MARKETBEAT

TUCSON

Multifamily Q2 2021

CUSHMAN & WAKEFIELD | PICOR

	YoY Chg	12-Mo. Forecast
4.39% Vacancy Rate	▼	▼
351 New Deliveries, units	▲	▲
$992 Effective Rent, Per Unit	▲	▲

(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2021

	YoY Chg	12-Mo. Forecast
377K Tucson Employment	▲	▲
6.8% Tucson Unemployment Rate	▼	▼
$58.4K Tucson Median Household Income	▼	▼

Source: BLS, Census Bureau

TUCSON UPDATE:

For investors looking for investments $20 Million and under, Tucson ranked #4 on the list of small/middle sized markets. A larger driver of the demand for multifamily in Tucson is the attractive year-over-year (YOY) average rent growth of 9.1%. The shortage of affordable and traditional housing in Tucson also fuels apartment rental demand. With construction costs tripling on certain building materials, housing development has slowed down drastically over the past 12 months. In a market with the typical average residential for sale inventory at about 6,000 listings, fewer than 1,000 homes are for sale. This shortage has led to increased demand for multifamily living, which in turn has driven down Tucson's vacancy rate.

COVID UPDATE:

Since the late December COVID-19 vaccine rollout, more than 61% of eligible Pima County residents have been fully vaccinated. Governor Ducey relaxed mask mandates and lifted restrictions for bars, movie theaters, restaurants, public events, concerts, and clubs. The University of Arizona held an in-person commencement ceremony for spring 2021 graduates. The University is also rolling out their Fall 2021 re-opening plan which includes a full in-person class schedule along with optional virtual learning. The CDC's federal ban on evictions was set to expire on June 30th, but a recent ban by the Center for Disease Control and Prevention (CDC) has extended the eviction moratorium through July 31st.

TRANSACTION UPDATES:

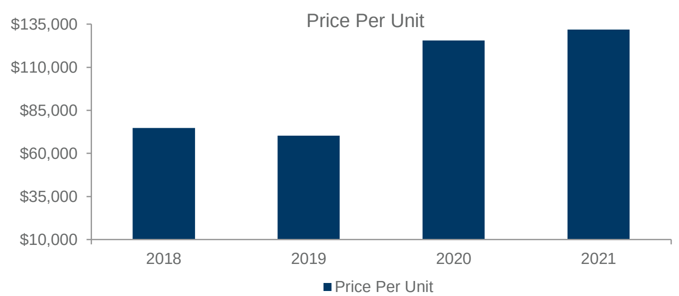
Tucson is primed for a strong second half of the year for sale transactions following a nearly record first half of 2021. Total sales volume totaled approximately $190 million in Q2 2021 (up 102% YOY) and an average price per unit of $108,000 (up 93% YOY). Timelines and transaction terms are drastically swaying sellers' decision when receiving offers. With financing contingencies a thing of the past, quick due diligence timelines or even immediately non-refundable earnest money are common offering terms in the current market. With investors eager to acquire Tucson properties, we expect similar sales volume and activity in the upcoming quarter.

SUPPLY (INVENTORY) VS. DEMAND (INVESTORS):

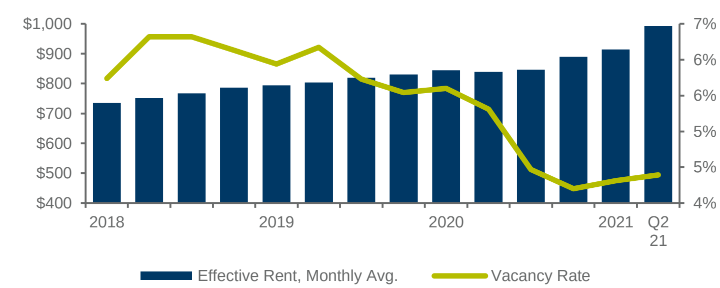
Multifamily properties that hit the market are faced with a heady amount of demand from investors eager to break into the red-hot Tucson market. With more and more syndication groups focusing their sights on secondary markets like Tucson, it brings more nationwide money and interest to the market. Tucson's relatively low cost per unit and favorable cap rates are attractive to investors leaving inflated markets like California, the Pacific Northwest, Denver, Texas, and even Phoenix. 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 supply of properties available for sale remains low amid soaring demand from investors.

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%	-29.56%	$1,457	$1.51	10.53%
Northwest	8,695	4.05%	-33.38%	$1,269	$1.36	9.42%
Catalina Foothills	5,726	3.93%	-22.33%	$1,046	$1.37	9.35%
Northeast	1,987	3.67%	-19.87%	$1,234	$1.27	6.81%
East	8,217	3.91%	-21.64%	$950	$1.27	16.73%
North Central	8,201	4.33%	-18.14%	$844	$1.22	13.03%
Flowing Wells	8,461	5.18%	7.92%	$824	$1.34	15.29%
Foothills	3,780	3.43%	-34.91%	$1,128	$1.41	16.75%
University	4,227	9.69%	4.95%	$960	$1.68	3.65%
South Central	6,210	5.38%	-6.43%	$875	$1.35	17.71%
Pantano/Lakeside	5,413	3.76%	-21.33%	$895	$1.26	14.18%
South/Airport	5,960	4.11%	-13.10%	$729	$1.21	11.24%
Southwest	2,415	4.03%	0%	$865	$1.19	6.59%
Southeast	648	11.90%	0%	$720	$1.06	6.39%
Market	**72,299**	**4.39%**	**-17.33%**	**$992**	**$1.32**	**15.42%**

*Submarket Marana excluded from report due to low inventory

Source: apartmentinsights.com

FINANCING

Lending activity and lender appetite for multifamily continued to increase in 2Q. Both Freddie Mac and Fannie Mae have become more aggressive to win business as they posted lower production numbers than expected in Q1 as they were adjusting to a lower production cap by the regulators. It is expected that they will remain aggressive throughout the year to compete with banks, life insurance companies, and debt funds as each of those lending sources are actively chasing more multifamily opportunities. Rates are stabilized and expected to remain near historic lows throughout the rest of the year. Both Freddie and Fannie have removed most of their requirements for debt-service escrows at closing related to COVID. For stabilized properties, monthly rental collections are extremely important and a property that can demonstrate success throughout the pandemic will be highly attractive to lenders. Stabilized loans are more frequently DSCR constrained due to low cap rates, but 70-75% LTV loans for less than 100 unit properties will witness rates between 3% - 3.5%. Value-add loans in the same range can typically achieve 75% Loan-to-Cost with floating-rate coupons in the 3.5% - 4.5% range. For loans above $10 million, these rates can decrease significantly. *Credit: Kevin Prouty - Mortgage Banker - Tucson, AZ*

OUTLOOK

For the remainder of 2021, the Tucson multifamily market will see strong continued growth. This is due to the market's relatively low pricing per unit and competitive market cap rates compared to larger markets like Phoenix, AZ. The shortage of supply is causing competitive marketing processes and groups assuming more risk in their offers to secure a deal. With a drastic need for Tucson housing supply, that won't easily be fixed unless construction costs lower, the market will likely see continued rental increases while vacancy remains low.

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