



Update: Multifamily Construction in Southern Arizona

by Jim Tofel • published in the September 2021 issue

2020 and 2021 have brought about unprecedented changes in the way we all do business, and the multifamily construction industry is no different. For many multifamily contractors, 2020 was one of the best years on record. Residential construction was considered an essential business in Arizona, so construction continued through the pandemic on a record number of projects.



The 90-Unit Broadway Apartments in Tempe

Maricopa County is currently the fastest growing county in the country, with more than 100,000 people relocating to the Phoenix area each year. That influx, combined with low interest rates and a relatively low cost of living, have resulted in a flood of new projects under development. One of the most successful architects in the valley recently told me he has “a new multifamily project coming in the door every day.” In the last two weeks, he was asked to perform new concept plans and density studies on ten different properties.

large, national, multifamily developers are taking an interest in Tucson for the first time, creating several challenges as we look forward:

The scene is much the same in Tucson, but on a smaller scale. Many

Managing Costs

- Construction costs are currently experiencing rapid inflation—18% over the last year. This has added about \$30k per apartment to our costs. Many people know that lumber prices have skyrocketed, but we are also seeing similar increases to most other construction materials including concrete, steel/rebar, copper, drywall, plastics, etc. It is unclear if this is a temporary increase which will settle down after all the logistics and supply chain issues get worked out or if this will be a new norm for the next couple of years.
- Labor costs also are increasing steadily. If a \$15/hour minimum wage requirement is approved in the City of Tucson, our industry will need to boost wages commensurately higher to maintain current staffing levels given the hazards and difficulty of our work. Highly skilled individuals are also in very high demand. In my company, our lead superintendents are approached by headhunters two to three times per week.

Managing Schedules

- The labor market continues to be stressed with the number of new projects coming out of the ground. Our local subcontractor market still hasn't fully recovered from the 2008 recession, and the strength in the local residential housing market has divided the construction labor pool. On average, projects are taking two to four months longer to build than they did a decade ago. It is important to support JTED and our local apprenticeship programs to bolster the workforce.



The 244-Unit Flin Luxury Apartment Homes in Downtown Tucson

- Supply chain issues also are creating new scheduling challenges for projects. Last month, there was a shortage of paint, Romex wire and the metal clips used to build trusses. It takes up to twice as long to secure many materials. It will be increasingly important to purchase materials early and be nimble enough to change products as required to keep projects on track.

The good news is that multifamily property values have increased substantially, and rents have also increased by upwards of 15% YoY. This has allowed developers to absorb these changes on new projects and they continue to be financially viable. All indications are that the multifamily construction industry will remain strong for at least the next two to three years.

Jim Tofel is Managing Member with Tofel Dent Construction, and has over 250 multifamily projects to his credit. Jim's passion for providing housing opportunities for those less fortunate has propelled Tofel Dent Construction to being one of the leading affordable housing general contractors in Arizona and New Mexico. With Jim's leadership in the large multifamily project categories, including high-density market rate, senior living and mixed-use projects, Tofel Dent Construction is proud to have completed many successful projects. He can be reached at jtofel@tofeldent.com.

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