

# Greater Tucson Multifamily

## Low Vacancy Sparks Rapid Rent Growth

### Highlights

- > The Tucson multifamily market closed 2020 on an upswing, sustaining the momentum that was achieved during the third quarter. The local vacancy rate dipped to its lowest level in more than two decades, and rents continued to post healthy gains.
- > Vacancy fell 120 basis points in 2020, the eighth consecutive year where the rate trended lower. The local vacancy rate dipped 20 basis points during the fourth quarter, falling to 4.3 percent.
- > Local asking rents advanced 2.5 percent in the fourth quarter, ending the year at \$889 per month. Multifamily rents in Tucson spiked 7 percent in 2020, one of the country's most significant increases.
- > Sales of apartment properties surged during the fourth quarter, capping off a strong year of investment activity. Sales velocity rose approximately 35 percent from 2019 to 2020, with the fourth quarter representing the period of the most transactions. For the full year, prices and cap rates closely tracked levels from 2019.

### Tucson Multifamily Market Overview

The Tucson multifamily market thrived in a turbulent year in 2020, with operating conditions largely holding steady in the first half before strengthening during the second half. Vacancies tightened and rents spiked in the third and fourth quarters, despite net job losses for the year. Vacancy has declined in each of the last eight years, reaching the lowest point in more than 20 years. With renter demand elevated, rents rose, advancing 2.5 percent in the fourth quarter and gaining 7 percent for the year.

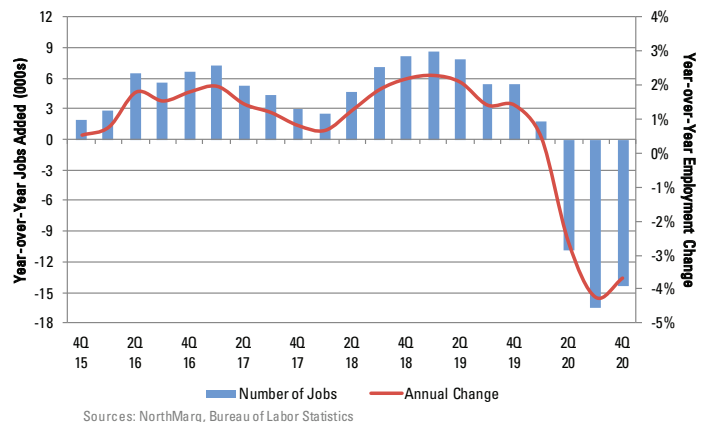
Q4 Snapshot	Tucson Market
<b>Market Fundamentals</b>	
Vacancy .....	<b>4.3%</b>
- Year Over Year Change .....	<b>-120 bps</b>
Asking Rent .....	<b>\$889</b>
- Year Over Year Change .....	<b>7.0%</b>
<b>Transaction Activity</b>	
Median Sales Price Per Unit (YTD) .....	<b>\$73,400</b>
Cap Rates (Avg YTD) .....	<b>5.7%</b>
<b>Construction Activity</b>	
Units Under Construction .....	<b>1,268</b>
Units Delivered YTD .....	<b>765</b>

The multifamily investment market posted strong performance throughout 2020, with activity gaining momentum in the fourth quarter. Total sales volume outpaced last year's figure, with a greater number of larger deals occurring, particularly at the close of the year. One factor driving the increase in activity at the end of the year was a rise in larger transactions. The bulk of the transactions that closed in the final three months of the year topped \$10 million, and 30 percent of the transactions closed at more than \$30 million.

## Employment

- > The Tucson employment market added jobs at a modest pace to finish the year. During the fourth quarter, employers added nearly 3,500 net jobs to their payrolls. Despite gains in the period, employment contracted by approximately 13,700 net jobs, or 3.7 percent, during the full 2020 calendar year.
- > Tucson's presence in transportation and logistics-related services continues to grow. Employment in the trade, transportation, and utilities sector has expanded 7 percent from one year ago with a gain of 4,500 net jobs. Amazon opened a fulfillment center in southeast Tucson in 2019, and employment at the site has grown to nearly 3,000 workers.
- > After some moderate job losses in the third quarter, Tucson's leisure and hospitality industry began to recover in the fourth quarter. Total employment in the sector reached the highest total since severe losses recorded during the spring. Year over year, employment in leisure and hospitality is down 5.8 percent.
- > **Forecast:** Much of the pace of recovery in the local labor market will be determined by the spread or containment of the coronavirus and the rate of vaccinations. Preliminary forecasts call for job growth of approximately 2.3 percent in 2021, an addition of 8,500 positions.

## Employment Overview



*Tucson's leisure and hospitality industry began to recover in the fourth quarter*

## Vacancy

- > After a substantial drop in the third quarter, vacancy continued to improve in the fourth quarter, dipping 20 basis points to 4.3 percent. The current vacancy rate is the lowest on record for any quarter in more than 25 years.
- > In 2020, strong renter demand drove the vacancy rate down 120 basis points. Of the 15 submarkets in the Tucson area, 13 posted vacancy declines in 2020. One area where the vacancy rate rose was the University submarket, but conditions improved in the final few months of 2020. After trending higher in the second and third quarters, vacancy in the University submarket tightened by 250 basis points to 7.5 percent in the fourth quarter.
- > Apartment demand in Tucson remained strong during the fourth quarter, totaling 280 units. Net absorption reached 1,290 units during 2020, more than double the amount recorded in 2019.
- > **Forecast:** Following a sharp decline in the second half of 2020, vacancy is forecast to tick higher in 2021. The rate is forecast to reach 4.5 percent by the end of 2021, 20 basis points higher than one year earlier.

## Vacancy Trends

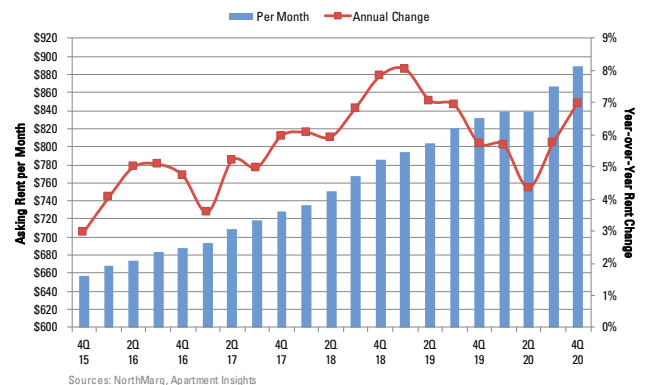


*In 2020, strong renter demand drove the vacancy rate down 120 basis points*

## Rents

- > After holding steady in the first half of the year, asking rents in Tucson surged in consecutive quarters to finish 2020. Apartment rents rose 2.5 percent in the fourth quarter, following an advance of 3.3 percent in the third quarter. Average asking rents in Tucson currently sit at \$889 per month.
- > Average rents advanced 7 percent in 2020, one of the more rapid growth rates in the country. Annual rental growth has averaged 5.6 percent during the past five years.
- > Rents in the South Tucson/Airport submarket are lower than in most of the region, but are expanding faster than the overall market. In 2020, apartment rents in the area grew 10 percent to \$681 per month.
- > **Forecast:** After surging during the second half of the year, rental growth is forecast to rise at a more consistent pace in 2021. Apartment rents are forecast to finish the year at approximately \$935 per month, a 5 percent annual gain.

## Rent Trends

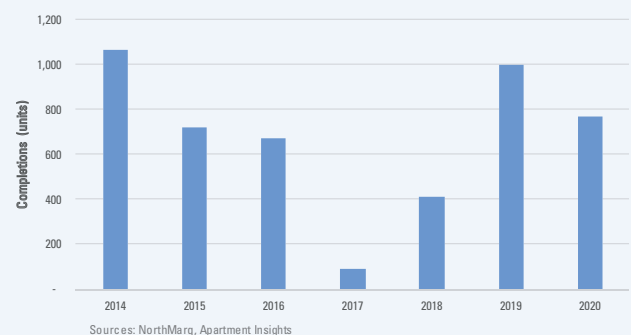


*Average rents advanced 7 percent in 2020, one of the more rapid growth rates in the country*

## Development and Permitting

- > After an active third quarter, apartment deliveries leveled off at the end of the year. In the fourth quarter, multifamily developers completed approximately 50 units. Developers brought 765 units online in 2020, down 24 percent from 2019 levels.
- > As new units have come online, the construction pipeline has thinned from its peak in mid-2019. Projects totaling 1,268 apartment units are currently under construction, down nearly 40 percent from one year ago.
- > Following consecutive years of robust activity in 2018 and 2019, the pace of permitting slowed in 2020. Developers pulled permits for approximately 630 multifamily units in 2020, a decline of almost 40 percent from last year.
- > **Forecast:** The year ahead is forecast to record an acceleration in the pace of new apartment development. Deliveries are forecast to reach approximately 900 units in 2021.

## Development Trends

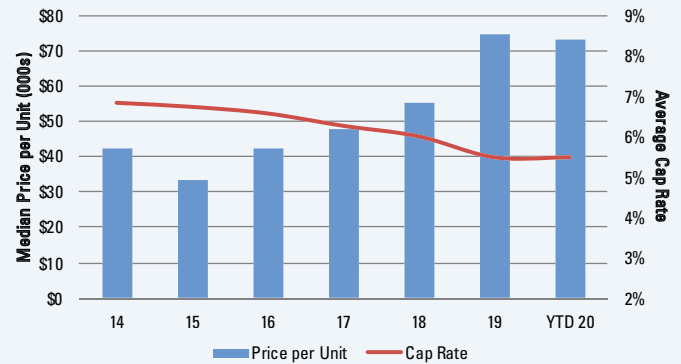


*Projects totaling 1,268 apartment units are currently under construction*

## Multifamily Sales

- > Tucson’s investment market ramped up during the final period of the year. In the fourth quarter, total sales dollar volume nearly tripled the figure from the previous quarter, as larger deals propelled activity. While most major markets have witnessed a significant drop-off this year, Tucson’s sales velocity actually gained momentum; transaction activity in 2020 outpaced last year’s number by roughly 35 percent.
- > The median price for all of 2020 was approximately \$73,500 per unit, nearly identical to the median price in 2019. As sales velocity picked up, prices spiked; in deals closed during the fourth quarter, the median price was \$92,200 per unit.
- > Cap rates compressed in the fourth quarter, averaging 5.4 percent, and a few transactions traded at cap rates below 5 percent. The average cap rate this year was approximately 5.5 percent.

## Investment Trends



*In deals closed during the fourth quarter, the median price was \$92,200 per unit*

## Recent Transactions in the Market

### MULTIFAMILY SALES ACTIVITY

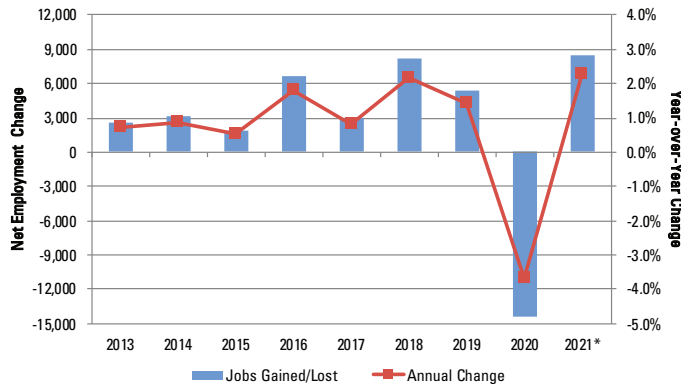
Property Name	Street Address	Units	Sales Price	Price/Unit
Entrada	4545 N Via Entrada, Tucson	424	\$65,500,000	\$154,481
Tanque Verde	7671 E Tanque Verde Rd., Tucson	428	\$46,100,000	\$107,710
Sierra Vista Apartments	3535 N 1st Ave., Tucson	258	\$18,100,000	\$70,155
Huntington Park Apartments	8550 E Speedway, Tucson	212	\$17,200,000	\$81,132

## Looking Ahead

The strong close to 2020 in the Tucson multifamily market has set the stage for another year of healthy performance in the year ahead. The local vacancy rate is at the lowest point in a generation, despite a fairly active pace of multifamily development in each of the past two years. Additional projects are forecast to come online in 2021, and the vacancy rate is likely to inch higher. Renter demand will likely be strongest in the second half of the year, mirroring a trend that arose in 2020. Rent growth is expected to total approximately 5 percent in 2021, somewhat more modest than the area's five-year average.

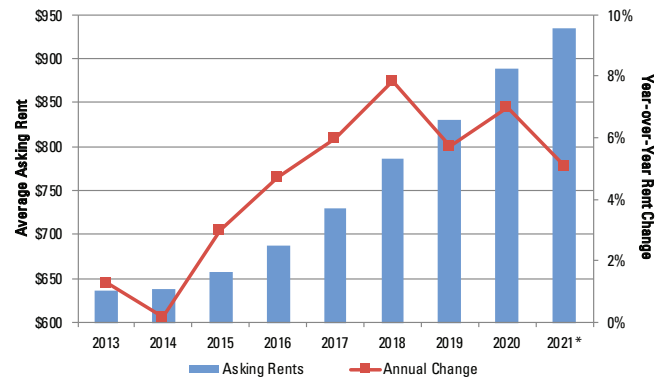
The pace of transaction activity in Tucson will likely level off a bit in 2021, particularly in the first few months of the year, following a wave of property sales in recent quarters. Property sales in four of the past five years have outpaced the long-term trend, reflecting the healthy levels of investor demand, strong property fundamentals, and low borrowing costs available in the market. One transformation that has occurred in recent years has been the increase in larger transactions. In prior years, transactions in complexes smaller than 100 units selling for less than \$5 million accounted for nearly half of the sales in the market. There could be an increase in these transactions in the first half of the year.

### Employment Forecast



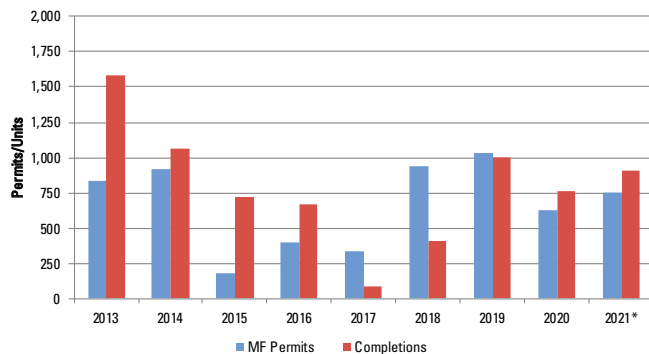
\* Year End Forecast  
Sources: NorthMarq, Bureau of Labor Statistics

### Rent Forecast



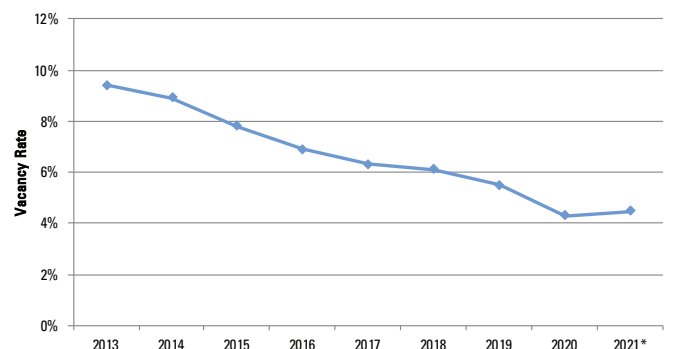
\* Year End Forecast  
Sources: NorthMarq, Apartment Insights

### Construction & Permitting Forecast



\* Year End Forecast  
Sources: NorthMarq, Apartment Insights, Census Bureau

### Vacancy Forecast



\* Year End Forecast  
Sources: NorthMarq, Apartment Insights

## About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than \$14 billion, loan servicing portfolio of more than \$61 billion and the multi-year tenure of our nearly 600 people.

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