TUCSON

QUARTER 2, 2025

CUSHMAN & WAKEFIELD | PICOR

THOUGHTS FROM THE MULTI-FAMILY MARKET

C&W | PICOR's Thoughts

"Tucson has continued along the same trajectory observed over the past several quarters, with many key trends persisting into 2025. Inventory has experienced a modest increase, largely due to a wave of new deliveries, while investor demand remains strong—particularly for well-located, value-add opportunities that offer potential for repositioning and long-term upside. Despite this sustained interest, the capital markets remain cautious, with lenders continuing to underwrite conservatively. As a result, many investors are facing challenges in achieving their target cash-on-cash returns, largely due to limited leverage options and higher financing costs. This dynamic has placed greater emphasis on creative deal structuring, including seller financing and joint ventures, to bridge the financing gap and maintain deal flow."

Allan Mendelsberg – PICOR Commercial Real Estate – amendelsberg@picor.com – 520-546-2721

"Tucson's multifamily market remained subdued in the second quarter of 2025, with transaction volume continuing at a slow pace. Notably, there was a significant surge in properties offered for sale, many of which entered the market with pricing expectations anchored in conditions from 12–18 months prior. These listings often failed to reflect current realities, including moderated rent growth, rising insurance premiums, elevated repair and maintenance costs, higher cap rates, and increased interest rates. In today's environment, accurate underwriting that fully accounts for these factors is essential for successful disposition. Location continues to be a key differentiator: well-located assets still attract strong buyer interest and competitive pricing, while properties in less desirable areas struggle to gain traction. Despite these headwinds, our team has consistently achieved successful outcomes by pricing assets appropriately for current market conditions, resulting in closed transactions rather than prolonged listings."

Joey Martinez – PICOR Commercial Real Estate – jmartinez@picor.com – 520-546-2730

Lender's Thoughts

"Purchase transactions ranged from historically stable products to value-add opportunities. Loan-to-cost has improved over the last quarter as sellers' expectations have adjusted to current market conditions. Cap rates have widened but are holding steady, while interest rates remain volatile, tracking treasury benchmarks. Fed Fund rate cuts appear likely in the near future, though no formal announcements have been made by the Fed Chair. Currently, PFCU is pricing multifamily projects in the mid to high 6% range, depending on the origination fee and fixed-rate period. The average Loan-to-cost for Q2 was 65.72%, with a high of 73.33% and a low of 56.66%. Underwriting challenges persist, particularly with securing insurance carriers willing to provide reasonable coverage without excessive premiums. Despite these headwinds, Tucson's multifamily fundamentals remain intact. Q2 2025 represents a snapshot in time, as the region continues to leverage the I-10 corridor and the University of Arizona to attract employers. Forecasts reflect tightening occupancy and rent stabilization."

Robert Motz – Pima Federal Credit Union – rmotz@pimafederal.org – 520-202-0672

Appraiser's Thoughts

"For the 2nd half of 2025, I am anticipating a continuation of slow sales volume, and slightly declining rents. The federal funds rate will likely be reduced in the 2nd half of the year, which could spur sales, listing, and refinancing activity. There is more product coming online in the 2nd half of the year, but Tucson will likely not be overbuilt, maybe vacancy will increase by 0.5% to 1.5% from its current level by the end of the year. According to Apartment Insights Q1 report, there were over 3,600 units under construction, and about 4,800 units in the planning stages. There are several headwinds on the horizon, such as consequences from the mass federal government layoffs, less federal funding for low income housing, strong possibility of fewer foreign students at the university, and a weakening job market in general. If the federal funds rate is reduced, this could improve refinancing, and sales activity for the 2nd half of 2025. There are many wildcards, such as the possibility of extending Bonus Depreciation (tax benefit), and student housing impacts caused by F-1 and M-1 visa restrictions."

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Manager's Thoughts

"Summer is the time of year when many people move to and from Tucson. This quarter, our focus is on marketing quickly and using high-quality photos to attract new tenants. Units are sitting longer than in previous years, even with the uptick in traffic during this season. Market rents softened over the past quarter, allowing us to lease some long-standing vacancies with the new wave of interest. In certain areas and product types, move-in specials are necessary to stay competitive while some communities are offering $0 deposits or even one month of free rent. Finding qualified renters has been challenging in some lower-class communities, likely due to lingering economic struggles and the increased availability of comparable units. I expect traffic to remain strong through early August before tapering off in September."

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