

HUD PD&R Regional Reports

Region 9: Pacific

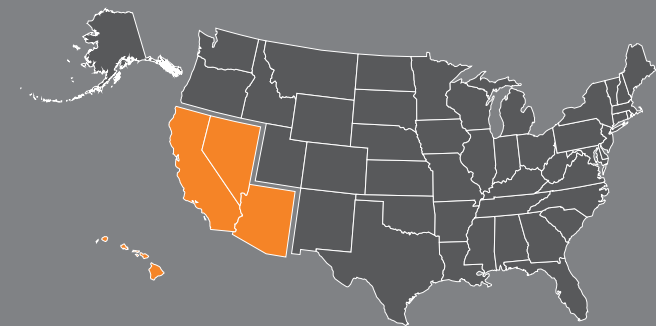


San Francisco, California

By Elaine Ng | 2nd quarter 2016

Quick Facts About Region 9

- **Sales market conditions—**
Second quarter 2016: mixed (balanced to tight).
First quarter 2016: mixed (balanced to tight).
Second quarter 2015: mixed (balanced to tight).
- **Apartment market conditions—**
Second quarter 2016: mixed (soft to tight).
First quarter 2016: mixed (slightly soft to tight).
Second quarter 2015: mixed (balanced to tight).



Overview

Economic conditions continued to strengthen in the Pacific region during the second quarter of 2016 compared with conditions during the second quarter of 2015. Nonfarm payroll jobs have expanded year over year in every quarter since the fourth quarter of 2010. California represented 78 percent of jobs in the region and contributed 80 percent of net job growth during the second quarter of 2016. Sales housing market conditions in the region remained balanced to tight, and single-family homebuilding activity increased in all states except Nevada. Apartment market conditions were tight throughout much of the region, although vacancy rates rose in 6 of 10 rental housing markets, and conditions in Urban Honolulu moved from balanced during the second quarter of 2015 to soft during the second quarter of 2016. Average rent growth in all but one metropolitan area of the region equaled or exceeded the national average during the past year.

During the second quarter of 2016—

- Every sector in the region, except for manufacturing, added jobs, making this quarter the second in the past three quarters in which the manufacturing sector lost jobs while all other sectors added jobs. Before the fourth quarter of 2015, every sector in the region had added jobs year over year since the third quarter of 2013.

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- The number of homes sold continued to increase at a higher rate in the region than in the nation.
- Single-family homebuilding activity, as measured by the number of homes permitted, increased 3 percent in the region compared with 7-percent growth in the nation.

- Multifamily construction activity, as measured by the number of units permitted, increased 19 percent compared with a 26-percent decline nationwide.

Economic Conditions

Economic conditions in the Pacific region, which began to improve during the fourth quarter of 2010, continued to strengthen during the second quarter of 2016. All four states in the region added jobs during the quarter, with total nonfarm payrolls increasing by 600,600 jobs, or 2.9 percent, from the second quarter of 2015, to approximately 21.1 million jobs. By contrast, the national rate of nonfarm job growth was 1.8 percent. Since the second quarter of 2010, the region has added 2.65 million jobs, a cumulative increase of 14.3 percent. The education and health services and the professional and business services sectors continued to drive job growth in the region and combined to contribute more than 40 percent of net job gains during the second quarter of 2016, with additions of 129,600 and 115,700 jobs, respectively. Single-family residential construction and commercial building activity expanded throughout the region and contributed to job gains of 58,200, or 5.8 percent, in the mining, logging, and construction sector, which recorded the highest growth rate of any sector in the region. The sector has added jobs year over year in each quarter since the third quarter of 2011 but remains 26 percent below the peak of 1.44 million jobs

during the third quarter of 2006. The unemployment rate in the region averaged 5.0 percent during the second quarter of 2016, down from 6.1 percent a year earlier, but continues to be above the national average of 4.8 percent. Hawaii had the lowest average unemployment rate in the region, at 3.1 percent, down from 3.8 percent a year ago. The average unemployment rate declined in Arizona from 6.1 to 5.4 percent and in California from 6.2 to 5.0 percent. The highest unemployment rate was in Nevada, at 6.1 percent, down from 6.8 percent a year ago. The unemployment rate in Nevada was the second highest in the nation, while the unemployment rate in Hawaii was the sixth lowest.

During the second quarter of 2016—

- California added 478,900 jobs, a year-over-year gain of 3.0 percent, after 2.9-percent growth during the second quarter of 2015. Similar to trends in the region, the education and health services and the professional and business services sectors accounted for 42 percent of net job growth in the state, up by 102,500 and 96,900 jobs, or 4.2 and 3.9 percent, respectively.

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In the Pacific region, jobs increased in every sector except manufacturing.

	Second Quarter		Year-Over-Year Change	
	2015 (thousands)	2016 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	20,504.6	21,105.2	600.6	2.9
Goods-producing sectors	2,506.5	2,559.8	53.3	2.1
Mining, logging, and construction	1,004.4	1,062.6	58.2	5.8
Manufacturing	1,502.1	1,497.2	- 4.9	- 0.3
Service-providing sectors	17,998.1	18,545.4	547.3	3.0
Wholesale and retail trade	3,027.7	3,098.0	70.3	2.3
Transportation and utilities	724.4	746.7	22.3	3.1
Information	548.9	565.7	16.8	3.1
Financial activities	1,076.1	1,104.0	27.9	2.6
Professional and business services	3,107.7	3,223.4	115.7	3.7
Education and health services	3,038.8	3,168.4	129.6	4.3
Leisure and hospitality	2,593.7	2,683.0	89.3	3.4
Other services	698.9	707.8	8.9	1.3
Government	3,181.8	3,248.4	66.6	2.1

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



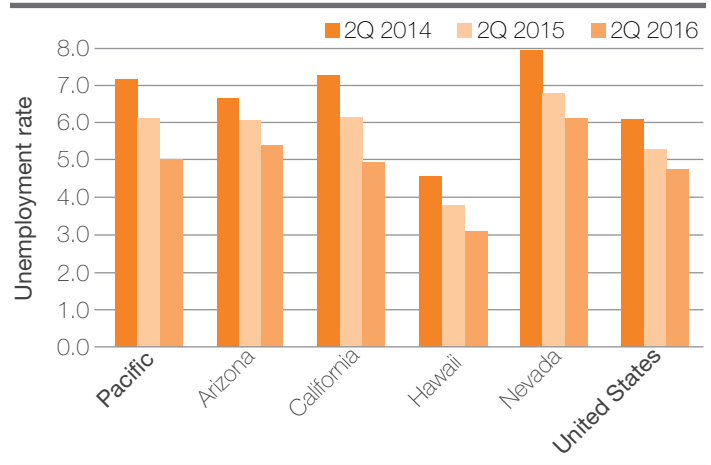
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The \$315 million expansion of a 373-bed campus at Riverside Community Hospital is currently under way and expected to be complete in 2017. The project has created 400 temporary construction jobs and is anticipated to create 300 full-time hospital positions when complete.

- Nonfarm payrolls in Arizona increased by 76,900 jobs, or 2.9 percent, compared with a gain of 58,300 jobs, or 2.3 percent, during the second quarter of 2015. The education and health services, professional and business services, and financial activities sectors led job growth in the state, adding 18,500, 14,900, and 11,800 jobs, gains of 4.7, 3.8, and 6.1 percent, respectively. Several call center expansions occurred in Arizona in recent years, including Home Depot, Inc., which will eventually add 800 jobs to its expanded Tempe call center by the end of 2016.
- In Nevada, nonfarm payrolls expanded by 31,400 jobs, or 2.5 percent. The education and health services, leisure and hospitality, and professional and business services sectors, which added the most jobs in the state, grew by 5,400, 4,600, and 3,175 jobs, or 4.5, 1.3, and 1.9 percent, respectively. Tax incentives for relocating or expanding in southern Nevada attracted at least seven companies providing a wide range of good and services, including healthcare equipment, data centers, and retail distribution centers, to the state during the second quarter of 2016. The new expansions are expected to add nearly 600 jobs and more than \$46 million in capital investment to the state (Las Vegas Global Economic Alliance).

- Hawaii increased nonfarm payrolls by 13,300 jobs, indicating 2.1-percent growth. The leisure and hospitality and the professional and business services sectors led job gains, expanding by 3,575 and 3,075 jobs, or 3.1 and 3.8 percent, respectively. Total tourism spending rose 0.5 percent, to \$3.7 million, during the second quarter of 2016 (Hawaii Tourism Authority).

Unemployment rates declined throughout the Pacific region, but the state and regional rates remained above the national average, except in Hawaii.



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

Sales Market Conditions

During the first quarter of 2016, sales housing markets in the Pacific region ranged from balanced to tight, unchanged from conditions a year ago. Continued economic growth has contributed to rising home sales prices throughout the region since 2012. The average home sales price for the region (including single-family homes, townhomes, and condominiums) increased nearly 4 percent, to \$443,900, during the 12 months ending May 2016, after a 7-percent gain during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). By comparison, the average home sales price for the nation rose 5 percent, to \$265,700, during the 12 months ending May 2016, after a 4-percent gain a year earlier. Average home sales prices rose in all but 1 of the 10 major metropolitan areas referenced in this report. In Urban Honolulu, the average sales price fell 3 percent, to \$563,600, because of a 36-percent increase in Real Estate Owned (REO) sales, the only category of sales to increase in the metropolitan area. In each of the other 9 metropolitan areas, the average sales price rose from a year ago, ranging from 3-percent gains in four Pacific region metropolitan areas to an 8-percent gain in the tight San Jose sales market.

During the 12 months ending May 2016, the number of homes sold in the region expanded 3 percent, following stagnant sales growth during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). By comparison, home sales nationwide rose almost 2 percent during the 12 months ending May 2016. Home sales decreased in six of the largest metropolitan areas in the region, with declines ranging from 1 percent in three metropolitan areas, including San Francisco, to 6 percent in the San Jose metropolitan area. Recent declines in sales are likely a result of inventory shortages rather than decreased demand; the unsold inventory index averaged 2.1 months and 2.2 months in the San Francisco and San Jose metropolitan areas, respectively (California Association of Realtors®). Sales growth was positive in four of the largest metropolitan areas in the region and was greatest in the Sacramento--Roseville--Arden-Arcade and Phoenix-Mesa-Scottsdale metropolitan areas, with gains of 9 and 10 percent, respectively. Each of the four metropolitan areas with increasing sales has relatively moderate sales prices, making home purchases relatively more affordable. Urban Honolulu was the only metropolitan area to record a decline—3 percent—in sales prices.

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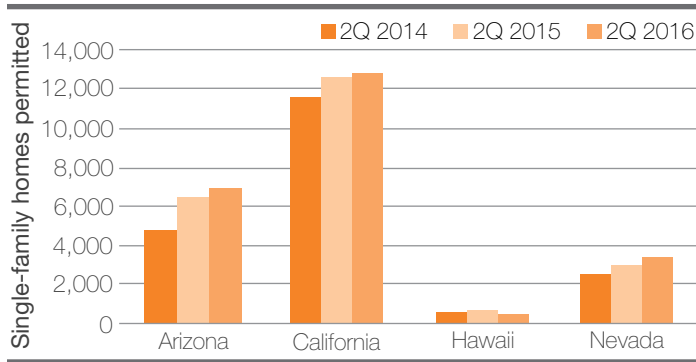
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Regionwide growth of new home sales and regular (nondistressed) resales of 8 and 5 percent, respectively, was partially offset by declines in real estate owned (REO) and short sales due to fewer distressed properties on the market. During the 12 months ending May 2016, REO and short sales fell 21 and 19 percent, respectively, compared with decreases of 18 and 42 percent during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). By comparison, the number of REO sales fell 15 percent and short sales fell 11 percent nationwide during the 12 months ending May 2016. The percentage of seriously delinquent mortgage loans (90 or more days delinquent or in foreclosure) and REO properties in the region

declined 0.4 percentage points, from 2.0 percent in May 2015 to 1.6 percent in May 2016. By contrast, the national decline was 0.7 percentage points, to 2.9 percent. The percentage of seriously delinquent mortgage loans was highest in Hawaii and Nevada, at 3.6 and 3.5 percent, respectively. The regional rate was pulled down, however, by the rates in California and Arizona, both 1.5 percent.

During the second quarter of 2016 (preliminary data)—

Single-family permitting increased 3 percent in the Pacific region during the second quarter of 2016 after an 18-percent gain during the same period a year earlier.



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

- Single-family homebuilding activity, as measured by the number of homes permitted, increased 3 percent in the region, to 23,700 homes, compared with an 18-percent gain during the second quarter of 2015. By comparison, the number of homes permitted nationwide increased 7 percent from the second quarter of 2015, after a 6-percent gain during the same period a year earlier.
- California accounted for 54 percent of the single-family homes permitted in the region. The number of single-family homes permitted rose to 12,800, a 1-percent increase from the second quarter of 2015, after a 9-percent gain during the same period a year earlier.
- The greatest growth in single-family permitting occurred in Nevada, where the number of single-family homes permitted increased 12 percent, to 3,400 homes, after an 18-percent gain during the second quarter of 2015. In Arizona, the number of homes permitted rose 6 percent, to 6,950.
- Single-family permitting declined only in Hawaii, where 500 homes were permitted, reflecting a 30-percent decline from the previous year. Single-family permitting in the state accounts for 4 percent of total single-family homes permitted in the region.

The number of homes sold declined in many metropolitan areas in the Pacific region, in part because of low sales inventory.

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2015	2016	Percent Change		2015 (\$)	2016 (\$)	Percent Change
Las Vegas-Henderson-Paradise (N&E)	May	49,296	46,897	- 5	AVG	227,684	242,262	6
Los Angeles-Long Beach-Anaheim (N&E)	May	119,743	118,604	- 1	AVG	668,263	689,162	3
Oxnard-Thousand Oaks-Ventura (N&E)	May	10,382	10,268	- 1	AVG	554,203	591,460	7
Phoenix-Mesa-Scottsdale (N&E)	May	102,232	112,099	10	AVG	251,874	258,781	3
Riverside-San Bernardino-Ontario (N&E)	May	70,790	72,513	2	AVG	304,663	316,387	4
Sacramento--Roseville--Arden-Arcade (N&E)	May	38,471	42,026	9	AVG	341,304	355,345	4
San Diego-Carlsbad (N&E)	May	41,157	42,991	4	AVG	550,694	567,595	3
San Francisco-Oakland-Hayward (N&E)	May	53,945	53,658	- 1	AVG	798,064	824,364	3
San Jose-Sunnyvale-Santa Clara (N&E)	May	21,307	19,958	- 6	AVG	896,138	965,548	8
Urban Honolulu (N&E)	May	12,821	12,429	- 3	AVG	578,665	563,616	- 3

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



Apartment Market Conditions

With the exception of Urban Honolulu, apartment markets in the largest metropolitan areas in the Pacific region ranged from balanced to tight. Although 7 of the 10 major metropolitan areas referenced in this report recorded apartment vacancy rates below the national average of 4.7 percent during the second quarter of 2016, the apartment vacancy rate rose in 6 metropolitan areas and remained stable in the Los Angeles-Long Beach-Anaheim metropolitan area (Axiometrics Inc.). Apartment vacancy rate increases ranged from 0.1 percentage points in the Sacramento--Roseville--Arden-Arcade market, where the vacancy rate is now 3.7 percent, to 1.1 percentage points in the San Jose-Sunnyvale-Santa Clara market, where the rate is 4.5 percent; however, both markets remain tight. Apartment market conditions remained unchanged from a year ago in all major metropolitan areas except Urban Honolulu, where the market is soft and the apartment vacancy rate is 8.5 percent in the second quarter of 2016. A year earlier, Urban Honolulu had balanced conditions and an apartment vacancy rate of 5.5 percent. Although not the highest in the region, average rents in Urban Honolulu are relatively high for the state of Hawaii and increased 6 percent, to \$2,112, during the second quarter of 2016. With limited mobility options to other affordable markets in the island state, apartment vacancies have continued to increase as renters double up or move out of state. Average rents rose in all major metropolitan areas referenced in this report, ranging from 4 percent in San Jose-Sunnyvale-Santa Clara to 11 percent in Sacramento--Roseville--Arden-Arcade. Rent growth equaled or exceeded the national average of 5 percent in 9 of the 10 metropolitan areas in this report. San Francisco-Oakland-Hayward

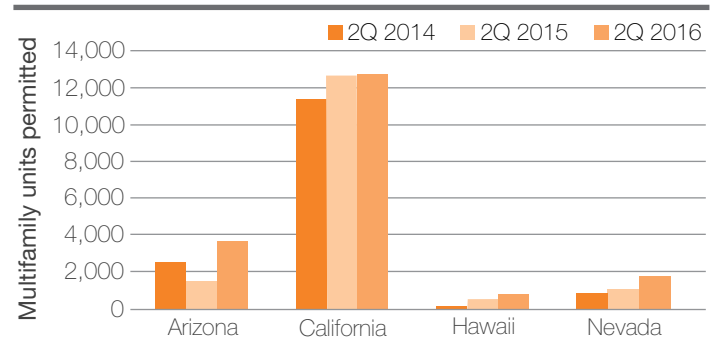
and San Jose-Sunnyvale-Santa Clara remained among the most expensive rental housing markets in the country, with average rents of \$3.30 and \$3.10 per square foot, respectively, more than twice the national average of \$1.40 per square foot.

During the second quarter of 2016 (preliminary data)—

- Multifamily building activity in the region increased 19 percent, to 18,900 units permitted, from the 15,900 units permitted during the second quarter of 2015, after a 7-percent increase during the second quarter of 2015. By comparison, the number of units permitted nationwide fell 26 percent from the second quarter of 2015, after a 38-percent gain during the same period a year earlier.

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Multifamily permitting increased 19 percent in the Pacific region during the second quarter of 2016 compared with a 26-percent decline nationwide.



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

Average rents increased in all 10 of the major metropolitan areas in the Pacific region, and average rent growth exceeded or equaled the national rate in all but San Jose-Sunnyvale-Santa Clara, where average rents were already the highest in the region.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2015 (%)	2Q 2016 (%)	Percentage Point Change	2Q 2015 (\$)	2Q 2016 (\$)	Percent Change
Las Vegas-Henderson-Paradise	Balanced	5.6	5.4	-0.2	867	926	7
Los Angeles-Long Beach-Anaheim	Tight	4.0	4.0	0.0	1,997	2,126	6
Oxnard-Thousand Oaks-Ventura	Tight	3.5	3.8	0.3	1,846	1,935	5
Phoenix-Mesa-Scottsdale	Balanced	5.1	5.0	-0.1	885	961	9
Riverside-San Bernardino-Ontario	Tight	4.1	4.4	0.3	1,361	1,465	8
Sacramento--Roseville--Arden-Arcade	Tight	3.6	3.7	0.1	1,243	1,378	11
San Diego-Carlsbad	Tight	3.9	3.9	0.0	1,761	1,919	9
San Francisco-Oakland-Hayward	Tight	3.6	3.9	0.3	2,587	2,766	7
San Jose-Sunnyvale-Santa Clara	Tight	3.4	4.5	1.1	2,716	2,813	4
Urban Honolulu	Soft	5.5	8.5	3.0	1,996	2,112	6

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



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- California accounted for 67 percent of the multifamily units permitted in the region. Multifamily permitting activity in the state remained flat, at 12,700 units. Before the first quarter of 2015, when multifamily permitting activity fell, multifamily construction in the state had grown year over year since 2009.
- Multifamily permitting activity increased 37 percent in Hawaii, to 750 units, from the 550 units permitted during the second quarter of 2015.
- The number of multifamily units permitted in Arizona more than doubled, to 3,700, compared with the 1,500 units permitted during the second quarter of 2015. The Phoenix-Mesa-Scottsdale metropolitan area accounted for 98 percent of multifamily permitting in Arizona during the past year, compared with an 80-percent contribution during the second quarters of 2014 and 2015.
- In Nevada, multifamily permitting increased 59 percent, to 1,775 units, after a 36-percent increase during the second quarter of 2015. The Las Vegas-Henderson-Paradise metropolitan area accounted for 89 percent of all multifamily units permitted, much higher than the 60 percent proportion during the second quarter of 2015.

