

MARKET REPORT

Multifamily
Tucson Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

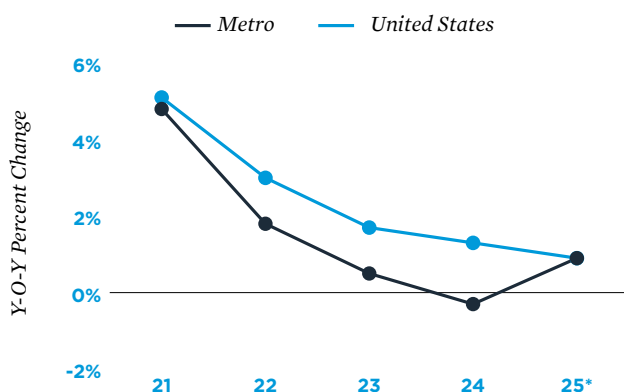
2Q/25

Apartment Development Slows as Tucson's Economy Begins Showing Signs of Recovery

Inventory expansion tapers off. Tucson's multifamily market recorded its fastest inventory growth in over two decades during the year ended in March, with much of the new supply concentrated in the Casas Adobes-Oro Valley submarket. This area commands the highest monthly rents in the metro and generally caters to a higher-income, well-educated renter base. The recent surge appears to be a temporary deviation from the metro's long-term trend. Tucson's inventory growth ranked in the bottom fifth of major markets over the past 15 years. Construction starts have declined steadily since early 2023, with most of this year's completions coming from the Casas Adobes-Oro Valley and West Tucson submarkets.

Strong fundamentals support stabilization. Population growth and household formation remain tailwinds, with Tucson ranking in the top 35 percent nationally in both categories. This should support a return to modest employment growth after a tough past year in which the metro lost 1.0 percent of its jobs. Meanwhile, Tucson's median household income rose at the sixth-fastest rate nationally. With rents still among the most affordable in the country, the rise in purchasing power is helping more households access higher-quality housing, contributing to lower vacancy rates in upscale areas like Oro Valley and the Catalina Foothills. This trend is also supporting outperformance in the mid- and upper-tier segments, while rents declined more gradually than in Class C units.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2025 Outlook



**3,500
JOBS**

will be created

EMPLOYMENT:

Following seven months of consecutive declines, Tucson's job market added nearly 5,000 positions over the past seven months headed into April. Momentum will continue with a 0.9 percent projected expansion in 2025.



**1,100
UNITS**

will be completed

CONSTRUCTION:

This year's completions will fall to half of last year's level, with a majority of new units expected in Casas Adobes-Oro Valley. West Tucson will ramp up construction in late 2025 and early 2026, adding over 500 apartments.



**20
BASIS POINT**

decrease in vacancy

VACANCY:

While stricter immigration policy could weigh on the metro's in-migration, positive employment trends and a slowing construction pipeline will help vacancy modestly compress to 5.8 percent this year.



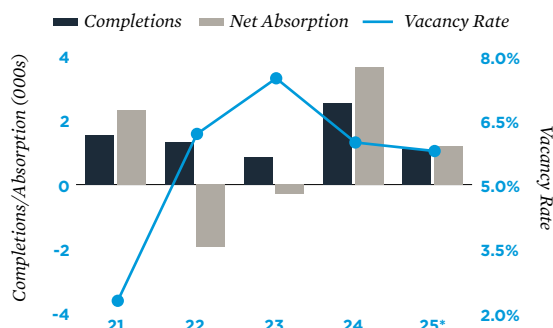
**2.3%
DECREASE**

in effective rent

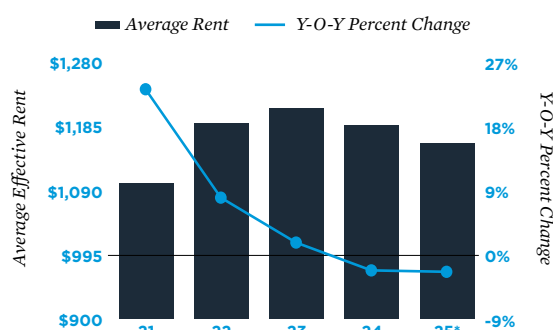
RENT:

As vacancy gradually declines, rents are anticipated to experience further drops but at a slower rate than observed in the first three months of the year. The metro's average rent will fall to \$1,160 per month by year-end.

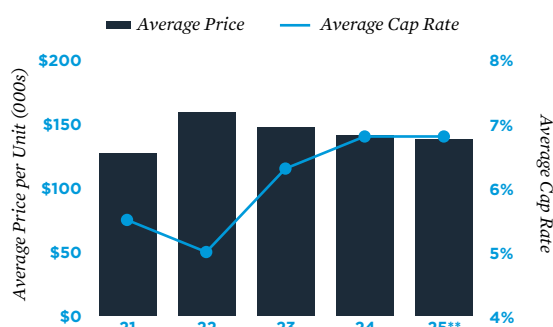
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

IPA Multifamily Andrew Leahy

Senior Vice President, National Director
Tel: (202) 536-3700 | aleahy@ipausa.com

IPA Multifamily Research

Dags Chen

First Vice President, Head of IPA Multifamily Research & Strategy
Tel: (212) 430-5100 | dchen@ipausa.com

Price: \$250

1Q 2025 — 12-Month Period



CONSTRUCTION

2,528 units completed

- Although Tucson experienced historic new supply last year, its inventory growth was less than half that of its peer market, Phoenix.
- The Casas Adobes-Oro Valley submarket led deliveries with 1,200 added doors in the year ended March, while Airport-Drexel Heights-Sahuarita and Central Tucson-University followed with just over 400 each.



VACANCY

150 basis point decrease in vacancy Y-O-Y

- Outsized net absorption in the fourth quarter of 2024 drove the metro's vacancy down to 6.0 percent, where it remained steady through early 2025.
- Downtown Tucson-University was the only submarket to post a year-over-year vacancy increase, rising 70 basis points. All other submarkets recorded declines between 90 and 310 basis points.



RENT

2.0% decrease in the average effective rent Y-O-Y

- Despite vacancy compression, Tucson's average rent has declined over 4 percent to \$1,171 per month since peaking in 2023.
- Although Airport-Drexel Heights-Sahuarita and West Tucson ranked among the top three submarkets for inventory growth over the past year, they were also the only two to register rent increases.

Investment Highlights

- The average price per unit fell 2.1 percent during the year ended in March — the third-fastest rate of decline among major metros — in part due to a rise in Class C trades. Transaction velocity held roughly in line with the prior year. Still, this amount of activity remains more than 60 percent below the peak level recorded in 2018. Meanwhile, properties purchased by out-of-state buyers — who made up over half of all transactions — sold for 65 percent more on average, supporting an increase in total dollar volume.
- Several deals penciled for over \$20 million in the first quarter of 2025. Transactions in this price range were relatively muted over the past two years, with this single quarter matching the total activity from 2023 and 2024 combined. Most of these deals were 100-plus-unit, mid-tier assets, built between 1985 and 2000, that went for around \$150,000 per unit.
- While Central Tucson is still the most active submarket, deals occurring on the East side noted a 50 percent year-over-year gain heading into April. Nearly all these trades were lower-end assets that sold for under \$5 million. Despite seeing the steepest decrease in rent last year, the area recorded a 170-basis-point decline in Class C vacancy.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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