

# Housing Market Profile

Pacific • HUD Region IX



## Phoenix-Mesa-Scottsdale, Arizona

The Phoenix-Mesa-Scottsdale metropolitan area in central Arizona consists of Maricopa and Pinal Counties. Located in the Sonoran Desert, the area averages more than 300 days of sunshine each year and is a popular retirement destination. As of April 1, 2010, the metropolitan area had an estimated population of approximately 4.2 million, accounting for more than one-half of Arizona's total population. Although the area grew substantially from 2005 to 2008, adding an average 136,200 people, or 3.5 percent, a year, the population has declined by an estimated 30,000 people, or approximately 1 percent, a year since 2008. The recent reverse in population growth has partially resulted from high unemployment and new employer sanctions affecting illegal immigrants.

Employment growth in Phoenix began to slow in 2007; however, it was not until 2008 that the number of jobs started to decline. During the 12 months ending March 2010, employment decreased by 131,100 jobs to an average of 1.7 million, a 7.2 percent decline compared with employment during the 12 months ending March 2009. During this period, the construction sector lost the largest number of jobs, declining by 37,900 jobs, or 30 percent, from 128,400 to 90,500 jobs. Since 2007, 88,300 construction jobs have been lost due to soft market conditions in residential and commercial real estate. Also during the 12 months ending March 2010, in the goods-producing sector, manufacturing employment declined by 12 percent, or 15,100 jobs, down from 126,300 to 111,300, accelerating a trend that began in 2008. In the service-providing sector, the professional and business services sector had the largest number of losses, declining by 28,800 jobs, or 10 percent, from 300,900 to 272,100 jobs. The average unemployment rate increased to 8.8 percent during the 12 months ending March 2010, compared with 6.2 percent during the previous 12 months.

The only sectors that grew during the recent 12-month period were the federal government and the education and health services sectors. Federal government employment was up 0.4 percent, or 100 jobs, from 22,900 to 23,000; education and health services employment increased 2.6 percent, or 5,800 jobs, from 220,000 to 225,800. In 2010, construction will begin on two expansion projects at Chandler Regional Medical

Center that will cost \$135 million and add a total of 200 new jobs in the education and health services sector in 2011 and 2012. In addition, an estimated 80 new construction jobs will be created for the expansions. Other planned expansions in 2010 continue to add jobs, including 650 jobs at the new Talking Stick Resort in Scottsdale, 450 jobs at United Services Automobile Association (USAA) in north Phoenix, and 350 jobs at Conair Corporation in Glendale. The top three employers in Maricopa County are Bashas' Supermarkets, with 10,460 employees; US Airways, Inc., with 10,380 employees; and Banner Health System, with 10,212 employees, according to the *Phoenix Business Journal*.

A weak economy and a declining population have exacerbated an already soft home sales market; however, home sales are up to their highest level since 2006, mostly because of low sales prices. According to Arizona State University (ASU) Realty Studies, the median sales price of existing single-family homes declined 44 percent from \$262,000 during the first quarter of 2007 to \$145,600 during the first quarter of 2010. Despite this drastic decline, the median sales price of existing single-family homes is up 4 percent from \$140,000 during the first quarter of 2009. The median sales price of existing condominiums and townhomes declined by 15 percent from approximately \$118,000 in the first quarter of 2009 to \$100,000 in the first quarter of 2010. During this period, the number of existing single-family homes sold increased by 10 percent from 24,100 to approximately 26,500, and the number of existing condominiums and townhomes sold increased by 70 percent from approximately 2,450 to 4,200. Foreclosure sales currently account for about 40 percent of total sales, whereas the historical average is about 3 percent, according to ASU Realty Studies.

New home sales continue to decline as sales market conditions remain soft. According to Hanley Wood, LLC, the number of new single-family homes sold during the fourth quarter of 2009 was approximately 1,575, down 34 percent from 1,175 in the fourth quarter of 2008. The number of new condominiums and townhomes sold was also down from 280 to 220 for the same period. The median sales price for new single-family homes declined by 5 percent from \$208,200 to \$198,700 for single-family homes, and from \$180,900 to \$150,200, or 17 percent, for condominiums and townhomes. The number of new home sales is now down 82 percent from the 10,025 sold in the fourth quarter of 2004.



In response to the continued decline in new home sales, home builders have kept residential construction, as measured by the number of permits issued, at low levels. According to preliminary data, during the 12 months ending March 2010, the number of permits issued for single-family homes declined by 600 to 9,525, down 6 percent from the 10,125 homes permitted during the previous 12 months. Single-family homebuilding activity, which peaked in 2005 when permits were issued for approximately 60,950 homes, has been declining each year since then. The number of multifamily units permitted is also down, decreasing by 92 percent from the 5,350 units permitted during the 12 months ending March 2009 to 425 units permitted during the 12 months ending March 2010, according to preliminary data. Although condominiums accounted for approximately 40 percent of permits issued for multifamily units in 2005, nearly all permits issued during the past 12 months for multifamily units are estimated to be for rental use.

Apartment market conditions in the Phoenix metropolitan area are currently soft. A growing number of

single-family homes and condominiums for rent have increased already high apartment vacancies and put downward pressure on rents. In addition, net out-migration and households doubling up have reduced demand. According to Real Data, the apartment vacancy rate as of the fourth quarter of 2009 was 13.4 percent, up from 12.5 percent in the fourth quarter of 2008. The highest vacancies were in western Phoenix, where vacancy rates ranged from 20 to 30 percent, partly due to the out-migration of Hispanic households concentrated in this area that have been affected by new employer sanction laws on illegal immigrants. The western submarkets of Phoenix have been particularly hard hit by single-family home foreclosures; they also have the lowest average monthly gross rent at approximately \$575. The North Scottsdale/Fountain Hills submarket had the lowest average vacancy rate, at 6.6 percent, and one of the highest average monthly gross rents, at approximately \$920. Real Data reports that the average rent was \$770 as of the fourth quarter of 2009, down from \$785 in the fourth quarter of 2008.