

INVESTMENT FORECAST

Office
Tucson Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2025

Tucson's Expanding Job Base and Steady In-Migration Bolster Long-Term Retail Stability

Amid shifting demand, constrained supply preserves market balance. While employment gains have moderated, Tucson's affordability and sustained in-migration — surpassing 10,000 new arrivals for a fourth consecutive year — reinforce the market's retail stability, particularly among health care and manufacturing employment hubs. Even as big-box closures — including Sam Levitz — created vacancies, discount retailers such as Burlington and Dollar Tree quickly backfilled space, sustaining net absorption. Supply constraints persist, with only 180,000 square feet delivered in 2024 and just 70,000 square feet underway, most of which is preleased. As a result, vacancy will stay near its historical 6.5 percent average in 2025. Meanwhile, expansions like American Battery Factory's \$3.1 billion gigafactory, opening in 2025, broaden the metro's job base, supporting long-term consumer spending amid a cooling labor market.

Momentum holds in Tucson's evolving retail environment. Despite fewer total trades in 2024 than in 2023, private buyers — who completed 75 percent of deals over the past five years — continued to drive local velocity, aided by regionally low pricing that fostered 1031 exchanges and asset upgrades. User acquisitions also held firm, targeting prime pads and corner sites with redevelopment potential. At the same time, the influx of newly vacated big-box spaces amplified the market's pivot toward experiential retail and broader foot traffic, as they were often reimagined for entertainment or discount concepts. Looking ahead to 2025, a tight construction pipeline and steady consumer demand should sustain rent growth, bridging bid-ask gaps and supporting further capital inflows from private buyers and larger groups.

2025 MARKET FORECAST

+0.7%



EMPLOYMENT: Tucson employers will add 2,800 positions in 2025 as hiring slows. Even so, the total employment base will end this year roughly 15,000 jobs higher than the 2020 count.

70,000
sq. ft.



CONSTRUCTION: Development activity slows after 2024 marked a six-year high in annual completions. This year, metrowide inventory is projected to expand by just 0.2 percent.

+20 bps



VACANCY: Limited construction will prevent a major change in vacancy from occurring. Still, the rate will inch up to 6.5 percent while some retailers reassess their physical space needs.

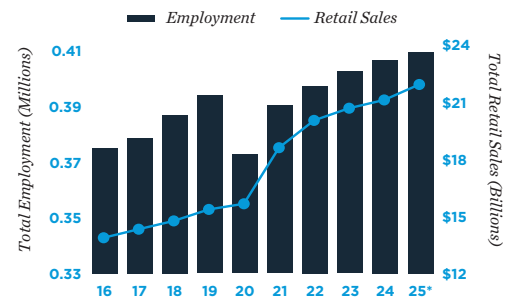
+1.4%



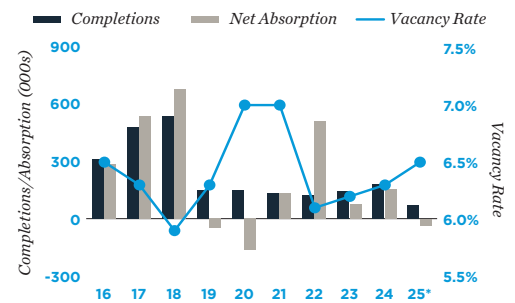
RENT: Tucson's average asking rent will continue to climb in 2025, albeit at a slower pace than in recent years. By year-end, the mean marketed rate will stand at \$17.10 per square foot.

INVESTMENT: *The Casa Adobes-Oro Valley area and the Airport-Drexel Heights-Sahuarita area upheld below-market multifamily vacancy last year, positioning them as potential targets for retail investors in 2025.*

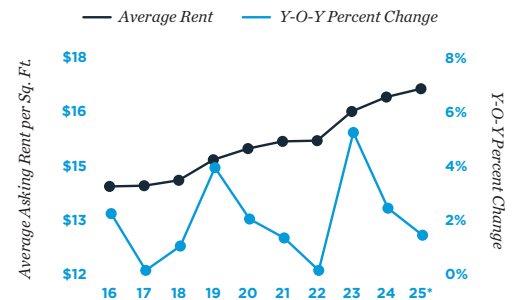
Economic Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

Richmond Office:
Benjamin Yelm

Vice President, Regional Manager
4401 Waterfront Drive, Suite 230
Glen Allen, VA 23060
Tel: (804) 802-6900 | benjamin.yelm@marcusmillichap.com

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2024. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. 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.