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HOUSING AFFORDABILITY IN ARIZONA

2026 1ST BIANNUAL UPDATE

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ABOUT THE AUTHORS

Zachary Milne is CSI Arizona's Senior Economist and Research Analyst. Prior to joining CSI, Zachary served as an economist and budget analyst for the Arizona Governor's Office of Strategic Planning & Budgeting. In this capacity he developed the state's revenue forecasts, and advised a team of budget analysts on the creation of K-12 and Medicaid caseload figures for the State's annual budget. He also advised the Executive policy and leadership teams on fiscal policy, and regularly presented detailed analyses on each of the dozens of tax bills introduced in the Arizona Legislature each year. Originally from upstate New York, Zach's then-active-duty service with the United States Air Force brought him to Arizona, where he has remained.

Glenn Farley is CSI Arizona's Director of Policy & Research, where he leads its research efforts. Glenn has helped CSI provide accurate, timely, and insightful public information on issues ranging from tax and regulatory policy, to Arizona's changing K-12 landscape since the pandemic.

Prior to joining CSI in 2022, Glenn ended his 8 years in the Office of the Arizona Governor as Gov. Doug Ducey's Chief Economist and a policy advisor. In that role he advised on issues of tax, fiscal, and regulatory policy, and was one of the Governor's lead architects of his two major tax reforms – the 2018 tax overhaul that established the State's first remote sellers sales tax and dedicated the proceeds to a major simplification and overhaul of the individual income tax, followed by the 2021 income tax omnibus which phased in a 2.50% flat tax (the lowest in the country). Mr. Farley has also led the budget team that produced the Executive revenue forecasts and caseload spending numbers that have helped ensure the longest run of conservative, structurally balanced budgets in State history.

ABOUT COMMON SENSE INSTITUTE

Founded in 2010, **Common Sense Institute (CSI)** is a non-partisan research organization dedicated to the protection and promotion of our economy. As a leading voice for free enterprise, CSI's mission is to examine the fiscal impacts of policies and educate voters on issues that impact their lives.

TEAMS & FELLOWS STATEMENT

CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that citizens are educated and informed on issues impacting their lives. CSI's commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI's mission is a belief in the power of the free enterprise system. Our work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit with academic freedom. Our team's work is informed by data-driven research and evidence. The views and opinions of fellows do not reflect the institutional views of CSI. CSI operates independently of any political party and does not take positions.

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INTRODUCTION

Arizona's housing market continues to face a persistent imbalance between supply and demand, even as conditions have softened over the past year. CSI estimates the state faces an immediate need for 56,000 more housing units than the market can provide, reflecting only modest improvement from the post-pandemic peak and a slight increase from 2024.

While some indicators suggest easing pressure – particularly declining home prices – these changes appear to be driven more by reduced buyer demand than by meaningful gains in housing supply. At the same time, a sharp slowdown in permitting activity in 2025 signals that Arizona is not only not building enough housing to meet immediate needs, but that at the current pace, the long-term deficit is unlikely to be resolved in any reasonable timeframe.

Affordability remains a central challenge. Again, the moderate decline in home prices since their 2022 peak hasn't come close to returning them to historical trends or price-to-income ratios. Mortgage costs are placing substantial strain on Arizona households, with the typical household requiring far more income to afford an average mortgage than in the pre-pandemic period. As a result, many prospective buyers remain priced out of the market, contributing to slower sales activity and rising inventory levels. And while these demand dynamics have again brought some relief in the form of ending rapid price appreciation, ongoing supply constraints prevent a return to a moder balanced and affordable housing market.

Looking ahead, the state's housing outlook reflects a market in transition. Increased inventory, longer time on market, and a growing share of price reductions all point to a shift toward more balanced conditions after years of rapid appreciation. However, continued high-interest rate differentials between new and existing loans and a slowdown in new construction maintain underlying supply constraints that limit long-term progress.

This report presents CSI's preliminary report on 2025 housing market conditions, and our initial projections for 2026. Later this year, we will provide revised and final 2025 figures, and updated estimates for 2026.

Housing Affordability Through Time

2019
Monthly Payment: $1,026
Work-Hours Needed: 38
Misery Index: 20

2024
Monthly Payment: $2,236
Work-Hours Needed: 66
Misery Index: 103.7

2025 Preliminary
Monthly Payment: $2,030
Work-Hours Needed: 58
Misery Index: 97.9

KEY FINDINGS

- Arizona faced an immediate housing shortfall of **55,992 units** in 2025, up 5.1% from 2025, as declining vacancy rates coincident with slowing home construction signaled persistent supply constraints. It would take over 119 years to close this gap at current permitting rates.
- On a cumulative basis, the long-term structural deficit stands at **110,837 units** – modestly improved from 2024 due to slowing population and household growth, rather than improving supply.
- Although home prices fell about 2.9% in 2025, they remain **$41,900 (11.1%)** above pre-pandemic trends. The current outlook has prices declines slowing going forward; the soonest prices would return to trend would be late 2027.
- Mortgage affordability remains strained: Arizona households now need $87,000 in annual income (or 58 hours of work per month at the average wage) to afford the typical home – still 29% above long-term norms.
- The state earns a "C-" on CSI's Housing Report Card for 2025 (down from a "C+" at the end of 2024). Slow and modest affordability improvements are being offset by a slowing pace of home permitting and construction.
- While falling prices and rising inventory have created a softer, more buyer-friendly market in the near term, these gains stem primarily from weakened demand. With permitting down 14% in 2025 (and early 2026 showing further slowdown), Arizona is cooling – but not healing. Meaningful long-term progress requires a sustained increase in home construction.

HOUSING AFFORDABILITY

Home prices fell 2.9% in 2025, continuing a trend that began in the summer of 2024. Although prices rose slightly in the first two months of 2026, the average house in Arizona is now $420,906 – down 3.4% since June 2024 and 8.6% below the July 2022 peak. The average home in Arizona today costs $142,879 more than at the close of 2019. In the Phoenix metro, housing prices fell 3.2% in 2025, and as of February 2026 are 10.0% below peak.

As of the latest Zillow home price data (through February), CSI estimates that the average home in Arizona is $41,900 (11.1%) more expensive than it otherwise would have been if home prices had maintained their steady pre-pandemic trend. If housing prices followed the pace of price declines seen in 2025 (-0.24%/month), housing prices in Arizona would fall below their 2012-2019 trend in August of 2027 (18 months).

It remains to be seen whether the slight increases in early 2026 represent a return to flat or slightly increasing home prices, or if declines will resume as the market enters summer.

Homebuyers Misery Index

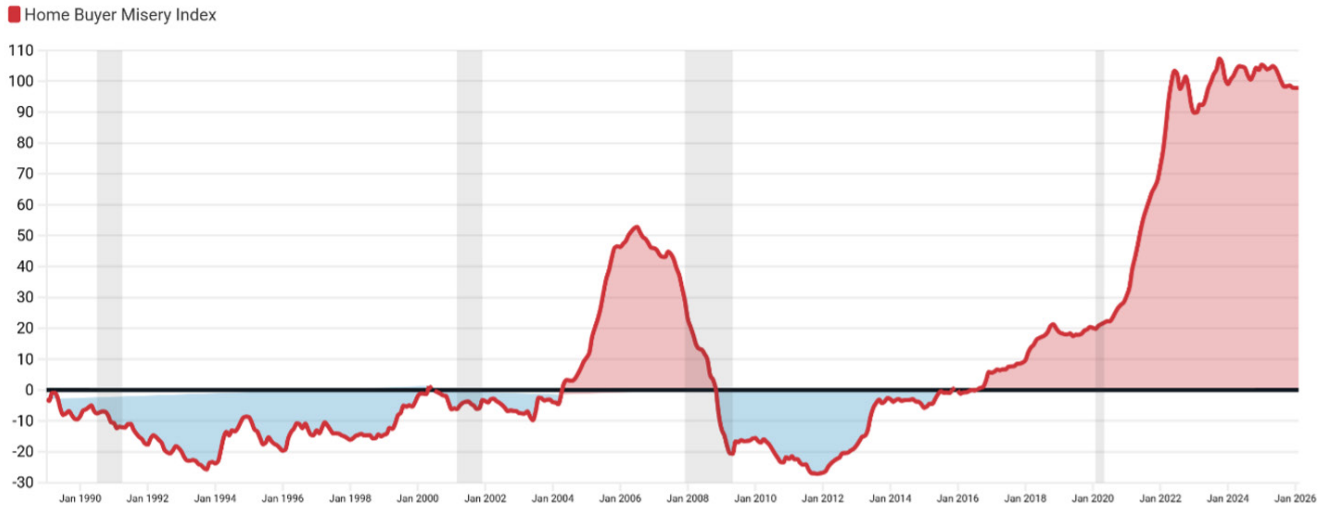
The Phoenix Homebuyers Misery Index fell 5.6% to 97.9 at the close of 2025, thanks to a combination of falling house prices and falling mortgage rates. Currently the index is 8.8% below the peak from October 2023. The average 30-year fixed mortgage rate at the close of the year – 6.19% - was 0.53 percentage points below where it was coming into the year, and 1.43 percentage points below the peak in October 2023. Mortgage rates continued to fall through February 2026 (to an average 6.05%); though they've risen more recently (reaching 6.34% in April) rates remain well below their post-2022 peaks.

As a reminder, the 'Misery Index' sums normalized and equally weighted home prices and 30-year mortgage rates to measure effective costs of home buying relative to historical levels. The index is set to a long-run average value of 0. Conditions better than the long-run average are represented with negative numbers, and relatively more expensive conditions with positive values. Interestingly, excluding the two high-volatility periods of the 'housing market bubble' in the early 2000s and the current post-pandemic period, the index is relatively flat – generally rising home prices over time have been offset by an almost equally fast decline in interest rates. Although homebuyers have experienced some relief recently, the combination of high home prices and interest rates continues to exclude many buyers from the market.

FIGURE 1.

Phoenix 'Misery Index' of Mortgage Rates & Home Prices

The Phoenix Misery Index has been falling since mid 2025 due to a combination of stagnating housing prices and falling interest rates, and is now 8.8% lower than the peak in October 2023. The index is now at its lowest level since June of 2023.



Source: S&P Dow Jones Indices, Primary Mortgage Market Survey • Shaded areas indicate Recessions. Because the index is normalized to zero, direct percent changes are exaggerated; non-normalized percent changes are cited instead.

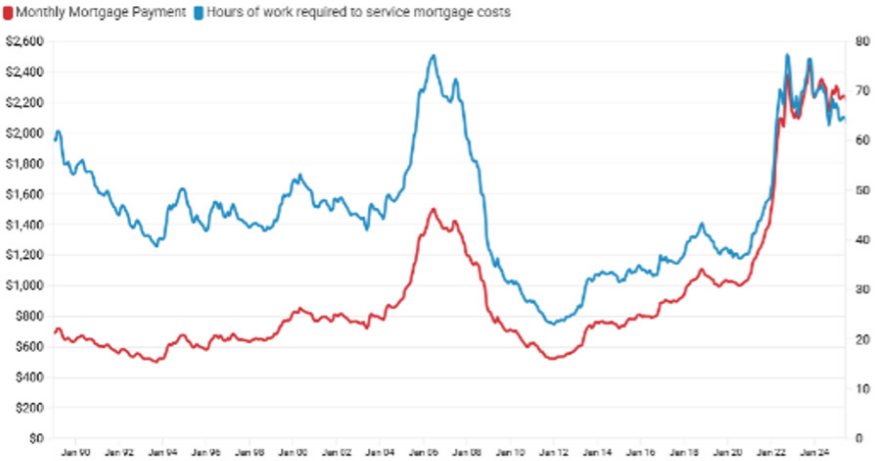
Mortgage Affordability

The average 30-year mortgage rate in February was 6.05% (-0.14 percentage-points since the close of 2025), while the average home price in the state was $420,906. Given those figures, **the monthly payment on a new mortgage for the average house would be $2,030[1] as of February.[2]** In December 2019, a new mortgage on the average house would have had a monthly cost of $1,026. To purchase a house in today's market under conventional mortgage guidelines[3], Arizona households would need an annual income of at least $86,986. Alternatively, at the average hourly wage rate of $35.10 (December of 2025), the typical household in Arizona would need to work 58 hours/month (over one-and-a-half weeks) to service the average mortgage payment.[4]

FIGURE 2.

Mortgage Affordability in Arizona

While housing prices have fallen slightly, it would still take the average household a total of 64 hours of work to afford a monthly mortgage payment on a new purchase at prevailing prices and interest rates.



Source: Zillow Home Value Index, US Bureau of Economic Analysis

[1] Monthly costs assume a 20% down payment and do not take into account property taxes or other costs such as HOA fees and mortgage insurance.

[2] While the fast-moving interest rate data is published weekly, other variables of interest – particularly home prices – are only available more slowly. Therefore, we use February figures here; 30-year mortgage rates rose in March and April (to roughly 6.3%).

[3] We assume mortgage costs of 28% of gross income.

[4] This is the total hours needed, not the hours per-worker. The average household has multiple workers.

Consistent with findings in these regular updates, housing cost issues have been an issue in Arizona since the pandemic and are the primary driver of the state's affordability crisis.

According to a recent CSI report on the subject across the U.S., the latest ACS data shows that shelter and utilities costs in Arizona reached an estimated 23.7% of household income in 2025, **making Arizona the 5th *least* affordable state for this category of household expenses.** While this measure uses gross rents as a proxy for household shelter costs, a similar picture emerges when looking at average house prices – confirming the story not only applies to new homeowners but if anything is worse here relative to the rental market. CSI estimates that only 42% of all households in the state could afford the monthly mortgage costs associated with purchase of the average priced home without those costs exceeding the 28% income benchmark used in the underwriting of conventional home loans.[i] This marks a drastic decline from 2019 when an estimated 66% of households could afford those costs. Although affordability is modestly better for families and married couples, all household types saw significant declines in mortgage affordability since 2019.

FIGURE 3.

Arizona Home Prices, Mortgage Payments, and Work Requirements

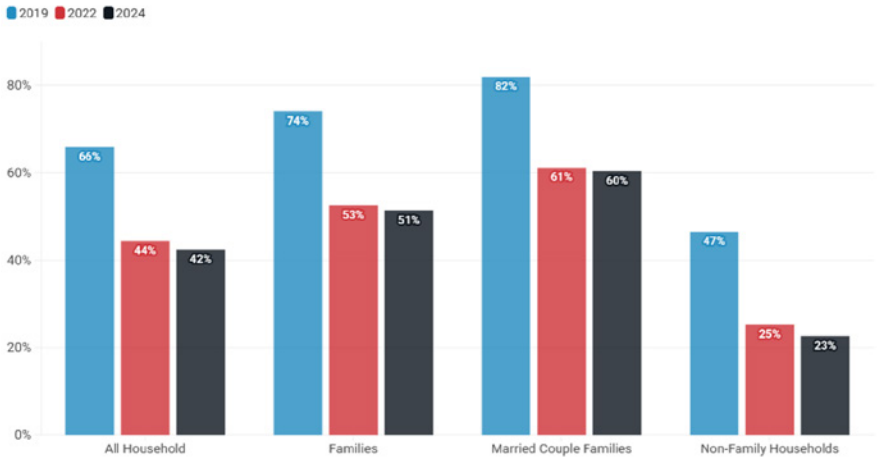
Date	Average Home Price	30-Year Mortage Rate	Mortage Payment	Average Wage Rate	Hours of Work Required	Year-Over-Year % Change
12/01/2015	$211,121	3.96%	$802.45	$23.23	35	6.8%
12/01/2016	$225,356	4.20%	$881.62	$24.07	37	6.0%
12/01/2017	$241,865	3.95%	$918.19	$25.42	36	-1.4%
12/01/2018	$260,991	4.64%	$1,075.36	$25.86	42	15.1%
12/01/2019	$278,027	3.72%	$1,026.29	$26.92	38	-8.3%
12/01/2020	$317,451	2.68%	$1,027.38	$27.92	37	-3.5%
12/01/2021	$407,474	3.10%	$1,391.99	$29.16	48	29.7%
12/01/2022	$433,738	6.36%	$2,161.37	$30.84	70	46.8%
12/01/2023	$430,533	6.82%	$2,249.99	$31.94	70	0.5%
12/01/2024	$432,330	6.72%	$2,236.38	$33.9	66	-6.4%
12/01/2025	$420,003	6.19%	$2,055.73	$35.1	59	-8.1%
02/01/2026	$420,906	6.05%	$2,029.67	$35.1	58	-9.9%

Source: Bureau of Labor Statistics, Freddie Mac, Zillow Data

FIGURE 4.

Percent of Households That Could Afford a New Mortgage

Assuming that monthly mortgage costs don't exceed 28% of household income, only 42% of Arizona households in 2024 could afford the monthly mortgage payments on a new mortgage. This is more than 20 percentage points lower than the share that could afford in 2019.



Source: U.S. Census Bureau, CSI Calculations • Percentages reflect only the share of households that could afford the monthly mortgage payments on the average priced home given prevailing interest rates and a 20% down payment without monthly costs going over 28% of household income.

PERMITTING & SUPPLY

In 2025, Arizona's local jurisdictions issued a total of 50,983 residential building permits, a 14.0% decline from 2024 and the slowest pace of permitting since 2019. Permitting picked up slightly in the final quarter of the year, with local jurisdictions issuing a total monthly average of 4,668 permits per month (an annual pace of 56,000 permits – 9.9% higher than 2025's actual pace). However, between January and September only about 4,100 permits were issued each month, a significant falloff from the monthly average of 4,900 permits in 2024. With only one month of data to-date, in January 2026 permitting slowed again – only 3,060 new housing units were authorized (36,700 units annualized).

While not all permits result in housing units, permitting activity provides insight into the pace of new homes entering the market with about a 1-year lag. On average, 91% of housing permits turn into housing units over the next twelve months. A healthy annual pace of home permitting, assuming no housing deficit, is approximately 45,000 to 60,000 permits/year just to keep up with depreciation and population growth. The current pace remains insufficient.

Given the housing shortfall and historical population growth, Arizona needed to permit about 5,508 housing units every month to close the gap in 5 years; in 2025 the state issued only 4,249 permits on average per month.

The result? Higher prices, larger household sizes, and more older homes – keeping the existing stock around longer.

As we have discussed previously, there is a large gap between the mortgage rates possessed by current homeowners (who bought or refinanced before 2022) and the market rates available to new buyers. This gap reached a peak 3.20% in October 2023

Permitting & Supply Through Time

2019
Housing Permits: 46,580
Housing Deficit: 65,087

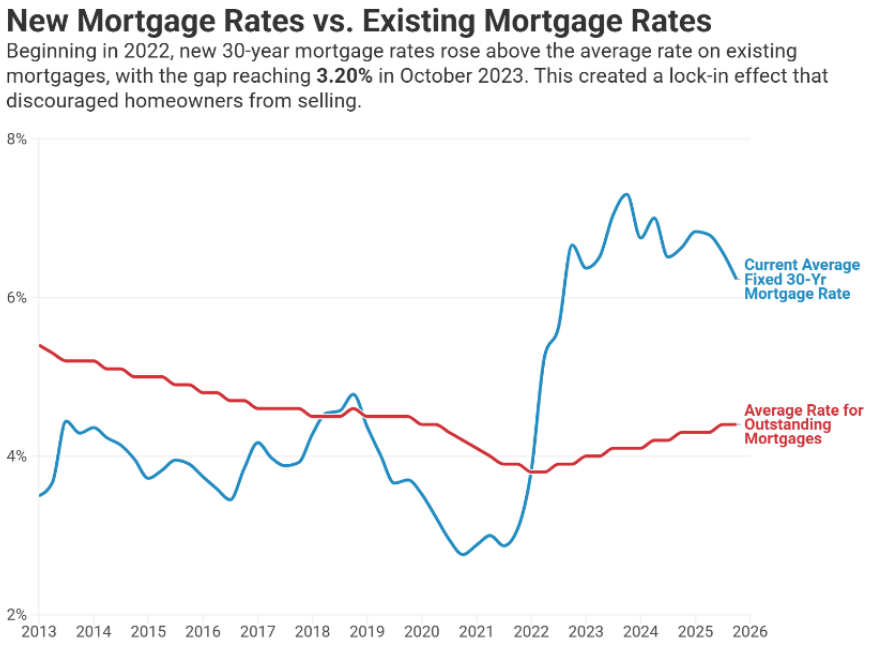
2023
Housing Permits: 46,580
Housing Deficit: 65,087

2024
Housing Permits: 46,580
Housing Deficit: 65,087

2025 Preliminary
Housing Permits: 46,580
Housing Deficit: 65,087

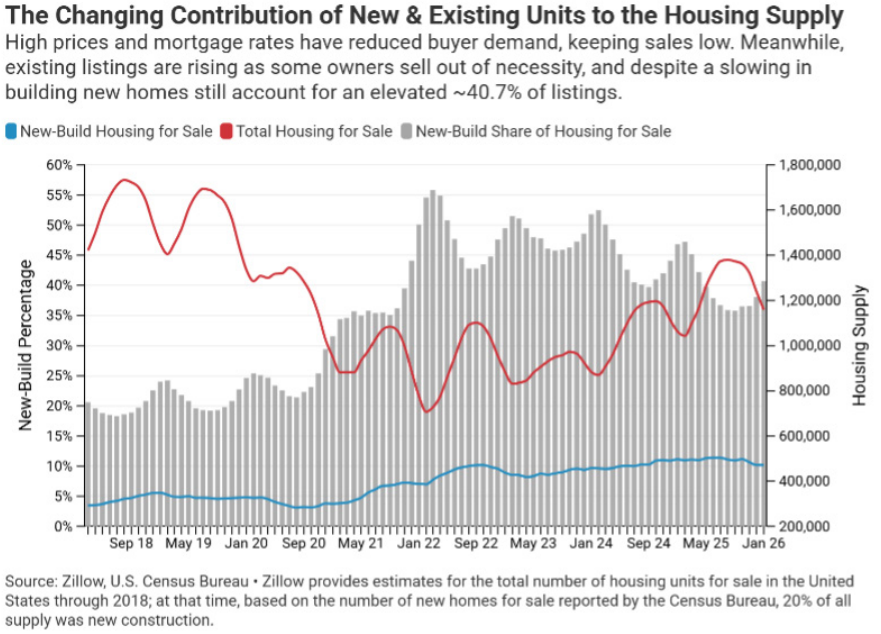
– approaching double the average for outstanding mortgages of 4.1% - and although it has since come down, the gap was 1.83% as of October of 2025.[ii] [iii] This creates a mortgage lock-in effect – a phenomenon where homeowners are reluctant to sell their current home and buy another due to higher mortgage costs. As a result, the number of housing transactions plummeted from pre-pandemic levels, and new homes as a share of all homes for sale increased 22.5 percentage points between 2019 and 2024.

FIGURE 5.



Since 2024 there has been a steady uptick in both the total number and number of pre-owned homes for sale. Combined with a lack of buyers due to high interest rates and prohibitively high mortgage costs, overall for-sale inventory has increased.[iv] [v] [vi]

FIGURE 6.

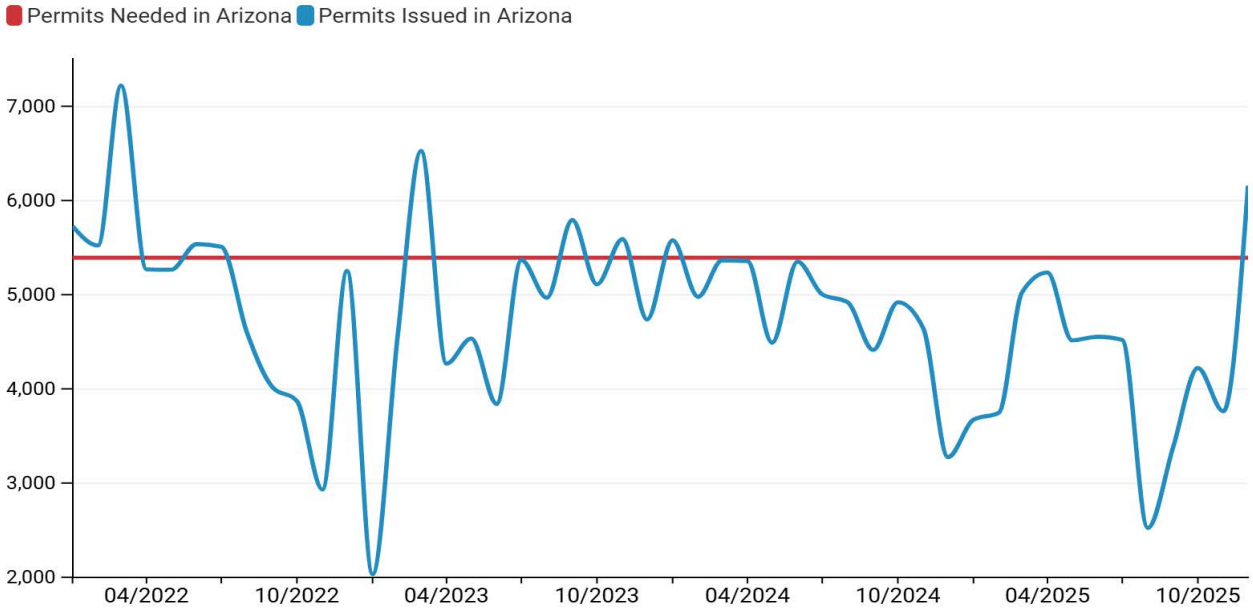


Although the interest rate gap remains elevated, several years of low turnover in pre-owned homes are beginning to ease as more homeowners are compelled to sell due to employment changes, moves, upgrades, or downsizing. In 2025, existing homes averaged 4.2 months of supply, while new homes averaged 8.0 months, with the former marking the highest months' supply level since at least 2020. This may put continued slight-to-moderate downward pressure on Arizona home prices during 2026 despite the slowdown in new home permitting and construction.

FIGURE 7.

Average Monthly Building Permits Needed Over 5 Years

Given the housing shortfall and historical population growth, Arizona needed to permit about 5,392 housing units every month to close the gap in 5 years; in 2025 the state issued only 4,276 permits on average per month.



Source: U.S Census Bureau, CSI estimates

Arizona's Housing Shortfall

To assess the pace of permitting, new construction, and overall additions to Arizona's housing supply in meeting the demands of buyers, CSI Arizona utilizes two measures: a market-based "instantaneous" estimate of the real-time gap between supply and demand informed by vacancy rates, and a housing-supply-focused "cumulative" measure that is slower and less responsive to demand changes but tracks longer-term growth in the housing supply relative to underlying population growth and household formation. The market-based measure captures demand changes when discouraged folks exit the housing market by, for example, living with parents or roommates for longer. The cumulative deficit does not account for this and assumes long-term housing growth must keep up with long-term population growth and historical housing formation rates. For completeness, both results are reported here as a range.

On a real-time basis, **CSI estimates an instantaneous housing shortfall of 55,992 units in 2025, a 5.1 % increase from the revised 2024 shortfall of 53,253 units.** This increase stems from a 0.06 percentage point reduction in the vacancy rate in the state.

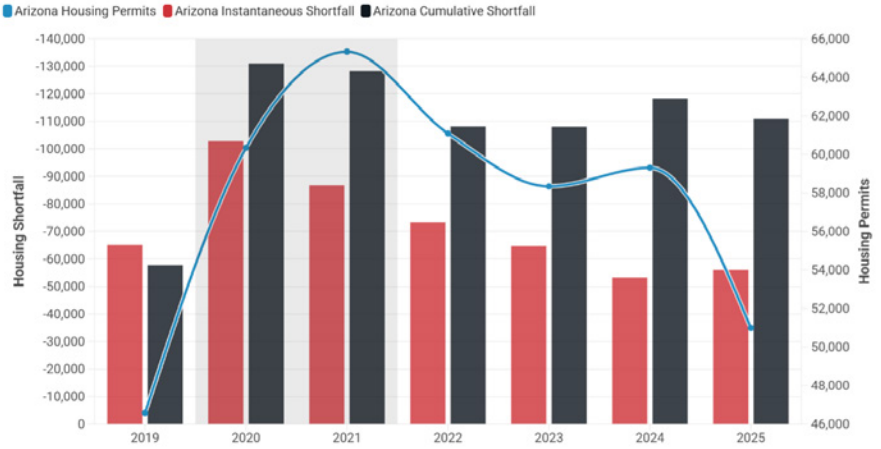
Alternatively, CSI's supply-driven "cumulative" estimate of the housing shortfall as of 2025 shows an Arizona housing deficit of 110,837 units - a 6.3% decline from the revised 118,338 deficit for 2024. The decline largely reflects slowing rates of population growth and household formation. This larger cumulative shortfall tracks the tepid growth in housing units in the state relative to the growth in

population and other benchmarks, cumulatively and over time. While the instantaneous shortfall reveals current supply and demand dynamics, this supply-focused measure provides some insight into the state's likely longer-term condition, if prices and interest rates normalized and more households were drawn back into the housing market.

FIGURE 8.

Arizona's Housing Shortfall and Permitting

Arizona's instantaneous housing shortfall increased slightly as of the preliminary 2025 estimate thanks to falling vacancy rates.



Despite the slightly improvement in 2025, the sharp falloff in permitting that year may lead to sower housing unit growth and an increased deficit in 2026. Given the pace of permitting in 2025, CSI estimates it will take over 119 years to close the states instantaneous housing gap.

The Local Housing Shortage

As a reminder: Arizona's local jurisdictions – cities, towns, and counties – are responsible for issuing residential building permits. They also determine local building codes, architectural and design requirements, and code and permit enforcement. Therefore, it is especially helpful to review local and regional housing supply conditions, versus purely statewide perspectives – variance between nearby cities can help us understand the impact variances in permit practices have on housing development. But data availability issues make the consistent technical calculation of these indicators at the city-level difficult, and households can choose where they move.

FIGURE 9.

Arizona's Housing Shortage, By County, Since 2022

The estimated statewide shortfall increased slightly in 2025 due exclusively to a nearly 9,000 unit increase in the deficit for Maricopa county.

County	2022 Deficit	2023 Deficit	2024 Deficit	2025 Deficit (Preliminary)	Shortfall as % of Existing	2025 Permits	Years to Close the Deficit
Apache County	(787)	(958)	(985)	(852)	2.9%	117	3.68
Cochise County	(1,403)	(267)	(306)	(40)	0.1%	441	0.72
Coconino County	(298)	(2,085)	(1,580)	(1,265)	1.7%	634	2.56
Gila County	(244)	(463)	(595)	(447)	1.4%	174	2.96
Graham County	65	(116)	(292)	(228)	1.6%	225	2.02
Greenlee County	191	130	142	161	0%	19	N/A
La Paz County	(234)	(392)	(283)	(221)	1.6%	59	Never Close
Maricopa County	(39,955)	(31,887)	(25,805)	(34,276)	1.7%	31,097	262.43
Mohave County	(4,825)	(2,897)	(3,473)	(2,962)	2.3%	1,836	Never Close
Navajo County	(1,959)	(2,290)	(834)	(575)	1.0%	461	16.34
Pima County	(11,588)	(11,863)	(9,591)	(7,450)	1.5%	4,658	19.74
Pinal County	(6,905)	(4,404)	(3,653)	(2,907)	1.4%	8,048	11.88
Santa Cruz County	92	259	(141)	(54)	0.3%	353	1.87
Yavapai County	(4,341)	(4,066)	(3,544)	(2,992)	2.3%	1,706	17.42
Yuma County	(1,056)	(3,386)	(2,313)	(1,884)	1.9%	1,155	Never Close
Arizona Shortage	(73,247)	(64,685)	(53,253)	(55,992)	1.7%	50,983	119.62

Source: US Census Bureau, AZ Office of Economic Opportunity • CSI's estimate of the housing shortfall is a combination of both housing supply and housing demand (as reflected in both household growth and vacancy rates). To assess an areas performance in permitting new units, the estimate of time to close the deficit fixes demand at current levels, grows the number of households by historic avg population growth, and assumes that the geographic areas YTD permitting pace persists in perpetuity. If an area's permitting pace doesn't keep pace with avg population growth, it is assumed to Never close its deficit.

CSI attempts to address both issues by relying on a mix of local and county-wide data, as available, and holding each city to the standard of its county population growth rate (rather than its local city-level population growth rate). So, for example, Scottsdale is held to Maricopa County's population growth rate when assessing its pace of permitting against growth-driven need, instead of its own (slower) growth rate, because we assume Scottsdale is growing more slowly in part because it lacks (affordable) housing. On the other hand, cities and towns growing faster than the countywide average receive a higher effective grade under this method.

FIGURE 10.

Arizona's Housing Shortage, For Select Cities

City	County	Population	Market Housing Deficit (2025 Preliminary)	Permits	Years to Close	Letter Grade
Phoenix	Maricopa	1,697,696	(16,472)	10,584	44.8	F
Tucson	Pima	557,219	(4,686)	1,505	Never Close	F
Mesa	Maricopa	524,892	(5,581)	1,052	Never Close	F
Gilbert	Maricopa	292,116	(2,708)	1,043	Never Close	F
Chandler	Maricopa	286,342	(2,964)	298	Never Close	F
Glendale	Maricopa	260,878	(1,818)	476	Never Close	F
Scottsdale	Maricopa	249,935	(2,495)	2,061	Never Close	F
Peoria	Maricopa	203,065	(1,312)	1,184	Never Close	F
Tempe	Maricopa	193,336	(521)	1,287	Never Close	F
Buckeye	Maricopa	113,349	(952)	2,363	0.6	A
Queen Creek	Maricopa	81,778	(1,020)	1,571	0.9	A
Flagstaff	Coconino	79,913	(623)	485	1.5	A
Sedona	Yavapai	9,771	(6)	28	Never Close	F

Source: US Census Bureau, AZ Office of Economic Opportunity • CSI's estimate of the "instantaneous" housing shortfall is a combination of both housing supply and housing demand (as reflected in both household growth and vacancy rates). To assess an areas performance in permitting new units, the estimate of time to close the deficit fixes demand at current levels, grows the number of households by historic avg population growth, and assumes that the geographic areas YTD permitting pace persists in perpetuity. If an area's permitting pace doesn't keep pace with avg population growth, it is assumed to Never close its deficit.

14 of the 15 counties in Arizona had an ("instantaneous" or market-indicated) housing deficit based on preliminary 2025 data. Out of those with a deficit, Apache County has the largest as a share of its total existing housing units (2.9%), while Cochise County (0.1%) has the lowest.

Maricopa County – the state's largest county by population – has a projected deficit of 34,276 units, or 1.73% of the existing housing stock. After two years of improvement, the county's housing deficit increased significantly in 2025, from a (revised) estimate of 25,805 units in 2024 to 34,276 in 2025 thanks to a 0.42 percentage point decline in the county vacancy rate. According to HUD data, after Maricopa County issued 36,011 permits in 2024 the pace fell 13.6% to 31,097 permits in 2025. CSI estimates the county would need to build roughly 28,200 units a year (equivalent to roughly 31,000 permits per year) just to keep pace with population growth, meaning at the current rate of home building Maricopa is only keeping pace with population growth and making no meaningful contribution to deficit reduction.

As noted in prior housing reports, volatility and measurement issues in quarterly data used for interim housing deficit estimates can lead to meaningful differences from annual estimates based on the American Community Survey. These discrepancies can affect preliminary figures, including the 2025 estimates presented here. While statewide quarterly estimates generally track closely with annual data, CSI previously used the Phoenix and Tucson metro areas as proxies for Maricopa and Pinal counties, allocating the remaining change across the other 13 counties. However, large swings in Pima County estimates resulting from the (apparently unreliable) Tucson proxy led CSI to revise its approach. The updated method uses only the quarterly Phoenix metro as a proxy for Maricopa County and quarterly statewide data, with changes for the remaining 14 counties – including Pima – derived from the residual

difference between the Maricopa estimate and the statewide total. Although this approach is more consistent with annual data, note that vacancy rates may change between preliminary estimates based on quarterly data and pro-rata estimates, and final data based on annual data.

While the U.S. Census and other sources provide good data about housing supply and households at the countywide-level, Arizona's 90 cities and towns issue most of the state's building permits. Because of this, CSI pays particular attention to the pace of permitting by these jurisdictions, despite data availability and timing issues. CSI estimates the housing deficit of each jurisdiction based on their respective vacancy rates and the grade is based on how well they are permitting relative to their population growth rate of their respective counties.

82 of the 90 cities and towns in Arizona had a housing deficit in 2025. While city-level vacancy data is only available through 2024, we estimate the housing deficit for 2025 based on 2024 vacancy rates and estimates of housing unit growth. These "look ahead" figures will be updated in the second housing affordability report later this year, once new ACS data is made available.

ARIZONA'S HOUSING REPORT CARD

CSI Arizona debuted its inaugural version of the state's Housing Report Card in May 2024 – which considered housing market data through Quarter 1 2024. At the time, the state earned an average "C+" letter grade for the overall performance of its local housing markets across four measures of price and supply: cumulative housing price increases, rent to household income ratio, people-per-housing unit, and permitting-to-shortfall ratio.

Since then, the decline in permitting has more than offset any other improvements in local conditions, and the statewide average grade has fallen to a "C-". At the same time, we continue to see more owners list their homes on the market, and without willing buyers it's likely that prices will continue to stagnate or decline in the near future.

Housing Report Card Methodology

This methodology relies on national statistical data collected by various Federal agencies, allowing CSI to develop a consistent and objective grading rubric for Arizona's fifteen counties (as geographic areas, not political entities) and statewide conditions. While the letter grades apply to the counties and the state, they should not be interpreted as scores of the County or State governments themselves. Instead, local permitting jurisdictions – typically a City or Town, but occasionally the local County government – have the most immediate influence over the ability of developers and builders to rapidly and affordably bring to market the types of housing people are willing to buy. The more restrictive these local development and permitting processes are, the slower newer housing comes to market and the more expensive it may be.

Housing Report Card Through Time

2019
Arizona Letter Grade: C-
Maricopa County Grade: C-
Pima County Grade: C

2024
Arizona Letter Grade: C-
Maricopa County Grade: D
Pima County Grade: D

2025 Preliminary
Arizona Letter Grade: C-
Maricopa County Grade: D
Pima County Grade: C-

To assess these processes, CSI measured local performance across the four subject areas – cumulative price increases since 2000, rent-to-income ratios, the number of people-per-housing unit, and the pace of home permitting relative to its housing needs – relative to national and long run norms. A weighted average of these four units produces the area's final overall grade. Because this index is intended to primarily assess how permissive to development a region is, we double weight the pace of home permitting relative to an area's housing needs.

For the Price increase, rent-to-income, and people-per-house metrics, all counties and the state were compared to the national average plus or minus a set number of standard deviations to yield the letter grades. Areas more than a full standard deviation below the national average received a 4.0 (A); one standard deviation below to 0.33 standard deviations above 3.0 (B); 0.33 standard deviations above to one full standard deviation above 3.0 (C); between one and two standard deviations above 1.0 (D); and higher than two standard deviations 0.0 (F). For the permitting to shortfall metric, CSI ranked states based on the historical estimates of the time required to close the

FIGURE 11.

Arizona's Housing Report Card (2025 Preliminary)

Overall, Arizona's local housing markets earn a C- grade for affordability and developer accessibility (relative to long-run and national norms). Under this grading scale, a "B" is roughly average.

County	Cumulative Price Increases	Rent-to-Income Ratio (2024 ACS)	People-per-Housing Unit (2024 ACS)	Permitting-to-Shortfall Ratio	Overall Letter Grade (Q4 2024)
Maricopa County	2.0	1.0	3.0	0.0	D
Pima County	3.0	2.0	3.0	0.5	C-
Pinal County	3.0	1.0	1.0	0.5	D
Yavapai County	1.0	1.0	4.0	0.5	C-
Mohave County	1.0	2.0	4.0	0.0	C-
Yuma County	3.0	3.0	3.0	0.0	C-
Coconino County	0.0	1.0	4.0	4.0	B-
Cochise County	4.0	3.0	4.0	4.0	A-
Navajo County	0.0	3.0	4.0	0.5	C-
Apache County	4.0	3.0	3.0	3.0	B
Gila County	0.0	3.0	4.0	3.0	B-
Santa Cruz County	1.0	3.0	1.0	4.0	B-
Graham County	3.0	4.0	0.0	4.0	B
La Paz County	3.0	3.0	4.0	0.0	C
Greenlee County	4.0	4.0	4.0	4.5	A
Arizona (Statewide)	**3.0**	**1.0**	**3.0**	**0.0**	**C-**

Source: New Residential Construction Reporting, Zillow Data, American Community Survey • Data limitations require us to assign scores based on countywide geographic areas. The letter grades should be read as generally applying to major cities and towns within each county, and not the Counties themselves.

FIGURE 12.

Housing Shortfall & Permitting Speed in Arizona

14 of the 15 counties in Arizona have a housing deficit, and 3 will never close their current housing gap given 2025 permit levels.

County	Housing Shortfall (2025 Preliminary)	Permits (2025)	Years-to-Close the Deficit	GPA	Rank
Apache County, Arizona	(852)	117	3.68	3.00	7
Cochise County, Arizona	(40)	441	0.72	4.00	2
Coconino County, Arizona	(1,265)	634	2.56	4.00	5
Gila County, Arizona	(447)	174	2.96	3.00	6
Graham County, Arizona	(228)	225	2.02	4.00	4
Greenlee County, Arizona	161	19	N/A	4.50	1
La Paz County, Arizona	(221)	59	Never Close	0.00	15
Maricopa County, Arizona	(34,276)	31,097	262.43	0.00	12
Mohave County, Arizona	(2,962)	1,836	Never Close	0.00	15
Navajo County, Arizona	(575)	461	16.34	0.50	9
Pima County, Arizona	(7,450)	4,658	19.74	0.50	11
Pinal County, Arizona	(2,907)	8,048	11.88	0.50	8
Santa Cruz County, Arizona	(54)	353	1.87	4.00	3
Yavapai County, Arizona	(2,992)	1,706	17.42	0.50	10
Yuma County, Arizona	(1,884)	1,155	Never Close	0.00	15
Arizona	(55,992)	50,983	119.62	0.00	

Source: U.S. Census Bureau • Note that the shortfall and permitting data are available for county geographies, but generally city governments are the legal jurisdictions regulating and approving most permits. A regions grade is a function of its deficit, the number of permits being issues, and expected population growth. The scoring structure was deliberately designed to reward a high-pace of realtime permit issuances.

housing deficit, if one existed. Areas that were estimated to close the gap faster than the 20th percentile of the historical data received an "A", areas faster than the 40th percentile but slower than the 20th received a "B", and so on in 20 percentile increments, with three exceptions: areas that were estimated to take between the 80th and 95th percentiles received a "D-", and areas over the 95th percentile received an "F". Additionally, areas with no estimated housing deficit received an "A+".

Cumulative price increases: Areas were graded on their cumulative price increases since 2000 relative to the national average of 196.6% growth. Areas with less than 143% growth (one full standard deviation below average) earned an A, while areas with price growth exceeding 304% (two full standard deviations above the national average) received an F.

Rent-to-Income Ratio: Rent-to-income ratios for each area were compared to the national average of 20.4%. Counties with ratios below 17.20% earned an A grade, with counties over 26.66% earning an F.

People-per-housing unit: The average number of people-per-household in the U.S. was 2.32 in 2024. Counties with less than 2.18 people per household received an A, and counties over 2.68 people per household received an F.

Permitting to shortfall: Counties and the state were compared to the historical average time a county would take to close its housing given historical permitting rates. Counties that were estimated to take less than 2.68 years to close their deficit earned an A, while counties exceeding 32 years earned an F. New to this report is the inclusion of A+ (4.5 GPA) and D- (0.5 GPA) rankings for the permitting to shortfall category. This new ranking better distinguishes between areas that do not have a housing shortfall (A+) versus those that are on track to close in a relatively short amount of time (A). Conversely, areas estimated to take above the 80th percentile but below the 95 percentile received a D-.

ARIZONA'S HOUSING OUTLOOK

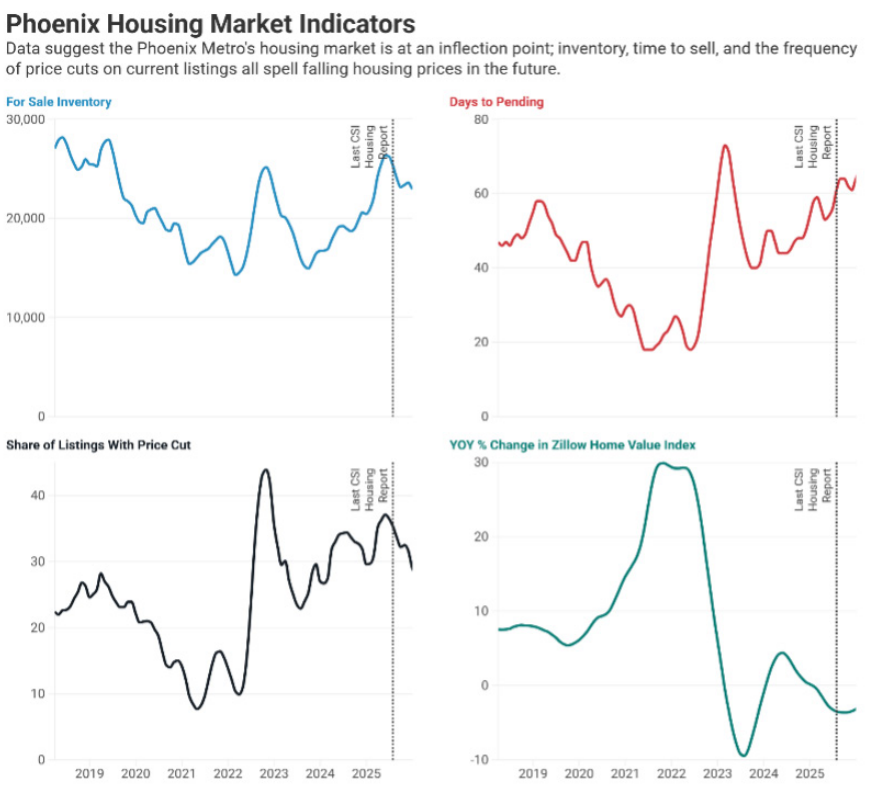
Arizona's housing market has been frozen for over two years. Prices in the once red-hot Phoenix metro market haven't risen since late 2022, but neither have they fallen particularly far. The combination of high prices and high interest rates shocked the system and pulled nearly all prospective buyers out. Somewhat surprisingly, though, rather than meaningfully lowering prices this instead froze the market – we now better understand the role existing homeowners play on both sides (supply and demand) of a supply-constrained housing market.

Still, conditions have shifted toward a more balanced, buyer-friendly environment in Arizona today. A general increase in available homes relative to 2022-2023 lows has given buyers more options and reduced the intense competition that defined the earlier post-pandemic period.

For sale inventory in the state's two largest housing markets – Phoenix and Tucson – fell slightly towards the end of the year but remain on par with 2019 levels (and well above 2021-2022). Additionally, homes on the market continue to take longer to sell, with the average for-sale home in Phoenix taking 65 days to reach pending status, and the share of listings with a recent price cut remains high.

More importantly, these factors have led to some declines in home prices even though the larger trend is flat. Home prices in the state more broadly fell 2.2% year over year through

FIGURE 13.



February of 2026 – the 5th fastest decline out of all states and Washington D.C. But since June of 2024, when home prices first began to fall in Arizona, prices according to Zillow data are down 3.4% - 3rd fastest decline in the nation.[vii]

Despite the recent declines, home prices in the state remain high both in absolute terms and relative to incomes; current trends have not changed that dynamic. At current interest rates and average hourly incomes, the average home price would need to fall by $90,000 (-21.4%) in order to reach the 45 hours of work benchmark to service monthly mortgage costs – a scenario that remains improbable in the extreme given the current supply constraints. On the other hand, demand remains much softer than the 2020-2022 period, and migration and household formation have slowed; prices in the once hottest markets in the country, including Arizona, are unlikely to see significant price increases in the near future either.

Overall, considering current market conditions and the environment that led to those conditions, the baseline expectation is that Arizona and especially its Phoenix area housing market are going to remain soft and relatively buyer-friendly, but price declines will be slight. Expect average home prices in Arizona to fall between 1% and 2% over 2026, and prices in the Phoenix area to fall 0% to 1%.

What Does a "Normal" Housing Market Look Like?

Meaningful progress toward housing affordability in Arizona will depend on three key factors. First, and most critically, mortgage costs need to move back toward historical norms, where servicing a new mortgage requires roughly 40–50 hours of work. Second, vacancy rates should rise back to their long-run average of around 5% (currently 3.28%), indicating a more balanced supply-demand dynamic. Finally, a sustained pace of new construction is essential to maintain equilibrium in the housing market and keep up with population growth and household formation. CSI estimates that this requires between 45,000 and 60,000 new permits annually based on historical trends.

When all three of these indicators align with their historical benchmarks, it would signal a return to a more stable and "normal" housing market - one that is both more affordable and better equipped to meet the needs of a growing population.

THE BOTTOM LINE

Arizona's market is healthier than it was but remains paralyzed by inefficiencies. Prices have stopped rising but also haven't come down much off their all-time highs. Combined with high interest rates, entering the housing market remains a daunting task for any prospective new buyer. Home permitting is slowing, migration and household formation are down, and the state is losing its luster as an affordable place to move to and create a life.

The solution remains elusive: policymakers are hesitant to do anything that would disrupt conditions for existing homeowners. But reasonable steps to improve the pace of single-family home construction can be taken without meaningfully harming existing owners, and this would pay dividends in restoring Arizona to its prior growth path.

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