

# MARKETBEAT TUCSON



## Multifamily Q3 2021

	YoY Chg	12-Mo. Forecast
<b>4.11%</b> Vacancy Rate	▼	▼
<b>556</b> New Deliveries, units	▲	▲
<b>\$1,053</b> Effective Rent, Per Unit	▲	▲

(Overall, All Property Classes)

### ECONOMIC INDICATORS Q3 2021

	YoY Chg	12-Mo. Forecast
<b>384.6K</b> Tucson Employment	▲	▲
<b>6.5%</b> Tucson Unemployment Rate	▼	▼
<b>\$57.6K</b> Tucson Median Household Income	▼	▲

Source: BLS, Census Bureau  
Source: apartmentinsights.com

### TUCSON ECONOMY UPDATE:

In the third quarter 2021, the Tucson market recorded employment of 384,600 jobs with a positive outlook, up 4.3% over the third quarter 2020. The unemployment rate improved from 7.9% in the third quarter 2020 down to 6.5%. Median household income in Tucson remains steady year-over-year at \$57,600, in line with national figures. Population grew 0.9% year-over-year with a positive outlook, more than double the national gain of 0.4%. Due to pandemic-related supply chain issues, housing permits decreased 14.1% year-over-year in Tucson but remain up 28% year to date. Housing demand is stronger in recent years partly due to migration, but supply constraints limit the number of houses sold.

### COVID UPDATE:

Since last December, the COVID-19 vaccine has been available and 59% of Pima County residents have been fully vaccinated. Because of this, Governor Ducey has allowed non-essential businesses to reopen and has eliminated mask mandates for those who are fully vaccinated. The University of Arizona is back to hosting full in-person classes as well as still offering distance learning. Furthermore, the university has begun allowing Wildcat fans back into sporting events. On August 26th, the Supreme Court issued their decision to end the Center for Disease Control and Prevention's (CDC) eviction moratorium. This has been a long time coming for many apartment owners & property managers in Tucson. We expect turnover and vacancy to increase slightly when evictions and new lease-up occurs.

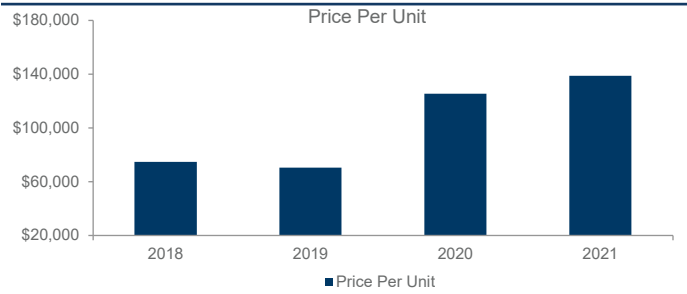
### TRANSACTION UPDATES:

With over inflation occurring in Phoenix and other southwest MSA's, Tucson has been a hot spot for investment leading to more competitive transactions. Those investors are bringing to Tucson pricing expectations and terms that would be seen in primary markets. After a record setting second quarter in 2021, the third quarter remained strong while experiencing a slight decrease in volume. The average price per unit sold was \$138,657 which is down \$6,250 from last quarter. Even with the slight decreases in this quarter, we expect growing sales numbers and more inventory leading to a strong final quarter in this record-setting year.

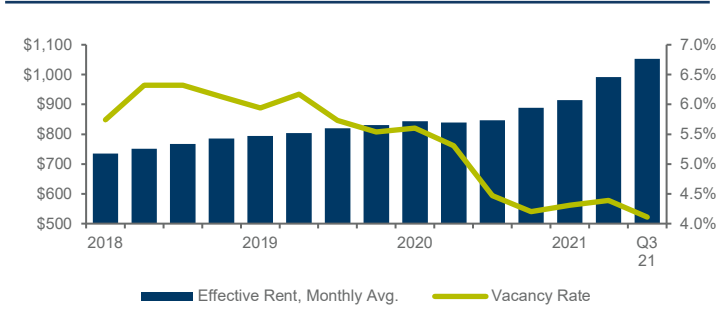
### SUPPLY (INVENTORY) VS. DEMAND (INVESTORS):

As a highly desirable secondary market, the demand for Tucson multifamily properties has not been higher. As more and more investors are steering away from inflated markets such as Denver, California, and Phoenix, Tucson is an ideal location due to low cap rates as well as low price per unit by comparison. Even with such high demand, Tucson's market has proven its strength as the average time a well-priced property stays on the market is less than two weeks. Being a seller in Tucson has never been more timely due to Tucson's low inventory, and extremely high demand from outside of market investors.

### 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	4.21%	0.95%	\$1,606	\$1.67	26.35%
Northwest	8,695	4.40%	-5.38%	\$1,361	\$1.46	20.55%
Catalina Foothills	5,726	3.42%	-14.5%	\$1,145	\$1.49	18.79%
Northeast	1,987	3.32%	-15.52%	\$1,336	\$1.38	19.57%
East	8,217	3.64%	-2.67%	\$1,018	\$1.36	18.38%
North Central	8,200	3.69%	-21.32%	\$875	\$1.27	13.39%
Flowing Wells	8,429	4.44%	0.45%	\$871	\$1.41	17.02%
Foothills	3,780	3.69%	-24.07%	\$1,191	\$1.49	16.78%
University	4,509	4.36%	-56.31%	\$984	\$1.72	6.40%
South Central	6,465	5.51%	5.44%	\$892	\$1.37	16.79%
Pantano/Lakeside	5,413	4.06%	-9.58%	\$936	\$1.32	15.15%
South/Airport	6,012	3.91%	2.56%	\$744	\$1.24	8.87%
Southwest	2,415	3.52%	4.83%	\$908	\$1.24	9.68%
Southeast	648	11.01%	24.34%	\$889	\$1.31	19.08%
<b>Market</b>	<b>72,805</b>	<b>4.11%</b>	<b>-7.91%</b>	<b>\$1,053</b>	<b>\$1.40</b>	<b>16.20%</b>

\*Submarket Marana excluded from report due to low inventory

Source: [apartmentinsights.com](http://apartmentinsights.com)

### FINANCING

Agency multifamily lending slowed slightly in Q3, primarily as Freddie and Fannie figured out the best way to manage their production caps throughout the rest of 2021. This left room for debt funds, banks, and life insurance companies to win more business. Freddie and Fannie did receive positive news with the announcement that the FHFA removed the 52-week rolling cap on production and has given indications that their 2022 production cap will again increase after being lowered for the first time in 2021. The volume caps will be announced sometime within the next 30 days, which should provide the agencies more clarification and allow them to be more aggressive rounding out 2021 and heading into 2022. Interest rates are increasing as the 10-year Treasury is climbing (1.61% on 10/11) and are up 40 basis points over the last few months. Inflation concerns and the likelihood of the Federal Reserve tapering asset purchases are expected to place upwards pressure on interest rates. Currently, stabilized loans in the 70% LTV range for properties with less than 100 units are witnessing interest rates between 3.35% - 4%, while value-add loans can achieve floating-rate coupons in the 3.5% - 4.5% range. These rates can decrease for loans above \$10 million.

*Credit: Kevin Prouty, Mortgage Banker - Tucson, AZ*

### OUTLOOK

For the remainder of 2021, Tucson's market is expected to finish strong boasting record numbers and sales. Until the holiday season begins, we expect multiple new properties to be listed and sold. From November through the end of the year, we anticipate market activity to dip slightly due to the holidays, while ending the year as one of the nation's leading multifamily markets for investors. As long as interest rates stay relatively low, we expect continued growth in the Tucson market as there are many untouched properties investors can pursue to increase value and cash returns post renovation and stabilization.

#### ALLAN MENDELSBERG

*Multi-Family Team, Principal*

+1 520 546 2721 / [amendelsberg@picor.com](mailto:amendelsberg@picor.com)

#### CONRAD JOEY MARTINEZ

*Multi-Family Team*

+1 520 546 2730 / [cmartinez@picor.com](mailto:cmartinez@picor.com)

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