

# Multifamily Metro Outlook:

Tucson - Q4 2024

## Overview:

- Tucson has returned to its pre-pandemic job level and is poised to add more jobs. This is partly due to aerospace parts manufacturing through Raytheon Missile Systems and employment at Davis-Monthan Air Force Base. One favorable development is that American Battery Factory is promising a \$1.2 billion investment to build a 2-million-square-foot “gigafactory” in Aerospace Research Campus south of the airport. The lithium iron phosphate battery cell plant is projected to provide 1,000 jobs and \$3.1 billion in economic impact over 10 years. The first phase, which includes headquarters, an R&D innovation center, and a factory module, is expected to be completed by the end of 2025.
- Nevertheless, the average rent declined by 0.6% in Q4 2024. Rents have declined by almost 2% since Q2 2023 largely because an elevated level of new supply was added over the past 18 months. The 7.7% average vacancy rate as of Q4 2024 is now almost 3.5 percentage points higher than it was pre-pandemic in Q4 2019.

## Market Strengths:

- Tucson is a low-cost alternative to Southern California for both cost of business and cost of living. It also has a highly educated workforce thanks to the presence of the University of Arizona, which helps attract West Coast businesses.
- Defense, particularly aerospace manufacturing, is a key economic driver. The Davis-Monthan Air Force Base, Raytheon Missile Defense Systems, and the Arizona National Guard are all major employers providing stable and growing employment.
- Tucson has a favorable demographic profile for multifamily rentals, with renters aged 20-34 making up just under 21% of the population, 1% higher than the national average. This young demographic is supported by university students. In fact, the number of University of Arizona students is forecast to grow by 1.4% in 2025, according to RealPage, Inc. Overall, Tucson expects net migration of almost 14,000 residents in 2025.
- Jobs in the government sector account for 19.4% of the job base, about 4.8% above the national average, and include jobs for Pima County and for the state and local government, as well as university and military jobs. Ordinarily, these add a measure of stability to the economy. However, recent cuts to the jobs in the federal government may have a negative impact.
- Tucson remains very affordable relative to the West Coast and the nation. The average asking rent as of Q4 2024 was \$1,125 per month, an estimated 25% below the average rent in Phoenix.

## Market Weaknesses:

- Even in the best of times, the average per capita income is \$10,000 less than the national average annually, giving consumers less income to spend to stimulate demand for goods and services.
- Although Tucson has stored water, and 2022 saw good levels of snow and rainfall, lack of water is still a long-term issue.
- Retirees are a key economic driver of growth in Tucson but are not a key renter demographic, and the relative affordability of single-family homes siphons off renters from the apartment rental market.

## Multifamily Development:

- Over the past seven years, about 4,700 apartments were delivered, representing a 6% increase in inventory. Most were in Central Tucson, which includes the University of Arizona. Development is slowing somewhat with just over 1,300 units underway as of Q4 2024, compared to about 1,600 as of Q2 2024. Units underway represent an estimated 1.5% increase in inventory with development spread out across the metro.

## Multifamily Outlook:

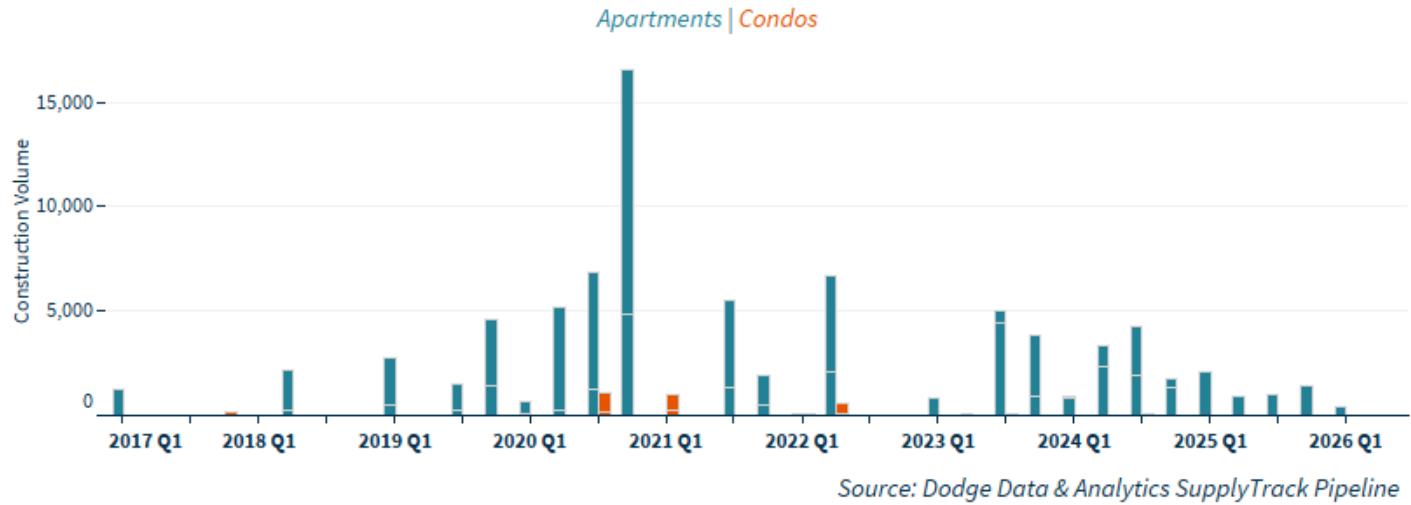
- Based on expected job growth, Tucson will likely find demand for 2,500 new units over the next two years, exceeding the 1,300 units currently underway. Defense and aerospace manufacturing, which are a large part of the job base, should keep the job market stable because of a solid pipeline of Department of Defense contracts and elevated geopolitical tensions. As a result, the apartment market is expected to tighten somewhat in 2025.

## Economic Outlook:

- Tucson will continue to grow slowly, with growth driven by jobs in defense and government. In addition, it has a warm climate and low business and living costs relative to the West Coast, which will attract both population and employers in the long term. As a result, its economy should continue to expand. However, Tucson’s economy ultimately is less diverse than the economy in Phoenix and is more susceptible to swings in growth due to reliance on in-migration.

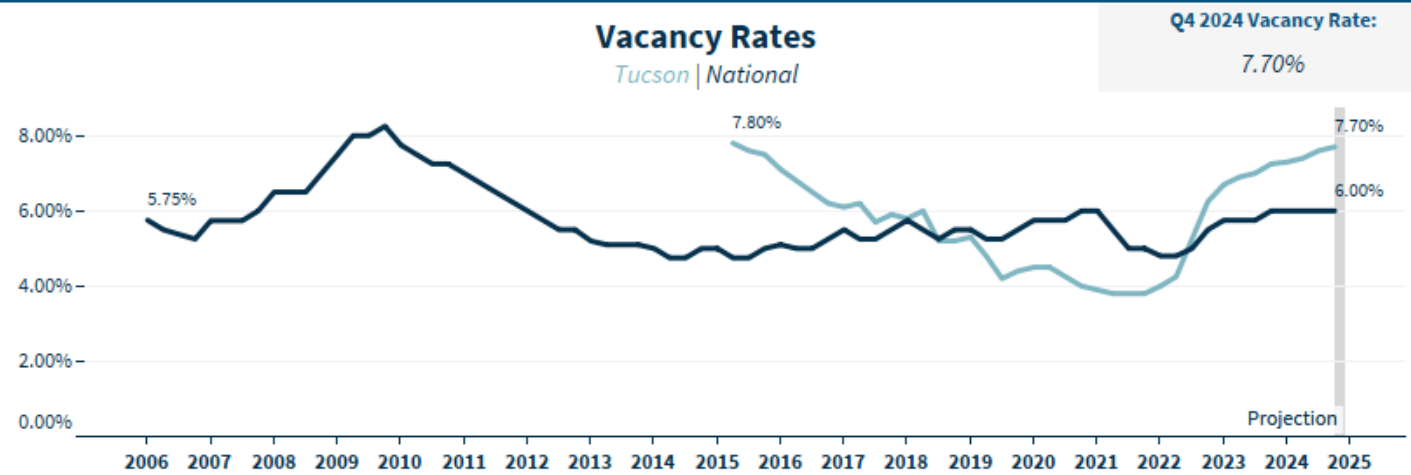
Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

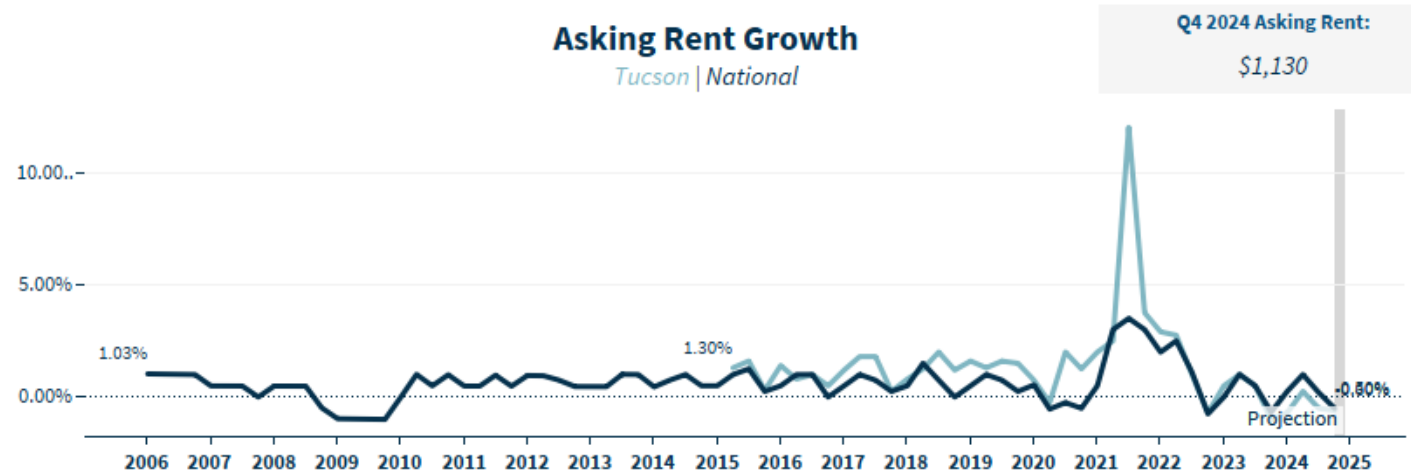


Multifamily Vacancy & Rent Estimates

Vacancy Rates

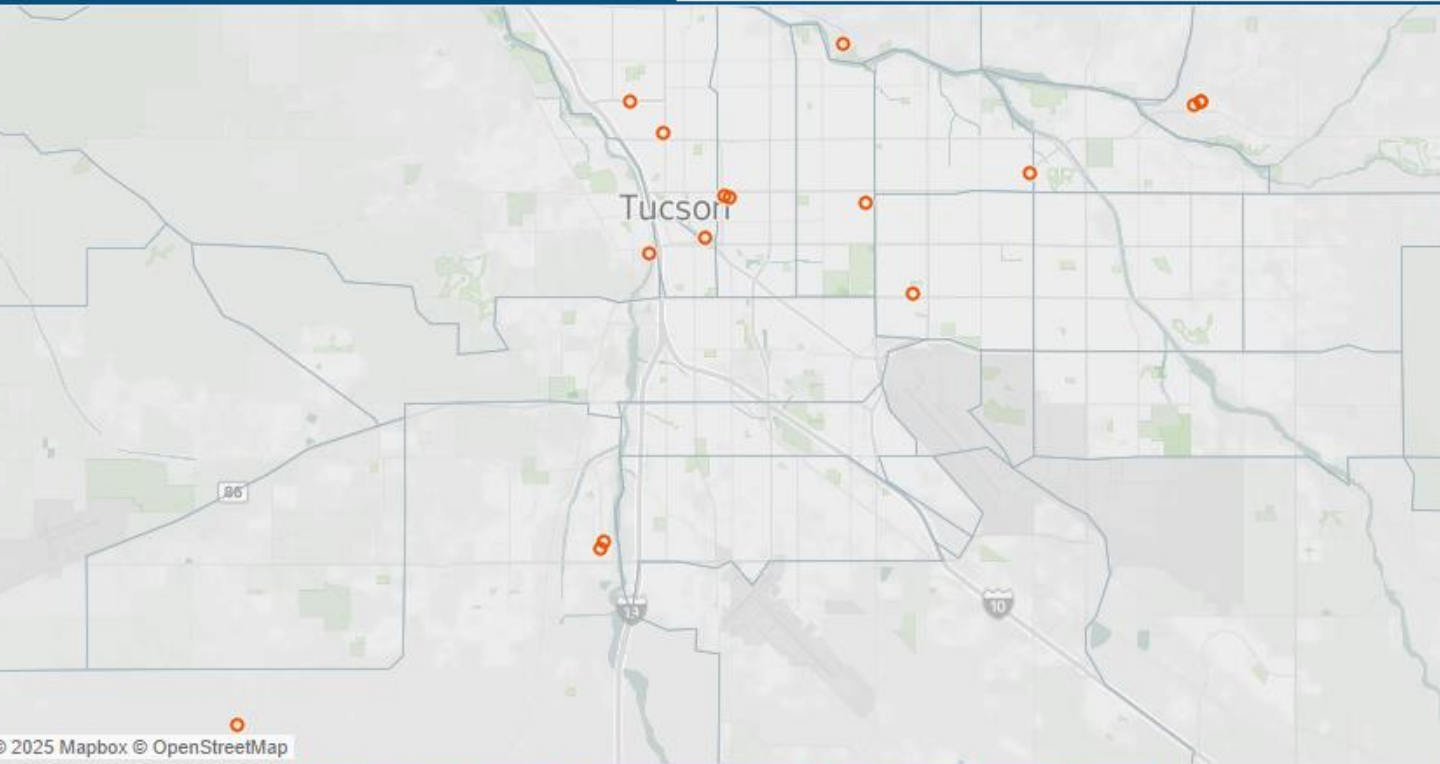


Asking Rent Growth



Source: Fannie Mae Multifamily Economics and Research

Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Airport/Drexel Heights/Sahuarita	3	173
Catalina Foothills	4	499
Central Tucson/University	5	280
East Central Tucson	3	84
West Tucson	1	294
Grand Total	16	1,330

Source: Dodge Data & Analytics SupplyTrack Pipeline

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## Multifamily Economics and Market Research Team

Tanya Zahalak, Economic and Strategic Research

### Sources Used

- Moody’s Economy.com
- Moody’s CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics Real Estate Analyzer
- CBRE-Econometric Advisors
- Yardi

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