

What the recovering Arizona economy means to REALTORS®

by Ron LaMee, Senior VP of Research and Member Value, Arizona Association of REALTORS®

Overview

This article looks at growth projections for Arizona population, jobs and personal income. We will also consider what this means to Arizona REALTORS®.

- The rate of population growth is expected to rise through 2017.
- Arizona job growth will be above the national average and slightly higher than population growth.
- Personal income, when adjusted for inflation, is likely to be flat.

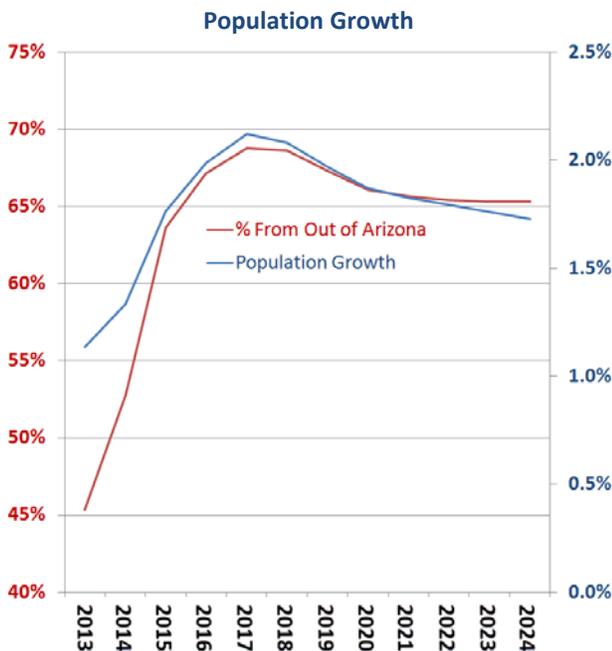
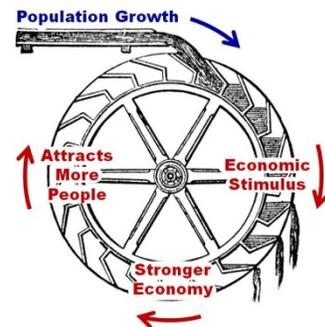
Arizona REALTORS® can expect population growth to help drive our housing markets. On the other hand, the financial after effects from the 2009 Global Recession (slow job growth, credit issues, etc.) will moderate demand and housing prices, thus making a new housing bubble fairly unlikely.

For most REALTORS®, 2014 will be a respectable year, but probably won't break any records. Looking forward to 2015, this is an excellent time to move outside your normal routine. Attend some real-estate-related meetings (office meetings, mixers, MLS marketing meetings) and check out what is going on around you. Investigate new technology and business ideas very carefully, plan your course of action and make sure you are properly positioned when business picks up again. For details on the economic picture and more tips, read on.

Population to increase faster than national average

Arizona's economy depends heavily on population increases to bootstrap growth—additional residents boost consumption, which improves the economy and draws in more people, which boosts consumption, and so on.

Here's what Arizona's Department of Administration (DOA) Office of Employment & Population Statistics predicts over the next 10 years:



Arizona population growth shrank rapidly during the 2009 global recession but has begun to come back. Following the blue graph line, we can expect the growth rate to increase sharply through 2017 then level off at a little under 2% annually. It's interesting, though, to see where that growth will come from. This year, about half of the increase will come from births and half from people moving to Arizona. By the time the growth rate peaks at 2.1% in 2017, over two-thirds of these new Arizonans will come from *outside* our state.

Over the next five years, our population will grow 7-8%—good news for REALTORS®. Increased population means greater demand for housing, whether buyers or renters. However, an increasing percentage of these new Arizonans will be coming from other states or even other countries. These newcomers may require extra time and attention while you determine their needs and match them up with their perfect home. Understanding their expectations may include studying typical housing in other parts of the U.S. or learning effective communication styles with other cultures.

Job growth to increase faster than population

With our population expected to grow 7-8% over next five years, new residents will be looking for jobs. As the adjacent *Total Nonfarm Employment* chart shows, Arizona's Department of Administration predicts that job growth will slowly improve through 2015 and will even exceed population growth.

The picture is different throughout the state with Tucson and outlying areas increasing significantly and Phoenix growth moderating. In any event, job growth will continue to meet the needs of the growing population. Once again, Arizona will exceed the national average, but remember, our increases start from a very deep slump during the recession. Barring any major economic impacts, Arizona can expect to maintain job growth for the future.

Total Nonfarm Employment Annual Average Growth Rate

	2013 ^(a)	2014 ^(b)	2015 ^(b)
Arizona	2.1%	2.1%	2.4%
Phoenix MSA ¹	2.8%	2.5%	2.6%
Tucson MSA ²	0.7%	1.2%	1.8%
Balance of State ³	0.2%	1.3%	1.7%

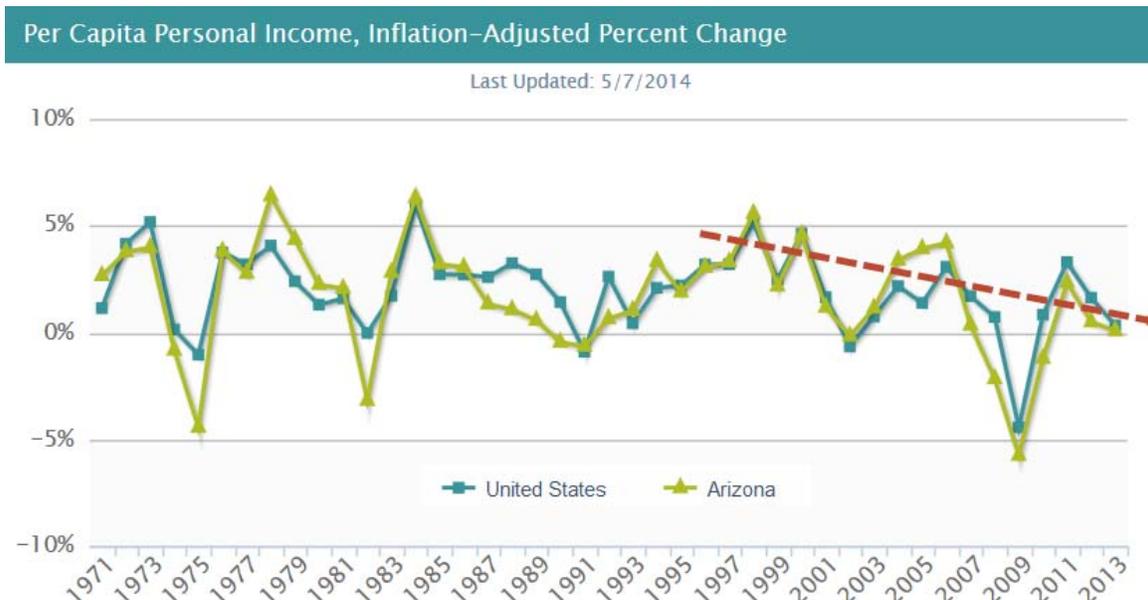
- 1) Maricopa and Pinal counties
- 2) Pima County
- 3) Arizona less Maricopa, Pinal and Pima counties
- a) Historical
- b) Forecast

Arizona Department of Administration, Office of Employment & Population Statistics

REALTORS® should see these job forecasts as positive, but it is also important to pay attention to *what kind* of jobs are created. Low-paying jobs tend to stimulate business with lower-cost rentals and homes. Higher-paying jobs mean more mobility and larger, more expensive homes. As jobs are created, you should begin to research typical pay scales of those jobs, do the math on loan qualification, then start locating homes around the estimated price range. This knowledge will provide insight into potential clients' income and where to start in showing them appropriately-priced neighborhoods. The more you know, the more effective you will be and the more likely you are to receive referrals.

Personal income growth is flat

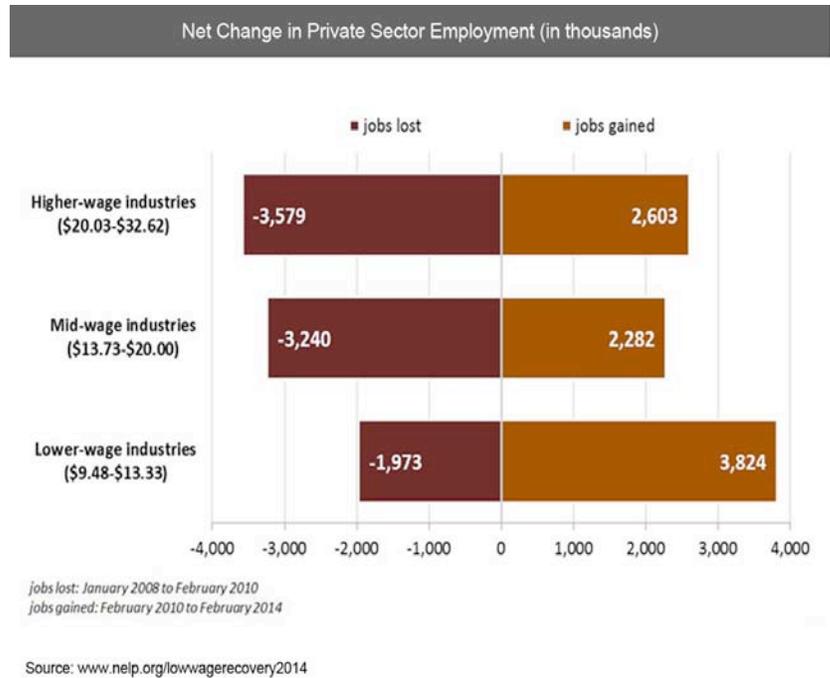
After looking at positive figures for population and job growth, it is time to come back to Earth: personal income just isn't growing the way it did when our economy was booming. The *Per Capita Personal Income* chart below can be found at the Arizona Indicators website at <http://arizonaindicators.org/visualization/capita-personal-income-inflation-adjusted-percent-change>. The website is interesting to work with as you can turn on graph lines for each Arizona county to compare income figures to each other, the U.S. or Arizona as a whole:



The lines in the Per Capita Personal Income graph sawtooth up and down, but there has been more down than up since the most recent peak in 1997. Interestingly, note that incomes of Arizonans tend to overshoot the U.S. average, both rising and falling. Incomes had been recovering from the brief dot-com recession in the early 2000s; the Great Recession caused a deep plunge followed by a recovery in 2011. Recently, it looks like we are back to zero growth. The trend of low- or no-growth is clear—this isn't a big shock since many people feel it. Let's see why this is.

The *Net Change in Private Sector Employment* chart to the right from the National Employment Law Project is quite revealing. The U.S. has regained almost as many jobs as it lost but at a lower wage. Of the 9.7 million jobs lost at an average of \$19.49/hour, the 9.7 million we regained average \$17.13/hour—over a 15% decrease not counting inflation. Some experts attribute this decrease to employers hiring more temporary and part-time workers. Until we get further along in the recovery, we won't know if this downward trend will last.

Prospective home buyers not only need inventory to choose from, but liquid funds for purchase. Many factors impact liquidity: capital still tied up in underwater mortgages, savings depleted by the deep recession, layoffs leading to lower-paying jobs, etc. Poor liquidity in personal finances is likely one of the reasons for lower demand in most housing markets and will continue to be a factor for the foreseeable future.



In summary...

REALTORS® are always directly impacted by the economy. Our profession draws many new agents due to its low entry requirements and great opportunity. A better economy may mean some REALTORS® will return to their pre-recession occupations, but an improving real estate market will certainly attract new agents. To those longtime Arizona REALTORS® who have been through several market cycles and are in it for the long term, I would advise *patience* and *planning*.

At this point (in the middle of 2014), the real estate market comeback that began in 2009 has settled down, housing prices in Arizona reflect rational expectations and there is steady market activity—I believe we can safely say there is no bubble waiting to burst. In fact, some analysts are discussing a "shadow demand" caused by the absence of buyers returning after owning a distressed property along with the Millennials' seeming reluctance to purchase their first home. These factors are discussed further in a previous Arizona Realtor Magazine article at <http://www.aaronline.com/2014/04/dynamics-in-housing-demand-a-look-at-gen-x-and-gen-y-buyers/>.

While 2014 won't be a record-breaking year for most, it will be decent. Now is the time to polish skills and plan for the future. Here are some concrete steps you can take to hone your skills:

- Attend your broker's office meetings. Many brokers bring information to the meeting from their own contacts within the industry as well as the Department of Real Estate.
- MLS marketing sessions provide deeper neighborhood knowledge and great contacts. The Scottsdale Area Association offers an excellent map of marketing sessions in the greater Phoenix area at <http://www.saaronline.com/find-your-area#comprehensivemap>. Attend several!

- Familiarize yourself with REALTOR® organization benefits and activities. At the Arizona REALTORS® website, there is a directory of all other local association websites at <http://www.aaronline.com/about-us/#locassn>. Check to see what your associations are doing.
- Even if you are adept with technology, look for tech education and training classes. Be sure the technology relates directly to creating a business advantage and isn't just expensive gadgetry. If something catches your eye, talk with other agents before you buy to see who is using it and what kind of results they are having.
- Investigate some new marketing and lead generation programs to make sure you are up to date. Keep in mind that if it sounds too good to be true, it probably is—find out what is working for other agents. Some systems combine technology and methods like the Paperless Agent approach which was presented at the Association's April 2014 Spring Conference. If you are interested in Paperless Agent, the Arizona association has arranged a special deal for you at <http://thepaperlessagent.com/azoffer/>. Having said that, remember that learning a new system could involve considerable cost and have a long learning curve.
- Since we mentioned money, always maintain firm control of your finances. Prepare for major expenses like tax payments, insurance, automobile replacement, etc. The University of Arizona offers a free, online personal finance course at <http://ag.arizona.edu/sfcs/personalfinance/introduction.html>. Classes like this not only provide excellent information, they give you a good vocabulary for talking with your clients.
- You hear it again and again, but the message is valid—build or review your business plan. I really like the article from REALTOR® Magazine, <http://realtormag.realtor.org/sales-and-marketing/sales-coach/article/2011/12/16-steps-your-best-business-plan>. Some other resources may be found at <http://www.realtor.org/field-guides/field-guide-to-writing-a-business-plan> and <http://smallbusiness.chron.com/write-business-plan-real-estate-agent-3052.html>. Experts say that when doing strategic planning, the greatest benefit comes from the process of thinking about goals, analyzing strengths and weaknesses and working through options. The plan is important, but the process is even more so.

Good luck with all you do. Don't hesitate to contact me with any suggestions or comments.

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