

HAMP

HOUGHTON AREA MASTER PLAN

Appendix C

Market Conditions Report

Questions about this document can be directed to:

Department of Urban Planning and Design

345 East Toole Avenue

Tucson, Arizona 85701

www.ci.tucson.az.us/planning

(520) 791-4505

web@tucsonaz.gov

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Department of
**URBAN PLANNING
& DESIGN**





Economics Research Associates

Draft Report

**Houghton Area Master Plan
Market Conditions Report**

Tucson, Arizona

Prepared for

**Clarion Associates and the
Sonoran Institute**

Submitted by

Economics Research Associates

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ERA Project No. 15449

10990 Wilshire Boulevard Suite 1500
Los Angeles, CA 90024
310.477.9585 FAX 310.478.1950 www.econres.com
Los Angeles San Francisco San Diego
Chicago New York Washington DC London

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General Limiting Conditions

Every reasonable effort has been made to ensure that the data contained in this study reflect the most accurate and timely information possible, and they are believed to be reliable. This study is based on estimates, assumptions and other information reviewed and evaluated by Economics Research Associates from its consultations with the client and the client's representatives and within its general knowledge of the industry. No responsibility is assumed for inaccuracies in reporting by the client, the client's agent and representatives or any other data source used in preparing or presenting this study.

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I. Introduction

This section summarizes the market conditions in the Tucson metropolitan area relative to the Houghton Area Master Plan (HAMP) Assessment. The primary purpose of this market conditions report is to set the context for the preparation of a development program for the HAMP. The findings of this market report will also assist in determining product pricing, absorption, and phasing of the potential HAMP development.

The following summary includes a discussion of the regional economic context, including population and employment trends over the past several years. The summary also includes a discussion of market specific trends for the residential, retail, office, and industrial markets. Trend data for rents, absorption levels, and vacancy are reported for each of the individual markets. Finally, ERA has reviewed the performance of six master planned communities in the Tucson area in order to better understand the competitive context. The six communities documented are: Dove Mountain (Marana), Continental Reserve (Marana), Rancho del Lago (Pima County), Rancho Vistoso (Oro Valley), Mesquite Ranch (Pima County), and Rocking K Ranch (Pima County).

Regional Economic Base

- The Tucson MSA's (Pima County) historic reliance on a few key industrial sectors such as defense, aerospace, leisure services (generated by seasonal visitors), and certain niche technology sectors, have caused the impact of economic cycles to be more severe. Non farm employment levels have remained relatively flat since 2000.
- The Arizona Department of Economic Security estimates 2004 total non-farm employment in the MSA to be 351,500 workers, with 100,000 non-farm jobs added during the 1990-2004 period (a compounded annual growth of 2.4 percent).
- Most of this growth during the 1990-2004 period can be attributed to service providing employment sectors, especially Professional and Business Services, and (private) Educational and Health Services, followed by Construction, Other Services, Government and Information.
- The share of manufacturing jobs in Tucson MSA fell from 10 percent in 1990 to 8 percent in 2004.
- The City of Tucson estimates that the MSA will add approximately 301,800 jobs during the 2000-2030 period, translating to approximately 10,000 jobs added every year. The Services and Trade sectors are expected to drive this growth. However, the realization of these projections are largely dependent on the pace of recovery from the economic downturn. During the 2000-2004 period the region added only 1,600 jobs.

Demographic Indicators

- The City of Tucson and Pima County experienced annual population growth rates of 1.9 percent and 2.2 percent respectively during the last decade. The City of Tucson currently includes approximately 487,000 residents (57.4 percent of the County), while Pima County has a population of 848,000. Much of the growth in Pima County has been occurring in the northwest and southeast portions of the metro area. Although these are healthy growth rates, they are well below the statewide annual growth of 3.3 percent for the same period and growth in Maricopa County (Phoenix-Mesa area) of 3.6 percent annually.
- The median household income in Pima County in 1999 was \$36,758. Though this is lower than the national median of \$41,994, Pima County's median household income experienced 7.7 percent growth (in real terms) between 1990 and 2000 compared to only 4.0 percent growth nationally. However, The Tucson Metropolitan area has a relatively higher share of low-income households and a lower share of high-income households compared to the state and the nation as a whole.
- 29.3 percent of the total population in Pima County are of Hispanic origin, compared to 35.7 percent in the City of Tucson, 25.3 percent in the State of Arizona and 12.5 percent in the nation as a whole. The largest share of the Hispanic population is comprised of people of Mexican origin. Pima County's Hispanic population grew by 51.6 percent in the last decade compared to statewide growth of 88.2 percent and national growth of 57.9 percent.
- The majority of owner occupied homes within both the City of Tucson and Pima County are valued at less than \$200,000. The seasonal home market in Pima County accounts for approximately three percent of total housing units, or 10,622 units.
- Pima County has a relatively lower share of family households compared to the national and statewide averages. However, the growth rate of family households in Pima County was more than twice the national growth, and family households with children grew at more than thrice the national growth rate during the 1990-2000 period.
- The share of households with householders aged 65 years or more in Pima County is 22 percent of all households compared to 21 percent nationally. Householders aged 35 years or less account for 23.9 percent of all households, compared to 22.6 percent nationally. The City of Tucson has a significant share of very young householders due to presence of a large resident student population. The share of households with householders aged 15 to 24 years is 10.5 percent in the City of Tucson, compared to 5.2 percent nationally.

Current Market Conditions and Trends

Housing

- New single family building home construction continued to escalate in 2003, fueled in part by low interest rates and positive population growth. The total number of single family housing permits issued in Pima County increased from 6506 in 1994 to 8,202 in 2003, or an annual increase of 2.6 percent. Town home construction has remained fairly stable, while the number of multi-family permits issued has decreased over the past ten year. A comparison of ten year data shows that 2003 single-family permit issuance levels were higher than 1999 peak levels.
- Based on data provided by the Tucson Association of Realtors Multiple Listing Service, total residential home sales increased at an annual rate of 8.3 percent from 1996 to 2003, or an increase from 8,386 units to 14,618 units. The northwest market continues to lead the region in terms of number of units listed and sold. Average sales price (for all types of residential product) increased from \$127,526 in 1996 to \$178,171 in 2003. Average sales price of single-family homes increased from \$181,310 in 2002 to \$190,496 in 2003. The average market time rose slightly from 53 to 54 days over the past year.
- Though average sales prices in HAMP area submarkets (East and Southeast) are somewhat lower than regional averages, home sales increased at an average annual rate of 10.6 percent during the 1996-2003 period. Unit sales grew by 16.0 percent between 2002 and 2003 compared to regional growth of 10.3 percent during the same period. Average market times in the HAMP submarkets are also lower than regional averages and have declined steadily since 1997.
- The average price per square foot across Pima County for new single-family homes was recorded at \$92.55 in 2003 (this price is based on the advertised base price of the home, not the actual sales price). This is an increase of 7.6 percent from an average price per square foot of \$86.04 in 2002.
- The apartment market was affected by the robust increase in home sales. While absorption of vacant units increased, it was offset somewhat by increased apartment development, leading to an increase in apartment concessions and relatively flat rental rates. The year-end vacancy rate in 2002 was 8.8 percent, or a slight increase over the 8.7 percent recorded in 2001. Average rent per square foot per month was \$0.75 in 2002. Rents are forecast to continue to grow in the 1 percent to 2 percent range over the next few years.

Retail

- The increase in vacancy in the retail market from 10.3 percent in 2002 to 11.1 percent in 2003 was due to poor performance in older properties. While absorption was strong in

2003, existing retail space experienced negative absorption of 185,043. Wal-Mart, Kohl's and La Encantada (a new pedestrian-oriented shopping center) accounted for all of the positive absorption.

- The northwest market (generally east of I-10, north of Ft. Lowell, and west of Swan, and including the Tucson Mall area) is the largest submarket in terms of total rentable square feet and also demonstrated one of the lowest vacancy rates among the various regions at 6.5 percent. The southeast submarket (which includes the area near the airport, Davis Monthan Air Force Base, as well as the southern portion of the HAMP area) continues to experience the weakest vacancy rate at 18.34 percent.

Office

- The Tucson office market has expanded notably over the past few years, mostly as a result of the development of build-for-sale projects throughout the region. The vacancy rate in Tucson rose to 13.3 percent by year-end 2003 – the highest vacancy rate reported in several years.
- Net absorption was also down in 2003 (from 202,571 in 2002 to 155,244 in 2003), with positive absorption attributable to occupied new construction. In 2003, net absorption for existing buildings was negative 7,325 square feet versus 162,569 square feet occupied in new construction.
- Although lease rates have remained fairly stable over the past year, rent concessions are increasing. Owners of Class B space are offering concessions of \$1.00 per square foot annually while owners of Class A space are sometimes lowering rates by \$2.00 to \$4.00 per square foot. Rates in existing space are expected to remain soft as owners try to manage increasing vacancies. Mid year 2003 Class A annual lease rates ranged from \$18.50 per square foot in the Northeast submarket to \$24.00 per square foot in the East Central, North Central, and Downtown submarkets.
- It is estimated that new office construction will exceed 500,000 square feet in 2004 (*PICOR Tucson Office Market Outlook*, Spring 2004). Unlike recent years, it is expected that most of the new construction will be speculative office space. The demand for owner-occupied office space also remains high. The cost of developable office land has been averaging \$7 to \$9 per square foot.

Industrial

- The vacancy rate for industrial space in the Tucson area increased slightly in 2003 to 8.9 percent, the highest vacancy rate recorded in several years. The largest increase in vacancy was seen in the southeast submarket (which includes the southern portion of the HAMP area), due primarily to unoccupied new space. 2003 Industrial vacancy in the Southeast market was 10.7 percent.

- The average asking lease rate for industrial space in 2003 was posted at \$5.76 per square foot monthly, with a high lease rate of \$15.00 per square foot and a low of \$1.80 per square foot. The average lease rate indicates a stabilization in lease rates, with an average of \$5.88 per square foot recorded in 2002. New construction accounted for 529,180 square feet of new space over the past year, with the majority of the buildings pre-leased. Of the new construction, just over 80 percent was occupied upon opening.

Regional Market Competition

Table I-1 reflects absorption, units sold, pricing, and sizes for projects within selected master plan communities located in the Tucson area.

**Table I-1
Competitive Projects, 2003**

	Continental Reserve	Rancho Vistoso	Dove Mountain	Rancho del Lago	Mesquite Ranch
<i>Total Units Planned</i>	839	775	410	648	619
<i>Total Units Sold</i>	593	634	274	600	600
<i>Ave. Monthly Sales Rate</i>	3.55	2.87	3.76	3.62	5.23
<i>Average Price/Sq Ft Range</i>	\$87.13 \$107.39	\$90.14 \$124.86	\$96.62 \$116.88	\$74.47 \$99.12	\$84.57 \$118.66
<i>Average Size Range (sq ft)</i>	1,630 2,323	1,678 3,002	1,663 2,336	1,740 3,097	1,321 2,292
<i>Average Base Price Range</i>	\$172,298 \$201,935	\$222,318 \$294,738	\$194,298 \$229,320	\$172,810 \$225,290	\$154,648 \$219,467

Note: Average monthly sales rate reflects average number of units sold at a project per month since opening.

The figure shown reflects the average for year 2003 projects tracked by the Meyers Group.

Price per square foot reflects base price of a unit divided by its finished square feet.

Does not include data for Rocking K Ranch as current project includes retirement community only.

Source: Meyers Real Estate Information, Inc., Economics Research Associates

Of the communities shown, Rancho Vistoso is the oldest and most established, which may partially explain a somewhat lower average absorption rate. Conversely, Mesquite Ranch reported a high average monthly absorption rate of 5.23 units. It is important to note that Dove Mountain includes high-end communities which are not reflected in the average prices

shown below. The lowest average price per square foot was recorded at Rancho del Lago, a 1,600 acre community located in the extreme southeast corner of the Tucson metro area.

Market Implications for the HAMP Development

- The single family home market is strong. Though a larger share new growth has occurred to the north, northwest and north east of the City, recent market data reveals that residential unit sales in the southeast and east submarkets have experienced rapid growth. Multi-family unit growth is modest.
- Home values in the east and southeast submarkets have shown significant increase in the recent years compared to the region as a whole. Note however, that proximity to the foothills in the north often carries a premium in the region (but fire safety is an increasing concern in these areas).
- Long-term regional employment projections show sustained annual growth of 2.1 between 2000 and 2030. However, short-term recovery may take some time. Tucson MSA's non-farm employment levels have remained relatively flat since 2000. A higher concentration of defense and aerospace related industries has made Tucson MSA more vulnerable to economic cycles compared to the relatively diverse Phoenix-Mesa MSA. The pace of economic recovery will be an important factor for residential absorption and phasing of the HAMP development.
- Tucson MSA has a relatively lower share of family households with children compared to national averages (partly due to a higher concentration of student households). However, family households with children grew at more than thrice the national growth rate during the 1990-2000 period.
- The southeast submarket containing the HAMP area currently contains approximately 20.6 percent of the total regional retail inventory with relatively high vacancy rates. Retail demand in the HAMP area will be initially dependent on residential growth in the south and southeast, rather than regional recapture. This may change once the area attains a sustainable critical mass in retail activity and may be able to capture retail dollars from elsewhere in the region.
- The Tucson office market is relatively soft, largely due to the recent economic downturn. More than a million square feet of vacant office space is currently in the market. Demand for new office space will be generated only after the existing vacant space is reabsorbed.
- Most of the existing industrial parks in the southeast Tucson market have relatively low vacancies. However, a substantial amount of new space was added in this submarket, which is not yet fully absorbed (contributing to high overall vacancy rates). The regional

market has shown sustained demand for new higher quality build-to-suit space, with increased vacancies in existing space. There is continued demand for smaller specialty space (of 10,000 s.f. or less) while a bulk of larger industrial space remains to be absorbed. Potential industrial development in the HAMP area may result from increased capture of demand for specialty industrial services and trade services in the region.

II. Regional Economic Context – Market Indicators

The demographics and economic trends in the Tucson region largely influence the development opportunities of the HAMP. This section reviews some of the more important economic and demographic trends in the marketplace.

Regional Economic Base

Non-farm employment growth in the Tucson MSA has generally followed national economic cycles. However, the region's historic reliance on a few key industrial sectors such as defense, aerospace, leisure services (generated by seasonal visitors), and certain niche technology sectors, have caused the impact of economic cycles to be more severe. As seen in Table II-1, the Arizona Department of Economic Security estimates 2004 total non-farm employment in Pima County to be 351,500 workers.

**Table II-1
Tucson MSA (Pima County) Sectoral Employment Trends**

	1990	1995	2000	2004	CAGR 1990-04
Average Annual Employment (000s)					
Total Non Farm	251.6	302.6	349.9	351.5	2.4%
Natural Resources and Mining	2.2	2.2	1.8	1.2	-4.2%
Construction	14.9	20.6	22.9	23.3	3.2%
Manufacturing	25.5	27.4	32.9	28.4	0.8%
Trade, Transportation, and Utilities	45.3	51.6	55.0	54.3	1.3%
<i>Wholesale Trade</i>	5.9	6.7	7.5	7.3	1.5%
<i>Retail Trade</i>	33.7	37.2	38.7	39.3	1.1%
<i>Transp., Warehousing, and Utilities</i>	5.7	7.7	8.8	7.7	2.2%
Information	5.1	6.5	7.9	7.7	3.0%
Financial Activities	11.9	11.6	14.8	15.4	1.9%
Professional and Business Services	21.4	33.8	43.5	41.4	4.8%
<i>Professional and Tech. Services</i>	9.4	12.8	15.6	14.2	3.0%
<i>Management of Companies</i>	1.2	3.2	2.6	2.3	4.8%
<i>Administrative and Waste Services</i>	10.8	17.8	25.3	24.9	6.1%
Educational and Health Services	30.0	35.5	42.0	47.5	3.3%
Leisure and Hospitality	29.5	34.8	39.9	37.8	1.8%
<i>Arts, Entertainment, and Recreation</i>	5.0	5.3	5.1	5.2	0.3%
<i>Accommodation and Food Services</i>	24.5	29.5	34.8	32.6	2.1%
Other Services	10.0	10.2	13.0	14.7	2.8%
Government	55.9	68.4	76.3	80.0	2.6%

Notes:

- 2004 Data reflects average of monthly employment between January and May 2004.

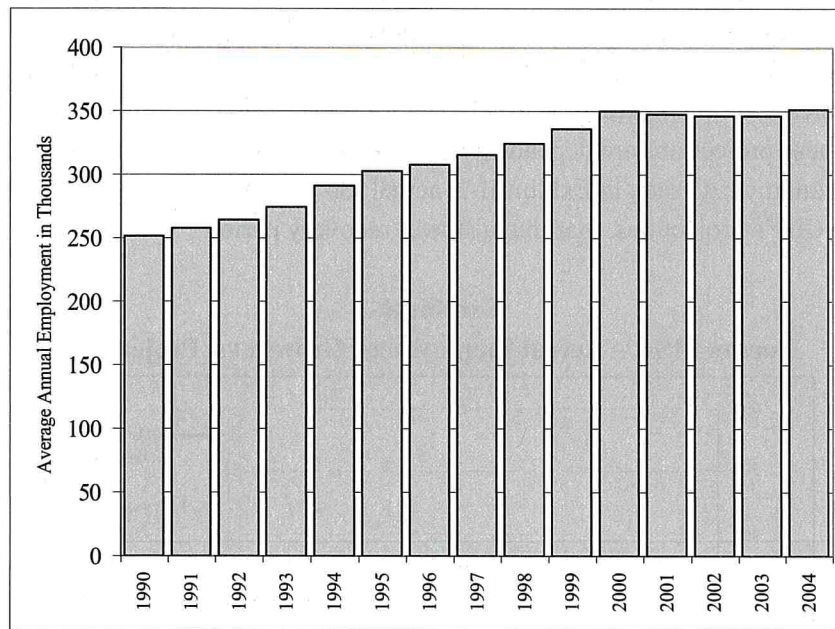
- CAGR is Compounded annual growth rate between 1990 and 2004

Source: Arizona Department of Economic Security and Economics Research Associates

The Tucson MSA has added approximately 100,000 non-farm jobs during the 1990-2004 period with a compounded annual growth of 2.4 percent. Most of this growth can be attributed to service providing employment sectors, especially Professional and Business Services, and (private) Educational and Health Services, which experienced an annual growth of 4.8 percent and 3.3 percent respectively during the 1990-2004 period. Other strong growth sectors were Construction, Information, Other Services, and Government. The Mining sector was the only industry showing job losses during this period. While the Manufacturing sector grew between 1990 and 2000, it has dropped sharply since. It is important to note that all goods producing sectors have reduced their share of total employment in the Tucson MSA during the last decade. The share of manufacturing jobs fell from 10 percent in 1990 to 8 percent in 2004.

Exhibit II-1 graphically presents total non-farm employment growth trends in Pima County. As seen in the exhibit, non-farm employment growth peaked during 2000 and has shown modest decreases since, following the cyclical trends of the national economy. Though non-farm employment grew slightly during the first half of 2004, the pace of overall job growth and the recapture of high wage jobs will be a significant factor affecting the near term economic health of the region.

Exhibit II-1
Pima County Non-farm Employment Growth



Source: Arizona Department of Economic Security and Economics Research Associates

Table II-2 presents sectoral employment forecasts by the Tucson Planning Department – Economic Business Research Project. Note that these forecasts are from the 3rd quarter of 2001 and are classified as unofficial projections. However, they present a relative comparison of sectoral employment growth and their shares of total employment over the long term.

**Table II-2
Tucson MSA (Pima County) Employment Growth Projections**

	2000	2010	2020	2030	Absolute Change	Percentage Change	CAGR 2000 - 2030
<i>Thousands of Workers</i>							
Mining	1.9	2.1	3.1	4.3	2.4	124.8%	2.7%
Construction	21.9	23.9	29.6	34.1	12.2	55.9%	1.5%
Manufacturing	33.0	40.2	46.2	52.8	19.8	59.9%	1.6%
T.C.P.U.	12.0	13.1	13.3	13.2	1.2	10.0%	0.3%
Trade	72.6	85.8	112.3	142.3	69.7	95.9%	2.3%
F.I.R.E.	13.8	16.0	19.8	23.5	9.7	70.2%	1.8%
Services	119.2	159.9	208.8	266.2	147.1	123.4%	2.7%
Government	76.2	89.0	103.3	116.0	39.8	52.3%	1.4%
Total	350.5	430.0	536.3	652.4	301.8	86.1%	2.1%

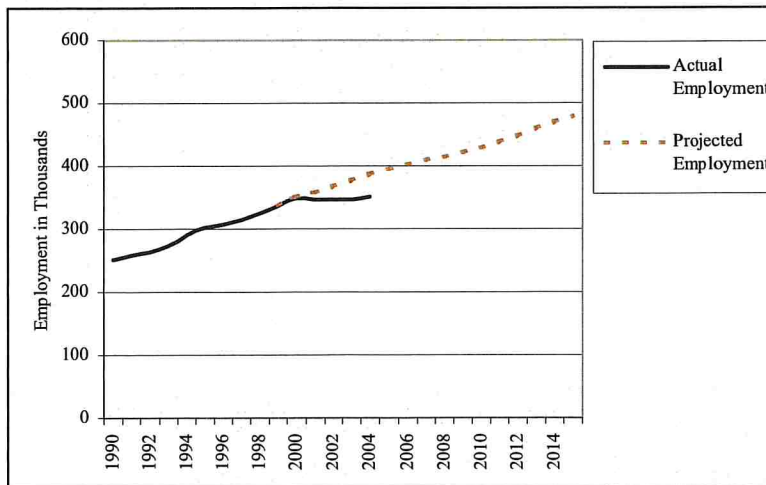
Notes:

- The above projections are based on unofficial 3rd Quarter 2001 projections
- CAGR. = Compounded Annual Growth Rate
- T.C.P.U. = Transportation, Communication, and Public Utilities
- F.I.R.E. = Finance, Insurance, and Real Estate

Source: Tucson Planning Department and Economics Research Associates

As seen in the table, the Tucson MSA is expected to add approximately 301,800 jobs during the 2000-2030 period, or approximately 10,000 jobs annually. The Services and Trade sectors are expected to experience the strongest growth. The share employment in the Services sector is projected to increase from 34 percent in 2000 to approximately 40 percent in 2030. However, the realization of these projections are dependent on the current economic recovery of the national and regional economy. As seen in Exhibit II-2, actual job growth during the 2000-2004 period is well below the City's projections, marking a slower recovery period.

**Exhibit II-2
Tucson MSA – Actual Employment Growth vs. Projections**



Source: Arizona Dept. of Economic Security, City of Tucson and Economics Research Associates

Population and Household Growth Trends

The City of Tucson and Pima County (which includes Tucson) continue to grow at a rapid pace. Both the City of Tucson and Pima County experienced cumulative growth rates of just over 20 percent in the last decade. The City of Tucson currently includes approximately 487,000 residents, while Pima County has a population of 848,000. From 1990 to 2000, the County ranked 27th greatest in the nation in terms of absolute population change. Based on mid-level forecasts (L. William Seidman Research Institute, College of Business, Arizona State University), Pima County is forecast to add 192,000 residents from 2000 to 2010. The Phoenix area (Maricopa County) has experienced growth rates double that in Tucson, as shown in Table II-3.

Table II-3
Population Growth Trends

	1980	1990	2000	2010 Forecast		
				Low	Middle	High
<i>Total Population (000's)</i>						
City of Tucson	331	405	487	na	596	na
Pima County	542	680	848	975	1,040	1,090
Maricopa County	1,547	2,169	3,097	3,800	4,145	4,300
Arizona	2,785	3,747	5,169	6,175	6,735	6,965
<i>Ten Year Change</i>						
City of Tucson	--	22.4%	20.2%	n.a.	22.4%	n.a.
Pima County	--	25.5%	24.7%	15.0%	22.6%	28.5%
Maricopa County	--	40.2%	42.8%	22.7%	33.8%	38.8%
Arizona	--	34.5%	38.0%	19.5%	30.3%	34.7%
<i>10 Year CAGR</i>						
City of Tucson	--	2.0%	1.9%	n.a.	2.0%	n.a.
Pima County	--	2.3%	2.2%	1.4%	2.1%	2.5%
Maricopa County	--	3.4%	3.6%	2.1%	3.0%	3.3%
Arizona	--	3.0%	3.3%	1.8%	2.7%	3.0%

CAGR = Compounded Annual Growth Rate

Source: US Census, L. William Seidman Research Institute, College of Business, Arizona State University, Economics Research Associates

Much of the growth in Pima County has been occurring in the northwest and southeast portions of the metro area. It is worth noting that only 14 percent of Pima County land is in individual or corporate ownership. The Pascua Yaqui and Tohono O'odham reservations own 42 percent of County land, the State of Arizona owns another 15 percent, the US Forest Service and Bureau of Land Management own 12 percent and other public entities own the remaining 17 percent.

As seen in Table II-3, during the 1990-2000 period, population in Pima County grew by 24.7 percent (with a compounded annual growth rate of 2.2 percent), compared to statewide population growth of 38 percent (with a compounded annual growth rate of 3.3 percent). The City of Tucson grew at a compounded annual growth rate of 1.9 percent during the 1990-2000 period, reflecting a slower pace of growth compared to Pima County as a whole and the State as well as the state of Arizona as a whole. A larger share of growth in Pima County during the

1990-2000 period has occurred outside the jurisdiction of the City of Tucson. On the other hand Maricopa County, the region containing the Phoenix Mesa MSA, grew by 42.8 percent reflecting a compounded annual growth rate of 3.6 percent during the 1990-2000 period.

Table II-4 presents household and dwelling unit growth trends for the City of Tucson and Pima County compared to the State of Arizona and the nation as a whole. Pima County added 68,530 dwelling units and 70,558 households during the 1990-2000 period. Though households and dwelling unit growth was significantly higher in the county compared to the nation as a whole, it was much lower compared to statewide growth. This can be attributed to stronger household growth in other parts of the state, especially the Phoenix-Mesa metropolitan area.

Average household size in Pima County and the City of Tucson are significantly lower than the national and state averages. Though the average household size in the State of Arizona increased during the 1990-2000 period, it showed a decline in Pima County. This trend can be attributed to a relatively larger share of senior and student households in Pima County.

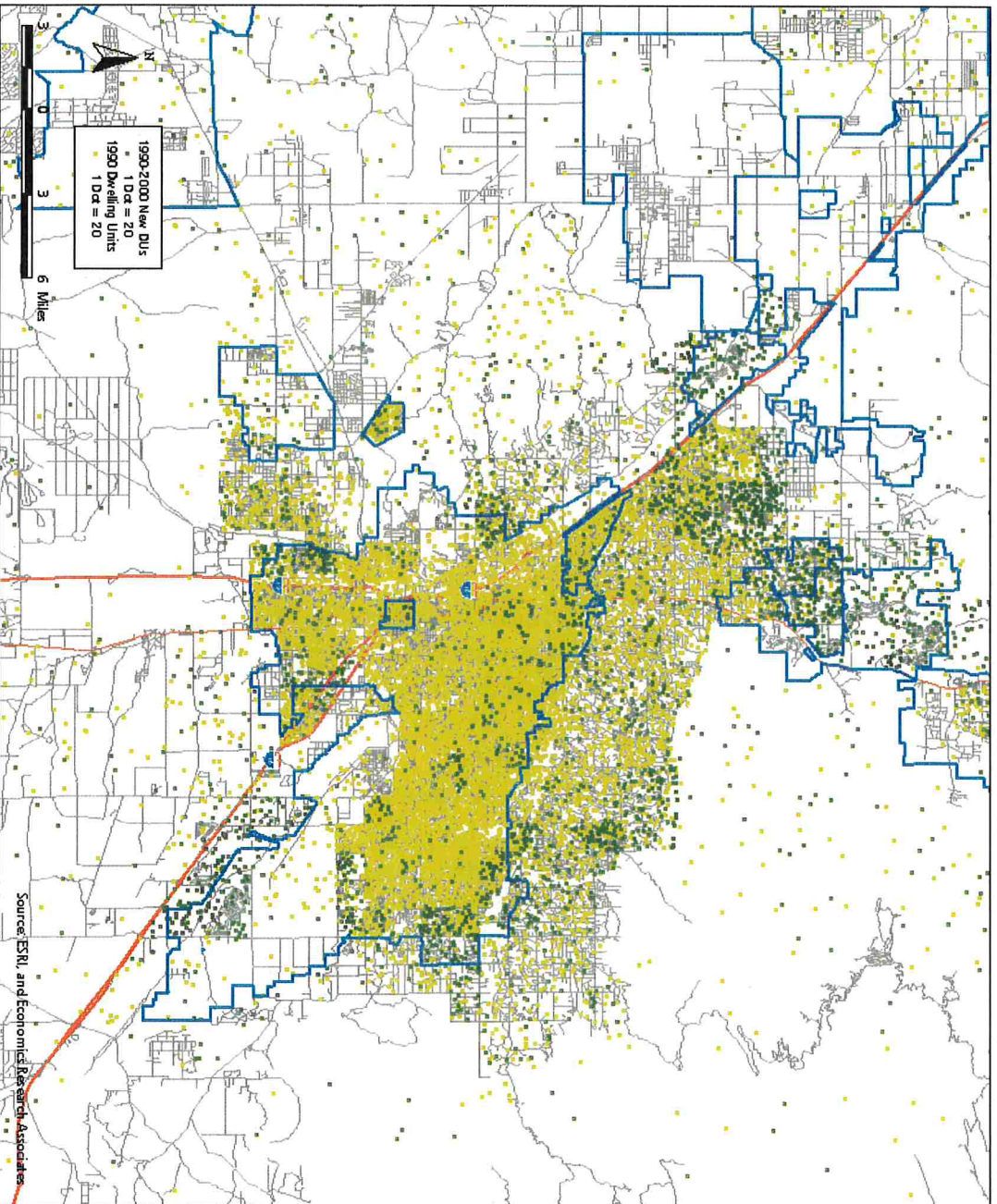
**Table II-4
Household Growth Trends**

	Tucson	Pima County	Arizona	United States
Households				
1990	162,685	261,792	1,368,843	91,947,410
2000	192,891	332,350	1,901,327	105,480,101
<i>Growth</i>	30,206	70,558	532,484	13,532,691
<i>% Growth</i>	19%	27%	39%	15%
<i>CAGR</i>	1.7%	2.4%	3.3%	1.4%
Dwelling Units				
1990	183,338	298,207	1,659,430	102,263,678
2000	209,609	366,737	2,189,189	115,904,641
<i>Growth</i>	26,271	68,530	529,759	13,640,963
<i>% Growth</i>	14%	23%	32%	13%
<i>CAGR</i>	1.3%	2.1%	2.8%	1.3%
Persons per Occupied Unit				
1990	2.42	2.49	2.62	2.63
2000	2.42	2.47	2.64	2.59
<i>Growth</i>	-	(0.02)	0.02	(0.04)
<i>% Growth</i>	0.0%	-0.8%	0.8%	-1.5%
<i>CAGR</i>	0.0%	-0.1%	0.1%	-0.2%

Source: US Census and Economics Research Associates

Exhibit II-1 presents a dot density overlay of dwelling units in the Tucson area during 1990 and incremental units between 1990 and 2000. The exhibit shows that the distribution of new dwelling unit growth concentrated in the northern and northeastern areas outside the city boundaries.

**Exhibit II-3
City of Tucson Dwelling Unit Growth 1990-2000**



Household Income Characteristics

Table II-5 presents comparative median and average income growth between 1990 and 2000 for the City of Tucson, Pima County, Arizona and United States. The median household income in Pima County in 1999 was \$36,758. Though this is lower than the national median of \$41,994, Pima County's median household income experienced 7.7 percent growth (in real terms) between 1990 and 2000 compared to only 4.0 percent growth nationally. The average household income in Pima County in 1989 was \$44,507 (in adjusted 1999 dollars), increasing 11 percent in 1999 to \$49,415. Note that both the City of Tucson and Pima County have relatively lower median as well as mean average household incomes compared to the state of Arizona as a whole.

Table II-5 also shows distribution of households by income category. The Tucson Metropolitan area has a relatively higher share of low-income households and a lower share of high-income households compared to the state and the nation as a whole. A larger share of leisure and hospitality service jobs, student households, and retirees, which have lower wages, are often cited as the reasons for the relatively lower income levels in the Tucson Metropolitan area.

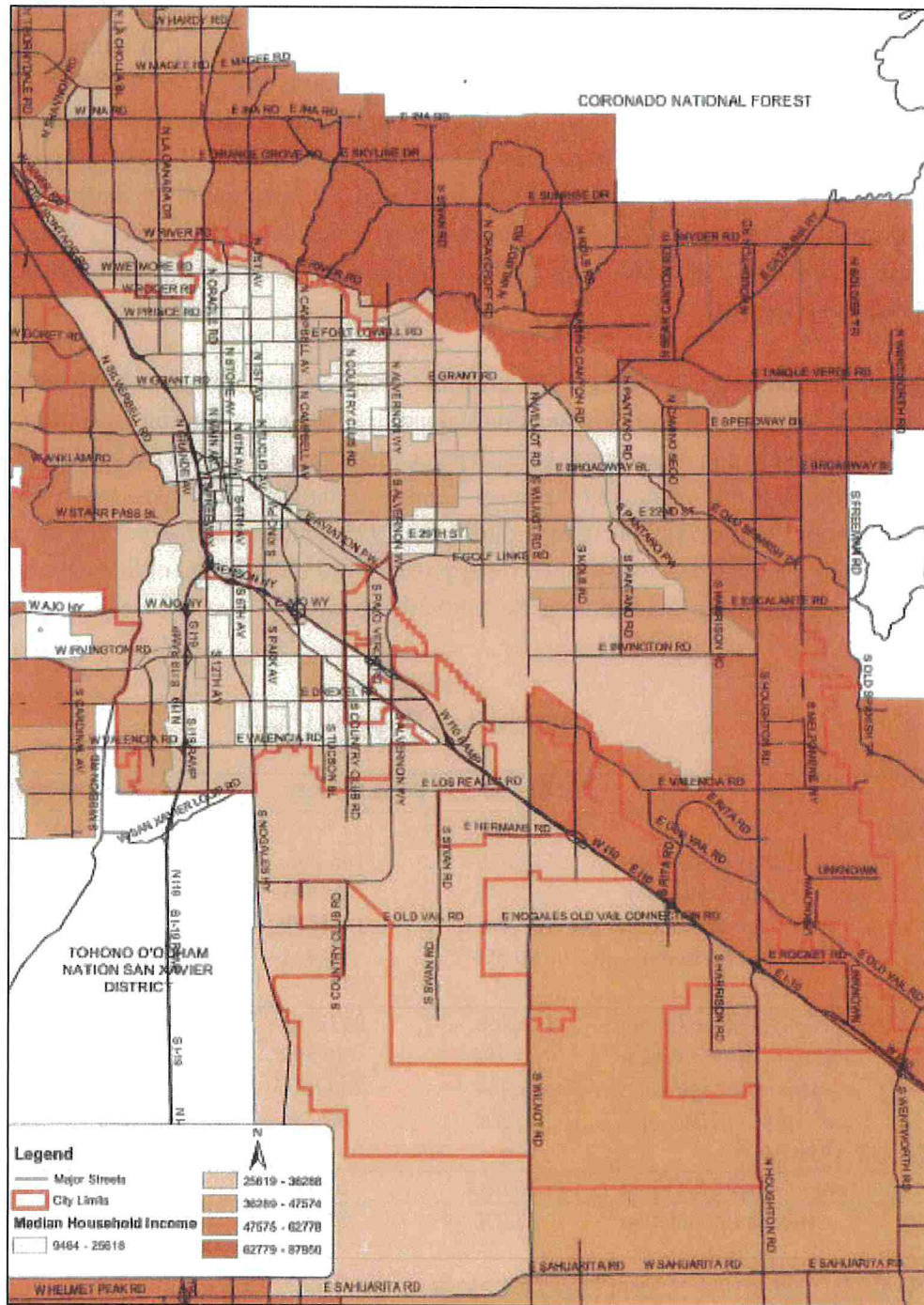
Median household income by census tract is reflected in Exhibit II-4. The darker shades represent higher median household incomes. As can be seen, income levels are generally highest in the north and eastern portions of the metro area near the Catalina Mountains.

Table II-5
Household Income Growth

	Tucson	Pima County	Arizona	United States
Median Household Income (1999 dollars)				
1989	\$29,219	\$34,127	\$37,001	\$40,382
1999	\$30,981	\$36,758	\$40,558	\$41,994
<i>Growth</i>	\$1,762	\$2,631	\$3,557	\$1,612
<i>% Growth</i>	6.0%	7.7%	9.6%	4.0%
<i>CAGR</i>	0.6%	0.7%	0.9%	0.4%
Mean Average Household Income (1999 dollars)				
1989	\$36,859	\$44,507	\$47,596	\$51,664
1999	\$40,133	\$49,415	\$53,926	\$56,644
<i>Growth</i>	\$3,273	\$4,908	\$6,330	\$4,980
<i>% Growth</i>	8.9%	11.0%	13.3%	9.6%
<i>CAGR</i>	0.9%	1.1%	1.3%	0.9%
Households Distribution by Income (1999)				
<\$15,000	21.7%	17.5%	14.9%	15.8%
\$15,000 - \$29,999	26.4%	22.8%	21.0%	19.3%
\$30,000 - \$44,999	20.3%	19.5%	19.2%	17.9%
\$45,000 - \$59,999	12.8%	13.7%	14.3%	14.0%
\$60,000 - \$74,999	7.6%	9.1%	10.1%	10.4%
\$75,000 - \$99,999	6.2%	8.4%	9.7%	10.2%
>\$100,000	5.0%	9.0%	10.8%	12.3%

Source: US Census, and Economics Research Associates

Exhibit II-4
Median Household Income Distribution by Census Tract (1999)



Source: City of Tucson and Economics Research Associates

Hispanic Population Growth

In terms of racial characteristics, the 2000 Census reports that 75.1 percent of Pima County's population is White, however, in terms of ethnicity persons of Hispanic or Latino origin are a significant part of the Tucson Metropolitan area's population base. Table II-6 below shows trends in Hispanic population growth in the area compared to the state and the nation as a whole. As per 2000 Census estimates 29.3 percent of the total population in Pima County are of Hispanic origin, compared to 35.7 percent in the City of Tucson, 25.3 percent in the State of Arizona and 12.5 percent in the nation as a whole. Not surprisingly people of Mexican origin represent the largest share of this population group, accounting for 83.1 percent of all Hispanics in Pima County (2000 Census).

Hispanic population (in absolute terms) growth in Pima County during the 1990-2000 period was relatively lower compared to the statewide and national averages. During this period Pima County's Hispanic population grew by 51.6 percent compared to statewide growth of 88.2 percent and national growth of 57.9 percent. This essentially implies that a larger proportion of Hispanic population growth in Arizona during the 1990-2000 period has occurred in areas outside Pima County. Pima County accounted for approximately 13.9 percent of the incremental Hispanic population statewide during the 1990-2000 period.

**Table II-6
Population of Hispanic Origin**

	Tucson	Pima County	Arizona	United States
1990				
Persons of Hispanic Origin	118,595	163,262	688,338	22,354,059
<i>as % of total Population</i>	29.3%	24.5%	18.8%	9.0%
Mexican Population	107,416	147,547	616,195	13,495,938
<i>as % of Hispanics</i>	90.6%	90.4%	89.5%	60.4%
2000				
Persons of Hispanic Origin	173,868	247,578	1,295,617	35,305,818
<i>as % of total Population</i>	35.7%	29.3%	25.3%	12.5%
Mexican Population	145,234	205,623	1,065,578	20,640,711
<i>as % of Hispanics</i>	83.5%	83.1%	82.2%	58.5%
Growth 1990-2000				
Persons of Hispanic Origin	46.6%	51.6%	88.2%	57.9%
Mexican Population	35.2%	39.4%	72.9%	52.9%

Source: US Census and Economics Research Associates

The 2000 Census also reports that 11.9 percent of Pima County's population (100,050 persons) is foreign born. Approximately 7.2 percent of the County's population is comprised of non-citizens, and 4.6 percent of the total population entered the United States during the 1990-2000 period. It is important to keep in mind that a significant share of foreign-born residents in the region is

employed in the defense, aerospace, info-tech sectors as well as research and educational institutions.

Household and Housing Occupancy Characteristics

Table II-7 presents household characteristics comparing the City of Tucson and Pima County to the state of Arizona and the nation as a whole. Approximately 64.3 percent of occupied dwelling units in Pima County are owner occupied, compared to 53.4 percent in the City of Tucson, 68.0 percent statewide, and 66.2 percent nationally. Low ownership rates in the City of Tucson can be attributed, in part, to a larger share of student households.

**Table II-7
Year 2000 Household Characteristics**

	Tucson	Pima County	Arizona	United States
Total Households	192,891	332,350	1,901,327	105,480,101
Total Dwelling Units	209,609	366,737	2,189,189	115,904,641
<i>Tenure</i>				
Owner Occupied	53.4%	64.3%	68.0%	66.2%
Renter Occupied	46.6%	35.7%	32.0%	33.8%
<i>Household Size</i>				
Owner Occupied	2.58	2.59	2.69	2.69
Renter Occupied	2.24	2.26	2.53	2.40
<i>Value (Specified Owner Occupied Units)</i>				
< \$50,000	5.4%	4.3%	4.9%	9.9%
\$50,000 to \$99,999	49.6%	35.6%	30.7%	30.4%
\$100,000 to \$199,999	40.2%	43.5%	45.9%	38.3%
\$200,000 to \$299,999	3.5%	10.4%	11.2%	11.9%
> \$300,000	1.3%	6.2%	7.3%	9.5%
Median Value	\$96,300	\$114,600	\$121,300	\$119,600

Source: US Census and Economics Research Associates

Household size for both owner occupied and renter occupied units in Pima County and the City of Tucson are relatively lower than state and national averages. Though the median owner occupied home value in the state of Arizona is higher than the national median value, owner occupied home values in Pima County and the City of Tucson are relatively lower. More than 80 percent of owner occupied homes in Pima County are valued at less than \$200,000.

Pima County has a relatively lower share of family households compared to the national and statewide averages. As shown in Table II-8, the 2000 census reports that approximately 63.8 percent of all households in Pima County are comprised of family households, and approximately

29.2 percent of all households are family households with related children under the age of 18 years. In comparison, the national share of family households and family households with related children under 18 are 68.1 percent and 32.8 percent (of all households) respectively. However, the growth rate of family households in Pima County was more than twice the national growth, and family households with children grew at more than thrice the national growth rate during the 1990-2000 period.

**Table II-8
Family Households Distribution**

	Tucson Pima County	Arizona	United States
Households			
1990	162,685	261,792	1,368,843
2000	192,891	332,350	1,901,327
			91,947,410
			105,480,101
Family Households			
1990	97,019	169,666	940,106
Share of total	59.6%	64.8%	68.7%
			70.2%
2000	112,515	212,092	1,287,367
Share of total	58.3%	63.8%	67.7%
			68.1%
<i>1990-2000 Growth</i>	<i>15,496</i>	<i>42,426</i>	<i>347,261</i>
<i>% Growth</i>	<i>16.0%</i>	<i>25.0%</i>	<i>36.9%</i>
			<i>11.3%</i>
Family Households with Children			
1990	50,967	84,648	477,656
Share of total	31.3%	32.3%	34.9%
			36.0%
2000*	55,970	97,195	608,218
Share of total	29.0%	29.2%	32.0%
			32.8%
<i>1990-2000 Growth</i>	<i>5,003</i>	<i>12,547</i>	<i>130,562</i>
<i>% Growth</i>	<i>9.8%</i>	<i>14.8%</i>	<i>27.3%</i>
			<i>4.5%</i>

Notes:

* Includes related children under 18 years of age

Source: US Census and Economics Research Associates

A large share of family households in Arizona, and in the Tucson MSA include seniors and retirees, whose housing needs are different from younger families and families with children. Table II-9 shows a comparative distribution of households by age of householder in the Tucson Metropolitan area. As per the 2000 census, 21 percent of households in the United States have householders aged 65 years or more. In comparison, the share of households with householders aged 65 years or more in Arizona and in Pima County are 22 percent and 22.9 percent respectively. Note that the City of Tucson has a significantly lower share of senior householders due to the presence of younger student households and Hispanic families. Pima County also has a significantly higher share of young householders compared to national levels. Householders

aged 35 years or less account for 23.9 percent of all households, compared to 22.6 percent nationally.

**Table II-9
Year 2000 Households by Age of Householder**

	Tucson Pima County		Arizona	United States
< 35 years	58,256	79,587	460,555	23,831,428
35 - 54 years	74,810	132,837	766,305	45,260,862
55 - 64 years	21,786	43,837	255,514	14,247,057
65 - 74 years	18,792	39,284	223,730	11,507,562
> 75 years	19,247	36,805	195,223	10,633,192
Share				
< 35 years	30.2%	23.9%	24.2%	22.6%
35 - 54 years	38.8%	40.0%	40.3%	42.9%
55 - 64 years	11.3%	13.2%	13.4%	13.5%
65 - 74 years	9.7%	11.8%	11.8%	10.9%
> 75 years	10.0%	11.1%	10.3%	10.1%

Source: US Census and Economics Research Associates

Retail Sales

As reflected in Table II-10, total sales in the Tucson metropolitan area increased by 2.1 percent annually between 1994 and 2003, after adjusting for inflation. Sales related to food at home and eating and drinking places, grew at a slower pace compared to other retail sales. Increasing gasoline prices have significantly pushed up gasoline related sales dollars during the latter half of 2003. It is evident that sales across all sectors showed healthy growth up to the 1999-2000 period, resulting from job and income growth, combined with pent up spending since the last recession. The effects of the economic downturn resulted in a sharp drop in sales since 2000.

Since retail sales growth in absolute terms can be attributed to a number of factors including household, employment, and income growth, a clearer picture of sales trends can be seen by analyzing inflation adjusted sales per capita. Exhibit II-5 presents inflation-adjusted sales per capita in the Tucson metropolitan area between 1994 and 2003. Sales per capita fell \$10,913 in 1999 to \$9,984 in 2002, an 8.5 percent drop. During 2003, sales per capita increased by 1.2 percent to \$10,100, but are well below 1993 levels.

Table II-10
Sales in Pima County

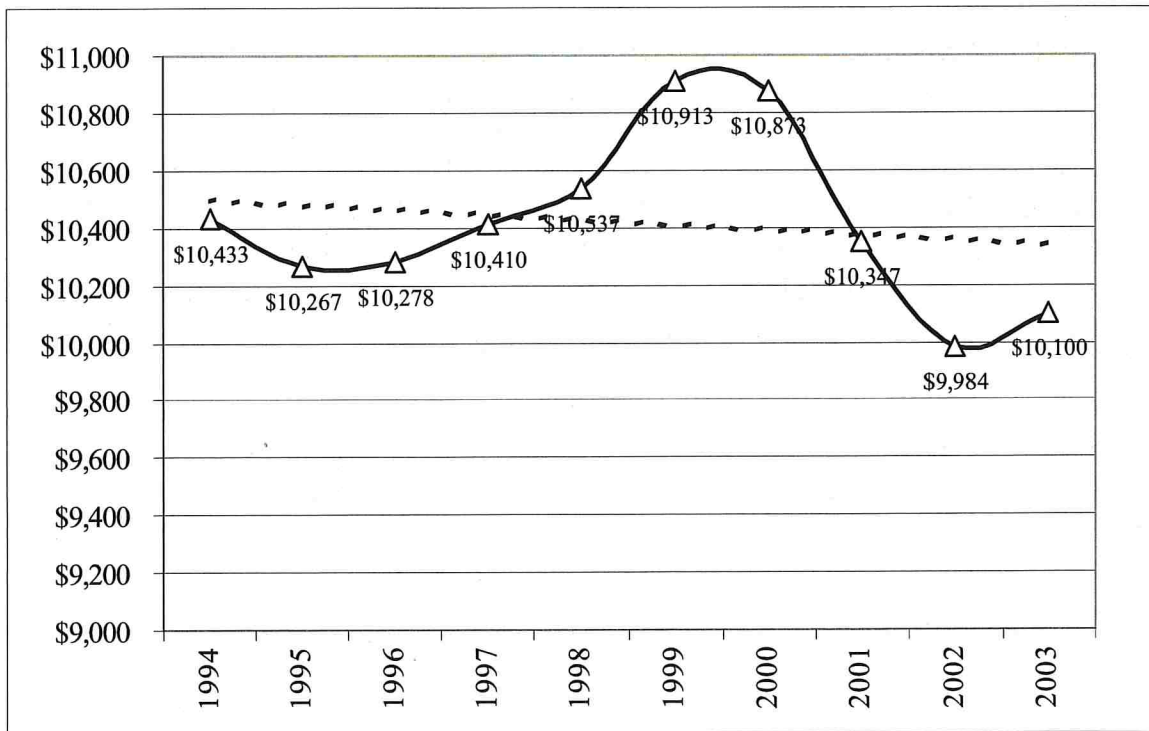
	1994	1997	2000	2003	% Growth 1994-2003	CAGR 1994-2003
<i>In 2003 \$000s</i>						
Total Sales	\$ 7,659,702	\$ 8,106,320	\$ 9,174,459	\$ 9,200,600	20.1%	2.1%
Retail	5,208,695	5,486,286	6,293,665	6,267,600	20.3%	2.1%
Food	1,075,127	1,146,792	1,198,764	1,239,200	15.3%	1.6%
Restaurants/Bars	887,078	954,359	1,046,469	1,036,200	16.8%	1.7%
Gasoline	488,802	518,883	635,559	657,600	34.5%	3.4%

Note:

- CAGR = Compounded Annual Growth Rate

Source: Eller College of Business and Public Administration University of Arizona, Economics Research Associates

Exhibit II-5
Inflation Adjusted Sales Per Capita in Pima County (2003 Dollars)



Source: Eller College of Business and Public Administration University of Arizona, Economics Research Associates

Regional Shift-Share Analysis

ERA analyzed employment in the Tucson MSA by using a shift-share analysis approach. It should be mentioned that 1998 was taken as the base year since it is the oldest year with NAICS Industry Code classification. In addition, the most recent NAICS Industry Code classification for the Tucson MSA is 2001. Note that this database does not include Government related employment.

Shift-share analysis breaks down employment growth in a region over a given time period. This type of analysis compares 'quantity' of employment and not other employment characteristics such as occupations or wages that may have varying overall impacts.

The Shift Share Analysis is divided into three components:

1. **Share effect:** Is the portion of regional employment change attributed to the rate of growth of employment in the nation as a whole.
2. **Industry mix effect:** This is the amount of change the region would have experienced if each sector grew at it's corresponding sector growth nationwide, less the share of overall national growth in all industries. This component indicates whether growth can be attributed to a regional mix of high or low growth industries.
3. **Regional shift effect:** Also referred to as the competitive effect, it is the difference between the actual change in employment and the employment change to be expected if each industrial sector grew at the national rate. If growth is driven by this component, it is an indicator of regional competitive advantages for a particular sector.

The sum of these three effects equals the actual change in total employment within a region over a prescribed period of time.

Table II-11 shows the 3-digit Non-Farm employment for the Tucson MSA and the United States between 1998 and 2001. As shown in the table, overall employment growth in the Tucson MSA during the 1998-2001 period was 11.6%, compared to 6.2% nationwide.

Table II-12 shows the shift share analysis for the Tucson MSA compared to the United States. As shown in the shift share analysis, the higher employment growth in the Tucson MSA is due to a combination of the share effect and increasing competitiveness (or regional shift) in certain high employment generating sectors.

The sectors that experienced increases in their employee base between 1998 and 2001 in the Tucson MSA are:

- Special Trade Contractors

- General Manufacturing Stores
- Professional, Scientific, & Technical Services
- Administrative & Support Services
- Ambulatory Health Care Services

The Special Trade Contractors sector added more than 1,300 jobs to the Tucson MSA economy between 1998 and 2001. During this time period, the sector grew more than 9% in the Tucson MSA and 11.6% at the national level. For this reason, most of the growth was due to growth in the industry. However, the share effect also accounted for a large increase in jobs.

General Manufacturing Stores in the Tucson MSA grew 17.5% between 1998 and 2001, adding 1,044 new jobs to the economy. This growth was higher than the 1.9% growth in the sector nationwide. As shown in table I-5, the growth in the General Manufacturing Stores sector was largely due to the regional effect.

The Professional, Scientific, and Technical Services sector added 1,403 new jobs to the local economy between 1998 and 2001. At a national level, Professional, Scientific, and Technical Services grew 18.3%, outperforming the 9.7% growth in Tucson MSA. For this reason, the industry mix presented the highest share of total growth.

Administrative & Support Services sector increased 16.1% in the Tucson MSA between 1998 and 2001, adding more than 3,900 employees. This increase is slightly lower than the 17.0% national average for this particular sector. For this reason, Administrative & Support Services in the Tucson MSA grew mostly due to the industrial growth in this particular sector at a national level.

Ambulatory Health Care Services added 1,489 jobs to the Tucson, MSA economy between 1998 and 2001. During this time period, the sector grew more than 12% in the Tucson MSA compared to 5.7% at the national level. For this reason, most of the growth was due to the Regional Shift.

Note that the high job growth in the Transportation Equipment Manufacturing Sector is partially a result of estimation methodology, and the order of magnitude of actual jobs created in this sector may vary from actual levels. County business Patterns has not provided actual employment in this sector; instead employment ranges were provided. ERA took average values of these ranges to estimate employment levels. The 1998 figure is an average between 5,000 and 9,999 and the 2001 figure is an average between 10,000 and 24,999. Due to lack of actual data we have not included this sector in the list of major job gainers. However, it is clear that this sector gained jobs in the Tucson MSA during the 1998-2001 while its employment level decreased by more than 8% at the national level. For this reason, we can conclude that most of the growth was due to the Regional Shift component, implying a strong regional competitive advantage.

The sectors that experienced significant losses in their employee base between 1998 and 2001 in the Tucson MSA are:

- Fabricated Metal Product Manufacturing
- Wholesale Trade, Durable Goods
- Wholesale Trade, Nondurable Goods
- Gasoline Stations

Fabricated Metal Product Manufacturing decreased its labor force in the Tucson MSA from 4,107 employees in 1998 to 3,944 in 2001, for a loss of 163 jobs or a 4.0% loss in employee growth. During the same time period, the sector decreased 3% at the national level. In this case, both the Industry Mix and the Regional Effect contributed to the decrease in the sector in the Tucson MSA.

The Wholesale Trade, Durable goods sector decreased 9% between 1998 and 2001 in the Tucson MSA, losing more than 540 jobs. Although the sector grew 4.8% at the national level during the same time period, the Industry Mix component of the Shift Share analysis presented a decrease, given that the national average for all sectors was 6.2%. The highest decrease came from the Regional Shift, showing also a loss in regional competitiveness.

Wholesale Trade, Nondurable Goods in the Tucson MSA lost 420 jobs between 1998 and 2001, decreasing its workforce by 12.9%. During the same period of time, the sector grew 3.7% at the national level. The Regional Shift component presented the highest loss in the analysis, a clear indication of decreasing regional competitiveness.

The Gasoline Stations sector in the Tucson MSA lost approximately 165 employees between 1998 and 2001. At the national level, this sector decreased by 2.0% compared to a 6.5% decrease in Tucson MSA during the same timeframe. Most of the loss in the local economy is due to the Industry Mix component of the Shift Share analysis.

The Real Estate sector lost more than 330 jobs in the Tucson MSA between 1998 and 2001, for a 6.7% decrease in its workforce. At the national level, the sector grew 11.5%. Part of the job losses in the real estate sector can be attributed to the economic downturn and regional employment loss that started in 2000 creating a temporary slowdown in the real estate market.

Table II-11 Nonfarm Employment for Tucson MSA, AZ and the United States (1998-2001)

NAICS Employment Sectors	Tucson MSA			United States			
	1998	2001	Growth	1998	2001	Growth	
			Percent			Percent	
113 Forestry and logging ³	9.5	9.5	0.0%	84,170	77,984	-6,186	-7.3%
115 Agriculture & forestry support activities ³	175	174.5	0.0%	93,650	95,538	1,888	2.0%
211 Oil & Gas Extraction ³	10	9.5	0.0%	97,039	87,980	-9,059	-9.3%
212 Mining (except Oil & Gas) ³	1,750	1749.5	0.0%	225,303	200,735	-24,568	-10.9%
213 Support Activities for Mining ³	10	9.5	0.0%	175,501	196,850	21,349	12.2%
221 Utilities	1,918	1,776	-142	682,217	654,484	-27,733	-4.1%
233 Building, Developing, & General Contracting	4,103	4,927	824	1,434,123	1,616,973	182,850	12.7%
234 Heavy Construction	2,280	2,854	574	803,924	901,207	97,283	12.1%
235 Special Trade Contractors	14,695	16,029	1,334	3,560,214	3,973,814	413,600	11.6%
311 Food Manufacturing	709	517	-192	1,464,419	1,470,146	5,727	0.4%
312 Beverage & Tobacco Product Manufacturing	575	535	-40	172,892	170,864	-2,028	-1.2%
313 Textile Mills ³	10	9.5	0.0%	385,454	308,490	-76,964	-20.0%
314 Textile Product Mills ³	143	174.5	32	217,355	202,022	-15,333	-7.1%
315 Apparel Manufacturing ³	175	78	-97	671,184	441,742	-229,442	-34.2%
316 Leather & Allied Product Manufacturing ³	175	59.5	-115	79,325	60,567	-18,758	-23.6%
321 Wood Product Manufacturing	387	531	144	580,290	557,507	-22,783	-3.9%
322 Paper Manufacturing ³	175	174.5	0.0%	567,891	533,251	-34,640	-6.1%
323 Printing & Related Support Activities	1,264	1,046	-218	845,053	784,520	-60,533	-7.2%
324 Petroleum & Coal Products Manufacturing ³	111	59.5	-52	111,000	103,570	-7,430	-6.7%
325 Chemical Manufacturing ³	327	174.5	-153	900,706	869,761	-30,945	-3.4%
326 Plastics & Rubber Products Manufacturing	1,230	1,280	50	1,030,378	1,002,503	-27,875	-2.7%
327 Nonmetallic Mineral Product Manufacturing	1,803	2,494	691	508,270	524,230	15,960	3.1%
331 Primary Metal Manufacturing ³	121	174.5	54	615,171	572,512	-42,659	-6.9%
332 Fabricated Metal Product Manufacturing	4,107	3,944	-163	1,816,198	1,761,358	-54,840	-3.0%
333 Machinery Manufacturing	1,887	1,683	-204	1,444,438	1,332,854	-111,584	-7.7%
334 Computer & Electronic Product Manufacturing	4,212	4,670	458	1,680,833	1,593,307	-87,526	-5.2%
335 Electrical Equipment, Appliance, & Component Mfg	478	347	-131	602,395	575,413	-26,982	-4.5%
336 Transportation Equipment Manufacturing ³	7,500	17,500	10,000	1,911,337	1,753,445	-157,892	-8.3%
337 Furniture & Related Product Manufacturing	441	388	-53	603,853	619,197	15,344	2.5%
339 Miscellaneous Manufacturing ³	1,750	1,560	-190	737,392	713,165	-24,227	-3.3%
421 Wholesale Trade, Durable Goods	6,047	5,505	-542	3,466,550	3,633,480	166,930	4.8%
422 Wholesale Trade, Nondurable Goods	3,253	2,833	-420	2,418,396	2,508,609	90,213	3.7%
441 Motor Vehicle & Parts Dealers	5,763	5,926	163	1,757,196	1,850,218	93,022	5.3%
442 Furniture & Home Furnishings Stores	1,745	1,938	193	509,699	567,318	57,619	11.3%
443 Electronics & Appliance Stores	961	1,185	224	361,876	425,736	63,860	17.6%
444 Building Material & Garden Supplies Dealers	3,081	3,600	519	1,131,161	1,249,126	117,965	10.4%

NAICS Employment Sectors	Tucson MSA			United States		
	1998	2001	Growth	1998	2001	Growth
445 Food & Beverage Stores	7,157	7,741	584	2,943,644	2,963,801	20,157
446 Health & Personal Care Stores	2,418	2,489	71	940,220	958,072	17,852
447 Gasoline Stations	2,534	2,369	-165	946,405	927,284	-19,121
448 Clothing & Clothing Accessories Stores	3,159	3,501	342	1,280,356	1,392,626	112,270
451 Sporting Goods, Hobby, Book, & Music Stores	2,043	1,947	-96	579,768	622,261	42,493
452 General Merchandise Stores	5,967	7,011	1,044	2,479,150	2,525,974	46,824
453 Miscellaneous Store Retailers	3,365	3,709	344	795,891	841,594	45,703
454 Nonstore Retailers	1,161	1,596	435	515,360	566,279	50,919
481 Air Transportation	563	445	-118	560,023	608,986	48,963
484 Truck Transportation	1,308	1,483	175	1,327,086	1,397,865	70,779
485 Transit & Ground Passenger Transportation	629	1,386	757	349,343	391,561	42,218
486 Pipeline Transportation ³	60	59.5	0	49,406	50,923	1,517
487 Scenic & Sightseeing Transportation ³	60	59.5	0	23,076	23,414	338
488 Support Activities for Transportation	1,111	1,173	62	421,740	484,611	62,871
492 Couriers & Messengers	657	629	-28	539,551	577,575	38,024
493 Warehousing & Storage ³	60	57	-3	119,493	145,266	25,773
511 Publishing Industries	3,421	3,269	-152	281,701	297,143	15,442
512 Motion Picture & Sound Recording Industries	476	444	-32	1,462,680	1,777,015	314,335
513 Broadcasting & Telecommunications	2,706	3,128	422	2,688,253	2,917,625	229,372
514 Information Services & Data Processing Services	494	1,079	585	724,207	947,060	222,853
522 Credit Intermediation & Related Activities	4,158	4,536	378	2,312,341	2,326,133	13,792
523 Securities & Investments ³	895	1,750	855	23,952	34,030	10,078
524 Insurance Carriers & Related Activities	2,861	3,056	195	1,197,428	1,335,298	137,870
525 Funds, Trusts, & Other Financial Vehicles ³	28	60	32	592,602	652,714	60,112
531 Real Estate	5,002	4,665	-337	22,591	25,661	3,070
532 Rental & Leasing Services ³	1,750	1,750	0	6,051,636	7,156,579	1,104,943
533 Lessors of Nonfinancial Intangible Assets ³	60	60	0	2,703,798	2,879,223	175,425
541 Professional, Scientific, & Technical Services	14,457	15,860	1,403	7,487,211	8,761,451	1,274,240
551 Management of Companies & Enterprises	3,619	5,023	1,404	287,399	300,536	13,137
561 Administrative & Support Services	24,476	28,424	3,948	2,323,744	2,612,430	288,686
562 Waste Management & Remediation Services	403	365	-38	4,482,156	4,736,631	254,475
611 Educational Services	3,312	4,491	1,179	5,011,337	5,085,005	73,668
621 Ambulatory Health Care Services	12,176	13,665	1,489	2,511,150	2,671,457	160,307
622 Hospitals ³	17,500	17,500	0	1,753,353	2,041,633	288,280
623 Nursing & Residential Care Facilities	5,692	5,859	167	361,745	361,745	49,694
624 Social Assistance ³	7,500	7,500	0	113,545	113,545	17,034
711 Performing Arts & Spectator Sports	983	1,035	52			
712 Museums & Historical Sites	356	476	120			

NAICS Employment Sectors	Tucson MSA			United States			
	1998	2001	Growth	1998	2001	Growth	
713 Amusement, Gambling, & Recreation Industries	4,516	5,074	558	1,175,221	1,305,072	129,851	11.0%
721 Accommodation	6,938	8,030	1,092	1,708,002	1,752,782	44,780	2.6%
722 Food Services & Drinking Places	25,679	26,300	621	7,758,086	8,219,519	461,433	5.9%
811 Repair & Maintenance	4,028	4,224	196	1,302,873	1,343,180	40,307	3.1%
812 Personal & Laundry Services	3,680	3,958	278	1,247,387	1,311,522	64,135	5.1%
813 Religious, Grantmaking, Civic, Professional & Similar Organizations	5,323	5,925	602	2,487,606	2,715,777	228,171	9.2%
Total Employment²	267,929	298,899	30,970	105,444,821	111,975,812	6,530,991	6.2%

¹These categories are not included in the analysis as complete data is not available

²Total Employment figures may appear different from comparable employment statistics because government jobs are not included and averages were used on a number of employment sectors

³Industries reflect averages for employment figures in 1998, 2001 or both

Source: County Business Patterns & Economics Research Associates.

Table II-12 Shift-Share Components of Employment Growth in Tucson MSA, Arizona
Major Industry Sector Employment, 1998-2001

NAICS Employment Sectors	Share Effect ¹		Industry Mix ²		Regional Shift ³		Total	
	Percent	Net	Percent	Net	Percent	Net	Percent	Net
113 Forestry and logging ⁴	6.2%	1	-13.5%	(1)	7.3%	1	0.0%	-
115 Agriculture & forestry support activities ⁴	6.2%	11	-4.2%	(7)	-2.0%	(4)	0.0%	-
211 Oil & Gas Extraction ⁴	6.2%	1	-15.5%	(1)	9.3%	1	0.0%	-
212 Mining (except Oil & Gas) ⁴	6.2%	108	-17.1%	(299)	10.9%	191	0.0%	-
213 Support Activities for Mining ⁴	6.2%	1	6.0%	1	-12.2%	(1)	0.0%	-
221 Utilities	6.2%	119	-10.3%	(197)	-3.3%	(64)	-7.4%	(142)
233 Building, Developing, & General Contracting	6.2%	254	6.6%	269	7.3%	301	20.1%	824
234 Heavy Construction	6.2%	141	5.9%	135	13.1%	298	25.2%	574
235 Special Trade Contractors	6.2%	910	5.4%	797	-2.5%	(373)	9.1%	1,334
311 Food Manufacturing	6.2%	44	-5.8%	(41)	-27.5%	(195)	-27.1%	(192)
312 Beverage & Tobacco Product Manufacturing	6.2%	36	-7.4%	(42)	-5.8%	(33)	-7.0%	(40)
313 Textile Mills ⁴	6.2%	1	-26.2%	(2)	20.0%	2	0.0%	-
314 Textile Product Mills ⁴	6.2%	9	-13.2%	(19)	29.1%	42	22.0%	32
315 Apparel Manufacturing ⁴	6.2%	11	-40.4%	(70)	-21.1%	(37)	-55.3%	(97)
316 Leather & Allied Product Manufacturing ⁴	6.2%	11	-29.8%	(52)	-42.3%	(74)	-65.9%	(115)
321 Wood Product Manufacturing	6.2%	24	-10.1%	(39)	41.1%	159	37.2%	144
322 Paper Manufacturing ⁴	6.2%	11	-12.3%	(21)	6.1%	11	0.0%	-
323 Printing & Related Support Activities	6.2%	78	-13.4%	(169)	-10.1%	(127)	-17.2%	(218)
324 Petroleum & Coal Products Manufacturing ⁴	6.2%	7	-12.9%	(14)	-39.7%	(44)	-46.4%	(52)
325 Chemical Manufacturing ⁴	6.2%	20	-9.6%	(31)	-43.2%	(141)	-46.6%	(153)
326 Plastics & Rubber Products Manufacturing	6.2%	76	-8.9%	(109)	6.8%	83	4.1%	50
327 Nonmetallic Mineral Product Manufacturing	6.2%	112	-3.1%	(55)	35.2%	634	38.3%	691
331 Primary Metal Manufacturing ⁴	6.2%	7	-13.1%	(16)	51.1%	62	44.2%	54
332 Fabricated Metal Product Manufacturing	6.2%	254	-9.2%	(378)	-0.9%	(39)	-4.0%	(163)
333 Machinery Manufacturing	6.2%	117	-13.9%	(263)	-3.1%	(58)	-10.8%	(204)
334 Computer & Electronic Product Manufacturing	6.2%	261	-11.4%	(480)	16.1%	677	10.9%	458
335 Electrical Equipment, Appliance, & Component Mfg	6.2%	30	-10.7%	(51)	-22.9%	(110)	-27.4%	(131)
336 Transportation Equipment Manufacturing ⁴	6.2%	465	-14.5%	(1,084)	141.6%	10,620	133.3%	10,000
337 Furniture & Related Product Manufacturing	6.2%	27	-3.7%	(16)	-14.6%	(64)	-12.0%	(53)
339 Miscellaneous Manufacturing ⁴	6.2%	108	-9.5%	(166)	-7.5%	(132)	-10.8%	(190)
421 Wholesale Trade, Durable Goods	6.2%	375	-1.4%	(83)	-13.8%	(833)	-9.0%	(542)
422 Wholesale Trade, Nondurable Goods	6.2%	201	-2.5%	(80)	-16.6%	(541)	-12.9%	(420)
441 Motor Vehicle & Parts Dealers	6.2%	357	-0.9%	(52)	-2.5%	(142)	2.8%	163

NAICS Employment Sectors	Share Effect ¹		Industry Mix ²		Regional Shift ³		Total	
	Percent	Net	Percent	Net	Percent	Net	Percent	Net
442 Furniture & Home Furnishings Stores	6.2%	108	5.1%	89	-0.2%	(4)	11.1%	193
443 Electronics & Appliance Stores	6.2%	60	11.5%	110	5.7%	54	23.3%	224
444 Building Material & Garden Supplies Dealers	6.2%	191	4.2%	130	6.4%	198	16.8%	519
445 Food & Beverage Stores	6.2%	443	-5.5%	(394)	7.5%	535	8.2%	584
446 Health & Personal Care Stores	6.2%	150	-4.3%	(104)	1.0%	25	2.9%	71
447 Gasoline Stations	6.2%	157	-8.2%	(208)	-4.5%	(114)	-6.5%	(165)
448 Clothing & Clothing Accessories Stores	6.2%	196	2.6%	81	2.1%	65	10.8%	342
451 Sporting Goods, Hobby, Book, & Music Stores	6.2%	127	1.1%	23	-12.0%	(246)	-4.7%	(96)
452 General Merchandise Stores	6.2%	370	-4.3%	(257)	15.6%	931	17.5%	1,044
453 Miscellaneous Store Retailers	6.2%	208	-0.5%	(15)	4.5%	151	10.2%	344
454 Nonstore Retailers	6.2%	72	3.7%	43	27.6%	320	37.5%	435
481 Air Transportation	6.2%	35	2.5%	14	-29.7%	(167)	-21.0%	(118)
484 Truck Transportation	6.2%	81	-0.9%	(11)	8.0%	105	13.4%	175
485 Transit & Ground Passenger Transportation	6.2%	39	5.9%	37	108.3%	681	120.3%	757
486 Pipeline Transportation ⁴	6.2%	4	-3.1%	(2)	-3.1%	(2)	0.0%	-
487 Scenic & Sightseeing Transportation ⁴	6.2%	4	-4.7%	(3)	-1.5%	(1)	-	-
488 Support Activities for Transportation	6.2%	69	8.7%	97	-9.3%	(104)	5.6%	62
492 Couriers & Messengers	6.2%	41	0.9%	6	-11.3%	(74)	-4.3%	(28)
493 Warehousing & Storage ⁴	6.2%	4	15.4%	9	-25.8%	(15)	-4.2%	(3)
511 Publishing Industries	6.2%	212	-6.2%	(212)	-4.4%	(152)	-4.4%	(152)
512 Motion Picture & Sound Recording Industries	6.2%	29	-0.7%	(3)	-12.2%	(58)	-6.7%	(32)
513 Broadcasting & Telecommunications	6.2%	168	15.3%	414	-5.9%	(160)	15.6%	422
514 Information Services & Data Processing Services	6.2%	31	-6.2%	(31)	118.4%	585	118.4%	585
522 Credit Intermediation & Related Activities	6.2%	258	2.3%	97	0.6%	23	9.1%	378
523 Securities & Investments ⁴	6.2%	55	24.6%	220	64.7%	579	95.5%	855
524 Insurance Carriers & Related Activities	6.2%	177	-5.6%	(160)	6.2%	178	6.8%	195
525 Funds, Trusts, & Other Financial Vehicles ⁴	6.2%	2	35.9%	10	70.4%	20	112.5%	32
531 Real Estate	6.2%	310	5.3%	266	-18.3%	(913)	-6.7%	(337)
532 Rental & Leasing Services ⁴	6.2%	108	3.9%	69	-10.1%	(177)	0.0%	-
533 Lessors of Nonfinancial Intangible Assets ⁴	6.2%	4	7.4%	4	-13.6%	(8)	0.0%	-
541 Professional, Scientific, & Technical Services	6.2%	895	12.1%	1,744	-8.6%	(1,237)	9.7%	1,403
551 Management of Companies & Enterprises	6.2%	224	0.3%	11	32.3%	1,169	38.8%	1,404
561 Administrative & Support Services	6.2%	1,516	10.8%	2,650	-0.9%	(218)	16.1%	3,948
562 Waste Management & Remediation Services	6.2%	25	-1.6%	(7)	-14.0%	(56)	-9.4%	(38)
611 Educational Services	6.2%	205	6.2%	206	23.2%	768	35.6%	1,179
621 Ambulatory Health Care Services	6.2%	754	-0.5%	(63)	6.6%	798	12.2%	1,489

NAICS Employment Sectors	Share Effect ¹		Industry Mix ²		Regional Shift ³		Total	
	Percent	Net	Percent	Net	Percent	Net	Percent	Net
622 Hospitals ⁴	6.2%	1,084	-4.7%	(827)	-1.5%	(257)	0.0%	-
623 Nursing & Residential Care Facilities	6.2%	353	0.2%	11	-3.4%	(196)	2.9%	167
624 Social Assistance ⁴	6.2%	465	10.2%	769	-16.4%	(1,233)	0.0%	-
711 Performing Arts & Spectator Sports	6.2%	61	9.7%	96	-10.6%	(105)	5.3%	52
712 Museums & Historical Sites	6.2%	22	11.5%	41	16.1%	57	33.7%	120
713 Amusement, Gambling, & Recreation Industries	6.2%	280	4.9%	219	1.3%	59	12.4%	558
721 Accommodation	6.2%	430	-3.6%	(248)	13.1%	910	15.7%	1,092
722 Food Services & Drinking Places	6.2%	1,590	-0.2%	(63)	-3.5%	(906)	2.4%	621
811 Repair & Maintenance	6.2%	249	-3.1%	(125)	1.8%	71	4.9%	196
812 Personal & Laundry Services	6.2%	228	-1.1%	(39)	2.4%	89	7.6%	278
813 Religious, Grantmaking, Civic, Professional & Similar Organizations	6.2%	330	3.0%	159	2.1%	114	11.3%	602
Total Non Farm Employment	6.2%	16,595	0.0%	-	5.4%	14,375	11.6%	30,970

¹ The change in County employment that would have occurred for a specific industry had it grown at the National growth rate for all industries combined

² The additional gain (loss) in County employment that would have occurred for a specific industry (additional to the share effect) due to the industry growing faster (or slower) nationally, than the rate of all industries combined

³ The additional gain (or loss) in County employment for a specific industry beyond the National share and industry mix effects resulting from the industry growing faster (or slower) than the same industry nationally

⁴ Industries reflect averages for employment figures in 1998, 2001 or both----Thus, Net figures reflect averages in each effect (Share, Industry, and Regional)

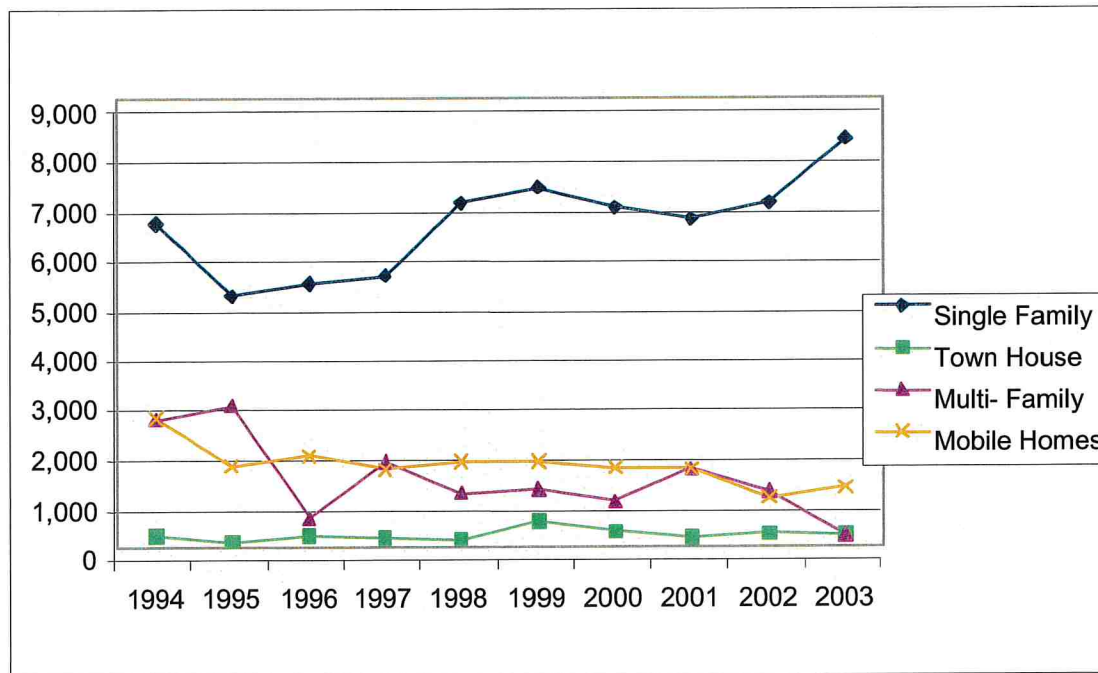
Source: County Business Patterns & Economics Research Associates.

III. Current Market Conditions and Trends

Housing Market

New single family building home construction continued to escalate in 2003, fueled in part by low interest rates and positive population growth. The total number of single family housing permits issued in Pima County increased from 6,894 in 2002 to 8,202 in 2003, or an increase of 19 percent. Town home construction has remained fairly stable, while the number of multi-family permits issued has decreased over the past three years, again due to low interest rates (the lowest sustained mortgage interest rate in 30 years) and the increasing trend of home ownership. Multi-family permits decreased from 1,132 in 2002 to 260 in 2003, or the lowest level in the past ten years. Exhibit III-1 graphically presents residential permit trends in Pima County during the 1994-2003 period.

Exhibit III-1
Pima County Residential Permit Trends



Source: Pima County and Economics Research Associates

Based on data provided by the Tucson Association of Realtors Multiple Listing Service, as presented in Table III-1, total residential home sales in the metropolitan area increased 10.3 percent from 2002 to 2003, or an increase from 13,251 units to 14,618 units. The northwest market continues to lead the region in terms of number of units listed and sold. The average sales price for all property types increased from \$169,063 to \$178,171. For single-family homes only,

the average sales price increased from \$181,310 in 2002 to \$190,496 in 2003. The average market time rose slightly from 53 to 54 days over the past year with 47.1 percent of all closed listings selling in the first 30 days on the market. The table also presents housing sales trends in the HAMP area submarkets (East and Southeast). In 2003 these two submarkets accounted for 19 percent of total home sales in the region. Though average sales prices in HAMP area submarkets are somewhat lower than regional averages, annual sales increased by 16.0 percent between 2002 and 2003, significantly higher than the region. Average market times in the HAMP submarkets are also lower than regional averages and have declined steadily since 1997.

**Table III-1
Tucson Metropolitan Area – Housing Sales Trends**

Tucson Metropolitan Area:								
	1996	1997	1998	1999	2000	2001	2002	2003
Total Unit Sales	8,386	8,472	10,020	11,244	11,077	12,142	13,251	14,618
Single Family	6,540	6,650	8,013	9,018	8,927	9,984	10,971	12,192
Townhouse/Condo	1,436	1,444	1,572	1,721	1,715	1,842	1,985	2,168
Mobile Home	410	378	435	505	435	316	295	258
Average Sales Price	\$127,526	\$132,096	\$137,323	\$147,180	\$155,907	\$160,300	\$169,063	\$178,171
Average Days on Market	67	78	71	62	55	52	53	54
HAMP Area								
	1996	1997	1998	1999	2000	2001	2002	2003
Total Unit Sales	1,381	1,426	1,686	1,981	1,891	2,265	2,403	2,787
Single Family	1,115	1,177	1,443	1,664	1,605	1,981	2,068	2,395
Townhouse/Condo	265	248	241	311	279	276	328	385
Mobile Home	1	1	2	6	7	8	7	6
Average Sales Price	\$79,695	\$99,912	\$104,864	\$112,327	\$120,854	\$129,963	\$135,060	\$148,524
Average Days on Market	54	67	63	53	47	45	43	41

Notes:

-Reflects data provided by the Tucson Association of Realtors MLS (Multiple Listing Service).

-HAMP area is included in the East and Southeast submarkets as defined by the Tucson Association of Realtors

Source: Tucson Association of Realtors, Economics Research Associates

Table III-2 presents a summary of new home sales for Pima County for 2002 and 2003. Both monthly sales per project and average price per square foot for single family homes have increased over this time period. The average monthly sales per project reflects net sales per month for the year, or 3.43 sales per month in 2003. The average price per square foot across Pima County for new single family homes was recorded at \$92.55 in 2003 (this price is based on the base price of the home, not the actual sales price). This is an increase of 7.6 percent from an average price per square foot of \$86.04 in 2002. A summary of pricing and absorption for new homes in the southeast submarket is included within the appendix of this report.

**Table III-2
New Home Sales Summary – Pima County**

	Gross Sales			Monthly Sales/Project			Average Price/Sq Ft			2003 Average SF
	2003	2002	% Difference	2003	2002	% Difference	2003	2002	% Difference	
Single Family	7,580	6,125	23.8%	3.43	3.22	6.5%	\$92.55	\$86.04	7.6%	1,909
Townhome/Duplex	154	246	-37.4%	1.39	1.94	-28.4%	\$102.81	\$97.83	5.1%	1,421
Condominium	97	122	-20.5%	3.13	9.6	-67.4%	\$137.43	\$126.28	8.8%	1,309
Total	7,831	6,493	20.6%	3.34	3.18	5.0%	\$93.33	\$87.33	6.9%	1,892

Note: Meyers Group data reflects new home projects throughout Pima County. This includes production projects (standard floor plans with clearly defined price sheet) as well as hybrid projects (new homes that do not fit the production definition but are not custom).

Monthly sales/project reflects net sales for the period divided by the number of project months.

Average price/sq ft is based on the average base sales price and reflects actual number of homes sold.

Source: Meyers Real Estate Information, Inc., Economics Research Associates

Rental Market

As mentioned, the apartment market was affected by the robust increase in home sales. While absorption of vacant units increased, it was offset somewhat by increased apartment development, leading to an increase in apartment concessions and relatively flat rental rates. As shown in Table III-3, in 2002, certificates of occupancy were issued for 1,245 units, an increase from 854 units in 2001. The year-end vacancy rate in 2002 was 8.8 percent, or a slight increase over the 8.7 percent recorded in 2001. There was positive absorption of 1,330 apartment units in 2002.

Table III-4 presents average monthly rental trends for apartment units in the Tucson market. Note that these include both new and existing apartment units. Average rents increased 0.7 percent from 2001 to 2002, with average rent in the Tucson market recorded at \$556 in 2002. Average rent per square foot per month was \$0.75 in 2002. Rents are forecast to continue to grow in the one percent to two percent range over the next few years. The apartment market is anticipated to strengthen (lower vacancy, fewer rent concessions) given rising housing prices, projected employment growth, and a shortage of multi-family housing development sites.

Following is a breakdown of apartment rents by size based on HUD estimates for 2004: Studio at \$443 per month, 1-bedroom at \$535 per month, 2-bedroom at \$707 per month, 3-bedroom at \$983 per month, and 4-bedroom at \$1,159 per month.

**Table III-3
Tucson Apartment Market Trends**

	Certificates of Occupancy	Absorption (Units/Year)	Vacancy
1995	2,905	-1,961	8.80%
1996	2,133	1,017	9.80%
1997	714	2,593	7.70%
1998	781	1,119	7.50%
1999	1,146	1,656	6.90%
2000	871	514	7.50%
2001	854	-198	8.70%
2002	1,245	1,330	8.80%

Source: CB Richard Ellis, Economics Research Associates

**Table III-4
Average Rents – Tucson Apartment Market**

	Ave. Monthly Rent	% Change	Ave. Rent/SF/ Month
1993	\$432	--	\$0.61
1994	\$468	8.3%	\$0.66
1995	\$480	2.6%	\$0.67
1996	\$486	1.3%	\$0.67
1997	\$500	2.9%	\$0.68
1998	\$509	1.8%	\$0.69
1999	\$522	2.6%	\$0.71
2000	\$537	2.9%	\$0.73
2001	\$552	2.8%	\$0.75
2002	\$556	0.7%	\$0.75

Source: CB Richard Ellis, Economics Research Associates

Table III-5 presents a summary of the midsize apartment market (20 to 100 units) by submarket. As shown, the northern Tucson markets typically generate the highest rent levels, with an average 2002 rent in the northeast market of \$749. Average rents in the southern submarket are the lowest in the region (\$470 in 2002). The highest vacancy rate was reported in the north central and east submarkets at 12.5 percent and 12.4 percent, respectively. Not surprisingly, the university submarket reported the lowest vacancy rate in 2002 (6.9 percent).

**Table III-5
Tucson Rental Market – Midsize Apartments**

<i>Submarket</i>	Average Rent		<u>% Change</u>	Vacancy
	<u>2002</u>	<u>2001</u>		<u>2002</u>
Northeast	\$749	\$749	0.0%	8.1%
Northwest	\$693	\$683	1.5%	10.9%
North	\$654	\$658	-0.6%	11.1%
North Central	\$473	\$475	-0.4%	12.5%
University	\$590	\$605	-2.5%	6.9%
Central	\$518	\$510	1.6%	8.7%
East	\$529	\$523	1.1%	12.4%
South	\$470	\$464	1.3%	9.8%
West	\$617	\$613	0.7%	10.5%
Average	\$556	\$552	0.7%	10.7%

1/ Midsize properties are defined as properties with 20 to 100 apartments.

2/ Average rent includes new and existing apartments

Source: The Waterfall Group, Economics Research Associates

Retail Market

As shown in Table III-6 the vacancy rate for retail space in the Tucson metropolitan area decreased from 1998 to 2000, although that trend has reversed over the past few years. Based on 2nd quarter 2002 data, the vacancy rate has increased to 10.34 percent from 9.97 percent at the end of 4th quarter 2001. The total square feet of retail space per capita has remained relatively consistent over the past several years at about 43 to 44 square feet. In other words, it does not appear that retail space has been overbuilt with respect to population growth. The Tucson Mall area (northwest) saw increased vacancies while the area near Park Place Mall (east) experienced an increase in absorption.

Table III-7 presents retail vacancy and annual net absorption in the Tucson market from 1999 to 2003. The increase in vacancy in the retail market from 10.35 percent in 2002 to 11.06 percent in 2003 was due to poor performance in older properties. Newly constructed properties entered the market at nearly full occupancy, with strong construction activity in big box retail. While absorption was strong in 2003, existing retail space experienced negative absorption of 185,043. Wal-Mart, Kohl's and La Encantada (a new pedestrian-oriented shopping center) accounted for all of the positive absorption. La Encantada was 97 percent pre-leased upon opening and is targeted in part at the high-end tourist market with in-line tenants such as BeBe Sport, Williams Sonoma, and Apple Computer.

**Table III-6
Tucson Metropolitan Area - Retail Market Trends**

<i>Time Period by Quarter</i>	Total Retail Space (sq ft)	Vacancy Rate	Absorption (sq ft)	Total Sq Ft per Capita
2nd, 1997	34,969,413	10.61%	69,559	44.59
4th, 1997	35,236,628	9.62%	587,374	44.71
2nd, 1998	35,285,831	10.11%	-130,396	44.10
4th, 1998	35,462,763	10.59%	-11,181	43.94
2nd, 1999	35,853,340	10.58%	354,779	43.72
4th, 1999	36,469,190	9.90%	797,291	43.94
2nd, 2000	36,750,385	9.44%	422,242	43.61
4th, 2000	37,188,632	8.74%	657,589	43.68
2nd, 2001	37,755,832	10.03%	32,083	43.62
4th, 2001	38,296,240	9.97%	507,048	43.88
2nd, 2002	38,534,269	10.34%	72,787	43.65

Source: Pima County Real Estate Research Council, Economics Research Associates

**Table III-7
Tucson Metropolitan Area - Retail Trends**

<i>Retail Market</i>	Vacancy	Net Absorption
1999	10.16%	176,091
2000	10.04%	592,502
2001	10.75%	415,395
2002	10.35%	305,309
2003	11.06%	469,675

Source: CB Richard Ellis, Economics Research Associates

Table III-8 presents retail market indicators in the Tucson area by major submarkets. The northwest market (generally east of I-10, north of Ft. Lowell, and west of Swan, and including the

Tucson Mall area) is the largest submarket in terms of total rentable square feet and also demonstrated one of the lowest vacancy rates among the various regions at 6.47 percent. The southeast submarket (which includes the area near the airport, Davis Monthan Air Force Base, as well as a portion of the HAMP area) continues to experience the weakest vacancy rate at 18.34 percent. This is due in part to a large amount of older retail space and generally weaker tenants. However, the southeast submarket also experienced positive absorption over the past year of 101,622 square feet as well as the addition of 80,000 square feet of new retail space. The central submarket includes the second regional mall node (Park Place Mall), including a significant amount of big box and discount store space. The vacancy rate in the central submarket (11.72 percent) is just above the regional average of 11.06 percent.

Table III-8
Retail Market Indicators by Submarket- Tucson Area, Year End 2003

	Total Space (SF)	Vacancy Rate	Net Absorption (SF)	New Construction (SF)
Northwest	5,744,416	6.47%	332,857	258,000
West	573,719	6.75%	-20,550	0
Southwest	3,068,138	10.24%	-7,240	0
Southeast/1	3,504,395	18.34%	101,622	80,000
Northeast	1,001,241	14.78%	-39,718	0
Central	3,101,865	11.72%	102,704	0
TOTAL	16,993,774	11.06%	469,675	660,944

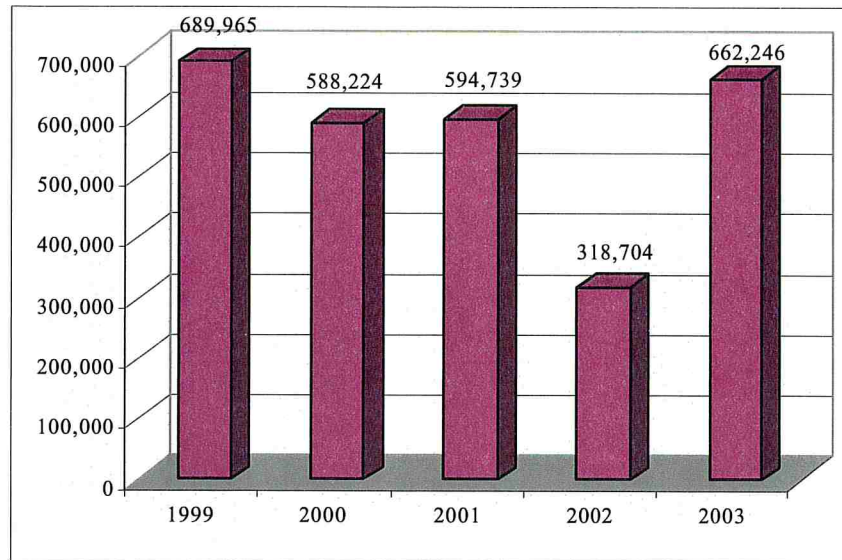
Note:

/1 – The Southeast market includes the portion of HAMP south of Golflinks Road

Source: CB Richard Ellis, Economics Research Associates

New retail construction approached levels not seen since 1999 with 662,246 square feet of space added. As mentioned earlier, La Encantada opened on the northwest side, adding the only multi-tenant center to the existing inventory with 258,000 square feet of new retail space. The majority of new space was owner occupied and included two new Kohl's stores, a Wal-Mart, and a Home Depot. Exhibit III-2 presents new retail construction trends in the Tucson market.

Exhibit III-2
New Retail Construction Trends - Tucson



Source: CB Richard Ellis, and Economics Research Associates

Office Market

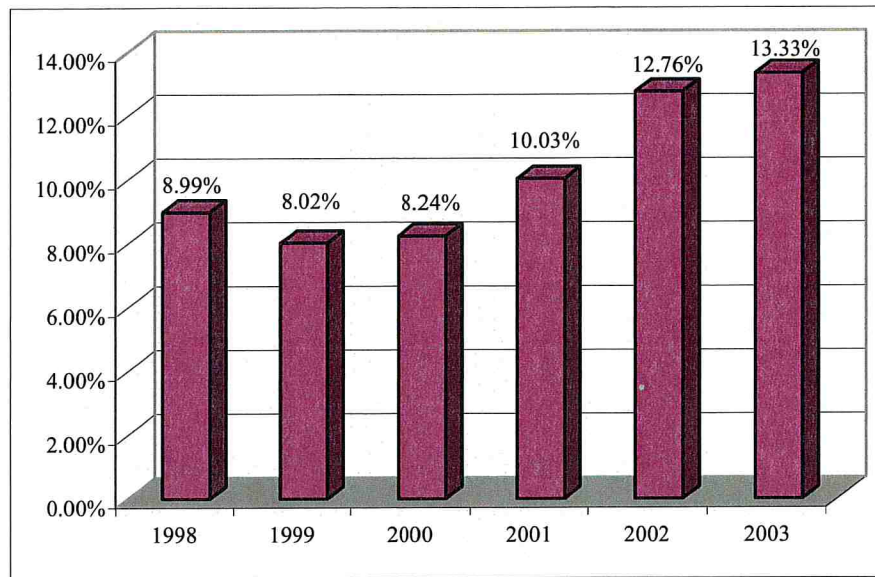
The following discussion addresses existing market conditions and trends with respect to the Tucson metropolitan area office market. Economic indicators such as vacancy rate, absorption activity, rental rate, and new construction are highlighted.

The Tucson office market has expanded notably over the past few years, mostly as a result of the development of build-for-sale projects throughout the region. The vacancy rate in Tucson rose to 13.33 percent by year-end 2003 – the highest vacancy rate reported in several years. The largest increase in vacancy was recorded in the North Central submarket, while vacancy rates decreased in the West and Northeast submarkets. Vacancy for existing space in 2003 was 13.33 percent (an increase from 12.49 percent in 2002) versus 28.28 percent (an increase from 18.28 percent in 2002) in newly constructed space.

Net absorption was also down in 2003 (from 202,571 in 2002 to 155,244 in 2003), with positive absorption attributable to occupied new construction. In 2003, net absorption for existing buildings was negative 7,325 square feet versus 162,569 square feet occupied in new construction. Most of the positive net absorption occurring over the past few years has been attributable to occupied new construction.

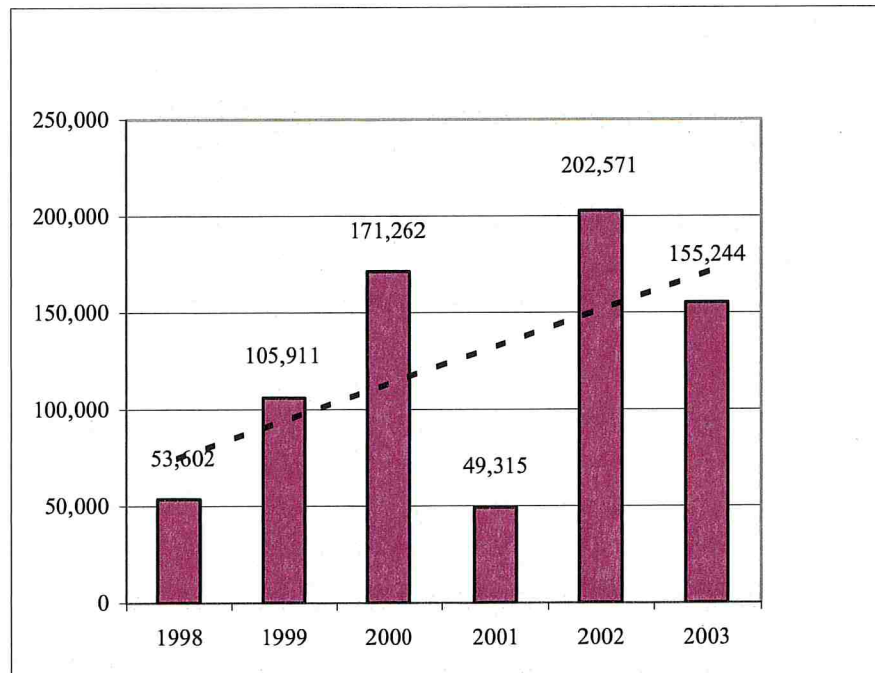
Office vacancy and absorption trends in the Tucson market are presented in Exhibit III-3 and Exhibit III-4.

**Exhibit III-3
Office Vacancy Rate Trends - Tucson**



Source: CB Richard Ellis, and Economics Research Associates

**Exhibit III-4
Office Absorption Trends - Tucson**



Source: CB Richard Ellis, and Economics Research Associates

Table III-9 reflects office space inventory trends for the Tucson metropolitan area for the first and third quarters from 1997 to 2002. The amount of total leasable office space in the market has increased significantly from 1st quarter 1997 to 3rd quarter 2002, or an increase of over 1.8 million square feet, while total office space increased by about 2.6 million square feet.

**Table III-9
Tucson Metropolitan Area – Office Space Inventory**

Time Period by Quarter	Total Space (sq ft)	Leasable Square Feet	Vacant Leasable Sq Ft	Vacancy Rate	Absorption (sq ft)
1st, 1997	10,268,487	7,485,836	827,839	11.1%	142,941
3rd, 1997	10,316,838	7,540,333	750,577	10.0%	131,759
1st, 1998	10,341,187	7,697,933	850,670	11.1%	57,507
3rd, 1998	10,479,215	7,833,120	821,052	10.5%	164,805
1st, 1999	10,733,477	8,003,369	950,448	11.9%	40,853
3rd, 1999	10,889,426	8,023,999	877,238	10.9%	93,840
1st, 2000	11,076,081	8,295,769	960,987	11.6%	188,021
3rd, 2000	11,308,060	8,381,781	830,237	9.9%	216,762
1st, 2001	11,704,900	8,684,923	1,080,994	12.4%	52,385
3rd, 2001	11,980,948	8,723,325	1,125,790	12.9%	(6,394)
1st, 2002	12,335,526	8,822,307	1,190,744	13.5%	34,028
3rd, 2002	12,828,358	9,322,833	1,401,389	15.0%	289,881

Source: Pima County Real Estate Research Council, Economics Research Associates

Table III-10 presents average annual asking lease rates per square foot by submarket and class. All lease rates are based on full service leases. Note that submarkets definitions are as per CB Richard Ellis, who tracks annual data for multi-tenant office buildings 10,000 sq. ft. or larger. The northern portion of the HAMP area, between Golflinks Road and Speedway Blvd, is included in the East Central submarket. No office building activity (fulfilling the above criteria) was recorded for the Southeast market that includes the rest of the HAMP area..

Although lease rates have remained fairly stable over the past year, rent concessions are increasing. Owners of Class B space are offering concessions of \$1.00 per square foot annually while owners of Class A space are sometimes lowering rates by \$2.00 to \$4.00 per square foot. Rates in existing space are expected to remain soft as owners try to manage increasing vacancies. Mid year 2003 Class A lease rates ranged from \$18.50 per square foot in the Northeast submarket to \$24.00 per square foot in the East Central, North Central, and Downtown submarkets. Landlords are now accepting annual rent increases of 3 percent, versus 4 to 5 percent in previous years.

Table III-10
Office Lease Rates by Submarket, Mid Year 2003

	<u>Lease Rates</u>	
	<u>Class A</u>	<u>Class B/C</u>
Northwest	\$19.50	\$18.99
West Central	--	\$22.10
East Central (HAMP)	\$24.00	\$17.45
Northeast	\$18.50	\$17.49
North Central	\$24.00	\$19.58
Downtown	\$24.00	\$21.18

(1) Based on full service lease.

(2) Market coverage: includes buildings 10,000 square feet and larger.

(3) East Central submarket partially contains the HAMP area, as defined by CBRE.

Source: CB Richard Ellis, Economics Research Associates

The current office inventory by submarket is reflected in Table III-11. As shown, the East Central corridor (centered along Broadway east of Alvernon Way, south of Speedway and north of Golf Links) currently contains the largest inventory of office space. Absorption was strongest in the Northwest, East Central, and West Central submarkets. The highest vacancy rate was reported in the downtown area (15.60 percent) followed by the Northwest submarket (14.72 percent).

Table III-11
Office Market Indicators by Submarket, Year End 2003

	Total Bldg (SF)	Vacancy Rate	Net Absorption (SF)	New	Avg. Asking Lease Rate/yr.
				Construction (SF)	
Northwest	1,374,000	14.72%	62,461	26,071	\$19.15
West Central	406,100	12.94%	59,879	-	\$21.81
East Central (HAMP)	2,100,632	12.40%	63,018	46,036	\$18.38
Northeast	762,604	13.95%	29,796	-	\$17.56
North Central	1,343,409	11.08%	(32,217)	25,000	\$20.14
Downtown	1,213,403	15.60%	(27,693)	-	\$20.19
TOTAL	7,200,148	13.33%	155,244	97,107	

(1) Based on full service lease.

(2) Market coverage: includes buildings 10,000 square feet and larger.

(3) East Central submarket partially contains the HAMP area, as defined by CBRE.

Source: CB Richard Ellis, Economics Research Associates

As shown in Table III-12, new office building construction through third quarter 2003 totaled 217,722 square feet, with many new projects located in the city. In the recent past, most new office construction was occurring along the northern perimeter of the city. It is estimated that new office construction will exceed 500,000 square feet in 2004 (*PICOR Tucson Office Market Outlook*, Spring 2004). Unlike recent years, it is expected that most of the new construction will be speculative office space. The demand for owner-occupied office space also remains high. The cost of developable office land has been averaging \$7 to \$9 per square foot.

Table III-12
New Office Construction Trends

Year Completed:	<u>2003 1/</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Number of Complexes	14	18	24	22	15
Total Square Feet	217,722	689,505	763,679	508,161	258,474
Owner Occupied (SF)	100,416	240,346	428,046	243,763	110,156
Leasable (SF)	117,306	449,159	335,633	264,398	148,318
Vacant Leasable (SF)	35,295	155,007	64,848	16,099	2,985

1/ Through 3rd Quarter 2003.

Source: Metropolitan Tucson Land Use Study, University of Arizona, Economics Research Associates

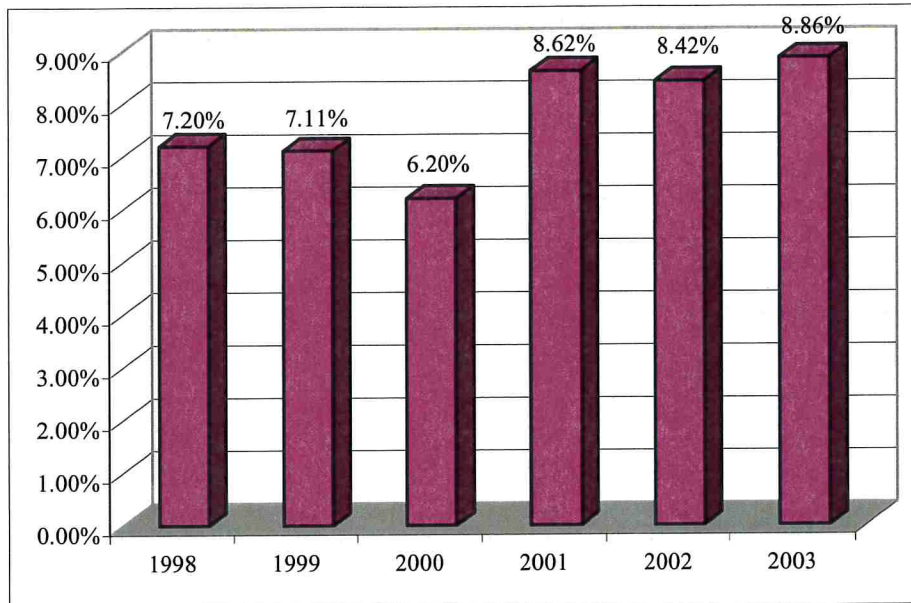
Industrial Market

The vacancy rate for industrial space in the Tucson area increased slightly in 2003 to 8.86 percent, the highest vacancy rate recorded in several years. The increase in vacancy is being driven in part by increasing vacancies in older buildings. The largest increase in vacancy was seen in the southeast submarket (which includes a significant portion of the HAMP area), due primarily to unoccupied new space. Vacancy in existing space in 2003 was recorded at 8.93 percent versus 18.28 percent for newly constructed space. The northwest and airport submarkets experienced a significant increase in occupied new construction. Exhibit III-5 presents industrial market vacancy trends in the Tucson area.

Over the past several years, most of the net new absorption has occurred in build-to-suits, with mostly negative absorption posted in the existing inventory of space. Over the past year, the greatest absorption occurred in the airport, southwest, and northwest submarkets. The airport submarket added 266,185 square feet of occupied inventory to the existing base (existing inventory recorded a negative absorption of 27,499 square feet). The new construction in the

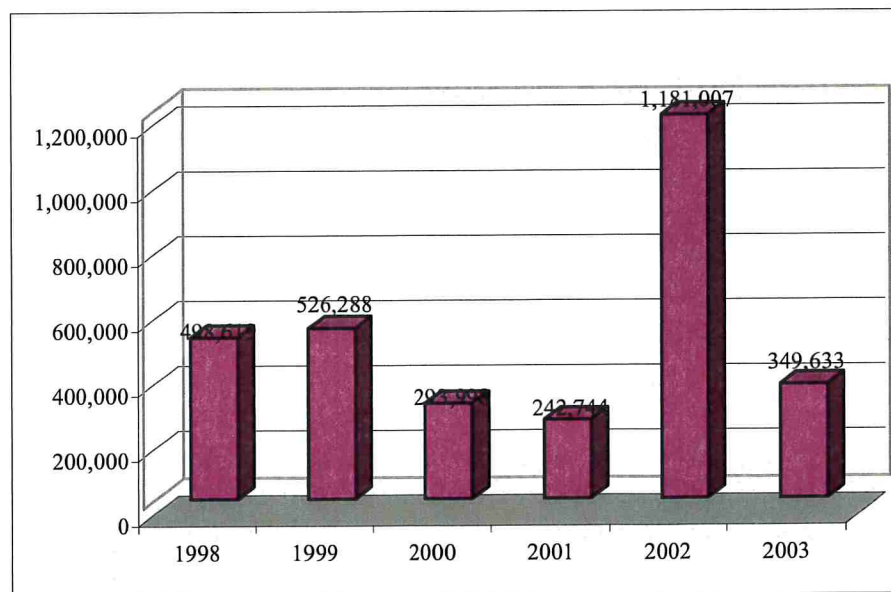
airport submarket is largely attributable to an expansion at Raytheon. Industrial market net absorption trends are presented in Exhibit III-6.

Exhibit III-5
Industrial Market Vacancy Trends – Tucson Area



Source: CB Richard Ellis, and Economics Research Associates

Exhibit III-6
Industrial Market Absorption Trends – Tucson Area



Source: CB Richard Ellis, and Economics Research Associates

The average asking lease rate for industrial space in 2003 was posted at \$0.48 per square foot monthly, with a high lease rate of \$1.25 per square foot and a low of \$0.15 per square foot. The average lease rate indicates a stabilization in lease rates, with an average of \$0.49 per square foot recorded in 2002. New construction accounted for 529,180 square feet of new space over the past year, with the majority of the buildings pre-leased. Of the new construction, just over 80 percent was occupied upon opening. A summary of major industrial properties in the southeast submarket and their operating characteristics is included within the appendix of this report.

IV. Regional Market Competition

Summarized below are the characteristics for six master planned communities recently developed in the Tucson area. Included are project specific characteristics regarding location, pricing, absorption, project description, and commercial components.

A. Dove Mountain

Location: Marana, Tangerine Rd. and Dove Mountain Blvd.

Project Size: 6,200 acres

Project Description: One-third of the property within Dove Mountain is permanently preserved as open space. The development will eventually include 90 holes of golf (the Gallery – a private golf club – includes 36 holes of golf and is currently complete). The Gallery Golf Club also offers a rental program for prospective out-of-state members and guests of current members. The rental program includes short-term rentals at the Cottages at the Gallery – luxury residences that overlook the golf course. Another 36 holes are planned as part of a large resort planned for the northern portion of the site (negotiations are reportedly ongoing with an unnamed resort developer). A sports club will be completed by year end and will include a pool, tennis courts, workout facilities, and spa. The Tortolita Preserve, located to the south of Dove Mountain, provides hiking, mountain biking, and horseback riding. An extensive trail system is also being developed in the Tortolita Mountains to the north.

Dove Mountain is being developed by Cottonwood Properties. The project includes homes ranging from \$200,000 to over \$2 million, including custom homesites which average close to two acres. Dove Mountain also includes Heritage Highlands – an age restricted community sited along a golf course. A site has been set aside for an elementary school, although no bonds have been issued to finance construction. A fire station is located on site and water service is provided by the Town of Marana.

Pricing/Absorption:

Shown below is a summary of pricing and absorption trends for Dove Mountain residential projects. As shown, the average monthly sales rate is 3.76, with a price per square foot range of \$96.62 to \$116.88. The averages do not include the Golf Villas at Solana – a community targeted at the high-end market. The Golf Villas are generally priced from \$500,000+ with plans from 2,200 to 2,900 square feet. The Cottages, which is not included below, is also a high-end project within Dove Mountain with homes priced from the mid \$600,000's.

**Table IV-1
Dove Mountain Sales/Absorption Trends by Project, 2003**

	Villages at Dove		Quail Crossing		San	Golf Villas	Totals/ Average 1/	Heritage Highlands Totals/ Average 2/
	<u>Mountain</u>	<u>Verano</u>	<u>East</u>	<u>Mateo</u>	<u>at Solana</u>			
	Richmond							
<i>Builder</i>	American	Monterey	US Home	Ducati		--	--	
<i>Pre-Sales Open Date</i>	8/4/2001	10/29/2001	2/13/2003	9/13/2003		--	--	
<i>Total Units Planned</i>	217	87	68	38	20	410	468	
<i>Total Units Sold</i>	162	87	20	5	2	274	281	
<i>Ave. Monthly Sales Rate</i>	5.61	3.77	1.89	1.39	0.35	3.76	1.64	
<i>Price/Sq Ft Range</i>	\$89.69 \$110.01	\$103.78 \$123.75	\$91.56 \$105.25	\$101.45 \$128.50	\$188.01 \$209.34	\$96.62 \$116.88	\$128.69 \$151.57	
<i>Size Range (sq ft)</i>	1,318 1,873	1,882 2,514	1,738 2,198	1,712 2,760	2,269 2,978	1,663 2,336	1,881 2,691	
<i>Base Price Range</i>	\$144,900 \$167,990	\$232,900 \$260,900	\$179,400 \$208,400	\$219,990 \$279,990	\$475,000 \$559,900	\$194,298 \$229,320	\$296,429 \$356,403	
<i>HOA Fee (monthly)</i>	\$12.50	\$12.50	\$15.00	\$15.00	\$150.00	\$14	\$59.58	
<i>Sales History, 2003</i>								
<i>1st Quarter</i>	38	19	1	0	0	12	4	
<i>2nd Quarter</i>	12	14	5	0	0	6	2	
<i>3rd Quarter</i>	25	8	8	0	1	8	3	
<i>4th Quarter</i>	17	0	6	5	1	6	4	

1/ Totals/average do not include Golf Villas at Solana (high-end). Also, San Mateo is not included in the total average monthly sales rate since it recently opened (fourth quarter).

2/ Reflects totals/average for age-restricted community.

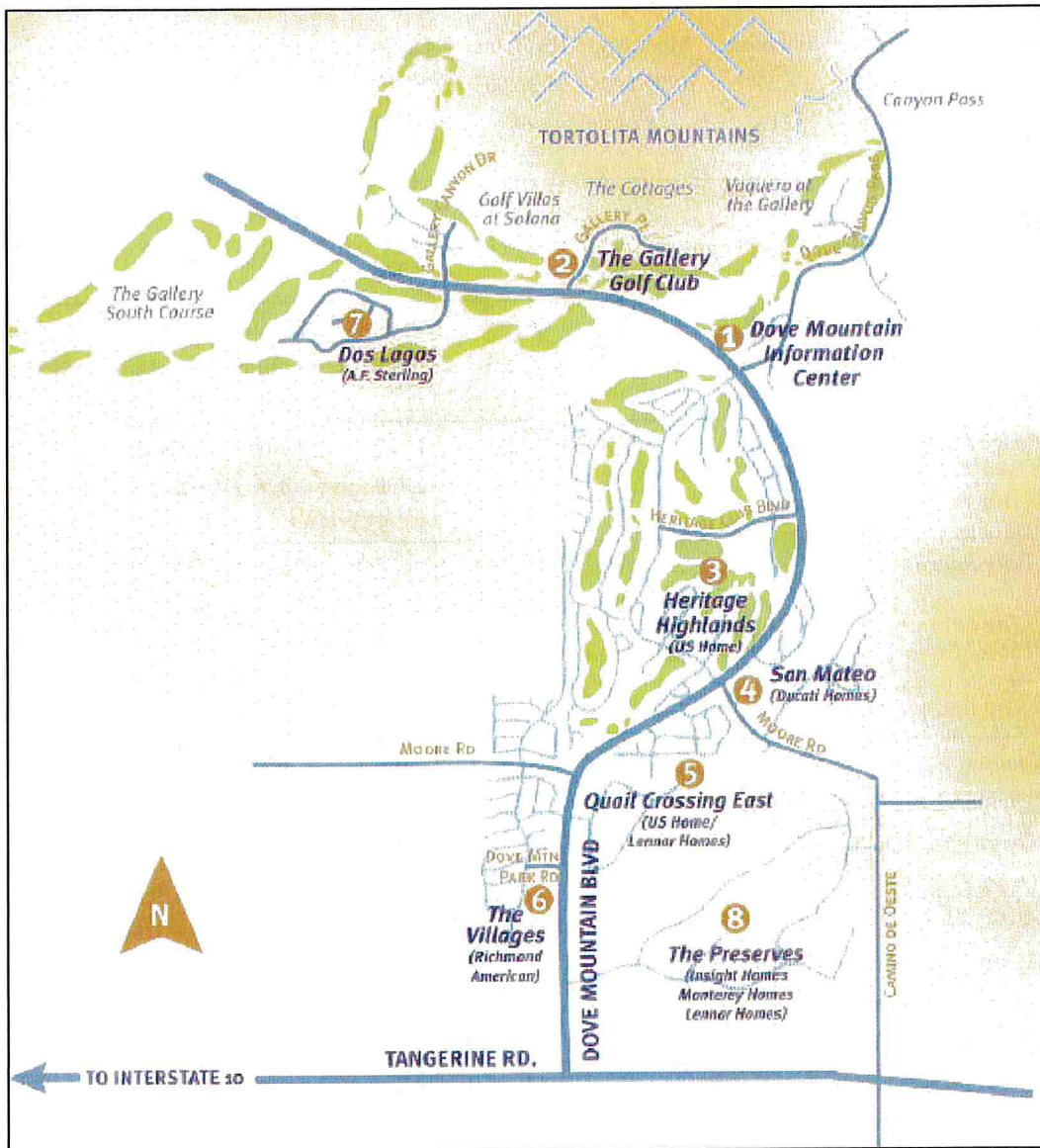
Note: Average monthly sales rate reflects average number of units sold at a project per month since opening.

Price per square foot reflects base price of a unit divided by its finished square feet.

Source: Meyers Real Estate Information, Inc., Economics Research Associates

Commercial Development: A supermarket-anchored community shopping center is planned for the south entrance of the development (along Tangerine Road). Construction has not yet begun. Opening is scheduled for 2006.

**Exhibit IV-1
Dove Mountain – Regional Location Map**



B. Rancho Vistoso

Location: Oro Valley, Rancho Vistoso Blvd and Tangerine

Project Size: 7,626 acres

Project Description: The master planned community of Rancho Vistoso is located in Oro Valley – one of the fastest growing communities in Arizona with a current population of about 30,000. Oro Valley has annexed several large parcels of land since the 1970's and now encompasses about 30 square miles. Rancho Vistoso includes a variety of home options at different price points as well as a vacation ownership club and a resort:

- David J. Baird Homes at Maravilla – priced from low \$200,000
- Estates at Honey Bee Ridge – custom lots from \$185,000
- KB Home at St. Andrews – priced from mid \$140,000
- Monterey Homes at Entrada at Rancho Vistoso – priced from mid \$400,000
- Pepper Viner Homes at the 8th Green at Vistoso – priced from mid \$300,000
- Pulte Homes at Vistoso Ridge – prices starting at low \$300,000
- Pulte Homes at La Terraza – priced from mid \$160,000
- US Homes at Stone Terrace – prices starting at mid \$200,000

Rancho Vistoso also includes two adult communities – Sun City and Vistoso Village (Hughes Development). Sun City is a 1,000 acre retirement community with 2,488 homes, an 18-hole golf course, three recreation facilities, and a sports and fitness center.

The master planned community also includes two golf clubs. Stone Canyon is a private golf club community with custom home sites starting at \$300,000. The second club is a public golf course designed by Tom Weiskopf.

The Vacation Ownership Club is a Worldmark Resort by Trendwest. Worldmark is based on a credit system whereby you purchase credit for use at 50 resort locations. The credit system is intended to allow for flexibility with respect to scheduling and location. The Rancho Vistoso location (a total of 111 units) includes studio and one to three bedroom units with an exercise room, outdoor pool, tennis, and a children's play area. Vistoso Golf Casitas includes 84 two and three bedroom condominium units located along the Golf Club at Vistoso. The casitas are also available for purchase as investment properties. Vistoso Resort Casitas includes 132 luxury condominiums with a clubhouse, pool, fitness center, and ramada area. The resort casitas are also available for purchase.

Pricing/Absorption:

Shown below is a summary of pricing and absorption for active projects located within Rancho Vistoso. Data for Vistoso Village, a retirement community, is not included within the totals/averages for the other Rancho Vistoso projects. The average monthly sales rate for the five projects listed is 2.74, with an average price per square foot range of \$97.19 to \$119.57. The average absorption rate is skewed lower by the inclusion of the 8th Green at Rancho Vistoso – an upscale golf course community.

**Table IV-2
Rancho Vistoso Sales/Absorption Trends by Project, 2003**

	<u>La</u>	<u>Vista</u>	<u>8th Green</u>	<u>St.</u>	<u>Stone</u>	<u>Totals/</u>	<u>Vistoso</u>
	<u>Terraza</u>	<u>Marbella</u>	<u>at Rancho</u>	<u>St.</u>	<u>Terrace</u>	<u>Average</u>	<u>Village 1/</u>
			<u>Vistoso</u>	<u>Andrews</u>			<u>Hughes</u>
<i>Builder</i>	Pulte	Monterey	Pepper Viner	KB Home	US Home	--	Development
<i>Pre-Sales Open Date</i>	9/8/2001	4/13/2003	12/1/2001	10/21/2000	4/19/2002	--	2/15/1998
<i>Total Units Planned</i>	107	55	35	207	88	492	283
<i>Total Units Sold</i>	104	15	22	203	42	386	248
<i>Ave. Monthly Sales Rate</i>	3.75	1.74	0.88	5.29	2.06	2.74	3.52
<i>Price/Sq Ft Range</i>	\$83.55 \$107.43	\$82.07 \$107.23	\$122.55 \$164.07	\$70.04 \$118.45	\$85.46 \$132.43	\$88.73 \$125.92	\$97.19 \$119.57
<i>Size Range (sq ft)</i>	1,653 2,620	1,687 2,729	2,219 3,924	1,300 2,784	2,038 4,106	1,779 3,233	1,170 1,851
<i>Base Price Range</i>	\$175,900 \$218,900	\$180,900 \$228,900	\$344,900 \$480,900	\$139,990 \$194,990	\$269,900 \$350,000	\$222,318 \$294,738	\$139,900 \$179,900
<i>HOA fee (monthly)</i>	\$15.00	\$12.50	\$35.00	\$12.50	\$16.50	\$18.30	\$135.00
<i>Sales History, 2003</i>							
<i>1st Quarter</i>	15	0	2	10	6	7	20
<i>2nd Quarter</i>	20	5	3	14	15	11	3
<i>3rd Quarter</i>	8	8	4	12	9	8	6
<i>4th Quarter</i>	9	2	3	16	2	6	9

1/ Retirement Community

Note: Average monthly sales rate reflects average number of units sold at a project per month since opening.

Price per square foot reflects base price of a unit divided by its finished square feet.

Source: Meyers Real Estate Information, Inc., Economics Research Associates

Commercial Development: Rancho Vistoso includes a Safeway anchored community center at the entrance to the development. The center is fully leased.

The Vistoso Office Park includes office condominiums for purchase. Two office buildings are currently listed with Bourn Partners. The first is 2,612 square feet in size and is listed for \$339,560, or \$130 per square foot. The office building was built in 2002 and is listed as garden style/professional office space. The second building includes 7,510 square feet of space and lists for \$976,300.

C. Continental Reserve

Location: Marana, Silverbell and Coachline

Project Size: 598 acres, 1,400+ single-family homes

Project Description: Continental Reserve, a master planned community being developed by Diamond Ventures, is located just west of the south end of Continental Ranch, a large master planned community (3,500 homes and just under 500 apartment units) which was started in the mid 1980's. Continental Ranch was the first major conversion of agricultural to residential land in the Marana area. Continental Reserve opened in 2002 and the first phase calls for 838 lots on 225 acres. The second phase will ultimately include 500 to 600 lots on 175 acres. The community also includes a 10-acre park with a children's play area, basketball and tennis courts, and soccer and baseball fields. The entire development includes 200 acres of open space and a 10-acre elementary school site. Seven home builders are constructing residences at Continental Reserve: AF Sterling Homes, Canoa Homes, Genesee Homes, KB Home, Lennar Homes, Monterey Homes, and US Homes. Home prices generally range from \$125,000 to \$350,000.

Pricing/Absorption: The following table reflects pricing and absorption for current projects located in Continental Reserve. The average monthly absorption is 3.55 units and the average price per square foot range is \$87.13 to \$107.39. The price range is lower than that for Dove Mountain, the other Marana master planned community profiled. The absorption rate is higher than that for Dove Mountain (3.55 versus 3.17 units).

**Table IV-3
Continental Reserve Sales/Absorption Trends by Project, 2003**

Builder	Sierra Ridge	Paseo Crossings	Eagle Ridge	Sombrero Vista	Pinnacle Vista	Diamante Vista	Stone-Ridge	Summit Pointe	Sierra Crest	Feather-Stone	Coyote Trail	Totals/Average
Pre-Sales Open Date	4/6/2002	4/1/2002	11/25/2002	3/14/2003	11/29/2002	10/25/2002	2/22/2002	11/29/2002	4/6/2002	2/14/2003	6/23/2003	--
Total Units Planned	98	165	97	69	61	71	72	37	48	76	45	839
Total Units Sold	98	109	58	41	49	52	72	32	48	23	11	593
Ave. Monthly Sales	5.5	5.19	4.39	4.28	3.75	3.66	3.56	2.45	2.3	2.18	1.76	3.55
Price/Sq Ft Range	\$83.51 \$94.00	\$86.02 \$116.94	\$99.56 \$136.13	\$91.79 \$117.39	\$91.96 \$101.79	\$83.08 \$105.82	\$70.53 \$101.17	\$94.10 \$105.88	\$80.61 \$84.97	\$93.07 \$110.19	\$84.19 \$106.96	\$87.13 \$107.39
Size Range (sq ft)	1,483 1,825	1,547 2,533	1,024 1,581	1,426 2,294	1,955 2,338	1,752 2,713	1,364 2,481	1,955 2,338	1,970 2,300	1,706 2,439	1,752 2,713	1,630 2,323
Base Price Range	\$139,400 \$153,400	\$180,900 \$217,900	\$139,400 \$157,400	\$167,400 \$212,400	\$199,000 \$215,000	\$185,400 \$225,400	\$137,990 \$174,990	\$207,000 \$220,000	\$163,400 \$185,400	\$187,990 \$230,990	\$187,400 \$228,400	\$172,298 \$201,935
HOA Fee (monthly)	\$59	\$13	\$24	\$24	\$24	\$24	\$13	\$24	\$59	\$24	\$24	\$28
<i>Sales History, 2003</i>												
1st Quarter	31	19	13	8	9	9	7	5	13	2	0	11
2nd Quarter	24	30	13	13	10	11	17	16	10	1	3	13
3rd Quarter	1	8	20	13	8	12	17	5	8	13	6	10
4th Quarter	0	5	9	7	21	2	0	5	1	7	2	5

Note: Average monthly sales rate reflects average number of units sold at a project per month since opening.
Price per square foot reflects base price of a unit divided by its finished square feet.

Source: Meyers Real Estate Information, Inc., Economics Research Associates

Commercial Development: None

D. Rancho del Lago

Location: Pima County, Southeast submarket at Rancho del Lago Blvd and Colossal Cave Rd

Project Size: 1,600 acres, 3,600 homes

Project Description: Rancho del Lago is being developed by Bill Estes. The development includes five distinct neighborhoods with homes by the following builders: KBHome, Richmond American Homes, DR Horton, Pepper Viner Homes, and Genesee. Wingview at Del Lago is a gated community with sites overlooking the del Lago Golf Club, including its own swimming pool and spa.

Pricing/Absorption: The average monthly sales rate at Rancho del Lago is 3.62, with the Arizona Springs project reporting a notably high absorption of 7.27 units per month. The average price per square foot is relatively low – ranging from \$74.47 to \$99.12.

**Table IV-4
Rancho del Lago Sales/Absorption Trends by Project, 2003**

Project	Arizona Springs	Oasis at Rancho del Lago	Overlook at Rancho del Lago 1/	Wingview at Del Lago	Rancho del Rincon Sonoran	Totals/Average 2/
<i>Builder</i>	KB Home	Richmond American	DR Horton	Pepper Viner	DR Horton	
<i>Pre-Sales Open Date</i>	6/15/2001	4/13/2002	8/22/2003	4/1/2002	11/2/2002	
<i>Target Market</i>	young families	couples, growing families	young families	growing families	growing families	
<i>Total Units Planned</i>	291	106	74	77	100	648
<i>Total Units Released</i>	225	74	4	53	25	381
<i>Total Units Sold</i>	222	73	3	49	18	365
<i>Ave. Monthly Sales Rate</i>	7.27	3.54	0.7	2.33	1.32	3.62
<i>Price/Sq Ft Range</i>	\$60.51 \$91.19	\$76.01 \$92.98	\$74.05 \$89.68	\$87.25 \$112.42	\$74.53 \$109.34	\$74.47 \$99.12
<i>Base Price Range</i>	\$143,990 \$186,990	\$154,990 \$156,990	\$166,990 \$221,990	\$194,490 \$246,490	\$203,590 \$313,990	\$172,810 \$225,290
<i>Size Range (sq ft)</i>	1,579 3,090	1,667 2,460	1,862 2,998	1,730 2,722	1,862 4,213	1,740 3,097
<i>HOA Fee (monthly)</i>	\$25.00	\$25.00	\$150.00	\$80.00	\$15.00	\$59.00
<i>Sales History, 2003</i>						
<i>1st Quarter</i>	12	16	0	8	3	7.8
<i>2nd Quarter</i>	13	2	0	2	7	4.8
<i>3rd Quarter</i>	9	11	0	13	7	8
<i>4th Quarter</i>	19	13	3	9	1	9

Note: Average monthly sales rate reflects average number of units sold at a project per month since opening.

Price per square foot reflects base price of a unit divided by its finished square feet.

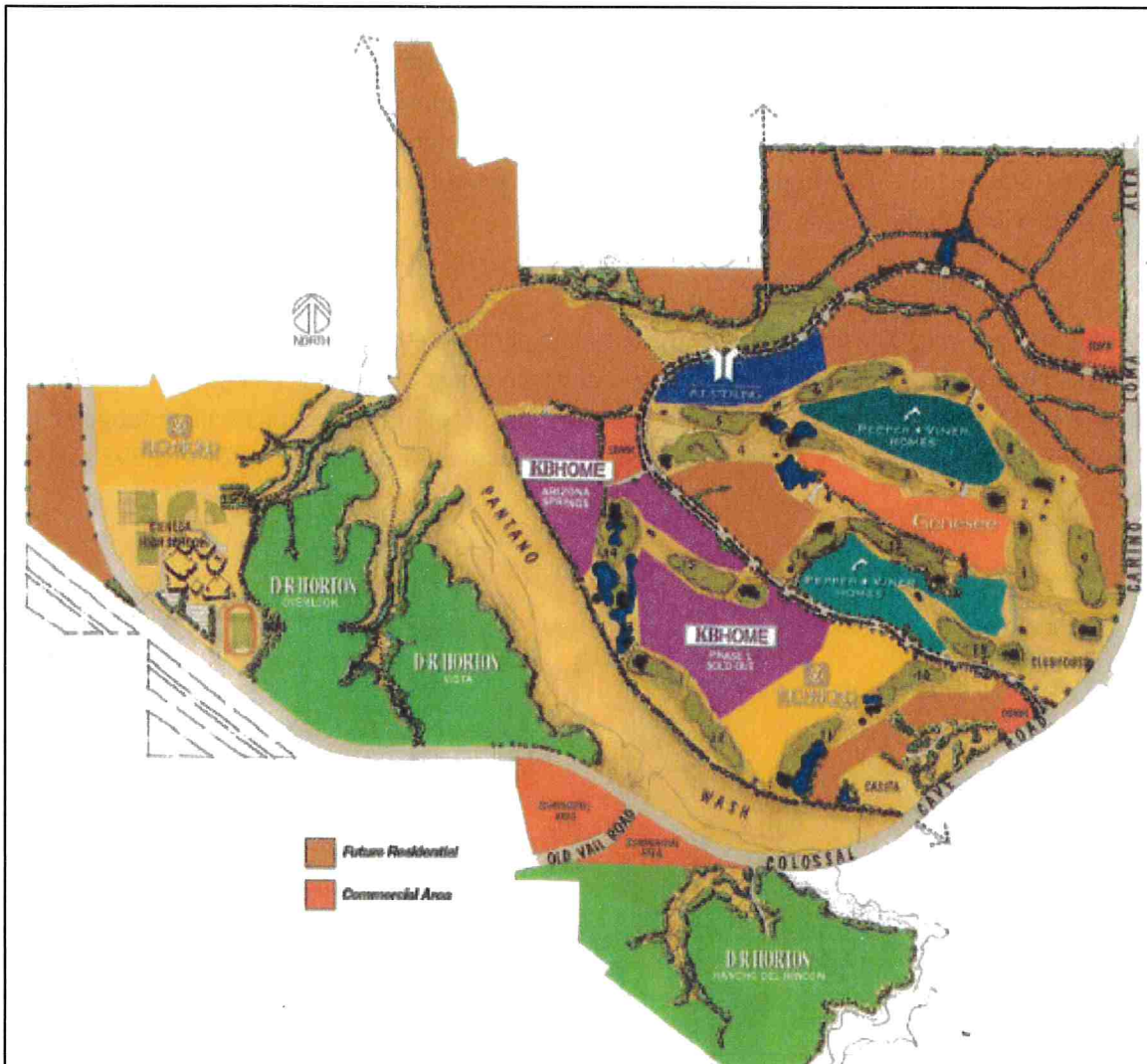
1/ Recently opened.

2/ Monthly sales average does not include Overlook at Rancho del Lago since it recently opened.

Source: Meyers Real Estate Information, Inc., Economics Research Associates

Commercial Development: As reflected on the following master plan, commercial development is slated for four sites at Rancho del Lago. To-date, no commercial development has occurred. There is reportedly interest in locating a post office at the site near the KB Home project.

**Exhibit IV-2
Rancho del Lago – Regional Location Map**



E. Mesquite Ranch

Location: Southeast Pima County, Houghton Road and Bilby Road

Project Size: 160 acres, 619 single-family homes

Project Description: Mesquite Ranch is being developed by Diamond Ventures, Inc. The development is configured as four individual neighborhoods, and each separate neighborhood consists of 150 to 175 lots and a recreational center or community commons. Other amenities include two neighborhood swimming pools, a community park (with picnic areas, children's play areas, a volleyball court, and a basketball court), and hiking trails. The four home builders active at Mesquite Ranch include KB Home, Lennar Home, Monterey Homes, and US Homes. Homes generally range in price from \$125,000 to \$250,000, with home sizes averaging between 1,100 and 4,000 square feet. The property is located in close proximity to Saguaro National Park East and offers views to the Rincon Mountains.

Pricing/Absorption: The average monthly sales rate per project at Mesquite Ranch is a relatively high 5.23 units. Almost all of the 619 planned units have been sold. The average home price ranges from \$84.57 per square foot to \$118.66 per square foot, reflecting a base price range of \$154,648 to \$219,467. The average home size range across all projects is 1,321 to 2,292 square feet.

**Table IV-5
Mesquite Ranch Sales/Absorption Trends by Project, 2003**

Project	Mesquite Ranch	Mesquite Ranch 1/	Mesquite Ranch Anniversary	Mesquite Ranch Gateway 1/	Mesquite Ranch Inaugural	Totals/Average
<i>Builder</i>	Monterey	KB Homes	US Home	US Home	US Home	--
<i>Pre-Sales Open Date</i>	2/1/2002	10/15/2001	2/12/2002	2/27/2002	5/10/2002	--
	couples, growing					
<i>Target Market</i>	families	young families	young families	young families	young families	--
<i>Total Units Planned</i>	154	172	117	91	85	619
<i>Total Units Released</i>	154	172	117	91	85	619
<i>Total Units Sold</i>	143	172	114	91	80	600
<i>Ave. Monthly Sales Rate</i>	6.24	6.49	5.05	4.32	4.06	5.23
<i>Price/Sq Ft Range</i>	\$89.69	\$67.45	\$74.71	\$93.72	\$97.26	\$84.57
	\$118.88	\$106.18	\$114.13	\$116.18	\$137.94	\$118.66
<i>Base Price Range</i>	\$183,900	\$136,990	\$160,700	\$150,400	\$141,250	\$154,648
	\$229,900	\$295,610	\$220,000	\$186,000	\$165,825	\$219,467
<i>Size Range (sq ft)</i>	1,547	1,300	1,408	1,328	1,024	1,321
	2,533	2,784	2,713	1,727	1,705	2,292
<i>HOA Fee (monthly)</i>	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00
<i>Sales History, 2003</i>						
<i>1st Quarter</i>	26	17	20	11	14	18
<i>2nd Quarter</i>	36	14	10	0	3	13
<i>3rd Quarter</i>	7	3	3	0	24	7
<i>4th Quarter</i>	14	0	-1	0	5	4

Note: Average monthly sales rate reflects average number of units sold at a project per month since opening.

Price per square foot reflects base price of a unit divided by its finished square feet.

1/ Project is sold out.

Source: Meyers Real Estate Information, Inc., Economics Research Associates

Commercial Development: None.

F. Rocking K Ranch

Location: Pima County, Southeast submarket at Old Spanish Trail and Lazy R Ranch

Project Size: Up to 5,700 homes on 5,000 acres

Project Description: The Pima County Board of Supervisors approved Rocking K Ranch over a decade ago. Elements of the original master plan included a 200-room resort hotel, two golf courses, residential, and commercial development. Approximately one-half of the acreage is slated for open space. The project includes the Arizona Senior Academy – a non-profit, research and learning center of retired professionals. Membership in the Academy is required in order to build a home in Academy Village – an age restricted community at Rocking K Ranch. The village will include single and multi-family homes, health care facilities, office space, and auditorium, and classrooms. Currently, the Academy Village is the only project under development at Rocking K Ranch.

Pricing/Absorption: Reflected below is a summary of sales and absorption for the Academy Village. Sales were halted on all models throughout 2003, but have resumed in 2004. The average base price per square foot at the Academy Village ranges from \$134.58 to \$156.62.

**Table IV-6
Rocking K Ranch Sales/Absorption Trends by Project, 2003**

Project	Academy Village
<i>Builder</i>	Doucette
<i>Pre-Sales Open Date</i>	5/3/1999
<i>Target Market</i>	retirees
<i>Total Units Planned</i>	204
<i>Total Units Released</i>	52
<i>Total Units Sold</i>	52
<i>Ave. Monthly Sales Rate</i>	0.93
<i>Price/Sq Ft Range</i>	\$134.58 \$156.62
<i>Size Range (sq ft)</i>	1,260
<i>HOA Fee (monthly)</i>	\$275
<i>Sales History, 2003</i>	
<i>1st Quarter</i>	0
<i>2nd Quarter</i>	0
<i>3rd Quarter</i>	0
<i>4th Quarter</i>	0

Note: Sales halted on all models. Sales to resume in 2004.

Source: Meyers Real Estate Information, Inc., Economics Research Associates

Commercial Development: None.

Appendix

Table A-1 Selected Industrial Properties – Southeast Tucson

Table A-2 New Home Sales Summary – Southeast Sector

Table A-1
Selected Industrial Properties - Southeast Tucson

Southeast Industrial Parks/Properties

	<u>Year Completed</u>	<u>Sq Ft</u>	<u>Occupancy</u>	<u>Absorbed 6 months</u>	<u>Lease Rate (Sq Ft/Month)</u>	<u>Major Tenants</u>
UofA Science and Technology Park	1978	1,893,190	94.60%	-96,305	\$1.05 to \$1.40 NN	Raytheon, IBM (includes dry and wet labs)
6908 East Century Park Drive	2001	360,000	66.70%	30,000	\$0.40 gross	Excel North American Logistics
6620 S. Memorial Park	2001	210,000	100.00%	0	\$0.40 gross	Avent, Whitmark, Port of Tucson
Southpoint Distribution Center	1988	206,691	100.00%	101,396	\$0.32NNN	Rainbird
Century Park Research Center	1997	180,000	100.00%	30,000	\$0.38 gross	Tucson Frozen
6350 East Littleton	2001	98,800	72.70%	0	\$0.49 gross	90,000 SF warehouse
6692 S Memorial Park	1998	40,500	100.00%	0	\$0.42 gross	Wal*Mart

Source: PICOR Commercial Real Estate Services, Economics Research Associates

Table A-2
New Home Sales Summary - Southeast Sector

	<u>Far Southeast Tucson</u>	<u>Southeast Tucson - 22nd St. North</u>	<u>Southeast Tucson - 22nd St. South</u>
<i>Single Family Detached:</i>			
Total Units Planned	372	721	3,505
Base Price Average	\$191,910	\$163,712	\$162,230
Finished Sq Ft Average	2,228	1,884	1,807
Price/SF Average	\$86.87	\$87.64	\$92.84
Total Units Sold	262	206	1,617
Overall Sales Rate	1.99	1.55	3.85

Source: Meyers Real Estate Information, Inc., Economics Research Associates

Note: Meyers Group data reflects new home projects throughout Pima County. This includes production projects (standard floor plans with clearly defined price sheet) as well as hybrid projects (new homes that do not fit the production definition but are not custom).