



Board of Supervisors Memorandum

August 17, 2015

Valencia Road Deannexation

Background

The City of Tucson Mayor and Council, at their June 23, 2015 meeting, unanimously approved the deannexation of Valencia Road east of Houghton Road (Attachment A). Roadway development is essential for our region's economic recovery; however, limited funding is available for either capacity improvements or ongoing operations and maintenance. Pima County continues to explore all opportunities to advance roadway improvements to support our economic growth and vitality. The deannexation of Valencia Road provides one of those opportunities based on a funding agreement with the developer of Rocking K.

Development Impact Fees

Since 1996, Pima County has collected roadway development impact fees to help finance roadway needs created by new development. By law, impact fees may only be used to expand or add capacity to the roadway system, not to maintain existing roads. In addition, impact fees must be spent on roadway projects in proximity to the area in which they are collected. These constraints often mean it takes several years to collect sufficient fees to fund a roadway project. With development at a near standstill, the timeframe to accumulate adequate construction funding increases significantly. Impact fee revenues, both countywide and in the Southeast Benefit Area (the location of Rocking K), have declined 83 percent and 91 percent, respectively, since 2006.

In 2001, Pima County entered into a development agreement with Diamond Ventures, Inc. (DVI) for the Rocking K development. The agreement has had several amendments since 2001. One of the requirements in the development agreement was the construction of Valencia Road from Houghton Road to Old Spanish Trail, including the bridge across the Pantano River (Attachment B). Today, this segment of roadway is under the jurisdiction of both the City of Tucson and Pima County. The development agreement allows for the use of impact fees to cover these costs. However, with collections stagnant, these improvements cannot begin for many years without the willingness of the developer to advance the funding. DVI has agreed to provide the funding for this new roadway capacity that supports the Rocking K development and many existing properties along Old Spanish Trail (Attachment C).

Shortage of Development Inventory

Although the Rocking K development was intended to follow the standard build-out after approval of the Specific Plan, the ensuing Great Recession halted almost all homebuilding activity region-wide. Much has changed since then. Land available for development in Pima County is at or near an all-time low. In September 2012, *Inside Tucson Business* published an article, "Will builders face a possible 15,000-lot shortage?" The findings from Will White,

The Honorable Chair and Members, Pima County Board of Supervisors
Re: **Valencia Road Deannexation**
August 17, 2015
Page 2

Tucson manager of Land Advisors Organization, indicated that "By 2014, we may not be able to deliver enough finished lots to meet consumer demand for housing." The article also said, "Since 2005...some (estimated) 34,000 finished lots have been absorbed 'during the worst economic times'...The shortage of finished lots could approach 15,000 by 2017-2018" (Attachment D).

Housing has been one of Pima County's mainstay industries and is integral to a healthy economy. Rocking K is poised to provide significant inventory for local and national builders to meet some of the region's current and future housing needs. By having the private developer provide the capital for this roadway capacity improvement, the City and County can retain existing resources for ongoing transportation needs.

Why deannex at all?

Approximately two-thirds of Valencia Road currently lies within the City of Tucson, making that portion not eligible for improvement using County impact fees. The City has fully committed their impact fees in this area to future improvements to Houghton Road. Despite their agreement that Valencia Road will provide much needed access and capacity to the far eastern metropolitan area, the City is unable to fund these improvements, and the developer is unable to sell lots to interested builders until this critical infrastructure is in place. Once in place, the impact fees generated from this development will more than cover the cost of the Valencia Road construction.

The deannexation allows the entire roadway contemplated for improvement to be eligible for County impact fees. The developer has completed the design plans for this project, making it shovel ready. The project length is approximately 2.6 miles, with 1.7 miles currently within the City. The project cost estimate is \$13.2 million. Both the design and estimated construction costs are consistent with Pima County estimates. The project will be constructed by the developer and turned over to Pima County upon completion, thus continuing to provide much needed jobs for the construction industry. The developer will be required to follow the competitive bidding process required by State law, and Pima County will actively inspect the work during construction.

Diamond Ventures, Inc. has eliminated the risk to Pima County by advancing the funding for construction and waiting for reimbursement until development is underway thus generating impact fees. Since the housing market collapse, it is rare to find this level of private investment in public infrastructure.

Deannexation Process

The deannexation process is mandated by statute and requires several steps, the first of which has been completed by the City of Tucson via Ordinance No. 11281 authorizing the deannexation of Certain Right of Way from the City of Tucson to Pima County. The remaining steps lie with the Pima County Board of Supervisors. Acceptance of the

The Honorable Chair and Members, Pima County Board of Supervisors
Re: **Valencia Road Deannexation**
August 17, 2015
Page 3

deannexation requires two separate public hearings with proper notification a minimum of 30, and no more than 60, days apart.

The deannexation agreement is scheduled for the August 17, 2015 Board of Supervisors meeting. The County is also required to provide notice of the second hearing via certified mail to all property owners adjacent to the deannexed property. There are a limited number of property owners because the majority of the land adjacent to the future roadway is owned by the State of Arizona, Diamond Ventures, Inc. or one of Diamond Ventures' subsidiaries. Following the second public hearing, the Board may either order the deannexed property be returned to the City of Tucson or that it be accepted into the Pima County highway system.

The proposed deannexation of Valencia Road allows the use of County impact fees to reimburse the developer for advancing design and construction of this key east/west arterial roadway improvement. This type of partnership is essential to advancing regional interests and provides additional housing capacity for the region's weakened home building industry.

Regional Support

The eastern extension of Valencia Road provides needed capacity and opportunity for some of the region's largest employers and key economic stakeholders. The project has received numerous letters of support, including from the Department of the Air Force/Davis-Monthan Air Force Base; the United States Department of the Interior; UA Tech Park; the Vail School District the Regional Transportation Authority; Sun Corridor Inc. (formerly Tucson Regional Economic Opportunities, Inc.); the Tucson Metro Chamber of Commerce, the Southern Arizona Home Builder's Association; the Sonoran Institute; and the Rincon Valley Fire District.

Recommendation

I recommend the Board of Supervisors accept City of Tucson Ordinance No. 11281 regarding the deannexation of Valencia Road per the attached legal description and map.

Respectfully submitted,



C.H. Huckelberry
County Administrator

CHH/mjk – July 31, 2015
Attachments

c: John Bernal, Deputy County Administrator for Public Works
Nanette Slusser, Assistant County Administrator for Policy, Public Works
Priscilla Cornelio, Director, Department of Transportation
Carmine DeBonis, Director, Development Services Department

ATTACHMENT A



**CITY OF
TUCSON**
OFFICE OF THE
CITY CLERK

July 3, 2015

Robin Brigode
Pima County Clerk of the Board
130 W. Congress, 5th Floor
Tucson, AZ 85701

Pursuant to provisions of A.R.S. Section 9.471.02 and 9.471.03, on June 23, 2015 the Mayor and Council passed and adopted Ordinance No. 11281 authorizing the de-annexation of certain Right of Way from the City of Tucson to Pima County.

Enclosed is certified Ordinance 11281 and the original Application for Assignment of Lease, Permit or Right of Way and Assumption of Interest (Exhibit C to Ordinance 11281), for the Board of Supervisors. Upon approval by the Board of Supervisors, please provide this office with a signed copy of the application, so that we may forward it to the Arizona State Land Department.

If you have any questions please contact Theo Fedele, of my staff, at 791-4213. Thank you for your cooperation in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Randolph".

Roger W. Randolph
City Clerk

RWR:TF:ddl
011281tr

Enclosure: Certified Ordinance 11281

cc: Andrew McGovern

JUL 08 15 PM 01:43 PCC CLK/FHD



CERTIFICATE OF CLERK
City of Tucson

State of Arizona }
County of Pima } ss

I, Roger W. Randolph, the duly appointed and qualified City Clerk of the City of Tucson, Arizona, do hereby certify pursuant to Tucson Code § 2-102, that the following is a true and correct copy of Mayor and Council Ordinance No. 11281, which was passed and adopted by the Mayor and Council of the City of Tucson, Arizona, at a meeting held on June 23, 2015, at which a quorum was present.

In Witness Whereof, I have hereunto set my hand and affixed the seal of the City of Tucson, Arizona on July 3, 2015.

*Total of 3 pages certified.
(Exhibits not included)*



City Clerk

ADOPTED BY THE
MAYOR AND COUNCIL

June 23, 2015

ORDINANCE NO. 11281

AN ORDINANCE OF THE CITY OF TUCSON, ARIZONA, DE-ANNEXING CERTAIN RIGHT OF WAY WITHIN THE INCORPORATED LIMITS OF THE CITY OF TUCSON, PIMA COUNTY, STATE OF ARIZONA ("CITY") PURSUANT TO THE PROVISIONS OF TITLE 9, CHAPTER 4, ARTICLE 7, ARIZONA REVISED STATUTES ("A.R.S.") AND AMENDMENTS THERETO; AND SETTING AN EFFECTIVE DATE.

WHEREAS, the territory described in Exhibit A, attached hereto and incorporated herein by reference thereto, and as illustrated on the map attached hereto as Exhibit B, which is likewise incorporated herein by reference thereto, is existing City right-of-way known as Valencia Road between Old Spanish Trail and Houghton Road (hereafter "Right-of-Way"); and

WHEREAS, the Right-of-Way was conveyed to the City by the Arizona State Land Department ("ASLD") pursuant to Right of Way Agreement No. 16-110139, effective as of January 13, 2006, and accepted by the City by Resolution Number 20310, adopted April 4, 2006 (hereafter "Agreement"); and

WHEREAS, Valencia Road is partially located within the existing corporate limits of the City and partially located within the unincorporated area of Pima County; and

WHEREAS, it is the intention and desire of the Mayor and Council of the City to de-annex the Right-of-Way from the City so that it may be severed from the City corporate limits and returned to Pima County;

WHEREAS, de-annexation of the Right-of-Way will facilitate construction of the Valencia Road Extension at no cost to the City and in a timely manner, as well as maintenance of the Valencia Road Extension upon its acceptance by Pima County to the same standards as other roads owned by Pima County are maintained; and

WHEREAS, the legal description and map of the Right-of-Way de-annexation area have been provided to Pima County for review and approval; and

WHEREAS, pursuant to Section 4.6 of the Agreement, the ASLD must administratively consent to the assignment of the Agreement to Pima County pursuant to the form attached hereto as Exhibit C; and

WHEREAS, the governing body of Pima County, Arizona has or contemplates giving its mutual consent to the de-annexation of the Right-of-Way by the City.

BE IT ORDAINED BY THE MAYOR AND COUNCIL OF THE CITY OF TUCSON, ARIZONA, AS FOLLOWS:

SECTION 1. That the following described Right-of-Way is to be de-annexed and severed by the City and returned to Pima County, to wit:

See Exhibit "A" to this Ordinance, Legal Description; and

See Exhibit "B" to this Ordinance, Map.

SECTION 2. That pursuant to A.R.S. §§ 9-471.02 and 9-471.03, the Mayor and Council of the City declare the Right-of-Way, as described in Section 1, Exhibit "A," is de-annexed from the City upon fulfillment of the conditions set forth in A.R.S. §§ 9-471.02 and 9-471.03.

SECTION 3. That the City Manager or designee is directed to execute the Application for Assignment of Lease, Permit or Right of Way and Assumption of Interest attached hereto as Exhibit C.

SECTION 4. The de-annexation herein provided for shall become effective in the manner provided by law, upon approval of the governing body of Pima County, Arizona consenting to the de-annexation and the ASLD executing its consent to the assignment of the Agreement to Pima County.

SECTION 5. The City Manager or his assignee is directed to execute such documents as are necessary to effectuate the assignment of the Agreement to Pima County.

SECTION 6. The various City officers and employees are authorized and directed to perform all acts necessary or desirable to give effect to this Ordinance.

PASSED, ADOPTED, AND APPROVED by the Mayor and the Council of the City of Tucson, Arizona, June 23, 2015.



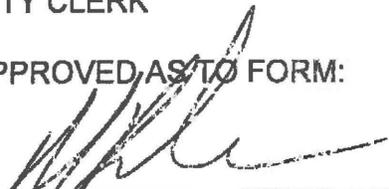
MAYOR

ATTEST:



CITY CLERK

APPROVED AS TO FORM:



CITY ATTORNEY

REVIEWED BY:



CITY MANAGER

DKD:mg
6/5/15
{A0085893.DOCX/}

EXHIBIT 'A' to Ordinance 11281
RIGHT-OF-WAY

All those portions of Sections 13 & 24, Township 15 South, Range 15 East, and Sections 18 & 19, Township 15 South, Range 16 East, Gila and Salt River Meridian, Pima County, Arizona, described as follows:

Parcel 1:

COMMENCING at the south quarter corner of said Section 18;

Thence North 89°53'02" West, along the south line of said Section 18 (the basis of bearings for this legal description per Pima County Highway Department Road Map Book 11, Page 50), a distance of 678.82 feet to the POINT OF BEGINNING;

Thence North 00°06'58" East, a distance of 75.00 feet to the point of curvature of a non-tangent curve on the north right-of-way line of Valencia Road (formerly Los Reales Road, as recorded in said Road Map Book 11, Page 50), concave northeasterly, a radial line of said curve through said point having a bearing of South 06°08'37" West;

Thence northwesterly upon said curve, to the right, having a radius of 470.00 feet and a central angle of 35°07'41" for an arc length of 288.16 feet to a point of compound curvature concave easterly;

Thence northerly upon said curve, to the right, having a radius of 75.00 feet and a central angle of 98°17'27" for an arc length of 128.66 feet to a point of reverse curvature concave northwesterly;

Thence northeasterly upon said curve, to the left, having a radius of 1575.00 feet and a central angle of 21°06'31" for an arc length of 580.26 feet to a point of tangency;

Thence North 28°27'14" East, a distance of 53.53 feet;

Thence South 61°32'46" East, a distance of 35.00 feet;

Thence North 28°27'14" East, a distance of 500.00 feet;

Thence North 61°32'46" West, a distance of 35.00 feet;

Thence North $28^{\circ}27'14''$ East, a distance of 770.71 feet to a point of curvature of a tangent curve concave southeasterly;

Thence northeasterly upon said curve, to the right, having a radius of 1425.00 feet and a central angle of $17^{\circ}58'18''$ for an arc length of 446.97 feet to a non-tangent line;

Thence South $43^{\circ}34'28''$ East, a distance of 30.00 feet to a point of curvature of a non-tangent curve concave southeasterly, a radial line of said curve through said point having a bearing of North $43^{\circ}34'28''$ West;

Thence northeasterly upon said curve, to the right, having a radius of 1395.00 feet and a central angle of $14^{\circ}59'56''$ for an arc length of 365.18 feet to a non-tangent line;

Thence North $28^{\circ}34'32''$ West, a distance of 30.00 feet to a point of curvature of a non-tangent curve concave southeasterly, a radial line of said curve through said point having a bearing of North $28^{\circ}34'32''$ West;

Thence northeasterly upon said curve, to the right, having a radius of 1425.00 feet and a central angle of $03^{\circ}56'14''$ for an arc length of 97.92 feet to a point of tangency;

Thence North $65^{\circ}21'42''$ East, a distance of 751.60 feet to the east line of the south half of the southwest quarter of the northeast quarter of said Section 18;

Thence North $02^{\circ}30'27''$ West, upon said east line, a distance of 161.93 feet;

Thence South $65^{\circ}21'42''$ West, a distance of 517.60 feet;

Thence North $24^{\circ}38'18''$ West, a distance of 20.00 feet;

Thence South $65^{\circ}21'42''$ West, a distance of 250.00 feet;

Thence North $24^{\circ}38'18''$ West, a distance of 40.00 feet;

Thence South $65^{\circ}21'42''$ West, a distance of 45.00 feet to a point of curvature of a tangent curve concave southwesterly;

Thence southwesterly upon said curve, to the left, having a radius of 1635.00 feet and a central angle of $15^{\circ}11'10''$ for an arc length of 433.35 feet to a non-tangent line;

Thence South $39^{\circ}49'29''$ East, a distance of 25.00 feet to a point of curvature of a non-tangent curve concave southeasterly, a radial line of said curve through said point having a bearing of North $39^{\circ}49'29''$ West;

Thence southwesterly upon said curve, to the left, having a radius of 1610.00 feet and a central angle of $21^{\circ}43'17''$ for an arc length of 610.37 feet to a point of tangency;

Thence South $28^{\circ}27'14''$ West, a distance 770.72 feet;

Thence North $61^{\circ}32'46''$ West, a distance of 40.00 feet;

Thence South $28^{\circ}27'14''$ West, a distance of 500.00 feet;

Thence South $61^{\circ}32'46''$ East, a distance of 40.00 feet;

Thence South $28^{\circ}27'14''$ West, a distance of 53.52 feet to a point of curvature of a tangent curve concave northwesterly;

Thence southwesterly upon said curve, to the right, having a radius of 1390.00 feet and a central angle of $25^{\circ}09'53''$ for an arc length of 610.50 feet to a non-tangent line;

Thence South $36^{\circ}21'02''$ East, a distance of 15.00 feet to a point of curvature of a non-tangent curve concave northwesterly, a radial line of said curve through said point having a bearing of South $36^{\circ}22'52''$ East;

Thence southwesterly upon said curve, to the right, having a radius of 1405.00 feet and a central angle of $23^{\circ}21'45''$ for an arc length of 572.89 feet to a non-tangent line;

Thence South $12^{\circ}59'45''$ East, a distance of 20.00 feet to a point of curvature of a non-tangent curve concave northwesterly, a radial line of said curve through said point having a bearing of South $13^{\circ}01'06''$ East;

Thence southwesterly upon said curve, to the right, having a radius of 1425.00 feet and a central angle of $10^{\circ}39'03''$ for an arc length of 264.90 feet to a non-tangent point on the north right-of-way line of said Valencia Road (formerly Los Reales Road);

Thence North $89^{\circ}53'02''$ West, upon said north right-of-way line, a distance of 743.77 feet to a point on the west line of said Section 18;

Thence South $00^{\circ}19'12''$ West, a distance of 75.00 feet to the southwest corner of said Section 18;

Thence South $89^{\circ}53'02''$ East, upon the south line of said Section 18, a distance of 1965.65 to the POINT OF BEGINNING.

Parcel 2:

The north 75.00 feet of the northwest quarter of said Section 19.

EXCEPT the east 678.82 feet.

Parcel 3:

The north 75.00 feet of said Section 24.

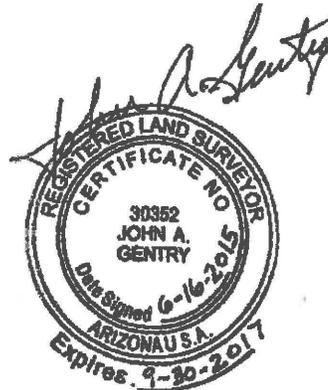
EXCEPT the west 100.00 feet.

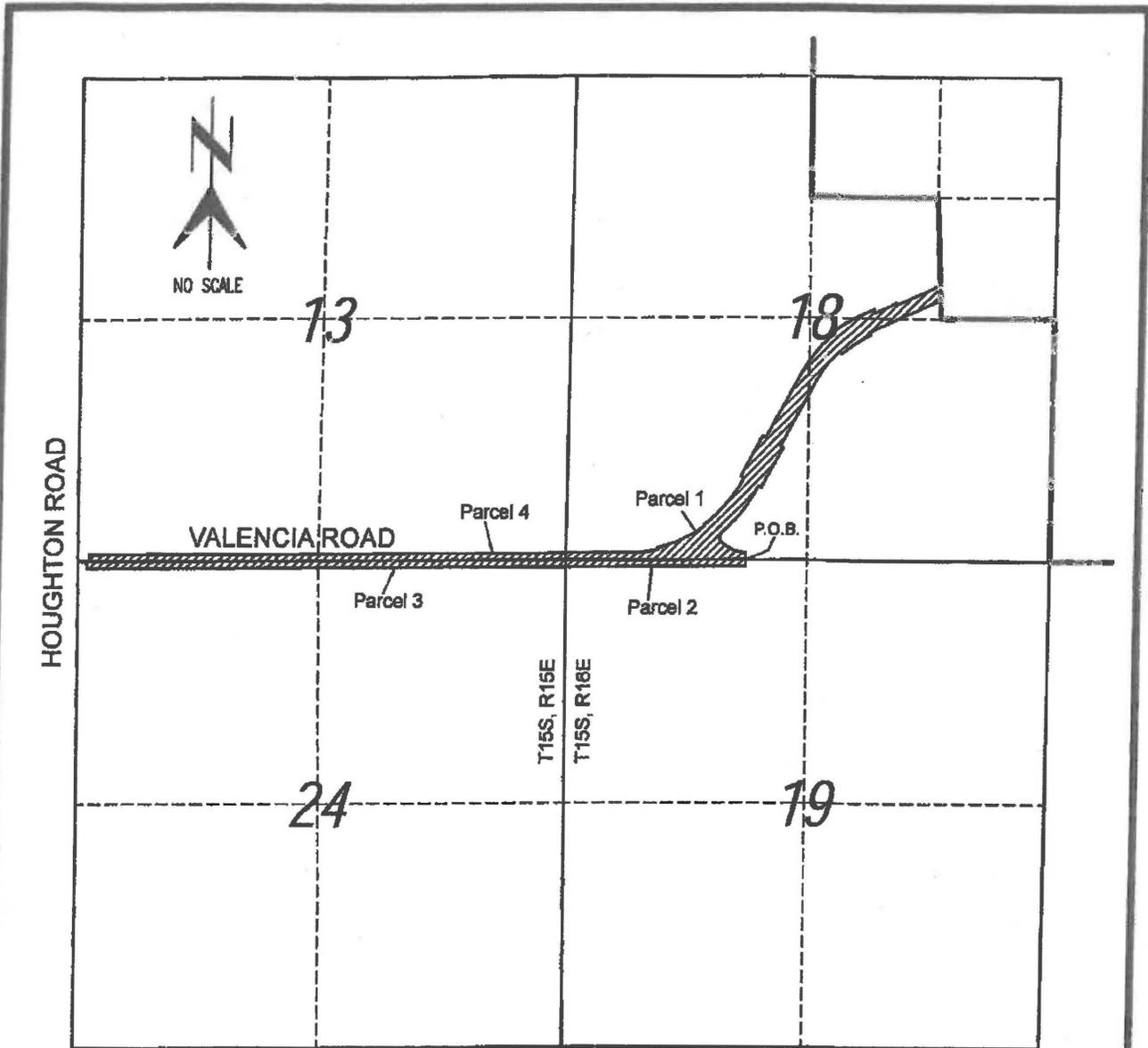
Parcel 4:

The south 75.00 feet of said Section 13.

EXCEPT the west 125.00 feet.

Said parcels contain a total of 44.6 Acres, more or less.





LEGEND

-  Existing City Limits per Ordinance Numbers 7034 & 7676
-  Proposed De-annexation

Total Proposed De-annexation Area: 44.6 Acres ±

Sections 13 & 24, T15S, R15E
 Sections 18 & 19, T15S, R16E

Drawn: JAG JUN 2015
 Scale: NO SCALE
 Approved: _____
 City Engineer

PROPOSED DE-ANNEXATION
 OF VALENCIA ROAD,
 EAST OF HOUGHTON ROAD

City of Tucson, Arizona
 ENGINEERING DIVISION 
 PLAN # S-2015-005

ATTACHMENT B

F. ANN RODRIGUEZ, RECORDER
Recorded By: JCC
DEPUTY RECORDER
305

P0230
PIMA CO CLERK OF THE BOARD
PICKUP



SEQUENCE: 20113251226
NO. PAGES: 16
AAG 11/21/2011
18:00
PICK UP
AMOUNT PAID: \$0.00

When Recorded Return to:
Pima County Development Services Department
Attn: Janet Emel
Public Works Building, 2nd Floor
201 North Stone Avenue
Tucson, AZ 85701

AMENDED AND RESTATED ROCKING K DEVELOPMENT AGREEMENT

THIS AMENDED AND RESTATED ROCKING K DEVELOPMENT AGREEMENT (the "**Agreement**") by and between the COUNTY OF PIMA, ARIZONA, a body politic of the State of Arizona (the "**County**") and ROCKING K DEVELOPMENT CO., an Arizona corporation ("**Developer**") (collectively, "**the Parties**"), is entered into this ____ day of _____, 201__.

RECITALS

A. Rocking K Development Co. is the developer of that certain master planned community commonly known as Rocking K (the "**Property**"), which is generally located south of Saguaro National Park and surrounds the Old Spanish Trail in Pima County, Arizona, and is depicted on **Exhibit A** attached hereto and incorporated by this reference. The Property consists of approximately 4,500 acres of real property that is currently built or planned for residential and mixed-use development.

B. The Pima County Board of Supervisors approved the Rocking K Specific Plan, Co23-90-1, (the "**Specific Plan**") by Ordinance No. 1990-129 on December 18, 1990 and the First Amendment to Rocking K Specific Plan, Co23-96-2, by Ordinance 1997-69 on September 16, 1997.

C. The Rocking K Phase One Development Agreement (the "**Development Agreement**") was recorded on February 18, 1992 in Docket 9228, Page 558, and subsequently rerecorded at Docket 9230, Page 896 to provide for obligations and phasing for infrastructure for the Specific Plan. The First Amendment to the Development Agreement (the "**Amended Development Agreement**") was recorded on December 17, 1996 in Docket 10443, Page 2194, to adjust boundaries, modify land uses and infrastructure plans accordingly.

D. The Specific Plan and the Development Agreement require the Developer to construct certain off-site roadway improvements, including the extension of Valencia Road from Houghton to Old Spanish Trail and improvements to Old Spanish Trail (the "**Valencia Road**").

Improvements”). The Development Agreement requires the Developer to phase and sequence the construction of the Valencia Road Improvements based upon the number of Equivalent Dwelling Units (“EDUs”) on the Property as it is developed.

E. On April 8, 2003, the County adopted amended Roadway Development Impact Fees by Ordinance 2003-40 (the “**Roadway Impact Fees**”) pursuant to A.R.S. § 11-1102. The Property is included in the Roadway Impact Fees’ Rincon Valley Benefit Area (the “**Rincon Valley Benefit Area**”). The Rincon Valley Benefit Area Plan identifies the Valencia Road Improvements and certain portions of the Off-Site Roadway Improvements (defined below) as projects eligible for expenditure of Roadway Impact Fees.

F. On January 15, 2008, the Parties entered into the Rocking K Development Agreement (Valencia Road Improvements) (the “**Valencia Road Development Agreement**”) recorded on January 22, 2008 in Sequence 20080140926. The purpose of the Valencia Road Development Agreement was to establish the scope of work for the Valencia Road Improvements and identify the mechanisms by which the funding of the portion of the Valencia Road Improvements located in the County would be implemented.

G. The Developer has submitted and the County has approved an Off-Site Improvement Analysis for Rocking K prepared by Psomas (Project No. 7ROC100101) dated February 2011 (the “**Traffic Report**”). A copy of the Traffic Report and the County approval letter is on file in the Rocking K Specific Plan File, Co23-96-2, in the Development Services Department. The Traffic Report details all of the off-site roadway improvements that are required to be constructed by Developer in connection with the development of the Property, which include but are not limited to the Valencia Road Improvements (the “**Off-Site Roadway Improvements**”). The Traffic Report also contains certain required phasing, sequencing and dwelling unit triggers for the construction of the Off-Site Roadway Improvements which are based upon actual traffic and safety needs and which differ than those currently set forth in the Development Agreement, the amended Development Agreement and the Valencia Road Development Agreement.

H. The Parties desire to enter into this Amended and Restated Rocking K Development Agreement to establish the scope of work for the Off-Site Improvements and the revised phasing, sequencing and dwelling unit triggers for the construction of the Off-Site Roadway Improvements as set forth in the Traffic Report and identify the mechanisms by which the funding of the portion of the Off-Site Roadway Improvements located in the County will be implemented.

I. The Parties acknowledge that performance by Developer under this Agreement effectuates only a portion of the public improvements identified and required by the Specific Plan and does not serve to satisfy all the requirements of the Specific Plan.

AGREEMENT

NOW THEREFORE, in consideration of the mutual promises, terms, covenants and conditions set forth herein, the Parties hereto state, confirm and agree as follows:

ATTACHMENT C

DIAMOND VENTURES

Donald R. Diamond
Chairman

July 29, 2015

C.H. Huckelberry
County Administrator
County Administrator's Office
Pima County Governmental Center
130 W. Congress, Floor 10
Tucson, Arizona 85701-1317

Re: Valencia Road

Dear Mr. Huckelberry:

As you know, Pima County and the owner of the Rocking K are parties to that certain Amended and Restated Rocking K Development Agreement recorded November 21, 2011 (the "Development Agreement"). Among other things, the Development Agreement requires the owner of the Rocking K to design and construct Valencia Road from Houghton Road to Old Spanish Trail. The Agreement provides for impact fee credits/reimbursements for the cost of such work.

As the developer, we will be funding the Valencia Road construction in connection with the development of the Rocking K. The City of Tucson and the County's cooperation with the de-annexation of Valencia Road advances and promotes our collective regional interest in constructing this key east/west arterial. The extension of Valencia Road is supported by Davis-Monthan Air Force Base, the University of Arizona Science and Technology Park, Southern Arizona Home Builders Association, Vail School District, the Rincon Valley Fire District, the Tucson Metro Chamber and Sun Corridor, Inc.

Pursuant to state legislation, the City has already adopted an ordinance approving the de-annexation. We fully support the County's acceptance of such de-annexation to complete the process. We appreciate the County's assistance with this important regional matter.

Sincerely,



Donald R. Diamond

ATTACHMENT D

Will builders face a possible 15,000-lot shortage?

By Roger Yohem | Posted: Friday, September 28, 2012 12:00 pm

Start the countdown. When will all of the finished lots be gone?

In December 2009, D.R. Horton Homes bought 203 lots in Marana's Continental Reserve. By mid-2010, Richmond American Homes and Maracay Homes picked up 160 lots off Interstate 10 around Arizona Pavilions.

As 2011 closed, Meritage Homes and Miramonte Homes had grabbed more than 210 lots in the hot area called the Tangerine Corridor. In northwest Marana, developers secured 800 acres of dirt.

This year, the acquisitions have accelerated. By the end of the year lot sales could triple the volume of 2011. Is now the time to re-stock?

It's a developing situation with no certain answers. What is certain however, are concerns the supply-demand balance is nearing an imbalance.

"By 2014, we may not be able to deliver enough finished lots to meet consumer demand for housing," said Will White, Tucson manager of Land Advisors Organization, 3561 E. Sunrise Drive. "There is a substantial amount of platted lots, but who is going to build those? The owners don't want to shell out that kind of money."

Signs of improvement

In the past 18 months, there have been clear signs of improvement in the region's real estate market. Small price gains in used homes are holding. Builders have inched up prices for new homes.

Foreclosure notices are higher but expected to fall sharply in 2013. Generally, active listings are settling despite the overhang of shadow inventory. Lots cost more. And the large national builders have sophisticated new business plans based on lessons learned from the Great Recession.

"Developers and builders now are smarter than they get credit for. They don't want to own raw land. Holding land ties up financial assets that aren't producing any revenue," said Jim Marian, a principal with Chapman Lindsey Commercial Real Estate.



Over the past 18 months, builders have paid a "decent premium" for lots. Prices are higher, especially in Marana.

A “just-in-time” strategy of inventory management, based loosely on what transformed the manufacturing industry decades ago, has entered the business. “Like manufacturing, home building is all about production,” Marian said.

When builders buy land, that’s “a real obvious good sign” they are going to build again, he added. That means builders who consolidated their Tucson operations to Phoenix will have to re-staff locally with new construction-related jobs.

Over the last two years, White estimates builders have bought \$30 million to \$40 million in dirt in and around the Tangerine Corridor in Marana. From Rancho Vistoso Boulevard west to Dove Mountain Boulevard, this area contains most of the prime “A” lots in good locations.

“Not one other area of Pima County can make that claim,” White said.

Meritage Homes has been the most aggressive buyer along the corridor, having picked up several hundred lots in the communities of SkyRanch, Tangerine Crossing, Dove Mountain, and Rancho Vistoso (see chart).

Typically, those lots were abandoned by other builders/investors and/or foreclosed during the recession.

Higher land prices

Rising from the housing collapse, national builders are emerging as the major players. They are now cash rich with aggressive business plans. That has enabled them to control about 90 percent of recent land transactions, said White.

Before the crash, KB Home and Lennar “often traded places as the biggest builder in town. But now, DR Horton is setting themselves way apart,” White said. Horton has been an early and steady land buyer and “could be a 30 or 40 percent market share builder here.”

As Horton, Meritage, Richmond American and others put their plans into action, they paid a “decent premium” for land, added White. “Prices are up. Land is the foundation of their business plan.”

In August, 150 new home sales closed region wide, the highest since June 2010, said Ginger Kneup of Bright Future Real Estate Research.

“There are good signs this pace will continue in the final months of the year. The best indication is that the number of permits pulled in May through August exceeded the same 2011 period by 53 percent,” she said. “Builders are reporting good sales and advertising few specs, so the market is well-positioned to exceed 2011, likely by 200 to 250 units.”

Back to the core

Near the peak of the 2005-2006 housing frenzy, developers searched the outskirts of the metropolitan area for dirt.

Along the I-10 corridor, Pulte leap-frogged Marana to Red Rock. Speculators eyed tracts to the west along Ajo Highway almost to Three Points. Others saw Sahuarita growing south along I-19 to the Santa Cruz County line. Even Benson and Whetstone to the southeast made it onto the radar screen.

“The drive ‘til you qualify option was hot but now there is no incentive to go out that far. The economy killed that. All it took was falling home prices in Tucson to move development activity back into the core metro area,” White explained.

That swung the spotlight back to northwest Marana, an area abundant in “laser-leveled farm land.” In addition to the Tangerine Corridor, builders will return to communities with existing entitlements for over 6,500 lots along I-10 like Gladden Farms, Sanders Grove and Saguaro Bloom.

Gladden Farms has 1,900 finished, platted and zoned lots. Sanders Grove has 2,500 planned lots and Saguaro Bloom holds 2,200 partial, platted and zoned lots.

“Once the economy turns, this will be the fastest growing area,” White said. “Home prices are back to reasonable back in the core.”

As the Tangerine Corridor and the northwest area build out, builders will be drawn to other currently calm submarkets. Those areas are Sahuarita, the Houghton Road Corridor and Vail, said Pete Herder, CEO of the Herder Companies.

Shortage of lots

Since 2005, White estimates some 34,000 finished lots have been absorbed “during the worst economic times.” Currently, there are about 4,000 finished lots available to the market.

Based on new home permits projections of about 2,000 this year and 2,200 next year, “we’re at 4,200 and out of lots by the end of 2013. Permits could be 2,500 to 3,000 in 2014, a worst-case scenario caused by a horrific market crash that nobody prepared for is coming back.”

The shortage of finished lots could approach 15,000 by 2017-2018. That is “a daunting task because only paper lots will be left,” said White. “So the big issue becomes who builds them?”

Several thousand planned “paper lots” exist in the region. But due to ongoing economic and tax uncertainty, “many owners will not put out the money or time to develop their lots,” Herder emphasized. “From scratch, raw land can take 12 to 18 months to do finished lots. I see the builders taking on that role more.”

In two subdivisions, Herder has held about 120 finished lots for three years. His son John will develop some of those and the balance likely will be sold in bulk to builders.

Whether the shortage reaches a crisis is unclear. There are too many variables in play.

“It all comes down to consumer confidence and that will be determined by jobs and land location. Until jobs come back to Tucson, strong housing demand will not come back,” Herder said.

Although the shortage of lots is a serious issue, neither Herder nor Marian sees it escalating into a major crisis. As absorption shifts to paper lots, development will still be driven by economics.

“It’s a risk-reward situation. If the risks are way off the chart, land owners are not going to put money into improving their lots. Most would rather have the builders do it. But if the opportunity, the reward is there to make a profit, they’ll do it themselves,” Marian said.

“Builders will go where the economics of a deal work, including infill,” he added. “There will be very tight pocket shortages of lots in certain areas, but not a severe shortage market-wide.”

Over the next five years, annual volumes of about 4,000 new home permits would be a welcome, healthy and manageable “sweet spot,” said White. To meet demand, “builders will have to build their own lots again.”

Looking ahead 10 to 15 years, a projected population growth of 500,000 people will pressure Arizona to release state trust land. The state owns about 1 million acres in the Tucson region.

“That will be the next big challenge,” said White. “The search for new land is a very tough task.”

Contact reporter Roger Yohem at ryohem@azbiz.com or (520) 295-4254.