Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	3,515
UNITS DELIVERED (YTD)	207

MARKET FUNDAMENTALS

VACANCY RATE	8.8%
YEAR-OVER-YEAR CHANGE	+60bps
ASKING RENTS	$1,154
YEAR-OVER-YEAR CHANGE	-2.4%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$146,000

TUCSON MULTIFAMILY
1Q 2025

MARKET INSIGHTS

Operating fundamentals soften, but more properties change hands

HIGHLIGHTS

- The Tucson multifamily market posted weaker fundamentals in the first quarter as vacancies rose and rents dipped. Completions to this point in the year have been relatively light following rapid deliveries in 2023 and 2024, but the pace of new development is expected to accelerate.
- The vacancy rate rose 40 basis points in the first quarter, reaching 8.8%. During the past 12 months, local vacancy trended higher by 60 basis points.
- Rents continued to trend lower to start the year, declining by 2% to $1,154 per month. Year over year, rents in Tucson are down 2.4%.
- Multifamily transaction volume in Tucson during the first quarter was elevated compared to recent periods, but activity levels continue to lag historical norms. The median price through the first quarter is $146,000 per unit, closely tracking levels recorded last year.

TUCSON MULTIFAMILY MARKET OVERVIEW

Multifamily operating conditions cooled during the first quarter, driven primarily by the increasing supply in Tucson outpacing demand. While deliveries in the past six months totaled roughly 400 units, 2023 and 2024 were two of the highest years on record for inventory growth, and the cumulative impact of heightened deliveries has begun to drag on operating fundamentals, even as renter demand has been elevated. In 2024, local apartments posted net move-ins for approximately 1,650 units, exceeding the combined total from the previous three years and marking peak levels for the metro area. On the supply side, the construction pipeline remains elevated, and many operators are halting rent increases and offering more concessions to compete with recently delivered properties.

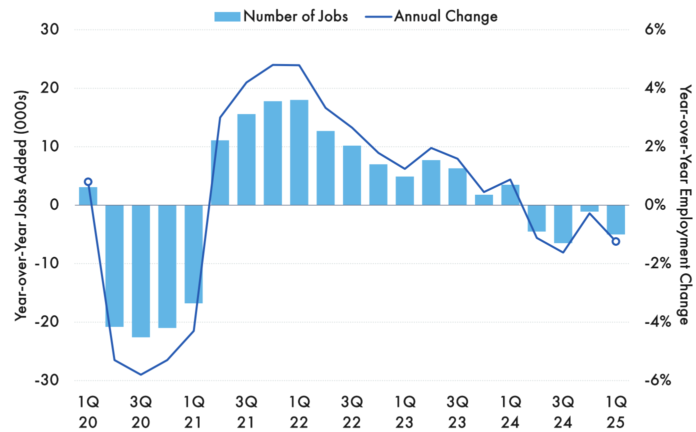
Although multifamily investment activity remains limited compared to traditional levels, sales volume in the first quarter of this year marked the strongest period of activity since the fourth quarter of 2022. More properties were traded in the first three months of 2025 than in the entire first half of 2024, with roughly half of these properties located within approximately 5 miles of the Tucson International Airport. With activity up, pricing has held steady; the median price year to date is nearly identical to last year's figure. Some of the pricing trend is a result of the mix of properties that are changing hands. In addition to a few smaller, older Class C assets selling, investors have also recently acquired larger properties built in the late-1990s. Cap rates have remained within roughly the same range that they have been in since late 2023, averaging between 5.5% and 6%.

EMPLOYMENT

- Total employment in Tucson has declined in recent periods. Year over year, area employers have contracted payrolls by 1.2%, cutting 5,000 workers.
- While job losses are being recorded across the larger economy, the education and health services sector continued to post strong gains. During the past 12 months, employers in this industry have expanded payrolls by 2.4% with the addition of 1,700 positions.
- Developers recently broke ground on the Casino Del Sol-Grant Road project. Slated to become the first casino built within the Tucson city limits, it is projected to create around 1,000 new jobs when completed in 2026.
- **FORECAST:** Employers are forecast to make modest additions to payrolls in Tucson this year, following slight cuts in 2024. Total employment in the area is expected to expand by 0.5% with the addition of 2,000 jobs.

Total employment in the area is expected to expand by 0.5%.

EMPLOYMENT OVERVIEW



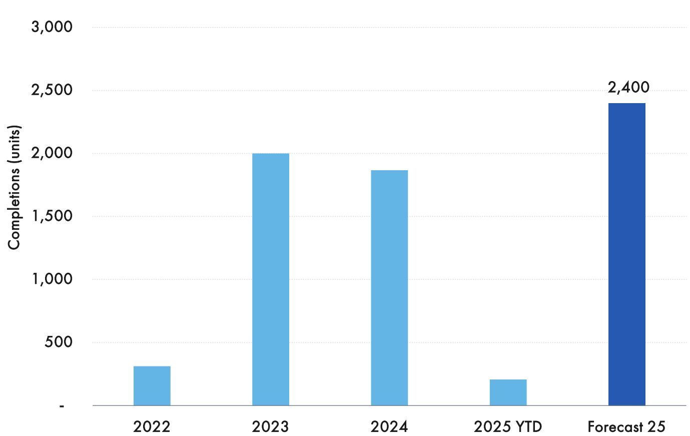
Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

- The pace of multifamily deliveries in Tucson started off relatively light in 2025. Year to date, projects totaling about 200 units have been completed in the area, down 38% from the same time period in 2024.
- There are currently more than 3,500 multifamily units under construction in Tucson, down 9% from one year ago. The development pipeline peaked with approximately 4,100 units under construction during the second quarter of 2024.
- The first quarter of this year has been one of the lightest periods for multifamily permitting since late 2020. Year to date, permits for projects totaling approximately 130 units have been pulled, down 21% year over year.
- **FORECAST:** Multifamily deliveries in Tucson are projected to accelerate in 2025 after a slow start to the year. Builders are scheduled to complete projects totaling roughly 2,400 units in 2025, after fewer than 1,900 units came online last year.

More than 3,500 multifamily units are under construction.

DEVELOPMENT TRENDS

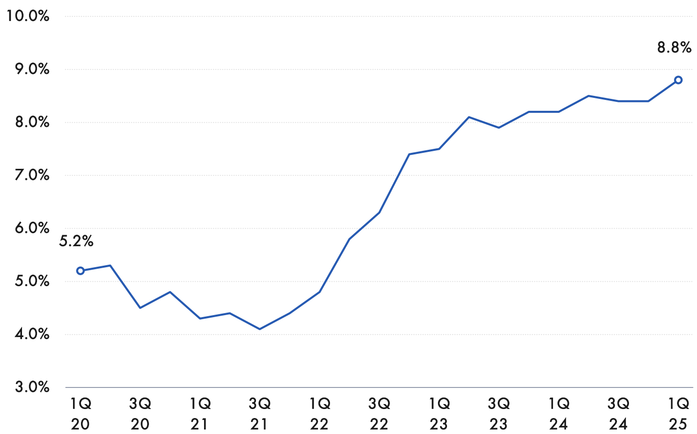


Sources: Northmarq, Apartment Insights

VACANCY

Vacancy for Class A apartments decreased by 360 basis points.

VACANCY TRENDS



Sources: Northmarq, Apartment Insights

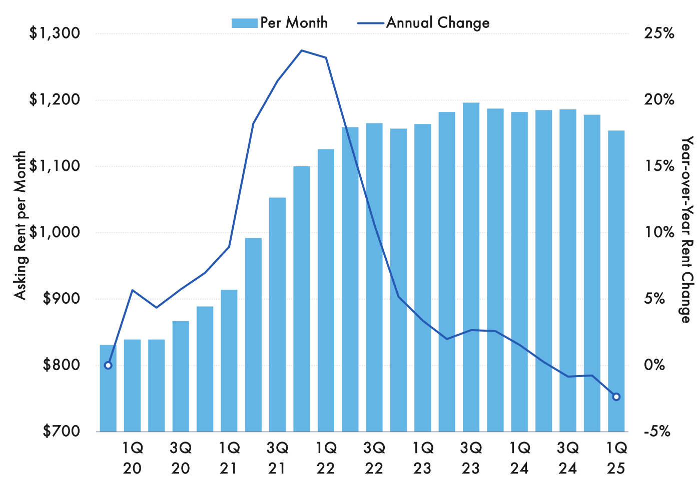
- Vacancy in Tucson trended higher during the first quarter after holding relatively steady during the second half of last year. The vacancy rate rose 40 basis points to start the year, ending the first quarter at 8.8%. Year over year, vacancy is up 60 basis points.
- Despite vacancy trending higher at the market level, a handful of submarkets are recording vacancy improvements. The North Central Tucson and Pantano/Lakeside submarkets both recorded 30 basis point decreases over the past 12 months. In nearby Northeast Tucson and Catalina Foothills, vacancies inched lower by 10 basis points during the same period.
- Class A assets posted a significant improvement in vacancy during the past year, as the elevated inventory growth has leased up at a strong clip. The vacancy rate for Class A apartments in Tucson decreased by 360 basis points during the past 12 months to 6.3%.
- **FORECAST:** The vacancy rate in Tucson is expected to tick higher from current levels as new units come online. Vacancy in Tucson is forecast to end 2025 at 9%, an increase of 60 basis points for the full year.

RENTS

- Apartment rents in Tucson continued to trend lower, decreasing by 2% during the first quarter to $1,154 per month. Year over year, rents declined by 2.4%.
- The South Tucson/Airport submarket was the only area in the region to post positive rent growth during the past year. In the past 12 months, rents in this submarket rose by 3.3% to $1,126 per month.
- Elevated completions in the Northwest Tucson submarket have dragged on rents in recent periods, with some of these conditions carrying over into Oro Valley/Catalina. Year over year, rents in Northwest Tucson declined by 5%, while rents in the Oro Valley/Catalina submarket dropped by 4.7%.
- **FORECAST:** Rents are expected to remain near current ranges for the remainder of the year, as competition from new supply will impact operators in the coming quarters. Average rents are forecast to end 2025 at $1,150 per month, declining by 2.4% from the previous year.

Rents in the South Tucson/Airport submarket rose by 3.3%.

RENTS TRENDS



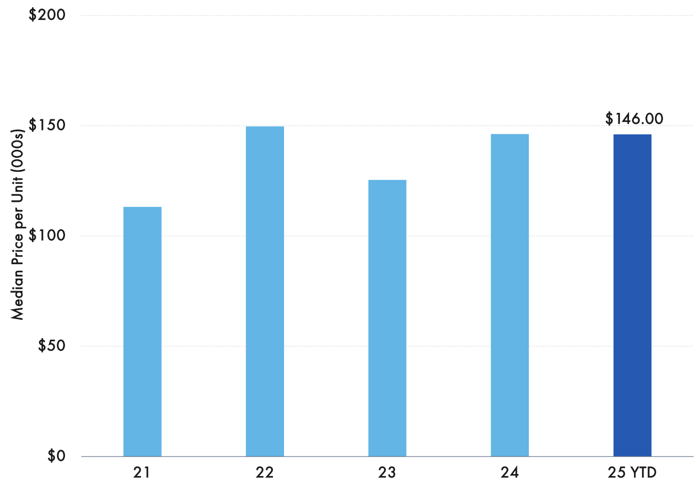
Sources: Northmarq, Apartment Insights

MULTIFAMILY SALES

- While multifamily investment activity continues to lag traditional levels, there was an uptick in transactions during the opening months of 2025 after two consecutive years of limited sales volumes. More properties traded in the first three months of 2025 than in the entire first half of 2024.
- Pricing on the properties that have sold to this point in the year is nearly identical to last year's figures. Year to date, the median price is $146,000 per unit, Compared to peak levels recorded in 2022, current pricing is down by less than 5%.
- After compressing a few years ago, cap rates have remained within roughly the same range since late 2023. Current cap rates in Tucson are averaging between 5.5% and 6%.

Year to date, the median price is $146,000 per unit

INVESTMENT TRENDS



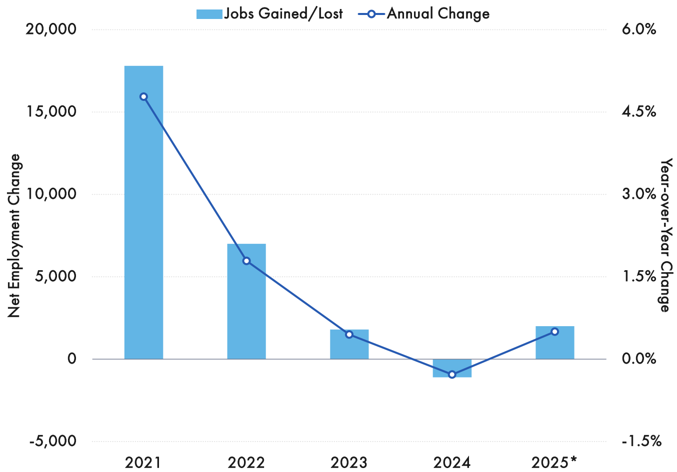
Sources: Northmarq, CoStar

LOOKING AHEAD

Some additional softening is likely in the Tucson multifamily market throughout the remainder of this year as the pace of upcoming deliveries will apply further supply side pressures. Projects totaling about 2,400 units are forecast to come online in 2025. However, this will likely be the last year of the recent inventory spike, as permitting slowed in 2024 and is projected to continue to do so in 2025. The vacancy rate is expected to rise to 9% in 2025, but this will likely represent a cyclical peak before the rate improves in subsequent years. Increases to vacancy levels may result in another modest dip in rents, continuing trends from 2024. Operators will likely continue to use concessions to help promote tenant retention. Overall average concessions in Tucson have already trended higher and may be used in greater amounts to attract and retain renters.

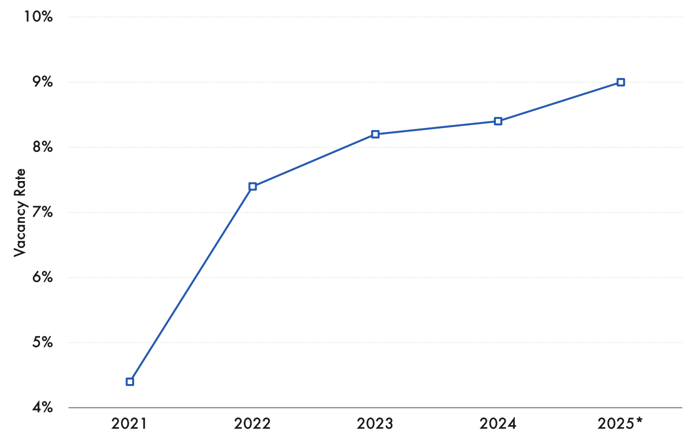
The uptick in transaction volume posted in the first quarter suggests that total sales in 2025 will likely outpace the limited levels recorded in each of the previous two years. While transaction counts should rise, some degrees of uncertainty will likely prevent a complete rebound in the coming year. The most likely outcome is a year where transaction volume bounces off of recent lows but lags below traditional norms. Financing costs and recent development volumes may shift the property mix towards more recently built properties. Traditionally, 1970s- and 1980s-vintage properties have made up the majority of sales in Tucson, but during the first quarter, properties built in the late-1990s and early 2000s accounted for about 75% of the sales, a trend that is likely to continue through the end of the year.

EMPLOYMENT FORECAST



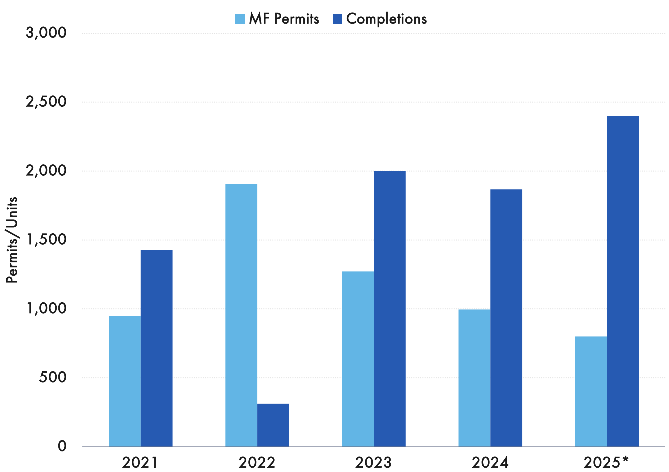
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



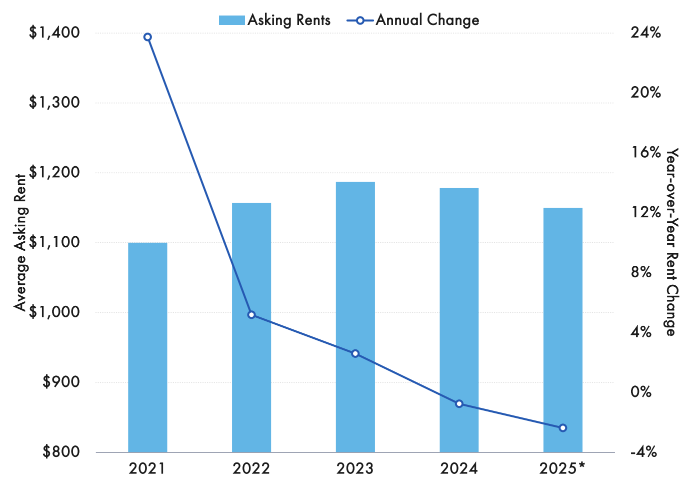
** Year End Forecast*
Sources: Northmarq, Apartment Insights

CONSTRUCTION & PERMITTING FORECAST



** Year End Forecast*
Sources: Northmarq, Apartment Insights, Census Bureau

RENTS FORECAST



** Year End Forecast*
Sources: Northmarq, Apartment Insights

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FOR MORE INFORMATION, **PLEASE CONTACT**

TREVOR KOSKOVICH
President, Investment Sales
602.952.4040
tkoskovich@northmarq.com

JESSE HUDSON
Regional Managing Director, Investment Sales
602.952.4042
jhudson@northmarq.com

BRANDON HARRINGTON
Managing Director, Debt & Equity
602.508.2204
bwharrington@northmarq.com

RYAN BOYLE
Vice President, Investment Sales
602.952.4050
rboyle@northmarq.com

CHRIS MICHL
Vice President, Investment Sales
602.952.4051
cmichl@northmarq.com

LOGAN BACA
Senior Associate, Investment Sales
602.952.4052
lbaca@northmarq.com

PETE O’NEIL, *Director of Research* | 602.508.2212 | poneil@northmarq.com

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