MARKETBEAT

TUCSON

Multifamily Q1 2021

	YoY Chg	12-Mo. Forecast
4.31% Vacancy Rate	▲	▲
160 New Deliveries, units	▼	▲
$914 Effective Rent, Per Unit	▲	▲

(Overall, All Property Classes)

ECONOMIC INDICATORS
Q1 2021

	YoY Chg	12-Mo. Forecast
373.1K Tucson Employment	▼	▲
7.0% Tucson Unemployment Rate	▲	▼
$64.9K Tucson Median Household Income	▲	▼

Source: BLS, Census Bureau

ARIZONA UPDATE:

Total housing permits rose by 23.0% in 2020 which includes a 25.5% increase in multi-family permits. Residential values have risen 7.9% statewide during the year. Arizona's unemployment rate is expected to drop from the 2020 peak of 8.1% to 5.8% in 2021. The CDC's federal ban on evictions extends the moratorium to June 30th. Despite the recent stimulus checks, roughly 12% of renters believe they will not be able to pay next month's rent. However, as the state expands vaccine distribution, Arizona jobs are forecasted to regain their pre-pandemic peak by Q3 2021. Job growth and affordable housing are driving population growth, as businesses and employees relocate from high-density areas. Expect these factors to positively impact the market in 2021.

COVID UPDATE:

Since the late December COVID-19 vaccine rollout, more than 105,000 Pima County residents have been vaccinated with 12,000 daily vaccinations projected forward. As of March 25th, Governor Ducey has relaxed mask mandates and lifted restrictions for bars and clubs. The state infection rate is currently 11,699 cases per 100,000 and Pima County's test positivity rate is 8.9%. The University of Arizona is currently in the third stage of its campus re-opening plan, allowing in-person classes up to 100 students.

TRANSACTION UPDATES:

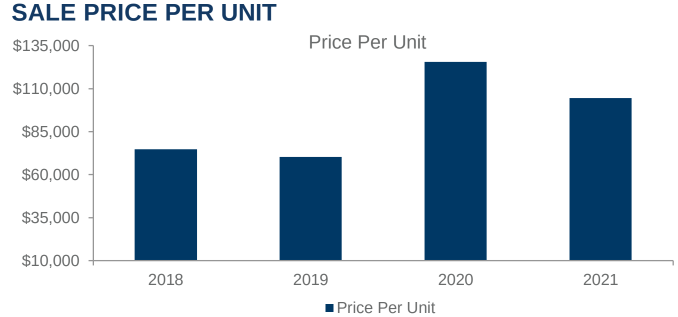
With the 2020 elections behind us, Q1 2021 has been an active and strong start to the year. Owners were eager to sell for tax and capital gains benefits, while buyers were plentiful. The Arizona eviction moratorium has been extended to June 2021. Many properties will experience high vacancy and turnover during this transition, which could lead to changes in property value and investor/lender underwriting requirements. With owners and investors both eager to enter the market and rebounding job growth and property values, we expect increased volume and activity in the months ahead.

SUPPLY (INVENTORY) VS. DEMAND (INVESTORS):

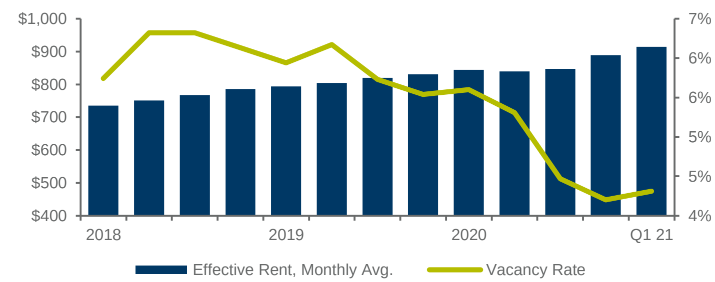
As the pandemic lingers, supply has remained tight amid high and likely increased demand. Tucson's relatively low cost per unit and favorable cap rates are attractive to investors leaving inflated markets like California, Denver, Texas, and even Phoenix. Owners continue to request pricing analyses to determine their properties' current value, with some investors hesitant to sell pending more certainty and inventory to exchange into. With heightened demand, the Tucson market has not skipped a beat; average time on the market for well-priced properties is under two weeks. It is a great time to be a seller in Tucson, as properties for sale have limited competition amid strong interest from buyers.

Source: apartmentinsights.com

SALE PRICE PER UNIT



OVERALL VACANCY & EFFECTIVE RENT



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Multifamily Q1 2021

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	3.25%	-25.98%	$1,284	$1.33	8.81%
Northwest	8,695	3.84%	-27.68%	$1,152	$1.24	9.71%
Catalina Foothills	5,726	3.70%	-0.83%	$990	$1.29	10.12%
Northeast	1,987	3.17%	-18.50%	$1,147	$1.18	7.49%
East	8,217	4.08%	-26.78%	$866	$1.16	8.79%
North Central	8,200	4.08%	-18.07%	$787	$1.13	7.95%
Flowing Wells	8,461	5.33%	17.92%	$768	$1.25	10.82%
Foothills	3,780	4.61%	-27.40%	$990	$1.32	6.56%
University	3,877	7.56%	75.40%	$948	$1.66	6.15%
South Central	6,210	4.83%	-34.55%	$813	$1.25	10.76%
Pantano/Lakeside	5,413	3.40%	-26.24%	$825	$1.16	7.98%
South/Airport	5,960	6.03%	2.20%	$695	$1.16	10.31%
Southwest	2,415	4.33%	-18.30%	$822	$1.13	4.58%
Southeast	648	8.93%	-23.08%	$720	$1.06	6.82%
Market	**71,948**	**4.31%**	**-17.43%**	**$914**	**$1.22**	**8.93%**

*Submarket Marana excluded from report due to low inventory

Source: apartmentinsights.com

FINANCING

Lending activity will be robust throughout the year. Amid strong activity for multifamily loans, expect slightly more selectivity given the lower lending cap set by the FHFA for 2021. As cap rates decrease, loans are more commonly constrained by DSCR or debt yield over LTV. While LTV continues to remain between 70%-75%, borrowers should be prepared to provide additional equity. Lending rates have slightly increased since the beginning of the year with the 10-year US Treasury rising approximately 60 bps in Q1. Mortgage rates should remain stable with slight increases reflecting US Treasury rates depending on the property, borrower, loan program, and fees. As the economy responds to the vaccine rollout, loan originators and underwriters have become more aggressive preparing for an economic rebound to pre-pandemic levels. Underwriting has focused on property performance during the pandemic. As rental collections in the Tucson market far outperformed pandemic forecasts, lenders are focusing on properties' rental collections, with those performing strongly during the pandemic earning higher interest from lenders.

Credit: Kevin Prouty

OUTLOOK

Throughout 2021, the Tucson multifamily market will remain a strong seller's market as long as collections and financing options remain stable. With vaccinations increasing and COVID-19 rates declining, expect an active transaction year as many owners will take advantage of rebounding economic benefits. As schools return to in-person classes in 2021, student housing transaction volumes will recover into the new year.

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