

Arizona Housing Affordability Update: August 2022

As expected, the U.S. and Arizona housing markets are changing rapidly in response to quickly rising interest rates. For the first time since 2011, Phoenix-area home prices fell in July, and despite continued increases in target interest rates average mortgage rates fell between June and August in response to flagging demand.

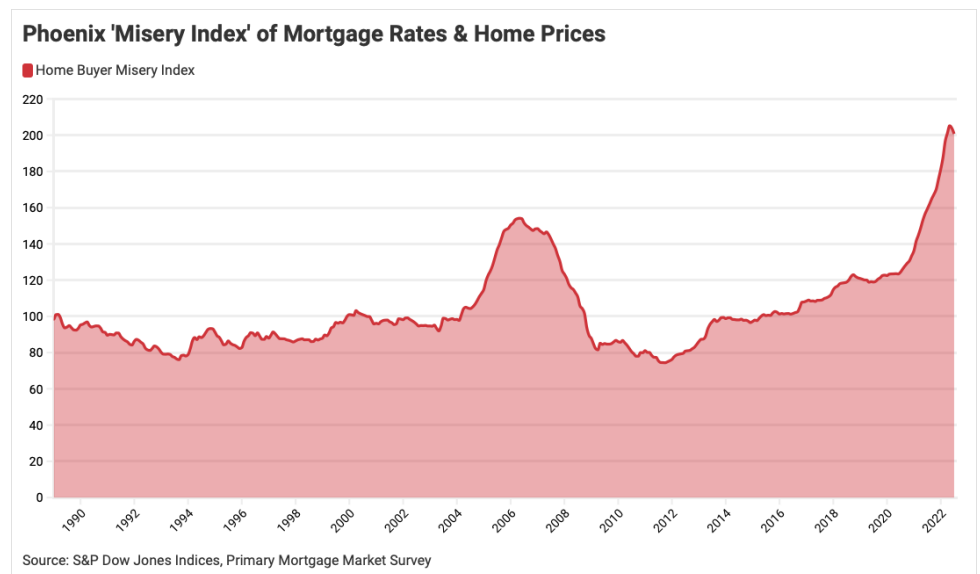
Key Findings

- The Phoenix Homebuyer Misery Index remains severely elevated, at 203.8 in July – nearly double its long-run average level of 103.2.
- The Misery Index will likely fall to 200.7 in August, reflecting the ongoing cooling of the valleys housing market. The last time the index fell for multiple consecutive periods was in early 2019.
- At \$2,016/month, the typical mortgage payment for an Arizona homebuyer remains extremely high (though slightly below the all-time peak of \$2,045 set in June). A typical household would have to work 66.4 hours at the average hourly Arizona wage to make this payment.
- If mortgage rates rose to 7.0%, at current prices it would take over 77 hours of work to make a monthly mortgage payment – tying 2006 for the highest level on record

Given the direction of interest rates and current economic conditions, Arizona’s housing market is likely to continue cooling. Consider that the state’s nascent housing construction boom is slowing rapidly: monthly permit applications slowed from nearly 7,000 in March to just over 5,000 in Julyⁱ, suggesting forward-looking home builders are growing less optimistic about real estate prospects in the next 12-18 months.

Phoenix Homebuyer Misery Index

After peaking at 205.1 in May – an all-time high and reflecting homebuying costs roughly double their long-run average – the Homebuyer Misery Index has fallen (0.7%) to 203.8 in July. As a reminder, the long-run average index value is approximately 100.0. This is the first month-over-month decline in the Index since July 2020. The misery index equally weights both interest rates and nominal home values since 1989; CSI has considered various alternative formulations that try to account



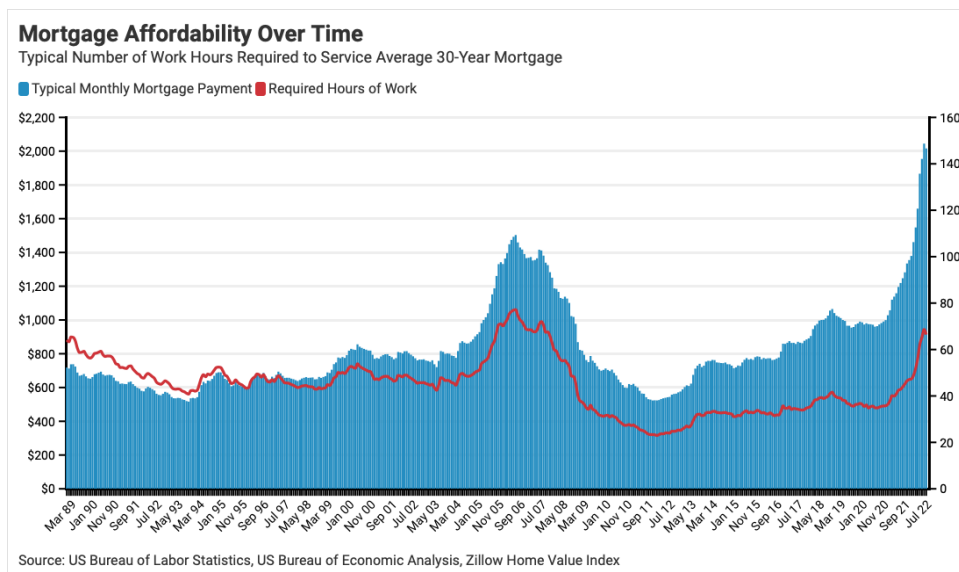
for the changing share of interest costs as a function of total housing purchase costs over time, but in general, we believe a simple “equal weighting” formulation is reasonable and intuitive for consistent

comparisons across time. This approach implies a homebuyer is equally sensitive to both changes in prices and changes in interest rates.

After rising rapidly this year, 30-year average rates have stabilized in the low-5.0% range, even as the Federal Reserve has continued increasing its interest rate targets. This suggests there is substantial contemporary consumer and market resistance to rates significantly higher than 5.0%. As of August, the average rate was 5.22%, down from a current-period peak of 5.52% in June. Prices in the Phoenix area have begun to fall despite rate stabilization and will likely fall further in the coming months since the index values tend to lag the market data. In July, prices fell (0.4%) according to Zillowⁱⁱ – the first general decline in month-over-month average valley home prices since August 2011. Based on preliminary market data reviewed by CSI, we project that Phoenix prices will fall another (1.1%) in August, and that the Index will decline (1.5%) to 200.7.

At current rates, interest costs are approximately half of total home purchase costs over a 30-year loan. This means a homebuyer spending \$450,000 on a home can expect to pay approximately \$450,000 in interest over 30 years.

Arizona Mortgage Affordability



After peaking at \$2,045 in June, the typical monthly mortgage payment in Arizona fell (1.4%) in July to \$2,016. At the states prevailing hourly wage one would have to work 66.4 hours to make this mortgage payment – down from a current-period peak of 68.6 hours in June. As a reminder, since 1989 the hours of work required to make a typical mortgage payment in Arizona averaged about 45.0 and this measure reached an all-time peak of 77.2 hours in July 2006.

A typical Arizona household likely works between 200 and 240 hours per month.

Assuming 1.5 (full-time) workers per homebuying household and lender parameters generally consistent with the “28% Rule” (no more than 28% of gross monthly income should go to mortgage costs), a reasonable rule of thumb is that mortgage service costs in terms of time cannot sustain above about 67 hours per month for an average-priced home and an average-rate loan. During the prior housing market peak, costs remained above this level for exactly 24 months (between October 2005 and October 2007), before falling precipitously through 2010. Since 1989 there is no other period during which mortgage costs remained persistently above this threshold level.

If – as some analyst’s projectⁱⁱⁱ – 30-year mortgage rates rise to 7.0% over the next 12 months, and prevailing hourly wages rise only 2%, then home prices in Arizona would need to fall at least 13% to meet the 67-hour target threshold. This should not be read as a formal forecast as markets may respond

creatively to borrowing constraints. Interest rates could rise less than projected; households could increase their hours worked in response to higher prices; sellers may hesitate to list homes in a declining-price environment, constraining supply and keeping prices elevated while locking all but the most-qualified buyers out of the market; etc. Instead, we present this as a hypothetical case study of the possible implications of continued rapidly rising interest rates on the Arizona housing market.

CSI will continue monitoring local homebuying conditions over the coming months in order to provide timely insights into the states' (and particularly the Phoenix-area's) rapidly changing market.

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ⁱ ["Building Permits Survey"](#). *U.S. Census Bureau*. Retrieved on August 29, 2022.

ⁱⁱ ["Zillow Home Value Index"](#). *Zillow*. Retrieved on August 29, 2022.

ⁱⁱⁱ Stern, Gina. ["Mortgage Rate Predictions for 2023"](#). *PropertyOnion*. July 18, 200.