HUD PD&R **Regional Reports**

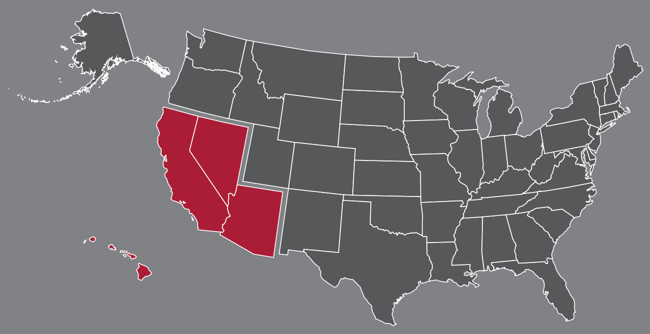
Region 9: Pacific

Phoenix, Arizona

Quick Facts About Region 9

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

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



By Wendy Ip | 3rd quarter 2018

Overview

Economic conditions remained strong in the Pacific region during the third quarter of 2018, as nonfarm payrolls have continued to expand year-over-year every quarter since the fourth quarter of 2010. California represented 78 percent of jobs in the region and contributed 70 percent of net job growth during the third quarter of 2018. Sales housing market conditions remained nearly unchanged from a year ago despite an overall decline in regional sales resulting from limited inventory of homes for sale in California and softening market conditions in Hawaii due to net out-migration from the state. Single-family homebuilding activity increased in all states in the region in response to low existing inventory of homes for sale, except for a slight decline in Nevada. Apartment market conditions were tight throughout much of the region, and vacancy rates declined in all 10 of the largest markets cited in this report. Average rent growth in major metropolitan areas in the region generally exceeded the national rate during the past year, including two of the most expensive markets of the region.

- Every payroll sector in the region added jobs during the third quarter of 2018, with the largest gains occurring in the education and health services sector, marking the 15th

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consecutive quarter that the sector added the most jobs in the region. Expansions in the sector were supported by the rising need for healthcare services.

- Home sales in the region declined 2 percent during the 12 months ending August 2018 to 788,100 homes sold. Growth in California, where home prices are more than twice than the national average, led increases in average home sales prices in every state in the region. Single-family homebuilding activity in the region, as measured by the number of homes permitted, increased 9 percent to 25,050 homes permitted during the third quarter of 2018.
- Multifamily permitting declined 16 percent in the region during the third quarter of 2018 because of reduced development in three of the four states in the region, compared with a 7-percent decrease nationally. Despite the decline, multifamily development in the region continues to account for 14 percent of all multifamily development in the nation, similar to the annual average proportion from 2010 through 2017.

Economic Conditions

Economic conditions in the Pacific region, which began to improve during the fourth quarter of 2010, remained strong during the third quarter of 2018. All four states in the region added jobs, with total nonfarm payrolls increasing by 470,700 jobs, or 2.2 percent, to 22.0 million jobs. This rate is slightly higher than the 2.0-percent growth in nonfarm payrolls in the region a year earlier. Overall, during the third quarter of 2018, nonfarm payroll growth in the region accounted for 19 percent of the net increase in jobs nationally, where jobs were up 1.7 percent compared with 1.5 percent during the third quarter of 2017. The education and health services sector accounted for the largest share of net job gains in the region during the third quarter of 2018, up by 99,400 jobs, or 3.0 percent. The healthcare and social assistance industry accounted for 86 percent of the net gain in jobs in the sector, largely in response to continued regional population growth. Single-family residential construction activity increased in the region and contributed to a gain of 63,000 jobs, or 5.5 percent, in the mining, logging, and construction sector, the fastest growth sector in the region during the third quarter of 2018. The sector has added jobs year-over-year each quarter since the second quarter of 2011, but levels are 26 percent below the peak of 1.44 million jobs averaged during the third quarter of 2006. The professional and business services sector accounted for the second largest share of job gains in the region, up by 93,100 jobs, or 2.9 percent, mainly from growth in California, which accounted for two-thirds of sector gains in the region.

The unemployment rate in the region averaged 4.3 percent during the third quarter of 2018, down from 4.8 percent a year earlier but higher than the national average of 3.9 percent. At 2.3 percent, Hawaii had the lowest average unemployment rate in the region and the nation, unchanged from a year ago. The unemployment rate declined in California from 4.8 to 4.2 percent and in Nevada from 5.0 to 4.5 percent. The highest unemployment rate in the region and the fourth highest in the nation was in Arizona, at 5.1 percent, unchanged from a year ago.

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All nonfarm payroll sectors in the Pacific region recorded year-over-year growth during the third quarter of 2018, led by gains in the education and health services sector.

	Third Quarter		Year-Over-Year Change	
	2017 (thousands)	2018 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	21,533.4	22,004.1	470.7	2.2
Goods-producing sectors	2,708.2	2,788.0	79.8	2.9
Mining, logging, and construction	1,153.1	1,216.1	63.0	5.5
Manufacturing	1,555.1	1,571.9	16.8	1.1
Service-providing sectors	18,825.2	19,216.1	390.9	2.1
Wholesale and retail trade	3,100.4	3,117.3	16.9	0.5
Transportation and utilities	825.8	856.8	31.0	3.8
Information	599.6	613.9	14.3	2.4
Financial activities	1,143.2	1,151.8	8.6	0.8
Professional and business services	3,265.4	3,358.5	93.1	2.9
Education and health services	3,267.3	3,366.7	99.4	3.0
Leisure and hospitality	2,767.4	2,848.3	80.9	2.9
Other services	724.0	724.2	0.2	0.0
Government	3,132.1	3,178.7	46.6	1.5

Source: U.S. Bureau of Labor Statistics

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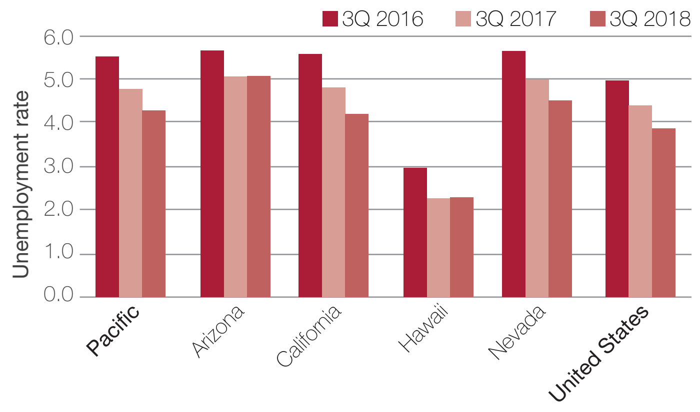
During the third quarter of 2018—

- California added 327,700 jobs, a gain of 2.0 percent, and the same rate of growth as a year earlier. The education and health services and the professional and business services sectors accounted for 45 percent of net job growth in the state, expanding by 76,700 and 69,400 jobs, or 2.9 and 2.7 percent, respectively. Statewide expansions at Kaiser Permanente®, Dignity Health Group, and St. Joseph Health during the past year resulted in approximately 4,925 combined jobs announced as of September 2018 (California Employment Development Department). In the professional and business services sector, payrolls in the scientific and technical services industry increased by 32,100 jobs, or 2.6 percent, accounting for 46 percent of total sector growth. Approximately 1.7 million workers, or 9 percent of the workforce in the state, are employed in the high-tech industry, making California the state with the greatest number of high-tech employees in the nation (2017, CompTIA).
- Nonfarm payrolls in Arizona increased by 81,500 jobs, or 3.0 percent, from a year ago, greater than the gain of 63,900 jobs, or 2.4 percent, during the third quarter of 2017. The education and health services sector and the construction subsector led job growth in the state, adding 14,300 and 15,700 jobs, or 3.4 and 10.6 percent, respectively. In addition to increased residential development, the Arizona healthcare industry has expanded, with developments including the Mercy Gilbert Pediatric Outpatient Center at the Phoenix Children's Hospital, which opened earlier in 2018. Construction growth is expected to continue as Banner Health, the largest employer in Arizona with 19 hospitals and 50,000 employees throughout the state, plans to invest more than $1 billion in infrastructure during the next 5 years in Phoenix and Tucson (University of Phoenix). Developments under way include Banner Estrella Medical Plaza II in Phoenix, which will include a four-story medical office building that is expected to open in December 2018.

The unemployment rate declined or remained unchanged in every state in the Pacific region during the third quarter of 2018, with the 2.3-percent rate in Hawaii as the lowest in the nation.



3Q = third quarter.
Source: U.S. Bureau of Labor Statistics

- In Nevada, nonfarm payrolls expanded by 48,700 jobs, or 3.6 percent. The mining, logging, and construction sector added the most jobs in the state, up 9,600, or 9.6 percent, compared with the previous year, with virtually all gains in the construction subsector. The $1.9 billion Las Vegas Raiders football stadium that began construction in late 2017 contributed to job gains. When complete in 2020, the stadium is anticipated to attract 451,400 new visitors annually, directly and indirectly support 6,000 jobs, and have an economic impact of $620 million annually (Applied Analysis).
- Hawaii added 12,700 nonfarm payroll jobs, a 2.0-percent increase. The leisure and hospitality sector led job gains and accounted for 42 percent of overall growth, expanding by 5,300 jobs, or 4.3 percent. Total tourism spending in the state rose 6 percent from a year earlier to nearly $4.7 billion during the third quarter of 2018 (Hawaii Tourism Authority).

Sales Market Conditions

During the third 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 softening of the market in Hawaii, which transitioned from balanced to slightly soft in the past year. The average home sales price for the region (including single-family homes, townhomes, and condominiums) increased 7 percent, to $502,300, during the 12 months ending August 2018, after a 4-percent gain during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). Home sales prices in the region were nearly 70 percent higher than the national average, but the rate of growth in prices was similar. The average home sales price rose 6 percent in the nation, to $292,800, during the 12 months ending August 2018, slightly higher than the 5-percent gain during the previous year. Average home sales prices rose in all four states in the region, with the highest price gain occurring in California, which increased by $44,550, or 8 percent, to $615,200. Among the major metropolitan areas in the region, average home sales prices rose from 5 percent in the Oxnard-Thousand Oaks-Ventura metropolitan area—where conditions were slightly soft—to 17 percent in the San Jose-Sunnyvale-Santa Clara metropolitan area, where conditions were tight.

During the 12 months ending August 2018, the number of home sales in the Pacific region decreased 2 percent from a year earlier, following a 6-percent gain during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). Overall, the

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Average sales prices in all 10 of the largest metropolitan areas in the Pacific region increased 5 percent or more, suppressing home sales in all but two markets.

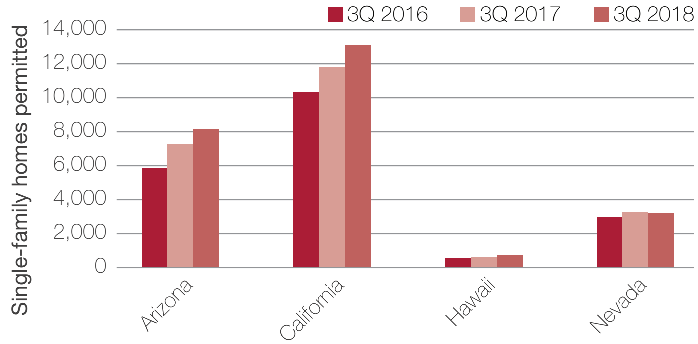
	12 Months Ending	Number of Homes Sold			Price			
		2017	2018	Percent Change	Average or Median	2017 ($)	2018 ($)	Percent Change
Urban Honolulu, HI (N&E)	August	12,826	10,546	– 18	AVG	654,385	695,001	6
Las Vegas-Henderson-Paradise, NV (N&E)	August	61,918	62,957	2	AVG	266,574	301,922	13
Phoenix-Mesa-Scottsdale, AZ (N&E)	August	131,467	134,348	2	AVG	283,069	305,469	8
Los Angeles-Long Beach-Anaheim, CA (N&E)	August	114,684	110,693	– 3	AVG	793,711	849,863	7
Riverside-San Bernardino-Ontario, CA (N&E)	August	81,516	78,196	– 4	AVG	350,272	374,165	7
San Diego-Carlsbad, CA (N&E)	August	44,668	42,438	– 5	AVG	619,956	656,444	6
Oxnard-Thousand Oaks-Ventura, CA (N&E)	August	11,083	10,218	– 8	AVG	623,037	656,100	5
San Francisco-Oakland-Hayward, CA (N&E)	August	54,021	53,468	– 1	AVG	900,615	1,010,833	12
San Jose-Sunnyvale-Santa Clara, CA (N&E)	August	20,985	20,399	– 3	AVG	1,026,832	1,205,737	17
Sacramento–Roseville–Arden-Arcade, CA (N&E)	August	45,261	45,166	0	AVG	396,092	438,698	11

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

rate of decline in home sales in the region was the same as that in the nation, which also decreased 2 percent, following a 4-percent gain a year earlier. Lower levels of regional home sales were partly in response to rising home sales prices and a 5-percent reduction in available inventory of homes for sale compared with the previous year, with California accounting for nearly one-half of the reduced regional inventory. Overall, home sales in California and Hawaii were down 3 and 14 percent, respectively, which offset a 1-percent gain in both Arizona and Nevada. Among the 10 largest metropolitan areas in the region, 7 had decreased home sales, with the greatest decline occurring in the Urban Honolulu metropolitan area, down 18 percent and accounting for 82 percent of the net reduction in sales in Hawaii. In the Los Angeles-Long Beach-Anaheim and Riverside-San Bernardino-Ontario metropolitan areas, home sales decreased 3 and 4 percent, respectively, during the 12 months ending August 2018 and accounted for more than 45 percent of the net loss in sales in California. The San Jose-Sunnyvale-Santa Clara metropolitan area had a 3-percent reduction in home sales while sales in the San Francisco-Oakland-Hayward metropolitan area fell 1 percent. Home sales increased in the Phoenix-Mesa-Scottsdale and Las Vegas-Henderson-Paradise metropolitan areas, which were both up 2 percent and accounted for nearly the entire net gain in respective statewide sales in Arizona and Nevada.

Overall, there were regionwide reductions in the number of distressed sales (real estate owned [REO] and short sales), resulting from fewer distressed properties on the market. During the 12 months ending August 2018, REO sales fell 38 percent and short sales declined 61 percent, after decreases of 28 and 58 percent, respectively, during the previous 12-month period. Nationwide, by comparison, the number of REO sales fell 29 percent, and short sales fell 40 percent during the 12 months ending August 2018. 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 point, from 1.2 percent in August 2017 to 0.9 percent in August 2018. The national percentage declined by 0.5 percentage point to 1.8 percent. In the region, the percentage of seriously delinquent mortgage loans and REO properties was highest in Hawaii, at 2.3 percent, down from 2.8 percent a year ago. The regional rate reflected the lower rates in Arizona and California of 0.9 and 0.8 percent, respectively.

Year-over-year single-family permitting increased 9 percent in the Pacific region during the third quarter of 2018 because of gains in three of the four states in the region.



3Q = third quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

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During the third quarter of 2018 (preliminary data)—

- Single-family homebuilding activity, as measured by the number of homes permitted, increased 9 percent in the region, to 25,050 homes, from a year earlier, lower than the 17-percent gain during the third quarter of 2017. By comparison, the number of homes permitted nationally increased 5 percent from a year earlier after a 7-percent gain in the third quarter of 2017.
- Approximately 52 percent of the single-family homes permitted in the region were in California, unchanged from the statewide contribution during the third quarter of 2017. The number of single-family homes permitted in California rose to 13,050, an 11-percent increase from the third quarter of 2017, after a 15-percent gain during the same period a year earlier.
- Hawaii had the fastest growth in single-family permitting, despite softening sales market conditions, because of strong demand for new seasonal homes, followed by Arizona, and the number of single-family homes permitted increased 15 and 12 percent to 700 and 8,100 homes, respectively.
- Single-family permitting declined slightly by 50 homes, or 2 percent, in Nevada to 3,200 homes, down from an 11-percent increase a year earlier.

Apartment Market Conditions

Apartment market conditions in the largest metropolitan areas in the Pacific region ranged from slightly tight to tight during the third quarter of 2018, compared with balanced to tight conditions during the third quarter of 2017. Higher home sales prices have generally made homeownership more difficult in the region, contributing to tighter apartment market conditions. Vacancy rates among all 10 major metropolitan areas included in this report declined; 8 of them had rates that were below the national average of 4.1 percent (RealPage, Inc.), despite an increase in the number of apartments completed during the past 12 months. Vacancy rates declined the most in the Urban Honolulu and Phoenix-Mesa-Scottsdale metropolitan areas in response to rising rental demand. In Urban Honolulu, where conditions tend to fluctuate depending on seasonal demand, apartment completions rose to 84 units during the third quarter of 2018 from 26 units during the third quarter of 2017, whereas the vacancy rate declined 2.3 percentage points to 3.5 percent as demand outpaced completions. In the Phoenix-Mesa-Scottsdale metropolitan area, where market conditions transitioned from balanced to slightly tight, nearly 1,900 apartments were completed during the third quarter of 2018, compared with 1,275 apartments a year earlier, whereas vacancy rates declined 1.0 percentage point to 4.4 percent.

As generally tight market conditions prevailed in the region, average rent increases exceeded the national rate of 4 percent in six of the major metropolitan areas in the region during the third quarter of 2018. The highest rate of rent growth occurred in the Las Vegas-Henderson-Paradise and Phoenix-Mesa-Scottsdale metropolitan areas, where apartment market conditions supported a 7-percent increase in rents. Despite the gain, both apartment market areas remain among the most affordable in the region, with rents at least 25 percent below other major metropolitan areas in the region. In the other four metropolitan areas with higher-than-national rent increases, the growth in the average rent was 5 percent, including in San Francisco-Oakland-Fremont, where rents are among the

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Rents increased at least 5 percent in 6 of the 10 major metropolitan areas in the Pacific region during the third quarter of 2018.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2017 (%)	3Q 2018 (%)	Percentage Point Change	3Q 2017 ($)	3Q 2018 ($)	Percent Change
Urban Honolulu	Tight	5.8	3.5	– 2.3	1,867	1,892	1
Las Vegas-Henderson-Paradise	Tight	5.2	4.4	– 0.8	945	1,012	7
Phoenix-Mesa-Scottsdale	Slightly Tight	5.4	4.4	– 1.0	987	1,056	7
Los Angeles-Long Beach-Anaheim	Tight	3.7	3.5	– 0.2	2,073	2,153	4
Riverside-San Bernardino-Ontario	Tight	3.8	3.3	– 0.5	1,398	1,472	5
San Diego-Carlsbad	Tight	3.8	3.2	– 0.6	1,890	1,982	5
Oxnard-Thousand Oaks-Ventura	Tight	3.8	3.1	– 0.7	1,873	1,930	3
San Francisco-Oakland-Hayward	Tight	3.8	3.5	– 0.3	2,634	2,754	5
San Jose-Sunnyvale-Santa Clara	Tight	3.9	3.5	– 0.4	2,712	2,860	5
Sacramento-Roseville-Arden-Arcade	Tight	3.4	3.3	– 0.1	1,342	1,402	4

3Q = third quarter.
Sources: market condition—Economic and Market Analysis Division; vacancy rate and average monthly rent—RealPage, Inc.

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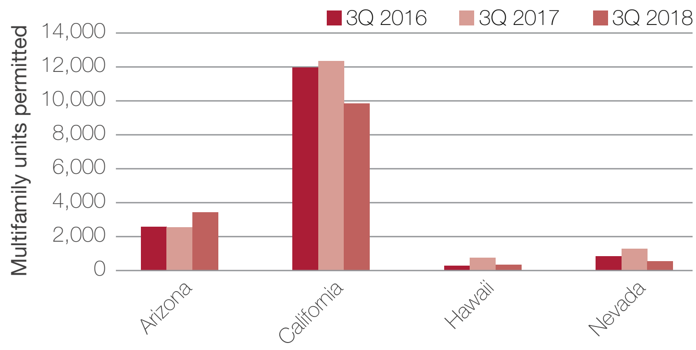
highest in the nation. Rent growth was slowest in the Urban Honolulu metropolitan area, up 1 percent during the third quarter of 2018, partly in response to existing high rents, which were the sixth highest in the region.

During the third quarter of 2018 (preliminary data)—

- Multifamily permitting declined 16 percent, to 14,200 units, compared with a 7-percent increase during the third quarter of 2017. By comparison, the number of units permitted nationally decreased 7 percent from the third quarter of 2018 following a 5-percent decline during the same period a year earlier.
- California accounted for 69 percent of the multifamily units permitted in the region, compared with 73 percent during the third quarter of 2017. Multifamily permitting activity in the state declined 20 percent to 9,825 units and accounted for 92 percent of the decrease in the region. By comparison, multifamily permitting increased 3 percent during the third quarter of 2017.
- In Nevada, where multifamily permitting can fluctuate significantly, the number of units permitted decreased 59 percent, to 540 units, following a 52-percent increase during the third quarter of 2017.
- Multifamily permitting activity decreased significantly in Hawaii to 390 units, compared with 750 units permitted during the third quarter of 2017. Reduced multifamily permitting activity in the Urban Honolulu metropolitan area contributed to the entire net decline in statewide permitting activity.

Multifamily permitting activity declined in three of the four states in the Pacific region during the third quarter of 2018.



3Q = third quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

- The only state to have an increase in multifamily permitting was Arizona, where 3,450 permits were issued, 35 percent higher than the 2,550 units permitted during the third quarter of 2017. The Phoenix-Mesa-Scottsdale metropolitan area accounted for 86 percent of multifamily permitting in Arizona during the past year compared with a 93-percent contribution during the third quarter of 2017. In addition to a 590-unit increase in the Phoenix-Mesa-Scottsdale metropolitan area to 2,950 units, the number of units permitted increased by 190 and 170, respectively, in the Prescott and Tucson metropolitan areas to 200 and 260 units.