



CITY OF SURPRISE
Regular City Council Work Session
16000 N. Civic Center Plaza
Surprise, AZ 85374
Tuesday, March 5, 2024 @ 4:00 PM
COUNCIL CHAMBERS

- A. Call To Order
- B. Roll Call
- C. Pledge of Allegiance
- D. Proclamation and Community Acknowledgements
- E. City Manager Report

The City Manager may present a brief summary of current events, including recognition of community members, employees, and programs, pursuant to A.R.S. § 38-431.02(K). The City Council will not discuss or take action on any matter within the City Manager Report.

- F. City Clerk Report
- G. Call To The Public

INSTRUCTIONS: In order to address the City Council, you will need to fill out a Call to the Public Form available at the front counter, and then turn it in to the City Clerk before the meeting begins. You may also [fill out the Call to the Public form online](#). If submitting form electronically, please submit to City Clerk at least one hour before the meeting start time.

Note: A.R.S. 38-431.01(H)- During this time members of the public may address City Council only on issues within the jurisdiction of the City Council which are not an item on the agenda. At the conclusion of the open call, City Council may respond to criticism, may ask staff to review the matter or may ask that the matter be put on a future agenda. No discussion or action shall take place on any item raised.

Approval of items on the Consent Agenda – all items with an asterisk (*) are considered to be routine matters and will be enacted by one motion and one roll call vote to the City Council. There will be no separate discussion on these items unless a Councilmember requests, in which event the item will be removed from the consent agenda and considered in its normal sequence on the agenda.

Please be aware that Council Members may not discuss or respond to matters raised during call to the public that are not specifically identified on the agenda. Council Members may however, in their discretion, discuss or respond to relevant matters raised during a noticed public hearing or agenda item.

- H. Regular City Council Work Session Agenda

CONSENT AGENDA:

REGULAR AGENDA ITEM - PUBLIC HEARING:

REGULAR AGENDA ITEM - NON-PUBLIC HEARING:

- | | | | |
|----|----------|---|---|
| 1. | Citywide | Presentation and discussion pertaining to transportation projects from the Maricopa Association of Governments. | Jodi Tas
City Manager Office |
| 2. | Citywide | Presentation and discussion from the Arizona Department of Transportation on current transportation projects in the northern Surprise area. | Jodi Tas
City Manager Office |
| 3. | Citywide | Discussion pertaining to housing issues, case studies, and solutions requested by Mayor Hall at the Regular City Council meeting of January 16, 2024. | Jeanine Jerkovic
Economic
Development |

- I. Other Business and Future Agenda Items
- J. City Council Reports
- K. Executive Session

For information Purposes; Upon a public majority vote of a quorum of the City Council, the Council may hold an executive session, which will not be open to the public, but for only the following purposes:

- discussion or consideration of personnel matters (A.R.S. §38-431.03 (A)(1));
- discussion or consideration of records exempt by law from public inspection (A.R.S. §38-401.03 (A)(2));
- discussion or consultation for legal advice with the city's attorneys (A.R.S. §38-431.03 (A)(3));
- discussion or consultation with the city's attorneys regarding the city's position regarding contracts that are the subject of negotiations, in pending or contemplated litigation, or in settlement discussions conducted in order to avoid or resolve litigation (A.R.S. §38-431.03 (a)(4));
- discussion or consultation with designated representatives of the city in order to consider its position and instruct its representatives regarding negotiations with employee organizations (A.R.S. §38-431.03 (A)(5)); or
- discussion, consultation or consideration for international and interstate negotiations or for negotiations by a city or town, or its designated representatives, with members of a tribal council, or its designated representatives, of an Indian reservation located within or adjacent to the city or town. A.R.S. §38-401.03 (A)(6)).
- discussing or consulting with designated representatives of the city in order to consider its position and instruct its representatives regarding negotiations for the purchase, sale or lease of real property (A.R.S. §38-431.03 (A)(7)).

Confidentiality Requirements Pursuant to A.R.S. §38-431.03(C)(D): Any person receiving executive session information pursuant to A.R.S. §38-431.02 shall not disclose that information except to the Attorney General or County Attorney by agreement of the City Council, or as otherwise ordered by a court of competent jurisdiction.

The council may vote to hold an executive session for the purpose of obtaining legal advice from the Board's attorney on any matter listed on the agenda pursuant to A.R.S. § 38-431.03(A)(3).

- L. Adjournment

KRISTI PASSARELLI, CITY CLERK

POSTED: Thursday February 29th, 2024 @ 10:00 AM

SPECIAL NOTE: PERSONS WITH SPECIAL ACCESSIBILITY NEEDS, INCLUDING LARGE PRINT MATERIALS OR INTERPRETER, SHOULD CONTACT THE CITY CLERK'S OFFICE @ 623.222.1200 OR TTY 623.222.1002, BY NO LATER THAN 24 HOURS IN ADVANCE OF THE REGULAR SCHEDULED MEETING TIME.



CITY OF SURPRISE
Regular City Council Work Session

Council Meeting Date: March 5, 2024
Submitting Department:
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No	Regular: No	Public Hearing: No	Report/Discussion: No
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Agenda Wording:
City Manager sub-text

Motion:

Background:

Objective Analysis:

Policy Compliant:

Financial Impact:

Budget Impact:

FTE Impact:

ATTACHMENTS:



CITY OF SURPRISE
Regular City Council Work Session

Council Meeting Date: March 5, 2024

Contact Person: Jodi Tas, MNGMNT ANALYST - SR

Submitting Department: City Manager Office

District: Citywide

Staff Recommendations: None

Consent: No

Regular: Yes

Public Hearing: No

Report/Discussion: No

Agenda Wording:

Presentation and discussion pertaining to transportation projects from the Maricopa Association of Governments.

Motion:

None, discussion only.

Background:

The Maricopa Association of Governments will provide an overview of current transportation projects in the City of Surprise.

Objective Analysis:

.To provide an update on the progress and future plans for infrastructure within the city, ensuring transparency and collaboration between the city and the Maricopa Association of Governments

Policy Compliant:

This item is City and Council policy compliant.

Financial Impact:

There is no financial impact associated with this item.

Budget Impact:

There is no budget impact associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

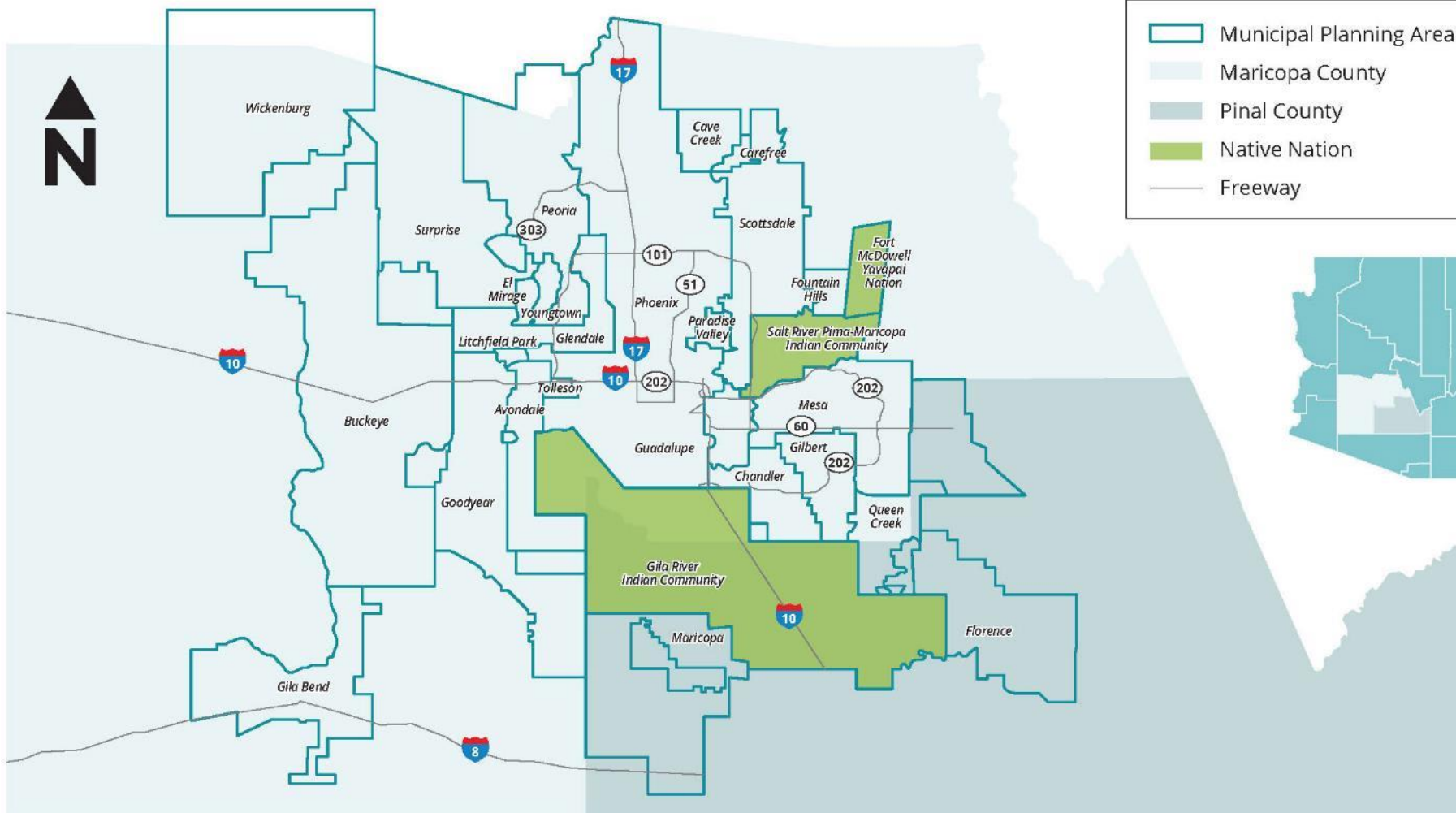
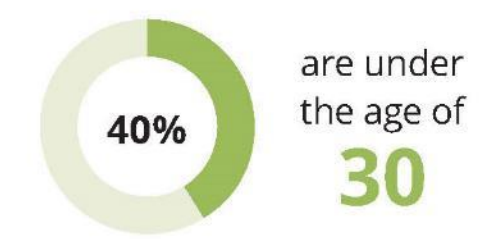
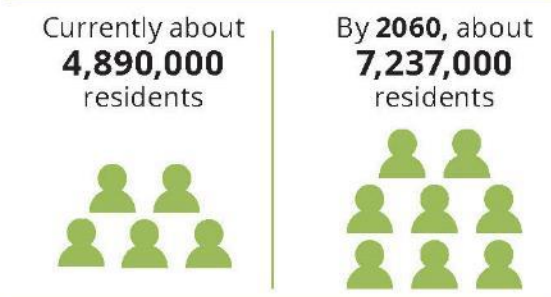
1. MAG
-

NORTHWEST VALLEY PROJECTS AND PROPOSITION 479

City of Surprise Council Workshop
March 5, 2024



MAG region by the numbers:



MARICOPA COUNTY AND REGIONAL TRANSPORTATION INVESTMENTS

Prop 300: 1985

RETURN TO
MAG HISTORIC FILE
1985



MARICOPA COUNTY
STATE OF ARIZONA

PUBLICITY PAMPHLET
SAMPLE BALLOT 1985

Proposition to be submitted to the qualified electors of Maricopa County at the

Special Election

October 8, 1985



Compiled and issued by the
Maricopa County Board of Supervisors



COMANDO
DE MARICOPA
ESTADO
DE ARIZONA

FOLLETO
PUBLICITARIO
MUESTRA DE
BALOTO

Proposition to be submitted to the qualified electors of Maricopa County at the

Eleccion Especial

El 8 de Octubre de 1985

TRADUCCIONES AL ESPAÑOL
EMPIEZAN EN LA PAGINA 11

Prop 400: 2004

**Publicity Pamphlet
Sample Ballot**

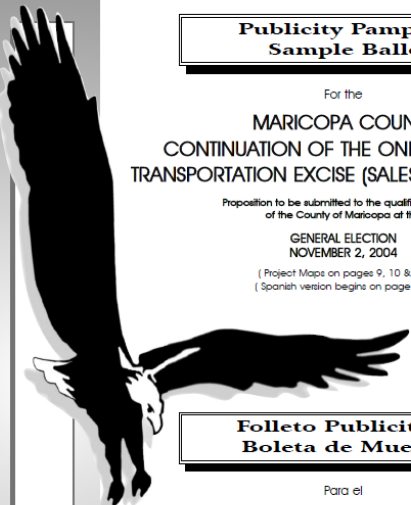
For the

MARICOPA COUNTY
CONTINUATION OF THE ONE-HALF CENT
TRANSPORTATION EXCISE (SALES) TAX ELECTION

Proposition to be submitted to the qualified electors
of the County of Maricopa at the

GENERAL ELECTION
NOVEMBER 2, 2004

(Project Maps on pages 9, 10 & 11)
(Spanish version begins on page 43)



**Folleto Publicitario
Boleta de Muestra**

Para el

CONDADO DE MARICOPA
ELECCIÓN PARA LA CONTINUACIÓN DE LA
IMPOSICIÓN DEL MEDIO CENTAVO DE IMPUESTOS
(VENTAS) PARA TRANSPORTES

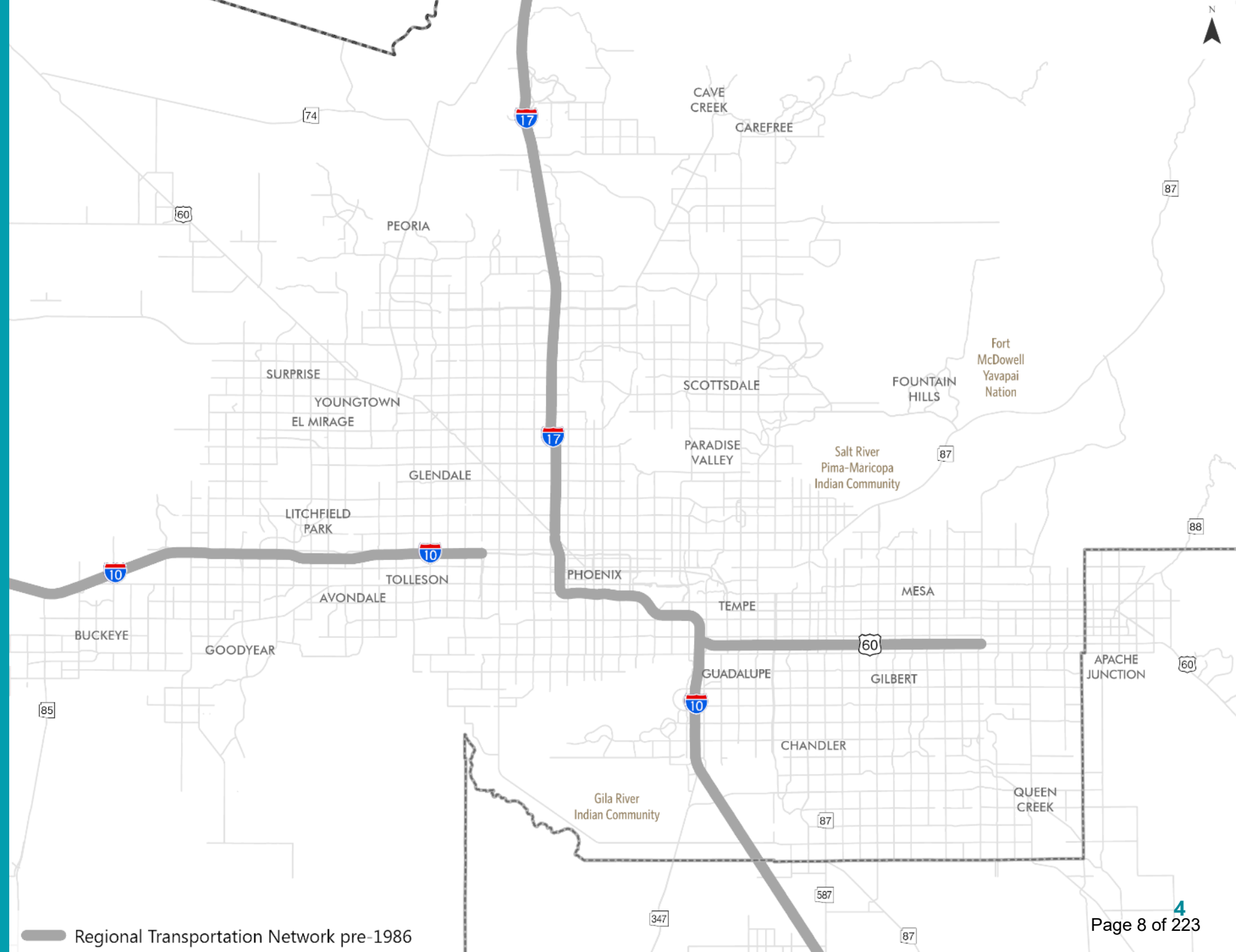
Proposición que será entregada a los electores con derecho
a voto en el Condado de Maricopa en la

ELECCIÓN GENERAL
2 DE NOVIEMBRE DE 2004

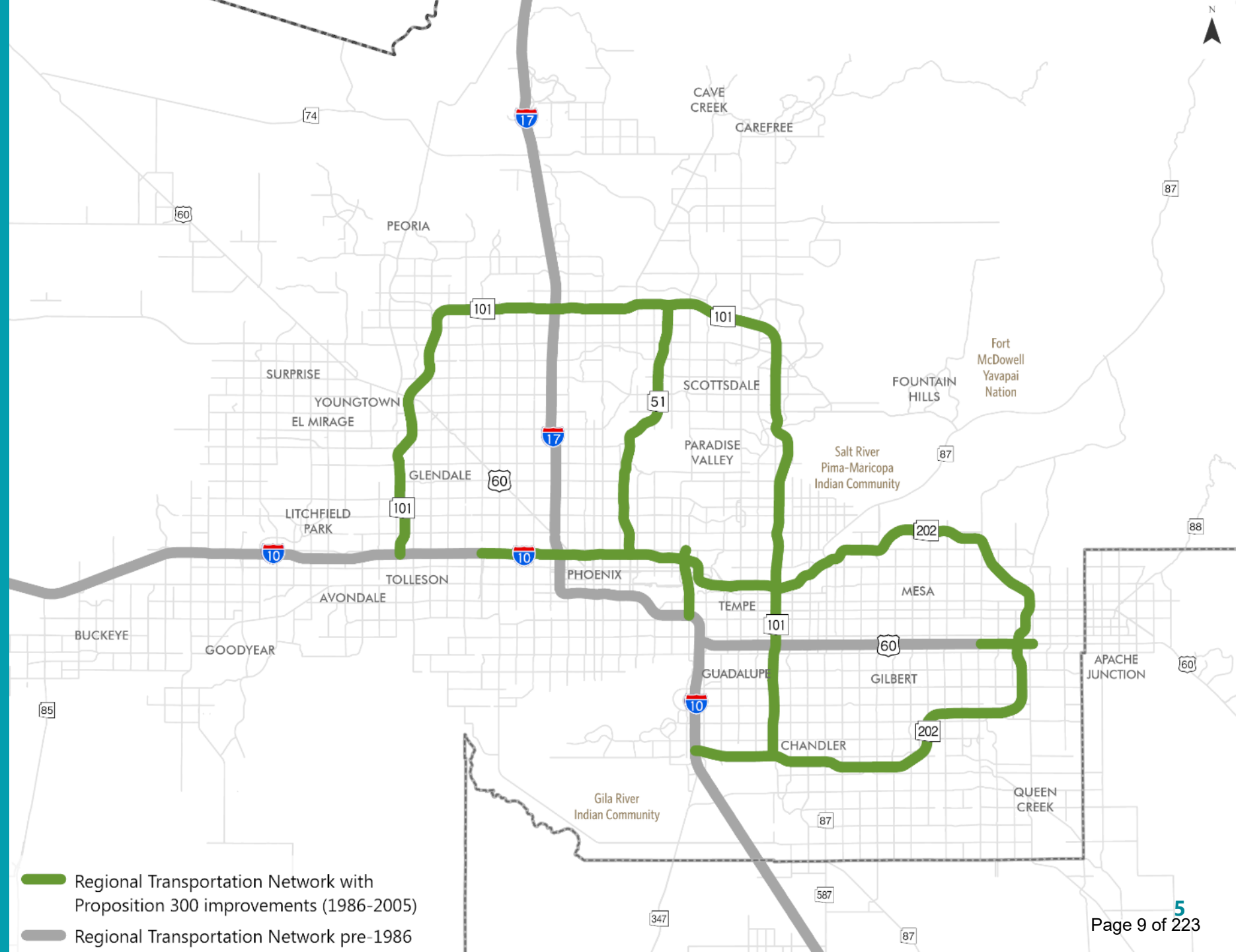
(Mapas de los Proyectos en las páginas 51, 52 y 53)
(La versión en español comienza en la página 43)



REGIONAL TRANSPORTATION NETWORK: *PRE-1986*



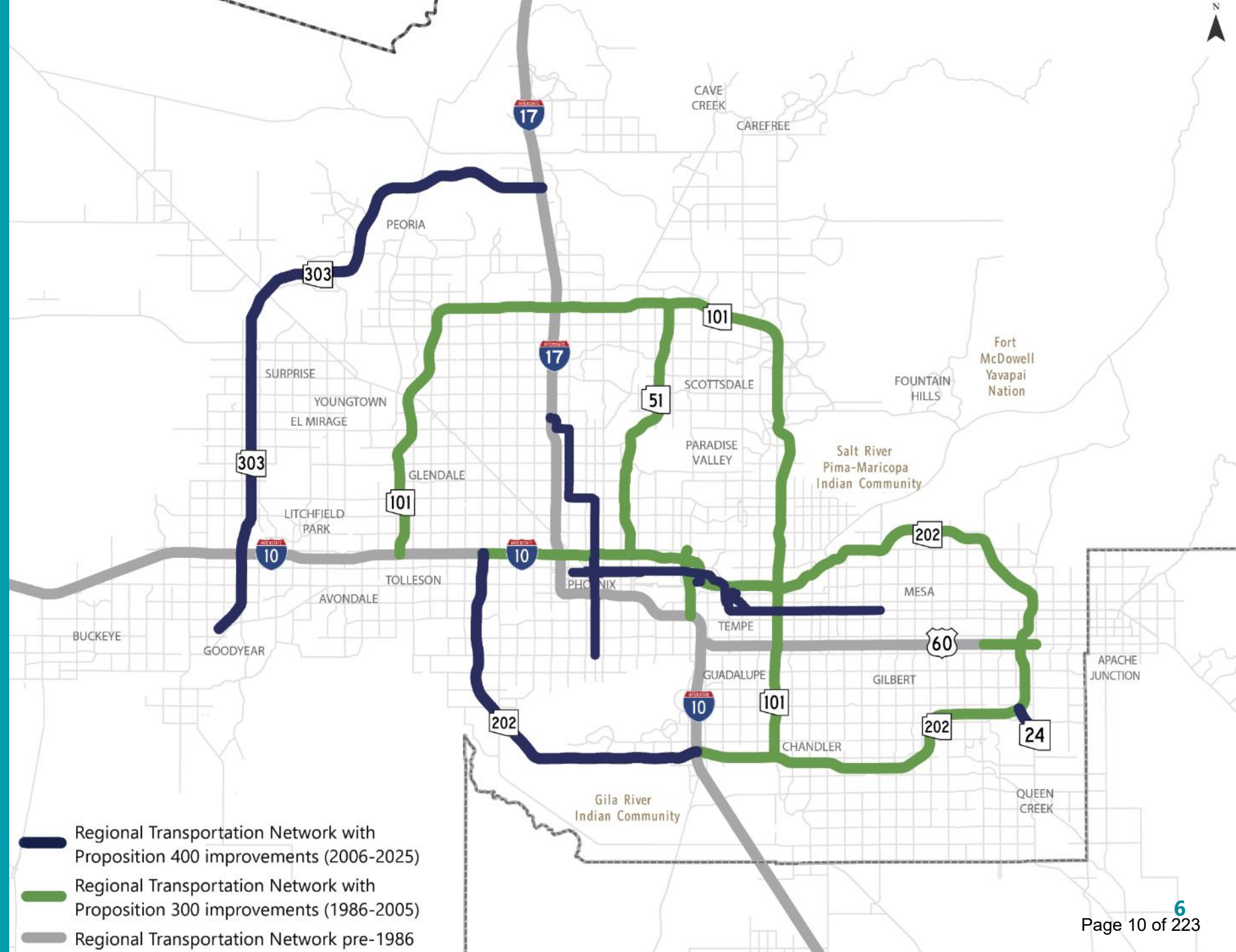
REGIONAL TRANSPORTATION NETWORK: *PROPOSITION 300* (1986 – 2005)



REGIONAL TRANSPORTATION NETWORK: *PROPOSITION 400* (2006 – 2025)

ADDITIONAL INVESTMENTS:

-  7.6 million bus transit revenue miles in FY 2022
-  Funding for ADA Paratransit
- 252 miles of new/improved roads
- Widened/improved freeways
- Improvements in active transportation (bicycle/pedestrian), signal technology, and air quality improvements



WHY IT MATTERS: IT GROWS OUR ECONOMY

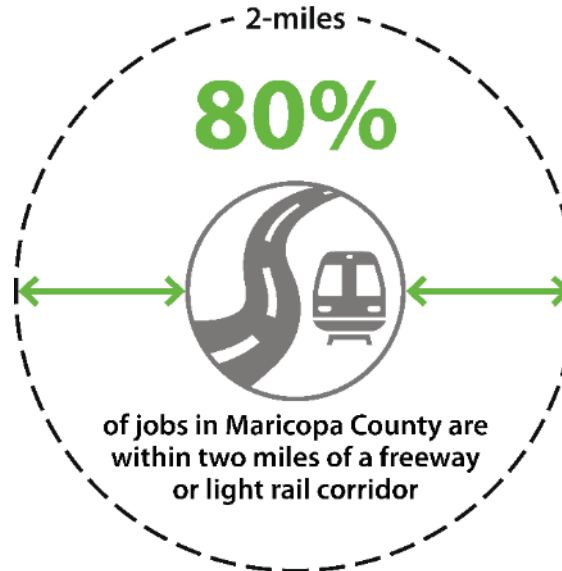
Maricopa County Transportation Existing System Benefit

Freeways reduce
average travel
time by

25%

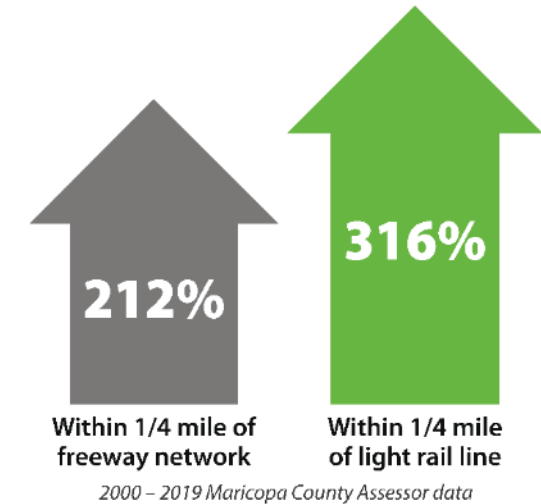
105
hours
saved
from traffic each
year per driver

Maricopa Association of Governments 2020



2019 MAG Socioeconomic Projections

2000-2019 Property Value Appreciation in Maricopa County



WHY IT MATTERS: ITS OUR COMPETITIVE ADVANTAGE

These investments have become our region's economic competitive advantage.

Amongst our peers, we have the ***lowest travel times and levels of congestion***, and the ***highest travel time reliability***.



URBAN MOBILITY REPORT TRAVEL TIME INDEX (TTI)

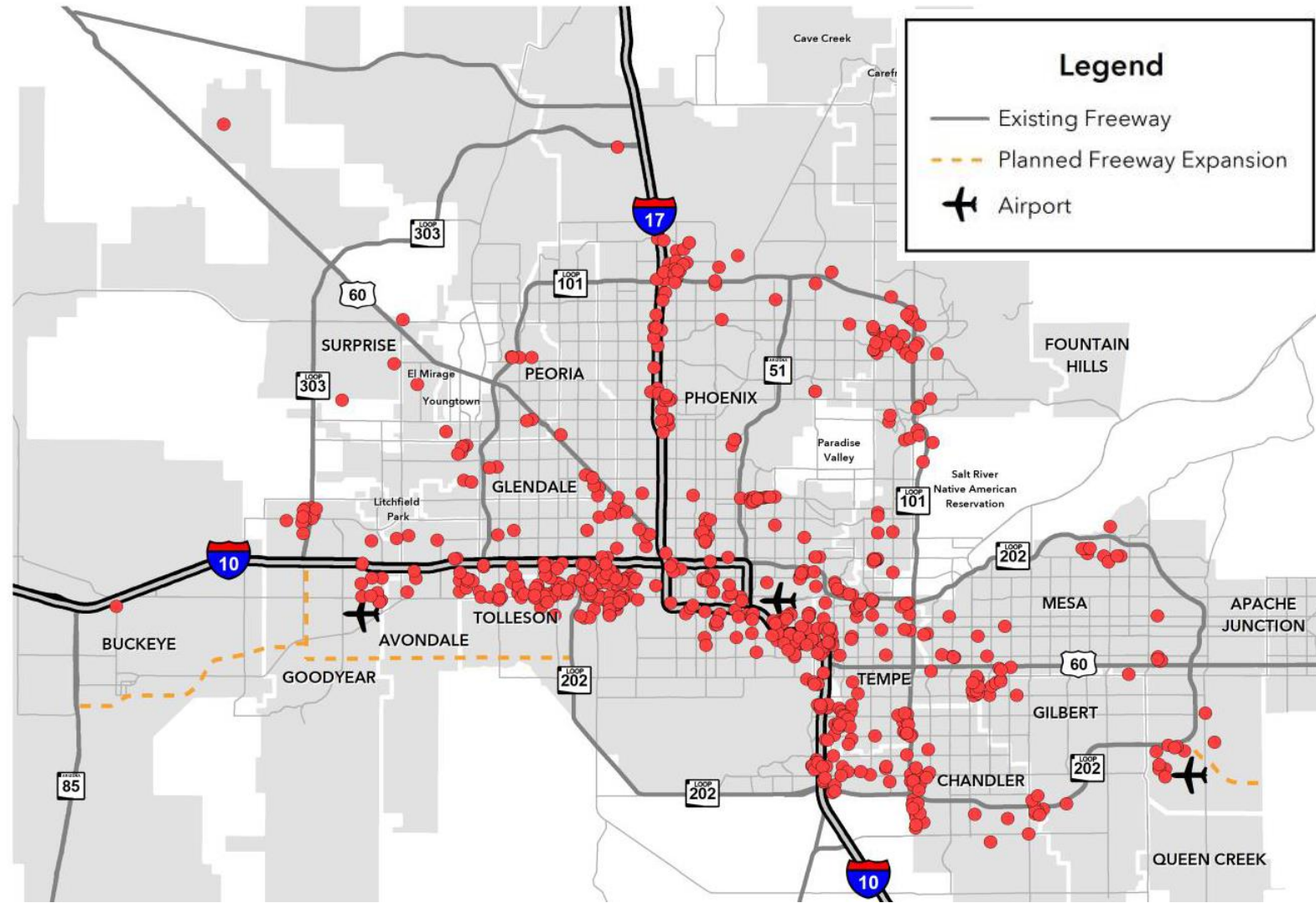
Rank	Urban Area	TTI
1	Phoenix, AZ	1.08
...	...	...
12	Houston, TX	1.15
13	Los Angeles—Long Beach Anaheim, CA	1.16
14	San Francisco, CA	1.16

INRIX DELAY COST PER DRIVER

Rank	Urban Area	Cost
1	Phoenix, AZ	\$321
...	...	...
20	Los Angeles	\$968
21	Miami	\$1,028
22	Boston	\$1,223

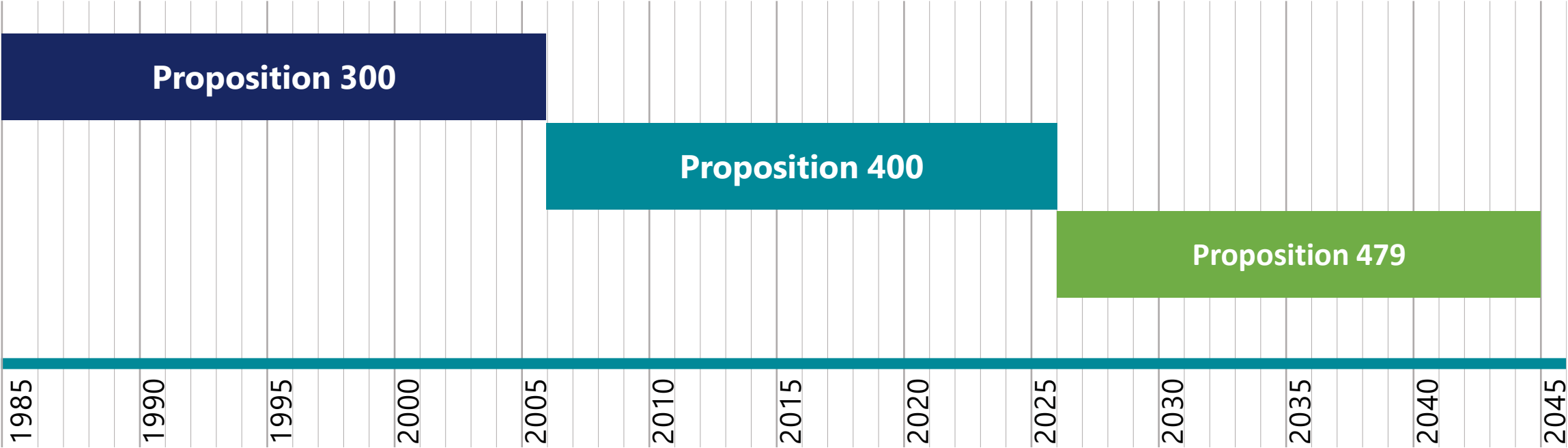
WHY IT MATTERS: IT CREATES JOBS

GPEC Business Locates:
FY1990 - FY2022

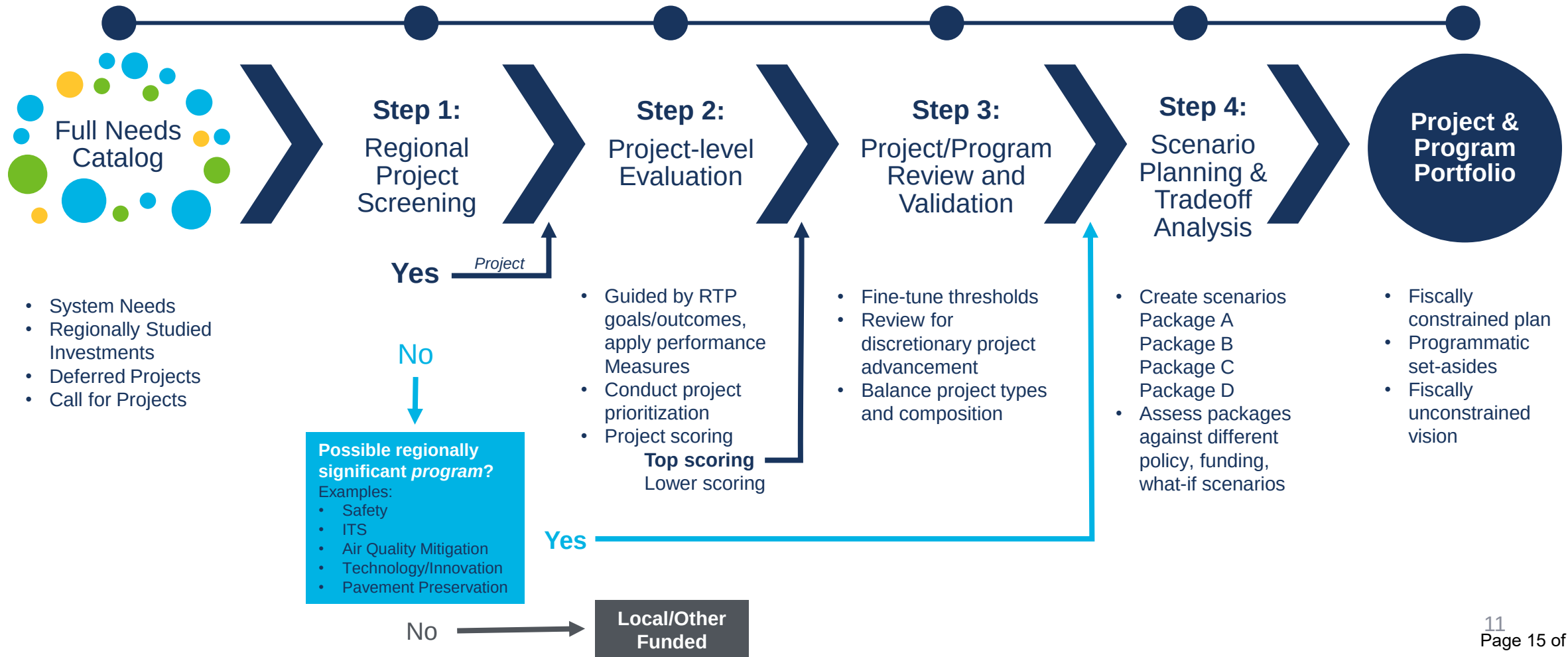


Source: GPEC

PROPOSITION TIMELINE

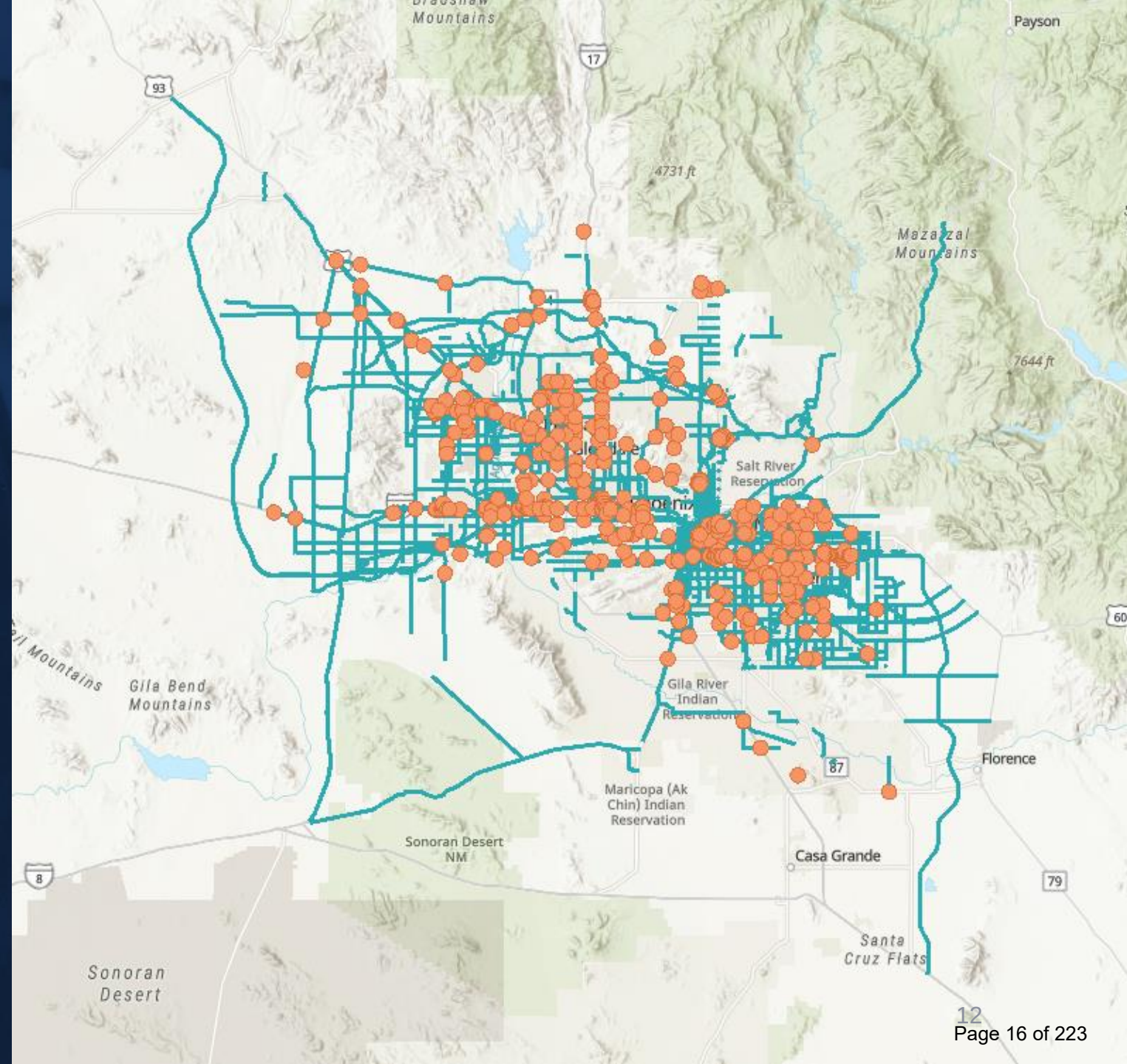


Performance-Based Evaluation Process



Starting Point: Needs Catalog

Over \$90 billion of needs exist regionwide.



Regional Transportation Plan Goals

SAFETY



Provide for the safety and security of pedestrians, bicyclists, riders and drivers.

MOBILITY



Ensure ease of movement for people and goods throughout the region, providing equitable and appropriate access to essential services and destinations.

RESPONSIVENESS



Expand travel choices that accommodate future growth and are flexible in adapting to changing needs and innovations.

LIVABILITY



Invest in a transportation system that supports health and well-being, and sustains the environment.

PRESERVATION



Maintain our region's transportation infrastructure to protect existing investments for the future.

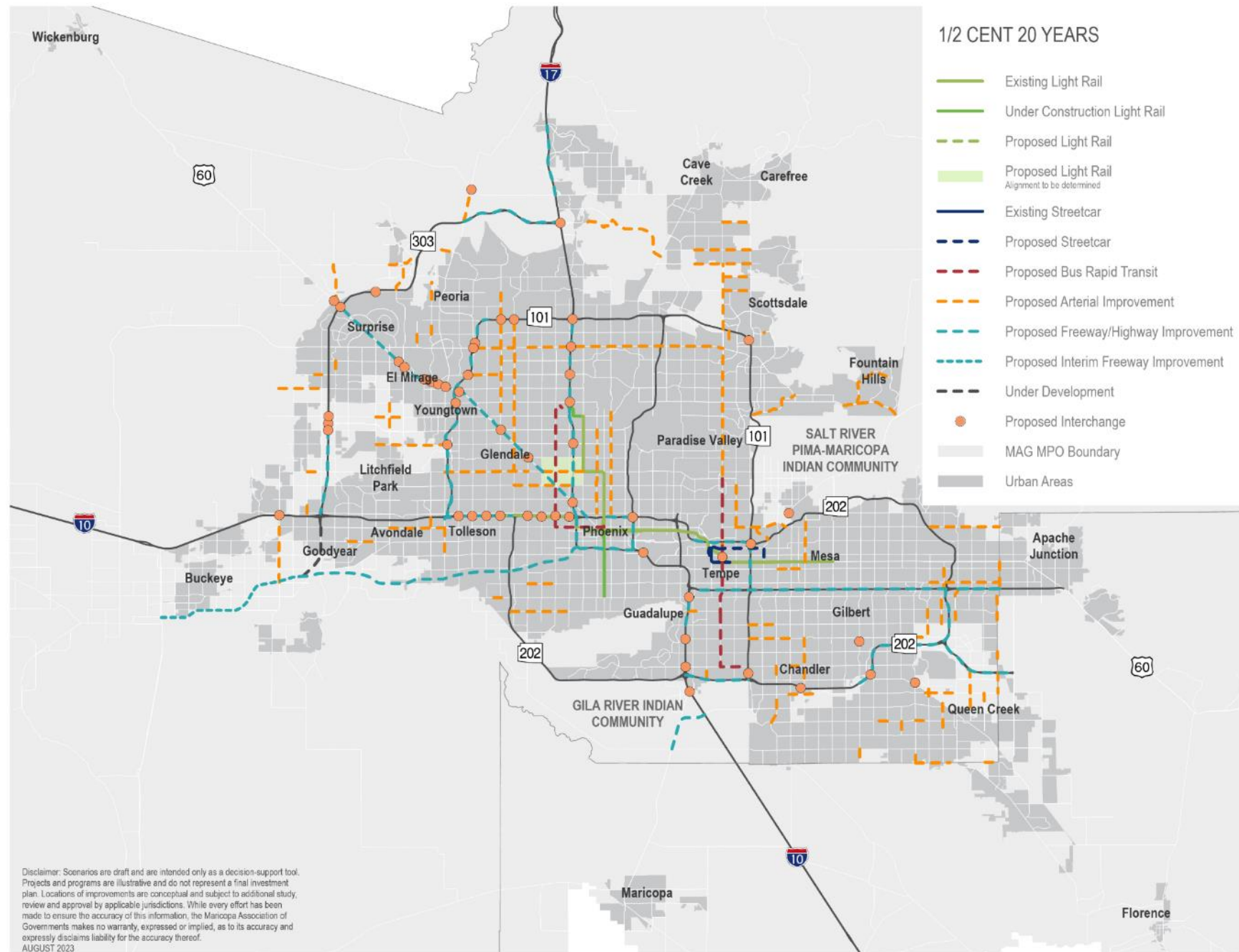
PROSPERITY



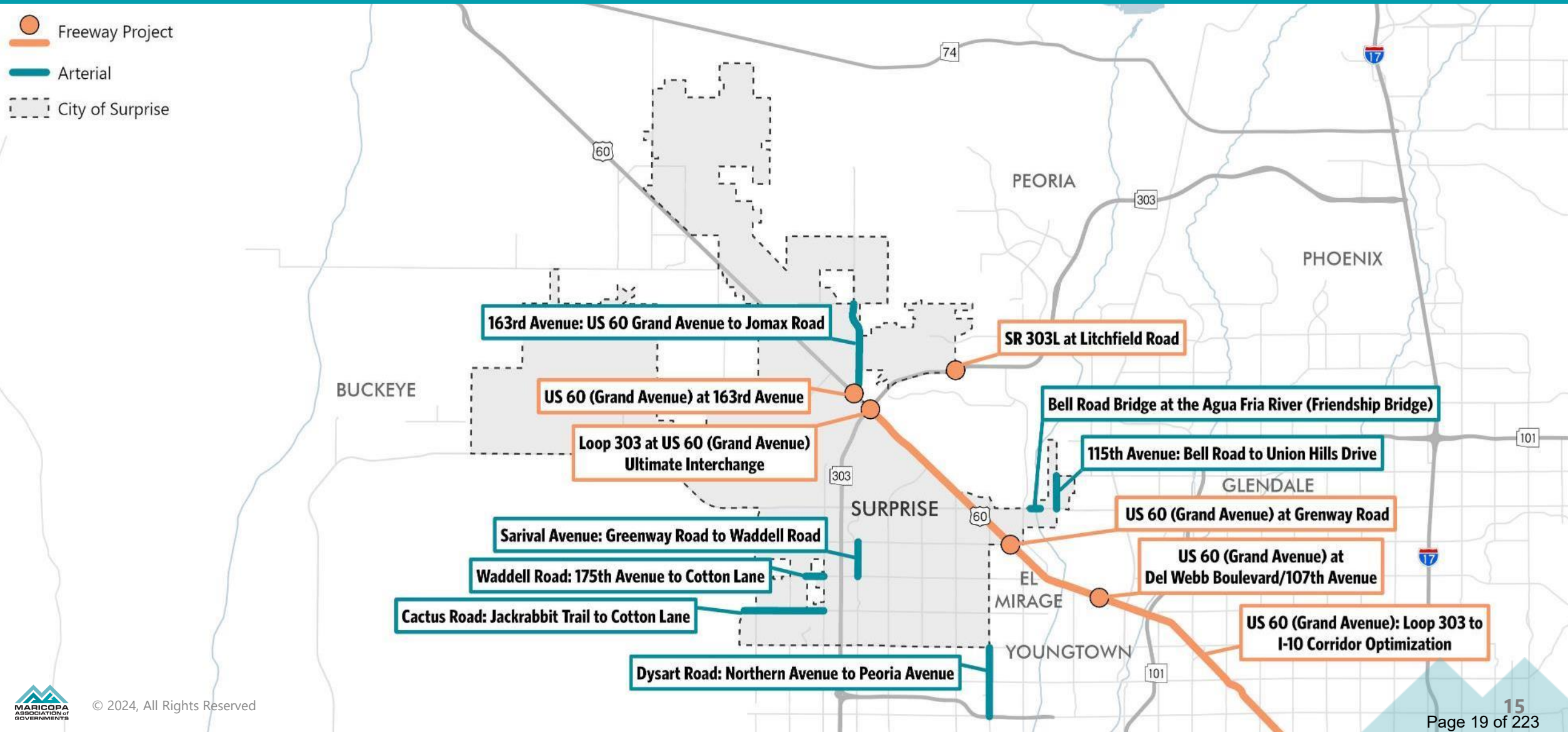
Support economic competitiveness and growth through strategic transportation investments.

PROP. 479 INVESTMENT PLAN

- Major component of Regional Transportation Plan.
- Completing critical freeway linkages, including **SR 30**, reconstruction of **I-17**, completion of **Loop 303** and **SR 24**, and widening of **SR 347**.
- Nearly **doubling funding to expand bus transit**.
- Expanding high-capacity transit.
- Funding ADA paratransit.
- Investing in **1,000+ miles** of new or improved arterial roads.
- Supporting investments in safety, emerging technologies, ITS, and nonmotorized infrastructure.



SURPRISE PROJECTS - RSTIIP



FLEXIBLE AND FUTURE-FOCUSED



Freeways

Investments to deliver projects throughout the system to expand, modernize and rehabilitate the renown freeway network.



Non-motorized Transportation

Investments in bicycle lanes, protected paths and other projects to create better connectivity and improve safety for non-motorized transportation users.



Arterial Improvements

Investments to enhance the region's "grid" street network to improve safety and mobility.



Bus Transit

Investments to continue to operate and further grow the region's bus transit system.



Emerging Technology

Investments to enable the region to respond and adapt to future transportation innovations.



Intelligent Transportation Systems

Investments in technology that manage the movement of people and goods through the region.



Safety

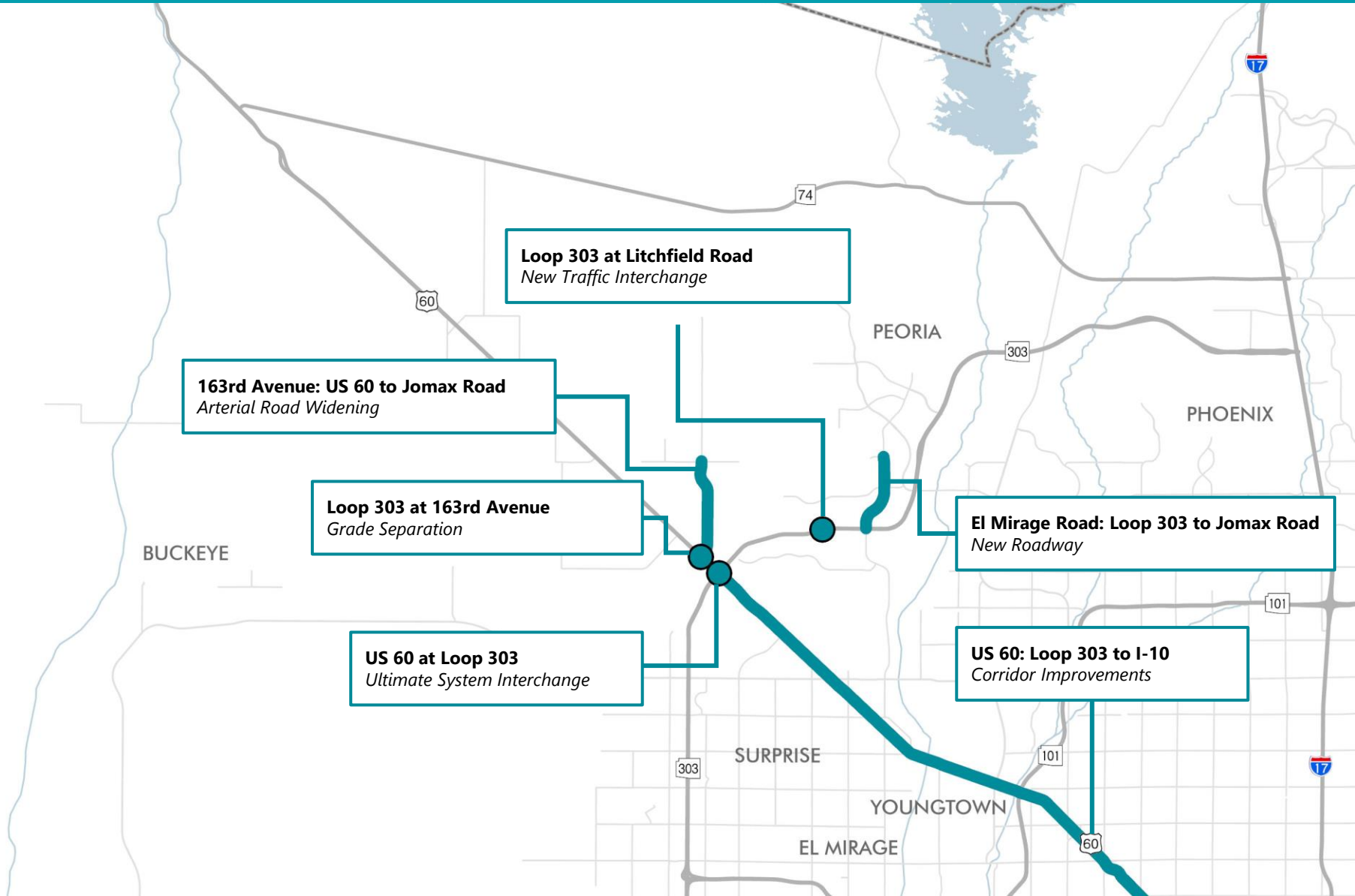
Investments in projects and initiatives that improve safety across the system and for its users.



Transportation Demand Management

Investments in strategies that optimize the region's existing transportation infrastructure and manages its use, especially at "rush hour."

PROP 479: SELECT NORTHWEST VALLEY IMPROVEMENTS



US 60 (GRAND AVE): LOOP 303 (ESTRELLA) TO STATE ROUTE 74 STUDY



Type:
Corridor Planning Study



Overview:
Assess existing and future travel demands on Grand Avenue and surrounding roadway network to inform future improvements.



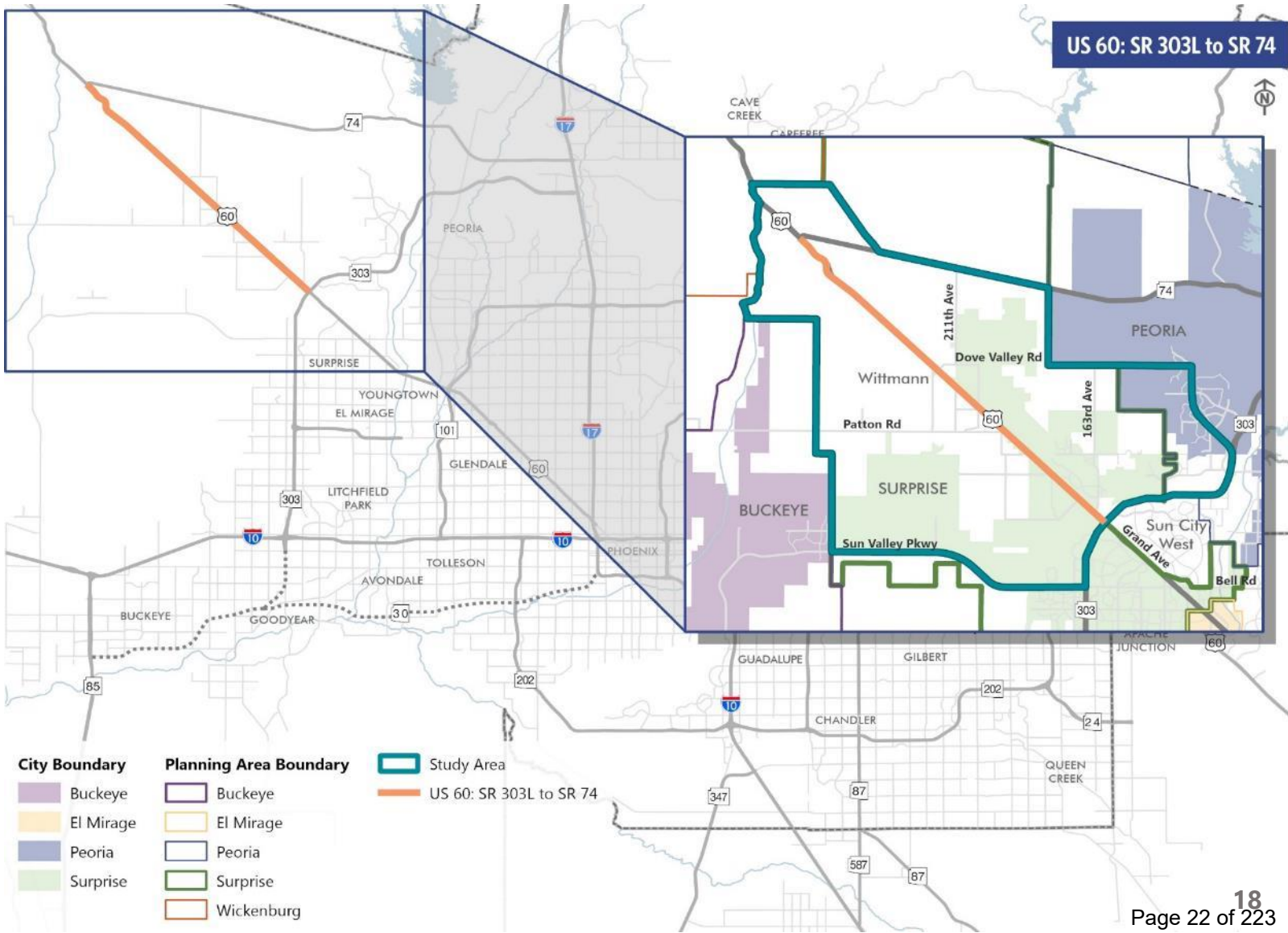
Partner Agencies:
City of Surprise, City of Peoria, ADOT.



Start Date:
02/2024



Planned Duration:
18 months



NORTHWEST VALLEY: REGIONAL INFRASTRUCTURE IMPROVEMENT SUMMARY

- ▶ Funding for major infrastructure improvements around US 60 and Loop 303 is included in the Proposition 479 investment plan.
- ▶ The US 60 (Grand Ave): Loop 303 (Estrella) to State Route 74 study will identify potential solutions and when they are needed.
- ▶ Major infrastructure improvements take years to develop and construct.
- ▶ MAG, ADOT, and the City of Surprise are working on identifying opportunities to advance development work to shorten timelines.



THANK YOU

John Bullen
Chief Transportation Officer
jbullen@azmag.gov



CITY OF SURPRISE
Regular City Council Work Session

Council Meeting Date: March 5, 2024

Contact Person: Jodi Tas, MNGMNT ANALYST - SR

Submitting Department: City Manager Office

District: Citywide

Staff Recommendations: None

Consent: No

Regular: Yes

Public Hearing: No

Report/Discussion: No

Agenda Wording:

Presentation and discussion from the Arizona Department of Transportation on current transportation projects in the northern Surprise area.

Motion:

None, discussion only.

Background:

The Arizona Department of Transportation will provide an overview of current transportation projects in the northern Surprise area.

Objective Analysis:

To provide an update on the progress and future plans for infrastructure within the city, ensuring transparency and collaboration between the city and the Arizona Department of Transportation.

Policy Compliant:

This item is City and Council policy compliant.

Financial Impact:

There is no financial impact associated with this item.

Budget Impact:

There is no budget impact associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. ADOT
-

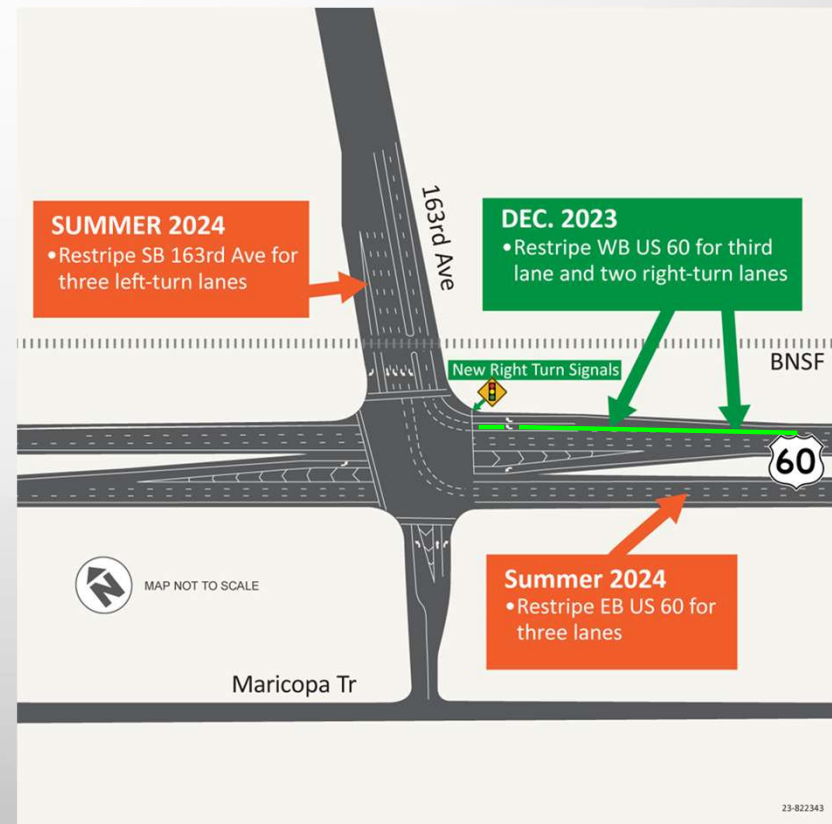
US 60/163rd Ave. Intersection and US 60/Loop 303 Traffic Interchange Improvements

Surprise City Council Study Session
March 5, 2024

US 60 and 163rd Avenue Improvements

December 2023 - Completed

- Added third lane along WB US 60
- Added second right turn lane from WB US 60 to 163rd Ave.
 - New right turn signals
 - Allows for WB right turns & SB left turns at the same time



Added third WB Lane, US 60

US 60 - Westbound Lane



Second Turn Lane (US-60 to 163rd Ave.)

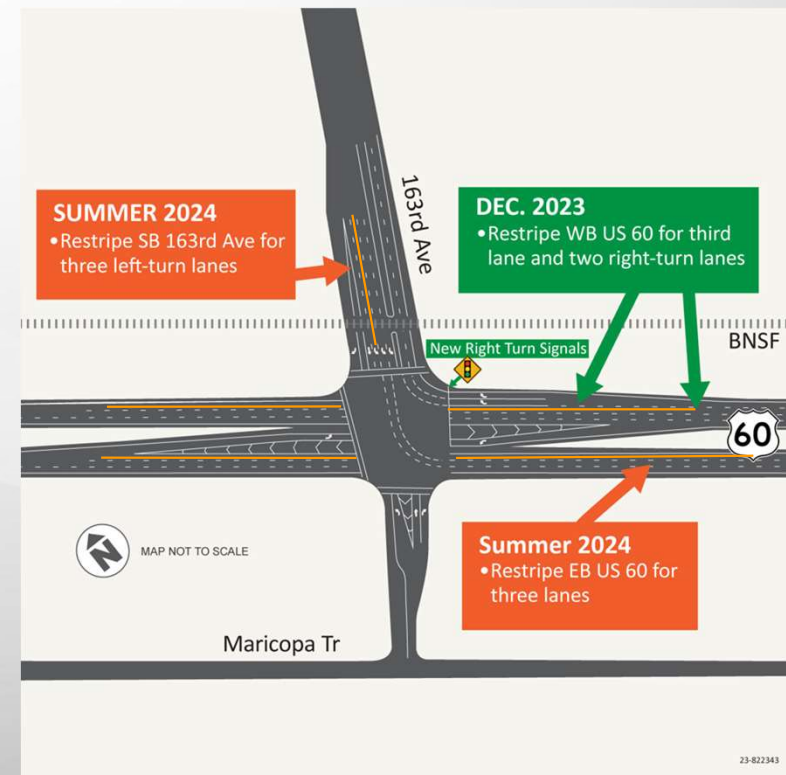
US 60 - Westbound Lane



US 60 and 163rd Avenue Improvements

Starting Summer 2024

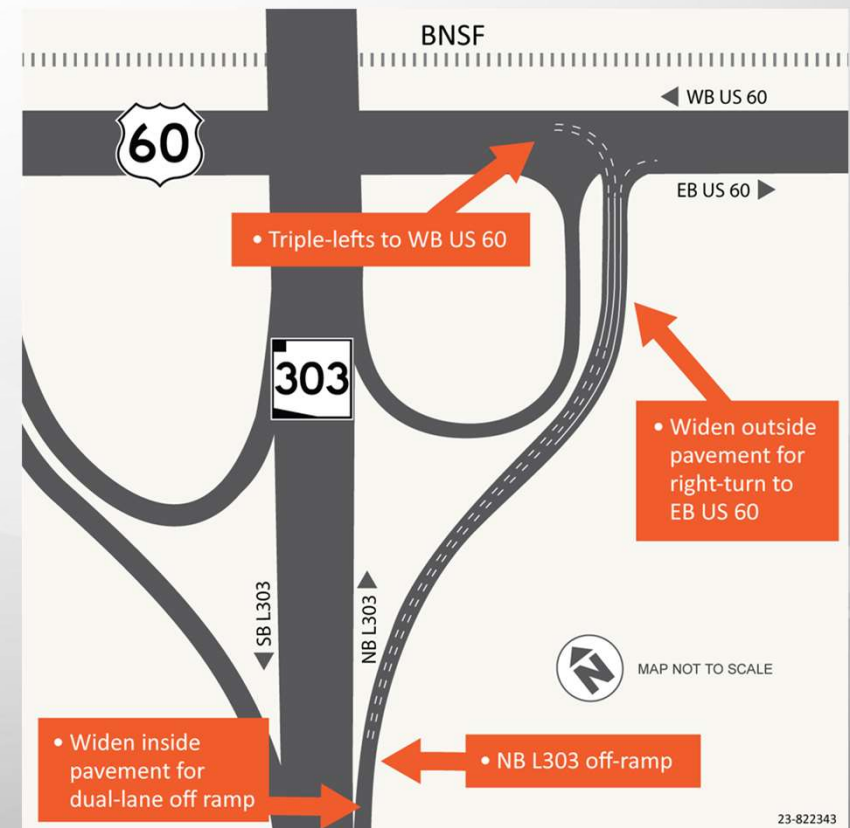
- Add third left turn lane from SB 163rd Ave. to US 60
- Add third lane along EB US 60
- Extend WB third lane past intersection
- Sidewalk/ramp modifications for ADA compliance



Loop 303 and US 60 Interchange Improvements

Starting Summer 2024

- Widen NB Loop 303 off-ramp at US 60
- Add third dedicated left turn lane from NB Loop 303 to WB US 60
- Add dedicated right turn lane from NB Loop 303 to EB US 60



Loop 303/US 60 Interchange & 163rd Ave Intersection Improvement Project Status Update

- Advertised Feb. 27
- Bid opening April 4
- Expected to go to State Board on April 19 for consideration

Loop 303 and US 60 Interchange

Recommended Future Long-term Improvements

- ADOT Feasibility Study identified recommended capacity, traffic flow and safety improvements based on 2050 traffic levels.
- Recommend grade separating traffic on US 60 & L303 & reconfiguring ramps.
 - Grade separate EB US 60 between 163rd Ave. and R.H. Johnson Blvd.
 - Create US 60 overpass at 163rd Ave.
 - New Loop 303 off-ramps over the railroad tracks.
- Will require additional study and public input to determine design.
- Included in Regional Strategic Transportation Infrastructure Investment Plan; funding for plan to be presented to voters in Nov. 2024 (Prop. 479).

More Info/Receive Updates by Email

- **Website:** www.azdot.gov/us60-303-upgrades
- **Phone:** ADOT Project Information Line:
855.712.8530
- **Email:** Carolynn Ludington at
CLudington@azdot.gov

**Scan to sign up
for mailing list**



Questions?



CITY OF SURPRISE Regular City Council Work Session

Council Meeting Date: March 5, 2024

Contact Person: Jeanine Jerkovic, DIRECTOR -
ECON DEV

Submitting Department: Economic Development

District: Citywide

Staff Recommendations: None

Consent: No

Regular: Yes

Public Hearing: No

Report/Discussion: No

Agenda Wording:

Discussion pertaining to housing issues, case studies, and solutions requested by Mayor Hall at the Regular City Council meeting of January 16, 2024.

Motion:

Discussion only.

Background:

At the Regular City Council meeting of January 16, 2024, Mayor Hall requested to learn more about innovative workforce housing solutions and referred to a recent article by CityLab, published on January 13, 2024: "To Ease Housing Crunch, Theme Parks are Becoming Homebuilders." Surprise is not alone in its current challenges with addressing housing availability and affordability. There are several economic development industry-led best practices that communities like Surprise can consider to help increase the supply of available housing options for its workforce, and this presentation will look at current market issues, recommendations and case studies, such as the innovative example cited by Mayor Hall in the January 13th article.

Objective Analysis:

The work session presentation at the request of Mayor Hall will examine current housing supply and affordability issues in Surprise, present case studies and potential solutions.

Policy Compliant:

The work session presentation and discussion are at the request of Mayor Hall.

Financial Impact:

This is a work session presentation only with no proposed financial impact at this time.

Budget Impact:

This is a work session presentation only with no proposed budget impact at this time.

FTE Impact:

This is a work session presentation only with no proposed FTE impact at this time.

ATTACHMENTS:

1. Elliott-D-Pollack-Company-Slide-Deck-01.30.2024-GPEC-Ambassador-Event
 2. Part 1 - EDRP_Lay_of_the_Land_1+(1)
 3. Part 2 - EDRP_Lay_of_the_Land_1+(1)
 4. Part 3 - EDRP_Lay_of_the_Land_1+(1)
 5. Surprise Housing Study Draft-Matrix 05 22 2023
-



The Current State of the Housing Market 2024 Update

GPEC's Ambassador Event: Addressing Housing Supply in the Region

January 30th, 2024

**Presented By:
Elliott Pollack
CEO, Elliott D. Pollack & Company**

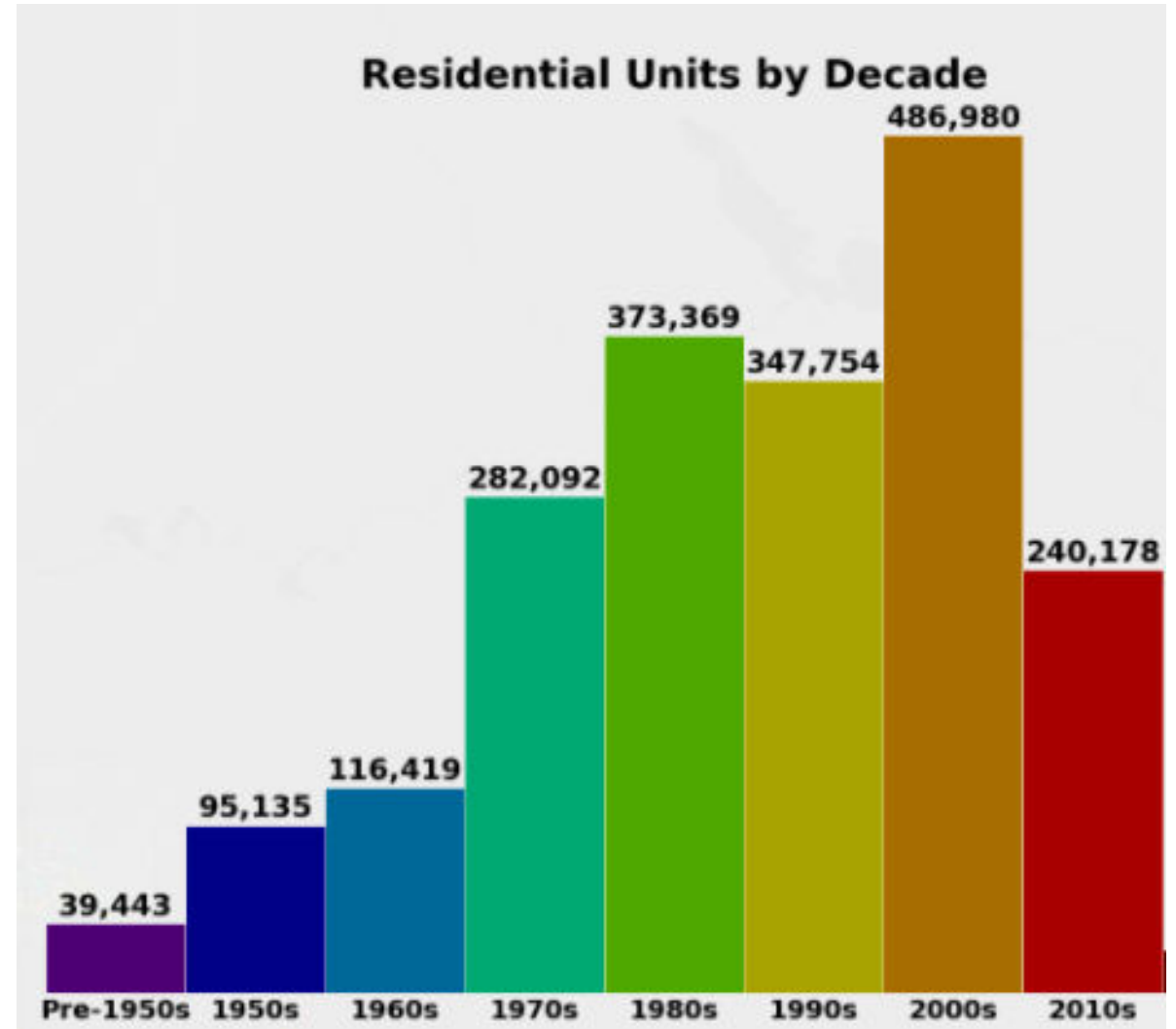


Elliott D. Pollack & Company
Court, Merritt, Pollack, & Stevenson

**The 2000's - A decade
of building excess
inventory.**

**The 2010's - A decade
of absorbing that
inventory.**

**We are now short of
inventory.**

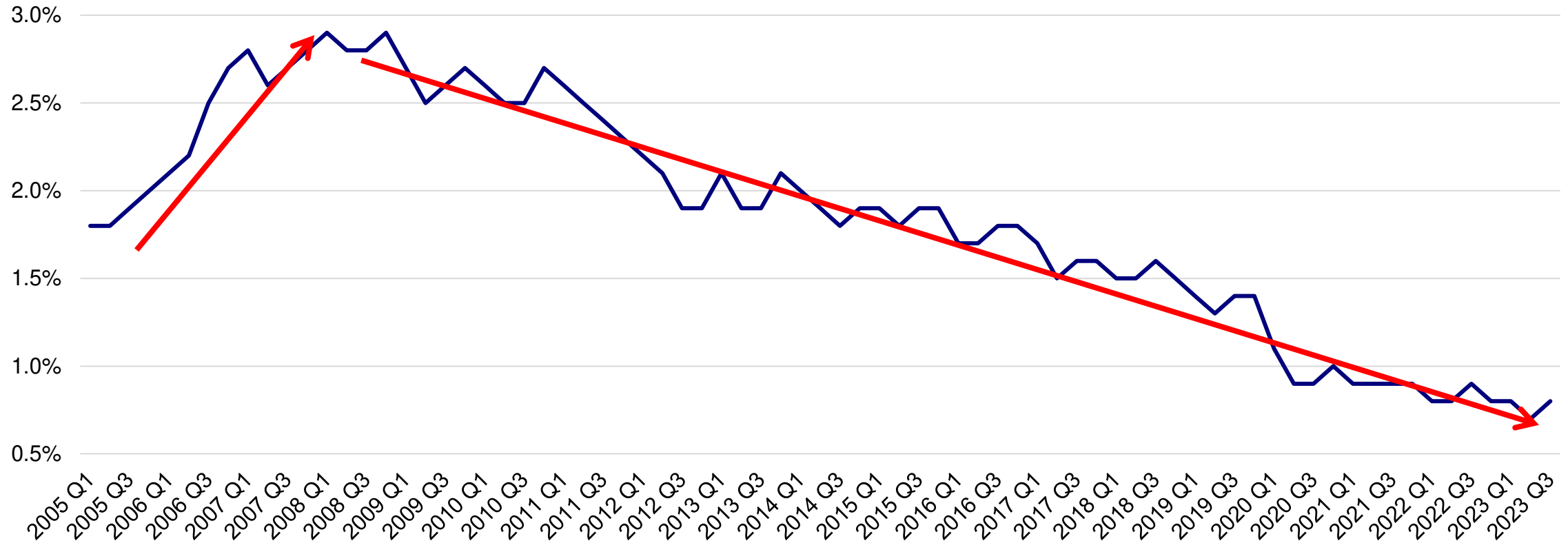


Source: Maricopa Association of Governments. Data reflects Greater Phoenix.



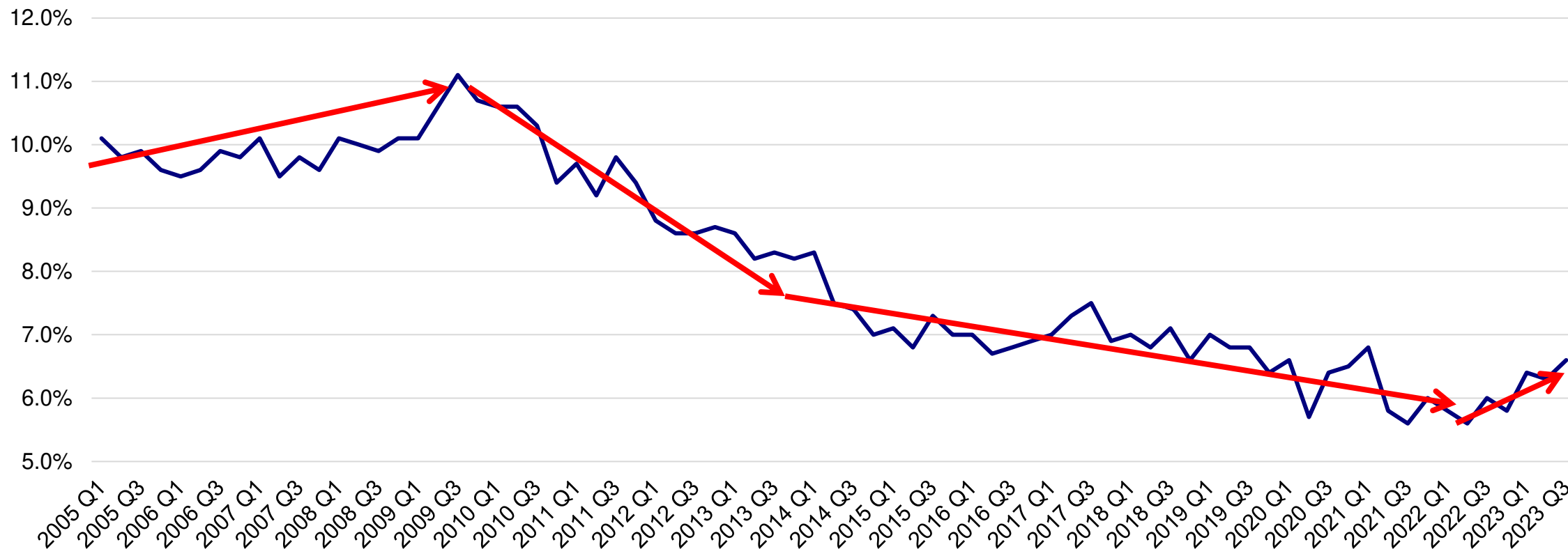
U.S. Homeowner Vacancy Rate

Source: U.S. Census Bureau



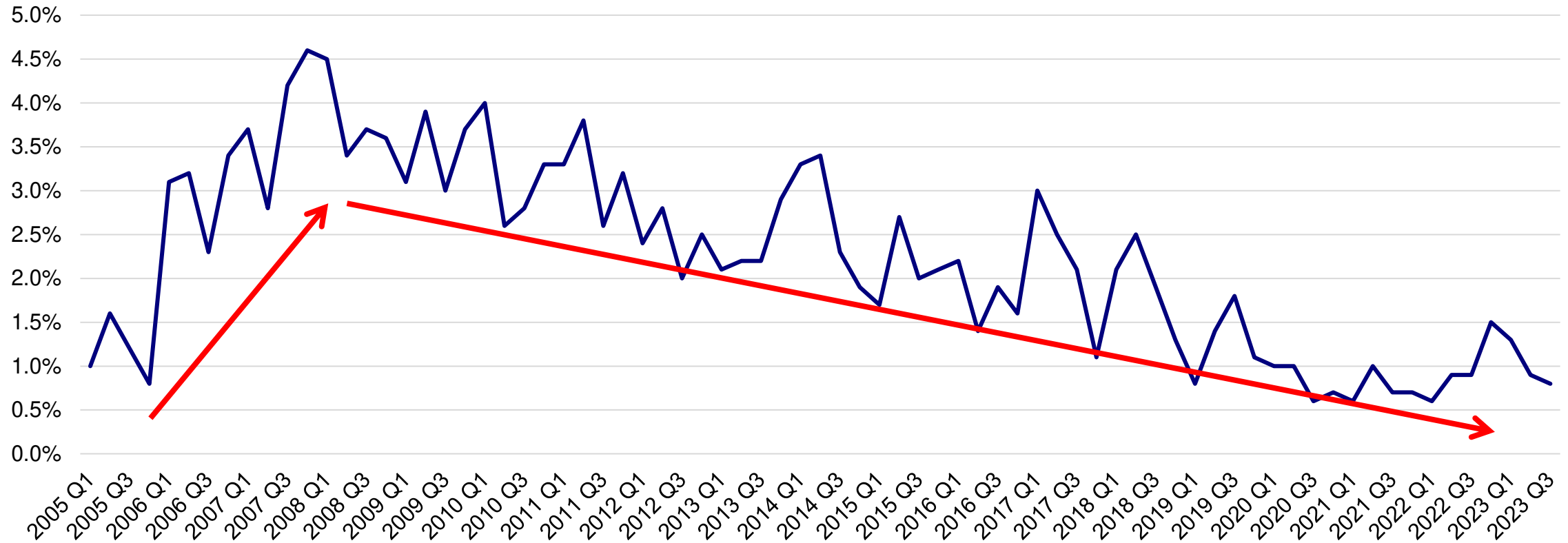
U.S. Rental Vacancy Rate

Source: U.S. Census Bureau



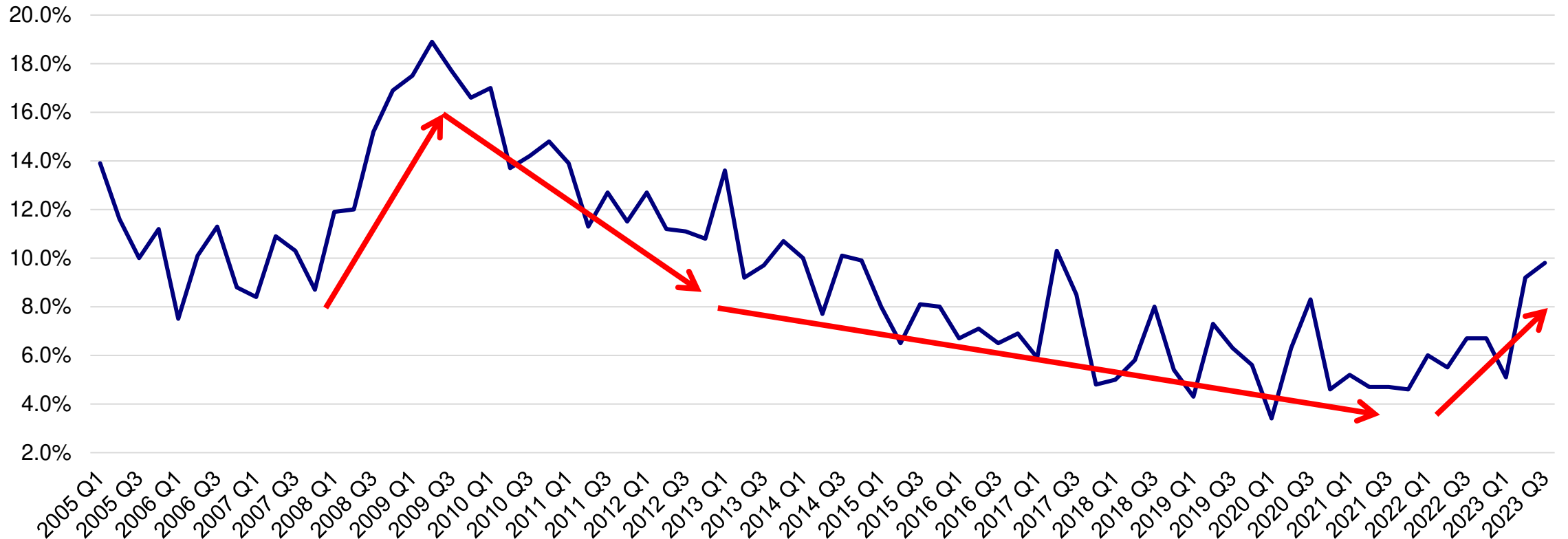
AZ Homeowner Vacancy Rate

Source: U.S. Census Bureau



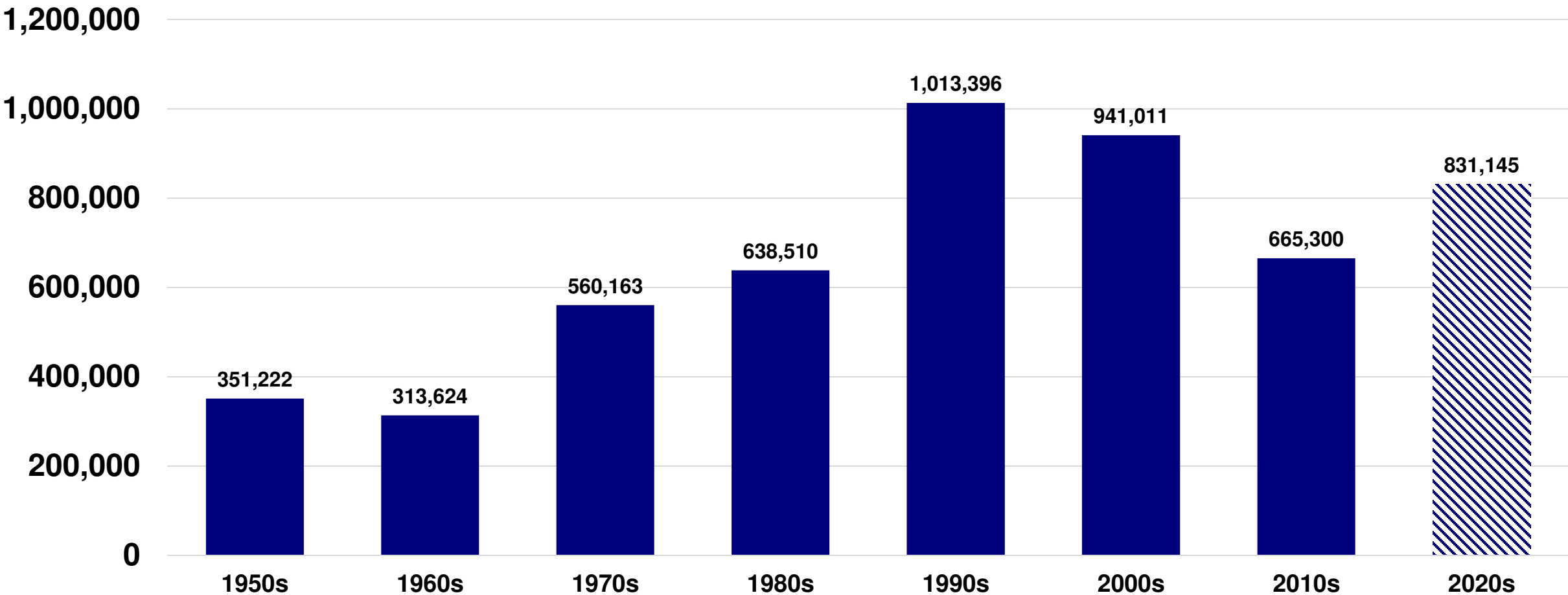
AZ Rental Vacancy Rate

Source: U.S. Census Bureau



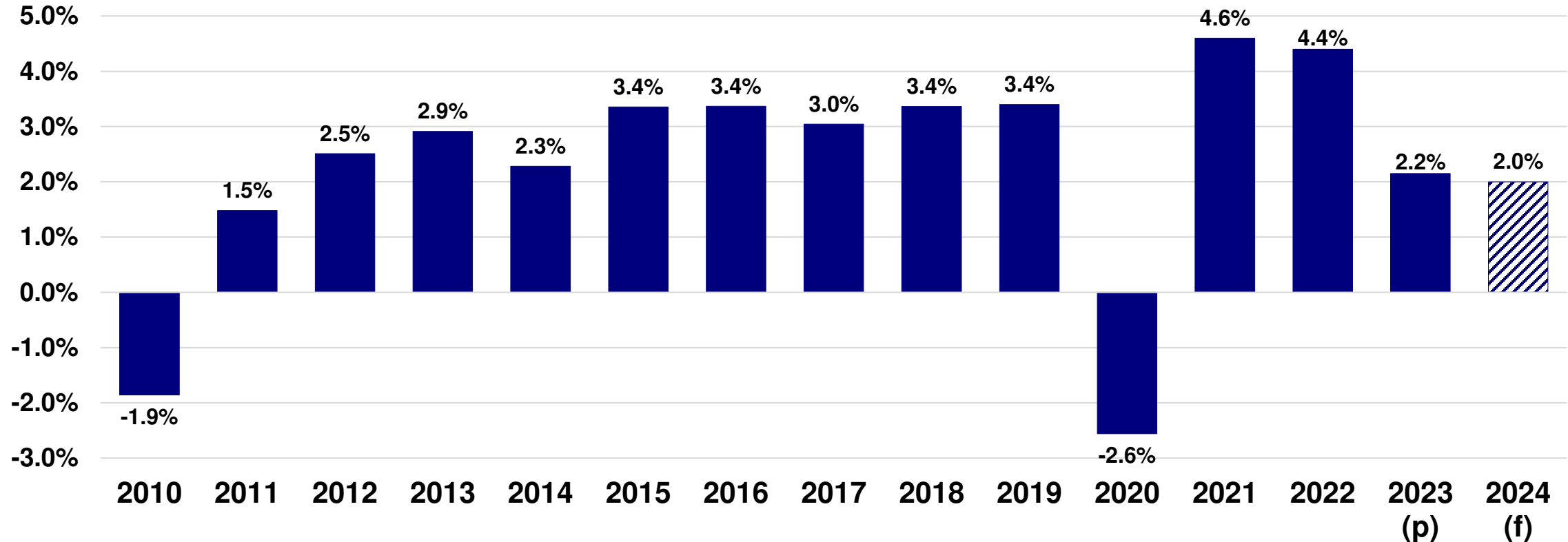
Greater Phoenix Population Growth by Decade

Source: U.S. Census; UofA Forecasting Project



Greater Phoenix Employment

Source: AOEO; EDPCo



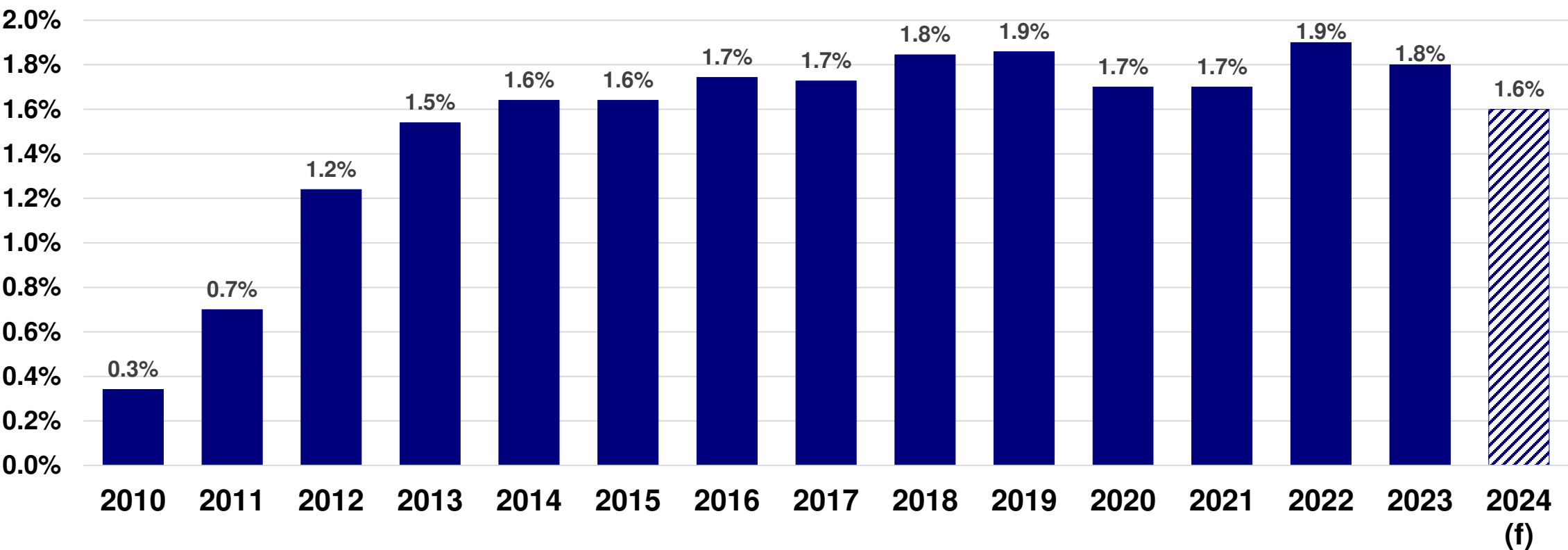
Greater Phoenix has a long history of strong employment growth



Greater Phoenix Population

FY2010-2024

Source: AOEO; EDPCo



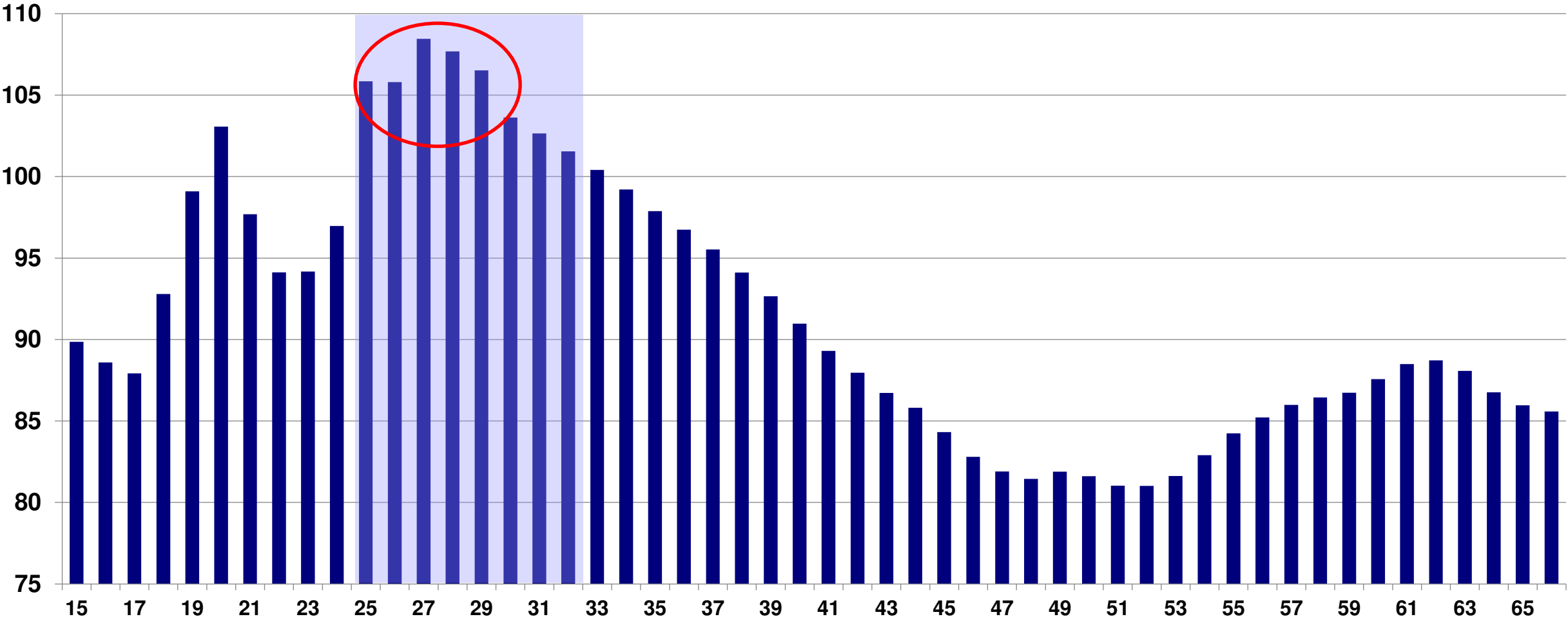
Projected growth approximates 83,000 new residents each year

Arizona Population by Age (15-65)

2023

Source: ESRI

(1,000's)



Greater Phoenix

Homeownership Rates by Age Group

Source: 2022 American Community Survey 1-Year Estimates

Householder Age	% of Total Occupied
15 to 24 years	13.1%
25 to 34 years	<u>42.3%</u>
35 to 44 years	<u>64.1%</u>
45 to 54 years	70.4%
55 to 64 years	77.6%
65 to 74 years	83.9%
75 to 84 years	84.5%
85 years and over	71.7%
Total	66.7%

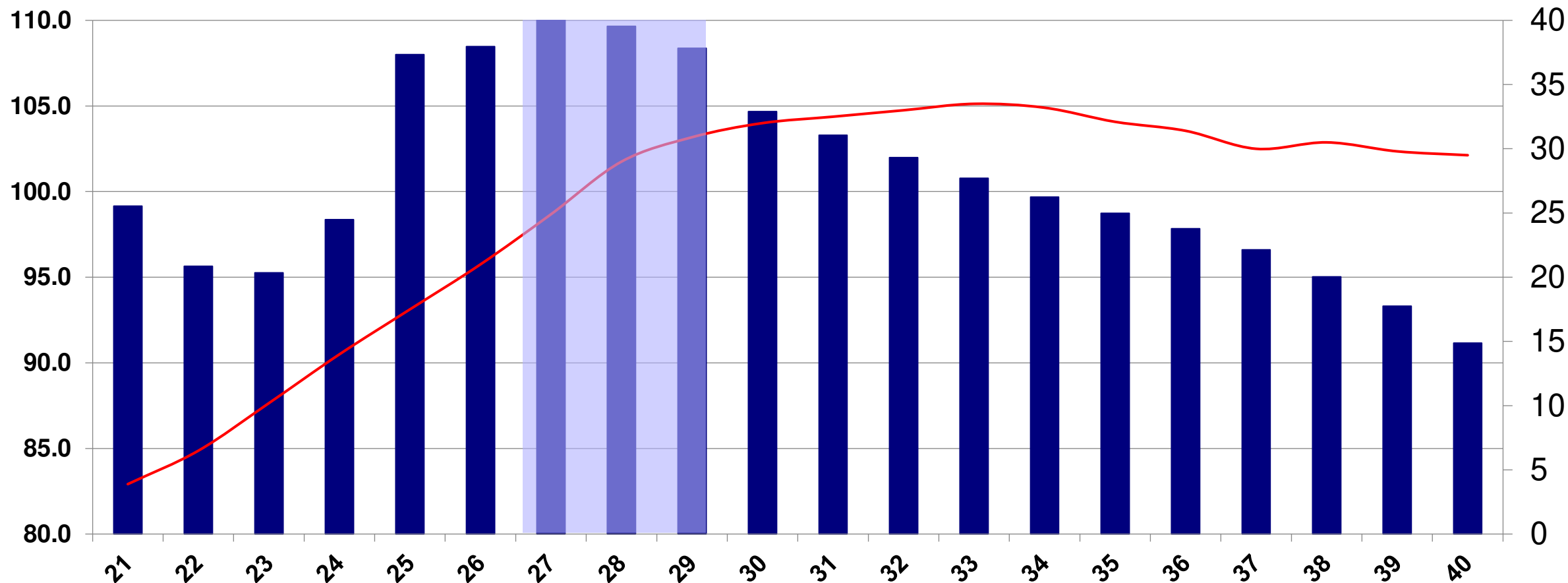


Arizona Number of Persons vs. Home-Purchase Loan Applications 2022

Source: ESRI; CoreLogic; EDPCo

Home-purchase loan application per
1,000 persons

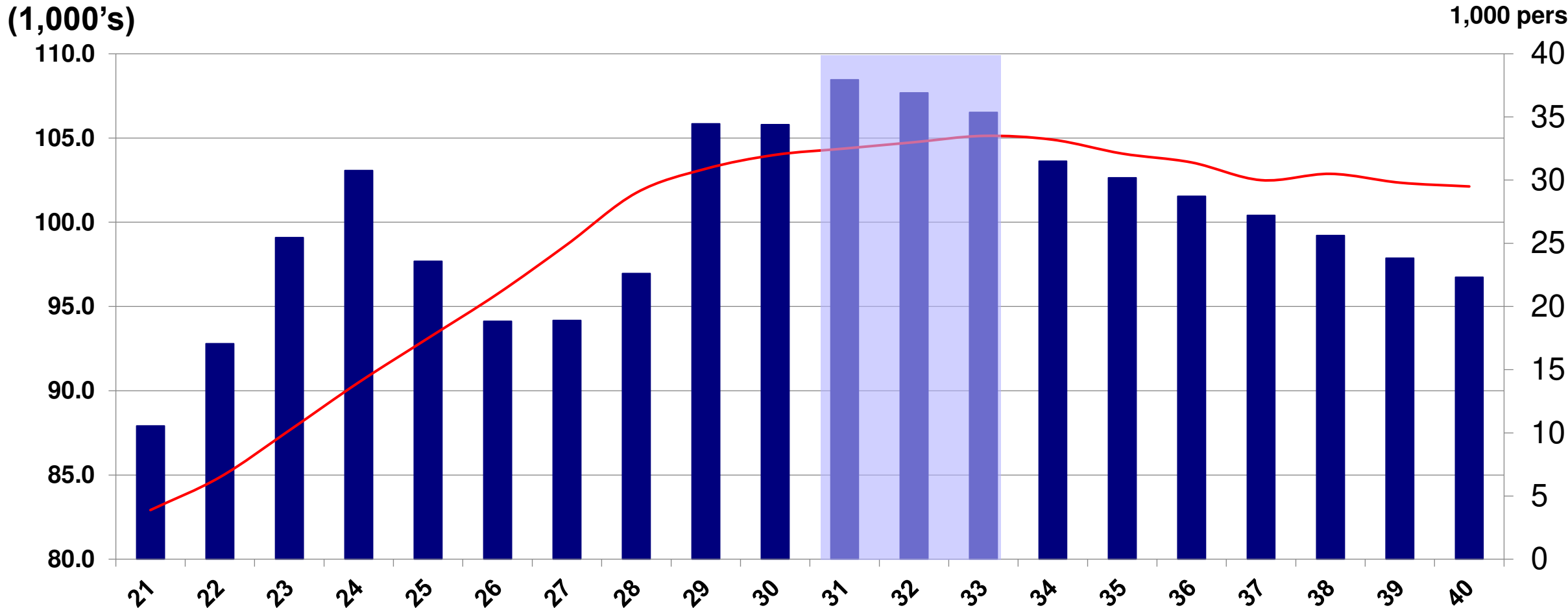
(1,000's)



Arizona Number of Persons vs. Home-Purchase Loan Applications 2027

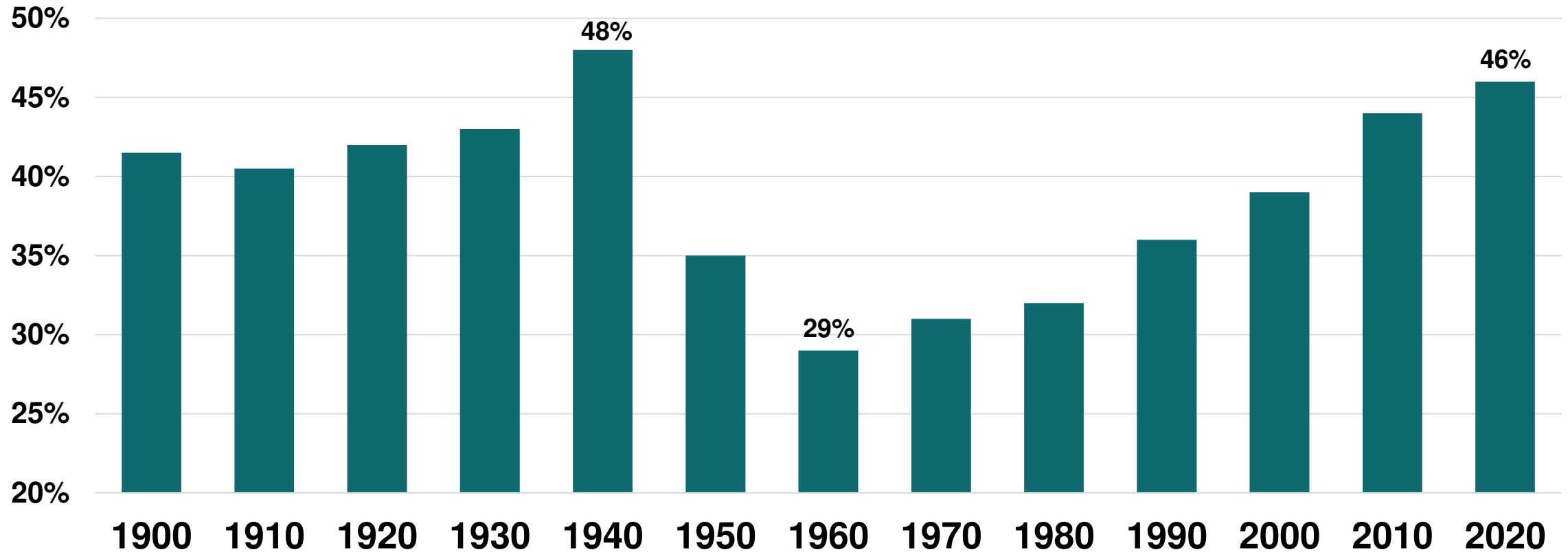
Source: ESRI; CoreLogic; EDPCo

Home-purchase loan application per
1,000 persons



Adults Living with a Parent 18-to-29-year-olds

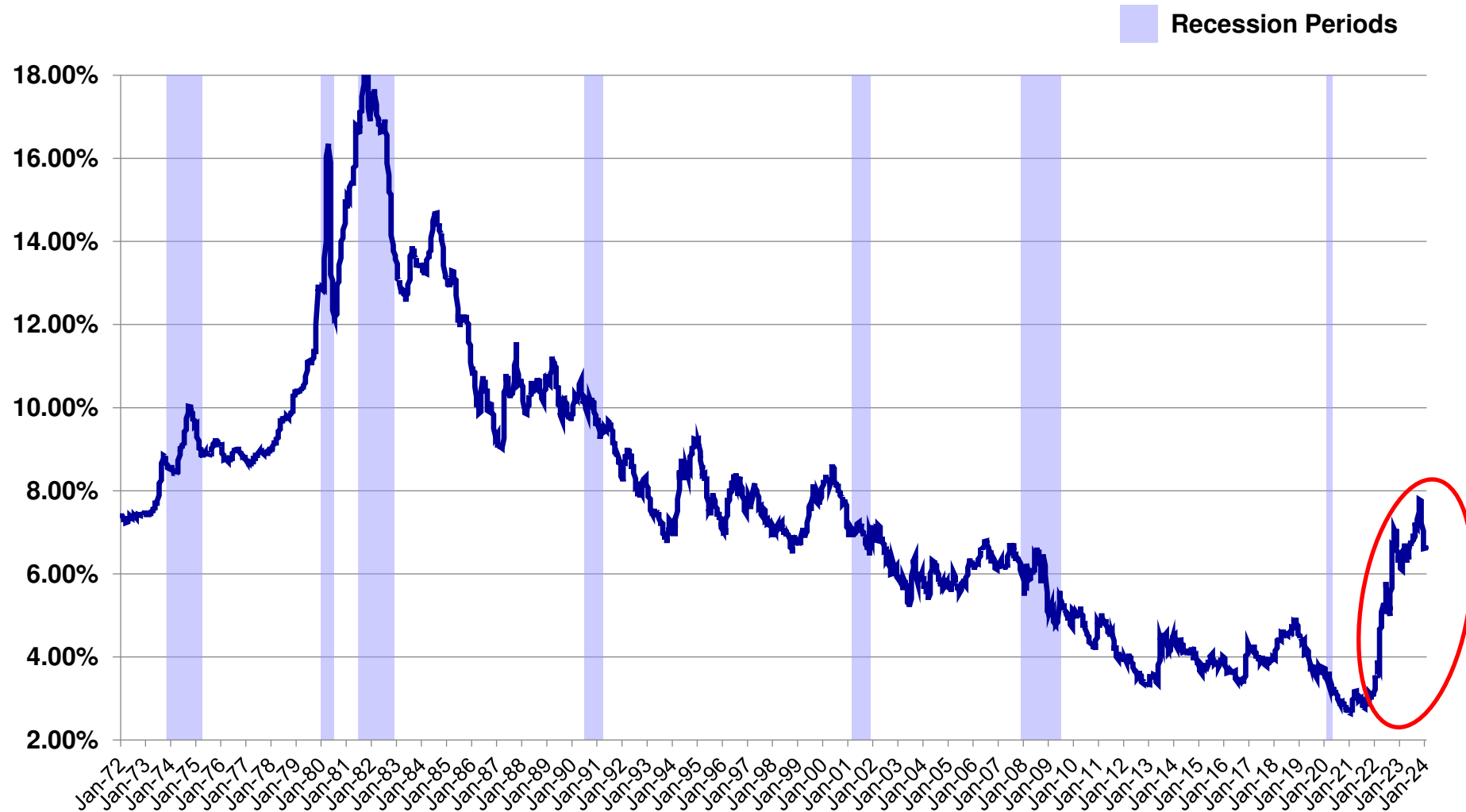
Source: U.S. Census Bureau



30-year Mortgage

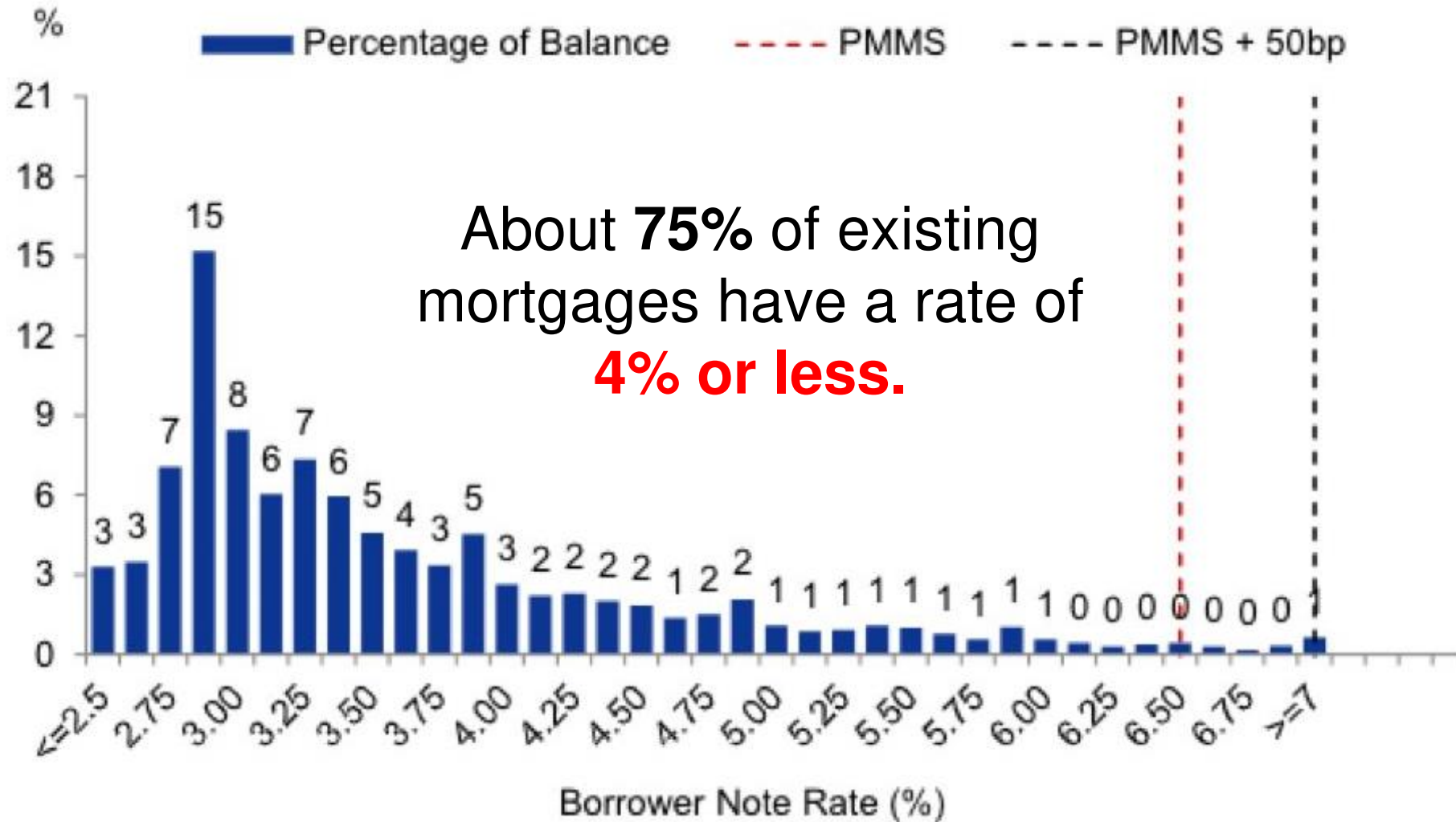
1972 – 2024*

Source: Freddie



Distribution of Outstanding 30-year Conventional Mortgage Borrower Rates

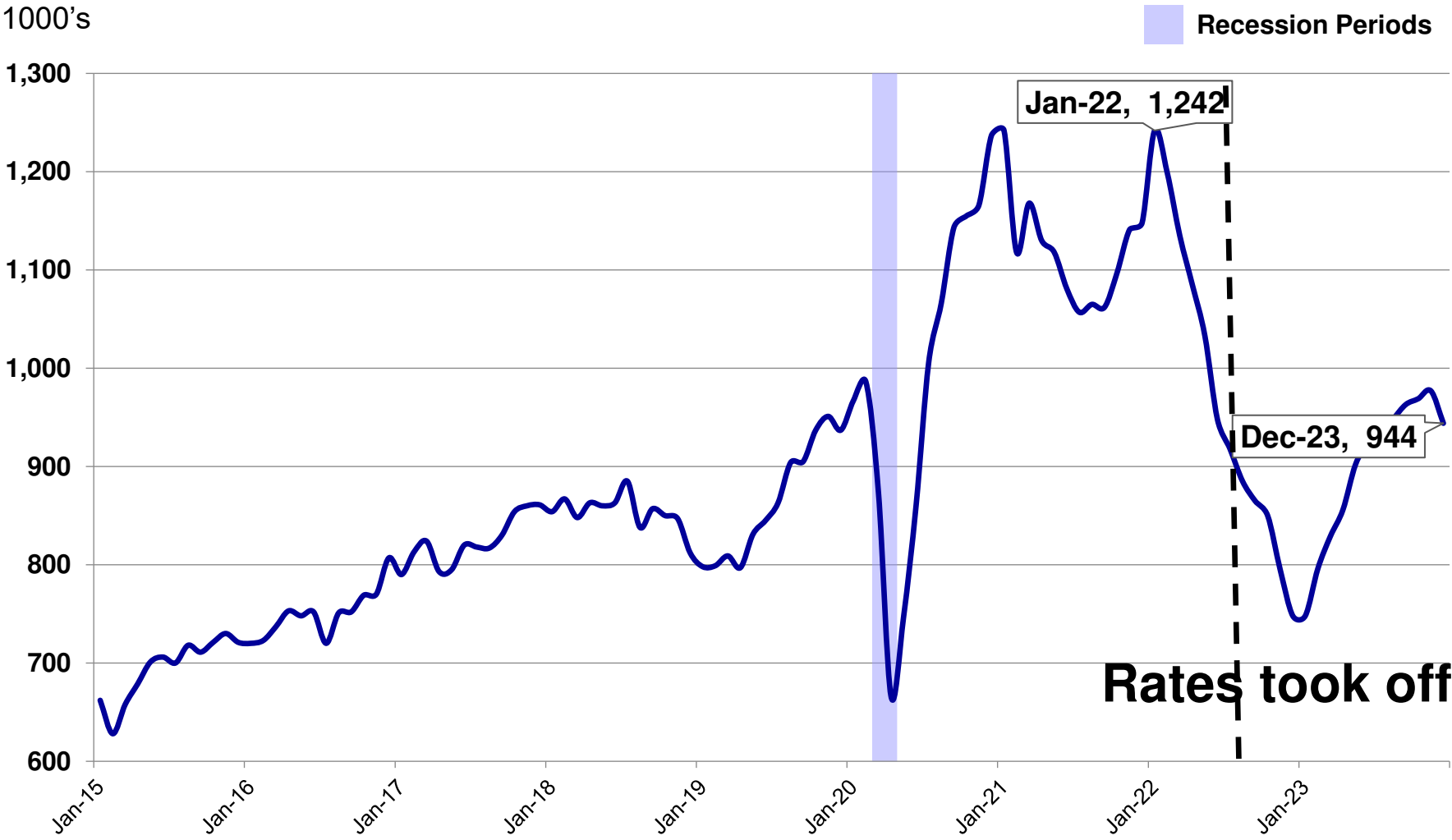
Source: eMBS; Goldman Sachs



Single Family Permits (SAAR)

2015 – 2023*

Source: U.S. Census Bureau



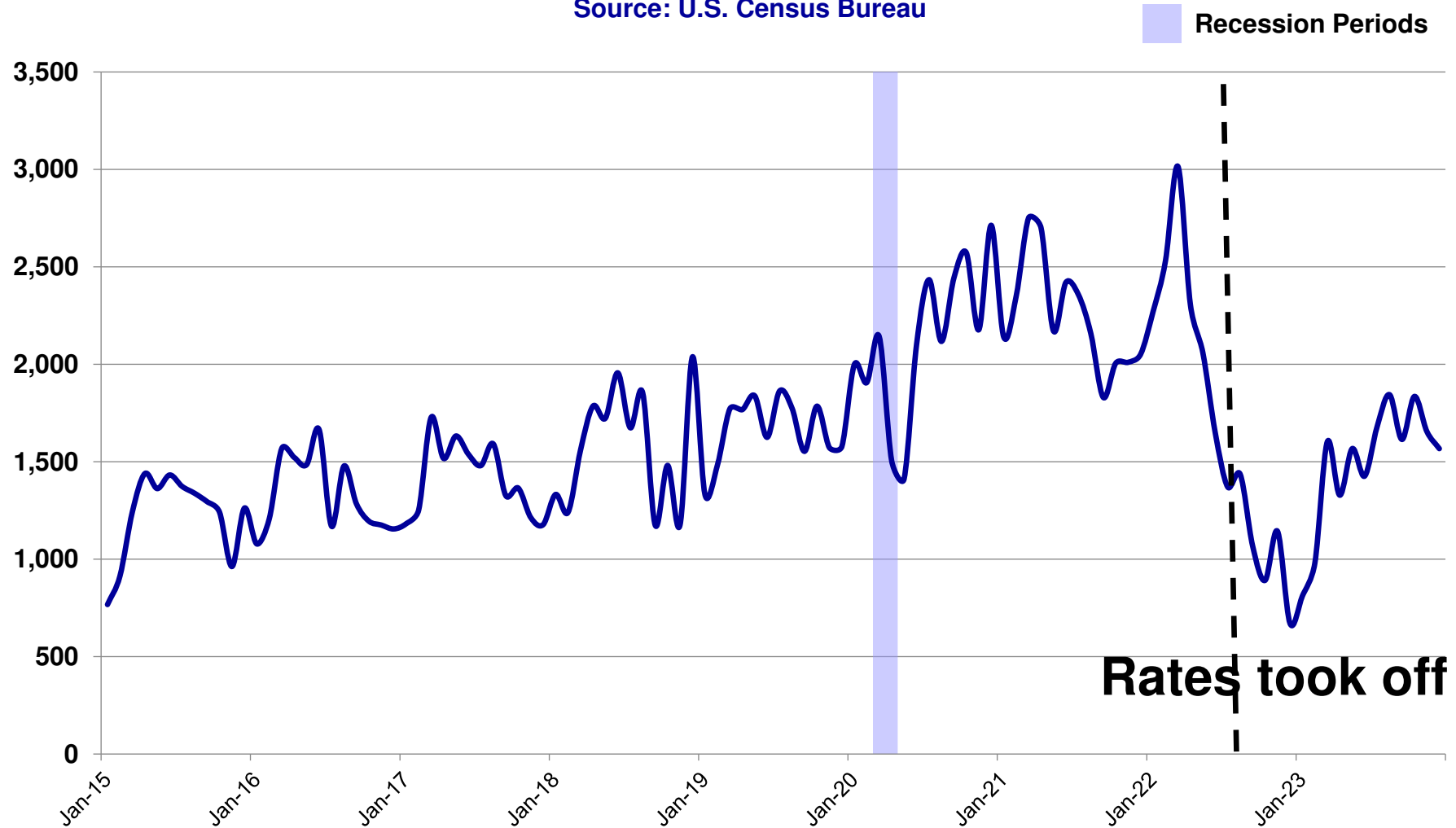
Single family permits plummeted as interest rates increased until the market ran into supply concerns

Rates took off



Maricopa county Single Permits 2015 – 2023*

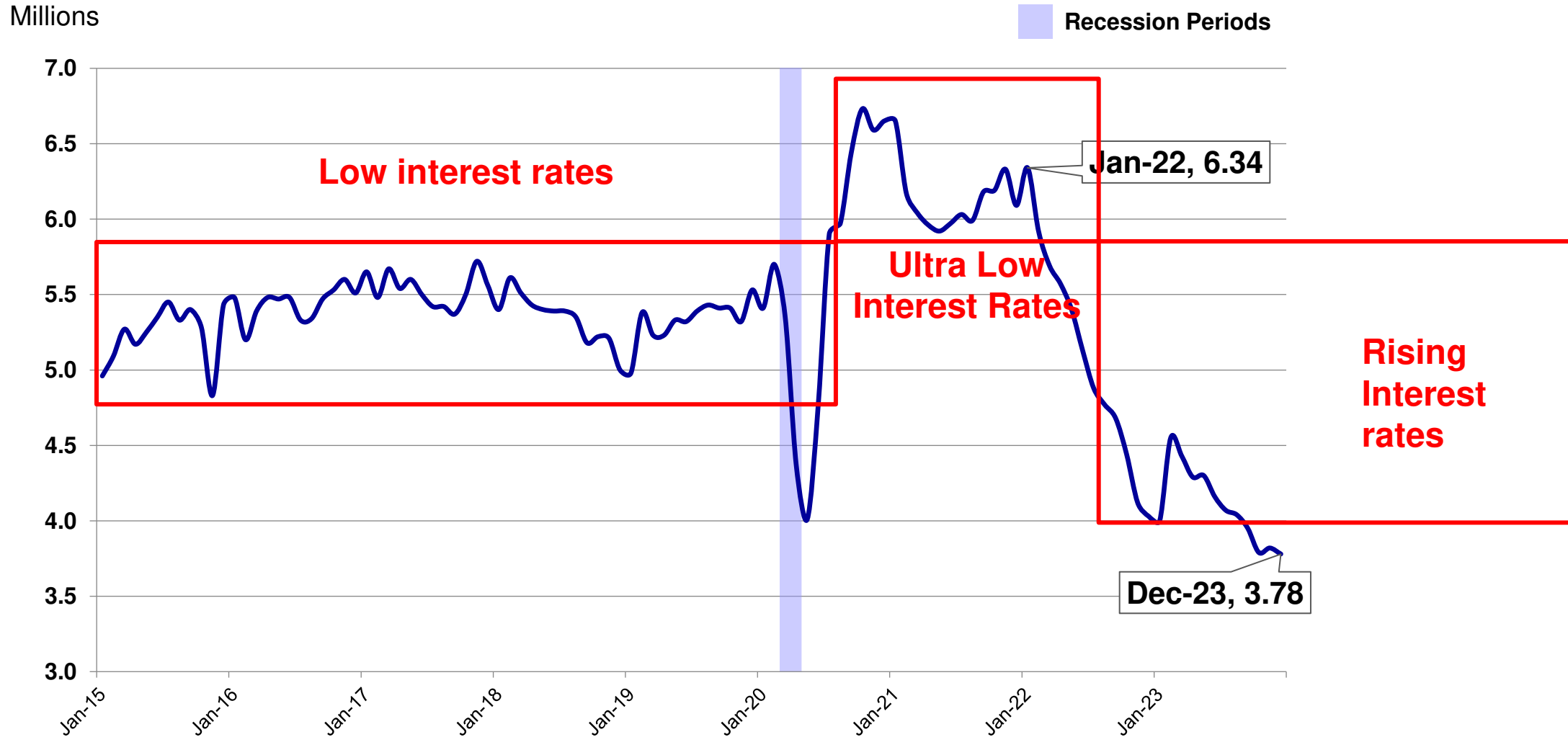
Source: U.S. Census Bureau



Existing Home Sales (SAAR)

2015 – 2023*

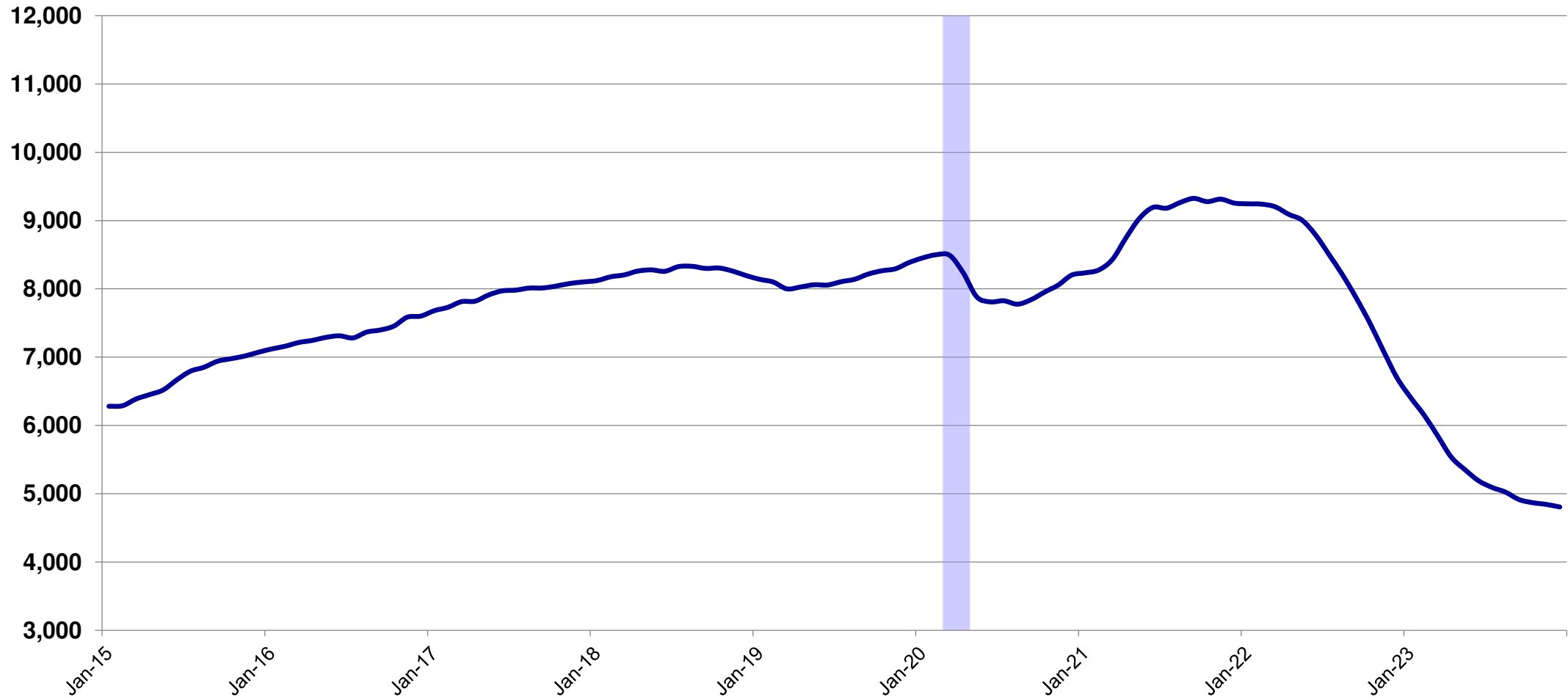
Source: NAR



Maricopa County Existing Home Sales 2015 – 2023*

Source: Information Market

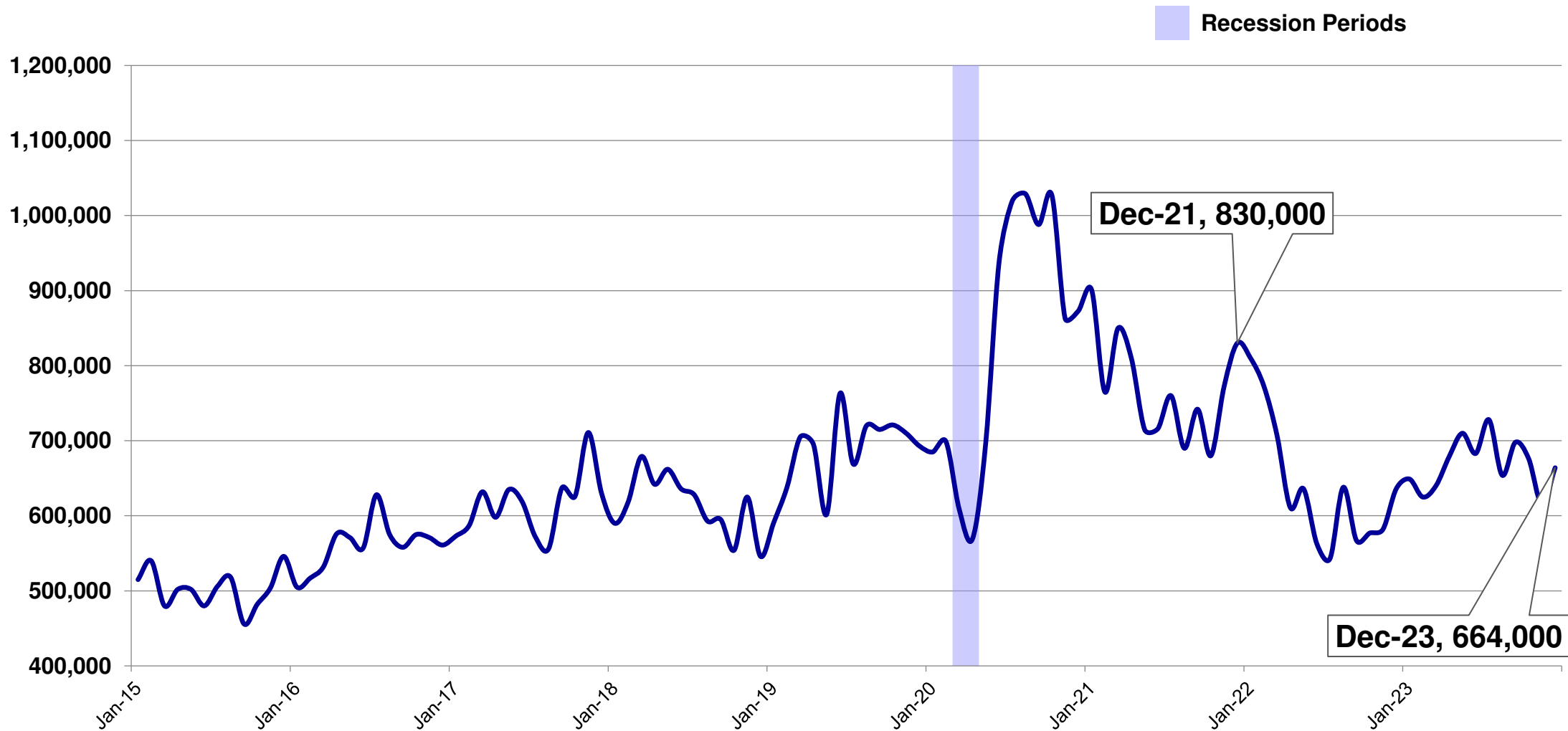
Recession Periods



New Home Sales (SAAR)

2015 – 2023*

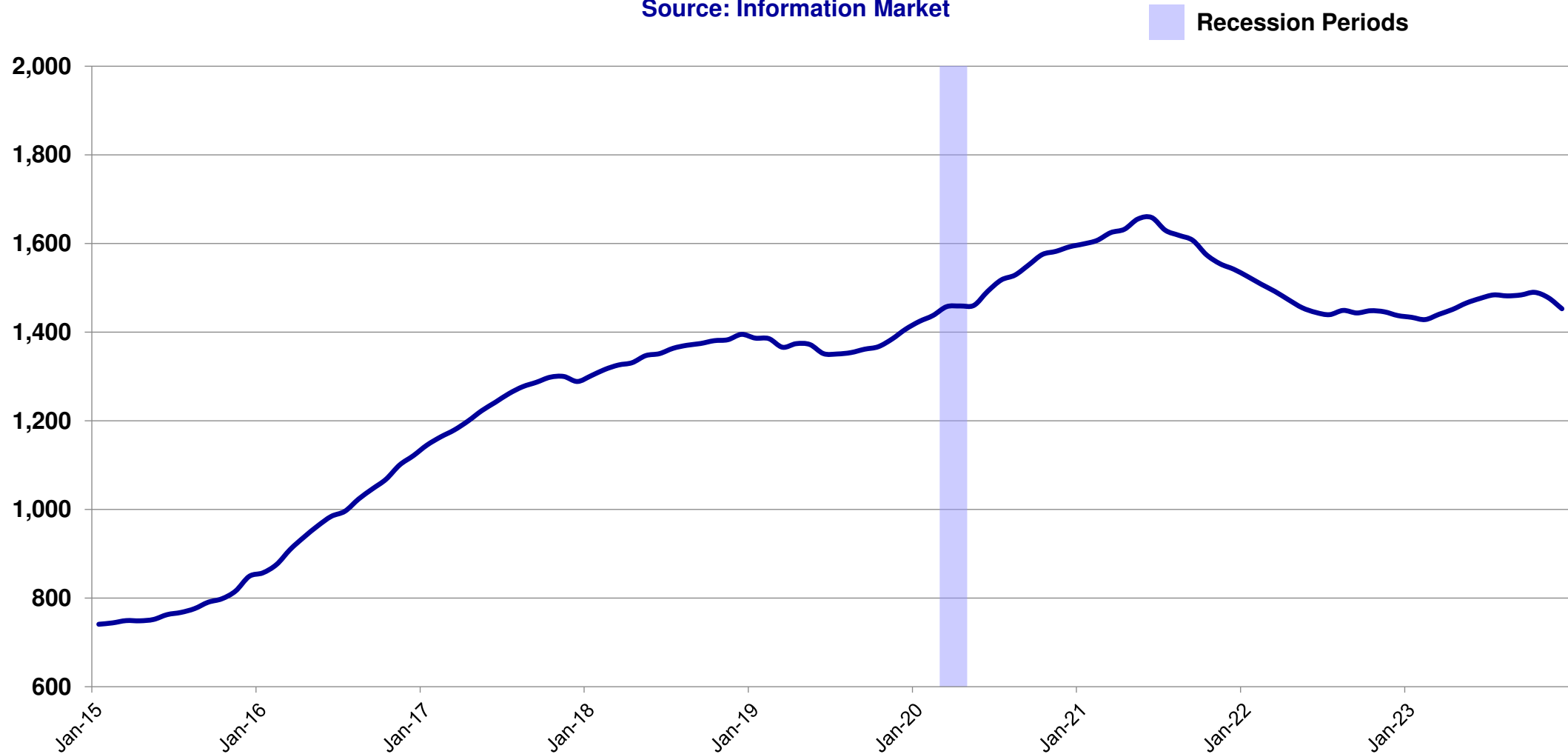
Source: U.S. Census Bureau



Maricopa County New Home Sales

2015 – 2023*

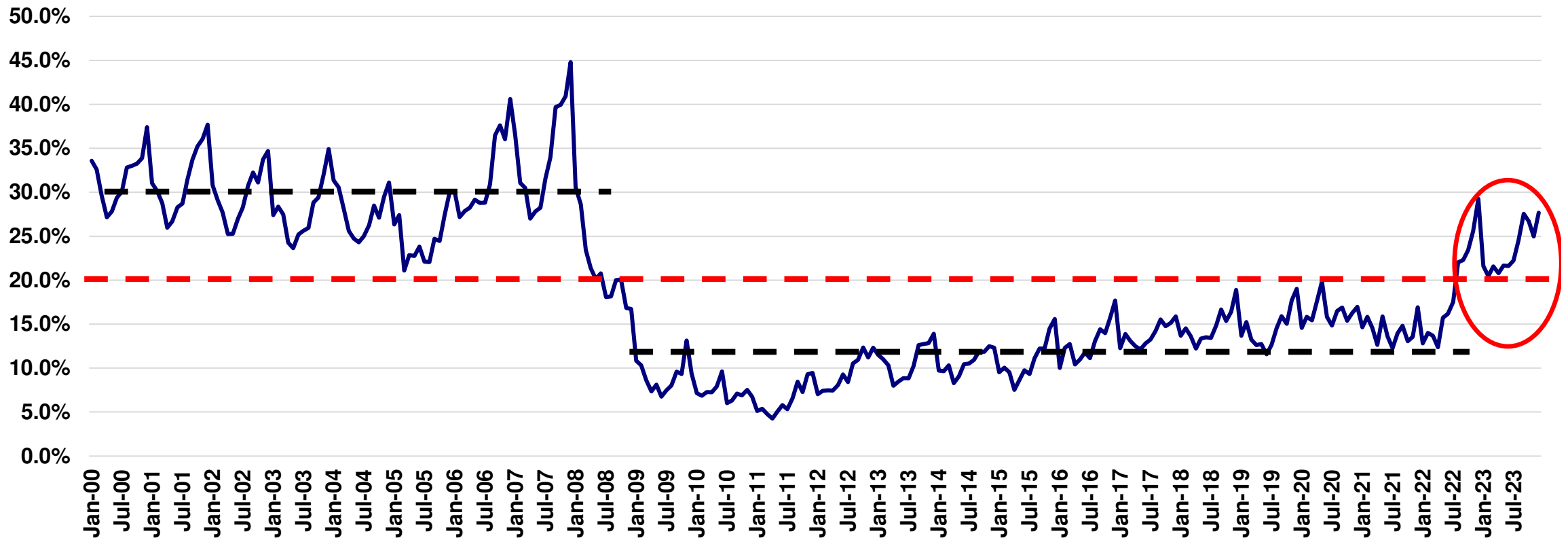
Source: Information Market



Maricopa County

% of New Home Sales of Total Sales

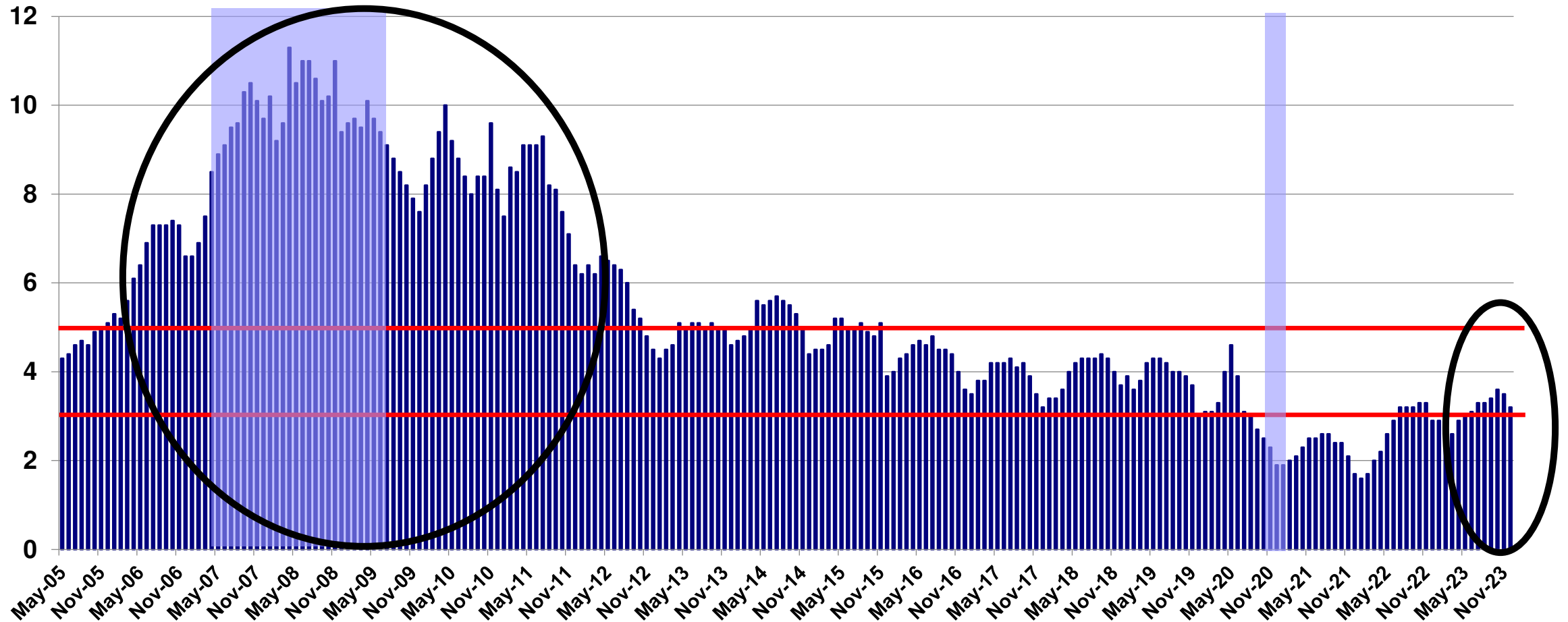
Source: Information Market



National Existing Homes Months Supply

2005-2023*
Source: NAR

Recession Periods

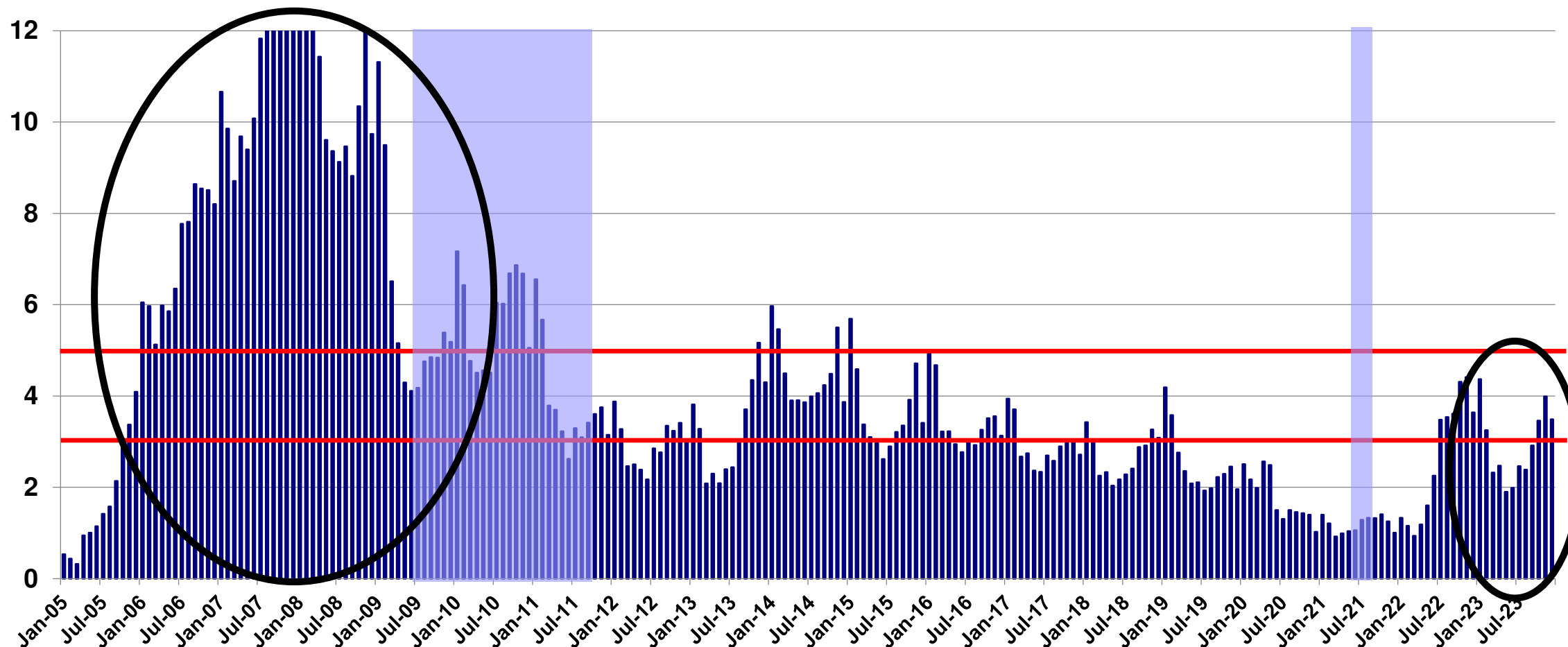


Greater Phoenix Months Supply

2005-2023*

Source: ARMLS

Recession Periods



Maricopa County Mortgage Payment Change

	December 2021	December 2023
Median Sales Price - New	\$445,518	\$506,330
Median Sales Price - Existing	\$430,000	\$440,000
Mortgage Rate Only	3.10%	6.82%
Interest & Principal - New	\$1,712	\$2,977
Interest & Principal - Existing	\$1,653	\$2,587

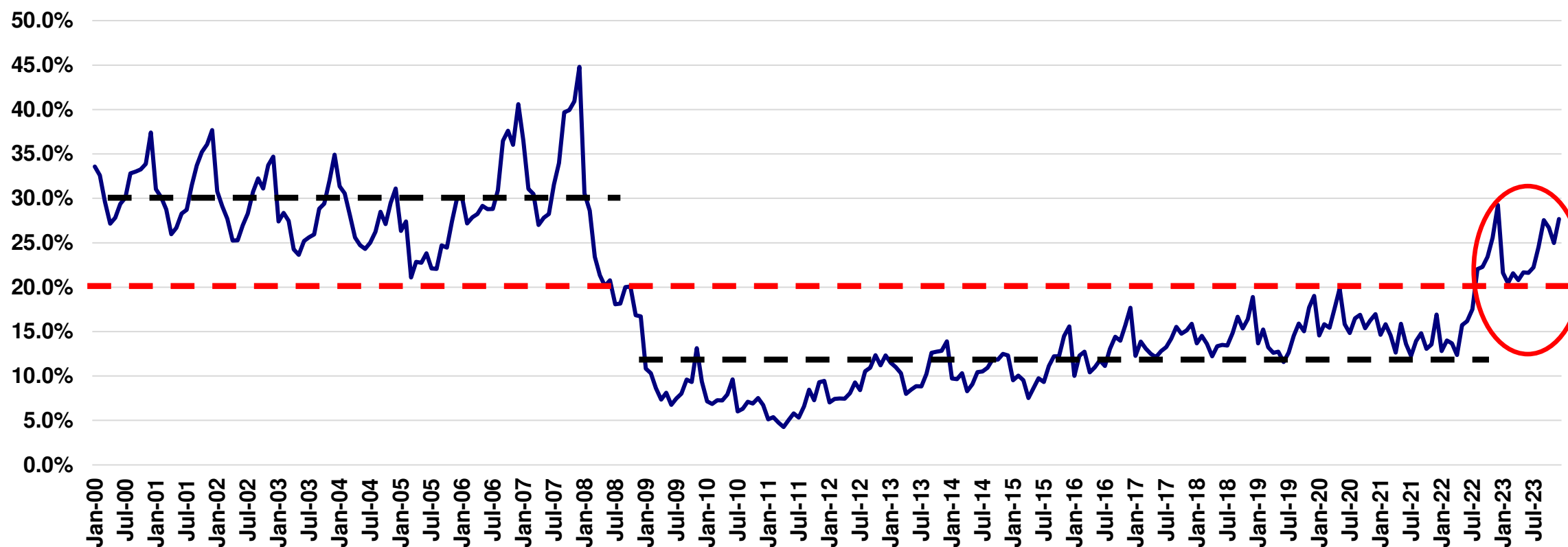
Mortgage payments for a new home have
increased 74% and 57% for an existing home
since 2021
LTV 90%



Maricopa County

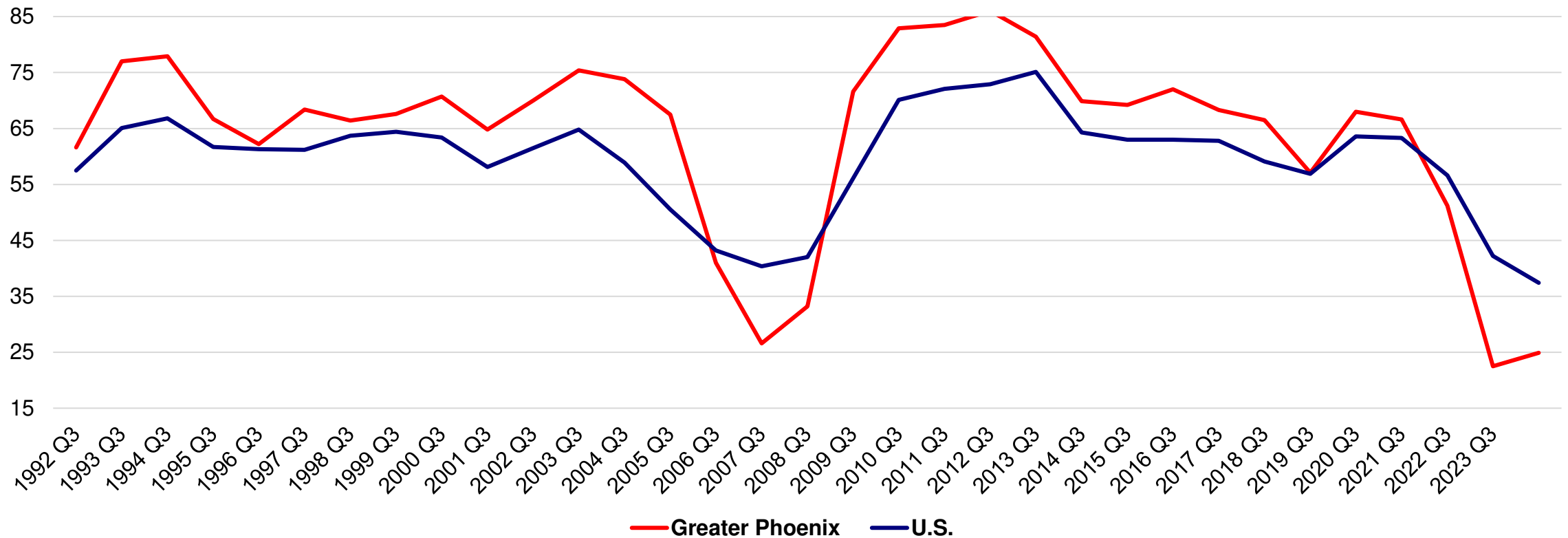
% of New Home Sales of Total Sales

Source: Information Market



Housing Opportunity Index

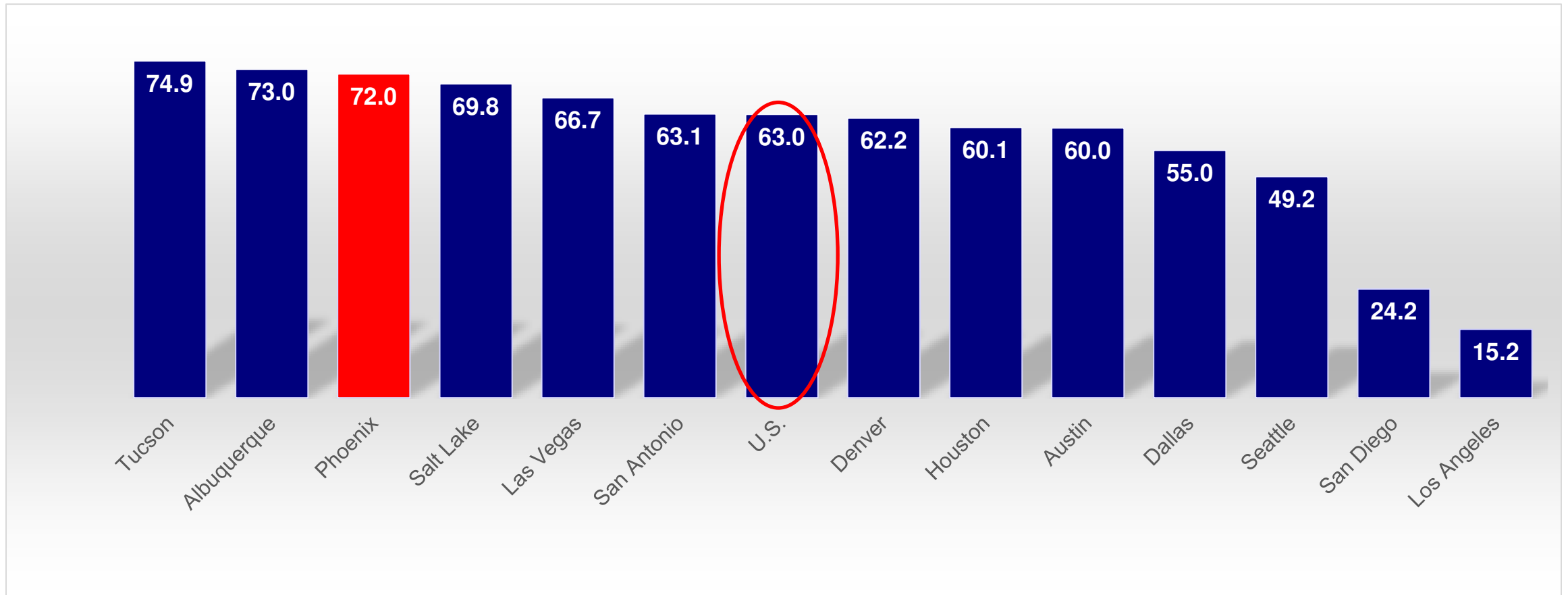
Source: NAHB/Wells Fargo



Housing Opportunity Index

2015 Q3

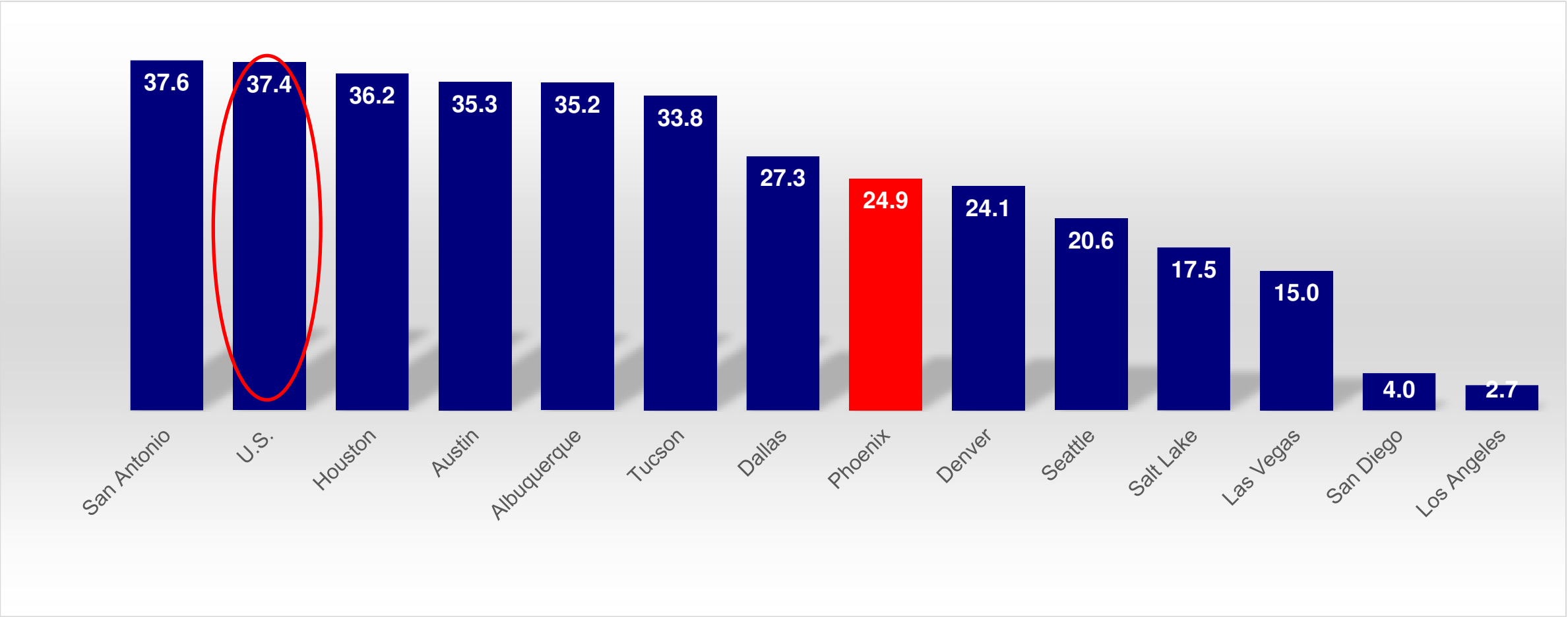
Source: NAHB/Wells Fargo



Housing Opportunity Index

2023 Q3

Source: NAHB/Wells Fargo



Gross Migration Flows

Source: IPUMS.org; ACS 5-year; UofA Forecasting Project

	Arizona		Greater Phoenix
California	63,409	California	39,659
Washington	18,503	Washington	12,946
Texas	14,976	Texas	9,980
Colorado	13,035	Illinois	9,281
Illinois	11,772	Colorado	7,817
Oregon	9,158	Minnesota	5,993
Florida	8,166	Oregon	5,839
Minnesota	8,105	New York	5,418
New York	7,064	Florida	5,355
Utah	6,923	Utah	4,759



Apartment Market

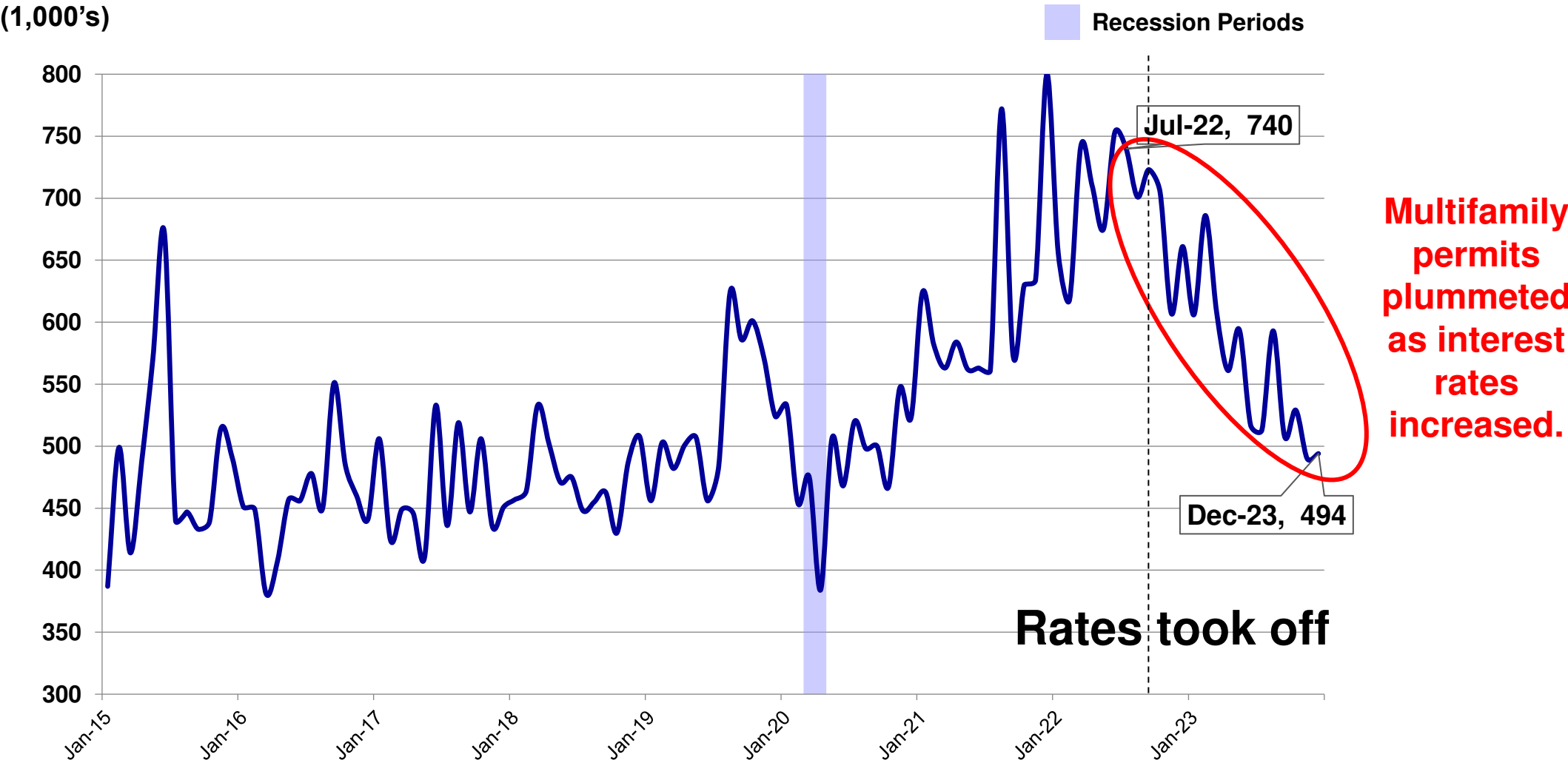
- Nearly 22,000 deliveries including Built-To-Rent.
- Supply outstripping demand
- Permitting activity likely to slow
- Excess deliveries of apartments will be transitory.



Multi-Family Permits (SAAR)

2015 – 2023*

Source: U.S. Bureau of Labor Statistics



Greater Phoenix MF Outlook

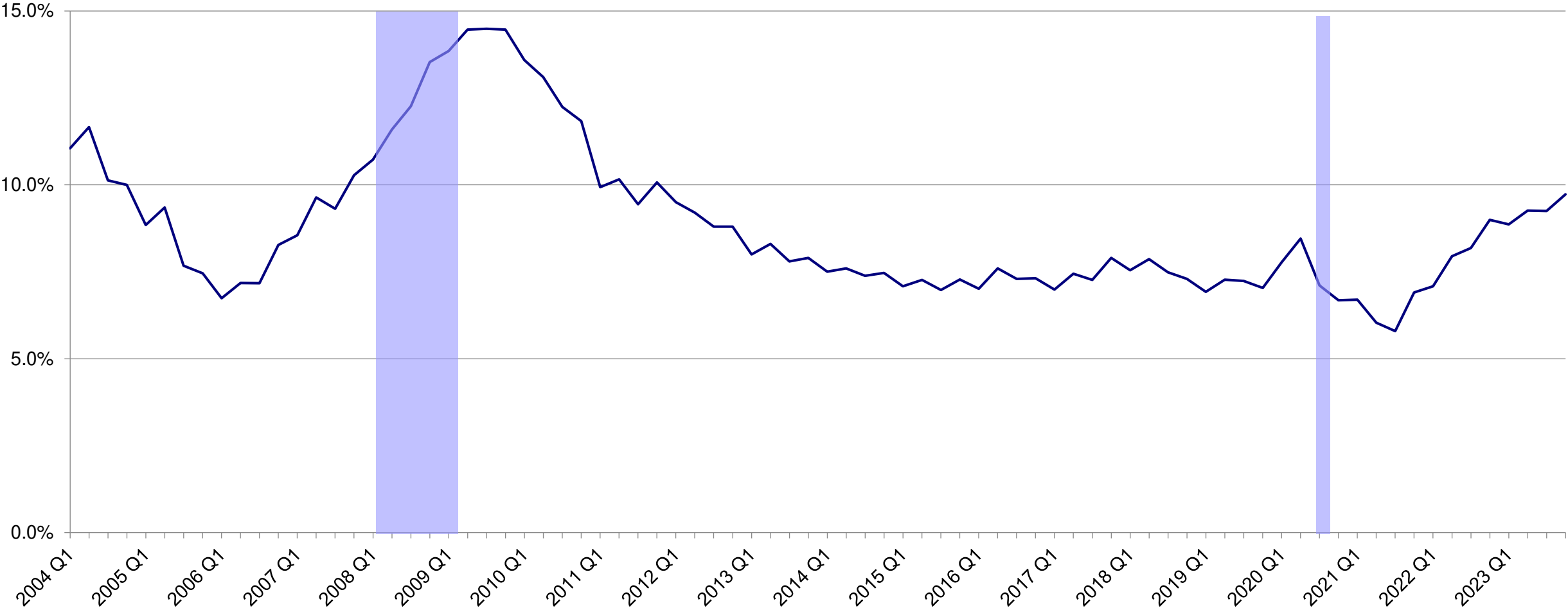
- It can take up to 3.5 years for an apartment complex to go from planning to completion. Most apartments being delivered in 23, 24 and 25 were permitted during a period of low interest rates.
- The slowdown in permits for apartments is almost entirely due to the runup in the interest rates which makes the feasibility of new apartments less viable.
- Thus, there will be considerably fewer apartments delivered on 26, 27 and 28 due to the period of high-interest rates we are currently going through.
- Hence, the increase in vacancy rates is transitory.



Greater Phoenix Multi-Family Vacancy Rate 2004 – 2023*

Source: RealData

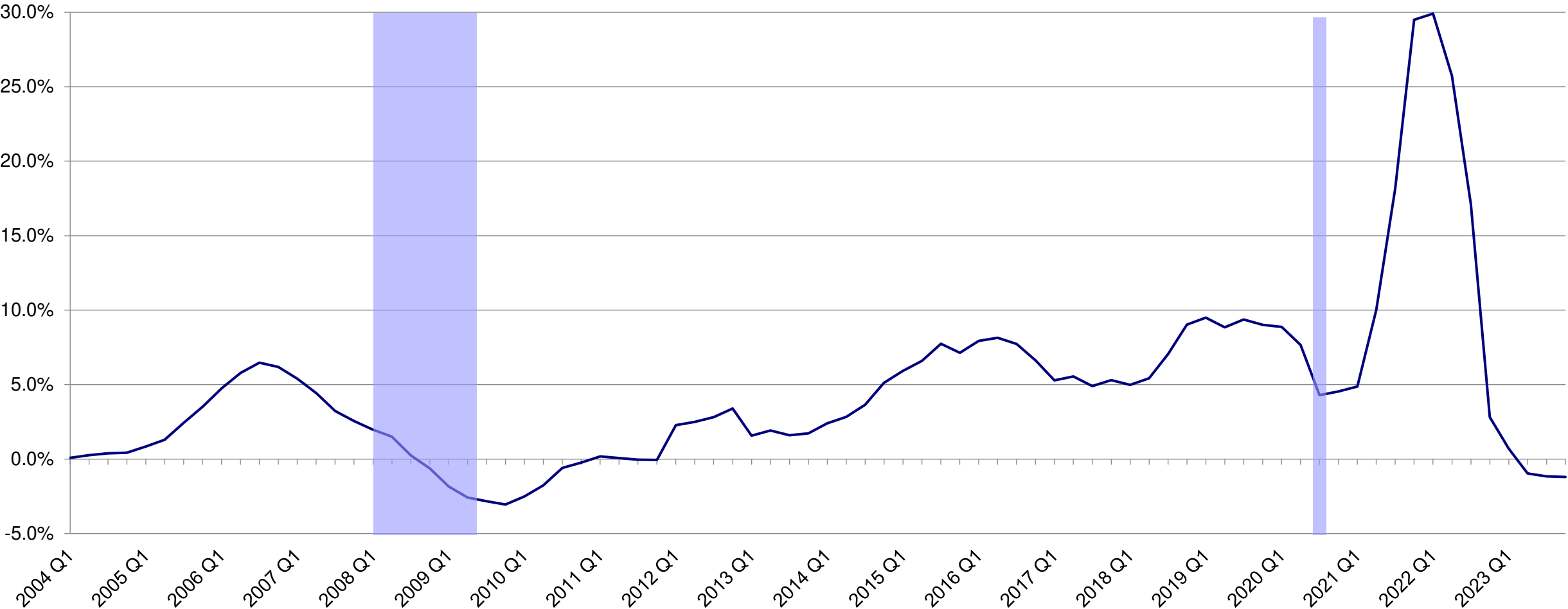
 **Recession Periods**



Greater Phoenix Multi-Family Average Rent Percent Change a Year Ago 2004 – 2023*

Source: RealData

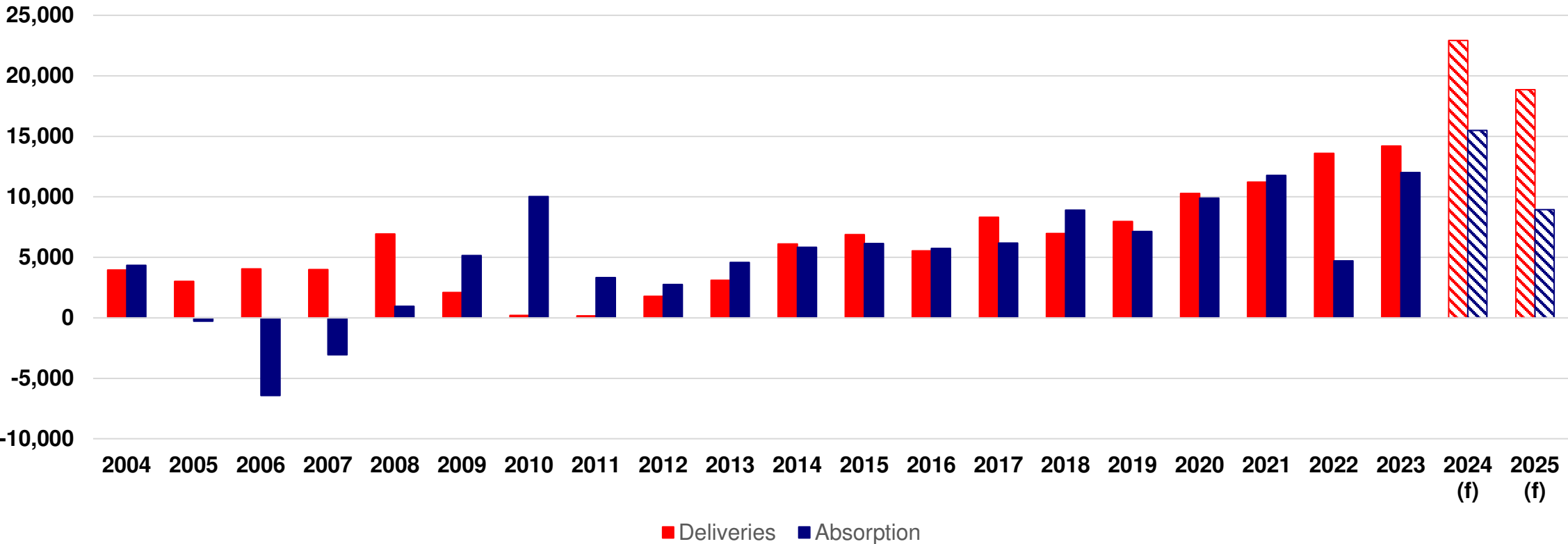
 **Recession Periods**



Conventional Apartments & BTR

Deliveries versus Absorption

Various Sources



What Do We Need?

- ☑ Entry Level Ownership Housing
- ☑ Move-Up Ownership Housing
- ☑ Market Rate Rental Housing
- ☑ Workforce Level Rental Housing
- ☑ Low-Income Rental Housing
- ☑ Extremely Low-Income Rental Housing



Affordability by Occupation

Buy
Rent 2BD
Rent 1BD
Neither

	Median Single Family Price	Annual Salary Needed	2- Bedroom Rent	Annual Salary Needed	1- Bedroom Rent	Annual Salary Needed								Elementary/ Middle School Teacher		
							Nurse	Police Officer	Chef	High School Teacher	Firefighter	Construction Worker			Waitperson	Retail Worker
2020 (December)							\$80,609	\$73,786	\$53,071	\$54,186	\$54,900	\$47,034	\$47,799	\$34,940	\$26,843	
Avondale	\$303,000	\$57,763	\$1,120	\$44,800	\$954	\$38,160										
Chandler	\$420,000	\$80,067	\$1,323	\$52,920	\$1,174	\$46,960										
Gilbert	\$429,000	\$81,783	\$1,349	\$53,960	\$1,235	\$49,400										
Glendale	\$315,000	\$60,050	\$1,062	\$42,480	\$950	\$38,000										
Goodyear	\$370,000	\$70,535	\$1,409	\$56,360	\$1,186	\$47,440										
Mesa	\$350,000	\$66,722	\$1,113	\$44,520	\$989	\$39,560										
Peoria	\$370,619	\$70,653	\$1,181	\$47,240	\$1,068	\$42,720										
Phoenix	\$340,000	\$64,816	\$1,156	\$46,240	\$969	\$38,760										
Scottsdale	\$800,000	\$152,508	\$1,454	\$58,160	\$1,236	\$49,440										
Surprise	\$320,500	\$61,099	\$1,490	\$59,600	\$1,198	\$47,920										
Tempe	\$395,250	\$75,349	\$1,161	\$46,440	\$1,033	\$41,320										
	Median Single Family Price	Annual Salary Needed	2- Bedroom Rent	Annual Salary Needed	1- Bedroom Rent	Annual Salary Needed	Nurse	Police Officer	Chef	High School Teacher	Firefighter	Construction Worker		Elementary/ Middle School Teacher	Waitperson	Retail Worker
2023 (December)							\$86,777	\$81,868	\$67,144	\$61,097	\$52,680	\$50,529	\$49,484	\$49,498	\$31,989	
Avondale	\$426,250	\$119,424	\$1,272	\$50,880	\$1,084	\$43,360										
Chandler	\$559,250	\$156,687	\$1,584	\$63,360	\$1,405	\$56,200										
Gilbert	\$590,000	\$165,302	\$1,612	\$64,480	\$1,476	\$59,040										
Glendale	\$439,900	\$123,248	\$1,292	\$51,680	\$1,157	\$46,280										
Goodyear	\$441,667	\$123,743	\$1,599	\$63,960	\$1,345	\$53,800										
Mesa	\$478,500	\$134,063	\$1,361	\$54,440	\$1,210	\$48,400										
Peoria	\$432,750	\$121,245	\$1,389	\$55,560	\$1,256	\$50,240										
Phoenix	\$472,995	\$132,520	\$1,390	\$55,600	\$1,166	\$46,640										
Scottsdale	\$989,000	\$277,091	\$1,758	\$70,320	\$1,495	\$59,800										
Surprise	\$424,990	\$119,071	\$1,757	\$70,280	\$1,412	\$56,480										
Tempe	\$504,900	\$141,459	\$1,401	\$56,040	\$1,246	\$49,840										

Source:
Cromford Report; AZ
Office of Economic
Opportunity; Bureau of
Labor Statistics;
ApartmentList.com; Elliott
D. Pollack & Company



Key Takeaways

1. Affordability has plummeted.
2. Prices have stabilized.
3. Excess deliveries of apartments will be transitory.
4. Our success in attracting jobs and people has not been matched with a sufficient housing supply that new employees need.
5. A chronic shortage of housing drives up costs and threatens economic development efforts (jobs & real income growth).



- Thus, our original conclusion that **‘more housing is needed’** has not changed.
- While the higher interest rates have affected people’s ability to create more households, lower interest rates, higher vacancy rates and improving affordability will help , will not solve the issue.





ECONOMIC DEVELOPMENT
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Development Council

The Lay of the Land:

Pandemic Impacts on Real Estate and Economic Developers' Responses – a 3-part series

Part 1: What Economic Developers Are Experiencing

The Covid-19 pandemic has impacted the real estate market both in unique ways and by accelerating existing trends. How are these changes affecting economic development? How are EDOs solving new problems and taking advantage of new opportunities? What tools and strategies are they using? This three-part series examines today's real estate realities and economic developers' responses to it. This is the first brief of the series which will provide an overview of current real estate trends, and what economic developers are thinking about and doing in response.

The Covid-19 pandemic has had a cascading effect on the global economy, from labor shortages and supply chain constraints, to where people are choosing to live and work. These changes have brought new challenges and uncertainty to all segments of the real estate market. IEDC surveyed economic developers in March of 2022 to gauge how real estate in their communities has changed since the pandemic began and how they are responding.

Top of mind for most respondents were changes in two sectors of residential and industrial. And the themes among the two were similar – in most communities, demand far outstrips supply, and prices are at unprecedented heights.

In the industrial sector, the e-commerce boom, rising transportation costs, and the limitations of globalized supply chains – surfaced by the pandemic – all have contributed to the increase in demand. Residential demand has been driven by more than a decade of underbuilding, and efforts to increase supply have been complicated by high costs for labor and materials, supply chain delays, institutional buying in some communities, and other factors. Of the actions

economic development organizations (EDOs) reported taking in response to these challenges, the most significant is the widespread move among EDOs to become involved in facilitating housing production.

Unsurprisingly, another key theme is related to uncertainty in the office market. Due to the abrupt, prolonged move to working from home that occurred in March 2020, and expectations among many workers that they will be able to keep some of the flexibility they have enjoyed over the past two years, many businesses are still determining where and how their employees will work in the future. The decline in office work has also had a significant impact on retail and hospitality establishments located in business districts.

Each of these sectors is examined in closer detail below and accompanied by comments from survey respondents. See the following two briefs in this series for case examples, tools, strategies and resources.



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Housing

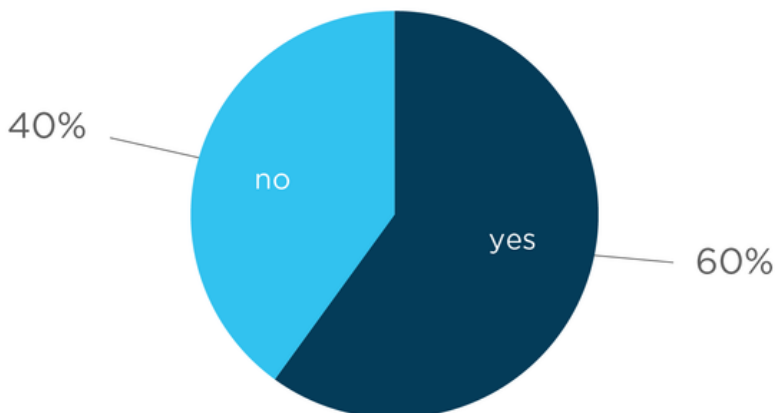
Survey respondents reported the highest level of absorption and prices in single family and multifamily housing, and the lowest level of inventory than any other sector inquired about in the survey. Fully 60 percent of respondents reported that their EDO was working to increase residential inventory.

Skyrocketing prices for both rentals and purchases, and record-low inventories – mentioned in nearly all survey comments – have exacerbated the workforce shortages that many communities were experiencing prior to the pandemic. Supply is challenged at all price points, and prices have risen far faster than incomes. (The national median home listing price was \$375,000, up 10 percent compared to January 2021, and up 25 percent compared to January 2020.)¹ As a result, many EDOs are getting involved in the production of attainably priced homes as part of their workforce retention and attraction strategy.

“ The cost to build is escalating and becoming unattainable for many young people. This impacts company decisions to locate when their employees can’t find housing and will put pressure on wages as a result.

Despite significant demand for housing – the national inventory of active housing listings was down 64 percent in January 2022 compared to January 2020² – production faces multiple obstacles. In addition to high prices and backlogs for materials, the construction industry is undergoing a worker shortage, like many other industries. Many construction companies folded, and workers left the industry following the Great Recession. Other challenges include planning, zoning, and regulatory obstacles.

Has your EDO become more involved in housing?



In response, EDOs are taking multiple actions. Survey respondents mentioned:

- Commissioning housing demand studies to make the case for action to both developers and local officials
- Exploring or creating a land bank
- Working to attract housing developers and providing financing and other incentives
- Hiring staff specifically to focus on facilitating housing production
- Partnering with housing-related organizations in their communities, or looking at creating public-private partnerships
- Facilitating the conversion of office buildings to residential uses
- Working with local governments to ease planning and regulatory hurdles

“ Multifamily rental housing is our greatest economic development need. Lack of availability is creating hiring challenges for our employers that need to relocate employees to the community.

Industrial

The industrial market is stronger than it's ever been. As noted in the graph below, over 70 percent of survey respondents indicated that inventory was very low, and 57 percent indicated that absorption was very high. Prices are up as well. Research by national real estate and investment firms reflects the same trends. For six consecutive quarters, since Q4 2020, industrial vacancy has fallen, dropping to 3.4 in Q1 2022, a historic low.³ National lease rates are averaging \$6 to \$8 per square foot, and have been steadily rising since 2015.

Respondents indicated multiple obstacles to meeting the high demand for industrial product in their communities. Apart from supply chain challenges and high prices for land and materials, these include restrictive building codes and regulations; low supply of land zoned for industrial uses; lack of infrastructure such as rail access and water; and a shortage of workers in skilled trades.

“ Supply chain and pricing has placed a premium on existing inventory.

Another challenge cited by multiple respondents is the absorption of prime industrial sites for warehousing and distribution, at the expense of job- and capital-intensive manufacturing uses. E-commerce sales have skyrocketed since the beginning of the pandemic, when in-person shopping significantly declined. Just before the pandemic began, e-commerce represented 16.2 percent of total retail sales. That number rose to 21.6 percent by June of 2020 and has hovered at around 20 percent since.⁴ This increase is reflected in industrial absorption by e-commerce companies, which according to Cushman & Wakefield, rose from 28.2 percent in 2019 to approximately 40 percent in 2021.⁵

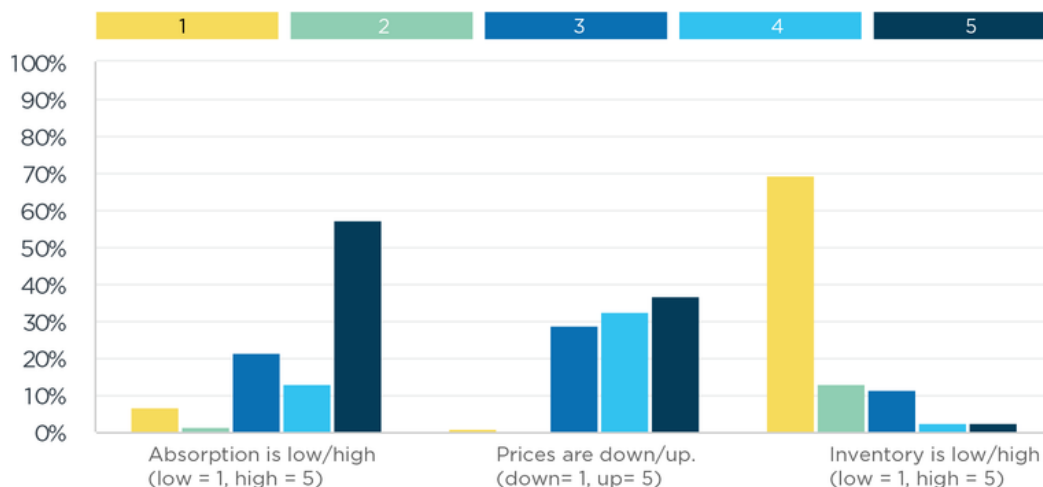
“ Developers and institutional owners are less excited to lease space to capital intensive manufacturers that economic developers seek. They would much prefer to lease to a large reputable national warehouse or logistics tenant.

Similar to challenges with facilitating new housing, there are few easy answers. To confront the scarcity of available industrial sites, EDOs cited taking the following actions:

- Encouraging industrial preservation zoning
- Facilitating conversions between industrial developers and municipalities to speed up the development process and provide incentives
- EDOs and public entities investigating the purchase of new land for industrial park inventory
- Focusing on redeveloping brownfield sites
- Collecting data on industrial opportunities lost due to the lack of building and pad-ready land; using it to encourage developers to undertake spec buildings
- Encouraging developers and municipalities to build for a higher standard/higher-quality tenant and forego the standard distribution-center build
- Better understanding existing inventory by undertaking a parcel-by-parcel analysis of existing land
- Facilitating development of smaller spaces for smaller uses

Survey respondents cited tax increment financing as the financing tool most commonly used to spur industrial development.

What is the activity level of industrial real estate in your community on a scale of 1 to 5, compared to March 2020?



Office

The shift to working from home has had major impacts on the real estate outlook in downtowns and office-heavy areas. According to Kastle System's Back to Work Barometer, only 43.2 percent of workers who worked in person pre-pandemic, were working in person across America's 10 largest metropolitan areas in May 2022.^{6,7}

Survey respondents reported that office absorption rates were lower, and inventory higher, than other real estate sectors. Prices have risen, though not to the same extent as residential and industrial sectors.

The most common theme among survey respondents was a high degree of uncertainty within office space markets. Many economic developers reported that users were waiting to make major decisions until they better understood the extent to which remote work will affect their needs. (Finances, company culture, productivity, and employee preferences are all a part of this consideration process.) A report from PWC projects that 20 percent of workdays will be performed outside of employer-provided workspaces going forward, compared to 5 percent prior to the pandemic.⁸

“Offices are still trying to figure out where they want to land long-term. Most are speaking about changes but haven't pulled the trigger yet.

One of the only common actions EDOs are considering in response to changes in the office market is the facilitation of office space conversion into housing, retail, or other high demand uses. Zoning, impacts on the tax base, and structural changes necessary to stay within the code, are all aspects of office conversions that economic developers are weighing while determining if conversions are the right path forward for their community.

Of the over 32,000 apartment conversions completed since 2020, a record high of over 40 percent of them were formerly office buildings.⁹

While conversions are growing due to Covid-19, the trend began before the pandemic and continues to grow in part due because they are 'greener' than demolishing entire buildings and rebuilding.

Not all office users are delaying major decisions. Survey respondents reported larger tenants were downsizing or looking at subletting their spaces, while others are looking to upgrade to higher-quality space. This points to another common theme: the significant difference in trends between older and newer office space. Demand and prices are relatively high for Class A space but lower for Class B and C space. These older spaces lack the design and amenities that many users seek today, and as a result, are being converted (or seen as candidates for conversion) to other uses, such as housing.

“We have large office spaces being vacated in favor of working from home to reduce overhead and as an incentive to keep employees.

Trends varied according to community size. Other comments reported more movement with smaller office spaces, and higher vacancy and lower demand for suburban offices than urban facilities.

Given the ongoing pandemic and flux in office leasing, economic developers reported being considerably more focused on residential and industrial development than the office sector, although many expressed concerns about the impact of office vacancies on the viability of retail and restaurants.

“Older offices are available but new space is really high price and stays pretty full.

Retail

In regard to large, regional retail, survey respondents reported that absorption was average, prices were slightly up, and inventory was slightly down. Responses were similar for smaller, downtown retail, though absorption was slightly higher and inventory slightly lower. Few clear themes emerged from survey respondents regarding retail, other than churn and conversions.

“ Unanchored retail continues to be difficult to lease and tenant.”

Among the pre-pandemic retail trends that have continued over the past two years, respondents pointed to the conversion of large retail sites to new uses. Shopping malls are turning into purely residential uses, or mixed-use sites with multi-family residential, retail and recreation. Former big-box retail facilities are being converted to last-mile warehousing, light industrial or manufacturing, healthcare, or other uses. The transition away from big box retail space is reflected by the average size of new leases which in 2021 remained at the lowest level in a decade, averaging 3000 square feet in Q4 2021.

“ [Small retail] inventory is low because this seems to be the lowest barrier to entry for new small business start-ups since the pandemic started.”



Adams Morgan commercial district, Washington D.C.

Despite this trend in retail space, many small retailers are being squeezed by the tight labor market and rising wages; these factors, as well as higher rental rates, are forcing some closures. As the same time, retailers that opened or grew significantly online during the pandemic are beginning to transition from solely e-commerce to some physical storefronts as well. Even some smaller online retailers have considered moving to a physical location through a ghost retailer or a pop up. Within retail, clothing and accessories stores experienced the strongest growth, with a 48.4 percent increase in sales in 2021.

“ Our region has seen a double digit increase in sales tax derived from online sales versus traditional retail. Traditional retail is making a comeback, but workforce is an issue. With 2.4 percent unemployment, competition is tight for workers.”

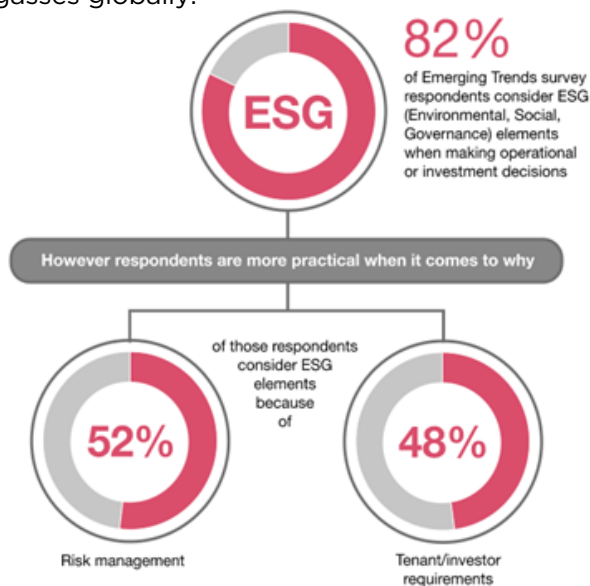
Nationally, net absorption of retail space in 2021 saw the largest increase since 2017 of 76 million square feet. This increase is likely bolstered by a recovery of some of the 28 million square feet lost in 2020. 43.7 million square feet of new retail space was constructed in 2021, the smallest annual increase in more than 15 years. Concurrently, 22.3 million square feet were demolished. These low development levels and substantial demolition has left vacancy rates at 4.6 percent, driving rents up 3 percent higher than they were at the end of 2020.¹⁰

Similar to the office market, survey respondents were considerably more focused on residential and industrial development than retail.

Outside the Survey: DEI and ESG

The growing importance of diversity, equity, and inclusion (DEI) has also contributed to changes in the real estate market. Many EDOs have started to consider the impact of inequalities on their region as a whole and have realized they have a vested interest in creating a more equitable economy. This new role comes with understanding the barriers that disadvantaged communities face when dealing with the real estate market, from homeownership to becoming a real estate investor. EDOs can then take action to level the playing field, opening up opportunities to ensure underrepresented communities can play a more active role in real estate and benefit from its related wealth-building effects.

Other considerations that have changed recently are the way that climate change and in turn, environmental, social and governance (ESG) criteria will impact projects now and in the future. The development and use of buildings of all sizes accounts for 40 percent of global energy use and carbon emissions, making the sector the largest contributor of greenhouse gasses globally.



Source: Emerging Trends in Real Estate 2022, PWC

In response, many real estate developers, investors, and communities have begun to take steps to implement ESG goals into real estate development. Roughly half of respondents to a 2022 PWC survey stated that their reason for considering ESG goals was due to risk management (at 52 percent) and tenant/investor requirements (48 percent).¹¹

JLL reports that prospective office tenants are increasingly expectant of efforts by building owners to boost ESG elements, such as the building's sustainability or quality of life elements such as air flow.¹² What's more, energy efficiency improvements not only cut emissions, benefiting both the environment and the health of workers, but result in lower energy costs and higher occupancy rates, generating more revenue.¹³ A Cushman & Wakefield study found that compared to non-LEED-certified buildings, Class A LEED-certified office buildings command 25 percent higher prices per square foot, while Class B certified buildings garner 77 percent higher prices.¹⁴

Endnotes:

- 1 January 2022 Housing Market Trends Report, Realtor.com
- 2 January 2022 Housing Market Trends Report, Realtor.com
- 3 Industrial Outlook Q1 2022, Jones Lang Lasalle IP Inc.
- 4 U.S. Real Estate Market Outlook 2022, Industrial & Logistics, CBRE
- 5 What Do Recent E-Commerce Trends Mean for Industrial Real Estate, Cushman & Wakefield
- 6 Compared to pre-pandemic office occupancy numbers
- 7 Getting America Back to Work, Kastle, 2022
- 8 Emerging Trends in Real Estate 2022, PWC
- 9 Adaptive Reuse Reaches Record Levels, NAAHQ, 2022
- 10 Jones Lang LaSalle, Q4 2021 Retail Outlook, 2022
- 11 PricewaterhouseCoopers, Emerging Trends in Real Estate 2022, 2202
- 12 EisnerAmper, ESG and Its Impact on the Real Estate Industry, April 2022
- 13 The White House, FACT SHEET: Biden-Harris Administration Launches Coalition of States and Local Governments Strengthen Building Performance Standards, Jan. 2022
- 14 EisnerAmper, ESG and Its Impact on the Real Estate Industry, April 2022

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The Lay of the Land:

Pandemic Impacts on Real Estate and Economic Developers' Responses – a 3-part series

Part 2: Solving Problems: Case Studies and Examples

The Covid-19 pandemic has impacted the real estate market both in unique ways and by accelerating existing trends. How are these changes affecting economic development? How are EDOs solving new problems and taking advantage of new opportunities? What tools and strategies are they using? This three-part series examines today's real estate realities and economic developers' responses to it. This is the second brief which consists of a series of case studies focused on what economic development organizations are doing to take action in the face of current real estate market.

As noted in *Part 1: What Economic Developers Are Experiencing* the housing and industrial sectors of the real estate market have become top of mind for economic development as demand continues to exceed supply. As a result prices are unattainable and unaffordable for many looking to engage in these two sectors. Due to this fact, the overwhelming majority of the case studies highlighted in this brief are residential and industrial development based, as this is where the majority of innovative programming and action is coming from in the economic development profession.



Case studies featured in this brief:

- [With a housing focus, Great Falls Development Authority \(Great Falls, Mont.\)](#)
- [Centering equity, Real Estate Lab \(Allentown, Pa\)](#)
- [Entrepreneurship and real estate, Ada Jobs Foundation \(Ada, Okla.\)](#)
- [Encouraging local home ownership, Port of Cincinnati \(Cincinnati, Ohio\)](#)
- [Preserving naturally occurring affordable housing, Housing Impact Fund, \(Charlotte, N.C.\)](#)
- [Historic preservation and adaptive reuse, Downtown Cleveland Alliance \(Cleveland, Ohio\)](#)
- [Incentives to develop industrial sites, Birmingham Business Alliance \(Birmingham, Ala.\)](#)
- [Employer funded housing, Home.Buy.Now program \(Philadelphia, PA\)](#)
- [Focusing on workforce, Skilled Trades of West Alabama \(Tuscaloosa, Ala.\)](#)
- [Securing industrial projects through competition, Winter Haven EDC \(Winter Haven, Fla.\)](#)

With a housing focus

Great Falls Development Authority (Great Falls, Mont.)

The Great Falls Development Authority (GFDA) is a public-private economic development organization and community development financial institution serving the Great Falls Montana MSA and the surrounding 12-county rural and tribal region (pop. approximately 190,000). GFDA has been involved in small-scale residential development in the past, primarily as part of its downtown revitalization work. But recognizing the growing importance of housing for economic development efforts, GFDA has taken the following steps to scale up production.

In partnership with NeighborWorks Great Falls and the Great Falls Association of Realtors, GFDA commissioned an assessment of local market demand for new rental and home-ownership residential development. The goal of the study was to collect data that would give developers confidence to invest in the market. The analysis examined key demand drivers, current and future supply and demand dynamics, and product and price/rent positioning analysis for target buyers/renters. It projected “a significant under-supply of rental and for-sale housing” over the next 10 years.

In order to solicit developers, GFDA researched rental housing developers in a multi-state region who were producing complexes of 200 or more units to whom it could market Great Falls for project opportunities. GFDA found a developer who was interested but whose equity was tied up for several years. To spur quicker action, GFDA introduced the developer to potential investors who ultimately provided 20 percent equity for the project. In addition to introductions to equity investors, GFDA provided a second-position construction bridge loan that represented 15 percent of the development costs, behind a 65 percent construction loan provided by a local bank. Due to restrictions on how economic development loan capital can be used, GFDA raises funds separately for passive real estate investing.

The initial project, the 216-unit Talus Apartment Homes, spurred movement in the local market. Developers began to take on smaller-scale projects of

12, 36 and 48 units. Landlords who had not kept their properties well maintained made improvements to existing rentals. Talus was successful enough that 72 units were added to the development and in the spring of 2021, the same development group, with many of the same investors, started construction on another 216-unit development, Arc Apartment Homes. GFDA again put in a 15 percent second mortgage during construction and lease-up.

GFDA and its partners in the market analysis held a Housing Production Summit in the spring of 2022, bringing together key stakeholders and community members to discuss the study’s findings. Local developers discussed upcoming housing projects and employers identified their workforce and housing needs. It also created a Housing Production Task Force to investigate ways to make the community more attractive for housing developers and to lower costs or provide subsidies that will make more projects economically feasible.

NeighborWorks plays a complementary role to GFDA in spurring housing production. It focuses on federally subsidized, affordable rental housing, while GFDA focuses on the production of workforce housing for those with incomes too high for federal tax credits and community development block grants funds. With the support of GFDA, NeighborWorks Great Falls developed a 124-unit apartment complex in partnership with a Seattle based affordable housing developer. It was the first combined four percent and nine percent Low Income Housing Tax Credit project in Montana.

As part of a recent strategic planning process, GFDA formally incorporated production-level housing – 50 to 100 homes a year for rental or ownership – as a target industry for business attraction. It plans to continue working on ways to get existing builders and developers in the market to do more and get others to come to the market by helping put projects together, raising capital, and providing bridge loans during construction and lease-up.

Centering equity

Real Estate Lab (Allentown, Pa.)

Without capital, connections, or formal training, it can be hard for newcomers to break into the field of real estate investing and build wealth. During 2020, in Allentown, Pa., the Real Estate Lab was established to help underrepresented individuals start real estate careers, help revitalize their communities, and chip away at the racial wealth gap.

The Real Estate Lab is a social enterprise that teaches Allentown residents – particularly those who would not have access to ownership on their own – how to invest in the local real estate market. Participants learn how to purchase, rehabilitate, and manage real estate through a 10-week course provided at no cost to students. The program also provides connections to local real estate networks and capital providers.

The lab is a public-private partnership between Lafayette College's Dyer Center for Innovation and Entrepreneurship and City Center Investment Corporation, a private, for-profit real estate development company focused on revitalizing Allentown's downtown. The hands-on, entrepreneurship-focused course addresses credit and financing in addition to renovation, property management and maintenance. Each cohort begins by helping students better understand their relationship to money, how to save, and the importance of a disciplined approach in growing their real estate investments.

Central to the success of the real estate lab is the Allentown Neighborhood Innovation Fund, seeded by leaders in the community's financial and real estate sectors with an initial investment of \$1 million. The fund helps program graduates get started by providing bridge loans or liens on their investment to purchase or rehabilitate their property at zero interest. Fund investors see it as a tool for both improving the community physically and helping residents participate in revitalizing their community.

City Center donated the physical space for the lab, which includes computers, classroom materials, and a demonstration wall for hands-on learning about demolition, construction, basic wiring, drywalling, and plumbing. It also includes maps, books, and space for program participants to meet with lenders, government staff, real estate professionals, and investors. The Real Estate Lab's founders see providing professional mentorship and connections as key elements in helping participants succeed as local real estate investors.

The program has graduated nine participants to date, six of whom have purchased properties. Those graduates have purchased over \$1 million worth of real estate, accessing more than \$600,000 of Neighborhood Innovation Fund dollars for acquisition and rehabilitation.



Real estate and entrepreneurship

Ada Jobs Foundation (Ada, Okla.)

Through a build-to-scale grant from the Economic Development Administration (EDA) awarded in September 2021, the Ada Jobs Foundation is addressing the demand for small-scale industrial real estate with a new industrial incubator facility. The incubator will increase the number of scalable technology startup companies local to Ada and rural Southern Oklahoma by providing space to work as well as access to technical assistance to grow as a business. The organization sees the project as a fusion of entrepreneurial support for emerging businesses, while providing much needed industrial real estate in the midst of unprecedented low industrial vacancy rates.

The incubator will support small manufacturing and emerging technology companies. As a rural region, the initiative will provide much needed support to individual companies, build a scalable technology ecosystem in Oklahoma, and increase access to capital for technology startups. The incubator will be located on publicly owned land near the Ada Regional Airport that the foundation negotiated with the city to utilize. As the region is on Chickasaw Nation land, the incubator will have an emphasis on inclusion of Chickasaw and other Native American startup founders.

The incubator hasn't yet launched and will be developed over the next three years with the help of federal funds and a local match. The Ada Jobs Foundation will lead this effort in partnership with the city of Ada, the Chickasaw Nation, East Central University, Pontotoc Technology Center, and Oklahoma Gas and Electric. The Center on Rural Innovation partnered with Ada Jobs Foundation over the past year as a part of their effort to expand their local tech-based economies. In addition, Ada Jobs Foundation is working with their local government to create a new comprehensive plan and long-range land use plan to prepare for various fiscal impact scenarios and new industrial and commercial space in the region.

Encouraging local home ownership

Port of Cincinnati (Cincinnati, Ohio)

The Port of Cincinnati, a community and economic development agency representing both the city and Hamilton County bought nearly 200 single family homes with the expressed purpose of creating rentable affordable housing, by selling them back to Cincinnati residents. The Port purchased the homes from a Los Angeles-based, for-profit housing firm for \$14.5 million, outbidding 12 external real estate investors.

Once purchased by the Port, they will ensure that each house is well maintained and affordable as the landlord of the property. The Port has expressed that their goal with the project is to turn the current renters of the 200 houses into homeowners, with current tenants having the first opportunity to bid on the units. The Port would then assist interested residents with financial counselors, mortgage lenders and homeowner training to prepare them to buy. This transition to homeownership will also help the community build wealth and stabilize the neighborhood.

In Cincinnati, thousands of single family homes were being bought by just a handful of out of town investment companies that were contributing to the increased rent across the city. (According to the Port, over 4,000 homes have been bought by just five external investment companies).

According to the Port of Cincinnati, a project like this at a scale of almost 200 units has not been tried elsewhere. While many community land banks and trusts have bought homes with the expressed purpose of making them affordable, they have all been done at a much smaller scale.

With the model that the Port developed, Cincinnati residents can work toward owning their own home while renting, creating more opportunities to build wealth.

Preserving naturally occurring affordable housing

Housing Impact Fund (Charlotte, N.C.)

Charlotte, N.C., is one of the fastest-growing cities in the United States, and as more people move into the city, housing has become unaffordable for many current and long-term residents.

Over the last few years, a coalition of large corporations, foundations, small businesses and individuals came together to create the Housing Impact Fund (HIF). The \$58 million fund is addressing housing insecurity in the region by preserving naturally occurring affordable housing (NOAH) – residential rental properties that are affordable compared to the regional housing market, but aren't publicly subsidized affordable housing. Since 2019, HIF has acquired and rehabilitated six apartment buildings that account for nearly 1,000 units across the city.

HIF is a social impact equity fund, meant to be both a positive contribution to the community and profitable to the investors. HIF's portfolio has a lower return on investment than a typical housing development project; investors receive quarterly returns that equal approximately an 8 percent return over a 20-year period. This is significantly higher than a typical affordable housing project, but lower than the return on profit-focused projects. With demand high for this type of property, the long-term risk is low and investors receive reliable returns.

In addition to helping address the city's affordable housing crisis, its projects have an impact quickly compared to build-new projects that take years to come to fruition.

HIF uses capital from the fund to purchase a current affordable housing apartment community and then invests in renovations. As part of its commitment to inclusion, a clause in HIF's structure requires that at least 80 percent of the renovations and construction be done by a minority-owned contractor. After renovations, HIF then keeps the rent affordable through a 20-year deed restriction. No residents are displaced by the acquisition. Each property acquired becomes available exclusively for individuals earning between 30 to 80 percent of the average median income (AMI).

In addition to the investors mentioned above, the Charlotte Housing Opportunity Investment Fund – a private housing investment fund launched by the Foundation for the Carolinas and managed by a local chapter of the Local Initiatives Support Corporation – have invested an additional \$20 million in HIF. The fund is continuing to purchase properties, with the goal of purchasing 1,500 units in the next few years with the same deed restrictions for lower-income households.



Historic preservation and adaptive reuse

Downtown Cleveland Alliance (Cleveland, Ohio)

Like many cities across the United States, Cleveland experienced a significant increase in commercial vacancy due the Covid-19 pandemic, with 26 permanent closures in the downtown core alone. These high levels of vacancy, paired with increasing demand for residential space in the downtown area, have led to an increase in commercial-to-residential conversions throughout the city. Iconic historic buildings such as the former Cleveland Athletic Club, the Terminal Tower, and the Cleveland Trust Tower have new lives as apartments that are now available for rent. While the pandemic played a role in increasing the number of conversions, the Downtown Cleveland Alliance (DCA) has focused on historic preservation and adaptive reuse for several years as a strategy to attract population downtown, while preserving the historic nature of the city. In part due to this work, downtown Cleveland is the fastest growing neighborhood in Cleveland – and the entire northeast Ohio region – with 31 percent growth since 2010.

Crucial to Cleveland's ability to be a national leader in converting vacant office space into mixed or residential use, according to DCA, has been Ohio's historic preservation tax credit program. The competitive program, intended to leverage private investment to redevelop historic buildings, provides a state tax credit for up to 25 percent of qualified rehabilitation expenditures incurred during the project, up to \$5 million. In order to qualify, the policy states:

“A building must be individually listed on the National Register of Historic Places; contribute to a National Register Historic District, National Park Service Certified Historic District, or Certified Local Government historic district; or be listed as a local landmark by a Certified Local Government to be eligible.”

DCA worked to facilitate the designation of these districts throughout downtown Cleveland so that developers and property owners can utilize the historic tax credit. Through engagement with the strategically placed architects on the DCA board, the organization defined the boundary lines and buildings that contribute to the historic district, made a map, and reached out to the property owners to submit the

necessary information to the federal government to officially become a historic district. Additionally, when property owners and developers are preparing to apply for the tax credits, DCA provides technical assistance during the application process, answering any questions and informing necessary stakeholders of the requirements.

Since the inception of Ohio's historic preservation tax credit program, 27 rounds of funding have been completed, resulting in 541 rehabilitation projects over 766 historic buildings throughout Ohio. According to the state, the program is projected to leverage more than \$7.3 billion in private development funding and federal tax credits directly through the rehabilitation projects.

The process of revitalizing vacant commercial space for residential units is an attractive prospect for many developers, as such conversions can reduce building costs, while increasing sustainability efforts, value, and efficiency within the community. However, advocates of these revitalization efforts in city centers often face difficulties as the financial aspect of conversions can be challenging and many require private investment. This is primarily due to the fact that old buildings maintain unique architectural challenges to revitalization and can have significant overhead costs. As a result of this, the historic tax credits fill the gap moving conversion projects from challenging to attractive for buildings in the historic districts within downtown Cleveland.



Incentives to develop industrial sites

Birmingham Business Alliance (Birmingham, Ala.)

As is the case for many communities across the country, the Birmingham region needed additional assistance to develop potential – but currently unusable – industrial sites into attractive places for industrial development. Sitting in the foothills of the Appalachian mountains, the region had several prospective sites but almost all had topographical or infrastructure concerns that made the sites unattractive for industrial projects. As a whole the region was deemed ‘site poor’ by local economic developers. As a state, site preparation and redevelopment had become a key strategy in their recruitment process in order to attract industry with high-quality, high paying jobs to development-ready sites.

To address both the state and region’s high priority in moving sites from unusable to ready for development, the Birmingham Business Alliance (BBA) utilized the Growing Alabama Tax Credit to make capital investments in the prospective sites which then allowed development to spur. The program, run by the Alabama Department of Commerce, provides a tax credit to eligible taxpayers who make contributions to approved Economic Development Organizations (EDOs) for qualifying projects. Through the incentives, developers are encouraged to take on an unusable site, and can use the funding to make necessary improvements to unlevelled land or missing infrastructure.

For taxpayers who donate under an approved project, they will receive Growing Alabama Credit equal to their donation. The credit is dollar-for-dollar, and is now capped at \$20 million per calendar year (although it was previously \$10 million). Eligible sites must be owned and controlled by the state or local EDO, and be either an industrial site that has a pending expression of interest or have an identifiable reason why the site has been rejected. Additionally, the program can fund projects for potential industrial or research parks, as well as within low-income community census tracts. The credit can be used to offset individual and corporate income taxes, the state portion of the financial institution excise tax, insurance premium tax, and state utility license tax.

BBA was one of the first EDOs in the state to utilize the Growing Alabama Tax Credit program to increase the useability and value of a lot. Since the inception of the program, the tax credit has been applied to numerous land preparation projects and has successfully aided communities to close deals and create jobs with Mercedes Benz and Amazon, among others. EDOs have used the tax credit to remove trees, relocate natural gas lines, install new railroad crossings, and extend the site’s industrial access road to prepare for development.



Employer funded housing

Home.Buy.Now program (Philadelphia, PA)

Philadelphia's Home.Buy.Now program is an employer-assisted housing program that was developed as part of a talent retention and recruitment strategy for participating employers. The program partners with employers that have existing homebuyer programs to help cover part of their employees' down payment and closing costs. For employees participating in such partnering employer housing programs, and who are below 115% of Philadelphia's area median income, the Home.Buy.Now program will provide a matching grant of up to \$4,000. For example, if an employer provides \$2,000 to an employee to buy a home, the program will match that \$2,000. If an employer provides \$10,000, the program will provide an additional \$4,000.

The program is administered by the Community & Economic Development Department of the Urban Affairs Coalition and is funded by both the City of Philadelphia's Division of Housing & Community Development and the Pennsylvania Housing Finance Agency (PHFA).

Home.Buy.Now was developed as an economic development tool to enable employers to better recruit and retain employees by helping these employees become homeowners, anchoring them to the community. Additionally, it gives employers another tool with which to improve their communities and establish greater neighborhood stability as more employees are capable of becoming homeowners with a reduced barrier of entry. As for the city of Philadelphia and surrounding municipalities, there has been an increase in collected tax revenue from higher levels of purchased homes. This revenue can be used to reinvest in municipal services and demands to increase overall quality of life for residents.

By matching with companies with existing programs, the Home.Buy.Now program provides employers the flexibility to design a program that meets the unique needs of their employees and is economical for their bottom line. Notable participating employers include Drexel University, Temple University, and Cancer Treatment Centers of America.



Other services provided by the program include access to discounted housing related services such as realtor services, home inspections, and workshops to help prepare employees for homeownership. The city of Philadelphia, noting the economic hardships caused by both the pandemic and soaring housing costs, has relaunched the "Philly First Home" program, which provides \$10,000 or 6% of the purchase price to assist first time home owners with down payment or closing costs.

Since 2005, the program has assisted over 400 employees from 53 employers to purchase new homes, amounting to over \$82 million in sales and contributing over \$890,000 to the city's tax revenue per year. Reports indicate that 30 percent of participants would not have been capable of purchasing a home without assistance from the program, and 50 percent of participants are people of color. The latest grant funding came in 2021 through a \$200,000 award from PHFA, drawn from the agency's "Pennsylvania Housing Affordability and Rehabilitation Enhancement Fund," which itself is funded largely by the state's realty transfer tax.

Focusing on workforce

Skilled Trades of West Alabama (Tuscaloosa, Ala.)

It's no secret that employers everywhere are having difficulty hiring and retaining workers. This shortage has left a major impact on the real estate and construction market, exacerbating the already challenged supply of homes and industrial sites alike. Launched in the middle of the pandemic, Skilled Trades of West Alabama, based in Tuscaloosa, Ala., opened with the specific objective of swiftly developing the necessary talent to fill the growing demand for craftsmen. Within the organization are two core programs: an apprenticeship program for contractors in the fields of electrical, HVAC, plumbing, or alarm systems, and a pre-apprenticeship program focused on construction.

Jump Start – the pre-apprenticeship program for construction workers– is a free, 14-week preliminary program in the construction trades, created to allow individuals to immediately join the construction workforce. Jump Start was designed after the initial apprenticeship program was developed as the organization determined they weren't reaching enough individuals who could automatically qualify for an apprenticeship.

The pre-apprenticeship curriculum is built on the National Construction Center for Research & Education curriculum and upon completion, can lead to a credential in OSHA 10 safety requirements, as well as scissor lift and forklift training. The program provides an overview of electrical, plumbing, HVAC and alarm crafts; how to interpret construction blueprints; construction measurements, and safety operations for power tools.

Soft skills are a critical aspect of the program as the organization understands they can be just as valuable as the hard skills to employers. The basics of communication skills, leads with potential employers, and career path guidance is all shared with the students throughout the program. Once the student finishes the course, they become a skilled potential worker and can enter the workforce.

The Jump Start program has graduated 175 individuals over 12 cohorts since launching in February of 2021. The apprenticeship program, which began first in September 2020, has graduated 76 individuals. The organization is in the midst of piloting an expedited Jump Start program which will take place over a two-week period and will teach 12 enrolled students.

Skilled Trades of West Alabama is a 501(c)3 organization that is funded in part by Alabama Construction Craft Training Board, who provides grant opportunities for craft training programs within the commercial construction industry. Additionally, the organization is funded partially by private dollars, and recently was approved to receive city, county and state public funds for continued expansion. Several local and regional organizations have partnered to bring the Skilled Trades of West Alabama apprenticeship programs to life including: the Home Builders of America, AlabamaWorks, Habitat for Humanity, Tuscaloosa City Schools, and Construction Craft Training Board, among others.



Securing industrial projects through competition

Winter Haven EDC (Winter Haven, Fla.)

Winter Haven Economic Development Council (WHEDC) is a private, non-profit organization focused on growing a resilient and equitable economy in Winter Haven, Fla— one of the fastest growing cities in the state. Through leveraging local partnerships, the organization has a dual focus of creating benefits for the community, and building economic growth.

In 2018, noting that a local industrial site with over 400 thousand square feet of warehouse space had sat empty for years, WHEDC decided to act. Despite having several companies interested in leasing, and the necessary permitting and entitlements ready for manufacturing purposes, due to misaligned renting rates the site hadn't been fully utilized in over seven years. After some disagreements with the owners on the future leasing of the property, WHEDC modified their approach to industrial business recruitment and worked with the City of Winter Haven on a new opportunity to develop the adjacent lot into a competitive industrial site.

The adjacent site was a former utility property owned by the city. WHEDC took control of the property and began the process of turning it into a new industrial site.

The plan was to create competition with the initial site that had trouble leasing, and if they were successful, the site would be sold, creating new jobs and bringing capital investment into the city.

WHEDC moved quickly once they received approval from the city. The adjacent property was released from former land use restrictions, and the organization negotiated a purchase agreement from a new manufacturer within months. WHEDC worked intimately with the city manager and state agencies to make the necessary land use changes and infrastructure improvements.

About 160 new jobs were created on the site that had previously been unproductive land owned by the city. The competition and proximity to a new industrial site catalyzed the owners of the original site to sell their property. The new property owners are in the process of breaking ground on a 1.2 million square feet distribution center. In total, the two sites will bring in over \$250 million in investment and about 500 new jobs to the region.



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The Lay of the Land:

Pandemic Impacts on Real Estate and Economic Developers' Responses – a 3-part series

Part 3: Tools, strategies, and resources

The Covid-19 pandemic has impacted the real estate market both in unique ways and by accelerating existing trends. How are these changes affecting economic development? How are EDOs solving new problems and taking advantage of new opportunities? What tools and strategies are they using? This three-part series examines today's real estate realities and economic developers' responses to it. This is the third, and final brief of the series which will provide tools to guide real estate development from the perspective of economic development.

This report is not intended to replace IEDC's Real Estate Development and Reuse training course and manual. The course outlines redevelopment tools and resources extensively, and is recommended for individuals in need of learning the basics of real estate development. In an effort to not duplicate the work of the manual and to focus on the current challenges economic development is facing in terms of real estate, this brief covers tools and strategies related to housing and industrial development.

To begin, this brief will start with an overview of housing and industrial development assessments, then will focus on what economic development organizations (EDOs) can do within their organization to prepare to meet this demand. The rest of the brief will outline strategies within housing development, industrial development, and emerging strategies within real estate development.

Research and planning

Needs Assessments

Developing a needs assessment is typically the first place to start for communities who are

interested in pursuing a new real estate development strategy, regardless of type of real estate – housing, industrial, retail, etc. Needs assessments provide EDOs and relevant stakeholders with the strengths and weaknesses of the community's current real estate market, and can include action steps on how to improve the market moving forward. This overview of a typical housing and industrial needs assessment is based on an analysis of numerous assessments. The vast majority of these studies are done by outside consultants, and either prepared for, or in collaboration with the economic development entity involved.

Housing

Housing needs assessments are invaluable tools for developers and policymakers. Such assessments inform relevant actors of current and emerging housing trends, and can help in the identification and justification of remedial or proactive strategies and initiatives.

The focus and breadth of an assessment will depend on the needs and desires of a given community. However, at the most fundamental level, housing needs assessments identify

gaps in current housing supply, measured by the number of housing units at various price intervals, and housing demand, typically using area median family income (AMI) as a benchmark. Additionally, estimates of future demand and supply are essential, as they are necessary to developing resilient, proactive strategies. Future housing demand is estimated through population projections, which take into account births, deaths, migration, and age distribution as well as trends in household size. Housing supply projections consider past and current housing development trends.

Factors commonly reviewed in housing assessments include:

- Community Demographics: Population and household trends (fastest-growing areas), age, ethnicity, tenure (ownership or rent), unit type, household size, household income
- Jobs, Seasonality, and Commuting: Job estimates and projections, seasonality of jobs, sector and cluster trends, wages and jobs by sector, jobs per employee and employees per household, commuting trends, and retirement trends
- Housing Inventory and Market: Types of units, age of units, number of short-term rentals, employer-assisted housing, redevelopment and pending development, homeownership rate, housing instability, affordable housing
- Housing Resources Opportunities and Constraints: Assessment of current housing programming (such as rental assistance and eviction prevention), government and institutionally owned land, local funding sources, development environment, cost of residential construction, land acquisition, construction costs, developer profit, financing costs and total development costs

Industrial

An industrial land analysis often precedes new growth in industrial development. Such assessments provide clear and marketable information on the supply and demand of industrial land, as well as inform initiatives and prioritization of development efforts. The first step is to develop a comprehensive industrial land inventory. Such an inventory should include all land designated by the local government for industrial use. Parcels should be further classified by specific zoning status (light, medium, heavy or transportation use, etc.), development status (developed, undeveloped, vacant, underutilized, unbuildable, etc.) and individually evaluated, if possible, for development constraints (floodways/plains, steep slopes, wetlands, contamination, etc.). This inventory should be easily accessible and navigable, as its purpose is to inform both local actors and site selectors.

A subsequent analysis of demand for industrial land should also be prioritized, as such an assessment will inform policymakers if there is sufficient demand for industrial land and if that demand is greater than available industrial capacity. Additionally, an analysis of sector specific demand will assist in site selection and development efforts, as different sectors have differing development, transportation, and utility access needs. Demand can be measured by interviews with local commercial real estate brokers and other stakeholders as well as through analyzing industrial-sector employment projections.



Factors commonly included:

- **Industrial Land Supply Overview:** Total inventory, currently available land, vacant or underutilized land type of industrial land, absorption, site constraints and opportunities (such as stormwater requirements, environmental regulations, utility easements, zoning, and transportation).
- **‘Shovel-ready’ Land:** Many assessments include an overview on all of the available industrial sites in the region, and a map of where it is located. Information on the total acreage, developable land, brief description, zoning, guided and permitted uses, transportation access, needs, and costs, and utilities access, needs, and costs. This land typically has all of its planning, zoning, title work, environmental studies, soils analysis and public infrastructure engineering completed, and the government or economic development entity is in control of the property.
- **Financial Tools and Incentives:** Summary of the financial ‘toolbox’ that the economic development entity can use for development. This can include TIFs, loans, grants, relationships with local lenders, etc.
- **Workforce Considerations:** Overview of the region’s current workforce; including goals on how to retain and attract the necessary workforce for the industrial development the EDO is working to attract. Additionally, description of the occupations and populations that flow in and out of the region for jobs.
- **Business Retention:** Information on region’s industrial clusters, jobs, revenue, total facility area in region, age of business; considerations of how the region’s industrial sites fit in with the current businesses located, as well as those the region hopes to attract.
- **Demand Assessment:** Information on the current demand for industrial sites, strength of the current available sites, and gaps that make the region’s sites less attractive for industrial development.

Baseline Steps to Take as an EDO

Before beginning to take on the ever changing real estate market, EDOs should consider looking within their own organization to ensure they are prepared. To make sure your EDO isn’t duplicating the work already being done in the community, a scan of who the major players are and their roles would be a good place to start. In particular as it relates to housing, EDOs who are new to the space should determine where—if needed— their assistance can fill a gap. A good start to determining this is by building relationships with those already working in the space. Additionally, as organizations with many roles and responsibilities, EDOs should determine if this is work they can take on with their current staff, or if hiring and finding additional funding is needed to move forward.

Increasing capacity

As economic development is being asked to play a larger role in the housing production, it may take hiring dedicated staff to take on the new roles and responsibilities that are required. As a result of such rapid growth in the city of Winter Haven, Fla., housing has become a major concern for the region and thus a focus for the local EDO, the Winter Haven Economic Development Council (WHEDC). Through a three year funding agreement with the city of Winter Haven, WHEDC hired a dedicated affordable housing program manager to promote workforce housing. The manager will collaborate with local developers, investors, and other relevant stakeholders, with the goal of stimulating additional workforce housing. They are in the midst of working with banks and other financial institutions to create local financing programs to increase affordable housing, and are considering developing an employer-assisted housing program.

Building relationships

In particular when taking on a new role such as housing it is important to understand the local landscape. Questions to consider when beginning to forage relationships and fill the gaps in the market:

- Who are the local leaders within the space?
- What work is already being done?
- Where are the gaps that an EDO can fill?
- Who are the potential partners?
- Who are the known brokers and financial institutions?

For example, the Great Falls Development Authority (GFDA) has partnered with NeighborWorks Great Falls— a local member of the National NeighborWorks Network— a non-profit that was already working in the affordable housing space in the region. Instead of doing overlapping work, the two organizations decided to utilize their strengths separately to work to make progress on housing in their community. NeighborWorks focuses on producing affordable rental housing requiring some kind of subsidy to pencil out. At the same time, GFDA focuses on developing workforce housing – meaning incomes too high for low-and moderate-income tax credits and Community Development Block Grants.



Housing Strategies

As noted in the past two briefs in this series, housing has become a growing concern and area of interest for economic development over the past several years. One major reason for this shift is that the lack of housing availability has become a workforce challenge as employers struggle to find employees in the midst of an ongoing labor shortage. Below is a set of strategies and resources for economic developers to consider when beginning or growing housing strategies in their community.

Addressing Affordable Housing

As part of an assessment, a need for affordable housing for cost-burdened households may emerge. Cost-burdened households are defined as those paying more than 30 percent of their income on housing. In 2020, 46 percent of American renters spent 30 percent or more of their income on housing, and 23 percent spent at least 50 percent of their income on rent.¹ The rising costs of housing impact both homeowners and renters. The high cost of living has significantly contributed to annual homelessness numbers, and has only been worsened by the COVID-19 pandemic.

Affordable Housing Data and Services:

- [Choropleth Housing Shortage Map](#). With this map, explore housing shortages county by county to understand national shortage trends
- [Interactive Dashboard](#). This dashboard allows housing gaps to be sorted by income groups, some demographics of the community, and the predicted eviction rates.
- [Eviction Lab](#). National eviction data established by Princeton University.
- [SHARE - Shared Housing and Resource Exchange](#). This program connects elderly homeowners with individuals seeking housing. The arrangement provides the homeowner income to help with expenses, a responsible tenant, and help around the house. In turn, the tenant receives a private room and reduced rent.
- [Assisting small-scale landlords can increase housing stock and affordability](#). Compares international strategies for boosting affordable home ownership and rental strategies.

- National Equity Atlas. Data on who in the United States is burdened by housing costs, broken down to include renters or owners, level of severity, poverty level and race/ethnicity.
- Housing Toolbox for Massachusetts Communities. This toolbox was developed by Citizens' Housing and Planning Association and the Massachusetts Housing Partnership as part of a statewide initiative to support local officials and volunteers in their efforts to provide more affordable housing opportunities in their communities.
- DC's Affordable Housing Toolbox. This includes resources DC has put together to assist with affordable housing including zoning updates, loans, grants and technical assistance provided.
- Housing Assistance Council. For rural communities, HAC can provide below-market financing for affordable housing and community development, technical assistance and training, research and information, and policy formulation to enable solutions for rural communities.
- USDA Rural Housing Service. Also for rural communities, USDA provides housing assistance loan programs specifically for single family homes in rural America.

Employer-assisted housing

One major reason that economic development has started to increase involvement with housing is that employers have become heavily impacted by the lack of affordable and/or attainable housing in their region. In an already tight labor market, employers are finding it increasingly difficult to attract skilled workers, which is compounded when their employees can't find appropriate housing.

Employer-assisted housing programs represent a means of remedying these cyclical conditions, softening the increasingly unmanageable burden of housing costs present today. These programs can provide other, ancillary benefits to businesses through the quality-of-life improvements they provide to employees and the surrounding communities. The primary benefits of employer-assisted housing programs are employee recruitment, employee retention,

neighborhood revitalization and stronger community relations. While guided by similar objectives, employer-assisted programs can vary in the type of assistance they provide depending on business size, employee needs, and local market conditions. Below are common characteristics of an employer-assisted housing program.

- **Homebuyer Assistance:** Homebuyer assistance may include mortgage guarantees, mortgage discounts, reduced closing and inspection fees, and loans or grants for down payments and closing costs (some may be matching funds).
- **Rental Assistance:** An employer will assist in paying a portion of an employee's rent, or assist in placing employees at a rental property.
- **Education and Counseling:** Many employer-assisted housing programs provide educational services to employees. These services can include financial planning counseling, assistance in choosing a realtor, or the preparation of documentation.
- **New Construction:** Some employers, such as those in isolated areas, have chosen to construct new or acquire older properties to house employees. These properties can serve as affordable options, with the employers charging below-market prices for rent.

The city of Philadelphia's Home.Buy.Now. program (featured as a case study in Brief Two of this real estate series) is one example of economic development developing an employer-assisted housing program with the expressed purpose of assisting employers to better recruit and retain employees. Other employer-assisted housing examples include Baltimore's Live Near Your Work program; Teachers Village in Newark NJ, and Casa Del Maestro in Santa Clara, Calif.



Addressing vacant and abandoned property

The United States' national vacancy rate hasn't fluctuated much in the last 20 years. In 2000, vacancies made up 9 percent, 11.4 percent in 2010, and 9.7 percent in 2020. That adds up to more than 16 million vacant homes across the United States.² These vacant properties present an opportunity for economic developers to make a significant difference in their community by creating affordable housing, and/or revitalizing a neighborhood within their region.

It is important to note that when discussing housing rehabilitation, in particular in urban areas, the impact of race and inequity should be considered both to understand the causes of vacancies, as well as when addressing the properties moving forward. In addition, when taking on revitalization efforts, economic development should consider the impact that gentrification has on perpetuating segregation, and keep in mind what communities are benefiting (or not) from the investment. In Brief Two of this series, one the featured case studies provides an overview of how the Real Estate Lab in Allentown, Pa. centers equity while helping underrepresented individuals start real estate careers and chip away at the racial wealth gap at a community level.

Below, this section lays out barriers to converting vacant properties, a discussion of equity in real estate, and strategies for the communities to purchase and hold the land to revitalize and provide housing for residents.

Common barriers to converting vacant and abandoned properties into productive use are listed below.³ The presence of a land bank can assist to mitigate some or all of these challenges



- Lack of awareness or data: Although urban decay and blight may be clearly evident, local authorities may simply lack the data on the number of locations, or redevelopment state of vacant, abandoned, and deteriorated (VAD) properties.
- Tax Delinquency: Tax delinquency presents several barriers to sale and redevelopment in the real estate market. In many cases complex, years-long processes of tax foreclosure enforcement proceedings leave the property decaying and furthering the cycle of decline and blight. This delay can cause liens on the house to be greater than the fair market value of the property.
- Title Problems: A property may carry title problems for several reasons. Residential properties that had been passed down from previous generations may not have undergone the necessary conveyance proceedings. Retail or commercial properties may be held by now-defunct corporations with no active address.
- Inadequacy of Code Enforcement: Abandoned properties pose a functionality problem in cities across the country as some local governments may have an inability to allocate appropriate resources for inspections or to alert property owners. There are many causes for vacancies such as tax delinquency or building code violations. In many cases, code revisions haven't taken place since the 1960s.
- Unknown Owners: Issue in determining responsibility amongst landowners of decaying and vacant properties. Lenders often fail to report the foreclosure or walk away while the property status is "in limbo" to negate responsibility. The burden then falls on municipalities to identify the responsible party for the vacant building.
- Lack of Control: There are limited tools available to local governments (code enforcement, tax liens, and nuisance actions) to meaningfully engage with rehabilitation efforts. This is a particular issue area for problem properties that are not economically viable to rehabilitate, vacant lots that violate local nuisance abatement ordinances, buildings where the owners lack the capital to rehabilitate, or refuse to resell, and absentee owners that refuse to participate in upkeep but aim to resell the property when value rises.

Land Banks

Land banks are governmental or not-for-profit entities that pursue strategic development and redevelopment initiatives through the acquisition and management of vacant, abandoned, or tax-delinquent properties that are unfit for sale on the private real estate market.⁴ Although modern land banks are most commonly used for the acquisition of parcels of land in low-cost and declining markets for the purpose of revitalization, land banks can also serve an important function in high-cost, thriving municipalities by acquiring and holding on to parcels for future strategic, community development purposes. While the first land banks were established over 40 years ago, the vast majority have been created since 2008. Land banks commonly take the form of an independent entity, however other organizations, such as economic development entities, can house and carry out land banking functions.

Most land banks have been formed in states that have passed legislation that both institute the necessary reforms, such as property tax foreclosure laws, and enable the conveyance of special powers to land banks established by municipal governments. As of March 2022, such legislation exists in 17 states, although varying widely in form and breadth. Some 250 land banks have been established throughout the U.S. No two land banks and the legislation that permits them are identical.

Depending on the state, land banks can have a varying degree of power to acquire, hold, and sell land. These powers within land banking statutes range from “the ability to acquire real property through the delinquent tax enforcement process, to hold real property tax-exempt, and to dispose of property for other than monetary consideration according to the direction of the land bank board of directors and land bank jurisdiction.”⁵

Community Land Trusts (CLTs)

Community land trusts are private non-profit organizations that provide long-standing affordable housing to a community. CLTs have a corporate community membership with an established board structure of lessees, due-paying community members, and public representatives. CLTs were established in the 1960s as a tool for gaining community control, since then there are approximately 225 CLTs in 46 states.⁶ In addition to establishing affordable housing, some CLTs have developed ownership of agricultural and commercial spaces to provide community services.

This land is held in a trust, which is the key difference that separates CLTs from other nonprofits that address affordable housing, through pricing controls and shared equity homeownership models. This “forever stock” of affordable housing will continue to help families with modest incomes for generations. CLTs are a one-time public investment establishing homes in the trust for all current and subsequent households. The Center for Community Progress has developed an interactive map that shows where land banks and community land trusts are located across the United States.

From IEDC: Playbook for Equitable Economic Development: Guidance on identifying structural racism and implementing equitable practices

Real estate policies and practices demonstrate a history of systemic racism that has led to the wealth and resource gap. Real estate ownership is inextricably tied to wealth in the US, but beyond that, ownership of property is correlated with increased political power and more access to better paying jobs and higher-quality schools. Local and institutional real estate policies, from segregation via racial deed covenants to the inability to access traditional financing, have led to unequal distribution of wealth. Lack of ownership and disinvestment in low-income neighborhoods of color have led to blight, vacant properties, crime and a lack of value for area properties. The disparity in property ownership rates and values is one of the biggest intergenerational reasons for the wealth gap between people of color and Whites.

Lower property values in formerly redlined neighborhoods reflect the history of disinvestment, automobile-oriented infrastructure policy and urban renewal that has directly led to segregated communities. People of color are overrepresented in neighborhoods without open space, and with lower quality schools and insufficient grocery stores, amenities and other services. These areas are removed from job centers. There are high vacancy rates in these neighborhoods and little incentive to improve occupied property, as the return on investments through rents or sales are difficult to achieve.

Native American communities on reservations have also experienced a history of disinvestment resulting in lower quality schools, insufficient food sources and amenities, and lack of access to public services. Compounding these problems are the complex reservation land-ownership relationship between tribes and the Federal government and those who lease or use tribal lands. These relationships, and lack of clear ownership, make it difficult to launch economic development and real estate development projects.

IEDC's Equitable Economic Development Playbook was made possible with support from The Rockefeller Foundation and The Kresge Foundation.

Housing Trust Funds

Housing trust funds are a flexible funding source administered at the city, county, or state level and are not subject to restrictions of federal subsidy programs. They can be designed specifically to address local needs and affordable housing initiatives. A decision must be made by local jurisdictions interested in establishing affordable housing trust funds about where revenue comes from, how the trust is administered, and eligible uses to go through the primary considerations. Then cities determine whether the fund will be administered by an existing public office or nonprofit organization, or if a new entity will be established to perform this function.

Industrial Strategies

Below are several recommendations for economic development to consider when taking action on industrial development.

Advice from site selectors

As mentioned in the previous briefs in this series, across the country the industrial market is experiencing extremely low vacancy rates due to a shortage of industrial inventory, and increased demand. This has put a stronger emphasis on the industrial development process, and the role economic development plays in that process. There are two major concerns with the industrial market. One is that across the country there is simply not enough inventory to meet the demand for industrial sites. The second issue is that where there are available sites, the capacity is poor, and doesn't include the necessary utilities that manufacturers need. Understanding how to grow greater capacity in the available sites is a place where economic development can fill the gap.

Grow Capacity. Many of the projects coming down the pipeline in the industrial space have extraordinary capacity loads – such as semiconductor battery plants for electrical vehicles which require very complex manufacturing capabilities. It can be difficult to anticipate what the demands of an industrial site will be, and somewhat

irresponsible to develop an entire speculative build out in hopes that an investment turns into a deal.

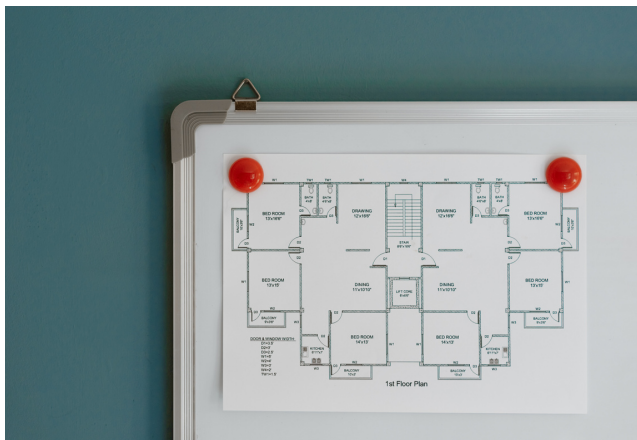
Instead, economic developers should focus on creating a process that allows a community to move quickly when they do need to provide such capacity for a site to move forward. That can include preparing utility easements, infrastructure, transportation, wastewater or natural gas availability, or putting processes in place to move a permit quickly. As one site selector put it, economic developers should be “less concerned with a full buildout of a site, and more concerned with master planning so they can plan out these properties and the diligence is done.”

Prepare site capabilities. Economic developers should consider the minimum baseline of site capabilities for the type of industry they are planning to attract, and how long a build-out would take. For a promising site that is lacking advanced capabilities, economic developers can simulate the due diligence process to understand what is needed. Working with a construction firm, create a virtual 3D modeling of the facility that demonstrates the possible capabilities that can be built out. With this model in hand, when a company can't find a site that already has these capabilities, the EDO can virtually show what a build-out on an available site can look like. Within the virtual model, base the build-out on the type of prospects you are receiving inquiries from and the capacity they are looking for. This can give the community a competitive advantage when competing for a deal, and is a good solution when available buildings are almost nonexistent and land on its own is not enough.



Control of the property. When possible, EDOs or another public entity should maintain ownership of the property in question as that is where the final control lies. While transferring ownership over to a developer can be useful to help prepare the site and put in the necessary infrastructure, it can also lead to increased rates, making the property a less competitive site. An EDO may have plans for a particular site of attracting a manufacturer with high-wage jobs that can have an investment multiplier effect on the region. Without control of the property, the current owner may choose to sell or lease the property to the highest bidder and isn't beholden to the strategic plan of the EDO. Unless a site is specifically zoned only for manufacturing, without ownership control of the site, the EDO can't dictate the final use of the property.

Work with Planning. Advanced collaboration with the local planning board can help lay the groundwork to educate stakeholders on the EDO's future plans for available sites and parcels in the region. By doing this, EDOs can make the case for zoning changes in a more logical way, and can advocate for infrastructure improvements that will be easier to fulfill once a firm is prepared to purchase or lease. Creating a master plan with the planning board that can be updated to serve a changing environment is a great way to have the entire municipality understand what they are working with, and what the future plans are.



Facilitating development of smaller spaces for smaller use

At a time with low vacancy rates for industrial space across the country, small companies, in particular, are at a loss to find and lease property that best fits the needs of their company. Many industrial properties are too large for the needs of small manufacturers and can price out smaller and younger firms. This has led to an increased demand for smaller industrial spaces for growing companies. As highlighted in Brief Two, the Ada Jobs Foundation has started to address the demand for small-scale industrial real estate by building out a new industrial incubator facility. The incubator will provide sought-after smaller industrial real estate for local and small firms in the region to allow them to work and grow.

As this strategy is both based on real estate and entrepreneurship, collaboration with other entrepreneurship-focused organizations in the region could be a good place to start. The incubator could be paired with technical assistance provided by the EDO or light industrial technology to be shared between firms similar to a co-working or makerspace.

Emerging Strategies

Many of the obsolete real estate properties around today were built decades ago, with goals in mind that no longer apply today. Many of these are “greyfields”- those sites with existing commercial development that over time have become obsolete, outdated, or underutilized, or recently abandoned office buildings, that have become a burden to the community.

The good news is that former commercial and office space can be repurposed. Our society operates in a different world now, one with e-commerce that can deliver goods directly to our doorsteps, with the future of office space everchanging, and rising housing costs. With this in mind, there are new and emerging uses that economic developers and real estate developers are converting obsolete properties into, which better match the desires and needs of communities.

Facilitating office-to-housing conversions

Over two years since the beginning of the COVID-19 pandemic, and in-person work levels remain significantly lower than pre-pandemic numbers as the future of work continues to evolve. Measuring foot traffic into offices using data from usage of security swipe cards and keyfobs, Kastle Systems estimated that across the U.S., average office occupancy is at 44.1 percent as of June 15, 2022.⁷ At the same time, the U.S. housing market is facing a historic supply shortage of some 5.24 million homes, in part causing housing costs to jump 18.8 percent in 2021.^{8,9} This new dynamic has increased interest in converting vacant office buildings to residential space. While there is a high degree of uncertainty with the future of office space, due to low office occupancy, and a shortage of housing units, conversions to apartments from offices is at an all time high.

Facilitating commercial-to-industrial conversions

Aging commercial developments are present in nearly every community. These are prevalent enough to have earned the descriptive term of “greyfields,” which indicates they are underutilized and in need of revitalization as brownfields.¹⁰ Retrofitting these obsolete malls and closed big-box stores has been an ongoing challenge, with new uses ranging from community colleges, health care facilities, and elderly living centers. As demand rises for industrial uses, the nature of redevelopment of these properties has changed. Some have been converted into warehouses for e-commerce, while others have been transformed into small-scale manufacturing facilities. One company that has been a leader in this space is U-Haul. Nearly 70 percent of U-Haul’s 2,100 stores are adaptive reuse projects.¹¹ Underutilized retail is ideal for this company due to the adjacency to existing commercial corridors.

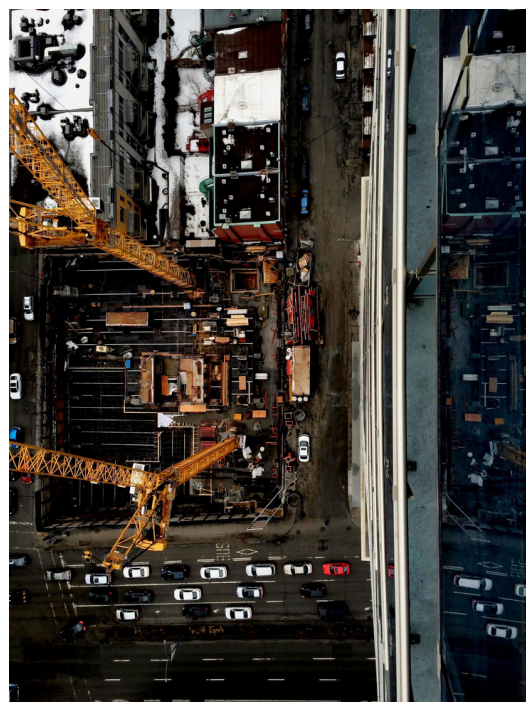
Additionally, office-to-industrial conversions are picking up as well, with some projects maintaining the original building and adapting new uses such as vertical farming.¹² More often, though, office parks are being transformed into industrial parks, which requires a full-scale tear down and rebuild. NAIOP, the Commercial Real Estate Development Association, summarizes best practices from recent studies on their website. In particular, they note that these

projects work in places where there is a market demand for industrial space, and on sites that are less than five miles from an interstate system.¹³

Aspects to keep in mind when considering real estate conversions:

- **Zoning Considerations.** Prior to undertaking any searches for potential commercial candidates or project planning, a review and understanding of local zoning laws is necessary. If current zoning allows residential use, an “As of Right” conversion will be possible without the need for a public hearing process or vote by a municipal council.¹⁴ If the zoning doesn’t currently allow for residential use in the desired building, there are typically the following options:
 - Apply for a zoning variance. This is a special permit that if approved, allows the building to be converted even if it doesn’t fit with the zoning requirements of the rest of the parcel or area. This can be an involved process, and depending on the municipality could be difficult to get approval.
 - Request rezoning. If city officials are amenable, EDOs can work with the necessary boards and councils to rezone the area needed to convert the property.
 - The final option would be to stop pursuing the conversion and work to develop the property into something the current zoning allows for.
- **Economic Considerations.** When seeking to convert a commercial building to a residential property, there are a number of economic roadblocks to consider.
 - Commercial buildings typically carry higher valuations than residential buildings. In Washington D.C., for example, this premium is around 25 percent.¹⁵ As a result, even during a time of high vacancy rates, landlords, particularly if they believe in-person work levels will rise, will likely be more inclined to hold out and re-lease later. A landlord of an outdated class B, C, or F building may also choose to renovate in order to qualify for a higher classification, which garners higher rents. If possible, subsidies or tax incentives can help make a property owner more willing to transform obsolete office buildings into rental properties.

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 - Another obstacle commercial to residential conversions face, particularly if financial support from local government is needed, is the loss of tax revenue that will likely result. Using the same example, in Washington D.C. the difference in tax rates between residential and commercial properties causes downtown commercial properties to generate 2.5 times more property tax revenue per square foot than multifamily residential properties.¹⁶
 - Despite the obstacle detailed above, conversions are a good decision for many communities. If conversion does not happen, the property may stay vacant, and thus the loss of the lower valuation and tax dollars is irrelevant.
- Building Characteristics. Older, lower-class office buildings make the greatest candidates for conversion. Additionally, buildings with obsolete designs that do not meet today's office needs or are located in a changing neighborhood moving towards more residential or more commercial make for good conversion buildings. Building characteristics will also play a fundamental role in the cost of the project, and should therefore be considered. Be sure to keep in mind:
 - Natural light. Many cities have building codes for residential properties that require units to have access to natural light. With this in mind, developers may need to cut out an internal courtyard to allow for windows and natural light.
 - Air flow. Buildings with more shallow floor plates, or less distance between the side of the building and the corridor, make better candidates. However, commercial buildings typically have much deeper floor plates, about 40-50 feet between the outer wall and the inner core, than residential buildings, which average 25-30 feet.¹⁷
 - Location of bathrooms. In many office buildings, bathrooms and their connected plumbing are bunched together. When developers are engaged in converting the building to residential, the plumbing may need to be reworked to allow for individual units to have the correct plumbing.
 - HVAC and electrical systems. Similar to plumbing, HVAC and electrical systems are typically bunched together, and may need to be re-routed to provide access to each individual unit.
 - Outside of conversions to residential, if your EDO is thinking about converting to light industrial or retail, consider the final use case and if the necessary power and/or water source can be accommodated.



- Neighborhood Characteristics. Outside of the buildings, the neighborhood surrounding the proposed conversion is important to consider when determining if converting the building is the right fit.
 - Consider if the area is within a historic district. If not, does it qualify to become one if your EDO submits the correct approval process? Utilizing federal or state historic tax credits can be a useful way for an office to residential project to pencil out. For example, the state of Ohio's historic tax credit can provide a state tax credit of up to 25 percent of qualified rehabilitation expenditures incurred during a rehabilitation project, up to \$5 million.
 - Some communities have ordinances that mandate a certain percentage of units as affordable housing. These typically have an average median income (AMI) requirements that mandate a certain percentage of units to be set aside for individuals or families under a specific income level.
 - Researching vacant or underutilized properties, working with owners that are willing to convert the property or to sell to someone who is.



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SURPRISE
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City of Surprise Housing Study





City of Surprise Housing Study

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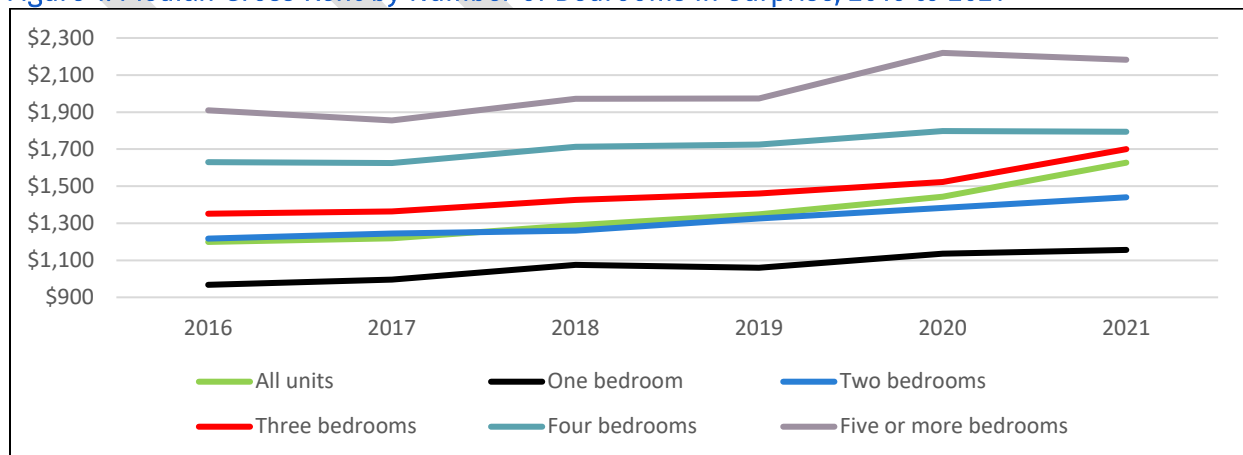
Executive Summary

In November 2022, the City of Surprise retained Matrix Design Group, Inc. (Matrix) to conduct a housing study. The study serves two main purposes. **First, it seeks to enhance policymakers', stakeholders', and the community's understanding of the housing challenges facing the city through detailed, state-of-the-art analytics and robust community engagement.** To that end, Matrix completed an exhaustive demographic, economic, and housing status profile; housing inventory and rental and owner market analyses; and housing needs assessment. **Second, it outlines a comprehensive housing strategy that Matrix developed in consultation with stakeholders, community leaders, and the general public.** The experiences of other communities that have successfully confronted similar challenges suggest that our recommendations, if implemented, will significantly improve existing conditions.

How expensive is it to rent or buy a home in Surprise?

Our findings rely heavily on five-year estimates from the 2021 American Community Survey (ACS), which covers the period from 2017 to 2021. While other data sources employed throughout the study provide more recent data, none can match the ACS's level of detail, rigor, and statistical reliability. **Median gross rent in Surprise during this period reached an all-time high of \$1,627 (see Figure 1). Since then, as Figure 2 shows, rents have failed to return to historical levels.** As of the first quarter of 2023, average gross rent in Surprise was \$1,722, although one-bedroom units were typically available for just under \$1,600. Home sale prices, too, have risen sharply in recent years, even when accounting for inflation. **As Figure 3 demonstrates, from March 2020 to June 2022, the median home sale price increased from \$338,210 to \$498,152.** While prices have since fallen, concurrent increases in mortgage rates have deterred many prospective buyers from purchasing homes. Assuming a 6% interest rate, 30-year loan term, and 20% down payment, the monthly mortgage payment for the median home purchased in March 2023 amounts to \$1,947. Note that this total excludes property taxes, insurance, and other fees.

Figure 1. Median Gross Rent by Number of Bedrooms in Surprise, 2016 to 2021

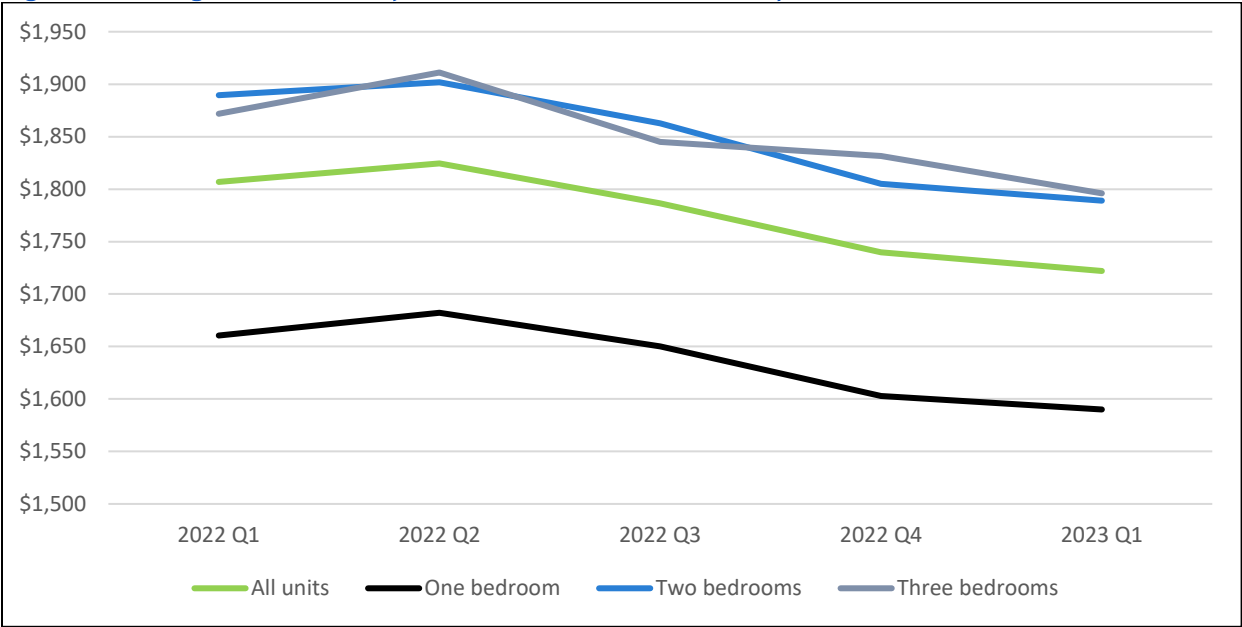


Source: Five-year American Community Survey (2021)

Note: Dollar values adjusted for inflation to constant 2021 dollars.



Figure 2. Average Gross Rent by Number of Bedrooms in Surprise, 2022 Q1 to 2023 Q1



Source: CoStar; Matrix Design Group, Inc.

Note: Dollar values adjusted for inflation to constant 2023 dollars.

Figure 3. Median Home Sale Price in Surprise, March 2020 to March 2023



Source: Redfin; Matrix Design Group, Inc.

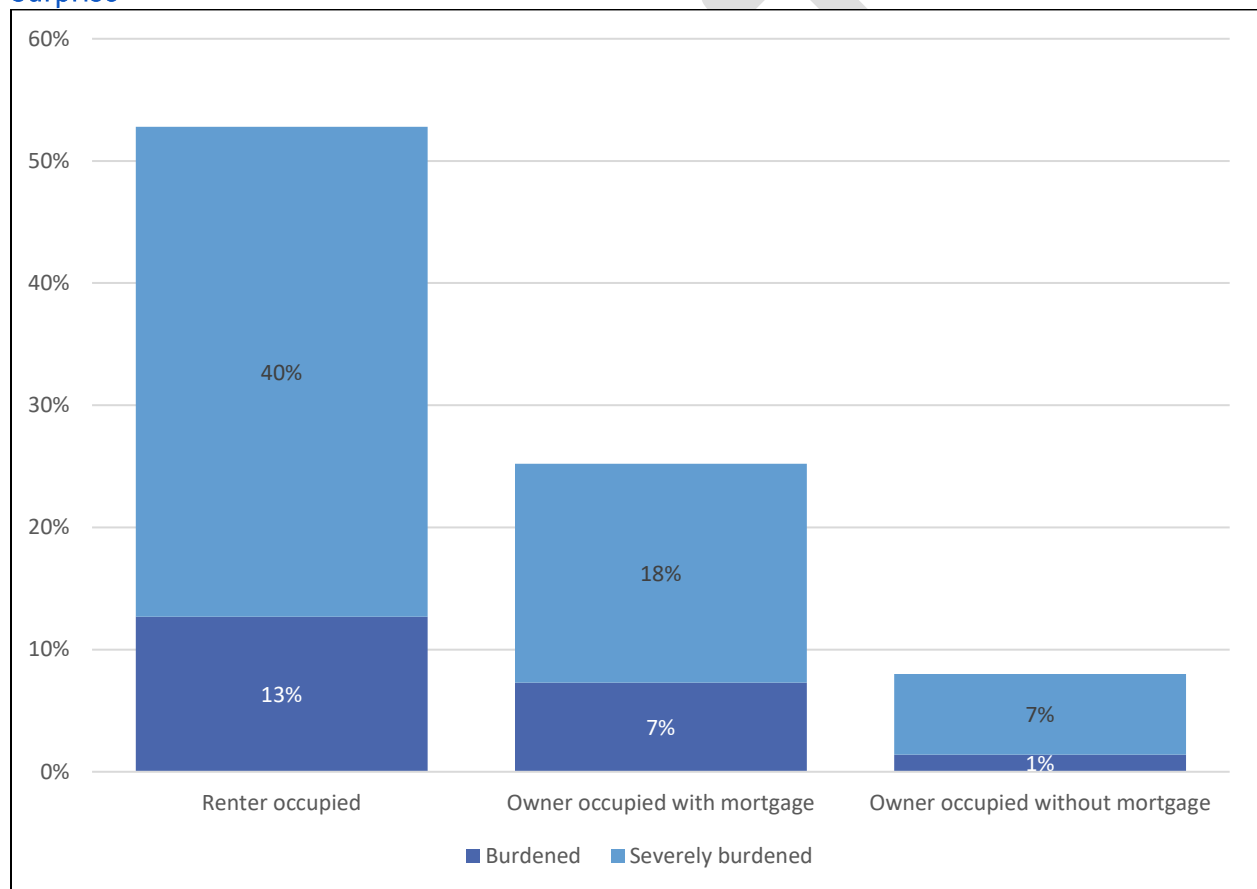
Note: Dollar values adjusted for inflation to constant 2023 dollars.



How widespread are cost-burdened renters and homeowners in Surprise?

As a general rule, housing costs should account for less than 30% of gross household income in order to be considered affordable. **Figure 4 reveals that 13% of renter households qualify as “cost burdened,” spending between 30 and 34.9% of household income on rent. For an additional 40% of households, rent accounts for 35% or more of household income, making them “severely cost burdened.”** While homeowners are in a stronger financial position, the fact that a quarter of them are burdened or severely burdened by housing costs is cause for concern. Furthermore, it is important to recognize that homeowners do not represent a random sample of the population. Rather, higher-income households tend to select into homeownership. This implies that the rate of cost-burdened or severely cost-burdened homeowners would increase markedly if a significant percentage of Surprise’s renters decide to purchase homes in the coming years.

Figure 4. Prevalence of Cost-Burdened and Severely Cost-Burdened Households by Tenure in Surprise



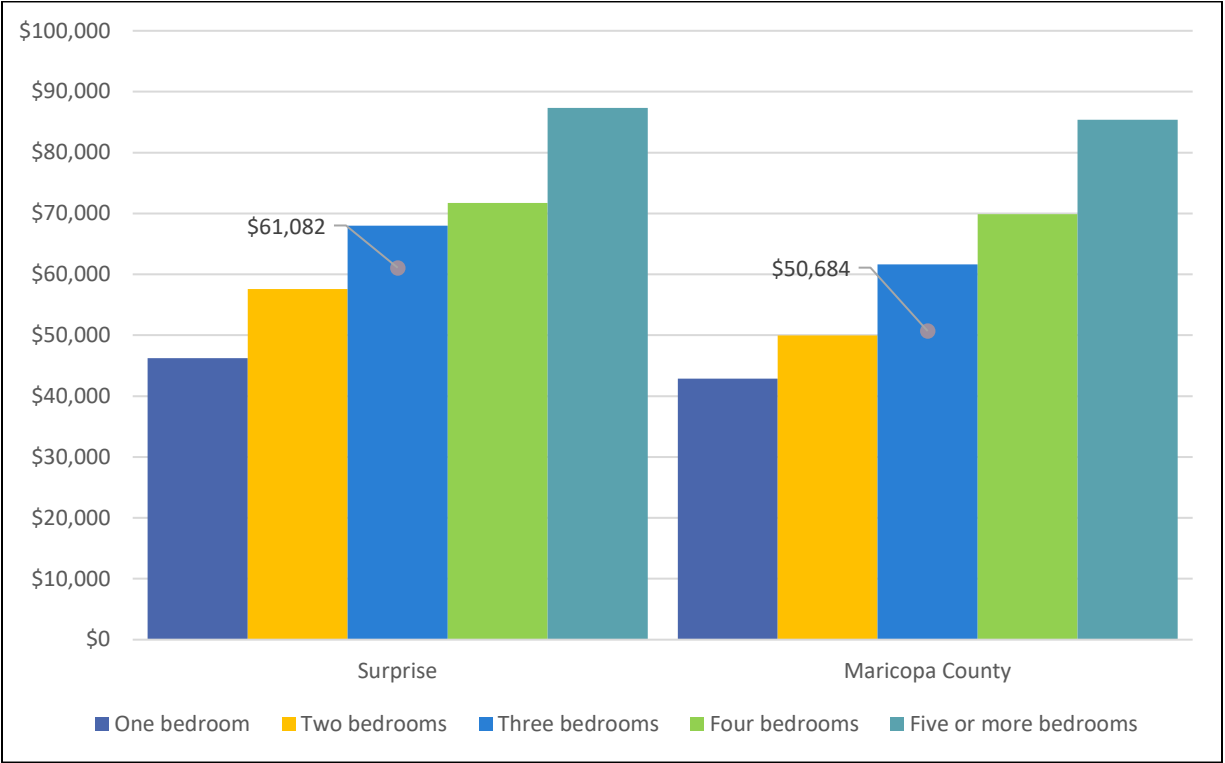
Source: Five-year American Community Survey (2021)

What type of unit can the median renter in Surprise afford?

The prevalence of cost-burdened or severely cost-burdened renter households in Surprise warrants a closer analysis of the challenges they face. Figure 5 compares the minimum income required to afford median rent for units with varying numbers of bedrooms to actual median renter household income, which is represented by the gray dot. **Surprise’s median renter income of \$61,082 is sufficient to contain**

rent for only one- and two-bedroom units to less than 30% of household income. Because rents are less expensive in surrounding communities, the same is true for Maricopa County, despite its significantly lower median renter household income (\$50,684). Units with three or more bedrooms are unaffordable for median renter households in both regions. To afford the typical three bedroom-unit in Surprise, for example, a household needs to earn at least \$68,002.

Figure 5. Minimum Income Required to Afford Median Gross Rent at 30% Threshold by Number of Bedrooms, 2021



Source: Five-year American Community Survey (2021); Matrix Design Group, Inc.

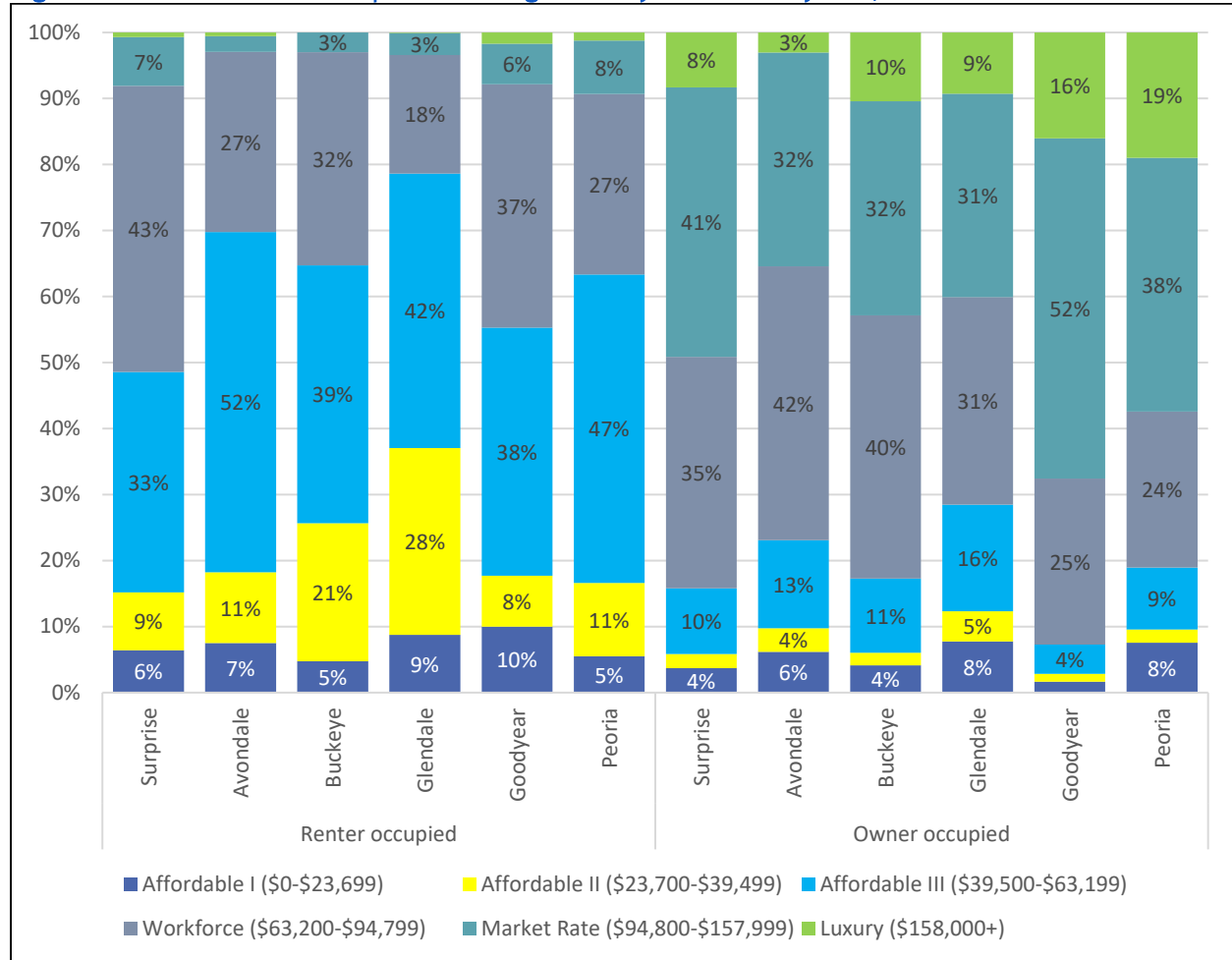
How affordable are renter- and owner-occupied homes in Surprise compared to nearby communities?

Figure 6 groups Surprise's renter- and owner-occupied households into affordability tiers, which are based on the 2021 area median income (AMI) of \$79,000 for the Phoenix-Mesa-Scottsdale Metropolitan Statistical Area (MSA). Further, it compares the affordability composition of Surprise's inventories to those of Avondale, Buckeye, Glendale, Goodyear, and Peoria. Note that the dollar values represent the range of household incomes that could afford a home in a given category. For instance, the "affordable III" category encompasses the homes that a household earning between \$39,500 and \$63,199 is able to afford. **The results reveal that Surprise has fewer rental units in the three "affordable" tiers than every other city represented in the figure.** Indeed, just 48% of rental units limit rent to less than 30% of income for households earning less than \$63,200. **Surprise's owner inventory is even more middle- and upper- income-oriented, with 84% of homes falling into the workforce, market rate, and luxury ranges, leaving few options for prospective buyers earning significantly below AMI.** Proportionally



speaking, Glendale boasts almost twice as many “affordable” owner units as Surprise. Moreover, nearly half of Surprise homes are affordable only to households earning at least 120% of AMI, or \$94,800. As exemplified by the cases of Goodyear and Peoria, however, Surprise is not unique in having a large inventory of market rate and luxury homes.

Figure 6. Breakdown of Occupied Housing Stock by Affordability Tier, 2021



Source: Five-year American Community Survey (2021); Department of Housing and Urban Development; Matrix Design Group, Inc.

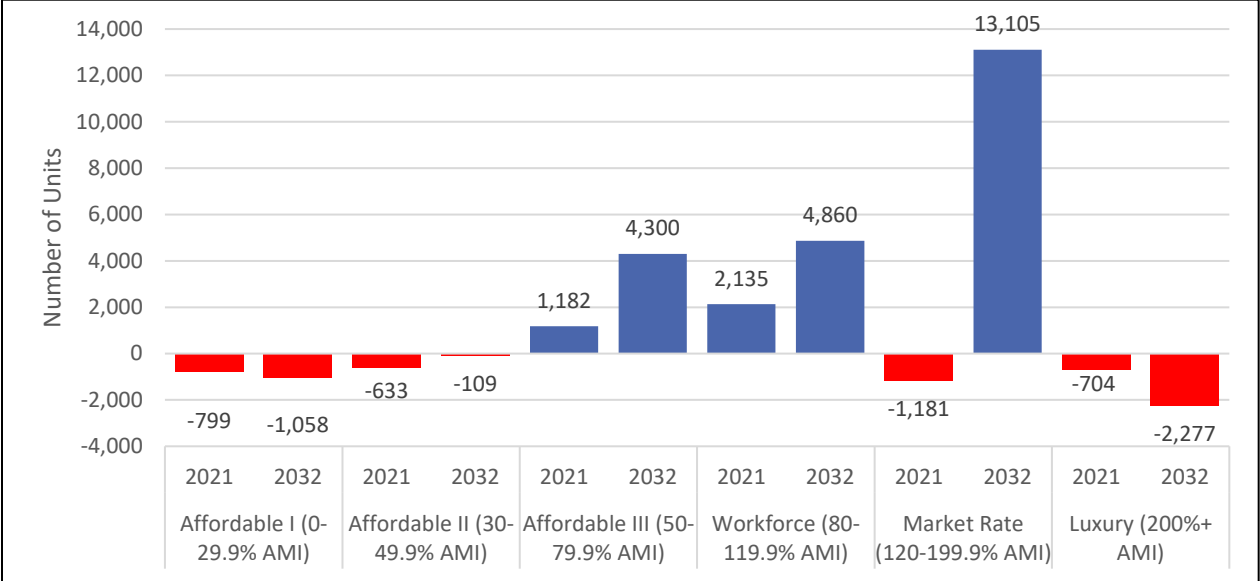
How large are the supply-demand gaps in Surprise’s housing market?

Surprise suffers from severe shortages of affordable homes for renter and owner households earning less than 50% of AMI, or \$39,499 (see Figures 7 and 8). Specifically, the deficits amount to 1,432 rental homes and 4,326 owner homes. In the latter market, an additional deficit of 3,112 homes exists in the top “affordable” tier, which covers households earning between \$39,500 and \$63,199. Surprise’s significant shortage of affordable homes disproportionately impacts younger and senior households, who tend to have low incomes. **Unless the city takes aggressive action to close these gaps, they are projected to reach unmanageable levels by 2032, especially in the owner market. Should our projections become reality, Surprise will inevitably witness increased rates of**



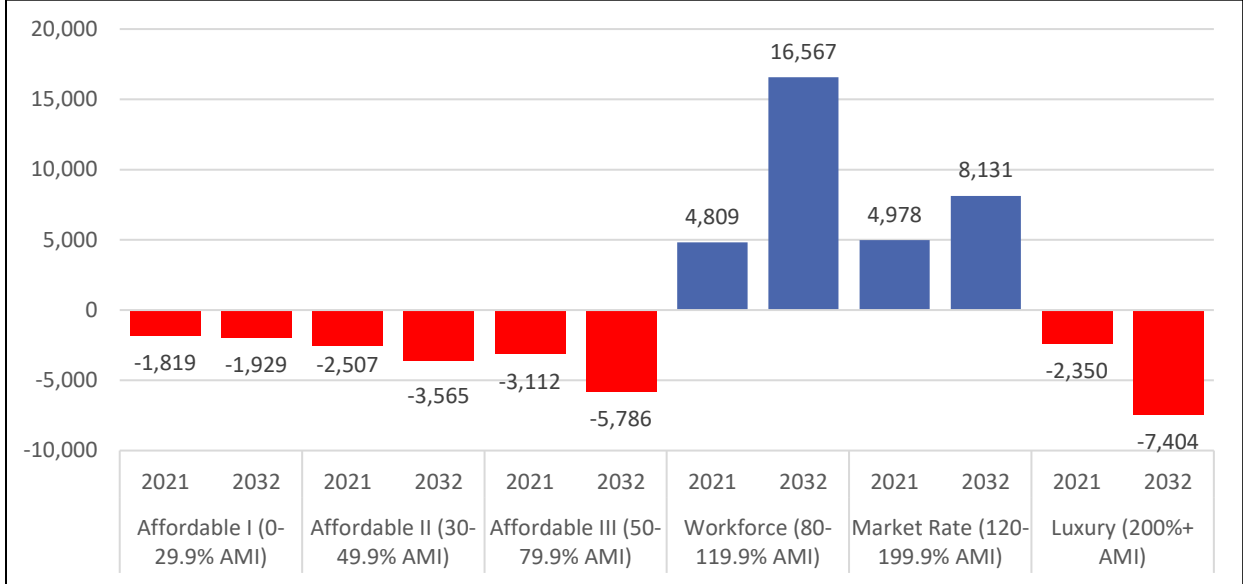
homelessness and overcrowding, among other undesirable consequences, as households struggle to meet their rent and mortgage payments. The results also indicate that Surprise’s deficit of luxury homes is expected to escalate dramatically, meaning high-income earners will be forced to purchase or rent homes that would be more suitable for households in the lower income brackets.

Figure 7. Actual and Projected Supply-Demand Gaps in Surprise's Rental Market, 2021 and 2032



Source: Five-year American Community Survey (2021); Department of Housing and Urban Development; Matrix Design Group, Inc.

Figure 8. Actual and Projected Supply-Demand Gaps in Surprise's Owner Market, 2021 and 2032



Source: Five-year American Community Survey (2021); Department of Housing and Urban Development; Matrix Design Group, Inc.



What can Surprise do to ameliorate existing and future housing shortages?

Surprise is not powerless in the face of growing shortages. We identified six solutions available to city leaders as they work to reverse recent trends.

1. Expand the types of residential districts that permit duplexes and triplexes by right and relaxing off-street parking requirements for these homes, which currently mandate two spaces per unit.
2. Promote accessory dwelling units by creating financing programs with favorable terms for borrowers, such as zero-interest or forgivable loans and grants.
3. Take advantage of the new state low-income housing tax credit and newly expanded Housing Trust Fund.
4. Lobby the Arizona State Legislature to devolve authority over housing policy to local governments, particularly as it relates to tax increment financing and land bank formation.
5. Finance the Newtown Community Land Trust, which creates permanently affordable housing by effectively removing the cost of land from a home's purchase price.
6. Create a density bonus program that allows developers to build more units per acre, provided that a certain percentage of units become affordable housing, and reduce or eliminate regulatory barriers, such as impact fees, that disincentivize affordable development.



Introduction

In November 2022, the City of Surprise selected Matrix Design Group, Inc. (Matrix) to conduct a housing study. The quantitative component of the study consists of a demographic, economic and housing status profile; housing inventory and rental and owner market analyses; and a housing needs assessment that offers insight into the types of housing the city should be prioritizing going forward. To provide additional context to the results, we use a time series cross sectional approach. That is, we examine how conditions have changed over time, as well as how they vary both within the city and across the region. Key to the within-city comparative analyses are a series of map visualizations that illustrate how conditions differ from neighborhood to neighborhood. In addition, we recommend a series of evidence-based steps that the city can take to improve the affordability and availability of housing. Recognizing that public acceptance is vital to the success of any housing plan, Matrix developed its recommendations after conducting a robust community engagement campaign alongside the city, which the study also details.

Methodology

The quantitative analyses utilize the most current and highest quality secondary data. The five-year 2021 American Community Survey (ACS), which covers the period from 2017 to 2021, serves as our main data source. Five-year ACS estimates are preferable to the alternatives because they offer unmatched statistical reliability and are available for small geographic units. In addition, we rely on several supplementary data sources that provide economic and housing data through the present. Below is a comprehensive list of the data sources employed in the study:

- American Community Survey five-year estimates
- 2020 U.S. Census
- Redfin
- US Department of Housing and Urban Development (HUD) Median Family Income Documentation System
- CoStar
- Bureau of Labor Statistics (BLS)
- Maricopa Association of Governments
- Maricopa County Assessor 2023 Parcel Data
- Arizona Department of Commerce's Office of Employment and Population Statistics
- Arizona Office of Economic Opportunity
- AirDNA

Recognizing the utility of a multi-method approach, Matrix validated its quantitative findings through interviews with stakeholders, a community survey, a focus group, and two community meetings. Matrix was able to engage the following organizations:

- Ability360
- Foundation for Senior Living
- Newtown Community Land Trust and Community Development Corporation
- Voice of Surprise



- Arizona Charter Academy
- Dysart Unified School District
- WeSERV

At the core of the housing needs assessment are a series of gap analyses that estimate the difference between supply and demand at tiers based on the 2021 area median income (AMI) of \$79,000 for the Phoenix-Mesa-Scottsdale MSA. By situating the city's housing market within a broader region that includes prospective buyers and renters who are inclined to consider Surprise during their housing search, AMI is better suited for evaluating affordability than Surprise-specific median household income. Table 1 displays the income range associated with each income tier, as well as the corresponding housing type. Homes in the first in the three "affordable" categories do not burden households whose incomes fall between 0 to 29.9%, 30 to 49.9% and 50 to 79.9% of AMI, respectively. The next classification, workforce housing, includes the homes priced appropriately for middle-income households, defined as those earning between 80 and 119.9% of AMI. Market rate and luxury homes are affordable only to households reporting annual incomes of at least 120% and 200% of AMI, respectively.

Table 1. Income and Housing Affordability Tiers for the Phoenix-Mesa-Scottsdale Metropolitan Statistical Area, 2021

Income Tier	Income Range	Corresponding Housing Affordability Tier
Extremely low income (0-29.9% AMI)	\$0-\$23,699	Affordable I
Very low income (30-49.9% AMI)	\$23,700-\$39,499	Affordable II
Tax subsidy limits/low income (50-79.9% AMI)	\$39,500-\$63,199	Affordable III
Middle income (80-119.9% AMI)	\$63,200-\$94,799	Workforce
High income (120-199.9% AMI)	\$94,800-\$157,999	Market Rate
Very high (200%+ AMI)	\$158,000+	Luxury

Source: Department of Housing and Urban Development; Matrix Design Group, Inc.



Demographic, Economic, and Housing Status Profile

This section provides detailed demographic, economic, and housing status data on Surprise’s population and households. More specifically, it explores the size and makeup of the population, household income, employment and wages, housing tenure, overcrowding, commuting patterns, and the geographic distribution of the group quarters population. Where appropriate and feasible, the analyses feature projections through 2032.

Population Size

Table 2 documents the population growth in Surprise, neighboring municipalities, and Maricopa County over the twenty-first century’s first two decades and presents forecasted population estimates for 2030 and 2040. **At the turn of the twenty-first century, Surprise’s population was just 32,667, before reaching 117,720 by the end of the century’s first decade—equivalent to a 260% increase.** The city’s meteoric growth rate during this 10-year interval (260%) dwarfed the 24% increase experienced by the entirety of Maricopa County and was exceeded only by that of Buckeye (667%). From 2010 to 2020, Surprise’s population continued to rise at a faster rate (23%) than those of Maricopa County as a whole and most nearby municipalities, albeit to a lesser extent. Through 2040, Surprise is expected to keep growing at a healthy rate—a trend driven, in part, by the prospect that the city will annex unincorporated land. **Surprise is projected to add approximately 72,000 residents by the end of the current decade, and the 2030s are likely to bring similar relative population growth.** Surprise’s anticipated growth rate underscores the need for the city to substantially increase its inventory of homes in the coming years.





Table 2. Actual and Projected Population Growth, 2000 to 2040

Region	Total Population					Aggregate Percent Change			
	2000	2010	2020	2030	2040	2000-2010	2010-2020	2020-2030	2030-2040
Surprise	32,667	117,720	144,246	216,700	307,500	260%	23%	50%	42%
Maricopa County	3,092,927	3,824,083	4,436,704	5,107,700	5,712,200	24%	16%	15%	12%
Avondale	36,400	76,418	89,480	101,800	111,900	110%	17%	14%	10%
Buckeye	6,697	51,377	93,629	186,600	305,400	667%	82%	99%	64%
Chandler	178,398	236,678	277,116	309,100	321,100	33%	17%	12%	4%
Glendale	219,392	226,866	248,686	306,400	323,400	3%	10%	23%	6%
Gilbert	111,250	209,458	268,728	293,500	308,800	88%	28%	9%	5%
Goodyear	19,700	65,566	96,789	140,300	192,200	233%	48%	45%	37%
Mesa	400,491	439,875	505,447	607,500	649,400	10%	15%	20%	7%
Peoria	109,923	155,053	191,849	232,400	273,700	41%	24%	21%	18%
Phoenix	1,324,016	1,448,683	1,611,162	1,881,900	2,019,300	9%	11%	17%	7%
Scottsdale	204,060	217,285	241,718	281,900	299,400	6%	11%	17%	6%
Tempe	158,671	162,010	181,580	217,100	247,000	2%	12%	20%	14%

Source: Arizona Department of Economic Security's Population Statistics Unit, Arizona Department of Commerce's Office of Employment and Population Statistics, and Arizona Office of Economic Opportunity; Maricopa Association of Governments.

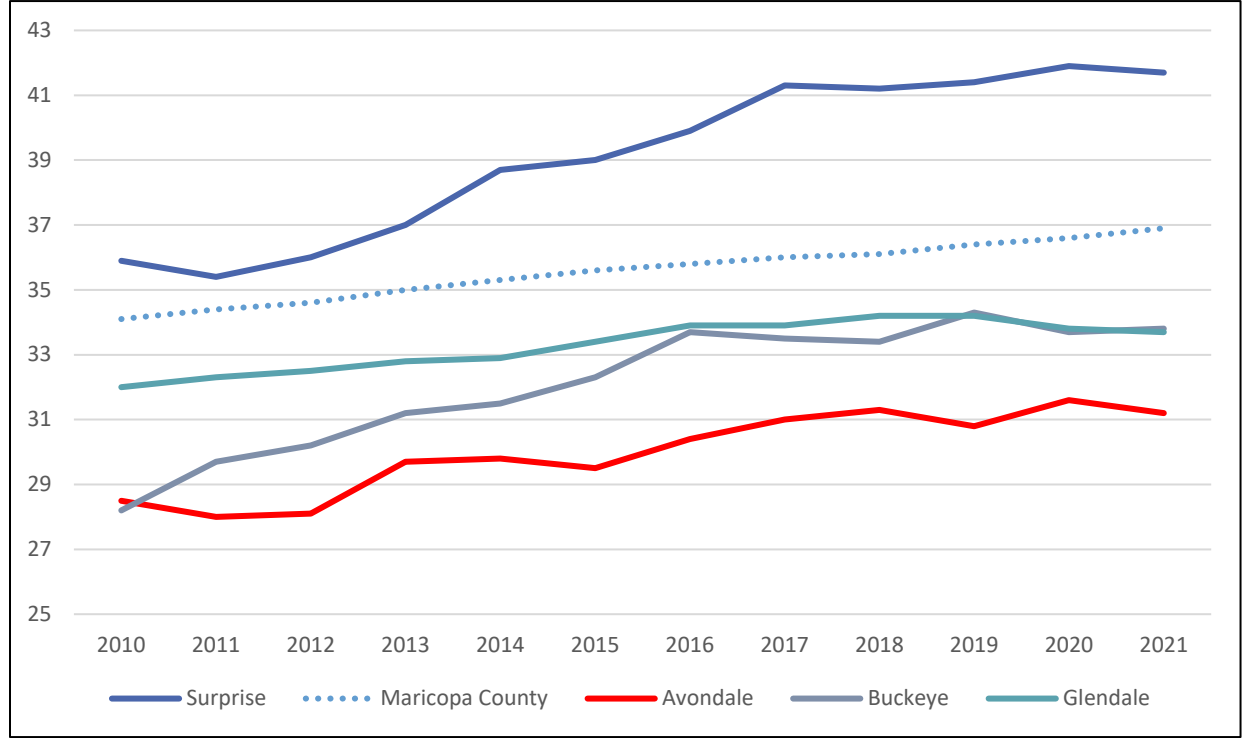
Population Age

Surprise's demographics have evolved markedly in recent years. Most notably, its population has aged at a faster rate than those of virtually all other West Valley municipalities and Maricopa County as a whole.

Figure 9 shows that the median age of Surprise residents increased from 35.9 in 2010 to 41.7 in 2021. By then, nearly five years separated the median Surprise resident from his or her Maricopa County counterpart, who was just shy of 37 years old. Surprise's age gaps with Avondale, Buckeye, and Glendale are even larger. The precipitous rise in Surprise's middle-aged and senior populations has been primarily responsible for its shifting age demographics. Figure 10 highlights the degree to which the age composition of residents varies both within Surprise and between jurisdictions. It shows that Surprise stands apart from other nearby communities in terms of the relative size of its 65-and-over population, who make up 23% of all residents. Nearly half of one zip code's population (85387) belongs to this age

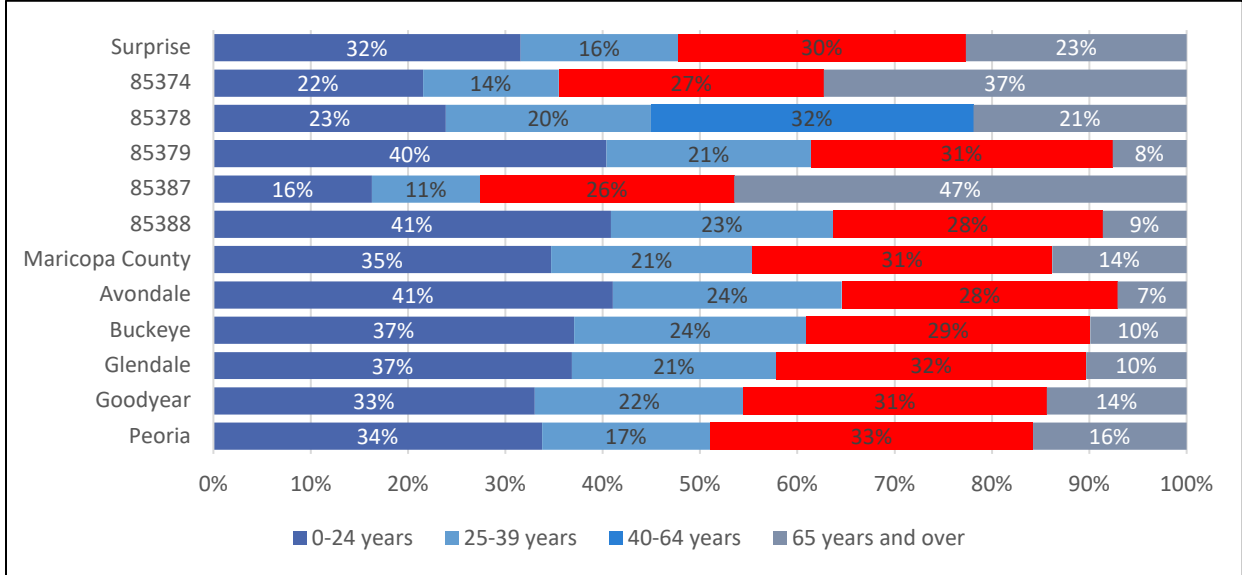
group. It is imperative that the city accommodate its aging population by offering adequate senior housing in the form of independent living, assisted living, and memory care facilities.

Figure 9. Median Age, 2010 to 2021



Source: Five-year American Community Survey (2010 to 2021)

Figure 10. Age Distribution of Population, 2021



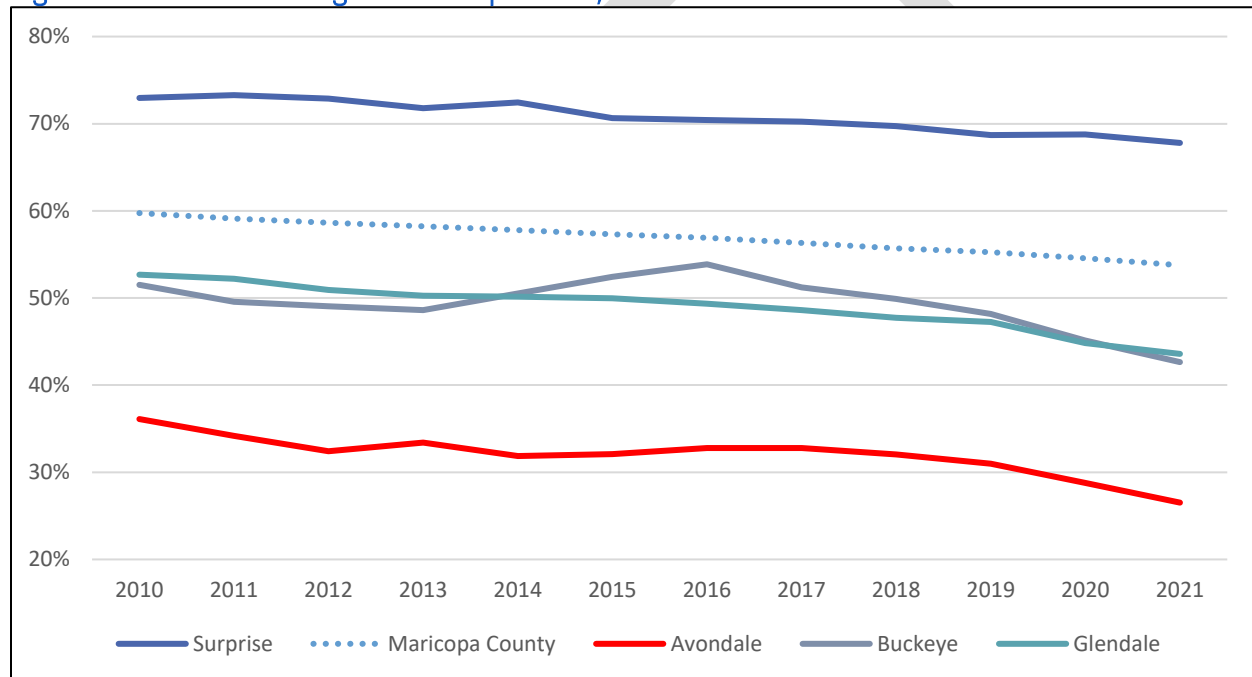
Source: Five-year American Community Survey (2021)



Population Racial/Ethnic Composition

Consistent with broader trends, Surprise became more racially/ethnically diverse from 2010 to 2021. During this period, whites fell from 73% to 68% of Surprise residents (see Figure 11), despite increasing in absolute population size by over 20,000. Surprise's increased diversity, then, has primarily resulted from the fact that Hispanics have outpaced whites in relative population growth. Over the same 11-year interval, the city's Hispanic population grew by 58%, and today, 21% of Surprise residents identify as Hispanic (see Figure 12). **Nevertheless, Surprise ranks among the least diverse communities in the region.** Overall, 54% of Maricopa County residents are white, and in some municipalities, such as Avondale, Buckeye, and Glendale, Hispanics either outnumber or are nearly equal to whites in population. Given the relationship between race/ethnicity and economic status, as Surprise continues to diversify, policymakers and stakeholders will likely need to do more to address housing affordability challenges.

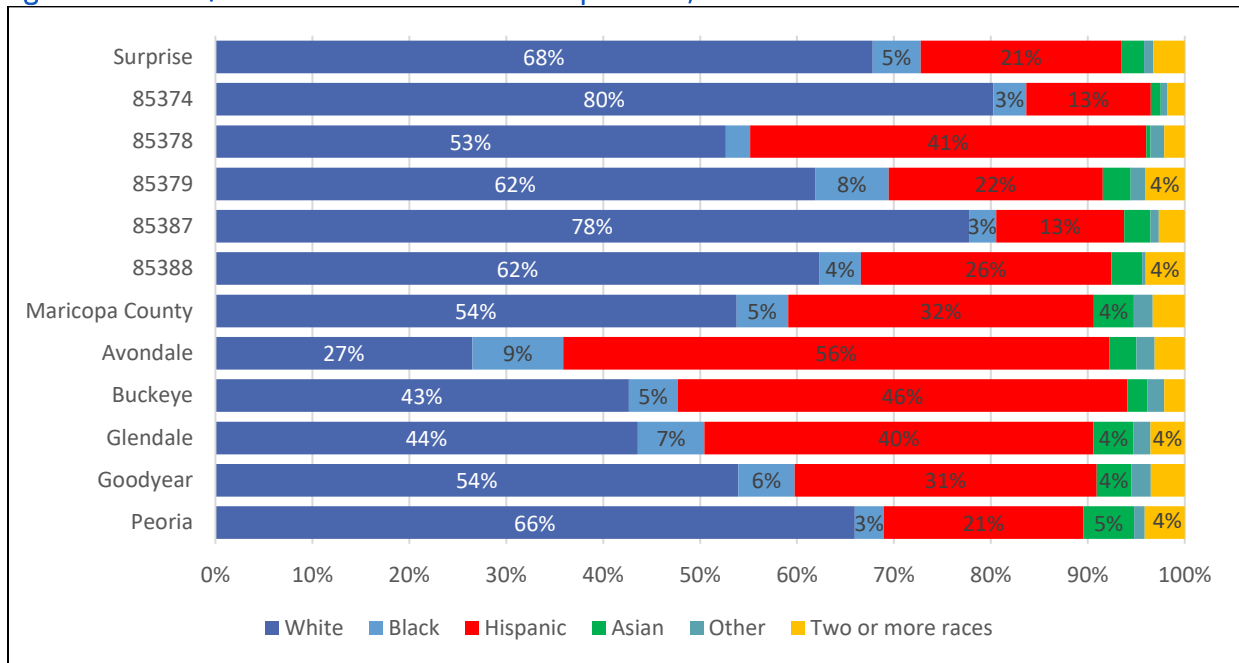
Figure 11. White Percentage of the Population, 2010 to 2021



Source: Five-year American Community Survey (2010 to 2021)

“Given the relationship between race/ethnicity and economic status, as Surprise continues to diversify, policymakers and stakeholders will likely need to do more to address housing affordability challenges.”

Figure 12. Racial/Ethnic Breakdown of the Population, 2021



Source: Five-year American Community Survey (2021)

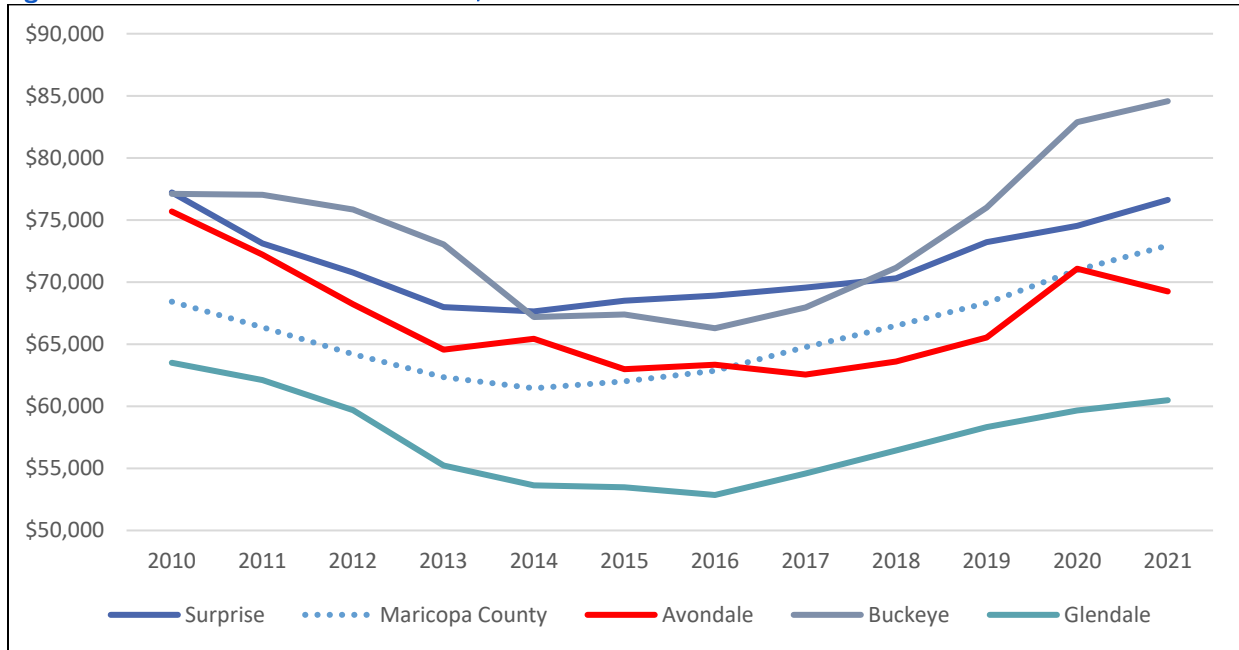
Household Income

A detailed analysis of household income offers preliminary insight into the capacity of residents of varying demographic backgrounds and socioeconomic status to afford housing. Figure 13 displays median household income estimates for Surprise, Maricopa County, and three other West Valley cities. Note that dollar values for 2010 to 2020 were adjusted for inflation to reflect real 2021 dollars. **In 2021, median household income in Surprise climbed to \$76,623, second only to Buckeye, continuing the trend of steady wage growth that began in 2014, when the Great Recession’s lingering effects finally abated.** The typical Surprise household has consistently fared better than its Avondale, Glendale, and Maricopa County counterparts. However, whereas Maricopa County has closed its income gap with Surprise in recent years, the opposite has been true for Avondale and Glendale. **Recent trends indicate that median household income is likely to decline slightly from its 2021 level in the coming years but stay within a narrow range that exceeds the historical average of \$71,533 (see Figure 14).**

“The typical Surprise household has consistently fared better than its Avondale, Glendale, and Maricopa County counterparts. However, whereas Maricopa County has closed its income gap with Surprise in recent years, the opposite has been true for Avondale and Glendale.”



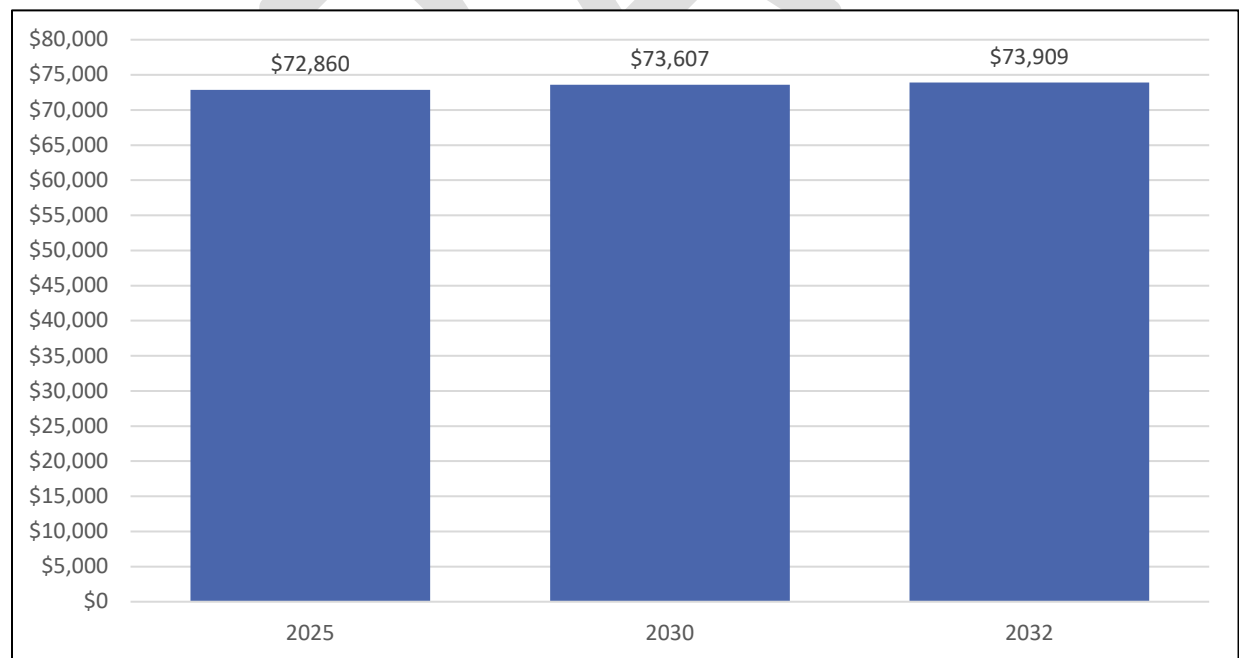
Figure 13. Median Household Income, 2010 to 2021



Source: Five-year American Community Survey (2010-2021); Matrix Design Group, Inc.

Note: Dollar values adjusted for inflation to constant 2021 dollars.

Figure 14. Median Household Income Projections for Surprise, 2025 to 2032

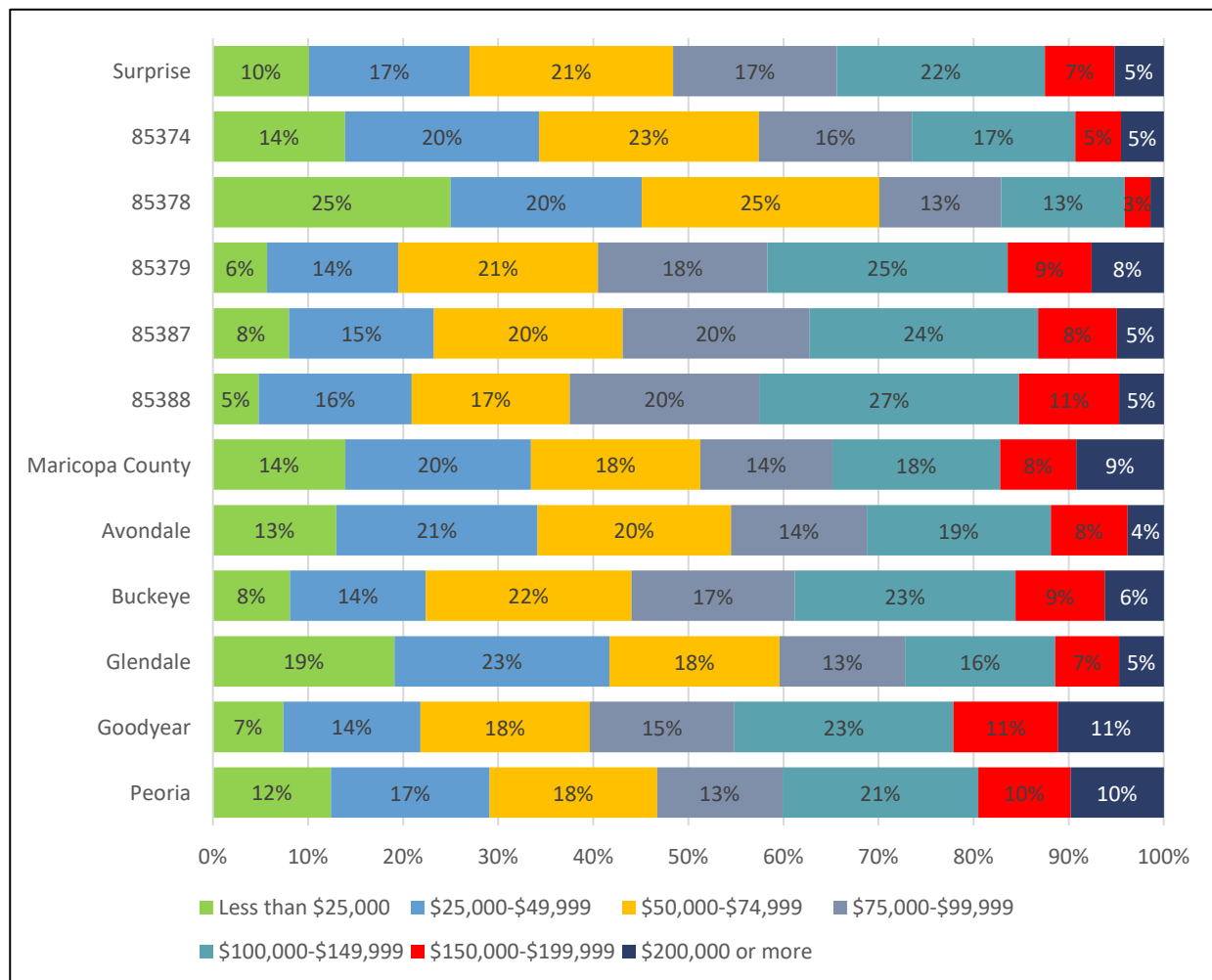


Source: Matrix Design Group, Inc.

Source: Dollar values adjusted for inflation to constant 2021 dollars.

Figure 15 features household income distributions for the regions of interest. For context, the federal poverty line for a family of four was \$26,500 in 2021. 11% of households earn less than \$25,000, compared to 15% for Maricopa County, 14% Avondale, 8% for Buckeye, and 19% for Glendale. Of the four Surprise zip codes, 85378 has the highest share of households with incomes below this critical threshold. Conversely, a mere 5% of households in 85388 earn less than \$25,000. **With 39% of its households earning between \$50,000 and \$99,000, Surprise is more middle class-oriented than most of Maricopa County.** Higher shares of homes in Buckeye and Maricopa County earn \$100,000 or more. Within Surprise, these more affluent households are most prevalent in 85388, where they represent 43% of all households.

Figure 15. Household Income Distribution, 2021



Source: Five-year American Community Survey (2021)

Table 3 classifies Surprise households into one of six income brackets as a percentage of area median income (AMI) for the Phoenix-Mesa-Scottsdale Metropolitan Statistical Area. In 2021, when AMI was \$79,000, 19% of Surprise households were considered either extremely low or very low income, meaning they earned 50% of AMI (\$39,500) or less. This represented a marginal decline from 2016. **The**



percentages of extremely low- and very low-income households will likely remain relatively stagnant through 2032, during which time the city is projected to add over 18,000 households in total. Despite growing as a proportion of all households between 2016 and 2021, households in the tax subsidy limits/low-income and high-income categories, which earned from \$39,500 to \$63,199 and \$94,800 to \$157,999 in 2021, respectively, are expected to follow a similar trend. **Whereas middle-income households are forecasted to drop from 24% to 21% of households between 2021 and 2032, extremely high-income households, which earned at least \$158,000 in 2021, are anticipated to rise to 16% of households in 2032, reversing the decline that occurred over the previous five years.**

Table 3. Actual and Projected Breakdown of Households by Income Tier in Surprise, 2016 to 2032

Income Tier	2016	2021	2025	2030	2032
Number of Households					
Extremely low income (0-29.9% AMI)	4,224	4,880	5,351	6,083	6,403
Very low income (30-49.9% AMI)	5,006	5,082	5,882	6,335	6,526
Tax subsidy limits/low income (50-79.9% AMI)	8,535	10,018	10,970	12,389	13,006
Middle income (80-119.9% AMI)	10,741	12,373	13,043	14,397	14,978
High income (120-199.9% AMI)	11,380	13,382	14,766	17,174	18,244
Very high (200%+ AMI)	6,361	6,471	8,144	10,283	11,288
Total	46,246	52,205	58,156	66,661	70,444
Percent of Households					
Extremely low income (0-29.9% AMI)	9%	9%	9%	9%	9%
Very low income (30-49.9% AMI)	11%	10%	10%	10%	9%
Tax subsidy limits/low income (50-79.9% AMI)	18%	19%	19%	19%	18%
Middle income (80-119.9% AMI)	23%	24%	22%	22%	21%
High income (120-199.9% AMI)	25%	26%	25%	26%	26%
Very high (200%+ AMI)	14%	12%	14%	15%	16%
Total	100%	100%	100%	100%	100%
AMI	\$71,000	\$79,000	\$78,000	\$77,400	\$77,200

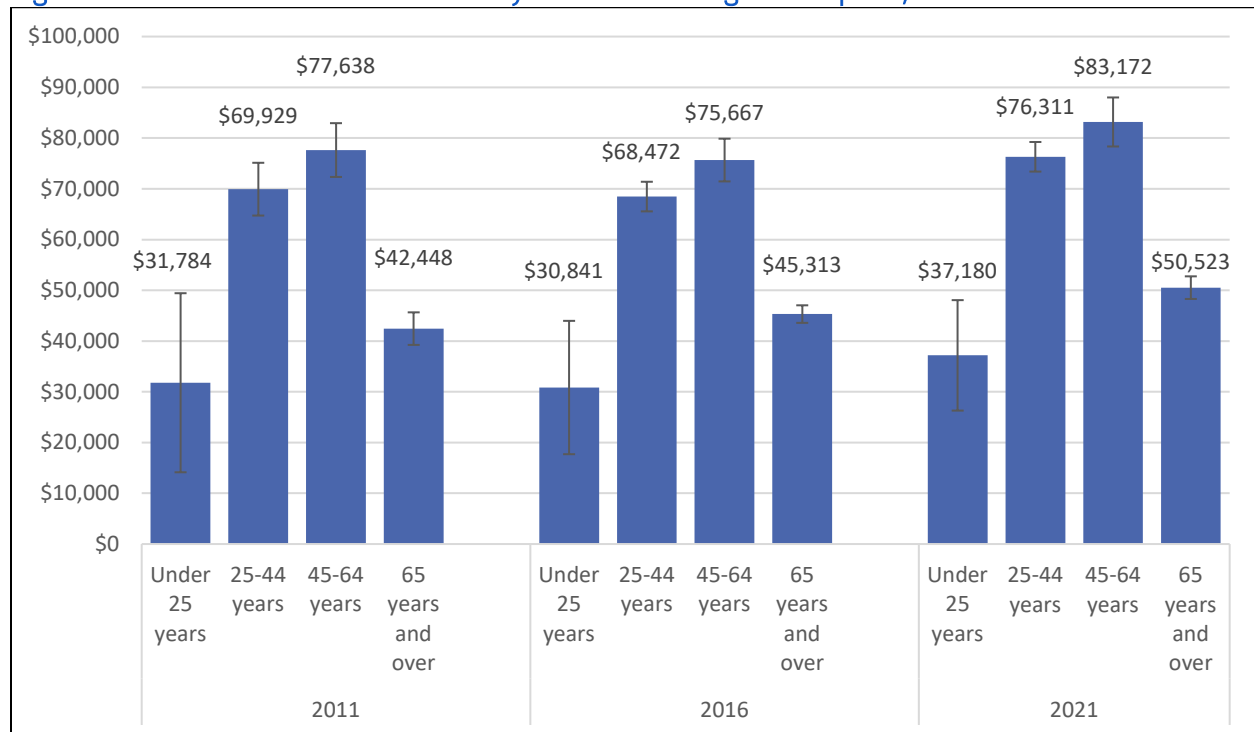
Source: Five-year American Community Survey (2016 and 2021); Department of Housing and Urban Development; Matrix Design Group, Inc.

Note: Dollar values adjusted for inflation to constant 2021 dollars.

Household Income by Age

How does household income vary depending on the age of the householder? Figure 16 offers insight into this question by displaying median household income estimates for four age categories over time. Note that because the sample sizes for the under-25 category are small, there is considerable statistical uncertainty surrounding the estimates, as indicated by the large 95% confidence intervals. The data reveal a predictable pattern. Median income is highest among households headed by 45-to-64-year-olds, reaching \$83,172 in 2021, followed closely by those headed by 25-to-44-year-olds. **Incomes tend to be markedly lower among senior-led households, but households headed by individuals below the age of 25, whose earnings barely exceeded \$37,000 in 2021, face an even more dire situation.** From 2011 to 2016, senior-led households were the only age group to experience an increase in median income, but all households regardless of householder age saw their median incomes rise in the years that followed.

Figure 16. Median Household Income by Householder Age in Surprise, 2011 to 2021



Source: Five-year American Community Survey (2011, 2016, and 2021); Matrix Design Group, Inc.

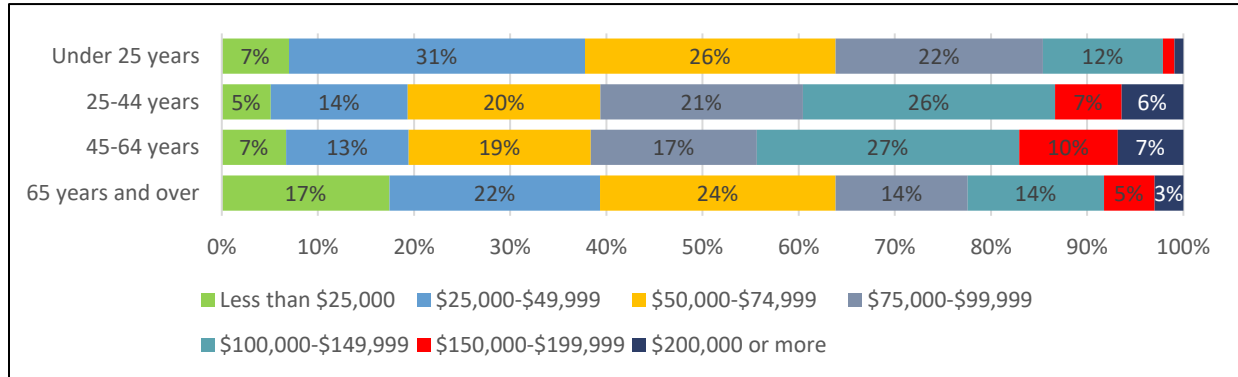
Note: Error bars are 95% confidence intervals. Dollar values adjusted for inflation to constant 2021 dollars.

The income distributions by householder age offer similar takeaways (see Figure 17). Incomes of less than \$50,000 are most prevalent in the under-25 and over-64 age categories, and only 14% and 22% of these households, respectively, report incomes of \$100,000 or more. A plurality of the youngest and oldest households earn between \$50,000 and \$74,999. Unlike their counterparts at either end of the age spectrum, a majority of households led by 25-to-44-year-olds and 45-to-64-year-olds earn over \$75,000. The highest-earning households are concentrated in the two middle age categories. **The limited and,**



often, fixed incomes of seniors and young people suggest that efforts to improve housing affordability should place particular emphasis on aiding these two vulnerable groups.

Figure 17. Household Income Distribution by Householder Age in Surprise, 2021

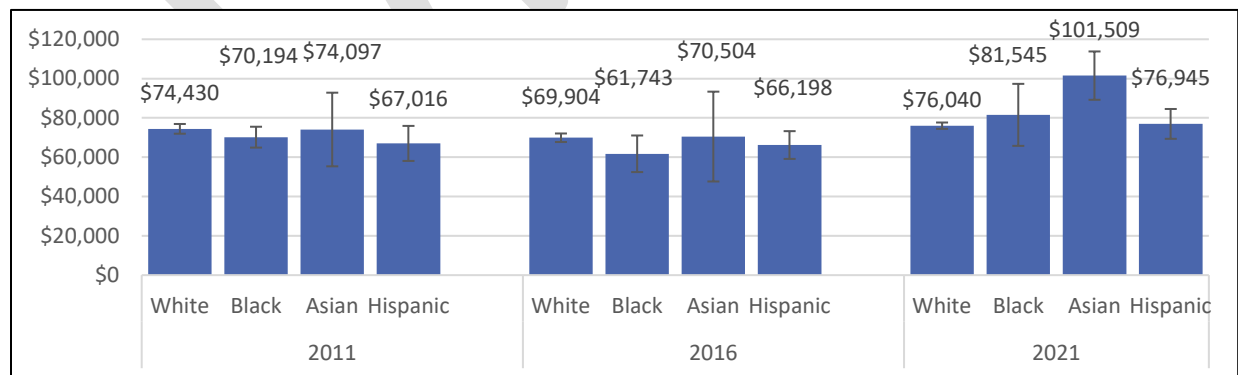


Source: Five-year American Community Survey (2021)

Household Income by Race/Ethnicity

The relationship between householder race/ethnicity and household income is depicted in Figures 18 and 19. Income estimates for minority-led households should be interpreted with caution, as the small sample sizes for Asians, blacks, and Hispanics yielded large confidence intervals. Nonetheless, the data offer useful insight. White median household income dropped from \$74,430 in 2011 to \$69,904 in 2016, before recovering to \$76,040 in 2021. Asians, too, experienced a temporary decline in median household income from 2011 to 2016, when their earnings were comparable to those of whites. But between 2016 and 2021, Asian median household income climbed to \$101,509—a 44% increase that significantly outpaced the rate of white median household income growth. Black- and Hispanic-led households enjoyed increases in earnings over the period as well. In fact, their median incomes surpassed those of white-led households in 2021.

Figure 18. Median Household Income by Householder Race/Ethnicity in Surprise, 2011 to 2021

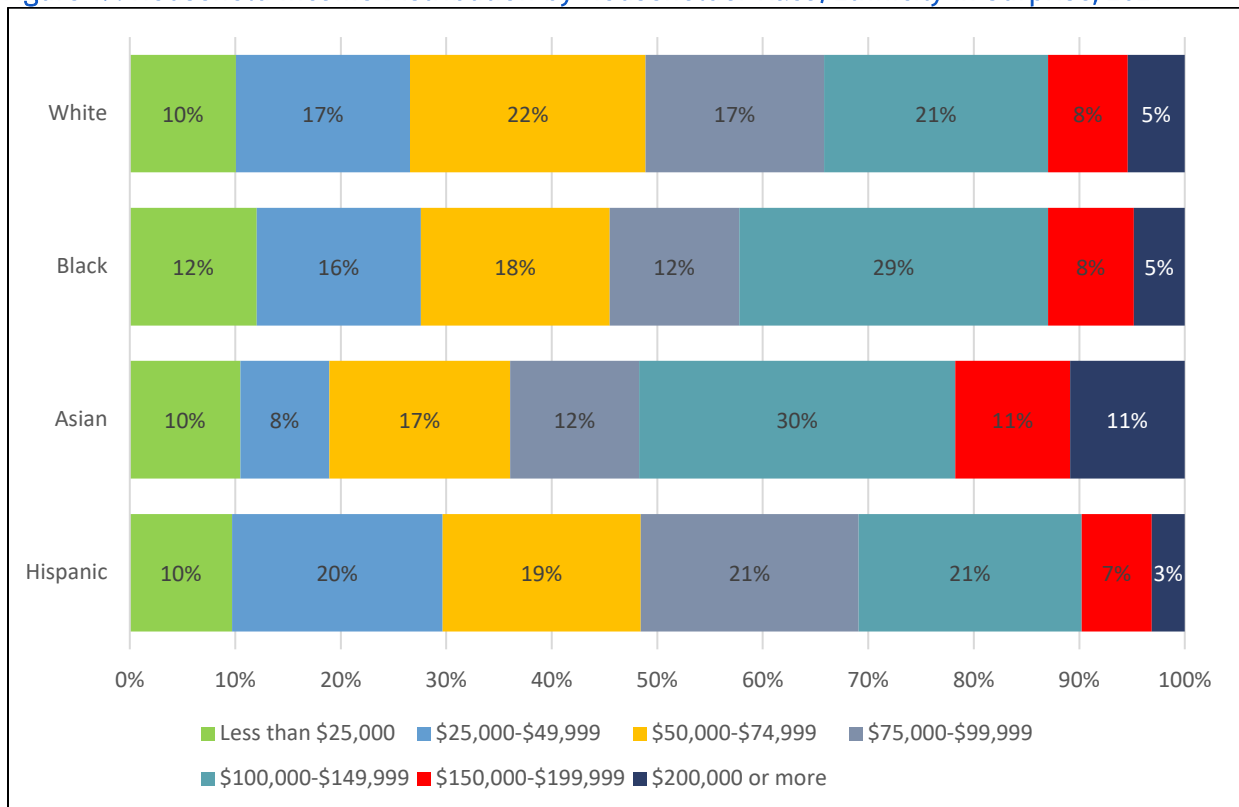


Source: Five-year American Community Survey (2011, 2016, and 2021)

Note: Dollar values adjusted for inflation to constant 2021 dollars. Error bars represent 95% confidence intervals.

Although the economic fortunes of black-led households have improved significantly in recent years, a disproportionate share of them continue to live in extreme poverty. **9% of black-led households earn less than \$15,000, compared to 5% of white- and Hispanic-led households and 2% of Asian-led households.** The income distribution data also reinforce the notion that the most affluent households in Surprise are headed by Asians. Indeed, their incomes are skewed toward the higher end of the spectrum, with 52% of them reporting incomes of \$100,000 or more. Unexpectedly, proportionally fewer whites and Hispanics fall into this income category than blacks.

Figure 19. Household Income Distribution by Householder Race/Ethnicity in Surprise, 2021



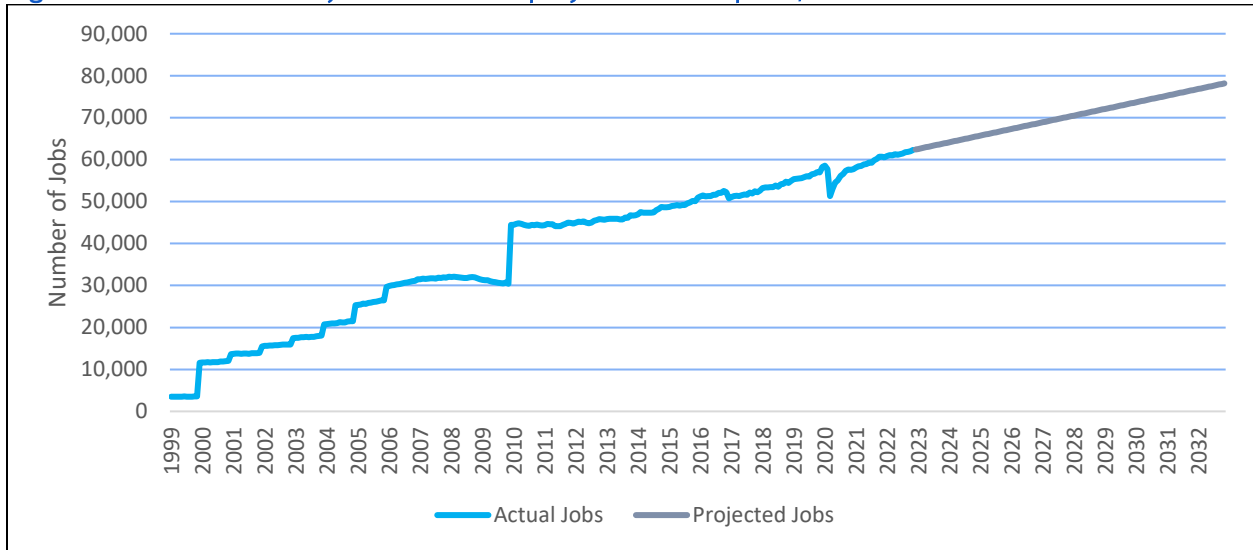
Source: Five-year American Community Survey (2021)

Employment Growth

The dramatic growth that Surprise's economy has experienced over time is pictured in Figure 20. In 2000, Surprise's economy supported 11,763 jobs. By 2010, that number had increased by 278%, to 44,485. Surprise continued to experience steady growth in the 2010s, adding just short of 12,000 jobs over the span of a decade. As of 2022, a total of 61,375 jobs existed in Surprise. Naturally, further population growth is anticipated to bring continued job growth. **From 2023 to 2032, employers are expected to create an average of 1,441 new jobs per year, reaching a total of 75,783 by the end of the period.**



Figure 20. Actual and Projected Total Employment in Surprise, 1999 to 2032

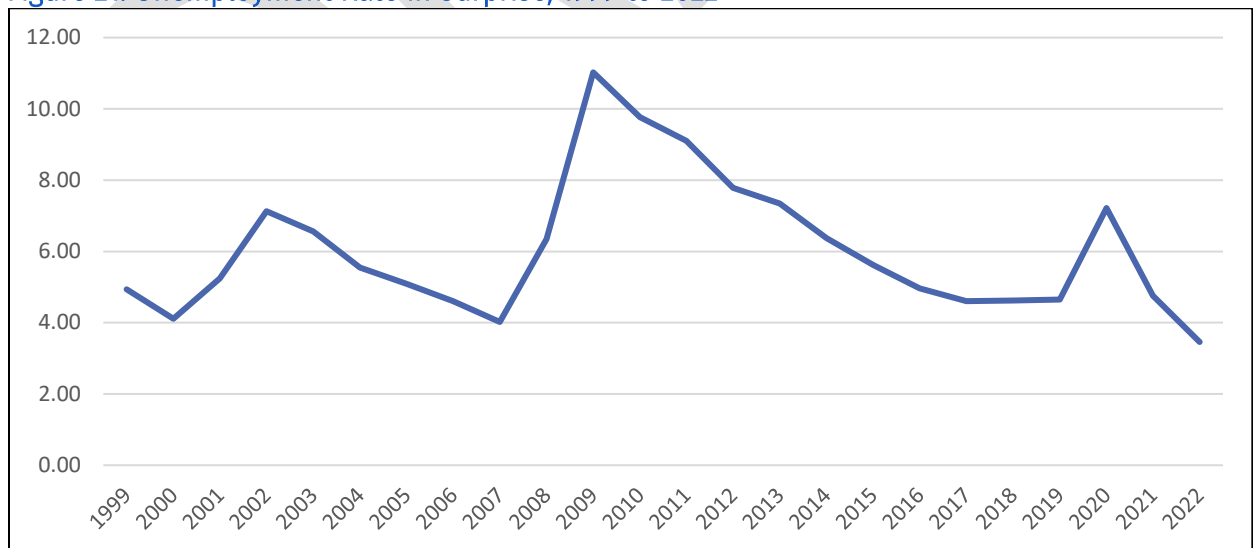


Source: Bureau of Labor Statistics; Matrix Design Group, Inc.

Unemployment

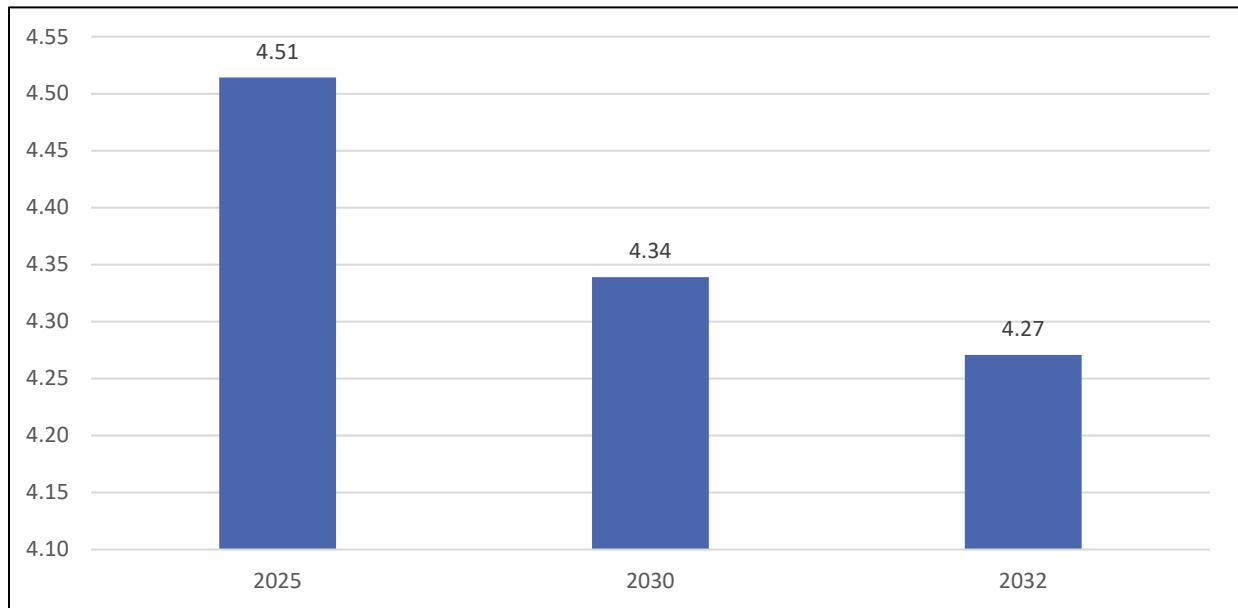
Figures 21 and 22 present unemployment figures for Surprise. From 1999 to 2022, the average unemployment rate was 6.04%. It peaked at 11.03% in 2009, amid the nadir of the Great Recession, before declining each year through 2018. **Subsequently, pandemic-induced lockdowns caused joblessness to sharply rise again, but it has fallen precipitously from its 2020 level of 7.22% since then.** In fact, Surprise recorded its lowest unemployment rate on record in 2022, at 3.46%. The city is projected to continue enjoying unemployment rates below the historical average through 2032.

Figure 21. Unemployment Rate in Surprise, 1999 to 2022



Source: Bureau of Labor Statistics

Figure 22. Projected Unemployment Rate in Surprise, 2025 to 2032



Source: Matrix Design Group, Inc.

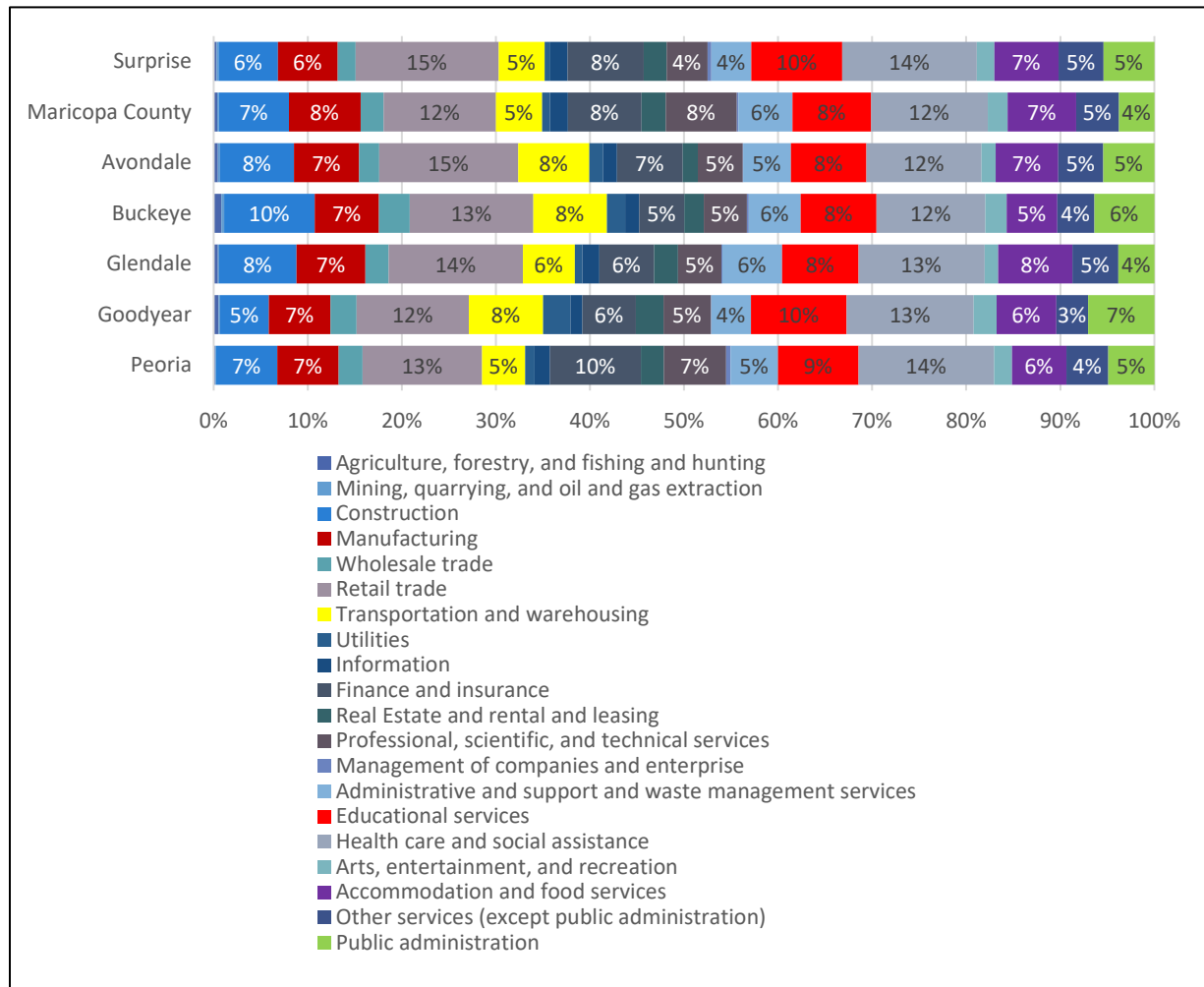
Employed Population by Industry

Figure 23 displays the percentage of residents employed in each industry by community. **Surprise's largest industry is retail trade, followed closely by health care and social assistance.** These industries, which also represent the top two employers among residents of Avondale, Buckeye, Glendale, Goodyear, Peoria, and all of Maricopa County, employ a combined 17,578 Surprise residents, or about 29% of the city's working population. Educational services is another major industry in Surprise, employing 10% of residents. Three industries are virtually nonexistent in Surprise, as well as in the broader region: agriculture, forestry, and fishing and hunting; mining, quarrying, and oil and gas extraction; and management of companies and enterprise. Overall, the industry composition of the employed population does not vary meaningfully from community to community.

"Subsequently, pandemic-induced lockdowns caused joblessness to sharply rise again, but it has fallen precipitously from its 2020 level of 7.22% since then. In fact, Surprise recorded its lowest unemployment rate on record in 2022, at 3.46%."



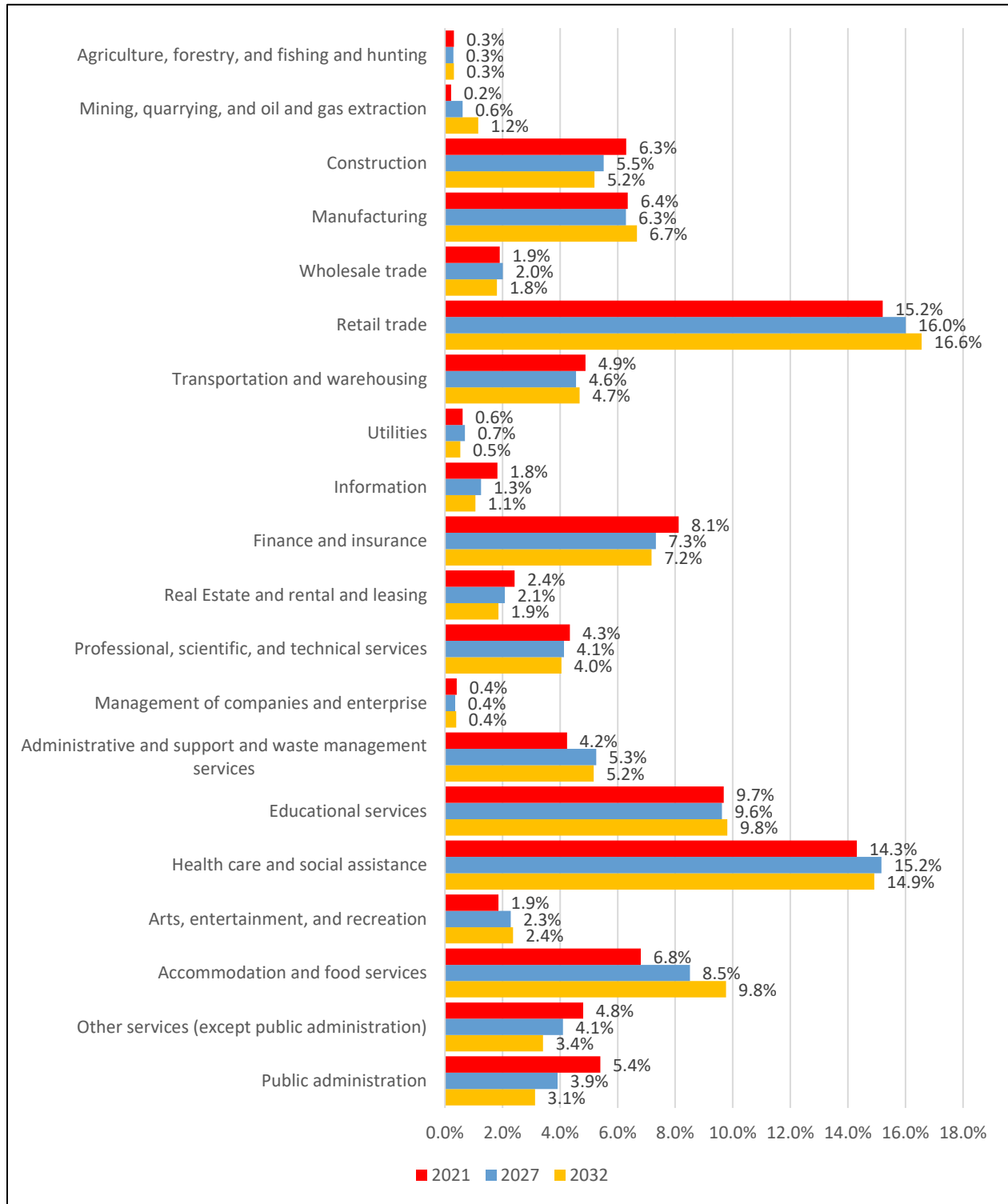
Figure 23. Industry Composition of Employed Population, 2021



Source: Five-year American Community Survey (2021)

Figure 24 reveals how the industry composition of Surprise’s employed population is projected to change over the next decade. Retail trade is expected to cement its status as Surprise’s top industry of employment, accounting for the jobs held by 16.6% of Surprise’s working residents in 2032. Similarly, the share of residents working in health care and social assistance is forecasted to increase to 15.2% in 2027, before dropping to 14.9% five years later. Besides retail trade, four industries will undergo shifts of at least one percentage point: mining, quarrying, and oil and gas extraction; construction; accommodation and food services; and public administration. **In short, the results suggest that Surprise’s economy is likely to change measurably in the coming years.**

Figure 24. Actual and Projected Industry Composition of Surprise's Employed Population, 2021 to 2032



Source: Five-year American Community Survey (2021); Matrix Design Group, Inc.

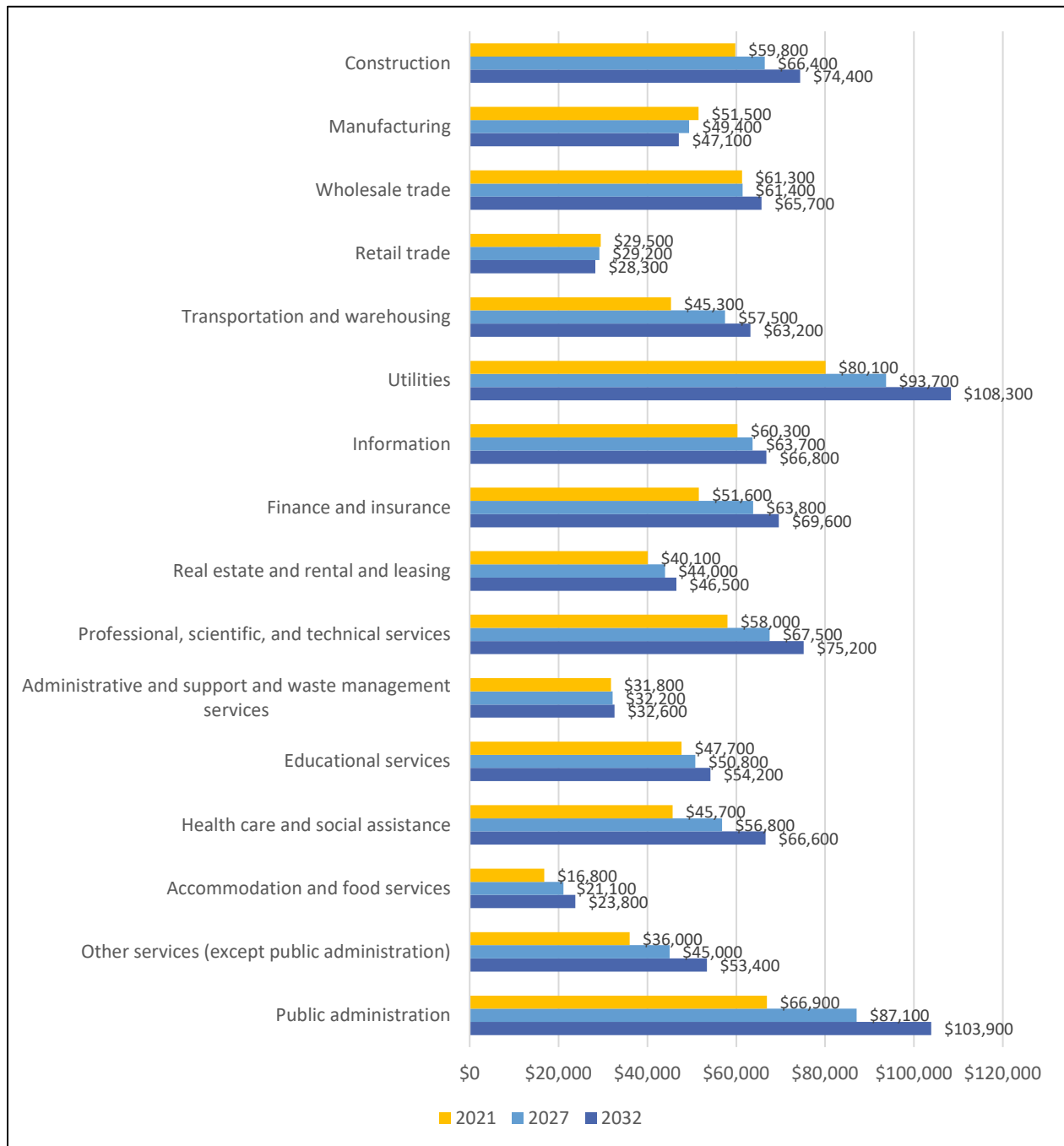


Wages by Industry of Employment

Figure 25 documents the extent to which Surprise residents' median wages by industry of employment are expected to shift from 2021 levels in 2027 and 2032. Note that all earnings estimates are in 2021 real dollars and that unforeseen developments—principally economic downturns—could dramatically alter an industry's outlook. In 2021, residents working in utilities enjoyed the highest median earnings (\$80,100), and recent trends suggest their wages will rise substantially over the short and long term. The median resident employed in this industry is projected to earn \$108,300 by 2032, outpacing most industries in relative wage growth. Residents employed in public administration are predicted to enjoy a pay increase of 55%—the largest of any industry. This trend will be driven by the anticipated decline in their share of the employed population from 5.4% in 2021 to 3.1% in 2032. As a shortage of these workers emerges, they will naturally gain leverage over employers at the negotiating table. Interestingly, despite growing in relative population size, workers in health care and social assistance are likely to see their earnings rise markedly as well. **Just two industries—retail trade and manufacturing—are projected to experience pay cuts over the next decade, but concerningly, they are set to employ approximately 23% of Surprise's working population by the end of the period.**



Figure 25. Actual and Projected Median Annual Earnings by Industry of Employment Among Surprise Residents, 2021 to 2032



Source: Five-year American Community Survey (2021); Matrix Design Group, Inc.

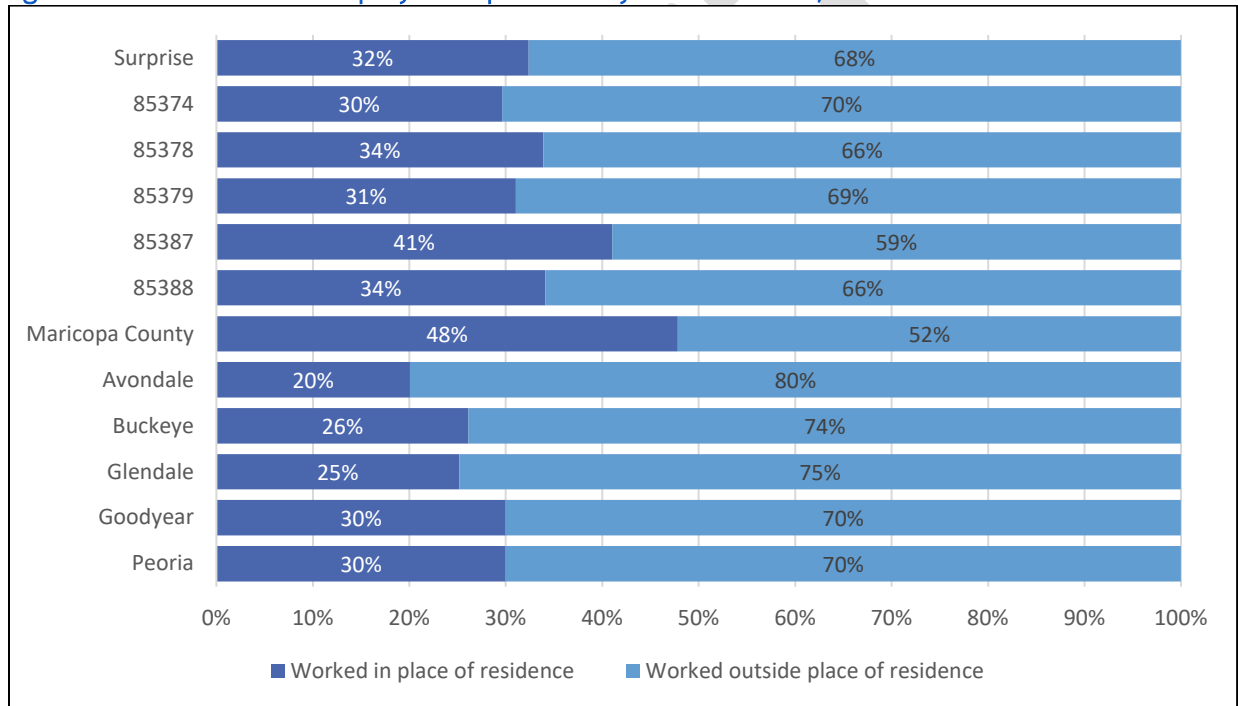
Note: Dollar values adjusted for inflation to constant 2021 dollars. Due to insufficient historical data, median earnings projections are unavailable for agriculture, forestry, and fishing and hunting (2021 median earnings=\$34,625); mining, quarrying, and oil and gas extraction (2021 median earnings=\$74,464); arts, entertainment, and recreation (2021 median earnings=\$25,957); and management of companies and enterprise (2021 median earnings=\$54,185).



Commuting Patterns

An initial comparison of the commuting behaviors of Surprise residents and residents throughout the region appears in Figure 26. It shows that the workplaces of 68% of Surprise residents are located beyond the city's borders. For the most part, there is little variance from zip code to zip code, although 85387, where just 59% of residents work in a city other than Surprise, is a clear outlier. In the rest of Maricopa County, residents are 16 percentage points less likely than Surprise residents to be out-commuters. **Across the West Valley, however, Surprise is not unique in having such a high percentage of out-commuters.** In each of the five other cities represented in the figure, the share of residents who work outside their places of residence is even higher than in Surprise, ranging from 70% to 80%.

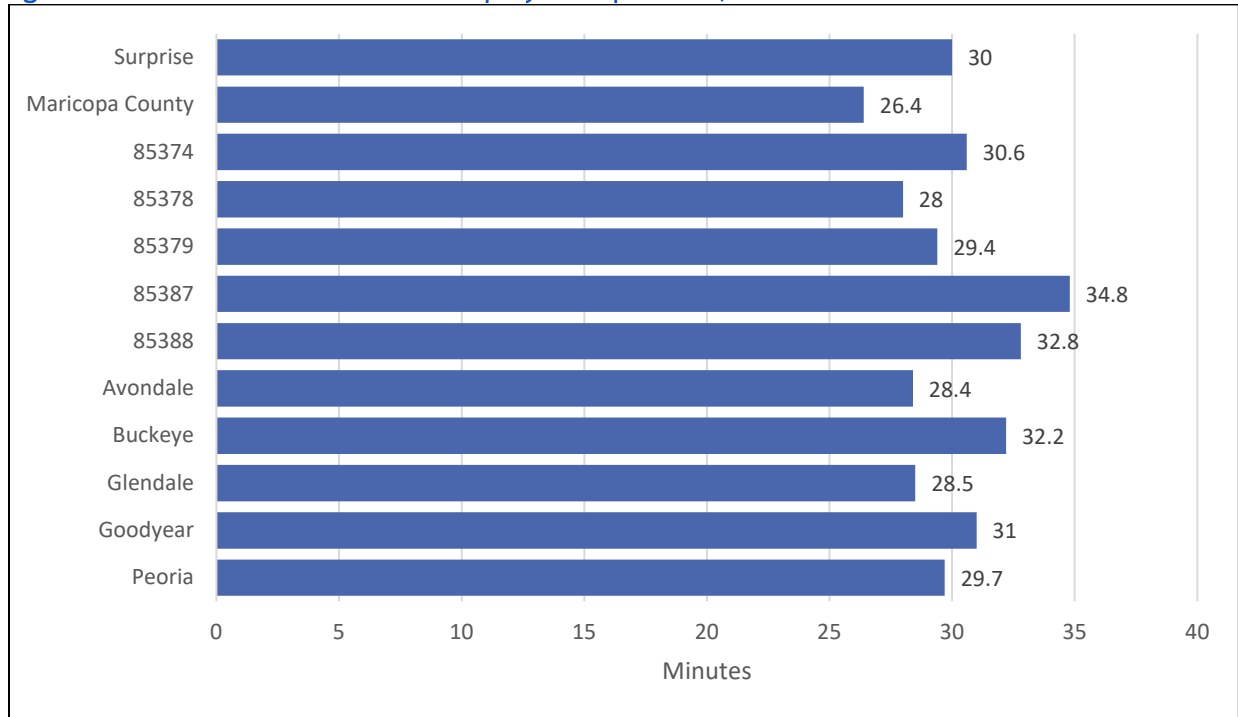
Figure 26. Breakdown of Employed Population by Place of Work, 2021



Source: Five-year American Community Survey (2021)

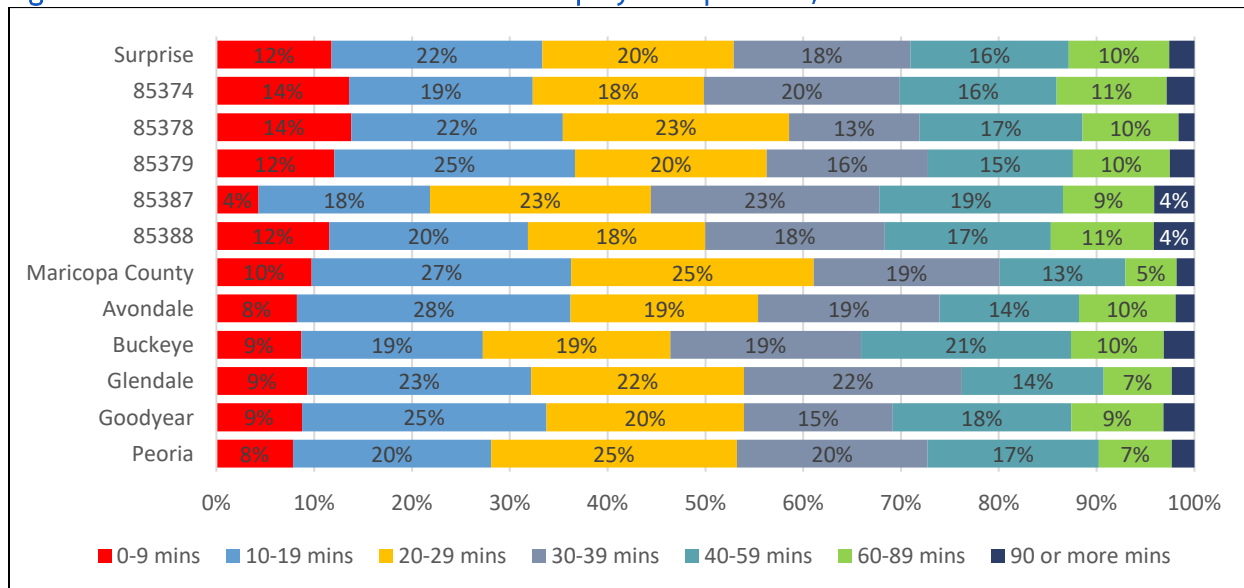
Figures 27 and 28 present commute time data by community. On average, Surprise residents spend 30 minutes traveling to work, but the commutes of those living in two zip (85387 and 85388) tend to be three to five minutes longer. The commute of the average Maricopa County resident (26.4 minutes) is shorter than that of the typical worker living in not just Surprise, but the West Valley more broadly. 47% of Surprise residents report that their commutes take 30 minutes or more, compared to 39% of Maricopa County residents.

Figure 27. Mean Commute Time of Employed Population, 2021



Source: Five-year American Community Survey (2021)

Figure 28. Commute Time Distribution of Employed Population, 2021



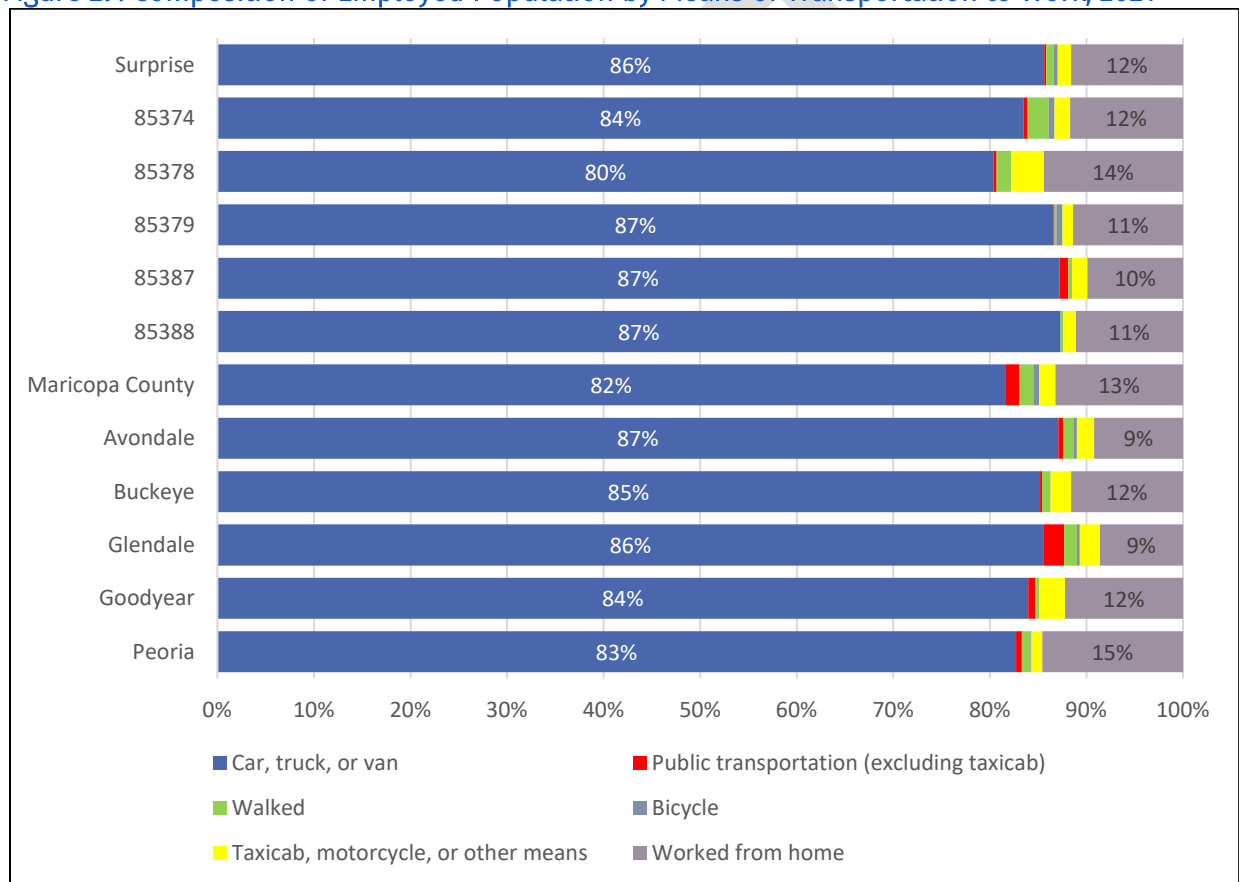
Source: Five-year American Community Survey (2021)

Figure 29 presents data on residents' means of transportation to work by community. Residents of the West Valley in general, but especially Surprise, Avondale, and Glendale, are more dependent on personal automobiles than those of broader Maricopa County. In each of those three cities, between 86%



and 87% of respondents report relying on cars, trucks, or vans to reach work, as opposed to 82% of Maricopa County residents. Surprise's limited public transit options are partly responsible for residents' heavy reliance on personal vehicles. Currently, Surprise lacks a fixed-route bus service allowing residents to travel within the city, but it is directly served by one Valley Metro route (571) featuring stops in El Mirage and Phoenix. **Consequently, while public transit use is low throughout the region, this is especially true in Surprise, where just 0.2% of residents claim to rely on these services for their daily commutes.** Researchers have repeatedly demonstrated that proximity to public transportation with high-frequency service significantly increases property values, with one study finding that homes located within a half mile from rail or bus rapid transit stations are worth between four and twenty-four percent more, on average.¹ As such, the city should strongly consider expanding its public transit offerings.

Figure 29. Composition of Employed Population by Means of Transportation to Work, 2021



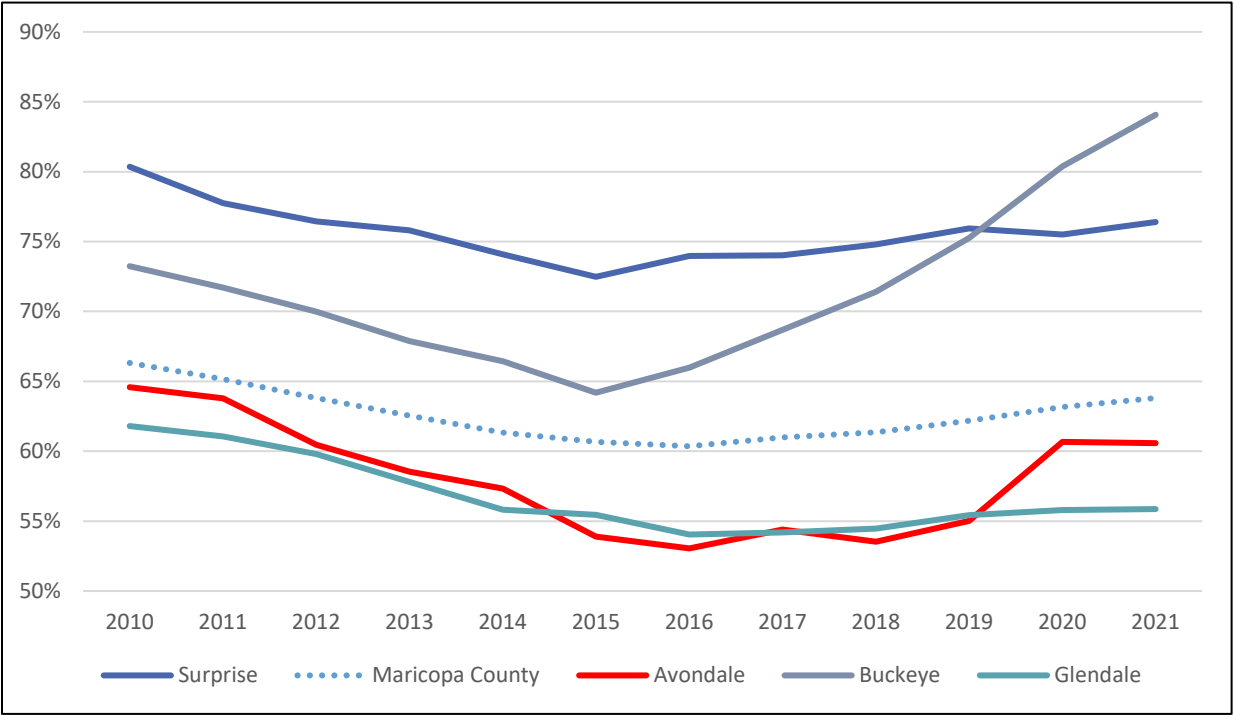
Source: Five-year American Community Survey (2021)

¹ American Public Transportation Association and National Association of Realtors. "The Real Estate Mantra – Locate Near Public Transportation." <https://www.apta.com/wp-content/uploads/The-Real-Estate-Mantra-Locate-Near-Public-Transportation.pdf>.

Housing Tenure

Homeownership is essential to building intergenerational wealth. Fortunately, Surprise has regularly enjoyed one of the higher homeownership rates in Maricopa County (see Figure 30). **Between 2010 and 2015, though, the city’s homeownership rate declined by nearly 10 percentage points, to 72%.** Since then, the homeownership rate has gradually recovered, reaching 76% in 2021. The rest of Maricopa County, including Avondale, Buckeye, and Glendale, witnessed similar trends during this period, although the increase in Avondale’s homeownership rate between 2019 and 2020 was particularly steep. From neighborhood to neighborhood in Surprise, the tenure composition of households varies dramatically. Figure 31 presents Census tract-level estimates of the ownership rate across Surprise. The map shows that homeownership is most common in the city’s northernmost, central, and western neighborhoods.

Figure 30. Homeownership Rate, 2010 to 2021

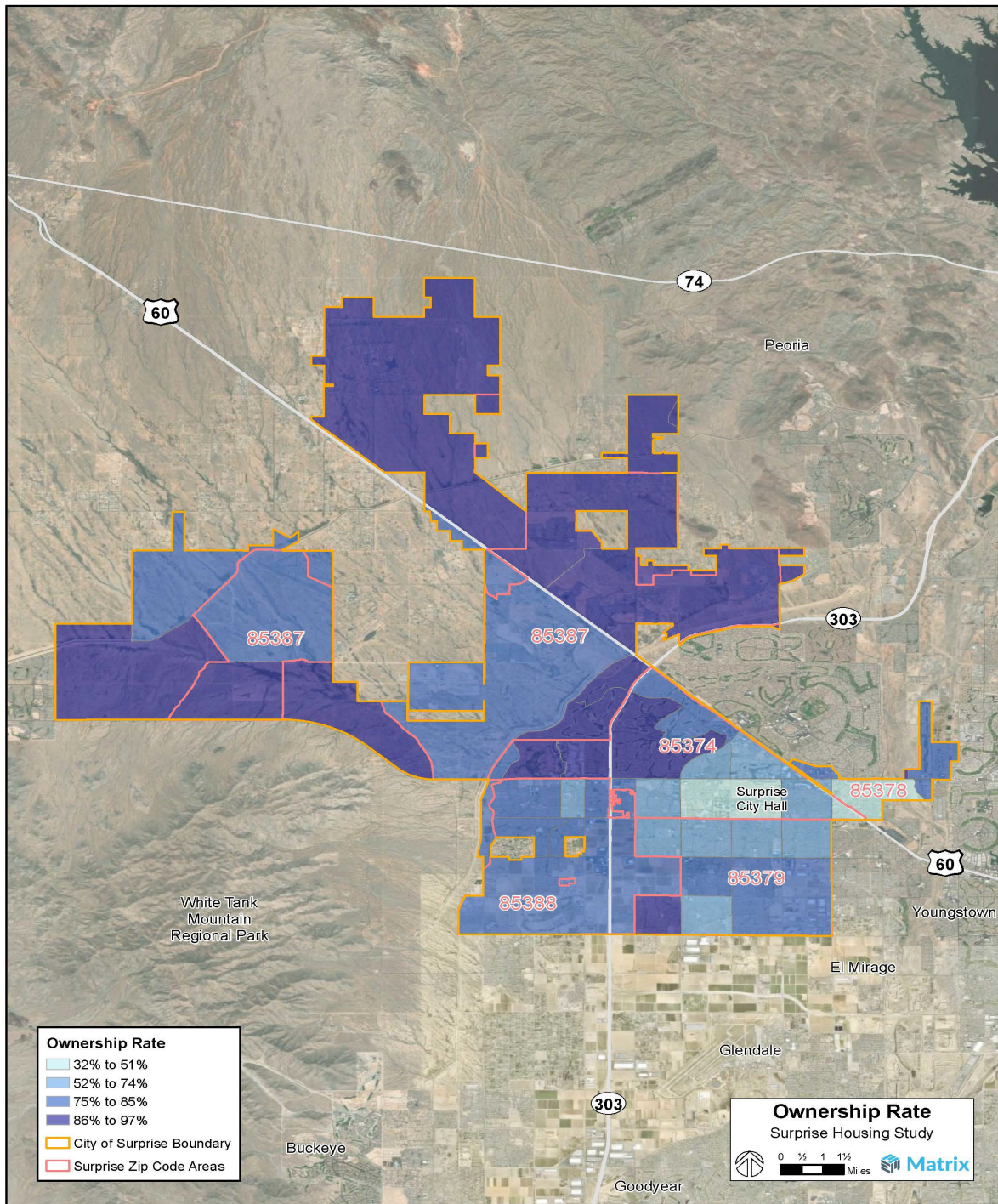


Source: Five-year American Community Survey (2010-2021)

“Researchers have repeatedly demonstrated that proximity to public transportation with high-frequency service significantly increases property values, with one study finding that homes located within a half mile from rail or bus rapid transit stations are worth between four and twenty-four percent more, on average.”



Figure 31. Homeownership Rate by Census Tract in Surprise, 2021

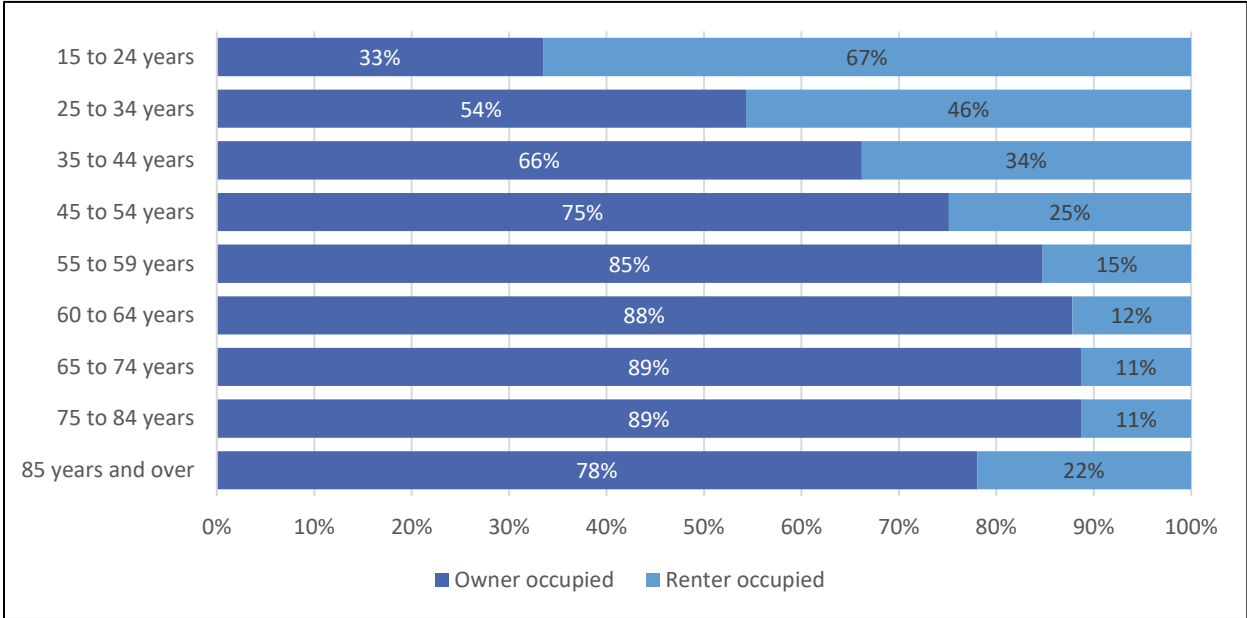


Source: Five-year American Community Survey (2021); Matrix Design Group, Inc.

Housing Tenure by Age

Housing tenure decisions are strongly related to householder age, with older residents tending to be far more likely than younger ones to be homeowners (see Figure 32). For example, whereas 89% of units headed by 65-to-74-year-olds are owner occupied, the same is true of only 54% of those with a 25-to-34-year-old householder. The relationship between the two variables, however, is slightly curvilinear in nature, as evidenced by the decline in homeownership that occurs after the age of 84.

Figure 32. Tenure Breakdown of Surprise Households by Householder Age, 2021



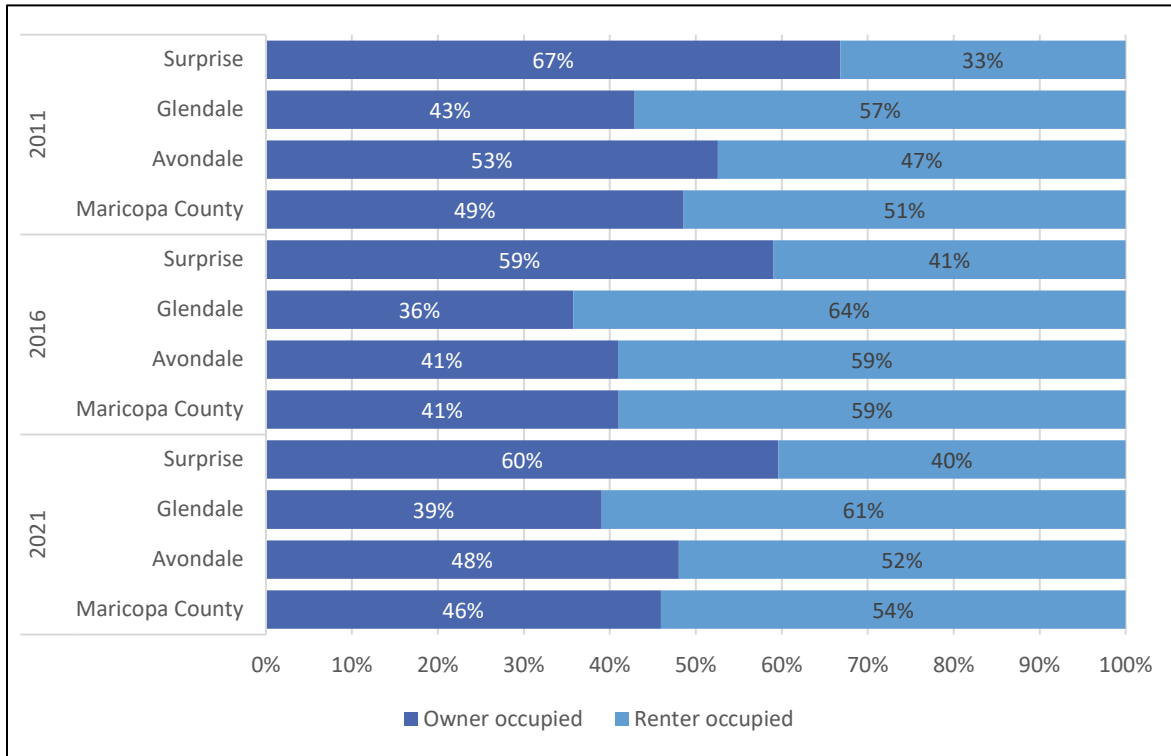
Source: Five-year American Community Survey (2021)

Between 2011 and 2021, the share of householders under the age of 45 who owned their homes fell from 67% to 60% (see Figure 33). **This finding is consistent with research demonstrating that recent developments, including rising home prices (especially in areas with limited supply and rapidly growing populations), burgeoning student debt, and an uncertain labor market, have made homeownership less accessible to millennials and members of Gen Z than it was for previous generations.** Scholars, accordingly, consider these younger householders to be part of “Generation Rent.” The broader region has witnessed a decline in homeownership among younger residents as well, albeit not to the same degree as Surprise. Encouragingly, however, Surprise’s under-45 ownership rate remains substantially higher than the county average.

“The broader region has witnessed a decline in homeownership among younger residents as well, albeit not to the same degree as Surprise.”



Figure 33. Tenure Breakdown of Households Led by Residents Below the Age of 45, 2011 to 2021

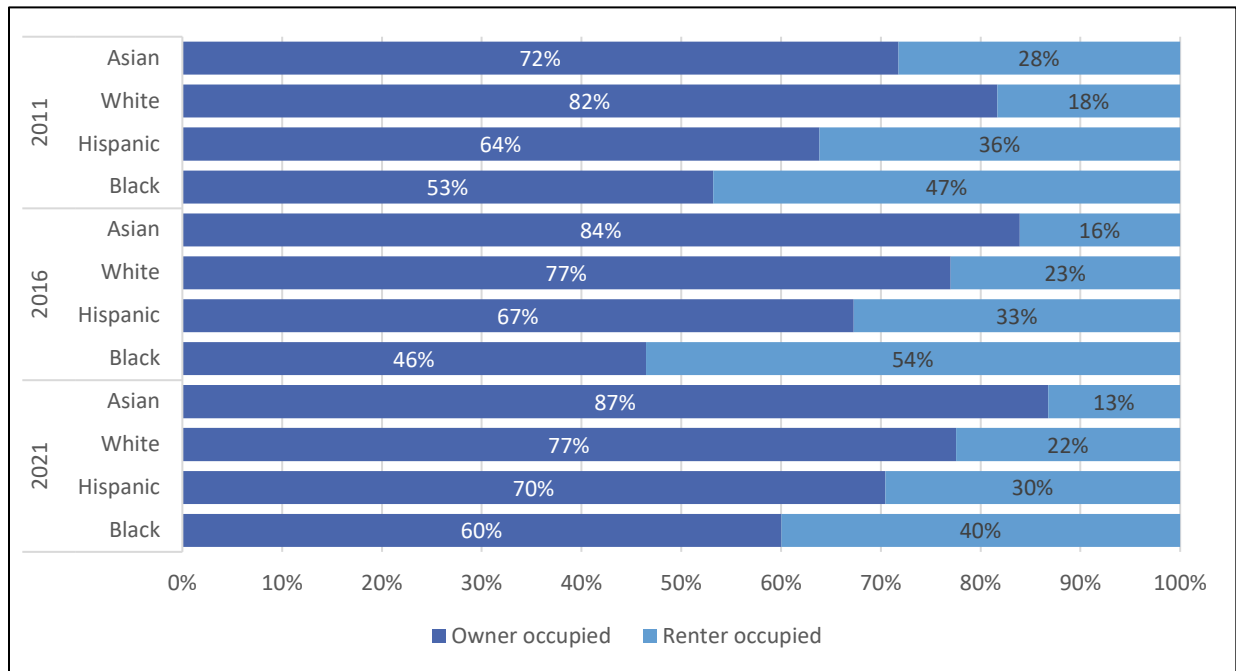


Source: Five-year American Community Survey (2011, 2016, and 2021)

Housing Tenure by Race/Ethnicity

Like practically all U.S. cities, Surprise suffers from racial/ethnic disparities in homeownership, with Asians and whites consistently exhibiting the highest ownership rates (see Figure 34). But with the exception of whites, all groups became more likely to report owning their homes from 2011 to 2021. The white ownership rate, in fact, dropped four percentage points over the period and was nine percentage points lower than the Asian ownership rate by 2021. Although 70% of Hispanic- and 60% of black-led households indicated that they owned their homes that year, the white ownership rate remained substantially higher. Increasing minority ownership rates is integral to closing the racial wealth gap that an abundance of previous research has documented. Indeed, despite making up 60% of the population, whites hold 84% of the nation's wealth. Furthermore, according to the Brookings Institution, the net worth of the median white household is ten times larger than that of the median black household. The nationwide white-black wealth gap, after accounting for the different population sizes of the two racial groups, amounts to a staggering \$10.14 trillion.

Figure 34. Tenure Breakdown by Householder Race/Ethnicity in Surprise, 2011 to 2021



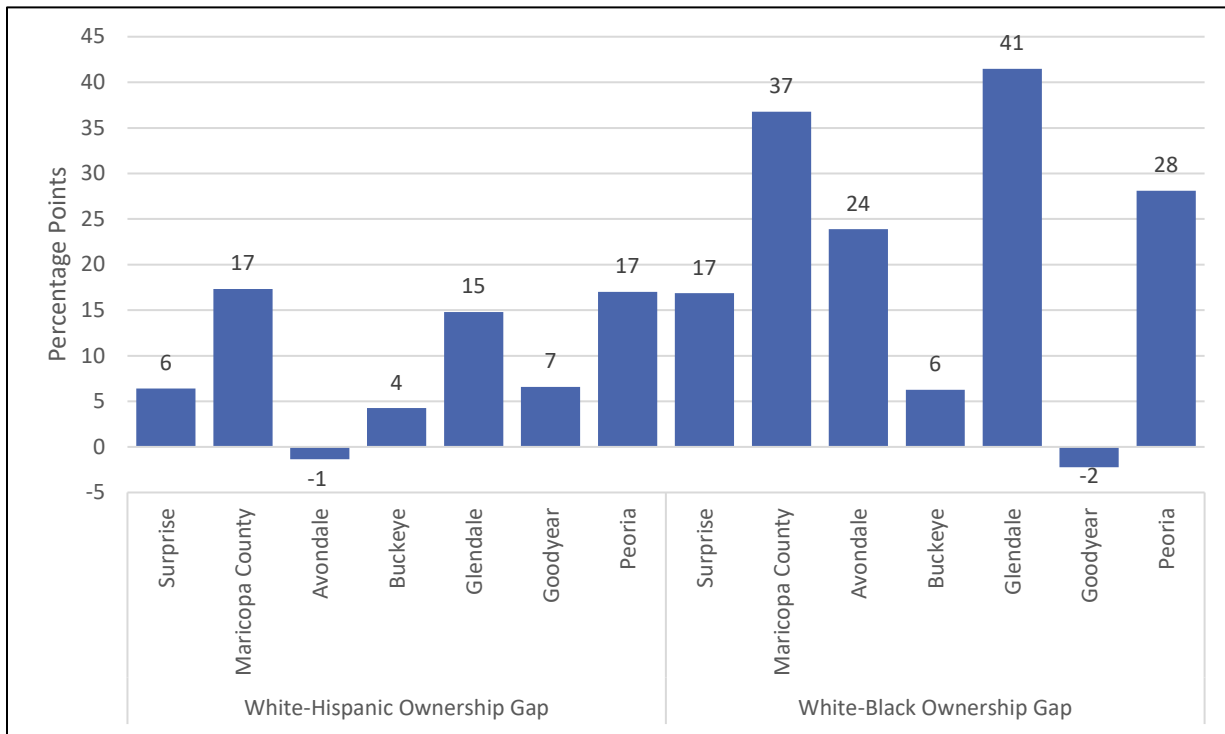
Source: Five-year American Community Survey (2011, 2016, and 2021)

Figure 35 compares the sizes of Surprise’s white-Hispanic and white-black ownership gaps to those of Maricopa County in its entirety and five West Valley municipalities. Positive values indicate that the white ownership rate exceeds the Hispanic or black ownership rates, while negative values indicate the opposite. In Surprise, whites are six percentage points more likely to own their homes than Hispanics. With the exception of Avondale, the remaining regions suffer from disparities of similar or greater magnitude. In general, the white-black ownership gaps are far larger. **White Surprise householders are 17 percentage points more likely than black Surprise householders to own their homes.** Buckeye and Goodyear are the only regions with more equitable black and white ownership rates. Notably, Maricopa County’s gap is an astounding 37 percentage points. In sum, although Surprise’s racial/ethnic ownership disparities are small in comparison to those of many surrounding communities, they are nonetheless sizeable, implying that white Surprise households hold considerably more wealth than their Hispanic and black counterparts.

“In sum, although Surprise’s racial/ethnic ownership disparities are small in comparison to those of many surrounding communities, they are nonetheless sizeable, implying that white Surprise households hold considerably more wealth than their Hispanic and black counterparts.”



Figure 35. White-Hispanic and White-Black Ownership Rate Gaps, 2021



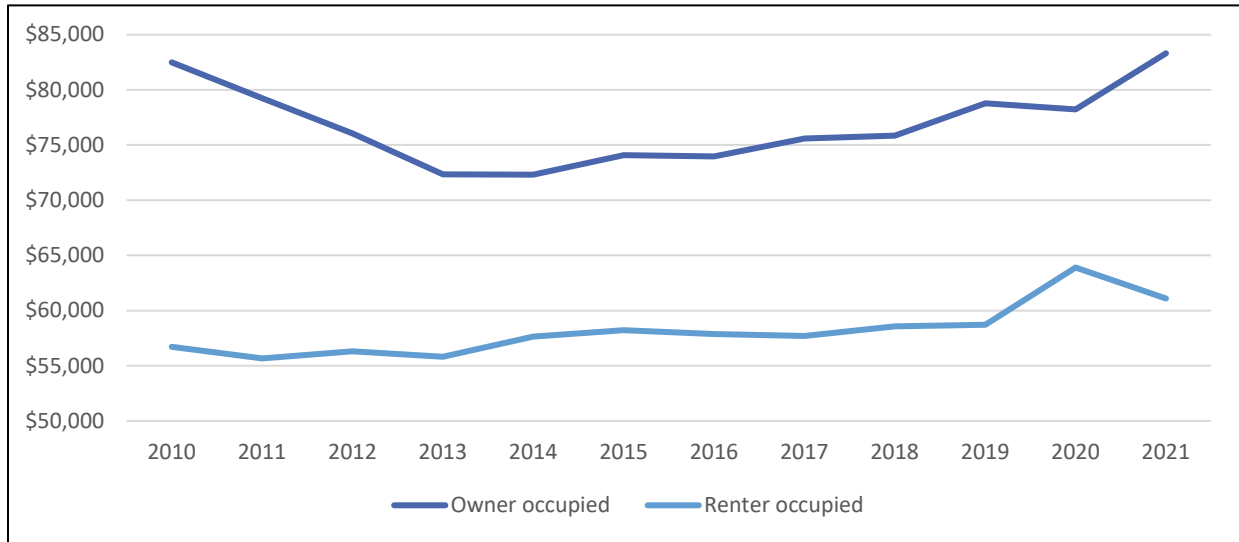
Source: Five-year American Community Survey (2021); Matrix Design Group, Inc.

Household Income by Housing Tenure

The relationship between housing tenure and median household income is depicted in Figures 36 and 37. As expected, homeowners' earnings have consistently exceeded those of renters, although the Great Recession impacted the former far more negatively. **From 2020 to 2021, owner and renter incomes further diverged as pandemic-induced shutdowns led to mass layoffs of service workers, who were disproportionately renters. In the absence of government stimulus payments and expanded unemployment insurance, the income drop-off among renters would have been even steeper.**

Meanwhile, in addition to benefitting from government stimulus, white-collar workers were able to transition to remote work. The wide income disparity between owners and renters is by no means unique to Surprise. In fact, 45% of Maricopa County owner households earn at least \$100,000, compared to just 17% of renter households. In Surprise, nearly half as many renters as owners reach this earnings threshold. Although the share of Surprise renters earning less than \$25,000 (14%) is low in comparison to the rest of the region, the city has proportionally more homeowners in this category than Peoria, Goodyear, and Buckeye as a result of its large senior population.

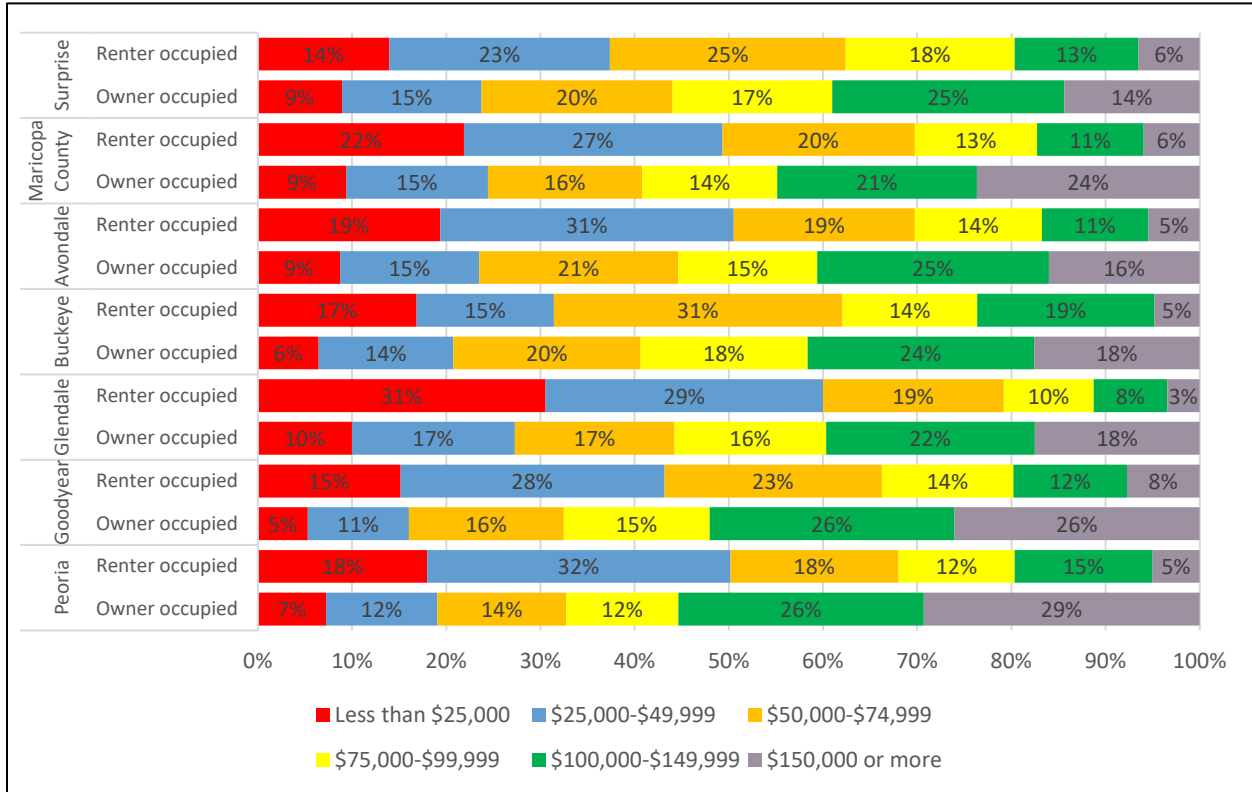
Figure 36. Median Household Income by Tenure in Surprise, 2010 to 2021



Note: Dollar values adjusted for inflation to constant 2021 dollars.

Source: Five-year American Community Survey (2010-2021)

Figure 37. Household Income Distribution by Tenure, 2021



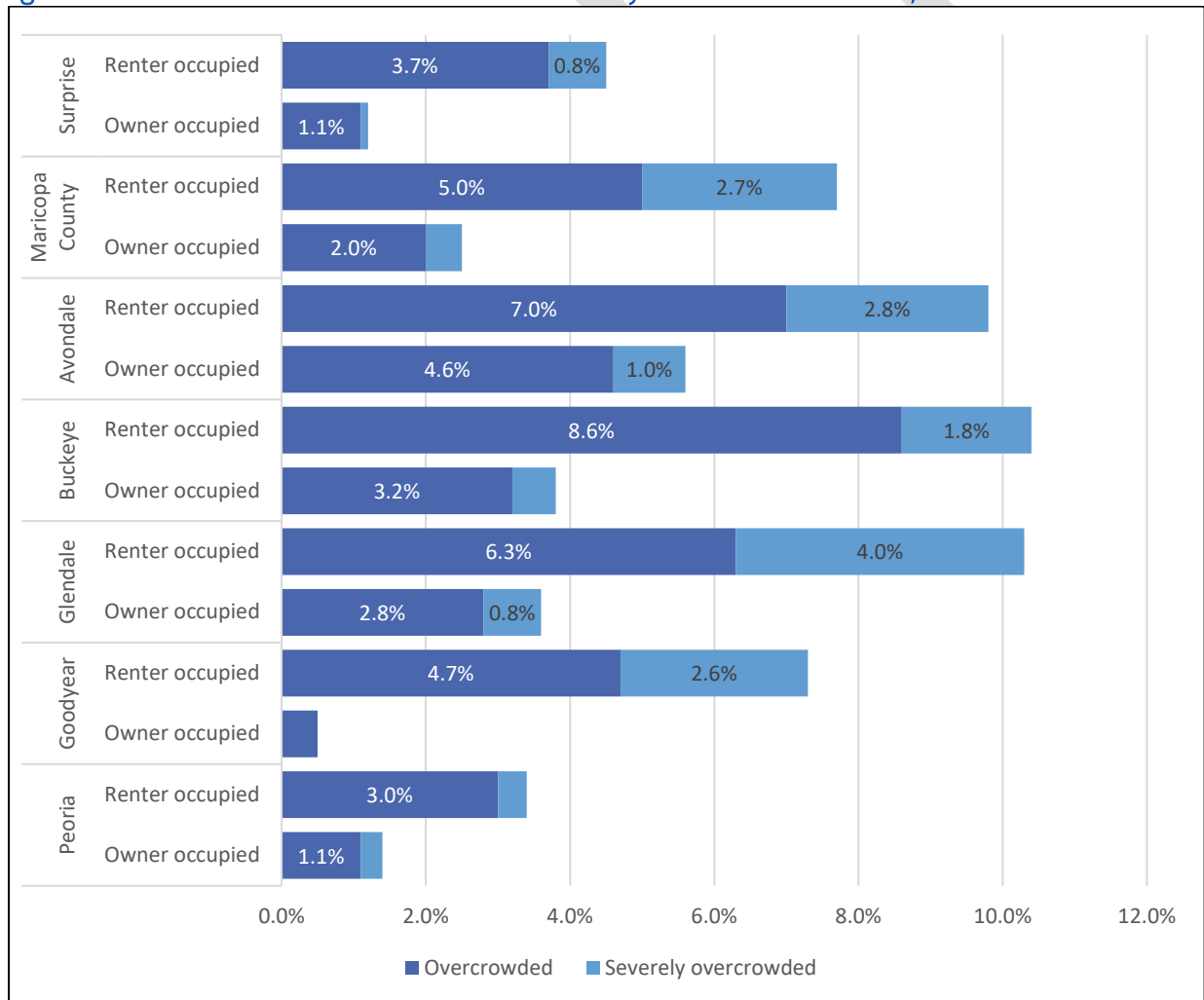
Source: Five-year American Community Survey (2021)



Overcrowding

Fortunately, overcrowding, which has been linked to mental health disorders, poor academic performance, and even an increased risk of contracting infectious diseases, is less common in Surprise than in most of the broader region. 3.7% of renter-occupied units are overcrowded, meaning they have between 1.01 and 1.5 occupants per room. An additional 0.8% of rental units have more than 1.5 occupants per room and thus qualify as severely overcrowded. In contrast, 7.7% of renter-occupied units in Maricopa County as a whole have more than one occupant per room. Renter overcrowding and severe overcrowding occur at even higher rates in Avondale, Buckeye, and Glendale. These findings represent preliminary evidence that rising rents have driven many households throughout the region to live in inadequate homes. Overcrowding is significantly less common in owner-occupied units, including in Surprise, where only 1.2% of owned homes qualify as such. In this regard, only Goodyear fares better. Although encouraging, the results are partly a function of Surprise's age demographics, given that seniors tend to head smaller households.

Figure 38. Prevalence of Overcrowded and Severely Overcrowded Homes, 2021

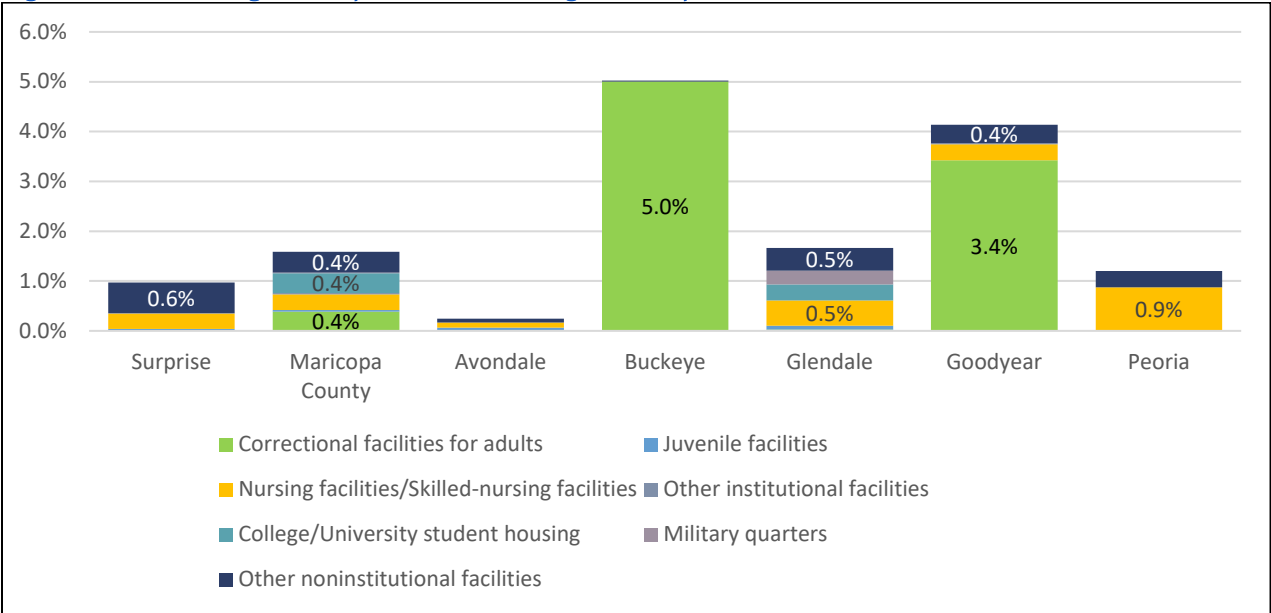


Source: Five-year American Community Survey (2021)

Group Quarters Population

Figure 39 displays the relative size of the group quarters population by community. **Just shy of one percent of Surprise’s population, or 1,390 residents, live in group quarters—a lower rate than those of every jurisdiction except Avondale.** These residents are concentrated in a few neighborhoods located in the central and southern parts of the city (see Figure 40). Due to the presence of state prisons in Buckeye and Goodyear, their group quarters populations dwarf those of Surprise and other nearby communities. Group quarters housing consists of institutionalized and noninstitutionalized facilities, with the primary distinction between the two being that that institutionalized residents are ineligible, unable, or unlikely to participate in the workforce. In Surprise, most of the group quarters population reside in unspecified noninstitutionalized housing, a category that includes emergency/transitional shelters, adult group homes, residential treatment centers, religious group quarters, and domestic violence shelters, among other facilities. Surprise’s institutionalized population includes residents of juvenile facilities and nursing homes.² Despite having the largest relative senior population of the communities of interest, Surprise has fewer nursing home residents as a share of its total population (0.3%) than Peoria and Glendale, implying that alternative forms of senior housing, such as memory care and independent and assisted living communities, are unusually popular in Surprise.

Figure 39. Percentage of Population Residing in Group Quarters, 2020

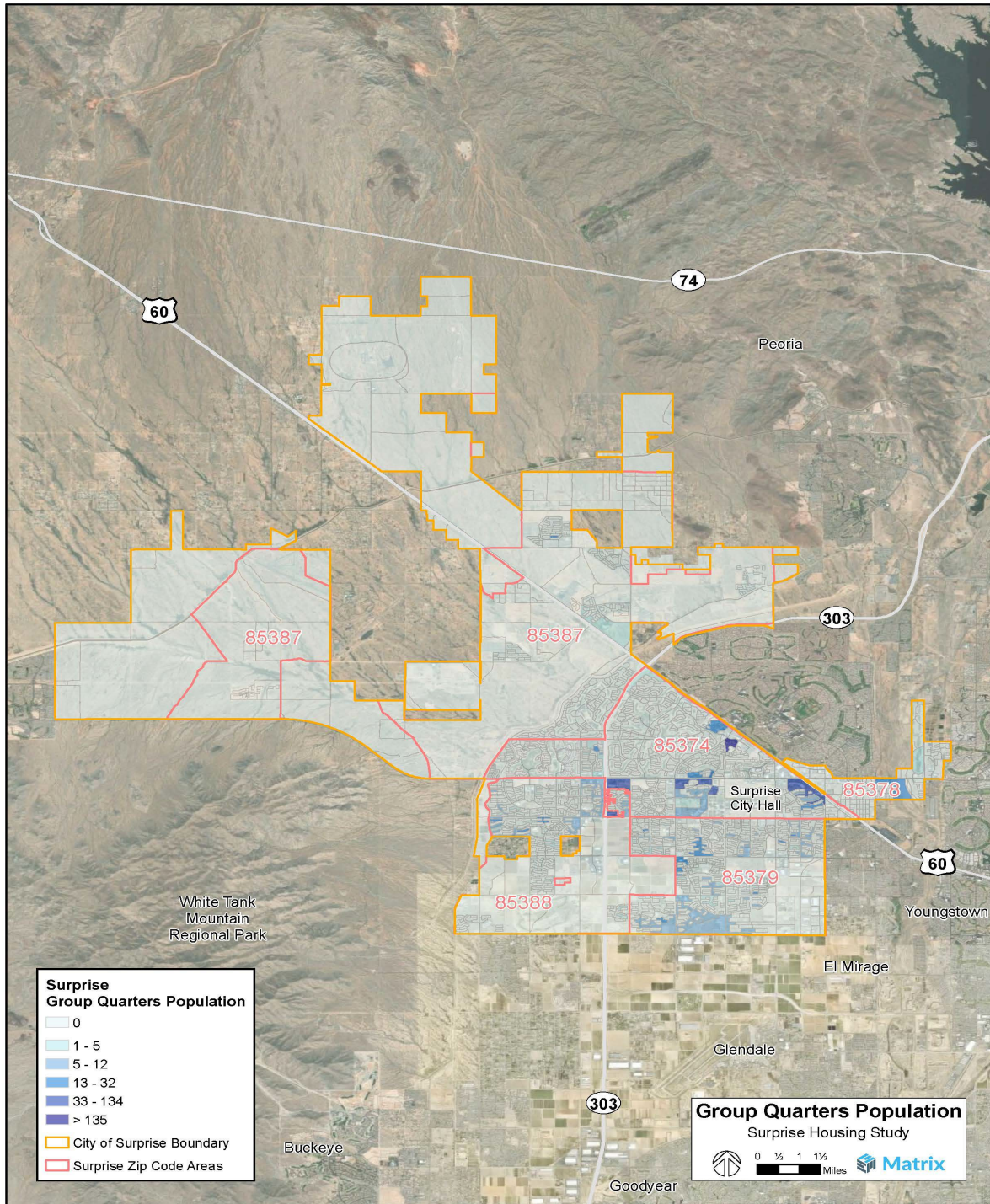


Source: 2020 U.S. Census

² The Appendix. provides information on six juvenile and noninstitutionalized living facilities located in Surprise. More detailed analyses of senior housing appear in later sections of the report.



Figure 40. Geographic Distribution of Group Quarters Population by Census Block in Surprise, 2020



Source: 2020 U.S. Census

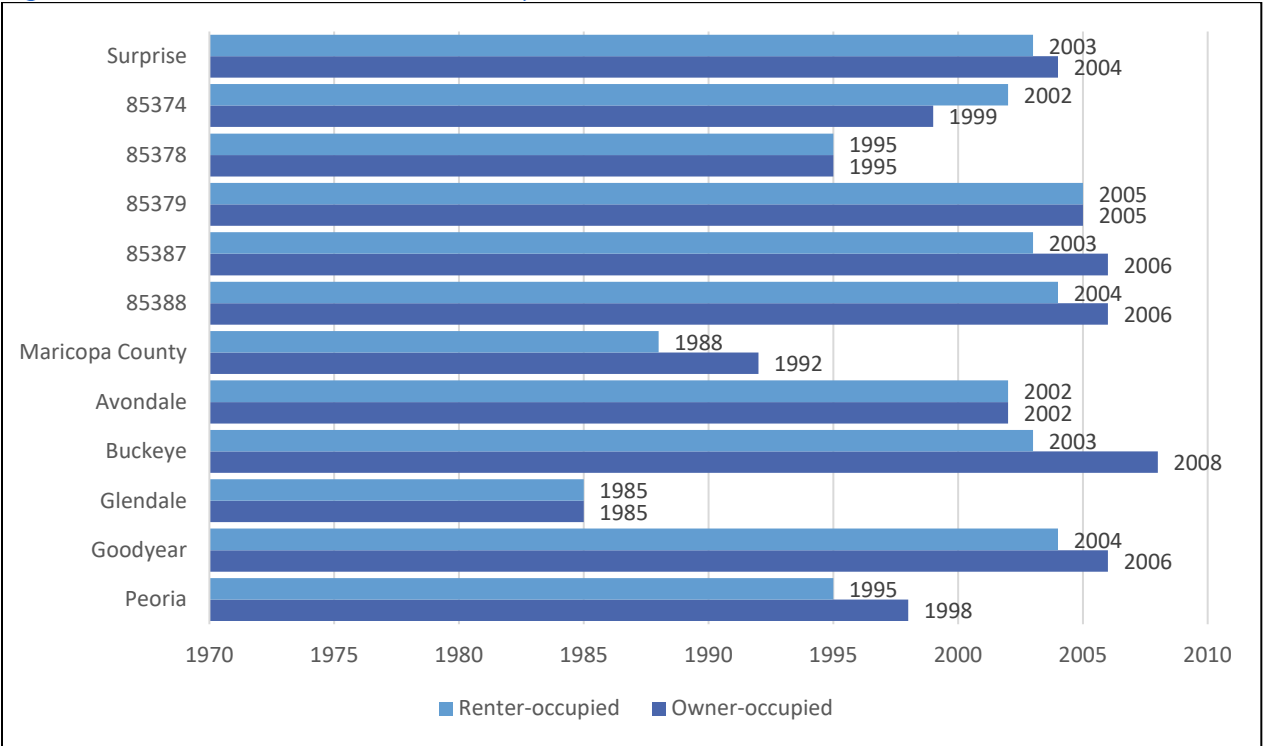
Housing Inventory Analysis

The remaining analyses focus on Surprise’s housing inventory and market. Below, we examine the age, condition, and physical characteristics of the housing stock; vacancies; and housing for underserved populations.

Age of Housing Stock

Consistent with the fact that the bulk of Surprise’s population growth has occurred over the past two decades, the city’s housing inventory is young by any measure. According to Figure 41, the median renter- and owner-occupied units, respectively, were erected in 2003 and 2004. In zip codes 85387 and 85388, the typical owner-occupied homes, at only 16 or 17 years old at the time of this writing, are even younger than the city-wide median. Surprise’s older homes are concentrated in two zip codes: 85374 and 85378. Maricopa County’s median owner- and renter-occupied homes, respectively, are 15 and 12 years older than their Surprise counterparts. Furthermore, only 8% of Surprise homes predate 1990 (see Figure 42). The same is true of 30% of homes in neighboring Peoria, which in turn has fewer homes in this category than Maricopa County (48%) and Glendale (62%).

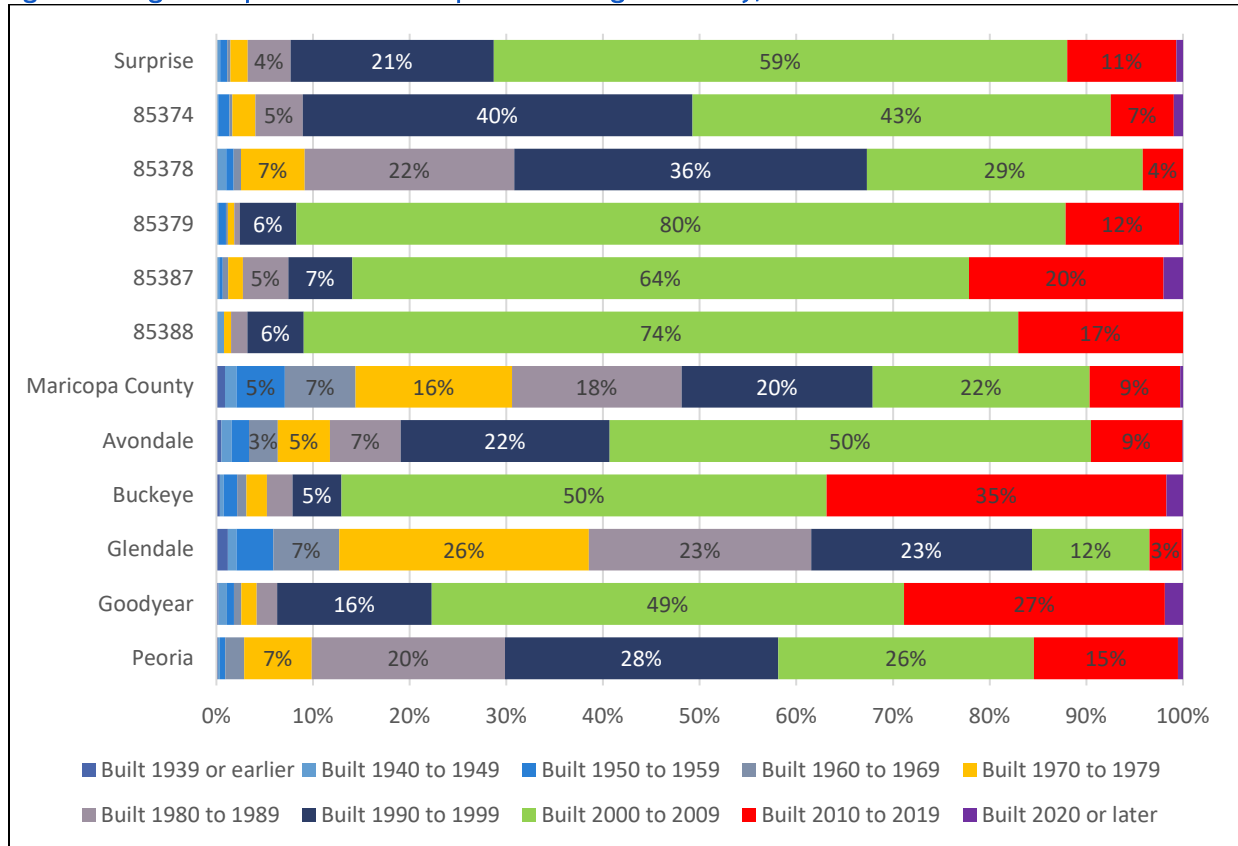
Figure 41. Median Year of Construction by Tenure, 2021



Source: Five-year American Community Survey (2021)



Figure 42. Age Composition of Occupied Housing Inventory, 2021



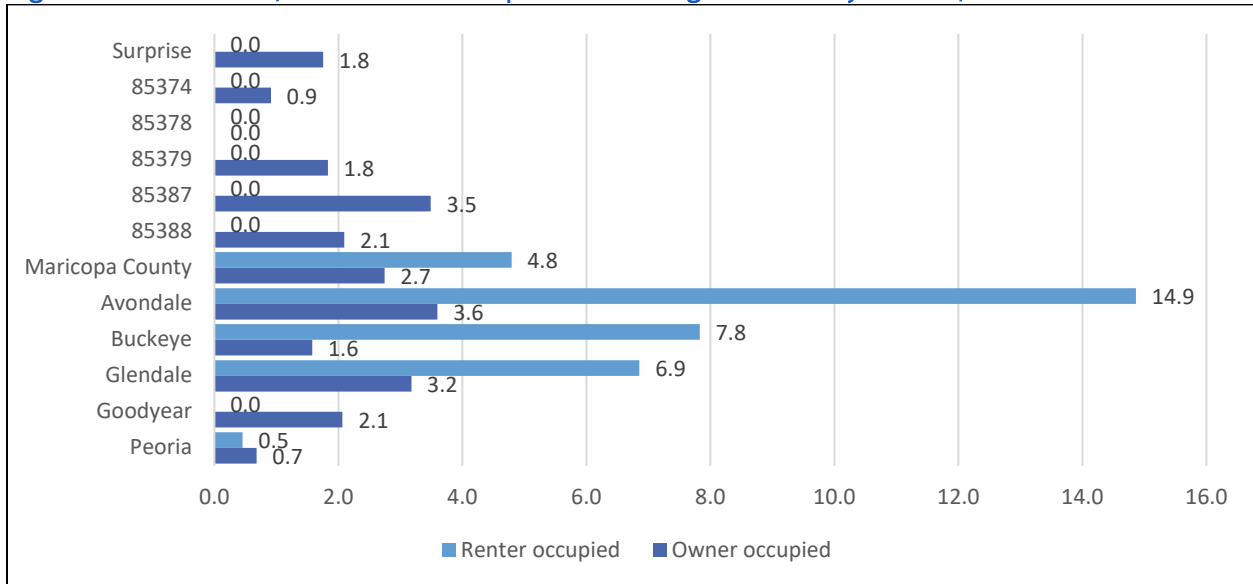
Source: Five-year American Community Survey (2021)

Condition of Housing Stock

The prevalence of units without complete plumbing or kitchen facilities is a reliable proxy for a housing inventory’s condition. Along with Goodyear, Surprise is an anomaly among Maricopa County cities in having virtually no renter-occupied units without complete plumbing facilities. These facilities are absent, however, in 1.8 per 1,000 owner-occupied units. The incidence of incomplete plumbing facilities is nearly twice as high among owner-occupied homes located in zip code 85387, at 3.5 per 1,000 units. Homes in the rest of Maricopa County, including Avondale and Glendale, are far more likely to have incomplete plumbing facilities than those in Surprise.

“Along with Goodyear, Surprise is an anomaly among Maricopa County cities in having virtually no renter-occupied units without complete plumbing facilities.”

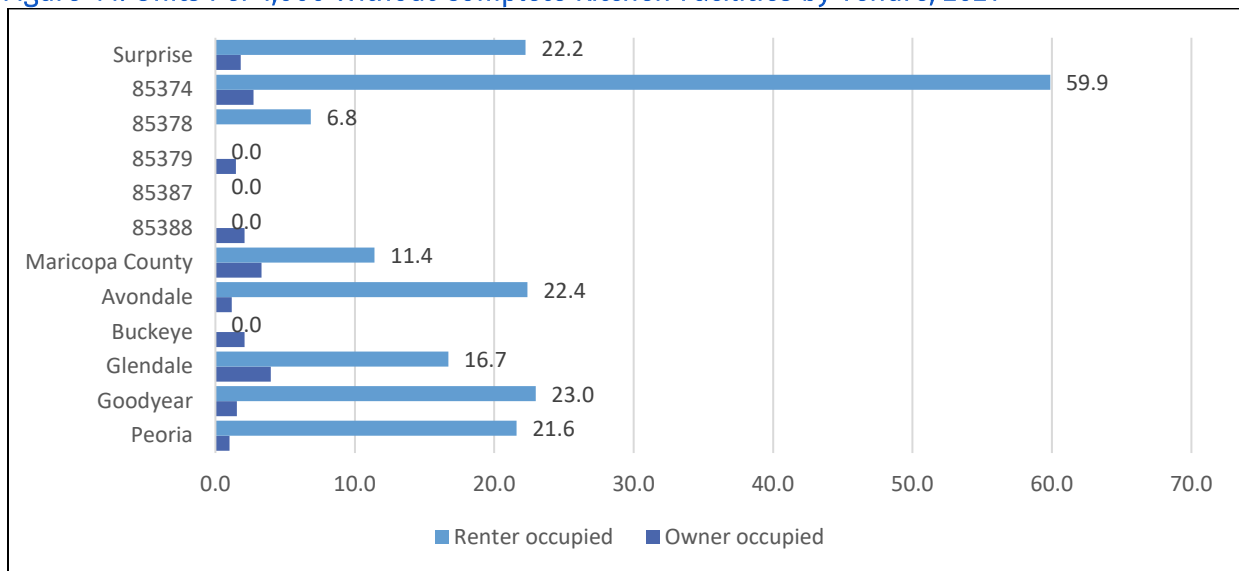
Figure 43. Units Per 1,000 Without Complete Plumbing Facilities by Tenure, 2021



Source: Five-year American Community Survey (2021)

Surprise does not fare quite as well when the condition of its housing stock is measured in terms of the incidence of incomplete kitchen facilities. **22.2 per 1,000 renter-occupied units in the city lack complete kitchen facilities, but such units are concentrated in zip code 85374.** Renter-occupied units without complete kitchen facilities are significantly less common in the rest of Maricopa County and parts of the West Valley. Among Surprise's owner-occupied homes, incomplete kitchen facilities are as rare as incomplete plumbing facilities, impacting 1.8 per 1,000 units. In Glendale, a homeowner is 122% more likely to live in a home lacking complete kitchen facilities.

Figure 44. Units Per 1,000 Without Complete Kitchen Facilities by Tenure, 2021



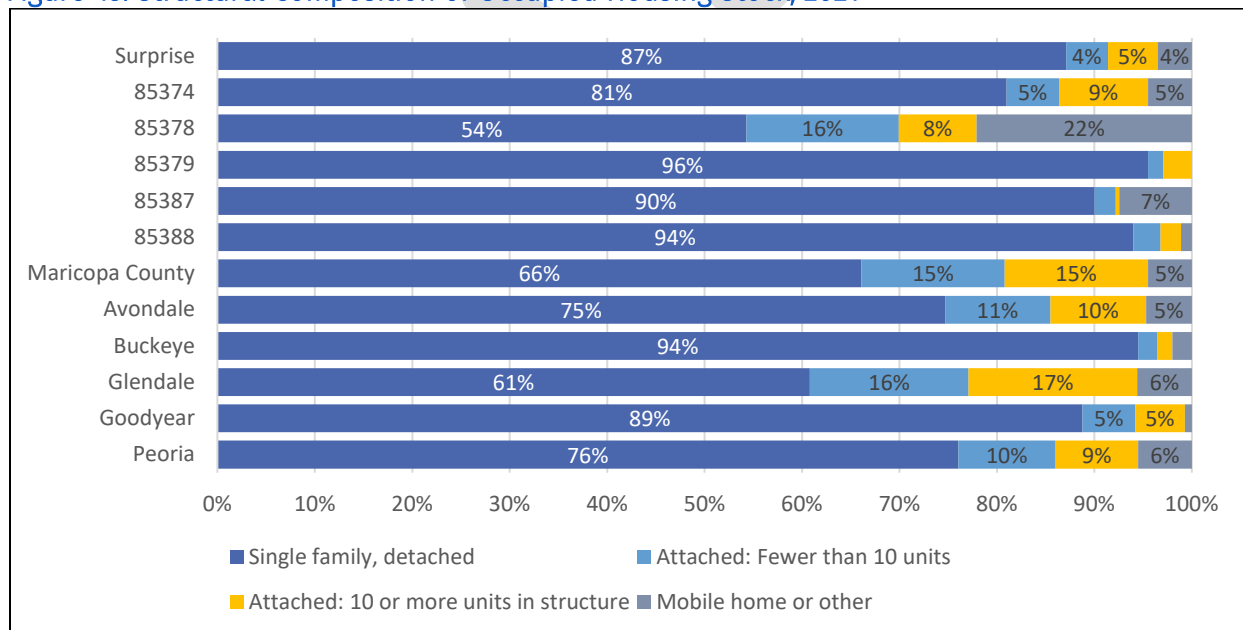
Source: Five-year American Community Survey (2021)



Structural Diversity

Given the strong relationship between a unit's physical characteristics and its price point, cities seeking to attract and retain residents across the income spectrum must offer a wide array of structural options. The structural diversity of each region's occupied housing stock is summarized in Figures 45 through 47. **87% of Surprise's total occupied inventory of 52,205 units are detached single-family homes—a rate exceeded only by that of Buckeye.** Those looking for alternatives to single-family homes in 85379 and 85388 likely need to expand their search to other neighborhoods within the city, given that such homes constitute 96% and 94% of their respective housing stocks. In the coming years, though, Surprise's multi-family inventory is likely to grow considerably; as of 2022, there were 9,910 multi-family units in the pipeline, at various stages of development.³ As expected, housing tenure is a strong predictor of a home's physical characteristics. In Surprise, owner-occupied units are 26 percentage points more likely to be traditional single-family homes than renter-occupied units. **Over time, Surprise has made incremental, but measurable, progress in diversifying its housing stock through increased density, with the share of detached single-family homes falling from 89% in 2010 to 87% in 2021.** Buckeye was the only community whose housing stock trended in the opposite direction during this period.

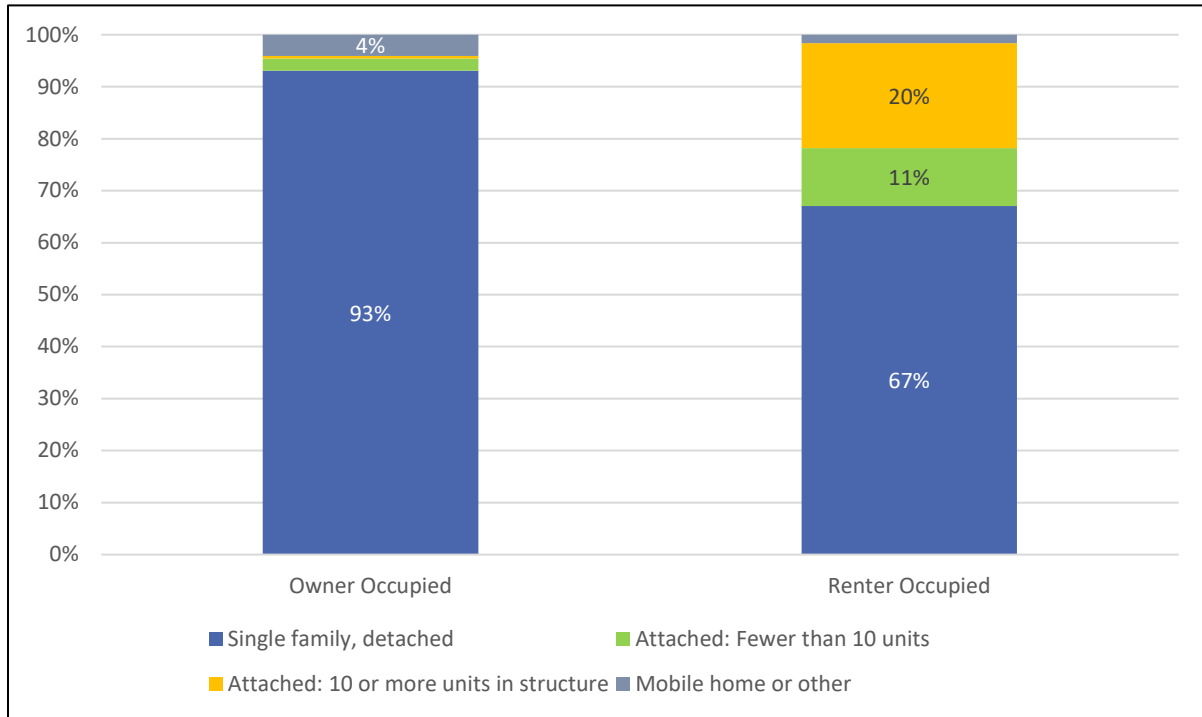
Figure 45. Structural Composition of Occupied Housing Stock, 2021



Source: Five-year American Community Survey (2021)

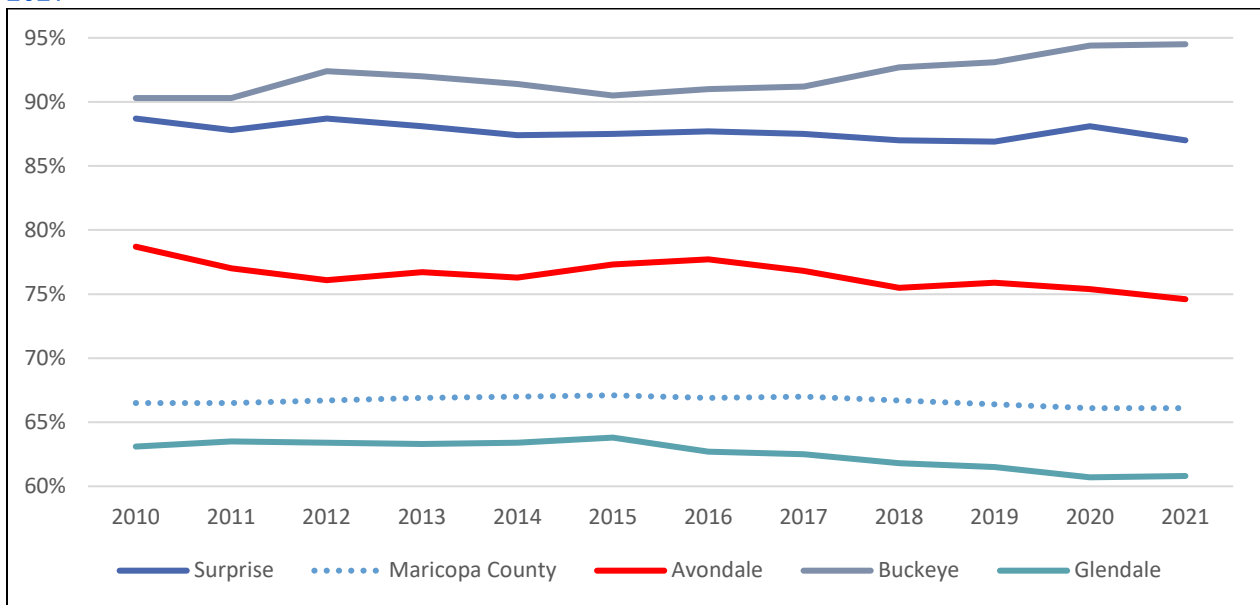
³ The Appendix breaks down these units by phase of development.

Figure 46. Structural Composition of Surprise's Occupied Housing Stock by Tenure, 2021



Source: Five-year American Community Survey (2021)

Figure 47. Detached Single-Family Homes as a Share of the Occupied Housing Stock, 2010 to 2021



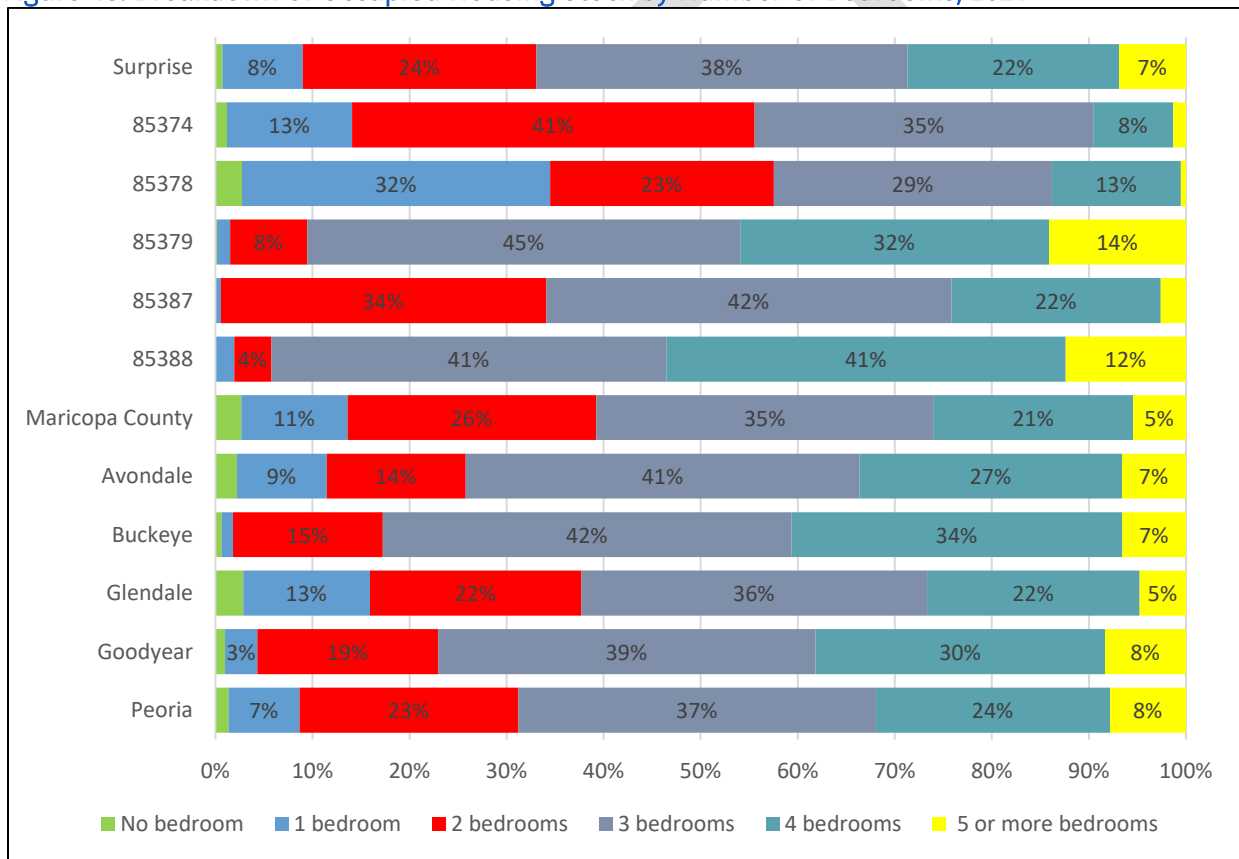
Source: Five-year American Community Survey (2010-2021)



Number of Bedrooms

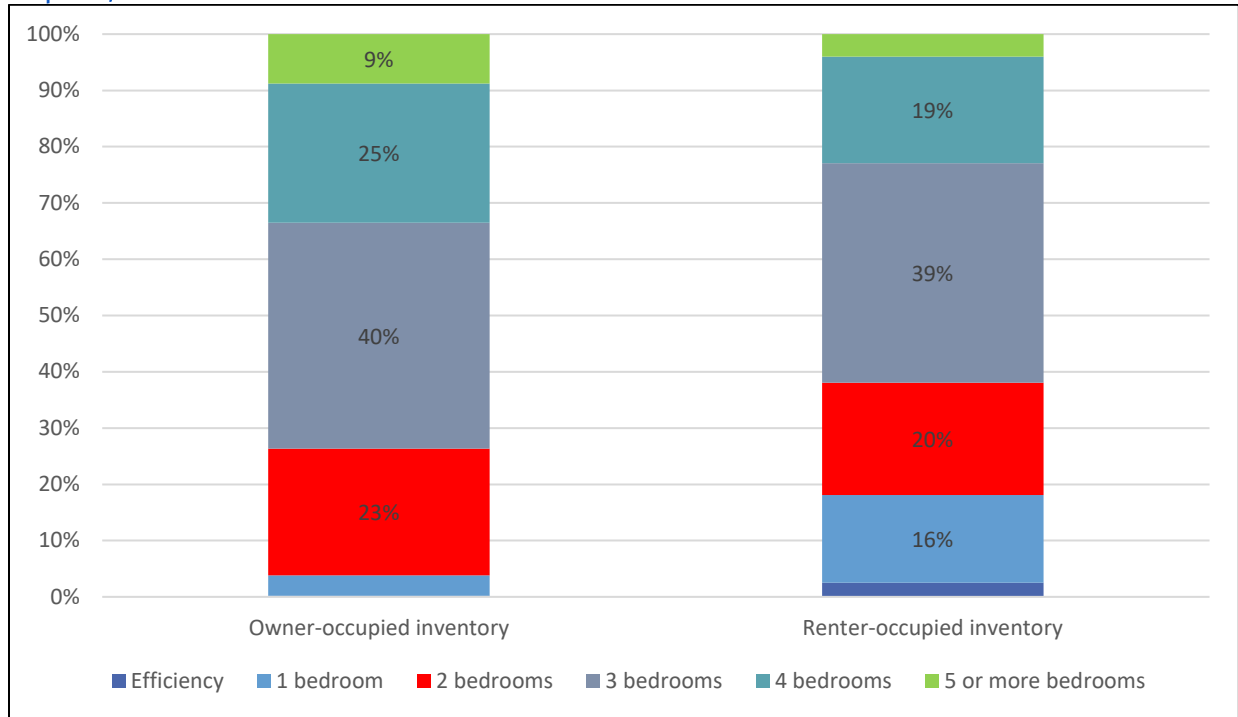
Reflecting its older population, Surprise has fewer homes capable of supporting larger households than much of the West Valley. As Figure 48 demonstrates, 29% of Surprise's total occupied housing stock feature four or more bedrooms. Zip code 85374 has even fewer units with four or more bedrooms as a share of its total occupied inventory (9%), while the richest supplies of these homes exist in zip codes 85379 (46%) and 85388 (54%). Surprise stands in sharp contrast to Buckeye, where the median resident is about eight years younger than his or her Surprise equivalent and, accordingly, 41% of homes contain four or more bedrooms. It is important to recognize, though, that these larger homes are more common in Surprise than in the rest of Maricopa County. Figure 49 reveals that tenure is strongly associated with a unit's number of bedrooms. Indeed, one would be hard-pressed to find an owner-occupied home with fewer than two bedrooms in Surprise.

Figure 48. Breakdown of Occupied Housing Stock by Number of Bedrooms, 2021



Source: Five-year American Community Survey (2021)

Figure 49. Composition of Renter- and Owner-Occupied Stocks by Number of Bedrooms in Surprise, 2021



Source: Five-year American Community Survey (2021)

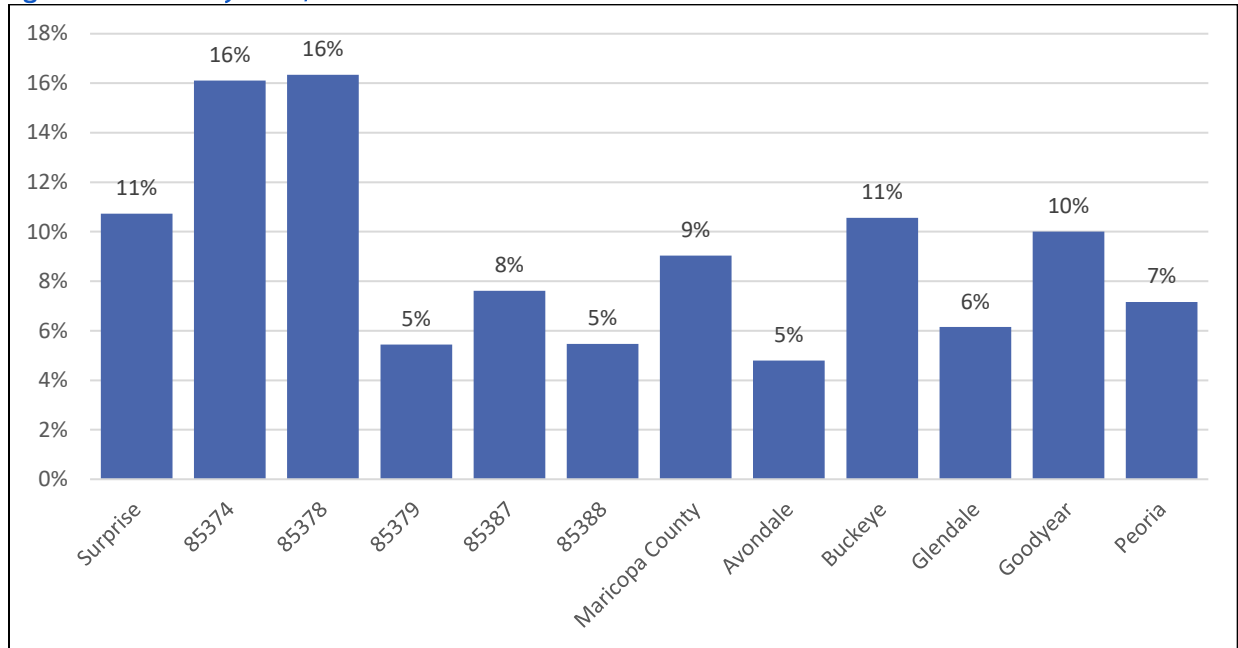
Vacancy Rate

An area's vacancy rate is a key indicator of the health of its housing market. For context, the consensus is that a city such as Surprise should aim for a vacancy rate between five and eight percent. A higher vacancy rate suggests that current properties are too expensive for prospective buyers and renters or that the neighborhood is otherwise undesirable, whereas a lower vacancy rate implies that turnover is rare, creating intense competition for available homes and thus driving up prices. Relatedly, market researchers observe that the vacancy rate can help predict the future direction of a housing market. In an area with an abundance of vacancies, prices are unlikely to face the same upward pressures that they would in one with a small available inventory.

Figure 50 presents the vacancy rate by community. Note that the rates include second homes that were unoccupied at the time of survey administration but whose owners would have been likely to reside in the units at some point in the future. **The data reveal that an unusually high percentage of homes are vacant in Surprise.** 11% of the city's housing units are categorized as such, whereas the rates for Avondale, Glendale, and Peoria range from 5% to 7%. Additionally, the average Maricopa County home is two percentage points less likely than its Surprise counterpart to be vacant. A closer analysis reveals that the culprit of Surprise's high vacancy rate is zip code 85374, where 16% of homes were empty at the time of survey administration. Historically, the rental vacancy rate has exceeded the owner vacancy rate, but the two rates have converged over time (see Figure 51). 6% of owner homes were vacant in 2021, compared to 2% of rental homes.

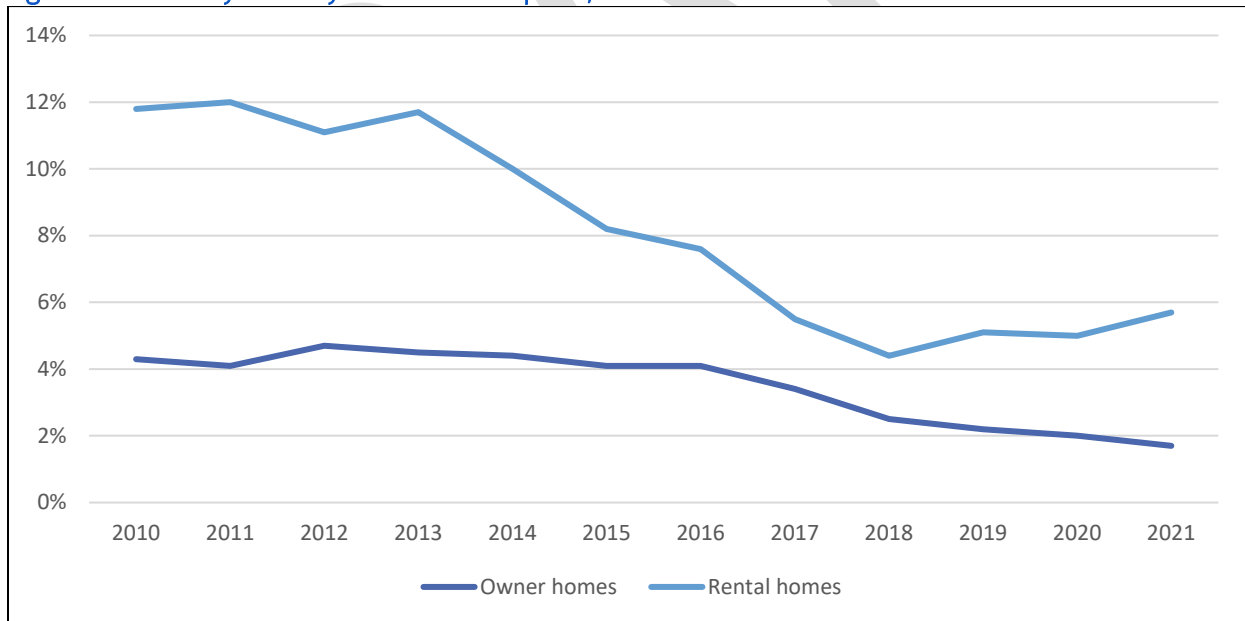


Figure 50. Vacancy Rate, 2021



Source: Five-year American Community Survey (2021)

Figure 51. Vacancy Rate by Tenure in Surprise, 2010 to 2021

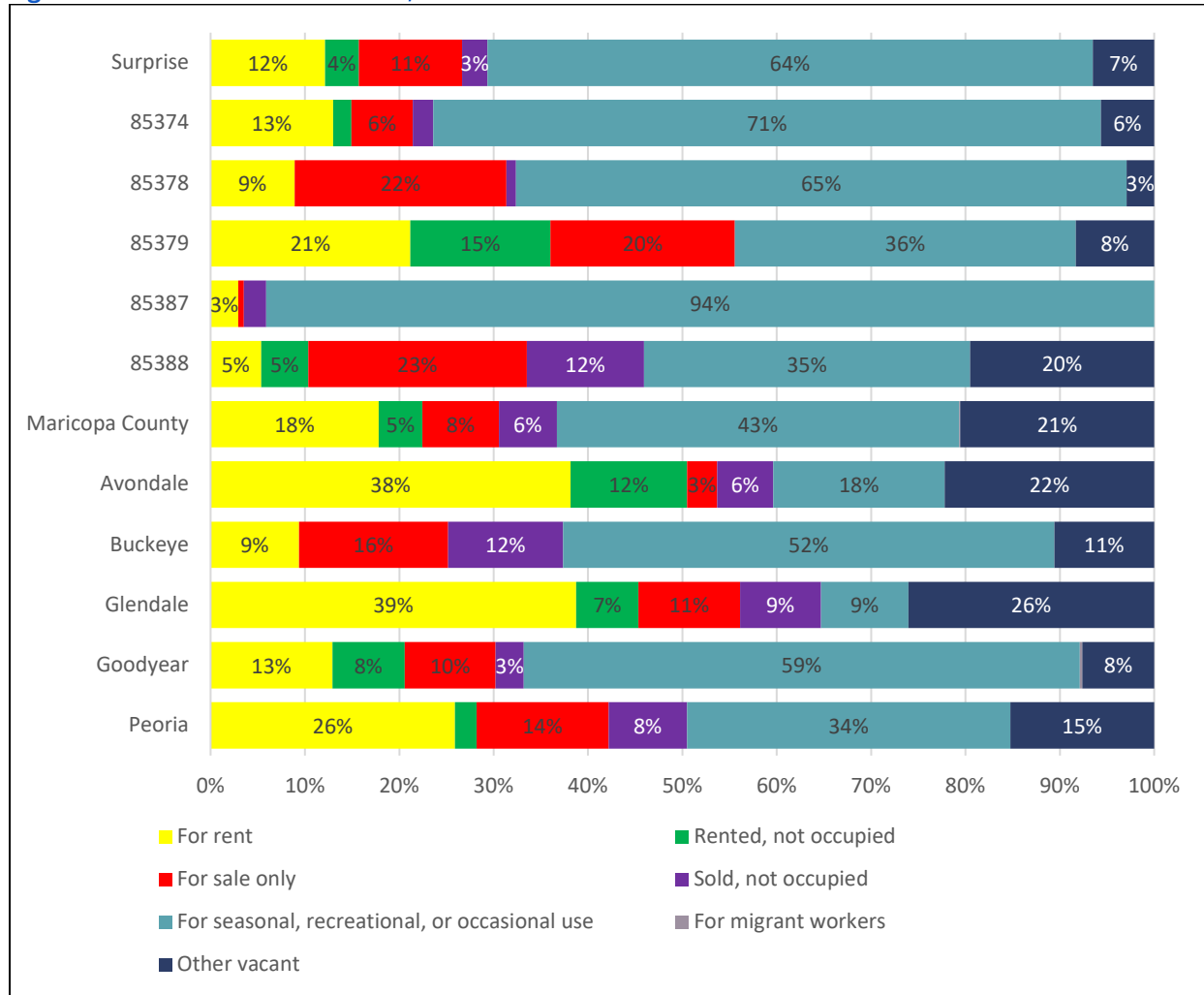


Source: Five-year American Community Survey (2010-2021)

Figure 52 reveals the most common underlying reasons for each region's vacancies. 64% of Surprise's 6,278 empty homes are reserved for seasonal, recreational, or occasional use, indicating a high likelihood that the owners will occupy them in the near future. Apparently, Buckeye and Goodyear are similarly

desirable cities for those in search of these second homes. While not as problematic as other types of vacant homes, second homes have the effect of reducing the available supply for year-round residents, which in turn leads to higher prices. An additional 23% of vacant units are either available for purchase or rent. **Homes that are vacant for other, miscellaneous reasons represent the next largest category, accounting for 7% of vacancies. Concerningly, this category includes abandoned or dilapidated units. In zip code 85388, abandoned or dilapidated homes represent up to 20% of vacancies.**

Figure 52. Status of Vacant Units, 2021



Source: Five-year American Community Survey (2021)

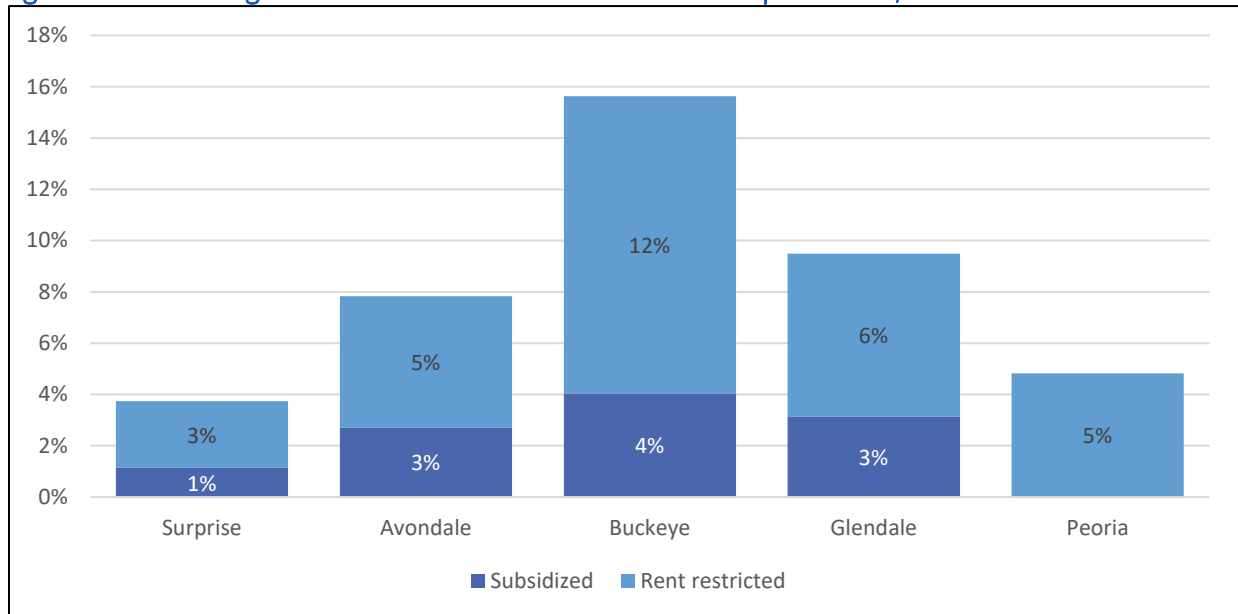
Subsidized and Rent-Restricted Housing

Figures 53 and 54 provide an overview of subsidized and rent-restricted housing. **Subsidized housing is rare across the West Valley, but this is especially the case in Surprise, where just 1% of apartments are subsidized by HUD's Section 8 or other federal programs (see Figure 53).** By contrast, subsidized apartments constitute at least 3% of the inventories of Avondale, Buckeye, and Glendale. Rent-restricted properties, which often benefit from low-income housing tax credits and serve



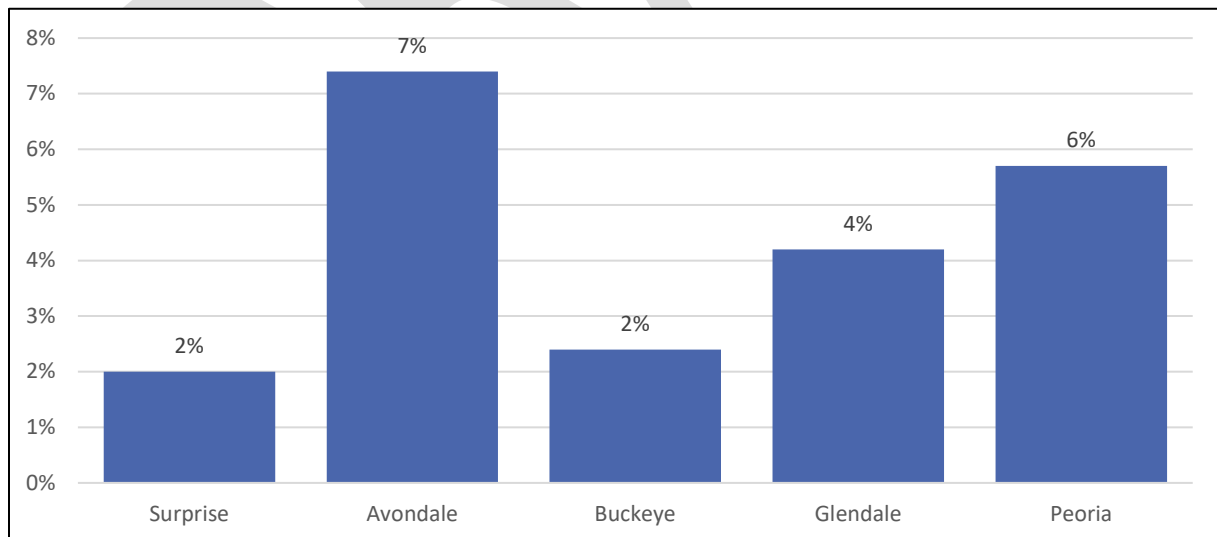
households earning between 30% and 80% of area median income, are more common. In Surprise, rent-restricted units make up 3% of the apartment inventory, but this rate is still lower than those of Avondale, Buckeye, Glendale, and Peoria. Consequently Surprise has the fewest relative unoccupied subsidized or rent-restricted apartments of the five cities (see Figure 54). **Surprise's vacancy rate of 2% suggests that demand for these homes exceeds the existing supply.**

Figure 53. Percentages of Subsidized and Rent-Restricted Apartments, 2023



Source: CoStar; Matrix Design Group, Inc.

Figure 54. Vacancy Rate of Subsidized or Rent-Restricted Apartments, 2023 Q1



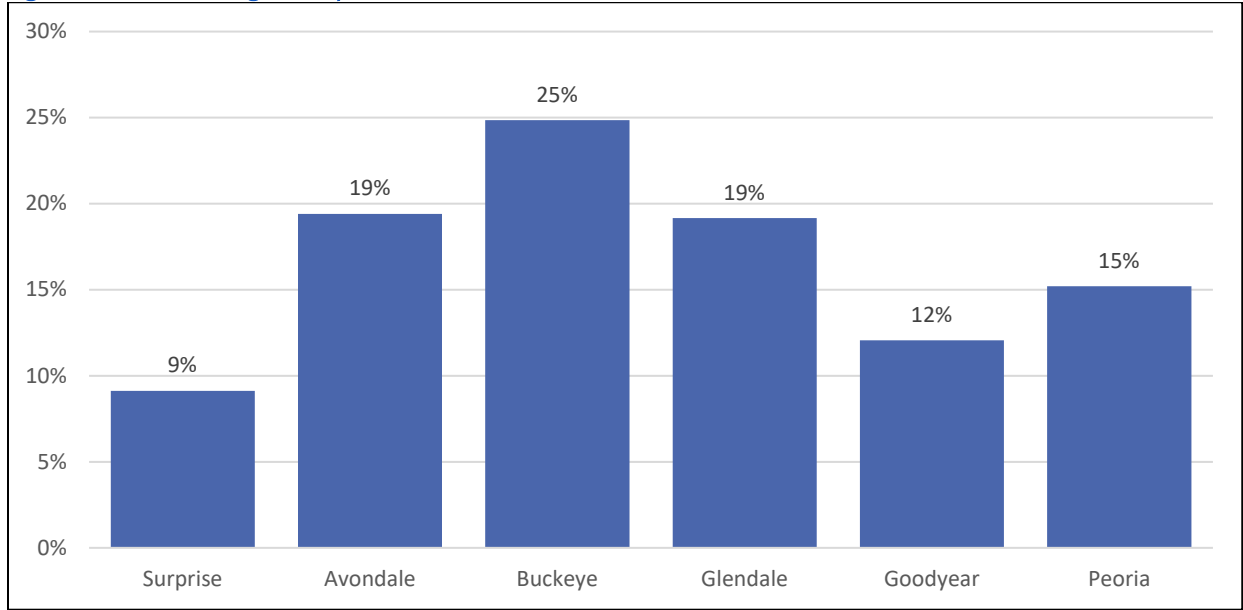
Source: CoStar; Matrix Design Group, Inc.

Accessible Housing

According to the ACS, approximately 6% of Surprise’s noninstitutionalized residents live with an ambulatory disability. Contrary to popular belief, dwelling units are exempt from Americans with Disabilities Act (ADA) accessibility standards since they do not qualify as public accommodations. It is therefore up to developers and landlords to ensure their dwelling units are accessible to people with disabilities. Unfortunately, the U.S. has a paucity of wheelchair-accessible homes, with the UD Project estimating that just 0.15% of homes meet accessibility standards nationwide. The challenges that people with disabilities face in securing accessible housing have prompted activists and advocacy organizations, including the central Arizona-based Ability 360, to take up the cause.

How does the availability of wheelchair-accessible housing vary across the West Valley? **According to Figure 55, 9% of apartments in Surprise feature wheelchair-accessible rooms.** While this figure is higher than the share of noninstitutionalized residents reporting an ambulatory disability, wheelchair-accessible apartments are more common in Avondale, Buckeye, Glendale, Goodyear, and Peoria. **The gap between Surprise and Buckeye, where 25% apartments are considered wheelchair accessible, is particularly large.** Despite its small inventory, however, Surprise has more vacant wheelchair-accessible apartments than every city except Goodyear. Indeed, Figure 56 shows that 8% of such apartments in Surprise are unoccupied, compared to 5% in Buckeye and Peoria and 6% in Avondale and Glendale.

Figure 55. Percentage of Apartments with Wheelchair-Accessible Rooms, 2023

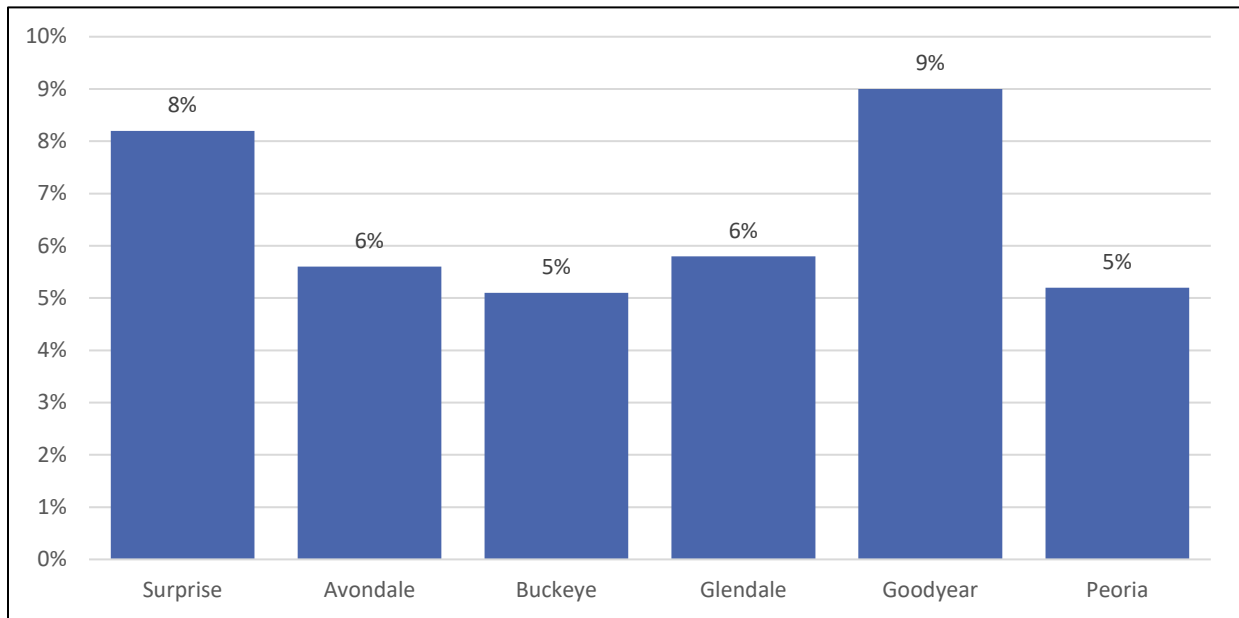


Source: CoStar; Matrix Design Group, Inc.

Note: Includes only properties with four or more units.



Figure 56. Vacancy Rate of Apartments with Wheelchair-Accessible Rooms, 2023 Q1



Source: CoStar; Matrix Design Group, Inc.

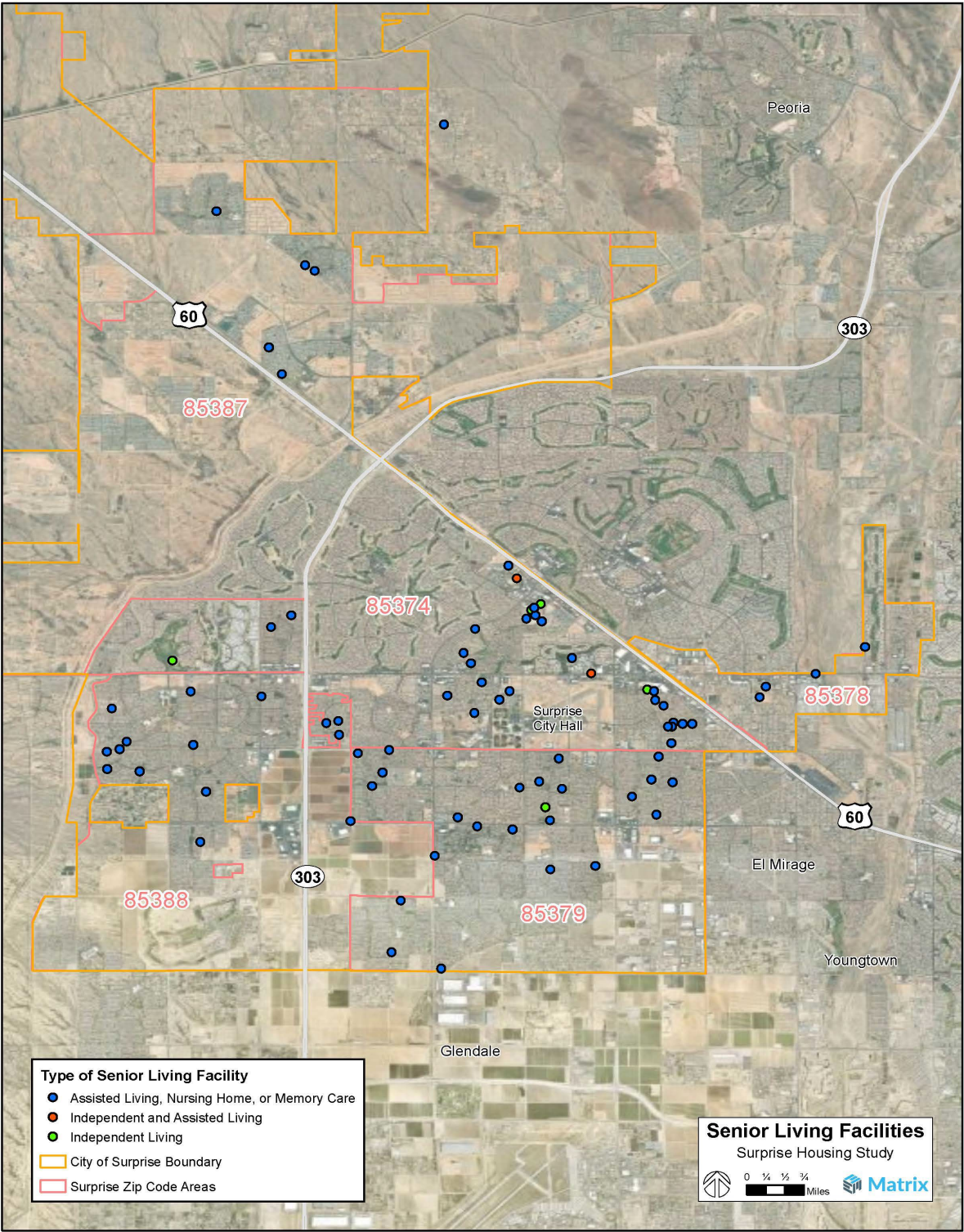
Note: Includes only properties with four or more units.

Senior Housing

It is critical that Surprise offer its substantial senior population a wide array of housing options. Figure 57 pinpoints the locations of Surprise's 82 senior living facilities. The city features five independent living communities, which are indicated by the green dots. An additional two properties, represented by the red dots, offer both independent and assisted living options. Overall, senior independent living units make up 6% of the city's apartment inventory (see Figure 58). Only Peoria, whose age demographics are similar to those of Surprise, has a higher percentage of senior independent living apartments. At 12%, the vacancy rate in Surprise's independent living communities is high in an absolute sense, but not compared to Goodyear, where an astonishing 35% of independent living units are empty (see Figure 59).

The remaining 75 properties denoted in Figure 57 are nursing homes or specialize in assisted living or memory care. These properties, represented by the blue dots, are scattered throughout the city but tend to be concentrated in the streets surrounding City Hall. **Considering that 9% of seniors living in Surprise, including 13% of those 75 years old and over, experience an independent living difficulty, nursing homes, memory care, and assisted living facilities play a vital role in the community.**

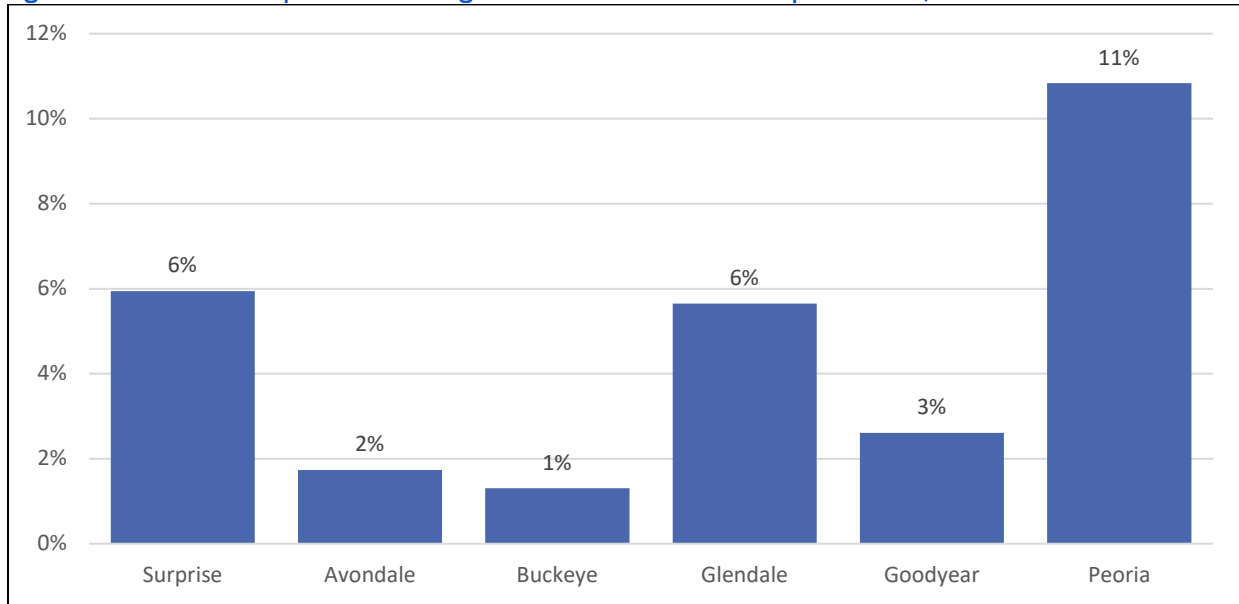
Figure 57. Senior Living Facilities in Surprise



Source: Matrix Design Group, Inc.



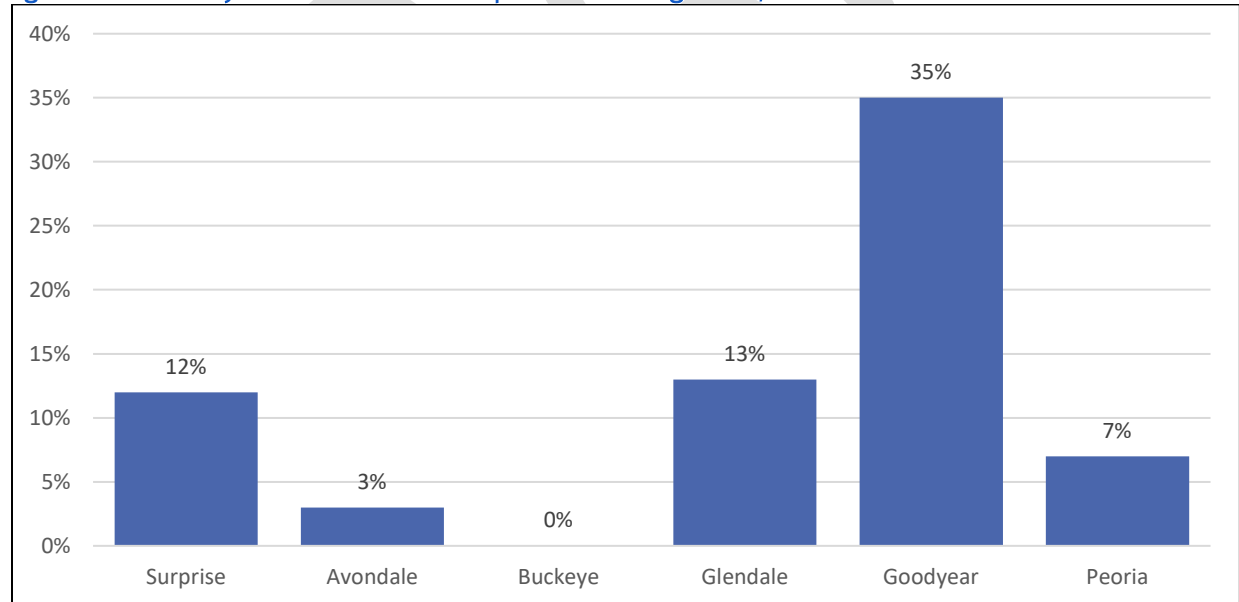
Figure 58. Senior Independent Living Units as a Share of All Apartments, 2023 Q1



Source: CoStar; Matrix Design Group, Inc.

Note: Includes only properties with four or more units.

Figure 59. Vacancy Rate in Senior Independent Living Units, 2023 Q1



Source: CoStar; Matrix Design Group, Inc.

Note: Includes only properties with four or more units.

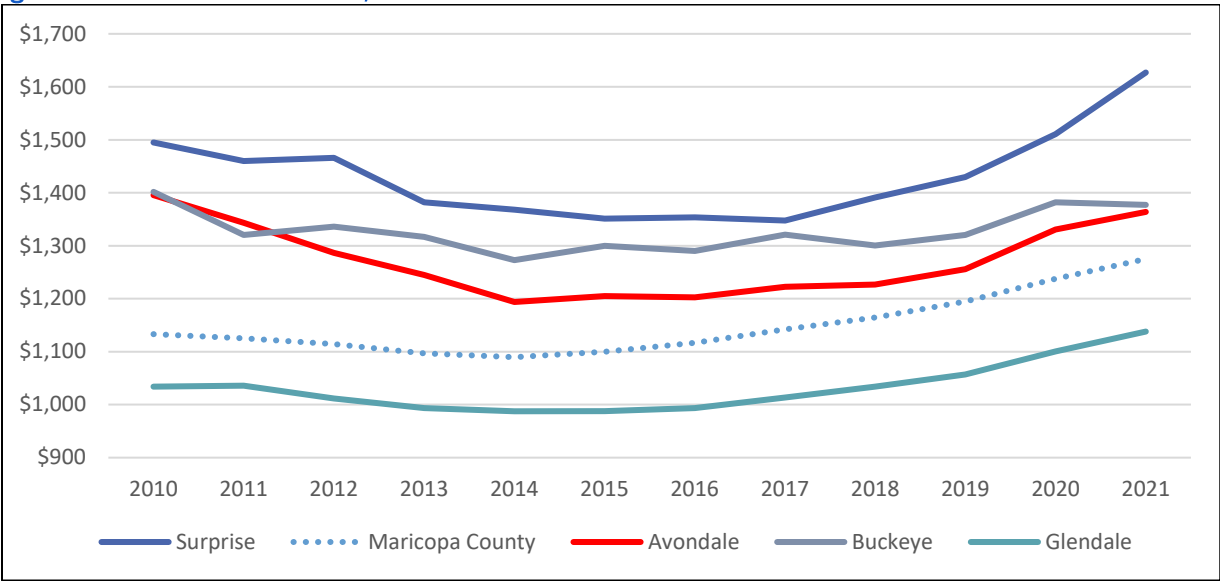
Rental Market Analysis

This section features a thorough analysis of Surprise’s rental market. It presents the most current available data on rental rates, including their relationship with commute times; rental affordability; the prevalence of cost-burdened renters; and short-term rentals.

Gross Rent

Figures 60 and 61 illustrate the extent to which typical rental costs have changed over time. Since at least 2010, Surprise has ranked among the most expensive cities for renters in Maricopa County and the West Valley. Moreover, the rental cost gap between Surprise and other communities has only widened in more recent years. **Between 2018 and 2021, median gross rent rose by 17% in Surprise, compared to between 6% and 10% in the other regions represented in the figure.** By 2021, median rent in Surprise had climbed to \$1,627. Average gross rents through the first quarter of 2023 appear in Figure 61. Although rents fell between the second and third quarters of 2022, they remain well above historical levels. The typical apartment in Surprise costs \$1,785—\$183 more than the Maricopa County average. Surprise’s rapidly rising rents have likely forced much of its low- or middle-income workforce to live outside the city.

Figure 60. Median Gross Rent, 2010 to 2021

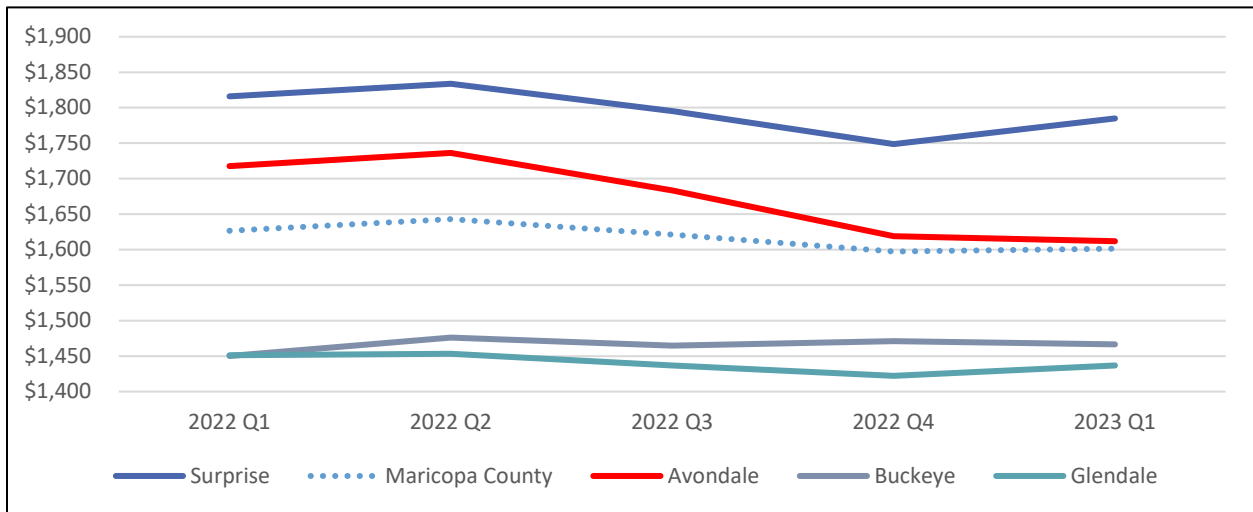


Source: Five-year American Community Survey (2010-2021)

Note: Dollar values adjusted for inflation to constant 2021 dollars.



Figure 61. Average Gross Rent, 2022 Q1 to 2023 Q1

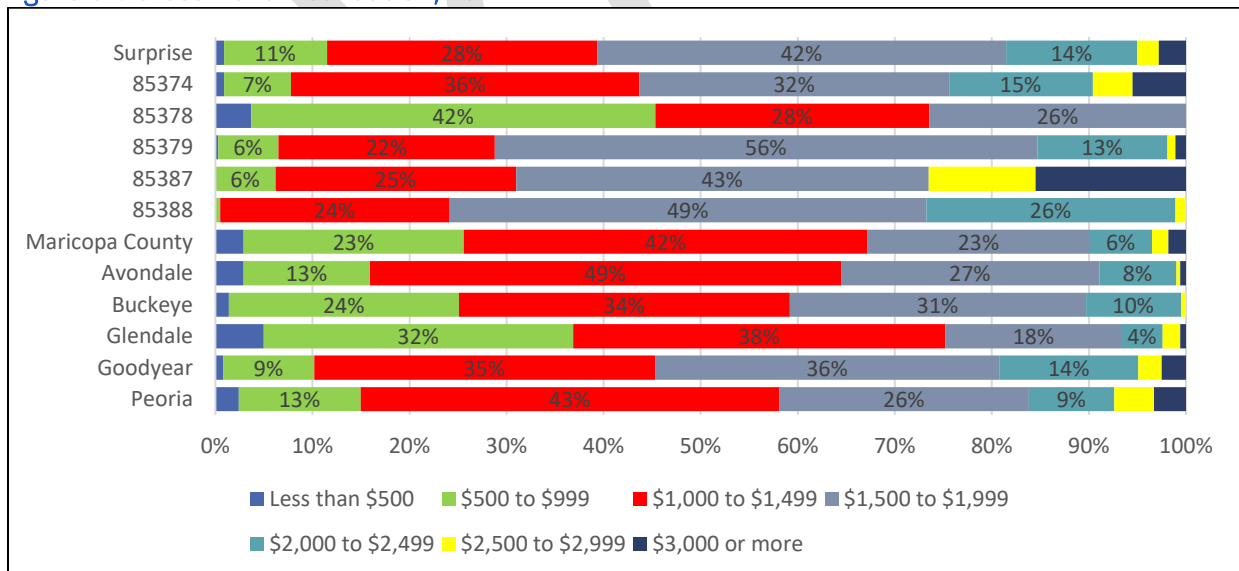


Source: Five-year American Community Survey (2021)

Note: Includes only properties with four or more units. Dollar values adjusted for inflation to constant 2023 dollars.

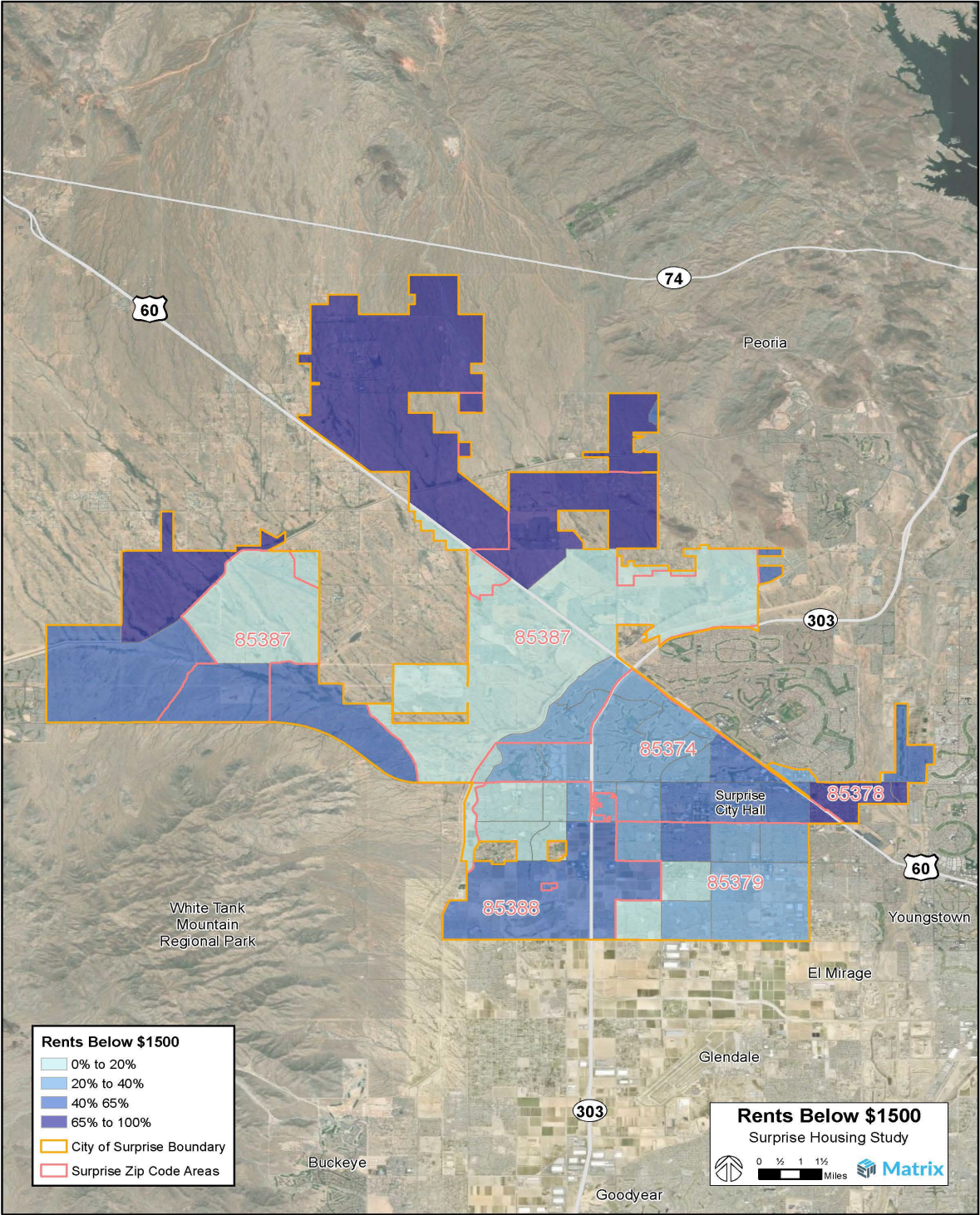
Within Surprise, there is significant variation in rental costs from neighborhood to neighborhood. Rents of \$1,500 or more are most common in zip code 85388, while less expensive rental units are disproportionately located in 85374 and 85378. The map displaying the percentage of units with rents below \$1,500 by Census tract reinforces these findings (see Figure 63).

Figure 62. Gross Rent Distribution, 2021



Source: Five-year American Community Survey (2021)

Figure 63. Percentage of Renter-Occupied Units with Gross Rents Below \$1,500 by Census Tract in Surprise, 2021



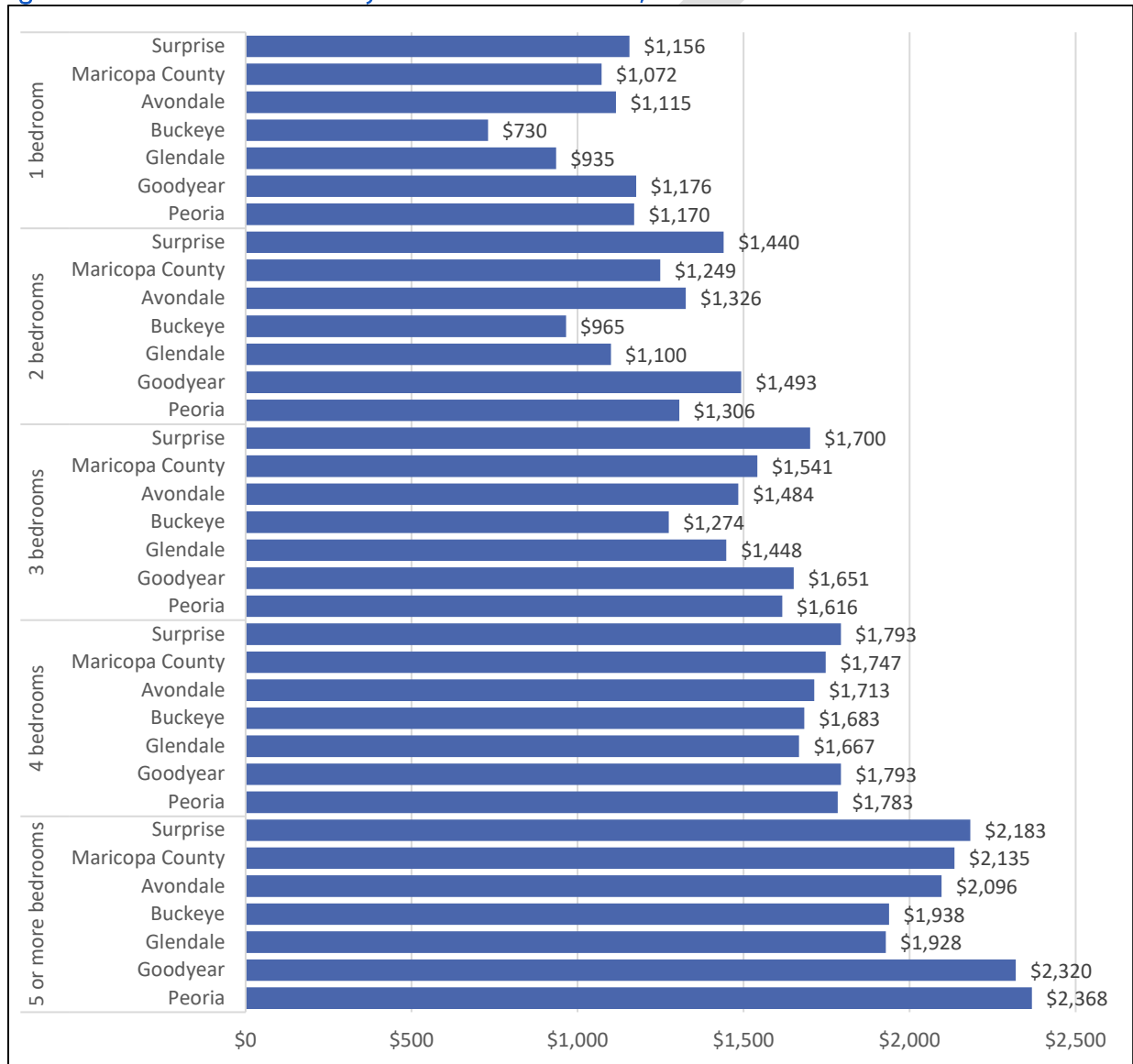
Source: Five-year American Community Survey (2021)



Gross Rent by Number of Bedrooms

How do rents across the region vary by the number of bedrooms in a unit? Figure 64 reveals that gross rent for the median one-bedroom apartment in Surprise is \$1,156. Although Glendale and, especially, Buckeye are significantly cheaper, one-bedroom units in the remaining regions rent out at similar rates. In Surprise, the price gap between a two- and one-bedroom unit is particularly large, at \$284. **Units with at least three bedrooms, which are required by families with multiple children, carry median rents starting at \$1,700.** Units with five or more bedrooms are considerably less expensive in Surprise than in Goodyear and Peoria, possibly because they are in low demand from Surprise's aging population.

Figure 64. Median Gross Rent by Number of Bedrooms, 2021

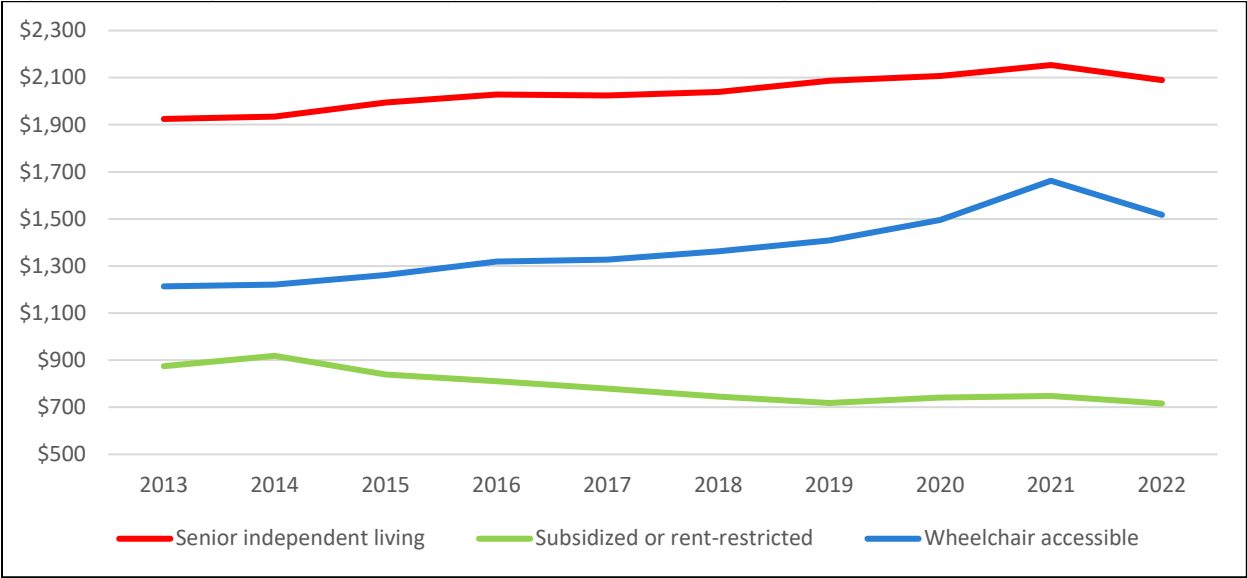


Source: Five-year American Community Survey (2021)

Gross Rent for Special Population Housing

Figure 65 presents average gross rents for apartments designed or intended for three special populations: seniors, low-income residents, and residents with ambulatory disabilities. Since 2013, inflation-adjusted rent for the average senior independent living unit has increased by \$164, reaching \$2,089 in 2022. Senior independent living units are considerably more expensive than other types of rentals, but residents requiring assisted living or memory care can expect to pay upwards of \$4,000 for a private room. Rents for wheelchair-accessible units have risen steadily over time, and they now cost an average of \$1,517 per month. Interestingly, it turns out that tenants of subsidized or rent-restricted apartments pay slightly less today than they did in 2013 once inflation is factored in.

Figure 65. Average Gross Rent for Special Population Housing in Surprise, 2013 to 2022



Source: CoStar; Matrix Design Group, Inc.

Note: Dollar values adjusted for inflation to constant 2022 dollars.

Rental Affordability Trends

A general rule is that rent should account for less than 30% of gross income in order to be considered affordable. Table 4 compares median renter income in both Surprise and the Phoenix Metropolitan Statistical Area (MSA) to median gross rent in Surprise from 2011 to 2021. Despite the \$5,416 increase in median renter household income over the period, rent was most unaffordable in 2021. That year, median gross rent rose to \$1,627, meaning a household would have needed to earn \$65,080 to contain rent to less than 30% of income. In reality, the median Surprise household earned \$61,082. In other words, it became the norm for renters to exceed the recommended affordability threshold. The comparison of median gross rent in Surprise to median renter household income in the Phoenix MSA is arguably more illuminating. It shows that, as of 2021, the median renter household in the Phoenix MSA earned \$50,470—over \$14,000 less than the amount needed to comfortably afford median rent in Surprise.

These findings strongly suggest that low or moderate-income households who may have



preferred to live in Surprise, and undoubtedly make up a substantial share of the city's workforce, have been forced to find rental housing elsewhere.

Table 4. Rental Affordability Trends in Surprise for Renter Households Earning Median Surprise Income and Median Phoenix Metropolitan Statistical Area Income

Year	Median Gross Monthly Rent in Surprise	Household Income Required to Afford Median Gross Rent in Surprise	Actual Median Renter Household Income in Surprise	Actual Median Renter Household Income in Surprise Relative to Required Income	Actual Median Renter Household Income in Phoenix MSA	Actual Median Renter Household Income in Phoenix MSA Relative to Required Income
2011	\$1,460	\$58,399	\$55,666	95%	\$43,091	74%
2016	\$1,354	\$54,159	\$57,866	107%	\$43,592	80%
2021	\$1,627	\$65,079	\$61,082	94%	\$50,470	78%

Source: Five-year American Community Survey (2010-2021)

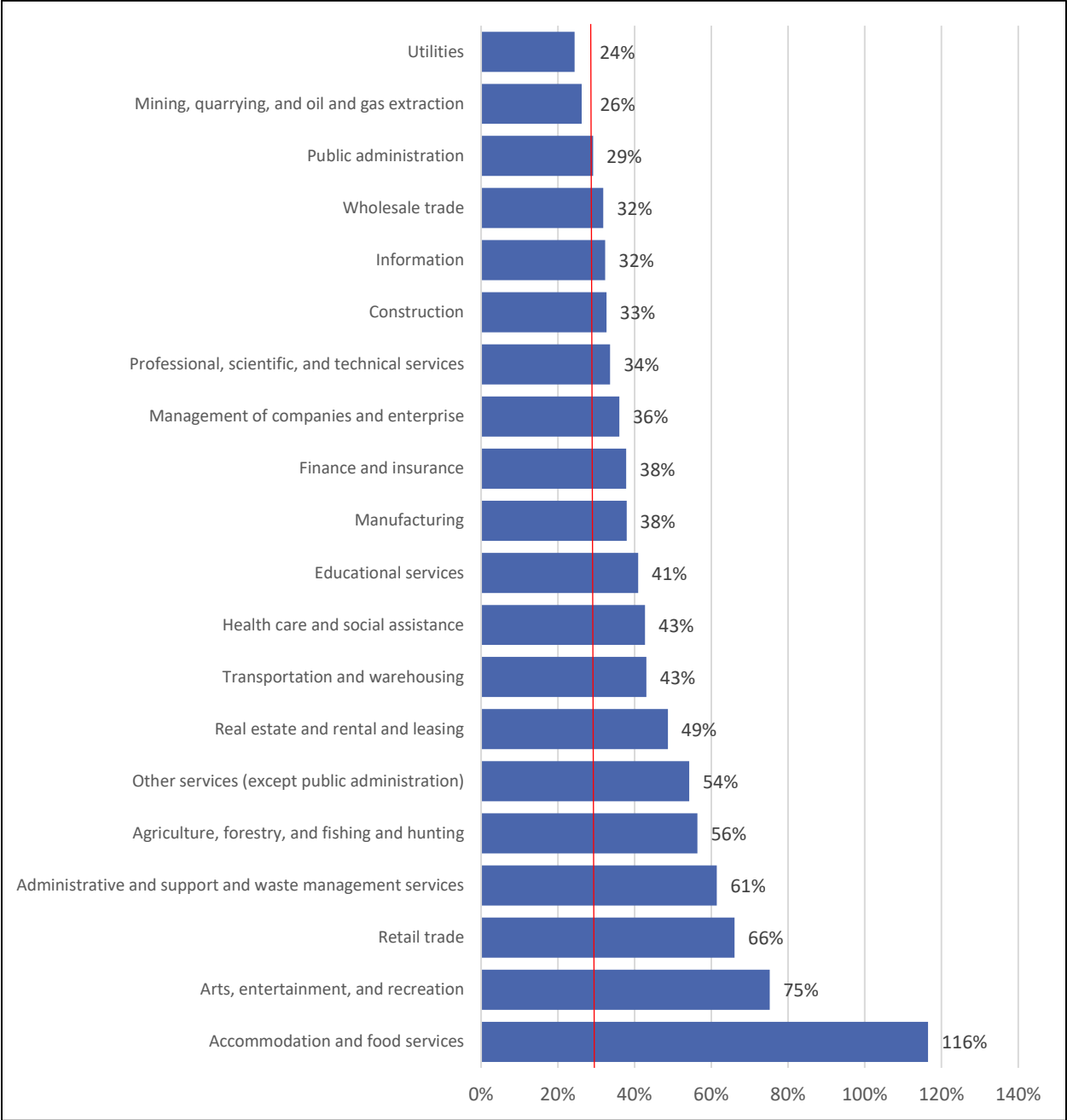
Note: Dollar values adjusted for inflation to constant 2021 dollars.

Rental Affordability by Industry of Employment

The percentage of median earnings accounted for by median gross rent in each industry of employment is presented in Figure 66, where the 30% affordability threshold is indicated by the red line. In all but three industries (utilities; mining, quarrying, and oil and gas extraction; and public administration), median gross rent represents 30% or more of median earnings. **Moreover, these high-paying industries account for the jobs held by just 6% of the city's employed population, meaning that all but a small proportion of the city's residents require a second income in order to contain rent to less than 30% of household income.** In the city's three largest industries (retail trade, health care and social assistance, and educational services), median gross rent accounts for between 41% and 66% of median earnings. **Even more concerning, rental costs exceed median earnings in accommodations and food services.**

"In all but three industries . . . median gross rent represents 30% or more of median earnings."

Figure 66. Percentage of Median Individual Earnings by Industry Accounted for by Median Gross Rent in Surprise, 2021



Source: Five-year American Community Survey (2021)

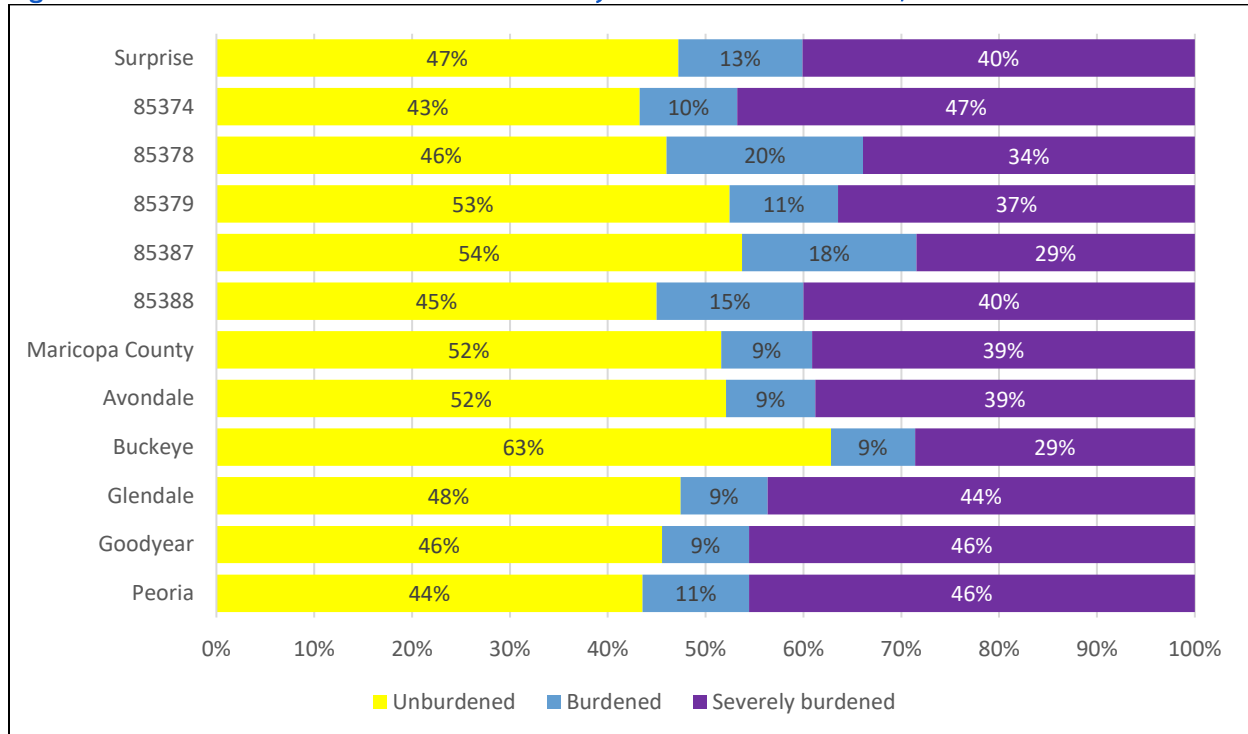
Cost-Burdened Renters

Cost-burdened renter households are widespread in Surprise, as well as in the broader region. As Figure 67 shows, 13% of renter households in Surprise are burdened by housing costs, meaning they spend between 30% and 34.9% of their incomes on rent. Rent accounts for 35% or more of the incomes of



another 40% of renter households, qualifying them as severely cost burdened. **From 2020 to 2021, Surprise renters became, on average, seven percentage points more likely to spend at least 30% of their incomes on rent—a remarkable increase not observed elsewhere in the West Valley (see Figure 68).** Rates of cost-burdened or severely cost-burdened renters are highest in zip codes 85388 and 85374. Renters in Buckeye did not struggle to nearly the same extent as those in the rest of the West Valley to meet their monthly housing costs.

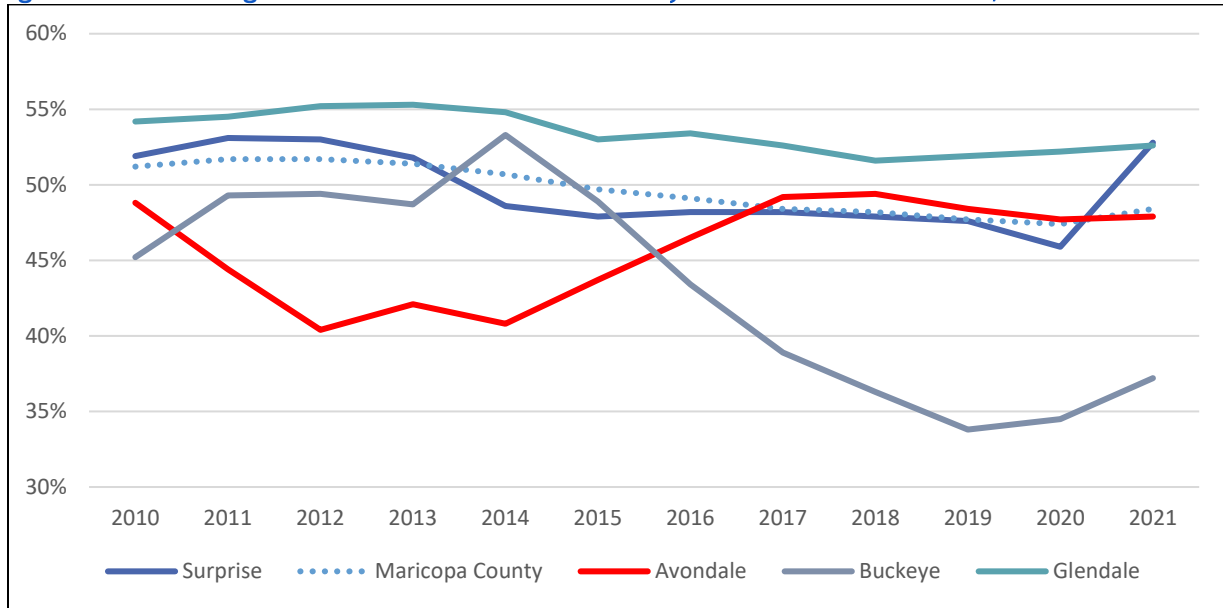
Figure 67. Breakdown of Renter Households by Cost-Burdened Status, 2021



Source: Five-year American Community Survey (2021)

“13% of renter households in Surprise are burdened by housing costs, meaning they spend between 30% and 34.9% of their incomes on rent. Rent accounts for 35% or more of the incomes of another 40% of renter households, qualifying them as severely cost burdened.”

Figure 68. Percentage of Cost-Burdened and Severely Cost-Burdened Renters, 2010 to 2021



Source: Five-year American Community Survey (2010-2021)

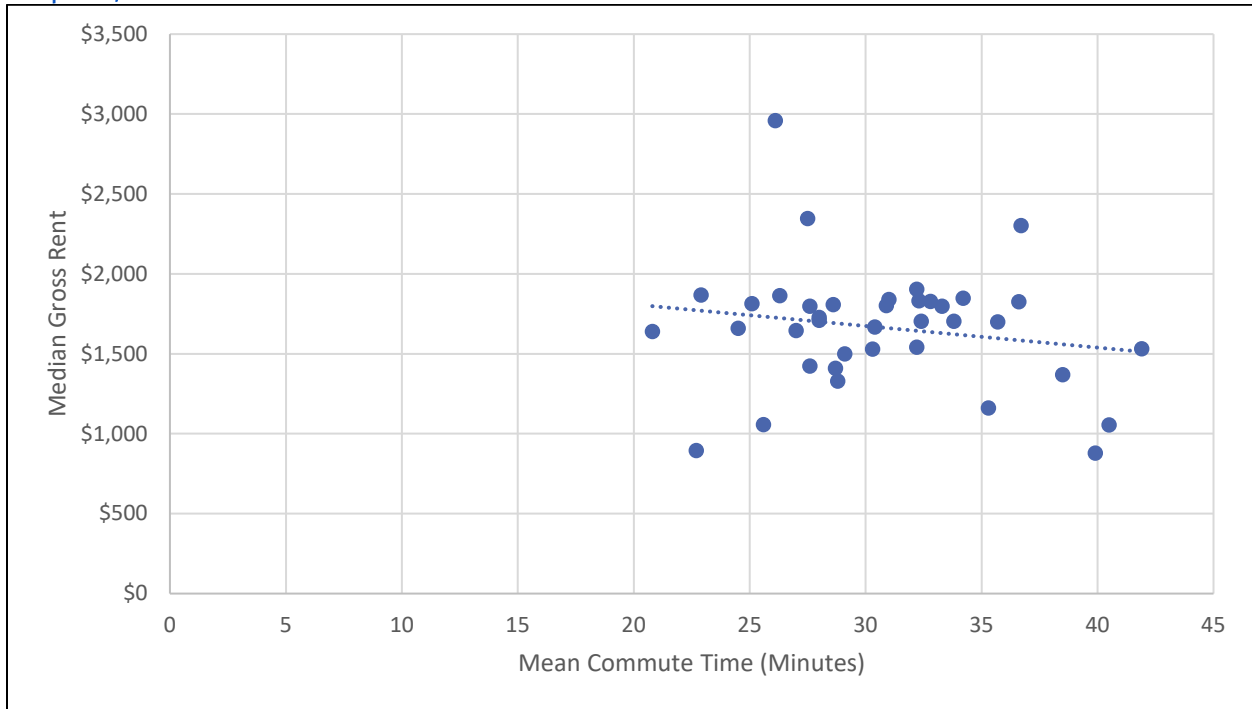
Relationship Between Commute Times and Rents

There is strong reason to believe that neighborhood-level commute times and rents are related. It is not immediately obvious, however, what the nature of that relationship should be. On the one hand, renters may be willing to pay more to live closer to their workplaces. On the other, workplaces tend to be located in a city's busier parts, and residents may place higher value on tranquility than shorter commute times. Figure 69 plots each Census tract's median gross rent against its mean commute time. **The results demonstrate that the two variables share a negative, but weak, relationship, indicating that residents who live in neighborhoods that typically entail longer commutes tend to pay less in rent.** At the very least, then, it is safe to say that renters are generally not willing to compromise on price in order to live farther from areas reserved for commercial or mixed use.

"At the very least, then, it is safe to say that renters are generally not willing to compromise on price in order to live farther from areas reserved for commercial or mixed use."



Figure 69. Relationship Between Mean Commute Time and Median Gross Rent by Census Tract in Surprise, 2021

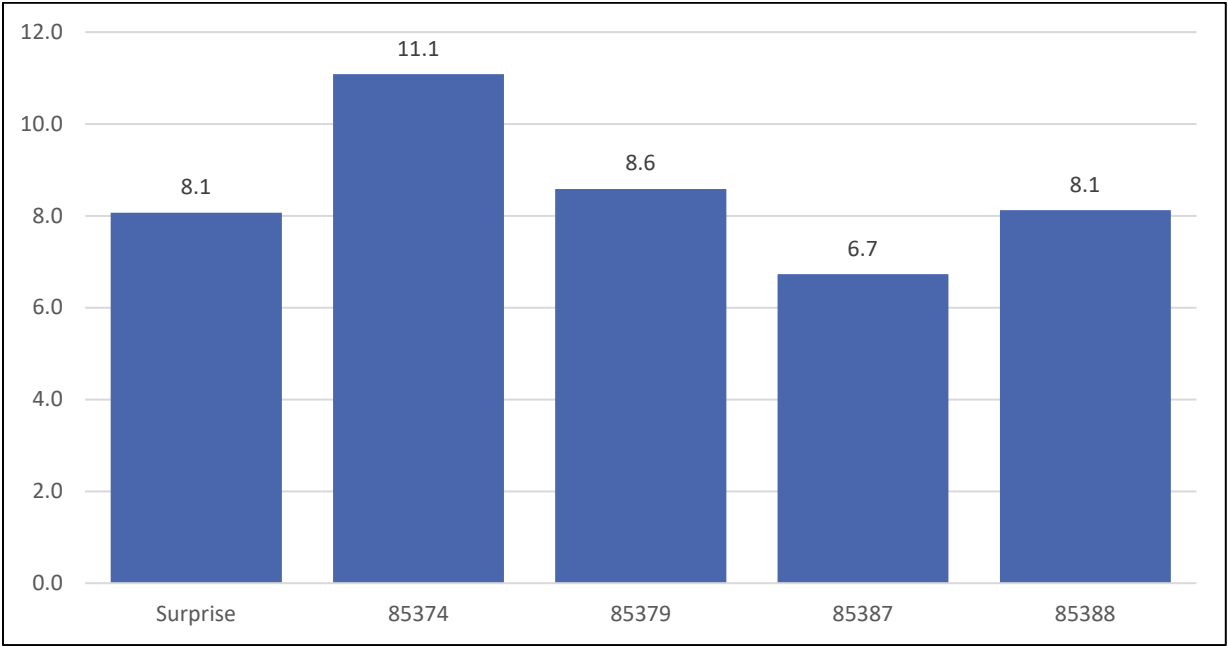


Source: Five-year American Community Survey (2021); Matrix Design Group, Inc.

Short-Term Rentals

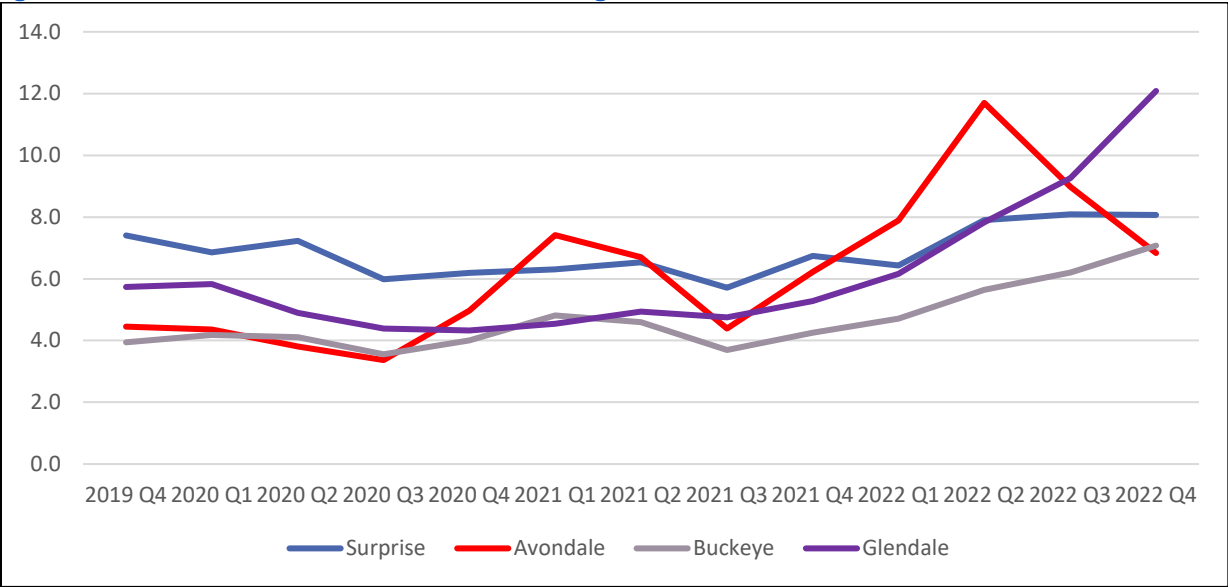
The growing popularity of platforms such as Airbnb and Vrbo has caused Maricopa County's short-term rental market (STR) to explode in recent years, thereby generating significant controversy. Opponents of STRs argue that STR operators have contributed to soaring rents by reducing the supply of long-term rentals available to residents, while proponents contend that the economic benefits of the additional tourism generated by STRs outweighs their costs. Figure 70 presents the number of STRs per 1,000 housing units in Surprise and its major zip codes. **It shows that Surprise has 8.1 STRs per 1,000 homes.** STRs are most common in zip code 85374, where they account for 11.1 of every 1,000 housing units. **As a share of the total housing stock, STRs have not increased to nearly the same degree in Surprise as they have elsewhere in the West Valley (see Figure 71).** For example, the STR market in Glendale more than doubled in size from the fourth quarter of 2021 to the fourth quarter of 2022, when STRs represented 12.1 of every 1,000 housing units in the city.

Figure 70. Short-Term Rentals Per 1,000 Housing Units in Surprise and Its Major Zip Codes, 2022 Q4



Source: AirDNA

Figure 71. Short-Term Rentals Per 1,000 Housing Units, 2019 Q4 to 2022 Q4



Source: AirDNA



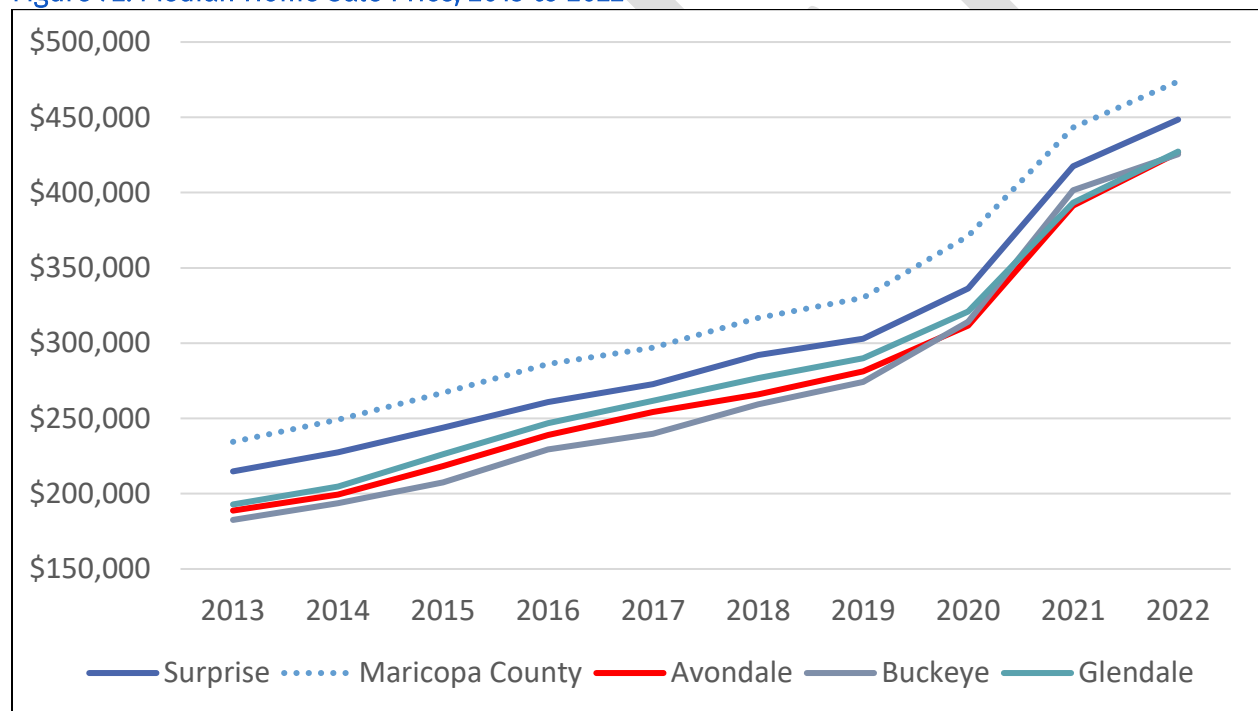
Owner Market Analysis

This section shifts the emphasis to Surprise's owner market. We comprehensively examine sale price trends, home sales and turnover rates, market demand dynamics, home values, owner affordability, and the prevalence of cost-burdened homeowners.

Median Home Sale Price

Home sale price trends across the region are depicted in Figure 72. In 2022, the median home in Surprise sold for \$448,500. **Prices have increased steeply over time even when accounting for inflation.** In 2013, for example, a comparable home sold for \$214,830. The rest of the West Valley and Maricopa County have witnessed similarly drastic price increases, driven by the high rate of migration into the region. However, the median home in Surprise is substantially more expensive than its equivalents in Avondale, Buckeye, and Glendale.

Figure 72. Median Home Sale Price, 2013 to 2022



Source: Redfin; Matrix Design Group, Inc.

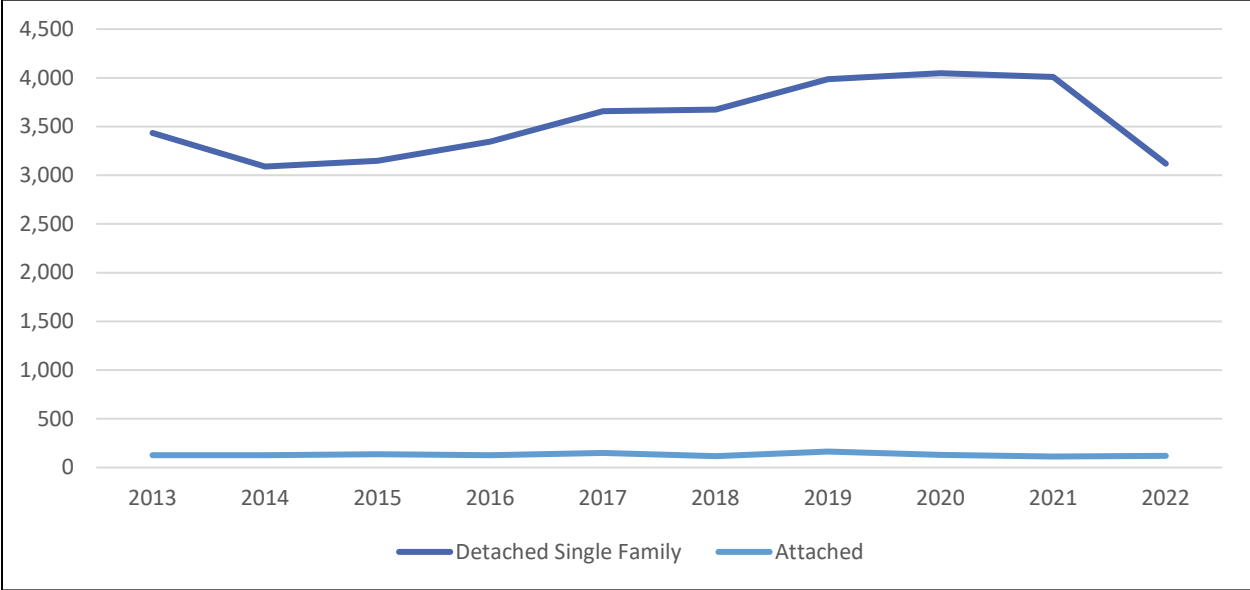
Note: Dollar values adjusted for inflation to constant 2022 dollars.

Home Sales and Turnover

Home sales and turnover data appear in Figures 73 and 74. In most years, between 3,000 and 4,000 detached single-family homes sold in Surprise (see Figure 73). **The number of sales steadily rose from 2014 to 2021, before sharply dropping off in 2022.** Consistent with the aforementioned observation

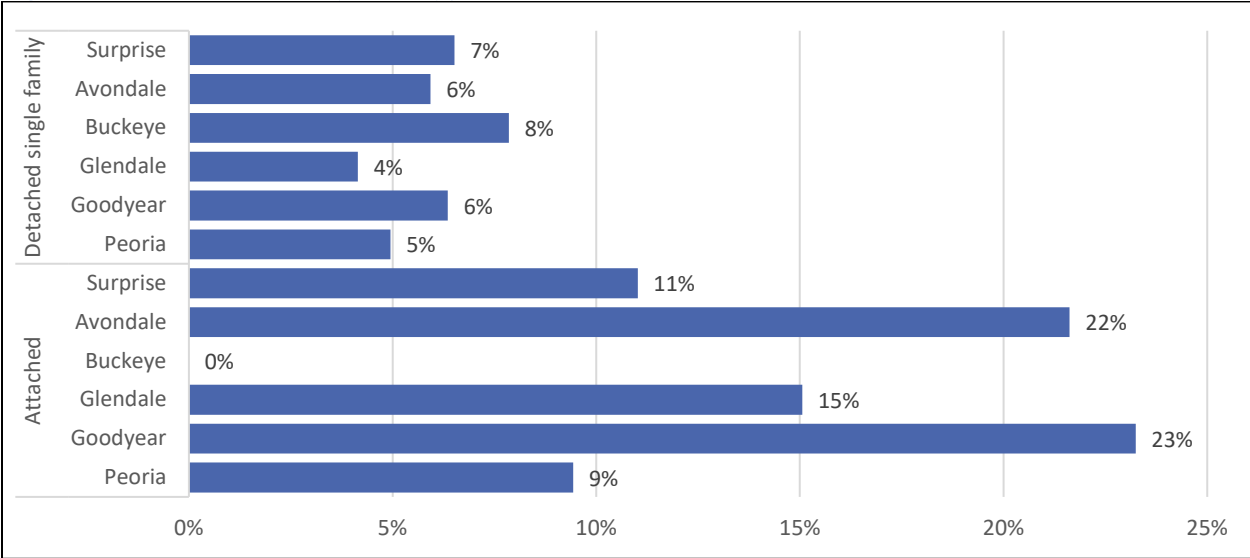
that Surprise’s housing stock lacks structural diversity, dramatically fewer attached homes were sold over the period. Figure 74 presents turnover rates for each unit type in Surprise and five other West Valley cities. Formally defined as the share of the sellable inventory sold in a given time period, the turnover rate indicates how “hot” or “cold” a real estate market is. **In Surprise, about 7% of detached single-family homes turned over in 2022.** Turnover occurred nearly as often in Avondale, Buckeye, and Goodyear. Across the region, turnover was far more likely to occur in attached homes than detached single-family homes. In Surprise, for instance, 11% of the former units had new owners by year’s end.

Figure 73. Home Sales by Unit Type in Surprise, 2013 to 2022



Source: Redfin; Matrix Design Group, Inc.

Figure 74. Turnover Rate by Unit Type, 2022



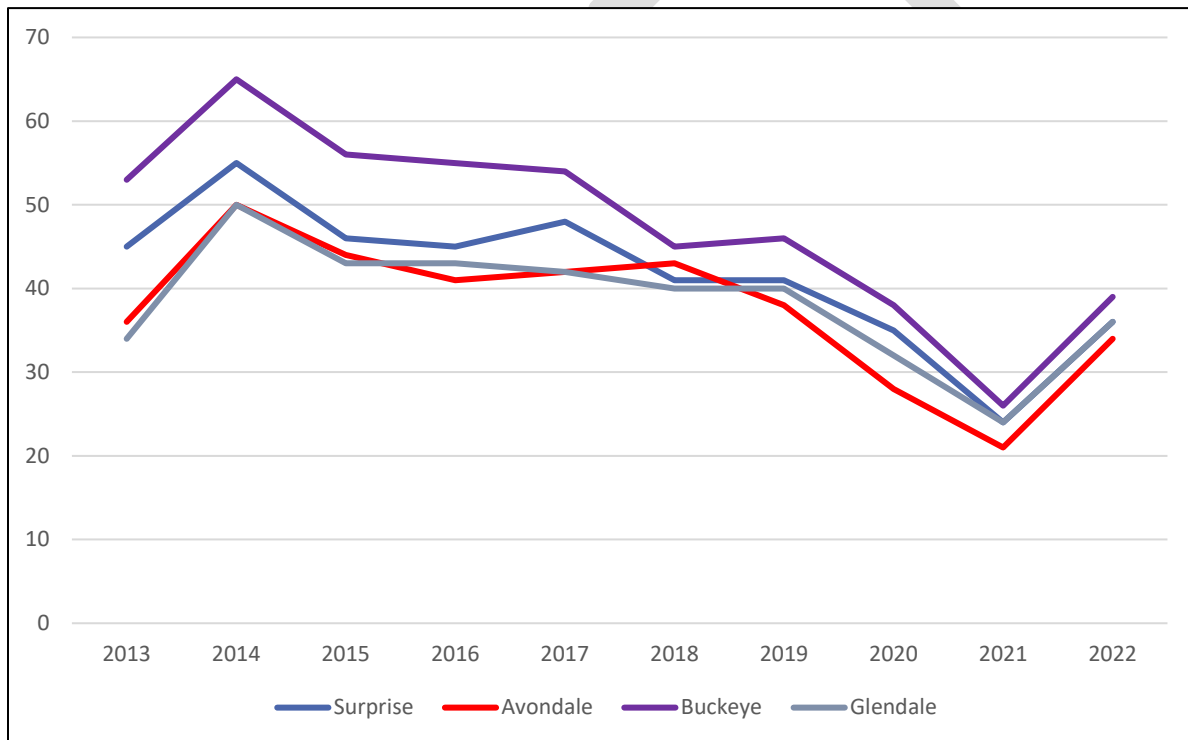
Source: Redfin; Maricopa County Assessor Parcel Data; Matrix Design Group, Inc.



Market Demand

Figures 75 and 76 reveal the extent to which the market has favored buyers or sellers over time. Demand for homes in Surprise reached unprecedented levels, at least in recent memory, amid the COVID-19 pandemic. **In 2021, the median home in Surprise took a record-low 24 days to sell after reaching the market—down from 35 days in 2020.** In the years leading up to the pandemic, it was atypical for a home to take less than six weeks to sell. As evidenced by the 12-day increase in median days on the market from 2021 to 2022, supply and demand have begun to return to historical levels. Data on the percentage of homes sold above list price buttress this view. **In 2021, 56% of Surprise homes ended up selling above the initially advertised price, but by 2022, the same was true of just 37% of sold homes.** Still, this figure is significantly higher than the historical average, which, prior to 2020, ranged from 13% to 20%. Other West Valley markets exhibited similar trends, further suggesting that pandemic-related factors have primarily been responsible for the volatility in Surprise’s market.

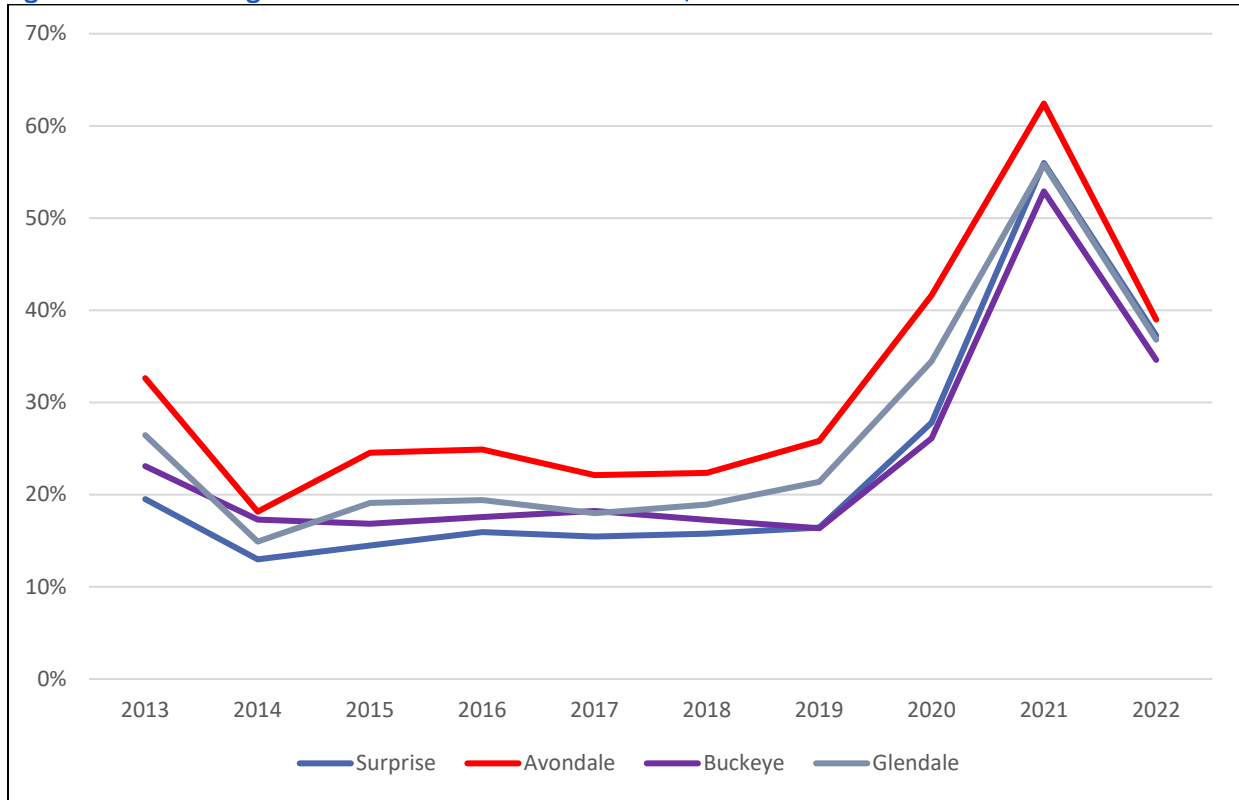
Figure 75. Median Days on the Market, 2013 to 2022



Source: Redfin

“As evidenced by the 12-day increase in median days on the market from 2021 to 2022, supply and demand have begun to return to historical levels.”

Figure 76. Percentage of Homes Sold Above List Price, 2013 to 2022



Source: Redfin

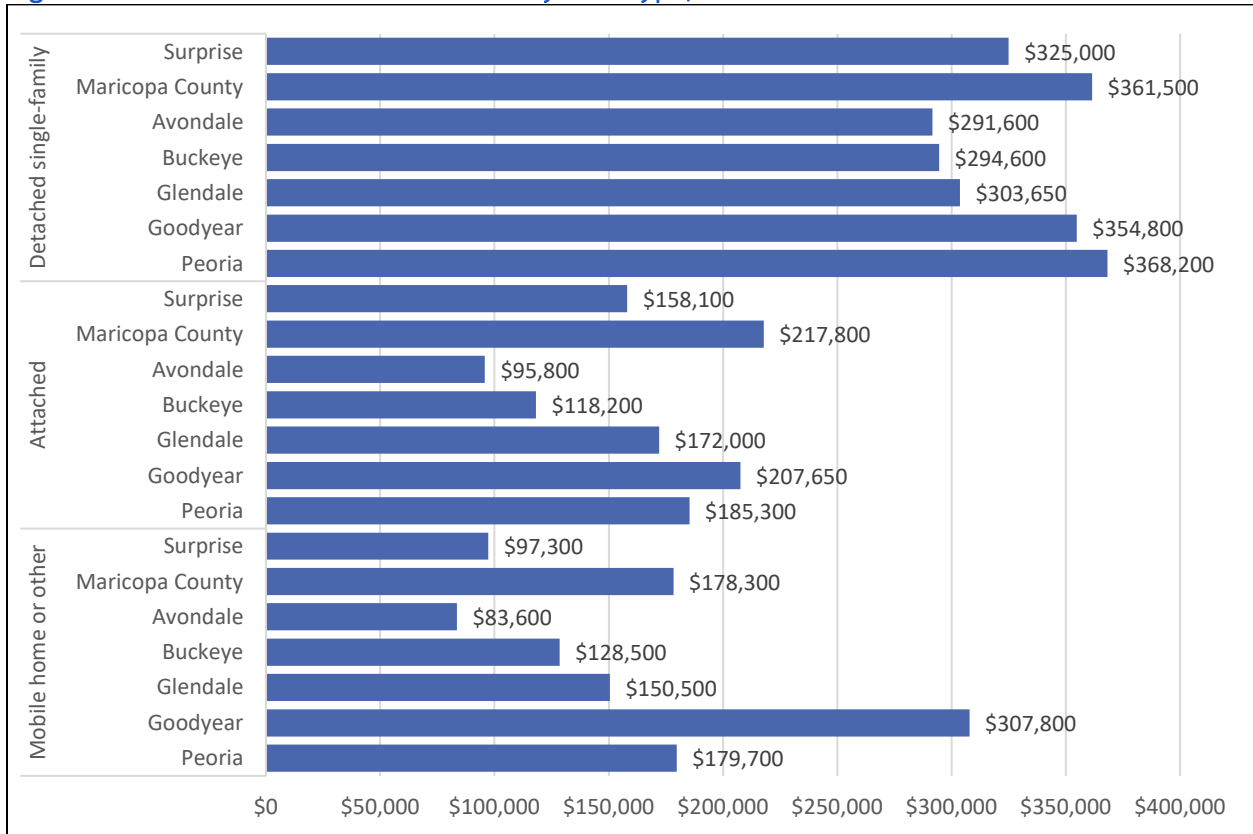
Home Values

Home value data for each community's entire assessed inventory appear in Figure 77. **The 2023 full cash value of the median Surprise detached single-family home, which approximates its market value, is \$325,000.** Across the five major zip codes, estimated median values for such homes range from \$262,800 to \$347,000 (see Figure 78). The typical detached single-family home in Surprise is worth between \$21,350 and \$33,400 more than its equivalents in Avondale, Buckeye, and Glendale. Homeowners in Peoria, Goodyear, and the rest of Maricopa County can generally expect to receive more substantially for their homes than those in Surprise. As expected, other forms of owner units, including townhomes, condos, and mobile homes, tend to be far less expensive than traditional detached single-family homes. In Surprise, for example, the median attached home is valued at about half the price of its detached counterpart.

"The typical detached single-family home in Surprise is worth between \$21,350 and \$33,400 more than its equivalents in Avondale, Buckeye, and Glendale."



Figure 77. Median Full Cash Home Value by Unit Type, 2023



Source: Maricopa County Assessor Parcel Data

Figure 78. Median Detached Single-Family Home Full Cash Value in Surprise and Its Major Zip Codes, 2023

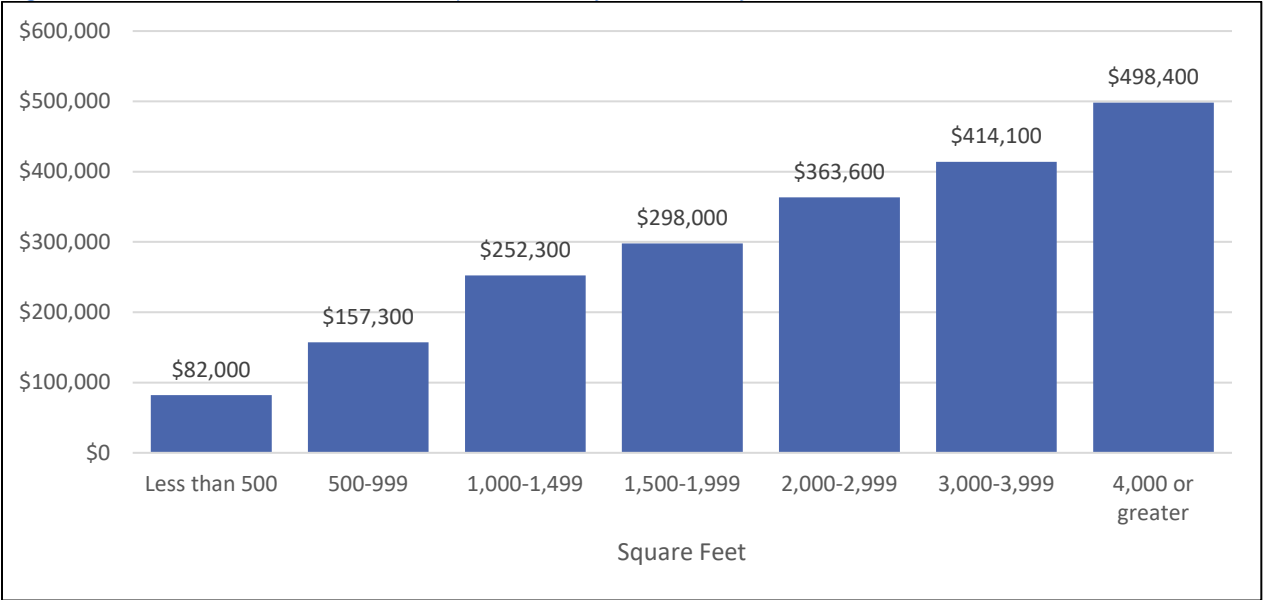


Source: Maricopa County Assessor Parcel Data



The relationship between home size and full cash value is depicted in Figure 79. The median home with between 500 and 999 square feet of livable space, which includes bathrooms, living rooms, bedrooms, and similar rooms but not basements or attics, has an estimated value of \$157,300. An increase in livable space to between 1,000 and 1,499 square feet raises the typical home's value by \$95,000. After that point, subsequent increases in floor area generally yield smaller increases in value. **The median home with a livable floor area ranging from 3,000 to 3,999 square feet, which will usually have at least four bedrooms, has a median assessed value of \$414,100.**

Figure 79. Median Full Cash Value by Livable Space in Surprise, 2023



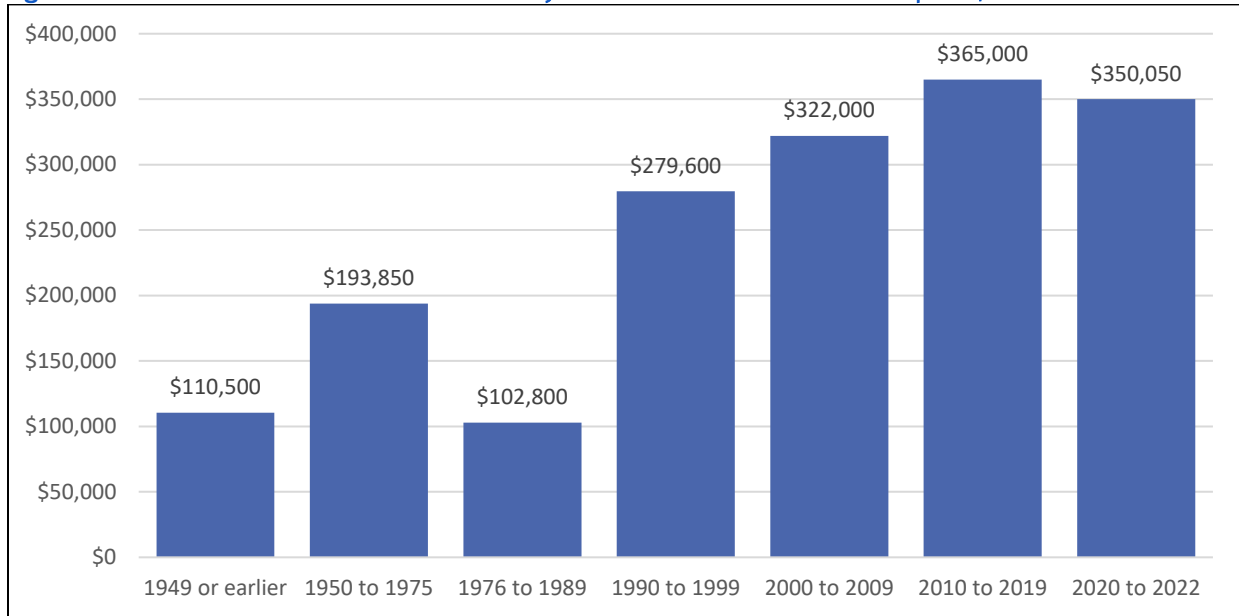
Source: Maricopa County Assessor Parcel Data

Figure 80 presents median home values by year of construction in Surprise. **In general, homes built before the beginning of Surprise's period of sustained, rapid population growth are worth significantly less than newer homes.** The median home built between 1976 and 1989 is valued at just \$102,800, compared to \$279,600 for one built between 1990 and 1999. Homes constructed since the turn of the century would generally sell for over \$300,000. The median unit constructed between 2020 and 2022 is worth about \$15,000 less than one constructed in the prior decade, suggesting, contrary to the home sale price data presented previously, that Surprise may be on a path to becoming more affordable for moderate-income households. Of the approximately 5,000 units added to Surprise's inventory in 2022 alone, over 1,500 are valued at less than \$250,000.

“Of the approximately 5,000 units added to Surprise’s inventory in 2022 alone, over 1,500 are valued at less than \$250,000.”



Figure 80. Median Full Cash Home Value by Year of Construction in Surprise, 2023



Source: Maricopa County Assessor Parcel Data

Owner Affordability Trends

How affordable is Surprise for new or prospective home buyers living not just in Surprise, but in the broader Phoenix MSA? **As Table 5 shows, the typical monthly mortgage payment for someone who purchased a home in 2021 is \$1,500.** To contain these costs to less than 30% of household income, a family needs to earn at least \$59,999. In 2021, the median family living in Surprise earned over \$24,000 more than this threshold. While median family income in the broader Phoenix metro area was lower, it was more than sufficient to cover the typical mortgage payment.

At first glance, these findings seem encouraging, but they are subject to multiple limitations. First, they are conditional on two assumptions: a 3.5% mortgage rate and 20% down payment, which is equivalent to \$83,520. A 3.5% mortgage rate is a reasonable estimate for a home purchased in 2021, but since then, rates have climbed to over 6%, which is more in line with the historical average, as part of an effort by the Federal Reserve to reduce inflationary pressures. Similarly, an \$83,520 down payment is unrealistic for many families, particularly those seeking to become first-time homebuyers, who also tend to have lower household incomes. Second, there are additional costs associated with homeownership beyond the mortgage payment, including property taxes, insurance, and HOA fees.

“As Table 5 shows, the typical monthly mortgage payment for someone who purchased a home in 2021 is \$1,500. To contain these costs to less than 30% of household income, a family needs to earn at least \$59,999.”

Table 5. Affordability of the Median Surprise Home Purchased in 2021

Variable	Value
Mortgage Rate	3.5%
Median Sale Price (2021)	\$417,600
Loan-to-Value	80%
Monthly Mortgage Payment (30-year term)	\$1,500
Required Annual Income to Afford Surprise Median Home Sale Price	\$59,999
Median Family Income - Phoenix Metro Area	\$79,000
Affordability for Median Family Earning Phoenix Metro Area MFI	132%
Median Family Income – Surprise	\$84,420
Affordability for Median Family Earning Surprise MFI	141%

Source: Department of Housing and Urban Development; Five-Year American Community Survey (2021); Redfin; Matrix Design Group, Inc.

How affordable are housing costs for existing Surprise homeowners, regardless of when they purchased their homes? Table 6 offers initial insight into this question, showing that the median owner household with a mortgage earns \$92,511, over \$30,000 more than the amount required to contain median monthly ownership costs of \$1,529 to less than 30% of income. **Buoyed by recent sharp rises in income, mortgagor households were in a stronger position in 2021 than in 2016 or 2011.** Although these findings are encouraging, it is important to recognize that, in addition to having a significantly lower income than the median Surprise homeowner, the typical family in the Phoenix MSA seeking to buy a house in Surprise today will usually face significantly higher ownership costs due to increased sale prices and interest rates. For owner households without mortgages, who have a median income of \$63,798, affording property taxes, insurance, HOA fees, and other expenses is rarely a challenge (see Table 7).

“Although these findings are encouraging, it is important to recognize that, in addition to having a significantly lower income than the median Surprise homeowner, the typical family in the Phoenix MSA seeking to buy a house in Surprise today will usually face significantly higher ownership costs due to increased sale prices and interest rates.”



Table 6. Ownership Cost Affordability for Median Mortgagor Household in Surprise, 2011 to 2021

Year	Ownership Costs for Median Mortgagor Household in Surprise	Household Income Required to Afford Median Surprise Mortgagor Household	Actual Median Mortgagor Household Income in Surprise	Actual Median Mortgagor Household Income in Surprise Relative to Required Income
2011	\$1,819	\$72,752	\$81,782	112%
2016	\$1,615	\$64,616	\$89,649	139%
2021	\$1,529	\$61,159	\$92,511	151%

Source: Five-year American Community Survey (2011, 2016, and 2021); Matrix Design Group, Inc.

Table 7. Ownership Cost Affordability for Median Non-Mortgagor Household in Surprise, 2011 to 2021

Year	Ownership Costs for Median Non-Mortgagor Household in Surprise	Household Income Required to Afford Median Surprise Non-Mortgagor Household	Actual Median Non-Mortgagor Household Income in Surprise	Actual Median Non-Mortgagor Household Income in Surprise Relative to Required Income
2011	\$449	\$17,973	\$54,688	304%
2016	\$494	\$19,755	\$59,585	302%
2021	\$448	\$17,919	\$63,798	356%

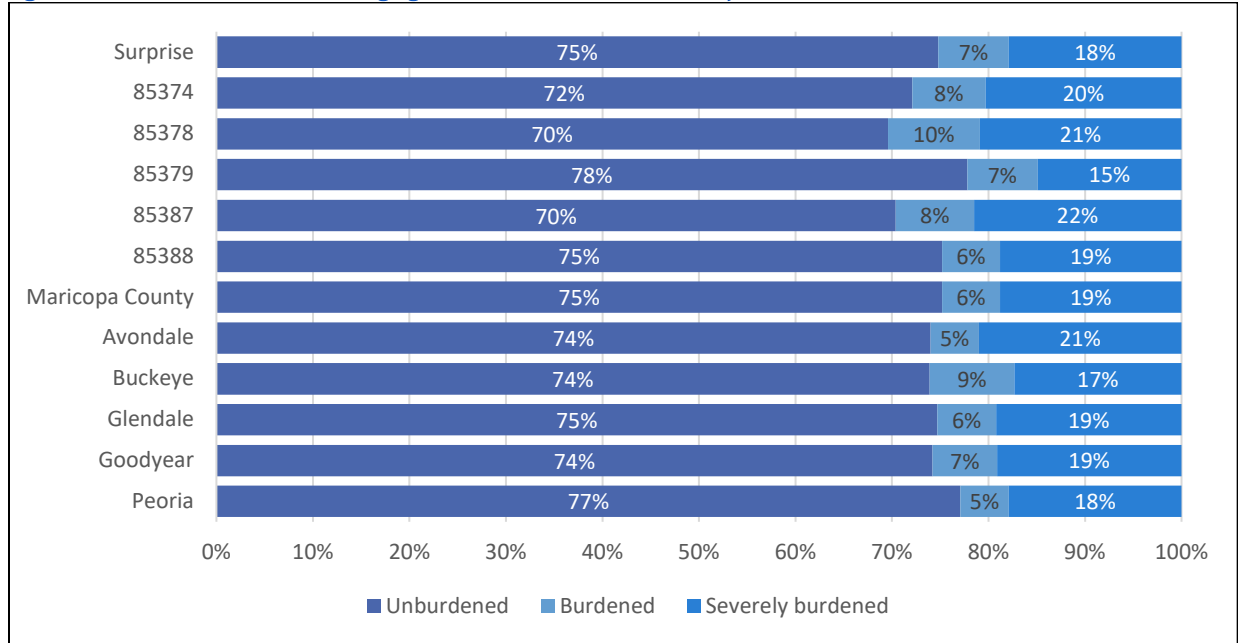
Source: Five-year American Community Survey (2011, 2016, and 2021); Matrix Design Group, Inc.

Cost-Burdened Homeowners

Figures 81 and 82 reinforce the notion that Surprise homeowners are generally secure in their homes. **25% of mortgagor households are considered cost burdened or severely cost burdened.** This rate is in line with the regional average. In certain pockets of Surprise, though, a higher share of households struggle to meet ownership costs. Specifically, in zip codes 85378 and 85387, 30% and 31% of

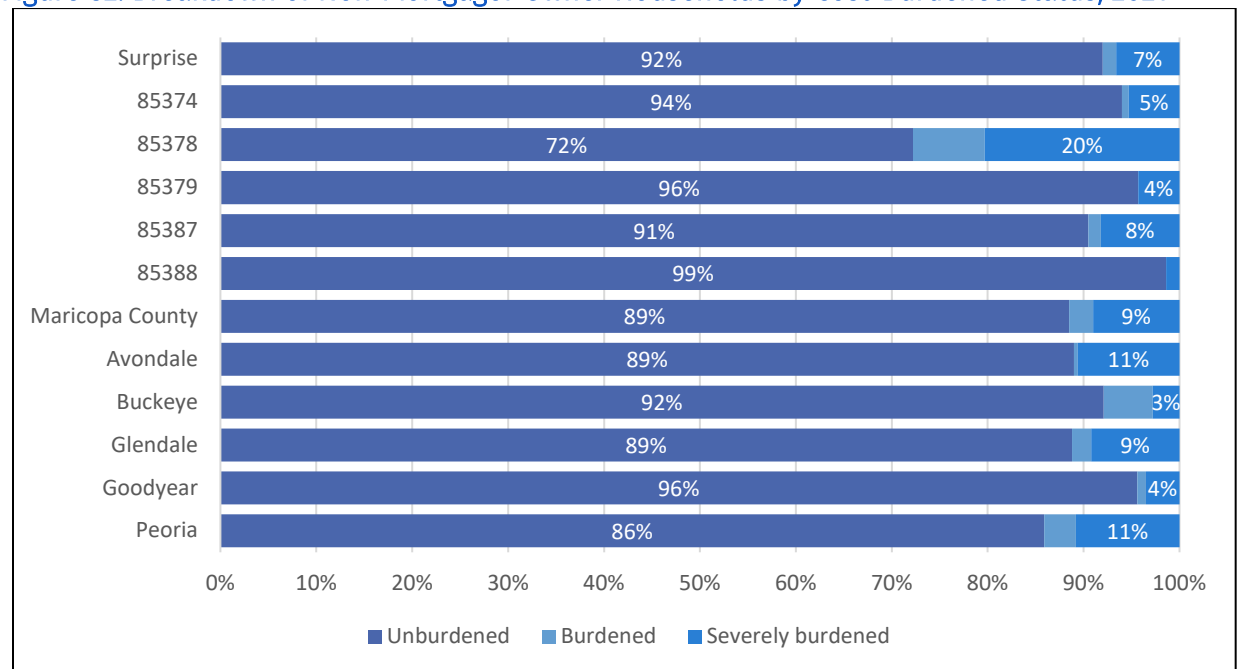
households, respectively, spend more than the recommended amount on housing. For owner households without mortgages, it is highly abnormal for housing costs to account for 30% or more of income. Just 8% of these households in Surprise qualify as burdened or severely burdened.

Figure 81. Breakdown of Mortgagor Owner Households by Cost-Burdened Status, 2021



Source: Five-year American Community Survey (2021)

Figure 82. Breakdown of Non-Mortgagor Owner Households by Cost-Burdened Status, 2021



Source: Five-year American Community Survey (2021)



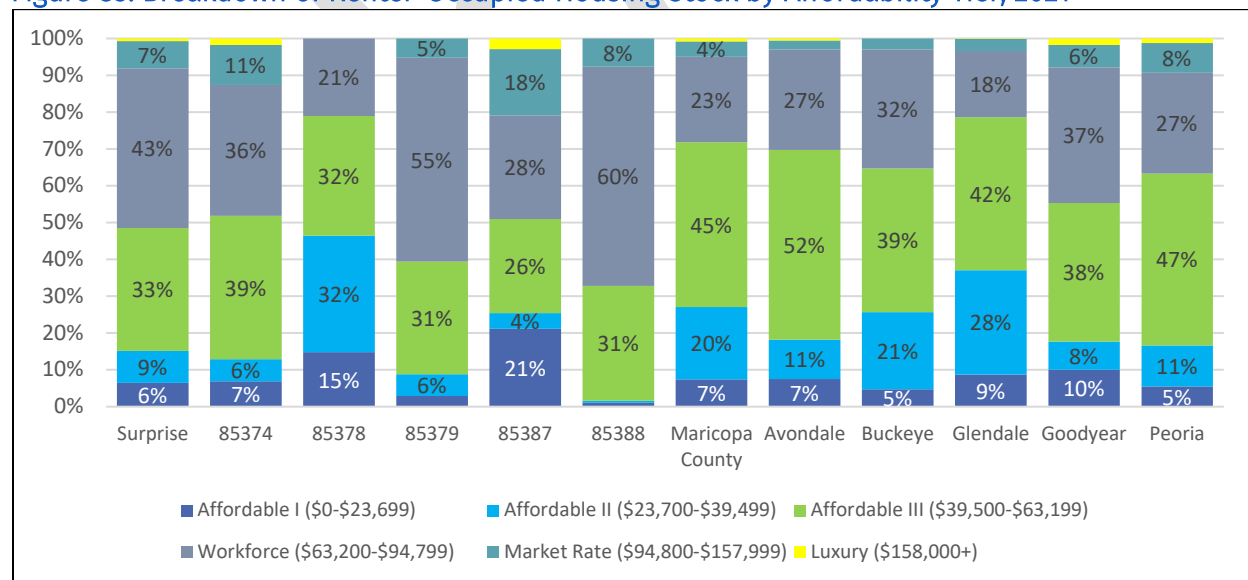
Housing Needs Assessment

The analyses presented in this section primarily measure the magnitude of Surprise's housing gaps. The rental and owner market gap analyses illustrate the extent of Surprise's deficits and surpluses at various price points. Employing a similar approach, we then focus specifically on the needs of senior-led households. Finally, we examine whether and to what extent homes with different numbers of bedrooms are in oversupply or undersupply.

Rental Housing Gap Analysis

Figure 83 categorizes Surprise's renter-occupied units based on their affordability for households earning different levels of area median income (AMI). In order to be sorted into an affordability tier, a unit must not force a household in the corresponding income range to spend 30% or more of its income on rent. **Units in the three "affordable" tiers, which do not burden households earning \$63,199 or less, account for 48% of Surprise's rental inventory. But of the 5,983 affordable rental units, only 1,869 are suitable for households earning below \$39,500.** These low-income households tend to be led by seniors dependent upon Social Security or individuals working in retail trade, accommodation and food services, and similar industries. **Significantly, Surprise has a lower percentage of units in the "affordable" tiers than Avondale, Buckeye, Glendale, Goodyear, Peoria, and Maricopa County as a whole.** A plurality (43%) of Surprise's rental units are considered workforce housing, meaning a household needs to earn at least \$63,200 to afford rent. Market rate and luxury rental units are rare across the city, representing just 8% of the occupied stock. For those in search of a higher-end unit, zip codes 85374 and 85388 offer the most options.

Figure 83. Breakdown of Renter-Occupied Housing Stock by Affordability Tier, 2021



Source: Five-year American Community Survey (2021); Department of Housing and Urban Development; Matrix Design Group, Inc.

Note: Dollar values represent income range needed to afford housing at each tier.

Table 8 compares the unit supply to the level of consumer demand at each affordability tier in Surprise. The estimated difference between supply and demand is referred to as the housing gap. A red value enclosed in parentheses indicates a housing deficit, while a black value denotes a housing surplus. In part because price is only one consideration on prospective homebuyers' minds, it is unrealistic for supply and demand to be in perfect equilibrium at each price point. Still, the results can be a valuable asset to local leaders and stakeholders as they plan future developments. **The results indicate that Surprise has sizeable deficits of homes at the two lower "affordable" levels.** In total, Surprise has a shortage of 1,432 rental homes at appropriate price points for households earning less than 50% of AMI, or \$39,500. While luxury and market rate rentals are, too, in short supply, higher-income renters do not struggle to locate adequate housing. **As such, the city should place more emphasis on closing the housing gap that exists at the lower end of the price spectrum.** This is not to say, however, that the deficits of market rate and luxury rentals have no ramifications. Indeed, when more expensive rentals are in short supply, high-income residents resort to renting out units that could otherwise be occupied by low-to-moderate income households. The gap analysis also reveals that sizeable surpluses exist at the highest affordable and workforce tiers, suggesting that low-income households are commonly forced to stretch their budgets in order to rent in Surprise.

Table 8. Supply-Demand Gap by Affordability Tier in Surprise's Rental Market, 2021

Affordability Tier	Renter Demand	Unit Supply	Gap
Affordable I (\$0-\$23,699)	1,592	793	(799)
Affordable (\$23,700-\$39,499)	1,709	1,076	(633)
Affordable (\$39,500-\$63,199)	2,932	4,114	1182
Workforce (\$63,200-\$94,799)	3,204	5,339	2,135
Market Rate (\$94,800-\$157,999)	2,089	908	(1,181)
Luxury (\$158,000+)	792	88	(704)

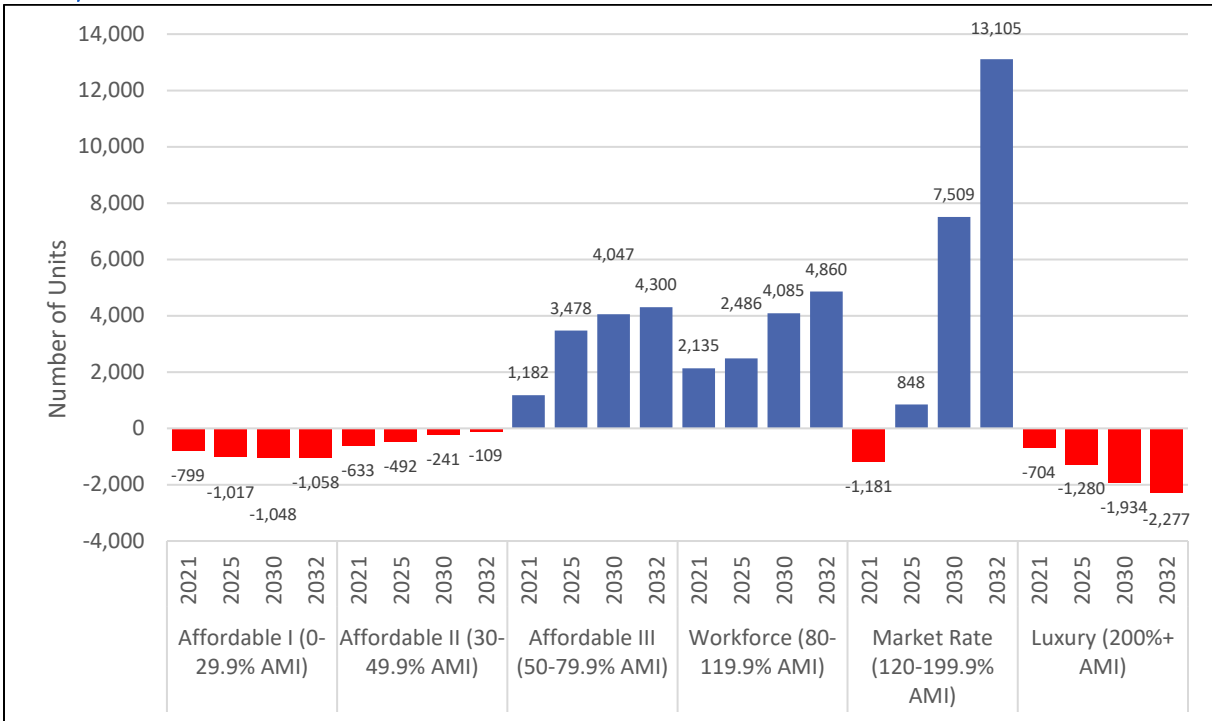
Source: Five-year American Community Survey (2021); Department of Housing and Urban Development; Matrix Design Group, Inc.

Note: Dollar values represent income range needed to afford housing at each tier.

Are existing shortages expected to exacerbate or improve over time? Figure 84 plots the actual or projected housing gap at each affordability tier from 2021 to 2032. A surplus of market rate homes is expected to emerge by 2025, and it will only continue to grow in subsequent years. **In the event no action is taken, Surprise is projected to have a surplus of over 13,000 market rate rentals in 2032.** Similarly, the city will continue to have an excess of rentals suitable for households with incomes between 50% and 119.9% of AMI. While it is encouraging that the shortage of homes in the second "affordable" tier will all but close, the deficits at the extreme ends of the price spectrum are anticipated to reach unmanageable levels. **In as soon as 2025, over 1,000 households with incomes below 30% of AMI will be cost burdened.**



Figure 84. Actual and Projected Supply-Demand Gap by Affordability Tier in Surprise's Rental Market, 2021 to 2032



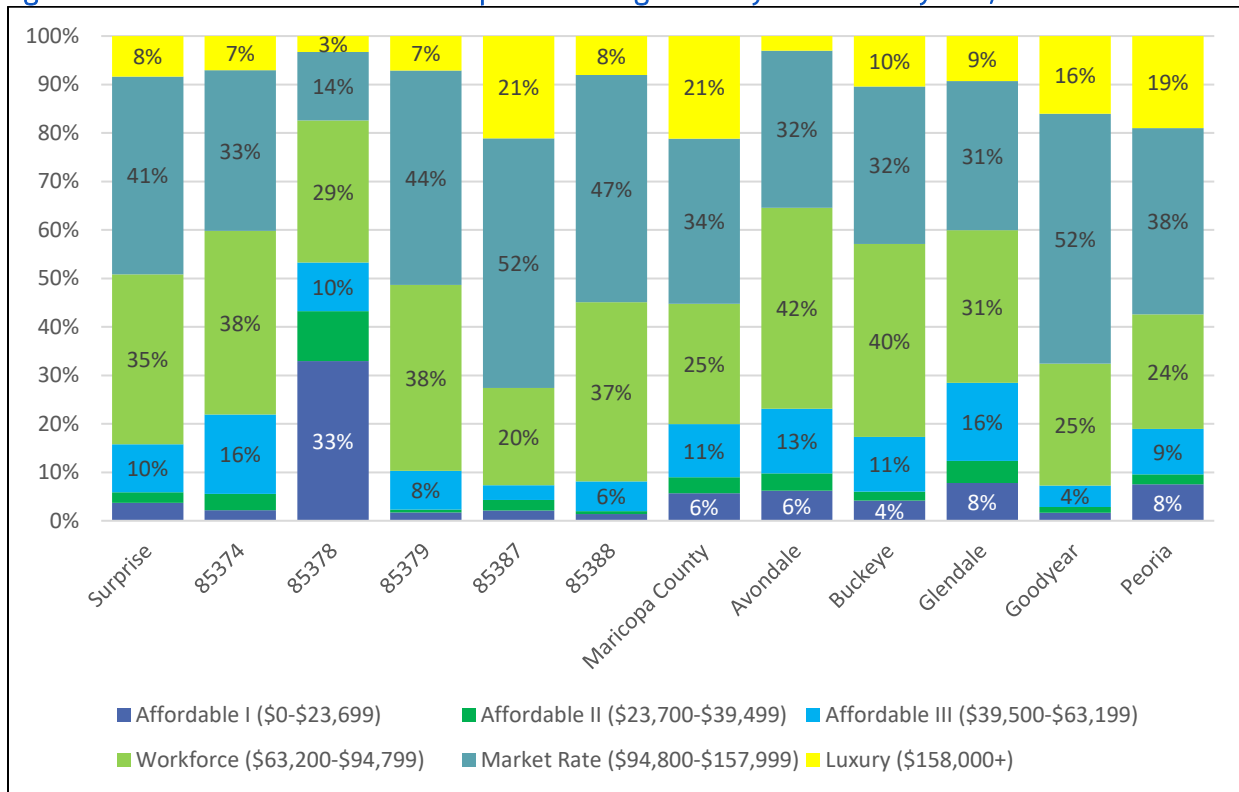
Source: Five-year American Community Survey (2021); Department of Housing and Urban Development; Matrix Design Group, Inc.

Note: Area median income was \$79,000 in 2021.

Owner Housing Gap Analysis

Figure 85 sorts Surprise's owner-occupied homes into the various affordability tiers. In order to replicate the rental market gap analysis as closely as possible, estimated home values, rather than monthly ownership costs, were used as the basis for the analysis. The widely accepted rule that a home's value should not exceed three times annual gross household income informed the categorization of owner-occupied homes into the six tiers. The results reveal that Surprise's owner inventory is significantly more upper class-oriented than its rental inventory. **Only 16% of homes are affordable to households earning less than \$63,200, or 80% of AMI.** In this regard, Surprise is not too dissimilar from most of the West Valley and Maricopa County. Outlier communities include Glendale and Avondale, where over 20% of homes are affordable to households earning substantially less than AMI. **Surprise's owner inventory is concentrated in the workforce and market rate ranges, with 76% of owner-occupied homes being priced appropriately for households with incomes between \$63,200 and \$157,999.** In comparison to Maricopa County, Goodyear, and Peoria, Surprise has few luxury homes, defined as those that are affordable only to those households earning at least \$158,000, which is equivalent to 200% of AMI.

Figure 85. Breakdown of Owner-Occupied Housing Stock by Affordability Tier, 2021



Source: Five-year American Community Survey (2021); Department of Housing and Urban Development; Matrix Design Group, Inc.

Note: Dollar values represent income range needed to afford housing at each tier.

The supply-demand gap analysis suggests that the income composition of Surprise’s households and the price breakdown of its owner-occupied homes are severely mismatched. **Surprise has a nearly 10,000-unit surplus of workforce and market rate homes, leaving little room in the inventory for affordable and luxury homes alike. In total, there exists a deficit of 7,483 homes in the three “affordable” tiers.** This finding suggests that a significant share of homeowners with incomes below \$63,200, or 80% of AMI, are either cost burdened or would be unable to afford their homes were they to purchase them today. The luxury home shortage is significantly smaller, at 2,350 units.

“The supply-demand gap analysis suggests that the income composition of Surprise’s households and the price breakdown of its owner-occupied homes are severely mismatched.”



Table 9. Supply-Demand Gap by Affordability Tier in Surprise's Owner Market, 2021

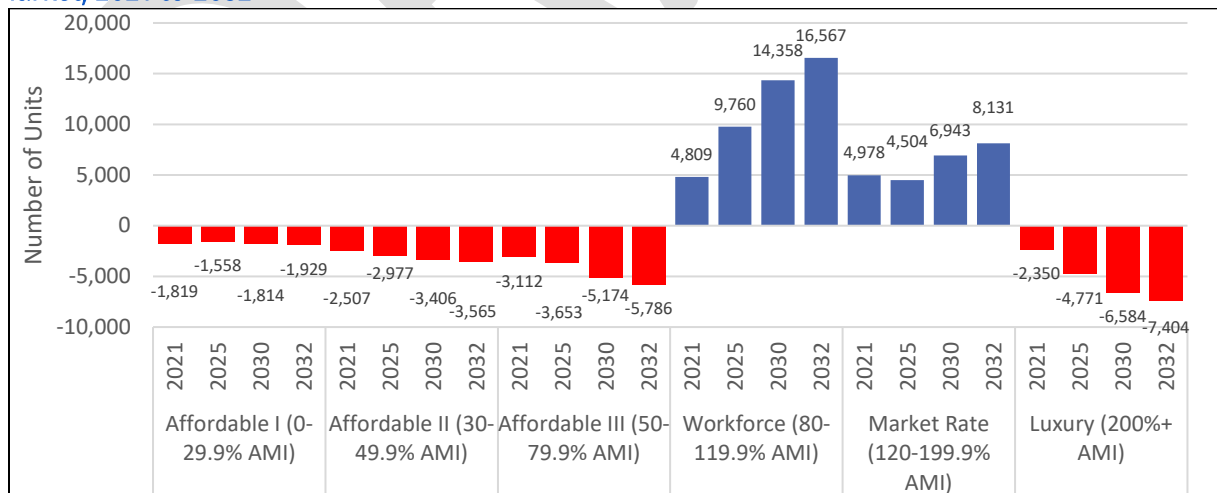
Affordability Tier	Owner Demand	Unit Supply	Gap
Affordable I (\$0-\$23,699)	3,287	1,468	(1,819)
Affordable (\$23,700-\$39,499)	3,374	867	(2,507)
Affordable (\$39,500-\$63,199)	7,085	3,973	(3,112)
Workforce (\$63,200-\$94,799)	9,169	13,978	4,809
Market Rate (\$94,800-\$157,999)	11,294	16,272	4,978
Luxury (\$158,000+)	5,678	3,328	(2,350)

Source: Five-year American Community Survey (2021); Department of Housing and Urban Development; Matrix Design Group, Inc.

Note: Dollar values represent income range needed to afford housing at each tier.

Assuming recent trends continue, existing gaps in the owner market are expected to widen through 2032. **The surplus of workforce and market rate homes is projected to reach 24,698 units by the end of the period.** Meanwhile, the combined shortage at the three “affordable” levels will increase to 11,280 units. More than half of that deficit will occur in the 50% to 79.9% of AMI range. Likewise, the luxury home shortage is anticipated to grow by approximately 5,000 units. **Unless the city recalibrates its housing strategy or some unforeseen event causes the housing market to change course, existing shortages will reach unmanageable levels, severely hampering Surprise’s growth potential and residents’ quality of life.**

Figure 86. Actual and Projected Supply-Demand Gap by Affordability Tier in Surprise's Owner Market, 2021 to 2032



Source: Five-year American Community Survey (2021); Department of Housing and Urban Development; Matrix Design Group, Inc.

Note: Area median income was \$79,000 in 2021.

Senior Housing Gap Analysis

Surprise’s substantial senior population underscores the importance of understanding whether and to what extent this particular demographic faces housing shortages. Table 10 presents estimated differences between supply and demand by affordability tier. **The results demonstrate that 3,008 senior households earn less than \$23,700 annually, but only 816 units in the renter- and owner-occupied inventories are affordable to them.** It is also difficult for the 6,842 senior households with incomes between \$23,700 and \$63,199 to find appropriately priced housing, considering that just 3,619 units fall into the corresponding affordability tiers. **For seniors alone, then, Surprise faces a 5,414-unit shortfall in the three “affordable” tiers.** Collectively, these findings indicate that seniors are disproportionately impacted by Surprise’s deficit of homes at the lower end of the price spectrum. Only senior-led households with workforce- or market rate-level incomes are unaffected by shortages.

Table 10. Supply-Demand Gap by Affordability Tier in Surprise's Senior Housing Market, 2021

Affordability Tier	Senior Demand	Rental and Owner Unit Supply	Gap
Affordable I (\$0-\$23,699)	3,008	816	(2,192)
Affordable (\$23,700-\$39,499)	2,517	701	(1,815)
Affordable (\$39,500-\$63,199)	4,325	2,918	(1,407)
Workforce (\$63,200-\$94,799)	4,227	6,972	2,744
Market Rate (\$94,800-\$157,999)	3,222	6,200	2,978
Luxury (\$158,000+)	1,541	1,233	(309)

Source: Five-year American Community Survey (2021); Department of Housing and Urban Development; Matrix Design Group, Inc.

Note: Dollar values represent income range needed to afford housing at each tier.

Home Size Gap Analysis

Because home size and its price are inextricably linked, it is important to compare the supply of differently sized homes, as measured by number of bedrooms, to the level of demand. We estimated demand separately for rental and owner homes with varying numbers of bedrooms using data on household size. **Table 11 shows that there exists demand for 669 efficiency rental units, but Surprise has a mere 313 such units, leaving the city with a deficit of 356 units.** Similarly, although 5,922 renter households require one or two bedrooms, the current inventory features just 4,376 one-bedroom units. These households, which consist of between one and three people, commonly resort to renting out three- or four-bedroom units, which are in oversupply. Surprise also has insufficient five-or-more-bedroom rentals, with demand exceeding supply by 1,204 units.



Table 11. Supply-Demand Gap by Number of Bedrooms in Surprise's Rental Market, 2021

Number of Bedrooms	Renter Demand	Unit Supply	Gap
0	669	313	(356)
1	2,856	1,913	(943)
2	3,066	2,463	(603)
3	2,106	4,806	2,700
4	1,926	2,332	406
5 or more	1,695	491	(1,204)

Source: Five-year American Community Survey (2021); Matrix Design Group, Inc.

As Table 12 demonstrates, the dynamics are similar in Surprise's owner market. **Surprise has 10,517 owner homes with two or fewer bedrooms, but based on the fact that between one and three people compose 75% of owner households, we estimate that there exists demand for 25,572 such homes.** This over 15,000-unit gap leaves smaller households with no choice but to purchase three-or-more-bedroom homes, which represent a majority of the inventory. Given that increases in livable space substantially raise ownership costs, it is therefore not a coincidence that so many Surprise households find themselves cost burdened. The results also demonstrate that the city has a deficit of five-or-more-bedroom homes.

Table 12. Supply-Demand Gap by Number of Bedrooms in Surprise's Owner Market, 2021

Number of Bedrooms	Owner Demand	Unit Supply	Gap
0	740	83	(657)
1	8,428	1,450	(6,978)
2	16,405	8,984	(7,421)
3	4,734	15,999	11,266
4	5,240	9,864	4,624
5 or more	4,341	3,507	(834)

Source: Five-year American Community Survey (2021); Matrix Design Group, Inc.

Summary of Community Engagement Campaign

This section provides an overview of the community engagement campaign that Matrix conducted in coordination with the city. Matrix held two public meetings in which residents were given an opportunity to voice their concerns about the housing situation, interviewed stakeholders with unique insight into the city’s housing challenges, and created a community survey.

Community Survey

Matrix designed a 12-question survey intended primarily to measure Surprise residents’ attitudes toward housing. Full question wording and results can be found in the Appendix. The city then disseminated the survey, which ran from March 15, 2023, to March 31, 2023. 285 residents participated in the survey; their age breakdown appears in Table 13. Due to cost and time constraints, the survey employed non-probability sampling methods, including voluntary response sampling and convenience sampling. Because respondents were not selected at random, they may not be representative of the population as a whole. Consequently, the results, while informative, should be interpreted with caution.

Table 13. Age Breakdown of Resident Survey Respondents

Age Range	Percentage of Respondents
18-24	1%
25-34	7%
35-44	18%
45-54	25%
55-64	21%
65 and over	28%

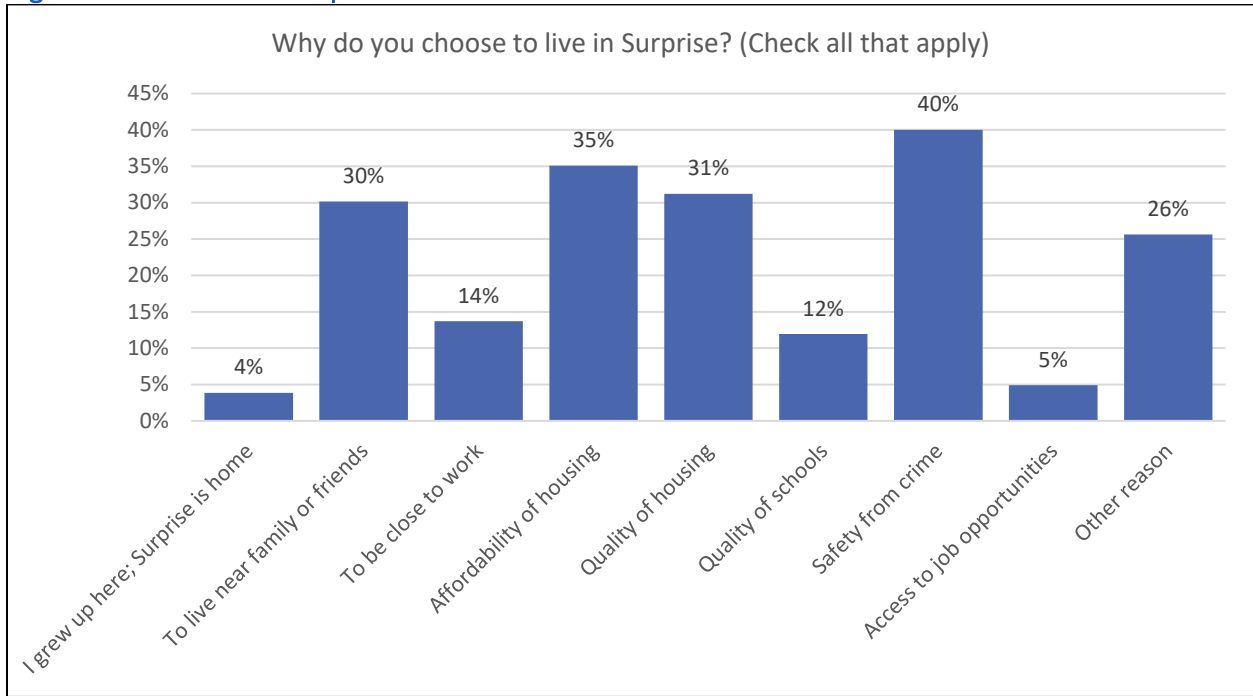
Source: Matrix Design Group, Inc.

Note: N = 285

Figure 87 reveals the most common reasons for living in Surprise. “Safety from crime” was cited by the highest percentage of residents (40%), followed by “affordability of housing” (35%) and “quality of housing” (31%). Relatedly, as Figure 88 shows, 37% of participants indicated they were “very satisfied” with their current housing, and an additional 43% claimed to be “satisfied.” Similarly, most respondents indicated it was “not difficult at all” to locate housing in the city. **At first glance, then, the results seem to suggest that residents are satisfied with housing conditions as they currently exist.**



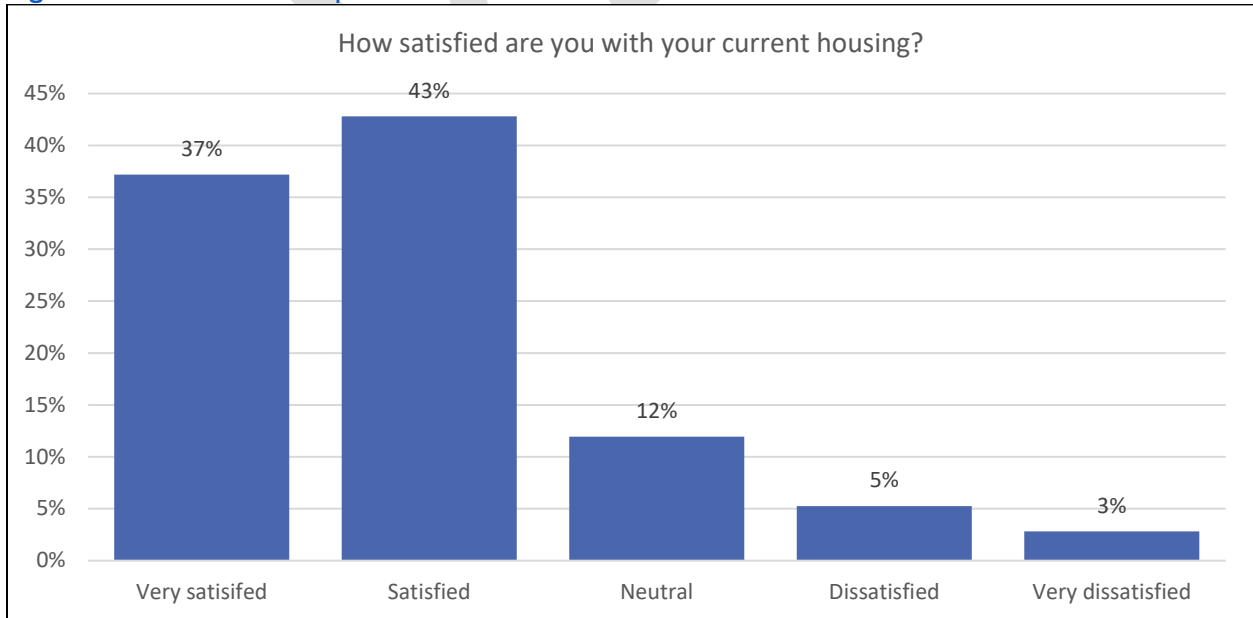
Figure 87. Question 2 Responses



Source: Matrix Design Group, Inc.

Note: N = 285

Figure 88. Question 4 Responses



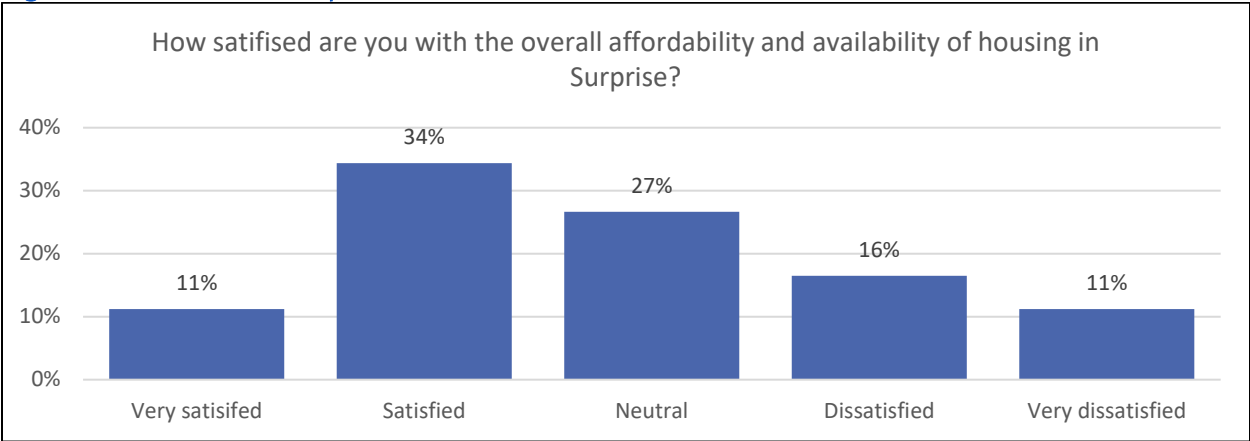
Source: Matrix Design Group, Inc.

Note: N = 285



Further interrogation of residents’ attitudes yields a more nuanced picture. **While residents are generally pleased with their own housing situations, they are less enthusiastic about conditions in their community, with fewer than half of respondents (45%) claiming to be “very satisfied” or “satisfied” with the overall affordability and availability of housing in Surprise (see Figure 89).** Moreover, a plurality of renters (39%) intend to buy a home outside of Surprise (see Figure 90), and when asked to identify Surprise’s most pressing housing issues, the most popular responses were that “younger people cannot afford to buy homes” (48%) and that “rent is unaffordable” (45%) (see Figure 91). There also exists widespread concern about homelessness (see Figure 92). Contrary to conventional wisdom, Figure 93 suggests that residents are open to options other than large single-family homes, with 52% indicating it is “important” or “very important” for Surprise to offer a wider variety of housing products.

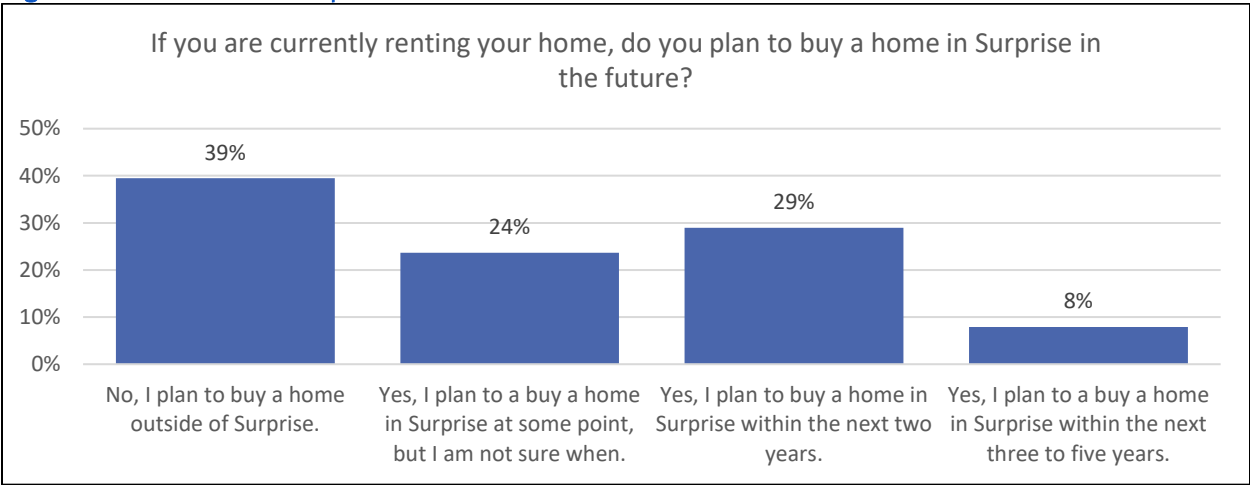
Figure 89. Question 5 Responses



Source: Matrix Design Group, Inc.

Note: N = 285

Figure 90. Question 8 Responses

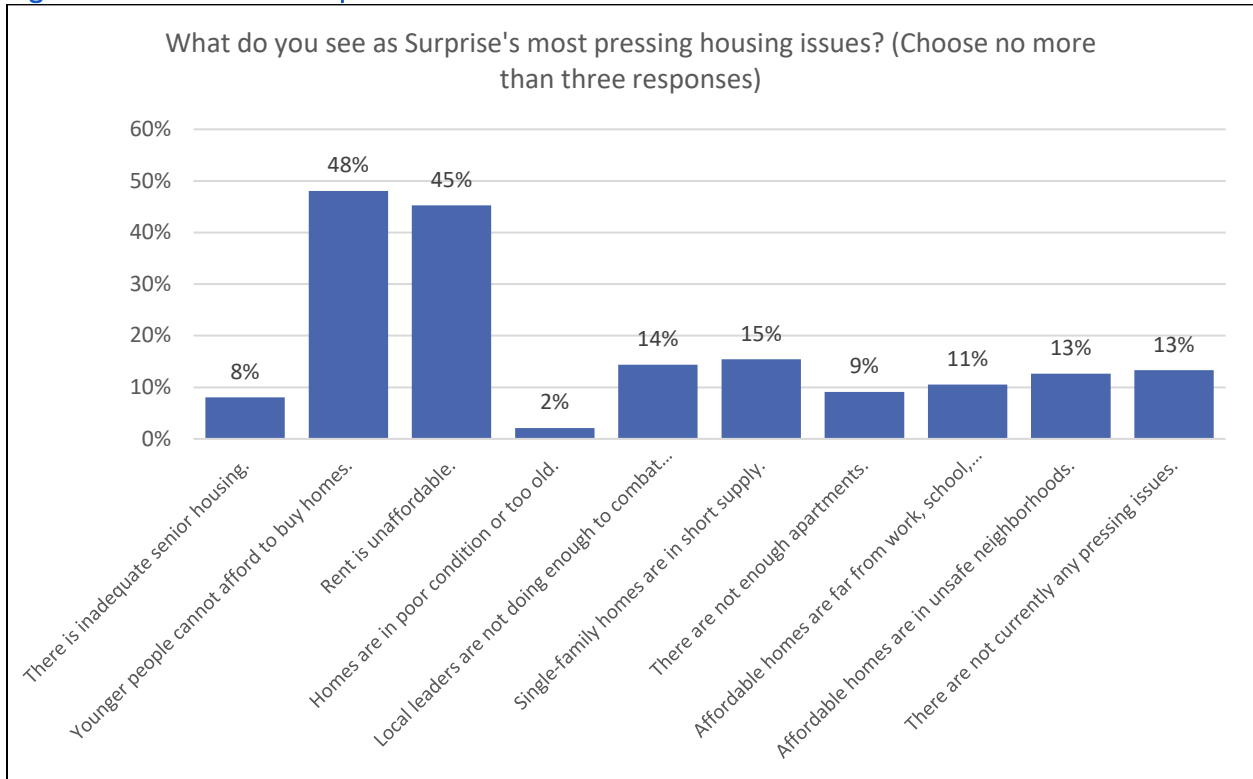


Source: Matrix Design Group, Inc.

Note: N = 38



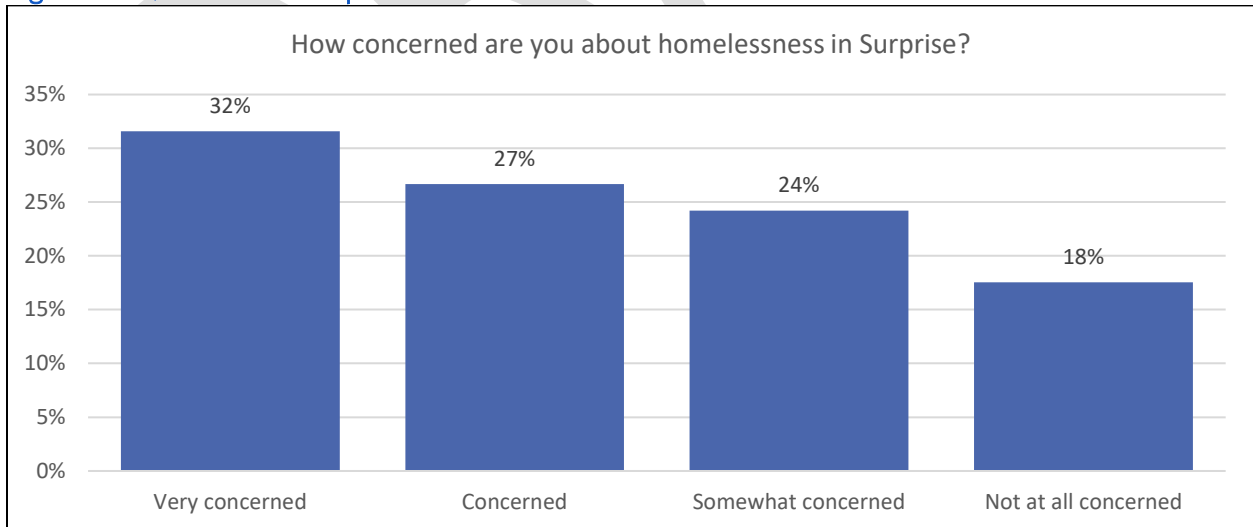
Figure 91. Question 11 Responses



Source: Matrix Design Group, Inc.

Note: N = 285

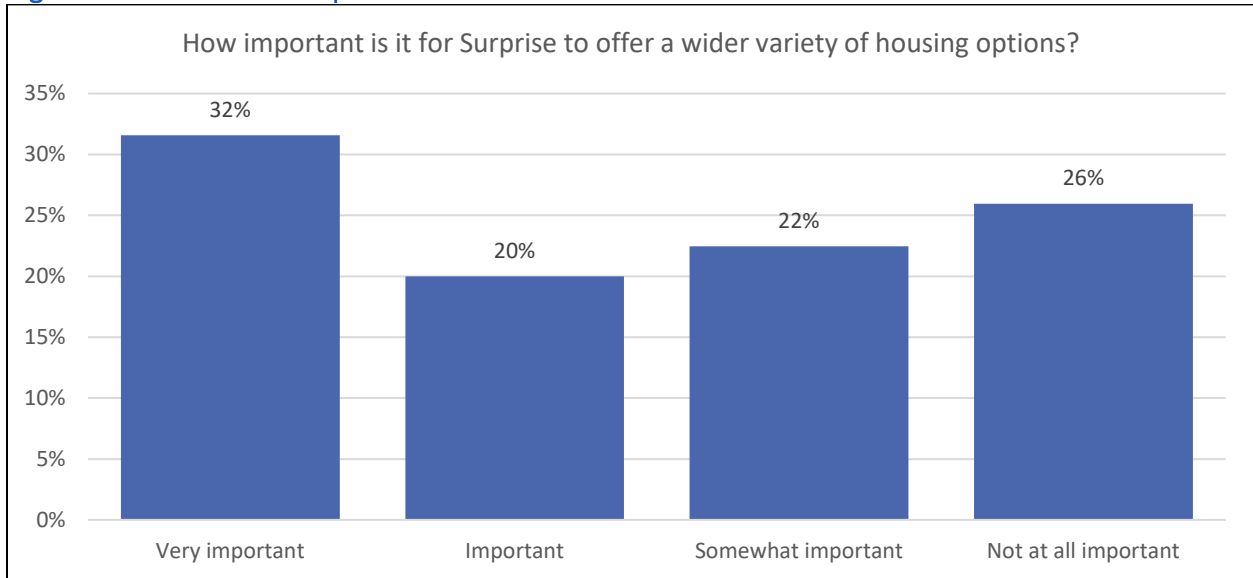
Figure 92. Question 10 Responses



Source: Matrix Design Group, Inc.

Note: N = 285

Figure 93. Question 9 Responses



Source: Matrix Design Group, Inc.

Note: N = 285

Stakeholder and Resident Input

As part of its community engagement campaign, Matrix engaged the following stakeholders, either in one-on-one interviews or in a focus group setting: Ability360, Foundation for Senior Living, Newtown Community Land Trust and Community Development Corporation, Arizona Charter Academy, Dysart Unified School District, and WeSERV. Stakeholders generally noted that the study’s empirical findings were consistent with their real-world observations. Representatives of the Arizona Charter Academy and Dysart Unified School District remarked, for example, that teachers and staff are struggling to afford housing in Surprise. **It is not uncommon, according to these stakeholders, for teachers to have to work second jobs or live with multiple roommates in order to meet their rent payments.** The financial difficulties facing Surprise teachers have led many to leave the profession or the area. Surprise’s struggle to attract and retain high-quality teachers has far-reaching negative ramifications, given that education is a major driver of economic development. Relatedly, an increasing number of families have reportedly been priced out of the area, and many of those who have opted to stay have had to apply for housing assistance. Research demonstrates that housing insecurity has negative impacts on student achievement, a finding validated by our stakeholder interviews.

Matrix also learned about the vital roles played by Ability360 and Newtown Community Land Trust (Newtown) in promoting housing accessibility and affordability, respectively. **Led by people with disabilities, Ability360 works to improve housing accessibility through its Community Block Grant-funded Home Modification program.** As its name implies, the program finances door widenings, the installation of ramps and grab bars, and other modifications that increase the ability of someone with a disability to live independently. The service is available to low-to-moderate income Arizona residents. Newtown makes homeownership more attainable to families earning significantly less than AMI by



retaining ownership of the land that sits beneath the homes it sells. In addition, the organization offers homebuyer education and financial coaching, among other resources, that help keep families in their homes.

In partnership with the city, Matrix hosted a pair of community meetings on April 10, 2023. A significant number of attendees were part of Voice for Surprise, a group ardently opposed to further multi-family development. Recognizing that continued population growth is all but inevitable due, in part, to the planned semiconductor plant, Voice of Surprise members emphasized that they were not anti-growth but, rather, pro-responsible growth. They expressed concern about the impacts of rapid population growth on traffic, class sizes, and the availability of water, with some arguing that Surprise risked losing the small-town charm that had attracted them to the city in the first place. Still, there was widespread acknowledgement that housing costs had increased dramatically in recent years. One attendee suggested that individual decisions, rather than policy changes, are the solution to Surprise's housing challenges, arguing that young people who cannot afford homes should live with their parents until they can afford a down payment and mortgage. **Residents also noted that Surprise has vast amounts of developable land, suggesting it is within the capacity of the city to meet the increased demand for housing that it is likely to experience in the coming years.**

In the absence of a scientific survey with a representative sample, it is difficult to estimate exactly how widely the Voice of Surprise's views are shared by residents at large. Indeed, scholars have long observed that those who feel most intensely about an issue and have higher socioeconomic status disproportionately participate in local government and politics. **However, we have reason to believe that a sizeable number of Surprise residents are steadfastly opposed to any measure that would, in their view, dramatically alter the character of the city. The strategies that local leaders and stakeholders pursue must account for this reality.**





Comprehensive Housing Strategy

This section outlines a comprehensive housing strategy that, if implemented, will ultimately increase the affordability and availability of housing in Surprise. We recommend that the city work to expand duplexes and triplexes; finance accessory dwelling units; take advantage of state-level funding sources, principally the new low-income housing tax credit and expanded Housing Trust Fund; lobby for the passage of legislation that devolves authority over housing policy to local governments; support the Newtown Community Land Trust; and facilitate and incentivize affordable development. **While any one of these recommendations is unlikely to be a panacea, the available evidence suggests a multi-pronged approach is likely to have a measurable positive impact.**

Expand Duplexes and Triplexes

Duplexes and triplexes are an appealing compromise for low- or moderate-income households who desire both more privacy than is offered by large multifamily complexes and the ambiance of a suburban or rural neighborhood. Along with accessory dwelling units (ADUs) and townhomes, duplexes and triplexes are among the most popular types of “missing middle housing.” Historically, attached single-family homes, small multifamily homes, and similar housing types were relatively common in the U.S., but the advent of single-family zoning in the mid-twentieth century rendered them all but obsolete. Although they remain “missing” in housing inventories across the country, they have made a comeback in recent years as demand for a wider array of housing products has increased. Proponents of “gentle density,” who recognize the practical and political unfeasibility of constructing high-rise apartments or condos in single-family districts, have been integral to the proliferation of alternative housing types. **Critically, duplexes and triplexes can be built in such a way that makes them nearly indistinguishable from single-family homes, thus preserving the character of a neighborhood.**

Unfortunately, Surprise has been slow to embrace gentle density. According to the 2021 American Community Survey, less than 3% of the city’s homes meet the definition of “missing middle” housing. The spread of duplexes and triplexes, in particular, has been thwarted by restrictions found in Article II, Section 106-1.8 of Surprise’s Zoning and Use Standards. Currently, these housing types are prohibited in residential rural (RR) and residential low-density (R-1) districts. **We propose permitting duplexes and triplexes by right in all residential districts.**

In significantly increasing development costs, the requirement that each individual unit in a duplex or triplex have two dedicated off-street parking spaces has, too, stymied the construction of these homes. **Our experience in the implementation of zoning reforms elsewhere leads us to conclude that the two parking spaces per unit requirement is excessive, even when accounting for Surprise’s limited public transportation options.** Given that ADUs and small multifamily homes attract similarly sized households, we recommend that they be governed by the same parking space requirements. Currently, ADUs are mandated to have only one parking space per unit.

Finance Accessory Dwelling Units

Also referred to as mother-in-law suites, granny flats, or carriage houses, ADUs are small units (typically between 600 and 1,000 square feet) that share a lot with a larger residence. Like duplexes and triplexes,



ADUs have gained popularity in recent years as an alternative to traditional single-family homes. Although residents are free to not only build but also rent out ADUs throughout Surprise's single-family residential districts, residents report that ADUs are rare. ADU expansion would provide significant benefits to the city. **In addition to being an affordable alternative to traditional single-family homes, ADUs can help homeowners meet their mortgage payments by generating rental income. Furthermore, contrary to popular belief, ADUs do not negatively impact property values.⁴**

The cost prohibitive nature of ADU construction is among the primary reasons these homes have failed to gain traction in Surprise. Construction of a 600-square foot ADU is estimated to start at \$90,000, and conventional financing options suffer from severe shortcomings. In particular, cash-out refinancing and home equity loans and lines of credit fail to cover the costs of construction for homeowners who have failed to accumulate sufficient equity, limit the amount of equity borrowers can extract, and do not account for the future rental income that the ADU will generate. **In recent years, municipalities have begun experimenting with grants, zero-interest loans, and deferred interest-free loans, which usually range from \$10,000 to \$30,000, to fill funding gaps.** At least one city (Montpelier, Vermont) has leveraged Community Development Block Grants to fund ADUs. Similarly, an innovative program in Napa, California provides forgivable loans amounting to as much as \$50,000. Under this program, homeowners who rent out their ADUs to low-income tenants are eligible to have their debts reduced by five percent per year. In addition to establishing one or more of these financing programs, the city should partner with nonprofit groups, and potentially other lenders, to ensure that projected rental income, at least up to a certain threshold, counts as qualifying income for the purpose of credit approval.

Leverage State-Level Funding Sources

In a bipartisan effort to promote the development of affordable housing, state lawmakers established a low-income housing tax credit (LIHTC) as part of 2021's SB 1124. In doing so, Arizona joined 16 other states in supplementing the federal LIHTC program, which finances 30% or 70% of low-income unit construction costs through 4% or 9% credits, respectively, to be redeemed annually over a 10-year period. Since its creation as part of the Tax Reform Act of 1986, the federal LIHTC program has proven itself to be the single most effective affordable housing intervention in Arizona, subsidizing construction costs for 97% of the state's affordable units.

Arizona's new state-level LIHTC program, which represented the state's most significant investment ever in affordable housing at the time of its creation, seeks to further close the profitability gap between affordable and market rate projects by providing \$4 million annually in tax credits through 2025. Intended to be paired with the federal LIHTC program, these state credits are projected to generate an estimated \$160 million worth of investments over the program's lifespan. While

⁴ Gnagey, Jenny, Matt Gnagey, and Christopher Yench. "The Impact of Legalizing Accessory Dwelling Unit Rentals on Property Values: Evidence from Ogden, Utah." *Journal of Housing Research*, 2022. <https://www.tandfonline.com/doi/abs/10.1080/10527001.2022.2106039>



the state-level funding is allocated equally between rural and metro projects, the 9% federal credits are reserved for the former. In March 2023, construction of the first state LIHTC-funded apartment complex commenced in Glendale, following an announcement that Globe and Prescott Valley would be the sites of the first rural projects to receive state tax credit funding. **Given LIHTC's indisputable record of spurring development, we strongly recommend that Surprise similarly work to attract developers who would be inclined to leverage this funding source.** At the time of this writing, one credit allocation cycle remains, but there is a possibility the program will be extended or strengthened in the future.

Arizona's expanded Housing Trust Fund (HTF) represents an additional opportunity for the city as it confronts growing housing shortages and rising rates of homelessness. **In addition to financing affordable housing developments, the HTF supports rental assistance, foreclosure and eviction prevention, and emergency and transitional housing programs, among others.** It works in tandem with federal programs, providing match and leverage resources. Historically, the HTF had been funded exclusively through the sale of unclaimed property, but in 2022, lawmakers injected \$60 million into it as part of the state's \$18 billion annual budget. The investment came three years after the state, following a period of Great Recession-induced cutbacks, recommitted to the HTF by providing \$15 million in funding. **The rapid rate at which this funding was consumed suggests that city leaders and stakeholders must act promptly in order to benefit from the state's most recent investment in the HTF.** In a positive development, the Senate-approved state budget for fiscal year 2024 is set to inject an additional \$150 million to the HTF, provided it can pass the House in its current form.

Lobby State Leaders to Pass Municipality-Empowering Legislation

Land banks are widely recognized as an effective tool for reducing vacancies and, by extension, the imbalance between supply and demand. **These public or nonprofit organizations acquire properties that have been rejected by the private market—usually because they are tax delinquent or carry other significant liabilities.** After clearing the property's title, the land bank will typically sell it to an affordable housing developer or help arrange its demolition. The benefits of land banks are well documented, with one study finding that the value they recover far exceeds operating costs.⁵ **Furthermore, it is likely not a coincidence that land banks tend to operate within cities known for their affordable rents and home sale prices, such as Houston and San Antonio.**

Yet, according to the Center for Community Progress, Arizona is not the site of any of the approximately 250 land bank or land banking programs that exist in the U.S. The likely culprit is that the legislature has not explicitly authorized local and county governments to establish public land banks. **We therefore propose that Surprise, in partnership with other localities, lobby state leaders to enact land-bank enabling legislation and then begin the process of forming countywide or municipal land banks.**

⁵ Whitaker, Stephan and Thomas J. Fitzpatrick IV. "Land Bank 2.0: An Empirical Evaluation." *Journal of Regional Science*, vol. 56, no. 1, 2016, pp 156-175. <https://onlinelibrary.wiley.com/doi/full/10.1111/jors.12206>.



While states across the political spectrum, including Georgia, Tennessee, and New York, have adopted similar legislation, the election of Governor Hobbs, a steadfast supporter of affordable housing initiatives, suggests land bank advocates likely have an ally in the state's highest office.

Additionally, the city should attempt to persuade state leaders to reverse the 1999 repeal of legislation authorizing the use of tax increment financing (TIF). A powerful stimulator of (re)development in blighted areas, TIF funds affordable housing and commercial improvements by earmarking the resulting future property and sales tax revenues. TIF was first utilized in California in 1952, before rapidly diffusing throughout the U.S. Today, Arizona is the only state that does not allow communities to fund affordable housing projects through this innovative public financing mechanism. The favorable political conditions created by widespread concern over housing affordability and the shift in partisan control of the governorship raise the possibility that state leaders will be open to revisiting existing policy. In the event Surprise is authorized to resume using TIF in the future, the city would likely be prohibited by a myriad of state statutes, including the Private Properties Rights Protection Act, from specifying the minimum percentage of revenues that must be devoted to affordable housing or mandating that a certain share of units within a TIF district be affordable to low- or moderate-income households. **As such, the city should instead offer voluntary incentives that serve to increase the profitability of affordable housing projects in TIF districts—namely, density bonuses.**

Finally, we suggest that the city urge the Arizona State Legislature to create an expedited development review process for affordable housing projects. HB 2536, which passed the House unanimously in March 2023 but remains stalled in the Senate at the time of this writing, would achieve this end by allowing city administrators to review and approve development plans without public meetings or hearings in limited circumstances. The project delays that result from an unnecessarily lengthy development review process raise costs for developers, and it is likely the case that these delays disproportionately impact affordable housing projects, given their reduced profitability. Should HB 2536 become law, it would be in the interest of the city to waive public hearing or meeting requirements for housing projects that dedicate a significant share of units to households earning less than 80% of AMI.

Augment the Newtown Community Land Trust

Community land trusts (CLTs) strive to create permanently affordable housing through unique means. These nonprofit entities use private and public funds to acquire land, which remains under their ownership for the foreseeable future. Depending on the land's level of development and the condition of its structural improvements, the CLT will typically proceed to build a new home or renovate an existing one. Next, the home, excluding the underlying land, is sold to an income-eligible household. **The effective removal of the land from the purchase price allows the home to be sold below market rate.** Moreover, via restrictive covenants, ground leases, and other means, the CLT is able to ensure the home's subsequent buyer(s) will belong to a similar income tier. Scholarly research attests to the benefits



of CLTs.⁶ In addition to reducing a home's sale price to as low as 74% of its assessed value, CLTs have been found to reduce rates of delinquency and foreclosure while simultaneously allowing homeowners to build wealth and, eventually, transition to market rate housing.⁷

Surprise is served by the Newtown Community Land Trust (Newtown), a Tempe-based nonprofit founded in 2001. In 2022, Newtown sold a Surprise home to a family earning significantly below AMI for \$315,000—\$54,000 less than its appraised unrestricted market value. Maricopa County, but not the city, helped fund the project. **We recommend that the city join other nearby municipalities in allocating funding to Newtown, as well as educate low-income families on the organization's activities. Based on our public engagements, we have reason to believe that CLT efforts will encounter less public opposition than other affordable housing initiatives.**

Reduce Burdensome Regulations and Incentivize Affordable Development

Our research uncovered two additional regulations the city should reconsider. First, the requirement that each two-bedroom apartment in properties with four or more units have two parking spaces undoubtedly hinders the construction of affordable housing by significantly raising development costs. This regulation is also needlessly burdensome given the lower rates of car ownership among low-income residents. **We therefore recommend that Surprise reduce this requirement to either 1.5 or 1.75 off-street parking spaces per two-bedroom unit.** Second, the city currently imposes hefty impact fees on multi-family developments, with the cost per dwelling unit amounting to \$1,384. **In order to spur the construction of affordable housing, we propose that Surprise follow the example of Glendale in waiving or reducing impact fees for projects that receive LIHTC funding or meet other eligibility criteria.**

Statewide restrictions on inclusionary zoning and rent control are among the laws that further limit the development of affordable housing. However, while Surprise is forbidden from *requiring* that properties meet certain affordability criteria, it is free to *incentivize* developers to build affordable housing. **Density bonuses are the most attractive incentive Surprise can offer to developers.** These programs typically increase the maximum allowable units per acre on the condition that a certain percentage of those units be affordable to low-income households. While Surprise does not impose limits on the number of units per acre that a developer can build in high-density residential districts, stringent restrictions exist in residential low-density, residential medium-density, and mixed-use medium-density districts. The city should leverage these restrictions to entice developers to include affordable units in their project plans.

⁶ Temkin, Kenneth, Brett Theodos, and David Price. "Balancing Affordability and Opportunity: An Evaluation of Affordable Homeownership Programs with Long-Term Affordability Controls." The Urban Institute, 2010. <https://www.urban.org/sites/default/files/publication/29291/412244-Balancing-Affordability-and-Opportunity-An-Evaluation-of-Affordable-Homeownership-Programs-with-Long-term-Affordability-Controls.PDF>.

⁷ Thaden, Emily. "Making Sense of the Low Rates of Delinquencies and Foreclosures in Community Land Trusts." Lincoln Institute of Land Policy, 2010. <https://www.jstor.org/stable/pdf/resrep18338.1.pdf>.



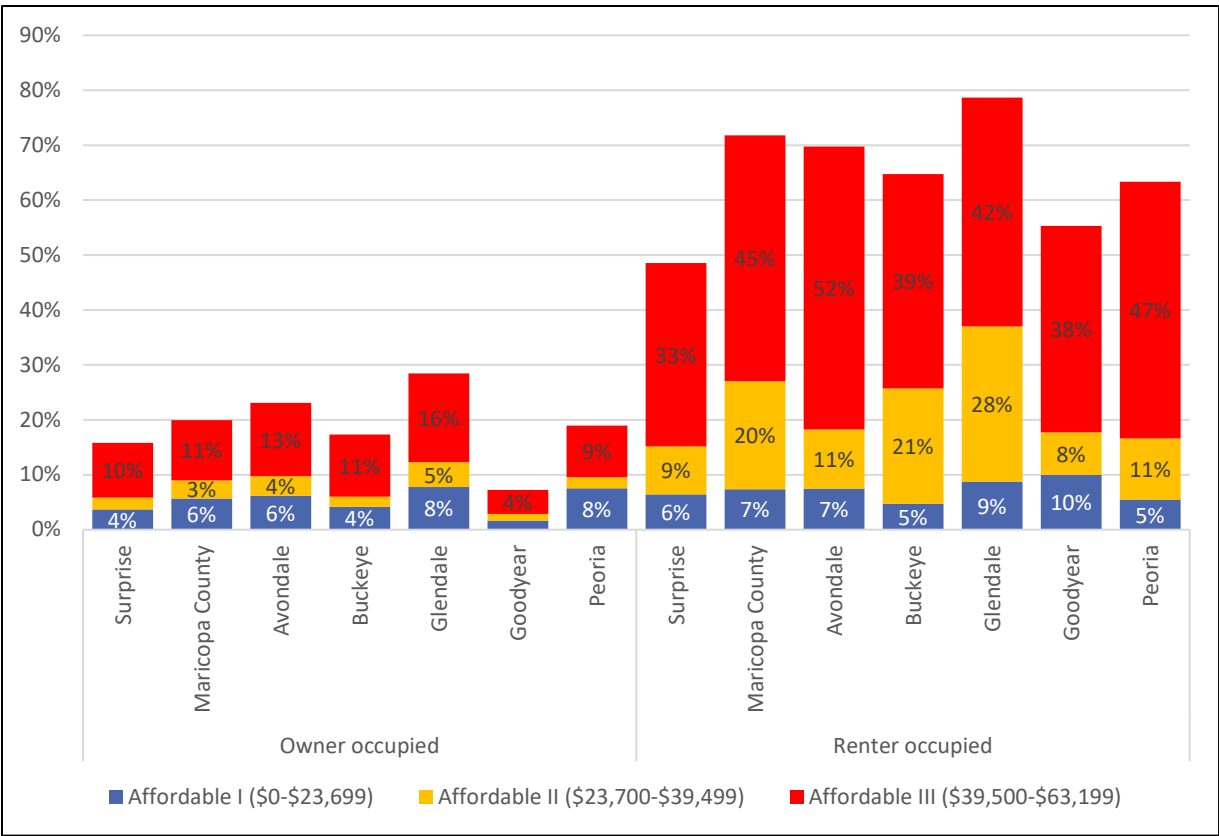
Moreover, because density shares a positive relationship with a property's value, any such program would not run afoul of the Private Property Rights Protection Act.



Key Findings and Implications

- Surprise has experienced astounding growth in recent decades, but its housing inventory has struggled to adapt accordingly. **Proportionally speaking, Surprise has fewer “affordable” renter-occupied units than Maricopa County as a whole and at least five other West Valley cities (see Figure 94). Further, by a substantial margin, it trails Avondale and Glendale in the percentage of “affordable” owner-occupied homes.** While such homes make up similar shares of Surprise’s and Buckeye’s inventories, the latter city boasts a richer supply of workforce owner housing. The greater availability of lower- and middle-income-oriented housing in surrounding communities likely hinders Surprise’s ability to attract and retain younger families in particular.

Figure 94. Affordable Homes as a Share of Occupied Housing Stock by Tenure



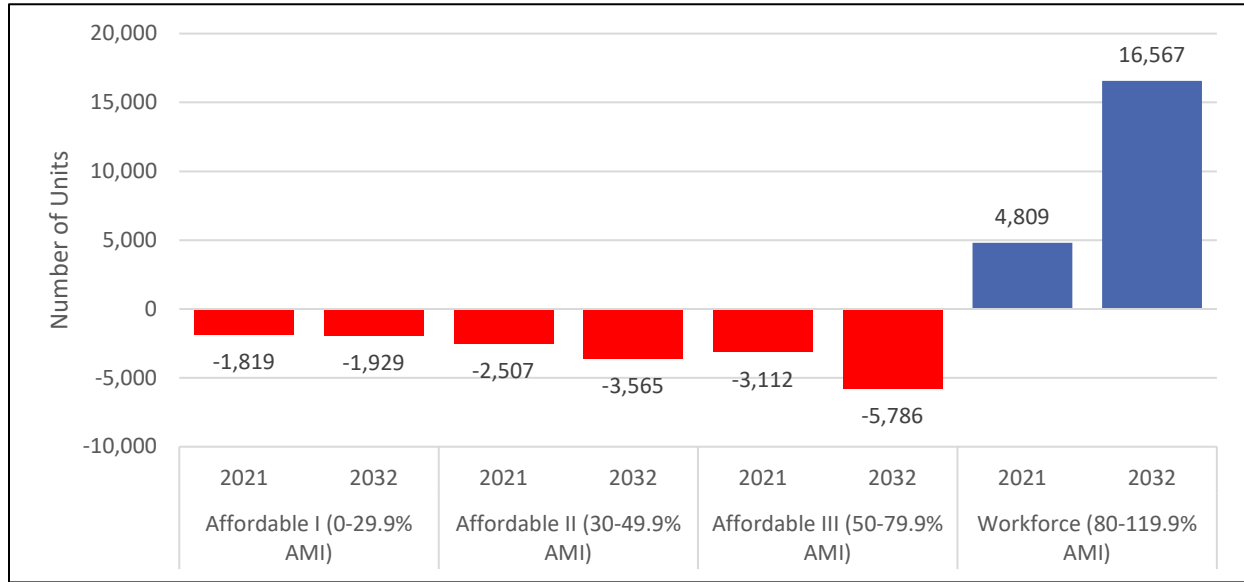
Source: Five-year American Community Survey (2021); Department of Housing and Urban Development; Matrix Design Group, Inc.

- Incomes have failed to keep pace with rapidly escalating home sale prices and rents, leaving the city with a shortage of affordable homes for low-income households (see Figure 95). Prospective low-income home buyers commonly find themselves forced into workforce housing, which carries excessive costs for households earning below 80% of AMI, or \$63,200, despite being in oversupply. Similarly, Surprise suffers from a deficit of affordable rental units for households



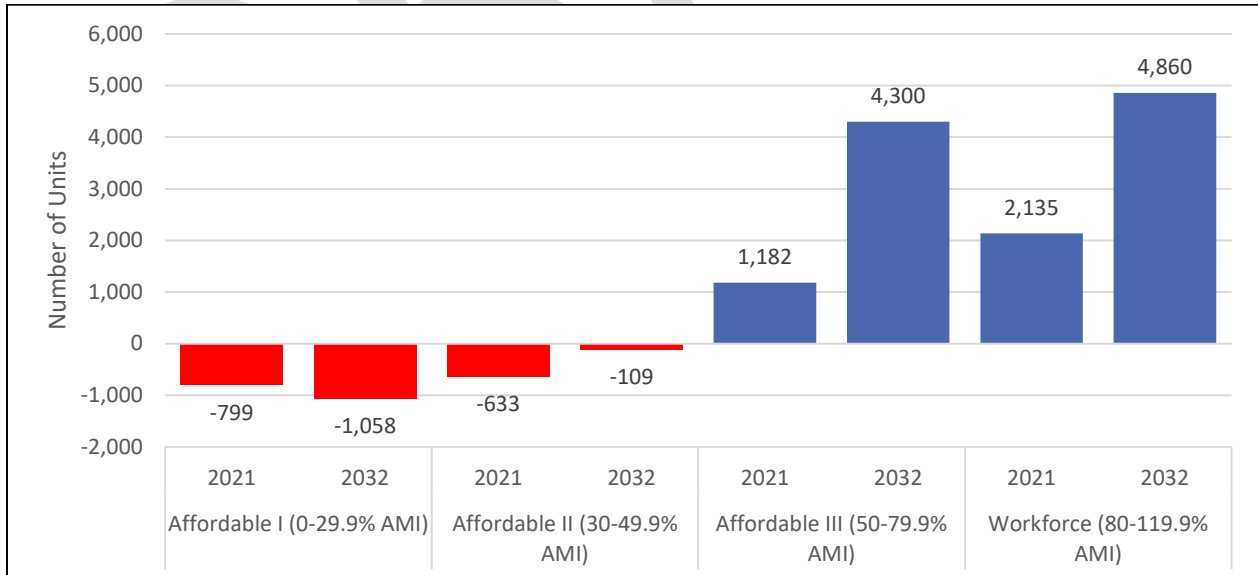
earning below 50% of AMI, or \$39,499 (see Figure 96). Due to their lower incomes, younger and senior households bear the brunt of these shortages. **Deficits are forecasted to grow through 2032, exposing Surprise to increased rates of homelessness and overcrowding.**

Figure 95. Supply-Demand Gaps in the Affordable and Workforce Segments of Surprise's Owner Market



Source: Five-year American Community Survey (2021); Department of Housing and Urban Development; Matrix Design Group, Inc.

Figure 96. Supply-Demand Gaps in the Affordable and Workforce Segments of Surprise's Rental Market

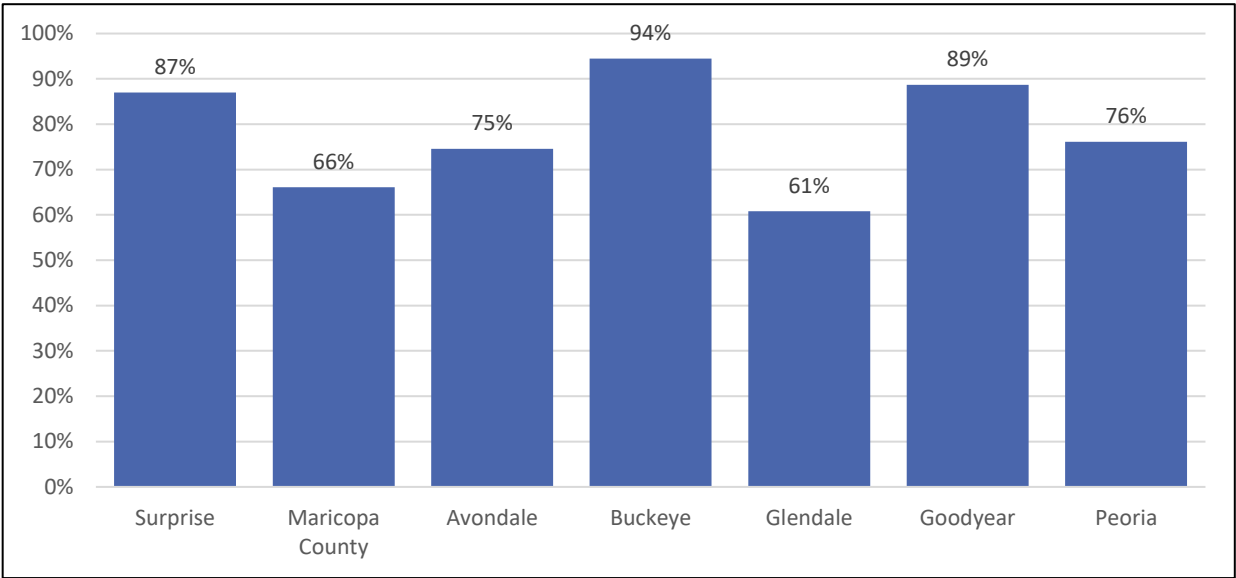


Source: Five-year American Community Survey (2021); Department of Housing and Urban Development; Matrix Design Group, Inc.



- **Surprise’s shortage of affordable rental housing has resulted in a sharp increase in the rate of cost-burdened or severely cost-burdened renters since 2020, with 53% of these households now spending 30% or more of their incomes on rent.** Housing costs generally do not place the same strain on homeowners, yet approximately a quarter of those with mortgages qualify as cost burdened or severely cost burdened. Surprise’s high rate of cost-burdened or severely cost-burdened households threatens its prospects for future economic growth, as residents with reduced disposable incomes are less inclined to dine out, consume entertainment, and participate in recreational activities.
- Detached single-family homes represent 87% of Surprise’s housing stock, making it less structurally diverse than those of Peoria and a number of other neighboring communities (see Figure 97). **The predominance of detached single-family homes, which tend to be more expensive than attached or multi-family alternatives, contributes to Surprise’s affordability challenges.** Surprise residents have an appetite for increased product type diversity, with 74% of survey respondents indicating it is at least somewhat important for Surprise to offer a wider array of housing options.

Figure 97. Detached Single-Family Homes as a Share of Occupied Housing Stock, 2021

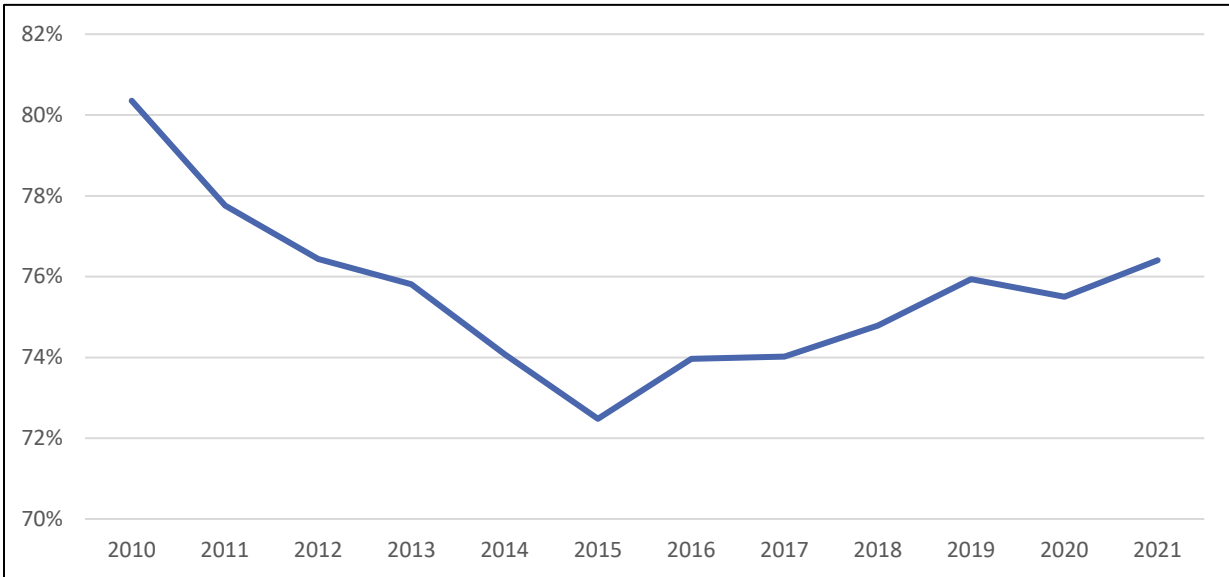


Source: Five-year American Community Survey (2021)

- While residents are generally content with their own housing situations, they acknowledge that the existing inventory is failing to accommodate the needs of the city’s growing population. There exists widespread concern that Surprise is unaffordable for young prospective home buyers, and a significant share of those currently renting in Surprise intend to buy their homes elsewhere. **The data bear out the notion that owning a home in Surprise is becoming increasingly unfeasible: Since 2010, Surprise’s overall homeownership rate has by fallen four percentage points (see Figure 98).** The decline has been even sharper among households led by residents below the age of 45, whose ownership rate now stands at only 60%. The growing inaccessibility of homeownership in Surprise severely limits the ability of young families to build intergenerational wealth.



Figure 98. Homeownership Rate in Surprise, 2010 to 2021



Source: Five-year American Community Survey (2010-2021)

- In order to meet these challenges, Surprise should implement a comprehensive housing strategy.** We recommend that public officials promote duplexes, triplexes, and accessory dwelling units through zoning changes, reductions in parking requirements, and financing programs. In addition to reducing or eliminating other burdensome regulations, the city should also implement voluntary incentive programs, such as density bonuses, that stimulate development. Other solutions exist at the state level. In particular, we recommend that Surprise stakeholders, developers, and leaders leverage the new state low-income housing tax credit and expanded Housing Trust Fund, as well as lobby for the passage of legislation that empowers localities to make their own housing policy decisions. Finally, we urge the city to support the admirable work of the Newtown Community Land Trust.

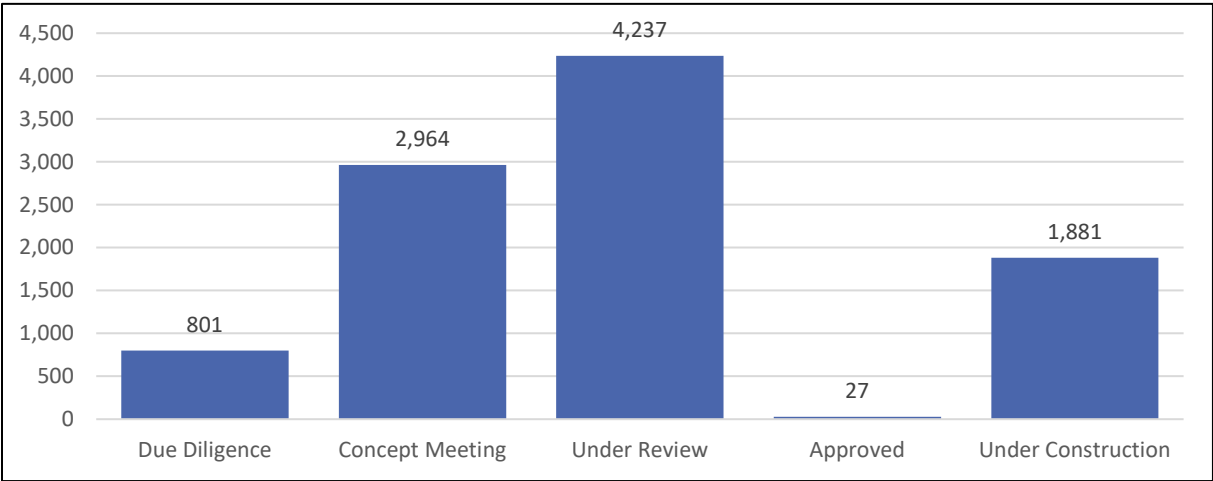
Appendix

Table 14. Examples of Group Quarters Facilities in Surprise

Facility Name	Address	Facility Type
Second Chance Group Homes	12129 West Bell Rd, Surprise, AZ 85378	Juvenile and adult group homes
A New Leaf West Valley Housing Assistance Center	12779 West Grand Ave, Surprise, AZ 85374	General emergency/transitional housing
St Vincent de Paul Society St Clare of Assisi Conference	17211 West Bell Rd, Surprise, AZ 85374	General emergency/transitional housing
RISE Services, Inc.	12129 West Bell Rd, Surprise, AZ 85378	Adult group homes
Surprise Homebase Youth Services	12215 West Bell Rd, Surprise, AZ 85374	Juvenile emergency/transitional housing
Hope House of Arizona Aging Out of Foster Care	16291 West Yucatan Dr, Surprise, AZ 85379	Young adult emergency/transitional housing

Source: Matrix Design Group, Inc.

Figure 99. Multi-Family Units in the Pipeline by Phase of Development, 2022



Source: City of Surprise



Table 15. Community Survey Questions and Responses

Question Text	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7	Option 8	Option 9	Option 10	Option 11
What is your age?	Under 18 (0%)	18-24 (1%)	25-34 (7%)	35-44 (18%)	45-54 (25%)	55-64 (21%)	65+ (28%)	—	—	—	—
Why do you choose to live in Surprise (Check all that apply)	I grew up here and consider Surprise to be home (4%)	To live near family or friends (30%)	To be close to work (14%)	Affordability of housing (35%)	Quality of housing (31%)	Access to job opportunities (5%)	Quality of schools (12%)	Safety from crime (40%)	Other (26%)	—	—
How long have you lived in your current housing?	Less than one year (10%)	1 to 3 years (20%)	3 to 5 years (18%)	5 to 10 years (18%)	More than 10 years (35%)	—	—	—	—	—	—
How satisfied are you with your current housing?	Very satisfied (37%)	Satisfied (43%)	Neutral (12%)	Dissatisfied (5%)	Very dissatisfied (3%)	—	—	—	—	—	—
How satisfied are you with the overall affordability and availability of	Very satisfied (11%)	Satisfied (34%)	Neutral (27%)	Dissatisfied (16%)	Very dissatisfied (11%)	—	—	—	—	—	—

housing in Surprise?											
How difficult was it for you to locate housing in Surprise?	Very difficult (5%)	Difficult (9%)	Somewhat difficult (26%)	Not difficult at all (60%)	—	—	—	—	—	—	—
Do you own or rent your home?	I rent my home or live in a home rented by someone else. (12%)	I own my home or live in a home owned by someone else. (86%)	None of the above. (2%)	—	—	—	—	—	—	—	—
If you are currently renting your home, do you plan to buy a home in Surprise in the future?	Yes, I plan to buy a home in Surprise within the next two years. (4%)	Yes, I plan to buy a home in Surprise within the next three to five years. (3%)	Yes, I plan to buy a home in Surprise at some point, but I am not sure when. (3%)	No, I plan to continue to rent in Surprise indefinitely. (3%)	No, I plan to buy a home outside of Surprise. (2%)	I am not a renter. (87%)	—	—	—	—	—
How important is it for Surprise to offer a wider	Very important (32%)	Important (20%)	Somewhat important (22%)	Not at all important (26%)	—	—	—	—	—	—	—



variety of housing options?											
How concerned are you about homelessness in Surprise?	Very concerned (32%)	Concerned (27%)	Somewhat concerned (24%)	Not concerned at all (18%)	—	—	—	—	—	—	—
What do you see as Surprise's most pressing housing issues? (Choose no more than three responses)	There is inadequate senior housing. (8%)	Younger people cannot afford to buy homes. (48%)	Rent is unaffordable. (45%)	Homes are in poor condition or too old. (2%)	Local leaders are not doing enough to combat homelessness. (14%)	Single-family homes are in short supply. (15%)	There are not enough apartments. (9%)	Affordable homes are far from work, school, or retail centers. (11%)	Affordable homes are in unsafe neighborhoods. (13%)	There are not currently any pressing issues. (13%)	Other (30%)
Thank you for taking the time to share your feedback. If you have any additional comments about housing in Surprise, please	Available upon request.	—	—	—	—	—	—	—	—	—	—

provide them below.											
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Source: Matrix Design Group, Inc.

Note: N = 285.



SURPRISE

ARIZONA

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CITY OF SURPRISE
Regular City Council Work Session

Council Meeting Date: March 5, 2024
Submitting Department: Agenda Creation
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No	Regular: No	Public Hearing: No	Report/Discussion: No
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Agenda Wording:

Executive Disclaimer - Part 1

Motion:

Background:

Objective Analysis:

Policy Compliant:

Financial Impact:

Budget Impact:

FTE Impact:

ATTACHMENTS:



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Agenda Wording:

Executive Disclaimer - Part 2

Motion:

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Financial Impact:

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ATTACHMENTS:



CITY OF SURPRISE
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Agenda Wording:

Executive Disclaimer - Part 3

Motion:

Background:

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Policy Compliant:

Financial Impact:

Budget Impact:

FTE Impact:

ATTACHMENTS:
