

MARKETBEAT MULTIFAMILY SNAPSHOT



TUCSON, AZ

A Cushman & Wakefield Alliance Research Publication

Q1 2013



OPERATING ENVIRONMENT

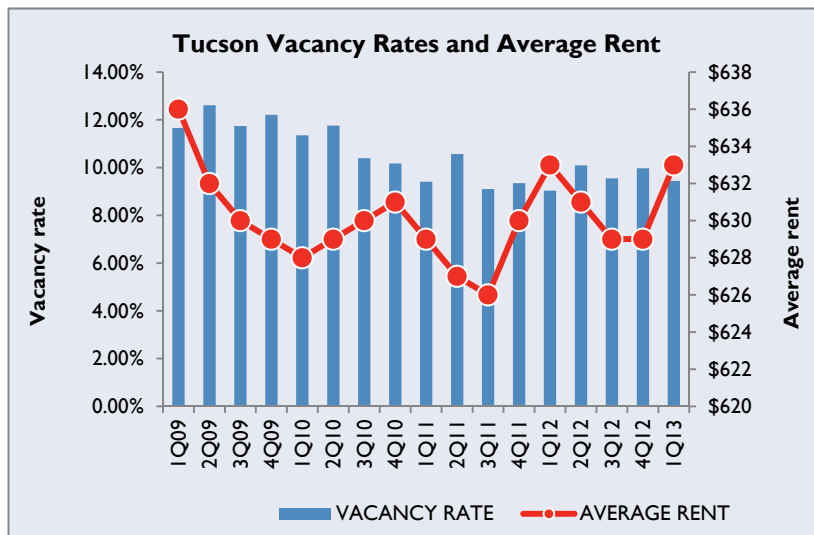
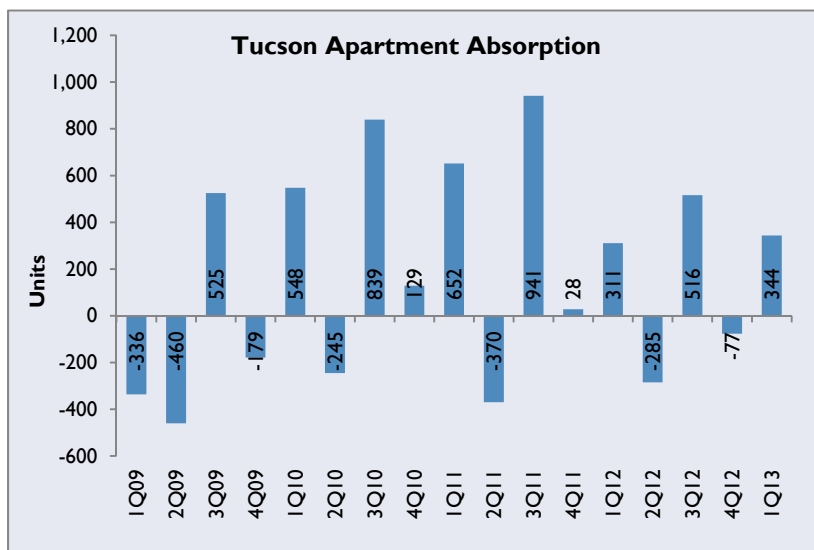
Much like a broken record, the Tucson operating environment continued its trend of slow improvement for the third year running. Vacancy rates, average rent and unit absorption all moved in the right direction, although

not with great velocity and not across the board by unit type. Unit absorption for Q1 13 was 334 units, continuing a trend of modest improvement.

Generally speaking, A and B properties have fared better than class C properties in this recovery. According to Apartment Insights/Real Data, average vacancy at the end of Q1 13 for C properties was 13.0%, while A properties finished at 7.7%. Submarkets dominated by C properties hovered above 10.0% vacancy with three submarkets above 10.0% vacancy (South Tucson/Airport, Flowing Wells and Pantano/Lakeside), while four submarkets (Oro Valley/Catalina, Northwest Tucson, Northeast Tucson and University) were all below 7.3% vacant.

Net operating income (NOI) increase is occurring through improved occupancy, moderate rental rate increases (including more thorough RUBS programs), curtailing of concessions, and holding expenses in check.

While the operating environment continues to slowly improve, a noticeable increase in business and construction activity has occurred throughout the community. Housing starts in 2013 should be in the 2,200-2,500 unit range, up from a low of approximately 1,200 units in 2009. The Tucson Modern Streetcar construction is well underway, new student housing and apartments are being built, new restaurants are opening, retail developments on the periphery of the MSA have been restarted, and on the whole, activity has improved.



Source: Apartment Insights/Real Data

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INVESTMENT MARKET

Property sales during 1Q13 started out slowly, as many transactions were pushed forward into Q412 for tax reasons. Through the first quarter only five properties consisting of 595 units and \$14,892,424 in total sales have occurred. The average price per unit and price per square foot (sf) were \$25,029 and \$49.02, respectively. Because only class C properties have changed hands to date in 2013, sale prices per unit and per sf were accordingly low. With some more recently constructed class A properties currently in escrow, we will see the average price per unit and price per sf return to similar levels achieved in 2012 – perhaps higher. We are beginning to see more properties come to market and substantially more investors contacting us with interest in investing in Tucson. We expect an active remainder of the year with more transactions throughout the spectrum of the market from the 24-unit property to large investor grade properties over 200 units. C&W | PICOR is currently marketing seven properties, with three additional properties in escrow. We believe other brokerage firms are also seeing activity volume on the upswing.

As expected, investor interest in Tucson has been strong and growing. Competition for product in first and second tier markets remains strong, perhaps even becoming stronger. This is causing more investors to look at Tucson and other tertiary markets in search of higher yields and a market that has advanced less on the recovery side of the investment cycle. With improved market and property fundamentals, debt has become increasingly easy to obtain in this marketplace adding to investors' confidence in the market and upward pressure on pricing.

C&W | PICOR Available Properties

Property	Address	Number of Units	Price
Crescent Ridge Apartments	3980 W. Linda Vista Blvd	272	\$26,900,000
Place at Tierra Rica	3201 W. Ina Rd	288	\$15,900,000
Stone Leaf Apartments	334 W. Valencia Rd	60	Unpriced
Vista Catalina Apartments	2230 E. Ft. Lowell Rd	58	\$1,290,000
Bellevue Apartments	3414 E. Bellevue St	20	\$815,000
Treat Apartments	2120 N. Treat Ave.	16	\$815,000
Navajo Apartments	104 & 119 W. Navajo	14	\$1,000,000
6th Avenue Lofts	1301-19 South 6th Ave	10	\$700,000



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