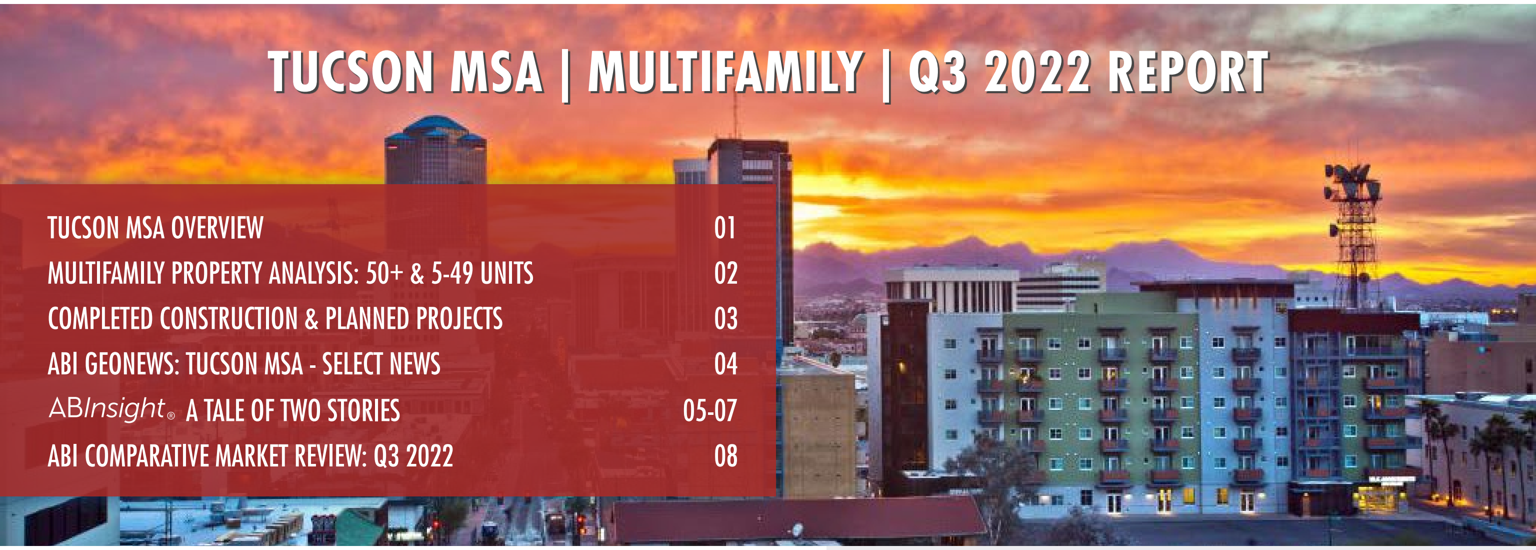
TUCSON MSA | MULTIFAMILY | Q3 2022 REPORT



5+ UNIT PROPERTIES	Q3 2022	INCREASE/DECREASE	Q3 2021
Total Sales Volume	$460M	+20.5%	$381M
AVERAGE Price/Unit	$185,856	+16.4%	$159,617
AVERAGE Price/SF	$278.75	+40.6%	$198.30
AVERAGE Year Built	1968	-1 Yr	1969
Average Rent	$1,263	+11.6%	$1,132
Occupancy Rate	94.8%	-1.6%	96.4%
Units Delivered	292	-61.3%	754

ABI GEONEWS: TUCSON MSA - SELECT NEWS

CONTINUED ON PAGE 04

HSL Properties
Future hospital north of Tucson to get apartments, townhomes instead

City of Tucson
Homebuilders tapping the brakes in Tucson amid rising costs

1,052,030
POPULATION
2021 ACS 1-YEAR ESTIMATES

4.1%
+0.2%
UNEMPLOYMENT
Q-O-Q AS OF SEPTEMBER 2022 - BLS

1.9%
EMPLOYMENT GROWTH
Y-O-Y AS OF SEPTEMBER 2022 - BLS

$60,667
MEDIAN HH INCOME
2021 ACS 1-YEAR ESTIMATES

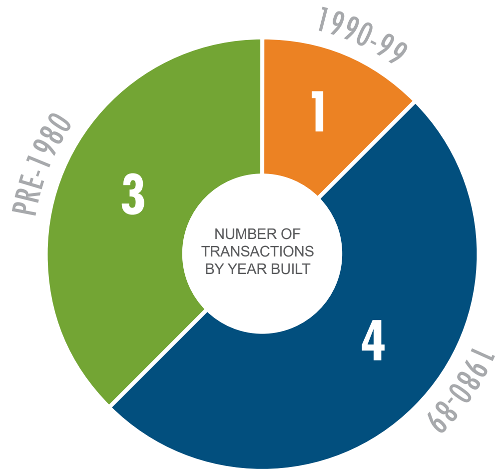
$34,323
PER CAPITA INCOME
2021 ACS 1-YEAR ESTIMATES

1,653
Units (5+)
UNDER CONSTRUCTION
ABI RESEARCH; COSTAR; YARDI

90,357
Units (5+)
TOTAL INVENTORY
AS OF SEPTEMBER 2022 - ABI RESEARCH; COSTAR; YARDI

50+ UNIT MULTIFAMILY PROPERTY ANALYSIS

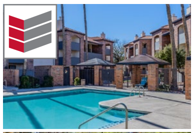
		Q3 2022	INCREASE/DECREASE	Q3 2021
	Total Sales Volume	$435M	+27.2%	$342M
AVERAGE	Price/Unit	$193,016	+6.7%	$180,906
AVERAGE	Price/SF	$284.80	+36.5%	$208.68
AVERAGE	Year Built	1977	-13 Yrs	1990



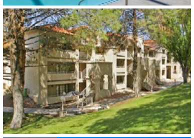
Q3 2022 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	--	--	--
2000-09	--	--	--
1990-99	1	$172,727	$216
1980-89	4	$204,978	$325
Pre-1980	3	$158,528	$199

TOP 3 TRANSACTIONS BY PRICE/UNIT (50+)



Mission Antigua Apartments
Tucson, 248 Units | $59,000,000
$237,903/Unit | $287.92/SF | Built 1989

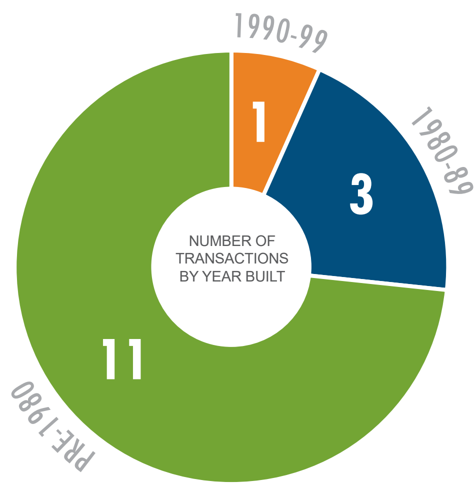


Hilands
Tucson, 826 Units | $178,000,000
$215,496/Unit | $386.61/SF | Built 1984

Commons on Stella Apartment Homes
Tucson, 199 Units | $37,000,000
$185,930/Unit | $205.20/SF | Built 1964

5 - 49 UNIT MULTIFAMILY PROPERTY ANALYSIS

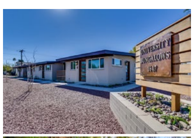
		Q3 2022	INCREASE/DECREASE	Q3 2021
	Total Sales Volume	$25M	-37.4%	$39M
AVERAGE	Price/Unit	$112,137	+42.4%	$78,734
AVERAGE	Price/SF	$202.46	+48.2%	$136.62
AVERAGE	Year Built	1963	+1 Yr	1962



Q3 2022 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	--	--	--
2000-09	--	--	--
1990-99	1	$125,000	$174
1980-89	3	$145,588	$176
Pre-1980	11	$108,842	$207

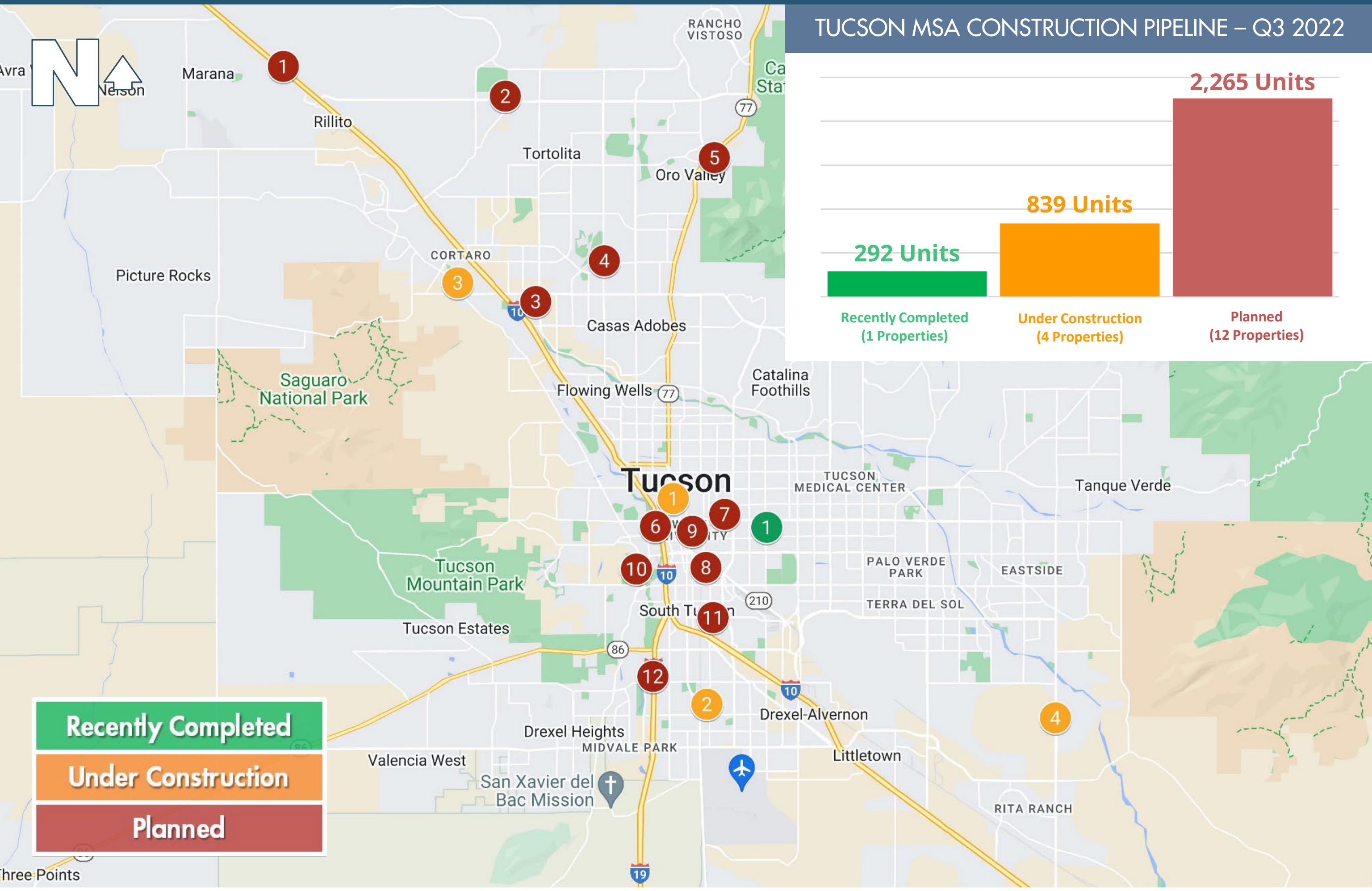
TOP 3 TRANSACTIONS BY PRICE/UNIT (5-49)



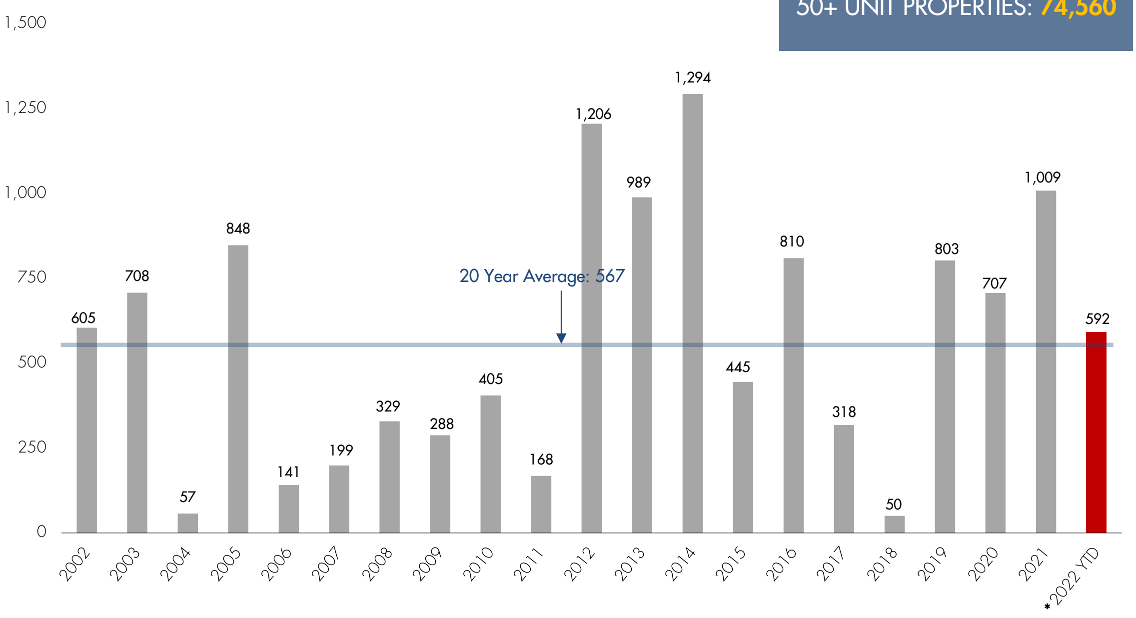
University Bungalows
Tucson, 7 Units | $1,200,000
$171,429/Unit | $497.93/SF | Built 1961-1964

4th Street Student Housing
Tucson, 10 Units | $1,650,000
$165,000/Unit | $307.72/SF | Built 1935

2432-2442 North Geronimo Avenue
Tucson, 6 Units | $925,000
$154,167/Unit | $217.65/SF | Built 1980



TUCSON MULTIFAMILY CONSTRUCTION PIPELINE
Q3 2022



TOTAL UNIT INVENTORY

5+ UNIT PROPERTIES: **90,357**

50+ UNIT PROPERTIES: **74,560**

PRE-LEASE ABSORPTION RATE

9

Units/Property/Month (Avg)

RECENTLY COMPLETED

TOTAL # OF UNITS: **292**

TOTAL # OF PROPERTIES: **1**

UNDER CONSTRUCTION

TOTAL # OF UNITS: **839**

TOTAL # OF PROPERTIES: **4**

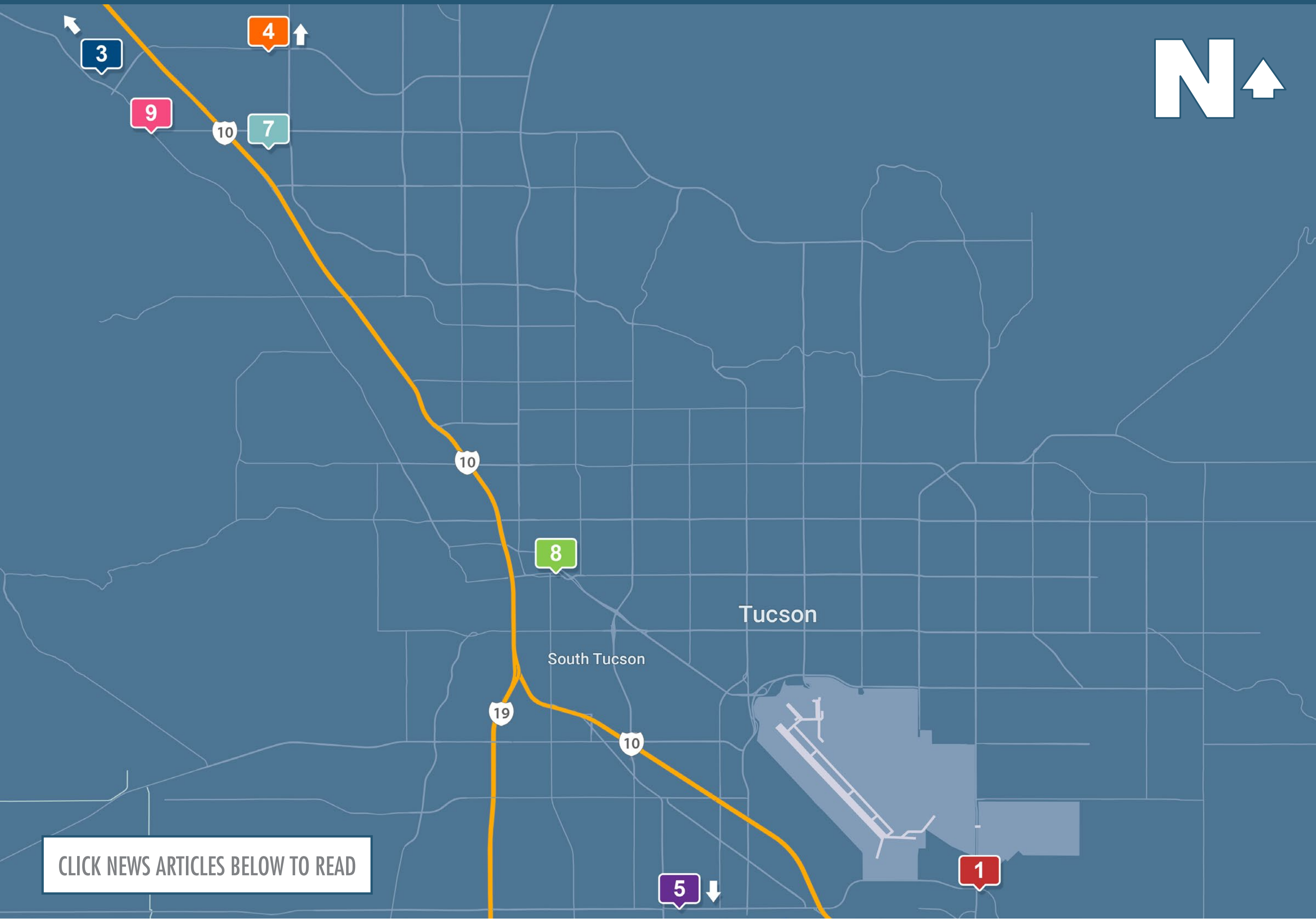
PLANNED

TOTAL # OF UNITS: **2,265**

TOTAL # OF PROPERTIES: **12**

* 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 - SELECT NEWS



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1 **Becton, Dickinson and Company**
Global Medical Tech Company, BD, Chooses Tucson for New $65 Million Hub

Regional **City of Tucson**
Tucson to tackle building permit backlog

3 **Flint Development**
Major logistics center and big-box store planned for Marana

4 **HSL Properties**
Future hospital north of Tucson to get apartments, townhomes instead

5 **Amazon**
Amazon is hiring hundreds for new Tucson facility

Regional **City of Tucson**
Homebuilders tapping the brakes in Tucson amid rising costs

7 **Larsen Baker, LLC**
Former bowling alley in Marana to become industrial site

8 **Rio Nueva**
Massive high-rise would bring CVS, housing and office space to downtown Tucson

9 **Amazon**
A fifth Amazon site is coming to the Tucson area

Regional **City of Tucson**
Warehouses, distribution centers set up in Tucson to meet online shopping growth

Regional **City of Tucson**
Major industrial projects could draw national companies to Tucson

Regional **City of Tucson**
Home prices spike nearly 30% in some parts of Tucson

ABInsight®

BY: JAMES HALL
ABI DIRECTOR OF RESEARCH

A TALE OF TWO STORIES: STRONG EMPLOYMENT AND MULTIFAMILY FUNDAMENTALS VS. INFLATION AND THE FED

The U.S. economy remains resilient, despite economic uncertainty and geopolitical risk weighing heavily on investment activity. While we foresee continued short-term economic headwinds, our long-term outlook for the multifamily industry remains strong. Lackluster construction after the previous economic crisis, coupled with favorable demographic growth, still provides an exceptional landscape for multifamily investment opportunities.

In this note, we examine how global economic events and uncertainty have impacted the multifamily market, and how these events will define both economic policy and investment activity. Global geopolitical risks have soared since Russia's invasion of Ukraine. Investors, market participants, and policymakers expect that the war will exert a drag on the economy while driving inflation higher, as uncertainty and risk increase the probability of a protracted decline in economic output.

Central bank officials highlight geopolitical uncertainties as a salient risk to the US economy; while a report by the International Monetary Fund (IMF), and the European Central Bank (ECB) ranks geopolitical risk ahead of both political and economic uncertainty. Contrary to this, the Federal Reserve (Fed) suggests that the rise in geopolitical risks since the Russian invasion of Ukraine will have non-negligible macroeconomic effects in 2023. The Fed highlights pre-existing inflationary pressures as the main drag on the economy in 2022 and the key determinant for monetary policy.

There's been a seismic shift in federal macroeconomic policy, over the previous 12-month period, which has substantial ramifications for the multifamily industry. Although the Fed manages all aspects of macroeconomic policy, the Fed acts independently when determining monetary policy, which addresses interest rates and the supply of money; while fiscal policy is policy enacted by the legislative branch of government (Congress), which addresses both taxation and government spending. The goal of macroeconomic policy is to provide a stable economic environment that is conducive to fostering strong and sustainable economic growth, on which the creation of jobs, wealth and improved living standards depend.

The importance of these distinct branches of the federal government cannot be understated. Although the two federal branches act independently, the management of both fiscal and monetary policy is integral to the operation of the economy.

Historically low interest rates, subdued construction, and easy money (Quantitative Easing) over the previous 15-year period spurred investment activity across all asset classes and markets throughout the commercial real estate (CRE) industry. In the wake of the Great Recession (08-10) the Fed implemented these loose monetary policies, to combat negative inflation, which fostered a decade-long "risk-on" investment appetite that came to a head in 2020/2021.

Inflation is surging at the fastest rate in more than four decades, with the Consumer Price Index (CPI) up 8.2% over the past year, while the Personal Consumption Expenditure (PCE) price index is up 6.2% at the end of Q3 2022. The headline inflation rate broke the congressionally-mandated two-percent threshold in April 2021, and has remained above that threshold since. To combat inflation, the Fed began unwinding its balance sheet, and increasing interest rates in March 2022; while Congress passed the Infrastructure Investment and Jobs Act Bill (Infrastructure Bill), in November 2021. The bill outlines a plan to invest $1.2 trillion over the next 5 years into key infrastructure projects across the nation. It is estimated that the Bill will create 1.2 million jobs per year.

In March 2022, the Fed began unwinding its $8.9 trillion balance sheet after years of "easy money", while increasing interest rates to combat inflation. At the end of Q3 2022 the Fed had reduced its balance sheet by roughly $140 billion since Q1 2022. During this period, the Fed also increased the 'effective' Federal Funds Rate (EFFR) 300-basis points, from 0.0% - 0.25% to 3.0% - 3.25%. This represents the fastest rate of interest rate hikes in the history of the Fed. Interest rate hikes are a key tool of monetary policy as the increase in rates suppresses demand by increasing borrowing costs. A wave of refinances in 2020 and 2021 should help minimize the damage these interest rate hikes have on the broader economy.

ECONOMIC OUTLOOK

The Federal Reserve (Fed) will continue to increase interest rates until the headline inflation rate is subdued. Inflation reached a 40-year high at the end of Q3 2022 despite rates increasing at the fastest pace on record. Although inflation is the key determinant of monetary policy, it is only one aspect of the economy that the Fed reviews when making decisions about rates. The Fed looks at a broad array of economic indicators to see how the market responds to rate hikes. So far, the market has been able to absorb rate hikes, but the question remains; at what point does the Fed stop rate hikes and let the market adjust?

As is the case with inflation at large, trends are moving in a favorable direction, but the pace of change is likely too slow for the Fed to take its foot off the brake. The Fed Funds Rate was 3.0% - 3.25% at the end of Q3 2022. Based upon current market conditions, we expect rates to peak at approximately 4.5% - 5.0% by Q1 2023. A rate not seen since early 2008. The Fed funds rate matters because it has a ripple effect on every aspect of consumers' financial lives, from how much they're charged to borrow, to how much they'll earn in interest. Rising interest rates are meant to suppress economic growth, which while tepid, remains buoyant. Although the economy contracted in the first half of this year, it increased at an annual rate of 3.2% in Q3 2022 (BEA). Additionally, the unemployment rate also reached a 50-year low at the end of Q3, an encouraging sign for both investors, and policy makers. Investment opportunities still exist, despite a glut of new builds over the previous 12-month period. Investors need to review the long-term trajectory of markets when making investment decisions. Although interest rates may be of concern, the long-term benefit of rate hikes to subdue inflation far outweighs the short-term ramifications.

TRAJECTORY OF NATIONAL ECONOMICS AND THE FUNDAMENTALS OF THE TUCSON MSA:

Inflation remained a leading concern across the nation; however, the impact of inflation varies across the nation. Nationwide, inflation increased at an annual rate of 8.2% at the end of Q3 2022. The Bureau of Labor Statistics (BLS) does not report inflation numbers for the Tucson Metropolitan Area. However, the Western region, which includes the Tucson MSA, also saw an increase in inflation, rising by 8.3%, as of September 2022, a 0.3% increase in the past month. Tucson fell more in line with the Western Region rather than the Phoenix MSA, considering the massive year-over-year net migration Phoenix has seen.

Tucson has remained a figurehead for consistency and stability, within a State that has witnessed volatile market reactions. The metropolitan area added 12,500 new jobs, last year, while reporting a net migration of roughly 11,000 people over the same period. The COVID-19 pandemic caused the population of Tucson to drop by nearly 8,000 people between 2020 to 2021. The growth over the previous 12 months has helped offset this contraction, as Tucson benefits from a healthy, and stable economy. Economic, and business expansion plans will help further bolster population growth. The Infrastructure Bill is benefitting the MSA, adding jobs, and growth. This compares to a decrease of nearly 8,000 residents during the COVID-19 Pandemic. Multifamily investment and construction will continue to benefit from these economic drivers.

To combat persistent, and wide-spread inflation, the Fed increased the Federal Funds Rate by 300-basis points over the previous two quarters. The aim of increasing rates from an historical low of 0.0% - 0.25% to 3.0% - 3.25% was to cool housing costs which had increased by over 20% on an annual basis in some areas of the metro. As single-family prices skyrocketed, pricing and demand for apartments simultaneously increase too, leading to extensive year-over-year price increases. The Tucson MSA witnessed a 16.4% increase in price per unit y-o-y on properties with 5+ units, while also experiencing a 20.5% increase in total transaction volume from that of Q3 2021. Another aspect to consider is the rise in rental rates in the area, which averaged $1,275 a month, for properties of 50+ units, as of Q3 2022, an increase of 12.6% y-o-y (Yardi Matrix). Metrowide asking rent growth has begun to subside, increasing only 3.8% at the end of Q3 2022. Over this previous 2-year period, the average monthly mortgage cost has doubled, leading to worsening affordability issues. This rapid increase in mortgage costs will continue to benefit the multifamily industry.

This rapid increase in standard monthly mortgages has begun pushing more residents towards renting, leaving 35% of properties in the metro area as renter occupied (U.S. Census Reporter). The increase in the population over the past year will continue to put pressure on limited supply of multifamily units across the MSA. There are 90,642 units in existing inventory for 5+ unit properties, and only 750 units having been completed YTD, thus further emphasizing the need for development and the ample opportunity within the Tucson MSA (CoStar).

ATTRACTIVENESS OF THE TUCSON MSA:

Tucson remains a healthy market for investors, as several large infrastructure, and business expansion helps the MSA expand even as inflation remains rife. Much of the growth has been due to the expansion of opportunity zones, the Sonoran Corridor, and the infrastructure bill. These policies will continue to drive continued investment activity. Despite nationwide inflationary pressure, Tucson has experienced subdued inflation. What differentiates Tucson from the rest of the nation boils down to multifamily development, affordability and overall job growth.

There are over 20 Opportunity Zones located within the Tucson MSA, which we believe will continue to drive job growth and the economy. The City of Tucson has created 2,400 new jobs over the past two years, with large job gains in the manufacturing, logistics, and warehousing sector. Economic Initiative Director for the City of Tucson, Barbra Coffee, is helping to facilitate this growth and development of businesses by reducing the cost of businesses to develop and open within the market. One of the key driving factors has been the expansion of these Opportunity Zones, as well as government legislation that promotes investment into infrastructure projects and initiatives.

The Tucson economy has benefitted from both strong job, and wage growth over the previous 12-month period. The median household income in the Tucson MSA has increased by 10.3% to $60,667, and the per capita income has increased by 15.5% over the past year. This compares to a nationwide median household income of $69,717-per year. Although the Tucson Metro reported a 13% lower than the average median household income; however, average asking rents were 18.2% more affordable in the Tucson MSA (U.S. Census Reporter). This highly Tucson's relative affordability compared with the nation average. This disparity highlights continued investment opportunities across the metropolitan area.

The City of Tucson prepared an in-depth infrastructure improvement plan pursuant to Arizona revised Statutes ("ARS") § 9-436.05 which outlines an assessment of development fees to offset infrastructure costs to a municipality for necessary public services. Already, the city has a $3.3 million pilot project with the Arizona Department of Environmental Quality to analyze potential development opportunities and threat's to the environment.

This infrastructure improvement plan stretches across the entire metropolitan area. The expansion utilizes several tax favorable Opportunity Zones, and includes The Sonoran Corridor Alternative Traffic Expansion, which is attracting developers to the area. According to Pima County Administrator Chuck Huckleberry, the Sonoran Corridor holds a price tag of $600 million, yet upon completion it could create a $32 billion annual benefit to the regional economy. By connecting the I-19 to the I-10, the expansion could directly and indirectly support as many as 190,000 jobs, as well as 105,000 people holding jobs along the 26-mile bypass corridor.

These initiatives are driving job, wage, and population growth across the metro. In continued influx of demand is providing a boost to the multifamily industry. In an attempt to accommodate this influx, multifamily development has ramped up over the year. Despite adding fewer than 9,000 units between 2008 and 2022, the September 2022 Trend Report estimates there are 14,180 multifamily units currently under construction, proposed, or in the planning process, representing 17% of the total existing inventory. However, only 15% of these unites are under construction, as 85% of these developments remain in the prospective and planning stages. While rates remain high, and inflation impacts building costs, these developments will have minimal impact on the inventory level across the MSA. The extensive and varied economic developments will continue to meet the current level of construction.

Overall, we remain incredibly optimistic of the Tucson MSA, and believe that the market wide economic boost, coupled with favorable demographics, will continue to boost multifamily fundamentals.

ABI COMPARATIVE MARKET REVIEW: Q3 2022

		TUCSON	PHOENIX	LAS VEGAS	SAN DIEGO
DEMOGRAPHICS	Total Population	1,052,030	4,946,145	2,292,476	3,286,069
	Unemployment Rate (Q3 2022)	4.1%	3.5%	5.3%	3.1%
	Employment Growth (y-o-y)	1.9%	4.1%	5.0%	4.2%
	Median HH Income	$60,667	$75,731	$63,677	$91,003
	Per Capita Income	$34,323	$38,713	$33,387	$44,377
RENT/OCC/CONST (50+)	Rent (Q3 2022)	$1,263	$1,704	$1,525	$2,416
	y-o-y % Increase/Decrease	+11.6%	+10.7%	+10.6%	+8.5%
	Occupancy (Q3 2022)	94.8%	94.5%	94.5%	96.9%
	y-o-y % Increase/Decrease	-1.6%	-1.8%	-2.0%	-0.7%
	Total Inventory (50+)	74,560	356,658	185,870	206,044
	Total Under Construction (50+)	839	38,515	8,772	7,456
	Units Delivered (50+, Q3 2022)	592	9,246	1,173	4,353
SALES (50+)	Total Sales Volume (Q3 2022)	$435M	$3.01B	$574M	$93M
	y-o-y % Increase/Decrease	+27.2%	-29.6%	-28.5%	-94.3%
	Average P/U (Q3 2022)	$193,016	$311,358	$309,644	$298,548
	y-o-y % Increase/Decrease	+6.7%	+8.7%	+56.8%	+12.6%

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NOTABLE RECENT ABI MULTIFAMILY TRANSACTIONS

MISSION ANTIGUA

5525 South Mission Road
Tucson, AZ 85746

Sold Price: $59,000,000
Units: 248
Year Built: 1989

COMMONS ON STELLA

6534 East Stella Road
Tucson, AZ 85730

Sold Price: $37,000,000
Units: 199
Year Built: 1964

CANYON HEIGHTS

550 North Pantano Road
Tucson, AZ 85710

Sold Price: $33,000,000
Units: 196
Year Built: 1982

MIDTOWN ON SENECA

3201 East Seneca Street
Tucson, AZ 85716

Sold Price: $28,000,000
Units: 176
Year Built: 1972

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