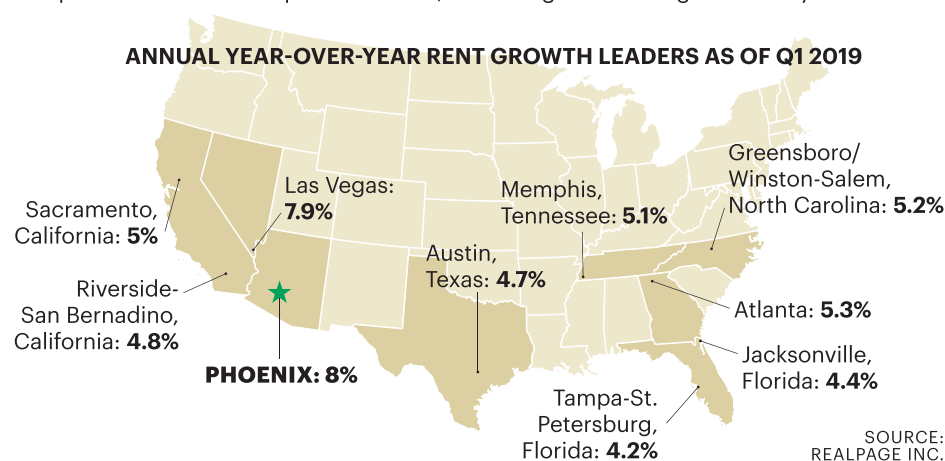
Within the past five to seven years, more than 80 percent of new multifamily properties built have been Class A or Class A-plus, said Roland Murphy, director of research for ABI Multifamily in Phoenix.

“Of course developers want the highest return – you can't fault them for that,” Murphy said. “But it has led to some very short-sighted planning and missed opportunities.”

APARTMENT RENT GROWTH

PHOENIX LEADS APARTMENT RENT GROWTH IN NATION

Phoenix leads the nation in rent growth, posting an average annual price increase of 8 percent for the latest period studied, according to a RealPage Inc. study.



SOURCE: REALPAGE INC.