

Housing Market Profile

Pacific • HUD Region IX



Phoenix, Arizona

The Phoenix metropolitan area is the largest in Arizona and includes Maricopa and Pinal Counties. The city of Phoenix had an estimated population of 1.56 million as of July 1, 2008, according to Arizona state estimates, and is the fifth largest city in the country. Leading employment sectors in the metropolitan area include education and health services, financial activities, and leisure and hospitality. Leading private-sector employers include Banner Health, Wells Fargo, and Honeywell Aerospace, with 23,100, 14,000, and 12,600 employees, respectively. Arizona State University (ASU) employs 13,000 faculty and staff and enrolls 64,400 students. According to ASU estimates, the university has an annual economic impact of \$3.2 billion on the metropolitan area.

During the 12 months ending February 2009, nonfarm employment in the Phoenix metropolitan area averaged 1.85 million jobs; this figure represents a decline of nearly 70,000 jobs, or 3.6 percent, compared with the number of jobs recorded during the previous 12-month period. The loss of jobs is in marked contrast with the 23,800-job gain posted during the 12 months ending February 2008 and is the most severe (in percentage terms) since the 3.7-percent employment decline in 1975. During the most recent 12-month period, nearly all major employment sectors lost jobs, led by the construction and financial activities sectors, with a loss of 37,500 jobs, as a result of a decline in residential building and lending. Employment in the manufacturing sector declined by 6,600 jobs, primarily due to staffing reductions by several semiconductor and aerospace firms. Intel Corporation plans to spend \$3 billion to upgrade one of its local chip plants, adding no permanent jobs but supporting 1,500 construction jobs over the next 2 years. During the 12 months ending February 2009, employment in the service-providing sectors fell by 31,600 jobs, or 2 percent, after expanding by 2.5 percent during the previous 12 months. The professional and business services sector and the retail trade sector declined by 22,300 and nearly 12,000 jobs, respectively. The leisure and hospitality sector lost nearly 2,000 jobs in the past 12 months due to declining tourism and visitor spending, despite the December 2008 opening of the 1,000-room, 800-employee Sheraton Phoenix Downtown Hotel and the expansion of the Phoenix Convention Center in downtown Phoenix. The losses were partly offset by a gain of 9,500 jobs, or 4.6 percent, in the education and health services sector resulting

in part from expansions totaling more than \$1 billion at several hospitals. Hiring in local school districts accounted for most of the 3,600 new jobs added in the government sector. The Salt River Pima-Maricopa and Gila River Indian Communities are building casino-hotel facilities with a total of 739 rooms, adding several hundred jobs by late 2009. Due to the weakening economy, the unemployment rate in the metropolitan area rose to an average of 5.0 percent in the 12 months ending February 2009, up from 3.5 percent in the previous 12 months but well below the national average of 6.3 percent recorded in the past 12 months.

Population growth in the Phoenix metropolitan area remained among the strongest in the country despite a recent slowdown in response to the weak economy. The population was estimated at approximately 4.36 million as of April 1, 2009. Since 2000, the area has grown by more than 1.1 million people. This figure reflects an average annual population increase of 123,000, or 3.3 percent, and represents the third largest gain among metropolitan areas in the country since April 2000. Net in-migration of both employment seekers and retirees accounted for approximately 70 percent of the increase. Approximately 17 percent of the population increase in Maricopa County since 2000 was in the 60+ age bracket.

Conditions in the sales housing market are currently soft in the Phoenix metropolitan area as a result of the economic slowdown and tight lending standards. According to the *Phoenix Housing Market Letter*, during the 12 months ending February 2009, new home sales fell by 50 percent to 18,300 units. In the first quarter of 2009, the median sales price of a new home was approximately \$210,000, down 8 percent from the price recorded in the first quarter of 2008 but up 4 percent from the recent low price of \$202,000 recorded in the fourth quarter of 2008. During the 12 months ending February 2009, 62,250 existing homes were sold, a 15-percent increase compared with the number of existing homes sold during the previous 12 months. In the first quarter of 2009, the median price of an existing home was approximately \$128,000, down 40 percent from the price recorded in the first quarter of 2008 and down more than 50 percent from the peak price of \$260,000 recorded in the second quarter of 2006. The decline in the sales price of an existing home is due partly to the high inventory of unsold homes, which has averaged more than 50,000 homes a month for the past 2 years. In addition, the sales mix consists primarily of bank-owned homes, which accounted for two-thirds



of the existing homes sold in the first quarter of 2009. The median number of days an existing home remained on the market declined from 107 in the first quarter of 2008 to 53 in the first quarter of 2009.

In response to the decline in new home sales, during the 12 months ending February 2009, single-family home building, as measured by the number of building permits issued, declined to just 10,100 homes. This figure is down 56 percent compared with the number of permits issued during the previous 12-month period and far below the annual average of 55,200 permits issued from 2003 through 2005. During the past 2 years, home building activity in Maricopa County accounted for approximately 75 percent of the single-family permits issued in the Phoenix metropolitan area. In contrast, during the early 2000s, more than 90 percent of single-family permits in the area were issued in Maricopa County; the county's share of building declined because builders and developers were attracted by lower land costs in Pinal County.

Rental housing market conditions in the Phoenix metropolitan area are currently soft due to slower demand, new apartment completions, and the increase in the shadow market of single-family homes and

condominium units available for rent. The apartment vacancy rate increased from 9 percent in the first quarter of 2008 to 11 percent in the first quarter of 2009, according to Reis, Inc. The average asking rent of \$779 in the first quarter of 2009 was unchanged from the rent recorded during the same quarter a year earlier, after increasing by 6 and 3 percent in 2006 and 2007, respectively. The average rent was estimated at \$690 for a one-bedroom unit, \$840 for a two-bedroom unit, and \$1,130 for a three-bedroom unit.

Multifamily construction activity in the Phoenix metropolitan area, as measured by the number of multifamily units permitted, declined by 43 percent to 5,400 units in the 12 months ending February 2009, well below the annual average of 8,500 units permitted between 2002 and 2007. The decline in activity is attributed mainly to a reduction in condominium production in response to softening sales housing market conditions. Condominiums accounted for just 15 percent of the multifamily units permitted in 2008, compared with an average 56-percent share in the 3 previous years. According to RealData, Inc., in the fourth quarter of 2008, 6,300 apartment units were under construction, up 14 percent from the 5,500 units under construction in the fourth quarter of 2007.