MARKETBEAT

TUCSON

Multifamily Q1 2020

CUSHMAN & WAKEFIELD | PICOR

U.S. ECONOMIC UPDATE

The arrival of the COVID-19 pandemic has created an economic shock that has likely pushed the global economy and the U.S. into recession. Policies initiated to “flatten the curve” of potential infection include the voluntary and mandated shutdown of large sectors and regions of the economy. Retail establishments, restaurants, passenger transportation, schools and leisure activities have almost all grinded to a halt while customers self-quarantine and practice social distancing.

RECORD-SETTING LAYOFFS, DECLINING EMPLOYMENT

Over the last three weeks (ending on April 4th), a cumulative 16.8 million people have applied for unemployment benefits—by far the largest number of applications in history since record-keeping began in 1967. Initial unemployment claims are a highly reliable leading indicator of trends in labor markets and therefore the economy at large. Given the size of the increase, along with other high-frequency data trends that are similarly bleak, it is widely believed that the U.S. economy has entered a recession. This was reinforced in early April when the Labor Department reported that payroll employment in the U.S. fell by 701,000 jobs in March, one of the largest declines in history. It’s all but certain that even more jobs will be lost in the months ahead.

Given the way these events have unfolded and the huge number of layoffs, the current thinking among economic forecasters is that the second quarter of 2020 will see one of the largest real GDP declines in U.S. history. What is less clear is what the economic trajectory will be following Q2. As of this writing (April 7th), hopeful signs are emerging that policy steps to “flatten the curve” are beginning to work in certain areas, but many unknowns remain. It is too soon to say if these signs are sustainable and how they will impact the trajectory of the economy.

We continue to monitor developments extremely closely and are working around the clock to publish data and insight as quickly as possible.

To view our latest perspective on the coronavirus and its potential impact on CRE and the economy, access Cushman & Wakefield’s COVID-19 resource page.

TRENDS AND INSIGHTS

Cushman & Wakefield Covid-19 Webinar Replay
Learn more on the evolving COVID-19 situation and its implication for **real estate occupiers and investors.**
Click to Replay

COVID-19: A Wholly Unprecedented Policy Response
On March 27, 2020, an enormous $2.2 trillion emergency coronavirus stimulus package was signed into law by President Trump. The legislative package—the Coronavirus Aid, Relief and Economic Security (CARES) Act—is the largest rescue package in U.S. history. Click for Summary

Lessons From Landlords In China’s Post Covid-19 Recovery Phase
With local infections down, China is getting back to work. As the lights are turned back on in offices across the country, landlords and tenants alike are inevitably finding themselves in a new paradigm. Click for Article

2020 Asia Pacific Office Outlook
In this report, you will find detailed but succinct analysis of the trends in each of the region’s key Grade A office markets over the next two years that we hope will help refine your organization’s CRE strategy.
Click for Article

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WEEKLY COVID-19 UPDATES

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	YoY Chg	12-Mo. Forecast
5.22% Vacancy Rate	▼	▲
266 New Deliveries, units	▲	▼
$839 Effective Rent, Per Unit	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2020

	YoY Chg
392K Tucson Employment	▲
4.3% Tucson Unemployment Rate	▼
$55.9K Tucson Median Household Income	▲

Source: BLS, Census Bureau

FINANCING:

With collections and volatility of the market in flux, lenders have begun to more conservatively adjust their underwriting to account for the projected decline in collections. In the near term, expect interest rates and terms to vary widely until stabilization occurs. With the landscape of the financing arena changing day by day, some agencies have decided to sideline, but many lenders remain active, quoting and closing new business in the current environment.

PROPERTY VALUES:

The impact on property values will be highly dependent on the depth and length of the economic correction being experienced. With concessions and vacancy on the rise, expect lenders and investors to be more conservative in pricing and investments. Property owners will be more inclined to sell at discounted prices the longer the COVID-19 shutdowns remain in place, as this will increase delinquent payments and concessions.

RENT COLLECTIONS:

Rent collections in the Tucson market have averaged around 85% for April (as of mid month) which is far better than initially expected. Most management companies are expecting a more severe decrease in collections to occur in May. Evictions are still occurring for non-compliance issues, though a cutoff to that may occur in Arizona in the coming weeks. Stimulus, disaster relief, and expanded unemployment benefits will help rent-paying households stay afloat.

SUPPLY (INVENTORY) VS. DEMAND (INVESTORS):

Supply versus demand will be ever changing in the coming months. Over the past couple of years, Tucson has seen an all-time high investor demand, but inventory has remained low due to owners reaping the benefits of the significant rental increases Tucson has seen. In the current environment of uncertainty, more owners wish to improve liquidity and exit the market which will loosen supply and inventory.

Demand is expected to remain high as those in the stock market move equity into something less volatile like real estate, and Tucson is still a very attractive market for investing. Look for an inventory increase in the coming months as more movement in and out of real estate investments occurs for the reasons above.

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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	4.39%	-0.35%	$1,180	$1.23	5.45%
Northwest	8,695	5.31%	0.39%	$1,050	$1.13	4,27%
Catalina Foothills	5,726	4.48%	-0.46%	$899	$1.20	4.66%
Northeast	1,987	4.33%	-2.31%	$1,067	$1.10	7.34%
East	8,217	4.98%	0.01%	$796	$1.07	5.85%
North Central	8,199	4.92%	-1.75%	$729	$1.05	5.50%
Flowing Wells	8,400	4.52%	-1.91%	$693	$1.13	5.80%
Foothills	3,697	6.35%	9.17%	$929	$1.20	6.17%
University	3,629	4.31%	-1.84%	$893	$1.52	4.27%
South Central	6,160	7.38%	-0.15%	$734	$1.13	-0.11%
Pantano/Lakeside	5,363	4.61%	-2.89%	$764	$1.08	8.10%
South/Airport	5,474	5.90%	2.09%	$630	$1.05	5.38%
Southwest	2,415	5.30%	1.27%	$786	$1.08	5.53%
Southeast	336	11.61%	4.47%	$674	$1.00	15.21%
Market	**70,577**	**5.60%**	**0.41%**	**$844**	**$1.14**	**5.65%**

*Submarket Marana excluded from report due to low inventory

KEY SALES TRANSACTIONS Q1 2020

Property Name	Submarket	Year Built	Total SF	Number Of Units	Price / $ UNIT
Bermuda Park Apartments	North Central Tucson	1956	14,218	24	$1.35M / $56,250
Catalina Vista	East Tucson	1971	44,459	50	$4.06M / $81,200
Rancho Del Mar	South Tucson / Airport	1989	193,948	312	$19.1M / $61,217
Mountain Vista Apartments	North Central Tucson	1959	31,215	27	$1.8M / $66,666
Drexel Plaza Apartments	Southeast Tucson	1988	31,884	58	$3.8M / $65,517
McCormick Urban Living	Flowing Wells	2017	16,256	25	$8.15M / $326,000
Villa Delano Apartments	Flowing Wells	1980	29,182	32	$2.7M / $84,375
Tucson East Apartments	East Tucson	1982	34,220	52	$3.49M / $67,115
Overlook at Pantano	Pantano / Lakeside	1985	305,375	444	$38M / $85,585
Las Villas De Kino	South Tucson / Airport	1998	258,844	348	$34.7M / $99,705
Fort Lowell Place Apartments	North Central Tucson	1980	21,392	40	$2.05M / $51,562
Mohave Apartments	Flowing Wells	1983	24,960	32	$1.65M / $51,250
Arcadia Garden Apartments	East Tucson	1986	164,764	200	$18M / $90,000
Mission Village	Flowing Wells	1983	31,500	36	$2.825M / $78,472
Metro on First	Flowing Wells	1984	141,392	272	$22M / $80,882
Toscana Cove Apartments	East Tucson	1982	134,800	232	$17.91M / $77,198

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