

Phoenix's Downhill Slide

Economic Stagnation, Unsustainable Growth, Foreclosures, and Migration Trends Contribute to City's Decline

BY WILLIAM B. DICKINSON

The invented city Phoenix—a desert megalopolis built on outlandish dreams and schemes—is facing an agonizing reappraisal of its place in the sun. The Great Unwinding of America's economy took awhile getting here. But evidence piles up that the Desert Southwest faces a prolonged downturn, with consequences that could set the region back for many years to come. That cities seemingly impervious to recession should find themselves in difficult circumstances raises broader questions about the role of population as an economic engine.

In previous communications over the years, I've written of my fascination with the West, where great cities have risen in some of the nation's most inhospitable places, propelled by the artifices of air conditioning and a boundless faith that destinies can be found in the wilderness. Americans seeking breathing space flocked to Arizona, Nevada, Utah and New Mexico. Greater Phoenix's population of 3.9 million, a million more than just nine years ago, overtook Philadelphia to become the nation's fifth-largest city.

What could go wrong? In 2005, one out of every three dollars in Phoenix's \$140 billion economy was generated by the housing industry. One warehouse delivered and installed 550 appliances on a typical day, in effect emptying itself every 24 hours. The median price of a house rose 50 percent in one year.

That was then. This is the new reality: The Valley, a sprawling collection of contiguous cities, has more than 55,000 homes for sale, a 12-month supply. About 40,000 homes were lost to foreclosure in 2008, with thousands more headed in that direction. The median resale price for a detached single-family home has declined about 40 percent from the peak four years ago. Unemployment

remains below the national average, but first-time claims for unemployment insurance reached a 30-year high. Phoenix proper plans to slash \$250 million, or more than 20 percent, from its budget because of declining city tax revenues. Maricopa County's notorious sheriff, Joe Arpaio, started charging jail inmates for their own meals in a move to save \$900,000 each year in food costs.

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Plenty of wretched excess can still be seen in the shiny designer cars and multi-million-dollar homes that seem to go on for miles north and east of the downtown. The Ritz-Carlton, Paradise Valley, recently started construction on a luxury residential resort with residences starting at \$2 million. The iconic Arizona Biltmore Resort & Spa tried to make the holidays memorable for guests' pets. Its executive chef created bite-sized, minted (for fresh breath) doggie biscuits served with holiday-flavored water (veal bones boiled in water and strained) "for a healthy, nutritious and delicious drink," and for feline guests, a special selection of warm milk and catnip cookies.

All the glitz aside, a somber appraisal of Phoenix's plight came in mid-January at Urban Land Arizona's annual conference. Top analysts and economists predicted that the Valley's real-estate market would continue to slow this year and in 2010. A significant increase in home prices and sales likely won't happen until 2012, they said. Advice to hang on for another three years for a turnaround doesn't fit the prevailing Western ethos of ever-onward-and-upward. But it was echoed about the same time at Las Vegas Housing Outlook 2009, another gathering of industry experts. One appraiser predicted a wave of up to 4,000 new foreclosures hitting the Las Vegas market with the expiration of a 90-day moratorium by Freddie Mac and Fannie Mae at the end of January. That could push down housing prices an additional 10 percent.

Another analyst saw any ray of hope for the local housing market at least two years away. The Las Vegas strip, with more than \$6.8 billion in gambling revenues in 2007, saw its revenue fall by more than 25 percent in 2008.

Not all the news out of the Desert West is negative. Even in sin-based Nevada, gold mining means prosperity for the 4,000 resident of Battle Mountain, a wind-swept high desert town 200 miles east of Reno. In New Mexico, Albuquerque began using a new system in December that for the first time pipes water from the Colorado River, reducing its reliance on an aquifer beneath the city that was being pumped dry. But a group of Colorado scientists in December warned that the future reliability of the river's water supply "is in question" because of climate change, population growth and the likelihood of multi-year droughts. Better news comes from Utah, where the Mormon work ethic and culture get credit for an unemployment rate half that of the national average and a mini-boom in technology output.



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Undeniable signs of unsustainable growth, evident for most of this decade, have put Western leaders in a fiscal and ideological bind. U.S. Census Bureau data released in December showed the nation's great migration south and west had slowed in the current fiscal year. Phoenix proper may be shrinking for the first time in modern history, according to city records that measure water hookups, foreclosures, and sales-tax revenue. With Arizona's 3 percent annual population growth of recent years reduced by half in 2008, the state faces a \$1.2 bil-

lion to \$2 billion budget deficit this year and perhaps double that in the 2010 fiscal year that begins July 1. Tax increases are anathema in the West, but Arizona's new governor, Jan Brewer, declared that a tax hike was "an option." An editorial in *The Arizona Republic* (Dec. 17) warned that Arizona was "head-

ed into what may be the worst state budget crisis in the nation." The state may be among those appealing to the new administration in Washington for help.

None of this angst squares with the myth of exceptionalism and self-reliance that permeates the American West. As one blogger described

the contradictions: "The rural economy is maintained by federally funded irrigation projects, nineteenth century fees for grazing and mining, subsidies for unwanted crops and bargain-priced water." And Kathleen Ingley, a columnist for *The Arizona Republic*, challenged the prevailing myths and by pithily declaring, "There is no freeway fairy." Some observers even see a bright side to the West's economic malaise. Jonathan Thompson, editor of *High Country News*, believes the hunger for the West's lands and resources may diminish somewhat. "If so," he wrote (Nov. 24), those who are fighting for the region's water, air and landscapes may get a break. Still, we can't be lulled into complacency by the bust."

The West still searches for what conservationist Wallace Stegner called "a society to match the scenery." Hard times will make the search more difficult. Perhaps it is noteworthy that Phoenix itself is named for a mythical bird—a suggestion reportedly made by an Englishman who passed himself off as a lord. The legends and excesses of the fantastical West live on. ■