

TUCSON MSA | MULTIFAMILY | 2016 YEAR END REPORT

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10+ UNIT PROPERTIES YE 2016 INCREASE/DECREASE YE 2015

Total Sales Volume **\$502M** **26%** **▲** **\$397M**

AVERAGE Price/Unit **\$59,698** **1%** **▲** **\$58,896**

Price/SF **\$73.85** **-15%** **▼** **\$86.94**

Year Built **1975** **2 yrs** **▲** **1973**

Average Rent **\$775** **5.9%** **▲** **\$732**

Occupancy Rate **94.3%** **1.1%** **▲** **93.2%**

Units Delivered **810** **82%** **▲** **445**

1,015,400 **▲ +1.0%**

POPULATION
 ADOA, EBRC 2016 ESTIMATE

4.3%
▼ -0.9%

UNEMPLOYMENT
 AS OF DECEMBER 2016

+4.1%

EMPLOYMENT GROWTH
 Y-O-Y AS OF DECEMBER 2016

\$46,162
NO CHANGE

MEDIAN HH INCOME
 2014-5 ACS 5-YR EST

\$38,536
▲ +2.1%

PER CAPITA INCOME
 2014-15 EBRC, DOA, BEA ESTIMATE

320
Units (50+)

UNDER CONSTRUCTION
 YARDI

117,567
Units (10+)

TOTAL INVENTORY
 AS OF YEAR-END 2016

ABI GEONEWS - TUCSON MSA YE 2016 SELECT NEWS

CONTINUED ON PAGE 05



Caterpillar Inc. bringing regional HQ to downtown Tucson, 600 jobs



Comcast marks grand opening of Tucson call center (brings 1,000 jobs to the area)



Raytheon confirms plans to add 2,000 Tucson jobs

100+ UNIT PROPERTIES

	YE 2016	INCREASE/DECREASE	YE 2015
Total Sales Volume	\$426M	24%	\$344M
AVERAGE Price/Unit	\$66,042	1%	\$66,846
AVERAGE Price/SF	\$81.19	17%	\$98.07
AVERAGE Year Built	1988	3 yrs	1985

TOP 3 TRANSACTIONS BY PRICE/UNIT (100+)



Galeria Del Rio

Tucson, 101 Units | \$19,300,000
\$191,089/unit | \$121.28/SF | Built 2013



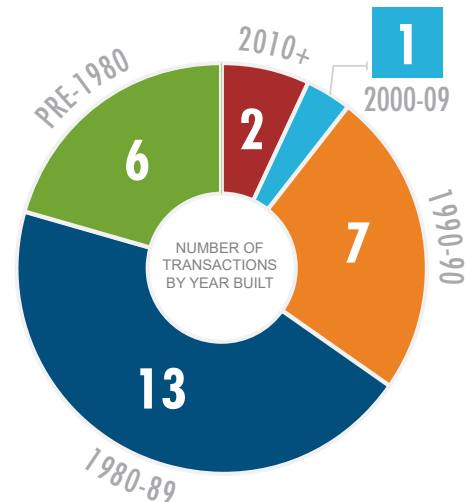
Dorinda Vista

Tucson, 254 Units | \$27,900,000
\$109,843/unit | \$103.12/SF | Built 1996, 1998



Springs at Silverbell

Tucson, 290 Units | \$31,500,000
\$108,621/unit | \$116.70/SF | Built 2002



YE 2016 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	2	\$191K	\$121
2000-09	1	\$109K	\$117
1990-99	7	\$87K	\$93
1980-89	13	\$53K	\$77
Pre-1980	6	\$52K	\$60

10 - 99 UNIT PROPERTIES

	YE 2016	INCREASE/DECREASE	YE 2015
Total Sales Volume	\$76M	42%	\$53M
AVERAGE Price/Unit	\$38,765	16%	\$33,292
AVERAGE Price/SF	\$48.95	2%	\$49.82
AVERAGE Year Built	1970	2 yrs	1968

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

= ABIMultifamily Transaction



Cherry Park Studios

Tucson, 17 Units | \$2,695,000
\$158,529/unit | \$165.33/SF | Built 1952, 1985



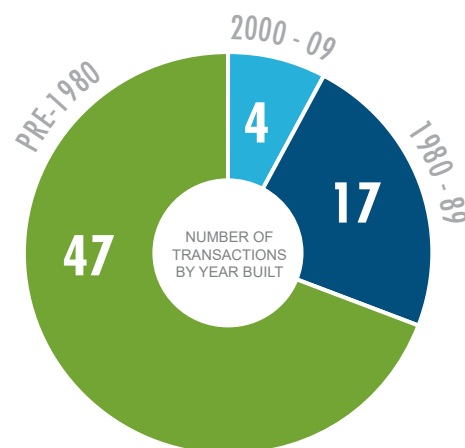
The Greens at Ventana Canyon

Tucson, 54 of 265 Units | \$4,992,000
\$92,444/unit | \$88.45/SF | Built 1986



1211 E 9th St

Tucson, 15 Units | \$1,145,000
\$76,333/unit | \$132.94/SF | Built 1953



YE 2016 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	-	-	-
2000-09	4	\$46K	\$58
1990-99	-	-	-
1980-89	17	\$37K	\$39
Pre-1980	47	\$39K	\$54

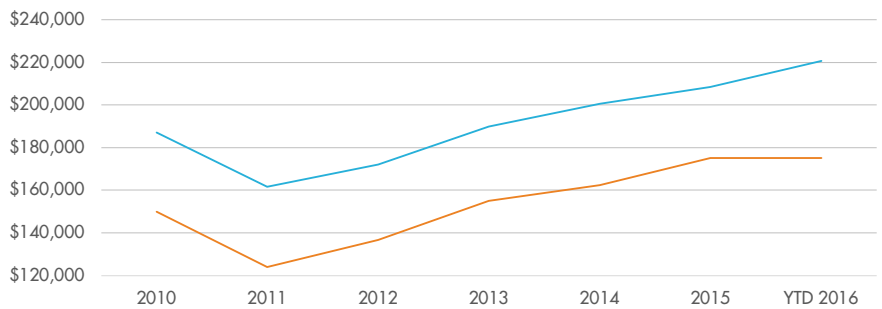
SINGLE FAMILY RESIDENTIAL - FOR SALE/LEASE

AVG SALES PRICE \$220,564

+6%, YEAR-OVER-YEAR AVERAGE

MEDIAN SALES PRICE \$175,000

NO CHANGE



SFR SALES TRENDS

MONTHLY SALES 16,404

+12%, YEAR-OVER-YEAR

AVG DAYS ON MARKET 53

-8 DAYS, YEAR-OVER-YEAR

ABSORPTION RATE 3.57

THE ABSORPTION RATE, IN MONTHS, SHOWS HOW LONG THE CURRENT INVENTORY OF PROPERTIES WOULD LAST AT THE CURRENT RATE OF SALES

SFR - FOR LEASE

YE 2016

Median Lease: \$1,095

Average Lease: \$1,161

Avg. Days on Market: 40

YE 2015

Median Lease: \$1,050

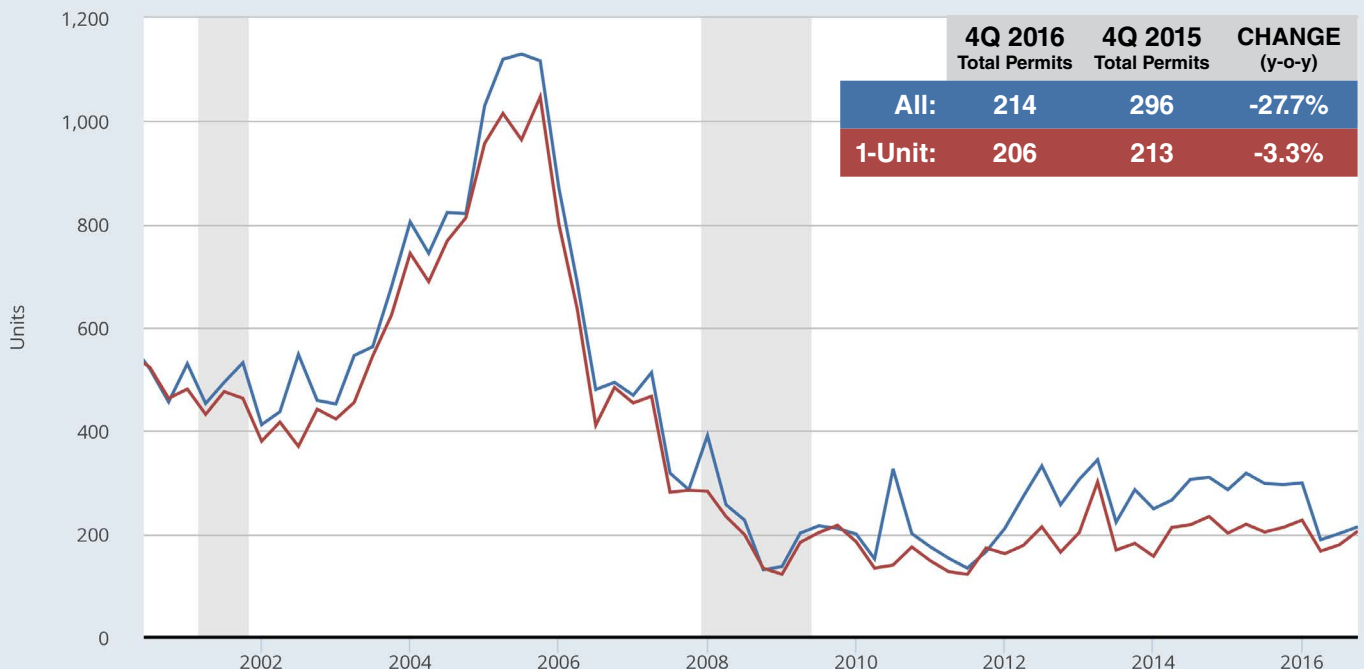
Average Lease: \$1,128

Avg. Days on Market: 51

HOUSING PERMIT DATA - SFR/MF *

FRED

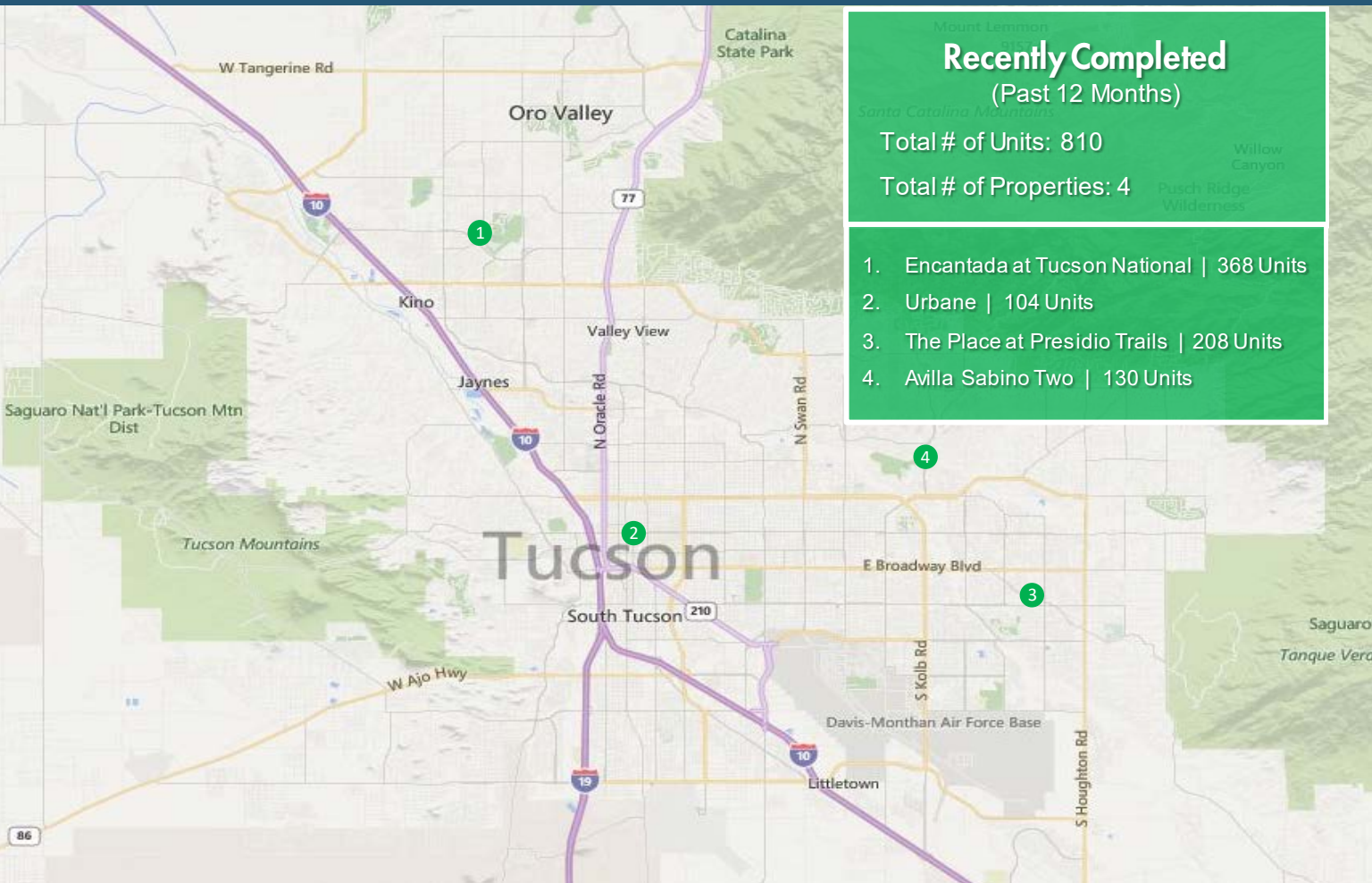
— New Private Housing Units Authorized by Building Permits for Tucson, AZ (MSA)
— New Private Housing Units Authorized by Building Permits: 1-Unit Structures for Tucson, AZ (MSA)



* Quarterly Average permitted units from 2000 to YTD (FRED)

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COMPLETED CONSTRUCTION



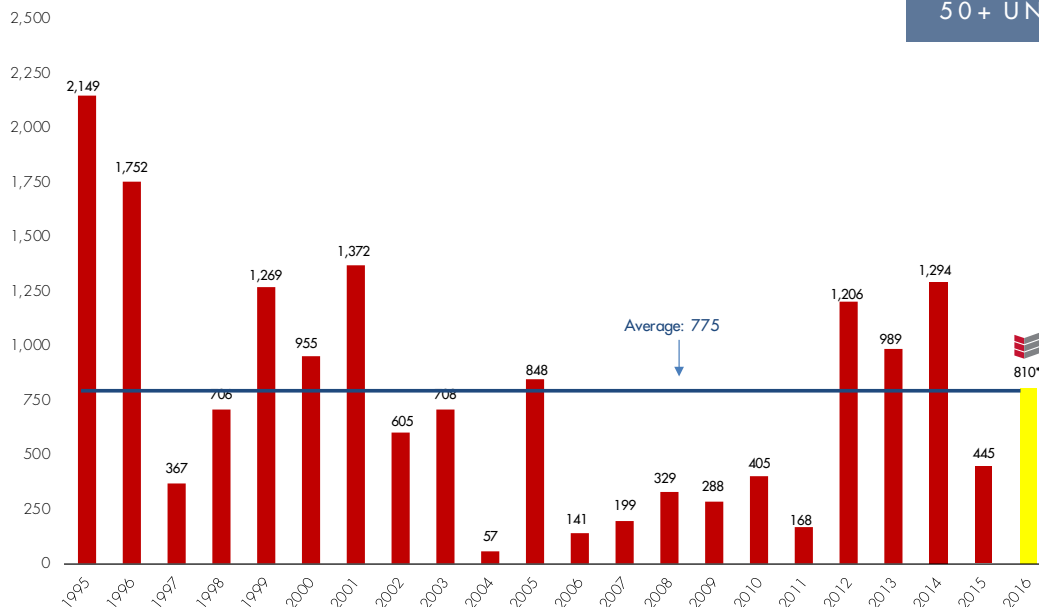
Recently Completed (Past 12 Months)

Total # of Units: 810

Total # of Properties: 4

1. Encantada at Tucson National | 368 Units
2. Urbane | 104 Units
3. The Place at Presidio Trails | 208 Units
4. Avilla Sabino Two | 130 Units

TUCSON MULTIFAMILY CONSTRUCTION PIPELINE YE 2016



TOTAL UNIT INVENTORY

10+ UNIT PROPERTIES: 117,567

50+ UNIT PROPERTIES: 66,775

Under Construction

Total # of Units: 320

Total # of Properties: 2

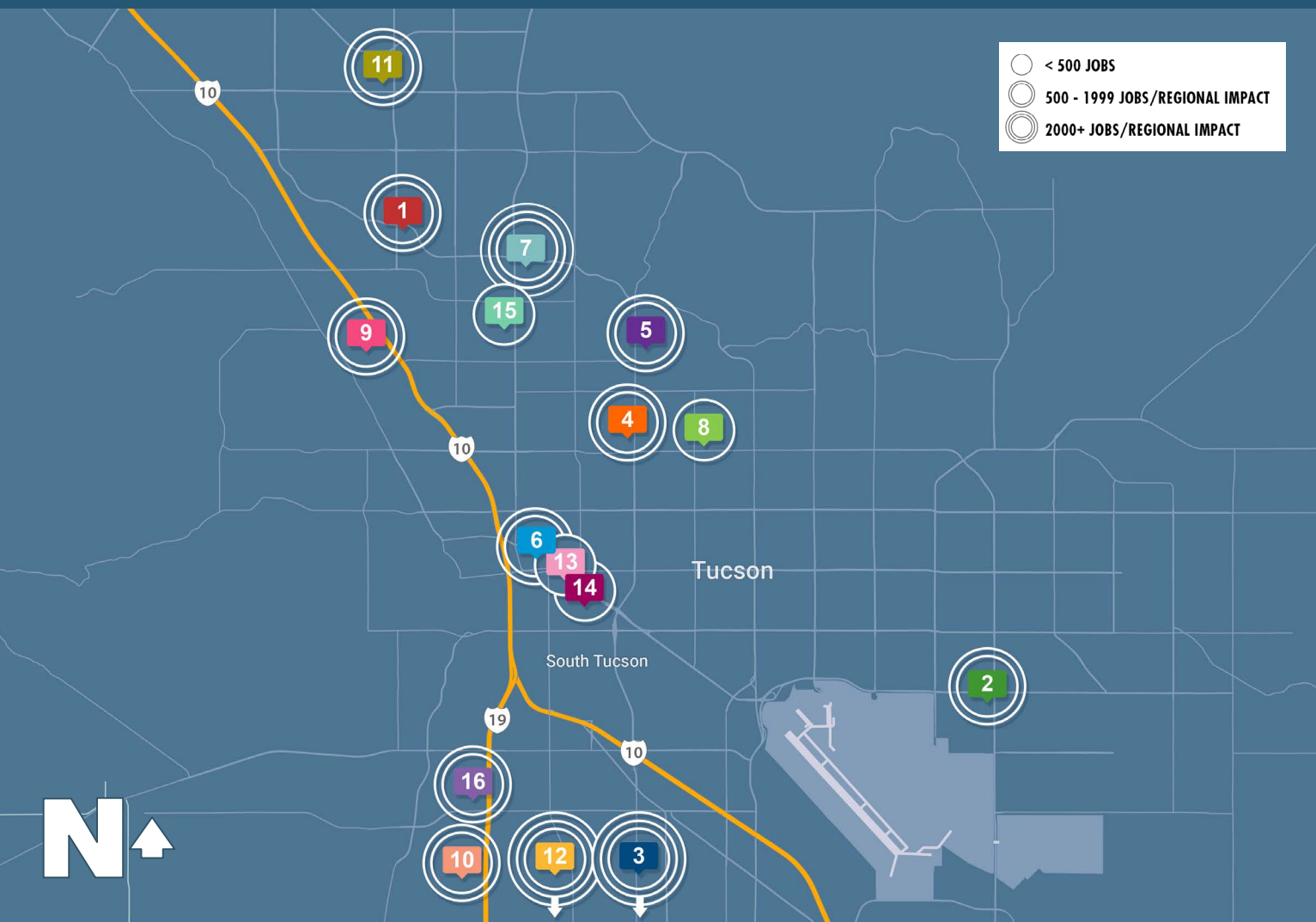
Planned

Total # of Units: 694

Total # of Properties: 6

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

YE 2016 SELECT NEWS



1 Afni | Call center operator to hire 500 in Tucson area (hiring in 2 locations)

9 Convergys | Plans to hire 500 in Tucson

2 Afni | Call center operator to hire 500 in Tucson area (hiring in 2 locations)

10 C3 | Call-center operator to hire 1,132 in Tucson (hiring in 2 locations)

3 Raytheon | Raytheon confirms plans to add 2,000 Tucson jobs

11 C3 | Call-center operator to hire 1,132 in Tucson (hiring in 2 locations)

4 Banner University | Building a \$400M, nine-story tower at Banner-University Medical Center in Tucson

12 SpacePort | Pima County marks completion of World View HQ, SpacePort

5 Banner University | To spend \$100M on 250,000sf building next to AZ Cancer Center at Banner-University Tucson North Campus

13 AC Hotel Tucson | Downtown Tucson lands first hotel, AC Hotel Tucson, in 30 years

6 Caterpillar Inc. | Bringing regional HQ to downtown Tucson, 600 jobs

14 Indoor go kart racing track to open in downtown Tucson

7 Comcast | Marks grand opening of Tucson call center (brings 1,000 jobs to the area)

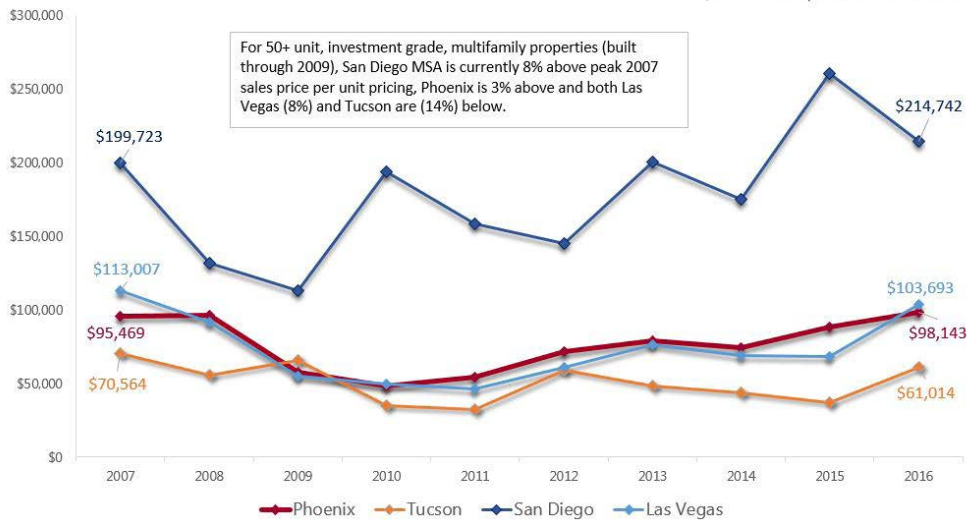
15 PGA Tour Superstore opens in Tucson

8 Fox Restaurant Concepts | Sam Fox bringing The Yard dining-entertainment complex to Tucson

16 Commercial Real Estate Developer, Bourn Companies, planning big mixed-use project at NWC of I-19 and Irvington Rd



Phoenix v Las Vegas v San Diego v Tucson MSA Multifamily Market Analysis - Avg Sales Price/Unit (50+ Unit Properties, 2007 to 2016)



By: Thomas M. Brophy, Director of Research

The Tucson MSA multifamily market, after years of general stagnancy following the Great Recession, saw renewed investor interest in 2016. Many of the larger western MSA's are reaching, and exceeding, previous peak price per unit amounts, causing investors on the hunt for higher CAP rates to look to qualified secondary and tertiary markets. Tucson saw tremendous economic and job announcement activity in 2016, with little in the development pipeline, and is fast becoming the 'go-to' secondary market for multifamily investors.

Tucson Market Metrics: By the Numbers

The MSA's total sales volume (10+ unit properties) increased 26%, year-over-year, to \$502M across 96 total transactions with 8,406 total units sold or 7% MV (Market Velocity which is calculated by dividing number of units sold by total number of units). In fact, Tucson's MV rate has increased nearly 158% since 2013 due to increased investor interest in solid performing secondary markets. Nearly 40% of all unit transactions went to California investors, the most active buyers during 2016, followed by Arizona investors at 24% and Colorado-based investors at 15%.

The 10 to 99 unit properties witnessed the most dramatic percentage increase in sales volume rising 42% y-o-y to \$76M. Additionally, 10 to 99 unit properties saw the highest increase in y-o-y sales price per unit amounts rising 16% to \$38,765. 100+ unit properties also saw a significant increase in sales volume rising 24% y-o-y to \$426M, however average sales price per unit amounts contracted (1%) to \$66,042.

Casas Adobes/Oro Valley submarket accounted for 30% of the transactional volume throughout the Tucson MSA with \$151M in total sales, which was a 251% increase over 2015. Southeast Tucson was 2nd in overall transaction volume rising 42% y-o-y to \$101M. West Tucson came in 3rd for transaction volume rising 391% to \$74M. Although 4th in overall sales volume at \$48M in transactions, the Catalina Foothills submarket witnessed the greatest year-over-year percentage sales volume increase rising 1,443%.

In regards to new construction, Tucson MSA had 810 new units delivered in 2016. Although above the region's 20 year average, it was below 2014's peak of 1,294 unit deliveries. Despite elevated construction delivery schedules, both average rent and occupancy increased for the MSA by 5.9% to \$775 and 1.1% to 94.3% respectively.

Market Comparisons

The Tucson MSA when compared to other Western MSA's, as evidenced in the chart, is still (14%) below peak 2007 sales price per unit amounts. It stands to reason that investor interest has lagged due to the fact that Tucson's emergence from the Great Recession of 2008/9 has only recently materialized. After years of stagnation, Tucson saw tremendous economic development activity in 2016 which began with Afni's announcement to hire 500 for its call centers. This was followed by Comcast's call center expansion with 1,000 jobs, Caterpillar's 600 jobs plus Regional HQ expansion, C3's 1,100+ call center job announcement and ending with Raytheon's proposed expansion to bring nearly 2,000 high paying jobs to the region.

The Road Ahead

As stated in our 2017 Market Forecast, it is unlikely the Fed will continue its announced interest rate increases in 2017, having stated so the previous two years with nary a hike made. Despite this assessment, 2017 should prove to be a highly volatile year especially in international markets, i.e. Europe and Asia. The EU, already in a precarious state over Brexit and the Italian Referendum, will see continued instability and uncertainty especially with both German and French elections just on the horizon. Asia, and specifically China, has and will continue to see reduced growth with various asset bubbles in danger of bursting. The net result will be continued capital flight from both regions to more stable areas in the West.

Closer to home, Arizona is poised for continued economic gains as both people and jobs seek more business and tax friendly areas in the West. Tucson, which has struggled to find its Post-Recession footing, made major steps in 2016 to finding economic stability. Given the change in US political affairs, Tucson, especially Raytheon, stands to benefit if the proposed increases to defense spending actually materialize. Additionally, albeit more slowly than Phoenix, Tucson has slowly begun to diversify its economic base, long dominated by education and defense spending. The most salient examples of this nascent diversification are Caterpillar's Regional HQ expansion to Downtown Tucson and World View's HQ and SpacePort construction. While it remains to be seen if these attempts at economic diversification take hold, it does bely an ardent attempt among Tucson area economic planners to usher in a new era of growth.



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NOTABLE ABI MULTIFAMILY TRANSACTIONS



GREEN LEAF AT BROADWAY

8880 East Broadway Boulevard,
Tucson, AZ

Price: \$8,650,000
Units: 184 Units
Year Built: 1980



THE GREENS AT VENTANA CANYON

5800 North Kolb Road,
Tucson, AZ

Price: \$4,992,000
Units: 54 Units (Fractured Condo)
Year Built: 1986



EL DORADO TERRACE

6224 - 6238 East Fairmount Street,
Tucson, AZ

Price: \$1,134,400
Units: 20
Year Built: 1978



RANCHO ENCANTO APARTMENTS

3301 East 2nd Street,
Tucson, AZ

Price: \$770,000
Units: 22 Units
Year Built: 1948

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