

Multifamily Metro Outlook:

Tucson - Q4 2023

Overview:

- Tucson has returned to the pre-pandemic job-level and is poised to add more jobs – albeit at a slower pace. This is partly due to the aerospace parts manufacturing through Raytheon Missile Systems and employment at Davis-Monthan Airbase.
- The average rent growth turned negative in Q4 2023 leaving Tucson to eke out 1 percent in average rent growth in 2023. Additional new supply continues to be added and the 7.3 percent average vacancy rate as of Q4 2023 is now 3.3 percentage points higher than it was pre-pandemic in Q4 2019.

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 also helps attract West Coast businesses.
- Defense, particularly aerospace manufacturing is a key economic driver. The Davis-Monthan Air Base, Raytheon Missile Defense Systems, and the Arizona National Guard are all major employers providing stable and growing employment.
- Tucson has a favorable demographic profile for multifamily rentals, with renters aged 20-34 making up just under 21.0% of the population, 1% higher than the national average. The young demographic is supported by University students.
- Jobs in the Government sector account for 19.3% of the job base, about 4.8% above the national average providing a measure of stability. This includes jobs for Pima county, state and local government as well as University and military jobs
- Tucson remains very affordable relative to the West Coast and the nation. The average asking rent as of Q4 2023 was \$1,135 per month, only seventy percent of the U.S. average.

Market Weaknesses:

- Even in the best of times, the average per capita income is \$10,000 less than the national average annually, giving consumers less income to spend to stimulate demand for goods and services. In addition, many job expansions over the past few years, including Comcast, GEICO, and HomeGoods, are for back-office, call center, and distribution operations which pay less.
- Although Tucson has stored water, and 2022 saw good levels of snow and rainfall, lack of water is still a long-term issue.
- Retirees are a key economic driver of growth in Tucson but are not a key renter demographic and the relative affordability of single-family homes siphons off renters from the apartment rental market.

Multifamily Development:

- Over the past seven years, about 3,300 apartments were delivered, most in Central Tucson which includes the University of Arizona. Tucson does not attract capital like Phoenix, partly since rents are about 40% higher in Phoenix. Development has picked up with about 1,700 units underway as of Q4 2023 compared to 580 units as of Q2 2022. This only represents an estimated 2.2% increase in inventory with development spread out across the metro.

Multifamily Outlook:

- Moody's Analytics projects job growth will slow in 2024 to just 1% from 1.4% in 2023 and 3.2% in 2024. Nevertheless, defense and aerospace manufacturing which are a large part of the job base, should keep the job market stable because of a solid pipeline of Department of Defense contracts and elevated geopolitical tensions. While new supply is picking up, it is not expected to significantly outpace demand. As a result, the apartment market is expected to remain steady over the next six to 12 months although the vacancy rate is likely to continue to rise somewhat.

Economic Outlook:

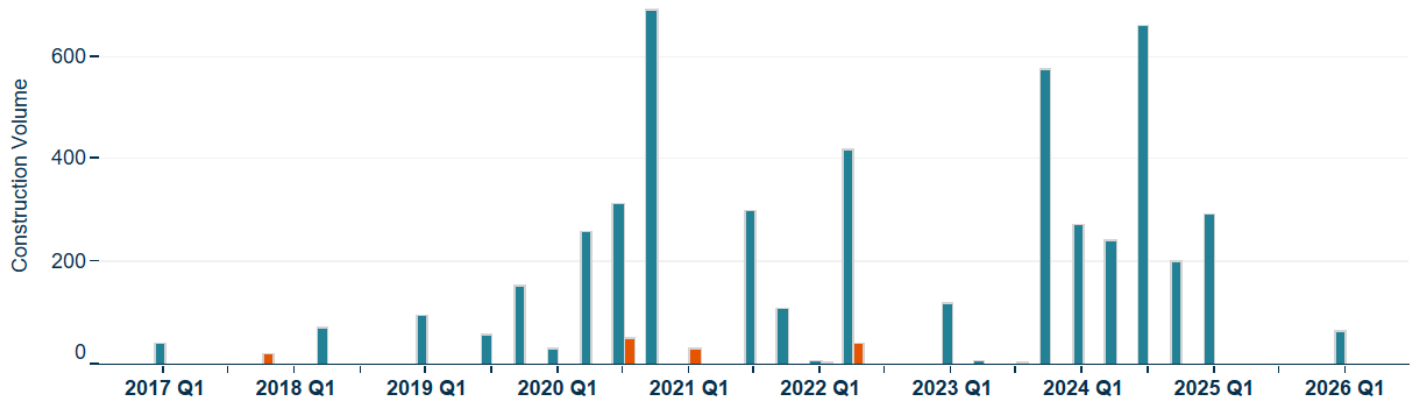
- Tucson will continue to grow slowly with growth driven by jobs in defense and government. In addition, it has a warm climate and low business and living costs relative to the West Coast which will attract both population and employers long-term. As a result, its economy should continue to expand. However, Tucson's economy ultimately is less diverse than the economy in Phoenix and is more susceptible to swings in growth due to reliance on immigration.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



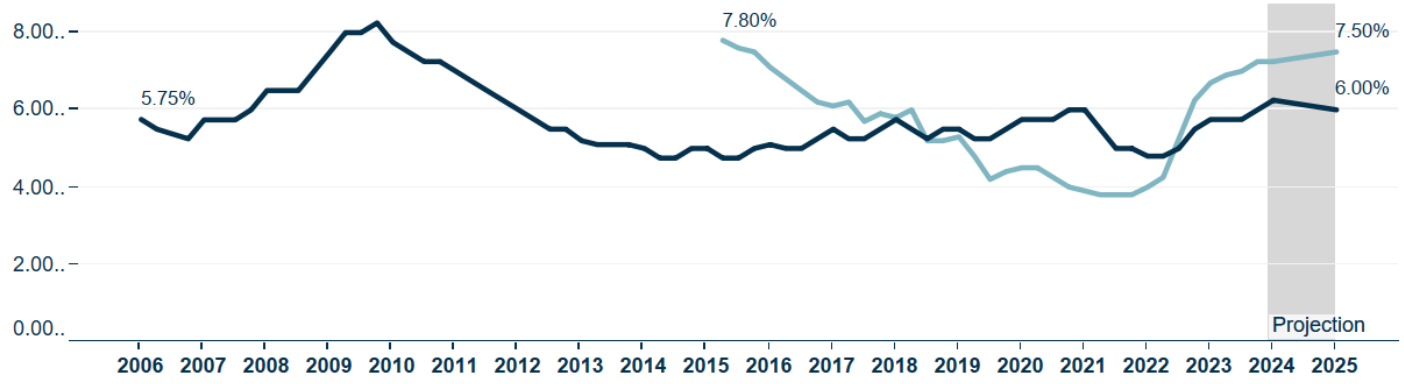
Source: Dodge Data & Analytics SupplyTrack Pipeline

Multifamily Vacancy & Rent Estimates

Vacancy Rates

Tucson | National

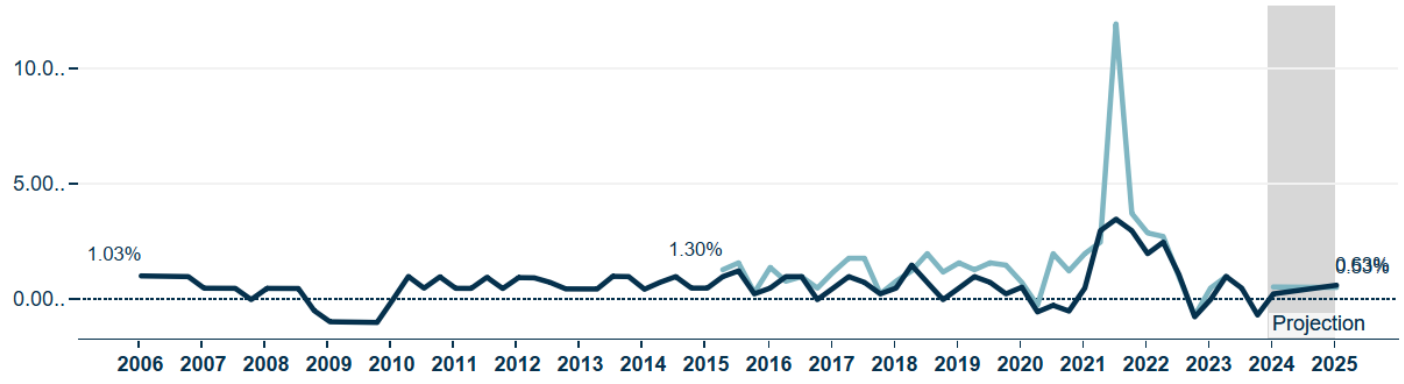
Q4 2023 Vacancy Rate:
7.25%



Asking Rent Growth

Tucson | National

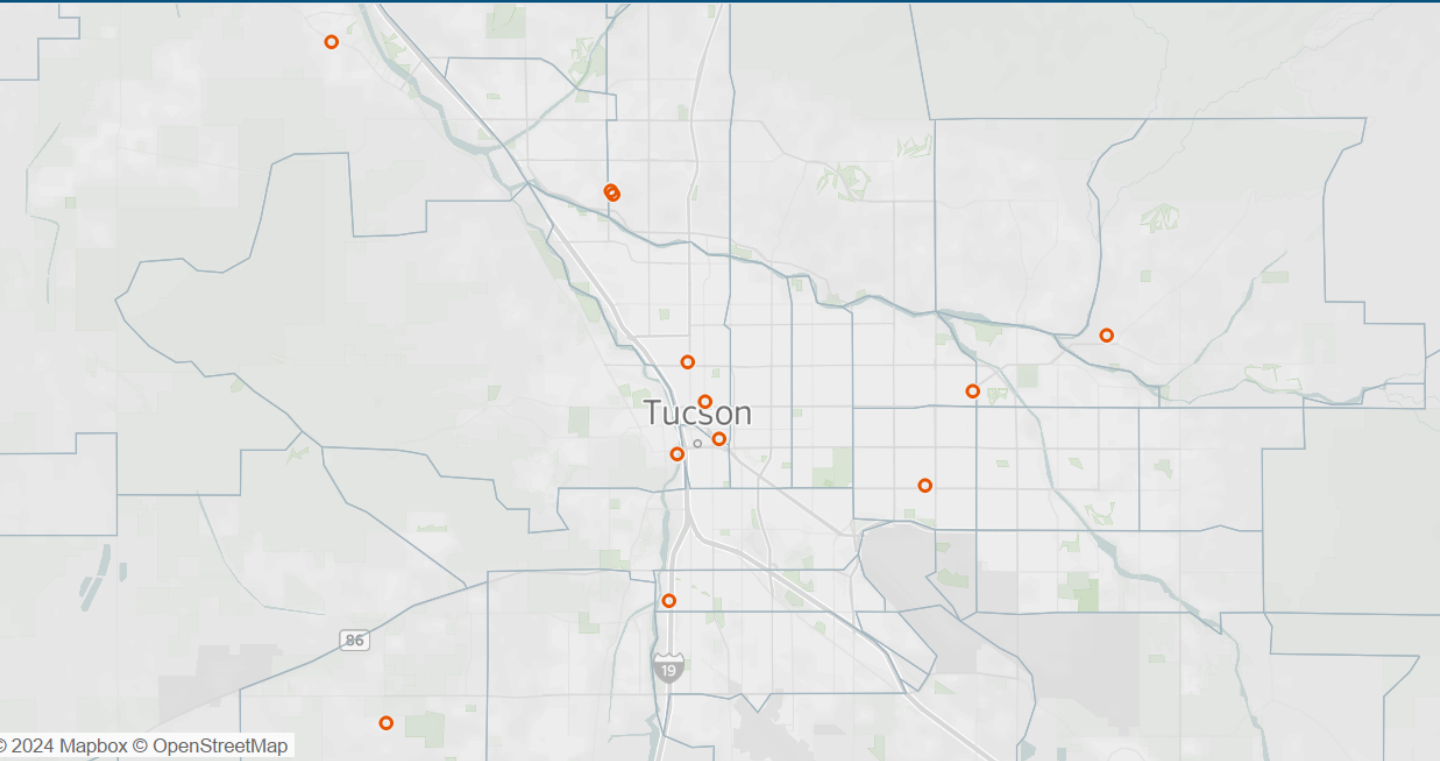
Q4 2023 Asking Rent:



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



<i>MultiHousingSubmarketName</i>	<i>Apartments</i>	<i>Units</i>
Airport/Drexel Heights/Sahuarita	2	260
Casas Adobes/Oro Valley	2	288
Catalina Foothills	1	256
Central Tucson/University	3	403
East Central Tucson	2	33
West Tucson	2	494
Grand Total	12	1,734

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

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

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