

## TUCSON MSA | MULTIFAMILY | Q1 2021 REPORT

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### 5+ UNIT PROPERTIES Q1 2021 INCREASE/DECREASE Q1 2020

A V E R A G E	Total Sales Volume	\$238M	-54.7%	\$526M
	Price/Unit	\$95,478	-31.3%	\$138,990
	Price/SF	\$133.39	-24.6%	\$176.84
	Year Built	1967	-8 Yrs	1975
	Average Rent	\$1,004	+8.1%	\$929
	Occupancy Rate	96.3%	+1.5%	94.9%
	Units Delivered	0	--	60

### ABI GEONEWS: TUCSON MSA - SELECT NEWS

CONTINUED ON PAGE 05



#### Amazon

Amazon to build sorting facility near Tucson airport



#### City of Tucson

Tucson Low Vacancy Sparks Rapid Rent Growth in Multifamily Market



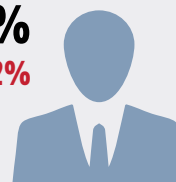
#### City of Tucson

Major industrial projects could draw national companies to Tucson

1,047,279 

POPULATION  
CENSUS

6.7%  
-0.2%



UNEMPLOYMENT  
Q-O-Q AS OF MAR 2021 - BLS

-2.4%



EMPLOYMENT GROWTH  
Y-O-Y AS OF MAR 2021 - BLS

\$53,379



MEDIAN HH INCOME  
CENSUS

\$29,707



PER CAPITA INCOME  
CENSUS

1,765

Units (50+)



UNDER CONSTRUCTION  
YARDI

85,884

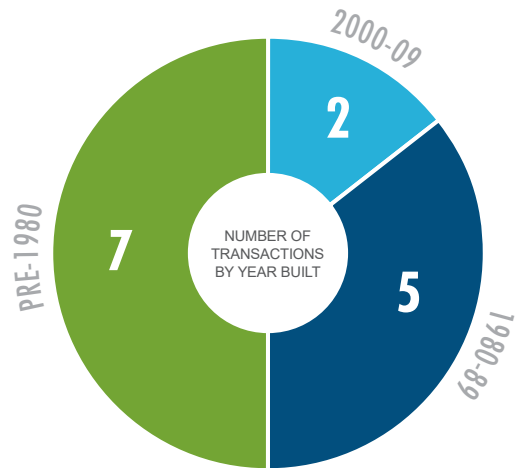
Units (5+)



TOTAL INVENTORY  
AS OF APR 2021 - YARDI

## 50+ UNIT MULTIFAMILY PROPERTY ANALYSIS

	Q1 2021	INCREASE/DECREASE	Q1 2020
<b>Total Sales Volume</b>	<b>\$209M</b>	<b>-57.1%</b>	<b>\$487M</b>
<b>AVERAGE Price/Unit</b>	<b>\$100,036</b>	<b>-31.5%</b>	<b>\$146,116</b>
<b>AVERAGE Price/SF</b>	<b>\$137.07</b>	<b>-25.8%</b>	<b>\$184.65</b>
<b>AVERAGE Year Built</b>	<b>1979</b>	<b>-9 Yrs</b>	<b>1988</b>

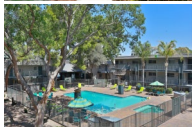


### TOP 3 TRANSACTIONS BY PRICE/UNIT (50+)



#### Tierra Vida

Tucson, 200 Units | \$35,900,000  
\$179,500/Unit | \$232.46/SF | Built 2000



#### Treehouse Apartments

Tucson, 167 Units | \$23,000,000  
\$137,725/Unit | \$227.39/SF | Built 1973



#### Agave at Twenty Two

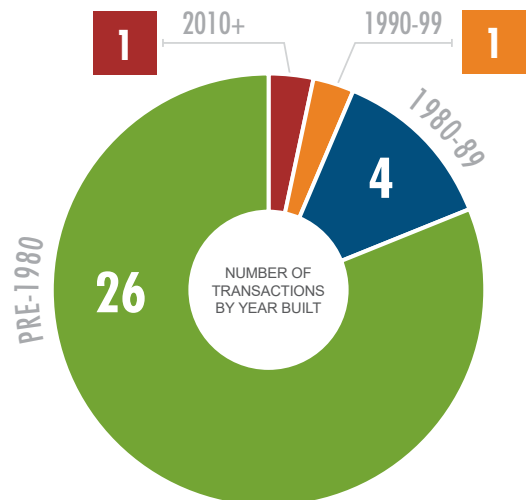
Tucson, 266 Units | \$33,450,000  
\$125,752/Unit | \$183.60/SF | Built 1984

#### Q1 2021 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	--	--	--
2000-09	2	\$162K	\$198
1990-99	--	--	--
1980-89	5	\$94K	\$155
Pre-1980	7	\$88K	\$101

## 5 - 49 UNIT MULTIFAMILY PROPERTY ANALYSIS

	Q1 2021	INCREASE/DECREASE	Q1 2020
<b>Total Sales Volume</b>	<b>\$30M</b>	<b>-24.1%</b>	<b>\$39M</b>
<b>AVERAGE Price/Unit</b>	<b>\$72,220</b>	<b>-16.4%</b>	<b>\$86,347</b>
<b>AVERAGE Price/SF</b>	<b>\$112.16</b>	<b>-2.7%</b>	<b>\$115.26</b>
<b>AVERAGE Year Built</b>	<b>1962</b>	<b>-7 Yrs</b>	<b>1969</b>



#### Q1 2021 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	1	\$229K	\$145
2000-09	--	--	--
1990-99	1	\$115K	\$112
1980-89	4	\$87K	\$121
Pre-1980	26	\$67K	\$110

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



#### 4th Street Townhomes

Tucson, 6 Units | \$1,375,000  
\$229,167/Unit | \$144.95/SF | Built 2011



#### 1325 East Adams Street

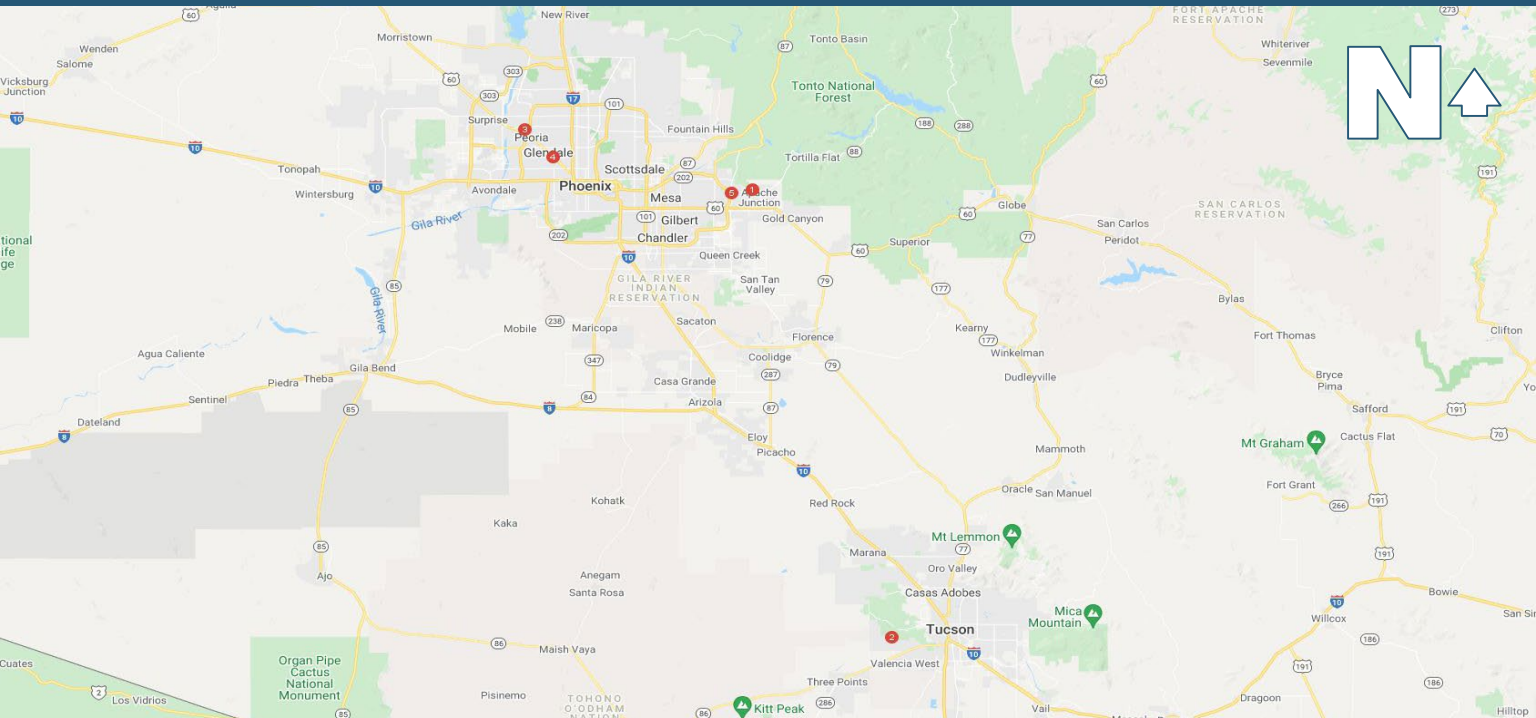
Tucson, 5 Units | \$750,000  
\$150,000/Unit | \$164.98/SF | Built 1959



#### 602 - 610 East Lester Street

Tucson, 5 Units | \$623,750  
\$124,750/Unit | \$163.80/SF | Built 1979

# ARIZONA MOBILE / MANUFACTURED HOUSING PARK (MHP) ANALYSIS



## MHP SALES VOLUME (50+)

AGE RESTRICTED/55+

Transaction Volume (Q1 2021)

### PHOENIX MSA

\$52,681,107

### TUCSON MSA

\$4,500,000

Transaction Volume (Q1 2020)

\$15,000,000

\$0

Avg Sales Price / Space (Q1 2021)

\$107,512

\$19,565

Avg Sales Price / Space (Q1 2020)

\$44,118

--

FAMILY

Transaction Volume (Q1 2021)

\$12,440,000

\$0

Transaction Volume (Q1 2020)

\$57,082,000

\$5,450,000

Avg Sales Price / Space (Q1 2021)

\$53,621

--

Avg Sales Price / Space (Q1 2020)

\$66,998

\$42,578

Total Transaction Volume (2021 YTD, 50+)

\$65,121,107

\$4,500,000

Number of Transactions (2021 YTD, 50+)

4

1

## MHP INVENTORY (50+)

INVENTORY

Total Spaces

### PHOENIX MSA

88,053

### TUCSON MSA

22,396

Age Restricted/55+

62,307

12,098

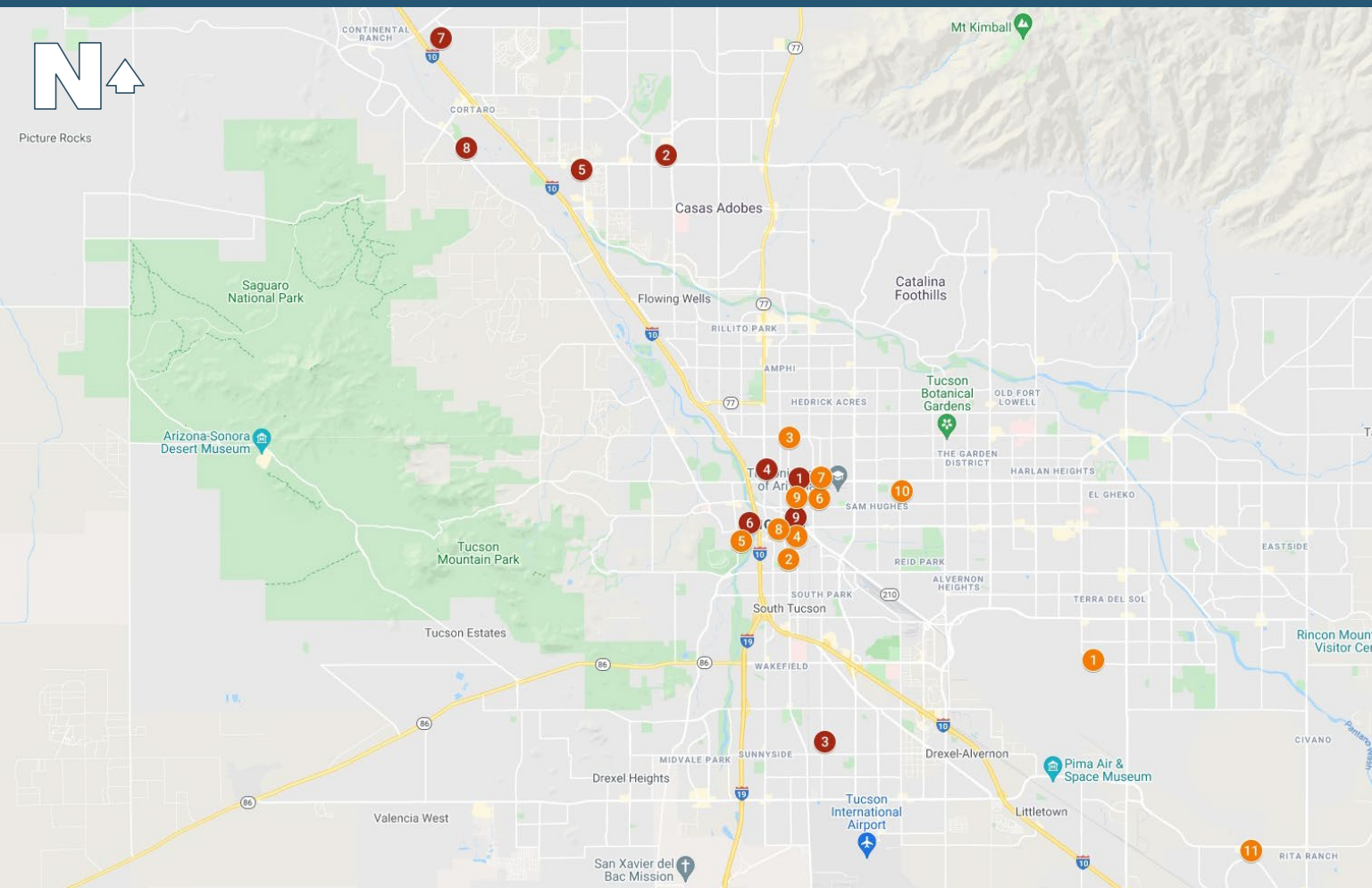
Family

25,746

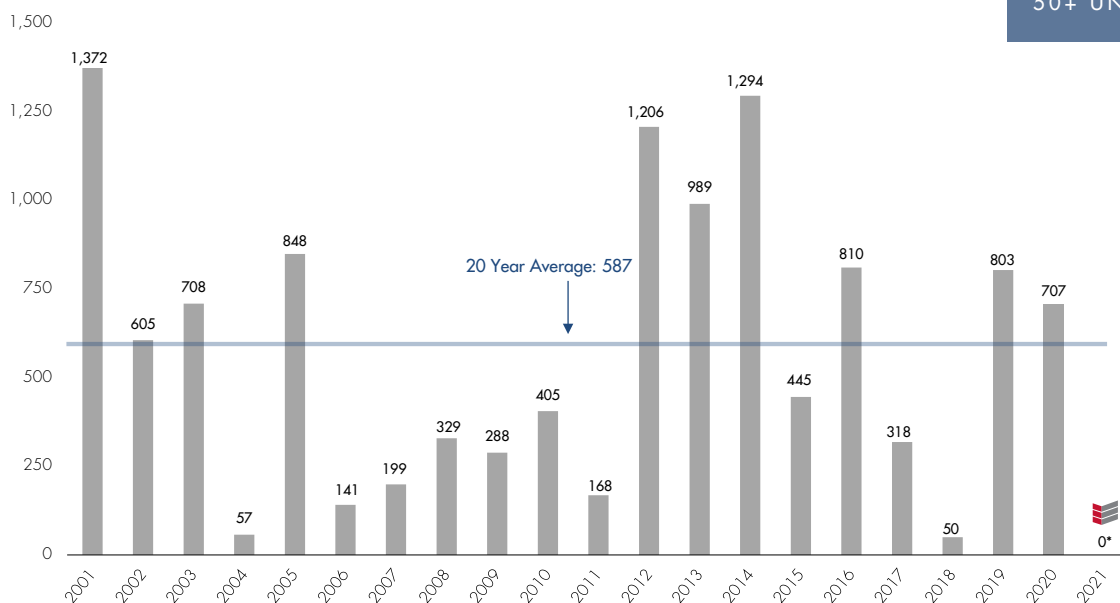
10,298



# COMPLETED CONSTRUCTION



## TUCSON MULTIFAMILY CONSTRUCTION PIPELINE Q1 2021



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

### TOTAL UNIT INVENTORY

5+ UNIT PROPERTIES: **85,884**

50+ UNIT PROPERTIES: **68,020**

### PRE-LEASE ABSORPTION RATE

**19**

Units/Property/Month (Avg)

### Under Construction

Total # of Units: 1,765

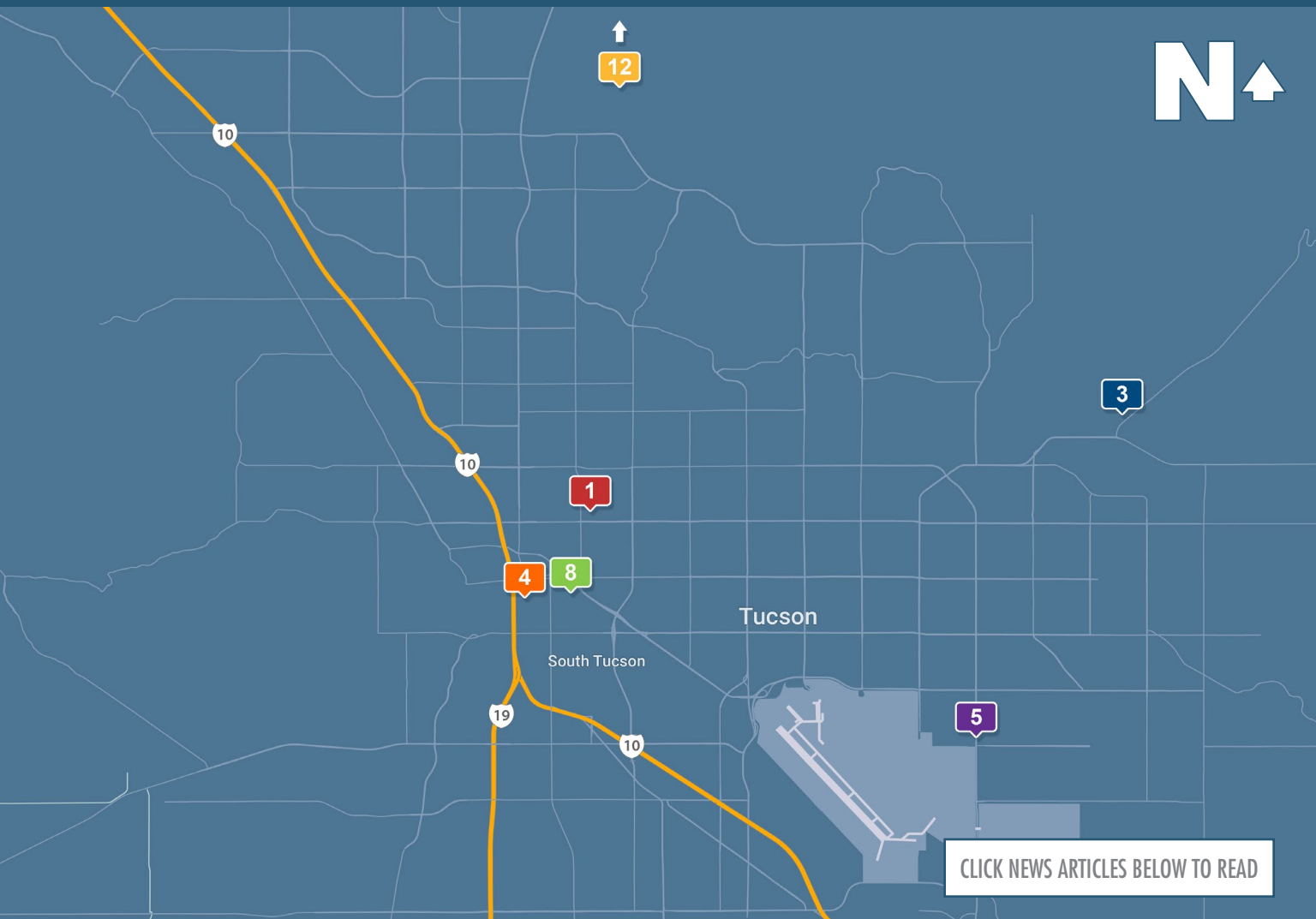
Total # of Properties: 11

### Planned

Total # of Units: 1,757

Total # of Properties: 9

# ABI GEONEWS: TUCSON - SELECT NEWS



CLICK NEWS ARTICLES BELOW TO READ

1

## Core Spaces

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

Regional

## City of Tucson

Tucson's apartment market is hot despite COVID-19's impact

Regional

## Forbes

Tucson makes Forbes' 10 US cities best positioned to recover from coronavirus

8

## Rio Nueva

Massive high-rise would bring CVS, housing and office space to downtown Tucson

3

## Saunders Amos, LLC

Luxury Casitas Proposed for Tucson

Regional

## City of Tucson

Tucson Low Vacancy Sparks Rapid Rent Growth in Multifamily Market

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## Pueblo Center Partners

Developers Seeking City of Tucson's Help to Renovate Shuttered Hotel Arizona Downtown

Regional

## Tucson.com

Investments in apartments remain steady despite pandemic

5

## Amazon

Amazon to build sorting facility near Tucson airport

Regional

## City of Tucson

Tucson Low Vacancy Sparks Rapid Rent Growth in Multifamily Market

Regional

## City of Tucson

Tucson Landlords Saying No to Section 8, Uprooting 100s

12

## Town West

New Oro Valley Marketplace owners interested in hotel, multifamily development

BY: DREW RICCIARDI, ABI RESEARCH MANAGER

# The COVID-19 Recovery Coming Quicker Than Expected

## The National Recovery Effort

As a miserable unforgettable year is joyously placed in the rearview mirror, previous pandemic restrictions are beginning to fade rapidly as COVID-19 vaccinations continue to cycle throughout the nation.

The economy is starting to heat up with unemployment rates dropping and significant recovery of COVID-19-related job loss persists. 916,000 jobs were added in March, and unemployment is down to 6%, according to Yardi Matrix.

Apartments are stabilizing as rent rates return to pre-pandemic levels. Most markets experienced positive net absorption and the highest recorded rent collection rates in over a year.

Urban cores and gateway markets like San Francisco, New York City, and Los Angeles, which were hit hardest by strict restrictions and an exodus of people migrating to less dense, more affordable markets, have slowly begun to recover.

Multifamily deal flow manifested strong investor interest for

sunbelt markets like Phoenix, Dallas, Austin, and Atlanta. Generally, northern markets saw more of a decline in sales volume.

Overall, national multifamily sales volume witnessed a decline year-over-year but projects to show an increase next quarter.

## Tucson Gaining Momentum Despite Being Overlooked

As a result of investors salivating over the hot Phoenix market, Tucson is becoming slightly overshadowed even though the city shares some of Phoenix's strong demographics and economic trends that make the market exceedingly favorable.

Like Phoenix, The Tucson market had a sharp rebound from the COVID-19 Recession and is experiencing strong in-migration from out-of-state markets and job growth, creating strong apartment demand and exceptionally high occupancy rates.

Out-of-state businesses are targeting Tucson to relocate their



headquarters or open new facilities on the count of a vast talent pool presence, affordable living, and a favorable business/tax environment.

In Q1, Tucson posted one of the highest year-over-year rent growth increases in the nation, beating out Phoenix.

Occupancy rates may be affected by the expiration of the eviction moratorium on June 30th, when a high turnover of people unable to pay rent from the economic downturn is expected to take place.

Even though sales volume and average price-per unit were down year-over-year, partly due to an influx of large newer built student housing apartment sales last year, the number of deals made remained static year-over-year.

For multifamily development, zero units were delivered in the first quarter of the year, the same as Q1 2020. That being said, both the number of units under construction and in the planning stages, increased year-over-year as developers try to combat the issue of low supply.

The 2021 outlook for Tucson's multifamily market appears to be bright. The metro's strong demand, lower cost per unit prices, and high cap rates will continue to attract a plethora of buyers targeting the Tucson multifamily market in 2021.

## Proposed Tax Reform's Potential Effects on CRE

President Biden's American Families Plan proposal contains new tax proposals that may be frightening to some institutional investors. Here are the proposed changes:

Implement a raise to the top-tier income tax rate from 37% to 39.6%. The long-term capital gains rate would also increase exponentially from 23.8% to 39.6% for taxpayers with an income above \$1 million. With the addition of Net Investment Income Tax (NIIT) of 3.8%, the final rate would be 43.4%.

The plan could put an end to the step-up in basis, which allows one to reduce or eliminate capital gains tax on inherited assets. The proposed rule would make inherited assets of \$1 million or more subject to the hiked capital gains tax rate.

1031 exchanges may become a thing of the past for investors attempting to escape capital gains tax. The proposal will institute a cap of \$500k on 1031 exchanges.

The 1031 exchange rule allows an owner to defer capital gains tax if the proceeds of a property sale are used to purchase another property deemed like-kind within 180 days. According to the National Association of Realtors, 1031 exchanges accounted for roughly 12% of CRE transactions between 2016 and 2019.

1031 exchanges help create economic activity by adding jobs/labor from value-add investments and supplying federal, state and local tax revenue.

Currently, the proposal is facing an uphill battle in Congress, as members from both parties are wary of the proposed tax reforms.

If the American Families Plan is successful, it may steer multifamily investors to reassess their portfolios and strategies, hindering significant economic growth.

## Strained Housing Supply Forcing Buyer Patience

A large portion of the Millennial Generation is at an age where they are looking to buy their first home, but strong demand, low supply, and record low interest rates have caused home prices to rise swiftly. These key factors are forcing some to continue renting until the market cools.

Data provided by realtor.com showed the national inventory of homes was 53% lower than a year ago in March 2020. The data also indicated there were 117,000 fewer new listings compared to recent years.

Redfin reported the average home sold in the past year sold for 1% more than its asking price.

Current demand is vastly outpacing the existing supply of housing. Construction costs like lumber, steel, concrete, and labor continue to skyrocket as a result of pandemic-induced supply chain constraints and inflation.

According to the National Association of Home Builders, lumber prices have increased a whopping 250% in a single year. These cost increases may impede future home building at a time when low supply is a current issue.

It will be interesting to see if these factors delay new multifamily construction, but no data currently indicates that to be the case, as multifamily deliveries continue to perform well. But one thing is for sure it will cost more to build, and

replacement costs will rise, forcing rents to increase in order to compensate.

The current situation bodes well for the influx of the new build-to-rent communities developers have been incredibly bullish on. This hybrid concept provides newly built single-family detached rental units in a community with common area luxury amenities.

## Tucson Market Metrics: By the Numbers

For 5-49 unit properties, Q1 2021 saw a transaction volume of approximately \$30 Million, which represented a 24.1% Year-over-Year decrease YoY. In the 50+ unit category, Q1 2021 brought in about \$209 Million, down 57.1% YoY.

Average Price-Per-Unit amounts were down in the 5-49 segment, falling 16.4% YoY to \$72,220, and showing another decrease of 31.5% to \$100,036 for 50+. This translated to an Average Price/SF of \$112.16 in 5-49 (down 2.7%) and \$137.07 (down 25.8%) in 50+.

Inventory age saw an increase in both 5-49 and 50+ unit segments Year-over-Year. Average Year Built for 5-49 reported the year 1962, versus 1969. The Average Year Built in 50+ reported the year 1979, versus 1988.

The market's occupancy rate took a significant jump in the right direction. Q1 2021 occupancy was 96.3%, up from 94.9% in Q1 2020. Average rent showed one of the largest increases in the nation, reporting \$1,004, up \$75 (8.1%) from last year.

Tucson MSA demographics reported improved employment numbers after having abysmal numbers during 2020, like

everywhere else, due to the COVID-19 related job losses. The Census estimate of total population was 1,047,279. The unemployment rate finished the quarter at 6.7%, according to Bureau of Labor Statistics numbers.

Median Household Income was \$53,379, and Per Capita Income came in at \$29,707.

In the realm of new construction for 50+ unit properties, no units were delivered to start the year, the same as Q1 2020.

Currently, a pipeline of 1,757 units is estimated to be in the Planning stages across 9 properties. A total of 1,765 units are listed as Under Construction across 11 properties.

Pre-lease absorption rates were high this quarter at a rate of 19 units/property/month.

Total Unit Inventory for 50+ unit properties came in at 68,020.

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# ABI COMPARATIVE MARKET REVIEW: Q1 2021



DEMOGRAPHICS	Total Population	1,047,279	4,948,203	2,365,946	3,334,380
	Unemployment Rate (as of Mar 2021)	6.7%	6.1%	6.9%	6.9%
	Employment Growth (y-o-y)	-2.4%	-2.4%	-5.3%	-7.4%
	Median HH Income	\$53,379	\$63,883	\$87,541	\$93,676
	Per Capita Income	\$29,707	\$32,522	\$35,563	\$34,103
RENT/OCC/CONST (50+)	Rent (Q1 2021)	\$1,004	\$1,320	\$1,577	\$1,938
	% Increase/Decrease	+8.1%	+7.1%	+9.2%	+4.2%
	Occupancy (Q1 2021)	96.3%	95.8%	96.4%	96.2%
	% Increase/Decrease	+1.5%	+0.6%	+1.6%	+1.4%
	Total Inventory (50+)	68,020	321,926	148,284	234,405
	Total Under Construction (50+)	1,765	31,533	3,820	10,066
	Units Delivered (50+, Q1 2021)	0	2,867	157	1,455
SALES (50+)	Total Sales Volume (Q1 2021)	\$209M	\$2.09B	\$137M	\$220M
	y-o-y % Increase/Decrease	-57.1%	+55.1%	-71.0%	-11.8%
	Average P/U (Q1 2021)	\$100,036	\$214,729	\$161,951	\$292,123
	y-o-y % Increase/Decrease	-31.5%	+16.8%	-46.3%	-13.9%

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SEASONED ADVISORS WITH REGIONAL INSIGHT

COLLABORATION & COOPERATION

### NOTABLE RECENT ABI MULTIFAMILY TRANSACTIONS



#### OVERLOOK AT PANTANO

1800 South Pantano Road  
Tucson, AZ 85710

Sold Price: \$38,000,000  
Units: 444  
Year Built: 1985



#### MISSION ANTIGUA

5525 South Mission Road,  
Tucson, AZ

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



#### INDI TUCSON

1920 North 1st Avenue  
Tucson, AZ 85719

Sold Price: \$8,050,000  
Units: 93  
Year Built: 1972



#### DREXEL PLAZA

5770 South Jeanette Blvd  
Tucson, AZ 85706

Sold Price: \$3,800,000  
Units: 58  
Year Built: 1988

### 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.

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