

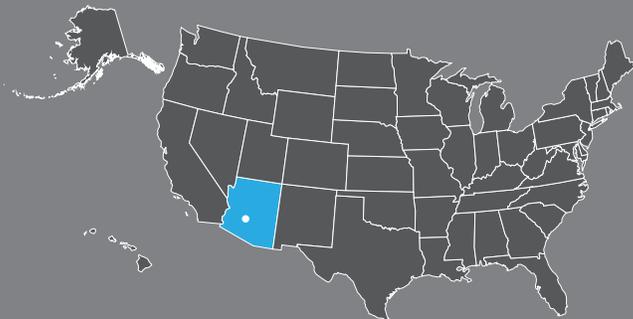
HUD PD&R Housing Market Profiles

Phoenix-Mesa-Scottsdale, Arizona



Quick Facts About Phoenix-Mesa-Scottsdale

- **Current sales market conditions: balanced**
- **Current apartment market conditions: slightly tight**
- **The Phoenix metropolitan area is home to Arizona State University (ASU), the state's largest public university and the fourth largest in the United States by enrollment during the fall 2017 semester (PrepScholar). As of 2016, ASU employed 16,800 faculty and staff and spending by the ASU community was responsible for 47,650 jobs and gross product of \$3.6 billion in Arizona (ASU, W.P. Carey School of Business).**



By Elaine Ng | As of March 1, 2019

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, the metropolitan area is home to call centers and support operations 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. Multiple companies have moved their headquarters' operations to the Phoenix metropolitan area recently, including Zovio Inc. (previously known as Bridgepoint Education, Inc.), which moved 800 jobs from San Diego; as a result, the professional and business services sector added 11,200 jobs during the 3 months ending February 2019, a 3.2-percent increase.

- As of March 1, 2019, the estimated population in the Phoenix metropolitan area was 4.89 million, an average increase of 78,000, or 1.7 percent, annually since April 2010. Since 2011, strong economic conditions have contributed to increased population growth, primarily from net in-migration. The population grew by an average of 83,500 people, or 1.8 percent annually since 2011, and net in-migration averaged 56,100 people, annually, contributing two-thirds of the growth.

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- From 2008 through 2011, job losses contributed to slowed net in-migration, which averaged only 11,600 people a year. Population growth averaged 47,200, or 1.1 percent, a year during the period.

- Population growth was strongest during 2003 through 2008, a period which covers part of the housing boom, averaging 114,000 people, or 3.0 percent, annually. Net in-migration averaged 73,050 people a year during the 2003 through 2008 period and contributed 64 percent of growth.

Economic Conditions

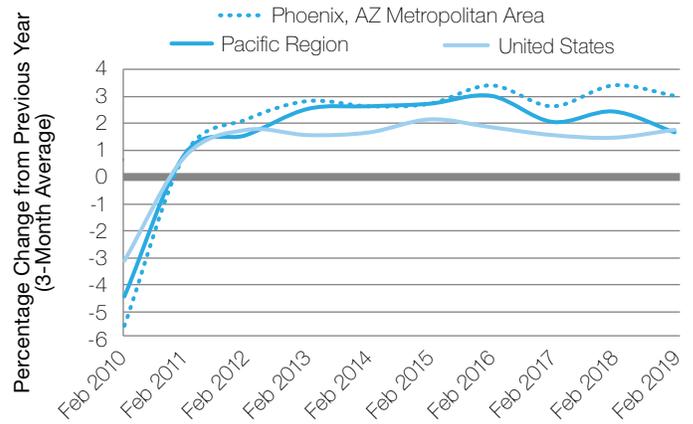
Economic conditions in the Phoenix metropolitan area have been strong since 2011, although nonfarm payroll growth has recently moderated. In 2016, nonfarm payrolls exceeded the pre-recession peak of 1.92 million jobs that occurred in 2007. Job growth in the metropolitan area has been faster than the rate for the United States since 2011, a trend that continued during the past year. During the 3 months ending February 2019, nonfarm payrolls in the metropolitan area increased by 64,900 jobs, or 3.1 percent, from a year ago, and payrolls increased 3.5 percent during the preceding 12 months. By comparison, nonfarm payrolls for the United States increased 1.8 percent during the 3 months ending February 2019, and 1.5 percent during the 3 months ending February 2018.

During the 3 months ending February 2019—

- Job growth occurred in 10 of the 11 sectors, with the most significant gains in the education and health services; the mining, logging and construction; and the professional and business services sectors, which increased by 15,100, 12,300, and 11,200 jobs, or 4.7, 10.1, and 3.2 percent, respectively. Job growth in the government sector was flat.

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Nonfarm payroll growth in the Phoenix metropolitan area has exceeded the rates of growth in the United States and the Pacific region since 2015.



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

In the Phoenix metropolitan area, job growth occurred in all sectors, except for the government sector, which was flat.

	3 Months Ending		Year-Over-Year Change	
	February 2018 (Thousands)	February 2019 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	2,089.2	2,154.1	64.9	3.1
Goods-Producing Sectors	248.2	265.7	17.5	7.1
Mining, Logging, & Construction	122.3	134.6	12.3	10.1
Manufacturing	125.9	131.1	5.2	4.1
Service-Providing Sectors	1,841.0	1,888.4	47.4	2.6
Wholesale & Retail Trade	315.9	321.3	5.4	1.7
Transportation & Utilities	86.8	91.8	5.0	5.8
Information	38.7	39.0	0.3	0.8
Financial Activities	191.2	193.1	1.9	1.0
Professional & Business Services	350.1	361.3	11.2	3.2
Education & Health Services	320.4	335.5	15.1	4.7
Leisure & Hospitality	227.1	232.9	5.8	2.6
Other Services	67.7	70.3	2.6	3.8
Government	243.2	243.2	0.0	0.0
	(Percent)	(Percent)		
Unemployment Rate	4.3	4.6		

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



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- More than two-thirds of the gain in the education and health services sector was attributed to growth in the healthcare and social assistance industry, up by 10,300 jobs, or 3.9 percent, from a year ago; that growth was supported, in part, by a significant expansion at Banner Health, the metropolitan area's largest employer, as detailed later.
- Job additions from the construction subsector were responsible for almost all the increase in the mining, logging and construction sector, which added the second largest number of jobs, as many large construction projects are currently under way. These include 41 apartment complexes with a total of 8,450 units, the \$175 million Interdisciplinary Science and Technology Building at ASU, and at least five office buildings with a total of 658,400 square feet (*Phoenix Business Journal*, Phoenix Crane Watch).
- The average unemployment rate increased to 4.6 percent from 4.3 percent during the 3 months ending February 2018 as labor force growth of 4.8 percent exceeded employment growth of 4.5 percent. After peaking at 9.6 percent in 2010, the unemployment rate in the metropolitan area has declined each year since 2011.

Sales Market Conditions

The sales housing market in the Phoenix metropolitan area is currently balanced, with an estimated sales vacancy rate of 1.6 percent, a decrease from 4.1 percent in 2010 when conditions were soft as a result of substantial overbuilding during the housing boom in the mid-2000s. Strengthening economic conditions, significantly lower levels of single-family home construction, and increased population growth have contributed to the absorption of excess inventory since the early 2010s. From February 2010 through February 2019, the inventory of homes for sale declined 46 percent, or by 17,700 homes (Redfin). As of February 2019, 3.3 months of available inventory were for sale in the metropolitan area, up slightly from 2.9 months a year ago, but down from 6.5 months in January 2010, when foreclosure activity was at its peak (Redfin). Because of improved sales market conditions, the percentage of home loans in the Phoenix metropolitan area that were seriously delinquent (90 or more days delinquent or in foreclosure) or transitioned into real estate owned (REO) status declined from 1.0 percent in January 2018 to 0.8 percent in January 2019 and down from the high of 13.8 percent in December 2009 (CoreLogic, Inc.). The current rate is below both the 0.9-percent rate for Arizona and the 1.7-percent rate for the United States.

During the 12 months ending January 2019—

- A total of 18,000 new homes sold in the metropolitan area, a 1-percent decline from 19,250 during the previous 12 months (CoreLogic, Inc., with adjustments by the analyst).
- Existing home sales declined by almost 7 percent to 113,800 homes, primarily as a result of a 26-percent decrease in REO sales, which totaled 1,525, and a 42-percent drop in short sales, which totaled 470. Regular resales remained relatively flat at 111,800.

Largest Employers in the Phoenix Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Banner Health	Education & Health Services	26,950
State of Arizona	Government	24,830
Walmart, Inc.	Wholesale & Retail Trade	17,270

Note: Excludes local school districts.

Source: Maricopa Association of Governments, Employer Database 2018

Banner Health has more than 350 ongoing active building projects currently underway in the state of Arizona, with a significant number of construction projects concentrated at the Banner University Medical Center Phoenix. The 80,000-square-foot M.D. Anderson Cancer Center is currently underway and will open in 2019. Recently completed developments at the campus include the \$179 million emergency department expansion that opened in June 2017, with expanded capacity to serve 90,000 total patients a year and the \$239 million 13-story patient tower that opened in October 2018 with room for 256 patient beds. As of September 2018, Banner Health had more than 1,500 open positions across the state, with a significant proportion of those job openings in the Phoenix metropolitan area.

- The average sales price for new homes was \$371,100, a 4-percent increase from \$357,400 during the 12 months ending January 2018 and 15 percent higher than the previous pre-recession peak of \$322,000, which occurred in 2007.
- Due in part to the significant declines in REO and short sales in the past 12 months, the average sales price for existing homes increased 9 percent to \$303,000; existing home prices, however, remain 6 percent below their pre-recession peak of \$323,800 in 2006.

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Total sales have declined recently, partly because of reduced inventory of distressed properties for sale.



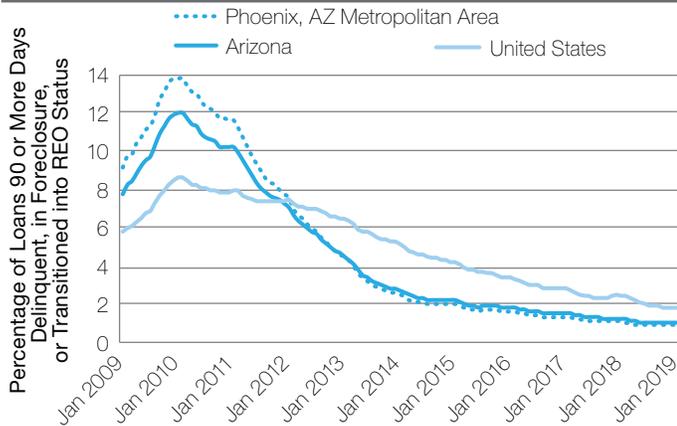
Note: Prices for single-family homes, townhomes, and condominiums.

Source: CoreLogic, Inc., with adjustments by the analyst



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The proportion of seriously delinquent loans and REO properties in the Phoenix metropolitan area was higher than the United States as a whole in the late 2000s but has since fallen below the U.S. rate.



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

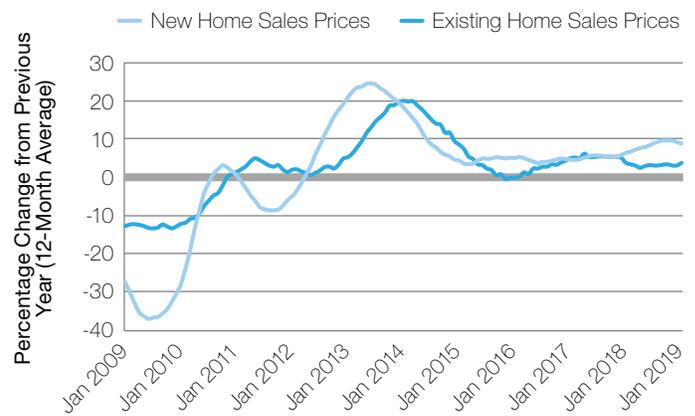
Rising home prices and declining levels of for-sale inventory have contributed to increased homebuilding activity, as measured by the number of single-family homes permitted, since 2015.

- The number of single-family homes permitted increased 15 percent from a year earlier, to 24,000 during the 12 months ending February 2019; this followed a 12-percent increase during the previous 12 months (preliminary data). Single-family permitting has increased every year since 2015, and the number of homes permitted averaged 18,500 from 2015 through 2017.
- The Phoenix metropolitan area was one of the hardest hit areas in terms of foreclosure activity during the Great Recession because of the significant amount of overbuilding that occurred during the housing boom. Single-family permitting previously peaked at nearly 55,200 homes a year during 2004 and 2005, before declining to an average of 7,700 homes a year from 2009 through 2011.
- Several single-family home developments are currently underway in the Phoenix metropolitan area. The largest development is the master-planned Norterra-Deer Valley Village neighborhood that will include 1,100 single-family homes, 1,100

Apartment Market Conditions

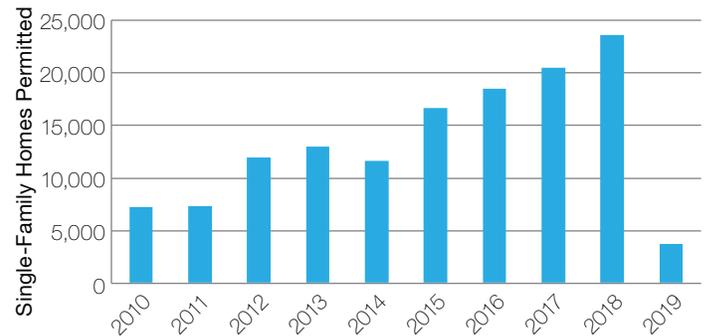
The apartment market in the Phoenix metropolitan area is currently slightly tight. Conditions were generally soft in the earlier part of the decade as a significant number of single-family homes entered the rental market when foreclosure activity in the metropolitan area peaked, and the apartment vacancy rate remained above 8 percent until 2013 (*Apartment Insights*). Because net in-migration has increased since 2013, however, particularly among younger

Sales prices for new and existing homes in the Phoenix metropolitan area have risen in nearly all periods since 2012.



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

Single-family permitting in the Phoenix metropolitan area has increased since 2014.



Note: Includes preliminary data from January 2018 through February 2019.
Source: U.S. Census Bureau, Building Permits Survey

multifamily units, office space, retail shops, and a town center. The ground-breaking was in 2018 and completion of the first units occurred in late 2018; the total-completion timeline of the project is undetermined. Prices range from \$340,000 to \$630,000 for the three- and four-bedroom homes.

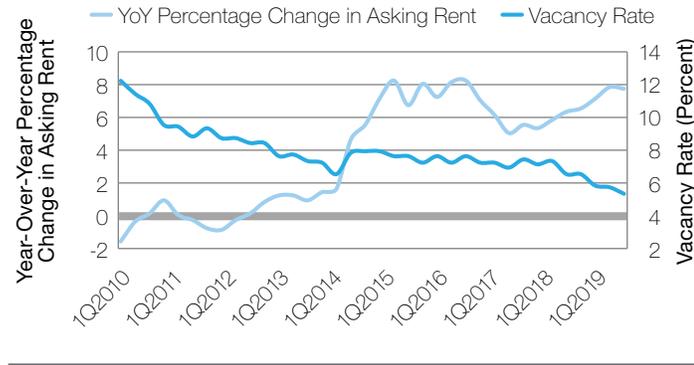
households who created demand for apartments, the apartment vacancy rate steadily declined, although an average of 6,350 units a year was completed in the metropolitan area during the same period, and the average rent continued to increase. Recent absorption has been strong, averaging nearly 7,925 units a year in 2017 and 2018 compared with an average of 5,350 units annually during the previous 4 years; as the current high level of completions

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Vacancy rates have declined while rent growth has been strong in the Phoenix metropolitan area since 2013.



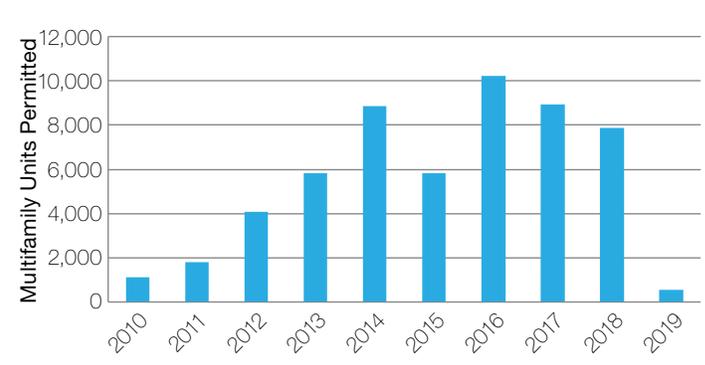
YoY = year over year
1Q = first quarter
Source: Apartment Insights

and construction continues, some parts of the metropolitan area are at risk of overbuilding.

During the first quarter of 2019—

- Apartments rents in the metropolitan area averaged \$1,092, up nearly 8 percent from a year earlier (*Apartment Insights*). By comparison, rent growth was flat from 2009 through 2012, when market conditions were softer.
- The vacancy rate among stabilized apartment properties in the metropolitan area averaged 5.3 percent, down from 6.5 percent a year earlier, and down from the high of 12.2 percent during the second quarter of 2010.
- The apartment vacancy rate is generally lower in the *Apartment Insights*-defined market areas (hereafter, market areas), where average rents are the highest, indicating a tighter market in certain locations such as the cities of Scottsdale and Phoenix. Of the 31 market areas that comprise the metropolitan area, the average rent is highest in the Central City/Sky Harbor market area at \$1,509, where the apartment vacancy rate is 4.4 percent; in the North Scottsdale/Fountain Hills and South Scottsdale market areas, the average rent is \$1,387 for both areas and the apartment vacancy rate is 4.2 and 4.4 percent, respectively.
- Apartment completions and construction have been strongest in the Northeast Central Phoenix and Central Phoenix/Encanto market areas, which accounted for 16 percent of apartment completions in 2017 and 2018 combined, and where 13 percent of units underway are located. The apartment vacancy rate is also among the highest in the two market areas at 7.5 and 6.2 percent, respectively.

Multifamily permitting in the Phoenix metropolitan area has declined recently, after reaching a recent peak in 2016.



Note: Includes preliminary data from January 2018 through February 2019.
Source: U.S. Census Bureau, Building Permits Survey

Multifamily construction activity in the metropolitan area, as measured by the number of units permitted, slowed during the most recent 12 months but has generally trended upward since 2015, following a recent low from 2009 through 2011. During the 12 months ending February 2019, 6,275 multifamily units were permitted, down from the 10,150 units permitted during the previous 12-month period (preliminary data).

- An average of 9,500 multifamily units was permitted in the metropolitan area during 2016 and 2017, up from an average of 6,100 during 2012 through 2015, and up significantly from an average of only 1,200 units a year during 2009 through 2011.
- A significant share of the multifamily construction currently underway is in downtown Phoenix, where apartment demand has been fueled by growing enrollment at ASU's downtown Phoenix campus and its revitalization in recent years. During the 12 months ending February 2019, almost one-half of all multifamily permitting in the metropolitan area occurred in the city of Phoenix.
- An estimated 10,500 apartment units are currently under construction in the metropolitan area. Notable developments currently under construction include The Link Phoenix, a 30-story apartment tower located in downtown Phoenix, that will add 257 apartment units and 7,000 square feet of retail space when completed in August 2019. The units will range in size from 450 to 1,450 square feet; expected rents are not yet available.

