

## **2.0 STATE OF ARIZONA HOUSING NEEDS, COSTS, WAGES TRENDS & AFFORDABILITY**

### **2.1 State of Arizona Demographic Growth**

Currently, the Arizona Department of Economic Security (DES) estimates 6.6 million people reside in Arizona, up 29% from the 5.1 million population base drawn from the 2000 US Census. By 2013, the State's population is anticipated to rise by 932,000 or 14% to a level of 7.5 million persons. Net in-migration is anticipated to account for 587,000 people or 63 - 70% of the state's population growth, while natural increase will account for the balance.

It is estimated that 5.0 million presently reside within Arizona's two urban counties of Maricopa and Pima, up 28% from the 3.9 million population base evident from the 2000 Census. By 2013, population in this region is projected to rise by 661,000 persons or 13% to a level of 5.6 million persons.

It is also estimated that 1.6 million persons currently reside in the other thirteen Arizona counties, up 31% from the 1.2 million population base derived from the 2000 US Census. By 2013, population is projected to rise by 271,000 persons or 17% to a level of 1.8 million persons.

It should be noted that population projections are derived from a variety of dynamic factors, are subject to continued refinement and continue to be the subject of debate.

### **2.2 State of Arizona Household Income Trends**

Median family income in each of the Metropolitan Statistical Areas (MSAs) in Arizona from 2002 to the present were compared with the US national average. While the Phoenix-Mesa MSA has tracked closely to the national average, the other regions of Arizona tend to consistently fall at least 15% below the US average. Despite the 11% to 17% growth in earning power (median family income) on the part of the consumer in Arizona during this period, overall increases of 17% in the US Consumer Price Index (CPI) for the comparable period eliminated any real growth of consumer earning power.

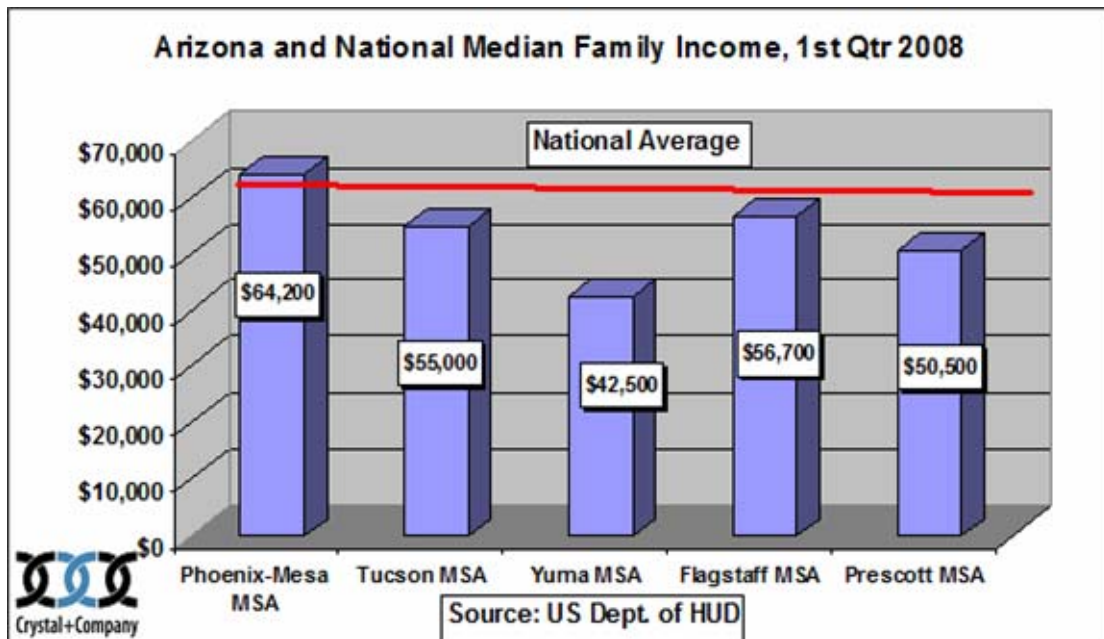
Current and anticipated future levels of high inflation are and will continue to wreak the greatest havoc on those at the lowest income level. It impairs the ability of such households to both acquire and maintain housing.



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### **2.3 State of Arizona Housing Needs**

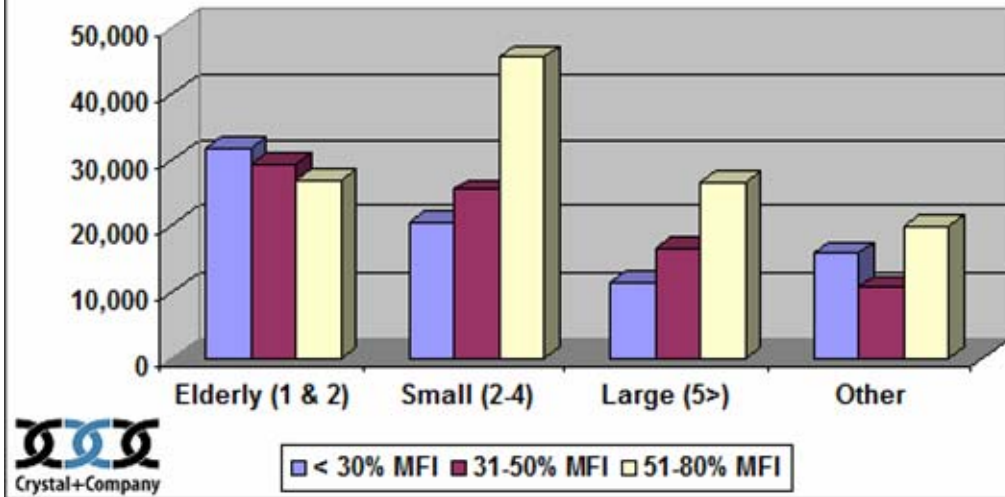
Affordable housing needs are measured in a variety of ways across the country and in Arizona. The national standard established by the US Department of Housing and Urban Development (HUD) for state and local planning purposes defines individuals or households “in distress” if the following conditions are evident:

- ✓ residence in dwelling units with physical defects (lacking a complete kitchen or bath); or
- ✓ residence in overcrowded conditions (greater than 1.01 persons/room); or
- ✓ cost burdened (paying more than 30 percent of income for housing including utilities).

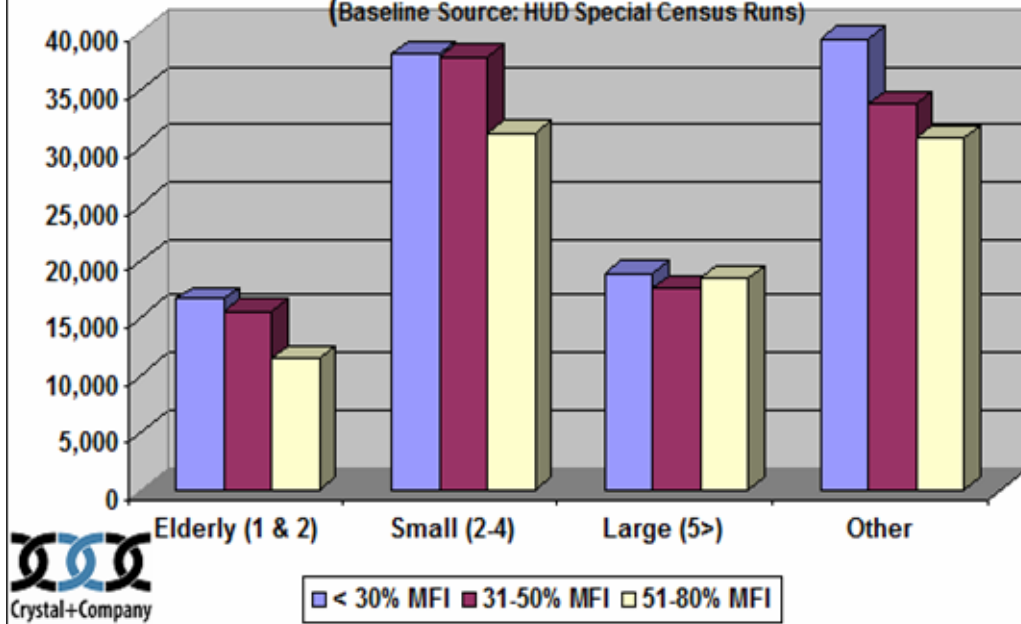
In 2008, it is estimated that a minimum of 591,000 households are earning under 80% of the median family income (MFI) and ‘in distress’, of which 53% (310,000 households) are renters and 47% are owners (281,000 households). Most ‘distress’ is attributable to cost burden.

The following two charts depict the estimated distribution of households ‘in distress’ by household type and income bracket for both renters and owners.

**Arizona Owner Households In Distress  
By Income Class, 2008**  
(Baseline Source: HUD Special Census Runs)

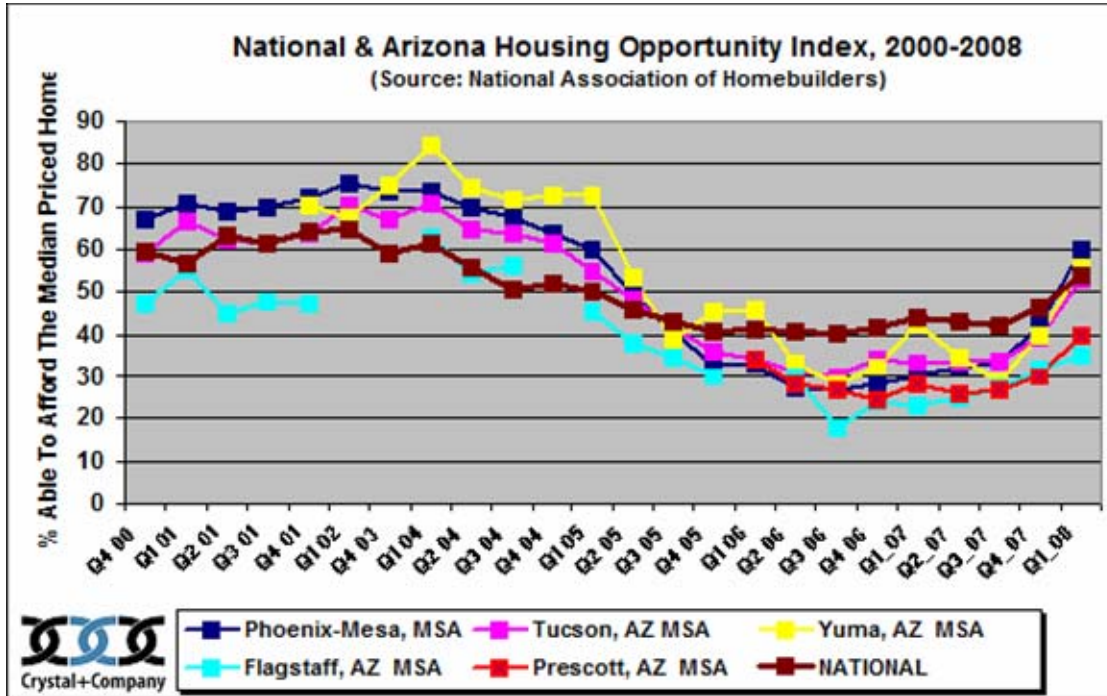


**Arizona Renter Households In Distress  
By Income Class, 2008**  
(Baseline Source: HUD Special Census Runs)



## 2.4 State of Arizona Housing Affordability Trends

### Homeownership Affordability Trends

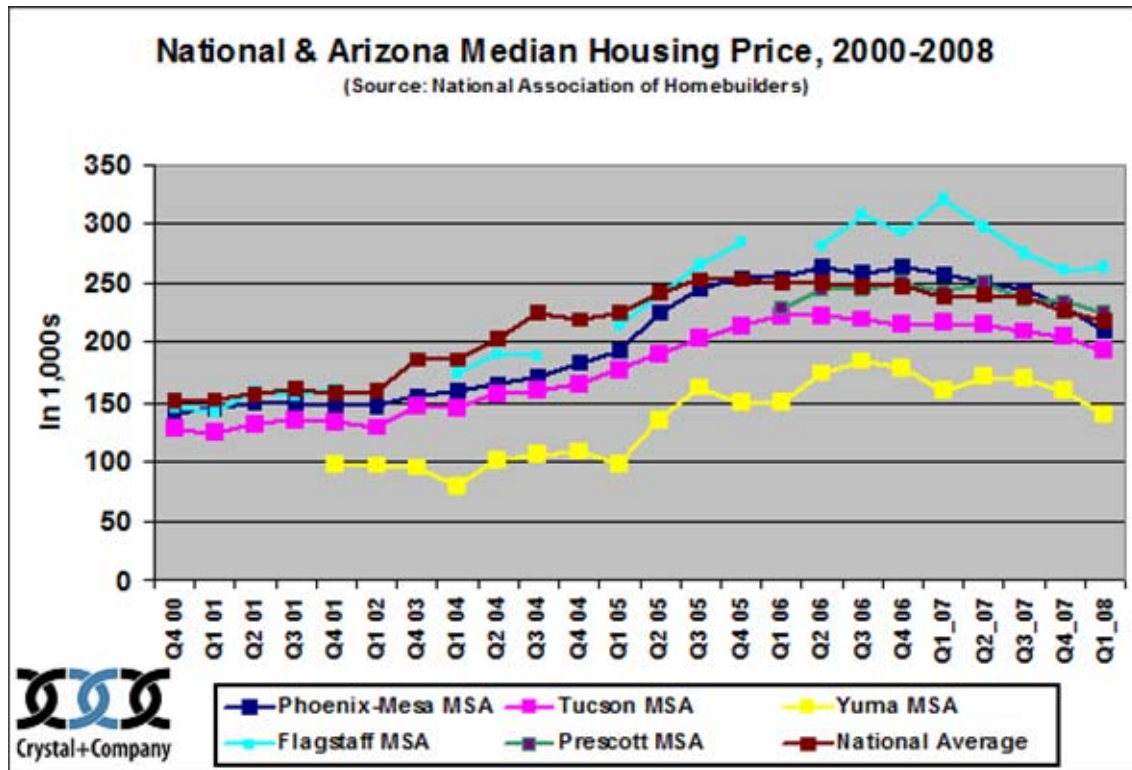


The Housing Opportunity Index (HOI) for a given area is defined as the share of homes sold in that area that would have been affordable to a family earning the local median income based on standard mortgage underwriting criteria. Therefore, there are really two major components -- income and housing cost. The HOI is used to gauge the affordability of communities across the country. From 2000 through the first quarter of 2008, the housing opportunity indices in Arizona indicated the following trends:

- ✓ Mountain communities exemplified by the MSAs of Flagstaff and Prescott tend to be significantly less affordable to area residents. This is due to comparatively low median family income levels and high housing costs. Despite substantial reductions in purchase prices, a maximum of only 40% of households in Prescott or Flagstaff are able to afford the median priced dwelling.
- ✓ The Phoenix, Tucson and Yuma MSAs are substantially more affordable than their mountain counterparts. Sizeable purchase price reductions in the past year-and-a-half have substantially strengthened affordability in these regions. However, escalating inflationary pressure is undoubtedly having adverse economic consequences for lower income households across the board.


- ✓ While most MSAs in Arizona were more affordable than the national average from 2000 to 2005, the situation reversed during the boom years from 2005 into 2007. Presently, significant reductions in home purchase pricing has brought some of Arizona's MSAs in line with the national average.

Reductions in home purchase pricing in Arizona and for the nation as a whole are depicted on the following chart.



### Rental Affordability Trends


Discussed earlier, the 11 to 17% growth in earning power (median family income) on the part of the consumer in Arizona from 2002 to the present has been totally offset by inflationary pressure measured via the consumer price index (CPI). Thus, the average growth in rents by bedroom type and geographical region between 2002 to 2008 depicted below represent the net erosion to the consumer in terms of rental affordability.

 Crystal+Company	STUDIO	ONE BEDROOM	TWO BEDROOM	THREE BEDROOM	FOUR BEDROOM	HUD MEDIAN FAMILY INCOME
<b>Change '02-'08</b>						
Phoenix-Mesa MSA	21.8%	18.2%	13.4%	18.8%	20.3%	10.9%
Tucson MSA	23.4%	21.0%	18.9%	23.5%	17.5%	11.8%
Yuma MSA	34.8%	37.3%	23.2%	25.8%	53.0%	15.5%
Flagstaff MSA	30.7%	43.8%	25.2%	20.0%	26.0%	17.6%
Prescott MSA	n/a	n/a	n/a	n/a	n/a	n/a

Source: US Department of HUD, 2007.

### The Face Of Cost Burden

When we look at the impact housing affordability trends in Arizona are having on family consumers, the situation comes more into focus. Consistent with the approach used in Housing At A Glance, 2007 prepared by the Arizona Department of Housing, prospective home purchasers are assumed to be carrying acceptable levels of consumer debt, have adequate resources for the minimum down-payment, are creditworthy and spouse or other second household income member earns 70% of the primary earner's income. Some of the homeownership assumptions are quite optimistic. Consider the affordability prospects faced by family households in the workforce.

 Crystal+Company	Phoenix - Mesa MSA	Tucson MSA	Yuma MSA	Flagstaff MSA	Prescott MSA
<b>1st Qtr 2008 Median Home Value</b>	\$210,000	\$193,000	\$139,000	\$263,000	\$225,000
<b>2008 Average Fair Market Rent (2 Br)</b>	\$862	\$769	\$743	\$1,012	\$818
<b>Policeman Hourly Wages (2007)</b>	\$24.06	\$25.00	\$17.58	\$22.78	\$21.55
Median Home Sales Price Affordability	Yes	Yes	Yes	Yes	Yes
Median 2Br Rental Affordability	Yes	Yes	Yes	Yes	Yes
<b>Teacher Hourly Wages</b>	\$15.59	\$17.35	\$15.11	\$17.38	\$17.68
Median Home Sales Price Affordability	No	Yes	Yes	No	No
Median 2Br Rental Affordability	Yes	Yes	Yes	Yes	Yes
<b>Retail Worker Hourly Wages</b>	\$9.62	\$9.08	\$8.64	\$8.52	\$9.38
Median Home Sales Price Affordability	No	No	No	No	No
Median 2Br Rental Affordability	No	Yes	Yes	No	Yes
<b>Nurse Hourly Wages</b>	\$20.04	\$19.37	\$17.12	\$19.88	\$19.71
Median Home Sales Price Affordability	Yes	Yes	Yes	No	Yes
Median 2Br Rental Affordability	Yes	Yes	Yes	Yes	Yes
<b>Firefighter Hourly Wages</b>	\$21.26	\$20.23	\$15.37	\$15.62	\$12.97
Median Home Sales Price Affordability	Yes	Yes	Yes	No	No
Median 2Br Rental Affordability	Yes	Yes	Yes	Yes	Yes
<b>Waitperson Hourly Wages</b>	\$6.77	\$6.38	\$6.60	\$6.72	\$6.78
Median Home Sales Price Affordability	No	No	No	No	No
Median 2Br Rental Affordability	No	No	No	No	No

Source: State of Arizona DOH Affordability Calculation Assumptions: 30% of income is allocated to housing. For buying a house additional assumptions included 5% down payment, 6.5% interest rate at 30-years fixed, plus allocation of 21% of the monthly payments to property taxes, insurance and other costs such as PMI. Family affordability calculations exceed the hourly rates noted above since they assume that a spouse or other second household income member earns 70% of the primary earner's income.

## **Impact Of Prevailing Market Conditions On Housing Affordability On Lower Income Households**

For the last year, the Arizona housing market has been facing issues derived from the hyper-market of past years such as the subprime meltdown and overly motivated investors. While the Arizona housing market is closely akin to conditions evident in Nevada, California and Florida, much of the balance of the country is also suffering from stressed housing market conditions. Pockets in Texas, the northwest and North Carolina appear the strongest in the nation.

With the slowing economy marked by job losses and layoffs in Arizona, many households will not have the needed income to save their homes, even with a new mortgage payment plan. With rising energy and food costs, there is supplemental strain on household finances.

Other salient points include the following:

- ✓ Rental market conditions in Arizona's large metropolitan areas generally tend to be soft characterized by somewhat high vacancy rates. With respect to lower income households, it is likely that the recent emigration of illegal workers from Arizona have softened the rental market at the low end.
- ✓ High inventories of foreclosed properties, those 'at-risk' of foreclosure and unsold builder and resale inventories continue to place downward pressure on home purchase prices statewide.
- ✓ Communities with concentrations of foreclosed properties are struggling to deal with the resulting neighborhood implications.
- ✓ Falling home prices and land values will ultimately offer strategic acquisition opportunities for lower income consumers and affordable housing suppliers.
- ✓ While fixed, first mortgage rates are at comparatively moderate levels, escalating inflationary factors may well motivate higher rates going forward.
- ✓ Excessive increases in energy costs are imposing significant stress on lower income households, as well as motivating heightened demand for infill and mass transit. In any given neighborhood, the balance of jobs to housing supply of varying types is rising in importance as are different and affordable modes of mass transit.



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