The Miller Multi-Family Community

Analysis of the South Scottsdale Multi-Family Market and Economic & Fiscal Impact Analysis Scottsdale, Arizona

Prepared for:

Toll Brothers Apartment Living

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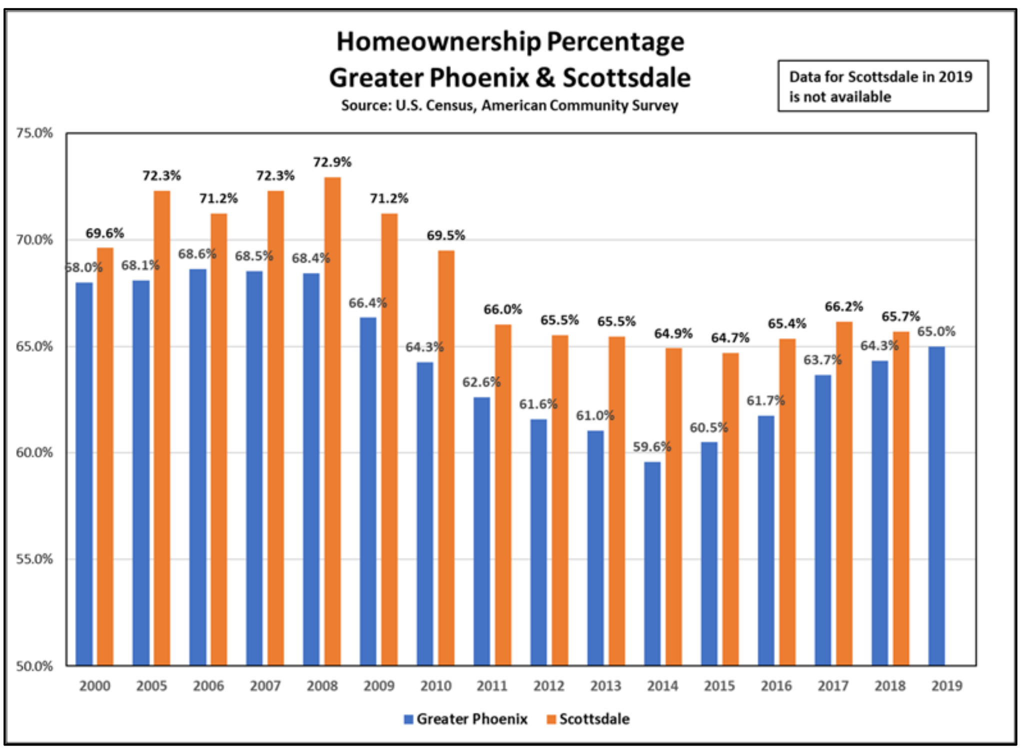
Executive Summary

Elliott D. Pollack & Company has been retained by Toll Brothers Apartment Living to provide a limited analysis of the multi-family housing market in South Scottsdale as well as an economic and fiscal impact of the proposed multi-family mixed-use community at Miller Road and 6th Avenue. The market analysis will focus on the demand for multi-family housing relative to job growth and overall economic development of the community. The market area that is the subject of this study is defined as Chaparral Road on the north, Pima Road on the east, Thomas Road on the south and 64th Street on the west. The economic and fiscal impact analysis will focus on the impacts generated during construction as well as the long-term impacts of operations, including resident spending.

Multi-Family Market Trends

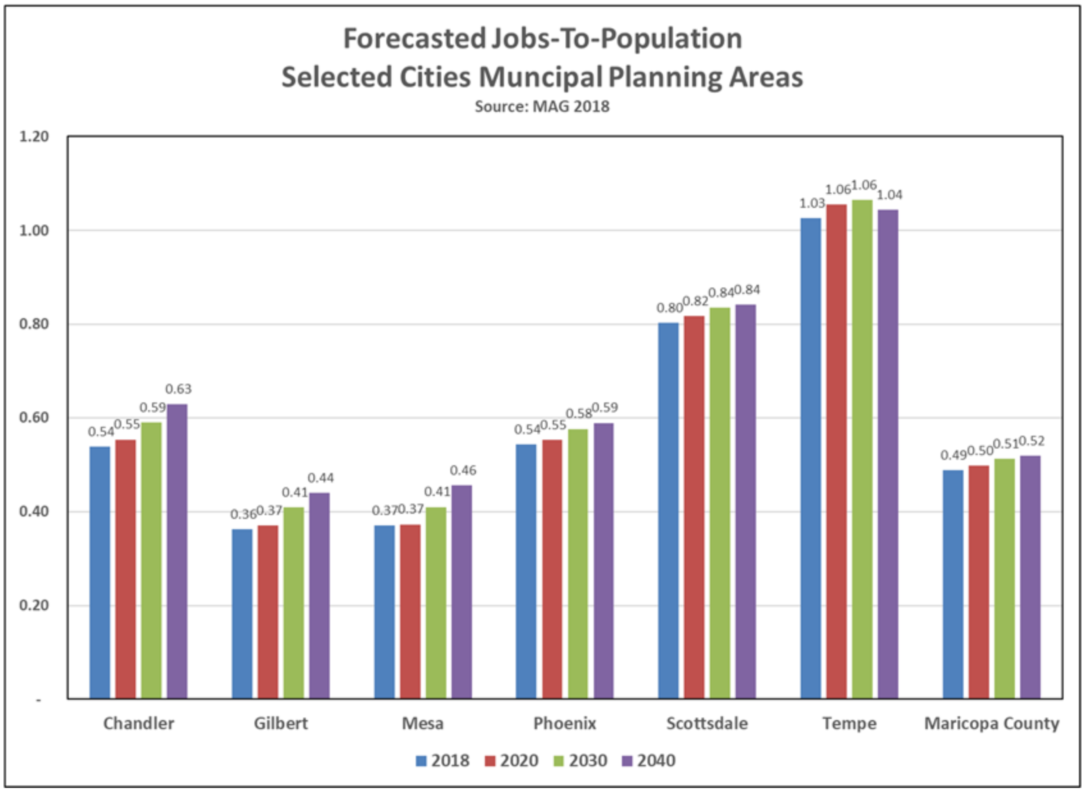
- The Greater Phoenix multi-family market made a significant recovery after the end of the Great Recession in 2009 and through 2019 experienced historic levels of construction activity.
- Scottsdale's homeownership rate has historically always exceeded the rate for Greater Phoenix. During the housing boom of 2005 to 2007, homeownership in Scottsdale exceeded 70%. After the recession, homeownership declined to 65%, but was significantly above the Greater Phoenix average. The rate in Scottsdale started increasing in 2015, and as of 2018 stands at 65.7%.



- Vacancy rates are at historic lows across the Valley ranging from 5% to 7% depending on the source. Scottsdale's stabilized vacancy rate stands at 9.1% today.
- Employment and population growth forecasted for the Greater Phoenix area will continue to create demand for new multi-family units in the long run (although we now expect some short-term slowdown due to the impacts of Covid-19). Through 2029, the population of Greater Phoenix is expected to increase by more than 817,600 persons according to the University of Arizona. The University of Arizona forecasts an increase of 516,800 jobs through 2029.
- In order to accommodate the influx of new residents to Greater Phoenix, approximately 37,000 housing units will need to be built each year over the next ten years (on average). Of those units, approximately 10,000 are expected to be multifamily units.

Scottsdale Population and Employment Forecasts

- Scottsdale is expected increase in population to 49,400 persons by 2040 from its 2019 population estimate of 247,944. It is also expected to add nearly 49,900 new jobs to its employment base between 2019 and 2040.
- Scottsdale's jobs to population ratio is much higher than the county, standing at 0.82 in 2019 and expected to be within a range of 0.83 to 0.85 for the future. In comparison to other major cities in the Valley, Scottsdale is among the leaders in job growth and the jobs-to-population ratio.



Drivers of Multi-Family Demand

- According to RentCafe.com, the fastest growing segment of the multi-family rental market is persons over the age of 60. Studies show that a portion of the older population is no longer enthusiastic about homeownership and is starting to downsize and move into rentals.
- This trend is on display in Scottsdale. Scottsdale has historically had a high percentage of 60+ year old renter households (24.6% in 2017) - above the County (18.0%) average.
- In the case of both Maricopa County and Scottsdale, the percentage of the multi-family market occupied by households under the age of 34 grew by 27% and the 60 plus age group increased 58.0%.

Percentage of Total Renters By Age 2007 & 2017

Maricopa County & Scottsdale

	Maricopa County		Scottsdale	
Age Group	2007	2017	2007	2017
34 and under	44.3%	35.4%	40.2%	36.3%
35-59	42.1%	46.6%	38.1%	39.1%
60+	13.7%	18.0%	21.8%	24.6%
Total	100.0%	100.0%	100.0%	100.0%

Source: U.S. Census, American Community Survey

- Not surprisingly, the second source of demand for the multi-family market is the Millennial generation of 72.1 million persons which became the largest generation in 2019 surpassing the 71.6 million Baby Boomers. The Millennial generation views their jobs and lives in ways much different than other generations. They have delayed marriage and family formations, lived with relatives or roommates, and delayed purchasing a home. The multi-family market has benefited from the choices made by Millennials.
- For at least the next decade, the multi-family market will be driven by both Baby Boomers and Millennials. Younger households will continue to seek shelter and life experiences. Older households are expected to continue downsizing as a lifestyle choice, a portion of whom will choose to rent in a multi-family community.

Summary of the Downtown Scottsdale Sub-Market Conditions

- Scottsdale and the Southeast Valley have captured a large share of the multi-family market because of their employment base which includes high tech, aerospace, healthcare, and other high wage occupations. Scottsdale's target industries and top local firms as outlined by the City's Economic Development Department are:
    - Advanced Business Services: Vanguard, Nationwide Insurance and APL Logistics
    - Bio-Life Sciences: Mayo Clinic, Orion Health, Honor Health
    - Hospitality: Troon Golf, Fairmount Scottsdale Princess, Westworld
    - Technology: GoDaddy, JDA Software, PayPal, Yelp

- The current pipeline of multi-family communities in Downtown Scottsdale is modest with only one community to be completed in 2021. Multi-family development activity in Scottsdale generally is expected to slow as developers seek out other cities for new projects, particularly in the West Valley which has had limited multifamily development activity until the last three years.

Overall, the Downtown Scottsdale multifamily market is extremely healthy. Continued development of new units is anticipated to provide for the housing needs of new residents and employees as well as to further promote the desires of well-heeled Baby Boomers and successful Millennials for an urban, walkable lifestyle.

Economic and Fiscal Impact of The Miller Multi-Family Community

The Miller multi-family community proposed for South Scottsdale at Miller Road and Sixth Avenue. Rents are expected to average $2.75 per square foot with average household income for community residents of about $103,300. Based on information from similar density projects, a typical household size of 1.81 persons per unit was used. All calculations assume a vacancy rate for the project of 5%.

Economic Impacts

- The proposed multi-family community is a 148-unit multi-family community that will provide an immediate $69.6 million economic impact from construction activity. This investment will create 451 construction jobs and $27.5 million in wages.

- Upon completion of construction, the proposed multi-family community will support 82 jobs, $3.8 million in wages, and $10.0 million in annual economic activity (includes combined direct operations of the community and resident spending in the local economy).

Economic Impact Summary The Miller (2020 Dollars)			
Construction	**Total**		
Person years of employment	451		
Wages ($mil)	$27.5		
Economic Output ($ mil)	$69.6		
Operations (Annual at Buildout)	**Multi-Family Residential**	**Resident Spending**	**Total**
Jobs	6	76	**82**
Wages ($mil)	$0.2	$3.5	**$3.8**
Economic Output ($ mil)	$0.5	$9.5	**$10.0**

Sources: Toll Brothers; Elliott D. Pollack & Co.; IMPLAN; Arizona Department of Revenue

Fiscal Impacts

- The construction of the proposed community would generate $2.2 million for the State of Arizona, $453,000 for Maricopa County and $469,600 in revenues for the City of Scottsdale, including construction sales tax, and the spending of onsite construction workers.

- After the project is completed, operations and residents living in the complex would create an estimated $367,700 for the State of Arizona, $207,700 for Maricopa County and $253,600 for the City of Scottsdale in ongoing tax revenue that would be collected by the respective governments each year at stabilized occupancy (in 2020 dollars).

Fiscal Impact Summary The Miller (2020 Dollars)					
		State of Arizona	Maricopa County	City of Scottsdale	TOTAL
Construction					
Primary Impacts	Construction sales tax	$1,192,800	$168,900	$398,000	**$1,759,700**
	Use tax	$59,000	--	$16,300	**$75,300**
Secondary Impact from Employees	Secondary total	$944,600	$284,100	$55,300	**$1,284,000**
Total Impact from Construction		**$2,196,400**	**$453,000**	**$469,600**	**$3,119,000**
Operations (annual at buildout)					
Primary Impacts	Property Tax	$10,700	$33,900	$25,000	**$69,600**
	Sales tax	$198,500	$32,400	$57,300	**$288,200**
	Lease tax	N/A	$22,900	$80,300	**$103,200**
	Utility tax	$8,400	$1,400	$3,200	**$13,000**
	State shared revenue	N/A	$50,100	$74,900	**$125,000**
Secondary Impact from Employees	Secondary total	$150,100	$67,000	$12,900	**$230,000**
Total Annual Impact from Operations		**$367,700**	**$207,700**	**$253,600**	**$829,000**

NOTE: All of the above figures are representative of the major revenue sources for the governments.
Sources: Toll Brothers; Elliott D. Pollack & Co.; IMPLAN; ADOR

1.0 Introduction

1.1 Background

The purpose of this study is to prepare both an analysis of the multi-family housing market in South Scottsdale as well as to conduct an economic and fiscal impact analysis of the proposed multi-family community at Miller Road and Sixth Avenue. The project will have 148 residential units. The market analysis will focus on the demand for such housing relative to job growth and overall economic development of the community. The market area that is the subject of this study is defined as Chaparral Road on the north, Pima Road on the east, Thomas Road on the south and 64th Street on the west. The economic and fiscal impact analysis will focus on the impacts generated during construction as well as ongoing operations and resident spending. The contents of this study include:

- An overview of the Greater Phoenix economy and multi-family market trends.
- A historical analysis of multi-family construction in the market area including rents, and occupancy.
- The capture of metro-wide multi-family construction activity by the market area.
- Analysis of the relationship between job growth and multi-family construction.
- An opinion on the near-term demand for multi-family units in the market area given current demographic considerations, the Millennial population, and other factors that will continue to drive demand.
- Economic and Fiscal impact of the construction and operations of The Miller multi-family community.

1.2 Limiting Conditions

This study prepared by Elliott D. Pollack & Company is subject to the following considerations and limiting conditions.

- It is our understanding that this study is for the client's due diligence and other planning purposes.
- The reported recommendation(s) represent the considered judgment of Elliott D. Pollack & Company based on the facts, analyses and methodologies described in the report.
- This study is intended to be read and used as a whole and not in parts.

- Our analysis is based on currently available information and estimates and assumptions about long-term future development trends. Such estimates and assumptions are subject to uncertainty and variation. Accordingly, we do not represent them as results that will be achieved. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved may vary materially from the forecasted results. The assumptions disclosed in this analysis are those that are believed to be significant to the projections of future results.

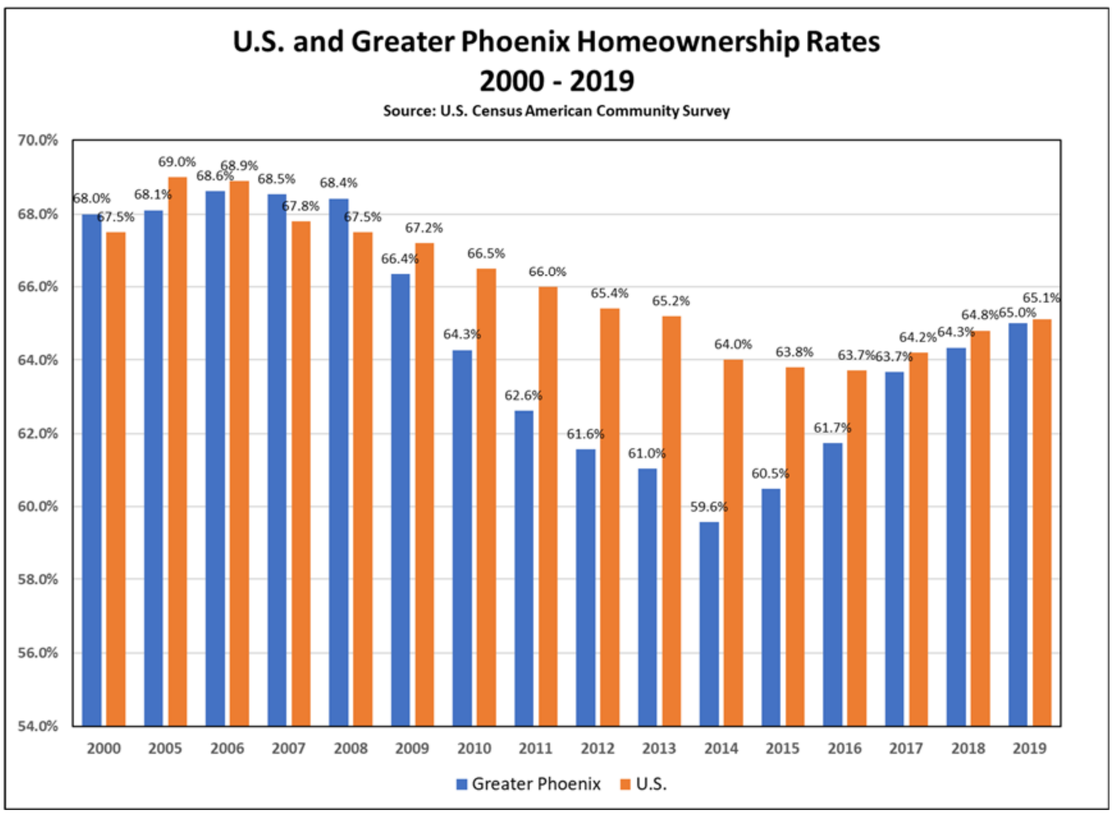
- This economic and fiscal impact study evaluates the potential "gross impacts" of the project on various governmental jurisdictions. The term "gross impacts" as used in this study refers to the total revenue, jobs and economic output that will be generated by the project.

- This analysis does not consider the costs associated with providing services to the project. Such analysis is beyond the scope of this study. In addition, the analysis is based on the current tax structure and rates imposed by the affected municipalities. Changes in those rates would alter the findings of this study. All dollar amounts are stated in 2020 dollars and, unless indicated, do not take into account the effects of inflation.

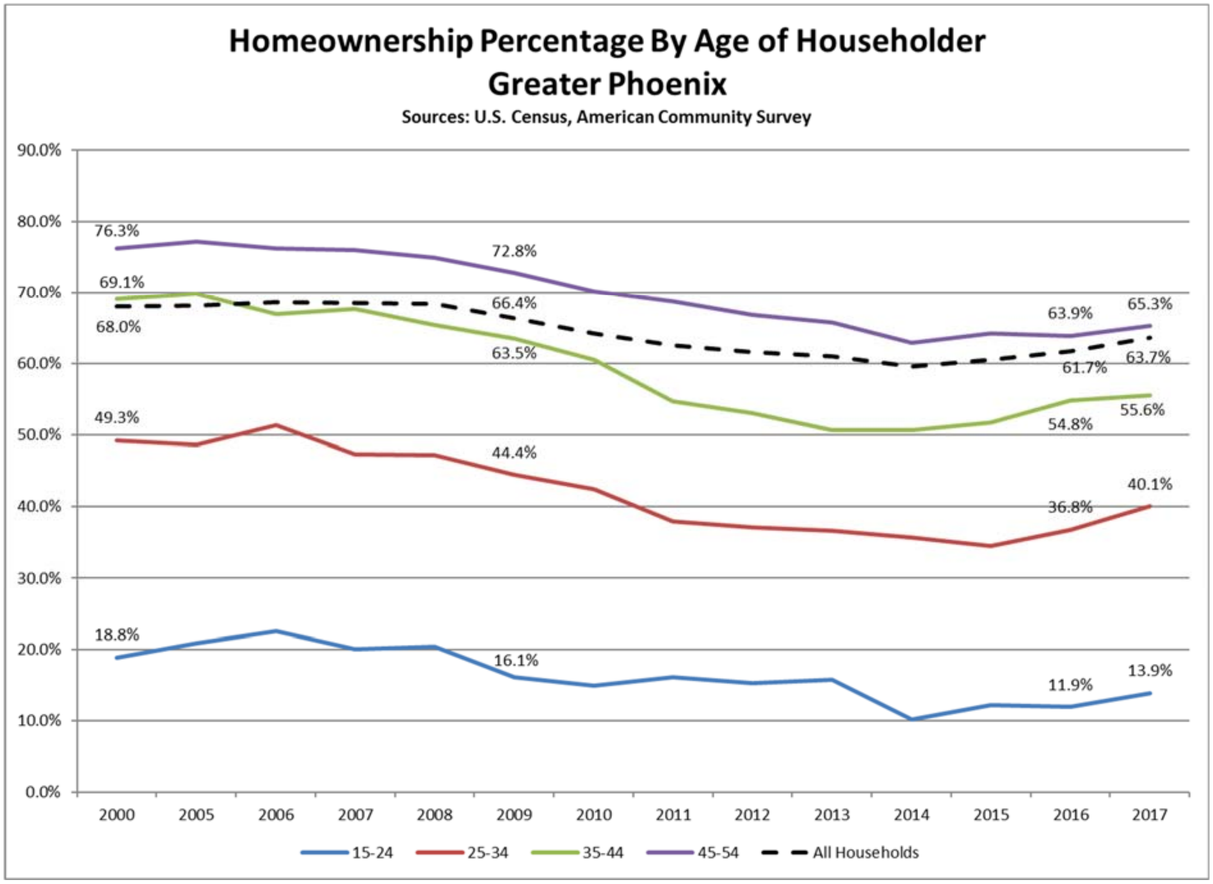
2.0 Multi-Family Market Trends

2.1 Greater Phoenix Multifamily Market Conditions

The Greater Phoenix multifamily market has made a significant recovery since the end of the Great Recession in 2009. Following the recession, the multi-family market experienced rising vacancies and declining rents. Throughout the country, multi-family vacancies rose sharply in 2008 and 2009 but then started to decline in 2010 and 2011. Much of this decline was due to the bursting of the housing bubble and resulting housing foreclosures which forced many homeowners into the rental market. Homeownership rates in Greater Phoenix fell to historic lows between 2006 and 2014, declining to 59.6%. Comparatively, the homeownership rate for the U.S. only decline approximately five percentage points between 2005 and 2016. Greater Phoenix has made a significant recovery with its homeownership rate and essentially equal to the U.S. rate. While homeownership in Greater Phoenix and the country is improving, it still has not recovered to pre-recession levels.



One factor driving the demand for the multi-family market is the Millennial population. Millennials have delayed purchasing homes and forming families as they struggle with student debt and the psychological effects of the Great Recession. The homeownership rate for the 25 to 34-year old age group, which includes most Millennials, declined from nearly 50% in 2000 (before the housing bubble) to 35% in 2015. The homeownership rate for all age groups is now rising but is still below pre-recession levels. As a result, the construction of multi-family units has increased significantly over the past five years to accommodate this demand for housing (data by age is only available through 2017).



Rent and vacancy data for Maricopa County was obtained from RealData, a multi-family data vendor that compiles information on all multi-family communities with at least 50 units. According to RealData, at the end of the second quarter of 2020, there were approximately 319,933 conventional multi-family units in the county in 1,529 communities. Since the end of the recession in 2009, 63,600 units have been built representing an 24.8% increase in the inventory.

Between 2004 and 2006, the inventory of multi-family units in Maricopa County declined by nearly 8,000 units as multi-family communities were converted to condominiums. Even with this reduction in inventory, the vacancy rate for multi-family units increased as renters vacated their units in favor of purchasing single family homes. Many renters also purchased their units during the condo conversion process. In 2008, the inventory of multi-family units began to increase again, consisting of newly-constructed units as well as condo communities that were reverted from ownership back to rentals. Vacancy rates peaked in 2009 at 14.9% as more units were brought to the market during a time of weak absorption. That trend ended in 2010 with reported absorption of nearly 11,000 units, lowering the average county vacancy rate to 11.2%. Very weak construction activity followed from 2010 to 2013, but in 2014 the supply of multi-family units began to increase rising to more than 10,000 newly constructed units in 2017.

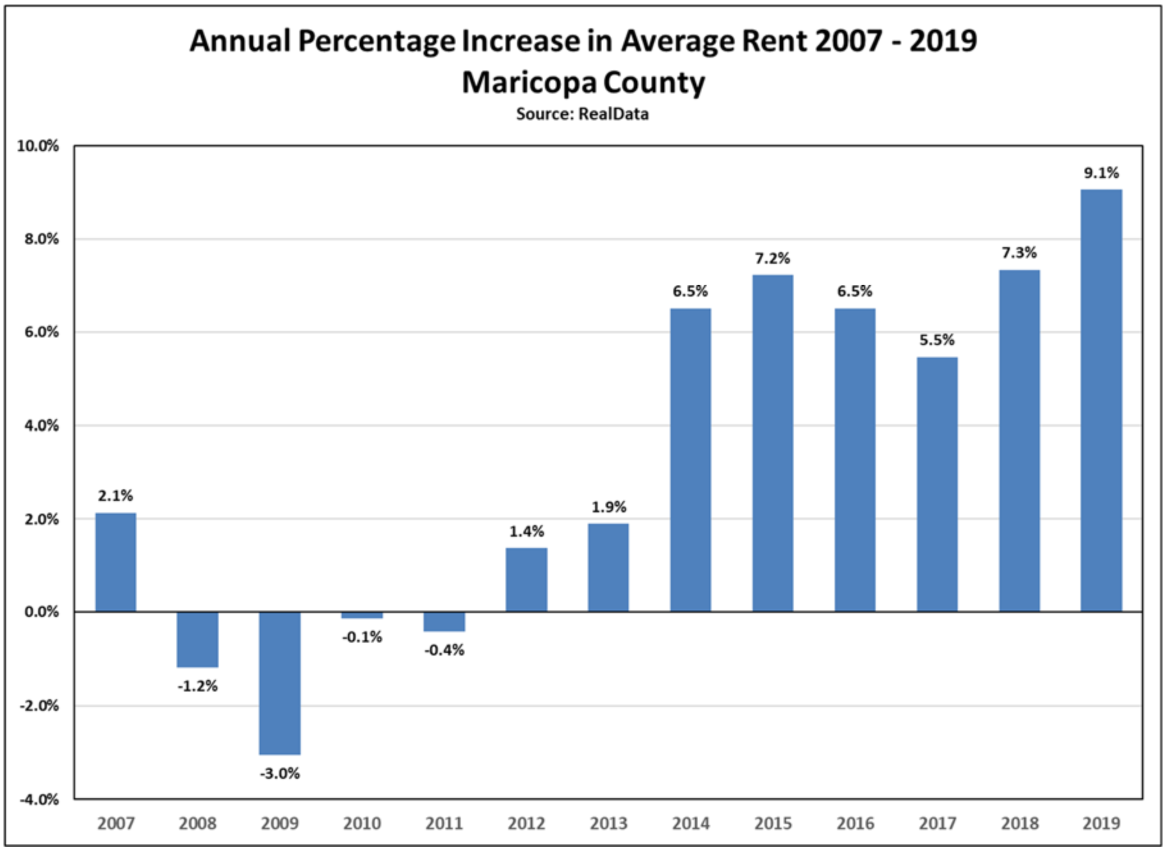
In Maricopa County, monthly rents have risen by $404 since 2013 or an average of 7.0% each year. In 2019, the average rent rose by 9.1%. For the second quarter of 2020, the average rent is $1,157 per month or $1.38 per square foot of livable area.

Maricopa County Multi-Family Trends

	Unit Count				Rent/Unit		Average	Rent/SF	
Year	Inventory	Change	% Change	% Vacant*	Average	% Change	SF/Unit	Average	% Change
2006	237,507			9.1%	$749		809	$0.93	
2007	239,304	1,797	0.8%	11.2%	$765	2.1%	811	$0.95	2.2%
2008	247,788	8,484	3.5%	14.1%	$756	-1.2%	815	$0.94	-1.1%
2009	256,231	8,443	3.4%	14.9%	$733	-3.0%	817	$0.90	-4.3%
2010	257,672	1,441	0.6%	11.2%	$732	-0.1%	819	$0.90	0.0%
2011	258,896	1,224	0.5%	9.8%	$729	-0.4%	819	$0.90	0.0%
2012	260,469	1,573	0.6%	8.8%	$739	1.4%	821	$0.91	1.1%
2013	264,299	3,830	1.5%	7.9%	$753	1.9%	823	$0.92	1.1%
2014	270,650	6,351	2.4%	7.4%	$802	6.5%	829	$0.97	5.4%
2015	277,454	6,804	2.5%	7.1%	$860	7.2%	831	$1.04	7.2%
2016	285,472	8,018	2.9%	7.3%	$916	6.5%	834	$1.11	6.7%
2017	295,505	10,033	3.5%	7.9%	$966	5.5%	837	$1.16	4.5%
2018	303,967	8,462	2.9%	7.3%	$1,037	7.3%	839	$1.24	6.9%
2019	312,464	8,497	2.8%	7.0%	$1,131	9.1%	841	$1.35	8.9%
2020 Q2	319,933	7,469	2.4%	8.5%	$1,157	2.3%	843	$1.38	2.2%
2006-2019 Average Annual Growth Rate	**2.1%**				**3.2%**			**2.9%**	
2013-2019 Average Annual Growth Rate	**2.8%**				**7.0%**			**6.6%**	

*Vacancy Rate as the of the 4th Quarter of Each Year except 2020, including complexes in lease-up

Source: RealData



2.2 Greater Phoenix Multi-Family Construction Forecast

Employment and population growth forecasted for the Greater Phoenix area will continue to create demand for new multi-family units. Prior to the recession, Greater Phoenix historically grew at an average rate of 3.5% per year. Since that time, the percentage growth in population has only exceeded 2.0% in one year – 2017. The reduction in the growth rate is partly due to the fact that Greater Phoenix has become a large metro area with just under 5 million persons. The region is the tenth most populous metro area in the country, just surpassing Boston in 2019.

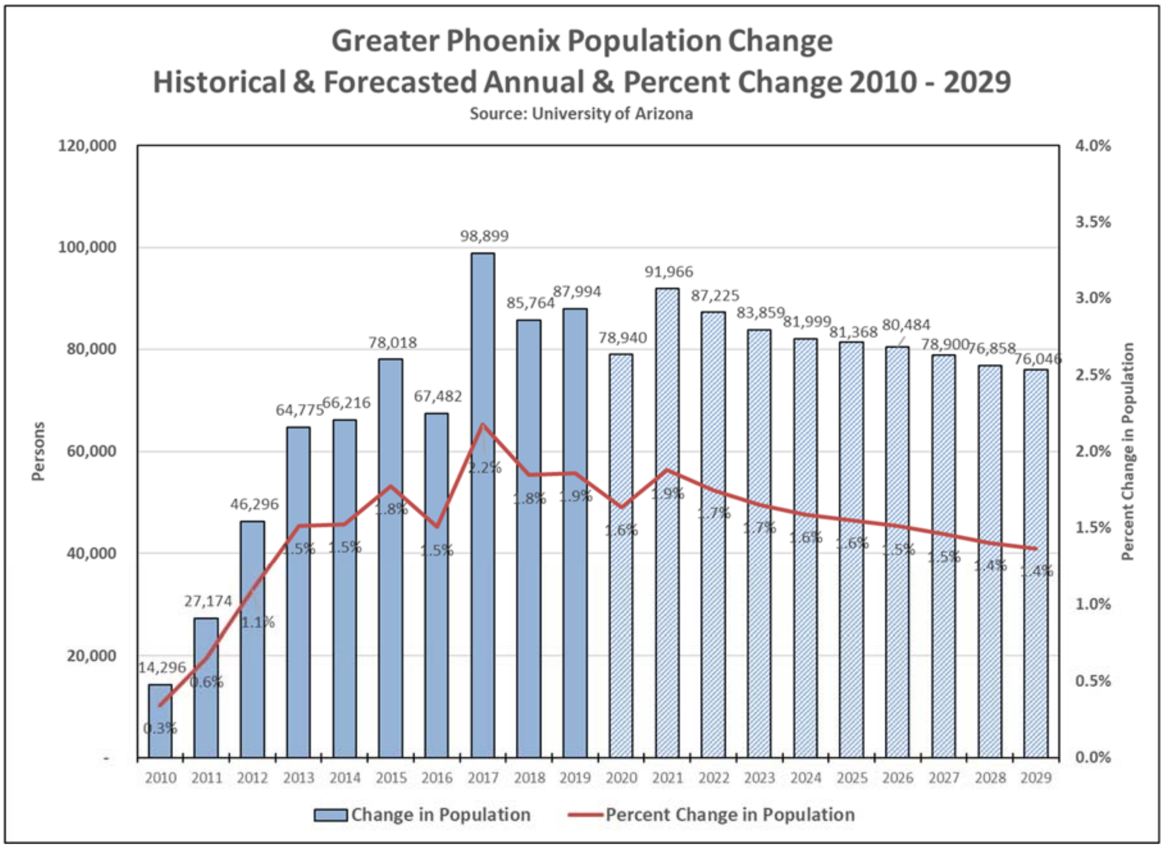
Largest Metro Areas in U.S. 2019

Rank	Metro Area	Population
1	New York	19,216,182
2	Los Angeles	13,214,799
3	Chicago	9,458,539
4	Dallas-Fort Worth	7,573,136
5	Houston	7,066,141
6	Washington DC	6,280,487
7	Miami	6,166,488
8	Philadelphia	6,102,434
9	Atlanta	6,020,364
10	**Phoenix**	**4,948,203**
11	Boston	4,873,019
12	San Francisco	4,731,803
13	Riverside-San Bernardino	4,650,631
14	Detroit	4,319,629
15	Seattle	3,979,845

Source: U.S. Census

The forecast for population growth for Greater Phoenix has been significantly affected by the coronavirus pandemic. The latest forecast from the University of Arizona (Q3 2020 released in August 2020) suggests a slowing of population growth for 2020 with a rebound in 2021 as the impact of the pandemic moderates. The forecast assumes that the current surge in the spread of the coronavirus is contained quickly and that there is no major resurgence in the fall. The forecast also assumes that the current executive order affecting activity at bars, indoor gyms, indoor movie theaters, and other activities, expires in August. However, the projections may be subject to large revisions in the future as new information impacts the outlook.

There is still a great amount of risk and uncertainty in the forecast. However, Arizona and Greater Phoenix entered the pandemic recession in excellent shape and thus far has outperformed the country in unemployment trends and rebounds in employment growth. The recovery from the pandemic will depend on the introduction of a vaccine, discipline among the population to restrict the spread of the disease, and the continuation of stimulus efforts from the federal government to provide resources for persons who are out of work. If these efforts are not successful, the recovery may be delayed. Full recovery at best is likely at least a year into the future.



While mobility across the U.S. has decreased since the Great Recession, Greater Phoenix has started to attract a significant number of new residents over the last few years. In 2018 and 2019, the region was one of the leaders in population growth in the nation. According to the U.S. Census, Greater Phoenix was the second fastest growing metro area in terms of absolute population increase with nearly 100,000 new residents each year (Note: the U.S. Census estimates vary from estimates from the University of Arizona that are cited in the above chart). Because of its overall size at more than 4.9 million persons, Greater Phoenix ranks third in percentage growth in 2019 behind several much smaller metro areas such as Austin and Raleigh.

One of the drivers Arizona's economy is population growth. In 2019, Arizona was the second highest destination for people moving in the U.S. from one state to another. With the pandemic, people aren't moving as much right now. However, over the long term, in-migration to Arizona should return, creating demand for both single family and multifamily housing. In fact, the pandemic may benefit Arizona as people and companies choose to relocate to less dense environments that are more suburban in character.

Fastest Growing Metro Areas 2018 & 2019
By Numeric Growth

	2017-2018		2018-2019	
Rank	Metro Area	Net Change	Metro Area	Net Change
1	Dallas-Fort Worth	131,767	Dallas-Fort Worth	117,380
2	Phoenix	96,268	Phoenix	98,994
3	Houston	91,689	Houston	89,994
4	Atlanta	75,702	Atlanta	75,061
5	Orlando	60,045	Austin	61,586
6	Seattle	54,894	Seattle	44,666
7	Austin	53,086	Charlotte	43,933
8	Riverside-San Bernardino	51,934	Las Vegas	40,600
9	Tampa-St. Petersburg	51,438	Tampa-St. Petersburg	40,182
10	Washington D.C.	49,949	San Antonio	38,581

Source: U.S. Census

Fastest Growing Metro Areas 2018 & 2019
By Percentage Growth

	2017-2018		2018-2019	
Rank	Metro Area	% Change	Metro Area	% Change
1	Austin	2.51%	Austin	2.77%
2	Orlando	2.39%	Raleigh	2.10%
3	Las Vegas	2.21%	Phoenix	2.00%
4	Raleigh	2.11%	Las Vegas	1.79%
5	Phoenix	2.02%	Jacksonville	1.72%
6	Jacksonville	1.98%	Charlotte	1.67%
7	Dallas-Fort Worth	1.78%	Dallas-Fort Worth	1.55%
8	San Antonio	1.77%	Nashville	1.53%
9	Charlotte	1.76%	San Antonio	1.51%
10	Tampa-St. Petersburg	1.66%	Houston	1.27%

Source: U.S. Census

Greater Phoenix is also a top 10 metro area in employment growth. In 2018, 68,100 jobs were created, second only to the Dallas-Fort Worth area. On a percentage basis, Greater Phoenix ended with a job increase of 3.34% for the year. The increase in job growth was replicated in 2019 but on a percentage growth basis, Greater Phoenix ranked fifth.

Fastest Growing Employment Centers 2018 & 2019
By Numeric Growth

	2017-2018		2018-2019	
Rank	Metro Area	Net Change	Metro Area	Net Change
1	Dallas-Fort Worth	86,800	Dallas-Fort Worth	127,600
2	Phoenix	68,100	Houston	88,000
3	Houston	64,900	Phoenix	68,800
4	Atlanta	58,400	Atlanta	66,700
5	San Francisco-Oakland	55,000	Seattle	65,400
6	Miami-Ft. Lauderdale	49,900	Washington D.C.	52,600
7	Riverside-San Bernardino	49,300	San Francisco-Oakland	51,300
8	Seattle	48,700	Miami-Ft. Lauderdale	44,900
9	Orlando	44,800	Orlando	43,300
10	Chicago	44,800	Austin	37,800

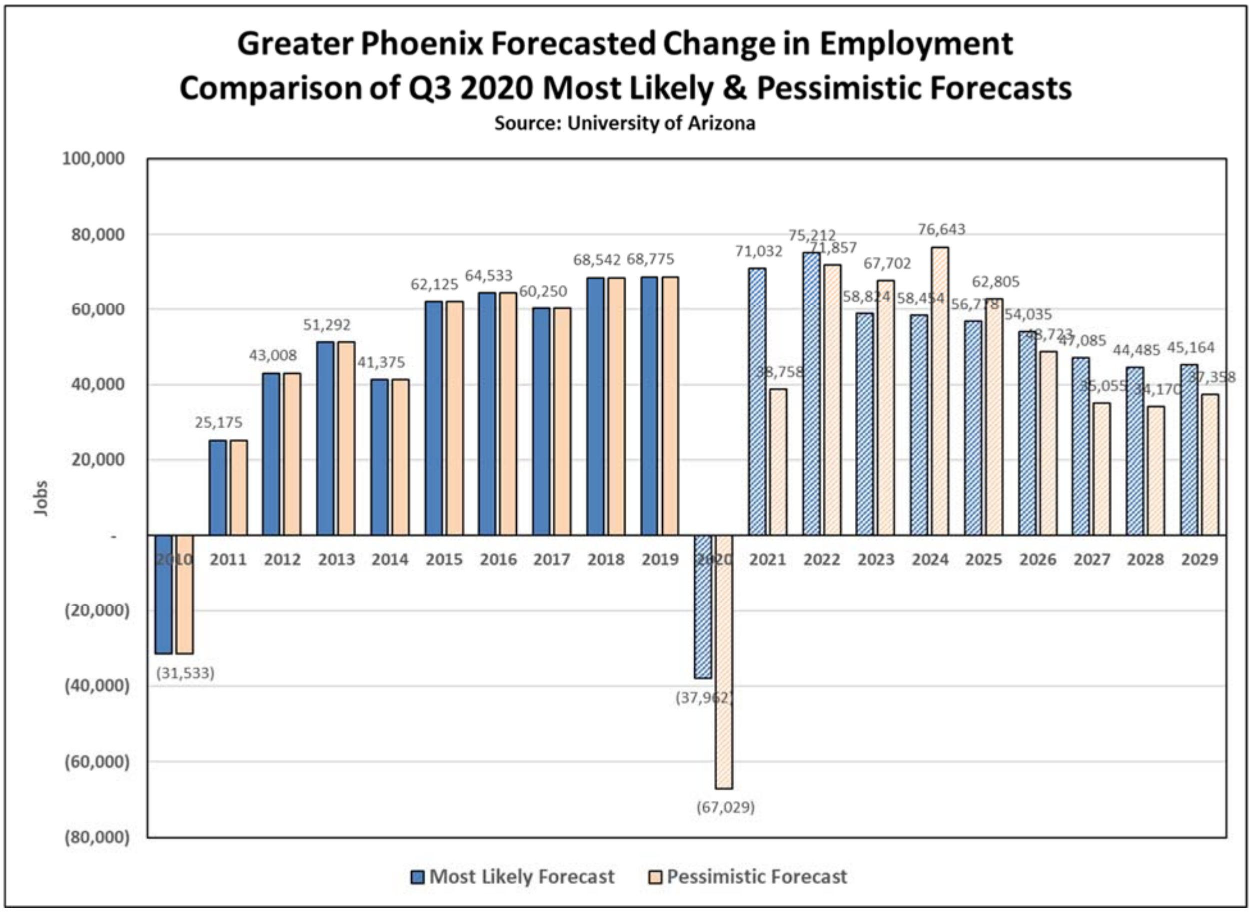
Source: U.S. Bureau of Labor Statistics

Fastest Growing Employment Centers 2018 & 2019
By Percentage Growth

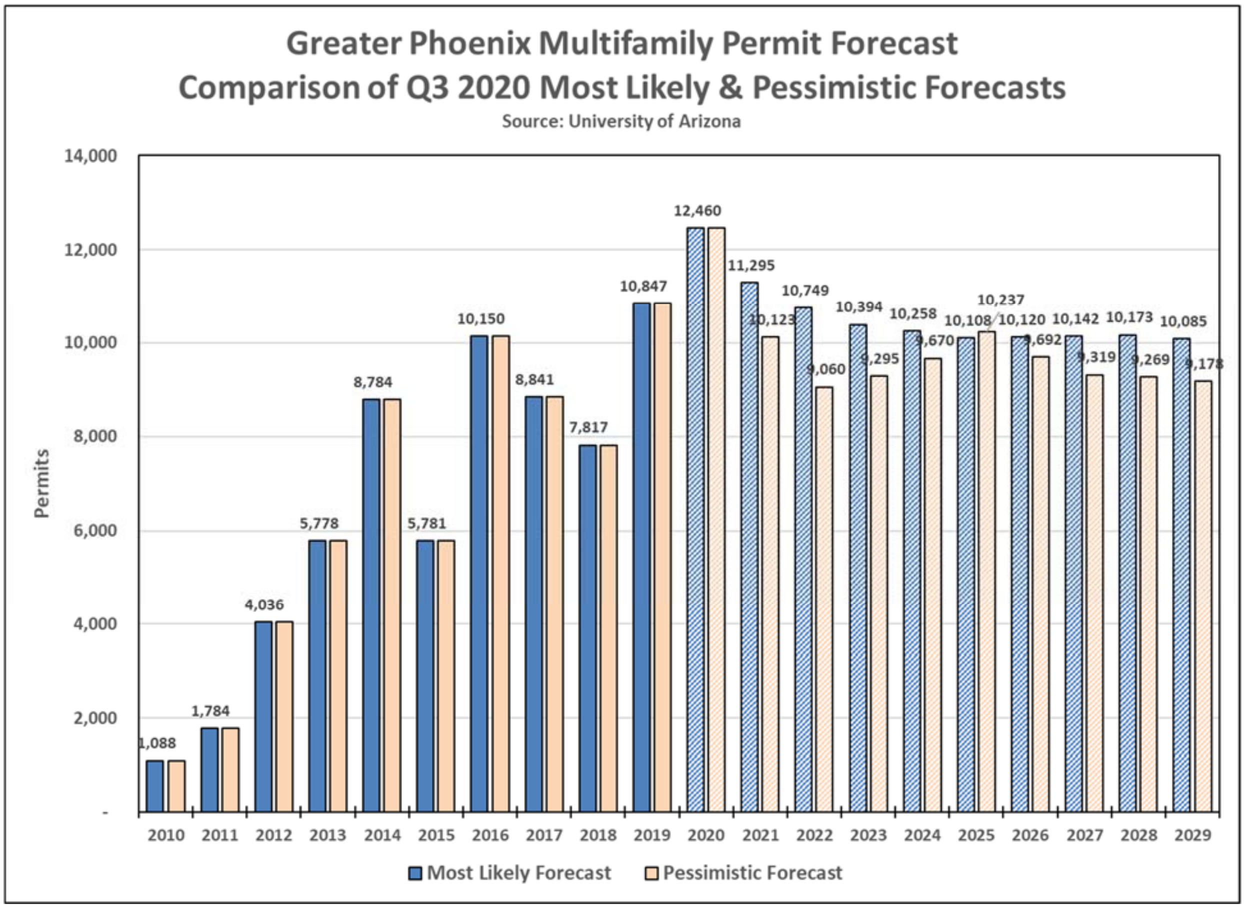
	2017-2018		2018-2019	
Rank	Metro Area	% Change	Metro Area	% Change
1	Orlando	3.58%	Raleigh	3.65%
2	Riverside-San Bernardino	3.39%	Austin	3.49%
3	Phoenix	3.34%	Dallas-Fort Worth	3.39%
4	Austin	3.32%	Orlando	3.26%
5	Nashville	3.07%	Phoenix	3.17%
6	Las Vegas	2.99%	San Antonio	3.20%
7	Denver	2.47%	Seattle	3.15%
8	Seattle	2.44%	Jacksonville	3.11%
9	Dallas-Fort Worth	2.41%	San Jose	2.88%
10	Charlotte	2.41%	Houston	2.80%

Source: U.S. Bureau of Labor Statistics

Prior to the pandemic, Greater Phoenix had fully recovered from the Great Recession. After losing 239,800 jobs in the recession, it has regained another 443,500 jobs (185% of jobs lost) since the bottom of the job market in September 2010. The outlook for job growth in Greater Phoenix over the next two years is uncertain due to the pandemic. The University of Arizona's most-likely and pessimistic employment forecasts show a loss of between 38,000 and 67,000 jobs in 2020. These numbers represent the average loss of jobs during the year and do not take into account the large job losses that occurred from March through the current date of this report. The most likely forecast suggests a recovery in job growth by 2021, while the pessimistic forecast delays the full recovery until 2022.



With the growth in population forecasted for Greater Phoenix, housing will continue to be in demand for the foreseeable future. Although employment will suffer in the next year, job growth will return in 2021 with higher levels forecasted for 2022. In order to accommodate the influx of new residents to Greater Phoenix, approximately 10,000 multifamily units will need to be built each year over the next ten years, representing about 28% of all new residential units. The University of Arizona’s most likely forecast calls for 105,800 multifamily permits through 2029. The pessimistic forecast is slightly lower at 98,300 permits.



Prior to the pandemic, the Greater Phoenix and Arizona economies were booming. Household incomes in Arizona were rising at double the national rate. Since March, Arizona and Greater Phoenix have outperformed the national economy in terms of unemployment and job growth. Most observers believe that the local economy will continue to perform much better than the national economy and recover more quickly. However, there are still significant risks and uncertainty as to when the pandemic will come under control and when the economy will return to “normal”.

2.3 Drivers of Multi-Family Development

There are two significant demand generators of the multi-family market: Baby Boomers and Millennials. Each will be described in this section.

Baby Boomers

A growing source of demand for multi-family units is the age group over 60 years old which includes most Baby Boomers. While this may be surprising given the focus on the Millennial generation, several observers have recognized the trend of an increasing percentage of older

Americans who make up the rental market. According to RentCafe.com, the fastest growing segment of the multi-family rental market is persons over the age of 60. Studies show that a portion of the older population is no longer enthusiastic about homeownership and is starting to downsize and move into rentals. The cost to maintain a home is now being replaced with more lifestyle choices – less monthly cost, lock-and-leave, no maintenance obligations.

This trend is on display in Scottsdale. The percentage of renter households over the age of 60 in the County has increased from 13.7% in 2007 to 18.0% in 2017 (note: data for Maricopa County and Scottsdale is not available beyond 2017). Scottsdale has historically had a higher percentage of 60+ year old renter households - well above the County average. In 2007, 21.8% of all Scottsdale renter households were older than 60 years. In 2017, that percentage increased to 24.6%. In fact, the number of renter households in Scottsdale over the age of 60 increased by 58% between 2007 and 2017. By comparison, the number of renter households under the age of 34, which traditionally makes up the majority of renters, only grew by 27%.

In the case of both Maricopa County and Scottsdale, the percentage of the multi-family market occupied by households under the age of 34 declined dramatically while the 60 plus age group grew rapidly.

Percentage of Total Renters By Age 2007 & 2017

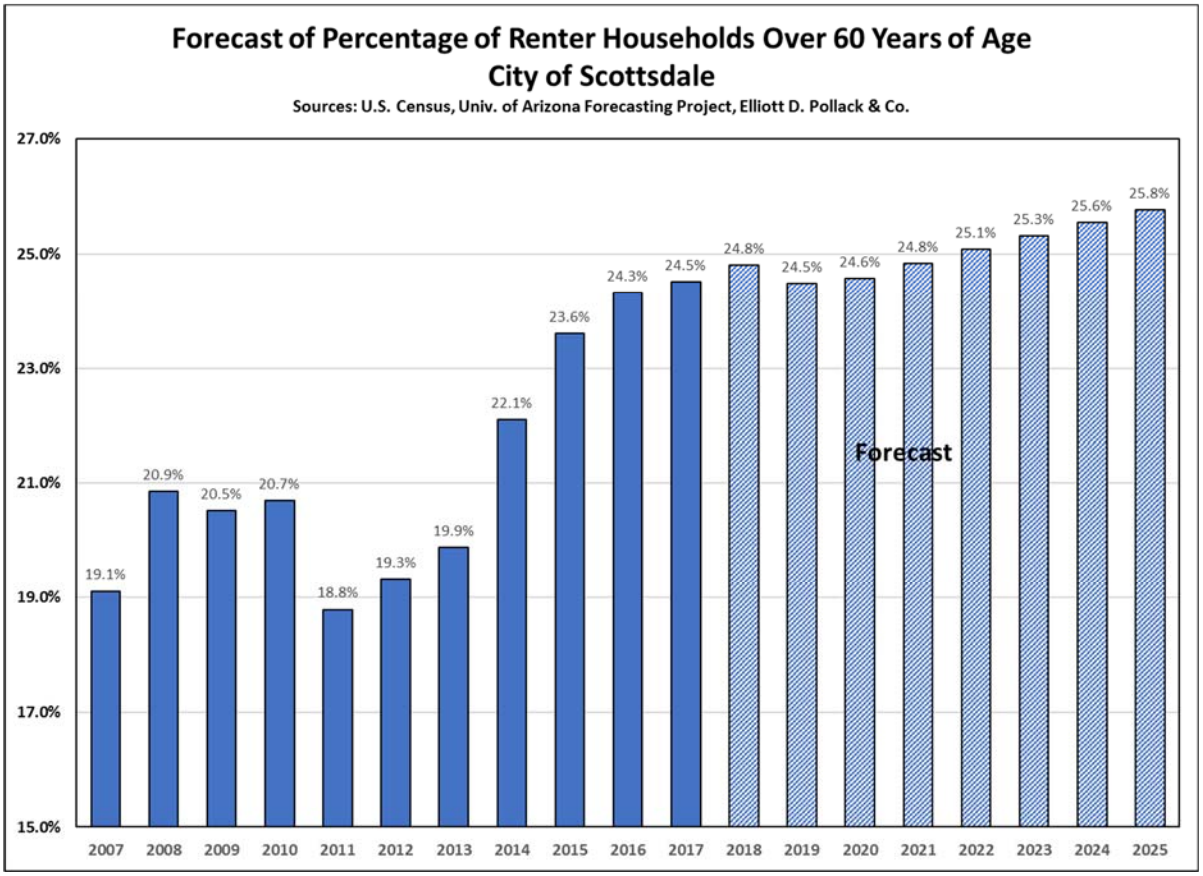
Maricopa County & Scottsdale

Age Group	Maricopa County		Scottsdale	
	2007	2017	2007	2017
34 and under	44.3%	35.4%	40.2%	36.3%
35-59	42.1%	46.6%	38.1%	39.1%
60+	13.7%	18.0%	21.8%	24.6%
Total	100.0%	100.0%	100.0%	100.0%

Source: U.S. Census, American Community Survey

Scottsdale's population with a median age of 46.0 is quite different than its neighbors. For instance, the median age of a Mesa resident is 35.6 while Tempe's median age is 29.9. As a result, the percentage of residents over the age of 60 who are renters in these adjacent cities is much lower. In Mesa, only 16.9% of all renters are over the age of 60; in Tempe an even smaller percentage at 8.5% are over 60. In Scottsdale, 24.6% of all renters are over age 60, 46% higher than in Mesa and 89% higher than in Tempe. The Scottsdale multi-family rental market is expected to continue to be driven by the Baby Boomer generation by virtue of the city's older age cohort.

Baby Boomers are making a lifestyle choice to rent instead of owning a home. Most have the incomes to comfortably own but are now downsizing and choosing to enjoy more flexibility in their lives. This may include traveling abroad more or living in another state for part of the year. The ability to lock and leave a unit is a conscious choice for this generation. A forecast through 2025 shows the continued growth in the Baby Boomer rental trend.



Millennials

Not surprisingly, the Millennial population has been one of the major drivers of the multi-family market since the Greater Recession. The definition of a Millennial varies from source to source. The narrowest definition is persons born between 1981 and 1996 which places their ages between 23 and 38 years old in 2019.

According to the U.S. Census, the Millennial generation numbered 72.1 million persons in 2019, surpassing the 71.6 million Baby Boomers (ages 53 to 73 today) as the largest generation. The Millennial generation will continue to grow in the future due to the influx of young immigrants. Boomers, on the other hand, are reaching retirement age and their numbers are shrinking as the number of deaths among them exceeds the number of older immigrants arriving in the country. The Millennial population is expected to grow to 81 million persons by 2036 before leveling off.

The Millennial generation grew up one of the worst recessions in U.S. history at a time when they were just entering adulthood. As they graduated from high school and college, many could not find permanent work and wage levels were depressed. In addition, those graduating from college were often burdened with student debt. As a result, the Millennial generation views their jobs and lives in ways much different than other generations. They have delayed marriage and family formations, lived with relatives or roommates, and delayed purchasing a home. The multi-family rental market has benefited from the choices made by Millennials.

Baby Boomers Versus Millennials
Ages 25 - 34

	Baby Boomer In 1980	Millennials in 2015
Married	68%	40%
Separated/Divorced	12%	7%
Never Married	20%	53%
Live in Independent Households	84%	59%
Lived with Parents/Grandparents	9%	22%
Home Ownership	60%	43%

Source: Bowling Green State University; 1980 Decennial Census; 2015 American Community Survey

Some of the findings of various studies of the Millennial psyche are:

- Job flexibility – buying a home locks one into not changing jobs or relocating.
- Millennials are more frugal than other generations and want to get a good deal. The newest and the best is not always the favored purchase.
- They will live with parents to save money.
- They have a desire to own a home but worry about buying one that is overpriced. A recession is still a lingering worry and the potential impact on housing values.
- They would rather spend money on “experiences” rather than housing.
- Affordability and having a suitable down payment are holding some back from buying.

There are many reasons for the decline in homeownership among Millennials, much of which has been divulged in the media. Student debt, tight credit, high down payment requirements, lack of income, and a general distrust in the housing market are all cited as reasons for Millennials not purchasing homes.

In a number of surveys, nearly all Millennials indicate they want to own a home. However, the actual purchase of a home is expected in the future, with a majority saying it will be more than five years away. Once again, the impact of the Great Recession and housing bust is echoed in the survey findings. The delay in home buying is a function of:

- Completing education
- Achieving a steady income
- Increasing confidence in future home price growth
- An improving job market and economic outlook.

A recent Bankrate survey also illustrates some of the various life milestones that have been postponed due to individual financial situations, including the purchase of a home which is highest among those aged 18-29.

Milestones Postponed By Age Group

Milestone	18-29	30-49	50-64
Buying a House	30%	27%	16%
Saving for Retirement	18%	21%	24%
Buying a Car	29%	24%	12%
Getting Married	19%	11%	7%
Having Children	14%	12%	9%
Not Delaying Anything	44%	47%	67%

Source: Bankrate Money Pulse Survey

Consistent with other surveys, the National Association of Realtors reports that student loans and other debts such as credit cards and car loans are causing a delay in saving for a down payment on a home. This is especially true for the Millennial generation. Credit availability and lending standards have also contributed to the declines in homeownership. There was a severe decline in available mortgage credit following the housing crash that has been slow to recover.

Expenses that Delayed Saving for a Down Payment Or Home Purchase By Age

Expense	All Buyers	36 & Younger	37 - 51	52-61
Student Loans	49%	55%	29%	9%
Credit Card Debt	40%	31%	41%	29%
Car Loan	34%	32%	21%	14%
Child Care Expenses	18%	12%	15%	1%
Health Care Costs	14%	9%	10%	13%
Other	15%	18%	26%	52%
Median Years Delayed	3	3	4	3

Source: National Association of Realtors 2017

Overall, due to the size of the Millennial population that is still aging into the multi-family rental market, fundamentals appear strong for continued multi-family project development for the next decade.

For the near term, the next five to ten years, the multi-family market will be driven by both the under 34 age group and the over 60 age group. Younger households will continue to seek shelter and life experiences. They will likely choose their place of living depending on their income. Older households are expected to continue downsizing as a lifestyle choice, a portion of whom will decide to rent in a multi-family community.

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3.0 Scottsdale Population and Employment Forecasts

The official population estimate from the Arizona Office of Economic Opportunity (OEO) for Scottsdale is 247,944 persons as of July 2019. Forecasts of population and employment growth for Scottsdale were prepared in 2018 by the Maricopa Association of Governments and are the latest available estimates of population and employment.

Scottsdale's population is expected to grow more slowly on a percentage basis over the next 20 years than Maricopa County. This is partly due to a dwindling land supply in Scottsdale as well as the cost of housing which is well above average. Overall, Scottsdale is expected increase in population by an average 2,350 persons per year by 2040 (49,900 persons total) from its 2019 population estimate. It is also expected to add 49,900 new jobs to its employment base by 2040. This equates to a capture rate by Scottsdale of 3.7% of County's forecasted population and 5.6% of the County's future jobs. By comparison, Maricopa County is expected in grow by 1.34 million persons and 891,200 jobs by 2040.

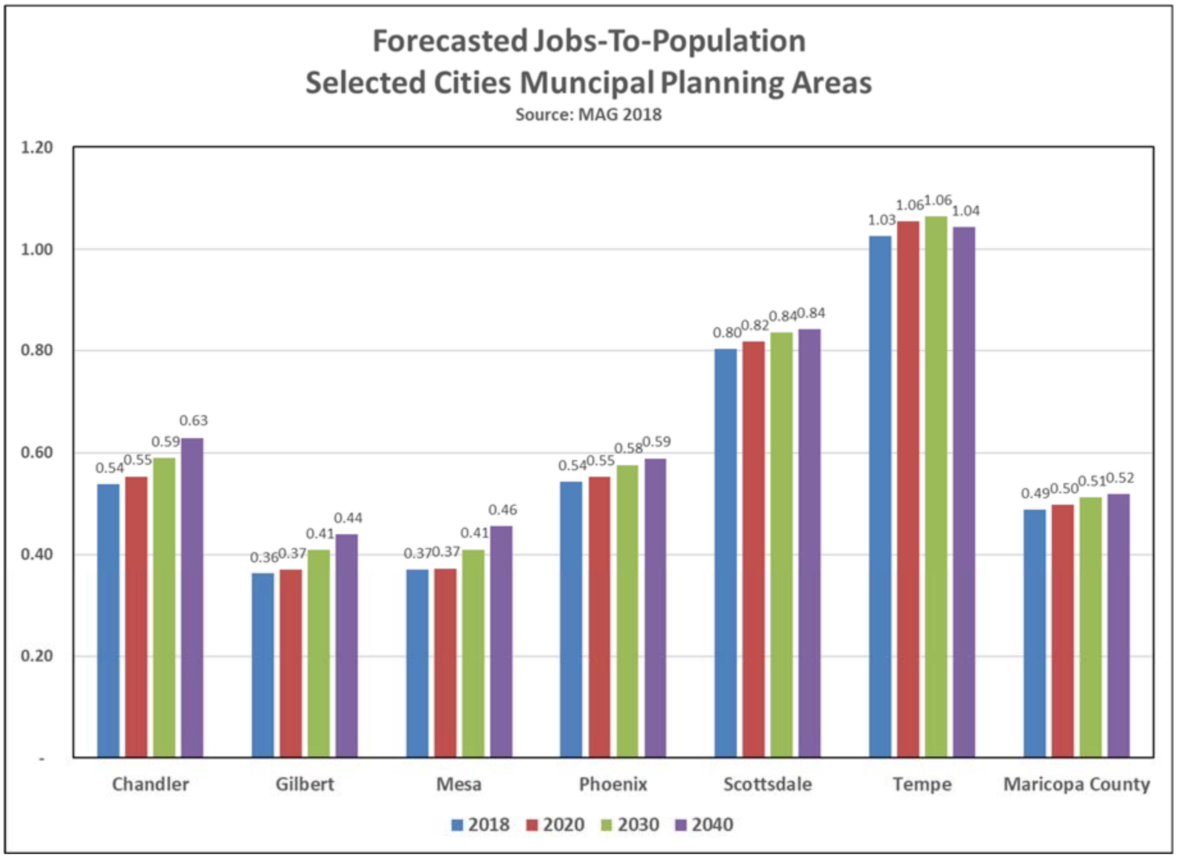
Population & Employment Forecasts
City of Scottsdale & Maricopa County

	2019	2020	2025	2030	2035	2040	2019-2040 Change
Scottsdale							
Population	247,900	251,300	268,900	279,900	289,800	297,300	49,400
Average Annual Growth Rate		1.37%	1.36%	0.81%	0.70%	0.51%	
Jobs	202,100	207,400	221,000	235,500	243,600	252,000	49,900
Average Annual Growth Rate		2.62%	1.28%	1.28%	0.68%	0.68%	
Jobs/Population Ratio	**0.82**	**0.83**	**0.82**	**0.84**	**0.84**	**0.85**	
Maricopa County							
Population	4,367,800	4,436,900	4,780,600	5,107,700	5,423,400	5,712,000	1,344,200
Average Annual Growth Rate		1.58%	1.50%	1.33%	1.21%	1.04%	
Jobs	2,113,100	2,236,400	2,436,600	2,648,000	2,843,700	3,004,300	891,200
Average Annual Growth Rate		5.84%	1.73%	1.68%	1.44%	1.10%	
Jobs/Population Ratio	**0.48**	**0.50**	**0.51**	**0.52**	**0.52**	**0.53**	

Sources: MAG 2019 Forecast, AZ OEO

An important consideration in analyzing forecasts is the jobs-to-population ratio for a municipality. A jobs-to-population ratio that is higher than the county average indicates that the community is a center of employment. Scottsdale's ratio is much higher than the county, standing at 0.80 in 2019 and expected to increase to 0.84 by 2040 (data is for the Municipal

Planning Area which extends beyond city boundaries). In comparison to other major cities in the Valley, Scottsdale is among the leaders in job growth and the jobs-to-population ratio.



As a result of its employment base, Scottsdale experiences an influx of workers each day commuting to the city. Employee commuting data prepared by the U.S. Census suggests that Scottsdale attracts workers from across the metro area. More than a third of Scottsdale workers commute from Phoenix with the remainder spread across the East and West Valleys.

Scottsdale Worker Commuting Patterns		
Community	**Workers**	**% of Total**
Persons working & living in Scottsdale	31,231	16.9%
Where persons live who work in Scottsdale		
Phoenix	65,708	35.6%
Mesa	15,520	8.4%
Chandler	7,957	4.3%
Tempe	7,560	4.1%
Gilbert	7,117	3.9%
Glendale	5,528	3.0%
Peoria	4,602	2.5%
Surprise	2,786	1.5%
All Other Locations	36,520	19.8%
Total	**184,528**	**100.0%**

Source: U.S. Census Bureau, OnTheMap Application and LEHD Origin-Destination Employment Statistics

The following table outlines the strengths of the Scottsdale job market compared to Maricopa County averages. Highlighted are the employment clusters that make Scottsdale standout from other communities. Overall, Scottsdale's strengths are in Business Services, Consumer Services, Finance, Insurance & Real Estate, Health Care, Hospitality, and Media. Most of these clusters generate above average wages.

Employment Cluster Summary				
	Scottsdale		**Maricopa County**	
Cluster	**Employees**	**% of Total**	**Employees**	**% of Total**
Business Services	26,420	17.2%	193,820	12.0%
Construction	9,290	6.0%	118,500	7.3%
Consumer Goods Manufacturing	1,760	1.1%	22,260	1.4%
Consumer Services	17,410	11.3%	175,960	10.9%
Education	5,470	3.6%	121,760	7.5%
Finance, Insurance & Real Estate	20,810	13.5%	159,920	9.9%
Government, Social & Advocacy Services	6,040	3.9%	132,640	8.2%
Health Care	20,130	13.1%	173,320	10.7%
High Tech Manufacturing & Development	6,960	4.5%	73,060	4.5%
Hospitality, Tourism & Recreation	11,530	7.5%	63,670	3.9%
Media, Publishing & Entertainment	1,630	1.1%	12,800	0.8%
Metal Inputs & Transportation-Related Manufacturing	630	0.4%	20,980	1.3%
Non-Metallic Manufacturing	1,260	0.8%	19,350	1.2%
Resource Dependent Activities	720	0.5%	17,580	1.1%
Retail	16,510	10.7%	189,200	11.7%
Telecommunications	1,430	0.9%	19,030	1.2%
Transportation & Distribution	5,630	3.7%	105,670	6.5%
Totals	153,630	100.0%	1,619,520	100.0%

Source: MAG

A listing of the major private employers in Scottsdale illustrate the industry clusters of health care services, business services, and finance, insurance and real estate services.

Major Private Employers
City of Scottsdale

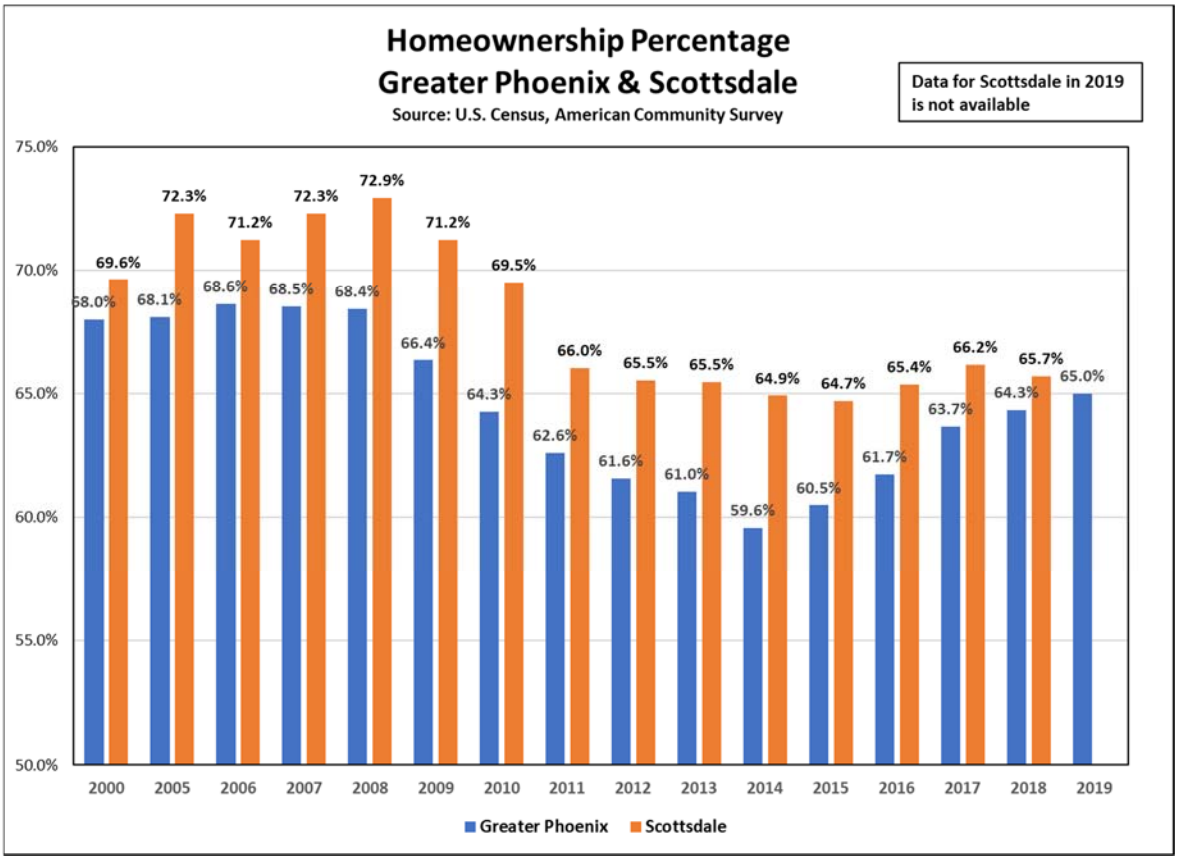
Business	Employees	Industry Cluster
HonorHealth	6,223	Health Care
Vanguard	3,365	Finance, Insurance, & Real Estate (FIRE)
CVS Health	2,978	Business Svcs
General Dynamics C4 Systems Inc	2,403	Business Svcs
Mayo Clinic	2,011	Health Care
Nationwide Insurance	1,240	Finance, Insurance, & Real Estate (FIRE)
Yelp	1,200	Business Svcs
Hartford Fire Insurance Company	800	Finance, Insurance, & Real Estate (FIRE)
The Fairmont Scottsdale Princess	700	Hospitality, Tourism, & Recreation
Discount Tire Co Inc	560	Retail
Taser International Inc	510	Consumer Goods Manufacturing
Sources: City of Scottsdale, MAG		

In summary, as an important hub of employment in the Greater Phoenix area, the demand for housing will continue to grow in Scottsdale. Based on the population forecasts from MAG, the demand for housing in Scottsdale will total more than 31,100 units over the next 20 years. Most of that demand will occur in the next decade totaling 16,300 units. With a limited land resource, much of the development will likely take place:

- In southern Scottsdale where obsolete properties are being redeveloped and
- Along and near the Loop 101 where mixed-use employment and residential uses are planned.

4.0 Scottsdale Multi-family Market

Scottsdale's homeownership rate has historically always exceeded the rate for Greater Phoenix. During the housing boom of 2005 to 2007, homeownership in Scottsdale exceeded 70%. After the recession, homeownership declined to 65%, but was significantly above the Greater Phoenix average. The rate in Scottsdale has been increasing since 2015, reaching near 66% in 2018. Data for 2019 for Scottsdale is not available from the U.S. Census.



Scottsdale currently has 109 multi-family communities with approximately 26,652 units. During the real estate boom, Scottsdale experienced a significant number of condominium conversions. Scottsdale had the second highest number of conversions in the county, exceeded only by Phoenix. Between 2002 and 2007, the inventory of multi-family communities in Scottsdale declined by 6,400 units, primarily the result of condominium conversions. When the housing boom ended, some communities did revert to rentals, either in whole or in part, due to the decline in demand.

In comparison to the typical Maricopa County multi-family community, Scottsdale has historically enjoyed a lower vacancy rate and higher average rents. However, Scottsdale's current vacancy rate stands at 9.1%, excluding communities that are in the lease-up stage. By comparison, the County-wide vacancy rate for stabilized properties is 5.9%. The average Scottsdale apartment unit is approximately 100 square feet larger than the average County apartment and Scottsdale rents are 31% higher than the average County rent.

Scottsdale & Maricopa County Apartment Markets
2nd Quarter 2020

	Units	Rent	Unit SF	Rent/SF	Vacancy Rate
Scottsdale					
Total Inventory	26,652	$1,515	944	$1.61	9.4%
Stabilized Inventory	26,038	$1,512	946	$1.60	9.1%
Maricopa County					
Total Inventory	319,933	$1,157	843	$1.38	8.5%
Stabilized Inventory	304,414	$1,134	838	$1.37	5.9%

Source: RealData

Over the past year, the vacancy rate in Scottsdale has increased from 5.0% at the end of 2018 to its current 9.1% rate. According to RealData, only two complexes were completed in 2019 totaling 477 units and another 513 units in two complexes were completed in 2020. By comparison, a total of 16,500 units were built in the County in 2019 and 2020.

The increase in vacancy in the Downtown Scottsdale market could be related to the COVID-19 pandemic as residents are laid off or furloughed from jobs. With reduced incomes, some households may be searching for less expensive housing and moving from the area. In addition, at least on a temporary basis, the amenities that have drawn a younger population to Downtown Scottsdale such as restaurants, bars, and shopping have been impacted by the pandemic. The increase in the vacancy rate is likely a short term phenomena that will be corrected as the local and national economies recover.

4.1 Downtown Scottsdale Multifamily Market

The Downtown Scottsdale multifamily market within which the proposed Toll Brothers' apartment complex will compete is defined by the following boundaries: Chaparral Road on the north, Pima Road on the east, Thomas Road on the south and 64th Street on the west.

Demographic Analysis

The population within the Downtown Scottsdale market area is estimated by the U.S. Census at 37,255 in 2018 or approximately 15% of the total City population. The median age of market area residents at 38.6 years is much lower than the City's median and not much higher than the Maricopa County median age of 36.6 years. The predominant age groups are from 20 years to 44 years of age compared to the City's age mix. More than 23% of the population of the market area is between 25 to 34 years compared to only 13% throughout the City.

Population by Age
Downtown Scottsdale Market Area

	Market Area		Scottsdale	
Age Group	Population	% of Total	Population	% of Total
Under 5 years	1,636	4.4%	9,434	3.8%
5 to 9 years	1,438	3.9%	10,048	4.1%
10 to 14 years	1,668	4.5%	11,976	4.9%
15 to 19 years	1,152	3.1%	11,209	4.6%
20 to 24 years	2,850	7.6%	12,661	5.1%
25 to 29 years	5,067	13.6%	17,736	7.2%
30 to 34 years	3,651	9.8%	14,844	6.0%
35 to 39 years	2,718	7.3%	13,890	5.6%
40 to 44 years	2,444	6.6%	14,444	5.9%
45 to 49 years	2,222	6.0%	16,347	6.6%
50 to 54 years	2,329	6.3%	18,890	7.7%
55 to 64 years	3,863	10.4%	36,938	15.0%
65 to 69 years	1,763	4.7%	17,526	7.1%
70 to 74 years	1,229	3.3%	14,613	5.9%
75 to 79 years	1,234	3.3%	11,192	4.5%
80 to 84 years	725	1.9%	6,831	2.8%
85 years and over	1,266	3.4%	7,447	3.0%
Total Population	37,255	100.0%	246,026	100.0%
Median age	38.6		47.0	

Source: 2018: ACS 5-Year Estimates Subject Tables

Median and average household incomes in the Downtown Scottsdale market area are significantly lower than the City-wide median and average. This fact may be due to the predominance of renter households and a younger population that typically has lower household incomes.

Household Income
Downtown Scottsdale Market Area

Income Range	Market Area		City of Scottsdale	
	Households	% of Total	Households	% of Total
Total households	**18,452**		**111,221**	
Less than $10,000	993	5.4%	4,694	4.2%
$10,000 to $14,999	705	3.8%	3,148	2.8%
$15,000 to $24,999	1,496	8.1%	6,730	6.1%
$25,000 to $34,999	1,582	8.6%	7,223	6.5%
$35,000 to $49,999	2,662	14.4%	11,269	10.1%
$50,000 to $74,999	3,427	18.6%	16,467	14.8%
$75,000 to $99,999	2,299	12.5%	13,261	11.9%
$100,000 to $149,999	2,577	14.0%	19,267	17.3%
$150,000 to $199,999	1,287	7.0%	9,990	9.0%
$200,000 or more	1,427	7.7%	19,172	17.2%
Median household income (dollars)	$66,690		$84,601	
Mean household income (dollars)	$90,877		$129,271	

Source: American Community Survey 2018 5-Year Estimates

The educational attainment of residents of Downtown Scottsdale differs slightly from the City-wide averages. The percentage of residents with a Bachelor's degree is similar to the typical Scottsdale resident. However, the percentage of Downtown residents with graduate or professional degrees is below the City-wide average. When compared to Maricopa County residents, the Downtown Scottsdale shows a significantly higher levels of Bachelor's and graduate degrees.

Educational Attainment
Population 25 Years and Over

	Market Area		City of Scottsdale		Maricopa County	
	Persons	% of Total	Persons	% of Total	Persons	% of Total
Total Population 25 Years and Older	**28,511**		**190,698**		**2,949,658**	
Less than 9th grade	967	3.4%	3,271	1.7%	159,464	5.4%
9th to 12th grade, no diploma	1,022	3.6%	3,361	1.8%	190,231	6.4%
High school graduate (includes equivalency)	3,913	13.7%	23,945	12.6%	658,973	22.3%
Some college, no degree	6,104	21.4%	37,886	19.9%	703,238	23.8%
Associate's degree	2,002	7.0%	13,210	6.9%	258,108	8.8%
Bachelor's degree	9,383	32.9%	66,287	34.8%	620,462	21.0%
Graduate or professional degree	5,120	18.0%	42,738	22.4%	359,182	12.2%

Source: American Community Survey 2018 5-Year Estimates

Downtown Scottsdale Housing Market

The Downtown Scottsdale market area has approximately 18,500 occupied housing units with 46.5% of the units owner-occupied. Comparatively, 65.0% of all units in Scottsdale are owner-occupied. The age of housing in the market area is older than other parts of the City. Nearly two-thirds of the housing units in Downtown Scottsdale were built before 1970 compared to only 32% City -wide.

Occupied Housing Units by Type
Downtown Scottsdale Market Area

	Market Area		City of Scottsdale	
	Units	% of Total	Units	% of Total
Total:	**18,452**		**111,221**	
Owner-occupied housing units:	**8,575**	**46.5%**	**73,289**	**65.9%**
1, detached/attached	6,037	70.4%	64,816	88.4%
2 or 4	222	2.6%	1,720	2.3%
5 or more	2,256	26.3%	6,161	8.4%
Other	60	0.7%	592	0.8%
Renter-occupied housing units:	**9,877**	**53.5%**	**37,932**	**34.1%**
1, detached/attached	1,746	17.7%	11,560	30.5%
2 or 4	1,321	13.4%	4,368	11.5%
5 or more	6,727	68.1%	21,731	57.3%
Other	83	0.8%	273	0.7%

Source: American Community Survey 2018 5-Year Estimates

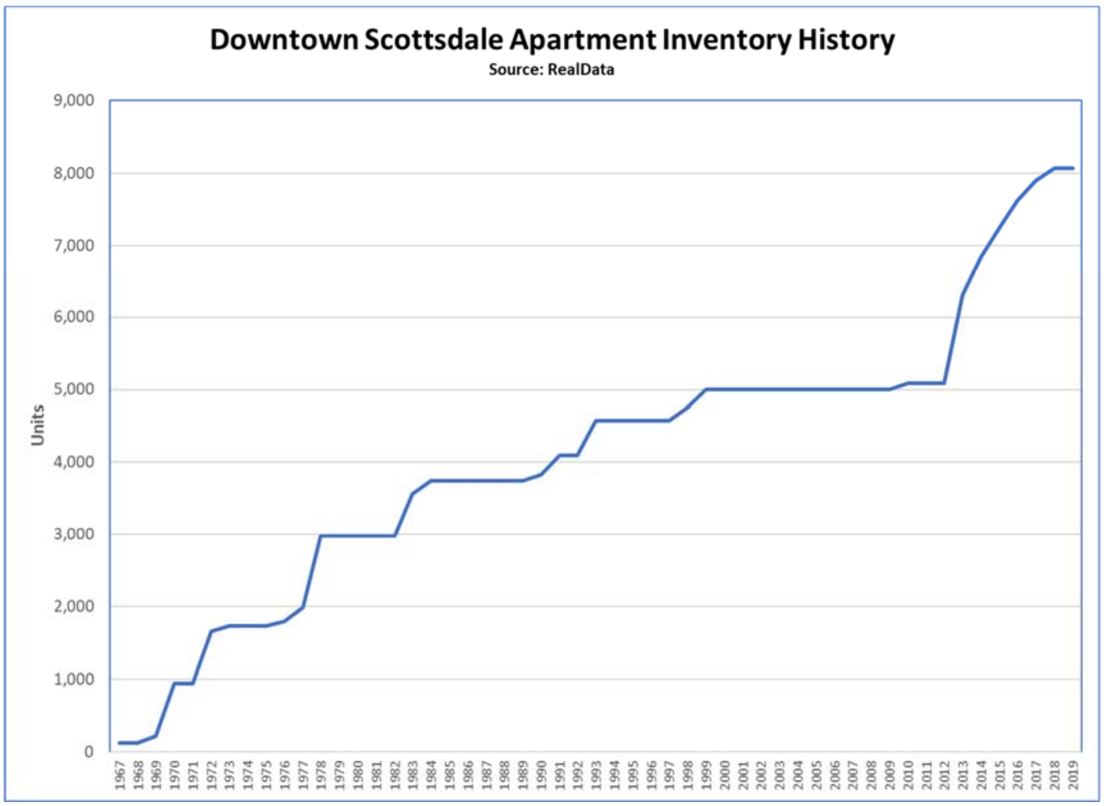
All Housing Units By Year Built
Downtown Scottsdale Market Area

	Market Area		City of Scottsdale	
	Units	% of Total	Units	% of Total
Total Units	**22,245**		**135,092**	
Built After 2010	1,356	6.1%	5,185	3.8%
Built 2000 to 2009	1,920	8.6%	21,716	16.1%
Built 1990 to 1999	1,546	6.9%	36,715	27.2%
Built 1980 to 1989	3,132	14.1%	28,044	20.8%
Built 1970 to 1979	6,336	28.5%	21,922	16.2%
Built Pre-1970	7,955	35.8%	21,510	15.9%

Source: American Community Survey 2018 5-Year Estimates

The age of the Downtown Scottsdale housing stock has created significant opportunities for redevelopment and reconstruction of older parts of the city. The predominance of the 20 to 44 year old age group in the market area demonstrates a diverse rental market as well as opportunities created for redevelopment of older housing units.

Within the Downtown Scottsdale market area are 34 multifamily communities (with more than 50 units per complex) totaling 8,070 units. The following chart plots the increase in the multi-family unit count from 1967 to 2020. Much of the development in South Scottsdale occurred in the 1970s and 1980s, then leveled off from the late 1990s through 2013. The Great Recession hindered apartment development activity from 2008 to 2013. Multifamily development in the market area started again in 2014 along with extensive construction activity throughout the entire County. A total of 2,983 units were built in the market area between 2014 and 2019 or an average of 497 units per year. No complexes have been completed in the first half of 2020. Overall, apartment development activity in the Downtown Scottsdale market area has been moderate compared to other parts of the metro area.



The current pipeline of multifamily communities in the Downtown Scottsdale market includes only one complex that is under construction and is expected to be completed in the first half of 2021. Gramercy Scottsdale will have 160 upscale units. Overall, Downtown Scottsdale's share of the County's 21,305 under-construction units is less than 1.0%.

The Downtown Scottsdale apartment market has held up well compared to the City-wide metrics. Average rents in Downtown are $35 per month higher than City-wide rents and 6% higher on a square footage basis. The vacancy rate is 7.0% compared to 9.4% City-wide. Clearly there is demand for rental housing in the market area given it amenities and attributes, especially for a person looking for a more urban environment.

Downtown Scottsdale Apartment Market
2nd Quarter 2020

	Units	Avg Rent	Avg Unit SF	Avg Rent/SF	Vacancy Rate
Downtown Scottsdale					
Total Inventory	8,070	$1,540	898	$1.71	7.0%
Stabilized Inventory	7,494	$1,522	902	$1.71	7.0%
Scottsdale					
Total Inventory	26,652	$1,515	944	$1.61	9.4%
Stabilized Inventory	26,038	$1,512	946	$1.60	9.1%

Source: RealData

Modern complexes built in Downtown Scottsdale have changed the character of the area and, largely due to rising construction costs, have resulted in higher rents. Except for a few complexes, vacancy rates are in a reasonable range of 4% to 8%. The Moderne has the highest vacancy rate at 17%; Optima Sonoran Village III is still in its initial lease-up period. Vacancy is a function of the design of the complex, access to amenities, walkability, and similar factors.

Downtown Scottsdale Apartment Market
Complexes Built Since 2014

Complex	Address	Units	Yr. Built	Avg. Rent	Avg. SF Per Unit	Avg. Rent Per SF	Vacancy Rate
The Moderne	4848 N. Goldwater Blvd.	369	2014	$1,885	951	$1.98	17.0%
Optima Sonoran Village III	6869 E. Camelback Rd.	592	2014	$2,187	1,025	$2.13	9.0%
Broadstone Waterfront	7025 E. Via Soleri Dr.	258	2014	$2,152	849	$2.53	11.0%
Camden Old Town Scottsdale	7426 E. Stetson Dr.	316	2015	$1,893	892	$2.12	8.0%
Luxe Scottsdale	8444 E. Indian School Rd.	218	2015	$1,453	868	$1.67	6.0%
The TomScot	3015 N. Scottsdale Rd.	278	2016	$1,720	991	$1.74	8.0%
The Standard	6811 E. Main St.	134	2016	$1,969	843	$2.34	6.0%
The Carter	3300 N. Scottsdale Rd.	365	2017	$1,940	869	$2.23	4.0%
The Griffin	3234 N. Scottsdale Rd.	277	2018	$1,726	947	$1.82	7.0%
Optima Sonoran Village III	6815 E. Camelback Rd.	176	2019	$3,081	1,287	$2.39	11.0%
Total/Averages		**2,983**		**$1,988**	**953**	**$2.08**	**8.9%**
Complexes Built Before 2014		**5,087**		**$1,239**	**843**	**$1.46**	**5.7%**

Source: RealData

4.2 Scottsdale Housing Forecast

Scottsdale is forecasted to grow from a population of 247,900 persons in 2019 to 279,900 persons by 2030 or an increase of 32,000. This growth will require the addition of 14,500 new housing units over the next 10 years. Based on this historical homebuilding activity and the dwindling available land supply in the City, the multi-family market will likely continue to account for a majority of all units built in the future. The Downtown Scottsdale market area will continue to capture its share of the City's future multi-family construction activity. To be sure, this is not an unusual phenomenon in the growth of a community. Most mature cities in the Valley are experiencing a similar mix of housing construction as available residential land becomes scarce.

While Downtown Scottsdale has captured a fair share of the county-wide multifamily market since 2010, apartment construction activity has now expanded across the Valley, reducing the number of projects that are planned or under construction in Scottsdale and the Southeast Valley. Downtown Scottsdale is expected to continue to see apartment development activity in the future although that activity will be modest relative to the number of units built between 2014 and 2016.

4.3 Summary of Downtown Scottsdale Market Area Conditions

Scottsdale has one of the strongest multi-family markets in Maricopa County. Historically, the vacancy rate in Scottsdale has averaged two to three percentage points lower than the county vacancy rate and the average rent in Scottsdale is typically 25% higher than the average county rent. Today the difference in rents is 31%. While vacancy rates are currently above the county average, this phenomenon is considered a short-term, temporary condition resulting from the COVID-19 pandemic.

Scottsdale and the Southeast Valley have captured a large share of the multi-family market because of their employment base which includes high tech, aerospace, healthcare, and other high wage occupations. Scottsdale's target industries and top local firms as outlined by the City's Economic Development Department are:

- Advanced Business Services: Vanguard, Nationwide Insurance and APL Logistics
- Bio-Life Sciences: Mayo Clinic, Orion Health, Honor Health
- Hospitality: Troon Golf, Fairmount Scottsdale Princess, Westworld
- Technology: GoDaddy, JDA Software, PayPal, Yelp

The Scottsdale employment base has made the city an attractive destination for residents and visitors alike. A wide mix of housing is an important element of the City's economic development strategy. Between 2019 and 2030, approximately 14,500 housing units will need to be constructed in Scottsdale to provide housing for the forecasted population. A portion of those units will need to be multi-family units to provide housing for well-heeled Baby Boomers. Additionally, the successful younger generation will need transitional housing between starting a career and entering the homeownership market. The Downtown Scottsdale market area is attractive to new startup companies that desire an urban, walkable environment. Many Baby Boomer and Millennial residents also desire a similar walkable environment that makes Downtown Scottsdale unique from other Valley cities and a destination for tourists.

The current pipeline of multifamily communities in South Scottsdale is modest with only one community to be completed in 2021. Multifamily development activity in Scottsdale generally is expected to slow as developers seek out other locations for new projects, particularly in the West Valley which has had limited development activity until the last three years.

Overall, the Downtown Scottsdale multifamily market is extremely healthy. Continued development of new units is anticipated to provide for the housing needs of new residents and employees as well as to further promote the desires of well-heeled Baby Boomers and successful Millennials for an urban, walkable lifestyle.

5.0 Economic and Fiscal Impact of The Miller

This section of the report provides the economic and fiscal impacts of the construction and ongoing operations of the proposed multi-family mixed-use community proposed for Miller Road and 6th Avenue in Scottsdale, Arizona. The project will have 148 residential units.

The impact analysis focuses on the economic and fiscal impacts of the following:

1. Construction of the project.
2. Impact from community operations once construction is completed.
3. Impact from employees and residents once construction is completed.

Economic impact analysis examines the regional implications of an activity in terms of three basic measures: output, earnings, and job creation. Fiscal impact analysis evaluates the public revenues and costs created by a particular activity. In a fiscal impact analysis, the primary revenue sources of a city, county, or state government are analyzed to determine how the activity may financially affect them.

5.1 Project Assumptions & Methodology

The assumptions used to estimate the economic and fiscal impacts of the construction and operations of the proposed multi-family mixed-use community have been developed from a variety of sources. The development plan for the property was provided by Toll Brothers Apartment Living, which outlined the initial number of units, average size per unit, expected rents and occupancy.

As initially conceived, the community would contain 148 multi-family units averaging 939 square feet with rents of $2.75 per square foot. The estimated annual taxable spending of residents was calculated based on the U.S. Consumer Expenditure Survey using an average household income for complex residents of $103,300. Based on information from similar high-density projects, a typical household size of 1.81 persons per unit was used. All calculations assume a vacancy rate for the project of 5.0%.

Project Assumptions The Miller			
Construction		**Operations**	
Development Plan			
Units	148	Projected rents per square foot	$2.75
Average size (SF)	939	Stabilized Occupancy	95%
Gross square feet	262,968	Limited Property Value / sf	$106
Net square feet (residential)	138,995	Median Household Income	$103,300
		Persons per Household	1.81
Construction Cost		Per Capita AZ Shared Revenue (city)	$295
Total	$37,111,665	Per Capita AZ Shared Revenue (county)	$197
Furniture, fixtures & equipment	$1,053,020		
Source: Toll Brothers; Elliott D. Pollack & Company			

Economic Impact Methodology

Economic impact analysis examines the economic implications of an activity in terms of output, earnings, and employment. For this study, the analysis focuses on the jobs and corresponding output and wages that are created during construction as well as the jobs and output that are created through the operations of the complex and residential activity within the project.

The different types of economic impacts are known as direct, indirect, and induced, according to the manner in which the impacts are generated. For instance, direct employment consists of permanent jobs held by the project employees. Indirect employment is those jobs created by businesses that provide goods and services essential to the operation or construction of the project. These businesses range from manufacturers (who make goods) to wholesalers (who deliver goods) to janitorial firms (who clean the buildings). Finally, the spending of the wages and salaries of the direct and indirect employees on items such as food, housing, transportation and medical services creates induced employment in all sectors of the economy, throughout the local region. These secondary effects were captured in the analysis conducted in this study.

Multipliers have been developed to estimate the indirect and induced impacts of various direct economic activities. The Implan Group developed the multipliers used in this study. The economic impact is categorized into three types of impacts:

(1) Employment Impact – the total wage, salary and self-employed jobs in a region. Jobs include both part time and full-time workers, though the figure is expressed in full time equivalents.

(2) Earnings Impact – the personal income, earnings or wages, of the direct, indirect and induced employees. Earnings include total wage and salary payments as well as benefits of health and life insurance, retirement payments and any other non-cash compensation.

(3) Economic Output – the economic output relates to the gross receipts for goods or services generated by the project's operations.

Economic impacts are by their nature regional in character. The direct impact of job creation will be on-site in the City of Scottsdale while the ripple effects will be felt throughout the local region. All dollar figures, unless otherwise stated, are expressed in 2020 dollars.

Fiscal Impact Methodology

Fiscal impact analysis quantifies the public revenues associated with a particular economic activity. The primary revenue sources of local, county, and state governments (i.e. taxes) are analyzed to determine how an activity may affect the various jurisdictions. This report will evaluate the impact of the project on the City of Scottsdale.

Fiscal impact figures cited in this report have been generated from information provided by a variety of sources including the U.S. Bureau of the Census, the U.S. Department of Labor, the Internal Revenue Service, the City of Scottsdale, Maricopa County, the state of Arizona, the Arizona Tax Research Association, and the U.S. Consumer Expenditure Survey. Elliott D. Pollack and Company has relied upon Toll Brothers Apartment Living for estimates of construction cost. Unless otherwise stated, all dollar values are expressed in 2020 dollars.

Fiscal impacts are categorized by type in this study, similar to the economic impact analysis. The major sources of revenue generation for governmental entities are related to construction of the project and ongoing impact from the operations and resident spending.

Construction impacts relate to the revenues generated from development of the project and include the state and local sales taxes levied on construction materials. In addition, the City of Scottsdale will benefit from the spending of construction workers within City limits.

Once the project is completed, the ongoing fiscal impacts of community will create revenue for the City. Revenues will be generated through sales tax, lease tax, property tax, and State shared revenue.

The following is a description of the applicable revenue sources that will be considered for this analysis.

- Construction Sales Tax
  The state, counties and cities in Arizona levy a sales tax on materials used in the construction of buildings and development of land improvements. That tax is calculated by state law under the assumption that 65% of the construction cost of the facility and its land improvements are related to construction materials with the remaining 35% devoted to labor. The sales tax rate is then applied to the 65% materials figure.

The sales tax on construction materials is a one-time collection by the governmental entity. Construction sales tax is generated during any new building construction. Scottsdale has a construction sales tax rate of 1.75%.

- Sales Tax on Fixtures, Furniture and Equipment (FF&E)
  The State and local cities charge a sales tax on FF&E purchased as part of the complex. The sales tax rate for the City of Scottsdale is 1.75%. This report has excluded an estimate for FF&E, so can be considered conservative.

- Sales Tax
  The state, counties, and incorporated cities and towns charge sales tax on retail goods and services. The sales tax rate for the City of Scottsdale is 1.75%. These tax rates are applied to the estimated taxable spending of the residents of the project. A 25% leakage rate was used for sales that will take place outside of the City limits.

- Residential Rental Tax
  Residential rents are also subject to tax at the local level. The City of Scottsdale levies a tax of 1.75% on monthly rent collections.

- Property Taxes
  Property taxes will be collected on each of the dwelling units. The taxable value for the complex was based on its construction cost and available comps for new apartments in the area. A limited property value of $136 per square foot is used for the property tax calculation. Dwelling units are considered residential property and assessed at a 10% rate. The City of Scottsdale property tax rate is currently $1.0316 per $100 of assessed value. Special districts and school district tax collections are not included in the results of this study.

- State Shared Revenues
  Each county in Arizona receives a portion of State revenues from three different sources - state sales tax (described above), state income tax, vehicle license tax (VLT) and highway user revenue fund (HURF) tax. The formulas for allocating these revenues are primarily based on population.

  State Income Tax
  The State of Arizona collects taxes on personal income. The tax rate used in the analysis averages about 1.6% for earnings. These percentages are based on the most recently available income tax data from the State and the projected wage levels of jobs created by the construction and operations impact. This tax is applied to the wages and earnings of direct, indirect and induced employment. Portions of this tax are redistributed through revenue sharing to cities and towns throughout Arizona based on population.

HURF Taxes

The State of Arizona collects specific taxes for the Highway User Revenue Fund (HURF). Both the registration fees and the motor vehicle fuel tax (gas tax) are considered in this analysis. The motor vehicle fuel tax is $0.18 per gallon and is calculated based on a vehicle traveling 12,000 miles per year at 20 miles per gallon. Registration fees average $66 per employee in the State of Arizona. These factors are applied to the projected direct, indirect and induced employee count. Portions of these taxes are distributed to counties and cities throughout Arizona based on a formula that includes population and the origin of gasoline sales.

Vehicle License Tax

The vehicle license tax is a personal property tax placed on vehicles at the time of annual registration. This factor is applied to the projected direct, indirect and induced employee count. The average tax used in this analysis is $325 and portions of the total collections are distributed through the Highway User Revenue Fund. The remaining funds are shared between counties and cities in accordance with population-based formulas.

The above tax categories represent the largest sources of revenues that will be generated for the City of Scottsdale. This analysis considers gross tax collections and does not differentiate among dedicated purposes or uses of such gross tax collections.

5.2 Impact of Construction

This section of the report outlines the economic and fiscal impact of the construction of the proposed community. Construction phase impacts are generally short-term effects related to onsite and offsite construction employment and other supporting industries. The long-term consequences of a project are the operational phase impacts that are described in Section 5.3.

The total construction value of the project is estimated at $37.1 million. The economic impacts are expressed over the entire duration of the construction.

Economic Impact of Construction

The project would generate 269 direct person years of employment during the construction phase. Person years of employment are the aggregate of each construction job that is recreated year after year throughout the construction time period. To derive the respective annual averages, employment, wages, and economic output can be divided by the expected number of years it may take to complete the development. An estimated $16.9 million in direct wages would be generated based on the total construction activity.

Another 181 indirect and induced person years of employment would be created in the local economy. Wages for these indirect and induced employees would total about $10.6 million.

Altogether, the project would create approximately 451 jobs during the construction timeframe, $27.5 million in wages and nearly $69.6 million in economic activity.

Economic Impact of Construction The Miller Greater Phoenix (2020 Dollars)			
Impact Type	**Person Years of Employment**	**Wages**	**Economic Output**
Direct	269	$16,862,000	$37,112,000
Indirect	58	$4,016,000	$12,099,000
Induced	124	$6,614,000	$20,415,000
Total	**451**	**$27,492,000**	**$69,626,000**

1/ The total may not equal the sum of the impacts due to rounding. All dollar figures are in constant dollars. Inflation has not been included in these figures.

Source: Toll Brothers; Elliott D. Pollack & Company; IMPLAN

Fiscal Impact of Construction

The construction of the proposed community would create significant tax revenues for the State of Arizona, Maricopa County and the City of Scottsdale as shown on the following table. Revenues have been defined in this analysis as either primary or secondary, depending on their source and how the dollars flow through the economy into city tax accounts. For instance, some revenues, such as construction sales taxes, are straightforward calculations based on the cost of construction. These revenues are described in this study as primary revenues.

Secondary revenues, on the other hand, flow from the wages of those direct, indirect and induced employees who are supported by the project. Revenue projections are based on typical wages of the employees working on the project, their spending patterns, and projections of where they might live.

Primary revenues generated to the State of Arizona from the construction sales tax and use tax levied on FF&E total $1.3 million. In addition, the State would benefit from the spending of construction workers. These secondary revenues total an estimated $944,600. In total, the State would expect to collect more nearly $2.2 million in tax revenue from construction and construction-related activity.

Fiscal Impact of Construction
The Miller
State of Arizona
(2020 Dollars)

Impact Type	Primary Revenues: Construction Sales Tax	Primary Revenues: Use Tax	Secondary Revenues: Spending Sales Tax	Secondary Revenues: Income Tax	Secondary Revenues: Unemp. Tax	Secondary Revenues: Vehicle Tax	Secondary Revenues: Gas Revenues	Total Revenues
Direct	$1,192,800	$59,000	$197,100	$266,400	$50,900	$39,400	$20,700	**$1,826,300**
Indirect	N/A	N/A	$45,400	$63,500	$10,900	$8,500	$4,400	**$132,700**
Induced	N/A	N/A	$81,900	$104,500	$23,400	$18,100	$9,500	**$237,400**
Total	**$1,192,800**	**$59,000**	**$324,400**	**$434,400**	**$85,200**	**$66,000**	**$34,600**	**$2,196,400**

1/ The figures are intended only as a general guideline as to how the State could be impacted by the project. The above figures are based on the current economic structure and tax rates of the State.

Source: Toll Brothers; Elliott D. Pollack & Co.; IMPLAN; AZ Dept. of Revenue; AZ Tax Research Association

Maricopa County would collect an estimated $453,000 during construction. This includes $168,900 in construction sales tax and $284,100 in secondary revenues generated by employee spending.

Fiscal Impact of Construction
The Miller
Maricopa County
(2020 Dollars)

Impact Type	Primary Revenues: Construction Sales Tax	Secondary Revenues: Employee Spending Sales Tax	Secondary Revenues: Employee Property Tax	Secondary Revenues: State Shared Revenues	Total Revenues
Direct	$168,900	$28,000	$57,000	$109,800	**$363,700**
Indirect	N/A	$6,400	$12,200	$10,400	**$29,000**
Induced	N/A	$11,600	$26,200	$22,500	**$60,300**
Total	**$168,900**	**$46,000**	**$95,400**	**$142,700**	**$453,000**

1/ The figures are intended only as a general guideline as to how the County could be impacted by the project. The above figures are based on the current economic structure and tax rates of the County.

Source: Toll Brothers; Elliott D. Pollack & Co.; IMPLAN; AZ Dept. of Revenue; AZ Tax Research Association

Similarly, the City of Scottsdale would collect an estimated $469,600 during the construction phase of The Miller. This includes $398,000 in construction sales tax, $16,300 in use tax and $55,300 in taxes generated by construction workers and their ripple effect.

Fiscal Impact of Construction
The Miller
City of Scottsdale
(2020 Dollars)

	Primary Revenues		Secondary Revenues			
Impact Type	Construction Sales Tax	Use Tax	Employee Spending Sales Tax	Employee Property Tax	State Shared Revenues	**Total Revenues**
Direct	$398,000	$16,300	$12,700	$14,100	$7,600	**$448,700**
Indirect	N/A	N/A	$2,900	$3,000	$1,100	**$7,000**
Induced	N/A	N/A	$5,300	$6,500	$2,100	**$13,900**
Total	**$398,000**	**$16,300**	**$20,900**	**$23,600**	**$10,800**	**$469,600**

1/ The figures are intended only as a general guideline as to how the City could be impacted by the project. The above figures are based on the current economic structure and tax rates of the City.

Source: Toll Brothers; Elliott D. Pollack & Co.; IMPLAN; AZ Dept. of Revenue; AZ Tax Research Association

5.3 Impact at Stabilized Operations

Once construction is completed, the impact of the operations and residents living at the proposed multi-family community would begin to produce jobs and tax revenue. The project would generate property taxes and various sales taxes to the State, County and City of Scottsdale. The residents occupying the 148 dwelling units would also spend their disposable income within the local economy as well as increase the county and city's proportion of state shared revenue. Additionally, this spending will support a significant number of jobs locally.

Economic Impact of Operations & Resident Spending

- Community Operations Impact
  An estimated 4 direct employees would be employed at the 148-unit community. Taking into account the ripple effect of the regional multipliers, approximately 2 permanent direct, indirect, and induced jobs would be supported throughout the area as a result of the project. The majority of these jobs would be related to resident services, building services and maintenance. A total of $229,000 in annual wages would be created and $487,000 in annual economic output would be added to the regional economy.

- Resident Spending Impact
  Resident spending on retail goods, services, and entertainment would support 76 direct, indirect, and induced jobs, nearly $3.5 million in wages, and nearly $9.5 million in annual economic activity.

- Total Impact
  In total, new residents are projected to spend $6.4 million annually on goods and services in the local economy. This, combined with direct multi-family and commercial operations, is enough to support 82 jobs, $3.8 million in wages, and $10.0 million in annual economic activity. The table below details the economic impact of operations as well as resident spending by category that is expected to occur on an annual basis.

Annual Economic Impact of Operations (at Stabilization)
The Miller
Greater Phoenix
(2020 Dollars)

	Impact Type	Jobs	Wages	Economic Output
Residential Operations	Direct	4	$144,000	$235,000
	Indirect	1	$30,000	$82,000
	Induced	1	$55,000	$170,000
	Total	**6**	**$229,000**	**$487,000**
Employment Supported by Resident Spending	Direct	49	$1,976,000	$4,653,000
	Indirect	11	$700,000	$2,235,000
	Induced	16	$849,000	$2,618,000
	Total	**76**	**$3,525,000**	**$9,506,000**
GRAND TOTAL	Direct	53	$2,120,000	$4,888,000
	Indirect	12	$730,000	$2,317,000
	Induced	17	$904,000	$2,788,000
	Total Impact[1/]	**82**	**$3,754,000**	**$9,993,000**

1/ The total may not equal the sum of the impacts due to rounding. All dollar figures are in constant dollars. Inflation has not been included in these figures.

Source: Elliott D. Pollack & Company; IMPLAN

Fiscal Impact of Operations & Resident Spending

Once the project is completed and occupied to a stabilized level, the operations of the community and residents living onsite would produce tax revenue for the State, County and City of Scottsdale.

The following tables show the ongoing tax revenue that the State, County and City of Scottsdale would expect to collect from the complex as well as the spending of residents in the economy. Sales tax collections on resident incomes are based on the estimated average household income of $103,300 and spending patterns outlined in the U.S. Consumer Expenditure Survey. While residents will likely spend the majority of their disposable incomes in the City of Scottsdale, they will also shop in neighboring cities. For this analysis, a 25% leakage rate was used for the capture of city sales tax revenue (i.e. 75% of spending will occur in Scottsdale).

In total, an estimated $367,700 would be collected each year by the State of Arizona. Direct revenue would be collected through property tax, sales and utility tax and total $217,600. Secondary impacts from employee spending and other taxes would be an estimated $150,100 each year.

Annual Fiscal Impact of Operations The Miller State of Arizona (2020 Dollars)	
	MF / New Residents
Primary Revenue	
Property tax	$10,700
Sales tax	$198,500
Utility Tax	$8,400
Sub-Total	**$217,600**
Secondary Revenue	
Employee Spending Sales Tax	$67,100
Income Tax	$51,700
Unemployment Tax	$14,400
Vehicle Tax	$11,100
Gas Tax	$5,800
Sub-Total	**$150,100**
Total Revenue	
GRAND TOTAL	**$367,700**

1/ The total may not equal the sum of the impacts due to rounding. All of the above figures are representative of the current major revenue sources for the State. The figures are intended only as a general guideline as to how the State could be impacted by the project.

Source: Toll Brothers; Elliott D. Pollack & Co.; ADOR; ATRA

Tax revenues generated by the operations The Miller, including resident spending would total an estimated $207,700 each year. This includes direct impacts of $33,900 in direct property taxes on the site, $22,900 from residential rental (lease) taxes, $32,400 in sales taxes, $1,400 in utility taxes and $50,100 in state shared revenues generated by the increase in population.

Annual Fiscal Impact of Operations The Miller Maricopa County (2020 Dollars)	
	MF / New Residents
Primary Revenue	
Property Tax	$33,900
Lease tax	$22,900
Sales tax	$32,400
Utility Tax	$1,400
Increased state shared revenue	$50,100
Sub-Total	**$140,700**
Secondary Revenue	
Employee Spending Sales Tax	$9,500
Employee Property Tax	$26,000
State Shared Revenues	$31,500
Sub-Total	**$67,000**
Total Revenue	
GRAND TOTAL	**$207,700**

1/ The total may not equal the sum of the impacts due to rounding. All of the above figures are representative of the current major revenue sources for the County. The figures are intended only as a general guideline as to how the County could be impacted by the project.

Source: Toll Brothers; Elliott D. Pollack & Co.; ADOR; ATRA

The City of Scottsdale will benefit from the addition of 148 new multi-family units at The Miller. In total, the City is projected to collect $253,600 each year from its ongoing operations. The primary (direct) revenues would total an estimated $240,700 from property taxes ($25,000), residential rental (lease) tax ($80,300), sales tax ($57,300), utility taxes ($3,200) and increase state shared revenue ($74,900). Secondary revenues from employee spending will total an estimated $12,900. This figure takes into account that only about 17% of employees will live and spend their disposable income within the City of Scottsdale.

Annual Fiscal Impact of Operations The Miller City of Scottsdale (2020 Dollars)	MF / New Residents
Primary Revenue	
Property Tax	$25,000
Lease tax	$80,300
Sales tax	$57,300
Utility Tax	$3,200
Increased State Shared Revenue	$74,900
Sub-Total	**$240,700**
Secondary Revenue	
Employee Spending Sales Tax	$4,300
Employee Property Tax	$6,500
State Shared Revenues	$2,100
Sub-Total	**$12,900**
Total Revenue	
GRAND TOTAL	**$253,600**

1/ The total may not equal the sum of the impacts due to rounding. All of the above figures are representative of the current major revenue sources for the City. The figures are intended only as a general guideline as to how the City could be impacted by the project.

Source: Toll Brothers; Elliott D. Pollack & Co.; ADOR; ATRA