

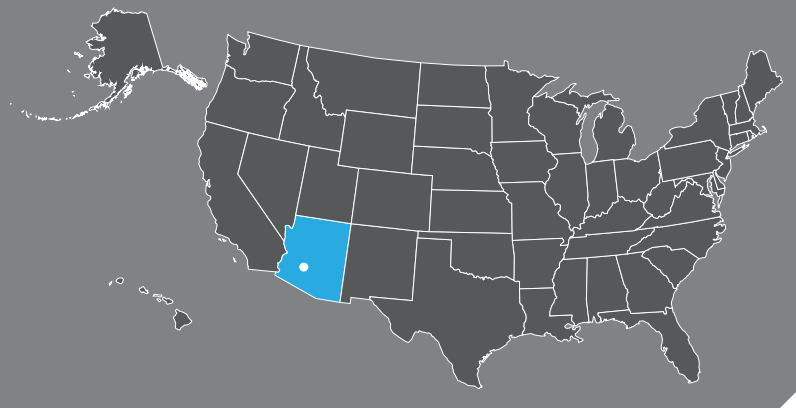
HUD PD&R Housing Market Profiles

Phoenix-Mesa-Scottsdale, Arizona



Quick Facts About Phoenix-Mesa-Scottsdale

- Current sales market conditions: slightly tight, but easing
- Current apartment market conditions: slightly soft
- Arizona State University (ASU) is the largest public university in the state and one of the largest in the country, with 77,900 students enrolled (excluding exclusively online students) during the fall semester of 2021, 70 percent of whom were enrolled at the main Tempe campus. The university directly employed 17,800 faculty and staff in the fall of 2021 and had an economic impact estimated at \$4.48 billion (ASU, Institutional Research).



Phoenix, Arizona

By Holli Urbas | As of December 1, 2022

Overview

The Phoenix-Mesa-Scottsdale, AZ Metropolitan Statistical Area (hereafter, Phoenix metropolitan area) includes Maricopa and Pinal Counties in central Arizona. 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, partially because of business-friendly tax laws. More recently, the metropolitan area has had a surge of investment in the manufacturing sector, which added 11,300 jobs during the past 12 months, ranking sixth among all metropolitan areas in the country for manufacturing sector jobs added during the period. The home sales market is currently slightly tight, but easing, as rising mortgage interest rates have suppressed home sales and slowed price growth. The amount of for-sale inventory rose to 3.4 months in December 2022 compared with 1.1 months of inventory a year earlier (Redfin, a national real estate brokerage). Rental market conditions are slightly soft, with rising vacancies and slowing rent growth, partly due to a significant increase in apartment construction since 2020.

- As of December 1, 2022, the population of the Phoenix metropolitan area is estimated at 5.1 million, reflecting

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an average annual increase of 79,000, or 1.6 percent, since 2019, with 90 percent of the population residing in Maricopa County. By comparison, the population increased by an average of 83,650, or 1.8 percent, annually from 2014 to 2019 (U.S. Census Bureau population estimates as of July 1).

- Increased net in-migration to the area mostly offset the negative effects of COVID-19 on net natural change. Since 2019, net in-migration has averaged 67,550 people a year, reflecting a 12-percent increase compared with an average

of 60,500 annually from 2014 to 2019, whereas net natural change averaged 11,450 a year, representing a decline of 51 percent from the 2014-to-2019 average.

- Educational attainment is rising in the metropolitan area, with approximately 34.6 percent of the population aged 25 years and older holding a bachelor's degree or higher in 2021, compared with 29.4 percent of the population in 2015 (American Community Survey 1-year data). The educated workforce is one of the many factors attracting high-tech manufacturing jobs to the area.

Economic Conditions

Economic conditions in the Phoenix metropolitan area are strong, and during the 3 months ending November 2022, nonfarm payrolls were 8.0 percent above prepandemic levels during the same period in 2019, compared with 1.2 percent for the nation. During the 3 months ending November 2022, nonfarm payrolls in the metropolitan area increased year over year by 89,800 jobs, or 4.0 percent, compared with a year-over-year gain of 108,700 jobs, or 5.1 percent, a year earlier.

During the 3 months ending November 2022—

- Job growth occurred in all but one payroll sector, and the largest numeric gains were in the education and health services sector, the leisure and hospitality sector, and the professional and business services sector, which combined to account for almost 55 percent of all payrolls gained during the period. The completion of numerous expansions by

Banner Health—the largest employer in the metropolitan area—supported part of this growth, including a \$19.25 million expansion of the Banner-University Medical Center Phoenix campus.

- Both goods-producing sectors added jobs at an accelerated pace compared with a year ago. Approximately 93 percent of jobs added in the mining, logging, and construction sector were in the construction subsector; the subsector added 8,000 jobs, or 5.7 percent, year over year, compared with a gain of 4,100 jobs, or 3.0 percent, during the same period a year ago. Public and private collaborations (discussed in the following paragraph) supported growth in the manufacturing sector, which increased 8.1 percent year over year compared with a 3.8-percent increase a year earlier.

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All but one nonfarm payroll sector in the Phoenix metropolitan area added jobs during the 3 months ending November 2022 compared with a year ago.

	3 Months Ending		Year-Over-Year Change	
	November 2021 (Thousands)	November 2022 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	2,255.7	2,345.5	89.8	4.0
Goods-Producing Sectors	282.1	301.7	19.6	6.9
Mining, Logging, & Construction	142.9	151.2	8.3	5.8
Manufacturing	139.2	150.5	11.3	8.1
Service-Providing Sectors	1,973.6	2,043.8	70.2	3.6
Wholesale & Retail Trade	336.2	341.9	5.7	1.7
Transportation & Utilities	115.7	122.1	6.4	5.5
Information	41.2	42.7	1.5	3.6
Financial Activities	216.6	216.1	-0.5	-0.2
Professional & Business Services	376.5	388.4	11.9	3.2
Education & Health Services	348.8	373.1	24.3	7.0
Leisure & Hospitality	223.3	236.7	13.4	6.0
Other Services	69.9	72.9	3.0	4.3
Government	245.2	249.7	4.5	1.8
Unemployment Rate	3.2%	3.3%		

Note: Numbers may not add to totals due to rounding.

Source: U.S. Bureau of Labor Statistics

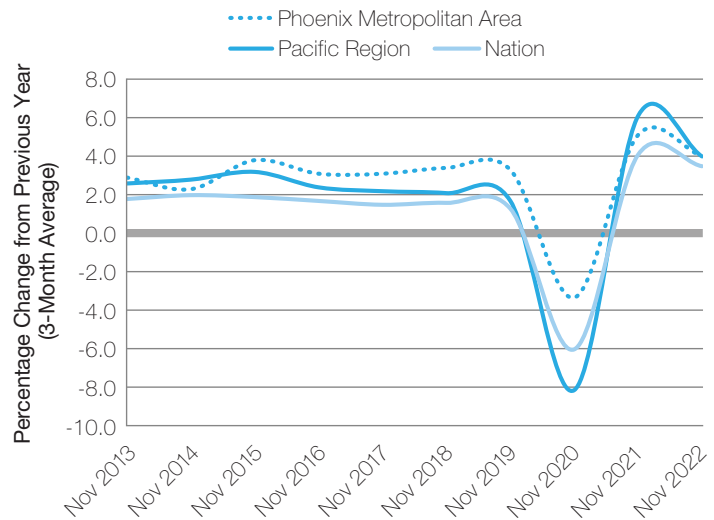


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- The financial activities sector was the only sector to lose jobs during the current period, mainly a result of jobs lost in the mortgage lending industry, which has slowed considerably since interest rates started rising in January 2022. For context, the sector added an average of 7,500 jobs, or 4.4 percent, annually from 2011 through 2021.
- The unemployment rate in the Phoenix metropolitan area increased year over year by 0.1 percentage point to 3.3 percent, compared with the national rate, which fell 0.9 percentage point to 3.6 percent. The increase in the metropolitan area rate is the result of the labor force increasing slightly faster than resident employment; however, the rate remains well below the recent peak of 7.4 percent during the 3 months ending April 2021.

In 2022, the Arizona Commerce Authority (ACA) secured more than 75 competitive projects that will create approximately 31,000 jobs, with a total estimated investment exceeding \$41 billion (ACA). More than 25 of those projects are in the Phoenix metropolitan area, and the plurality will heavily impact the manufacturing sector. During the 3 months ending November 2022, the manufacturing sector added 11,300 jobs, or 8.1 percent, year over year, compared with a gain of 5,100 jobs, or 3.8 percent, during the 3 months ending November 2021. To put the current growth into context, the sector added an average of 1,700 jobs, or 1.4 percent, annually from 2011 through 2016, and growth accelerated to an average increase of 3,200 jobs, or 3.2 percent, annually through 2020. A catalyst to this growth started in the mid-2010s, as the state competed for—and eventually secured in 2020—a contract with Taiwan Semiconductor Manufacturing Company Limited (TSMC) to build the most technologically advanced semiconductor manufacturing facility in the United States. The estimated \$40 billion investment by the company marked the largest foreign investment in Arizona history and is expected to result in 4,500 new jobs when it begins commercial operation in 2024. In addition, this investment sparked numerous suppliers

Nonfarm payroll growth in the Phoenix metropolitan area converged with the national rate during the 3 months ending November 2022, after trailing the nation in 2021.



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	Education & Health Services	27,000
State of Arizona	Government	25,000
Walmart Inc.	Wholesale & Retail Trade	20,000

Note: Excludes local school districts.

Source: Maricopa Association of Governments, Employer Database 2020

to move to the metropolitan area, creating more than 13,000 new jobs with an investment to date in excess of \$1 billion. In an effort to capitalize on this growth, the state of Arizona announced in December 2022 that it will invest \$100 million in the fast-growing semiconductor industry.

Sales Market Conditions

The sales housing market in the Phoenix metropolitan area is slightly tight but easing. The overall sales vacancy rate is currently estimated at 1.5 percent, reflecting a decrease from 4.1 percent in 2010 when conditions were soft. Sales market conditions have started to ease since interest rates began rising in January 2022. In December 2022, the supply of for-sale inventory increased to 3.4 months, compared with 1.1 months of inventory a year ago and a December high of 4.3 months in 2013 (Redfin, a national real estate brokerage). The growth in for-sale inventory coincided with declining home sales, which fell 18 percent year over year to 134,800 home sales during the

12 months ending October 2022, compared with a 16-percent increase during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). Home sales price growth slowed during the period but remained elevated at 17 percent year over year, with the average price reaching \$520,400, compared with a 21-percent increase a year ago. The easing of home sales market conditions is more pronounced when comparing the 3 months ending November 2022 with a year earlier. During the period, home sales declined almost 40 percent, and sales price growth slowed to 11 percent.

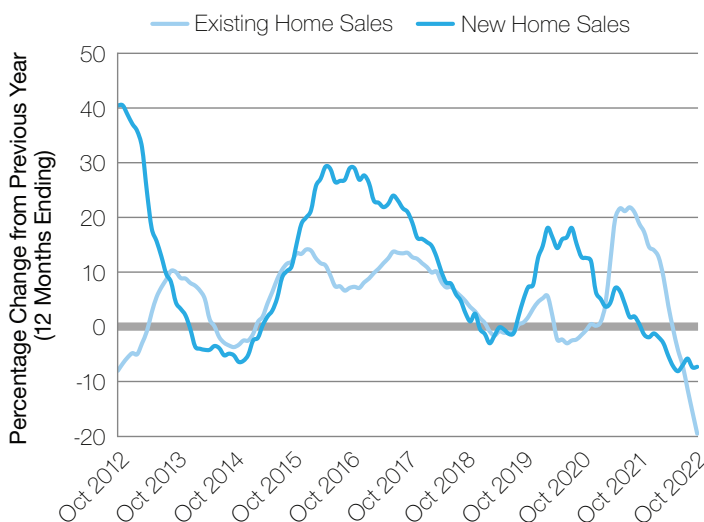
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During the 12 months ending October 2022 —

- Existing home sales totaled 113,200, down more than 19 percent from a year ago and compared with a 19-percent increase during the previous 12-month period; trends were similar in both counties of the metropolitan area. Despite declining sales, the average sales price of an existing home rose nearly 17 percent in the metropolitan area during the past 12 months to \$517,600, following a year-over-year increase of 24 percent during the 12 months ending October 2021.
- A total of 21,650 new homes sold in the metropolitan area, down 7 percent from a year ago and compared with a 1-percent year-over-year gain during the previous 12 months. The decline in new home sales was concentrated in Maricopa County, whereas new home sales increased 8 percent in Pinal County to 5,300.
- The average sales price of a new home in the metropolitan area increased 20 percent year over year to \$534,700, compared with an 11-percent increase during the previous 12 months. In Maricopa County, the average new home sales price rose 21 percent to \$574,800, and in Pinal County, it rose 23 percent to \$410,800.
- The percentage of home loans in the Phoenix metropolitan area that were seriously delinquent or had transitioned into real estate owned status declined from 1.4 percent in October 2021 to 0.6 percent in October 2022, and the decline came from a 50-percent reduction in mortgages

Home sales declined in the Phoenix metropolitan area during the 3 months ending October 2022 compared with a year ago, with a steeper decline in existing home sales.



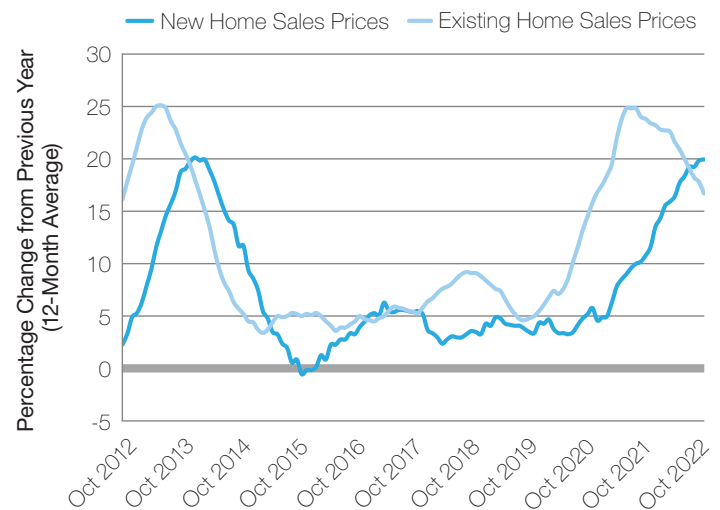
Note: Sales are for single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc., with adjustments by the analyst

that were 90 or more days delinquent (CoreLogic, Inc.). The current rate is below both the 0.7-percent rate for Arizona and the 1.3-percent rate for the nation.

New home construction, as measured by the number of single-family homes permitted, increased for 7 consecutive years

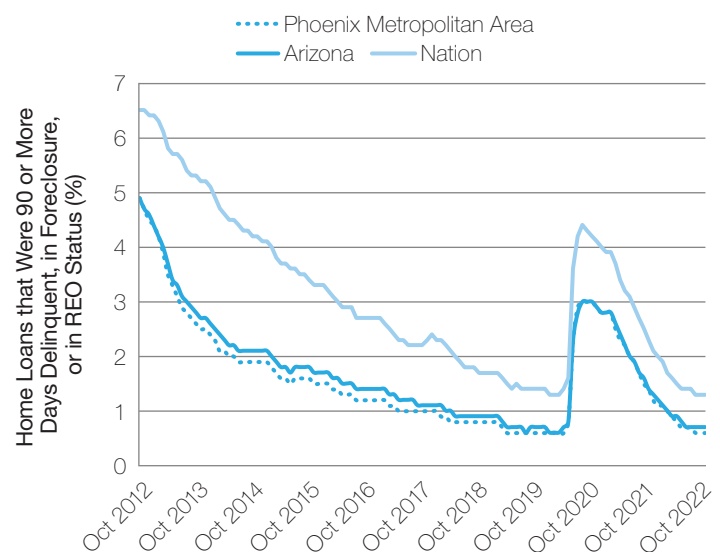
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During the 3 months ending October 2022, existing home sales price growth in the Phoenix metropolitan area slowed, whereas new home sales price growth continued to accelerate.



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

The share of seriously delinquent home loans and REO properties in the Phoenix metropolitan area has been consistently below the national rate since 2012.



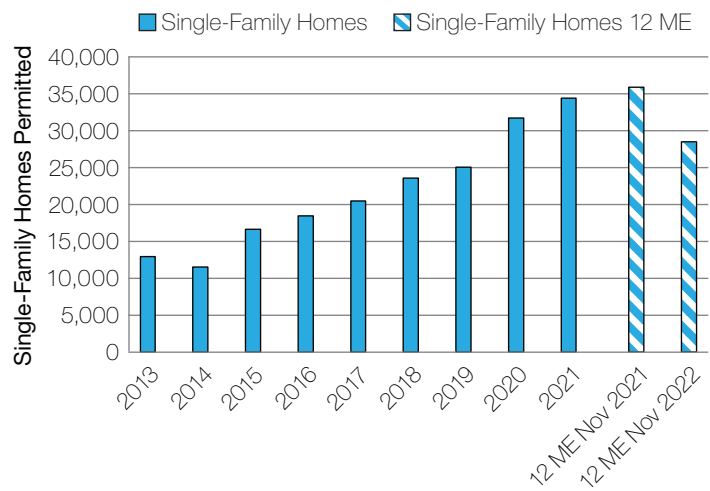
REO = real estate owned.
Source: CoreLogic, Inc.

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through 2021 in response to strong sales demand. During the past year, however, new home construction fell as builders responded to declining home sales.

- The number of single-family homes permitted declined 21 percent from a year earlier to 28,450 during the 12 months ending November 2022; this decline followed an 18-percent increase during the previous 12 months (preliminary data). For context, single-family permitting increased every year from 2015 through 2021, at an average annual rate of 17 percent, to a high of 34,350 homes permitted in 2021.
- The Western United States is currently experiencing the worst drought in more than 1,200 years, and as one of the many consequences, Arizona must cut 21 percent of its Colorado River water allocation each year, which is an amount of water that would supply 2 million households a year. This issue constrains development because, before building, developers must provide evidence that enough water exists to sustain the population for at least 100 years. Although Buckeye was one of the fastest growing cities in the country in 2021 (U.S. Census Bureau), the state of Arizona recently released a report indicating that the groundwater in the basin where the city is situated will fall short of demand by 4.4 million acre-feet in the next 100 years.
- One of the largest master-planned communities in the country—Teravalis—broke ground in late 2022 in the city of Buckeye. Lots are being configured for development, with the official grand opening scheduled for 2025, and at build-out, the project will have an expected 100,000 homes and more than 55 million square feet of commercial space. Moving forward, this development will face the issue of

Single-family home construction in the Phoenix metropolitan area declined during the past year following 7 years of steady growth.



12 ME = 12 months ending.

Sources: U.S. Census Bureau, Building Permits Survey; 2013–21—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

providing alternate water sources in addition to increased in-home efficiencies because, as mentioned previously, the basin in which it is located has insufficient groundwater.

- One of the highest-selling new home subdivisions in the metropolitan area in 2022, Vista de Montana in the city of Buckeye, also had one of the lowest median sales prices in the metropolitan area (Zonda Group). Approximately 300 new homes sold in the subdivision in 2022, with a median sale price of \$364,100.

Apartment Market Conditions

Apartment market conditions in the Phoenix metropolitan area are currently slightly soft, with a 9.0-percent vacancy rate during the fourth quarter of 2022 compared with 6.7 percent a year ago (*Apartment Insights*). From 2014 through 2019, economic conditions improved following the prolonged effects of the foreclosure crisis and Great Recession, and net in-migration rose. During the period, an average of 7,500 apartment units were completed annually, and apartment market conditions were slightly tight to balanced, with generally declining vacancies and average annual rent growth of almost 10 percent. Since 2019, an average of 12,900 apartments were completed annually in the metropolitan area, which has dramatically slowed rent growth and absorption. Absorption declined from 12,300 units in 2021 to 4,850 in 2022. The slowdown in absorption amidst elevated apartment completions is the primary reason for the increased vacancy rate. The stabilized vacancy rate was

6.1 percent during the fourth quarter of 2022, compared with 4.8 percent a year ago. Before this period, the overall and stabilized vacancy rates were similar.

- During the fourth quarter of 2022, apartment rents in the metropolitan area increased less than 2 percent year over year to an average of \$1,542, compared with a 27-percent year-over-year increase during the fourth quarter of 2021. The sharp increase during the previous period was largely due to the completion of 13,800 new units in 2021, the highest number of annual completions on record; absorption plummeted following the hike.
- The impact of slowing absorption and high completions is more apparent in quarter-to-quarter comparisons; the average rent in the metropolitan area declined 0.5 percent from the second to the third quarter of 2022 and fell an

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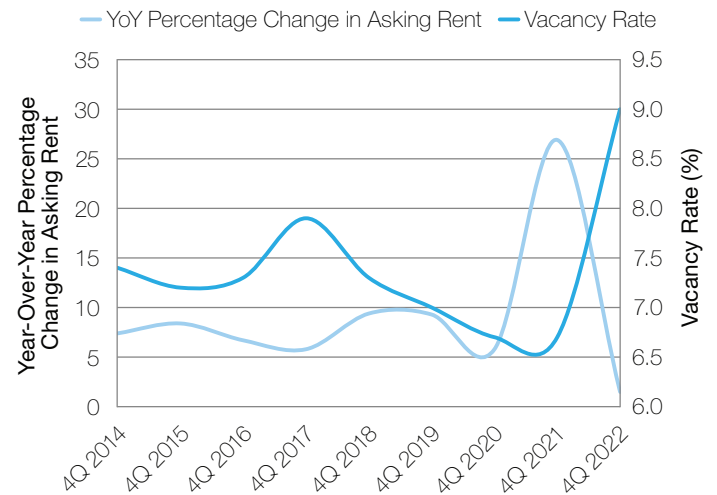
additional 2 percent from the third to the fourth quarter. From the third to the fourth quarter of 2022, rents declined in 27 of the 31 *Apartment Insights*-defined market areas (hereafter, market areas) and were stable in the remaining 4; the largest drops—ranging from 4 to 5 percent—were in the North Tempe market area (home to the main ASU campus), the Chandler market area, and the Central City/Sky Harbor market area.

- Only 2 of the 31 market areas had declining vacancy rates during the fourth quarter of 2022 compared with a year ago, including a 2.4-percentage-point decline to 8.3 percent in the North Scottsdale/Fountain Hills market area and a 4.3-percentage-point decline to 17.5 percent in the Central City/Sky Harbor market area. The largest vacancy rate increase was in the East Mesa/Apache Junction market area, which rose 6.8 percentage points to 13.0 percent.
- The Goodyear/Avondale market area, which includes the city of Buckeye, had the highest concentration of apartment construction in 2022, with 2,025 units completed and approximately 3,050 units currently in lease-up. Consequently, the average rent in the market area declined 3.0 percent year over year during the fourth quarter of 2022, and the vacancy rate rose 3.4 percentage points to 15.0 percent.

Despite many indications that the apartment market is cooling down, multifamily permitting during the past 12 months is at its highest level on record.

- During the 12 months ending November 2022, more than 19,450 multifamily units were permitted, up 19 percent from the 16,400 units permitted during the previous 12 months (preliminary data). For context, an average of 8,700 units were permitted annually from 2014 through 2019, and permitting increased 53 percent to 16,550 units in 2020.
- The plurality of multifamily permitting in the metropolitan area during the past 12 months, 46 percent, was in the city of Phoenix, and that share has fluctuated on an annual basis from 40 to 53 percent since 2014.
- The city of Tempe accounted for 9 percent of multifamily permitting activity in the metropolitan area during the 12 months ending November 2022, which is consistent with the past few years but down considerably from 21 percent in 2018.
- An estimated 16,400 apartments are currently under construction in the metropolitan area, with the largest concentration, 3,900 units, in the Goodyear/Avondale market area. Before 2018, construction activity in the market area was minimal, but from 2019 through 2022, the market area accounted for 14 percent of units completed in the metropolitan area.

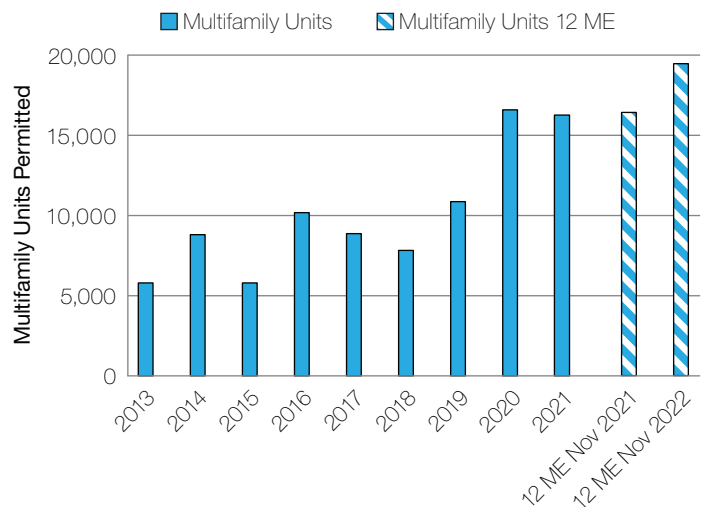
The surge in apartment construction in the Phoenix metropolitan area since 2020 has caused the vacancy rate to spike and rent growth to slow significantly.



4Q = fourth quarter. YoY = year-over-year.

Source: *Apartment Insights*

Despite easing apartment market conditions throughout 2022, multifamily permitting in the Phoenix metropolitan area during the past 12 months is the highest on record.



12 ME = 12 months ending.

Sources: U.S. Census Bureau, Building Permits Survey; 2013–21—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

- There are seven developments in the Goodyear/Avondale market area with 300 or more units, each currently under construction. The largest development underway in the city of Buckeye is the 394-unit Hancock Communities at White Tanks. Rents have not been determined, but construction is expected to be complete in the spring of 2024.

Terminology Definitions and Notes

A. Definitions

Acre-feet	A unit of volume equal to the volume of a sheet of water 1 acre in area and 1 foot in depth; 43,560 cubic feet.
Existing Home Sales	Includes resales, short sales, and real estate owned sales.
Home Sales/Home Sales Prices	Includes single-family, townhome, and condominium sales.
Net Natural Change	Resident births minus resident deaths.
Seriously Delinquent Mortgages	Mortgages 90+ days delinquent or in foreclosure.

B. Notes on Geography

1.	The metropolitan statistical area definition noted in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated April 10, 2018.
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