

Operating conditions level off as deliveries accelerate

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **2,692**

UNITS DELIVERED (YTD) **1,797**

MARKET FUNDAMENTALS



VACANCY RATE **8.4%**

YEAR-OVER-YEAR CHANGE **+50bps**

ASKING RENTS **\$1,186**

YEAR-OVER-YEAR CHANGE **-0.8%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$146,200**

TUCSON MULTIFAMILY
3Q 2024

HIGHLIGHTS

- The Tucson multifamily market maintained its trajectory during the third quarter. Deliveries accelerated, but vacancies and rents improved slightly. Completions are expected to remain elevated through the remainder of this year and into 2025.
- The vacancy rate in Tucson posted a modest decrease in recent months, falling 10 basis points in the third quarter to 8.4 percent. Despite the recent improvement, local vacancy is 50 basis points higher than one year ago.
- Rents in Tucson posted a minimal increase in the third quarter, ticking up just 0.1 percent to \$1,186 per month. During the past 12 months, average rents have dipped by 0.8 percent.
- Sales activity in the Tucson multifamily investment market continued to be light in recent months, maintaining a modest pace of transaction volume since 2023. Year to date, the median sale price is \$146,200 per unit with cap rates continuing to average 5.5 percent to 6.5 percent.

TUCSON MULTIFAMILY MARKET OVERVIEW

Multifamily property fundamentals stabilized during the third quarter in Tucson although the market is still being impacted by an accelerating pace of new construction. Developers delivered more than 1,400 units in just the past three months, bringing total completions in 2024 to nearly 1,800 units. This comes after approximately 2,000 units were delivered in 2023. Development has been scattered primarily in the outer submarkets in the Tucson area, including Northwest Tucson and the Tucson Mountain Foothills in 2024. In prior years, the South Tucson/Airport, University, and Southeast Tucson submarkets were the most active locations for new development. The influx of new supply has resulted in rising vacancy rates among Class A properties, where vacancy has averaged nearly 10 percent since the beginning of last year. Vacancy levels in Class B properties have been much steadier, ranging between 7.5 percent and 8.5 percent for the past eight quarters.

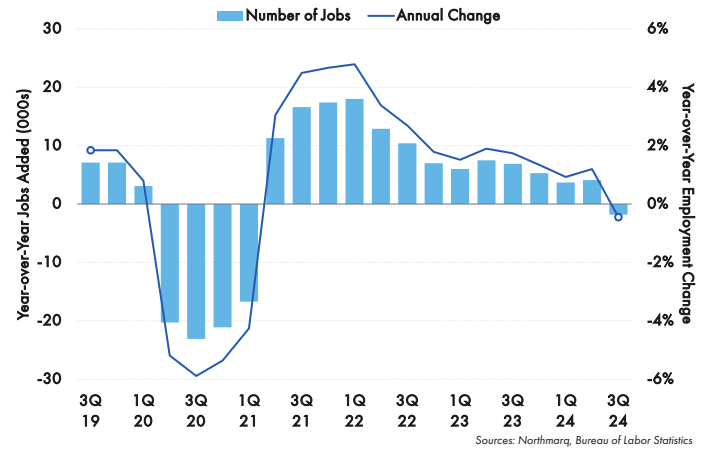
Sales transactions in the Tucson multifamily market in 2024 have occurred at a slightly faster pace than in 2023, but investment volumes remain well below long-term averages. Overall transaction activity has been limited and concentrated within the Casas Adobes submarket in recent quarters. Sales in Casas Adobes typically account for around 10 percent of all transactions in Tucson, but they have surged to approximately half of the total transaction volume in Tucson since the start of 2024. At \$181,200 per unit, pricing in this submarket is also above average for the region. In the handful of transactions that have closed throughout Tucson to this point in 2024, prices have pushed higher. The median price has reached \$146,200 per unit, 17 percent higher than in 2023.

EMPLOYMENT

- Employment in Tucson is down compared to one year ago, with payrolls decreasing by 0.5 percent. In the past 12 months, employers have cut 1,800 workers from payrolls.
- While the government sector is showing net job losses, businesses continue to add jobs. Total private-sector employment is up 1.3 percent year over year.
- The financial activities sector was a leader in employment growth in Tucson over the past year. Over the past 12 months, employers in this industry increased payrolls by 5 percent with the addition of nearly 1,000 workers.
- **FORECAST:** Employers in Tucson are forecast to resume job growth through the fourth quarter, and payrolls are expected to expand by 0.8 percent in 2024 with the addition of 3,000 workers.

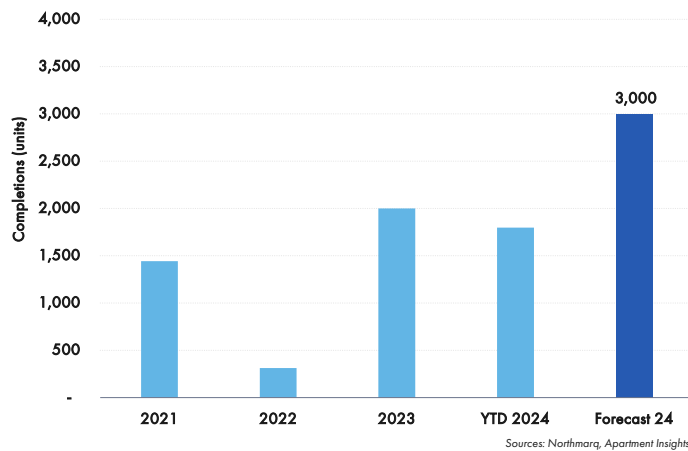
Private-sector employment is up 1.3 percent year over year.

EMPLOYMENT OVERVIEW



Projects totaling nearly 2,700 units are under construction.

DEVELOPMENT TRENDS

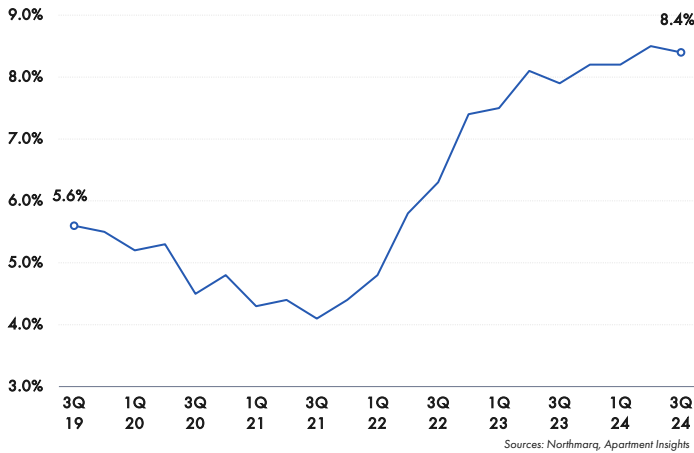


DEVELOPMENT & PERMITTING

- Multifamily deliveries spiked in the third quarter, bringing total completions at this point in the year to almost 1,800 units, ahead of the pace recorded in 2023. The Northwest Tucson submarket is accounting for more than 40 percent of the deliveries to this point in the year. Prior to this uptick, this submarket had not recorded any significant supply growth since 2018.
- Projects totaling nearly 2,700 units are currently under construction in Tucson, down 20 percent from the same point in 2023. This marked the fewest units under construction in the Tucson area in two years.
- Multifamily permitting in Tucson picked up in the third quarter after lagging through the first half of the year. Year to date, developers have pulled permits for about 950 units, down 7 percent from the same period last year.
- **FORECAST:** Developers in Tucson are expected to keep up their elevated pace of deliveries in the fourth quarter, causing completions in 2024 to surpass last year's figure. Projects totaling roughly 3,000 units are scheduled for completion in 2024, up from 2,000 units in 2023.

Vacancy decreased by 10 basis points in the past three months.

VACANCY TRENDS



VACANCY

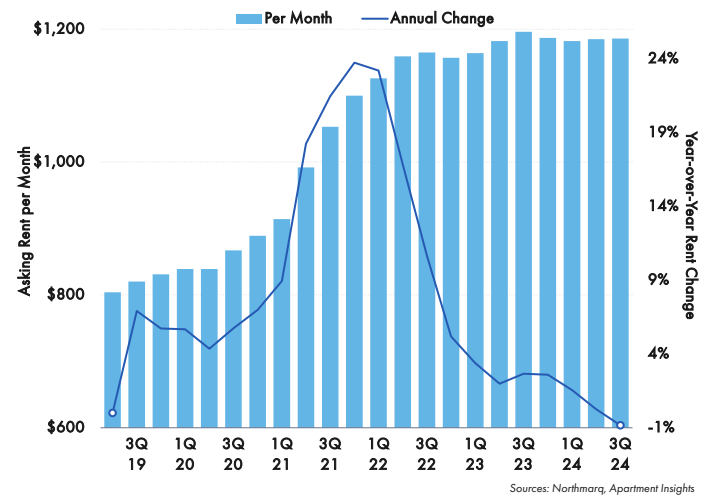
- Area vacancy inched lower in the third quarter following consistent increases through recent years. Vacancy decreased by 10 basis points in the past three months to 8.4 percent. Year over year, the vacancy rate is up 50 basis points.
- Submarkets on the south side of Tucson had the most significant vacancy decreases. The Southwest and Southeast Tucson submarkets combined averaged a 190 basis point decrease in vacancies over the past 12 months. These submarkets now have some of the lowest vacancy rates in Tucson, at 7.3 percent and 7.2 percent, respectively.
- An accelerated pace of completions is keeping the vacancy rate in Tucson’s top tier elevated. The Class A vacancy rate ended the third quarter at 9.5 percent. Vacancy in Class A properties has averaged nearly 10 percent since the beginning of 2023.
- **FORECAST:** Area vacancy is expected to resume pushing higher in the fourth quarter, though increases should be modest. Vacancy is forecast to reach 8.6 percent by the end of the year, up 40 basis points annually.

RENTS

- Average rents in Tucson inched higher by 0.1 percent in the third quarter following rent decreases in recent periods. Current rents are \$1,186 per month, down 0.8 percent from one year ago.
- Submarkets in the south end of the region continued to lead the way in the third quarter, with four of the top five submarkets for rent growth being in this area. The one exception to this trend was in the Oro Valley/Catalina submarket, where asking rents rose 2.6 percent to \$1,620 per month, the highest annual increase in Tucson.
- Rents in Class C apartments have recorded modest annual increases, while rents in Class B properties have posted minimal year-over-year declines. Rents in Class B and Class C properties are within 1 percent of levels from one year earlier. Class A rents have recorded steeper declines, ending the third quarter at \$2,024 per month after reaching \$2,175 per month one year ago.
- **FORECAST:** Rents are forecast to be essentially flat in 2024. The average rental rate in Tucson is expected to end the year at \$1,190 per month, slightly higher than current levels and up just 0.3 percent for the full year.

Current rents are \$1,186 per month.

RENTS TRENDS

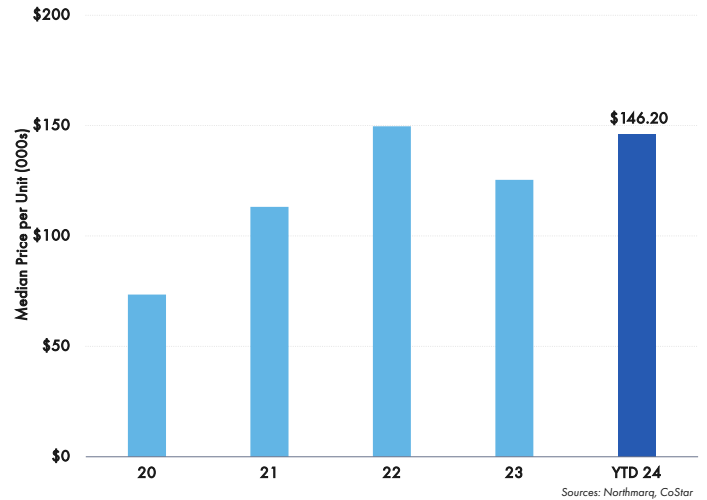


MULTIFAMILY SALES

- Since bottoming in the fourth quarter of 2022, sales activity has been limited in Tucson. Total sales to this point in the year are slightly ahead of the limited levels recorded last year, while lagging historical activity levels by more than 70 percent.
- Despite a modest transaction count since the beginning of the year, pricing climbed by 17 percent compared to the 2023 figure. Year to date, the median price in Tucson is \$146,200 per unit, down only 2 percent from peak pricing levels recorded in 2022.
- Cap rates have remained flat since the beginning of the year, ranging between 5.5 percent and 6.5 percent. This is in line with last year's cap rates, and roughly 100 basis points higher than the 2022 averages.

Year to date, the median price in Tucson is \$146,200 per unit.

INVESTMENT TRENDS

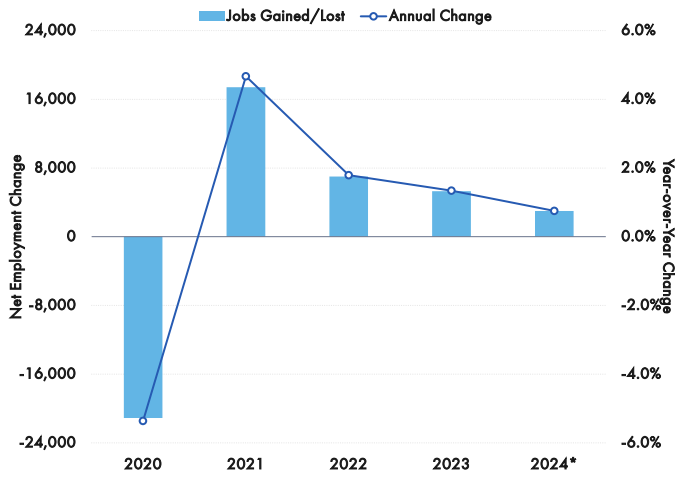


LOOKING AHEAD

The Tucson multifamily market is on pace to post its highest volume of new construction in more than 30 years in 2024, following a year of heightened deliveries in 2023. The volume of new units will impact operating fundamentals, with vacancies likely to inch higher and rents expected to be fairly flat in the coming quarter. While supply growth is elevated, the market is posting improving renter demand. Year to date, absorption has totaled more than 1,100 units, similar to peak levels recorded in 2020 and 2021. With construction totals expected to remain elevated in the coming year, the market will need to sustain strong volumes of absorption to keep vacancy near its current levels.

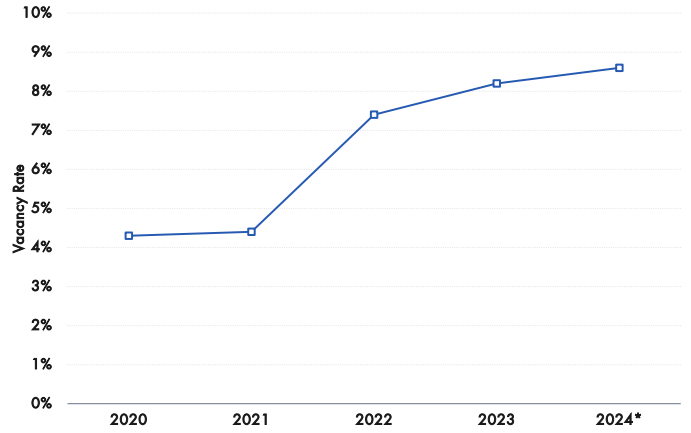
Investment activity has inched higher to this point in 2024, but it will likely take a few more quarters before sales velocity rebounds fully. Many investors are taking a cautious approach to potential acquisitions, choosing to monitor lease-up volumes and market rents during this period of elevated supply growth. Ultimately, the transaction market will resume when Class B and Class C properties begin to change hands again. During the past decade, Class C properties have accounted for more than half of the properties that have sold, with a steady volume of assets priced between \$5 million and \$10 million. This this point in 2024, these sales have been limited, dragging on total transaction counts. As the market stabilizes, these types of transactions should resume, buoying the local investment market.

EMPLOYMENT FORECAST



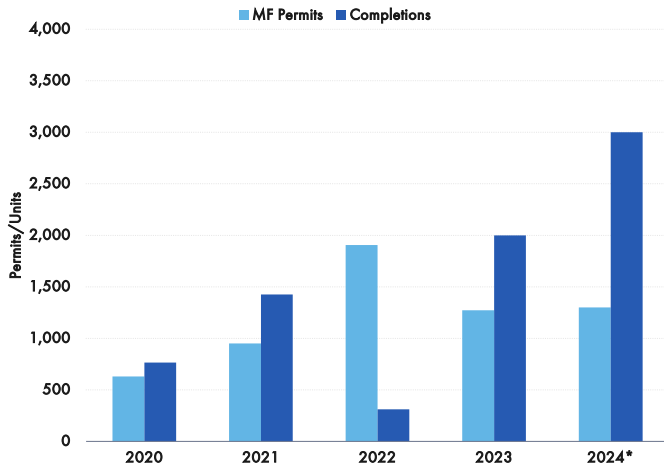
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



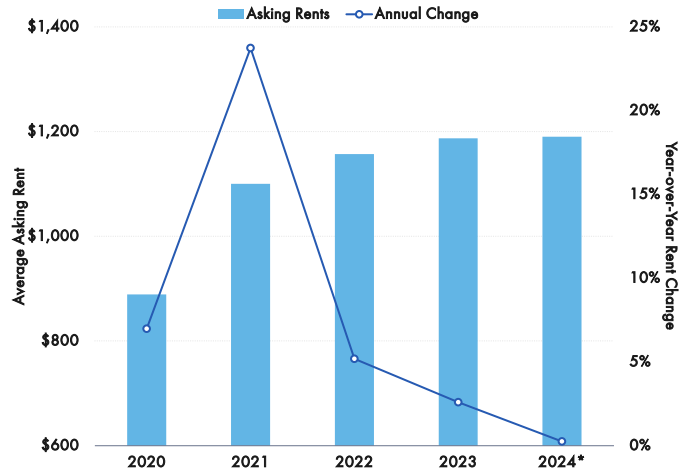
* Year End Forecast
Sources: Northmarq, Apartment Insights

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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