

Alliance Bank
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Phoenix

Regional Intelligence Report

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

Economic Outlook: Maricopa County

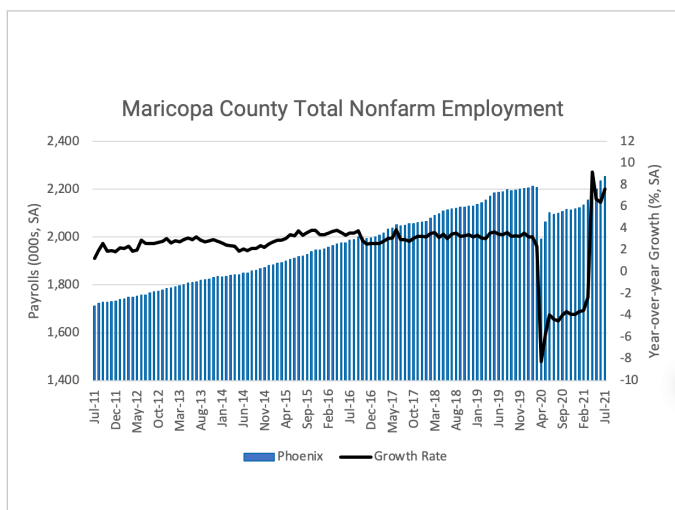
Overview

The labor market in Maricopa County is one of just a handful of regions in the country to have fully recovered the number of jobs lost during the pandemic. As of August 2021, the region has regained 119% of the jobs lost between February 2020 and April 2020. The U.S. has recovered just 75.1% of jobs over the same period, by contrast. In addition to its labor market, the region's housing market has also shown great strength during the pandemic.

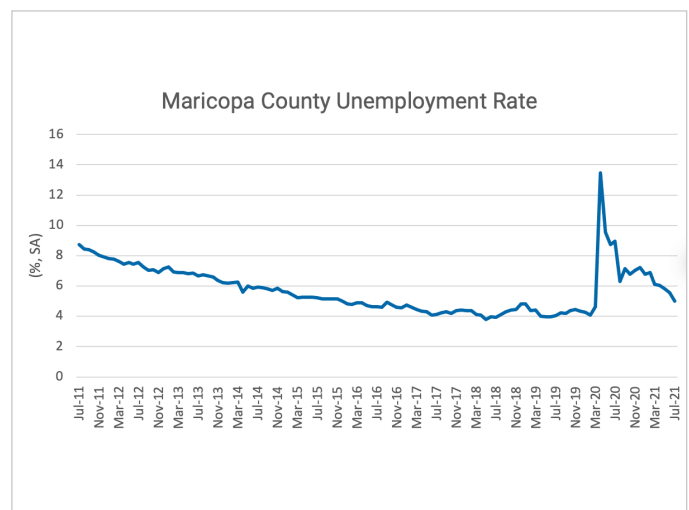
Due to the Delta variant, the number of COVID-19 cases surged in the late summer, but the continued spread of the virus has not had the same impact on the economy as it did in 2020. More than half (51%) of Arizona's population has been fully vaccinated, compared to 55% nationally. Rather than business 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 affected the region's economy.

Regional Employment

The Maricopa County labor market outperformed the rest of the U.S. during the COVID-19 pandemic, adding 42,000 (+1.9%) jobs from February 2020 to July 2021, while job losses have occurred nationally over this period. The region had lost 220,000 jobs (-9.9%) at the onset of the pandemic. Despite ongoing COVID-19 concerns, Maricopa County has posted job growth in the past eight months. These gains have powered a 119% recovery of jobs lost at the start of the first COVID-19 surge in early 2020. This recovery is exceptional – neighboring Pima and Coconino counties have recovered just 83.0% and 81.4% of jobs lost, respectively.



Source: US Bureau of Labor Statistics (BLS)



Source: US Bureau of Labor Statistics (BLS)

While total employment in Maricopa County has fully recovered, some industry payrolls remain depressed relative to pre-pandemic figures. Unsurprisingly, some of the largest job losses in the region have been concentrated in the region's Leisure and Hospitality sector, where there are 11,000 fewer workers compared to February 2020 (a 4.5% decline). Other significant job losses have occurred in Information (-6.5%), Management (-3.8%), and Utilities (-2.5%).

Still, it's important to remember that people stopped eating at restaurants and attending events and conventions in 2020 not because they couldn't afford it, but because these kinds of activities were restricted. 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.

Many bright spots exist in Maricopa County. The strong surge in Transportation/Warehouse sector (+20,000 payrolls) employment is a prime example. The Professional, Science, and Tech (+14,000), Education/Health (+10,000), and Retail Trade (+6,000) sectors also saw large payroll growth between February 2020 and July 2021. Expect jobs numbers to continue to expand as COVID-driven economic shocks fade.

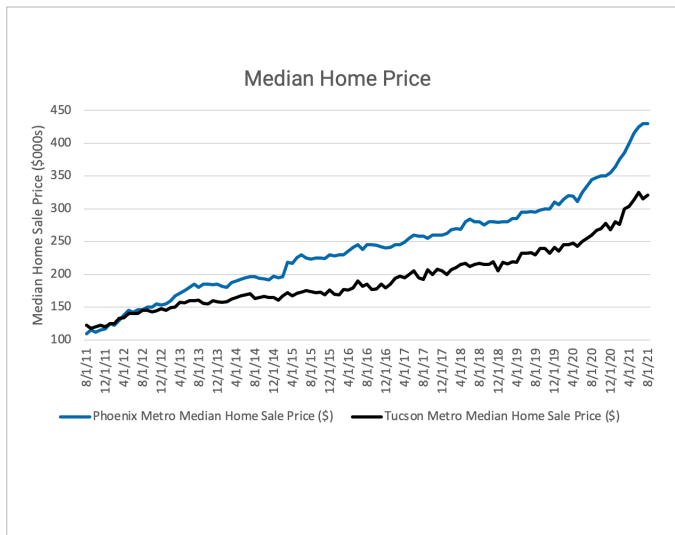
INDUSTRY EMPLOYMENT: MARICOPA COUNTY (FEBRUARY 2020 – JULY 2021)

Sector	Jul-21 Emp. (000s)	Chg. Since Feb-20 (000s)	Chg. Since Feb-20 (%)
Transportation/Warehouse	108	20	22.3
Professional, Science and Tech	145	14	10.4
Wholesale Trade	88	4	5.0
Education/Health	359	10	2.9
Retail Trade	243	6	2.5
Financial Activities	208	3	1.5
Government	248	2	0.7
Manufacturing	137	1	0.5
Construction	136	-2	-1.1
Admin Support	206	-4	-1.8
Utilities	8	0	-2.5
Management	30	-1	-3.8
Leisure and Hospitality	225	-11	-4.5
Information	38	-3	-6.5
Total Nonfarm	2,255	42	1.9

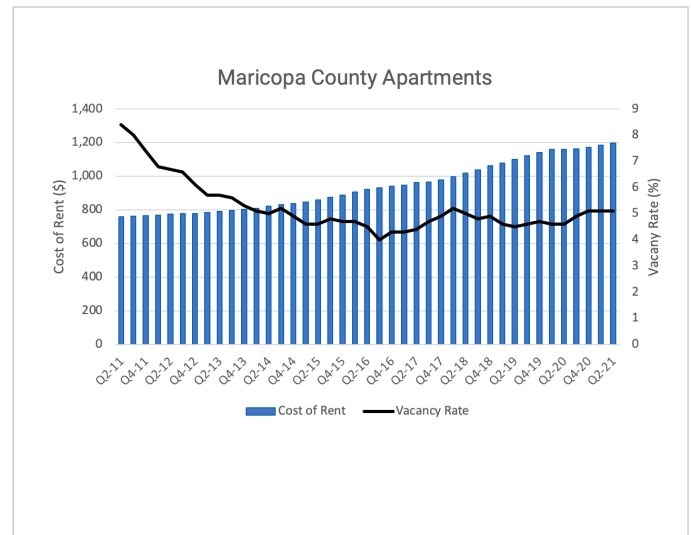
Source: US Bureau of Labor Statistics (BLS)

Residential Real Estate

In addition to impressive employment figures, the housing market has been another 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



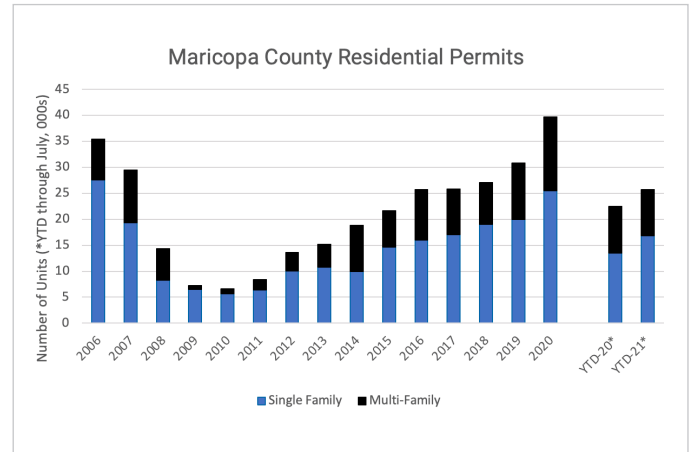
Source: REIS (Moody's Analytics)

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. Maricopa County saw a large spike in house demand over the last year due to these historically unique economic conditions.

With this backdrop, home values in Maricopa County continue to increase rapidly. From February 2020 to August 2021, Maricopa County median home prices rose an astounding 36.9%. In the same period, Pima County home prices rose 31.1%. The median home price in Maricopa County reached \$429,900 in August 2021, outpacing Pima County at \$321,100.

Demand surged in the second half of 2020 and has continued growing deep into 2021. With demand skyrocketing, existing single-family home sales in Maricopa 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 5,838 active listings in Maricopa County. For context, in August 2019 (just two years earlier) available housing supply was 12,254 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.



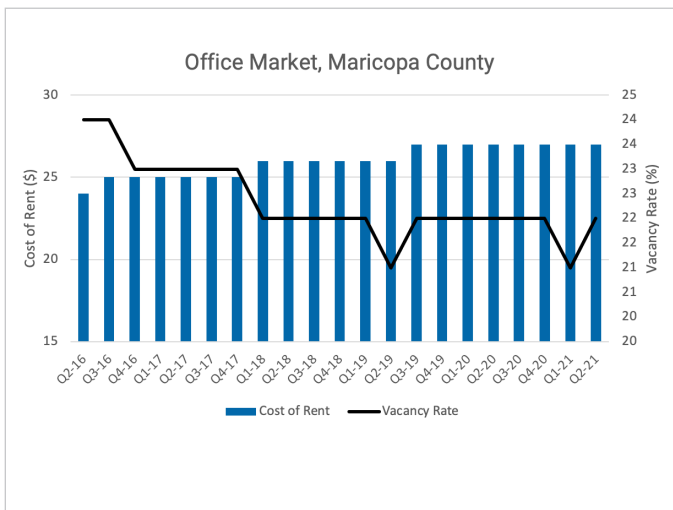
Source: University of Arizona Economic and Business Research Center, US Census Bureau

While housing demand remains high, the Maricopa County apartment market also saw increased demand and prices during the pandemic. Apartment vacancy rates rose to 5.1% from the second quarter of 2020 to the second quarter of 2021, a 0.5 percentage-point increase. Vacancy rates fell in Pima County and Coconino County over the same period. Average asking rent rose 3.2% to \$1,197 in Maricopa County. Asking rents fell 2.0% to \$1,339 in neighboring Coconino County and rose 3.9% to \$896 in Pima County.

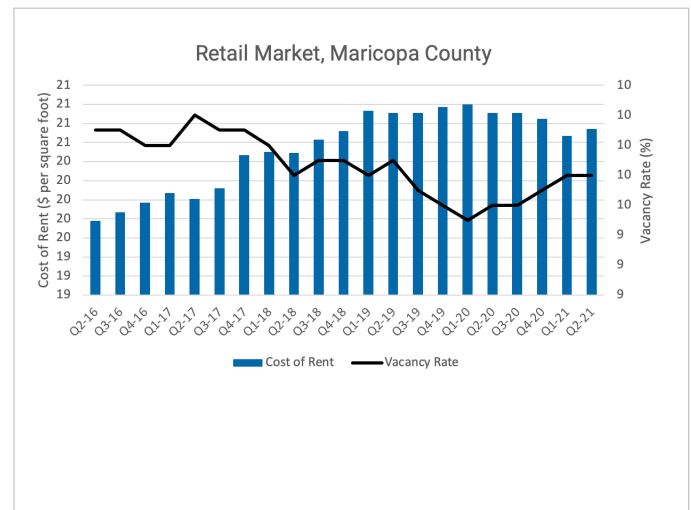
Construction permit activity has increased over the last year in Maricopa County. Residential construction permitting activity through July 2021 is up 14.7% over the same period in 2020. This growth is being fueled exclusively by a 25.1% increase in single-family permitting; multi-family permits issued in 2021 are the same compared to the same point in 2020.

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 Maricopa County. Office vacancy rates hit 21.5% in the second quarter of 2021, down 0.1 percentage points from one year earlier. Vacancy rates for office properties in neighboring Pima County were exceptionally volatile at the onset of the pandemic, rising to 24.5% before falling to 22.9% in the second quarter 2021. Average asking rent increased by 1.7% in Maricopa 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. 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. Average asking rent also declined by 0.3%. Nearby Pima County saw a 0.1% decrease in asking rents but a 0.2% fall in vacancy rates.

The increase in demand for e-commerce has increased demand for warehouse space throughout Arizona. In Maricopa County the warehouse vacancy rate dropped to 12.8% 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 Pima County over the same period. Similarly, average asking rent for warehouse space grew 0.2 percentage points in Maricopa County, matching the 0.1 percentage point increase in Pima County.

Prepared By Beacon Economics

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