



Current State of the Greater Phoenix Housing Market

A Supply & Demand Analysis

GPEC

February 16th, 2022

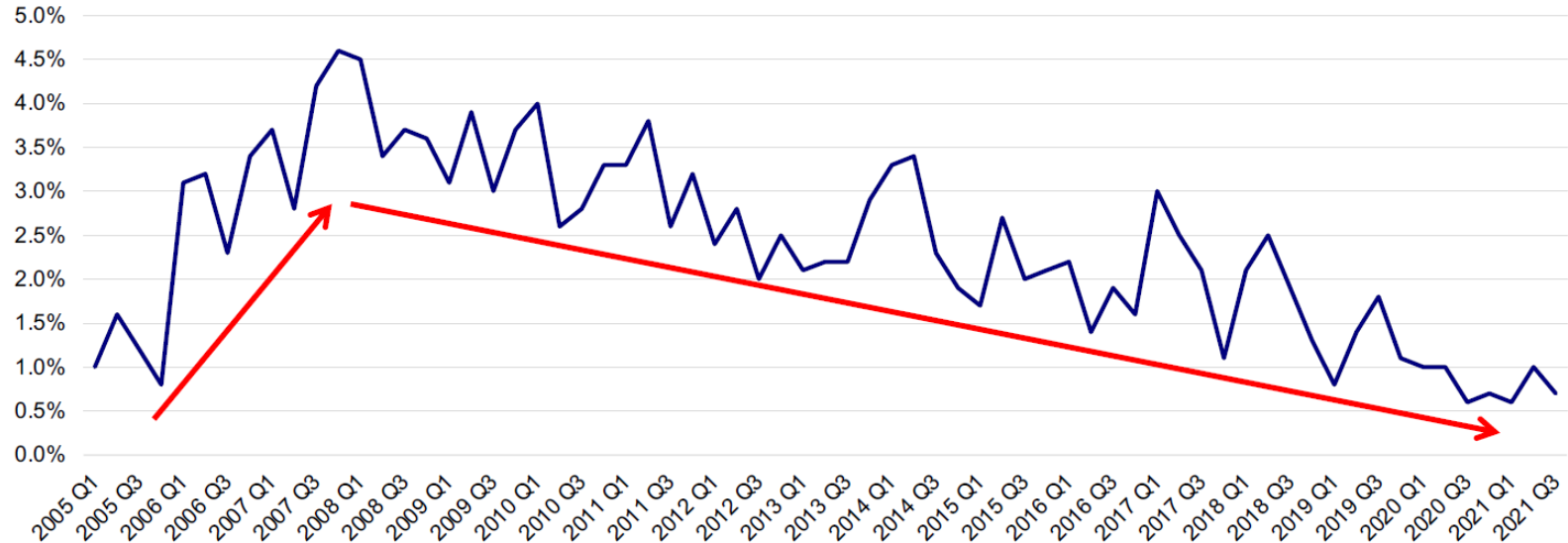
By HomeArizona



Elliott D. Pollack & Company

AZ Homeowner Vacancy Rate

Source: U.S. Census Bureau

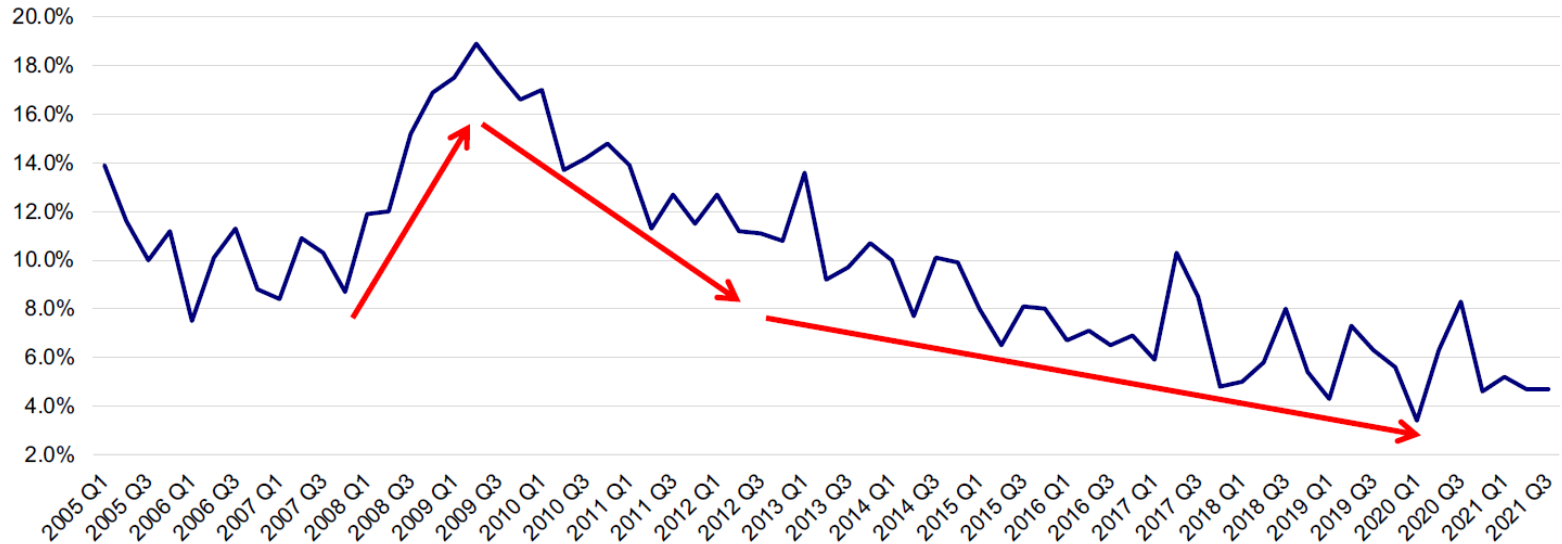


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The homeowner vacancy rate is calculated as the ratio of vacant year-round units for sale to the sum of owner-occupied units, vacant year-round units sold but awaiting occupancy, and vacant year-round units for sale.

AZ Rental Vacancy Rate

Source: U.S. Census Bureau

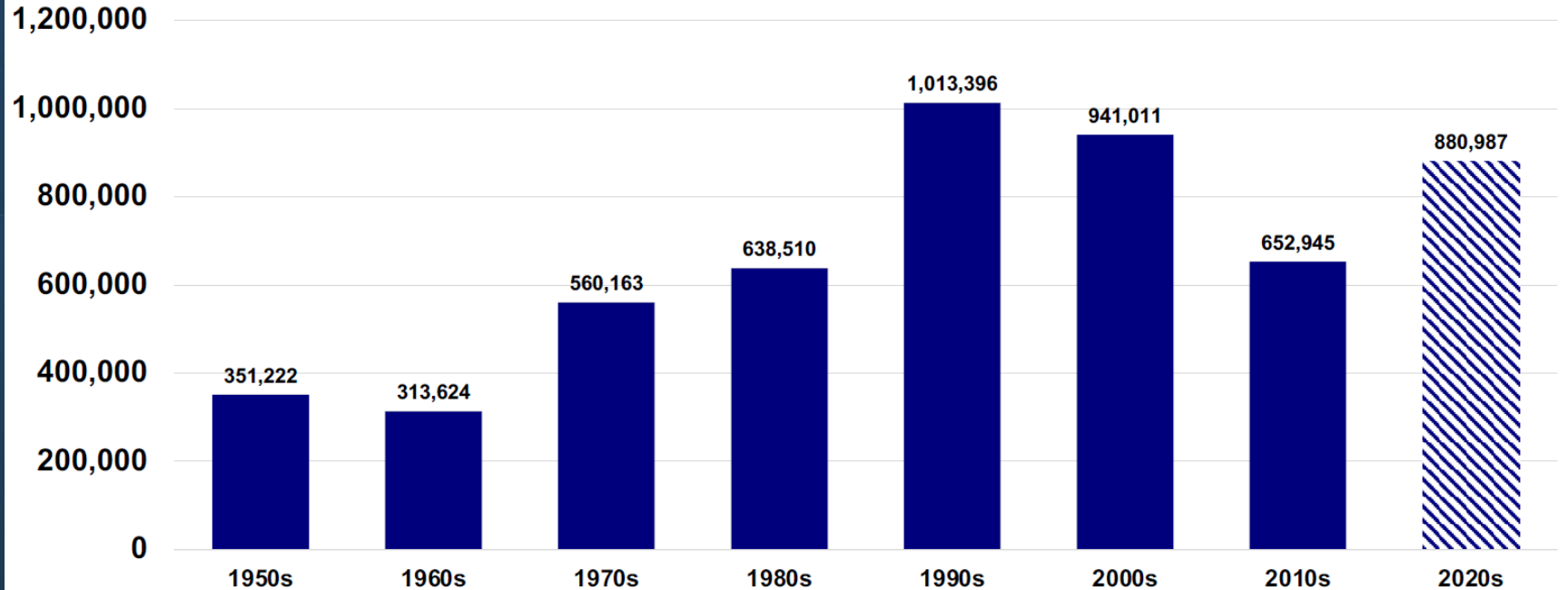


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The rental vacancy rate is calculated as the ratio of vacant year-round units for rent to the sum of renter-occupied units, vacant year-round units rented but awaiting occupancy, and vacant year-round units for rent.

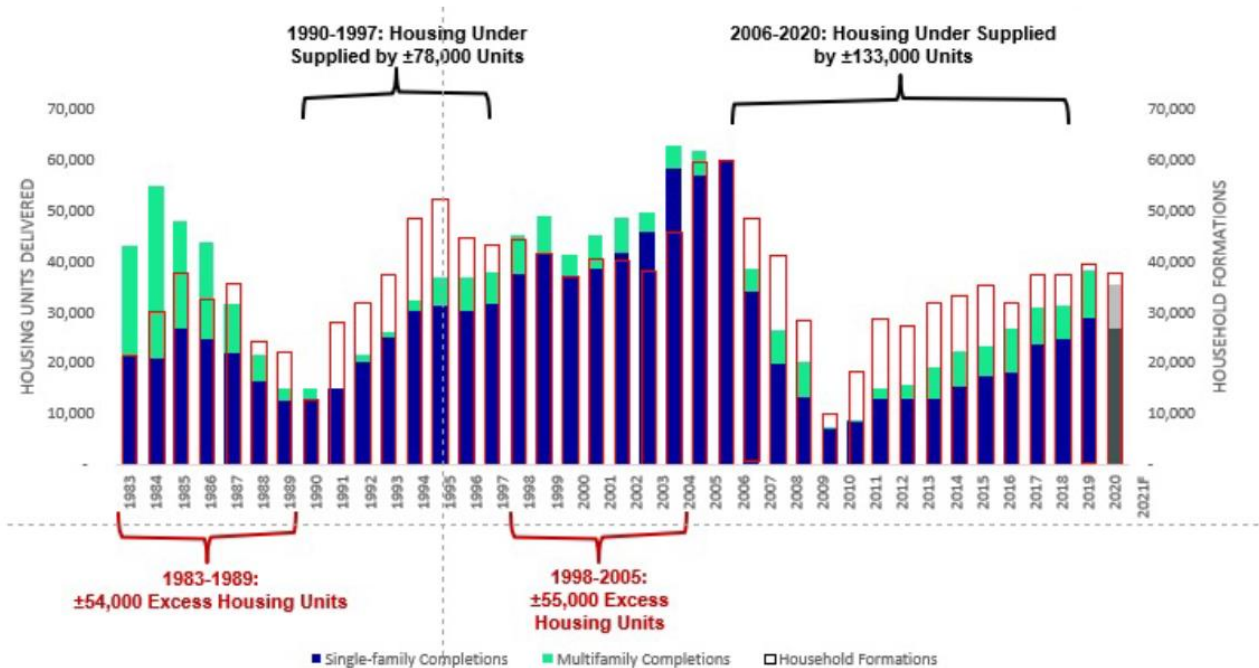
Greater Phoenix Population Growth by Decade

Source: U.S. Census; UofA Forecasting Project



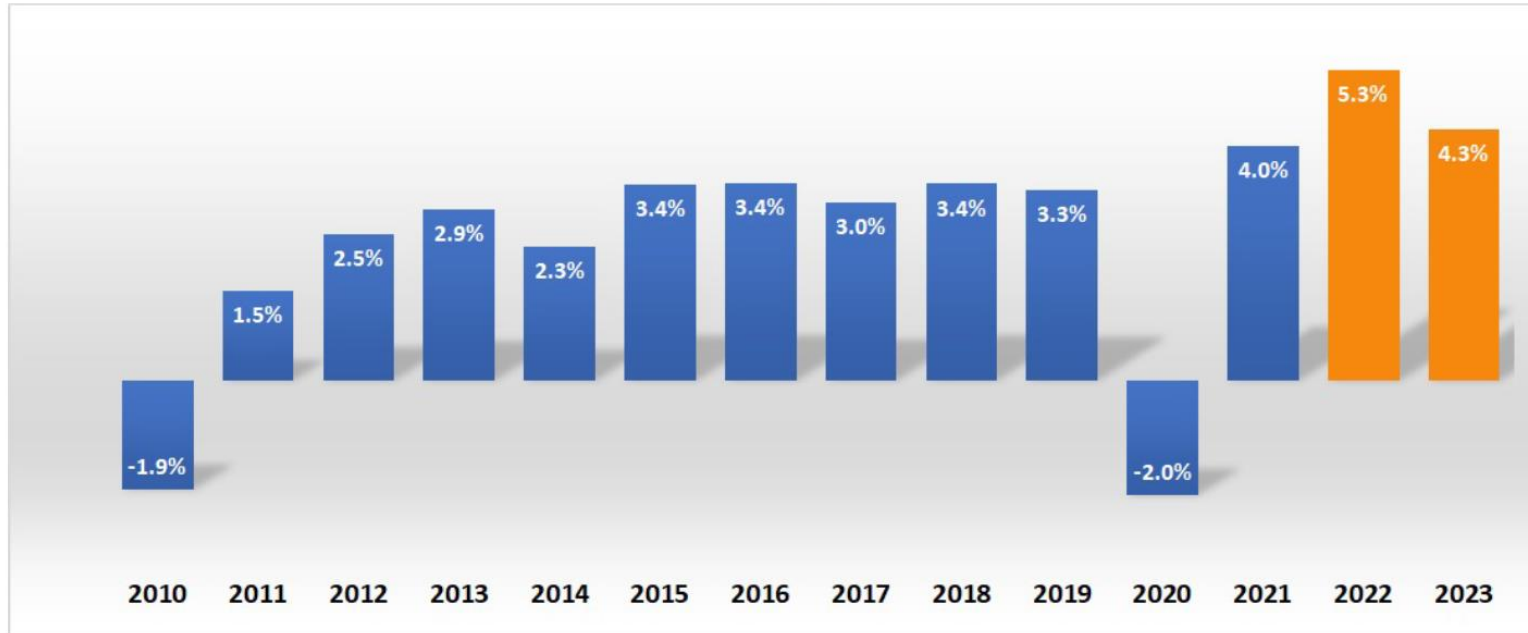
Household Formations Outpacing Single and Multifamily Additions

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



Greater Phoenix Employment

Source: AOEO; EDPCo



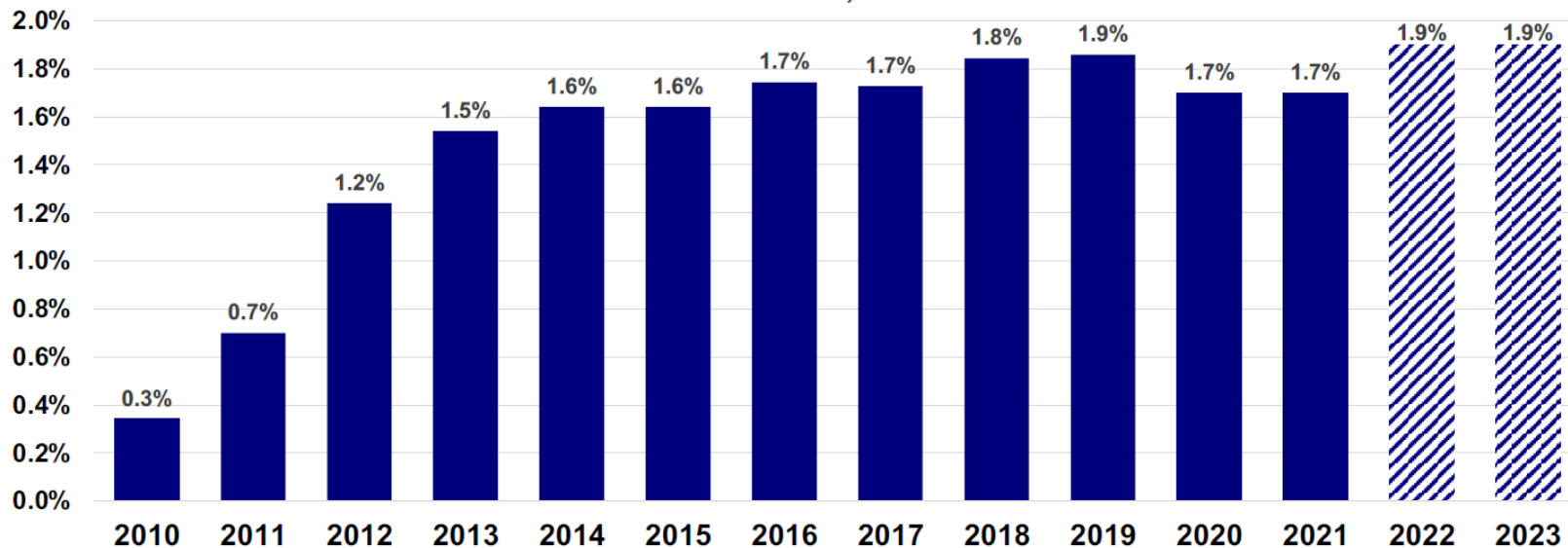
Greater Phoenix has a long history of strong employment growth



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Greater Phoenix Population

Source: AOEO; EDPCo



Projected growth approximates 90,000 new residents each year

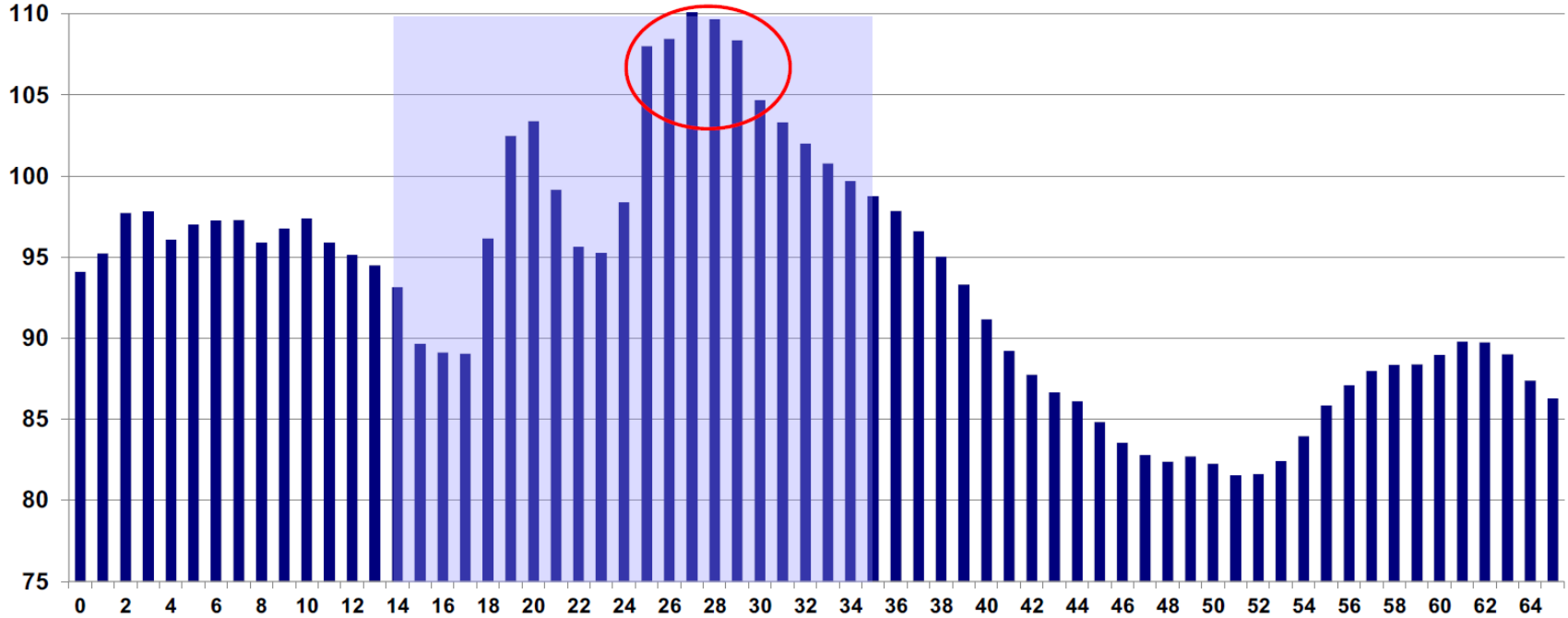


Arizona Population by Age (0-65)

2021

Source: ESRI

(1,000's)



Arizona

Homeownership Rates by Age Group

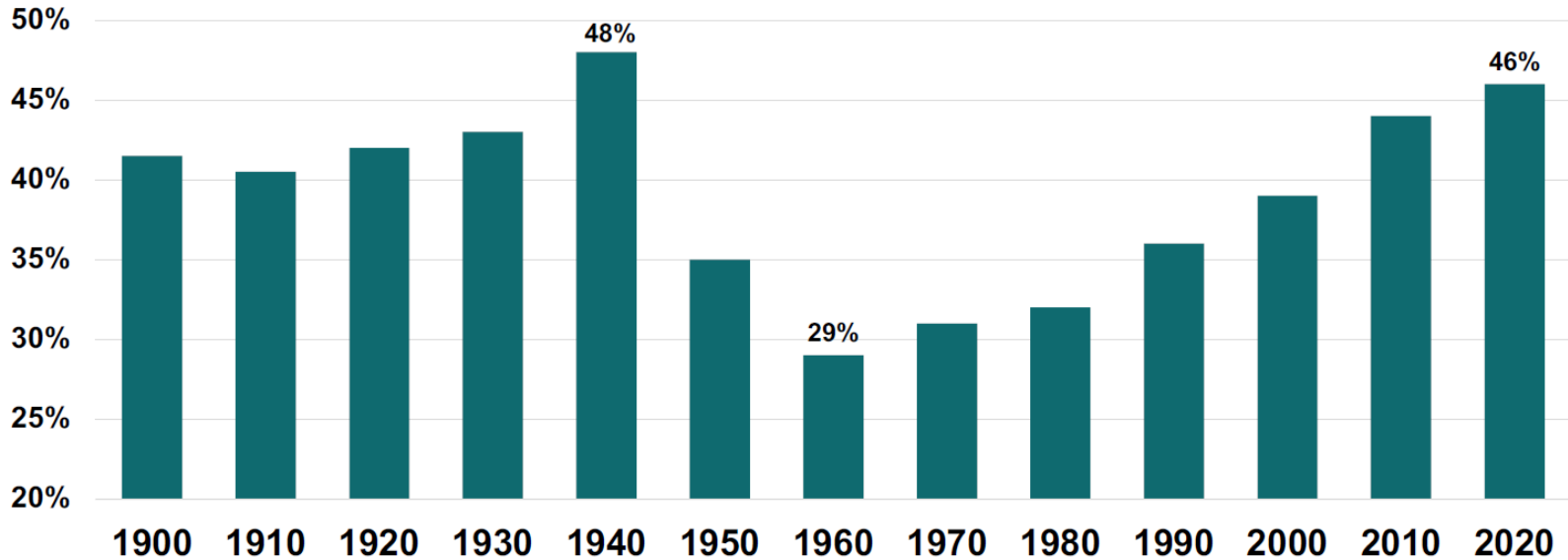
Source: 2019 American Community Survey 1-Year Estimates

Householder Age	% of Total Occupied
15 to 24 years	13.3%
25 to 34 years	<u>39.1%</u>
35 to 44 years	<u>57.5%</u>
45 to 54 years	67.4%
55 to 64 years	75.8%
65 to 74 years	82.2%
75 to 84 years	83.6%
85 years and over	72.9%
Total	65.3%



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

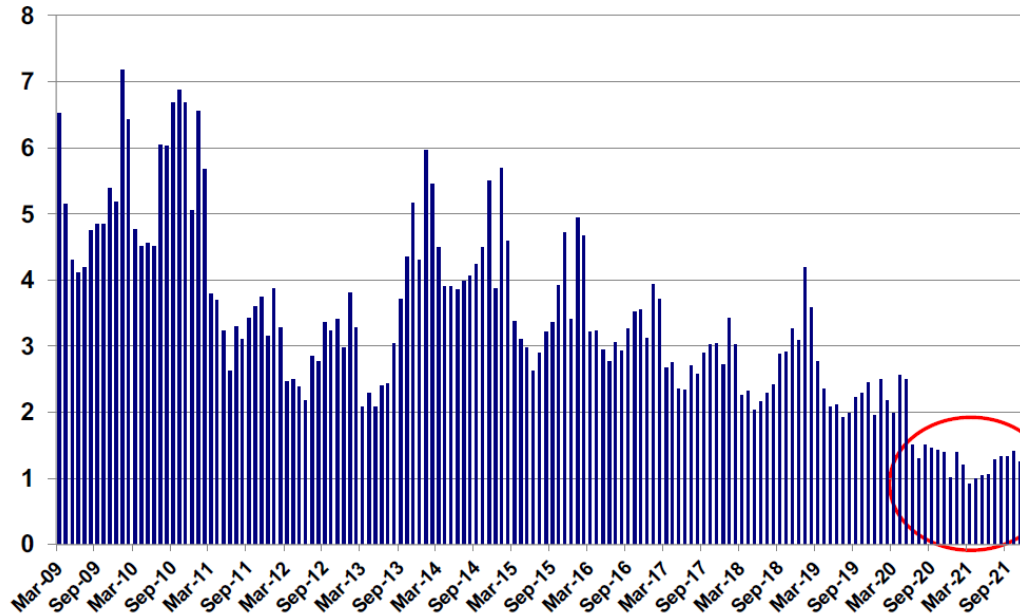
Source: U.S. Census Bureau



Greater Phoenix Months Supply

2009-2021

Source: ARMLS; Cromford Report; Zonda



- Days of inventory:
 - Long run average 68.8
 - Currently at 23.3
- Days of Inventory for homes under \$350,000:
 - Long run average 50.9
 - Currently 10.3
- Inventory of new homes is down from 1,631 just 18 months ago to 542 in December.



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Prices Are Increasing Rapidly

Source: RealData; The Information Market; BLS

	Latest Data	% Change Y-O-Y
Apts. Rents	\$1,531	29.5%
SF Resale	\$430,000	28.4%
Core-CPI	286.431	6.0%

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



Diminishing Housing Affordability in Greater Phoenix

Source: RL Brown, NAHB, Wells Fargo

	Q4	2022 (15%)	2023 (12%)	2024 (10%)	2025 (10%)
Income (5% Growth)	\$79,000	\$82,950	\$87,098	\$91,452	\$96,025
28% of Income	\$1,843	\$1,936	\$2,032	\$2,134	\$2,241
Taxes & Insurance	\$270	\$270	\$270	\$270	\$270
Payment (Principal & Interest)	\$1,573	\$1,666	\$1,762	\$1,864	\$1,971
Affordable Home	\$406,795	\$430,625	\$455,647	\$481,920	\$509,506
% Affordable	47.1%	35.6%	29.0%	25.2%	21.4%

This analysis uses 3.15% mortgage rate



Greater Phoenix Home Affordability

Year	Cost	Interest Rate	Total Monthly Payment	Annual Household Income Needed	Medium Income	HOI Phoenix
2000	\$140,000	8.05%	\$1,034	\$44,312	\$53,100	67.2%
2005	\$255,000	6.21%	\$1,598	\$68,501	\$58,300	33.0%
2010	\$135,000	4.59%	\$723	\$31,002	\$66,600	83.4%
2015	\$220,000	3.98%	\$1,074	\$46,034	\$64,000	68.9%
2020	\$335,000	2.85%	\$1,665	\$71,345	\$77,800	65.7%
2021	\$418,000	2.95%	\$1,932	\$82,809	\$79,000	44.5%
% Change	198.6%	-60.7%	86.9%	86.9%	48.8%	-33.8%

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

*Source: Freddie Mac, NAHAB



Affordability by Occupation

2020	Median Home Price	Annual Salary Needed	2-Bedroom Rent	Annual Salary Needed	1-Bedroom Rent	Annual Salary Needed	Occupation								
							Nurse	Police Officer	Firefighter	High School Teacher	Chef	Elementary/Middle School Teacher	Construction Worker	Waitperson	Retail Worker
							\$80,609	\$73,786	\$54,900	\$54,186	\$53,071	\$47,799	\$47,034	\$34,940	\$26,843
Avondale	\$285,000	\$60,900	\$1,340	\$53,600	\$1,152	\$46,100									
Chandler	\$381,500	\$81,500	\$1,420	\$56,800	\$1,251	\$50,000									
Gilbert	\$395,000	\$84,300	\$1,395	\$55,800	\$1,201	\$48,000									
Glendale	\$297,000	\$63,400	\$1,144	\$45,800	\$905	\$36,200									
Goodyear	\$324,780	\$69,400	\$1,477	\$59,100	\$1,164	\$46,600									
Mesa	\$315,000	\$67,300	\$1,200	\$48,000	\$1,046	\$41,800									
Peoria	\$346,613	\$74,000	\$1,302	\$52,100	\$1,250	\$50,000									
Phoenix	\$310,000	\$66,200	\$1,135	\$45,400	\$929	\$37,200									
Scottsdale	\$570,901	\$121,900	\$1,465	\$58,600	\$1,235	\$49,400									
Surprise	\$303,495	\$64,800	\$1,428	\$57,100	\$1,219	\$48,800									
Tempe	\$337,000	\$72,000	\$1,313	\$52,500	\$1,099	\$44,000									
2021		Annual Salary Needed	2-Bedroom Rent	Annual Salary Needed	1-Bedroom Rent	Annual Salary Needed	Occupation								
							Nurse	Police Officer	Firefighter	High School Teacher	Chef	Elementary/Middle School Teacher	Construction Worker	Waitperson	Retail Worker
							\$83,833	\$76,737	\$57,096	\$56,353	\$55,194	\$49,711	\$48,915	\$36,338	\$27,917
Avondale	\$378,500	\$80,800	\$1,724	\$69,000	\$1,482	\$59,300									
Chandler	\$465,000	\$99,300	\$1,810	\$72,400	\$1,594	\$63,800									
Gilbert	\$515,000	\$110,000	\$1,765	\$70,600	\$1,519	\$60,800									
Glendale	\$385,000	\$82,200	\$1,430	\$57,200	\$1,132	\$45,300									
Goodyear	\$438,600	\$93,700	\$1,787	\$71,500	\$1,409	\$56,400									
Mesa	\$405,000	\$86,500	\$1,496	\$59,800	\$1,304	\$52,200									
Peoria	\$440,000	\$94,000	\$1,638	\$65,500	\$1,573	\$62,900									
Phoenix	\$380,000	\$81,100	\$1,394	\$55,800	\$1,142	\$45,700									
Scottsdale	\$717,500	\$153,200	\$1,870	\$74,800	\$1,576	\$63,000									
Surprise	\$410,000	\$87,600	\$1,764	\$70,600	\$1,506	\$60,200									
Tempe	\$431,500	\$92,100	\$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

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



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 about to plummet.
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).

