MARKETBEAT
Tucson
MULTIFAMILY Q4 2024

CUSHMAN & WAKEFIELD | PICOR

MARKET FUNDAMENTALS

	YOY Chg	Outlook
8.43% Vacancy Rate	▲	▼
255 New Deliveries, units	▼	▼
$1,178 Effective Rent, PSF	▼	–

(Overall, All Property Classes)

ECONOMIC INDICATORS

	YOY Chg	Outlook
407K Tucson Employment	▼	▲
3.5% Tucson Unemployment Rate	▲	▲
73.3K Tucson Median Household Income	▲	▲

Source: BLS

ECONOMY:

Tucson's economic landscape in Q4 2024 painted a picture of robust growth and resilience. Median household income grew to $73,300, marking a 3.4% year-over-year (YOY) increase and fueling local spending power. The job market expanded, with nonfarm employment reaching 407,000 - a 1.1% uptick from the previous year. Notably, Tucson's unemployment rate dipped to 3.5%, outperforming the national average of 4.2% and signaling a competitive labor market. Population grew 1.3% YOY, surpassing the national rate of 1.0%. This influx contributed to a 1.6% rise in households reflecting the city's enduring appeal to both families and businesses. These encouraging indicators underscore Tucson's vitality and favorable position within the region. The confluence of rising incomes, job creation, and population expansion bodes well for metro Tucson's commercial real estate in 2025.

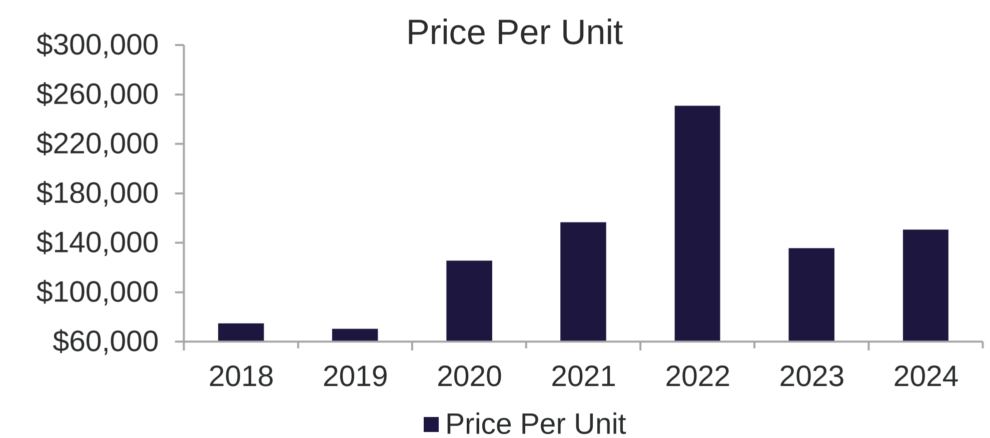
MARKET OVERVIEW:

Tucson's apartment vacancy rate held steady at 8.4% in Q4 2024, exceeding the previous year's average of 6.54%. The Northeast submarket maintained the lowest vacancy at 6.34%, while Tucson Mountain Foothills reached 10.18%. Overall occupancy improved by 512 units, with Northwest Tucson leading gains (+296 units) and East Tucson showing the largest decline (-71 units). Average rents decreased to $1,178 per unit. Oro Valley/Catalina commanded the highest rents at $1,611, while North Central Tucson averaged the lowest at $980. South Tucson/Airport posted the strongest rent growth (+$52), contrasting with Catalina Foothills' decline (-$35). Concessions increased to $32 per unit quarter-over-quarter. Investment activity included two major property sales averaging $150,777 per unit, showing quarterly softening but annual appreciation, with newer properties dominating 2024 transactions.

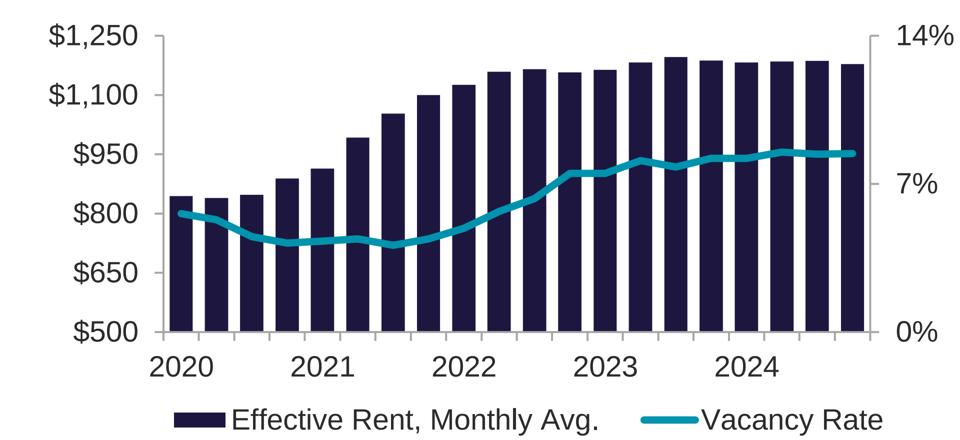
RENTS AND LEASE-UP DURATION:

Q4 2024 presented significant challenges in the rental market. Property managers increased concessions and rent discounts to attract tenants. While seasonal softness is typical during holidays, elevated vacancy levels suggest broader market weakness. Management priorities have shifted to tenant retention and enhanced marketing strategies. Leasing activity and rent stability are expected to improve in early 2025.

DEMAND / DELIVERIES



OVERALL VACANCY & EFFECTIVE RENT



Source: (Add 3rd party data source if applicable)

MARKET STATISTICS

SUBMARKET	INVENTORY (UNITS)	VACANCY RATE	YOY VACANCY RATE	AVG EFFECTIVE RENT / UNIT	AVG EFFECTIVE RENT PSF	YOY % EFFECTIVE RENT GROWTH0
Oro Valley/Catalina	2,615	8.86%	25.16%	$1,611	$1.62	1.98%
Northwest	9,439	7.40%	-0.27%	$1,402	$1.51	-1.05%
Catalina Foothills	5,726	6.77%	-5.18%	$1,229	$1.60	-2.46%
Northeast	2,181	6.34%	-22.20%	$1,429	$1.48	-2.59%
East	8,222	8.94%	6.93%	$1,084	$1.45	-0.82%
North Central	8,256	8.50%	-1.39%	$980	$1.42	-3.06%
Flowing Wells	8,857	9.51%	-0.31%	$999	$1.62	-0.89%
Foothills	4,477	10.18%	12.86%	$1,326	$1.66	-0.97%
University	4,838	7.96%	47.98%	$1,168	$1.86	-3.55%
South Central	6,602	9.56%	13.9%	$1,015	$1.53	-2.59%
Pantano/Lakeside	5,412	9.51%	-10.36%	$1,097	$1.54	2.91%
South/Airport	6,927	7.43%	-1.19%	$1,169	$1.78	3.33%
Southwest	2,415	6.74%	12.61%	$1,104	$1.51	-0.09%
Southeast	1,577	7.85%	-2.48%	$1,512	$1.45	-8.52%
MARKET	**77,540**	**8.43%**	**-3.20%**	**$1,178**	**$1.55**	**-0.75%**

*Submarket Marana excluded from report due to low inventory

Source: apartmentinsights.com

FINANCING:

"PFCU exceeded Q4 2024 loan production targets, closing 10 transactions including seven purchase requests. Average interest rates declined to 6.420% from the Q3 peak of 7.16%, below the year-end average of 6.665%. This rate environment stimulated investor activity, resulting in $15.14MM in total loan production. Purchase loan-to-value ratios ranged from 56.73% to 68.52%, averaging 62.71%.The challenging 2024 market saw elevated expenses, sluggish rent growth, and increased vacancies impacting proformas and limiting loan availability. However, these stabilizing conditions create a stronger foundation for 2025, enabling more precise expense forecasting and transaction underwriting."

- Robert Motz, Pima Federal Credit Union

OUTLOOK:

The Tucson Multi-Family market outlook for 2025 largely mirrors 2024, with continued strong demand exceeding supply, though rent growth may slightly compress, and concessions may reappear in some submarkets. Financing challenges persist due to conservative lenders and high interest rates. The investment sales market will see limited inventory, with strong demand for value-add assets. Stabilized investments may face difficulty aligning buyer and seller expectations. 2024 saw a "wait-and-see" approach, with brief market activity spurred by slight interest rate declines. Unexpectedly, rising insurance costs and a softening leasing market significantly impacted the market. Leasing timelines have lengthened, and concessions are returning, impacting both buyer expectations and lender underwriting. In 2025, we anticipate a similar market in terms of volume and transactions, with potential opportunities arising from debt maturities and refinancing difficulties faced by investors who acquired properties in late 2022 and early 2023.

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