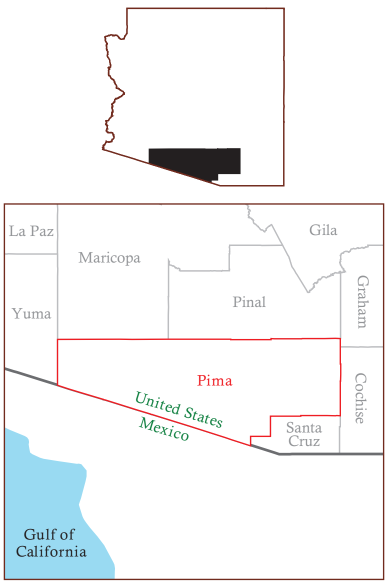
Tucson, Arizona

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of April 1, 2012

Housing Market Area



The Tucson Housing Market Area (HMA) consists of Pima County, which borders Mexico in south-central Arizona. Tucson is the second largest metropolitan area in the state, with a current estimated population of 994,700. The HMA, which is home to Davis-Monthan Air Force Base (AFB) and the University of Arizona (UA), is a popular vacation and retirement destination.

Market Details

Summary

Economy

Economic conditions in the Tucson HMA improved during the past year after 3 years of job losses. Nonfarm payrolls averaged 355,000 jobs during the 12 months ending March 2012, an increase of 1,100 jobs, or 0.3 percent, compared with a decrease of 4,550 jobs, or 1.3 percent, during the 12 months ending March 2011. During the next 3 years, nonfarm payrolls in the HMA are expected to increase by 1,575 jobs, or 0.4 percent, annually, with approximately 75 percent of the growth concentrated in the leisure and hospitality and the education and health services sectors.

Sales Market

Sales housing market conditions in the HMA are soft, with a current estimated vacancy rate of 2.7 percent. During the 12 months ending March 2012, the average sales price decreased 11 percent, to $167,700. Demand is expected for approximately 5,200 new homes in the HMA during the 3-year forecast period (Table 1). A portion of the estimated 26,650 other vacant units in the HMA may reenter the sales housing market, however, and will likely meet some of the forecast demand.

Rental Market

The rental housing market is currently soft, with an estimated vacancy rate of 9.9 percent. Average rents increased nearly 2 percent during the past year to $655 a month. The approximately 580 apartment units currently under construction are expected to enter the market during the forecast period. The current supply of excess vacant available units will meet all of the demand during the 3-year forecast period (Table 1). No additional new units should be constructed.

Table 1. Housing Demand in the Tucson HMA, 3-Year Forecast, April 1, 2012 to April 1, 2015

	Tucson HMA	
	Sales Units	Rental Units
Total Demand	5,200	0
Under Construction	220	580

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, 2012. A portion of the estimated 26,650 other vacant units in the HMA will likely satisfy some of the forecast demand. Includes an estimated demand for 500 mobile homes.
Source: Estimates by analyst

Economic Conditions

Economic conditions in the Tucson HMA improved during the past year. After a period of job losses from 2008 through 2010, when nonfarm payroll decreases averaged 13,700 jobs, or 3.6 percent, annually, nonfarm payrolls increased by 1,100 jobs, or 0.3 percent, during the 12 months ending March 2012 to an average of 355,000 jobs. By comparison, nonfarm payrolls increased by an average of 5,500 jobs, or 1.5 percent, annually from 2000 through 2007. The education and health services and the professional and business services sectors led the employment gains during that period with average annual increases of 1,800 and 1,300 jobs, or 4.3 and 3.0 percent, respectively. The leisure and hospitality sector and the construction subsector led job growth during the 12 months ending March 2012 with gains of 1,800 and 800 jobs, or 4.6 and 4.8 percent, respectively. The recent construction sector gains were largely the result of increased apartment construction during the past year. Partly offsetting the gains, government sector payrolls decreased by 1,350 jobs, or 1.7 percent, to an average of 76,700 jobs (Table 2), primarily because of local government subsector job losses. The wholesale and retail trade and the manufacturing sectors decreased by 600 and 450 jobs, or 1.3 and 1.9 percent, respectively. The unemployment rate averaged 8.2 percent during the 12 months ending March 2012, down from 9.3 percent during the previous 12 months, as labor force declines outpaced the decrease in resident employment. Figure 1 shows labor force, resident employment, and unemployment rates from 2000 through 2011.

Military employees and defense contractors are a major economic presence in the HMA, accounting for more than 10 percent of total nonfarm payrolls annually since 2000. Raytheon Missile Systems, the largest employer in the HMA and the fifth largest employer in Arizona, employs approximately 10,500 people in the HMA (Table 3). Raytheon Missile Systems is one of the nation's largest producers of unmanned aircraft and was recently awarded a federal missile contract. Davis-Monthan AFB employs 7,100 active-duty military and 3,000 civilian personnel and is the third largest employer in the HMA. According to an economic impact analysis it conducted, Davis-Monthan AFB

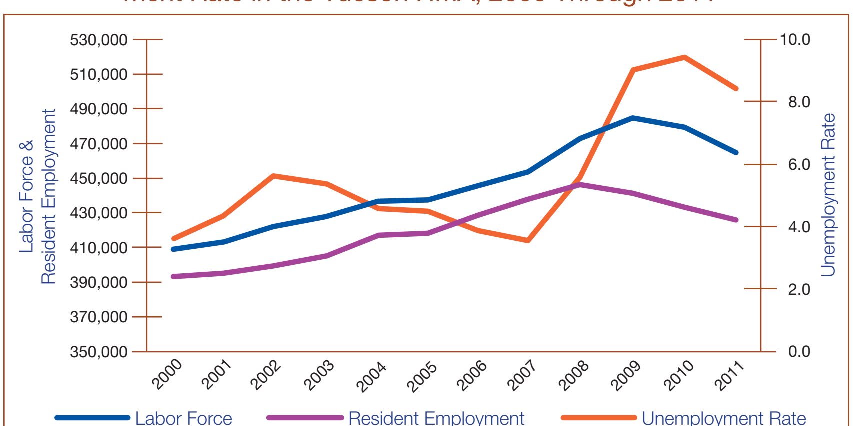
Table 2. 12-Month Average Nonfarm Payroll Jobs in the Tucson HMA, by Sector

	12 Months Ending March 2011	12 Months Ending March 2012	Percent Change
Total Nonfarm Payroll Jobs	353,900	355,000	0.3
Goods Producing	40,650	41,050	0.9
Mining, Logging, & Construction	16,850	17,650	4.8
Manufacturing	23,850	23,400	– 1.9
Service Providing	313,200	313,900	0.2
Wholesale & Retail Trade	47,650	47,050	– 1.3
Transportation & Utilities	8,950	9,275	3.5
Information	4,300	4,100	– 4.7
Financial Activities	17,550	17,350	– 1.1
Professional & Business Services	45,650	45,950	0.6
Education & Health Services	58,450	59,200	1.3
Leisure & Hospitality	38,250	40,050	4.6
Other Services	14,350	14,300	– 0.3
Government	78,050	76,700	– 1.7

Notes: Based on 12-month averages through March 2011 and March 2012. Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics

Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Tucson HMA, 2000 Through 2011



Source: U.S. Bureau of Labor Statistics contributed more than $1 billion to the HMA economy during 2010, including construction expenditures of $110 million. The economic impact of the military was $1.5 billion when military retirees residing in the HMA were included. During 2010, Davis-Monthan AFB spent $482 million on base salaries, and nearly 13,000 military retirees of all branches in the HMA received $476 million in pension benefits.

UA is the second largest employer in the HMA, with approximately 10,475 employees. According to the UA Office of Economic and Policy Analysis, the university had an economic impact of $2.1 billion on the HMA in 2010, including $784 million in total payroll expenditures. State government subsector payrolls, which include UA staff, remained relatively stable during the recent recession, averaging 23,400 jobs annually from 2006 through 2011. This level was 3.7 percent less than the 24,300-job average from 2000 through 2005. Figure 2 shows the current share of total nonfarm payroll jobs in the HMA by sector, and Figure 3 illustrates growth by sector in the HMA from 2000 to the current date.

Tourism had an estimated $2 billion annual economic impact on the HMA

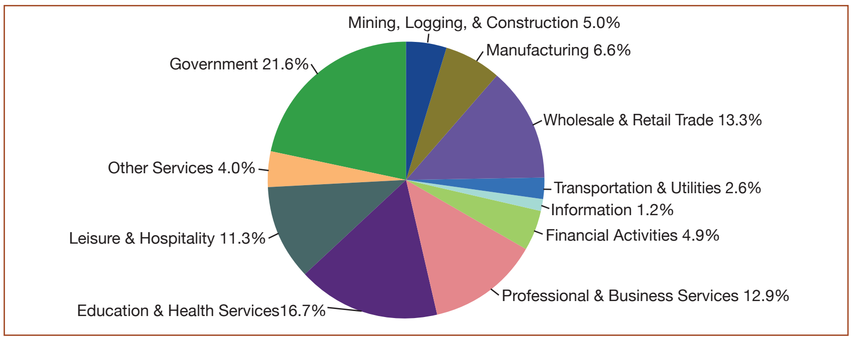
Table 3. Major Employers in the Tucson HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Raytheon Missile Systems	Manufacturing	10,500
University of Arizona (UA)	Government	10,475
Davis-Monthan Air Force Base	Government	10,100
Wal-Mart Stores, Inc.	Wholesale & Retail Trade	7,300
UA Health Network	Education & Health Services	6,000
Freeport-McMoRan Copper & Gold Inc.	Mining, Logging, & Construction	4,800
Carondelet Health Network	Education & Health Services	4,700
Desert Diamond Casino	Leisure & Hospitality	4,400
U.S. Border Patrol	Government	4,400
Smith's Food and Drug Centers, Inc.	Wholesale & Retail Trade	3,100

Note: Excludes local school districts.

Sources: economy.com; local sources; estimates by analyst

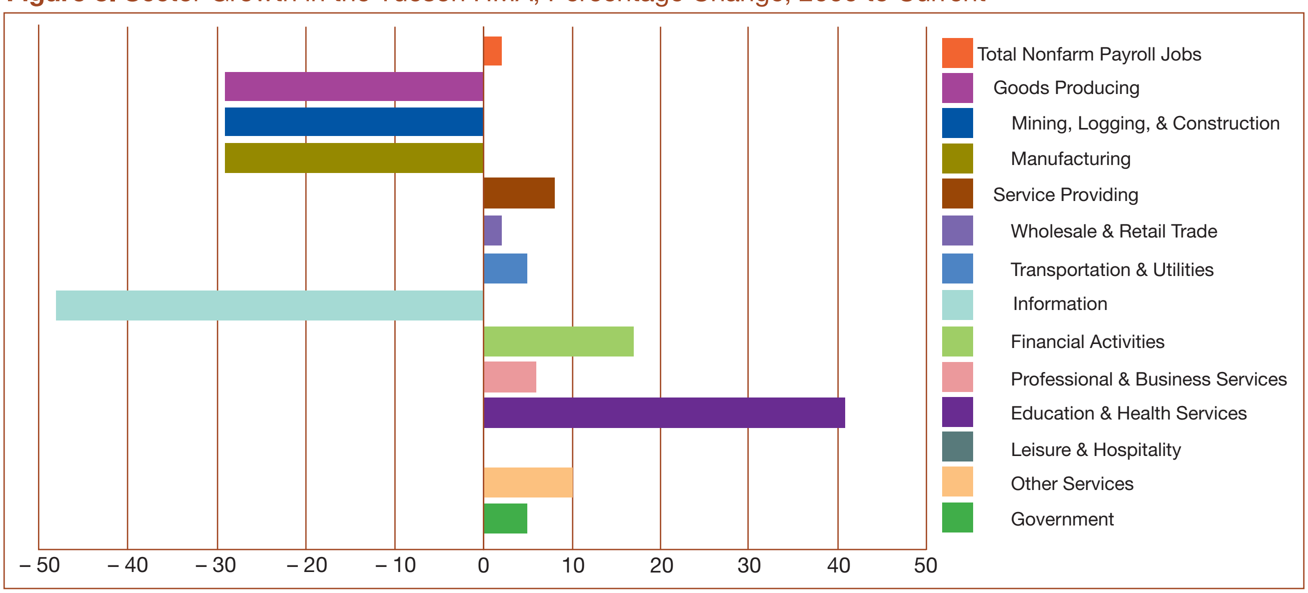
Figure 2. Current Nonfarm Payroll Jobs in the Tucson HMA, by Sector



Note: Based on 12-month averages through March 2012.

Source: U.S. Bureau of Labor Statistics

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



Notes: Current is based on 12-month averages through March 2012. During this period, jobs in the leisure and hospitality sector showed no net change.

Source: U.S. Bureau of Labor Statistics during 2010, according to the Arizona Office of Tourism. The number of domestic visitors to the HMA increased slightly, from approximately 6.7 million in 2009 to 6.8 million in 2010. Tourism-related employment is distributed across many sectors, including the leisure and hospitality sector and the retail trade and construction subsectors, and totals 21,500 direct jobs. According to a 2008 UA study, the HMA had nearly 13 million visitors from Mexico in 2008, more than 90 percent of whom visited for leisure. Total expenditures by visitors from Mexico to the HMA increased from $289 million in 2001 to $976 million in 2008 and created an estimated 9,425 direct jobs during 2008.

The education and health services sector, the second largest employment sector in the HMA, increased by an average of 1,600 jobs, or 3.9 percent, annually from 2000 through 2010. Because the HMA is a popular retirement destination, much of the growth in this sector was concentrated in the ambulatory healthcare and the nursing and residential care facilities industries, which increased by averages of 900 and 200 jobs, or 7.5 and 2.8 percent, a year, respectively, during this period. FastMed Urgent Care, the second largest urgent care provider in Arizona, added 40 new healthcare jobs in the HMA during the first quarter of 2012 with the opening of four new medical facilities in the city of Tucson.

During the next 3 years, nonfarm payrolls in the HMA are expected to increase by an average of 1,575 jobs, or 0.4 percent, annually. The leisure and hospitality and the education and health services sectors are expected to contribute 65 percent of the additional nonfarm payrolls. Job growth is expected to be strongest in the second and third years of the forecast period.

Population and Households

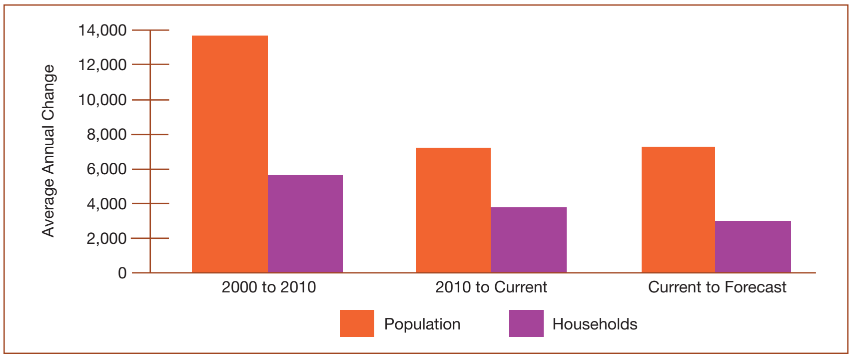
The current population of the Tucson HMA is estimated to be 994,700. Because of a decrease in employment, since 2007, population growth has slowed to 0.9 percent annually compared with 1.8 percent annually from 2000 through 2006. From 2000 to 2010, more than 60 percent of population growth was due to net in-migration, which averaged approximately 8,450 people a year, whereas net natural change (resident births minus resident deaths) averaged 5,200 people a year. Net in-migration averaged approximately 10,500 people a year from 2000 through 2006, but it decreased to an average of 7,700 people a year from 2007 through 2008 and decreased again to an average of 2,550 people a year from 2009 through 2011. Weaker housing markets in other parts of the nation have made it difficult for some retirees to sell their homes. As a result, since 2007, the migration of retirees to the HMA has declined. Table DP-1 at the end of this report contains information on population and household growth for the HMA from 2000 to the current date.

The HMA is a popular retirement destination. In 2010, the average age of residents in Green Valley, a town south of Tucson, was 70 years. Nearly 60 percent of the total population growth from 2000 to 2010 occurred in the cohort of people ages 55 and older. According to Census data, nearly 23 percent of residents in the HMA were age 55 or older in 2000, and more than 28 percent of the total residents were age 55 or older by April 2010. By contrast, the share of the total population comprising individuals ages 20 to 54 decreased from 49 percent to less than 46 percent during the same period.

Currently, an estimated 394,200 households are in the HMA. As with population growth, household growth has slowed since 2007, averaging approximately 2,850 households, or 0.7 percent, annually compared with 4,475 households, or 1.8 percent, annually from 2000 through 2006. Figure 4 shows population and household growth, and Figure 5 shows components of population change, in the HMA from 2000 through the forecast period. Of the current households, approximately 249,300, or 63 percent, are homeowners, and the remaining 144,900 are renters (Figure 6). From 2000 to 2010, owner household growth averaged 1.5 percent a year compared with renter household growth of 1.6 percent a year. Since 2010, renter household growth has averaged 1.8 percent a year compared with owner household growth of 0.1 percent annually. The slower growth in owner households is in part because of a shift toward renting among households after the recent economic recession and the institution of tighter mortgage lending standards.

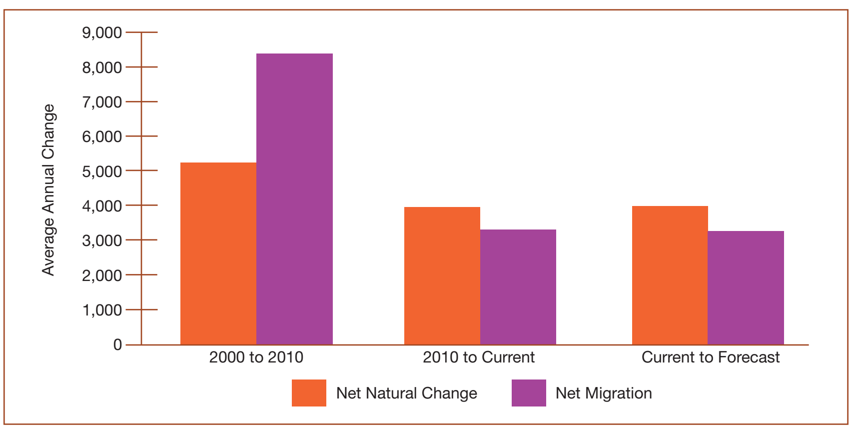
During the next 3 years, the population of the HMA is expected to increase by an average of 7,100, or 0.7 percent, annually. Net in-migration is expected to total 2,100 people during the first year of the forecast period before increasing to an average of 3,825 people a year during the second and third years of the forecast period. The number of households is expected to increase by an average of 2,925, or 0.7 percent, annually during the forecast period.

Figure 4. Population and Household Growth in the Tucson HMA, 2000 to Forecast



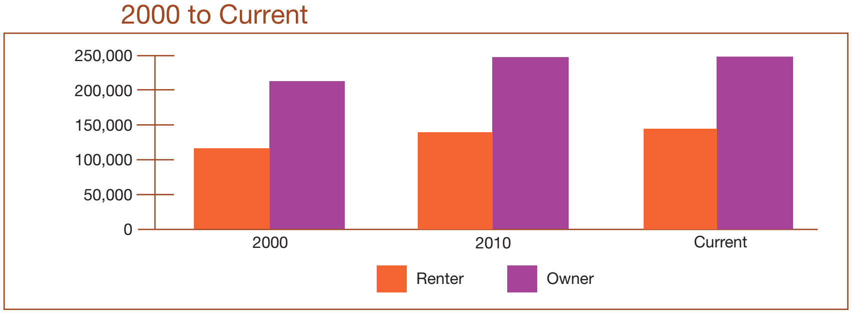
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

Figure 5. Components of Population Change in the Tucson HMA, 2000 to Forecast



Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

Figure 6. Number of Households by Tenure in the Tucson HMA, 2000 to Current



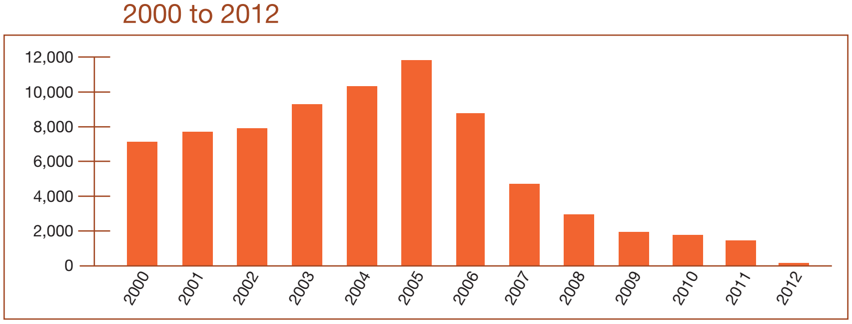
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Housing Market Trends

Sales Market

The sales housing market in the Tucson HMA is currently soft, with an estimated 2.7-percent vacancy rate compared with the 2.9-percent rate recorded in 2010. According to data from the Tucson Association of REALTORS®, during the 12 months ending March 2012, the number of existing homes sold increased by 1,785, or nearly 16 percent, from a year earlier, to 13,275 sales. By comparison, the number of existing home sales averaged 11,725 annually from 2007 through 2009. During March 2012, the number of active listings was 4,175 homes, representing a 3-month supply, a decrease from the 6-month supply a year ago. The decrease is largely the result of a 38-percent decline in the number of listings. According to data from Hanley Wood, LLC, distressed property transactions, consisting of foreclosure and REO (Real Estate Owned) sales, comprised approximately 55 percent of total sales in the first quarter of 2012, a significant increase from the 3-percent rate in the first quarter of 2006, before the national recession. During the 12 months ending March 2012, the average home sales price decreased nearly 10 percent, to $162,900, down nearly 30 percent from the average annual sales price of $230,250 from 2007 through 2009. Distressed properties sold, on average, for approximately $50,000 less than other existing homes in the HMA during the 12 months ending March 2012. Nearly 7,000 residential foreclosures were completed in 2011, an increase from the 6,750 foreclosures during 2010 and a sharp increase from the average of 1,150 foreclosures completed annually from 2005 through 2007. According to data from LPS Applied Analytics, the number of home mortgages that were 90 or more days delinquent, in foreclosure, or in REO decreased from 6.7 percent a year ago to 5.9 percent during April 2012. By comparison, the corresponding rates were 6.6 percent for Arizona and 7.8 percent for the nation during April 2012.

Figure 7. Single-Family Building Permits Issued in the Tucson HMA, 2000 to 2012



Notes: Includes townhomes. Includes data through March 2012.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Single-family homebuilding activity in the HMA declined during the past 12 months. According to preliminary data from UA, new home construction, as measured by the number of single-family homes permitted, totaled 1,475 homes during the 12 months ending March 2012, 7 percent less than the 1,600 single-family homes permitted during the previous 12-month period. New home construction has declined every year since 2005 and averaged approximately 2,025 homes annually from 2008 through 2011 after peaking at an average of 11,900 homes annually during 2004 and 2005 (Figure 7). New home sales accounted for approximately 40 percent of total home sales in the HMA in 2007 but declined to less than 5 percent of total sales in 2011.

Single-family home construction activity is concentrated in areas such as the Marana, Sahuarita, and Starr Valley neighborhoods. When combined, these three neighborhoods account for approximately 60 percent of total single-family homebuilding activity in the HMA. New single-family home prices in the Encore at Madera Highlands, in Sahuarita, range from $140,000 to $340,000. From 2004 to 2007, approximately 30 percent of all new construction in the HMA consisted of age-restricted units. Older homebuyers tend to demand smaller, single-story homes that require less maintenance. The Quail Creek development in Green Valley, south of Tucson, is characteristic of such housing. The development consists of two-bedroom patio homes marketed to households whose residents are age 55 or older. The units range in price from $178,000 to $350,000.

Demand is estimated for an additional 5,200 homes during the next 3 years, including an estimated 500 mobile homes (Table 1). Demand is expected to be greatest for homes priced between $200,000 and $250,000 (Table 4). The 220 homes currently under construction will enter the market and a portion of the 26,650 other vacant units may reenter the market to satisfy a portion of the forecast demand.

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Tucson HMA, April 1, 2012 to April 1, 2015

Price Range ($)		Units of Demand	Percent of Total
From	To		
140,000	199,999	850	18.0
200,000	249,999	1,750	37.0
250,000	299,999	1,175	25.0
300,000	399,999	470	10.0
400,000	499,999	240	5.0
500,000	and higher	240	5.0

Notes: The 220 homes currently under construction and a portion of the estimated 26,650 other vacant units in the HMA will likely satisfy some of the forecast demand. Excludes mobile homes.

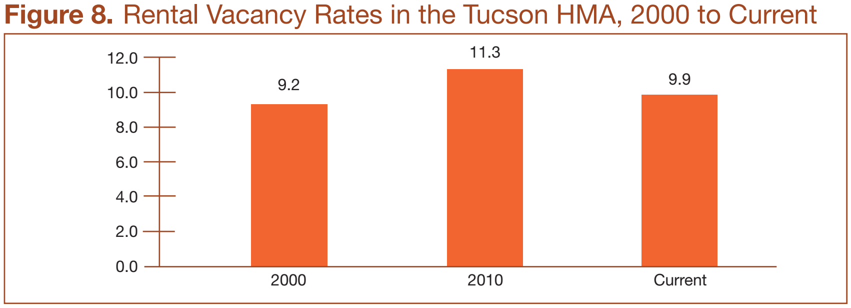
Source: Estimates by analyst

Rental Market

Rental housing market conditions in the Tucson HMA have improved during the past year, although the rental housing market remains soft, with a 9.9-percent overall vacancy rate, down from 11.3 percent in April 2010 (Figure 8). According to data from Reis, Inc., the apartment market is tighter than the overall rental housing market, with a 5.9-percent vacancy rate in March 2012, down from the 7.9-percent rate a year ago. According to Reis, Inc., the average asking rents in the HMA during the first quarter of 2012 were $575 for a one-bedroom unit, $760 for a two-bedroom unit, and $980 for a three-bedroom unit. Asking rents increased nearly 2 percent from the first quarter of 2011, to an average of $665 a month.

UA has a significant effect on the rental market in the area surrounding the campus in downtown Tucson. Fall 2011 enrollment at the university was approximately 39,250 students.

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

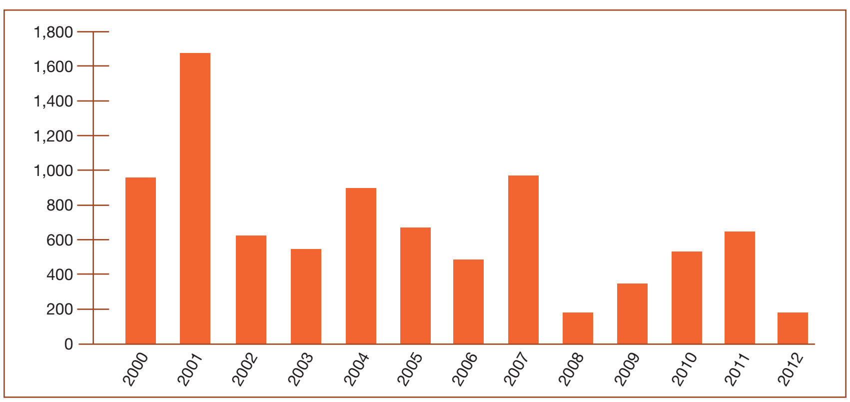


Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

The campus includes 7,200 dormitory beds, and an estimated 10,675 student households live off campus, accounting for more than 7 percent of total renter households in the HMA. During the school year, apartment market conditions in the neighborhoods surrounding UA are typically tighter than those in the rest of the HMA. According to Reis, Inc., during the first quarter of 2012, the area near UA had a 4.2-percent apartment vacancy rate and an average monthly asking rent of $685. By comparison, the southern and eastern portions of the HMA both had apartment vacancy rates of 7.5 percent and average asking rents of $575.

Multifamily construction, as measured by the number of multifamily units permitted, peaked in 2001, when 1,675 units were authorized in the HMA. Based on preliminary data, during the 12 months ending March 2012, 120 multifamily units were permitted, a decrease from the 670 units permitted during the previous 12 months. An average of 700 multifamily units were permitted annually from 2002 through 2007 (Figure 9). Encantada at Riverside Crossing, a 304-unit project nearing completion, offers average rents of $870 for a one-bedroom unit, $1,025 for a two-bedroom unit, and $1,300 for a three-bedroom unit. The 208-unit Place at Creekside is expected to be complete in November 2012 with expected monthly rents averaging $775 for a one-bedroom unit, $900 for a two-bedroom unit, and $1,060 for a three-bedroom unit.

Figure 9. Multifamily Building Permits Issued in the Tucson HMA, 2000 to 2012



Notes: Excludes townhomes. Includes data through March 2012.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Although rental market conditions in the HMA are expected to continue improving during the forecast period, the current excess supply of vacant available units will satisfy all the expected demand. In addition, an estimated 580 units are currently under construction (Table 1). To facilitate the absorption of the current excess supply of vacant rental units and avoid prolonging the current soft market conditions, builders should not begin constructing new rental units until the third year of the forecast period in anticipation of demand the following year.

Data Profile

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

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total Resident Employment	393,716	433,795	425,600	1.0	– 1.5
Unemployment Rate	3.7%	9.4%	8.2%		
Nonfarm Payroll Jobs	346,900	354,100	355,000	0.2	0.2
Total Population	843,746	980,263	994,700	1.5	0.7
Total Households	332,350	388,660	394,200	1.6	0.7
Owner Households	213,603	248,970	249,300	1.5	0.1
Percent Owner	64.3%	64.1%	63.2%		
Renter Households	118,747	139,690	144,900	1.6	1.8
Percent Renter	35.7%	35.9%	36.8%		
Total Housing Units	366,737	440,909	443,600	1.9	0.3
Owner Vacancy Rate	1.8%	2.9%	2.7%		
Rental Vacancy Rate	9.2%	11.3%	9.9%		
Median Family Income	$44,446	$54,246	$56,317	2.0	3.8

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 2000, 2010, and the 12 months through March 2012. Median family incomes are for 1999, 2009, and 2010.

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

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census
2010: 4/1/2010—U.S. Decennial Census
Current date: 4/1/2012—Analyst's estimates
Forecast period: 4/1/2012–4/1/2015—Analyst's estimates

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 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.

For additional data pertaining to the housing market for this HMA, go to www.huduser.org/publications/pdf/CMARtables_TucsonAZ_12.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 www.huduser.org/publications/econdev/mkt_analysis.html.