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ALERT TOP STORY

No relief in sight for Tucson home prices in 2022

Gabriela Rico
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A five-bedroom, six-bath home south of downtown Tucson is listed at \$1,495,000. Not since 2009 has the Tucson area been considered a "buyer's market," and 2022 is not expected to become one. The average new home price here is around \$400,000.

Rebecca Sasnett PHOTOS, Arizona Daily Star

Gabriela Rico

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L Prospective homebuyers will continue to face stiff competition for new homes in 2022 as Tucson's surprisingly robust housing market of the past two years shows no signs of slowing down.

Predictions of whether the Federal Reserve will increase interest rates to calm the bidding frenzy vary widely.

Meanwhile the ongoing shortage of new homes and longer build times, due to supply-chain backlogs, is expected to keep prices inching up.

Already, the average new home price in the Tucson market is around \$400,000, and the average resale home commanded \$356,000 at the end of 2021.

Not since 2009 has the Tucson area been considered a "buyer's market," and 2022 is not expected to become one.

Investors still consider the Tucson area affordable when compared to markets on the West Coast, from where we're seeing many transplant workers and retirees.

"We expect additional homebuilders to migrate their activities to the Tucson area attracted by the obvious economic and population growth trends and the availability of buildable land," said local housing analyst Jim Daniel, with RL Brown Reports. "These builders can be expected to be aggressive and highly competitive as they attempt to capture market share."

Lucrative market

Cash.

That is the blessing or the problem impacting the housing market, depending on one's perspective.

"There's quite a bit of cash coming in from people liquidating homes," said Judy Lowe, vice president of operations for the Tucson Association of Realtors.

It's a combination of workers relocating from more expensive markets, baby boomers retiring and cashing out Foothills properties and investors interested in snapping up single-family homes to be used as rentals.

"Affordability is a huge concern," Lowe said. "We are still a lucrative market for investors because, in Arizona, Tucson ranks as one of the most affordable markets."

Some believe an increase in interest rates is the solution.

A group of 20 top economic and housing experts brought together by the National Association of Realtors projects that median home prices will increase by 5.7% in 2022.

Analysts' predictions for what the Federal Reserve will do about interest rates vary wildly with some saying there will be no increase in 2022 to others who believe interest rates could be hiked up to three times.



A two-bedroom, two-bath home for sale at 438 W. 18th St. is listed at \$355,000. Housing has become less affordable in Tucson in part because of a limited supply as investors snap up single-family homes to be used as rentals.

Rebecca Sasnett, Arizona Daily Star

The current mortgage rate is a little over 3% on a 30-year fixed mortgage.

The average prediction from leading economists is that it could rise to 3.8% in 2022, with some expecting rates to rise to more than 4%.

“Interest rates impact affordability even more,” Lowe said. “When interest rates creep up, it has an impact on the homebuyers, but also on sellers who decide not to sell.”

That, in turn, could affect the already tight supply of homes for sale.

Not letting up

The Tucson area is a beneficiary of all of these changes in the market as people are discovering the Old Pueblo, Lowe believes.

“I see us as a lure for potential buyers thinking about Arizona and really looking at Tucson,” she said. “In the past, people didn’t realize what Tucson had to offer.”

The National Association of Realtors, in fact, named Tucson one of its top 10 housing market “hidden gems” for 2022 during its recent real estate forecast summit.

“The housing sector performed spectacularly in 2021 in many markets with huge gains,” said Lawrence Yun, NAR chief economist and senior vice president of research. “Several markets did reasonably well in 2021, but not as strong as the underlying fundamentals suggested.

“Therefore, in 2022, these ‘hidden gem’ markets have more room for growth.”

Tucson is very affordable compared to Phoenix, the forecast says.

In the first quarter of 2021, the median property value was \$261,046 which is equivalent to three times the median family income, compared to the median property value in Phoenix of \$364,186 which is 4.3 times the median family income.

Among the top 10 undervalued markets, Tucson had the third largest net domestic migration in 2020, at 10,778 — next to Dallas and San Antonio.

“As anyone involved in the housing markets in Tucson already knows, there are a myriad of questions as to what to expect in the months ahead, and the opinions and projections from observers vary from one extreme to another,” analyst Daniel said. “Based upon the data that we track each day, relative to the metro Tucson marketplace, and our conversations with both long-term and a surge of recent new clients, we see little to suggest much of a change over the next year in the overall market velocity, and specifically in the new-home metro Tucson marketplace.”

The number of investors buying existing homes to be used as rentals and developers building housing communities exclusively for renters is also expected to increase as potential homebuyers are sidelined by rising home prices and choose to rent.

“The growth of investor interest in new and resale housing as rental investments has long been a factor in the metro Tucson housing market,” Daniel said, “but has the potential to become a much more potentially significant factor and bears careful watching.”