MARKETBEAT

# TUCSON

## Multifamily Q3 2020

CUSHMAN & WAKEFIELD | PICOR

| | YoY Chg | 12-Mo. Forecast |
|---|---|---|
| **4.47%** Vacancy Rate | ▼ | ▲ |
| **641** New Deliveries, units | ▲ | ▲ |
| **$867** Effective Rent, Per Unit | ▲ | ▲ |

*(Overall, All Property Classes)*

### ECONOMIC INDICATORS Q3 2020

| | YoY Chg | 12-Mo. Forecast |
|---|---|---|
| **376.4K** Tucson Employment | ▼ | ▼ |
| **5.9%** Tucson Unemployment Rate | ▲ | ▼ |
| **$56.8K** Tucson Median Household Income | ▲ | ▼ |

*Source: BLS, Census Bureau, Arizona Commerce Authority*

### ARIZONA UPDATE:

Amid the COVID-19 pandemic, more than 20,000 businesses in Arizona received economic relief from the federal government. Arizona's unemployment rate has fallen from 10.7% in July to 5.9% in September due to nearly 80,000 jobs being added to the economy in August. Job gains were posted across ten private sectors, with the largest increases seen in health services, education, and transportation. Tucson's unemployment correlated almost exactly to Arizona's, falling from 10.7% in July to the current 5.9% in September. United States unemployment rate now stands at 8.8%.

### COVID UPDATE:

With daily COVID-19 cases consistently getting lower in Arizona during Q3 2020, the Governor has opened bars, indoor gyms, and indoor movie theaters to partial capacity. As of October 12th there were nearly 26,500 cases in Pima County, and the test positivity rate is now at 7.6%. Since August, the University of Arizona has administered over 47,000 COVID-19 test with less than 2,400 testing positive or a 5.1% positivity rate. On October 12th, the University of Arizona began phase two of their campus reentry plan that now allows in-person instruction for classes with 30 or less students.

### TRANSACTION UPDATES:

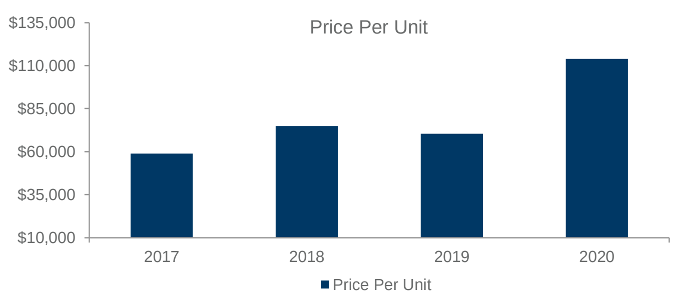
Throughout Q3 2020, the Tucson Multi-Family market remained stable. Transactions and Escrow periods have continued to experience delays with lending and appraisals taking longer. Rent collections have slightly decreased through September with government and unemployment benefits coming to an end. Delinquencies and collections are expected to rise as a result in the coming months. The Arizona eviction moratorium is set to end October 31st, many properties will experience high vacancy and turnover during this transition, which could lead to some change in property value and investor/lender underwriting requirements for 2021.

### SUPPLY (INVENTORY) VS. DEMAND (INVESTORS):

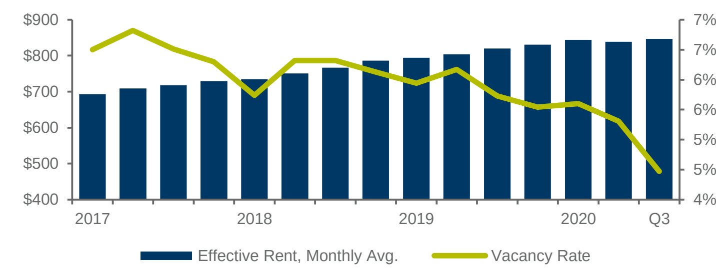
As the pandemic continues to linger, supply has remained low while demand has remained high. Investors continue to leave other markets with high volatility and come to Tucson where the numbers are safer. Owners continue to inquire about pricing analysis to see their properties' value during this time but some are hesitant to make any moves in the market with the uncertain months ahead, due to elections and economic uncertainties. Those in 1031 exchanges during COVID-19 continue to be put in difficult situations as inventory remains low and only slight price adjustments have been made in the Tucson market.

*Source: apartmentinsights.com*

### 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 | 4.17% | -0.44% | $1,186 | $1.23 | 1.71% |
| Northwest | 8,695 | 4.65% | -1.11% | $1,083 | $1.16 | 5.04% |
| Catalina Foothills | 5,726 | 4.00% | -0.42% | $930 | $1.21 | 5.80% |
| Northeast | 1,987 | 3.93% | -1.34% | $1,083 | $1.11 | 8.19% |
| East | 8,217 | 3.74% | -2.48% | $827 | $1.11 | 6.43% |
| North Central | 8,199 | 4.69% | -1.16% | $761 | $1.10 | 6.58% |
| Flowing Wells | 8,462 | 4.42% | -0.38% | $718 | $1.17 | 7.48% |
| Foothills | 3,780 | 4.86% | -2.11% | $965 | $1.24 | 6.16% |
| University | 3,877 | 9.98% | 5.15% | $918 | $1.61 | 0.70% |
| South Central | 6,210 | 5.21% | -0.56% | $738 | $1.14 | 2.35% |
| Pantano/Lakeside | 5,363 | 4.49% | -0.80% | $792 | $1.12 | 4.76% |
| South/Airport | 5,574 | 3.81% | -2.81% | $677 | $1.13 | 9.36% |
| Southwest | 2,415 | 3.35% | -1.65% | $819 | $1.12 | 5.95% |
| Southeast | 648 | 8.33% | -1.79% | $720 | $1.06 | 19.40% |
| **Market** | **71,512** | **4.47%** | **-1.10%** | **$847** | **$1.15** | **5.73%** |

*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 have decreased and are typically ranging between 3.15%-3.75%. While Freddie Mac remains the most aggressive on pricing, life insurance lenders are aggressively pricing lower leverage loans as well. We have seen 5-year quotes under 3%, but the majority of loan quotes in the 2% range are reserved for those greater than $10 million. Underwriting has been more on the conservative side with a focus on collections since the pandemic hit, which has drastically slowed timelines. However, if collections are supported then underwriting will not change much. Lenders are also starting to waive taxes, insurance, and replacement reserves depending on leverage. *Credit: Kevin Prouty – Commercial Mortgage Broker*

## OUTLOOK

Going forward, the Tucson Multi-Family market will continue to remain a strong sellers market as long as collections and financing options remain stable. It is uncertain what government unemployment benefits will be offered in the coming months, so we can assume a slight decrease in property value due to the expected rise of delinquencies, vacancies, and turnovers. With schools going back to in-person classes, you can expect the volumes of transaction to increase into the new year for student housing. As we reach the end of the year and holiday season, transactions will start to slow down.


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