Northmarq

MARKET INSIGHTS

Modest operational gains and rebounding transaction activity define first half of 2025

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	3,785
UNITS DELIVERED (YTD)	207

MARKET FUNDAMENTALS

VACANCY RATE	8.7%
YEAR-OVER-YEAR CHANGE	+20bps
ASKING RENTS	$1,156
YEAR-OVER-YEAR CHANGE	-2.4%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$143,900

TUCSON MULTIFAMILY
2Q 2025

HIGHLIGHTS

- Operating conditions in the Tucson multifamily market strengthened during the second quarter, with rents and vacancies both recording modest improvements. The pace of deliveries has been slow, with just 207 units completed year to date, although completions will gain momentum in the second half.
- Tucson apartments posted a 10 basis point dip in vacancy during the second quarter, bringing the vacancy rate down to 8.7%. During the past 12 months, area vacancy has increased by 20 basis points.
- Rent inched higher in the second quarter, but current rents still lag levels from one year ago. During the past three months, asking rents in Tucson have increased by 0.2% to $1,156 per month. Year over year, asking rents contracted by 2.4%.
- Transaction volume in Tucson has rebounded from recent lows in 2025, with the number of sales recorded in the first half significantly outpacing last year's pace. The median price at this point in the year is $143,900 per unit, with cap rates averaging around 5.5%.

TUCSON MULTIFAMILY MARKET OVERVIEW

Multifamily properties performed fairly well in Tucson during the second quarter, which has historically been a period of operational softness. Vacancies inched lower and operators were able to implement rent increases that averaged a couple of dollars per month more across the market. Despite the slight improvement in recent months, current vacancies are about 150 basis points higher than their long-term averages, and deliveries have been limited to this point in 2025, a trend that is expected to reverse course in the second half. While more than 2,000 units are scheduled to be completed in the second half of this year, there is some uncertainty surrounding demand drivers. Employment growth has been muted since 2023, and recent policies may limit population growth in Pima County.

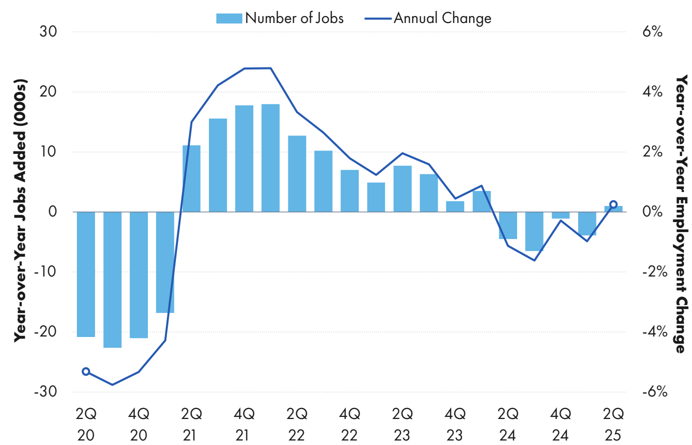
Local investment sales volume in the first half remained ahead of the sluggish pace recorded in the same period of 2024. Similar to the first quarter, a few properties changed hands during the second quarter, after sales activity was essentially halted during the same period in 2024. Despite the rebound, current volumes are still modest compared to historical norms. Most of the properties that sold were traded for prices between $130,000 per unit and $165,000 per unit, with the median sale price at $143,900 per unit. The current median sale price per unit is just 4% below the peak pricing posted in 2022. Transactions have been distributed throughout the market, with the Casas Adobes submarket holding the largest share. Class B assets accounted for the majority of sales in the first half, and for the first time since 2021, a Class A property changed hands.

EMPLOYMENT

- After recent periods of net losses, employment growth resumed during the second quarter. During the past 12 months, employers added 1,000 new positions in Tucson, an increase of 0.3%.
- While the financial services sector in Tucson represents a minor share of the city's overall workforce, recent growth in this industry has been elevated. During the past 12 months, employers in this sector have expanded payrolls by 3.9% with the addition of roughly 700 jobs.
- Mitsubishi Heavy Industries Aviation Group is in the middle of a three-year plan to add approximately 250 net new jobs at its facility at Tucson International Airport. Technicians and machinists will work on the CRJ Series aircraft, a series of regional jets operated by more than 60 airlines.
- **FORECAST:** Employment in Tucson is expected to record positive growth in 2025 after posting a slight dip in 2024. This year, employers are forecast to expand payrolls by 0.5% with the addition of roughly 2,000 new jobs.

During the past 12 months, employers added 1,000 new positions.

EMPLOYMENT OVERVIEW



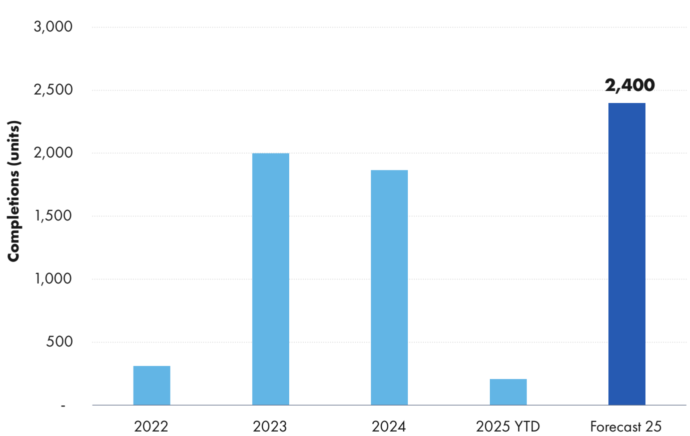
Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

- Deliveries have been limited during the first half of this year. Developers completed projects totaling just 207 units through the first two quarters, down more the 40% from totals during the same period in 2024.
- Nearly 3,800 units are currently under construction, about 7% fewer than a year ago. After several years of limited new deliveries, developers began ramping up activity a few years ago. Since the start of 2023, construction levels have remained elevated, with an average of more than 3,400 units underway.
- While construction has remained elevated in recent years, permitting for new multifamily developments has slowed. Developers pulled permits for 325 units during the first half, down nearly 50% from the region's long-term average.
- **FORECAST:** The pace of deliveries is forecast to gain momentum in the second half, with 2025 on pace to be the third consecutive year of elevated supply growth. Developers are expected to complete approximately 2,400 new units this year, after nearly 1,900 units came online in 2024.

Developers pulled permits for 325 units during the first half.

DEVELOPMENT TRENDS

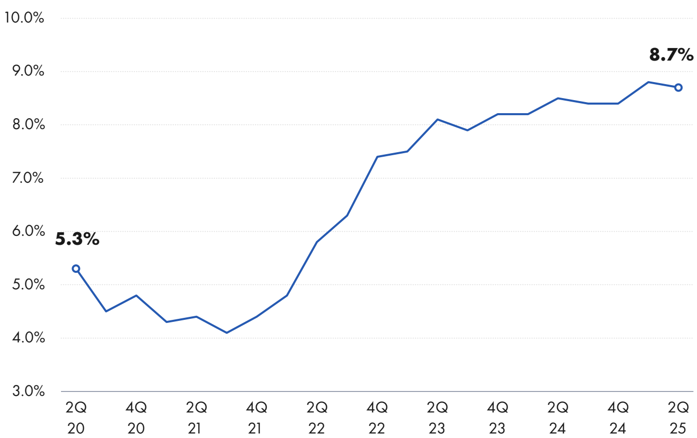


Sources: Northmarq, Apartment Insights

VACANCY

Vacancy dipped 10 basis points in the second quarter.

VACANCY TRENDS



Sources: Northmarq, Apartment Insights

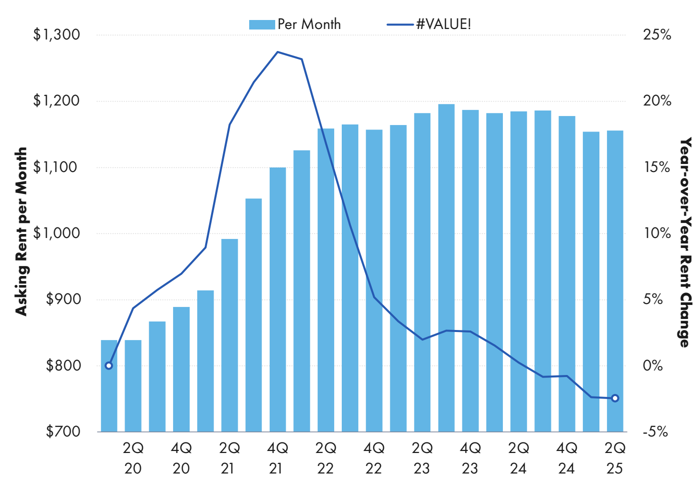
- After rising at the beginning of the year, vacancy dipped 10 basis points in the second quarter, reaching 8.7%. The decline was the market's first quarterly vacancy improvement recorded in nearly a year.
- While the rate has inched lower in recent months, area vacancy is still up 20 basis points compared to one year ago. Since beginning to trend higher in late 2021, area vacancy has averaged 7.6%.
- Vacancy rates are lowest in the Tucson area's Class A segment. Vacancies for top-tier properties ended the second quarter at just 4.9%. In Class B and Class C assets, which account for the bulk of the market's inventory, vacancies have ranged between 8% and 9.5% since the middle of last year.
- **FORECAST:** As new units are delivered during the second half of the year, area vacancy is expected to trend higher. The rate is projected to end the year at 9.1%, marking a 70-basis-point increase from year-end 2024.

RENTS

- Rents inched higher in the second quarter but remain lower than levels from one year ago. Average rents ticked up just $2 per month from the first quarter to the second quarter, following two consecutive quarters of modest declines.
- Current rents in Tucson are $1,156 per month, down 2.4% year over year. Market rents peaked during the second half of 2023 and have gradually trended lower in subsequent periods. Average market rents are down 3.3% from the earlier peak.
- The influx of new supply has impacted rents across the top tier. Current Class A rents are $2,060 per month, or $2.38 per square foot, per month. Class A rents are up more than 3% from one year ago, but still slightly lower than peak levels.
- **FORECAST:** Rents may gain some ground in the second half, particularly as the school year resumes at the University of Arizona. Still, rents are expected to end 2025 down 1.5% for the full year, with average rents near $1,160 per month.

Current rents in Tucson are $1,156 per month.

RENTS TRENDS



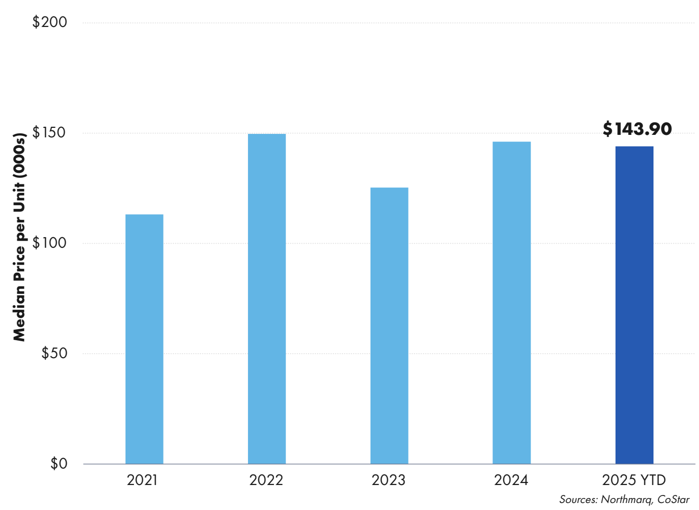
Sources: Northmarq, Apartment Insights

MULTIFAMILY SALES

- Multifamily transaction volume in Tucson continues to accelerate after two years of minimal trades. While the number of deals during the first half of 2025 remains below historical averages, sales during the first six months of the have already matched the total number recorded in all of 2024.
- Properties have been trading within a wide price range in 2025. Year to date, the median sale price in Tucson is $143,900 per unit, about 2% lower than in 2024. Elevated pricing was recorded in some sales, with properties trading as high as $240,400 per unit.
- Cap rates in Tucson this year have remained relatively stable in 2025, staying within the same range recorded since late 2023. Currently, cap rates are averaging around 5.5%.

Year to date, the median sale price in Tucson is $143,900 per unit.

INVESTMENT TRENDS

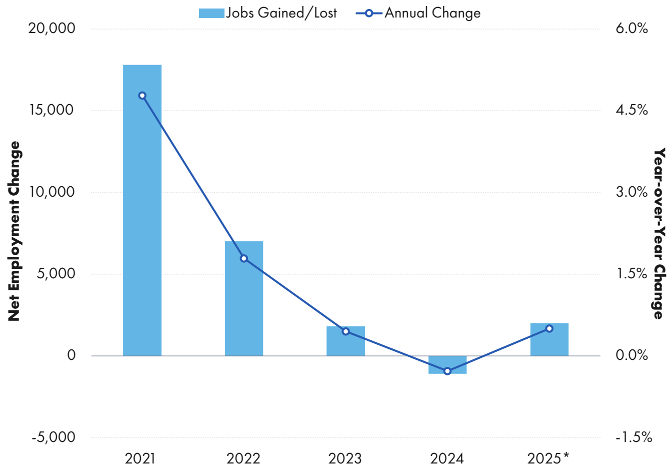


LOOKING AHEAD

The second half of 2025 is poised to set the tone for future market performance in the Tucson region. With developers on pace to deliver new inventory in the coming months, there will likely be additional supply-side pressures that will create a more competitive leasing environment for current operators, particularly in the northern portion of the submarket, where new construction will be concentrated this year. Projects totaling approximately 1,650 units are scheduled to be completed this year across the Marana, Oro Valley/Catalina, and Northwest Tucson submarkets. While construction is on pace to remain elevated, the region outperformed historical averages during the second quarter, and the third quarter has historically been the strongest period for absorption and rent growth. Any strengthening of fundamentals in the third quarter would likely signal a larger stabilization across the Tucson multifamily market.

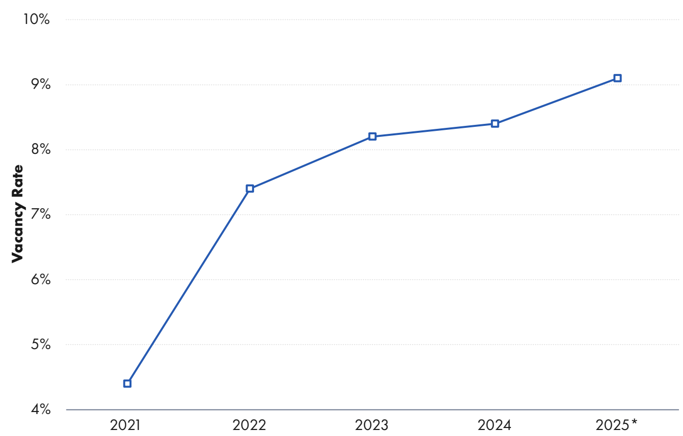
The recent uptick in transaction activity in Tucson is likely to continue through the end of the year, though, similar to the first half of 2025, activity should still lag levels recorded in the years prior through 2023. Much of the upcoming transaction activity is poised to take place in the Central Tucson area, with the remainder spread out primarily amongst the Southeast Tucson, East Side, and Casas Adobes, areas where elevated activity is more common. These sales will likely focus on lower-tier Class C properties, though some Class A and Class B properties currently on the market that may trade by the end of the year at elevated pricing. Cap rates have held near 5.5% in recent periods and are unlikely to move far from this mark in 2025.

EMPLOYMENT FORECAST



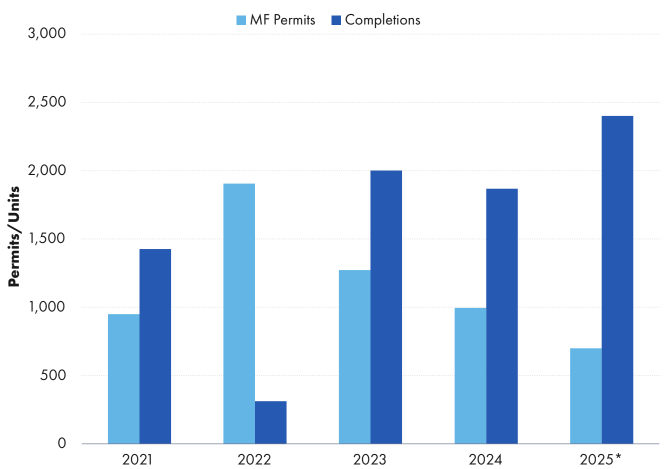
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



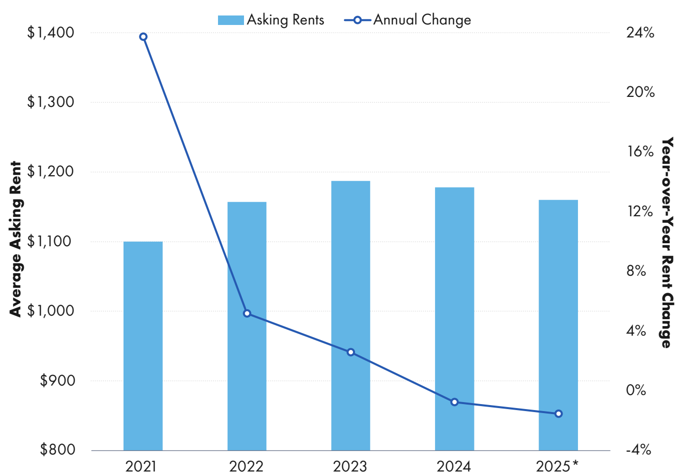
* Year End Forecast
Sources: Northmarq, Apartment Insights

CONSTRUCTION & PERMITTING FORECAST



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

RENTS FORECAST



* Year End Forecast
Sources: Northmarq, Apartment Insights

Northmarq

FOR MORE INFORMATION, **PLEASE CONTACT**

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

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

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

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

BRANDON HARRINGTON
Managing Director, Debt & Equity
602.508.2204
bwharrington@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

ABOUT **NORTHMARQ**

Northmarq is a full-service capital markets resource for commercial real estate investors, offering seamless collaboration with top experts in debt, equity, investment sales, loan servicing, and fund management. The company combines industry-leading capabilities with a flexible structure, enabling its national team of experienced professionals to create innovative solutions for clients. Northmarq's solid foundation and entrepreneurial approach have built a loan servicing portfolio of more than $76 billion and a two-year transaction volume of $52 billion. Through the 2022 acquisition of Stan Johnson Company, Northmarq established itself as a provider of opportunities across all major asset classes. For more information, visit www.northmarq.com.