



**Alliance Bank**  
OF ARIZONA®

# Regional Intelligence Report

Economic Outlook: Tucson, Arizona

OCTOBER 2023

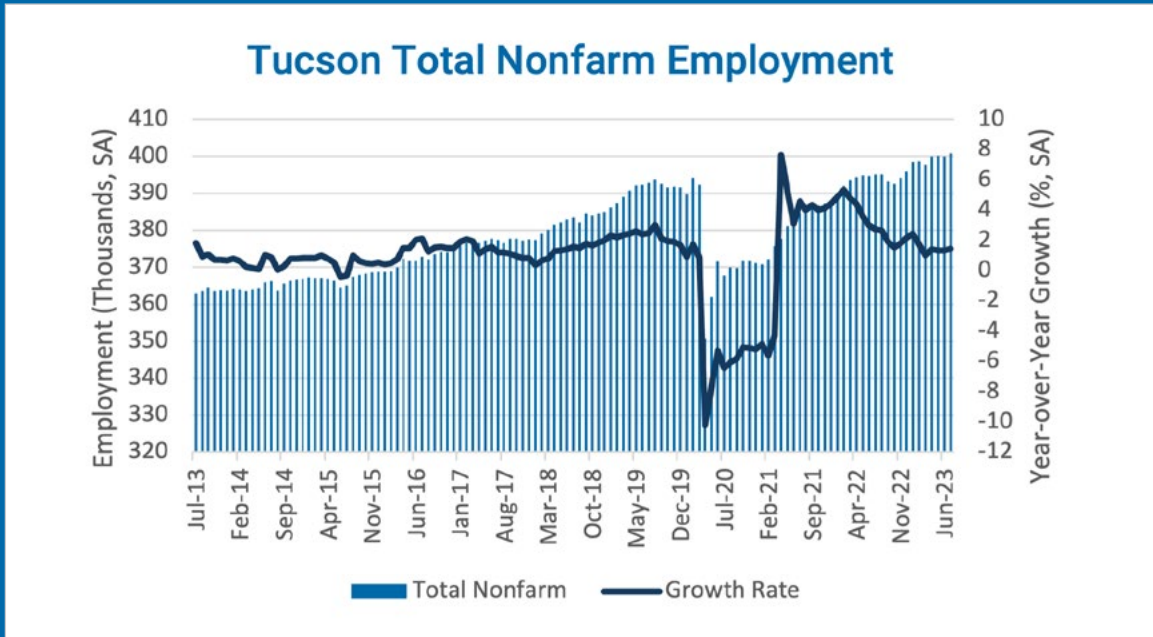
Prepared by Beacon Economics, LLC  
Presented by Alliance Bank of Arizona

# Overview

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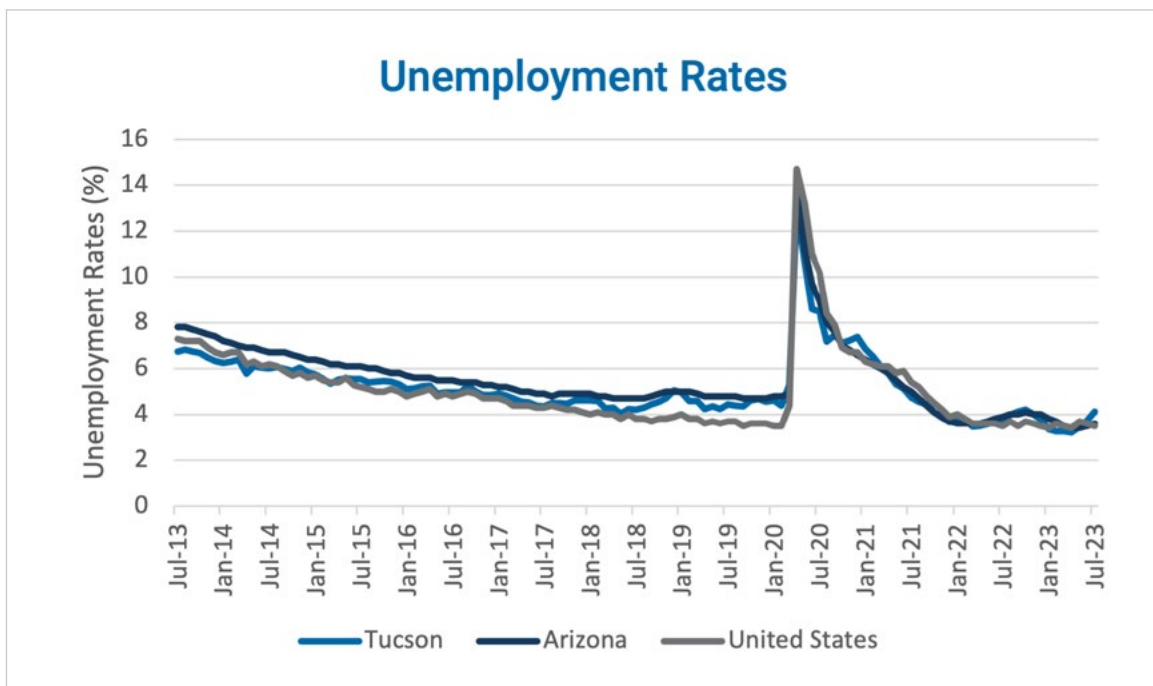
- Tucson has recovered all of the jobs that were lost due to the COVID-19 pandemic. As of July 2023, there are now 6,700 more people employed in Tucson compared to February 2020, a 1.7% increase.
- Rising e-commerce spending since the start of the pandemic has helped boost payrolls in Tucson's Transportation, Warehousing, and Utilities sector, which accounted for over two-thirds of the jobs added in Tucson since the start of the pandemic.
- The housing market in Tucson is beginning to show signs of slowing. However, prices are still significantly elevated compared to their pre-pandemic peak. The median single-family home price in Tucson is now 47.8% above February 2020 levels.
- While residential permitting activity has declined over the last year in Tucson, permitting activity remains above pre-pandemic levels.
- Demand for warehouse space in Tucson remains strong. The warehouse vacancy rate dropped to 3.2% in the second quarter of 2023, down 4.8 percentage points from a year earlier.
- Generally, there are few signs of weakness in Tucson's commercial real estate market

# Labor Markets



Source: U.S. Bureau of Labor Statistics

As of July 2023, Tucson has recovered all of the jobs that were lost in March and April 2020, and there are now 6,700 more people employed in Tucson compared to February 2020. Total nonfarm employment in Tucson has grown 1.7% over this time compared to 5.5% increase in Arizona and a 2.6% increase in the U.S. Tucson increased payrolls by 1.4% from July 2022 to July 2023, trailing the 1.8% increase in Arizona and the 2.2% increase in the nation over the same period.



Source: U.S. Bureau of Labor Statistics

Unemployment rates have also improved from their pandemic highs. However, Tucson has seen unemployment levels rise in recent months, but at 4.1%, the unemployment rate in Tucson is near pre-pandemic levels. Tucson’s unemployment rate remains elevated compared to Arizona (3.6%) and the U.S. (3.5%). Tucson has seen its labor force steadily expand since the beginning of the pandemic, with 11,300 more people in the region’s labor force compared to February 2020, a 2.3% increase. This is a larger increase compared to the U.S. (1.6%), but trails the rapid rise in Arizona (6.2%) over the same period.

Rising e-commerce spending since the start of the pandemic has helped boost payrolls in Tucson’s Transportation, Warehousing, and Utilities sector by 4,900 jobs (or 33.2%) since February 2020. Other sectors with sizable increase in payrolls over this period were Financial Activities (2,600 jobs or 14.5%), Manufacturing (1,900 jobs or 6.7%), Construction (1,700 jobs or 9.5%), Wholesale Trade (600 jobs or 8.4%), Natural Resources and Mining (400 jobs or 20.8%), Other Services (400 jobs or 2.6%), and Retail Trade (300 jobs or 0.6%).

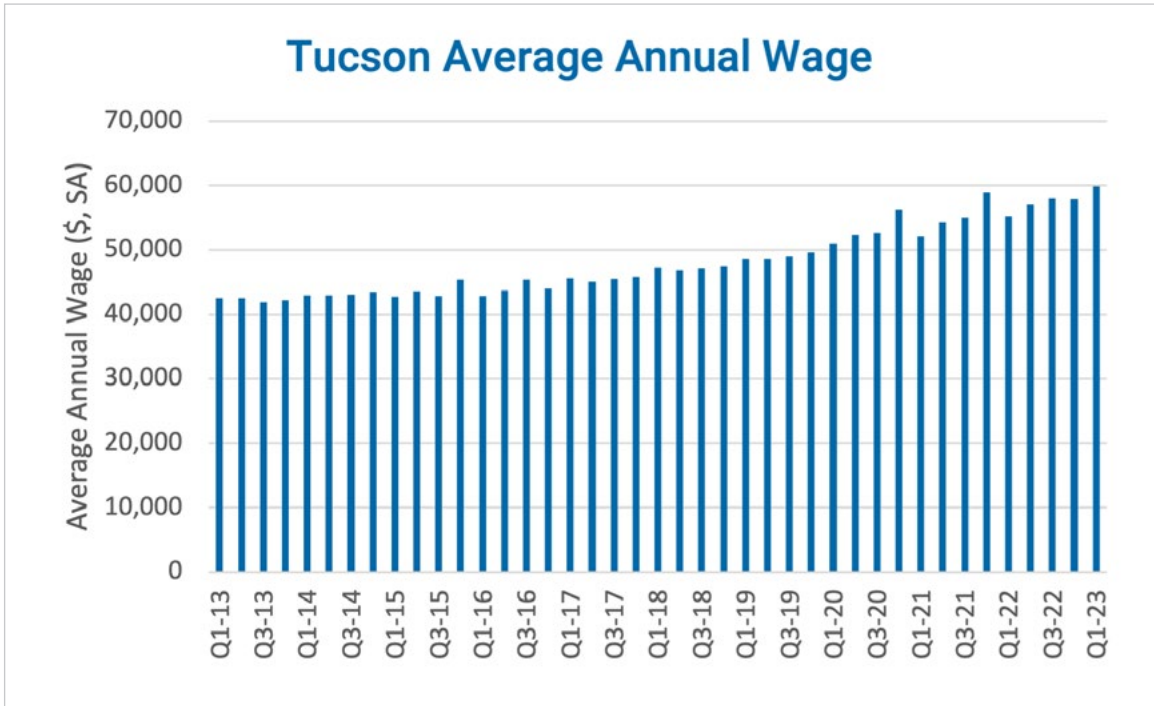
The largest job losses in Tucson have been concentrated in the Education and Health Care sector, with 2,700 fewer workers compared to February 2020, a 3.9% decline. Other significant job losses have occurred in Professional and Business Services (-2,700 jobs or -2.6%), Leisure and Hospitality (-1,300 jobs or -2.9%), and Information (-600 jobs or -10.4%).

**INDUSTRY EMPLOYMENT: TUCSON**

Sector	Jul-23 Emplt (000s)	Chg. Since Feb-20 (%)	Chg. Since Feb-20 (000s)
Transport/Warehouse/Util.	19.5	33.2	4.9
Financial Activities	20.3	14.5	2.6
Manufacturing	29.7	6.7	1.9
Construction	20.1	9.5	1.7
Wholesale Trade	7.9	8.4	0.6
NR/Mining	2.2	20.8	0.4
Other Services	14.5	2.6	0.4
Retail Trade	41.5	0.6	0.3
Government	79.3	0.0	0.0
Information	5.3	-10.4	-0.6
Leisure and Hospitality	43.8	-2.9	-1.3
Professional/Business	49.0	-2.6	-1.3
Education/Health	67.8	-3.9	-2.7
<b>Total Nonfarm</b>	<b>400.9</b>	<b>1.7</b>	<b>6.7</b>

Source: U.S. Bureau of Labor Statistics





Source: U.S. Bureau of Labor Statistics

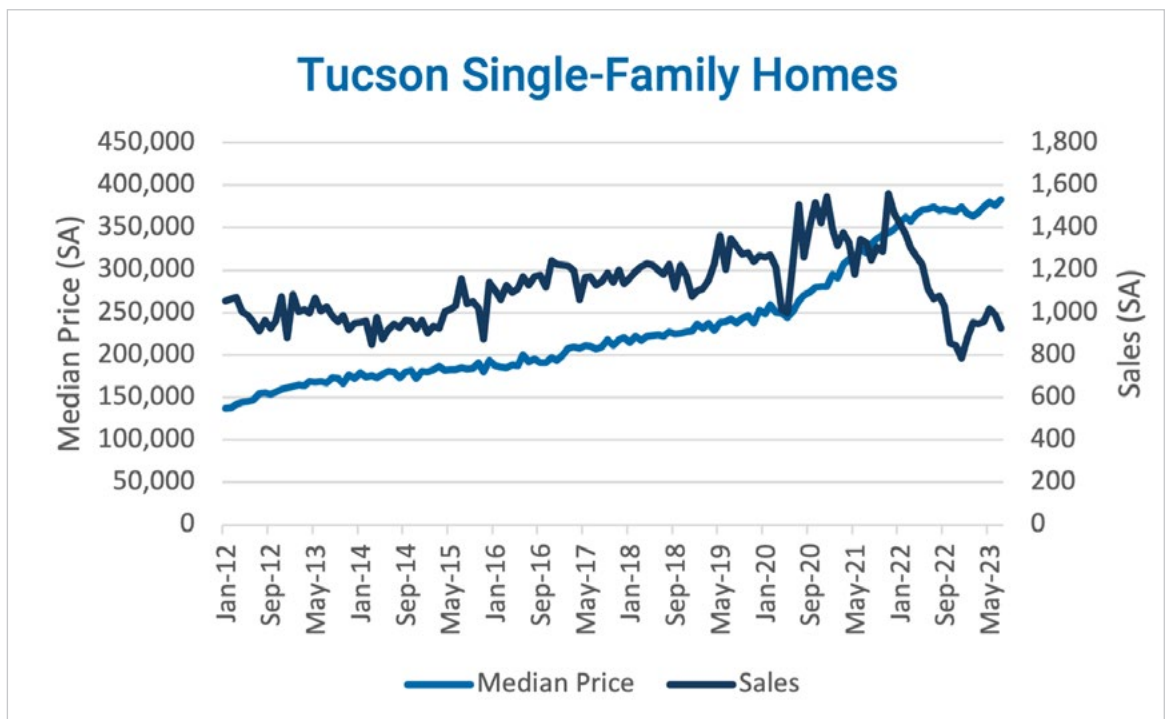
Average annual wages have also grown in Tucson since the start of the pandemic. From the first quarter of 2020 to the first quarter of 2023, wages grew 17.3%, with the average reaching \$59,900. However, wage growth in Tucson trails the 22.4% increase in Arizona and the 21.2% increase in the U.S. over the same period.



**RESIDENTIAL REAL ESTATE**

The housing market in Tucson is beginning to show signs of slowing. There are several factors affecting the housing market. First, high interest rates are putting downward pressure on home sales; however, house price depreciation has been limited due to limited supply. While Beacon Economics expects some softening in home prices in the coming year, prices are still significantly elevated against their pre-pandemic peak. Additionally, consumer balance sheets are relatively strong, and unemployment is still low. As such, Beacon Economics does not foresee a collapse in housing.

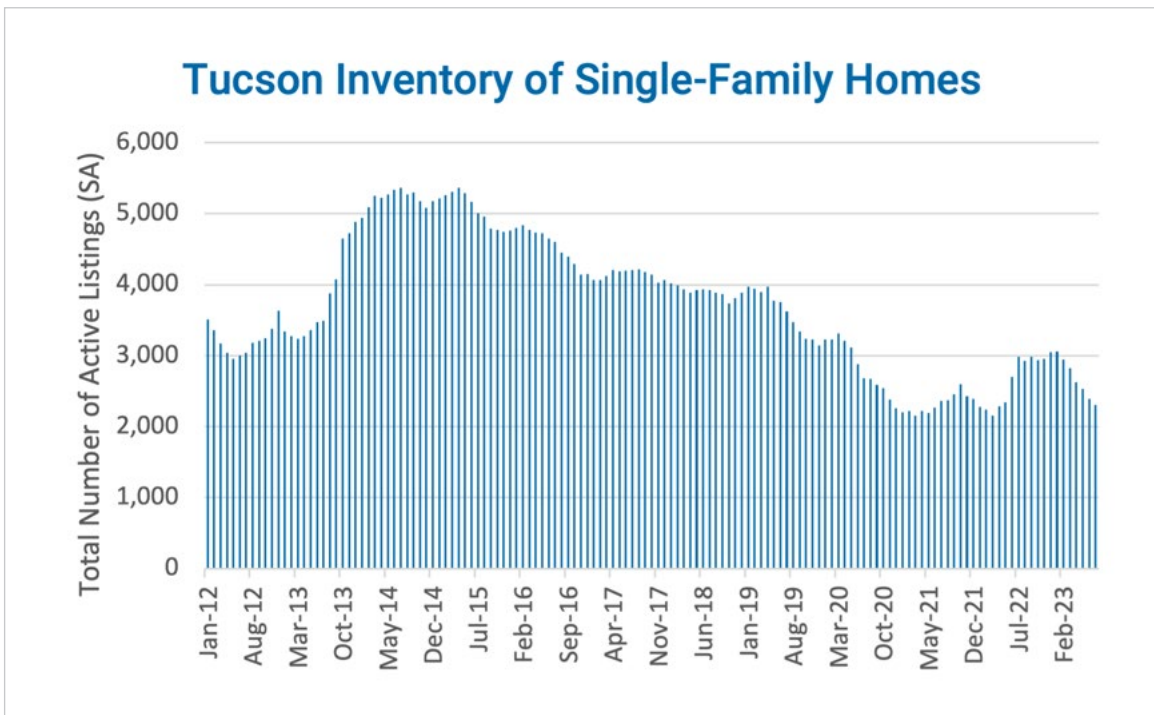
Against this backdrop, home prices in Tucson remain well above their pre-pandemic level. From July 2022 to July 2023, the median single-family home price rose 2.5% in Tucson, reaching \$383,500. The median single-family home price in Tucson is now 47.8% above February 2020 levels. Home prices in Tucson grew at a faster pace compared to Arizona and the U.S. since the start of the pandemic, with median prices rising by 46.9% in Arizona and by 35.8% nationally since February 2020.



Source: U.S. Redfin

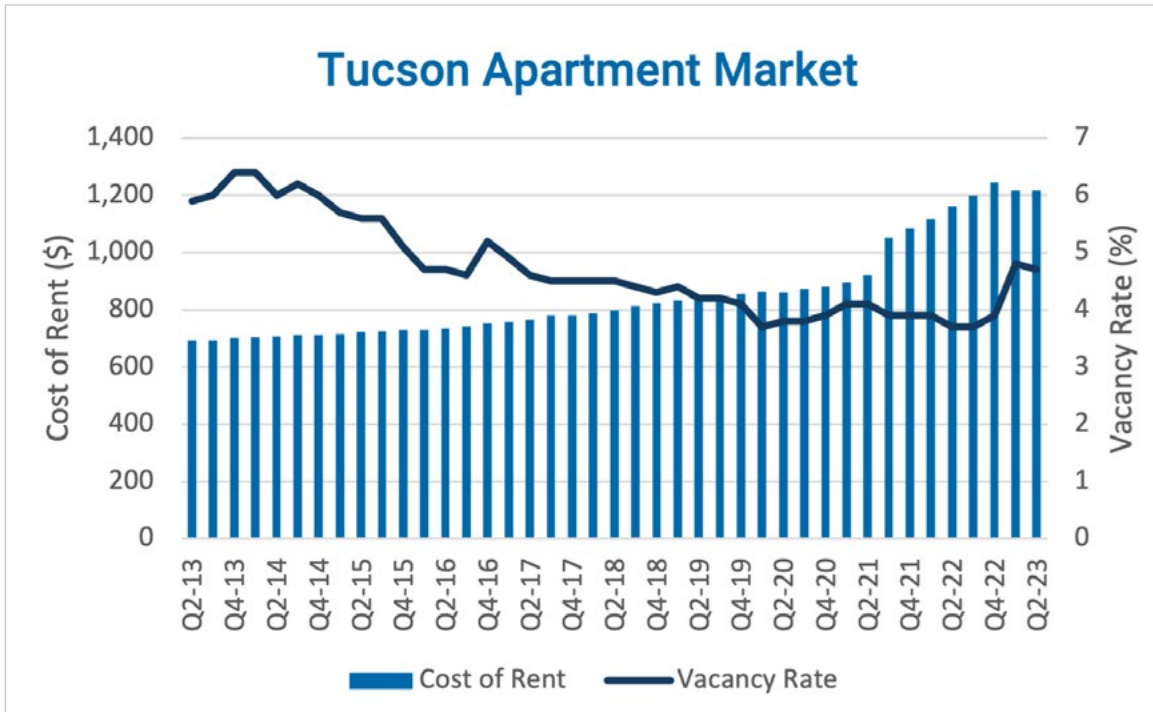
Rising mortgage rates, declining affordability, and tight inventory have limited sales. In Tucson, there were just 927 homes sold in July 2023, a 12.9% decline compared to July 2022 and 27.1% behind February 2020 levels. Home sales in Tucson have fallen at a slower pace compared to Arizona and the U.S. since the start of the pandemic, with single-family home sales dropping by 33.1% in Arizona and by 29.5% nationally since February 2020.

The decline in home sales is not difficult to understand, given the jump in prices and interest rates over such a short period of time. With existing homeowners locked into historically low mortgage rates, many are either unwilling or financially unable to sell. We expect this 'lock-in' effect and the increasing cost of a mortgage to weigh on home sales in the near term, as inventory will remain low. In July 2023, there were just 2,302 units for sale per month in Tucson, 28.7% below February 2020 levels. Inventories in Tucson fell at a slower pace compared to the U.S., with single-family home inventories falling by 44.6% in the nationally since February 2020.



Source: U.S. Redfin

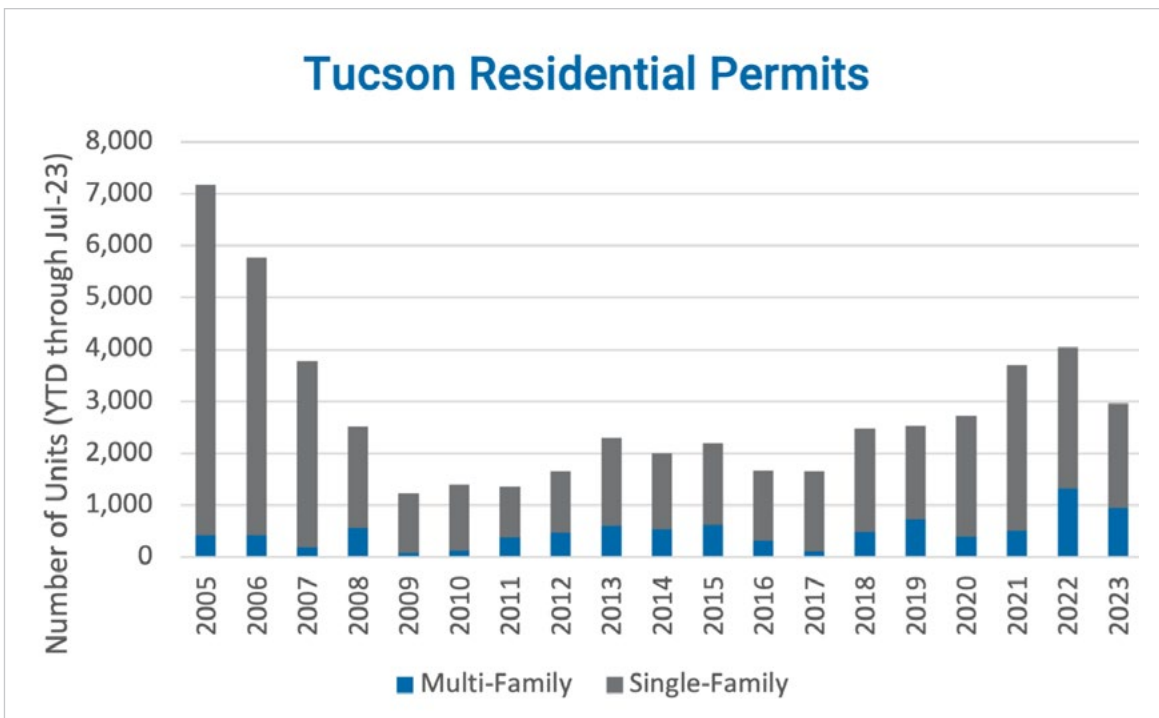




Source: REIS (Moody's Analytics)

Demand for apartment units has also remained strong. In Tucson, the average asking rent for apartments grew by 4.8% compared to 2.4% in Phoenix. This pace of growth puts Tucson just ahead of the 3.8% growth in the U.S. over that same period. Despite the significant price appreciation over the last year, asking rents in Tucson (\$1,216) and Phoenix (\$1,544) are still lower compared to the U.S. (\$1,833). Additionally, the apartment vacancy rate in Tucson increased to 4.7%, a 1.0 percentage-point increase from a year ago. Vacancy rates for apartment units also increased in Phoenix over this period, at 6.0%, up 0.9 percentage points from a year earlier.

Residential permit activity has declined over the last year in Tucson; however, permit activity remains above pre-pandemic levels. During the first seven months of 2023, residential permit activity in Tucson is down 27% over the same period in 2022. This decline is being fueled by a 28.9% decline in multi-family permitting and a 26% drop in single-family permitting. Still, residential permit activity in Tucson is outpacing pre-pandemic levels, with residential permits up 17% compared to the same period in 2019.



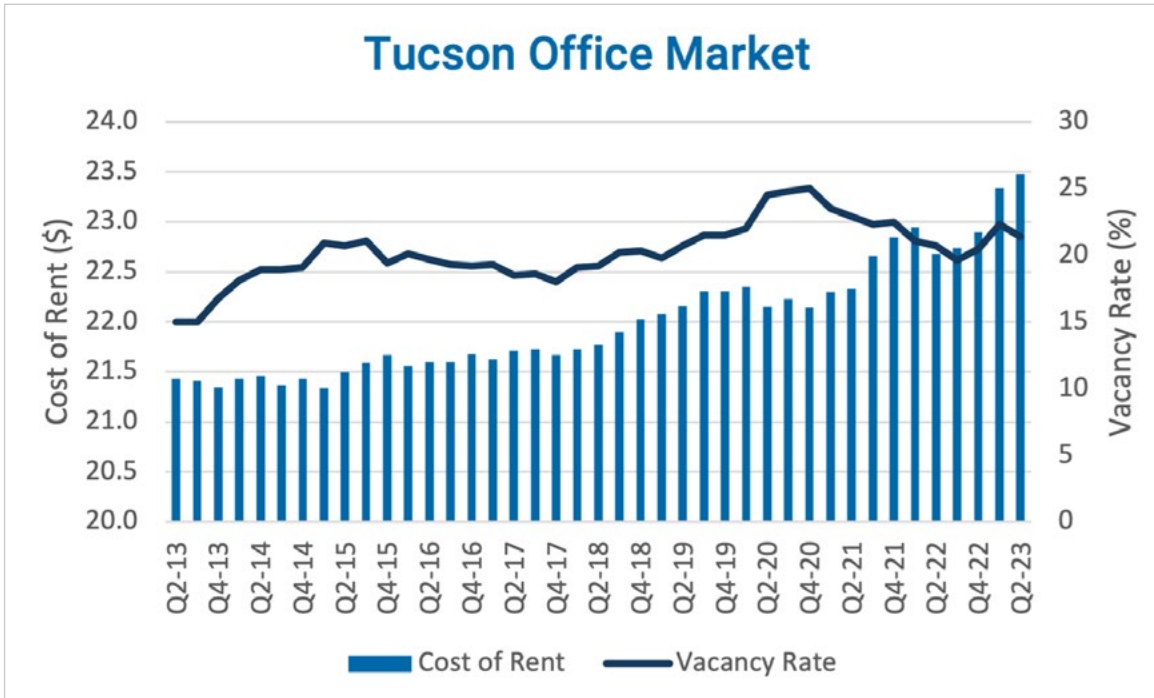
Source: U.S. Census Bureau



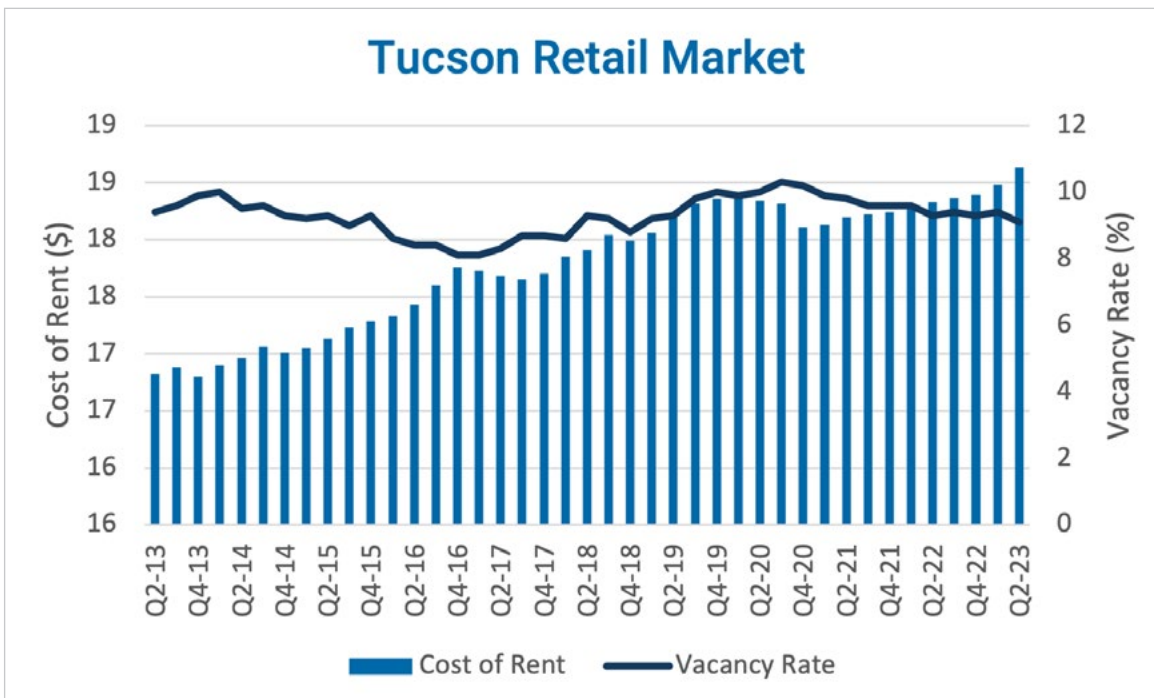
## COMMERCIAL REAL ESTATE

With more companies returning to normal operations, demand for office properties has stabilized over the last year. In Tucson, the office vacancy rate hit 21.4% in the second quarter of 2023, a 0.7 percentage-point increase from a year earlier. Vacancy rates for office properties fell to 21.4% in Phoenix over this period, down 0.9 percentage points from a year earlier. The average asking rent increased by 3.5% in Tucson and by 3.0% in Phoenix, outpacing the 1.4% increase in asking rents in the U.S.

Demand for retail space in Tucson has grown over the last year. In Tucson, the retail vacancy rate hit 9.1% in the second quarter of 2023, down 0.2 percentage points from a year earlier. Vacancy rates for retail properties also declined in Phoenix over this period, at 9.0%, down 0.5 percentage points from a year earlier. The average asking rent grew by 1.6% in Tucson and by 0.7% in Phoenix. Arizona's major metropolitan areas were ahead of or matched the 0.7% increase in asking rents in the U.S.

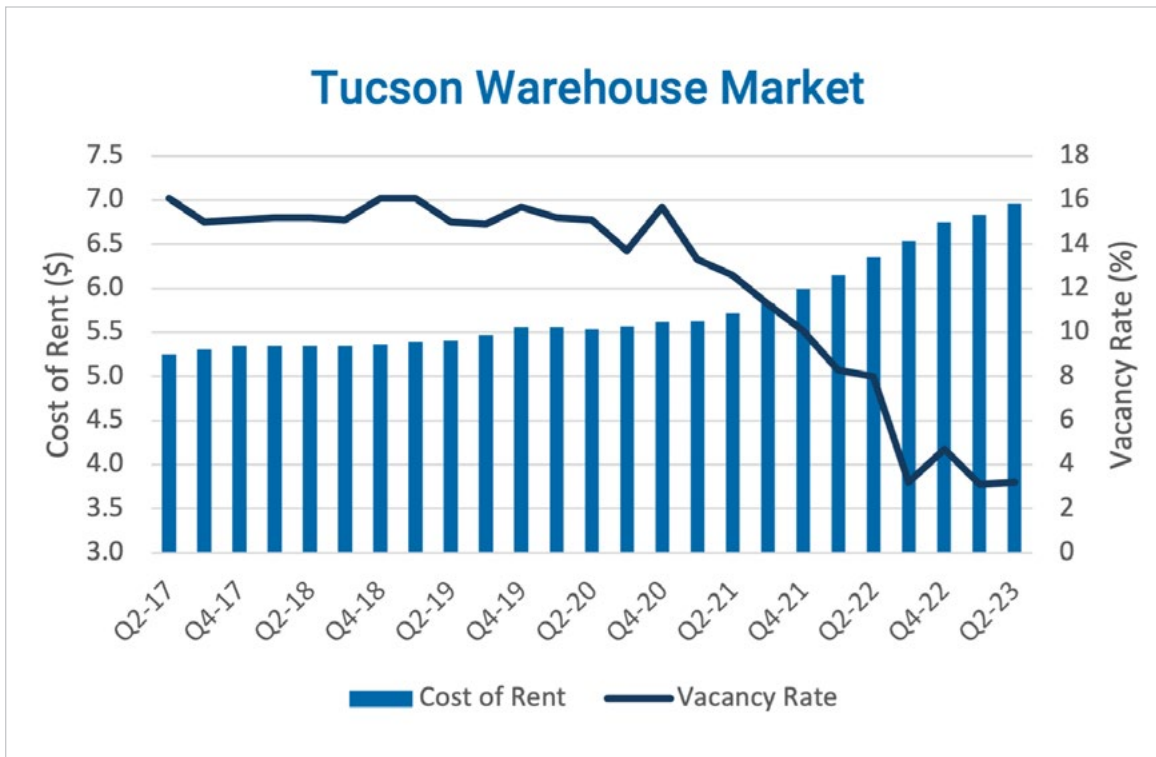


Source: REIS (Moody's Analytics)



Source: REIS (Moody's Analytics)

The continued strength of e-commerce has increased demand for warehouse space. In Tucson, the warehouse vacancy rate dropped to 3.2% in the second quarter of 2023, down 4.8 percentage points from a year earlier. Vacancy rates for warehouse properties in Phoenix held steady at 5.5%, unchanged from a year earlier. In conjunction, the average asking rent grew by 9.6% in Tucson and by 9.4% in Phoenix, both slightly trailing the growth in the U.S. (10.8%) over this period.



Source: REIS (Moody's Analytics)



## Prepared By Beacon Economics

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## About Alliance Bank of Arizona

Alliance Bank of Arizona, a division of Western Alliance Bank, Member FDIC, delivers relationship banking that puts clients at the center of everything. Founded in 2003, Alliance Bank of Arizona offers a full spectrum of tailored business banking solutions and outstanding service, with offices in Greater Phoenix, Tucson and Flagstaff. Alliance Bank of Arizona was named 2021 Lender Firm of the Year by NAIOP Arizona, among many other awards and recognitions. As part of \$65 billion Western Alliance Bancorporation — ranked #1 top-performing large bank with assets greater than \$50 billion in 2021 by both American Banker and Bank Director — Alliance Bank of Arizona has the reach, resources and local market expertise that make a difference for customers.

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