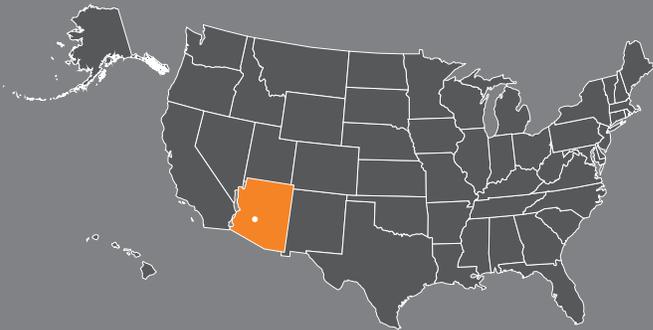


# HUD PD&R Housing Market Profiles

## Phoenix-Mesa-Scottsdale, Arizona

### Quick Facts About Phoenix-Mesa-Scottsdale

- **Current sales market conditions: slightly soft but improving.**
- **Current apartment market conditions: slightly soft but improving.**
- **The principal city of Phoenix is the sixth largest city in terms of population in the United States.**



By Elaine Ng | As of May 1, 2014

## Overview

The Phoenix-Mesa-Scottsdale, AZ Metropolitan Statistical Area (hereafter, Phoenix metropolitan area) comprises Maricopa and Pinal Counties. Partially as a result of the business-friendly tax laws and limited weather disruptions in Arizona, the metropolitan area is home to operations and call centers for several large companies in the financial activities and the professional and business services sectors, including Charles Schwab Corporation and State Farm Mutual Automobile Insurance Company. During the 3 months ending April 2014, the nonfarm payroll growth rate was highest in the financial activities sector, which increased by 8,400 jobs, or 5.4 percent.

- As of May 1, 2014, the population in the Phoenix metropolitan area was estimated at 4.39 million, an average increase of 49,250, or 1.2 percent, annually since April 2010.
- Population growth averaged 20,200 people, or 0.5 percent, annually from 2008 through 2011, down from an average of 121,800 people, or 3.5 percent, from 2003 through 2007.
- As the economy began to improve in 2011, net in-migration increased to an average of 25,550 people annually, or 46 percent of population growth. By comparison, net out-migration averaged 14,900 people annually from 2008 through 2011, and net in-migration averaged 80,800 people annually during the peak growth period from 2003 through 2007.



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Nonfarm payrolls in the Phoenix area continued a period of growth that began in 2011.

	3 Months Ending		Year-Over-Year Change	
	April 2013 (thousands)	April 2014 (thousands)	Absolute (thousands)	Percent
<b>Total nonfarm payrolls</b>	1,809.1	1,848.5	39.4	2.2
Goods-producing sectors	211.4	212.4	1.0	0.5
Mining, logging, and construction	94.5	96.5	2.0	2.1
Manufacturing	116.9	115.9	- 1.0	- 0.9
Service-providing sectors	1,597.7	1,636.1	38.4	2.4
Wholesale and retail trade	287.6	295.1	7.5	2.6
Transportation and utilities	63.9	64.1	0.2	0.3
Information	32.9	33.9	1.0	3.0
Financial activities	156.5	164.9	8.4	5.4
Professional and business services	297.1	303.8	6.7	2.3
Education and health services	261.6	270.6	9.0	3.4
Leisure and hospitality	193.9	200.0	6.1	3.1
Other services	64.2	64.0	- 0.2	- 0.3
Government	240.0	239.7	- 0.3	- 0.1
	<b>(percent)</b>	<b>(percent)</b>		
Unemployment rate	6.7	6.0		

Note: Numbers may not add to totals because of rounding.  
Source: U.S. Bureau of Labor Statistics

## Economic Conditions

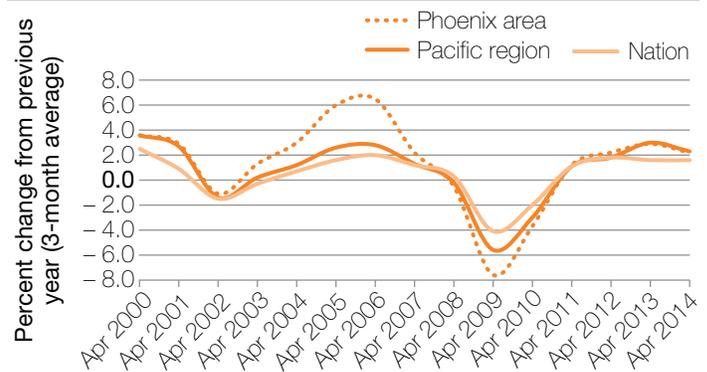
Economic conditions in the Phoenix metropolitan area have improved since 2011 but remain below the 2005-through-2007 peak level.

During the 3 months ending April 2014—

- Nonfarm payrolls increased by 39,400 jobs, or 2.2 percent, compared with the number of jobs during the 3 months ending April 2013, to an average of 1.85 million jobs.
- The financial activities, education and health services, and leisure and hospitality sectors led job growth, increasing by 8,400, 9,000, and 6,100 jobs, or 5.4, 3.4, and 3.1 percent, respectively.
- The manufacturing and government sectors declined from a year ago because across-the-board federal spending cuts mandated by the Budget Control Act of 2011 (also known as Sequestration) caused reductions in the aerospace and defense industries. In late 2013, Lockheed Martin Corporation announced that it would close a 600-worker plant in the metropolitan area and General Dynamics C4 Systems laid off 500 employees as a result of contract cancellations.
- The average unemployment rate declined to 6.0 percent from 6.7 percent during the 3 months ending April 2013.

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Nonfarm payrolls in the Phoenix area have increased since 2011, primarily because several large companies opened operations and call centers.



Note: Nonfarm payroll jobs.  
Source: U.S. Bureau of Labor Statistics

### Largest employers in the Phoenix area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
State of Arizona	Government	49,275
Wal-Mart Stores, Inc.	Wholesale and retail trade	32,175
Banner Health	Education and health services	25,275

Note: Excludes local school districts.  
Source: Phoenix Business Journal Book of Lists 2014



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Construction is currently under way on the \$600 million Marina Heights office development in Tempe, where the new State Farm regional headquarters will be the anchor tenant. State Farm currently employs 2,500 people in the metropolitan area after adding 900

permanent positions in anticipation of the expansion. The completion of the Marina Heights development will create the potential for an additional 5,000 to 7,000 permanent jobs at State Farm when it is complete in 2017.

## Sales Market Conditions

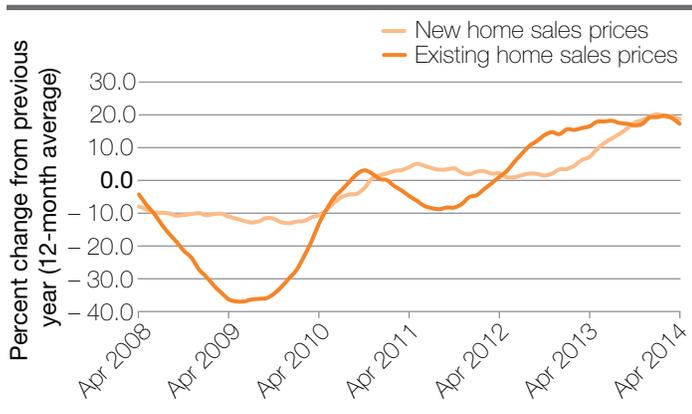
The sales housing market in the Phoenix metropolitan area is slightly soft but improving, with an estimated sales vacancy rate of 3.5 percent, down from 4.3 percent in April 2010. During the 12 months ending April 2014, 93,100 existing single-family homes, townhomes, and condominiums sold, a 12-percent decline compared with the 105,400 existing homes sold during the previous 12 months (Metrostudy, A Hanley Wood Company). REO (Real Estate Owned) sales declined 45 percent, to 10,300 homes sold, during the same period. The decrease in REO sales contributed to an 18-percent increase in the average sales price of an existing home, to \$230,700, during the 12 months ending April 2014.

- During the 12 months ending April 2014, new home sales (including single-family homes, condominiums, and townhomes) totaled 10,100, down 8 percent from the previous 12 months, and new home sales prices averaged \$318,600, up 19 percent.
- REO sales accounted for 16 percent of existing homes sales during the same period, down from 25 percent during the 12 months ending April 2013.
- As of April 2014, 2.3 percent of all home loans in the Phoenix metropolitan area were 90 or more days delinquent, were in foreclosure, or transitioned into REO status, down from 4.0 percent a year ago (Black Knight Financial Services, Inc.).

Although single-family home construction activity, as measured by the number of single-family homes permitted, remains significantly below the peak during the previous decade, building activity has generally increased since 2012 with the improving economy. More recently, however, single-family homebuilding activity declined as a result of competition from the apartment and condominium markets.

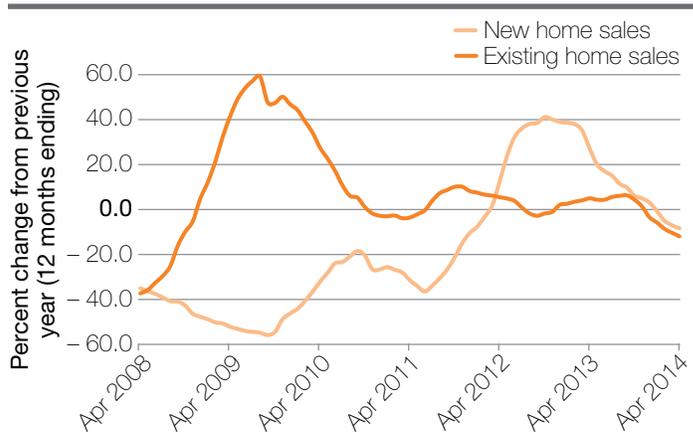
- During the 3 months ending April 2014, 3,075 single-family homes were permitted, a 12-percent decline from the 3,500 homes permitted during the 3 months ending April 2013 (preliminary data).
- An average of 55,200 single-family homes were permitted annually from 2003 through 2005, with a peak of 60,900 homes permitted in 2005.
- The number of single-family homes permitted decreased to an average of 7,700 annually from 2009 through 2011.
- One of the largest recently completed developments is the Vinsanto subdivision, a 540-unit master-planned community in the city of Phoenix. Homes at Vinsanto range in size from 1,300 to 1,750 square feet. Because these homes are smaller than average new homes, their prices are lower than the average new home sales price, ranging from \$127,700 to \$151,900.

Sales market conditions in the Phoenix area improved, and sales prices continued an upward trend that began in 2012.



Note: Includes single-family homes, townhomes, and condominiums. Source: Metrostudy, A Hanley Wood Company

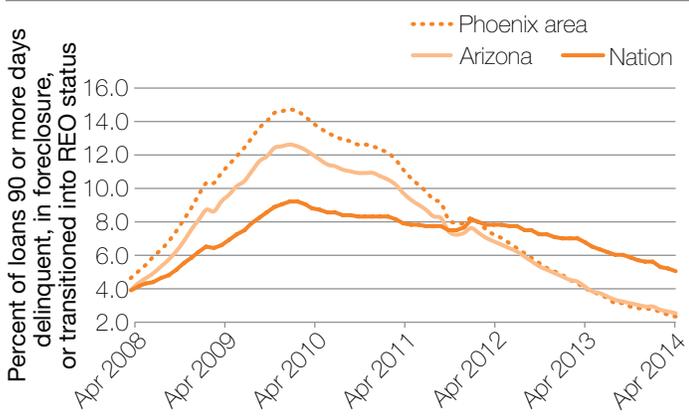
Existing home sales in the Phoenix area declined because of a decline in REO property sales.



REO = Real Estate Owned. Note: Includes single-family homes, townhomes, and condominiums. Source: Metrostudy, A Hanley Wood Company

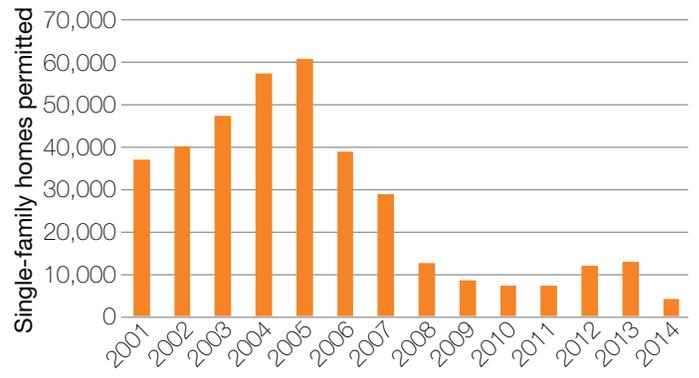


The decrease in distressed loans in the Phoenix area was the primary driver of the reduction in REO sales.



REO = Real Estate Owned.  
Source: Black Knight Financial Services, Inc.

Single-family home permitting in the Phoenix area increased in 2012 and again in 2013 but remained well below the levels recorded in the mid-2000s.



Note: Includes preliminary data from January 2014 through April 2014.  
Source: U.S. Census Bureau, Building Permits Survey

## Apartment Market Conditions

The apartment market in the Phoenix metropolitan area is slightly soft but improving. During the first quarter of 2014, the apartment vacancy rate was 5.0 percent, down from 5.6 percent a year earlier (Reis, Inc.). The average asking rent increased 3.1 percent, to \$810, during the same period.

During the first quarter of 2014—

- Apartment vacancy rates in the 18 Reis-defined market areas within the Phoenix metropolitan area ranged from 2.0 percent in the East Mesa area to 8.3 percent in the South Scottsdale area.
- The apartment vacancy rate declined most in the Glendale South area, from 10.9 to 8.0 percent.
- The North Scottsdale/Fountain Hill area had the highest asking apartment rent, at \$1,075.
- Asking apartment rent increases from the first quarter of 2013 ranged from 1.4 percent in the South Mesa area to 5.4 percent in the South Scottsdale area.

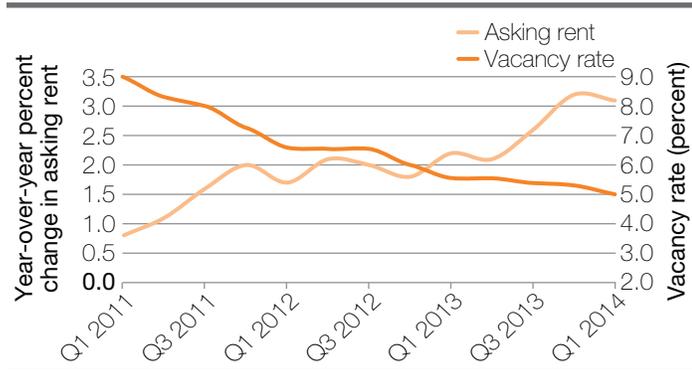
Students at Arizona State University (ASU) occupy much of the rental stock in the metropolitan area. Approximately 76,800 students enrolled for the fall 2013 semester (the latest data available) at the four campuses throughout the HMA, and more than 40,000 students live off campus in the private rental market. The apartment vacancy rate in the Reis-defined North Tempe market area, which includes the largest ASU campus, was 4.4 percent during the first quarter of 2014, relatively unchanged from 4.5 percent during the first quarter of 2013. During the same period, the average monthly rent increased 3 percent, to \$880.

As a result of strong demand for apartments among new households, the number of multifamily units permitted in the Phoenix metropolitan area has increased since 2011 but remains well below the peak levels from 2001 through 2007.

- Approximately 3,600 multifamily units were permitted during the 3 months ending April 2014, nearly triple the 910 units permitted during the 3 months ending April 2014 (preliminary data).
- An average of 8,500 multifamily units were permitted annually from 2001 through 2007, with a peak of 10,900 units permitted in 2007.
- The number of multifamily units permitted decreased to an average of 1,200 annually from 2009 through 2011.
- Nearly 10,600 new rental units are currently under construction in the Phoenix metropolitan area, including 5,275 units in the city of Scottsdale (McGraw-Hill Construction Pipeline database).
- Several large properties are currently under construction, including the 536-unit San Travesia apartments in the city of Scottsdale, with rents ranging from \$1,050 to \$1,299 for one-bedroom/one-bathroom units, from \$1,290 to \$1,625 for two-bedroom/two-bathroom units, and from \$1,675 to \$1,975 for three-bedroom/two-bathroom units. Construction is expected to be complete by February 2015. In addition, the 420-unit Liv Fiftieth Apartments in the city of Phoenix is expected to open in the summer of 2014 with rents starting at \$949, \$1,882, and \$1,618, for one-, two-, and three-bedroom units, respectively.

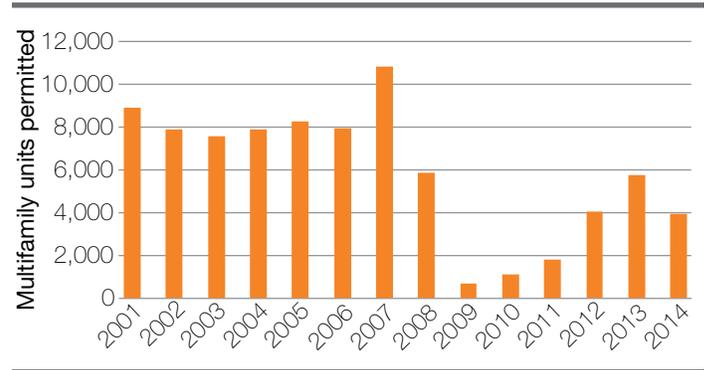


Despite increased multifamily production in the Phoenix area during the past 2 years, the vacancy rate kept falling and the average asking rent continued to rise.



Source: Reis, Inc.

Multifamily building activity has increased since 2012 as builders responded to tightening rental market conditions in the Phoenix area.



Note: Includes preliminary data from January 2014 through April 2014.  
Source: U.S. Census Bureau, Building Permits Survey