The TAR Scorecard

February 2015

NAR housing forecast: Look for a multi-year recovery

Everyone knows that all real estate is local. As it turns out, so is the pace of the nation's economic recovery.

Nationally, the economy lost 8 million jobs during The Great Recession. Since 2010, it has gained 12 million.


Dr. Yun

Certain states and cities are booming, while others lag behind. Tucson is still in that "lackluster recovery" category.

But going forward, the national momentum will break through into Southern Arizona… although it may not occur until 2016.

"I anticipate that there will be a multi-year real estate recovery. Over four of the next five years, there should be strong market improvements," said Dr. Lawrence Yun, Chief Economist for the National Association of REALTORS ®. "And being an economist, that one-year caveat is in there," he laughed.

Dr. Yun and University of Arizona economist Dr. George Hammond were the keynote speakers at the recent TAR Forecast. Construction is "the missing link," pointed out Dr. Hammond. That's a major reason for Tucson's weak job and household income growth.

5 keys to recovery

Several conditions will work in tandem over the next five years to drive Dr. Yun's multi-year recovery forecast. The housing market recovery will be driven by:

- Job Growth
- Manageable Mortgage Rates
- Population Pent-up Demand
- More Inventory
- Record-high Household Wealth

As U.S. GDP strengthened in mid-to-late 2014, so did job creation. In Jan. 2014, the national unemployment rate was about 6.6% compared to about 5.6% now. But more importantly, "layoffs have slowed," he said.

Mortgages rates have stayed low due to the "ultra-loose Federal policy, basically at zero for the last six years," said Dr. Yun. "There will be an increase soon, I think in summer. The language coming out of the Fed says it all, that the easy money is ending," he said.

By 2016, Dr. Yun expects mortgage rates to reach 6%.

Continued on page 2

Market Trend Scorecard

Category	Jan 2015	Jan 2014	Trend	2015 YTD	2014 YTD	Trend
Unit sales	805	854	**-5.7%**	805	854	**-5.7%**
Sales volume	$156.8M	$168.5M	**-6.9%**	$156.8M	$168.5M	**-6.9%**
Median sales price	$160,250	$157,250	**+1.9%**	$160,250	$157,250	**+1.9%**
Average sales price	$194,878	$197,262	**-1.2%**	$194,878	$197,262	**-1.2%**
Avg. days on market	70	59	**+11**			
Avg. selling price/SF	$110	$107	**+2.8%**			
New listings	2,416	2,289	**+5.6%**			
Active listings	5,803	5,477	**+6%**			
Total under contract	1,764	1,804	**-2.2%**			

Full report online at www.tucsonrealtors.org

Data is informational only, based on the flow of business at a set point in time through the TAR Multiple Listing Service (TAR/MLS). The data is substantively correct; yet does not represent full inclusion nor accuracy of all real estate activity in the market.

RESIDENTIAL FORECLOSURES
In Pima County

Trustees Sale Notices
(Foreclosure Filings)

	2015
Jan	294
Feb	
Mar	
Apr	
May	
June	
July	
Aug	
Sept	
Oct	
Nov	
Dec	
Total	294
Avg/mo	294

Historic	Total	Avg/mo
2014	3,586	299
2013	5,569	464
2012	9,287	774
2011	9,433	786
2010	11,663	972
2009	12,184	1,015
2008	8,956	746
2007	4,814	401
2006	2,842	237
2005	2,674	223
2004	3,053	254

As part of the foreclosure process, these Notices advise homeowners who are in default on their mortgage when their home will be sold at public auction.

Trustees Deeds
(Foreclosed Homes Sold)

	2015
Jan	163
Feb	
Mar	
Apr	
May	
June	
July	
Aug	
Sept	
Oct	
Nov	
Dec	
Total	163
Avg/mo	163

Historic	Total	Avg/mo
2014	2,526	210
2013	3,593	299
2012	5,818	485
2011	6,956	580
2010	6,793	566
2009	5,826	486
2008	4,215	351
2007	1,564	130
2006	627	52
2005	792	66
2004	1,294	108

Source: Pima County Recorder

Housing forecast: Multi-year recovery *(from page 1)*

Pent-up demand will be driven by a 37 million jump in population since 2000. Renters and basement dwellers will move to lift homeownership rates off 20-year lows.

As distressed foreclosures continue to decline, inventory growth will come from new construction. And thanks to the Fed's monetary policies that sparked Wall Street, there's more money available for housing.

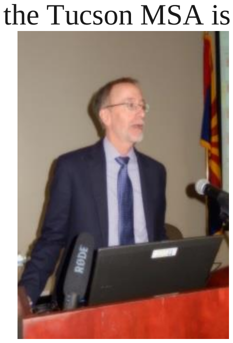
Locally, jobs are lacking

Dr. Hammond's forecast focused on a very familiar issue: the Tucson MSA is still suffering from sub-par job growth. Although the economy is expanding slowly, the region's job-replacement rate is dismal.

For example, the nation has replaced just over 122% of all jobs lost during the Great Recession. Arizona has replaced 67% and Phoenix is at 75%. Tucson, however, has only regained about 43% of its job losses.

"Our economy is struggling, we continue to battle head-winds. It is a long way out because Tucson is digging out of a hole that is twice as deep," Dr. Hammond said.

Fiscal drag is also an issue, compounded by the fact that the Tucson MSA is so reliant on Federal government-related military and civilian jobs. The Phoenix job base is diversified and only relies on military-related jobs for 1.9% of its GDP. The national level is 3.8% of GDP; for Tucson, it's 7.7%.

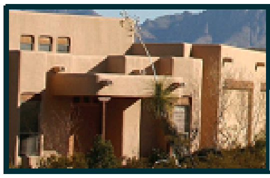


Dr. Hammond

"For Tucson, Federal fiscal drag is still an issue. Federal procurement spending is falling and affecting us," he said.

Looking forward, Dr. Hammond said Tucson's slow growth rate will gradually improve. Non-farm jobs are forecast to increase 1.1% this year and 1.3% in 2016. Personal income is projected to rise 3.2% in 2015 and 4.4% in 2016.

Retail sales are forecast at 1.2% higher this year and 3.7% in 2016. For each of the next two years, the region's population growth will be about 1% annually.



SINGLE-FAMILY RESIDENTIAL PERMITS

By Municipality in the Tucson MSA

	YEAR	JAN	YTD	TREND
Pima County	2015	52	52	**-28.8%**
	2014	73	73	
Marana	2015	41	41	**+5%**
	2014	39	39	
Tucson (City)	2015	11	11	**-50%**
	2014	22	22	
Sahuarita	2015	7	7	**-41.7%**
	2014	12	12	
Oro Valley	2015	7	7	**-22%**
	2014	9	9	
S. Pinal County	2015	6	6	**+20%**
	2014	5	5	
Total	**2015**	**124**	**124**	**-22.5%**
	2014	160	160	

New construction adjusts

Since January's permit activity was so disappointing, let's take a break and look back at some 2014 vs. 2013 year-end data:

- *Permits:* Up 1.5% from 2,250 to 2,284
- *New Home Closings:* Down 3.7% from 1,897 to 1,827
- *Median Selling Price:* Down 1.5% from $250,403 to $246,765.
  - *Avg:* Up 2% from $270,794 to $276,336

- *Foreclosure Closings:* Down 18.1% from 3,229 to 2,646
- *Foreclosure Median Price:* Down 4.6% from $130,000 to $124,000
  - *Avg:* Down 8.9% from $146,958 to $133,886

Source: Ginger Kneup
ginger@orangereports.com

Mortgage Rates Scorecard

As of Feb. 9, 2015

TERM	CURRENT	APR	1-YR. AGO	12-MO. HIGH	12-MO. LOW
30-Year	***3.88%***	*4.125%*	*4.49%*	*4.49%*	*3.38%*
15-Year	***3.38%***	*3.625%*	*3.49%*	*3.88%*	*2.7%*
5/1 ARM	***3.63%***	*3.875%*	*3.21%*	*3.63%*	*2.61%*

Rates have 1% origination fee and 0% discount
$417,000 maximum conforming loan amount (FNMA/FHLMC)
Source: Randy Hotchkiss, Hotchkiss Financial #MB0905432
SAMLA: ***Southern Arizona Mortgage Lenders Association***
Randy Hotchkiss, 2015 President

Financing Scorecard

Method	Jan 2015	Jan 2014	Trend
Conventional	*37.5%*	*34.1%*	***+3.4%***
Cash	*34.8%*	*38.2%*	***-3.4%***
FHA	*14.9%*	*13.8%*	***+1.1%***
VA	*8.6%*	*8.8%*	***-0.2%***
Other	*4.2%*	*5.2%*	***-1%***

Industrial sector grinds along

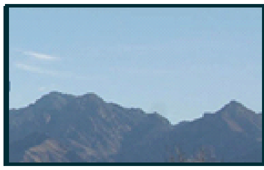
Positive net absorption of 176,000 SF during Q4 brought total 2014 absorption to 194,000 SF. That late velocity enabled the Industrial market to grind 0.2% off the sector's overall vacancy rate to end the year at 10.7%

Smaller sized spaces held steady in Q4. Mid-size spaces (5,000 to 30,000 SF) saw higher absorption, a segment of slow action for several years.

In 2014, the Warehouse sector grew the most at 160,000-SF of absorption. Next was Office at 46,000 SF; then Manufacturing at 32,000 SF. The High Tech sector lost 43,500 SF of occupancy during 2014.

Overall asking rents ticked up from 51¢ per SF to 53¢ per SF year-over-year. The trend in landlord concessions is a shift away from rent abatements to contributions for improvements.

• *Source: Barbi Reuter, breuter@picor.com*
Cushman & Wakefield|PICOR Commercial Real Estate



TUCSON ECONOMY UPDATE

What's "in store" for region's retail sector?

Retail re-development, re-purposing

The Tucson Retail Market improved steadily in 2014, settling in at about 7.8% vacancy. The re-development and re-purposing of properties were key contributors.

Going forward, five factors give us continued optimism:

1. Little new retail construction over the past few years.
2. The re-development of central-area properties such as Wilmot Plaza; and the SEC of Wilmot/Broadway, site of the former Marie Callender's restaurant.
3. Long-vacant central-area parcels are being developed, such as Evergreen at the SEC of 22nd/Alvernon and Chapman Motors expansion on 22nd east of Columbus.
4. New retail tenants entering the market; such as Natural Grocers and Longhorn Steakhouse
5. Continued expansion of Urgent Care and other related facilities; and dental chains.

A few planned openings and predictions

• Look for The Bridges (Kino/I-10) to add a multi-screen theater between the Costco and WalMart.

• At Wilmot Plaza, a 25,000-SF Nordstrom Corner Store will be the co-anchor tenant with Dick's Sporting Goods.

• The Marana Main Street Project, the 28-acre "gateway" to the town, will begin phasing in its dynamic plan for mixed-use development.

• As a result of the Safeway/Albertson's merger, expect the chain to become more aggressive in Pima County. Also, Haggen Food & Pharmacy, based in Washington, will open three stores in the area.

• More independent gas stations will be gathered by large retail groups or just close. And in general, more small Mom and Pop businesses of all types, especially restaurants, will close as the national chains gain market share.

• With the Office Depot/Office Max merger, more office supply stores will close or merge. Their space will be taken over quickly by other retailers like Summit Hut.

• El Con Mall's north side is still way "over-parked," so look for some type of mixed-use development there. For shopping centers in general, more non-traditional tenants such as health clubs, charter schools, pawn shops, thrift stores, medical/dental and even churches will take space.

• Affected retailers are concerned about the City's road-widening projects (Grant Road and east Broadway) due to the City's inability to set a definite timeline for the work. That uncertainty will continue to create more abandoned buildings while the City acquires properties. The result is condemnation blight.

Source: Pat Darcy, Tucson Realty & Trust
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About The TAR Scorecard

Scorecard outlines a broad view of the region's real estate and housing market. It reports trends in subsectors that, when viewed separately, may not appear to be related. Over time however, the data ultimately converges to cause turning points throughout the entire market. TAR does not interpret any statistics and data is used with permission of the contributors. Scorecard is published monthly at www.tucsonrealtors.org/statistics.html with print copies available in our lobby.

About the Tucson Association of REALTORS®

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