

MARKETBEAT

MULTIFAMILY SNAPSHOT



TUCSON, AZ

A Cushman & Wakefield Research Publication

Q2 2015



ECONOMIC OVERVIEW

The Second Quarter of 2015 saw negative growth in all of the key statistical categories. Absorption took a step back this quarter with a 29-unit decrease. This negative trend tracks seasonal expectations due to student and winter visitor departures. Despite the quarter's losses, Metropolitan Tucson experienced a 735-unit increase in occupancy year-over-year. The vacancy rate for conventionally-operated complexes was up 0.39% to an average vacancy of 8.88%. The net rents for the Tucson market decreased negligibly to an average rent of \$642 per unit and \$0.88 per square foot (sf) without utilities in Metropolitan Tucson. The stagnant rents continue to be an issue as many owners have begun to offer concessions due to the challenges attracting qualified residents. Owners and managers have expressed increasing repair and maintenance expenses caused by reduced security deposits. Very few sub-markets in Tucson have the ability to enforce a one-month rent security deposit. Over a one-year period Tucson has seen a \$3 increase in average rents with the highest gain coming from the new luxury and renovated units in the Tucson Mountain Foothills area, with the largest decrease, \$33, from the South Central Tucson area.

Home prices increased in June, thanks to inventory at a 21-month low coupled with steady consumer demand and favorable interest rates. U. S. consumer confidence was up significantly, and personal income statewide slightly outpaced the rate of gain nationally.

INVESTMENT MARKET

On a positive note, the investor activity continued to be extremely strong with many out-of-state and foreign buyers continuing to show interest in the marketplace due to higher cap rates. Second quarter 2015 posted 12 arms-length sales of properties with 40 or more units. The average price per unit was \$42,318 and \$63.42 per sf. These averages were skewed with Family Housing Resources portfolio of sale of eight properties to MC Companies. The 1,576 unit portfolio sold for \$66,700,000 at an average price per unit of \$42,322.

The "Summer Slowdown" that Tucson usually encounters has been quite the opposite in 2015. Investors continued to head to the market with the only limitation being the lack of quality product on the market.

Contact Allan Mendelsberg at 520.546.2721 for more information.

ECONOMIC INDICATORS

NATIONAL	2014	2015F	2016F
US GDP Growth	2.4%	2.4%	3.0%
30 Year Treasury Interest Rate	3.3%	3.0%	3.9%
CPI Growth	1.6%	0.4%	2.7%

TUCSON SALES ACTIVITY

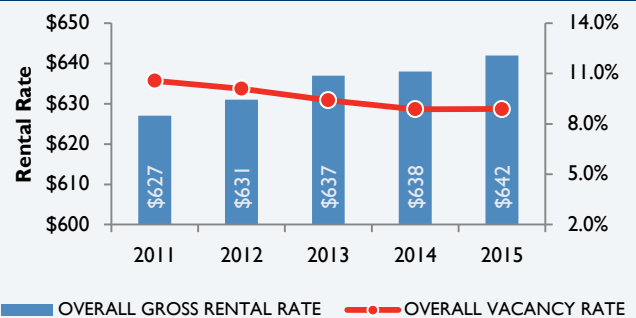
YEAR	UNITS	TOTAL SALES	AVG PRICE/UNIT	AVG PRICE/SF	AVG YEAR BUILT
2012	3,861	\$287,254,964	\$74,399	\$86.45	1979
*2012	2,905	\$159,404,964	\$54,873	\$67.85	1977
2013	1,982	\$141,737,424	\$71,512	\$90.70	1978
*2013	1,799	\$78,837,424	\$43,823	\$50.45	1977
2014	4,658	\$200,451,166	\$42,645	\$62.34	1977
2015	2,911	\$108,970,600	\$37,434	\$55.83	1975

*Excluding student housing

LOCAL	2014	2015F	2016F
Unemployment Rate	6.2%	5.7%	5.4%
Employment Growth	0.6%	2.4%	3.0%
Population Growth	0.6%	1.5%	1.6%
Household Formation Rate	0.8%	1.9%	2.8%
Median Household Income	\$44,400	\$45,500	\$46,800

Source: Moody's Analytics

MARKET FUNDAMENTALS



Source: Real Data/Apartment Insight