HUD PD&R **Regional Reports**

Region 9: Pacific

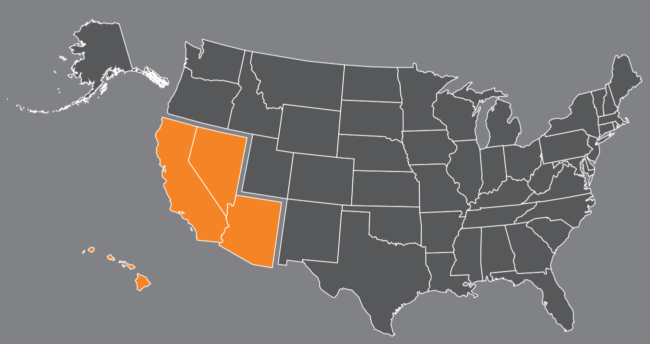
Phoenix, Arizona

By Elaine Ng | 2nd Quarter 2019

Quick Facts About Region 9

- **Sales market conditions—**
  Second quarter 2019: mixed (balanced to tight)
  First quarter 2019: mixed (balanced to tight)
  Second quarter 2018: mixed (slightly soft to tight)

- **Apartment market conditions—**
  Second quarter 2019: mixed (slightly tight to tight)
  First quarter 2019: mixed (slightly tight to tight)
  Second quarter 2018: mixed (balanced to tight)



Overview

Economic conditions remained strong in the Pacific region during the second quarter of 2019, and nonfarm payrolls have posted continuous year-over-year increases since the fourth quarter of 2010. After lagging behind the national growth rate for the first time in 7 years during the first quarter of 2019, the rate of job gains in the Pacific region outpaced that of the nation during the second quarter of 2019. California continued to contribute most of the jobs and growth in the region, accounting for 78 percent of jobs and 68 percent of the net job growth during the second quarter of 2019; by comparison, during the second quarter of 2018, those contributions were 77 and 73 percent, respectively. Sales housing market conditions remained nearly unchanged from a year ago, ranging from balanced to tight; however, sales in the region declined because of high home prices. Despite rising sales prices, single-family homebuilding activity, as measured by homes permitted, decreased in the region overall as a modest increase in Hawaii was not enough to offset declines in the other three states. Apartment market conditions were tight throughout much of the region, and vacancy rates declined in 8 of the 10 markets cited in this report. Average apartment rents increased in all the largest markets in the region but exceeded the national growth rate in only 2 of the 10 largest markets.

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- Nearly every nonfarm payroll sector in the region added jobs during the second quarter of 2019, with the largest gains occurring in the professional and business services and the education and health services sectors. The wholesale and retail trade sector was the only one to lose jobs, continuing a trend of weakening sector growth.
- Home sales in the region declined 9 percent from a year earlier during the 12 months ending May 2019, to 746,600 homes sold; however, average home sales prices rose in all states of the region. Single-family homebuilding activity in the region, as measured by the number of homes permitted, decreased 8 percent from a year earlier, to 26,100 homes during the second quarter of 2019.
- Multifamily permitting declined 20 percent in the region during the second quarter of 2019, due entirely to fewer units being permitted in California, where permitting decreased by 41 percent. The combined increase in all other states of the region was not sufficient to offset the decline because California accounts for nearly two-thirds of all multifamily permitting in the region. By comparison, multifamily permitting activity declined 4 percent nationwide.

Economic Conditions

Economic conditions in the Pacific region began to improve from the Great Recession during the fourth quarter of 2010 and have remained strong since then. All four states in the region added jobs in the second quarter of 2019, with total nonfarm payrolls increasing by 411,800 jobs, or 1.9 percent, to nearly 22.5 million jobs. This rate was slower than the 2.2-percent growth in nonfarm payrolls in the region a year earlier. During the second quarter of 2019, nonfarm payroll growth in the region accounted for 18 percent of job growth nationally, slightly smaller than the 20-percent share during the second quarter of 2018. The education and health services and the professional and business services sectors accounted for the greatest job gains in the region during the second quarter of 2019, adding 100,600 and 94,700 jobs, or 3.0 and 2.8 percent, respectively. Growth in these sectors was driven by job gains in California, which accounted for 73 percent of the job additions in these sectors in the region. The healthcare and social assistance industry accounted for 85 percent of the net gain in jobs in the education and health services sector in the region, largely in response to continued regional population growth. Multiple construction developments across the region contributed to a gain of 65,200 jobs, or 5.5 percent, in the mining, logging, and construction sector, the fastest growing sector in the region during the second quarter of 2019. The sector has posted annual payroll gains each quarter since the second quarter of 2011, but current employment levels are 13 percent below the pre-recession peak of 1.44 million jobs during the third quarter of 2006.

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All sectors in the Pacific region added jobs during the second quarter of 2019, except the wholesale and retail trade sector.

	Second Quarter		Year-Over-Year Change	
	2018 (Thousands)	2019 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	22,043.4	22,455.2	411.8	1.9
Goods-Producing Sectors	2,748.1	2,837.8	89.7	3.3
Mining, Logging, & Construction	1,188.7	1,253.9	65.2	5.5
Manufacturing	1,559.5	1,583.9	24.4	1.6
Service-Providing Sectors	19,295.3	19,617.4	322.1	1.7
Wholesale & Retail Trade	3,056.7	3,045.9	-10.8	-0.4
Transportation & Utilities	865.8	889.9	24.1	2.8
Information	607.4	623.8	16.4	2.7
Financial Activities	1,153.9	1,155.0	1.1	0.1
Professional & Business Services	3,341.7	3,436.4	94.7	2.8
Education & Health Services	3,389.7	3,490.3	100.6	3.0
Leisure & Hospitality	2,809.9	2,864.5	54.6	1.9
Other Services	738.7	745.8	7.1	1.0
Government	3,331.4	3,365.8	34.4	1.0

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

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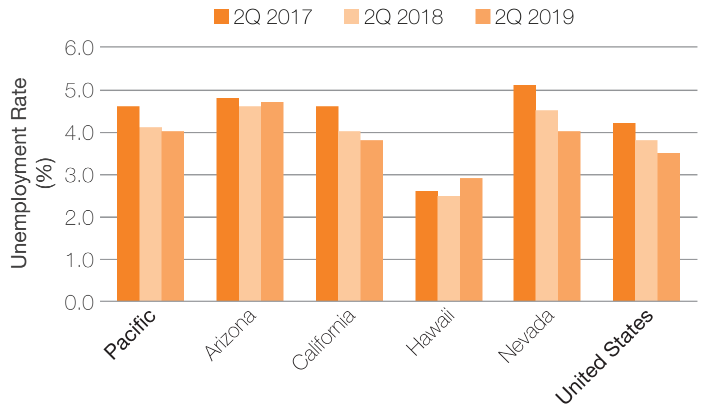
The unemployment rate in the region averaged 4.0 percent during the second quarter of 2019, down from the 4.1-percent rate a year earlier but higher than the national average of 3.5 percent. Despite a 0.4-percentage-point rise in the unemployment rate, Hawaii had the lowest unemployment rate in the region, at 2.9 percent, and the ninth lowest rate in the nation. The unemployment rate rose slightly in Arizona, from 4.6 to 4.7 percent, and was the highest rate in the region and the fifth highest in the nation. Compared with a year earlier, the unemployment rates declined in both California, from 4.0 to 3.8 percent, and Nevada, from 4.5 to 4.0 percent.

During the second quarter of 2019—

- California added 281,400 jobs, a gain of 1.6 percent, lower than the 2.1-percent rate of growth a year earlier. The education and health services and the professional and business services sectors, combined, accounted for more than one-half of the job growth in the state, expanding by 76,700 and 65,900 jobs, or 2.8 and 2.5 percent, respectively. Hospital expansions currently underway include a $215 million, 150,000-square-foot patient tower at Los Angeles-based Dignity Health-California Hospital Medical Center that will increase the number of beds in the trauma center by 51 percent. In the professional and business services sector, payrolls in the scientific and technical services industry increased by 50,600 jobs, or 3.3 percent, accounting for 53 percent of total sector growth.
- Nonfarm payrolls in Arizona increased by 76,600 jobs, or 2.7 percent, from a year ago, a slightly larger increase than the gain of 71,800 jobs, or 2.6 percent, during the second quarter of 2018. The education and health services sector and the construction subsector led job growth in the state, adding 20,200 and 19,100 jobs, or 4.6 and 12.2 percent, respectively. In addition to new hospitals and campus expansions, jobs supporting the healthcare system have contributed to sector growth, including three new plasma donation centers from BioLife Plasma Services, that opened in May 2019 in the Phoenix-Mesa-Scottsdale metropolitan area, employing 140 people.

The unemployment rates declined in California and Nevada but increased in Arizona and Hawaii, resulting in a small decline regionwide.



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

- In Nevada, nonfarm payrolls expanded by 50,600 jobs, or 3.7 percent. The construction subsector and the professional and business services sector added the most jobs in the state, up by 14,300 and 11,100 jobs, or 7.7 and 12.5 percent, respectively. Construction activity in the Las Vegas-Henderson-Paradise metropolitan area is responsible for much of the job growth; one-half of the increase in construction jobs statewide occurred in the metropolitan area.
- Hawaii added 3,200 nonfarm payroll jobs, a 0.5-percent increase. Job growth in the state has been below 1 percent since the third quarter of 2017. The government sector led job gains and contributed 57 percent of the overall growth, expanding by 1,800 jobs, or 1.4 percent. Eighty percent of the increase in the sector was attributed to growth in the state government subsector, up by 1,400 jobs, or 1.9 percent, from a year ago, with occupations ranging from social services to planning and development (State of Hawaii Department of Human Resources and Development).

Sales Market Conditions

During the second quarter of 2019, conditions in sales housing markets in the Pacific region ranged from balanced to tight. Continued economic growth has supported rising home sales prices throughout the region since 2012, but price pressures have contributed to declining or flat home sales in all the largest metropolitan areas in the region. The average home sales price in the region (including single-family homes, townhomes, and condominiums) increased 3 percent from a year earlier, to $506,800 during the 12 months ending May 2019, after a 7-percent gain during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). Home sales prices in the region were 71 percent higher than the national average, but the rate of growth in prices was the same. Nationwide, the average home sales price rose 3 percent, to $296,100, during the 12 months ending May 2019, slower than the 6-percent gain during the previous 12-month period. Average home sales prices rose in all four states of the region, with the fastest price gain occurring in Nevada, where prices increased by $24,600, or 8 percent, to $324,400. Average home sales prices also increased in all major metropolitan areas cited in this report, ranging from a 1-percent increase in Urban Honolulu to a 9-percent gain in Las Vegas-Henderson-Paradise.

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During the 12 months ending May 2019, the number of home sales in the Pacific region decreased 9 percent from a year earlier, to approximately 746,600 homes sold, following a 4-percent gain during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). Overall, the decline in home sales in the region was greater than in the nation, where sales decreased 5 percent, following a 2-percent gain a year earlier. Lower levels of regional home sales were primarily in response to rising home sales prices that are significantly higher than the national average. Home sales declined 4 percent in Arizona, 8 percent in Nevada, 11 percent in California, and 14 percent in Hawaii, where home sales volumes are typically volatile due to the small number of transactions. The 10 largest metropolitan areas in the region all had decreased home sales, and the more expensive markets typically had more significant drops in sales. The greatest decline in sales, of 15 percent, occurred in the San Jose-Sunnyvale-Santa Clara metropolitan area, where the average home price of $1.2 million was the highest among the metropolitan areas. Home sales declines ranged from 11 to 12 percent in 5 of the largest California markets, including Los Angeles-Long Beach-Anaheim, Riverside-San Bernardino-Ontario, San Diego-Carlsbad, Oxnard-Thousand Oaks-Ventura, and Sacramento–Roseville–Arden-Arcade, and accounted for a combined 52 percent of the net decrease in sales statewide. Similarly, home sales were down 12 percent in Urban Honolulu, accounting for 53 percent of the total decline in Hawaii sales. Sales declined the least in the Phoenix-Mesa-Scottsdale metropolitan area, falling 3 percent from a year earlier.

The number of distressed sales (real estate owned [REO] and short sales) in the region declined significantly during the past year because fewer such properties were in the for-sale inventory. During the 12 months ending May 2019, REO sales fell 22 percent and short sales declined 31 percent, after decreases of 38 and 68 percent, respectively, during the previous 12-month period. Nationwide, by comparison, the number of REO sales fell 21 percent, and short sales fell 13 percent during the 12 months ending May 2019. The percentage of seriously delinquent mortgage loans (90 or more days delinquent or in foreclosure) and REO properties in the region declined from 1.0 percent in May 2018 to 0.7 percent in May 2019. The national percentage declined by 0.6 percentage point to 1.4 percent. In the region, the percentage of seriously delinquent mortgage loans and REO properties was highest in Hawaii, at 2.0 percent, down from 2.4 percent a year ago. The regional rate reflected lower rates in Arizona and California of 0.6 and 0.7 percent, respectively.

During the second quarter of 2019 (preliminary data)—

- Single-family homebuilding activity in the region, as measured by the number of homes permitted, decreased 8 percent from a year earlier, to 26,100 homes, compared with a 3-percent gain during the second quarter of 2018. The number of homes permitted nationally declined 5 percent from a year earlier after a 7-percent gain during the second quarter of 2018.

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Sales market conditions ranged from balanced to tight as average prices rose while home sales declined in all of the same areas.

		Number of Homes Sold				Price		
	12 Months Ending	2018	2019	Percent Change	Average or Median	2018 ($)	2019 ($)	Percent Change
Urban Honolulu, HI (N&E)[a]	May	13,274	11,673	-12	AVG	675,399	679,559	1
Las Vegas-Henderson-Paradise, NV (N&E)[a]	May	64,083	58,530	-9	AVG	293,563	320,193	9
Phoenix-Mesa-Scottsdale, AZ (N&E)[a]	May	136,375	131,672	-3	AVG	298,721	318,206	7
Los Angeles-Long Beach-Anaheim, CA (N&E)[b]	May	80,014	71,422	-11	AVG	809,083	843,768	4
Riverside-San Bernardino-Ontario, CA (N&E)[a]	May	83,327	73,319	-12	AVG	365,671	381,740	4
San Diego-Carlsbad, CA (N&E)[a]	May	44,495	39,728	-11	AVG	648,810	671,182	3
Oxnard-Thousand Oaks-Ventura, CA (N&E)[a]	May	10,865	9,528	-12	AVG	649,475	656,848	1
San Francisco-Oakland-Hayward, CA (N&E)[b]	May	47,202	43,708	-7	AVG	1,107,431	1,151,547	4
San Jose-Sunnyvale-Santa Clara, CA (N&E)[a]	May	21,308	18,159	-15	AVG	1,170,321	1,213,377	4
Sacramento–Roseville–Arden-Arcade, CA (N&E)[a]	May	46,194	41,317	-11	AVG	427,037	446,439	5

AVG = average. N&E = new and existing.
Note: Data include single-family homes, townhomes, and condominiums.
Sources: (a) CoreLogic, Inc. with adjustments by the analyst; (b) Metrostudy, A Hanley Wood Company, with adjustments by the analyst

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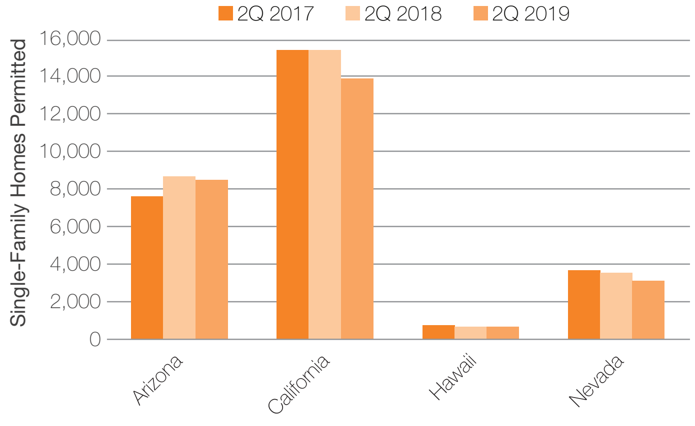
- Much of the decline was due to lower single-family homebuilding activity in California, which accounted for 71 percent of the decline in the region. The number of single-family homes permitted in California fell 10 percent, to 13,850 homes during the second quarter of 2019, after remaining unchanged during the same period a year earlier. A 13-percent decline in single-family permitting in the Los Angeles-Long Beach-Anaheim metropolitan area, where 2,550 homes were permitted, accounted for 18 percent of the overall statewide decrease.
- Single-family permitting declined by 460 and 200 homes, or 13 and 2 percent, respectively, in Nevada and Arizona, compared with a decrease of 3 percent in Nevada and an increase of 14 percent in Arizona during the second quarter of 2018.
- Hawaii was the only state in the region where single-family homebuilding activity increased, growing 3 percent to 650 homes, after a decrease of 17 percent during the same period a year earlier.

Single-family permitting declined in every state of the region except Hawaii.



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 slightly tight to tight during the second quarter of 2019, compared with balanced to tight conditions during the second quarter of 2018, when the apartments markets in Las Vegas-Henderson-Paradise and Phoenix-Mesa-Scottsdale metropolitan areas were balanced. Higher home sales prices continue to make homeownership less attainable in the region, contributing to increased rental demand and tighter apartment market conditions. Apartment vacancy rates declined in 8 of the 10 major metropolitan areas included in this report, and all 10 areas had vacancy rates below the national average of 4.0 percent (RealPage, Inc.). The vacancy rate declined the most in the Urban Honolulu metropolitan area, where market conditions are tight and the vacancy rate dropped 2.1 percentage points, to 3.9 percent. In the Phoenix-Mesa-Scottsdale and Las Vegas-Henderson-Paradise metropolitan areas, conditions were balanced during the second quarter of 2018 but have since tightened, with vacancy rates falling 1.0 and 0.9 percentage point, to 3.7 and 3.9 percent, respectively.

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Apartment vacancy rates declined in 8 out of the 10 largest markets of the region, while average rents increased in all 10 markets.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2018 (%)	2Q 2019 (%)	Percentage Point Change	2Q 2018 ($)	2Q 2019 ($)	Percent Change
Urban Honolulu	Tight	6.0	3.9	-2.1	2,129	2,151	1
Las Vegas-Henderson-Paradise	Slightly Tight	4.8	3.9	-0.9	984	1,087	10
Phoenix-Mesa-Scottsdale	Slightly Tight	4.7	3.7	-1	1,032	1,140	10
Los Angeles-Long Beach-Anaheim	Tight	3.8	3.6	-0.2	2,118	2,203	4
Riverside-San Bernardino-Ontario	Tight	3.5	3.3	-0.2	1,459	1,529	5
San Diego-Carlsbad	Tight	3.3	3.5	0.2	1,929	2,001	4
Oxnard-Thousand Oaks-Ventura	Tight	3.1	3.0	-0.1	1,932	1,995	3
San Francisco-Oakland-Hayward	Tight	3.7	3.6	-0.1	2,711	2,821	4
San Jose-Sunnyvale-Santa Clara	Tight	3.4	3.6	0.2	2,831	2,893	2
Sacramento—Roseville—Arden-Arcade	Tight	3.6	3.3	-0.3	1,393	1,463	5

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

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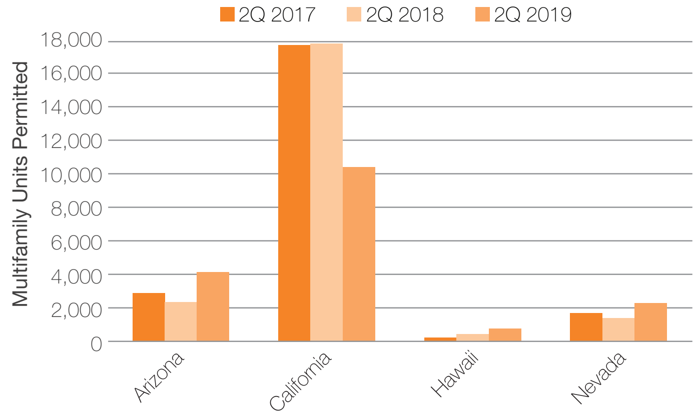
As tight market conditions prevailed in most of the region, average rents increased in all major metropolitan areas in the region during the second quarter of 2019. In the most affordable markets of the region, the average rent increases equaled or exceeded the 5-percent rate of growth in the nation. Rents increased 10 percent in both the Phoenix-Mesa-Scottsdale and the Las Vegas-Henderson-Paradise metropolitan areas and 5 percent in the Riverside-San Bernardino-Ontario and Sacramento–Roseville–Arden-Arcade metropolitan areas from a year earlier. In the other metropolitan areas in the region, where rents grew slower than the national rate, average rent growth ranged from 1 percent in the Urban Honolulu metropolitan area to 4 percent in the San Francisco-Oakland-Hayward, San Diego-Carlsbad, and Los Angeles-Long Beach-Anaheim metropolitan areas, which are among the highest cost areas in the nation.

During the second quarter of 2019 (preliminary data)—

- Multifamily permitting declined 20 percent from a year earlier in the region, to 17,550 units, compared with a smaller, 2-percent, decrease during the second quarter of 2018. By comparison, the number of units permitted nationally declined 4 percent following a 6-percent increase during the same period a year earlier.
- California accounted for 60 percent of the multifamily units permitted in the region, compared with 81 percent during the second quarter of 2018. Multifamily permitting activity in the state declined 41 percent to 10,500 units and accounted for all the decline in the region, whereas multifamily permitting activity rose in every other state of the region. By comparison, multifamily permitting in California remained relatively unchanged from a year earlier during the second quarter of 2018.
- Multifamily permitting activity increased significantly in all other states of the region. In Arizona, multifamily permitting increased 75 percent to 4,100 units, with the entire statewide increase attributable to the 93-percent increase in the Phoenix-Mesa-Scottsdale metropolitan area.
- In Nevada, multifamily permitting increased 63 percent, to 2,275 units, and, in Hawaii, the increase was 74 percent, to 710 units. Multifamily permitting activity in the largest metropolitan areas of these states were responsible for much of the statewide increases; the 41-percent increase in multifamily permitting in the Las Vegas-Henderson-Paradise metropolitan area accounted for more than one-third of the overall increase in Nevada, while the nearly three-fold increase in the Urban Honolulu metropolitan area accounted for the entire increase in Hawaii.

Multifamily permitting declined in the region due entirely to the decline in California, whereas permitting increased in the three other states of the region.



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Source: U.S. Census Bureau, Building Permits Survey