



SEPTEMBER 2025

HOUSING AFFORDABILITY IN ARIZONA

QUARTER 2 2025 UPDATE

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ABOUT THE AUTHOR



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. Zachary is currently also a member of the Arizona Air National Guard.

ABOUT COMMON SENSE INSTITUTE

Common Sense Institute is a non-partisan research organization dedicated to the protection and promotion of Arizona's economy. CSI is at the forefront of important discussions concerning the future of free enterprise and aims to have an impact on the issues that matter most to Arizonans. CSI's mission is to examine the fiscal impacts of policies, initiatives, and proposed laws so that Arizonans are educated and informed on issues impacting their lives. CSI employs rigorous research techniques and dynamic modelling to evaluate the potential impact of these measures on the Arizona economy and individual opportunity.

TEAMS & FELLOWS STATEMENT

CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Americans 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 continued to cool through the second quarter of the year as buyers remain on the sidelines. According to several measures, home prices in Greater Phoenix through Q2 2025 have fallen or remained relatively flat since their peak in July of 2022, but the average house remains 51.9% more expensive than it was in 2019 according to data from Zillow.¹ Conversely, mortgage rates have provided little relief to buyers, climbing 0.17 percentage points in Q2 to 6.82%. As of the latest data for July, rates have fallen slightly to 6.72% - still 0.07 percentage points above the average rate in March. The cost of serving a new mortgage on the average priced home is still more than double what it was at the close of 2019 even after the recent price declines. Accounting for overall inflation less shelter, housing prices (mortgage costs) are over 26.7% (79.4%) more expensive relative to pre-pandemic levels.

Although the state finds itself in a cooling market, homebuilding has not been sufficient to catch up to and erase the state's persistent housing deficit. CSI estimates the current "instantaneous" housing deficit for the entire state sits at 52,846 units as of Q2 of 2025. On a "cumulative" basis through 2024, the state is short 121,334 units.

For about two years, the housing market has been paralyzed by an absence of both buyers and sellers. As we first highlighted in our Q1 report, there appears to be a slow but ongoing shift towards more sellers than buyers – putting some downward pressure on prices – though the underlying imbalance between the supply and demand of housing remains. CSI expects continued moderation of the housing market in the coming months, but new home building remains the primary mechanism by which Arizona and the U.S. more broadly can solve its housing affordability issues over the long term.

Key Findings

- CSI estimates that Arizona is currently facing an immediate housing shortage of 52,846 units – a 6.9% decline from the revised 56,812 estimate for 2024. However, the annualized pace of permitting through Q2 fell nearly 12.5% relative to 2024 totals and the state is now on pace to *never* close the current deficit (absent other changes). **It appears that all or most of the recent improvements are coming from reduced buyer demand.**
- At \$426,164, the average house remains \$53,400 (+14.3%) more expensive than it otherwise would have been if home prices had maintained the steady pre-pandemic trend. Despite prices falling since December 2024, **it would take 19 more months for housing prices to fall back in line with the 2012-2019 trend if prices continued to decline at this pace.**
- Homeownership remains financially burdensome. Historically, households in Arizona needed to work about 45 hours/month on average to afford their mortgage payment at current market wages, interest rates, and housing prices. **At the prevailing hourly wage rate, today it takes over 64 hours of work to afford a monthly mortgage payment (-3.2% since Dec 2024).** Alternatively, to afford the average home, a household needs to earn \$95,808 (92% of the average household income) under conventional mortgage guidelines.
- Arizona earned a “C-” rating on the CSI Housing Report Card for Q2 2025 – a slight improvement from the previous “D” grade. A combination of various inputs into the health and accessibility of Arizona’s local housing markets, this decline is largely a reflection of the low permitting-to-shortfall ratio and improving general affordability of housing in Arizona recently, offset somewhat by the slowdown in home permitting.
- Maricopa County – the state’s largest county by population – saw no improvement from its D rating in the previous quarterly report. 79 of the 90 cities and towns in Arizona had a housing deficit in 2023 – the latest data available for cities and towns (unchanged).

HOUSING AFFORDABILITY

Home prices continued to fall through the second quarter of the year, dropping 1.1% since March according to data from Zillow. As of June, the average house price in Arizona is \$427,764 – 7.9% off the July 2022 peak and \$147,199 *more* than at the close of 2019. Meanwhile, housing prices in the Phoenix Metro fell 1.3% relative to Q1, and as of June are 9.4% below peak.

As of preliminary data through August, CSI estimates that the average home in Arizona is \$53,400 (14.3%) more expensive than it otherwise would have been if home prices had maintained their steady pre-pandemic trend. Given the current pace of price declines since April (-0.37%/month), housing prices in Arizona will fall below their 2012-2019 trend in February of 2027 (19 months).

Homebuyers Misery Index

The Phoenix Homebuyers Misery Index fell 2.0% to 103.1 at the close of Q2, thanks almost exclusively to falling home prices in the Phoenix Metro. The average 30-year fixed mortgage rate at the close of Q2 – 6.82% – increased 0.17 percentage points from the close of Q1, however data through August shows the average rate falling to 6.60%.

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 preclude many buyers from entering the market.



Housing Affordability Through Time

2019

Monthly Payment: \$1,045
Work-Hours Needed: 39
Misery Index: 21.3

2024

Monthly Payment: \$2,278
Work-Hours Needed: 67
Misery Index: 106.2

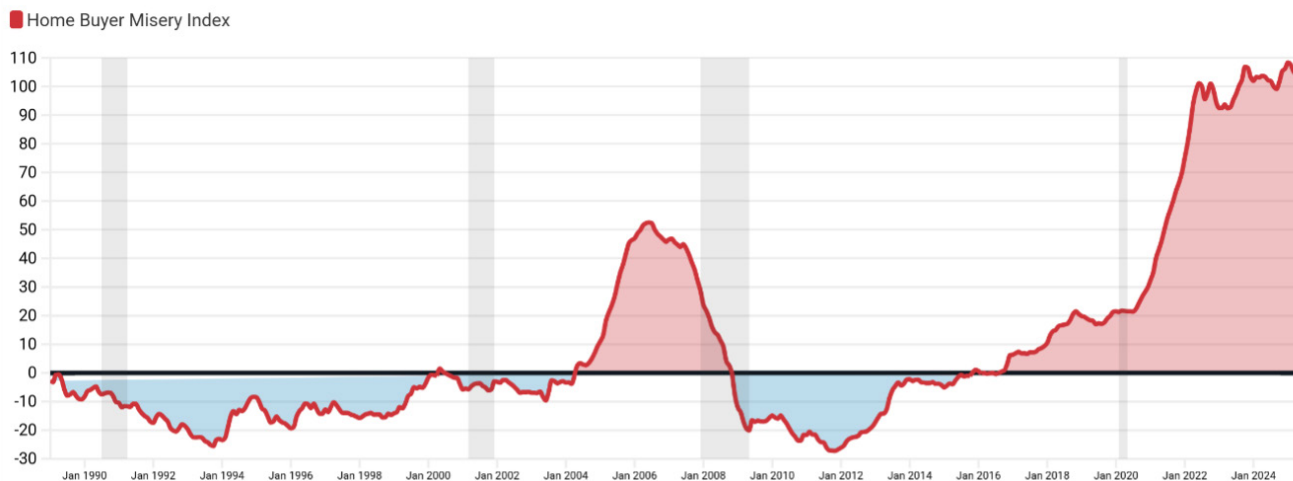
Q2 2025

Monthly Payment: \$2,236
Work-Hours Needed: 64
Misery Index: 103.1

FIGURE 1.

Phoenix 'Misery Index' of Mortgage Rates & Home Prices

The Misery Index fell 3.0% between December 2024 and June 2025 after peaking in January. The index is down exclusively to falling home prices, as interest rates actually increased between December and June.



As a result, sales of existing homes in the western region of the country remain historically slow, falling 9% since March and reaching the lowest level since 2020. This rate of sales is 43% slower than the rate in 2021 and is on par with existing home sales in 1980. Meanwhile, the rate of new home sales has slowed as well, and as of June was 30% lower than the rate in 2021. New home sales have declined for the last three months in a row and in June were 14% lower than sales in June 2024.ⁱⁱ

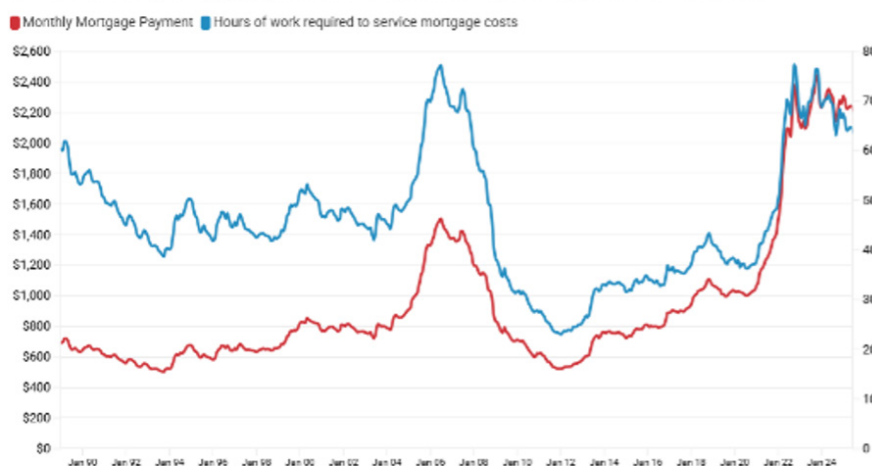
Mortgage Affordability

The average 30-year mortgage rate in June 2025 was 6.82% (+0.17 percentage-points since March 2025). At the close of Q2 the average price of a home in Arizona was \$427,764. Given those figures, **the monthly payment on a new mortgage for the average house would be \$2,236ⁱ**. In December 2019, a new mortgage on the average

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.



ⁱ Assumes a 20% down payment.

house would have had a monthly cost of \$1,036. To purchase a house in today's market under conventional mortgage guidelines², Arizona households would need an annual income of at least \$95,808. Alternatively, at the average hourly wage rate of \$34.69, the typical household in Arizona would need to work 64 hours/month (over one-and-a-half weeks) to service the average mortgage payment.³

FIGURE 3.

Arizona Home Prices, Mortgage Payments, and Work Requirements

Date	Average Home Price	30-Year Mortgage Rate	Mortgage Payment	Average Wage Rate	Hours of Work Required	Year-Over-Year % Change
12/01/2015	\$213,049	3.96	\$809.78	\$23.23	35.00	6.8%
12/01/2016	\$227,414	4.20	\$889.67	\$24.07	37.00	6.0%
12/01/2017	\$244,073	3.95	\$926.57	\$25.42	36.00	-1.4%
12/01/2018	\$263,374	4.64	\$1,085.18	\$25.86	42.00	15.1%
12/01/2019	\$280,565	3.72	\$1,035.66	\$26.92	38.00	-8.3%
12/01/2020	\$320,350	2.68	\$1,036.76	\$27.92	37.00	-3.5%
12/01/2021	\$411,195	3.10	\$1,404.7	\$29.16	48.00	29.7%
12/01/2022	\$437,698	6.36	\$2,181.1	\$30.84	71.00	46.8%
12/01/2023	\$434,464	6.82	\$2,270.54	\$31.94	71.00	0.5%
12/01/2024	\$436,278	6.72	\$2,256.8	\$33.9	67.00	-6.4%
07/01/2025	\$426,164	6.72	\$2,204.48	\$34.79	63.00	-4.3%

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

²We assume mortgage costs of 28% of gross income

³This is the total hours needed, not the hours per-worker. The average household has multiple workers.

PERMITTING & SUPPLY

In 2025 Q2, Arizona’s local jurisdictions issued 14,333 residential building permits (+13.1% from Q1 2025 and -5.8% from Q2 2024), bringing the total year-to-date to 27,010. **For the entire year, CSI estimates localities are on track to approve construction of just 51,877 housing units – a decrease of 12.5% from 2024 and the slowest pace since 2019.** Although the pace in recent months has been trending higher, should local jurisdictions continue to issue at this rate for the rest of the year they will only issue around 55,000 permits – still 7.3% slower than 2024.

New home construction and permit activity surged between 2020 and 2022, following pandemic-era price and demand growth. However, as with the U.S. more broadly, permitting fell in Arizona after 2022, and remains slow in our latest data. A total of 4,553 residential building permits were issued in June 2025. At its recent peak (March 2022) Arizona issued nearly 6,800 permits. A healthy annual pace of home permitting is approximately 60,000 to 75,000 permits/year assuming no present deficit. The current pace (closer to 50,000/year) is not enough to keep up with pent-up demand and resolve the state’s housing shortfall.

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. Based on the number of housing permits in Q2, Arizona is not on track to build enough housing units to close the deficit. Just to keep up with population growth, Arizona would have to add around 49,600 housing units annually; CSI forecasts 47,200 units over the next year.

As discussed in prior CSI reports, there is a large gap between the mortgage rates possessed by current homeowners (who bought when rates were much lower) and the market rates available to new buyers. This creates a mortgage lock-in effect – a



Permitting & Supply Through Time

2019

Housing Permits: 46,580
Housing Deficit: 68,742

2023

Housing Permits: 58,335
Housing Deficit: 68,658

2024

Housing Permits: 59,306
Housing Deficit: 56,812

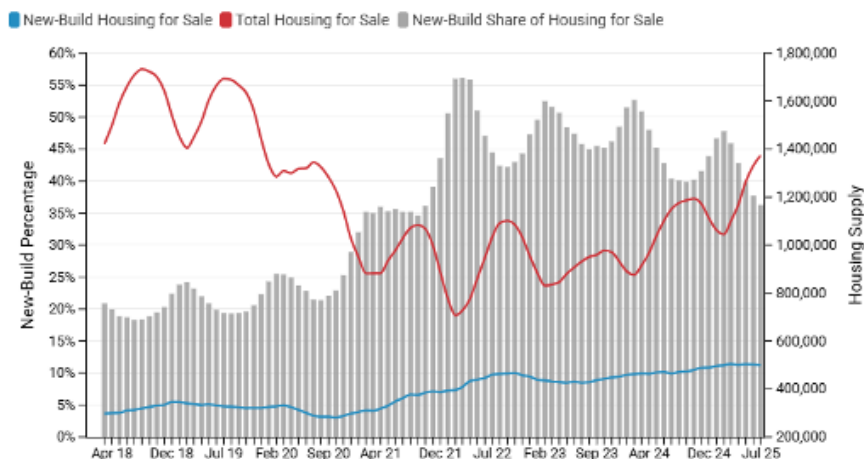
Q2 2025 (YTD)

Housing Permits: 27,010
Housing Deficit: 52,846

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. However, more recent data shows an uptick in existing homes entering the market, with new builds falling as a share of the overall for-sale inventory.^{iii iv} In total, the recent uptick in sellers in the market without a commensurate rise in buyers has led to both an increasing stock of for-sale housing and falling prices. We discuss these trends and others in more detail at the end of the report.

FIGURE 4.

The Changing Contribution of New & Existing Units to the Housing Supply
More existing homes continue to enter the market as the pace of building declines across the country. As of July newly constructed homes account for only 36% of the for-sale listings - the lowest share since Oct 2021.



Source: Zillow, U.S. Census Bureau • Zillow provides estimates for the total number of housing units for sale in the United States through 2018; at that time, based on the number of new homes for sale reported by the Census Bureau, 20% of all supply was new construction.

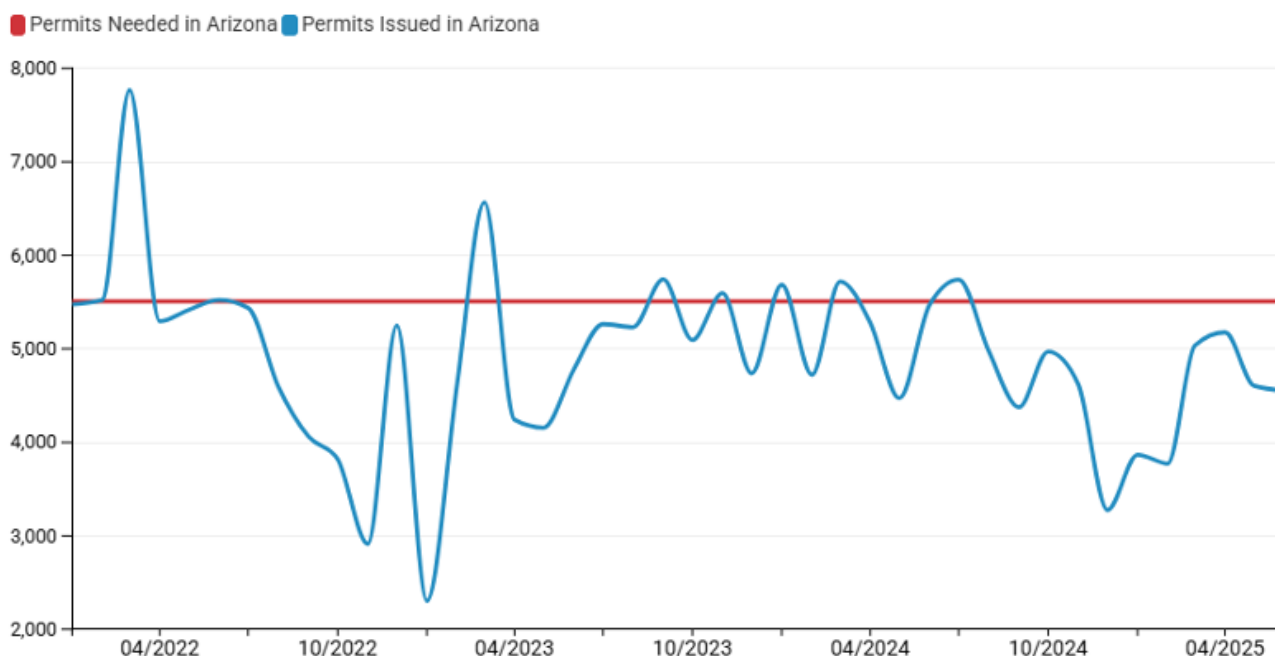
ARIZONA'S HOUSING SHORTFALL

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.

FIGURE 5.

Average Monthly Building Permits Needed Over 5 Years

Given the housing shortfall and historical population growth, Arizona needs to permit about 5,508 housing units every month to close the gap in 5 years; it is on pace to issue only 51,900 permits in 2025.



Source: U.S Census Bureau, CSI estimates

On a real-time basis, **CSI estimates an instantaneous housing shortfall of 52,846 units in 2025, down 7.0% from the revised shortfall of 56,812 in 2024.** This is attributable to slow but meaningful increases in statewide vacancy rates, as real-time housing demand slows.

Alternatively, CSI's supply-driven "cumulative" estimate of the housing shortfall as of 2024 shows an Arizona housing deficit of 121,334 units. This larger 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.

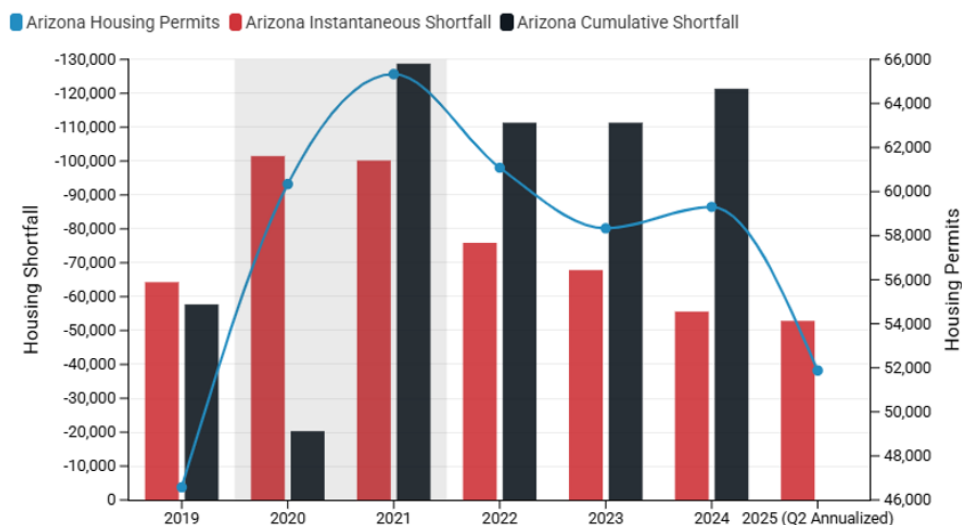
Although these estimates always differ, they have moved in opposite directions over the last couple years. This divergence illustrates a point we have made throughout our quarterly housing reports: recent improvements in the contemporary Arizona housing market are characterized more by a lack of buyers at current prices and interest rates than an increased home supply. The scarcity of buyers in the current market drives up vacancy rates, which lowers our instantaneous estimates of the housing shortfall, even though the "cumulative" – or long-run population based – disparity between supply and demand remains.

Given the current pace of permitting in Q2, the state will never close the instantaneous housing gap, and no meaningful progress has been made to address its pent-up "cumulative" shortfall since 2021.

FIGURE 6.

Arizona's Housing Shortfall and Permitting

CSIs estimate of the instantaneous housing shortfall decreased in Q2 over the revised 2024 estimate. At the same time the annualized pace of permitting through the first two quarters has slowed 12.5% relative to last year.



Source: U.S. Census Bureau, HUD

THE LOCAL HOUSING SHORTAGE

As a reminder: Arizona 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.

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 countywide average receive a higher effective grade under this method.

12 of the 15 counties in Arizona had an ("instantaneous" or market-indicated) housing deficit based on Q2 data. Out of those with a deficit, Navajo County has the largest as a share of its total existing housing units (4.7%), while Cochise County (1.2%) has the lowest.

Maricopa County – the state's largest county by population – has a projected deficit of 34,737 units, or 1.75% of the existing housing stock. The county's housing deficit increased between 2023 and 2024, but the latest data shows that gap falling from 37,773 units in the Q1 estimate to 34,737 in Q2, thanks to a rise in renter vacancy rates. According to HUD data, Maricopa County issued 36,011 permits in 2024 but is now on pace to issue 30,082 in 2025 based on activity through Q2. While this represents a drop from 2024 levels, it is a significant increase over the annualized pace of 23,487 highlighted in CSI's Q1 2025 report. However, even with this uptick in the pace of permitting the estimated 27,374 new housing units this level permitting will bring online in the next year is still roughly 4,700 units short of the amount needed just to satisfy baseline population growth. CSI estimates the county would need to build 31,600 units a year just to keep pace with population growth, meaning at the current rate Maricopa is losing ground. **Put another way, at the current pace of permitting Maricopa County will never close its current housing deficit.**

As first highlighted in this year's Q1 report, Pima County appears to now have a housing surplus, and is currently issuing enough permits to keep pace with expected population growth. While our previous cautions regarding large changes in estimated vacancy rates between quarterly estimates remains, the presence of an additional quarter of data adds more reliability and strengthens the notion that the Tucson area – and by extension Pima County – in particular are facing an instantaneous housing surplus.

However, as we have noted previously, CSI's instantaneous measure of the housing shortfall or surplus is a function of present housing supply and demand.

Shortfalls can rise or fall based on either component or some combination of both. In the case of Pima county, it appears that at least half of the progress can be explained by a fall in present demand rather than all or most being explained by an increase in the supply of new housing. As shown in Figure 8 below, only about half of the change in the county's housing deficit between 2023 and 2025 and less than half of the change between 2024 and 2025 can be explained by new housing units coming online during that time (both single-family and multi-family). Should affordability conditions change, such as with continued decline in housing prices matched with a decline in interest rates, it's likely that the county's surplus will fall unless the deterministic components of housing demand – such as population, demographics, and underlying housing preferences in the region – have truly altered longer-run demand.

FIGURE 7.

Arizona's Housing Shortage, By County, Since 2022

The statewide shortfall decreased again in Q2 2025 thanks to further increases in vacancy rates.

County	2022 Deficit	2023 Deficit	2024 Deficit	2025 Q2 Deficit	Shortfall as % of Existing	2025 Permits (Q2 Annualized)	Years to Close the Deficit
Apache County	(1,039)	(980)	(671)	(1,165)	3.98%	137	17.33
Cochise County	(1,316)	(347)	290	(732)	1.20%	416	8.14
Coconino County	(1,405)	(2,142)	(1,413)	(2,653)	3.64%	1,067	4.08
Gila County	(831)	(500)	(153)	(710)	2.15%	202	7.13
Graham County	(216)	(134)	17	(228)	1.56%	196	4.45
Greenlee County	(44)	121	169	0	0	20	0
La Paz County	(185)	(404)	(259)	(492)	3.57%	63	N/A
Maricopa County	(43,949)	(33,877)	(37,927)	(34,737)	1.75%	30,082	N/A
Mohave County	(4,564)	(2,987)	(1,732)	(3,938)	3.06%	2,279	26.60
Navajo County	(2,138)	(2,335)	(1,729)	(2,718)	4.65%	529	51.46
Pima County	(6,423)	(12,299)	(4,674)	0	0	4,347	0
Pinal County	(5,123)	(4,579)	(2,632)	(6,168)	3.04%	8,929	2.77
Santa Cruz County	(463)	226	438	0	0	358	0
Yavapai County	(4,967)	(4,167)	(2,853)	(5,128)	3.87%	2,010	N/A
Yuma County	(3,212)	(3,451)	(2,467)	(4,153)	4.20%	1,241	N/A
Arizona Shortage	(76,103)	(68,658)	(56,812)	(52,846)	1.7%	51,877	N/A

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.

N/A implies that the deficit will not be closed given the current pace of permitting.

Detailed housing data is only available annually, with vacancy rates and other housing statistics for all 15 counties provided through the Census Bureau’s annual American Community Survey. Although monthly and quarterly data are published through other Census products, they cover only the state as a whole and the Phoenix and Tucson metro areas – used here as proxies for Maricopa and Pima counties, respectively. Large swings in the quarterly data can meaningfully impact our surplus/deficit estimates and, for instance, cause a region to swing from showing a deficit to showing a surplus (as is the case with Pima and the Tucson metro). As mentioned above, this explanation is particularly compelling in the case of Pima County, where vacancy rates nearly doubled between 2023 and 2024, and have since increased by 70% as of Q2. The availability of future releases of the American Community Survey data will improve reliability of our estimates, albeit with a lag.

FIGURE 8.

Pima County Deficit vs New Housing Supply

Despite Pima County’s instantaneous housing deficit improving by nearly 22,000 units between 2023 and 2025, CSI estimates the county only brought online 11,400 new housing units during that time, meaning the remaining change in the deficit must have come from falling demand in the region, not the introduction of new supply.

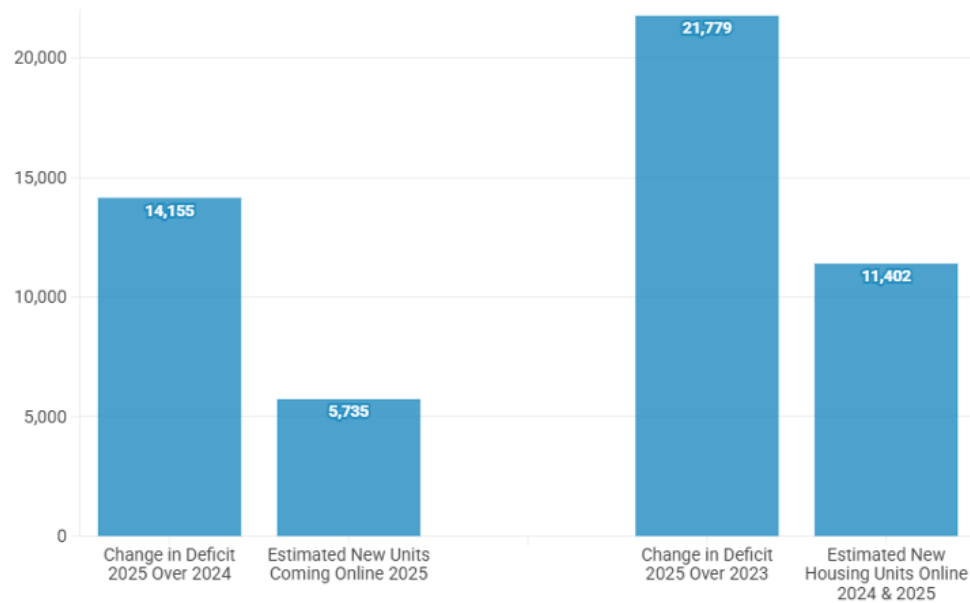


FIGURE 9.

Arizona's Housing Shortage, For Select Cities

City	County	Population	Market Housing Deficit	Permits	Years to Close	Letter Grade
Phoenix	Maricopa	1,697,696	(17,885)	14,468	7.4	C
Tucson	Pima	557,219	(4,866)	1,668	N/A	F
Mesa	Maricopa	524,892	(5,689)	2,162	N/A	F
Gilbert	Maricopa	292,116	(3,214)	1,603	N/A	F
Chandler	Maricopa	286,342	(2,671)	765	N/A	F
Glendale	Maricopa	260,878	(1,920)	1,813	16.8	D
Scottsdale	Maricopa	249,935	(3,047)	1,067	N/A	F
Peoria	Maricopa	203,065	(1,373)	1,090	N/A	F
Tempe	Maricopa	193,336	(932)	1,496	N/A	F
Buckeye	Maricopa	113,349	(944)	2,411	0.57	A
Queen Creek	Maricopa	81,778	(854)	2,136	0.54	A
Flagstaff	Coconino	79,913	(330)	874	0.60	A
Sedona	Yavapai	9,771	12	35	N/A	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.

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.

79 of the 90 cities and towns in Arizona had a housing deficit in 2023 – the latest year for which city-level vacancy rates are available. We cite the latest city results based on that data here but note that updates to these estimates will be available upon the release of the 2024 American Community Survey data from the U.S. Census in the fall. **Detailed city-level updates will be made available in future Q4 releases.**

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-”. However, the current grade represents a slight improvement from Q1 2025 thanks to falling house prices. Given current trends though, homebuilding is likely to continue slowing in the short term. On the other hand, rising vacancy rates thanks to increased for-sale inventory and few buyers will offset the slowing production of new housing, putting downward pressure on prices during Q3.

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 Q2

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

To assess these processes, CSI measured local performance across the four subject areas – cumulative price increases since 2020, 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 each metric, 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).

Cumulative price increases: Areas were graded on their cumulative price increases since 2000 relative to the national average of 195.4% growth. Areas with less than 142% growth (one full standard deviation below average) earned an A, while areas with price growth exceeding 303% (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 17.21% earned an A grade, with counties over 26.83% earning an F.

FIGURE 10.

Arizona's Housing Report Card (2025 Q2)

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

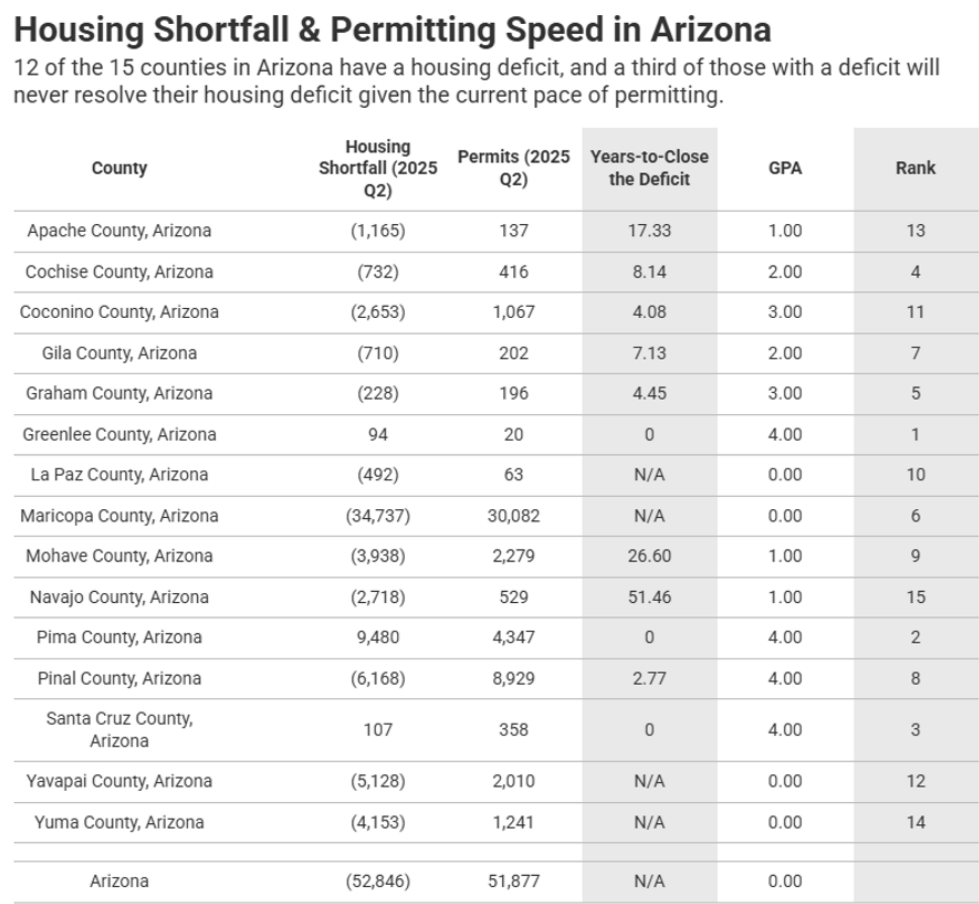
Source: New Residential Construction Reporting, Zillow Data, American Community Survey • Data limitations require us to assign scores based on countywide geographic areas. The letter grades should be read as generally applying to major cities and towns within each county, and not the Counties themselves.

People-per-housing unit: The average number of people-per-household in the U.S. was 2.35 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 2.8 years to close their deficit earned an A, while counties exceeding 60 years earned an F.

Figure 11 provides an example of the grading for the pace of home permitting relative to each area’s housing needs. The more permits an area issues the shorter the time frame to close the estimated housing deficit – all else equal – which results in a higher letter grade.

FIGURE 11.



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.

ARIZONA'S HOUSING OUTLOOK

In last quarter's report we highlighted the potential inflection in the state's housing market. Since then, the market has continued to cool and moderate as these trends have persisted.

For-sale inventory in Arizona's two largest housing markets – Phoenix and Tucson – has reached the highest levels since July of 2019 thanks to ever-more sellers entering the market relative to historic lows during the post-pandemic, while at the same time average sales over the previous 12 months has reached its lowest level since Zillow started tracking the data. Similarly, the share of homes on the market with at least one price reduction continues to climb, as does the average number of days on the market.

As a result, home prices in Arizona continue to fall. According to Zillow market data, **the Grand Canyon state has seen its average housing price fall by 3.0% over the last twelve months – the third largest year-over-year decline out of all states and D.C.**

Furthermore, the Phoenix area has seen prices fall 3.5% since July 2024 – the 77th largest price decline out of 895 metro areas tracked by Zillow.^v While other indicators of housing prices are not as stark, the overall trend is clear: rapid price appreciation in Arizona is over, and the market is moderating.

FIGURE 12.

Phoenix Housing Market Indicators

The Phoenix housing market continues to cool, leading to falling prices.

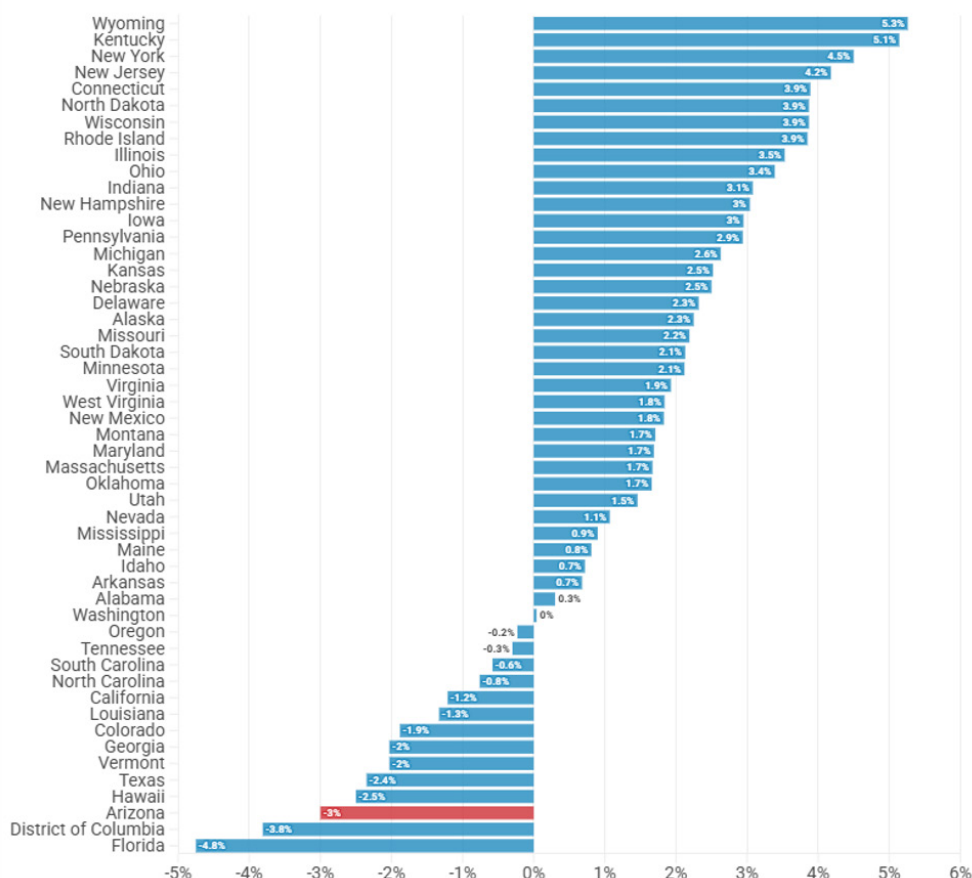


Despite these recent trends, though, home prices - especially the Phoenix area - remain historically high, even after controlling for general inflation in all other categories. The average house in the state is 52.5% more expensive than it was in 2019 according to Zillow, and after factoring in price increases for goods and services excluding shelter, prices are still 26.7% higher. These prices coupled with high interest rates continue to exclude would-be buyers out of the market, and as discussed earlier in the report, it would take nearly two years of persistent price declines at the current pace for housing in Arizona to fall back to their pre-pandemic trend.

FIGURE 13.

Year-Over-Year Change in Average Home Prices

Three years ago Arizona was home to one of the fastest growing housing markets in the country, but recent trends have shifted. As of July 2025, Arizona has seen the 3rd largest price declines in the nation



THE BOTTOM LINE

The trends we have highlighted here mean that Arizona will continue to see market moderation through 2025, likely continuing the state's ranking as one of the fastest cooling markets in the nation. High interest rates and high prices have pushed many buyers out of the homebuying market.

However, the long-term structure of Arizona's housing market remains unfavorable for new buyers given current prices and interest rates, and it is likely to remain that way without sufficient changes to the state's overall housing supply. The state's housing market remains underdeveloped, and the pace of homebuilding is slowing despite persistent housing deficits.

True progress in the battle for affordable housing will see normalized vacancy rates around the historical 5% range (currently 3.5%), a misery index near or approaching zero (currently 103.1), and a pace of permitting around 60,000-75,000 units annually (currently 52,000).

SOURCES

- i. Zillow Home Value Index, *Zillow*, accessed September 4, 2025.
- ii. New and Existing Homes Sold by Region, *National Association of Home Builders*, July 24, 2025.
- iii. For-Sale Listings, *Zillow*, Accessed August 29, 2025.
- iv. Business and Industry - New Single-Family Houses For Sale: United States, *U.S. Census Bureau*, Accessed August 29, 2025
- v. Zillow Home Value Index, *Zillow*, accessed September 4, 2025.