Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	3,327
UNITS DELIVERED (YTD)	136

MARKET FUNDAMENTALS

VACANCY RATE	8.8%
YEAR-OVER-YEAR CHANGE	+0bps
ASKING RENTS	$1,142
YEAR-OVER-YEAR CHANGE	-1.0%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$140,900

TUCSON MULTIFAMILY
Q1 2026

MARKET INSIGHTS

Transaction counts spike to start 2026

HIGHLIGHTS

- Tucson multifamily fundamentals improved in the first quarter, with vacancy tightening while rents recorded healthy growth. Deliveries were especially light, with just 136 new units coming online since the start of the year.
- The vacancy rate ticked lower during the first quarter, decreasing by 20 basis points to 8.8%. Compared to the first quarter of 2025, the vacancy rate is unchanged.
- Rent growth in Tucson started the year by bouncing back after a steep decrease in the closing months of last year. Average rents advanced by 1.1% during the past three months to $1,142 per month. Year over year, asking rents are still down 1.0%.
- The Tucson investment market gained ground in the first quarter, with transaction activity already outpacing the entire first half of 2025. Pricing has increased, with the year-to-date median sale price rising 18% to $140,900 per unit. Current cap rates average 5.5%, in line with 2024 and 2025 levels.

TUCSON MULTIFAMILY MARKET OVERVIEW

Operating conditions posted better performance during the first quarter as limited supply growth across 2025 and into 2026 helped ease upward pressure on vacancy and allowed operators to raise rents. While the vacancy rate dipped only 20 basis points, this marked the strongest quarterly improvement since 2023, bringing the current rate back in line with the first quarter of 2025. This marks the first time since 2020 that the vacancy rate has not recorded a year-over-year increase in Tucson. Rents also improved during the first quarter, although market averages still remain lower than they were one year ago. Class B properties were the best performing asset class. These middle-tier apartments recorded both quarterly and annual improvements in rents and vacancy. Class C assets also performed well in the near term, with rents increasing 2.6% in the first three months of the year while vacancy decreased by 100 basis points.

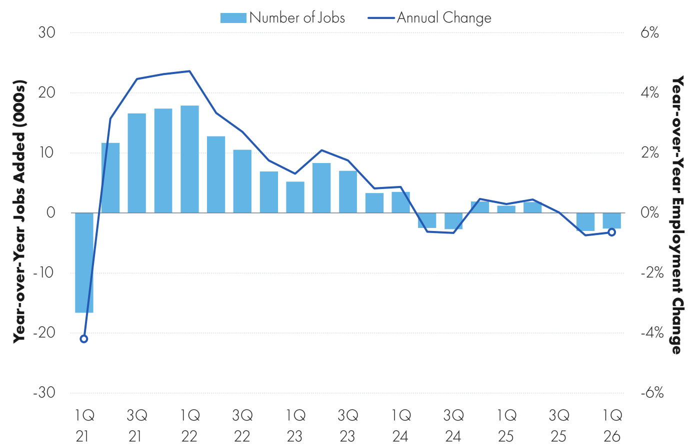
The multifamily investment market in Tucson started the year on an upswing. Activity has accelerated, with total sales during the first quarter exceeding levels recorded in the first half of each of the past three years. Pricing has also increased; the median sale price during the first quarter was $140,900 per unit, up 18% from last year. While there has not been a meaningful shift in the submarkets where sales are occurring, the individual properties that have sold to this point in 2026 have generally been better located and of a higher quality within their respective submarkets than those that sold in 2025. The majority of transactions this year have been split between the Central Tucson and East Side submarkets. In Central Tucson, the year-to-date median price is up 40% from last year, while first-quarter median pricing in the East Side submarkets exceeded 2025 levels by 55%.

EMPLOYMENT

- Employment totals continued to soften after a weak close to 2025. Year over year, there was a net loss of approximately 2,600 jobs, representing a 0.6% annual decrease.
- The financial activities sector is currently leading the region for employment growth. During the past 12 months, employers in this sector have expanded payrolls by 1.0% with the addition of 200 jobs.
- The professional and business services sector also continued to add workers despite the overall softening of the employment market. Compared with a year earlier, employers in this sector filled 100 new positions, increasing payrolls by 0.2%.
- **FORECAST:** Employment is expected to improve in the coming months, but the net annual change will likely remain negative. In 2026, employment is forecast to decline by 0.5%, a loss of approximately 2,000 jobs.

The financial activities sector expanded payrolls by 1.0%.

EMPLOYMENT OVERVIEW



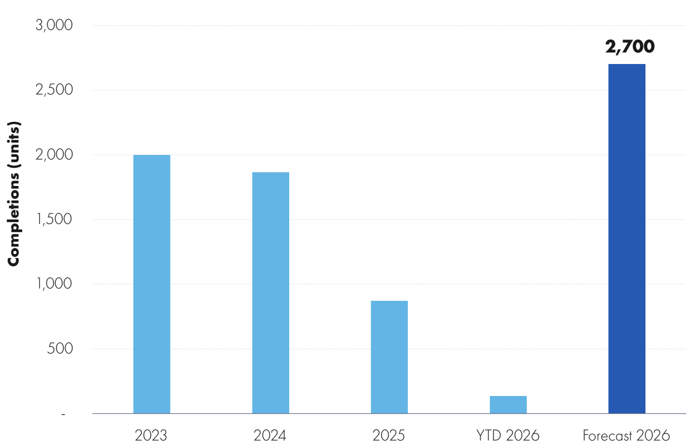
Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

- Continued construction delays kept the pace of deliveries light during the opening months of the year. In the first quarter, there were two projects delivered totaling 136 units, down from more than 200 units during the first quarter of 2025.
- The construction pipeline remains elevated compared to historical standards, though it has contracted slightly in the past 12 months. Compared with the same point in 2025, the number of units under construction has dipped 5% to roughly 3,300 units.
- Permitting continued to taper at the start of 2026. So far this year, permits have been issued for fewer than 100 multifamily units in Tucson. Relative to the same period in 2025, permitting is down by roughly 50%.
- **FORECAST:** The pace of completions is expected to spike this year following a light year in 2025. In 2026, projects totaling roughly 2,700 units are on track for delivery, more than double the 2025 figure and reaching the highest level in decades.

The construction pipeline remains elevated.

DEVELOPMENT TRENDS



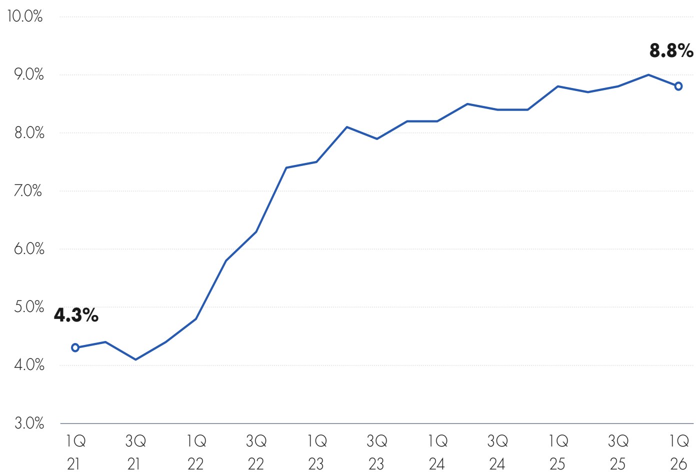
Sources: Northmarq, Apartment Insights

VACANCY

- The vacancy rate in Tucson improved in the first quarter, declining by 20 basis points after rising throughout most of 2025. Year over year, vacancy remains flat at 8.8%.
- The Oro Valley/Catalina submarket was the clear leader in vacancy improvement during the past year. Year over year, the vacancy rate in this submarket fell 320 basis points to 6.1%. In the past three months, vacancy dipped 60 basis points in this area.
- Vacancy conditions in Class B apartments recorded both quarterly and annual improvement. Middle-tier vacancy currently stands at 8.1% after posting a 60-basis point vacancy decrease in the first quarter and 40-basis point decrease year over year.
- **FORECAST:** The vacancy rate is forecast to rise in 2026 as the pace of deliveries picks up significantly, though strong absorption should help offset the impact of new inventory. In 2026, the vacancy rate is projected to increase by 40 basis points to 9.4%.

Year over year, vacancy remains flat.

VACANCY TRENDS



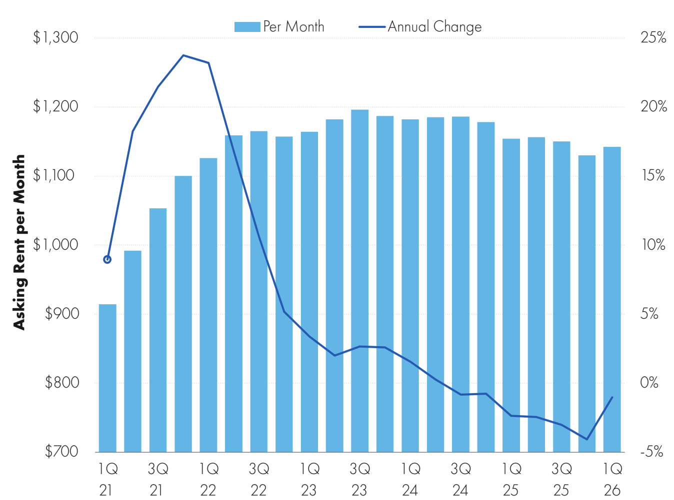
Sources: Northmarq, Apartment Insights

RENTS

- Rent growth returned in the first quarter. During the opening three months of the year, rents increased by 1.1% to $1,142 per month. Year over year, rents remain down 1.0%.
- While most submarkets recorded annual rent decreases, rents in the Southeast Tucson area posted solid growth. Average rents in this submarket increased by 3.4% in the past year to $1,550 per month.
- Rents in Class B properties continued rising in the first quarter, recovering from a sharp decline recorded in early 2025. During the past 12 months, Class B rents are up 1.0% to $1,293 per month.
- **FORECAST:** Rents are expected to post a decrease in 2026, though at a significantly slower pace than in 2025. Average rents in Tucson are forecast to end the year around $1,120 per month, a 1.0% annual decrease. In comparison, rents dipped by 4.1% in 2025.

Rent growth returned in the first quarter.

RENTS TRENDS



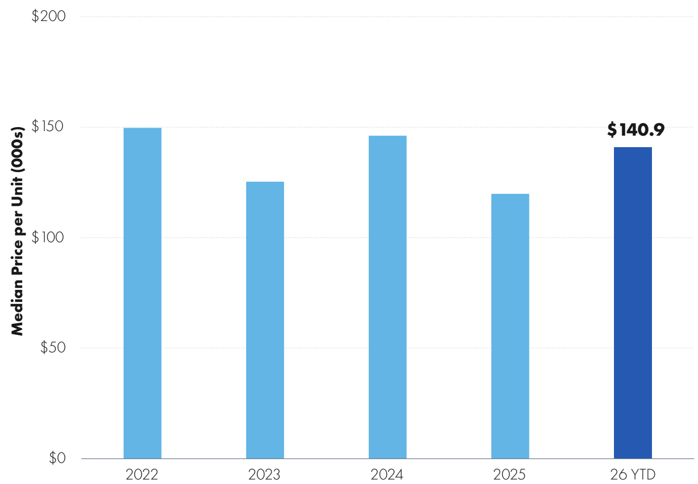
Sources: Northmarq, Apartment Insights

MULTIFAMILY SALES

- The multifamily investment market in Tucson started the year strong. There were roughly twice as many multifamily sales during the first quarter as in the same period in 2025.
- Pricing trended upward during the first quarter. Year to date, the median sale price is $140,900 per unit, up 18% from last year. Compared with peak pricing recorded in 2022, this is down just 6%.
- Cap rates remained stable, closely tracking levels from recent years. The current average cap rate is roughly 5.5%, consistent with both 2024 and 2025. Between 2022 and 2023, cap rates climbed by roughly 100 basis points.
- While investment trends in the first quarter showed momentum, elevated interest rates and capital markets conditions are expected to influence pricing and transaction volumes in the coming quarters.

Year to date, the median sale price is $140,900 per unit.

INVESTMENT TRENDS



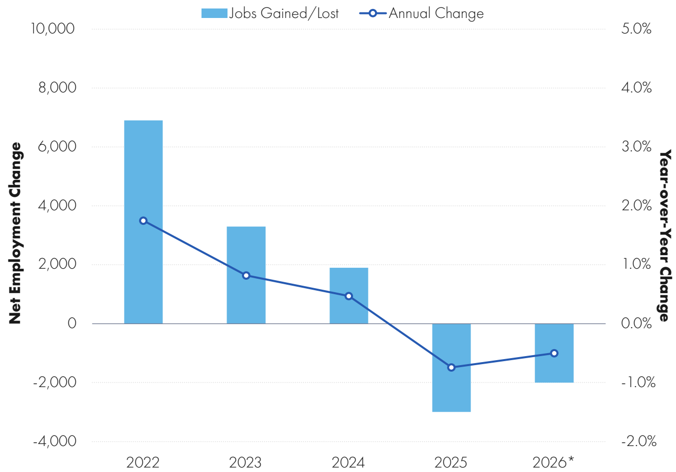
Sources: Northmarq, CoStar

LOOKING AHEAD

The pace of multifamily deliveries is expected to surge in the coming quarters as projects that were delayed last year come online. This wave of completions will influence rent and vacancy conditions, though consistent demand in the market should keep shifts in operating conditions relatively modest. Additionally, the impact of these new units coming online will likely not be realized until the later months of 2026 and into the early months of 2027 as projects stabilize. Performance is expected to vary widely by submarket, with the rise in inventory impacting some differently than others. The greatest concentrations of new inventory will be in the Oro Valley/Catalina and South Tucson/Airport areas at opposite ends of the Tucson metro, with roughly 600 and 700 units scheduled for completion, respectively.

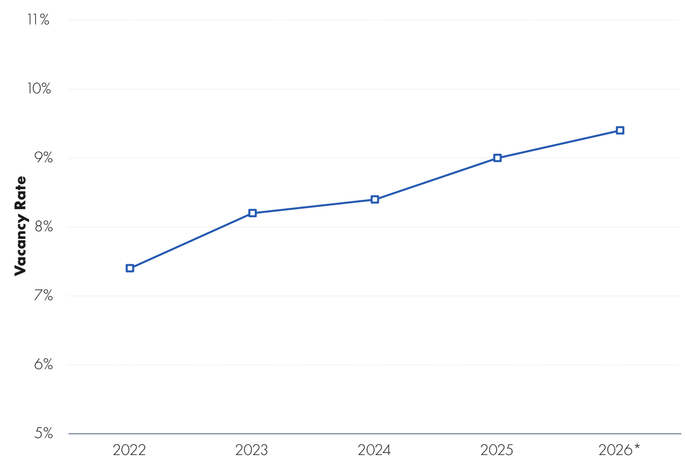
Sales activity in the Tucson multifamily investment market is projected to exceed the extremely light levels recorded in the previous three years, while still lagging traditional levels. Further declines in rents and rising vacancy that are forecast for the remainder of the year may make short-term holds less attractive to investors, though these conditions could create additional room for future growth. Despite deliveries being lighter in 2025, projects came online at a rapid clip in 2023 and 2024. Since the beginning of 2023, roughly 4,800 units have come online, but only 200 of these have been traded. Many of these assets that were delivered in the past three years may present investment opportunities in the near term. Additionally, the expected surge in supply growth in the coming quarters may further drive market activity, though likely not for a few years.

EMPLOYMENT FORECAST



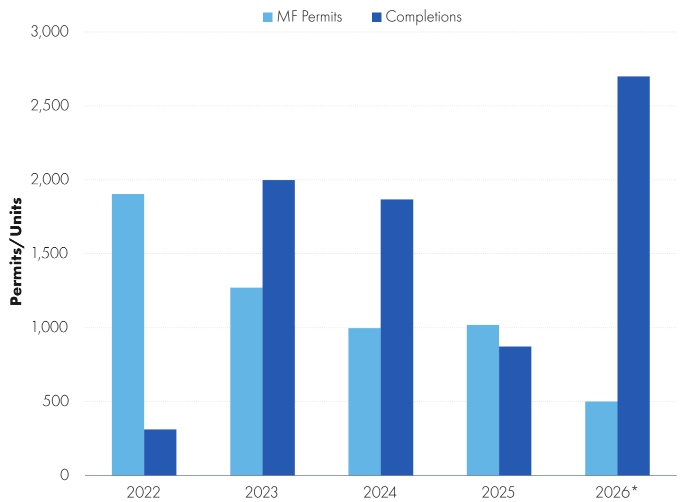
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



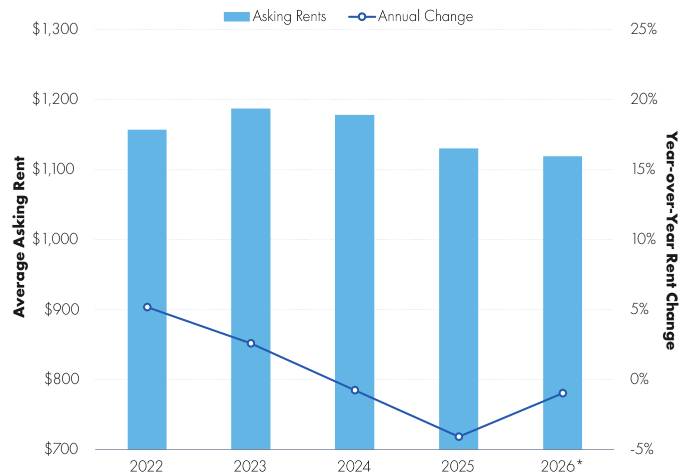
** Year End Forecast*
Sources: Northmarq, Apartment Insights

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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