



COUNCIL SUBCOMMITTEE ON ECONOMIC
DEVELOPMENT

APPROVED SUMMARIZED MINUTES

Thursday, April 14, 2022

4:00 p.m.

One Civic Center

7447 E. Indian School Rd., Suite 301

Scottsdale, AZ 85251

Council Subcommittee on Economic Development

Subcommittee Members: Councilwoman Linda Milhaven, Chair
Councilwoman Solange Whitehead
Councilwoman Betty Janik

Staff: Brent Stockwell, Assistant City Manager
Rob Millar, Economic Development Director
Josh Utterback, Economic Development Program Manager
Scott Cooper, Economic Development Program Manager
Deanna Owens, Human Services Manager
Kirsten Hushagen, Economic Development Marketing Manager

Guests: Brad Smidt, Sr. Vice President Business Development, Greater
Phoenix Economic Council
Elliott Pollack, Home Arizona
Nico Howard, Home Arizona

Call to Order

Councilwoman Linda Milhaven called the Council Subcommittee on Economic Development to order at 4:00 p.m.

Roll Call

Present: Councilwoman Linda Milhaven, Councilwoman Betty Janik (Electronic),
Councilwoman Solange Whitehead (Electronic)

1. Approval of January 6, 2022 Summarized Minutes

Motion to approve as presented: Councilwoman Betty Janik Second: Solange Whitehead

2. Greater Phoenix Economic Council

Brad Smidt, Senior Vice President Business Development, Greater Phoenix Economic Council (GPEC) and potentially other GPEC staff, will present an update on business development activity focusing on the Phoenix metropolitan area.

Presenter: Brad Smidt, Senior Vice President, Greater Phoenix Economic Council

Staff Contact: Scott Cooper, Economic Development Program Manager –
480-312-7601

Action: Presentation and Discussion

Mr. Smidt reviewed GPEC's history, mission statement and services GPEC provides. Mr. Smidt also reviewed the Phoenix Metro area growth and employment numbers since 2010 along with the COVID-19 recovery. Since April 2020, Phoenix metro has recovered 114% of total non-farm payroll jobs. Sectors where job gains were the highest include finance, insurance and professional and business services jobs. Arizona job forecast growth is projected to be 3.1%

FY22 is still showing solid growth in the Phoenix area, including TSMC and their potential suppliers. Capital investment potential is still very high for the area. 20% of GPEC's prospects are from California, 21% are international. Mr. Smidt stated that there is a lot of interest for headquarter locations from technology, fintech and other companies from the Bay Area that GPEC will continue to work on this. There is biotech interest from the San Diego area and warehouse/distribution from the Los Angeles area. The recent Scottsdale locates which include Cruise, Marble and Nerdwallet.

Pre-Covid numbers showed industrial projects at 55% and office projects at 45%. In FY21 industrial projects had increased to 73%. Office projects have not been as active as pre-Covid numbers and GPEC feels this is due to companies planning for staff to be working from home. GPEC has seen more industrial mega projects in FY21 and FY22, with no office mega projects.

Councilwoman Janik asked about average salary. Mr. Smidt stated that the average annual salary is at \$73,000 which is still good wages. Councilwoman Whitehead asked if companies are bringing their own workforce or hiring local. Mr. Smidt replied that some of the international companies are bringing some of their own workforce (up to 20% – 25%) to seed the projects and some small management teams. However, a majority of the time the companies are hiring local. Councilwoman Janik asked about what kind of companies GPEC sees coming to Scottsdale. Mr. Smidt said there is a lot of opportunity in R&D, light assembly, financial, information technology, healthcare tech, etc. Councilwoman Milhaven asked about where companies see regionally what is most attractive. Mr. Smidt answered that it depends on what types of industries are looking at specific regions. Because of the TSMC facility, the 303 corridor is attractive for the supply chain companies, but there is some sticker shock in terms of land cost, therefore they can't afford to locate in the Deer Valley area. Areas such as the Central Avenue Corridor, the Biltmore area and Scottsdale for office locations have a lot of interest. The warehouse distribution locations on the 303 corridor have seen a lot of locations. Some of these relocations are driven by large available land parcels.

3. Home Arizona

Elliott Pollack and potentially other members of Home Arizona, will provide an overview of Home Arizona, current Arizona housing conditions and economic forecasts.

Presenter: Elliott Pollack

Staff Contact: Rob Millar, Economic Development Director –
480-312-2533

Action: Presentation and Discussion

Mr. Pollack introduced Nico Howard, co-founder of Home Arizona. Mr. Howard reviewed the organizations mission statement and named some of its board members: Elliott Pollack - Elliott D. Pollack & Company, Paul Johnson – former mayor of Phoenix, Jen Daniels – former mayor of Gilbert, John Graham – CEO of Sunbelt Holdings, along with a few other unnamed board members. The group was formed due to the observation of two main issues; 1) residential housing costs have risen at an unsustainable rate, and 2) finding/attracting quality employees has become a problem. Mr. Howard stated that if these issues persist, the belief is Arizona eventually will become non-competitive. Over the last 12 months there has been an increase of about 30% in housing prices across Phoenix and that sends a message that housing is under supplied. If this continues the search for a quality labor force and their cost of housing will be at a level that is not attainable for employees, if that happens eventually employers will stop coming to Arizona. This becomes a community and economic development issue.

Mr. Pollack stated that Home Arizona is entirely a volunteer group which started last summer. During the first decade of this century the housing industry was over-built and builders have been under building since 2008. All of that housing has now been absorbed and housing is at the lowest vacancy rates in history. Household formations are outpacing single and multifamily additions. All of the excess supply has been absorbed, there is nothing left. Employment and population will continue to grow in greater Phoenix which is the second most rapidly growing area in the country.

The highest growth of age in our population is 27-32, which is the age when people start buying houses. Mr. Pollack reviewed some of the 5-year home buying age estimates. 46% of the 18-29 age group are still living at home with their parents, which is the highest rate since the depression. At some point their parents are going to request they leave and/or wages will be high enough to create their own household. The housing supply in Phoenix is down to 16 days of inventory. For homes less than \$350,000 there is less than 5 days of inventory. There is also no standing inventory of new homes.

Apartments aren't keeping up with annual demand. Additional units need to be built at about 13,000 units per year, currently the valley is 17,000 units short of where it

should have been, which is in addition to the annual 13,000 units per year needed. Apartment deliveries are not keeping pace with forecasts.

Mr. Pollack reviewed the affordability ladder: there is a need for entry level, move up ownership, market rate rental, low-income rental housing, extremely low-income rental housing and workforce housing. However, the current shortage is in all housing types and all income levels. The lower the person is on the income level, the harder it is to afford housing. Scottsdale now has a homeless issue and it will get worse due to rent and housing prices increasing rapidly. Apartment rents have increase 29.9% year-over-year, resale homes have increased 29.2% year-over-year. The Valley has a supply and demand imbalance.

Mr. Pollack reviewed a chart created by NAHB/Wells Fargo showing housing affordability. In 2015, 70% of the households in Phoenix could afford a median-priced home. In 2021, Q4 households in Phoenix able to afford a median-priced home fell to 44%. Every 1% increase in interest rates equates to a 13.2% increase in house prices. Home Arizona ran various scenarios which showed the effect of increased interest rates and housing supply/demand.

Housing prices have gone up 198% since 2000, interest rates fell by -60.7% and median incomes rose 48.8%. Low interest rates covered up the rise in the affordability issue for a long time, but now there is not enough inventory to continue.

Last year rent increased by 24.4%. By 2026, renters will need an income of about \$99,000 to afford a median priced apartment.

Mr. Pollack reviewed affordability by occupation and salary for 2020 and 2021 for various cities around the Valley.

Fewer people will rent versus own. More rentals of single-family units as families double up. More millennials and Gen Z's living with their parents, less workforce housing, more homelessness. There will be a worsening economic development picture as the ability to draw employees diminishes.

To end the housing shortage, building more units is the only solution that is viable in the marketplace. Estimates are 80,000 to 90,000 new people arriving in the Valley a year. This creates a total housing demand of about 35,000 new units per year just to keep up with the population growth. However, to get the supply and demand back in balance, over the next 5 years the Valley needs to build about 42,000 units per year.

In conclusion, affordability has plummeted, there is no vacancy or available supply, supply is not keeping up with demand, attracting of jobs is not matching with sufficient housing supply, and a continued shortage of housing drives up costs, jobs and real income growth.

Councilwoman Whitehead asked about corporate buyers and their impact. New companies getting formed every day, short term rentals, corporate buyers, etc. Is this impacting pricing. Mr. Pollack stated that it doesn't change the mix of inventory but moves the inventory towards rentals and that is where the market is going. He does not believe that this effects the price. Brent Stockwell, Assistant City Manager stated that short term rentals are taking property off the market for purchase, they may be only used for 90 days of the year, staying vacant 270 days of the year. Mr. Pollack agreed that if the property is vacant and not housing someone full time, then yes it can be causing a supply and demand issue and can drive up the market. Councilwoman Milhaven stated that some people think that limiting short term rentals will fix the problem, but that is not the solution.

Councilwoman Whitehead asked about assisted living units, the gray tsunami coming in the future – is that effecting housing in 5–10 years. Mr. Pollack stated that it will be a long time before we see an impact, but eventually some of the senior housing converting to apartments in 15-20 years is a possibility. Councilwoman Whitehead asked that if those moving into assisted living and selling their homes and is it a trend Mr. Pollack is seeing. Mr Pollack stated that that is probably 10 years out – most homeowners sell in their late 70's.

Councilwoman Janik stated that economy goes to extremes. With a recession the housing market will slow down and will affect the entire country. What effect will a nearing recession have on the housing issue. Mr. Pollack stated that every shortage leads to an over supply, every over supply leads to a shortage which take about 15-20 years. Councilwoman Janik stated that with the housing supply the way it is, people will not be able to change jobs because they can't afford to move. Mr. Pollack commented that if someone is moving from some other markets (California, Seattle, N.Y. and Florida for example) Phoenix is still a good deal. Starter housing will be smaller houses in the future. We have gone from a market that was way affordable to one that is not affordable. Councilwoman Janik asked about the build home for rent market. Mr. Pollack stated that it is a good concept and better than an apartment but is just a form of an apartment.

Councilwoman Milhaven asked about expanding this conversation beyond this group and possibly having Home Arizona present to council. Both Councilwoman Whitehead and Janik agreed.

Councilwoman Whitehead asked if the state had taken any steps toward an affordable housing plan. Brent Stockwell stated he thought it was currently going to an affordable housing working group. Mr. Pollack commented that if there was a way the city could access any funds and use it to build apartments of any type, anything that brings units to the marketplace will help.

Councilwoman Whitehead stated that it would be helpful to receive any data and resources that could make existing or new apartments more affordable.

Councilwoman Janik asked if Home Arizona saw the government playing a substantial role in any of these issues. Mr. Pollack answered that Home Arizona

believes these are local issues and should be handled locally. State legislation would not be helpful. Mr. Howard stated that some suggestions have been made to make units affordable, yet actually does not help the supply. Mr. Pollack stated that rent control just causes builders to reduce supply because developers cannot compete with rent control in those communities. In N.Y. rent control turned the Bronx into slums. Inclusionary zoning forces other in the building to subsidize the rent controlled units.

Councilwoman Janik asked that if the continuation of building luxury apartments help. Mr. Pollack stated that if you bring in more A apartments, the current luxury apartments will become B apartments. Nobody sets out to build C and D level apartments, these are just older units that haven't been taken care of. Building any apartments to ease the housing issue is good.

Brent Stockwell stated that there are about 7,000 units that have been entitled in Scottsdale but haven't been built and that number probably increases as you go across the entire Valley. Having a sense of land availability and where it is in the region and if you go into Phoenix there are large plots of land that have not been built and have been unbuilt for years, is that a potential help to Scottsdale if the new building projects are close to Scottsdale and would that help Scottsdale employers.

Mr. Stockwell commented that one of the challenges happening in Scottsdale right now is units that would typically be B and C unit pricing are becoming A and B or AAA pricing. So the more units coming in aren't driving down the price of housing, it is the interest of being here that is driving the pricing. For instance, the Pauite neighborhood fourplex units which typically would have been very affordable housing, the prices are rising quickly. The community needs a balanced market and a plan to manage with the current drought situation and bringing more people to the Valley. People are concerned about multifamily. We have no growth management – all types of information will be helpful.

Mr. Pollack stated that the water issue is a water pricing issue. Phoenix metro does not charge enough for water. If water costs increased, people would conserve. Tucson does not have a water issue. Councilwoman Whitehead stated that it would be helpful to see data on multifamily water usage versus single family at a city council meeting. Mr. Howard commented that it would be good to look at water usage between north Scottsdale and south Scottsdale. The southeast valley and far west valley uses a lot more water for agriculture than would be used by development. More farmland will be bought up. An acre of people uses less water than an acre of cotton. Brent Stockwell stated that the bordering community of SRPMIC has recently developed their first non-tribal development for senior housing. Mr. Stockwell asked if Home Arizona had approached this community about this housing issue and it could increase SRPMIC's income stream.

4. HUUB Business Support Program

Deanna Owens, Human Services Manager, and potentially additional city staff, will provide an overview of the City's HUUB Business Support Program.

Presenter: Deanna Owens, Human Services Manager – 480-312-0018

Staff Contact: Rob Millar, Economic Development Director –
480-312-2533

Action: Presentation and Discussion

Deanna Owens reviewed February’s data from the HUUB program. Ms. Owens explained that HUUB is a platform that supports businesses by providing webinars, technical assistance and other resources.

As of the end of February, there were 34 approved technical assistance applications (consulting services) with 67% of applicants being women and 29% were non-white applicants.

The original goal was 200 business applying and approved. As of the end of February the program was at 176 businesses. Ms. Owens reviewed some of the social feed posts made by the participants and collaboration with other businesses was a common theme. Ms. Owens also reviewed some of the HUUB events and resources that are available for member support.

Deanna reviewed some of the statistics for the 176 businesses: 55% of businesses age 45 and over, 84% of the businesses in the program have under 10 employees.

5. Economic Development Update

Economic Development Director, Rob Millar and potentially other city staff will provide an update on economic development trends, events and projects.

Presenter: Rob Millar, Economic Development Director – 480-312-2533

Staff Contact: Rob Millar, Economic Development Director – 480-312-2533

Action: Presentation and Discussion

Mr. Millar gave an overview of commercial leasing trends with Scottsdale being slightly higher than Phoenix Metro. Performance metrics were reviewed and are on a positive trend to match pre-pandemic numbers.

Mr. Millar stated that one of the things the department does is talk to various community groups and explain what the department does. He showed the department’s explainer video and commented that this is a good opportunity to build economic development ambassadors.

Mr. Millar reviewed the Scottsdale Corporate Corridor and recent state land sales activities in that area. The department is using this information to promote to developers and corporate real estate agents.

The department partnered with GPEC, APS and SRP on a site selector tour and received positive press from Business Facilities Magazine and they will do a few more follow up pieces.

Upcoming activities include:

- **Economic Development Week is the first week of May;**
- **The department is partnering with the Scottsdale Area Chamber on a bus tour on May 25th to build an ambassador group;**
- **Staff is currently creating a business appreciation event for Scottsdale-based businesses**
- **Axon's final plat and scheduled to go to council on May 7th**

Josh Utterback recently received International Economic Development Council CEcD certification.

Councilwoman Janik asked how many companies are thinking of satellite offices versus moving their corporate office. Mr. Millar stated that we are seeing interest in companies from the Bay Area that want to have a satellite office in Phoenix Metro, but HQ's staying in the Bay Area due to venture capital funding requirements.

6. Open Call to the Public (A.R.S. §38-431.02)

Citizens may address the members of the Council Subcommittee on Economic Development during Public Comment. This "Public Comment" time is reserved for written citizen comments submitted electronically regarding non-agendized items. However, Arizona State law prohibits the Subcommittee on Economic Development from discussing or taking action on an item that is not on the agenda.

7. Future Agenda Items

Councilwoman Janik asked for a broader picture of what is going on in comparative cities and how they are addressing the housing issue.

8. Adjournment

5:36 p.m.