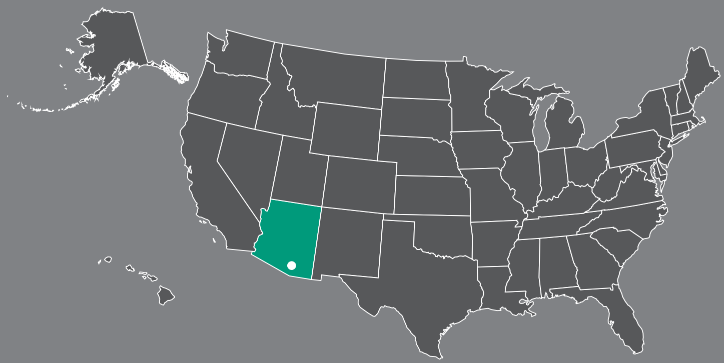
HUD PD&R Housing Market Profiles

Tucson, Arizona

Quick Facts About Tucson

- **Current sales market conditions: balanced**
- **Current apartment market conditions: slightly tight**
- **The dry, desert climate of the metropolitan area and the support services provided by Davis-Monthan Air Force Base (AFB) have attracted or retained a significant number of retired civilian and military personnel. Approximately 19,500 military retirees reside in the metropolitan area (Davis-Monthan Economic Impact Analysis, 2016).**



By Diana Villavicencio | As of April 1, 2020

Overview

The Tucson metropolitan area, along the United States-Mexico border in the Sonoran Desert of Arizona, is coterminous with Pima County. The metropolitan area 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 metropolitan area. Government sector jobs are a significant part of the economy in the Tucson metropolitan area because of the presence of the University of Arizona (UA) and the Davis-Monthan AFB, with 16,200 and 7,200 employees, respectively. The government sector has provided generally steady job growth since 2011, although the education and health services sector has led job gains during the period. Economic expansion and net in-migration have contributed to balanced sales housing conditions and slightly tight apartment market conditions in the metropolitan area.

- As of April 1, 2020, the estimated population of the Tucson metropolitan area was 1.05 million, representing an increase of 7,575, or 0.7 percent, since July 2019. During the period, net in-migration slowed to 6,875 people, partly due to slower job growth, whereas net

continued on page 2

continued from page 1

natural increase (resident births minus resident deaths) averaged 700 people.

- From 2016 to 2019, the population grew by an annual average of 10,200, or 1.0 percent, because strong job growth contributed to average net in-migration of 9,150 people a year and net natural increase averaged 1,050 people annually. From 2011 to 2016—a period that included only modest job growth—net in-migration averaged only 2,875 people annually, although net natural increase was relatively high at an average of 2,800 people a year, resulting in an average population gain of 5,675 people, 0.6 percent, annually.
- Net natural increase has slowed partly because of an average annual 4-percent increase in retirement-age residents, or those age 65 years and older, from 2011 to 2018 (2011 and 2018 American Community Survey [ACS] 1-year estimates). Access to healthcare services attracted retirees from outside the metropolitan area and incentivized current residents to retire in place during the period.

Economic Conditions

Following the 2008 through 2010 economic downturn in the Tucson metropolitan area, nonfarm payroll growth averaged 0.8 percent annually from 2011 through 2015 before accelerating to average growth of 1.4 percent a year from 2016 through 2018. During the first quarter of 2020, nonfarm payrolls grew 0.9 percent, or by 3,400 jobs, to 393,500—down from a 2.3-percent, or 8,600-job gain during the first quarter of 2019, when the number of jobs surpassed the prerecession high for a first quarter, 386,000 jobs, which occurred in 2007. Nonfarm payrolls in Arizona and the nation grew by 2.5 and 1.3 percent, respectively, during the first quarter of 2020.

During the first quarter of 2020—

- The education and health services sector, the second largest payroll sector in the metropolitan area, grew by 2,200 jobs, or 3.3 percent, to 69,700 jobs, compared with a 2.7-percent growth rate a year ago. Carondelet Marana Hospital, which includes a 14-bed emergency department, two operation rooms, and eight inpatient rooms, contributed to gains in the sector when it opened in the northern portion of the metropolitan area in February 2020.
- The transportation and utilities sector increased by 700 jobs, or 5.1 percent, the fastest job growth rate in the metropolitan area.
- Decreases in four nonfarm payroll sectors, which lost a combined 2,800 jobs, partially offset job growth in most sectors in the metropolitan area. Job losses were highest in the leisure and hospitality sector, which declined by 1,200 jobs, or 2.6 percent, compared with a 0.5-percent gain during the previous year and the only first-quarter job losses in the sector since 2011.
- The unemployment rate in the Tucson metropolitan area remained at 4.6 percent, unchanged from the same period a year earlier. The current unemployment rate is above the 4.1-percent rate for the nation.

continued on page 3

Six sectors in the Tucson metropolitan area added jobs during the first quarter of 2020.

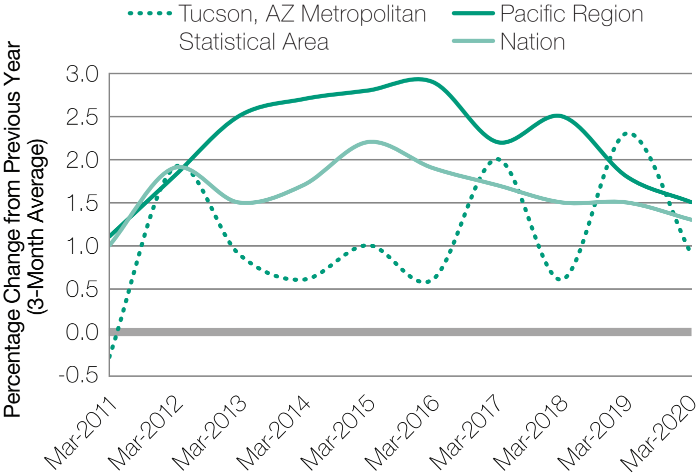
	3 Months Ending		Year-Over-Year Change	
	March 2019 (Thousands)	March 2020 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	390.1	393.5	3.4	0.9
Goods-Producing Sectors	46.9	47.3	0.4	0.9
Mining, Logging, & Construction	19.4	19.9	0.5	2.6
Manufacturing	27.5	27.5	0.0	0.0
Service-Providing Sectors	343.2	346.2	3.0	0.9
Wholesale & Retail Trade	49.2	48.4	-0.8	-1.6
Transportation & Utilities	13.6	14.3	0.7	5.1
Information	5.7	5.5	-0.2	-3.5
Financial Activities	17.0	17.4	0.4	2.4
Professional & Business Services	51.0	50.4	-0.6	-1.2
Education & Health Services	67.5	69.7	2.2	3.3
Leisure & Hospitality	45.4	44.2	-1.2	-2.6
Other Services	13.7	13.8	0.1	0.7
Government	80.1	82.4	2.3	2.9
Unemployment Rate	4.6%	4.6%		

Note: Numbers may not add to totals due to rounding.
Source: U.S. Bureau of Labor Statistics

continued from page 2

The government sector is the largest nonfarm payroll sector in the Tucson metropolitan area, with 82,400 jobs and accounting for 21 percent of total nonfarm payrolls during the first quarter of 2020—notably higher than the 15-percent proportion of nonfarm payrolls in the nation. From 2011 through 2019, the sector added an average of 100 jobs, or 0.2 percent, annually, and expanded by 2,300 jobs, or 2.9 percent, during the first quarter of 2020. During the most recent quarter, approximately 33 and 16 percent of the jobs in the sector were in the state and federal government subsectors, respectively. UA, which is the largest employer in the metropolitan area, had an economic impact of $4.1 billion during fiscal year 2017 (Elliot D. Pollack & Company and The Maguire Company). Davis-Monthan AFB, the third largest employer in the metropolitan area, had an economic impact of $2.6 billion on the metropolitan area in 2017 (Southern Arizona Defense Alliance). The presence of the AFB also supports the aerospace industry through contracts with Raytheon Missiles & Defense, the second largest employer in the metropolitan area and one of the largest manufacturers of unmanned aircraft in the nation. In March 2020, Raytheon Missiles & Defense was awarded a $2.1 billion military contract to continue production of SM-3 Block IB ballistic missile interceptors, which began in 2017, through 2027.

During the first quarter of 2020, the rate of job growth in the Tucson metropolitan area was below the respective rates for the Pacific region and the nation.



Note: Nonfarm payroll job growth.
Source: U.S. Bureau of Labor Statistics

Largest Employers in the Tucson Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
University of Arizona	Government	16,200
Raytheon Missiles & Defense	Manufacturing	11,300
Davis-Monthan Air Force Base	Government	7,200

Note: Excludes local school districts. The number of employees at Davis-Monthan AFB includes military employment of active-duty troops. The military counts do not include civilian staff or independent contractors.
Source: Pima County 2019 Comprehensive Annual Financial Report

Sales Market Conditions

The home sales market in the Tucson metropolitan area is currently balanced, with an estimated vacancy rate of 2.0 percent as of April 1, 2020, down from 2.9 percent during April 2010, when conditions were very soft. Market conditions have improved since the local housing market downturn due to the absorption of excess vacant inventory created during the foreclosure crisis. As of March 2020, the metropolitan area had a 2.5-month supply of available for-sale inventory, down from 3.2 months a year ago and well below the 9.8-month supply in March 2008 (CoreLogic, Inc.). By comparison, the nation had a 2.5-month supply of for-sale inventory as of March 2020, down from both the 3.1-month supply in March 2019 and the March high of 9.7 months in 2008. The percentage of seriously delinquent home loans (90 or more days delinquent or in foreclosure) and real estate owned (REO) properties in the metropolitan area peaked at 7.7 percent during February 2010, compared with a peak of 8.6 percent for the nation during February of 2010 (CoreLogic, Inc.). As of February 2020, the rate in the metropolitan area was 0.7 percent—down from 1.0 percent a year earlier and below the 1.3 percent rate for the nation.

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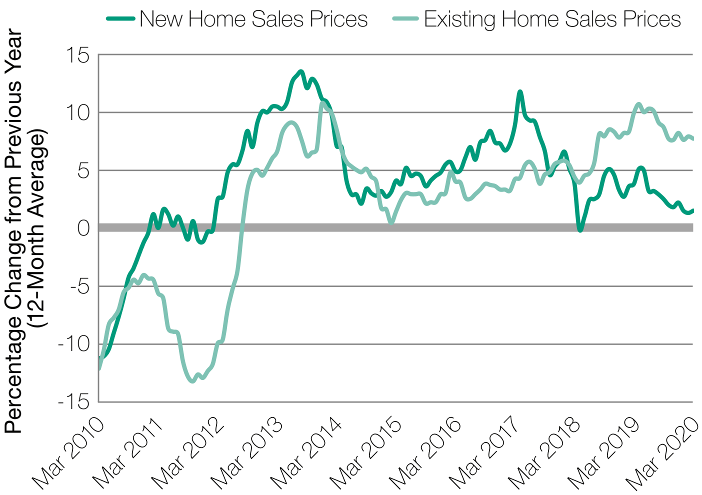
Both new and existing home sales prices have generally increased in the Tucson metropolitan area since 2012.



Note: Includes single-family homes, townhomes, and condominiums.
Source: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

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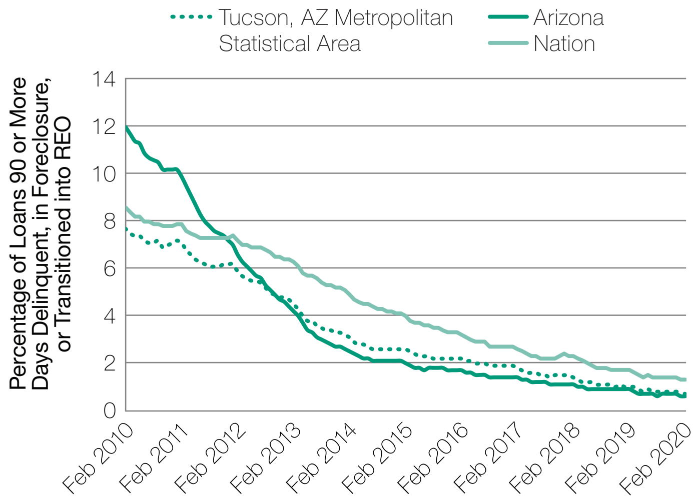
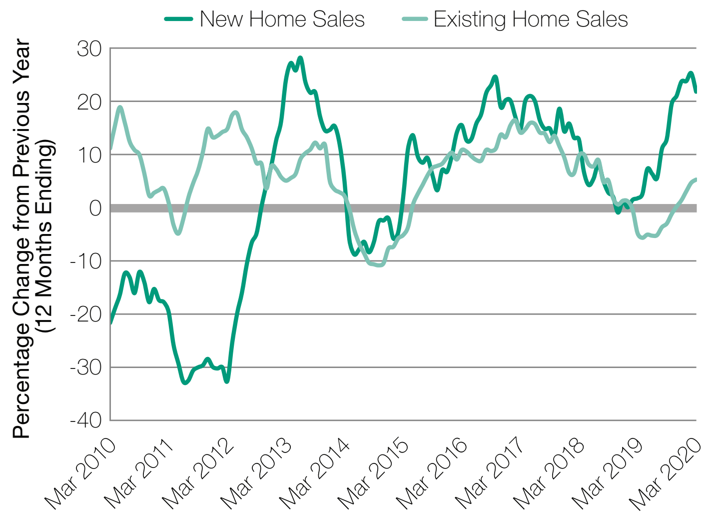
The proportion of seriously delinquent loans and REO properties in the Tucson metropolitan area has been below the nationwide rate since February 2011.



REO = real estate owned.
Source: CoreLogic, Inc.

During the 12 months ending March 2020, both new and existing home sales increased in the Tucson metropolitan area.



Note: Includes single-family homes, townhomes, and condominiums.
Source: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

During the 12 months ending March 2020—

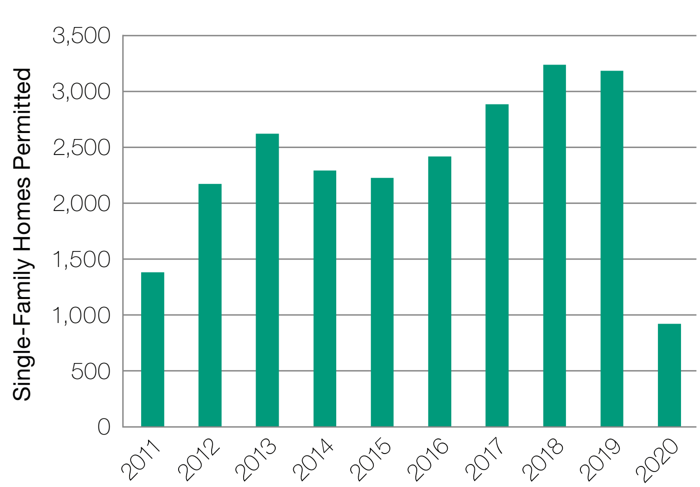
- Approximately 19,750 existing homes sold in the metropolitan area—up by 1,000 homes, or 5 percent, from the same period a year earlier and up 71 percent from a low of 11,550 homes sold in 2009, around the time of the local housing market downturn (Metrostudy, A Hanley Wood Company, with adjustments by the analyst). The rise in existing home sales since 2010 is attributed to an average increase of 1,150 regular resale homes sold, or 10 percent, annually; REO home sales have declined an average of 350, or 15 percent, a year.
- The existing home sales price averaged $254,500, an 8-percent increase from the average existing home sales price a year earlier and approximately 57 percent higher than the average during 2011, when an elevated proportion of relatively lower priced REO sales resulted in a recent low of $161,700.
- New home sales totaled approximately 2,925, up by 530 homes, or 22 percent from the previous 12-month period. Growth in new home sales accelerated from an average increase of 9 percent annually from 2012 through 2018, due in part to a significant increase in new home construction.
- New home sales activity remained concentrated in relatively expensive parts of the metropolitan area, although the rate of growth in the average new home sales price slowed. The average sales price of a new home increased 2 percent to $333,900, slower than the 4-percent increase during the 12 months ending March 2019 and well below the average annual growth rate of 7 percent from 2012 through 2018.

Job growth, net in-migration, and declining levels of available inventory contributed to increased home construction activity, as measured by the number of single-family homes permitted, in the metropolitan area since the mid-2010s.

- During the 12 months ending March 2020, the number of single-family homes permitted totaled 3,475—up 10 percent from the 3,150 homes permitted during the same period a year earlier (preliminary data). By comparison, from 2012

continued on page 5

Single-family permitting activity in the Tucson metropolitan area has generally trended upward since the mid-2010s.



Note: Includes preliminary data from January 2020 through March 2020.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

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through 2018, the number of single-family homes permitted averaged 2,550 homes a year, after a low of 1,400 homes was permitted during 2011.

- Approximately 60 percent of single-family home permitting in the metropolitan area during the 12 months ending March 2020 occurred in the unincorporated portion of the metropolitan area and the town of Marana. In unincorporated Green Valley, where approximately 79 percent of the population is 65 years or older (2018 ACS 5-year data), developers are building a significant amount of age-restricted housing. Quail Creek is a subdivision designed for occupancy by residents age 55 years and older, with over 2,000 homes completed and 4,000 expected at buildout; prices start at $333,000 for two-bedroom homes.
- In the town of Marana, the 18-subdivision Dove Mountain community is halfway built, with 10,000 single-family homes expected at completion. Within the community, a combined 266 of an expected 428 homes have been sold in the Mattamy Homes at Golden Barrel Place and Blue Agave I and II subdivisions, with prices ranging from $285,000 to $417,000 for 1,604 to 3,032 square-foot homes.

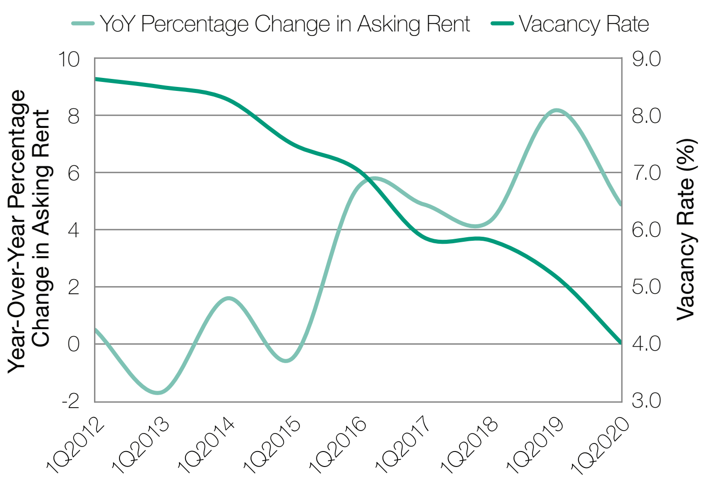
Apartment Market Conditions

Apartment market conditions in the Tucson metropolitan area are currently slightly tight, having generally tightened during and since the local for-sale housing crisis, as stricter mortgage lending standards have limited development activity. Multifamily construction has increased significantly since 2017, although vacancy rates have remained relatively low due to strong rental household growth.

During the first quarter of 2020—

- The apartment vacancy rate in the metropolitan area was 4.0 percent, down from 5.2 percent during the first quarter of 2019 and below the 4.4-percent rate for the nation (RealPage, Inc.). The average apartment rent increased 5 percent to $834 in the metropolitan area, while the average rent nationally increased 4 percent to $1,436.
- In the Southeast Tucson market area, where military personnel from Davis-Monthan AFB generally reside, the vacancy rate was low, at 3.8 percent, down from 5.6 a year ago. The average rent in the market area increased 7 percent to $804.
- The vacancy rate in the Central Tucson/University market area, which overlaps with downtown Tucson, declined 1.0 percentage point to 4.2 percent. The average rent in the Central Tucson/University market area was the lowest of the seven RealPage, Inc.-defined market areas that comprise the metropolitan area at $717, reflecting a 4-percent increase from the previous year.
- The highest rents in the metropolitan area, $1,067 and $912, respectively, were in the Casas Adobes/Oro Valley and Catalina Foothills market areas, which are located to the north of the Central Tucson/University market area. The apartment vacancy rate was 4.6 percent in the Casas Adobes/Oro Valley market area and 3.7 percent in the Catalina Foothills market area.

The apartment vacancy rate has generally declined in the Tucson metropolitan area despite a surge in apartment construction since 2017.



1Q = first quarter. YoY = year-over-year.
Source: RealPage, Inc.

Multifamily construction, as measured by the number of multifamily units permitted, has generally been at high levels since 2017. Recent multifamily construction has occurred throughout much of the metropolitan area, but it has been particularly notable near stops for the $198.8 million Sun Link streetcar system, which was completed in 2014 as part of a downtown revitalization initiative in the city of Tucson.

- During the 12 months ending March 2020, approximately 1,000 multifamily units were permitted in the metropolitan area, down 20 percent from the 1,250 units permitted during the same period one year earlier (preliminary data). Nearly all multifamily units permitted during the most recent 12 months were in the city of Tucson.

continued on page 6

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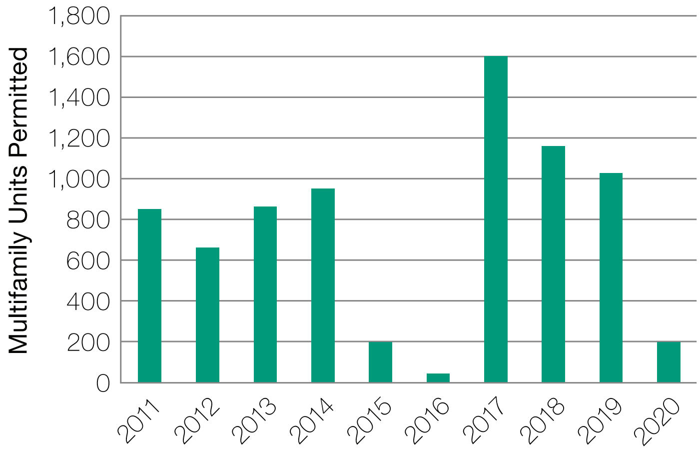
- From 2011 through 2014, when economic conditions improved, an average of 840 multifamily units were permitted annually. Multifamily permitting subsequently declined to an average of only 120 units a year during 2015 and 2016 before increasing to an average of 1,375 units a year from 2017 through 2018.
- Currently under construction is the 244-unit The Flin apartments in downtown Tucson, one of the largest properties underway. When complete in January 2021, the property will feature studio, one-, two-, and three-bedroom units.
- West of downtown Tucson, in the Mercado District, the 122-unit market-rate Monier apartment property, with ground-floor retail and office space, is currently under construction and is expected to be completed in August 2020. The property, which is insured by the Federal Housing Administration, will feature studio, one-, and two-bedroom units with rents starting at $980, $1,375, and $1,590, respectively.
- The growing retirement-age population has also affected the rental market, and 14 percent of the rental units under construction are age-restricted. In northern Tucson, La Sonora at Dove Mountain will feature 118 assisted-living and independent units when it opens in July 2020. Approximately 10 miles west, in the town of Oro Valley, 167 assisted-living units are also underway at the All Seasons Oro Valley.

Multifamily permitting activity in the Tucson metropolitan area has been at high levels since 2017.



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Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst