

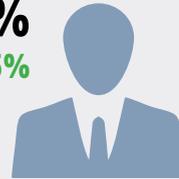
TUCSON MSA | MULTIFAMILY | YE 2022 REPORT

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10+ UNIT PROPERTIES	YE 2022	INCREASE/DECREASE	YE 2021
Total Sales Volume	\$1.55B	-15.0%	\$1.83B
AVERAGE Price/Unit	\$172,821	9.4%	\$157,989
AVERAGE Price/SF	\$246.98	22.9%	\$201.01
AVERAGE Year Built	1973	-1 Yr	1974
Average Rent	\$1,273	7.2%	\$1,187
Occupancy Rate	94.0%	-2.4%	96.4%
Units Delivered	592	-41.3%	1,009

1,059,178  **POPULATION**
2022*

3.4%
0.5%



UNEMPLOYMENT
YE 2022*

2.1%



EMPLOYMENT GROWTH
YE 2022*

\$63,611



MEDIAN HH INCOME
2022*

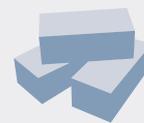
\$49,593



GDP PER CAPITA
2022*

800

Units (10+)



UNDER CONSTRUCTION
COSTAR; YARDI

100,704

Units (10+)



TOTAL INVENTORY
COSTAR; YARDI

* Forecasted

ABI GEONEWS: TUCSON MSA - SELECT NEWS

CONTINUED ON PAGE 04



HSL Properties

Future hospital north of Tucson to get apartments, townhomes instead

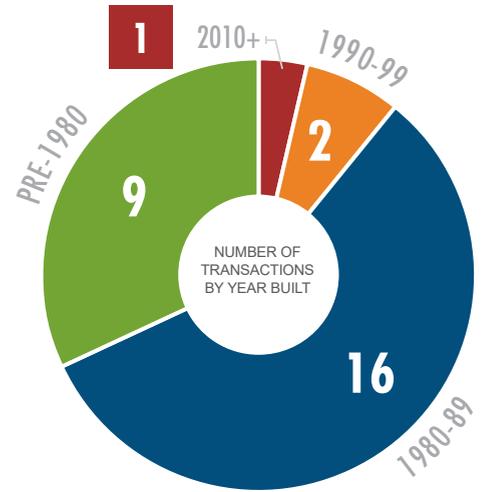


City of Tucson

Homebuilders tapping the brakes in Tucson amid rising costs

100+ UNIT MULTIFAMILY PROPERTY ANALYSIS

	YE 2022	INCREASE/DECREASE	YE 2021
Total Sales Volume	\$1.34B	-10.1%	\$1.50B
AVERAGE Price/Unit	\$185,917	8.2%	\$171,749
AVERAGE Price/SF	\$267.87	25.5%	\$213.47
AVERAGE Year Built	1982	-6 Yrs	1988



TOP 3 TRANSACTIONS BY PRICE/UNIT (100+)



Sol y Luna Apartments

Tucson, 340 Units | \$197,848,288
\$581,907/unit | \$443.06/SF | Built 2014

Mission Antigua Apartments

Tucson, 248 Units | \$59,000,000
\$237,903/unit | \$287.92/SF | Built 1989

Paseo Del Sol

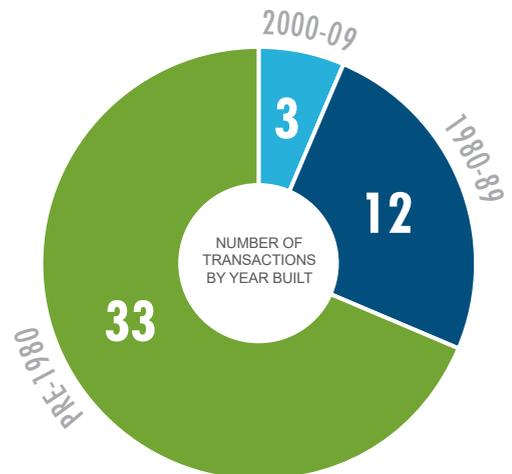
Tucson, 152 Units | \$33,650,000
\$221,382/unit | \$201.26/SF | Built 1994

YE 2022 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	1	\$582K	\$443
2000-09	--	--	--
1990-99	2	\$193K	\$209
1980-89	16	\$176K	\$279
Pre-1980	9	\$140K	\$203

10 - 99 UNIT MULTIFAMILY PROPERTY ANALYSIS

	YE 2022	INCREASE/DECREASE	YE 2021
Total Sales Volume	\$208M	-37.0%	\$331M
AVERAGE Price/Unit	\$118,793	2.4%	\$115,984
AVERAGE Price/SF	\$164.28	3.2%	\$159.14
AVERAGE Year Built	1968	NO CHANGE	1968



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



Convent Apartments

Tucson, 12 Units | \$3,500,000
\$291,667/unit | \$406.65/SF | Built 1912

Sahuaro Point Villas

Tucson, 20 Units | \$5,750,000
\$287,500/unit | \$164.47/SF | Built 2005

Redondo Tower

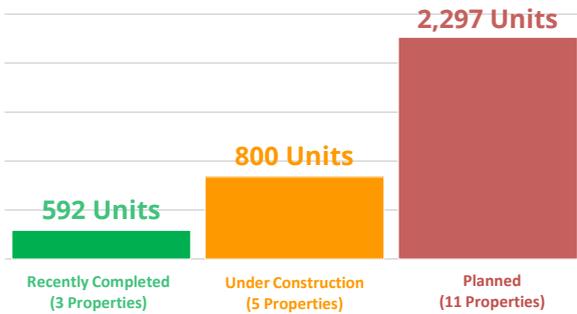
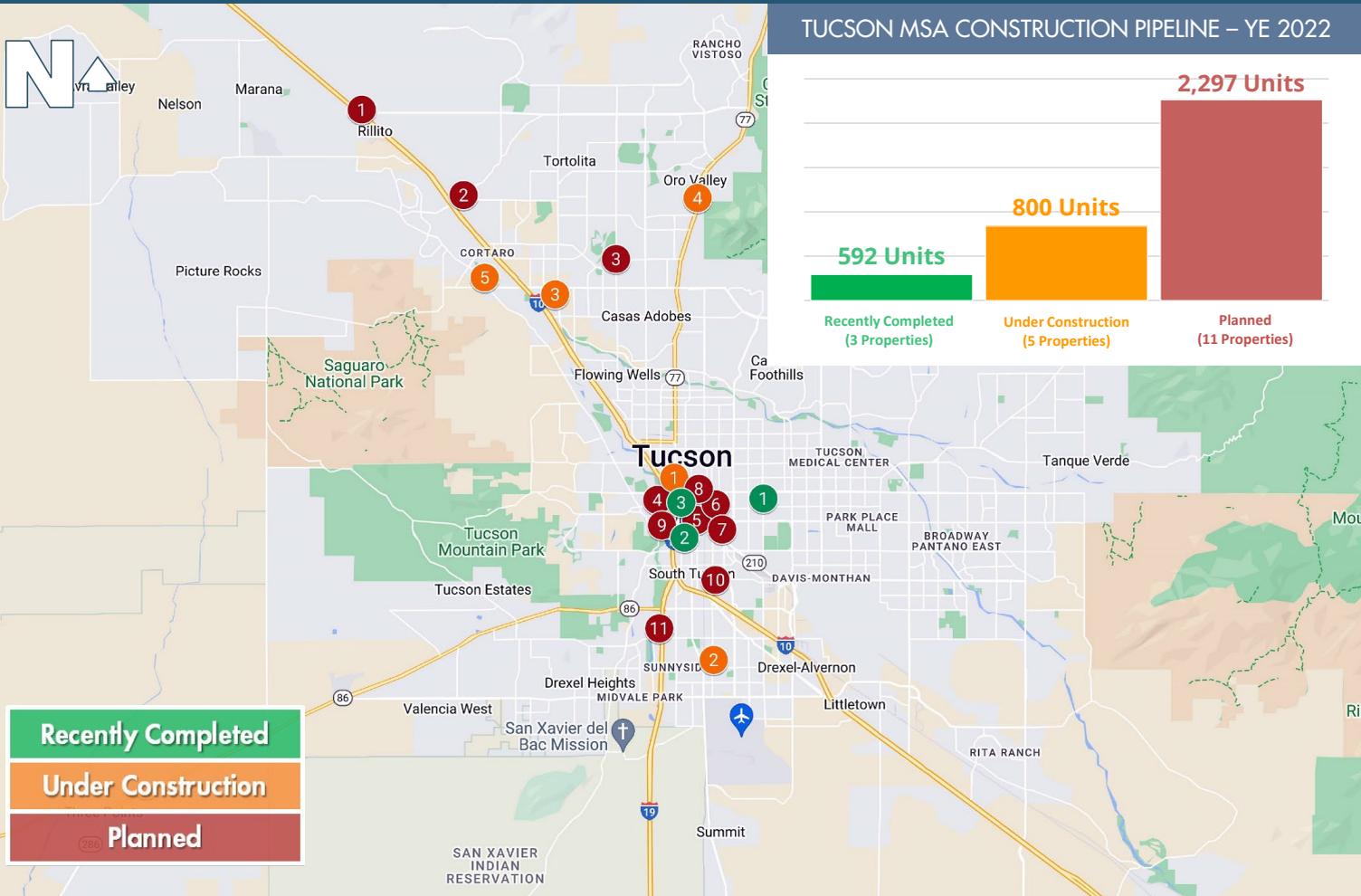
Tucson, 96 Units | \$27,000,000
\$281,250/unit | \$299.49/SF | Built 1962

YE 2022 Transactions by Year Built

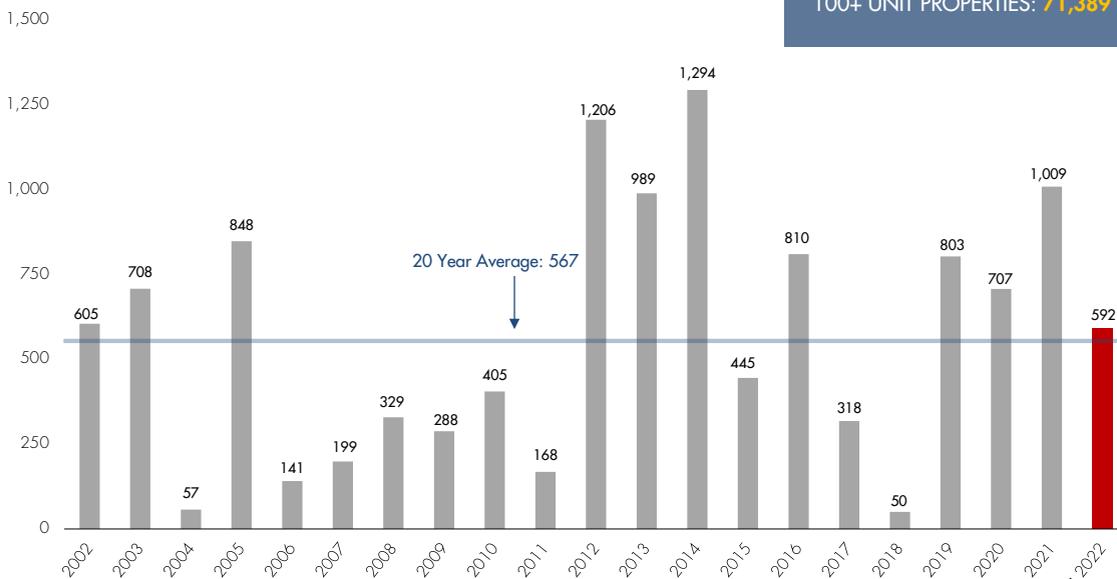
	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	--	--	--
2000-09	3	\$120K	\$115
1990-99	--	--	--
1980-89	12	\$93K	\$159
Pre-1980	33	\$127K	\$174

COMPLETED CONSTRUCTION

TUCSON MSA CONSTRUCTION PIPELINE – YE 2022



TUCSON MULTIFAMILY CONSTRUCTION PIPELINE YE 2022



TOTAL UNIT INVENTORY
 10+ UNIT PROPERTIES: 100,704
 100+ UNIT PROPERTIES: 71,389

PRE-LEASE ABSORPTION RATE
24
 Units/Property/Month
 (YE 2022 Avg)

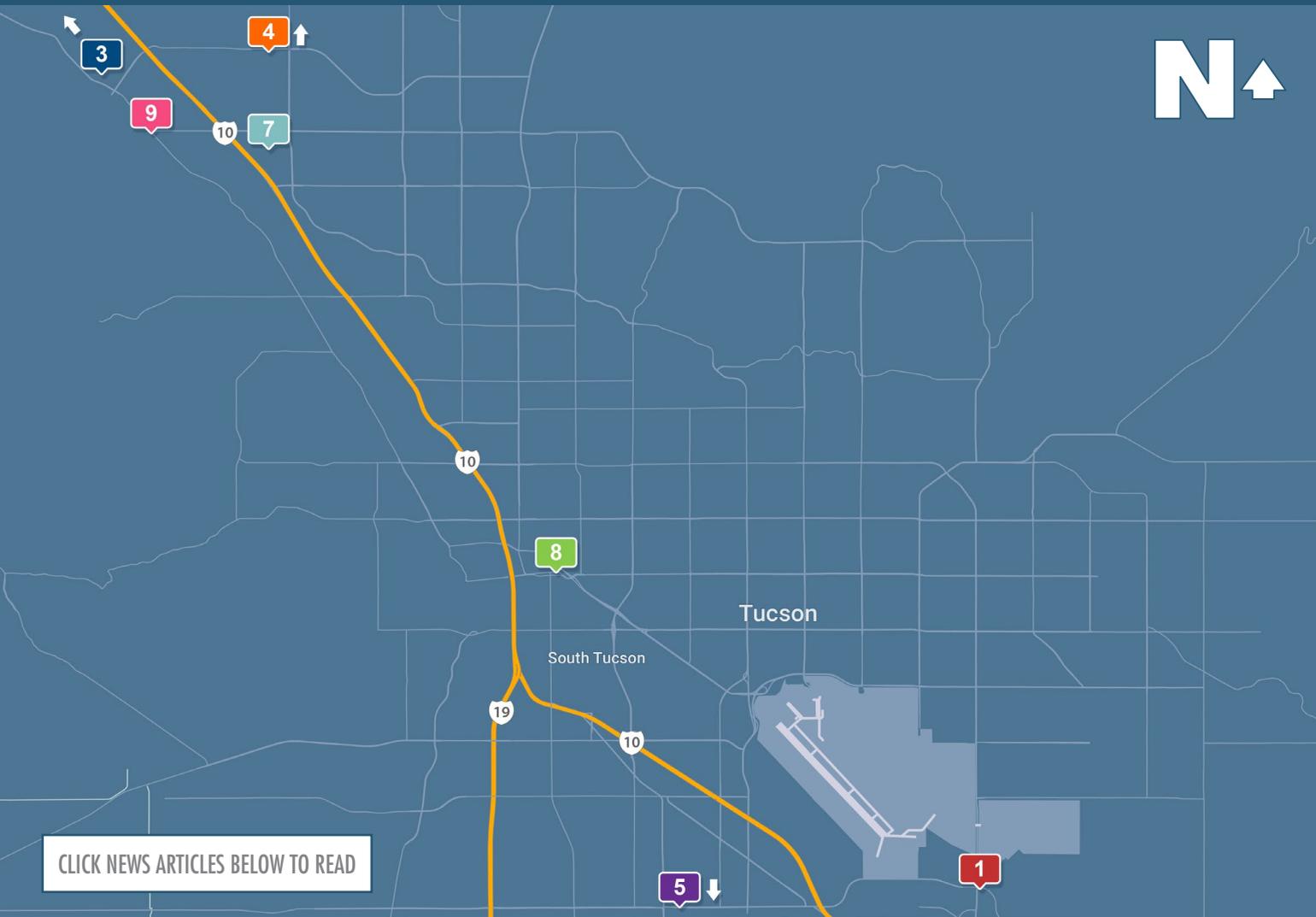
RECENTLY COMPLETED
 TOTAL # OF UNITS: 592
 TOTAL # OF PROPERTIES: 3

UNDER CONSTRUCTION
 TOTAL # OF UNITS: 800
 TOTAL # OF PROPERTIES: 5

PLANNED
 TOTAL # OF UNITS: 2,297
 TOTAL # OF PROPERTIES: 11

* 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



CLICK NEWS ARTICLES BELOW TO READ

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

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

Regional City of Tucson
Tucson to tackle building permit backlog

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

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

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

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

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

5 Amazon
Amazon is hiring hundreds for new Tucson facility

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

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

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

By: James W. Hall
ABI DIRECTOR OF RESEARCH

MULTIFAMILY INVESTMENT ACTIVITY REMAINS STRONG, DESPITE FED PIVOT AND INFLATIONARY PRESSURE

A PERIOD OF REFLECTION AND WHAT'S A FED PIVOT?

It was a tumultuous year for global capital markets, and asset prices, which had to contend with a broad array of geopolitical and economic headwinds. The year began with plenty of tailwinds and optimism, as Federal stimulus, and relief efforts to counteract the coronavirus enabled a sharp rebound in economic activity. The U.S. recovery outpaced all its major trading partners, except China, as its coordinated expansionary fiscal and monetary response facilitated one of the strongest economic recoveries in history.

The U.S. Congress, and the Federal Reserve (the Fed), responded in force to support the economy and mitigate the negative effects the pandemic-induced recession posed on the

population, and broader economy. The recession was a unique economic shock, and presented a challenge to policymakers. Specifically, it made greater demands on both fiscal and monetary policy, which triggered the need for closer domestic macroeconomic policy coordination.

The National Bureau of Economic Research (NBER), the acknowledged arbiter of business-cycle dating, determined that the recession (the period from the previous high – to the trough) lasted only two months: March and April 2020. However, the steps taken by federal, state, and local officials to mitigate the spread of the virus limited economic activity, leading to a sudden and deep recession with millions of jobs lost. During this period, the economy shrank 29.9%, the fastest quarter-over-quarter contraction since the Great

Depression. Comparatively, at the height of the Financial Crisis / “Great Recession” (08-09), the economy contracted by 8.5% in Q3 2008.

The robust fiscal support was the backdrop to this demand-driven recovery; however, unlike the Financial Crisis (08-09), lackluster demand for U.S. Treasuries led to a greater reliance and use of Central Bank balance sheets. To prevent financial market disruptions from intensifying the economic damage, governments around the world coordinated extraordinary macroeconomic measures to offset the global economic capitulation that occurred. Government-induced lockdowns, uncertainty, and an incalculable human and economic toll led to unprecedented levels of support by central banks and governments. In the U.S., the scale and speed of the fiscal response, totaling more than \$5 trillion, or more than 20% of GDP, was facilitated by the Fed. It’s this critical relationship, and expansion of policy that helped the U.S. fare better than most of its trading partners.

The recovery, which began in the second half of 2020, highlighted a long-standing economic issue: the supply chain, and supply-side shortfalls within the economy. As the demand-driven recovery took hold, a supply and demand imbalance caused inflationary pressure to emerge across the economy.

Initially, landlords were concerned that lower median household income, coupled with high unemployment, would lead to higher evictions and vacancy rates. However, renewal rates – which had been climbing steadily since 2010 – were boosted in 2020 as many renters were unwilling or unable to relocate due to the COVID-19 pandemic. As a result, vacancy rates remained stable in 2020, increasing just 0.2% to 6.6%. Data sourced from the RealPage platform indicates that 53.3% of renters with leases expiring in July 2020 chose to renew their lease and stay put, rather than move out – the highest recorded renewal rate in history for July.

Since people always need housing, the multifamily market has historically outperformed other commercial real estate

classes. In contrast, the office and retail sector, which ebbs and flows dramatically with supply-and-demand cycles, underperformed. However, the multifamily market typically remains stable and often continues to grow when other parts of the market constrict. Development activity across the U.S. has increased over the past 5 years, growing at an average rate of 2.2% per year. This compares to an average growth rate of 1.6% between 2005 and 2022. Although elevated, the dearth of construction between 2010 and 2012 has meant that the total inventory levels are still below the optimum level.

During the pandemic, the multifamily market outperformed the broader market in 2020 and 2021, bolstered by economic stimulus from the federal government. Average asking rents increased 0.7% in 2020 to \$1,411 per month, as Federal programs ensured accommodative actions by landlords. The CARES Act established a 120-day eviction moratorium for evictions based on non-payment of rent for certain covered properties. The stated purpose of the order was to prevent the further spread of COVID-19, specifically by preventing homelessness and overcrowded housing conditions resulting from evictions. According to the National Multifamily Housing Council (NMHC), the share of households meeting their rent obligations ranges between 93% and 95% for each month since the initial U.S. outbreak, in most months off no more than two percentage points from pre-pandemic levels.

Inflation is surging at the fastest rate in more than four decades, with the Consumer Price Index (CPI) up 6.5% over the past year, while the Personal Consumption Expenditure (PCE) price index up 5.0% by year-end 2022. The headline inflation rate broke the congressionally mandated 2% threshold in April 2021 and has remained above that threshold since. As nationwide inflation became entrenched within the economy, landlords began to increase asking rents, after maintaining rental rates throughout 2020. Average asking rents increased 11.0% in 2021 to \$1,566 per month; despite this rapid increase in rents, the vacancy rate dropped 180 bps to 4.9%. Single-family home prices skyrocketed due



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to a supply shortage. Would-be homeowners were priced out of the market, which led to a surge in the demand for multifamily units. As COVID-19 restrictions became relaxed globally, rental demand, coupled with strong construction, led to an increase in the vacancy rate. The vacancy rate increased 140 bps to 6.3% as higher asking rents reduced demand for multifamily units.

To combat inflation, the Fed began unwinding its balance sheet, and increasing interest rates (“a Fed Pivot” - reversing the course of interest rate policy) 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 reversing the course of monetary policy, unwinding its \$8.9 trillion balance sheet after years of “easy money”, while increasing interest rates to combat inflation. By year-end 2022 the Fed had reduced its balance sheet by roughly \$414 billion. During this period, the Fed also increased the ‘effective’ Federal Funds Rate (EFFR) from 0.0% - 0.25% to 4.25% - 4.50%. This represents the fastest interest rate hike 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. However, the increase in borrowing costs also impacts the Federal government, or more specifically, Congress. Currently the U.S. pays \$562 billion a year in interest alone. The extensive use of fiscal and monetary policy during the pandemic limits the U.S. government.

By the end of 2022, the global bond market saw its 6th worst performing year since 1701 (the first period of accurate bond data historically). The rate at which the Fed increased interest rates is truly unprecedented. However, year-end data is showing positive signs for the economy. The World Bank, and other major institutions; including, Goldman Sachs and BlackRock have warned about stagflation risks. This appeared to be a real concern in the first-half of 2022; however, this risk appears to have been abated in the second half of 2022.

The U.S. economy expanded 2.9% in the final quarter of 2022, compared to the previous quarter, after contracting in the first two quarters of 2022. Additionally, employers added 4.5 million non-farm jobs over the previous 12-month period, as the unemployment rate reached pre-pandemic levels, declining 40 bps to 3.5%. Inflation appears to have been subdued too, declining 250 bps to 6.5% since peaking in June 2022. Although this remains well above the 2% threshold, the strong downward trend will cause the Fed to reduce its rate of future hikes. Based on this, we foresee the Fed only increasing

rates by 25 bps at its next two FOMC meetings, with the headline Federal Funds Rate reaching 4.75% - 5.00% by year-end 2023.

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

During 2022, inflation remained a leading concern; however, the impact of inflation varied across the United States. Nationwide, inflation increased at an annual rate of 6.5% by year-end 2022. The Bureau of Labor Statistics (BLS) does not report inflation numbers for the Tucson Metropolitan Area. However, the Western Region of the country, which includes the Tucson Metropolitan area (MSA), recorded a 6.2% increase in prices compared to the same period last year, which is down roughly 2% from Q3 2022. Among all U.S. states, Arizona is ranked 3rd highest for year-over-year change in prices, costing Arizonans \$10,724 more in the upcoming year than they would have paid at the start of 2021.

The metropolitan area added 9,000 new jobs over the previous 12-month period, while reporting a net inflow of roughly 10,000 people over the same period. Meanwhile, the 2021 Infrastructure Bill is benefitting the MSA, adding jobs, and growth, as economic and business expansion plans will help further bolster economic growth. 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 425 bps in 2022, from a historical low of 0.00% - 0.25% to 4.25% - 4.50% to cool rapidly rising prices. Metro-wide home prices increased by 17.9% throughout the year, and as single-family prices skyrocketed, pricing and demand for apartments simultaneously increased too, leading to extensive year-over-year price increases.

Despite total transaction volume declining 15%, to \$1.6 billion, the multifamily market remains strong. The average price per unit increased 22.9% over the previous 12-month period. This is partially due to interest rates and prices, which dampened demand across the city. Rental rates increased 7.2% to \$1,273-a month at the end of 2022, compared to the same period last year. Growth slowed over the previous quarter, although up over the previous year, asking rents declining 0.2% in the final quarter of 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 as home ownership becomes increasingly less attractive, and push more residents towards renting, as currently 35% of properties in the metro area are

renter occupied (U.S. Census Reporter). The increase in the population over the past year will continue to put pressure on the limited supply of multifamily units across the MSA. There are 100,704 units in existing inventory for 10+ unit properties, and only 592 units had been completed at YE 2022, thus further emphasizing the need for development and the ample opportunity within the Tucson MSA (CoStar).

ATTRACTIVENESS OF THE TUCSON MSA:

Tucson remains an attractive investment opportunity, due to its relative affordability, lackluster development activity, and strong demographic and labor force growth. Investment activity has remained strong across the Tucson MSA, as several large infrastructure projects and business expansion initiatives help drive demand for multifamily units. The expansion of opportunity zones, the Sonoran Corridor, and the infrastructure bill all provide positive headwinds for investors. And even with nationwide inflationary pressure, Tucson has experienced a comparatively lower cost of goods increase.

There are over 20 Opportunity Zones located within the Tucson MSA, which we believe will continue to drive job growth and economic activity. Tucson has created over 20,000 new jobs in 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 operational costs and promoting government legislation that furthers investment into infrastructure projects and initiatives.

The Tucson economy has benefited from both strong job and wage growth over the previous 12-month period. The median household income in the Tucson MSA increased by 4.9% to \$63,611, and GDP per capita to \$49,593 over the last year. Comparatively, the nationwide median household income rose to \$72,480 per year, or 12% higher than the Tucson MSA. However, average asking rents here are 18.2% less than

the national average. The 6.2% disparity highlights Tucson's relative affordability and opportunity for investment.

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 that 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 threats 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 is estimated to cost \$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. The continued influx of demand is providing a boost to the multifamily industry. In an attempt to accommodate this influx, there are roughly 3,100 units that are currently under construction or planned across 16 properties. The completion of these represents a 3.1% increase in total inventory. Over the previous twenty years, on average, developers have completed 567 units per year.

Extensive and varied economic developments will continue to drive demand, while the limited supply of multifamily units, and a subdued construction pipeline make the Tucson MSA a very attractive investment opportunity. 



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ABI COMPARATIVE MARKET REVIEW: YE 2022



	TUCSON	PHOENIX	LAS VEGAS	SAN DIEGO	
DEMOGRAPHICS	Total Population (2022*)	1,059,178	5,002,682	2,324,288	3,282,250
	Unemployment Rate (YE 2022*)	3.4%	3.0%	5.6%	3.2%
	Employment Growth (y-o-y)	2.1%	4.0%	4.9%	3.1%
	Median HH Income (2022*)	\$63,611	\$79,838	\$65,805	\$95,415
	GDP Per Capita (2022*)	\$49,593	\$67,307	\$61,425	\$85,621
RENT/OCCUPANCY/CONSTRUCTION	Rent (YE 2022)	\$1,273	\$1,691	\$1,499	\$2,320
	y-o-y % Increase/Decrease	7.2%	3.5%	2.8%	5.2%
	Occupancy (YE 2022)	94.1%	94.1%	93.5%	96.4%
	y-o-y % Increase/Decrease	-2.3%	-1.8%	-2.3%	-1.2%
	Total Inventory (10+)	100,657	392,886	228,176	320,079
Total Under Construction (10+)	800	39,191	13,560	7,963	
Units Delivered (10+, YE 2022)	592	11,985	2,896	5,174	
SALES	Total Sales Volume (YE 2022)	\$1.55B	\$14.22B	\$3.71B	\$3.68B
	y-o-y % Increase/Decrease	-15.0%	-16.0%	-26.7%	-29.4%
	Average P/U (YE 2022)	\$172,821	\$315,618	\$254,746	\$371,413
	y-o-y % Increase/Decrease	9.4%	24.0%	23.6%	19.8%

* Forecasted

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COLLABORATION & COOPERATION

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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