

## TUCSON MSA | MULTIFAMILY | 2Q 2018 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
2Q 2018 SELECT NEWS - TUCSON MSA	05
ABInsight® TUCSON MSA: 2Q 2018 THE MARKET'S LATERAL LINE	06-07
ABI COMPARATIVE MARKET REVIEW: 2Q 2018	08

10+ UNIT PROPERTIES	2Q 2018	INCREASE/DECREASE	2Q 2017
<b>Total Sales Volume</b>	<b>\$273M</b>	<b>+61%</b>	<b>\$169M</b>
<b>AVERAGE</b>	<b>Price/Unit</b>	<b>+12%</b>	<b>\$74,384</b>
	<b>Price/SF</b>	<b>+8%</b>	<b>\$102.88</b>
	<b>Year Built</b>	<b>+7 yrs</b>	<b>1969</b>
<b>Average Rent</b>	<b>\$831</b>	<b>+4.1%</b>	<b>\$798</b>
<b>Occupancy Rate</b>	<b>94.5%</b>	<b>+0.1%</b>	<b>94.4%</b>
<b>Units Delivered</b>	<b>N/A</b>	<b>—</b>	<b>N/A</b>

**1,026,099** **POPULATION**  
 ^ +1.3%  
ADOA, ERBC 2017 ESTIMATE

**4.5%**  
 v -0.2%  
  
**UNEMPLOYMENT**  
AS OF JUNE 2018

**+2.1%**  
  
**EMPLOYMENT GROWTH**  
Y-O-Y AS OF JUNE 2018

**\$46,764**  
 ^ +1.3%  
  
**MEDIAN HH INCOME**  
2016 ACS 5-YR EST

**\$39,541**  
 ^ +1.6%  
  
**PER CAPITA INCOME**  
2016 EBRC, DOA, BEA ESTIMATE

### ABI GEONEWS - TUCSON MSA 2Q 2018 SELECT NEWS

CONTINUED ON PAGE 05

Amazon to open giant warehouse in Tucson, plans to hire more than 1,500 people

GEICO to build new corporate office in Tucson, add 700 jobs

TuSimple expands as it readies self-driving truck technology

**853**  
 Units (50+)

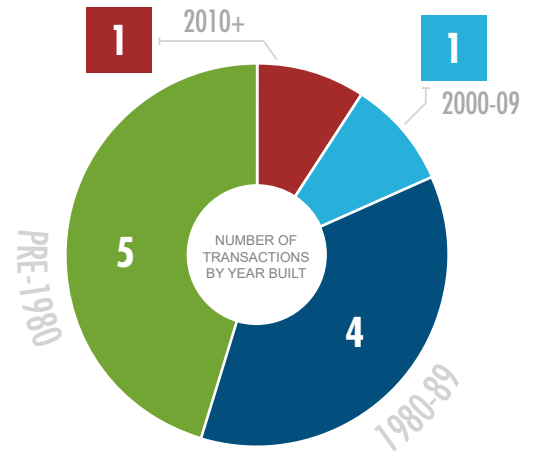
**UNDER CONSTRUCTION**

**117,885**  
 Units (10+)

**TOTAL INVENTORY**

# 100+ UNIT PROPERTIES

	2Q 2018	INCREASE/DECREASE	2Q 2017
<b>Total Sales Volume</b>	<b>\$222M</b>	<b>+131%</b>	<b>\$96M</b>
<b>AVERAGE Price/Unit</b>	<b>\$87,060</b>	<b>+7%</b>	<b>\$81,122</b>
<b>AVERAGE Price/SF</b>	<b>\$118.42</b>	<b>+2%</b>	<b>\$116.31</b>
<b>AVERAGE Year Built</b>	<b>1986</b>	<b>+4 yrs</b>	<b>1982</b>



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



**Avilla Sabino Two**  
Tucson, 130 Units | \$30,540,296  
\$234,925/Unit | \$187.79/SF | Built 2016



**University Villa at Ironwood**  
Tucson, 140 Units | \$17,450,000  
\$124,643/Unit | \$96.85/SF | Built 2001



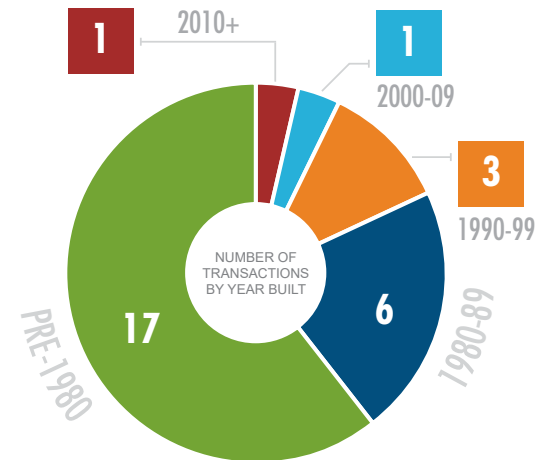
**Casas Lindas**  
Tucson, 144 Units | \$17,650,000  
\$122,569/Unit | \$109.88/SF | Built 1987

## 2Q 2018 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
<b>2010+</b>	<b>1</b>	<b>\$235K</b>	<b>\$188</b>
<b>2000-09</b>	<b>1</b>	<b>\$125K</b>	<b>\$97</b>
<b>1990-99</b>	<b>0</b>	<b>N/A</b>	<b>N/A</b>
<b>1980-89</b>	<b>4</b>	<b>\$76K</b>	<b>\$107</b>
<b>Pre-1980</b>	<b>5</b>	<b>\$77K</b>	<b>\$122</b>

# 10 - 99 UNIT PROPERTIES

	2Q 2018	INCREASE/DECREASE	2Q 2017
<b>Total Sales Volume</b>	<b>\$51M</b>	<b>-31%</b>	<b>\$73M</b>
<b>AVERAGE Price/Unit</b>	<b>\$70,545</b>	<b>+5%</b>	<b>\$67,104</b>
<b>AVERAGE Price/SF</b>	<b>\$89.04</b>	<b>0%</b>	<b>\$89.41</b>
<b>AVERAGE Year Built</b>	<b>1972</b>	<b>+6 yrs</b>	<b>1966</b>



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



**Avilla Sabino One**  
Tucson, 53 Units | \$11,763,704  
\$221,957/Unit | \$202.40/SF | Built 2015



**Riata Court**  
Tucson, 16 Units | \$2,800,000  
\$175,000/Unit | \$189.19/SF | Built 1997



**The Greens at Ventana Canyon**  
Tucson, 20 Units | \$2,697,904  
\$134,895/Unit | \$139.07/SF | Built 1986

## 2Q 2018 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
<b>2010+</b>	<b>1</b>	<b>\$222K</b>	<b>\$202</b>
<b>2000-09</b>	<b>1</b>	<b>\$100K</b>	<b>\$89</b>
<b>1990-99</b>	<b>3</b>	<b>\$69K</b>	<b>\$85</b>
<b>1980-89</b>	<b>6</b>	<b>\$60K</b>	<b>\$83</b>
<b>Pre-1980</b>	<b>17</b>	<b>\$54K</b>	<b>\$71</b>

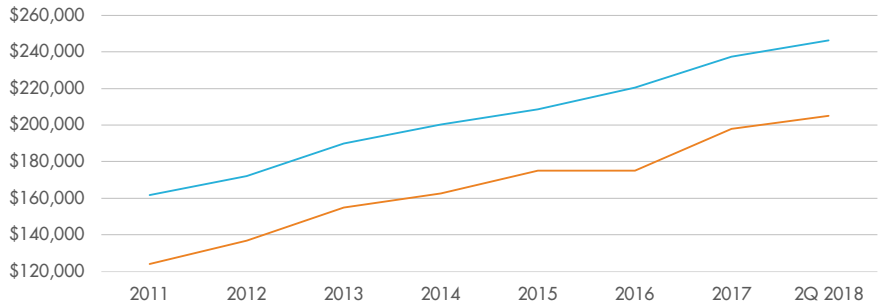
# SINGLE FAMILY RESIDENTIAL - FOR SALE/LEASE

**AVG SALES PRICE \$246,303**

+6%, YEAR-OVER-YEAR AVERAGE

**MEDIAN SALES PRICE \$205,000**

+5%, YEAR-OVER-YEAR AVERAGE



## SFR SALES TRENDS

**TOTAL YTD SALES 8,108**

+3%, YEAR-OVER-YEAR

**AVG DAYS ON MARKET 53**

-8 DAYS, YEAR-OVER-YEAR

**ABSORPTION RATE 3.48**

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

## SFR - FOR LEASE

**2Q 2018**

Average Lease: \$1,277

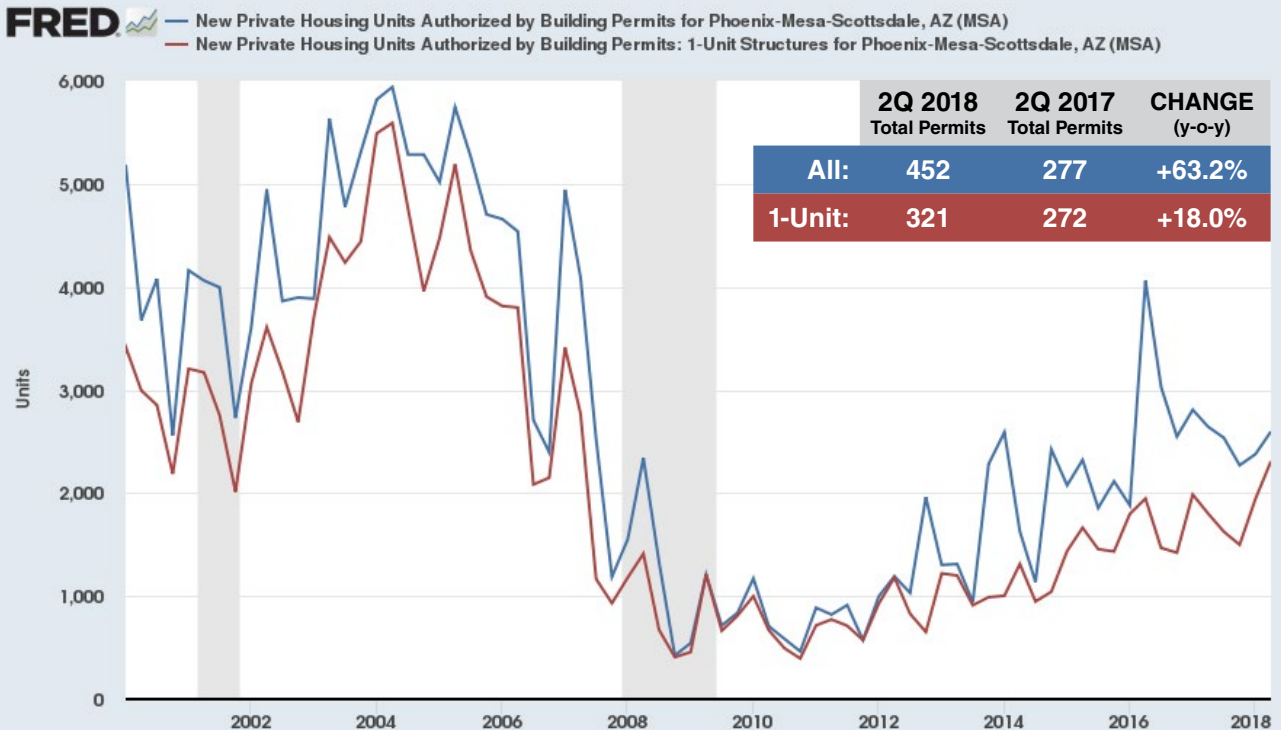
Avg. Days on Market: 23

**2Q 2017**

Average Lease: \$1,214

Avg. Days on Market: 28

## HOUSING PERMIT DATA - SFR/MF \*



Shaded areas indicate U.S. recessions

Source: U.S. Bureau of the Census

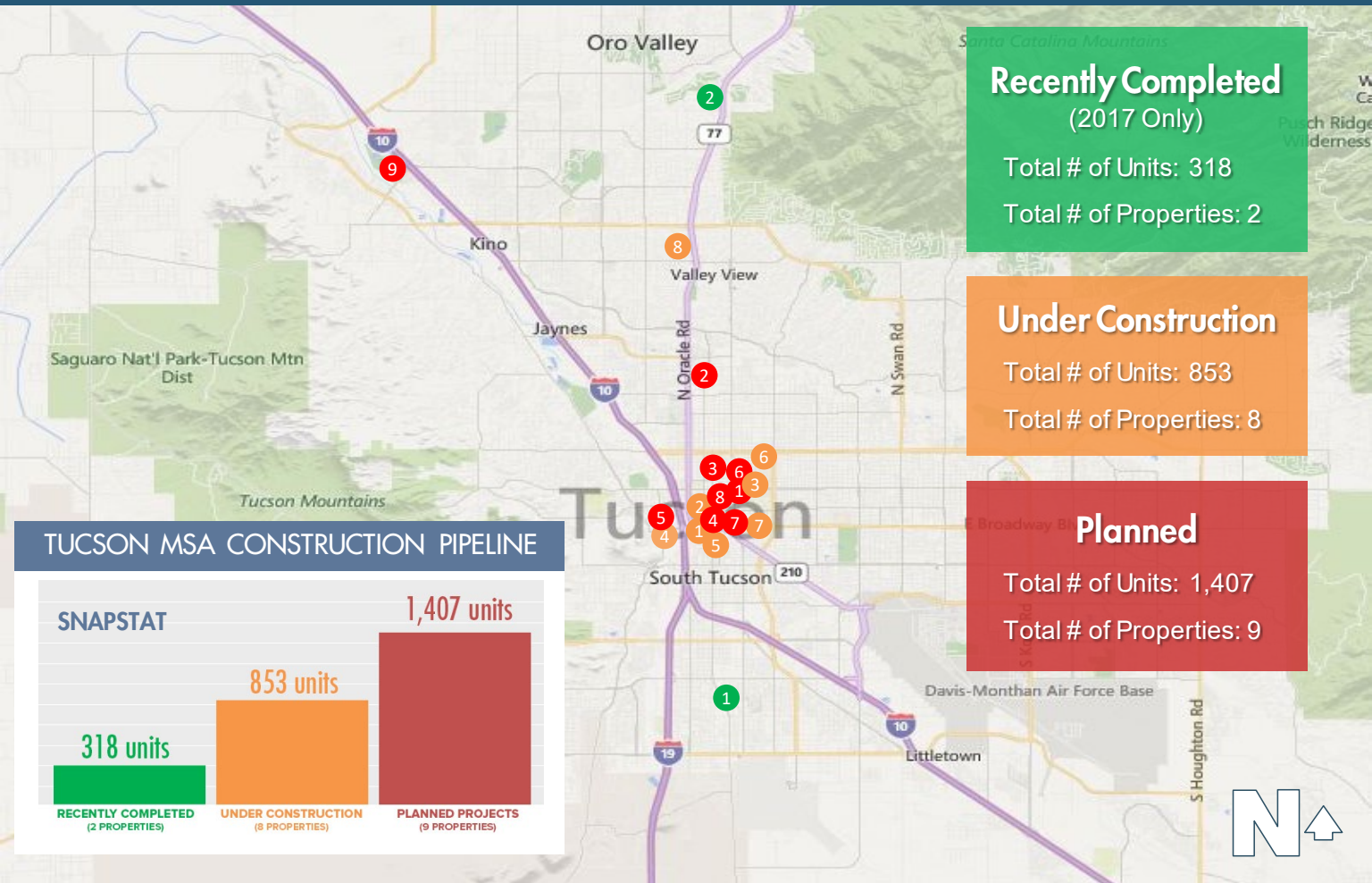
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\* Quarterly Total "End of Period" permitted units from 2000 to YTD (FRED)

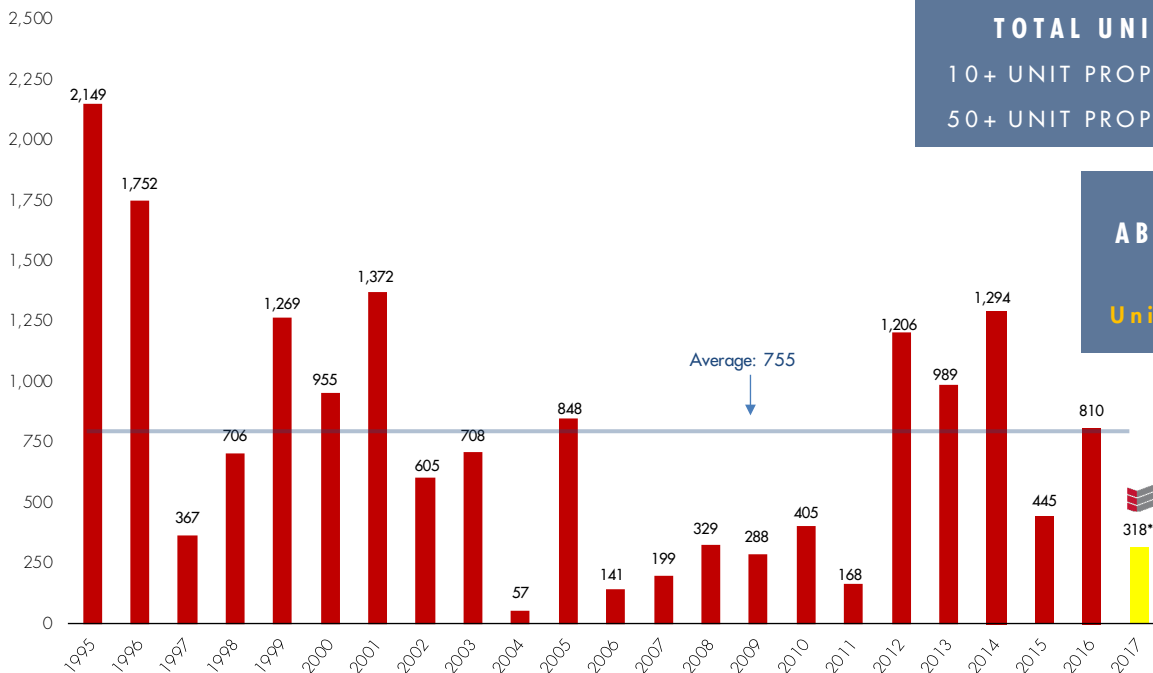
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# COMPLETED CONSTRUCTION



## TUCSON MULTIFAMILY CONSTRUCTION PIPELINE | 2Q 2018



**TOTAL UNIT INVENTORY**

10+ UNIT PROPERTIES: **117,885**

50+ UNIT PROPERTIES: **67,093**

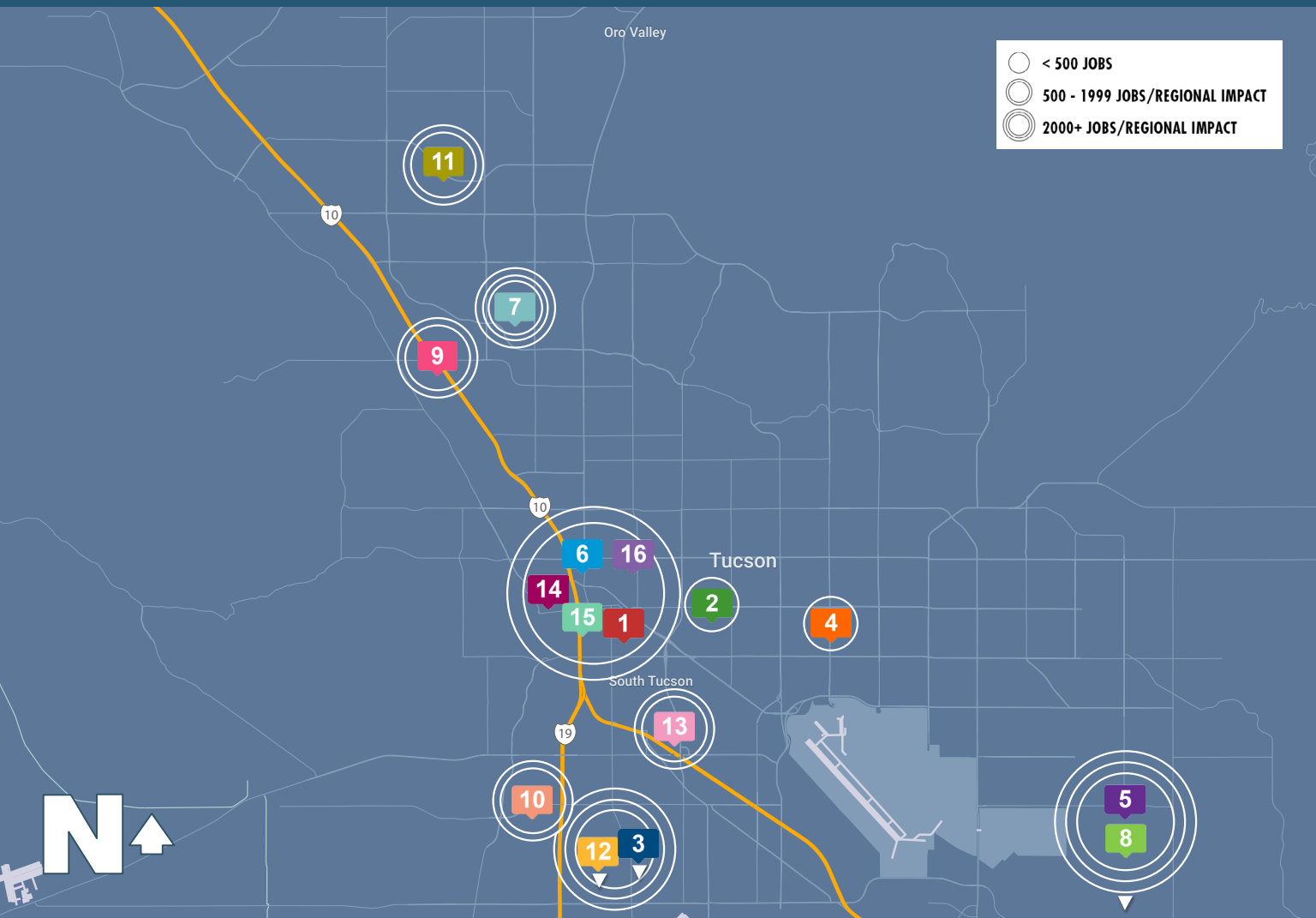
**PRE-LEASE ABSORPTION RATE**

**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

# 2Q 2018 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 expands as it readies self-driving truck technology</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> Amazon to open giant warehouse in Tucson, plans to hire more than 1,500 people</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> GEICO to build new corporate office in Tucson, add 700 jobs</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

## THE MARKET'S LATERAL LINE |

Tucson MSA 2Q 2018

The lateral line, in aquatic vertebrates such as sharks, is a system of sense organs which is used to detect movement, vibration, and pressure gradients in the surrounding water. As Discovery Channel's 'Shark Week' detailed, sharks use changes in their environment, specifically sensing electro-magnetic waves/pulses via their lateral lines, to better position themselves to strike at prey. In more laymen terms, the lateral line enables the shark to detect its prey without seeing it.

In today's data-rich, information light, central banker skewed-market environment sometimes the only thing investors can

rates still hovering near historic lows. As Elliott D. Pollack opined in his July 31st *Monday Morning Quarterback* newsletter, "most economists expect GDP this year to come in at or above 3.0%. And while how sustainable this is over the long run is open to debate (there are good demographic reasons to doubt that it is), the economy is doing just fine, thank you. Enjoy the party."

### TUCSON MARKET METRICS:

*By the Numbers*

The MSA's total sales volume (10+ unit properties) increased 61%, y-o-y, to \$273 million across 39 transactions representing 3,272 total units sold. Arizona-based investors, led by HSL Properties (368 units) and Farnam Realty (183 units) were the dominant buyer of multifamily properties in the Tucson area accounting for 32% of total units transacted, or 1,040 units. Texas-based investors, led by new market entrant ComCapp, came in 2nd with 887 units purchased and rounding out the top three was California-based investors who purchased the 882 units.

Sales of 100+ unit properties witnessed a sizeable 131% y-o-y increase to \$222.1 million, with average Price-Per-Unit (PPU) amount increasing 7% to \$87,060. Whereas 100+ unit

properties saw a sales volume increase, 10 to 99 unit properties saw a volume decrease of (31%) to \$51M with a 5% increase in average PPU amount to \$70,545.

The Tucson MSA did not have any new

deliveries in 2Q 2018. In fact, Tucson will not see any new construction deliveries until late 2018, aside from smaller (sub-50 unit) student and affordable housing developments. Accordingly, Occupancy Rate for the MSA increased 10 bps to 94.5%, still well above Tucson's 10-year average Occupancy Rate of 91%. Average rent continued its rise increasing 4.1% y-o-y to \$831.

### INSTITUTIONAL INVESTORS LEAD THE WAY

As Oliver Senchal noted in the forward to [Preqin's Real Estate Funding 2Q report](#), "concerns over a downturn are still evident, not only from the increase in appetite for debt funds we have seen in recent years and the downside risk protection they offer, but also from the mandates that institutional investors are putting out. Indicators appear to be moving from opportunity funds down the spectrum towards value added and core-plus vehicles." In fact, value add funds accounted for ~66% of fund closures and capital raised with the majority of those funds focused on North America.

*What's driving investor interest in Tucson?* Primarily sustained jobs, 2.1% y-o-y increase and continued population growth. Major job / economic development announcements for the area include Amazon's new warehouse development which is set to bring 1,500 new jobs to the region, as well as, GEICO's regional office expansion (700+ jobs) and, a yet-to-be identified, new corporate entity looking to expand into the region and bring hundreds of high paying jobs. In regards to incomes, and referenced in the chart, Pima County has witnessed a significant increase in households earning above \$50K with the largest percentage increase, rising 8.2% from 2000 to 2016, in those households earning between \$50 to 149K.

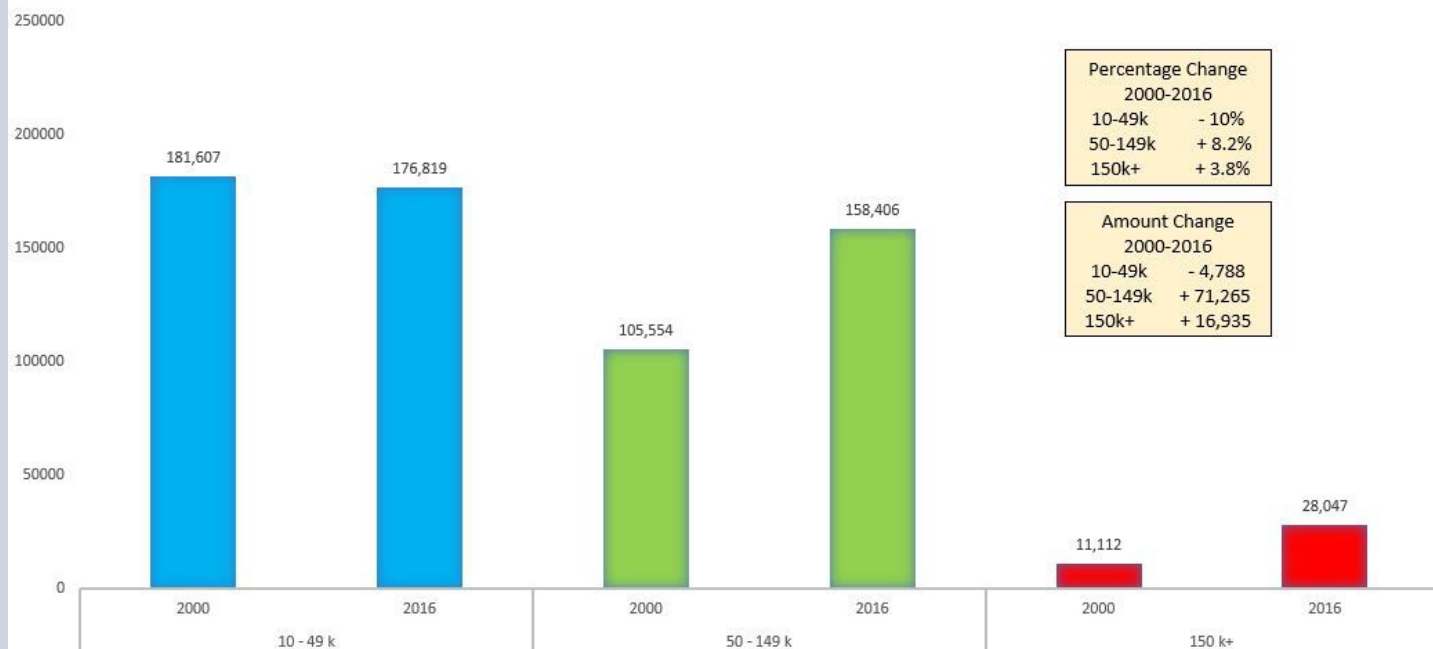


**ABOVE: INSTITUTIONAL INVESTOR HUNTING FOR YIELD**

truly count on is gut instinct and inspection of the market's tea leaves. By all accounts the economy is firing on all cylinders with GDP at 4.1%, inflation just a tick over 2%, National unemployment at 4% and interest

BY: THOMAS M. BROPHY, DIRECTOR OF RESEARCH

PIMA COUNTY HOUSEHOLD NUMBER & INCOMES  
COMPARATIVE ANALYSIS (2000 V 2016 - CENSUS)



## THE MARKET'S LATERAL LINE – YIELD CURVE INVERSION?

The 2-year/10-year spread refers to the divergence between the 2-year Treasury note and the 10-year US Treasury bond. Generally speaking the yield on the 10-year should be greater than the 2-year based simply on the fact that more adverse economic events are likelier to transpire over a longer timeframe than a shorter one. Why all the noise? During the past three recessions, the 2/10 spread went negative about a year before the onset of the economic slowdown; which, as far as economic indicators go, has been as prescient an indicator as we've had over the last several decades. As of July 31st, the 2/10 spread was a mere 32 bps. Despite the long list of notable bond trading detractors who firmly believe in the prescience of the 2/10 spread

as the true market indicator, I tend to agree with traders such as John Mauldin, [MauldinEconomics.com](http://MauldinEconomics.com), or Kevin Muir, [TheMacroTourist.com](http://TheMacroTourist.com), who assert that given massive Central Bank QE (Quantitative Easing), and real negative rates, has rendered the spread less effective. I would further assert, not only has it made the spread less effective it has also distorted R-star or natural rate of interest. Given the past decade of zero-to-negative interest rates the entire developed world over, central banks have artificially thrust R-star downward causing investors, whether knowing or unknowingly, to increase risk in order to attain greater yields. I still believe we are closer to negative rates than we are to 4%+ rates. Why do I think this? Given the length of our current recovery, second longest on record, we are probably closer to a correction than continued expansion. The *caveat emptor*,

current growth has been spurred by tax cuts and deregulation which could certainly extend the bull market's rally longer than what many are predicting. Nonetheless, in previous recessions central bankers have, on average, needed to cut interest rates ~5% before normalizing policy. Given the Fed's current 1.5 to 1.75% target, with two more rate hikes expected this year moves the target to 2 to 2.25%, negative rates could certainly be on the horizon. Final question/thought, suppose real estate return rates mean revert to average historical levels of 3.8%, across the board, and average rental rates soften to 2%+, contingent upon market, 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.



# ABI COMPARATIVE MARKET REVIEW: 2Q 2018



TUCSON

PHOENIX

SACRAMENTO

SAN DIEGO

DEMOGRAPHICS

RENT/OCC/CONST (50+)

SALES (50+)

<b>Total Population</b>	1,026,099	4,737,270	2,296,418	3,317,749
<b>Unemployment Rate (as of Jun '18)</b>	4.5%	4.2%	4.1%	3.7%
<b>Employment Growth (y-o-y)</b>	2.1%	3.1%	1.6%	1.5%
<b>Median HH Income</b>	\$46,764	\$55,547	\$62,813	\$66,529
<b>Per Capita Income</b>	\$39,541	\$43,249	\$51,370	\$55,168
<b>Rent (2Q 2018)</b>	\$831	\$1,067	\$1,423	\$1,908
% Increase / Decrease	+4.1%	+6.4%	+4.9%	+5.2%
<b>Occupancy (2Q 2018)</b>	94.5%	95.3%	96.3%	96.5%
% Increase / Decrease	+0.1%	+0.2%	-0.9%	-0.6%
<b>Total Inventory (50+)</b>	67,093	303,404	127,288	182,894
<b>Total Under Construction (50+)</b>	853	16,766	3,279	7,436
<b>Units Delivered (50+, 2Q 2018)</b>	N/A	2,380	397	1,307
<b>Total Sales Volume (2Q 2018)</b>	\$242M	\$1.43B	\$247M	\$326M
y-o-y % Increase / Decrease	+74%	+16%	-14%	-56%
<b>Average P/U (2Q 2018)</b>	\$86,628	\$155,266	\$160,445	\$297,765
y-o-y % Increase / Decrease	-1%	+26%	+28%	+7%



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

### NOTABLE RECENT ABI MULTIFAMILY TRANSACTIONS



#### THE QUAILS APARTMENTS

1120 - 1150 East Irvington Road,  
Tucson, AZ

Sold Price: \$12,200,000  
Units: 288 Units  
Year Built: 1984, 1985



#### ORANGE TREE VILLAGE

645 West Orange Grove  
Road, Tucson, AZ

Sold Price: \$10,550,000  
Units: 110  
Year Built: 1981



#### SKYLINE PARK

5290 South Park Avenue,  
Tucson, AZ

Sold Price: \$2,600,000  
Units: 60  
Year Built: 1985



#### SYCAMORE COVE

2458 North Sycamore Boulevard,  
Tucson, AZ

\$2,385,000  
Units: 67  
Year Built: 1979

## APARTMENT BROKERAGE & ADVISORY FIRM

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### TUCSON ADVISORS

#### LANCE PARSONS, CCIM

SENIOR VICE PRESIDENT

520.265.1945

[lance.parsons@abimultifamily.com](mailto:lance.parsons@abimultifamily.com)

#### JONATHAN IBRAHIM

VICE PRESIDENT

520.265.1127

[jonathan.ibrahim@abimultifamily.com](mailto:jonathan.ibrahim@abimultifamily.com)

#### RYAN KIPPES

VICE PRESIDENT

520.265.1895

[ryan.kippes@abimultifamily.com](mailto:ryan.kippes@abimultifamily.com)

#### JOHN KOBIEROWSKI

SENIOR MANAGING PARTNER

602.714.1384

[john.kobierowski@abimultifamily.com](mailto:john.kobierowski@abimultifamily.com)

### PHOENIX HEADQUARTERS

5227 North 7th Street  
Phoenix, AZ 85014  
602.714.1400

### SACRAMENTO OFFICE

2251 Douglas Blvd, Suite 115  
Roseville, CA 95661  
916.330.4040  
CA Lic #02015648

### SAN DIEGO OFFICE

1012 2nd Street, Suite 100  
Encinitas, CA 92024  
858.256.7690  
CA Lic #02015648

### TUCSON OFFICE

1650 North Kolb Road, Suite 230  
Tucson, AZ 85715  
520.265.1945

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