Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	4,067
UNITS DELIVERED (YTD)	336

MARKET FUNDAMENTALS

VACANCY RATE	8.5%
YEAR-OVER-YEAR CHANGE	+40bps
ASKING RENTS	$1,185
YEAR-OVER-YEAR CHANGE	+0.3%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$151,100

TUCSON MULTIFAMILY
2Q 2024

MARKET INSIGHTS

Prices up, but transaction activity limited

HIGHLIGHTS

- Property fundamentals in the Tucson multifamily market posted a mixed performance during the second quarter, as the vacancy rate inched higher while rent growth resumed. Supply growth has been light to this point in 2024.
- Local vacancy ticked higher in recent months after holding steady in the preceding quarter. The vacancy rate rose 30 basis points during the second quarter to 8.5 percent. While vacancy is elevated, increases have started to level off in recent quarters. Year over year, vacancy is up 40 basis points.
- Overall rent trends have been flat in recent quarters. In the second quarter, rents inched up 0.3 percent to $1,185 per month. During the past 12 months, rents are up just 0.3 percent.
- The multifamily investment market in Tucson has been limited in the first half, mirroring trends from 2023. Year to date, the median sale price is $151,100 per unit with cap rates averaging between 5.5 percent and 6.5 percent.

TUCSON MULTIFAMILY MARKET OVERVIEW

The first half of 2024 represented a bit of a return to normalized conditions in the Tucson multifamily market. After elevated completions in 2023, there has been a lull in deliveries to this point in the year. Vacancies and rents have largely stabilized as a result, although the development pipeline remains full and deliveries are on pace to accelerate in the coming quarters. Vacancy conditions have been on an upward trajectory since reaching cyclical lows at the end of 2021, and the overall rate throughout the region has more than doubled. Rent growth has slowed, but not stalled complexly. Current rents are slightly higher than one year ago, and modest gains are expected in the second half.

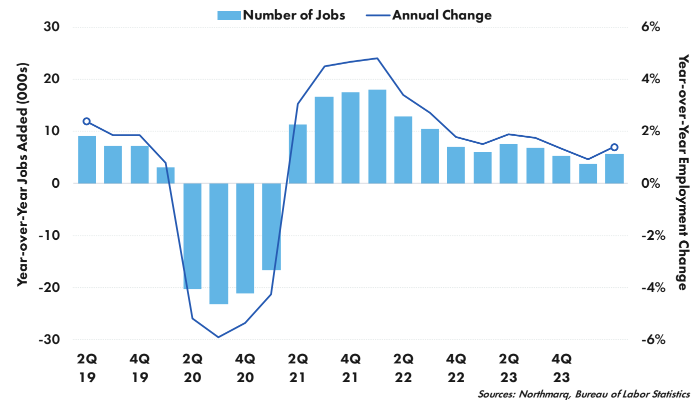
Only a few properties have traded in Tucson to this point in 2024, after a more active period of transactions during the second half of last year. The Tucson market generally records modest sales velocity, and transactions have been hindered by higher interest rates and a more uncertain outlook on property fundamentals and revenues. While the number of properties that have traded has been limited, prices have pushed higher, which is likely a reflection of an investor preference for quality assets. The median sale price in Tucson thus far in 2024 is $151,100 per unit, up more than 20 percent since last year. Cap rates have been largely unchanged throughout 2024, remaining between 5.5 percent and 6.5 percent.

EMPLOYMENT

- Total employment in Tucson has increased at a steady pace in the past few quarters. In the past 12 months, employers have added 5,600 workers to payrolls, increasing local employment by 1.4 percent.
- The current pace of job growth in Tucson is on track with historical averages. Between the years 2015 and 2019, employment growth averaged 1.4 percent per year.
- The education and health services sector posted the greatest rate of job growth in Tucson during the past 12 months and has accounted for a large share of the region's total employment gains. Year over year, employers in this industry have added 4,500 workers, an increase of 6.6 percent.
- **FORECAST:** Employers in Tucson are expected to maintain a steady pace of job growth through the remainder of this year. In 2024, employers are forecast to increase payrolls by 1.5 percent with the addition of 6,000 jobs.

In the past 12 months, employers have added 5,600 workers.

EMPLOYMENT OVERVIEW

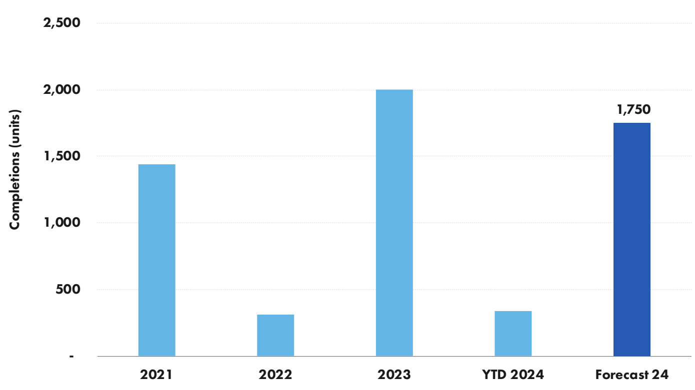


DEVELOPMENT & PERMITTING

- Multifamily deliveries slowed in the first half. Projects totaling fewer than 350 units have come online in the first half of 2024. In comparison, there were more than 1,000 new units delivered in the closing months of 2024.
- Projects totaling nearly 4,100 units are currently under construction in Tucson, up 7 percent from one year ago.
- Permitting in Tucson has been modest to this point in the year. Developers have pulled permits for nearly 400 units during the first half of 2024, down 40 percent from the second half of last year.
- **FORECAST:** Development in Tucson should pick up through the second half of the year, as completions are expected to be elevated again this year. Projects totaling 1,750 units are currently scheduled for completion by the end of 2024.

Projects totaling nearly 4,100 units are under construction.

DEVELOPMENT TRENDS

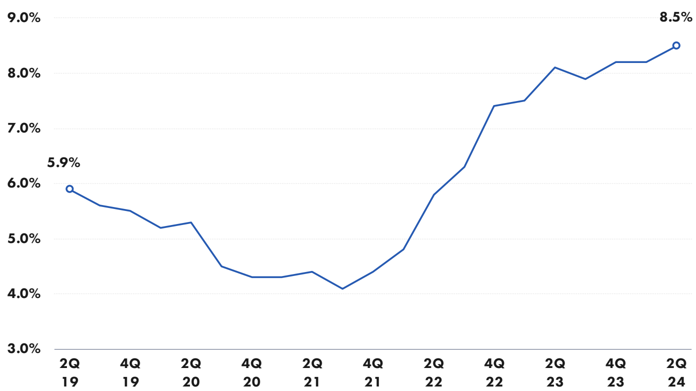


VACANCY

Year over year, the vacancy rate is up 40 basis points.

- Area vacancy trended higher in recent months after holding steady during the first quarter. Vacancy rose 30 basis points in the second quarter, reaching 8.5 percent. Year over year, the rate is up 40 basis points.
- While the market's vacancy has increased in recent quarters, the rate has generally tightened in the submarkets at the southern end of the area. Vacancy in the South Tucson/Airport submarket declined by 110 basis points during the past 12 months to 7.6 percent. Additionally smaller submarkets such as Southwest and Southeast Tucson recorded vacancy improvements of 170 basis points and 230 basis points, respectively.
- Vacancy in Class C properties has been on the rise in recent years, with the rate now twice as high as it was in 2021. Conditions may have begun to change course in the second quarter. After rising in each of the prior seven quarters, the Class C rate dropped 60 basis points in the second quarter to 8.3 percent.
- **FORECAST** With completions elevated for a second consecutive year, area vacancy is forecast to push higher. Vacancy is expected to end the year at 8.7 percent.

VACANCY TRENDS



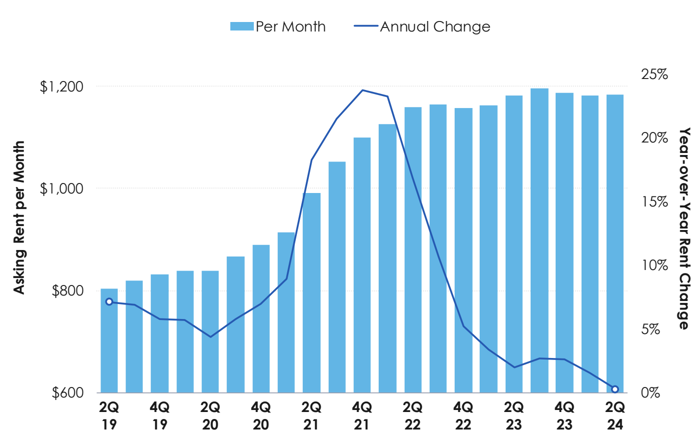
Sources: Northmarq, Apartment Insights

RENTS

- Rent growth inched higher in recent months after trending lower in each of the previous two quarters. Asking rents in Tucson ticked up 0.3 percent during the second quarter to $1,185 per month. Rents are also up 0.3 percent year over year.
- The South Central Tucson submarket and the South Tucson/Airport submarket were the leading areas for rent growth during the past year. Rents in South Central Tucson rose by 8.3 percent during the past 12 months to $1,053 per month, while rents in the South Tucson/Airport submarket increased by 4 percent in the same timeframe to $1,105 per month.
- Class C apartments continued to be the clear leaders in rent growth in recent quarters. Over the past 12 months, the average Class C apartment rent has increased by 3.3 percent to $944 per month.
- **FORECAST:** Rents are expected to rise about 1 percent to end this year, reaching approximately $1,200 per month. Rent growth in 2024 is on pace to total just 1.1 percent, the lowest calendar-year gain in Tucson in a decade.

Rents are expected to rise about 1 percent end this year.

RENTS TRENDS



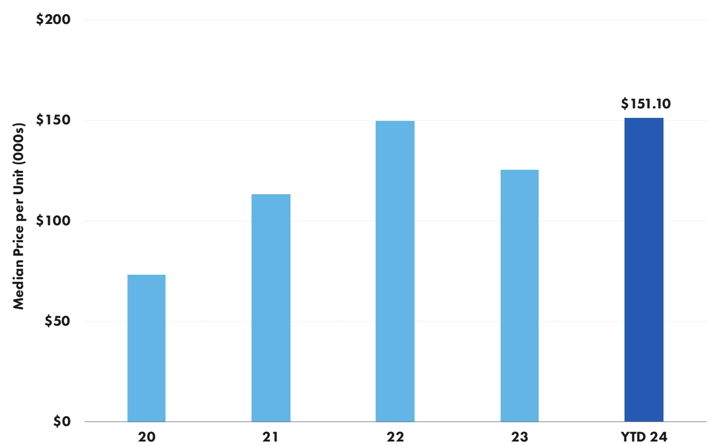
Sources: Northmarq, Apartment Insights

MULTIFAMILY SALES

- Only a few multifamily properties have sold in Tucson year to date, with transaction counts so far in 2024 closely tracking levels from the first half of 2023. Sales slowed somewhat from the first quarter to the second quarter.
- While transactions have been limited, pricing has trended higher to this point in 2024. The median sales price in the first half was $151,100 per unit, a 21 percent increase from the 2023 figure.
- In 2024 cap rates have averaged between 5.5 percent to 6.5 percent, similar to levels at the end of last year. With so few properties changing hands, a pricing expectations gap still exists.

The median price in the first half was $ 151, 100 per unit.

INVESTMENT TRENDS



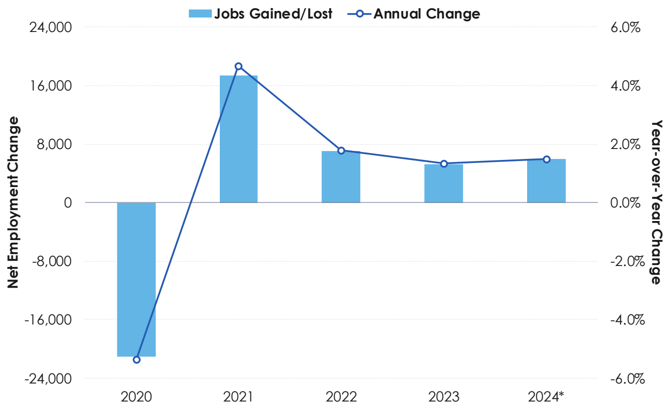
Sources: Northmarq, CoStar

LOOKING AHEAD

While the Tucson multifamily market has posted mostly stable operational performance through the first half of this year, supply-side pressures are likely to build in the coming quarters, which could drag on property fundamentals. Developers have projects totaling more than 4,000 units under construction, with about 1,400 units scheduled to deliver in the second half of this year. This follows deliveries of 2,000 units in 2023. The consecutive years of elevated deliveries will combine to increase the local apartment inventory by approximately 5 percent, faster than the increase in area population or employment. Still, renter demand for units is likely to remain strong and vacancy is forecast to rise just 50 basis points for the full year.

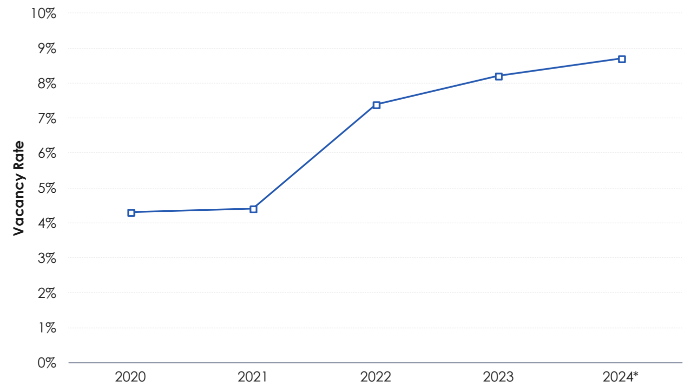
Multifamily properties in Tucson should continue selling at a modest pace through the rest of the year, with most investors remaining on the sidelines monitoring the direction of the market. A trend that should continue is investors pursuing a wider range of rental assets, with Class B and Class C properties making up a larger share of sales than they did last year. This is likely due in part to the improving performance of lower-tier properties, in contrast to top-tier properties that are posting increasing vacancies and slowed rent growth. Class A transactions will likely remain limited in Tucson for the rest of the year. These trends may push cap rates a bit higher for transactions to close.

EMPLOYMENT FORECAST



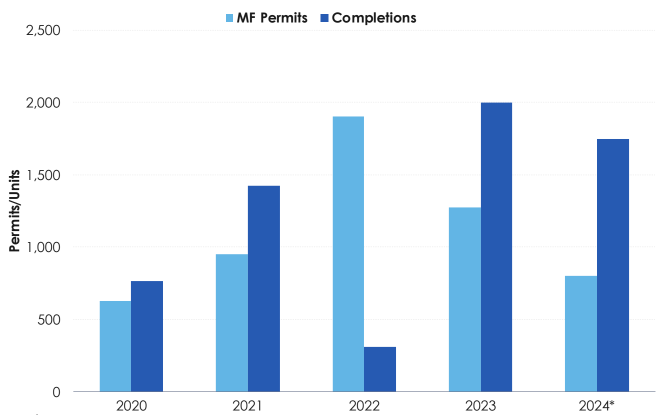
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



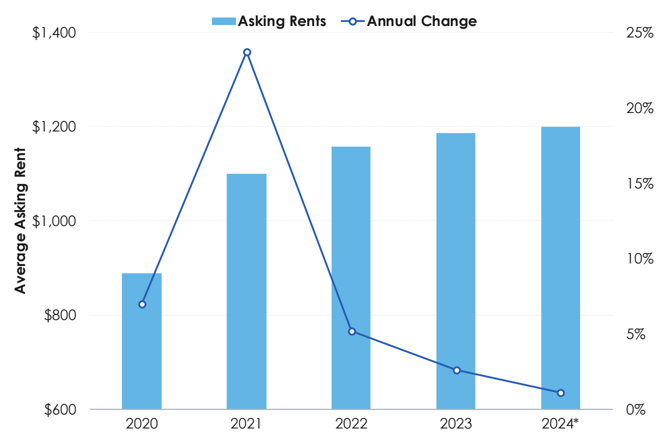
* Year End Forecast
Sources: Northmarq, Apartment Insights

CONSTRUCTION & PERMITTING FORECAST



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

RENTS FORECAST



* Year End Forecast
Sources: Northmarq, Apartment Insights

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