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Regional Intelligence Report

OCTOBER 2021

Prepared by Beacon Economics, LLC
Presented by Alliance Bank of Arizona

Economic Outlook: Pima County

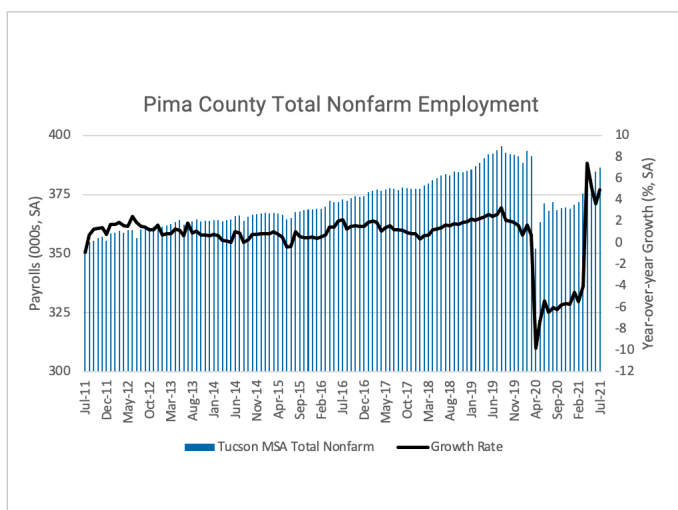
Overview

Pima County is bouncing back strong from COVID-related economic shocks. As of August 2021, the region has regained 83.0% of the jobs lost between February 2020 and April 2020. By contrast, the U.S. has recovered just 75.1% of jobs over the same period. Pima County's housing market has been the strongest component of the region's economy, with prices and sales surging.

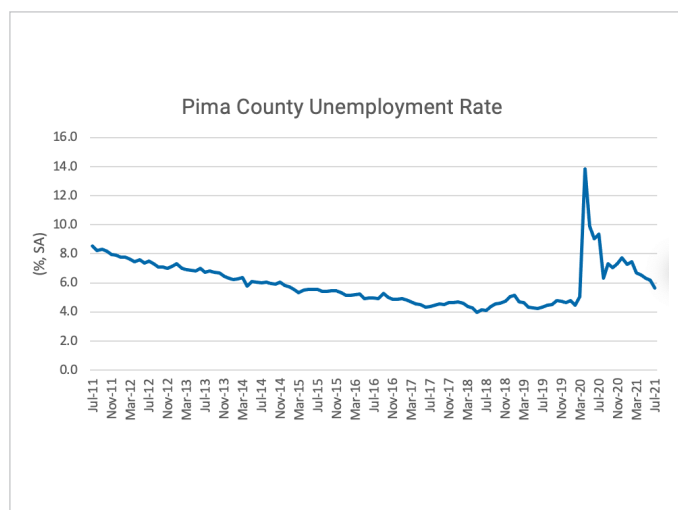
Due to the Delta variant, the number of COVID-19 cases surged throughout the summer, but has not had the same impact on the economy as it did in 2020. Over half (52%) of Arizona's population has been fully vaccinated, compared to 56.5% nationally. Rather than business closures, which seem unlikely given high rates of vaccination and a better understanding of how to manage the spread of the virus, the biggest impact of the resurgence could be on labor supply. If school closures are introduced, as they have been in some places across the country, or if parents are reluctant to send children to school, this will again place a constraint on the supply of workers. Additionally, some workers in industries that have a high degree of person-to-person contact could withdraw from (or remain out of) the labor market in the short term, further exacerbating labor supply issues. At present, these factors have not significantly affected the region's economy.

Regional Employment

The Pima County labor market outperformed the rest of the U.S. during the pandemic. The region lost 41,000 jobs (-10.5%) at the onset of the pandemic. Since this time, 83% of the jobs lost have been recovered, compared to a 75.1% recovery nationally. However, this falls behind the exceptional performance in Maricopa County, where 119% of the jobs lost have been recovered.



Source: US Bureau of Labor Statistics (BLS)



Source: US Bureau of Labor Statistics (BLS)

While total employment in Pima County has significantly recovered, some industry payrolls remain depressed relative to pre-pandemic figures. Interestingly, some of the largest job losses in the region have been concentrated in the region’s Admin Support sector, with 5,700 fewer workers compared to February 2020 (an 18.6% decline). Other significant job losses have occurred in Information (-10.4%), Government (-6.8%), and Wholesale Trade (-5.5%).

Still, it’s important to remember that many important economic sectors struggled in 2020 because of pandemic-related economic and labor force restrictions. As a result, there is significant pent-up demand in the economy which should continue to drive growth in the industries most impacted by the pandemic in the coming months. However, with many businesses struggling to hire workers, it may take some time for certain industries (particularly lower-wage industries) to return to pre-pandemic employment levels.

During the pandemic, the Transportation and Warehousing sector saw the largest job gains in the region, growing by 22%. This change has been fueled by changes in consumer habits, as more consumption occurred online during this time.

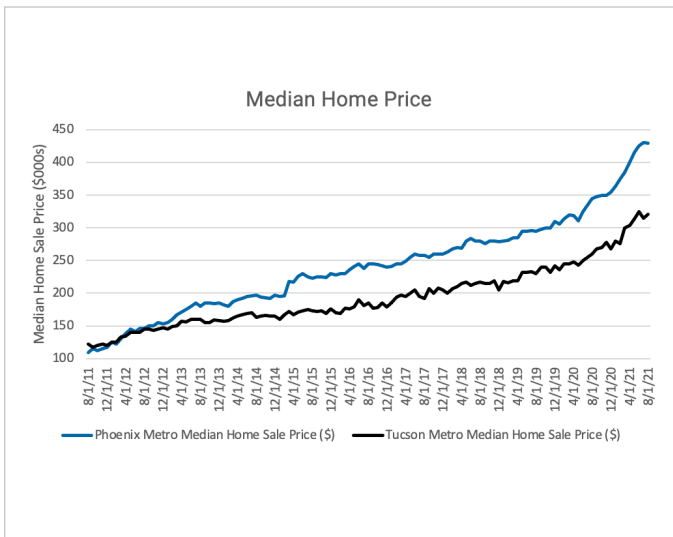
INDUSTRY EMPLOYMENT: PIMA COUNTY (FEBRUARY 2020 – JULY 2021)

Sector	Jul-21 Emp. (000s)	Chg. Since Feb-20 (000s)	Chg. Since Feb-20 (%)
Transportation/Warehouse	108	20	22.3
Professional, Science and Tech	18.9	0.4	2.0
Wholesale Trade	6.8	-0.4	-5.5
Education/Health	66.8	-3.4	-4.9
Retail Trade	42.0	0.7	1.7
Financial Activities	17.9	0.3	1.7
Government	73.6	-5.4	-6.8
Manufacturing	28.1	0.3	1.1
Construction	18.7	0.3	1.4
Admin Support	24.9	-5.7	-18.6
Leisure and Hospitality	43.6	-1.0	-2.2
Information	5.3	-0.6	-10.4
Total Nonfarm	386.4	-7.1	-1.8

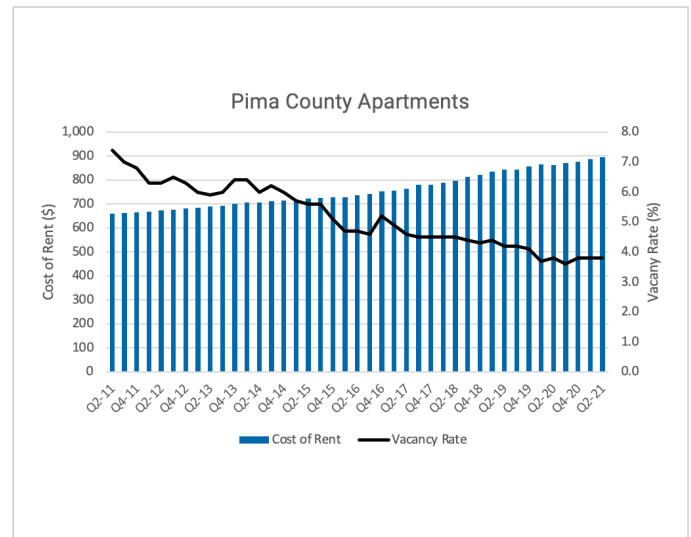
Source: US Bureau of Labor Statistics (BLS)

Residential Real Estate

In addition to solid employment figures, the Pima County housing market has been a pillar of the region’s economic recovery during the pandemic. The market’s strong performance is likely driven by three factors.



Source: University of Arizona Economic and Business Research Center, US Census Bureau



Source: REIS (Moody's Analytics)

First, typical homebuyers (higher-income earners) have been less affected by the general labor market downturn. Second, mortgage rates are at historically low levels, spurring purchase activity. Third, inventories are near historic lows. These factors have pushed offers far over asking prices even as buyers waive inspections and other contingencies to get a leg up on the competition. Pima County saw a large spike in housing demand over the last year under these historically unique economic conditions.

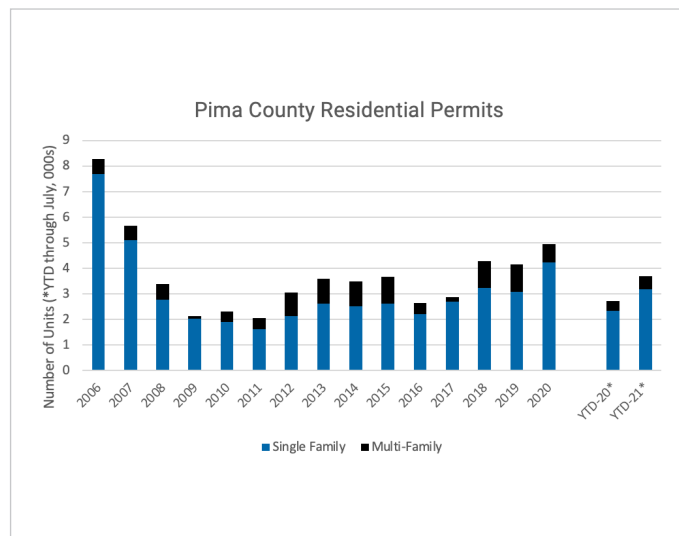
With this backdrop, home values in Pima County continue to increase rapidly. From February 2020 to August 2021, Pima County home prices rose 31.1%. In the neighboring Maricopa County, median home prices rose by a greater amount over this period; they increased by an astounding 36.9%. The median home price in Maricopa County reached \$429,900 in August 2021, exceeding Pima County’s median value of \$321,100.

Demand surged in the second half of the year and has continued growing into 2021. With demand skyrocketing, existing single-family home sales in Pima County are at levels not seen since prior to the Great Recession over a decade ago.

While economic stimulus and low interest rates have increased demand for housing throughout Arizona, supply has not increased to meet these demands. In August 2021, there were just 445 active listings in Pima County. For context, in August 2019 (just two years earlier) available housing supply was 1,032 units. With inventory so low, it will take years for builders to catch up as demand remains high. If inflation begins to heat up persistently, mortgage rates will experience a similar jump and the market could downshift rapidly. But these effects, if they occur, are unlikely within the next two years.

While housing demand grew in Pima County, apartment rents increased, and apartment vacancy rates remained consistent from the second quarter of 2020 to the second quarter of 2021. Vacancy rates rose in Maricopa County and fell in Coconino County over the same period. Asking rents rose 3.9% to \$896 in Pima County. Asking rents rose 3.2% to \$1,197 in Maricopa County but fell to \$1,339 in Coconino County.

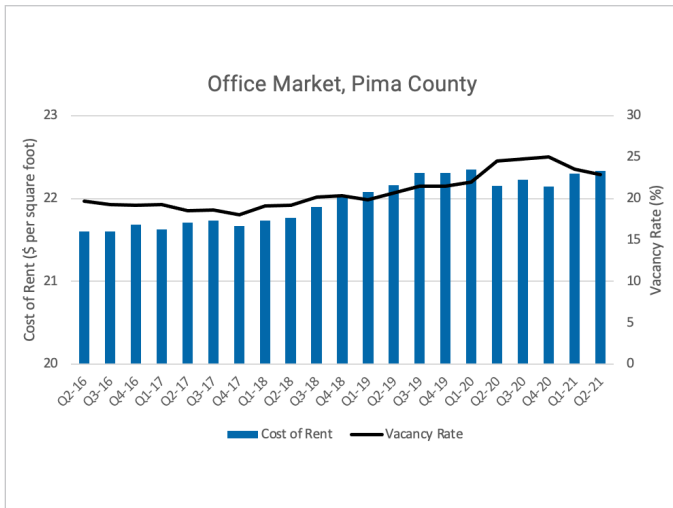
Construction permit activity has increased over the last year in Pima County. Residential construction permitting activity through July 2021 is up 35.4% over the same period in 2020. This growth is being fueled by a 36.3% increase in single-family permitting; multi-family permitting is up 29.9% YTD between 2020 and 2021.



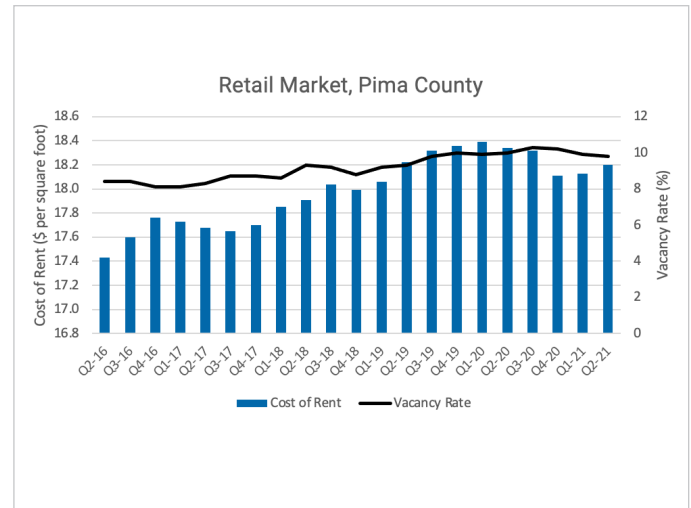
Source: University of Arizona Economic and Business Research Center, US Census Bureau

Commercial Real Estate

Despite some companies shifting more of their operations to virtual environments, demand for office properties has remained constant over the last year in Pima County. Office vacancy rates hit 22.9% in the second quarter of 2021, down 1.6 percentage points from a year earlier. Average asking rents increased by 1.8% in the nearby Maricopa County compared to 0.8% in Pima County.



Source: REIS (Moody's Analytics)



Source: REIS (Moody's Analytics)

Demand for retail space in Arizona has fallen over the last year because of health-mandated restrictions and consumer reservations amid the COVID-19 pandemic. Pima County saw a 0.1% decrease in asking rents but a 0.2% fall in vacancy rates. For comparison, in Maricopa County the retail vacancy rate hit 9.8% in the second quarter of 2021, up 0.2 percentage points from one year earlier.

The increase in demand for e-commerce has correspondingly increased demand for warehouse space throughout Arizona. In Pima County, the warehouse vacancy rate dropped to 12.9% in the second quarter of 2021, down 2.2 percentage points from one year earlier. Vacancy rates for warehouse properties also declined by 2.2 percentage points in Maricopa County over the same period. Similarly, average asking rents for warehouse space grew 0.2 percentage points in Maricopa County.

Prepared By Beacon Economics

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