Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	3,446
UNITS DELIVERED (YTD)	711

MARKET FUNDAMENTALS

VACANCY RATE	9.0%
YEAR-OVER-YEAR CHANGE	+60bps
ASKING RENTS	$1,130
YEAR-OVER-YEAR CHANGE	-4.1%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$119,900

TUCSON MULTIFAMILY
Q4 2025

MARKET INSIGHTS

Construction delays shift supply wave to 2026

HIGHLIGHTS

- Multifamily operating conditions in Tucson softened during the fourth quarter, with the vacancy rate rising while rents dipped. Construction delays kept annual deliveries low and the development pipeline elevated.
- The vacancy rate climbed in the fourth quarter, increasing by 20 basis points to 9.0%. Compared to one year ago, multifamily vacancy has increased by 60 basis points.
- Asking rents ticked lower in 2025, declining by 4.1% over the past 12 months. During the fourth quarter, rents dipped 1.7% to $1,130 per month.
- Sales activity continued to accelerate in the closing months of the year, now outpacing the combined total transaction counts from 2023 and 2024. The median sale price dipped 18% in 2025 to $119,900 per unit as cap rates remained stable, averaging 5.5%.

TUCSON MULTIFAMILY MARKET OVERVIEW

Fewer apartment units were delivered in 2025 than were originally forecast, delaying delivery into 2026. The delays limited supply growth in the Class A segment and vacancy in the top-tier closed the year at just 6.2%, down 460 basis points annually. Heightened deliveries in 2023 and 2024 drove Class A vacancy higher at a rapid pace, with the rate reaching as high as 15.9% during the second quarter of 2024. The recent improvement highlights Tucson's underlying demand for these asset types. As long as supply growth is not elevated, top-tier assets can absorb new renters, keeping vacancy conditions healthy. While Class A rents trended lower, they outperformed Class B and Class C apartments by a wide margin. Deliveries in 2025 totaled approximately 700 units, down considerably from averages in the prior two year and closer to the region's long-term supply growth.

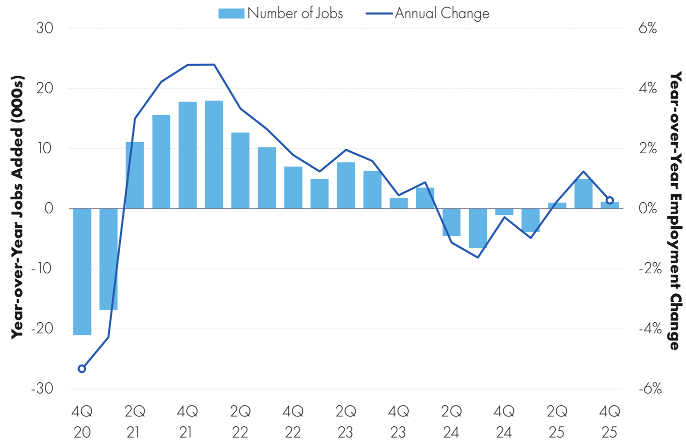
Local investment activity continued to gain momentum in the fourth quarter. While the 2025 transaction count still fell short of historical norms, it far outpaced the previous two years, which combined for roughly one dozen transactions. In 2025, the median sale price dipped 18% to $119,900 per unit after nearly reaching peak levels in 2024. This was partly driven by a 29% decline in Class C pricing, with these lower-tier assets accounting for more than half of all sales. Additionally, falling rents across the market alongside rising vacancy in middle-tier and lower-tier properties likely played a role in this dip in pricing. There was a single Class A sale in 2025, marking the first top-tier transaction in Tucson since 2021.

EMPLOYMENT

- Employment growth resumed in 2025 after declining during the previous year. Over the past 12 months, employers in Tucson have expanded payrolls by 0.3% with the addition of roughly 1,100 workers. In 2024, employment dipped 0.3%.
- The leisure and hospitality sector continued to outperform over the past year. Approximately 400 jobs were added, representing an annual increase of 0.9%.
- ADP announced plans to add 250 new roles during 2026, increasing the company's local headcount to approximately 400 employees. These new positions will be concentrated in sales and human resources, with an emphasis on attracting recent graduates from the University of Arizona.
- **FORECAST:** Employment growth in 2026 is forecast to slightly outpace levels recorded in 2025. During the next 12 months, employers in Tucson are projected to hire an additional 2,000 workers, marking a 0.5% annual increase.

Employers in Tucson expanded payrolls by 0.3%

EMPLOYMENT OVERVIEW



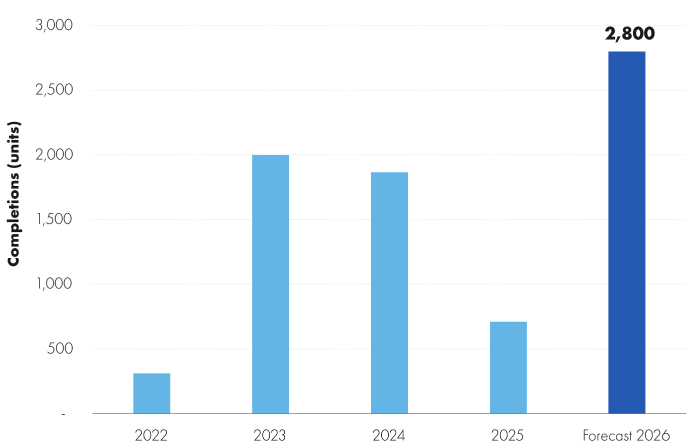
Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

- Construction delays were widespread during the fourth quarter, following an already slow pace of deliveries in the third quarter. For the full year, projects totaling roughly 700 units came online, down from approximately 1,900 units in 2024.
- The delays have kept the development pipeline elevated in Tucson. More than 3,400 units are currently under construction, up 16% from one year ago. The University and Oro Valley/Catalina submarkets contain the greatest share of the pipeline, with roughly 700 units and 600 units, respectively.
- Multifamily permitting volumes slowed in 2025, marking the fourth consecutive year where developers slowed permitting levels. Permits for only 500 multifamily units were pulled in 2025, down nearly 50% from 2024 levels.
- **FORECAST:** Delivery delays in the closing months of 2025 should lead to a spike in completions to begin 2026. Projects totaling 2,800 units are expected to come online in the coming year, with more than 90% of these units set to deliver during the first six months.

For the full year, projects totaling roughly 700 units came online.

DEVELOPMENT TRENDS



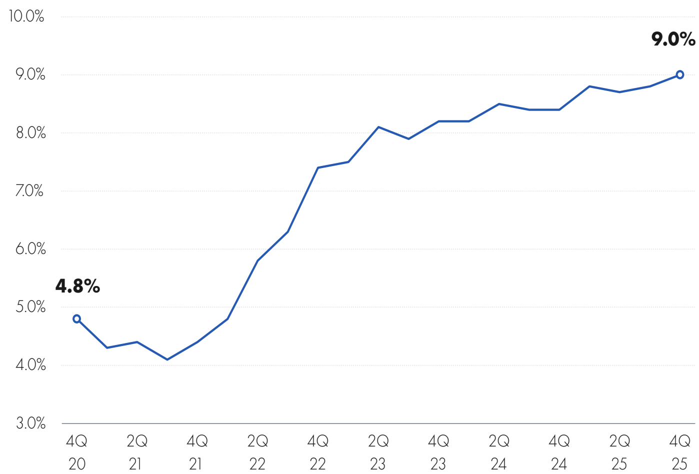
Sources: Northmarq, Apartment Insights

VACANCY

- Vacancy in Tucson continued to climb during the fourth quarter. During the past three months, area vacancy rose 20 basis points to 9.0%. In 2025, the vacancy rate increased by 60 basis points.
- A few submarkets posted vacancy improvement in 2025. Vacancy in the Tucson Mountain Foothills area trended lower by 50 basis points during the past year to 9.7%. During the same period, the Pantano/Lakeside submarket posted a 40 basis point decrease to 9.1% while the rate in neighboring East Tucson inched lower by 20 basis points to 8.8%.
- Vacancy in Class A apartments continued to significantly outperform other asset classes. The vacancy rate for top-tier properties fell 460 basis points during the past 12 months to 6.2%. In 2024, Class A vacancy spiked as 11% of the market's total Class A stock was delivered that year.
- **FORECAST:** With deliveries set to spike in the first half of 2026, vacancy will likely trend higher in the coming quarters. By the end of 2026, the vacancy rate in Tucson is forecast to reach 10.0%, up 100 basis points annually.

Class A vacancy fell 460 basis points year over year to 6.2%.

VACANCY TRENDS



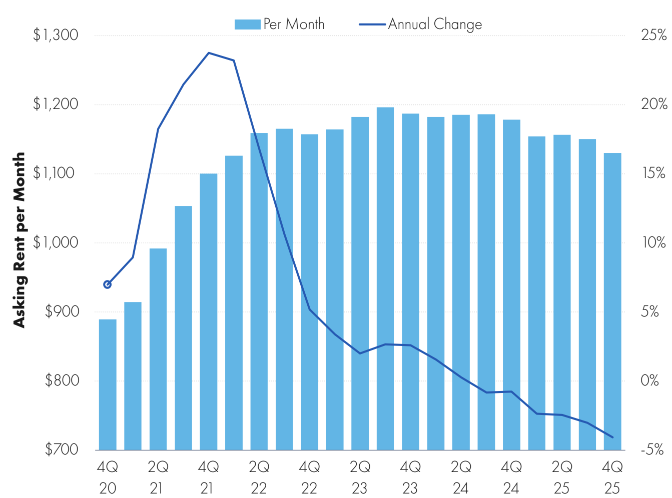
Sources: Northmarq, Apartment Insights

RENTS

- Asking rents in Tucson continued to decline during the fourth quarter, falling 1.7% after a more modest decrease in the previous quarter. Rents closed the year at $1,130 per month, down 4.1% annually.
- Tucson Mountain Foothills was the only submarket to post rent growth in 2025, with rents increasing 0.9% to $1,326 per month. While rents in the University submarket are down annually, they rose 0.8% over the past three months to $1,141 per month.
- Class A properties posted the lightest decrease in rents. Year over year, asking rents in Class A assets dipped 1.1% to $1,957 per month. Class C properties faced the greatest impact, with rents decreasing 5.1% over the past 12 months to $862 per month.
- **FORECAST:** Apartment rents are projected to continue to trend lower in the coming year, though declines should be more moderate. In 2026, asking rents are forecast to dip by 2.0% to roughly $1,110 per month.

Rents in Tucson Mountain Foothills advanced by 0.9%.

RENTS TRENDS



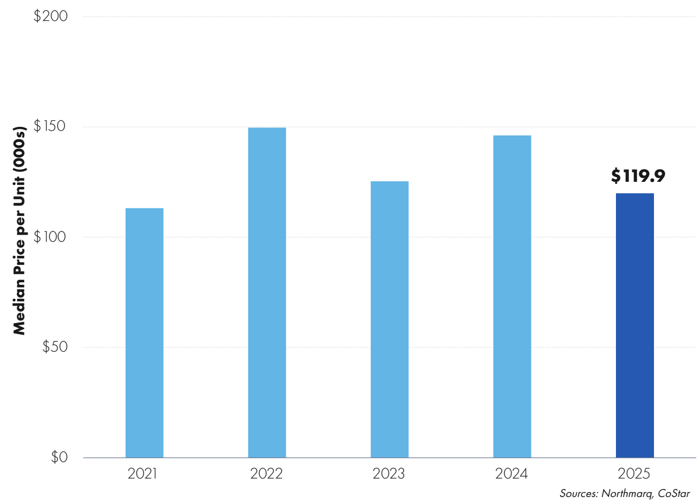
Sources: Northmarq, Apartment Insights

MULTIFAMILY SALES

- Activity in the Tucson multifamily investment market rebounded from historical lows in 2023 and 2024. Total sales in 2025 exceeded the combined levels from the previous two years. Still, transaction counts are down compared to historical norms. Compared to 2022, activity is down 42%.
- Pricing has been trending lower in recent quarters. The median sale price in 2025 was $119,900 per unit, down 18% from 2024. Compared to 2023, pricing is down 4%.
- The average cap rate in Tucson has remained largely unchanged since the beginning of 2023, holding steady at 5.5%. From 2022 to 2023, the average cap rate climbed roughly 100 basis points before stabilizing at current levels.

The median sale price in 2025 was $119,900 per unit.

INVESTMENT TRENDS

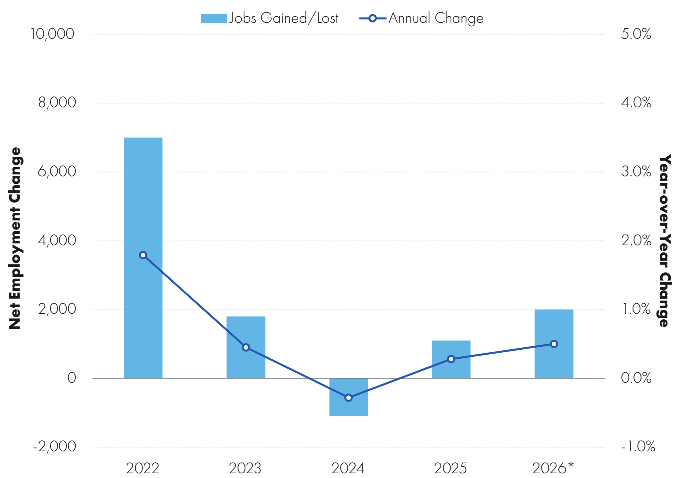


LOOKING AHEAD

While 2025 was supposed to be a near-peak year for new construction, there were several delays during the fourth quarter that pushed delivery dates for properties totaling around 1,900 units back by an average of three months. This will contribute to a cyclical high number of deliveries in 2026, with roughly 2,800 units slated for completion in the coming year. Nearly all of these units are set to deliver in the first and second quarters, and a competitive leasing environment is expected to persist throughout much of the year ahead. Vacancy increases will likely ramp up as the year progresses, with the rate projected to rise 100 basis points annually. Rents are expected to continue to trend lower in the coming quarters, but at a lesser pace than they did in 2025.

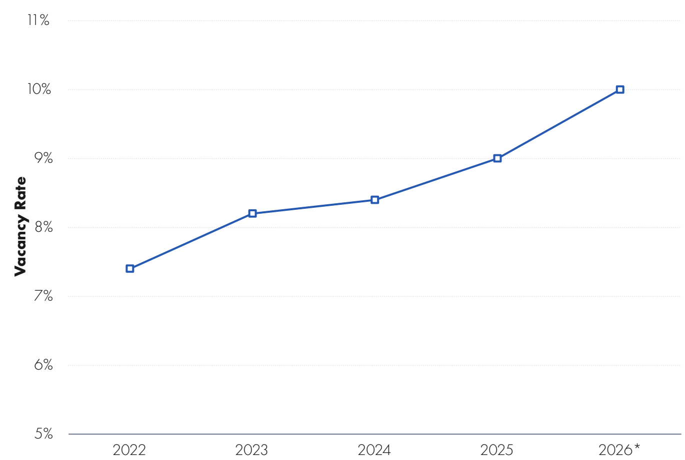
Investment sales in the Tucson multifamily market are forecast to continue at a steady pace throughout 2026, roughly matching the total number of sales recorded during the past year. While this level of activity will far outpace 2023 and 2024 levels, it is unlikely that the annual transaction count will approach historical averages until at least 2027 or 2028. The impact on operating conditions from the spike in deliveries scheduled for next year may keep some investors on the sidelines. Supply growth is projected to return to trend following this year and rent growth should resume at around the same time that inventory growth levels off. Similarly, vacancy increases are expected to peak in 2026 before beginning to stabilize and eventually improve in coming years. Soft fundamentals over the next 12 months may create value-add opportunities in the near term.

EMPLOYMENT FORECAST



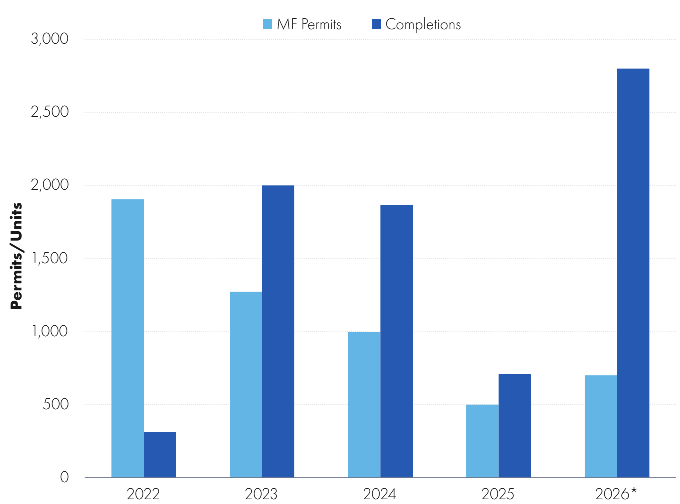
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



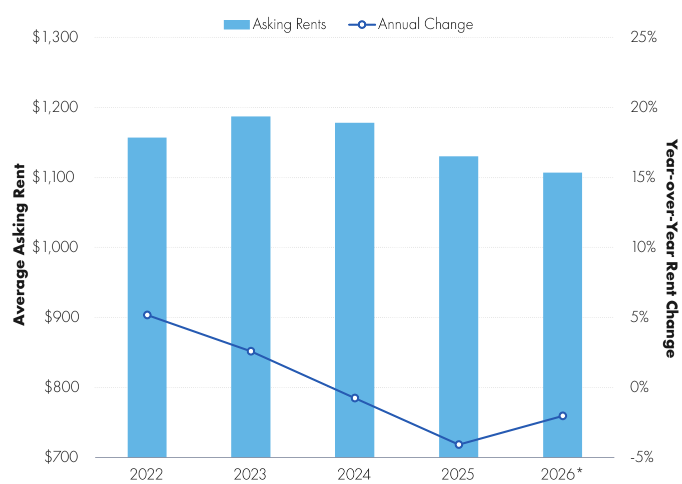
** Year End Forecast*
Sources: Northmarq, Apartment Insights

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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