MARKETBEAT

TUCSON

Multifamily Q2 2022

CUSHMAN & WAKEFIELD | PICOR

	YoY Chg	12-Mo. Forecast
5.77% Vacancy Rate	▲	▼
-33 New Deliveries, units	▼	▲
$1,159 Effective Rent, Per Unit	▲	▲

(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2022

	YoY Chg	12-Mo. Forecast
389.1K Tucson Employment	▲	▲
3.2% Tucson Unemployment Rate	▼	▲
$61.9K Tucson Median Household Income	▲	▲

Source: BLS, Census Bureau

Source: apartmentinsights.com

TUCSON AND ECONOMY UPDATE:

At the end of Q2 2022, the Tucson market reported employment of 390,400 jobs, a 3.2% total growth over the past twelve months. Tucson's unemployment stood at 3.3%, almost 0.3% lower than the national average as well as 2.1% under Q2 of 2021. The region experienced an annual population growth of 1.0%, nearly double the nation's average, while still experiencing slight growth in its income per person. Additionally, the housing market remained strong for Tucson real estate investors as the median sales price increased by 17.9% year-over-year to $385,000. As widely publicized, the nation's annual inflation rate reached its highest point in over 41 years at 9.1% in June of 2022.

COVID / U OF A UPDATE:

During the second quarter, the Centers for Disease Control (CDC) authorized numerous steps to increase the availability of the COVID-19 vaccine to the American public. This included announcing that children six months and older are now eligible for a vaccine, children ages 5-11 can now receive a booster shot five months after their primary vaccination, and those ages 50 and above can now get a second booster. Governor Doug Ducey has continued his lifting of all mandatory mask mandates while still encouraging people to get vaccinated. The University of Arizona has proceeded with fully in-person learning, with President Robbins stating that masks are recommended, but not required and that COVID-19 testing will be available to all students.

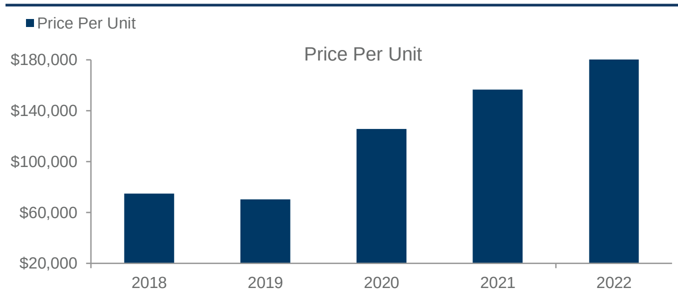
TRANSACTION UPDATES:

Throughout Q2 2022, the Tucson market remained relatively strong compared to other one million plus population markets. The region has experienced an increase in interest rates and a slight decrease in transaction volume, as indicated by the extreme narrowing of the spread between interest rates and cap rates. This change in the market is expected to result in purchasers underwriting more conservatively, as rental growth will likely slow. Despite this, the Tucson market should remain strong as many investors are eager to purchase property before highly-anticipated rate increases occur.

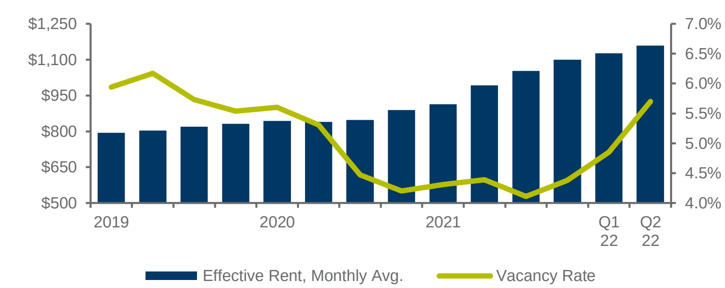
SUPPLY (INVENTORY) VS. DEMAND (INVESTORS):

The demand for multifamily properties in Tucson over recent years has been incredibly high with its emergence as a desirable second market. Due to its high cap rates and lower price per unit sales prices, Tucson has seen an uptick in investors moving into the region from inflated markets like Denver, Los Angeles, and Phoenix. Supply has remained constant throughout the quarter, but change is anticipated for the second half of the year with increase in inventory and adjustment of cap rates. We forecast a slowing in rental growth but believe the Tucson market is well-positioned because of its ability to handle any dip due to a previous lack of rental inventory

SALE PRICE PER UNIT



OVERALL VACANCY & EFFECTIVE RENT



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MARKET STATISTICS

SUBMARKET*	INVENTORY (UNITS)	VACANCY RATE	YOY VACANCY RATE CHANGE	AVG EFFECTIVE RENT/UNIT	AVG EFFECTIVE RENT PSF	YOY % EFFECTIVE RENT GROWTH
Oro Valley/Catalina	2,279	6.06%	31.18%	$1,609	$1.67	9.44%
Northwest	8,695	6.15%	34.14%	$1,437	$1.54	11.69%
Catalina Foothills	5,726	5.12%	23.24%	$1,224	$1.60	14.54%
Northeast	1,987	4.18%	12.20%	$1,481	$1.53	16.67%
East	8,221	5.21%	80.80%	$1,103	$1.48	13.87%
North Central	8,199	5.55%	21.98%	$960	$1.39	12.08%
Flowing Wells	8,524	7.93%	34.67%	$946	$1.53	12.89%
Foothills	3,780	4.69%	26.80%	$1,308	$1.65	13.76%
University	4,509	6.71%	-30.75%	$1,151	$1.82	16.59%
South Central	6,595	5.90%	8.81%	$993	$1.52	11.88%
Pantano/Lakeside	5,413	6.39%	41.15%	$1,125	$1.58	20.44%
South/Airport	5,959	3.47%	-15.57%	$935	$1.53	22.03%
Southwest	2,415	4.50%	10.44%	$1,047	$1.43	17.38%
Southeast	956	10.25%	-13.86%	$1,395	$1.48	48.38%
Market	**73,258**	**5.87%**	**23.91%**	**$1,159**	**$1.54**	**14.40%**

*Submarket Marana excluded from report due to low inventory

Source: apartmentinsights.com

FINANCING

"We've seen the treasury yields increase across the board and we are expecting interest rates to continue to rise. The rise in the treasury will have a direct impact on our pricing, however property values remain stable as there is strong demand for multifamily. While our program limits LTV to 70 percent in most cases, we are originating purchases around the 60-65%. We are anticipating moderate origination, with a mix of refi and purchases 50/50. I am anticipating an increase of refinances as short-term purchase debt form past couple years comes to maturity."
Robert Motz – Pima Federal Credit Union – rmotz@pimafederal.org – 520-202-0672

OUTLOOK

Tucson's multifamily market held relatively strong in the second quarter of 2022 as it experienced a healthy transaction volume and sales statistics. With an expected rise in interest rates, we believe inventory will open up toward the end of the year as more sellers will enter the market with the upcoming changes in inventory and demand. Many investors are banking on continued rental growth in Tucson, as the value-add market should remain deep and strong. With relatively low rental rates and attractive prices per unit, investors will be drawn to place capital om the rising Tucson multifamily market. With the local market years behind in the supply of rental inventory, it is primed to withstand any major dip and is in a promising position for the short and long term.

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