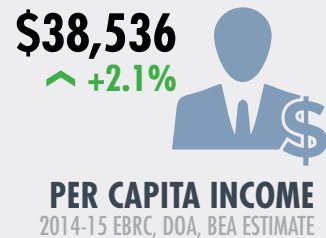
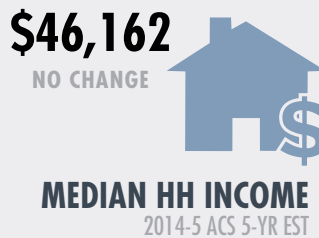
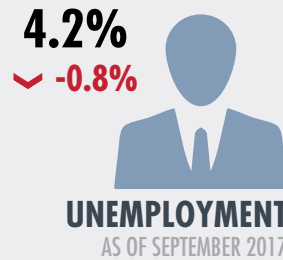


## TUCSON MSA | MULTIFAMILY | 3Q 2017 REPORT

TUCSON MSA OVERVIEW	01
MULTIFAMILY PROPERTY ANALYSIS: 100+ & 10-99 UNITS	02
SINGLE FAMILY RESIDENTIAL STATS & HOUSING PERMIT DATA	03
COMPLETED CONSTRUCTION & PLANNED PROJECTS	04
3Q 2017 SELECT NEWS	05
ABInsight® TUCSON MSA: SMALL CAP MULTIFAMILY DEEP DIVE	06
ABI COMPARATIVE MARKET REVIEW: 3Q 2017	07

10+ UNIT PROPERTIES		3Q 2017	INCREASE/DECREASE	3Q 2016
<b>Total Sales Volume</b>		<b>\$249M</b>	<b>+94%</b>	<b>\$128M</b>
A V E R A G E	<b>Price/Unit</b>	<b>\$66,229</b>	<b>+30%</b>	<b>\$50,755</b>
	<b>Price/SF</b>	<b>\$89.40</b>	<b>+29%</b>	<b>\$69.26</b>
	<b>Year Built</b>	<b>1976</b>	<b>-3 yrs</b>	<b>1979</b>
10+	<b>Average Rent</b>	<b>\$808</b>	<b>4.9%</b>	<b>\$770</b>
	<b>Occupancy Rate</b>	<b>94.2%</b>	<b>-0.1%</b>	<b>94.3%</b>
	<b>Units Delivered</b>	<b>N/A</b>	<b>N/A</b>	<b>104</b>



### ABI GEONEWS - TUCSON MSA 3Q 2017 SELECT NEWS

CONTINUED ON PAGE 05



TuSimple, developer of self-driving technology for semi-trucks, arrives in Tucson



Town of Sahuarita awarded \$3 million Federal Grant for Tech Center Development

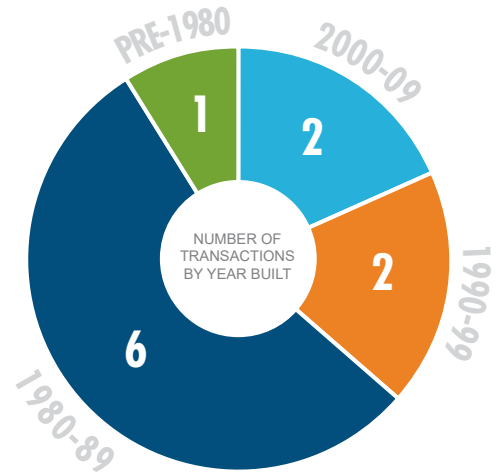


Downtown Links, decades in the making, not far from construction



# 100+ UNIT PROPERTIES

	3Q 2017	INCREASE/DECREASE	3Q 2016
<b>Total Sales Volume</b>	<b>\$195M</b>	<b>+77%</b>	<b>\$110M</b>
<b>AVERAGE Price/Unit</b>	<b>\$73,932</b>	<b>+38%</b>	<b>\$53,423</b>
<b>AVERAGE Price/SF</b>	<b>\$95.66</b>	<b>+30%</b>	<b>\$73.77</b>
<b>AVERAGE Year Built</b>	<b>1990</b>	<b>2 yrs</b>	<b>1988</b>



## TOP 3 TRANSACTIONS BY PRICE/UNIT (100+)



### The Condominium at Williams Centre (Fractured Condo)

Tucson, 260 Units | \$32,217,555  
\$123,914/Unit | \$131.76/SF | Built 1996

### Mission Palms

Tucson, 360 Units | \$37,250,000  
\$103,472/Unit | \$99.89/SF | Built 1979

### Crescent Ridge

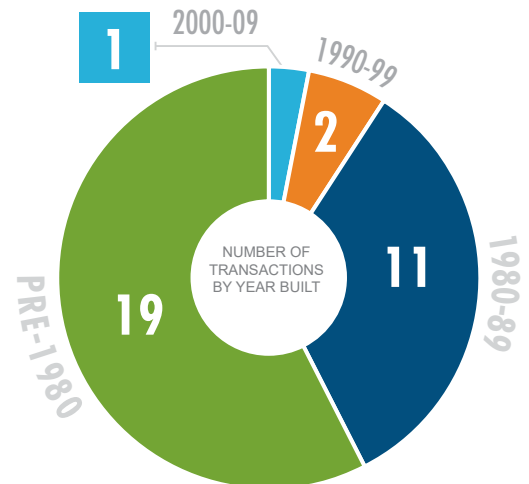
Tucson, 272 Units | \$23,515,216  
\$86,453/Unit | \$104.96/SF | Built 2002/08

## 3Q 2017 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	0	N/A	N/A
2000-09	2	\$86K	\$100
1990-99	2	\$87K	\$104
1980-89	6	\$50K	\$84
Pre-1980	1	\$103K	\$100

# 10 - 99 UNIT PROPERTIES

	3Q 2017	INCREASE/DECREASE	3Q 2016
<b>Total Sales Volume</b>	<b>\$54M</b>	<b>+189%</b>	<b>\$19M</b>
<b>AVERAGE Price/Unit</b>	<b>\$48,191</b>	<b>+22%</b>	<b>\$39,349</b>
<b>AVERAGE Price/SF</b>	<b>\$72.79</b>	<b>+43%</b>	<b>\$50.99</b>
<b>AVERAGE Year Built</b>	<b>1971</b>	<b>-1 yr</b>	<b>1972</b>



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



### Regal Manor

Tucson, 11 Units | \$1,400,000  
\$127,273/Unit | \$46.94/SF | Built 1981

### 1412 - 1414 North 1st Avenue (Student Housing)

Tucson, 17 Units | \$1,500,000  
\$88,235/Unit | \$300.00/SF | Built 1948

### Pastime Apartments

Tucson, 12 Units | \$940,000  
\$78,333/Unit | \$81.34/SF | Built 1999

## 3Q 2017 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	0	N/A	N/A
2000-09	1	\$69K	\$77
1990-99	2	\$77K	\$83
1980-89	11	\$50K	\$81
Pre-1980	19	\$46K	\$68

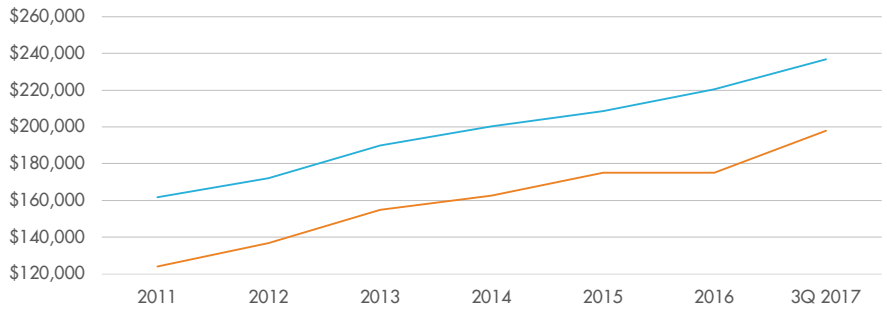
# SINGLE FAMILY RESIDENTIAL - FOR SALE/LEASE

**AVG SALES PRICE \$236,954**

+15%, YEAR-OVER-YEAR AVERAGE

**MEDIAN SALES PRICE \$198,000**

+13%, YEAR-OVER-YEAR AVERAGE



## SFR SALES TRENDS

**TOTAL YTD SALES 1,457**

-16%, YEAR-OVER-YEAR

**AVG DAYS ON MARKET 58**

-8 DAYS, YEAR-OVER-YEAR

**ABSORPTION RATE 3.63**

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

## SFR - FOR LEASE

**3Q 2017**

Median Lease: \$1,195

Average Lease: \$1,259

Avg. Days on Market: 35

**3Q 2016**

Median Lease: \$1,100

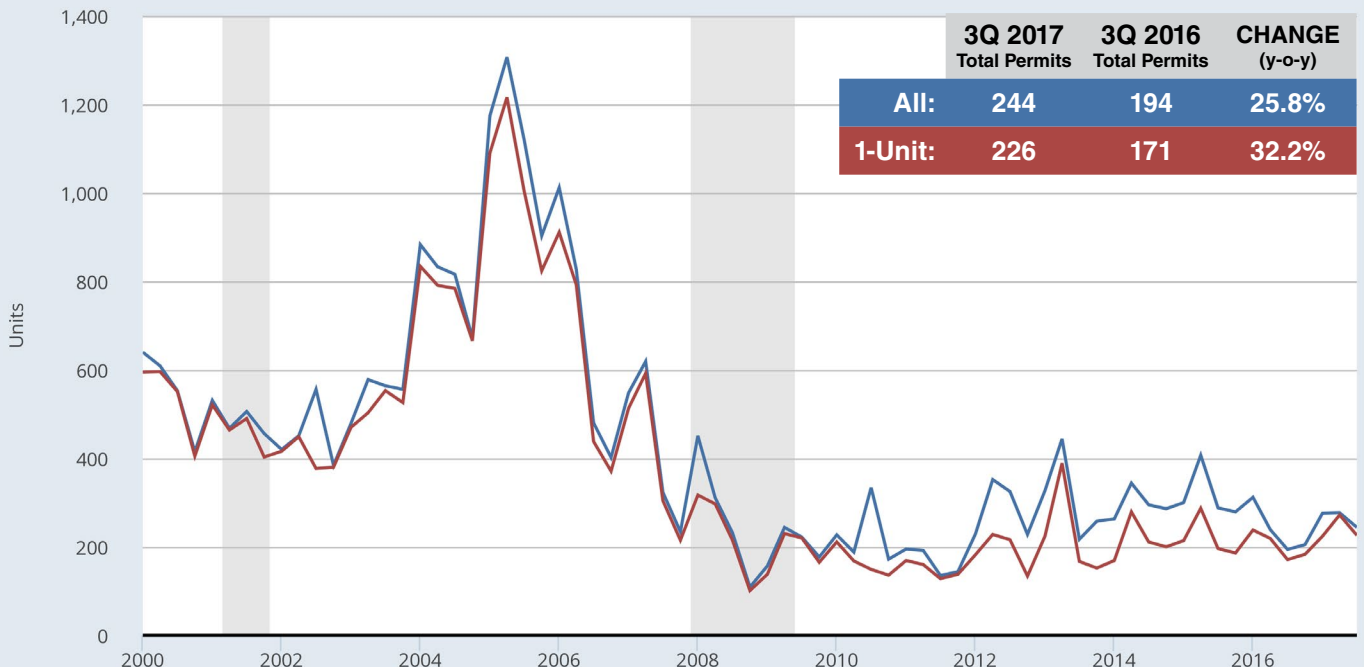
Average Lease: \$1,201

Avg. Days on Market: 35

## HOUSING PERMIT DATA - SFR/MF \*

**FRED**

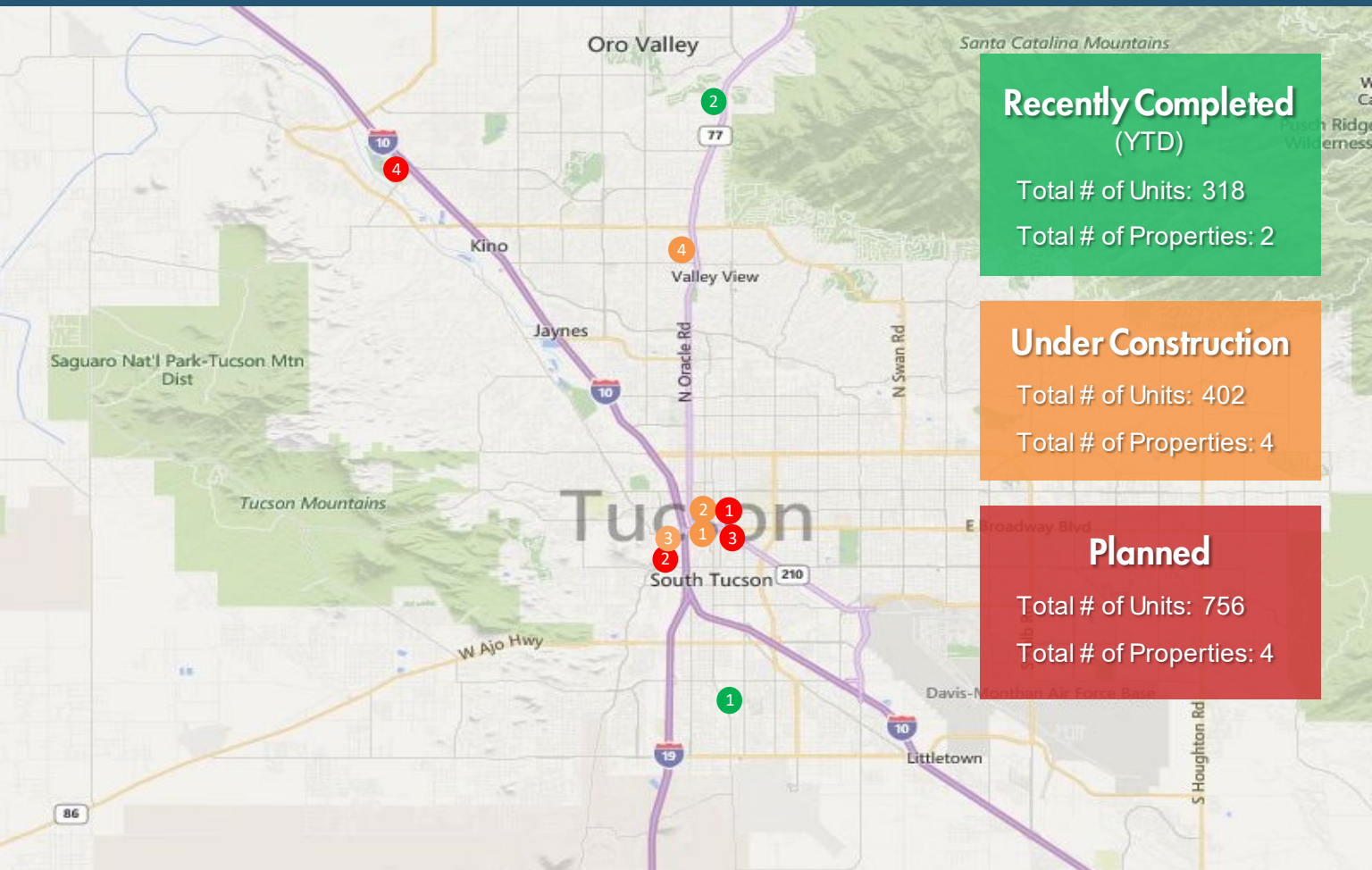
— New Private Housing Units Authorized by Building Permits for Tucson, AZ (MSA)  
 — New Private Housing Units Authorized by Building Permits: 1-Unit Structures for Tucson, AZ (MSA)



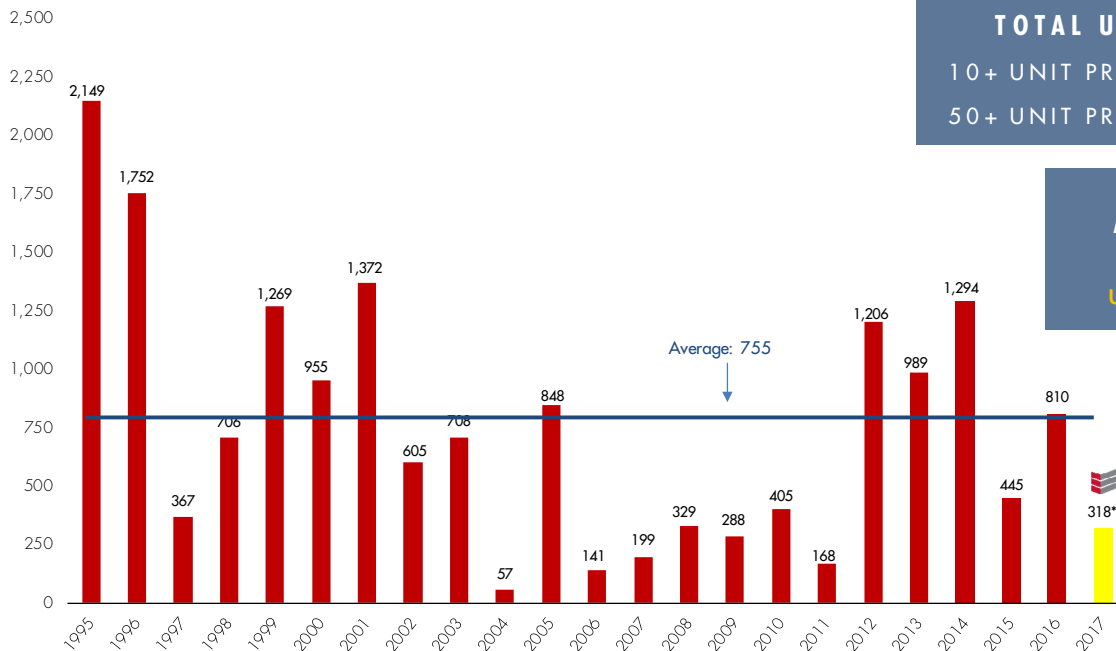
\* Quarterly Total "End of Period" permitted units from 2000 to YTD (FRED)

ABI Research / FRED® COPYRIGHT 2017

# COMPLETED CONSTRUCTION



## TUCSON MULTIFAMILY CONSTRUCTION PIPELINE | 3Q 2017

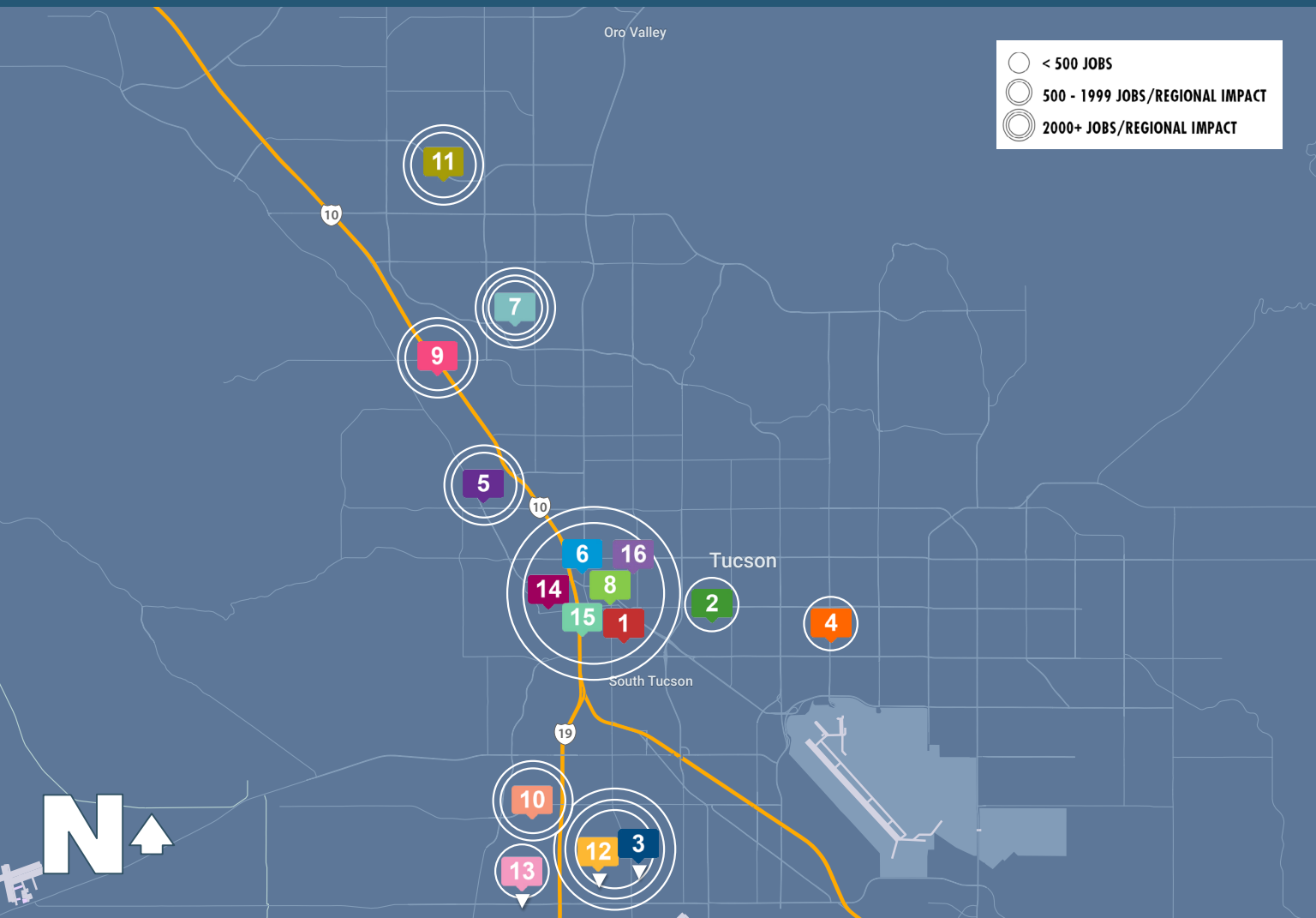


**TOTAL UNIT INVENTORY**  
 10+ UNIT PROPERTIES: 117,885  
 50+ UNIT PROPERTIES: 66,093

**PRE-LEASE ABSORPTION RATE**  
**N/A**  
 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

# 3Q 2017 SELECT NEWS



- < 500 JOBS
- 500 - 1999 JOBS/REGIONAL IMPACT
- 2000+ JOBS/REGIONAL IMPACT

- |   |  |
|---|--|
| <p><b>1</b> Vector Space Systems   Vector Space Systems unveils new satellite launcher rocket</p> <p><b>2</b> Alorica   Call center operator, Alorica, adding 200 jobs in Tucson</p> <p><b>3</b> Raytheon   Raytheon confirms plans to add 2,000 Tucson jobs</p> <p><b>4</b> ADP   ADP to add 250 jobs in Tucson</p> <p><b>5</b> TuSimple, developer of self-driving technology for semi-trucks, arrives in Tucson</p> <p><b>6</b> Caterpillar Inc.   Caterpillar Inc. bringing regional HQ to downtown Tucson, 600 jobs</p> <p><b>7</b> Comcast   Comcast marks grand opening of Tucson call center (brings 1,000 jobs to the area)</p> <p><b>8</b> Downtown Links, decades in the making, not far from construction</p> | <p><b>9</b> Convergys   Convergys plans to hire 500 in Tucson</p> <p><b>10</b> C3   Call-center operator C3 to hire 1,132 in Tucson</p> <p><b>11</b> C3   Call-center operator C3 to hire 1,132 in Tucson</p> <p><b>12</b> SpacePort   Pima County marks completion of World View HQ, SpacePort</p> <p><b>13</b> Town of Sahuarita awarded \$3 million Federal Grant for Tech Center Development</p> <p><b>14</b> Hexagon   International mining tech firm Hexagon to expand, relocate HQ to downtown Tucson</p> <p><b>15</b> Ernst &amp; Young   Ernst &amp; Young opening new support center in Downtown Tucson to hire 125</p> <p><b>16</b> UA   University of Arizona, hiring 750. The university is adding positions in Tucson ranging from counselors to research assistants</p> |
|---|--|

BY: THOMAS M. BROPHY, DIRECTOR OF RESEARCH

Before we begin, I would like to start by defining Institutional, or Investment, Grade and Small CAP multifamily investments. It should be noted that most of what you read, hear and see in the news regarding multifamily investments revolves around properties 50+ units in size, often called ‘Institutional Grade.’ In addition to size, most Institutional Grade investments are purchased by commercial real estate professionals/firms (REITs, Hedge Funds etc.), have set funding/acquisition amounts and are professionally managed, either by a 3rd party or internally. Small-to-Mid-Size, also called ‘Small CAP,’ properties are typically 5 to 49 units in size, can be, but not necessarily, 3rd party managed and typically involves an individual, couples or groups of individuals pooling money for the purchase of an asset with one, or more, designated as managers of the project. *(Continued)*

## TUCSON MARKET METRICS: BY THE NUMBERS

The MSA’s total sales volume (10+ unit properties) increased 94%, year-over-year, to \$248.7M across 44 transactions representing 3,756 total units sold. California-based investors, led by The Bascom Group’s Southern Arizona portfolio purchase of 810 units, continue to be the dominant buyer of multifamily properties in the Tucson MSA accounting for 36% of total units transacted, or 1,362 units, a 2% increase quarter-over-quarter. Arizona-based investors came in 2nd with a little under 700 units and rounding out the top five: (#3) Illinois-investors with 608 units purchased, (#3) Colorado-based investors with 485 units and (#5) Florida-based investors with 360 units.

Sales of 100+ unit properties increased 77% y-o-y to \$194.6M as a direct result of larger, more institutional investors entering/re-entering the market. Additionally average price per unit amount increased 38% to \$73,932. 10 to 99 unit properties witnessed a staggering 189% y-o-y increase to \$54.2M with a surge of 22% in average price-per-unit amounts to \$48,191. Price volumes on smaller sized properties continue to increase due, in large part, to continuing job growth estimated at 1.8% for the quarter.

The Tucson MSA did not have any new inventory come online in 3Q. In fact, Tucson will not see any new construction deliveries until mid-to-late 2018, aside from smaller affordable housing developments. Despite a minor (0.1%) Occupancy Rate contraction to 94.2%, Tucson’s Occupancy Rate is projected to increase to 95% by year end. Average rent continued to rise increasing 4.9% y-o-y to \$808.

## SMALL CAP DEEP DIVE

As can be referenced in the chart, sales volume thru 3Q 2017 in Tucson Small CAP multifamily hit a record \$81.4M. In fact, Tucson Small CAP is expected to crest \$100M in total sales volume, easily beating 2016’s year-end \$52.4M total. Beginning in 2016, as investors began looking to qualified secondary markets for additional yield, interest in the smaller multifamily projects in Tucson, as well as Phoenix, began to skyrocket with sales volume increasing some 346% since 2015. The bulk of the purchases made during this time period were heavily concentrated in the Central Tucson/University and East Central Tucson submarkets.

Whereas the bulk of Tucson MSA multifamily purchases can be traced to California-based investors, Small CAP properties continue to be dominated by Arizona-based investment groups. By 3Q 2017, there was a total of 34 separate ownership groups/individuals who purchased Small CAP multifamily properties in the Tucson MSA. Of those 34, approx. 70%, or 24, were first time Tucson area apartment owners, up 10% from the previous year. For 3Q 2017 aggregate total debt for all Small CAP sales hit \$14.6M which translates to an average LTV (Loan-to-Value) of 54% for the Metro which marks a fairly significant increase over 3Q 2016’s 21% average LTV rate but still well below historical averages.

## FINAL THOUGHTS

I personally believe that the changes we are seeing in both the Tucson and Phoenix Small

CAP and Institutional Grade multifamily market, and that of the Western US as a whole, are in many ways indicative of the greater market forces at play. Specifically, given the dramatic drop in R-star, natural rate of interest, has forced investors to hunt for yield which, whether witting or unwittingly, has led investors to take on ever increasing amounts of risk. Examples of growing investor exposure to risk include, but are not limited to, the rise of Cov-lite (covenant lite) corporate bonds, i.e. Tesla, to absurd government debt offerings, i.e. Austria’s 100 year bond, 2.116% yield that’s 3x oversubscribed, to central banker direct purchase of equities. The net result, investors have traded extra duration for more yield which, if you’re playing in the bond market, can be catastrophic if everyone is wrong on inflation and it spikes to the upside.

Given our new investment market ‘normal,’ should continue to propel more investors into the apartment real estate market due, in large part, to attractive cash flows and inherent hedge against inflation. I’ll end with a question I first posed in the article, “The Flight to Safety Part 2 (of 2) – Multifamily, Stability Against the Storm.” Suppose real estate return rates mean revert to average historical level of 3.8%, across the board, and average rental rates soften to 2%+, contingent upon market; ceteris paribus, where else are you going to find a better return? Investors are slowly beginning to wake up to this new market reality and, my best guess without the benefit of a future indicating magical crystal ball, is that multifamily is where they will want to be.

Tucson MSA  
Small CAP Multifamily Analysis (5 to 49 Units)



# ABI COMPARATIVE MARKET REVIEW: 3Q 2017



**TUCSON**

**PHOENIX**

**SAN DIEGO**

DEMOGRAPHICS

RENT/OCC/CONST (50+)

SALES (50+)

<b>Total Population</b>	1,015,400	4,550,388	3,299,521
<b>Unemployment Rate</b> (as of Sept '17)	4.2%	4.0%	4.1%
<b>Employment Growth</b> (y-o-y)	1.8%	2.7%	1.1%
<b>Median HH Income</b>	\$46,162	\$54,229	\$64,309
<b>Per Capita Income</b>	\$38,536	\$40,811	\$31,266
<b>Rent</b> (3Q 2017)	\$808	\$996	\$1,817
% Increase / Decrease	+4.9%	+3.4%	+3.5%
<b>Occupancy</b> (3Q 2017)	94.2%	94.8%	96.3%
% Increase / Decrease	-0.1%	-0.3%	-0.7%
<b>Total Inventory</b>	67,093	297,621	177,477
<b>Total Under Construction</b>	402	17,360	9,562
<b>Units Delivered</b> (3Q 2017 Only)	N/A	2,598	983
<b>Total Sales Volume</b> (3Q 2017)	\$229M	\$1.4B	\$482M
y-o-y % Increase / Decrease	+97%	+15%	+86%
<b>Average P/U</b> (3Q 2017)	\$67,949	\$122,596	\$271,958
y-o-y % Increase / Decrease	+32%	+21%	+5%

## LEADING MULTIFAMILY BROKERAGE TEAM IN THE WESTERN US

OVER 200 YEARS OF COMBINED MULTIFAMILY BROKERAGE EXPERIENCE  
SEASONED ADVISORS WITH REGIONAL INSIGHT  
COLLABORATION & COOPERATION

### NOTABLE RECENT ABI MULTIFAMILY TRANSACTIONS



#### VILLA PACIFICA

4650 East 29th Street,  
Tucson, AZ

Sold Price: \$7,282,500  
Units: 176 Units  
Year Built: 1986

#### VILLA DELANO

123 West Delano Street,  
Tucson, AZ

Sold Price: \$1,850,000  
Units: 32 Units  
Year Built: 1980

#### DREXEL GARDENS/DREXEL TERRACE

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

Sold Price: \$1,650,000  
Units: 47 Units  
Year Built: 1983/84

#### TUCSON 55 PORTFOLIO

2015 East Benson Highway,  
Tucson, AZ

Sold Price: \$1,347,500  
Units: 55 Units  
Year Built: 1948-1976

## APARTMENT BROKERAGE & ADVISORY FIRM

ABI Multifamily is a brokerage and advisory services firm that focuses exclusively on apartment investment transactions. The experienced advisors at ABI Multifamily have completed billions of dollars in sales and thousands of individual multifamily transactions.

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