Market Report

IPA INSTITUTIONAL PROPERTY ADVISORS

MULTIFAMILY 2Q/26

Tucson Metro Area

2026 FORECAST

EMPLOYMENT
2,500 — Jobs will be created
0.6% — Increase Y-O-Y

CONSTRUCTION
630 — Units will be added
0.7% — Inventory increase Y-O-Y

VACANCY
5.9% — Vacancy rate
10 — BPS decrease Y-O-Y

RENT
$1,160 — Average effective rent by year-end
0.8% — Increase Y-O-Y

Property Performance Splits as Renters Shift Inward, but Less Construction Helps

Measured demand keeps recovery gradual. Job growth has improved from last year's losses, but remains modest, while fewer foreign arrivals have weighed on University of Arizona enrollment and local population growth. Still, metro vacancy was unchanged over the past year, with an upcoming drop in completions poised to contain vacancy movement during the remainder of 2026. Pullbacks in supply-side pressure will be most evident in Casas Adobes-Oro Valley, while openings will cluster near West Tucson's Menlo Park. Nevertheless, measured leasing will likely keep operators focused on retention, especially at Class C properties, which posted one of the nation's sharpest annual rent declines.

Central locations gain appeal. Renters appear to be favoring infill nodes near job centers and urban amenities. West, Central, and East Central Tucson each posted vacancy declines of at least 100 basis points over the year ended in March. Meanwhile, the areas around Tucson International Airport and Southeast Tucson posted the metro's highest vacancy rates following jumps of 160 and 50 basis points, respectively, over the same span. Higher-income renters helped limit Class A and B vacancy pressure in Catalina Foothills and Casas Adobes-Oro Valley, though Class C rates rose by more than 200 basis points in both areas.

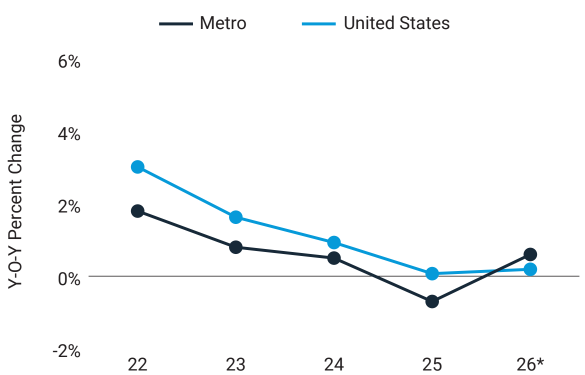
EMPLOYMENT

Tucson's labor market is improving, but gains remain uneven. After losing 3,000 jobs in 2025, employers added nearly 1,800 positions through the first four months of 2026. Federal funding cuts may continue to reduce the number of government positions, a sector that accounts for nearly 20 percent of local jobs — the fourth-highest share among major markets. The defense sector should provide some offset, as RTX secured an $8.4 billion contract increase and plans to add 1,200 technical workers in Tucson by year-end.

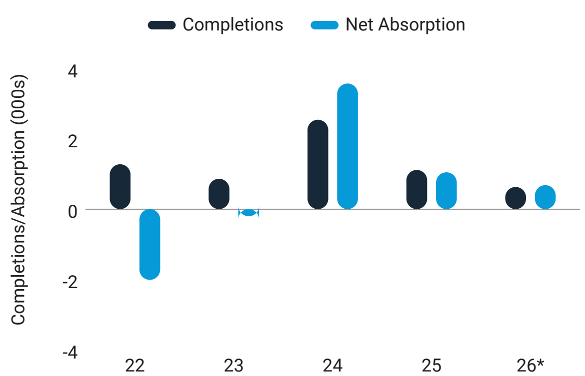
CONSTRUCTION

After averaging 1,500 deliveries over the past five years, new supply is expected to decline by nearly 45 percent year-over-year in 2026. This will mark the smallest total since 2020 and bring inventory growth below the national rate for a second straight year. Only about 200 units are slated for Casas-Adobes-Oro Valley, while West Tucson continues to record the heaviest supply growth with roughly 450 units opening. With limited deliveries across most other submarkets, the metro should see broader supply relief this year.

EMPLOYMENT TRENDS



CONSTRUCTION TRENDS

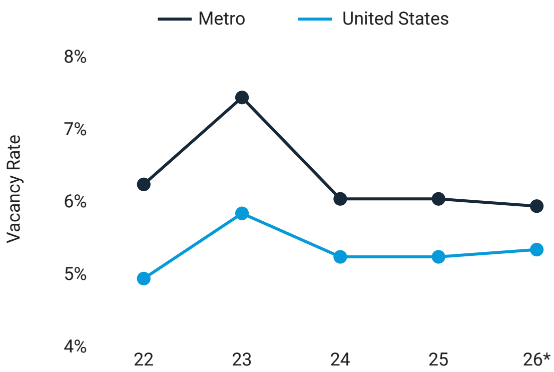


* Forecast
Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

VACANCY

Declining completions should help vacancy edge lower in 2026, though the metro's rate will remain elevated — among the 10 highest across major markets and about 60 basis points above its past-decade average. Recent improvement has been stronger in Class A and B properties, where reduced supply pressure is helping occupancy recover, while Class C vacancy has edged higher. Still, vacancy remains fairly even across quality tiers, ranging from 5.9 percent in Class B units to 6.1 percent in Class C units.

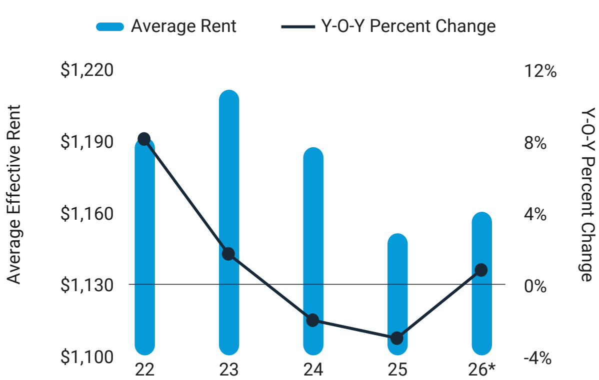
VACANCY TRENDS



RENT

All three quality tiers posted rent declines over the year ended in March, spotlighted by a roughly 6 percent drop at Class C properties. Segment rents increased less than 1 percent at renewal, underscoring weaker pricing power at the lower end. Meanwhile, Class A and B rents fell by less than 2 percent despite renewal rent growth holding near 3 percent in both segments. Nevertheless, operators at higher-quality properties may have limited room to lift rents at renewal as recent deliveries offer increased concessions.

RENT TRENDS



* Forecast ** Through 1Q

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

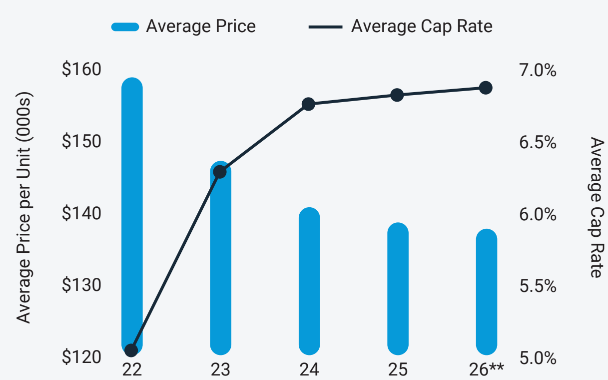
INVESTMENT HIGHLIGHTS

- Trading rose more than 60 percent over the past year as easing supply pressure gave buyers a clearer path to stabilization. Deals above $20 million more than doubled, with the first quarter of 2026 ranking among the strongest periods on record for institutional deal flow. Areas with limited construction may continue to draw large buyers, including southeast Tucson, where investors have targeted 1980s-built, garden-style assets near the Pantano Wash. Natural development constraints may support longer-term upside, while value-add strategies drive near-term income gains.

- Private buyers may stay clustered near Central Tucson, where recent vacancy declines point to resilient demand for accessible, lower-cost locations. East Central and Central Tucson held the metro's lowest Class C vacancy rates in March, at 5.6 percent and 4.8 percent, respectively. Northern corridors near Stone Avenue may draw added interest as the city's first bus rapid transit line, planned between Tucson Mall and downtown, improves connectivity and renter appeal.

- More affluent northern submarkets, such as Casas Adobes-Oro Valley, should remain key targets for larger buyers seeking post-2000 product. Despite recent deliveries here, Class A and B vacancies have stayed below 6 percent, near the lowest in the metro. Supply pressure is also easing, with about 500 units under construction in early 2026, down from the 2023 peak of nearly 2,000. As newer properties reach stabilization, buyers may find more opportunities to acquire premium assets with limited near-term capital needs.

SALES TRENDS



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