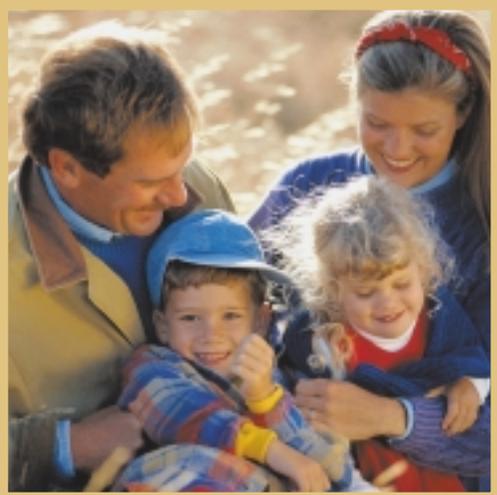
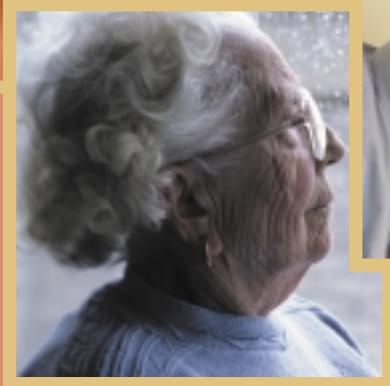
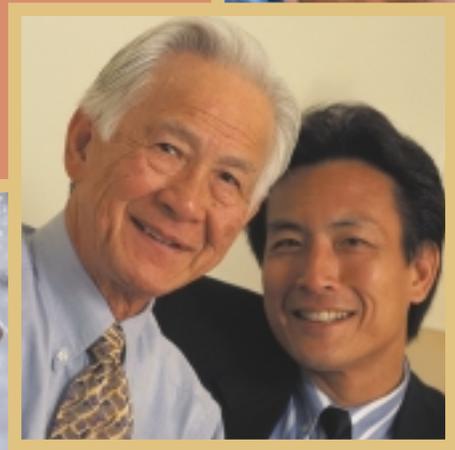
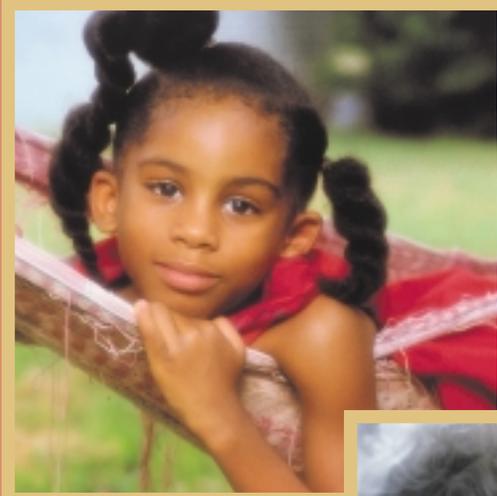
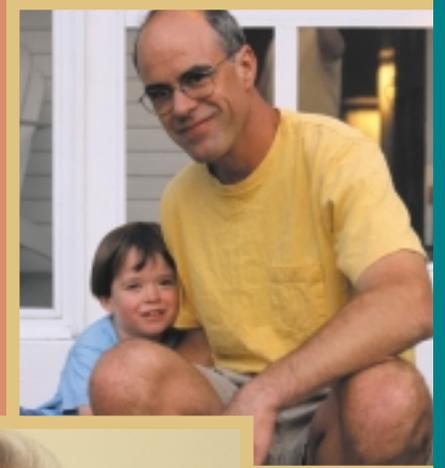


2000

The State Of Housing in Arizona



Arizona Housing Commission



Arizona Housing Commission, November 1999

Adeline Allen,
Pinal County Division of Housing

Bryant D. Barber,
Lewis and Roca, LLP

Dorothy Bigg,
Arizona Department of Commerce

James Bloom,
Maricopa County Supervisors Office

Rosa Bruce,
City of Casa Grande

Scot Butler III,
Manufactured Housing Industry

Sam Cioffi,
Community Services of Arizona

Arthur Crozier,
Frank M. Smith & Associates, Inc.

Jim Freeman,
Gemini Development Partners

Suzanne Gilstrap,
Suzanne B. Gilstrap & Associates

Andrew W. Gordon,
Arizona MultiBank Community Development Corporation

The Honorable Gail Griffin,
Arizona House of Representatives

Cortlandt Houchard,
GlenAlden Homes

Jennifer Morrison,
City of Chandler

Debra Owen,
Tucson Shalom House

Gordon Packard,
Primavera Builders Inc.

Kenneth Peterson,
Navajo Nation

Victor Riches,
Arizona State Senate

Connie Wilhelm-Garcia,
Home Builders Association of Central Arizona

Barbara Williams,
Chairperson

Commission Staff*

Steve Capobres,
Executive Director

Phyllis Murray,
Staff

Mobin Qaheri,
Staff

Patsy Martinez,
Staff

*Furnished by the Arizona Department of Commerce

T A B L E O F C O N T E N T S

INTRODUCTION 2

Report Goals 3

Acknowledgments 3

Reference Resources 3

EXECUTIVE SUMMARY 4

PREAMBLE: HOUSING AFFORDABILITY 6

ARIZONA'S GROWTH

Population Trends 8

Household Size and Trends 8

Age Distribution Trends 9

Population Trends by Ethnicity 10

Income Population Trends 10

Median Household Income Trends 12

Employment by Industry Trends 12

Special-Needs Households 14

ARIZONA'S HOUSING MARKET

Housing Market Growth 16

Land Ownership Constraints 18

Statewide Building Permit Trends 19

Current Single-Family Housing Construction by Region 20

Metropolitan Area Housing Prices 21

Statewide Homeownership 23

Trends in Homeownership Affordability 23

Statewide Market Rents 26

Urban Vacancy Rates 27

Trends in Rental Affordability 28

Supply of Assisted Housing 28

Statewide Housing Quality 30

Number of Households Experiencing Housing Problems 31

HOUSING COST MODEL

Cost Model Overview 32

Single-Family Analysis 33

Multifamily Analysis 35

BARRIERS TO HOUSING AFFORDABILITY 36

Relationship of Barriers to Cost Components 37

STATE HOUSING POLICY 38

Leadership Policies 39

Resource Policies 42

MAPS 46

APPENDIX 48

INTRODUCTION

Housing plays a major role in the United States and Arizona economies. According to the U.S. Bureau of Economic Analysis, in 1998, 44 percent of the nation's wealth was held in home equity. It is estimated that the housing industry accounts for one-fifth of our nation's Gross Domestic Product. Based upon that estimate, the housing industry contributes approximately \$24.3 billion dollars annually to Arizona's economy.

Despite the economic importance of housing, Arizona has not had a comprehensive approach or strategy for dealing with housing policy issues.

In 1994, a Housing Summit addressed increasing concerns about the cost of housing. Participants from across the state met to discuss growing housing needs. A major outcome of the summit was the formation of the Affordable Housing Task Force, designed to review the state's housing market and suggest ways the state could address housing affordability. Its principal recommendation was the creation of a permanent body that would focus attention on workable housing solutions.

The Arizona Housing Commission was created by Executive Order in 1996 to serve as an advisory body to the Governor, the Legislature and the Arizona Department of Commerce, which is the primary agency currently responsible for housing programs. In 1997, the passage of House Bill 2011 formally established the Commission in statute.

The statute directs the Commission to:

- Recommend affordable housing strategic planning and policy.
 - Coordinate public and private housing finance programs.
 - Provide means for better private and public partnerships and initiatives for developing affordable housing.
 - Oversee all state housing programs.
 - Encourage the development of affordable housing opportunities for special-needs populations.
 - Advise the Governor, the Legislature, state agencies and city, county and tribal governments on public and private actions that affect the cost or supply of housing.
-

The Commission is comprised of 20 members from private industry, community-based nonprofit housing organizations, and state, local and tribal governments.

This report, *The State of Housing in Arizona*, has been the Commission's principal focus for the past 12 months. It includes both housing data and policy recommendations which are meant to stimulate debate and provide a menu of options for policy makers.

Report Goals

The Arizona Housing Commission intends this report to fulfill the following goals:

- Provide information on key socioeconomic trends which affect housing affordability including population growth, household formation, age distribution and income growth.
- Communicate information on housing market trends including homeownership rates, rent levels and vacancy rates, home sales prices and new construction activity.
- Analyze cost components of typical new single-family housing and multi-family construction in Arizona.

- Identify potential regulatory and policy barriers to housing affordability.
- Recommend leadership and resource policies that will avert a potential housing crisis and improve housing affordability across the state.

ACKNOWLEDGMENTS

The Arizona Housing Commission wishes to thank BBC Research and Consulting, Eve Vrla Design and all of the stakeholders interviewed as part of this report (Appendix Table A-4). The Commission recognizes the vital contribution of the management and staff of the Arizona Department of Commerce, Office of Housing and Infrastructure Development, in providing research and helping shape the organization and content of this report.

Reference Resources

- Arizona Department of Commerce, Office of Housing and Infrastructure Development, *Affordable Housing in Arizona* 1998.
- Arizona Chapter of the National Association of Housing and Redevelopment Officials (NAHRO).
- Arizona Department of Commerce, Office of Housing and Infrastructure Development, *Low Income Housing Tax Credit (LIHTC) Applications*, 1998.
- Arizona Department of Commerce, Office of Housing and Infrastructure Development, *State of Arizona Consolidated Plan*, 1995-1999.
- Arizona Department of Commerce, Office of Housing and Infrastructure Development, *State of Arizona Impediments to Fair Housing Choice*.
- Arizona Department of Economic Security, Population Statistics Unit.
- Arizona Department of Economic Security, ES-202 data, 1998.
- Arizona Department of Health Services
- Arizona Department of Revenue, Property Valuation and Equalization Division.
- Arizona Department of Transportation.
- Arizona Multihousing Association.
- Arizona Regional Multiple Listing Service, 1989-1997.
- Arizona State Land Department.
- Arizona State University, College of Business, Arizona Real Estate Center, *Arizona Business*, April and June 1999.
- Arizona State University, Affordability Analysis Report.
- BBC Research and Consulting.
- Bright Future Business Consultants, *Tucson Housing Market Letter*, February 1999.
- City of Yuma Consolidated Plan, 1995.
- Fannie Mae Foundation, *Choosing the Mortgage That's Right for You.*"
- Flagstaff Housing Study, *Flagstaff 2020*, 1994.
- Home Builders Association of Central Arizona.
- Inter Tribal Council of Arizona.
- Manufactured Housing Institute.
- Manufactured Housing Industry of Arizona.
- Maricopa Association of Governments.
- Maricopa County, Pima County and Rural Arizona 1999 Continuum of Care.
- Meyers Group, The, *Greater Phoenix Housing Study*.
- National Association of Home Builders, *Housing Opportunities*.
- National Priorities Project, *Working Hard, Earning Less*, Northampton, Massachusetts, Dec. 1998.
- PCensus, USA Commercial Demographic Software, Version 4.0, 1998.
- RealData, Inc.
- University of Arizona, Eller Graduate School of Management, *Arizona's Economy*, May 1997 to January 1999.
- University of Arizona, Economic and Business Research Program, *Arizona's Economic Indicators: 1997 and 1998*.
- Urban Institute, 1995.
- U. S. Census, 1970, 1980, 1990.
- U. S. Census Bureau Annual Statistics: 1998 Housing Vacancy Survey.
- U. S. Census Bureau, *General Housing Characteristics: American Indian and Alaska Native Areas*.
- U. S. Department of Agriculture, 1992 Land Ownership.
- U. S. Department of Health and Human Services, *The 1999 Health and Human Services Poverty Guidelines*.
- U. S. Department of Housing and Urban Development (HUD), *Final Fair Market Rent Report*, 1998.
- U. S. Department of Housing and Urban Development (HUD) Community Planning Software, Community 2020, Version 2.0.

EXECUTIVE SUMMARY

The State of Housing in Arizona demonstrates the widening gap between many Arizona households' income and the cost of housing. The urgent, overriding message is clear; housing affordability is an impending crisis in Arizona. Statistically, this is borne out by a compelling paradox: Arizona's average income ranks as one of the lowest nationally, yet our population is one of the fastest growing, available land for development is limited, and housing costs are rising at unprecedented rates.

The report considers income levels, household demographics, housing costs and developable land concerns to illustrate one point: many Arizona middle- and lower-income families are paying more than they should for housing. These families are burdened by limited resources and statewide housing prices and rents that are rising twice as fast as incomes. This issue affects both the public and private sectors and the situation will worsen unless a comprehensive set of housing policies is adopted and collaborative stakeholder partnerships are created.

Arizona's Growth

The state's population is growing at a prodigious rate: it increased by 30 percent between 1990 and 1998, and is projected to grow another 11 percent through 2003. For the same periods, the total number of households increased by 31 percent and is projected to grow 14.5 percent. Estimates indicate that the number of single-parent households has doubled since 1990. Minorities constitute about one-third of the total population in Arizona, yet comprise a disproportionately high percentage of lower-income households and households with housing problems.

Meanwhile, median household income continues to lag behind median housing prices. In 1998, Arizona's median household income of \$34,268 placed the state 36th in a nationwide ranking – 12 percent lower than the national average. In 1998, more than one-third of Arizona households (655,000) had annual incomes of less than \$25,000; by 2003, that number is expected to increase to 700,000 households. By 2003, 40 percent of all new jobs are expected to pay less than half of the livable wage as the service and retail sectors – traditionally among the lowest paying – are projected to grow the fastest. For the decade between the mid 1980's and the mid 1990's, inflation-adjusted middle-income wages experienced a 21 percent decline in buying power – the largest decline in real income of any state in the nation. Over the same period, home prices increased by 30 percent. The combined impact of a 21 percent decrease in buying power and a 30 percent increase in home prices is alarming.

Many Arizona middle- and lower-income families are paying more than they should for housing... burdened by limited resources and statewide housing prices and rents that are rising twice as fast as incomes.

The picture for Native Americans in Arizona is equally if not more severe, given that reservation communities are characterized by disproportionately high unemployment rates, low job growth projections and annual incomes hovering at the poverty level. Moreover, tribes are in the process of transitioning from federally mandated housing programs to those that will increasingly be directed by tribal governing bodies. New legislation requires tribes to act in partnership with

other federal agencies, state agencies and the private sector for the purpose of housing development and financing.

Arizona's Housing Market More than 370,000 new housing units were produced in Arizona between 1990 and 1998, representing a growth rate of 22.5 percent. By 1998, the average new single-family home price in the Phoenix metropolitan area was \$147,445. Fewer than 6 percent of new single-family homes sold for \$95,000 or less in the third quarter of 1998, while nearly 20 percent sold for \$200,000 or more. These trends

The urgent, overriding message is clear; housing affordability is an impending crisis in Arizona.

are also reflected in other metropolitan centers and by the rental housing segment. In Arizona, private land is only a fraction of the state's geography – estimated between 13 percent and 17 percent – and even less is available for housing development. City, state, tribal and federal entities control the balance. Land limitations affect land costs, development costs and tax base considerations. Further reduction of privately owned land will serve to aggravate declining housing affordability.

Housing Affordability The large growth of new single-family construction has occurred mainly in the high-income household category. Simultaneously, the number of Arizona households able to afford a mortgage for the average single-family home has sharply decreased. Perhaps the most telling data is found in home ownership affordability trends of the last three decades: in 1970, 64 percent of households could afford to buy the median priced home; as of the second quarter of 1999, that number fell to 43 percent. Today, an Arizona household must make at least \$45,000 to afford the median-priced home, yet 50 percent

of the state's households make less than \$35,000. Statewide rental rates and availability are similar. While rental rates are predictably higher in metropolitan areas, trends point to increases across the state due to growth in population and households. Rental affordability ratios have declined since 1970, when 73 percent of households could afford the median rent; today, the number is 62 percent.

Including reservation units, there are approximately 70,000 units of government assisted rental housing that provide an affordable home for many lower-income Arizonans. However, much more is needed to meet the demand. It is currently estimated that at least 28 percent of Arizona households or an estimated 1.25 million people are experiencing a housing problem, defined as paying more than 30 percent of their income for housing, or living in substandard or overcrowded housing. This constitutes 44 percent of all current renters and 20 percent of all current homeowners.

An estimated 1.25 million people in Arizona are experiencing a housing problem.

Policies for Leadership and Resources

Forming stakeholder partnerships provides an opportunity for all housing-related parties to overcome boundaries and cooperatively explore new ways to consider housing affordability concerns. The report recommends the following policies to achieve our housing-affordability goals. They are the "blueprints" for effecting positive change:

Policies for Leadership

- Recognize growing housing needs at all economic levels and foster the political will to address them.
- Develop stable, healthy communities, enhance the state's economy and emphasize homeownership through a balanced mix of housing options and a strong housing industry.
- Decisions on managing growth, land use and infrastructure must include consideration of the effects on housing affordability.
- Encourage economic development that counteracts the growing gap between housing costs and household incomes.
- Improve the ability of housing providers to develop a mix of affordable housing.
- Provide housing and support services for Arizona's growing special-needs populations.
- Promote and expedite affordable housing development on Native American reservations.
- Compile and maintain current housing data on a systematic and regular basis.
- Establish an enhanced state housing agency to promote housing policy and housing affordability.

Policies for Resources

- Increase capital availability to stimulate housing development and construction.
- Use housing program resources as an incentive to increase affordability and target them to areas of greatest need.
- Invest more resources to encourage homeownership.
- Increase rental housing options for all income levels.
- Encourage alternative labor arrangements and technologies that reduce housing construction costs.
- Maintain and preserve existing affordable units.
- Increase rehabilitation of substandard housing.
- Coordinate special-needs housing with services to promote self-sufficiency.
- Increase the availability of developable land.
- Develop plans and resources to provide adequate infrastructure to support Arizona's growing housing needs.
- Identify additional resources to assist tribes in the coordination of housing development and affordability initiatives on tribal lands.

The current state of housing in Arizona is neither the sole province of government nor of the housing industry, but rather a partnership. A housing crisis affects everyone: neighborhoods, businesses, towns, cities, counties and the state itself. It is not "somebody else's" issue; it's everybody's issue.

PREAMBLE, HOUSING AFFORDABILITY

This report is not merely about affordable housing. The Housing Commission views the issue as encompassing a much broader concept, namely housing affordability at all levels and in all parts of the state. The customary measure of affordability is the amount an individual or family can pay for housing without being overburdened by the cost.

Thirty percent of income is the commonly accepted maximum amount that a family should pay for housing, including utilities (*Fig. 1*). Housing expense above 30 percent limits a family's ability to pay for other basic needs such as food, clothing, child care, education and health care. *Figure 1* shows what households with various incomes can afford,

based on the 30 percent guideline. The National Priorities Project estimates that in 1998, the livable wage needed for a family of four in Arizona was \$32,400. As *Figure 1* demonstrates, the median household income in Arizona is only slightly above the livable wage. This median household income is not sufficient to afford a 95 percent loan on the

	INCOME OR WAGE LEVEL	MAXIMUM AFFORDABLE MONTHLY HOUSING EXPENSE
State Median Household Income	\$34,268	\$857
Livable Wage (4 Persons)	\$32,400	\$810
Services Job Sector (avg. wage)	\$25,868	\$647
Minimum Wage (2 Workers)	\$21,840	\$546
Retail Job Sector (avg. wage)	\$17,380	\$435
Poverty Level (4 Persons)	\$16,813	\$420
Average Reservation Household Income	\$14,643	\$366
Minimum Wage (1 Worker)	\$10,920	\$273

Source: U.S. Census Bureau; Arizona Department of Commerce; PCensus; National Priorities Project; Arizona Department of Economic Security.

Income Definitions

There are three common measures of income. For the purposes of this report, Median Household Income will be used except as otherwise indicated. Median Income is the mid-point of a range of income data.

Median Family Income (\$43,500). "Family" refers to the Census definition of a "householder" and one or more other persons living in the same household who are related by blood, marriage or adoption. This excludes one-person households. Income is higher here than in other measures because families typically have more people earning incomes.

Median Household Income (\$34,268). Households, including one person households, incorporate both family income and non-family income. Many non-family households consist of either an elderly surviving spouse or a very young adult.

Per Capita Income (\$22,810). Represents income received by all individuals who live in an area; the aggregate figure is divided by total population, giving per capita personal income.

Livable Wage (\$32,400 for a four-person household). The minimum annual amount of money required to meet a household's basic needs including food, shelter, clothing, transportation and health care.

Poverty Level (\$16,813 for a four-person household). The Census Bureau uses a set of money income thresholds that vary by family size and composition to detect who is poor. If a family's total income is less than that family's threshold, then that family, and every individual in it, is considered poor.

median-priced home today, despite relatively low interest rates. In addition, two people living together and each making the minimum wage cannot afford to rent the median priced apartment.

This focus on housing affordability is not meant to minimize the pressing need for traditional affordable housing, but rather to highlight the fact that the cost of housing is currently beyond the reach of many Arizona families and the situation is worsening.

The Perception of Subsidized Housing

Housing affordability also raises the question of the role of government in subsidizing housing. While we have struggled with this question as a nation, the concept that families receiving housing subsidies or public housing assistance should be considered differently from other families is a misperception, at least in housing affordability terms. The majority of American homeowners receive assis-

tance through the form of government issued loans and/or substantial tax deductions. Without an increase in income levels or housing affordability, some type of direct housing subsidies from either private or public sources is the only way for families with incomes too low to qualify for a home or benefit from tax deductions to be treated equally.

Unfortunately, there are a large number of households in Arizona who do not receive public housing assistance and lack the income or resources to obtain homeownership. The data presented in this report strongly indicate that this problem will increase dramatically despite Arizona's strong economy and growth.

Arizona is facing an impending housing affordability crisis. Housing prices and rents in Arizona are growing much faster than incomes. Statewide, housing prices are rising twice as fast as income. Both the Phoenix and Tucson metropolitan areas are ranked in the bottom half of the nation's largest cities in terms of housing affordability.

ARIZONA'S GROWTH

Population Trends

Arizona has consistently been one of the fastest growing states in the nation. From 1990 to 1998, Arizona's annualized population growth rate was 3.3 percent (Fig. 2). From 1998

to 2003 this rate is projected to be 2.2 percent annually. Unless circumstances change dramatically, Arizona will continue to be one of the fastest growing states in the nation. Mohave County recorded

the largest annual growth rate. Arizona's Native American population, including on and off reservation, grew at an annual rate of nearly 8 percent from 204,150 in 1990 to 371,867 in 1998.

Despite Arizona's rapid population growth, overall population density remains relatively low (Fig. 3). For example, in 1990, the density within the Phoenix Metropolitan Statistical Area (MSA), or Maricopa County, was 230 people per square mile. At the other extreme, the density of New York City was 7,448 people per square mile. The density for San Francisco and the Los Angeles/Long Beach MSA was 1,579 and 2,183 people per square mile respectively.

High rates of population growth increase pressure on the housing market in general. Increased demand is met through absorption of vacant units and construction of new units. The housing market also adjusts to increased demand through higher rents and higher home prices.

2

ARIZONA POPULATION TRENDS BY COUNTY

	1990 POPULATION	1998 POPULATION	ANNUAL GROWTH RATE*	2003 POPULATION	ANNUAL GROWTH RATE**
Arizona	3,678,757	4,764,025	3.3%	5,317,475	2.2%
Apache	61,888	66,350	0.9%	70,525	1.2%
Cochise	97,842	123,750	3.0%	126,600	0.5%
Coconino	97,066	121,625	2.9%	130,775	1.5%
Gila	40,383	49,175	2.5%	50,450	0.5%
Graham	26,589	34,700	3.4%	37,750	1.7%
Greenlee	8,040	9,125	1.6%	9,175	0.1%
La Paz	13,855	19,000	4.0%	21,825	2.8%
Maricopa	2,129,120	2,806,100	3.5%	3,179,150	2.5%
Mohave	95,196	138,625	4.8%	162,025	3.2%
Navajo	77,954	92,500	2.2%	92,225	-0.1%
Pima	668,160	823,900	2.7%	908,225	2.0%
Pinal	116,447	157,675	3.9%	173,750	2.0%
Santa Cruz	29,895	37,800	3.0%	40,550	1.4%
Yavapai	108,634	148,500	4.0%	166,525	2.4%
Yuma	107,688	135,200	2.9%	147,925	1.8%

* Annualized growth 1990-1998. ** Annualized projected growth rate 1998-2003.
Source: Arizona Department of Economic Security; U.S. Census Bureau.

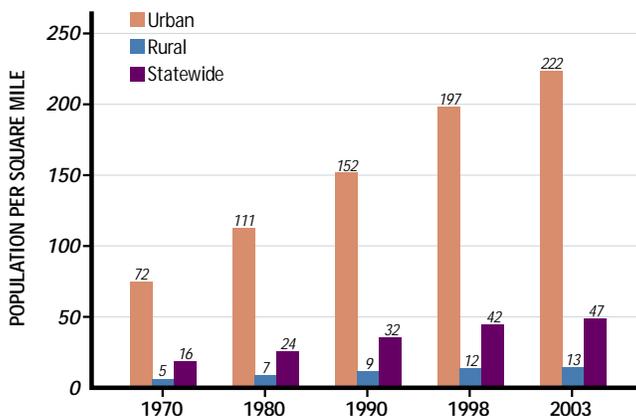
Household Size and Trends

From 1990 to 1998, inclusive, the number of households in Arizona grew by nearly 31 percent. The number of Arizona households is projected to grow 2.9 percent annually from 1998 to 2003 (Fig. 4).

From 1990 to 1998, the number of persons per household in Arizona declined from 2.62 to 2.5. National census data suggest that this declining trend will continue through the year 2003.

3

GROWTH IN POPULATION DENSITY



Note: Urban includes Maricopa and Pima counties; Rural includes the balance of the state.
Source: U.S. Census Bureau; Arizona Department of Economic Security.

4

HOUSEHOLD GROWTH TRENDS BY COUNTY

	1990	1998	ANNUAL GROWTH RATE*	2003	ANNUAL GROWTH RATE**
Arizona	1,368,843	1,792,761	3.4%	2,067,894	2.9%
Apache	15,981	19,398	2.5%	21,307	1.9%
Cochise	34,546	42,309	2.6%	46,542	1.9%
Coconino	29,918	37,520	2.9%	41,795	2.2%
Gila	15,438	19,922	3.2%	22,554	2.5%
Graham	7,930	9,772	2.7%	10,833	2.1%
Greenlee	2,809	3,525	2.9%	3,891	2.0%
La Paz	5,348	5,877	1.2%	6,176	1.0%
Maricopa	807,560	1,072,522	3.6%	1,251,695	3.1%
Mohave	36,801	55,609	5.3%	66,962	3.8%
Navajo	22,189	28,847	3.3%	32,813	2.6%
Pima	261,792	326,274	2.8%	367,550	2.4%
Pinal	39,154	50,288	3.2%	58,462	3.1%
Santa Cruz	8,808	11,485	3.4%	12,946	2.4%
Yavapai	44,778	64,500	4.7%	76,393	3.4%
Yuma	35,791	44,913	2.9%	47,975	1.3%

* Annualized growth 1990-1998. ** Annualized projected growth 1998-2003.
 Note: 1998 estimated and 2003 projected.
 Source: PCensus.

According to 1998 estimates, there are approximately 258,200 single-parent households in Arizona. This represents an increase of almost 100 percent since 1990.

Through 2003, Mohave County has the highest projected household growth rate, followed by Yavapai and Maricopa counties. The largest increase in total households is clearly in Maricopa County, where nearly 265,000 new households were created between 1990 and 1998 and another 179,000 are projected between 1998 and 2003.

The combination of increasing population and decreasing household size equates to a greater need for additional housing units that are affordable at all levels.

Age Distribution Trends

Since 1990, the

fastest growing age group in Arizona has been 45 to 64. This group will grow by approximately 242,000 from 1998 through 2003, at which time it will represent almost one-fourth of the population (Figs. 5 and 6).

The relative share of Arizona's senior population (over 65) will increase as well. By 2003, the state will add almost 100,000 elderly individuals, raising the number to over three-quarters of a million people. By 2003, Arizona will also add another 50,000 young adults age 18 to 24.

5

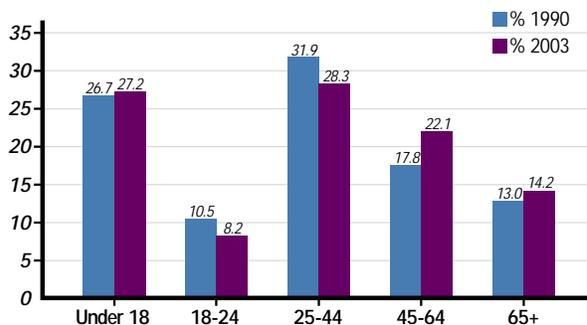
POPULATION BY AGE GROUP

	1990	%1990	1998	%1998	2003	%2003
Under 18	978,783	26.7%	1,320,188	28.0%	1,447,230	27.2%
18-24	385,268	10.5%	385,138	8.2%	435,095	8.2%
25-44	1,169,894	31.9%	1,422,033	30.1%	1,503,115	28.3%
45-64	654,083	17.8%	934,149	19.8%	1,176,041	22.1%
65+	447,200	13.0%	660,589	14.0%	755,974	14.2%
All Ages	3,665,228	100.0%	4,722,097	100.0%	5,317,455	100.0%

Note: 1998 estimated and 2003 projected, estimates will vary from overall population estimates.
 Source: Arizona Department of Economic Security, Population Statistics Unit.

6

PERCENTAGE OF POPULATION BY AGE, 1990-2003



Note: 2003 projected.
 Source: Arizona Department of Economic Security, Population Statistics Unit.

Population Trends by Ethnicity

Numerically, between 1990 and 1998, the total increase in Arizona's minority population was 481,315 (Fig. 7). The growth rates for minority populations have exceeded the White population growth rate over the past several years (Fig. 8). Currently, minorities comprise over one-third of Arizona's population.

Income Distribution Trends

As of 1998, one-third of Arizona households had annual incomes of less than \$25,000 (Fig. 9). By 2003, the number of households making below \$25,000 per year is projected to increase by 45,000 to 700,000.

These income distribution trends are even more severe on Native American reservations in Arizona. Six of the 10 most populous reservations nationally are located entirely or partially in Arizona: White Mountain, Gila River, Hopi, Navajo, Tohono O'Odham and San Carlos. Median household income levels for all Arizona reservations are shown in Figure 10.

The 1990 U.S. Census reveals that while minorities comprise approximately 29 percent of the population in non-metropolitan Arizona, they comprise a disproportionately greater percentage of lower-income households. Specifically, African-Americans, Hispanics and

American Indians account for 68 percent of all very low-income households in non-metro Arizona — nearly two and one-half times their proportion in the total population.

This income disparity is even more acute in metropolitan Arizona (Maricopa and Pima counties). While minorities comprise approximately 18 percent of the population in metropolitan Arizona according to the 1990 Census, they comprise a disproportionately greater percentage of lower-income households. Specifically, African-Americans and Hispanics account for 59 percent of all very low-income households in metro Arizona — nearly three and one-half times their proportion in the total populations.

Relatively lower incomes are not the only barrier to housing choice faced by minority households in Arizona. As indicated in the 1996 *State of Arizona Analysis of Impediments to Fair Housing Choice*, it is reasonable to conclude that persons are most frequently discriminated against because there are children in the households and because the households are members of a minority group.

For both minority and non-minority households, the incidence of housing problems increases dramatically as income levels decrease. Since the percent of minority households that are low income far exceeds the proportionate number in the general population, minorities suffer disproportionately in terms of their basic need for adequate, affordable shelter. This is particularly alarming considering the growth rate of minority populations in Arizona.

7

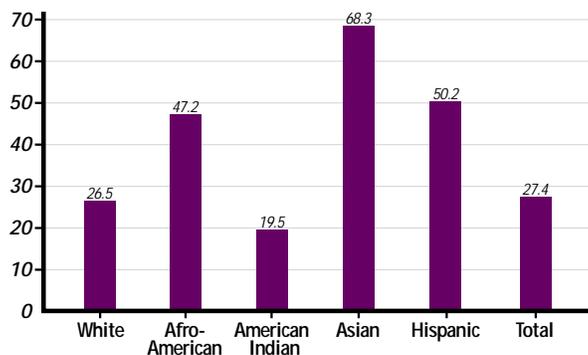
POPULATION TRENDS BY ETHNICITY

	1990	1998	NUMERICAL INCREASE	% INCREASE
White	3,277,597	4,145,043	867,446	26.5%
African-American	114,948	169,191	54,243	47.2%
American Indian	214,433	256,183	41,750	19.5%
Asian	58,361	98,214	39,853	68.3%
Total Population	3,665,339	4,668,631	1,003,292	27.4%
*Hispanic	688,353	1,033,822	345,469	50.2%

*Note: For Census Bureau purposes, persons of Hispanic origin may be of any race.
Source: U.S. Census Bureau.

8

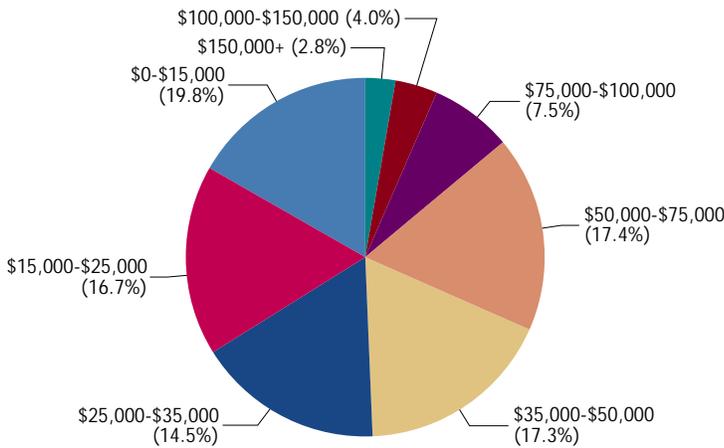
Percentage POPULATION growth BY ETHNICITY, 1990-1998



Source: U.S. Census Bureau

9

HOUSEHOLD INCOME DISTRIBUTION, 1998



Note: Total number of households, 1,792,761.
Source: PCensus

These income distribution levels have profound consequences for housing affordability. Lower-income and middle-income households are less likely to be able to afford homeownership or market rate rentals. Instead, they typically are cost burdened, or must rely on subsidies, live in substandard housing, overcrowded housing, or with family or friends.

10

RESERVATION MEDIAN HOUSEHOLD INCOMES

Ak Chin	\$15,909
Camp Verde	\$12,500
Cocopah	\$15,536
Colorado River	\$20,846
White Mountain	\$13,020
Fort McDowell	\$18,182
Fort Mojave	\$15,357
Fort Yuma	\$ 5,360
Gila River	\$10,069
Havasupai	\$17,188
Hopi	\$14,325
Hualapai	\$11,071
Kaibab-Paiute	\$17,083
Navajo	\$10,958
Tohono O'Odham	\$ 8,901
Pasqua Yaqui	\$11,149
Tonto Apache	\$28,750
Salt River	\$14,987
San Carlos	\$ 8,743
Yavapai-Prescott	\$22,917

Source: 1990 U.S. Census.

In a recent article in *Arizona's Economy* (April 1998), Marshall J. Vest stated that Arizona's income gap is wide because the average income for the bottom fifth of the population from 1994-96 was one of the lowest in the nation at \$7,273. During the past decade, inflation-adjust-

ed incomes of the bottom fifth of the income distribution fell by 37.2 percent in Arizona. Middle-income families saw their inflation-adjusted wages fall by nearly 21 percent. These are the largest declines in real income of any state in the nation.

Income Definitions

There are three common measures of income. For the purposes of this report, Median Household Income will be used except as otherwise indicated. Median Income is the mid-point of a range of income data.

Median Family Income (\$43,500). "Family" refers to the Census definition of a "householder" and one or more other persons living in the same household who are related by blood, marriage or adoption. This excludes one-person households. Income is higher here than in other measures because families typically have more people earning incomes.

Median Household Income (\$34,268). Households, including one person households, incorporate both family income and non-family income. Many non-family households consist of either an elderly surviving spouse or a very young adult.

Per Capita Income (\$22,810). Represents income received by all individuals who live in an area; the aggregate figure is divided by total population, giving per capita personal income.

Livable Wage (\$32,400 for a four-person household). The minimum annual amount of money required to meet a household's basic needs including food, shelter, clothing, transportation and health care.

Poverty Level (\$16,813 for a four-person household). The Census Bureau uses a set of money income thresholds that vary by family size and composition to detect who is poor. If a family's total income is less than that family's threshold, then that family, and every individual in it, is considered poor.

Median Household Income Trends

In 1998, Arizona ranked 36th in the nation with a median household income of \$34,268. This was 12 percent lower than the national average of

\$39,021. From 1990 to 1998, the median household income in Arizona grew by nearly 25 percent based on a compound annual growth rate of 2.5 percent (Fig. 11). However, over the same time period

average home sale prices increased twice as fast. This trend is detailed later in the report.

Employment by Industry Trends

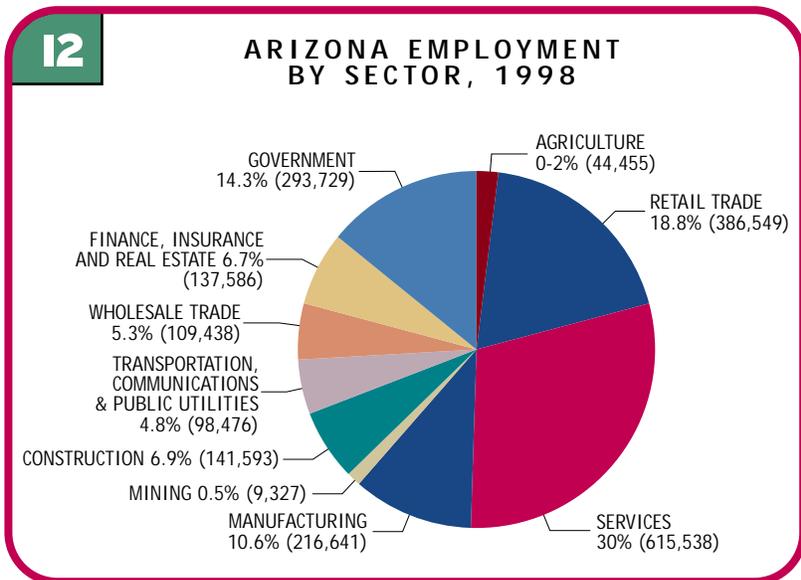
In 1998, the largest sectors of employment within Arizona were services (including entertainment, health, education, personal and professional services) and retail trade (Fig. 12). Combined, these two sectors employed half of all workers. They were also the largest employment sectors for nearly all counties (Fig. 13).

In 1998, the Arizona Department of Economic Security reported that the average annual wage for Services was \$25,868, while Retail averaged \$17,380 (Fig. 14). Along with Agriculture at \$15,220, these jobs represent the lowest paying. Manufacturing and Mining averaged the highest at \$40,388 and \$43,892 respectively. The difference between a retail trade job and a manufacturing job is approximately \$575 per month less in housing purchasing power, based on 30 percent of monthly income for housing.

According to data provided by the Economic and Business Research Program of the University of Arizona, the service and retail trade sectors are projected to be the fastest growing during the next five years. Between now and 2003, 40 percent of all new jobs created in Arizona are expected to pay less than

	1990	1998*	ANNUAL GROWTH RATE	2003*	ANNUAL GROWTH RATE
Arizona	\$27,540	\$34,268	2.5%	\$37,206	1.7%
Apache	\$14,100	\$16,746	1.9%	\$17,412	0.8%
Cochise	\$22,425	\$27,150	2.2%	\$28,388	0.9%
Coconino	\$26,112	\$35,462	3.5%	\$41,210	3.1%
Gila	\$20,964	\$25,437	2.2%	\$27,395	1.5%
Graham	\$18,455	\$23,427	2.7%	\$25,216	1.5%
Greenlee	\$27,491	\$37,636	3.6%	\$45,516	3.9%
La Paz	\$16,555	\$18,512	1.3%	\$18,838	0.4%
Maricopa	\$30,797	\$38,351	2.5%	\$41,586	1.6%
Mohave	\$24,002	\$27,386	1.5%	\$28,471	0.8%
Navajo	\$19,452	\$22,098	1.4%	\$22,435	0.3%
Pima	\$25,401	\$31,983	2.6%	\$34,604	1.6%
Pinal	\$21,301	\$26,535	2.5%	\$28,895	1.7%
Santa Cruz	\$22,066	\$24,362	1.1%	\$24,480	0.1%
Yavapai	\$22,060	\$27,379	2.4%	\$29,488	1.5%
Yuma	\$23,635	\$31,600	3.3%	\$35,785	2.5%

* 1998 Estimated, 2003 Projected.
Source: PCensus.



Source: Arizona Department of Economic Security

13

EMPLOYMENT IN ARIZONA, BY COUNTY, 1998

	LOW-PAYING SECTORS*		ALL OTHER SECTORS**		TOTAL EMPLOYMENT
	NUMBER	%	NUMBER	%	
Arizona	1,057,009	51.0%	1,013,577	49.0%	2,070,586
Apache	10,893	58.2%	7,812	41.8%	18,705
Cochise	14,643	49.6%	14,858	50.4%	19,492
Coconino	25,824	55.0%	21,166	45.0%	46,990
Gila	6,853	50.4%	6,754	49.6%	13,607
Graham	3,397	55.1%	2,772	44.9%	6,169
Greenlee	368	22.8%	1,246	77.2%	1,614
La Paz	3,505	63.8%	1,987	36.2%	5,492
Maricopa	713,341	49.8%	719,212	50.2%	1,432,553
Mohave	19,635	54.6%	16,317	45.4%	35,952
Navajo	11,824	52.2%	10,827	47.8%	22,651
Pima	165,213	53.6%	143,131	46.4%	308,344
Pinal	18,102	49.3%	18,643	50.7%	36,745
Santa Cruz	4,330	38.3%	6,970	61.7%	11,300
Yavapai	24,377	54.3%	20,500	45.7%	44,877
Yuma	33,714	63.9%	19,069	36.1%	52,783

* Agriculture, Retail Trade and Service sector jobs.

** Mining; Construction; Manufacturing; Transportation, Communication and Utilities; Wholesale Trade; Finance, Insurance and Real Estate; and Government.

Source: Arizona Department of Economic Security – ES-202 data, 1998.

half of the livable wage. (See page 11 for definition). For Arizona, the National Priorities Project calculates the livable wage as approximately \$29,900 for a three-person family and \$32,400 for a family of four.

The bleakest situation is for Native Americans living on reservations. Unemployment is high, wages are low and little job growth is expected. The U.S. Census Bureau reports that all reservations nationwide have an average unemployment rate of 25.6 percent. Five of the large Arizona reservations have unemployment rates which exceed the national reservation average: Hopi at 27.6 percent, Navajo at 30.3 percent, Gila River at 29.6 percent, San Carlos at 33.4 percent and White Mountain at 32.5 percent.

1990 national census data indicate that even when jobs are available on reservations, they tend to offer below-average wages. Native American median family income averages only 62 percent of median family income for all Americans. Moreover, approximately 27 percent of all Native American families are maintained by a single mother. The median income for these families averages only \$10,700, thus severely limiting housing choice.

In terms of housing affordability, service and retail trade sector jobs are among the lowest paying, thus potentially inhibiting housing choices for the largest group of employees.

14

ARIZONA EMPLOYMENT AND WAGES BY SECTOR, 1998

EMPLOYMENT SECTOR	NUMBER OF JOBS	AVERAGE ANNUAL WAGES
Agriculture	44,455	\$15,220
Retail Trade	386,549	\$17,380
Services	615,538	\$25,868
Manufacturing	216,641	\$40,388
Mining	9,327	\$43,892
Construction	141,593	\$28,540
Transportation, Communication & Public Utilities	98,476	\$33,824
Wholesale Trade	109,438	\$38,432
Finance, Insurance & Real Estate	137,586	\$33,892
Government	293,729	\$34,184

Source: Arizona Department of Economic Security.

Special-Needs Households

According to the Arizona Department of Commerce, there are approximately 300,000 to 400,000 people with special housing needs in Arizona (Fig. 15).

Persons with special housing needs have additional barriers to obtaining and retaining adequate and reasonably priced housing, over and above their limited incomes. Many people have

some form of disability that adds to the problem of finding adequate housing. These special-need populations often require housing subsidies to avoid becoming cost-burdened and normally require a range of supportive services to assist them in maintaining independent housing in the community. These services may include case management, medical assistance, counseling, psy-

chotherapy and vocational services directed toward maintaining the self-sufficiency of the individual. The availability of affordable housing assistance and supportive services for special-needs individuals varies greatly throughout the state, with the greatest unmet need in rural Arizona.

Homelessness. Homelessness and the threat of homelessness due to the inability to meet housing costs affects many of the special-needs populations. According to the 1999 Continuum of Care Analysis for all of Arizona, an estimated 26,700 persons (excluding reservation populations) are homeless at any one time. Maricopa County has 45 percent of that number and Pima County 17 percent. The remaining 38 percent is in the balance of the state. The Analysis also indicates Arizona's shelters and transitional housing facilities are serving only one-third of the need (Fig. 16).

Homelessness is not clearly visible on Native American lands, as the homeless will live with their families. However, based on Indian Housing Plans submitted to the U. S. Department of Housing and Urban Development (HUD) by Arizona tribes, it can be assumed that 24,866 families could be classified as homeless, in addition to the estimated 26,700 in the rest of the state.

Among the homeless population there are consistent patterns of subpopulation distribution throughout the state. Approximately 12,000 are estimated to have a serious problem with substance abuse. Approximately 8,000 are estimated to have a serious mental illness (SMI) or a dual diagnosis of serious mental illness and substance abuse. Veterans are a significant portion of the homeless single population but are usually included

15 SPECIAL NEEDS HOUSEHOLDS *	
Homeless Persons/Families	26,700**
Seriously Mentally Ill Persons	17,829
Developmentally Disabled Persons	73,000
Persons Living with HIV/AIDS	6,544
Migrant and Seasonal Farmworkers	50,000-90,000
Elderly Persons in Poverty	72,000
Persons with Physical Disabilities	150,000

* Some categories may overlap.
 ** Does not include homelessness on Indian reservations.
 Source: State of Arizona Consolidated Plan, Arizona Department of Commerce, Office of Housing and Infrastructure Development.

16 ADDITIONAL HOUSING UNITS NEEDED FOR HOMELESS POPULATION	
EMERGENCY SHELTER BEDS NEEDED	
Maricopa County	539
Pima County	625
Rural Counties	4,122
<i>Total</i>	<i>5,286</i>
TRANSITIONAL HOUSING UNITS NEEDED	
Maricopa County	2,977
Pima County	1,205
Rural Counties	3,540
<i>Total</i>	<i>7,742</i>
PERMANENT SUPPORTIVE HOUSING UNITS NEEDED	
Maricopa County	2,337
Pima County	1,060
Rural Counties	1,484
<i>Total</i>	<i>4,881</i>
TOTAL UNMET NEED	17,909

Note: Currently, approximately 8,800 units are available.
 Source: Maricopa County, Pima County and Rural Arizona 1999 Continuum of Care.

in the other subpopulations of homelessness. Victims of domestic violence number about 4,400 and often exhibit other behavioral health issues, including substance abuse and mental health problems. Homeless youth are a growing problem in Arizona with an estimated 1,650 regularly homeless on the street and many others living in inappropriate housing or near homeless conditions.

Persons Living with HIV/AIDS. The incidence of persons living with HIV or AIDS is a modest but significant number in Arizona. As of October 1, 1998, the Arizona Department of Health Services (ADHS) reported 4,285 active cases of HIV and 2,259 cases of persons living with AIDS. ADHS indicates an additional significant number of HIV cases (3,347) that were reported through anonymous testing but are not part of active caseload. Due to powerful new drug treatment programs, persons living with HIV/AIDS are living longer, more productive lives. The housing needs of this population are numerous, including emergency assistance, shelter/respite housing and permanent affordable housing. The challenge for the HIV/AIDS population is to have adequate financial resources to support the various housing types needed at different times in their lives and their illness. Successful housing for the HIV/AIDS population has a strong link to supportive services and medical services, including access to appropriate medications.

Seriously Mentally Ill. According to the ADHS, there are approximately 17,829 Seriously Mentally Ill (SMI) persons in Arizona. About 79 percent live in urban areas. Statewide it is estimated that half of all SMI persons who are served by the

delivery system in Arizona require housing assistance. In addition, an estimated 30 percent of the homeless population in Arizona is comprised of SMI persons. Integrating this population into the community is a major challenge. In 1995, ADHS estimated a housing need for the SMI population of some 8,600 units.

Developmentally Disabled. A developmental disability is a severe, chronic condition attributable to a physical or mental impairment manifest before the age of 22 and which is likely to continue indefinitely. The disability results in substantial function limitations in three or more of the following life areas: self care, receptive and expressive language, learning mobility, self-direction, capacity for independent living, or economic self-sufficiency. Developmental disability requires a combination of individualized plans and coordinated services for life. Most developmentally disabled persons cannot earn an independent living and receive fixed government payments, creating a need for affordable housing choices. According to the Arizona Department of Economic Security, there are 73,000 developmentally disabled persons in Arizona. Seventy-eight percent are located in urban areas (1995 estimate).

Farmworkers. According to the Community Legal Services Farmworker Program, it is estimated that there are about 40,000 migrant and 10,000 to 50,000 seasonal farmworkers in Arizona at any given time.

Farmworkers generally migrate during certain growing seasons. Adequately priced units are generally unavailable given the low wages of farmworkers and the low supply of existing affordable housing. Dormitory facilities are sometimes provided by growers and more of

these facilities are needed, but this type of housing precludes farmworkers from living with their families. Therefore, more housing types are needed, to allow appropriate housing for all workers and families.

Elderly Persons in Poverty. There are approximately 660,000 individuals in Arizona over age 65. Over the next 25 years, Arizona's elderly population is expected to double. This trend will create greater demands for all types of assisted living facilities.

The 1990 U.S. Census estimated that 11 percent of Arizona's elderly live in poverty. Using this estimate, approximately 72,600 elderly currently live in poverty. In 1998, the U.S. Census Bureau poverty levels were \$8,480 per year for one person and \$10,634 for two persons. The rate of poverty for the elderly in rural Arizona is 1.5 times that for urban. This particular population needs increased subsidized housing to support independence.

The number of elderly needing housing in Native American communities is 10,566, and the number of low-income elderly is 6,920, according to the 1998 Indian Housing Plans submitted to HUD.

Housing is a critical factor in determining a special-needs person's quality of life. Well-designed, suitably located and affordable housing can help sustain the independence of many of these individuals. However, many communities in Arizona lack a range of integrated housing choices to address the diverse housing needs of these populations.

ARIZONA'S HOUSING MARKET

Between 1990 and 1998, a total of 373,740 new housing units were constructed in Arizona. The number of total housing units (Fig. 17) grew by 22.5 percent between 1990 and 1998. A projected annual growth rate of 2.3 percent from 1998 through 2003 will produce an additional 11.9 percent growth.

Housing Market Growth

It is estimated that in 1998 Arizona had 2,033,170 housing units. From 1970 to 1998, the single-family proportion of the housing inventory declined by 11.5 percent. In the same time frame, the multifamily proportion and manufactured housing proportion each increased by approximately 5 percent

(Fig. 18). In the period 1990 to 1998, however, the proportion of single-family units has increased as a result of the building boom of the 1990s.

One indicator of the demand for moderately priced single-family homes is the rapid growth of manufactured housing. In 1991, total shipments of manufactured homes in Arizona (roughly equivalent to sales) were 2,721. By 1998, the number of shipments was 8,611, an increase of 315 percent. In 1998, nearly 80 percent of the manufactured homes shipped were multisectional, reflecting a strong preference for single-family housing. In rural Arizona, the demand is even more striking: according to the 1990 Census, about one-third of all current housing units in rural areas are manufactured homes, and in some areas, 75 to

80 percent of new single-family homes are manufactured.

Figures 19 and 20 reflect the relationship or lack thereof between interest rates and the housing market over the last 15 years. Affordability may be even more adversely affected if interest rates rise.

Aside from interest rates, other factors can contribute to the health of the state's housing market. In *Arizona Business* (June 1999), Jay Butler states that, "The future of the housing market is not a simple one of interest rates, but is complex, encompassing international events, job potential and the individuals' belief in their respective economic future."

17 TOTAL HOUSING STOCK IN ARIZONA

HOUSING TYPE	1970	1980	1990	1997***	1998***
Single Family*	422,501	700,488	977,873	1,205,569	1,249,402
Apartments	104,023	238,237	406,690	455,503	465,054
Manufactured Homes**	52,247	132,652	250,597	287,294	294,444
Other		410	24,270	24,270	24,270
TOTAL HOUSING STOCK	578,771	1,071,787	1,659,430	1,972,636	2,033,170

* Detached and attached. **Including mobile homes.
 *** Estimated by: Arizona Department of Commerce, Office of Housing and Infrastructure Development.
 Source: U.S. Census Bureau; ASU Real Estate Center; Maricopa Association of Governments.

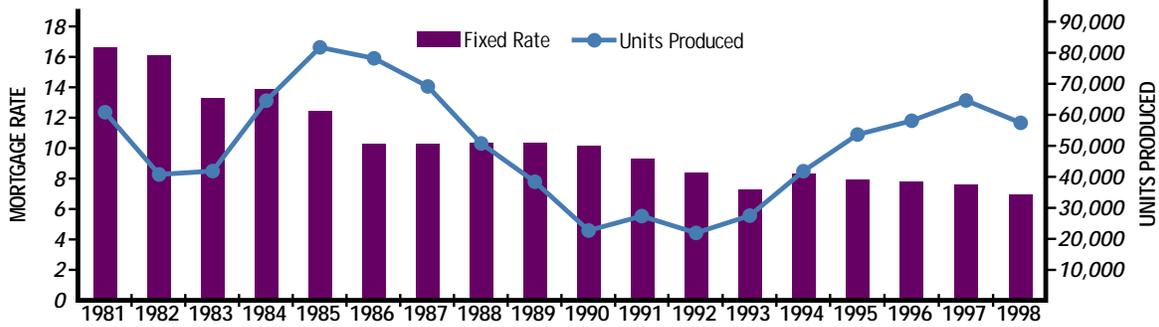
18 HOUSING STOCK BY TYPE

HOUSING TYPE	1970	1980	1990	1997***	1998***
Single Family*	73.0%	65.4%	58.9%	61.1%	61.5%
Apartments	18.0%	22.2%	24.5%	23.1%	22.9%
Manufactured Homes**	9.0%	12.4%	15.1%	14.6%	14.5%
Other	0.0%	0.0%	1.5%	1.2%	1.2%
TOTAL HOUSING STOCK	100.0%	100.0%	100.0%	100.0%	100.0%

* Detached and attached. **Including mobile homes.
 *** Estimated by: Arizona Department of Commerce, Office of Housing and Infrastructure Development.
 Source: U.S. Census Bureau; ASU Real Estate Center; Maricopa Association of Governments.

19

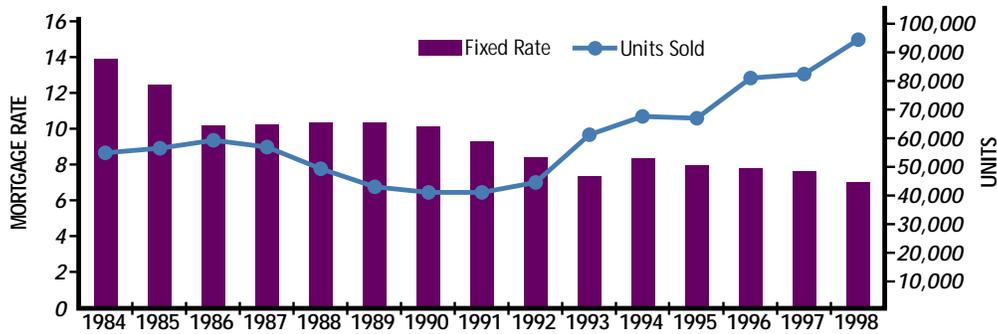
MORTGAGE RATES VS. HOUSING UNITS PRODUCED, ARIZONA



*Single Family, Multifamily and Manufactured Housing (Mobile Homes).
 Source: National Association of Home Builders; U.S. Bureau of the Census; Office of Housing and Infrastructure Development.

20

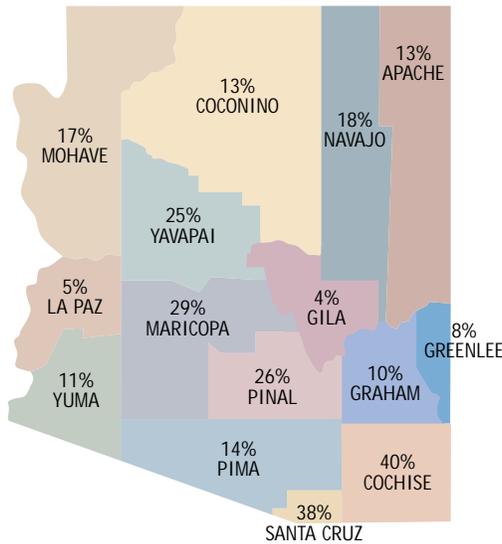
MORTGAGE RATES VS. HOUSING UNITS SOLD, METROPOLITAN PHOENIX



*Single Family, Attached and Detached.
 Source: National Association of Home Builders; U.S. Bureau of the Census; Office of Housing and Infrastructure Development.

21

PERCENT OF PRIVATELY OWNED LAND BY COUNTY



Source: Arizona Department of Transportation; State Land Department.

22

ARIZONA'S PRIVATELY OWNED LAND COMPARED WITH OTHER STATES *

STATE	% OF TOTAL LAND PRIVATELY OWNED	% OF TOTAL LAND PUBLICLY OWNED
Arizona	17.0%	83.0%
California	49.2%	50.8%
Colorado	57.9%	42.1%
Hawaii	61.8%	38.2%
Nevada	12.7%	87.3%
New Mexico	44.6%	55.4%
New York	83.9%	16.1%
Oregon	43.3%	56.7%
Texas	94.9%	5.4%

Private Land - Land owned by people and businesses. Public Land - Land owned by federal, state and local governments, as well as lands owned by Native American Tribes and trust lands.
 *USDA, 1992 Land Ownership.

Land Ownership Constraints

In Arizona, the share of land that is owned by the private sector (including households, corporations and miscellaneous ownership by some public entities) is significantly smaller than that owned by the public sector (the state, U. S. Forest Service and Bureau of Land Management) (Fig. 21).

The Arizona State Land Department estimates that 17 percent of all land statewide is in private hands. This figure may well overstate the actual amount of private land due to miscellaneous state and local government ownership. For example, the Arizona Farm Bureau estimates private land at 13 percent. Federal ownership is about 42 percent, reservation ownership is 27 percent and state ownership is 14 percent. Trends point to a continued reduction in private land due to the acquisition of acreage by federal, state and local governments for new parks, open space, conservation and other public uses. Acquisition of private land through land trusts, conservation easements and the purchase of development rights further reduces the availability of land that could be used for housing needs.

The southeast counties of Cochise and Santa Cruz have the greatest portion of privately-owned land in the state at 40 and 38 percent, respectively. Less than one-third of the land in Maricopa County, the most populous county in Arizona, is privately owned.

Two-thirds of Navajo and Apache counties consist of tribal lands. More than one-third of the land in Pima, Coconino, Gila and Graham counties is tribal land.

The amount of land held in private ownership varies across the United States. Most eastern states have a high percentage of privately owned land. Among western states, Arizona has less privately owned land than any except Nevada (Fig. 22).

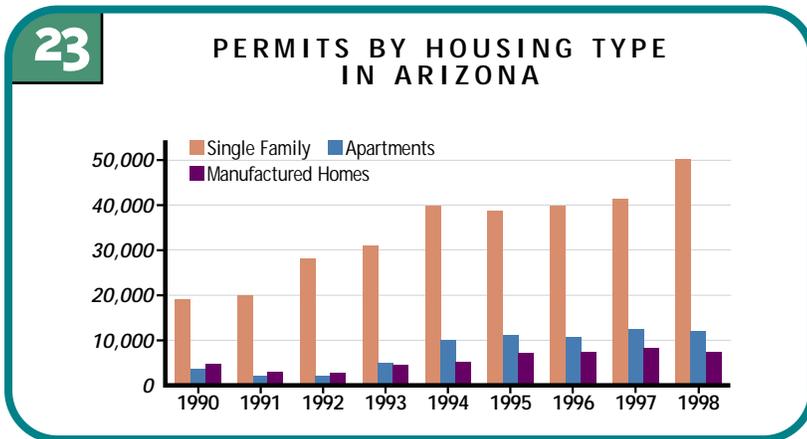
Arizona has a limited amount of privately owned land, which affects development costs, land costs and tax base considerations. If the trend toward reduction of privately owned land continues, it will exacerbate an already significant problem. Most federally owned land is not available for development of housing; therefore, appropriate use of state land is critical to future housing affordability.

Statewide Building Permit Trends

Since 1990, the number of single-family and multi-family building permits issued has increased more than two-fold (Fig. 23).

In 1998, the number of single-family building permits increased by 18.6 percent over the number issued in 1997. Comparing 1998 issued permits with 1990, there was an increase of 177 percent.

The increase in multi-family building permits has been even more dramatic. In 1998, the number of multi-family building permits issued was 236 percent greater than those in 1990.



Source: Arizona State University Real Estate Center.

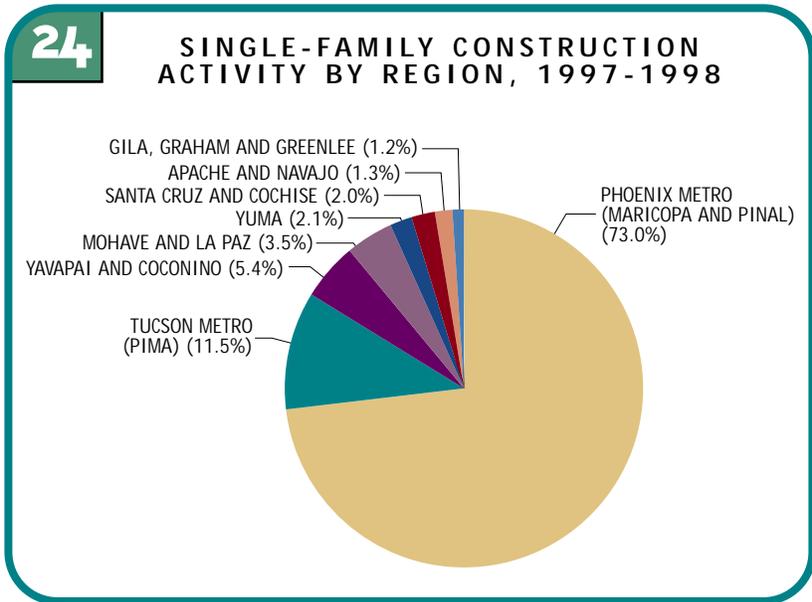
Current Single-Family Housing Construction by Region

In Arizona, construction was completed on approximately 82,000 single-family

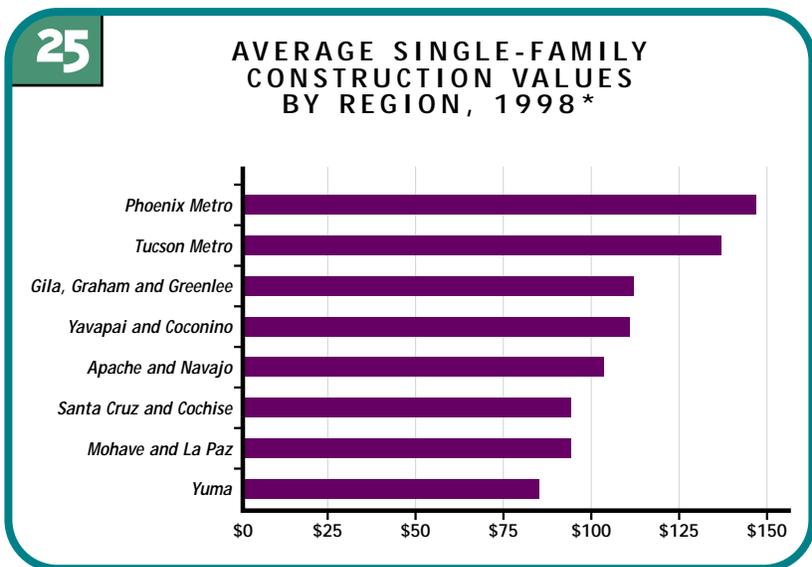
homes during 1997 and 1998. These data are reported regionally by the University of Arizona (Fig. 24). Nearly 85 percent of all single-family home construction occurred in the metropolitan regions of Arizona.

The average value of newly constructed single-family homes varies significantly throughout the different regions of the state. The average value of newly constructed single-family homes was greatest in the Phoenix metropolitan region at \$147,445. The lowest average value was in the Yuma metropolitan region at \$89,111 (Fig. 25).

Construction of manufactured homes during 1997 and 1998 was also substantial, according to the Manufactured Housing Institute. Production at manufacturing plants in Arizona was 8,432 units in 1997 and 8,950 in 1998. Shipments in the state (from both in-state and out-of-state plants) were 8,095 in 1997 and 8,611 in 1998.



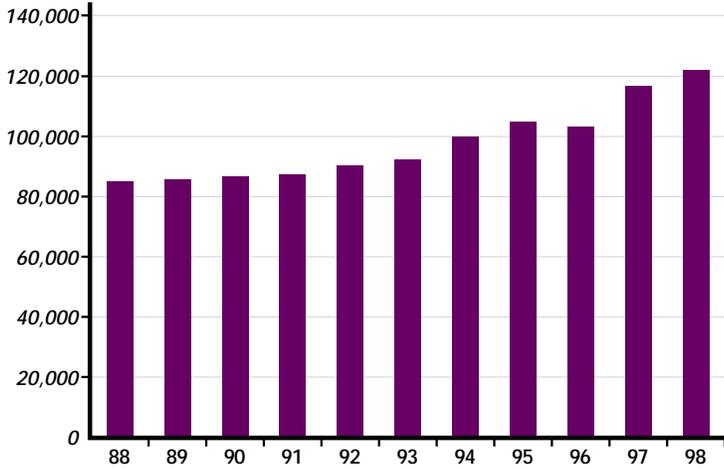
Source: University of Arizona, Arizona's Economy.



Note: Dollar amount in thousands.
 *Value as reported on issued building permits.
 Source: University of Arizona, Arizona's Economy.

26

MEDIAN SINGLE-FAMILY SALES PRICE, PHOENIX METRO AREA



Note: Includes new and resale.
Source: Arizona State University, Real Estate Center.

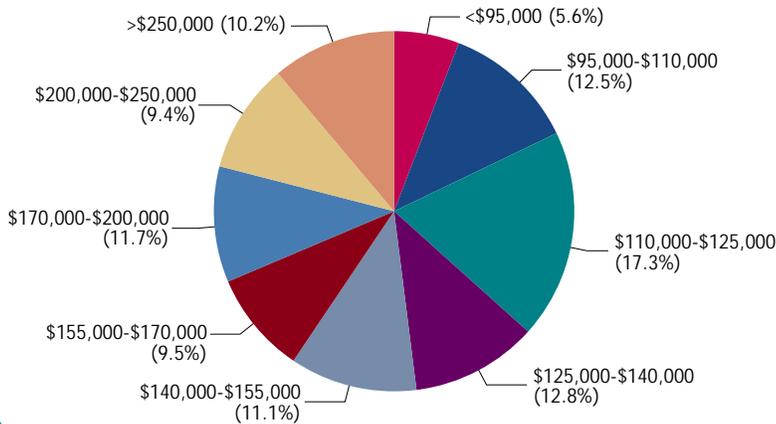
Metropolitan Area Housing Prices

Phoenix. In the Phoenix metropolitan area, the median sales price for all single-family homes has been steadily increasing since 1988 with the current median price being \$122,000 (Fig. 26). Since 1988, the median sales price of single-family homes in metro Phoenix has increased more than 44 percent. In 1998, the median price for a new home in the Phoenix metropolitan area was \$139,070 and the median price for a resale home was \$113,484.

Within the Phoenix metropolitan area, fewer than 6 percent of new single-family homes sold for \$95,000 or less during the 12-month period ending with the third quarter 1998. In the same time frame, nearly 20 percent of new single-family homes sold for \$200,000 or more. The entire distribution of single-family new home sales, by sales price, during the 12 months ending with the third quarter 1998 is provided in Figure 27.

27

DISTRIBUTION OF NEW CONSTRUCTION, SINGLE-FAMILY SALES, PHOENIX METRO AREA, 1998



Source: The Meyers Group, 1998, *The Greater Phoenix Housing Study*.

Tucson. A similar pattern of escalating sales prices is evident for metro Tucson (Fig. 28). Since 1988, the average sales price of single-family homes has increased nearly 51 percent from

\$89,500 to approximately \$134,900. In 1998, the average price for a resale home was \$126,081 and the average price for a new home was \$143,392.

During January 1999, the greatest portion of new homes in Tucson sold in the price range from \$90,000 to \$120,000, while

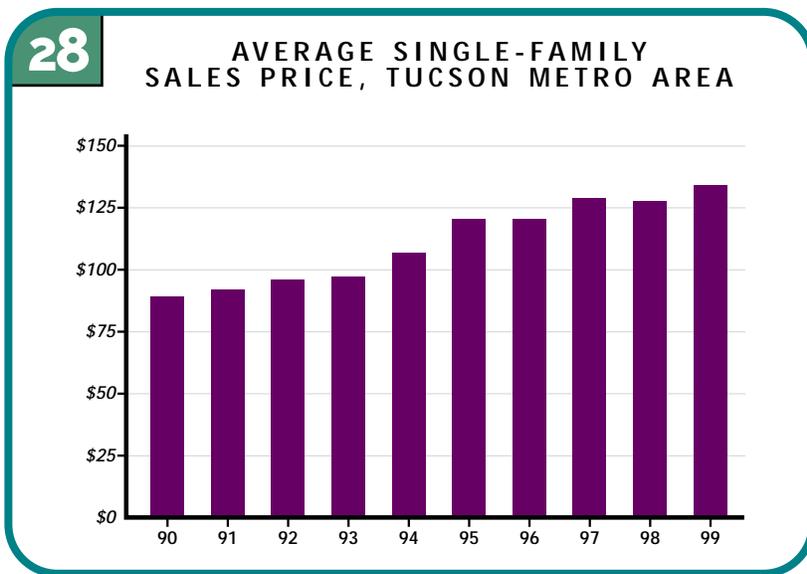
less than 7 percent sold for \$90,000 or less (Fig. 29). In the same time frame, over 10 percent of new single-family homes sold for \$200,000 or more.

Flagstaff. Flagstaff also faces higher than average housing costs, due to the high costs of land and land development in the region. In recent years, the problem of an inadequate supply of affordable housing has become more acute because of lower than average per capita income.

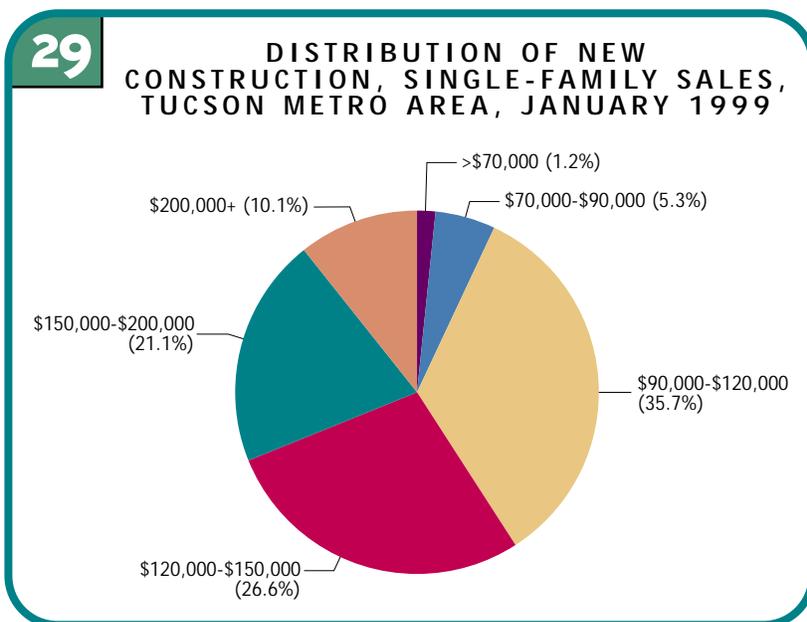
A Flagstaff affordable housing study, *Flagstaff 2020*, reported that the median price of new and used homes in Flagstaff was \$118,500 and the median price of new homes was \$152,000. According to the 1990 census, 67 percent of Flagstaff households do not have adequate incomes to pay these prices. The median household income in Flagstaff in 1994 was \$31,748.

Yuma. Although the Yuma metropolitan area grew significantly during the 1990s, the unemployment rate continues to be the highest in the state. In 1990, Yuma County's annual average unemployment rate was 20.7 percent and in 1998, 27.3 percent. This comparatively high unemployment rate has fueled the demand for affordable housing. In 1998, Yuma County's median household income of \$31,600 was below the state's median household income of \$34,268.

According to the City of Yuma's Consolidated Plan, the average four bedroom home cost \$115,000 in 1995, well out of range for median income families. According to the 1990 Census, 37 percent of all households are paying too much for housing, or living in substandard/overcrowded conditions.



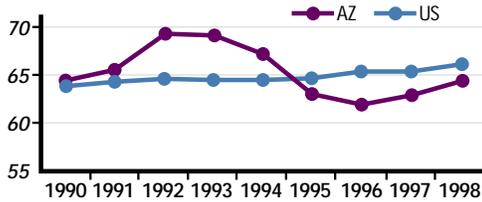
Note: Dollar amount in thousands. Note: Includes new and resale. Source: The Tucson Housing Market Letter, February 1999.



Source: The Tucson Housing Market Letter, February 1999.

30

**HOMEOWNERSHIP RATES
UNITED STATES VS. ARIZONA**



Source: U.S. Census Bureau, 1998.

Statewide Homeownership

Between 1990 and 1998, the state-wide homeownership rate fluctuated between a high in 1992 of 69.3 percent and a low in 1996 of 62.0 percent, ending at 64.3 percent in 1998.

This decline is particularly troubling in light of the national increase in homeownership rates over the same time period. Although the decline in Arizona's homeownership rate started in 1992, it wasn't until 1995 that it dropped below the national rate (Fig. 30).

Most western states have high homeownership rates, greater than the national average. However, despite rapid growth in population and new housing units, Arizona and Nevada trail these other states (Fig. 31).

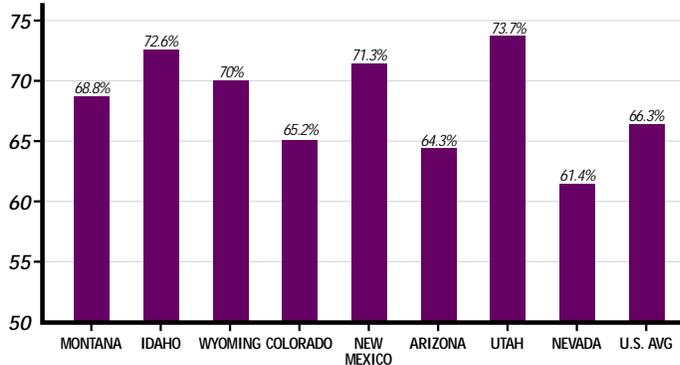
The large growth in single-family construction has been primarily in the high-end, high-income household category. Average construction values and sales prices have increased substantially in the 1990s. Meanwhile, the share of Arizona households who can afford mortgage payments for the average single-family house is decreasing. In light of this data, it is not surprising that the state's homeownership rate has been dropping during most of the 1990s.

Trends in Homeownership Affordability

Determining how much a household can afford in buying a home depends on down payment, mortgage amount, interest rate and length of the loan. Based on a 30-year, 8 percent interest loan, Figure 32 demonstrates the mortgage amount a household could afford.

31

ARIZONA'S HOMEOWNERSHIP RATE VS. WESTERN STATES, 1998



Source: U.S. Census Bureau.

32

**AFFORDABLE HOME MORTGAGES
BASED ON INCOME***

GROSS ANNUAL INCOME	MAXIMUM MORTGAGE AMOUNT*
\$15,000	\$45,000
\$20,000	\$56,700
\$25,000	\$70,900
\$30,000	\$85,100
\$35,000	\$99,300
\$40,000	\$113,500
\$45,000	\$127,700

*Based on a 30-year, fixed rate loan at 8 percent interest.
Source: Fannie Mae Foundation.

Figure 33 provides an analysis of homeownership affordability over the last 30 years. In 1970, an Arizona family with the median household income could afford the median home. According to the U.S.

Census, the median home statewide was valued at \$16,300, which required an annual income of \$5,743. Sixty-four percent of Arizona families could afford this because median household income was \$8,197.

During the 1970s and 1980s, the affordability of single-family homes decreased due to a combination of high interest rates and dramatically higher median home values. In the 1990's, falling interest rates helped maintain affordability, despite rising home prices. In 1998, with interest rates of approximately 7 percent, 46 percent of all Arizona households could afford the estimated median home value. By the second quarter of 1999, with only a 0.4+ percent hike in interest rates, the number of Arizona households that can afford the median value home has declined to 43 percent.

Arizona State University's (ASU's) Real Estate Center has maintained an affordability index for the metropolitan Phoenix area since the early 1980s. Its analysis shows similar trends for the Phoenix metropolitan area in 1998. ASU estimates the median new home sales price at \$139,070 and the median resale home price at \$113,585. Also, ASU's index uses a median income measurement that is different from the median household income used for this report. The ASU Real Estate Center Affordability Analysis Report concludes that with increasing home prices, only low interest rates have maintained affordability at acceptable levels. Along with continually rising prices, ASU predicts that the market will become more diverse with a growing segment of younger buyers and atypical households such as single-parent families. In most instances, these households tend to have lower incomes and could be increasingly priced out of the market.

At an 8 percent mortgage rate, an Arizona household would have to make at least \$45,000 per year to afford the estimated 1999 median home value. When half of Arizona households make less than \$35,000 per year, the afford-

33

STATEWIDE HOMEOWNER AFFORDABILITY, 1970 TO PRESENT

YEAR	EFFECTIVE INTEREST RATE 30-YEAR FIXED	MEDIAN HOUSEHOLD INCOME	MEDIAN HOME VALUE***	INCOME NECESSARY TO AFFORD MEDIAN VALUE (PITI)	% OF HOUSEHOLDS WHO COULD AFFORD MEDIAN VALUE+
1970	8.35%	\$8,197	\$16,300	\$5,827	64%
1980	12.95%	\$16,448	\$56,600	\$27,446	22%
1990	10.04%	\$27,540	\$80,100	\$33,250	41%
1998	7.10%	\$34,268	\$115,000*	\$36,434	46%
1999++	7.50%	\$34,851**	\$122,000*	\$40,215	43%

Method of Calculation

Affordability means a household should pay no more than 28 percent of its income for a mortgage payment, PITI (Principal, Interest, Taxes and Insurance). Monthly mortgage payments were calculated using specific year's interest rates (Principal and Interest). Taxes and Insurance estimated as 1.5 percent of home value, amortized over the term of the loan. Assumes a 5 percent down payment.

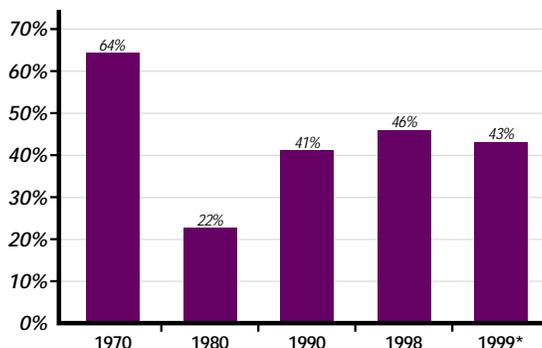
Example: 1990 home value of \$80,100, \$27,540 median household income.

Down Payment: \$80,100 x 5% = \$4,005
 Mortgage Amount: \$80,100 - \$4,005 = \$76,095
 Principal & Interest: \$76,095 (10.04 interest rate, 30 years) = \$670/month
 Taxes and Insurance: \$80,100 (10.04 interest rate, 30 years) = \$705 x 15% = \$106/month
 PITI: \$670 + \$106 = \$776/month
 Income necessary to afford: \$776 x 12 = \$9,310/28% = \$33,250

* Estimated using an historic 6 percent disparity between Maricopa County and the state overall.
 ** Assumes a 1.7 percent rate of growth.
 *** Median home value represents the middle value in a distribution of all home values reported in the Census.
 + Based on household income distributions. ++ 2nd Quarter.
 Source: Arizona Department of Commerce, Office of Housing and Infrastructure Development; U.S. Census Bureau; HUD.

34

PERCENTAGE OF ARIZONA HOUSEHOLDS WHO COULD AFFORD MEDIAN HOUSE VALUE



* 2nd Quarter
 Source: Arizona Department of Commerce, Office of Housing and Infrastructure Development.

35

GROWTH IN HOME PRICES RELATIVE TO INCOME, 1990-1995

	AVERAGE ANNUAL GROWTH RATE IN MEDIUM HOUSEHOLD INCOME*	AVERAGE ANNUAL GROWTH RATE IN HOME SALES PRICE*
Arizona	3.0%	8.3%
Apache	8.6%	4.4%
Cochise	4.0%	7.3%
Coconino	5.0%	9.4%
Gila	6.1%	14.2%
Graham	8.0%	8.2%
Greenlee	9.6%	0.3%
La Paz	5.2%	0.7%
Maricopa	4.4%	8.0%
Mohave	4.3%	4.0%
Navajo	6.2%	7.2%
Pima	4.3%	8.6%
Pinal	4.5%	14.0%
Santa Cruz	2.6%	2.6%
Yavapai	6.5%	8.0%
Yuma	2.9%	4.4%

* Figures do not compound growth rates.

Sources: Arizona Department of Revenue; U.S. Census Bureau; HUD.

ability problem becomes clear. The percent of Arizona households that can afford the median home value has declined from 64 percent in 1970 to an estimated 43 percent today (Fig 34).

An income growth rate that lags behind the growth rate in home sales prices has an adverse effect on homeownership. On average, Figure 35 shows home values increasing at twice the rate of household income for most counties during the first half of the 1990s using sales price data obtained from the Arizona Department of Revenue.

The National Association of Home Builders' Housing Opportunity Index compares affordability in the nation's largest metropolitan areas. As of the second quarter of 1999, Phoenix ranked 102, Tucson 126 and Flagstaff 168 (Fig. 36). Twenty of the 25 least affordable metro areas listed were in the west, while the midwest had none.

36

HOUSING AFFORDABILITY COMPARISON FOR ARIZONA CITIES

METRO AREA	NATIONAL RANKING
Kokomo, Indiana	1
Washington, D.C.	29
Tampa-St. Petersburg	46
Atlanta	61
Las Vegas	84
Phoenix	102
St. Louis	114
Chicago	121
Tucson	126
Albuquerque	128
Denver	129
Dallas	135
New York	148
Salt Lake City	149
Flagstaff	168
Los Angeles-Long Beach	169
San Diego	175
Portland-Vancouver	177
San Francisco	184

Note: Number 1 ranking means most affordable; a ranking of 184 is least affordable. Source: National Home Builders Association, 2nd Quarter, 1999. This analysis is based on the median family income, interest rates and price distribution of homes sold for each market in a particular of the year. The price of homes sold is collected from actual court records by First American Real Estate, a marketing company. The median family income for each market is calculated by the U.S. Department of Housing and Urban Development.

Affordability Indices

Four different housing affordability indices for Arizona or its metropolitan areas were reviewed for this report. The indices clearly indicate that housing affordability in Arizona is declining. The following are names of each index, along with addresses for further information:

- The National Home Builders' Association Housing Opportunity Index
National Association of Home Builders
1201 15th St., NW, Washington, DC 20005-2800
Telephone: (202) 822-0272
Telephone: (800) 368-5242
FAX: (202) 822-0377
- The ASU Housing Affordability Index
Arizona Real Estate Center,
College of Business
Arizona State University
Box 874406, Tempe, AZ 85287-4406
Telephone: (480) 965-5440
FAX: (480) 965-5458
E-Mail: asuarec@asu.edu
- The Meyers Group Housing Affordability Index, Meyers Group
1710 E. Indian School Rd.,
Phoenix, AZ 85016
Telephone: (602) 266-5750
- The Pappas Metro Tucson & Phoenix Manufactured Homes Affordability Index, Apollo Properties, Inc.
307 W. 2nd St., Mesa, AZ 85201
Telephone: (480) 898-1939
www.apolloproperties.com

Statewide Market Rents

Statewide market rent information is obtained every year by the Arizona Department of Commerce, Office of Housing and Infrastructure Development, via market studies (Fig. 37). In 1998, median market rents ranged from \$367 per month for a studio apartment, to \$700 per month for a three-bedroom, two-bath apartment. Statewide, the median rent for all types of apartments was \$567 per month.

The Fair Market Rent (FMR) reported by the U. S. Department of Housing and Urban Development for a typical two-bedroom apartment varies by more than 30 percent across the state (Fig. 38). The FMR in the Phoenix metropolitan area is greater than any other region of Arizona. It is 31 percent higher than the FMR in most rural regions of the state. Flagstaff ranks second in FMR and is 23 percent higher than most rural regions of the state.

Phoenix and Tucson Market Rents

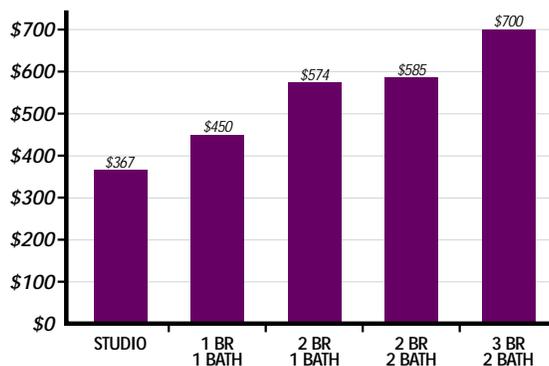
While market rent data is not available for all rental units in the Phoenix and Tucson markets, RealData, Inc. tracks gross and net effective market rent information for apartment communities of 40 units or more in size in Tucson and 100 units or more in Phoenix.

During the last 10 years, monthly average gross market rents in Phoenix grew from \$422 in 1989 to \$619 in 1998, an increase of 47 percent (Fig. 39). Most rental properties however offered some type of rental incentive, such as free first month rent. In 1998, the average rental incentive equaled \$26 per unit, reducing the average gross rent from \$619 to a net effective rent of \$593.

Tucson's monthly average gross market rents grew at a slightly slower rate, increasing from \$369 in 1989 to \$506 in 1998, an increase of 37 percent (Fig. 39).

37

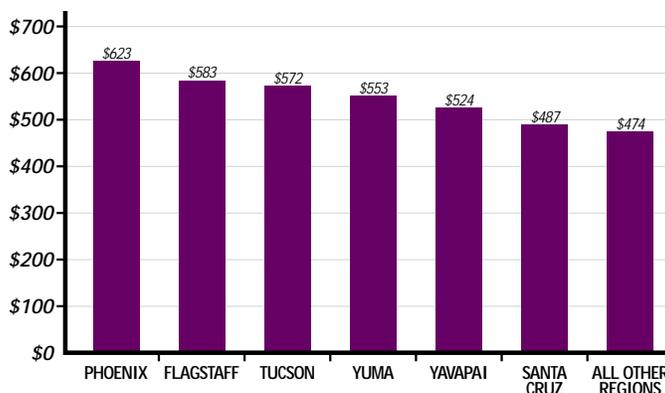
STATEWIDE MEDIAN MARKET RENTS, 1998



Source: Office of Housing and Infrastructure Development, 1998 LIHTC Applications.

38

REGIONAL FAIR MARKET RENTS, TWO BEDROOMS, 1998



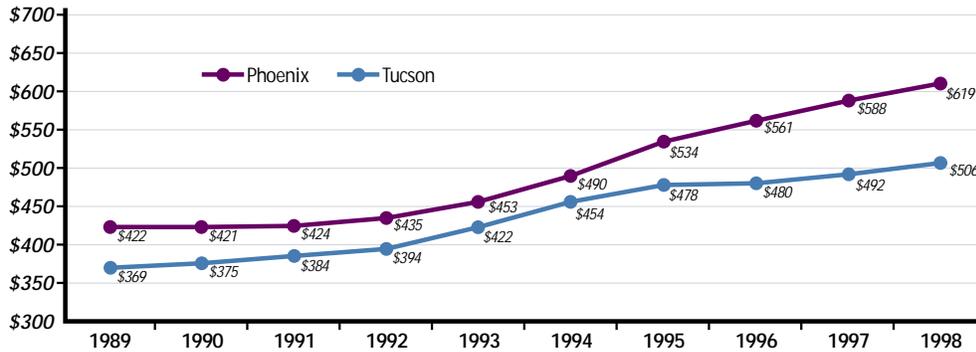
Source: U. S. Office of Housing and Urban Development.

Fair Market Rent

Fair Market Rents (FMRs) determine the eligibility of rental housing units for the Section 8 Housing Assistance Payments program. Section 8 Rental Certificate program participants cannot rent units whose rents exceed the FMRs. FMRs also serve as the payment standard used to calculate subsidies under the Rental Voucher program. The U.S. Department of Housing and Urban Development (HUD) annually estimates FMRs for 354 metropolitan areas and 2,350 nonmetropolitan county FMR areas. FMRs are gross rent estimates. They include the shelter rent plus the cost of all utilities, except telephones. HUD sets FMRs to assure that a sufficient supply of rental housing is available to program participants.

39

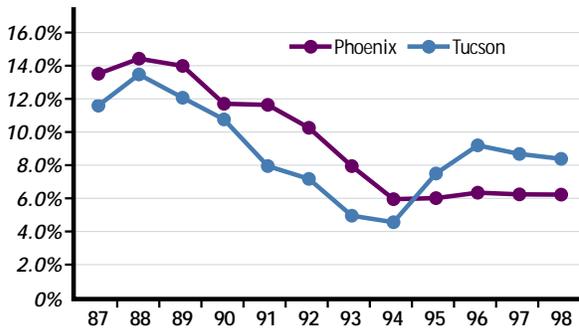
MONTHLY AVERAGE APARTMENT RENTS *



* Gross rents for 100+ unit projects in Phoenix and 40+ unit projects in Tucson. Source: RealData Inc.

40

VACANCY RATES



Source: RealData Inc.

The majority of the increase (approximately 25 percent) occurred from 1994 through 1998, indicating that the rental housing market has recovered from the overbuilt conditions of the late 1980s and early 1990s and has now stabilized.

The trend of increasing rents is expected to continue given the growth in population and increase in the number of households. The limited construction of more affordable housing units will exacerbate the problem for lower-income families.

Urban Vacancy Rates

Phoenix and Tucson rental vacancy rates declined from 1988 through 1994/1995, at which point they began to rise in Tucson and level off in Phoenix. Current vacancy rates in Phoenix and Tucson market rate apartments range from 6.3 percent in Phoenix to 8.5 percent in Tucson (Fig. 40).

Vacancy rates for low-income rental units are even tighter. A review of 1998 Arizona Department of Commerce market studies suggests low-income unit vacancy rates ranged between 0 and 2 percent. Thus, low-income households have very limited rental choices. As indicated previously, Arizona's household growth is expected to outpace new construction, which will further aggravate the problem for low-income families.

Trends in Rental Affordability

Renting an apartment can be a convenient way for families to find decent, affordable housing. Historically in Arizona, this has been the case. But an accelerated decreasing trend in rental affordability is becoming a concern. Between 1990 and 1998, while incomes rose 25 percent, statewide medi-

an rent increased 53 percent. In 1970, according to the Census, the median reported rent was \$90, which required an annual income of \$4,400 to live affordably. Seventy-three percent of households could afford this because the median household income was \$8,197 (Fig. 41). For 1998, it is estimated that this percentage has

dropped 11 points to 62 percent. This is largely due to higher demand and decreasing vacancy rates.

Aside from those multifamily units financed by federal and state subsidy programs, a very small share of new multifamily construction is designed for low- and moderate-income families. Meanwhile, the number of Arizona households that can afford market rents for the average multifamily unit is decreasing (Fig. 42).

Supply of Assisted Housing

According to HUD, despite a period of robust economic expansion, the housing stock affordable for families needing assisted housing continues to shrink. The number of affordable rental units decreased by 372,000 units nationally, a 5 percent drop from 1991 to 1997. Currently, in Arizona, there are over 70,000 assisted units. Twenty-four public housing authorities (PHAs) in Arizona collectively administer approximately 7,000 public housing rental units and 16,000 Section 8 certificates and vouchers (Fig. 43). There are 9,847 privately owned assisted units for families, elderly and disabled financed through various HUD programs. There are approximately 3,722 privately owned, assisted units in rural areas for low-income residents, financed through USDA Rural Development's Section 515 program. The state's Low Income Housing Tax Credit (LIHTC) Program has created another 10,615 units. Although this assistance is vital in allowing over 55,000 low-income Arizona families to live without a housing cost burden, there are not enough resources to go around.

41

RENTAL AFFORDABILITY, 1970 TO PRESENT

YEAR	MEDIAN HOUSEHOLD INCOME	MEDIAN RENT	INCOME NECESSARY TO AFFORD MEDIAN RENT + UTILITIES	% OF HOUSEHOLDS WHO COULD AFFORD TO RENT**
1970	\$8,197	\$90	\$4,400	73%
1980	\$16,448	\$228	\$10,760	68%
1990	\$27,540	\$370	\$17,560	70%
1998*	\$34,268	\$567	\$26,120	62%

Method of Calculation

Rental affordability means a household should pay no more than 30 percent of its income for rent plus utilities. A utility cost factor of 3 percent of median household income was used.

Rent example: 1998 median household income \$34,268, \$567 monthly rent.

Utilities: $\$34,268 \times 3\% = \$86/\text{utilities}$

Monthly rent + utilities: $\$567 + \$86 = \$653$

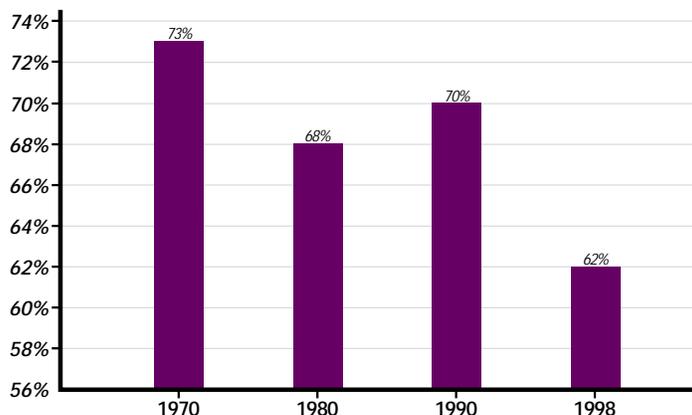
Income necessary to afford: $\$653 \times 12 \text{ months} = \$7,836/30\% = \$26,120$

* Estimated. ** Based on household income distributions.

Source: U.S. Census; PCensus; Arizona Department of Commerce, Office of Housing and Infrastructure Development.

42

PERCENTAGE OF ARIZONA HOUSEHOLDS THAT COULD AFFORD MEDIAN RENT



Source: Arizona Department of Commerce, Office of Housing and Infrastructure Development.

43

NUMBER OF PUBLICLY ASSISTED RENTAL HOUSING UNITS IN ARIZONA, 1998

PROGRAM	NUMBER OF UNITS
HUD Section 8 Certificates and Vouchers*	16,079
HUD Public Housing*	6,944
HUD Project Based Section 8 (includes Section 236, 811, 202, etc.)	9,847
USDA Rural Development Section 515	3,722
Arizona Low Income Housing Tax Credit Program	10,615
Other**	8,000
Subtotal	55,207
HUD-Assisted Low Rent Indian Housing	15,214
Total	70,421

* Excludes Indian Reservations.

** Includes local programs like HOME, Shelter Plus Care, Supportive Housing, HOPWA, Preservation, Tax-Exempt Bonds and General Obligation Bonds.

Note: This represents the major publicly subsidized affordable rental housing programs.

Source: Arizona Chapter of the National Association of Housing and Redevelopment Officials (NAHRO); U.S. Department of Housing and Urban Development; USDA Rural Development; Arizona Department of Commerce.

44

RESERVATION HOUSING NEEDS

TRIBE	HOUSING NEED	TRIBE	HOUSING NEED
Ak Chin	165	Pasqua Yaqui	3,999
Cocopah	109	Quechan	179
Colorado River	165	Salt River	502
Gila River	1,900	San Carlos Apache	1,546
Ft. McDowell	*	San Juan So. Paiute	74
Ft. Mojave	45	Tonto Apache	23
Havasupai	*	Tohono O'odham	1,656
Hopi	488	White Mountain	1,993
Hualapai	149	Yavapai-Camp Verde	192
Kaibab Paiute	28	Yavapai-Prescott	28
Navajo	16,675		

*Not available.

Source: 1998 Indian Housing Plans.

PHA waiting lists number almost 43,000 households at the present time. The average waiting period is two to three years. Since about 70 percent of PHAs have capped their waiting lists, immediate demand is understated. Demand estimates are also understated because not all PHAs participate in public housing in non-metropolitan Arizona and many areas do not have an existing PHA.

The 43,000 “unserved” low-income households face a variety of unsatisfactory housing situations: involuntary overcrowding, living in substandard units, paying an unreasonably high percent of their income for rent, and the “serial homelessness” of shuttling between the homes of friends and family members.

The situation is equally severe on Arizona’s reservations. According to 1998 Indian Housing Plans, tribes have conservatively estimated that 29,916 units are needed on tribal lands (Fig. 44). The HUD assisted low-rent Indian housing inventory is 15,214 units. In 1995, the Urban Institute found that the number of households on waiting lists averages about half of the total number of existing reservation housing units. In the meantime, tribal members are forced either to live in crowded homes or move off the reservation.

**Statewide
Housing
Quality**

The Arizona Department of Commerce employed two indicators to examine housing quality in Arizona: (1) survey information drawn from the Maricopa County Needs Assessment conducted in 1993 and (2) overcrowded housing conditions, represented by more than 1.01 persons per room according to the 1990 U.S. Census.

Major Repairs. According to survey information from the Maricopa County Needs Assessment, nearly 14 percent of all housing units in Maricopa County are in need of major repair including roofing, plumbing, painting/ remodeling and renovations to heating and cooling systems. The survey also looked at other areas around the state; between 17 and 21 percent of respondents in rural areas outside of Maricopa and Pima counties

indicated their homes were in need of major repair. While there are no formal housing condition studies available for rural Arizona, a survey conducted in 1998 by the City of Casa Grande revealed that approximately 25 percent of rural housing stock across Arizona is in need of major repair. Sources for the survey included entities developing housing rehabilitation programs in the four rural Council of Governments regions.

Overcrowding. Of the 878,561 owner-occupied dwellings in Arizona, 41,884 units, or 4.8 percent of the stock, were overcrowded according to the 1990 U.S. Census. Of the 490,322 renter-occupied dwellings in Arizona, 54,900 units, or 11.2 percent of the stock, were overcrowded in 1990. The number of overcrowded units (nearly 100,000) is more

than likely understated, given the fact that many cases of overcrowded conditions go unreported.

Reservation Conditions. U.S. Census data show that substandard housing is also prevalent on Arizona's 21 Native American reservations. At least 15.9 percent of reservation units lack complete plumbing and some tribes face even more severe situations. For example, on both the Navajo and Hopi reservations, the number of units lacking complete plumbing exceeds 45 percent.

Overcrowding is also quite common on Arizona reservations. Approximately 36 percent of reservation units are overcrowded. On both the Havasupai and Navajo reservations the number of overcrowded units exceeds 50 percent. According to the U. S. Census Bureau in 1990, Arizona reservations had the worst overcrowding among all reservations nationally (Fig. 45).

Close to one-third of Arizona's housing stock is at least 30 years old. As this stock ages, the need for rehabilitation will be critical. Rehabilitation resources cannot be targeted effectively without comprehensive, accurate and up-to-date information.

45

RESERVATION OVERCROWDED LIVING CONDITIONS

TRIBE	% LIVING IN CROWDED HOMES	TRIBE	% LIVING IN CROWDED HOMES
Ak Chin	35.4%	Pasqua Yaqui	23.8%
Cocopah	39.8%	Quechan	24.8%
Colorado River	26.4%	Salt River	39.2%
Gila River	36.5%	San Carlos Apache	42.5%
Ft. McDowell	29.3%	San Juan So. Paiute	*
Ft. Mojave	12.2%	Tonto Apache	40.7%
Havasupai	60.2%	Tohono O'Odham	43.0%
Hopi	44.4%	White Mountain	43.2%
Hualapai	31.5%	Yavapai - Camp Verde	22.5%
Kaibab Paiute	5.7%	Yavapai - Prescott	11.1%
Navajo	54.3%	All Reservations Nationally	32.5%

*Census figures for San Juan Southern Paiute not available.
Source: 1990 Census Bureau - General Housing Characteristic: American Indian and Alaska Native Areas.

46

NUMBER OF HOUSEHOLDS WITH A HOUSING PROBLEM

INCOME GROUP	NO. OF HHS (1999 PROJECTION)	% OF HHS WITH PROBLEM	% OF HHS PAYING > 30% OF INCOME
0-30% MFI* (\$13,590)	198,344	78%	70%
31-50% MFI (\$22,650)	188,582	71%	64%
51-80% MFI (\$36,240)	300,178	49%	40%
81-95% MFI (\$43,035)	142,684	32%	25%
Total # of Households	829,724	481,028	415,025
% of All Households	48%	28%	24%

* MFI = 1999 Median Family Income.
Source: State of Arizona Consolidated Plan; U.S. Dept. of Housing and Urban Development.

Number of Households Experiencing Housing Problems

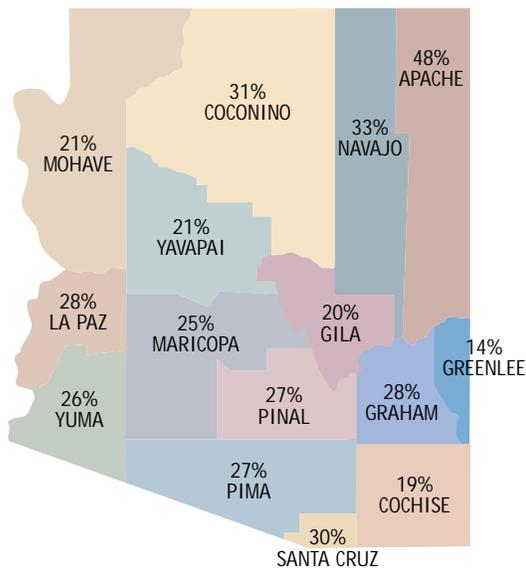
The Arizona Department

of Commerce estimates, based on HUD data analyses, that 28 percent of the households in Arizona are experiencing a housing problem: paying more than 30 percent of their income for housing; living in substandard housing; or living in overcrowded housing. For 1999, this represents over 480,000 households statewide or approximately 1.25 million people (Fig. 46). Based on the same data, HUD estimates that 44 percent of current renters and 20 percent of current homeowners are experiencing a housing problem. Counties with large reservation populations have the highest percentage of households in need as defined above (Fig. 47).

Despite Arizona's strong economy and strong housing market, low- and moderate-income families are experiencing more problems. Homes that are affordable are increasingly hard to find and many families have no choice but to pay more than they should or live in less than desirable conditions.

47

PERCENTAGE OF HOUSEHOLDS WITH A HOUSING NEED, BY COUNTY



Source: State of Arizona Consolidated Plan.

Households With A Housing Problem

- Persons and families living in units with physical defects (lacking a complete kitchen or bath);
or
- Persons and families living in overcrowded conditions (greater than one person/room);
or
- Persons and families cost burdened (paying more than 30 percent of income for housing including utilities).

HOUSING COST MODEL

Cost Model Overview A variety of interrelated factors affect the cost of new construction as well as purchase prices and rents for existing units (Fig. 48).

Construction Material includes the prices of all construction materials consumed during the building process such as lumber, concrete, insulation, conduit, wiring, plumbing fixtures, HVAC systems, roofing materials, windows, glass, caulking, nails, fasteners, paint, carpet and cabinetry.

Construction Labor includes the hourly wages and benefits of all non-supervisory building personnel such as framers, drywallers, brickmasons, plumbers, electricians, painters and roofers.

Land Acquisition represents the purchase price of raw, undeveloped land. Land prices vary according to whether the land has entitlements (such as zoning, etc.). Price is also dependent upon the location, amount and type of land available for development.

Builder Overhead encompasses the builder's cost of doing business such as financing land purchases, obtaining construction loans and working capital, marketing the product, underwriting homebuyer finance costs, maintaining an administrative office, paying workers-compensation insurance and retaining supervisory personnel.

Builder Profit represents the builders' average range of net profit. In the case of a nonprofit developer, this category equates to the allowable "developer fee." The Arizona Housing Commission's collective experience and analysis of the reported profits of publicly traded building firms supports an assumption of 4 percent average net profit.

State and Local Transaction Privilege Taxes include the state tax on contracting, any applicable county excise taxes and municipal taxes on contracting and development.

Site Improvements & Infrastructure represents the cost of providing physical infrastructure to the residential development: water connections, sewer connections, drainage basins, interior roads, sidewalks, street lighting, etc. Many local governments assess development fees or water resources fees to cover the capital cost associated with serving new residential areas.

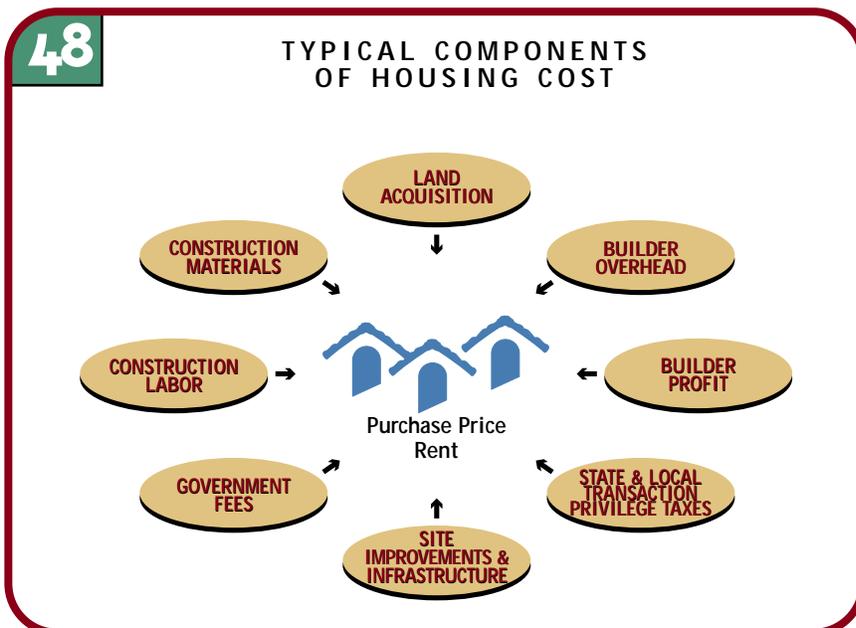
Government Fees includes all building-related local government fees such as plan review, building permit, building inspection and certificate of occupancy.

The cost models depicted here are hypothetical representations of typical new housing in Arizona's housing market today and are not intended to be statistically representative of all new single-family and apartment construction in Arizona. They are intended to illustrate the relative magnitude of various cost components.

Single Family Analysis

For-Profit Construction. Construction materials and labor in a site-built home comprise the largest cost component at 50-55 percent. The remaining 40 percent of cost is split approximately in half between land acquisition and site improvement (20-24 percent) and all other cost categories (Fig. 49).

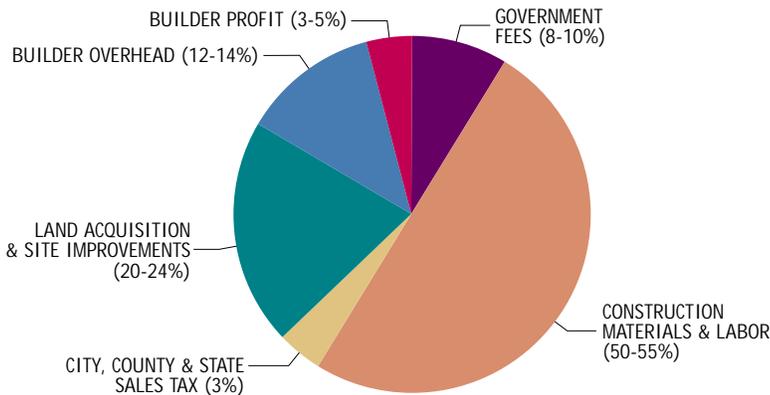
Manufactured Homes. For a single-family manufactured home located on a lot or rural parcel, the construction and labor costs represent a lower percentage of total cost than for a site-built home, reflecting the efficiencies of building homes in a manufacturing plant. Land and infrastructure cost is a correspondingly higher percentage (Fig. 50).



Source: BBC Research & Consulting.

49

TYPICAL NEW SINGLE-FAMILY SITE-BUILT HOME: COST ANALYSIS



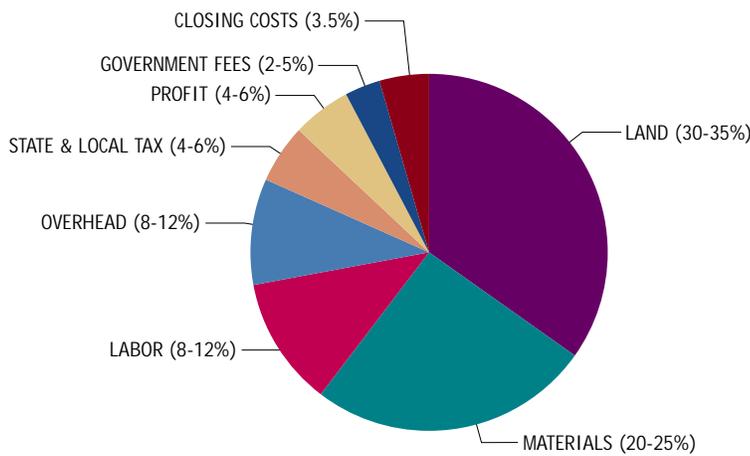
Source: Home Builders Association of Central Arizona.

Notes on Figure 49

Note: While this chart is intended to cover the general categories of costs, the following exceptions should be noted: Land and improvement costs will vary based on (1) the proximity of the land to existing infrastructure, i.e., improvements for infill housing will generally be less while land costs may be less on the perimeter than with infill and (2) whether lots are purchased through options. Construction materials and labor outside the metropolitan areas are anticipated to be higher due to lack of availability. Sales tax differs depending on the rates for the various counties and municipalities. Government fees will vary due to impact fees and other development fees currently in place.

50

TYPICAL NEW SINGLE-FAMILY MANUFACTURED HOME: COST ANALYSIS



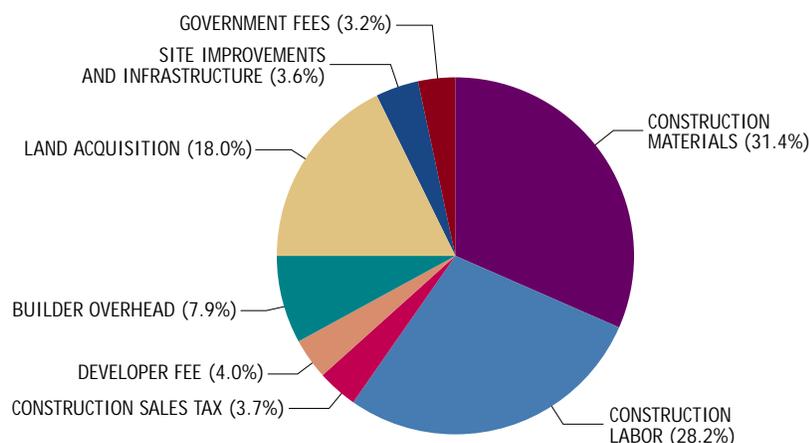
Source: Manufactured Housing Industry of Arizona

Notes on Figure 50

1. Typical home is assumed to be a new, 1,500 square foot, three-bedroom, two-bath home produced in Arizona in 1999, installed with a permanent foundation system, per state standards, on either a rural parcel or a lot in an unincorporated county area in metropolitan Phoenix or Tucson. Because factory costs of production are lower than for a site-built home, the materials and labor percentage is lower and the land and utilities percentage is higher, reflecting what a typical purchaser would actually contract for or finance in a land-home transaction.
2. Government fees includes all permit fees and impact fees, if applicable. Note that impact fees would be a higher percentage if municipal installations were used.
3. Land includes price of a lot (1/2 acre +) or parcel (1 acre +), and all entitlements and utilities, including infrastructure cost of a well and septic system where no trunk utilities are available.
4. Overhead includes the overhead and administrative costs of both the manufacturer and the retailer of the home, since these functions are separate and require different licenses in the manufactured housing industry.
5. Profit is the combined profit of the manufacturer, the retailer and all subcontractors, including site preparation, installer, landscaper, accessory structure, paving and external HVAC, if applicable.
6. State and local tax is primarily state and city transaction privilege taxes. The state tax is based on 65 percent of the amount of the retailer contract (including retail home price, transport, installation and any special orders or add-ons) and is assessed at 5 percent. Municipal tax may be applicable, at the local rate (such as 1 or 2 percent) even if the home is sited in a non-municipal area, because city tax is imposed where the home is sold, not where it is sited.
7. Closing costs include all non-contract closing costs, such as lender and appraisal fees, recording and so on.

51

TYPICAL NEW SINGLE-FAMILY HOME BUILT BY A NONPROFIT: COST ANALYSIS



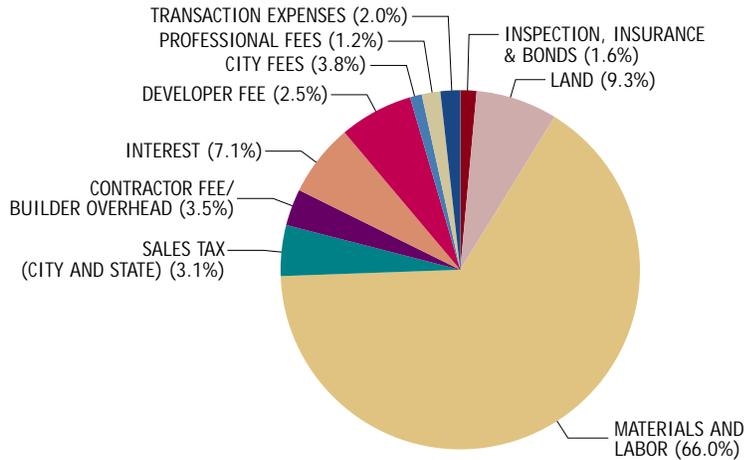
Inputs: \$91,300 infill subdivision, Phoenix; \$90,000 subdivision construction, Queen Creek; \$81,250 subdivision construction, Douglas; \$75,000 subdivision construction, Nogales.
Source: BBC Research & Consulting.

Nonprofit Construction. To provide some comparison between private and nonprofit developments, [Figure 51](#) reflects typical costs for a subsidized residential project.

Reservation Development. Limited single-family development on Arizona's reservations makes direct comparisons difficult. However, based on limited data provided by some tribes, construction and labor account for approximately 70 percent of entry-level single-family housing costs on reservations. This is higher than off-reservation cost. Also, site infrastructure accounts for approximately 17 percent of reservation housing cost compared to about 4 percent off reservation. However, land cost and government fees are generally lower on reservation compared to the rest of Arizona. Finally, builder profit and overhead are similar both on and off reservation.

52

TYPICAL NEW, CLASS A APARTMENT UNIT: COST ANALYSIS



Note: Class A Apartments means conventional projects having gross monthly rents 18 percent or higher than the overall market average of absolute rents per unit and rents per square foot. Source: Arizona Multihousing Association, 1999.

Multifamily Analysis For-Profit Construction. Figure 52 demonstrates

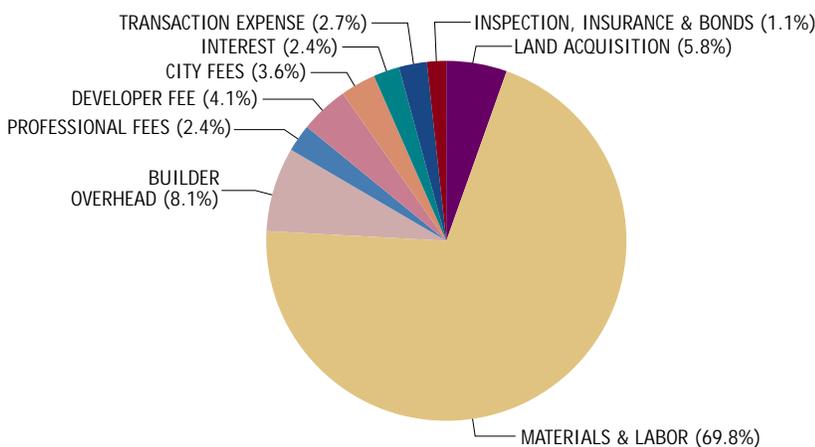
that, as in single-family development, construction materials and labor are the two largest factors influencing cost. Together, materials and labor account for 66 percent of a typical new apartment's cost. As expected, land costs for the typical new apartment community are well below those of single family. The variance in land cost is largely reflective of the economy of scale realized from development of a higher density product.

Most multifamily projects require a higher level of basic infrastructure. In some areas of the state, multifamily development costs are increased because there is no appropriate infrastructure available. The cost of infrastructure in many mountain communities is higher due to the physical characteristics of the land.

Nonprofit Construction. To provide some comparison between private and nonprofit developments, Figure 53 reflects typical costs for a nonprofit Low Income Housing Tax Credit (LIHTC) multifamily project.

53

TYPICAL NEW APARTMENT BUILT BY A NONPROFIT: COST ANALYSIS



Note: 100 unit nonprofit Low Income Housing Tax Credit development, Tucson.

Notes on Figure 52

1. Builder Overhead/Contractor Fee costs are those associated with building for the contractor: Project manager, construction trailer, etc.
2. Interest is all interest paid for land and cost of building.
3. Developer Fee is fee paid to the developer for development of the project.
4. City Fees are water, sewer, impact and permit fees.
5. Professional Fees are paid to the architect and engineer.
6. Transaction Expenses are title, escrow, legal and accounting fees.
7. Inspection, Insurance, Bonds refers to construction lender inspections and insurance.

BARRIERS TO HOUSING AFFORDABILITY

54

LIST OF BARRIERS TO HOUSING AFFORDABILITY BY FREQUENCY

First Set of 10 Most Frequently Mentioned Barriers

- Lack of and high cost of private land
- Lack of rehabilitation and infill construction subsidies
- Lack of coordinated response to problems and effective partnerships
- Lack of and high cost of rural infrastructure
- Economic development/Low wages
- Community attitudes/"Not In My Backyard" (NIMBY)/Stigma of affordable housing
- Lack of statewide housing policy and need for lead entity
- Exclusionary zoning ordinances
- Lack of local government interest in low- to moderate-income housing development
- Availability of private financing/Rural areas considered high risk

Second Set of 10 Most Frequently Mentioned Barriers

- Development fees
- Shortage of skilled workers and subcontractors
- Lack of incentives for private development of affordable housing
- Design review guidelines
- Property assessment practices
- Poor credit worthiness of low-income people/Access to credit for mortgage loans
- Outreach on First Time Home Buyer programs
- Lack of capacity and operating funds for nonprofits
- Lack of support services for special-needs groups
- Public funding inadequate, too competitive and hard to obtain

Remaining Barriers

- High construction cost in rural communities
- Lack of public transportation
- Tax-exempt bond allocation system and need for more housing use
- Building code inconsistency
- Sales tax on rent
- Absence of Tax Increment Financing (TIF)/Special Improvement Districts (SID) financing
- Rental laws and practices
- Lack of code compliance emphasis
- Inconsistent guidelines for infrastructure
- Shortage of apartments in rural communities
- High cost of utilities in rural areas
- Construction materials tax
- School construction
- Lot splits - county islands (no utilities)
- Environmental regulations

Source: BBC Stakeholder Interviews and Arizona Housing Commission Public Forums.

This section of *The State of Housing in Arizona* summarizes the barriers to housing affordability identified by stakeholders throughout the state. See Appendix A-1 for a summary of the methodology used to develop the list of barriers. These stakeholder responses reflect that housing affordability is not just a collection of data, but a real human problem. The list of barriers (Fig. 54) was developed based on the frequency with which each barrier was mentioned and does not represent an ordering of importance or emphasis.

A separate list of additional barriers was compiled for the reservations (Fig. 55). The responses from Arizona tribes indicated a significant lending and finance problem unique to reservations.

The interviews and forums show that barriers to housing affordability are numerous, wide-ranging and complex. Many respondents see affordability and related problems as reaching crisis proportions, unless Arizona intervenes with strong housing policies and more housing resources.

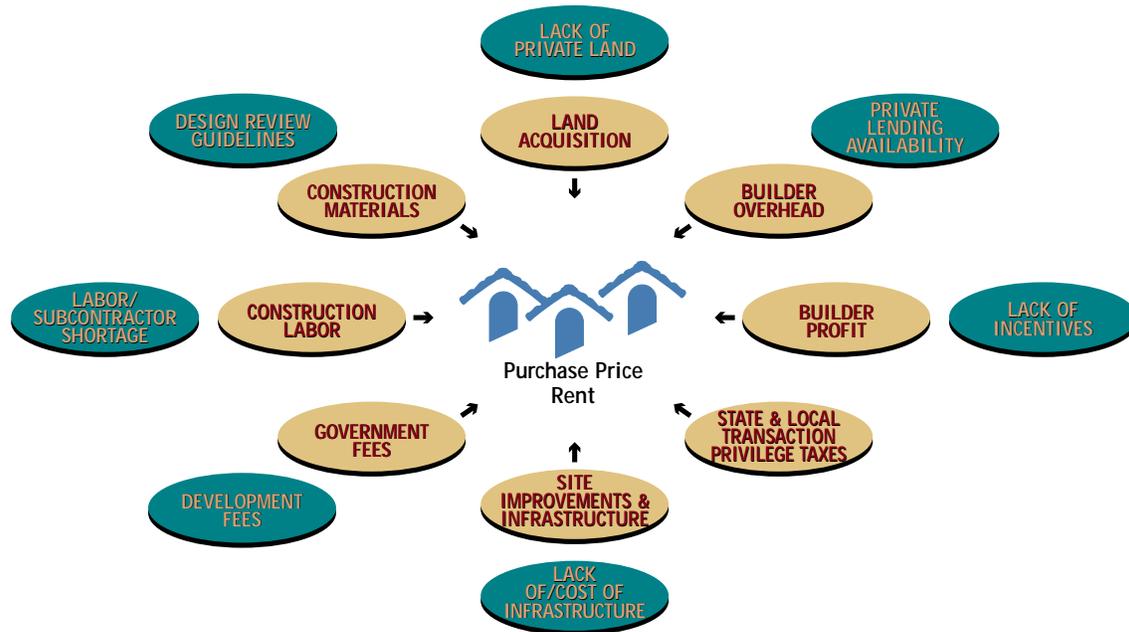
55

FIVE MOST FREQUENTLY MENTIONED BARRIERS BY NATIVE AMERICANS

- Clear title/mortgage difficulties (banks still lack awareness of how to make mortgage loans on reservations)
- Inadequate/expensive infrastructure
- High unemployment and low wages
- Limited tribal experience with using both government and private financing sources
- Need for more funding (HUD, BIA, HID & other resources)

Source: BBC Research & Consulting.

COMPARISON OF HOUSING AFFORDABILITY AND HOUSING COST COMPONENTS



EXTERNAL TO THE CONSTRUCTION PROCESS

Lack of Statewide Housing Policy • Lack of Local Government Interest • Community Attitudes/NIMBY
 Economic Development/Low Wages • Exclusionary Zoning • Lack of Rehabilitation and Infill Subsidies • Lack of Coordinated Response and Partnerships
 Lack of Capacity/Funds for Nonprofits • Public Funding Inadequate • Access to Credit/Credit Worthiness
 Lack of Supportive Services • First Time Homebuyer Outreach • Property Assessment Practice

Source: BBC Research & Consulting.

Relationship of Barriers to Cost Components

The hypothetical housing cost models presented earlier provide one way to assess the most frequently mentioned barriers to housing affordability. The relationship of the top 20 barriers to the various components of the housing cost models is presented in the accompanying figure (Fig. 56).

Thirteen of the top 20 potential barriers to housing affordability fall outside the cost model, that is, they occur before (e.g., community attitudes/NIMBY) or

after the construction process (e.g., poor borrower creditworthiness).

The influence of government at all levels on housing costs is complex, including fees, taxes, regulatory burdens, infrastructure planning and design criteria. For example, the most frequently mentioned barrier to affordability within the construction process was the limited amount of land for private development. The influence of government on this barrier is pervasive ranging from public land policies and open space

requirements to zoning and taxation. Many of these influences are related to multiple and sometimes conflicting policies, and cannot be quantified in a simple way. Nonetheless, the cost model suggests that the impact of government taxes and fees on typical housing averages nearly 8 percent of cost.

57

STATE OF ARIZONA HOUSING POLICY

“The State should encourage and maintain an environment that preserves, produces and makes available a variety of decent, safe and sanitary housing that is affordable for all.”

Source: *Arizona Housing Commission.*

58

HOUSING LEADERSHIP POLICIES

1. Recognize growing housing needs at all economic levels and foster the political will to address them.
2. Develop stable healthy communities, enhance the state's economy and emphasize homeownership through a balanced mix of housing options and a strong housing industry.
3. Decisions on managing growth, land use and infrastructure must include consideration of the effects on housing affordability.
4. Encourage economic development that counteracts the growing gap between housing costs and household incomes.
5. Improve the ability of housing providers to develop a mix of affordable housing.
6. Provide housing and support services for Arizona's growing special-needs populations.
7. Promote and expedite affordable housing development on Native American Reservations.
8. Compile and maintain current housing data on a systematic and regular basis.
9. Establish an enhanced state housing agency to promote housing policy and housing affordability.

Note: *Not listed in priority order.*
Source: *Arizona Housing Commission.*

Since 1937, the United States has publicly recognized housing as a major national goal. In 1999, Arizona's housing needs dictate the adoption of state housing goals. Arizona needs a wide range of housing options to support healthy communities. While Arizona currently enjoys a healthy, growing economy, housing affordability options are needed to sustain that growth. The housing needs of residents compel us to establish state policies relating to housing affordability.

Developing an adequate supply of reasonably priced housing should be a major public priority. Policy makers need to be aware of the effects of their actions or inactions on achieving this end. Policies to increase the affordability of housing should be supported and encouraged.

There can be no doubt that housing affordability is a significant issue in Arizona. The gap between what is affordable for low- and moderate-income Arizonans and escalating housing prices is expected to expand. The Arizona Housing Commission recommends establishment of a statewide housing policy (Fig. 57).

The Commission also recommends adoption of the following policies organized under two key policy objectives: Leadership and Resources. In these policies, references to local governments generally include municipalities, counties and tribal governments unless the context indicates otherwise.

In making these policy recommendations, the Commission anticipates that further study and discussion will occur regarding implementation strategies and decisions. At a minimum, this process will include focus groups, stakeholders meeting and budget analysis.

Leadership Policies

The Commission recommends nine policies for strengthening leadership on housing affordability and related infrastructure issues (Fig. 58).

Policy 1. Recognize growing housing needs at all economic levels and foster the political will to address them.

As in other states across the nation, the "Not In My Backyard" or NIMBY syndrome is present in Arizona. NIMBY fears and a lack of knowledge about housing issues can keep elected officials and responsible citizens from addressing housing needs.

- Publicize the results of the *State of Housing in Arizona* report and conduct follow up studies.
- Frame the issues in direct human terms.
- Create a permanent housing affordability advocacy voice.
- Organize a state housing summit.
- Run public service announcements featuring housing-related messages.
- Support private and public fair housing efforts to break down barriers used to discriminate.
- Support and enforce fair housing standards established by the Fair Housing Act.
- Encourage efforts at all levels to identify and overcome economic discrimination in housing.

Policy 2. Develop stable healthy communities, enhance the state's economy and emphasize homeownership through a balanced mix of housing options and a strong housing industry.

As the state's economy diversifies and new jobs are created, the demand for a range of housing choices increases significantly. Arizona's housing industry, which represents one-fifth of the economy, cannot successfully meet this demand without better planning and coordination.

- Promote favorable tax policies for Arizona's housing industry and owners of homes and rental properties.
- Promote mixed-income developments and consider whether to allocate state-funding preferences to qualified mixed-income proposals.
- Promote incentives for increasing the percentage of units for low- and moderate-income households.
- Promote geographic dispersion of affordable and assisted housing.
- Promote coordination between planning and zoning authorities and the housing industry to improve housing options.

Policy 3. Decisions on managing growth, land use and infrastructure must include consideration of the effects on housing affordability.

Management of growth calls for policy makers to consider a range of interrelated issues, including housing, infrastructure, jobs, quality of life, transportation, social services, and childcare. As policy makers develop consensus on these issues, they must consider how their decisions affect housing and affordability goals.

- Consider in the evaluation process for state housing funds, whether local gen-

eral or consolidated plans include and implement housing affordability elements.

- Require city general or comprehensive plans that do not already contain appropriate provisions to address neighborhood revitalization, infill, affordable housing, homeless and supportive housing issues.
- Promote housing redevelopment where practicable, as an effective strategy to eliminate slum and blight and restore neighborhoods plagued by social and economic problems.
- Provide professional education and technical assistance to local governments to address barriers to housing affordability.
- Address housing needs with regional impact and promote acceptance by communities for their fair share of affordable housing responsibility.

In addition to responsible growth management, good land use planning and development decisions need to be sensitive to housing affordability and the range of available housing options such as using the following mechanisms.

- Undertake a comprehensive and systematic review of zoning and subdivision ordinances, building codes and related development control ordinances, and administrative procedures, to identify and remove excessive, duplicative or unnecessary barriers to housing affordability.
- Review agency administrative procedures to identify and remove unnecessary barriers to housing affordability.
- Offer planning, development and infrastructure incentives to stimulate the development of housing that is lower in cost.

- Identify and disseminate innovative solutions to housing affordability barriers used successfully by other states including the promotion of alternative building materials and methods, land banking, and planning and zoning reservations for affordable development.
- Grant density bonuses for affordable housing.
- Reduce fees related to development of affordable housing and infrastructure.
- Expedite processing procedures for affordable housing.
- Implement flexible policies for infill development including density bonus, waivers and other incentives.
- Implement flexible policies and incentives for redevelopment of existing blighted neighborhoods and substandard housing.
- Update building codes to include modern manufactured housing and to encourage more cost-effective construction.
- Expand the use of "second units," built on lots with existing homes.
- Make more sites available for manufactured housing and eliminate discriminatory zoning.
- Promote a mix of residential and non-residential uses in selected areas to reduce adverse transportation and environmental impacts.
- Encourage comprehensive planning that emphasizes housing for all income groups.
- Sponsor and publicize an annual housing affordability design competition for architects and students.

Policy 4. Encourage economic development that counteracts the growing gap between housing costs and incomes.

Both the public and private sectors also need to address the other side of the affordability problem – incomes. Higher paying industries and jobs should continue to be the focus of state and local economic development efforts. In addition, real income can be increased by making transportation, support services and facilities more accessible.

- State and local economic development policies and decisions must consider the additional burdens, including housing, created by these policies and decisions.
- Maintain and increase Arizona's economic development programs aimed at increasing incomes including job training, vocational education and school to work.
- Promote housing and community development that provides opportunities for more affordable and available support systems including child care, transportation and health care services.
- State and local governments should encourage the siting of new housing close to jobs and support services.
- Employers should plan the siting of new facilities with jobs close to housing, and offer incentives for employees to live close to these facilities.

Policy 5. Improve the ability of housing providers to develop a mix of affordable housing.

The challenge of producing a viable mix of housing options requires a partnership between nonprofit organizations and for-profit developers. State and local governments must assist these partner-

ships by improving the environment for a mixture of housing types.

- Coordinate and increase development partnerships with private developers, nonprofit groups and local governments.
- Produce a statewide directory of nonprofit housing and community development organizations.
- Provide professional education and technical assistance to developers interested in producing lower-income housing.
- Promote a "talent pool" of experts and a network of development industry professionals willing to consult with prospective affordable housing developers.
- Utilize statewide nonprofit organizations to provide expertise and support to local nonprofits.

Policy 6. Provide housing and support services for Arizona's growing special-needs populations.

Individuals with special needs represent our most vulnerable populations. Housing is the key to determining their quality of life. Well-designed, suitably located and affordable housing can help sustain the independence of many of these individuals.

- Demonstrate the savings related to other social services when the housing needs of the special-needs populations are addressed.
- Actively participate in local HUD Continuum of Care funding application processes and coordinate them for rural Arizona.
- Promote development of regional plans and regional planning bodies to address homelessness and various other special needs.

- Provide active technical assistance to nonprofit housing providers developing housing options for special-needs populations.
- Promote the design and production of model projects that provide housing and self-sufficiency.
- Educate housing organizations and human service agencies about special-needs programs and potential partnerships.
- Encourage correctional agencies and veterans' organizations to provide post-release housing services.
- Support the concept of "visitability," focusing on accessible entrances and accessible bathroom doors.

Policy 7. Promote and expedite affordable housing development on Native American Reservations.

Recent landmark legislation, PL 104-330 – more commonly known as the Native American Housing Assistance and Self-Determination Act (NAHASDA) – outlines new strategies for reservation housing development projects that shift increased responsibilities and functions from the Department of Housing and Urban Development (HUD) to the tribes. These new responsibilities and functions require tribes actively to seek and establish working relationships with other federal agencies, state agencies and the private sector.

- Expand state activity involved in coordinating housing development with tribes and other tribal organizations.
- Assist tribal governments in the coordination of professional services to address barriers to housing affordability in their communities.

- Support, maintain and increase tribal economic development and homeownership opportunities.
- Participate in conferences, discussions and workgroups to address housing and infrastructure needs, and innovative housing and homeownership development programs on reservations.

Policy 8. Compile and maintain current housing data on a systematic and regular basis.

Currently, reliable housing market information is difficult to obtain in Arizona. Developing comprehensive housing data is essential to future policy choices and resource allocations.

- Work with the Governor's Office and Legislature to expand existing housing data collection within the Departments of Economic Security and Revenue, county assessors' offices and Arizona's universities.
- Establish a Housing Data Center to provide up-to-date market information for public and private use.
- Work with tribes to gather reservation housing market and other related information.
- Develop a consistent set of statewide and local housing data and indicators that are monitored and published regularly.

Policy 9. Establish an enhanced state housing agency to promote housing policy and housing affordability.

Governments should be a resource and partner for promoting housing affordability. A state housing agency will assume responsibility and leadership to facilitate removal of barriers to housing

affordability, implement housing policies and programs and allocate resources.

- Develop roles for the state housing agency including: education, advocacy, coordination, facilitation and creativity.
- Analyze where gaps exist in Arizona's affordable housing finance and policy network based on best available housing finance practices. Determine the potential sources and uses of funds for housing finance activities of the state housing agency.
- Conduct discussions with key stakeholders about a state housing agency.
- Use current housing programs in the Arizona Department of Commerce as the foundation for a new state housing agency.
- Examine the effectiveness of single-family housing financing programs in rural areas, including single-family rural bonding, and recommend reforms as appropriate.
- Authorize the new state agency to provide credit enhancement or other financing support functions.
- Coordinate other housing-related programs into new state agency.
- The state should continue to seek local government approval before allocating its resources to a project or program.
- Establish a network or clearinghouse for information on publicly assisted homeownership programs including bond-funded home purchase programs throughout the state.

59

HOUSING RESOURCE POLICIES

1. Increase capital availability to stimulate housing development and construction.
2. Use housing program resources as an incentive to increase affordability and target them to areas of greatest need.
3. Invest more resources to encourage homeownership.
4. Increase rental housing options for all income levels.
5. Encourage alternative labor arrangements and technologies that reduce housing construction costs.
6. Maintain and preserve existing affordable units.
7. Increase rehabilitation of substandard housing.
8. Coordinate special needs housing with services to promote self sufficiency.
9. Increase the availability of developable land.
10. Develop plans and resources to provide adequate infrastructure to support Arizona's growing housing needs.
11. Identify additional resources to assist tribes in the coordination of housing development and affordability initiatives on tribal lands.

Note: Not listed in any priority order.
Source: Arizona Housing Commission.

Resource Policies

Housing affordability problems also arise if resources are inadequate, unavailable or not readily accessible.

The Commission recommends 11 policies designed to identify, obtain and coordinate resources to promote housing affordability and related infrastructure issues (Fig. 59).

Policy 1. Increase capital availability to stimulate housing development and construction.

Increased capital availability is necessary to promote housing affordability.

- *Increase the allocation of tax-exempt financing for affordable housing.*
- *Organize and convene a lender conference for developers and organizations interested in housing finance.*
- *Participate in programs to provide below-market interest rate lines of credit for affordable housing purposes.*
- *Apply for housing grants from national and state foundations and trusts, and HUD funds for housing and community development.*
- *Increase funding for existing programs, like the State Housing Trust Fund.*
- *Develop innovative finance mechanisms for infill development and construction of affordable or supportive housing developments.*
- *Create new financing vehicles for existing and future housing programs through lending or credit enhancements.*
- *Provide tax incentives for capital investments in affordable housing development.*

Policy 2. Use housing program resources as an incentive to increase affordability and target them to areas of greatest need.

Existing and future program resources must be properly targeted.

- *Expand state assistance for local governments to conduct housing plans and needs assessments, and target housing resources more effectively.*
- *Coordinate allocation plans and share data between housing and related community development funding agencies.*
- *Work with the Industrial Development Authorities (IDAs) to improve the state's tax exempt bond allocation process.*
- *Increase efforts to set state funding priorities matched to housing needs.*

Policy 3. Invest more resources to encourage homeownership.

Arizona must invest more resources in promoting homeownership.

- *Enhance statewide low-interest loan and down payment assistance programs.*
- *Expand homebuyer counseling services.*
- *Provide resources to homebuyers for rehabilitation programs.*
- *Improve real estate professional, lender and homebuyer awareness of first-time homebuyer programs.*
- *Offer state down payment assistance funds in connection with local bank offerings of below-market interest rate home mortgages.*

- *Increase awareness of programs designed to help Native Americans achieve homeownership, such as HUD 184 loan programs.*

- *Implement homeownership programs such as self-help, sweat equity, rent-to-own, and condominium conversions.*
- *Encourage private employers to assist their employees with homeownership through mortgage guarantees, move-in assistance programs or individual development accounts.*

Policy 4. Increase rental housing options for all income levels.

Both lifestyle choice and economic necessity dictate that Arizona will always need safe, decent and affordable rental units. However, under current economic and regulatory conditions, the market is driven toward producing mostly units with higher-end rents.

- *Provide tax incentives for affordable rental housing units.*
- *Increase the amount and type of rental subsidies for affordable units.*
- *Implement state tax credit program for equity investment in rental housing.*
- *Encourage development of more single-room occupancy (SRO) projects.*
- *Increase landlord contribution of units to Section 8 rental-assistance programs.*
- *Develop a separate set-aside for multifamily housing using tax-exempt mortgage revenue bonds.*
- *Promote the use, by nonprofit developers, of 501(c)(3) tax-exempt mortgage revenue bonds for rental housing.*
- *Create a multifamily mortgage insurance pilot program.*

Policy 5. Encourage alternative labor arrangements and technologies that reduce housing construction costs.

Approximately 60 percent of the cost of a typical house or multifamily unit is comprised of labor and materials. Alternative labor arrangements and technologies offer the possibility of reducing these costs.

- *Promote alternative labor housing programs such as sweat equity and self-help programs.*
- *Use alternative labor to assist with housing rehabilitation, infill development and construction skills training.*
- *Promote cost-effective energy efficiency technologies that increase affordability.*
- *Facilitate the use of alternative building materials.*
- *Promote the inclusion of manufactured housing provisions in local building codes.*
- *Replace state contracting transaction privilege tax with a tax on construction materials that could be reduced for qualified affordable housing developments.*

Policy 6. Maintain and preserve existing affordable units.

Key elements in maintaining the supply of affordable housing units include extension of current affordable housing contracts, maintenance of public housing projects and production of replacement housing.

- *Educate and assist needy households with housing maintenance and other requirements for remaining in existing housing.*
- *Develop policies and resources to encourage owners and landlords to retain appropriate publicly subsidized properties as affordable housing.*

- Promote collaborations with private owners and local public housing authorities to stabilize and expand the supply of very-low-income housing units.
- Support reasonable foreclosure and eviction prevention programs that help those in crisis stay in their homes.

Policy 7. Increase rehabilitation of sub-standard housing.

Both increased knowledge and resources are necessary to address slum or blighted areas as well as general maintenance and rehabilitation needs.

- Promote knowledge of local rehabilitation programs to private owners of rental property.
- Develop a housing tax credit program for maintenance and rehabilitation of low-income homeowner or rental units.
- Support and expand existing housing rehabilitation programs.
- Promote the use of tax-exempt mortgage revenue bonds for housing rehabilitation.
- Promote efforts of Realtor, home-builder and other contractor associations, charitable organizations and corporations to assist with rehabilitation.
- Provide incentives for housing rehabilitation and infill development.
- Participate in the Federal Reserve Bank and Federal Home Loan Bank affordable housing programs that provide rehabilitation grants and low-interest loans.
- Request county assessors to identify deteriorating properties.

Policy 8. Coordinate special-needs housing with services to promote self-sufficiency.

Arizona's housing resource policy should be coordinated with local housing agencies and other resources to help low-income and special-needs citizens achieve greater self-sufficiency, dignity and independence.

- Increase financial support for housing programs targeted to special-needs populations.
- Continue to target state resources, and develop minimum funding goals, for the development of housing for special-needs populations.
- Work with housing developers to encourage developments with appropriate percentages of special-needs units integrated into market rate projects.
- Apply for all federal funding for special-needs populations. Encourage and assist local government and nonprofit agencies to pursue additional funding.
- Seek alternative financing mechanisms to fund special-needs housing.
- Encourage development of more cost-effective alternative housing units, such as single-room occupancy (SRO), group homes and dormitories.
- Promote resources to help convert existing publicly funded housing for persons with disabilities.

Policy 9. Increase the availability of developable land.

Arizona must have a balance between the use of resources for open space and for housing affordability. Privately owned land is sufficiently scarce in Arizona that promoting housing affordability will likely require using government-owned land and resources. Efficient land use planning is necessary for Arizona to maximize its finite land resources for the benefit of housing affordability, including mechanisms such as the following:

- Inventory surplus state, county and local land or buildings that could be used for affordable housing development.
- Grant density bonuses for affordable housing.
- Use transfer of development rights (TDRs) to reserve land for affordable housing purposes.
- Allocate resources for acquiring and banking private or public land for affordable housing development.
- Inventory state trust land suitable for affordable housing development or exchange.
- Apply for HUD and other grant funds for brownfields redevelopment.
- Dedication requirements for open space should be balanced by additional authority or density for housing affordability.

Policy 10. Develop plans and identify resources to facilitate adequate infrastructure to support Arizona's growing housing needs.

Housing affordability is affected by the presence and capacity of physical infrastructure such as roads, water treatment and distribution, wastewater treatment and drainage improvements.

- *Increase the availability of innovative, relatively low-cost water and sewer treatment technologies such as package plants.*
 - *Facilitate development and use of consistent minimum infrastructure standards by local governments.*
 - *Promote and facilitate the use of state and local funding for basic infrastructure.*
 - *Coordinate the activities of the Greater Arizona Development Authority (GADA) and the Water Infrastructure Finance Authority (WIFA) to develop an infrastructure financing and construction program designed to support housing development.*
 - *Promote community self-help infrastructure projects.*
-

- *Encourage local governments to facilitate a full range of infrastructure development and financing tools and methods, and plan for maintenance, replacement or enhancement of existing infrastructure.*

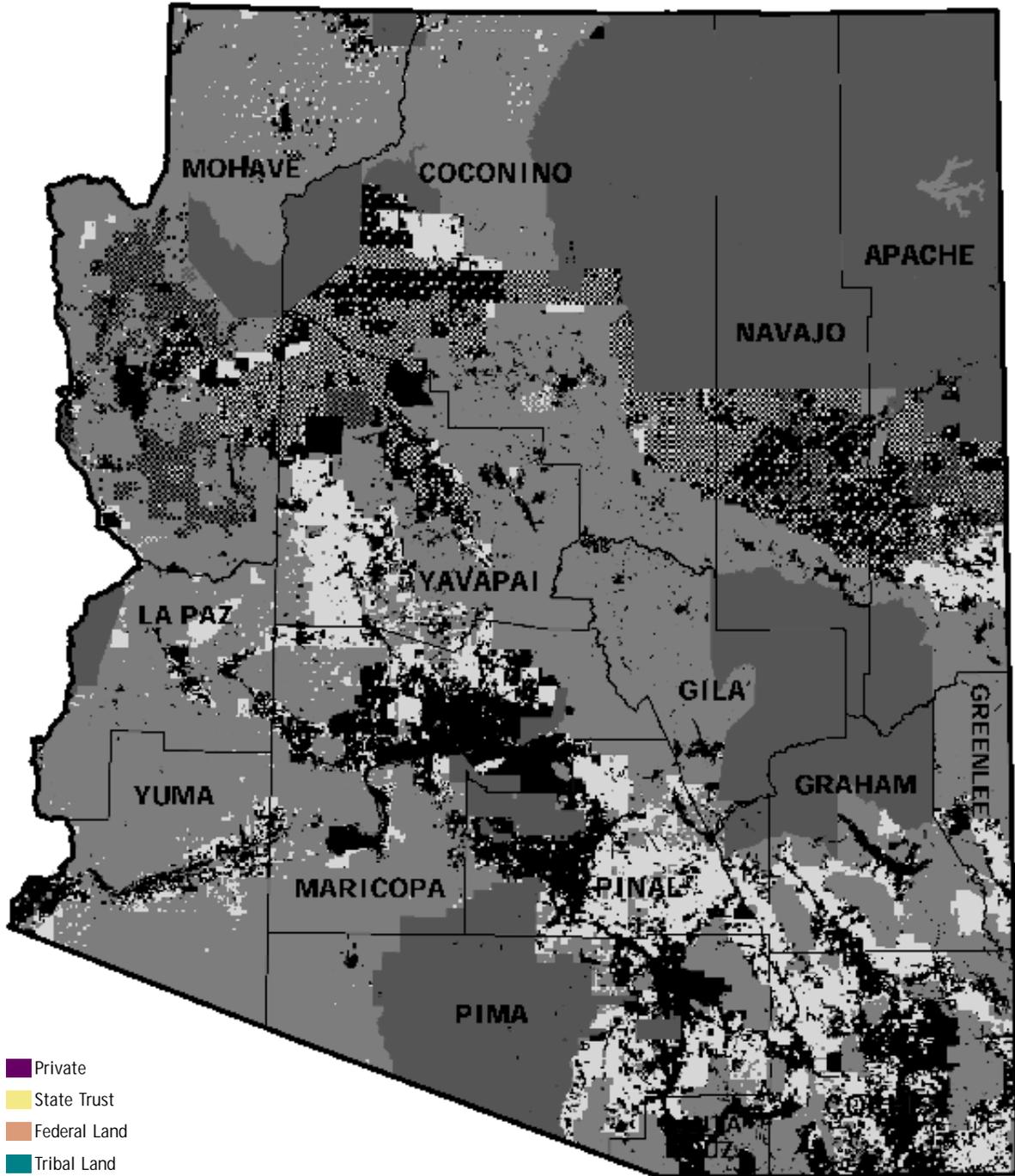
Policy 11. Identify additional resources to assist tribes in the coordination of housing development and affordability initiatives on tribal lands.

The Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) has restructured and reduced the overall funding available to tribes for reservation housing development. In addition, this legislation requires tribes to establish working relationships with other federal agencies, state agencies and the private sector regarding housing resources.

- *Identify resources to create a position with a statewide tribal organization to provide technical assistance and leverage resources to promote reservation housing development on tribal lands in accordance with NAHASDA.*
-

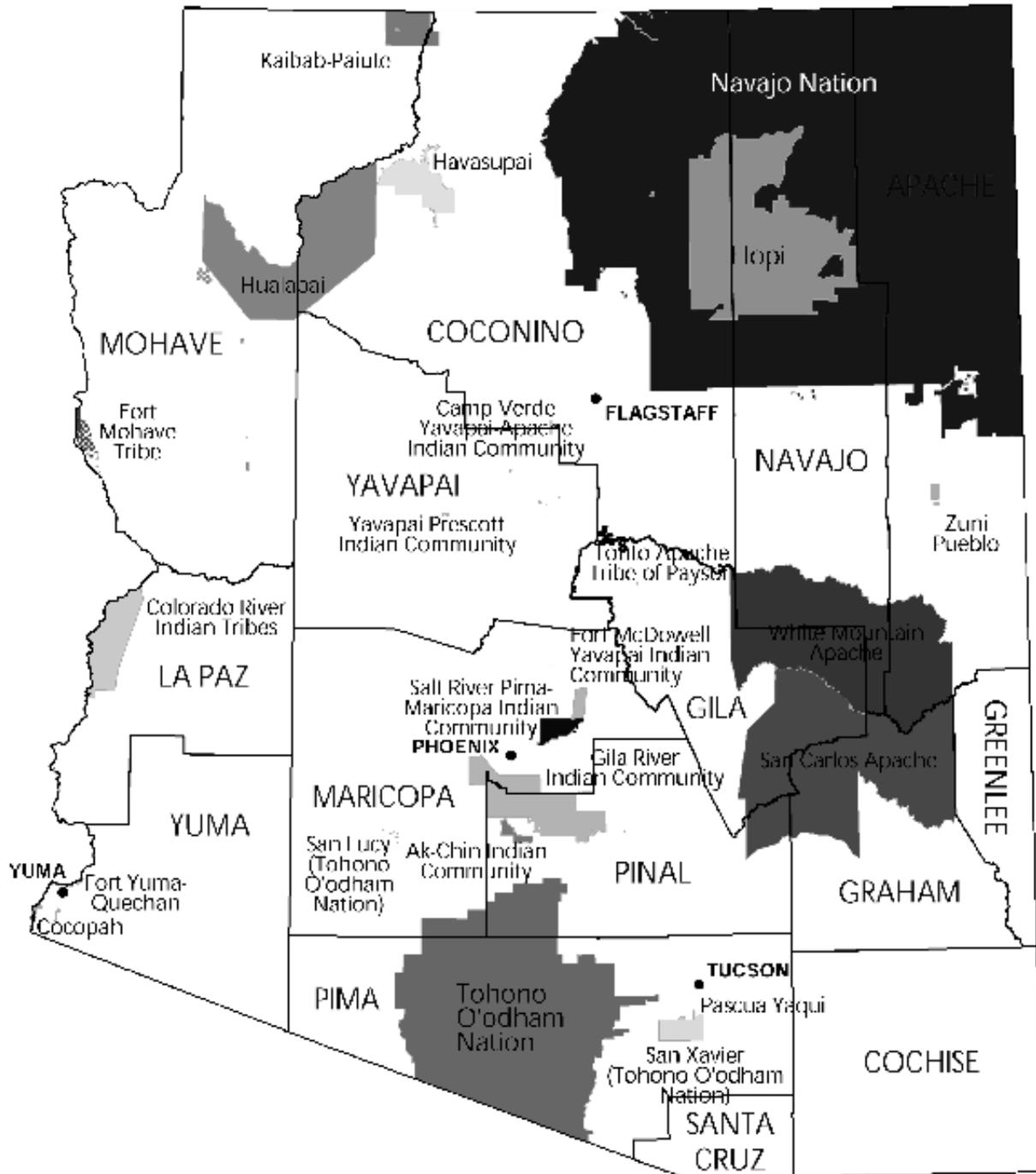
- *Consider Indian Housing Plans required by NAHASDA when allocating resources.*
 - *Actions on tribal grant or funding requests should consider tribally specific cultural values that influence how particular tribes develop housing.*
 - *Promote housing development and financing strategies that avoid loss of tribal lands.*
 - *Cooperate with tribal governments in developing alternative energy sources, materials and best practices for reservation housing development needs.*
 - *Direct resources to maintain the current housing stock and provide renovation and rehabilitation.*
 - *Provide resources and assist in reducing costs for infrastructure development to support reservation housing.*
-

STATE LAND OWNERSHIP



Source: Arizona Land Resource Information System (ALRIS).

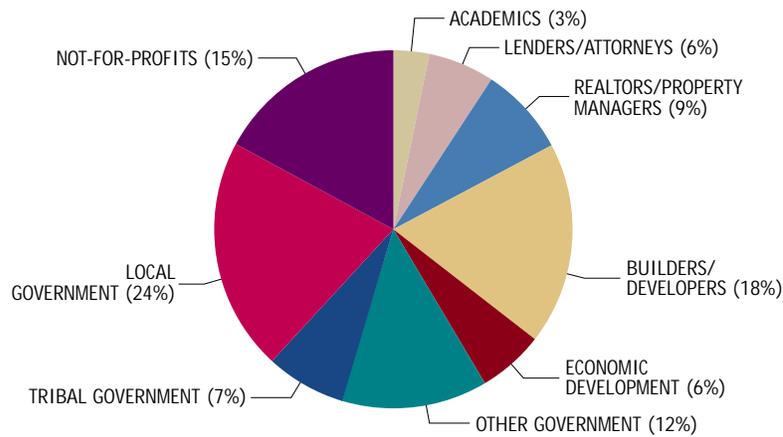
ARIZONA INDIAN RESERVATIONS



Source: Arizona Land Resource Information System (ALRIS).

A-1

A BROAD CROSS-SECTION OF INTERESTS REPRESENTED



Source: BBC Research & Consulting.

During 1998, the Arizona Housing Commission held seven public forums for stakeholders to identify perceived barriers to housing affordability. The meetings were attended by 115 housing stakeholders who identified several dozen potential barriers. The Commission determined that more detailed information was necessary and individual interviews were scheduled.

Particular emphasis was placed on ensuring statewide participation and representation of a broad cross-section of interest. To ensure proportional representation, a concerted effort was made to include a minimum of two communities within each rural county and an additional minimum of two representatives within each community. In addition, interviews were conducted with seven Arizona tribes. One hundred thirty-five stakeholder interviews were conducted throughout Arizona using a prepared survey instrument. The number of interviewees within a given category are provided as a percentage of the total 135 interviews (Figures A-1, A-2, A-3 and A-4).

The greatest portion of the total interviews were located in the Phoenix metropolitan area, followed by the Tucson metropolitan area. This was unavoidable given that all state government officials, many private business individuals and many nonprofit representatives are located in these business centers of the state. It is also important to note Arizona is a highly urbanized state and a large percentage of the population resides in metropolitan areas.

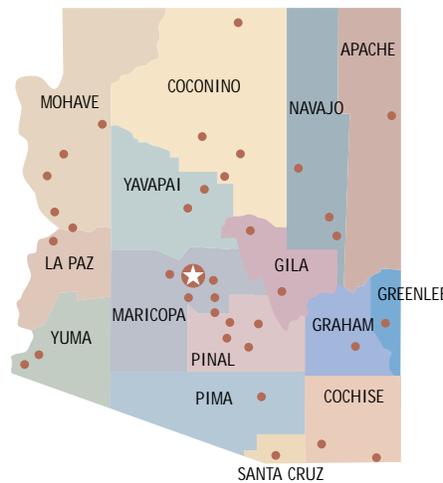
A-2

GEOGRAPHIC DIVERSITY ACHIEVED

LOCATION OF INTERVIEWS

Location	No.
Bisbee	1
Casa Grande	2
Chandler	2
Clifton	2
Coolidge	1
Cottonwood	1
Douglas	2
Eloy	2
Flagstaff	13
Fort Mojave	1
Glendale	1
Globe	2
Kaibab	1
Kingman	2
Lake Havasu City	1
Mesa	2
Nogales	1
Page	2
Parker	3
Payson	1
Peach Springs	1
Phoenix	38
Pinetop	3
Prescott	1
Sacaton	1
Safford	2
Scottsdale	3
Sedona	3
Show Low	2
Sierra Vista	4
Somerton	1
Tempe	4
Tucson	19
Window Rock	3
Winslow	2
Yuma	4

The marks on the accompanying map represent the location of individuals interviewed, but do not represent the number of persons interviewed within that location. The latter information is provided in the figure's legend where "Location" and "Number" are detailed.



Source: BBC Research & Consulting, Stakeholder Interviews.

Appendix Figure A-4 lists all of the individuals interviewed for this study. In all cases, the individual names are listed even when the interview took place in a group forum, such as in Flagstaff with the Northern Arizona Council of Governments and Tucson with the Tucson Housing Commission.

The list of interviewees is organized first by city in alphabetical order and then by individual in alphabetical order. In nearly all communities, the goal of interviewing at least two individuals was achieved.

1. Provide the interviewee with background information about the report goals, methodology and our firm (BBC Research and Consulting).
2. Ask about the nature of the interviewee's involvement in housing.
3. Inquire into the interviewee's geographic scope regarding housing (e.g., statewide, Phoenix metro, reservations, etc.).
4. Discuss housing affordability vs. affordable housing, ensure clear understanding.
5. What are the interviewee's "Top of Mind" barriers to housing affordability given their geographic scope and understanding of housing affordability (ask for the Top 5).
6. Please prioritize the "Top 5" barriers.
7. What is the justification for the prioritization given above? (e.g., affect the greatest number of households, the timing is crucial, affects a small number of households very intensely, etc.)
8. Why are the barriers identified still barriers? Why haven't they already been removed? (e.g., cost, political opposition, lack of a champion, lack of awareness, etc.)
9. Has the magnitude of these barriers changed over time? Heightened? Diminished? Why?
10. Review a structured list of potential barriers to housing affordability not mentioned by the interviewee but referenced in the RFP (e.g., regulatory barriers, tax policies, lack of housing availability for lower-income families, land availability, financing barriers, income barriers, special-needs housing barriers, community attitudes, etc.).
11. Provide the interviewee, after discussing Item 10, with an option to reprioritize his/her list of barriers previously established in Item 6.
12. Visit each of the barriers decided upon in Item 11 individually and brainstorm about possible solutions, striving for maximum specificity.
13. For each of the possible solutions, what might be potential steps toward implementation? Per Winston Churchill, "The most important person in any meeting is the one who knows what to do next."
14. Ask the interviewee for suggestions as to "Whom should we speak with next?"
15. Ask the interviewee for recommendations of additional documents or other literature that might contribute to this research.

LIST OF INTERVIEWEES

Terry Reyna	Southern Arizona Human Resource Council	Bisbee
Rosa Bruce	City of Casa Grande Housing Department	Casa Grande
Lori Gary	Economic Development Foundation	Casa Grande
Patrice Kraus	City of Chandler	Chandler
Jennifer Morrison	City of Chandler	Chandler
Ron Raeske	Phelps Dodge	Clifton
Tonya Williams	Town of Clifton	Clifton
Mary Lou Rosales	Community Action Human Resources	Coolidge
Brian Mickelson	Cottonwood City Manager	Cottonwood
Jarrie Tent	Douglas Public Housing Authority	Douglas
Jill Godfrey	Southeastern Arizona Governments Association	Douglas
Brenda Robbins	Eloy Housing Authority	Eloy
Gene Wilson	Realtor®	Eloy
Paul Babbitt	Coconino County Supervisor	Flagstaff
Bob Baca	Northern Arizona Council of Governments	Flagstaff
Robert Dickey	Northern Arizona Council of Governments	Flagstaff
Margaret Keener	Northern Arizona Council of Governments	Flagstaff
Rick Lopez	City of Flagstaff Councilman	Flagstaff
Andrew Rael	City of Flagstaff Planning Division	Flagstaff
Pam Rames	The Guidance Center	Flagstaff
Jean Richmond	Northern Arizona Home Builders	Flagstaff
Matt Ryan	Coconino County Supervisor	Flagstaff
Bill Sanborn	Northern Arizona Council of Governments	Flagstaff
Merlinda Sinzer	Northern Arizona Council of Governments	Flagstaff
Bob Stevens	Northern Arizona Council of Governments	Flagstaff
Yolanda Hill	Fort Mohave Housing Authority	Fort Mohave
George Watrous	Accessible Homes, Inc.	Glendale
Cathy Melvin	Gila County	Globe
Bob Moffett	Southern Gila County Economic Development Corp.	Globe
Marjorie Reyna	Kaibab Indian Housing Authority	Kaibab
Dave Barber	Western Arizona Council of Governments	Kingman
Bill Hoke	Kingman 2005, Inc.	Kingman
Terry Klein	Realtor®	Lake Havasu City
Pat Creason	Inter-Agency Coalition Against Violence	Lake Havasu City
Ron Davis	Oakwood Homes	Mesa
Margie Frost	Mesa CAN	Mesa
Cecilia Brown	Southern Arizona Human Resource Council	Nogales
Charlie Brumback	Salt River Project	Page
Richard Jentzsch	Town of Page	Page
Don Dewton	Realtor®	Parker
Bob Jackson	Colorado River Indian Tribe	Parker
Greg Lucero	Town of Parker	Parker
Bob Gould	Town of Payson	Payson
Matthew Leivas	Hualapai Tribal Housing Authority	Peach Springs
Bryant D. Barber	Lewis and Roca, LLP	Phoenix
James Boozer	City of Phoenix Housing Department	Phoenix

LIST OF INTERVIEWEES

Reid Butler	Legacy Partners	Phoenix
Scot Butler III	Manufactured Housing Industry of Arizona	Phoenix
Sam Cioffi	Community Services of Arizona	Phoenix
Cathy Connolly	League of Arizona Cities and Towns	Phoenix
Darrell Coulter	National Bank of Arizona	Phoenix
Elisa de la Vara	Fannie Mae	Phoenix
Elizabeth De Michael	City of Phoenix	Phoenix
Kay Ekstrom	Christian Family Care Agency	Phoenix
Kent Fairbairn	League of Arizona Cities and Towns	Phoenix
Ruth Fairbanks	Heineman Realty	Phoenix
Sandy Ferris	Phoenix Shanti Group	Phoenix
Jim Freeman	Gemini Development Partners	Phoenix
Suzanne Gilstrap	Arizona Multihousing Association	Phoenix
Terry Goddard	U.S. Department of Housing and Urban Development	Phoenix
Andrew Gordon	Arizona MultiBank	Phoenix
Nedra Halley	Dunlap & Magee Property Management	Phoenix
Edmundo Hidalgo	Wells Fargo	Phoenix
Mark Hutton	TRI Capital Corporation	Phoenix
Charles Lotzar	Kutak Rock	Phoenix
Alice Martin	Arizona Association of Realtors®	Phoenix
Dan Miller	Arizona Housing Commission	Phoenix
Carolyn Mitchell	Norwest Bank	Phoenix
Gloria Munoz	Mercy Housing	Phoenix
Keith Paplham	Cavco Industries	Phoenix
Kent Fairbairn	League of Arizona Cities and Towns	Phoenix
Sandy Ferris	Phoenix Shanti Group	Phoenix
Jim Reese	Arizona Multihousing Association	Phoenix
Janet Regner	Arizona Community Action Association	Phoenix
Beth Rosenberg	Children's Action Alliance	Phoenix
Carol Sanger	Arizona Department of Commerce	Phoenix
Sharon Shore	HOM Incorporated	Phoenix
Alan Stephens	USDA Rural Development Director	Phoenix
Ron Sullivan	Prudential Preferred Properties	Phoenix
Deb Sydenham	Arizona Department of Commerce	Phoenix
Danny Valenzuela	Valenzuela & Associates	Phoenix
Connie Wilhelm-Garcia	Home Builder Association of Central Arizona	Phoenix
Barbara Williams	Chairperson, Arizona Housing Commission	Phoenix
Russell Yost	Arizona Baptist Children's Services	Phoenix
Arthur Crozier	Frank M. Smith & Associates	Pinetop
Brian Gilbert	Town of Pinetop	Pinetop
Wayne Morton	Pinetop Planning & Zoning Commission	Pinetop
Patty Krieger	Project Shelter	Prescott
Bill Rogers	Gila River Indian Communities	Sacaton
Yvette Ramirez	Southern Arizona Human Resource Council	Safford
Librado Ramirez	Southern Arizona Human Resource Council	Safford
Frank Cappillo	City of San Luis	San Luis

LIST OF INTERVIEWEES

Chapin Bell	P.B. Bell & Associates	Scottsdale
Julie Culver	Development Design Group	Scottsdale
Joyce Eddie	Salt River Indian Community	Scottsdale
Randy Cruise	Prudential Real Estate	Sedona
Robert J. Eggert, Sr.	Economist	Sedona
Ivan Finley	Prudential Real Estate	Sedona
Carol Downing	Show Low Chamber of Commerce	Show Low
Kevin Kugler	Town of Show Low	Show Low
Gail Griffin	State Representative, District 8	Sierra Vista
James Herrewig	Town of Sierra Vista Dept. of Community Development	Sierra Vista
Ken Jones	Cochise College	Sierra Vista
Grace Wruck	Cochise County Housing Authority	Sierra Vista
Michael Reed	Cocopah Indian Housing & Development	Somerton
Greg Hancock	Hancock Communities	Tempe
Corky Houchard	GlenAlden Homes	Tempe
Ben Sanders	Baptist Community Ministries	Tempe
Bill Trottier	Manufactured Housing Industry of Arizona	Tempe
Gail Bouchee	Center for Independent Living	Tucson
Tom Cowdry	Miracle Square	Tucson
Rosa Maria Diaz	Pima County Community Action Agency	Tucson
John Glaze	Family Housing Resources	Tucson
Alan Lurie	Southern Arizona Home Builders Association	Tucson
Jaime Gutierrez	Tucson Industrial Development Authority	Tucson
Ken Kinered	Southern Arizona Home Builders Association	Tucson
Abe Marques	Office of Councilman Steve Leal	Tucson
Ross McCallister	The McCallister Company	Tucson
Bill Milliron	City of Tucson Community Services Department	Tucson
Emily Nottingham	City of Tucson Community Services Department	Tucson
Debra Owen	Shalom House	Tucson
Gordon Packard	Primavera Builders	Tucson
Corkey Poster	The Drachman Institute	Tucson
David Taylor	City of Tucson Planning Department	Tucson
Karen Thornson	City of Tucson Community Services Department	Tucson
Marshall J. Vest	University of Arizona	Tucson
Ann Woodruff	City of Tucson Senior Project Coordinator	Tucson
Chester Carl	Navajo Housing Authority	Window Rock
Ken Peterson	Arizona Housing Commission	Window Rock
Lewis Shirley	USDA Rural Development	Window Rock
Allan Alffeldt	La Posada LLC	Winslow
Dan Simmons	Chamber of Commerce	Winslow
Valarie Donnelly	City of Yuma	Yuma
Karen Hambali	Yuma Housing Authority	Yuma
Nancy Ngai	Yuma County Office of Development Services	Yuma
Jess Snow	Hall Construction	Yuma

