MARKETBEAT

TUCSON

Multifamily Q4 2021

CUSHMAN & WAKEFIELD | PICOR

	YoY Chg	12-Mo. Forecast
4.38% Vacancy Rate	▼	▼
117 New Deliveries, units	▲	▲
$1,100 Effective Rent, Per Unit	▲	▲

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2021

	YoY Chg	12-Mo. Forecast
383.7K Tucson Employment	▲	▲
4.9% Tucson Unemployment Rate	▼	▼
$53.6K Tucson Median Household Income	▲	▲

Source: BLS, Census Bureau

Source: apartmentinsights.com

TUCSON ECONOMY UPDATE:

In the fourth quarter of 2021, the Tucson market recorded employment of 383,700 jobs, a 3.2% increase over the previous year. Household income rose 3.5% from $51,800 Q4 2020 to $53,600 in Q4 2021. Regional unemployment stood at 4.9%, 70 basis points (bps) higher than the national average but improved dramatically over the previous quarter. In good news for the state, Arizona had recovered all jobs lost during the pandemic by November. Housing remained strong with Tucson named a top ten "Hidden Gem" market by the National Association of Realtors and median sales prices up 20.8% over November 2020. Projected interest rate adjustments in 2022 to ease inflation may temper the frenetic pace of demand in the housing market.

COVID / UofA UPDATE:

In early fourth quarter, the FDA announced the availability of the Booster vaccine for anyone above the age of 18. In addition, the Center for Disease Control and Prevention's (CDC) approved the pediatric COVID-19 vaccine on November 2nd making the vaccine widely available across the country and the state of Arizona. Because of this, Governor Ducey has continued to allow non-essential businesses to stay open but, due to the Omicron Variant, mask mandates are back in place in workplaces and most public areas. The University of Arizona finished up the first semester of the 2021-2022 year with a successful semester back to in-person classes. Furthermore, the University is allowing gathering and events in a masked and socially distanced environment.

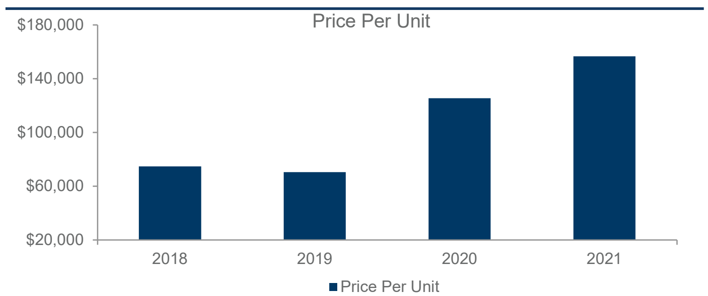
TRANSACTION UPDATES:

Continued out of market and out of state demand from new investors makes opportunities for local buyers more and more difficult. 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 strong third quarter in 2021, the fourth quarter kept status quo, even through the holiday season. The average price per unit sold was $156,657 which is down $6,775 from last quarter. The winning bidder of a property for sale usually comes down to terms as all the groups are coming in at similar pricing. To secure a highly desirable deal on the market, investors are needing to go non-refundable immediately with their earnest money.

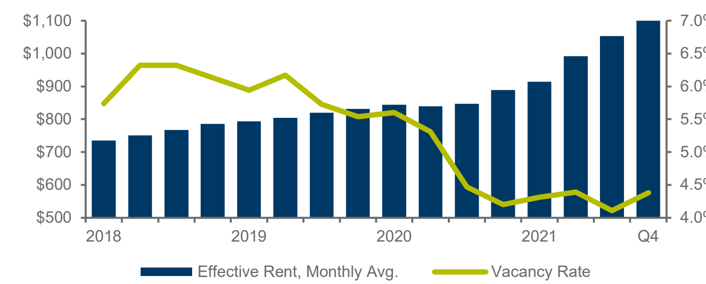
SUPPLY (INVENTORY) VS. DEMAND (INVESTORS):

The demand for Tucson multifamily properties has been extremely high over the recent years due to it becoming a desirable second market. With more investors directing away from the more populated areas that consistently have inflated markets like Denver, California, and Phoenix, Tucson has emerged as the new hot market with low cap rates as well as low price per unit by comparison. Supply through the end of year remained minimal, though an increase of transactions and available properties is expected for the start of 2022. A slight change in demand is expected to occur as we see an up-tick in interest rates throughout 2022. Given that, Tucson remains a very strong market for sellers of apartment complexes.

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	Oro Valley/Catalina	2,279	4.34%	18.20%	$1,627	$1.69
Northwest	Northwest	8,695	3.84%	-2.53%	$1,429	$1.53
Catalina Foothills	Catalina Foothills	5,726	3.37%	-1.17%	$1,200	$1.57
Northeast	Northeast	1,987	3.02%	1.65%	$1,348	$1.39
East	East	8,217	4.77%	4.40%	$1,032	$1.38
North Central	North Central	8,200	4.39%	-8.15%	$910	$1.32
Flowing Wells	Flowing Wells	8,524	6.10%	27.7%	$900	$1.46
Foothills	Foothills	3,780	4.02%	-12.03%	$1,224	$1.53
University	University	4,509	4.00%	-46.38%	$1,050	$1.84
South Central	South Central	6,519	4.91%	5.70%	$944	$1.45
Pantano/Lakeside	Pantano/Lakeside	5,413	3.95%	3.29%	$998	$1.41
South/Airport	South/Airport	6,012	3.00%	19.35%	$861	$1.41
Southwest	Southwest	2,415	5.43%	22.65%	$995	$1.36
Southeast	Southeast	648	6.25%	-43.23%	$889	$1.31
Market	**Market**	**72,924**	**4.38%**	**-10.55%**	**$1,100**	**$1.47**

*Submarket Marana excluded from report due to low inventory

Source: apartmentinsights.com

FINANCING

Agency lending is expected to increase in 2022, as the FHFA increased their “lending cap” to $78 billion for 2022, up $8 billion from 2021 and in-line with the market cap for 2020. Interest rates are increasing as the 10-year Treasury is climbing (1.83% on 1/19/22), which is up over 30 basis points over the last month and 60 basis points compared to 6 months ago. Inflation concerns and the likelihood of the Federal Reserve tapering asset purchases are expected to place upwards pressure on interest rates. Borrowers have witnessed an increase to commercial mortgage rate but rates are still near historic lows. Agency rates for stabilized, higher-leverage loans for properties with less than 100 units range from 3.50% - 4%. Value-add coupons are stable in the 3.75% - 4.75% range. These rates can decrease for loans above $10 million. Overall, the lending markets have a caution bullishness belief in real estate in 2022 despite impacts from COVID, as the consensus is that fundamental CRE backdrop is on solid footing.

Credit: Kevin & Brian Prouty, Mortgage Bankers - Tucson, AZ

OUTLOOK

As we move into the new year, Tucson’s market is expected to start the year strong and continue to boast record numbers and sales. With the holiday season ending, we expect multiple new properties to be listed at the start of 2022 as investors set their goals for the year. The recent slight dip to the market activity due to the holidays did not affect Tucson as one of the nation's leading multifamily markets for investors. If interest rates stay relatively low, we expect continued growth in the Tucson market this year as there are many untouched properties investors can pursue to increase value and cash returns post renovation and stabilization. A slight uptick in interest rates will likely cause a slight increase in Cap Rates and inventory.

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