



COMPREHENSIVE HOUSING MARKET ANALYSIS

Flagstaff, Arizona

U.S. Department of Housing and Urban Development,
Office of Policy Development and Research

As of July 1, 2023



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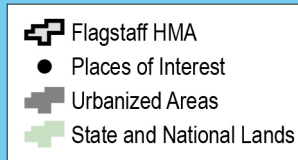
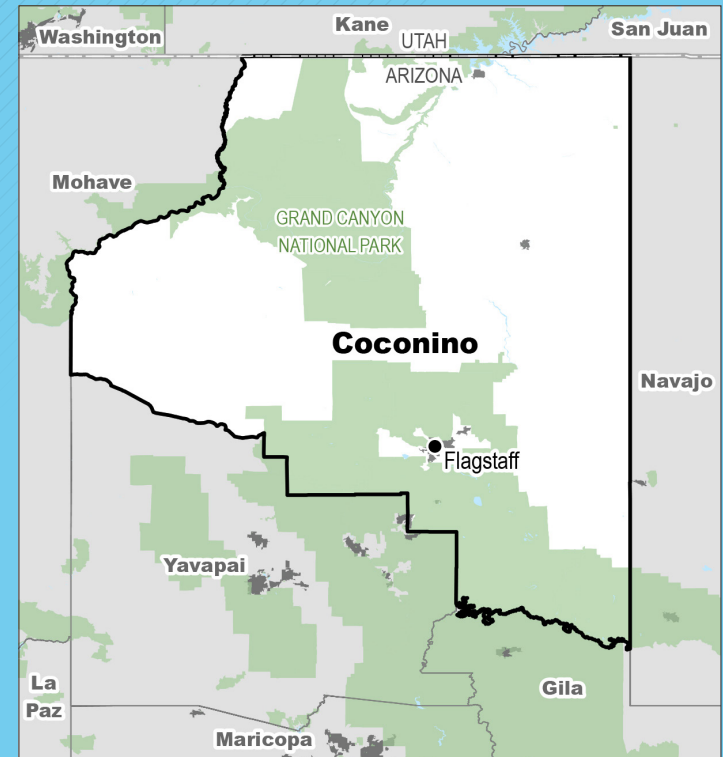
Executive Summary

Housing Market Area Description

The Flagstaff Housing Market Area (hereafter, Flagstaff HMA) is coterminous with Coconino County and the Flagstaff metropolitan area. The HMA is in northern Arizona near the southwestern edge of the Colorado Plateau.

The current population of the HMA is estimated at 145,500.

The Flagstaff HMA is a major tourist destination; it is home to Grand Canyon National Park, Arizona Snowbowl, and historic Route 66. Grand Canyon National Park alone attracts roughly 5 million visitors annually (Grand Canyon Visitor Center).



Tools and Resources

Find interim updates for this metropolitan area, and select geographies nationally, at PD&R's [Market-at-a-Glance tool](#).

Additional data for the HMA can be found in this report's [supplemental tables](#).

For information on HUD-supported activity in this area, see the [Community Assessment Reporting Tool](#).



Market Qualifiers

Economy



Strong: Nonfarm payrolls in the Flagstaff HMA have completely recovered from the losses incurred during the COVID-19 pandemic; during the 12 months ending June 2023, nonfarm payrolls were 0.3 percent higher than payrolls during the 12 months ending June 2019.

Before the COVID-19 pandemic, the economy of the Flagstaff HMA added jobs every year during the 2010s. From 2010 through 2019, nonfarm payrolls increased an average of 1.3 percent a year. During the 12 months ending June 2023, payrolls rose 3.2 percent from a year earlier. Jobs increased in all payroll sectors during the past year except in the mining, logging, and construction, the financial activities, the information, and the other services sectors, where job counts remained unchanged. The manufacturing, the government, and the education and health services sectors had the highest rates of growth, rising 12.1, 5.1, and 3.3 percent, respectively. The average unemployment rate during the most recent 12 months was 4.0 percent, down from 4.6 percent a year ago. During the 3-year forecast period, payroll growth is expected to moderate to an average annual rate of 1.5 percent.

Sales Market



Slightly Tight: The inventory of homes for sale increased from a 4.3-month supply in June 2022 to a 5.7-month supply in June 2023 (CoreLogic, Inc.).

The sales housing market in the HMA is slightly tight, with a current vacancy rate estimated at 1.5 percent, up slightly from 1.4 percent in 2020. A decline in the inventory of homes for sale contributed to low vacancy rates and tight sales market conditions beginning in 2020. The inventory of homes for sale reached a low of 1.2 months during February 2022, when market conditions were at their tightest. During the 12 months ending June 2023, the average home sales price increased 3.0 percent year over year to \$538,200, and home sales decreased 35 percent from a year ago (CoreLogic, Inc., with adjustments by the analyst). During the forecast period, demand is expected for 1,825 sales units; the 120 units under construction will satisfy a portion of that demand.

Rental Market



Slightly Tight: The rental vacancy rate is estimated at 5.4 percent as of July 1, 2023, down from 8.8 percent in 2020, when the market was soft.

The apartment market is also slightly tight, with an average apartment vacancy rate of 4.9 percent during the second quarter of 2023, up from 3.7 percent a year earlier but below the 7.8-percent rate during the second quarter of 2020 (CoStar Group). During the past year, rental demand weakened while additions to the supply increased, which allowed the market to go from tight to slightly tight. Effective rents for apartments during the second quarter of 2023 averaged \$1,968, an increase of 7 percent from a year earlier. During the forecast period, demand is estimated for 1,100 new rental units. The 690 units under construction will satisfy a portion of that demand.

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3-Year Housing Demand Forecast

	Sales Units	Rental Units
Flagstaff HMA		
<u>Total Demand</u>	1,825	1,100
<u>Under Construction</u>	120	690

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of July 1, 2023. The forecast period is July 1, 2023, to July 1, 2026.
Source: Estimates by the analyst



Economic Conditions

Largest Sector: Government

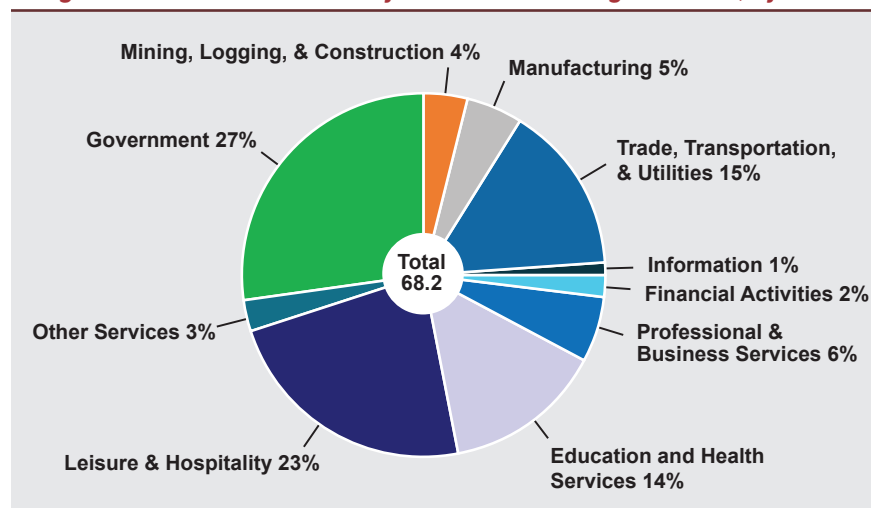
The government sector added the most jobs of all sectors in the past year.

Primary Local Economic Factors

The government sector is the primary foundation of the Flagstaff HMA economy, representing almost one-third of all nonfarm payroll jobs (Figure 1) due in large part to the presence of the publicly owned Northern Arizona University (NAU) Flagstaff Mountain campus. As the largest employer in the HMA, NAU employs approximately 2,825 people, accounting for about 15 percent of all government sector jobs in the HMA (Table 1). Approximately 21,400 students were enrolled at NAU in the fall of 2022, up from 21,200 students a year earlier. NAU enrollment increased every year from 2010 through 2017. Since 2018, however, the university has had an average decline in enrollment of about 0.8 percent annually. By contrast, Arizona is one of eight states nationwide with growing enrollment in higher education since 2019. The university has an estimated \$1.96 billion annual economic impact on the HMA and received \$25 million in 2022 as a part of Arizona’s New Economy Initiative to advance the workforce. Despite the prevalence of the government sector in the HMA, sector payrolls have declined by an average of 400 jobs, or 1.9 percent, annually since 2018.

The manufacturing sector is currently the fastest growing sector in the Flagstaff HMA, with 400 new jobs added since the 12 months ending June 2022. The HMA has attracted different types of advanced manufacturing, biomedical, and space exploration companies. W. L. Gore & Associates, Inc., a global material science company, is the third largest employer in the HMA, with 2,200 employees. UACJ Automotive Whitehall Industries, Inc., an electric vehicle (EV) parts manufacturer, opened a new auto parts plant in the city of Flagstaff in 2022. The proximity to the new semiconductor plant in the city of Phoenix, the increasing demand for EV cars, and the transportation systems in the city of Flagstaff were all cited as factors in the decision to expand in the HMA.

Figure 1. Share of Nonfarm Payroll Jobs in the Flagstaff HMA, by Sector



Notes: Total nonfarm payroll is in thousands. Percentages may not add to 100 percent due to rounding. Based on 12-month averages through June 2023. Source: U.S. Bureau of Labor Statistics

Table 1. Major Employers in the Flagstaff HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Northern Arizona University	Government	2,825
Flagstaff Medical Center	Education & Health Services	2,350
W. L. Gore & Associates, Inc.	Manufacturing	2,200
Coconino County	Government	1,200
City of Flagstaff	Government	990
Walmart Inc.	Wholesale & Retail Trade	630
Twin Arrows Navajo Casino Resort	Government	510
Grand Canyon Railway	Leisure & Hospitality	420
Coconino Community College	Government	310
Nestlé Purina PetCare Company	Manufacturing	300

Notes: Excludes local school districts. Source: City of Flagstaff



Because the HMA is home to Grand Canyon National Park, tourism represents a significant part of the local economy. The leisure and hospitality sector is the second largest sector in the HMA and currently accounts for 16,000 jobs, or 23 percent of all nonfarm payroll jobs. Since 2010, growth in the sector has been strong, with an average increase of 300 jobs, or 2.1 percent, annually. Grand Canyon National Park alone received 4.73 million visitors during 2022, up from 4.55 million visitors a year earlier. Visitors spent an estimated \$759 million in gateway regions near the park, including the HMA (National Park Service). Visitor spending in the HMA totaled \$1.8 billion in 2022, a 7-percent increase in spending from 2021 (Arizona Office of Tourism).

Current Conditions— Nonfarm Payrolls

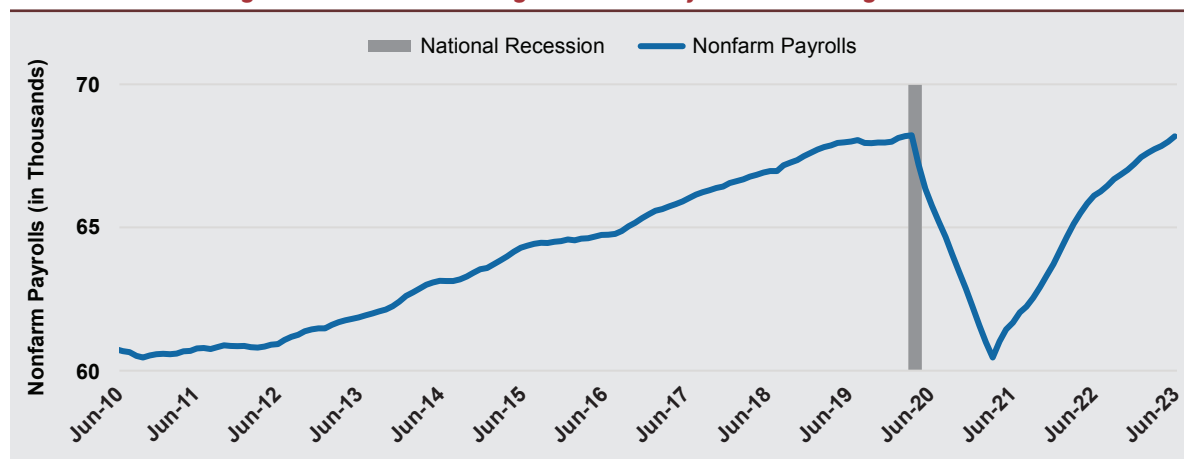
Economic conditions in the HMA are currently strong. During the 12 months ending June 2023, nonfarm payrolls averaged 68,200 jobs, an increase of 2,100, or 3.2 percent, from the year ending June 2022 (Table 2). By comparison, nonfarm payrolls increased by 4,400 jobs, or 7.2 percent, during the previous 12 months. Although job growth during the past year was slower than during the recovery from the 2020 downturn, payrolls are still increasing at a much faster rate than the average of 1.3 percent a year from 2010 through 2019 (Figure 2). During the 12 months

Table 2. 12-Month Average Nonfarm Payroll Jobs (1,000s) in the Flagstaff HMA, by Sector

	12 Months Ending June 2022	12 Months Ending June 2023	Absolute Change	Percentage Change
Total Nonfarm Payroll Jobs	66.1	68.2	2.1	3.2
Goods-Producing Sectors	6.2	6.5	0.3	4.8
Mining, Logging, & Construction	2.9	2.9	0.0	0.0
Manufacturing	3.3	3.7	0.4	12.1
Service-Providing Sectors	60.0	61.7	1.7	2.8
Trade, Transportation, & Utilities	9.8	10.0	0.2	2.0
Information	0.4	0.4	0.0	0.0
Financial Activities	1.7	1.7	0.0	0.0
Professional & Business Services	4.0	4.1	0.1	2.5
Education & Health Services	9.1	9.4	0.3	3.3
Leisure & Hospitality	15.7	16.0	0.3	1.9
Other Services	1.7	1.7	0.0	0.0
Government	17.5	18.4	0.9	5.1

Notes: Based on 12-month averages through June 2022 and June 2023. Numbers may not add to totals due to rounding. Data are in thousands. Source: U.S. Bureau of Labor Statistics

Figure 2. 12-Month Average Nonfarm Payrolls in the Flagstaff HMA



Note: 12-month moving average. Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research

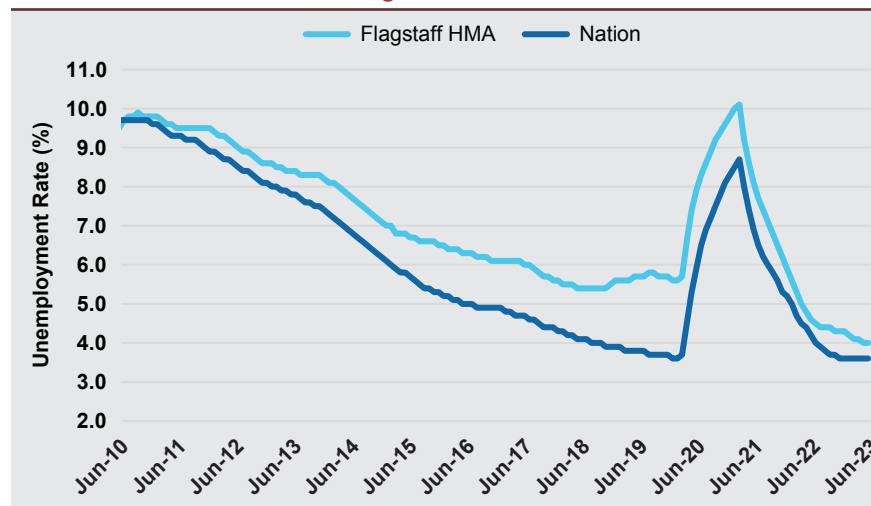


ending June 2023, the government, the manufacturing, and the leisure and hospitality sectors led job growth in the HMA, expanding by 900, 400, and 300 jobs, respectively. The leisure and hospitality sector, the hardest hit sector from the impact of the COVID-19 pandemic, had a strong recovery. Payrolls in the sector currently exceed the prepandemic high in 2019 by 1.9 percent.

Current Conditions—Unemployment

During the 12 months ending June 2023, the unemployment rate in the HMA averaged 4.0 percent—less than one-fourth the peak rate of 17.1 percent during April 2020 and down from 4.6 percent a year ago (Figure 3). Since 2010, the unemployment rate in the HMA has been higher than that for the nation. During the 12 months ending June 2023, the national unemployment rate was 3.6 percent, or 0.4 percentage point below that of the HMA.

Figure 3. 12-Month Average Unemployment Rate in the Flagstaff HMA and the Nation



Note: Based on the 12-month moving average.
Source: U.S. Bureau of Labor Statistics

Economic Periods of Significance

2011 Through 2013

Job losses were widespread during and after the Great Recession, with recovery in the Flagstaff HMA still underway at the start of the decade. From 2011 through 2013, nonfarm payrolls increased by an average of 700 jobs, or 1.1 percent, annually. The bulk of growth stemmed from gains in the education and health services and the leisure and hospitality sectors. Payrolls in those sectors increased by an average of 300 and 200 jobs, or 3.2 and 1.2 percent, a year, respectively. The Twin Arrows Navajo Casino Resort was established in 2013, contributing to the leisure and hospitality sector, and continues to be a leading employer in the HMA. Job losses in the other services sector were the most severe during this period, decreasing by an average of 100 jobs, or 5.9 percent, annually. Payrolls in the government sector were relatively unchanged. Although unemployment declined from 2011 through 2013, the

labor force also declined, by an average of 400 people, or 0.6 percent, annually, leading to only a small decline in the unemployment rate. The decrease in the labor force can partly be attributed to significant net out-migration at the start of the decade.

2014 Through 2019

The economy in the HMA significantly strengthened as job growth accelerated from 2014 through 2019. Nonfarm payrolls grew by an average of 900 jobs, or 1.4 percent, annually during this period. Jobs in 8 of the 10 sectors grew during the period, with the largest growth in the leisure and hospitality sector, partially due to strong nationwide economic conditions promoting greater consumer and tourism spending. Payrolls in the leisure and hospitality sector grew by an average of 500 jobs, or 3.5 percent, annually during this period. The financial activities and the professional and business services sectors both grew by averages of 100 jobs, or 3.8 percent, annually.



2020 to 2022

The COVID-19 pandemic had a significant impact on the HMA. Nonfarm payrolls fell by 5,800 jobs, or 8.5 percent, during 2020. Jobs in 7 of the 10 sectors declined during this period, with the largest number of jobs lost in the leisure and hospitality sector. Jobs in the sector declined by 3,100 jobs, or 19.7 percent, in 2020 due to the impact of restrictions put in place to stop the spread of COVID-19. Payrolls in the government, the professional and business services, and the other services sectors fell by 1,200, 300, and 200 jobs, or 6.0, 8.6, and 11.1 percent, respectively. The decline in payrolls in the government sector is partially due to the loss of 480 jobs at NAU in 2020.

The shock to the local economy from the pandemic was not sustained for long. By April 2022, the HMA had fully recovered the number of jobs lost since April 2020. By comparison, full recovery occurred on the national level in May 2022. From 2021 through 2022, nonfarm payrolls in the HMA grew by 2,500 jobs, or 3.9 percent, annually. The leisure and hospitality sector had the largest increase, with an average of 1,600 jobs, or 12.0 percent, annually. The relaxing of pandemic-related restrictions and improved economic conditions nationwide encouraged high levels of tourism. The professional and business services and the financial activities sectors also added jobs during this period, growing by respective averages of 500 and 200 jobs, or 13.2 and 9.5 percent, annually.

Forecast

During the 3-year forecast period, nonfarm payrolls are expected to increase an average of 1.5 percent annually. Job growth is expected to be strong in several sectors, including the education and health services and the manufacturing sectors. Northern Arizona Healthcare has planned an expansion that will include a new 700,000-square-foot hospital, expected to be completed by 2027. The expansion of UACJ Automotive Whitehall Industries, Inc., is expected to create another 350 jobs during the next 5 years as well.



Population and Households

Current Population: 145,500

Population growth in the Flagstaff HMA has been generally steady since 2010, accelerating only slightly during periods of economic expansion.

Population Trends

Population trends in the Flagstaff HMA are significantly affected by the presence of college students and retirees. The current population of the Flagstaff HMA is estimated at 145,500, representing an average increase of 110, or 0.1 percent, annually since 2020 (Table 3). Population growth in the Flagstaff HMA has predominantly been due to net natural change, which has accounted for most of the population increase since 2010. From 2010 to 2013, population growth came solely from net natural change, which averaged 1,000 a year (Figure 4). During this period, the local economy was still recovering from the Great Recession, and net in-migration to the HMA was slightly more than offset by net out-migration. From 2014 to 2019, economic conditions strengthened in the Flagstaff HMA, and the population grew 1.0 percent annually, or by an average of 1,350 a year. Net natural change slowed, averaging 710 people annually

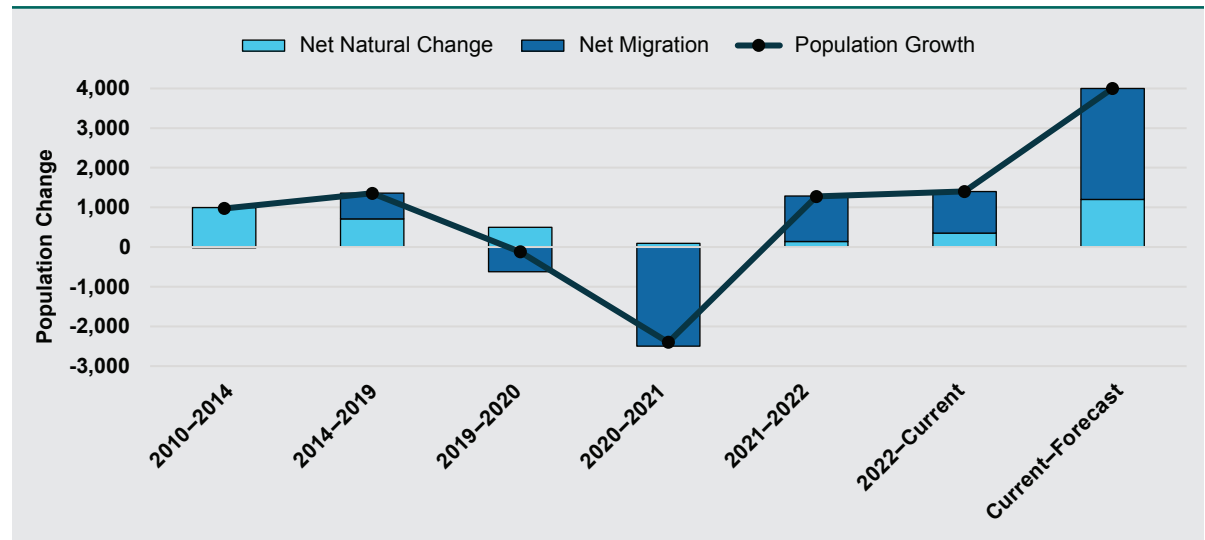
Table 3. Flagstaff HMA Population and Household Quick Facts

	2020	Current	Forecast	
Population Quick Facts	Population	145,101	145,500	149,500
	Average Annual Change	1,075	110	1,325
	Percentage Change	0.8	0.1	0.9
Household Quick Facts	Households	51,320	52,550	54,850
	Average Annual Change	460	380	770
	Percentage Change	0.9	0.7	1.4

Notes: Average annual changes and percentage changes are based on averages from 2010 to 2020, 2020 to current, and current to forecast. The forecast period is the current date (July 1, 2023) to July 1, 2026.

Sources: 2010 and 2020—2010 Census and 2020 Census; current and forecast—estimates by the analyst

Figure 4. Components of Population Change in the Flagstaff HMA, 2010 Through the Forecast



Notes: Data displayed are average annual totals. The forecast period is the current date (July 1, 2023) to July 1, 2026.

Sources: U.S. Census Bureau; current to forecast—estimates by the analyst

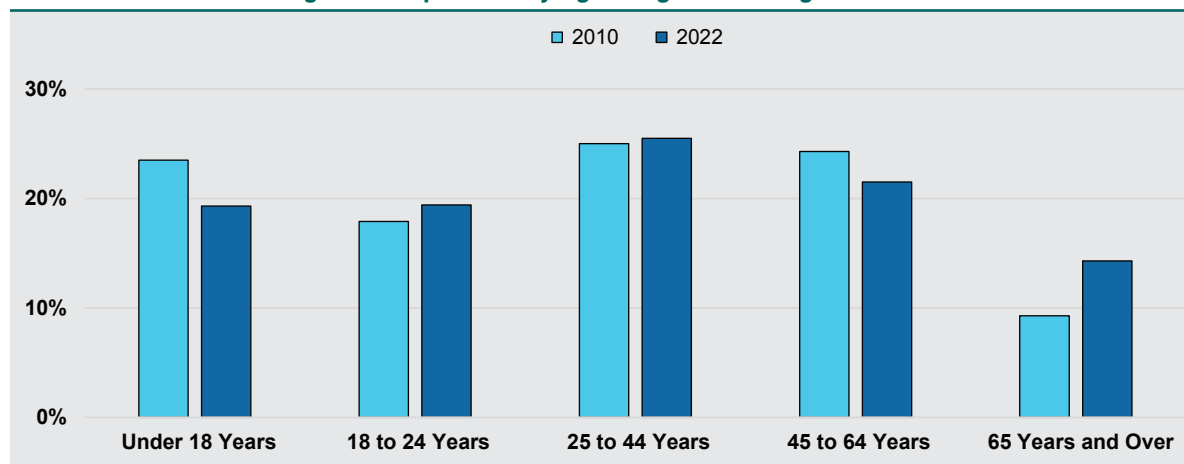


throughout the period; net in-migration averaged 640 people a year. During the year following the onset of the COVID-19 pandemic, population growth fell sharply. College campus closures and job losses contributed to the significant out-migration, and the rate of net natural increase fell dramatically. From 2019 to 2021, the population decreased by 1,250, or 0.9 percent, annually; net out-migration jumped to an average of 1,550 during the period, and net natural change fell to an average of only 300 a year.

Age Cohort Trends

The general trend of slowing net natural change in the HMA during the past decade has been largely due to growth in the share of the population aged 65 years and older, which has exceeded overall population growth. From 2010 to 2022, the number of residents of the HMA aged 65 years and older grew at an average annual rate of 4.2 percent, 3.6 percentage points higher than the overall population growth rate (2022 American Community Survey [ACS] 1-year data). The proportion of the population in that age group in the HMA increased from 9.3 percent in 2010 to 14.3 percent in 2022 (Figure 5). During the same period, the proportion of the population 18 to 24, the primary age cohort for college students, increased from 17.9 percent to 19.4 percent. Those changes will continue to contribute to lower net natural change.

Figure 5. Population by Age Range in the Flagstaff HMA



Source: 2010 and 2022 American Community Survey 1-year data

Household Trends

Household growth has generally mirrored population growth, with slightly faster growth in the 2010s than in the 2020s. Household growth has, however, been modestly faster than population growth in the HMA since 2010 due to a declining average household size, particularly associated with the rising proportion of retirees. Currently, an estimated 52,550 households are in the HMA, an average increase of 0.7 percent since 2020. From 2010 to 2020, the number of households increased by an average of 460, or 0.9 percent, annually. Due to the aging population and lower birth rates, the average household size declined from 2.69 in 2010 to 2.59 in 2020 and is currently estimated at 2.56 as of July 1, 2023.

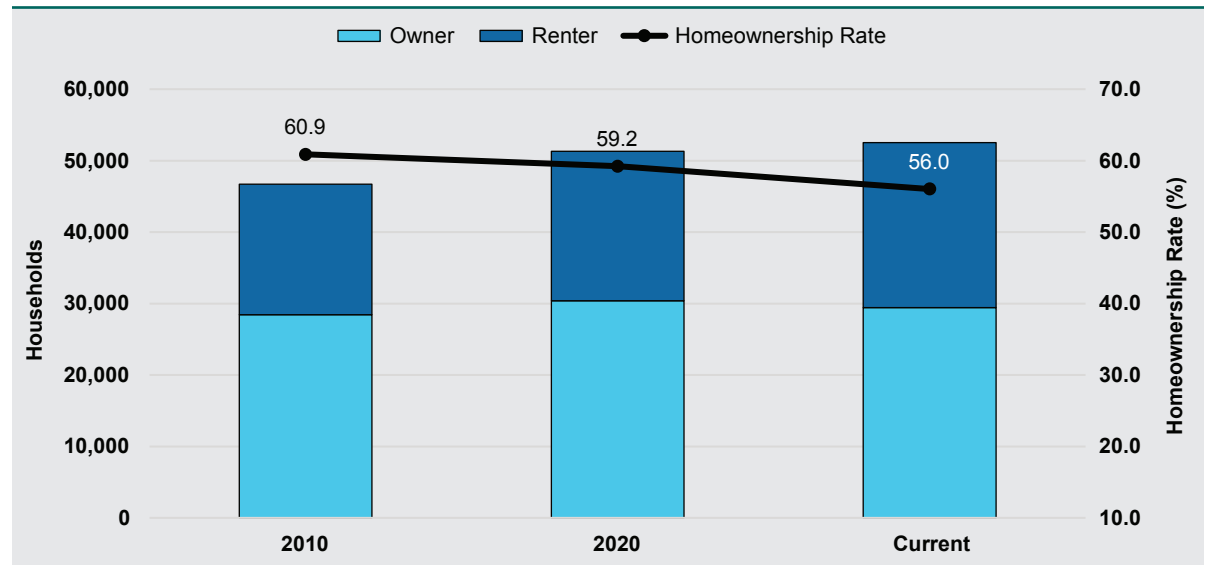
The homeownership rate in the HMA was 56.0 percent as of July 1, 2023, a significant decrease from 60.9 percent in 2010 (Figure 6). The relatively large decline can be attributed to the high cost of living in the HMA and the large number of student households. From 2010 through 2022, household incomes in the HMA rose by 52.7 percent, and home sales prices rose by 98.3 percent (2010 and 2022 ACS 1-year data; CoreLogic, Inc.). In addition, renter household growth averaging an increase of 1.8 percent since 2010 was significantly faster than owner household growth, which averaged 0.3 percent during the same period. The influx of student households from rapid enrollment growth at NAU during the early 2010s contributed to the large increase in renter households.



Forecast

During the 3-year forecast period, the population is expected to increase by an average of 1,325, or 0.9 percent, annually to 149,500 by July 1, 2026. Most of the population growth will come from net in-migration, similar to population growth trends before the COVID-19 pandemic. Increased enrollment at NAU is expected to contribute to increased in-migration. The HMA is estimated to have 54,850 households by July 1, 2026, an average increase of 1.4 percent each year of the forecast period.

Figure 6. Households by Tenure and Homeownership Rate in the Flagstaff HMA



Note: The current date is July 1, 2023.

Sources: 2010 and 2020—2010 Census and 2020 Census; current—estimates by the analyst

Home Sales Market

Market Conditions: Slightly Tight

Despite a 35-percent decline in home sales during the past 12 months, the average home sales price rose 1 percent because of limited inventory (CoreLogic, Inc., with adjustments by the analyst).

Current Conditions

Sales housing market conditions in the HMA are slightly tight, with an estimated vacancy rate of 1.5 percent, up slightly from 1.4 percent in April 2020 but well below the 2.9-percent rate in 2010 (Table 4). Generally strong net in-migration from 2014 to 2019 and relatively modest levels of residential construction following the Great Recession contributed to declining vacancy rates during much of the 2010s. The available for-sale inventory in the HMA decreased from approximately 27 months in 2010 to 9 months in 2019 (CoreLogic, Inc.). Following the onset of the COVID-19 pandemic, the home sales market tightened sharply because new home construction was unable to keep up with the increase in demand for homes. Concurrently, historically low mortgage interest rates contributed to increased demand for homes. During 2020 and 2021, total new and existing home prices increased at an average annual rate of 13 percent (CoreLogic, Inc., with adjustments by the analyst). However, since early 2022, the sales market in the HMA has begun to ease. The Federal Reserve reduced its holdings of mortgage-backed securities that surged at the beginning of the pandemic, leading to interest rates rising due to tighter financial conditions and higher standards for lending. Those conditions have partly contributed to slowing home sales. During the 12 months ending June 2023, new and existing home sales in the HMA decreased by 1,400 homes, or 35 percent, to 2,625 homes sold compared with a 21-percent year-over-year increase during the previous 12 months (CoreLogic, Inc., with adjustments by the analyst; Figure 7). During the 12 months ending June 2023, the average price of new and existing home sales increased by \$15,850, or 3 percent, to \$538,600, less than one-tenth the year-over-year increase during the 12 months ending June 2022 (CoreLogic, Inc., with adjustments by the analyst). See Figure 8 for the share of sales by price range during the past 12 months.

Table 4. Home Sales Quick Facts in the Flagstaff HMA

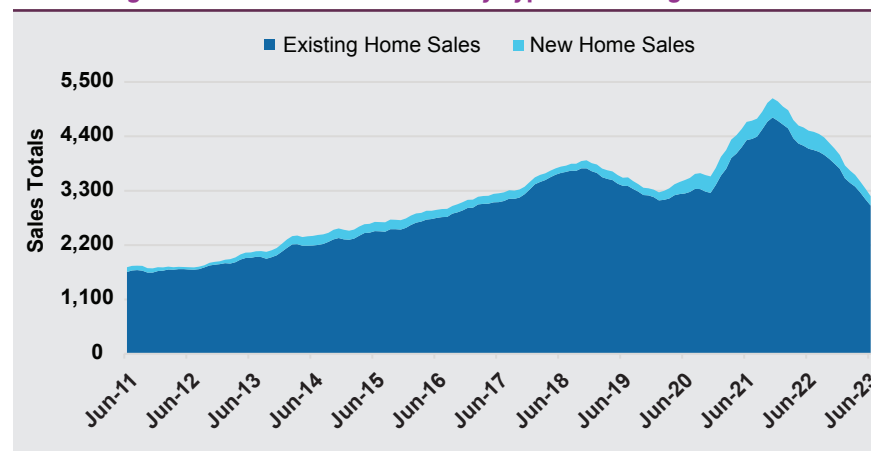
	Flagstaff HMA	Nation
Vacancy Rate	1.5%	NA
Months of Inventory	5.7	2.4
Total Home Sales	2,625	5,507,000
1-Year Change	-35%	-27%
New Home Sales Price	\$545,300	\$496,800
1-Year Change	-8%	8%
Existing Home Sales Price	\$538,100	\$388,900
1-Year Change	4%	0%
Mortgage Delinquency Rate	0.3%	1.1%

NA = data not available.

Notes: The vacancy rate is as of the current date; home sales and prices are for the 12 months ending June 2023; and months of inventory and mortgage delinquency data are as of June 2023. The current date is July 1, 2023.

Sources: Vacancy rate—estimates by the analyst; home sales, home prices, months of inventory, and mortgage delinquency rate—CoreLogic, Inc.

Figure 7. 12-Month Sales Totals by Type in the Flagstaff HMA



Source: CoreLogic, Inc., with adjustments by the analyst



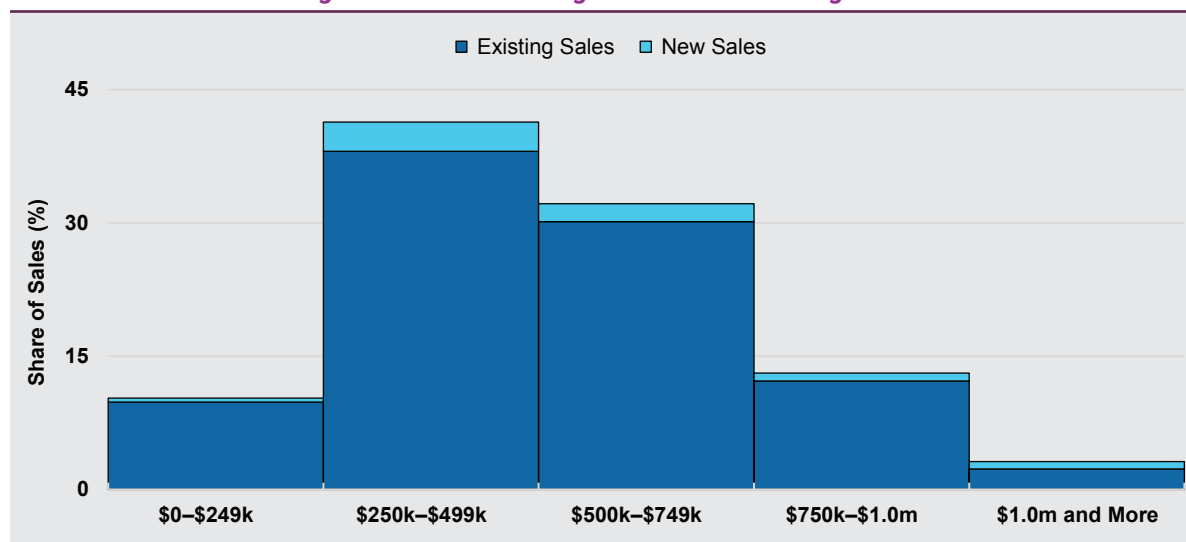
Historical Home Price Trends

Fluctuations in new and existing home prices in the HMA generally follow patterns of economic growth and decline. At the start of the decade, the home sales market was still recovering from the housing crisis. From 2010 through 2013, when nonfarm payrolls slowly recovered and population growth was relatively modest, new home prices were volatile and existing home prices were relatively unchanged (Figure 9). The mid-2010s were a period of strengthening economic conditions and strong net in-migration. Sales prices for existing homes increased steadily from 2014 through 2019, and sales prices for new homes remained volatile until 2016, when new home prices began to rise in earnest. From 2014 through 2019, the average price for all home sales rose by an average of 5 percent, or \$15,050, annually. A sharp decline in the available supply contributed to accelerating sales price growth following the onset of the COVID-19 pandemic. From 2020 through 2021, new and existing home prices increased by an average of 18 percent, or \$66,050, annually.

Historical Home Sales Trends

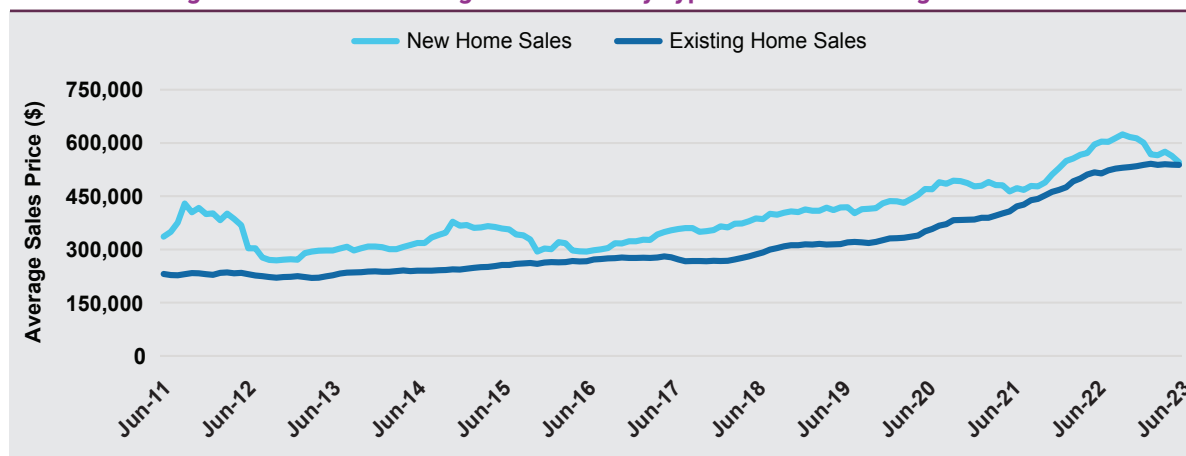
Historically, home sales have reacted strongly to changes in home prices and net in-migration to the HMA. From 2010 through 2013, shortly after the Great Recession, new and existing home sales increased by an average of 210 homes, or 11 percent, annually as investors took advantage of significantly lower-priced homes. From 2014

Figure 8. Share of Overall Sales by Price Range During the 12 Months Ending June 2023 in the Flagstaff HMA



Note: New and existing sales include single-family homes, townhomes, and condominium units.
Source: Zonda

Figure 9. 12-Month Average Sales Price by Type of Sale in the Flagstaff HMA



Source: CoreLogic, Inc., with adjustments by the analyst



through 2019, new and existing home sales slowed as the economy in the HMA recovered from the Great Recession and net in-migration increased, pushing both demand and prices up. New and existing home sales increased by an average annual rate of 190 homes, or 7 percent. From 2020 through 2021, low mortgage interest rates contributed to new and existing home sales accelerating. From 2020 through 2021, new and existing home sales rose by an average of 500 homes, or 13 percent, annually.

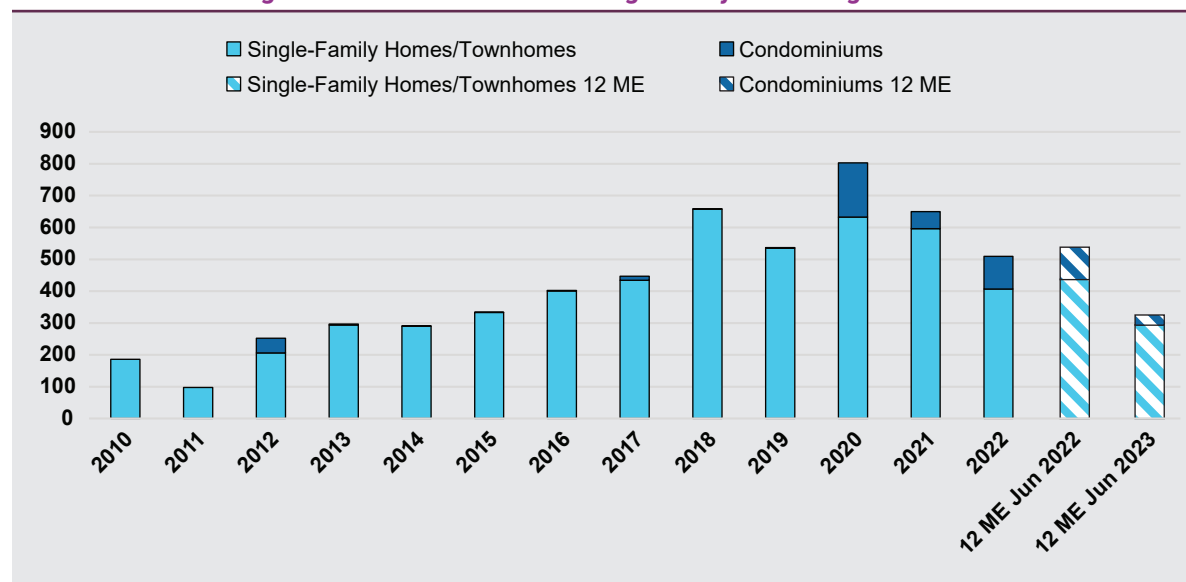
Seriously Delinquent Mortgages and REO Properties

The percentage of home loans that were seriously delinquent or transitioned into real estate owned (REO) status was 0.3 percent in June 2023—the same as the prepandemic rate in June 2019 but well below a recent high of 1.9 percent in June 2020 (CoreLogic, Inc.). A sharp spike in mortgage delinquencies associated with the pandemic was due entirely to the number of home loans that were 90 or more days delinquent, which increased nearly ten-fold from June 2020 to June 2022. Foreclosures declined during this period due to the national moratorium on foreclosures for federally backed mortgages. Before the onset of the COVID-19 pandemic, the proportion of home loans in the HMA that were seriously delinquent or had transitioned into REO status declined from 4.5 percent in 2010 to 0.3 percent in June 2019.

Sales Construction

During the 12 months ending June 2023, new home construction in the HMA, as measured by the number of single-family homes, townhomes, and condominiums permitted (building permits intended for ownership), totaled 300 units, down 33 percent from the 450 units permitted during the previous 12 months (preliminary data and adjustments by the analyst), largely in response to slowing home sales and rising interest rates. New home construction in the HMA generally trended upward in the 2010s as demand for homes increased. From 2012 through 2017, home construction rose by an average of 340 units annually. In 2018 and 2019, new home construction accelerated to an average of 600 units annually. Construction hit a high of 800 units in 2020 and then gradually declined in the following 2 years to an average of 580 units annually (Figure 10).

Figure 10. Annual Sales Permitting Activity in the Flagstaff HMA



12 ME = 12 months ending.

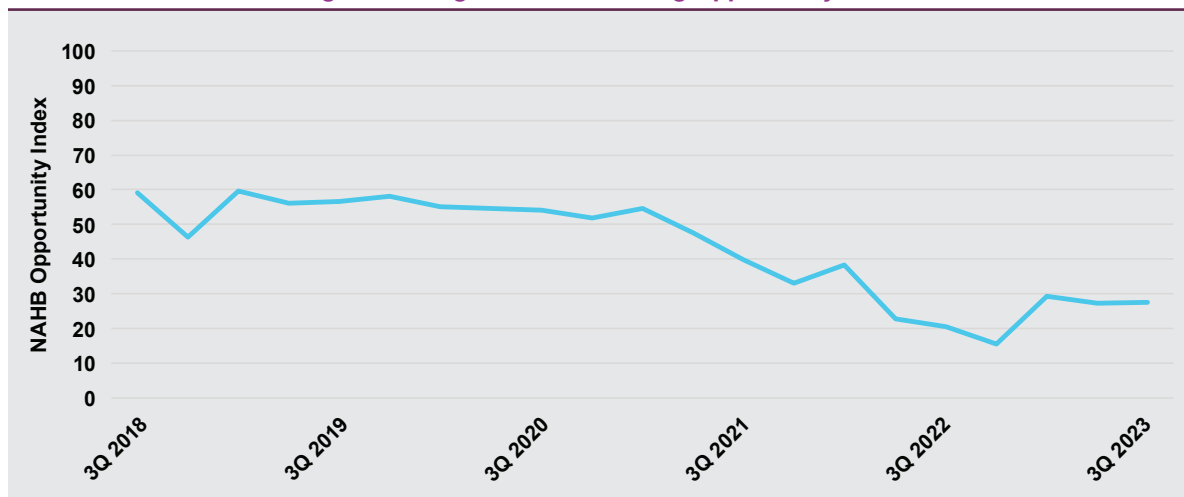
Sources: U.S. Census Bureau, Building Permits Survey; 2010–22—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

Housing Affordability: Sales

The affordability of buying a home in the HMA has generally declined since 2018 as home prices have generally increased each year. Low inventory levels have placed upward pressure on home prices, slowing growth in homeownership. The National Association of Home Builders (NAHB)/Wells Fargo Housing Opportunity Index for the Flagstaff HMA, which represents the share of homes sold that would have been affordable to a family earning the local median income, was 27.5 during the third quarter of 2023, up from 20.5 during the third quarter of 2022 but down significantly from 56.6 during the third quarter of 2019 before the pandemic (Figure 11). The HMA was the 105th least affordable area among metropolitan areas in the nation during the third quarter of 2023, when 163, or 61 percent, of the 268 ranked areas in the nation were more affordable than the Flagstaff HMA.

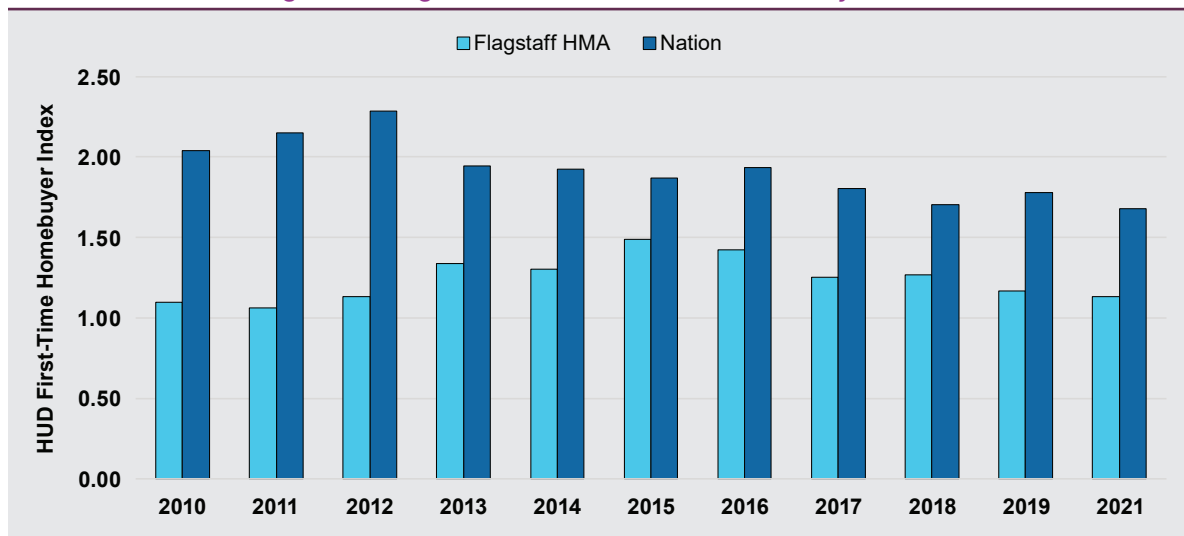
Low housing affordability in the HMA has made it particularly difficult for first-time homebuyers to enter into homeownership. The HUD First-Time Homebuyer Affordability Index measures the median household income for householders aged 25 to 44 years old relative to the income needed to purchase the 25th percentile-priced home. While the index in the HMA has always been above 1.00—indicating that the median income for householders aged 25 to 44 years old was greater than the income needed to afford the 25th-percentile priced home—the index has generally declined since reaching a peak of 1.49 in 2015 (Figure 12). During 2021, the index declined to 1.13, compared

Figure 11. Flagstaff HMA Housing Opportunity Index



NAHB = National Association of Home Builders. 3Q = third quarter.
Source: NAHB/Wells Fargo

Figure 12. Flagstaff HMA HUD First-Time Homebuyer Index



Note: Data for 2020 are not available.
Sources: American Community Survey 1-year data; Freddie Mac; Zonda



with 1.17 in 2019. The decline was partly because of an average annual increase of 18 percent in the 25th-percentile priced home to \$327,300, whereas the median income of householders aged 25 to 44 years increased an average of 5 percent, annually. The national index has been above 1.00 every year during the past decade but declined from 1.78 in 2019 to 1.68 in 2021.

Forecast

During the next 3 years, demand for an additional 1,825 new homes is expected in the HMA (Table 5). The 120 homes under construction are expected to meet a

Table 5. Demand for New Sales Units in the Flagstaff HMA During the Forecast Period

Sales Units	
Demand	1,825 Units
Under Construction	120 Units

Note: The forecast period is July 1, 2023, to July 1, 2026.

Source: Estimates by the analyst

portion of that demand during the first year of the 3-year forecast period. Demand is expected to slow during the first year of the forecast period, coinciding with slower job growth, and increase during the second and third years.



Rental Market

Market Conditions: Slightly Tight

A slowdown in rental construction and returning net in-migration during the past year has kept the rental market slightly tight.

Current Conditions and Recent Trends

The overall rental market in the Flagstaff HMA is currently slightly tight. As of July 1, 2023, the overall rental vacancy rate is estimated at 5.4 percent, down from 8.8 percent in April 2020, when the market was soft (Table 6). The apartment market is also slightly tight. During the second quarter of 2023, the apartment vacancy rate was 4.9 percent, up from 3.7 percent a year ago but still below the peak of 7.8 percent during the second quarter of 2020, when the market was soft (CoStar Group; Figure 13). The effective rent for market-rate units increased 7 percent from the second quarter of 2022 to the second quarter of 2023, down from a 9-percent increase the previous year. The average market effective rent of \$1,968 is the highest price in the HMA in recent years.

Increased enrollment at NAU led to increased demand for apartments during the early and mid-2010s, which contributed to declining apartment vacancy rates and rising rents. From 2010 through 2016, the apartment vacancy rate averaged 5.1 percent and rent growth averaged 3 percent

Table 6. Rental Market Quick Facts in the Flagstaff HMA

Rental Market Quick Facts	2020 (%)	Current (%)	
	Rental Vacancy Rate	8.8	5.4
	2021 (%)	2022 (%)	
	Occupied Rental Units by Structure		
	Single-Family Attached & Detached	30	33
Multifamily (2–4 Units)	17	18	
Multifamily (5+ Units)	43	39	
Other (Including Mobile Homes)	10	10	

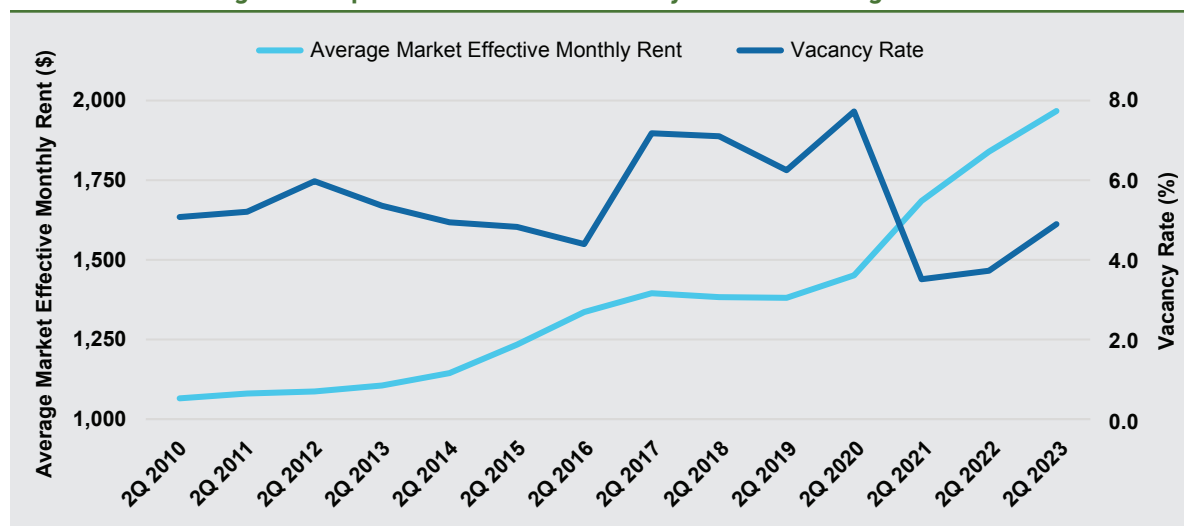
Apartment Market Quick Facts	2Q 2023	YoY Change
Apartment Vacancy Rate	4.9	1.2
Average Rent	\$1,968	7%

2Q = second quarter. YoY = year-over-year.

Notes: The current date is July 1, 2023. Percentages may not add to 100 due to rounding.

Sources: 2020 vacancy rate—2020 Census; current vacancy rate—estimate by the analyst; occupied rental units by structure—2021 and 2022 American Community Survey 1-year data; apartment data—CoStar Group

Figure 13. Apartment Rents and Vacancy Rates in the Flagstaff HMA



2Q = second quarter.
Source: CoStar Group



annually. An increase in rental construction and declining enrollment during the late 2010s put upward pressure on vacancy rates. From 2017 through 2020, the average apartment vacancy rate was 7.1 percent, yet rent growth was only 1 percent, annually. Multiple student-only housing projects were canceled or converted into mixed-use housing during the period.

Student Housing

Students attending NAU have a significant impact on the rental housing market in the HMA, particularly in the city of Flagstaff, where the university is located. Approximately 40 percent of NAU students live in on-campus housing. Off-campus student households currently account for an estimated 12 percent of all renter households in the HMA. No known student housing developments are underway.

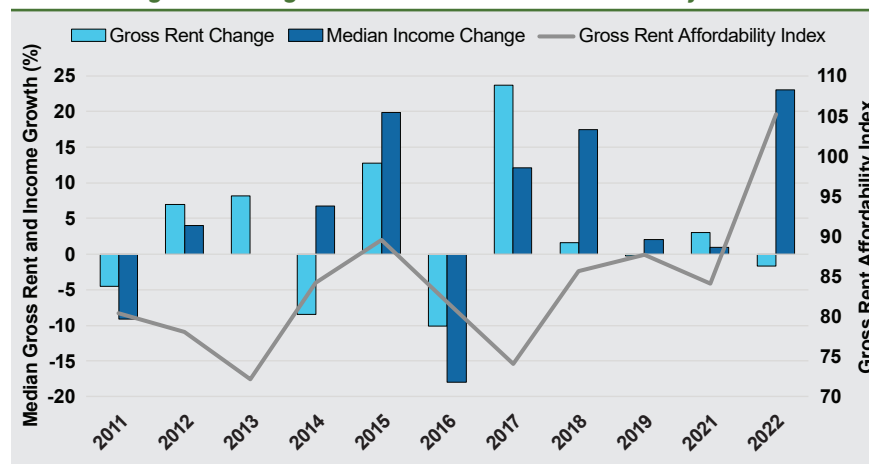
Housing Affordability: Rental

Rental affordability in the Flagstaff HMA has generally trended upward since 2017 and peaked in 2022 because growth in the median income for renter households has been greater than the increase in the median gross rent (Figure 14). The median monthly gross rent in the HMA rose almost 6 percent from \$1,215 in 2017 to \$1,284 in 2022. During the same period, the median renter household income increased 50 percent from \$36,000 to \$54,000. As a result, the HUD Gross Rent Affordability Index, a measure of median renter household income relative to qualifying income for the median-priced rental unit, increased from 74.1 in 2017 to 105.2 in 2022.

Renter Cost Burdens

The percentage of cost burdened renter households in the HMA is lower than in the nation. During the 2016-through-2020 period, an estimated 21.7 percent of all renter households in the HMA were in the moderate to high-cost burden category—spending between 31 and 50 percent of their income on housing costs, compared to 27.8 percent of all renter households nationwide (Table 7). However, a greater share of renter households in the HMA are severely cost burdened—spending more than 50 percent of their income on housing costs—

Figure 14. Flagstaff HMA Gross Rent Affordability Index



MSA = metropolitan statistical area.
 Notes: Rental affordability is for the larger Flagstaff MSA. The Gross Rent Affordability Index differs from the HUD Rental Affordability Index published on the U.S. Housing Market Conditions website in that it is based on combined rent and utilities expenditure. Data for 2020 are not available.
 Source: American Community Survey 1-year data

Table 7. Percentage of Cost Burdened Renter Households by Income, 2016–20

	Moderate to High Cost Burden: 31–50 Percent of Income Toward Housing Costs		Severe Cost Burden: 51 Percent or More of Income Toward Housing Costs	
	Flagstaff HMA	Nation	Flagstaff HMA	Nation
Renter Households With Income <50% HAMFI	16.3	27.1	58.0	47.9
Total Renter Households	21.7	27.8	24.5	15.8

CHAS = Comprehensive Housing Affordability Strategy. HAMFI = HUD Area Median Family Income.
 Sources: Consolidated Planning/CHAS Data; 2016–2020 American Community Survey 5-year estimates (huduser.gov)

at 24.5 percent, compared with a 15.8 percent share nationwide. Severe cost burdens are particularly notable for lower-income renter households in the HMA. For renter households with incomes less than 50 percent of the Area Median Family Income (AMFI) in the HMA, 58.0 percent of renter households were in the severe cost burden category, compared with 47.9 percent nationwide.

Policy Initiatives

To address housing affordability challenges in Flagstaff, the City’s Affordable Homeownership Programs allow households below 80 to 125 percent of the AMFI, depending on the type of home purchased, to enter into homeownership through a shared equity model. An agreement through either a ground lease between the City and homeowner or a deed restriction placed onto the unit limits participating homeowner’s equity so that the home price remains affordable for the next qualified buyer (City of Flagstaff).

In addition to programs directly related to the cost of housing, the City has implemented several incentive policies aimed at the creation of permanently affordable housing units through the reduction of regulatory barriers. Incentives include waiving certain building permit and planning fees and the reimbursement of impact fees for certain affordable developments subject to a sliding scale based on the level of AMFI served as well as deferring impact fees for market rate units that are constructed with at least twenty percent affordable units within the development. In addition, developments with at least 10 percent affordable units are eligible for expedited reviews through the post-entitlement planning process, with timelines reduced by up to 50 percent for the affordable housing units within a development. Other regulatory incentives

include density bonuses, allowing for increased density on a property above the maximum set by the General Plan, reduction of parking requirements, and tax deductions for land donations.

Current Affordable Housing Options: LIHTC, PBRA, HCV

The low-income housing tax credit (LIHTC) program is the primary funding source for new affordable rental housing in the nation. From 2010 through 2013, approximately 160 new LIHTC units in three developments were placed in service in the HMA, all in the city of Flagstaff. No new LIHTC units have been placed in service in the HMA since 2013.

In addition to LIHTC, income-eligible residents may qualify for project-based rental assistance (PBRA) or housing choice vouchers (HCVs) through the local public housing authority (PHA). The PHAs in the HMA administered 490 HCVs in 2022 (Table 8). The waitlists for HCVs and public housing in the HMA are currently open, however, public housing units have a waiting time ranging from 3 months to 3 years, depending on the bedroom size (City of Flagstaff). There are 1,150 subsidized units through PBRA and other programs, including 260 public housing units (Picture of Subsidized Households). The number of households that have an HCV in the HMA increased 38.8 percent since 2010. The increase in assisted households has occurred while an inflation-adjusted rent subsidy from HUD has increased 16.3 percent since 2010; during the same time, the inflation-adjusted tenant contribution for HCVs rose 5.4 percent. By comparison, the total number of voucher households in the nation increased 15.2 percent since 2010, whereas the inflation-adjusted HUD subsidy has increased 0.9 percent, and the inflation-adjusted tenant contribution decreased 4.0 percent.

Table 8. Picture of Subsidized Households, 2022

	Flagstaff HMA	HMA Change Since 2010	National Total	National Change Since 2010
Total Assisted Households (2022)	891	15.7%	4,537,614	2.5%
Total Housing Voucher Households (2022)	490	38.8%	2,350,366	15.2%
Average HCV Tenant Monthly Contribution	\$400	5.4%	\$420	-4.0%
Average Monthly HUD Subsidy	\$1,215	16.3%	\$948	0.9%

HCV = housing choice voucher.

Note: Dollar changes are inflation adjusted using the Consumer Price Index for All Urban Consumers (CPI-U).

Source: HUD Picture of Subsidized Households



Rental Construction

During the 12 months ending June 2023, approximately 480 rental units were permitted, almost six-fold higher than the average number of units permitted during the 12 months ending June 2022 (preliminary data; Figure 15). Rental construction activity, as measured by the number of rental units permitted, was variable from 2010 through 2019, averaging 200 units annually, with a relative peak of 570 units in 2012. From 2020 through 2022, rental construction averaged 400 units annually, including an unprecedented level of 660 units in 2022.

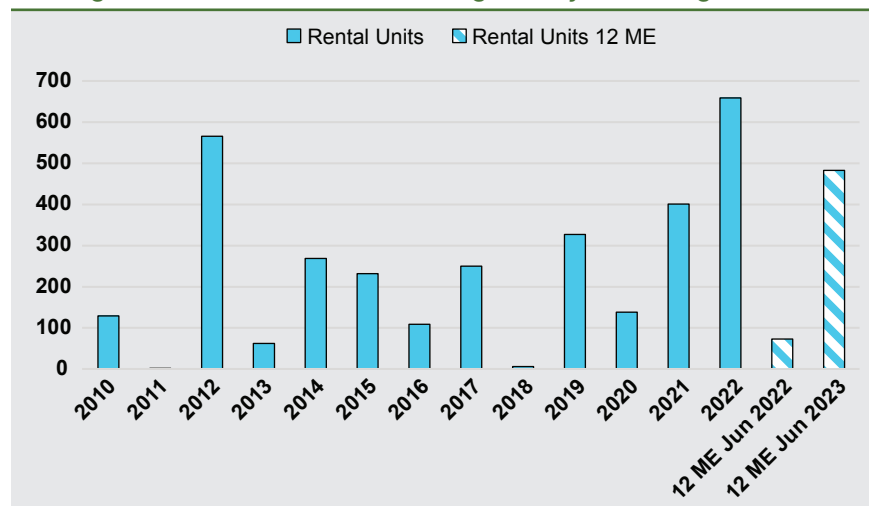
New Construction

New apartment construction has been concentrated in the city of Flagstaff since 2010, accounting for nearly 97 percent of multifamily permitting in the HMA. The largest development underway in the HMA is The Elkwood Apartments, a 220-unit mixed-use development in the city of Flagstaff, with expected completion in mid-2024.

Forecast

During the next 3 years, demand is expected for 1,100 new rental units in the HMA (Table 9). The 690 units under construction are expected to satisfy most of the demand in the first year of the forecast. Demand is expected to be slower in the first year but is expected to rise in the second and third years as major job sectors experience strong economic growth.

Figure 15. Annual Rental Permitting Activity in the Flagstaff HMA



12 ME = 12 months ending.
 Note: Includes apartments and units intended for rental occupancy.
 Sources: U.S. Census Bureau, Building Permits Survey; 2010–22—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

Table 9. Demand for New Rental Units in the Flagstaff HMA During the Forecast Period

Rental Units	
Demand	1,100 Units
Under Construction	690 Units

Note: The forecast period is July 1, 2023, to July 1, 2026.
 Source: Estimates by the analyst

Terminology Definitions and Notes

A. Definitions

Building Permits	Building permits do not necessarily reflect all residential building activity that occurs in an HMA. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.
Cost Burdened	Spending more than 30 percent of household income on housing costs. Moderate to high-cost burden refers to households spending 31 to 50 percent of income on housing costs. Severe cost burdens refers to households spending 51 percent or more of income on housing costs.
Demand	The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units under construction or units in the development pipeline.
Effective Rent	Net rental income after deducting the value of concessions.
Existing Home Sales	Includes resale sales, short sales, and REO sales.
Forecast Period	July 1, 2023–July 1, 2026—Estimates by the analyst.
Home Sales/Home Sales Prices	Includes single-family home, townhome, and condominium sales.
Net Natural Change	Resident births minus resident deaths.
Rental Market/Rental Vacancy Rate	Includes apartments and other rental units, such as single-family, multifamily, and mobile homes.



Seriously Delinquent Mortgages	Mortgages 90+ days delinquent or in foreclosure.
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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.
2.	Urbanized areas are defined using the U.S. Census Bureau’s 2010 Census Urban and Rural Classification and the Urban Area Criteria.

C. Additional Notes

1.	This analysis has been prepared for the assistance and guidance of HUD in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.
2.	The factual framework for this analysis follows the guidelines and methods developed by the Economic and Market Analysis Division within HUD. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

D. Photo/Map Credits

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