

Housing Market Profile

Pacific • HUD Region IX



Flagstaff, Arizona

The Flagstaff metropolitan area, coterminous with Coconino County, is home to the popular tourist destination, Grand Canyon National Park. As of October 1, 2011, the estimated population was 136,700. The annual rate of growth since April 2010 is estimated at about 1 percent, a growth rate that has remained relatively unchanged since 2004. The largest employer in the metropolitan area, Northern Arizona University (NAU), employed 2,500 faculty and staff and enrolled 25,200 students, including 17,500 on the main mountain campus during the fall 2010 semester. According to NAU, the university generates an annual local economic impact of \$500 million. Other large employers in the area are Flagstaff Medical Center and W.L. Gore & Associates, Inc., with 2,200 and 1,950 employees, respectively.

Economic conditions in the Flagstaff metropolitan area are showing signs of improvement after 3 years of declines in nonfarm payrolls. During the 12 months ending August 2011, 1,300 jobs were added, an increase of 2.1 percent compared with the loss of 2,300 jobs, or 3.6 percent, during the previous 12 months. Nonfarm job growth was either flat or positive in all sectors except government, which lost 200 jobs, or 0.9 percent, due to budget cuts at the state and local levels. Job growth was led by the leisure and hospitality sector, with the addition of 900 jobs, an increase of 7.3 percent. Construction has recently begun on the Twin Arrows Casino Resort & Spa, which will be the first Navajo hotel and casino in the area. The resort will employ approximately 800 people when it opens in May 2013. The Arizona Snowbowl, a ski resort, broke ground on an expansion that is expected to be completed by November 2011 and will create an additional 325 jobs. Increased employment in the area has resulted in an 8.2-percent average unemployment rate, down from 9.2 percent during the previous 12 months.

The sales housing market is currently soft, partly as a result of an overproduction of homes, a portion of which were intended as second homes, from 2001 to 2006. According to Hanley Wood, LLC, 900 new and existing homes were sold during the 12 months ending August 2011, a 27-percent decline from the 1,225 homes sold in the previous 12-month period. The number of annual home sales has declined from 5,325 homes sold during 2005, the earliest data available. During the 12 months ending August 2011, the average home sales price fell to \$362,500, representing a 10-percent decline. The sale

of second homes is a significant component of the metropolitan sales market. Based on census data, from 2000 to 2010, the number of vacant homes classified as “for seasonal, recreational, or occasional use” increased by 2,900 homes, or 32 percent. According to LPS Applied Analytics, as of August 2011, 4 percent of total mortgage loans in the area were 90 or more days delinquent, in foreclosure, or in REO (Real Estate Owned), down slightly from 4.4 percent a year earlier.

In response to the soft housing market, developers have scaled back on new home construction since 2007. Based on preliminary data, single-family homebuilding, as measured by the number of building permits issued, decreased by 33 percent to 100 homes permitted during the 12 months ending August 2011, relative to the number of homes permitted during the previous 12 months. Single-family homebuilding peaked between 2001 and 2006, with an average of 870 homes permitted each year. Local sources estimate that roughly 25 to 30 percent of homes in the area are intended for use as second homes.

The rental housing market is currently balanced, with an estimated vacancy rate of 6.5 percent, a rate unchanged from April 2010. According to Axiometrics Inc., the apartment vacancy rate during the second quarter of 2011 was 7 percent, down from 7.9 percent during the second quarter of 2010. During the same period, the average effective rent rose more than 2 percent to \$960 per month. An estimated 17,850 NAU students live off campus, accounting for roughly 37 percent of the total population in renter-occupied units.

Based on preliminary data, 75 multifamily units were permitted during the 12 months ending August 2011 compared with 60 units during the previous 12 months. Although not yet permitted, three projects aimed at NAU students will shortly begin construction, with completion expected by the fall 2012 semester. The Grove at Flagstaff Apartments, a 216-unit complex, will offer two- and three-bedroom units; rents are not yet established. Two new on-campus dormitories are also planned: The Hilltop Townhomes will consist of four-bedroom, three-bath units and house 576 students, with rents starting at \$609 per month, and The Suites will offer 550 beds, with monthly rents starting at \$559 for one-bedroom units and \$579 for two-bedroom units. Since 2006, enrollment on the mountain campus has grown by an average of 1,025 students, or 8 percent, annually but is expected to slow to an average of 100 students, or 1 percent, a year during the next 10 years. As a result, these projects may result in a softening of the rental market.