TUCSON ASSOCIATION OF REALTORS®

TAR SCORECARD

November 2015

TAR/MLS Inventory New Constuction Foreclosures Land

Slow-grow economy will "lift all boats" in 2016

Although the national and Arizona economy will improve at a subpar rate in 2016, the ongoing recovery will "lift all boats." Nationally, GDP is projected to finally hit 3%; housing sales will improve 5% to 8%; and home prices will rise 3% to 5%.

And if mortgage rates do make it to 5%, "it is nothing to be alarmed about" since home loans will still be priced near historic lows.

Dr. Lawrence Yun, Chief Economist for the National Association of REALTORS®, laid out these projections at this month's *Forward Forecast* in Phoenix, presented by the Arizona Association of REALTORS® and Arizona Regional Multiple Listing Service.

"How's the economy? It's not consistent from quarter to quarter. You have to look annually," he said. "The economy will continue to expand but it is underperforming for a recovery. More job creation will mean more home buyers. The economy will be a continuing lifting tide, there is very little chance of recession."

One key metric that needs "lifting" is the homeownership rate, now at a 50-year low. First-time home buyers under 34 are not yet a factor in the market. They are optimistic and want to buy but "don't have the financial capacity" due to student loan debt, job uncertainty and low credit score.

As a result, most sales in the near future will come from "equity buyers. As values rise, they will use their equity for the next home purchase," said Yun. That is good for Arizona because "people relocating will bring that equity here as a down payment."

Housing dragged down by other weak sectors

In the past two years, several sectors of the economy have not performed as expected and that has dragged down housing, independent Economist Elliot Eisenberg told attendees.

The Federal government's fiscal stimulus was mildly positive but had relatively minor impact on GDP. Corporate investment in new equipment and labor "was forecast to be fabulous but the strengthening dollar and oil patch collapse changed all that."

Exports and manufacturing are weak. With a stronger dollar, consumers are buying more goods from Asia and Europe and "that hurts U.S. manufacturers. The

(Continued pg. 3: 2016 Slow economy)

Market Trend Scorecard

Category	*Oct 2015*	*Oct 2014*	*Trend*	*2015 YTD*	*2014 YTD*	*Trend*
Units sold	1,188	1,060	**12.1%**	12,404	11,191	**10.8%**
Sales volume	$251.3M	$223.1M	**12.7%**	$2.6B	$2.3B	**14.9%**
Median sales price	$172,825	$166,500	**3.8%**	$172,708	$165,922	**4.1%**
Average sales price	$211,566	$210,454	**0.5%**	$210.509	$206,975	**1.7%**
Avg. days on market	63	64	**-1**			
Avg. selling price/SF	$113	$110	**2.6%**			
New listings	2,034	2,052	**-0.9%**			
Active listings	5.043	5,649	**-10.7%**			
Total under contract	1,832	1,698	**7.9%**			

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	232
Sept	290
Oct	**246**
Nov	
Dec	
Total	**2,793**
Avg/mo	279

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, Trustees Notices advise homeowners in default on their mortgages when their home 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	160
Sept	179
Oct	**185**
Nov	
Dec	
Total	**1,738**
Avg/mo	174

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

Land and real estate market is "at the Crossroads" in 2016

By all accounts, 2016 will be a pivotal year for housing. For developers, their land deals will set the pace for new home construction over the next two to five years. For the resale market, there are still too many distressed properties.

"We do not have the luxury of a big lot supply going forward. That is the biggest challenge in the new housing market. Even if we stay flat, we basically need 2,500 lots per year," said Will White, Land Advisors' Tucson manager. "So we are at a crossroads, realizing that new lots could go negative in 2017."

"Remember, the Tucson region went to negative job growth for an extended period. For 2016, we're looking at 1.4% job growth, and 2% for 2017 to 2019," added Ginger Kneup, Bright Future Real Estate Research. "The economic forces to bring developers back into the market are all coming together next year. The question is will they be proactive or reactive?"

Kneup and White presented their annual forecast this month called *2016 At the Crossroads. The future of the Tucson land and housing market.* They focused on housing supply-demand concerns and how that imbalance will affect the market.

Since 1995, the region has absorbed an average 27,000 lots every 5 years, said White. To keep pace, builders face three major decisions. In undeveloped sectors, infrastructure is lacking and expensive. Once land is acquired, it can take up to 24 months to get a house to market. Sunk costs are rising for land, regulatory fees, materials and labor. And market share is maintained only by getting more land.

"To start a new community from scratch will be a challenge. So do builders buy land now or later? In this market, five builders do 80% of the business," said White. "Where will they find inventory? For a community of one million population, there are very limited growth opportunities."

From the demand-side perspective, Kneup emphasized that foreclosures and resales overall need to "get healthy. Distress continues to hold back the market." Distressed sales have a 14% market share, down about 5% annually. The normal level should be in the range of 3.5%, Kneup said.

For the last five years, new home market share has been stuck at about 10%. Builders have had great success in the move-up market, yet prices are a 40% to 50% premium over resale. To capture more sales, builders could re-evaluate their designs. Can they replicate their success in the move-up market at a lower price point?

"What they have control over is product: innovative, flexible multi-generation floorplans. Millennials put off home ownership but if you deliver more relevant product for that generation, it will get Millennials excited about buying," she said. "That is the biggest challenge, not easy to deliver. Can we build what they want where they want at the right price?"

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SINGLE-FAMILY RESIDENTIAL PERMITS

By Municipality in the Tucson MSA

		SEPT	YTD	TREND
Marana	2015	61	566	+25.2%
	2014	48	452	
Pima County	2015	73	545	-18%
	2014	49	665	
Tucson (City)	2015	28	239	-24.4%
	2014	55	316	
Sahuarita	2015	18	189	+29.5%
	2014	9	146	
Oro Valley	2015	15	120	N/C
	2014	7	120	
S. Pinal County	2015	12	184	+15%
	2014	18	160	
Total	2015	207	1,843	-1%
	2014	186	1,859	

Stronger housing demand

Permit trending reveals that the region's new home market is back on solid footing and it will continue to deliver modest gains in 2016.

The optimism is in the numbers:
- About 100 more permits issued in the last 6 months than in the prior 6 months, up 9%
- Average monthly volume for last 6 months is 197, the highest 6-month pace except for in 2013 when the Recovery picked up
- Specs are down by 100 from early 2015
- Volumes picking up in unincorporated Pima
- For the first time since 2008, more new homes sold than foreclosed homes

The new home Median Sales price is now $252,000, about $20,500 less than a year ago. YTD new home closings are 1,597 units, 94 more (+6.3%) than last year's pace.

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Mortgage Rates Scorecard

As of Nov. 16, 2015

TERM	RATE	APR	1-YR. AGO	12-MO. HIGH	12-MO. LOW
30-Year	4.13%	4.375%	4.5%	4.5%	3.38%
15-Year	3.38%	3.625%	3.38%	3.88%	2.75%
5/1 ARM	3.88%	4.125%	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	Oct 2015	Oct 2014	Trend
Conventional	35.9%	40.5%	-4.6%
Cash	28.1%	26.8%	1.3%
FHA	21.1%	18.3%	2.8%
VA	12.7%	10.7%	2%
Other	2.1%	3.8%	-1.7%

2016 Slow economy *(from pg. 1)*

manufacturing sector is struggling, getting close to recession levels again," Eisenberg said.

One of the most robust sectors is consumer spending. Households have more cash to spend and that has resulted in exceptional gains in retail, restaurants, services and hospitality. It also has enabled consumers to pay down mortgages and some student loan debt.

"In Arizona, people defaulted on their homes in droves seven years ago. That was smart when you consider this: They have not paid a mortgage for years and now have lots of cash to juice the economy," said Eisenberg. As a result, they have more wealth and he expects them to be back in the home market in the near future.

Dr. Yun's NAR 2016 Housing Forecast			
Metric	**2014**	**2015**	**2016**
Housing starts	1 M	1.1 M	1.4 M
New home sales	437,000	570,000	720,000
Resale sales	4.9 M	5.3 M	5.5 M
Median prices	5.7%	6%	4%
30-year rate	4.2%	4.0%	5.2%
Underwriting	Strict	Transition	Normal

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TUCSON ECONOMY UPDATE

Home and commercial sectors solid

Home sales 11% ahead of 2014

Home sales have soared 11% to 12,404 units through October, 1,213 more than the same year-ago period. The market has averaged 1,240 monthly sales this year compared to 1,145 in 2014.

By year-end, sales are on pace to exceed the 13,739 closings in 2014. It is projected that total sales for 2015 will be in the range of 14,500 units.

Of the 1,188 homes sold in October, the best-selling price point was from $200,000 to $249,900 with 164 sales, a 13.8% market share. Closings from $140,000 to $159,999 captured another 12.5% share with 148 sales. In the luxury sector, 8 homes sold at $1 million or more.

Active listings were 5,043, the most since May. The $300,000 to $399,900 price range had the highest inventory at 612 units (12.1%). The next-largest group of listings was in the $200,000 to $249,999 price range with 593 homes (11.8%).

In October, the top-selling zip codes were:

- 85741: The Northwest sector along Ina Road between I-10 and La Cholla Blvd., where 36 of 82 listings (43.9%) sold.
- 85746: The large area southwest of the airport along Ajo Way that includes Midvale Park and Drexel Heights, where 37 of 87 (42.5%) sold.
- 85756: The large area southeast of the airport between I-10 and I-19 where 23 of 56 listings (41%) sold.

Office sector: Comcast leads 3Q

The Tucson office sector's overall vacancy rate improved slightly in Q3, ending at 12.6% on positive, market-wide absorption of 33,292-SF.

The year's largest lease occurred with Comcast Cable taking the 211,152-SF Tucson Galleria, 4690 N. Oracle, that had been vacant for over 5 years. Comcast will repurpose the previous retail space to office, adding about 1,125 jobs in the community.

Sales activity was robust, with 5 investment transactions and 5 property sales of over 10,000-SF. The largest sale was Griffin Capital's purchase from Aetna Insurance of the 100,273-SF, fully leased building at 3535 E. Valencia for $21.7 million ($216.41/SF). Aetna then leased back the space, making this Q3's second largest lease.

Other notable sales were West Coast Capital's $3 million purchase of 1925 W. Orange Grove (43,704-SF); and TDD Properties buying 3131 N. County Club (21,980-SF) for $910,000.

At the end of Q3, Class A office space had a vacancy rate of 10.9%; Class B at 15.2%; and Class C at 7.4%. Overall, there is 5,000-SF of space currently under construction. The submarket with the lowest vacancy rate was downtown at 7.6%.

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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 online 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