MARKETBEAT

TUCSON

Multifamily Q3 2023

CUSHMAN & WAKEFIELD | PICOR

	YOY Chg	12-Mo. Forecast
7.76% Vacancy Rate	▲	▲
425 New Deliveries, units	▼	▲
$1,167 Effective Rent, Per Unit	▼	▬

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2023

	YOY Chg	12-Mo. Forecast
399K Tucson Employment	▲	▲
3.4% Tucson Unemployment Rate	▲	▲
$64.6K Tucson Median Household Income	▲	▲

Source: BLS, Census Bureau

Source: apartmentinsights.com

Tucson Economy:

In the third quarter of 2023, the US economy showcased consistent resilience, although predictions for its future varied. In Tucson, encouraging signs were observed. The median household income rose by 4.0% compared to the previous year, bolstering consumer spending. However, consumer confidence did wane slightly in September. Nationally, real GDP grew by 2.4%, demonstrating economic vigor despite some recessionary concerns. After a year of consistent decline in inflation, the consumer price index increased to 3.4%. This is notably lower than the 8.3% recorded the previous year. Metro Tucson's nonfarm employment experienced a positive, modest rise of 1.3%. Furthermore, Tucson's unemployment rate saw a decrease from 4.0% to 3.7%, indicating a robust labor market.

Market Overview:

The Tucson multifamily market continued to display dynamic trends throughout Q3. The vacancy rate notably grew to 7.76%, marking a significant 1.61% YOY increase. Moreover, the Tucson MSA's inventory increased measurably by 233 units during this period, indicating a growing demand for housing in the region. On the rental front, monthly gross apartment rents in Tucson climbed to $1,167 per unit or $1.58 per square foot, registering a $14 uptick or a 1.18% increase from Q2 2023. These statistics reflect the robust activity in the Tucson housing market, suggesting an attractive investment landscape for both renters and investors in Q3 2023.

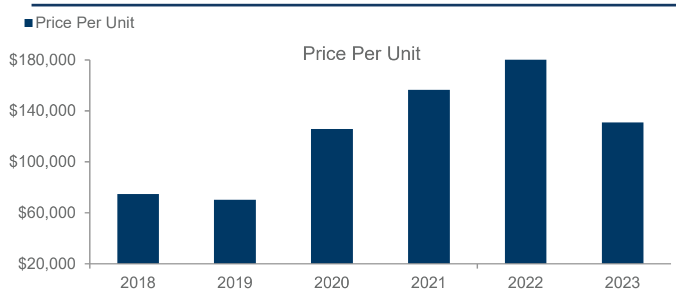
Rents and Lease-up Duration:

Tucson's rental market saw adjustments this quarter due to rapid rent inflation impacted by increasing operational expenses. The Tucson MSA saw a $31 (2.66%) average gross rent increase with the average rising to $1,167 per unit. Southeast Tucson reported the highest rent at $1,599, while South Central Tucson recorded the lowest at $1,000. 12 submarkets experienced rent hikes, with the South Tucson/Airport submarket leading with a 3.57% increase of $38. The Southeast Tucson submarket displayed the largest gain of $180.

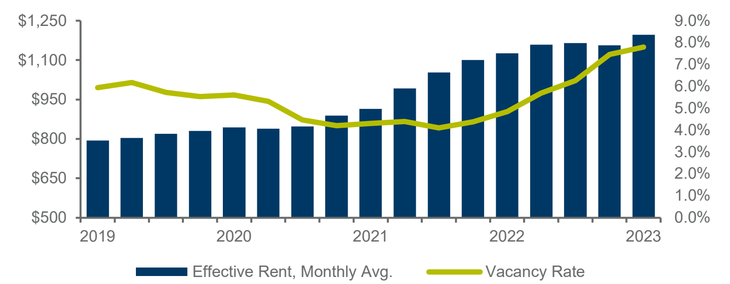
Supply vs Demand:

In Q3 2023, Tucson's apartment market experienced shifts in supply and demand. The construction pipeline remained active with 8,367 units in progress. Occupancy increased by 223 units, driven by 68 units in the Oro Valley/Catalina submarket in Q3 and Southeast Tucson's year-over-year gain of 189 units. Northeast Tucson saw a decline of 52 units in Q3. The Tucson MSA maintained competitive vacancy rates, favoring renters, with expected rent increases in Q4. While Q3 2022 had a larger difference between the supply and demand, this gap is decreasing every quarter and is advancing closer towards equilibrium.

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	2,615	6.63%	4.07%	$1,579	$1.64	1.45%
Northwest	8,695	7.27%	7.42%	$1,458	$1.57	2.19%
Catalina Foothills	5,726	7.93%	39.59%	$1,280	$1.67	5.50%
Northeast	1,987	8.71%	43.39%	$1,497	$1.55	2.40%
East	8,222	6.96%	7.90%	$1,125	$1.51	1.42%
North Central	8,197	8.34%	28.65%	$1,002	$1.45	3.59%
Flowing Wells	8,644	8.73%	16.38%	$1,011	$1.64	1.58%
Foothills	3,921	6.82%	14.07%	$1,372	$1.69	2.76%
University	4,509	4.00%	6.75%	$1,237	$1.96	5.41%
South Central	6,595	8.44%	28.31%	$1,000	$1.53	-1.86%
Pantano/Lakeside	5,412	9.04%	14.26%	$1,088	$1.53	-1.27%
South/Airport	6,589	7.37%	41.51%	$1.101	$1.71	9.99%
Southwest	2,415	9.97%	57.07%	$1,090	$1.49	3.11%
Southeast	956	8.37%	-63.83%	$1,599	$1.53	11.25%
Market	**74,483**	**7.76%**	**17.54%**	**$1,167**	**$1.61**	**3.84%**

*Submarket Marana excluded from report due to low inventory

Source: apartmentinsights.com

Financing:

"Lenders Recap quarter 3 of 2023. Surprisingly, loan originations outpaced 2022 production. However, this was a function of increased LOI activity toward the end of quarter 2 and beginning of July as the cost of borrowing was more attractive and spurred borrowers to act quickly. The spike in Bond yields, and the Federal Reserve maintaining a 22-year high Federal Funds rate, has placed upward pressure on our lending rates. In addition to the increased interest rates, underwriting has tightened up. Increasing our DSCR thresholds from a 1.20 to 1.25. Typically leverage in today's market for purchases is 60% or less. Large down payments are giving investors a pause, and widening the gap between sellers' expectations, and buyers' expectations. Considering all the challenges we are facing, quality products are still trading, and buyers are more focused on location. Tucson has strong fundamentals for multifamily and is a top market for investors to target. We are actively lending, and currently quoting 45-60 days for new loan requests."
Adam Coggshall & Robert Motz – Pima Federal Credit Union – rmotz@pimafederal.org – 520-202-0672

Outlook:

Quarter 4 is expected to bring very little change to the current marketplace. Inventory has seen a slight pickup as many owners are looking to dispose assets before year end for tax purposes. Demand remains strong as investors are encouraged with the fundamentals Tucson provides, specifically the lack of affordable housing. The rental market locally is healthy as supply is a significant issue in Tucson. With market-rate and subsidized rental amounts relatively equal the market should see minimal drops in rental amounts. Lending remains less than ideal as rates are expected to remain in the 7+% range with lower leverage.

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