

TUCSON, AZ MULTIFAMILY REPORT

2023 | MIDYEAR

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Jobs Added / Lost

LAST 12 MONTHS

6,600

↑ 1.7%

NEXT 12 MONTHS*

4,100

↑ 1.0%

Unemployment

MIDYEAR 2023

3.5%

↓ 30 BPS YOY

MIDYEAR 2024*

4.2%

↑ 70 BPS YOY

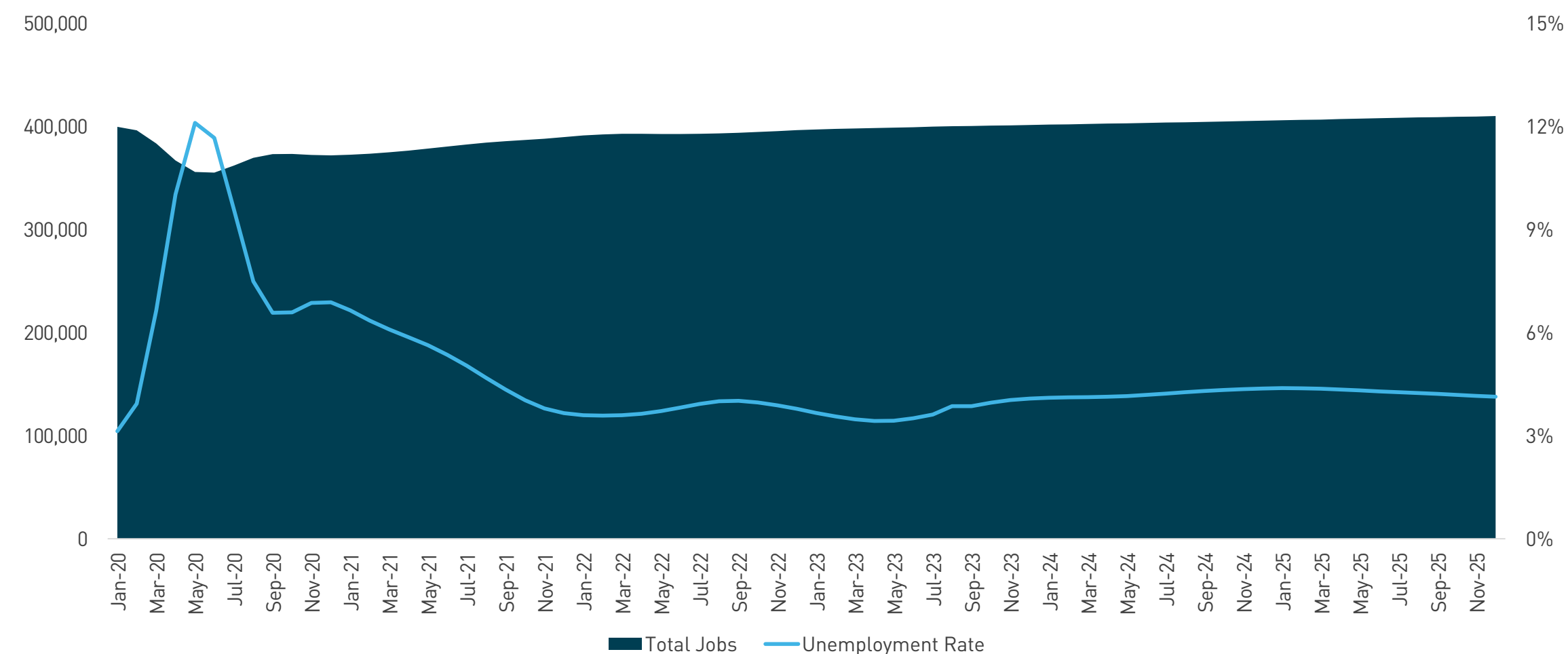
*Projected

TUCSON, AZ EMPLOYMENT

As the seat of Pima County, the home to the University of Arizona (U of A), and Davis-Monthan Air Force Base, metro Tucson's employment base is deeply rooted in the government sector. Approximately 20% of the metro's 401,800 nonfarm jobs are supported by state and federal government agencies, which added an additional 2,700 employees during the first half of 2023. Solar and wind powered projects, along with green technology research and development, have led to job opportunities in engineering, construction, and research. A Tier 1 Research University, the University of Arizona is an instrumental player in green technology including clean energy. This has led to not only an influx of new job

opportunities but has also contributed to an environment of innovation and collaboration in the private and public sectors. Government incentives that played a key role in attracting companies like Caterpillar, GEICO, ADP, and RTX prior to the pandemic continue to be a bright spot for the regional economy. These companies are in varying stages of expanding operations in Tucson and are expected to bring thousands of direct and ancillary jobs over the next few years. Additionally, the private education and healthcare sectors have experienced substantial job growth. The University of Arizona medical school and Tucson Medical Center have expanded their services, creating positions for healthcare professionals.

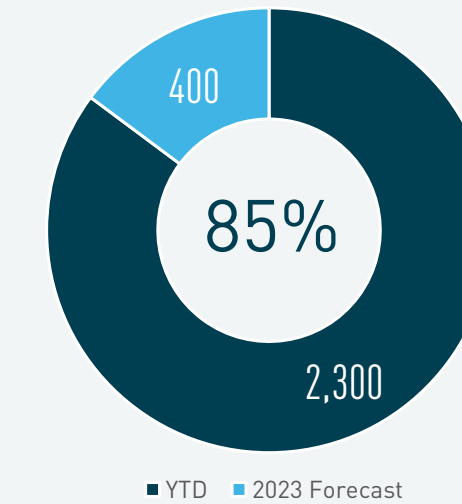
Employment Trends



Source: Moody's Analytics

Who's Hiring?

GOVERNMENT INDUSTRY



20%
OF ALL JOBS IN THE METRO

\$41,700
AVERAGE ANNUAL SALARY

Top Government Employers

THE UNIVERSITY OF ARIZONA	15,900 JOBS
TUCSON UNIFIED SCHOOL DISTRICT	7,500 JOBS
PIMA COUNTY	7,400 JOBS

In The News

- [Sion Power expanding battery manufacturing operations in Tucson](#)
- [Microstar Logistics to add 200 new jobs with new Tucson facility](#)
- [Autonomous driving company expands into Tucson](#)



TUCSON, AZ

DELIVERIES & ABSORPTION

2023 Units*

DELIVERIES

1,005

ABSORPTION

392

2024 Units*

DELIVERIES

2,428

ABSORPTION

2,732

*Projected

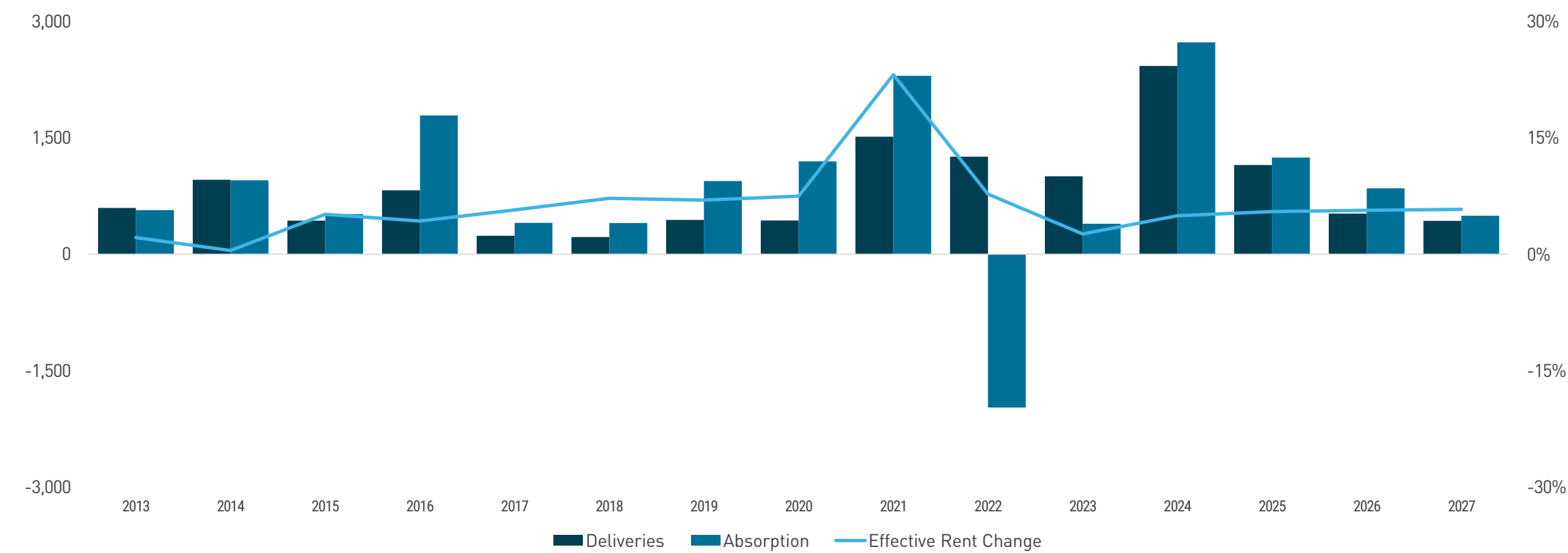
Apartment development trends in Tucson mirror those seen in other Sun Belt markets. While the multifamily market is in the thick of one of the largest construction pipelines on record, development is a bit more moderated than other high-growth markets.

The current pipeline, including lease-up units, represents only 4.4% of existing stock, less than half of what is being seen in markets like Raleigh, Austin, and neighboring Phoenix. Tucson inventory expansion cooled considerably to start 2023, as only 60 new units were added year to date, compared to over 860 new units in 2022. Five properties are expected to enter lease-up during the last half of the year with construction finishing by January

2024, bringing the total number of new units expected during 2023 to 1,005.

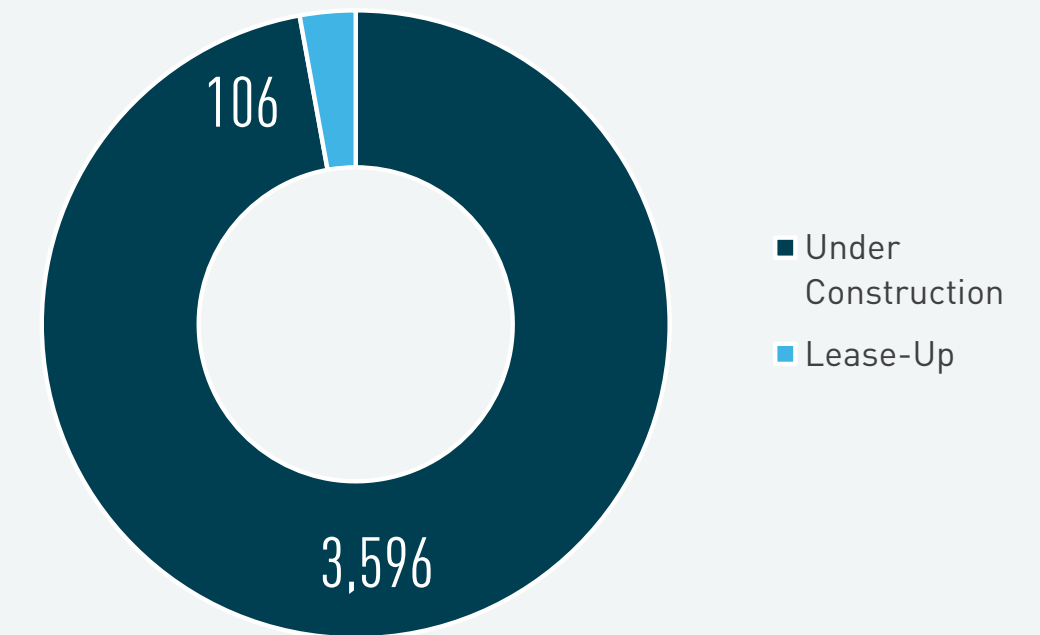
Tucson has seen a broad slowdown in multifamily leasing that is likely linked to inflation restricting renters' spending power and uncertainty surrounding both student loans and the economy as a whole. Operators recorded 600 net move outs during the first half of 2023, 90% of which came during the first quarter alone. As U of A welcomes back its 40,000-plus students in August, leasing activity is once again expected to see its seasonal surge, which will help push net absorption into positive territory to finish the year.

Deliveries, Absorption, & Effective Rent Change

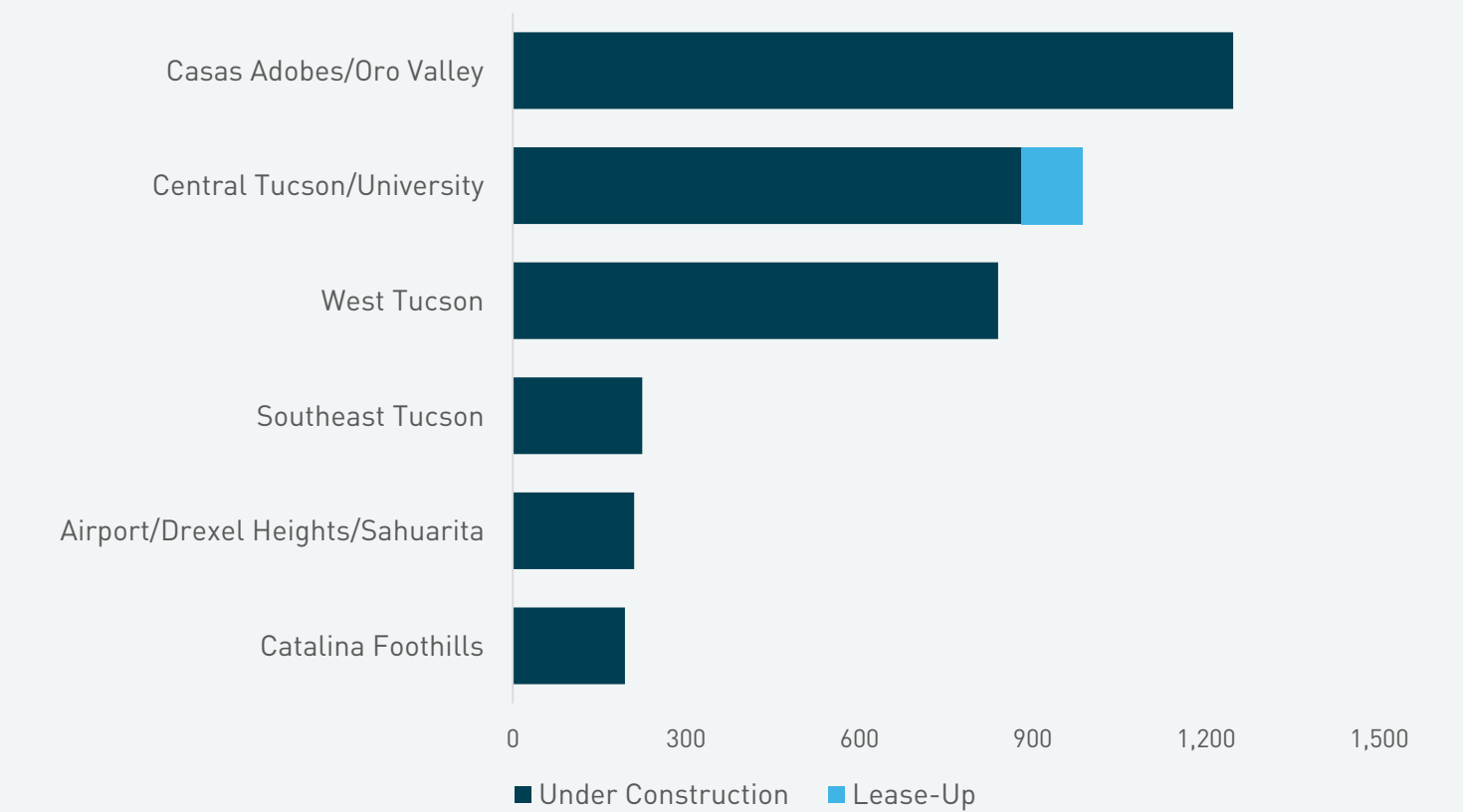


Source: RealPage

Market Pipeline



Top Submarket Pipelines



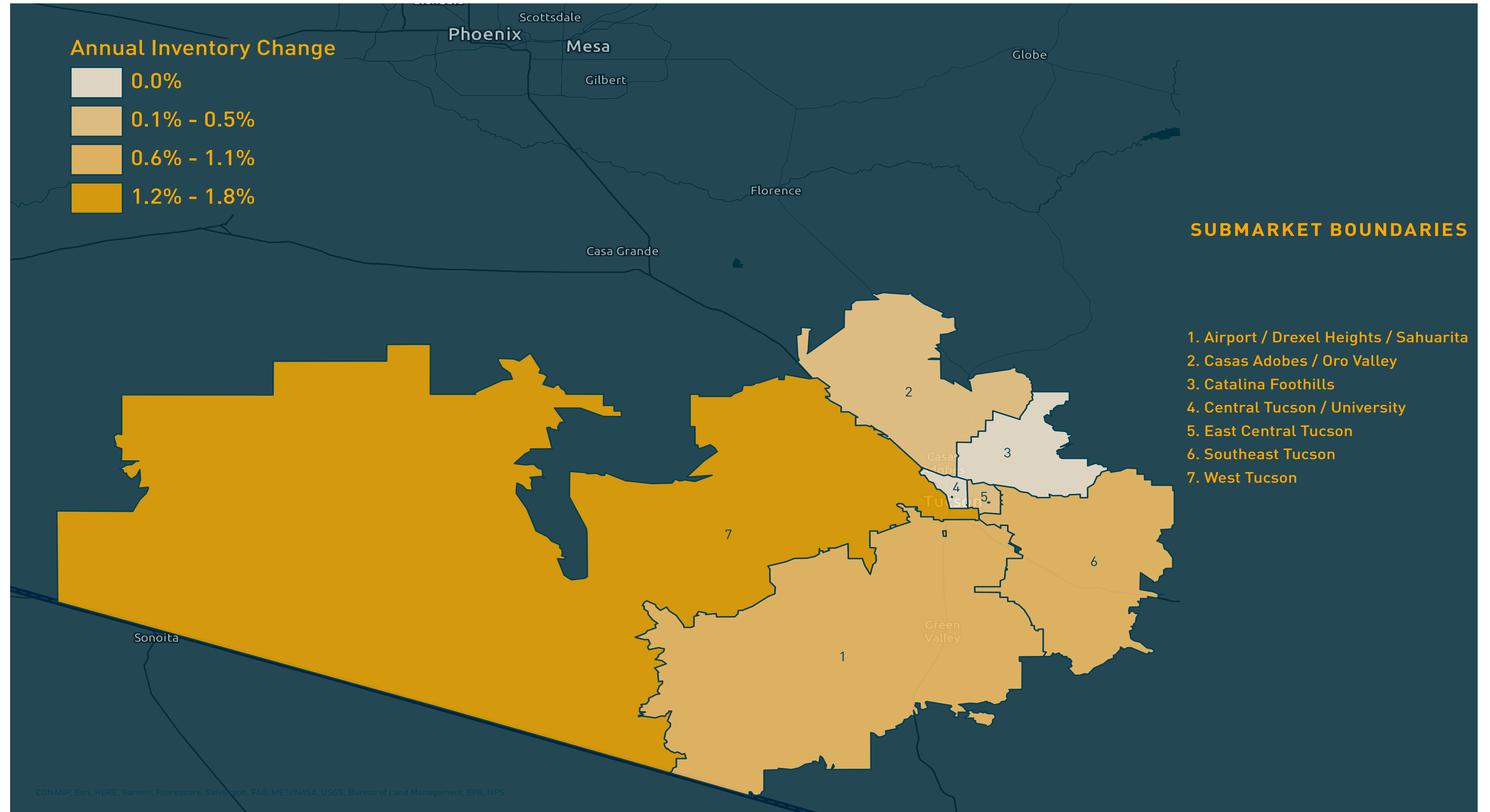


TUCSON, AZ

SUBMARKET ANNUAL INVENTORY CHANGE

Inventory growth in Tucson was concentrated in two submarkets over the past year, as West Tucson and Southeast Tucson contributed 297 of the total 455 new units added. Encantada Saguario National Park completed the final 157 units of the 312-unit community located near Davis-Monthan Air Force Base. The Class A property quickly stabilized thanks to its proximity to both Davis-Monthan and the U of A Tech Park, which includes notable well-paying white-collar employers such as IBM, RTX, the U of A Center for Innovation, and Citi Bank's Tucson call center.

With just over 7,800 units West Tucson is among the smaller submarkets in terms of total inventory. The 140 units added equated to a 1.8% annual growth rate to lead the metro. Nearly all new construction in West Tucson is focused along I-10 or the border of the Central Tucson/University submarket.





TUCSON, AZ RENT & OCCUPANCY

Effective Rent

Q2 2023
\$1,202
↑ 3.2% YOY

Occupancy

Q2 2023
93.0%
↓ 310 BPS YOY

Operators are seeing effective rental growth return to pre-pandemic averages as the result of double-digit rent growth over six consecutive quarters from 2021 through the third quarter of 2022. Average effective rent climbed 3.2% annually through the midway point of 2023 to \$1,202. Despite unprecedented rent growth Tucson's housing affordability remains intact. Rent in Tucson is roughly 34% cheaper than that of Phoenix, as is the monthly rent share of wallet.

The percentage of units that offer concessions continued to increase after it bottomed at 1.5% during the third quarter of 2021. At 14.2% during the second quarter of 2023 the rate was well below the pre-pandemic five-year

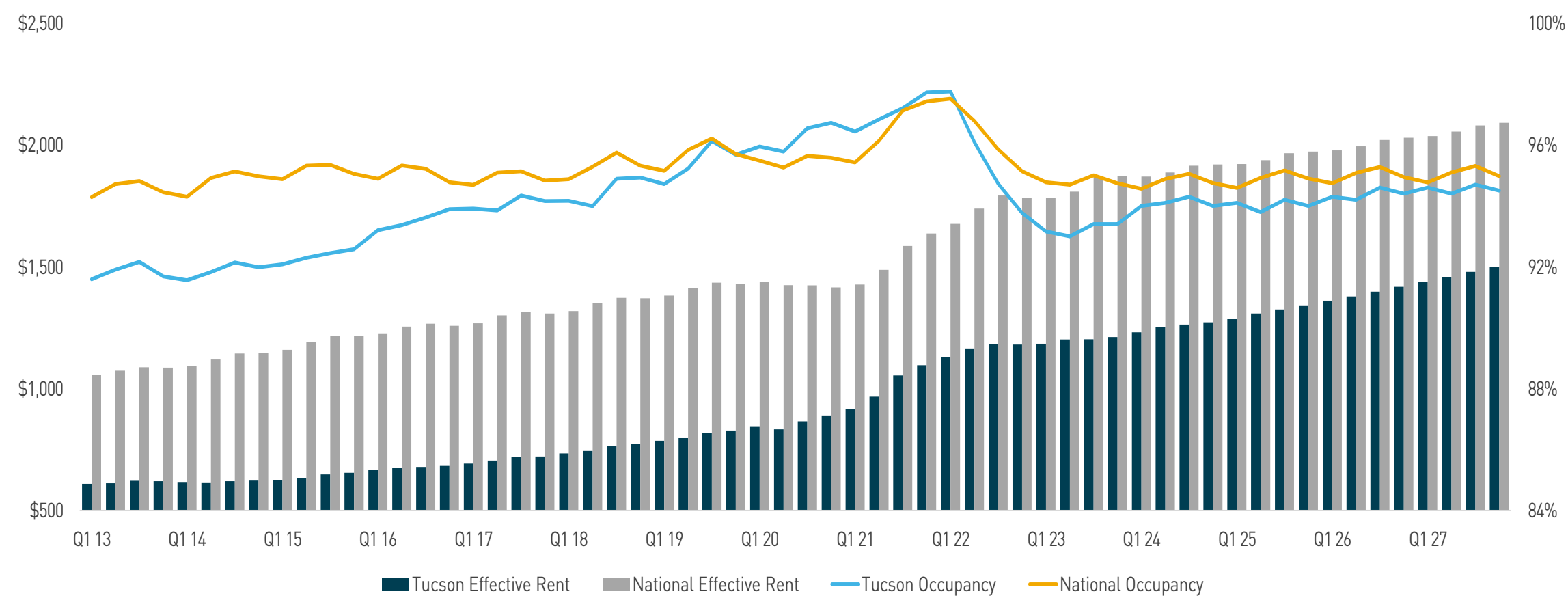
average of 39.1% and rent increases kept concession values in line with the average of \$25 monthly over the same period.

Supply pressure pushed average occupancy rates to levels last seen roughly a decade ago. At roughly five to one, the delivery to net absorption ratio over the past year resulted in a 310-basis-point annual drop to 93.0%. Incoming U of A students will provide a short-term seasonal boost to occupancy in the coming months, while an expanding labor market paired with a high interest rate single-family housing market will boost demand and push up occupancy rates in the long term..

Submarket Performance

SUBMARKET NAME	Q2 2023 OCCUPANCY	YOY (BPS)	Q2 2023 EFFECTIVE RENT	YOY
Airport/Drexel Heights/Sahuarita	92.3%	-510	\$1,027	5.9%
Casas Adobes/Oro Valley	92.9%	-300	\$1,434	-0.3%
Catalina Foothills	94.0%	-180	\$1,320	0.0%
Central Tucson/University	94.0%	-250	\$1,132	12.5%
East Central Tucson	93.6%	-290	\$1,020	4.6%
Southeast Tucson	92.2%	-380	\$1,126	0.9%
West Tucson	92.7%	-210	\$1,300	7.2%

Tucson vs. National Effective Rent & Occupancy



Source: RealPage

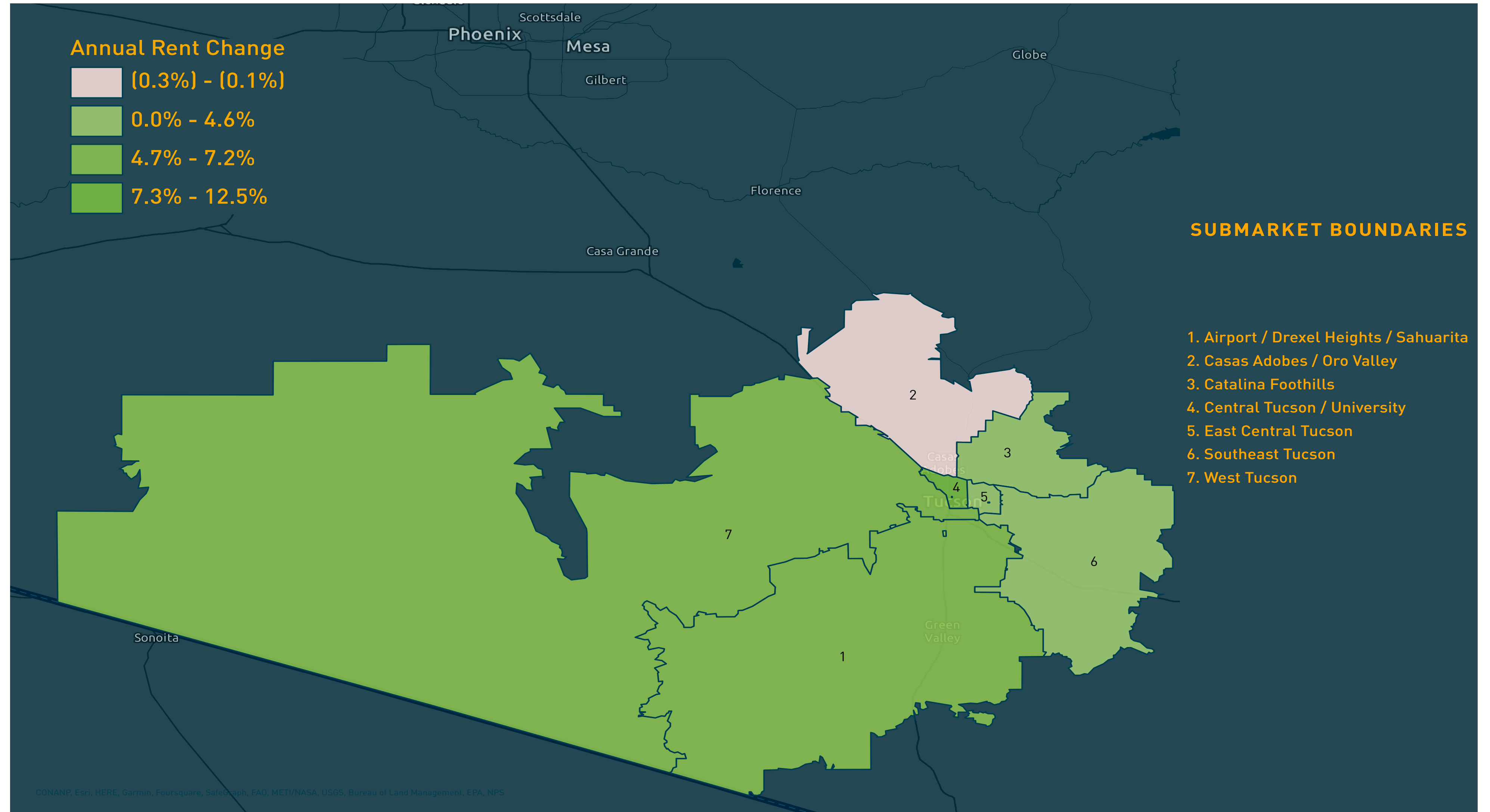


TUCSON, AZ

SUBMARKET ANNUAL RENT CHANGE

The Central Tucson/University submarket has become a hot spot for young professionals and is one of the few areas in Tucson with mixed-use offices and walkable amenities. While over 1,200 new units were added during 2021 and 2022, no new inventory was added over the past year. This pullback in deliveries along with a growing demand for Class A properties among the renter-by-choice cohort resulted in a 12.5% annual increase in effective rent.

While the percentage of units offering concessions was well above the market average at 29.3%, concession values of 1.5% of asking rent are tied with neighboring West Tucson for the lowest among the market's seven submarkets. Separated by I-10 West Tucson and Central Tucson boast a similar mix of asset types, however average rent in West Tucson is roughly 15% higher at \$1,300 per month.





Sources: RealPage; Moody's Analytics; Real Capital Analytics

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