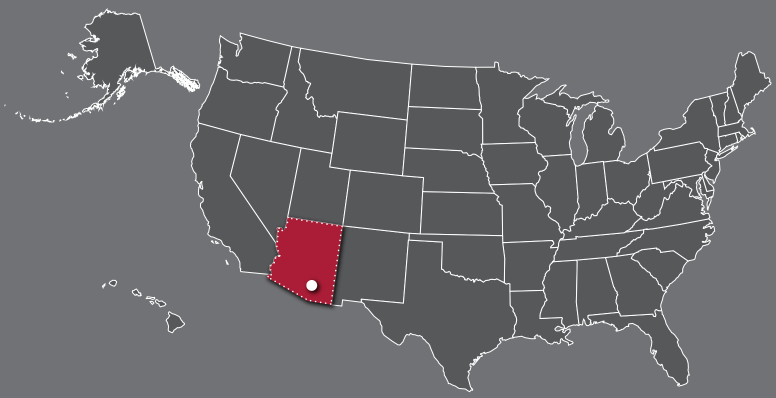
HUD PD&R **Housing Market Profiles**

Tucson, Arizona

Quick Facts About Tucson

- **Current sales market conditions: balanced**
- **Current rental market conditions: slightly soft**
- **The University of Arizona, the oldest university in Arizona, was founded in the city of Tucson in 1885, 27 years before Arizona attained statehood.**



By Alexander Flowers | As of October 1, 2024

Overview

The Tucson Metropolitan Statistical Area (hereafter, Tucson metropolitan area) lies along the United States-Mexico border, directly south of the Phoenix-Mesa-Chandler (hereafter, Phoenix) metropolitan area and west of the Sierra Vista-Douglas metropolitan area. The Tucson metropolitan area is coterminous with Pima County and contains the municipalities of Tucson, Sahuarita, Marana, and Oro Valley. The metropolitan area is also home to the Tohono O'odham Nation and the Pascua Yaqui Reservation. The University of Arizona (UA) attracts many students from the surrounding areas to the city of Tucson and has an enrollment of 56,550 students as of the fall of 2024. Major employers in the area include UA, Raytheon Missiles & Defense (part of RTX Corporation), and Davis-Monthan Air Force Base, employing approximately 10,850, 9,600, and 8,575 people, respectively.

- As of October 1, 2024, the metropolitan area population is estimated at 1.07 million, an average increase of 6,600, or 0.6 percent, annually since 2022. Average net in-migration of 7,025 people annually accounted for all of the population growth but was partly offset by net natural decline averaging

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425 people annually (U.S. Census Bureau population estimates as of July 1). By comparison, the population grew by 6,250, or 0.6 percent, annually from 2020 to 2022, a period that included the COVID-19 pandemic, when net natural decline averaged 2,850 people annually but net in-migration averaged 9,100 people annually (2020 decennial census count as of April 1).

- From 2016 to 2020, population growth in the Tucson metropolitan area averaged 8,450 people annually, with net in-migration averaging 7,550 people annually and accounting for 89 percent of total population growth. Net in-migration during the period was notably strong from the neighboring Sierra Vista-Douglas metropolitan area, southern California, and the Phoenix metropolitan area, which accounted for 8, 21, and 22 percent of total domestic net in-migration, respectively.
- As of 2023 (the most recent data available), residents aged 65 and older accounted for 22 percent of the total population in the HMA, up from 16 percent in 2010, because increasing numbers of retirees moved to the metropolitan area, drawn by the warm climate and housing affordability. The median age in the metropolitan area reached 40.1 in 2023, up from 37.8 in 2010 and above the national median of 39.2 (American Community Survey [ACS] 1-year data).

Economic Conditions

Economic conditions in the Tucson metropolitan area are currently stable, with job growth continuing during the past year despite moderating. Nonfarm payrolls averaged 399,700 jobs during the third quarter of 2024, an increase of 2,000, or 0.5 percent, from a year earlier, when nonfarm payrolls increased by 6,700 jobs, or 1.7 percent. The unemployment rate in the metropolitan area averaged 4.0 percent during the third quarter of 2024, down from 4.2 percent a year earlier and below the national unemployment rate of 4.3 percent. The unemployment rate in the metropolitan area has trended sharply downward after reaching a recent peak of 11.3 percent as of the second quarter of 2020, which was below the peak national rate of 12.9 percent.

As of the third quarter of 2024—

- The education and health services sector led job growth in the metropolitan area, increasing by 3,300, or 4.7 percent, from a year earlier to 73,300 jobs after increasing by 3,000 jobs, or 4.5 percent, a year earlier. Expansions at hospitals and nursing facilities in the metropolitan area have contributed to the sector growth.
- Four of the 11 nonfarm payroll sectors lost jobs. The government sector led losses, declining by 2,100 jobs, or 2.8 percent, from a year earlier, when it increased by 1,200 jobs, or 1.7 percent. A significant portion of the decline was

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Six of the 11 nonfarm payroll sectors contributed to year-over-year job growth in the Tucson metropolitan area as of the third quarter of 2024.

	3 Months Ending		Year-Over-Year Change	
	September 2023 (Thousands)	September 2024 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	397.7	399.7	2.0	0.5
Goods-Producing Sectors	51.6	52.8	1.2	2.3
Mining, Logging, & Construction	22.9	23.7	0.8	3.5
Manufacturing	28.7	29.1	0.4	1.4
Service-Providing Sectors	346.1	346.9	0.8	0.2
Wholesale & Retail Trade	50.9	51.5	0.6	1.2
Transportation & Utilities	19.2	19.0	-0.2	-1.0
Information	5.4	5.4	0.0	0.0
Financial Activities	18.2	19.0	0.8	4.4
Professional & Business Services	48.8	47.6	-1.2	-2.5
Education & Health Services	70.0	73.3	3.3	4.7
Leisure & Hospitality	43.7	43.1	-0.6	-1.4
Other Services	14.5	14.9	0.4	2.8
Government	75.2	73.1	-2.1	-2.8
Unemployment Rate	4.2%	4.0%		

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

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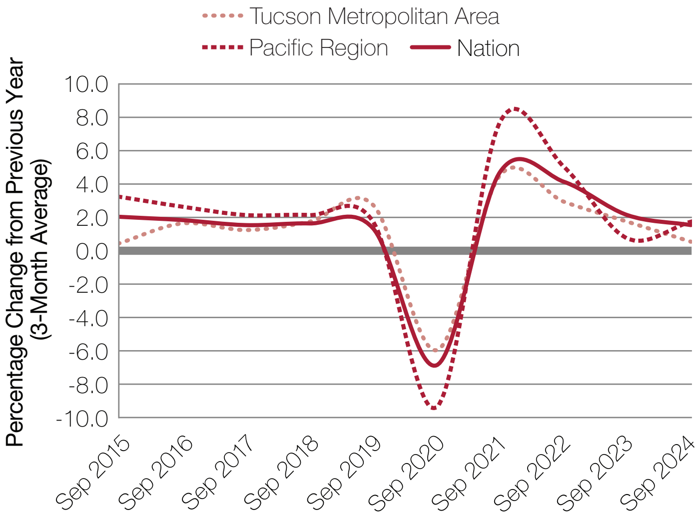
in the state government subsector because budgetary constraints prompted UA to implement a hiring and compensation freeze for the first half of 2024, resulting in a 6-percent decline in the number of employees.

- The mining, logging, and construction sector increased by 800 jobs, or 3.5 percent, to 23,700 jobs, following an increase of 1,200 jobs, or 5.4 percent, a year earlier. Job increases in the construction subsector associated with an expansion of Interstate 10, which began in 2023, have bolstered continued growth in the sector.
- Resident employment in the metropolitan area reached 479,200, an increase of 3,200, or 0.7 percent, from a year earlier, when resident employment increased by 9,800, or 2.1 percent. Resident employment in the metropolitan area exceeds nonfarm payrolls by 20 percent, partly because of significant commuting by residents to nearby metropolitan areas, particularly Phoenix. Approximately 20 percent of the workers living in the Tucson metropolitan area, where average home prices are approximately 27 percent lower, commute to jobs in the Phoenix metropolitan area (U.S. Census Bureau, OnTheMap 2022).

As increased numbers of retirees have moved to the metropolitan area, it has become a medical hub, providing health services to southern Arizona. The education and health services sector surpassed the government sector as the largest nonfarm payroll sector in the third quarter of 2024, representing 18 percent of total nonfarm payrolls. The recent growth is partly due to hiring at new or expanded nursing facilities and hospitals, such as the Northwest Medical Center Houghton, a 52-bed hospital that opened in east Tucson in 2022, and the Tucson Medical Center Rincon, which completed its final 60-bed construction phase in early 2024. Several rehabilitation hospitals are anticipated to open in the metropolitan area, including the Banner Rehabilitation Hospital Tucson, a 44-bed facility under construction in south Tucson, and the Tucson Rehabilitation Hospital, a 58-room inpatient hospital underway in central Tucson. In addition, El Rio Health has begun remodeling work at a defunct cardiovascular hospital that will offer primary care upon completion in early 2026.

Job growth in the Tucson metropolitan area has been consistently below national trends following the recovery from the COVID-19 pandemic.



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	10,850
Raytheon Missiles & Defense	Manufacturing	9,600
Davis-Monthan Air Force Base	Government	8,575

Note: Excludes local school districts and armed forces members.
Sources: City of Tucson Annual Comprehensive Financial Report; Maricopa Association of Governments

Sales Market Conditions

Sales market conditions in the Tucson metropolitan area are currently balanced, with an estimated 2.0-percent vacancy rate, up from 1.7 percent in April 2020, when conditions were slightly tight. During the early stages of the pandemic, strong net in-migration and historically low mortgage interest rates contributed to slightly tight sales market conditions. The supply of homes available for sale reached a low of only 1.4 months in March 2022. However, the available supply has since trended upward, partly because of moderating net in-migration and elevated mortgage interest rates. In September 2024, the supply of homes for sale increased to 3.2 months, up from 2.5 months in September 2023 (CoreLogic, Inc.). High mortgage interest rates have discouraged some prospective sellers from putting their homes on the market if a subsequent purchase would require financing at a higher rate, which has limited growth in the for-sale inventory. The current supply is below the prepandemic level of 3.4 months in September 2017. New and existing home sales fell to 18,075 in the 12 months ending September 2024, down by 980, or 5 percent, from a year earlier, when home sales fell by 8,575, or 31 percent. The average home sales price was $398,300, up by $16,775, or 4 percent, from the 12 months ending September 2023. The percentage of home loans that were seriously delinquent or that had transitioned into real estate owned status rose to a recent

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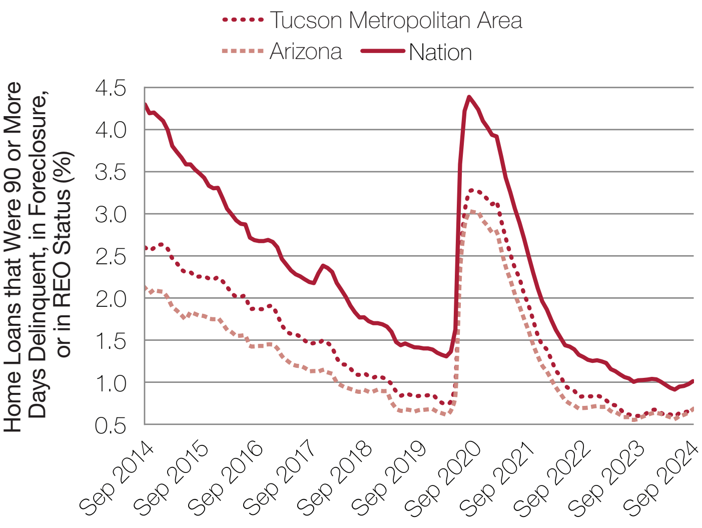
peak of 3.3 percent in September 2020, during the pandemic. The rate has since trended sharply downward to 0.7 percent as of September 2024 and is below the national rate of 1.0 percent but it is the same as the 0.7-percent state rate.

During the 12 months ending September 2024—

- New home sales in the metropolitan area totaled 3,000, up by 150 homes sold, or 6 percent, from a year ago (CoreLogic, Inc., with adjustments by the analyst). By comparison, new home sales declined by 280 homes sold, or 9 percent, a year earlier.
- Existing home sales in the metropolitan area declined by 1,125, or 7 percent, from a year earlier to 15,100 homes sold, a deceleration from the 12 months ending September 2023, when existing home sales declined by 8,300 homes sold, or 34 percent.
- The average price of a new home was $443,700, a decline of $28,800, or 6 percent, from a year earlier. In comparison, the average price of a new home increased by $36,200, or 8 percent, in the 12 months ending September 2023.
- The average price of an existing home has continued to increase, partly because the for-sale supply is limited despite the decline in existing home sales. The average price of an existing home was $389,400, an increase of $23,650, or 7 percent, from a year earlier, when the average price increased by $9,000, or 3 percent.

The percentage of home loans 90 or more days delinquent, in foreclosure, or recently transitioned to REO status in the Tucson metropolitan area has matched the Arizona rate since late 2023 after being above it during the previous 9 years.



REO = real estate owned.
Source: CoreLogic, Inc., with adjustments by the analyst

Construction of sales units in the metropolitan area, as measured by the number of single-family homes, townhomes, and condominiums permitted, reached a recent peak of 5,150 in 2021, the highest level since the Great Recession. Construction activity subsequently declined by an average of 21 percent annually to 3,175 homes permitted in 2023 as builders responded to easing sales market demand.

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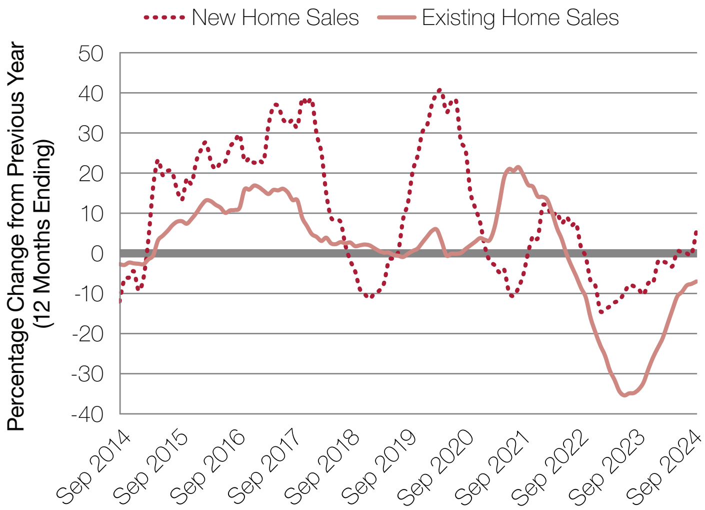
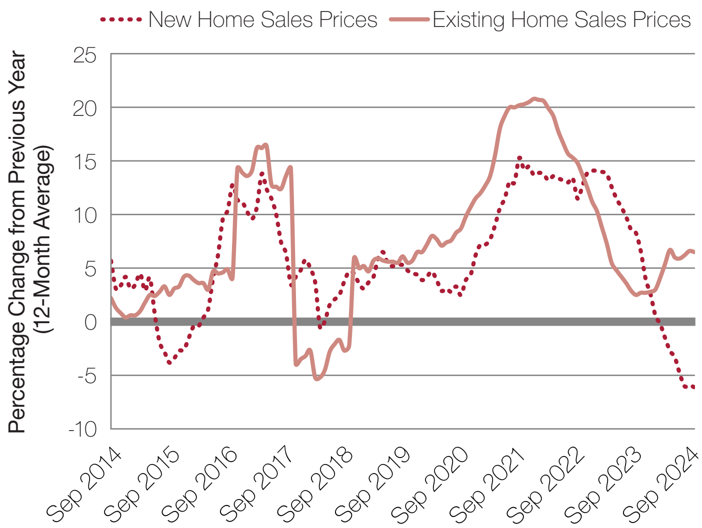
Both new and existing home sales in the Tucson metropolitan area have moderated since late 2022 primarily because of elevated mortgage interest rates.



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

Easing sales market conditions have contributed to declining prices for new homes and moderating price growth for existing homes in the Tucson metropolitan area.



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

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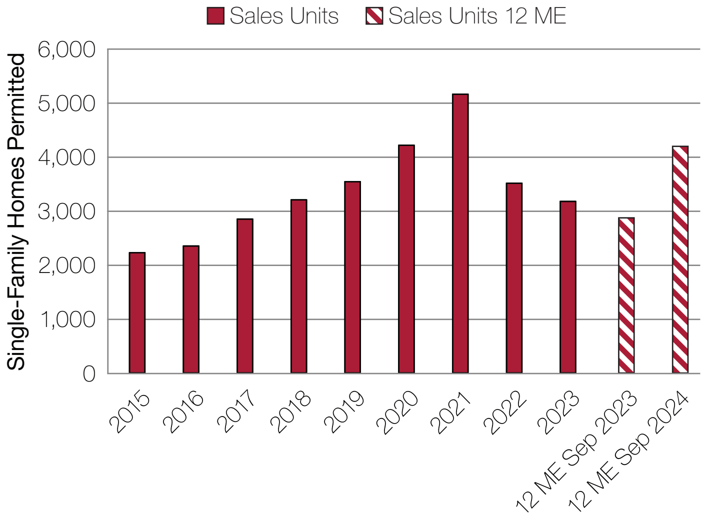
- The number of sales units permitted in the metropolitan area during the 12 months ending September 2024 increased by 1,325, or 46 percent, to 4,200 homes from a year earlier (preliminary data, with adjustments by the analyst).
- Approximately 26 percent of sales permitting in the metropolitan area since 2020 has occurred in the town of Marana, northwest of Tucson along Interstate 10, which connects Tucson with Phoenix. The Gladden Farms master-planned community is currently being developed by several national builders, including Richmond American Homes, Lennar, Meritage Homes, and KB Home. The 900 three-, four-, five-, and six-bedroom homes under construction in the community range from 1,262 to 2,920 square feet, with prices starting at $306,000.
- Significant single-family home construction activity is also happening in the town of Sahuarita, south of Tucson, where Richmond American Homes, Lennar, Meritage Homes, KB Home, and Centex are building 530 homes in the Entrada Del Pueblo subdivision of the Rancho Sahuarita master-planned community. The three-, four-, and five-bedroom homes range from 1,225 to 3,000 square feet and are priced between $298,000 and $432,000.

Sales permitting in the Tucson metropolitan area increased each year to a peak in 2021 but subsequently declined in 2022 and 2023 as sales market conditions eased.



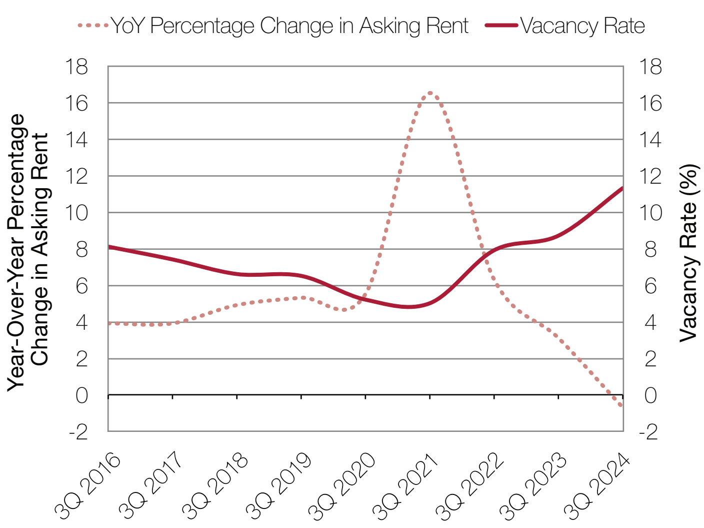
12 ME = 12 months ending.
Sources: U.S. Census Bureau, Building Permits Survey; 2015–23—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

Rental Market Conditions

Rental market conditions in the Tucson metropolitan area are currently slightly soft. Elevated levels of net in-migration resulted in a slightly tight apartment market during 2021 and 2022, but increased multifamily completions and slowing net in-migration have since contributed to softening conditions. Approximately 49 percent of renter households in the metropolitan area live in multifamily buildings with five or more units, such as apartments, and 35 percent live in single-family attached or detached units (2023 ACS 1-year estimates).

- The estimated vacancy rate for all rental units was 9.2 percent as of October 2024, up from 7.7 percent in April 2020.
- The overall apartment market is currently slightly soft because several large apartment properties have been completed during the past 2 years and slowing net in-migration has limited absorption. The average apartment vacancy rate increased to 11.3 percent as of the third quarter of 2024, up from 8.7 percent a year earlier, and the average rent was $1,176, down 1 percent from a year earlier, when rents increased by $36, or 3 percent (CoStar Group).
- The average apartment vacancy rate within a 2-mile radius of UA was 11.1 percent as of the third quarter of 2024, up from 8.0 percent a year earlier. However, the average rent for apartments in the area increased by $41, or 3 percent, to $1,276 as of the third quarter of 2024.

Following a surge in rent in 2021, rent growth in the Tucson metropolitan area fell sharply as apartment vacancy rates rose from 2022 to 2024.



3Q = third quarter. YoY = year-over-year.
Source: CoStar Group

- Absorption of apartments in the metropolitan area during the 12 months ending September 2024 was negative 20 units, a reversal from positive absorption of 280 units a year earlier, partly because of a large number of new properties in lease-up.

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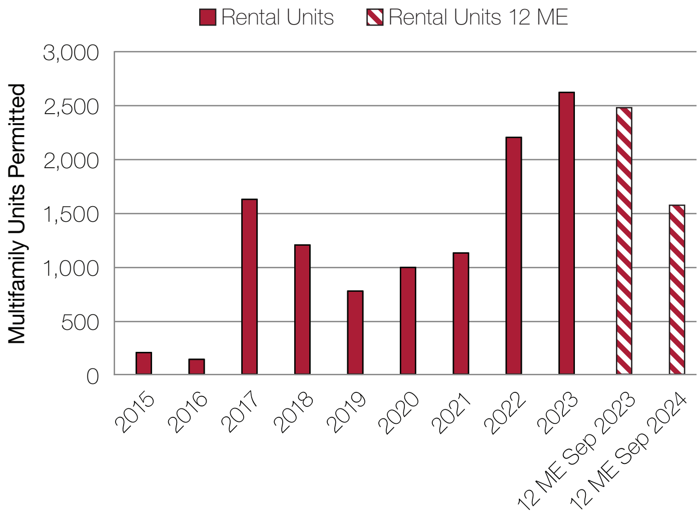
Rental construction activity in the metropolitan area, as measured by the number of units permitted, has declined sharply in response to softening apartment market conditions. The number of rental units permitted in the area reached a peak in 2023, when 2,625 units were permitted.

- During the 12 months ending September 2024, rental permitting in the metropolitan area declined by 910 units, or 37 percent, to 1,575 units compared with the previous year (preliminary data, with adjustments by the analyst).
- Rental permitting increased by an average of 460 units, or 36 percent, annually from 2020 through 2023 as builders responded to slightly tight apartment market conditions. The delivery of those units has contributed to the recent softening of the rental market.
- Multifamily permitting in the city of Tucson has accounted for 56 percent of multifamily permitting activity in the metropolitan area since 2020, notably down from 87 percent from 2010 through 2020. This decline is partly due to a rising share of multifamily permitting in Marana, which increased from 6 percent of total multifamily permitting from 2010 through 2020 to 33 percent since 2020.
- Recent apartment development in the metropolitan area includes revitalization in the Mercado District near downtown Tucson, which is supported by tax abatement incentives. Development activity includes The Bautista, a 256-unit, mixed-use apartment community that is under construction and anticipated to be complete in early 2025.

Rental permitting in the Tucson metropolitan area increased strongly in 2022 and 2023.



12 ME = 12 months ending.
Sources: U.S. Census Bureau, Building Permits Survey; 2015–23—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

- Some master-planned communities in the metropolitan area include single-family built-to-rent subdivisions, which offer renter households access to community amenities. One of these subdivisions is the Moderne at Rocking K in the Vail community southeast of Tucson, which was completed in 2023 and includes 224 one-, two-, and three-bedroom homes ranging from 640 to 1,225 square feet at rents ranging from $1,483 to $2,158.

Terminology Definitions and Notes

A. Definitions

Absorption	The net change, positive or negative, in the number of occupied units in a given geographic range.
Apartment Vacancy Rate/Average Monthly Rent	Data are for market-rate and mixed market-rate and affordable general occupancy apartment properties with five or more units, including those that are stabilized and in lease up.
Building Permits	Building permits do not necessarily reflect all residential building activity. 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 analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.
Existing Home Sales	Includes resales, short sales, and REO sales.
Home Sales/Home Sales Prices	Includes single-family home, townhome, and condominium sales.
Net Natural Decline	Resident deaths are greater than resident births.
Rental Market/Rental Vacancy Rate	Includes apartments and other rental units such as single-family, multifamily, and mobile homes.
Resales	These are home closings that have no ties to either new home closings (builders) or foreclosures. They are homes that were previously constructed and sold to an unaffiliated third party.
Seriously Delinquent Mortgages	Mortgages 90 or more days delinquent or in foreclosure.

B. Notes on Geography

1.	The metropolitan statistical area definitions noted in this report are based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated April 10, 2018.
2.	The HUD Pacific region includes Arizona, California, Hawaii, Nevada, American Samoa, Guam, and the Northern Mariana Islands.