

ORO VALLEY REAL ESTATE TRENDS

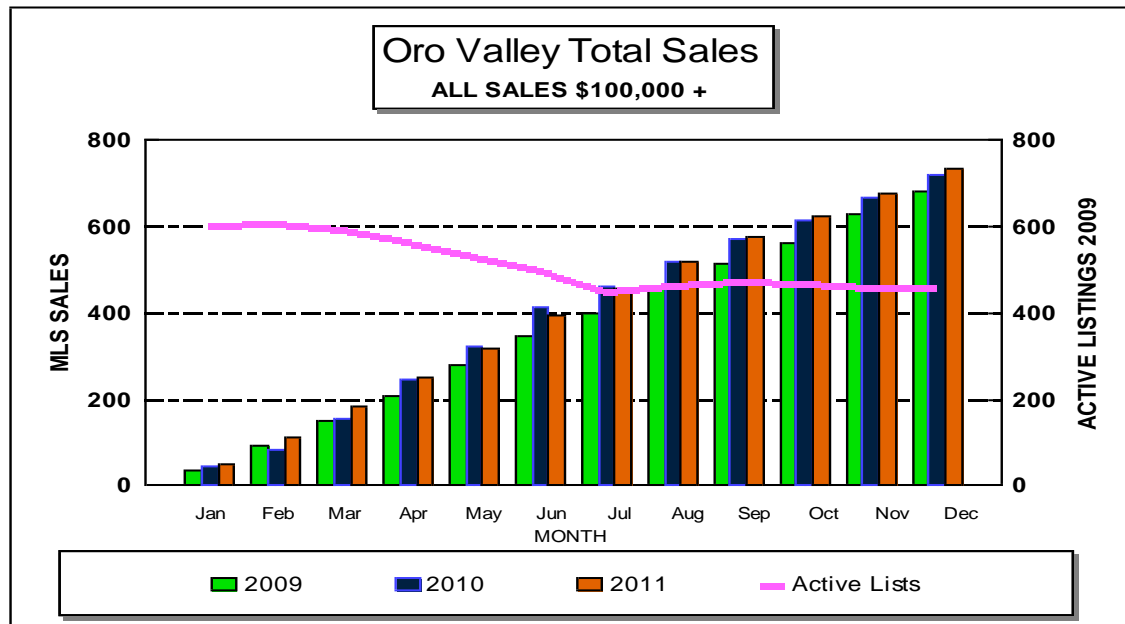
PRESENTED BY
TYCOR REALTY COMPANY

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EDITION 2 - FULL YEAR 2011

1.0 - SALES ACTIVITY



Residential sales in Oro Valley totaled 736 homes in 2011, a minimal increase of 10 homes above 2010 results. The chart above displays a consistent and moderately improving pace of sales over the last 3 years and a potentially important reduction in Active listings during the second half of 2011. The number of Active properties stood at 602 properties at the beginning of 2011 and ended the year at 457 properties, a 24% drop in the unsold inventory. The Active inventory at year's end includes 78 listings which are in a contingent contract; i.e. in a contractual inspection period or a short sale waiting for lender approval of the transaction. If we assume that the majority of these 78 homes will sell, the quantity of available for accepting a sales contract falls to 379 units. Using the 2011 average monthly sales rate, this inventory equates to an overall 6.2 month supply, which is the lowest we've seen for many years!

The positive reduction in unsold inventory has literally come at a price, with 74% of 2011 sales closing below the \$300,000 mark. This weakness in selling prices is rooted in the fact that 31% of 2011 sales were a distressed sale (Bank-Owned or Short Sale), an amazing statistic for this nature of community. The downward spiral in average selling prices, spawned by Buyer overreach and improper lending practices 5-6 years ago, is reflected in the stats below.

	<u>Avg Selling \$</u>	<u>Y-T-Y</u>	<u>Median Selling \$</u>	<u>Y-T-Y</u>
2009	\$319,824		\$261,000	
2010	\$304,948	(-4.7%)	\$250,000	(-4.2%)
2011	\$272,858	(-10.5%)	\$225,000	(-10.0%)

The take away from last year's sales activity: The pace of sales was consistent all year, even through the summer months, and outpaced the flow of new listings coming to market. The result is a healthier balance of demand vs. inventory at the onset of 2012.

ORO VALLEY SALES (2010 – 2011)

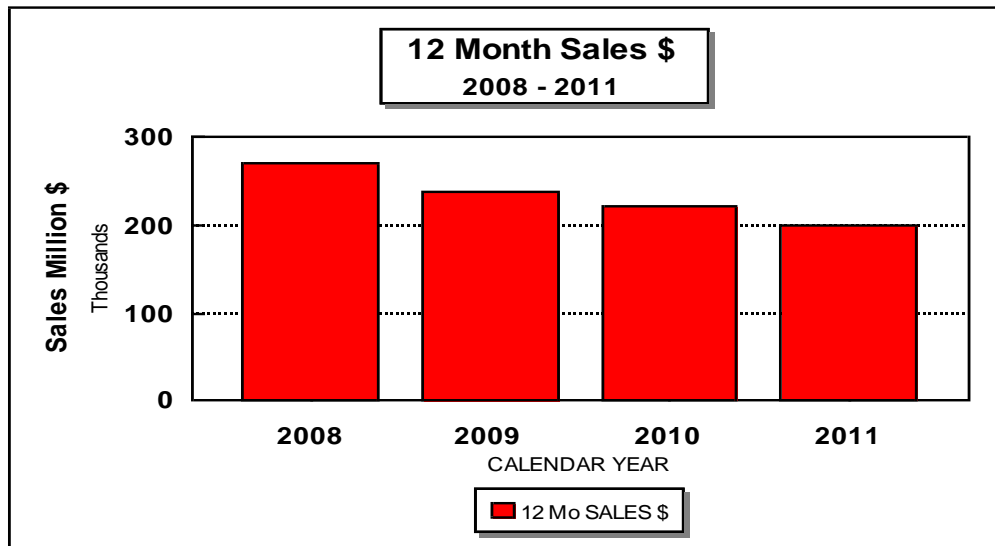
	\$100's	\$200's	\$300's	\$400's	\$500's	\$600's	\$700's	\$800's	\$900's	\$1M	Totals
Jan 10	8	22	6	3	2	0	2	0	0	0	43
Feb	8	17	7	4	1	0	1	0	0	1	39
Mar	14	25	19	5	6	2	0	1	1	2	75
Apr	14	42	12	7	5	5	1	1	0	2	89
May	17	32	15	6	3	2	0	0	0	1	76
Jun	21	41	14	8	5	2	0	0	0	0	91
July	11	21	11	2	1	1	2	0	0	0	49
Aug	17	21	11	8	1	0	0	1	0	0	59
Sept	13	22	9	4	2	1	0	0	0	1	52
Oct	16	17	5	1	2	1	0	0	0	0	42
Nov	18	23	7	2	3	0	0	1	0	1	55
Dec	20	16	5	5	2	1	1	3	1	2	56
12 Mo	177	299	121	55	33	15	7	7	2	10	726
	\$100's	\$200's	\$300's	\$400's	\$500's	\$600's	\$700's	\$800's	\$900's	\$1M	Totals
Jan 11	19	16	6	2	2	2	2	0	0	0	48
Feb	20	26	7	8	1	2	1	0	0	1	66
Mar	24	30	14	2	0	0	1	0	0	0	71
Apr	23	26	4	4	5	2	1	0	0	1	66
May	22	28	8	2	2	0	1	0	0	2	65
Jun	29	29	10	2	1	5	2	0	0	0	78
July	21	26	6	8	2	0	0	0	1	1	65
Aug	24	15	11	8	1	1	0	0	0	0	60
Sept	24	23	5	3	1	1	0	0	0	0	57
Oct	22	19	1	4	1	1	0	1	0	0	49
Nov	13	22	7	3	1	1	1	1	0	2	51
Dec	25	16	15	2	1	1	0	0	0	0	60
12 Mo	266	276	94	47	18	16	9	2	1	7	736
% Y-T-Y	+50.3%	7.7%	-22.3%	-14.5%	-45.5%	+6.7%	+28.6%	-71.4%	-50%	-30%	+1.4%

<73.6% of total>

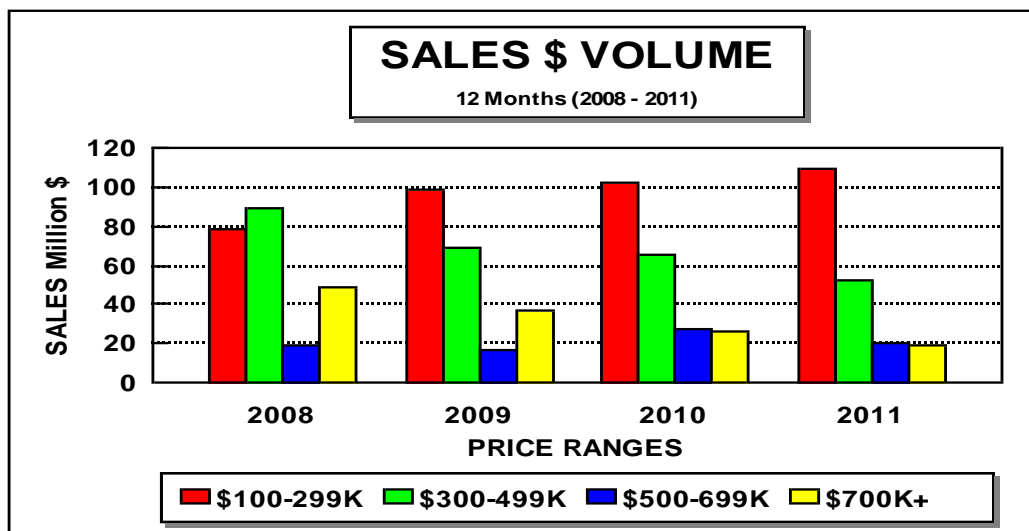
2.0 - SALES VOLUME - 6 MONTHS

In this section sales count is converted into sales dollars, providing an alternate perspective of market dynamics. The data below displays full year sales volume of all transactions occurring for the last 3 years, sorted into 4 price groups. The results show a steady decline in total transaction dollar volume in all price groups, excepting the lowest price category.

<u>Price Range</u>	<u>\$ 2009</u>	<u>\$ 2010</u>	<u>\$ 2011</u>	<u>11 vs.10</u>
\$100-200K	98.9M	102.4M	109.5M	+6.9%
\$300-400K	85.4M	65.5M	52.4M	-20.0%
\$500-600K	16.8M	27.7M	20.2M	-27.1%
\$700K+	36.7M	25.8M	18.8M	-27.2%
12 Month Totals	237.8M	221.4M	200.9M	-9.30%



The stability we see in the number of sales transactions over the last two years belies the fact that the amount of transaction dollars occurring in Oro Valley real estate continues to be in a notable decline. Chalk this up many on-going issues: deleveraging of personal balance sheets, a persistently high unemployment rate, lack of confidence in local or national economies, tightened loan policies, a high level of distressed properties, or other factors.



In this view of sales volume grouped into 4 price ranges, the trend of buyers to lower priced properties is quite evident. Of particular importance to our local market is the decline of buying activity from snowbirds, for either seasonal use or permanent retirement homes. As can be seen in the chart above, the declining volume in the \$300,000 to \$500,000 price range is very significant. Here's a recap of sales volume in this price range, from the peak year of 2005 to present.

Sales Volume - \$300,000 - \$499,999 (millions)

- 2005 - \$181.8
- 2006 - \$141.4
- 2007 - \$112.0
- 2008 - \$89.5
- 2009 - \$69.2
- 2010 - \$65.5
- 2011 - \$52.4

The long term price decline we have experienced from the 2005 price peak has more than dampened what was a robust demand. The question is whether this demand can be rekindled with price stability or price appreciation. The baby boom generation has officially entered the retirement zone, which demands more

conservative finances and less risk taking. The timing of any turnaround in our market may come too late for this large segment of the population to drive any real demand, as it did in the early part of the last decade.

3.0 - INVENTORIES

The chart below provides a running monthly summary of Active Listings, separated into our standard price ranges.

	\$100's	\$200's	\$300's	\$400's	\$500's	\$600's	\$700's	\$800's	\$900's	\$1M+	Total
'10	74	245	113	38	31	30	14	9	5	38	595
Feb	84	242	114	48	25	30	12	8	9	34	606
Mar	54	278	114	48	25	24	13	10	8	34	608
Apr	82	272	106	39	15	21	9	17	5	32	598
May	80	257	100	39	13	18	15	11	3	27	563
Jun	77	268	96	36	14	18	11	11	5	24	558
Jul	96	190	100	30	18	19	8	12	6	31	510
Aug	102	194	98	34	23	12	10	11	5	31	520
Sept	104	204	101	31	26	10	9	12	7	34	538
Oct	111	213	106	35	30	12	11	11	6	35	570
Nov	118	242	107	38	34	15	12	11	4	36	617
Dec	130	225	100	32	31	19	14	6	4	33	594
'11	129	237	92	32	38	16	13	8	3	34	602
Feb	135	259	71	32	33	19	13	7	2	34	605
Mar	135	245	70	32	33	17	14	7	4	36	593
Apr	144	221	62	30	33	14	13	7	3	35	562
May	139	188	66	37	33	11	14	7	4	30	529
Jun	135	161	67	39	25	12	12	8	4	31	494
Jul	123	158	50	33	21	13	10	7	5	27	447
Aug	118	172	54	32	20	14	11	6	6	28	461
Sept	115	173	64	32	21	16	11	7	6	28	473
Oct	120	169	62	28	21	14	11	7	6	28	466
Nov	124	166	60	27	21	11	11	7	5	27	459
Dec	130	162	58	25	22	10	11	7	5	27	457

The current Active inventory of 457 homes contains 89 distressed listings, a lower ratio than with last year's sales but a high number none the less. Indications are that the active inventory has continued to come down through July. The chart below shows The indicated number of months of inventory on market, as of the end of June 2011.

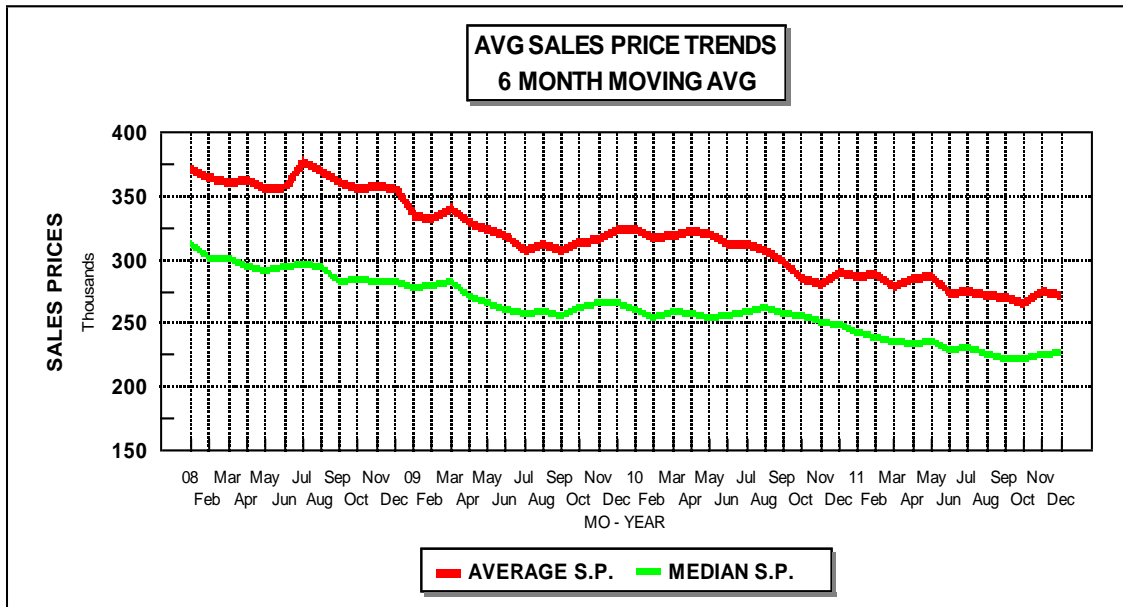
CURRENT INVENTORY LEVELS (MONTHS)

	\$100's	\$200's	\$300's	\$400's	\$500's	\$600's	\$700's	\$800's	\$900's	\$1M +	Total
	6.0	7.0	7.6	6.4	14.7	8.0	14.7	42.0	60.0	40.5	7.5

The overall inventory level at year's end stood at 7.5 months, showing a marked break at the \$500,000 price mark. As noted above, 3 of 4 homes sold in 2011 closed at a price below \$300,000.

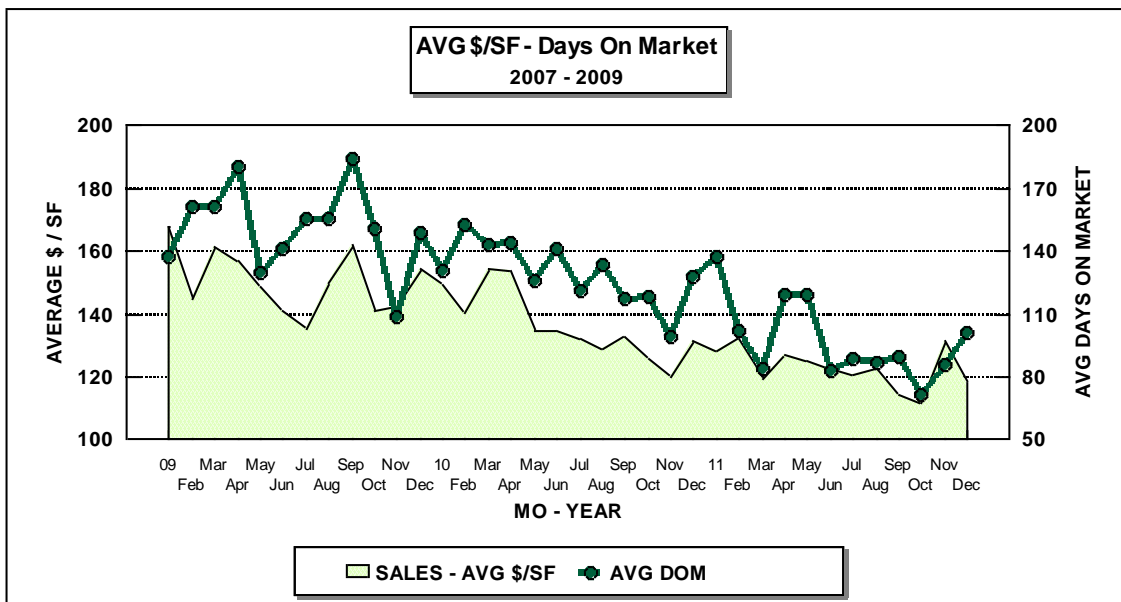
4.0 - PRICE TRENDS

This section provides visuals of various price indices, using data for the overall Oro Valley community. The first chart displays two, 6 month moving averages: The Average Sales Price and Median Sales Price.



Average Sale Price – The statistical average: *Total sales \$ divided by the number of sales.*

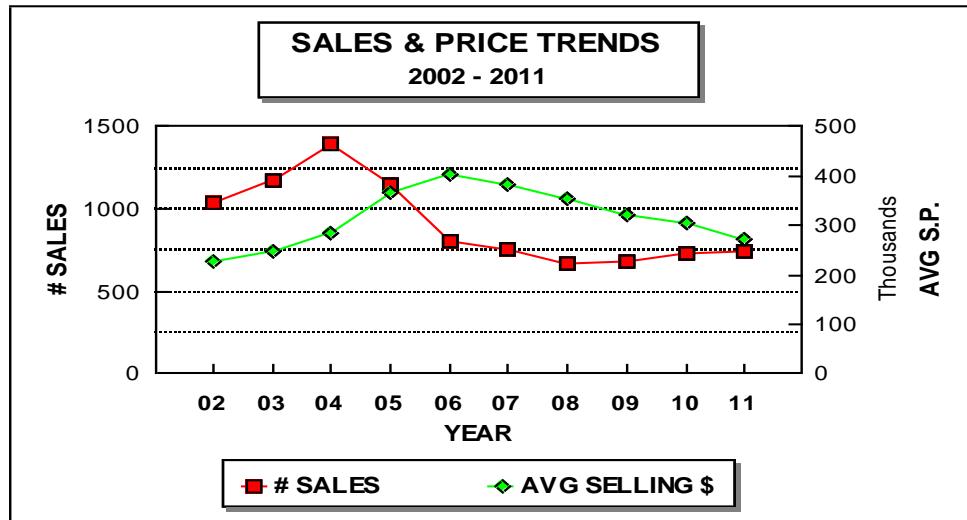
Median Sales Price – The mid point price of all Sales: *50% of prices are higher and 50% of prices are lower than the “Median”.*



Falling inventory levels are having a positive effect on the time on market until contract acceptance, which has now returned to the 90 – 100 day range. This is a positive trend which indicates that the demand level is more in balance with the available supply of homes. This could be considered to be a positive sign if the new supply of homes for sale in 2012 contains a falling percentage of distressed properties.

5.0 - LONGER TERM TRENDS

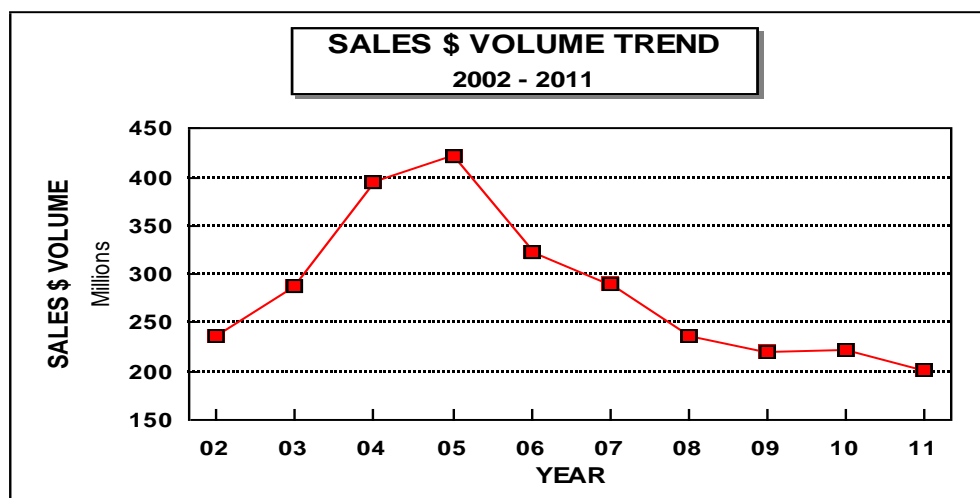
The charts above contain information for a 5 year period following the speculative bubble period of 2004 – 2006. Let's take a look at a longer, 10 year view of the local market, going back to 2002.



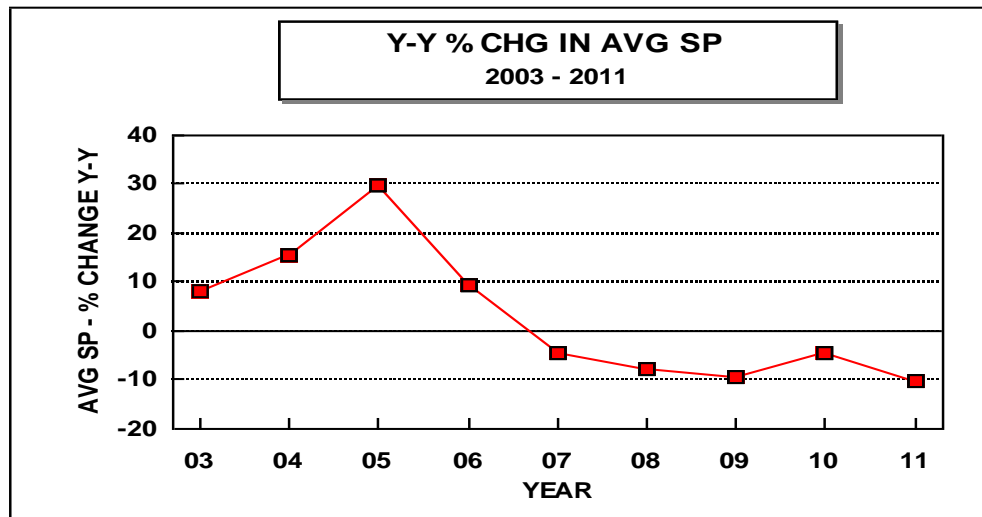
This chart above shows the ten year record of annual sales counts and average selling prices in Oro Valley, dating back to 2002.

Interesting and maybe surprising facts:

- The 1041 sales in 2002 is greater than any annual total for the last 6 years.
- Sales for the 1st 5 years - 5,550 homes; 2nd 5 years - 3,575 homes, down 36%.
- Sales peaked in 2004; Prices peaked in 2006, after a two years rise of 42%.
- The 2011 average selling price (\$272,858) is below 2004's \$283,363 and may soon be approaching that of 2003 (\$245,766).



- Sales \$ volume has fallen for 6 straight years. 2011 sales volume of \$201 million is down 50+% from the peak in 2005 of \$421 million.
- Sales \$ volume for each of the past 3 years has been below the level of 2002 (\$236 million).



Did anyone think the rise in prices over the 2002 - 2005 was sustainable? You bet there were, and did they ever get hurt! Up 8.1% in '03, up 15.3% in '04, and the whopper – up 29.6% in 2005! Who wouldn't want to own assets with this level of appreciation?

Buyers in late 2005 and 2006 didn't know that the music had stopped playing and the number of chairs was dwindling fast. That 2005 purchase has now experienced a major value blowout, and given the fact that many purchases were made with 0% down payment loans, these buys are now way, way under water.

What will reverse this downward spiral?

The one major ingredient that will signal any change is the subject of the next section.

6.0 – DISTRESSED PROPERTY ACTIVITY

The charts below provide a view of Oro Valley short and foreclosure, sales in varied price ranges. What we see over the last three year period is a minor uptrend in total sales, with a growing component of distressed sales each year. An increasing quantity of REOs have been coming to market maintaining negative pressure on prices, as banks must move these “assets” off their books and can accept lower prices to do so.

Short and Foreclosed Transaction Summary – 2009

\$ Range	Q-1	Q-2	Q-3	Q-4	Total	All Sales	% Range
\$100's	4	13	10	9	36	133	27.1
\$200's	20	12	21	14	67	296	22.6
\$300-499	12	10	6	7	35	187	18.7
\$500-699	1	0	1	0	2	29	6.9
\$700 +	1	1	5	1	8	36	22.2
Totals	38	36	43	31	148	681	21.7

Short and Foreclosed Transaction Summary – 2010

\$ Range	Q-1	Q-2	Q-3	Q-4	Total	All Sales	% Range
\$100's	8	9	20	29	66	170	38.8
\$200's	12	29	17	15	73	285	25.6
\$300-499	8	38	6	7	31	174	17.8
\$500-699	1	1	0	1	3	46	6.5
\$700 +	0	2	1	2	5	25	20.0
Totals	29	51	44	54	178	700	25.4

Short and Foreclosed Transaction Summary – 2011

\$ Range	Q-1	Q-2	Q-3	Q-4	Total	All Sales	% Range
\$100's	18	29	27	32	106	262	40.5
\$200's	20	21	19	20	80	276	29.0
\$300-499	9	4	6	8	27	139	19.4
\$500-699	4	4	1	0	9	33	27.2
\$700 +	1	2	2	1	6	20	30.0
Totals	52	60	55	61	228	730	31.2

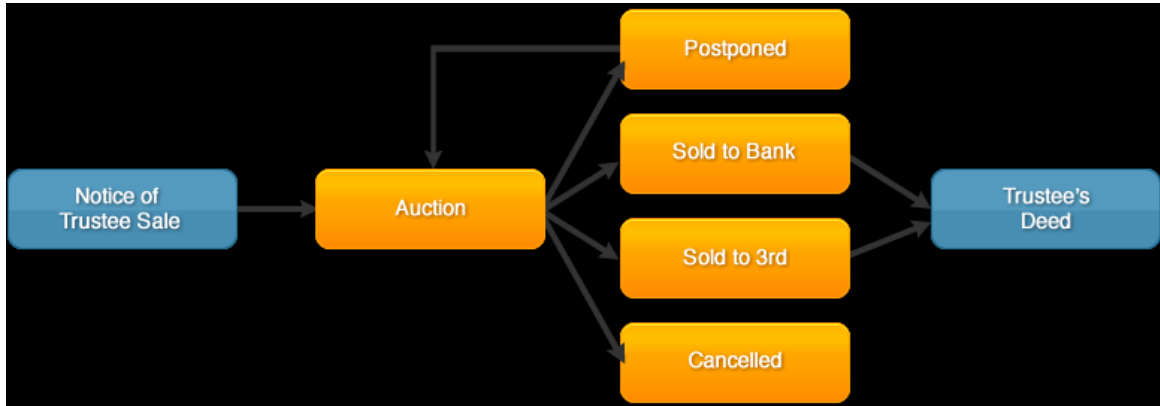
Currently Active & Distressed Listings – Jan 1, 2012

#	\$100	\$200	\$300	\$400	\$500	\$600	\$700	\$800	\$900	\$ M+	Total
Active	130	162	58	25	22	10	11	7	5	27	454
REO/Short	50	25	6	4	3	1	0	0	0	0	89
%	38.5	15.4	10.3	16.0	13.6	10.0	0	0	0	0	19.6

The new year began with an inventory of 89 distressed listings, a 4.6 month inventory level based on the 228 sales in 2011. It's obvious that the market needs the flow of newly foreclosed properties to ebb, which will allow a clearing of the current inventory and an end to the destruction of market values. Let's take a look at some broader based trends and info on foreclosure activity in the Tucson metro area.

The Foreclosure Process

There are two important data points to key on when looking at foreclosure activity, serious delinquencies which will most likely result in a Trustees Sale and the number of foreclosed properties which have been purchased by the lender, via the auction process. For info, here's an overview of the foreclosure process:



Notice of Trustee's Sale

- Starts the foreclosure process and sets auction date when recorded. [ARS 33-808\(A\)\(1\)](#)

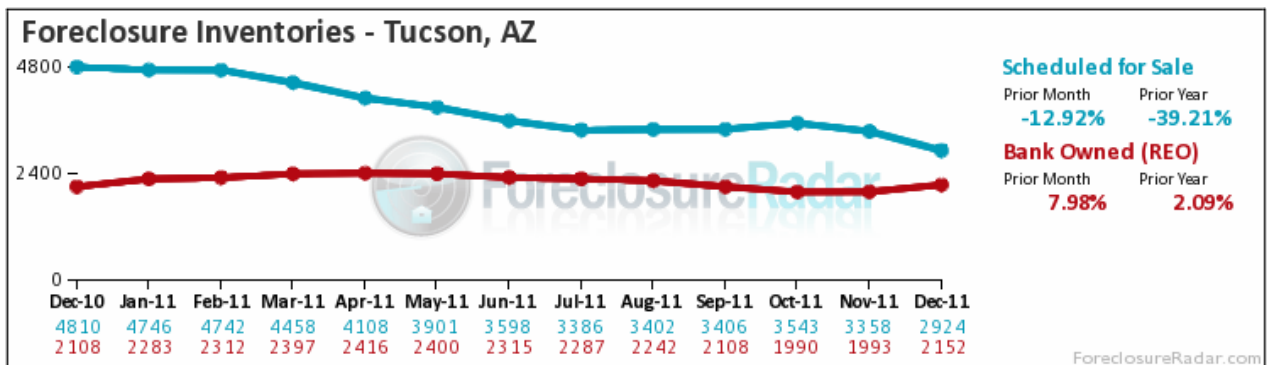
Auction

- Initial auction date at least 91 days from the recordation of the Notice of Trustee Sale.
- Opening bid must be available the day before the sale.
- Postponements of the Trustee sale are unlimited and may be for up to 90 days.
- Bidders are required to deposit \$10,000. Winning bidder must pay balance by the close of the next business day.

Trustee's Deed

- Transfers property to highest bidder.
- There is no right of redemption in a non-judicial foreclosure. Owner cannot reverse the process after an auction is conducted..
- No deficiency judgment if loan documents prohibit or the trust property is a single family home. By Arizona law, there is no recourse for the banks to recover unpaid amounts of the loan made to the foreclosed owner.

Here's a picture of the situation for the metro Tucson market at the end of 2011, the numbers are dramatic and eye-opening! At the end of 2011 the Banks had title of ownership to 2,152 properties, with another 2,924 properties in the hopper for a foreclosure auction. This amounts to over 5,000 homes that will have to pass through the market and sell, notwithstanding the number of homes that are delinquent but not yet scheduled for foreclosure auction. The current inventory equates to approx 40% of all sales on the Tucson MLS for 2011.



Foreclosure Inventories – Pre-foreclosure inventory is an estimate of the number of properties that have had a Notice of Default filed against the property, but have not yet been Scheduled for Sale.

Scheduled for Sale inventory indicates those properties that have had a Notice of Trustee Sale filed, but have not yet been sold or had the sale cancelled. The Bank Owned (REO) inventory indicates the number of properties that have been sold Back to the Bank at the trustee sale, and which the bank has not yet resold to another party.

7.0 - COMMENTARY

As described in the pages of this report, there are not many positive indicators with which one can build a positive outlook. Sure, the inventory of unsold homes has fallen to reasonable levels for lower priced homes but a substantial portion of the inventory continues to be distressed homes. Yes, these distressed and discount priced homes have been selling, comprising 31% of all 2011 activity, but the activity itself continues to destroy market values.

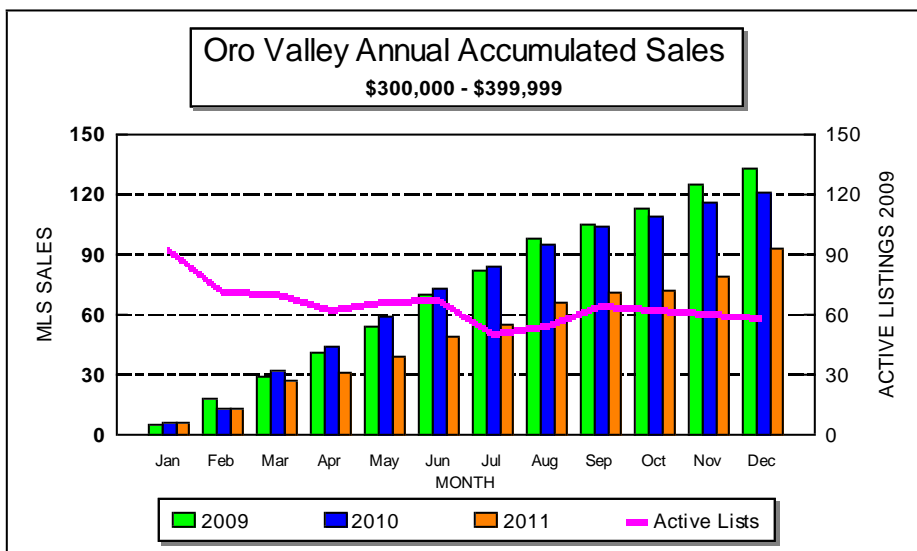
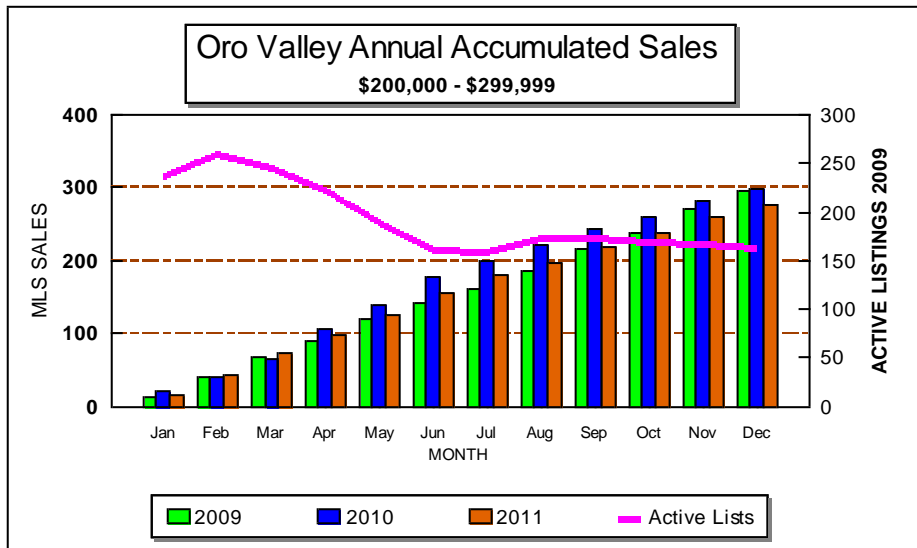
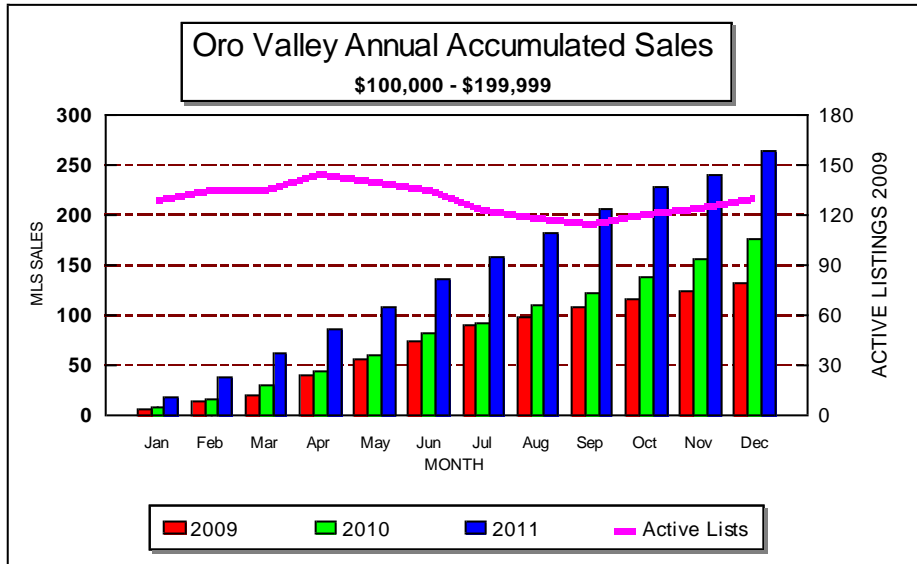
The data also suggests that new foreclosure formations have been declining, but the current quantity of delinquencies and bank-owned inventory remains somewhat overwhelming. At prevailing sales rates, the current and coming inventory of foreclosed properties will be choking the market for some time to come. Interest rates are low, but until the banks can see light at the end of their foreclosure tunnels, loan standards will remain tight.

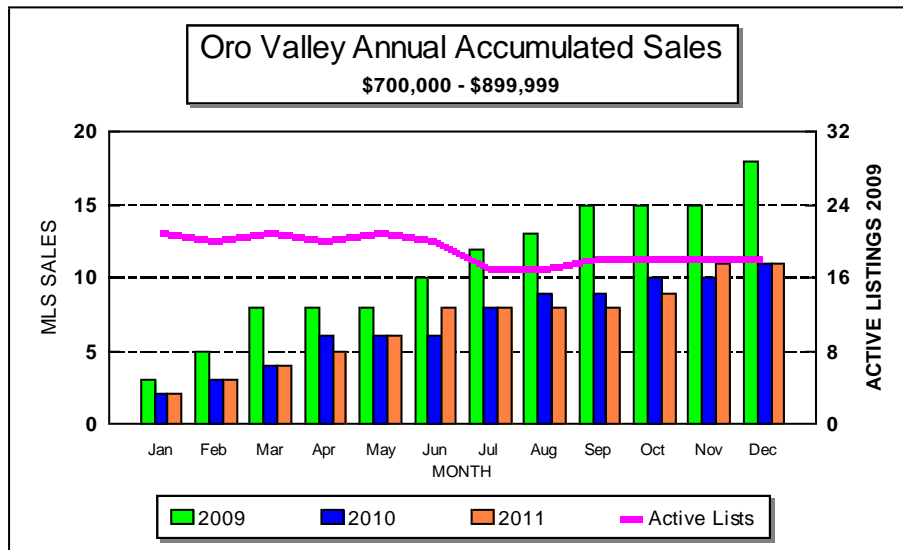
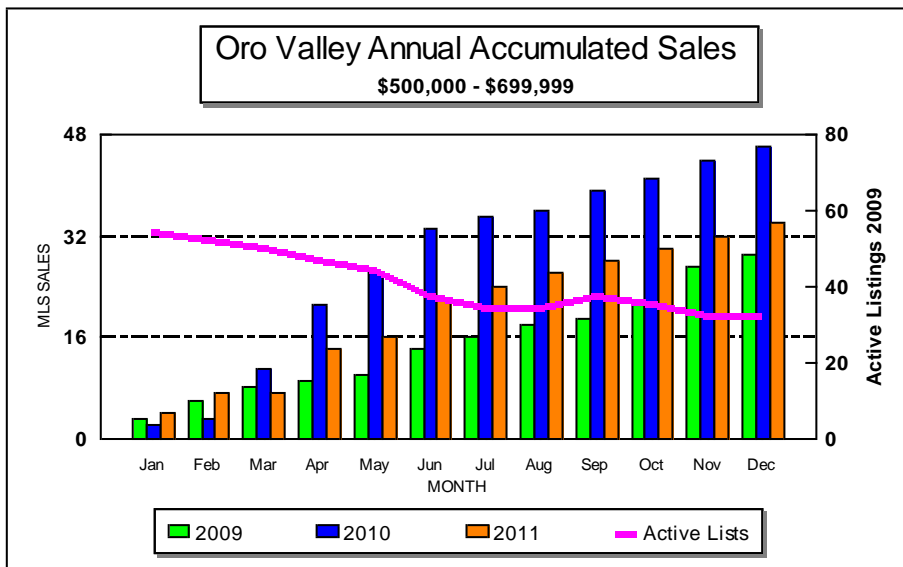
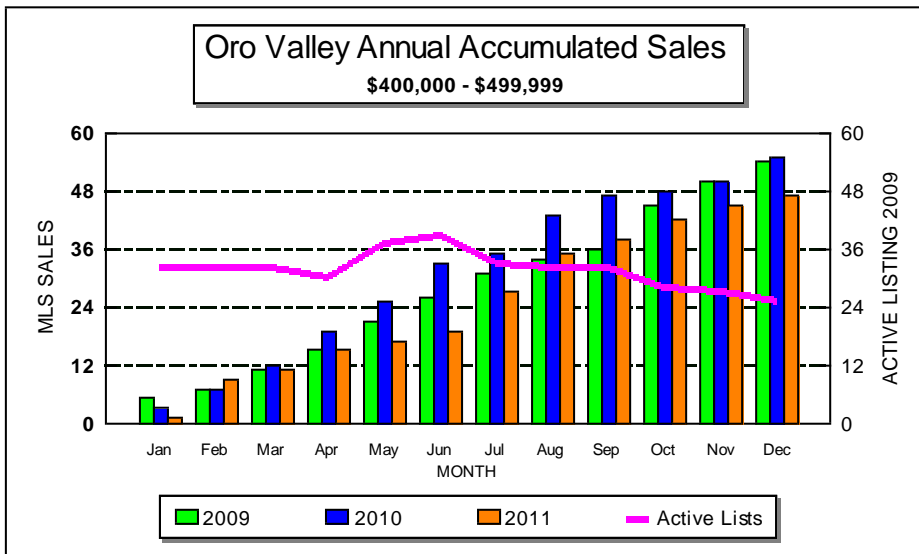
There is no compelling reason to excite individuals into a purchasing mood, save the low interest rate environment. The Fed has recently published their outlook, which describes a “zero- rate” policy through 2013, and possibly into 2014, so no one expects rates to zoom up anytime soon. Market Values have been in a multi-year decline, who wants to buy a home that may certainly decline in value?

So, expect the hole to get a bit deeper in 2012.

Charts of 2011 Oro Valley sales activity and active listings, in price increments are included on the next few pages.

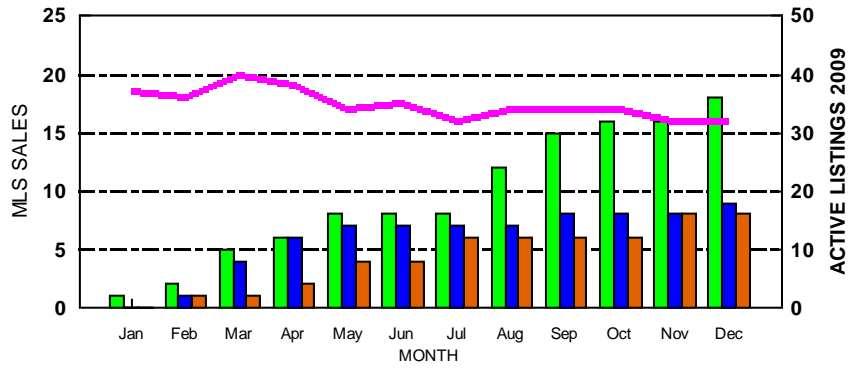
Oro Valley Recent Sales History - Charted in Price Ranges





Oro Valley Annual Accumulated Sales

\$900,000 +



■ 2009
 ■ 2010
 ■ 2011
 — Active Lists