

Year End
2014
Multifamily
Market Report

NAIHorizon

Tucson

TUCSON, ARIZONA The Market

Tucson is located in the Santa Cruz River Valley at 2,400 feet elevation and is surrounded by five mountain ranges, Saguaro National Park and the Tohono O'Odham Indian Reservation. Only 14% of the land in Pima County is fee or privately owned with the balance being Federal and State lands, National Parks, Indian Reservations and Wilderness Areas. Integral to Tucson is the University of Arizona, the tenth largest publicly funded research university in the United States with enrollment of 40,000+ students. The apartment market is comprised of 421 properties with 66,773 units in complexes of 40+ units. Tucson's population reached the 1,000,000 mark in mid-2014.

The Tucson Apartment market completed its fifth year of recovery. **All market fundamentals have seen steady improvement.**

The driving forces are population and job growth. The population increased by 10,700 and our economy produced 2,800 new jobs. The Economic and Business Research Center at the U of A's Eller College of Management predicts 9,500 new residents and 3,900 new jobs for 2015.

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Absorption: The absorption of vacant apartments slowed to a mere 3 units in the 4th quarter. Even with the lack-luster 4th quarter, the 2014 absorption was 904 vacant units, which was the best performance since 2011.

Vacancy: Vacancy peaked in the 4th quarter of 2009 at 12.2%. Continuing rental demand has reduced the vacancy rate to 8.9% at the end of 2014.

Rental Rates: Gross rental rates have been slowly improving and mirroring the positive absorption of vacant apartments. The average monthly gross rent for conventional apartments without utilities has increased from \$630 at the end of 2009 to \$638 per month at the end of 2014. Average year-end net rental rates were \$601 per month, reflecting a market wide rental concession of 5.8%.

New Development: After the pre-recession condo conversion frenzy, Tucson was left with 34 "A" quality communities, with only 10 of those built after 2000. In response to the limited and aging stock of quality apartments, developers began buying sites and breaking ground. The following is a summary of recent construction completions based on certificates of occupancy.

2014 Multifamily Market Trends



Vacancy
Rate



Net
Absorption



Average
Rental Rates

Tucson 2014

Multifamily Snapshot

2014
Multifamily

Student Housing: The Student Housing Market experienced significant positive absorption, even with the opening of three new properties in August. The vacancy rate for the Fall Semester was 6%, down from 16% posted for the Spring Semester. Moderating rental rates for the newer and larger properties played a major role in enticing existing students from older, smaller communities and single family rental homes.

Sales: There were 22 sales of conventional apartment communities with 50+ units in 2014. The average price per unit was \$47,128 with capitalization rates ranging from 5.75% to 8.36%.

Investment: The Tucson Apartment Market continues to gain favor with national, regional and local investors due to the following rational.

- Cap rate compression in primary and secondary markets has caused investors to seek alternatives
- Increasing residential mobility is allowing more migration to Tucson.
- There is increasing demand for workforce apartments. Current rental rates and building costs will prohibit new development in this sector for the foreseeable future.
- The average rental rates in Phoenix are \$153 higher than the average rents in Tucson.
- Job creation is gaining momentum. As an example, Home Goods/TJM Companies has proposed building a \$79 million, 800,000 sq. ft. western distribution center on 100 acres near Tucson International Airport. The Pima County Board of Supervisors and the Tucson City Council both approved the requested tax incentives bringing the 900 job development one step closer to fruition.

These factors combined with five years of improving fundamentals have significantly increased demand for rationally priced investment opportunities.

Conventional Apartments Construction

Year	# Complexes	# Units
2012	6	796
2013	5	764
2014	5	723

Student Housing Construction

Year	# Complexes	# Units	# Rooms
2012	1	206	756
2013	3	553	1,821
2014	3	397	1,182



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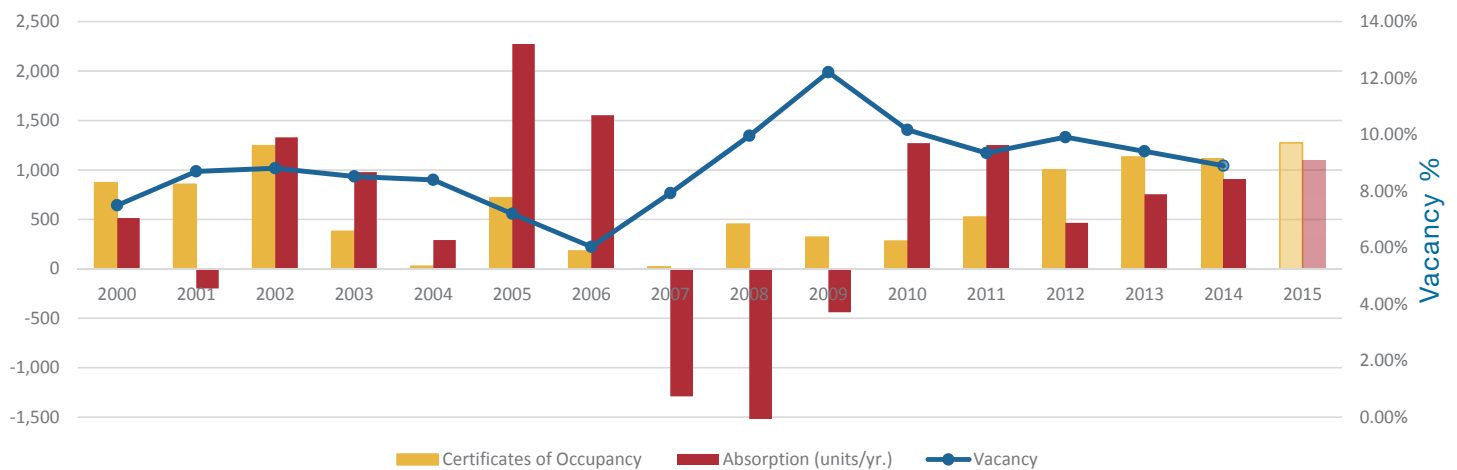
Tucson Rental Rates

Gross, Net & Concessions

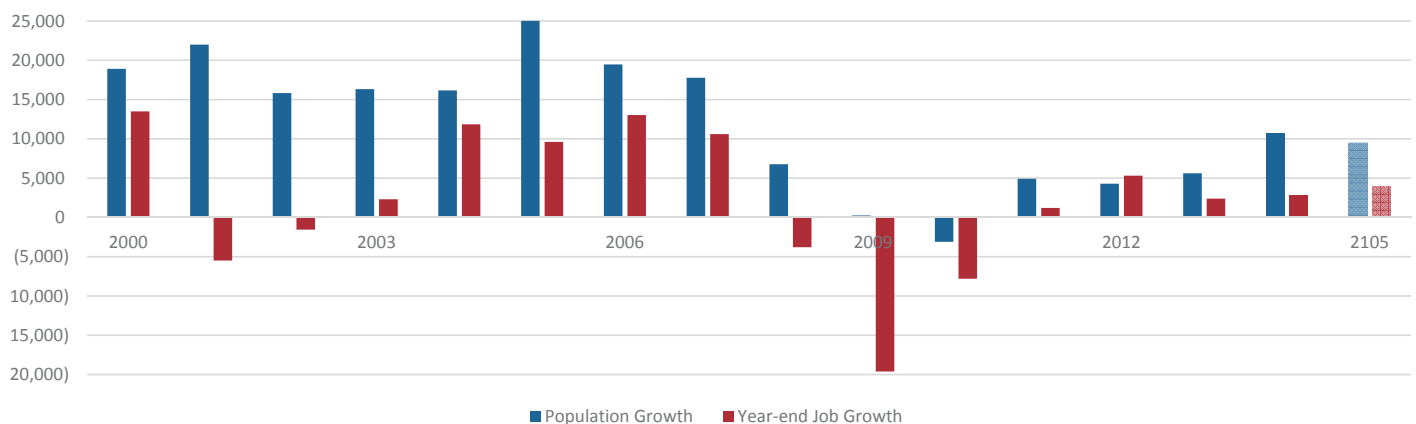
Complexes of 40+ Units

Q4	Gross Rent/Mo.	\$/SF	Net Rent/Mo.	Concession \$/ Mo.	%
2006	\$610	\$0.84	\$590	\$19	3%
2007	\$634	\$0.87	\$600	\$34	5%
2008	\$635	\$0.87	\$582	\$53	8%
2009	\$630	\$0.86	\$559	\$71	11%
2010	\$631	\$0.86	\$574	\$57	9%
2011	\$630	\$0.86	\$578	\$52	8%
2012	\$629	\$0.86	\$583	\$45	7%
2013	\$637	\$0.86	\$599	\$38	6%
2014	\$638	\$0.87	\$601	\$37	5.8%

Certificates of Occupancy Absorption & Vacancy



Population & Job Growth



Multifamily Sales Comps | Q3 & Q4 2014

50+ Units

Buyer	Property Address	Sale Date	Sale Price	Number Of Units	Cap Rate	Price Per Unit	Year Built
San Martin	5650 S Park Ave	7/16/14	\$6.4M	176	6.5%	\$36,364	1986
Miraflores	5180 E 22nd St	8/28/14	\$4.7M	140	NA	\$34,059	1971
Catalunya	4011 N 1st Ave	8/28/14	\$3.9M	100	NA	\$39,317	1971
Paseo Del Sol	6280 S Campbell Ave	8/29/14	\$8.3M	152	8.36%	\$54,934	1994
Tanque Verde	7671 E Tanque Verde	9/11/14	\$21.3M	428	6.4%	\$49,766	1979
Zona Rio	1001 W St Mary's	9/15/14	\$9.7M	210	6.67%	\$46,381	1983
Copper Creek	6666 E Golf Links Rd	9/25/14	\$4.7M	99	6.98%	\$47,980	1973
Garden Park	201 E Yavapai Rd	9/25/14	\$1.4M	68	8.0%	\$21,809	1982
Rock Ridge	10333 N Oracle Rd	10/10/14	\$30.4M	319	6.12%	\$95,298	1995
Palm Canyon	2255 W Orange Grove Rd	12/5/14	\$25.3M	368	NA	\$68,750	1986
Avilla River	1000 W River Rd	12/11/14	\$11.4M	76	5.75%	\$150,000	2013
Canyon Heights	550 N Pantano Rd	12/29/14	\$8.4M	196	6.44%	\$42,857	1982
Dakota Canyon	6210 E Pima St	12/29/14	\$3.7M	80	NA	\$46,750	1973

We are here.
Tucson



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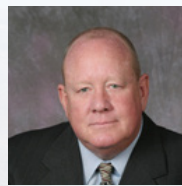
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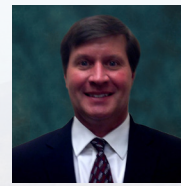
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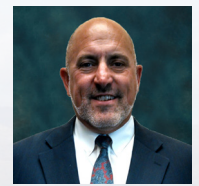
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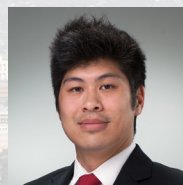
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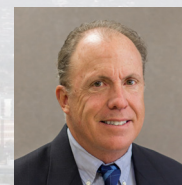
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