MARKETBEAT

TUCSON

Multifamily Q2 2020

	YoY Chg	12-Mo. Forecast
5.31% Vacancy Rate	▲	▲
115 New Deliveries, units	▲	▲
$839 Effective Rent, Per Unit	▲	—

(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2020

	YoY Chg	12-Mo. Forecast
362.4K Tucson Employment	▼	▼
10.8% Tucson Unemployment Rate	▲	▼
$58.5K Tucson Median Household Income	▲	▼

Source: BLS, Census Bureau

TUCSON UPDATE:

Amid the COVID-19 pandemic, more than 11,000 businesses in Arizona and 1,200 in Tucson received economic relief from the federal government. With unemployment on the rise in past months, Arizona posted one of the sharpest unemployment drops in the country in May, falling from 13.4% in April to 8.9% in May. Tucson also has been fighting the Bighorn wildfire that started June 5thdue to a lightning strike. As of July 12th, the fire has grown to 119,250 acres, however the 335 firefighters assigned have battled to contain 92% of the fire. On a positive note, *Lendingtree.com* named Tucson the "number one" searched market for "homes for sale" during the pandemic in the U.S.

COVID UPDATE:

With COVID-19 cases on the rise in Arizona, the Governor's new Executive Order temporarily closed bars, indoor gyms, indoor movie theaters, and water parks. These operations are paused through July 27th. As of July 12th there were nearly 12,000 cases in Pima County, which is nearly 10,000 more cases than the beginning of June. Governor Ducey announced that the start of the school year would be moved from August 3rdto August 17th, however many Tucson school districts stated they would only offer online instruction when school starts next month.

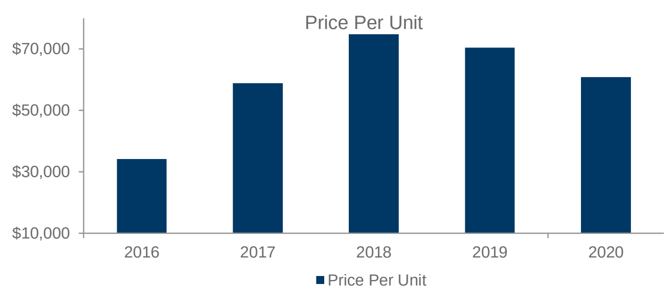
PROPERTY & TRANSACTION UPDATES:

While many other markets struggled during the pandemic, Tucson's market has remained stable. Transactions and Escrow periods have experienced delays with lending and appraisals taking longer. Rent collections have remained consistent through June, nearly 90% collections on average for the whole market. With government and unemployment benefits coming to an end in the following months, delinquencies are expected to rise as a result. With the eviction moratorium set to end July 23rd, many properties will experience high vacancy and turnover during this transition.

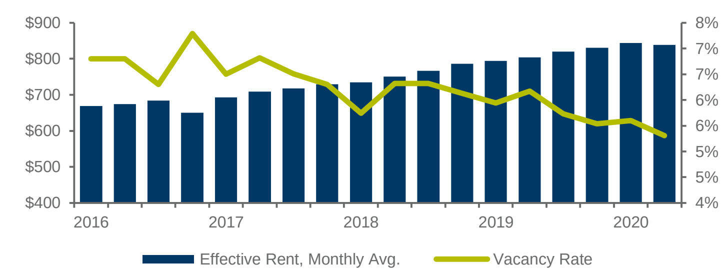
SUPPLY (INVENTORY) VS. DEMAND (INVESTORS):

With these unheard of times going on, supply has remained low while demand has remained high. Many investors have left other markets where there is increased volatility and come to Tucson where the numbers are more stable and safe. Many owners have been inquiring about pricing analysis to see their properties' value during this time but are hesitant to make any moves in the market with the uncertain future ahead. Those in 1031 exchanges during COVID-19 have been put in difficult situations as inventory remains low and only slight price adjustments have been made in the Tucson market.

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	5.92%	0.08%	$1,155	$1.20	3.30%
Northwest	8,695	6.08%	0.37%	$1,048	$1.13	2.74%
Catalina Foothills	5,726	5.06%	-0.46%	$892	$1.16	3.24%
Northeast	1,987	4.58%	-0.18%	$1,063	$1.09	7.26%
East	8,217	4.99%	-0.75%	$791	$1.06	3.80%
North Central	8,199	5.29%	-0.38%	$734	$1.06	5.15%
Flowing Wells	8,460	4.77%	-1.23%	$698	$1.14	6.24%
Foothills	3,696	5.27%	-1.41%	$939	$1.21	4.33%
University	3,634	9.21%	-1.75%	$925	$1.62	2.32%
South Central	6,210	5.75%	0.18%	$720	$1.12	1.69%
Pantano/Lakeside	5,363	4.78%	-0.71%	$768	$1.08	4.20%
South/Airport	5,474	4.73%	-2.02%	$647	$1.08	6.23%
Southwest	2,415	4.03%	-0.89%	$808	$1.11	9.04%
Southeast	336	11.90%	5.05%	$674	$1.00	13.27%
Market	**70,691**	**5.88%**	**-0.29%**	**$847**	**$1.15**	**5.20%**

*Submarket Marana excluded from report due to low inventory

Source: apartmentinsights.com

FINANCING

Financing agencies are still extremely active for Multi-Family loans in the $1-$10 range. LTV is ranging between 70%-75%. Interest rates for 10 year loans are typically ranging between 3.5%-4%. We recently have started to see from Freddie Mac small balance loan rates a little below 3.5%. Life companies have not been as aggressive on rates and will likely be more aggressive going forward, but it is believed the 3.5% range for small balance loans is stable. Underwriting has been more on the conservative side with a focus on collections since the pandemic. However, if collections are supported then underwriting will not change much. Lenders are also less likely to waive reserves for taxes insurance and replacement reserves currently. ***Credit: Kevin Prouty – Commercial Mortgage Broker***

OUTLOOK

Going forward, if collections and financing options remain stable, the market will remain a strong sellers market with lots of outside investor demand. With eviction moratorium and government unemployment benefits set to end in the near future, you can expect a slight decrease in property value due to the expected rise of delinquencies. For the remainder of the summer, you can also expect the volume of transactions to slightly decrease and then pick back up shortly after school resumes.

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