Market Report | April 2023

Tucson, AZ

Demand for housing in the Tucson MSA has improved over the last few months with price discovery and incentives playing key roles. Builders offering favorable incentives and reduced prices are experiencing an uptick in sales activity. Additionally, it appears there is consumer acceptance of the new mortgage interest rate environment, which is bringing buyers off the sidelines. Lower mortgage interest rates and mortgage interest rate incentives are creating an environment of more affordable housing options. Builders will play a key role in the recovery process, particularly those that focus on finding the market from a monthly payment standpoint.

Strengths

Tucson remains more affordable compared to its neighbor Phoenix and should continue to benefit from migration patterns and affordability, despite short-term headwinds. A stable workforce could mitigate the risk of significant job loss in the event of a recession.

Weaknesses

Supply levels are on the rise, which could negatively impact home prices moving forward. Despite moderating mortgage interest rates, affordability remains a challenge. The disconnect between incomes and prices is pricing would-be buyers out of the market.

New Home Pending Sales Index

YOY Change

-47.7% ↓

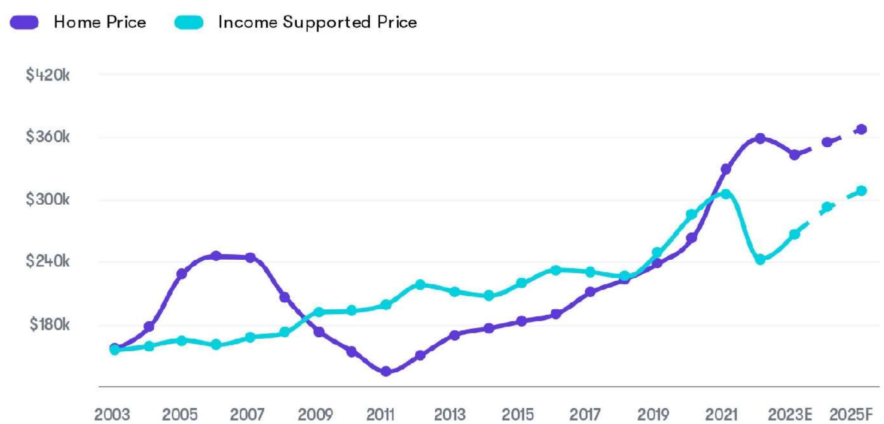
MOM Change

-0.1% ↓

Valuation Patterns

2022 Valuation

22.0% Overvalued



Supply Snapshot

Vacant Developed Lots	VDL Months of Supply
5,775	19.3

Total Housing Inventory	Housing Inventory Months of Supply
3,062	11.3

Active Projects	Quick Move-Ins
101	5.2

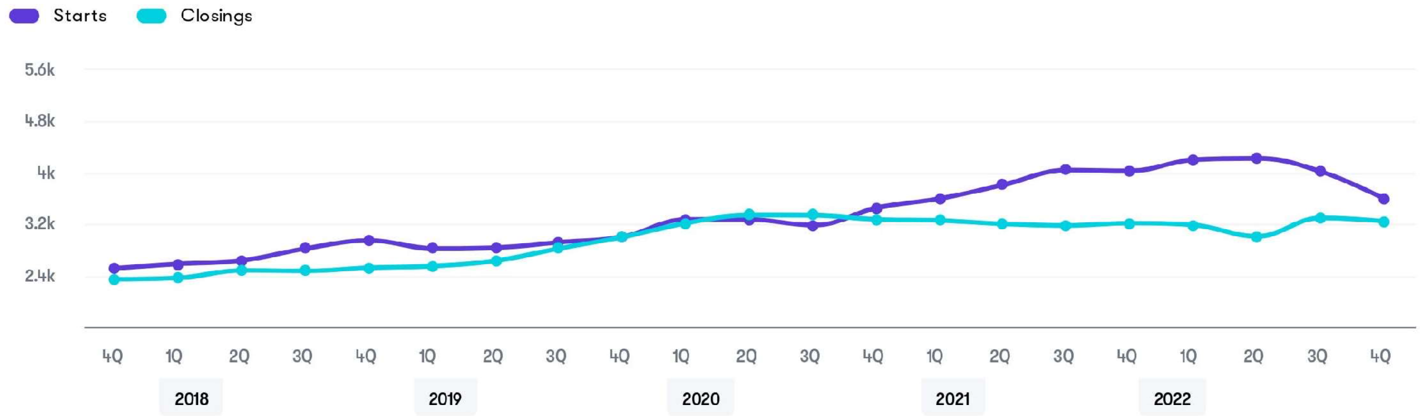
Annual Observed Starts vs. Annual Observed Closings

Starts

3,592 -10.9%

Closings

3,245 0.9%



New Home Sales

Sales

1,822 ↓

Last 12 Months

Avg. Sales Rate

1.8 ↓

Last 12 Months

Total Housing Inventory

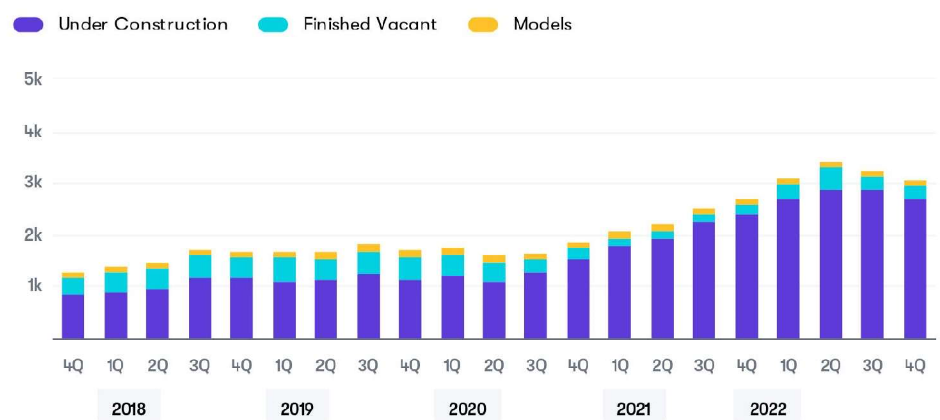
Under Construction MOS

10.5 ↑

4Q 2022

Finished Vacant MOS

1.3 ↑



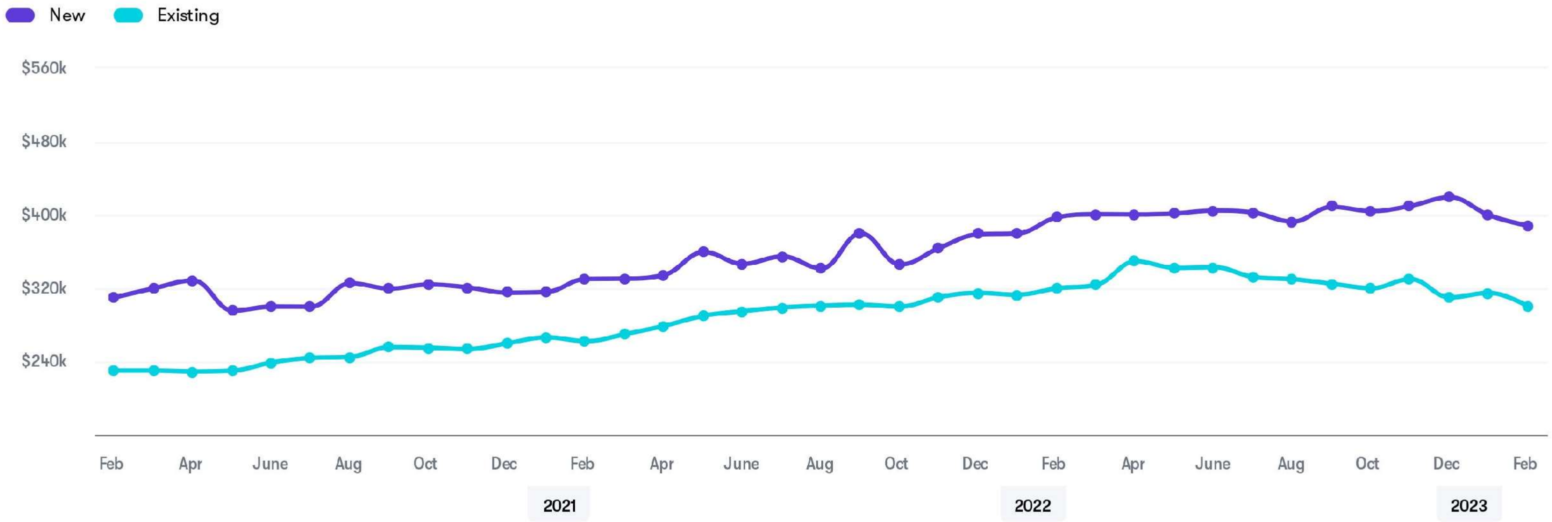
Median Closing Price

New

$388,098 -2.4%

Existing

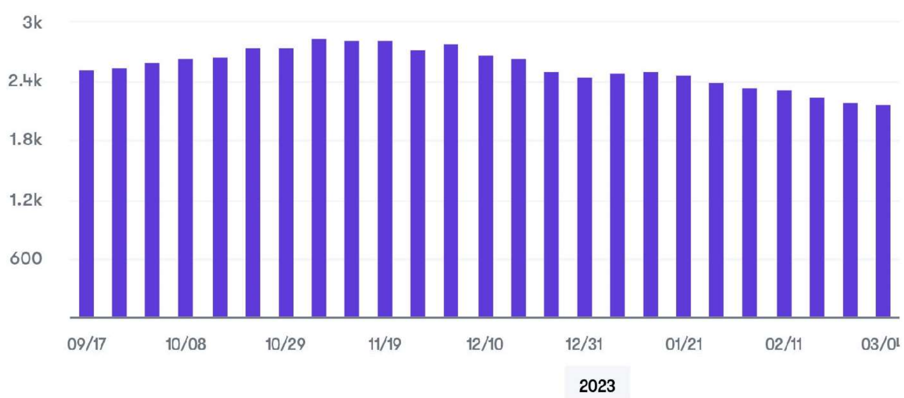
$300,000 -6.3%



Zillow Listings

Listings

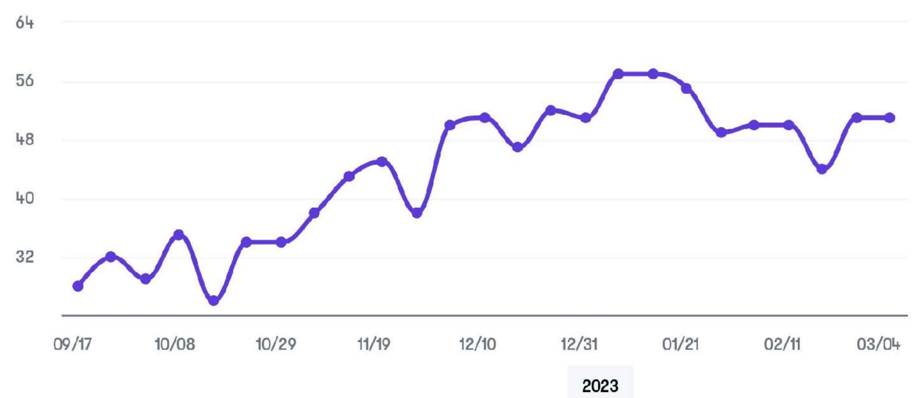
2,186 63.6%



Zillow Median Days to Pending

Days to Pending

51



Jobs vs. Unemployment

2023E Total Jobs

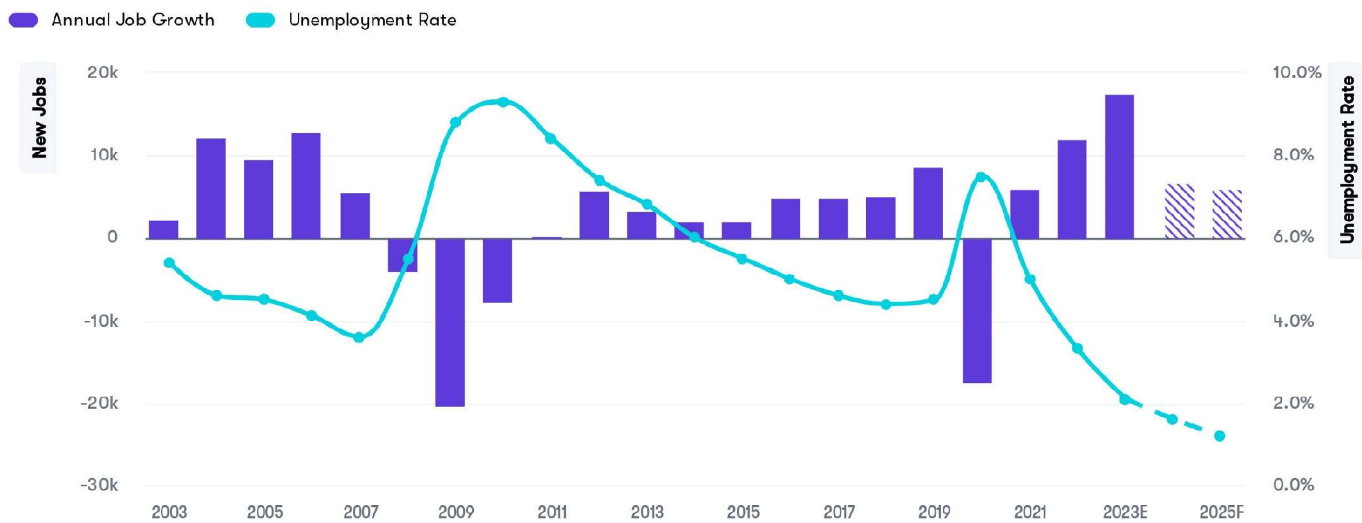
409,211 4.5%

Annual Job Growth

17,476 4.5%

Unemployment Rate

2.1% ↓



Household Growth

2023 Total Households

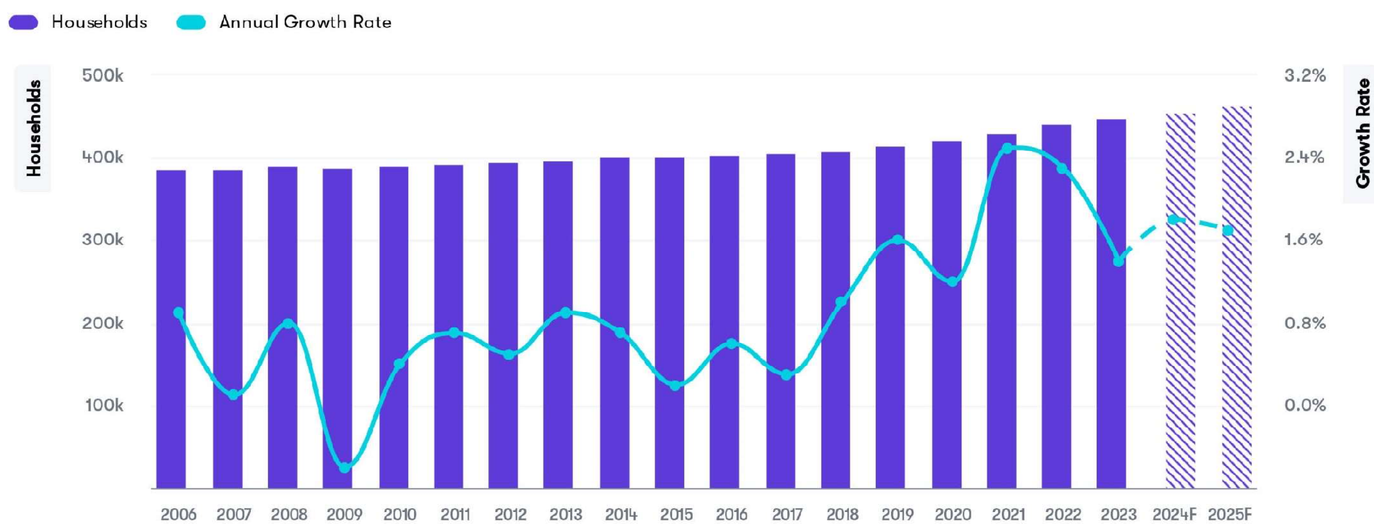
448,060 1.4%

2023 Household Growth

6,020 1.36%

2025 Total Household Forecast

464,160 1.7%



Supply

Quarterly Housing Starts decreased 42.9% from a year ago, while the number of available Vacant Developed Lots sits at 5,775 up 27.3% over the same quarter last year. In terms of Supply/Demand balance, the market area is 2.04% undersupplied.

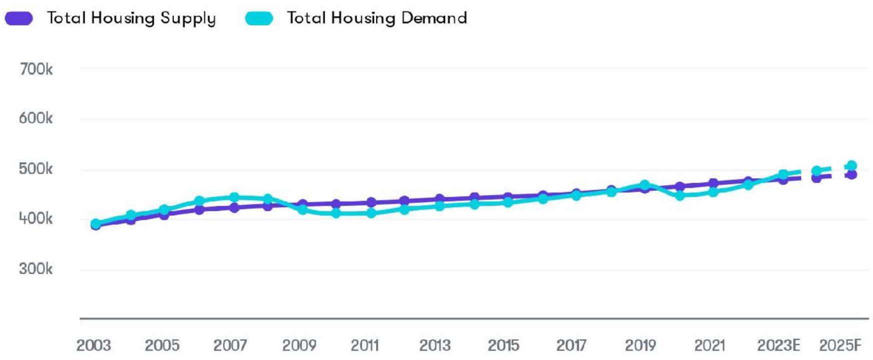
Supply Highlights

Future Lots 87,369 -2.2%	Vacant Developed Lots 5,775 27.3%
Quarterly Lot Deliveries 1,261 52.5%	Quarterly Starts 569 -42.9%
Total Housing Inventory 3,062 12.7%	Finished Vacant Inventory 275 46.3%

Supply vs. Demand

2023E

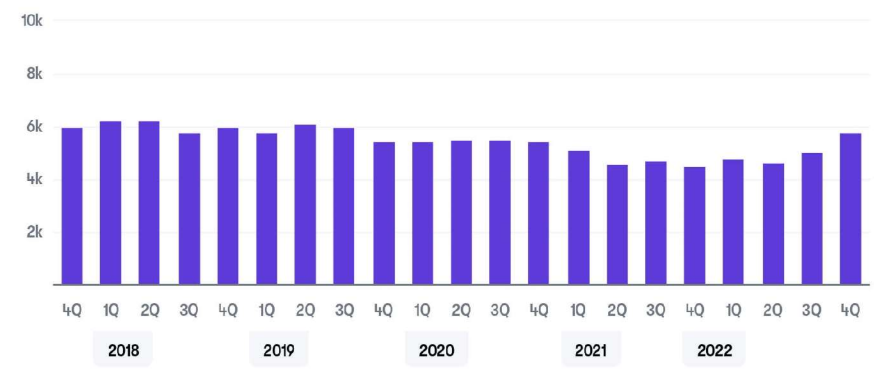
2.04% Undersupplied



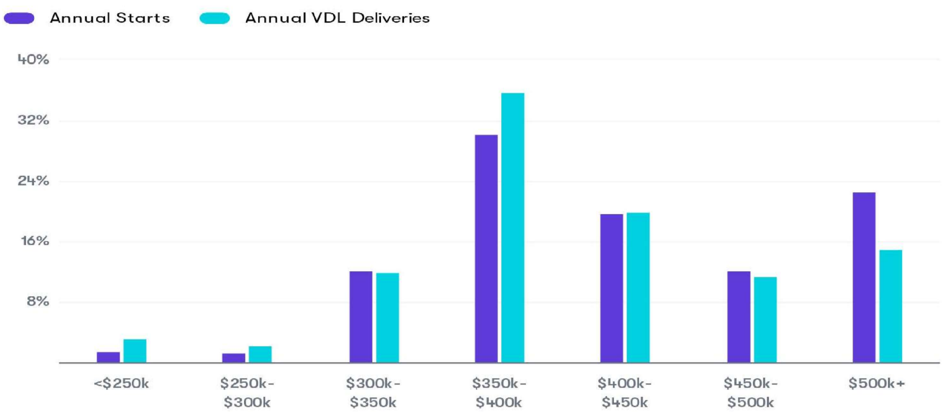
Vacant Developed Lots

4Q 2022

5,775 27.3%



Starts vs. Deliveries by Price - Share of Known



VDL vs. Closings by Price - Share of Known

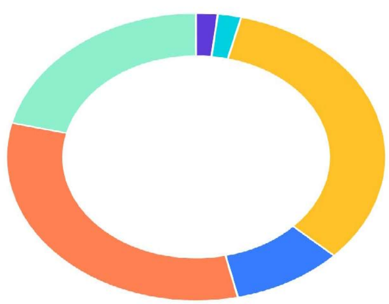
Vacant Developed Lots by Price

4Q 2022

Months of Supply

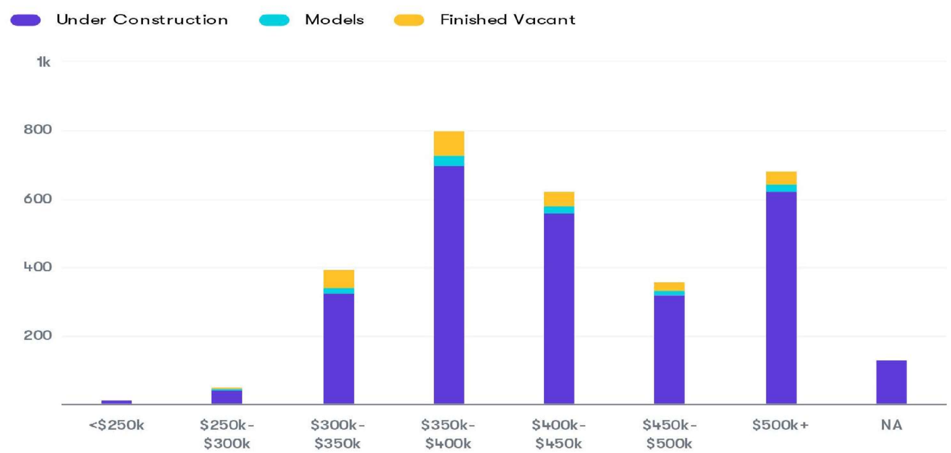
19.3 42.9%

<$250k	106
$250k-$325k	115
$325k-$400k	1.9k
$400k-$475k	544
$475k+	1.9k
NA	1.2k



Inventory by Price

4Q 2022

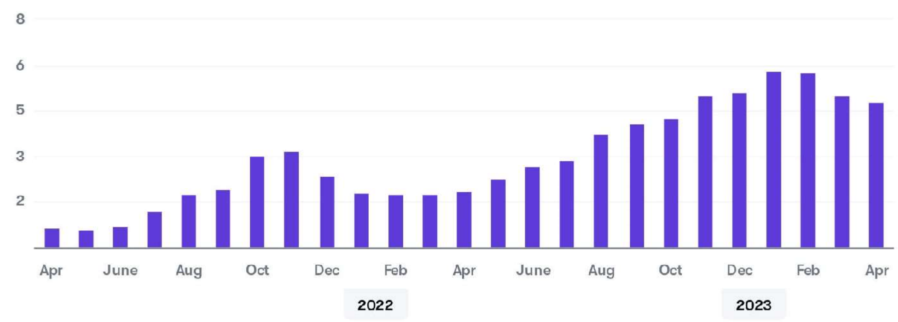


Avg. Quick Move-In per Project

Avg. QMI

5.9 ↑

Last 3 Months



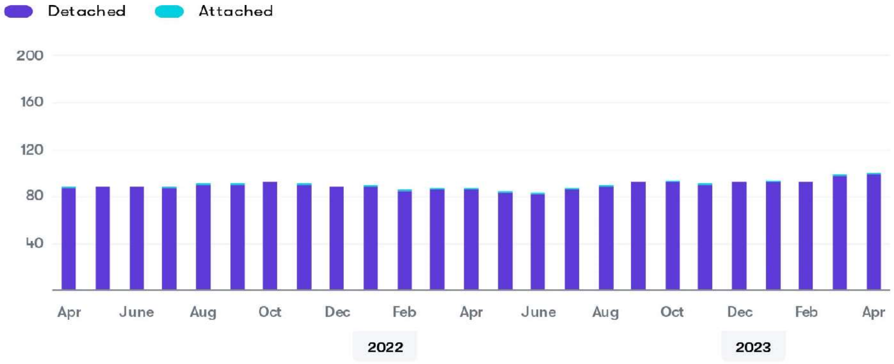
Active Projects

Detached

100 14.9%

Attached

1 0.0%



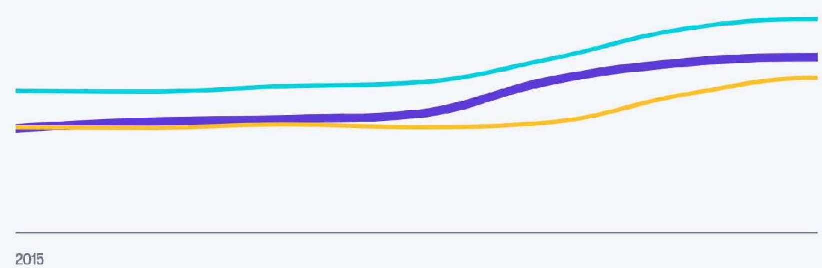
Sales

New home sales in the Tucson, AZ metropolitan area decreased 45.3% year-over-year to an annualized rate of 1,822 units in February. Over the past 12 months, 4 of sales were attached units and 1,818 were detached. Existing home closings for the 12 month period ending in March posted a year-over-year decline of 37.5% to an annualized rate of 17,121 units. Of those, 3,132 were attached units and 12,403 detached.

Avg. Sales Rate

Last 12 months

1.8	2.2	2.2
Tucson	Arizona	USA



New Home Sales

New Home Sales

1,822 -45.3%

Last 12 Months

Detached Sales

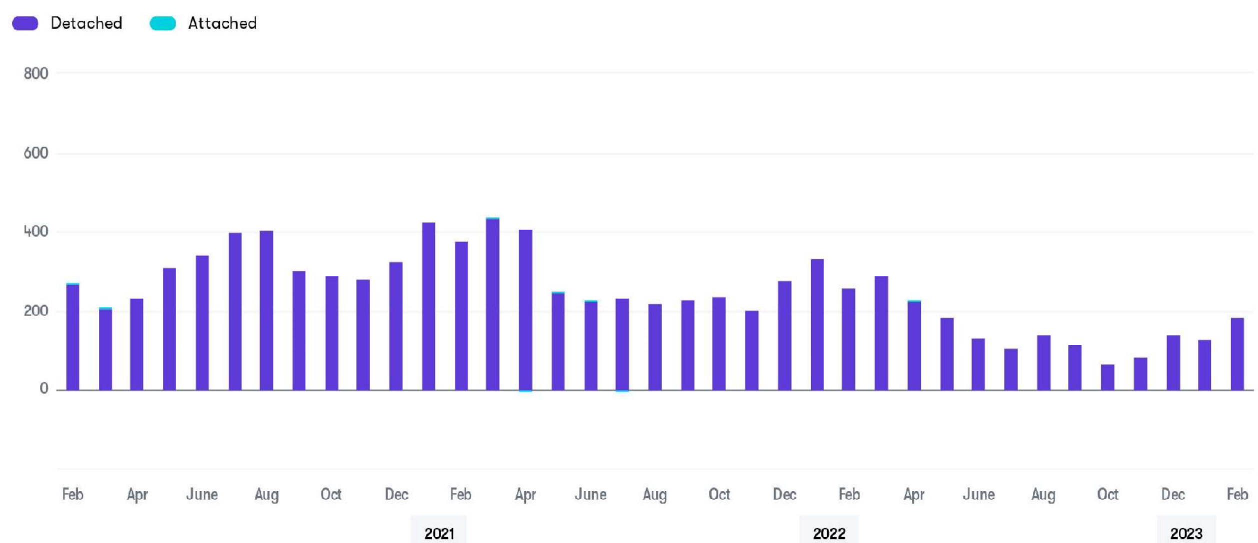
1,818 -45.4%

Last 12 Months

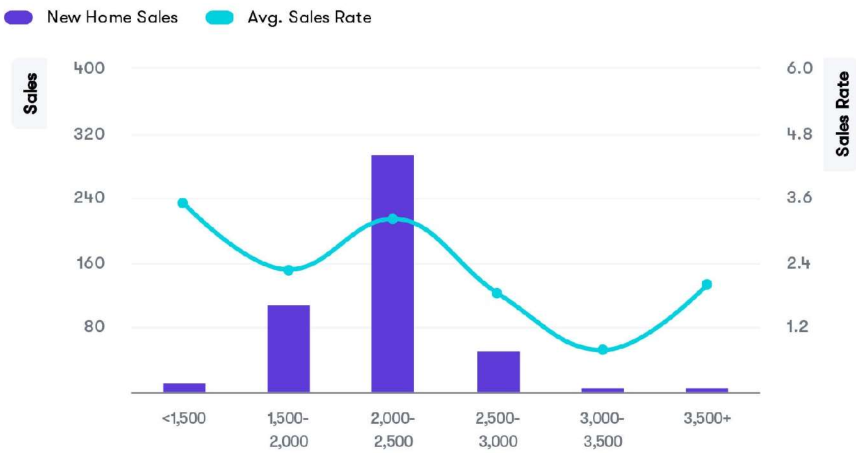
Attached Sales

4 33.3%

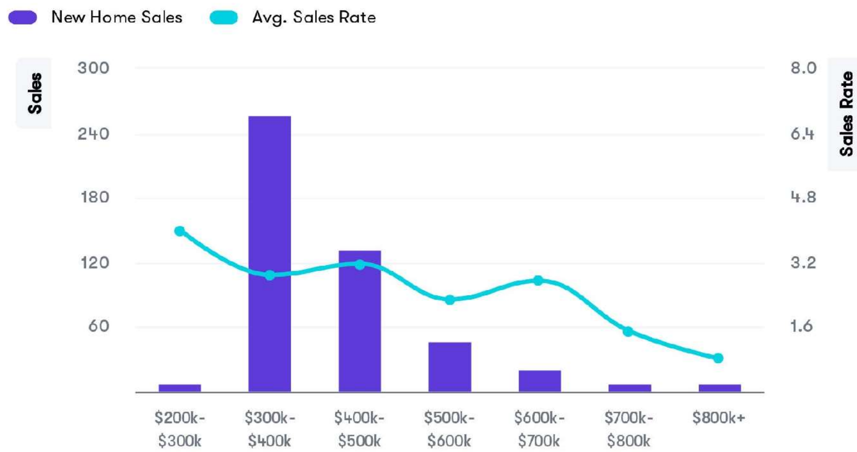
Last 12 Months



Sales by Avg. Unit Size



Sales by Avg. Price



Closings

New Homes

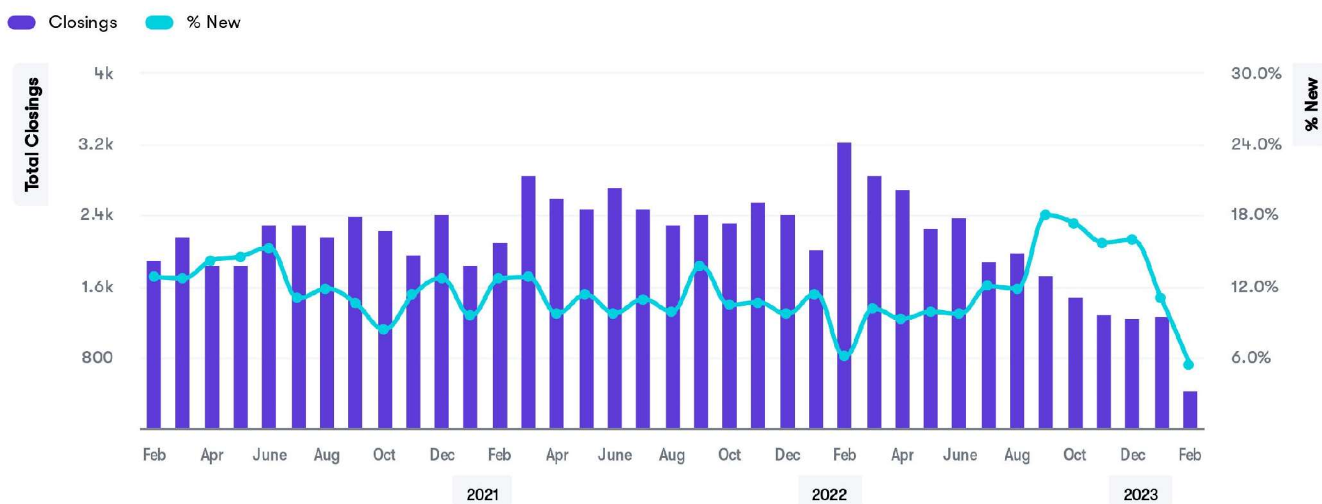
2,595 -18.4%

Last 12 Months

Existing Homes

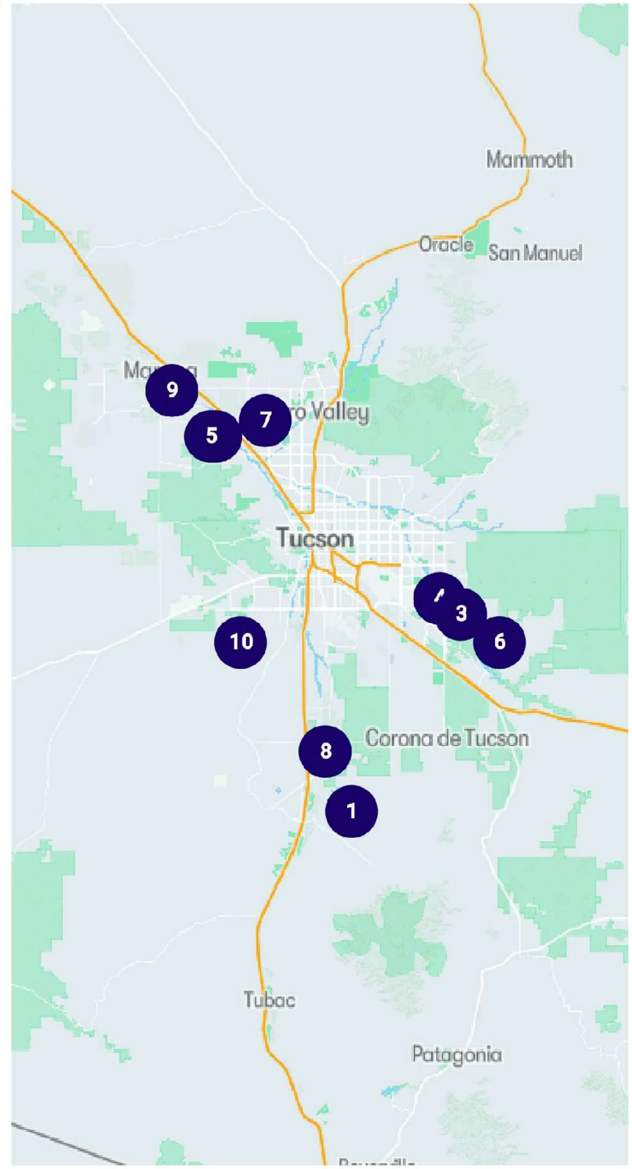
18,996 -30.5%

Last 12 Months



Top Active Projects

	MAP KEY	PROJECT NAME	BUILDER	CITY	TYPICAL LOT SIZE (SQ FT)	AVG. PRICE	AVG. SIZE	AVG. $/SQ FT	SALES RATE ↓
		Averages				**$406,676**	**2,030**	**$202**	**6.7**
1		Quail Creek	Robson Resort Communities	Green Valley	7,800	$464,733	2,019	$232	11.5
2		Saguaro Bloom/DR Horton	D.R. Horton, Inc.	Marana	6,050	$446,717	2,181	$197	9.6
3		Saguaro Trails	Mattamy Homes	Tucson	5,250	$447,154	2,296	$200	8.3
4		Bella Tierra	KB Home	Tucson	4,600	$357,990	1,948	$192	8.1
5		Saguaro Bloom/Mesquite	D.R. Horton, Inc.	Marana	5,750	$393,615	1,923	$201	5.4
6		Silver Ridge at Rocking K	KB Home	Tucson	5,200	$361,816	1,685	$219	5.3
7		Preserve at Twin Peaks	Lennar	Tucson	6,600	$556,561	2,452	$227	4.7
8		Entrada Del Rio	KB Home	Sahuarita	4,400	$305,590	1,491	$208	4.7
9		Meadows at Rancho Marana	Meritage Homes	Marana	6,500	$385,190	2,367	$165	4.7
10		Star Valley/Destiny	Lennar	Tucson	4,950	$347,390	1,945	$188	4.5



Top 15 Active Builders

#	BUILDER	# OF PROJECTS	AVG. PRICE	# OF YTD SALES ↓	MARKET SHARE	AVG. SALES RATE	REMAINING UNITS
	Averages/Totals	**94**	**$603,812**	**534**	**99%**	**2.70**	**6,358**
1	Meritage Homes	20	$408,855	122	22.9%	2.43	1,234
2	KB Home	11	$361,716	102	19.1%	3.67	556
3	Lennar	8	$435,994	76	14.2%	3.68	535
4	Mattamy Homes	9	$521,960	57	10.7%	2.81	518
5	PulteGroup Inc.	7	$442,020	55	10.3%	2.69	499
6	D.R. Horton, Inc.	8	$425,986	47	8.8%	3.95	672
7	Richmond American Homes	11	$381,603	25	4.7%	2.32	729
8	Robson Resort Communities	1	$464,733	22	4.1%	11.47	1,205
9	Pepper-Viner Homes	2	$403,745	12	2.3%	2.42	84
10	Fairfield Homes	8	$949,869	6	1.1%	0.52	197
11	LGI Homes	0	$318,150	3	0.6%	-	0
12	A.F. Sterling Homes	4	$585,244	2	0.4%	0.38	39
13	Miramonte Homes	3	$1,035,038	2	0.4%	0.49	74
14	Dove Mountain Investors LLC	1	$1,755,600	2	0.4%	0.74	10
15	The Builders Studio	1	$566,665	1	0.2%	0.23	6

Prices

The average list price for a new detached home in the Tucson, AZ region increased 3.2% from 2022 to $446,217 in March while the average list price for a new attached home increased 11.6% over the same period to $705,313. Homes priced under $250,000 experienced the most closing activity over the past year. The new home affordability ratio for a detached home reached 25.4% in February.

Price Highlights

Avg. New Detached List Price

$446,217 3.2%

Avg. New Attached List Price

$705,313 11.6%

Median Existing Detached Closed Price

$329,998 -2.9%

Median Existing Attached Closed Price

$240,000 4.3%

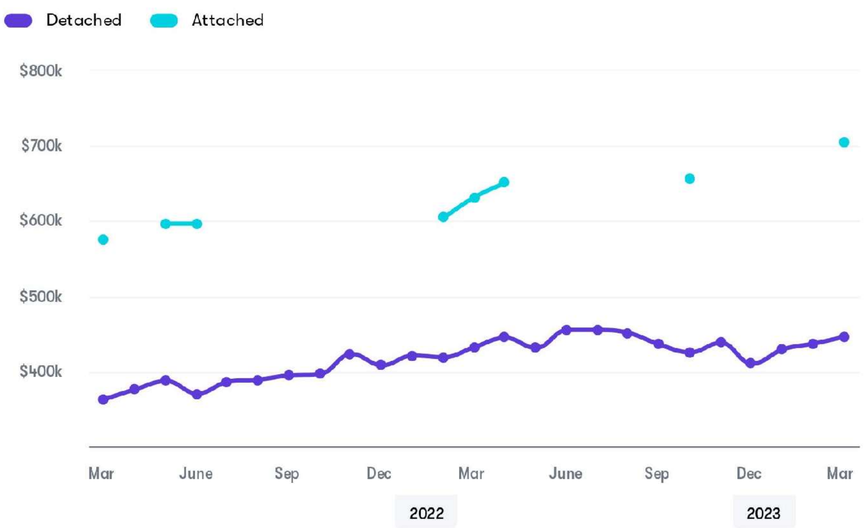
New Detached Home Premium

-4% ↓

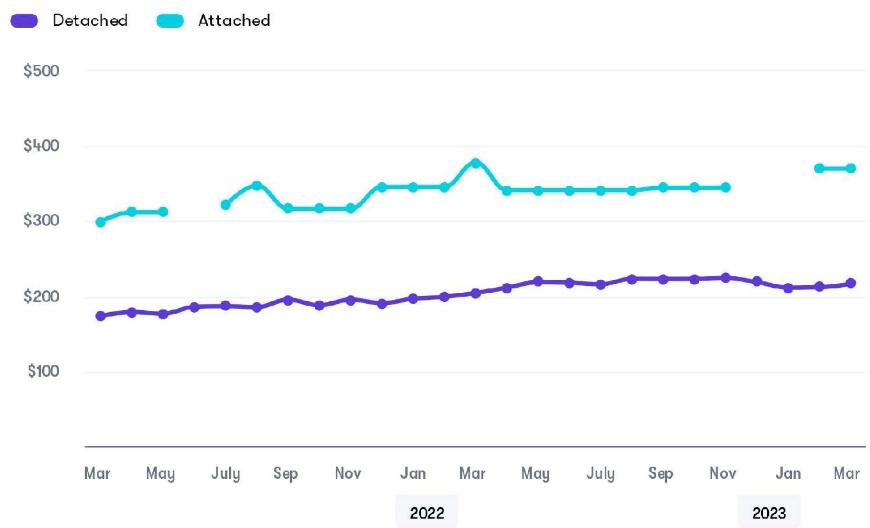
New Attached Home Premium

-29% ↓

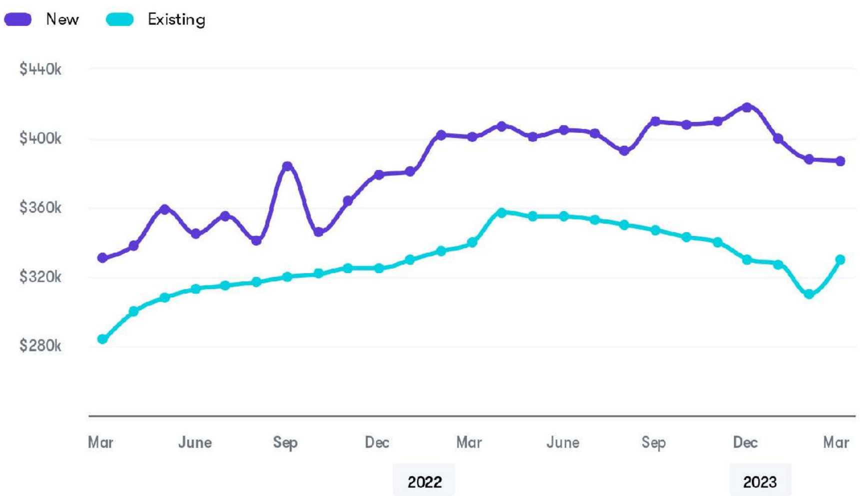
Avg. New Home List Price



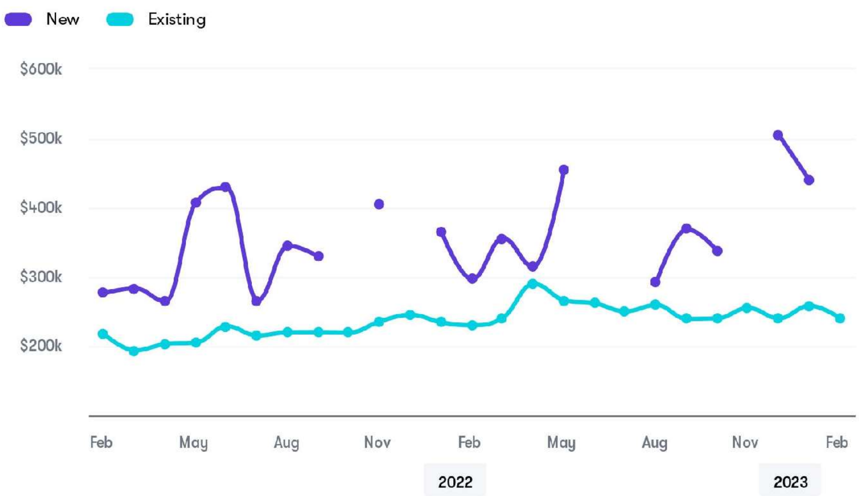
Avg. New Home List Price per SQ FT



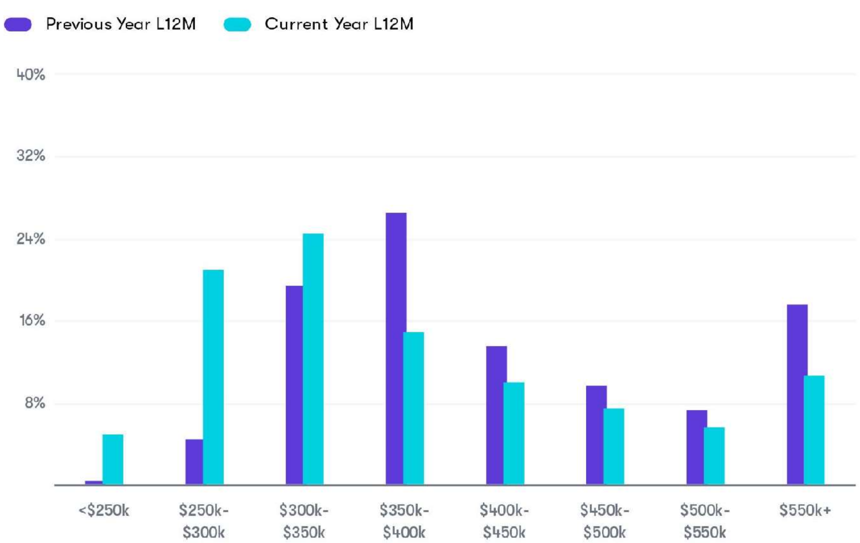
Detached Median Closing Price



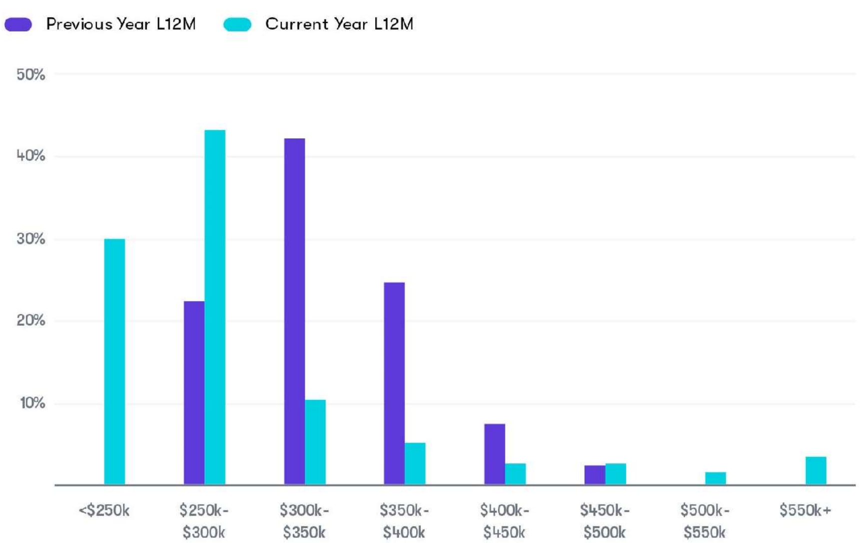
Attached Median Closing Price



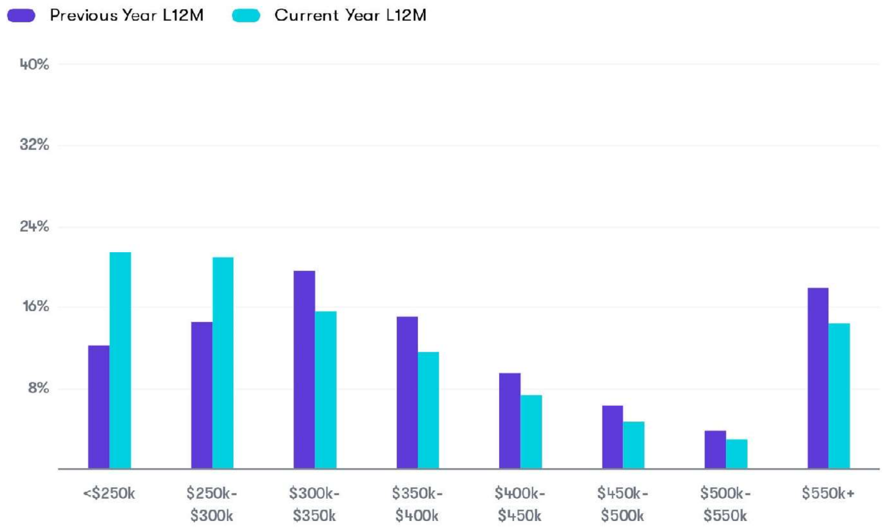
New Detached Closings by Price



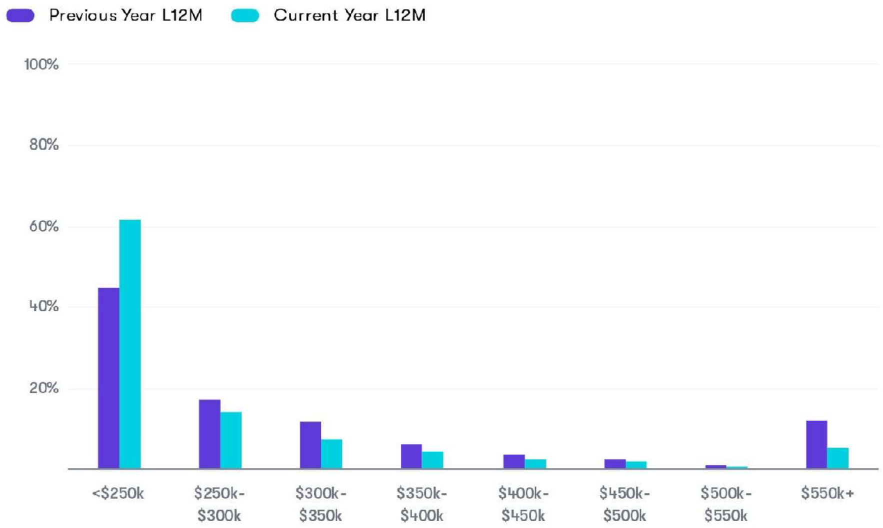
New Attached Closings by Price



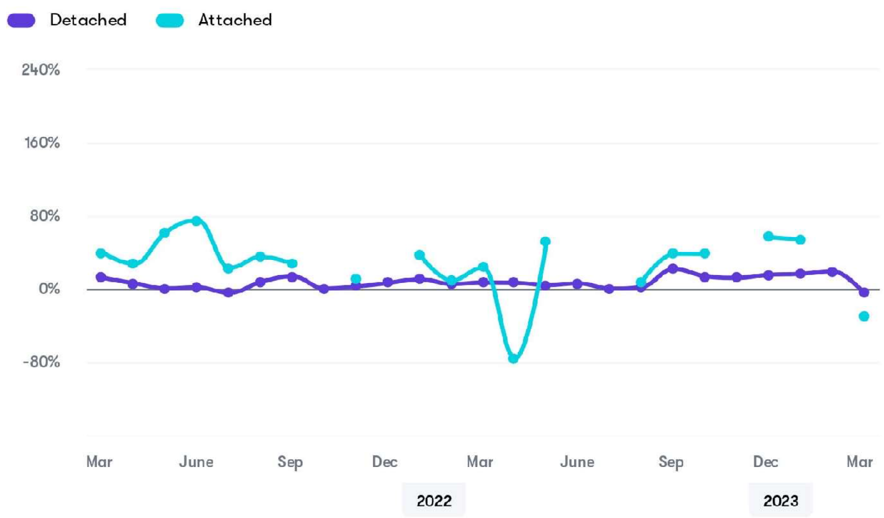
Existing Detached Closings by Price



Existing Attached Closings by Price



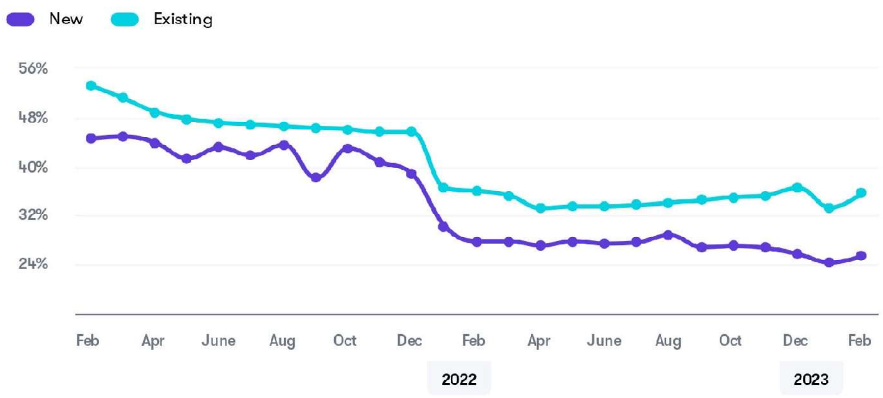
New Home Premium



Affordability Ratio

New
25.4% ↓

Existing
35.7% ↓



Distress

The region experienced 1 foreclosure in March, a decline of 50.0% year-over-year. Meanwhile, Notices of Default registered at 130 for the month, a decline of 41.4% over last year.

Distress Highlights

Notices of Default

130 -41.4%

Foreclosures

1 -50.0%

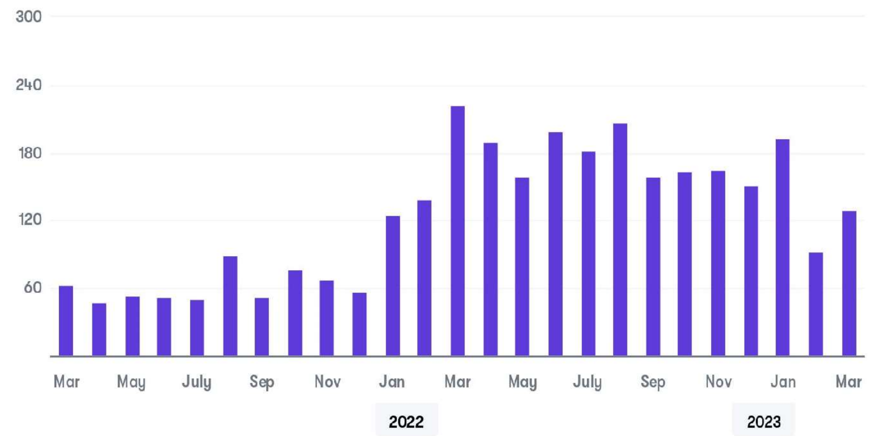
Foreclosures Market Share

0.1% ↑

Notices of Default

1,994 92.7%

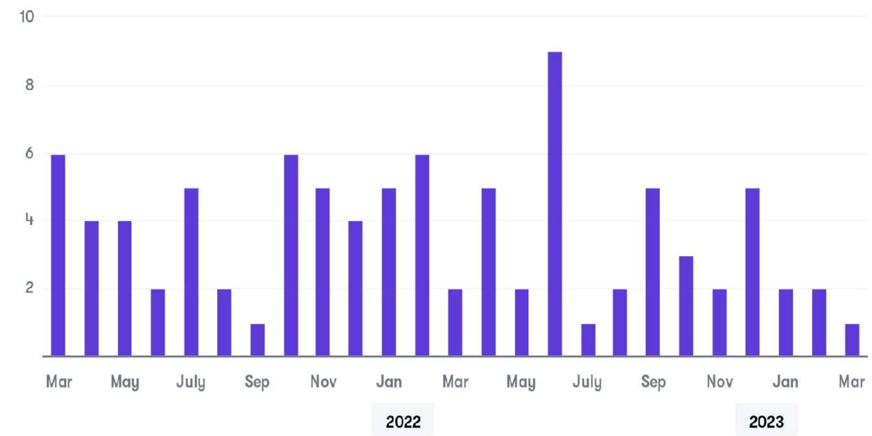
Last 12 Months



Foreclosures

39 -15.2%

Last 12 Months



Economy

Total nonfarm employment in the Tucson, AZ metropolitan statistical area increased 1.8% from the same period last year to 398,500 payrolls in Jan. 2023. There were approximately 800 more jobs in Jan. 2023 compared to the previous month. The local unemployment rate remained flat at 3.9% in January compared to 3.9% in the previous month. Jan. 2023's jobless rate is higher than it was this time last year when it stood at 3.4%. Zonda forecasts the region's unemployment rate will finish the year at 2.1%.

Economy Highlights

Current Month Jobs
398,500 1.8%

YOY Job Growth
5,300 -73.6%

MOM Job Growth
800 0.2%

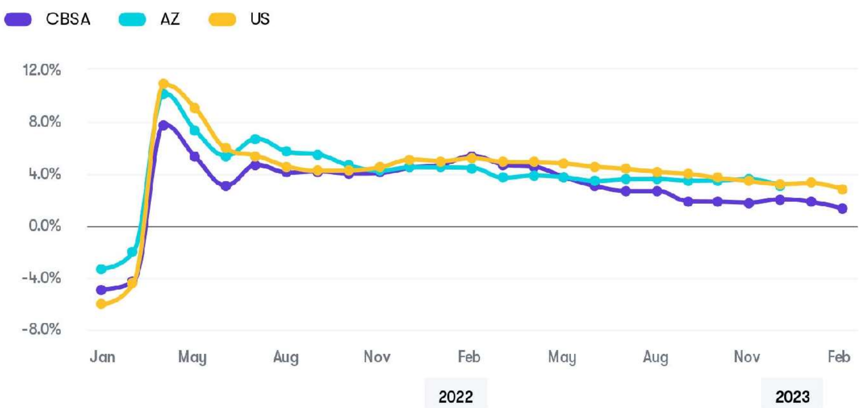
CBSA Unemployment Rate
3.9% ↑

AZ Unemployment Rate
4.0% ↑

USA Unemployment Rate
3.5% ↓

Job Growth Rate

1.4% CBSA
AZ
2.9% USA

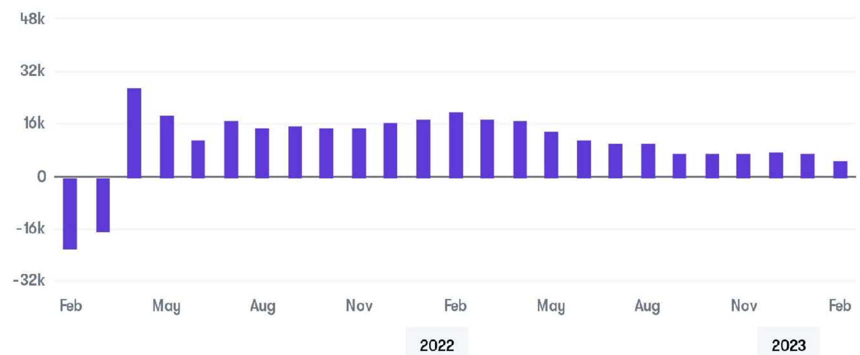


New Jobs

2023 Job Growth Forecast
17,476 4.5%

2024 Job Growth Forecast
6,802 1.7%

2025 Job Growth Forecast
6,067 1.5%



Job Growth by Industry

#	INDUSTRY	INDUSTRY SHARE OF TOTAL	CURRENT YEAR JOBS	YOY JOBS CHANGE	3 YEAR GROWTH FORECAST	3 YEAR GROWTH % CHANGE
1	Trade, Transport & Utilities	18.0%	73,667	4.1%	5,642	8.0%
2	Education & Health	18.1%	73,883	4.7%	6,725	9.5%
3	Professional & Business Services	11.8%	48,317	8.0%	3,175	7.1%
4	Government	19.3%	78,792	4.2%	4,225	5.6%
5	Hospitality	10.5%	42,858	-1.9%	-258	-0.6%
6	Manufacturing	7.4%	30,142	4.7%	3,517	12.2%
7	Finance	4.4%	18,158	-0.5%	-516	-2.8%
8	Information	1.3%	5,442	6.4%	525	10.3%
9	Other	3.5%	14,208	1.5%	991	7.1%
10	Construction	5.4%	22,000	19.5%	6,300	34.2%
11	Natural Resource Mining	0.4%	1,775	-3.6%	-67	-3.6%

Community

The current population for the Tucson, AZ metropolitan area is approximately 1,089,730 people. Population in the area is projected to increase by 1% in 2023. There are approximately 448,060 households in the region which is up 1.4% year-over-year. Forecasts show that current household formation is expected to increase by an annual growth rate of 1.4% for 2027. Incomes increased by 8.2% from the previous year to $68,507.

Community Highlights

Population

1,089,730 1%

Households

448,060 1.4%

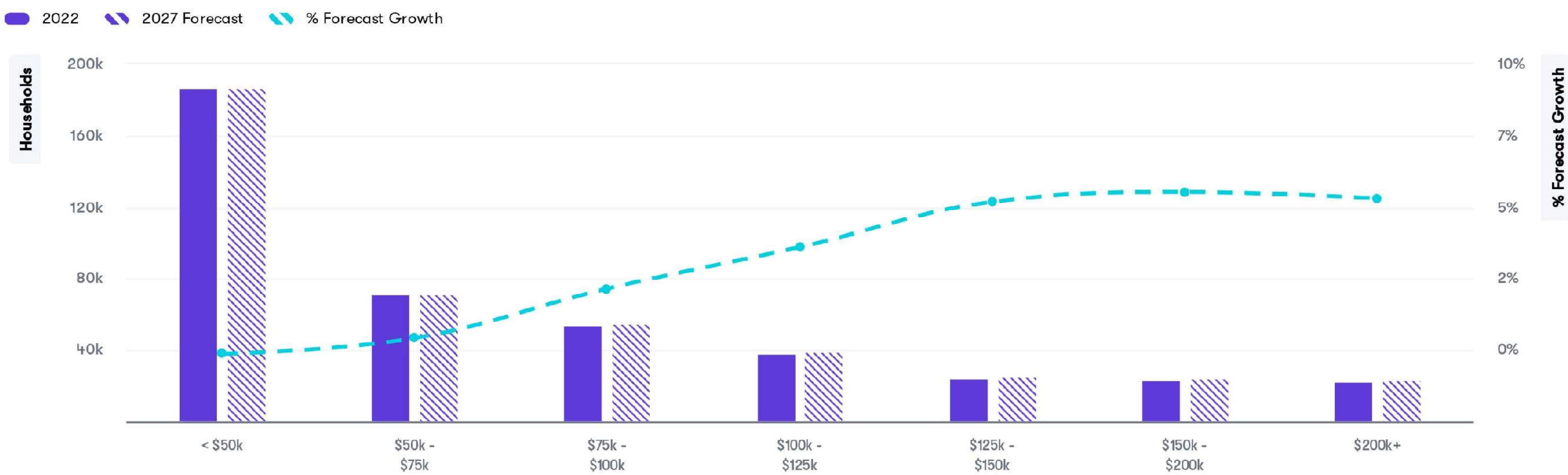
Median Household Income

$68,507 8.2%

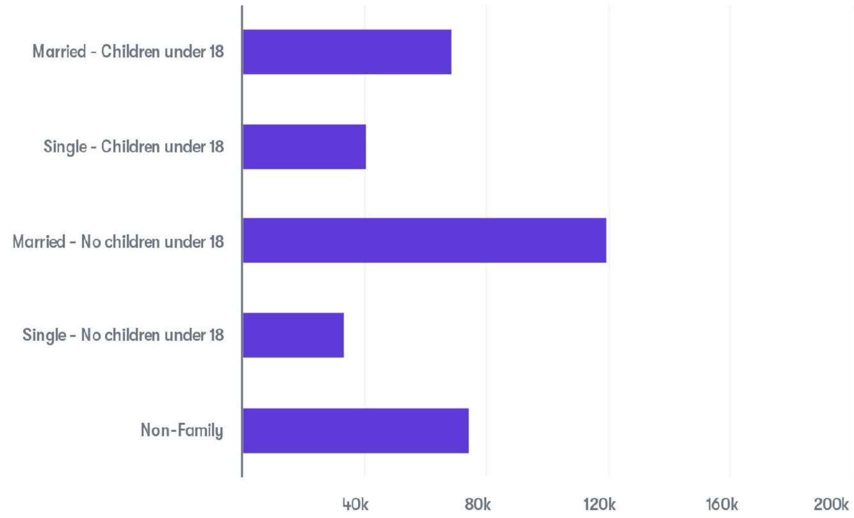
Housing Costs as % Income

55.0% ↑

Median Household Income



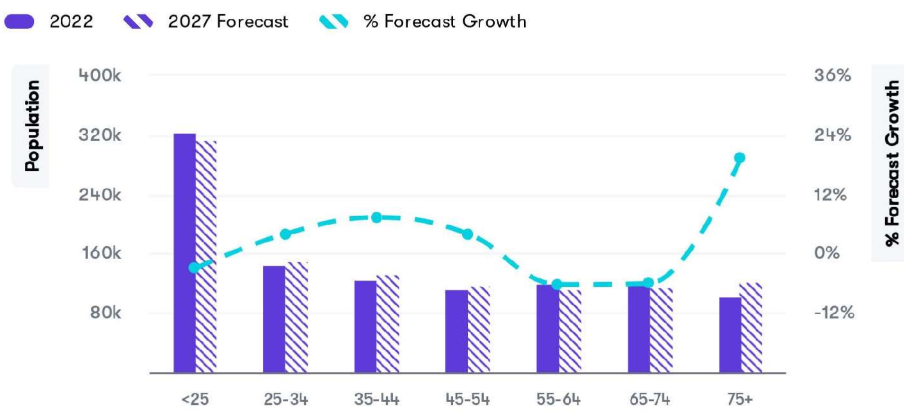
Household by Type



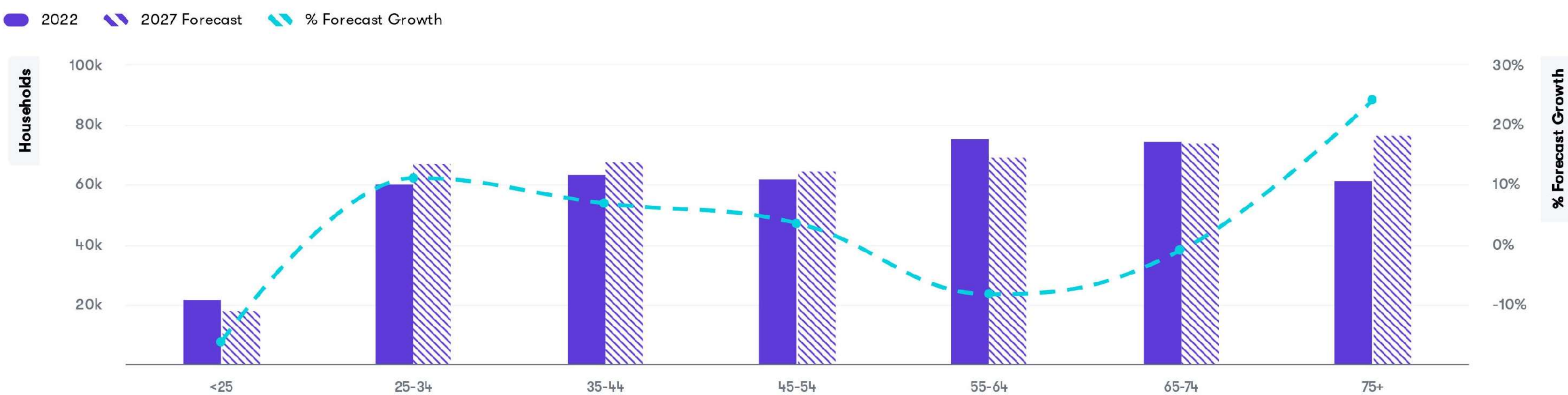
Population by Age

Median Age

40 years ↑



Household by Age



Market Health

Forecast

	2022	YOY CHANGE	2023E	YOY CHANGE	2024F	YOY CHANGE	2025F	YOY CHANGE
Total Jobs	391,735	3.2%	409,211	4.5%	416,013	1.7%	422,080	1.5%
Households	442,040	2.3%	448,060	1.4%	456,290	1.8%	464,160	1.7%
Single-Family Permits	3,814	-25.4%	2,894	-24.1%	3,095	6.9%	3,653	18.0%
Multifamily Permits	958	-18.0%	966	0.9%	959	-0.8%	859	-10.5%
Units Over/Under Built	+7,103	-	-9,969	-	-14,090	-	-16,877	-
% Over/Under Built	1.5% Overbuilt	-	2.1% Underbuilt	-	2.9% Underbuilt	-	3.5% Underbuilt	-
Median Household Income	$63,343	4.4%	$68,507	8.2%	$70,688	3.2%	$72,851	3.1%
Median Existing Det. Price	$358,866	9.2%	$342,750	-4.5%	$355,372	3.7%	$368,122	3.6%
Over/Undervalued	32.5% Overvalued	-	22.0% Overvalued	-	17.9% Overvalued	-	16.2% Overvalued	-

Market Health

History

	2022	YOY CHANGE	CURRENT MONTH/QUARTER	YOY CHANGE
Future Lots	87,369	-2.2%	-	-
Lot Deliveries	1,261	52.7%	-	-
Vacant Developed Lots	5,775	27.3%	-	-
VDL Months of Supply	19.3	42.9%	-	-
Starts	3,592	-10.9%	-	-
Housing Inventory	3,062	12.7%	-	-
New Home Sales	2,027	-34.3%	187	-28.6%
Deed Closings - New	2,862	-10.4%	23	-83.5%
Median New Closing Price	$401,608	15.3%	$388,098	-2.9%
Affordability Ratio - New	28.9%	-32.3%	25.4%	4.5%
Foreclosures	47	-7.8%	2	0.0%

10-Year Ann

	AVG.
Future Lots	90,811
Lot Deliveries	1,995
Vacant Developed Lots	6,363
VDL Months of Supply	33.8
Starts	2,457
Housing Inventory	1,489
New Home Sales	2,568
Deed Closings - New	2,440
Median New Closing Price	$288,702
Affordability Ratio - New	45.3%
Foreclosures	627