MARKETBEAT

TUCSON

Multifamily Q4 2023

CUSHMAN & WAKEFIELD | PICOR

	YOY Chg	12-Mo. Forecast
8.16% Vacancy Rate	▲	▼
1,133 New Deliveries, units	▲	▲
$1,182 Effective Rent, Per Unit	▲	▬

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2023

	YOY Chg	12-Mo. Forecast
399K Tucson Employment	▲	▲
4.0% Tucson Unemployment Rate	▲	▲
$68.4K Tucson Median Household Income	▲	▲

Source: BLS, Census Bureau

Source: apartmentinsights.com

Tucson Economy:

In the fourth quarter of 2023, the United States economy continued to exhibit positive signs, though forecasts remained mixed. Tucson's indicators were optimistic. The median household income in Tucson experienced a 3.3% increase year-over-year, reaching $68,400, contributing to an uptick in consumer spending. On a national scale, real GDP experienced a healthy 2.6% growth, affirming the economy's strength amid lingering recession worries. Inflation, which had been steadily decreasing over the year, saw the consumer price index rise to 3.3%, a significant reduction from the previous year's 7.1%. Employment in Tucson's nonfarm sector saw a modest but positive growth of 1.0%. Additionally, Tucson's unemployment rate marginally increased from 3.9% to 4.0%, reflecting a dynamic job market.

Market Overview:

Tucson's apartment vacancy increased to 8.16% in Q4 2023, a .70% increase from Q4 2022. Though this might raise alarm, notable improvement occurred across six of the submarkets showing strengths in certain areas. Inventory surged by an impressive 1,133 units, working to keep pace with a robust demand for housing. Sales velocity slowed drastically in Q4 of 2023 with only two sales occurring to properties over 40 units. There were three sales in the Multi-Family market for properties sized 20-40 units.

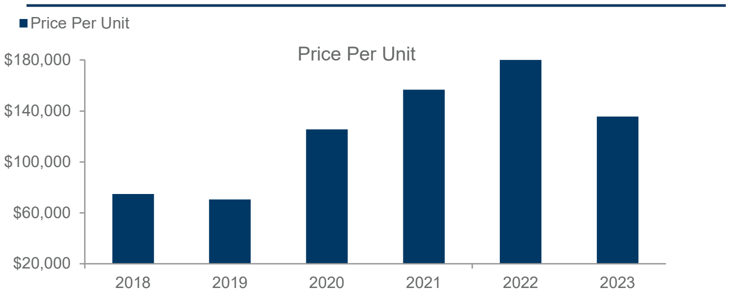
Rents and Lease-up Duration:

In the transition from Q3 to Q4, despite the challenges posed by high inflation and operational costs, the Tucson apartment market demonstrated resilience, most notably through a minimal rent decline, unlike most major MSAs. The minimal decline was approximately $9 from Q3 2023, marking a slight .75% change. Notably, the Southeast market ended 2023 as a standout, showcasing an impressive 48.16% year-over-year decrease in vacancy rates and meaningful rent growth of 14.27%. Leasing in Q4 slowed, per usual, due to holidays.

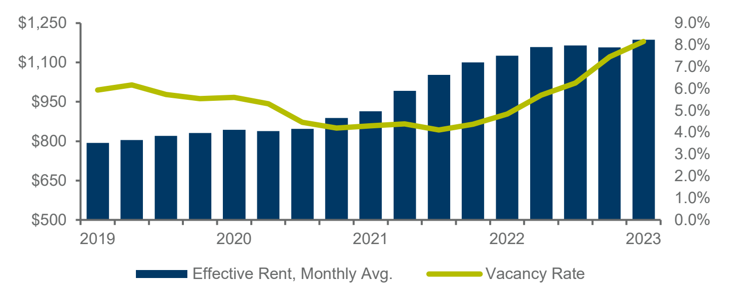
Supply vs Demand:

With Q4 revealing a continued disparity between sellers' expectations and purchasers' willingness to meet those demands, investment sales experienced a notable decrease, though this is typical during the holiday season. With inventory remaining at an all time low and demand remaining strong, this signifies a market with a resilient supply-demand dynamic despite temporary slowdowns in sales. As assets become available for sale, there will be investors ready to pursue. Most owners are hoping for interest rates to continue to decrease throughout the year meaning an appreciation in property values.

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%	7.36%	$1,579	$1.64	-0.44%
Northwest	8,695	7.42%	3.63%	$1,417	$1.52	-0.14%
Catalina Foothills	5,726	7.14%	16.38%	$1,260	$1.64	3.88%
Northeast	2,181	8.15%	-2.97%	$1,467	$1.52	2.50%
East	8,222	8.32%	6.97%	$1,093	$1.46	0.91%
North Central	8,257	8.62%	5.80%	$1,011	$1.47	5.14%
Flowing Wells	8,857	9.54%	12.26%	$1,008	$1.64	0.79%
Foothills	4,277	8.87%	22.77%	$1,339	$1.68	0.59%
University	4,511	4.14%	6.76%	$1,211	$1.92	0.08%
South Central	6,602	8.23%	11.30%	$1,042	$1.57	5.47%
Pantano/Lakeside	5,412	10.61%	17.71%	$1,065	$1.50	-0.18%
South/Airport	6,589	7.52%	3.32%	$1,130	$1.75	9.11%
Southwest	2,415	5.89%	2.03%	$1,105	$1.51	4.16%
Southeast	1,257	8.05%	-48.16%	$1,653	$1.59	14.27%
Market	**75,696**	**8.16%**	**4.65%**	**$1,182**	**$1.57**	**3.30%**

*Submarket Marana excluded from report due to low inventory

Source: apartmentinsights.com

Financing:

"An abundance of change is an easy way to recapture the 2023 lending environment. Loan production was a shadow in comparison to years prior; however, of the 44 loans we booked, 56% of those requests were purchases. Underwriting presented new challenges in 2023. We tightened down our underwriting standard and increased our DSCR thresholds to 1.25. Increased DSCR thresholds in conjunction with increased operating expenses, and vacancy/collection loss rates, reduced supportable loan dollars, driving LTV in the 50-65% range. With such large capital contributions investors are more sensitive to subject property location. Quality products are trading with multiple and aggressive offers."

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

Outlook:

In 2024, Tucson's MSA is set to harden its status as a robust market, sustained by limited inventory and rising demand. The evolving lending landscape, characterized by progressively lower interest rates, is expected to provide increased activity, countering the slowdown experienced in 2023. We expect investors who were sidelined in 2023 to be "Pencil's Up" this year and actively pursuing opportunities in the Tucson market. The institutional sized properties are expected to remain slow on a volume basis as the market adapts to adjusted cap rates and valuations. Discussions surrounding the 2024 presidential election are expected to enter real estate conversations, introducing an additional layer of unknown to the evolving landscape of the market.

ALLAN MENDELSBERG
Multi-Family Team, Principal
+1 520 546 2721 / amendelsberg@picor.com

JOEY MARTINEZ
Multi-Family Team, Principal
+1 520 546 2730 / jmartinez@picor.com