

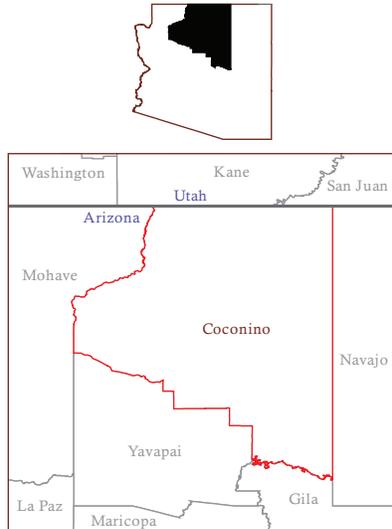


Flagstaff, Arizona

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of July 1, 2011



Housing Market Area



The Flagstaff Housing Market Area (HMA), located near the southwestern edge of the Colorado Plateau, is coterminous with Coconino County. The HMA is a major tourist destination and is home to Grand Canyon National Park, Arizona Snowbowl, and historic Route 66. According to the Arizona Department of Commerce, Grand Canyon National Park alone attracts 5 million visitors annually.

Market Details

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Summary

Economy

Employment in the Flagstaff HMA began to decline in 2008, but job losses abated during the 12 months ending June 2011 because of a resurgence in tourism. Nonfarm payrolls increased by 1,000 jobs, or 1.6 percent, compared with the loss of 2,625 jobs, or 4.1 percent, during the previous 12-month period. During the 3-year forecast period, nonfarm payroll job growth is expected to average 1.6 percent annually. The government sector is the largest in the HMA, and Northern Arizona University (NAU), a 4-year public university, is the largest employer, with 2,500 employees.

Sales Market

The sales housing market in the HMA is currently soft, with an estimated 3-percent vacancy rate. During the 12 months ending June 2011, home sales fell by 22 percent to 1,025, and the average sales price decreased by 7 percent to \$362,000. During the next 3 years, demand is forecast for 1,225 new homes (see Table 1), including 90 mobile homes. A portion of the estimated 14,900 other vacant units may come back on the market and satisfy some of the forecast demand.

Rental Market

The rental housing market in the HMA is balanced, with a 6.5-percent vacancy rate as of July 2011. According to Axiometrics Inc., the apartment vacancy rate was 7.1 percent during the second quarter of 2011, down from 7.9 percent during the second quarter of 2010. During the forecast period, the 75 units currently under construction will satisfy a portion of the total demand for 260 market-rate units in the HMA (see Table 1).

Table 1. Housing Demand in the Flagstaff HMA, 3-Year Forecast, July 1, 2011 to July 1, 2014

	Flagstaff HMA	
	Sales Units	Rental Units
Total Demand	1,225	260
Under Construction	230	75

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Total sales demand includes an estimated demand for 90 mobile homes. Units under construction as of July 1, 2011. A portion of the estimated 14,900 other vacant units in the HMA will likely satisfy some of the forecast demand.

Source: Estimates by analyst

Economic Conditions

After 2 straight years of significant job losses, economic conditions are showing signs of improvement. The Flagstaff HMA added 1,000 jobs, a 1.6-percent increase, during the 12 months ending June 2011 compared with a decrease of 2,625 jobs, or 4.1 percent, during the previous 12-month period (see Table 2). Increased employment in the area brought the average unemployment rate down to 8.3 percent from 9.2 percent during the previous 12 months (see Figure 1). The leisure and hospitality sector, which includes Native American-owned casinos, realized the largest job gains during the most recent 12 months, with the

addition of 650 jobs, a 5.1-percent increase. Figure 2 illustrates sector growth in the HMA since 2000. The leisure and hospitality sector, the second largest in the HMA, averaged 13,000 jobs during the most recent 12-month period, in large part because of increased attendance at many popular tourist attractions. Two new developments are expected to contribute to nonfarm payroll gains in this sector during the forecast period. The Twin Arrows Casino Resort & Spa, the first Navajo hotel and casino in the HMA, has begun construction and will employ approximately 800 people when it opens in May 2013. In addition, Arizona Snowbowl, a ski resort in the city of Flagstaff, recently broke ground on an expansion that will use reclaimed water to create snow when snow cover falls below two feet on designated trails. According to local sources, the expansion is expected to be complete by November 2011 and will create an additional 325 jobs in service-providing sectors. As the national and regional economies recover, tourism is expected to continue bolstering job growth in the HMA during the 3-year forecast period.

The government sector accounts for approximately 31 percent of nonfarm payrolls in the HMA, with an average of 19,400 employees during the 12 months ending June 2011 (see Figure 3). NAU, the largest employer in the HMA, employs approximately 2,500 faculty and staff (see Table 3). From the fall of 2003 to the fall of 2010, enrollment rose by 31 percent, to 25,200 students, in part because of the Western Undergraduate Exchange (WUE) program. The program enables students from certain western U.S. states to request a reduced tuition rate—150 percent of

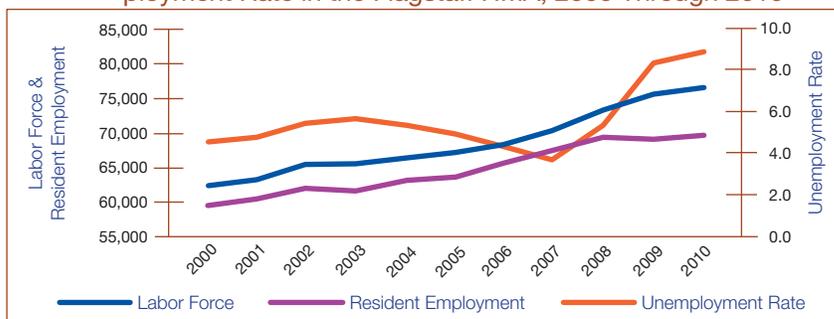
Table 2. 12-Month Average Nonfarm Payroll Jobs in the Flagstaff HMA, by Sector

	12 Months Ending June 2010	12 Months Ending June 2011	Percent Change
Total Nonfarm Payroll Jobs	61,200	62,200	1.6
Goods Producing	5,675	5,925	4.4
Mining, Logging, & Construction	1,975	2,125	7.1
Manufacturing	3,675	3,800	2.9
Service Providing	55,550	56,250	1.3
Trade, Transportation, & Utilities	9,500	9,625	1.4
Information	400	400	0.0
Financial Activities	1,300	1,300	0.6
Professional & Business Services	2,575	2,700	4.8
Education & Health Services	7,975	8,050	1.0
Leisure & Hospitality	12,350	13,000	5.1
Other Services	1,825	1,775	-2.7
Government	19,600	19,400	-1.0

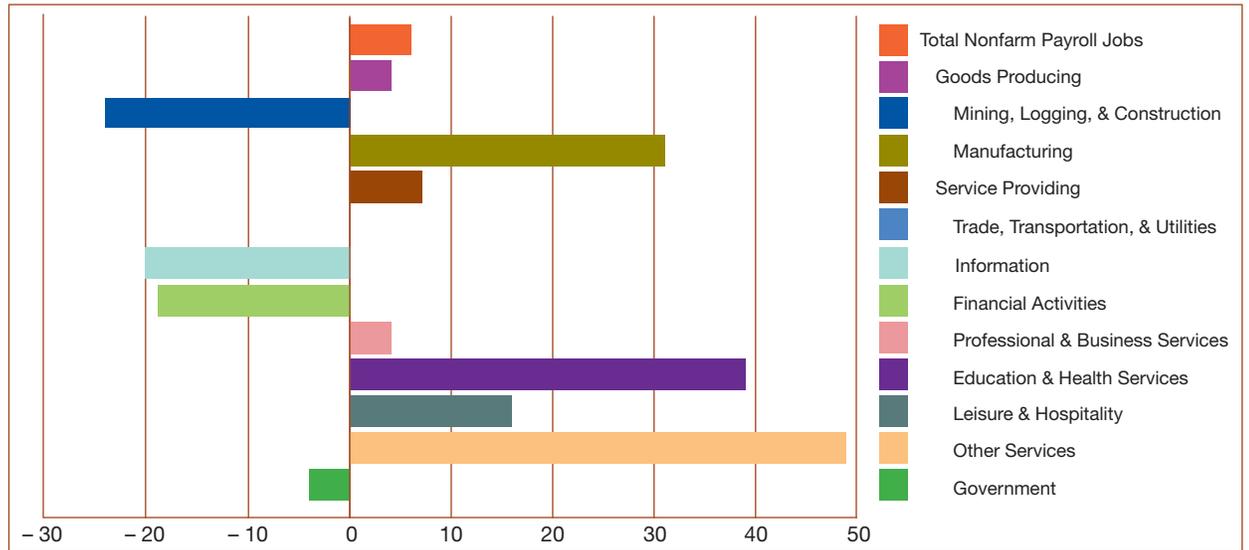
Notes: Based on 12-month averages through June 2010 and June 2011. Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics

Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Flagstaff HMA, 2000 Through 2010

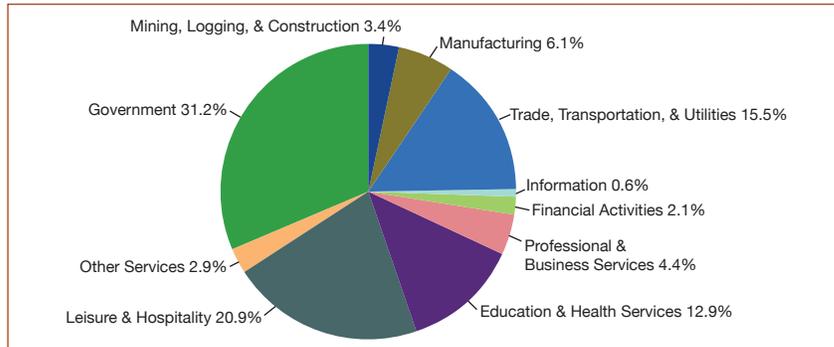


Source: U.S. Bureau of Labor Statistics

Figure 2. Sector Growth in the Flagstaff HMA, Percentage Change, 2000 to Current

Note: Current is based on 12-month averages through June 2011.

Source: U.S. Bureau of Labor Statistics

Figure 3. Current Nonfarm Payroll Jobs in the Flagstaff HMA, by Sector

Note: Based on 12-month averages through June 2011.

Source: U.S. Bureau of Labor Statistics

Table 3. Major Employers in the Flagstaff HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Northern Arizona University	Government	2,500
Flagstaff Medical Center	Education & Health Services	2,200
W.L. Gore & Associates, Inc.	Manufacturing	1,950
Coconino County	Government	1,200
ARAMARK Leisure Services, Inc.	Leisure & Hospitality	800
City of Flagstaff	Government	700
Wal-Mart Stores, Inc.	Wholesale & Retail Trade	570
Navajo Generating Station	Government	550
Navajo Tribal Utility Authority Company	Government	540
Grand Canyon Railway	Leisure & Hospitality	480

Notes: As of June 2011. Excludes local school districts.

Sources: Flagstaff Chamber of Commerce; Coconino County Economic Development Division

in-state resident tuition—rather than the usual out-of-state tuition rate, which is more than 250 percent of in-state resident tuition. During the same period, Arizona resident enrollment increased by 17 percent and nonresident enrollment expanded by more than 100 percent. According to a study conducted by NAU, the university had an economic impact of approximately \$500 million in the HMA in 2010.

Job growth in the mining, logging, and construction sector depends heavily on the second-home market, because the HMA is a popular vacation-home destination for many Arizona residents. From 2003 through 2006, the mining, logging, and construction sector added an average of 300 jobs, an 11-percent increase, annually as the housing boom led to increased building activity during this period. Other sectors in the HMA also benefited from the housing boom, with job gains ranging from an average of 3 percent,

or 270 jobs, a year in the trade, transportation, and utilities sector to 8 percent, or 230 jobs, annually in the manufacturing sector between 2003 and 2006. During the same period, nonfarm payrolls grew by an average of 2,125 jobs, or 4 percent, annually compared with flat growth between 2000 and 2002, before the housing boom. From 2007 to 2009, the trend reversed and the mining, logging, and construction sector declined by an average of 700 jobs, or 19 percent, annually, and total nonfarm payrolls in the HMA fell by an average of 1,750 jobs, or 3 percent, annually. The Associated General Contractors of America reported that, from July

2009 to July 2010, the HMA, which is coterminous with the Flagstaff Metropolitan Statistical Area (MSA), lost the largest percentage of construction jobs—32 percent, or 700 jobs—of any MSA in the nation. Job losses in the mining, logging, and construction sector have abated, however; during the most recent 12-month period, the sector added 150 jobs, a 7.1-percent increase.

As the leisure and hospitality and the government sectors continue to expand, nonfarm payroll growth is expected to increase modestly, at an average of 1.6 percent a year during the 3-year forecast period.

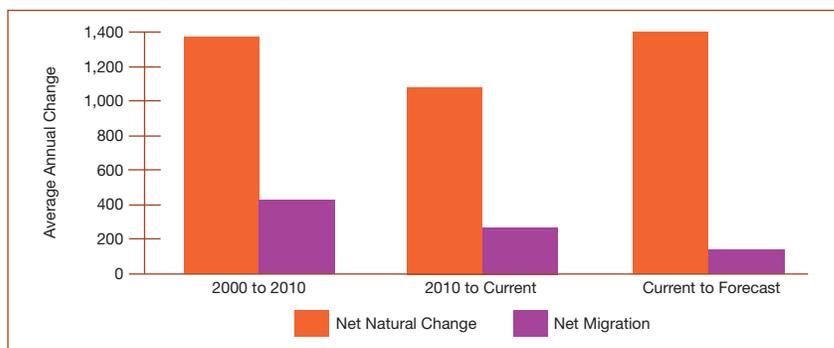
Population and Households

The population of the Flagstaff HMA is estimated at 136,100 as of July 1, 2011 (see Table DP-1). From 2000 through 2010, the population grew by an average of about 1,800, or 1.5 percent, annually. During the same period, more than 75 percent of the population growth resulted from net natural change (resident births minus resident deaths), which averaged approximately 1,375

a year, whereas net in-migration averaged 425 people annually (see Figure 4). Population growth in the HMA was steady throughout the decade. Although the housing boom supported significant job growth from 2003 through 2006, net in-migration remained low and population growth averaged 1.1 percent a year because many homebuyers during this period were not full-time residents. Modest population growth is expected to continue at a 1.1-percent average annual rate during the forecast period.

An estimated 47,300 households currently reside in the HMA. From 2000 through 2010, household growth averaged roughly 630 households, or 1.5 percent, annually. An estimated 28,500, or 60 percent, of current households are owner households, and the other 18,800 are renter households (see Figure 5). From 2000 through

Figure 4. Components of Population Change in the Flagstaff HMA, 2000 to Forecast



Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

2010, the number of owner households increased by an average of 1.4 percent annually and the number of renter households increased by an average of 1.6 percent a year. The faster growth in renter households is because of the weak sales housing

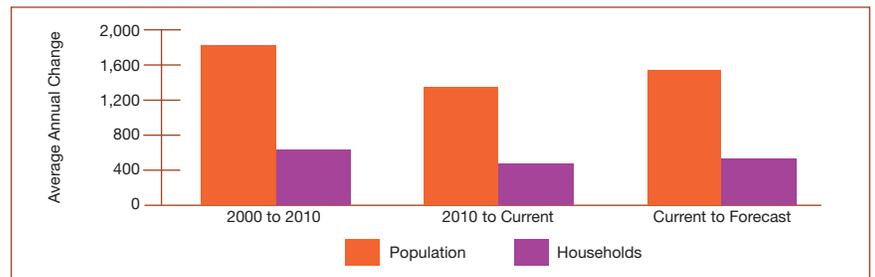
market during the end of the decade and increased enrollment at NAU. Household growth is expected to average 520 households, or 1.1 percent, a year during the 3-year forecast period (see Figure 6).

Figure 5. Number of Households by Tenure in the Flagstaff HMA, 2000 to Current



Sources: 2000 and 2010–2000 Census and 2010 Census; current—estimates by analyst

Figure 6. Population and Household Growth in the Flagstaff HMA, 2000 to Forecast



Sources: 2000 and 2010–2000 Census and 2010 Census; current and forecast—estimates by analyst

Housing Market Trends

Sales Market

As a result of the overproduction of second homes during the middle of the decade, the sales housing market in the Flagstaff HMA is soft as of July 2011. The current sales vacancy rate is estimated at 3 percent, slightly higher than the 2.9-percent rate recorded in the 2010 Census. According to Hanley Wood, LLC, new home sales fell from 160 to 70 homes during

the 12 months ending June 2011, but the average sales price rose by 5 percent, to \$273,700, compared with a 7-percent decline in sales and an 18-percent decline in the average sales price during the previous 12-month period. New home sales have declined by 91 percent since reaching a peak of 850 sales during the 12 months ending June 2006, the

earliest data available. The average new home sales price has fallen 29 percent since reaching a peak of \$386,100 during the 12 months ending June 2007. During the 12 months ending June 2011, existing home sales fell by 17 percent, to 950 sales, and the average sales price fell by 10 percent, to \$368,700, compared with a 16-percent drop in sales and a 12-percent increase in average sales price during the previous 12-month period. Despite the overall declines in sales and average prices in the existing home sales market, foreclosure activity remained relatively unchanged. According to LPS Applied Analytics, as of June 2011, 4.3 percent of home loans in the HMA were 90 or more days delinquent, in foreclosure, or in REO (Real Estate Owned), down slightly from the 4.5-percent rate of a year earlier. This rate compares with 9 percent for Arizona and 7.8 percent nationwide as of June 2011.

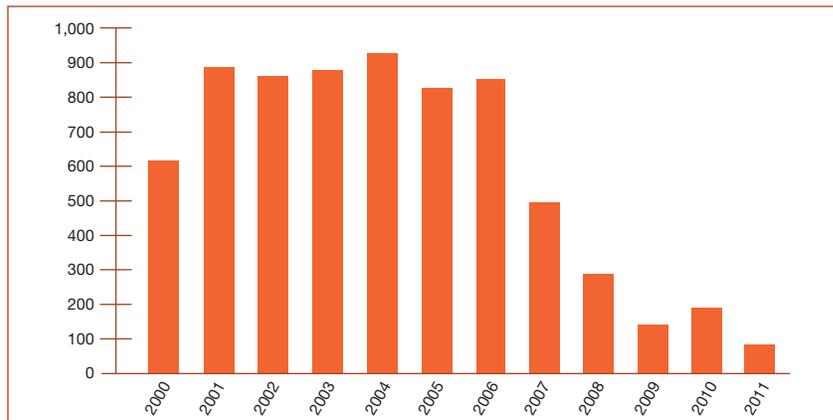
In response to the soft housing market, developers have scaled back on new

home construction since 2007. Based on preliminary data, single-family homebuilding, as measured by the number of building permits issued, decreased by 7 percent, to 130 homes, during the 12 months ending June 2011 compared with the 140 homes permitted during the previous 12-month period. Single-family homebuilding peaked between 2001 and 2006, when an average of 870 homes were permitted annually. As economic conditions worsened, single-family permits dropped by approximately 70 percent to an average of 280 homes permitted annually from 2007 through 2010 (see Figure 7).

Although no new subdivisions are currently under construction, Juniper Point, a large mixed-used subdivision, is expected to begin construction of 300 new single-family homes within the 3-year forecast period. The development ultimately expects to include 900 to 1,200 single-family homes priced between \$250,000 and \$350,000. Juniper Point anticipates a 10- to 15-year buildout period.

During the next 3 years, demand is forecast for 1,135 single-family homes and 90 mobile homes. The 230 homes currently under construction will meet a portion of this demand (see Table 1). In addition, some of the estimated 14,900 other vacant units may return to the market and satisfy a portion of demand during the forecast period. Prices for new homes are expected to start at \$150,000. Table 4 presents the estimated demand for new housing by price range during the forecast period.

Figure 7. Single-Family Building Permits Issued in the Flagstaff HMA, 2000 to 2011



Notes: Includes townhomes. Includes data through June 2011.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Flagstaff HMA, July 1, 2011 to July 1, 2014

Price Range (\$)		Units of Demand	Percent of Total
From	To		
150,000	174,999	110	9.9
175,000	199,999	400	34.7
200,000	224,999	110	9.9
225,000	249,999	60	5.2
250,000	274,999	60	5.2
275,000	299,999	60	5.2
300,000	324,999	55	5.0
325,000	and higher	280	24.8

Note: The 230 homes currently under construction and a portion of the estimated 14,900 other vacant units in the HMA will likely satisfy some of the forecast demand. Numbers do not include the estimated demand for 90 mobile homes.

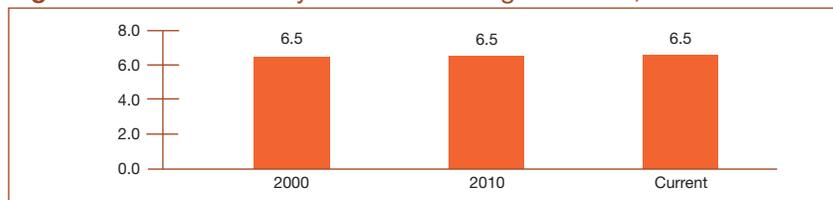
Source: Estimates by analyst

Rental Market

The rental housing market in the Flagstaff HMA is balanced as of July 2011, with a 6.5-percent vacancy rate, unchanged from the rate recorded in the 2010 Census (see Figure 8). According to Axiometrics Inc., the apartment vacancy rate during the second quarter of 2011 was 7.1 percent, an improvement from the 7.9-percent rate recorded

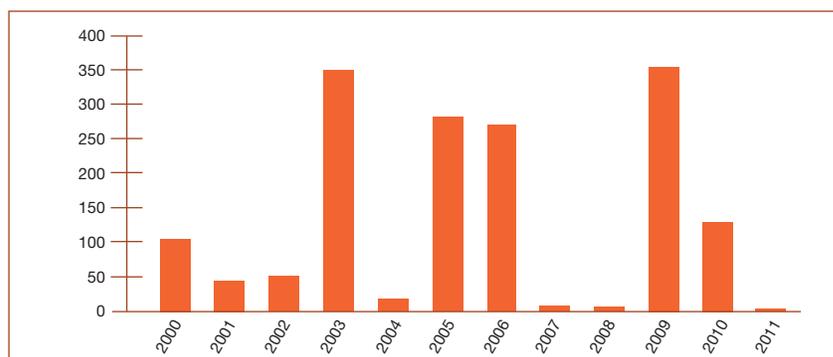
during the second quarter of 2010. During the same period, the average effective rent increased by slightly more than 2 percent, to \$960. The rental housing market tightened from softer conditions a year ago because increased enrollment at NAU led to growing demand for student housing that exceeded available on-campus housing.

Figure 8. Rental Vacancy Rates in the Flagstaff HMA, 2000 to Current



Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 9. Multifamily Building Permits Issued in the Flagstaff HMA, 2000 to 2011



Notes: Excludes townhomes. Includes data through June 2011.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Based on preliminary data, during the 12 months ending June 2011, 75 multifamily units were permitted, down 79 percent from the 360 units permitted during the previous 12-month period. From 2003 through 2006, an average of 230 units were permitted annually. As economic conditions in the HMA weakened, virtually no new multifamily construction occurred and the number of permits fell significantly, to an average of only 10 units a year in 2007 and 2008 (see Figure 9).

Construction is expected to begin in late 2011 on two new market-rate apartment projects and two new dormitories on the NAU campus. Mall & Market Apartments, a planned 288-unit development, will consist of

Housing Market Trends

Rental Market *Continued*

22 buildings with 29 affordable units and 259 market-rate units. Construction on the project is expected to begin in late 2011 and extend into 2013. The Grove at Flagstaff Apartments is a 216-unit complex located 0.5 mile from NAU that will offer two- and three-bedroom units, with completion expected in time for the start of the fall 2012 semester. Rents have not yet been established for either project.

In addition, two new dormitories on the NAU campus are expected to be complete by the fall 2012 semester and will help meet the growing demand for on-campus housing. Hilltop Townhomes will consist of four-bedroom/three-bathroom units and house a total of 576 students, with rents starting at \$609 per student per month. The second on-campus dormitory, The Suites, will offer 550 beds with rents starting at \$559 per student per month for a one-bedroom/one-bathroom unit and \$579 per student per month for a two-bedroom/one-bathroom unit. An estimated 17,850 NAU students

live off campus, accounting for roughly 37 percent of the total population in renter-occupied units. Since 2006, enrollment on the mountain campus has grown by an average of 1,025 students, or 8 percent, annually but is expected to slow to an average of 100 students, or 1 percent, a year during the next 10 years. As a result, these projects may result in a softening rental housing market.

During the next 3 years, demand is forecast for 260 new market-rate rental housing units (see Table 1). The two market-rate projects scheduled to begin construction in late 2011 are expected to satisfy the demand during the forecast period. Rents for new units are projected to start at \$800 for an efficiency unit, \$1,000 for a one-bedroom unit, \$1,100 for a two-bedroom unit, and \$1,400 for a three-bedroom unit. Table 5 provides the estimated demand for new market-rate rental housing by number of bedrooms and rent level during the forecast period.

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Flagstaff HMA, July 1, 2011 to July 1, 2014

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
800 or more	25	1,000 to 1,199	65	1,100 to 1,299	100	1,600 or more	10
		1,200 or more	30	1,300 or more	35		
Total	25	Total	95	Total	130	Total	10

Notes: The 75 units currently under construction will satisfy some of the estimated demand. Numbers may not add to totals because of rounding.

Source: Estimates by analyst

Data Profile

Table DP-1. Flagstaff HMA Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%)	
				2000 to 2010	2010 to Current
Total Resident Employment	59,739	69,780	71,100	1.6	3.8
Unemployment Rate	4.5%	8.9%	8.3%		
Nonfarm Payroll Jobs	58,400	61,100	62,200	0.5	3.6
Total Population	116,320	134,421	136,100	1.5	1.0
Total Households	40,448	46,711	47,300	1.5	1.0
Owner Households	24,835	28,443	28,500	1.4	0.2
Percent Owner	61.4%	60.9%	60.3%		
Renter Households	15,613	18,268	18,800	1.6	2.3
Percent Renter	38.6%	39.1%	39.7%		
Total Housing Units	53,443	63,321	64,400	1.7	1.4
Owner Vacancy Rate	2.2%	2.9%	3.0%		
Rental Vacancy Rate	6.5%	6.5%	6.5%		
Median Family Income	\$45,873	\$60,500	\$60,900	2.8	0.3

Notes: Employment data represent annual averages for 2000, 2010, and the 12 months through June 2011. Median family incomes are for 1999, 2009, and 2011.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census

2010: 4/1/2010—U.S. Decennial Census

Current date: 7/1/2011—Analyst's estimates

Forecast period: 7/1/2011–7/1/2014—Analyst's estimates

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 currently under construction or units in the development pipeline.

Other Vacant Units: In HUD's analysis, other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as "other" vacant by the Census Bureau.

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 are classified as commercial structures and 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.

For additional data pertaining to the housing market for this HMA, go to www.huduser.org/publications/pdf/CMARtables_FlagstaffAZ_12.pdf.

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This analysis has been prepared for the assistance and guidance of the U.S. Department of Housing and Urban Development (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.

The factual framework for this analysis follows the guidelines and methods developed by HUD's Economic and Market Analysis Division. 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.

For additional reports on other market areas, please go to www.huduser.org/publications/econdev/mkt_analysis.html.