

MARKETBEAT

MULTIFAMILY SNAPSHOT



TUCSON, AZ

A Cushman & Wakefield Research Publication

Q1 2015



ECONOMIC OVERVIEW

Retail sales nationally rose 0.9% in March, the largest gain since a year prior and increasing for the first time since late 2014. Arizona retail sales are expected to increase 0.8% this year, with healthier increases above 5.3% for each of the next three years.

Tucson's unemployment rate dropped 0.3 percentage point to 5.6% in February, considered close to full employment. That being said, the slow pace of job growth is still of primary concern and impedes stronger market progress.

MARKET INSIGHTS

First quarter 2015 reported positive growth in all of the important statistical categories. Tucson absorbed 143 units in the first quarter of the year. The vacancy rate for conventionally-operated complexes improved 0.38% for an average rate of 8.5%. These indicators continue to improve in the Tucson marketplace primarily because average rents significantly lag those in comparable markets. The net rents for the Tucson market improved \$5 per unit to an average rent of \$643 per unit and \$0.88 per square feet (psf) without utilities in Metropolitan Tucson. Southeast Tucson recorded the highest gain with a \$34 per unit increase in average rent. Northeast Tucson was the only submarket to experience a decline in its average gross rents, dropping \$6 per unit.

Even with the positive gains for the first quarter of 2015, Tucson's apartment market continues to remain fairly stagnant with little improvement. HomeGoods acquired 110 acres in the Airport area, an assemblage conceived by a Cushman & Wakefield | PICOR broker, and plans to begin with 400 local jobs at the to-be-constructed distribution center. While most of these jobs will be at the lower end of the wage scale, it sends a positive message about workforce to other site selectors. Tucson's lower-wage labor market attractiveness is consistent with slow rent growth for the region.

INVESTMENT MARKET

Tucson continues to generate significant investor interest due higher cap rates. Many of these investors are looking to "lock in" fixed financing before the rumored increase in interest rates later this year. Properties that are priced correctly continue to trade rapidly.

A group from Phoenix moved operations to Tucson and has been extremely active in its pursuit to acquire non-performing assets or highly-distressed assets. This group has made it possible for a few

owners who are under-water with their mortgage or having a difficult time with operations find an out. They deal with specialized clientele and have a waiting list of residents in the Tucson marketplace.

Contact Allan Mendelsberg at 520.546.2721 for more information.

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	799	\$18,785,000	\$26,499	\$45.70	1978

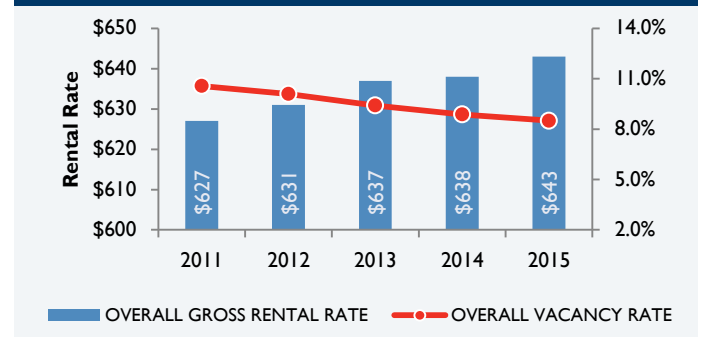
*Excluding student housing

ECONOMIC INDICATORS

NATIONAL	2014	2015F	2016F
US GDP Growth	2.4%	3.1%	3.5%
30 Year Treasury Interest Rate	3.3%	2.8%	3.8%
CPI Growth	1.6%	0.6%	2.6%
LOCAL	2014F	2015F	2016F
Unemployment Rate	6.3%	5.7%	4.8%
Employment Growth	0.6%	2.6%	3.5%
Population Growth	0.3%	2.2%	2.7%
Household Formation Rate	0.8%	1.9%	2.8%
Median Household Income	\$44,300	\$45,700	\$47,300

Source: Moody's Analytics

MARKET FUNDAMENTALS



Source: Real Data/Apartment Insights