TUCSON, AZ
MULTIFAMILY REPORT

2024 | MID-YEAR

TUCSON, AZ

EMPLOYMENT

Jobs Added / Lost*

LAST 12 MONTHS

4,100

1.0%

Unemployment*

JUNE 2024

3.4%

30 BPS YOY

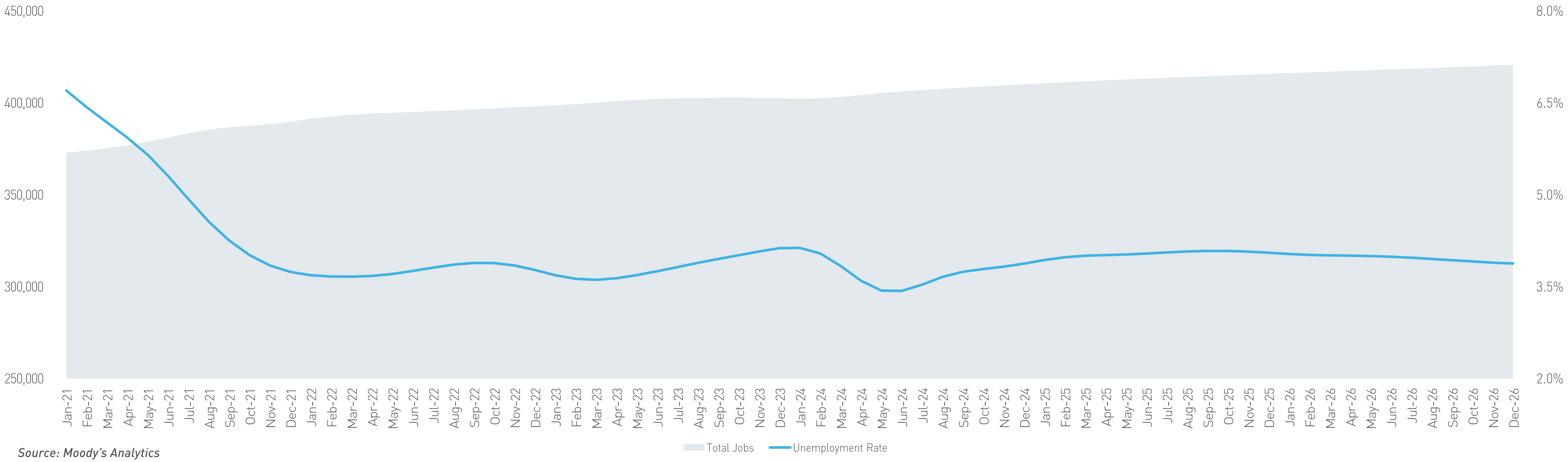
**Seasonally Adjusted*

The rapidly growing population is fueling the Tucson economy. The metro's population expanded 0.9% in the last year, almost double the national rate at the same time. In tandem with the increase in residents, hiring within the private education and healthcare sector was robust. Businesses and institutions added 3,700 personnel to private education and healthcare payrolls since mid-2023, leading all sectors for job creation during that period. Part of additions came with the opening of Tucson Medical Center Rincon in the first quarter of 2024. The 132,284-square-foot was the third and final phase of a campus that includes a medical office and an ambulatory surgery center that opened in phases over the last couple of years. The higher education system in the Greater Tucson area also benefits the healthcare industry. The University of Arizona and Pima Medical Institute provide a consistent pipeline of graduates with a spectrum of healthcare degrees. In fiscal year 2023 alone, more than 500 students were awarded nursing degrees from the U of A. More healthcare hiring is expected in the near term as Banner Health and Select Medical are partnering to develop a 44-bed rehabilitation hospital that is scheduled to open in 2025. This project along with apartment development underpinned hiring in the construction sector, which increased 3.0% in the last year.

In the News

- Tucson Medical Center Rincon opens
- Banner Health, Select Medical first Tucson rehabilitation hospital breaks ground
- The $500M Uptown redevelopment underway

Employment Trends



Source: Moody's Analytics

TUCSON, AZ

DELIVERIES & ABSORPTION

2024 YEAR TO DATE

DELIVERIES
841 UNITS

ABSORPTION
788 UNITS

2024 TOTAL*

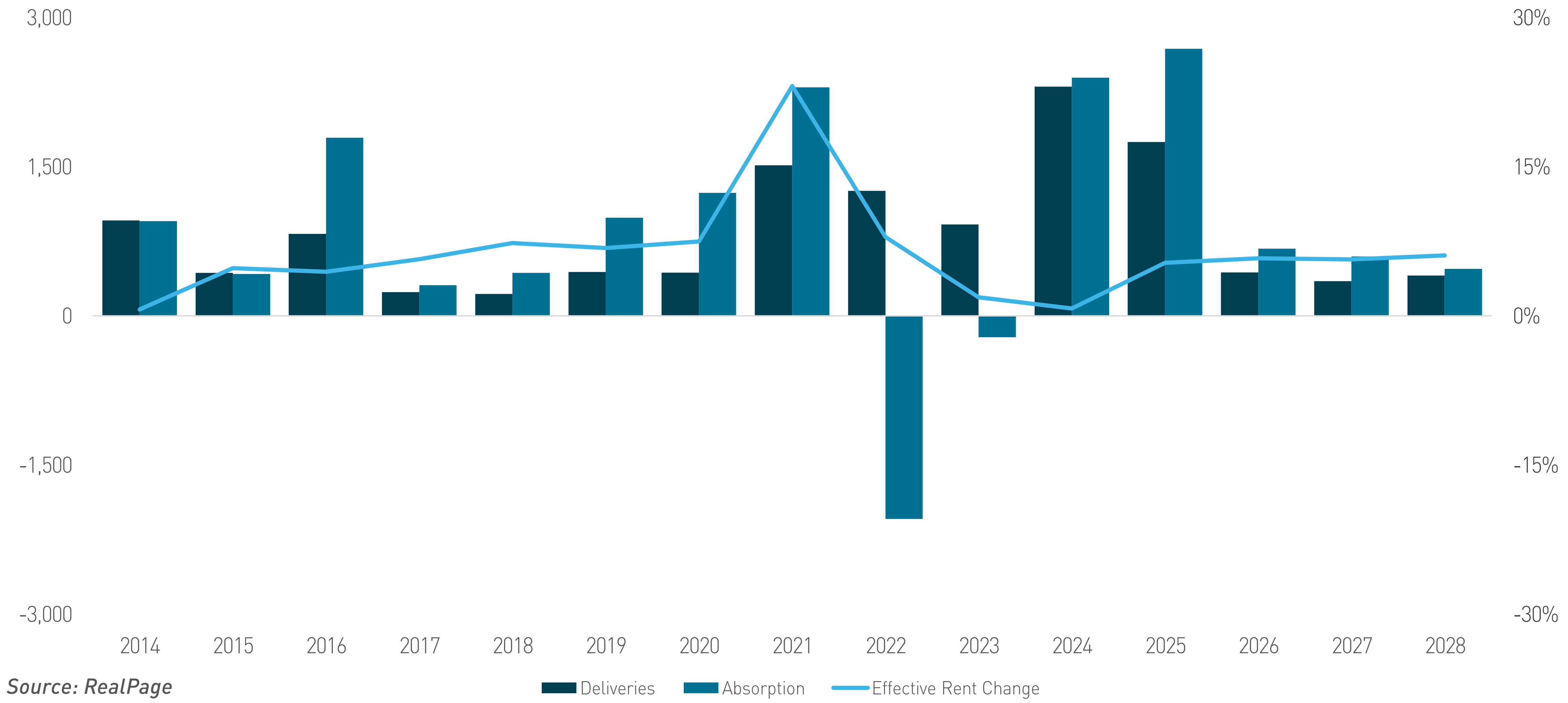
DELIVERIES
2,306 UNITS

ABSORPTION
2,396 UNITS

**Projected*

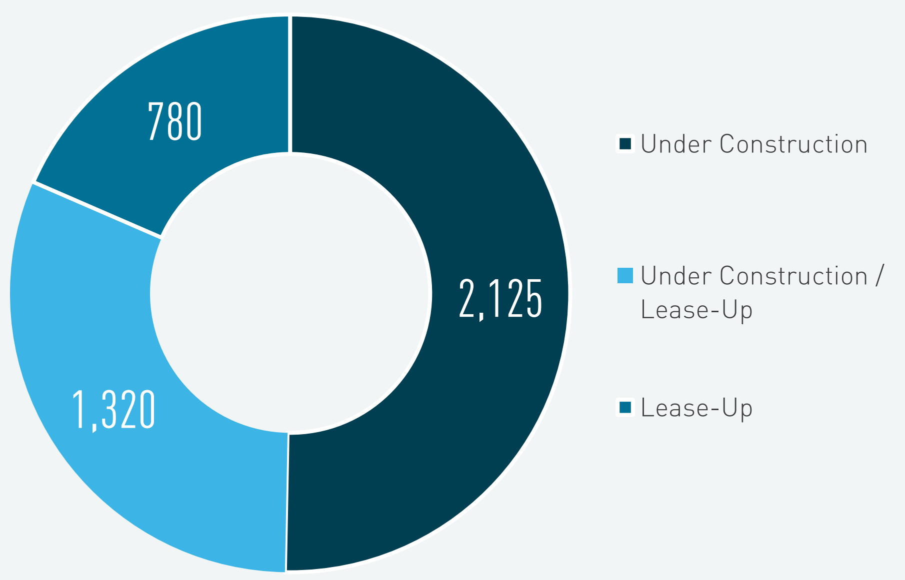
Apartment leasing activity across Greater Tucson rebounded in the last year, reflecting the national trend as consumer confidence grew amid continued hiring. Sustained robust apartment absorption in the market carried over to this year. In the first half of 2024, 788 net move-ins were recorded. Leasing activity was highest in the neighboring Southeast Tucson and Airport/Drexel Heights/Sahuarita submarkets. Combined, more than 500 net new leases were signed in these areas. Both submarkets provide a more affordable option for renting. In the second quarter of 2024, the $1,052 monthly effective rent in the Airport/Drexel Heights/Sahuarita submarket and the $1,122 monthly effective rent in the Southeast Tucson submarket were below the market average of $1,185. The areas also benefit from major employment hubs that include Davis-Monthan Air Force Base, Tucson International Airport and the UA Tech Park. Combined, these three sites support more than 70,000 jobs directly and indirectly. Apartment developers worked to meet the housing need in these areas, with 251 combined units coming online in the Airport/Drexel Heights/Sahuarita and the Southeast Tucson submarkets in the first half of 2024. The additions were a part of 841 units to be delivered metrowide year to date. Apartment development is expected to peak this year, with 2,306 units scheduled to begin lease-up in 2024. Annual deliveries are projected to taper to 1,748 units next year and 436 units in 2026.

Deliveries, Absorption, & Effective Rent Change

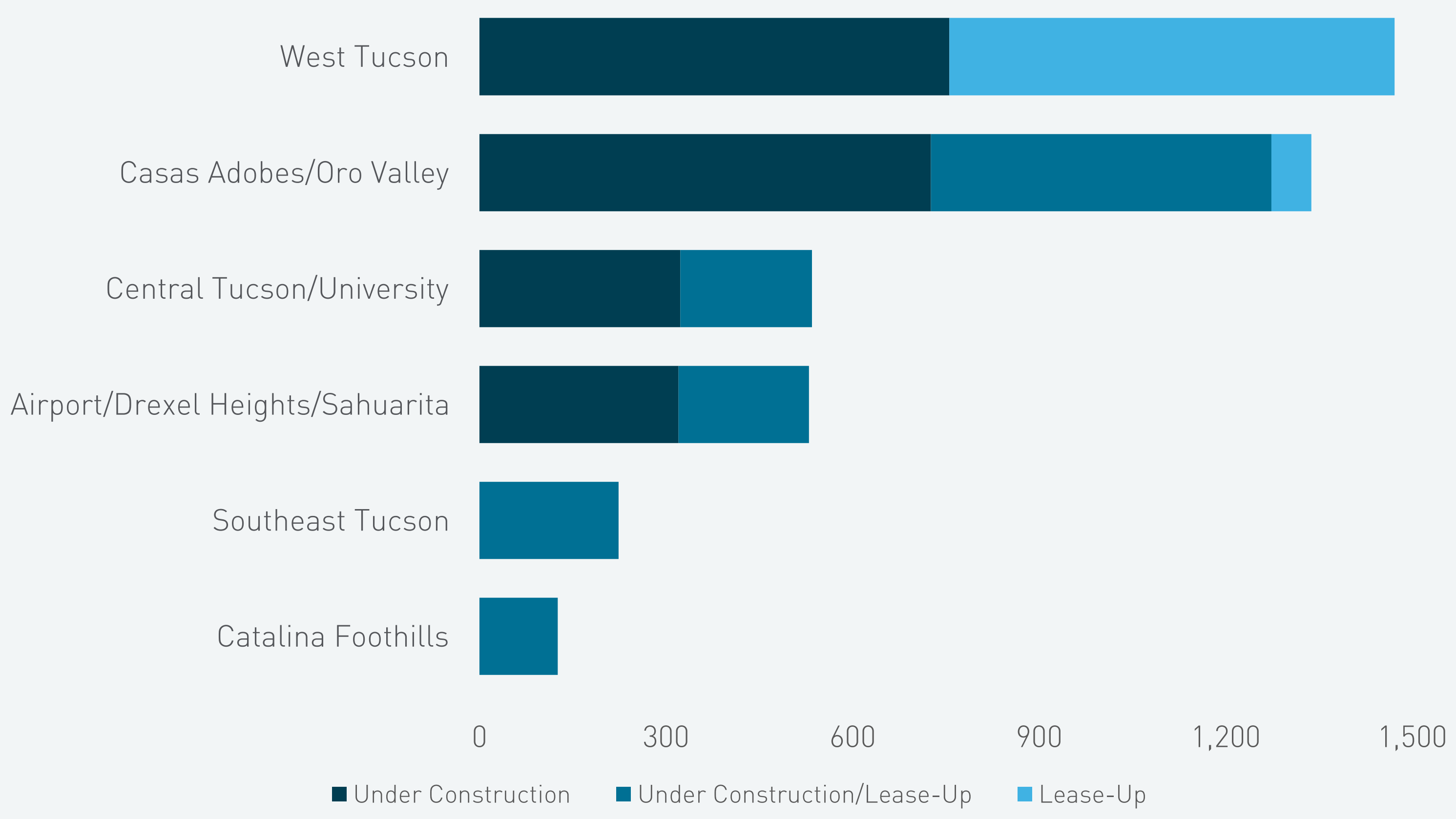


Source: RealPage

Market Pipeline



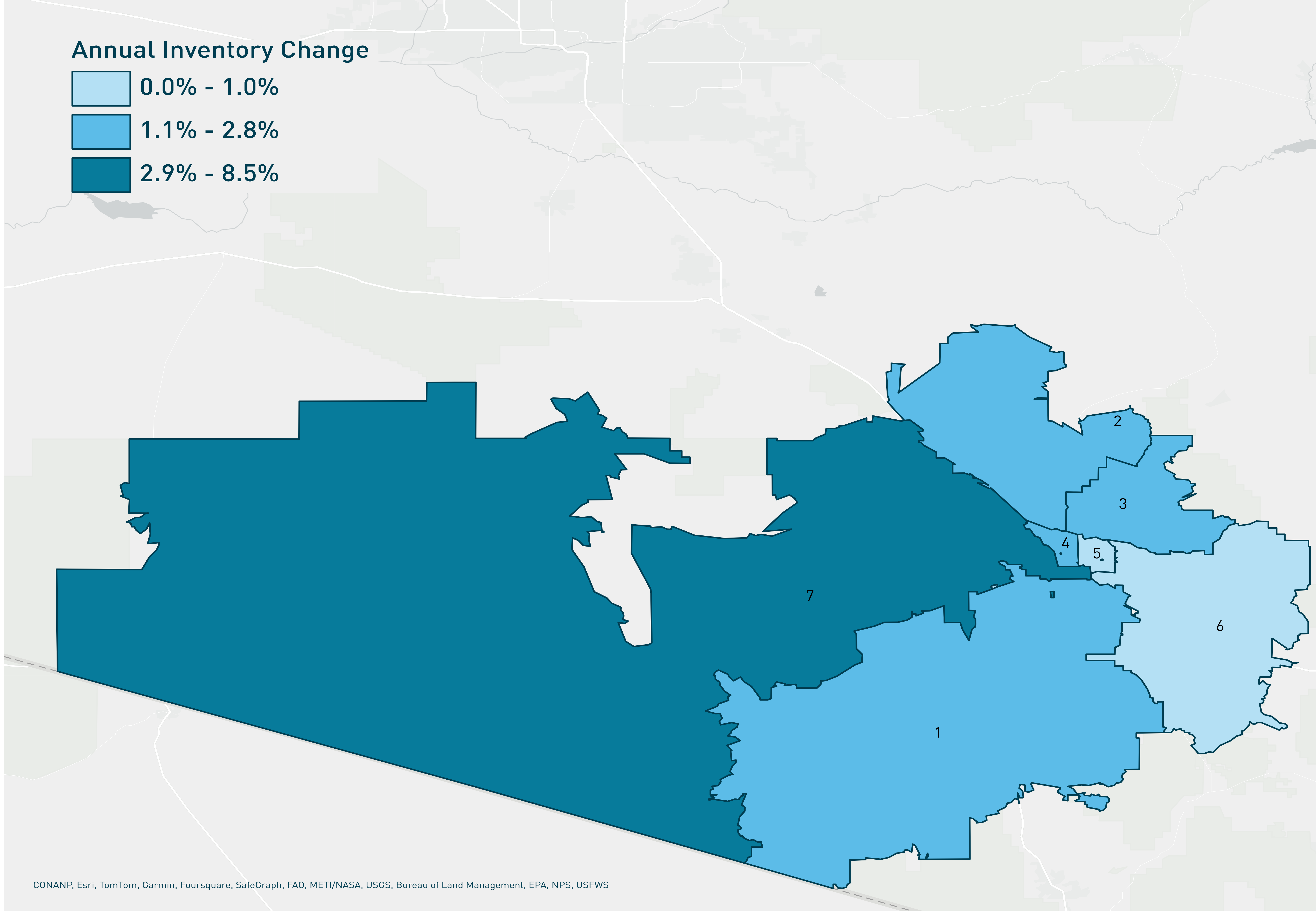
Top Submarket Pipelines



For years apartment development has been measured across the Tucson metropolitan area. In the low-interest, economic growth cycle, annual inventory growth averaged 0.5% from 2010 to 2019. With positive employment and demographic trends coming out of the pandemic, builders ramped up activity recently to lead 2.0% inventory growth metrowide in the last year. A significant share was in the West Tucson submarket. The 668 units added since mid-2023 represented 8.5% annual inventory growth, leading all submarkets during that period. The West Tucson deliveries were spread across three communities. Development in the submarket has been concentrated along Interstate 10 and State Route 86, providing renters convenient access to major employment centers throughout the metropolitan area and Southern Arizona. Builders remain active in the West Tucson submarket, with a metro-leading 756 units under construction in mid-2024.

TUCSON, AZ

SUBMARKET MID-YEAR 2024 ANNUAL INVENTORY CHANGE



SUBMARKET BOUNDARIES

1. Airport / Drexel Heights / Sahuarita
2. Casas Adobes / Oro Valley
3. Catalina Foothills
4. Central Tucson / University
5. East Central Tucson
6. Southeast Tucson
7. West Tucson

Effective Rent

Q2 2024

$1,185

1.2% YOY

Occupancy

Q2 2024

92.6%

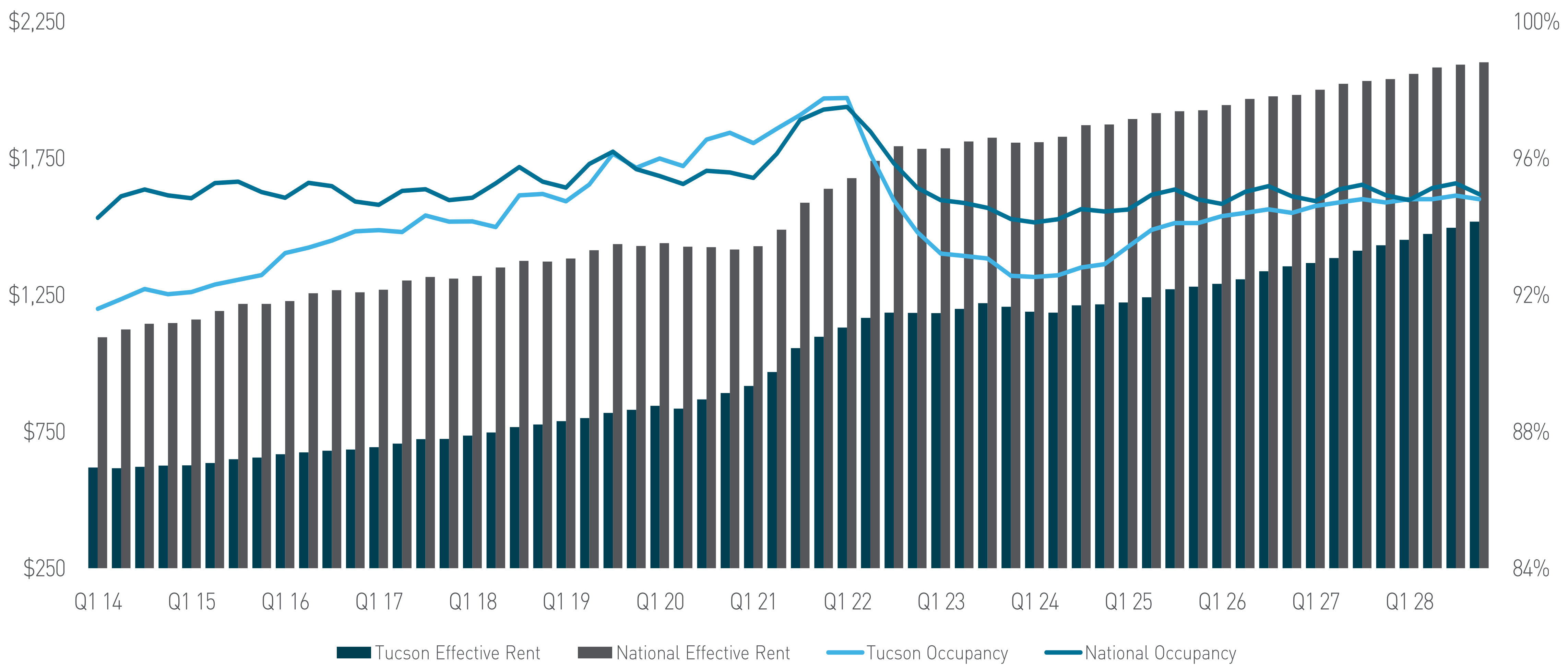
60 BPS YOY

TUCSON, AZ

RENT & OCCUPANCY

Apartment leasing activity across the Tucson market shifted positive in the last year as occupancy averaged 92.6% in the second quarter of 2024. The latest occupancy rate was on par with the economic growth cycle average from 2010 to 2019. Representing the largest share of apartment stock in Tucson, renters sought Class B properties. Class B occupancy averaged 92.8% in the second quarter of 2024. Contributing to the demand was the approximate 25% discount to rent at a Class B community versus a Class A community. Affordability is a key component of the overall Tucson apartment market. At an average of $1,185 per month in the second quarter of 2024, Greater Tucson was one of the more affordable rental markets in the Southwest and the Southern California regions. Renting in Tucson also presents a more appealing option than homeownership. During the second quarter of 2024, monthly mortgages payments were more than double the apartment rents at the same time. The competitive homeownership environment is expected to persist in the near term, benefiting apartment operators as the metro's population continues to rapidly expand. These factors combined with many students returning to Tucson to attend the University of Arizona should accelerate apartment leasing in the second half of the year. Net absorption is forecast to outpace inventory growth to elevate Greater Tucson's apartment occupancy to 92.9% by year-end.

Tucson vs. National Effective Rent & Occupancy



Source: RealPage *Note: Effective rent and occupancy reflect stabilized properties and does not include preleased units or properties in lease-up. A newly constructed property is considered stabilized once it becomes 85% occupied.*

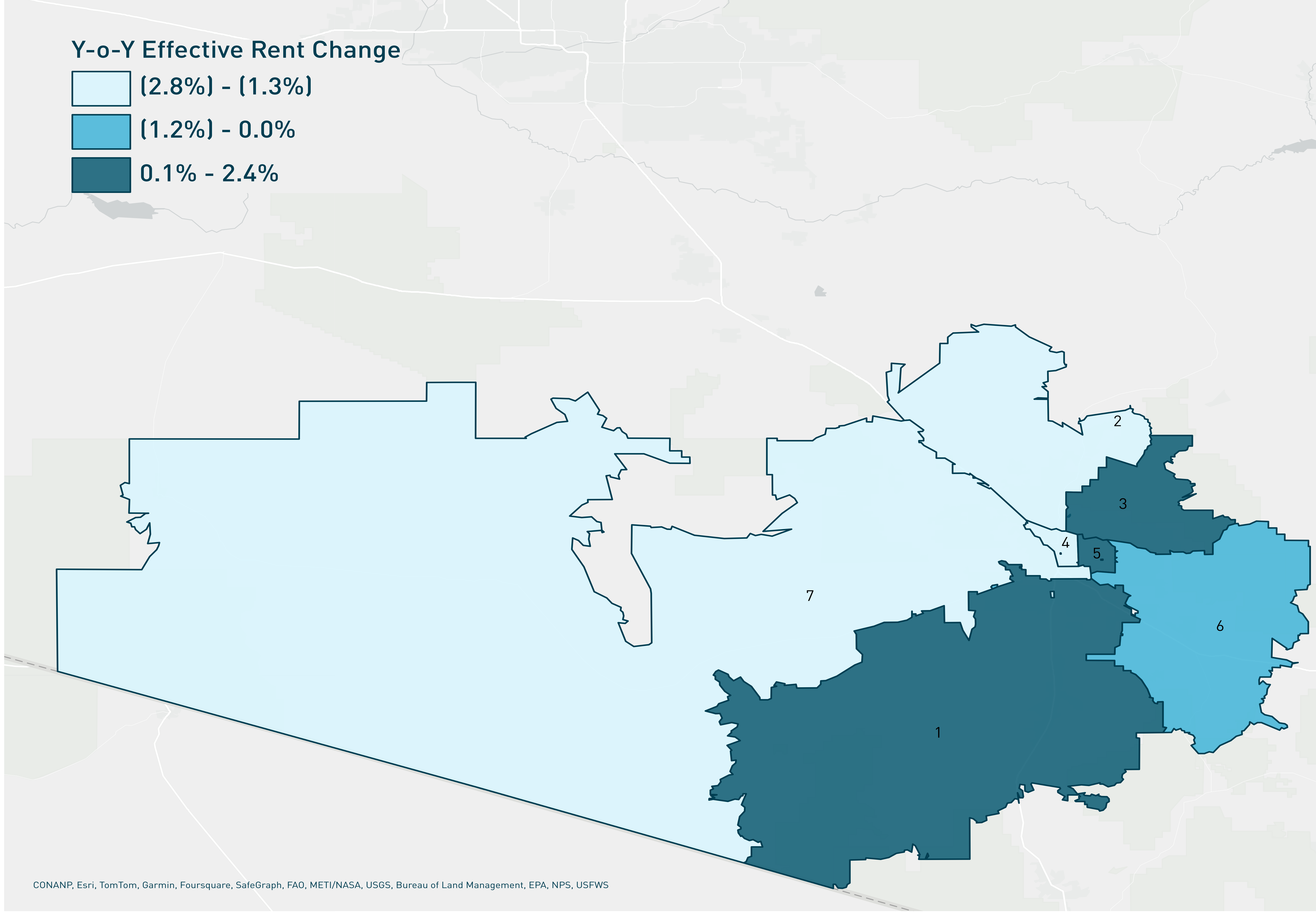
Submarket Performance

SUBMARKET NAME	Q2 2024 OCCUPANCY	YOY (BPS)	Q2 2024 EFFECTIVE RENT	YOY
Airport/Drexel Heights/Sahuarita	92.5%	10	$1,052	2.4%
Casas Adobes/Oro Valley	93.1%	-30	$1,411	-2.8%
Catalina Foothills	93.5%	-10	$1,289	0.5%
Central Tucson/University	91.0%	-320	$1,111	-2.5%
East Central Tucson	92.4%	-120	$1,023	1.0%
Southeast Tucson	92.9%	60	$1,122	-0.5%
West Tucson	91.9%	-90	$1,267	-2.5%

Home to Davis-Monthan Air Force Base and Tucson International Airport, the Airport/Drexel Heights/Sahuarita submarket has a consistent workforce that creates housing demand in the area. Multifamily developers ramped up activity recently to meet that housing need, as the 210-unit Tucson Landing began lease-up in the fourth quarter of 2023. The property is scheduled for completion before the end of 2024. With net absorption nearly keeping pace with inventory growth as lease renewals remained steady, stabilized occupancy increased 10 basis points year over year to 92.5% in the second quarter of 2024. As the submarket occupancy rate shifted closer to the market average in the last year, Airport/Drexel Heights/Sahuarita apartment operators elevated effective rent 2.4% since mid-2023. Even with a metro-leading increase in the last year, Airport/Drexel Heights/Sahuarita rent was approximately an 11% discount to the market average.

TUCSON, AZ

SUBMARKET MID-YEAR 2024 ANNUAL RENT CHANGE



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