

YoY Chg 12-Mo. Forecast

6.26%

Vacancy Rate



381

New Deliveries, units



\$1,165

Effective Rent, Per Unit



(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2022

YoY Chg 12-Mo. Forecast

394K

Tucson Employment



3.3%

Tucson Unemployment Rate



\$62.7K

Tucson Median Household Income



Source: BLS, Census Bureau
Source: apartmentinsights.com

Tucson Economy:

In the third quarter of 2022 employment in the Tucson metropolitan area totaled 394,200 jobs, up 2.9% over Q3 2021. The unemployment rate dropped from 4.6% in Q3 2021 to 3.3% in Q3 2022. Household formation grew 1.9% year-over-year (YOY). Nationally, consumer spending was up 7.9% and retail sales were up a strong 8.9% YOY. As the Fed works to moderate inflation, many economists expect it to linger. Within Arizona, statewide growth is expected to far outpace the U.S. in the long run.

Market Overview:

This quarter Tucson saw the average vacancy rate increase .49% up to 6.26% from the previous quarter, which is also a 2.15% increase YOY. During the third quarter, Tucson's metropolitan area occupancy grew by 381 units as well as seeing the average gross apartment rent without utilities increase \$6 (.52%) from last quarter to \$1,165 per unit/\$1.54 per square foot (psf). In reviewing transactions for properties with 40 or more units from last quarter to this quarter, the average price per unit increased by a dramatic \$23,794 per unit and \$35.96 (psf) to a total of \$195,213 per unit and \$289.96 (psf).

Subsidized vs Market Rent:

The City of Tucson has made a concerted effort to attract owners to work with Section 8 and other subsidized housing constituencies. Housing options for these individuals have diminished greatly as many recent apartment owners have renovated/repositioned properties and removed subsidized residents. Rents for these individuals have been adjusted to meet market rates with an approximate 30% increase from rates seen in 2020. The HUD Approved Fair Market Rate for a one bedroom is \$1,071 and a two bedroom is \$1,410. Tucson will continue to face housing issues due to the significant supply shortage for single family rentals and multifamily units.

Supply vs Demand:

Tucson saw the first significant shift in the supply/demand arena in some time this quarter. Rising interest rates, increase in inventory and market uncertainty have led to a decrease in the buyer pool and a softening of market value. Many investors are on the sidelines expecting that rates will continue to rise, and pricing will decline further in upcoming quarters. C&W | PICOR has recorded an approximate 40% drop in investor interest at quarter's end with a significant reduction in buyer inquiries. We expect inventory to continue to rise with many owners fearful of further pricing drops along with the impending maturity of numerous adjustable loans in the coming months.

SALE PRICE PER UNIT



OVERALL VACANCY & EFFECTIVE RENT



MARKETBEAT TUCSON

Multifamily Q3 2022

CUSHMAN &
WAKEFIELD

PICOR

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	6.36%	33.80%	\$1,556	\$1.62	-3.11%
Northwest	8,695	6.73%	34.62%	\$1,426	\$1.53	4.56%
Catalina Foothills	5,726	4.79%	28.60%	\$1,209	\$1.58	5.29%
Northeast	1,987	4.93%	32.66%	\$1,461	\$1.51	8.56%
East	8,221	6.41%	43.21%	\$1,109	\$1.49	8.21%
North Central	8,197	5.95%	37.98%	\$966	\$1.40	9.42%
Flowing Wells	8,524	7.30%	39.18%	\$995	\$1.61	12.46%
Foothills	3,780	5.86%	37.03%	\$1,334	\$1.64	10.72%
University	4,509	3.73%	-14.45%	\$1,170	\$1.85	15.90%
South Central	6,595	6.05%	8.93%	\$1,019	\$1.55	12.46%
Pantano/Lakeside	5,412	7.75%	47.61%	\$1,102	\$1.55	15.06%
South/Airport	5,959	4.31%	9.28%	\$991	\$1.62	24.92%
Southwest	2,415	4.28%	17.76%	\$1,056	\$1.45	14.02%
Southeast	956	23.14%	52.42%	\$1,419	\$1.51	37.35%
Market	5232.5	6.97%	29.19%	\$1,201	\$1.53	12.56%

*Submarket Marana excluded from report due to low inventory

Source: apartmentinsights.com

Financing:

"Treasury yields have continued to increase across the yield curve. We experienced an increase in the 10-year treasury of nearly 100bps over Q3. From a lender's perspective, Investor demand appears to have declined from prior quarters as a result of the continuously increasing rate environment as investors have needed to come up with more down payment to meet minimum DSCR thresholds. Vacancy has increased in Q3 market wide up to around 7% (compared to around 4.5% at this time last year) and we have begun to see owners offer concessions more regularly. Over the next quarter (or even year for that matter), we expect rent growth to be rather modest; the days of rent growth exceeding 10% YOY are well gone. We don't anticipate a massive market downturn or substantial decrease in property values, but we do expect values to remain stagnant or perhaps see a modest decline on a price per unit basis along with seeing some upward trajectory with cap rates. I anticipate we will be in this increasing/high rate environment for the next 12-18 months, with some gradual decreases beginning sometime in 2024."

Adam Coggshall & Robert Motz – Pima Federal Credit Union – rmotz@pimafederal.org – 520-202-0672

Outlook:

Tucson's multifamily market held relatively strong in the Q3 2022, experiencing a healthy transaction volume and pricing levels. With further expected interest rate increases, we believe for sale inventory will open toward the end of 2022, as more sellers enter the market with the upcoming changes in inventory and demand. Many investors are banking on continued rental growth in Tucson, as the value-add market should remain deep and strong. With relatively low rental rates and attractive prices per unit, investors will be drawn to place capital in the rising Tucson multifamily market. With the local market years behind in the supply of rental inventory, it is primed to withstand any major dip and is in a promising position for the short and long term.

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