

MARKETBEAT TUCSON



Multifamily Q4 2020

YoY Chg 12-Mo. Forecast

4.26%

Vacancy Rate



281

New Deliveries, units



\$889

Effective Rent, Per Unit



(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2020

YoY Chg 12-Mo. Forecast

375.8K

Tucson Employment



7.9%

Tucson Unemployment Rate



\$59.2K

Tucson Median Household Income



Source: BLS, Census Bureau

ARIZONA UPDATE:

With new COVID-19 relief bills making their way through Congress, Arizona businesses are expected to receive additional economic relief in the following months. Arizona's unemployment has risen from 5.9% in August to 7.8% in November largely due to the ramifications of the pandemic. Tucson's unemployment correlated almost exactly to Arizona's, increasing from 5.9% in August to 7.6% in November. The national unemployment rate stands at 6.7%. California residents have moved in large numbers into the Phoenix and Tucson markets due to the lower cost of living. This increase in population will likely have positive impacts on the market in 2021.

COVID UPDATE:

Since the rollout of the COVID-19 vaccine in late December, more than 46,000 Pima County residents have received the vaccination with projections of 12,000 vaccinations per day. Bars, indoor gyms, and indoor movie theaters are open with limited capacity. Pima County's mandatory curfew allows only essential travel from 10:00 PM to 5:00 AM, which will continue until the rate of transmission drops below 100 cases per 100,000 population. The rate is currently 8,856 cases per 100,000. As of January 20th, there were nearly 92,519 cases in Pima County, and the test positivity rate is now at 12.2%. As of January 13th, the University of Arizona has resumed online classes with the potential for a reintroduction to in-person classes later in the spring.

TRANSACTION UPDATES:

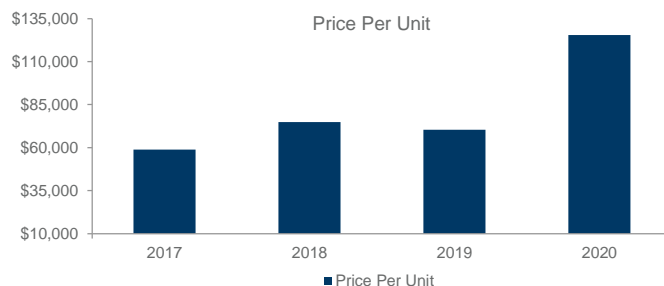
After 2020 election uncertainty, Q4 2020 proved a very strong end of the year for transactions. Owners were eager to sell for tax and capital gains benefits, as well as the unpredictability of a new administration. The Arizona eviction moratorium is set to end in the first quarter of 2021. Many properties 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. We expect a slow first quarter, as many owners are in a "wait and see" approach to see what President-Elect Biden does in the early days of the presidency.

SUPPLY (INVENTORY) VS. DEMAND (INVESTORS):

As the pandemic continues to linger, supply has remained low while demand has remained high, if not increased. Tucson's relatively low cost per unit and favorable cap rates open opportunities for investors leaving inflated markets like California, Denver, Texas, and even Phoenix. Owners continue to request pricing analyses to determine their properties' value during this time, but some are hesitant to make any moves in the market with the uncertain months ahead. With increased demand, the Tucson market hasn't skipped a beat; average time on market for well-priced properties is under two weeks.

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	3.55%	-1.67%	\$1,237	\$1.28	4.48%
Northwest	8,695	3.94%	-1.78%	\$1,125	\$1.21	7.45%
Catalina Foothills	5,726	3.41%	-0.83%	\$969	\$1.26	7.07%
Northeast	1,987	2.97%	-1.86%	\$1,083	\$1.11	2.75%
East	8,217	4.56%	-1.08%	\$847	\$1.14	8.87%
North Central	8,200	4.78%	-1.46%	\$769	\$1.11	7.85%
Flowing Wells	8,461	4.41%	-0.44%	\$747	\$1.21	9.53%
Foothills	3,780	4.57%	-0.78%	\$971	\$1.30	4.63%
University	3,877	7.46%	4.07%	\$925	\$1.62	1.54%
South Central	6,210	4.63%	-0.88%	\$762	\$1.17	3.67%
Pantano/Lakeside	5,413	3.82%	-2.57%	\$804	\$1.13	6.63%
South/Airport	5,574	3.72%	-2.67%	\$681	\$1.14	10.02%
Southwest	2,415	4.20%	-1.44%	\$824	\$1.13	6.19%
Southeast	648	11.01%	1.49%	\$720	\$1.06	19.40%
Market	71,562	4.26%	-1.28%	\$889	\$1.19	3.37%

*Submarket Marana excluded from report due to low inventory

Source: apartmentinsights.com

FINANCING

Financing agencies are still extremely active for multifamily loans in the \$1-\$10 million range. LTV is ranging between 70%-75%. Interest rates for 10-year loans have decreased and 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 3.0%, but most loan quotes in the 2.0% range are reserved for those greater than \$10 million. Underwriting has been more conservative with a focus on collections since the pandemic hit, which has drastically slowed timelines. However, if collections are supported then underwriting will not change significantly. Lenders are also starting to waive taxes, insurance, and replacement reserves depending on leverage.
Credit: Kevin Prouty – Commercial Mortgage Broker

OUTLOOK

Going forward into 2021, the Tucson multifamily market will remain a strong seller's market as long as collections and financing options remain stable. With the upcoming change in administration, expect a slow first quarter as many owners will see how the market responds during the year. As schools are expecting to return to in-person classes in 2021, student housing transaction volumes will increase into the new year.

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