

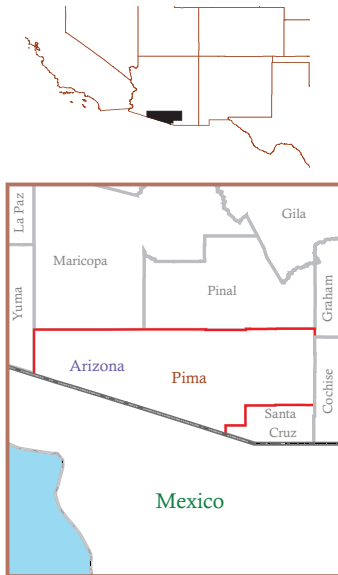


Tucson, Arizona

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of January 1, 2008



Housing Market Area



The Tucson, Arizona Housing Market Area (HMA) is coterminous with the Tucson Metropolitan Statistical Area and is defined as Pima County. The HMA, which borders Mexico in southern Arizona, is the second largest metropolitan area in the state, behind Phoenix, with a January 1, 2008, estimated population of 1 million. Surrounded by multiple mountain ranges, the HMA is a popular vacation and retirement destination.

Summary

Economy

The tourism industry is an integral part of the Tucson HMA economy, as are the University of Arizona (the UA) and Davis-Monthan Air Force Base (AFB). Following an economic slowdown in the early 2000s, the HMA has recovered and nonfarm employment has increased by 2.7 percent a year since 2003. In 2007, large gains in the professional and business services, education and health services, and government sectors accounted for much of the growth. During the 3-year forecast period ending January 1, 2011, nonfarm employment is expected to grow by an average of 2.1 percent a year.

Sales Market

The home sales market is currently soft, after 4 years of tight market conditions, which ended in 2007. Currently, the sales vacancy rate is estimated at 3 percent. Sales of existing single-family homes decreased by 18 percent during 2007 and new home construction has been decreasing rapidly. Accounting for the current excess supply of units that need to be absorbed, an additional

20,200 new homes will be needed during the 3-year forecast period to satisfy demand. (see Table 1).

Rental Market

Conditions in the rental housing market are somewhat soft, with a current vacancy rate of 7.8 percent. Apartment vacancies began to increase in 2007 due to a growing number of investor-owned rental units coming on the market. During the 3-year forecast period, an increased number of renter households in the HMA are expected to create demand for 2,620 new rental units (see Table 1).

Table 1. Housing Demand in the Tucson HMA, 3-Year Forecast, January 1, 2008 to January 1, 2011

	Tucson HMA	
	Sales Units	Rental Units
Total Demand	20,200	2,620
Under Construction	2,200	230

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of January 1, 2008.

Source: Estimates by analyst

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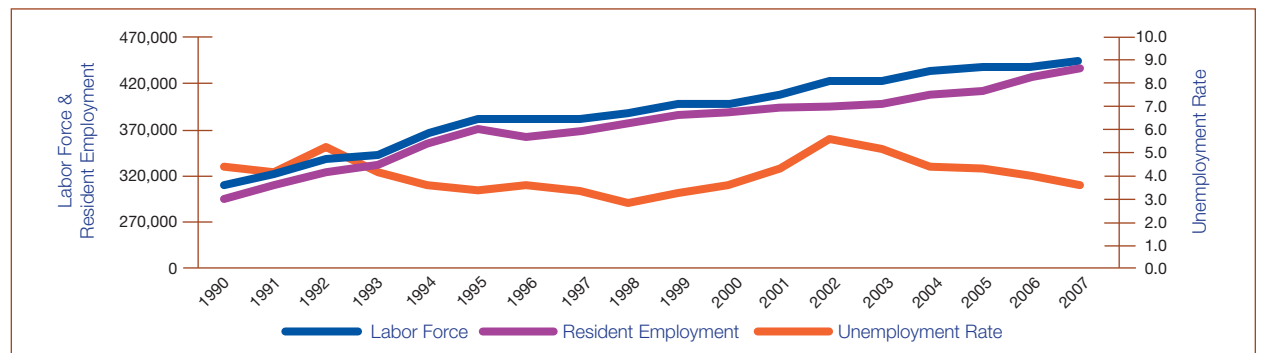
Economic Conditions

During the 1990s, economic conditions were strong in the HMA and nonfarm employment increased at a steady pace by an average 3.9 percent a year. From 2000 to 2002, the economy of the Tucson HMA was affected by the national recession and nonfarm employment decreased by an average of 0.6 percent a year. The HMA economy recovered in 2003 and nonfarm employment has since increased by an average of 2.7 percent a year. As of the current date, the unemployment rate is 3.7 percent, down

from 5.7 percent in 2002. See Figure 1 for labor force, resident employment, and unemployment trends in the HMA since 1990.

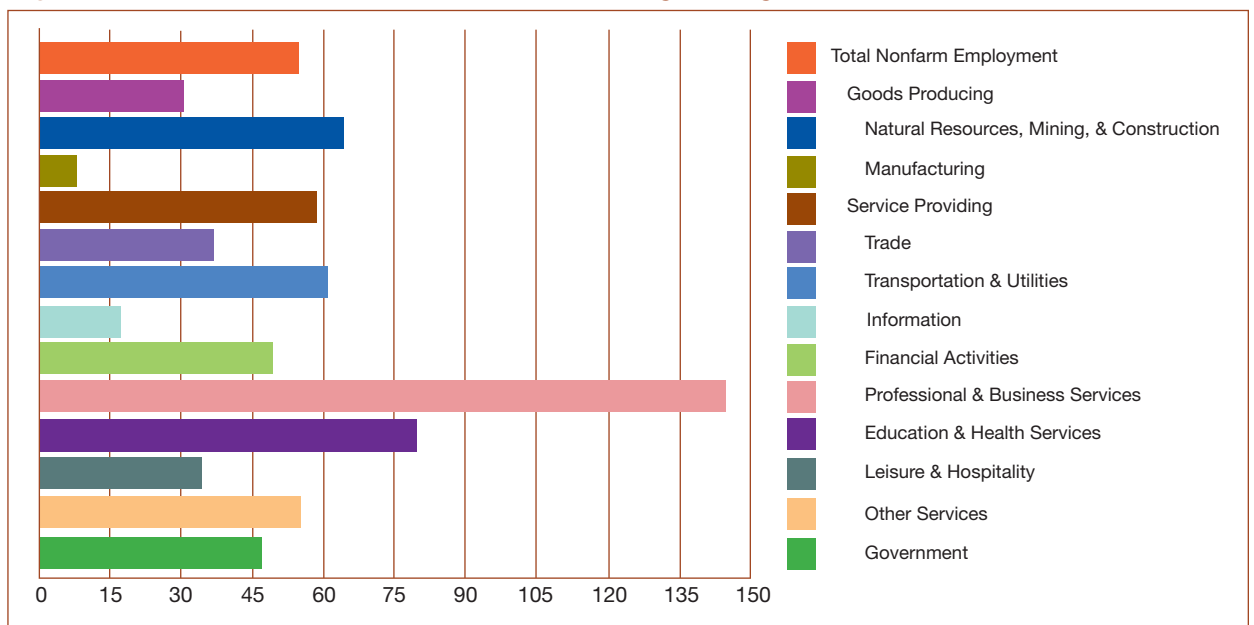
Since 1990, nonfarm employment increased by 134,200 jobs, with more than one-half of the growth concentrated in the professional and business services, education and health services, and government sectors. Figure 2 illustrates the percentage change in nonfarm employment by sector from 1990 to the current date. The largest

Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Tucson HMA, 1990 to 2007



Source: U.S. Bureau of Labor Statistics

Figure 2. Sector Growth in the Tucson HMA, Percentage Change, 1990 to Current



Note: Current is based on 12-month averages through December 2007.

Source: U.S. Bureau of Labor Statistics

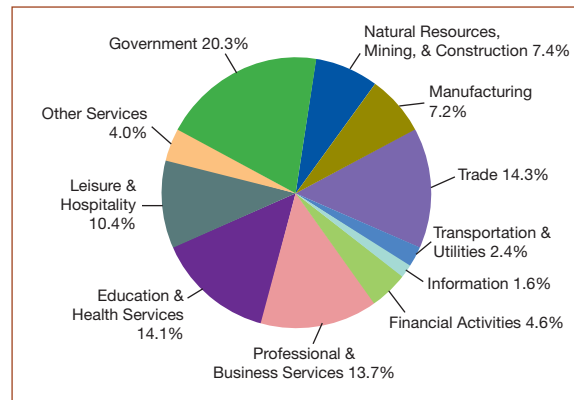
percentage increase was in professional and business services and is largely the result of increased support provided to the growing science and technical industries as well as secondary businesses serving Davis-Monthan AFB. Figure 3 presents a distribution of nonfarm employment by sector as of the current date.

Nonfarm employment growth slowed considerably in the past year from a 3.5-percent increase in 2006 to a

0.9-percent increase in 2007. Within the goods-producing sectors, construction employment decreased by 1,500 jobs to 26,400 as a result of a decline in new home construction in response to the slowing housing market. Most nonfarm employment growth during the past year was in the service-providing sectors, which grew by 1.7 percent from 322,000 to 327,500 (see Table 2). The largest gains occurred in the professional and business services (2,600 jobs), education and health services (1,600 jobs), and government (1,600 jobs) sectors.

Tourism, which brings more than 4.5 million visitors to the Tucson area each year, has an estimated \$2 billion annual economic impact on the HMA, according to the Arizona Office of Tourism. Tourism-related employment is spread across many sectors, including leisure and hospitality, retail trade, and construction, and totals 50,000 direct jobs. The leading employer in the HMA is Raytheon Company, with approximately 11,175 employees. Raytheon Company, a defense and aerospace systems supplier, is an important source of highly skilled jobs in the area. The second leading employer is the UA, with 10,350 employees and an annual enrollment of 28,000. According to the UA Office of Economic and Policy Analysis, the university had an economic impact of \$2.1 billion on Pima County in fiscal year (FY) 2004. The third leading employer is Davis-Monthan AFB with 8,225 military and civilian employees and an annual economic impact of \$866 million, according to the *Davis-Monthan AFB FY 2006 Economic Impact Statement*. See Table 3 for a list of the major employers in the HMA.

Figure 3. Current Employment in the Tucson HMA, by Sector



Note: Based on 12-month averages through December 2007.

Source: U.S. Bureau of Labor Statistics

Table 2. 12-Month Average Employment in the Tucson HMA, by Sector

	12 Months Ending December 2006	12 Months Ending December 2007	Percent Change
Total Nonfarm Employment	379,600	383,100	0.9
Goods Producing	57,600	55,700	-3.3
Natural Resources, Mining, & Construction	29,500	28,200	-4.4
Manufacturing	28,100	27,500	-2.1
Service Providing	322,000	327,500	1.7
Trade	53,400	54,700	2.4
Transportation & Utilities	9,300	9,200	-1.1
Information	6,800	6,000	-11.8
Financial Activities	17,600	17,800	1.1
Professional & Business Services	49,700	52,300	5.2
Education & Health Services	52,600	54,200	3.0
Leisure & Hospitality	40,600	39,800	-2.0
Other Services	15,800	15,500	-1.9
Government	76,300	77,900	2.1

Notes: Based on 12-month averages through December 2006 and December 2007. Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics

Table 3. Major Employers in the Tucson HMA

Name of Employer	Employment Sector	Number of Employees
Raytheon Company	Manufacturing	11,175
University of Arizona (the UA)	Government	10,354
State of Arizona (excluding the UA)	Government	9,927
Davis-Monthan Air Force Base	Military & Government	8,233
Pima County	Government	7,290
City of Tucson	Government	5,848
Wal-Mart Stores, Inc.	Trade	5,625
Freeport McMoRan Copper & Gold	Natural Resources, Mining, & Construction	4,900
Carondelet Health Network	Education & Health Services	4,319

Note: Excludes public school systems.

Source: Arizona Daily Star

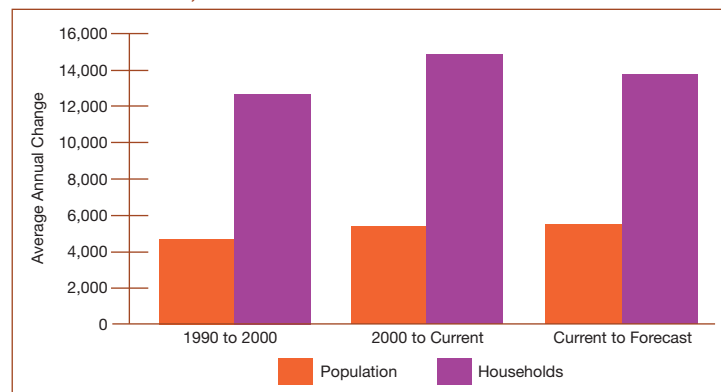
During the 3-year forecast period, nonfarm employment is expected to increase by an estimated 24,700 jobs, with a faster rate of growth anticipated in the second and third years of the forecast. Increases in the goods-producing sector are expected to slow as construction jobs decrease and manufacturing jobs grow at a decreased rate. Growth in the service-providing sectors is expected to be strongest in the leisure and hospitality, education and health services, and professional and business services sectors.

Population and Households

Since 1990, the population in the Tucson HMA has increased 50 percent to approximately 1,001,000 as of January 1, 2008 (see Table DP-1 at the end of this report). Favorable economic conditions, a pleasant climate, and overall affordability are a few of the factors contributing to the high rate of population growth in the HMA. The population has increased at an average annual rate of 2.2 percent, or 20,300, since 2000 compared with an average gain of 2.4 percent, or

17,700, a year during the 1990s. Although retirees constitute a consistent 20 to 30 percent of net in-migration, total migration fluctuates with employment growth. As employment decreased during the early 2000s, net in-migration slowed, and as the economy recovered in 2003, net in-migration began to increase. Net in-migration averaged 18,300 a year from 2005 to 2007 when unemployment was low, a much higher average than the 12,725 recorded from 2000 to 2004. See Figure 4 for components of population change in the HMA from 1990 to the forecast date.

Figure 4. Components of Population Change in the Tucson HMA, 1990 to Forecast

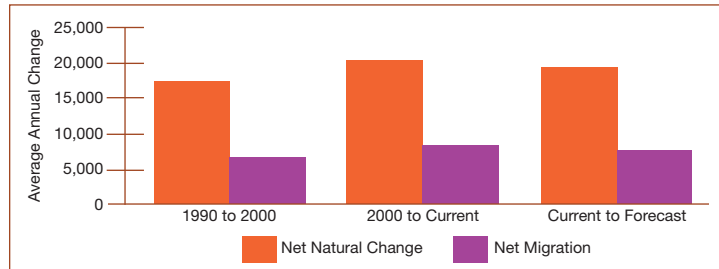


Sources: 1990 and 2000–1990 Census and 2000 Census; current and forecast—estimates by analyst

The number of households increased by an average rate of 2.4 percent, or 7,050, a year during the 1990s, and the rate of growth slowed to 2.2 percent, or 8,025, a year from 2000 to the current date. Currently, an estimated 394,600 households are in the HMA. Figure 5 illustrates the average annual population and household growth in the HMA from 1990 to the forecast date. The current nonhousehold population

represents 3 percent of the total population, or 26,000. Approximately 6,000 of the nonhousehold population reside in the 23 residence halls of the UA.

Figure 5. Population and Household Growth in the Tucson HMA, 1990 to Forecast



Sources: 1990 and 2000–1990 Census and 2000 Census; current and forecast—estimates by analyst

During the forecast period, a slowdown in employment growth will lead to a small decrease in net in-migration to the HMA. The population and number of households will grow at slightly lower levels than from 2000 to the current date, increasing by an estimated 19,350 and 7,800 a year, respectively. By the end of the forecast period, the population is expected to reach 1,059,000 and the number of households is expected to total 418,000.

Housing Market Trends

Sales Market

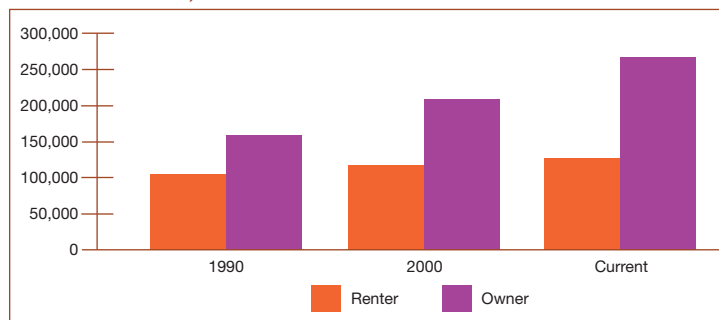
Homeownership rates in the Tucson HMA increased from 64 percent in 1990 to 68 percent as of the current date. It is expected that homeownership rates will fall during the forecast period in response to tighter credit standards. See Figure 6 for the number of households by tenure in the HMA from 1990 to the current date.

In response to a surplus of new and existing homes in the sales market, builders have decreased single-family

construction as measured by the number of building permits issued. The number of single-family homes permitted decreased from 8,125 in 2006 to 5,000 in 2007, or by 38 percent. According to local REALTORS®, the current surplus in the sales market could take approximately 1 year to be absorbed. See Figure 7 for annual single-family building permit trends in the HMA from 1990 to the current date.

Despite the downturn in single-family construction, developers continue to build homes in the high-growth area of northwest Tucson. A Ritz-Carlton® resort and residential community is currently under construction in this area. The project will include a 250-room golf and spa resort and 320 luxury single-family homes. The estimated completion date for the first residential properties is late 2008 and for the resort is the fall of 2009. Plans were recently announced for a 12,000-acre, master-

Figure 6. Number of Households by Tenure in the Tucson HMA, 1990 to Current



Sources: 1990 and 2000–1990 Census and 2000 Census; current—estimates by analyst

Housing Market Trends

Sales Market *Continued*

planned community in southeast Tucson to be developed during the next 40 years.

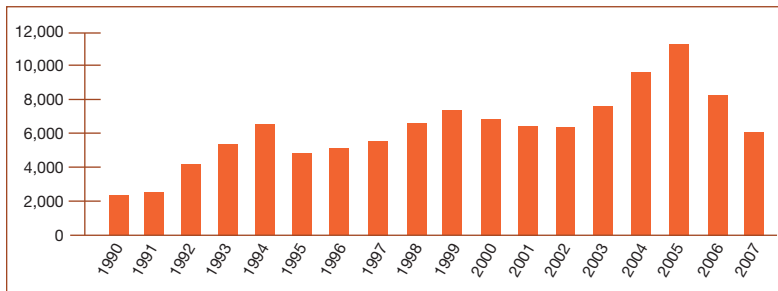
In 2000, sales market conditions were nearly balanced with a vacancy rate of 1.8 percent. Market conditions tightened from 2000 to 2006 from an

increased number of homeowners and investor activity. In 2007, the sales market began to soften and the sales vacancy rate is currently 3 percent.

According to the Tucson Association of REALTORS®, existing home sales decreased by 18 percent from 14,750 in 2006 to 12,100 in 2007. During this time, the number of active listings for existing homes increased by 11 percent from 8,450 to 9,375. The median sales price for existing homes in the Tucson Association of REALTORS® Multiple Listing Service main market areas decreased from \$215,000 in 2006 to \$210,000 in 2007. New homes are also selling very slowly. According to Hanley Wood, LLC, new home closings decreased from 8,025 in 2006 to 6,175 in 2007. During this period, the newly completed inventory of unsold homes increased from 290 to 430.

Demand is estimated for 20,200 new sales units during the 3-year forecast period. A portion of this demand will be met by the 2,200 homes currently under construction, which are expected to be completed during the first year of the forecast period. Demand is expected to be strongest in the \$125,000-to-\$174,999 price range (see Table 4).

Figure 7. Single-Family Building Permits Issued in the Tucson HMA, 1990 to 2007



Notes: Includes only single-family units. Includes data through December 2007.

Source: U.S. Census Bureau, Building Permits Survey

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Tucson HMA, January 1, 2008 to January 1, 2011

Price Range (\$)		Units of Demand	Percent of Total
From	To		
100,000	124,999	2,025	10.0
125,000	174,999	5,050	25.0
175,000	224,999	4,050	20.0
225,000	274,999	3,850	19.1
275,000	349,999	2,025	10.0
350,000	424,999	1,525	7.5
425,000	499,999	800	4.0
500,000	574,999	600	3.0
575,000	and higher	275	1.4

Source: Estimates by analyst

Rental Market

Rental market conditions in the Tucson HMA are slightly soft with a current vacancy rate of 7.8 percent. Since 2003, the amount of multifamily construction, as measured by the number of units permitted, has been low compared with previous years. During the 1990s, the average number of multifamily units permitted was approximately 1,000 a year, but only 570 multifamily units were permitted in 2007. The decrease in multifamily

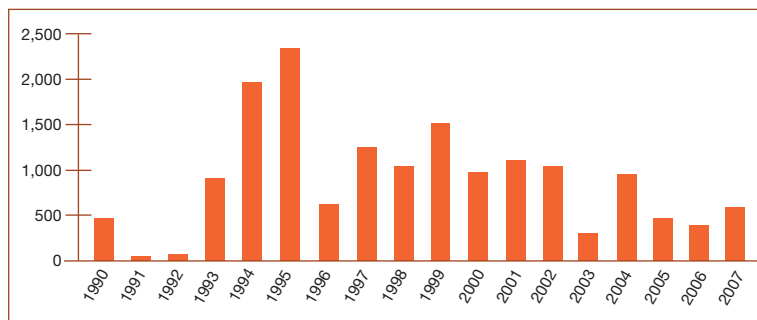
construction can be attributed to an increasing homeownership rate and a surplus of available rental housing. See Figure 8 for annual multifamily building permit trends in the HMA from 1990 to the current date.

As the number of home sales increased to record levels from 2000 to 2005, investors purchased a number of single-family homes with the intention of using them as rental properties.

According to the 2006 American Community Survey, 26 percent of renters in the Tucson HMA live in single-family detached homes, compared with 22 percent at the time of the 2000 Census. As a result, recent additions to the single-family rental supply have contributed to an increase in apartment vacancy rates, from

7 percent in the fourth quarter of 2006 to 8.2 percent in the fourth quarter of 2007, according to RealData, Inc. The average rent for apartments in the Tucson HMA increased by 3.8 percent from \$612 in the fourth quarter of 2006 to \$635 in the fourth quarter of 2007. See Figure 9 for rental vacancy rates in the HMA for 1990 to the current date.

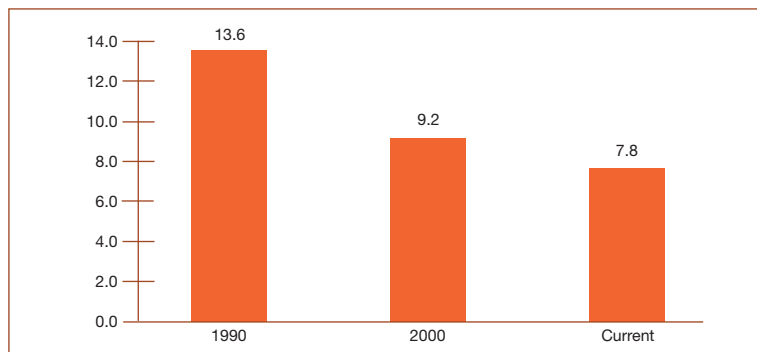
Figure 8. Multifamily Building Permits Issued in the Tucson HMA, 1990 to 2007



Notes: Includes all multifamily units in structures with two or more units. Includes data through December 2007.

Source: U.S. Census Bureau, Building Permits Survey

Figure 9. Rental Vacancy Rates in the Tucson HMA, 1990 to Current



Sources: 1990 and 2000–1990 Census and 2000 Census; current—estimates by analyst

During the school year, apartment market conditions in the area surrounding the UA are typically tighter than the overall HMA market. According to RealData, Inc., the university submarket had a 4.9 percent apartment vacancy rate and an average monthly rent of \$577 as of the fourth quarter of 2007. On-campus housing is in high demand and has an average vacancy rate of 3 percent as of the fall of 2007. An additional 1,200 on-campus units will be added to the current 6,000 units in the fall of 2011.

Demand for an estimated 2,620 new rental units is expected during the 3-year forecast period. A portion of this demand will be met by the 230 units currently under construction (see Table 1), which are expected to be completed during the first year of the forecast period. Demand is expected to be strongest for two-bedroom units with gross monthly rents ranging from \$850 to \$900 (see Table 5).

Housing Market Trends

Rental Market *Continued*

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Tucson HMA, January 1, 2008 to January 1, 2011

1 Bedroom		2 Bedrooms		3 or More Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
750	920	850	1,310	1,050	390
800	810	900	1,090	1,100	350
850	740	950	1,000	1,150	320
900	670	1,000	890	1,200	280
950	590	1,050	770	1,250	230
1,000	500	1,100	660	1,300	200
1,050	410	1,150	550	1,350	180
1,150	330	1,250	450	1,450	130
1,250	270	1,350	290	1,550	100
1,350	210	1,450	200	1,650	70
1,450	170	1,550	130	1,750	60
and higher		and higher		and higher	

Notes: Distribution above is noncumulative. Demand shown at any rent represents demand at that level and higher.

Source: Estimates by analyst

Data Profile

Table DP-1. Tucson HMA Data Profile, 1990 to Current

	1990	2000	Current	Average Annual Change (%)	
				1990 to 2000	2000 to Current
Total Resident Employment	300,301	393,716	440,600	2.7	1.6
Unemployment Rate (%)	4.5	3.7	3.7		
Nonfarm Employment	248,900	346,900	390,300	3.4	1.7
Total Population	666,880	843,746	1,001,000	2.4	2.2
Total Households	261,792	332,350	394,600	2.4	2.2
Owner Households	159,467	213,603	267,600	3.0	3.0
Percent Owner (%)	60.9	64.3	67.8		
Renter Households	102,325	118,747	127,000	1.5	0.9
Percent Renter (%)	39.1	35.7	32.2		
Total Housing Units	298,207	366,737	437,625	2.1	2.3
Owner Vacancy Rate (%)	3.0	1.8	3.0		
Rental Vacancy Rate (%)	13.6	9.2	7.8		
Median Family Income	\$30,900	\$44,446	\$55,000	3.7	2.4

Notes: Median family incomes are for 1989, 1999, and 2008. Employment data represent annual averages for 1990, 2000, and the 12 months through December 2007.

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

Data Definitions and Sources

1990: 4/1/1990—U.S. Decennial Census

2000: 4/1/2000—U.S. Decennial Census

Current date: 1/1/2008—Analyst's estimates

Forecast period: 1/1/2008–1/1/2011—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.

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

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This analysis has been prepared for the assistance and guidance of the U.S. Department of Housing and Urban Development (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 wishes to express 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.