

July 2011 Mid-Year Report

Tucson Real Estate Market Overview

Tucson's economy remains flat with little job growth and a construction industry still reeling from the demise of the residential construction business. There was a very small increase in job growth in the manufacturing sector that is negligible overall. Absorption of industrial space for 2011 will be flat with a small amount of increased absorption expected. There is no demand in the foreseeable future for new construction within this sector and that will help stabilize rates. Most brokers agree that this trend will continue during the remainder of 2011. While demand for purchasing smaller industrial properties remains weak, we don't see a sharp decline in prices. While the media harps on the decline in home values, buyers of industrial properties have not seen these same steep declines in value. There are a couple of things responsible for this, primarily that those owners able to remain in a slow economic mode with little incentive to sell have held their pricing firm. There is the occasional "deal", but we do not see that much overall decline in building pricing other than the roughly 20% decline over the last three years. We don't see this trend continuing into 2012. We have counseled end users to focus on good quality properties that can best meet the needs of the user. Those buildings with good solid features will still bring the highest prices. While there have not been that many transactions, the largest five for the year thus far are:

Address	Price	SF	\$/SF	Date
1601 N 15 th Ave	\$975,000	39,448	\$24.72	1/4/2011
3779 E Felix Blvd	\$725,000	6,892	\$105.18	1/26/2011
2470 W Majestic Pky	\$925,000	17,664	\$52.37	3/29/2011
6970 S Palo Verde / NW Palo Verde & Corona	\$4,055,334	31,800		5/24/2011
2915 E Wieding	\$600,000	13,518	\$44.39	5/27/2011

Table 1: 2011 Top 5 Industrial Transactions

The industrial sector has remained somewhat stagnant with just a few sales consisting of mostly special purpose use properties such as the former mega RV sales and service facilities formerly occupied by Beaudry RV.

We might see some further erosion in square footage values off their peak from 2007/2008 but we don't anticipate a large decline between now and the remainder of the year. While Tucson's local economy remains in the doldrums, the national economy is not exactly any help in providing relief in the near term. In fact, just the opposite may be true with the juggling between political parties of the debt crisis in Washington. The next six weeks will be interesting.

So far, 2011 has been relatively consistent with last year's market in all real estate sectors except for the retail and multi family sectors. Most of the largest dollar volume transactions in the market have been in the apartment market. Most of those purchases have been by institutional investors with large portfolios based outside of Tucson and are capitalizing on increasing occupancy rates. SB 1070 and Arizona's anti immigration legislation contributed to a sharp decline in occupancy rates for this sector that ultimately led to a sharp decline in values on pro forma sheets. Since many of these were purchased at the peak of the market, there was little room for error when it came to occupancy declines. Some people think that the overall effect on the apartment market by the legislation was about an additional 10-15% in increase in vacancy. At the same time or slightly later, there has been an exodus of people leaving their single family residences because of foreclosure and needing a place to live. New investors in this sector are capitalizing on this event. The five largest transactions in the multi-family market have been:

Address	Price	SF	\$/SF	Date
211 S 5 th Ave – Armory Park	\$1,125,000	88,648	\$12.69	4/1/2011
1050 E 8 th St – Sky View Apartments	\$8,285,000	58,160	\$142.45	1/18/2011
1120 E Irvington Rd – Quail Meadow	\$2,150,000	76,606	\$28.07	6/16/2011

1345 S Kold – Villa Antiqua	\$11,750,000	362,965	\$32.37	4/8/2011
5650 S Park Ave – Santa Luz Apartments	\$2,950,000	101,944	\$28.94	4/21/2011

Table 2: 2011 Top 5 Multifamily Transactions

The retail sector remains mixed but there does appear to be renewed interest in both regional and neighborhood centers as retailers change their strategies and adapt to new technologies and buyer habits. Smaller neighborhood centers are still feeling the sting of the local economy as the increase in fuel prices have hurt consumer purchase power. The largest retail transactions were:

Address	Price	SF	\$/SF	Date
4220 E 22 nd St – Bill Breck Dodge	\$4,000,000	42,895	\$93.25	5/4/2011
5043 & 5151 S Country Club, 5970 S Palo Verde, 3200 & 3220 E Irvington	\$9,555,000	160,763	\$59.44	4/28/2011
7335 S Houghton & 6150 S Kolb	\$4,308,374	14,994	\$287.34	5/18/2011
3749 W Ina Rd	\$4,044,000	37,540	\$107.73	4/5/2011
1640 – 1710 W Valencia	\$17,458,790	91,744	\$190.30	6/2/2011

Table 3: 2011 Top 5 Retail Transactions

With regards to the residential market, everyone asks, “are we there yet”? “Have we reached the bottom?” I suspect we have. We have seen a decline in foreclosures this year in 2011. Sales of properties in the \$400,000-\$1,300,000 price range are slow but those homes were \$700,000-\$1,300,000 just three and four years ago. One economic bright spot is the amount of new economic activity within the downtown corridor. It is hard if not impossible to find housing in this particular sub market. We will bounce around on this “bottom” for about eighteen months in my opinion. While we won’t see the values we saw in 2006 anytime soon, I predict that values will begin increasing in 2013.

This completes our mid year report for 2011. Let’s hope our Congress and President take on their respective responsibilities to us, the voters, and resolve the pending debt crisis. In the meantime, we have a portfolio of properties that can meet the needs of most business either for lease or for sale. Have a great summer.