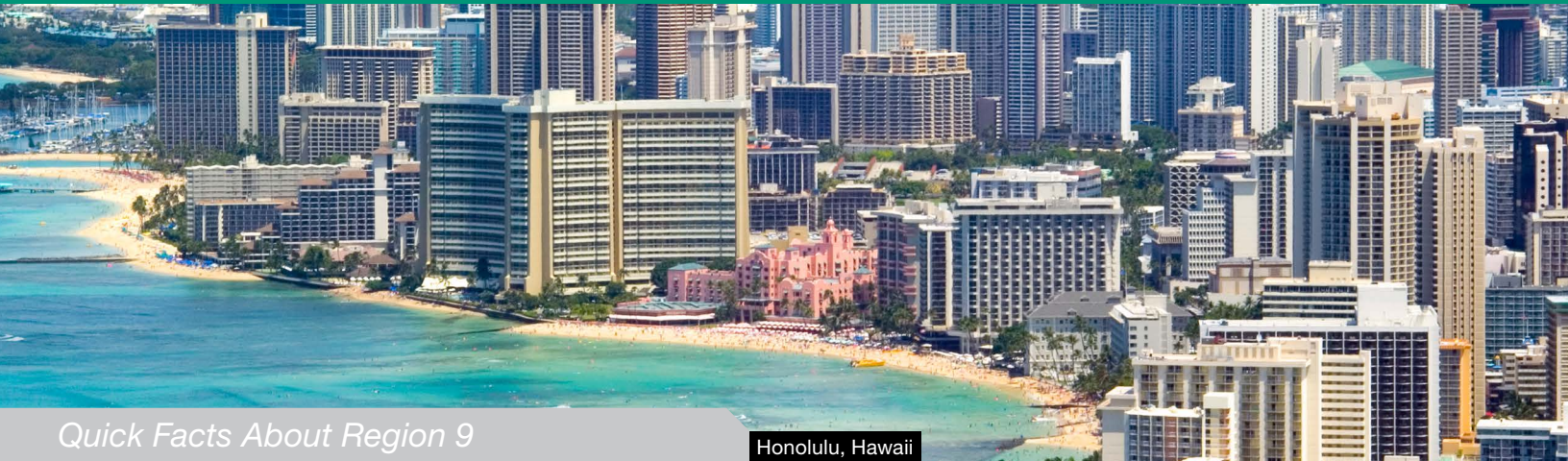


# HUD PD&R Regional Reports

## Region 9: Pacific

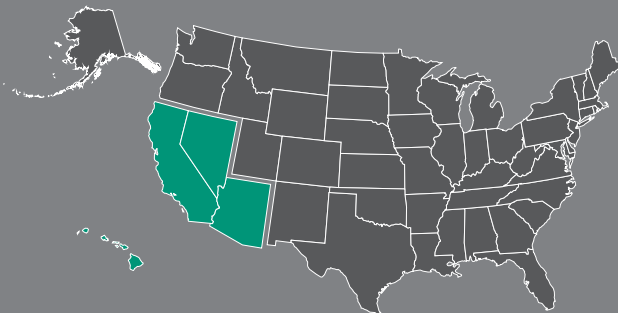


### Quick Facts About Region 9

Honolulu, Hawaii

By Elaine Ng | 1st quarter 2017

- Sales market conditions—**  
First quarter 2017: mixed (balanced to tight).  
Fourth quarter 2016: mixed (balanced to tight).  
First quarter 2016: mixed (balanced to tight).
- Apartment market conditions—**  
First quarter 2017: mixed (balanced to tight).  
Fourth quarter 2016: mixed (balanced to tight).  
First quarter 2016: mixed (slightly soft to tight).



### Overview

Economic conditions remained strong in the Pacific region during the first quarter of 2017, as nonfarm payrolls have continued to expand year over year during every quarter since the fourth quarter of 2010. California represented 78 percent of jobs in the region and contributed 76 percent of net job growth during the first quarter of 2017. Sales housing market conditions in the region remained unchanged from a year ago, ranging from balanced to tight, and single-family homebuilding activity increased in all four states of the region. Apartment market conditions were tight throughout much of the region, although vacancy rates rose in 6 of the 10 largest markets cited in this report. Average rent growth in major metropolitan areas of the region exceeded the national rate during the past year in all but the two most expensive markets of the region.

During the first quarter of 2017—

- Every payroll sector in the region except the manufacturing sector added jobs. This quarter marks the fourth time in the past five quarters that the manufacturing sector lost jobs while every other sector added jobs.
- Home sales in the region increased less than 2 percent during the 12 months ending February 2017, when 751,600 homes sold. The low rate of increase in home sales in the region was generally because of decreased inventory, particularly at the lower price ranges and not lack of demand.

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- Single-family homebuilding activity, as measured by the number of homes permitted, increased 11 percent in the region compared with 13-percent growth nationally.
- After three consecutive quarters of growth, multifamily permitting decreased 60 percent to 12,800 units compared with a 3-percent decline nationally.

## Economic Conditions

Economic conditions in the Pacific region, which began to improve during the fourth quarter of 2010, remained strong during the first quarter of 2017, but nonfarm job growth slowed. All four states in the region added jobs, with total nonfarm payrolls increasing by 425,600 jobs, or 2.0 percent, to approximately 21.27 million jobs. This rate is slower than the 2.8-percent growth in nonfarm payrolls in the region a year earlier. By contrast, the national rate of nonfarm job growth was 1.6 percent during the first quarter of 2017, down from 1.9 percent during the first quarter of 2016. The education and health services sector accounted for more than 24 percent of net job gains during the first quarter of 2017, with an addition of 103,000 jobs, or 3.3 percent. By comparison, during the first quarter of 2016, the sector accounted for 18 percent of net job gains. Single-family residential construction and commercial building activity expanded in all four states in the region. This expanded construction activity contributed to a gain of 29,800 jobs, or 2.9 percent, in the mining, logging, and construction sector, which had the third highest growth rate in the region, along with the leisure and hospitality sector. The mining, logging, and construction sector has added jobs year over year in each quarter since the second quarter

of 2011 but remains 26 percent below the peak of 1.44 million jobs averaged during the third quarter of 2006. Manufacturing sector job losses were primarily in California and Hawaii, where the high land and energy costs in these states resulted in relocations of manufacturing companies to relatively lower-cost states such as Nevada, New Mexico, or Arizona, or abroad.

The unemployment rate in the region averaged 5.1 percent during the first quarter of 2017, down from 5.7 percent a year earlier but higher than the national average of 4.9 percent. At 2.8 percent, Hawaii had the lowest average unemployment rate in the region and the nation, down from 3.0 percent a year ago. The unemployment rate declined in Nevada from 6.3 to 5.0 percent and in Arizona from 5.4 to 4.9 percent. The highest unemployment rate was in California, at 5.3 percent, down from 5.8 percent a year ago; in California, the rate was the 12th highest in the nation.

During the first quarter of 2017—

- California added 324,400 jobs, a gain of 2.0 percent, following 3.1-percent growth a year earlier. The education and health

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**Year-over-year nonfarm payroll growth in the Pacific region exceeded the national rate for the 26th consecutive quarter.**

|                                    | First Quarter       |                     | Year-Over-Year Change   |         |
|------------------------------------|---------------------|---------------------|-------------------------|---------|
|                                    | 2016<br>(thousands) | 2017<br>(thousands) | Absolute<br>(thousands) | Percent |
| <b>Total nonfarm payrolls</b>      | 20,841.3            | 21,266.9            | 425.6                   | 2.0     |
| Goods-producing sectors            | 2,547.2             | 2,573.0             | 25.8                    | 1.0     |
| Mining, logging, and construction  | 1,034.4             | 1,064.2             | 29.8                    | 2.9     |
| Manufacturing                      | 1,512.8             | 1,508.9             | - 3.9                   | - 0.3   |
| Service-providing sectors          | 18,294.1            | 18,693.9            | 399.8                   | 2.2     |
| Wholesale and retail trade         | 3,053.6             | 3,088.8             | 35.2                    | 1.2     |
| Transportation and utilities       | 754.2               | 778.5               | 24.3                    | 3.2     |
| Information                        | 581.4               | 591.1               | 9.7                     | 1.7     |
| Financial activities               | 1,098.8             | 1,126.5             | 27.7                    | 2.5     |
| Professional and business services | 3,157.9             | 3,212.2             | 54.3                    | 1.7     |
| Education and health services      | 3,123.1             | 3,226.1             | 103.0                   | 3.3     |
| Leisure and hospitality            | 2,605.5             | 2,680.5             | 75.0                    | 2.9     |
| Other services                     | 701.0               | 715.4               | 14.4                    | 2.1     |
| Government                         | 3,218.7             | 3,274.8             | 56.1                    | 1.7     |

Note: Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics

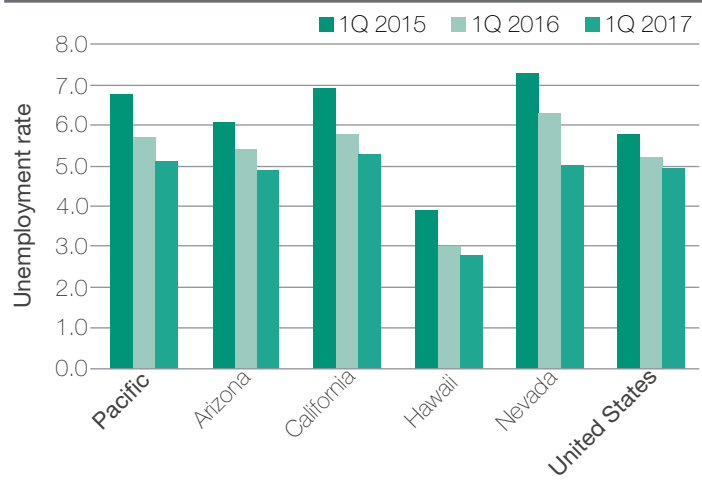


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services sector accounted for 26 percent of net job growth in the state, expanding by 86,200 jobs, or 3.4 percent. Recently, several hospital expansions have been under way in the state. In San Diego County alone, six new or upgraded hospitals have opened since 2009, adding 1,281 beds at a cost of \$3 billion. The most recently completed hospital is the 245-bed Jacobs Medical Center in La Jolla, a part of the UC San Diego Health network.

- Nonfarm payrolls in Arizona increased by 56,200 jobs, or 2.1 percent, from a year ago, less than the gain of 70,100 jobs, or 2.7 percent, during the first quarter of 2016. The education and health services and the professional and business services sectors led job growth in the state, adding 16,500 and 14,900 jobs, gains of 4.2 and 3.8 percent, respectively. Several companies are relocating their corporate headquarters to Arizona, including Benchmark Electronics, Inc., which is expected to make the move from Texas in May 2017, adding approximately 500 jobs over the next 5 years.
- In Nevada, nonfarm payrolls expanded by 39,400 jobs, or 3.1 percent. The leisure and hospitality and the professional and business services sectors added 8,400 jobs each, increases of 2.5 and 4.9 percent, respectively. The \$1.9 billion buildout of the Las Vegas Raiders football stadium, to which the National Football League team will move in 2020 from Oakland, is estimated to attract 451,400 new visitors annually and have an economic impact of \$620 million annually when completed (Applied Analysis).

Unemployment rates continued to decline throughout the Pacific region during the first quarter of 2017, but the regionwide rate remained greater than the national average due to higher unemployment rates in California and Nevada.



1Q = first quarter.  
Source: U.S. Bureau of Labor Statistics

- Hawaii added 5,600 nonfarm payroll jobs, a 0.9-percent increase. The leisure and hospitality sector led job gains, expanding by 3,300 jobs, or 2.9 percent. Total tourism spending rose nearly 8 percent from a year earlier to \$4.5 billion during the 3 months ending February 2017 (latest data available, Hawaii Tourism Authority).

## Population

The population of the Pacific region, which grew faster than the nation from 2015 to 2016, increased by 429,300 people, or 0.9 percent, compared with the 0.7-percent growth rate for the nation overall (Census Bureau population estimates as of July 1). Rates of population growth were highest in Nevada and Arizona at 2.0 and

1.7 percent, respectively, and were lower in California and Hawaii at 0.7 and 0.2 percent, respectively. Nevada and Arizona had the second and eighth highest population growth rates of states in the nation. Approximately 35 percent of the population growth in the region from July 2015 to July 2016 resulted from net in-migration

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The Pacific region represented 16 percent of the population in the nation as of July 1, 2016, but contributed 19 percent of the national population growth.

|                | Population Estimate (as of July 1) |             |             | Percent Change |              |
|----------------|------------------------------------|-------------|-------------|----------------|--------------|
|                | 2014                               | 2015        | 2016        | 2014 to 2015   | 2015 to 2016 |
| United States  | 318,563,456                        | 320,896,618 | 323,127,513 | 0.7            | 0.7          |
| Pacific region | 49,650,165                         | 50,120,420  | 50,549,703  | 0.9            | 0.9          |
| Arizona        | 6,719,993                          | 6,817,565   | 6,931,071   | 1.5            | 1.7          |
| California     | 38,680,810                         | 38,993,940  | 39,250,017  | 0.8            | 0.7          |
| Hawaii         | 1,416,349                          | 1,425,157   | 1,428,557   | 0.6            | 0.2          |
| Nevada         | 2,833,013                          | 2,883,758   | 2,940,058   | 1.8            | 2.0          |

Source: U.S. Census Bureau



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of 149,300 people, lower than the 40-percent contribution of net in-migration during the previous year. Net natural change (resident births minus resident deaths) decreased to approximately 278,600 people from 298,700 people from 2014 to 2015.

During the 12 months ending July 1, 2016—

- Strong job growth and relatively affordable housing in Arizona and Nevada contributed to higher rates of population growth than in the other two states in the region. Net in-migration, particularly from the more expensive markets in California, accounted for 67 and 75 percent of population growth in the two states, respectively.

- Population growth in California, the most populous state in the nation, accounted for 60 percent of total population growth in the region. Net in-migration to California totaled 33,500 people, accounting for 22 percent of net in-migration into the region overall. International net in-migration to California of 142,600 people offset domestic net out-migration that was primarily a result of sharply rising home prices. Asia and Latin America have accounted for 57 and 27 percent, respectively, of the foreign-born population entering the state since 2010 (2015 American Community Survey 1-year data).

## Sales Market Conditions

During the first quarter of 2017, sales housing market conditions in the Pacific region ranged from balanced to tight, unchanged from a year ago. Continued economic growth has contributed to rising home sales prices throughout the region since 2012. The average home sales price for the region (including single-family homes, townhomes, and condominiums) increased nearly 4 percent, to \$458,000, during the 12 months ending February 2017 after a 5-percent gain during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). The average home sales price in the nation rose 6 percent, to \$276,300, during the 12 months ending February 2017, slightly higher than the 5-percent gain in the previous year. Average home sales prices rose in all 10 major metropolitan areas referenced in this report, ranging from a 3-percent gain in the Oxnard-Thousand Oaks-Ventura metropolitan area,

where conditions were balanced, to an 8-percent gain in the Sacramento--Roseville--Arden-Arcade metropolitan area, where conditions are also balanced and improving.

During the 12 months ending February 2017, the number of home sales in the Pacific region increased less than 2 percent from a year earlier, after an 8-percent expansion during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). By comparison, home sales nationally fell 5 percent during the 12 months ending February 2017, after an 8-percent gain the year earlier. Home sales decreased in 4 of the 10 largest metropolitan areas in the region, ranging from a 2-percent decline in the Los Angeles-Long Beach-Anaheim metropolitan area to 4-percent declines in the San Francisco-Oakland-Hayward and San Jose-Sunnyvale-Santa Clara

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### Home sales declined in 5 of the 10 largest metropolitan areas in the Pacific region, while average sales prices increased in all the major markets.

|   | 12 Months Ending | Number of Homes Sold |         |                | Price             |           |           |                |
|---|------------------|----------------------|---------|----------------|-------------------|-----------|-----------|----------------|
|   |                  | 2016                 | 2017    | Percent Change | Average or Median | 2016 (\$) | 2017 (\$) | Percent Change |
| Las Vegas-Henderson-Paradise (N&E)        | February         | 51,796               | 56,317  | 9              | AVG               | 241,030   | 255,412   | 6              |
| Los Angeles-Long Beach-Anaheim (N&E)      | February         | 124,365              | 121,927 | -2             | AVG               | 692,178   | 728,071   | 5              |
| Oxnard-Thousand Oaks-Ventura (N&E)        | February         | 11,026               | 10,675  | -3             | AVG               | 580,817   | 598,732   | 3              |
| Phoenix-Mesa-Scottsdale (N&E)             | February         | 112,466              | 120,776 | 7              | AVG               | 259,846   | 273,307   | 5              |
| Riverside-San Bernardino-Ontario (N&E)    | February         | 74,692               | 75,119  | 1              | AVG               | 318,742   | 337,490   | 6              |
| Sacramento--Roseville--Arden-Arcade (N&E) | February         | 41,951               | 44,065  | 5              | AVG               | 353,875   | 383,385   | 8              |
| San Diego-Carlsbad (N&E)                  | February         | 43,734               | 43,672  | 0              | AVG               | 568,607   | 597,549   | 5              |
| San Francisco-Oakland-Hayward (N&E)       | February         | 55,066               | 53,087  | -4             | AVG               | 821,978   | 859,064   | 5              |
| San Jose-Sunnyvale-Santa Clara (N&E)      | February         | 20,871               | 19,938  | -4             | AVG               | 945,057   | 979,646   | 4              |
| Urban Honolulu (N&E)                      | February         | 12,300               | 13,335  | 8              | AVG               | 604,870   | 641,425   | 6              |

AVG = average. N&E = new and existing.

Note: Includes single-family homes, townhomes, and condominiums.

Sources: CoreLogic, Inc., with adjustments by the analyst



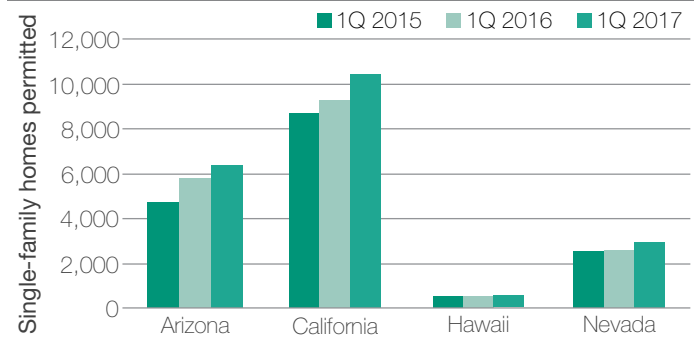


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metropolitan areas. Recent declines in sales are primarily a result of shortages of for-sale inventories rather than of decreased demand, particularly for homes priced in the most affordable ranges. In the Los Angeles-Long Beach-Anaheim metropolitan area, the number of homes for sale declined 10 percent during March 2017, compared with March 2016 (CoreLogic, Inc.). In the San Francisco-Oakland-Hayward and San Jose-Sunnyvale-Santa Clara metropolitan areas, the active inventory declined by 5 and 21 percent, respectively, during the same period. Home sales remained stable in the San Diego-Carlsbad metropolitan area and increased in the Phoenix-Mesa-Scottsdale, Riverside-San Bernardino-Ontario, and Sacramento--Roseville--Arden-Arcade metropolitan areas, where sales prices were relatively more affordable than in nearby metropolitan areas. Despite a 6-percent increase in the average sales price in both metropolitan areas, home sales increased 8 percent in the relatively expensive Urban Honolulu metropolitan area and 9 percent in the more affordable Las Vegas-Henderson-Paradise metropolitan area during the same period.

Regionwide growth in new home sales and regular (nondistressed) resales of 9 and 3 percent, respectively, was partially offset by declines in the number of distressed sales (real estate owned [REO]

**Single-family permitting increased 11 percent year over year in the Pacific region during the first quarter of 2017, the same growth rate as the first quarter of 2016.**



1Q = first quarter.  
 Note: Based on preliminary data.  
 Source: U.S. Census Bureau, Building Permits Survey

and short sales) because fewer distressed properties were on the market. During the 12 months ending February 2017, REO sales fell 21 percent and short sales declined 28 percent, after decreases of 19 and 17 percent, respectively, during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). Nationwide, by comparison, the number of REO sales fell 27 percent and short sales fell 26 percent during the 12 months ending February 2017. The percentage of seriously delinquent mortgage loans (90 or more days delinquent or in foreclosure) and REO properties in the region declined 0.4 percentage point, from 1.8 percent in February 2016 to 1.4 percent in February 2017. By comparison, the national decline was 0.7 percentage point, to 2.5 percent. In the region, the percentage of seriously delinquent mortgage loans and REO properties was highest in Hawaii and Nevada, at 3.1 and 2.8 percent, respectively; the regional rate reflected the lower rates in Arizona and California of 1.4 and 1.2 percent, respectively.

During the first quarter of 2017 (preliminary data)—

- Single-family homebuilding activity, as measured by the number of homes permitted, increased 11 percent in the region, to 20,300 homes, from a year earlier; the same rate of growth as during the first quarter of 2016. By comparison, the number of homes permitted nationally increased 13 percent from a year earlier after a 12-percent gain in the first quarter of 2016.
- Approximately 51 percent of the single-family homes permitted in the region were in California, unchanged from the first quarter of 2016. The number of single-family homes permitted in California rose to 10,400, a 12-percent increase from the first quarter of 2016, after an 8-percent gain during the same period a year earlier.
- The fastest growth in single-family permitting occurred in Hawaii, where the number of single-family homes permitted increased 23 percent to 630 homes. By comparison, during the first quarter of 2016, single-family permitting in the state declined 11 percent.
- Single-family permitting increased 12 percent in Nevada to 2,900 homes and 9 percent in Arizona, where 6,350 homes were permitted.

## Apartment Market Conditions

Apartment market conditions in the largest metropolitan areas in the Pacific region ranged from balanced to tight during the first quarter of 2017. Of the 10 major metropolitan areas referenced in this report, 8 had apartment vacancy rates below the national average of 5.4 percent. However, the apartment vacancy rate rose in 6 of the metropolitan areas, ranging from a 0.1-percentage-point increase in the Sacramento--Roseville--Arden-Arcade metropolitan area to a 0.4-percentage-point increase in the

Phoenix-Mesa-Scottsdale metropolitan area (Axiometrics, Inc.). Overall apartment market conditions remained unchanged from a year ago in all major metropolitan areas except Urban Honolulu, where the market is currently balanced, with an apartment vacancy rate of 5.6 percent during the first quarter of 2017 and year-over-year rent growth of 5 percent. A year earlier, conditions in Urban Honolulu were slightly soft, with an apartment vacancy rate of 7.9 percent and year-over-year rent growth of only 1 percent. Average rents

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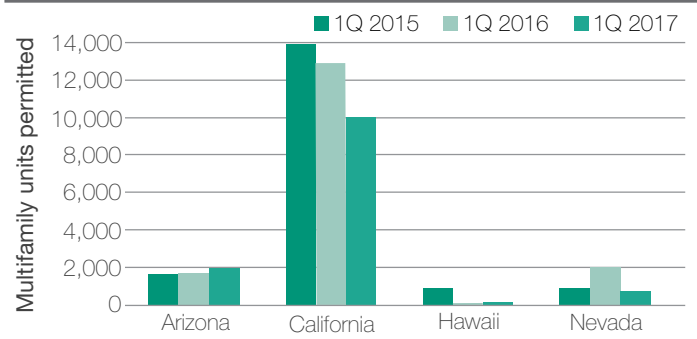
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rose faster than the national average increase of 2 percent in all the major metropolitan areas referenced in this report except San Jose-Sunnyvale-Santa Clara and San Francisco-Oakland-Hayward. These two metropolitan areas are the two most expensive housing markets in the region; average rents declined 1 percent in San Jose-Sunnyvale-Santa Clara and increased 1 percent in San Francisco-Oakland-Hayward. San Francisco-Oakland-Hayward and San Jose-Sunnyvale-Santa Clara remain among the most expensive rental housing markets in the country, with average rents of \$3.28 and \$3.08 per square foot, respectively, more than twice the national average of \$1.41 per square foot. Among the 8 other metropolitan areas with higher-than-national rent increases, the growth in the average rent ranged from 3 percent in Oxnard-Thousand Oaks-Ventura to 7 percent in the Sacramento--Roseville--Arden-Arcade metropolitan area.

During the first quarter of 2017 (preliminary data)—

- Despite tight apartment market conditions, multifamily permitting decreased 60 percent, to 12,800 units, the first decline after three consecutive year-over-year quarters of growth, since a 3-percent decrease was recorded during the first quarter of 2016. By comparison, the number of units permitted nationally dropped 3 percent from the first quarter of 2016 following a 5-percent gain during the same period a year earlier.
- California accounted for 78 percent of the multifamily units permitted in the region, similar to the first quarter of 2016. Multifamily permitting activity in the state fell 23 percent to 9,950 units. By comparison, multifamily permitting declined 7 percent during the first quarter of 2016.

**After three consecutive quarters of increased multifamily construction, permitting activity declined by 60 percent in the Pacific region relative to a year ago.**



1Q = first quarter.  
 Note: Based on preliminary data.  
 Source: U.S. Census Bureau, Building Permits Survey

- In Nevada, where multifamily permitting can fluctuate significantly, the number of units permitted decreased 60 percent to 800, after a 125-percent increase during the first quarter of 2016.
- The number of multifamily units permitted in Arizona increased 12 percent, to 1,925, compared with the 1,725 units permitted during the first quarter of 2016. The Phoenix-Mesa-Scottsdale metropolitan area accounted for 94 percent of multifamily permitting in Arizona during the past year compared with an 84-percent contribution during the first quarter of 2016.
- Multifamily permitting activity remained relatively unchanged in Hawaii at 120 units, compared with 100 units permitted during the first quarter of 2016.

**Average rents increased faster in the largest metropolitan areas of the Pacific region than the national growth rate, except in the San Francisco-Oakland-Hayward and San Jose-Sunnyvale-Santa Clara metropolitan areas, where average rents were already the highest in the nation.**

|                                     | Market Condition | Vacancy Rate |             |                         | Average Monthly Rent |              |                |
|-------------------------------------|------------------|--------------|-------------|-------------------------|----------------------|--------------|----------------|
|                                     |                  | 1Q 2016 (%)  | 1Q 2017 (%) | Percentage Point Change | 1Q 2016 (\$)         | 1Q 2017 (\$) | Percent Change |
| Las Vegas-Henderson-Paradise        | Balanced         | 6.5          | 6.0         | - 0.5                   | 1,263                | 1,293        | 6              |
| Los Angeles-Long Beach-Anaheim      | Tight            | 3.9          | 4.1         | 0.2                     | 2,093                | 2,173        | 4              |
| Oxnard-Thousand Oaks-Ventura        | Tight            | 4.0          | 3.8         | - 0.2                   | 1,891                | 1,942        | 3              |
| Phoenix-Mesa-Scottsdale             | Balanced         | 4.9          | 5.3         | 0.4                     | 931                  | 973          | 5              |
| Riverside-San Bernardino-Ontario    | Tight            | 4.5          | 4.8         | 0.3                     | 1,424                | 1,503        | 6              |
| Sacramento--Roseville--Arden-Arcade | Tight            | 4.2          | 4.3         | 0.1                     | 1,304                | 1,391        | 7              |
| San Diego-Carlsbad                  | Tight            | 4.0          | 4.3         | 0.3                     | 1,855                | 1,945        | 5              |
| San Francisco-Oakland-Hayward       | Tight            | 4.2          | 4.4         | 0.2                     | 2,735                | 2,757        | 1              |
| San Jose-Sunnyvale-Santa Clara      | Tight            | 4.5          | 4.4         | - 0.1                   | 2,764                | 2,741        | - 1            |
| Urban Honolulu                      | Balanced         | 7.9          | 5.6         | - 2.3                   | 2,016                | 2,107        | 5              |

1Q = first quarter.  
 Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—Axiometrics, Inc.

