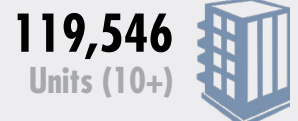
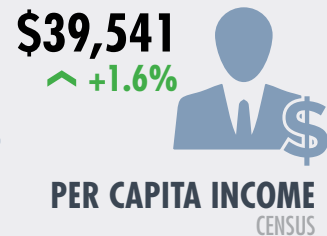
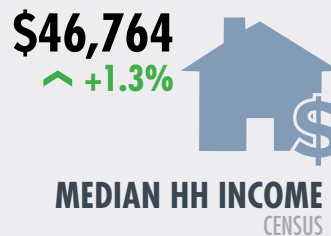
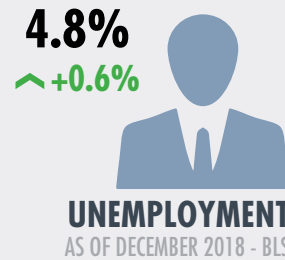


TUCSON MSA | MULTIFAMILY | YE 2018 REPORT

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ABI COMPARATIVE MARKET REVIEW: YE 2018	07

10+ UNIT PROPERTIES	YE 2018	INCREASE/DECREASE	YE 2017
Total Sales Volume	\$978M	+39%	\$701M
AVERAGE Price/Unit	\$87,112	+39%	\$62,716
AVERAGE Price/SF	\$113.11	+29%	\$87.47
AVERAGE Year Built	1974	+2 yrs	1972
Average Rent	\$839	+4.2%	\$805
Occupancy Rate	94.4%	+0.3%	94.1%
Units Delivered	50	-84%	318



ABI GEONEWS - TUCSON MSA YE 2018 SELECT NEWS

CONTINUED ON PAGE 04



Raytheon Wins \$100M Contracts, Continues Hiring Hundreds



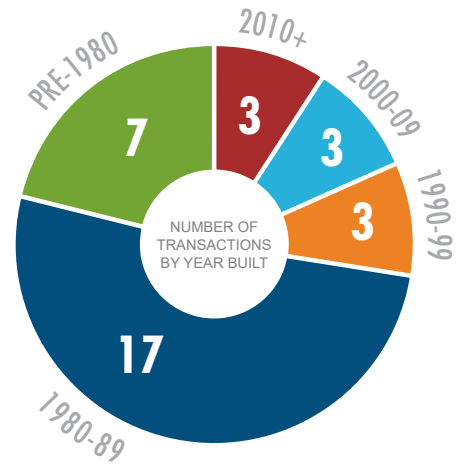
Imperfect Produce is Bringing up to 350 Jobs to Tucson



Vector Space Systems Eyes IPO After \$70M Capital Raise, Hiring 140

100+ UNIT MULTIFAMILY PROPERTIES

	YE 2018	INCREASE/DECREASE	YE 2017
Total Sales Volume	\$795M	+59%	\$500M
AVERAGE Price/Unit	\$96,235	+44%	\$66,954
AVERAGE Price/SF	\$119.83	+29%	\$93.08
AVERAGE Year Built	1988	+3 yrs	1985



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



The Retreat at Tucson
Tucson, 183 Units | \$56,200,000
\$307,104/Unit | \$148.27/SF | Built 2013



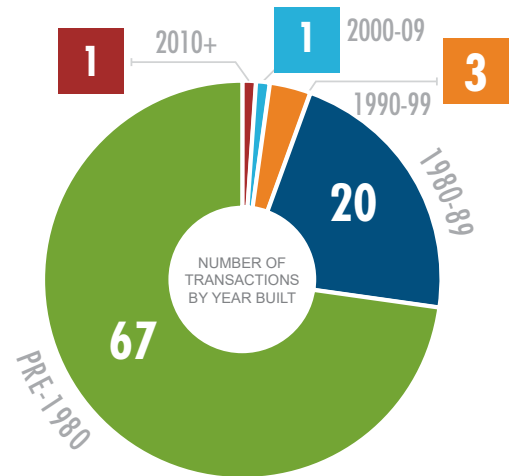
Hub On Campus Tucson II
Tucson, 104 Units | \$28,299,600
\$272,112/Unit | \$260.48/SF | Built 2016

YE 2018 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	3	\$382K	\$251
2000-09	3	\$104K	\$97
1990-99	3	\$127K	\$120
1980-89	17	\$66K	\$95
Pre-1980	7	\$73K	\$110

10 - 99 UNIT MULTIFAMILY PROPERTIES

	YE 2018	INCREASE/DECREASE	YE 2017
Total Sales Volume	\$154M	-18%	\$187M
AVERAGE Price/Unit	\$53,965	+3%	\$52,512
AVERAGE Price/SF	\$81.19	+6%	\$76.69
AVERAGE Year Built	1968	NO CHANGE	1968



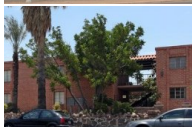
TOP 3 TRANSACTIONS BY PRICE/UNIT (10-99)



Avilla Sabino One
Tucson, 53 Units | \$11,763,704
\$221,957/Unit | \$202.40/SF | Built 2015



Riata Court
Tucson, 16 Units | \$2,800,000
\$175,000/Unit | \$185.19/SF | Built 1997

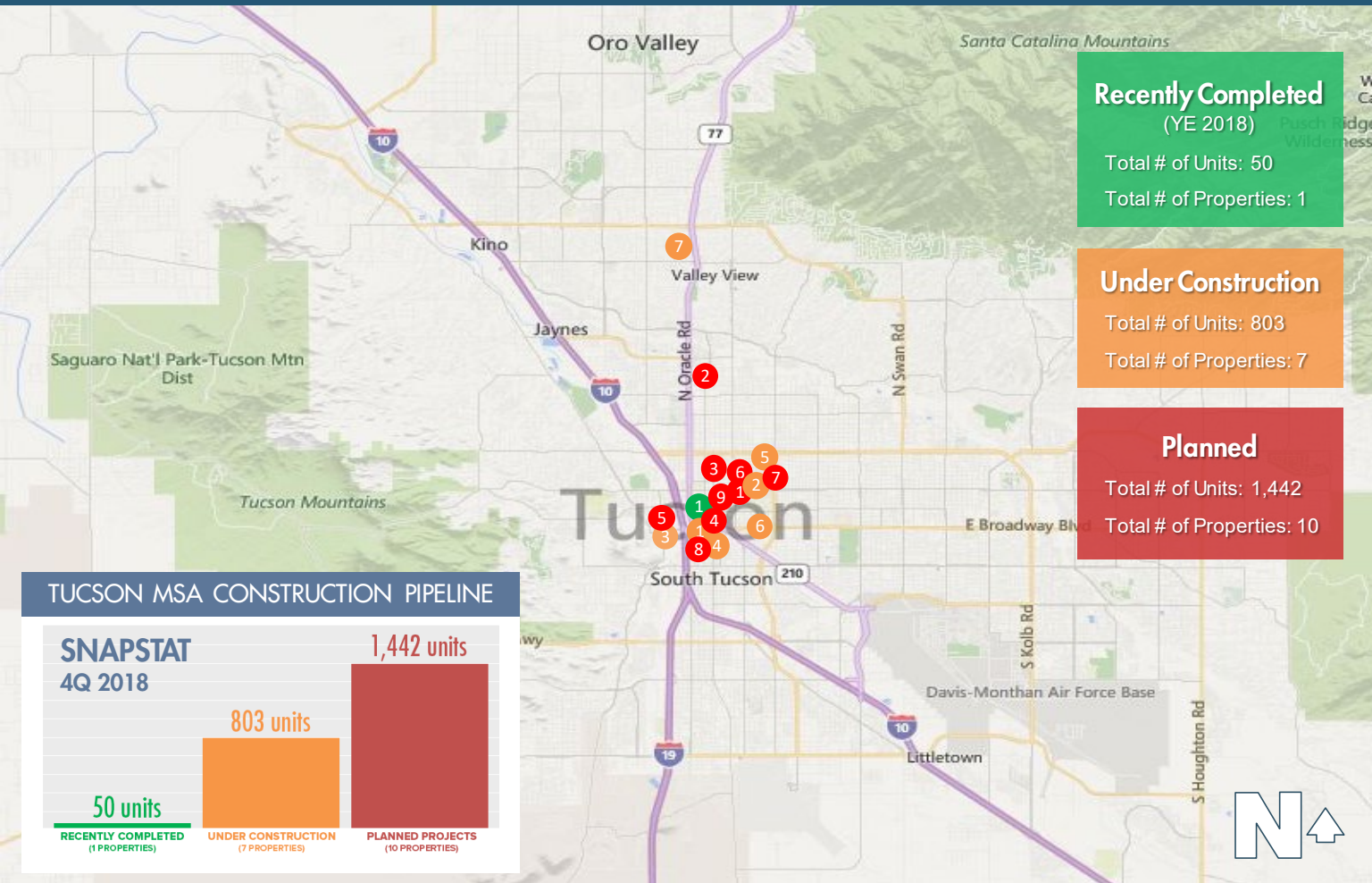


Sonoran on 9th
Tucson, 26 Units | \$4,550,000
\$175,000/Unit | \$193.44/SF | Built 1969

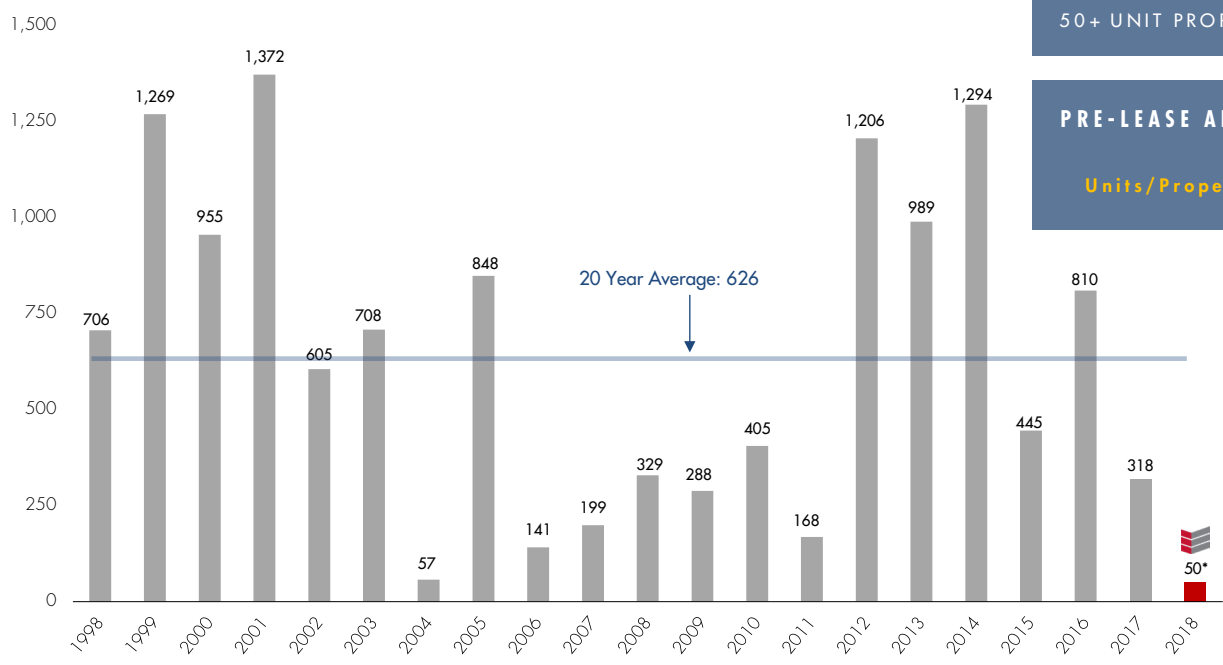
YE 2018 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	1	\$222K	\$202
2000-09	1	\$100K	\$89
1990-99	3	\$69K	\$85
1980-89	20	\$44K	\$72
Pre-1980	67	\$53K	\$79

COMPLETED CONSTRUCTION



TUCSON MULTIFAMILY CONSTRUCTION PIPELINE YEAR END 2018

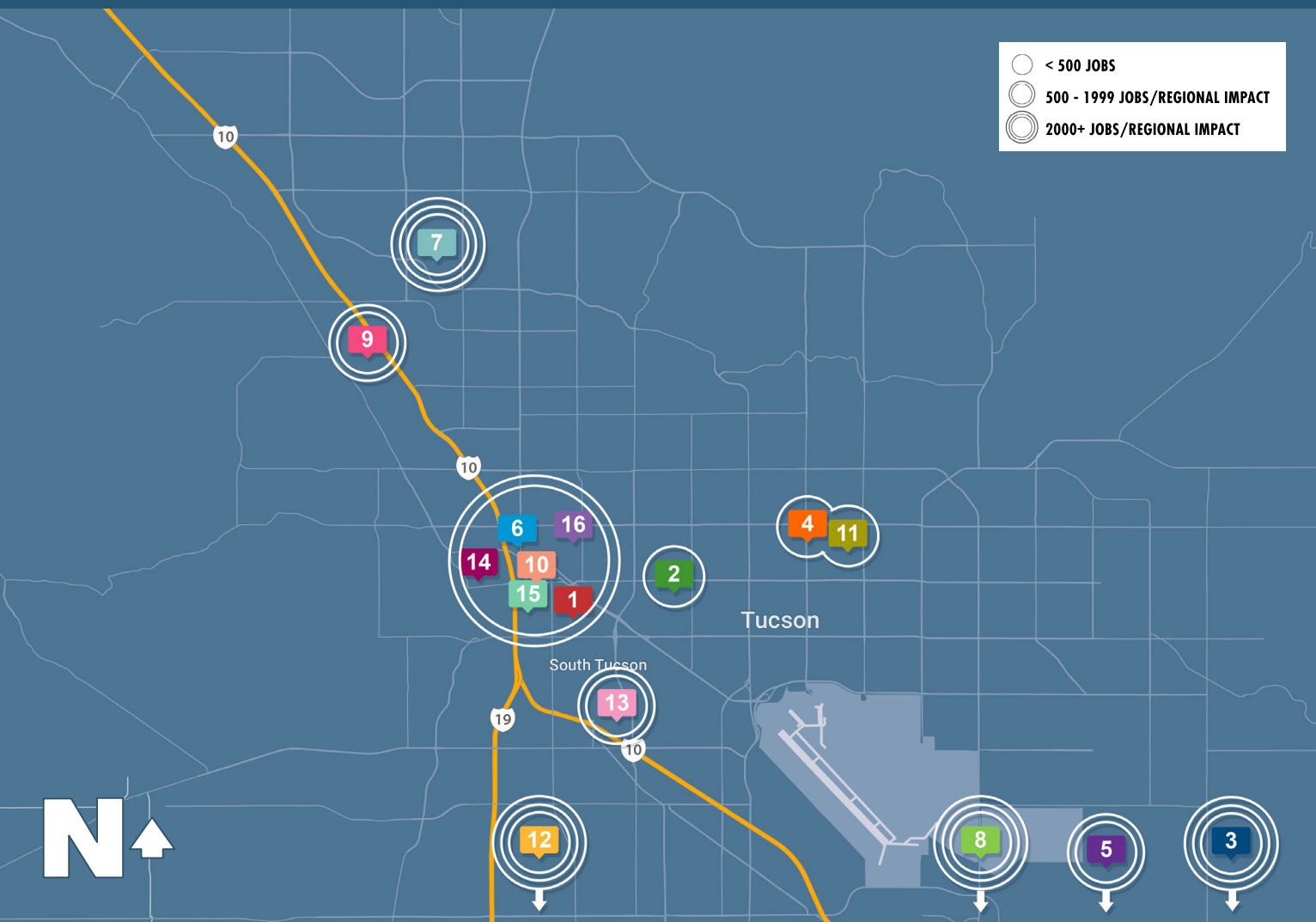


TOTAL UNIT INVENTORY
10+ UNIT PROPERTIES: 119,546
50+ UNIT PROPERTIES: 68,754

PRE-LEASE ABSORPTION RATE
13
Units/Property/Month (Avg)

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

ABI GEONEWS: TUCSON MSA - YE 2018 SELECT NEWS



- < 500 JOBS
- 500 - 1999 JOBS/REGIONAL IMPACT
- 2000+ JOBS/REGIONAL IMPACT

1 **Vector Space Systems** | Vector Space Systems Eyes IPO after \$70M Capital Raise, Hiring 140

9 **Convergys** | Convergys Plans to Hire 500 in Tucson

2 **Alorica** | Call Center Operator, Alorica, Adding 200 Jobs in Tucson

10 **Axiscades** | Global Tech Firm, Axiscades of India, Bringing Hundreds of High-paying Jobs to Tucson

3 **Raytheon** | Raytheon Wins \$100M Contracts, Continues Hiring Hundreds

11 **Texas Instruments** | 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 **Imperfect Produce** | Imperfect Produce is Bringing up to 350 Jobs to Tucson

13 **GEICO** | 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** | Amazon to Open Giant Warehouse in Tucson, Plans to Hire More Than 1,500 People

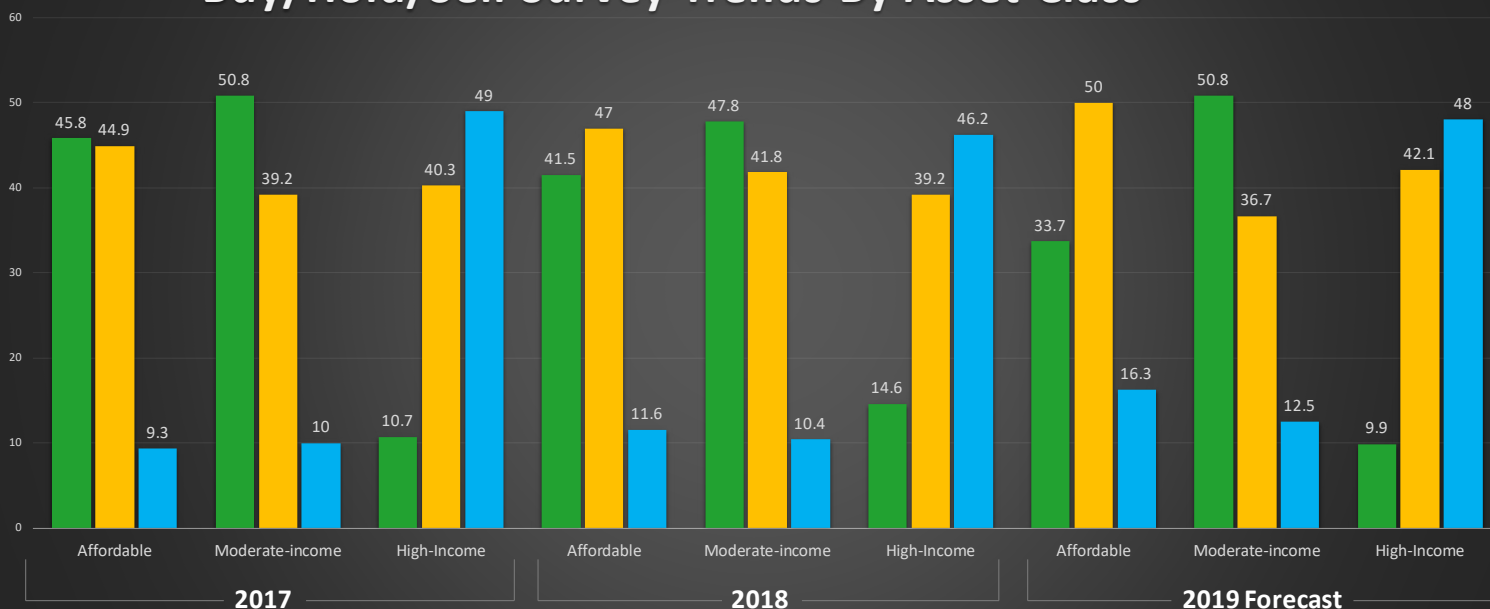
16 **U of A** | University of Arizona, Hiring 750. The University is Adding Positions in Tucson Ranging from Counselors to Research Assistants

BY: ROLAND MURPHY, DIRECTOR OF RESEARCH

2019 FORECAST: PLUS ÇA CHANGE, PLUS C'EST LA MÊME CHOSE

Buy/Hold/Sell Survey Trends By Asset Class

■ Buy ■ Hold ■ Sell



Buy/Hold/Sell recommendations for multifamily properties for 2017, 2018, 2019. Data provided by PricewaterhouseCoopers/Urban Land Institute “Emerging Trends in Real Estate®”

In the acclaimed sci-fi novel *Time Enough for Love*, Robert A. Heinlein told us, “A fake fortuneteller can be tolerated. But an authentic soothsayer should be shot on sight.” Thus, we have a pretty fair overview of the multifamily development world, at least as far as affordable assets are concerned.

Economists and market mystics across the board are pretty much all saying to expect 2019 to look a lot like 2018, with a slight cooling trend as we head into a relatively minor downturn in late 2020-early 2021.

Interestingly, in late 2017 and early 2018, many of these same crystal ball gazers were expecting the downturn to start late this year, but some foreseen events on the global and domestic economic fronts didn't happen while some unforeseen ones did.

Tucson Market Metrics: *By the Numbers*

The Tucson MSA had a mixed 2018. For

10-99 unit properties, 4Q saw \$28M in transaction volume. For the entire year, volume was \$154M, an 18% Year-over-Year drop from 2017. In the 100+ unit category, 4Q took in \$204M. Year-end totals in 100+ were \$795M, a 59% jump over 2017.

Average Price-Per-Unit amounts increased in both categories y-o-y, rising 3% to \$53,965 for 10-99 units, and 44% to \$96,235 for 100+. These translated to an Average Price/SF of \$81.19 in 10-99 (up 6%) and \$119.83 (up 29%) in 100+.

Inventory age stayed relatively consistent, with Average Year Built for 10-99 being 1968. For 100+, things got three years newer than the year before, with an Average Year Built of 1988 across the MSA.

The MSA's occupancy rate remained high. 4Q occupancy for 10+ units was 94.6%, making for a year-end of 94.4%, an increase of 0.3% y-o-y. 4Q average rent was \$855, for a year-end average of

\$839, up \$34 from 2017.

Tucson MSA demographics continued their upward trends. The Census estimate of total population was 1,026,099, up 0.8% y-o-y. The unemployment rate finished at 4.8%.

Median Household Income increased to \$46,764, a positive change of 1.3%. Per Capita Income nosed upward to \$39,541, an increase of 1.6%.

In the realm of new construction for 50+ unit projects, no new units were delivered in 4Q, leaving the total at 50 for all of 2018. As of year-end, 50+ unit construction projections show 1,442 total units in the planning stages across 10 properties. A total of 803 units were listed as Under Construction in seven properties.

Pre-lease absorption is solid across the region at a rate of 13 units/property/month.

BY: ROLAND MURPHY, DIRECTOR OF RESEARCH

Past Meets Present, Yields Future

There's a view among many classical scholars that prophecy in ancient cultures was more of an allegorical way to explain current trends' near-term impacts, rather than predicting any kind of distant future. The last few years' worth of forecasts would seem to bear that view out, particularly in terms of the ongoing fears of oversupply in Class A and the market distortions of pent-up affordable and workforce availability that's going unaddressed.

While its spectacular rate of in-migration and job growth make Phoenix an outlier in some ways, it's from the edges we can often gain the best view of the middle. A June 2017 CoStar report pointed out 3 Star properties were gaining on top tier assets. "As of May, 4 and 5 Star multifamily properties were trading at roughly an 87% premium over 3 Star assets in Phoenix, a significant drop from the price premium observed in the years immediately following the recession when 4 and 5 properties traded at prices that were 200% higher than those for 3 Star properties."

Also, in mid-2017, the National Multifamily Housing Council and National Apartment Association released a report prepared by Hoyt Advisory Services, Dinn Focused Marketing, Inc. and Whitegate Real Estate Advisors, LLC entitled, "U.S. Apartment Demand — A Forward Look." This was the introductory salvo to the currently accepted prediction: "We need to build 4.6M units by 2030 to meet demand."

Nationally in 2017, we did pretty well from a raw number standpoint, hitting in the neighborhood of 319,000 units delivered, according to RentCafé. 2018 estimates dropped, however, down an estimated 11% to a mere 283,000.

Of course, when you look past the raw numbers, a less rosy but more detailed picture emerges. According to

a Sept. 2018 RentCafé analysis, there were 80,000 large multifamily projects in development around the nation. However, 80% of the projected units were on the luxury end of the spectrum. That number jumps to 88% in the Southwest.

That's a great snapshot of the "Affordability Crisis." Unfortunately, "Crisis" is a hyperbolic term so overused as to actually diminish its impact. When everything is a crisis, nothing is a crisis, and [Cassandra](#) gets ignored.

Comparing the PricewaterhouseCoopers /Urban Land Institute "Emerging Trends in Real Estate®" reports for 2017, 2018 and 2019, the Buy/Hold/Sell surveys for multifamily can justify every mindset from The Glass is Half-Full to The Glass is Half-Empty to The Glass is Unnecessarily Large.

Half-full says we've known about all these conditions for some time and nobody's panicking.

Half-empty says we've known about these conditions for some time and haven't done much to either counter or take advantage of them.

Glass unnecessarily large says investors are more focused on warehouse/ fulfillment/distribution anyway.

Looking at those three years of survey results provides some context for the most common worry I hear from our brokers: "I've got buyers around the block. Find me sellers!"

What's interesting, particularly in the 2019 report, is where the classes fall on the Investment Prospects and Development Prospects rankings. Moderate income/workforce apartments rank fourth on the Investment list and fifth on Development. Affordable is #6 in Investment, #9 in development.

High income apartments are 17th on both prospect lists, out of 24 total categories. For reference, 22-24 on both are outlet centers, power centers and

regional malls.

Now that it seems we're moving from warning bells to actual market impacts resulting from the over-focus on luxury properties, or, more correctly, the under-focus on anything else, we may expect to actually see some movement. Several single-family builders have started to shift part of their focus to workforce-affordable. Multifamily builders will likely follow suit to keep their appeal up and option streams open.

On the upside, there's still a healthy volume of capital available both to build and to buy. While it's great that banks are much more disciplined now than they were 15 years ago, the downside is that financing — particularly on the development side — has gotten more complex and cumbersome. Combine that with rising materials, labor and land costs, and we see the ongoing lengthening of development timelines, with no breakthroughs in sight for the foreseeable future.

A Feb. 1 GlobeSt column by Capital One Multifamily Finance President Jeff Lee summed things up nicely, saying, "Higher interest rates — combined with excess supply in some cities and flatter rent growth — suggest that valuations will not continue their upward climb. At the same time, there is no indication that sellers are ready to lower their prices," which reflects both the predictions and the predicaments of the past few years in a pithy nutshell.

Back in 1849 when [Alphonse Karr](#) said, "The more it changes, the more it's the same thing," (sounding much cooler and more profound in the original French...) it wouldn't have taken Cassandra to see he had hit on something universal.

ABI COMPARATIVE MARKET REVIEW: YE 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 Dec '18)	4.8%	4.5%	3.5%	3.2%
Employment Growth (y-o-y)	3.1%	4.2%	1.5%	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 (YE 2018)	\$839	\$1,072	\$1,437	\$1,925
% Increase / Decrease	+4.2%	+6.3%	+5.5%	+5.0%
Occupancy (YE 2018)	94.4%	95.2%	96.3%	96.5%
% Increase / Decrease	+0.3%	+0.3%	-0.6%	-0.1%
Total Inventory (50+)	68,754	312,565	129,486	191,375
Total Under Construction (50+)	803	14,451	2,725	9,514
Units Delivered (50+, YE 2018)	50	8,118	1,367	3,497
Total Sales Volume (50+, YE 2018)	\$897M	\$6.16B	\$1.62B	\$1.24B
y-o-y % Increase / Decrease	+47%	+36%	+68%	-32%
Average P/U (50+, YE 2018)	\$91,993	\$149,097	\$173,211	\$253,451
y-o-y % Increase / Decrease	+40%	+26%	+16%	-4%

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OVER 200 YEARS OF COMBINED MULTIFAMILY BROKERAGE EXPERIENCE
SEASONED ADVISORS WITH REGIONAL INSIGHT
COLLABORATION & COOPERATION

NOTABLE RECENT ABI MULTIFAMILY TRANSACTIONS



BROOKWOOD

201 South Kolb Road
Tucson, AZ

Sold Price: \$21,000,000
Units: 272
Year Built: 1973

ORANGE TREE VILLAGE

645 West Orange Grove
Road, Tucson, AZ

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

CASA DEL NORTE APARTMENTS

3802 North Flowing Wells Road
Tucson, AZ

Sold Price: \$3,900,000
Units: 84
Year Built: 1984

SYCAMORE COVE

2458 North Sycamore Boulevard,
Tucson, AZ

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

APARTMENT BROKERAGE & ADVISORY FIRM

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