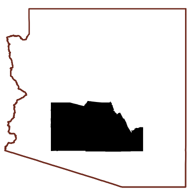
COMPREHENSIVE HOUSING MARKET ANALYSIS

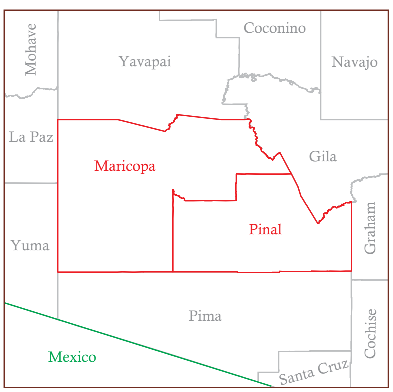
Phoenix-Mesa-Glendale, Arizona

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of October 1, 2012

Summary

Housing Market Area





The Phoenix-Mesa-Glendale Housing Market Area (HMA) (hereafter, Phoenix HMA) consists of Maricopa and Pinal Counties and is coterminous with the Phoenix-Mesa-Glendale, AZ Metropolitan Statistical Area. For purposes of this analysis, the HMA is divided into two submarkets. The City of Phoenix submarket, in Maricopa County, includes the principal city of Phoenix, Arizona's capital and the sixth largest city in the United States. The Remainder submarket consists of Pinal County and the remainder of Maricopa County.

Market Details

Economy

The economy of the Phoenix HMA continued to improve during the 12 months ending September 2012, a trend that began in October 2010. During the 12 months ending September 2012, nonfarm payrolls increased by 37,900 jobs, or 2.2 percent, to 1,743,600 jobs, up from a 1.4-percent gain during the same period a year earlier. Although the economic recovery in the HMA has been somewhat slow, hiring is expected to remain strong in the education and health services and professional and business services sectors during the forecast period.

Sales Market

The sales housing market in the HMA is currently soft, with an estimated sales vacancy rate of 3.7 percent, down from 4.3 percent in 2010. During the forecast period, employment and population gains are expected to support demand for 44,450 new market-rate sales housing units. The 3,500 homes currently under construction will satisfy a portion of that demand (Table 1). In addition, a portion of the 127,000 other vacant units in the HMA may come back on the market and satisfy some of the demand.

Rental Market

The rental housing market in the HMA is currently soft but improving, with an estimated overall rental vacancy rate of 10.4 percent, relatively unchanged from a year ago, but down 3.4 percentage points from the rate recorded in 2010. The 1,700 units currently under construction will satisfy demand during the forecast period (Table 1). To allow for the market to absorb the excess supply of units, no new units should be constructed during the forecast period.

Table 1. Housing Demand in the Phoenix HMA,* 3-Year Forecast, October 1, 2012, to October 1, 2015

	Phoenix HMA*		City of Phoenix Submarket		Remainder Submarket	
	Sales Units	Rental Units	Sales Units	Rental Units	Sales Units	Rental Units
Total demand	44,450	0	8,700	0	35,750	0
Under construction	3,500	1,700	500	1,400	3,000	300

* Phoenix-Mesa-Glendale HMA.

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of October 1, 2012. A portion of the estimated 127,000 other vacant units in the HMA will likely satisfy some of the forecast demand.

Source: Estimates by analyst

Economic Conditions

The economy of the Phoenix HMA continued to improve during the past 12 months, a trend that began in the third quarter of 2010. During the 12 months ending September 2012, nonfarm payrolls increased by 37,900 jobs, or 2.2 percent, to 1,743,600 jobs (Table 2). By contrast, from 2008 through 2010, nonfarm payrolls decreased annually by an average of 76,300 jobs, or 4.1 percent. During that period, the construction sector accounted for approximately 40 percent of the total decline in nonfarm payrolls because of the large decrease in specialty trade contractor employment, a direct result of the collapse in housing starts. Despite recent gains in nonfarm payrolls, the HMA had 175,400 fewer jobs than the peak of 1,919,000 jobs recorded during the 12 months ending February 2008.

Although the economic recovery in the HMA has been slow, strong hiring continued in the education and health services sector, which increased by 10,100 jobs, or 4.1 percent, during the 12 months ending September 2012, compared with a 4-percent gain a year earlier. The trade sector, the largest sector in the HMA, also recorded significant employment gains, adding 6,300 jobs, a 2.2-percent increase from a year earlier. Approximately 80 percent of the job gains occurred in the retail trade subsector, partially because of continued hiring from the largest private employer in the area, Wal-Mart Stores, Inc., with 30,650 employees (Table 3). The construction subsector gained 4,000 jobs, or 4.9 percent, which represents the fastest growth rate of any sector or subsector in the HMA during the 12 months ending September 2012. By comparison, the construction sector declined by an average of 29,000 jobs, or 21 percent, annually from 2007 through 2010. Contributing to the increase in construction sector jobs during the most recent 12 months are numerous new defense contracts totaling $1 billion statewide and a new $300 million research and development facility at Intel Corporation located in the city of Chandler. The building phase at the new facility currently employs approximately 1,000 construction workers and, on completion in the second half of 2013, several hundred new permanent positions are expected. Although construction sector payrolls have increased steadily since January 2012, they remain about 50 percent

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

	12 Months Ending September 2011	12 Months Ending September 2012	Percent Change
Total nonfarm payroll jobs	1,705,700	1,743,600	2.2
Goods-producing sectors	197,300	202,500	2.6
Mining, logging, & construction	85,500	89,700	4.8
Manufacturing	111,700	112,800	1.0
Service-providing sectors	1,508,400	1,541,100	2.2
Wholesale & retail trade	286,700	293,000	2.2
Transportation & utilities	61,600	62,200	1.0
Information	27,700	28,000	1.4
Financial activities	139,800	142,600	2.0
Professional & business services	274,400	280,600	2.3
Education & health services	245,900	256,000	4.1
Leisure & hospitality	176,900	182,700	3.3
Other services	64,900	64,400	– 0.9
Government	230,600	231,700	0.5

** Phoenix-Mesa-Glendale HMA.*

Notes: Based on 12-month averages through September 2011 and September 2012. Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics

Table 3. Major Employers in the Phoenix HMA*

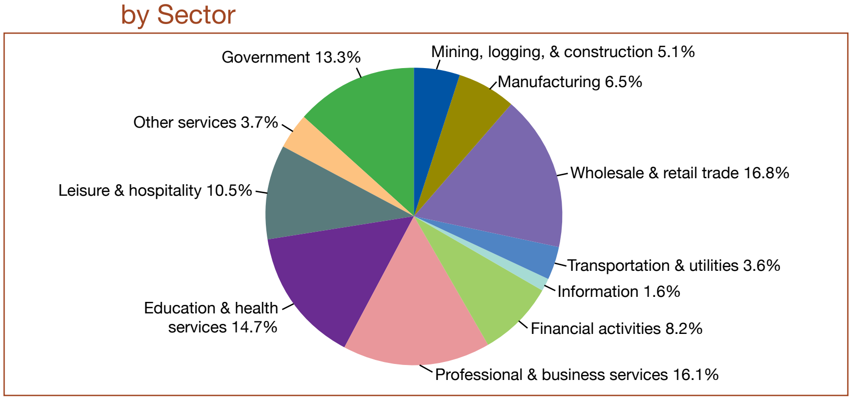
Name of Employer	Nonfarm Payroll Sector	Number of Employees
State of Arizona	Government	49,800
Wal-Mart Stores, Inc.	Wholesale & retail trade	30,650
Banner Health	Education & health services	24,850
City of Phoenix	Government	15,100
Bank of America Corporation	Financial activities	13,300
Wells Fargo & Company	Financial activities	13,300
Maricopa County	Government	12,800
Raytheon Company	Professional & business services	11,500
Arizona State University	Government	11,200
Apollo Group, Inc.	Education & health services	11,000

** Phoenix-Mesa-Glendale HMA.*

Source: 2013 Greater Phoenix Economic Council less than the peak of 180,100 jobs recorded in 2006. During the next 3 years, rapid job gains in the construction subsector are expected to continue because of large corporate investments in infrastructure and increases in the homebuilding industry as home sales market conditions continue to improve.

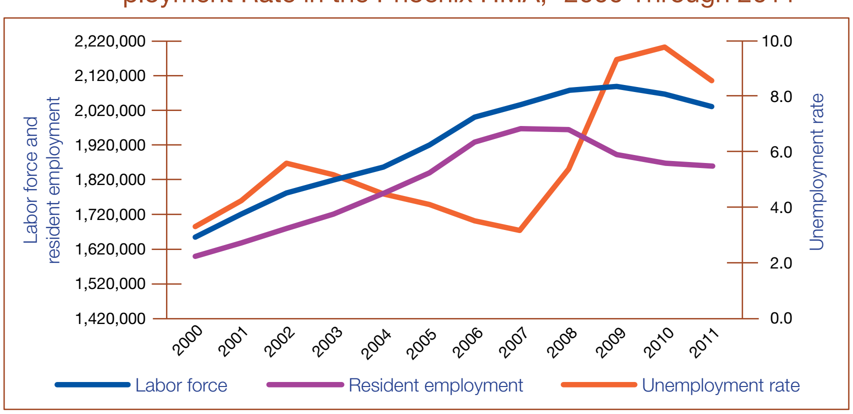
The professional and business services sector also recorded significant nonfarm payroll increases during the 12 months ending September 2012. Widespread hiring of professionals, managers, and administrative and support workers contributed to an increase of 6,200 jobs, or 2.3 percent, compared with the number of jobs recorded during the previous 12-month period. As economic conditions in the HMA have improved, hiring has been particularly strong in the leisure and hospitality sector as well, primarily in the restaurant, lodging, and entertainment industries. During the 12 months ending September 2012, the leisure and hospitality sector added 5,800 jobs, an increase of 3.3 percent compared with the number of jobs recorded a year earlier. The only sector in the HMA to record employment declines during the 12 months ending September 2012 was other services, which declined by approximately 500 jobs, 0.9 percent, compared with the number of jobs recorded a year earlier. Payrolls in the other services sector have declined by an average of 3 percent annually since the peak of 73,400 jobs recorded in 2008. Figure 1 shows current employment in the HMA by sector.

Figure 1. Current Nonfarm Payroll Jobs in the Phoenix HMA,* by Sector



** Phoenix-Mesa-Glendale HMA.*
Note: Based on 12-month averages through September 2012.
Source: U.S. Bureau of Labor Statistics

Figure 2. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Phoenix HMA,* 2000 Through 2011

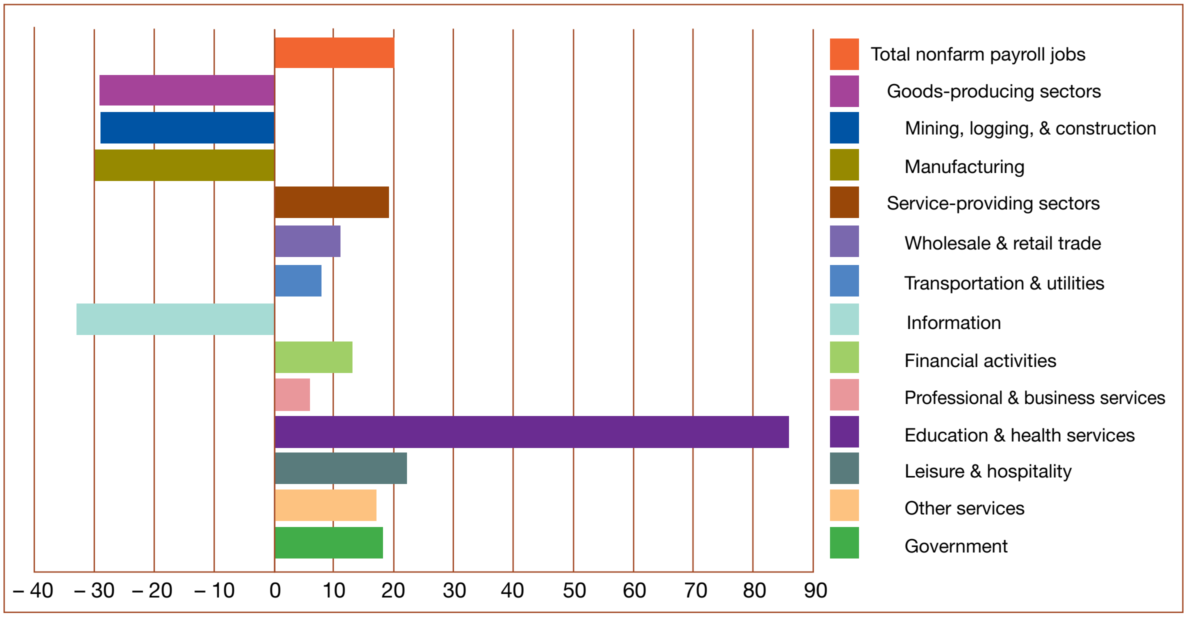


** Phoenix-Mesa-Glendale HMA.*
Source: U.S. Bureau of Labor Statistics

The employment growth that occurred during the past 12 months contributed to a decrease in the unemployment rate, which averaged 7.5 percent for the 12 months ending September 2012, down from the 8.9-percent rate recorded a year earlier. From 2000 to 2008, the unemployment rate averaged 4.3 percent before rising to an average of 9.6 percent in 2009 and 2010. Figure 2 illustrates trends in the labor force, resident employment, and the unemployment rate in the HMA from 2000 through 2011.

Nonfarm payroll growth in the HMA is expected to moderate to 2 percent during the next 12 months. By the end of the 3-year forecast period, however, employment is expected to increase at a rate of 2.5 percent a year, with the education and health services and professional and business services sectors expected to lead job growth. Figure 3 illustrates sector growth in the HMA from 2000 to the current date.

Figure 3. Sector Growth in the Phoenix HMA,* Percentage Change, 2000 to Current



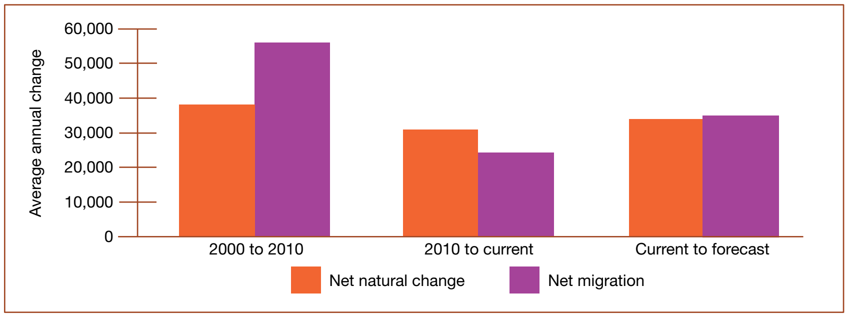
** Phoenix-Mesa-Glendale HMA.*
Note: Current is based on 12-month averages through September 2012.
Source: U.S. Bureau of Labor Statistics

Population and Households

As of October 1, 2012, the population of the Phoenix HMA was estimated to be 4.33 million, a 1.3-percent increase from a year earlier. By comparison, population growth from 2000 through 2010 averaged 2.6 percent a year, with peak growth at 3.8 percent in 2005. During the forecast period, the population is expected to increase by 69,000, or 1.6 percent, annually and total 4.53 million by October 1, 2015.

Since 2010, the population of the City of Phoenix submarket has increased by an average of 19,750, or 1.4 percent, annually, to reach 1.49 million as of October 1, 2012. During the same period, net in-migration accounted for approximately one-third of the population growth, an average of 7,150 people a year; the remainder of the growth came from net natural change (resident births minus resident deaths). By comparison, population growth from 2005 through 2009 averaged 13,150, or 0.9 percent, with net natural change accounting for all of the growth. Net in-migration in the City of Phoenix submarket is expected to slow to an average of 5,000 people a year during the 3-year forecast period as more people move to the Remainder submarket because of increased employment opportunities. During the next 3 years, the population is expected to increase by an annual average of 19,000, or 1.3 percent, in the City of Phoenix submarket. Figure 4 illustrates the components of population change in the HMA from 2000 to the forecast date.

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



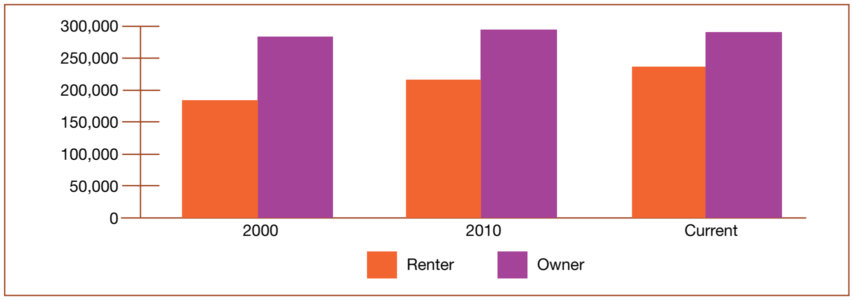
** Phoenix-Mesa-Glendale HMA.*
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

The rate of population growth in the Remainder submarket slowed each year from 2006 to 2010, from 3.8 to 1.2 percent, respectively, because of significant declines in net in-migration, a result of the declining economy. Since 2010, however, net in-migration has accounted for nearly one-half of the population growth, an average of 17,200 people a year, reflecting an improving economy. During the same period, the population of the Remainder submarket has increased by an average of 35,500, or 1.3 percent, annually, to a current population of 2.83 million. According to data from the Census Bureau, from April 1, 2010, to July 1, 2011 (the most recent data available), the city of Mesa recorded the most population growth in the Remainder submarket, with an increase of 6,439 people, or 1.5 percent. During the same period, the cities of Chandler, Gilbert, Glendale, and Scottsdale also recorded population gains of 1.5 percent each, with increases totaling 3,482, 3,075, 3,302, and 3,194 people, respectively. Net in-migration in the Remainder submarket is expected to increase to an average of 30,000 people a year during the 3-year forecast period because of increased employment opportunities in the aforementioned cities. During the next 3 years, the population is expected to increase by an average of 50,000, or 1.7 percent, annually in the Remainder submarket.

Largely because of moderating population growth during the past 2 years, the average annual rate of household growth in the HMA has been slower since 2010 compared with the 2000s, particularly in the Remainder submarket. Since 2010, the number of households in the Remainder submarket has increased by an annual average of 11,050 households, or 1.1 percent, compared with an increase of 29,400 households, or 3.4 percent, during the 2000s. Since 2010, the number of households in the City of Phoenix submarket increased by 5,275 annually, up from 4,900 annually during the 2000s, but the rate of growth remained the same at 1 percent. Currently, the HMA has 1,578,000 households. The current homeownership rates are 54.9 percent in the City of Phoenix submarket and 66.8 percent in the Remainder submarket. The homeownership rate in the HMA is currently estimated to be 62.8 percent, a drop of nearly 3 percentage points from the rate recorded in 2010. The decline in the homeownership rate is attributable to an increase in the propensity to rent, the sluggish economy, and tightened mortage lending standards. Figures 5 and 6 illustrate the number of households by tenure in each submarket for 2000, 2010, and the current date.

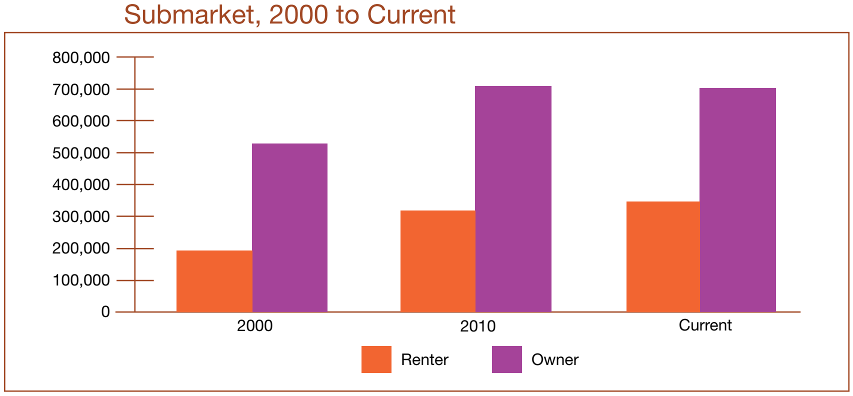
During the forecast period, the number of households is expected to increase by 23,650, or 1.5 percent, annually to total approximately 1,649,000 households by October 1, 2015. Figure 7 shows population and household growth in the HMA from 2000 to the forecast date. Tables DP-1 through DP-3, at the end of this report, provide demographic data for the HMA and each submarket for 2000, 2010, and the current date.

Figure 5. Number of Households by Tenure in the City of Phoenix Submarket, 2000 to Current



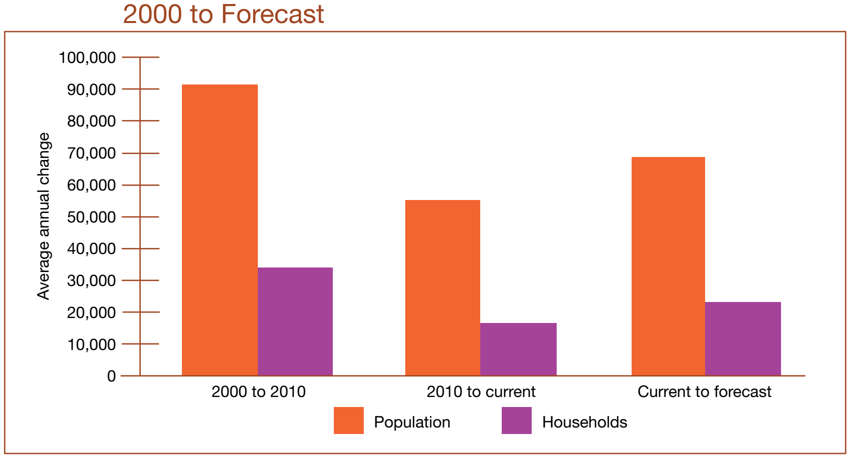
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 6. Number of Households by Tenure in the Remainder Submarket, 2000 to Current



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

Figure 7. Population and Household Growth in the Phoenix HMA,* 2000 to Forecast



** Phoenix-Mesa-Glendale HMA.*

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

Sales Market—City of Phoenix Submarket

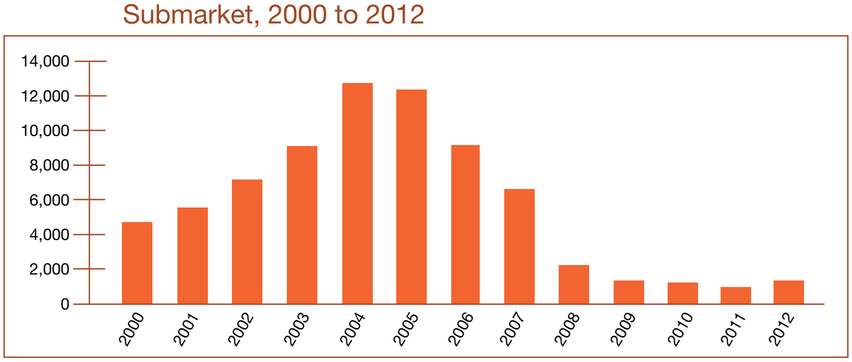
Home sales market conditions in the City of Phoenix submarket are currently soft, with an estimated sales vacancy rate of 4.1 percent, down slightly from 4.3 percent in April 2010, but nearly 3 times higher than the 1.4 percent rate recorded in 2000. Existing (regular resale only) home sales activity in the City of Phoenix submarket has recently shown strong signs of improvement. Based on data from Hanley Wood, LLC, during the 12 months ending September 2012, the number of existing home sales in the City of Phoenix submarket totaled approximately 16,050 homes, a 67-percent increase compared with the number of homes sold a year ago. Current existing homes sales represent a 56-percent decrease from the decade high average of 36,400 existing homes sold annually from 2005 through 2006, however. The number of new home sales continued to decline during the 12 months ending September 2012 to a total of 990 homes, a decrease of 6 percent compared with the number sold during the same 12-month period a year ago. New home sales fluctuated during the middle part of the decade, but have declined steadily every year since 2007 and remain well below the peak of 10,250 homes sold annually from 2005 through 2006. Real Estate Owned (REO) sales in the City of Phoenix submarket totaled 5,375 homes during the 12 months ending September 2012, a 37-percent decrease compared with the number sold during the previous 12 months. REO sales are currently at their lowest point since 2008. Home sales in the City of Phoenix during the past 4 years have been greatly affected by the sluggish economy, tighter lending standards, and a decline in consumer confidence in the home sales market. As a result, approximately 42 percent of all home sales from 2008 through 2011 were purchased for investment purposes, based on data from Hanley Wood, LLC. Since 2011, however, as listings for distressed properties subsided and economic conditions started to improve, investment purchases have declined. According to the same source, during the 12 months ending September 2012, investor transactions totaled 10,250, representing 38 percent of all existing home sales in the submarket, compared with 47 percent of total home sales a year earlier.

Based on data from Hanley Wood, LLC, during the 12 months ending September 2012, the average sales price of existing homes in the City of Phoenix submarket decreased 4 percent, to $172,300, compared with the average price during the previous 12 months. Despite a continued decline, existing home prices have begun to stabilize after decreasing an average of 14 percent annually from 2008 through 2010. Existing home sales prices remain well below the peak average sales price of $304,000 recorded in February 2008. According to the same source, during the 12 months ending September 2012, the average sales price of new homes in the City of Phoenix submarket increased 20 percent, to $285,200, compared with the sales price during the same period a year ago. New home prices declined sharply from 2009 through the summer of 2010 and then experienced moderate declines from the fall of 2010 through the summer of 2012. Although prices improved rapidly during the past 6 months, new home prices remain well below the peak average sales price of $318,500 recorded in November 2006. During the 12 months ending September 2012, the average sales price of REOs increased 24 percent to $122,800, primarily because of a decline in the REO inventory. According to data from LPS Applied Analytics, as of October 2012, 5.3 percent of home loans in Maricopa County were 90 or more days delinquent, were in foreclosure, or transitioned into REO, down from 5.5 percent a year ago. The city of Phoenix accounts for slightly less than 40 percent of total housing units in Maricopa County.

Single-family home construction activity, as measured by the number of single-family building permits issued, has increased in the City of Phoenix submarket but remains at levels much lower than those recorded during the previous decade. According to preliminary data, during the 12 months ending September 2012, permits were issued for 1,500 single-family homes, a 72-percent increase compared with the 870 homes permitted during the previous 12 months (the lowest level recorded in at least 20 years). By comparison, an average of 11,400 homes were permitted annually from 2004 through 2006. After peaking at 12,400 homes permitted in 2005, single-family home construction activity declined each year through 2011. New single-family developments currently under construction include Stetson Valley Estates in the northern portion of the city of Phoenix; Sienna Vista in the western portion of the city of Phoenix; and Desert Rose, which is located approximately 10 miles southeast of downtown Phoenix. Homes at Stetson Valley range in size from 2,900 to 4,000 square feet and start at $324,000. New homes at Desert Rose, which range from 2,700 to 4,000 square feet and have a starting price of $350,900, are similar to homes offered at Stetson Valley in both size and price. Sienna Vista offers smaller, more affordable homes, with prices starting at $149,900 for a two-bedroom, two-bath 1,350-square-foot home. Figure 8 shows the number of single-family homes permitted in the submarket from 2000 to the current date.

During the 3-year forecast period, demand is estimated for 8,700 new market-rate homes in the City of Phoenix submarket. The 500 homes currently under construction (Table 1) and a portion of the 22,000 other vacant units in the submarket that may reenter the market will satisfy some of the forecast demand. Table 4 illustrates the estimated demand for new market-rate sales housing in the submarket by price range. The current surplus of sales housing is expected to satisfy the demand during the first year of the forecast period. Demand is expected for 1,100 homes during the second year and 7,100 homes during the last year of the forecast period.

Figure 8. Single-Family Building Permits Issued in the City of Phoenix Submarket, 2000 to 2012



Notes: Includes townhomes. Includes data through September 2012.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 4. Estimated Demand for New Market-Rate Sales Housing in the City of Phoenix Submarket, October 1, 2012, to October 1, 2015

Price Range ($)		Units of Demand	Percent of Total
From	To		
150,000	174,999	1,300	15.0
175,000	199,999	2,600	30.0
200,000	249,999	2,175	25.0
250,000	349,999	1,300	15.0
350,000	499,999	870	10.0
500,000	and higher	440	5.0

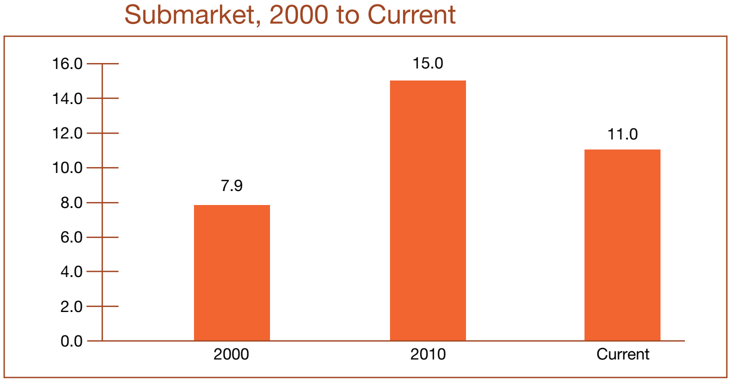
Note: The 500 homes currently under construction and a portion of the estimated 22,000 other vacant units in the submarket will likely satisfy some of the forecast demand.

Source: Estimates by analyst

Rental Market—City of Phoenix Submarket

The rental housing market in the City of Phoenix submarket is currently soft, with an estimated overall rental vacancy rate of 11 percent, relatively unchanged from a year ago but down 4 percentage points from the rate recorded in 2010 (Figure 9). Rental occupancy and average apartment rents have increased since 2010 because of significant job growth and a reduced number of apartments entering the market. According to data from Reis, Inc., in the Central Phoenix North submarket, one of three Reis submarkets in the City of Phoenix submarket, conditions in the apartment market are somewhat similar to the overall rental market. In the third quarter of 2012, the apartment market in the Central Phoenix North submarket was soft, with a 10.3 percent vacancy rate, but this was down compared with the rate of 11.8 percent recorded in the third quarter of 2011. According to the same source, the two remaining Reis rental submarkets that comprise the City of Phoenix submarket, the Central Phoenix South submarket and the Northeast Phoenix submarket, were slightly soft with vacancy rates of 7.2 and 7.0 percent, down from 8.5 and 7.4, respectively, a year earlier. The average apartment rent in the City of Phoenix submarket ranged from a low of $640 in Central Phoenix North to a high of $750 in Central Phoenix South, up in each area approximately 1 percent compared with rents recorded a year earlier. Concessions througout the City of Phoenix submarket average $50 a month or approximately 1 month's free rent on a 12-month lease.

Figure 9. Rental Vacancy Rates in the City of Phoenix Submarket, 2000 to Current



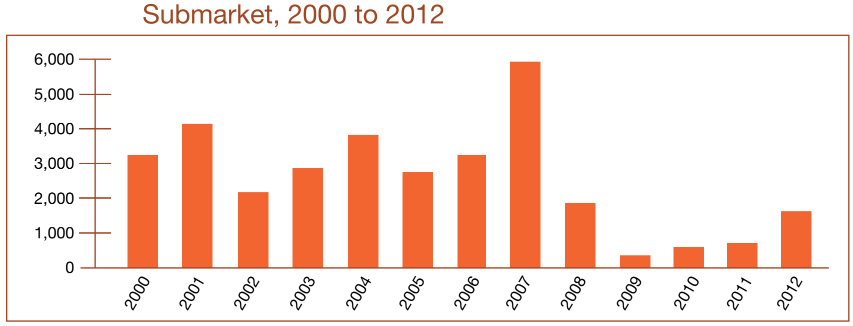
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

In response to increasing apartment occupancy rates, multifamily construction activity, as measured by the number of multifamily units permitted, more than doubled, to 1,825 units during the 12 months ending September 2012, compared with 640 units permitted during the 12-month period ending September 2011, based on preliminary data. The pace of multifamily construction has remained well below the average of 3,950 units permitted annually between 2004 and 2007, but it has accelerated rapidly from the average of 870 permits issued annually from 2008 through 2011. Condominiums and townhomes account for an estimated 25 percent of existing multifamily units in the City of Phoenix submarket, but have not been a significant part of the new home sales market since 2010. Currently, 1,400 multifamily units are under construction, of which approximately 90 percent are rental apartment units. Figure 10 illustrates the number of multifamily units permitted in the submarket from 2000 to the current date.

Several apartment properties are currently under construction in the City of Phoenix submarket. Recent groundbreakings include Broadstone on Camelback in northeast Phoenix and Roosevelt Point in downtown Phoenix, with 270 and 325 units, respectively. Broadstone on Camelback, a luxury development, is expected to be complete by the end of the year. Roosevelt Point, also a luxury development, is designed to cater to downtown professionals and students attending the downtown campus of Arizona State University (ASU). Construction at Roosevelt Point is expected to be complete in the fall of 2013. In addition to the units under construction, several properties are currently in lease up in the submarket. Recent apartment completions include Devine Legacy on Central, Encanto Pointe, and Madison Pointe, with 65, 54, and 60 units, respectively. All three properties are subsidized, with rents well below the average for the area.

During the next 3 years, no demand is forecast for additional market-rate rental units in the City of Phoenix submarket. The 1,400 units currently under construction and the supply of excess vacant units are expected to satisfy the demand for rental housing during the forecast period.

Figure 10. Multifamily Building Permits Issued in the City of Phoenix Submarket, 2000 to 2012



Notes: Excludes townhomes. Includes data through September 2012.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Sales Market—Remainder Submarket

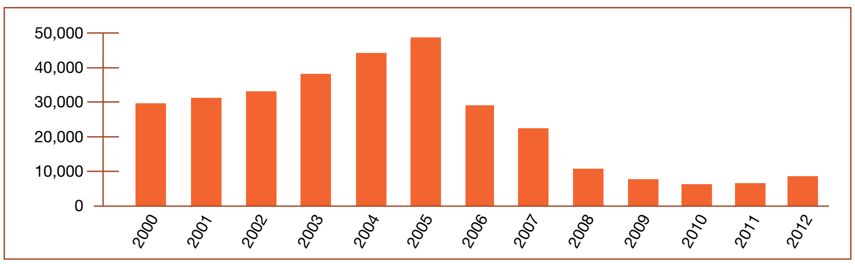
Home sales market conditions in the Remainder submarket are currently soft, with an estimated sales vacancy rate of 3.5 percent, down from 4.2 percent in April 2010. Sales of both new and existing properties have increased during the past year, in part because of improving economic conditions. According to data from Hanley Wood, LLC, the number of existing homes sold in the Remainder submarket totaled 48,250 during the 12 months ending September 2012, an increase of 45 percent compared with the 33,300 existing homes sold a year earlier. Similarly, the number of new homes sold during the 12 months ending September 2012 totaled 9,050, an increase of 44 percent compared with 6,300 new homes sold a year earlier. New home sales have been particularly strong during the past year because of the narrowing price disparity between new and existing homes. Contributing to improvements in the home sales market was a decline in REO sales. During the 12 months ending September 2012, the number of REO sales totaled 23,550, a 43-percent decrease compared with same period a year ago.

New and existing single-family home sales prices continued to decline in the Remainder submarket during the past year, but declines in new home sales prices appear to be moderating. Based on data from Hanley Wood, LLC, during the 12 months ending September 2012, the average sales price of existing homes in the remainder submarket decreased 4 percent, to $207,100, compared with a year earlier. Average prices in the existing home sales market have yet to bottom out and remain well below the peak existing sales price of $352,300 recorded in October 2007. During the 12 months ending September 2012, the average sales price of new homes in the remainder submarket decreased 2 percent, to $244,000, compared with the average price during the same period a year earlier. New home prices declined sharply from 2008 through the fall of 2010 and then moderated through the summer of 2012. New home prices have remained flat during the past 6 months because of increased sales at several lower priced subdivisions in Glendale and Surprise, offsetting higher priced home sales in Scottsdale and Paradise Valley. Current new home prices remain well below the peak price of $324,900 recorded in November 2006. During the 12 months ending September 2012, the average sales price of REOs increased 15 percent to $156,800, compared with the price of REOs during the previous 12 months, because of the declining inventory. According to LPS Applied Analytics, as of September 2012, 5.5 percent of loans in the HMA were 90 or more days delinquent, in foreclosure, or transitioning in to REO, down from 8.1 percent a year ago. The Remainder submarket accounts for more than 60 percent of total housing units in the HMA.

In response to the improving sales market conditions, homebuilders increased new home construction activity during the 12 months ending September 2012. Based on preliminary data, single-family construction activity, as measured by the number of single-family homes permitted, totaled 9,575 homes, an increase of 55 percent compared with the number permitted during the previous 12 months. Since 2008, single-family construction activity has remained well below the average of 43,800 homes permitted annually from 2003 through 2005. New home construction in the submarket is primarily in Maricopa County in the suburban cities of Gilbert, Glendale, and Surprise. Several subdivisions are currently under construction in Gilbert, southeast of downtown Phoenix. Sales prices in Gilbert typically range from $222,000 for a three-bedroom, two-bathroom home to $447,000 for larger, high-end homes. West Glen Villas, a single-family development currently under construction in the city of Glendale, northwest of downtown Phoenix, offers homes with sales prices that range from $135,500 for new three-bedroom, two-bathroom homes to $153,500 for four-bedroom, three-bathroom homes. Surprise, located northwest of Glendale, includes multiple developments currently under construction with several price ranges. Sales prices in Surprise range from a low of $136,000 for more typical starter homes to $265,000 for larger luxury homes. Figure 11 shows the number of single-family homes permitted in the Remainder submarket from 2000 to the current date.

During the 3-year forecast period, demand is estimated for 35,750 new market-rate homes in the submarket. The 3,000 homes currently under construction (Table 1) and a portion of the 105,000 other vacant units in the submarket that may reenter the market will satisfy some of the forecast demand. Table 5 illustrates the estimated demand for new market-rate sales housing in the Remainder submarket by price range. The current surplus of sales housing is expected to satisfy the demand during the first year of the forecast period. Demand is expected for 13,900 homes during the second year and 18,850 homes during the last year of the forecast period.

Figure 11. Single-Family Building Permits Issued in the Remainder Submarket, 2000 to 2012



Notes: Includes townhomes. Includes data through September 2012.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 5. Estimated Demand for New Market-Rate Sales Housing in the Remainder Submarket, October 1, 2012, to October 1, 2015

Price Range ($)		Units of Demand	Percent of Total
From	To		
110,000	124,999	3,575	10.0
125,000	149,999	6,425	18.0
150,000	174,999	7,875	22.0
175,000	199,999	8,575	24.0
200,000	249,999	4,300	12.0
250,000	299,999	2,850	8.0
300,000	399,999	1,800	5.0
400,000	and higher	360	1.0

Note: The 3,000 homes currently under construction and a portion of the estimated 105,000 other vacant units in the submarket will likely satisfy some of the forecast demand.
Source: Estimates by analyst

Rental Market—Remainder Submarket

The rental housing market in the Remainder submarket is currently soft, with an estimated overall rental vacancy rate of 10 percent, relatively unchanged from a year ago, but down about 3 percentage points from the rate recorded in 2010 (Figure 12).

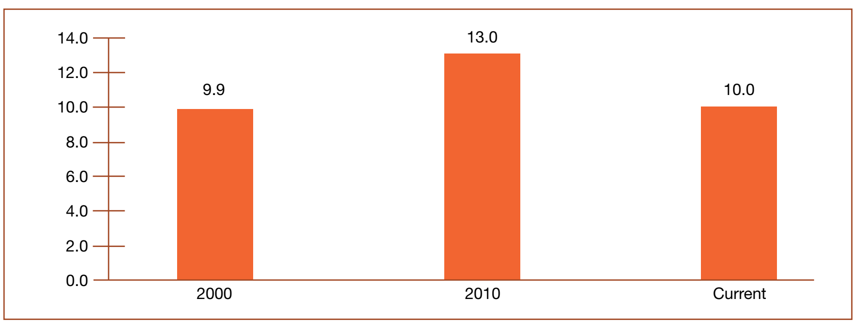
Vacancy conditions in the apartment market are relatively tighter compared with those in the overall rental market. According to Reis, Inc., during the third quarter of 2012 apartment vacancy rates were lowest in the Reis submarkets of South Tempe, South

Scottsdale, and East Mesa in Maricopa County, with rates of approximately 3.8, 3.9, and 4.3 percent, respectively. The highest average vacancy rate was recorded in the Maryvale submarket, located in western Maricopa County, at 10 percent, down from the 12.7-percent rate recorded a year ago. Average rents ranged from a low of $580 in the Maryvale submarket to a high of $1,025 in the North Scottsdale submarket. Concessions throughout the Remainder submarket average $70 a month, or approximately 1 month's free rent on a 12-month lease. Apartment rental market conditions are generally tighter in areas located nearest to the key employment centers in the HMA.

Despite continued population growth and recent improvements in the local economy, the number of permits issued for new multifamily units during the past year continued to decline. Based on preliminary data, during the 12 months ending September 2012, approximately 310 multifamily units were permitted, a 70-percent decrease compared with the 1,050 units permitted during the previous 12 months. Multifamily construction activity averaged 5,425 units permitted annually from 2000 through 2004; it slowed somewhat to an average of 5,050 units permitted from 2005 through 2008 before declining drastically to an average of 640 permits issued annually since 2009. Condominiums and townhomes account for an estimated 30 percent of existing multifamily units in the remainder submarket, but they have accounted for approximately 20 percent of all multifamily construction activity since 2010, based on data from the McGraw-Hill Construction Pipeline database. Figure 13 illustrates the number of multifamily units permitted in the submarket from 2000 to the current date.

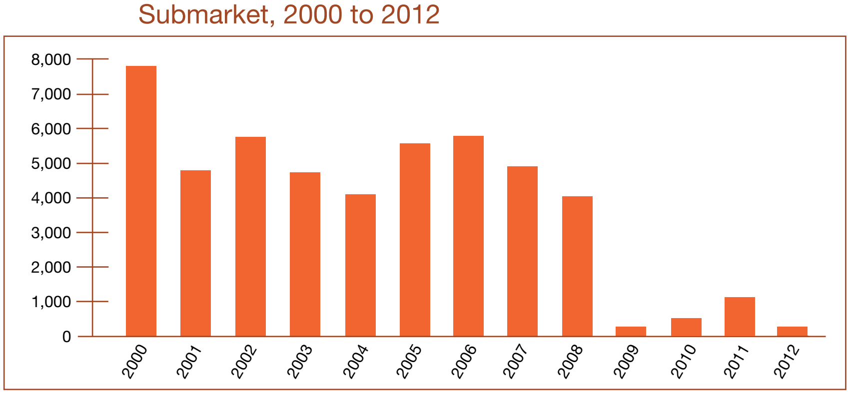
Students at ASU occupy a large portion of the rental stock in the Remainder submarket. According to ASU, approximately 72,250 students enrolled for the fall 2011 semester (the latest data available) at one of four campuses located throughout the HMA, although the flagship campus in Tempe in Maricopa County accounted for approximately 80 percent of enrollment. Three of the four campuses are located within the Remainder submarket. ASU currently requires freshmen to reside on campus and offers about 15,000 on-campus dormitory units. Estimates provided by ASU indicate that more than 40,000 students live off campus in the private rental market. According to Reis, Inc., the apartment vacancy rate in the Reis

Figure 12. Rental Vacancy Rates in the Remainder Submarket, 2000 to Current



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

Figure 13. Multifamily Building Permits Issued in the Remainder Submarket, 2000 to 2012



Notes: Excludes townhomes. Includes data through September 2012.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

North Tempe submarket, which includes the largest campus for ASU, averaged 5.3 percent during the third quarter of 2012, down from 6.5 percent in the third quarter of 2011. During the same period, the average rent increased 2 percent to $850.

Several properties are currently in lease up in the Remainder submarket, primarily in Maricopa County. Recent apartment completions include Parcland Crossing in Chandler and San Marquis in Tempe, with 383 and 224 units, respectively. Both properties are currently offering move-in specials averaging $500 with a 12-month lease.

In addition to units in lease up, Broadstone at Lincoln in Scottsdale is currently under construction. When complete in 2013, the 264-unit complex will offer studio, one-bedroom, and two-bedroom units with rents ranging from $1,000 to $1,900.

During the next 3 years, no demand is forecast for additional market-rate rental units in the Remainder submarket. The 300 units currently under construction and the supply of excess vacant units are expected to satisfy the demand for rental housing during the forecast period.

Data Profiles

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

				Average Annual Change (%)	
	2000	2010	Current	2000 to 2010	2010 to Current
Total resident employment	1,609,059	1,871,582	1,874,000	1.5	0.1
Unemployment rate	3.3%	9.8%	7.5%		
Nonfarm payroll jobs	1,578,400	1,688,900	1,744,000	0.7	1.9
Total population	3,251,876	4,192,887	4,331,000	2.6	1.3
Total households	1,194,250	1,537,173	1,578,000	2.6	1.1
Owner households	812,045	1,005,949	991,000	2.2	– 0.6
Percent owner	68.0%	65.4%	62.8%		
Renter households	382,205	531,224	586,900	3.3	4.1
Percent renter	32.0%	34.6%	37.2%		
Total housing units	1,331,385	1,798,501	1,811,000	3.1	0.3
Owner vacancy rate	2.0%	4.3%	3.7%		
Rental vacancy rate	9.0%	13.8%	10.4%		
Median Family Income	$53,100	$65,900	$66,600	2.2	1.1

** Phoenix-Mesa-Glendale HMA.*

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 2000, 2010, and the 12 months through September 2012. Median Family Incomes are for 1999, 2009, and 2010.

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

Table DP-2. City of Phoenix Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total population	1,323,107	1,445,632	1,495,000	0.9	1.4
Total households	465,834	514,806	528,000	1.0	1.0
Owner households	282,670	296,742	290,100	0.5	– 0.9
Percent owner	60.7%	57.6%	54.9%		
Rental households	183,164	218,064	238,000	1.8	3.6
Percent renter	39.3%	42.4%	45.1%		
Total housing units	495,832	590,149	591,800	1.8	0.1
Owner vacancy rate	1.4%	4.3%	4.1%		
Rental vacancy rate	7.9%	15.0%	11.0%		

Note: Numbers may not add to totals because of rounding.

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

Table DP-3. Remainder Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total population	1,928,769	2,747,255	2,836,000	3.6	1.3
Total households	728,416	1,022,367	1,050,000	3.4	1.1
Owner households	529,375	709,207	700,900	3.0	– 0.5
Percent owner	72.7%	69.4%	66.8%		
Rental households	199,041	313,160	349,000	4.6	4.4
Percent renter	27.3%	30.6%	33.2%		
Total housing units	835,553	1,208,352	1,219,000	3.8	0.4
Owner vacancy rate	2.3%	4.2%	3.5%		
Rental vacancy rate	9.9%	13.0%	10.0%		

Note: Numbers may not add to totals because of rounding.

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: 10/1/2012—Analyst's estimates
Forecast period: 10/1/2012–10/1/2015—
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 the U.S. Department of Housing and Urban Development's (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 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.

For additional data pertaining to the housing market for this HMA, go to www.huduser.org/publications/pdf/CMARtables_Phoenix-Mesa-GlendaleAZ_13.pdf.

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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.

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.