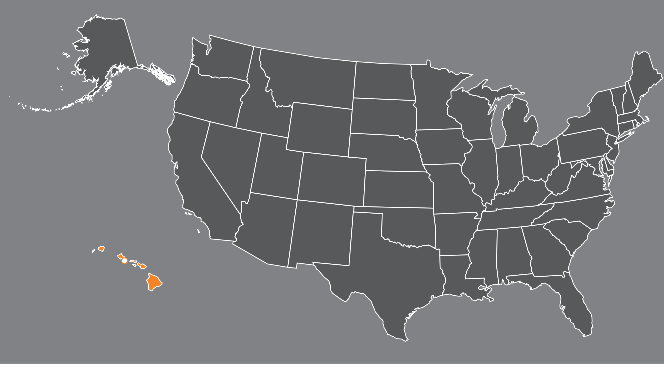
HUD PD&R Housing Market Profiles

Urban Honolulu, Hawaii

Quick Facts About Urban Honolulu

- **Current sales market conditions: tight.**
- **Current apartment market conditions: tight.**
- **The metropolitan area is home to three large U.S. military installations— Schofield Barracks/ Fort Shafter, Joint Base Pearl Harbor–Hickam, and Marine Corps Base Hawaii. Defense ranks second to tourism as an economic factor in the metropolitan area.**



By Ikuo J. Nakano | As of May 1, 2015

Overview

The Urban Honolulu, HI Metropolitan Statistical Area (hereafter, Honolulu metropolitan area) consists of Honolulu County. The metropolitan area is on the island of Oahu, the most populous island and the third largest island in land area in the state of Hawaii. The Honolulu metropolitan area is the state center of government, active-duty military personnel, tourism, education, and health care. Population growth has been faster in the Honolulu metropolitan area than in any other county in Hawaii since 2010 because of job growth, particularly associated with increased tourism activity. Tourism expenditures in the metropolitan area increased nearly 52 percent, from $366.3 million in April 2010 to $556.4 million in April 2015 (Hawaii Tourism Authority).

- As of May 1, 2015, the population of the Honolulu metropolitan area was estimated at 1.01 million, an average annual increase of 11,200, or 1.1 percent, since April 2010.
- The current rate of population growth is higher than the rates of growth before the recession. The next highest rates of growth were 1.0 percent, or 8,775 people, from July 2005 to July 2006 and 0.8 percent, or 6,700 people, from April 2000 to July 2001.
- Net natural increase (resident births minus resident deaths) and net international in-migration have accounted for all the population growth since 2010. Net domestic out-migration has occurred in every year since 2010 because people have moved to other parts of the nation to find affordable housing, employment, or both.

Employment in three job sectors in the Honolulu area increased more than 2 percent.

	3 Months Ending		Year-Over-Year Change	
	April 2014 (thousands)	April 2015 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	461.7	466.8	5.1	1.1
Goods-producing sectors	34.0	35.4	1.4	4.1
Mining, logging, and construction	23.2	24.5	1.3	5.6
Manufacturing	10.8	10.9	0.1	0.9
Service-providing sectors	427.7	431.4	3.7	0.9
Wholesale and retail trade	60.7	62.0	1.3	2.1
Transportation and utilities	21.9	22.2	0.3	1.4
Information	7.0	6.9	– 0.1	– 1.4
Financial activities	20.6	21.0	0.4	1.9
Professional and business services	66.0	66.7	0.7	1.1
Education and health services	62.3	63.4	1.1	1.8
Leisure and hospitality	67.1	68.7	1.6	2.4
Other services	20.8	20.9	0.1	0.5
Government	101.2	99.8	– 1.4	– 1.4
	(percent)	(percent)		
Unemployment rate	4.1	3.7		

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

Economic Conditions

The 2007-to-2009 national recession did not affect economic conditions in the Honolulu metropolitan area as severely as in the rest of the Pacific region and the nation. During 2009 and 2010, the metropolitan area lost an average of 2.4 percent of nonfarm payroll jobs a year. During the same time period, the nation lost an average of 3.1 percent of nonfarm payroll jobs a year, and the Pacific region lost an average of 4.3 percent of jobs a year. The unemployment rate in the metropolitan area remained less than 6.8 percent throughout the national recession. The unemployment rate for the nation hit a high point of 10.2 percent in 2009.

From 2010 to 2014, nonfarm payroll growth averaged 6,800 jobs, or 1.6 percent, annually. During this time, the greatest percentage gains in nonfarm payrolls occurred in the professional and business services, the leisure and hospitality, and the mining, logging, and construction sectors, at average rates of 3.6, 3.2, and 2.7 percent, respectively, a year. Improvements in tourism and residential and nonresidential construction helped to lead the growth in these sectors. Nonresidential construction payrolls will continue to gain jobs because of the $5.2 billion Honolulu Rail Transit project, currently under construction, which will generate 10,000 direct jobs in construction, engineering, and professional services before the construction period ends in 2019. The first phase will open in 2017.

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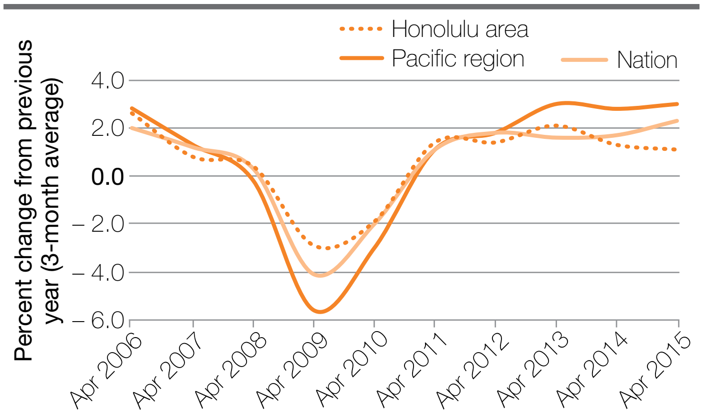
Since April 2014, nonfarm payrolls have been growing at a lower rate in the Honolulu area than in the Pacific region and the nation.



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

Largest employers in the Honolulu area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Schofield Barracks/Fort Shafter	Government	69,850
Joint Base Pearl Harbor–Hickam	Government	33,400
Marine Corps Base Hawaii	Government	11,850

Notes: Excludes local school districts. Includes military and civilian workers on the bases.
Source: Moody's economy.com

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During the 3 months ending April 2015—

- Nonfarm payrolls increased to an average of 466,800 jobs, up 5,100 jobs, or 1.1 percent, from the 3 months ending April 2014 after an increase of 6,000 jobs, or 1.3 percent, during the same period a year earlier.
- Increased tourism activity helped the leisure and hospitality sector, which added 1,600 jobs, an increase of 2.4 percent.
- Tourist spending also contributed to job growth in the wholesale and retail trade sector, which gained 1,300 jobs, or 2.1 percent.

Government is the largest sector in the metropolitan area, accounting for 99,800 jobs, or 21.4 percent of total nonfarm payroll jobs. During the 3 months ending April 2015, this sector lost 1,400 jobs, or 1.4 percent. Budget debt caused by increased state and local government payrolls—from 66,800 in 2006, before the recession, to 68,150 at the end of the recession in 2009—resulted in the current cutbacks. In an effort to avoid additional debt, the state reduced spending on current state government educational services payroll. In addition to civilian government employment, the military is an important part of the economy in the metropolitan area. More than 50,000 active-duty personnel are currently stationed in the metropolitan area, a 5-percent increase from the number of active-duty personnel in 2009. The direct and indirect economic impact (in 2009 dollars) of military expenditures on the metropolitan area was estimated to be $11 billion (the latest available data from the Rand Corporation).

Sales Market Conditions

Sales housing market conditions in the Honolulu metropolitan area are currently tight, with a lack of available land and high building costs contributing to increased home sales prices. Approximately 93 percent of the remaining vacant land in the metropolitan area is zoned for either agriculture or conservation. Building costs are high because most building materials have to be imported. Demand for homes remains high partially because of a growing number of buyers from China, many of whom view home prices in the metropolitan area as a bargain and a safe investment (local brokers).

Despite a 25-percent increase in distressed sales (real estate owned [REO] and short sales), the average sales price of an existing home increased 3 percent, to $573,500, during the 12 months ending April 2015, up from $556,600 during the 12 months ending April 2014 (Metrostudy, A Hanley Wood Company). Sales of existing homes increased 8 percent, to 10,500, during the 12 months ending April 2015 from the previous 12 months. As with employment, existing home prices in the area did not fall significantly and were quick to recover and continue increasing as opposed to much of the nation, where existing home prices fell significantly and were slow to recover.

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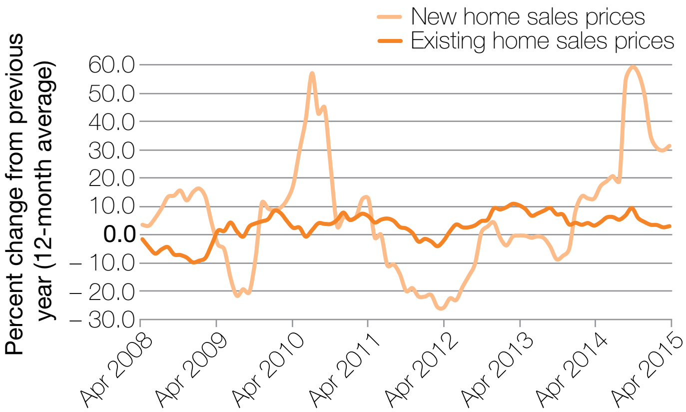
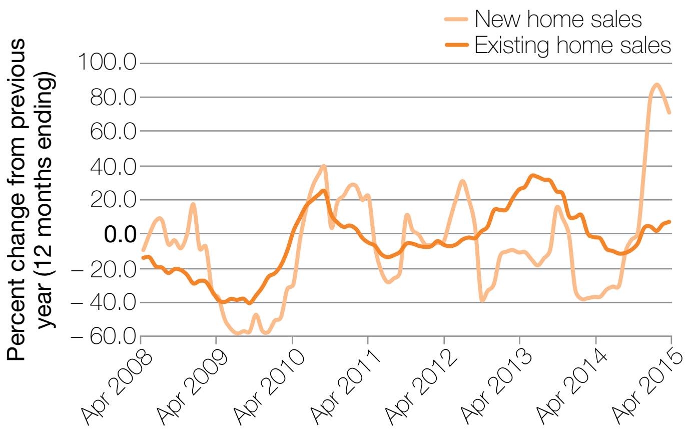
New home sales prices in the Honolulu area have fluctuated considerably, whereas existing home prices have varied within a 10-percent range.



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

The percentage change in new home sales in the Honolulu area has varied considerably more than the change in existing home sales.



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

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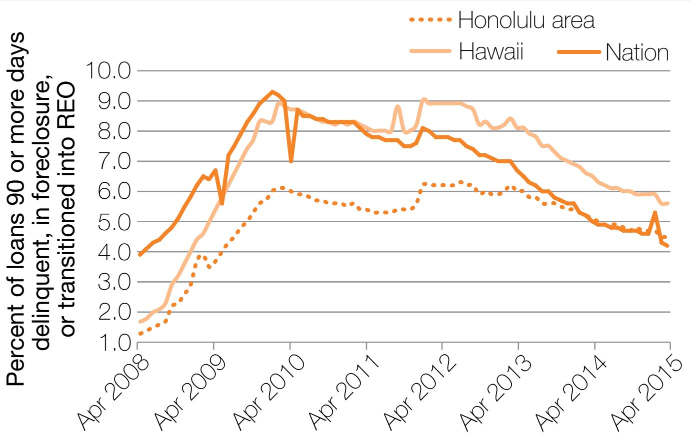
During the 12 months ending April 2015—

- New single-family home sales represented 7 percent of total home sales, or 870 homes. This total is up from 3 percent, or 340 homes, during the 12 months ending April 2014 and exceeds the previous recent high of 800 new single-family homes sold during the 12 months ending April 2006.
- The average sales price of a new single-family home was $845,700, a 20-percent increase from $702,200 during the previous 12 months. New single-family home prices are higher than the prerecession average of $631,100 for the 12-month period ending April 2006.
- The average sales price for a new condominium unit was $566,800, which is $78,000, or 16 percent, higher than during the previous 12 months and well above the $455,000 recorded for the 12 months ending April 2006. The number of new condominiums sold has been trending in the opposite direction, however. Only 210 units sold during the 12 months ending April 2015 compared with 290 units sold during the previous 12 months. During the same period in 2006, 3,400 units sold.
- New and existing condominium sales represented 62 percent of total home sales (including single-family homes, townhomes, and condominiums), a slight drop from 64 percent during the previous 12-month period. From 2005 through 2008, condominium sales averaged 73 percent of total sales annually (Metrostudy, A Hanley Wood Company).

The rate of seriously delinquent loans and REO properties in the Honolulu area was below the rate for Hawaii but higher than the rate for the nation.

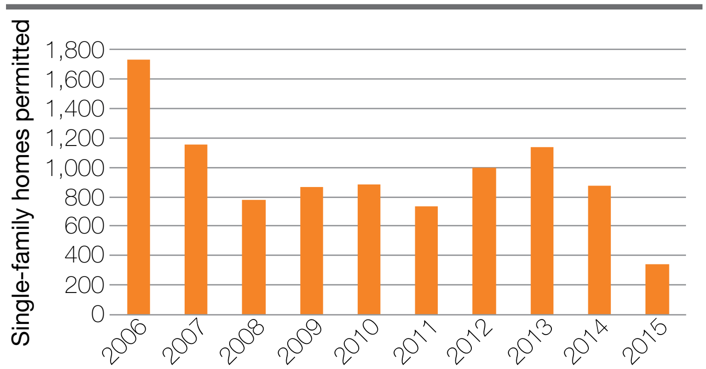


REO = real estate owned.
Source: Black Knight Financial Services, Inc.

Single-family home construction activity, as measured by the number of single-family homes permitted, decreased during the 12 months ending April 2015, and the current level is significantly lower than in the prerecession years.

- During the 12 months ending April 2015, 950 single-family homes were permitted, down 10 percent from the 1,050 homes permitted during the 12 months ending April 2014 (preliminary data).
- From 2006 through 2013, the number of single-family homes permitted averaged 1,025 homes annually. From 2003 through 2005, single-family permitting averaged 2,275 homes a year.
- Makaha Oceanview Estates is a 76-home single-family development in the Honolulu metropolitan area. Construction started in 2014, and the development is already nearing sellout and completion. Three-bedroom homes start at $569,000, which makes it one of the lowest priced single-family subdivisions in the metropolitan area.
- Olino at Mehana is a 132-unit condominium development in the Honolulu metropolitan area. Construction and sales are currently under way. A two-bedroom, new-construction condominium unit starts at $335,000. This condominium development is one of the few in the Honolulu area priced at less than $350,000.

Single-family home permitting in the Honolulu area has exceeded 2008-through-2011 levels for the past 4 years.



Note: Includes preliminary data from January 2015 through April 2015.
Source: U.S. Census Bureau, Building Permits Survey

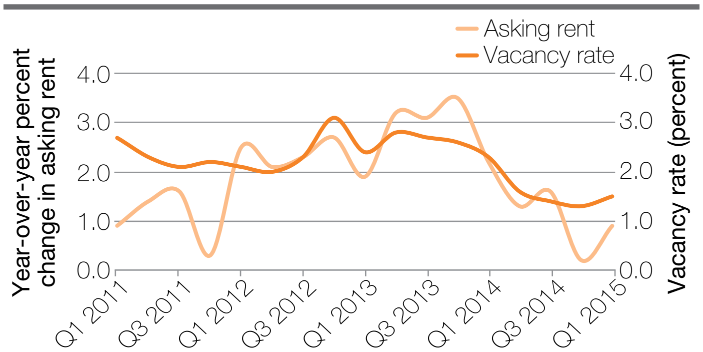
Apartment Market Conditions

The apartment market in the Honolulu metropolitan area is currently tight, with apartment vacancy rates remaining below 3 percent for the past 7 years. Rental vacancy rates are also low for single-family homes and condominiums, which represent approximately 49 percent of the overall rental market and generally have higher rents than comparably sized apartment units.

During the first quarter of 2015—

- The apartment vacancy rate was 1.5 percent, down from 2.3 percent during the first quarter of 2014 (Reis, Inc.).
- Although apartment vacancy rates are very low, average asking apartment rents rose only 0.9 percent, to $1,399, up from $1,363 in the first quarter of 2014. The most recent market-rate apartment project was completed in 2011. Because many landlords raise rents when new apartments open, the lack of new units has helped to slow rent increases.
- Since 2011, new apartment developments have been built with a mix of market-rate and low-income units that use either low-income housing tax credits or reduced property taxes. The reduced property taxes have given builders the incentive to produce affordable units without being mandated by the government.
- Less than one-half of the multifamily units permitted were apartments.

The vacancy rate and growth in the average asking rent remained low in the Honolulu area.

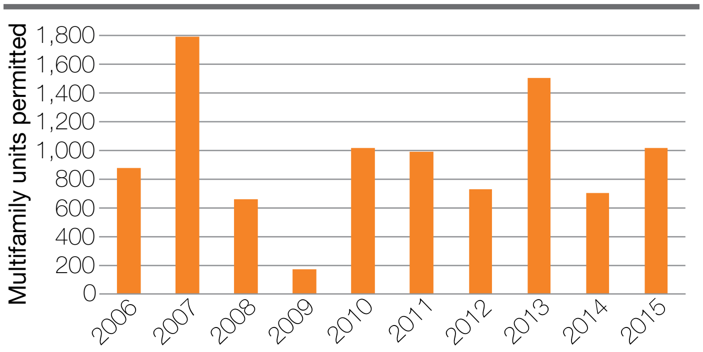


Source: Reis, Inc.

Multifamily construction activity, as measured by the number of units permitted, has varied during the past 10 years. Builders have responded to the current tight apartment market conditions by increasing multifamily construction in the past 12 months.

- During the 12 months ending April 2015, multifamily construction totaled 1,725 units, up from 980 units during the previous 12-month period (preliminary data).
- The current level of multifamily permitting activity is higher than the average of 980 units permitted annually from 2007 through 2013. Current multifamily permitting is also higher than the average of 1,650 units permitted a year in 2005 and 2006.
- The $140 million Kapolei Lofts rental apartments are currently under construction, with completion scheduled for early 2016. The highrise building will contain 499 units, with 100 units reserved for households earning 80 percent or less of the Area Median Income. Rents have yet to be released.
- The $165 million, 269-unit 7000 Hawaii Kai is currently under construction and is scheduled to be complete in 2016. The project has 215 market-rate and 54 affordable units. Rents for the market-rate units will start at $2,500 for a two-bedroom unit, $3,500 for a three-bedroom unit, and $4,000 for a four-bedroom unit.

Multifamily permitting in the Honolulu area has averaged about 1,000 units annually since 2010.



Note: Includes preliminary data from January 2015 through April 2015.
Source: U.S. Census Bureau, Building Permits Survey