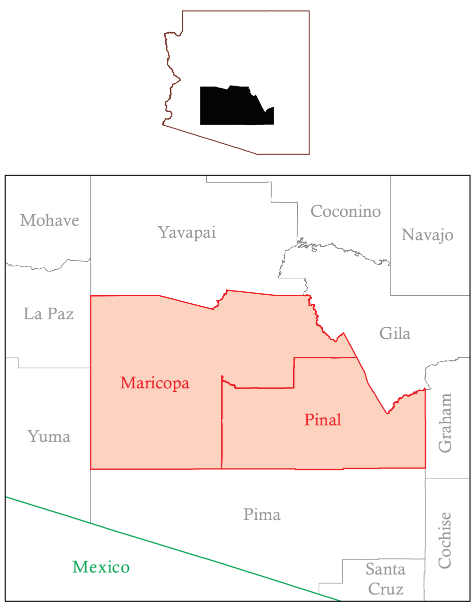
COMPREHENSIVE HOUSING MARKET ANALYSIS

Phoenix-Mesa-Scottsdale, Arizona

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of May 1, 2014

Housing Market Area



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

Market Details

Summary

Economy

Economic conditions in the Phoenix HMA continued to improve during the 12 months ending April 2014, a trend that began in 2011 after 3 years of job losses. During the 12 months ending April 2014, nonfarm payrolls increased by 45,400 jobs, or 2.6 percent, to 1.83 million jobs, up from a 1.9-percent gain during the same period a year earlier. Hiring is expected to remain strong in the education and health services and the professional and business services sectors during the 3-year forecast period because of several significant company expansions in the HMA.

Sales Market

The sales housing market in the HMA is currently soft, with an estimated sales vacancy rate of 3.5 percent, down from 4.3 percent in 2010. During the forecast period, employment and population gains are expected to support demand for 45,275 new market-rate sales housing units. The 6,150 homes currently under construction will satisfy a portion of that demand (Table 1). In addition, a portion of the 118,000 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 8.8 percent, down from 13.8 percent in 2010. During the forecast period, demand is expected for 20,850 rental units (Table 1). During the first 2 years of the forecast period, the 10,600 units currently under construction will meet most of the rental demand.

Table 1. Housing Demand in the Phoenix HMA* During the Forecast Period

	Phoenix HMA*		City of Phoenix Submarket		Greater Mesa-Scottsdale Submarket	
	Sales Units	Rental Units	Sales Units	Rental Units	Sales Units	Rental Units
Total demand	45,275	20,850	6,175	7,600	39,100	13,250
Under construction	6,150	10,600	1,175	1,675	4,975	8,925

** Phoenix-Mesa-Scottsdale 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 May 1, 2014. A portion of the estimated 118,000 other vacant units in the HMA will likely satisfy some of the forecast demand. The forecast period is May 1, 2014, to May 1, 2017.

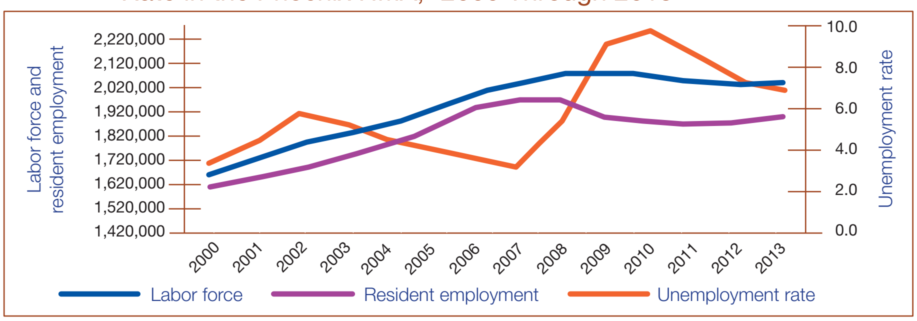
Source: Estimates by analyst

Economic Conditions

The economy of the Phoenix HMA continued to improve during the past 12 months, a trend that began in 2011. During the 12 months ending April 2014, the unemployment rate declined from 7.2 to 6.6 percent, and nonfarm payrolls increased by 45,400 jobs, or 2.6 percent, to 1.83 million jobs, compared with nonfarm payrolls during the 12 months ending April 2013 (Figure 1 and Table 2). Although job growth in the HMA exceeded the national rate of 1.7 percent during the same period, nonfarm payrolls in the HMA remain below the peak of 1.92 million jobs in 2007. From 2000 through 2007, nonfarm payrolls increased by an average of 48,800 jobs, or 2.8 percent, a year. Employment gains during this period were fueled by sectors that supported the in-migration of Californians and Canadians who were attracted by the area's relatively affordable housing options. During this period, the education and health services sector, and the wholesale and retail trade sector, and the construction subsector added the greatest amount of jobs, at respective averages of 10,250, 8,600, and 6,600 jobs, or 6.2, 3.0, and 4.6 percent annually. The professional and business services sector also added an average of 8,750 jobs, a 3.0-percent annual increase, as various national banks and insurance companies moved their support offices and data centers to the HMA because of Arizona's business-favorable corporate tax laws. Charles Schwab, the San Francisco-based bank, has gradually expanded operations in the HMA since 2007 and has reduced payrolls in its headquarters base, citing San Francisco's high cost of doing business as a primary reason for focused expansion in the Phoenix HMA.

As a result of the housing market collapse and the national recession, nonfarm payrolls in the HMA declined from 1.92 million jobs in 2007 to 1.69 million jobs in 2010, an average annual decrease of 75,700 jobs, or 4.1 percent. During this period, every sector lost jobs, with the greatest decline in the construction subsector, which lost an average of 29,000 jobs, or 21.4 percent, annually. Figure 2 shows sector growth in the HMA from 2000 to the current date. Construction job losses accounted for 38 percent of the total job losses in the HMA, as residential housing and commercial building activity declined significantly.

Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Phoenix HMA,* 2000 Through 2013



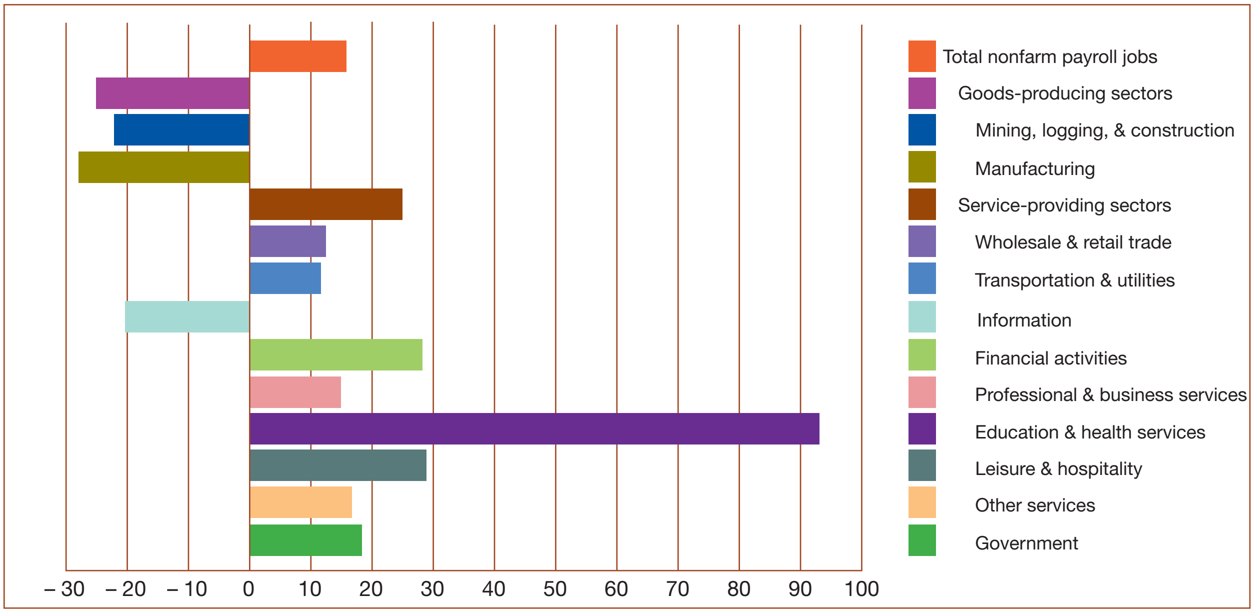
** Phoenix-Mesa-Scottsdale HMA.*
Source: U.S. Bureau of Labor Statistics

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

	12 Months Ending April 2013	12 Months Ending April 2014	Absolute Change	Percent Change
Total nonfarm payroll jobs	1,779,800	1,825,200	45,400	2.6
Goods-producing sectors	211,200	214,400	3,200	1.5
Mining, logging, & construction	94,000	97,800	3,800	4.0
Manufacturing	117,200	116,600	– 600	– 0.5
Service-providing sectors	1,568,600	1,610,900	42,300	2.7
Wholesale & retail trade	290,000	295,700	5,700	2.0
Transportation & utilities	63,900	63,900	0	0.0
Information	32,000	33,500	1,500	4.7
Financial activities	152,800	161,900	9,100	6.0
Professional & business services	292,100	302,300	10,200	3.5
Education & health services	257,900	265,400	7,500	2.9
Leisure & hospitality	185,700	192,700	7,000	3.8
Other services	63,000	63,900	900	1.4
Government	231,300	231,400	100	0.0

** Phoenix-Mesa-Scottsdale HMA.*
Notes: Numbers may not add to totals because of rounding. Based on 12-month averages through April 2013 and April 2014.
Source: U.S. Bureau of Labor Statistics

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



** Phoenix-Mesa-Scottsdale HMA.*
Note: Current is based on 12-month averages through April 2014.
Source: U.S. Bureau of Labor Statistics

The professional and business services and the wholesale and retail trade sectors also experienced large average declines of 18,000 and 12,900 jobs, or 5.9 and 4.1 percent, respectively, during this period.

The HMA began its economic recovery in 2011. From 2011 through 2013, nonfarm payrolls increased by an average of 46,200, or 2.7 percent, a year. The professional and business services sector, which expanded by an average of 11,250 jobs, or 4.0 percent, a year led job growth in the HMA during the same period. The education and health services, financial activities, and leisure and hospitality sectors also contributed to job growth during this period, which added respective averages of 7,350, 6,800, and 6,450 jobs, or 2.9, 4.6, and 3.6 percent, annually. Growth was partially attributed to HB2001, Arizona's Competitive Package law, which, among other incentives, reinstated a reimbursable job-training grant program that was previously suspended in 2009 because of budgetary concerns. The 29 companies that were awarded a job-training reimbursable grant or received funds from the Arizona Innovation Accelerator Fund relocated or expanded operations in the HMA, creating at least 4,075 jobs from July 2011 through December 2013 (Arizona Department of Commerce). Expansions during that period include Intel Corporation, already one of the largest employers in the HMA, with 11,900 employees (Table 3), which completed construction of its $300 million research and development facility in the city of Chandler during the second quarter of 2013 and created 650 new permanent positions; ZocDoc, an online medical appointment service, which opened its customer service and sales office in early 2013 and plans to hire an additional 650 people within the forecast period; and Direct Energy, an energy service provider, that opened its call center in Tempe, creating 350 jobs. As a result of the increase in construction activity from expansions and relocations of these service industry companies, the construction

Table 3. Major Employers in the Phoenix HMA*

Name of Employer	Nonfarm Payroll Sector	Number of Employees
State of Arizona	Government	49,275
Wal-Mart Stores, Inc.	Wholesale & retail trade	32,175
Banner Health	Education & health services	25,275
City of Phoenix	Government	15,000
Wells Fargo & Company	Financial activities	14,700
Maricopa County	Government	12,700
Arizona State University	Government	12,200
Intel Corporation	Professional & business services	11,900
JPMorgan Chase & Co.	Financial activities	11,050
Bank of America Corporation	Financial activities	11,000

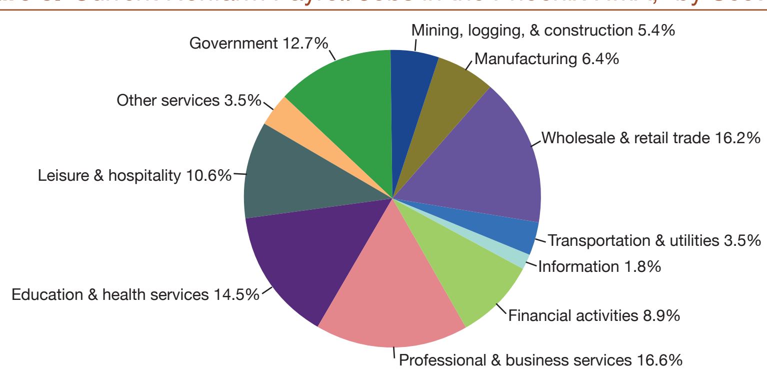
** Phoenix-Mesa-Scottsdale HMA.*
Note: Excludes local school districts.
Source: Phoenix Business Journal Book of Lists, 2014.

subsector added an average of 4,900 jobs, or 5.7 percent, annually from 2011 through 2013.

Recent hiring continued to be strongest in the same service sectors as during the 2011-to-2013 period. During the 12 months ending April 2014, the professional and business services sector added 10,200 jobs, a 3.5-percent increase; the financial activities sector added 9,100 jobs, a 6.0-percent increase; and the education and health services sector added 7,500 jobs, an increase of 2.9 percent. The three sectors contributed to nearly 60 percent of total nonfarm job growth during this period. (Figure 3 shows current nonfarm payroll jobs by sector.) As in previous periods, companies that relocated or expanded their customer service or operations centers were the primary source of job growth. Construction is currently under way on the $600 million Marina Heights office development in Tempe, where State Farm Mutual Automobile Insurance Company's new regional headquarters will be the anchor tenant. The entire development is expected to be completed by 2017 but will begin occupancy of the first buildings by 2015. State Farm currently employs 2,500 people in the HMA, which includes 900 permanent positions recently added in preparation for the expansion. The completion of the Marina Heights development will create the potential for an additional 5,000 to 7,000 permanent employees. USAA, the financial service provider for military members and their families, is also constructing a Phoenix campus. USAA currently employs 3,200 people in the HMA and expects to create an additional 1,000 positions when the first phase of construction is completed in August 2014 and an additional 800 positions after the second phase of construction is complete in 2015.

Nonfarm payrolls in the HMA are expected to expand by an average of 52,300 jobs, or 2.9 percent, each year during the forecast period. With the expansion of customer service and

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



** Phoenix-Mesa-Scottsdale HMA.*
Note: Based on 12-month averages through April 2014.
Source: U.S. Bureau of Labor Statistics

sales operations centers, such as State Farm and USAA, the professional and business services and financial activities sectors are projected to continue to lead job gains in the HMA. The construction subsector will benefit, not only from company expansions, but also from the regional planning initiatives aimed at connecting housing to jobs centers. The extension of the nearly 6-year-old Valley Metro light-rail system, which currently connects the cities of Phoenix, Tempe, and Mesa, will allow for increased travel of 5,000 new riders per day along the northwest corridor, connecting a larger number of workers to the urban core. The 3.2-mile extension was planned for 2009 but was stalled because of the housing crash and subsequent recession. Construction began in early 2013, is expected to be complete by late 2015 or early 2016, and will employ a peak of 600 new construction workers in 2014. The education and health services sector will also be a strong source of job growth during the forecast period, as the Mayo Clinic in Phoenix anticipates adding 1,000 permanent medical-related jobs, including more than 100 physician positions, when its new cancer center opens in 2015.

Job growth in the government and manufacturing sectors was flat or slightly declining during the 12 months ending April 2014, and, if budget cuts continue, future declines in these two sectors may offset some of the forecast overall job growth. Most recently, across-the-board federal spending cuts mandated by the Budget Control Act of 2011 (also known as Sequestration) resulted in reductions in the aerospace and defense industries. Lockheed Martin announced in late 2013 that it was closing a 600-worker plant in the HMA, and General Dynamics C4 Systems laid off 500 employees as a result of contract cancellations and sequestration.

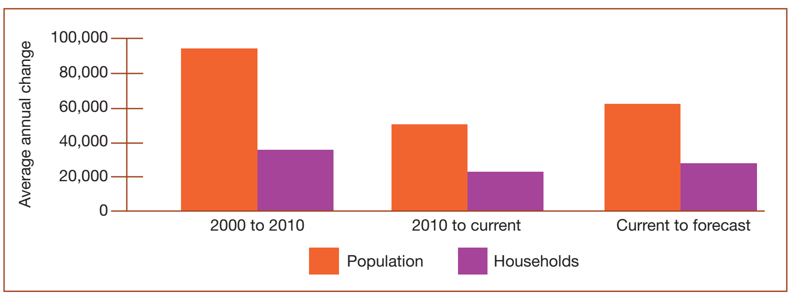
Population and Households

As of May 1, 2014, the population of the Phoenix HMA was estimated to be 4.39 million, a 1.2-percent average annual increase since April 1, 2010 (see Table DP-1 at the end of this report). By comparison, population growth from 2000 through 2010 averaged 2.6 percent a year, with a peak growth of 3.5 percent a year from July 2003 through July 2007. During this period, net-migration accounted for more than 65 percent of population growth, with an average of 80,800 people migrating into the HMA annually. During this period, new housing development and relatively lower housing prices attracted people from California, Illinois, and Canada and also from other parts of Arizona (Internal Revenue Service). From July 2003 through July 2007, more than 80 percent of net in-migration originated from these four areas. Population growth slowed during the housing crisis, partly because potential migrants were deterred from purchasing in the HMA because of weak sales market conditions across the nation. From July 2008 through July 2011, population growth averaged 20,200 people, or 0.5 percent, annually. Net natural change (resident births minus resident deaths) accounted for all population growth during this period, as net out-migration averaged 14,900 people annually. Since 2011, net in-migration has averaged 25,550 people annually because of improving economic conditions. During the same period, population growth averaged 55,500 people, a 1.3-percent increase, annually. Figure 4 shows population and household growth and Figure 5 shows the components of population change in the HMA from 2000 through the forecast period.

The population of the City of Phoenix submarket, as of May 1, 2014, is estimated at 1.5 million. Since 2010, population growth in the submarket has averaged 14,050 people, or 1.0 percent, annually (see Table DP-2 at the end of this report). As in the HMA, population growth in the submarket was strongest during the housing boom from 2003 through 2007 and averaged 18,700 people, or 1.5 percent, annually. Net natural change accounted for all the growth during this period when residents migrated to the Greater Mesa-Scottsdale submarket because of relatively more affordable single-family housing. As sales market conditions declined from 2008 through 2011, the population in the City of Phoenix submarket declined by an average of 1,025 annually as net out-migration averaged 16,300 people annually. Since 2011, the population has increased by an average of 16,900, or 1.2 percent, a year.

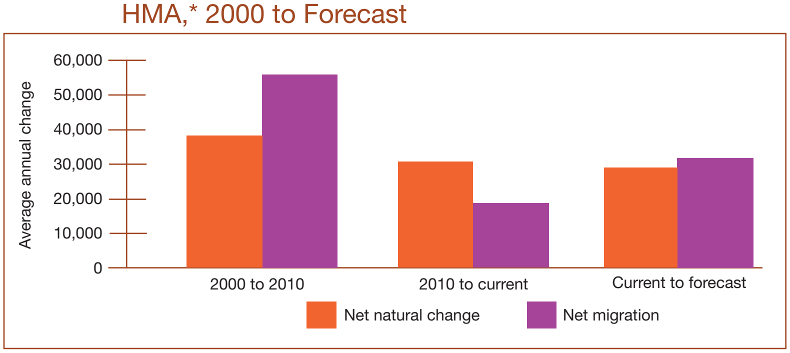
The Greater Mesa-Scottsdale submarket is the more populous and faster growing of the two submarkets in the HMA. As of May 1, 2014, the population was estimated at 2.9 million, accounting for 66 percent of the HMA's population (see Table DP-3 at the end of this report). Since 2010, the submarket has added an average of 35,200 people, representing a 1.3-percent increase, annually. During the housing boom, from 2003 through 2007, relatively affordable new home developments with large lots in the submarket attracted residents from the City of Phoenix submarket, from locations outside the state, and from other areas within Arizona. During this period, population growth averaged 103,100 people, or 4.7 percent, annually. Net in-migration accounted for 78 percent of the growth, because an average of 80,800 people migrated into the submarket annually. Net in-migration slowed as economic conditions weakened and, from 2008 through 2011, an average of 1,425 people migrated into the submarket

Figure 4. Population and Household Growth in the Phoenix HMA,* 2000 to Forecast



** Phoenix-Mesa-Scottsdale HMA.*
Notes: The current date is May 1, 2014. The forecast date is May 1, 2017.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

Figure 5. Components of Population Change in the Phoenix HMA,* 2000 to Forecast



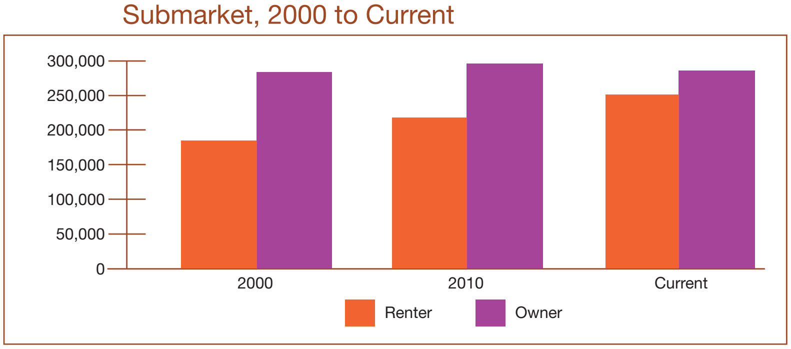
** Phoenix-Mesa-Scottsdale HMA.*
Notes: The current date is May 1, 2014. The forecast date is May 1, 2017.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

annually and population growth averaged 21,200 people a year. The recent expansion of sales and operations centers in the HMA has resulted in recovering population growth, which has averaged 38,600 people, or 1.4 percent, annually since 2011, but the current growth rate remains significantly less than the average peak growth rate of 5 percent from 2005 through 2006.

During the forecast period, the population in both submarkets is expected to be slightly higher than growth rates since 2010, because of continually improving economic conditions. Population growth in the Greater Mesa-Scottsdale submarket will increase 0.1 percentage points to 1.4 percent; however, population growth in the City of Phoenix submarket, will increase 0.3 percentage points to 1.3 percent. Increased in-migration to the City of Phoenix submarket is expected, because recent multifamily development, which is centered in downtown, is attracting retirees who want to locate closer to services and young professionals who want to live in the urban core.

Household growth in the HMA has slowed since 2010, because household formation continues to be delayed after the housing crash and recession. Since 2010, an average of 21,800 households have been added, a 1.4-percent increase compared with an average of 34,300 households, or 2.6 percent, annually from 2000 to 2010. Because new housing construction and later foreclosure activity were higher in the Greater Mesa-Scottsdale submarket, household growth slowed more significantly in this submarket. Since 2010, in the Greater Mesa-Scottsdale submarket, an average of 16,850 households were added, a 1.6-percent increase, annually compared with an average of 29,400 households, or 3.4 percent, annually from 2000 through 2010. In the City of Phoenix submarket, household growth slowed only slightly from an average of 4,900, or 1.0 percent, annually from 2000 through 2010 to an average of 4,875, or 0.9 percent, annually from 2010 to the current date. An estimated 1.6 million households currently reside in the HMA, with 534,700 households in the City of Phoenix submarket and 1.1 million in the Greater Mesa-Scottsdale submarket. During the 3-year forecast period, the number of households is expected to increase by an average of 26,950, or 1.6 percent, annually in the HMA. Because new households want to live in the downtown core, household growth in the City of Phoenix submarket will be relatively greater at an average of 7,625, or 1.4 percent, annually compared with household growth since 2010. In the Greater Mesa-Scottsdale submarket, household growth is expected to average 19,600, or 1.8 percent, annually. Figures 6 and 7 show respective household growth by tenure from 2000 to the current date in the City of Phoenix and Greater Mesa-Scottsdale submarkets.

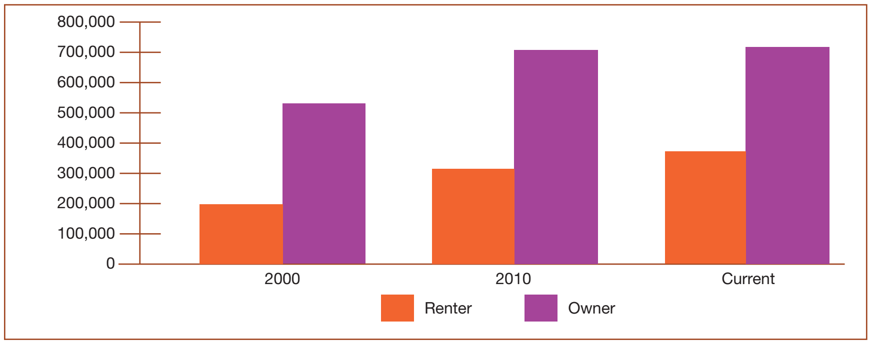
Figure 6. Number of Households by Tenure in the City of Phoenix Submarket, 2000 to Current



Note: The current date is May 1, 2014.

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

Figure 7. Number of Households by Tenure in the Greater Mesa-Scottsdale Submarket, 2000 to Current



Note: The current date is May 1, 2014.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

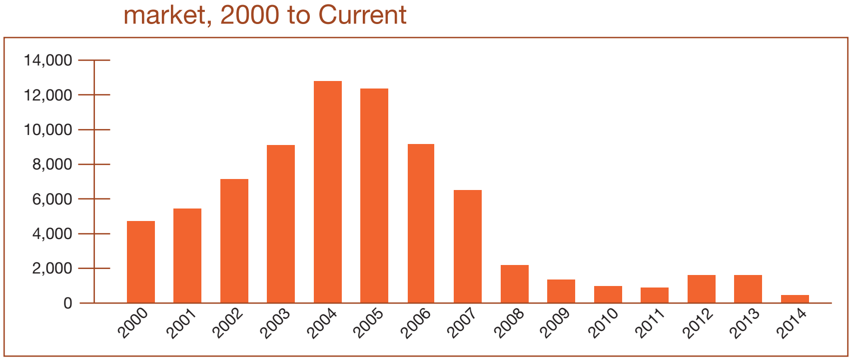
Housing Market Trends

Sales Market—City of Phoenix Submarket

The sales housing market in the City of Phoenix submarket is currently soft but improving, with a 3.9-percent vacancy rate, down from 4.3 percent in April 2010. Approximately 25,700 total homes, including single-family homes and condominiums, sold during the 12 months ending April 2014, a 15-percent decline from the 30,050 homes sold during the previous 12-month period (Metrostudy, A Hanley Wood Company). During the same period, new home sales declined 10 percent, to 960 homes sold, down from 1,075 homes sold during the 12 months ending April 2013. During the home construction boom from 2005 through 2007, new home sales averaged 9,375 a year. As a result of the housing collapse from 2009 through 2013, new home sales averaged 1,200 homes annually. During the 12 months ending April 2014, existing home sales decreased almost 15 percent, to 24,725 homes sold, compared with 29,000 homes sold during the previous 12 months. Existing home sales peaked in 2005 at 42,000 homes but declined to an average annual of 21,050 homes sold from 2006 through 2008 as national sales market conditions weakened. From 2009 through 2013, existing home sales averaged 26,800 annually, as investors' purchases of distressed properties, tax credits for first-time homebuyers, and falling sales prices spurred homebuying.

The recent decline in total home sales was a result of declining REO (Real Estate Owned) sales. REO sales in the submarket totaled 3,400 homes during the 12 months ending April 2014, a 42-percent decline compared with the number sold during the previous 12 months. From 2005 through 2007, REO sales accounted for an average of 2 percent of total sales in the submarket; the share increased to 44 percent in 2008, then to an average of 62 percent annually from 2009 through 2011. During the 2009-through-2011 period, the home sales market was greatly affected by the weak economy, tighter lending standards, and a decline in consumer confidence in the market. Therefore, a significant portion of REO properties were purchased by large, institutional investors, which primarily converted homes into rental properties. As both economic conditions and population growth began to improve in 2011, housing prices rose, reducing the stock of REO properties and investors' purchases. The share of REO sales declined significantly in 2012, to 31 percent of total sales; the share then declined to 21 percent in 2013. During the 12 months ending April 2014, REO sales accounted for only 18 percent of total sales. In April 2014, institutional investors' purchases accounted for 17 percent of total home purchases in Maricopa County, where the City of Phoenix submarket is located, compared with 27 percent in April 2013, as a result of declining REO listings (Arizona State University [ASU] Real Estate Report). The number of home loans in Maricopa County that were 90 or more days delinquent, were in foreclosure, or transitioned into REO status represented 2.2 percent of total home loans in April 2014, down from 3.9 percent in April 2013 (Black Knight Financial Services, Inc.). The rate of distressed mortgages and REO properties in Maricopa County remains below the national average of 5.0 percent and the state average of 2.5 percent. The City of Phoenix accounts for 37 percent of total housing units in Maricopa County (2012 American Community Survey 1-year data).

Figure 8. Single-Family Homes Permitted in the City of Phoenix Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through April 2014.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

The average sales price of new and existing homes in the submarket was $198,500, an increase of $31,300, or 19 percent, compared with the 12 months ending April 2013. The average sales price for an existing home increased 22 percent, to $187,100, while the average sales price for a new home increased 4 percent, to $315,600. Despite the recent increase in sales prices, the average sales price for new and existing homes remains well below the average sales price peak of $301,800 recorded in 2007. The following year, home prices declined 25 percent, to $226,100, and declined another 40 percent, to $136,700, in 2009. During this period, the significant number of REO properties on the market drove down the average sales price. The average sales price of an REO property was 30 percent less than the average sales price for all homes.

Single-family homebuilding activity, as measured by the number of single-family homes permitted, decreased by 360 homes, to 1,575 homes permitted during the 12 months ending April 2014, a 19-percent decrease compared with the number permitted during the 12 months ending April 2013 (Figure 8). The current level of single-family home construction remains significantly less than the level of construction during the 2002-through-2007 peak, when an average of 9,500 single-family homes were permitted annually, but the current level is an improvement from the average of 1,400 homes permitted from 2008 through 2011. One of the largest recently completed projects is the Vinsanto subdivision, a 540-home, master-planned community. Homes at Vinsanto range in size from 1,300 to 1,750 square feet and range in price from $127,700 to $151,900.

Table 4. Estimated Demand for New Market-Rate Sales Housing in the City of Phoenix Submarket During the Forecast Period

Price Range ($)		Units of Demand	Percent of Total
From	To		
150,000	199,999	2,175	35.0
200,000	249,999	1,550	25.0
250,000	299,999	930	15.0
300,000	399,999	620	10.0
400,000	499,999	620	10.0
500,000	and higher	310	5.0

Notes: The 1,175 homes currently under construction and a portion of the estimated 20,000 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is May 1, 2014, to May 1, 2017.

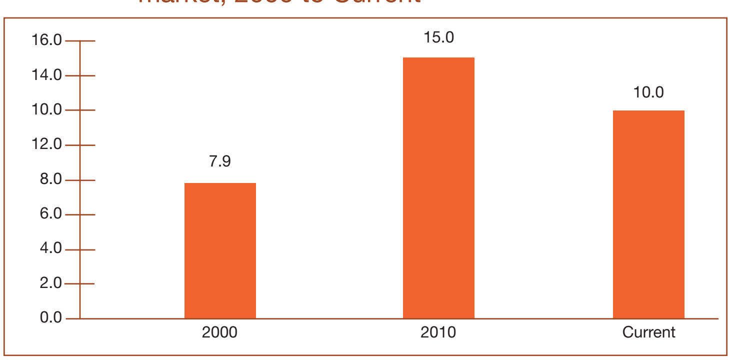
Source: Estimates by analyst

During the next 3 years, demand is expected for 6,175 new homes in the submarket (Table 1). The 1,175 homes currently under construction and some of the estimated 20,000 other vacant units in the submarket that will likely reenter the market will satisfy part of the 3-year forecast demand. The current surplus of sales housing is expected to satisfy the demand during the first year of the forecast period and most of the demand during the second year. Demand is greatest for units priced between $150,000 and $249,999. Table 4 presents detailed information on the estimated demand for new market-rate sales housing, by price range, in the submarket during the forecast period.

Rental Market—City of Phoenix Submarket

The rental housing market in the City of Phoenix submarket is slightly soft but improving, with an estimated overall rental vacancy rate of 10.0 percent, down from 15.0 percent in April 2010 (Figure 9). The apartment market is tighter than the overall rental market, which includes single-family homes, because of a preference for multifamily housing from young professionals and retirees attracted to the proximity of services. The apartment vacancy rate for the submarket was 7.3 percent during the first quarter of 2014, down from 9.8 percent during the first quarter of 2013 (RealData, Inc.). In the five RealData-defined market areas that comprise the City of Phoenix submarket, the apartment vacancy rate ranged from 5.5 percent in the Central Phoenix/Encanto area to 9.9 percent in the North Central Phoenix/Alhambra area during the first quarter of 2014. The average apartment rent in the submarket was $840 during the first quarter of 2014, a 3-percent increase from the first quarter of 2013. The average rent and rent growth were highest in the Central City/Sky Harbor area, at $1,150, a 6-percent increase compared with the average rent during the first quarter of 2013. The

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



Note: The current date is May 1, 2014.

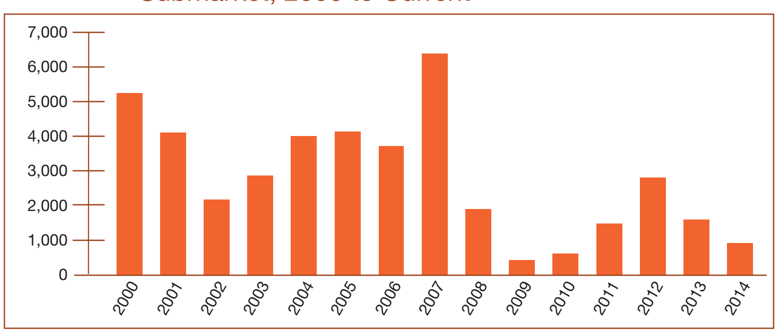
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

average rent declined in only one area—the Central Phoenix/Encanto area, where rents declined 1 percent, to $910.

In response to declining apartment vacancy rates, multifamily construction, as measured by the number of multifamily units permitted, increased 11 percent to 2,450 units during the 12 months ending April 2014 compared with 2,200 units during the previous 12 months (preliminary data). The pace of multifamily construction remained well below the average of 4,550 units permitted annually between 2004 and 2007, but it accelerated rapidly from the average of 1,075 units permitted annually from 2008 through 2011 (Figure 10). Several apartment projects are currently under construction, including the 420-unit Liv Fiftieth apartments, a part of the Ahwatukee Foothills subdivision. The project will open in the summer of 2014, with rents ranging from $949 to $1,574 for one-bedroom/one-bath units, $1,274 to $1,882 for two-bedroom/two-bath units, and $1,618 to $2,198 for three-bedroom/two-bath units. The Valley Club Apartments in the Desert Ridge master-planned community is a luxury apartment complex, with 344 units at rents yet to be determined and an expected completion date of the summer of 2015.

Sustained employment growth and net in-migration during the forecast period should produce continued high annual levels of apartment absorption. Demand is expected for 7,600 rental units in the submarket during the forecast period (Table 1). The rental market, however, must still absorb a large number of excess vacancies and the 1,675 units now under construction before achieving a balanced rental market. As a result, very little demand for additional apartment completions is expected during the first 2 years of the forecast period. The rental market in the City of Phoenix submarket should support additional apartment completions by the third year of the forecast period, which suggests renewed construction apartment starts during the second year. Table 5 shows estimated demand for new market-rate rental housing in the submarket, categorized by rent level and number of bedrooms.

Figure 10. Multifamily Units Permitted in the City of Phoenix Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through April 2014.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 5. Estimated Demand for New Market-Rate Rental Housing in the City of Phoenix Submarket During the Forecast Period

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
620 to 819	720	750 to 949	2,725	900 to 1,099	2,125	1,200 to 1,399	680
820 or more	40	950 to 1,149	340	1,100 to 1,299	270	1,400 or more	75
		1,150 or more	340	1,300 or more	270		
Total	760	Total	3,425	Total	2,650	Total	760

Notes: Numbers may not add to totals because of rounding. The 1,675 units currently under construction will likely satisfy some of the estimated demand. The forecast period is May 1, 2014, to May 1, 2017.
Source: Estimates by analyst

Sales Market—Greater Mesa-Scottsdale Submarket

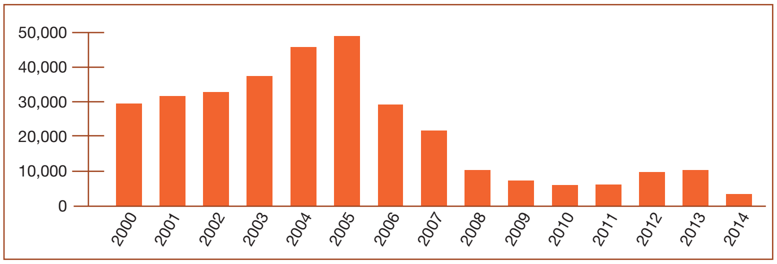
Sales housing market conditions in the Greater Mesa-Scottsdale submarket are slightly soft but improving, with an estimated sales vacancy rate of 3.4 percent, down from 4.2 percent in April 2010. As in the City of Phoenix submarket, total home sales in the Greater Mesa-Scottsdale submarket decreased during the past year, with most of the decline occurring in REO properties. During the 12 months ending April 2014, new and existing home sales totaled 76,400, a decrease of 11 percent compared with the 86,200 homes sold a year earlier. During the 12 months ending April 2014, the average home sales price was $198,500, a nearly 19-percent increase compared with the average sales price of $167,200 during the previous 12-month period. During the same period, the average sales price for an existing home increased 17 percent, to $243,900, and the average sales price for a new home increased 23 percent, to $320,700.

During the 12 months ending April 2014, new home sales declined 9 percent, to 9,025 homes sold compared with 9,900 homes sold during the previous 12 months. During the housing boom, particularly when new homes were constructed in the outlying areas of the submarket, new home sales peaked from 2005 through 2007, when an average of 40,400 homes sold each year. Annual new home sales fell to an average of 13,800 from 2008 through 2009, but declined even further to an average of 6,925 in 2010 and 2011. New home sales began to recover in 2012 and 2013, when new home sales averaged 9,700 annually.

During the 12 months ending April 2014, existing home sales declined 12 percent to 67,400, compared with 76,350 during the previous 12-month period. Existing home sales dropped to an average of 47,000 annually during 2008 and 2009 but recovered to an average of 71,300 annually from 2009 through 2012 because of a significant amount of investors' purchases of REO properties. During the same period, REO purchases accounted for an average of 44 percent of total home sales. As home prices rose, investors' demand for distressed properties decreased. Institutional investment purchases accounted for 17 percent of total home purchases in Maricopa County and 13 percent of total home purchases in Pinal County as of April 2014 (ASU Real Estate Report). By comparison, institutional investment purchases accounted for 27 percent of total home purchases in Maricopa County and 24 percent in Pinal County as of April 2013. During the 12 months ending April 2014, REO properties accounted for only 13 percent of total home purchases in the submarket. As of April 2014, 2.3 percent of all loans in the HMA were 90 or more days delinquent, in foreclosure, or transitioned into REO status, down from 4.0 percent a year ago.

Despite improving sales market conditions, new home construction activity declined during the 12 months ending April 2014. Single-family construction activity, as measured by the number of single-family homes permitted, totaled 10,850 homes, a decrease of nearly 9 percent, compared with the 11,900 homes permitted during the 12 months ending April 2013 (preliminary data; Figure 11). Since 2008, single-family home construction activity has remained below the average of 44,300 homes permitted annually from 2003 through 2005. Construction on several large single-family subdivisions, which were previously stalled during the recession, returned to the planning process. One of these subdivisions, the 850-acre Tegavah, formerly known as the Vista Verde Community in Scottsdale, will eventually hold 1,285 residential housing units and community amenities, including the already constructed golf course. Construction on the first custom-built homes is expected to begin in early 2015.

Figure 11. Single-Family Homes Permitted in the Greater Mesa-Scottsdale Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through April 2014.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

During the 3-year forecast period, demand is estimated for 39,100 new market-rate homes in the submarket. The 4,975 homes currently under construction and a portion of the 98,000 other vacant units in the submarket that may reenter the market will satisfy some of the forecast demand. Table 6 illustrates the estimated demand for new market-rate sales housing in the Greater Mesa-Scottsdale submarket by price range.

Table 6. Estimated Demand for New Market-Rate Sales Housing in the Greater Mesa-Scottsdale Submarket During the Forecast Period

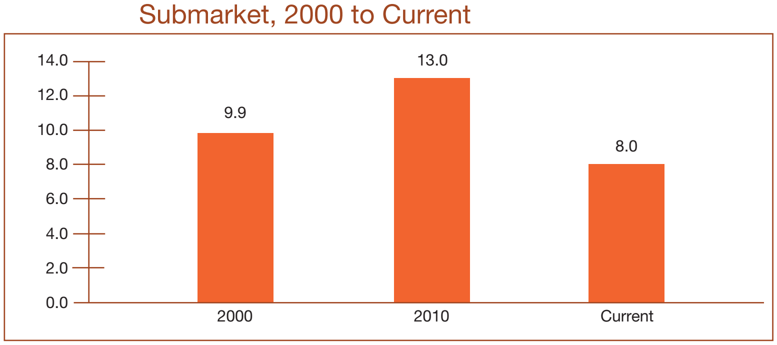
Price Range ($)		Units of Demand	Percent of Total
From	To		
125,000	149,999	5,875	15.0
150,000	199,999	9,775	25.0
200,000	249,999	7,825	20.0
250,000	299,999	5,875	15.0
300,000	399,999	3,900	10.0
400,000	499,999	3,900	10.0
500,000	and higher	1,950	5.0

Notes: The 4,975 homes currently under construction and a portion of the estimated 98,000 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is May 1, 2014, to May 1, 2017.
Source: Estimates by analyst

Rental Market—Greater Mesa-Scottsdale Submarket

The rental housing market in the Greater Mesa-Scottsdale submarket is slightly soft but improving, with an estimated overall rental vacancy rate of 8.0 percent compared with 13.0 percent in April 2010 (Figure 12). Vacancy conditions in the apartment market are tighter compared with those in the overall rental market. The apartment vacancy rate for the submarket was 6.4 percent during the first quarter of 2014, down from 7.4 percent during the first quarter of 2013 (RealData, Inc). In the 27 RealData-defined market areas that comprise the Greater Mesa-Scottsdale submarket, the apartment vacancy rate ranged from 4.3 percent in the

Figure 12. Rental Vacancy Rates in the Greater Mesa-Scottsdale Submarket, 2000 to Current

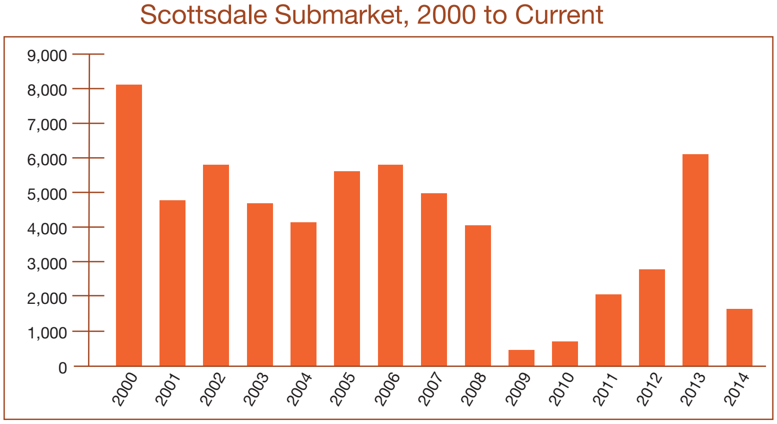


Note: The curent date is May 1, 2014.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

South Paradise Valley area to 9.9 percent in the Central Black Canyon area during the first quarter of 2014. The average apartment rent in the submarket was $780 during the first quarter of 2014, a 1-percent increase from the first quarter of 2013. Average monthly rent growth was highest in the North Paradise Valley area, where the average monthly rent was $915, a 5-percent increase compared with rent during the first quarter of 2013. Rents declined in 8 of the 27 areas; the greatest rent decline occurred in the South Paradise Valley area, where the average monthly rent was $650, a 3-percent decrease from the first quarter of 2013.

In response to significant job growth and population increase in the submarket, multifamily construction increased recently. During the 12 months ending April 2014, 4,850 new multifamily units were permitted, more than double the 2,075 units permitted during the previous 12 months (Figure 13). Multifamily construction averaged 5,525 units permitted annually from 2000 through 2006; construction slowed slightly to an average of 4,450 units permitted annually for 2007 and 2008 before declining to an average of only 580 units a year for 2009 and 2010. Although multifamily construction remains below the peak number of units permitted from 2000 through 2005, improving economic and population growth resulted in an average of 3,625 multifamily units being permitted from 2011 through 2013.

Figure 13. Multifamily Units Permitted in the Greater Mesa-Scottsdale Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through April 2014.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Students at ASU occupy a large portion of the rental stock in the Greater Mesa-Scottsdale submarket. Approximately 76,800 students enrolled for the fall 2013 semester (ASU; the latest data available) at one of four campuses throughout the HMA, although the flagship campus in the city of Tempe accounted for approximately 82 percent of the enrollment. Three of the four campuses are within the Greater Mesa-Scottsdale submarket. ASU currently requires freshmen to reside on campus and offers about 16,050 on-campus dormitory units. More than 40,000 students live off campus in the private rental market (ASU estimates). The apartment vacancy rate in the North Tempe-defined market area, which includes the largest campus for ASU, was 6.5 percent during the first quarter of 2014, down from 7.4 percent during the first quarter of 2013 (RealData, Inc.). During the same period, the average monthly rent remained the same, at $950.

Several large properties are currently under construction in the submarket, particularly in the city of Scottsdale, where new rental households are attracted to the downtown feel of the area. Projects under construction include the Blue Sky Apartments, a luxury 749-unit development, which is expected to be complete by October 2014; rents are yet to be determined. The 536-unit San Travesia apartments is also under construction, with rents ranging from $1,050 to $1,299 for one-bedroom/one-bath units, $1,290 to $1,625 for two-bedroom/two-bath units, and $1,675 to $1,975 for three-bedroom/two-bath units. Construction is expected to be complete by February 2015.

During the 3-year forecast period, as economic and population growth continues, high annual levels of apartment absorption are expected compared with levels of absorption during the recent recession. Demand is expected for 13,250 rental units in the submarket during the forecast period (Table 1). The rental market must still absorb a large number of excess vacancies, however, and the 8,925 units currently under construction before it achieves a balanced rental market. As a result, no demand exists for additional apartment completions during the first 2 years of the forecast period. The rental market in the Greater Mesa-Scottsdale submarket should support additional apartment completions by the third year of the forecast, which suggests renewed construction apartment starts during the second year. Table 7 shows estimated demand for new market-rate rental housing in the submarket, categorized by rent level and number of bedrooms.

Table 7. Estimated Demand for New Market-Rate Rental Housing in the Greater Mesa-Scottsdale Submarket During the Forecast Period

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
550 to 749	600	690 to 889	4,350	850 to 1,049	5,100	1,100 to 1,299	720
750 or more	65	890 to 1,089	540	1,050 to 1,249	640	1,300 or more	80
		1,090 or more	540	1,250 or more	640		
Total	660	Total	5,425	Total	6,350	Total	800

Notes: Numbers may not add to totals because of rounding. The 8,925 units currently under construction will likely satisfy some of the estimated demand. The forecast period is May 1, 2014, to May 1, 2017.

Source: Estimates by analyst

Data Profiles

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

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	2010 to Current
Total resident employment	1,609,059	1,876,111	1,912,000	1.5	0.6
Unemployment rate	3.3%	9.7%	6.6%		
Nonfarm payroll jobs	1,578,600	1,693,200	1,825,000	0.7	2.3
Total population	3,251,884	4,192,887	4,394,000	2.6	1.2
Total households	1,194,250	1,537,173	1,626,200	2.6	1.4
Owner households	812,045	1,005,949	1,004,000	2.2	0.0
Percent owner	68.0%	65.4%	61.7%		
Renter households	382,205	531,224	622,200	3.3	3.9
Percent renter	32.0%	34.6%	38.3%		
Total housing units	1,331,385	1,798,501	1,841,000	3.1	0.6
Owner vacancy rate	2.0%	4.3%	3.5%		
Rental vacancy rate	9.0%	13.8%	8.8%		
Median Family Income	$50,200	$65,900	$66,400	2.8	0.3

** Phoenix-Mesa-Scottsdale HMA.*

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 2000, 2010, and the 12 months through April 2014. Median Family Incomes are for 1999, 2009, and 2012. The current date is May 1, 2014.

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	2010 to Current
Total population	1,321,045	1,445,632	1,503,000	0.9	1.0
Total households	465,834	514,806	534,700	1.0	0.9
Owner households	282,670	296,742	285,600	0.5	– 0.9
Percent owner	60.7%	57.6%	53.4%		
Renter households	183,164	218,064	249,100	1.8	3.3
Percent renter	39.3%	42.4%	46.6%		
Total housing units	495,832	590,149	594,000	1.8	0.2
Owner vacancy rate	1.4%	4.3%	3.9%		
Rental vacancy rate	7.9%	15.0%	10.0%		

Notes: Numbers may not add to totals because of rounding. The current date is May 1, 2014.

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

Table DP-3. Greater Mesa-Scottsdale Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	2010 to Current
Total population	1,930,839	2,747,255	2,891,000	3.6	1.3
Total households	728,416	1,022,367	1,091,200	3.4	1.6
Owner households	529,375	709,207	718,200	3.0	0.3
Percent owner	72.7%	69.4%	65.8%		
Renter households	199,041	313,160	373,000	4.6	4.4
Percent renter	27.3%	30.6%	34.2%		
Total housing units	835,553	1,208,352	1,247,000	3.8	0.8
Owner vacancy rate	2.3%	4.2%	3.4%		
Rental vacancy rate	9.9%	13.0%	8.0%		

Notes: Numbers may not add to totals because of rounding. The current date is May 1, 2014.

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: 5/1/2014—Analyst's estimates
Forecast period: 5/1/2014–5/1/2017—
Analyst's estimates

The metropolitan statistical area definition in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated February 28, 2013.

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 http://www.huduser.org/publications/pdf/CMARtables_Phoenix-Mesa-ScottsdaleAZ_14.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/portal/ushmc/chma_archive.html.