



TUCSON MSA | MULTIFAMILY | Q2 2019 REPORT

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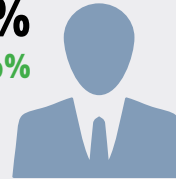
5+ UNIT PROPERTIES

Q2 2019 INCREASE/DECREASE Q2 2018

	Q2 2019	INCREASE/DECREASE	Q2 2018
Total Sales Volume	\$115M	-58.3%	\$276M
AVERAGE Price/Unit	\$72,779	-12.4%	\$83,103
AVERAGE Price/SF	\$103.63	-6.7%	\$111.09
AVERAGE Year Built	1974	-1 Yr	1975
Average Rent	\$891	+7.2%	\$831
Occupancy Rate	94.7%	+0.3%	94.4%
Units Delivered	0	NO CHANGE	0

1,026,099 **POPULATION**
CENSUS

5.0%
+0.6%



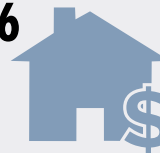
UNEMPLOYMENT
Q-Q AS OF JUNE 2019 - BLS

1.7%



EMPLOYMENT GROWTH
Y-O-Y AS OF JUNE 2019 - BLS

\$48,676



MEDIAN HH INCOME
CENSUS

\$27,323



PER CAPITA INCOME
CENSUS

ABI GEONEWS: TUCSON MSA - SELECT NEWS

CONTINUED ON PAGE 05



Tucson to expand incentive program to spur economic development



Tucson evolves into a hot spot for technology and innovation



Call-center operator laying off nearly 800 in Tucson

969

Units (50+)



UNDER CONSTRUCTION
YARDI

85,461

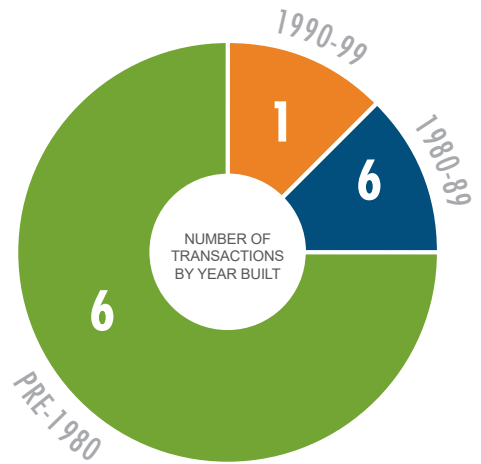
Units (5+)



TOTAL INVENTORY
AS OF JUNE 2019 - YARDI

50+ UNIT MULTIFAMILY PROPERTY ANALYSIS

	Q2 2019	INCREASE/DECREASE	Q2 2018
Total Sales Volume	\$87M	-64.1%	\$242M
AVERAGE Price/Unit	\$72,963	-15.8%	\$86,628
Price/SF	\$103.09	-12.2%	\$117.44
Year Built	1974	-11 Yrs	1985



TOP 3 TRANSACTIONS BY PRICE/UNIT (50+)



Wildcat Canyon Village

Tucson, 88 Units | \$9,194,600
\$120,980/Unit | \$158.09/SF | Built 1968

INDI Tucson

Tucson, 88 Units | \$8,000,000
\$90,909/Unit | \$74.23/SF | Built 1972

Greenview Apartments

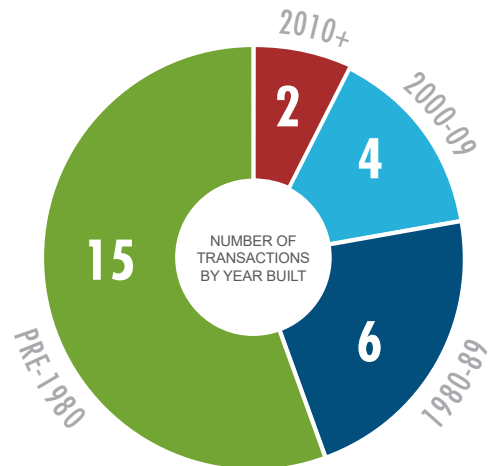
Tucson, 136 Units | \$10,800,000
\$80,000/Unit | \$88.02/SF | Built 1972

Q2 2019 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	--	--	--
2000-09	--	--	--
1990-99	1	\$68K	\$86
1980-89	1	\$75K	\$92
Pre-1980	6	\$74K	\$111

5 - 49 UNIT MULTIFAMILY PROPERTY ANALYSIS

	Q2 2019	INCREASE/DECREASE	Q2 2018
Total Sales Volume	\$28M	-17.6%	\$34M
AVERAGE Price/Unit	\$72,217	+11.8%	\$64,590
Price/SF	\$105.35	+31.0%	\$80.44
Year Built	1974	+4 Yrs	1970



TOP 3 TRANSACTIONS BY PRICE/UNIT (5-49)



Blacklidge Apartments

Tucson, 13 Units | \$2,845,975
\$218,921/Unit | \$128.10/SF | Built 2019

Highland House Apartments

Tucson, 12 Units | \$1,715,000
\$142,917/Unit | \$239.26/SF | Built 2017

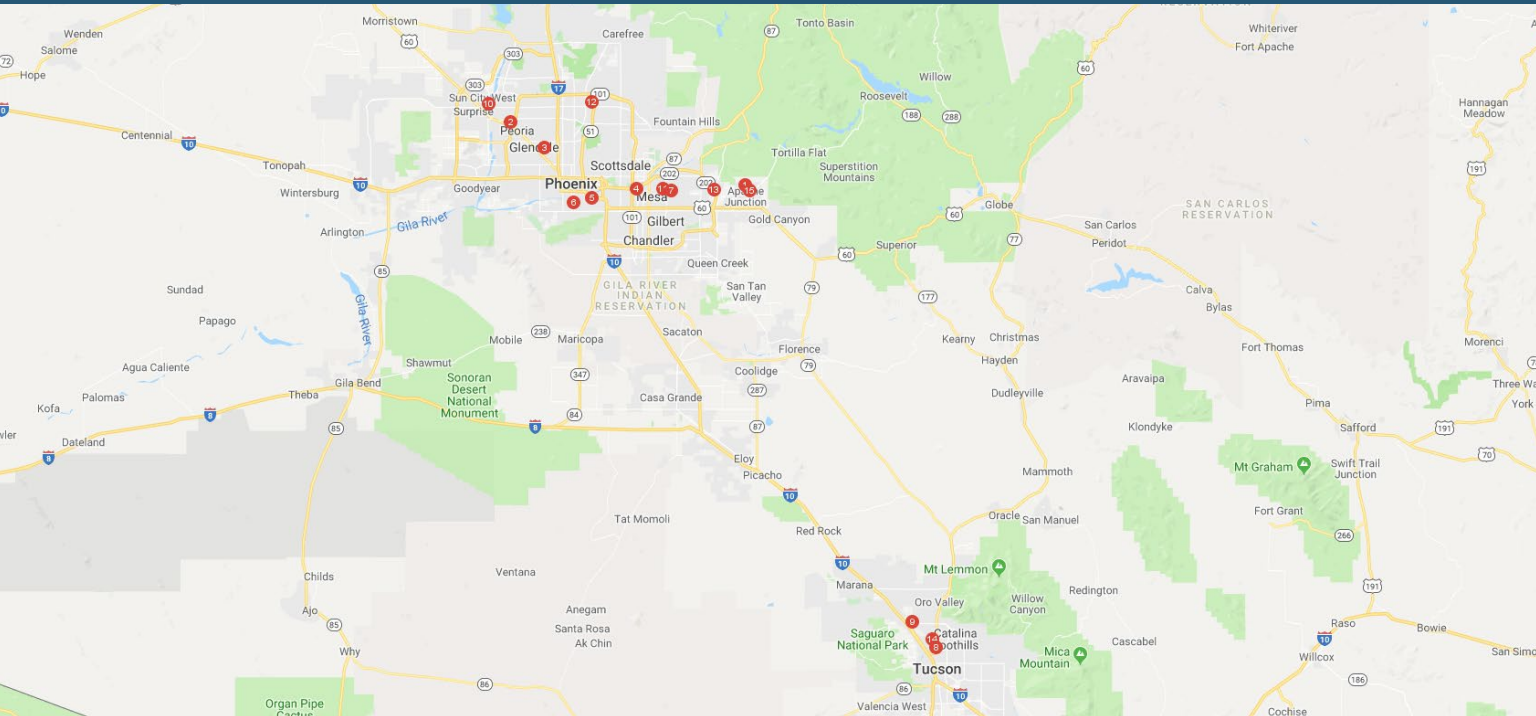
University Lofts

Tucson, 41 Units | \$5,250,000
\$128,049/Unit | \$241.69/SF | Built 1971

Q2 2019 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	2	\$182K	\$155
2000-09	4	\$98K	\$111
1990-99	--	--	--
1980-89	6	\$59K	\$86
Pre-1980	15	\$61K	\$101

ARIZONA MOBILE / MANUFACTURED HOUSING PARK (MHP) ANALYSIS



MHP SALES VOLUME (50+)

AGE RESTRICTED/55+

Transaction Volume (Q2 2019)

PHOENIX MSA

\$49,177,018

TUCSON MSA

\$7,956,000

OTHER AZ MSA

\$0

Transaction Volume (Q2 2018)

\$29,372,190

\$3,400,000

\$5,800,000

Avg Sales Price / Space (Q2 2019)

\$47,560

\$61,674

\$0

Avg Sales Price / Space (Q2 2018)

\$61,065

\$37,363

\$20,423

FAMILY

Transaction Volume (Q2 2019)

\$67,360,480

\$7,390,000

\$0

Transaction Volume (Q2 2018)

\$46,758,190

\$8,700,000

\$700,000

Avg Sales Price / Space (Q2 2019)

\$69,949

\$31,191

\$0

Avg Sales Price / Space (Q2 2018)

\$58,157

\$20,358

\$11,290

Total Transaction Volume (2019 YTD, 50+)

\$116,537,498

\$15,346,000

\$0

Number of Transactions (2019 YTD, 50+)

12

3

0

MHP INVENTORY (50+)

INVENTORY

Total Spaces

PHOENIX MSA

82,665

TUCSON MSA

22,420

OTHER AZ MSA

18,832

Age Restricted/55+

57,955

11,930

9,180

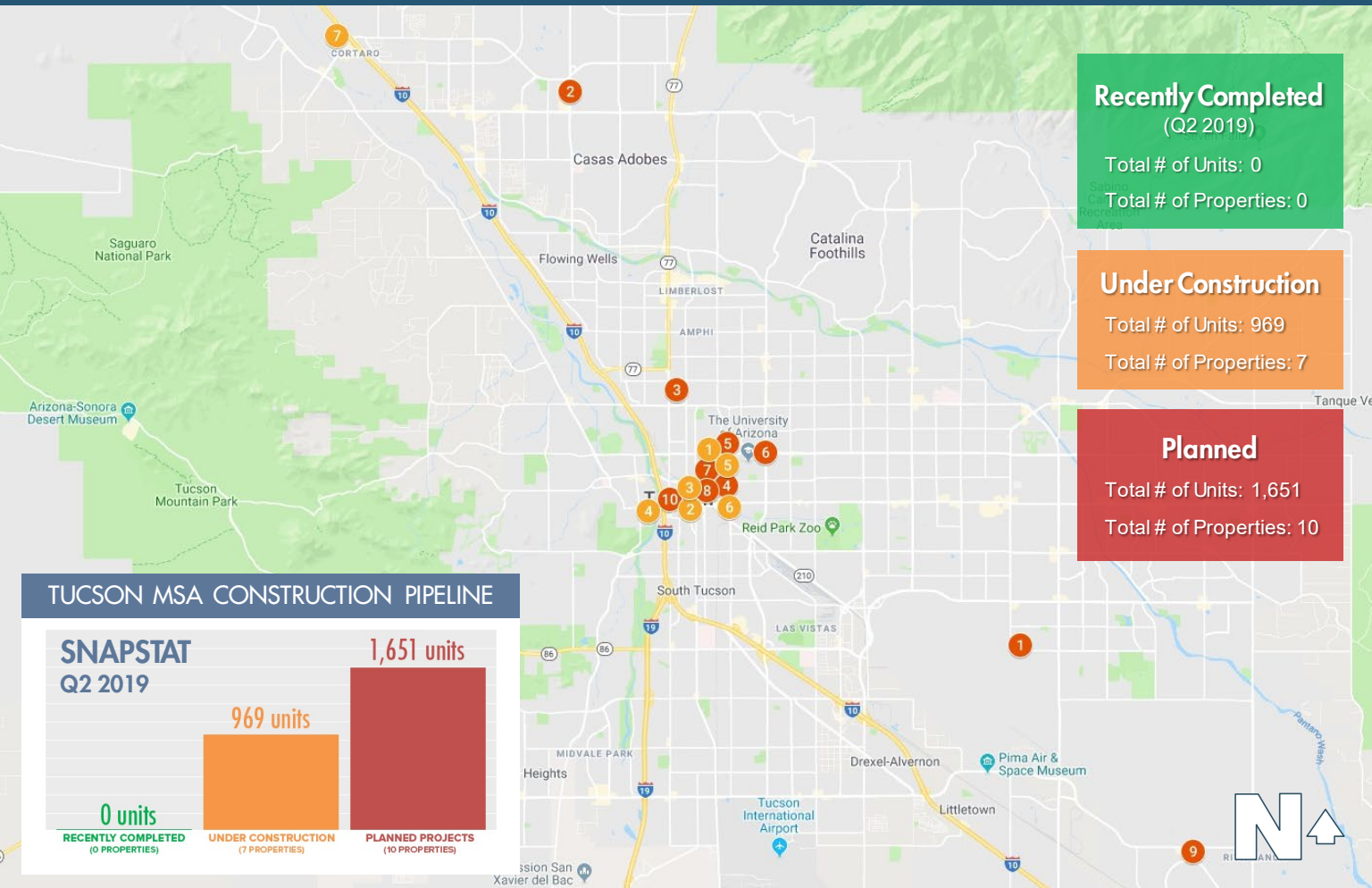
Family

24,440

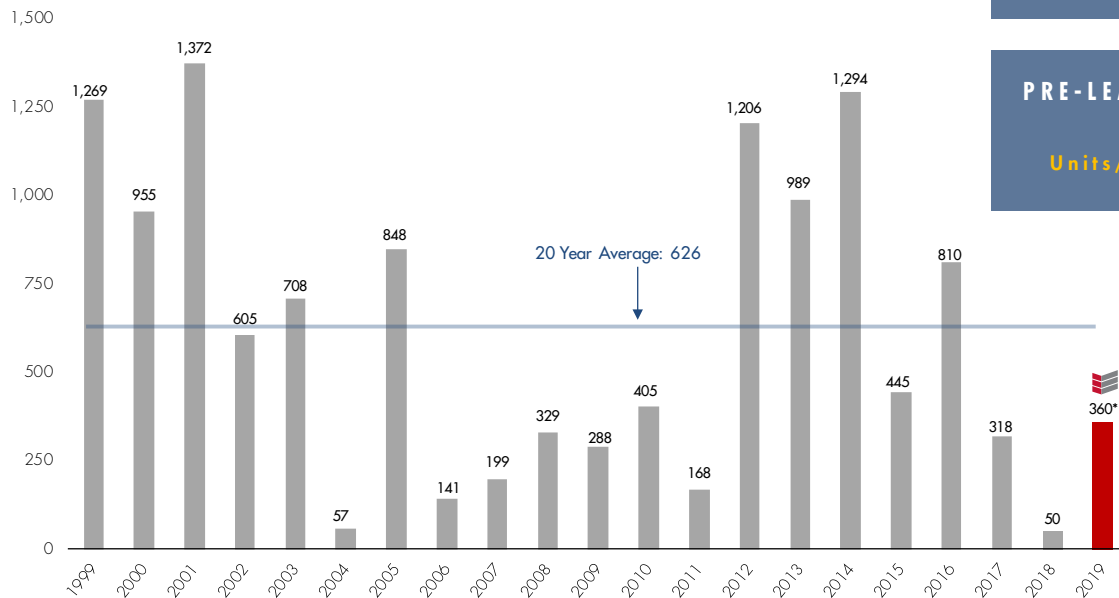
9,719

9,572

COMPLETED CONSTRUCTION



TUCSON MULTIFAMILY CONSTRUCTION PIPELINE Q2 2019



TOTAL UNIT INVENTORY

5+ UNIT PROPERTIES: **85,461**

50+ UNIT PROPERTIES: **66,759**

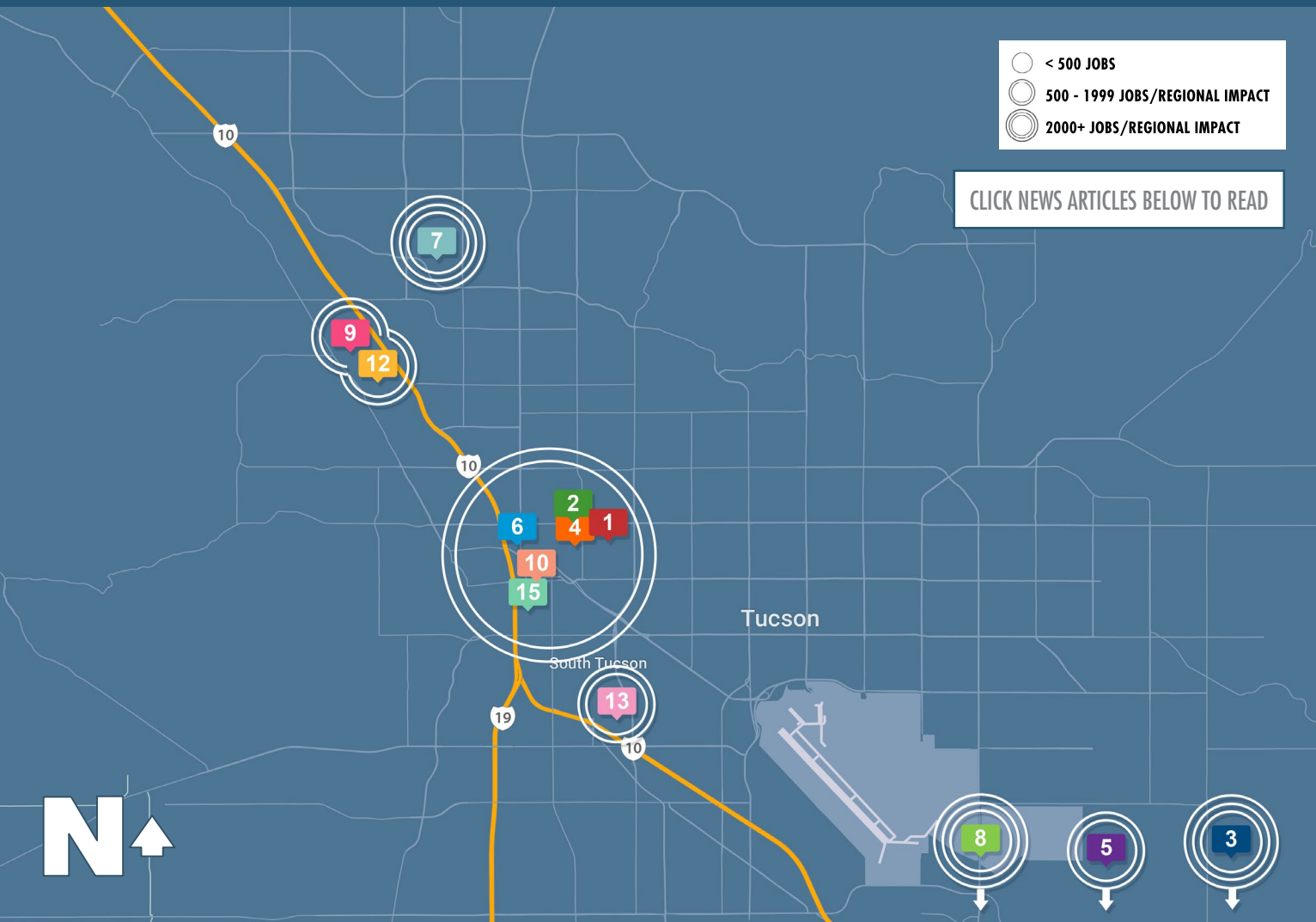
PRE-LEASE ABSORPTION RATE

4

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 - SELECT NEWS



1 The Dinerstein Companies | Aspire Tucson Phase II to Offer High-Rise Living

2 Stackhouse, Inc. | Housing Project Made of Shipping Containers to Break Ground

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

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

5 Imperfect Produce | Imperfect Produce is Bringing up to 350 Jobs to Tucson

6 Caterpillar Inc. | Caterpillar Inc. Bringing Regional HQ to Downtown Tucson, 600 Jobs

7 Comcast | Comcast Marks Grand Opening of Tucson Call Center (Brings 1,000 Jobs to the Area)

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

9 Convergys | Convergys Plans to Hire 500 in Tucson

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

Regional Tucson | Tucson to expand incentive program to spur economic development

12 Concentrix Corp. | Call-center operator laying off nearly 800 in Tucson

13 GEICO | GEICO to Build New Corporate Office in Tucson, Add 700 Jobs

Regional Tucson | Tucson evolves into a hot spot for technology and innovation

15 Ernst & Young | Ernst & Young Opening New Support Center in Downtown Tucson to Hire 125

Regional Pima County | Pima County Could Ask Voters to Double Sales Tax for Roads

BY: ROLAND MURPHY, DIRECTOR OF RESEARCH

Going into 2019, pundits, prognosticators and trend data purveyors were cautiously hedging their bets and warning everyone to be on the lookout for a fairly boring year. “Like 2018, but more so,” was about as far as most would stick their necks out. But many warned that recessionary horrors lay just beyond the horizon.

For the first most part, they’ve been proven right. There was a little excitement when the Fed started moving on raising interest rates, but the resulting panic in the stock market disco was more extreme than when John Travolta’s polyester suit caught fire. (The movie edit that plays in my head is a lot more interesting than the one you saw on the screen.) As a result, Big Money Dance Off continues.

Here be Dragons

Legend has it that back in the old days of exploration and cartography, mapmakers, when they ran out of known coastlines and features, would throw in a fanciful drawing of a hideous beast, label the region in question with, “Here be Dragons,” and go on about their business.

With the longest recovery in history now clocking in at 120 months-plus, the economic and market analytics punditry are well into uncharted territory these days. As a result, the warnings of impending dragon attack and/or sky collapse are pinging around like happy little neutrons at Chernobyl in April of ’86.

Give them long enough, and they’ve gotta smack into something, right? And since everything has been so good for so long, that’s gotta mean disaster is looming, right?

No. Despite predictions of dragons, leviathan, kraken, various sea serpents and even Cthulhu itself, the multifamily market waters remain enchantingly navigable.



Tucson Market Metrics:

By the Numbers

Rounding the Horn of Q2 and sailing into the Second Half, the Tucson market continues to move ahead on mixed tides.

For 5-49 unit properties, Q2 saw a transaction volume of more than \$28 Million, which represented a 17.6% Year-over-Year decrease from Q2 2018. In the 50+ unit category, Q2 brought in just \$87 Million, down 64% from 2018.

Average Price-Per-Unit amounts were up healthily in 5-49, rising 11.8% YoY to \$72,217, but down 15.8% to \$72,963 for 50+. These translated to an Average Price/SF of \$105.35 in 5-49 (up 31%) and \$103.09 (down 12.23%) in 50+.

Inventory age for 5-49 got newer Year-over-Year, with Average Year Built being 1974, versus 1970 for the same quarter last year. Average Year Built in 50+ was also 1974, compared to 1985 in 2018.

The market’s occupancy rate remained high. Q2 occupancy for 5+ units was 94.7%, an increase of 0.3% Y-o-Y. Average rent was \$891, up a solid 7.2% (\$60) from Q2 2018.

Tucson MSA demographics continued their solid trends. The Census estimate of total population was 1,026,099. The unemployment rate finished the quarter at 5.0%, according to Bureau of Labor Statistics numbers.

Median Household Income was \$48,676, and Per Capita Income came in at \$27,323.

In the realm of new construction for 50+ unit properties, no units were delivered in Q2. Only 318 units at two properties were delivered in Q1. An estimated 1,651 units are in the Planning stages across 10 properties. A total of 969 units were listed as Under Construction in seven properties.

Pre-lease absorption rates were low at a rate of just 4 units/property/month.

Total Unit Inventory for 5+ properties was 85,461, and 50+ came in at 66,759.

Portents of DOOM!

Unless you’re Kevin Bacon at the end of “Animal House”, you’re not going to get a lot of attention by saying, “Remain calm. All is well.”

As a result, a couple different things happen. Either pundits obsess about single data points or unusual deviations in order to justify their air time or column space, or outlets take the one cautionary

item in a report that's mostly sunshine, lollipops and rainbows and make that their clarion call.

There are too many examples of the former to count, much less critique, so I'll use an example of the latter as a case study. A recent dire and eye-catching headline in Multi-Housing News read: "[JPMorgan Chase's Head of CRE: Prepare for a Correction.](#)"

Now, when Al Brooks is warning you to duck and cover, you pay attention. The thing is, though, Brooks' responses in the Q&A that made up the bulk of the article were almost all pretty low key and upbeat.

Asked right off the bat about the biggest challenges facing multifamily, Brooks warned one of the biggest issues at the moment is the increasing need to build a higher number of affordable units in major markets, a common theme that's been raised for years, including in multiple past editions of this report.

In all the other questions, save one (sorta), Brooks' comments paint the picture of a healthy market with low vacancy, highly available capital, excellent adoption of new tech to streamline processes and a range of other positives that generally reinforce a justifiably confident outlook for CRE in general and multifamily in particular.

The only even remotely cautionary comment he made was in response to a question concerning what risks lenders need to be aware of given current conditions.

Brooks is quoted as saying: "The multifamily segment continues to see activity in major markets. However, commercial real estate developers and investors should be prepared for a future correction. Although the multifamily segment is benefiting from lower rates and a strong economy, it's important to maintain a fortress balance sheet for the long term and be ready for anything in a changing and uncertain marketplace."

That's it. Don't put all your eggs in one basket and, remember, anything can happen.

But What About the Fed?!

As much as I don't like to talk about the Federal Reserve and monetary policy, only because such discussions tend to go down the rabbit hole of quasi-alechemistic arcania moments after the thesis statement is uttered, this time around it warrants a brief mention.



In the second half of 2018 the Fed pulled up its Big Kid underpants and moved to reduce its balance sheets and gently nudge up interest rates. Shortly thereafter, in what looked for all the world like an orchestrated tantrum, the stock market lost its metaphorical mind.

Trying to remove the flailing rugrat from the cereal aisle, where it was causing an embarrassing scene, and get it into the mini-van, Chairman Powell and Company backed off and chose to leave rates at 2.5 percent at the end of the year, even promising a cookie in the form of a new rate cut if the market behaved. Thrilled the bad behavior worked, stocks on major indices broke records and Treasury yields dropped.

One of the harbingers of doom some were forecasting due to the Fed's earlier assertive policy announcement was that commercial real estate prices were going to get pushed downward. Well, rack up another missed opportunity for correct tea leaf interpretation. Since the Fed was beaten back, CRE remains one of the few investment types to continue generating appreciable returns and cash flow.

Kinda like before, only more so.

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ABI COMPARATIVE MARKET REVIEW: Q2 2019



TUCSON

PHOENIX

SACRAMENTO

SAN DIEGO

	TUCSON	PHOENIX	SACRAMENTO	SAN DIEGO	
DEMOGRAPHICS	Total Population	1,026,099	4,737,270	2,296,418	3,337,685
	Unemployment Rate (as of June 2019)	5.0%	4.6%	3.8%	3.3%
	Employment Growth (y-o-y)	1.7%	3.2%	1.8%	1.7%
	Median HH Income	\$48,676	\$57,935	\$67,902	\$70,588
	Per Capita Income	\$27,323	\$29,542	\$33,548	\$34,350
RENT/OCC/CONST (50+)	Rent (Q2 2019)	\$891	\$1,163	\$1,517	\$1,979
	% Increase/Decrease	+7.2%	+8.8%	+6.0%	+3.5%
	Occupancy (Q2 2019)	94.7%	95.6%	96.4%	96.2%
	% Increase/Decrease	+0.3%	+0.4%	NO CHANGE	-0.4%
	Total Inventory (50+)	66,759	305,359	129,505	184,413
Total Under Construction (50+)	969	14,192	3,550	8,717	
Units Delivered (50+, Q2 2019)	0	1,112	186	362	
SALES (50+)	Total Sales Volume (Q2 2019)	\$87M	\$1.86B	\$247M	\$203M
	y-o-y % Increase/Decrease	-64.1%	+29.9%	NO CHANGE	-55.6%
	Average P/U (Q2 2019)	\$72,963	\$156,564	\$167,814	\$331,312
	y-o-y % Increase/Decrease	-15.8%	+0.8%	+4.6%	+6.6%

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COLLABORATION & COOPERATION

NOTABLE RECENT ABI MULTIFAMILY TRANSACTIONS



MISSION ANTIGUA

5525 South Mission Road,
Tucson, AZ

Sold Price: \$21,800,000
Units: 248
Year Built: 1989

BROOKWOOD

201 South Kolb Road
Tucson, AZ

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

CASA DEL NORTE APARTMENTS

3802 North Flowing Wells Road
Tucson, AZ

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

INDI TUCSON

1920 North First Avenue
Tucson, AZ

Sold Price: \$8,000,000
Units: 88
Year Built: 1972

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