

Housing Innovation in Arizona

December 7th, 2022

2022 CSI Arizona Housing Fellows State Senator Sean Bowie and fmr. Gilbert Mayor Jenn Daniels are CSI Arizona's first fellowship partners and both have a long history of policymaking and expertise in housing. Their report, "Housing Innovation in Arizona: Opening the Door to Arizona's Housing Future," responds to the crisis in Arizona housing:

- **Home prices in Arizona rose more than 50% in just 18 months.** Since peaking in June, prices have since been falling at a rate of about 1%/month – but the combination of sky-high interest rates and scant supply means this price moderation offers homebuyers little relief. CSI's *Homebuyer's Misery Index* continued to read near all-time highs and more than double its long-run average level.
- **Arizona's residential vacancy rates imply a shortage of 100,000 housing units.** Rapid immigration since 2020 and slowing residential home construction since the Great Recession have created a substantial housing shortfall. But developer & builder interest has slowed, and real-time measures of housing construction are down about 30% from their peak in early 2022.
- **A combination of state & local regulations and red tape have closed the door on new housing.** Houston – a city of comparable size and character to Phoenix and famous for its relatively open housing market – has seen similar population growth as Phoenix since 2000, but exhibited just a fraction of its real estate price volatility. Between 2010 and 2020 Houston added over 400,000 new housing units and grew its housing supply by 20%. Over the same period, Phoenix added half that and grew its supply by just 10%.

Faced with clear evidence that, due in substantial part to red tape, homebuilding in Arizona hasn't kept pace with demand and that the coming housing correction threatens to derail this already narrow pipeline, Senator Bowie and Ms. Daniels have identified nineteen recommendations in three areas policymakers should consider next year:

- **Cities and towns must be more accommodating of housing development and the needs of younger families and lower-income buyers.** Diversity in housing is essential for economic development and affordability. Red tape and lengthy licensing and permit processes, with expensive fees and mandates, add to the cost of new housing development and limit buyers' options. Our municipalities should adopt uniform processes that are fair, consistent, and simple to comply with.
- **The State of Arizona must acknowledge differing local needs and relax pre-emptions that limit their options.** Statutory mandates prohibiting reasonable regulation of short-term rentals and prohibiting experimentation with novel tools to incentivize increased housing development, like 'housing opportunity zones' and affordable housing partnerships, unnecessarily and unintentionally exacerbate our current crisis.
- **Policymakers should incentivize partnerships between the State and our local governments.** Legislators should consider funding statewide grant programs that reward cities that innovate by adopting potentially costly local reforms. The State should also empower the Department of Housing to develop an objective scorecard that rewards innovative jurisdictions with high letter-grades developers and buyers can rely on when choosing where to locate.