MARKET REPORT

Multifamily

Tucson Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

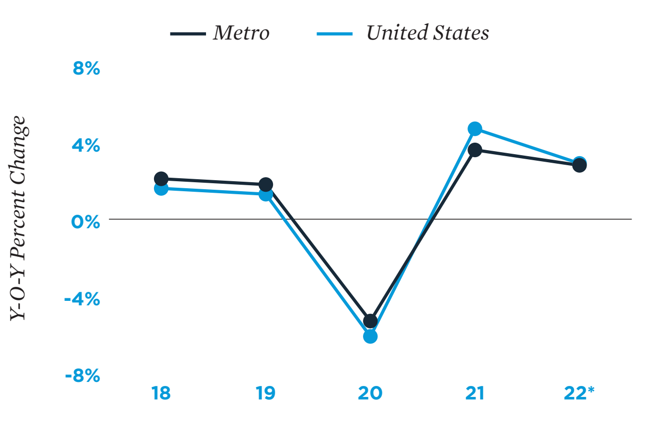
3Q/22

Local Public Service Roster Expands; City Policy Encourages CBD Conversion Projects

Healthcare, educational institutions bolster apartment demand. A collection of medical and educational-related office leases were executed during the 12-month span ending in June, with commitments by Brookline College, Cornerstone Behavioral Health and Marana Health Centers highlighting the list. These move-ins contributed to the 4,000 new public service jobs added through the frame, with recent hires boosting apartment demand. Home to the most sector-related expansions, Central Tucson-University registered a considerable improvement in multifamily net absorption. The outlook here is positive across all segments of apartments, as the college also provides consistent demand for nearby rentals.

Adaptive reuse projects bolster pipeline. Tucson proper is further encouraging the repurposing of outdated or underutilized properties. Earlier this year, amendments were made to the city's Resolution 21883 policy, incentivizing the adaptive reuse of projects proximate to the CBD. This decision builds on Tucson's already established adaptive reuse program, which has produced a collection of apartment conversions over the past five years. Similar projects are expected moving forward, as in the first half of 2022, three hotels were purchased with plans calling for rooms to be converted into multifamily units. The trio of projects, highlighted by the transformation of Hotel Tucson City Center, are expected to bring at least 400 additional units to the city. These additions should be well received as tight conditions are expected over the near term.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

11,000 JOBS
will be created

EMPLOYMENT:

Additions in the education, health services, and leisure and hospitality sectors accelerated in the first half of 2022. This job growth dropped unemployment to a 20-year low of 3.2 percent in June, which will moderate hiring velocity in the second half.

600 UNITS
will be completed

CONSTRUCTION:

Deliveries will ease by more than half, as elevated material costs and construction labor shortages extend projects' timelines. Roughly one-half of this year's supply additions are slated to come online in the Central Tucson-University submarket.

30 BASIS POINT
increase in vacancy

VACANCY:

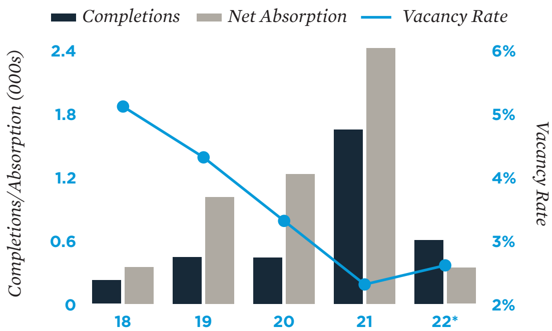
The sparse volume of completions expected this year will minimize competition for existing, vacant apartments. Still, unit availability nudges up to 2.6 percent by year-end.

17.9% INCREASE
in effective rent

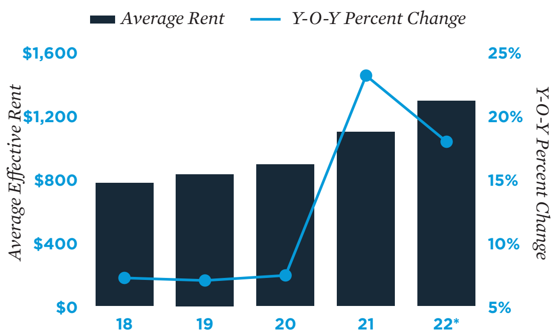
RENT:

After a historic year in 2021, Tucson's average effective rate continues to grow at a robust pace, rising to $1,290 per month. Local rent growth will outpace Phoenix's recording by more than 7.0 percent, the widest variance on record.

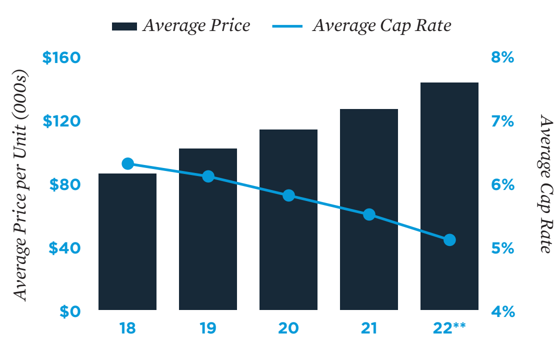
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

IPA Multifamily

John Sebree

Senior Vice President, Director

Tel: (312) 327-5400 | jsebree@ipausa.com

IPA Multifamily Research

Greg Willett

First Vice President

Tel: (972) 755-5200 | gwillett@ipausa.com

Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

1,428 units completed

- The Central Tucson-University submarket added the most supply at 680 units, expanding local inventory by 4.7 percent during the yearlong span ending in June.
- Entering the third quarter, Casas Adobes-Oro Valley had the largest active pipeline at 950 apartments, followed by West Tucson's 590 rentals.

VACANCY

70 basis point increase in vacancy Y-O-Y

- Availability rose to 3.9 percent during the 12-month interval preceding July, marking the first year-over-year increase since 2014.
- The Class A vacancy rate had reached an all-time low of 2.3 percent in the first quarter of this year, however, the April through June period was difficult. Availability in the segment doubled to 4.6 percent at midyear.

RENT

20.3% increase in the average effective rent Y-O-Y

- Tucson's average rent grew at an accelerated pace over the past year, elevating to $1,161 per month in June.
- Three Tucson submarkets — Airport-Drexel Heights-Sahuarita, Southeast Tucson and Catalina Foothills — each recorded average effective rent growth exceeding 22 percent over the past 12 months.

Investment Highlights

- Drawn by four consecutive quarters of annual rent growth exceeding 20 percent, investors increased their pursuit of listings over the past year ended in June, supporting a record period for sales activity. Class C assets comprised the bulk of trades, as local private investors are the most involved in the transaction market. Institutions are becoming more active in recent periods, however, as robust growth trends and rent gains that are outpacing Phoenix generate increased attention.
- Deal flow of assets priced $20 million or above surged at an even faster pace than the $1 million to $10 million tranche, with many of these higher-priced trades involving properties with triple-digit unit counts. A considerable share took place in Casas Adobes, with buyers attracted to the area's average effective rent, which is nearly 25 percent higher than the metro mean.
- While the overall Class A vacancy rate jumped more than 200 basis points in the second quarter of 2022, luxury-tier availability rose less than 100 basis points during that frame in West Tucson and Airport-Drexel Heights-Sahuarita. The West Tucson submarket also claims the metro's highest average Class A effective rent at $1,642 per month, following a two-year gain exceeding 50 percent amid limited upper-tier options for renters here.