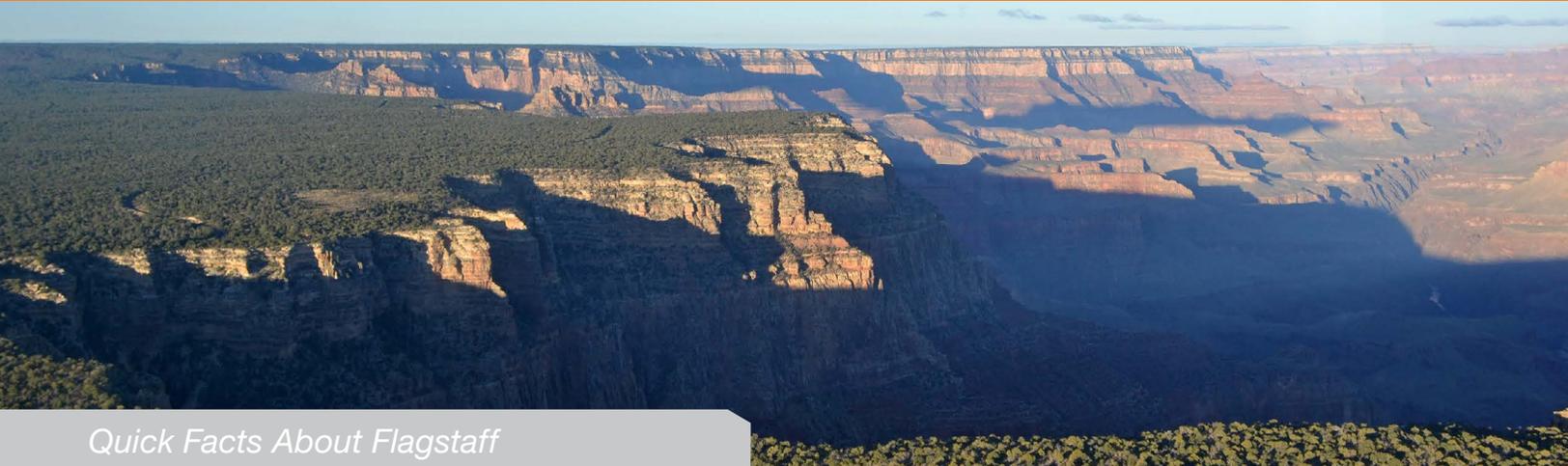


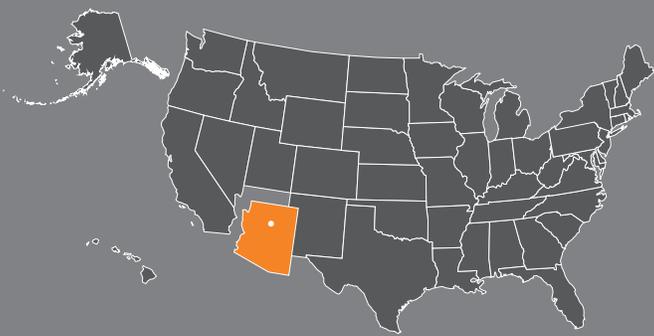
HUD PD&R Housing Market Profiles

Flagstaff, Arizona



Quick Facts About Flagstaff

- **Current sales market conditions: balanced.**
- **Current apartment market conditions: balanced.**
- **Northern Arizona University (NAU) is the largest employer in the Flagstaff metropolitan area, with a combined 2,825 faculty and staff. Since the spring of 2004, enrollment at the university has risen by an average of 3 percent each year to approximately 28,400 students in the spring of 2018.**



By Elaine Ng | As of May 1, 2018

Overview

The Flagstaff metropolitan area is coterminous with Coconino County in northern Arizona, near the southwestern edge of the Colorado Plateau. The metropolitan area is a major tourist destination and is home to Grand Canyon National Park, Arizona Snowbowl, and historic Route 66. Grand Canyon National Park attracts 5 million visitors annually (Arizona Commerce Authority).

- As of May 1, 2018, the estimated population of the metropolitan area is 141,500, representing an average increase of 880, or 0.6 percent, annually since April 2010. By comparison, from 2000 to 2010, the population increased by an average of 1,800, or 1.5 percent, annually.
- Net natural change (resident births minus resident deaths) has accounted for nearly all of the population growth since 2010, averaging 880 people a year. In contrast, from 2000 to 2010, net natural change accounted for 75 percent of population growth, averaging 1,350 people annually, while net in-migration averaged 450 people a year.
- Weak economic conditions resulted in significant net out-migration from 2009 to 2011, averaging 790 people a year, and again from 2012 to 2014, averaging 690 people a year, in part by NAU graduates who had relatively scarce job opportunities during the early 2010s. Since 2014, net in-migration has averaged 420 people a year, because economic conditions have strengthened.



Nonfarm payroll growth in the Flagstaff area resulted from job growth in six of nine sectors.

	3 Months Ending		Year-Over-Year Change	
	April 2017 (thousands)	April 2018 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	66.5	67.5	1.0	1.5
Goods-producing sectors	6.6	6.7	0.1	1.5
Mining, logging, and construction	2.3	2.4	0.1	4.3
Manufacturing	4.3	4.3	0.0	0.0
Service-providing sectors	59.9	60.8	0.9	1.5
Information	0.5	0.5	0.0	0.0
Financial activities	1.4	1.4	0.0	0.0
Professional and business services	3.0	3.1	0.1	3.3
Education and health services	9.6	9.9	0.3	3.1
Leisure and hospitality	14.3	14.5	0.2	1.4
Other services	1.7	1.8	0.1	5.9
Government	20.1	20.4	0.3	1.5
	(percent)	(percent)		
Unemployment rate	5.9	5.4		

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

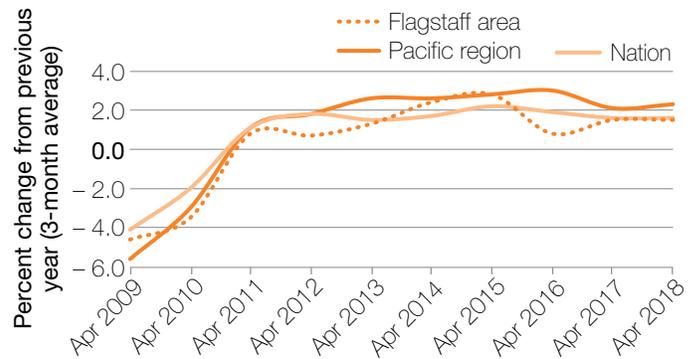
Economic Conditions

Economic conditions in the Flagstaff metropolitan area have strengthened significantly since 2011, after 3 years of job losses beginning in the late 2000s. Nonfarm payrolls increased by an average of 970 jobs, or 1.5 percent, annually from 2011 through 2017, surpassing the prerecessionary high in 2016.

During the 3 months ending April 2018—

- Nonfarm payrolls averaged 67,500 jobs, an increase of 1,000 jobs, or 1.5 percent, compared with the number of jobs during the same 3-month period in 2017, resulting from growth in six of nine sectors, while the remaining three sectors remained unchanged.
- The education and health services sector led job growth with an addition of 300 jobs, or 3.1 percent. The top three employers in the metropolitan area are in the education and health services sector, including NAU, Flagstaff Medical Center, and W.L. Gore & Associates, Inc., a medical product manufacturer, with 2,571, 2,200, and 1,950 employees respectively (Choose Flagstaff).
- The government sector also increased by 300 jobs, or 1.5 percent, and contributed to recent strong job growth. The addition of 400 state and local government jobs offset a loss of 100 federal government jobs. Government is the largest sector in the local economy, accounting for 30 percent of all nonfarm payrolls during the most recent 3-month period.

During the 3 months ending April 2018, nonfarm payroll growth in the Flagstaff area was similar to growth in the nation but lagged behind growth in the Pacific region.



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

Largest employers in the Flagstaff Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Northern Arizona University	Education and health services	2,575
Flagstaff Medical Center	Education and health services	2,200
W.L. Gore & Associates, Inc.	Manufacturing	1,950

Note: Excludes local school districts.
Source: chooseflagstaff.com

- The unemployment rate declined to 5.4 percent from 5.9 percent during the 3 months ending April 2017, well below the high of 10.7 percent during the same period in 2010.

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Growth in the education and health services sector is expected to continue with the opening of the BASIS Flagstaff kindergarten-to-12th grade charter school expansion by October 2018. Construction began in early 2018 and will add more high school

and kindergarten classrooms, a new gym, and playground to the more than 34,000-square-foot campus to accommodate growing enrollment. Expected faculty and staff additions are not yet available.

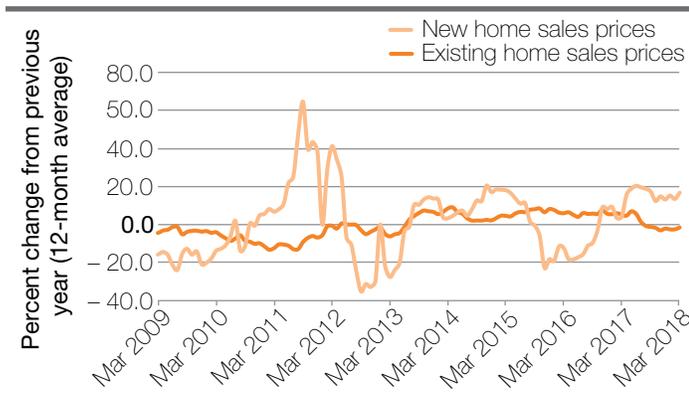
Sales Market Conditions

The sales housing market in the Flagstaff metropolitan area is currently balanced, with an overall estimated vacancy rate of 2.9 percent, unchanged from the rate during April 2010. Although demand for housing is strong, a lack of housing options in the lower price ranges has dampened sales activity, particularly for new homes. The available inventory of homes priced under \$300,000 was 2.5 months as of May 2018 compared with 3.9 months for homes priced between \$300,000 and \$500,000 and 10.0 months for homes priced between \$500,000 and \$700,000 (Realty Executives). As economic conditions strengthened and demand for sales housing increased, the percentage of home loans in the metropolitan area that were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into real estate owned (REO) status declined from 0.8 percent in March 2017 to 0.6 percent in March 2018 (CoreLogic, Inc.). The current rate is below the 1.0-percent rate for Arizona and the 2.2-percent rate for the nation.

During the 12 months ending March 2018—

- The number of new home sales decreased to 130, down 22 percent from 160 homes sold during previous 12-month period but more than double the 50 home sales during the 12 months ending March 2012, a recent low (CoreLogic, Inc., with adjustments by the analyst).

The gap between the growth in new and existing home prices in the Flagstaff area has widened since 2017.

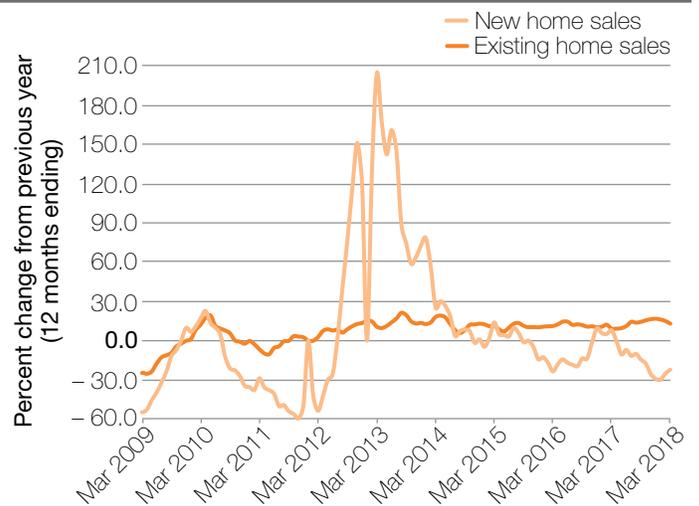


Note: Prices for single-family homes, townhomes, and condominiums. Source: CoreLogic, Inc., with adjustments by the analyst

- The decline in new home sales is largely the result of sharply increasing sales prices that has resulted in a lack of housing options in the lower price ranges. The average sales price for new homes was \$385,200, a 17-percent increase from the average price during the previous 12 months and 68 percent above the previous peak of \$229,700 in 2004, during the housing boom.
- Existing home sales totaled 3,400, up 13 percent from the 3,000 homes sold during the 12-month period ending March 2017 and more than double the average of 1,650 homes sold annually during 2008 through 2011, a low period of sales. Relatively moderate price growth and lower home prices contributed significantly to the recent increase.
- The average sales price for existing homes was \$277,900, 1 percent lower than the average price of \$282,100 during the 12 months ending March 2017. The average price of an existing home increased an average of 6 percent annually from 2013 through 2016.

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New home sales in the Flagstaff area declined recently due to rising prices, and existing sales remained relatively stable.



Note: Sales for single-family homes, townhomes, and condominiums. Source: CoreLogic, Inc., with adjustments by the analyst

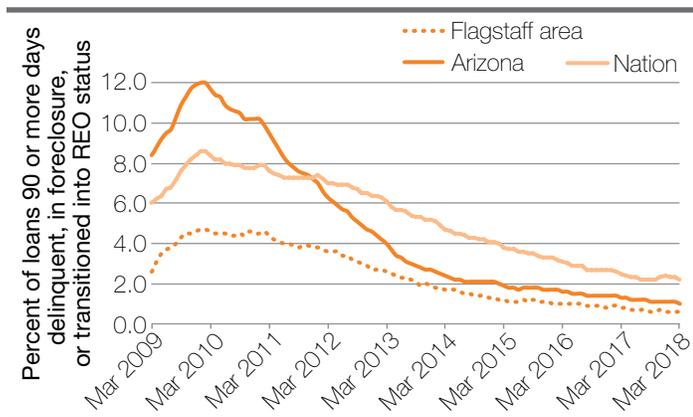


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Single-family construction activity, as measured by the number of homes permitted, has increased each year since reaching a low of 100 units in 2011.

- The number of single-family homes permitted increased to 440 during the 12 months ending April 2018, up from 400 homes permitted during the previous 12 months (preliminary data).
- From 2012 through 2017, the number of single-family homes permitted increased by an average of 28 percent a year to 434 homes in 2017.

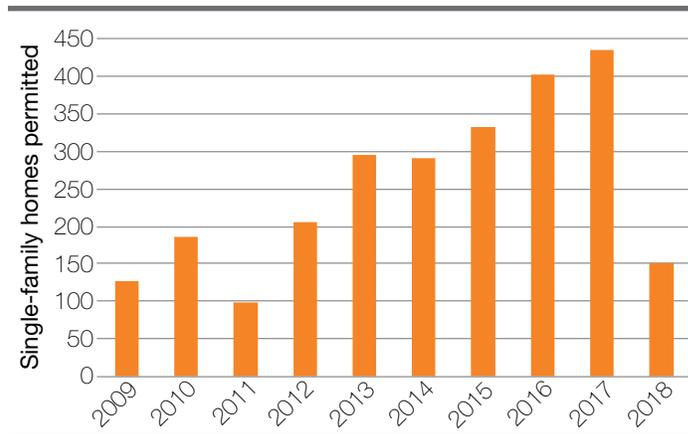
The proportion of seriously delinquent loans and REO properties in the Flagstaff area has decreased substantially since 2010 and remained lower than the rates for both the nation and state.



REO = real estate owned.
Source: CoreLogic, Inc.

- By comparison, single-family permitting averaged 190 homes per year from 2008 through 2010, a low period of home construction.
- Developments under construction include the Pine Knoll Village, which consists of 55 townhomes close to the NAU campus. Prices started at \$319,000, although as of June 2018, the development is completely sold out.

Single-family home permitting in the Flagstaff area has increased in every year since 2012, except for a small decline in 2014.



Note: Includes preliminary data from January 2018 through April 2018.
Source: U.S. Census Bureau, Building Permits Survey

Apartment Market Conditions

Apartment market conditions in the Flagstaff metropolitan area are currently balanced, improving from tight conditions a year ago because of slower absorption of new apartments and an increase in the number of single-family rentals. During 2016, single-family homes comprised 45 percent of the rental inventory in the metropolitan area compared with 36 percent in 2010 (2010 and 2016 American Community Survey 1-year data). The increased number of single-family homes in the rental market is because investors purchased a significant portion of REO homes during and after the national recession that was converted to rental use.

- The estimated vacancy rate for all rental units (including renter-occupied, single-family homes, manufactured homes, and apartments) is 7.5 percent as of May 1, 2018, up from 6.5 percent in 2010.
- The apartment market, which represents approximately 33 percent of all rental units in the metropolitan area, had a vacancy rate of 5.7 percent in the first quarter of 2018, up from 3.1 percent

a year earlier (Reis, Inc.). Apartment vacancies are greatest for newer apartment units, which generally have higher rents than older units. During the first quarter of 2018, the apartment vacancy rate for units built after 2009 was 10.4 percent compared with a combined vacancy rate of 3.9 percent for units built during earlier time periods.

- The average monthly apartment asking rent was \$1,277 during the first quarter of 2018, a 2-percent increase from the first quarter of 2017.

Multifamily building activity in the metropolitan area has been relatively stable since 2014, with new apartment development heavily concentrated near the NAU campus.

- During the 12 months ending April 2018, multifamily construction, as measured by the number of units permitted, totaled 260 units, an 11-percent increase from the 240 units permitted during the previous 12-month period (preliminary data). The 260 units permitted were all issued in October 2017.

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- An average of 250 units was permitted a year from 2014 through 2017. Prior to this period, multifamily permitting peaked in 2012, when 612 units were permitted, but declined to 65 units permitted in 2013.
- Two of the four developments currently under way in the metropolitan area are specifically intended for student housing, including the 297-unit the Hub on Campus apartments, which is expected

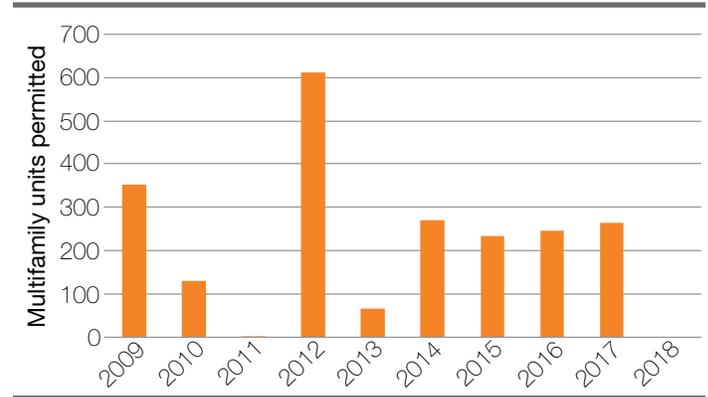
to be complete for occupancy by the fall of 2018. Rents at the Hub on Campus are per occupant and start at \$1,038 for studio units, \$1,149 for one-bedroom units, \$809 for two-bedroom units, \$799 for three-bedroom units, \$699 for four-bedroom units, and \$709 for five-bedroom units. The lower per-person cost for bigger units is a reflection of the higher number of occupants required in the larger unit types.

The apartment vacancy rate in the Flagstaff area recently rose, primarily due to vacancies in the newest apartment units with the highest rents.



Q1 = first quarter. Q3 = third quarter.
Source: Reis, Inc.

Multifamily permitting in the Flagstaff area varied widely in the late 2000s and early 2010s but has been relatively stable since 2014.



Note: Includes preliminary data from January 2018 through April 2018.
Source: U.S. Census Bureau, Building Permits Survey

