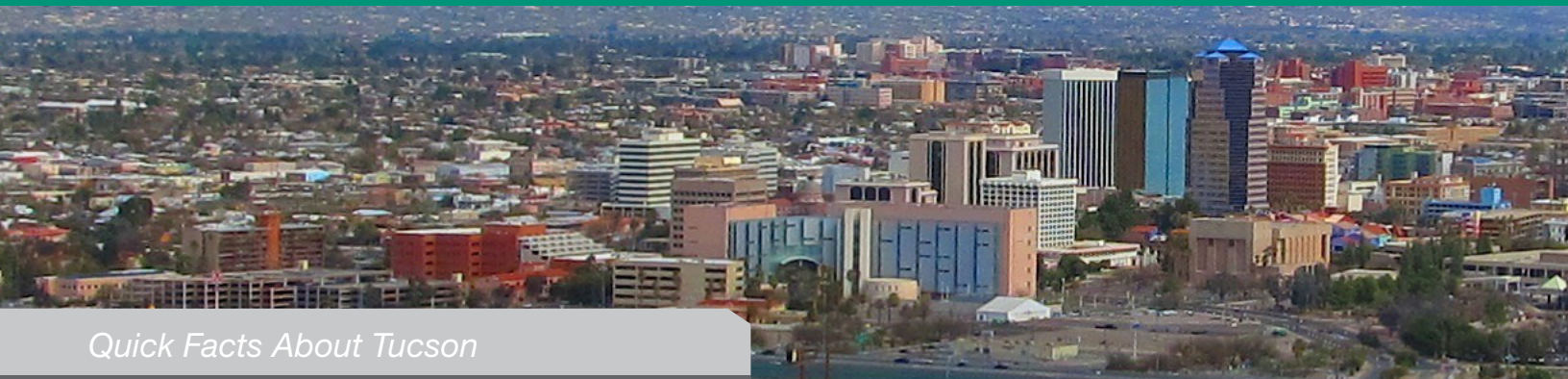


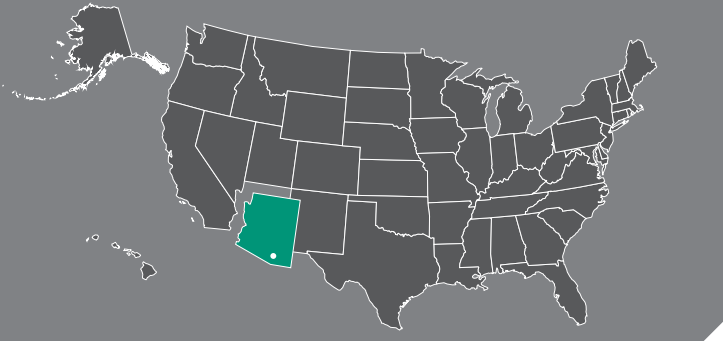
HUD PD&R Housing Market Profiles

Tucson, Arizona



Quick Facts About Tucson

- Current sales market conditions: soft.
- Current rental market conditions: soft.
- The government sector is an important component of the local economy because of the presence of the Davis-Monthan Air Force Base (AFB) and the University of Arizona (UA). The base is the third largest employer, with an economic impact on the metropolitan area of \$1.1 billion in 2014 (*Davis-Monthan AFB Economic Impact Analysis FY14*). In 2011, UA had an economic impact of \$3.6 billion on the metropolitan area (*University Analytics and Institutional Research*).



By Diana Villavicencio | As of January 1, 2016

Overview

The Tucson metropolitan area, which consists of Pima County, is in south-central Arizona, bordering Mexico. Located where the Rocky Mountains and the Sonoran Desert meet, the metropolitan area has a temperate climate that makes it a popular retirement destination; nearly 19,000 military retirees reside in the metropolitan area. Raytheon Missile Systems (hereafter, Raytheon), which manufactures unmanned aircraft, is headquartered in the city of Tucson and is one of several defense contractors that have a significant presence in the metropolitan area. About one-half of the 9,600 people employed at Raytheon are engineers (*Inside Tucson Business*, 2015). Federal job growth occurred during the fourth quarter of 2015, but, as a result of federal budget cuts, defense and related contract jobs have decreased since 2010, causing population growth to slow as less in-migration occurs.

- As of January 1, 2016, the estimated population of the Tucson metropolitan area is 1.01 million, an average annual increase of 5,725, or 0.6 percent, since April 2010. Despite improving economic conditions, population growth remains below previous rates, in part because net in-migration has decreased by 2,600 people a year since 2010.
- Population growth averaged 16,400 people, or 1.8 percent, a year from 2003 to 2008, because strong job growth resulted in average net in-migration of 10,150 people a year.
- Population growth slowed from 2008 to 2010 to an average of 7,100 people, or 0.7 percent, a year when job losses contributed to a lower level of net in-migration, averaging 3,275 people a year.



Nonfarm payrolls increased in 9 of 11 sectors in the Tucson area during the fourth quarter of 2015, led by the professional and business services sector.

	3 Months Ending		Year-Over-Year Change	
	December 2014 (thousands)	December 2015 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	370.8	379.5	8.7	2.3
Goods-producing sectors	39.8	40.1	0.3	0.8
Mining, logging, and construction	17.3	17.1	-0.2	-1.2
Manufacturing	22.6	23.0	0.4	1.8
Service-providing sectors	331.0	339.5	8.5	2.6
Wholesale and retail trade	52.3	52.4	0.1	0.2
Transportation and utilities	10.2	10.4	0.2	2.0
Information	4.1	4.2	0.1	2.4
Financial activities	17.6	18.2	0.6	3.4
Professional and business services	50.3	53.2	2.9	5.8
Education and health services	62.9	64.7	1.8	2.9
Leisure and hospitality	41.8	42.7	0.9	2.2
Other services	12.9	12.8	-0.1	-0.8
Government	78.9	80.9	2.0	2.5
	(percent)	(percent)		
Unemployment rate	5.9	5.3		

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

Economic Conditions

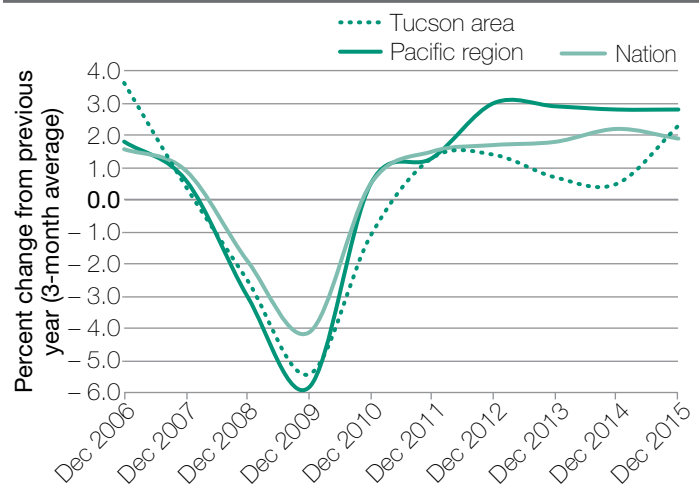
Economic conditions in the Tucson metropolitan area have improved steadily after 3 years of job losses during the late 2000s. Since the fourth quarter of 2010, the metropolitan area has added an average of 5,000 jobs, a 1.4-percent increase, a year; however, total nonfarm payrolls are below the prerecession high of 390,700 jobs in the fourth quarter of 2007.

During the fourth quarter of 2015—

- Nonfarm payrolls averaged 379,500 jobs, an increase of 8,700 jobs, or 2.3 percent, compared with the number of jobs during the fourth quarter of 2014, resulting from growth in 9 of 11 sectors. The rate of job growth in the metropolitan area was above the rate of 1.9 percent for the nation but below the rates for Arizona and the Pacific region of 2.5 and 2.8 percent, respectively.
- The professional and business services and the government sectors added the most jobs, up by 2,900 and 2,000 jobs, or 5.8 and 2.5 percent, respectively. Growth in the professional and business services sector is due in part to the 1,125 people hired at the 100,000-square-foot Comcast Corporation call center in the fall of 2015. Growth in the local government subsector, up by 1,400 jobs, or 1.4 percent, led the gain in the government sector. The entire increase was attributed to gains in the local government education

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Job growth in the Tucson area outpaced growth in the nation at the end of 2015 but continued to lag growth in the Pacific region.



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

Largest employers in the Tucson area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
University of Arizona	Government	11,250
Raytheon Missile Systems	Manufacturing	9,600
Davis-Monthan Air Force Base	Government	8,525

Note: Excludes local school districts.
Source: Pima County FY 2015/16 adopted budget



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services industry. The federal and state government subsectors increased by 200 jobs each, or 1.6 and 0.7 percent, respectively.

- The unemployment rate declined to 5.3 percent, down from 5.9 percent during the fourth quarter of 2014 and well below 9.8 percent during the fourth quarter of 2009. The current rate for the metropolitan area is lower than the 5.8-percent rate for Arizona but higher than the 4.8-percent rate for the nation.

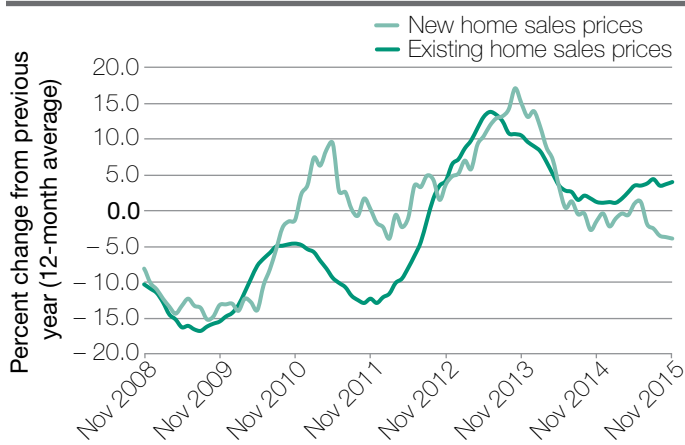
As a result of the aerospace and defense industry presence in the economy of the metropolitan area, World View Enterprises, Inc.,

a private spaceflight company that is headquartered in the city of Tucson, is expected to open a manufacturing facility and spacecraft bay in the Tucson metropolitan area. World View plans to hire more than 400 new employees when the 135,000-square-foot campus is complete at the end of 2016. It will be the first launchpad in the state for commercial space flights. The campus will be on 28 acres in Pima County’s Aerospace, Defense and Technology Research and Business Park. The project will benefit the community with a capital investment of \$47.3 million and a total economic impact of \$3.5 billion through 2036 (Sun Corridor Inc.).

Sales Market Conditions

The sales housing market in the Tucson metropolitan area is currently soft, with an estimated vacancy rate of 2.8 percent, down slightly from 2.9 percent in 2010. During the 12 months ending November 2015, new home sales (including single-family homes, townhomes, and condominiums) increased, while the average sales price for new homes decreased. The number of existing homes sold has remained relatively stable since 2011, even as real estate owned (REO) sales declined. The percentage of home loans in the Tucson metropolitan area that were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into REO status declined from a high of 7.4 percent in January 2010 to 2.5 percent in December 2015 (Black Knight Financial Services, Inc.). The current rate is higher than the 2.0-percent rate for Arizona but lower than the 4.1-percent rate for the nation.

Existing home sales prices have increased while new home sales prices have decreased in the Tucson area since mid-2014.



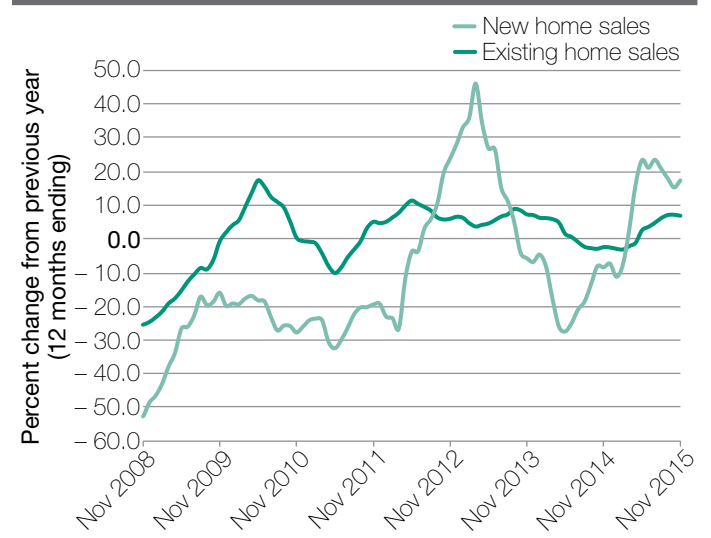
Note: Includes single-family homes, townhomes, and condominiums. Source: CoreLogic, Inc., with adjustments by the analyst

During the 12 months ending November 2015—

- A total of 1,325 new homes sold, up 17 percent from the 1,125 homes sold during the 12 months ending November 2014 (CoreLogic, Inc., with adjustments by the analyst).
- Existing home sales totaled 17,250, up 7 percent from the 16,150 homes sold during the 12-month period ending November 2014.
- The average sales price for new homes was \$242,000, a 4-percent decline from the average price during the previous 12 months.
- The average sales price for existing homes was \$197,000, an increase of 4 percent compared with the average price during the 12 months ending November 2014.

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Existing home sales in the Tucson area remained stable, while new home sales have increased since early 2015.



Note: Includes single-family homes, townhomes, and condominiums. Source: CoreLogic, Inc., with adjustments by the analyst

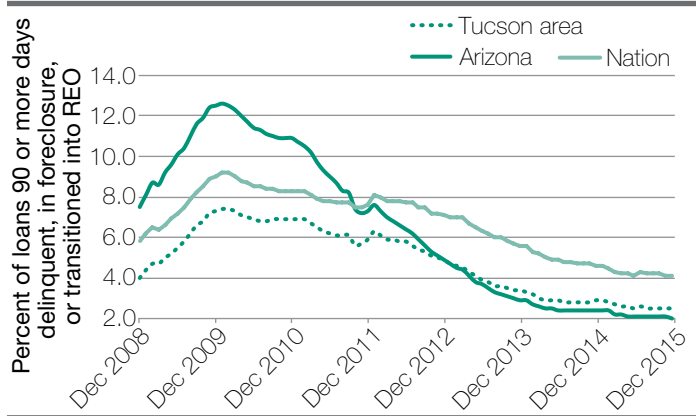


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Single-family home construction activity, as measured by the number of single-family homes permitted, has increased since 2012 but remains below prerecessionary levels.

- The number of single-family homes permitted increased to 2,475 during 2015, up 6 percent from the 2,325 homes permitted during 2014 (preliminary data).
- An average of 2,400 homes were permitted annually from 2012 through 2013, up from an average of 1,950 homes a year from 2008 through 2011 but well below the average of 6,425 from 2006 through 2007.

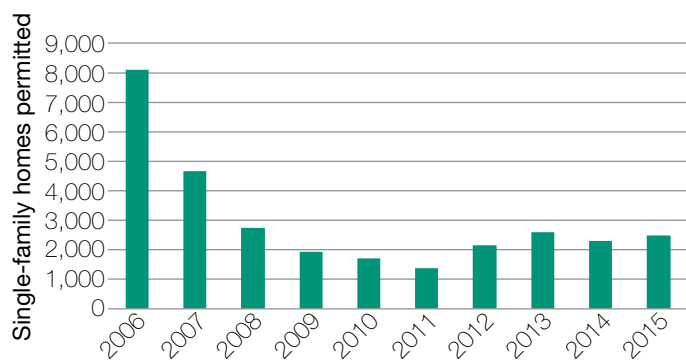
The rate of seriously delinquent mortgages and REO properties has been slightly higher in the Tucson area than in Arizona since 2013.



REO = real estate owned.
Source: Black Knight Financial Services, Inc.

- Since 2012, 82 percent of single-family home construction has occurred on the eastern side of the metropolitan area, in the cities of Marana and Tucson and in the unincorporated areas. Saguario Bloom, a 2,400-home subdivision in the city of Marana, was planned in 2006 but put on hold because of the economic downturn. In 2013, construction of the first 250 units started. New homes are currently available with prices starting at \$200,000 for a 1,500-square-foot, three-bedroom home and at \$400,000 for a 3,100-square-foot, four-bedroom home.

Single-family home permitting in the Tucson area remained well below prerecessionary levels.



Note: Includes preliminary data from January 2015 through November 2015.
Source: U.S. Census Bureau, Building Permits Survey

Rental Market Conditions

Rental housing market conditions in the Tucson metropolitan area are currently soft but improving. The proportion of renter households increased from 35.9 percent in 2010 to the current 38.2 percent. Elevated levels of multifamily permitting since 2011, however, will likely limit further declines in the vacancy rate in the near term.

- The estimated vacancy rate for all rental units (including renter-occupied single-family homes, manufactured homes, and apartment units) was 9.8 percent as of December 1, 2015, down from 11.3 percent in 2010.
- The apartment market, which represents approximately 40 percent of all rental units in the metropolitan area, is also soft, with a vacancy rate of 7.5 percent in the fourth quarter of 2015 compared with 8.2 percent in the fourth quarter of 2014. The vacancy rate is down from 9.3 percent in the fourth quarter of 2010 but slightly up from 7.4 percent in the third quarter of 2015 (MPF Research).

- The average monthly apartment asking rent was \$700 in the fourth quarter of 2015, a nearly 4-percent increase from the fourth quarter of 2014, which was up more than 2 percent from the fourth quarter of 2013.

Multifamily construction activity, as measured by the number of units permitted, has increased at a greater rate since 2011.

- During 2015, multifamily construction, as measured by the number of units permitted, totaled 1,050 units compared with the 950 units permitted during 2014 (preliminary data).
- Multifamily permitting averaged 840 units a year from 2011 through 2014, the second highest level of units permitted since the late 1990s. The surge was partly in response to an average annual increase of 790 students at the University of Arizona (UA) from 2011 through 2014 (UA 2014–15 Fact Book) and an increased proportion of renter households. UA students currently comprise 3 percent of total renter households.

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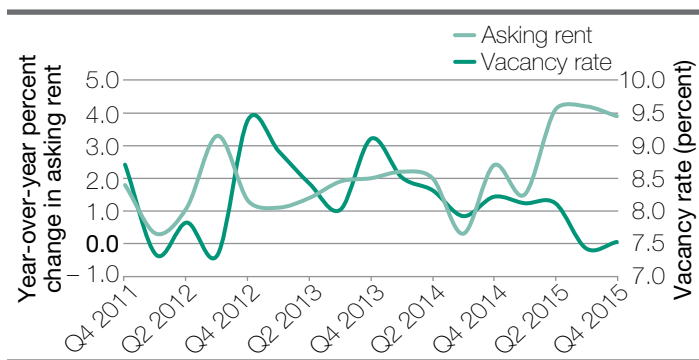


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- Multifamily permitting averaged 470 units annually from 2006 through 2008 before declining to an average of 200 units each year from 2009 through 2010, in response to an inventory surplus caused by slowed net in-migration and an increase of 8,550 single-family homes entering the rental market (2009 and 2010 American Community Survey 1-year data). Single-family homes made up approximately 27 percent of all renter-occupied housing from 2006 through 2008 and approximately 31 percent from 2009 through 2010.
- All the apartment units permitted in the metropolitan area during the past year were in the city of Tucson. Construction on the

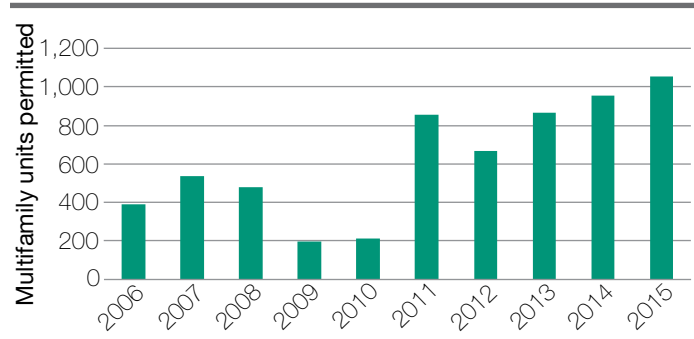
40-unit One West Broadway, in downtown Tucson, is expected to be complete mid-2017. The project, a mixed-use property with retail and parking, is the sister building to One East Broadway, which opened in 2014. Rents at One East Broadway for one- and two-bedroom units range from \$750 to \$1,550. Hub on Campus Tucson 2, near UA, is a six-story, 104-unit property with 311 beds. The project is being marketed toward students and is currently under construction, with completion expected in the summer of 2016. Unit rents will start at \$1,000, \$1,250, and \$2,000 for market-rate studio, one-bedroom, and two-bedroom units, respectively. Three-, four-, and five-bedroom unit rents will start at \$2,300, \$2,675, and \$3,200, respectively.

Despite increased multifamily production in the Tucson area during the past 4 years, the apartment vacancy rate declined and the average asking rent continued to rise.



Source: MPF Research

Multifamily building activity in the Tucson area has increased to record levels since 2011 as builders responded to improving apartment market conditions.



Note: Includes preliminary data from January 2015 through November 2015. Source: U.S. Census Bureau, Building Permits Survey

