



TUCSON MSA | MULTIFAMILY | 1Q 2017 REPORT

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10+ UNIT PROPERTIES 1Q 2017 INCREASE/DECREASE 1Q 2016

Total Sales Volume \$155M -11% ▼ \$174M

AVERAGE Price/Unit \$42,606 -33% ▼ \$63,765

Price/SF \$68.59 -16% ▼ \$81.83

Year Built 1968 9 yrs ▼ 1977

Average Rent \$796 5.4% ▲ \$755

Occupancy Rate 94.1% -0.2% ▼ 94.3%

Units Delivered 318 90% ▲ 167

1,015,400

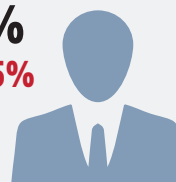
▲ +1.0%

POPULATION

ADOA, ERBC 2015-16 ESTIMATE

4.4%

▼ -0.5%



UNEMPLOYMENT

AS OF MARCH 2017

+0.6%



EMPLOYMENT GROWTH

Y-O-Y AS OF MARCH 2017

\$46,162

NO CHANGE

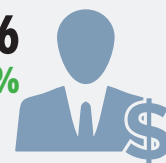


MEDIAN HH INCOME

2014-5 ACS 5-YR EST

\$38,536

▲ +2.1%



PER CAPITA INCOME

2014-15 EBRC, DOA, BEA ESTIMATE

282

Units (50+)



UNDER CONSTRUCTION

YARDI

117,885

Units (10+)



TOTAL INVENTORY

AS OF 1Q 2017

ABI GEONEWS - TUCSON MSA 1Q 2017 SELECT NEWS

CONTINUED ON PAGE 05



ADP to add 250 jobs in Tucson



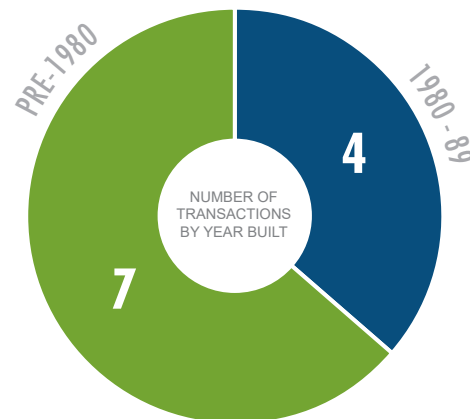
Ernst & Young opening new support center in Downtown Tucson to hire 125



International mining tech firm Hexagon to expand, relocate HQ to downtown Tucson

100+ UNIT PROPERTIES

	1Q 2017	INCREASE/DECREASE	1Q 2016
Total Sales Volume	\$127M	-21% ▼	\$159M
AVERAGE Price/Unit	\$44,556	-35% ▼	\$68,583
AVERAGE Price/SF	\$70.95	-18% ▼	\$86.48
AVERAGE Year Built	1977	16 yrs ▼	1993



TOP 3 TRANSACTIONS BY PRICE/UNIT (100+)



Enclave at the Foothills

Tucson, 300 Units | \$21,800,000
\$72,667/Unit | \$83.53/SF | Built 1986



La Entrada

Tucson, 252 Units | \$17,500,000
\$69,444/Unit | \$76.50/SF | Built 1984, 2005



Casa Loma

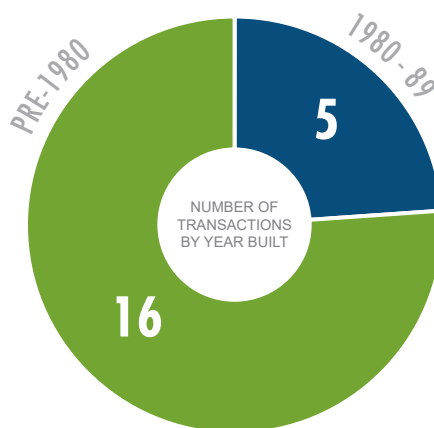
Tucson, 135 Units | \$6,525,000
\$48,333/Unit | \$61.51/SF | Built 1972

1Q 2017 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	N/A	N/A	N/A
2000-09	N/A	N/A	N/A
1990-99	N/A	N/A	N/A
1980-89	4	\$60K	\$73
Pre-1980	7	\$37K	\$69

10 - 99 UNIT PROPERTIES

	1Q 2017	INCREASE/DECREASE	1Q 2017
Total Sales Volume	\$29M	89% ▲	\$15M
AVERAGE Price/Unit	\$35,703	-3% ▼	\$36,744
AVERAGE Price/SF	\$59.81	14% ▲	\$52.37
AVERAGE Year Built	1963	5 yrs ▼	1968



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



Sierra Pointe

Tucson, 84 Units | \$4,400,000
\$52,381/Unit | \$68.49/SF | Built 1972



Country Club Court

Tucson, 25 Units | \$1,205,000
\$48,200/Unit | \$65.80/SF | Built 1958



Villa Delano

Tucson, 32 Units | \$1,500,000
\$46,875/Unit | \$53.38/SF | Built 1980

 = ABI Multifamily Transaction

1Q 2017 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	N/A	N/A	N/A
2000-09	N/A	N/A	N/A
1990-99	N/A	N/A	N/A
1980-89	5	\$35K	\$67
Pre-1980	16	\$36K	\$57

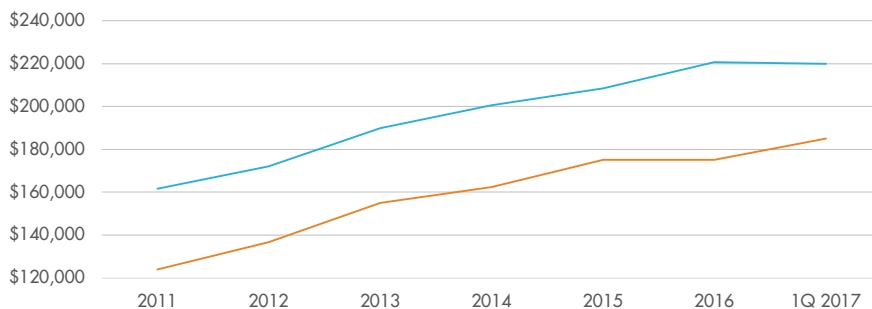
SINGLE FAMILY RESIDENTIAL - FOR SALE/LEASE

AVG SALES PRICE \$219,904

+5%, YEAR-OVER-YEAR AVERAGE

MEDIAN SALES PRICE \$185,000

+9%, YEAR-OVER-YEAR AVERAGE



SFR SALES TRENDS

MONTHLY SALES 3,972

+12%, YEAR-OVER-YEAR

AVG DAYS ON MARKET 49

-20 DAYS, YEAR-OVER-YEAR

ABSORPTION RATE 4.04

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

SFR - FOR LEASE

1Q 2017

Median Lease: \$1,095

Average Lease: \$1,144

Avg. Days on Market: 43

1Q 2016

Median Lease: \$1,075

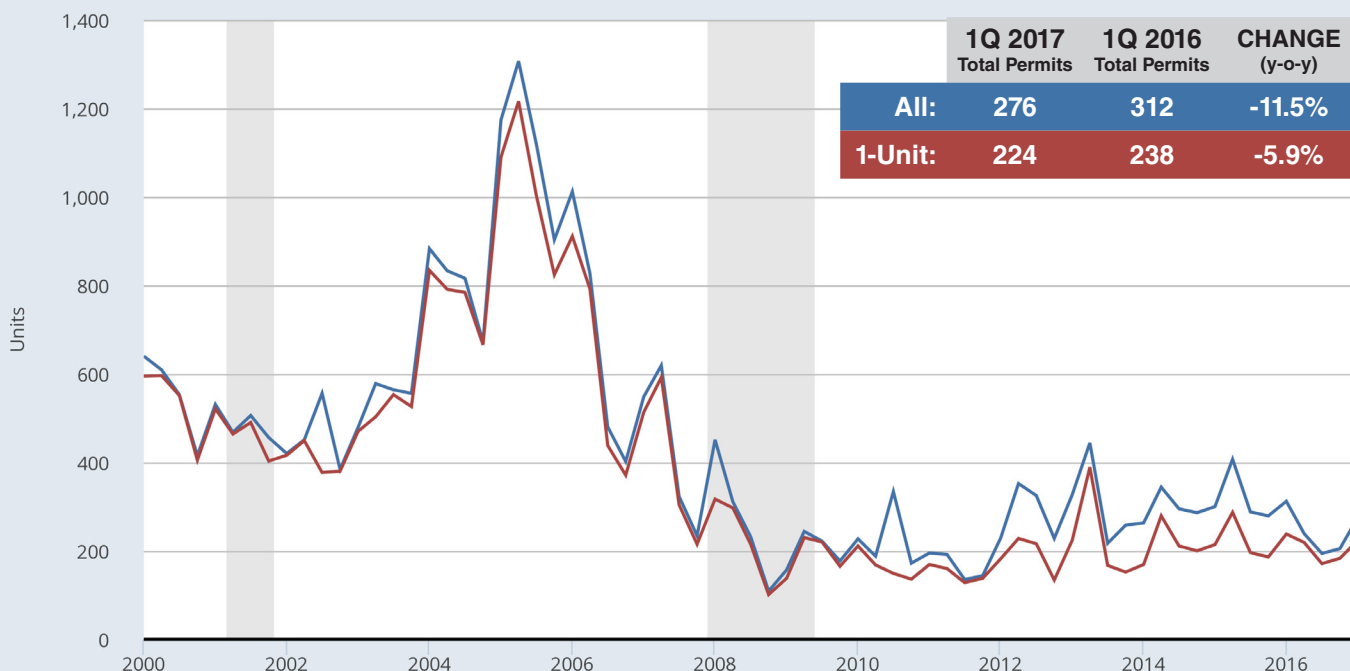
Average Lease: \$1,127

Avg. Days on Market: 48

HOUSING PERMIT DATA - SFR/MF *

FRED

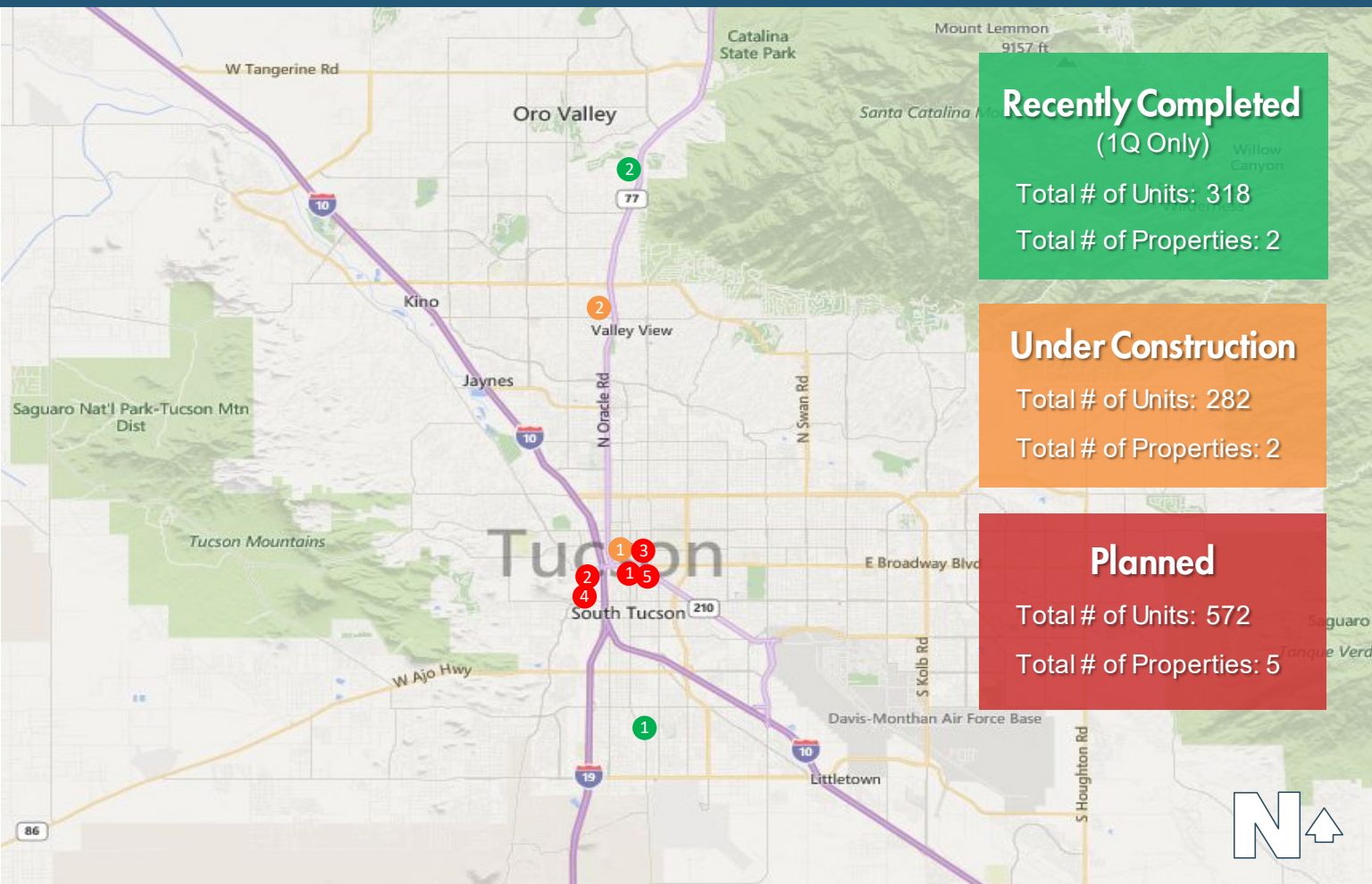
— New Private Housing Units Authorized by Building Permits for Tucson, AZ (MSA)
— New Private Housing Units Authorized by Building Permits: 1-Unit Structures for Tucson, AZ (MSA)



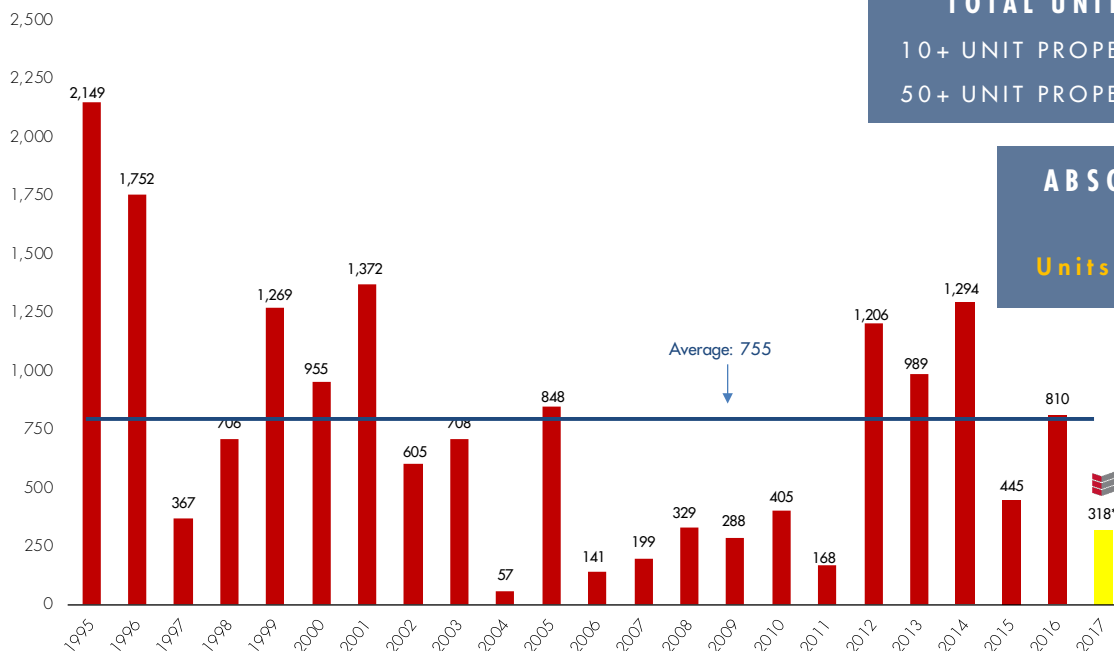
* Quarterly Average permitted units from 2000 to YTD (FRED)

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COMPLETED CONSTRUCTION



TUCSON MULTIFAMILY CONSTRUCTION PIPELINE | 1Q 2017



TOTAL UNIT INVENTORY

10+ UNIT PROPERTIES: 117,885

50+ UNIT PROPERTIES: 66,093

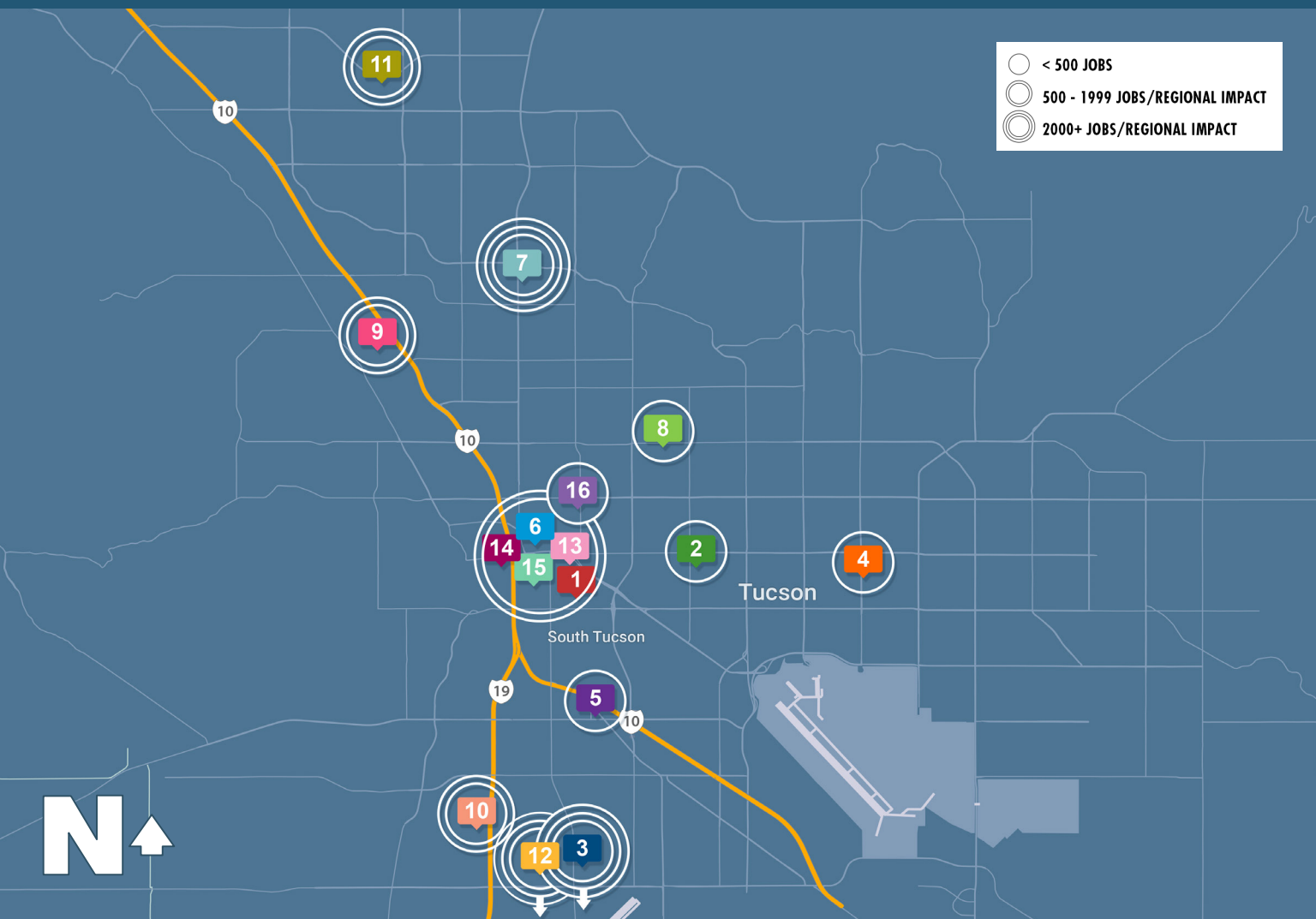
ABSORPTION RATE

12

Units/Property (Avg)

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

1Q 2017 SELECT NEWS



1 Vector Space Systems | Vector Space Systems unveils new satellite launcher rocket

2 Alorica | Call center operator, Alorica, adding 200 jobs in Tucson

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

4 ADP | ADP to add 250 jobs in Tucson

5 Dave & Busters | Dave & Buster's hiring 230 for first Tucson eatery

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

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

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

9 Convergys | Convergys plans to hire 500 in Tucson

10 C3 | Call-center operator C3 to hire 1,132 in Tucson

11 C3 | Call-center operator C3 to hire 1,132 in Tucson

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

13 Two hotels announced for Downtown Tucson, including a Moxy Hotel

14 Hexagon | International mining tech firm Hexagon to expand, relocate HQ to downtown Tucson

15 Ernst & Young | Ernst & Young opening new support center in Downtown Tucson to hire 125

16 Another Hub student-housing tower to go up near UA campus

By: Thomas M. Brophy, Director of Research

Once upon a time, there was a little girl named Goldilocks. She went for a walk in the forest. Pretty soon, she came upon a house. She knocked and, when no one answered, she walked right in.

At the table in the kitchen, there were three bowls of porridge. Goldilocks was hungry. She tasted the porridge from the first bowl. "This porridge is too hot!" she exclaimed.

So, she tasted the porridge from the second bowl. "This porridge is too cold," she said.

So, she tasted the last bowl of porridge. "Ahhh, this porridge is just right," she said happily and she ate it all up.

-The Story of Goldilocks and the Three Bears by Robert Southey

As was stated in our YE 2016 report, the Tucson MSA multifamily market, after years of general stagnancy following the Great Recession, saw renewed investor interest starting in 2016. According to Elliott D. Pollack & Company, Tucson MSA's jobs were up 0.6% y-o-y and are up 0.5% year-to-date. Additionally, the type of new jobs being created/announced in the Tucson MSA has continued to evolve. In fact, Tucson recently made it onto WalletHub's 2017 Best Places to Find a Job (<https://wallethub.com/edu/best-cities-for-jobs/2173/>) at #102 (of 150).

Notwithstanding Tucson's sizeable 2,000+ call center job announcements from 2016 through YTD; in 1Q 2017, international mining tech firm, Hexagon, announced its plans to expand and relocate its headquarters to Downtown Tucson joining Caterpillar who announced plans to move there in 2016. Other major job/economic announcements, and referenced on the map on Page 5 of this report, include: ADP's plans to add 250 jobs to the area, Ernst & Young will be hiring 125 as it opens a new support center in Downtown Tucson and Tucson-based Vector Space Systems broke ground on a new facility in the Pima County Aerospace Park and debuted 'the world's smallest satellite launcher rocket,' after raising \$5M in funding.

Tucson Market Metrics: By the Numbers

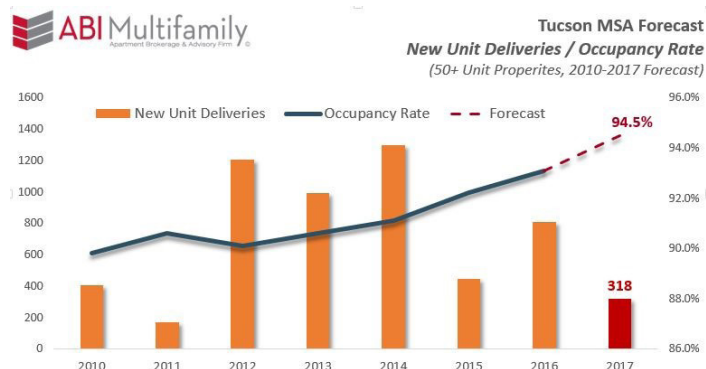
The MSA's total sales volume (10+ unit properties) decreased (11%), year-over-year, to \$155M. Although total sales volume decreased, the total number of transactions and units purchased increased, 20% and 33% respectively, to 32 total transactions representing 3,646 units. Additionally, average year built for all projects purchased witnessed a steep decline of 9 years to 1968. Considering that both 10 to 99 and 100+ unit properties saw large average year built contractions with steep rises in amount of units purchased would suggest investors are switching to more value add, i.e. renovation, strategies to increase overall project value.

Nearly 32% of all units sold during 1Q were purchased by New York-based Dasmen Residential who acquired Omninet Capital's 1,166 unit, 4-property portfolio. California-based investors were #2 with 986 total units purchased, Arizona investors were #3 with 627 units followed by Washington DC and Illinois-based investors with 318 and 199 units purchased respectively.

The 10 to 99 unit properties witnessed the most dramatic percentage increase in sales volume, as well as units transacted, rising 89% y-o-y to \$28.7M and 94% to 803 units transacted. Conversely, 10 to 99 unit properties saw y-o-y sales price per unit amounts contract a nominal (3%) to \$35,703 with average age of the property dropping 5 years to 1963. Although 100+ unit properties saw a significant decrease in total sales volume down (21%) y-o-y to \$126.7M, the 100+ unit properties witnessed a 22% increase in total units transacted to 2,843 units with a steep, 16 year, drop in average year built to 1977.

So Little Construction

In regards to new construction, Tucson MSA had 318 new units delivered by the end of the 1Q, 90% y-o-y increase. Despite near term elevated construction delivery schedules, average rent for the MSA increased 5.4% to \$796 while experiencing a mild occupancy rate contraction of (0.2%) to 94.1%. It should be noted that Tucson has a very limited supply of new multifamily projects under construction; Tucson, looking forward, is now at a 5-year low for new units coming online. In fact, our projections show no new 'market rate' units will be delivered (50+ unit properties in size) to the market until the end of 2018. As such, we're anticipating both Rent and Occupancy Rates to hit market highs of \$806 and 94.5% respectively by the end of the year.



The Road Ahead

As stated in our 2017 Market Forecast, it is unlikely the Fed will continue with its gradual interest rate increase in 2017 despite many economists predicting otherwise. Basis for this sentiment is rooted in weak preliminary 1Q GDP which at 0.7% growth is the slowest in three years, significant instability in international markets, particularly Europe and Asia, and domestic policy struggles of the new Trump Administration. Despite stocks hitting all-time highs, based in large part on investors factoring in massive deregulation, markets the world over have been prone to ever increasing volatility fits.

As a result of high market volatility, and both ancillary observed evidence within our client base and Investment Company Institute's *Investment Company Fact Book* publication, middle age-to-older market investors have been switching to a combination of passive ETF funds, a now decade-long trend, and purchasing a mix of closed-fund shares and/or direct investments in real estate to provide a more consistent return. This change in investor sentiment, *ceteris paribus*, will continue to propel real estate transactions, particularly multifamily, into the foreseeable future.

With many of the larger western MSA's reaching, and exceeding, previous peak price per unit amounts has caused investors, on the hunt for higher yield/CAP rates, to look to qualified secondary and tertiary markets. Tucson which saw tremendous economic and job announcement activity through 1Q 2017, and with little in the development pipeline, is fast becoming the 'go-to' secondary market for multifamily investors. Given Tucson's now 5-year low for projected new unit deliveries and with economic and job prospects at, or nearing, 7 year highs lays the foundation for a market not witnessed by Tucson investors in at least a generation, if ever. The confluence of these two conditions will continue to shape the Tucson multifamily market well into the latter half of 2018 as new units will be brought online. Until that time both, and barring any Black Swan events, Occupancy Rates and Rents should continue to reach all-time highs and make Tucson one of the more active secondary markets in the county.

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SELECT CURRENT LISTINGS



EASTPOINTE APARTMENTS

8477 East Broadway Boulevard,
Tucson, AZ

Price: \$2,195,000
Units: 49 Units
Year Built: 1981
Remodeled: 2016



DREXEL GARDENS/DREXEL TERRACE

1301 & 1356-1360 East Drexel Road,
Tucson, AZ

Portfolio Price: \$2,060,000
Units: 47 Units
Year Built: 1983/84



SARNOFF & 22ND LAND

1149 South Sarnoff Drive,
Tucson, AZ

Price: \$450,000
2.06 Acres



TUCSON 55 PORTFOLIO

2015 East Benson Highway,
Tucson, AZ

Portfolio Price: \$1,400,000
Units: 55 Units
Year Built: 1948-1976

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