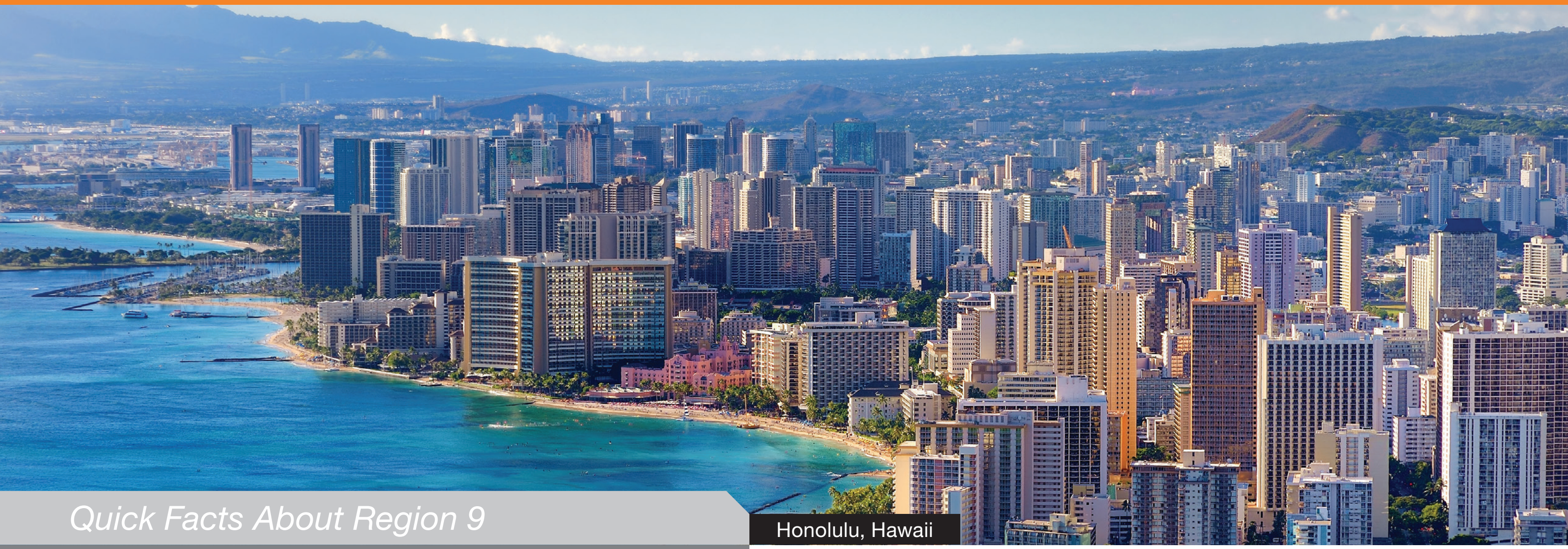
HUD PD&R **Regional Reports**

Region 9: Pacific



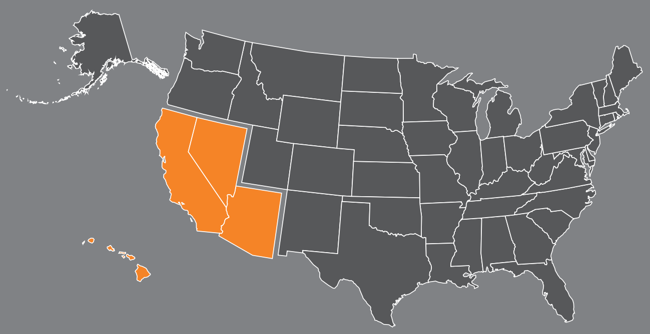
Honolulu, Hawaii

By Elaine Ng | 2nd quarter 2018

Quick Facts About Region 9

- **Sales market conditions—**
  Second quarter 2018: mixed (slightly soft to tight).
  First quarter 2018: mixed (slightly soft to tight).
  Second quarter 2017: mixed (balanced to tight).

- **Apartment market conditions—**
  Second quarter 2018: mixed (balanced to tight).
  First quarter 2018: mixed (balanced to tight).
  Second quarter 2017: mixed (balanced to tight).



Overview

Economic conditions remained strong in the Pacific region during the second quarter of 2018, as nonfarm payrolls have expanded year over year during every quarter since the fourth quarter of 2010. California represented 78 percent of jobs in the region and accounted for 73 percent of net job growth during the second quarter of 2018. Sales housing market conditions in the region remained slightly soft to tight, although conditions softened in Hawaii as affordability concerns contributed to net out-migration. Single-family homebuilding activity declined in three of the four states of the region, but strong demand in Arizona, where homes are relatively less expensive, contributed to the regionwide increase. Apartment market conditions remained balanced to tight throughout the region. Apartment vacancy rates declined or were unchanged in 6 of the 10 major metropolitan areas included in this report, and average rent growth was positive in most of those same markets. The one exception was Urban Honolulu, where the average rent declined slightly to facilitate absorption of a large number of previously completed units.

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- Every payroll sector in the region added jobs during the second quarter of 2018. The largest gains occurred in the education and health services sector, marking the sixth consecutive quarter that the sector has led job growth in the region. Expansions in the sector were largely attributed to population growth and the rising need for healthcare services throughout much of the region.
- Home sales in the region increased 1 percent during the 12 months ending May 2018 to 799,600 homes sold. Average single-family home sales prices rose in every state in the region, with growth in California leading at 8 percent; home prices there are more than double the national average. Despite declining homebuilding activity in three out of the four states, single-family permitting activity expanded almost 4 percent, to 28,500 permits issued in the region during the second quarter of 2018, due to a 17-percent increase in Arizona.
- Multifamily permitting declined 7 percent in the region during the second quarter of 2018, compared with a 3-percent gain nationally, because three out of the four states of the region recorded declines. Rent growth was strong in almost all of the large metropolitan areas of the region listed in this report.

Economic Conditions

Economic conditions in the Pacific region continued to strengthen during the second quarter of 2018. All four states in the region added jobs, and total nonfarm payrolls increased by 445,100 jobs, or 2.1 percent, to nearly 22 million jobs. The rate of job growth in the region was down slightly from the 2.2-percent growth in nonfarm payrolls a year earlier. Overall, during the second quarter of 2018, nonfarm payroll growth in the region accounted for 19 percent of the net increase in jobs nationally, where nonfarm payrolls increased 2.1 percent compared with 1.6 percent during the second quarter of 2017. The education and health services sector contributed the largest share of net job gains in the region during the second quarter of 2018, up by 101,700 jobs, or 3.1 percent. The health care and social assistance industry accounted for 86 percent of the net gain in jobs in the sector, largely in response to regional population growth. Single-family residential construction activity, which rose by 4 percent in the region, contributed to a gain of 73,500 jobs, or 6.6 percent, in the mining, logging, and construction sector, the sector with the fastest growth the region during the second quarter of 2018. The sector has added jobs year over year during each quarter since the second quarter of 2011, but the number of jobs remains 17 percent below the peak of 1.44 million jobs averaged during the third quarter of 2006. The professional and business services sector which added 78,600 jobs, or 2.4 percent, accounted for the second largest share of job gains in the region, mainly due to growth in California, which accounted for more than 82 percent of regionwide growth in the sector.

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All nonfarm payrolls sectors in the Pacific region recorded year-over-year growth, led by the education and health services sector for the sixth consecutive quarter.

	Second Quarter		Year-Over-Year Change	
	2017 (thousands)	2018 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	21,551.6	21,996.7	445.1	2.1
Goods-producing sectors	2,648.7	2,746.2	97.5	3.7
Mining, logging, and construction	1,117.0	1,190.5	73.5	6.6
Manufacturing	1,531.7	1,555.7	24.0	1.6
Service-providing sectors	18,902.9	19,250.5	347.6	1.8
Wholesale and retail trade	3,084.7	3,100.0	15.3	0.5
Transportation and utilities	811.2	841.7	30.5	3.8
Information	591.1	607.7	16.6	2.8
Financial activities	1,135.9	1,146.5	10.6	0.9
Professional and business services	3,231.0	3,309.6	78.6	2.4
Education and health services	3,270.5	3,372.2	101.7	3.1
Leisure and hospitality	2,765.7	2,822.3	56.6	2.0
Other services	725.2	727.3	2.1	0.3
Government	3,287.7	3,323.2	35.5	1.1

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

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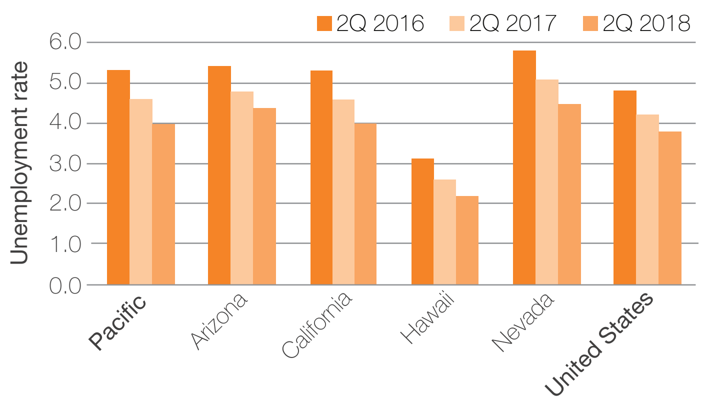
The unemployment rate in the region averaged 4.0 percent during the second quarter of 2018, down from 4.6 percent a year earlier but higher than the national average of 3.8 percent. At 2.2 percent, Hawaii had the lowest average unemployment rate in the nation, down from 2.6 percent a year ago. The unemployment rate declined in California from 4.6 to 4.0 percent and in Arizona from 4.8 to 4.4 percent. The highest unemployment rate in the region and the eighth highest in the nation was in Nevada, at 4.5 percent, down from 5.1 percent a year ago.

During the second quarter of 2018—

- California added 324,400 jobs, a gain of 1.9 percent, following 2.1-percent growth a year earlier. The education and health services and the professional and business services sectors accounted for a combined 37 percent of net job growth in the state, expanding by 78,200 and 62,900 jobs, or 3.0 and 2.5 percent, respectively. The University of California system is the largest employer in the state with 198,300 employees as of April 2018 (24/7 Wall Street) and, along with other large universities, has supported the growth of startup firms in the high-tech industry. Approximately 1.7 million workers, or 9 percent of the state's workforce, is employed in the industry, making California the state with the greatest number of high-tech employees in the nation in 2017 (CompTIA).
- Nonfarm payrolls in Arizona increased by 69,200 jobs, or 2.5 percent, from a year ago, compared with an increase of 67,500 jobs, or 2.5 percent, during the second quarter of 2017. The education and health services and the mining, logging, and construction sectors led job growth in the state, adding 14,800 and 14,700 jobs, or 3.5 and 9.3 percent, respectively. Along with increased residential development, construction associated with the Arizona healthcare industry has expanded, a trend which is expected to continue. The state's largest employer, Banner Health, with 19 hospitals and 50,000 employees across the state, is expected to invest more than $1 billion in infrastructure during the next five years in Phoenix and Tucson (University of Phoenix). Developments currently underway include the Banner Estrella Medical Plaza II in Phoenix, a new four-story medical office building that will include a direct pedestrian connection to the existing 317-bed hospital, that is expected to be open in December 2018.

The unemployment rate fell in every state of the Pacific region, and the 2.2-percent rate in Hawaii is the lowest in the nation.



2Q = second quarter.
Source: U.S. Bureau of Labor Statistics

- In Nevada, nonfarm payrolls expanded by 40,300 jobs, or 3.0 percent. The government and the mining, logging, and construction sectors added the most jobs in the state, up 6,500 and 6,100 jobs, or 4.1 and 6.7 percent, respectively, compared with the previous year. Virtually all of the jobs added in the latter sector resulted from gains in the construction subsector, which also expanded 6.7 percent. The start of several large-scale projects, including the $1.9 billion Las Vegas stadium, the future home of the National Football League's Raiders franchise, contributed to job growth in the construction subsector. Hiring in the state and local government subsectors contributed to 54 and 43 percent, respectively, of total jobs added in the government sector.
- Hawaii added 11,500 nonfarm payroll jobs, a 1.9-percent increase. The leisure and hospitality sector led job gains and accounted for almost one-half of overall growth, expanding by 5,300 jobs, or 4.3 percent. Total tourism spending in the state rose more than 11 percent from a year earlier to $4.4 billion during the second quarter of 2018 (Hawaii Tourism Authority).

Sales Market Conditions

During the second quarter of 2018, sales housing market conditions in the Pacific region ranged from slightly soft to tight. Continued economic growth has supported rising home sales prices throughout the region since 2012, but price pressures and net out-migration have contributed to a recent softening of the market in Hawaii, which transitioned from balanced to slightly soft in the past year. During the 12 months ending May 2018, the average home sales price for the region (including single-family homes, townhomes, and condominiums) increased 7 percent, to $489,300, after a 4-percent gain during the previous 12-month

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Home sales increased or remained steady in one-half of the major metropolitan areas in the Pacific region, while the average sales price increased in all 10 major metropolitan areas.

	12 Months Ending	Number of Homes Sold			Price			
		2017	2018	Percent Change	Average or Median	2017 ($)	2018 ($)	Percent Change
Urban Honolulu, HI (N&E)	May	13,131	9,987	–24%	AVG	645,739	671,324	4
Las Vegas-Henderson-Paradise, NV (N&E)	May	59,646	62,962	6%	AVG	259,669	293,983	13
Phoenix-Mesa-Scottsdale, AZ (N&E)	May	38,513	40,064	4%	AVG	287,073	312,392	9
Los Angeles-Long Beach-Anaheim, CA (N&E)	May	126,090	122,414	–3%	AVG	741,107	789,519	7
Riverside-San Bernardino-Ontario, CA (N&E)	May	79,866	80,511	1%	AVG	343,510	367,283	7
San Diego-Carlsbad, CA (N&E)	May	44,518	43,574	–2%	AVG	604,352	645,811	7
Oxnard-Thousand Oaks-Ventura, CA (N&E)	May	11,016	10,465	–5%	AVG	609,736	646,424	6
San Francisco-Oakland-Hayward, CA (N&E)	May	53,996	53,992	0%	AVG	873,387	965,965	11
San Jose-Sunnyvale-Santa Clara, CA (N&E)	May	20,292	20,977	3%	AVG	991,107	1,171,693	18
Sacramento–Roseville–Arden-Arcade, CA (N&E)	May	44,789	45,548	2%	AVG	388,656	425,709	10

AVG = average. N&E = new and existing.
Sources: CoreLogic, Inc. and adjustments by analyst

period (CoreLogic, Inc., with adjustments by the analyst). The average home sales price in the region was 62 percent higher than the national average, but the rate of growth in prices was similar. The average home sales price rose nearly 7 percent in the nation, to $289,400, during the 12 months ending May 2018, higher than the 4-percent gain in the previous year. Average home sales prices rose in all four states of the region, with the highest rate of growth, 12 percent, occurring in Nevada, where the average sales price was $300,400. Among the major metropolitan areas in the region, home sales price growth ranged from 4 percent in the Urban Honolulu metropolitan area, where conditions were slightly soft and prices averaged $671,324, to 18 percent in the San Jose-Sunnyvale-Santa Clara metropolitan area, where conditions were tight and prices averaged $1.17 million.

During the 12 months ending May 2018, the number of home sales in the Pacific region increased 4 percent from a year earlier, unchanged from the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). Every state in the region had an increase in the number of homes sold except for Hawaii, where the number of home sales declined 21 percent. By comparison, home sales declined 2 percent nationwide, following a 4-percent gain a year ago. The number of homes sold increased in 5 of the 10 largest metropolitan areas in the region, with the greatest growth occurring in the Las Vegas-Henderson-Paradise metropolitan area, where the 6-percent increase accounted for two-thirds of the net gain in Nevada. Homes sales declines occurred in several of the more expensive metropolitan areas in California, including Oxnard-Thousand Oaks-Ventura, Los Angeles-Long Beach-Anaheim, and San Diego-Carlsbad, where the number of sales declined by 5, 3, and 2 percent, respectively. Sales remained flat in San Francisco-Oakland-Hayward, but increased 3 percent in San Jose-Sunnyvale-Santa Clara.

Regionwide, sales growth was fueled by new home sales and regular (non-distressed) resales, which increased 3 and 9 percent, respectively, offsetting a decline in distressed sales (real estate owned [REO] and short sales). During the 12 months ending May 2018, REO sales fell 29 percent and short sales declined 56 percent, after decreases of 21 and 18 percent, respectively, during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). By comparison, the number of REO sales nationwide fell 34 percent, and short sales fell 61 percent. The percentage of seriously delinquent mortgage loans (90 or more days delinquent or in foreclosure) and REO properties in the region declined 0.3 percentage points, from 1.3 percent in May 2017 to 1.0 percent in May 2018. The national percentage also declined by 0.3 percentage point to 2.0 percent. In the region, the percentage of seriously delinquent mortgage loans and REO properties was highest in Hawaii, at 2.4 percent, down from 3.0 percent a year ago. The regional rate reflected the lower rates in Arizona and California of 0.9 percent each.

During the second quarter of 2018 (preliminary data)—

- Single-family homebuilding activity, as measured by the number of homes permitted, increased 4 percent in the region, to 28,500 homes, from a year earlier; compared with an 16-percent gain during the second quarter of 2017. By comparison, the number of homes permitted nationally increased 6 percent from a year earlier after a 9-percent gain during the second quarter of 2017.
- Approximately 54 percent of the single-family homes permitted in the region were in California, down from 56 percent during the second quarter of 2017. The number of single-family homes permitted in California declined slightly to 15,450, after a 22-percent increase during the same period a year earlier.

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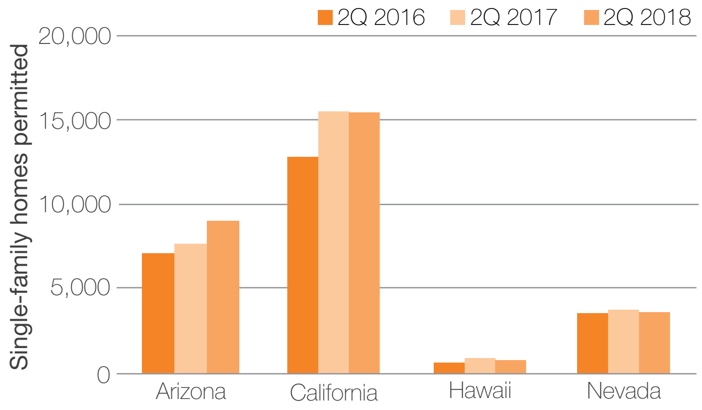
- Arizona was the only state in the region to record an increase in single-family permits. The increase of 1,325 homes, or 17 percent, to 8,925 homes permitted, resulted in a net-increase for the region. During the 12 months ending May 2018, the average home price was the lowest statewide average in the region, contributing to increased demand for single-family housing; the statewide average home sales price was 45 percent below the regionwide average during the 12 months ending May 2018.
- Because of the relatively small number of permits issued each year, single-family permitting activity in Hawaii generally varies more, in percentage terms, than in most states. During the most recent period, single-family permitting declined 17 percent to 630 homes, compared with a 50-percent increase to 750 homes during the second quarter of 2017.
- In Nevada, single-family permitting declined 4 percent, to 3,525 permits issued, following an 8-percent increase a year ago.

A significant increase in single-family permitting in Arizona more than offset the small declines in the other three states in the Pacific region.

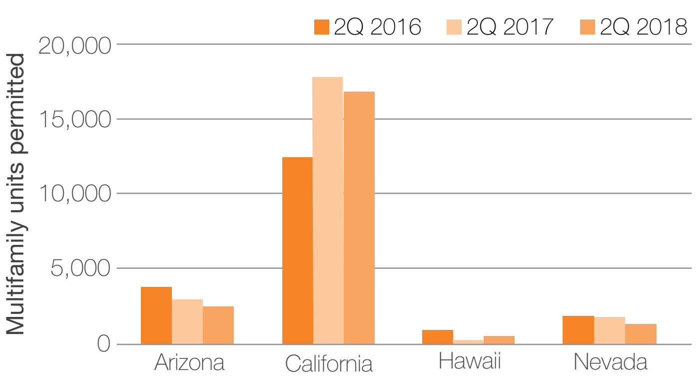


2Q = second quarter.
Note: Based on preliminary data
Source: U.S. Census Bureau, Building Permits Survey

Apartment Market Conditions

Apartment market conditions in the largest metropolitan areas in the Pacific region ranged from balanced to tight during the second quarter of 2018, unchanged from a year ago. Vacancy rates declined or were unchanged in 6 of the 10 major metropolitan areas included in this report and remained below the national average, which was 5.1 percent during the second quarter of 2018, in all 10 of the markets (RealPage, Inc.). Vacancy rates in the Los Angeles-Long Beach-Anaheim and San Diego-Carlsbad markets increased during the second quarter due to significant increases in the respective apartment inventories. In Los Angeles-Long Beach-Anaheim, approximately 2,175 apartments were completed during the second quarter of 2018 (RealPage, Inc.), more than double the 980 apartments completed a year earlier, contributing to a 0.3-percentage-point increase in the vacancy rate to 4.1 percent. Similarly, in San Diego-Carlsbad, the apartment vacancy rate rose 0.1 percentage point to 3.8 percent as 900 apartments were completed during the quarter, double the 380 apartment units completed during the second quarter of 2017. Conditions in both markets remained tight, however, as strong demand resulted in relatively fast absorption of the new units. There were no new apartment completions during the second quarter of 2018 in Urban Honolulu (CBRE Group), however, apartment vacancy rates rose 0.3 percentage point to 5.0 percent as high rents limited absorption of the 510 units completed in 2017.

Multifamily permitting activity decline in three out of the four states of the Pacific region during the second quarter of 2018.



2Q = second quarter.
Note: Based on preliminary data
Source: U.S. Census Bureau, Building Permits Survey

As balanced to tight conditions prevailed in the region, average rents were higher than the national average of $1,300 in 8 of the 10 major metropolitan areas of the region, and rent increases exceeded the national rate of 3 percent in one-half of those same areas. The highest rate of rent growth occurred in the Las Vegas-Henderson-Paradise metropolitan area, where tight apartment

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Rent growth exceeded the national average in one-half of the major metropolitan areas in the Pacific region.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2017 (%)	2Q 2018 (%)	Percentage Point Change	2Q 2017 ($)	2Q 2018 ($)	Percent Change
Urban Honolulu	Balanced	4.7	5.0	0.3	2,274	2,199	– 3
Las Vegas-Henderson-Paradise	Balanced	5.3	5.0	– 0.3	935	999	7
Phoenix-Mesa-Scottsdale	Balanced	5.2	4.9	– 0.3	995	1,052	6
Los Angeles-Long Beach-Anaheim	Tight	3.8	4.1	0.3	2,129	2,198	3
Riverside-San Bernardino-Ontario	Tight	3.6	3.6	0	1,427	1,496	5
San Diego-Carlsbad	Tight	3.7	3.8	0.1	1,975	2,032	3
Oxnard-Thousand Oaks-Ventura	Tight	3.9	3.3	– 0.6	1,997	2,032	2
Sacramento–Arden-Arcade–Roseville	Tight	3.6	4.2	0.6	1,438	1,471	2
San Francisco-Oakland-Hayward	Tight	4.0	4.0	0	2,790	2,892	4
San Jose-Sunnyvale-Santa Clara	Tight	3.8	3.5	– 0.3	2,831	2,950	4

2Q = second quarter.
Sources: market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—RealPage, Inc.

market conditions and 1,200 apartment completions during the second quarter of 2018 supported a 7-percent increase in the average rent to $999. Despite the increase, the Las Vegas-Henderson-Paradise apartment market remains among the most affordable in the region, with an average rent at least 50 percent below all but one of the other major metropolitan areas in the region. The only exception was Phoenix-Mesa-Scottsdale, where the average rent increased 6 percent, but was also relatively affordable, at $1,052, only 5 percent higher than the Las Vegas market. The average rents increased 4 percent in both San Francisco-Oakland-Hayward and San Jose-Sunnyvale-Santa Clara, where the respective average rents of $2,892 and $2,950 remained among the highest in the nation. The average rent declined 3 percent to $2,199 in the Urban Honolulu market, the only one of the major metropolitan areas in the region to record a decrease, as the number of households able to afford the high average rent remained limited. The rental market in Hawaii is one of the least affordable in the nation, with the greatest gap between the average renter wage and the estimated wage needed to afford the average two-bedroom rent in 2018, without paying more than 30 percent of income towards rent (National Low Income Housing Coalition).

During the second quarter of 2018 (preliminary data)—

- Multifamily permitting decreased 7 percent, to 20,900 units, compared with a 20-percent increase during the second quarter of 2017. By comparison, the number of units permitted nationally increased 3 percent from the second quarter of 2018 following a 4-percent increase during the same period a year earlier.
- California accounted for 80 percent of the multifamily units permitted in the region. Multifamily permitting activity in the state decreased almost 6 percent to 16,800 units. By comparison, multifamily permitting increased 43 percent during the second quarter of 2017, when multifamily permitting in the state was at a record high level during a second quarter since 1997, when the state began reporting permitting activity.
- The number of multifamily units permitted in Arizona decreased 14 percent to 2,450 units compared with a 24-percent decline during the second quarter of 2017.
- In Nevada, the number of multifamily units permitted decreased 27 percent, to 1,225 units. Much of the decline was due to slowing multifamily construction activity in the Las Vegas-Henderson-Paradise metropolitan area, where permitting declined by almost one-half and accounted for 49 percent of all multifamily permitting in the state, down from 71 percent during the second quarter of 2017.
- The only state to record an increase in multifamily permitting was Hawaii, where 410 permits were issued, more than double the 170 units permitted during the second quarter of 2017. Expanded multifamily permitting activity in the Urban Honolulu metropolitan area contributed to 95 percent of the total gain in statewide permitting activity.