

MARKETBEAT TUCSON

Multifamily Q1 2022

CUSHMAN & WAKEFIELD

PICOR

YoY Chg 12-Mo. Forecast

4.85%

Vacancy Rate



388

New Deliveries, units



\$1,126

Effective Rent, Per Unit



(Overall, All Property Classes)
Source: apartmentinsights.com

ECONOMIC INDICATORS Q1 2022

YoY Chg 12-Mo. Forecast

388.4K

Tucson
Employment



3.6%

Tucson
Unemployment Rate



\$53.6K

Tucson Median
Household Income



Source: BLS, BOC, Moody's Analytics

TUCSON ECONOMY UPDATE:

The Tucson metro area closed Q1 2022 with reported employment of 388,400 jobs, a 4.0% increase over the previous year. Household income dropped negligibly from \$54,100 Q1 2021 to \$53,600. Regional unemployment stood at 3.6%, nearly identical to the national average and down from 4.9% at year-end. Population in greater Tucson saw 1.0% annual growth, double the national average, and household formation was up 2.1% year-over-year. In the housing market, the February median sales price for Tucson single family homes increased 23.4% to \$356,500 over the previous February.

COVID / U OF A UPDATE:

In the first quarter, the Center for Disease Control (CDC) authorized a fourth dose of the vaccine for those ages 50 and older as well as those suffering from autoimmune conditions. According to the CDC, 81% of Arizonans have had at least one dose of the vaccine. Due to its wide availability, Governor Ducey has lifted all mandatory mask mandates throughout the state while encouraging vaccinations. The University of Arizona is back to a fully in-person learning environment with President Robbins removing mask mandates in indoor public spaces throughout campus on March 21, 2022.

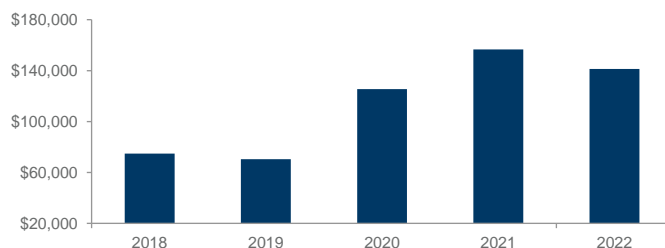
TRANSACTION UPDATES:

Rising interest rates have caused market shifts and a slight slowdown in transaction volume. The spread between interest rates and cap rates has shrunk drastically. This is due to minimal adjustments in cap rates following interest rate hikes. Despite these headwinds, many groups are eager to acquire properties and lock in financing at current interest rates with fear rates will continue to climb throughout the remainder of the year. Demand remains strong, with Tucson continuing to rank as one of the top Southwest markets to invest in.

SUPPLY (INVENTORY) VS. DEMAND (INVESTORS):

Over the past couple of years, demand for multifamily properties in Tucson has been very strong. Over the past couple years, over 200,000 people have moved to Arizona from out of state, with that number expected to rise. With more investors redirecting from the more populated areas that consistently have increasingly competitive markets like Los Angeles, Phoenix, and Austin, Tucson has emerged as the new hot market with higher cap rates and lower price per unit sales prices. The Fed's March 0.25% interest rate adjustment for the first time since 2018 and intent to gradually increase rates further has caused a slight shift in demand. Given that, Tucson remains a very strong market for sellers of apartment communities, though we expect cap rates to tick up.

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 | 3.82% | 14.92% | \$1,639 | \$1.70 | 21.65% |
| Northwest | 8,695 | 4.6% | 16.52% | \$1,425 | \$1.53 | 19.15% |
| Catalina Foothills | 5,726 | 3.23% | -12.7% | \$1,226 | \$1.60 | 19.24% |
| Northeast | 1,987 | 3.22% | 1.55% | \$1,440 | \$1.49 | 20.34% |
| East | 8,218 | 4.57% | 10.72% | \$1,063 | \$1.43 | 18.53% |
| North Central | 8,199 | 5.09% | 19.84% | \$925 | \$1.34 | 14.91% |
| Flowing Wells | 8,524 | 5.83% | 8.57% | \$931 | \$1.51 | 17.50% |
| Foothills | 3,780 | 4.19% | -9.11% | \$1,255 | \$1.59 | 21.11% |
| University | 4,509 | 5.42% | -28.30% | \$1,084 | \$1.72 | 12.54% |
| South Central | 6,595 | 5.63% | 14.20% | \$933 | \$1.43 | 12.86% |
| Pantano/Lakeside | 5,413 | 5.06% | 32.80% | \$1,054 | \$1.48 | 21.72% |
| South/Airport | 5,996 | 4.14% | -31.34% | \$922 | \$1.51 | 24.62% |
| Southwest | 2,415 | 5.51% | 21.41% | \$1,033 | \$1.42 | 20.42% |
| Southeast | 956 | 25% | 64.28% | \$888 | \$1.31 | 18.91% |
| Market | 73,292 | 4.85% | 10.30% | \$1,126 | \$1.50 | 18.83% |

*Submarket Marana excluded from report due to low inventory

Source: apartmentinsights.com

FINANCING

Since January 1, 2022, the five-year treasury rates have increased 78% and banks are anticipating these numbers to continue to climb. Due to rates going up, lending has been a concern among many people. Refinances made up roughly 50% of all transactions in Q1 as borrowers took advantage of the tremendously low-rate environment for loans. Loan providers are anticipating robust originations heading into Q2 with 70% LTV and a minimum origination fee of 0.50%, although it likely won't reach the same level as it did in the previous year. With such large interest rate hikes in such a short period of time, purchasers are having to account for future increases when underwriting potential acquisitions.

Credit: Robert Motz – Local Credit Union in Tucson, AZ

OUTLOOK

Overall, the first quarter of 2022 remained strong for Tucson with healthy transaction volume and continued record-breaking sales statistics. As interest rates continue to rise, we expect to see a slight uptick in inventory as sellers try to take advantage of the compressed cap rates. Groups who are eager to place money will likely still be competitive as they look to lock in attractive long-term financing options. Tucson has a relatively long runway for growth, and investors are betting on that future. With low market rents and attractive price per units and cap rates relative to other Southwest cities, Tucson is a strong market for investors to place capital. Student Housing has gained some demand traction as school is completely back in-person and vacancy has normalized to pre-COVID levels.

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