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**
- **Arizona State University (ASU) is the state's largest public university and was the fourth largest in the United States by enrollment during the fall 2018 semester (PrepScholar), with 72,700 students enrolled statewide and 51,600 students enrolled at the main Tempe campus. During fiscal year 2018, the university directly employed 17,800 faculty and staff members. Spending by the ASU community outside of the university helped support an additional 47,600 in-state jobs, which had an economic impact of $3.8 billion in Arizona (ASU, W.P. Carey School of Business).**

By Elaine Ng | As of November 1, 2019

Overview

The Phoenix-Mesa-Scottsdale, AZ Metropolitan Statistical Area (hereafter, Phoenix metropolitan area) consists of Maricopa County and Pinal County, both located in central Arizona. 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. Recent expansions include Farmers Insurance, which will add more than 900 jobs to its Phoenix operations center after receiving a $250,000 economic development incentive from the city, and Voya Financial, Inc., which will open a new office in the metropolitan area in mid-2020, adding 1,000 jobs in call center, back-office, and customer support operations. Both companies have already begun filling the job openings created by the expansions. As a result, the professional and business services sector added 6,100 jobs during the 3 months ending October 2019, a 1.7-percent increase.

- As of November 1, 2019, the estimated population in the Phoenix metropolitan area was 4.99 million, an average

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increase of 88,600 people, or 1.9 percent, annually since 2011. Strong economic conditions have contributed to increased population growth, primarily from net in-migration, which averaged about 62,050 people a year and contributed to nearly three-fourths of the growth.

- From 2008 through 2011, job losses contributed to slowed net in-migration, which averaged only 13,600 people a year. Population growth averaged 49,150 people, or 1.2 percent, a year during the period.
- From 2003 through 2008—a period that covers part of the housing boom—population growth was strongest, averaging 114,000 people, or 3.0 percent, annually. Net in-migration averaged 73,050 people a year from 2003 through 2008 and contributed 64 percent of the area's growth.

Economic Conditions

Economic conditions in the Phoenix metropolitan area have been strong since 2011, and although nonfarm payroll growth has recently moderated, job growth in the metropolitan area continues to outpace that of the nation. In 2016, nonfarm payrolls exceeded the prerecession peak of 1.92 million jobs that occurred in 2007. From 2008 through 2011, when the Great Recession impacted economic growth in the metropolitan area, an average of 51,200 jobs, or 2.8 percent annually were lost. This is compared to a 1.3-percent decline nationwide. During the 3 months ending October 2019, nonfarm payrolls in the metropolitan area increased by 55,300 jobs, or 2.6 percent, from a year ago, and payrolls increased 3.5 percent during the preceding 12 months. By comparison, nonfarm payrolls for the nation rose 1.4 percent during the 3 months ending October 2019, and 1.8 percent during the 3 months ending October 2018.

During the 3 months ending October 2019—

- Job growth occurred in all but 2 of the 11 sectors, with the most significant gains in the education and health services; mining, logging, and construction; transportation and utilities; and manufacturing sectors, which increased by 13,400, 10,900, 8,500, and 8,000 jobs, or 4.1, 8.3, 9.6, and 6.2 percent, respectively. Jobs in the government sector declined slightly, and the information sector lost 400 jobs, a 1.0-percent decline.
- Almost three-fourths of the gain in the education and health services sector was attributed to growth in the healthcare and social assistance industry, up by 9,675 jobs, or 3.6 percent, from a year ago; that growth was supported, in part, by several hospital expansions, which are detailed later in this section.
- 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 underway. These projects include approximately 11,200 apartment units in more than 45 properties, the $175 million Interdisciplinary Science and Technology Building at ASU,

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Job growth in the Phoenix metropolitan area occurred in all sectors except for the government and information sectors.

	3 Months Ending		Year-Over-Year Change	
	October 2018 (Thousands)	October 2019 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	2,123.5	2,178.8	55.3	2.6
Goods-Producing Sectors	259.3	278.2	18.9	7.3
Mining, Logging, & Construction	130.6	141.5	10.9	8.3
Manufacturing	128.7	136.7	8.0	6.2
Service-Providing Sectors	1,864.1	1,900.6	36.5	2.0
Wholesale & Retail Trade	316.1	316.9	0.8	0.3
Transportation & Utilities	88.8	97.3	8.5	9.6
Information	38.4	38.0	-0.4	-1.0
Financial Activities	193.8	195.9	2.1	1.1
Professional & Business Services	357.4	363.5	6.1	1.7
Education & Health Services	328.5	341.9	13.4	4.1
Leisure & Hospitality	227.2	231.4	4.2	1.8
Other Services	69.9	71.9	2.0	2.9
Government	244.1	243.8	-0.3	-0.1
	(Percent)	(Percent)		
Unemployment Rate	4.3	4.1		

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

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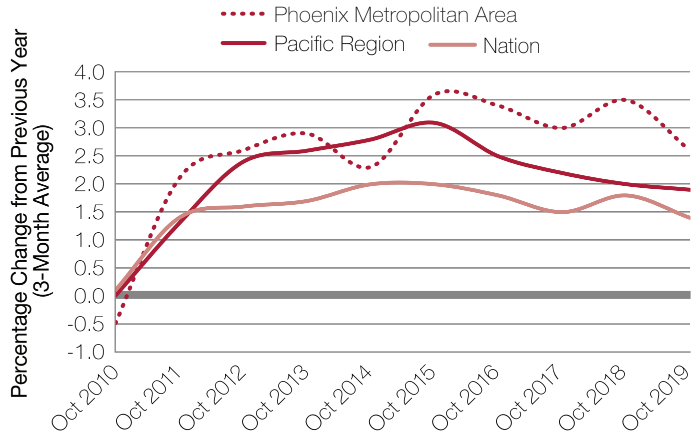
and at least nine office buildings totaling 3.5 million square feet (*Apartment Insights*; *Phoenix Business Journal*, Phoenix Crane Watch).

- The average unemployment rate declined to 4.1 percent from 4.3 percent during the 3 months ending October 2018. After peaking at 9.6 percent in 2010, the unemployment rate in the metropolitan area has declined each year since 2011.

At least six major medical center projects totaling $1.4 billion in construction financing are currently under way in the Phoenix metropolitan area and are expected to open in 2020. The largest of those projects is the expansion of the Mayo Clinic, the first phase of which will be completed by 2020; when all phases are complete, by 2023, the current campus will have doubled in size. The expansion will add 1.4 million square feet of building space, expand clinical capacity, and add almost 100 new inpatient beds. The Mayo Clinic expansion is estimated to add 2,000 new permanent jobs, including 200 physician jobs by 2029. Two additional large projects under way, both owned by Banner Health, are the Banner Health Center expansion and the Banner Boswell Medical Center expansion. The $150-million expansion to the Banner Health Center in Chandler will add 120 beds and surgery, labor and delivery, intensive care, and emergency rooms. The $106-million expansion of the Banner Boswell Medical Center in Sun City will add a new six-story patient tower atop a new emergency department. These additions will allow the hospital to serve 15,000 more emergency department patients annually.

Nonfarm payroll growth in the Phoenix metropolitan area has continued to exceed 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

Largest Employers in the Phoenix Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Banner Health System	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

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, significantly below the rate of 4.1 percent in 2010, when conditions were soft because 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 since 2011 have contributed to the absorption of excess inventory since the early 2010s. From October 2010 through October 2019, the inventory of homes for sale declined 67 percent, or by 8,950 homes (Redfin). As of October 2019, 2.0 months of available inventory were for sale in the metropolitan area, down from 2.3 months a year ago and down significantly from 5.9 months in October 2010, when foreclosure activity was near its peak (CoreLogic, Inc.). 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 0.8 percent in September 2018 to 0.6 percent in September 2019—down from the high of 13.8 percent in December 2009 (CoreLogic, Inc.). The current rate is below both the 0.7-percent rate for Arizona and the 1.4-percent rate for the nation.

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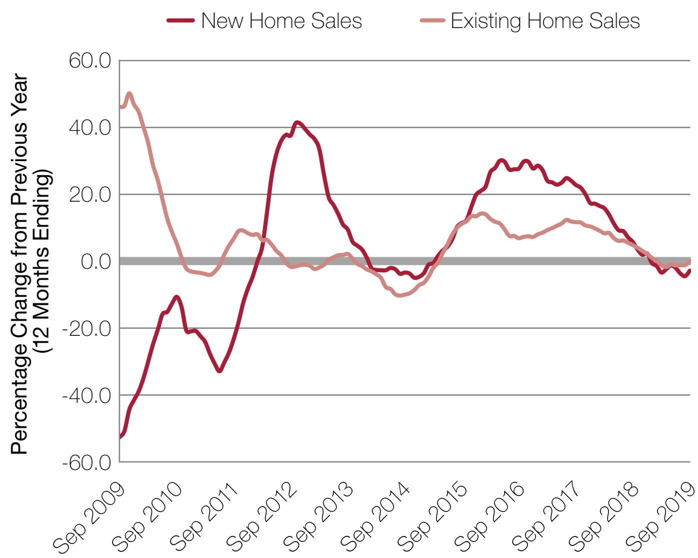
Total sales have declined recently, partly because of reduced sales of distressed properties.



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

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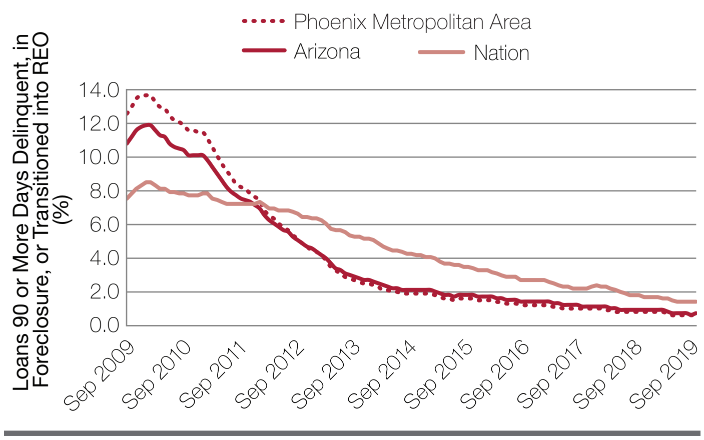
During the 12 months ending October 2019—

- In the Phoenix metropolitan area, 18,800 new homes were sold, a 4-percent decline from 19,600 during the previous 12 months (CoreLogic, Inc., with adjustments by the analyst).
- Existing home sales declined 1 percent to 115,900 homes, primarily because of a 27-percent decrease in REO sales, which totaled 1,250 homes, and a 43-percent drop in short sales, which totaled 320 homes. Regular resales remained relatively stable at 114,400 homes.
- The average sales price for new homes was $382,300, a 4-percent increase from $368,100, during the 12 months ending October 2018, and 19 percent higher than the prerecession peak of $322,000, which occurred in 2007.
- Due in part to significant declines in REO and short sales in the past 12 months, the average sales price for existing homes increased 5 percent to $312,500; existing home prices, however, remain 3 percent below their 2006 prerecession-peak of $323,800.

Rising home prices and declining for-sale inventory have contributed to increased homebuilding activity, as measured by the number of single-family homes permitted since 2014.

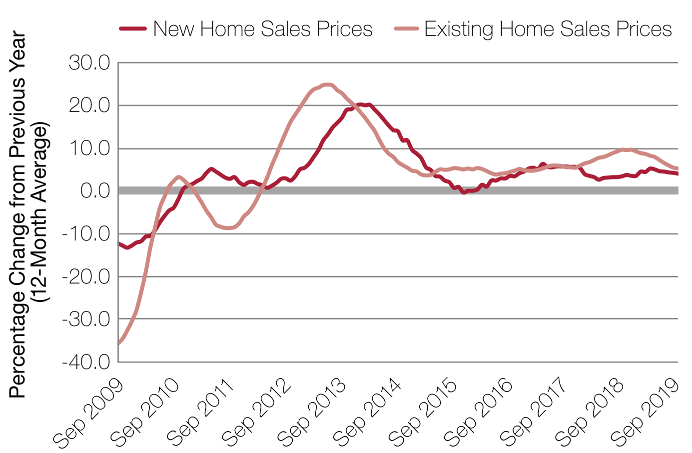
- The number of single-family homes permitted increased 9 percent from a year earlier, to 24,800 during the 12 months ending October 2019; this followed an 11-percent increase during the previous 12 months (preliminary data). Single-family permitting has been steadily increasing, and the number of homes permitted averaged 8,925 from 2015 through 2018, up significantly from the recent of low average of 7,700 homes permitted annually from 2009 through 2011.
- 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 low of 7,700 homes a year from 2009 through 2011.
- Several single-family home developments are currently under way in the Phoenix metropolitan area. The largest development is the master-planned Norterra-Deer Valley Village community that will include 1,100 single-family homes, 1,100 multifamily units, office space, retail shops, and a town center. The groundbreaking 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 single-family homes.

The proportion of seriously delinquent home loans and REO properties in the Phoenix metropolitan area was higher than that of the nation and Arizona in the late 2000s but has since fallen below those rates.



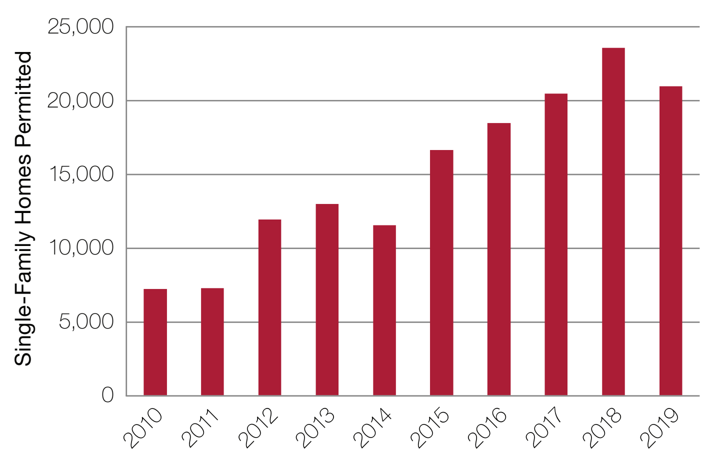
REO = real estate owned.
Source: CoreLogic, Inc.

Both new and existing home prices have increased during the 12 months ending September 2019.



Note: Prices are 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 2015.



Note: Includes preliminary data from January 2019 through October 2019.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

Apartment Market Conditions

The apartment market in the Phoenix metropolitan area is currently slightly tight. Conditions were generally soft earlier in the decade because 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, which began increasing during 2011, has continued to grow—particularly among younger households, who are more likely to demand apartments—the apartment vacancy rate has steadily declined and the average rent has increased since 2013; during the same period, an average 6,350 apartment units were completed annually in the metropolitan area. Recent absorption has been strong, averaging 8,250 units during the 12 months ending September 2019, down slightly from the 8,575 units during the previous 12-month period. As the current high level of completions continues, however, some parts of the metropolitan area are at risk of overbuilding.

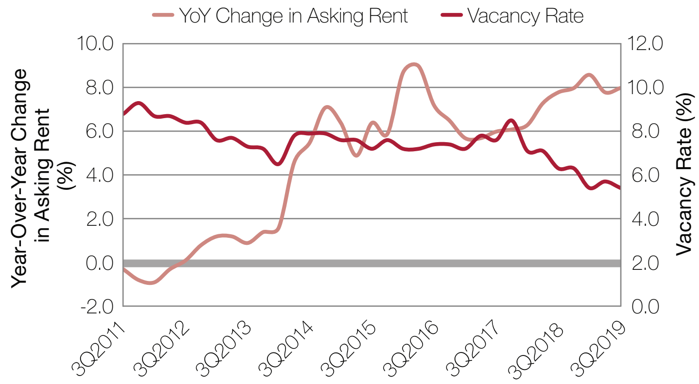
During the third quarter of 2019—

- Apartment rents in the metropolitan area averaged $1,139, up nearly 8 percent from a year earlier (*Apartment Insights*).
- The vacancy rate among stabilized apartment properties in the metropolitan area averaged 5.4 percent, down from 6.3 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 make up the metropolitan area, the highest average rent, at $1,530, is in the South Scottsdale market area where the apartment vacancy rate is 4.7 percent, while in the Central City/Sky Harbor and North Scottsdale/Fountain Hills market areas, the average rents are $1,494 and $1,442 and the apartment vacancy rates are 5.7 and 5.1 percent, respectively.
- Apartment completions and construction have been strongest in the North Tempe market area, where they account for 19 percent of all apartment completions in the metropolitan area during the third quarter of 2019 and where 22 percent of units currently under construction are located. As a result, the apartment vacancy rate is 9.5 percent in the market area, significantly higher than the metropolitan area-wide rate.

Multifamily construction activity in the metropolitan area, as measured by the number of units permitted, slowed during the most recent 12 months and has generally trended downward since 2016 but is higher than the recent low from 2009 through 2011. During the 12 months ending October 2019, 8,400 multifamily units were permitted, down from the 8,775 units permitted during the previous 12-month period (preliminary data).

- An average of 9,500 multifamily units were 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.

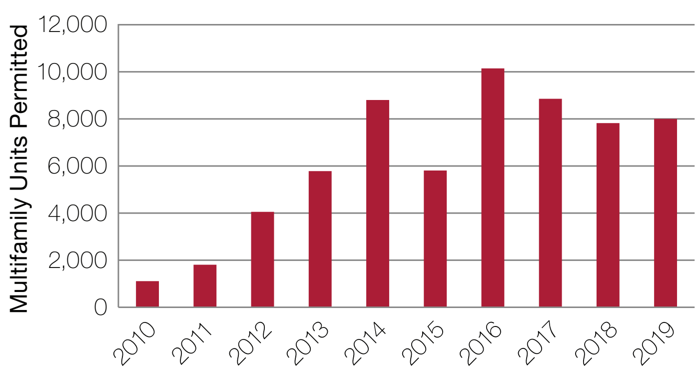
Vacancy rates have declined whereas rent growth has accelerated in the Phoenix metropolitan area in the past year.



3Q = third quarter. YoY = year-over-year.
Note: Based on four-quarter moving averages.
Source: *Apartment Insights*

- A significant share of the multifamily construction currently under way is in Tempe—the city in which the main ASU campus is located. During the 3 months ending October 2019, 21 percent of all multifamily permitting in the metropolitan area occurred in the city of Tempe. Before 2018, multifamily construction activity in the city accounted for a smaller share of construction activity in the metropolitan area; from 2015 to 2017, an average of 11 percent of all multifamily units in the metropolitan area were permitted in Tempe, however, the current share is consistent with the 21-percent share during 2008 through 2014.
- An estimated 11,200 apartment units are currently under construction in the metropolitan area. Notable developments include the 551-unit The Pier Apartments near the ASU main campus. The $80 million project will also include 17,000 square feet of retail and more than 12,000 square feet of restaurant and outdoor dining space. Rents have not yet been determined, but construction is expected to be complete by late 2020.

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



Note: Includes preliminary data from January 2019 through October 2019.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst