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2022 MID-YEAR MARKET REPORT

TUCSON AND SOUTHERN ARIZONA



Jeanette Hochstatter

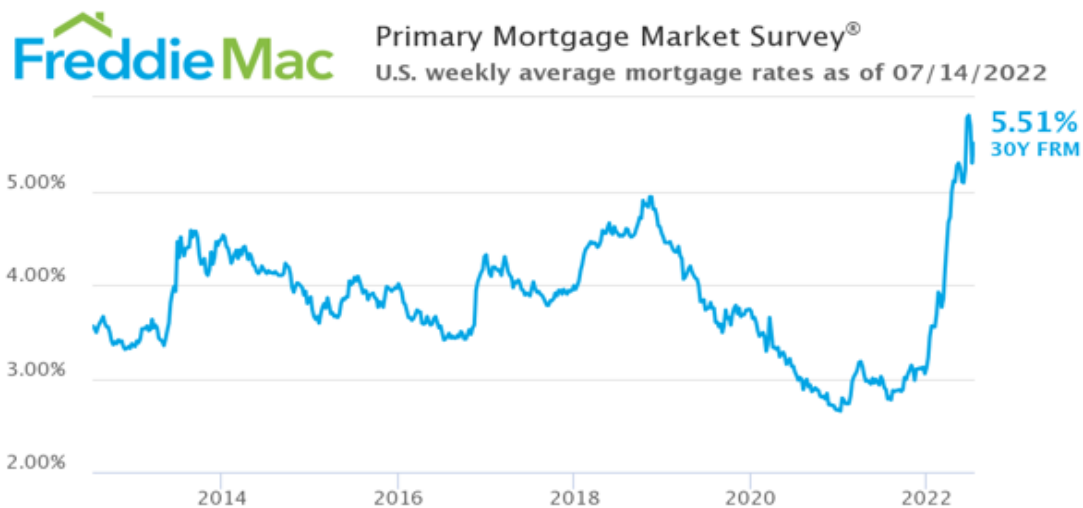
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Arizona Housing — Market Pulse

As we previously forecasted, the blazing hot housing market we have experienced over the last two years is now adjusting to more normal market conditions. Record high inflation spurred the Federal Reserve to raise interest rates, which led mortgage rates to increase. Though mortgage rates have recently trended down somewhat, the combination of fast home price appreciation and rising rates have slowed buyer demand and helped create affordability challenges. Alternatively, rental rates continued to rise with a 23.3% annual increase in Phoenix and 21.9% annual increase in Tucson. We expect housing affordability issues will continue to drive rental demand and future rental rate hikes.



The recent fast-paced, strong seller's market was not what we would consider a normal market. Now, our local housing market is returning to a more historically normal activity. With this shift, it is imperative to work with a professional and up to date agent as your advisor.

- **Rising active listing inventory.** However, we are still only 50% of the inventory levels, which is historically seen in a more balanced market.
- **Softening of buyer demand.** We see this especially at lower price points, though high-end demand is still strong.
- **Deceleration of pricing growth.** We expect softening buyer demand and rising inventory will translate to less competition on listings and less upward pressure to bid up home sale pricing.

Real Estate Trends Are Local

The market conditions happening in your neighborhood may be different than others and what you may see from city, state or national numbers. Request a neighborhood market trend report from your Long Realty agent.



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Mortgage rates based on information obtained from FreddieMac.com
Statistics based on information obtained from MLSSAZ on 07/13/2022 using TrendGraphix software
Information is believed to be reliable, but not guaranteed.

Buyer Demand Moderates

When an offer is accepted on a listing, the property goes “under contract.” Under contract is a leading indicator to closed sales. We saw a softening of buyer demand in Q2 2022 with declines in listings going under contract. In June 2022, the number of new under contract properties was down 10.6% from prior month and down 15.5% from June 2021. **YTD new under contract properties are down 6% compared to 2021.**



| Properties Under Contract | Tucson | Green Valley | Sahuarita | Sierra Vista | Phoenix |
|---------------------------|--------|--------------|-----------|--------------|---------|
| 2021 YTD | 11,982 | 1,398 | 473 | 1,117 | 54,769 |
| 2022 YTD | 11,263 | 1,339 | 492 | 1,103 | 48,589 |
| Percent Change | -6.0% | -4.2% | 4.0% | -6.3% | -11.3% |



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Home Sales Dip

Closed sales started the year off strong, matching Q1 2021 pace through March. As interest rates began rising in Q2, we saw closed sales drop slightly through May. In June residential Tucson metro home sales were down 14.5% from the prior month and down 22.7% from one year ago. **YTD closed home sales are down 4.9%.**



| Closed Sales | Tucson | Green Valley | Sahuarita | Sierra Vista | Phoenix |
|----------------|--------|--------------|-----------|--------------|---------|
| 2021 YTD | 10,661 | 1,394 | 462 | 1,075 | 53,327 |
| 2022 YTD | 10,140 | 1,303 | 445 | 1,060 | 48,812 |
| Percent Change | -4.9% | -6.5% | -3.7% | -1.4% | -8.5% |



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Listing Inventory Growing But Still Scarce

The number of active listings grew to 1,946 in June 2022 up from a historic low. While the increase in inventory is helpful to buyers, it is still 50% below normal levels. Supply chain issues in new construction and the fact that some homeowners have either bought or refinanced at mortgage interest rates well below today's rates, may stall future inventory growth.

Tucson Residential — Active Inventory



New Listings Consistent

The number of new residential listings in Tucson through June was virtually unchanged from 2021 YTD. New listings grew by 8.5% in June as compared to the prior month. June also marks the high-water mark of new listings since January 2021.

Tucson Residential — Active Inventory



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Listings Selling Immediately

On average, listings took only 15 days in June to go under contract from first coming onto the market. This is still a historically low average for Days on Market and means that listings are still selling quickly even with a normalizing market.

Residential Days on Market — Tucson



Luxury Market is Strong

The luxury market in Tucson (homes priced \$800,000 or higher) continues to show strength, with YTD closed sales up 14.8% over YTD 2021, and consistently higher than last year's sales rate. High-end listings in Tucson continue to be attractive and a value to affluent buyers, especially those coming from higher price markets. Luxury sales tend to be funded with cash and less with financing, making those buyers less affected by mortgage rate increases.

Tucson Luxury — Closed Units



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Median Sales Price on the Rise

Median home sales price increased to \$377,935 in June 2022, up 16% from June 2021. Higher home values have helped grow equity and household wealth.

Tucson Home Sale — Median Price



| Median Sold Price | Tucson | Green Valley | Sahuarita | Sierra Vista | Phoenix |
|-------------------|-----------|--------------|-----------|--------------|-----------|
| June 2021 | \$325,702 | \$268,553 | \$297,000 | \$230,000 | \$401,854 |
| June 2022 | \$377,935 | \$347,065 | \$349,500 | \$260,000 | \$482,640 |
| Percent Change | +16.0% | +29.2% | +17.7% | +13.0% | +20.1% |

Monthly Mortgage Payments Rise

The combination of rising home sale prices and recent mortgage rate upticks have decreased buyer affordability, with monthly payments on a median priced home in Tucson now at \$2,067. This represents a 58.8% increase from June 2021.

Average Monthly Payment — Tucson Median Priced Home



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Still A Seller's Market

Months of Inventory is a way to measure the relationship between demand (home sales) and supply (listing inventory), and categorize what kind of market we are in. Despite recent slipping of buyer demand and an increase to 2.4 months of inventory in June, we are still deep into a seller's market. We do expect market conditions to moderate in the second half of the year and move to more balanced market.

Months of Inventory — Tucson

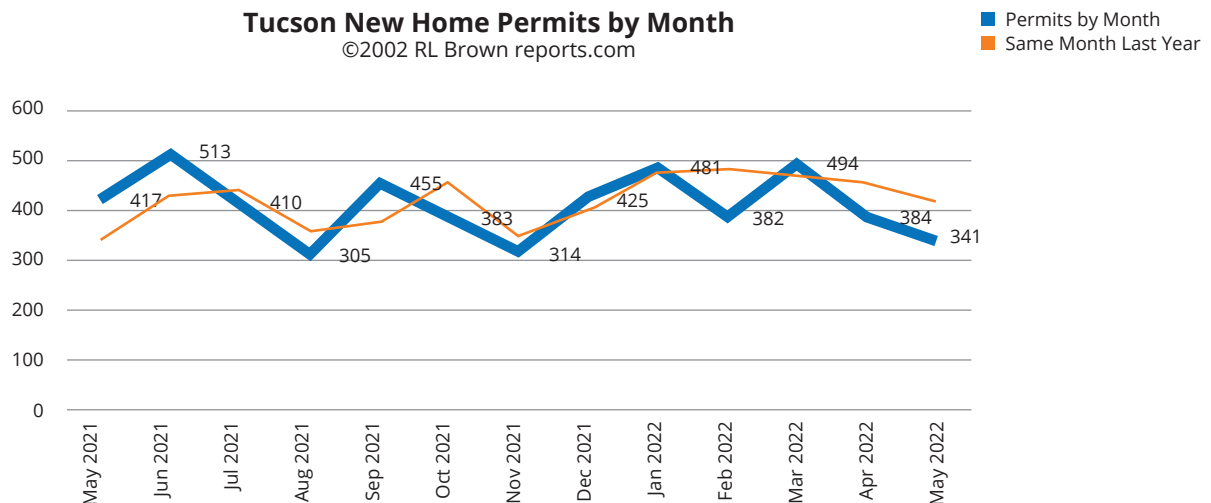


New Construction Permits Remain Flat

The number of new construction permits in Tucson has remained relatively flat, as compared to last 12 months. In the second quarter, we started to see a dip where permits were running below last year's levels. Supply chain issues, rising prices of building materials and higher interest rates may present a headwind for builders.

Tucson New Home Permits by Month

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Statistics based on information obtained from MLSSAZ on 07/13/2022 using TrendGraphix software. New construction data based on information obtained from RLBrownReports/Bright Future Real Estate Research. Information is believed to be reliable, but not guaranteed.

Local Real Estate Trends — Around the Town

Real estate trends are local in nature. What is happening in your neighborhood may be different than other parts of town. Here is just a sample of different neighborhood areas in our communities and how they differ.

| HOMES SOLD | Sam Hughes | Rita Ranch | Fairfield | Continental Reserve | Dove Mountain | Quail Creek |
|---------------------------------------|------------|------------|-----------|---------------------|---------------|-------------|
| Vs Same Month 2021 | | | | | | |
| June 2022 | 10 | 30 | 11 | 26 | 22 | 11 |
| June 2021 | 7 | 33 | 9 | 21 | 43 | 18 |
| Percent change June 2022 vs June 2021 | +42.9% | -9.1% | +22.2% | +23.8% | -48.8% | -38.9% |
| Vs Prior Month | | | | | | |
| May 2022 | 10 | 24 | 6 | 31 | 36 | 20 |
| Percent change June 2022 vs May 2022 | Unchanged | +25% | +83.3% | -16.1% | -38.9% | -45% |
| MEDIAN SALES PRICE | | | | | | |
| June 2022 | \$497,000 | \$360,000 | \$597,500 | \$368,300 | \$507,450 | \$477,000 |
| June 2021 | \$515,000 | \$300,000 | \$487,000 | \$290,000 | \$420,500 | \$364,950 |
| Percent Change | -3.5% | +20.0% | +22.7% | +27.0% | +20.7% | +30.7% |

Contact me to receive a market report with more information specific to your neighborhood.

Homeowners See Big Equity Gains

The accelerated growth in home prices has created a benefit to most homeowners. Nationally, and on average in the last year, homeowners have gained \$64,000 in home equity, **while in Arizona that gain was \$96,000.** Though home price growth should decelerate, we expect the gains realized so far to remain intact which should keep the risk of new foreclosure activity low.

Homeowner Equity Gains

Year-Over-Year, Q1 2022



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A Soft Landing for Real Estate

Despite the conjecture you might hear in the news, there is no underlying data to support a housing crash. Instead, this time around we expect a shift to a more normal real estate market, where listings can take 1-2 months to sell, buyers have choices and can negotiate, with home price growth returning to more historical levels of 5-6% per year. Growth, not decline. Real estate conditions and trends vary greatly by location and neighborhood, so please reach out for more localized information for your area, or if you have any real estate needs.

Unlike the past real estate crash, this correction cycle is underpinned with quality borrowers, who are at lower risk of default. Tighter lending standards resulted in borrowers with higher credit scores.

Lending Standards Are Tighter Today

Volume of Loans in Billions with a Credit Score <620



KEEPING CURRENT MATTERS

Source: Federal Reserve

Home Price Forecasts for 2022



KEEPING CURRENT MATTERS

Given that the market is normalizing vs crashing, and that supply and demand are moving to a more normal and balanced position, economists forecast that home sale prices will appreciate on average 8.5% in 2022, not the 20%+ rate experienced in the last two years. Of course, the value of your home depends on market conditions in your neighborhood and area. None of the economists are forecasting a decline in home prices.



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