



Economic Development

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Date: June 21, 2022
To: Honorable Mayor and City Council
From: Rob Millar, Director of Economic Development
Subject: July 6, 2022 Work Study Session – Home Arizona Presentation

Honorable Mayor and Councilmembers,

At the April 14, 2022, Council Subcommittee on Economic Development meeting Home Arizona provided an overview of current housing conditions and associated economic forecasts. Due to the prevalence of housing issues impacting the local and national economy, the Subcommittee unanimously requested the item go before the full City Council.

Attachment #1 – Home Arizona Presentation

Current State of the Greater Phoenix Housing Market

A Supply & Demand Analysis

**City of Scottsdale
Council Work Study**

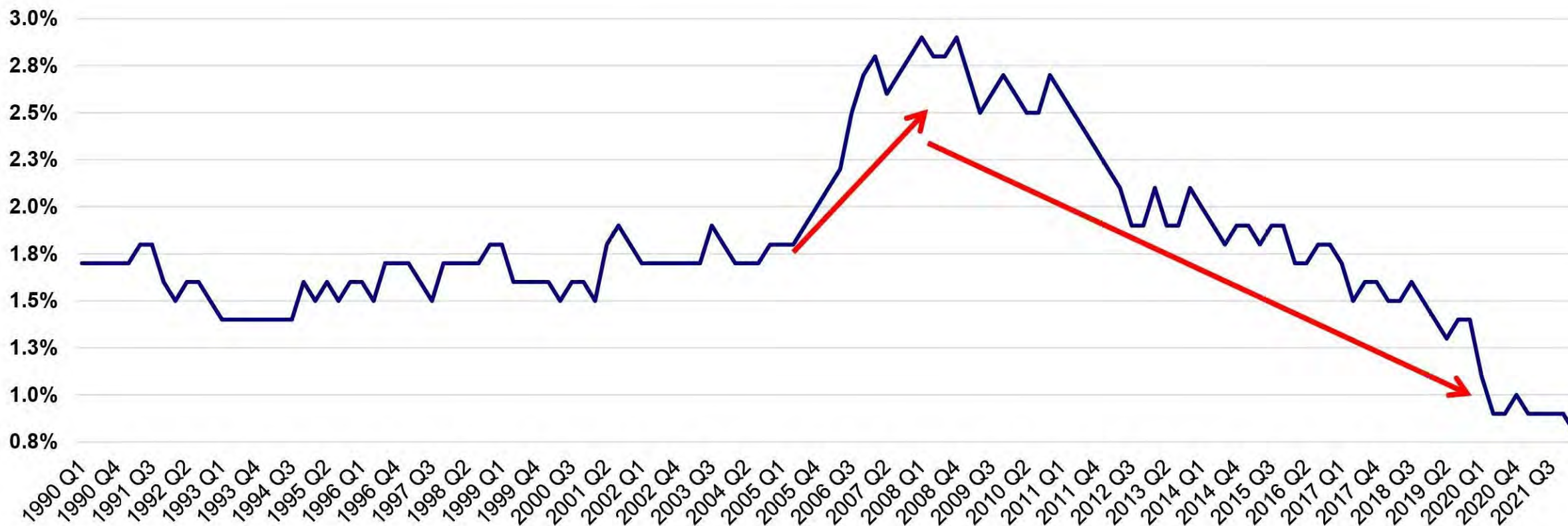
July 6, 2022

By Home Arizona



U.S. Homeowner Vacancy Rate

Source: U.S. Census Bureau



The homeowner vacancy rate is calculated as the ratio of vacant year-round units for sale to the sum of owner-occupied units, vacant year-round units sold but awaiting occupancy, and vacant year-round units for sale.



U.S. Rental Vacancy Rate

Source: U.S. Census Bureau

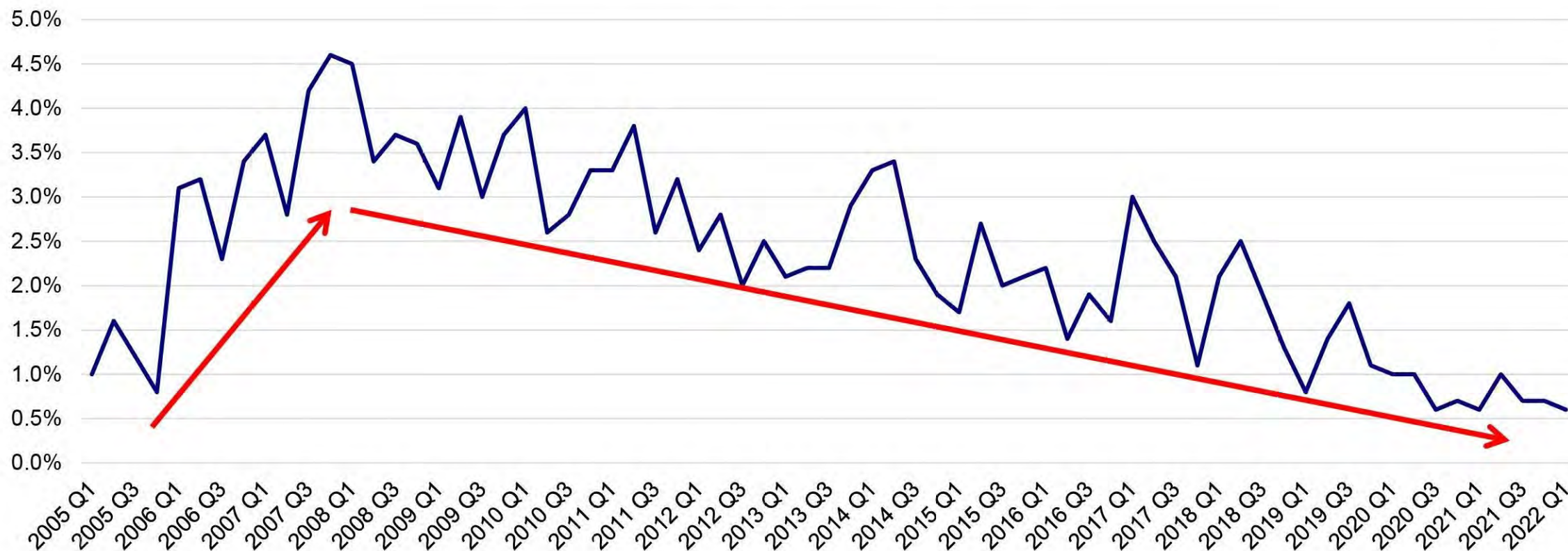


The rental vacancy rate is calculated as the ratio of vacant year-round units for rent to the sum of renter-occupied units, vacant year-round units rented but awaiting occupancy, and vacant year-round units for rent.



AZ Homeowner Vacancy Rate

Source: U.S. Census Bureau



The homeowner vacancy rate is calculated as the ratio of vacant year-round units for sale to the sum of owner-occupied units, vacant year-round units sold but awaiting occupancy, and vacant year-round units for sale.

AZ Rental Vacancy Rate

Source: U.S. Census Bureau

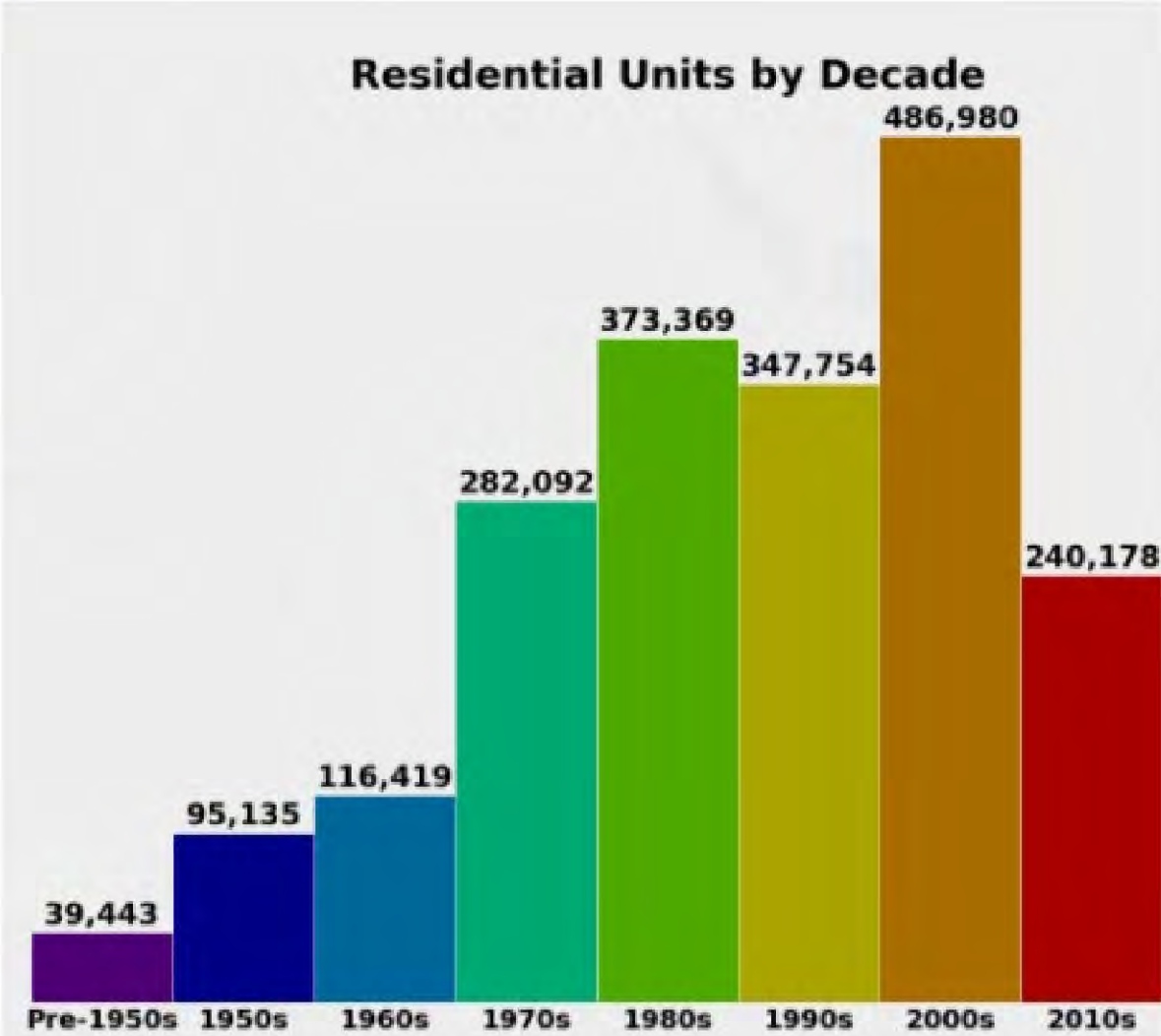


The rental vacancy rate is calculated as the ratio of vacant year-round units for rent to the sum of renter-occupied units, vacant year-round units rented but awaiting occupancy, and vacant year-round units for rent.

The 2000's - A decade of building excess inventory.

The 2010's - A decade of absorbing that inventory.

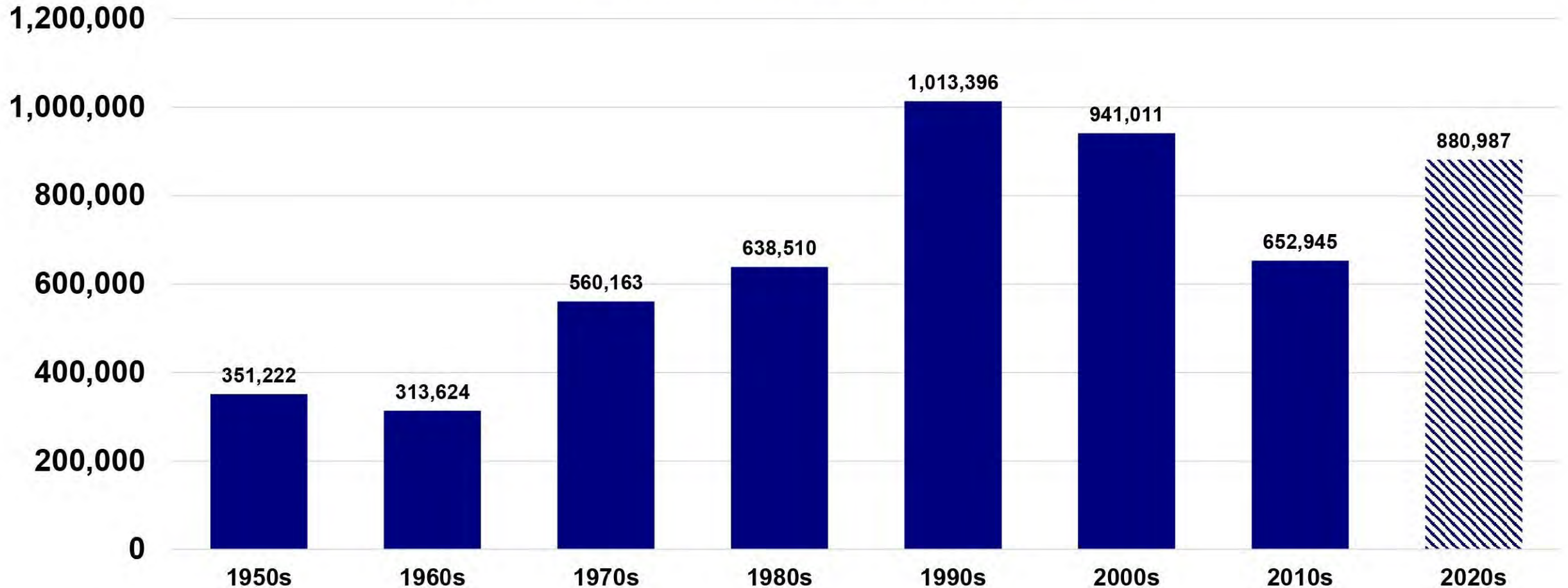
We are now short of inventory.



Source: Maricopa Association of Governments. Data reflects Greater Phoenix.

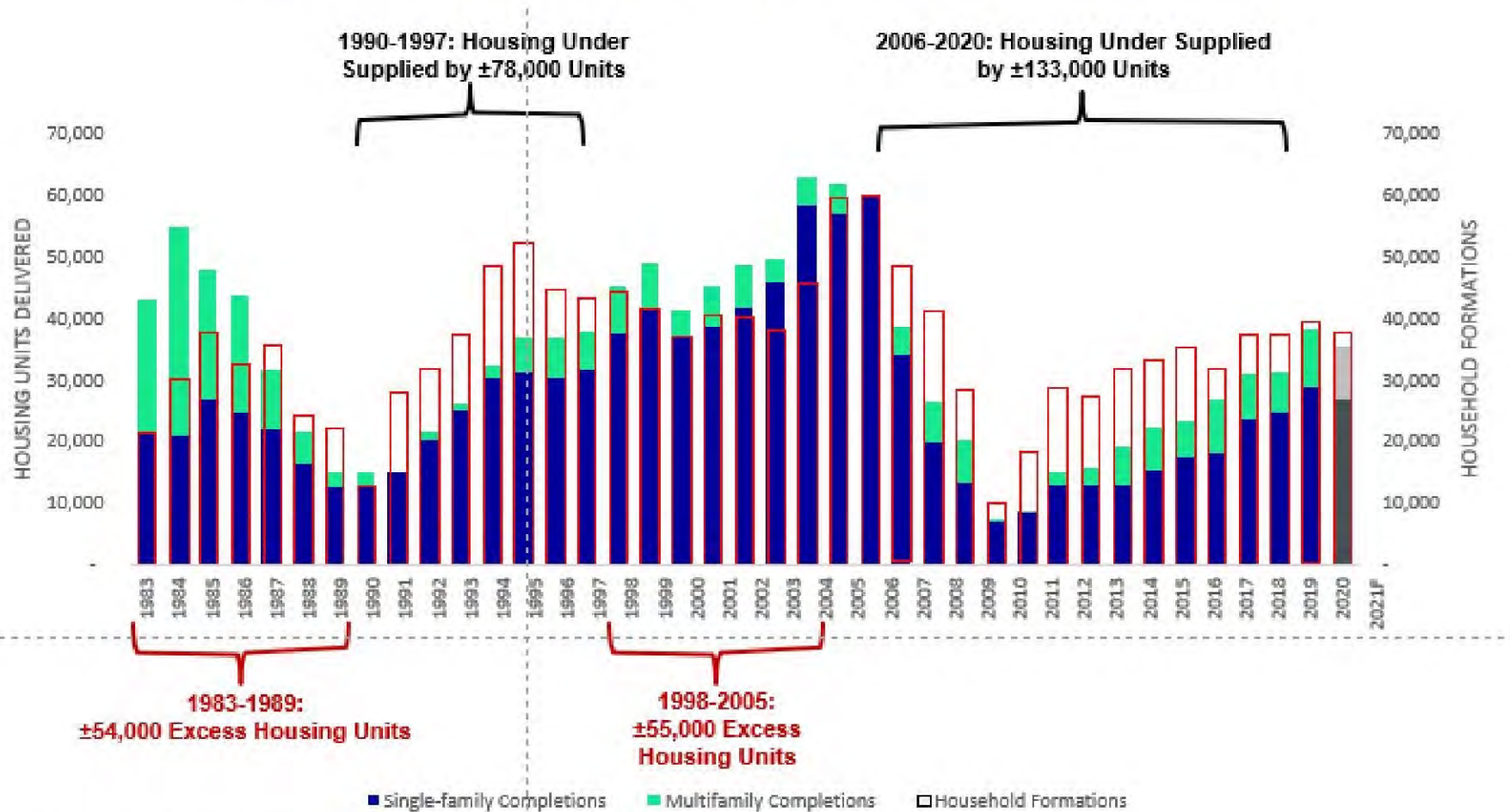
Greater Phoenix Population Growth by Decade

Source: U.S. Census; UofA Forecasting Project



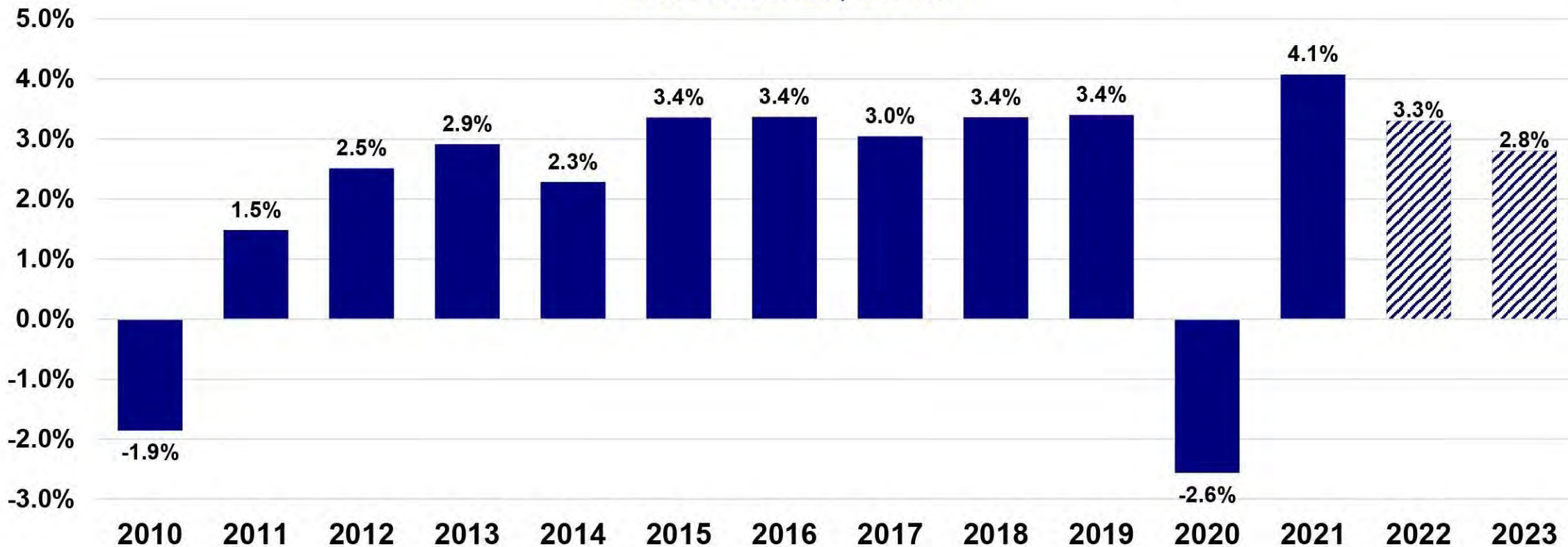
Household Formations Outpacing Single and Multifamily Additions

Sources: U.S. Census; Moody's Analytics; CBRE Research



Greater Phoenix Employment

Source: AOEO; EDPCo

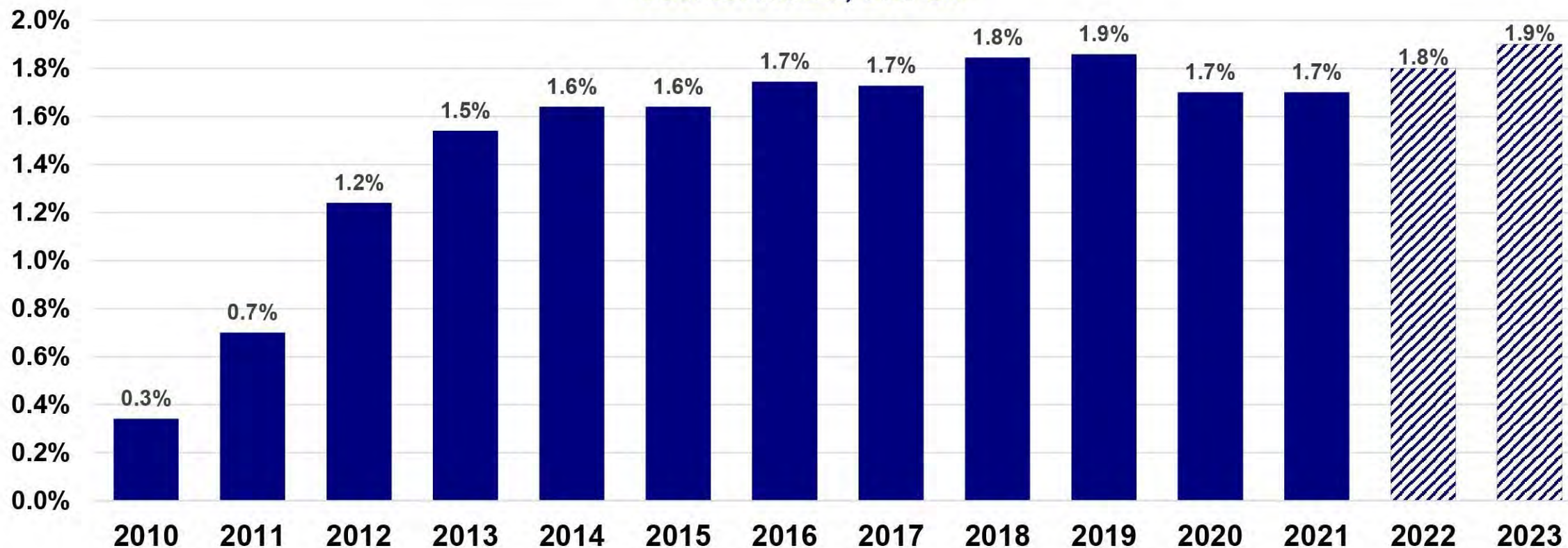


Greater Phoenix has a long history of strong employment growth



Greater Phoenix Population

Source: AOEO; EDPCo



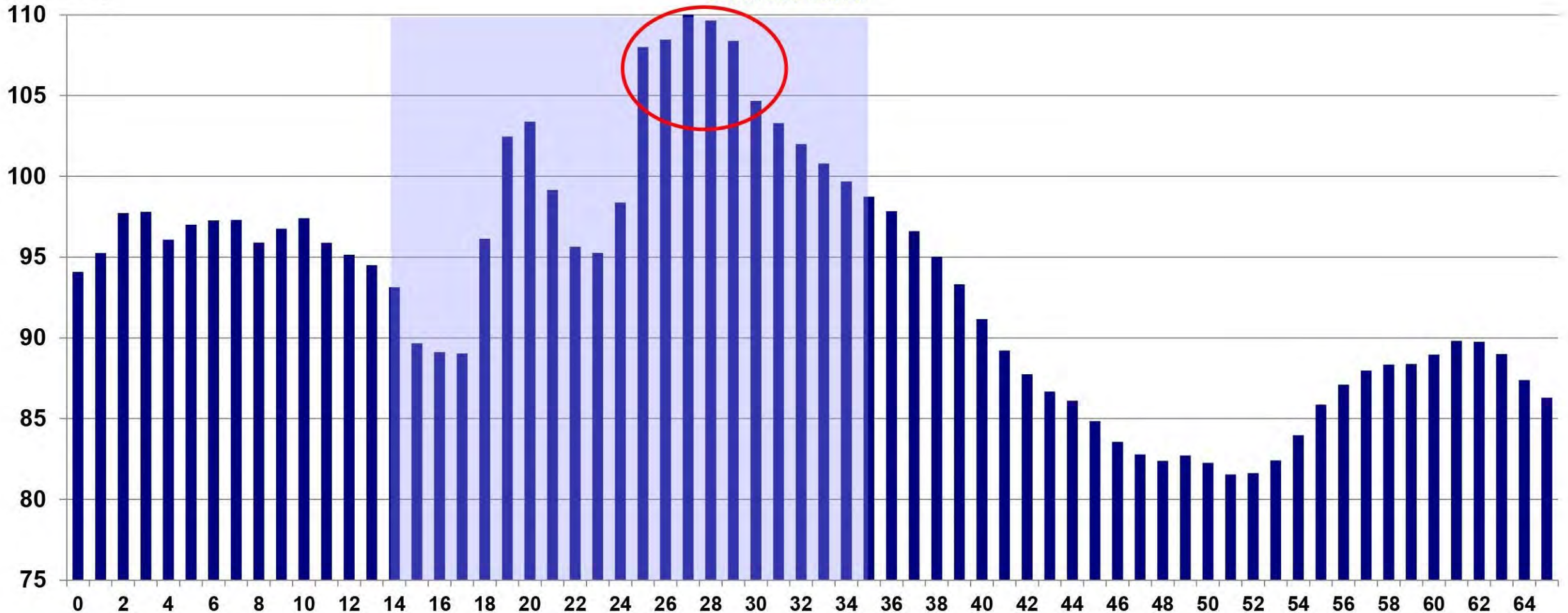
Projected growth approximates 90,000 new residents each year

Arizona Population by Age (0-65)

2021

Source: ESRI

(1,000's)

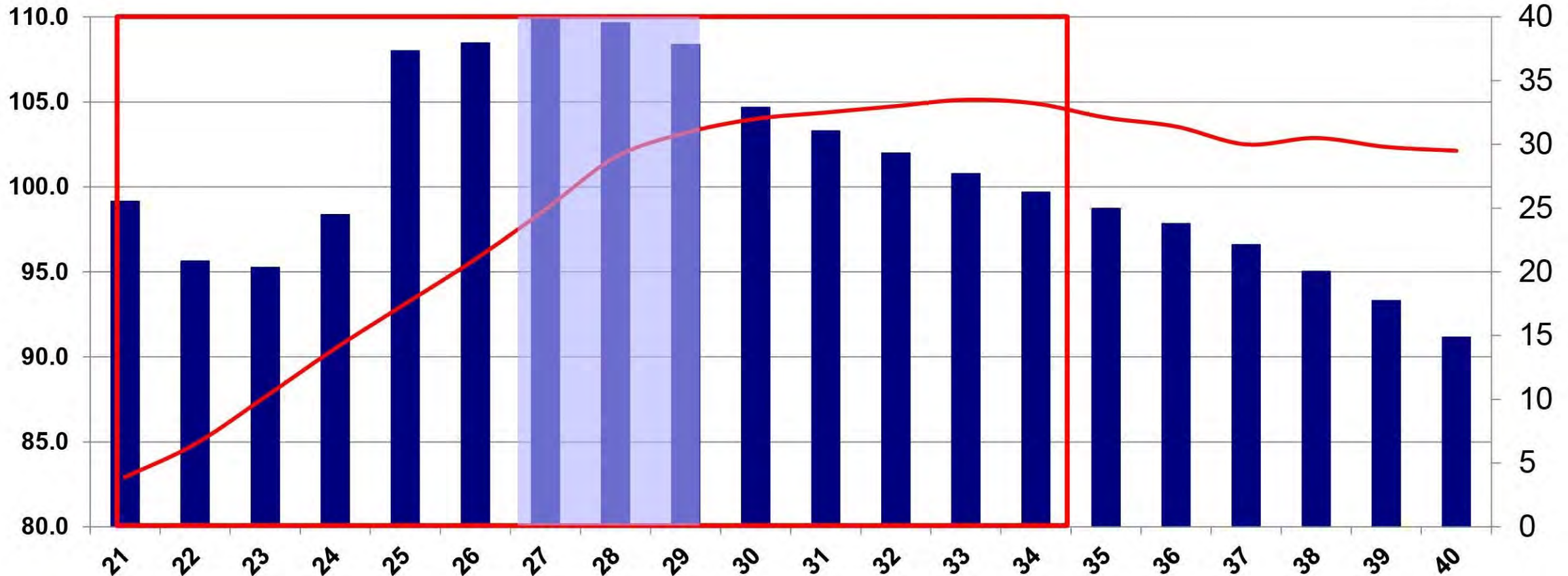


Arizona Number of Persons vs. Home-Purchase Loan Applications 2021

Source: ESRI; CoreLogic; EDPCo

Home-purchase loan application per
1,000 persons

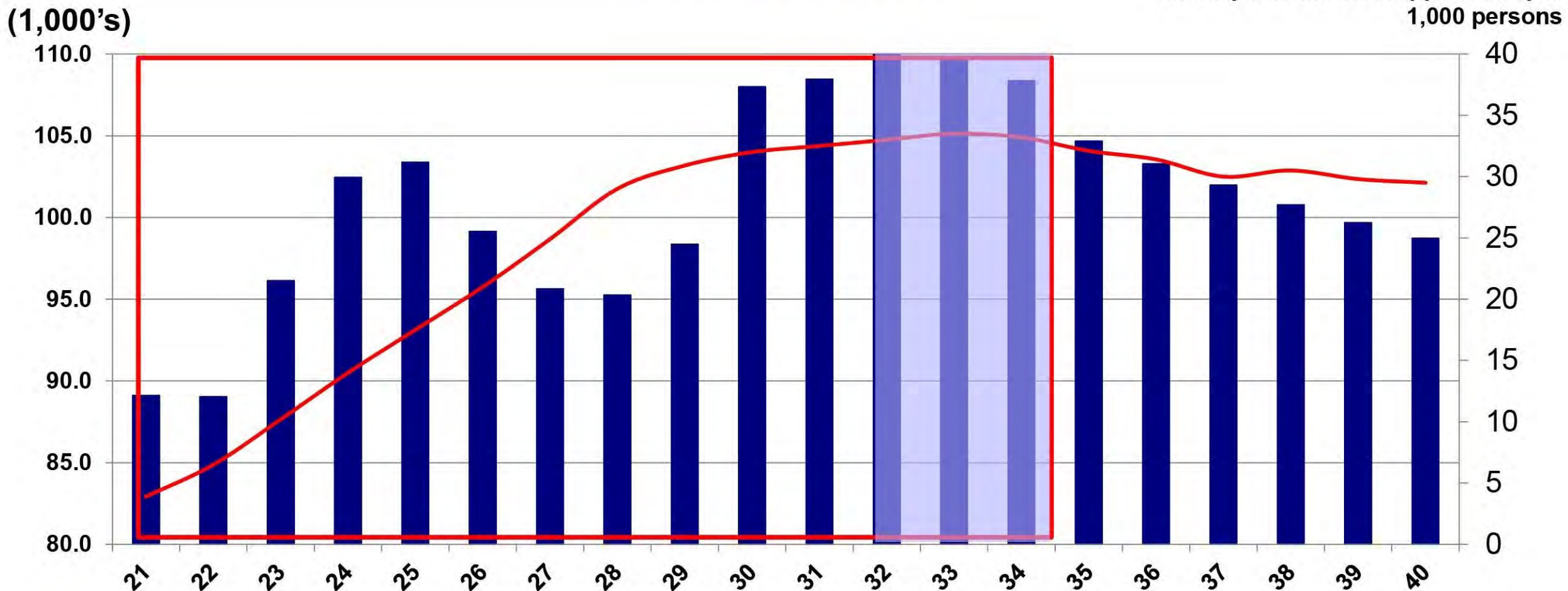
(1,000's)



Arizona Number of Persons vs. Home-Purchase Loan Applications 2026

Source: ESRI; CoreLogic; EDPCo

Home-purchase loan application per
1,000 persons



Arizona

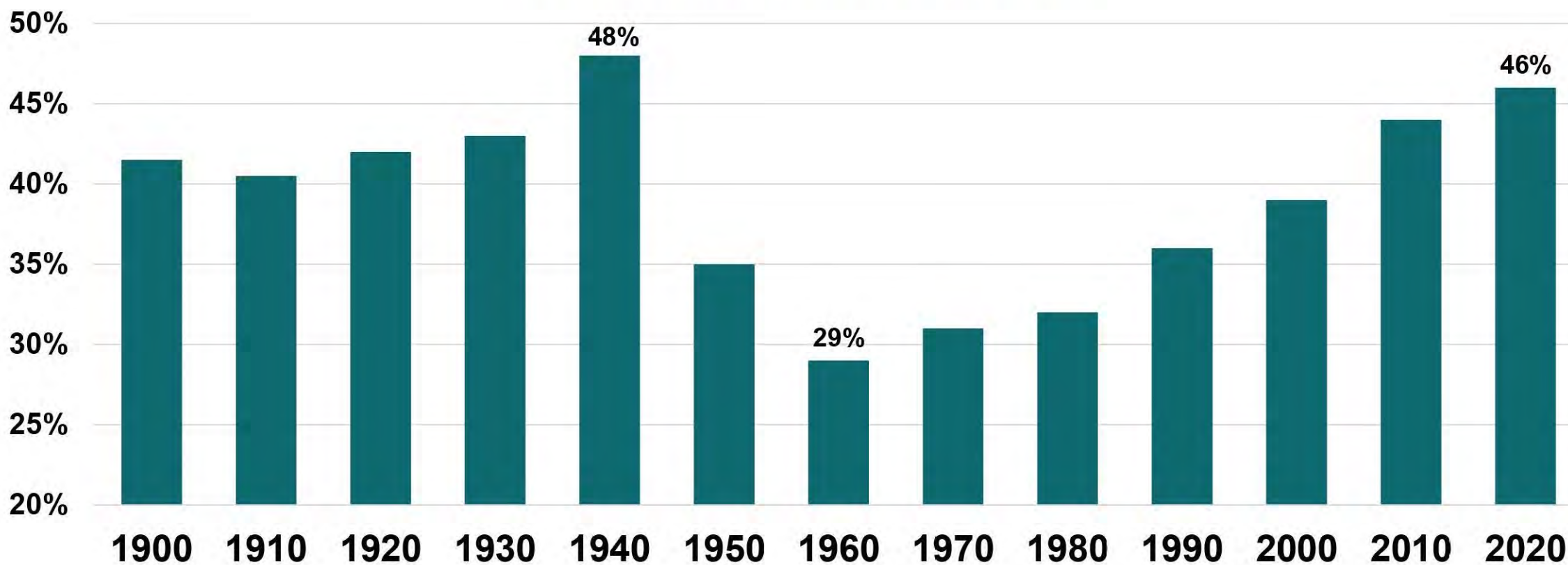
Homeownership Rates by Age Group

Source: 2020 American Community Survey 5-Year Estimates

Householder Age	% of Total Occupied
15 to 24 years	15.0%
25 to 34 years	<u>49.8%</u>
35 to 44 years	<u>58.1%</u>
45 to 54 years	67.3%
55 to 64 years	76.1%
65 to 74 years	82.4%
75 to 84 years	84.0%
85 years and over	73.9%
Total	65.3%

Adults Living with a Parent 18-to-29-year-olds

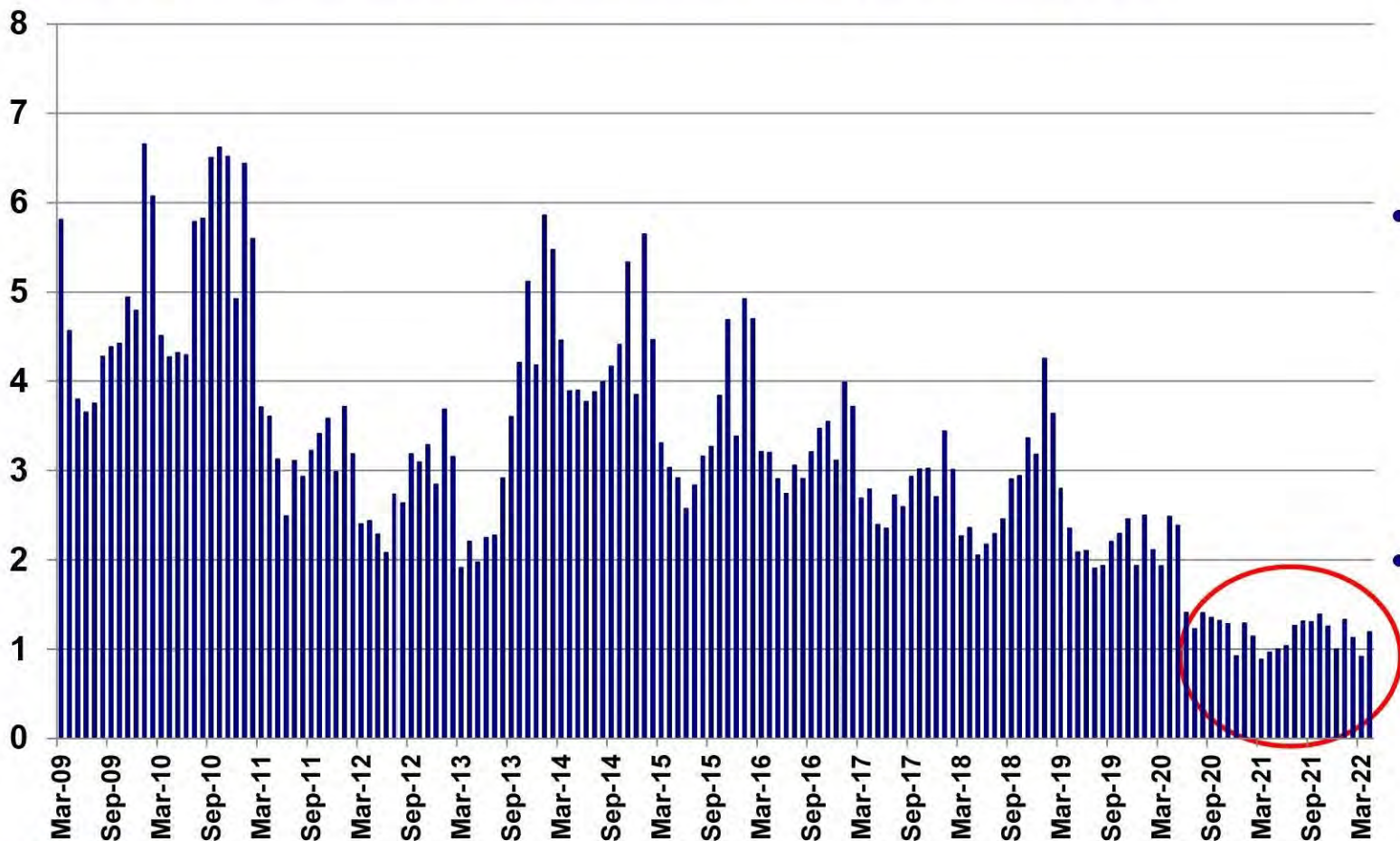
Source: U.S. Census Bureau



SF Greater Phoenix Months Supply

2009-2022*

Source: ARMLS; Cromford Report; Zonda

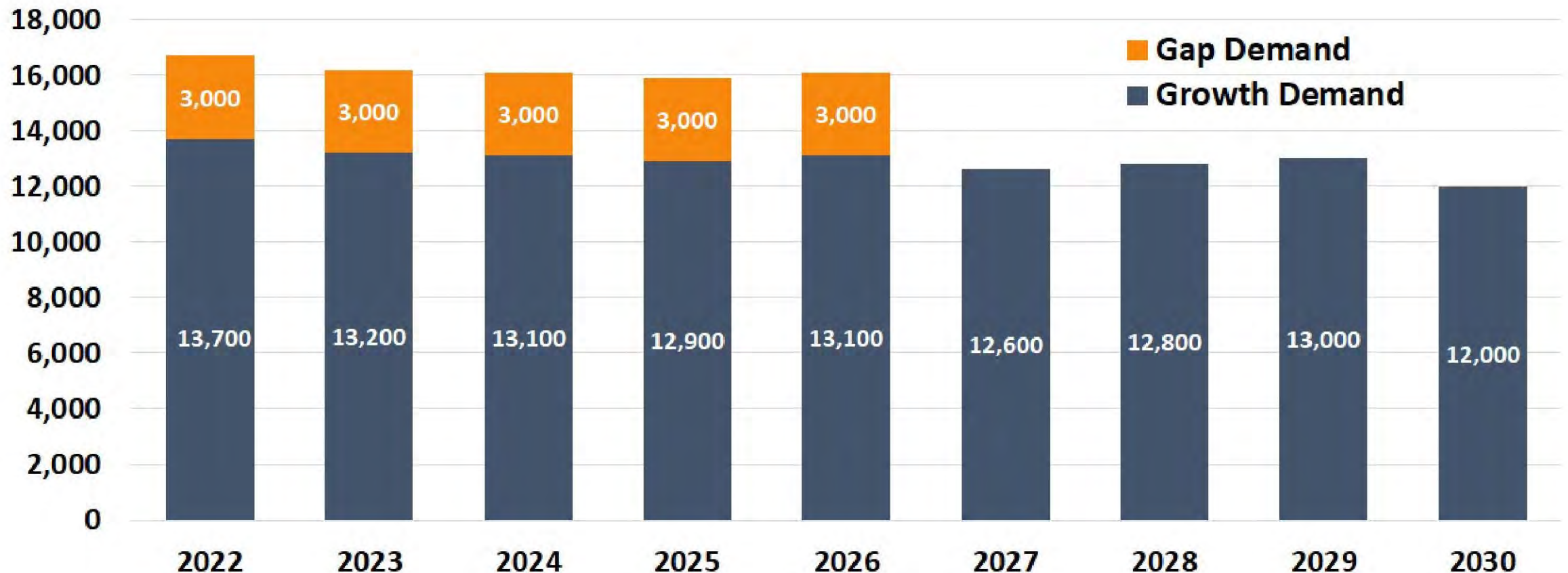


- SF Days of inventory:
 - Long run average 65.2
 - Currently at 19.6
- SF Days of Inventory for homes under \$350,000:
 - Long run average 45.3
 - Currently 5.6
- Inventory of new homes is down from 1,631 just 18 months ago to 477.



Greater Phoenix Apartment Need

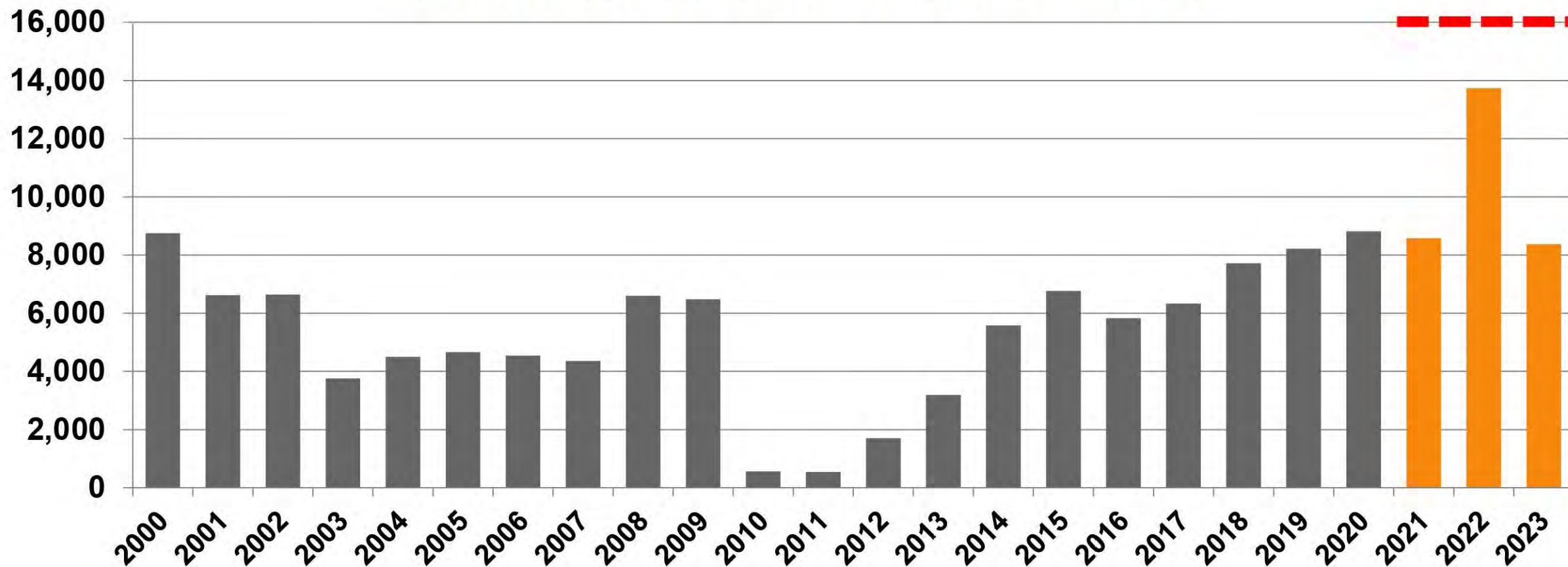
Source: AOEO; Elliott D. Pollack & Company



Apartment Deliveries - Not Keeping Pace

2000-2020; Forecast 2021-2023

Source: RealData; Commercial Brokers; Elliott D. Pollack & Company



What Do We Need?

- ☑ Entry Level Ownership Housing
- ☑ Move-Up Ownership Housing
- ☑ Market Rate Rental Housing
- ☑ Workforce Level Rental Housing
- ☑ Low-Income Rental Housing
- ☑ Extremely Low-Income Rental Housing

The current shortage is in all housing types, at all price levels, and all income levels.

Housing Affordability Ladder Effect



Prices Are Increasing Rapidly

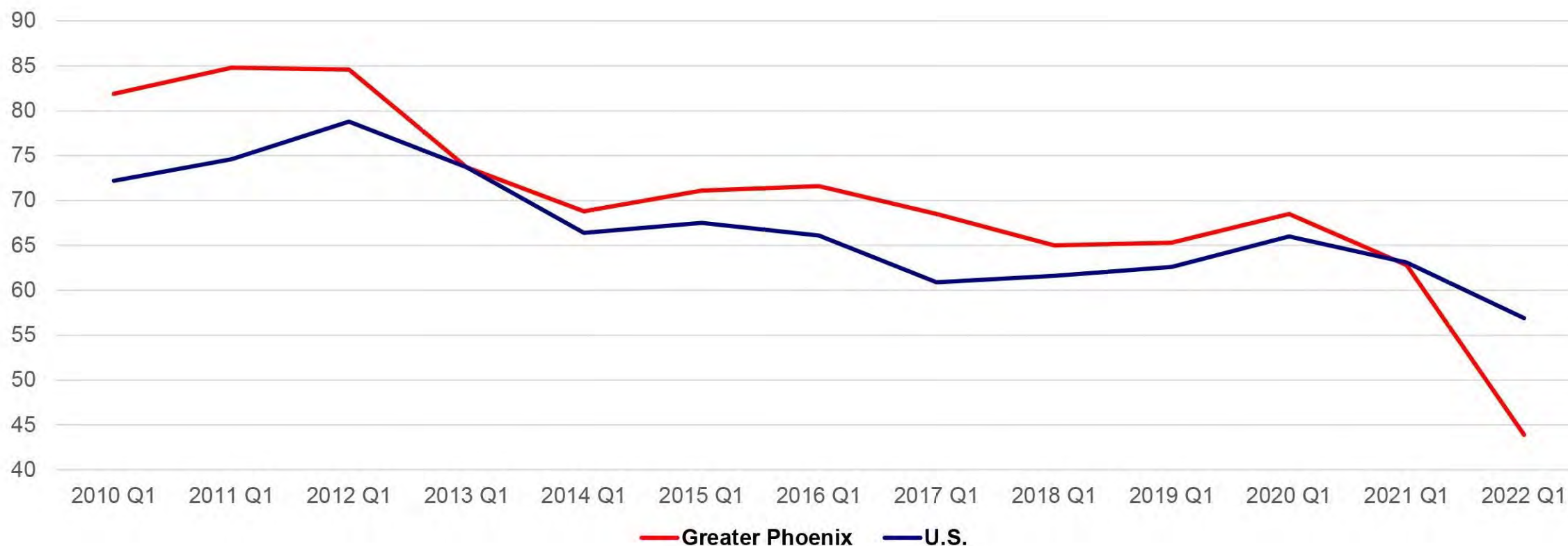
Source: RealData; The Information Market; BLS

	Latest Data	% Change Y-O-Y
Apts. Rents	\$1,564	29.9%
SF Resale	\$465,000	26.7%
Core-CPI	290.455	6.1%

You cannot get this big of a price increase in housing without a significant supply demand imbalance.

Housing Opportunity Index

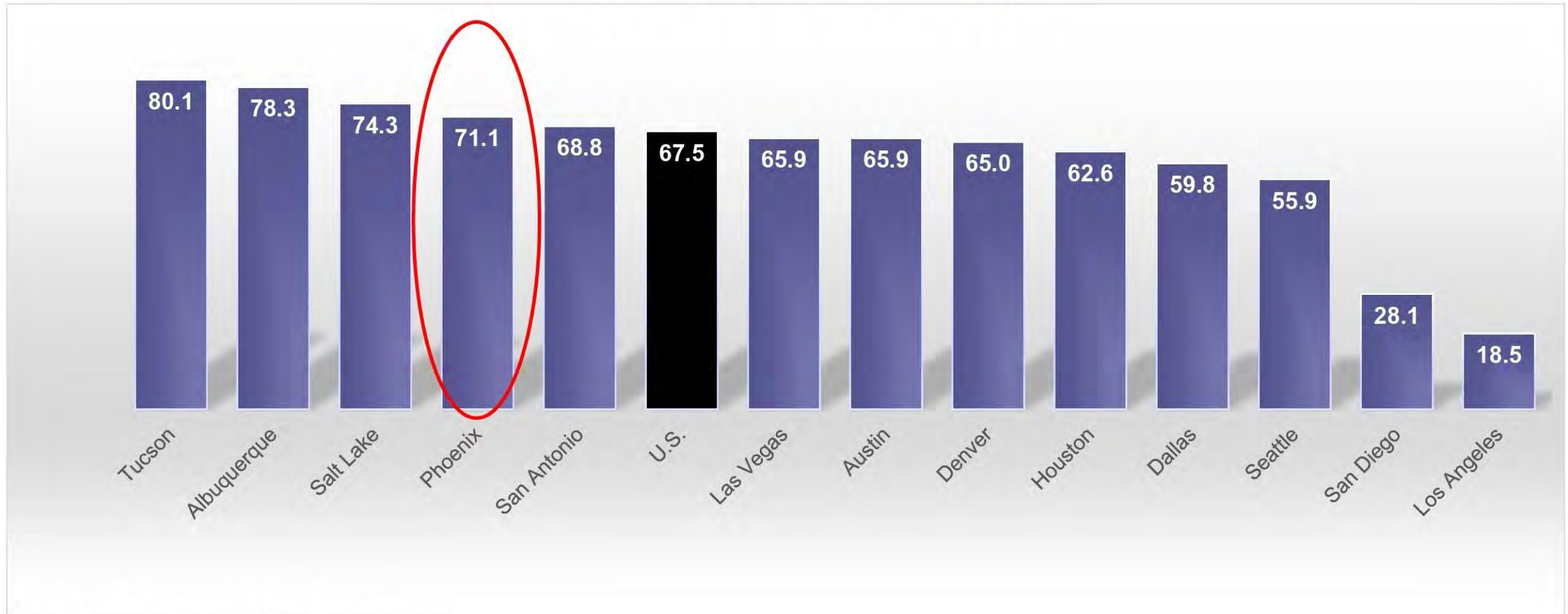
Source: NAHB/Wells Fargo



Housing Opportunity Index

2015 Q1

Source: NAHB/Wells Fargo



Housing Opportunity Index

2019 Q1

Source: NAHB/Wells Fargo



Housing Opportunity Index

2022 Q1

Source: NAHB/Wells Fargo



Diminishing Housing Affordability in Greater Phoenix

Source: RL Brown, NAHB, Wells Fargo

	2022 (Q1 25.7%)	2023 (f) (0%)	2024 (f) (0%)	2025 (f) (0%)
Income (5% Growth)	\$88,800	\$93,240	\$97,902	\$102,797
28% of Income	\$2,072	\$2,176	\$2,284	\$2,399
Taxes & Insurance	\$270	\$270	\$270	\$270
Payment (Principal & Interest)	\$1,802	\$1,906	\$2,014	\$2,129
Interest Rate	3.86%	6.5%	6.5%	5.0%
Affordable Home	\$426,568	\$353,153	\$373,313	\$440,577
% Affordable	43.9%	28.3%	23.2%	28.6%

Diminishing Housing Affordability in Greater Phoenix

Source: RL Brown, NAHB, Wells Fargo

	2022 (Q1 25.7%)	2023 (f) (-5%)	2024 (f) (-10%)	2025 (f) (5%)
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Affordable Home	\$426,568	\$353,153	\$373,313	\$440,577
% Affordable	43.9%	34.6%	41.2%	42.3%

Low levels of affordability are associated with lower levels of homeownership and higher level of rentals

Area	Affordability (Q1 2015 NAHB)	Affordability (Q1 2021 NAHB)	Affordability (Q1 2022 NAHB)	Homeownership Rate (Q1 2022 HVS)	% Renter Occupied (Q1 2022 HVS)
Los Angeles	18.5%	11.6%	8.3%	45.2%	54.8%
San Francisco	14.7%	17.4%	14.4%	56.3%	43.7%
San Diego	28.1%	22.4%	14.6%	48.4%	51.6%
New York	26.7%	31.6%	22.3%	50.0%	50.0%
Seattle	55.9%	41.0%	32.5%	59.7%	40.3%
Phoenix	71.1%	62.8%	43.9%	67.2%	32.8%
Denver	65.9%	67.6%	46.9%	63.2%	36.8%
Dallas	59.8%	62.1%	51.3%	61.7%	38.3%
U.S.	67.5%	63.1%	56.9%	65.4%	34.6%
Houston	62.6%	65.7%	59.7%	61.3%	38.7%
Albuquerque	78.3%	72.7%	68.1%	64.5%	35.5%

What happens as there is shift from Owner Occupied to Renter Occupied?

Source: ACS; EDPCo

	Renter Occupied Changes
All Units (latest)	1,745,219
Percent of Units (latest)	35.6%
No. of Renter Units (35.6%)	621,809
No. of Units Renter at 40%	698,088
No. of Units Renter at 50%	872,610

Interest Rates & Mortgage Rates

Source: Zonda

- A 0.5% change in interest rate translates to 6.5% in home price.
 - \$400,000 home at 3.15% principal and interest payment of \$1,719.
 - \$375,759 home at 3.65% principal and interest payment of \$1,719.
- A 1.0% Change in the Interest rate translates to 13.2% in home price.
 - \$400,000 home at 3.15% principal and interest payment of \$1,719.
 - \$353,618 home at 4.15% principal and interest payment of \$1,719.

Greater Phoenix Home Affordability

Year	Cost	Interest Rate	Total Monthly Payment	Annual Household Income Needed	Medium Income	HOI Phoenix
2000 Q1	\$132,000	7.93%	\$1,003	\$43,004	\$53,100	69.5%
2005 Q1	\$193,000	5.79%	\$1,219	\$52,248	\$58,300	60.1%
2010 Q1	\$140,000	5.12%	\$831	\$35,636	\$66,600	81.9%
2015 Q1	\$205,000	3.81%	\$1,074	\$46,041	\$64,000	71.1%
2020 Q1	\$300,000	3.61%	\$1,542	\$66,067	\$77,800	68.5%
2022 Q1	\$440,000	3.86%	\$2,317	\$99,303	\$79,000	43.9%
% Change	233.3%	-51.3%	131.0%	130.9%	48.8%	-36.8%

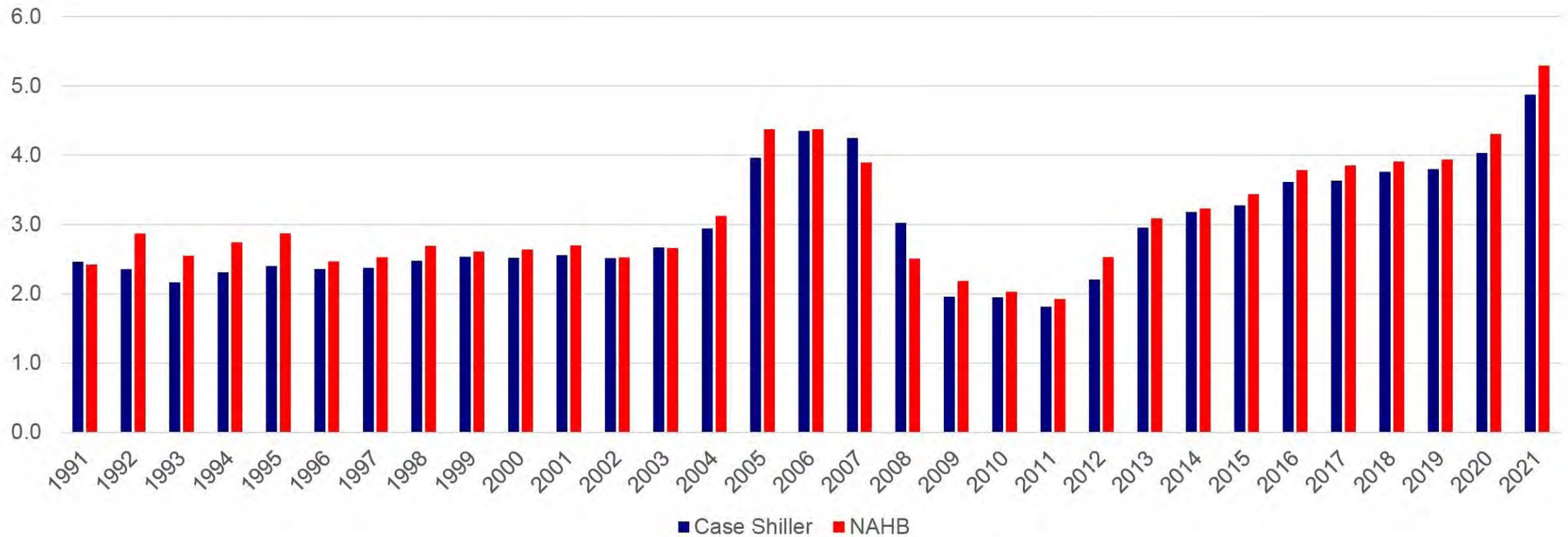
Total Payment: Principal, Interest, Property Tax and Insurance; LTV 90%

*Source: Freddie Mac, NAHAB



Greater Phoenix

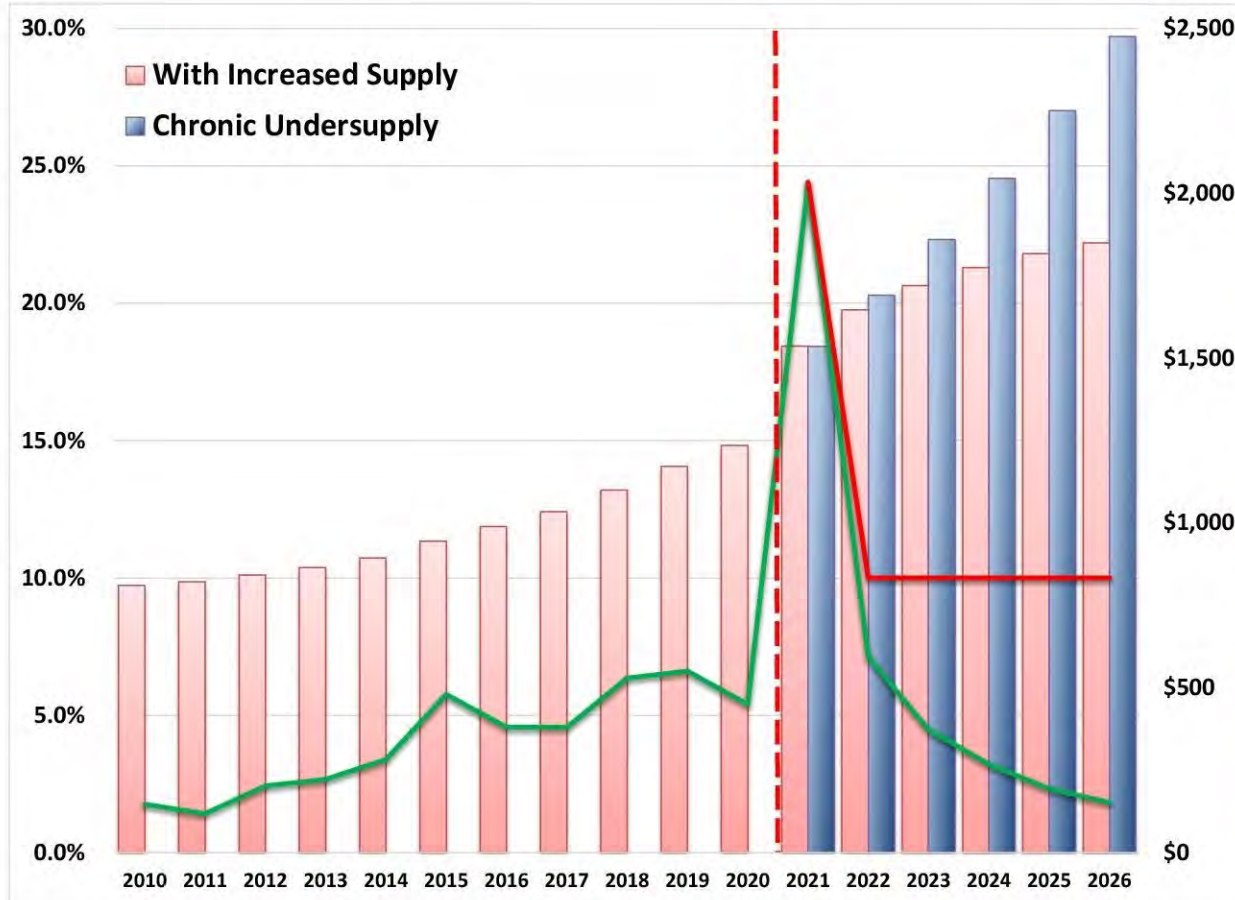
Ratio of Housing Price to Family Income



HUD: annual median family income estimates



Greater Phoenix Rent Affordability



Year	With Increased Supply			Chronic Under Supply		
	Avg Rent	% Chg	Income Required	Avg Rent	% Chg	Income Required
2017	\$1,034	4.6%	\$41,360			
2018	\$1,100	6.4%	\$44,000			
2019	\$1,172	6.6%	\$46,880			
2020	\$1,235	5.4%	\$49,400			
2021	\$1,537	24.4%	\$61,480	\$1,537	24.4%	\$61,480
2022	\$1,646	7.1%	\$65,840	\$1,690	10.0%	\$67,630
2023	\$1,720	4.5%	\$68,800	\$1,860	10.0%	\$74,400
2024	\$1,775	3.2%	\$71,000	\$2,045	10.0%	\$81,830
2025	\$1,817	2.3%	\$72,680	\$2,250	10.0%	\$90,010
2026	\$1,850	1.8%	\$74,000	\$2,475	10.0%	\$99,010

Affordability by Occupation

	Median Home Price	Annual Salary Needed	2-Bedroom Rent	Annual Salary Needed	1-Bedroom Rent	Annual Salary Needed	Nurse	Police Officer	Firefighter	High School Teacher	Chef	Elementary/Middle School Teacher	Construction Worker	Wait Staff	Retail Worker
2020 (August)							\$80,609	\$73,786	\$54,900	\$54,186	\$53,071	\$47,799	\$47,034	\$34,940	\$26,843
Avondale	\$285,000	\$53,800	\$1,340	\$53,600	\$1,152	\$46,100									
Chandler	\$381,500	\$72,100	\$1,420	\$56,800	\$1,251	\$50,000									
Gilbert	\$395,000	\$74,600	\$1,395	\$55,800	\$1,201	\$48,000									
Glendale	\$297,000	\$56,100	\$1,144	\$45,800	\$905	\$36,200									
Goodyear	\$324,780	\$61,400	\$1,477	\$59,100	\$1,164	\$46,600									
Mesa	\$315,000	\$59,500	\$1,200	\$48,000	\$1,046	\$41,800									
Peoria	\$346,613	\$65,500	\$1,302	\$52,100	\$1,250	\$50,000									
Phoenix	\$310,000	\$58,600	\$1,135	\$45,400	\$929	\$37,200									
Scottsdale	\$570,901	\$107,900	\$1,465	\$58,600	\$1,235	\$49,400									
Surprise	\$303,495	\$57,300	\$1,428	\$57,100	\$1,219	\$48,800									
Tempe	\$337,000	\$63,700	\$1,313	\$52,500	\$1,099	\$44,000									
2021 (August)							\$83,269	\$76,221	\$56,712	\$55,974	\$55,141	\$49,376	\$48,680	\$36,303	\$27,836
Avondale	\$378,500	\$70,300	\$1,724	\$69,000	\$1,482	\$59,300									
Chandler	\$465,000	\$91,100	\$1,810	\$72,400	\$1,594	\$63,800									
Gilbert	\$515,000	\$100,900	\$1,765	\$70,600	\$1,519	\$60,800									
Glendale	\$385,000	\$75,500	\$1,430	\$57,200	\$1,132	\$45,300									
Goodyear	\$438,600	\$86,000	\$1,787	\$71,500	\$1,409	\$56,400									
Mesa	\$405,000	\$79,400	\$1,496	\$59,800	\$1,304	\$52,200									
Peoria	\$440,000	\$86,200	\$1,638	\$65,500	\$1,573	\$62,900									
Phoenix	\$380,000	\$74,500	\$1,394	\$55,800	\$1,142	\$45,700									
Scottsdale	\$717,500	\$140,600	\$1,870	\$74,800	\$1,576	\$63,000									
Surprise	\$410,000	\$80,400	\$1,764	\$70,600	\$1,506	\$60,200									
Tempe	\$431,500	\$84,600	\$1,665	\$66,600	\$1,393	\$55,700									

Buy

Rent 2BD

Rent 1BD

Neither

Source:
Cromford Report; AZ Office of Economic Opportunity; Bureau of Labor Statistics; ApartmentList.com; Elliott D. Pollack & Company

Affordability by Occupation

	Median Home Price	Annual Salary Needed	2-Bedroom Rent	Annual Salary Needed	1-Bedroom Rent	Annual Salary Needed	Nurse	Police Officer	Firefighter	High School Teacher	Chef	Elementary/Middle School Teacher	Construction Worker	Wait Staff	Retail Worker
2020 (August)							\$80,609	\$73,786	\$54,900	\$54,186	\$53,071	\$47,799	\$47,034	\$34,940	\$26,843
Avondale	\$285,000	\$53,800	\$1,340	\$53,600	\$1,152	\$46,100									
Chandler	\$381,500	\$72,100	\$1,420	\$56,800	\$1,251	\$50,000									
Gilbert	\$395,000	\$74,600	\$1,395	\$55,800	\$1,201	\$48,000									
Glendale	\$297,000	\$56,100	\$1,144	\$45,800	\$905	\$36,200									
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Surprise	\$303,495	\$57,300	\$1,428	\$57,100	\$1,219	\$48,800									
Tempe	\$337,000	\$63,700	\$1,313	\$52,500	\$1,099	\$44,000									
2022 (March)							\$86,600	\$78,965	\$58,753	\$58,213	\$57,953	\$51,351	\$50,725	\$38,154	\$29,228
Avondale	\$425,000	\$97,000	\$1,764	\$70,600	\$1,516	\$60,600									
Chandler	\$520,000	\$118,700	\$1,869	\$74,800	\$1,646	\$65,800									
Gilbert	\$567,750	\$129,600	\$1,846	\$73,800	\$1,589	\$63,600									
Glendale	\$425,000	\$97,000	\$1,535	\$61,400	\$1,214	\$48,600									
Goodyear	\$500,000	\$114,100	\$1,941	\$77,600	\$1,530	\$61,200									
Mesa	\$425,000	\$97,000	\$1,636	\$65,400	\$1,426	\$57,000									
Peoria	\$495,000	\$113,000	\$1,688	\$67,500	\$1,621	\$64,800									
Phoenix	\$425,000	\$97,000	\$1,498	\$59,900	\$1,227	\$49,100									
Scottsdale	\$795,000	\$181,500	\$2,037	\$81,500	\$1,717	\$68,700									
Surprise	\$442,000	\$100,900	\$1,949	\$78,000	\$1,664	\$66,600									
Tempe	\$477,000	\$108,900	\$1,744	\$69,800	\$1,459	\$58,400									

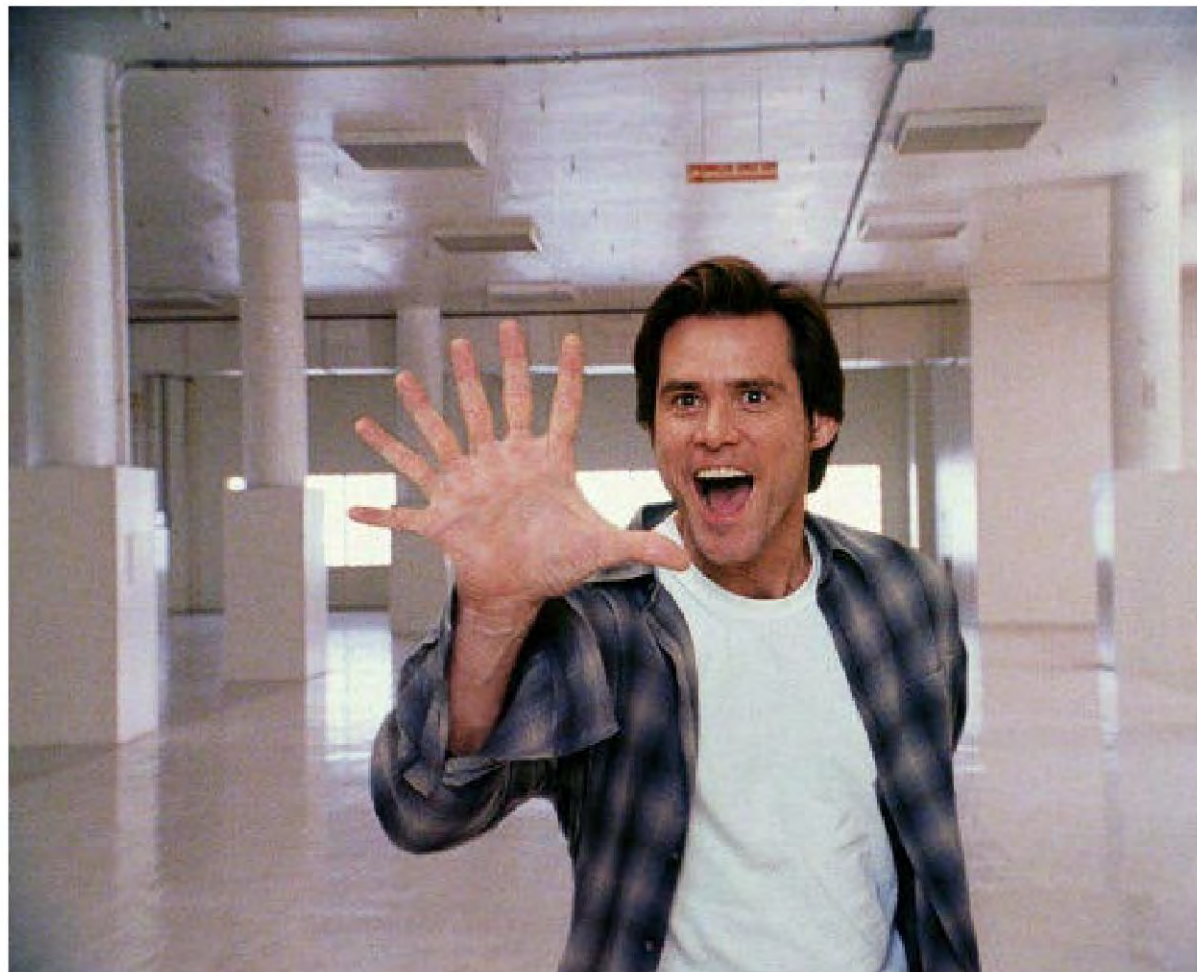
Buy
Rent 2BD
Rent 1BD
Neither

Source:
Cromford Report; AZ Office of Economic Opportunity; Bureau of Labor Statistics; ApartmentList.com; Elliott D. Pollack & Company

What Happens if the Affordability Situation Continues to Deteriorate? (The Unintended Consequences of Ignoring Market Demand)

- Fewer potential buyers can afford the median price home
- Fewer people will be owners / More people will be renters
- More rental of single family units as families double up
- More Millennials and Gen Z's living with parents / More parents living with kids
- Smaller homes / More density
- Fewer workforce housing units - Where do essential workers live? (police, fire, teachers, nurses)
- C and D apartment units get less maintenance
- More homelessness
- A worsening economic development picture as the ability to draw in employees diminishes
- Upward pressure on wages and city budgets
- Slower growth for the economy as a whole and less real income growth

Top 7 Things That Can Be Done to End The Housing Shortage



Top 7 Things That Can Be Done to End The Housing Shortage

1. **Build more housing units**
2. **Build more housing units**
3. **Build more housing units**
4. **Build more housing units**
5. **Build more housing units**
6. **Build more housing units**
7. **Build more housing units**

Conclusions – Do the Math

- Net population growth is 80,000 to 90,000 new people a year.
- This creates total housing demand of about 35,000 new units (owner and renter) per year just to meet population growth.
- Over and above the amount needed for new population each year, we need additional units to fix the imbalance of supply and demand:
 - **20,000-25,000 single family for-sale units**
 - **15,000 rental units**
 - **2,000-2,500 units of new home inventory**
 - **Replacing demolished units**
 - **Pent up demand from Millennial and Gen Z adults leaving home and forming new households**
- **To get supply and demand back into balance over the next 5 years we need an elevated total of about 42,000 units (owner and renter) per year.**
- The only answer to the housing shortage is more supply.

Key Takeaways

1. Affordability has fallen and is now plummeting.
2. There is virtually no vacancy or available supply.
3. Supply is not keeping pace with demand.
4. Our success in attracting jobs and people has not been matched with a sufficient housing supply that new employees need.
5. A continued shortage of housing drives up costs and threatens economic development efforts (jobs & real income growth).

The Housing Market We Grew Up With in Greater Phoenix No Longer Exists

How It Was (The Good Old Days):

- Housing was very affordable (low & consistent housing price to income ratio) - helping economic development
 - Our kids could afford to live near us and stay local
 - Essential workers could live where they work
- Supply and demand generally in balance
- Density fairly consistent: 3-4 units per acre. This means we were building out instead of building up.
- Ratio of homeowners to renters generally in the 65%/35% range
- Relatively low development costs
- Levels of city responsiveness to issues raised by builders rated high
 - Reasonable length of time for entitlements
 - Inspections were by the book, not prescriptive
- Sufficient supply of rental units at most income levels
- Plenty of housing for new workers
- Low rate of homelessness



The Housing Market We Grew Up With in Greater Phoenix No Longer Exists

How it is Now and How it is Likely to Stay (Unless We Build Considerably More Inventory):

- Affordability low and going lower (housing price to income ratio at all-time high) – this will create economic development issues
 - Our kids can't afford to live in the community in which they grew up
 - Essential workers can't afford to live in many of the communities they work in
 - If new workers can find housing, it's expensive
- Strong demographics and lack of supply have worsened the situation
- Density will become higher by necessity - smaller lots with smaller homes that are more affordable
- Ratio of renters to owners will grow as more people are priced out of home ownership
- Shortage of rental units at all levels of income
- Stronger demand for rentals will cause more building up
- High development costs
 - Length of time required to get through the development process much longer and more difficult
 - Staffing shortages & increased regulation cause an inability of cities to keep up with workload and push up costs
- Rapidly growing homelessness issues

Why Do We Care?

- **This is the most significant challenge to economic development and future job growth that Greater Phoenix has ever seen.**
- **Our children, essential workers (police, teachers, nurses, firefighters, etc.) and everyone else needed to keep the economy going can no longer afford to live within our cities.**
- **People are commuting from far away, creating more traffic and congestion than ever before. This also reduces quality of life.**
- **Homelessness is increasing at an exponential rate and will continue to do so if we don't take action.**

Why Do We Care?

This is an economic development issue and not a divisive political issue.

The voices of the few are dominating the density conversation and your constituents will suffer as a result.

Here is what the public thinks

- There is stunning agreement (73%) that there is a housing crisis in Arizona. This unanimity spans age, education, gender, income and length of residency in Arizona – it's particularly unusual in this political environment.
- A strong majority of voters (81%) believe Arizona needs to increase its housing supply.
 - This cuts across party lines with 78 percent of Republicans, 78 percent Independents and 89 percent of Democrats believing Arizona needs to increase its housing supply.
 - This issue also cuts across income levels:
 - 87 percent of households earning under \$40,000 believe Arizona needs more housing.
 - 81 percent of households earning above \$80,000 agree.
- A whopping 1 in 3 voters have considered or would consider leaving their city because of the cost of housing.
- An even more astounding 2 of 5 voters said that if they were buying today, they couldn't afford their own home.
- A full 80 percent of voters agree that city leaders need to approve more quality housing for rent and ownership across all prices in our community.
- Despite frequent NIMBYism in opposition to new multi-family projects, 79 percent of respondents have lived in an apartment.

What Can Municipalities Do?

Eliminate Unnecessary Delays

- Cities can't do everything to mitigate the current housing problem. But they can do some things.
- **Some things are out of your control.** Labor issues will take time to resolve and supply chain issues causing shortages of materials will continue for some time to come (ultimately, we believe they will turn into a supply chain glut).
- **Some things are in your control.** Cities can examine and reduce or improve regulation and they can help streamline, modernize and speed up (which will organically lower costs) tasks associated with the entitlement and inspection process.
- The issues we raise are not targeted toward any particular city. Our recommendation is for each city to ask and respond to issues raised by those who are actively developing in the market. Feedback should be examined as to whether or not government is doing everything it can within their control to help alleviate our housing imbalance.
- The economic vitality, affordability of housing, direction of homelessness, ability to draw new employees and future of each city's economic development and fiscal prospects may well depend on it.

List of Issues: Developer Feedback

Problem: The entitlement & inspection process severely impacts the length of time and cost to deliver a project. Permit issuance has dramatically slowed.

Entitlement Issues:

- Protracted time scheduling pre-plat meetings
- Lack of communication between departments creating disruptions
 - No solidified point of contact for developers to resolve issues among departments
- Overly complex zoning, variance & plan review processes
 - Lack of clarity for required permits and plans
 - No proper instructions on the development order of operations
- Excessive redlines/comments after multiple reviews
 - Many comments unrelated to safety or compliance
- Protracted review times (multiple months per design round)
- No standardization for design review or engineering.
 - Project approval highly dependent on which staff member is assigned.
- Excessive contingencies
- Unresponsive staff: can't get a return call or email
- Understaffed departments

Inspection Issues:

- Wide latitude and highly variable subjectivity from inspectors
 - Competing reviews between office staff and field inspectors
 - Multiple inspectors requiring independent list of requirements before sign-off
 - Changing out inspectors throughout the project without and standard
- Withholding Certificates of Occupancy unnecessarily
- No cooperation by inspectors with developers
 - Requiring developer representation on site
 - Not accepting pictures/videos as proof of work

Possible Solutions to Consider:

- Supply all developer requirements upfront and do not deviate mid-project
 - Eliminate changes after approvals
- Internal performance metrics (established timelines, staying on schedule, maximum review time, limiting redlines after two submittals, new inventory goals, etc.)
- Additional staffing/budget for Planning & Development
- 3rd party contractor outsourcing options
- Consider programs allowing developers to proceed at-risk
- Additional outreach to development community
- Review and eliminate overly burdensome regulations and/or bureaucracy
 - Simplify and shorten the planning & building process
- Review land use balance on remaining vacant land