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Fed's rate hike will create "mortgage creep"

It is a national obsession and the hottest topic in the real estate industry: When will the Federal Reserve increase interest rates? No one knows for sure although all signs point to some action sometime this year.

When it happens, it will put rising pressure on the cost of money across the entire economy: car and student loans, credit cards, and home mortgages.

What it won't do is put a quick end to low interest rates.

The Fed's "no surprises" messaging has come through long, clear and repeatedly: any rate increases will be cautious and slow. (Rates were last increased in 2008.)

How will the increase impact the region's housing and real estate market?

The consensus among most economists is that mortgage rates will still drift about near historic lows for *quite some time, the mid-term, the foreseeable future, etc.*

Regardless of their word choices, the bottom line result for home buyers, lenders and REALTORS® will be "mortgage creep."

For as long as the economy grinds along and inflation stays away, mortgage rates are forecast to creep higher in very small steps. Currently, a 30-year mortgage is about 3.9% locally. That is near the recent record low of 3.5% in 2012. Before the housing crash, the rate was about 6% in 2008.

Some experts contend that higher rates will actually help real estate. An increase in rates will be triggered *only* by a better economy. That will cause more demand for loans, both business-related and personal. When businesses borrow more, they spend more and that boosts the broader economy, spurs job growth and drives consumer confidence. And rising consumer confidence leads to more home sales.

Regardless of when mortgage rates rise, home sales rely more heavily on factors such as job security and wage growth than on the cost of a home loan. That means higher mortgage rates alone won't slow the region's continued real estate recovery.

Now, if someone can just work on those tight federal underwriting standards...

• Roger Yohem, TAR Communications Director

Market Trend Scorecard

Category	Mar 2015	Mar 2014	Trend	2015 YTD	2014 YTD	Trend
Units sold	1,275	1,131	12.7%	3,015	2,946	2.3%
Sales volume	\$266.1M	\$226.7M	17.3%	\$618.6M	\$584.1M	5.9%
Median sales price	\$172,000	\$162,000	6.2%	\$167,813	\$159,813	5%
Average sales price	\$208,673	\$200,479	4.1%	\$205,407	\$198,701	3.4%
Avg. days on market	68	62	+6			
Avg. selling price/SF	\$111	\$108	2.8%			
New listings	2,415	2,216	13.6%			
Active listings	5,721	5,705	0.3%			
Total under contract	2,294	2,173	5.6%			

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	Historic	Total	Avg/mo
Jan	294	2014	3,586	299
Feb	309	2013	5,569	464
Mar	290	2012	9,287	774
Apr		2011	9,433	786
May		2010	11,663	972
June		2009	12,184	1,015
July		2008	8,956	746
Aug		2007	4,814	401
Sept		2006	2,842	237
Oct		2005	2,674	223
Nov		2004	3,053	254
Dec				
Total	893			
Avg/mo	298			

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	Historic	Total	Avg/mo
Jan	163	2014	2,526	210
Feb	150	2013	3,593	299
Mar	195	2012	5,818	485
Apr		2011	6,956	580
May		2010	6,793	566
June		2009	5,826	486
July		2008	4,215	351
Aug		2007	1,564	130
Sept		2006	627	52
Oct		2005	792	66
Nov		2004	1,294	108
Dec				
Total	508			
Avg/mo	169			



Source: Pima County Recorder

Is the foreclosure crisis over?

After 17 consecutive months of less than 400 foreclosure filings, Pima County has returned to a near-normal foreclosure market. Though no entity has officially declared the foreclosure crisis to be over, notices have dropped back to levels before the housing bust in 2007.

The local housing market peaked in 2006. For the next 5 years, Median selling prices were in freefall, dropping from about \$225,900 to a \$117,500 bottom in 2011.

In 2007, foreclosures increased from a “common” level of about 240 per month to 401. That number became the tipping point for distressed homes. From there, notices peaked in 2009 at 12,184, or 1,015 filings per month.

The Pima County Recorder’s latest shows that notices have stayed under 400 since November 2013. On a monthly basis, that is a 23% dip. From the 2009 peak, that is an astounding 70% decline.

The drop is an encouraging sign that the overall market is returning to normal. Yet remember that every foreclosure filing means that someone’s family member, friend or co-worker is suffering a hardship.

Tucson MSA adds 3,100 jobs

FEB. NET: +3,100 jobs (non-farm). On a month-to-month basis, there were notable gains in the Service Providers (+2,700); All Government (+1,600); Manufacturing (+500); and Professional Services (+400).

Other than seasonal retail layoffs (about -1,000 jobs), employment in the private sector was relatively stable.

Year-over-year data provides better insight into job trending. Since Feb. 2014, the net gain is 4,500 jobs. Key leaders are Service Providers (+9,600); Health Services (+2,100); and Leisure/Hospitality (+600).

Notable declines were in All Government (-1,000); Science and Tech Services (-500); and Aerospace Manufacturing (-200).

As of March 1, there were about 26,100 unemployed people looking for work.

Tucson Unemployment Rate Scorecard

Feb 2015	Jan 2015	Year ago
5.6%	5.9%	6.2%

• U.S. Department of Labor



SINGLE-FAMILY RESIDENTIAL PERMITS

By Municipality in the Tucson MSA

	YEAR	MAR	YTD	TREND
Pima County	2015	53	148	-32.7%
	2014	62	220	
Marana	2015	57	148	+7.2%
	2014	40	138	
Tucson (City)	2015	22	46	-27%
	2014	19	63	
Sahuarita	2015	20	42	+16.7%
	2014	11	36	
Oro Valley	2015	16	34	+54%
	2014	7	22	
S. Pinal County	2015	27	49	+25.6%
	2014	15	39	
Total	2015	195	467	-9.8%
	2014	154	518	

Strong March; quarterly dip

New home permits and closings picked up in March, positive signs that long-term fundamentals are in place for an actual recovery.

Permit activity cut the Y-O-Y deficit to -9.8% while closings improved by +9%. As demand returns, both should continue to rise.

Median New Home Pricing was \$245,355 in March, a 1.2% dip (\$248,418) compared to a year ago. The Average level dropped about 6% Y-O-Y to \$274,663.

The Median price for foreclosed homes was \$125,000, up from \$122,800 Y-O-Y. More notably, just 14.5% of resale sales were foreclosures, the smallest volume since we began tracking them in 2008.



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Mortgage Rates Scorecard

As of April 14, 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	3.25%	3.5%	3.49%	3.88%	2.7%
5/1 ARM	3.38%	3.625%	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
SAML A: [Southern Arizona Mortgage Lenders Association](#)
Randy Hotchkiss, 2015 President



Financing Scorecard

Method	Mar 2015	Mar 2014	Trend
Conventional	35.6%	37.1%	-1.5%
Cash	32%	33.5%	-1.5%
FHA	19.4%	16%	+3.4%
VA	10.7%	9.8%	+0.9%
Other	2.3%	3.5%	+1.2%

Land sector building momentum

In Q1 2015, progress continued on the sellout of many new home communities. The metro area now has less than 80 active single-family projects and half of those could be sold out by mid-2016.

The result is several larger homebuilders are pursuing new land deals. This reflects the need to build a multi-year pipeline of land that overshadows any slower sales concerns.

Builders are more proactive in their land search and there have been some multiple offers. The focus has been on the NW; with Vail and the I-10 corridor heating up. As searches get competitive, the land market will continue to build on this momentum into 2016.

Largest 1Q Land Sales

Price	Lots	Sector	Buyer
\$5.85M	99 Plt	Oro Valley	Forestar RE
\$1.96M	12 Fin	Marana	Maracay Homes
\$1.26M	10 Plt	Oro Valley	Insight Homes

Plt – Platted lots Fin – Finished lots

• Will White, Land Advisors Organization
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TUCSON ECONOMY UPDATE

Retail's gates opened in first quarter

Positive attitude will help sector

It's well known that economists predict Arizona's growth to be slow and steady in 2015. In 2014, the state grew at the national pace while Tucson's growth lingered (due to a lack of strong population and job growth).

Q1-2015 numbers show an uptick in Retail vacancy to 8.34% from 8.29% in Q4-2014. Much of this was due to the closure of 3 Staples stores of about 20,000 SF each. Q1 net negative absorption was about 11,929 SF.

A Retail vacancy rate below 10% usually means a healthy market, yet there are some who think otherwise. To get centers' rent rolls looking a bit more "healthy," rents need to move up as spaces fill in 2015.

Much of the leasing activity has been "musical chairs" with existing tenants relocating to better space. So let's look at Retail so far in 2015 as a predictor into the year ahead:

- Strong trend in restaurant growth with quick service and fast food chains securing prime locations. This activity follows national trends, accounting for 45% of all retail growth in this food sector. American's dining-out budgets have averaged about 4% annually over the past few years.
- Best-quality space is still in high demand and commanding high rents, albeit the prime spots are hard to find.
- Discounters continue to add stores with dollar stores filling junior box spaces and going freestanding. Nationally, 1 new dollar store opens every 4.5 hours. Discount apparel stores are growing: dd's Discounts is leading the charge locally.

• Big Box tenants were quiet last year. Vacant spaces a year ago, on the whole, remain vacant. Some box retailers are looking at reducing store sizes and consolidating.

• Redevelopment of prime locations creates enthusiasm from retailers looking for new product with current floor plates for merchandising. New development is only to meet specific user demand and that is limited until home building resurges.

"Omnichannel" is here to stay and retailers who embrace this concept will win. No longer is Black Friday the end-all holiday predictor of sales.

So, how can we make Retail gains in 2015? Start by looking at activity in the coastal regions. These markets lead growth and show trends that will eventually trickle to Arizona.

Position properties with quality Property Management to put its best "face" forward. Centers that look neglected will get passed by in the next wave of tenant activity.

Hire a quality leasing agent who can help you keep ahead of trends and deal-making strategies, and ensure your center gets in front of active prospects. Take stock of your loan and the potentially good timing to consider selling the asset. There's lots of pent-up demand from investors looking for a variety of shopping center investment properties.

In sum, 2015 will require a positive attitude, a willingness to roll-up your sleeves, and continued hard work to restore more health to the Retail sector and make it a great year.

• Nancy McClure, CBRE Brokerage Services
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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 in our lobby

About the Tucson Association of REALTORS®



The Tucson Association of REALTORS® (TAR) represents 4,800 real estate professionals in Southern Arizona. The TAR Multiple Listing Service (TAR/MLS) is a cooperative real estate database of listings and sales information. TAR/MLS is a wholly owned subsidiary of TAR.
TAR website: <http://www.tucsonrealtors.org/> MLS website: <http://www.tucsonrealtors.org/mls>



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