Northmarq

MARKET INSIGHTS

Strong seasonal trends steady the local market

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	3,365
UNITS DELIVERED	992

MARKET FUNDAMENTALS

VACANCY RATE	7.9%
YEAR-OVER-YEAR CHANGE	+160bps
ASKING RENTS	$1,196
YEAR-OVER-YEAR CHANGE	2.7%

TRANSACTION ACTIVITY (YTD)

MEDIAN SALES PRICE	$116,000

Tucson Multifamily
3Q 2023

HIGHLIGHTS

- Following a sluggish first half, the Tucson multifamily market posted improving performance during the third quarter. The vacancy rate decreased, and rents maintained an upward trajectory. Vacancy tightened even as more units were delivered to the market.
- Area vacancy dipped 20 basis points during the third quarter to 7.9 percent, marking the first vacancy improvement since the third quarter of 2021. Year over year, the rate is up 160 basis points.
- Asking rents continued to trend higher, rising 1.2 percent during the third quarter to $1,196 per month. Area rents increased by 2.7 percent in the past year.
- Sales velocity accelerated in recent months, however, transaction volume year to date is still down 80 percent from levels posted in the same period last year. The median sales price thus far in 2023 is $116,000 per unit.

TUCSON MULTIFAMILY MARKET OVERVIEW

Operating conditions in the Tucson multifamily market improved in recent months even as the pace of deliveries gained momentum. The market received a seasonal bump in renter demand as University of Arizona students returned to classes for the new school year, fueling the first quarterly vacancy decline in two years. Absorption during the third quarter totaled more than 225 units, the highest total since the third quarter of 2022. Renter demand remains the primary factor in recent multifamily property performance in the Tucson region. Last year was the first year in more than a decade with negative net absorption recorded for a full year, while 2023 is on pace to return to a slightly positive annual total. With demand for units on the rise, rents continued to push higher at a solid pace in recent months.

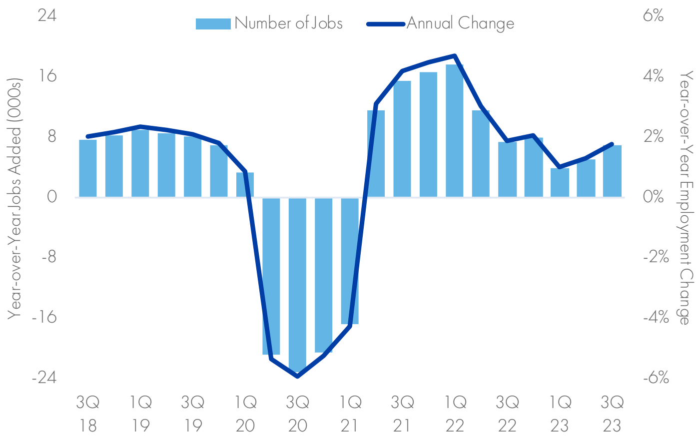
Multifamily investment activity in Tucson picked up during the third quarter, but the total number of deals year to date is down 80 percent from the same period last year. Class C properties continued to make up nearly all of the transaction mix so far in 2023 after accounting for roughly half of the deals in 2022. The void in the transaction mix has been in Class B properties, where there has been almost no deals year to date, after totaling nearly 50 percent of the sales in 2021 and 2022. This shift in the transaction mix towards older, Class C assets dragged on pricing in recent quarters. The median sales price to this point in 2023 is $116,000 per unit after the figure approached $150,000 per unit last year. Cap rates averaged approximately 6 percent during the third quarter.

EMPLOYMENT

- The local labor market continued to expand in recent months. Year over year, Tucson employers grew payrolls by 1.8 percent, with the addition of 7,000 workers.
- Employment growth was mixed across industries in recent periods, with Tucson's manufacturing sector posting some of the strongest gains. During the past 12 months, net manufacturing hiring totaled 1,600 employees, a 5.7 percent expansion.
- Israel Aerospace Industries and Ascent Aviation Services in Marana recently announced a partnership that will lead to two new hangars near the Pinal Airpark. Upon completion in late 2024, the hangars will serve as a conversion facility for Boeing 777 into freight aircrafts. The move is expected to create more than 300 new jobs by the end of next year.
- **FORECAST:** The local labor market is forecast to record modest gains in 2023. Total employment is projected to rise by 1 percent this year with the addition of 4,000 new positions.

Year over year, employers grew payrolls by 1.6 percent.

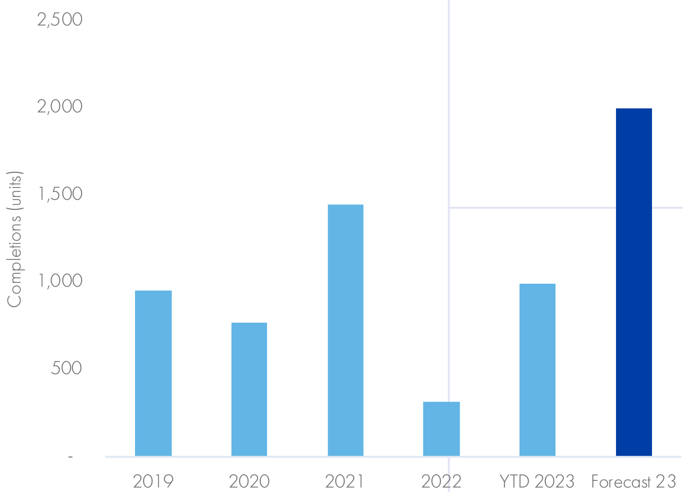
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Nearly 1,000 units have been completed year to date.

DEVELOPMENT TRENDS



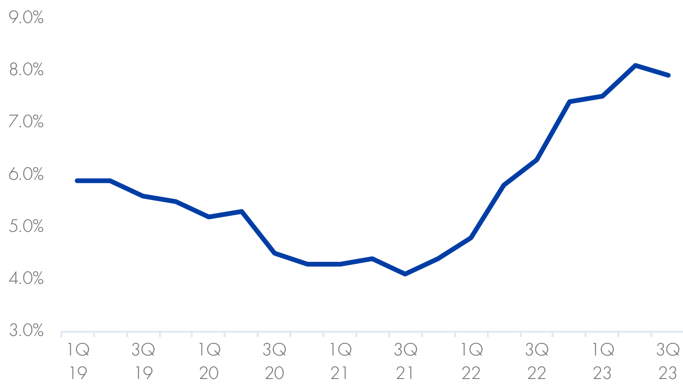
Sources: Northmarq, Apartment Insights

DEVELOPMENT & PERMITTING

- The pace of multifamily deliveries accelerated in recent months, as projects totaling more than 400 units came online during the third quarter, after 140 units were delivered in the prior quarter. Nearly 1,000 units have been completed year to date.
- Current construction levels are well above the levels posted one year ago. Projects totaling more than 3,350 units are currently under way, up 43 percent from the same time last year. The pipeline peaked during the middle of this year, when 3,800 units were under construction.
- Developers pulled permits for roughly 1,000 multifamily units in the past nine months, down 30 percent from the same period in 2022. Prior to a spike in permitting last year, an average of 600 permits were issued annually from 2017 to 2021.
- **FORECAST:** Multifamily deliveries are on track to reach a cyclical high in 2023. Projects totaling nearly 2,000 units are scheduled to come online this year.

Vacancy improved by 20 basis points during the third quarter.

VACANCY TRENDS



Sources: Northmarq, Apartment Insights

VACANCY

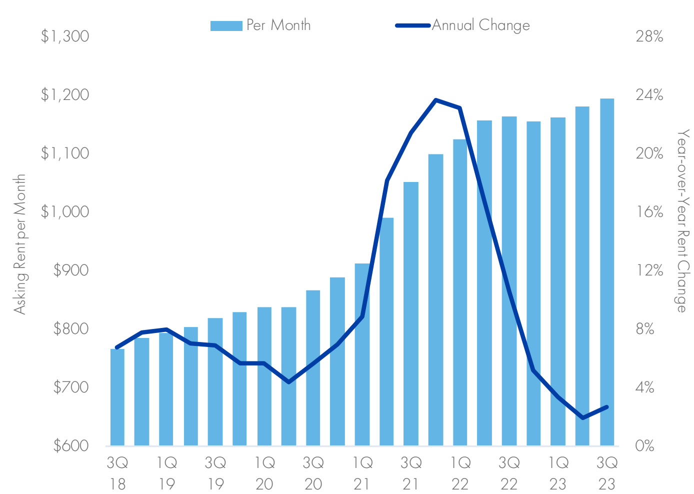
- Local vacancy dipped in recent months after reaching an eight-year high in the preceding quarter. The vacancy rate improved by 20 basis points during the third quarter to 7.9 percent. Despite the recent declines, area vacancy rose 160 basis points year over year.
- While vacancy trended higher throughout the Tucson region since 2021, increases were less extreme in Northwest Tucson. The vacancy rate in this submarket rose 60 basis points in the past year to 7.3 percent.
- The University submarket is currently posting the tightest vacancy conditions in Tucson as students return to campus for the start of the school year. Vacancy in the University submarket closed the third quarter at 4 percent, down 380 basis points from last quarter. The average vacancy rate over the past five years in this submarket is 5.8 percent.
- **FORECAST:** Local vacancy is projected to tick higher in the coming months as deliveries ramp up. Vacancy is on track to finish the year at 8.4 percent, 100 basis points higher than the year-end 2022 figure.

RENTS

- Rent growth has been consistent to this point in 2023. Asking rents in Tucson rose 1.2 percent during the third quarter reaching $1,196 per month. Year over year, local rents advanced 2.7 percent.
- Rents in the Catalina Foothills submarket have pushed higher, rising by more than $35 per month in the third quarter. Year over year, asking rents in the submarket advanced 5.9 percent, reaching $1,280 per month.
- Middle-tier properties are posting the steepest rent increases. During the past 12 months, rents in Class B units increased by 7 percent, finishing the third quarter at $1,358 per month.
- **FORECAST:** Asking rents will likely continue to push higher in the closing months of 2023. Local rents are forecast to rise by 3.7 percent annually, to $1,200 per month.

Year over year, local rents advanced 2.7 percent.

RENT TRENDS



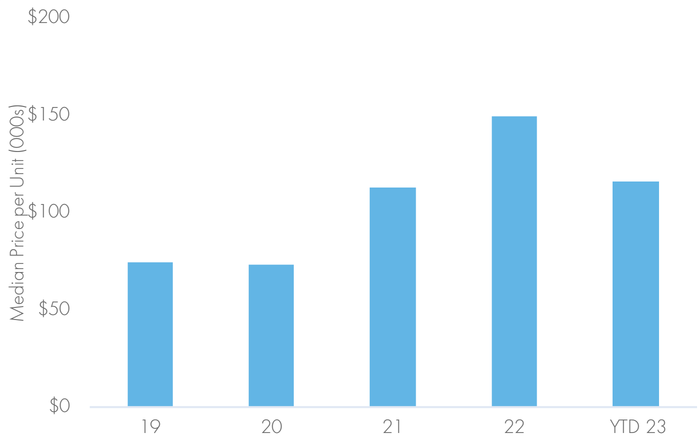
Sources: Northmarq, Apartment Insights

MULTIFAMILY SALES

- Sales velocity accelerated in recent months, as transaction volume in the third quarter matched levels recorded in the previous two quarters combined. Despite the recent flurry of activity, total sales in Tucson remain limited to this point in 2023. The number of deals in the last nine months is down 80 percent from the same period last year.
- The median sales price to this point in the year is $116,000 per unit, down 23 percent from the median price last year. The recent drag on pricing can be attributed to the influence of sales of older, Class C assets. Lower-tier properties have accounted for nearly all of the sales so far in 2023, after totaling about half of the transactions that closed last year.
- Cap rates ticked higher in recent months, averaging 6 percent during the third quarter. Cap rates ranged between 4.5 percent and 5 percent in the same period last year.

The median price to this point in the year is $116,000 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

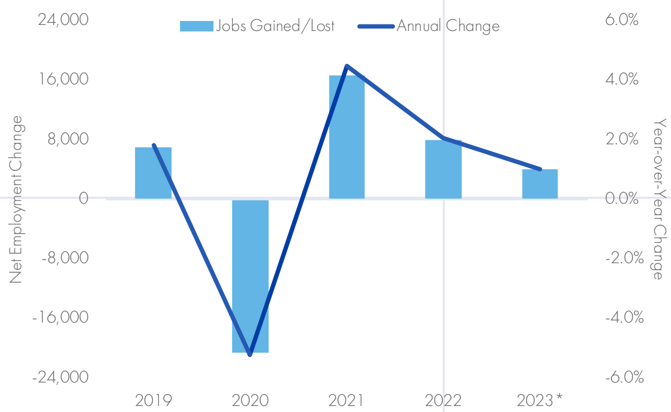
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Juniper Canyon	3055 N Flowing Wells Rd., Tucson	141	$19,800,000	$140,426
Via Alamos Apartments	300 W Via Alamos Dr., Green Valley	160	$19,500,000	$121,875
The Vistas on Fort Lowell	3828 E Fort Lowell Rd., Tucson	77	$8,475,000	$110,065

LOOKING AHEAD

Property performance metrics in the Tucson multifamily market are expected to cool in the closing months of the year, as annual apartment completions reach a cyclical high. Multifamily deliveries are projected to spike in the final months of 2023 after a handful of projects that were delayed in 2022 and early 2023 will come online. Projects totaling roughly 2,000 units are slated for delivery in 2023; annual completions averaged roughly 800 units in the trailing five years. Vacancy conditions are expected to weaken in the coming periods, as renter demand is unlikely to keep pace with elevated supply growth. Despite forecast vacancy increases, asking rents should hold steady to close the year, following peak leasing activity in the third quarter.

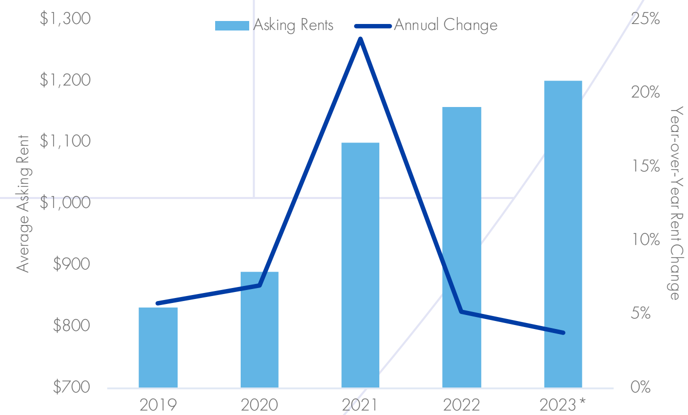
Transaction volume in the Tucson multifamily investment market may pick up slightly in the coming months, but the annual sales total in 2023 is on pace to fall to a ten-year low. Despite the recent lack of transactions, the market's consistent rent growth and influx of new supply should present opportunities for investors in 2024 and the subsequent years. With apartment construction ramping up, investors will closely track lease-up activity on the new projects, as some deliveries will ultimately make their way into the investment market. The Northwest Tucson submarket is currently recording the highest concentration of coming projects while posting one of the lowest vacancy rates in the region, which could present some investment opportunities going forward.

EMPLOYMENT FORECAST



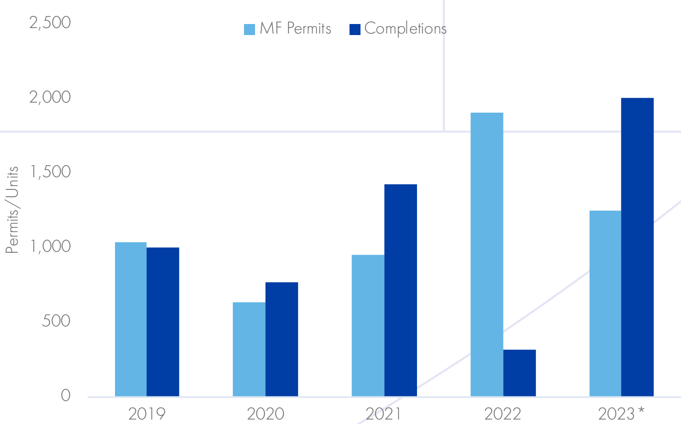
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



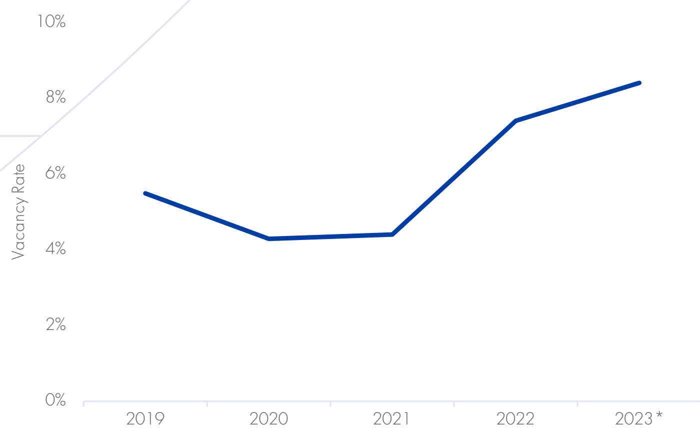
** Year End Forecast*
Sources: Northmarq, Apartment Insights

CONSTRUCTION & PERMITTING FORECAST



** Year End Forecast*
Sources: Northmarq, Apartment Insights, Census Bureau

VACANCY FORECAST



** Year End Forecast*
Sources: Northmarq, Apartment Insights

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