

# HUD PD&R Regional Reports

## Region 9: Pacific

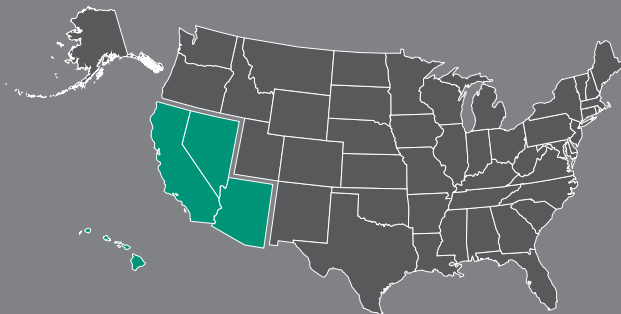


### Quick Facts About Region 9

Los Angeles, California

By Casey M. Blount | 1st quarter 2015

- **Sales market conditions—**  
First quarter 2015: mixed (balanced to tight).  
Fourth quarter 2014: mixed (balanced to tight).  
First quarter 2014: mixed (slightly soft to tight).
- **Apartment market conditions—**  
First quarter 2015: mixed (balanced to tight).  
Fourth quarter 2014: mixed (balanced to tight).  
First quarter 2014: mixed (slightly soft to tight).



## Overview

Economic conditions continued to strengthen in the Pacific region during the first quarter of 2015 compared with conditions during the first quarter of 2014. Nonfarm payroll jobs have expanded year over year in every quarter since the fourth quarter of 2010. California, which represented 78 percent of the jobs in the region during the first quarter of 2015, accounted for 81 percent of the job growth in the past year. From 2013 to 2014 (the most recent data available), the population of the region expanded from 49.27 million to 49.79 million, an increase of 1.1 percent, well above the national rate of 0.7 percent (Census Bureau population estimates as of July 1). Sales housing market conditions in the region remained balanced to tight and single-family homebuilding activity increased during the first quarter of 2015. Apartment market conditions throughout much of the region remained tight, but the apartment markets in the Las Vegas-Henderson-Paradise and Phoenix-Mesa-Scottsdale metropolitan areas remained balanced. In response to tightening apartment market conditions, multifamily construction increased in three of the four states in the region.

During the first quarter of 2015—

- Every nonfarm payroll sector in the region added jobs year over year for the fourth time in the past six quarters. Before 2013, the most recent time that job growth occurred in every sector was during the first quarter of 2001.

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- The number of homes sold in the region declined, but average sales prices continued to rise at a higher rate than in the nation in part because of significant reductions in the numbers of both short sales and real estate owned (REO) sales.

## Economic Conditions

Economic conditions in the Pacific region, which began to improve during the fourth quarter of 2010, continued to strengthen. All four states in the region added jobs during the first quarter of 2015, with overall nonfarm payrolls increasing by 599,900 jobs, or 3.0 percent, to approximately 20.34 million jobs, surpassing the previous first quarter high of 19.85 million jobs in 2007. The region added 2.23 million jobs during the past 5 years, a cumulative increase of 12.3 percent. The professional and business services and the education and health services sectors accounted for 41 percent of net job gains in the region during the first quarter of 2015. Increased building activity throughout the region contributed to job gains in the mining, logging, and construction sector, which was the fastest growing sector in the region and expanded 5.2 percent. The sector has added jobs year over year in each quarter since the third quarter of 2011 but remains well below the peak job levels in the mid-2000s. The unemployment rate in the region averaged 6.7 percent during the first quarter of 2015, down from 8.1 percent a year earlier but above the national average of 6.1 percent. Hawaii recorded the lowest average unemployment rate in the region at 4.1 percent,

- Multifamily permitting activity (as measured by the number of units permitted) in the region rose to the highest level recorded since the first quarter of 2006. The greatest increase occurred in California, where the number of multifamily units permitted expanded 66 percent from the first quarter of 2014.

down from 4.6 percent during the first quarter of 2014. In Arizona, the average unemployment rate declined from 7.1 percent during the first quarter of 2014, which exceeded the national average of 6.9 percent, to 6.1 percent during the first quarter of 2015, which is equal to the national average. The average unemployment rates in Nevada and California declined from 8.6 and 8.4 percent to 7.3 and 6.9 percent, respectively, but remained among the highest in the nation.

During the first quarter of 2015—

- California added 488,200 jobs, an increase of 3.2 percent, after a 3.0-percent gain during the first quarter of 2014. The professional and business services and education and health services sectors accounted for 41 percent of the net job growth in the state and increased by 120,800 and 78,800 jobs, or 5.1 and 3.3 percent, respectively.
- The highest job growth (in percentage terms) in the region occurred in Nevada, where nonfarm payrolls expanded by 39,750 jobs, or 3.3 percent. The leisure and hospitality sector, which

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### Nonfarm payroll growth (year over year) in the Pacific region exceeded the national rate for the 12th consecutive quarter.

|                                    | First Quarter       |                     | Year-Over-Year Change   |         |
|------------------------------------|---------------------|---------------------|-------------------------|---------|
|                                    | 2014<br>(thousands) | 2015<br>(thousands) | Absolute<br>(thousands) | Percent |
| <b>Total nonfarm payrolls</b>      | 19,738.6            | 20,338.5            | 599.9                   | 3.0     |
| Goods-producing sectors            | 2,381.9             | 2,433.2             | 51.3                    | 2.2     |
| Mining, logging, and construction  | 916.3               | 964.0               | 47.7                    | 5.2     |
| Manufacturing                      | 1,465.6             | 1,469.2             | 3.6                     | 0.2     |
| Service-providing sectors          | 17,356.8            | 17,905.3            | 548.5                   | 3.2     |
| Wholesale and retail trade         | 2,963.5             | 3,037.4             | 73.9                    | 2.5     |
| Transportation and utilities       | 678.1               | 709.6               | 31.5                    | 4.6     |
| Information                        | 517.3               | 530.7               | 13.4                    | 2.6     |
| Financial activities               | 1,047.4             | 1,069.6             | 22.2                    | 2.1     |
| Professional and business services | 2,981.5             | 3,124.4             | 142.9                   | 4.8     |
| Education and health services      | 2,956.1             | 3,056.4             | 100.3                   | 3.4     |
| Leisure and hospitality            | 2,423.2             | 2,522.3             | 99.1                    | 4.1     |
| Other services                     | 674.1               | 700.5               | 26.4                    | 3.9     |
| Government                         | 3,115.7             | 3,154.3             | 38.6                    | 1.2     |

Note: Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics

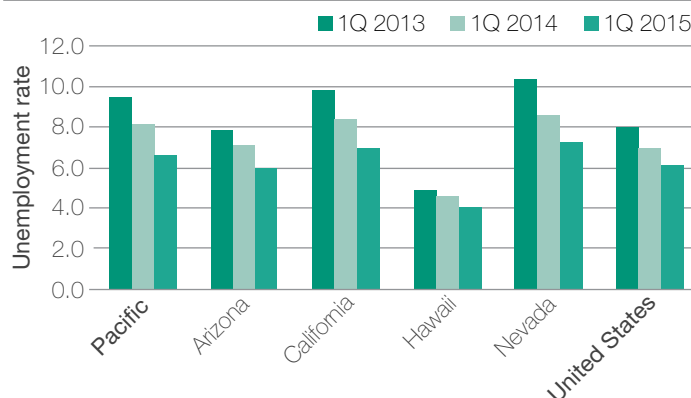


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added the most jobs in the state, expanded by 15,350 jobs, or 4.7 percent, and gross gaming revenue increased to \$2.82 billion, up 1 percent from the first quarter of 2014 (University of Nevada Las Vegas, Center for Business and Economic Research).

- Nonfarm payrolls in Arizona increased by 66,700 jobs, or 2.6 percent, compared with a gain of 53,100 jobs, or 2.1 percent, during the first quarter of 2014. The professional and business services and the education and health services sectors led job growth in the state and added 16,000 and 15,450 jobs, increases of 4.3 and 4.1 percent, respectively.
- In Hawaii, nonfarm payrolls increased by 5,200 jobs, or 0.8 percent. The wholesale and retail trade sector, which accounted for both the most and highest rate of job growth in the state, expanded by 2,125 jobs, or 2.5 percent.

Unemployment rates continued to decline throughout the Pacific region, but the rates in Nevada and California remained among the highest in the nation.



1Q = first quarter.  
Source: U.S. Bureau of Labor Statistics

## Population

The population of the Pacific region, which grew faster than the national average from 2013 to 2014, increased by 525,800, or 1.1 percent, compared with 0.7-percent growth for the nation overall (Census Bureau population estimates as of July 1). Rates of population growth ranged from highs of 1.7 and 1.5 percent in Nevada and Arizona, respectively, to lows of 1.0 and 0.8 percent in California and Hawaii, respectively. Nevada and Arizona had the second and seventh highest population growth rates of states in the nation. More than 40 percent of the population growth in the region resulted from net in-migration of 219,500 people, up from 186,800 people, or 37 percent of the population growth, during the previous 12 months. Net natural change (resident births minus resident deaths) declined slightly, to approximately 306,300 people, from 313,100 people during the previous 12 months, due to a 2-percent increase in resident deaths.

During the 12 months ending July 1, 2014—

- Strong job growth and relatively affordable housing in Arizona and Nevada contributed to higher population growth than in the other two states in the region. Net in-migration, particularly from more expensive markets in California, accounted for 64 and 72 percent of total population growth in the two states, respectively.
- Population growth in California, the most populous state in the nation, accounted for 70 percent of total population growth in the region. Net in-migration to California totaled 121,000 people and accounted for 55 percent of net in-migration into the region overall. International net in-migration of 161,300 people offset domestic net out-migration that was primarily because of sharply rising home prices. Asia and Latin America have accounted for 58 and 27 percent, respectively, of the foreign-born population to enter the state since 2010 (2013 American Community Survey 1-year data).

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The Pacific region represented 16 percent of the population of the nation as of July 1, 2013, but accounted for 22 percent of the population growth during the 12 months ending July 1, 2014.

|               | Population Estimate (as of July 1) |             |             | Percent Change |              |
|---------------|------------------------------------|-------------|-------------|----------------|--------------|
|               | 2012                               | 2013        | 2014        | 2012 to 2013   | 2013 to 2014 |
| United States | 314,112,078                        | 316,497,531 | 318,857,056 | 0.8            | 0.7          |
| Pacific       | 48,767,027                         | 49,266,871  | 49,792,644  | 1.0            | 1.1          |
| Arizona       | 6,556,236                          | 6,634,997   | 6,731,484   | 1.2            | 1.5          |
| California    | 38,062,780                         | 38,431,393  | 38,802,500  | 1.0            | 1.0          |
| Hawaii        | 1,392,766                          | 1,408,987   | 1,419,561   | 1.2            | 0.8          |
| Nevada        | 2,755,245                          | 2,791,494   | 2,839,099   | 1.3            | 1.7          |

Source: U.S. Census Bureau



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- Hawaii, which had the highest average home sales prices in the region, was the only state in the region with a decline in net in-migration, which totaled 2,925 people and represented 28 percent of population growth. By comparison, during the 12 months ending July 1, 2013, net in-migration totaled 8,375

people, or 52 percent of total population growth. Similar to California, Hawaii recorded domestic net out-migration during the 12 months ending July 1, 2014, which was partially offset by international net in-migration of 8,600 people.

## Sales Market Conditions

Sales housing markets in the Pacific region ranged from balanced to tight during the first quarter of 2015 after ranging from slightly soft to tight during the first quarter of 2014. Improving economic conditions have resulted in rising home sales prices throughout the region since 2012. The average home sales price in the region (including single-family homes, townhomes, and condominiums) increased 8 percent, to \$421,300, during the 12 months ending February 2015 after an 18-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 \$253,600, during the 12 months ending February 2015 after 10-percent growth during the previous 12-month period. During the 12 months ending February 2015, average home sales prices increased in all 10 of the metropolitan areas referenced in this report, ranging from 4-percent increases in Oxnard-Thousand Oaks-Ventura and Phoenix-Mesa-Scottsdale to a 12-percent increase in San Jose-Sunnyvale-Santa Clara. The number of homes sold in the region declined 8 percent, whereas the number of homes sold nationally decreased 4 percent. Home sales declined throughout the region, ranging from 6-percent declines in Urban Honolulu, Oxnard-Thousand Oaks-Ventura, and Sacramento--Roseville--Arden-Arcade to a 12-percent decline in Las Vegas-Henderson-Paradise.

The decreased number of home sales in the region was nearly entirely because of significant declines in short sales and REO sales, which decreased 53 and 26 percent, respectively. By comparison, the number of short sales declined 36 percent and the number of REO sales declined 17 percent in the nation. In March 2015, 2.3 percent of home loans in the region were 90 or more days delinquent, were in foreclosure, or had transitioned to REO status, down from 3.0 percent in March 2014 (Black Knight Financial Services, Inc.). The greatest decline was in Nevada, where the rate declined 1.8 percentage points, to 5.4 percent in March 2015, more than double the 0.8-percent decline in the national rate, which was 4.3 percent.

During the first quarter of 2015 (preliminary data)—

- Partially because of increased net in-migration, single-family homebuilding activity in the region, as measured by the number of homes permitted, rose 9 percent, to 16,200 homes, after a 1-percent decrease during the same period a year earlier. By comparison, the number of homes permitted nationally increased 5 percent from the first quarter of 2014 after a 1-percent increase during the same period a year earlier.

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### Home sales declined throughout the Pacific region, but growth in average sales prices exceeded the national rate.

|   | 12 Months Ending | Number of Homes Sold |         |                | Average or Median | Price     |           |                |
|---|------------------|----------------------|---------|----------------|-------------------|-----------|-----------|----------------|
|   |                  | 2014                 | 2015    | Percent Change |                   | 2014 (\$) | 2015 (\$) | Percent Change |
| Honolulu (Urban Honolulu) (N&E)           | February         | 10,995               | 10,389  | - 6            | AVG               | 543,905   | 604,699   | 11             |
| Las Vegas-Henderson-Paradise (N&E)        | February         | 53,766               | 47,232  | - 12           | AVG               | 208,253   | 222,307   | 7              |
| Los Angeles-Long Beach-Anaheim (N&E)      | February         | 124,639              | 113,374 | - 9            | AVG               | 611,069   | 658,586   | 8              |
| Oxnard-Thousand Oaks-Ventura (N&E)        | February         | 9,846                | 9,218   | - 6            | AVG               | 519,196   | 539,566   | 4              |
| Phoenix-Mesa-Scottsdale (N&E)             | February         | 104,145              | 97,270  | - 7            | AVG               | 238,486   | 248,580   | 4              |
| Riverside-San Bernardino-Ontario (N&E)    | February         | 73,394               | 65,315  | - 11           | AVG               | 277,892   | 298,505   | 7              |
| Sacramento--Roseville--Arden-Arcade (N&E) | February         | 39,048               | 36,721  | - 6            | AVG               | 307,041   | 336,209   | 9              |
| San Diego-Carlsbad (N&E)                  | February         | 43,488               | 39,169  | - 10           | AVG               | 511,471   | 542,129   | 6              |
| San Francisco-Oakland-Hayward (N&E)       | February         | 55,715               | 52,045  | - 7            | AVG               | 700,021   | 780,422   | 11             |
| San Jose-Sunnyvale-Santa Clara (N&E)      | February         | 21,978               | 20,455  | - 7            | AVG               | 773,168   | 865,261   | 12             |

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

Note: Includes single-family homes, townhomes, and condominiums.

Source: CoreLogic, Inc., with adjustments by the analyst

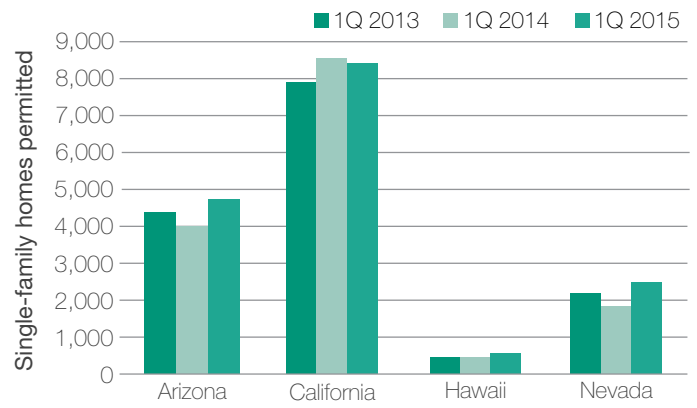




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- California accounted for 52 percent of the single-family homes permitted in the region. Surpluses of distressed homes continued to limit single-family homebuilding in some parts of the state, however, and the 8,425 single-family homes permitted in the state represented a 2-percent decrease from the 8,575 homes permitted during the first quarter of 2014.
- The greatest increase in single-family permitting occurred in Arizona, where the number of single-family homes permitted expanded by 750, or 19 percent, to 4,725 homes after a 9-percent decline during the same period a year earlier.
- In Nevada, the number of homes permitted rose 35 percent, to 2,500, the highest percentage growth in the region, and the number of homes permitted in Hawaii increased 24 percent, to 560 homes.

**Single-family permitting increased 9 percent in the Pacific region during the first quarter of 2015 after a 1-percent decrease during the first quarter of 2014.**



1Q = first 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 because population growth continued to put downward pressure on vacancy rates despite increased multifamily construction. Of the 10 metropolitan areas referenced in this report, 8 recorded apartment vacancy rates below the national average of 5.2 percent during the first quarter of 2015 (Axiometrics Inc.). Apartment vacancy rates in the region ranged from 3.5 percent in San Francisco-Oakland-Hayward to 6.3 percent in Las Vegas-Henderson-Paradise. Average rents rose throughout the region,

ranging from a 2-percent increase in Las Vegas-Henderson-Paradise to a 17-percent increase in San Francisco-Oakland-Hayward. 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 \$3.04 and \$2.89 per square foot, respectively, more than twice the national average of \$1.30 per square foot.

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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 nation.**

|                                     | Market Condition | Vacancy Rate |             |                         | Average Monthly Rent |              |                |
|-------------------------------------|------------------|--------------|-------------|-------------------------|----------------------|--------------|----------------|
|                                     |                  | 1Q 2014 (%)  | 1Q 2015 (%) | Percentage Point Change | 1Q 2014 (\$)         | 1Q 2015 (\$) | Percent Change |
| Honolulu (Urban Honolulu)           | Tight            | 6.2          | 6.1         | - 0.1                   | 1,894                | 1,986        | 5              |
| Las Vegas-Henderson-Paradise        | Balanced         | 7.7          | 6.3         | - 1.4                   | 823                  | 843          | 2              |
| Los Angeles-Long Beach-Anaheim      | Tight            | 4.6          | 4.2         | - 0.4                   | 1,842                | 1,970        | 7              |
| Oxnard-Thousand Oaks-Ventura        | Tight            | 3.9          | 4.2         | 0.3                     | 1,674                | 1,779        | 6              |
| Phoenix-Mesa-Scottsdale             | Balanced         | 6.2          | 5.1         | - 1.1                   | 819                  | 872          | 6              |
| Riverside-San Bernardino-Ontario    | Tight            | 4.8          | 4.5         | - 0.3                   | 1,252                | 1,319        | 5              |
| Sacramento--Roseville--Arden-Arcade | Tight            | 4.4          | 4.3         | - 0.1                   | 1,089                | 1,185        | 9              |
| San Diego-Carlsbad                  | Tight            | 4.3          | 4.1         | - 0.2                   | 1,601                | 1,730        | 8              |
| San Francisco-Oakland-Hayward       | Tight            | 3.9          | 3.5         | - 0.4                   | 2,175                | 2,549        | 17             |
| San Jose-Sunnyvale-Santa Clara      | Tight            | 4.1          | 3.7         | - 0.4                   | 2,310                | 2,608        | 13             |

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



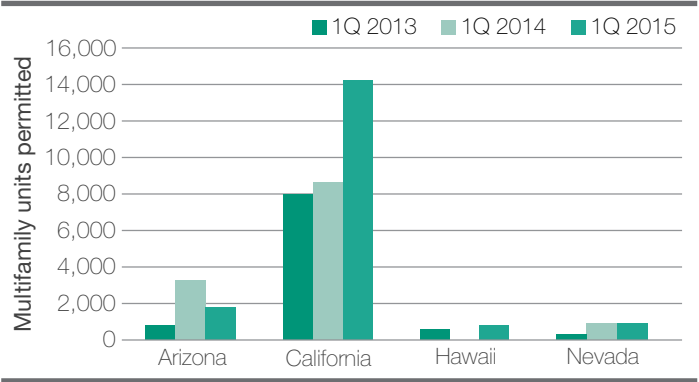
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During the first quarter of 2015 (preliminary data)—

- In response to tight rental market conditions, multifamily building activity in the region rose 41 percent from the first quarter of 2014, to 17,950 units permitted, after 32-percent growth during the same period a year earlier. By comparison, the number of units permitted nationally increased 8 percent from the first quarter of 2014, after a 20-percent increase during the same period a year earlier.
- California accounted for 80 percent of the multifamily units permitted in the region. Multifamily permitting activity in the state increased 66 percent, to 14,400 units, the highest level recorded during a first quarter since 2006 and the second highest level recorded during a first quarter since 2001.
- The number of multifamily units permitted in Nevada rose 5 percent, to 920, the most units permitted during a first quarter since 2008.
- In Arizona, multifamily permitting decreased 45 percent after a more than 270-percent increase during the same period in 2014. The 1,775 units permitted during the first quarter of 2015 comprised the second most units permitted during a first quarter since 2008, however.

- Growth in multifamily permitting was highest in Hawaii (on a percentage basis), where 840 multifamily units were permitted, up from the 10 units permitted during the first quarter of 2014, which was the fewest units permitted during a first quarter since 2002.

**Multifamily permitting increased in three of the four Pacific region states during the first quarter of 2015, and the number of units permitted in the region was the most during a first quarter since 2006.**



1Q = first quarter.

Note: Based on preliminary data.

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

