

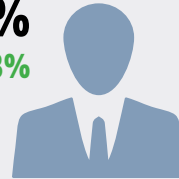
TUCSON MSA | MULTIFAMILY | Q1 2023 REPORT

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10+ UNIT PROPERTIES	Q1 2023	INCREASE/DECREASE	Q1 2022	
Total Sales Volume	\$32M	-91.7%	\$382M	
AVERAGE	Price/Unit	\$176,157	15.4%	\$152,651
	Price/SF	\$219.66	-7.1%	\$236.37
	Year Built	1969	+1 Yr	1968
Average Rent	\$1,276	4.2%	\$1,225	
Occupancy Rate	93.3%	-2.8%	96.1%	
Units Delivered	0	-100.0%	245	

1,067,414  **POPULATION**
MARCH 2023*

2.8%
-0.3%



UNEMPLOYMENT
Q-O-Q AS OF MARCH 2023*

1.8%



EMPLOYMENT GROWTH
Y-O-Y AS OF MARCH 2023*

\$64,347



MEDIAN HH INCOME
MARCH 2023*

\$49,906



GDP PER CAPITA
MARCH 2023*

2,139
Units (50+)



UNDER CONSTRUCTION
YARDI

99,972
Units (10+)



TOTAL INVENTORY
ABI RESEARCH, COSTAR; YARDI

* Forecasted

ABI GEONEWS: TUCSON MSA - SELECT NEWS

CONTINUED ON PAGE 04



American Battery Factory
Battery factory set to be built in Tucson



City of Tucson
Proposed zoning changes could alter development in Tucson



City of Tucson
New home building in Tucson market expected to climb this year

100+ UNIT MULTIFAMILY PROPERTY ANALYSIS

	Q1 2023	INCREASE/DECREASE	Q1 2022
Total Sales Volume	--	--	\$287M
AVERAGE Price/Unit	--	--	\$158,559
Price/SF	--	--	\$266.74
Year Built	--	--	1984

TOP 3 TRANSACTIONS BY PRICE/UNIT (100+)

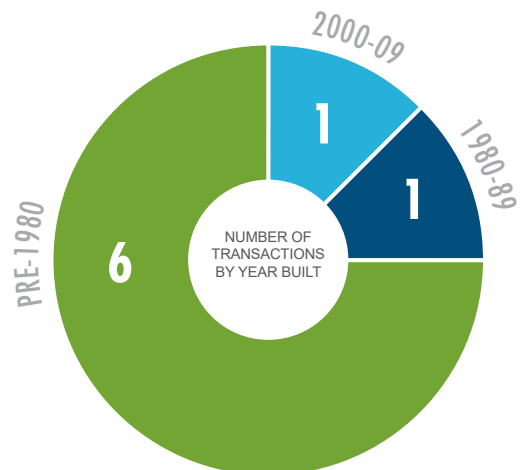
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Q1 2023 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	--	--	--
2000-09	--	--	--
1990-99	--	--	--
1980-89	--	--	--
Pre-1980	--	--	--

10 - 99 UNIT MULTIFAMILY PROPERTY ANALYSIS

	Q1 2023	INCREASE/DECREASE	Q1 2022
Total Sales Volume	\$32M	-66.5%	\$95M
AVERAGE Price/Unit	\$176,157	28.4%	\$137,234
Price/SF	\$219.66	24.8%	\$175.97
Year Built	1969	+7 Yrs	1962



Q1 2023 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	--	--	--
2000-09	1	\$169K	\$183
1990-99	--	--	--
1980-89	1	\$110K	\$143
Pre-1980	6	\$186K	\$248

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



The Zone

Tucson, 24 Units | \$9,064,994
\$377,708/unit | \$543.04/SF | Built 1948

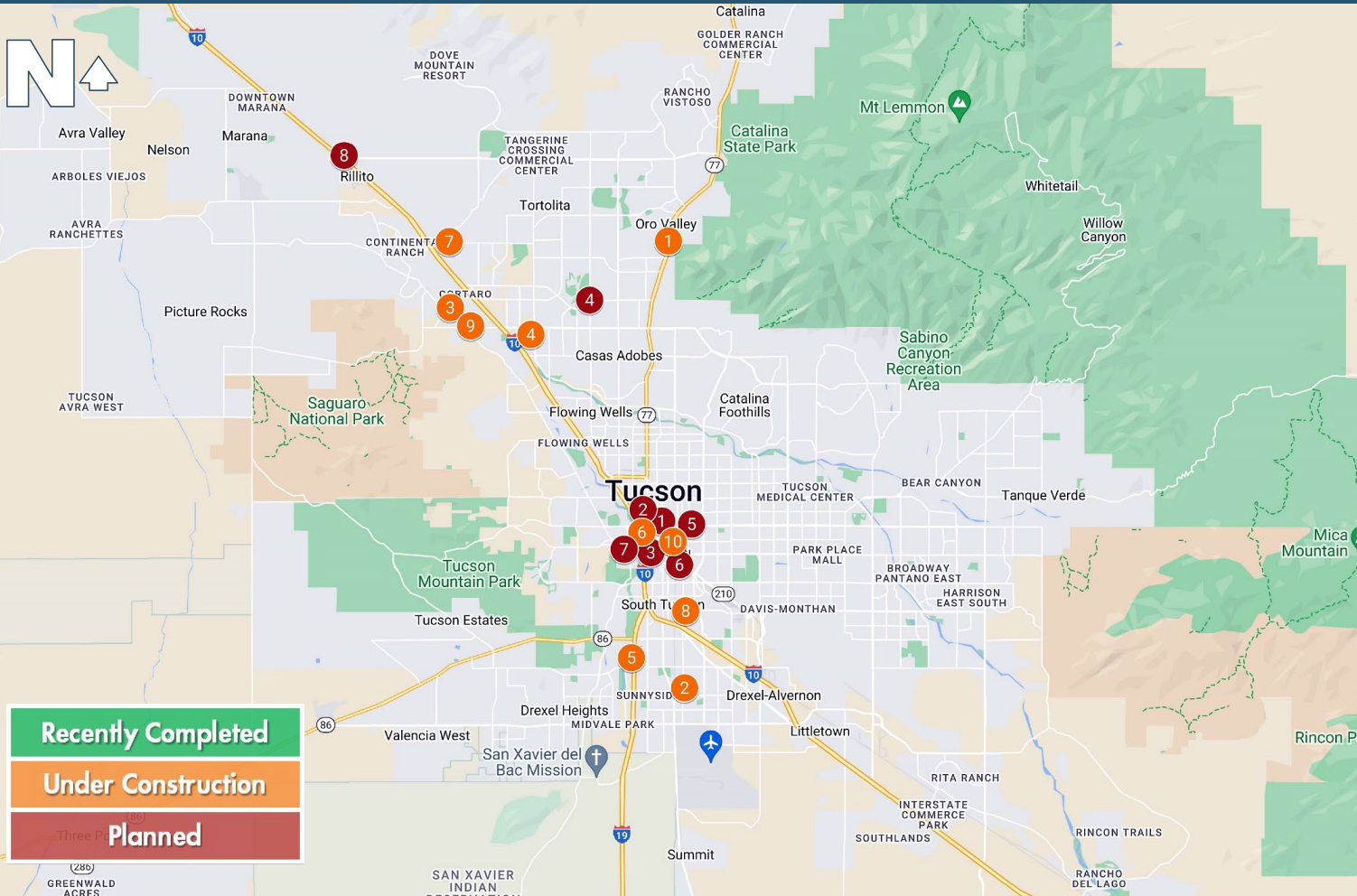
The Beverly on 5th

Tucson, 35 Units | \$6,707,000
\$191,629/unit | \$202.09/SF | Built 1970

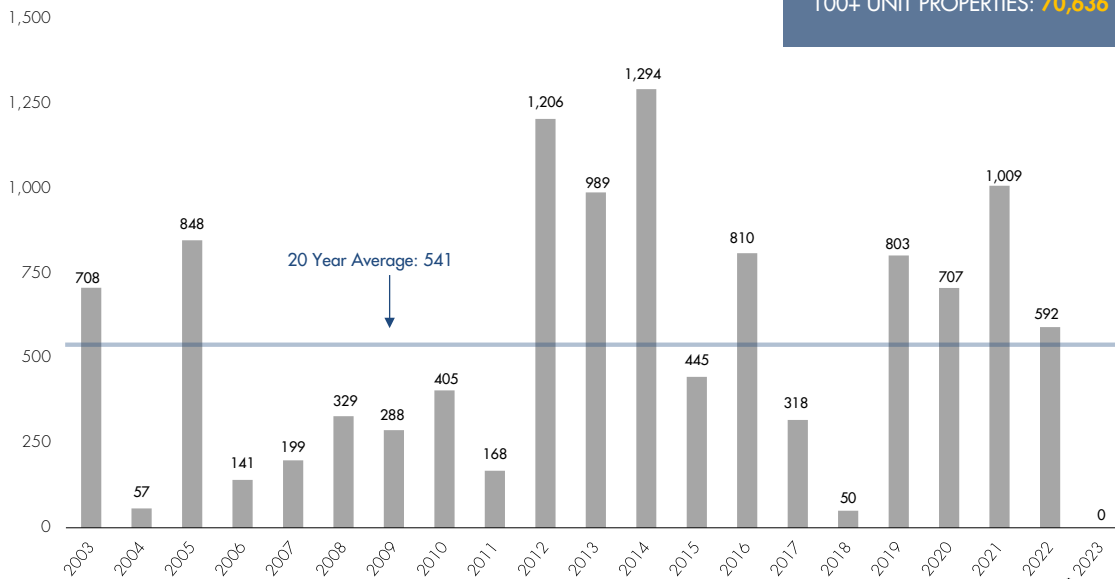
Sahuarita Mission

Green Valley, 52 Units | \$8,800,000
\$169,231/unit | \$182.98/SF | Built 2000

COMPLETED CONSTRUCTION



TUCSON MULTIFAMILY CONSTRUCTION PIPELINE Q1 2023



TOTAL UNIT INVENTORY
 10+ UNIT PROPERTIES: **99,972**
 100+ UNIT PROPERTIES: **70,636**

PRE-LEASE ABSORPTION RATE
 --
 Units/Property/Month
 (Q1 2023 Avg)

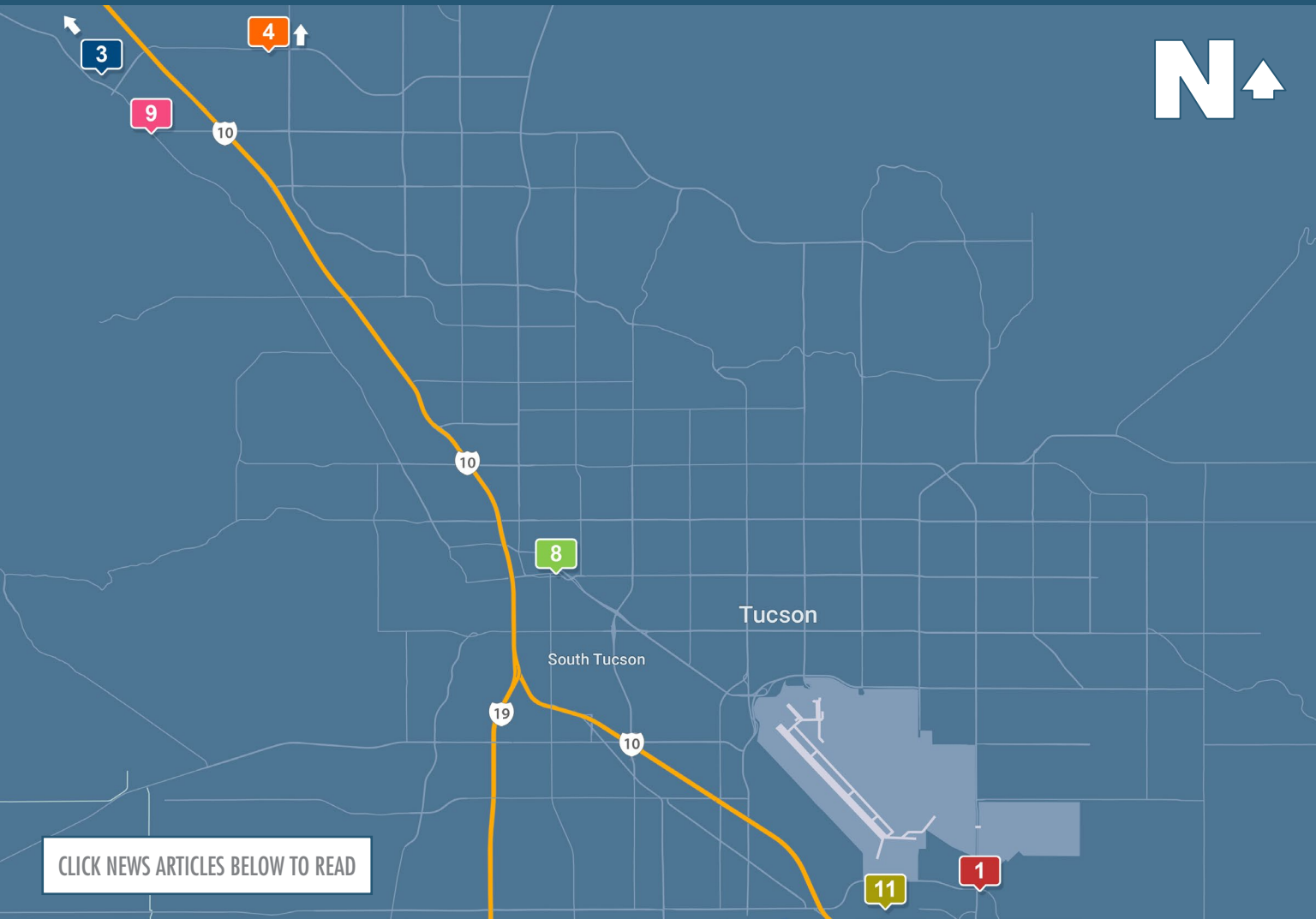
RECENTLY COMPLETED
 TOTAL # OF UNITS: **0**
 TOTAL # OF PROPERTIES: **0**

UNDER CONSTRUCTION
 TOTAL # OF UNITS: **2,139**
 TOTAL # OF PROPERTIES: **10**

PLANNED
 TOTAL # OF UNITS: **1,330**
 TOTAL # OF PROPERTIES: **8**

* 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

Regional City of Tucson
Proposed zoning changes could alter development in Tucson

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

Regional City of Tucson
New home building in Tucson market expected to climb this year

11 American Battery Factory
Battery factory set to be built in Tucson

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

Regional City of Tucson
Building a casita in Tucson may soon be easier, less costly



RISING INTEREST RATES AND BANK COLLAPSE: A Multifamily Market Perspective

By: James W. Hall | ABI DIRECTOR OF RESEARCH

INTEREST RATES IMPACT REGIONAL BANKS, WHAT'S NEXT?

Economic uncertainty, inflationary pressures, recessionary concerns, and a plethora of conflicting and deteriorating economic data benefited financial markets last quarter. Although commercial real estate sales activity declined last quarter, investors, market participants, and policymakers reacted positively to declining economic data as the probability of further rate hikes plunged.

The failure of Silicon Valley Bank (SVB) sparks contagion fears as its collapse is a perfect example of the kinds of dislocations that are exposed when rate cycles shift. The bank's collapse was a byproduct of the Federal Reserve (the Fed) hiking interest rates by 1,700% in less than a year. It also marked the biggest bank failure since 2008, its cause quite simple; a bank run (customers withdrawing more funds than the bank had reserves). This isn't to say the bank didn't have the assets to cover withdrawals, but SVB didn't immediately have the cash available because it used deposits

to buy "risk free" US treasury bonds - a standard practice among all banks.

Government stimulus aimed at small, and medium-sized businesses during the pandemic enabled the bank to increase total deposits from \$62 billion at the end of 2019 to \$173 billion by year-end 2022. The bank used these deposits to buy US treasuries when interest rates were near zero (0.25%). The increase in interest rates caused the face value of these bonds to decline. The face value of bonds and the associated interest rate of those bonds have an inverse relationship. More simply, as rates rise, treasury prices/values decline.

The bank was well capitalized (Tier 1 Capital Ratio 15.26%), meaning it was able to cover all deposits. However, digital banking and viral panicking based on misinformation caused depositors to withdraw \$42 billion of deposits in a single day, leaving the bank with \$1 billion in negative cash balance. To cover the negative cash balance, SVB sold its holding in US treasury bonds for a \$1.8 billion loss. The loss accrued because of the increase in interest rates. Had

the bank held the bonds to maturity, the bank wouldn't have had to sell the bonds and realize the loss. The drain on equity capital led the lender to try to raise over \$2 billion in new capital. The call to raise equity sent shockwaves to SVB customers, which further exacerbated the capital drain. The bank's failure to raise the new capital led the bank to collapse, which forced the government to step in to protect the bank's stakeholders.

This won't be an isolated issue - but it is directly correlated to the rise in interest rates and the actions of the Fed. However, smaller, regional, and less diversified banks are at a greater risk of bank runs compared to your everyday bank; such as Chase, Bank of America, and Wells Fargo.

The Fed has raised interest rates nine times since last March, bringing rates to the highest level in 16 years. The moves are intended to discourage people from borrowing, slow economic activity, and ease the pressures that are pushing prices higher. Inflation in the US was 5% at the end of March 2023, the lowest level in two years. It's a strong sign that the Fed's actions are easing inflationary pressure, which peaked at 9.1% last June, the highest it has been since 1981.

One reason interest rates have risen much higher than most forecasters anticipated is that the U.S. economy has proven more resilient to the impact of higher rates than expected. Higher interest rates have meant higher borrowing costs for consumers and businesses. The 30-year mortgage reached 7% at one point in November 2022, the highest in over 20 years. Since then, mortgage rates have steadily declined, while the stock market has begun to recover strongly. Every asset class has risen this year because speculation that rate hikes will end by mid-year 2023 encourages investment activity.

Housing activity has fallen sharply, but much of the economy seems unscathed. Home listings have plunged, but this hasn't led to a continued decline in prices, in fact, the limited inventory is cushioning the housing market from continued declines in value.

GDP, which measures the rate of growth across the economy, expanded 1.1% on an annualized basis. While positive, it highlights the fact that the economy is beginning to struggle because of rising rates, as well as the increase in lending standards due to the collapse of Silicon Valley Bank.

The head of the Fed, Jerome Powell, signaled this month that officials believe they may have done enough to get inflation under control and could be ready to pause their program of rate hikes. Economists at Wells Fargo said that the latest figures could help convince policymakers to pause, but they warned that "progress remains incremental rather than rapid."

We expect the Fed to pause its rate hikes by Summer 2023 at around 5.50% - 6.0%. Tightening lending conditions will become a drag on economic growth, hiring, and retail sales in the second half of the year. We expect the Fed to begin cutting the federal-funds rate by the end of 2023 to soften the decline in economic activity. The economy will likely avoid a recession, but growth will remain anemic through 2024. To avoid a hard landing and spur economic growth, we foresee the federal-funds rate returning to normalcy by the end of 2024 at 3.0% - 3.5%.

Overall, the economy has proven far more resilient to rate hikes than previously expected. Large federal stimulus packages and legislation are helping to offset broad inflationary pressures. Although sales activity has declined over the previous quarter, we believe that that's a function of investors becoming sidelined in anticipation of lower long-term rates/rate cuts by year-end.

SHIFTING DYNAMICS AFFECTING THE MARKET

The Tucson economy remains robust as strong demographic trends, multifamily fundamentals, and local development/infrastructure initiatives entice large firms, such as Raytheon and Caterpillar, to relocate and expand their presence



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across the metropolitan area. The additional investment by these firms will add 1,500 new high-paying jobs to the area. The proposed 15-mile transit line will connect downtown Tucson with the city's international airport. The transit will run directly from the Tucson Mall to the airport and is expected to bring in major business development. This could impact around 30 neighborhoods, many of these are historically low-income, marginalized communities. This provides an exceptional moment for potential new development opportunities.

The U.N. projects the population of Tucson to increase by 120,000 people by 2035, roughly 1% per year, which is triple the national average of 0.3%. Increased job opportunities and population growth, coupled with low inventory and a lackluster pipeline of new developments make the Tucson MSA a strong short- and long-term investment opportunity for both developers and investors.

Furthermore, interest rate hikes have put pressure on single-family home purchases across Tucson. From the beginning of 2021 to the end of 2022, the average monthly mortgage payment 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, pushing more residents toward renting.

There are roughly 100,000 multifamily units across the Tucson MSA. Of those, Class C units account for approximately 30% of total supply, providing investors ample value-add investment opportunities. The average monthly rent for these units is \$849 per month, compared to \$1,142 per month for Class B, and \$1,675 per month for Class A units. According to Real Page, over the last 12 months, the average vacancy of Class A properties increased 380 bps to 6.1%, Class B increased 470bps to 6.9%, and Class C properties increased 530 bps to 7.5%.

Rental rates increased 4.1% in Q1 2023 since the same pe-

riod last year, to \$1,278-per month, which has helped alleviate further market deterioration; however, rental rates are still up 37.5% since pre-pandemic levels. In that same timeframe, median household income has increased just 14% to \$64k. The disparity between wage growth and rental rates has put pressure on market-wide vacancies, which increased 280bps in the last 12 months to 6.7% (Yardi Matrix).

Unlike other major metropolitan areas across the nation, Tucson isn't dealing with a construction boom. Developers completed zero units in the first quarter of 2023, adding nothing to the 500 units delivered over the previous year. Those 500 units represent about a half a percent increase in total inventory. For comparison, nearby Phoenix added close to 3.5% more units in the same period. Currently, there are 2,139 units under construction in Tucson, on properties with 50+ units, and another 1,330 units in the planned/planning phase.

Tucson is in the early stages of strategic planning for a 15-mile transit line that will run from the Tucson International Airport to the Tucson Mall through downtown. Rapid transportation by bus and rail will be beneficial for the multifamily market as transit-oriented developments (TOD) are built along the corridor in the form of mixed-use or apartment complexes. Improved city connectivity will stimulate the local economy and businesses along the route.

To complement the transit proposal, in March the Planning and Development Services Department proposed zoning revisions that are intended to relieve developers of current provisions that hinder the construction of housing, which would increase the population density near public transit. These amendments allow for more space for actual construction, while also eliminating the current property line restrictions. This will in turn create opportunity for the construction of townhomes in the Tucson MSA.

Funding from the Bipartisan Infrastructure Bill will significantly benefit Tucson's job market and local economy.



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City officials say funds will be used to support bridge replacement, add electric vehicle charging stations, widen the I-10 for better traffic flow, and encourage the development of Amtrak service between Phoenix and Tucson. Additionally, Tucson applied for \$141 million in funding from the Infrastructure bill to improve the supply and quality of groundwater, to accommodate a growing economy and population. These initiatives will create jobs, enhance infrastructure, promote sustainability, and drive economic growth in Tucson. A lackluster construction pipeline will benefit the Tucson MSA as demand for units increases, helping offset any short-term compression in occupancy as a result of low wage growth compared to rental rates.

MULTIFAMILY TRANSACTION TRENDS

Amid elevated interest rates/borrowing costs, and a dearth of investment opportunities, investor appetite diminished across all asset classes in Q1 2023. Despite the lull in larger property sales volume, total sales still exceeded \$1.2 billion over the previous 12-month period, which remains well above the 10-year average of \$830 million.

Last year, sales exceeded \$1 billion for only the third time in history, reaching \$1.5 billion, only surpassed by the record set in 2021, when sales volume peaked at \$1.8 billion. Comparatively, sales volume was \$742 million in 2019, and \$1.1 billion in 2020.

The Federal Reserve began increasing interest rates at the end of the first quarter of 2022, which did little to dampen investor appetite. In fact, sales volume exceeded \$430 million in Q3 2022, the second highest quarterly sales volume in history. This record-breaking quarter was recorded after the Fed had increased interest rates from near 0% at the start of 2022, to 3.0%-3.25% by the end of Q3 2022. This was the fastest rate hike in history and yet sales continued to break new record highs.

While the market remains both fundamentally and demographically strong, elevated rental rates have put upward pressure on metrowide vacancy rates, which increased 280 bps to 6.7% at the end of Q1 2023 compared to the same period last year. There were no new deliveries last quarter, and while many metropolitan areas have a strong pipeline of new units coming online, Tucson's total inventory is only expected to increase 2% over the next two years.

ABI MULTIFAMILY OUTLOOK

Despite the recent decline in transaction volume, the Tucson MSA remains both demographically, and fundamentally sound. Strong population and job growth coupled with a subdued pipeline of new inventory provides short and long-term investment opportunities. Additionally, the proposed transit plan will provide an economic boost to a currently underserved part of the MSA. This transit plan also provides substantial development opportunities to offset a lackluster construction pipeline metrowide. Additionally, lawmakers are actively pursuing revisions to current building regulations that impede the development of projects, which could result in large economic benefits. From our perspective, the Tucson MSA is taking the necessary steps to position itself as an appealing market with plenty of opportunity for both investors and developers.

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ABI COMPARATIVE MARKET REVIEW: Q1 2023



TUCSON

PHOENIX

LAS VEGAS

SAN DIEGO

DEMOGRAPHICS

RENT/OCCUPANCY/CONSTRUCTION

SALES

Total Population (March 2023*)	1,067,414	5,057,973	2,362,988	3,291,895
Unemployment Rate (March 2023*)	2.8%	2.6%	6.1%	3.7%
Employment Growth (y-o-y)	1.8%	2.8%	5.0%	3.3%
Median HH Income (March 2023*)	\$64,347	\$81,221	\$67,672	\$97,919
GDP Per Capita (March 2023*)	\$49,906	\$67,423	\$60,726	\$83,820
Rent (Q1 2023)	\$1,276	\$1,673	\$1,483	\$2,686
y-o-y % Increase/Decrease	4.2%	0.1%	-0.4%	6.7%
Occupancy (Q1 2023)	93.3%	94.0%	93.2%	96.9%
y-o-y % Increase/Decrease	-2.8%	-1.4%	-2.0%	-0.8%
Total Inventory (10+)	99,972	395,452	229,146	321,501
Total Under Construction (50+)	2,139	39,324	9,256	8,379
Units Delivered (50+, Q1 2023)	0	3,496	1,093	333
Total Sales Volume (Q1 2023)	\$32M	\$796M	\$137M	\$337M
y-o-y % Increase/Decrease	-91.7%	-75.4%	-87.6%	-70.1%
Average P/U (Q1 2023)	\$176,157	\$233,236	\$193,293	\$280,507
y-o-y % Increase/Decrease	15.4%	-22.1%	-25.8%	-33.8%

* Forecasted

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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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TUCSON ADVISORS

RYAN KIPPES

VICE PRESIDENT

520.265.1895
ryan.kippes@abimultifamily.com
AZ Lic # SA660419000

DESIREE PALMER

VICE PRESIDENT

520.265.1993
desiree.palmer@abimultifamily.com
AZ Lic # SA682872000

NATHANIEL MCADOO

ASSOCIATE

520.265.1945
nathaniel.mcadoo@abimultifamily.com
AZ Lic # SA698399000

PHOENIX HEADQUARTERS

5227 N. 7th Street
Phoenix, AZ 85014
602.714.1400

LAS VEGAS OFFICE

5940 S. Rainbow Blvd.
Las Vegas, NV 89118
702.820.5660

SAN DIEGO OFFICE

1012 Second Street, Ste. 100
Encinitas, CA 92024
858.256.5454
CA Lic #02015648

TUCSON OFFICE

3360 N. Country Club Road
Tucson, AZ 85716
520.265.1993

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