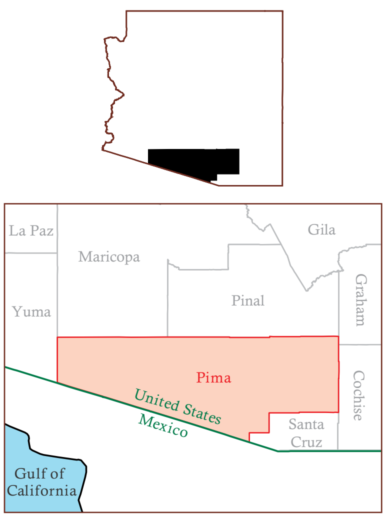
COMPREHENSIVE HOUSING MARKET ANALYSIS

Tucson, Arizona

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of April 1, 2016

PD&R

Housing Market Area



The Tucson Housing Market Area (HMA) is coterminous with the Tucson, AZ Metropolitan Statistical Area (MSA) and consists of Pima County in south-central Arizona. The HMA is along the U.S.-Mexico border in the Sonoran Desert, where year-round temperate climates attract retirees to the area. The HMA is home to 15 percent of the total population in Arizona and is the second most populous metropolitan area in the state, following the Phoenix-Mesa-Scottsdale, AZ MSA. The HMA is home to Davis-Monthan Air Force Base (AFB) and the University of Arizona (UA).

Summary

Economy

Economic conditions in the Tucson HMA have improved since 2011 but are still recovering after 3 years of job losses in the late 2000s. Nonfarm payrolls remain below the prerecession high of 385,600 jobs in 2007. During the 12 months ending March 2016, total nonfarm payrolls increased by 4,800 jobs, or 1.3 percent, to 370,700, following a gain of 2,100 jobs, or 0.6 percent, during the previous 12-month period. The current unemployment rate in the HMA declined to 5.3 percent from 5.9 percent during the 12 months ending March 2015.

Sales Market

The sales housing market in the HMA currently is soft, with an estimated 2.8-percent vacancy rate, down from 2.9 percent in April 2010. Home sales totaled 17,400 during the 12 months ending March 2016, an increase of 1,725 homes sold, or nearly 11 percent, from the previous 12-month period (Metrostudy, A Hanley Wood Company, with adjustments by the analysts). During the 3-year forecast period, demand is estimated for 6,775 new homes (Table 1). The 750 homes under construction in the HMA and a portion of the 27,850 other vacant units that may reenter the market will satisfy some of the forecast demand.

Rental Market

Rental housing market conditions in the HMA currently are soft, with an estimated overall rental vacancy rate of 9.8 percent, down from 11.3 percent in 2010. During the forecast period, demand is expected for 2,050 market-rate rental units (Table 1). New units should be built to come on line during the third year of the forecast period to allow for the absorption of excess vacant units and the 1,025 units currently under construction.

Table 1. Housing Demand in the Tucson HMA During the Forecast Period

	Tucson HMA	
	Sales Units	Rental Units
Total demand	6,775	2,050
Under construction	750	1,025

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of April 1, 2016. A portion of the estimated 27,850 other vacant units in the HMA will likely satisfy some of the forecast demand. Sales demand includes an estimated demand for 100 mobile homes. The forecast period is April 1, 2016, to April 1, 2019.

Source: Estimates by analysts

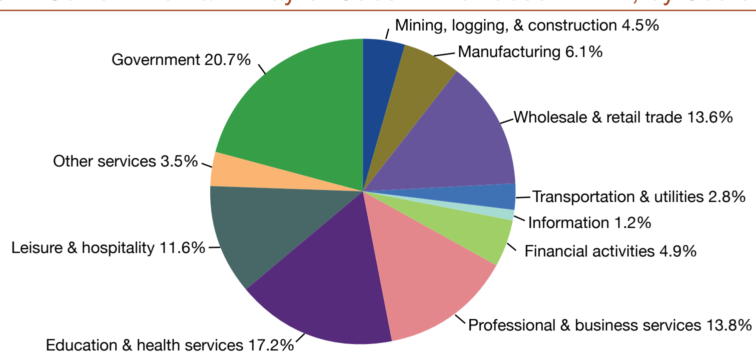
Market Details

Economic Conditions

Federal and state employers have a major economic effect on the Tucson HMA because of the presence of UA, Davis-Monthan AFB, and the U.S. Customs and Border Protection, which covers two international ports of entry in the HMA. Through those ports of entry, the HMA received nearly 13 million visitors from Mexico in 2008 (the most recent data available), 90 percent of whom visited for leisure, spending $976 million (Eller College of Management Economic and Business Research Center, 2008).

Government, the largest nonfarm payroll sector in the HMA, accounts for 76,600 jobs, or nearly 21 percent of total nonfarm payrolls (Figure 1). The state government subsector accounts for nearly 32 percent of all government sector employment in the HMA. UA, the largest employer in the HMA (Table 2), had an annual economic impact of $3.6 billion on the HMA in 2011 (Tripp Umbach report, 2011), with approximately 42,250 students enrolled and approximately 12,500 faculty and staff employed during the 2014–15 academic year (Institutional Research at University Analytics & Institutional Research). The University of Arizona Health Network, which is part of UA, had an economic impact of $2.0 billion on the HMA in 2011. The Health Network includes two hospitals, a health plan division, and the UA College of Medicine. In 2015, the UA Health Network merged with Banner Health, one of the largest nonprofit healthcare systems in the country, to form the private company Banner-University Medical Group.

Figure 1. Current Nonfarm Payroll Jobs in the Tucson HMA, by Sector



Note: Based on 12-month averages through March 2016.
Source: U.S. Bureau of Labor Statistics

Table 2. Major Employers in the Tucson HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
University of Arizona	Government	12,500
Davis-Monthan Air Force Base	Government	9,875
Raytheon Missile Systems	Manufacturing	9,600
Banner–University Medical Group	Education & health services	6,550
U.S. Customs and Border Protection	Government	6,475
Wal-Mart Stores, Inc.	Wholesale & retail trade	5,400
Freeport-McMoRan Inc.	Mining, logging, & construction	4,400
Tohono O'odham Nation	Government	4,350
Carondelet Health Network	Education & health services	3,950
TMC HealthCare	Education & health services	2,975

Notes: Excludes local school districts. Data include military personnel, who generally are not included in nonfarm payroll survey data.
Sources: Pima County Financial Report 2015; University of Arizona Institutional Research Office; Davis-Monthan Air Force Base Economic Impact Analysis

The federal government subsector constitutes 16 percent of all government employment in the HMA. Davis-Monthan AFB, the second largest employer in the HMA, employs 6,800 active military and 3,075 civilian employees and had an economic impact of $1.5 billion on the HMA in 2015 (Davis-Monthan Economic Impact Analysis, 2016). Davis-Monthan AFB affects the HMA's aerospace industry through contracts with Raytheon Missile Systems, the third largest employer in the HMA and one of the largest manufacturers of unmanned aircraft in the nation. In 2015, a $9.2 million expansion of a Raytheon Space Systems Operations factory was completed. Nonexplosive Exoatmospheric Kill Vehicles, used to track enemy missiles and destroy them by high-speed impact, are built at the facility.

The HMA economy since 2000 generally has followed national economic trends. Nonfarm payrolls in the HMA decreased by 2,000 jobs, or 0.6 percent, from 2001 through 2002—a period including the 2001 national economic recession and the September 11 attacks on the World Trade Center buildings and the Pentagon, which caused a significant reduction in domestic and international air and ground travel. From 2001 through 2002 the leisure and hospitality sector led overall job losses, decreasing by 1,300 jobs, or 3.3 percent. Manufacturing employment in the HMA was down by 1,200 jobs, or 3.6 percent, partly because of 550 layoffs at Bombardier Aerospace in Tucson in 2002—layoffs that resulted from the downturn in the aerospace industry following September 11, 2001.

The HMA economy expanded from 2003 through 2007, and nonfarm payrolls increased by an average of 8,500 jobs, or 2.4 percent, annually, reaching an all-time peak of 385,600 jobs in 2007. During that period the government sector added an average of 600 jobs, or 0.8 percent, a year. Growth was partly attributed to the founding of the U.S. Department of Homeland Security in March 2003, in response to the September 11 attacks, leading to increased security at international ports of entry across the nation. Economic expansion also was a result of significant growth in the professional and business services and the education and health services sectors, which were up by 2,300 and 2,200 jobs annually, or 5.0 and 4.7 percent, respectively. The leisure and hospitality sector grew by 600 jobs, or 1.5 percent, annually. Gains in the education and health services and leisure and hospitality sectors were attributed to an influx of baby boomer retirees and a growing population, particularly through in-migration. The increased population from net in-migration also led to greater residential construction. From 2003 through 2007, employment in the mining, logging, and construction sector grew by an average of 800 jobs, or 3.3 percent, annually. Approximately 95 percent of the gain in the sector was because of growth in the construction subsector, which rose from 22,900 to 26,600 jobs during those years.

With the national recession and the housing crisis that began at the end of 2007 and lasted through mid-2009, the local economy contracted from 2008 through 2010. During that time, nonfarm payrolls in the HMA decreased by an average of 10,800 jobs, or 2.9 percent, annually compared with the average annual loss of 1.9 percent for the nation. The mining, logging, and construction sector was the hardest hit, down by an average of 3,800 jobs, or 15.8 percent, annually, with the entire decline resulting from losses in the construction subsector. Residential construction declined in response to the net out-migration of people seeking jobs in larger employment centers, including the Phoenix metropolitan area. During the 2008-to-2010 period, notable job losses also occurred in the wholesale and retail trade, the professional and business services, and the manufacturing sectors, which declined by averages of 2,400, 2,300 and 1,200 jobs, respectively, or 4.6 percent each, annually.

Following the 3 years of job losses, the HMA began to recover in 2011. From 2011 through 2014, nonfarm payrolls rose by an average of 3,000 jobs, or 0.8 percent, annually, slower than the 1.6- and 2.3-percent growth rates for the nation and the Phoenix metropolitan area, respectively. Job gains in the HMA have accelerated during the 12 months ending March 2016, but the number of jobs remains below the 2007 peak level. Total nonfarm payrolls averaged 370,700 jobs during the 12 months ending March 2016, an increase of 4,800 jobs, or 1.3 percent, from the previous 12-month period (Table 3). During the 12 months ending March 2016, the unemployment rate decreased from 5.9 to 5.3 percent compared with the 12 months ending March 2015. Figure 2 shows trends in labor force, resident employment, and the unemployment rate from 2000 through 2015.

During the 12 months ending March 2016, job gains have been led by the education and health services and the leisure and hospitality sectors, which rose by 2,200 and 1,000 jobs, or 3.6 and 2.4 percent, respectively, from the previous 12-month period. Together those two sectors accounted for two-thirds of the total net increase in nonfarm payrolls, with additional gains expected in both sectors during the next 3 years. The education and health services sector has been the fastest growing employment sector in the HMA since 2000 (Figure 3), increasing by an average 1,400 jobs, or 2.8 percent, annually. Recent gains were supported by the completion of the $72 million Green Valley Hospital in the summer of 2015, which added 250 jobs. The opening of the hospital addressed increasing demand for health services from the elderly population in the Green Valley area, where approximately 84 percent of the population was 60 years or older in the 2010-to-2014 period (2010–2014 American Community Survey [ACS] 5-year data). In the leisure and hospitality sector, job gains were mostly attributed to the food services and drinking places subsector, which increased by 800 jobs during the 12 months ending March 2016.

Economic expansion is expected to continue in the HMA, with nonfarm payroll growth averaging 0.7 percent a year during the 3-year forecast period. Overall, job gains are expected to exceed annual growth during the 2011-to-2015 period, but total payrolls are expected to remain below the prerecession high. Growth is expected to be concentrated in the education and health services, the professional and business services, the leisure and hospitality, and the manufacturing sectors. The opening of the Dove Mountain Health Center and MHC Urgent Care facility in the fall 2016 will likely

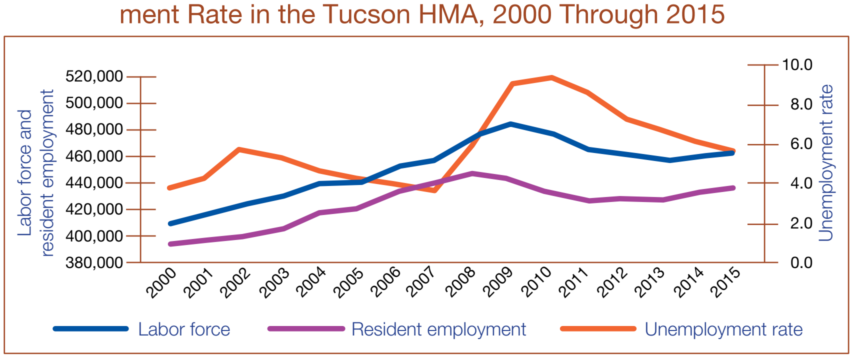
Table 3. 12-Month Average Nonfarm Payroll Jobs in the Tucson HMA, by Sector

	12 Months Ending		Absolute Change	Percent Change
	April 2015	April 2016		
Total nonfarm payroll jobs	365,900	370,700	4,800	1.3
Goods-producing sectors	39,400	39,600	200	0.5
Mining, logging, & construction	17,000	16,800	– 200	– 1.2
Manufacturing	22,400	22,800	400	1.8
Service-providing sectors	326,500	331,100	4,600	1.4
Wholesale & retail trade	50,600	50,400	– 200	– 0.4
Transportation & utilities	10,000	10,300	300	3.0
Information	4,400	4,600	200	4.5
Financial activities	17,500	18,300	800	4.6
Professional & business services	50,400	51,200	800	1.6
Education & health services	61,700	63,900	2,200	3.6
Leisure & hospitality	42,100	43,100	1,000	2.4
Other services	12,900	12,800	– 100	– 0.8
Government	76,900	76,600	– 300	– 0.4

Notes: Numbers may not add to totals because of rounding. Based on 12-month averages through March 2015 and March 2016.

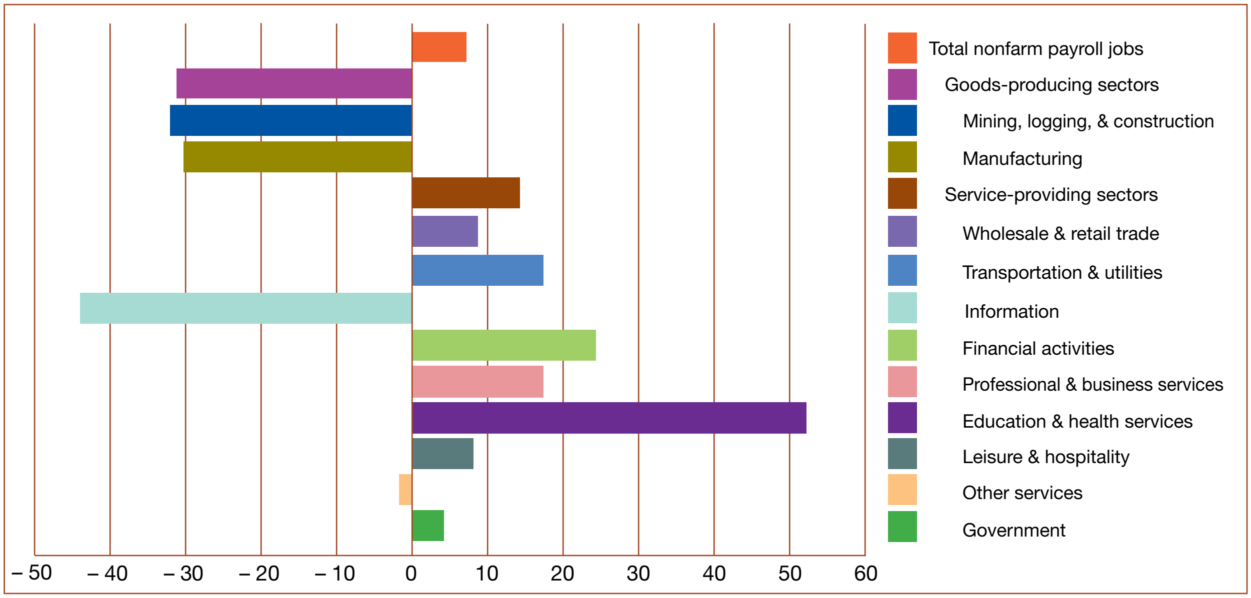
Source: U.S. Bureau of Labor Statistics

Figure 2. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Tucson HMA, 2000 Through 2015



Source: U.S. Bureau of Labor Statistics

Figure 3. Sector Growth in the Tucson HMA, Percentage Change, 2000 to Current



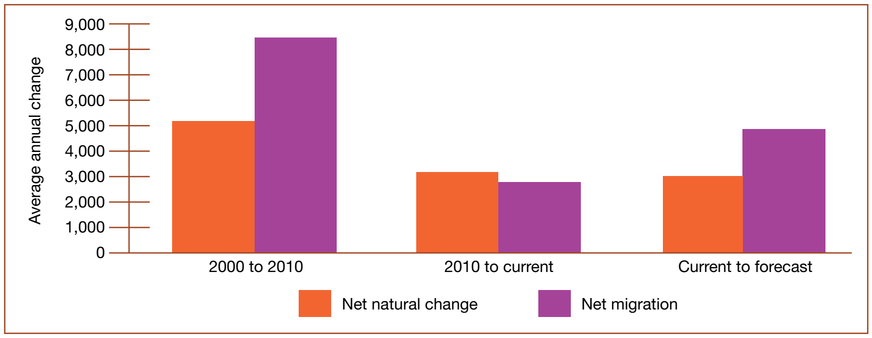
Note: Current is based on 12-month averages through March 2016.
Source: U.S. Bureau of Labor Statistics

support job gains during the first year of the forecast, but total jobs added have yet to be announced. The $400 million, 11-story Banner-University Medical Center tower is expected to add 76 employees when complete in 2019. In the professional and business services sector, the opening of Comcast Tucson Center of Excellence is anticipated to add 1,100 employees when complete in the spring of 2016. In the leisure and hospitality sector, the $32 million, eight-story, 136-room AC Hotel by Marriott in downtown Tucson is projected to add 220 jobs when it opens in 2017. In the manufacturing sector, World View Enterprises, Inc., a private spaceflight company, is expected to add more than 400 jobs when a factory and spacecraft bay are complete at the end of 2016. The site will be the first launchpad in Arizona for commercial space flights.

Population and Households

The population of the Tucson HMA currently is estimated at 1.02 million, reflecting an average annual increase of 5,800, or 0.6 percent, since April 2010. Slightly less than one-half of the population growth since 2010 has been the result of net in-migration, which averaged 2,675 people annually (Figure 4). By contrast, gains in the population from 2000 to 2010 averaged 13,650, or 1.5 percent, a year (Census Bureau, as of April 1). During that period, net in-migration accounted for more than 62 percent of population growth, with an average of 8,500 people a year migrating into the HMA. Increased net in-migration during the 2000s was partly the result of economic expansion in the early-to-middle part of the decade, leading to growth in the resident working-age population, or those ages 25 to 59. From 2000 to 2010, the working-age population

Figure 4. Components of Population Change in the Tucson HMA, 2000 to Forecast



Notes: The current date is April 1, 2016. The forecast date is April 1, 2019.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analysts

rose by an average of 4,700, or 1.1 percent, a year to 437,400. From 2010 to 2014, however, the working-age population decreased by an average of 3,800, or 0.9 percent, a year to 421,900 (2010–2014 ACS 1-year data) despite the overall improvement in the HMA economy since 2011. The retirement-age population, on the other hand, has continued to increase since 2000. The temperate climate of the HMA, relatively affordable housing market, and services provided by Davis-Monthan AFB to retired military personnel have attracted or retained retired civilians and retired military personnel. The population of those age 60 or older rose by an average of 5,650, or 3.2 percent, a year, to 209,700, from 2000 to 2010 and by 6,975, or 3.1 percent, a year, to 240,100, from 2010 through 2014.

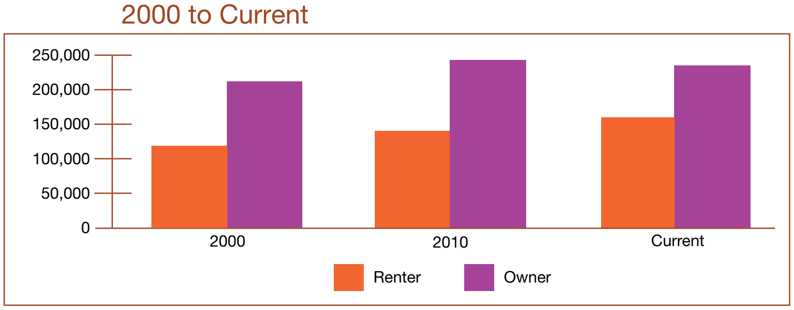
From 2000 to 2007, the population of the HMA grew rapidly because of high levels of net in-migration. From 2000 to 2002, the population of the HMA increased by an average of 16,600, or 1.9 percent, annually. Net in-migration averaged 11,950 people a year during that period, accounting for 72 percent of all population growth despite job loss from 2001 through 2002. Approximately 34 percent of net in-migration was from California, Illinois, and Texas (Internal Revenue Service tax return data). Population growth further accelerated from 2002 to 2007, increasing by 19,150 people, or 2.1 percent, a year. During that period, 72 percent of population growth resulted from net in-migration, with an average of 13,900 people migrating to the HMA annually. Strong job gains and relatively affordable housing attracted people to the HMA. Former residents of California accounted for one-fourth of the net in-migration to the HMA from 2002 to 2007. Los Angeles and San Diego Counties, where average home prices were 150 and 179 percent higher, respectively, than in the Tucson HMA, accounted for 41 percent of the net in-migration from California during that period.

Population growth slowed dramatically during the national economic downturn beginning in 2007. According to local sources, potential residents living elsewhere experienced greater difficulty selling their homes so that they could move to the HMA as sales market conditions weakened across the nation. From 2007 to 2012, population growth averaged 2,625 people, or 0.3 percent, a year. Net natural change (resident births minus resident deaths) averaging 4,400 annually accounted for all population growth during that period because net out-migration averaged 1,775 people annually. From 2007 to 2012 most of the net out-migration was to Maricopa County, where the city of Phoenix is and where the rate of job gains began to outpace the Tucson HMA and the nation. Since 2012, population growth has averaged 6,575 people, or 0.7 percent, annually. Net in-migration has averaged 3,475 people annually because of improvements in economic conditions since 2011. Net in-migration from 2012 to 2014 mainly has been from neighboring Cochise and Santa Cruz Counties, southeast of the HMA. During the next 3 years the population of the HMA is forecast to increase by an average of 8,000, or 0.8 percent, annually as a result of continued job growth and retirees migrating to the HMA. Population growth is expected to moderate to 0.7 percent by the end of the third year.

Household growth in the HMA generally has followed trends in population growth, with high growth during the early-to-mid 2000s and lower growth occurring since the late 2000s. From 2000 to 2010, the number of households in the HMA rose from 332,350 to 388,660, an average increase of 5,625, or 1.6 percent, a year. The number of households in the HMA currently is estimated at 405,100, an average gain of 2,750, or 0.7 percent, a year since April 2010. Renter households have accounted for all household growth since April 2010, partly because of very high foreclosure rates in the HMA in the late 2000s and early 2010s and tighter mortgage lending standards. Since April 2010, renter households in the HMA have increased an average of 2.3 percent annually, whereas owner households have decreased an average of 0.2 percent annually. Figure 5 depicts the number of households by tenure from 2000 through the current date.

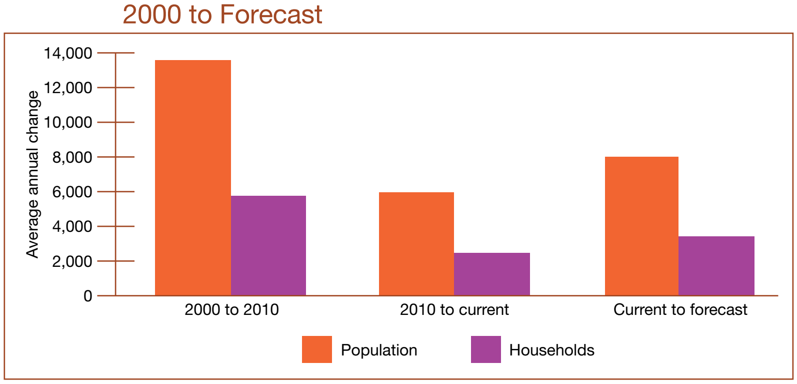
The homeownership rate currently is estimated at 60.6 percent, down from 64.1 percent during April 2010 (Table DP-1 at the end of this report) because of more stringent lending standards since 2010. During the forecast period the number of households is expected to increase by an average of 3,475, or 0.8 percent, annually. The homeownership rate is expected to continue to decrease, although at a much slower rate than from 2010 to the current date because of improving economic conditions and significantly reduced levels of foreclosures. Figure 6 shows population and household growth from 2000 through the forecast period.

Figure 5. Number of Households by Tenure in the Tucson HMA, 2000 to Current



Note: The current date is April 1, 2016.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analysts

Figure 6. Population and Household Growth in the Tucson HMA, 2000 to Forecast



Notes: The current date is April 1, 2016. The forecast date is April 1, 2019.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analysts

Sales Market

The Tucson HMA sales housing market currently is soft, with a sales vacancy rate estimated at 2.8 percent, down from 2.9 percent in April 2010. The HMA was hard hit during the housing crisis because of substantial overbuilding during the mid-2000s, but a lower level of home construction since 2008 has allowed the absorption of some excess inventory. As of March 2016, a 2.0-month supply of homes was available for sale, unchanged from a year earlier (Multiple Listing Service of Southern Arizona). By comparison, the available inventory of homes for sale reached a peak of 3.5 months of inventory in February 2011, 1 year after foreclosure rates peaked.

During the 12 months ending March 2016, 15,750 existing single-family homes, townhomes, and condominiums (hereafter, existing homes) sold, up 12 percent from 14,100 homes during the previous 12-month period (Metrostudy, A Hanley Wood Company, with adjustments by the analysts). By comparison, in 2005 and 2006, existing home sales peaked at an average of 24,700 homes sold because of strong economic conditions and population growth. Home sales were supported by in-migration from San Diego and Los Angeles Counties, where average home prices are substantially higher. As the national economy began contracting in 2007, existing homes sales in the HMA declined by 31 percent during 2007 to an average of 13,150 homes. From 2008 through 2010 existing home sales decreased by 5 percent, annually, to an average of 11,900 because of continued poor economic conditions, slower population growth, and stricter lending standards. Existing home sales increased 4 percent annually from 2011 through 2014 to an average 14,250, as job and population growth strengthened.

During the 12 months ending March 2016, existing home sale prices rose 4 percent to $206,000, marking the fourth consecutive year that home prices increased an average of approximately 4 percent. The current average existing home price in the HMA is 24 percent below the peak of $272,500 during 2007. The national recession and housing crisis contributed to the reduction in the average home sales price in the HMA, which decreased an average of 7 percent a year from 2008 through 2010.

The housing crisis had a significant effect on the HMA sales market, causing a sharp increase in the number of distressed properties in 2010, but the number has since declined. As of March 2016, 2.1 percent of all home loans were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into real estate owned (REO) status, down from 2.5 percent in March 2015 (CoreLogic, Inc., with adjustments by the analysts). The current percentage of seriously delinquent loans and REO properties in the HMA represents an improvement since February 2010, when the rate peaked at 7.7 percent. The current rate is higher than the 1.4-percent rate for the Phoenix metropolitan area but below the 3.0-percent rate for the nation. During the 12 months ending March 2016, 1,975 REO homes sold in the HMA, comprising 13 percent of existing home sales, down from an average of 41 percent of home sales from 2009 through 2012 but higher than an average of 5 percent of homes sold from 2005 through 2008. The average sales price of an REO home during the 12 months ending March 2016 was $150,700. Since 2005, REO home prices have been approximately 40 percent less than the average sales price of a regular resale home.

Approximately 5 percent of existing home sales in the HMA were by absentee owners (Metrostudy, A Hanley Wood Company) during the 12 months ending March 2016 compared with 8 percent during the previous 12-month period. That segment of the market includes owners of second homes, investment groups, and homeowners planning to retire and move to the HMA at a later date. The percentage of homes purchased by absentee owners in the HMA was highest from 2005 through 2007, at 11 percent, and lowest during 2008 through 2011, at 3 percent. From 2012 through 2014, absentee purchases rose to 10 percent of existing home sales, partly because of increased investor purchases of distressed properties.

The number of new home sales in the HMA has stabilized since 2012 but remains well below the peak levels of the mid-2000s. During the 12 months ending March 2016, approximately 1,600 new single-family homes, townhomes, and condominiums (hereafter, new homes) sold, up 4 percent from the 1,550 new homes sold during the previous 12 months. Similar to existing home sales, new home sales peaked in 2005 and 2006, two of the years with the highest population growth since 2000, when an average of 8,175 homes sold. In 2007, new home sales decreased by 1,900, or 23 percent, to 6,275 despite economic growth. In response to the national recession that began in late 2007, new home sales declined further from 2008 through 2011 by an average of 450, or 20 percent, a year to 1,300. From 2012 through 2014, new home sales rose to an average of 1,575, or 6 percent a year.

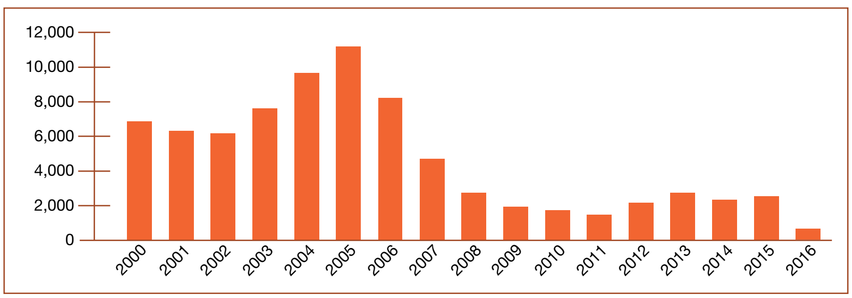
The average sales price of a new home increased by $12,950, or 5 percent, to $280,200 during the 12 months ending March 2016, which is 3 percent higher than the previous peak price of $271,500 during 2006. Sale prices rose an average of 7 percent annually in 2005 and 2006, but then declined an average of 5 percent a year from 2007 through 2011 to a low of $209,700 in response to the economic recession. The average home sales price began increasing from 2012 through 2014 as improving economic conditions led to a higher level of demand. During that period, sales prices increased an average of 8 percent annually to $265,200.

Despite a modest gain during the 12 months ending March 2016, homebuilding activity, as measured by the number of single-family homes permitted, remains at low levels compared with levels in the early to mid-2000s (Figure 7). During the 12 months ending March 2016, 2,575 single-family homes were permitted, compared with 2,300 single-family homes permitted during the same period a year earlier (preliminary data). From 2000 through 2002, an average of 6,400 single-family homes were permitted annually. Strong population growth contributed to an increase in the number of homes permitted during each of the next 3 years by an average of 1,675, or 22 percent, annually to 11,150 single-family homes permitted during 2005. During 2006, 8,125 single-family homes were permitted, a decline of 3,025 homes, or 27 percent, from 2005. Single-family permitting decreased an additional 3,425, or 42 percent, to 4,700 homes in 2007. By 2008, economic and sales market conditions had weakened considerably, and an average of 2,125 homes were permitted a year from 2008 through 2014.

During the 12 months ending March 2016, single-family home construction activity was concentrated in the unincorporated areas of the HMA and in the town of Marana, with 32 and 25 percent of all homes permitted, respectively, in those jurisdictions. Significant single-family housing developments include the Solterra subdivision in unincorporated Green Valley. The subdivision includes a 55+ active-adult retirement community, Solterra at Las Campanas. The community has 52 homes that are complete and will have 58 homes at buildout. Prices start at $179,900. Recent new home construction in Marana includes several projects that stalled during the late 2000s because of the economic downturn. Those projects include Saguaro Bloom, a 2,500-home subdivision planned in 2006. In 2013, construction of the first 250 homes started, and currently 200 homes have been completed, with prices starting at $200,000 for a three-bedroom home and $210,000 for a four-bedroom home. Additional construction in Marana is occurring in the Dove Mountain subdivision, near the soon-to-be-opened Dove Mountain Health Center and MHC Urgent Care facility. Neighborhoods in the subdivision include Los Saguaros at Dove Mountain, where prices range from $302,900 for a three-bedroom home to $357,900 for a four-bedroom home. The Residences at The Ritz-Carlton, Dove Mountain, a custom-built neighborhood, features 1,600- to 6,000-square-foot homes with prices ranging from $800,000 to more than $2 million.

During the next 3 years, demand is estimated for 6,775 new homes in the HMA (Table 1). Demand is expected to slow slightly by the end of the third year, as economic growth and net in-migration moderate. The 750 homes currently under construction will meet a portion of demand during the first year. In addition, some of the estimated 27,850 other vacant units in the HMA may return to the sales market and satisfy a portion of the demand. Table 4 shows estimated demand by price range.

Figure 7. Single-Family Homes Permitted in the Tucson HMA, 2000 to Current



Notes: Includes townhomes. Current includes data through March 1, 2016.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analysts

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Tucson HMA During the Forecast Period

Price Range ($) From	Price Range ($) To	Units of Demand	Percent of Total
168,000	199,999	1,000	15.0
200,000	299,999	2,000	30.0
300,000	399,999	2,000	30.0
400,000	649,999	1,000	15.0
650,000	and higher	670	10.0

Notes: The 750 homes currently under construction and a portion of the estimated 27,850 other vacant units in the HMA will likely satisfy some of the forecast demand. Demand for 100 mobile homes during the forecast period is excluded from this table. The forecast period is April 1, 2016, to April 1, 2019.

Source: Estimates by analysts

Rental Market

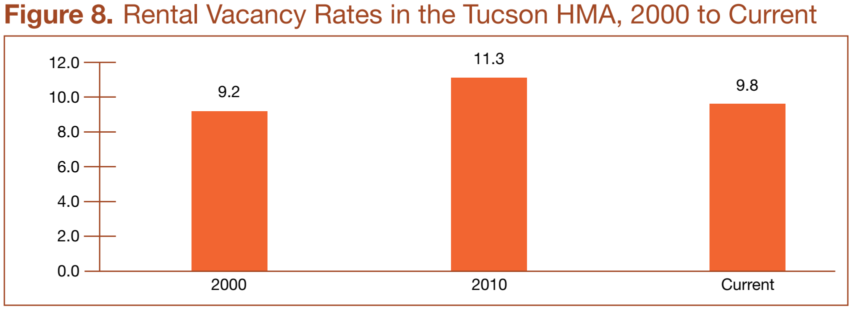
The Tucson HMA rental housing market currently is soft and has been since 2010, partly because of an increased number of single-family homes in the rental market and slow economic and population growth. The estimated vacancy rate for all rental units (including single-family homes, manufactured homes, and apartment units) is estimated at 9.8 percent as of April 1, 2016, down from 11.3 percent in April 2010 (Figure 8). Single-family homes represented 29 percent of renter-occupied units in 2000 and rose to 41 percent in 2010 (2010 ACS 1-year data), the same year foreclosure rates peaked. From 2010 to 2014, the share of single-family homes in the rental inventory grew to 43 percent, partly because of increased REO sales and absentee owner purchases.

The apartment market is tight because of a preference for multifamily housing by young professionals and retirees, who are attracted to the proximity of apartments to jobs, cultural activities, and services. The apartment vacancy rate for the Tucson HMA was 4.4 percent during the first quarter of 2016, down from 5.4 percent during the first quarter of 2015 and 8.5 percent in 2010 (Reis, Inc.). Among the seven Reis, Inc.-defined market areas that comprise the Tucson HMA, apartment vacancy rates in the first quarter of 2016 were lowest in South/Southwest Tucson and in the Pantano areas, near Davis-Monthan AFB, at 3.5 percent each, down, respectively, from 4.9 and 4.3 percent during the first quarter of 2015 and from 11.2 and 8.4 percent in 2010. During the same period, the highest vacancy rate in the HMA was 5.9 percent in the Central/University area, down from 6.9 percent during the previous 12-month period and up from 5.8 percent in 2010. Since 2011, construction of student-oriented apartments has increased in the Central/University area, resulting in a more balanced market.

The average apartment rent in the Tucson HMA was $725 during the first quarter of 2016, 2 percent higher than in the first quarter of 2015 (Reis, Inc.) and an average annual increase of 2 percent from $660 in 2010. Studio apartments in the HMA currently rent for an average of $504, with one-bedroom units at $640, two-bedroom units at $830, and three-bedroom units at $1,050. The average rent and the rate of rent growth were highest in the North/Northwest Tucson area, at $860, up nearly 4 percent compared with the average rent during the first quarter of 2015 because of luxury apartment construction in the area. The average rent in the North/Northwest Tucson area was $750 in 2010. The only area where rents remained unchanged during the first quarter of 2016 from the first quarter of the previous year was the Central/University area, at $720. Rents in the Central/University area were up by an average of 1 percent a year since 2010.

Multifamily construction activity, as measured by the number of units

Figure 8. Rental Vacancy Rates in the Tucson HMA, 2000 to Current



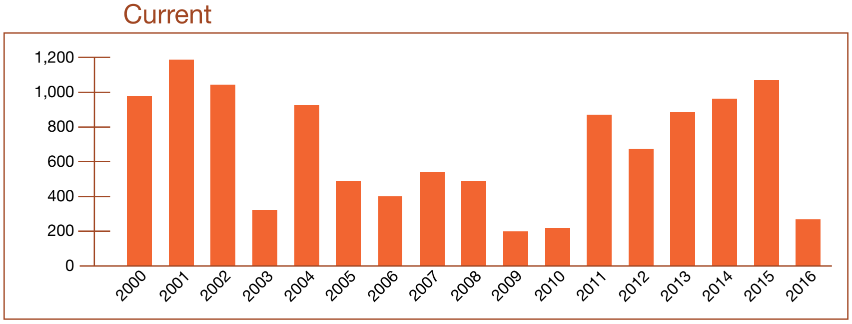
Note: The current date is April 1, 2016.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analysts

permitted, has nearly returned to the peak levels attained in the early 2000s, partly because of greater renter household growth. Since 2000, approximately 95 percent or more of multifamily construction has been apartments. From 2000 through 2002, multifamily permitting reached an average peak level of 1,050 units a year before slowing to 310 units in 2003 (Figure 9). The number of multifamily units permitted rose in 2004 to 920 units and then decreased to an average of 380 units annually from 2005 through 2010, including a low of 200 units in 2009. The decrease in multifamily permitting was partly the result of a greater number of single-family homes that were converted to rentals. From 2011 through 2014 the number of units permitted rose to an average of 840 units a year. During the 12 months ending March 2016, the number of multifamily units permitted rose 4 percent to 1,050 units compared with 1,000 units during the previous 12 months (preliminary data).

Recent apartment development in the HMA has been concentrated in luxury apartments in North/Northwest Tucson to satisfy the increased rental demand after the housing crisis. HSL Properties has led the growth in luxury apartment development, adding 794 units since 2012 with the opening of Encantada at Riverside Crossing, Encantada at Dove Mountain, and Encantada at Steam Pump. Rents currently start at $999 for one-bedroom units, $1,249 for two-bedroom units, and $1,499 for three-bedroom units. The 368-unit Encantada at Tucson National is under construction and is expected to be complete in the fall of 2016. Rents have yet to be released for the development, which will consist of one-, two-, and three-bedroom units. Since 2011, NexMetro Communities has built 7 Avilla Homes neighborhoods built exclusively for rental use. The neighborhoods consist of small, single-family, detached rental homes with rents starting at $900 for one-bedroom units, $1,095 for two-bedroom units, and $1,259 for three-bedroom units. Other luxury projects include rental developments intended for retirees. The $21 million Hacienda at the River, in Catalina Foothills, which broke ground in October 2015, will have 62 assisted-living units. Eight similar active-adult and assisted-living facilities, with 530 total units, have been completed in the HMA since 2011.

UA has a significant effect on the rental market in the area surrounding the campus in downtown Tucson. From 2011 through 2015, enrollment rose by an average of 960 students, or 2.4 percent, a year to 43,100 students, up from an average increase of 460 students a year from 2000 through 2010. UA has 6,610 dormitory beds and an estimated 36,500 students that live off campus, which represents approximately 12,150 student households, or 8 percent of total renter households in the HMA. Since 2011 approximately 30 percent of multifamily construction in the HMA has been student-oriented apartments, mainly near the Sun

Figure 9. Multifamily Units Permitted in the Tucson HMA, 2000 to Current



Notes: Excludes townhomes. Current includes data through March 2016.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analysts

Link streetcar line in anticipation of its opening in 2014. The $198.8 million Sun Link streetcar project runs nearly 4 miles, from the Banner University Medical Center, through the UA campus, to the downtown corridor. The new line is part of a surge of investment in the downtown Tucson core. The Hub on Campus Tucson 2, a six-story, 104-unit (311 beds) student housing development is expected to be complete in July 2016. It is adjacent to the Hub on Campus Tucson 1, which opened in 2014, with 164 units (594 beds). The streetcar line also has led to the construction of market-rate rental units, which are marketed to retirees and young professionals. One West Broadway, a $13.2 million, six-story, mixed-use building with 40 market-rate apartments, is under construction and is expected to be complete in mid-2017. The development is across the street from One East Broadway, a 24-unit sister development that opened in 2013 and is currently fully leased. Rents for One West Broadway are yet to be determined.

During the next 3 years, demand is expected for 2,050 new market-rate rental units (Table 1). Rental demand is expected to slow slightly by the end of the third year, as economic growth and net in-migration moderate. New units should be built to come on line during the third year of the forecast period to allow for the absorption of excess vacant units and the 1,025 units currently under construction. Demand is expected to be greatest for one-bedroom units with rents ranging from $880 to $1,079, two-bedroom units with rents ranging from $1,275 to $1,474, and three-bedroom units renting for $1,450 or more (Table 5).

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Tucson HMA During the Forecast Period

One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand
880 to 1,079	450	1,075 to 1,274	180	1,250 to 1,449	150
1,080 to 1,279	250	1,275 to 1,474	250	1,450 or more	360
1,280 or more	120	1,475 to 1,674	180		
		1,675 or more	110		
Total	820	Total	720	Total	510

Notes: Numbers may not add to totals because of rounding. Monthly rent does not include utilities or concessions. The 1,024 units currently under construction will likely satisfy some of the estimated demand. The forecast period is April 1, 2016, to April 1, 2019.

Source: Estimates by analysts

Data Profile

Table DP-1. Tucson HMA Data Profile, 2000 to Current

				Average Annual Change (%)	
	2000	2010	Current	2000 to 2010	2010 to Current
Total resident employment	394,635	434,106	441,700	1.0	0.3
Unemployment rate	3.7%	9.3%	5.3%		
Nonfarm payroll jobs	347,100	353,300	370,700	0.2	0.9
Total population	843,746	980,263	1,015,000	1.5	0.6
Total households	332,350	388,660	405,100	1.6	0.7
Owner households	213,603	248,970	245,400	1.5	– 0.2
Percent owner	64.3%	64.1%	60.6%		
Renter households	118,747	139,690	159,700	1.6	2.3
Percent renter	35.7%	35.9%	39.4%		
Total housing units	366,737	440,909	457,500	1.9	0.6
Owner vacancy rate	1.8%	2.9%	2.8%		
Rental vacancy rate	9.2%	11.3%	9.8%		
Median Family Income	$43,600	$57,500	$56,300	2.8	– 0.4

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 2000, 2010, and the 12 months through March 2016. Median Family Incomes are for 1999, 2009, and 2014. The current date is April 1, 2016.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analysts

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census
2010: 4/1/2010—U.S. Decennial Census
Current date: 4/1/2016—Analysts' estimates
Forecast period: 4/1/2016–4/1/2019—Analysts' estimates

The metropolitan statistical area definition in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated February 28, 2013.

Demand: The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.

Other Vacant Units: In the U.S. Department of Housing and Urban Development's (HUD's) analysis, other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as "other" vacant by the Census Bureau.

Building Permits: Building permits do not necessarily reflect all residential building activity that occurs in an HMA. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analysts, through diligent fieldwork, make an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.

For additional data pertaining to the housing market for this HMA, go to huduser.gov/publications/pdf/CMARtables_TucsonAZ_16.pdf.

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This analysis has been prepared for the assistance and guidance of HUD in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

For additional reports on other market areas, please go to huduser.gov/portal/ushmc/chma_archive.html.