TAR SCORECARD

August 2015

TAR/MLS Inventory New Constuction Foreclosures Land

Why steady and slow is the way to go

Oddly enough, it's a good thing that Southern Arizona's real estate recovery is steady and slow. Many of the benefits are as simple as A-B-C:

Affordability: Double-digit annual price increases are likely over. Coming off price gains of 13% in 2012 and 11% in 2013, the Average Selling Price is only 2.6% higher now than in July 2014.

Builders: Production home demand (smaller, entry-level, lower-priced product) is a sleeping giant. Although move-up, higher-priced homes sold well during the recovery, slowly changing demographics give builders time to re-evaluate this underserved market.

Conventional: Fewer cash buyers; more conventional mortgages. Investors no longer feel buy-and-flip homes come with a huge payoff. Basically, the market has seen a 5% swing from cash to conventional terms. When these investors sell, more homes in the lower $150,000 range should hit the market and be bought by "traditional" homeowners.

Defaults: After 20 straight months of less than 400 foreclosure filings, this sector has stabilized. Now the task is to sell the thousands of foreclosures still out there.

Equity: Rising values have helped thousands of borrowers regain the lost equity in their homes. They are no longer upside down on their mortgages. As values continue to climb, it will enable them to refinance or enter the market to sell and buy another home.

Financing: Mortgages are slightly cheaper than they were last summer and borrowers must now prove they can and will repay the loan. And despite tighter regulations, many lending standards are loosening as the economy slowly improves.

Government: New Fannie Mae/Freddie Mac programs reduced mortgage insurance premiums on FHA loans and required only 3% down. And much of the Consumer Financial Protection Bureau confusion has been clarified.

Home: More communities have more home buyers who want to live there instead of being dominated by rental property landlords. That results in more stability in the neighborhood that they proudly call home.

And the list of benefits goes on, as **I**nventory, **L**ifestyles, **M**emories, **N**et worth… slowly improve.
— *Roger Yohem, TAR Communications Director*

Market Trend Scorecard

Category	July 2015	July 2014	Trend	2015 YTD	2014 YTD	Trend
Units sold	1,470	1,176	**25%**	8,737	7,935	**10.1%**
Sales volume	$309.5**M**	$241.4**M**	**28.2%**	$1.8B	$1.6B	**15.0%**
Median sales price	$175,000	$170,000	**2.9%**	$173,114	$168,373	**2.8%**
Average sales price	$210,570	$205,259	**2.6%**	$213,202	$205,835	**3.6%**
Avg. days on market	61	60	**+1**			
Avg. selling price/SF	$111	$107	**3.7%**			
New listings	1,765	1,786	**-1.2%**			
Active listings	4,798	5,149	**-6.8%**			
Total under contract	1,979	1,830	**8.1%**			

Full report 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.

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RESIDENTIAL FORECLOSURES

In Pima County

Trustees Sale Notices
(Foreclosure Filings)

	2015
Jan	294
Feb	309
Mar	290
Apr	336
May	247
June	272
July	277
Aug	
Sept	
Oct	
Nov	
Dec	
Total	**2,025**
Avg/mo	289

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 Trustees Notices advise homeowner0s who are in default on their mortgages when their homes will be sold at public auction.

Trustees Deeds
(Foreclosed Homes Sold)

	2015
Jan	163
Feb	150
Mar	195
Apr	194
May	158
June	166
July	188
Aug	
Sept	
Oct	
Nov	
Dec	
Total	**1,214**
Avg/mo	173

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

New construction strong: Lot inventory dips, builders buying

The new construction sector is off to its best start since 2013. For Q1 and Q2, 778 new homes were started, the most since 842 starts in the same 2013 period. The 461 starts in Q2 were the most in any quarter since Q1 2010.

New SFR home sales hit 948 closings, the best midyear level in at least 5 years. And although permits dipped, the new-build sector maintained positive momentum.

With the increase in activity, finished lot inventories are now at an all-time low. Homebuilders and investors recognized the shortage and bought land.

Some of the key purchases, all in the NW sector, were:
• $6.1 million for 88 finished lots on 10.5 acres at Boulder Pass for (release to) Miramonte Homes
• $5.8 million for 120 platted lots on 48.6 acres at The Estates at Capella by Meritage Homes

Investors in SE and far South sectors

There are 3,420 finished lots in the market. Builders control 2,582 lots; or 76% of the total. The remaining 839 lots are owned by investors.

Builder development in the NW sector will continue to dominate. More and more investors are moving to the SE and far South sectors. About 52% (some 430 lots) of the 839 total lots are there.

At mid-year, there were:
• 14 land transactions totaling over $26 million
• 79 active traditional SFR communities
• 5 communities built out or closed
• 5 new communities finished or opened
• 7 communities under construction (704 lots)
• Up to 8 communities could build out in Q3

Only two land purchases by builders will result in new homes in the sub-$200,000 price point.That likely will continue to benefit the resale home market for years.

Lot Supply Scorecard

Type	Q2 2015	Q2 2014	+/-
New lots*	1,007	1,510	-503
Finished lots	3,420	3,811	-391

** 12-month running total of new lots*

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SINGLE-FAMILY RESIDENTIAL PERMITS

By Municipality in the Tucson MSA

		JULY	YTD	TREND
Pima County	2015	36	358	-30.8%
	2014	65	517	
Marana	2015	59	418	27.8%
	2014	40	327	
Tucson (City)	2015	38	163	-6.9%
	2014	16	175	
Sahuarita	2015	24	127	22.1%
	2014	20	104	
Oro Valley	2015	15	88	E
	2014	22	88	
S. Pinal County	2015	20	129	26.5%
	2014	15	102	
Total	**2015**	**192**	**1,283**	-2.3%
	2014	178	1,313	

What's really happening?

New home permits are 2.3% behind last year's pace, yet the numbers show we are only 30 permits short. So what's really happening?

There is a pattern of significantly less monthly volatility. Since March, volume has been mostly in the 190 to 200 range (give or take). Going back to July 2014, we had very wide, erratic swings in volume, from 127 to 284.

Regardless, less volatility is a positive sign and the next few months will reveal if stability is returning and gradually increasing volumes can be sustained.

YTD closings are up 6.5% to 1,044 units. The Median selling price is $251,370, about $4,000 more than a year ago.

bright future REAL ESTATE RESEARCH, LLC

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Mortgage Rates Scorecard

As of August 11 , 2015

TERM	CURRENT	APR	1-YR. AGO	12-MO. HIGH	12-MO. LOW
30-Year	*4.25%*	*4.5%*	*4.50%*	*4.50%*	*3.38%*
15-Year	*3.38%*	*3.625%*	*3.38%*	*3.88%*	*2.75%*
5/1 ARM	*3.75%*	*4%*	*3.25%*	*3.88%*	*2.63%*

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	July 2015	July 2014	Trend
Conventional	*39.3%*	*40.2%*	*-0.9%*
Cash	*23.7%*	*26.2%*	*-2.5%*
FHA	*22.7%*	*18.2%*	*4.5%*
VA	*11.0%*	*10.9%*	*0.1%*
Other	*3.2%*	*4.4%*	*-1.2%*

Much ado about nothing

September 17. Nearly all economists, bankers, mortgage lenders and REALTORS® have that date circled on their calendars. After 10 years of cheap money, that is when everyone now expects the Federal Reserve to raise short-term interest rates.

Yawn….

Since the early-warning signs are a year old and all the ingredients (economic factors) have been baked into the cake (financial markets), the impact on the economy and mortgage rates will be nil, a non-factor.

In fact, for the foreseeable future, loan rates may not rise much at all. That is a bit surprising but there are several reasons why: there still are no signs of inflation; the economy is not in launch mode; lenders are still adjusting to new government regulations; and much of the global economy is growing very slowly.

Expect just one increase this year. The Feds will wait to see how it affects the economy in Q4.

• *Economist Elliot Eisenberg, Ph.D.*
www.econ70.com

TAR SCORECARD

TUCSON ECONOMY UPDATE

Industrial and Retail Midyear Updates

Midyear Industrial Update: A bit of buzz

At midyear, Tucson's Industrial market continues to make steady progress. Spurred by demand in Mexico for quality manufacturing options nearer the region, the Arizona/Sonora border zone experienced a bit of buzz in activity – more than in any recent quarter.

Also, an influx of outside money, mostly from California, heated up investor interest. Faced with lower cap rates in tighter markets, more investor activity has spilled over into Tucson. This includes private funds and 1031 money.

The region's overall vacancy rate is about 10%, down notably from 11.6% in Q2 2014. The lowest subsector rate was 8.7% in Office service/incubator space; with warehouse properties at the high end at 10.6% vacancy.

Overall rental rates remained soft as landlords are still inclined to retain tenants.

Led by the 800,000-SF HomeGoods distribution center project in the Airport subsector, space under construction exceeded the 1 million-SF mark for the first time since the Target Fulfillment Center was completed in 2008. HomeGoods is to open in Oct. 2016.

YTD, the net absorption is about 316,900-SF.

• *Source: Barbi Reuter, Picor COO/Principal*
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Midyear Retail Update: Back on track

During Q2, Tucson's Retail market bounced back from a rough Q1 when several big box tenants left the market. New retailers were active and there was less turnover in occupancy. The net result was 43,495 SF of absorption for a vacancy rate of 8.2%.

For most of the last two years, vacancies have hovered around 8.3%. This is due primarily to the lack of prime retail space available. Quality spaces are not on the market long; while less quality/less desirable sites (mid-block) typically have high vacancies and struggle to find long-term tenants.

Looking ahead, we expect activity to increase for the rest of 2015. Retailers are expected to move fast to set up in consideration of the return of UA students and seasonal residents (snow birds) and the holiday shopping season.

Plus, there is 401,000-SF of new space under construction. The high-profile Tucson Premium Outlets in Marana (360,000-SF) is due for Q3 completion and is projected to spur further residential and commercial development in the NW submarket.

At mid-year, the Average Asking Lease Rate (NNN) was $16.58 per SF/month.

• *Source: Nancy McClure, CBRE First Vice President*
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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®

TUCSON ASSOCIATION OF REALTORS® The Voice of Real Estate within Southern Arizona

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**

Tucson REALTORS® Charitable Foundation Serving Our Community First

The Tucson REALTORS® Charitable Foundation is a 501c3 non-profit that awards grants to other non-profit organizations from donations by TAR members, affiliates, friends and events.
TRCF website: http://www.tucsonrealtors.org/foundation

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