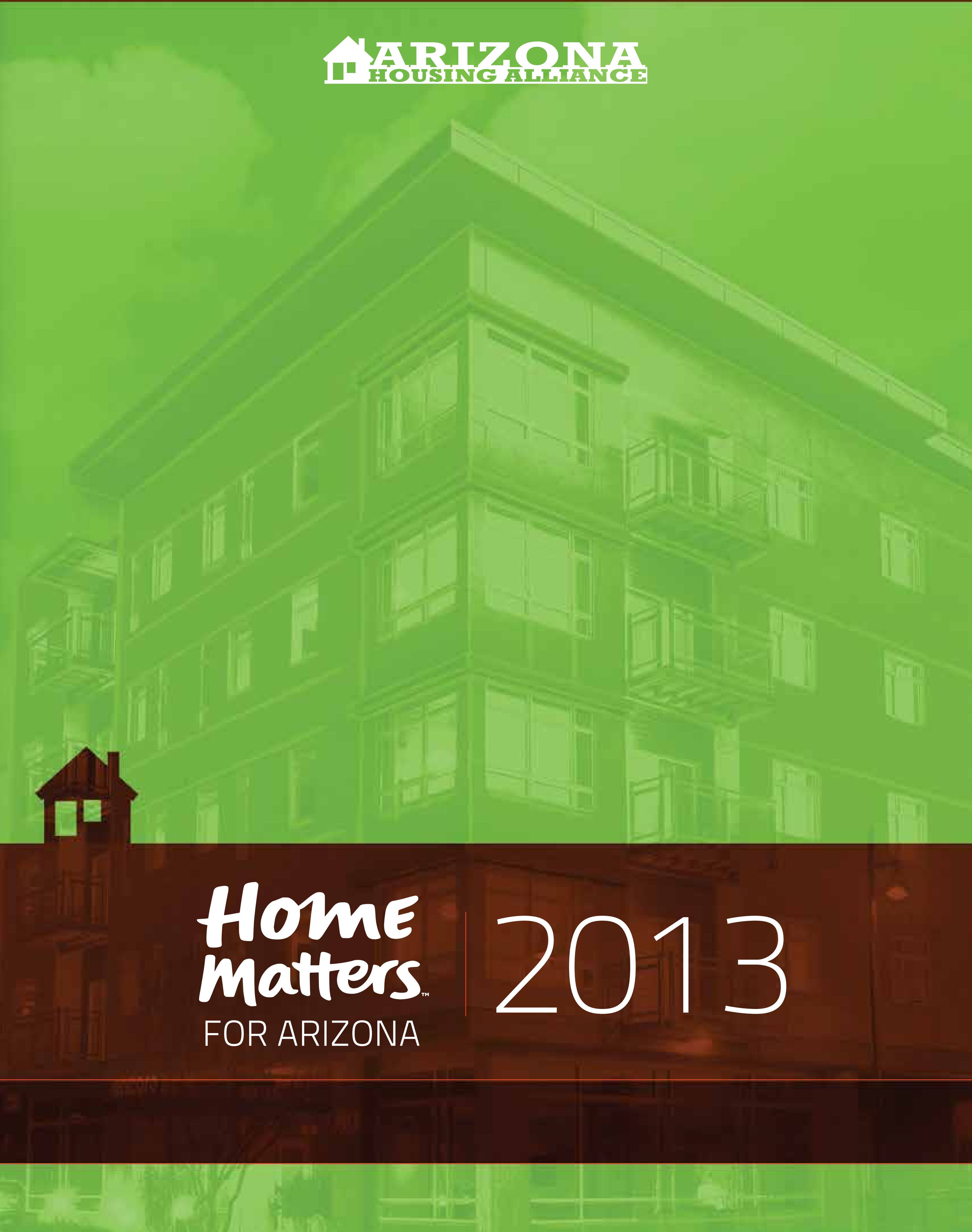
ARIZONA HOUSING ALLIANCE



Home Matters™ FOR ARIZONA

2013

Home Matters FOR ARIZONA

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EXECUTIVE SUMMARY

Housing in Arizona has been through the wringer. The market is starting to show signs of recovery but we still have a long way to go.

Housing is essential to economic recovery for the state of Arizona and for its cities, counties, neighborhoods and families. This report examines the current rental and ownership conditions in Arizona and highlights market trends, including the impact of housing affordability on our economy. This report also emphasizes the important role that housing plays in creating and maintaining a stable environment for Arizonans. For this reason the Arizona Housing Alliance endorses a national initiative called HomeMatters™ and the underlying principle that for both renters and owners, home is more than the roof over our heads. Home impacts every aspect of daily life, including health, safety, and educational attainment.

The use of the term "home" in this report is used broadly. Homes can be traditional apartments and single-family dwellings, but also condominiums, townhomes and single room occupancy residences. The use of the term "family" in this report includes traditional families with or without children, seniors, individuals and unrelated individuals living together.

MAJOR FINDINGS AND RECOMMENDATIONS

FINDING #1: There is a serious shortage of rental housing for Arizona's poorest households.

RECOMMENDATION: Increase funding for the Arizona Housing Trust Fund. Target local resources to create rental home development for low income families.

FINDING #2: Building a mix of housing in proximity to employment, transportation, schools and shopping centers can increase the overall economic stability of households who are struggling financially.

RECOMMENDATION: Support a balanced housing policy that serves both homeowners and renters in every community. Provide a variety of housing options that are location efficient and near public transportation and jobs.

FINDING #3: Offering housing counseling services to existing owners and prospective homebuyers reduces and prevents foreclosures in Arizona, and increases successful homeownership.

RECOMMENDATION: Every homebuyer should be encouraged to receive housing counseling prior to purchase. First-time homebuyers should be required to receive housing counseling.

FINDING #4: Providing down payment assistance to low income families removes a major barrier to homeownership.

RECOMMENDATION: Target funding from federal, state and local sources for down payment assistance.

Home Matters™
FOR ARIZONA

Home is where it all starts.™

Home is one of the most important things in our lives — as essential a human need as clean air, water and food.

Home is more than the roof over our heads.

Home is:

- the anchor of our daily routines
- where we feel nourished from meals
- where we feel comfortable sleeping in our own bed
- the neighborhood where we live, work and play
- where we've come from, where we are now, and where we want to be

Home empowers us, protects us, restores us, inspires us. Yet, as a nation, we have lost sight of the vital role home plays in our success. We need to start at home to realize the promise of vibrant communities and a stronger nation.

Home Matters:

For a Strong Economy: At all income levels, people living in homes they can afford have more to spend. Local job growth and a strong economy start at home.

For Education: Children in stable homes learn and achieve more in school. Home helps level the playing field.

For Health: Healthy habits are more accessible when you live in a stable affordable home. Children get the healthy start they deserve and seniors live with dignity.

For Public Safety: When people can count on their home, a strong sense of community keeps streets, neighborhoods and towns safer.

HOME MATTERS FOR A STRONG ECONOMY

At all income levels, people living in homes they can afford have more to spend. Local job growth and a strong economy start at home.

If people at all income levels spend about 30% of their income for housing, they will have sufficient funds to provide for the other needs of their family like education, food, clothing, insurance, and car payments which supports businesses in their communities.

As businesses flourish so do government coffers. Increased purchases by families brings additional sales tax, permitting fees and other costs of construction. Local governments have revenues needed to provide services for their communities.

When communities are not cutting budgets because of falling revenues, they can target their funds to invest in meeting local needs. Communities have more options. One community might decide to hire additional public safety employees, while another may decide to repair decaying infrastructure and another to fund after school and summer programs for children.

"As mayor of a rapidly growing community, housing is one of the top priorities for my city. Families and communities prosper when the housing market is healthy and robust. Cities are competitive when they can offer a wide range of housing products to meet the needs of all its residents. When the housing market is stable, we can generally predict our revenues will be stable, since cities rely on permit fees, sales taxes and other sources of revenue to forecast and develop our budget."

— **Marie Lopez Rogers**, Mayor of Avondale, Arizona and President of the National League of Cities

"I was a homebuilder before I became Mayor and I experienced the excitement and joy young families felt when moving into a new home. As a mayor, I see on a larger scale just how important stable neighborhoods are to creating great communities."

— **Scott Smith**, Mayor of Mesa, Arizona and Vice President of the U S Conference of Mayors

Additionally when the housing market is healthy, construction of new homes also creates jobs in the real estate industry, home improvement businesses, and retailers of furniture and appliances.

The National Association of Home Builders (NAHB) developed a model that estimates the economic benefits of residential construction. This model has been applied to over 450 metropolitan areas, non-metro areas, and states across the country. It has also been applied to Low Income Housing Tax Credit (housing credit) developments that typically have lower rents for families with lower incomes. Over the past 26 years, this program has created over 2.6 million rental homes throughout the nation. Without the housing credit, there would be virtually no affordable housing development. Additional information about this program is found in the glossary.

Not only does this financing mechanism bring much needed housing to Arizona, but according to a March 2010 NAHB study, the local economic impact of typical housing credit developments revealed the following:[1]

Estimated one-year local impacts of building 100 multi-family units in a typical housing credit development include:

1. $7.9 million in local income to construction, architecture, engineering and related trades
2. $827,000 in local taxes and other revenues to local governments
3. 122 local jobs

Additional recurring impacts of building 100 multi-family units in a typical housing credit development include:

1. $2.4 million in local income
2. $441,000 in taxes and other revenue for local governments
3. 30 local jobs

FIGURE ONE – Madison Gardens - $27 Million Development for Seniors - Phoenix (Under construction)

WESCAP Investments is building Madison Gardens, a 133-unit housing credit development for senior citizens in Phoenix. A recent NAHB economic impact study for Madison Gardens estimates that the development will create 337 jobs, produce $3.9 million in local taxes and generate $13.6 million in wages.[2]

HOME MATTERS FOR EDUCATION

Children in stable homes learn and achieve more in school. Home helps level the playing field.

A growing body of research suggests that stable, affordable housing may provide children with enhanced opportunities for educational success. Research shows that a supportive and stable home environment can complement the efforts of educators, leading to better student achievement. If children are in homes that their families can afford, they do not have to move throughout the school year and disrupt their education.[3] A study in Florida revealed that more than half of the children who moved seven or more times between kindergarten and third grade scored below proficient levels on the Florida Comprehensive Assessment Test (FCAT).[4]

The Bill and Melinda Gates Foundation developed a program for low income families at the McCarver Elementary School in Tacoma, WA. Families are provided five years of housing support and agree to become actively engaged in their children's education. A single dad in the program stated "We now have a place to call home. We have a future. I'm going to school too and hopefully I will get a degree and a job to support my family. You've saved our lives."[5]

HOME MATTERS FOR HEALTH

Healthy habits are more accessible when you live in a stable, affordable home. Children get the healthy start they deserve, and seniors live with dignity.

Research also shows that housing quality and housing stability can impact physiological and psychological health. A study of 6,000 families in Boston found that children in families behind on rent payments were 52% more likely to be at risk for developmental delays as compared with families that had stable, affordable housing. Families who are behind on rent payments frequently move to find less expensive housing. The study also found that children in families who move two or more times in a year were 59% more likely to have been hospitalized.[6]

HOME MATTERS FOR PUBLIC SAFETY

When people can count on their home, a stronger sense of community keeps streets, neighborhoods and towns safer.

The Family Housing Fund in Minnesota creates safe, stable and affordable homes for families in the Twin Cities. They asked some of the families in the program how living in a safe and stable home has helped them.

"To me my home always felt safe. And that makes me more independent because I could ride my bike or rollerblade back and forth on the sidewalk and not worry much about anything bad happening. I think that one of the most interesting feelings about people is feeling safe. That's the part in our mind that tells us what's right and what's wrong."

— **Jennifer Lee**, age 12[7]

"I didn't even know such support, consideration, and care were even available for someone at my income level. Affordable housing has opened many new doors for me, along with renewed self-respect and a sense of prosperity and hope. Living here has shown me that I can be in a better place, that I can sustain my own home, and that responsibility isn't something to be avoided, but to be taken on because it is worth it, we are worth it. A home can be where we start from, to reach higher, a safe haven to come and go from, a base that must be stable, manageable, and healthy."

— **Leesa Applebee**, age 36[7]

RENTAL HOMES

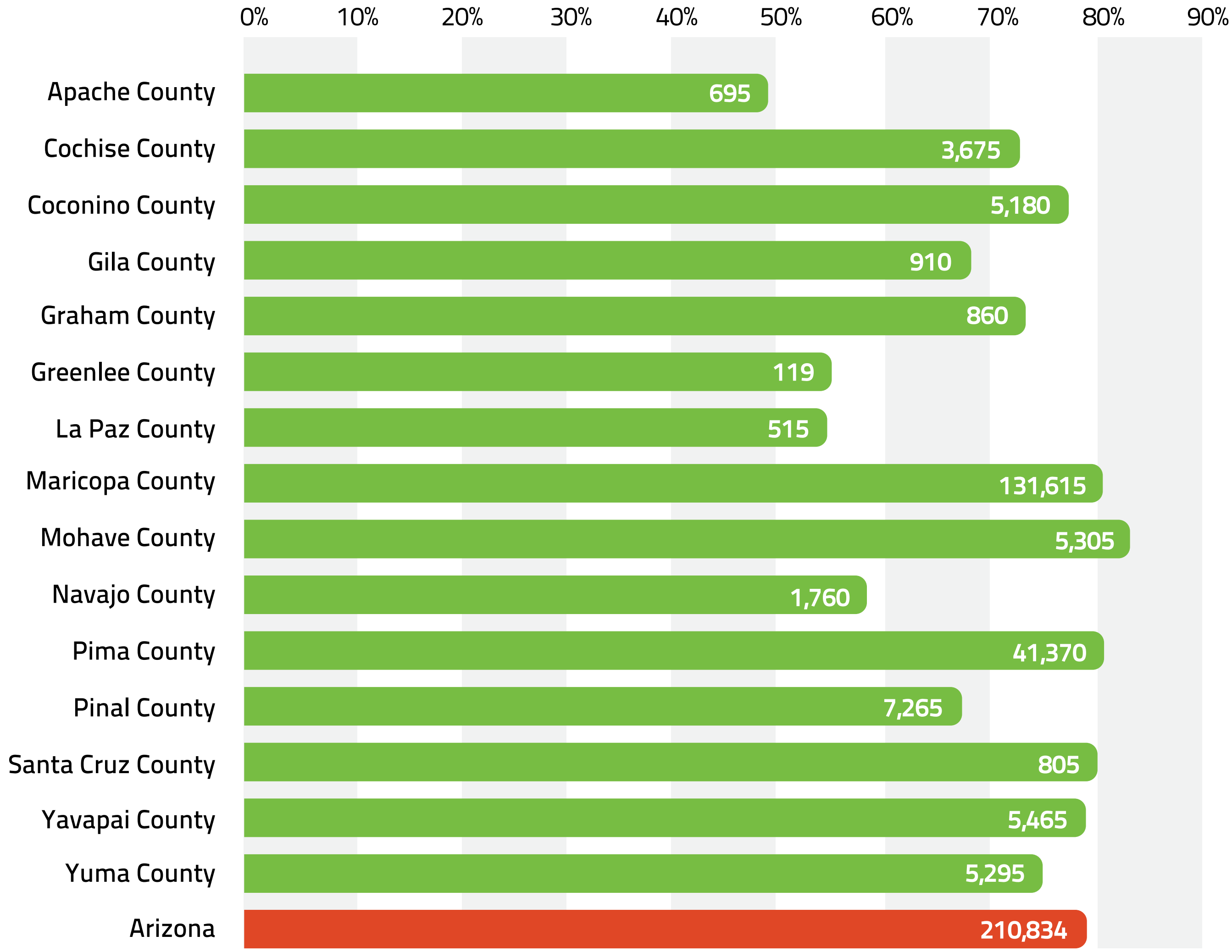
SHORTAGE OF RENTAL HOMES FOR LOW INCOME FAMILIES

Throughout this report some basic household income levels will be used. Extremely low income households are those earning below 30% of area median income, very low income households are those earning below 50% of median income, and low income are those earning below 80% of area median income. Median incomes are established annually by the U.S. Census and are used by the U.S. Department of Housing and Urban Development (HUD) to establish funding thresholds for their programs. Additional information about these terms can be found in the glossary.

Approximately one-third of all Arizona households are renters. There are almost 270,000 very low income renters in Arizona. More than 210,000 of these renters, or 78%, are paying significantly more than the recommended 30% of their income for home costs.[8] These renters are considered housing cost burdened. **Figure Two** shows the number and percentage of very low income renter households by county paying more than 30% of their income for housing.

In three counties (Maricopa, Mohave and Pima) 80% of very low income renters are cost burdened. In five counties (Cochise, Coconino, Graham, Santa Cruz, and Yavapai) 70% of very low income renters are cost burdened. Apache County has the lowest percentage (48%) of very low income households paying more than 30% of their income for rent. The statewide average is 78%. In Arizona, there are over 210,000 very low income renters that are housing cost burdened.

FIGURE TWO – Number and Percent of Very Low Income Renter Households Paying More than 30% of Income for Rent, 2009



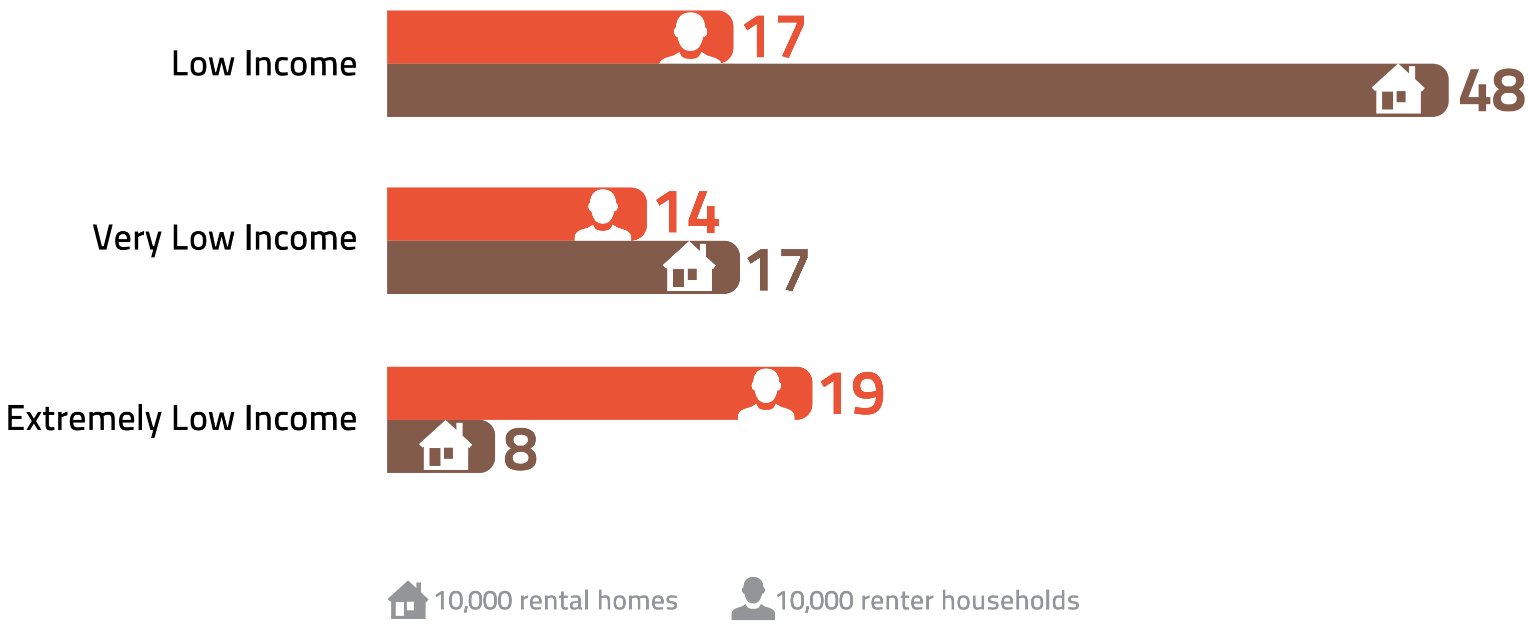
Source: National Low Income Housing Coalition tabulations of 2005-2009 Comprehensive Housing Affordability Strategy data

210,000+

COST BURDENED RENTERS

Many poor renters in Arizona are paying more than 30% of their income towards rent because there is a shortage of affordable rentals. **Figure Three** shows the mismatch between the number of rental units affordable at various income levels and the number of households at those same income levels.

FIGURE THREE – Rental Units and Renters in Arizona by Affordability and Income Categories, 2011 (in ten thousands)

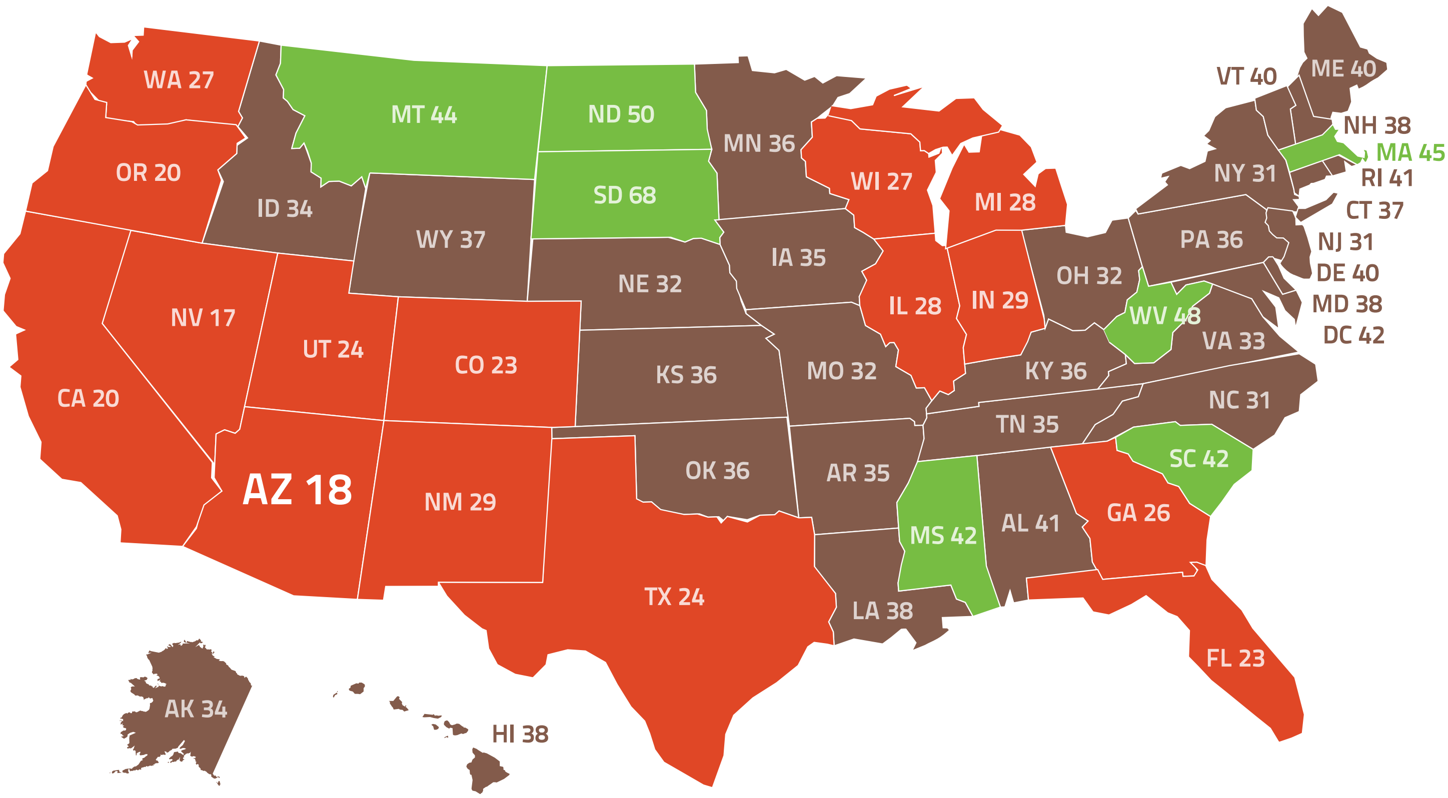


Source: NLIHC Tabulations of 2011 Arizona Community Survey Public Use Microdata Sample Data

Figure Three shows that the biggest shortage is homes for our poorest families. There are almost 190,000 extremely low income households, but only 80,000 affordable rental homes. Poor renters must find housing in higher income categories, forcing them to pay more than 30% of their income towards rent.

HOUSING SHORTAGE FOR ARIZONA'S POOREST FAMILIES

FIGURE FOUR – Number of Affordable Units Available for Every 100 Extremely Low Income Households by State, 2011



29 or less units per 100 ELI households · Between 29 and 41 units per 100 ELI housholds · Over 41 units per 100 ELI households

Source: NLIHC Tabulations of 2011 Arizona Community Survey Public Use Microdata Sample Data

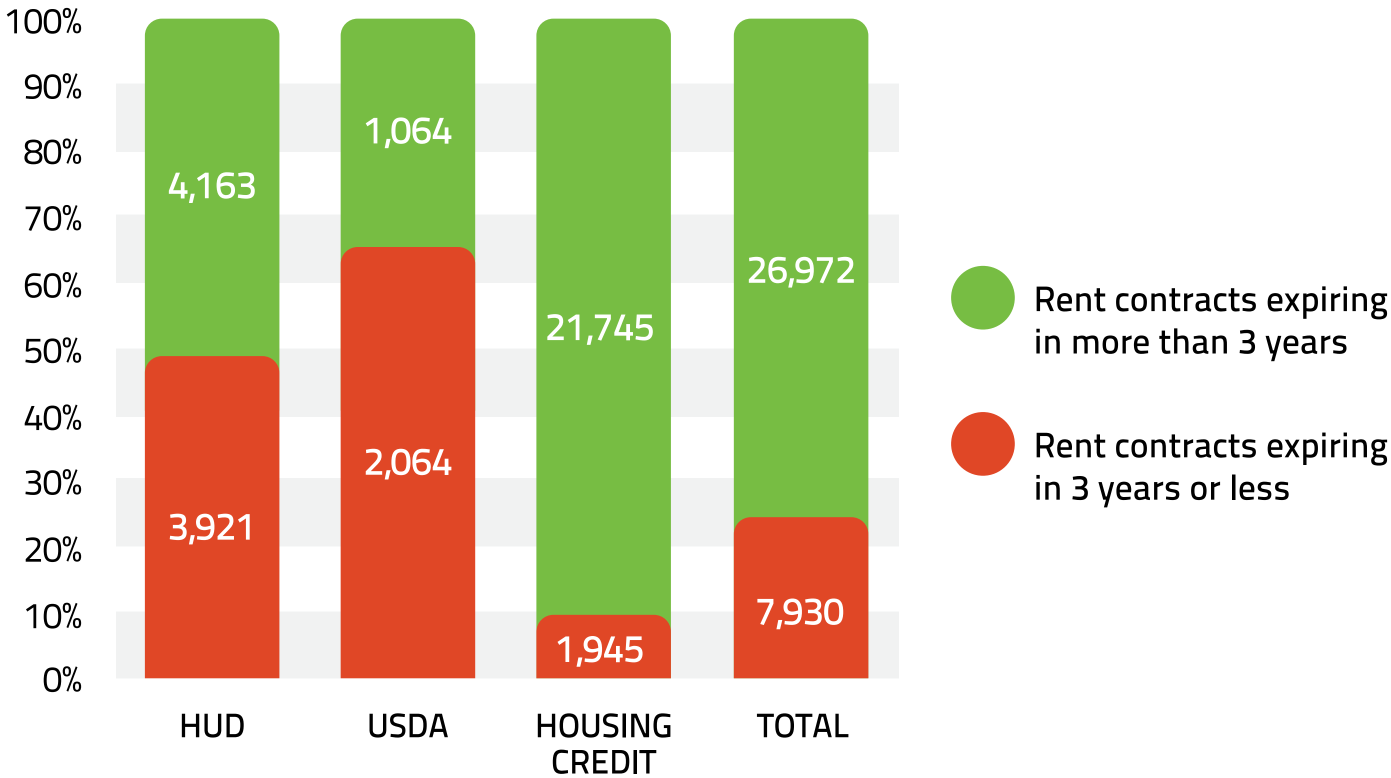
An additional challenge faced by low income renters is the availability of units to rent. Many homes affordable to poor families are actually occupied by those earning higher incomes. **Figure Four** shows the number of affordable homes that are available for every 100 extremely low income households by state.

Arizona ranks as the second worst state in the nation with only 18 affordable homes available for every 100 extremely low income households. Only Nevada has a greater shortage with 17 affordable and available homes for every 100 extremely low income households. The national average is 30 affordable homes available for every 100 extremely low income households.[9]

LOSS OF EXISTING RENTAL HOMES

Another problem facing Arizona is the loss of existing affordable rental homes. For every new affordable apartment created, two are lost due to deterioration, abandonment or conversion to more expensive

FIGURE FIVE – Number and Percentage of Federally Subsidized Apartments in Arizona At Risk of Losing Rent Restrictions, 2011



Source: At-Risk Federally Subsidized Properties in Arizona, Arizona Housing Alliance, February 25, 2011 *HUD=U.S. Department of Housing and Urban Development, USDA=U.S. Department of Agriculture Rural Development, Housing Credit = U.S. Treasury Low Income Housing Tax Credits

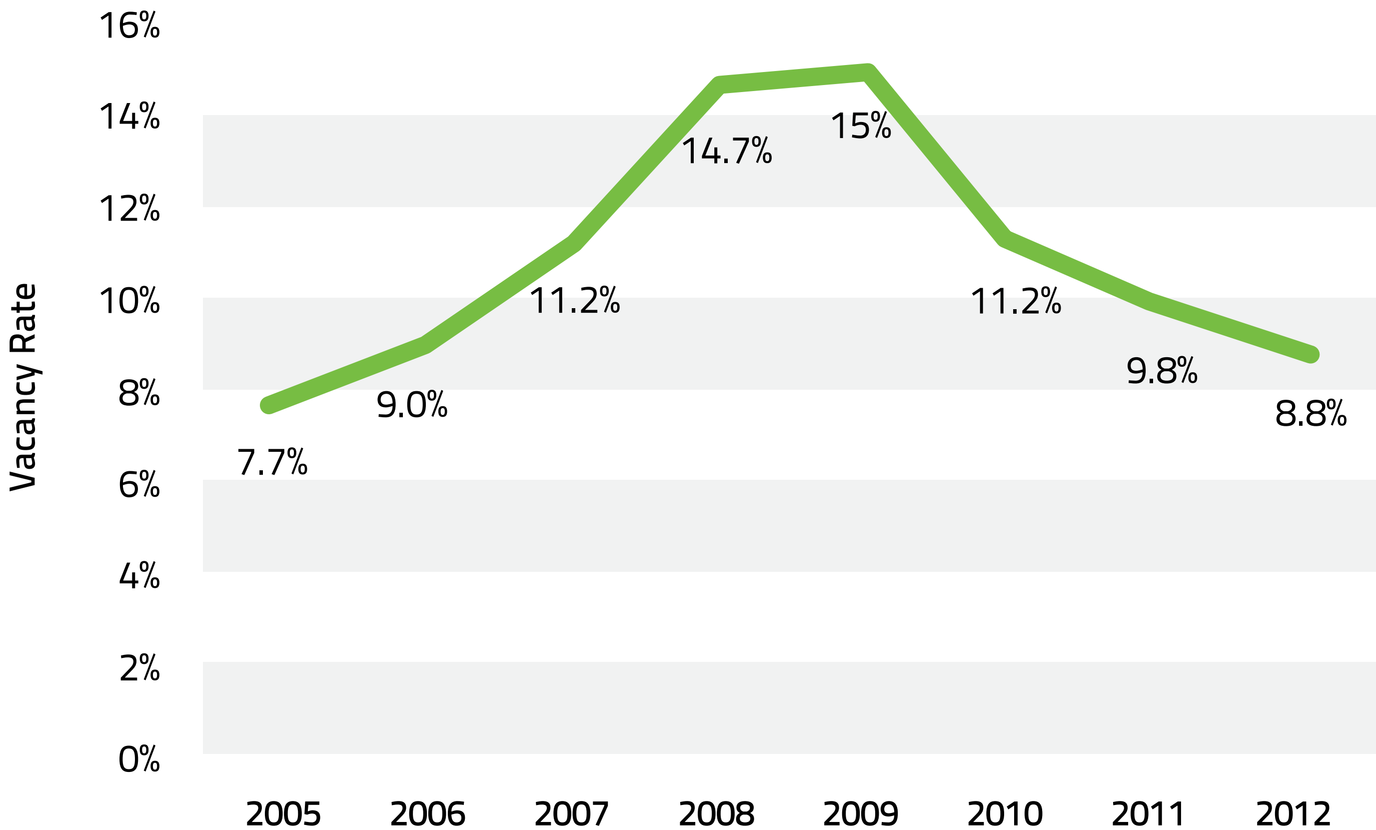
housing.[10] These privately owned developments are able to charge lower than market rate rents in exchange for favorable federal subsidy. **Figure Five** shows the number and percentage of these apartments that are reaching the end of their restricted rent contracts.

A total of 34,902 units of federally subsidized rental apartments have been developed in Arizona. However, 23%, or 7,930 apartments, have nearly fulfilled the "period of affordability" terms of their contract. If the contracts for these subsidized homes are not extended, rents could increase which would exacerbate the problem and reduce the supply of affordable housing.

Apartments in rural areas are especially vulnerable to losing rent restrictions. Two thirds of all apartments subsidized by USDA, or 2,064 units, are at risk of losing rent restrictions.

2/3 OF ALL APARTMENTS SUBSIDIZED BY USDA, ARE AT RISK OF LOSING RENT RESTRICTIONS.

FIGURE SIX – Fourth Quarter Vacancy Rates – Metro Phoenix* - 2005-2012



Source: Peter TeKampe, Marcus and Millichap and Real Data * Apartment complexes of 50 units or greater

The largest production program of affordable rental housing is housing credits with a total of 23,690 units. Because this program began in 1986 and has rent restrictions for at least 30 years, only 1,945 units, or 8%, are at risk.

DECREASING VACANCY RATES SQUEEZING RENTAL MARKET

Rental vacancies have been affected by the recession and foreclosures. **Figure Six** shows Metro Phoenix vacancy rates from 2005 to 2012.

During the recession, there was a greater selection of homes for low income families to choose from because of high vacancy rates. Many apartment owners offered incentives such as reduced rents. In the fourth quarter of 2008, 85% of all apartments in the greater Phoenix area were offering rental concessions.[11] Since 2009 the vacancy rate dropped, fewer apartments are available to rent, and it is likely rental rates will increase.

HOMEOWNERSHIP

Until recently homes values in Arizona have plummeted. From high levels in 2005 and 2006, prices fell in every county. According to Zillow, home values in five counties (Yuma, Cochise, Apache, Santa Cruz and La Paz) are still falling, but the decline is less severe. Beginning as early as 2009 home values in the remaining counties moved in a positive direction. No county has seen home values rise to previous market highs, but many are making significant comebacks. **Figure Seven** shows home values from 2000 to 2012 for select counties in Arizona.

Prices in most Arizona markets are improving and builders are beginning to build new homes again. However, the housing market has not fully recovered. Home values in most counties have barely returned to 2003-2004 levels.

Additionally, according to David Shulman, senior economist at the Ziman Center for Real Estate at UCLA, national homeownership rates peaked in 2004 at 69%. By 2011 the ownership rate had dropped to 66% and he believes it will drop another percentage by the end of 2012.[12] Arthur Nelson, Director of the Metropolitan Research Center at the University of Utah, believes that by 2020 only 62% of the population will be homeowners.[13]

One advantage of decreased home values is that homes are now more affordable for purchase by moderate income families. However, home values are escalating and soon many families may be priced out of the market again.

UNCERTAINTY IN THE HOUSING MARKET

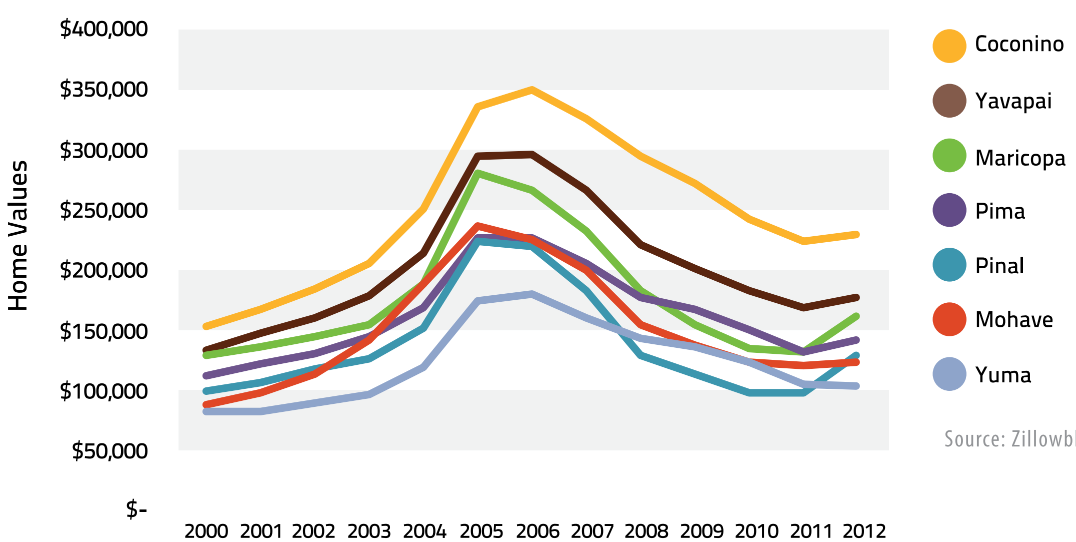
As seen in **Table Two**, there are many different indicators regarding the homeownership market. Some of the messages show market recovery, others show caution. The only agreement amongst analysts is that the future housing market will be different. The supply of housing is reduced, sales prices are rising in many markets and mortgage products will be more stringent.

There are mixed indicators in the current housing market. The homeownership market is rebounding and values and sales are rising.

However there are concerns that the market may overheat and prices will skyrocket due to low interest rates and fewer new homes being built.

There is also a scarcity of lower priced homes because investors have purchased many homes in the lower price range. Lastly, a pent-up demand from buyers is causing prices to rise.

FIGURE SEVEN – Arizona Home Values for Select Counties 2000-2012



Source: Zillowblog.com/research/data

TABLE TWO – Housing Market Indicators

Positive Signs	Signs for Concern
Home sales in Phoenix rose 34% last year. It was the best performing metro area in the country. (John Gittelsohn and Prashant Gopal[14])	"We're suffering from a case of buyer's enthusiasm just as we're running out of homes to sell." (Michael Orr as reported by Fernanda Santos[21])
Home values are rising in 10 of 15 Arizona counties. (Zillowblog.com/research/data)[15]	Prices will skyrocket if mortgage rates stay low for two years. Home prices will increase 40% in two years. (John Burns on Bloomberg News[22])
According to Freddie Mac this Spring will be the healthiest home buying season since 2007. (Megan Hopkins[16])	Generally there are only two ways to purchase a home – pay cash or qualify for a FHA mortgage. (Patricia Garcia Duarte[23])
Phoenix is the eighth fastest growing American city in 2012. (Morgan Brennan[17])	Younger people (ages 20-29) are moving to Phoenix and the Great Recession has taught them that a 30 year mortgage might not be desirable. (Mark Scarp[24])
According to the National Association of Realtors, sales have been above year-ago levels for 20 consecutive months, while prices show 12 consecutive months of year-over-year price gains. (Megan Hopkins[18])	The GAO named the Federal Housing Administration as a "high risk" government sector due to rapid expansion of the mortgages they hold. FHA's single-family loan portfolio has grown from $300M in 2007 to $1.1T in 2012 and does not have sufficient capital to meet the minimum 2% reserve requirement. (Kerri Ann Panchuck[25])
The boost in home prices is gradually pushing out cash investors to the relief of traditional homebuyers. (Michael Orr as reported by Kristena Hansen[19]) New homes built in the Phoenix area climbed 71% in 2012 to 11,600. New home sales increased 41% from 2011 to 10,034. (Catherine Reagor[20])	There is a scarcity of homes in the lower price ranges, fostering a huge imbalance of more buyers than sellers. All-cash purchases accounted for 35.5% of all sales in Maricopa County in December 2012 especially in the lower price range where investors purchased nearly half of all homes priced below $150,000. (Kristena Hansen, quoting Michael Orr[26])
In 2009, a typical lot in the southeast Valley sold for $35,000 – by the end of 2012 the price had increased to $75,000. (Nathan and Associates quoted by Catherine Reagor[20])	"Drive 'til you qualify" worked when borrowers didn't really have to qualify for mortgages. New lending guidelines are much tougher. (RL Brown quoted by Catherine Reagor[20])

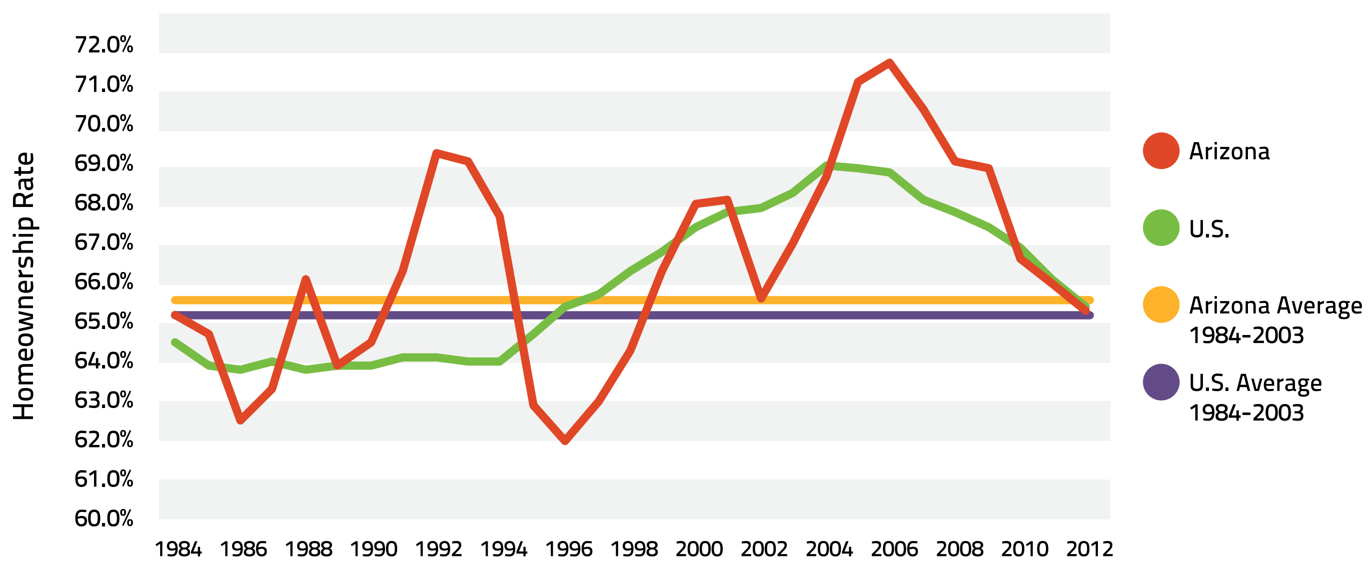
Lower income buyers will find it increasingly difficult to purchase a home in their price range. Young buyers, who tend to have lower incomes, are rethinking whether or not to become a home owner.

Annually the Urban Land Institute (ULI) analyzes urban real estate markets throughout the country. They conduct interviews with professionals in the field and create an annual "Emerging Trends" publication.[27] ULI has characterized the Phoenix housing market since 2004 in the following ways:

2004	High Growth, High Risk Suburban Markets	**2009**	"Dynamic" High Growth, Hot Bed will need to rise again from the ashes
2005	Hot Growth Market – Not overbuilt for the first time in 50 years	**2010**	Phoenix is the Poster Child for run-amok housing development
2006	"Amazing" Growth, Growth, and more Growth	**2011**	Phoenix must rise from the ashes of another overbuilding spree
2007	Metropolitan Area Expands Rapidly	**2012**	Phoenix is rising from the ashes potential
2008	"You can smell the Growth"	**2013**	Volatile Market

The snapshot version of the Phoenix housing market as described by ULI is illustrative of the volatility in the real estate market. As seen in **Figure Eight** homeownership rates in Arizona have fluctuated greatly over time.

FIGURE EIGHT – Homeownership Rates – US and Arizona – 1984-2012



Source: US Census, Courtesy of Elliott D. Pollack and Company

Homeownership peaked in the United States in 2005 at 68.9%, whereas ownership peaked in Arizona the following year at 71.6%; 2.8% higher than the national average in 2006. During the years of 2010 through 2012, Arizona's homeownership rate dropped at a much faster rate than the U.S. rate.

U.S. Census data shows that Arizona now has the 13th lowest homeownership rate in the country (65.3%). The national homeownership rate is 65.4%. Several highly populated states including California (54.4%), New York (53.6%) and Texas (64.3%) have lower rates than Arizona.[28] A major factor in the decline of ownership in Arizona has been the large number of foreclosures in the state.

HOMEOWNERSHIP HURDLES FOR LOW INCOME FAMILIES

Homebuyers will find purchasing a home in the next few years very challenging, especially for low income families. The volatility in the housing market, changing underwriting standards, and mortgage criteria have changed dramatically and are still evolving.

Figure Nine illustrates the hurdles a low income family must overcome to become a homeowner. Using the Freddie Mac calculator, the monthly mortgage payment and the amount of down payment needed were calculated for an Arizonan family earning 80% of area median income or $37,370. Assuming a total debt to income ratio of 41% commonly used by mortgage underwriters, the remaining funds available to meet additional debt obligations beyond mortgage payments, such as car payments and student loans, was also calculated.

FIGURE NINE – Homeownership Hurdles for Low Income Families

Source: U.S. Census American Community Survey 1 Year Estimate and freddiemac.com/homeownership/calculators

Figure Nine shows that a low income homebuyer in Arizona could purchase a new home priced at $147,250. However, that buyer would have to overcome three hurdles in order to purchase the home. First, the homebuyer must be able to afford a monthly mortgage payment of $870. Second, the homebuyer can have no more than $410 in additional monthly debt payments. Third, the homebuyer must have saved $14,725 for a 10% down payment.

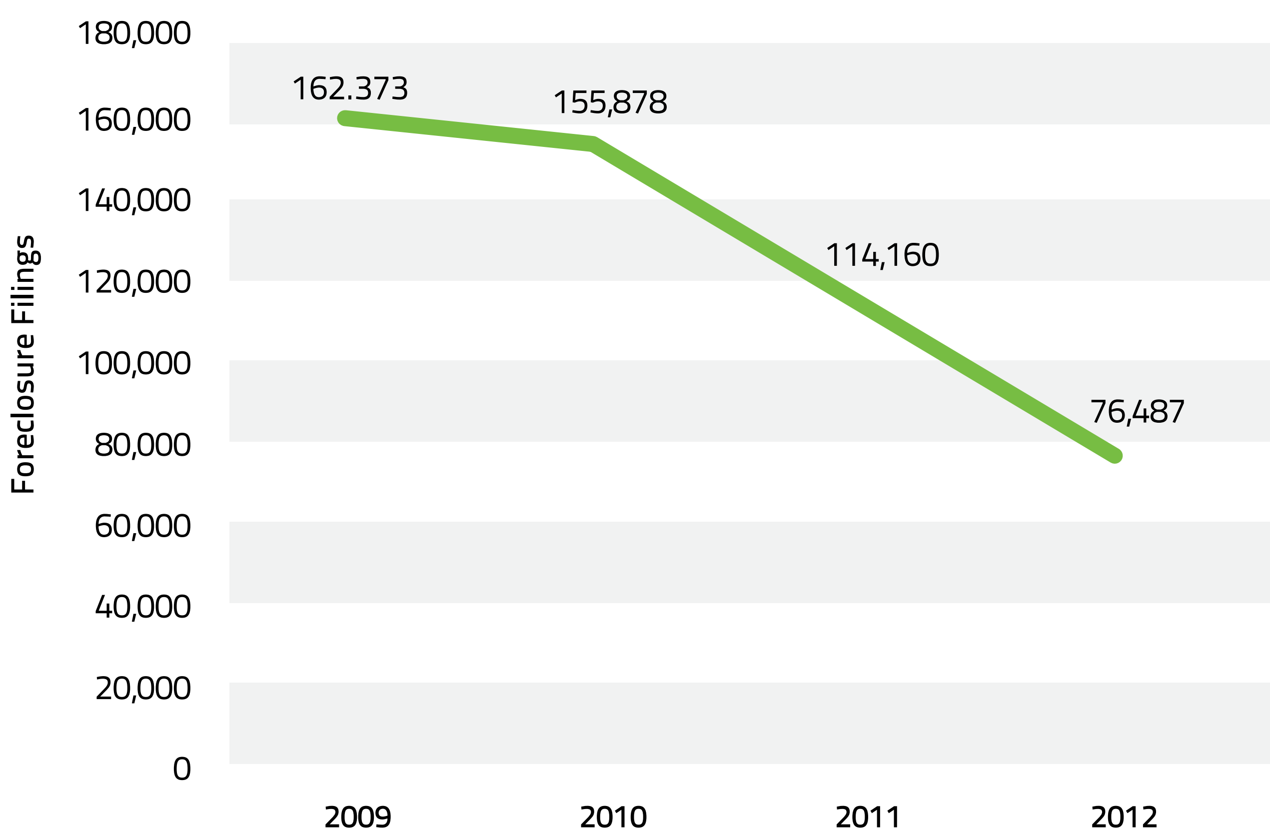
While there are products available that have lower down payments than 10%, all products have specific guidelines regarding the eligibility of families to qualify for the specialized mortgage products. There is not a "one size –fits all" mortgage product. Some mortgages are for first-time homebuyers only; others are for families earning 80% of median income or less; while still others are geared for families earning median income or higher. These requirements can be very confusing and illustrate the need for families to get accurate and timely information. Housing counseling can provide this essential service to ensure that homebuyers remain homeowners.

FORECLOSURE TRENDS

From 2009 through 2011, Arizona had the second highest foreclosure rate in the country. For a brief period in 2012 the state led the nation in foreclosures before ending the year as having the third worst foreclosure rate according to a January 2013 report by RealtyTrac. By the end of 2012, our foreclosure rate was 2.69%.[29] National analysts often use the standard of 1.5 to 2% as a normal foreclosure rate.[30]

Foreclosure filings can be a default notice, an auction or sale notice, or a notice of a bank purchase or takeover. It is possible for a single property to have more than one filing notice over time, so the total number of filings does not directly correspond to the number of families that have lost their homes to foreclosure. **Figure Ten** shows the number of foreclosure filings in Arizona from 2009 through 2012.

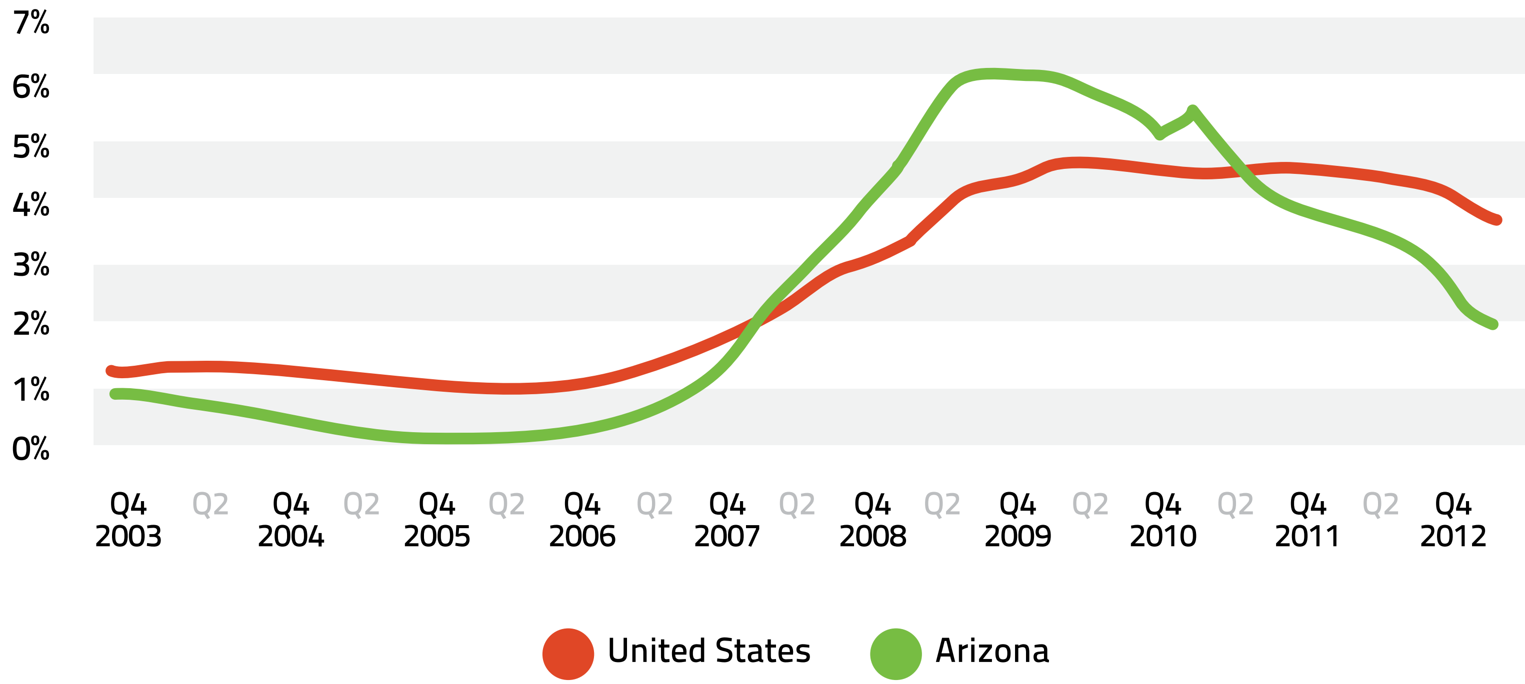
FIGURE TEN – Foreclosure Filings in Arizona – 2009 – 2012



Source: Michael Chicak, State Third Worse in 2012 Foreclosures, January 16, 2013

Over the past four years, there have been a total of 509,898 foreclosure filings. The good news is that foreclosure filings are trending downward. Foreclosure filings have decreased 53% from 162,373 filings in 2009 to 76,487 filings in 2012. Arizona is now sixth in the nation in foreclosures according to Arizona Public Media.[31]

FIGURE ELEVEN: Arizona and U.S. Foreclosure Rates



Source: National Association of Realtors Phoenix-Mesa-Scottsdale Area Local Market Report, Fourth Quarter 2012

Figure Eleven shows total foreclosure rates in Arizona and how they compare to foreclosure averages in the United States.

In 2008, the rate of foreclosure in Arizona began to climb above the national rate and remained there until the second quarter of 2011. The rate in Arizona has steadily dropped since that time and remains below the national average.

HOUSING OPTIONS AND LOCATIONS

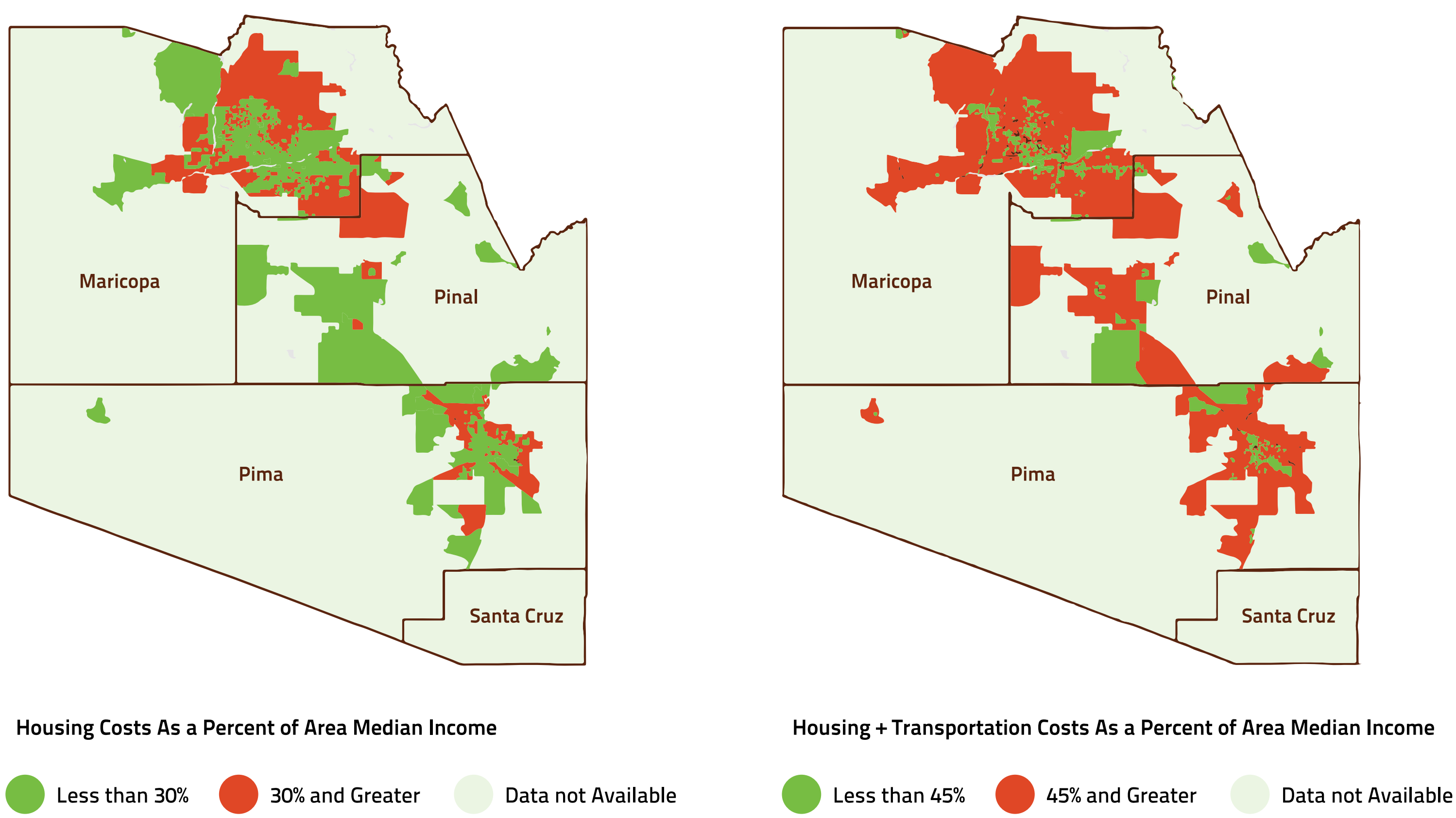
HOUSING + TRANSPORTATION COSTS

The Center for Housing Technology (CNT) created a Housing + Transportation Index that provides a more comprehensive way of thinking about the cost of housing and true affordability. People who live in location-efficient neighborhoods — compact, mixed use, and with convenient access to jobs, services, transit, and amenities — tend to have lower transportation costs. People who live in location inefficient places that require automobiles for most trips are more likely to have high transportation costs.

The traditional measure of affordability recommends that housing should cost no more than 30% of income. However, that benchmark ignores transportation costs, which are typically a household's second largest expenditure. The H+T Index offers an expanded view of affordability, one that combines housing and transportation costs and sets the benchmark at no more than 45% of household income.[32]

Figure Twelve shows two maps of selected areas of Arizona comparing housing costs as a percentage of income versus housing + transportation costs as a percentage of income.

FIGURE TWELVE – Housing Costs Compared to Housing +Transportation Costs for Select Area of Arizona



The map on the left shows only housing costs as a percentage of income. Homes in many communities, especially in far-reaching suburbs and rural areas, are considered affordable. The map on the right shows housing + transportation costs as a percentage of income. When transportation costs are included, homes in most areas become unaffordable.

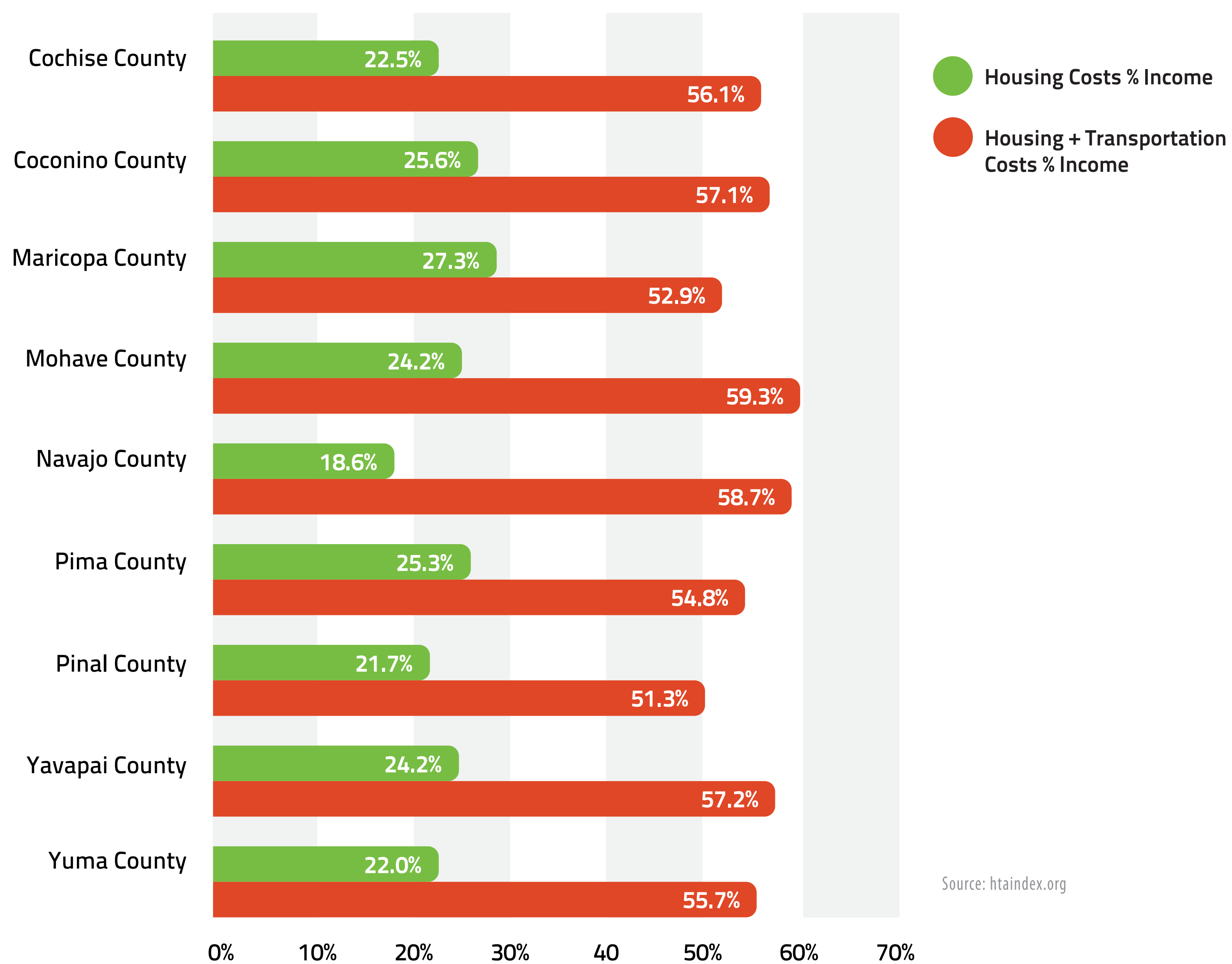
Most homes in rural towns are affordable when only housing costs are considered. When transportation costs are included, these homes can become unaffordable. This trend is also visible when considering suburban communities on the fringes. Many outlying suburbs are affordable until transportation costs are considered.

Figure Thirteen shows housing + transportation costs for counties in Arizona where the data is available.

Figure Thirteen shows that Arizona families in all counties are paying more than the recommended standard of 45% of their income for housing + transportation costs. Mohave County has the greatest costs associated with housing + transportation as a percentage of median income at nearly 60% of income. Pinal County is the lowest at 51.3%.

According to CNT, on average, Arizona households spend $1,006 per month on transportation. This figure includes commuting, errands, and all other trips. It also includes car ownership costs and public transportation. The average in the United States is $1,324 per month.[33]

FIGURE THIRTEEN – Housing + Transportation Costs as a Percent of Income by County



Source: htaindex.org

MISMATCH OF HOUSING SUPPLY AND DEMAND

Potential buyers and renters are expressing their needs and desires for additional housing options. Families are asking for more than conventional apartments or homes to rent or buy. Arthur Nelson has studied demographics and the housing market and sees a mismatch between the expressed wishes and needs of families and the current housing stock.[13] His research has revealed the following trends:

Where Families Want to Live	Where Familes Currently Live
38% of Americans want to buy or rent an attached unit – townhouse, condo, apartment	28% live in attached units
37% of Americans want to live on a small lot (small house or large house with scant yard)	29% live on small lots
25% of Americans want to live on a large lot greater than 7,000 square feet	43% live on large lots

Source: The Atlantic Cities, September 27, 2011

RECOMMENDATIONS

MORE RENTAL HOMES ARE NEEDED FOR LOW INCOME FAMILIES

Most very low income renters are cost burdened. Over 78% of Arizona's poorest families pay more than 30% of their income towards rent. For every 100 extremely low income households only 18 units of affordable housing are available to rent. This is due to a mismatch between the number of rental units affordable at various income levels and the number of households at those same income levels.

Another problem facing Arizona is the loss of existing affordable housing. Twenty-three percent of federally subsidized apartments, or 7,930 units, are at risk of losing their rent restrictions. In addition, a tightening rental market is creating decreased vacancy rates and increased rental rates.

RECOMMENDATION: Increase funding for the Arizona Housing Trust Fund. Target local resources to create rental home development for low income families.

CREATE A VARIETY OF HOUSING OPTIONS NEAR PUBLIC TRANSIT AND JOBS

Families are seeking a greater variety of housing options including townhouses, condos and apartments which could be owned as well as rented. These alternatives should be developed so they are affordable to low and moderate income families.

Building homes close to public transit brings great benefits to the community. Street congestion is reduced when families have homes near public transportation and the general health of the overall community is improved because of less pollution from reduced usage of gas powered vehicles. Constructing homes in "in-fill" areas creates communities that are more walkable or are more conducive to riding bicycles. Increased physical activity for families also improves their health.

Accessory dwelling units on current single family dwelling sites could provide rental income to families, or be a safe haven for "boomerang children" or other family members needing housing. By adding additional

DEVELOP MORE RENTAL HOMES

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housing units to existing neighborhoods near public transit, this option could increase ridership on transportation alternatives instead of adding more cars to the streets and freeways.

Community Land Trusts are an alternative land ownership option. A nonprofit organization purchases land which they hold in perpetuity for the benefit of the community. Often times, nonprofit organizations build housing for low to moderate income families on the trust land. Families can purchase the home from the nonprofit corporation, but not the land. This greatly reduces the cost of the housing. When the family moves, they sell the home back to the trust, so another family can move into the home.

Kinship Care is the concept of multi-generations residing together under one roof. As witnessed in our last housing downturn, grown children that had moved out of their parent's home were back again. Older parents found their retirement savings depleted during the recession and moved in with other family members to meet their housing costs. Many grandparents are now caring for their grandchildren. These multi-generation families need housing to meet their needs.

Rent/Lease to Own is an alternative to traditional mortgages. In a rent-to-own scenario, a tenant signs a lease agreement that includes an option to buy. A portion of the tenant's monthly rent goes toward the purchase price of the house. At the end of the lease, the tenant may purchase the home at an agreed upon price or choose not to buy and vacate the home.[34]

RECOMMENDATION: Support a balanced housing policy that serves both homeowners and renters in every community. Provide a variety of housing options that are location efficient and near public transportation and jobs.

SUPPORT HOUSING COUNSELING

One of the best ways to prevent foreclosures is to provide housing counseling. A recent study of community based foreclosure prevention programs found that homeowners who were in default and received counseling were twice as likely to avoid foreclosure than those that did not receive counseling.[35] Intervention during the early part of the default process revealed that families were much more likely to obtain a loan modification or keep their homes than families who were seriously delinquent.[36]

FOR LOW INCOME FAMILES

F HOUSING OPTIONS

ANSIT AND JOBS

SUPPORT HOUSING COUNSELING

PROVIDE DOWNPAYMENT ASSISTANCE

Housing counseling is quality counselor-to-client assistance that addresses the unique circumstances and housing challenges of each client. Counselors help families repair their credit, purchase a home, problem solve rental disputes, find down payment assistance for homebuyers, and help families understand fair housing and fair lending practices. A customized action plan is created for each family to address the specific needs of each family.[37]

Counseling is also important in creating homeowners and ensuring their success as long term owners. Families who receive pre-purchase mortgage counseling are approximately one-third less likely to become seriously delinquent within the first two years of homeownership compared to borrowers who did not receive counseling.[38] Pre-purchase counseling also helps families determine if they are ready to be homeowners and assists them in finding affordable mortgage products.[39]

RECOMMENDATION: Every homebuyer should be encouraged to receive housing counseling prior to purchase. First-time homebuyers should be required to receive housing counseling.

PROVIDE DOWN PAYMENT ASSISTANCE

Accumulating enough savings for a down payment is a major hurdle for homeownership. Most down payment assistance programs dried up during the recession. There are a few programs still available to help low income families overcome this hurdle.

The most common ways that Arizona families can obtain down payment assistance is through programs provided by the Federal Home Loan Bank of San Francisco, the Arizona Housing Finance Authority, and Pima County and City of Phoenix Industrial Development Authorities.[40]

The two programs provided by the Federal Home Loan Bank are the IDEA and WISH programs. The IDEA (Individual Development and Empowerment Account Program) and the WISH (Workforce Initiative Subsidy for Homeownership Program) programs offer first-time buyers whose income is below 80% of area median income with a 3-to-1 matching grant. This means that if a homebuyer saves $5,000 for a down payment, the program will provide an additional $15,000.[41]

Recently the Arizona Housing Finance Authority, and the Pima County and City of Phoenix Industrial Development Authorities developed mortgage financing programs for homebuyers earning approximately 100 to 120% of area median income. These programs provide grant funds of approximately 4% down payment to homebuyers and can be combined with the IDEA and WISH programs.[40]

RECOMMENDATION: Target funding from federal, state and local sources for down payment assistance.

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GLOSSARY

AREA MEDIAN INCOME: Income statistic that is the midpoint between the highest and lowest income by geographic region.

HOUSEHOLD: One or more persons occupying a housing unit.

EXTREMELY LOW INCOME FAMILY: Households earning less than 30 percent of area median income.

VERY LOW INCOME FAMILY: Households earning less than 50 percent of area median income.

LOW INCOME FAMILY: Households earning less 80 percent of area median income.

COST BURDENED: A household that is paying more than 30% of its gross income for housing.

LOW INCOME HOUSING TAX CREDIT (LIHTC or Housing Credit): This federal legislation was created by the Tax Reform Act of 1986 and provides incentives for the utilization of private equity in the development of affordable housing. Recipients cannot earn more than 60 percent of area median income and rents are restricted.

USDA RURAL DEVELOPMENT: Formerly the Farmers Home Administration, RD is part of the U.S. Department of Agriculture. It administers grant and loan programs to promote and support housing and essential community facilities development in rural communities.

HUD: The U.S. Department of Housing and Urban Development, created in 1965 to administer programs of the federal government which provide assistance for housing and urban development.

Home Matters is a movement uniting America around Home as the bedrock for thriving lives, families, communities and a stronger nation. Home matters is spearheaded by the National NeighborWorks Association, homemattersamerica.com

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