

Multifamily Metro Outlook:

Tucson - Q4 2020

Overview:

- Tucson's economy has fared better than the national economy during the COVID-19 pandemic but still ended 2020 with jobs 2.7% below the January 2020 total. The leisure/hospitality, finance, manufacturing, and state and local government sectors are still digging themselves out of the hole created by the pandemic. Fortunately, the University of Arizona received \$46 million in CARES ACT funding in December and has announced an end to furloughs, which should reverse some of the job loss in the government sector.
- Perhaps because stimulus money goes further in less expensive metros, job loss does not seem to have affected the apartment market. The average vacancy rate declined by -0.4% in 2020 to 4.0% as of Q4, supported by teleworkers in search of inexpensive rentals moving from Phoenix and Southern California. This also allowed rents to grow at a healthy +3.8% rate during 2020.

Market Strengths:

- Tucson is a low-cost alternative to Southern California for both cost of business and cost of living. It also has a highly educated workforce thanks to the presence of the University of Arizona which helps attract businesses from California and other states.
- Defense is a key economic driver in Tucson. The Davis-Monthan Airforce Base, Raytheon Missile Defense Systems, and the Arizona National Guard are all major employers here. This bodes well for the stability of employment during the pandemic.
- Tucson has a favorable demographic profile for multifamily rentals, with Millennials making up just under 21.5% of the population, a full 1% higher than the national average. The young demographic is supported by student enrollment at the University of Arizona.
- Tucson is very affordable with an average asking rent as of Q4 2020 of just \$870 per month, 48% below the national average.
- Tucson and Pima county should receive over \$30 million from December's Federal Consolidated Appropriations Act to assist any renters in arrears, among other things.

Market Weaknesses:

- Retail and leisure/hospitality, which have been heavily impacted, make up 22.7% of jobs which is 1.2% above the national average.
- Retirees and students at the University of Arizona are key economic drivers here. However, with many retirees staying home due to the pandemic, and the University of Arizona only partially reopened, these key demographic groups are staying home and no longer spending at local Tucson establishments.
- Well paying jobs in Tucson are concentrated in the aerospace industry including commercial aerospace. With a full recovery in commercial air travel still far off, Tucson employers Honeywell and Universal Avionics recently announced permanent job cuts, according to Moody's Analytics.
- Even in the best of times, the average per capita income is \$10,000 less than the national average, giving consumers less income to spend to stimulate demand for goods and services.
- The affordability of single-family homes siphons off renters and limits rent growth for rentals.

Development:

- Over the past six years, just over 3,700 apartments were delivered. However, development has slowed and just 414 units are underway as of Q4 2020. Virtually all units are being delivered in Central Phoenix which includes the University of Arizona.

Outlook:

- Multifamily Outlook-Steady: The average vacancy rate remains low by historic standards and development has slowed. As a result, the Tucson apartment market has surprised to the upside in 2020. In addition, stimulus and rental assistance should support renters in arrears. These factors should allow the multifamily market to remain steady for the first half of 2021, despite the pandemic.
- Economic Environment-Less Stable: Tucson has a warm climate and relatively low business and living costs which will attract both population and employers long-term. As a result, the Tucson's economy should outperform once the pandemic ends. However, ultimately, Tucson's economy is not as diverse as the economy in Phoenix and is more susceptible to swings in growth.

Five Year Metro Area Growth Forecast

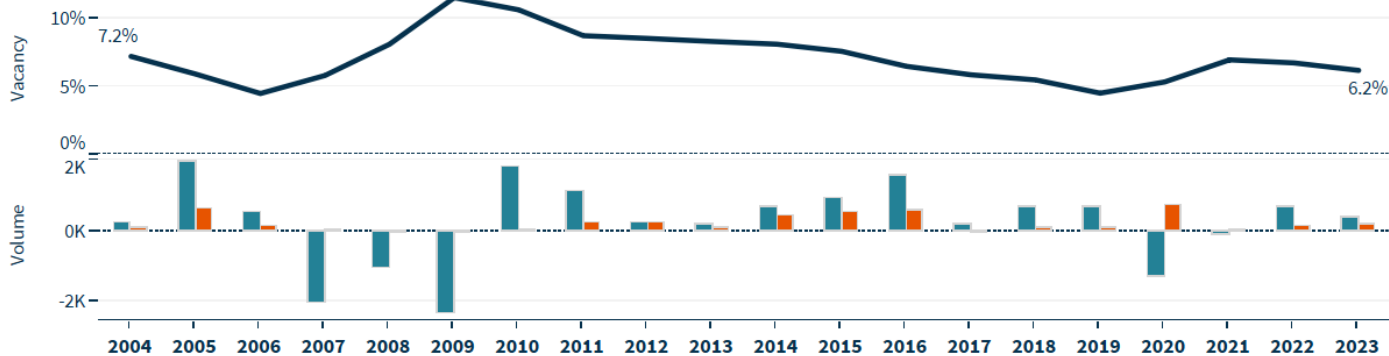
| Source: Moody's Analytics | Q4 2020 | Q4 2025 | Tucson Metro (5-Year Annual Average Change) | National (5-Year Annual Average Change) |
|------------------------------------|-----------|-----------|--|--|
| Population (000s) | 1,066 | 1,118 | 0.97% | 0.52% |
| Households (000s) | 414 | 465 | 2.34% | 1.41% |
| Renting Cohort (Ages 20-34) (000s) | 227 | 231 | 0.40% | -0.26% |
| Total Employment (000s) | 377 | 417 | 2.05% | 1.71% |
| Median Household Income | \$58,201 | \$64,348 | 2.03% | 2.83% |
| Median SF Home Price | \$286,521 | \$340,890 | 3.54% | 4.30% |
| Net Migration | 9,391 | 11,042 | | |

Market Inventory

CBRE-EA Market Inventory

Net Absorptions | Net Completions | Vacancy Rate

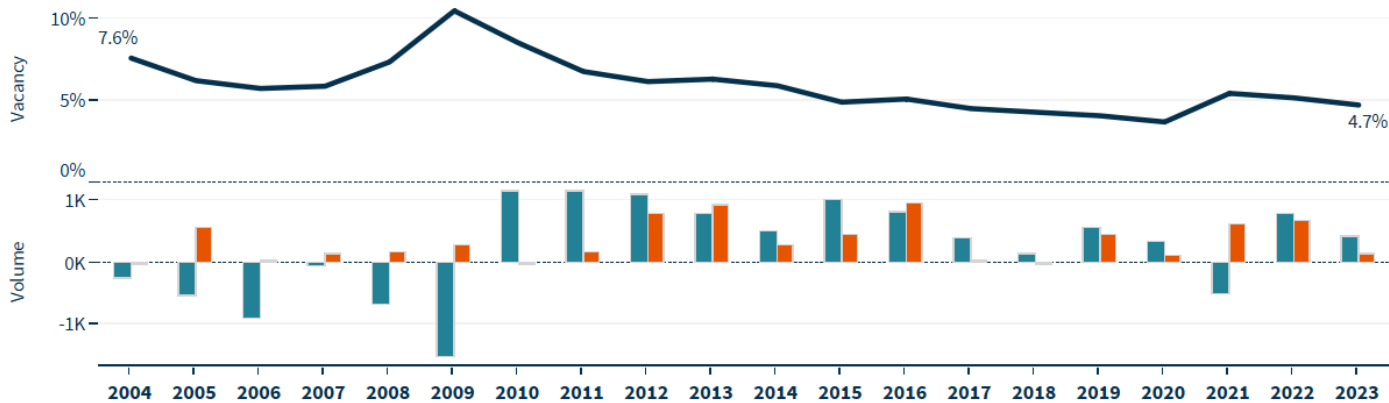
Q4 2020 Market Inventory:
77,300



REIS Market Inventory

Net Absorptions | Net Completions | Vacancy Rate

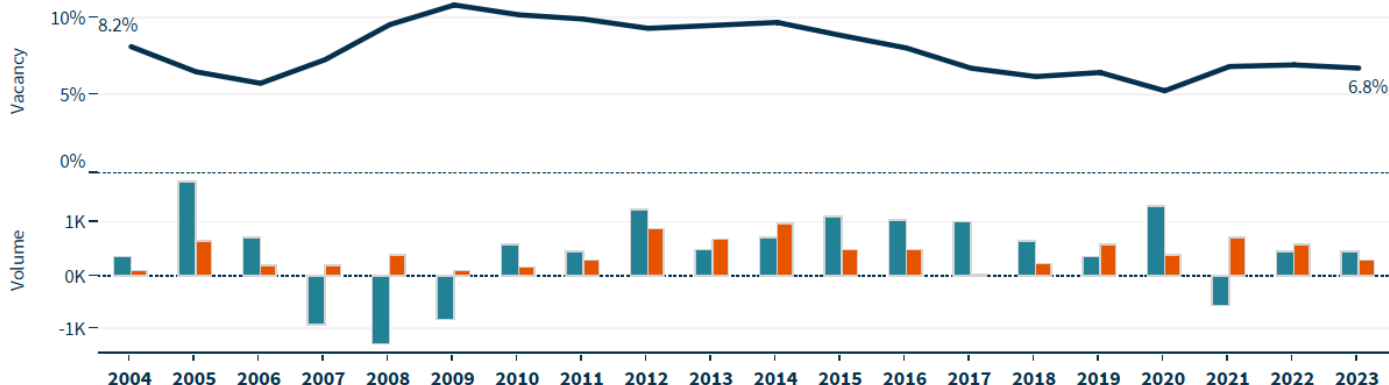
Q4 2020 Market Inventory:
62,300



CoStar Market Inventory

Net Absorptions | Net Completions | Vacancy Rate

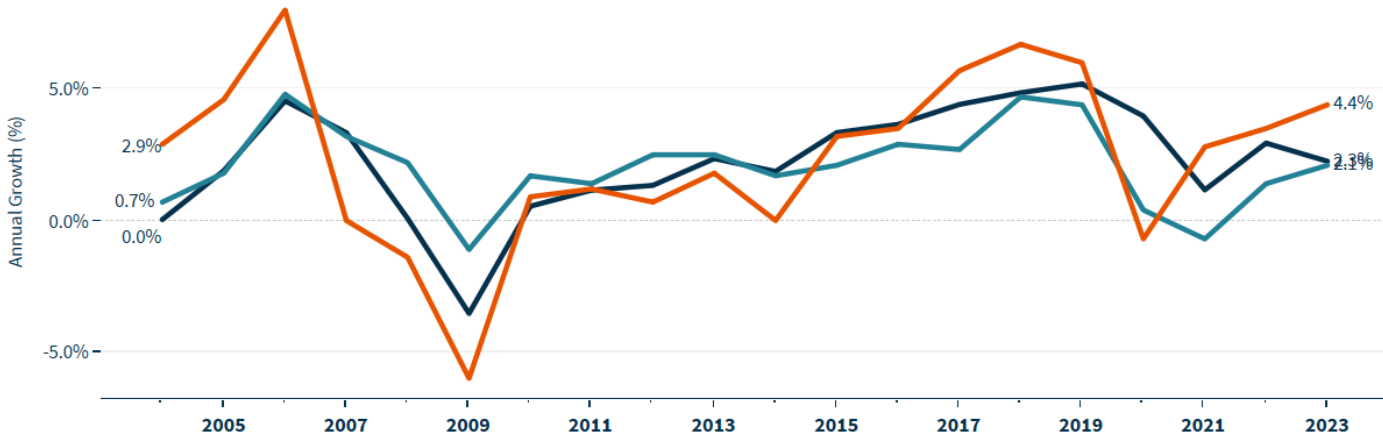
Q4 2020 Market Inventory:
78,100



Apartment Market Summary

Annual Rent Growth

CBRE-EA | REIS | CoStar



Apartment Market Supply

| Property Type | Planned | | Started & Underway | | Completed 2014 - Present | |
|--------------------|----------|------------|--------------------|------------|--------------------------|--------------|
| | Projects | Units | Projects | Units | Projects | Units |
| Apartments | 3 | 336 | 11 | 414 | 19 | 3,106 |
| Mixed Use | 4 | 372 | | | 2 | 608 |
| Unclassifiable | 1 | 77 | | | | |
| Grand Total | 8 | 785 | 11 | 414 | 21 | 3,714 |

Source: Dodge Pipeline, Q4 2020

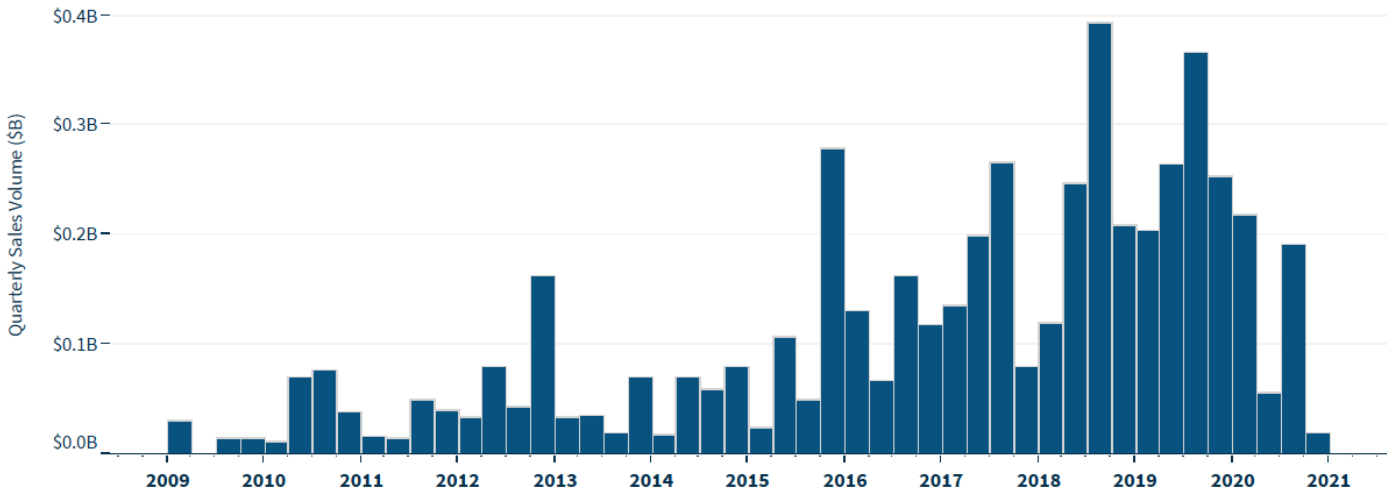
Apartment Market Transaction Activity

| | 2018 Q4 | 2019 Q4 | 2020 Q4 | | 2020 Q4 |
|--------------------|-----------|-----------|-----------|-------------------------|---------|
| Market Volume | \$967M | \$1,088M | \$485M | Volume Change from 2019 | -55.36% |
| Average Unit Price | \$108,532 | \$172,237 | \$101,302 | Price Change from 2019 | -41.2% |
| Estimated Units | 8,906 | 6,314 | 4,793 | Units Change from 2019 | -24.10% |

Source: Real Capital Analytics

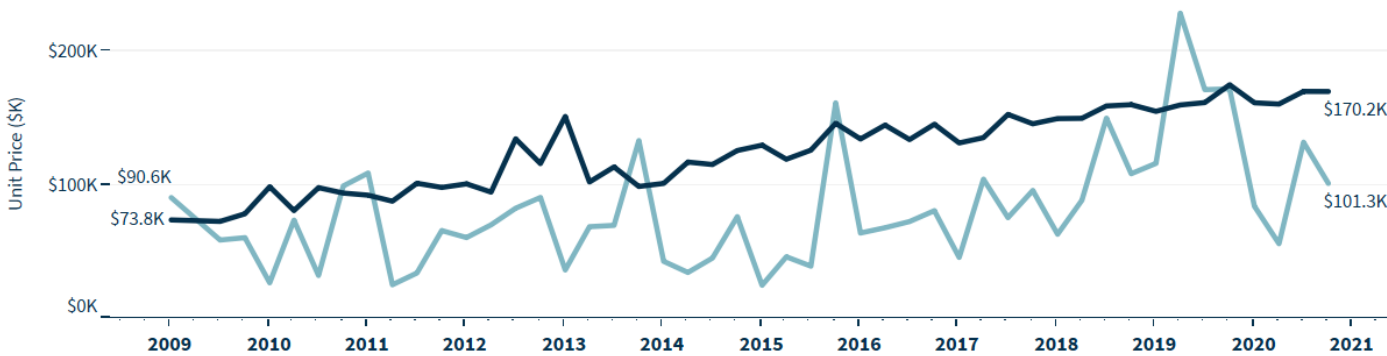
Pricing & Investment Trends

Quarterly Sales Volume



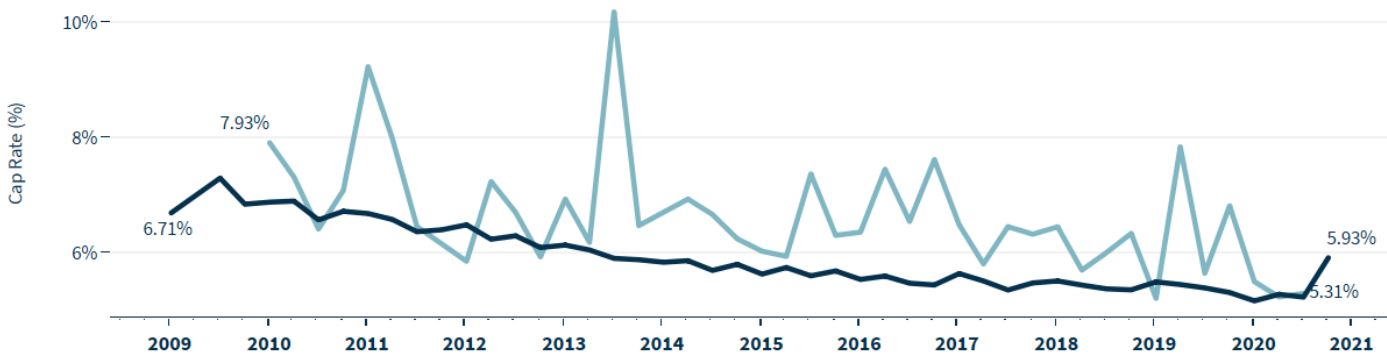
Price Per Unit

Tucson Average | US Average



Cap Rates

Tucson Average | US Average

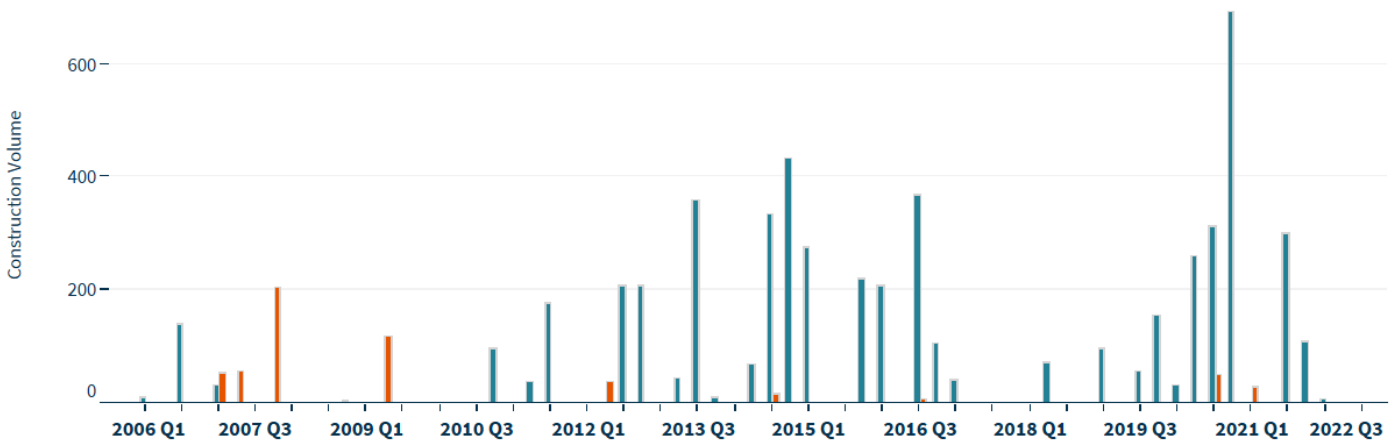


Source: Real Capital Analytics, Q4 2020

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



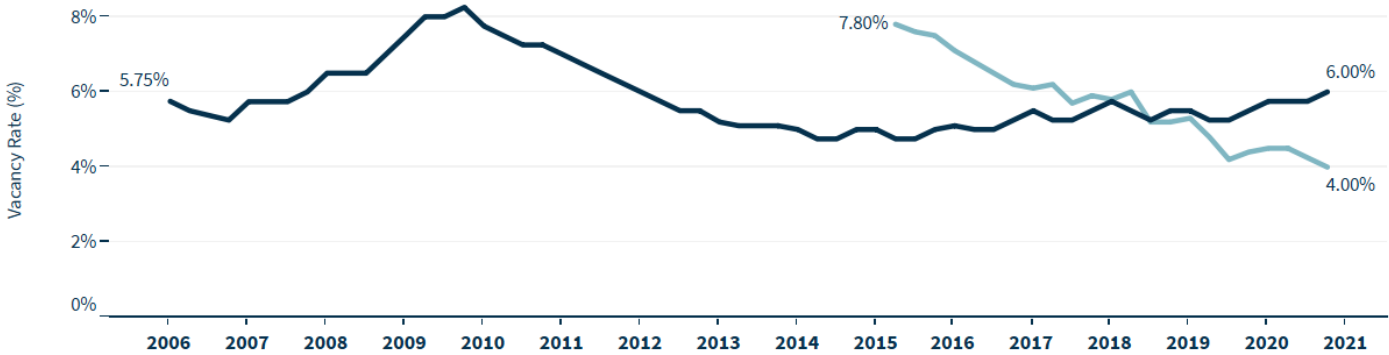
Vacancy & Rent Composite Estimates

Vacancy Rates

Tucson | National

Q4 2020 Vacancy Rate:

4.00%

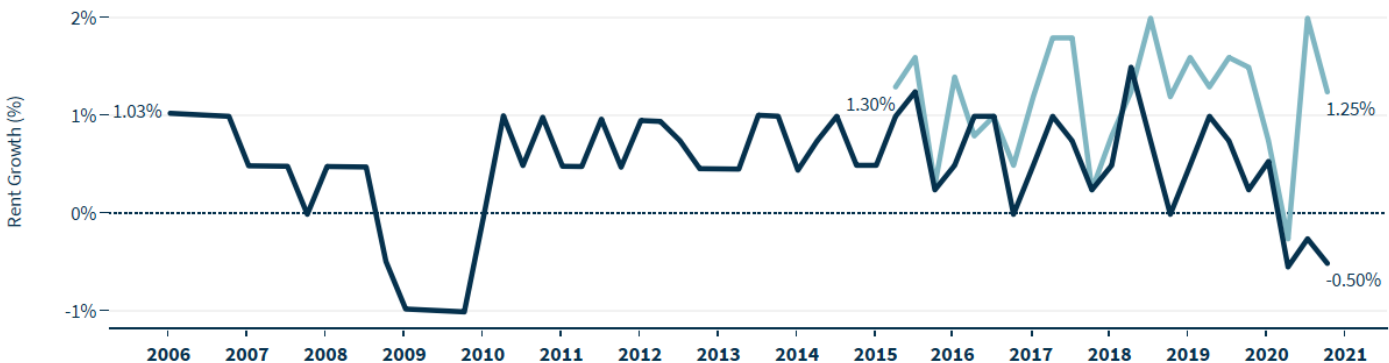


Asking Rent Growth

Tucson | National

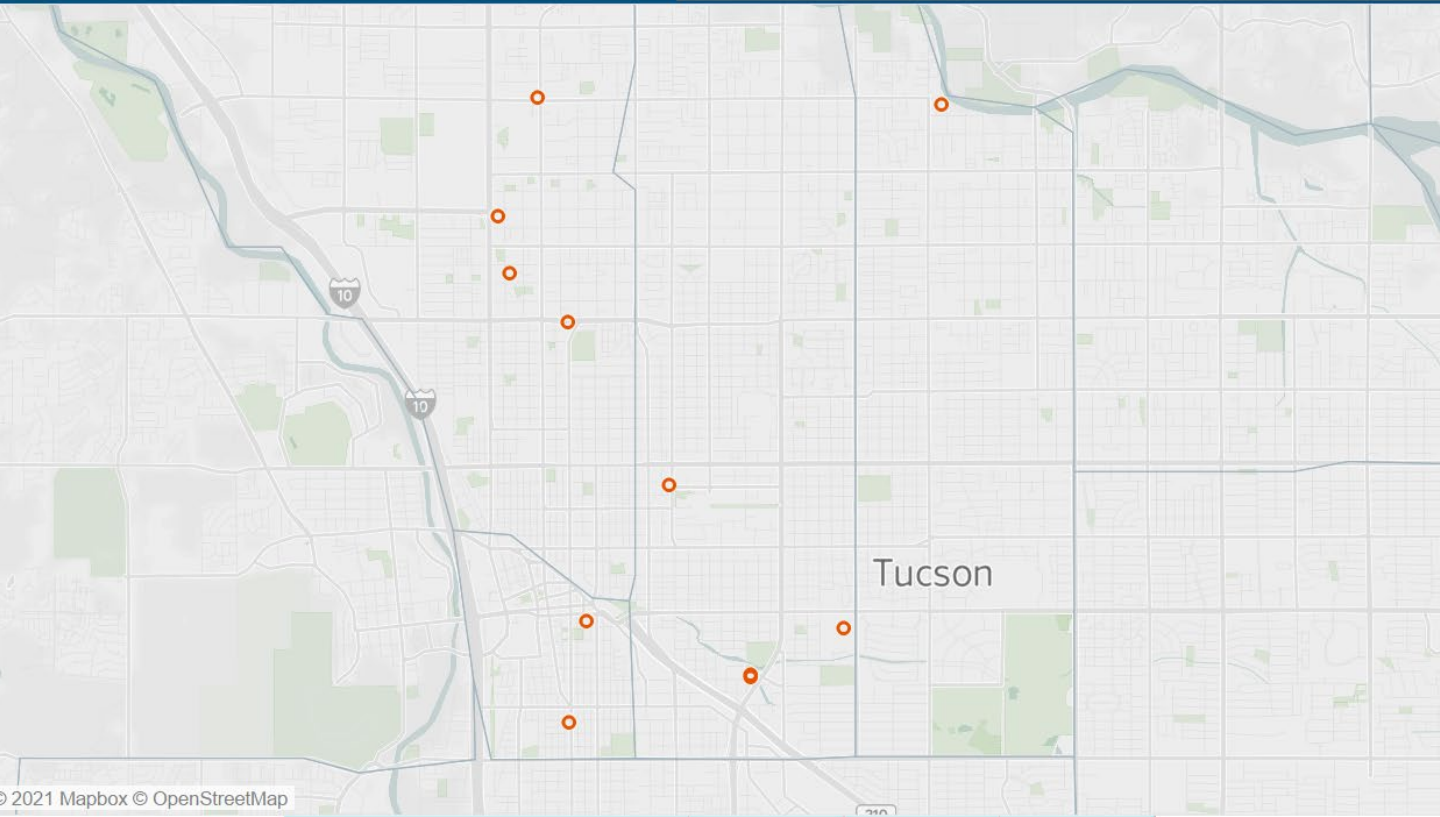
Q4 2020 Asking Rent:

\$870



Source: Multifamily Economics and Research

Construction: Bidding & Underway



| <i>Sub-Market</i> | <i>Projects</i> | <i>Units</i> | <i>Sq. Ft. (M)</i> |
|---------------------------|-----------------|--------------|--------------------|
| Central Tucson/University | 10 | 386 | 0.47M |
| East Central Tucson | 1 | 28 | 0.02M |
| Grand Total | 11 | 414 | 0.49M |

Multifamily: ESR Team

We welcome your feedback! Please give us a call or send an email with any comments, suggestions, or insight you may have or information you'd like covered in future editions.

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Sources Used

- Moody's Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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