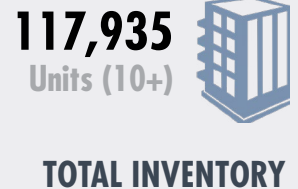
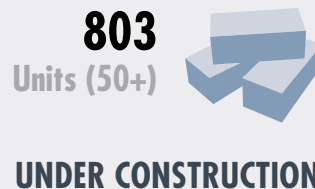
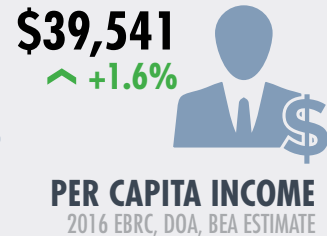
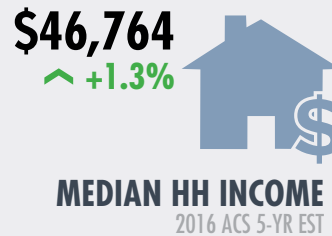
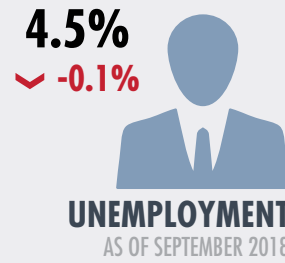


TUCSON MSA | MULTIFAMILY | 3Q 2018 REPORT


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10+ UNIT PROPERTIES	3Q 2018	INCREASE/DECREASE	3Q 2017
Total Sales Volume	\$289M	+16%	\$249M
AVERAGE	Price/Unit	\$104,506 +58%	\$66,229
	Price/SF	\$143.45 +60%	\$89.46
	Year Built	1973 -3 yrs	1976
Average Rent	\$859 +6.2%	\$809	
Occupancy Rate	94.7% +0.3%	94.4%	
Units Delivered	50	N/A	N/A




ABI GEONEWS - TUCSON MSA 3Q 2018 SELECT NEWS


CONTINUED ON PAGE 05



Global tech firm, AxisCades of India, bringing hundreds of high-paying jobs to Tucson



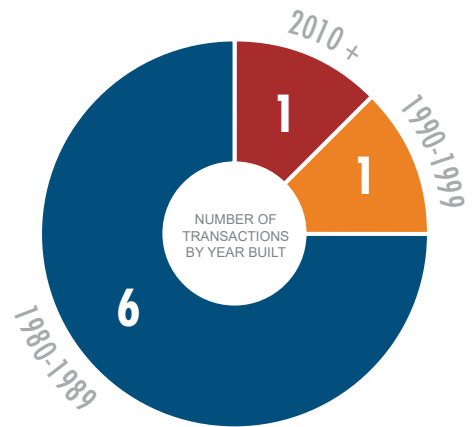
Texas Instruments to build \$29M facility in Tucson, add 35 high-paying jobs



TuSimple creating 500 jobs in Tucson, expanding its autonomous semi-truck fleet

100+ UNIT PROPERTIES

	3Q 2018	INCREASE/DECREASE	3Q 2017
Total Sales Volume	\$258M	+33%	\$195M
AVERAGE Price/Unit	\$125,227	+69%	\$73,932
AVERAGE Price/SF	\$160.94	+68%	\$95.66
AVERAGE Year Built	1989	-1yr	1990



TOP 3 TRANSACTIONS BY PRICE/UNIT (100+)



The District on 5th (Student)
Tucson, 206 Units | \$111,650,259
\$541,992/Unit | \$451.21/SF | Built 2012



Pinnacle Heights
Tucson, 310 Units | \$17,450,000
\$152,097/Unit | \$138.94/SF | Built 1995



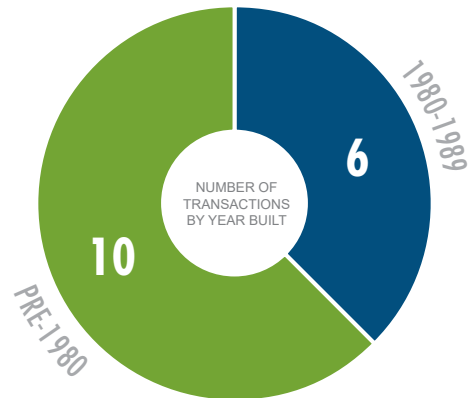
Colonia and Hacienda Del Rio
Tucson, 424 Units | \$43,000,000
\$101,415/Unit | \$130.20/SF | Built 1983/85

3Q 2018 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	1	\$542K	\$451
2000-09	0	N/A	N/A
1990-99	1	\$152k	\$139
1980-89	6	\$64K	\$98
Pre-1980	0	N/A	N/A

10 - 99 UNIT PROPERTIES

	3Q 2018	INCREASE/DECREASE	3Q 2017
Total Sales Volume	\$31M	-44%	\$54M
AVERAGE Price/Unit	\$43,525	-10%	\$48,191
AVERAGE Price/SF	\$74.70	+3%	\$72.58
AVERAGE Year Built	1965	-6 yrs	1971



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



3725 - 3729 East Farr Place
Tucson, 10 Units | \$627,500
\$62,750/Unit | \$98.59/SF | Built 1950



Catalina Foothills Lodge
Tucson, 65 Units | \$4,050,000
\$62,308/Unit | \$74.59/SF | Built 1946



Broadway
Tucson, 49 Units | \$2,707,500
\$55,255/Unit | \$90.80/SF | Built 1968

3Q 2018 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	0	N/A	N/A
2000-09	0	N/A	N/A
1990-99	0	N/A	N/A
1980-89	6	\$42K	\$77
Pre-1980	10	\$45K	\$73

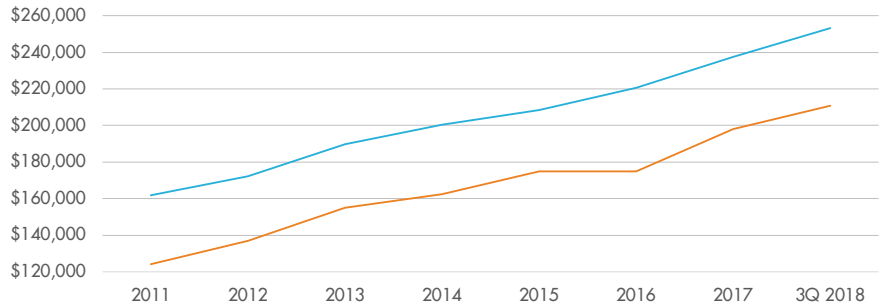
SINGLE FAMILY RESIDENTIAL - FOR SALE/LEASE

AVG SALES PRICE \$253,295

+4%, YEAR-OVER-YEAR AVERAGE

MEDIAN SALES PRICE \$212,718

+6%, YEAR-OVER-YEAR AVERAGE



SFR SALES TRENDS

TOTAL YTD SALES 11,976

+2%, YEAR-OVER-YEAR

AVG DAYS ON MARKET 39

-4DAYS, YEAR-OVER-YEAR

ABSORPTION RATE 3.48

THE ABSORPTION RATE, IN MONTHS, SHOWS HOW LONG THE CURRENT INVENTORY OF PROPERTIES WOULD LAST AT THE CURRENT RATE OF SALES

SFR - FOR LEASE

3Q 2018

Average Lease: \$1,394

Avg. Days on Market: 30

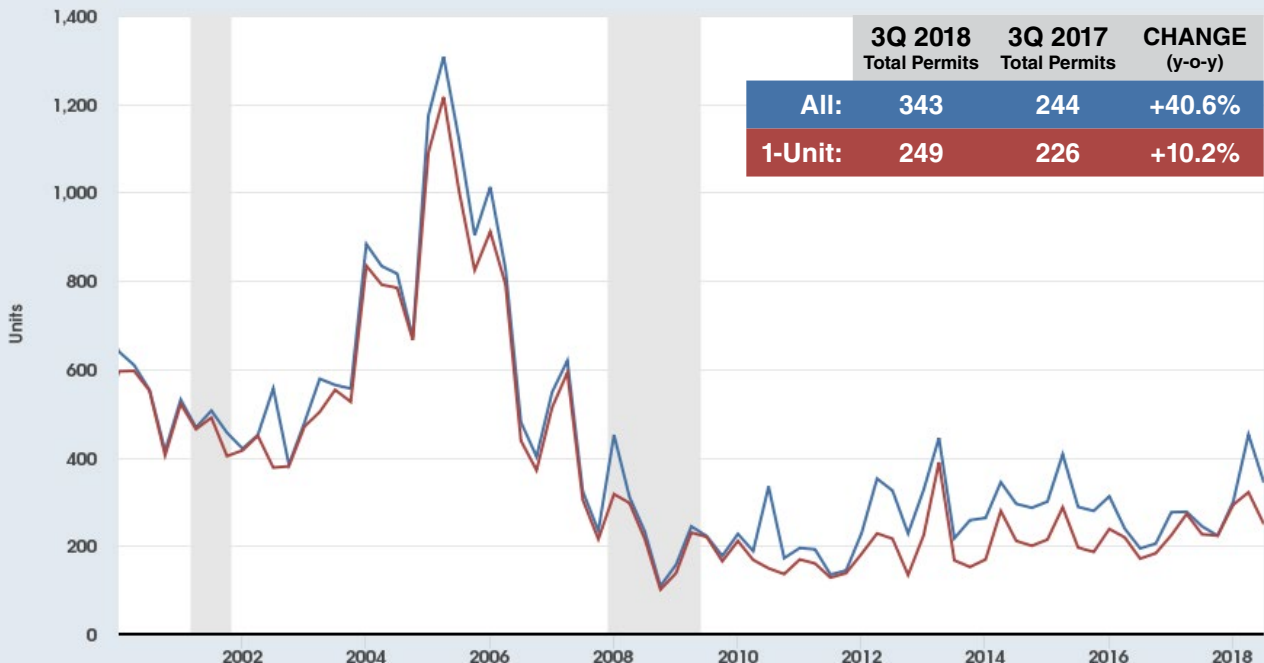
3Q 2017

Average Lease: \$1,386

Avg. Days on Market: 33

HOUSING PERMIT DATA - SFR/MF *

FRED — New Private Housing Units Authorized by Building Permits for Tucson, AZ (MSA)
 — New Private Housing Units Authorized by Building Permits: 1-Unit Structures for Tucson, AZ (MSA)



Shaded areas indicate U.S. recessions

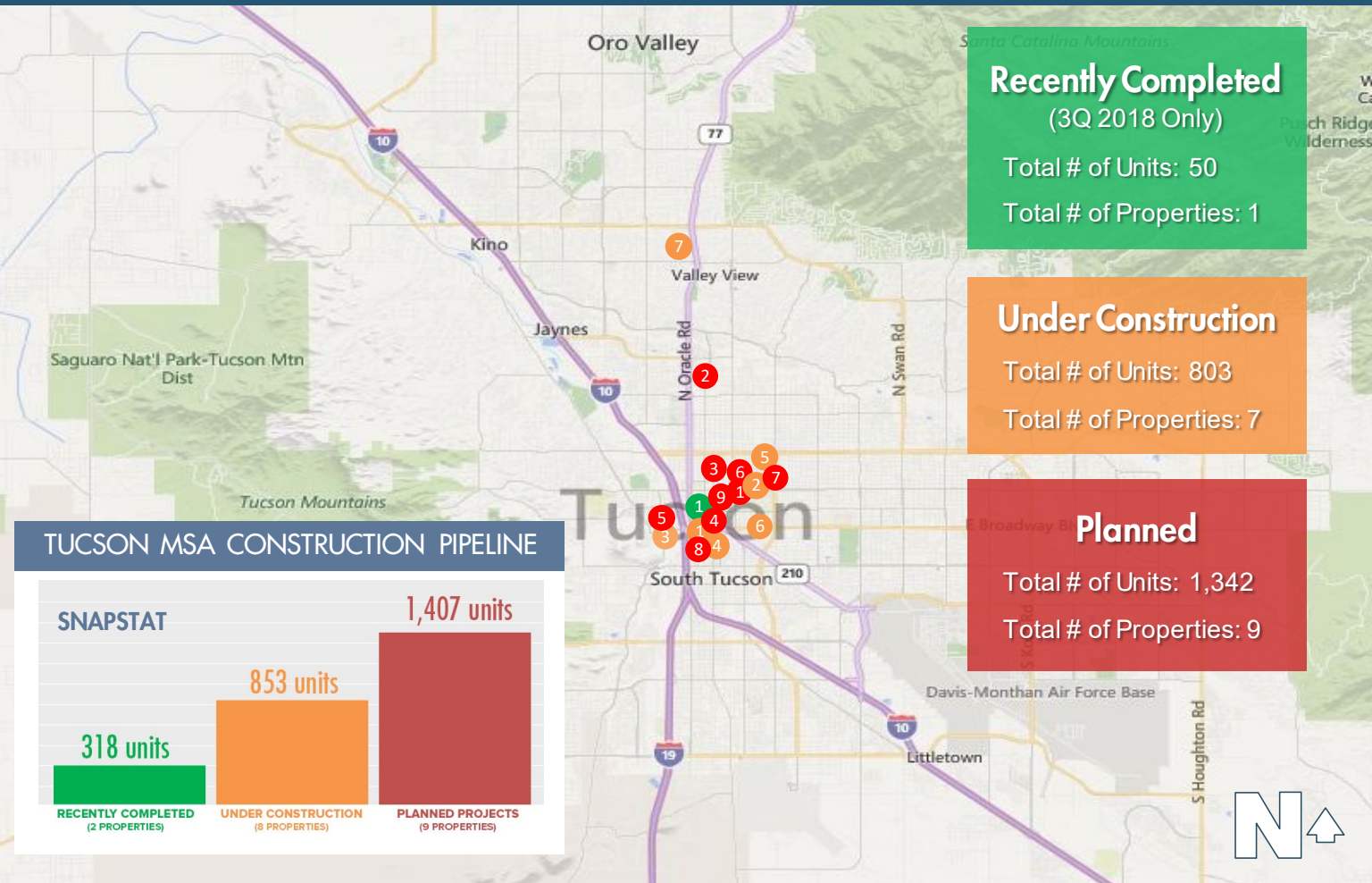
Source: U.S. Bureau of the Census

myf.red/g/IQ8k

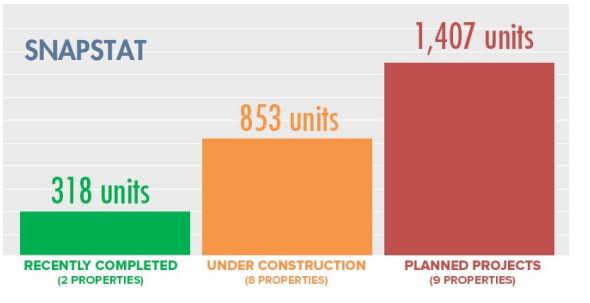
* Quarterly Total "End of Period" permitted units from 2000 to YTD (FRED)

ABI Research / FRED® COPYRIGHT 2018

COMPLETED CONSTRUCTION



TUCSON MSA CONSTRUCTION PIPELINE

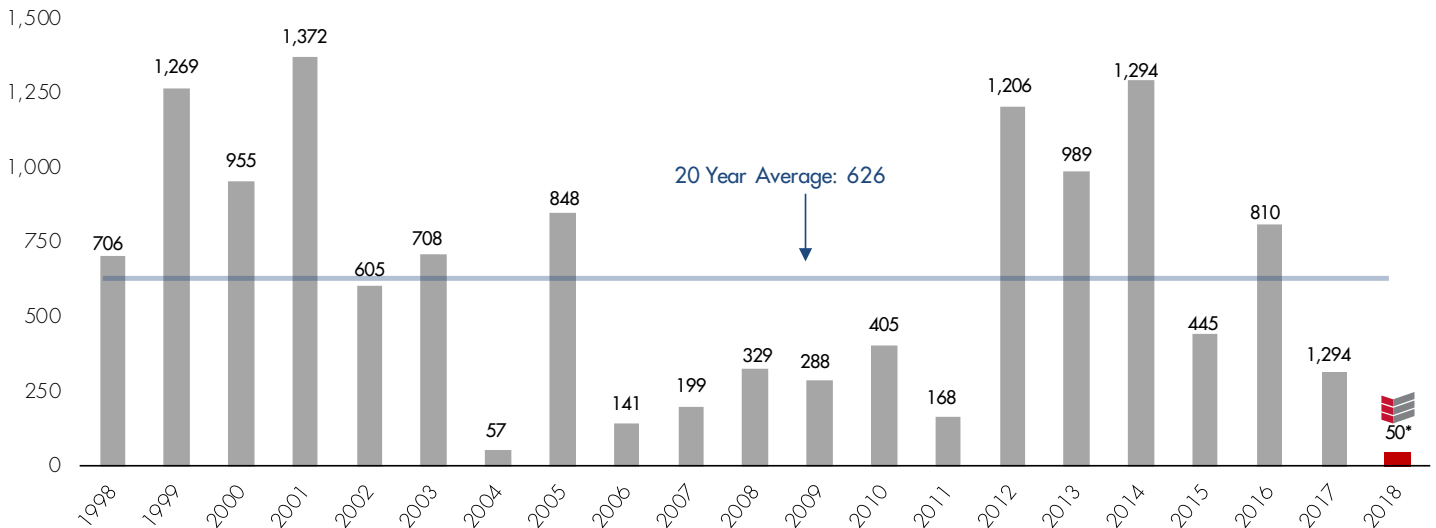


TUCSON MULTIFAMILY CONSTRUCTION PIPELINE | 3Q 2018

TOTAL UNIT INVENTORY
 10+ UNIT PROPERTIES: 117,935
 50+ UNIT PROPERTIES: 67,143

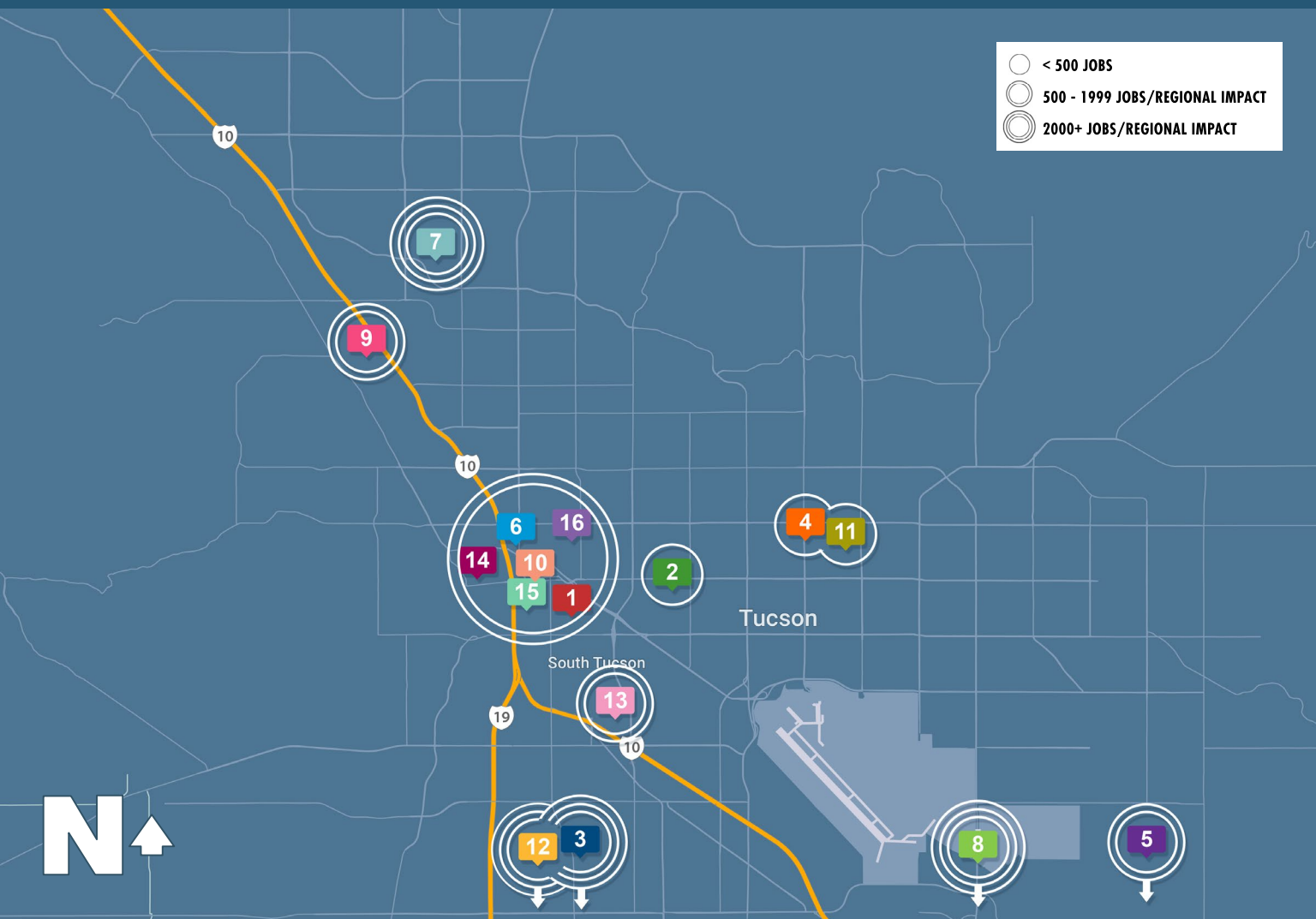
PRE-LEASE ABSORPTION RATE
12
 Units/Property/Month (Avg)

* = Project Units Delivered (YTD)
 Based on when total projects are delivered, not as individual buildings/units are delivered



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

3Q 2018 SELECT NEWS



1 Vector Space Systems | Vector Space Systems unveils new satellite launcher rocket

9 Convergys | Convergys plans to hire 500 in Tucson

2 Alorica | Call center operator, Alorica, adding 200 jobs in Tucson

10 Global tech firm, Axiscades of India, bringing hundreds of high-paying jobs to Tucson

3 Raytheon | Raytheon confirms plans to add 2,000 Tucson jobs

11 Texas Instruments to build \$29M facility in Tucson, add 35 high-paying jobs

4 ADP | ADP to add 250 jobs in Tucson

12 SpacePort | Pima County marks completion of World View HQ, SpacePort

5 TuSimple creating 500 jobs in Tucson, expanding its autonomous semi-truck fleet

13 GEICO to build new corporate office in Tucson, add 700 jobs

6 Caterpillar Inc. | Caterpillar Inc. bringing regional HQ to downtown Tucson, 600 jobs

14 Hexagon | International mining tech firm Hexagon to expand, relocate HQ to downtown Tucson

7 Comcast | Comcast marks grand opening of Tucson call center (brings 1,000 jobs to the area)

15 Ernst & Young | Ernst & Young opening new support center in Downtown Tucson to hire 125

8 Amazon to open giant warehouse in Tucson, plans to hire more than 1,500 people

16 UA | University of Arizona, hiring 750. The university is adding positions in Tucson ranging from counselors to research assistants

BY: THOMAS M. BROPHY, DIRECTOR OF RESEARCH

WHERE THE MARKET ENDS

Tucson MSA 3Q 2018

Qu'est ce tu vois?
(How's it look?)



WHERE THE MARKET ENDS

There is a place where the market ends
Before rational thought sets in,
With former headwinds reborn as tails,
Central Bankers rejoice in jubilant gales.

But round the bend & past the fork,
No memory of past decisions to leave a mark,
Past pits of assets engulfed a-fire,
Mocking us as we pass their funeral pyre.

Let us leave this place where the smoke blows black
And the dark street winds & bends.
We shall walk with a walk that is measured & slow,
And watch where the Fed Dot Plot arrows go
To the place where the market ends.

I'd like to begin with a few sage words from economist, Elliott D. Pollack, whose commentary I find timely and his depth of experience in economic reporting vastly exceeds mine. In his October 29th *Monday Morning Quarterback* newsletter Pollack states, "On the surface, it was a best of times, worst of times type week. Stock market volatility dominated many economic headlines. But, that's unfortunate since most of the economic news was quite good."

Pollack continues, "Take it from someone who has been trying to predict the economy for nearly a half century, projecting the exact timing and depth of a cycle well in advance is tough to do. Yet, we do know this. The economy is likely to continue to do well at least through 2019. There is a great deal of stimulus

right now between tax cuts, government spending and consumer spending. It is late in the cycle but there are no signs of it ending at the moment even given the 50-year low in the unemployment rate and the age of this expansion."

Tucson Market Metrics:

By the Numbers

The MSA's total sales volume (10+ unit properties) increased 16%, y-o-y, to \$289M across 24 transactions representing 2,764 total units sold. California-based investors led by GR Capital Partners (266 units) and AndMark Funds (200 units) were the dominant buyer of multifamily properties in the Tucson area accounting for 32% of total units transacted, or 888 units. UT-based new Tucson market entrant,

Millburn & Company, came in 2nd with 734 units purchased from MG Properties and rounding out the top three was Florida-based investor, DIJ Properties, who purchased 360 units from MC Companies.

Sales of 100+ unit properties witnessed a sizeable 33% y-o-y increase to \$258M, with average Price-Per-Unit (PPU) amount increasing 69% to \$125,227; increases were the result of Blackstone Group's purchase of EdR's, The District on 5th, a student housing property for \$112M. Whereas 100+ unit properties saw a sales volume increase, 10 to 99 unit properties saw a volume decrease of (44%) to \$30.5M with a (10%) decrease in average PPU amount to \$43,525.

The Tucson MSA only had one project

delivery; Gardner Capital's 7th Avenue Commons a 50-unit affordable housing project. Tucson will not see any new market rate construction deliveries until late 2018, early 2019, aside from smaller (sub-50 unit) student and affordable housing developments. Accordingly, Occupancy Rate for the MSA increased 30 bps to 94.7%, still well above Tucson's 10-year average Occupancy Rate of 91%. Average rent continued its rise increasing 6.2% y-o-y to \$859.

Where's the Bogeyman?

October's stock market has been on the Disney-equivalent of Mr. Toad's Wild Ride. As of October 29th, the Dow, S&P 500 and Nasdaq were all down 7.7%, 9.4% and 12% respectively. Whether or not this becomes the long awaited market correction is anybody's guess and could certainly be explained by general anxiousness regarding the outcome of the November 6th election. The main result of the stock market's turbulence, as far as I can tell, has been to dint analyst expectations thereby changing, in varying degrees, the economic recovery/expansion narrative. The essence of narrative, according to famed director Guy Ritchie, is only about the dynamic of the struggle between internal vs external perceptions/realities.

As this is neither the time, nor place, to begin to discuss the infinitude of potential internal perceptions, we are left to discuss possible external probabilities. For that, I turn to John Mauldin (Mauldin Economics) in his [Debt Alarm Ringing](#) article where he lays out three 'trigger points' which he believes have the potential to start an economic crisis, or in the least, sufficiently disrupt national/global growth, namely Corporate Credit Crisis, expansion of a Trade War and slowdown in European growth. Mauldin's main arguments, which I've condensed, are as follows:

Corporate Credit Crisis: As a whole, US companies are significantly more leveraged [due to share buybacks via debt issuance] now than they were ahead of the 2008 crisis. This dynamic has fundamentally changed now that we have a central bank in full Quantitative Tightening (QT) mode.

Trade War: One reason the US economy seems to be booming right now is a surge in imports. Companies are rushing to build inventory ahead of the 25% tariff on Chinese goods that takes effect January 1. Coming on top of usual holiday season stockpiling, it is jamming ports, highways, and warehouses—generating many jobs in the process. [What happens when this 'stockpiling' ends and, more importantly, if the trade war expands?]

European Slowdown: October PMI reports dropped to the lowest point since September 2016, with export-dependent Germany particularly weak. Meanwhile, Italy's new budget is wildly out of line with its revenue and growth prospects. This threatens to set off another euro crisis. And then there's the serious possibility of a hard Brexit in early 2019.

The Central Bank's Market

Make no mistake, after 10 years of near constant interventions (from low rates to Quantitative Easing), it's the Federal Reserve's (and, for that matter, Central Banks writ large) market now. I still believe we are closer to negative rates than we are to 4%+ Fed rates. Why do I think this? Given the length of our current recovery, second longest on record, we are probably closer to a correction than continued expansion. The *caveat emptor*, current growth has been spurred by tax cuts and deregulation which could certainly extend the bull market's rally longer than what many are predicting and beyond current market jitters. When a correction occurs, on average, the Federal Reserve

has historically had to reduce rates by 5% before normalizing policy. Given the Fed's current 2.0 to 2.5% target, with more rate hikes expected this year and into next moves the target to 2.5 to 3.0% rather quickly thereby increasing the chances of a market correction, as such negative rates could certainly be on the horizon.

We're now 10 years post-GFC (Great Financial Crisis), and in the middle of what has been dubbed the 'silver tsunami' with many Boomers at or near peak retirement age. As most financial planners espouse, the closer one gets to retirement the need to diversify into safer, less volatile investments becomes more imperative. Said differently, stable, cash flowing assets are the boat to ride the tsunami. As we settle into this new investment demographic normal, and my final question/thought, suppose real estate return rates mean revert to average historical levels of 3.8%, across the board, and average rental rates soften to 2%+, contingent upon market, where else are you going to find a better return? Investors are slowly beginning to wake up to this new market reality and, my best guess without the benefit of a future indicating magical crystal ball, is that multifamily is where they will want to be.

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ABI COMPARATIVE MARKET REVIEW: 3Q 2018



TUCSON

PHOENIX

SACRAMENTO

SAN DIEGO

DEMOGRAPHICS

RENT/OCC/CONST (50+)

SALES (50+)

Total Population	1,026,099	4,737,270	2,296,418	3,317,749
Unemployment Rate (as of Jun '18)	4.5%	4.2%	3.4%	3.2%
Employment Growth (y-o-y)	2.4%	3.8%	1.1%	1.9%
Median HH Income	\$46,764	\$55,547	\$62,813	\$66,529
Per Capita Income	\$39,541	\$43,249	\$51,370	\$55,168
Rent (3Q 2018)	\$859	\$1,067	\$1,480	\$1,958
% Increase / Decrease	+6.2%	+6.4%	+6.9%	+6.5%
Occupancy (3Q 2018)	94.7%	95.2%	96.3%	96.7%
% Increase / Decrease	+0.3%	+0.4%	-0.6%	NO CHANGE
Total Inventory (50+)	67,143	306,162	127,430	183,869
Total Under Construction (50+)	803	15,737	3,455	8,591
Units Delivered (50+, 3Q 2018)	50	2,758	142	975
Total Sales Volume (3Q 2018)	\$279M	\$1.82B	\$407M	\$233M
y-o-y % Increase / Decrease	+22%	+32%	+130%	-52%
Average P/U (3Q 2018)	\$109,745	\$141,319	\$163,913	\$166,792
y-o-y % Increase / Decrease	+62%	+15%	-8%	-39%

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NOTABLE RECENT ABI MULTIFAMILY TRANSACTIONS



THE QUAILS APARTMENTS

1120 - 1150 East Irvington Road,
Tucson, AZ

Sold Price: \$12,200,000
Units: 288 Units
Year Built: 1984, 1985

ORANGE TREE VILLAGE

645 West Orange Grove
Road, Tucson, AZ

Sold Price: \$10,550,000
Units: 110
Year Built: 1981

SKYLINE PARK

5290 South Park Avenue,
Tucson, AZ

Sold Price: \$2,600,000
Units: 60
Year Built: 1985

SYCAMORE COVE

2458 North Sycamore Boulevard,
Tucson, AZ

\$2,385,000
Units: 67
Year Built: 1979

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TUCSON ADVISORS

LANCE PARSONS, CCIM

SENIOR VICE PRESIDENT

520.265.1945

lance.parsons@abimultifamily.com

JONATHAN IBRAHIM

VICE PRESIDENT

520.265.1127

jonathan.ibrahim@abimultifamily.com

RYAN KIPPES

VICE PRESIDENT

520.265.1895

ryan.kippes@abimultifamily.com

JOHN KOBIEROWSKI

SENIOR MANAGING PARTNER

602.714.1384

john.kobierowski@abimultifamily.com

PHOENIX HEADQUARTERS

5227 North 7th Street
Phoenix, AZ 85014
602.714.1400

SACRAMENTO OFFICE

2251 Douglas Blvd, Suite 115
Roseville, CA 95661
916.330.4040
CA Lic #02015648

SAN DIEGO OFFICE

1012 2nd Street, Suite 100
Encinitas, CA 92024
858.256.7690
CA Lic #02015648

TUCSON OFFICE

1650 North Kolb Road, Suite 230
Tucson, AZ 85715
520.265.1945

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