

AZB ARIZONA BUSINESS

ARIZONA STATE UNIVERSITY'S MONTHLY NEWSLETTER ON THE ARIZONA ECONOMY

Home sales, appreciation rates at all-time high in 2003

Even as the economy struggled to strengthen its long-expected recovery, the single-family housing market continued its record pace throughout the country. Again, it was the dominant construction sector in Arizona, where it accounted for 68 percent (\$10.6 billion) of the recorded total dollar value (\$14.8 billion) of new development throughout the state in 2003 — an increase of 64 percent over 2002.

In Maricopa County, the resale and new home sectors set records, and the annual median rate of appreciation was at its highest level since the tracking of appreciation rates began in 1981. Given that the Greater Phoenix area is growing amid a fairly positive home-buying environment of low interest rates and a wide selection of housing, record years should be expected. The growth comes not only from people moving to the area, but from newly formed households, renters seeking homeownership, and people seeking investment opportunities.

In 2003, Maricopa County accounted for 68 percent (\$10.1 billion) of the total Arizona recorded dollar value of \$14.8 billion, and Pima County registered 12 percent (\$1.8 billion) of that total. As an extension of rapidly developing Maricopa County, construction activity in Pinal County accelerated from \$113 million in 1995 to \$909 million, with the single-family sector accounting for 82 percent of the construction activity. Other active counties included Yavapai (\$498 million), Mohave (\$444 million) and Yuma (\$345 million). These four counties represented 15 percent (versus 11 percent in 2002) of the state's new development, and 76 percent of recorded activity outside Maricopa and Pima counties. Even with some improvement in many areas of the state, more than 71 percent of the construction activity permitted during 2003 occurred in the 12 areas reported in Table 1 [see Page 2]. Queen Creek, where the single-family sector accounted for 93 percent of total construction activity, entered the table for the first time.

RESIDENTIAL CONSTRUCTION

The single-family sector was the principal construction activity in many areas, including Marana (84 percent), unincorporated Santa Cruz County (87 percent) and Surprise (90 percent). The single-family sector in Maricopa County improved from 35,360 permits in 2002 to a new record of 41,055 permits, exceeding the previous record set in 1998 (35,574). The

dollar value also set a record at \$6.8 billion, compared to \$5.5 billion in 2002 and \$4.6 billion in 1998. The average permit value was \$164,810 in 2003, compared to \$129,260 in 1998.

In Maricopa County for 2003 the leading areas of development were Phoenix (9,137 homes), unincorporated Maricopa County (5,771 homes), Gilbert (3,862 homes) and Chandler (3,805 homes). In 1997, the West Valley communities accounted for only 13 percent of permitted homes. This increased to 22 percent in 2003, with Surprise recording 4,952 permits; Goodyear, 2,264; Avondale, 1,221; and El Mirage, 716.

New home development in Pima County, with 8,010 permits, easily surpassed the previous record of 6,841 set in 2002. Unincorporated Pima County led with 3,042 permits, followed by Tucson at 2,425. Marana improved from 962 to 1,207 permits, while Sahuarita increased from 690 to 889. In the remainder of the state, unincorporated Pinal County increased from 3,361 to 5,457 permits. Other strong markets were Lake Havasu City with 1,273 permits; unincorporated Yavapai County, 1,040; Casa Grande, 786; Yuma, 634; Prescott, 600; Sierra Vista, 596; Bullhead City, 512; Flagstaff, 416; and unincorporated Coconino County, 403.

HOME SALES

Single-family home sales in the Greater Phoenix area soared to a new record of 122,995, compared to the previous record of 106,535 set in 2002 [see Table 2 on Page 2]. Home buyers were motivated by the desire to improve the quality of their housing, and to capture the investment potential of their homes or rental properties. Declining interest rates have greatly facilitated the driven home buyer.

Although the Federal Reserve Board lowered rates only once during the year, the unsteady economic recovery and stock market led to roller-coaster ride for mortgage rates. Thirty-year rates started the year at 5.6 percent, fell to 4.9 percent in June, rose to 5.9 percent in September, and ended

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the year at 5.5 percent.

The 2003 resale home market opened the year with a strong pace and only slowed briefly in April, then recovered to smash the previous record set in 2002 (62,625 recorded sales) with 73,785 [see Table 2]. The new home market also set a record at 32,700 sales, surpassing the 29,125 sales set in 2002. For the new home market, sales activity tends to build through the year, and it did so from 2,050 sales in January to 4,155 sales in December.

Over the last 10 years, the single-family market has benefited from falling interest rates even though home prices have accelerated. Since 1993 [see Table 4], the monthly payment necessary to purchase a median-priced home has increased 64 percent, from \$580 to \$900, while the median home price increased 87 percent, from \$84,000 to \$155,000.

Home prices have been driven by a wide range of forces including increased demand, higher costs for land and materials, and the desire for larger homes with more amenities. The housing market has been following a fairly typical pattern, with the increasing importance of "move-up" buyers. Thirty-six percent of all new homes sold for more than \$200,000 in 2003, compared to 21 percent in 1998 and 15 percent in 1996. In the 2003 resale home market, 32 percent of the sales were

for more than \$200,000, versus 15 percent in 1998 and 10 percent in 1996.

AFFORDABILITY

Even with higher home prices and only moderately higher incomes, lower mortgage rates allowed the resale affordability index to rise from last year's 124 to 126 — but still well below the record of 139 set in 1993 [see Table 4]. Because new home prices increased more than resale home prices, the 2003 new home affordability index remained unchanged at 113.

Historically, local median prices have been below national levels. However, the difference has narrowed to the point where the local resale value (\$155,000) represents 91 percent of the national value (\$169,900), and the local median price for new homes (\$173,240) is 92 percent of the national median price (\$187,600).

Just as changes in the median sales price can affect the affordability index, changes in any of the other assumptions used to compute the index also will impact its value [see Table 3]. A key assumption is that a household earns the median income. For example, a household earning \$25,000 annually in 2003 could afford a home priced at \$100,000 versus \$92,500 in 2002 [see Table 5]. To afford the

median-priced resale home in 2003, a household would have to earn \$43,200, compared to \$39,000 in 2002.

Home prices and household incomes, both of which affect affordability, vary throughout the Valley. Even though the city of Scottsdale has the highest median household income in the

TABLE 1
REPORTING UNITS WITH GREATEST
TOTAL VALUE OF BUILDING PERMITS
2002 and 2003 (In Millions)

Reporting Unit	2002	2003
Phoenix	\$2,236	\$2,769
Chandler.....	946	994
Scottsdale.....	580	658
Mesa.....	739	670
Gilbert.....	712	770
Unincorporated		
Maricopa County	916	998
Tucson.....	546	604
Unincorporated		
Pima County.....	602	727
Surprise.....	422	720
Goodyear.....	376	467
Queen Creek.....	143	441
Unincorporated		
Pinal County.....	427	678

Source: Arizona Real Estate Center, L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University.

TABLE 2
GREATER PHOENIX AREA HOME SALES

	Single-family			Townhouse/Condominium			Grand Total
	Resale	New	Total	Resale	New	Total	
<i>Median Sales Price</i>							
1993	\$84,000	\$112,500	\$92,700	\$61,400	\$79,180	\$63,500	\$88,100
1994	87,225	124,475	100,000	65,000	89,900	67,000	94,000
1995	90,500	127,600	105,100	67,000	100,250	70,000	99,600
1996	97,000	130,750	111,400	69,875	110,850	72,900	106,675
1997	105,000	136,130	116,230	72,500	116,500	76,000	111,220
1998	113,585	139,070	122,000	77,500	119,400	82,500	117,000
1999	120,000	146,710	129,900	81,900	136,070	86,000	124,900
2000	128,900	150,770	136,820	86,000	152,350	90,000	131,000
2001	136,000	156,560	142,680	90,500	163,710	95,000	137,500
2002	144,900	159,990	149,900	95,500	162,660	100,000	144,500
2003	155,000	173,240	160,000	103,275	184,700	109,000	155,000
<i>Number of Sales</i>							
1993	36,480	14,100	50,580	8,650	930	9,580	60,160
1994	39,320	17,000	56,320	10,300	1,300	11,600	67,920
1995	37,700	18,170	55,870	9,960	1,120	11,080	66,950
1996	43,775	25,100	68,875	10,925	1,225	12,150	81,025
1997	45,620	23,870	69,490	11,175	1,445	12,620	82,110
1998	53,075	27,600	80,675	11,750	1,725	13,475	94,150
1999	56,365	28,120	84,485	12,480	1,760	14,240	98,725
2000	55,370	28,235	83,605	12,370	1,645	14,015	97,620
2001	61,155	28,005	89,160	12,670	1,300	13,970	103,130
2002	62,625	29,125	91,750	13,300	1,485	14,785	106,535
2003	73,785	32,700	106,485	14,690	1,820	16,510	122,995

Source: Arizona Real Estate Center, L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University.

metropolitan area, it is not enough to support the higher median sales prices, so its affordability indexes of 77 for the resale market and 53 for the new home market are well below the metropolitan index values [see Table 11, page 9]. To afford the median resale home price of \$322,000 in Scottsdale, a household would have to earn at least \$6,675 per month or \$80,100 per year. In comparison, to afford the median resale home price of \$126,000 in Phoenix would require a \$2,600 monthly income or \$31,200 per year.

Although the typical term for a mortgage is 30 years, shorter terms are becoming more common, especially for refinancing homes. If the term is reduced to 15 years, the 2003 resale index falls to 89. If the effective interest rate were to rise to 10.5 percent as it did in 1990, the 2003 index value would be only 80. Under current conditions, the resale index would be 100 if the effective interest rate would rise to 8.0 percent (compared to 8.6 percent in 2002). This shows how the lower rates have been masking the impact of higher home prices — which could be gradually stripped away if interest rates increase as expected in the latter part of 2004.

Many households, especially those acquiring a home for the first time, may have difficulty saving enough for the down payment. If the down payment is reduced from 15 to 10 percent, the larger debt and subsequent higher monthly payment would place a greater strain on the household income, and the resale index would drop to 119. However, current homeowners may be able to use the appreciated equity in their home to make a 25 percent down payment for their next

home — then the resale affordability index would be 143.

HOUSING APPRECIATION

After the lethargic rates of appreciation in the early 1990s, the annual median rate of appreciation for single-family homes steadily improved from 0.6 percent in 1993 to 3.5 percent in 1998 and 6.3 percent in 2003. After many years of depreciation, the townhouse/condominium sector (hereafter referred to as townhouses) experienced another year of appreciation with the median annual rate improving from 2.0 percent in 1996 to 4.7 percent.

The housing appreciation measures cited in this article relate to homes sold more than once between 1981 and 2003 in Greater Phoenix. A total of 202,645 transactions (14,875 sales for 2003) constitute the single-family database, and 21,780 (2,405 sales for 2003) make up the townhouse database. Some sales were discarded from the database to eliminate questionable transactions, such as inaccurate filings, recordings of previous sales and non-market transactions.

Housing appreciation always has been an expected benefit of ownership. Homeowners often use the increasing value of their homes as a basis for retirement, or to provide for

TABLE 3
HOUSING AFFORDABILITY:
DEFINITION OF TERMS

Affordability index: Defined in terms of the median-income household. An index of 100 indicates that a median-income household is able to qualify for a median-priced home under the assumptions provided in this table. An index of 90, for example, suggests that such a household earns only 90 percent of the needed income.

Income: Median gross household income is estimated from median effective buying income (similar to disposable income), published in *Sales and Marketing Management*.

Income qualification factor: Federal National Mortgage Association (FNMA) guidelines state that "monthly housing expenses should not represent more than 25 to 28 percent of gross monthly income." The upper limit is used.

Interest rate: The effective interest rate on 30-year, fixed-rate, conventional mortgage loans for single-family homes includes the contract interest rate plus fees and charges, or "points," amortized over a 10-year period.

Loan amount: A down payment of 15 percent is assumed.

Median sales price: Single-family homes only. Metropolitan Phoenix data from real estate recordings in Maricopa County. National resale home data from National Association of Realtors; national new home data from U.S. Bureau of the Census.

Monthly housing payment: As defined by FNMA, housing expenses comprise principal, interest, taxes and insurance. Data on taxes and insurance are not available; they are estimated at 15 percent of total housing expenses, using information supplied by the National Association of Home Builders.

TABLE 4
HOUSING AFFORDABILITY INDEXES
Greater Phoenix Area, Single-Family Only

Year	Resale Homes			New Homes				
	Median Gross Monthly Income	Effective Interest Rate	Median Sales Price	Monthly Housing Payment	Affordability Index	Median Sales Price	Monthly Housing Payment	Affordability Index
1993	\$2,890	7.4	\$84,000	\$580	139	\$112,500	\$775	104
1994	2,985	8.5	87,225	670	125	124,475	960	87
1995	3,150	8.1	90,500	670	132	127,600	945	93
1996	3,280	7.9	97,000	705	130	130,750	950	97
1997	3,425	7.5	105,000	735	131	136,130	950	101
1998	3,595	6.9	113,585	750	135	139,070	915	110
1999	3,780	7.2	120,000	815	130	146,710	995	106
2000	3,900	7.9	128,900	935	117	150,770	1,095	100
2001	3,965	6.9	136,000	890	124	156,560	1,030	108
2002	4,025	6.4	144,900	905	124	159,990	1,000	113
2003	4,060	5.7	155,000	900	126	173,235	1,005	113

Source: Arizona Real Estate Center, L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University.

their children's college education. The home equity credit line has become an increasingly important financial tool for consumers to satisfy other needs, such as vacations or home improvements. Further, strongly appreciating home prices have allowed homeowners to use their increased equity to move up in the market to further satisfy their housing dreams. On the other side, appreciating home prices make it increasingly difficult for households, especially young and minority households, to enter the market and become homeowners.

Historically, appreciation in the local housing market has barely been able to keep up with the rate of inflation. However, for the

last few years, the median rate of appreciation (6.3 percent) has greatly exceeded the rate of inflation (2.3 percent). Although the number of listings increased over the last few years from less than 14,000 to over 24,000, demand has remained fairly strong, especially in the move-up market, so price pressures remain in the market. In Table 6, the recent history of appreciation rates is compared to inflation and percent changes in the median sales prices.

More than 94 percent of the single-family homes sold during 2003 brought more than their acquisition prices. In 1996, slightly more than 90 percent of the reported transactions recorded price increases, compared to 97

percent in 2002. Over 50 percent of the homes that sold for a loss during 2003 depreciated less than 2 percent. Nearly 25 percent of the homes that sold at a gain appreciated in the 4 to 5.99 percent range. Over 52 percent of the home transactions reported gains of 6 percent or greater. The increase in appreciation is due primarily to a strong housing market. A related reason is that some of the homes sold in 2003 were purchased during the weak housing market or through foreclosure at very attractive prices, which produced impressive gains when resold during the strong market of recent years.

The townhouse sector continued to improve with 95 percent selling at a gain, versus 82 percent in 1997. Much of the depreciation (32 percent of those reporting losses) was less than 2 percent per year, while most of the appreciation was in the range of 4 to 7 percent. Nearly 31 percent of the townhouses sold showed appreciation of 7 percent or more, while only 2 percent posted decreases of 5 percent or greater. After years of poor market activity, the townhouse sector continues to recover and is playing a stronger role in the local housing market, especially for entry-level households, seasonal visitors, retirees and investors.

Among single-family homes sold in 2003 the highest rate of appreciation occurred in homes that had last sold since 1993. Again, a primary reason was the weak market of the early 1990s that allowed for the appre-

TABLE 5
AFFORDABLE HOME PRICE AND MONTHLY PAYMENT
By Level of Income
(Greater Phoenix Area; Effective Interest Rate of 5.7 Percent)

<i>Gross Monthly / Annual Income</i>	<i>Sales Price</i>	<i>Monthly Housing Payment</i>	<i>Affordability Index</i>
\$1,675 / \$20,000	\$81,000	\$470	100
\$2,075 / \$25,000	100,000	580	100
\$2,500 / \$30,000	121,000	700	100
\$2,925 / \$35,000	141,500	820	100
\$3,325 / \$40,000	160,000	930	100
\$3,750 / \$45,000	180,500	1,050	100
\$4,175 / \$50,000	201,500	1,170	100
\$6,250 / \$75,000	302,000	1,750	100
\$8,325 / \$100,000	400,000	2,320	100

Source: Arizona Real Estate Center, L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University.

TABLE 6
INFLATION AND APPRECIATION MEASURES

	1998	1999	2000	2001	2002	2003	1998-03 Total
U.S. Consumer Price Index.....	1.6	2.2	3.4	2.8	1.6	2.3	14.7
<i>All Phoenix area single-family homes:</i>							
Appreciation rate	3.5	4.1	4.8	5.4	6.0	6.3	34.1
Median sales price	5.0	6.5	5.3	4.3	5.1	6.7	37.7
<i>New Phoenix area single-family homes:</i>							
Appreciation rate	3.4	3.8	4.2	4.8	5.6	5.9	31.1
Median sales price	2.2	5.5	2.8	3.8	2.3	8.3	27.5
<i>Existing Phoenix area single-family homes:</i>							
Appreciation rate	3.5	4.3	5.0	5.6	6.0	6.3	34.9
Median sales price	8.2	5.6	7.4	5.5	6.5	7.0	47.5
Median sales price per square foot.....	6.9	6.8	7.2	5.7	5.4	5.2	43.3
<i>All Phoenix area townhouses and condominiums:</i>							
Appreciation rate	2.8	3.1	3.5	4.0	4.4	4.7	24.7
Median sales price	8.6	4.2	4.7	5.6	5.0	9.0	43.2
<i>Existing Phoenix area townhouses and condominiums:</i>							
Appreciation rate	2.9	3.2	3.6	4.0	4.4	4.7	25.1
Median sales price	6.9	5.7	5.0	5.2	5.5	8.1	42.4
Median sales price per square foot.....	5.6	5.7	6.6	4.6	5.4	6.1	39.2

* Calculated at a compounding rate. Appreciation rates in this table may be slightly higher than those in the rest of the report due to the different method of compounding or rounding of appreciation rates.

Source: Arizona Real Estate Center, L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University. U.S. Consumer Price Index is from the U.S. Department of Labor, Bureau of Labor Statistics.

able gains upon resale. For example, homes purchased in 1993 and sold in 2003 had a median annual rate of appreciation of 9.6 percent. However, homes purchased in the “hot” market of 1986 had a median annual rate of appreciation of 5.1 percent, because home buyers in the mid-1980s paid premiums for housing and expected continued rapid increases in home values.

For new homes purchased between 1981 and 2003, the annual median rate of appreciation was 3.4 percent. This appreciation is partially illusory, for it encompasses the costs of turning a house into a home — landscaping, swimming pools and window treatments. New homes resold for the first time in 2003 showed an appreciation rate of 5.9 percent. Between 1981 and 2003, the median rate of appreciation for resale homes has been 3.7 percent, which is better than the 1.0 percent typical of the early 1990s. For resale homes sold in 2003, the median rate of appreciation was 6.3 percent — a big improvement over the 3.5 percent reported in 1998 [see Table 6].

Appreciation by District

For the ninth year in a row, no district reported depreciation for 2003 [see Table 7]. District 22 (Sun City West/Rural Maricopa County) reported the lowest rate of appreciation at 4.5 percent, an improvement over last year’s 3.9 percent. Maryvale historically has had one of the lowest rates of appreciation, but has recently been strongly appreciating from 1.0 in 1996 to the current 6.0 percent. For the entire 1981–2003 time period, Districts 4N, 4S, 5 and 6 showed appreciations well below the Greater Phoenix rate (3.6 percent), but these districts do contain some of the oldest housing in the Greater Phoenix area.

As homes age and physical problems mount, prices tend to decline. Further, these districts lack new home developments that attract new families, especially the move-up buyers who stimulate the resale market. In addition, the older areas tend to lack modern facilities and infrastructure, such as schools, shopping centers and recreational facilities that would attract buyers to the area. People want to

buy homes where they see the potential for growth, which is more likely in the newer areas of the Valley. However, there have been several government programs to assist low-income families in acquiring homes, which tend to be in these districts. Further, there has been a growing trend to buy well-maintained homes in older neighborhoods. This trend was especially evident in the central housing areas of Uptown and East Camelback, which saw the highest rates of appreciation at 10.4 percent. Other districts showing the growing interest in older areas are shown, not only from the current rate of appreciation but also the improvement over 2000, such as Western Suburbs (3.8 to 6.2 percent), Maryvale (4.3 to 6.0 percent) and Northwest Phoenix (4.5 to 6.5 percent). With the expected new development around the arena and football stadium in Glendale, District 6 has improved from 3.1 percent in 2000 to 5.5 percent.

In the suburban communities, South Scottsdale again had one of the highest rates of appreciation at 7.5 percent, which has

TABLE 7
MEDIAN RATE OF GREATER PHOENIX AREA HOME APPRECIATION
By Geographic District
Percent Change Per Year, Single-Family Only

District*	1981–94 †	1995	1996	1997	1998	1999	2000	2001	2002	2003	1981–2003 †
1N North Scottsdale.....	1.7	3.3	3.6	3.9	4.3	5.0	5.9	6.3	5.7	6.4	4.3
1S South Scottsdale.....	1.8	2.6	3.5	4.4	5.3	6.6	7.1	7.0	7.8	7.5	5.7
2 Paradise Valley.....	1.9	2.9	3.4	3.8	4.1	5.2	5.9	6.3	7.9	8.2	4.2
3 North Sunnyslope/Moon Valley.....	1.0	2.0	2.6	3.1	3.5	4.3	5.1	5.6	6.0	6.5	3.7
4N North Black Canyon.....	0.9	1.5	1.8	2.1	2.4	2.9	3.5	4.0	4.8	5.1	2.3
4S Metrocenter.....	0.8	1.2	1.6	1.9	2.5	3.2	4.1	4.8	4.8	5.1	3.2
5 Sun City/Youngtown/Peoria.....	1.4	2.3	2.5	2.6	3.0	3.2	3.6	3.9	4.8	5.4	2.9
6 Glendale.....	0.8	1.1	1.4	1.7	2.1	2.6	3.1	3.9	5.2	5.5	2.3
7 Northwest Phoenix.....	0.7	0.6	1.5	2.0	2.8	3.7	4.5	5.9	6.3	6.5	3.8
8 Christown.....	1.5	2.4	3.1	3.7	5.2	5.9	7.2	7.7	7.7	8.3	5.3
9 East Camelback.....	1.6	1.9	3.0	3.8	5.0	7.1	8.2	8.5	8.6	10.4	6.2
10 East Central Phoenix.....	1.5	1.1	2.0	3.0	3.8	5.0	6.1	7.4	8.2	8.5	4.5
11 Uptown Phoenix.....	1.6	1.9	2.7	3.7	5.0	6.6	8.8	9.8	9.5	10.4	5.7
12 West Central Phoenix.....	1.9	0.6	1.5	1.7	3.1	4.4	6.5	6.7	7.9	7.8	3.9
13 Maryvale.....	1.3	0.3	1.0	1.6	2.2	3.3	4.3	5.6	6.1	6.0	2.9
14 Downtown/South Central Phoenix.....	1.2	0.8	—	—	—	—	—	—	—	—	—
15 South Phoenix/Ahwatukee.....	1.6	2.3	2.8	3.4	4.0	4.5	4.9	5.8	6.1	6.2	3.6
16N North Tempe.....	1.2	2.0	2.7	3.5	4.6	5.7	6.7	7.0	7.0	7.1	4.8
16S South Tempe.....	1.3	1.7	2.3	2.7	3.3	4.0	4.7	5.0	5.4	5.7	3.6
17N North Mesa.....	1.4	1.7	2.4	2.7	3.2	4.1	4.5	5.2	5.7	6.0	3.5
17S South Mesa.....	1.2	1.5	2.1	2.5	3.0	3.6	4.1	4.9	5.7	5.7	2.7
18 East Mesa.....	1.6	2.2	3.0	3.2	3.7	4.1	4.3	4.6	4.5	4.9	3.6
19 Chandler/Gilbert.....	1.5	2.2	2.7	3.0	3.8	4.2	4.6	5.0	5.2	4.9	3.6
20 Western Suburbs.....	1.2	0.9	1.2	1.9	2.6	3.2	3.8	5.5	6.4	6.2	5.0
21 Deer Valley.....	1.2	1.9	2.5	2.7	3.3	3.8	4.6	5.0	5.7	6.0	3.3
22 Sun City West/Rural Maricopa County.....	3.9	3.4	3.3	2.9	3.3	3.3	3.0	2.9	3.9	4.5	3.3
GREATER PHOENIX.....	1.2	1.9	2.5	2.9	3.5	4.1	4.8	5.4	6.0	6.3	3.6

* District numbers correspond to the districts in Figure 1 on page 6.

† Median percent change for each year within time period.

— Insufficient number of sales.

Source: Arizona Real Estate Center, L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University.

consistently improved from the 1.7 percent of 1994. This district contains some of the older neighborhoods that still allow buyers to acquire moderately priced homes in the “status” community of Scottsdale. In a struggling economy, higher-priced homes became more reasonably priced, so the annual rate of appreciation in North Scottsdale improved from 5.7 to 6.4 percent [see Table 7]. In the slow markets of the early 1990s, District 22, which is dominated by a rapidly growing housing segment — the active-adult community — usually had the highest rate of appreciation but now has the lowest for 2003 at 4.5 percent. The main reason for this slowing in appreciation is that this market has seen several new competitive communities throughout the Greater Phoenix area, such as Sun City Grand, Sun Lakes and Palm Valley. Further, much of the housing market in this district has begun to be dominated by the lower-priced homes that are common

throughout the West Valley.

A clear view of the appreciation process may be gained from examining the appreciation rate between 1981 and 2003 for resale single-family homes in various price ranges [see Table 8]. The East Camelback district reported the highest overall appreciation rate at 6.3 percent, followed by the South Scottsdale district at 5.8 percent and Uptown Phoenix at 5.7 percent. In the lowest price range, a few districts had depreciation, but the Downtown district at 1.8 percent led all areas and also led in the \$60,000–\$99,999 price range at 8.8 percent. Reasons for this may include purchase of the land for redevelopment, historical value of the homes and increased demand by low-income families wishing to become homeowners.

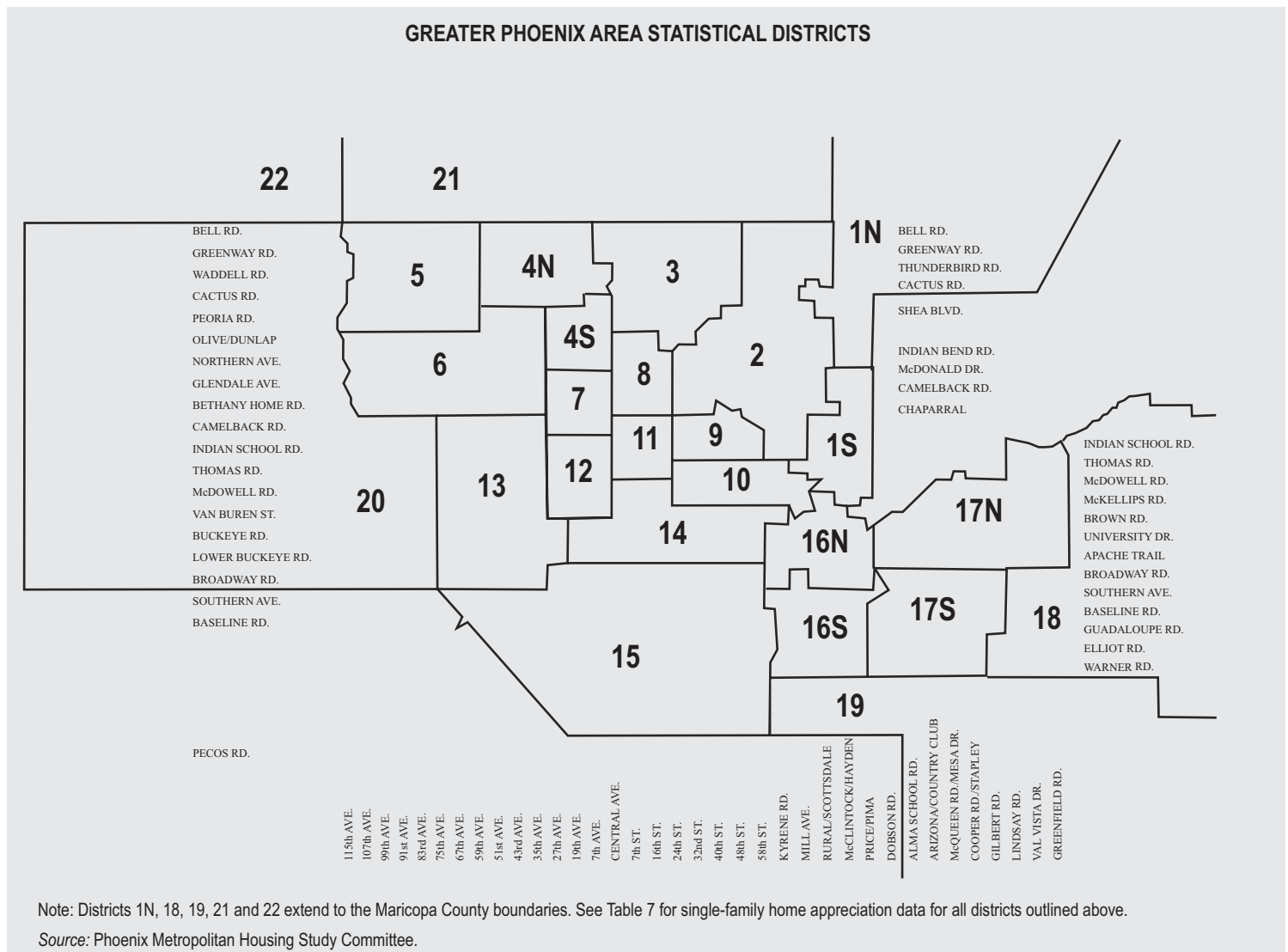
In the \$100,000-plus price range (overall appreciation rate of 4.8 percent), the Uptown Phoenix district had the highest rate of appreciation at 9.0 percent. Although higher-

priced homes tend to have higher rates of appreciation, rates were low in several districts, among them North Black Canyon (3.8 percent), Glendale (3.5 percent), and Sun City West/Rural Maricopa County (2.9 percent). The primary reason may be that these are fairly homogenous districts. The overall rate of appreciation is stronger when the value of lower-priced homes in an area is enhanced by the proximity to more expensive homes.

The lower number of townhouse sales in the database precluded using geographic areas as detailed as those for the single-family sector. The townhouse sector had experienced appreciation mostly in the early 1980s when mortgage interest rates were at historical highs [see Table 10], as a cheaper alternative to the single-family home. The affordability, greater space and privacy of the single-family home have made it the popular choice of the Phoenix metropolitan home buyer. After a period of low appreciation rates, there are

FIGURE I

GREATER PHOENIX AREA STATISTICAL DISTRICTS



continuing positive signs that the townhouse sector is gaining in popularity, but the rates are still well below those of the single-family sector. Because townhouses are most popular with seasonal visitors and retirees, the higher rates of appreciation are found in the Southeast Valley and North Scottsdale, since these are favored visitor destinations.

Appreciation by Price

Housing appreciation rates vary throughout the metropolitan area [see Tables 8 and 9, and Figure I], but much of the variation can be explained by differences in price and age of the housing stock. Since much of the Phoenix housing inventory was built in subdivisions for the mass market, the housing districts tend to contain similar types of homes built at about the same time and for comparable prices. Thus, the rate of appreciation in a district can be strongly influenced by the price of its housing.

In the single-family sector, the median rate of appreciation per year of homes that resold between 1981 and 2003 was 3.6 percent. The median rate was positive in all price ranges except for the lowest range [see Table 9]. The rate of appreciation increased with price, up to 6.4 percent for the \$300,000 or more price range. The overall median rate of appreciation for resale homes was 3.7 percent, in comparison to 3.4 percent for new homes. In the price ranges above \$150,000, however, the new home market appreciated more than the resale market. The rate of appreciation of new homes increased throughout all price ranges to the highest rate of 7.5 percent for homes in the \$300,000 or more price range.

After years of depreciation, the townhouse sector continues to show a positive appreciation rate between 1981 and 2003, increasing from the 0.4 percent in 1996 to 4.7 percent. This improvement is particularly evident in the \$130,000–\$139,999 price range, which rose from 2.5 percent in 1997 to 4.4 percent in 2003 [see Table 9]. The lowest-priced townhouses (under \$40,000) have continued to depreciate, but at rates lower than a year ago, and the \$50,000–\$59,999 priced townhouses posted positive appreciation rates (1.1 percent).

ANALYSIS BY CITY

Phoenix. The Valley's largest city continued to have the lowest home prices. The median resale home price increased from \$119,500 to \$126,000, while the median new home price declined from \$152,870 to \$149,225. The reason for the lower new home median price is that much of the market was on the west

TABLE 8
MEDIAN RATE OF GREATER PHOENIX HOME APPRECIATION
By Geographical District and Price of Last Sale, 1981-2003
Percent Change Per Year, Resale Single-Family Only

		Less than \$60,000	\$60,000– 99,999	\$100,000 or More	Total
1N	North Scottsdale.....	—	1.3	4.1	4.1
1S	South Scottsdale.....	-2.2	2.1	7.0	5.8
2	Paradise Valley.....	—	1.3	4.9	4.5
3	North Sunnyslope/Moon Valley.....	0.1	2.6	4.7	3.7
4N	North Black Canyon.....	-0.4	1.6	3.8	2.5
4S	Metrocenter.....	0.0	2.4	4.7	3.3
5	Sun City/Youngtown/Peoria.....	1.1	3.0	4.4	3.3
6	Glendale.....	0.0	2.0	3.5	2.4
7	Northwest Phoenix.....	0.3	3.7	6.4	3.8
8	Christown.....	0.0	2.2	6.3	5.3
9	East Camelback.....	-0.1	2.8	8.5	6.3
10	East Central Phoenix.....	0.5	4.2	7.9	4.5
11	Uptown Phoenix.....	0.0	3.6	9.0	5.7
12	West Central Phoenix.....	1.0	6.0	7.9	4.0
13	Maryvale.....	0.0	4.2	6.6	3.1
14	Downtown/South Central Phoenix.....	1.8	8.8	—	5.1
15	South Phoenix/Ahwatukee.....	0.8	3.4	4.4	3.6
16N	North Tempe.....	0.0	2.4	6.5	4.9
16S	South Tempe.....	-0.5	1.7	4.6	3.8
17N	North Mesa.....	0.0	2.8	4.4	3.7
17S	South Mesa.....	0.1	2.0	3.8	2.9
18	East Mesa.....	1.0	3.2	4.2	3.6
19	Chandler/Gilbert.....	1.2	2.3	4.2	3.6
20	Western Suburbs.....	0.4	3.3	4.6	3.7
21	Deer Valley.....	-0.1	2.1	4.4	3.2
22	Sun City West/Rural Maricopa County.....	—	1.8	2.9	2.7
	GREATER PHOENIX.....	0.3	2.7	4.8	3.7

* District numbers correspond to the districts in Figure I on page 6.

— Insufficient number of sales

Source: Arizona Real Estate Center, L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University. District designations are copyrighted by the Phoenix Metropolitan Housing Study Committee.

TABLE 9
MEDIAN RATE OF GREATER PHOENIX HOME APPRECIATION
By Price Range, Percent Change Per Year, 1981-2003

Price Range	Single-Family			Townhouse/Condo	
	Total	New	Resale	Total	Resale
Less than \$40,000.....	-2.1	—	-2.0	-2.6	-2.7
40,000–49,999.....	0.0	—	0.0	0.0	0.0
50,000–59,999.....	1.1	0.5	1.1	1.0	1.1
60,000–69,999.....	1.7	1.1	1.8	1.8	1.9
70,000–79,999.....	2.2	1.5	2.3	2.6	2.6
80,000–89,999.....	2.7	1.8	2.9	2.8	2.9
90,000–99,999.....	3.2	2.3	3.4	3.1	3.2
100,000–109,999.....	3.6	3.0	3.8	3.5	3.5
110,000–119,999.....	3.9	3.6	4.0	3.7	3.8
120,000–129,999.....	4.0	3.7	4.1	4.1	4.2
130,000–139,999.....	4.2	4.2	4.2	4.4	4.4
140,000–149,999.....	4.4	4.3	4.4	4.2	4.2
150,000–174,999.....	4.5	4.6	4.4	4.5	4.6
175,000–199,999.....	4.7	5.1	4.5	4.6	4.6
200,000–299,999.....	5.5	6.2	5.2	5.4	5.4
300,000+.....	6.4	7.5	6.2	5.2	5.6
GREATER PHOENIX.....	3.6	3.4	3.7	2.8	2.8

Note: Dash indicates insufficient number of sales

Source: Arizona Real Estate Center, L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University.

side and in south Phoenix, where lower-priced new homes dominate the market.

Since Phoenix is large geographically, it contains a diversity of housing submarkets. Median resale prices ranged from \$82,000 in the Downtown district to \$190,000 in the Union Hills district. The median new home sales price also reflected the market diversity, from \$142,500 in the South Phoenix area to \$285,000 in the Union Hills area. As shown in Table 11, the city of Phoenix had a rate of appreciation slightly above the Greater Phoenix area in 2003.

Ahwatukee/Foothills. While most of this area lies within the city of Phoenix, it has been a primary area of new home development over the last few years and merits its own consideration. However, as the area has built out, the resale sector has come to dominate the market with 2,450 resale homes versus 325 new home sales. Since most of the homes in this popular housing area are only a few years old, the median sale price for resale homes increased from \$193,000 to \$204,000. With most of the areas available for tract housing being filled, much of the new home construction is in the custom and semi-custom markets as shown by a median price of \$237,510.

Tempe. Because Tempe is landlocked, the new home market had only 30 sales (\$225,820), while the resale market had 2,205 sales (\$166,925). Arizona State University and a wide range of private and community services make Tempe a popular place to live. Hence, the Tempe housing market supports above average home prices, with a median

resale price of \$166,925 (from \$153,250 in North Tempe to \$173,000 in South Tempe). The popularity of the city combined with limited housing supply resulted in a median rate of appreciation for 2003 of 6.1 percent (7.1 percent in North Tempe versus 5.7 percent in South Tempe).

Mesa. With 12 percent of the resale market and 6 percent of the new market, Mesa continues to be an important element of the local housing market. Mesa remains relatively affordable, with the median sale price of new homes at \$172,895 and \$141,000 for resale homes. Because the city offers a wide range of housing at affordable prices, it has a very stable rate of appreciation at 5.5 percent. Since Mesa is also a large city, some variation in the rate of appreciation would be expected—from 6.0 percent in North Mesa to 5.7 percent in South Mesa to 4.9 percent in East Mesa. The townhouse sector, popular with retirees and seasonal visitors, accounted for 19 percent of Mesa's total resale market and 14 percent of the Greater Phoenix area's resale townhouse market. The burgeoning popularity is evident in the rising median prices from \$84,000 in 2001 to \$92,500, while the metropolitan area moved from \$90,500 to \$103,275. The median rate of appreciation was 4.7 percent, which the same as for the Greater Phoenix area.

Chandler/Gilbert. The rapid expansion of the metropolitan area is especially evident in the growing communities of Chandler and Gilbert. New home activity represented 38 percent of all single-family homes sold in the city of Chandler with a median sales price of \$225,670 (\$201,950 in 2002), while

the median resale home price was \$162,000 (\$152,900 in 2002).

Although Gilbert still is a rapidly growing community, its housing market is beginning to show signs of maturing. In 1998, nearly 64 percent of all single-family homes sold in Gilbert were new, but this has dropped to 38 percent with a median sales price of \$212,920 (\$177,965 in 2002). Prior to the current housing boom, most of the housing development in Gilbert consisted of high-priced custom or semi-custom homes on large rural lots. Hence, the typical resale home in Gilbert is fairly large: 1,885 square feet (versus 1,670 square feet in the Greater Phoenix area), with a median sales price of \$174,500.

Scottsdale, Paradise Valley and Carefree/Cave Creek. These communities contain the highest-priced homes in the Valley. Paradise Valley not only has the highest median resale price at \$830,000 but also the largest median size at 3,550 square feet. The median new home price was \$2.1 million and median square footage was 6,435. Carefree had the second largest resale homes with a median size of 2,860 square feet and a median resale price of \$500,000, while Cave Creek stood at 2,200 square feet and \$280,000.

While Paradise Valley and Cave Creek/Carefree have relatively small housing markets, Scottsdale is the third largest in the Valley with a wider mix of housing styles, types and prices. The median resale home price was \$322,000 (2,290 square feet), in comparison with \$287,500 (2,240 square feet) in 2002. The new home market stood at \$469,885 (3,470 square feet) versus \$433,335 (3,500 square

TABLE 10
COMPARISON OF SINGLE-FAMILY HOME TO TOWNHOUSE/CONDOMINIUM APPRECIATION
By Combined Geographic District
Median Percent Change Per Year

District	Area	Single-family			Townhouse/Condominium		
		1981-85	1986-2003	1981-2003	1981-85	1986-2003	1981-2003
1N, 2	North Scottsdale/Paradise Valley.....	4.1	4.9	4.2	3.2	4.7	3.8
1S	South Scottsdale.....	2.8	7.1	5.6	1.2	6.3	4.4
3, 8	North Central Phoenix.....	2.8	5.2	4.0	0.1	4.9	3.4
4N, 4S	Northwest Phoenix.....	2.6	3.5	2.5	1.0	3.8	2.1
5	Sun City/Youngtown/Peoria	4.2	3.8	2.9	3.0	3.4	2.2
6	Glendale.....	2.5	3.0	2.3	1.2	3.3	1.5
7, 12, 13	West Phoenix.....	2.0	4.9	3.2	-0.8	2.9	0.6
9, 10, 11, 14, 15	East Central and South Phoenix.....	3.4	5.0	4.2	1.6	4.7	3.4
16N, 16S	Tempe	2.6	5.0	3.8	0.9	5.7	3.9
17N, 17S, 18, 19	Southeast Valley	3.6	3.9	3.4	1.3	3.6	3.1
20, 22	West Valley	5.6	4.1	3.7	6.8	1.3	1.4
21	North Valley.....	2.7	4.1	3.3	1.2	2.7	1.9
	GREATER PHOENIX.....	3.0	4.4	3.6	1.6	4.1	2.8

Source (Tables 10 and 11): Arizona Real Estate Center, L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University. District designations are copyrighted by the Phoenix Metropolitan Housing Study Committee.

feet) in 2002. Because higher-priced homes tend to experience greater rates of appreciation, the 7.4 percent rate in Scottsdale would be expected.

As in Mesa, and for the same reasons, the townhouse market is important in Scottsdale, accounting for 31 percent of the recorded resale market (a median sale price of \$150,000) and 22 percent of the Greater Phoenix resale townhouse market (a median resale price of \$103,275). Scottsdale represented 36 percent of recorded new townhouse transactions with a median sales price of \$242,890, much higher than the \$184,700 for the Greater Phoenix area. Since this housing sector is important in Scottsdale, the 6.1 percent rate of appreciation — significantly above the metropolitan rate of 4.7 percent — is not surprising.

Glendale/Peoria. In 2003, more than 30 percent of the single-family homes sold in Peoria were new, with a median sales price of \$215,825, compared to \$185,370 a year ago. In the resale home sector, the median sales price rose from \$136,900 to \$151,000. In Glendale, new homes represent 11 percent of the single-family market. The median resale home price was \$142,000 (\$135,000 in 2002), while the median new home sales price was \$169,370 (\$165,015 in 2002). Because both areas have median sales prices below those of the metropolitan area, their affordability

indexes are among the highest in the Valley [see Table 11]. The median appreciation rates are well below the metropolitan levels because most of the homes are in the lower price ranges, which tend to have lower rates of appreciation.

West Valley Communities: Avondale, El Mirage, Goodyear and Surprise. The Valley's west side is no longer overlooked in discussions of growing housing areas. It has become increasingly important as the other housing markets run out of available land and lose affordability. The combined activity in these communities represent 26 percent (versus 23 percent in 2000) of the new homes sold in Maricopa County, and only 6 percent of the resale market. A fundamental force in these communities is the relative affordability of their homes. For example, the median prices of new homes for 2003 were \$137,530 in Avondale, \$124,215 in El Mirage, \$169,370 in Goodyear and \$156,175 in Surprise.

Sun City/Sun City West. Due to differences in the age and style of their respective housing stocks, the median sales prices for resale homes are significantly different in these two communities. The median sales price in Sun City (\$118,000 versus \$101,575 in 2002) is one of the lowest in the metropolitan area while Sun City West has \$144,500 (\$139,000 in 2002). The difference occurs even in the townhouse sector, with Sun City at \$79,000

and Sun City West at \$104,950.

Over the years, these communities have had a dominant role in the active adult market, with strong rates of appreciation. However, competition with newer developments is beginning to adversely impact these communities, lowering appreciation in Sun City West (4.1 percent) and Sun City (4.4 percent). This slowing is even evident in the townhouse sector [see Table 11].

COMMERCIAL CONSTRUCTION

Except for retail development, which has been chasing the rooftops, the other commercial sectors have been hit hard by the economic downturn and sluggish recovery. Even though new office building development improved in 2003 [see Table 12], vacancy rates remained above 20 percent and annual absorption under 1 million square feet. Much of the improved activity was due to smaller buildings, especially office condominiums. The leading areas of activity were Scottsdale (\$135 million) and Phoenix (\$121 million). As shown in Table 12, the retail sector also improved with the primary areas of development being Phoenix (\$97 million) and Glendale (\$63 million).

A total of 5,080 apartment units were permitted in Maricopa County in 2003, mostly in Phoenix (1,919 units), Chandler (849) and Tempe (766). Adding some hope to the future

TABLE 11
2003 HOME SALES, AFFORDABILITY AND APPRECIATION
Greater Phoenix Area, By Community

Community	Number of Sales ¹	Median Sales Price ¹	Resale Home Affordability Index ²	New Home Affordability Index ²	Single-family Appreciation Rate	Twnhse/condo Appreciation Rate
Ahwatukee/Foothills ³	3,020	\$202,500	NA	NA	*	*
Carefree/Cave Creek	1,540	303,175	NA	NA	*	*
Chandler	9,760	178,000	156	112	4.8%	*
Gilbert	7,630	185,480	169	138	4.7	*
Glendale	7,740	141,500	137	121	5.7	4.7%
Mesa	13,780	139,900	131	107	5.5	4.7
Paradise Valley	605	740,000	NA	NA	*	*
Peoria	5,605	159,900	150	105	5.8	*
Phoenix ³	28,495	127,500	141	119	6.8	5.0
Scottsdale	12,180	267,115	77	53	7.4	6.1
Sun City	3,065	107,000	NA	NA	4.1	2.6
Sun City West	1,375	131,700	NA	NA	4.4	*
Tempe	3,375	152,795	110	81	6.1	6.4
GREATER PHOENIX	122,995	\$155,000	126	113	6.3	4.7

¹ Includes new and resale single-family homes and townhouses/condominiums.

² See definition of terms, Table 4, page 3.

³ Most of Ahwatukee / Foothills is within the Phoenix city limits; sales figures for Phoenix do not include this area.

⁴ Total does not add to sum of cities due to exclusion of unincorporated areas and cities with fewer than 100 sales.

NA = Income estimates necessary to calculate affordability are not available.

* Insufficient number of sales

Source: Arizona Real Estate Center, L William Seidman Research Institute, W. P. Carey School of Business, Arizona State University.

commercial market, commercial remodeling and tenant improvements increased from last year's \$145 million to \$174 million.

Pima County's multifamily sector dropped from 793 to 117 units, which were all in Tucson. The office building sector strongly improved, while the retail sectors remained almost unchanged [see Table 12]. Tucson reported \$44 million in the office building sector and \$30 million in the retail sector and unincorporated Pima County had \$32 million in each sector.

The multifamily sector improved sharply in the rest of Arizona, with most of the activity in Flagstaff (252 units), Lake Havasu City (249), Casa Grande (245), Prescott Valley (240) and Sierra Vista (208). The office sector improved [see Table 12] based on significant activity in Yuma (\$8.8 million), Casa Grande (\$6.9 million), Lake Havasu City (\$5.8 million), and Flagstaff (\$5.3 million). Retail development increased with activity in Lake Havasu City (\$16.9 million), Prescott (\$10.8 million) and Casa Grande.

Tourist activity also showed some promise as the hotel/motel sector improved from last year's \$27 million to \$100 million, led by \$61 million in Tucson.

Without a major project, the industrial sector in Maricopa County improved slightly [see Table 12], with most of the activity in Phoenix (\$42 million). For the rest of Arizona, active industrial development areas were Sacramento Valley (\$18.8 million), unincorporated Pima County (\$5 million), Tucson (\$3.6 million) and Flagstaff (\$2.5 million).

OTHER CONSTRUCTION

This sector encompasses a wide variety of types of construction activity, including health care and educational facilities, and public projects. With \$57 million in Phoenix and \$31 million in Yuma, health care development improved from last year's \$80 million to \$136 million. The construction of educational facilities soared to \$313 million from \$205 million in 2002, with major projects in Phoenix (\$70 million), Glendale (\$69 million) and unincorporated Maricopa County (\$46 million). Construction of public projects improved from \$75 million to \$116 million, with \$55 million in Phoenix. Permit activity for structures other than buildings, such as swimming pools, fences and billboards, has continued to decrease from \$503 million in 2002 to \$494 million.

LOOKING AHEAD

The future of the economy and the real estate market depends on jobs to produce income for buying homes, to fill the vacant commercial space, and to stimulate new growth. The current economic recovery has been described as a "jobless" recovery due to the consolidation of companies, the closure of plants and businesses, outsourcing to other countries and accomplishing more with less (enhanced productivity). It must be remembered that these problems also existed during the 1990s, but job growth was healthy enough to allow people to easily find replacement jobs.

The loss of jobs is not unique throughout

the economic history of the United States. While job growth is expected to return in 2004, the fundamental issue is whether the economy has the capability to produce jobs with sufficient income and the opportunities for career advancement that will translate into greater and sustainable demand for residential and commercial properties. Even with existing jobs, companies are trying to transfer costs to the employee, especially in the pension and health care areas. Such actions reduce the take-home pay, which can influence consumer confidence, ability to continually acquire goods or to qualify for and sustain mortgage debt.

Although low mortgage rates have been important in sustaining the housing market, they need not remain at current levels because affordability can be maintained at interest rates slightly above 8 percent. The general expectation is that mortgage rates will move up 1 to 2 percent, with most of the movement coming in the latter part of 2004. It must be remembered that mortgage interest rates are long-term, and are heavily influenced by the bond market. In turn, the bond market is driven by concerns about inflation, federal refinancing needs, the financing situation in California and the overall strength of the economy. Thus, when interest rates increase as expected, they will play less of a role in inducing home buyers and sustaining the market. Further, higher rates will limit the refinancing market, which could have a negative impact on the financial ability of people to sustain their lifestyles.

TABLE 12
KEY SECTOR CONSTRUCTION ACTIVITY
2003 and 2002

COMMERCIAL

	Single-family		Apartments ^a		Office Buildings ^b		Retail Stores ^c		Industrial	
	Number of Permits	Dollar Value (000's)	Number of Units	Dollar Value (000's)	Number of Permits	Dollar Value (000's)	Number of Permits	Dollar Value (000's)	Number of Permits	Dollar Value (000's)
<i>Maricopa County</i>										
2003	41,056	\$6,766,916	5,080	\$332,721	608	\$441,543	570	\$425,844	110	\$87,682
2002	35,360	5,484,747	6,957	428,217	400	346,786	552	405,348	97	86,044
<i>Pima County</i>										
2003	8,010	1,315,600	117	5,204	173	78,331	140	69,131	30	8,717
2002	6,841	1,034,480	793	47,456	123	35,423	82	69,245	45	10,766
<i>Rest of Arizona</i>										
2003	16,583	1,951,957	1,385	84,184	154	54,911	184	80,677	50	34,707
2002	13,448	1,494,777	466	29,746	124	45,179	182	72,757	82	28,906
<i>Arizona Total</i>										
2003	65,644	10,034,473	6,582	422,109	935	574,785	894	575,652	190	131,106
2002	55,649	8,014,004	8,216	505,419	647	427,388	816	547,350	224	125,716

^a Five or more housing units

^b Office, bank, medical and professional buildings

^c Shopping centers and other mercantile buildings

Source: Arizona Real Estate Center, L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University.

As people settle into their dream homes with low mortgage payments, there will be little incentive or pent-up demand for people to change their housing investment. Thus, the market will become increasingly dependent on population growth and new household formation. Further, the local housing market has been greatly stimulated by the rapid shift from renters to owners, but that should have a diminishing role in the coming years as most housing markets rarely exceed the current level of 70 percent. In addition, many people have bought homes for investments, which could be limited by the health of the rental market and the ability of people to attain their financial goals.

In the late 1990s, the concept of a "disconnect" arose to try to explain the movement of the stock market versus economic reality. Because the market was not rationally reacting within the economic environment, it is now paying the price. There are mounting arguments that the housing market is currently disconnected from the stagnant economic environment. Related to this disconnect premise is that it will end in a bursting bubble. While this concept may have significance for the short term, home buyers are less concerned with the short term than the longer investment horizon, typically beyond five years. As long as the economy does not worsen, the low-rate mortgages should allow people to retain their housing investments, whether rental investments or their own homes. The bubble concept may relate to a slowdown in the rapid and strong rates of appreciation, rather than to reduced home prices. It is the increased value which has allowed homeowners to refinance their homes and to draw out the trapped value to be spent on other items.

The primary concern is that, as the other construction sectors recover, the single-family sector would not significantly slow down. There are concerns about the basic strength of the near-term housing market and its ability to boost any economic recovery through unsatisfied pent-up demand. Many analysts contend that the recovery is being held back by unstable global conditions (the U.S. war on terror) and that eventually, the economy will sustain a strong rally. The drawback is that the stock market should also rally and draw money from the debt market, with a resulting rise in mortgage rates.

Development in Pinal County should continue to be active as an extension of the growth in Maricopa and Pima counties, especially in the areas of Apache Junction and Casa Grande. Because Buckeye represents one of the larg-

est planning areas in Maricopa County and already has authorized some major developments, it will become a leading housing market over the next few years.

In many areas of the state, the housing market is influenced by other factors including a limited supply of private land, a small economic base, and a strong second home market. Thus, the supply of both rental and owner housing is limited, forcing prices up and seriously affecting affordability, especially for young households. These forces have led to a greater reliance on manufactured housing.

In other areas, retirees and seasonal residents have been drawn to the quality of life in the smaller communities, and now many younger people and businesses also are seeking out these communities to escape mounting urban problems.

A slowing single-family market should benefit the apartment market in Maricopa and Pima counties. Because the apartment market in other counties has been largely overlooked, some companies have an increasing interest in developing apartments to supply affordable housing to a growing population. Even with growth, most of these apartment markets are relatively small, so it is difficult to sustain more than one or two projects in a year's time.

The remodeling of the Intel project in Chandler will, as in the past, overshadow any other industrial development. Until job growth returns, the construction of the typical multi-tenant industrial projects or back-office projects should not be evident in the industrial market.

The office market appears to be very weak and the current vacant space needs to be absorbed before any significant levels of new development can occur. The future market will be somewhat restricted because tenants remain sensitive to economic uncertainty and seek ways to reduce costs, such as the use of industrial or retail space as a substitute for crowded office space, or increasing reliance on technology to reduce their space needs. However, there is unexpected strength in some office areas such as north Scottsdale and the office condominium sector.

The retail sector appears to be the commercial sector drawing the least attention, because space continues to be absorbed and vacancy rates remain at 10 percent. However, there still is uneasiness about the health of some sectors of the retail industry. Increased technology and competition have adversely impacted firms in the toy, video rental and record industries. Even the rock of retail

activity, the grocery store, is being impacted as grocery items can be bought in many stores ranging from drug stores to super centers. The extreme competitiveness of the local markets has resulted in some store closings; chains such as Kmart have been struggling. Further, the problems could increase if the consumer further reduces spending through continued loss of confidence, income or wealth. When the major retail markets have difficulties, this frequently benefits smaller communities where retailers can develop in smaller, underserved areas such as the West Valley and Pinal County.

Although most cities have the bonding capability to build new projects, the mounting fiscal issues do not allow them to operate new facilities. Thus, many cities have postponed projects until fiscal conditions improve.

While the primary concern tends to focus on sprawl, a related concept will become even more apparent: infill. This concept encompasses both the development of left-behind vacant lands (such as along Baseline road in South Phoenix) or the redevelopment of existing sites such as Los Arcos. Although Greater Phoenix is a relatively new area, it has reached the age when it can no longer just look outward, but must also look inward, not just for new commercial or entertainment projects, but to enhance and preserve its aging neighborhoods and infrastructure.

While a strong economic recovery is the key to sustaining the housing market and resuscitating the commercial and industrial sectors, there are other issues that could well influence its timing and strength. The first is the recovery of the fiscal health of the state and cities alike. The provision and quality of public services are an important consideration in attracting new businesses, supporting the growth of existing businesses and attracting and keeping households. The other is the availability and quality of water. The continuing drought has raised many concerns about the ability to provide the needed water to support the current population and provide for future growth.

There are many pressing concerns at all levels, from individual jobs and community growth, to those beyond the boundaries of the United States such as international stability. Our ability to address these critical issues will drive the health and direction of the real estate market.

— Jay Q. Butler
Director

Arizona Real Estate Center

ARIZONA BUILDING PERMITS: 2003 REPORT

	Residential		Commercial		Industrial		Other		Total	
	Number of Permits	Dollar Value*	Number of Permits	Dollar Value*	Number of Permits	Dollar Value*	Number of Permits	Dollar Value*	Number of Permits	Dollar Value*
APACHE COUNTY										
Eager **	66	\$3,262	7	\$367	1	\$21	11	\$340	85	\$3,990
St. Johns	16	N/C	0	0	0	0	5	N/C	21	N/C
Springerville	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Unincorporated	241	15,019	4	2,803	0	0	25	1,908	270	19,730
Total, Apache County	323	18,281	11	3,170	1	21	41	2,248	376	23,720
Percent Change, Previous Year	25	45	1,000	2,042	—	—	52	-61	31	28
COCHISE COUNTY										
Benson **	5	78	1	3	0	0	2	3	8	84
Bisbee **	18	91	0	0	0	0	0	0	18	91
Douglas	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Huachuca City **	0	0	2	678	0	0	3	5	5	683
Sierra Vista	752	48,029	80	15,152	1	400	555	3,295	1,388	66,876
Tombstone	34	722	5	139	0	0	13	373	52	1,234
Unincorporated	1,160	62,793	14	9,712	0	0	187	7,816	1,361	80,321
Willcox	40	410	6	28	0	0	17	79	63	517
Total, Cochise County	2,009	112,123	108	25,712	1	400	777	11,571	2,895	149,806
Percent Change, Previous Year	40	71	16	-2	0	—	21	-20	33	41
COCONINO COUNTY										
Flagstaff	789	67,352	145	36,251	8	2,460	45	4,537	987	110,600
Fredonia	14	502	0	0	0	0	7	21	21	523
Page	184	3,998	42	5,539	0	0	14	397	240	9,934
Sedona	196	17,302	57	12,758	1	18	441	5,674	695	35,752
Unincorporated	1,292	76,707	97	4,878	0	0	90	3,994	1,479	85,579
Williams	31	2,154	12	5,221	0	0	4	1,008	47	8,383
Total, Coconino County	2,506	168,015	353	64,647	9	2,478	601	15,631	3,469	250,771
Percent Change, Previous Year	-1	2	-16	15	-18	-83	15	-22	-1	-2
GILA COUNTY										
Globe **	2	100	0	0	0	0	0	0	2	100
Hayden	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Miami	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Payson	342	24,924	54	6,357	1	114	24	1,296	421	32,691
Unincorporated	515	20,352	10	407	0	0	65	3,490	590	24,249
Total, Gila County	859	45,376	64	6,764	1	114	89	4,786	1,013	57,040
Percent Change, Previous Year	-11	-10	0	-52	-75	-89	-15	-43	-11	-23
GRAHAM COUNTY										
Pima**	9	324	1	2	0	0	8	13	18	339
Safford **	26	748	8	408	0	0	3	51	37	1,207
Thatcher **	43	3,660	3	4,900	0	0	20	1,906	66	10,466
Unincorporated **	110	7,179	5	3,114	0	0	28	260	143	10,553
Total, Graham County	188	11,911	17	8,424	0	0	59	2,230	264	22,565
Percent Change, Previous Year	-4	62	0	51	—	—	11	297	-1	67
GREENLEE COUNTY										
Clifton**	1	1	0	0	0	0	0	0	1	1
Duncan	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Unincorporated	11	480	1	10,800	0	0	2	21	14	11,301
Total, Greenlee County	12	481	1	10,800	0	0	2	21	15	11,302
Percent Change, Previous Year	50	73	-50	21,076	—	—	-60	-76	0	2,610
LA PAZ COUNTY										
Parker	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Quartzsite **	133	1,787	7	264	0	0	23	236	163	2,287
Unincorporated	652	15,480	12	1,268	0	0	364	2,132	1,028	18,880
Total, La Paz County	785	17,267	19	1,532	0	0	387	2,368	1,191	21,167
Percent Change, Previous Year	67	4	-61	-82	-	-	95	-17	66	-25
MARICOPA COUNTY										
Avondale	1,364	191,878	103	65,063	0	0	655	35,433	2,122	292,374
Buckeye **	570	68,411	0	0	0	0	0	0	570	68,411
Carefree	80	15,880	8	6,646	0	0	193	4,628	281	27,154
Cave Creek	137	41,877	10	178	0	0	164	1,938	311	43,993
Chandler	4,120	735,734	208	161,540	5	11,389	1,958	85,264	6,291	993,927
El Mirage	773	75,213	7	4,101	1	900	222	2,917	1,003	83,131
Fountain Hills	245	60,388	20	9,554	0	0	562	7,586	827	77,528
Gila Bend **	11	876	0	0	0	0	5	37	16	913
Gilbert	4,172	619,573	315	72,198	24	10,592	2,155	67,598	6,666	769,961
Glendale	1,031	113,962	377	114,249	15	5,724	1,258	96,098	2,681	330,033
Goodyear	2,264	401,948	32	37,161	0	0	2,820	27,801	5,116	466,910
Guadalupe **	6	229	1	3	0	0	3	9	10	241
Litchfield Park **	57	9,274	18	431	0	0	56	848	131	10,553
Mesa	3,527	417,891	423	139,659	9	6,967	2,388	105,422	6,347	669,939
Paradise Valley	298	94,131	4	1,626	0	0	332	5,602	634	101,359
Peoria	2,039	210,421	258	40,190	1	304	998	42,576	3,296	293,491
Phoenix	12,415	1,633,586	395	401,306	39	41,803	10,474	692,690	23,323	2,769,385
Queen Creek	1,864	411,674	21	7,823	2	845	1,447	20,165	3,334	440,507
Scottsdale	2,154	367,949	927	257,493	4	1,200	3,166	31,541	6,251	658,183
Surprise	5,193	651,149	117	37,549	0	0	1,461	31,380	6,771	720,078
Tempe	465	18,517	452	144,477	9	5,958	271	31,657	1,197	200,609
Tolleson **	28	263	18	6,720	0	0	16	81	62	7,064
Unincorporated	7,985	855,951	158	32,136	1	2,000	3,545	108,397	11,689	998,484
Wickenburg	109	6,689	3	1,414	0	0	1	25	113	8,128
Youngtown	362	35,720	13	85	0	0	16	129	391	35,934

ARIZONA BUILDING PERMITS: 2003 REPORT (continued)

	Residential		Commercial		Industrial		Other		Total	
	Number of Permits	Dollar Value*	Number of Permits	Dollar Value*	Number of Permits	Dollar Value*	Number of Permits	Dollar Value*	Number of Permits	Dollar Value*
Total, Maricopa County	51,269	\$7,039,184	3,888	\$1,541,602	110	\$87,682	34,166	\$1,399,822	89,433	\$10,068,290
Percent Change, Previous Year	12	22	14	-5	13	2	0	14	7	16
MOHAVE COUNTY										
Bullhead City	1,021	61,209	78	7,451	0	0	774	4,903	1,873	73,563
Colorado City	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Dolan Springs **	107	3,472	7	296	1	713	58	814	173	5,295
Kingman Area **	193	6,591	13	1,089	4	647	75	1,076	285	9,403
Kingman City **	284	19,869	25	2,157	0	0	22	320	331	22,346
Lake Havasu Area **	141	11,822	6	1,622	0	0	163	1,855	310	15,299
Lake Havasu City	2,457	171,299	87	45,857	0	0	760	15,799	3,304	232,955
Mohave General **	258	14,173	14	910	3	120	91	2,436	366	17,639
Mohave Valley South **	663	31,796	17	2,565	1	60	476	6,157	1,157	40,578
Sacramento Valley **	217	6,533	5	242	6	18,797	63	1,103	291	26,875
Total, Mohave County	5,341	326,764	252	62,189	15	20,337	2,482	34,463	8,090	443,753
Percent Change, Previous Year	1	11	10	18	-50	853	11	7	4	17
NAVAJO COUNTY										
Holbrook **	19	204	6	21	0	0	7	83	32	308
Pinetop-Lakeside	137	12,848	12	3,423	0	0	2	742	151	17,013
Show Low	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Snowflake	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Taylor	92	5,920	8	705	0	0	44	252	144	6,877
Unincorporated	1,026	48,040	6	3,826	2	2,052	63	1,281	1,097	55,199
Winslow	45	1,765	11	1,307	0	0	22	6,922	78	9,994
Total, Navajo County	1,319	68,777	43	9,282	2	2,052	138	9,280	1,502	89,391
Percent Change, Previous Year	44	2	79	317	100	17,000	64	305	46	25
PIMA COUNTY										
Marana	1,321	178,628	57	12,686	4	390	2,121	18,175	3,503	209,879
Oro Valley **	623	109,397	95	3,002	1	0	481	5,936	1,200	118,335
Sahuarita	969	127,042	9	991	1	200	398	2,768	1,377	131,001
South Tucson **	12	424	0	0	0	0	0	0	12	424
Tucson	4,524	341,476	951	217,236	9	3,603	3,078	41,576	8,562	603,891
Unincorporated	5,973	629,917	292	78,342	15	4,524	1,065	14,454	7,345	727,237
Total, Pima County	13,422	1,386,884	1,404	312,257	30	8,717	7,143	82,909	21,999	1,790,767
Percent Change, Previous Year	19	27	-9	12	-33	-19	2	-37	10	19
PINAL COUNTY										
Apache Junction	480	20,813	92	8,571	0	0	196	11,232	768	40,616
Casa Grande	1,450	100,916	218	42,118	1	2,386	459	25,502	2,128	170,922
Coolidge **	79	4,460	6	2,230	2	461	201	7,665	288	14,816
Eloy **	85	3,267	11	1,190	0	0	86	807	182	5,264
Florence	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Kearny	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Mammoth	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Superior **	0	0	0	0	0	0	2	1	2	1
Unincorporated	5,856	635,211	54	14,204	2	958	815	27,478	6,727	677,851
Total, Pinal County	7,950	764,667	381	68,313	5	3,805	1,759	72,685	10,095	909,470
Percent Change, Previous Year	42	57	11	31	-44	-17	26	5	38	48
SANTA CRUZ COUNTY										
Nogales **	17	1,675	1	0	0	0	5	11	23	1,686
Patagonia **	6	187	0	0	0	0	1	70	7	257
Unincorporated	537	60,617	22	3,910	0	0	58	2,334	617	66,861
Total, Santa Cruz County	560	62,479	23	3,910	0	0	64	2,415	647	68,804
Percent Change, Previous Year	33	52	0	28	—	—	-4	-45	26	39
YAVAPAI COUNTY										
Camp Verde **	45	2,365	0	0	1	133	17	184	63	2,682
Chino Valley	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Clarkdale **	37	2,177	0	0	0	0	16	58	53	2,235
Cottonwood **	200	7,735	98	7,044	1	382	32	3,106	331	18,267
Jerome	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Prescott	919	132,061	65	32,412	2	166	214	3,049	1,200	167,688
Prescott Valley	1,290	78,400	248	23,287	1	658	18	7,877	1,557	110,222
Unincorporated	2,330	172,457	111	10,833	8	2,973	587	10,467	3,036	196,730
Total, Yavapai County	4,821	395,195	522	73,576	13	4,312	884	24,741	6,240	497,824
Percent Change, Previous Year	-1	5	9	16	-19	57	-18	-55	-3	0
YUMA COUNTY										
San Luis	510	28,744	4	2,330	0	0	24	3,148	538	34,222
Somerton **	248	15,064	24	3,035	0	0	51	1,542	323	19,641
Unincorporated **	1,190	89,897	33	4,764	1	917	894	14,762	2,118	110,340
Wellton **	3	304	0	0	0	0	0	0	3	304
Yuma **	945	94,843	26	17,944	2	271	463	68,974	1,436	182,032
Total, Yuma County	2,896	228,852	87	28,073	3	1,188	1,432	88,426	4,418	346,539
Percent Change, Previous Year	-1	43	-20	34	-67	-60	-8	127	-4	56
TOTAL, ARIZONA	94,260	10,646,256	7,173	2,220,251	190	131,106	50,024	1,753,596	151,647	14,751,209
Percent Change, Previous Year	14	24	5	1	-15	4	2	8	9	18

* Dollar value in thousands.

** Incomplete data: one or more months not available.

N/R: No Report.

N/C: Some communities do not collect dollar valuations.

Note: A dash indicates that a percent change could not be calculated because at least one period had no activity.

Source: Arizona Real Estate Center, L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University.

ARIZONA HOUSING UNITS AUTHORIZED: 2003 REPORT

	One Family	Mobile Homes	Duplex	3-4 Family	5 or More	Total		One Family	Mobile Homes	Duplex	3-4 Family	5 or More	Total
APACHE COUNTY							MOHAVE COUNTY						
Eager **	12	20	0	4	0	36	Bullhead City	512	128	4	0	0	644
St. Johns	2	10	0	0	0	12	Colorado City	N/R	N/R	N/R	N/R	N/R	N/R
Springerville	N/R	N/R	N/R	N/R	N/R	N/R	Dolan Springs **	22	46	0	0	0	68
Unincorporated	86	81	0	0	0	167	Kingman Area **	37	84	0	0	0	121
Total, Apache County	100	111	0	4	0	215	Kingman City **	202	0	2	0	0	204
Percent Change, Previous Year	37	11	—	—	—	24	Lake Havasu Area **	96	15	0	0	0	111
COCHISE COUNTY							NAVAJO COUNTY						
Benson **	0	1	0	0	0	1	Holbrook **	2	7	0	0	0	9
Bisbee **	1	0	0	0	0	1	Pinetop-Lakeside	67	12	0	4	0	83
Douglas	N/R	N/R	N/R	N/R	N/R	N/R	Show Low	N/R	N/R	N/R	N/R	N/R	N/R
Huachuca City **	0	0	0	0	0	0	Snowflake	N/R	N/R	N/R	N/R	N/R	N/R
Sierra Vista	596	33	0	0	208	837	Taylor	38	17	0	0	0	55
Tombstone	7	12	0	0	0	19	Unincorporated	363	122	2	0	57	544
Unincorporated	346	448	0	0	0	794	Winslow	13	7	0	0	0	20
Willcox	2	11	0	0	0	13	Total, Navajo County	483	165	2	4	57	711
Total, Cochise County	952	505	0	0	208	1,665	Percent Change, Previous Year	14	2,650	0	-50	—	62
Percent Change, Previous Year	60	9	—	—	—	57	PIMA COUNTY						
COCONINO COUNTY							PINAL COUNTY						
Flagstaff	416	79	50	37	252	834	Apache Junction	190	183	2	20	0	395
Fredonia	4	7	0	0	0	11	Casa Grande	786	103	2	4	245	1,140
Page	14	26	0	0	0	40	Coolidge **	33	13	0	0	0	46
Sedona	88	9	0	0	0	97	Eloy **	33	7	0	12	0	52
Unincorporated	403	181	0	3	0	587	Florence	N/R	N/R	N/R	N/R	N/R	N/R
Williams	15	0	0	0	0	15	Kearny	N/R	N/R	N/R	N/R	N/R	N/R
Total, Coconino County	940	302	50	40	252	1,584	Mammoth	N/R	N/R	N/R	N/R	N/R	N/R
Percent Change, Previous Year	-2	-13	213	-47	1,700	12	Superior **	0	0	0	0	0	0
GILA COUNTY							SANTA CRUZ COUNTY						
Globe **	0	2	0	0	0	2	Nogales **	12	0	0	0	0	12
Hayden	N/R	N/R	N/R	N/R	N/R	N/R	Patagonia **	0	3	0	0	0	3
Miami	N/R	N/R	N/R	N/R	N/R	N/R	Unincorporated	468	0	10	0	10	488
Payson	147	32	0	0	40	219	Total, Santa Cruz County	480	3	10	0	10	503
Unincorporated	94	105	0	0	0	199	Percent Change, Previous Year	39	—	400	—	100	41
Total, Gila County	241	139	0	0	40	420	YAVAPAI COUNTY						
Percent Change, Previous Year	-20	-31	—	—	—	-16	Camp Verde **	10	18	2	0	0	30
GRAHAM COUNTY							YUMA COUNTY						
Pima **	2	0	0	0	0	2	San Luis	362	32	0	0	0	394
Safford **	5	1	2	0	0	8	Somerton **	155	2	0	24	0	181
Thatcher **	19	6	0	0	0	25	Unincorporated **	685	284	0	0	0	969
Unincorporated **	30	64	0	0	0	94	Wellton **	3	0	0	0	0	3
Total, Graham County	56	71	2	0	0	129	Yuma **	634	69	2	0	6	711
Percent Change, Previous Year	70	-26	—	—	—	-4	Total, Yuma County	1,839	387	2	24	6	2,258
GREENLEE COUNTY							TOTAL, ARIZONA						
Clifton **	0	0	0	0	0	0	65,649	6,224	712	549	6,582	79,716	
Duncan	N/R	N/R	N/R	N/R	N/R	N/R	Percent Change, Previous Year	18	3	24	-4	-20	12
Unincorporated	2	5	0	0	0	7	LA PAZ COUNTY						
Total, Greenlee County	2	5	0	0	0	7	Parker	N/R	N/R	N/R	N/R	N/R	N/R
Percent Change, Previous Year	0	400	—	—	—	133	Quartzsite **	3	51	0	0	0	54
MARICOPA COUNTY							LA PAZ COUNTY						
Avondale	1,221	0	0	0	240	1,461	Unincorporated	34	393	0	0	0	427
Buckeye **	570	0	0	0	0	570	Total, La Paz County	37	444	0	0	0	481
Carefree	32	0	0	3	25	60	Percent Change, Previous Year	0	86	—	—	—	74
Cave Creek	104	0	0	0	0	104	MARICOPA COUNTY						
Chandler	3,805	0	0	28	849	4,682	Avondale	1,221	0	0	0	240	1,461
El Mirage	716	27	0	0	0	743	Buckeye **	570	0	0	0	0	570
Fountain Hills	145	0	0	12	5	162	Carefree	32	0	0	3	25	60
Gila Bend **	8	2	0	0	0	10	Cave Creek	104	0	0	0	0	104
Gilbert	3,862	0	0	0	0	3,862	Chandler	3,805	0	0	28	849	4,682
Glendale	719	27	0	0	160	906	El Mirage	716	27	0	0	0	743
Goodyear	2,264	0	0	0	0	2,264	Fountain Hills	145	0	0	12	5	162
Guadalupe **	2	0	0	0	0	2	Gila Bend **	8	2	0	0	0	10
Litchfield Park **	29	0	0	0	0	29	Gilbert	3,862	0	0	0	0	3,862
Mesa	2,339	295	10	129	153	2,926	Glendale	719	27	0	0	160	906
Paradise Valley	65	0	0	0	0	65	Goodyear	2,264	0	0	0	0	2,264
Peoria	1,586	32	0	8	348	1,974	Guadalupe **	2	0	0	0	0	2
Phoenix	9,137	0	106	95	1,919	11,257	Litchfield Park **	29	0	0	0	0	29
Queen Creek	1,795	4	0	0	0	1,799	Mesa	2,339	295	10	129	153	2,926
Scottsdale	1,502	0	0	24	269	1,795	Paradise Valley	65	0	0	0	0	65
Surprise	4,952	16	0	0	336	5,304	Peoria	1,586	32	0	8	348	1,974
Tempe	78	0	0	8	766	852	Phoenix	9,137	0	106	95	1,919	11,257
Tolleson **	1	0	0	0	0	1	Queen Creek	1,795	4	0	0	0	1,799
Unincorporated	5,771	827	0	16	0	6,614	Scottsdale	1,502	0	0	24	269	1,795
Wickenburg	84	3	0	0	10	97	Surprise	4,952	16	0	0	336	5,304
Youngtown	269	0	0	0	0	269	Tempe	78	0	0	8	766	852
Total, Maricopa County	41,056	1,233	116	323	5,080	47,808	Tolleson **	1	0	0	0	0	1
Percent Change, Previous Year	16	7	23	21	-27	9	Unincorporated	5,771	827	0	16	0	6,614

N/R: No Report
 ** Incomplete data: One or more months not available

Note: A dash indicates that a percent change could not be calculated because at least one period had no activity.

Source: Arizona Real Estate Center, L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University.

Arizona Leading Index inches upward in February

The Bank One Arizona Index of Leading Economic Indicators rose 0.2 percent in February to 124.2, up slightly from the previous month's 123.9 and 4.4 percent above the February 2003 number of 119.0 (1987 = 100).

The best economic news in February occurred in employment: The data recorded the first increase (month-over-same-month prior year) in nearly three and a half years. The March numbers are out, and they show an even stronger jump in the number of jobs for the nation as a whole. However, the nation still has a long way to go — February represented a 0.1 percent increase and March a 0.5 percent increase, which does not compare well to the 2-plus percent annual growth of the 1990s.

Positive values were reported in the inflation-adjusted value of the M2 money supply, delivery times, the inflation-adjusted value of Maricopa County residential building permits and production. Employment from the Business Conditions Survey, hours worked in manufacturing, materials inventories and new orders were negative. Sensitive materials prices were neutral.

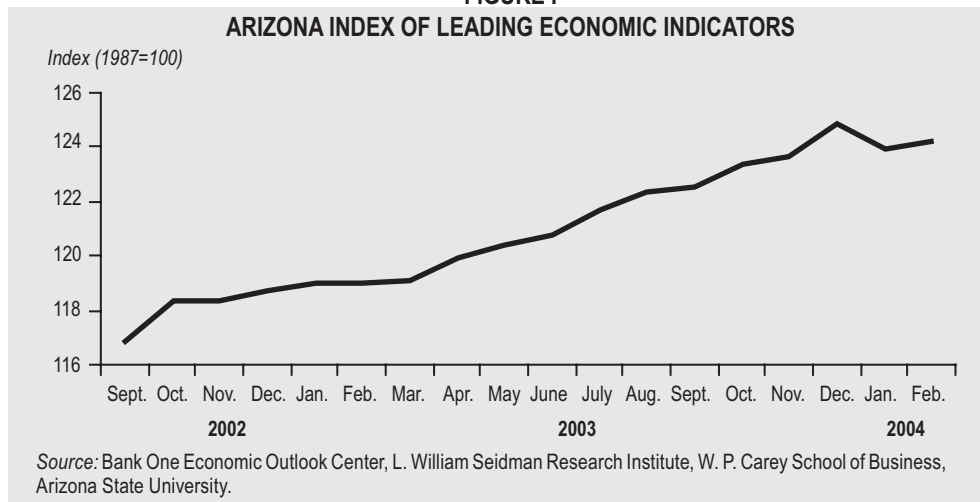
The 2004 Survey of Maricopa County Manufacturers suggests that conditions are improving. The percentage of local manufacturers indicating that conditions have improved in their specific industries doubled in 2004, to 65 percent — and the percentage that expect to increase employment in the coming year improved from 28 to 43 percent. The problem for manufacturers nationwide

is the continuing increase in prices for raw materials, which could put the squeeze on profits and reinforce the reluctance to hire. It is not clear how high-tech firms specifically will be affected by this factor in the coming year.

— Tracy Clark
Associate Director

Bank One Economic Outlook Center

FIGURE I
ARIZONA INDEX OF LEADING ECONOMIC INDICATORS



Business Conditions Index slips in February

The seasonally adjusted Arizona Business Conditions Index fell by 0.7 points in February, to 67.5 in February from 68.2 the previous month. An index reading over 50 indicates that the local economy is growing; below 50 suggests a slowdown in the overall level of economic activity in the near term.

price increases experienced nationwide in the steel market. It is clear that manufacturers are experiencing higher prices from a number of sources for their input materials. The last time the Price Index exceeded February's level was November 1976, when it read 68.5. The last time it came close to February's level, however,

was in September 2000 (68.2). If this trend in prices continues over the next few months, it will become a concern for the local economy.

— Dawn McLaren
Research Economist

Bank One Economic Outlook Center

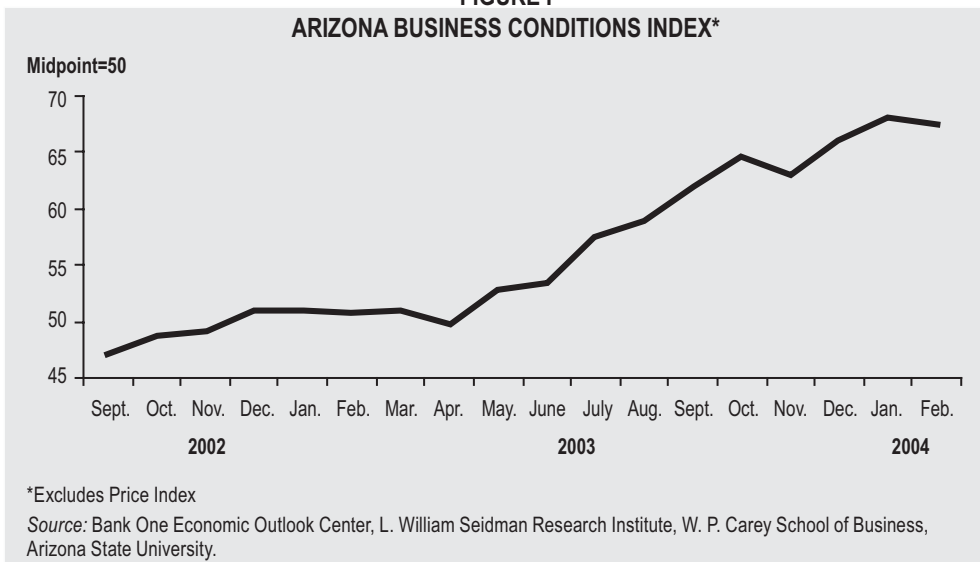
ANALYSIS

Although the employment component of the index fell by 6.7 points, it is showing a healthy reading for the second consecutive month. Employment leveled out at 63.6, well over the critical 50-point benchmark. January's reading had been the third highest for the employment component in the 41-year history of the index. This is good news for job seekers, as it indicates that a recovery in the job market has finally begun.

Despite the slight decline, the index reflects a healthy picture for the local economy. Some readjustment was expected after the stellar levels achieved in January.

What was not as anticipated was the jump in the Price Index, which rose from 57.7 in January to 68.4 in February. This is probably because of increased fuel prices as well as some

FIGURE I
ARIZONA BUSINESS CONDITIONS INDEX*





AZB/ARIZONA BUSINESS

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ARIZONA ECONOMIC INDICATORS

	Month or Quarter	Current Value	Previous Value	Percent Change Previous Period	Percent Change from Year Ago	Year-to-Date	
						Value	Percent Change from Year Ago
LEADING ECONOMIC INDEX (1987 = 100)							
Arizona	February	124.2	123.9	0.2	4.4	NA	NA
BUSINESS CONDITIONS INDEX							
Arizona	February	67.5	68.2	-1.1	32.9	NA	NA
BUILDING PERMITS (Thousands of \$)							
Maricopa County	January	758,395	1,019,780	-25.6	17.0	758,395	17.0
Pima County	January	125,888	166,800	-24.5	1.3	125,888	1.3
Balance of State	January	222,831	245,081	-9.1	3.6	222,831	3.6
Arizona	January	1,107,114	1,431,661	-22.7	12.1	1,107,114	12.1
TOTAL HOUSING UNITS AUTHORIZED							
Maricopa County	January	3,259	4,683	-30.4	19.3	3,259	19.3
Pima County	January	810	697	16.2	35.2	810	35.2
Balance of State	January	1,626	1,895	-14.2	-2.5	1,626	-2.5
Arizona	January	5,695	7,275	-21.7	14.0	5,695	14.0
HOME SALES							
Maricopa County – Number.....	January	8,610	13,340	-35.5	18.9	8,610	18.9
Maricopa County – Median Price(\$).....	January	159,000	159,900	-0.6	7.9	159,000	7.9
HOUSING AFFORDABILITY INDEXES							
Metropolitan Phoenix – New Homes	4th Quarter	111	110	0.9	-3.5	NA	NA
Metropolitan Phoenix – Resale Homes	4th Quarter	126	120	5.0	-1.6	NA	NA
MORTGAGE RATES (30-year Fixed)							
Maricopa County	February	5.2	5.3	-1.9	-5.5	NA	NA
POPULATION ESTIMATES (Thousands)							
Maricopa County	4th Quarter	3,439	3,412	0.8	3.0	NA	NA
Pima County	4th Quarter	913	907	0.6	2.1	NA	NA
Balance of State	4th Quarter	1,353	1,342	0.9	3.1	NA	NA
Arizona	4th Quarter	5,704	5,660	0.8	2.9	NA	NA
RETAIL SALES (Millions of \$)							
Maricopa County	Data Unavailable at Press Time						
Arizona	Data Unavailable at Press Time						

Note: The above figures reflect the latest data available as of date of publication and are subject to revision.

NA = Not Applicable r = Revised

Source: Center for Business Research, Arizona Real Estate Center, and Bank One Economic Outlook Center, affiliates of the L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University. Retail sales data are from the Arizona Department of Revenue.