

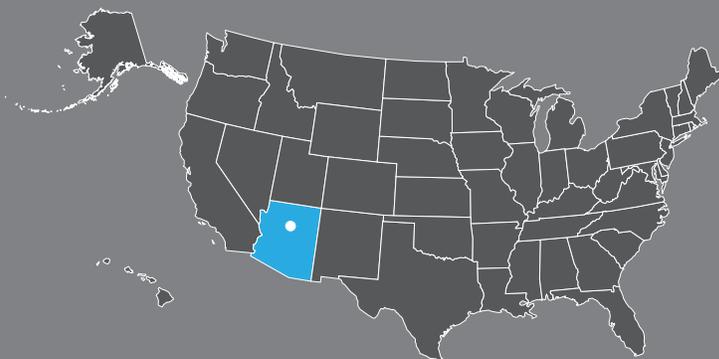
HUD PD&R Housing Market Profiles

Flagstaff, Arizona



Quick Facts About Flagstaff

- Current sales market conditions: slightly tight
- Current apartment market conditions: soft
- Northern Arizona University (NAU) is the second largest employer in the Flagstaff metropolitan area, with a combined 2,925 faculty and staff (NAU). From 2003 to 2017, enrollment at the university rose by an average of 3 percent each year and stabilized in 2018 and 2019. However, the transition to fully remote learning in response to the COVID-19 pandemic starting in March 2020 led to a 3-percent decline in enrollment, with 27,050 students enrolled during the spring 2021 semester.



By Elaine Ng | As of January 1, 2021

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 the Grand Canyon National Park, the Arizona Snowbowl ski resort, the Wupatki National Monument—containing Native American archaeological sites—and sections of Historical Route 66. Grand Canyon National Park is one of the most popular tourist destinations in the nation, but COVID-19 stay-at-home orders dramatically reduced visitation to the park. During 2020, 2.9 million people visited Grand Canyon National Park—less than one-half of the 6.0 million people who visited the park in 2019; that reduction significantly reduced sales tax revenues for local cities and Native American tribes who rely heavily on park visitation (Arizona Office of Tourism).

- As of January 1, 2021, the population of the Flagstaff metropolitan area is estimated at 144,800, which represents an average annual increase of 970, or 0.7 percent, since April 2010. By comparison, from 2000 to 2010, the population increased by an average of 1,825, or 1.5 percent, annually.

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- Net natural change (resident births minus resident deaths) has accounted for 84 percent of the population growth since 2010, averaging 810 people a year, whereas net in-migration averaged 160 people a year. In contrast, from 2000 to 2010, net natural change accounted for 75 percent of population growth, averaging 1,375 people a year, whereas net in-migration averaged 450 people a year.
- Significant net out-migration occurred from 2009 to 2011, averaging 780 people a year, and again from 2012 to 2014, averaging 240 people a year. Among those leaving the metropolitan area are recent NAU graduates who had relatively scarce job opportunities in the metropolitan area during the early 2010s. From 2014 to 2019, net in-migration averaged 470 people a year because of stronger economic growth.

Economy

Economic conditions in the Flagstaff metropolitan area are weak, as the recovery from the COVID-19 pandemic remains slow. Nonfarm payrolls declined during the fourth quarter of 2020, from a year earlier, after a 9-year period of economic expansion. From 2011 through 2019, an average of 820 jobs, or 1.3 percent, were added annually. Job growth was concentrated in the leisure and hospitality sector, which added an average of 390 jobs, or 2.8 percent, annually, and accounted for 47 percent of all jobs added during the period. The state of Arizona issued a stay-at-home order in response to the COVID-19 pandemic at the end of March 2020, which included enforcing social distancing and discouraging nonessential travel and entertainment outings. These countermeasures contributed to declines in economic activity in the metropolitan area starting in March 2020, with the leisure and hospitality sector leading the nonfarm payroll declines. By December 2020, the Flagstaff

metropolitan area had recovered only 18 percent of all jobs lost during March and April 2020 (non-seasonally adjusted data). Despite phased re-openings that began in May 2020, a month-long closure of all three entrances to Grand Canyon National Park in April 2020 significantly reduced tourism into the metropolitan area; recent tourist visits remain below the levels during the same period a year ago, with only the south rim entrance opened. As of April 2021, the east entrance to the park has reopened and the north rim remains closed.

During the fourth quarter of 2020, the unemployment rate rose to 9.7 percent—up 4.7 percentage points from the 5.0-percent rate during the same period a year earlier; however, that rate is still lower than the peak of 14.2 percent during the second quarter of 2020. By comparison, the national fourth quarter unemployment rate rose by a smaller 3.2 percentage points, from 3.3 to 6.5 percent year over year.

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Year-over-year nonfarm payrolls declined in the Flagstaff metropolitan area during the fourth quarter of 2020, with job losses in 6 of the 10 sectors.

	3 Months Ending		Year-Over-Year Change	
	December 2019 (Thousands)	December 2020 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	69.1	58.0	-11.1	-16.1
Goods-Producing Sectors	6.5	6.2	-0.3	-4.6
Mining, Logging, & Construction	2.6	2.4	-0.2	-7.7
Manufacturing	3.8	3.8	0.0	0.0
Service-Providing Sectors	62.7	51.8	-10.9	-17.4
Trade, Transportation & Utilities	9.8	9.5	-0.3	-3.1
Information	0.4	0.4	0.0	0.0
Financial Activities	1.5	1.5	0.0	0.0
Professional & Business Services	3.4	3.5	0.1	2.9
Education & Health Services	9.6	8.9	-0.7	-7.3
Leisure & Hospitality	15.8	8.7	-7.1	-44.9
Other Services	1.8	1.5	-0.3	-16.7
Government	20.4	17.8	-2.6	-12.7
Unemployment Rate	5.0%	9.7%		

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

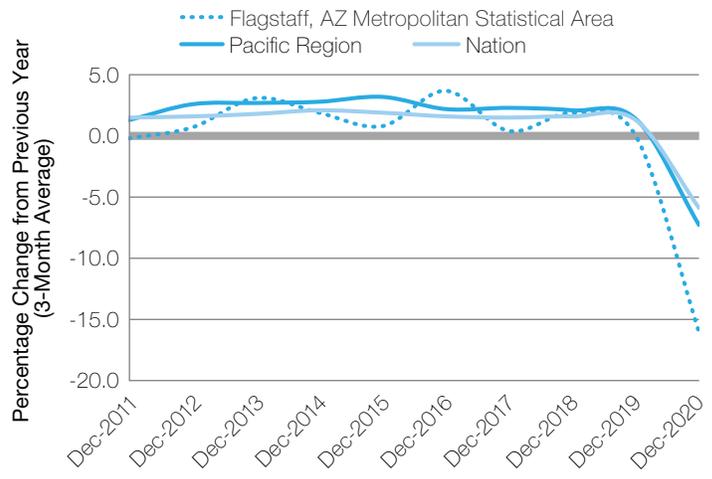


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During the fourth quarter of 2020—

- Nonfarm payrolls averaged 58,000, down by 11,100 jobs, or 16.1 percent, from a year ago—the first year-over-year decline in a fourth quarter since 2009—and 6 of 10 sectors lost jobs. By comparison, nonfarm payroll job growth was flat during the fourth quarter of 2019.
- The most significant job losses occurred in the leisure and hospitality sector, which accounted for 64 percent of total nonfarm payroll declines. Although visitation to the Grand Canyon National Park has steadily increased since reaching a low of 285,700 visitors during the second quarter of 2020, by the fourth quarter of 2020, the 955,400 visitors number was still 22 percent below the number of visitors during the same period a year earlier (Arizona Office of Tourism).
- The government sector also lost a significant number of jobs, with the state and local government subsectors responsible for the losses. The decline in enrollment at the publicly funded NAU led to the layoffs of more than 100 non-tenured faculty, ongoing furloughs, and pay cuts across the university starting in July 2020.
- Only the professional and business services sector added jobs, up by 100 jobs, or 2.9 percent, likely due to the availability of remote work.

During the fourth quarter of 2020, the rate of nonfarm payroll job losses in the Flagstaff metropolitan area outpaced the respective rates for the Pacific region and the nation.



Source: U.S. Bureau of Labor Statistics

Largest Employers in the Flagstaff Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Flagstaff Medical Center	Education & Health Services	3,500
Northern Arizona University	Government	2,925
W.L. Gore & Associates, Inc.	Manufacturing	1,800

Note: Excludes local school districts.

Sources: Moody's Economy.com; Northern Arizona University

Sales Market Conditions

Sales housing market conditions in the Flagstaff metropolitan area are currently slightly tight, with an estimated sales vacancy rate of 2.7 percent, down slightly from the 2.9-percent rate in April 2010. The Flagstaff metropolitan area is a popular second-home destination—particularly for residents of the more urbanized Phoenix metropolitan area—because of the abundance of recreation opportunities and cooler weather. The widespread adoption of remote work has, at least partly, driven up demand for sales housing. During December 2020, a 1.5-month supply of homes was available for sale (Realty Executives).

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 peaked at 4.7 percent in February 2010, but the rate decreased steadily until 2020 (CoreLogic, Inc.). The rate

increased from 0.3 percent in December 2019 to 1.8 percent in December 2020 and is lower than both the national rate of 4.0 percent and the statewide rate of 2.9 percent. The recent rise in the rate for the Flagstaff metropolitan area is because of an increase in the 90 or more days delinquent category, which reflects an increasing number of households who are unable to continue to make their mortgage payments. However, because of an increased reliance on mortgage forbearance by borrowers, which was provided for under the \$2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, many of these delinquencies have not gone into foreclosure. Approximately 320 mortgages in the metropolitan area were 90 or more days past due in December 2020, which is more than six times the number from December 2019; however, the number of foreclosures declined by more than one-half.

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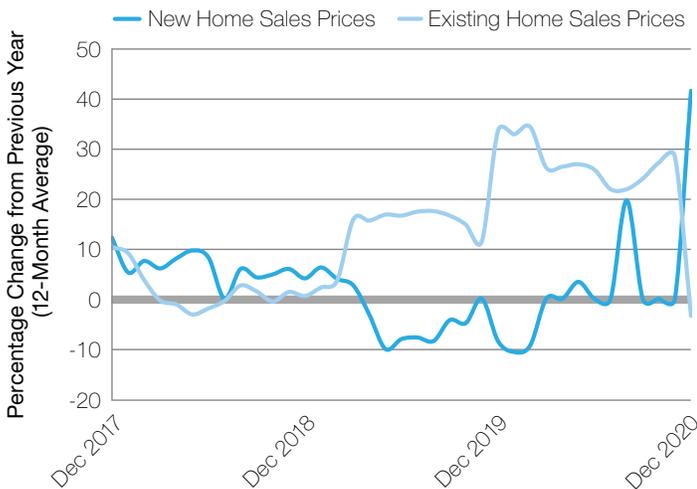


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During 2020—

- Existing home sales (which include regular resale and REO home sales) totaled approximately 550, reflecting a 21-percent increase from a year earlier, whereas the average sales price decreased 3 percent to \$332,600 (Zonda).
- New home sales—which account for only 1 percent of all homes sold—decreased from 40 new homes sold a year earlier, to only 6 homes sold, and the average price increased from \$398,000 to \$564,400. The small number of new homes entering the market is a function of shortages in construction materials and skilled labor.
- During 2020, the available inventory of homes priced under \$300,000 was 0.9 months, compared with 1.3 months for homes priced between \$300,000 to \$499,999, 1.8 months for homes priced between \$500,000 to \$699,999, and 2.2 months for homes priced more than \$700,000 (Realty Executives).
- Housing affordability, as measured by the share of homes that would have been affordable to a family earning the median income, in the Flagstaff metropolitan area has been declining since 2012 (NAHB/Wells Fargo Housing Opportunity Index). During the fourth quarter of 2020, the index was 45.6, down from 58.2 during the fourth quarter of 2019 and down significantly from 68.4 during the fourth quarter of 2012.

During 2020, the average existing home sales price declined in the Flagstaff metropolitan area and new sales price growth was in the double digits, a reversal of the trends from 2017 to 2019.



Note: Sales are for single-family homes, townhomes, and condominiums. Source: Zonda

Homebuilding activity in the Flagstaff metropolitan area, as measured by the number of single-family homes and townhomes (hereafter, homes) permitted, has been steadily rising since 2011.

- During 2020, 560 homes were permitted—up 5 percent from the 540 homes permitted during 2019 (preliminary data).

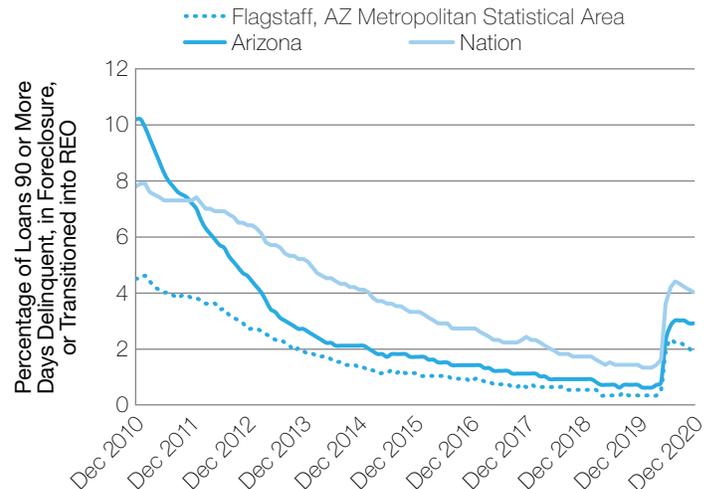
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During 2020, existing home sales increased and new home sales declined in the Flagstaff metropolitan area, primarily due to the low inventory of new homes available for sale.



Note: Sales are for single-family homes, townhomes, and condominiums. Source: Zonda

The proportion of seriously delinquent loans and REO properties in the Flagstaff metropolitan area has been below both the statewide and national rate since at least December 2010.



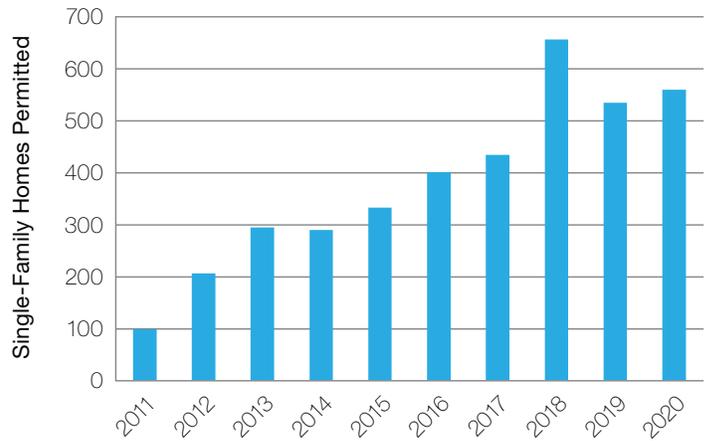
REO = real estate owned. Source: CoreLogic, Inc.



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- An average of about 510 homes were permitted annually from 2016 through 2019—more than double the average of 240 homes permitted from 2011 through 2015; during that time, foreclosure activity from the housing market collapse was elevated, and the market had an excess of homes priced at a discount, discouraging purchases of homes in the higher price ranges. Despite the recent increase, single-family permitting is 39 percent lower than the average of 840 homes permitted annually from 2001 through 2006.
- One of the most recently completed developments is the Orion at Timber Sky neighborhood in Flagstaff—the first neighborhood in the Timber Sky master-planned community. The neighborhood has 89 single-family homes with three to five bedrooms each. The Timber Sky development will eventually contain 1,100 homes, an outdoor community space, bike trails, and connections to the Flagstaff Loop Trail through the Flagstaff Urban Trails System. New home sales prices at the Orion neighborhood start at \$429,900.

Single-family permitting activity in the Flagstaff metropolitan area has generally trended upward since the early 2010s.



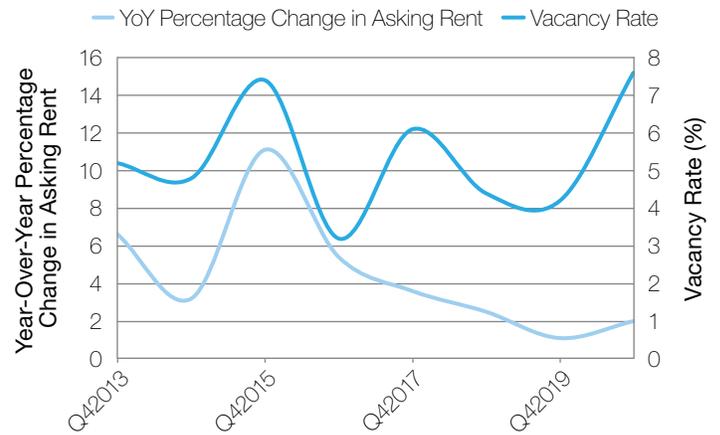
Note: Includes preliminary data from January 2020 through December 2020. Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

Apartment Market Conditions

Apartment market conditions in the Flagstaff metropolitan area are currently soft, due in part to a rise in both new general occupancy and student apartment completions. The general occupancy apartment market, which also includes student households, has weakened considerably because of the transition to remote learning during the COVID-19 pandemic and slowing enrollment growth at NAU. The for-student rental housing market, which exclusively includes apartments rented to students, has also weakened; however, this lesser growth has been by significantly less than the overall apartment market, as the preference for student housing is greater.

- The apartment vacancy rate was 7.6 percent during the fourth quarter of 2020, up significantly from the 4.2-percent rate during the same quarter a year earlier (Moody's Analytics REIS). Apartment absorption has been slow since the start of the pandemic and, with recent completions, the apartment inventory increased almost 7 percent, leading to a rise in the apartment vacancy rate.
- The average monthly apartment rent in the metropolitan area was \$1,355 during the fourth quarter of 2020, a 2-percent increase from a year earlier. Rent growth in the metropolitan area averaged 6 percent annually from 2013 through 2017 but has declined to an average of 2 percent since 2018, partly because of increased apartment completions.
- In the Moody's Analytics REIS-defined Northern Arizona University market area, the apartment vacancy rate of student

The apartment vacancy rate has risen despite limited apartment construction since 2012.



Q4 = fourth quarter. YoY = year-over-year. Source: Moody's Analytics REIS

housing beds (defined as privately owned rooms targeted at students and typically leased by room rather than unit) averaged 2.8 percent during the 2019-to-2020 academic year, up from 1.7 percent a year earlier as many students transitioned to remote learning and enrollment declined. The student apartment vacancy rate has remained less than 3.0 percent since the 2014-to-2015 academic year. Despite the rise in the vacancy rate, the average rent for a student apartment in the market area rose 3 percent, to \$809.

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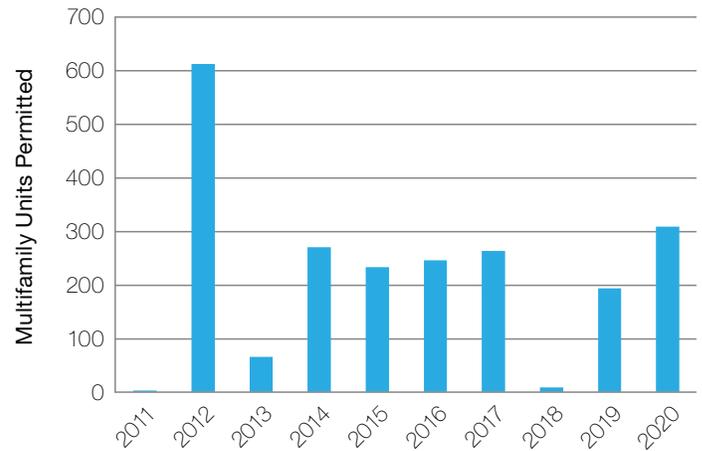
Multifamily construction activity has fluctuated since 2011 but has remained generally low since a peak of 600 units were permitted in 2012.

- During 2020, about 310 multifamily units were permitted, 60 percent higher than the 190 units permitted in 2019 (preliminary data). Since at least 2000, almost all multifamily construction activity in the metropolitan area has been concentrated in the city of Flagstaff.
- Due to significant enrollment growth and a shortage of on-campus housing early in the 2010s, multifamily permitting activity peaked in 2012, when 610 units were permitted. The absorption of new apartment units was slow, however; this slower absorption resulted in high apartment vacancy rates, and builders responded by scaling back production to an average of 220 units annually from 2013 through 2017.
- After reaching a recent low of 10 units permitted in 2018, multifamily construction has been steadily increasing during the past 2 years. Most recent multifamily construction has been for apartment units, many of which are located near the NAU campus.
- The 333-unit Elara at the Sawmill Apartment Complex is currently underway in downtown Flagstaff, with a mix of studio, one-, two-, three-, and four-bedroom apartment units and for-rent townhomes. Approximately 10 percent of units will be set aside for low- to moderate-income households. Proposed rents and income restrictions on

the affordable units have not yet been determined. The development is expected to be complete by the fall of 2022.

- The most recently completed student apartment project is the SkyView student housing apartment complex, with 626 beds. Rents for units start at \$859 per person for two-bedroom units, \$839 for three-bedroom units, and \$819 for four-bedroom units. The development was completed in the summer of 2017.

Multifamily permitting activity in the Flagstaff metropolitan area has been limited since reaching a high in 2012.



Note: Includes preliminary data from January 2020 through December 2020. Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

