

Transaction counts surge in the third quarter

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **3,630**

UNITS DELIVERED (YTD) **407**

MARKET FUNDAMENTALS



VACANCY RATE **8.8%**

YEAR-OVER-YEAR CHANGE **+40bps**

ASKING RENTS **\$1,150**

YEAR-OVER-YEAR CHANGE **-3.0%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$128,000**

HIGHLIGHTS

- Property performance in the Tucson multifamily market softened during the third quarter as the vacancy rate inched higher and asking rents declined. Completions remain light, as projects totaling roughly 400 units have come online since the beginning of 2025.
- The vacancy rate increased by 10 basis points during the third quarter to 8.8%. Over the past 12 months, vacancy has trended higher by 40 basis points.
- Rents ticked lower by 0.5% during the third quarter following a second quarter where rents rose. Year over year, local rents have decreased by 3.0% to \$1,150 per month.
- Sales activity has accelerated to this point in the year after transaction totals were light in 2023 and 2024. Despite the recent momentum, overall activity is below traditional levels. Year to date, average cap rates remain at 5.5%, tracking levels recorded since late 2023.

TUCSON MULTIFAMILY MARKET OVERVIEW

After market fundamentals stabilized in the second quarter of this year, multifamily operating conditions in Tucson softened in recent months. Rents have generally been trending lower since mid-2023, and the 0.5% dip during the third quarter is in line with recent trends. Vacancies have remained elevated for the past two years, and the average rate reached 8.8% as of the third quarter. Recent absorption totals have been healthy, totaling more than 2,700 units since the beginning of 2023. Still, net move-ins have not kept pace with deliveries, which have totaled nearly 4,300 units during the same timeframe. Recent absorption has been concentrated near the University of Arizona or in the Northwest Tucson and Tucson Mountain Foothills submarkets, while many other parts of the market have posted minimal or slightly negative renter demand in recent periods.

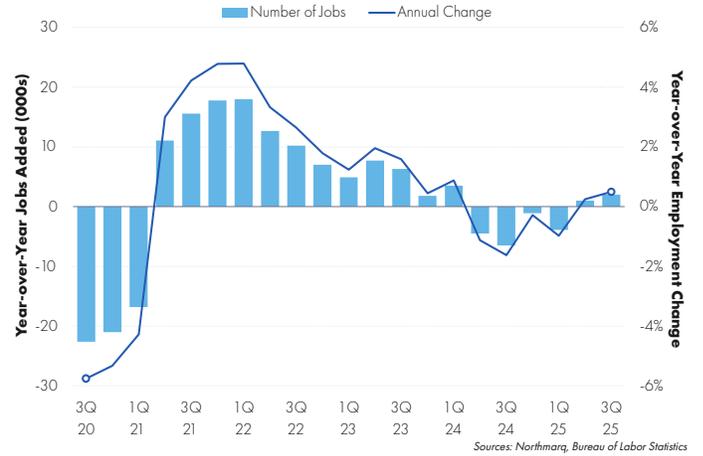
Multifamily investment activity accelerated in Tucson during the third quarter, with the year-to-date transaction count nearly surpassing the combined totals from both 2023 and 2024. While the increase in sales marks a rebound in investor interest, pricing continued to soften. The median sale price to this point in the year is \$128,000 per unit, down 12% from 2024. This decrease in pricing can be attributed to the continued softness in operating conditions. The classes and the locations of the properties that are changing hands this year have been on par with recent years, though rising vacancy rates and falling rents have impacted net operating incomes. In the properties that have sold thus far in 2025, there has been a wide range in quality. The assets at the lower end of the quality spectrum are trading at elevated cap rates between 6% and 7%. Investors are also targeting recently renovated properties, which typically have lower cap rates but more stable operating conditions.

EMPLOYMENT

- Employment growth continued to pick up in recent months following declines in 2024 and early 2025. During the past 12 months, employers in Tucson have expanded payrolls by 0.5%, adding 2,000 positions.
- The leisure and hospitality industry performed well in recent periods. Year over year, total employment in this sector rose by more than 2,000 workers, an increase of 4.7%.
- While the financial activities sector makes up a small share of total employment in Tucson, it has been growing at a healthy pace this year after receding throughout 2023 and 2024. Total financial employment has risen by 5.3% during the past year, increasing payrolls by 900 positions.
- **FORECAST:** Employment trends in Tucson have been uneven in recent periods, and it has been tough for the local economy to gain traction. This year, employers are projected to expand payrolls by 0.8% with the addition of approximately 3,000 new jobs, offsetting a modest contraction in 2024.

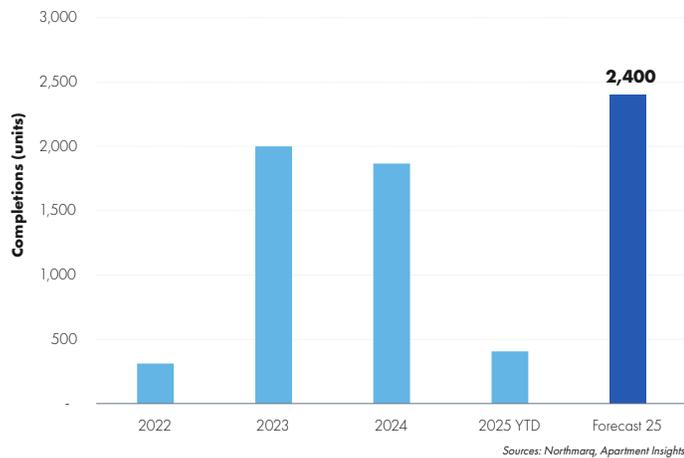
Employers in Tucson have expanded payrolls by 0.5%.

EMPLOYMENT OVERVIEW



During the third quarter 200 units were completed in Tucson.

DEVELOPMENT TRENDS

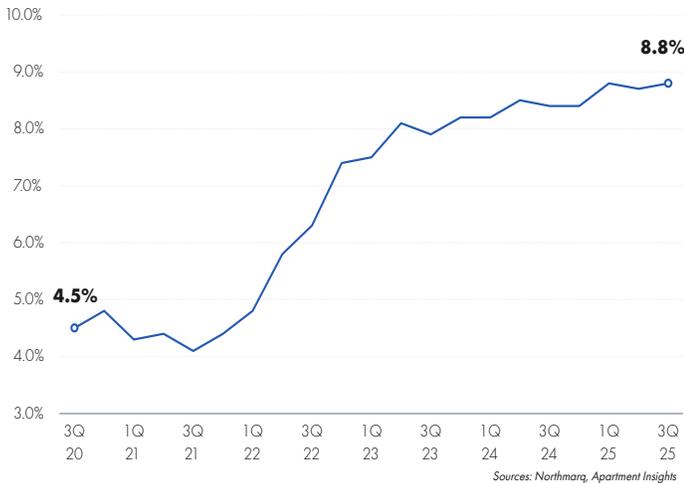


DEVELOPMENT & PERMITTING

- Multifamily projects have been slow to finish construction this year. During the third quarter, 200 units were completed in Tucson, bringing the year-to-date delivery total to just over 400 units.
- The construction pipeline remains elevated, with roughly 3,600 units under construction. This represents a 35% increase from the same period in 2024, when a surge in deliveries led to a significant reduction in the pipeline.
- Multifamily permitting remains light. Developers have pulled permits for approximately 400 units year to date, compared with more than 800 units during the same period in 2024. Total permitting activity in 2025 will likely fall to the lowest level recorded since 2017.
- **FORECAST:** Despite the light pace of deliveries during the first nine months of this year, there should be a spike in completions during the fourth quarter. Developers are forecast to deliver approximately 2,400 total units in 2025.

Vacancy for top-tier assets tightened by 150 basis points.

VACANCY TRENDS



VACANCY

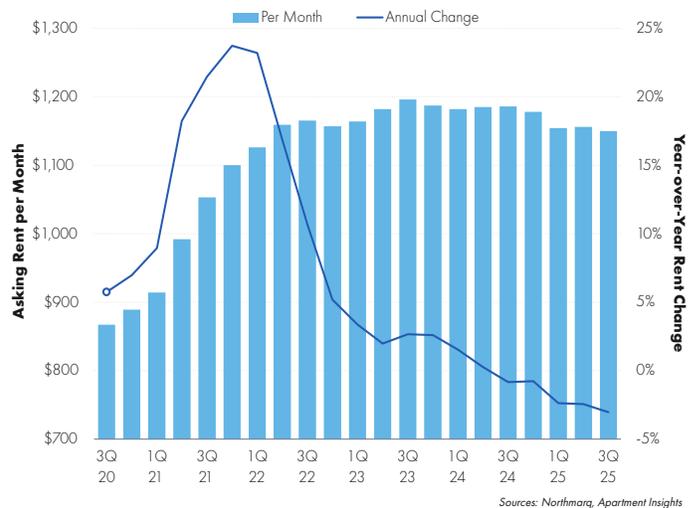
- The vacancy rate in Tucson inched higher during the third quarter after recording a slight improvement in the preceding three months. Area vacancy rose by 10 basis points during the third quarter to 8.8%. Year over year, local vacancy has climbed 40 basis points.
- The Pantano/Lakeside submarket leads the metro in vacancy improvement. While most submarkets recorded vacancy increases during the past 12 months, the vacancy rate in the Pantano/Lakeside submarket fell by 110 basis points to 8.0% during this period.
- While the market-wide vacancy rate inched slightly higher, Class A apartments posted an improvement. Year over year, the vacancy rate for top-tier assets tightened by 150 basis points, reaching 8.0% in the third quarter.
- **FORECAST:** The vacancy rate is expected to continue rising during the fourth quarter, although the increase will likely be smaller than previously anticipated. Vacancy is forecast to reach 9.0% by year-end, representing an annual increase of 60 basis points.

RENTS

- Asking rents began to tick lower again after posting a modest improvement in the second quarter. During the third quarter, asking rents in Tucson decreased by 0.5% to an average of \$1,150 per month. Year over year, rents are down 3.0%.
- The South Tucson/Airport submarket led the market in rent growth in recent periods, posting strong increases while rents softened across most submarkets. Apartment rents in the South Tucson/Airport area advanced by 3.0% during the past year to \$1,150 per month.
- While rent growth has subsided across all tiers of multifamily, Class A properties have fared better than the overall market. Current Class A asking rents are \$2,012 per month, down just 0.6% from one year ago.
- **FORECAST:** Asking rents in Tucson are expected to remain unchanged at \$1,150 per month through the end of the year, representing a 2.5% annual decline from 2024. In 2026, rents will likely continue to soften before beginning to improve toward the end of the year.

Current Class A asking rents are \$2,012 per month.

RENTS TRENDS

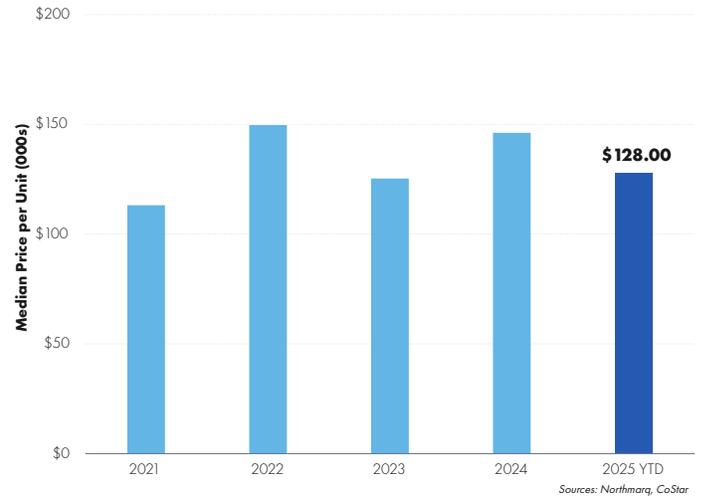


MULTIFAMILY SALES

- The pace of multifamily sales has picked up since the beginning of the year following light activity in the preceding 24 months. Sales activity to this point in the year has nearly outpaced total sales recorded in both 2023 and 2024 combined.
- Despite the acceleration in activity, pricing continued to trend lower in recent months. Year to date, the median sale price in Tucson is \$128,000 per unit, down 12% from 2024. Compared to peak pricing recorded in 2022, current values are down 14%.
- The average cap rate in Tucson has remained steady at approximately 5.5%, consistent since late 2023. Meanwhile, the spread in cap rates across individual sales has widened, with lower-tier assets trading in the 6% to 7% range, while Class A and higher-quality Class B properties remain closer to 5%.

The median sale price in Tucson is \$128,000 per unit.

INVESTMENT TRENDS

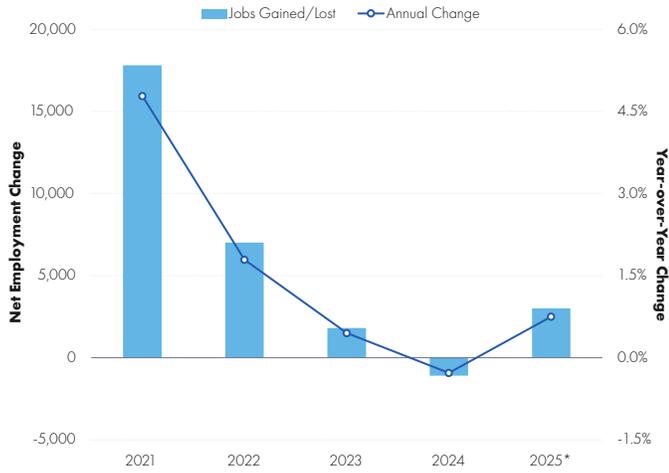


LOOKING AHEAD

The fourth quarter is expected to be an active period of new construction in the Tucson multifamily market, which should influence operating conditions in the coming period. There are roughly 2,000 units scheduled for completion between now and the end of the year, which would be a quarterly peak. While absorption in 2025 is tracking to be one of the market’s strongest years on record and renter demand will likely remain positive in the fourth quarter, it is not expected to keep pace with deliveries. The result of the forecast surge in inventory is another rise in the local vacancy rate. While the increases in deliveries will likely impact the Tucson area’s relatively limited inventory of Class A properties, demand for Class C buildings will need to stabilize for the overall market to steady. Class C vacancies have been trending higher for the past few years and topped 10% during the third quarter. As vacancy rates in the lower tiers level off and ultimately return closer to long-term averages, the overall outlook of the market should improve.

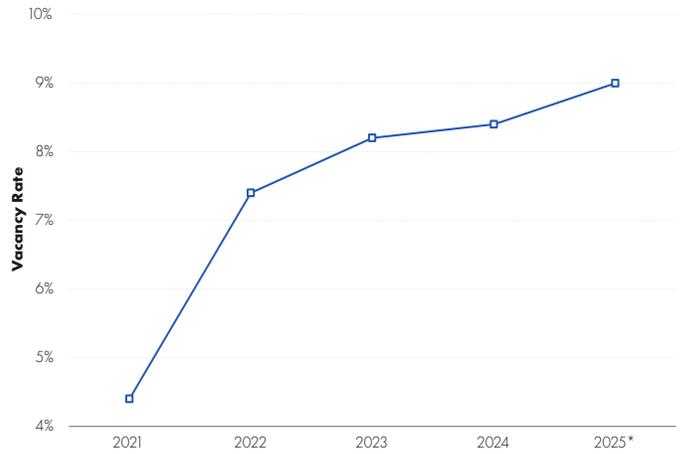
Multifamily investment sales in Tucson are expected to continue following current trends through the end of the year, with the number of transactions reaching a three-year high even as pricing remains below earlier peaks. Investors will continue to track the impact of new supply on operations at existing properties. Many of the recent sales have involved properties positioned to achieve stronger rent growth in the coming years as the market stabilizes. Class C and other value-add properties are expected to account for an increasing share of transactions throughout the remainder of this year and into 2026. This could result in some additional downward pressure on the reported per-unit prices for the market.

EMPLOYMENT FORECAST



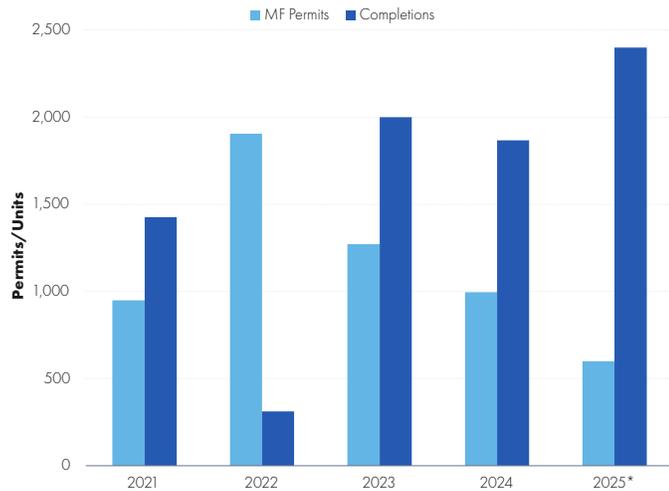
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



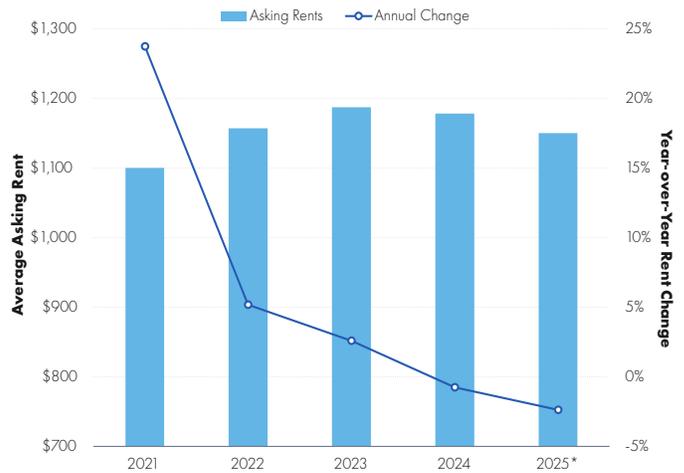
* Year End Forecast
Sources: Northmarq, Apartment Insights

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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