

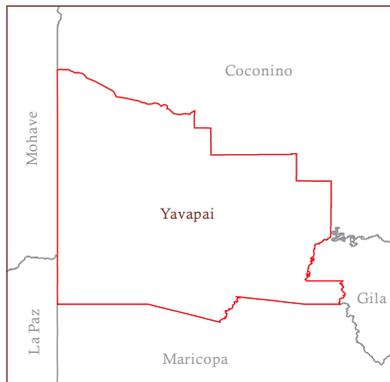


Prescott, Arizona

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



Housing Market Area



The Prescott Housing Market Area (HMA) is coterminous with Yavapai County. The city of Prescott, the county seat, is located approximately 100 miles north of Phoenix and 130 miles south of Grand Canyon National Park. Retirees are a significant factor in the HMA as evidenced by a median age of 42 years, well above the national average age of 37 years, according to the 2010 Census.

Market Details

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Summary

Economy

Economic conditions in the Prescott HMA are weak, but job losses have slowed since 2010. Nonfarm payroll growth in the leisure and hospitality, manufacturing, information, and trade, transportation, and utilities sectors partially offset losses in all other sectors. Nonfarm payrolls decreased by 1,100 jobs, or 2 percent, to 54,000 jobs during the 12 months ending July 2011, an improvement compared with the decline of 3,600 jobs, or 6.1 percent, during the previous 12 months. During the next 3 years, nonfarm payrolls are expected to increase by an average of 830 jobs, or 1.5 percent, annually.

Sales Market

The sales housing market in the HMA is currently soft. During the 12 months ending July 2011, 2,850 new and existing homes sold, a 30-percent decrease from the previous year. The average home sales price declined 11 percent to \$175,500. Demand is expected for 2,125 new sales units, including 200 mobile homes, during the 3-year forecast period (see Table 1). Some of the estimated 13,800 other vacant units currently in the HMA will likely meet a portion of that demand.

Rental Market

The rental housing market in the HMA is currently soft, with an estimated overall vacancy rate of 9.8 percent. Although the market is soft, conditions have improved slightly from 2010, when the vacancy rate averaged 10.1 percent and the supply of new units to the market outpaced growth in renter households. No demand for new rental units is expected during the forecast period (see Table 1).

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

	Prescott HMA	
	Sales Units	Rental Units
Total Demand	2,125	0
Under Construction	110	50

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of August 1, 2011. Total sales demand includes demand for an estimated 200 mobile homes. A portion of the estimated 13,800 other vacant units in the HMA will likely satisfy some of the forecast demand.

Source: Estimates by analyst

Economic Conditions

High levels of in-migration, particularly by retirees, and home construction drove strong economic growth in the Prescott HMA from 2000 through 2006. Economic conditions are currently

weak, however, because of slowed in-migration and a soft housing market. Nonfarm payrolls expanded by 2,375 jobs, or 4.8 percent, annually from 2000 through 2006. As a result of heavy in-migration and a strong market for new housing, the mining, logging, and construction and the professional and business services sectors combined to account for 33 percent of nonfarm job growth during the period, expanding by approximately 480 and 270 jobs, or 7.7 and 7.9 percent, respectively, a year. As in-migration slowed and demand for new housing decreased, however, nonfarm payrolls declined by an average of 2,425 jobs, or 3.7 percent, a year from 2006 through 2010. The mining, logging, and construction and the professional and business services sectors accounted for 73 percent of job losses during the period, decreasing by approximately 1,200 and 450 jobs, or 13.2 and 9 percent, respectively, a year. During the 12 months ending July 2011, nonfarm payrolls averaged 54,000 jobs, a 2-percent decline from 55,100 jobs during the previous 12 months (see Table 2). During the 12-month period ending July 2011, the average unemployment rate declined from 10.6 to 10.1 percent but remained well above the 4.5-percent average from 2000 through 2006 (see Figure 1).

The government sector is the second largest in the HMA, accounting for 20.1 percent of all nonfarm payrolls during the 12-month period ending July 2011 (see Figure 2). Nonfarm payrolls in the sector decreased, however, to 10,850 jobs during the 12 months ending July 2011, a 4.1-percent decline from 11,300 jobs reported during the previous 12-month period. Further contraction is also

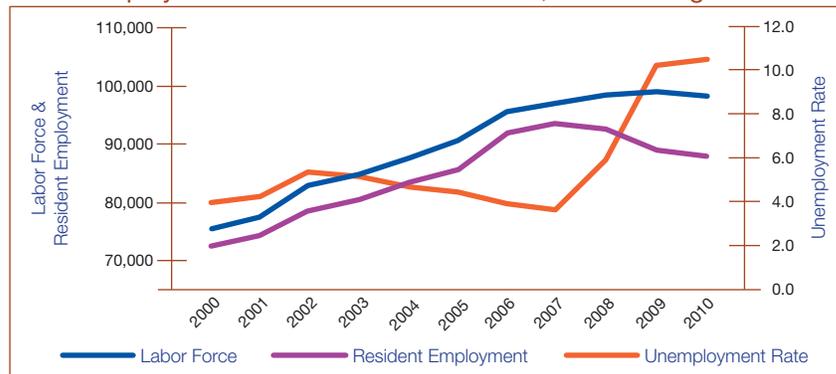
Table 2. 12-Month Average Nonfarm Payroll Jobs in the Prescott HMA, by Sector

	12 Months Ending July 2010	12 Months Ending July 2011	Percent Change
Total Nonfarm Payroll Jobs	55,100	54,000	-2.0
Goods Producing	7,325	6,725	-8.1
Mining, Logging, & Construction	4,700	4,025	-14.7
Manufacturing	2,625	2,725	3.8
Service Providing	47,750	47,250	-1.0
Trade, Transportation, & Utilities	11,350	11,400	0.2
Information	590	600	1.4
Financial Activities	1,850	1,800	-3.2
Professional & Business Services	3,275	3,050	-6.9
Education & Health Services	10,350	10,300	-0.7
Leisure & Hospitality	6,975	7,325	5.0
Other Services	2,050	2,000	-2.4
Government	11,300	10,850	-4.1

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

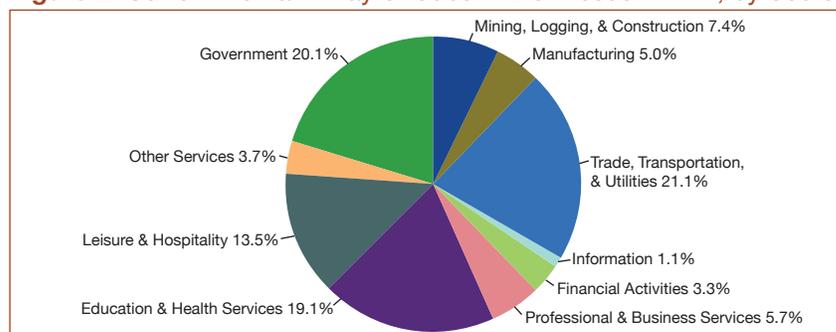
Source: U.S. Bureau of Labor Statistics

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



Source: U.S. Bureau of Labor Statistics

Figure 2. Current Nonfarm Payroll Jobs in the Prescott HMA, by Sector



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

Source: U.S. Bureau of Labor Statistics

possible, because Arizona approved \$1.1 billion in state budget cuts between 2011 and 2012. The governments of Yavapai County, the city of Prescott, and the state of Arizona currently account for 1,625, 495, and 470 jobs in the HMA, respectively (see Table 3).

Since 2000, the education and health services sector has become an increasingly important part of the economy in the HMA. In part because of multiple expansions of the Yavapai Regional Medical Center, the sector increased by 51 percent from 2000 through the 12-month period ending

July 2011, from 6,800 jobs, or 13.6 percent of total nonfarm payrolls, to 10,300 jobs, or 19.1 percent of total nonfarm payrolls (see Figure 3). The health services subsector is, and will likely continue to be, the primary driver of the HMA economy as the population in the HMA continues to age. According to the 2010 Census, 41 percent of residents in the HMA are age 55 or older, up from 33 percent in 2000, and well above the 25-percent national average. The largest employers in the sector are the Yavapai Regional Medical Center, with 1,700 jobs; Yavapai College, with 660 jobs split between two campuses; and Embry-Riddle Aeronautical University, with 300 jobs.

The HMA's proximity to the Grand Canyon and inclusion of three national forests, the city of Sedona, a burgeoning wine industry, and the World's Oldest Rodeo—held annually in the city of Prescott since 1888—all contribute to making tourism an important part of the economy. Although employment in the leisure and hospitality sector

Table 3. Major Employers in the Prescott HMA

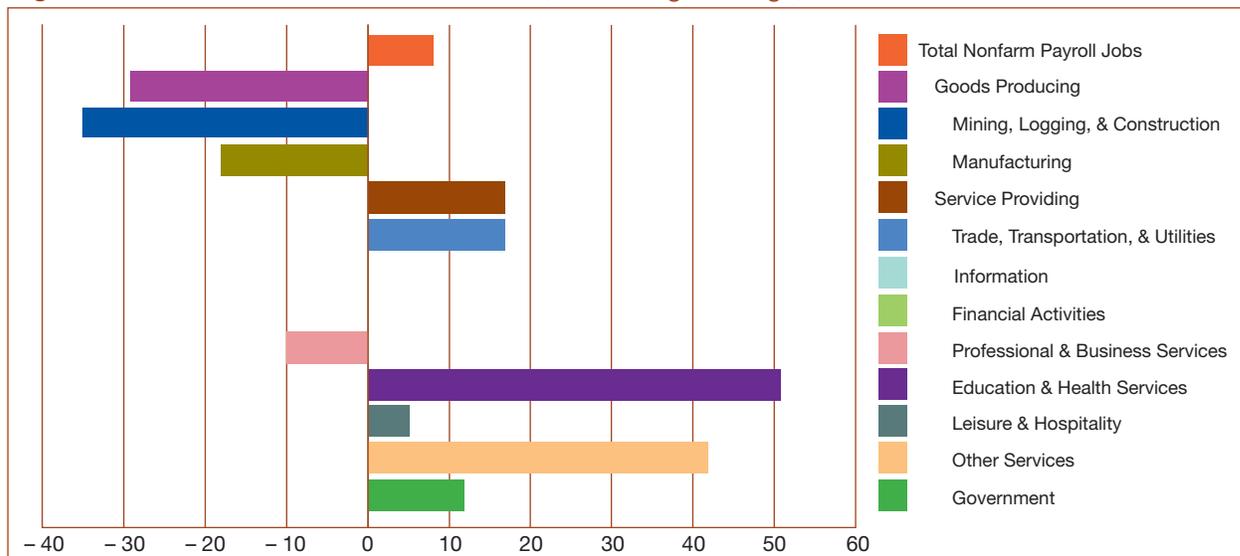
Name of Employer	Nonfarm Payroll Sector	Number of Employees
Yavapai Regional Medical Center	Education & Health Services	1,700
Yavapai County	Government	1,625
Northern Arizona VA Health Care System	Government	820
Yavapai College	Education & Health Services	660
City of Prescott	Government	495
State of Arizona	Government	470
Embry-Riddle Aeronautical University	Education & Health Services	300
Sturm, Ruger & Co., Inc.	Manufacturing	300
Lockheed Martin Corporation	Manufacturing	200
Ace Hardware Corporation	Trade, Transportation, & Utilities	180

VA = U.S. Department of Veterans Affairs.

Note: Excludes local school districts.

Sources: City of Prescott; Cottonwood Economic Development Council; State of Arizona

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



Notes: Current is based on 12-month averages through July 2011. During this period, jobs in the information and financial activities sectors showed no net change.

Source: U.S. Bureau of Labor Statistics

remained unchanged at 7,000 jobs from 2000 through 2010, the Arizona Office of Tourism estimates that visitors to the HMA spent \$648 million in 2010, up from \$555 million in 2000 and \$623 million in 2009. Likewise, leisure and hospitality was the fastest growing sector in the HMA during the 12 months ending July 2011, averaging 7,325 jobs, a 5-percent

increase from the 6,975 jobs reported during the 12 months ending July 2010.

During the 3-year forecast period, nonfarm payrolls in the HMA are expected to increase by an average of 830 jobs, or 1.5 percent, a year. Employment growth is projected to be slow for the next 24 months but to reach 2.3 percent a year by the third year of the forecast period.

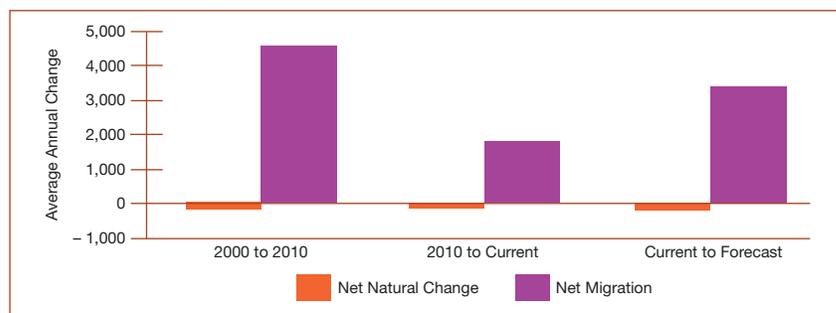
Population and Households

As of August 1, 2011, the population of the Prescott HMA was estimated at 213,200; this figure represents an average annual increase of 1,625, or 0.8 percent, since the 2010 Census (see Table DP-1 at the end of this report). The city of Prescott and the nearby town of Prescott Valley are the two largest population centers in the HMA and currently account for about 19 and 18 percent of the residents in the HMA, respectively. From 2000 through 2010, in Prescott Valley, the faster growing of the two cities, the population expanded at an average annual rate of 1,470, or 6.2 percent, compared with Prescott, where the population increased at an average annual rate of 590, or 1.7 percent.

From 2000 through 2010, the population of the HMA increased by an average annual rate of 2.3 percent, or 4,350. Net in-migration accounted for all the population growth from 2000 through 2010 (see Figure 4). A desirable climate and affordable housing market led to increased in-migration, particularly by retirees from California, Colorado, and Nevada, from 2000 through 2007, when population growth averaged approximately 6,150 people, or 3.6 percent, a year. Conversely, in large part because of weak economic conditions, population growth slowed from 2007 to August 2011 to an average annual increase of 1,200 people, or 0.6 percent. As the economy begins to recover during the next 3 years, population growth is expected to increase by an average of 3,200 people, or 1.5 percent, annually.

Since 2000, the number of households in the HMA has increased by an average of 1,900, or 2.7 percent, annually, to total 91,800 households. Figure 5 shows the number of households by tenure. The number of households in the HMA is expected to increase by an average of 1,375, or 1.5 percent, annually, during the forecast period (see Figure 6).

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



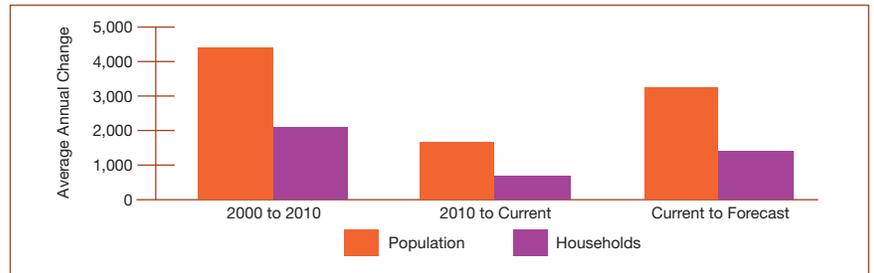
Sources: 2000 and 2010–2000 Census and 2010 Census; current and forecast—estimates by analyst

Figure 5. Number of Households by Tenure in the Prescott 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 Prescott HMA, 2000 to Forecast



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

Housing Market Trends

Sales Market

With an estimated sales vacancy rate of 4.1 percent, which is unchanged from 2010, the home sales market in the Prescott HMA is currently soft because of slow population growth, weak economic conditions, and tighter mortgage lending requirements. According to Hanley Wood, LLC, new home sales decreased to 120 during the 12-month period ending July 2011, down 48 percent from 225 homes sold during the previous 12-month period and down 93 percent from a peak of 1,725 homes sold each year from mid-2006 through mid-2008. During the 12 months ending July 2011, the average sales price for new homes

increased to \$297,900, up 23 percent from \$242,100 during the previous 12 months but down 2 percent from a peak of \$303,100 from mid-2006 through mid-2008.

Existing home sales decreased to 2,750 homes during the 12 months ending July 2011, down 29 percent from the 3,875 homes reported during the 12-month period ending July 2010 and down 72 percent from a peak of 9,800 homes a year from mid-2006 through mid-2008. The average sales price for existing homes declined to \$170,300, a 13-percent decrease from \$194,700 during the previous

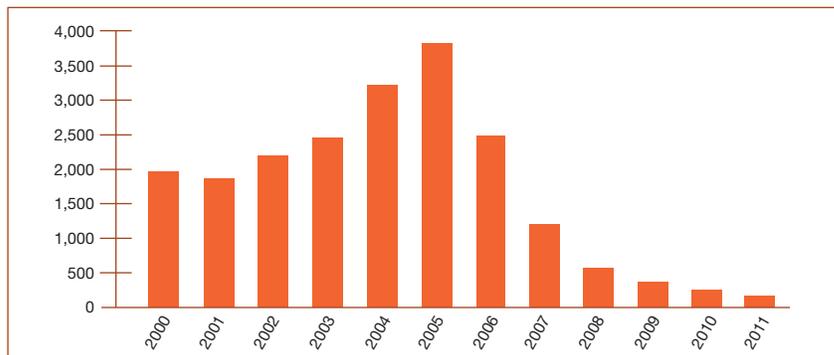
12-month period, and a 34-percent decrease from \$257,800 during a peak from mid-2006 through mid-2008. The reduction in the sales price is because of an increase in the share of REO (Real Estate Owned) sales. Although the total number of REO sales declined 23 percent to 1,425 homes during the 12 months ending July 2011 compared with REO sales during the previous 12 months, REO activity accounted for 50 percent of all sales, up from 45 percent during the previous 12 months. According to LPS

Applied Analytics, in July 2011, 7.2 percent of home loans in the HMA were 90 or more days delinquent, in foreclosure, or in REO, down from 8.5 percent as of July 2010 and below the 7.7-percent national rate.

In response to softening market conditions, single-family home construction, as measured by the number of building permits issued, has slowed since 2005 (see Figure 7). According to preliminary data, single-family building permits declined to approximately 240 homes during the 12 months ending July 2011, an 11-percent decrease from the 270 homes permitted during the 12 months ending July 2010. The number of single-family homes permitted remains 91 percent below the average of 2,750 homes a year from 2001 through 2005. Between January 2010 and July 2011, most building permits in the HMA were issued in Prescott, Prescott Valley, or unincorporated Yavapai County.

During the next 3 years, demand is expected for 2,125 new sales units, including 200 mobile homes. The 110 sales units currently under construction will meet part of that demand (see Table 1). A portion of the estimated 13,800 other vacant units also are likely to re-enter the sales housing market and satisfy some of the forecast demand. Demand for new sales units is not expected until the second year of the forecast period, after the current supply of excess units is absorbed. Demand is expected to be strongest for units priced between \$265,000 and \$354,999 (see Table 4).

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



Notes: Includes townhomes. Includes data through July 2011.

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

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

Price Range (\$)		Units of Demand	Percent of Total
From	To		
115,000	174,999	330	17.0
175,000	264,999	460	24.0
265,000	354,999	520	27.0
355,000	444,999	250	13.0
445,000	534,999	150	8.0
535,000	624,999	120	6.0
625,000	714,999	60	3.0
715,000	and higher	40	2.0

Notes: Excludes mobile homes. The 110 homes currently under construction and a portion of the estimated 13,800 other vacant units in the HMA will likely satisfy some of the forecast demand.

Source: Estimates by analyst

Rental Market

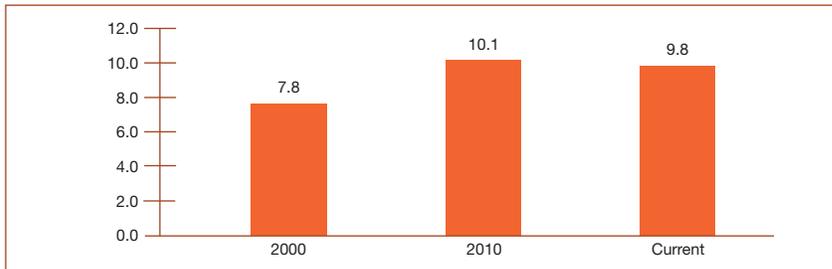
The rental housing market in the Prescott HMA is currently soft, because high levels of single-family home conversions continue to offset both decreasing homeownership and slow rental construction. As of August 1, 2011, the overall rental vacancy rate was estimated at 9.8 percent, down from 10.1 percent in 2010 (see Figure 8). Current average rents are estimated at \$720 for a one-bedroom unit, \$820 for a two-bedroom unit, and \$930 for a three-bedroom unit. According to the 2010 American

Community Survey, single-family homes accounted for slightly less than 50 percent of all rental units in the HMA.

Multifamily construction, as measured by the number of units permitted, decreased to 65 units during the 12 months ending July 2011, down 70 percent from the 210 units permitted during the 12 months ending July 2010, according to preliminary data. Multifamily construction activity was strong from 2002 through 2004, when an average annual 460 units were permitted (see Figure 9). Most units permitted since January 2009 are part of two developments in the city of Prescott: Bradshaw Senior Community, a 46-unit project completed in May 2011, and The Boulders, a 132-unit retirement community completed in June 2011. The 50 multifamily units currently under construction are all part of the first phase of View Point Senior Apartments in Prescott Valley.

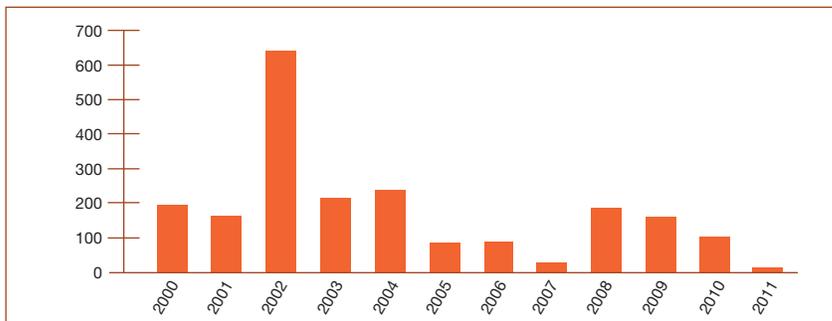
The existing supply of rental units, in combination with the units currently under construction, is expected to satisfy rental demand during the next 3 years (see Table 1). The market is projected to absorb the current excess supply of rental units, however, by the year after the end of the forecast period.

Figure 8. Rental Vacancy Rates in the Prescott 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 Prescott HMA, 2000 to 2011



Notes: Excludes townhomes. Includes data through July 2011.

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

Data Profile

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

	2000	2010	Current	Average Annual Change (%)	
				2000 to 2010	2010 to Current
Total Resident Employment	72,596	87,930	87,800	1.9	- 0.3
Unemployment Rate	3.9%	10.5%	10.1%		
Nonfarm Payroll Jobs	49,800	54,400	54,000	0.9	- 1.3
Total Population	167,517	211,033	213,200	2.3	0.8
Total Households	70,171	90,903	91,800	2.6	0.7
Owner Households	51,519	64,366	64,000	2.3	- 0.4
Percent Owner	73.4%	70.8%	69.7%		
Renter Households	18,652	26,537	27,800	3.6	3.5
Percent Renter	26.6%	29.2%	30.3%		
Total Housing Units	81,730	110,432	111,400	3.1	0.7
Owner Vacancy Rate	2.7%	4.1%	4.1%		
Rental Vacancy Rate	7.6%	10.1%	9.8%		
Median Family Income	\$34,900	\$53,800	\$54,000	4.4	0.4

Notes: Employment data represent annual averages for 2000, 2010, and the 12 months through July 2011. 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

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census

2010: 4/1/2010—U.S. Decennial Census

Current date: 8/1/2011—Analyst's estimates

Forecast period: 8/1/2011–8/1/2014—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, these 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 includes units that fall into 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_PrescottAZ_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.