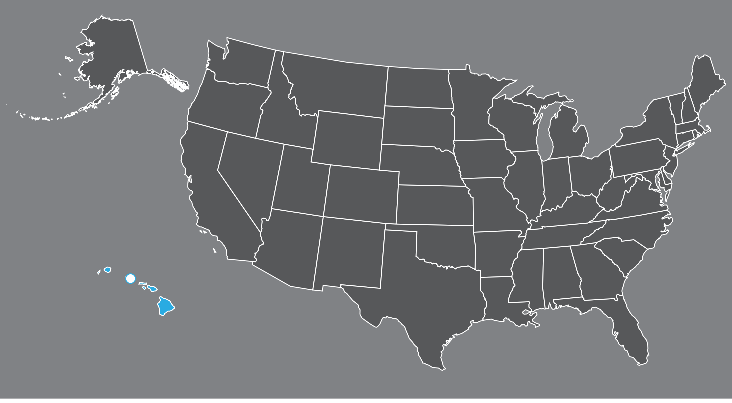
HUD PD&R Housing Market Profiles

Urban Honolulu, Hawaii

Quick Facts About Urban Honolulu

- **Current sales market conditions: slightly tight**
- **Current rental market conditions: slightly tight**
- **All six branches of the U.S. Armed Forces have a presence in the Urban Honolulu metropolitan area. The military and the tourism industries have traditionally supported economic growth in the metropolitan area. Prior to the COVID-19 pandemic, both industries contributed a combined $10 billion in annual economic impact on Hawaii from 2017 through 2019 (Chamber of Commerce Hawaii and Hawaii Tourism Authority).**



By Wendy Ip | As of January 1, 2021

Overview

The Urban Honolulu metropolitan area is defined as Honolulu County, Hawaii—the most populous county in the state and home to the state capital, Honolulu. As a regional center for the military, the metropolitan area accounts for approximately 97 percent of all military and 73 percent of all civilian defense personnel stationed in Hawaii (Defense Manpower Data Center). The metropolitan area has also traditionally been one of the most popular tourist destinations in the nation and typically accounts for 60 percent of all visitors to Hawaii (Hawaii Tourism Authority). Interventions that began in mid-March 2020 to slow the spread of COVID-19—including enforcing social distancing and discouraging nonessential travel—have greatly impacted the tourism industry, contributing to a significant contraction in the metropolitan area economy by the second quarter of 2020. Although the economy weakened compared with a year ago, some job recovery has occurred following the measured reopening of businesses beginning in the third quarter of 2020, and, in the fourth quarter of 2020, the introduction of the Hawaii Safe Travels program allowed some travelers to forego the required 10- to 14-day quarantine period with an approved negative COVID-19 test result. Despite the recent contraction

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in the economy, the sales market has tightened from a year ago due to a shortage of for-sale housing, whereas apartment market conditions remained similar to a year ago despite an increase in apartment completions.

- As of January 1, 2021, the estimated population of the Urban Honolulu metropolitan area was 970,600, representing an average annual decrease of 2,625, or 0.3 percent, since 2019—slower than the average annual decline of 5,900, or 0.6 percent, from 2016 to 2019 (Census Bureau population estimates as of July 1). Gains in military personnel since 2019 and an increase in opportunities for residents to work remotely during the pandemic contributed to less net out-migration—averaging 6,000 people a year since 2019, down from an average of 10,000 people a year from 2016 to 2019.
- In contrast with those periods of population decline, the metropolitan area population rose from 2013 to 2016 by an average of 3,575, or 0.4 percent, a year, as net out-migration averaged only 3,650 people annually. Economic conditions were relatively stronger during the first 6 years following the Great Recession that ended in 2009, but the rising cost of housing dampened migration. The metropolitan area, however, remained a popular destination for retirees from abroad, and international net in-migration partly offset some of the overall net out-migration during the period.
- Population growth was at the highest annual rate from 2007 to 2013, averaging 10,150 people, or 1.1 percent, a year partly due to net in-migration that averaged 3,250 people a year. A decline in home sales prices during the housing crisis and the subsequent improvement in economic conditions following the Great Recession supported net in-migration during that period.

Economic Conditions

The Urban Honolulu metropolitan area economy has contracted following interventions taken in March 2020 to slow the spread of COVID-19. The gradual reopening of businesses and the introduction of the Hawaii Safe Travels program, however, contributed to a partial recovery in jobs during the past 8 months. From May through December 2020, nonfarm payrolls increased by 39,800 jobs, partly offsetting some of the 87,900 jobs lost in March and April 2020; however, payrolls remain 10.1 percent below levels in February 2020 (not seasonally adjusted). During the fourth quarter of 2020, the metropolitan area was in Tier 2 of the Hawaii State phased reopening plan, which allows nonessential travel and many establishments to operate while adhering to state-mandated social distancing requirements and health safety standards. Approximately 20 percent of all Hawaii businesses that closed with the onset of the pandemic have reopened, ranking fifth in the nation in terms of percent of businesses reopening (*Pacific Business News*). Prior to the pandemic, nonfarm payrolls in the metropolitan area expanded an average of 1.1 percent annually from 2011 through 2018 before contracting slightly during 2019, down 0.3 percent. The decline in 2019 occurred mostly because of job losses in manufacturing—as the area continued to shift away from food production—and a rise in e-commerce that negatively impacted the retail trade subsector.

During the fourth quarter of 2020—

- Nonfarm payrolls averaged 413,800 jobs, declining by 63,800 jobs, or 13.4 percent, compared with the same period a year ago, due to losses in 10 of the 11 payroll sectors. That loss was significantly greater than the 2,200-job, or 0.5-percent, year-over-year decline during the fourth quarter of 2019.
- The leisure and hospitality sector contributed the most to the overall decline in nonfarm payrolls, down by 29,700 jobs, or 39.0 percent, from a year ago. The food service industry accounted for the greatest share of that decline, down by 17,100 jobs, or 35 percent.
- The transportation and utilities sector had the second fastest rate of job decline, at 24.0 percent, and lost 6,000 jobs. The financial strain from reduced passenger travel contributed to 35 permanent layoffs at Hawaiian Airlines during the fourth quarter of 2020. Overall, the air transportation industry lost 2,900 jobs from the fourth quarter of 2019.
- The government sector, which was down by 7,400 jobs, or 7.4 percent, accounted for the second largest decrease in nonfarm payrolls. The pandemic impacted both the public and private educational industries; a combined 6,400 jobs were lost in the educational services industry of the state government subsector and accounted for the largest share of job losses in the government sector overall.
- The mining, logging, and construction sector was the least impacted, with nonfarm payrolls unchanged from a year ago at 27,500 jobs. Continued residential development, particularly for rental units, and hotel renovations during the pandemic partly contributed to relative stability in the sector.
- The unemployment rate rose to 9.8 percent, up from 2.4 percent during the fourth quarter of 2019, mostly because a 9.0-percent decline in resident employment.

As in all areas throughout the nation, the tourism industry in the Honolulu metropolitan area was severely impacted by the

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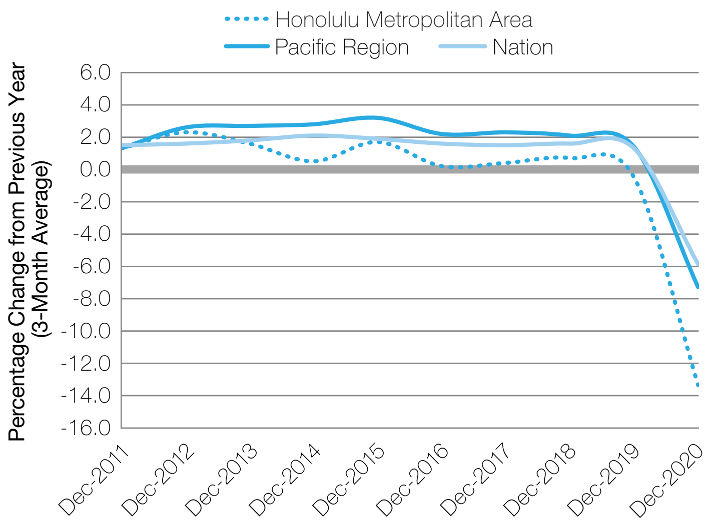
Nonfarm payroll job losses in the leisure and hospitality sector contributed the most to the overall decline in jobs in the Urban Honolulu metropolitan area during the 3 months ending December 2020.

	3 Months Ending		Year-Over-Year Change	
	December 2019 (Thousands)	December 2020 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	477.6	413.8	-63.8	-13.4
Goods-Producing Sectors	38.4	36.0	-2.4	-6.3
Mining, Logging, & Construction	27.5	27.5	0.0	0.0
Manufacturing	10.9	8.5	-2.4	-22.0
Service-Providing Sectors	439.2	377.8	-61.4	-14.0
Wholesale & Retail Trade	61.9	58.2	-3.7	-6.0
Transportation & Utilities	25.0	19.0	-6.0	-24.0
Information	7.4	6.4	-1.0	-13.5
Financial Activities	23.0	22.3	-0.7	-3.0
Professional & Business Services	57.8	51.3	-6.5	-11.2
Education & Health Services	66.8	62.6	-4.2	-6.3
Leisure & Hospitality	76.1	46.4	-29.7	-39.0
Other Services	21.7	19.3	-2.4	-11.1
Government	99.5	92.1	-7.4	-7.4
Unemployment Rate	2.4%	9.8%		

Note: Numbers may not add to totals due to rounding.
Source: U.S. Bureau of Labor Statistics

COVID-19 pandemic. Travel restrictions and social-distancing measures to keep people safe have contributed to a low number of visitors to the metropolitan area; however, the Hawaii Safe Travels program contributed to an improvement in the number of visitors in recent months. Visitors to the Honolulu metropolitan area totaled 112,856 in December 2020, increasing nearly two-fold each month since the travel program began in October 2020—starting with inter-island travel before expanding to include all domestic U.S. travelers to the Hawaiian Islands (Hawaii Department of Business, Economic Development, & Tourism). Prior to the program, monthly visitors to the metropolitan area averaged only 10,600 from May to September 2020. As the program facilitated greater domestic travel, the volume of domestic visitors reached 70 percent of their pre-pandemic levels. Despite that increase, the total number of visitors to the metropolitan area in December 2020 was down 80 percent from the 558,346 visitors a year ago because of a loss in international visitors, which continued to place downward pressure on hotel occupancy. In December 2020, hotel occupancy in Honolulu was only 23.6 percent—down from 83.1 percent a year ago—while hotel revenue decreased 84 percent to $36.7 million from $226.0 million a year ago (Hawaii Tourism Authority). As of December 2020, the metropolitan area had a total of 847 available hotel rooms, down nearly 11 percent from a year ago partly due to rooms taken offline for hotel renovations. Hotel property owners have taken advantage of reduced visitor occupancy by temporarily closing and upgrading their hotels. Outrigger Reef Waikiki Beach Resort began an $80 million renovation of its 635-room property in March 2020, which will add new amenities and a combined 23 rooms and suites. The resort is expected to fully

Nonfarm payroll job growth in the Urban Honolulu metropolitan area has been consistently below the rates of growth for the Pacific region and the nation since 2014.



Note: Nonfarm payroll jobs.
Source: U.S. Bureau of Labor Statistics

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reopen in April 2021. In addition, the Kaimana Beach Hotel closed during early 2020 to renovate all 122 rooms before it reopened in December 2020.

Largest Employers in the Urban Honolulu Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Schofield Barracks	Government	17,100
Pearl Harbor Naval Complex	Government	16,250
Marine Corps Base Hawaii	Government	13,550

Notes: Excludes local school districts. Data above include military personnel, who are generally not included in nonfarm payroll survey data. Employees at the Schofield Barracks and the Pearl Harbor Naval Complex work for the U.S. Army and U.S. Navy, respectively.
Source: *Pacific Business News*

Sales Market Conditions

The sales housing market in the Urban Honolulu metropolitan area is slightly tight, compared with balanced conditions a year ago, with an estimated vacancy rate of 0.9 percent. Despite the contraction in the economy, the tightening of market conditions occurred due to a slowing of net out-migration and a low inventory of homes for sale. The inventory of homes for sale averaged 4,700 homes during 2020, down 10 percent from a year ago (CoreLogic, Inc.). In response to reduced inventory, the volume of new and existing home sales (including single-family homes, townhomes, and condominiums) decreased, whereas home sales prices rose at a faster rate than during 2019. The number of condominiums sold in the metropolitan area has accounted for approximately 60 percent of total home sales since the Great Recession and has greatly influenced both home sales volume and sales prices, particularly for new homes. New home prices have declined significantly after reaching a peak in 2017 because fewer new luxury condominiums were sold, whereas existing home prices generally rose more steadily and are at the highest level since 2009.

The percentage of home loans in the Urban Honolulu metropolitan area that were seriously delinquent (90 or more days delinquent or in foreclosure) or transitioned into real estate owned (REO) status rose to 5.0 percent in December 2020 from 1.7 percent in November 2019 (CoreLogic, Inc.). The current rate is slightly below the 5.9-percent rate for Hawaii but above the 4.0-percent rate for the nation. The rise in the rate partly reflects an increase in the number of loans in forbearance, as the economic contraction during the COVID-19 pandemic made it more difficult for some homeowners to stay current on their mortgage payments. As of December 2020, approximately 4,600 home loans in the metropolitan area were in forbearance.

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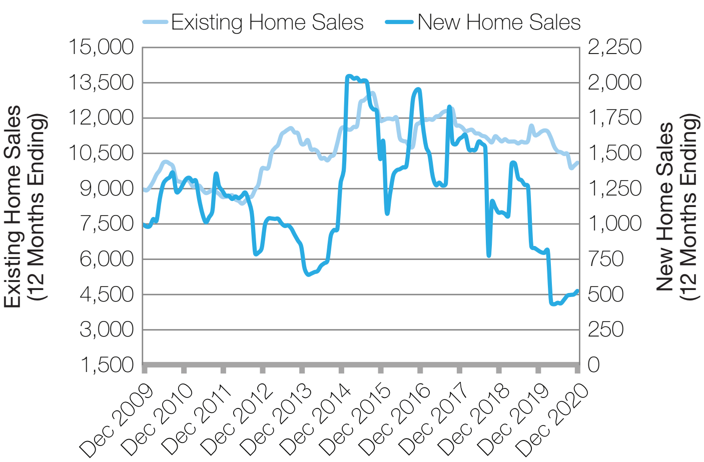
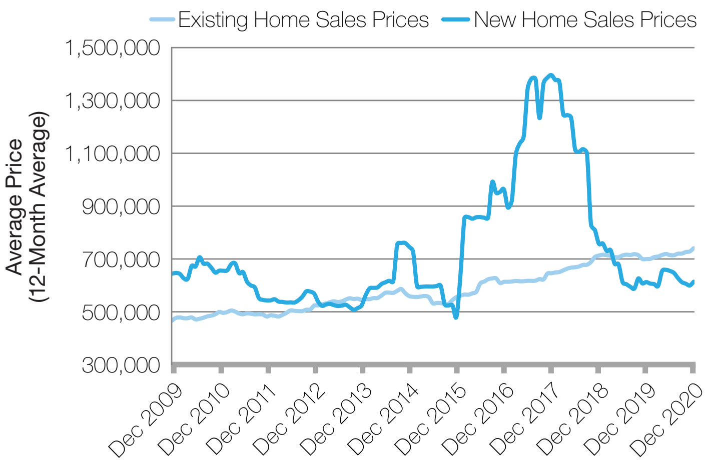
New home sales have generally decreased in the Urban Honolulu metropolitan area since early 2019, contrasting with relatively more stable existing home sales.



Note: Prices are for single-family homes, townhomes, and condominiums.
Source: Zonda

New home sales prices in the Urban Honolulu metropolitan area have fallen below existing home sales prices because of considerably fewer new luxury condominiums sold since early 2019.



Note: Prices are for single-family homes, townhomes, and condominiums.
Source: Zonda

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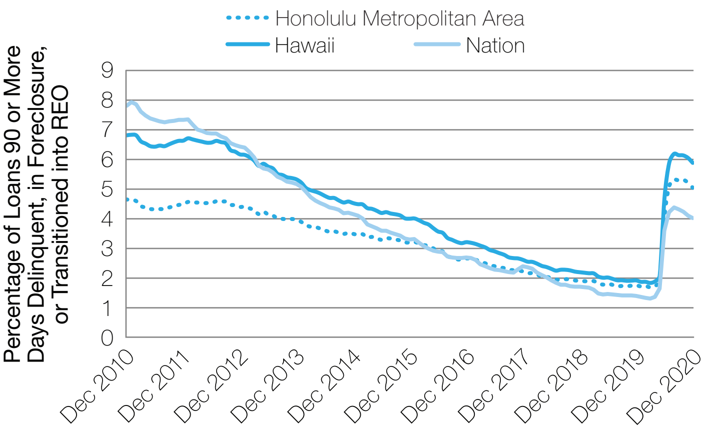
The proportion of seriously delinquent home loans and REO properties in the Urban Honolulu area has increased substantially since June 2020, following more than 9 years of steady declines.



REO = real estate owned.
Source: CoreLogic, Inc.

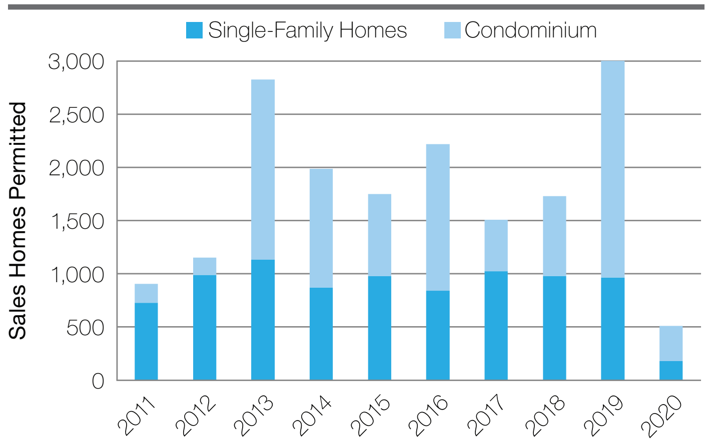
During 2020—

- New home sales declined 35 percent, or by 290 homes, to 520 homes sold compared with sales during 2019 (Zonda); new home sales were down 67 percent, or by 1,075 homes, from 1,600 homes sold during 2017. Most of the decline in sales since 2017 resulted from fewer new condominium sales, which were down by 1,000 units.
- Existing home sales totaled 10,100, an 11-percent year-over-year decrease, or decline of 1,200 homes sold; sales were down 14 percent from the average of 11,650 homes sold annually during 2017. A 16-percent decrease in existing condominium sales contributed to all the decline in existing home sales during 2020.
- The average sales price for a new home was $614,800, nearly unchanged from the previous year but down 56 percent compared with the average price of $1,397,500 during 2017. That decline partly resulted from fewer luxury condominium sales.
- The average sales price for existing homes was $740,600, a 6-percent gain compared with a year earlier, and was 15 percent higher than the average price of $645,600 during 2017. Partly contributing to the increase in the average existing home price was a decrease in REO home sales, which are priced an average of $169,400 less than regular resale homes.

New home sales construction activity, as measured by the number of single-family homes, townhomes, and condominiums permitted (hereafter, homes), has slowed from generally higher levels of construction in previous years.

- During 2020, the number of homes permitted declined 65 percent to 1,225 homes from 3,475 homes permitted a year earlier (preliminary data). Condominium construction accounted for 27 percent of total sales construction activity during 2020, down from 74 percent during 2019 and an average of 46 percent a year from 2011 through 2018.
- Home sales construction activity increased by an average of 960 homes permitted a year, from a low of 910 homes in 2011 to a peak of 2,825 homes by 2013. Construction activity slowed to a relatively constant average of 1,975 homes permitted annually from 2014 through 2016, before slowing further to an average of 1,625 homes permitted during 2017 and 2018.
- Ho‘opili in the Ewa Plain of southwest Honolulu County is the largest master-planned community (MPC) underway, with 11,750 single-family homes, townhomes, and condominiums planned at buildout and more than 500 homes already completed since construction began in 2013. Liko at Ho’opili is currenlty underway in the Ho’opili MPC, with six single-family homes completed; three-bedroom homes start at $759,500 and four-bedroom homes start at $817,600. The sale of homes began in November 2020 and were selected by lottery due to the desirability of the location and the shortage of new single-family homes for sale in the metropolitan area.
- Several condominium developments are under construction, including the 531-unit The Central Ala Moana. A total of 310 of those units will be affordable—reserved for individuals who qualify under the Hawaii Housing Finance & Development Corporation Rules—and the remaining 221 units will be market rate. The property began construction in 2019 and is expected to be completed by late 2021, with prices for market rate one-, two-, and three-bedroom units starting at $580,000, $777,000, and $990,000, respectively.

Sales housing construction in the Urban Honolulu area slowed in 2020 after increasing significantly in 2019, a period when a greater number of affordable condominiums were permitted.



Note: Includes preliminary data from January 2020 through December 2020.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

Rental Market Conditions

Rental market conditions in the Urban Honolulu metropolitan area are currently slightly tight, similar to a year ago but tighter than conditions in 2010. An increase in the number of renter households since 2010 has generally outpaced the construction of new rental units and the conversion of single-family homes or condominiums to rental use, contributing to the tightening of the rental market. Conditions have remained relatively tight during the past year despite a decline in rents and an increase in new apartment completions since 2018.

- The estimated vacancy rate for all rental units (including single-family homes, mobile homes, and apartments) was 4.9 percent as of January 1, 2021, a decrease from 5.9 percent in 2010 when conditions were balanced.
- The apartment market, which represents approximately 60 percent of all rental units, is also slightly tight. The vacancy rate was 4.0 percent as of the fourth quarter of 2020, down from 4.5 percent a year earlier and from a recent high of 6.2 percent in the fourth quarter of 2016 (RealPage, Inc.). The apartment vacancy rate declined as improved renter household growth from less net out-migration offset the increase in apartment completions since 2018.
- The average monthly apartment asking rent was $2,130 during the fourth quarter of 2020, a 3-percent decrease from a year ago. The decline partly reflected a greater number of affordable units added to the inventory and the recent economic contraction; many apartment managers use economic measures—changes in unemployment rates and job growth—to set their rents when leases come up for renewal.
- Year-over-year rent growth in the metropolitan area has fluctuated from a recent low of 1 percent in the fourth quarter of 2019 to a high of 8 percent in the fourth quarter of 2016. Periods of significant gains in rent typically result from new luxury apartments added to the inventory coupled with more favorable economic conditions.

Rental construction activity, as measured by the number of rental units permitted, has been at higher levels since 2018, partly in response to the increasing need for affordable housing in the metropolitan area. Approximately 83 percent of all apartments completed since 2018 were in developments that were either entirely or partially affordable.

- During 2020, approximately 1,100 rental units were permitted, up 83 percent from 600 units permitted during the same period a year ago (preliminary data with adjustments by the analyst).
- Rental construction increased by an average of 320 units a year—from a low of 300 units in 2011 to a peak of 1,350 units by 2014—before declining by an average of 390 units permitted a year from 2015 through 2017. After reaching a low of 300 units in 2017, rental construction activity more than doubled to an average of 680 units permitted annually during 2018 and 2019.

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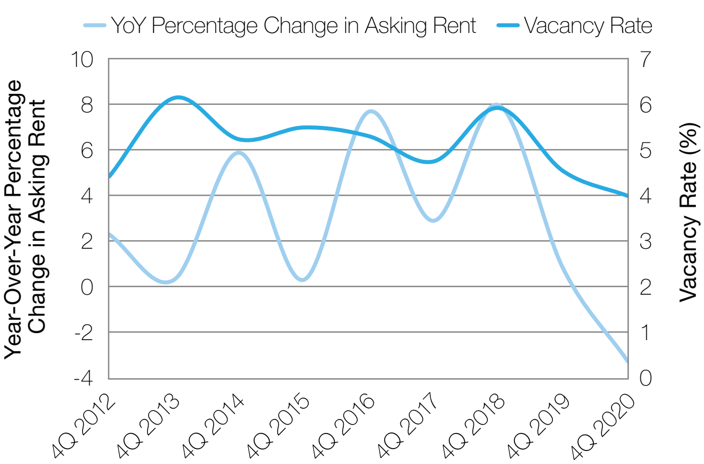
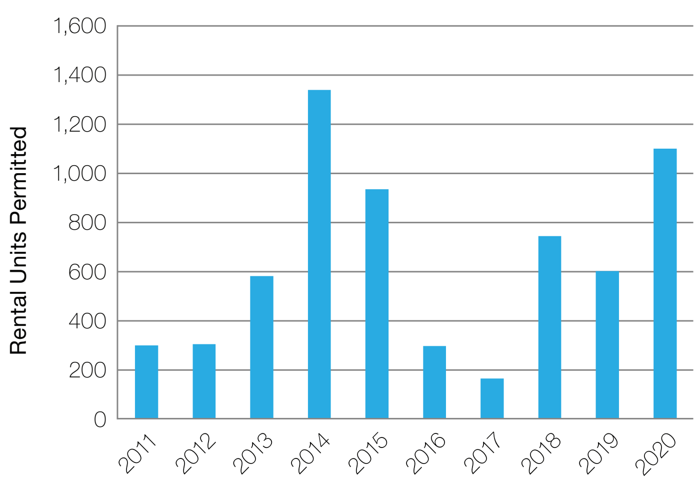
Although apartment rents declined in the Urban Honolulu metropolitan area during the fourth quarter of 2020, apartment market conditions are slightly tight, with a low vacancy rate.



4Q = fourth quarter. YoY = year-over-year.
Source: RealPage, Inc.

Rental construction in the Urban Honolulu metropolitan area has been at higher levels each year since 2018 but remains below the peak in 2014.



Note: Includes preliminary data from January 2020 through December 2020.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

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- Apartment properties under construction include Lilia Waikiki, with 455 units in a single 28-story residential tower. A total of 91 units will be set aside for households with incomes at or below 80 percent of the area median income and the remaining 364 units will be market rate. The property will be the first apartment tower built in Waikiki in more than two decades and it will offer studio, one-, and two-bedroom units when it opens in 2021. Although rents at the property have yet to be announced, market-rate rents in Waikiki typically range from $1,525 for studio units to $2,975 for two-bedroom units.
- Recently completed rental properties include The Element at West Oahu, a garden-style community with 64 affordable units and 254 market rate units. The first two phases of the development opened in the fall of 2020, with rents for the market rate one- and two-bedroom units starting at $2,460 and $2,600, respectively. The affordable units are restricted to households with incomes at or below 80 percent of the area median income. The final phase of the property is currently underway and will offer a mix of one- two-, and three-bedroom units when completed in 2021.