



TUCSON MSA | MULTIFAMILY | Q3 2019 REPORT

TUCSON MSA OVERVIEW	01
MULTIFAMILY PROPERTY ANALYSIS: 50+ & 5-49 UNITS	02
ARIZONA MOBILE / MANUFACTURED HOUSING PARK (MHP) ANALYSIS	03
COMPLETED CONSTRUCTION & PLANNED PROJECTS	04
ABI GEONEWS: TUCSON MSA - SELECT NEWS	05
ABInsight® TUCSON MSA: BUSY TIMES. WHERE TO START?	06-07
ABI COMPARATIVE MARKET REVIEW: Q3 2019	08

5+ UNIT PROPERTIES		Q3 2019	INCREASE/DECREASE	Q3 2018
Total Sales Volume		\$219M	-33.7%	\$331M
A V E R A G E	Price/Unit	\$103,738	-5.3%	\$109,554
	Price/SF	\$134.10	-9.6%	\$148.29
	Year Built	1971	+1 Yr	1970
Average Rent		\$918	+8.1%	\$849
Occupancy Rate		94.5%	No Change	94.5%
Units Delivered		154	+208.0%	50

ABI GEONEWS: TUCSON MSA - SELECT NEWS

CONTINUED ON PAGE 05



ABI in the News: New Student Housing Tower Coming Near UA



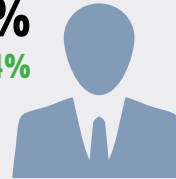
New Housing, Retail Planned as far West as Metro Tucson Can Go



Investors Continue Snapping up Apartment Complexes

1,026,099 **POPULATION**
CENSUS

4.1%
+0.4%



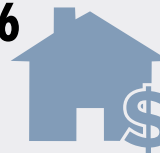
UNEMPLOYMENT
Q-O-Q AS OF AUG 2019 - BLS

1.9%



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

\$48,676



MEDIAN HH INCOME
CENSUS

\$27,323



PER CAPITA INCOME
CENSUS

1,156
Units (50+)



UNDER CONSTRUCTION
YARDI

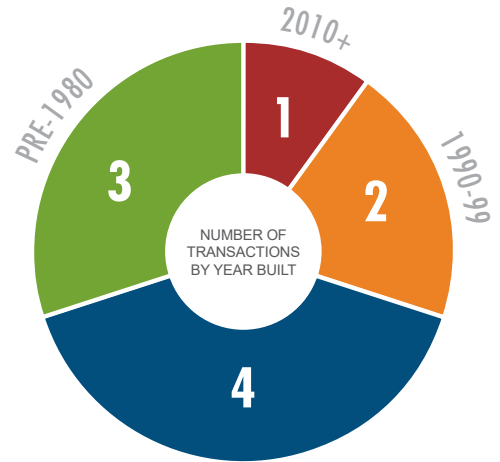
85,755
Units (5+)



TOTAL INVENTORY
AS OF OCT 2019 - YARDI

50+ UNIT MULTIFAMILY PROPERTY ANALYSIS

	Q3 2019	INCREASE/DECREASE	Q3 2018
Total Sales Volume	\$193M	-37.4%	\$308M
AVERAGE Price/Unit	\$111,993	-3.6%	\$116,117
AVERAGE Price/SF	\$144.45	-6.2%	\$154.07
AVERAGE Year Built	1986	+1 Yr	1985



= ABI Multifamily Transaction

TOP 3 TRANSACTIONS BY PRICE/UNIT (50+)



Pima Canyon

Tucson, 240 Units | \$44,850,000
\$186,875/Unit | \$200.55/SF | Built 2019

Orange Tree Village

Tucson, 110 Units | \$15,900,000
\$144,545/Unit | \$113.45/SF | Built 1981

Domain 3201

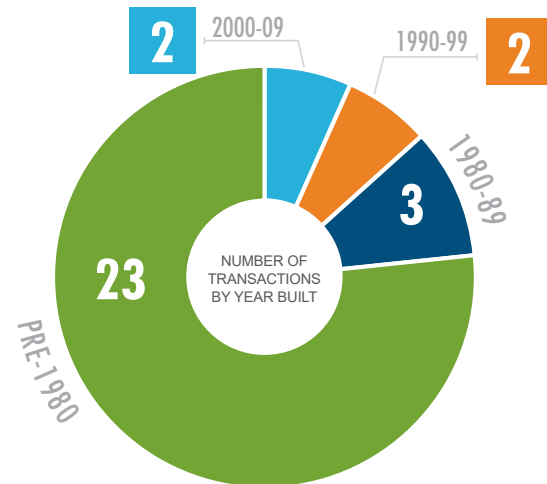
Tucson, 289 Units | \$37,750,000
\$130,623/Unit | \$183.49/SF | Built 1990

Q3 2019 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	1	\$187K	\$201
2000-09	--	--	--
1990-99	2	\$110K	\$160
1980-89	4	\$105K	\$132
Pre-1980	3	\$61K	\$90

5 - 49 UNIT MULTIFAMILY PROPERTY ANALYSIS

	Q3 2019	INCREASE/DECREASE	Q3 2018
Total Sales Volume	\$26M	+16.0%	\$23M
AVERAGE Price/Unit	\$67,519	+8.6%	\$62,166
AVERAGE Price/SF	\$88.15	-7.7%	\$95.52
AVERAGE Year Built	1966	+4 Yrs	1962



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



The Second Street Houses

Tucson, 7 Units | \$2,275,000
\$325,000/Unit | \$65,000/Bed | \$187.10/SF | Built 2009

1630 & 1650 East Adelaide Drive

Tucson, 8 Units | \$1,085,000
\$135,625/Unit | \$147.06/SF | Built 1998

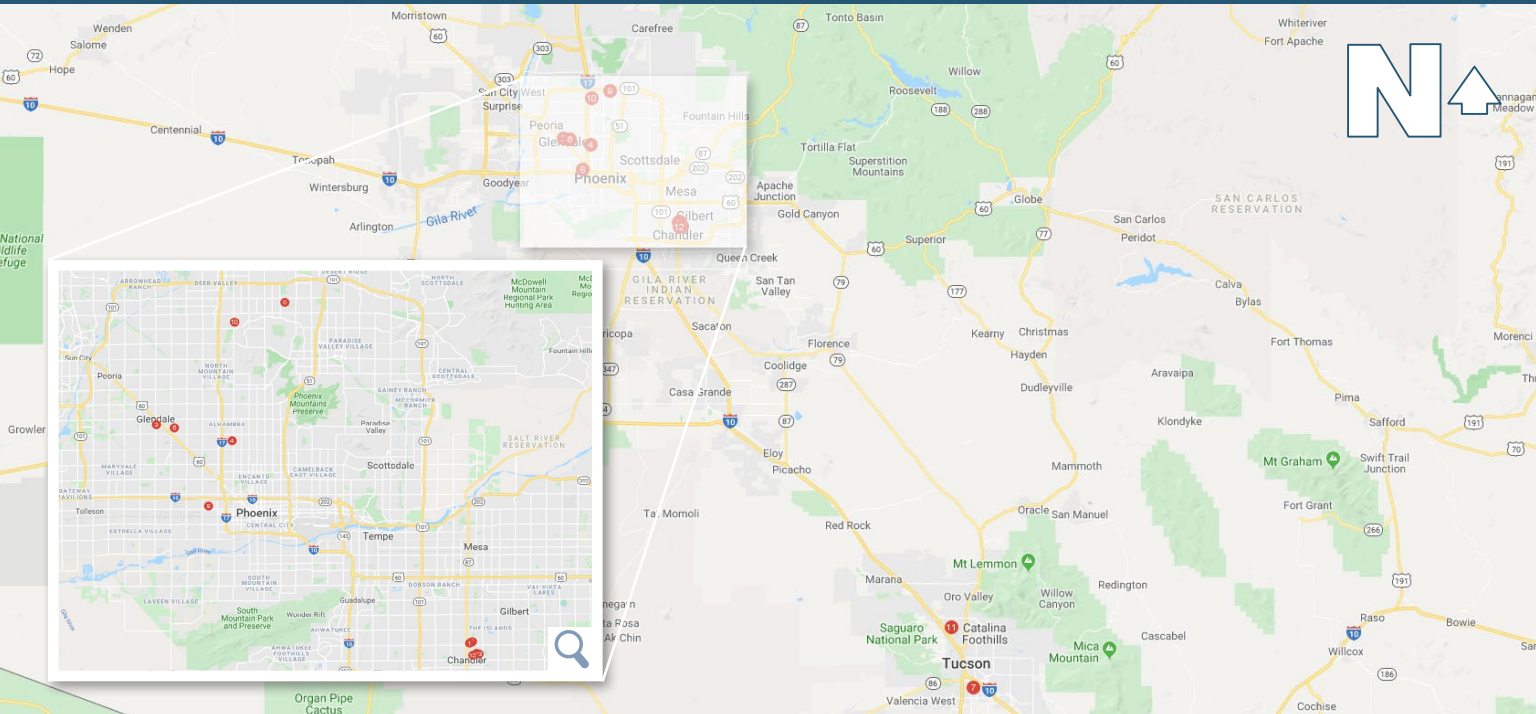
309 - 311 West Elm Street

Tucson, 8 Units | \$1,075,000
\$134,375/Unit | \$102.81/SF | Built 2006

Q3 2019 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	--	--	--
2000-09	2	\$223K	\$148
1990-99	2	\$131K	\$131
1980-89	3	\$64K	\$79
Pre-1980	23	\$57K	\$80

ARIZONA MOBILE / MANUFACTURED HOUSING PARK (MHP) ANALYSIS



MHP SALES VOLUME (50+)

AGE RESTRICTED/55+

Transaction Volume (Q3 2019)

\$0

\$18,500,000

\$0

Transaction Volume (Q3 2018)

\$195,635,000

\$0

\$0

Avg Sales Price / Space (Q3 2019)

\$0

\$71,984

\$0

Avg Sales Price / Space (Q3 2018)

\$59,391

\$0

\$0

FAMILY

Transaction Volume (Q3 2019)

\$77,875,000

\$1,813,235

\$0

Transaction Volume (Q3 2018)

\$71,599,000

\$0

\$0

Avg Sales Price / Space (Q3 2019)

\$67,895

\$33,578

\$0

Avg Sales Price / Space (Q3 2018)

\$60,472

\$0

\$0

Total Transaction Volume (2019 YTD, 50+)

\$77,875,000

\$20,313,235

\$0

Number of Transactions (2019 YTD, 50+)

11

2

0

MHP INVENTORY (50+)

INVENTORY

Total Spaces

82,868

22,531

18,818

Age Restricted/55+

57,764

11,987

9,166

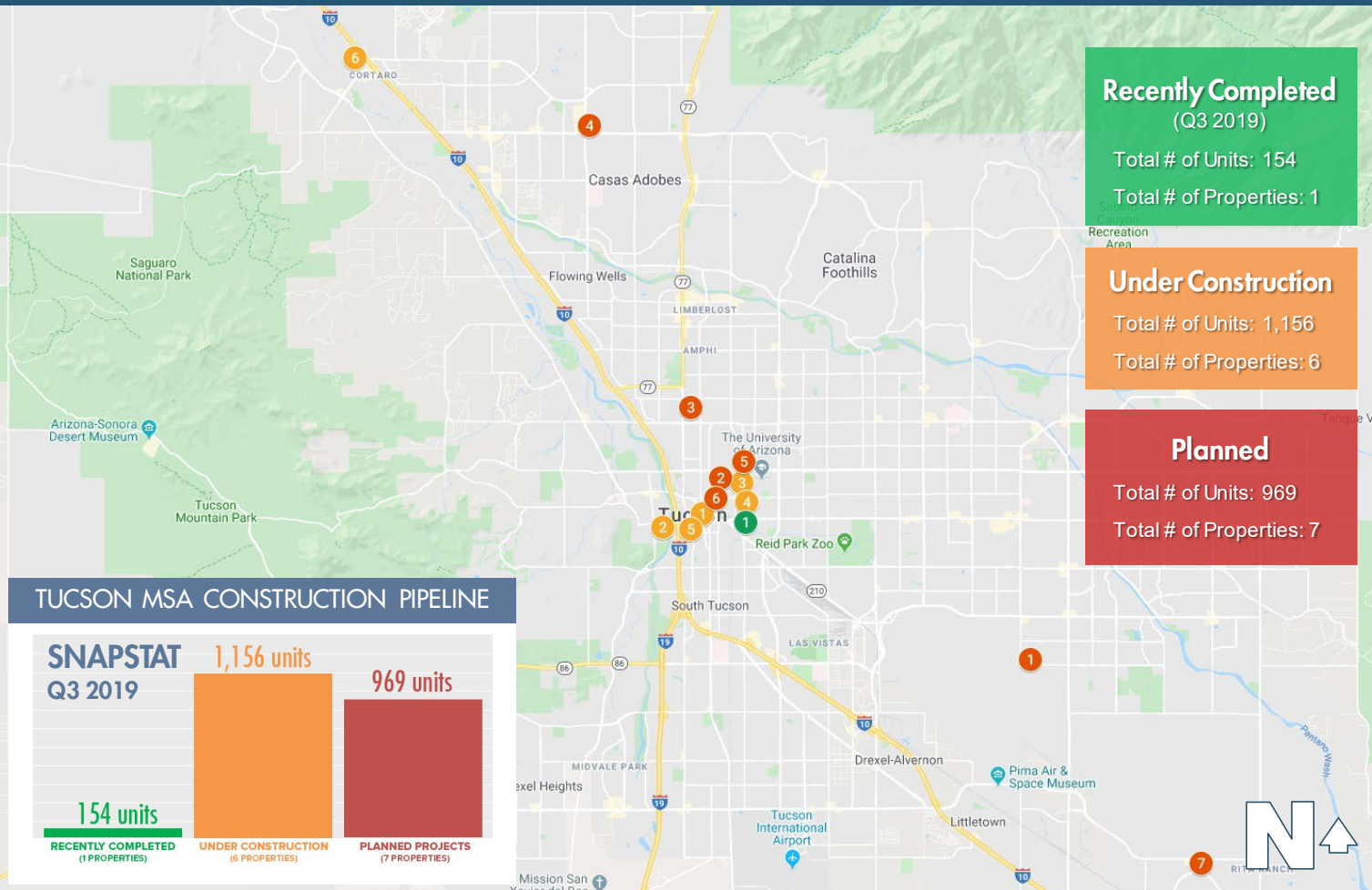
Family

24,683

9,773

9,572

COMPLETED CONSTRUCTION



Recently Completed
(Q3 2019)

Total # of Units: 154
Total # of Properties: 1

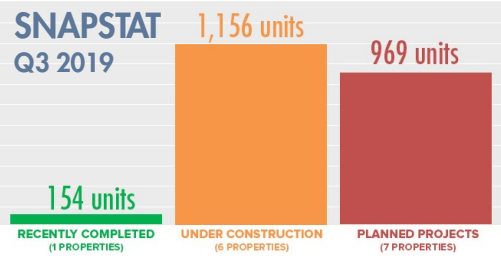
Under Construction

Total # of Units: 1,156
Total # of Properties: 6

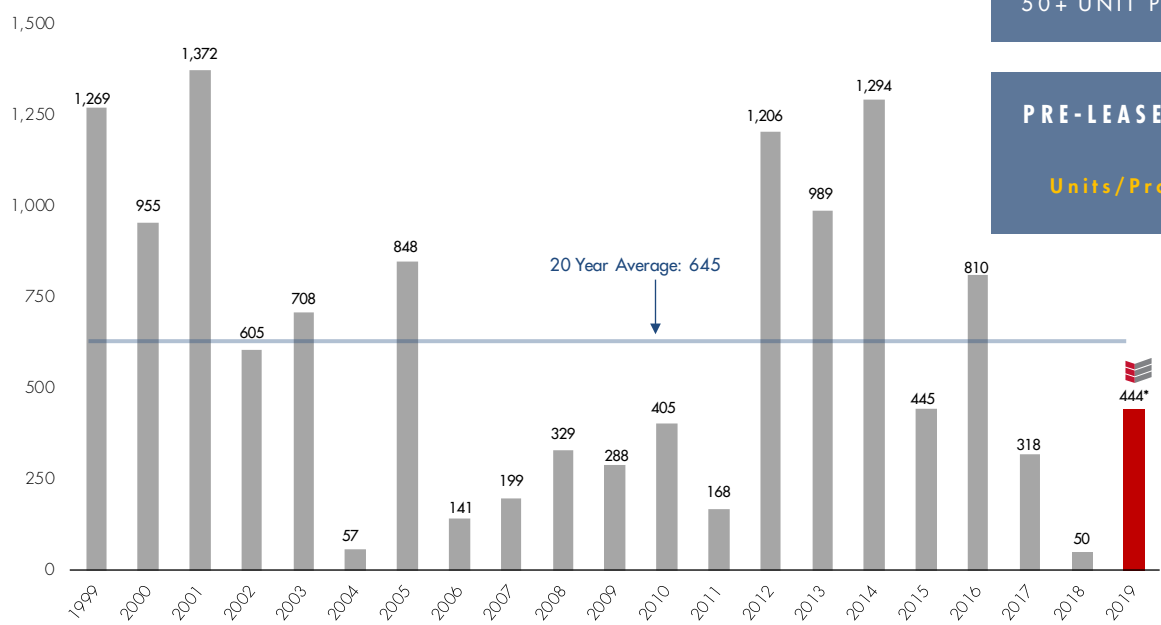
Planned

Total # of Units: 969
Total # of Properties: 7

TUCSON MSA CONSTRUCTION PIPELINE



TUCSON MULTIFAMILY CONSTRUCTION PIPELINE Q3 2019



TOTAL UNIT INVENTORY

5+ UNIT PROPERTIES: **85,755**

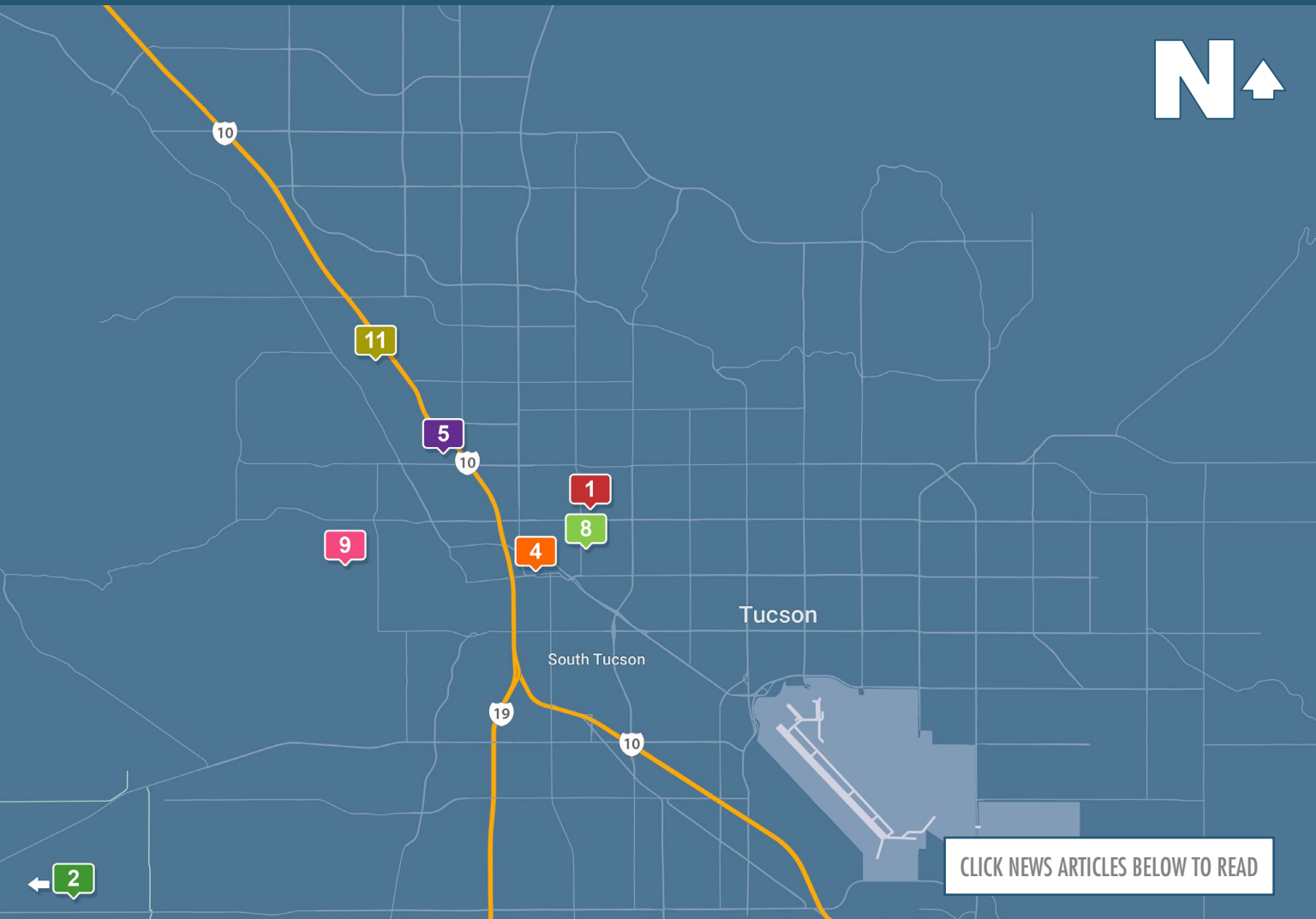
50+ UNIT PROPERTIES: **67,053**

PRE-LEASE ABSORPTION RATE

1

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



1 Core Spaces
ABI in the News: New Student Housing Tower Coming Near UA

Multiple
Regional Tucson Ranked as the Top City for Emerging Tech Companies

2 KB Home
New Housing, Retail Planned as far West as Metro Tucson Can Go

8 AJ Capital Partners
Graduate Hotels Announces Graduate Tucson

Multiple
Regional Investors Continue Snapping up Apartment Complexes

9 Holualoa Companies
Gateway at Tucson Apartments to Receive \$10 Million Renovation to Meet Needs to Expanding Multifamily market

4 Pueblo Center Partners
Developers Seeking City of Tucson's Help to Renovate Shuttered Hotel Arizona Downtown

Tucson
Regional Tucson to Expand Incentive Program to Spur Economic Development

5 Paqua Yaqui Tribe
Tucson Could Get a New Casino

11 Concentrix Corp.
Call-center Operator Laying Off Nearly 800 In Tucson

City of Tucson
Regional Tucson Landlords Saying No to Section 8, Uprooting 100s

Tucson
Regional Tucson Evolves into Hot Spot for Technology and Innovation



Busy Times Where to Start?



BY: ROLAND MURPHY, DIRECTOR OF RESEARCH

As a reporter and an analyst, you are always on the lookout for things like riots, fires and mudslides because they're riveting to report and write about.

As someone who actually cares about the areas you cover, you want things to be slow, incremental and even placid.

Q3 gave a fair amount of both and, unusually, did it in all the markets we cover. Following is a quick look at many of the happenings we've been following.

National Rents

In major markets across the U.S., rent growth has slowed or retreated slightly. While we tend to make a point of trying to ignore analysts who look at nine weeks of data and pretend that's a broad enough set to predict a trend, it does merit discussion.

While certainly not saturating, Class A vacancies have begun to inch up over the last two years in major markets like New York, LA, Washington (D.C.) and Seattle. An interesting quote in the "Emerging Trends in Real Estate® 2020" report noted, "It has largely to do with the finite limits of that more price-elastic group that can tolerate pass-along costs in their monthly rents, versus a far-larger and much faster-growing universe of people whose household incomes set lower rent tolerance levels."

More people are moving out of their parents' basements and moving into their own place, but even people who can afford it are looking at other-than-top-tier properties. As we have noted here repeatedly, that's putting more pressure on availability in Class B and even Class C properties.

In still hot markets like Arizona in general and Phoenix in particular, that's going to have continuing impacts on affordability and continue fueling the drive toward value-add renovations, particularly in the face of labor shortages and land costs in highly desirable submarkets, compared to completing and pressing new unit deliveries into the markets.

What's Up with California?

California is exceptionally fortunate that it has an economy larger than most developed nations to absorb the scope and breadth of its policy practices, even though it's anyone's guess how long that will remain the case if it continues its business-hostile ways from the past three-plus decades.

Most recently, the state has passed and scheduled a rent control process that has investors worried about what to do next. Short version: Rent growth is capped at 5% per year for properties older than 15 years. That's likely going to gut the renovation and value-add market.

Combined with a slew of 18 new laws intended to create tax exemptions during construction, ease permitting, simplify zoning and remove other barriers to creating new and affordable housing, rent control could, potentially, fuel new development, particularly given the rent control statute's exemption for properties newer than 15 years.

However, no amount of legislation is going to overcome the three harshest realities slowing development in California and around the country: 30 years of shunning trade skill training across the U.S. has created a horrifying lack of workers to execute projects; land prices are continuing to increase, and everything from concrete to rebar to drywall to nails is getting more expensive.

On the California upside, however, a 9/27 GlobeSt discussion with David Harrington of Matthews Real Estate Investment Services noted an interesting possibility as a result of the new state regulation: California properties, even those that haven't traditionally raised rents on a year-over-year basis, could now start implementing 5% bumps every year like clockwork. For properties with secure and stable debt, that's not the worst potential ROI outcome.

Oregon and New York also passed rent control measures this year, and many experts are concerned this could be the beginning

of a national trend that could hamper the industry across the board.

The field of Democratic Party 2020 presidential candidates is still huge, and candidates are reaching far and wide to issue proposals that will get them noticed. Toward that end, a couple of the more prominent aspirants have floated the trial balloon of federal-level rent control. Details have been scant, but the idea could be appealing to younger voters starting their careers and having trouble affording the \$1,189 national average for a two-bedroom.

Industry opinions on the idea have ranged from denial and dismissal to amusement to abject terror.

Tucson Market Metrics:

By the Numbers

While rent growth is slowing nationwide, Tucson has remained largely immune, and as a result the transaction interest is still high.

For 5-49 unit properties, Q3 saw a transaction volume of more than \$26 Million, which represented a 16% Year-over-Year increase from Q3 2018. In the 50+ unit category, Q3 brought in \$192.6 Million, down 37.4% from the exceptionally high Q3 2018 volume.

Average Price-Per-Unit amounts were up in the 5-49 segment, rising 8.6% YoY to \$67,519, but down 3.6% to \$111,993 for 50+. These translated to an Average Price/SF of \$88.15 in 5-49 (down 7.7%) and \$144.45 (down 6.2%) in 50+.

Inventory age remained relatively consistent Year-over-Year, with Average Year Built for 5-49 being 1966, versus 1962 for the same quarter last year. Average Year Built in 50+ was 1986, compared to 1985 in 2018.

The market's occupancy rate remained high. Q3 occupancy for 5+ units was 94.5%, unchanged Y-o-Y. Average rent was \$918 up 8.1% (\$69) from Q3 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 4.1%, according to Bureau of Labor Statistics numbers.

Median Household Income was \$48,646, and Per Capita Income came in at \$27,323.

In the realm of new construction for 50+ unit properties, only 154 units were delivered at 1 project, bringing the year-to-date count to 444 units.

An estimated 969 units are in the Planning stages across seven properties. A total of 1,156 units were listed as Under Construction in six properties.

The pre-lease absorption rates was one unit/property/month.

Total Unit Inventory for 5+ properties was 85,755, and 50+ came in at 67,053.

What's in Store for Arizona?

Most experts at a recent conference in Los Angeles said they aren't particularly worried about California's 5% cap. However, if that turns out to be the beginning of the more sweeping changes some experts anticipate, and they have the effect of driving down transaction volume, it will likely turn up the heat for investment in Arizona as more investors look for new outlets.

In addition to sitting at or near the top for demographic appeal, owners and developers looking to invest in Arizona are also benefitting from the current environment of falling interest rates. Coupled with a relative abundance of capital, the area's investment and development boom should continue and likely accelerate even as cap rates continue to compress.

While Arizona enjoys a favorable climate in terms of both weather and opportunity, and despite an attractively balanced mix of eager investors across the private, institutional and foreign sectors, accessing that abundance of capital continues to be a challenge for new development.

At Bisnow's Phoenix State of the Market event in September, several panelists lamented what they called, "An East Coast stranglehold," on development capital. They explained an ongoing challenge in getting projects funded, particularly in office but also in multifamily, is that major lenders rely on national actuarial formulations and don't fully take into account the currently exceptional deviations from the norm Arizona brings to the table.

"If rent growth slows from 3% down to, say, 1.5% nationally, that's all the money guys are going to look at," said one panel member. "It's frustrating when we're seeing rent growth at 7% and occupancy over 95%. Come on, guys, we're filling every unit we build, and we can fill a lot more if you just look at us realistically and realize we're in a perfect environment to build and absorb more and faster than nearly anywhere else."

LIKE THIS ARTICLE?

**REGISTER TODAY TO RECEIVE UPCOMING
ABINSIGHT ARTICLES BY EMAIL:**

ABIMultifamily.com/Registration

ABI COMPARATIVE MARKET REVIEW: Q3 2019



	TUCSON	PHOENIX	SACRAMENTO	SAN DIEGO	
DEMOGRAPHICS	Total Population	1,026,099	4,737,270	2,371,109	3,370,979
	Unemployment Rate (as of Aug 2019)	4.1%	3.8%	3.0%	2.7%
	Employment Growth (y-o-y)	3.1%	2.4%	1.4%	1.8%
	Median HH Income	\$48,676	\$57,935	\$74,403	\$82,786
	Per Capita Income	\$27,323	\$29,542	\$33,548	\$34,350
RENT/OCC/CONST (50+)	Rent (Q3 2019)	\$918	\$1,176	\$1,392	\$1,840
	% Increase/Decrease	+8.1%	+7.2%	+4.0%	+3.0%
	Occupancy (Q3 2019)	94.5%	95.3%	95.6%	95.5%
	% Increase/Decrease	NO CHANGE	+0.1%	NO CHANGE	NO CHANGE
	Total Inventory (50+)	67,053	307,928	147,242	231,916
SALES (50+)	Total Under Construction (50+)	1,156	14,728	3,074	7,810
	Units Delivered (50+, Q3 2019)	154	1,895	0	549
	Total Sales Volume (Q3 2019)	\$193M	\$2.03B	\$499M	\$313M
SALES (50+)	y-o-y % Increase/Decrease	-37.4%	+11.1%	+25.2%	+34.6%
	Average P/U (Q3 2019)	\$111,993	\$171,381	\$193,833	\$224,284
	y-o-y % Increase/Decrease	-3.6%	+21.3%	+17.1%	+34.5%

LEADING MULTIFAMILY BROKERAGE TEAM IN THE WESTERN US

200+ YEARS OF COMBINED MULTIFAMILY BROKERAGE EXPERIENCE
SEASONED ADVISORS WITH REGIONAL INSIGHT
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

ORANGE TREE VILLAGE

645 West Orange Grove Road
Tucson, AZ

Sold Price: \$15,900,00
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

INDI TUCSON

1920 North First Avenue
Tucson, AZ

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

APARTMENT BROKERAGE & ADVISORY FIRM

ABI Multifamily is a brokerage and advisory services firm that focuses exclusively on apartment investment transactions. The experienced advisors at ABI Multifamily have completed billions of dollars in sales and thousands of individual multifamily transactions.

TUCSON ADVISORS

LANCE PARSONS, CCIM

SENIOR VICE PRESIDENT

520.265.1945

lance.parsons@abimultifamily.com

RYAN KIPPES

VICE PRESIDENT

520.265.1895

ryan.kippes@abimultifamily.com

DESIREE PALMER

VICE PRESIDENT

520.265.1993

desiree.palmer@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

DISCLAIMER © 2019 ABI Multifamily | The information and details contained herein have been obtained from third-party sources believed to be reliable; however, ABI Multifamily has not independently verified its accuracy. ABI Multifamily makes no representations, guarantees, or express or implied warranties of any kind regarding the accuracy or completeness of the information and details provided herein, including but not limited to the implied warranty of suitability and fitness for a particular purpose. Interested parties should perform their own due diligence regarding the accuracy of the information. SOURCES: ABI Research / Bureau of Labor Statistics / Census Bureau / YARDI Matrix / Vizzda / US Chamber of Commerce / RED Comps / ARMLS