HUD PD&R **Regional Reports**

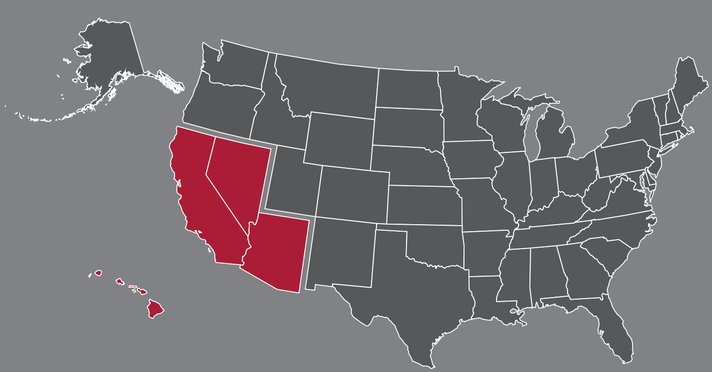
Region 9: Pacific

Los Angeles, California

Quick Facts About Region 9

- **Sales market conditions—**
  Third quarter 2020: mixed (balanced to tight)
  Second quarter 2020: mixed (balanced to tight)
  Third quarter 2019: mixed (balanced to tight)

- **Apartment market conditions—**
  Third quarter 2020: mixed (slightly soft to tight)
  Second quarter 2020: mixed (slightly soft to tight)
  Third quarter 2019: tight



By Elaine Ng | 3rd Quarter 2020

Overview

Economic conditions in the Pacific region were weak during the third quarter of 2020. The region has recovered about 38 percent of jobs lost during March and April 2020. However, many businesses that were previously shut down to slow the spread of the COVID-19 virus have reopened. Before the start of the pandemic, economic conditions in the Pacific region were strong, with year-over-year job gains in the region exceeding the national rate of job growth during each quarter from the second quarter of 2012 to the first quarter of 2020. However, during the third quarter of 2020, the 8.6-percent rate of job losses in the region outpaced the 7.0-percent decline nationwide. All states in the region lost jobs (year-over-year) during the most recent quarter, but the respective rates of job loss were notably less severe than during the second quarter of 2020 when most of the job losses from COVID-19 countermeasures occurred. California, the most populous state in the region, accounted for 82 percent of the regional decline during the third quarter of 2020 after accounting for 70 percent of all job gains regionwide during the third quarter of 2019. Sales housing market conditions in the region ranged

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from balanced to tight, unchanged from a year ago. The number of home sales in the region decreased, although home sales prices rose and single-family homebuilding activity, as measured by the number of homes permitted, increased significantly. Apartment market conditions continued to soften in the most expensive markets of the region, a trend that began during the second quarter of 2020. Apartment vacancy rates increased in 6 of the 10 markets cited in this report, although apartment rents rose in all but four of the largest markets in the region.

- Every nonfarm payroll sector in the region lost jobs during the third quarter of 2020, compared with a year earlier, with the largest decline in the leisure and hospitality sector. This generally mirrors the pattern of job losses during the second quarter of 2020.
- Home sales in the region decreased 5 percent during the 12 months ending August 2020, to 654,300 homes sold, compared with sales a year earlier, and the average home sales price rose 6 percent to $605,000 (Zonda, with adjustments by the analyst). Single-family homebuilding activity in the region, as measured by the number of homes permitted, expanded 24 percent from a year earlier to 30,900 homes during the third quarter of 2020.
- Multifamily permitting decreased 8 percent in the region during the third quarter of 2020, with declines occurring in all states of the region except Nevada. By comparison, multifamily permitting activity fell 13 percent nationwide.

Economic Conditions

Nonfarm payrolls in the Pacific region increased at a strong rate (year-over-year) during each quarter from the second quarter of 2012 through the first quarter of 2020. All states in the region subsequently introduced countermeasures to slow the spread of COVID-19, such as enforcing social distancing and discouraging nonessential travel and entertainment outings, contributing to a decline in economic activity throughout the region. Phased re-openings have since begun regionwide, although total nonfarm payrolls in the region were down by 1.9 million jobs, or 8.6 percent, during the third quarter of 2020, compared with a 1.7-percent increase a year earlier. During the third quarter of 2020, job losses in the region accounted for 18 percent of jobs lost nationally. By comparison, nonfarm payroll growth in the region accounted for 19 percent of national job growth during the third quarter of 2019. Because travel and entertainment often rely on in-person interactions, the leisure and hospitality sector, which declined by 801,500 jobs, or 27.9 percent, accounted for the largest and fastest declines in the region during the third quarter of 2020. Job losses in California accounted for 77 percent of the regionwide decline in the leisure and hospitality sector. The professional and business services, the wholesale and retail trade, and the education and health services sectors also lost significant

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The Pacific region lost jobs on a year-over-year basis during the third quarter of 2020, but the rate of job loss has slowed from the second quarter of 2020.

	Third Quarter		Year-Over-Year Change	
	2019 (Thousands)	2020 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	22,377.1	20,453.1	-1,924.0	-8.6
Goods-Producing Sectors	2,852.0	2,682.3	-169.7	-6.0
Mining, Logging, & Construction	1,266.8	1,210.5	-56.3	-4.4
Manufacturing	1,585.3	1,471.8	-113.5	-7.2
Service-Providing Sectors	19,525.1	17,770.8	-1,754.3	-9.0
Wholesale & Retail Trade	3,031.9	2,834.7	-197.2	-6.5
Transportation & Utilities	934.0	893.6	-40.4	-4.3
Information	636.0	583.3	-52.7	-8.3
Financial Activities	1,175.4	1,166.7	-8.7	-0.7
Professional & Business Services	3,453.6	3,236.3	-217.3	-6.3
Education & Health Services	3,479.5	3,332.9	-146.6	-4.2
Leisure & Hospitality	2,868.2	2,066.7	-801.5	-27.9
Other Services	745.1	616.3	-128.8	-17.3
Government	3,201.4	3,040.2	-161.2	-5.0

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

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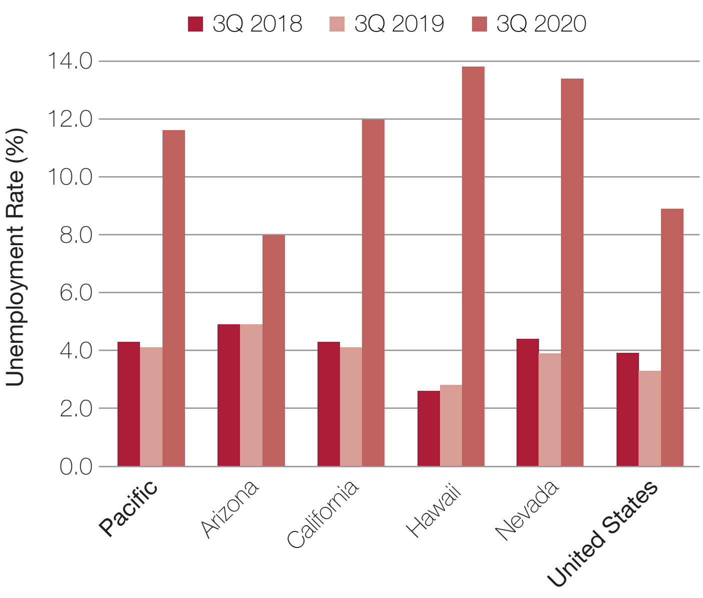
numbers of jobs, falling by 217,300, 197,200, and 146,600 jobs regionwide, or 6.3, 6.5, and 4.2 percent, respectively. California accounted for 73, 91, and 91 percent of the regional job losses in these sectors, respectively.

The unemployment rate in the region averaged 11.6 percent during the third quarter of 2020, up significantly from the 4.1-percent rate a year earlier and above the national average of 8.9 percent. However, continued business re-openings in all states in the region contributed to a reduction in the average regional unemployment rate from the 15.6-percent rate during the second quarter of 2020. Hawaii and Nevada, where tourism employment is of particular significance, had the highest statewide unemployment rates in both the region and the nation, at 13.8 percent and 13.4 percent, respectively, during the third quarter of 2020. The respective unemployment rates were 2.8 percent and 3.9 percent in the two states a year ago. More diversified economies led to smaller but still significant year-over-year increases in the unemployment rates in Arizona and California. In Arizona, the unemployment rate increased from 4.9 percent a year ago to 8.0 percent during the third quarter of 2020, and the unemployment rate in California rose from 4.1 percent to 12.0 percent.

During the third quarter of 2020—

- California lost 1.58 million jobs, a decline of 9.1 percent, compared with a 12.1 percent decline during the second quarter of 2020 and a growth of 1.5-percent during the third quarter of 2019. Job losses were significant in the leisure and hospitality, the wholesale and retail trade, and the professional and business services sectors, with declines of 617,700, 179,300, and 158,400 jobs, or 30.0, 7.7, and 5.8 percent, respectively. Within the wholesale and retail trade sector, jobs were added in the general merchandise stores industry, which includes warehouse clubs, supercenters, electronics shopping and grocery stores. Those gains were more than offset by significant losses associated with clothing stores, department stores, and automobile dealers, however, as the pandemic shifted trends in personal consumption.
- Nonfarm payrolls in Arizona declined by 99,300 jobs, or 3.4 percent, compared with a gain of 81,200 jobs, or 2.9 percent, a year ago. The leisure and hospitality and the professional and business services sectors led job declines in the state, with losses of 59,500 and 27,400 jobs, or 18.3 percent and 6.2 percent, respectively. Almost all the statewide job losses in the professional and business services sector were associated with administrative and building management services, much of which is contracted out to temporary agencies, as many employees working in professional offices have been asked to perform work remotely since the pandemic began.
- In Nevada, nonfarm payrolls declined by 129,700 jobs, or 9.1 percent, and the leisure and hospitality sector lost the most jobs, down by 54,900 jobs, or 15.3 percent. Fewer tourist visits to the Las Vegas-Henderson-Paradise metropolitan area accounted for all of the statewide decline in the sector. The total of 72,500 jobs in the leisure and hospitality sector that were lost in the metropolitan area, a 25-percent decline from a year earlier, more than offset small gains in the sector in the Carson City metropolitan area, which is located within driving distance to Lake Tahoe, a popular tourist destination for California and Nevada residents.
- Hawaii lost 111,000 nonfarm payroll jobs, a 17.1-percent decrease, both the fastest year-over-year decline in the region and the smallest improvement from the second quarter of 2020, when nonfarm payrolls declined by 18.1-percent statewide. The reopening process has been notably slow in the state due to a mandatory quarantine or pre-testing requirement for entry into the Hawaiian Islands. The leisure and hospitality sector in the state lost 69,300 jobs, or 54.6 percent, during the third quarter of 2020, a larger and faster decline than the year-over-year loss of 68,100 jobs, or 54.0 percent, during the second quarter of 2020.

Unemployment rates in the Pacific region increased significantly during the third quarter of 2020.



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

Sales Market Conditions

During the third quarter of 2020, conditions in sales housing markets in the Pacific region ranged from balanced to tight. The 8-year period of strong economic expansion that began in 2012 supported home sales price increases throughout the region through early 2020. Despite weak economic conditions that began during the second quarter of 2020, home prices rose in the Pacific region during the most recent 12-month period as the active for-sale inventory declined by 19 percent, compared with a year ago. The average sales price for a home (including single-family homes, townhomes, and condominiums) in the region increased 6 percent from a year earlier, to $605,000, during the 12 months ending August 2020. This increase followed a 2-percent rise during the previous 12-month period (Zonda, with adjustments by the analyst). The average home sales price for the region was 70 percent higher than the national average of $355,200, but the 7-percent rate of price growth in the nation during the past 12 months was faster than the regional rate. Home prices increased in all states of the region except Hawaii, where the average sales price declined 1 percent. Sale prices rose fastest in the more affordable parts of the region. The average sales price increased 5, 11, and 13 percent in California, Nevada, and Arizona, respectively, during the 12 months ending August 2020, higher than increases of 1, 10, and 6 percent a year earlier. Average home sales prices also increased in all metropolitan areas cited in this report except Urban Honolulu, where the average sales price declined 1 percent. Price increases in the other metropolitan areas ranged from a 3-percent increase in San Jose-Sunnyvale-Santa Clara to a 10-percent rise in Phoenix-Mesa-Scottsdale. The highest average home sales prices, $1.51 million and $1.22 million, were in the San Jose-Sunnyvale-Santa Clara and San Francisco-Oakland-Hayward metropolitan areas, respectively.

During the 12 months ending August 2020, the number of home sales in the Pacific region decreased 5 percent to approximately 654,300 homes sold, following a 7-percent decline during the previous 12-month period. By comparison, sales declined by 6 percent nationwide during the 12 months ending August 2020, compared with a 2-percent decline a year earlier. The number of home sales fell in all four states in the region, with home sales declines of 6, 7, and 10 percent in California, Hawaii, and Nevada, respectively, during the 12 months ending August 2020, while sales decreased by only 1 percent in Arizona. The regionwide decline in sales during the 12 months ending August 2020 was primarily due to a significant decrease in sales during the early stages of the pandemic in the second quarter of 2020, when prospective buyers and sellers were particularly wary of attending open houses or making home moves. However, during the 3 months ending August 2020, home sales in the region were down only 1 percent from the same period a year ago. The number of homes sold declined in 9 of the 10 major metropolitan areas cited in this report during the 12 months ending August 2020. This decline ranged from a 1-percent decrease in Las Vegas-Henderson-Paradise to respective drops of 10 and

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In most of the largest metropolitan areas of the Pacific region, home sales declined during the past year while average sales prices rose.

	12 Months Ending	Number of Homes Sold			Price			
		2019	2020	Percent Change	Average	2019 ($)	2020 ($)	Percent Change
Urban Honolulu, HI (N&E)	August	11,400	11,063	-3	AVG	$733,561	$724,109	-1
Las Vegas-Henderson-Paradise, NV (N&E)	August	44,865	44,264	-1	AVG	$377,279	$407,530	8
Phoenix-Mesa-Scottsdale, AZ (N&E)	August	132,059	134,013	1	AVG	$322,059	$355,636	10
Los Angeles-Long Beach-Anaheim, CA (N&E)	August	104,743	99,083	-5	AVG	$899,344	$938,011	4
Riverside-San Bernardino-Ontario, CA (N&E)	August	68,665	66,228	-4	AVG	$427,127	$457,757	7
San Diego-Carlsbad, CA (N&E)	August	38,060	37,263	-2	AVG	$743,759	$785,206	6
Oxnard-Thousand Oaks-Ventura, CA (N&E)	August	9,185	8,832	-4	AVG	$687,469	$715,178	4
San Francisco-Oakland-Hayward, CA (N&E)	August	44,621	38,883	-13	AVG	$1,161,823	$1,220,702	5
San Jose-Sunnyvale-Santa Clara, CA (N&E)	August	14,835	13,362	-10	AVG	$1,465,648	$1,512,402	3
Sacramento-Roseville-Arden-Arcade, CA (N&E)	August	36,601	34,464	-6	AVG	$510,194	$558,355	9

AVG = average. N&E = new and existing.
Note: Data includes single-family homes, townhomes, and condominiums.
Source: Zonda, with adjustments by the analyst

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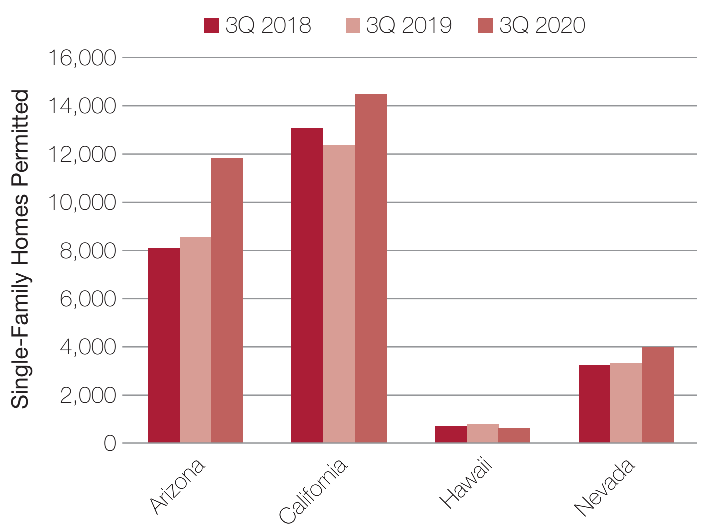
13 percent in San Jose-Sunnyvale-Santa Clara and San Francisco-Oakland-Hayward—the two most expensive markets in the region. The only increase in home sales in the region was the 1-percent gain in the Phoenix-Mesa-Scottsdale metropolitan area, which also had the fastest sales price increase.

Although sales market conditions in the region remained mostly unchanged from the prior year, the rate of seriously delinquent mortgages (loans 90 or more days delinquent or in foreclosure) and real estate owned (REO) properties rose sharply from a year ago. In August 2020, the share of mortgages in the Pacific region that were seriously delinquent or had transitioned into REO status was 3.9 percent, up from 0.7 percent a year earlier, with all states in the region reporting higher rates than during the previous year (CoreLogic, Inc.). The percentage of seriously delinquent mortgage loans and REO properties in the region was highest in Hawaii and Nevada, at 6.2 and 5.7 percent, respectively—up from rates of 1.9 and 1.2 percent a year ago. In Arizona and California, the rates rose to 3.0 and 3.8 percent, respectively, up from 0.6 percent each during August 2019. Nationally, the rate of seriously delinquent mortgages and REO properties increased from 1.4 percent a year ago to 4.4 percent during August 2020. The rise in delinquencies partly reflects an increased reliance on mortgage forbearance by borrowers, which was provided for under the $2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act. Approximately 240,500 mortgages in the region were 90 or more days past due in August 2020, a more than five-fold increase from August 2019. However, the number of foreclosures declined by 28 percent. Regionwide, about 14 percent of homeowners reported having little or no confidence in being able to pay next month's mortgage payment (Census Pulse Survey, Week of September 16 to September 28, 2020).

During the third quarter of 2020 (preliminary data)—

- Single-family homebuilding activity in the region, as measured by the number of homes permitted, increased 24 percent from a year ago, to 30,900 homes, after remaining largely unchanged during the third quarter of 2019. The number of homes permitted nationally increased 21 percent during the third quarter of 2010 after a 4-percent increase during the third quarter of 2019.
- California accounted for 47 percent of the single-family units permitted in the region, and permitting increased 17 percent to 14,500 homes.
- Single-family permitting increased at the fastest rate in the region in Arizona—38 percent—to 11,800 homes, after a 6-percent increase during the third quarter of 2019. The state accounted for 56 percent of the regionwide increase during the past year. In Nevada, single-family permitting rose 20 percent to 4,000 homes.
- The only state in the region where single-family permitting activity declined was Hawaii, where the 590 homes permitted represented a 22-percent decline from a year ago.

Single-family permitting activity increased in all states of the Pacific region during the past year except Hawaii.



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

Apartment Market Conditions

Apartment market conditions in the Pacific region ranged from slightly soft to tight in the 10 major metropolitan areas cited in this report during the third quarter of 2020, easing from tight conditions in many of those metropolitan areas a year earlier. The recent economic contraction has led many renters to search for more affordable rental housing or, for those with the means and expected long-term work-from-home options, to transition into homeownership. Apartment market conditions softened in 6 of the 10 largest metropolitan areas cited in this report, with the most significant softening in markets with the highest rents. In the San Francisco-Oakland-Hayward, San Jose-Sunnyvale-Santa Clara, and Urban Honolulu metropolitan areas, apartment market conditions ranged from balanced to slightly soft during the third quarter of 2020, compared with tight conditions in all three markets a year ago. Apartment vacancy rates rose 2.0, 2.1, and 2.3 percentage points in the San Francisco-Oakland-

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Apartment market conditions softened from a year ago in most of the largest metropolitan areas in the Pacific region during the third quarter of 2020, with the most significant softening in the most expensive markets.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2019 (%)	3Q 2020 (%)	Percentage Point Change	3Q 2019 ($)	3Q 2020 ($)	Percent Change
Urban Honolulu	Slightly Soft	3.8	6.1	2.3	2,234	2,103	-6
Las Vegas-Henderson-Paradise	Tight	3.9	3.7	-0.2	1,115	1,139	2
Phoenix-Mesa-Scottsdale	Slightly Tight	3.6	3.9	0.3	1,173	1,223	4
Los Angeles-Long Beach-Anaheim	Slightly Tight	3.3	4.2	0.9	2,255	2,210	-2
Riverside-San Bernardino-Ontario	Tight	3.3	2.5	-0.8	1,563	1,657	6
San Diego-Carlsbad	Slightly Tight	3.3	3.9	0.6	2,049	2,049	0
Oxnard-Thousand Oaks-Ventura	Tight	3.1	2.9	-0.2	2,055	2,077	1
San Francisco-Oakland-Hayward	Balanced	3.5	5.5	2.0	2,872	2,662	-2
San Jose-Sunnyvale-Santa Clara	Balanced	3.5	5.6	2.1	2,969	2,746	-1
Sacramento-Roseville-Arden-Arcade	Tight	3.1	2.7	-0.4	1,496	1,567	3

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

Hayward, San Jose-Sunnyvale-Santa Clara, and Urban Honolulu metropolitan areas, to 5.5, 5.6, and 6.1 percent, respectively. Apartment vacancy rates declined, and apartment market conditions remained tight, however, in four of the five least-expensive metropolitan areas in the region. The apartment vacancy rate declined 0.2 percent in Las Vegas-Henderson-Paradise to 3.7 percent, 0.2 percent in Oxnard-Thousand Oaks-Ventura to 2.9 percent, 0.4 percent in Sacramento-Roseville-Arden-Arcade to 2.7 percent, and 0.8 percent in Riverside-San Bernardino-Ontario to 2.5 percent. The apartment vacancy rate rose slowly where market conditions only weakened to slightly tight, ranging from a 0.3-percentage point increase in Phoenix-Mesa-Scottsdale to a 0.9 percentage point increase in Los Angeles-Long Beach-Anaheim.

Average rents increased in 5 of the 10 metropolitan areas covered in this report during the third quarter of 2020, with the fastest rent growth in the least expensive markets. Rent increases ranged from 1 percent in Oxnard-Thousand Oaks-Ventura to 6 percent in Riverside-San Bernardino-Ontario. The average rent declined in the four most expensive metropolitan areas. Average rents decreased 1 percent in San Jose-Sunnyvale-Santa Clara to $2,746, 2 percent in Los Angeles-Long Beach-Anaheim to $2,210, 2 percent in San Francisco-Oakland-Hayward to $2,662, and 6 percent in Urban Honolulu to $2,103.

During the third quarter of 2020 (preliminary data)—

- Multifamily permitting in the region decreased 8 percent from a year earlier to 15,700 units, following a 26-percent year-over-year increase during the third quarter of 2019. By comparison, the number of units permitted decreased 13 percent nationally, following a 23-percent increase during the same period a year ago.
- Multifamily permitting activity increased in both Arizona and Nevada, by 16 and 9 percent, to 2,975 and 1,425 units, respectively. Significant increases in the largest metropolitan areas of the two states were responsible for much of the

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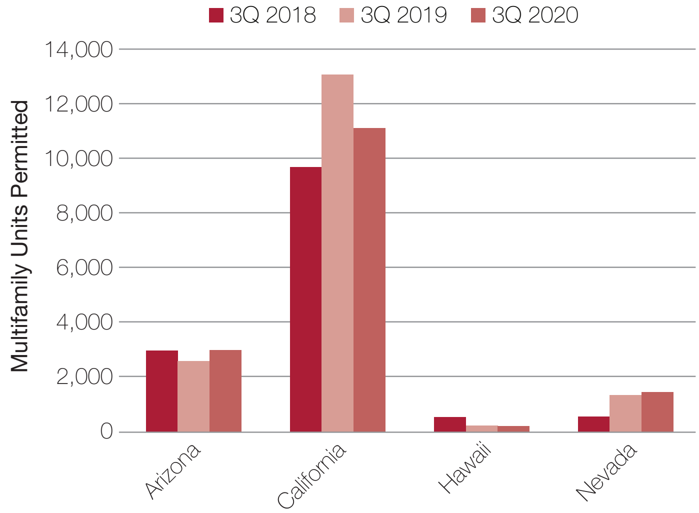
Despite increases in Arizona and Nevada, a significant decline in multifamily construction activity in California resulted in a decrease in multifamily permitting in the Pacific region during the past year.



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

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growth in permitting activity. In the Phoenix-Mesa-Scottsdale metropolitan area, multifamily permitting increased 23 percent to 2,675 units, which accounted for 90 percent of all multifamily units permitted in Arizona. Similarly, in the Las Vegas-Henderson-Paradise metropolitan area, multifamily permitting almost doubled to 980 units, which accounted for almost three-fourths of all statewide permits issued in Nevada.

- Multifamily permitting activity declined in California by 1,975 units, or 15 percent, to 11,100 units. The state accounted for 71 percent of all multifamily permitting regionwide, down from 76-percent during the third quarter of 2019. Multifamily permitting activity declined significantly in the Los Angeles-Long Beach-Anaheim and San Francisco-Oakland-Hayward metropolitan areas, by 40 and 29 percent, respectively.
- In Hawaii, multifamily construction activity declined slightly to 180 units.