

Phoenix Economic Health: Labor Shortage Shrinks Construction Capacity

Recent Trends

The National Association of Homebuilders estimates that there are approximately 200,000 unfilled construction jobs in the U.S., representing a jump of 81% in the last two years. In addition, the Department of Labor reports that the ratio of construction job openings to hiring is at its highest level since 2007. Factors such as SB1070 and a high concentration of retiring Baby Boomers have made the construction labor shortage especially large in Phoenix. President Trump's immigration reform efforts are also contributing to the labor shortage, as 30% of all those employed in construction trades are foreign-born.

Market Impact

Since the market does not have enough skilled workers to produce large volumes of product, builders across the board have been forced to focus on the higher-margin luxury space. Over the short term, this has created an oversupply in the luxury space and almost zero new supply of affordable housing. Since many of the older homes/apartments in town are being completely remodeled, the new supply of affordable housing is actually negative. At the same time that the supply of affordable housing has been decreasing, real median incomes have been declining, creating a dramatic supply/demand imbalance.

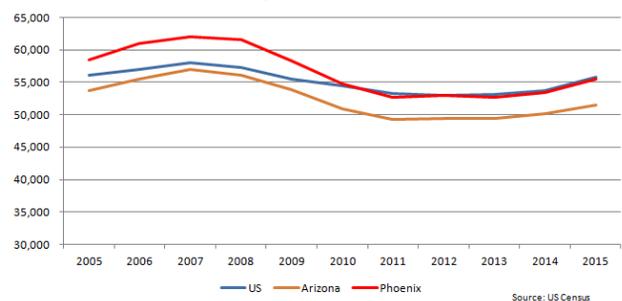
Everest Insight

Affordable housing won't be built until the labor exists to do it. The state of Arizona, alongside with several private sector organizations have put together various programs to encourage young people to get excited about careers in the construction industry. The Association of Construction Career Development currently has Career & Technical Education programs at ASU, NAU, Gateway Community College. SB1525 was signed by Governor Ducey on 2-17-16, dedicating \$29 million in state funding for Joint Technical Educational Districts. Private companies are starting their own apprenticeship training programs, such as Build U at McCarthy.

Opportunities

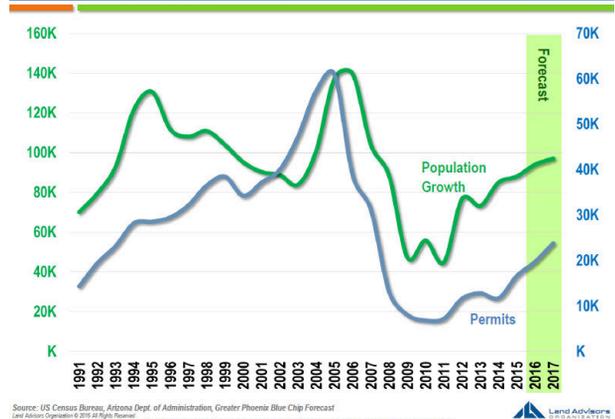
Sooner or later, the economics for new housing construction will become feasible and housing starts will return to historical their historical norm. Affordable housing has the most runway in terms of unmet demand. Ways to play this include buying cheap land/lots in the suburbs/exurbs, developing neighborhoods/apartments for the working class and investing in home building companies.

Historical Inflation Adjusted Median Household Income



Growth & Permits Relationship

Population Growth & Single Family Permits



Comparative Construction Cost Index

