

HUD PD&R Regional Reports

Region 9: Pacific

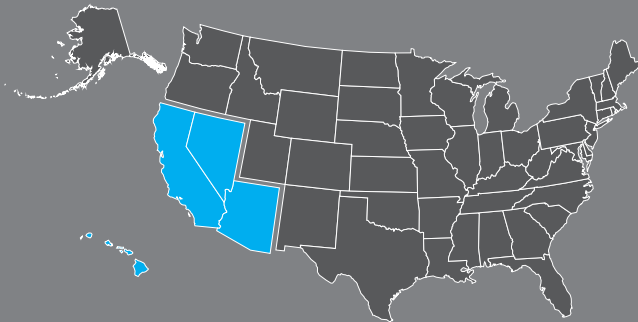


San Francisco, California

By Casey M. Blount | 4th quarter 2014

Quick Facts About Region 9

- **Sales market conditions—**
Fourth quarter 2014: mixed (balanced to tight).
Third quarter 2014: mixed (balanced to tight).
Fourth quarter 2013: mixed (slightly soft to balanced).
- **Apartment market conditions—**
Fourth quarter 2014: mixed (balanced to tight).
Third quarter 2014: mixed (slightly soft to tight).
Fourth quarter 2013: mixed (soft to tight).



Overview

Economic conditions improved in the Pacific region during the fourth quarter of 2014 compared with conditions during the fourth quarter of 2013. Nonfarm payroll jobs have increased every quarter beginning with the fourth quarter of 2010. California, which represented 78 percent of the jobs in the region during the fourth quarter of 2014, accounted for 76 percent of the job growth in the past year. Sales housing market conditions in the region remained balanced to tight, and single-family homebuilding activity increased slightly. Apartment market conditions throughout much of the region were tight during the fourth quarter of 2014, but the apartment market in the Las Vegas-Henderson-Paradise metropolitan area was balanced (improved from slightly soft) for the first time since the late 2000s. In response to tightening apartment market conditions, multifamily construction increased at least 9 percent in all four states in the region.

During the fourth quarter of 2014—

- Every nonfarm payroll sector in the region added jobs year over year for the second time in 2014 and the third time in the past five quarters. Before 2013, the previous instance occurred during the first quarter of 2001.
- The number of homes sold in the region declined, but average sales prices continued to increase at a higher rate than in the nation because of significant reductions in the numbers of short sales and REO (Real Estate Owned) home sales.
- Multifamily permitting activity in the region rose to the highest level recorded since the fourth quarter of 2004. The highest percentage increase occurred in Nevada, where the number of multifamily units permitted increased more than 400 percent from the fourth quarter of 2013.



Nonfarm payrolls increased in every sector in the Pacific region for the third time in the past five quarters.

| | Fourth Quarter | | Year-Over-Year Change | |
|------------------------------------|---------------------|---------------------|-------------------------|---------|
| | 2013 (thousands) | 2014 (thousands) | Absolute (thousands) | Percent |
| Total nonfarm payrolls | 19,791.1 | 20,227.9 | 436.8 | 2.2 |
| Goods-producing sectors | 2,387.8 | 2,426.6 | 38.8 | 1.6 |
| Mining, logging, and construction | 928.7 | 964.9 | 36.2 | 3.9 |
| Manufacturing | 1,459.1 | 1,461.7 | 2.6 | 0.2 |
| Service-providing sectors | 17,403.2 | 17,801.3 | 398.1 | 2.3 |
| Wholesale and retail trade | 3,047.5 | 3,089.4 | 41.9 | 1.4 |
| Transportation and utilities | 687.8 | 701.7 | 13.9 | 2.0 |
| Information | 524.8 | 539.8 | 15.0 | 2.9 |
| Financial activities | 1,054.8 | 1,059.4 | 4.6 | 0.4 |
| Professional and business services | 2,986.7 | 3,132.5 | 145.8 | 4.9 |
| Education and health services | 2,930.8 | 3,032.9 | 102.1 | 3.5 |
| Leisure and hospitality | 2,398.4 | 2,467.2 | 68.8 | 2.9 |
| Other services | 666.4 | 669.7 | 3.3 | 0.5 |
| Government | 3,106.1 | 3,108.6 | 2.5 | 0.1 |

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

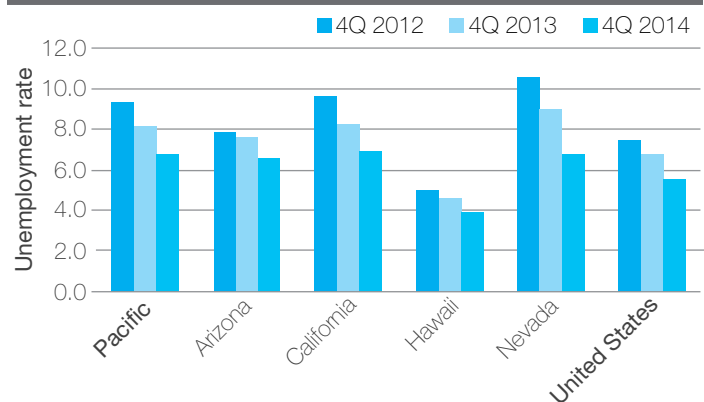
Economic Conditions

Economic conditions in the Pacific region, which began to improve during the fourth quarter of 2010, continued to improve. All four states in the region added jobs during the fourth quarter of 2014, and overall nonfarm payrolls increased by 436,800 jobs, or 2.2 percent, to approximately 20.23 million jobs, surpassing the previous fourth quarter peak of 20.19 million jobs recorded in 2007. The region added 1.79 million jobs during the past 5 years, a cumulative increase of 9.7 percent. The professional and business services and the education and health services sectors accounted for 57 percent of net job gains in the region during the fourth quarter of 2014. Increased building activity throughout the region contributed to job growth in the mining, logging, and construction sector, which has consecutively added jobs year over year since the third quarter of 2011 but remains well below the peak job levels recorded in the mid-2000s. The unemployment rate in the region averaged 6.8 percent during the fourth quarter of 2014, down from 8.1 percent a year earlier but above the national average of 5.5 percent. Hawaii recorded the lowest average unemployment rate in the region at 3.9 percent, down from 4.6 percent during the fourth quarter of 2013. The average unemployment rates in California, Nevada, and Arizona declined from 8.2, 9.0, and 7.6 percent to 6.9, 6.8, and 6.6 percent, respectively, but remained among the highest in the nation.

During the fourth quarter of 2014—

- California added 333,800 jobs, a 2.2-percent increase, after a 2.5-percent increase during the fourth quarter of 2013. The

Unemployment rates continued to decline throughout the Pacific region but remained above the national rate in three of the four states.



4Q = fourth quarter.
Source: U.S. Bureau of Labor Statistics

professional and business services and the education and health services sectors accounted for 57 percent of the net job growth in the state, adding 112,800 and 76,000 jobs, increases of 4.7 and 3.2 percent, respectively.

- Arizona recorded the highest job growth (in percentage terms) in the region, increasing 2.6 percent, or by 65,400 jobs, compared with an increase of 1.8 percent during the fourth quarter of 2013. Nonfarm payroll growth was greatest, in both total and percentage terms, in the professional and business services sector, which expanded by 19,800 jobs, or 5.3 percent.

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- Nonfarm payrolls in Nevada increased by 29,900 jobs, or 2.5 percent, compared with an increase of 3.2 percent during the fourth quarter of 2013. The professional and business services and the education and health services sectors led job gains in the state, increasing by 9,700 and 5,975 jobs, or 6.4 and 5.2 percent, respectively.

- In Hawaii, nonfarm payrolls increased by 7,800 jobs, or 1.2 percent. The leisure and hospitality sector led job growth, expanding by 3,525 jobs, or 3.2 percent, in part because total spending related to tourism rose to \$3.7 billion, a 3.2-percent increase from the fourth quarter of 2013 (Hawaii Tourism Authority).

Sales Market Conditions

Sales housing markets in the Pacific region ranged from balanced to tight during the fourth quarter of 2014 after ranging from slightly soft to balanced during the fourth quarter of 2013. Improving economic conditions have resulted in increased home sales prices throughout the region since 2012. The average home sales price in the region increased 10 percent, to \$416,800, during the 12 months ending November 2014 after a 20-percent increase during the previous 12-month period (CoreLogic, Inc.). By comparison, the average home sales price for the nation increased 6 percent, to \$252,800, during the 12 months ending November 2014 after an 11-percent increase during the previous 12-month period. During the 12 months ending November 2014, average home sales prices increased in all 10 of the metropolitan areas referenced in this report, ranging from 7-percent increases in Oxnard-Thousand Oaks-Ventura and Phoenix-Mesa-Scottsdale to a 15-percent increase in San Francisco-Oakland-Hayward. The number of homes sold in the region declined 10 percent, whereas the number of homes sold nationally decreased 5 percent. Home sales declined throughout the region, ranging from a 7-percent decline in San Jose-Sunnyvale-Santa Clara to a 16-percent decline in Las Vegas-Henderson-Paradise. The decreased number of home sales in the region was

almost entirely because of significant declines in both short sales and REO sales, which decreased 59 and 33 percent, respectively. By comparison, the number of short sales declined 41 percent and the number of REO sales declined 19 percent nationally. In December 2014, 2.6 percent of home loans in the region were 90 or more days delinquent, were in foreclosure, or transitioned into REO status, down from 3.3 percent in December 2013 (Black Knight Financial Services, Inc.). The greatest decline was in Nevada, where the rate declined 2.4 percentage points, to 5.8 percent, more than double the 1.0-percent-point decline in the national rate. The national rate in December 2014 was 4.6 percent.

During the fourth quarter of 2014 (preliminary data)—

- Single-family homebuilding activity in the region, as measured by the number of homes permitted, totaled 14,850, nearly unchanged from the fourth quarter of 2013 after a 16-percent increase during the same period a year earlier. By comparison, the number of homes permitted nationally increased 5 percent from the fourth quarter of 2013 after a 10-percent increase during the same period a year earlier.

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Home sales declined throughout the Pacific region, but average sales price increases continued to exceed the national rate.

| | 12 Months Ending | Number of Homes Sold | | | Price | | | |
|---|------------------|----------------------|---------|----------------|-------------------|-----------|-----------|----------------|
| | | 2013 | 2014 | Percent Change | Average or Median | 2013 (\$) | 2014 (\$) | Percent Change |
| Honolulu (Urban Honolulu) (N&E) | November | 11,217 | 9,641 | - 14 | AVG | 530,338 | 587,156 | 11 |
| Las Vegas-Henderson-Paradise (N&E) | November | 55,295 | 46,714 | - 16 | AVG | 198,331 | 213,993 | 8 |
| Los Angeles-Long Beach-Anaheim (N&E) | November | 127,867 | 113,645 | - 11 | AVG | 590,934 | 648,636 | 10 |
| Oxnard-Thousand Oaks-Ventura (N&E) | November | 10,209 | 9,216 | - 10 | AVG | 502,281 | 537,642 | 7 |
| Phoenix-Mesa-Scottsdale (N&E) | November | 107,813 | 96,414 | - 11 | AVG | 231,561 | 246,765 | 7 |
| Riverside-San Bernardino-Ontario (N&E) | November | 75,081 | 66,320 | - 12 | AVG | 266,454 | 296,244 | 11 |
| Sacramento--Roseville--Arden-Arcade (N&E) | November | 40,432 | 36,536 | - 10 | AVG | 295,374 | 331,301 | 12 |
| San Diego-Carlsbad (N&E) | November | 44,731 | 39,140 | - 12 | AVG | 494,476 | 535,480 | 8 |
| San Francisco-Oakland-Hayward (N&E) | November | 57,005 | 52,701 | - 8 | AVG | 674,291 | 773,534 | 15 |
| San Jose-Sunnyvale-Santa Clara (N&E) | November | 22,286 | 20,621 | - 7 | AVG | 757,699 | 848,128 | 12 |

AVG = average. N&E = new and existing.

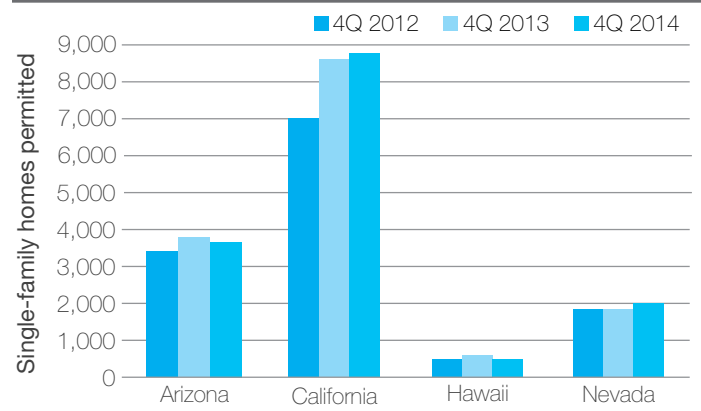
Source: Core Logic, Inc., with adjustments by the analyst



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- California accounted for 58 percent of the single-family home-building activity in the region. The 8,675 single-family homes permitted in the state represented a 1-percent increase from the 8,600 homes permitted during the fourth quarter of 2013.
- The greatest increase in single-family permitting occurred in Nevada, where the number of single-family homes permitted increased by 150, or 8 percent, to 1,950 homes after a 1-percent decline during the same period a year earlier.
- The number of homes permitted in Hawaii declined 16 percent, to 520 homes, the highest percentage decline in the region, and the number of homes permitted in Arizona declined 3 percent, to 3,700 homes.

Single-family permitting in the Pacific region was nearly unchanged from a year ago but was up 16 percent from the fourth quarter of 2012.



4Q = fourth quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

Apartment Market Conditions

Apartment markets in most of the largest metropolitan areas in the Pacific region are tight. Of the 10 metropolitan areas referenced in this report, 7 recorded apartment vacancy rates below the national average of 5.2 percent during the fourth quarter of 2014 (Axiometrics Inc.). Apartment vacancy rates in the region ranged from 3.4 percent in San Francisco-Oakland-Hayward to 6.6 percent in Las Vegas-Henderson-Paradise. Average rents increased throughout the region, ranging from a 4-percent increase in Las Vegas-Henderson-Paradise to a 14-percent increase in San Francisco-Oakland-Hayward. The percentage growth in average

rents exceeded the national average of 6 percent in 5 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 \$2.96 and \$2.82 per square foot, respectively, more than twice the national average of \$1.29 per square foot.

During the fourth quarter of 2014 (preliminary data)—

- In response to tight rental market conditions, multifamily building activity in the region, as measured by the number of units

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Despite experiencing significant increases in multifamily construction, the Pacific region remained home to some of the tightest apartment markets in the country.

| | Market Condition | Vacancy Rate | | | Average Monthly Rent | | |
|-------------------------------------|------------------|--------------|-------------|-------------------------|----------------------|--------------|----------------|
| | | 4Q 2013 (%) | 4Q 2014 (%) | Percentage Point Change | 4Q 2013 (\$) | 4Q 2014 (\$) | Percent Change |
| Honolulu (Urban Honolulu) | Tight | 6.7 | 5.4 | - 1.3 | 1,841 | 1,982 | 8 |
| Las Vegas-Henderson-Paradise | Balanced | 8.0 | 6.6 | - 1.4 | 803 | 836 | 4 |
| Los Angeles-Long Beach-Anaheim | Tight | 4.6 | 3.9 | - 0.7 | 1,839 | 1,950 | 6 |
| Oxnard-Thousand Oaks-Ventura | Tight | 4.4 | 3.9 | - 0.5 | 1,646 | 1,760 | 7 |
| Phoenix-Mesa-Scottsdale | Balanced | 6.7 | 5.9 | - 0.8 | 809 | 857 | 6 |
| Riverside-San Bernardino-Ontario | Tight | 5.0 | 4.3 | - 0.7 | 1,235 | 1,299 | 5 |
| Sacramento--Roseville--Arden-Arcade | Tight | 4.5 | 4.0 | - 0.5 | 1,077 | 1,172 | 9 |
| San Diego-Carlsbad | Tight | 4.4 | 3.8 | - 0.6 | 1,604 | 1,704 | 6 |
| San Francisco-Oakland-Hayward | Tight | 3.9 | 3.4 | - 0.5 | 2,171 | 2,483 | 14 |
| San Jose-Sunnyvale-Santa Clara | Tight | 4.2 | 3.9 | - 0.3 | 2,252 | 2,534 | 13 |

4Q = fourth quarter.
Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—Axiometrics Inc.



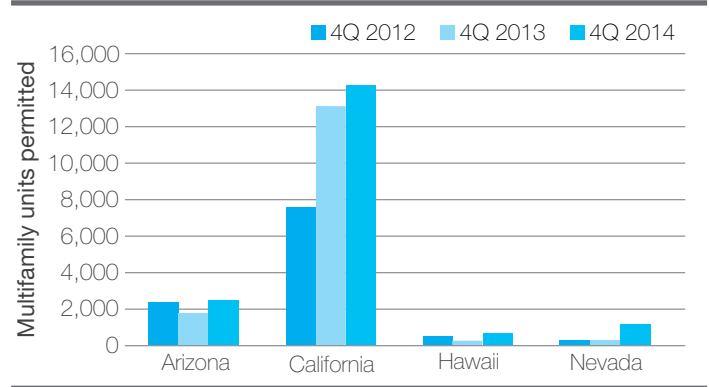
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permitted, increased 21 percent from the fourth quarter of 2013, to 18,650 units permitted, after a 44-percent increase during the same period a year earlier. By comparison, the number of units permitted nationally increased 4 percent from the fourth quarter of 2013 after a 24-percent increase during the same period a year earlier.

- California accounted for 76 percent of the multifamily units permitted in the region. Multifamily permitting activity in the state increased 9 percent, to 14,300 units, the highest level recorded during a fourth quarter since 2004 and the second highest level recorded during a fourth quarter since 2001.
- The percentage growth in multifamily permitting was highest in Nevada. The 1,225 units permitted in the state represented a more than 400-percent increase from the 230 units permitted during the fourth quarter of 2013 and the most units permitted during a fourth quarter since 2007.
- The number of multifamily units permitted in Arizona increased 42 percent, to 2,450 units, compared with a 27-percent decrease during the same period in 2013.

- In Hawaii, multifamily permitting increased nearly 150 percent to 720 units permitted, the highest level recorded in a fourth quarter since the 850 units permitted during the fourth quarter of 2004.

Multifamily permitting increased throughout the Pacific region during the fourth quarter of 2014 to the most units permitted during a fourth quarter since 2004.



4Q = fourth quarter.

Note: Based on preliminary data.

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

