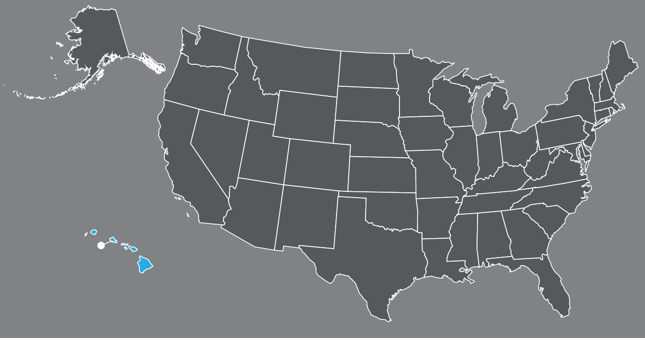
HUD PD&R Housing Market Profiles

Urban Honolulu, Hawaii

Quick Facts About Urban Honolulu

- **Current sales market conditions: balanced**
- **Current rental market conditions: balanced**
- **The Urban Honolulu metropolitan area is home to four U.S. military installations—Schofield Barracks, Fort Shafter, Joint Base Pearl Harbor-Hickam, and Marine Corps Base Hawaii—which employ more than 50,000 active-duty military personnel combined. The military industry is second to tourism in supporting economic growth in the metropolitan area, with both industries contributing a combined estimated $2.6 billion in annual economic impact on Hawaii (Chamber of Commerce Hawaii and Hawaii Tourism Authority).**



By Wendy Ip | As of March 1, 2019

Overview

The Urban Honolulu metropolitan area comprises Honolulu County, Hawaii, the most populous county in the state and home to the state capitol, Honolulu. Nearly the entire county is on the island of O'ahu. The metropolitan area serves as a regional center for the military and is also among the most popular tourist destinations in the nation, accounting for 60 percent of all visitors to Hawaii (Hawaii Tourism Authority). During the 12 months ending February 2019, total visitors to the metropolitan area reached 948,800, similar to a year ago but up 5 percent from the same period in 2017. The number of visitors to the metropolitan area has supported job gains in the leisure and hospitality sector, which has been one of the largest growth sectors in the economy for more than 8 consecutive years.

- As of March 1, 2019, the estimated population of the Urban Honolulu metropolitan area is 975,900, decreasing by an average of 6,300, or 0.6 percent, annually since 2015 because of net out-migration that averaged 8,625 people a year. More than 3 years of slower economic growth and higher home prices contributed to a surge in net out-migration compared with the period from 2013 to 2015, as a greater number of residents moved to other parts of the nation.

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- From 2013 to 2015, net out-migration averaged 3,275 people, despite generally stronger economic conditions following the Great Recession. The metropolitan area remained a popular retirement destination for internationals, however, and a portion of net out-migration since 2013 was offset by net international in-migration.
- Population growth was at the highest annual rate since 2000 during the period from 2007 to 2013, averaging 10,150 people, or 1.1 percent, a year because of net in-migration that averaged 3,650 people a year. A decline in home sales prices during the housing crisis and subsequent improvement in economic conditions following the Great Recession supported net in-migration.
- From 2000 to 2007, population growth fluctuated because of 3 separate years of net out-migration, but overall, growth averaged 6,950 people, or 0.8 percent, annually.

Economic Conditions

The Urban Honolulu metropolitan area economy has expanded each year since 2010, although nonfarm payroll growth has slowed for more than 3 consecutive years. Following the Great Recession, nonfarm payroll job growth averaged 1.5 percent annually from 2011 through 2015, before slowing to an average of 0.6 percent a year since 2016.

During the 3 months ending February 2019—

- Nonfarm payrolls averaged 481,700 jobs, an increase of 3,700 jobs, or 0.8 percent, compared with the same 3-month period in 2018. The recent gain is up from the 2,200 jobs, or 0.5 percent, added during the same 3-month period a year ago because of greater growth in 9 of the 11 sectors.
- The most significant gains were in the government and the leisure and hospitality sectors, which increased by 1,400 and 800 jobs, or 1.4 and 1.1 percent, respectively, from the 3 months ending February 2018. The information sector, which was also up by 800 jobs, had the fastest rate of growth, 11.1 percent, despite a 100-job loss, or 3-percent decline, in the telecommunications industry.

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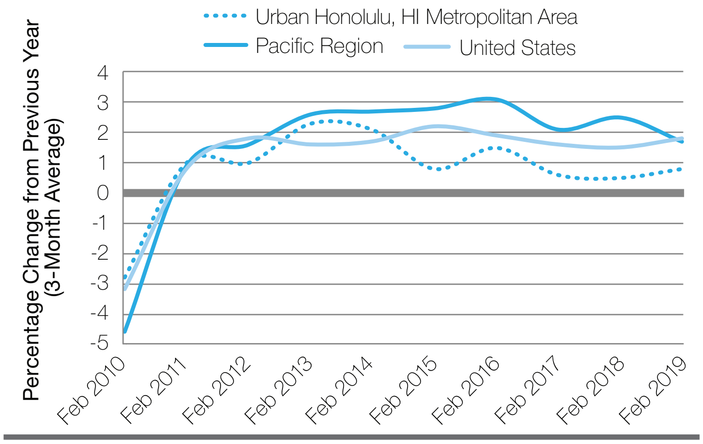
Nonfarm payroll growth in the Urban Honolulu metropolitan area has been consistently below the rates of growth for the nation and the Pacific region since May 2014.



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

Nine sectors in the Urban Honolulu metropolitan area increased during the 3 months ending February 2019.

	3 Months Ending		Year-Over-Year Change	
	February 2018 (Thousands)	February 2019 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	478.0	481.7	3.7	0.8
Goods-Producing Sectors	37.4	37.4	0.0	0.0
Mining, Logging, & Construction	25.8	26.2	0.4	1.6
Manufacturing	11.6	11.1	-0.5	-4.3
Service-Providing Sectors	440.5	444.3	3.8	0.9
Wholesale & Retail Trade	62.9	61.9	-1.0	-1.6
Transportation & Utilities	23.7	24.1	0.4	1.7
Information	7.2	8.0	0.8	11.1
Financial Activities	22.0	22.2	0.2	0.9
Professional & Business Services	64.7	65.3	0.6	0.9
Education & Health Services	64.9	65.5	0.6	0.9
Leisure & Hospitality	73.7	74.5	0.8	1.1
Other Services	21.4	21.5	0.1	0.5
Government	99.9	101.3	1.4	1.4
	(Percent)	(Percent)		
Unemployment Rate	2.1	2.5		

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

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- More than 60 percent of the gain in the government sector was attributed to growth in the state government subsector, up by 900 jobs, or 1.6 percent, from a year ago, with occupations ranging from social services to planning and development (State of Hawaii Department of Human Resources and Development).
- In the leisure and hospitality sector, the opening of the $100 million Ritz-Carlton Waikiki Beach Diamond Head Tower supported sector growth, adding more than 60 jobs.
- Nonfarm payroll growth was moderated by declines in the manufacturing and the wholesale and retail trade sectors, which were down by 500 and 1,000 jobs, or 4.3 and 1.6 percent, respectively, from the 3 months ending February 2018. The closure of Hagadone Hawaii, a commercial printing manufacturer, resulted in the loss of more than 90 employees in January 2019 and contributed to the reduction of jobs in the manufacturing sector. The retail trade subsector, which was down by 1,100 jobs, or 2.3 percent, accounted for the entire decline in the wholesale and retail trade sector. The contraction in retail trade is expected to continue with the closure of one Sears, Roebuck and Company location by the end of April 2019, which will result in laying off approximately 40 employees.
- A decrease in the labor force by 5,450, or 1.2 percent, from the previous 3-month period resulted in a rise in the unemployment rate to 2.5 percent, partly resulting from net domestic out-migration from the metropolitan area.

The leisure and hospitality sector is expected to continue expanding, with the completion of two hotels at a combined cost of $609 million, which will add more than 70 jobs by the end of 2020. Since the Great Recession, eight hotels with a combined 1,877 rooms have been completed, adding 400 jobs to the metropolitan area. Continued growth in the state government subsector is also anticipated. Two hundred of the nearly 320 state job openings throughout Hawaii are in the metropolitan area, which is expected to contribute to growth once positions are filled.

Largest Employers in the Urban Honolulu Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Schofield Barracks	Government	53,600
Joint Base Pearl Harbor-Hickam	Government	21,600
Fort Shafter	Government	16,300

Notes: Excludes local school districts. Data above include military personnel, who are generally not included in nonfarm payroll survey data.
Source: *Pacific Business News*

Sales Market Conditions

The sales housing market in the Urban Honolulu metropolitan area is balanced, compared with the slightly tighter conditions that have prevailed for the past 3 years, with an estimated sales vacancy rate of 1.0 percent, down from 1.1 percent in 2010. Net domestic out-migration and a rise in inventory compared with a year ago have transitioned the market from slightly tight to balanced; however, conditions remain stronger than in 2010. The inventory of homes for sale declined 20 percent, or by 650 homes, from April 2010 to February 2019 (CoreLogic, Inc.), and the number of months homes remained on the market decreased from 3.5 to 2.5 during the same period. Recently, the inventory of homes for sale rose 5 percent, or by 200 homes, compared with a year ago. Despite the increase in inventory, months on the market remained little changed from the 2.3 months that prevailed in February 2018. New and existing home sales (including single-family homes, townhomes, and condominiums) slowed during the 12 months ending January 2019, mostly resulting from a reduction in the number of condominiums sold, which typically account for more than 60 percent of total home sales. New home prices declined because fewer luxury condominiums were sold, whereas existing home prices rose and are at their highest level since 2005. 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 declined to 1.9 percent in January 2019 from 2.1 percent in January 2018 (CoreLogic, Inc.). The current rate is below the 2.2-percent rate for Hawaii and above the 1.7-percent rate for the nation.

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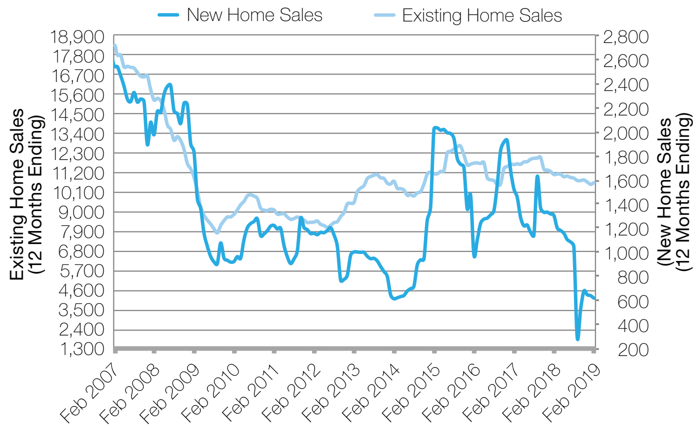
New and existing home sales in the Urban Honolulu metropolitan area have both slowed since 2018.



Note: Includes single-family homes, townhomes, and condominiums.
Source: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

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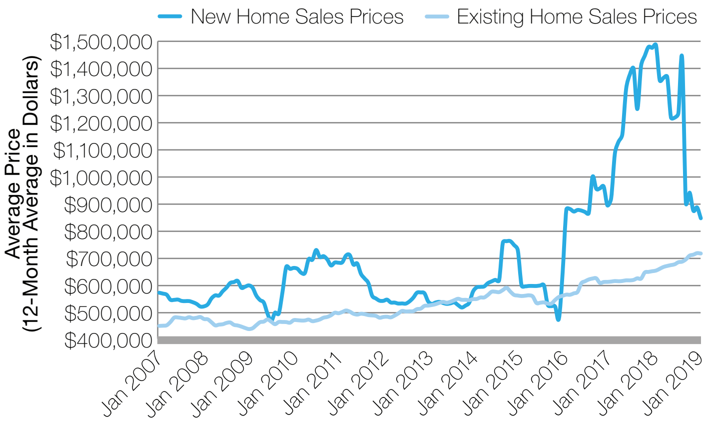
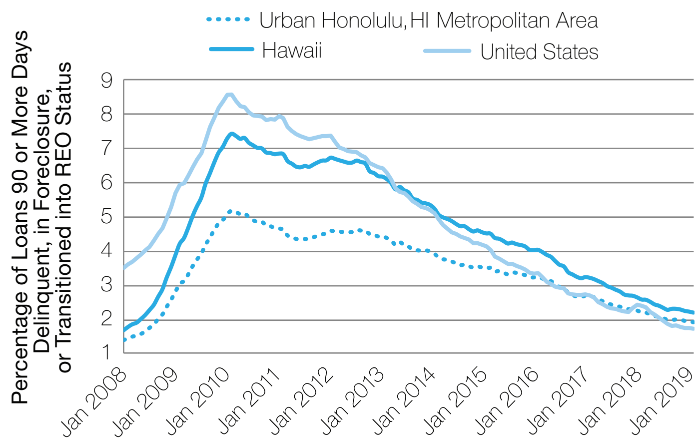
New home sales prices in the Urban Honolulu metropolitan area have been consistently higher than existing home sales prices because of a greater number of new luxury condominiums sold since early 2016.



Note: Includes single-family homes, townhomes, and condominiums.
Source: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

The proportion of seriously delinquent loans and REO properties in the Urban Honolulu metropolitan area has decreased substantially since the late 2000s.



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

During the 12 months ending February 2019—

- New home sales declined 52 percent, or by 680 homes, to 640 homes sold compared with the 12 months ending February 2018 (Metrostudy, A Hanley Wood Company, with adjustments by the analyst). Sales were down 61 percent, or by 990 homes, from the average of 1,625 homes sold annually during 2016 and 2017. The entire decline resulted from a 94-percent decrease in new condominium sales, partly from relatively lower inventory levels.
- Existing home sales totaled 10,700, a 4-percent decrease, or by 460 homes sold, from the 12-month period ending February 2018. Sales were down an average of 800 homes from the average sold annually during 2016 and 2017. Fewer existing condominium and REO home sales contributed to the entire decline in existing home sales.
- The average sales price for a new home was $847,200, down 43 percent from the average price of $1,487,300 during the previous year. The average sales price was down 28 percent compared with the average price of $1,176,200 during 2016 and 2017. The decline in the average price resulted from a reduction in the number of luxury condominiums sold during the period.
- The average sales price for existing homes was $717,400, a 10-percent gain, or by $63,600, compared with the average price during the 12 months ending February 2018. The average sales price was 14 percent higher than the average price of $630,000 during 2016 and 2017. Fewer REO home sales, which are priced an average of $147,800 less than nondistressed resales, partly contributed to the increase in the average existing home price.

Single-family home construction activity, as measured by the number of single-family homes permitted, increased slightly every year since 2016.

- The number of single-family homes permitted grew to 1,075 homes during the 12 months ending February 2019, up 9 percent from the 990 homes permitted a year earlier (preliminary data).
- Single-family construction activity increased by an average of 200 homes permitted a year, from a low of 730 homes in 2011 to a peak of 1,125 homes by 2013, before activity slowed, remaining relatively constant at an average of 900 homes permitted annually from 2014 through 2016. Single-family construction activity has increased since 2016, averaging 1,050 homes permitted annually during 2017 and 2018.
- Iliahi at Ho'opili is among the largest developments underway in the metropolitan area, with 156 single-family homes and townhomes planned at buildout in the Ewa Plain. Seven

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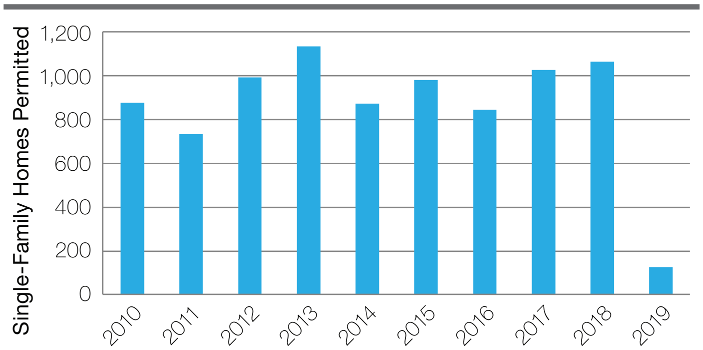
Single-family home permitting in the Urban Honolulu metropolitan area has been increasing each year since 2016.



Note: Includes preliminary data from January 2018 through February 2019.
Source: U.S. Census Bureau, Building Permits Survey

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homes have been completed, and an additional 15 homes will become available by mid-2019. Three-bedroom homes start at $650,300, and four-bedroom homes start at $760,300. The sale of homes will be by lottery due to the desirability of the location and the shortage of new single-family homes for sale in the metropolitan area.

- New condominiums include Kapiolani Residences, a mixed-income complex with 484 units, and Ae'o at Ward Village, with 466 luxury units. Both properties were completed in December 2018; however, preselling of units started in 2017. Kapiolani Residences, which is 98-percent occupied, offers 292 units to those at or below 100 percent of the Area Median Income. The remaining 192 units are market rate, with one-, two-, and three-bedroom units starting at $688,000, $919,900, and $1,100,000, respectively. Ae'o at Ward Village is 89-percent occupied, with prices for studio, one-, two-, and three-bedroom units starting at $615,000, $835,000, $1,269,000, and $2,080,000, respectively.
- Condominiums underway include the 751-unit Aalii, located in the Ward Village, that is expected to be complete by mid-2021. The property began construction in late 2018, with prices ranging from $400,000 for studio units to $1,500,000 for luxury two-bedroom units.

Rental Market Conditions

Rental housing market conditions in the Urban Honolulu metropolitan area are currently balanced. The increase in the number of renter households since 2010 has outpaced the construction of new rental units and the conversion of single-family homes and condominiums to rental use.

- The estimated vacancy rate for all rental units (including single-family homes, mobile homes, and apartments) was 5.4 percent as of March 1, 2019, a decrease from 5.9 percent in 2010.
- The apartment market, which represents 60 percent of all rental units, is also balanced, with a 5.3-percent vacancy rate as of the first quarter of 2019, down from 6.3 percent a year earlier and from a recent peak of 10.0 percent in the first quarter of 2016 (RealPage, Inc.). The apartment vacancy rate declined because of a reduction in the number of units completed since 2016. From the first quarter of 2016 through the fourth quarter of 2016, approximately 1,200 apartments were constructed; that number dropped to 760 apartments completed during the same period in 2017 and to only 164 apartments completed during the same period in 2018. As of the first quarter of 2019, 128 apartments were completed.
- The average monthly apartment asking rent was $2,110 as of the first quarter of 2019, an increase of $85, or 4 percent, from a year ago. Rent growth in the metropolitan area has fluctuated between 1 and 10 percent, year-over-year, each first quarter since 2016 in response to market conditions and the number of luxury apartments added to the inventory.

Multifamily construction activity, as measured by the number of multifamily units permitted, has been at lower levels each year since 2016. Condominium construction activity has represented approximately 60 percent of multifamily construction activity since 2013, up from 26 percent from 2010 through 2012.

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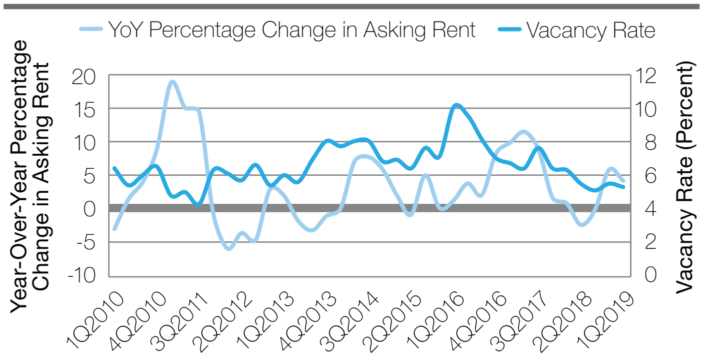
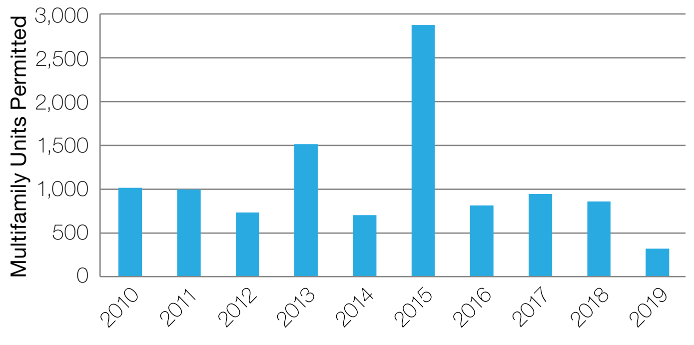
Apartment market conditions in the Urban Honolulu metropolitan area are balanced after softening in 2016, with lower vacancy rates and positive rent growth since the fourth quarter of 2018.



1Q = first quarter. 2Q = second quarter. 3Q = third quarter. 4Q = fourth quarter.
YoY = year-over-year.
Source: RealPage, Inc.

Multifamily permitting in the Urban Honolulu metropolitan area has been at lower levels each year since 2016, after reaching a peak in 2015.



Note: Includes preliminary data from January 2018 through February 2019.
Source: U.S. Census Bureau, Building Permits Survey

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- During the 12 months ending February 2019, approximately 690 multifamily units were permitted, down 52 percent from 1,425 units permitted during the same period a year ago (preliminary data).
- Multifamily construction, as measured by the number of multifamily units permitted, averaged 910 units a year from 2010 through 2012 before increasing to 1,500 units in 2013. After declining 53 percent to 700 units permitted by 2014, construction activity peaked to 2,850 units in 2015. From 2016 through 2018, multifamily construction slowed again, to an average of 870 units permitted annually.
- Apartment properties under construction include the 16-story tower, Nohana Hale, with 110 affordable units in downtown Honolulu. Once complete in late 2019, the property will be the first micro-housing complex in the metropolitan area, with rents that will range from $500 to $995 a month, depending on income, for a 300-square-foot studio unit. East Kapolei II, with 320 affordable townhome-style apartments in the East Kapolei master-planned community, will have one-, two-, and three-bedroom units that will start, depending on income, from $587 for a one-bedroom unit to $784 for a three-bedroom unit. The completion of East Kapolei II is planned for 2020.