

HUD PD&R Regional Reports

Region 9: Pacific

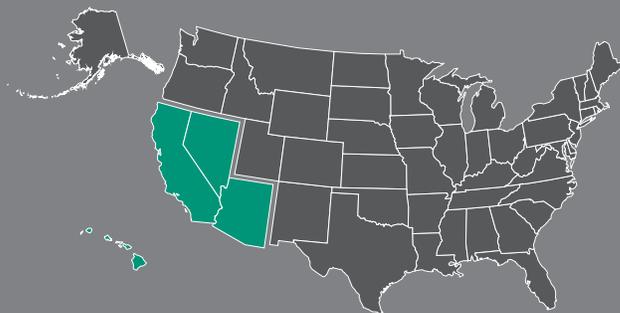


Quick Facts About Region 9

Los Angeles, California

By Ikuo J. Nakano | 1st quarter 2014

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



Overview

Economic conditions in the Pacific region continued their recent trend of improvement during the first quarter of 2014, but housing market conditions were mixed. Sales vacancy rates declined as home sales and average sales prices increased and single-family homebuilding decreased. Apartment vacancy rates also declined and multifamily construction increased. The share of distressed home loans continued to decline throughout the region but remained high in some areas. In all but one major metropolitan area in the region, average rents increased during the first quarter of 2014 compared with rents during the first quarter of 2013.

- Nonfarm payrolls reached 19.6 million in the first quarter of 2014, the most since the 19.8 million nonfarm payrolls in the first quarter of 2008.
- Gains in the average new and existing home sales price from the previous 12 months were more than the 9-percent national average in 9 of the 10 major metropolitan areas in the region during the 12 months ending March 2014. The increases in these 9 metropolitan areas ranged from 16 percent in San Diego-Carlsbad and San Jose-Sunnyvale-Santa Clara to 24 percent in Sacramento—Roseville—Arden-Arcade.
- Average rent changes in the first quarter of 2014 from a year earlier ranged from a 4-percent decline in the Honolulu metropolitan area to an 11-percent increase in the San Jose-Sunnyvale-Santa Clara metropolitan area.



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Job growth was positive in every nonfarm payroll sector in the Pacific region during the first quarter of 2014.

	First Quarter		Year-Over-Year Change	
	2013 (thousands)	2014 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	19,175.4	19,633.7	458.3	2.4
Goods-producing sectors	2,309.5	2,360.4	50.9	2.2
Mining, logging, and construction	864.4	913.4	49.0	5.7
Manufacturing	1,445.1	1,447.0	1.9	0.1
Service-providing sectors	16,866.0	17,273.3	407.3	2.4
Wholesale and retail trade	2,896.0	2,964.0	68.0	2.3
Transportation and utilities	659.1	673.2	14.1	2.1
Information	503.3	519.3	16.0	3.2
Financial activities	1,041.7	1,052.5	10.8	1.0
Professional and business services	2,874.3	2,986.1	111.8	3.9
Education and health services	2,844.3	2,936.0	91.7	3.2
Leisure and hospitality	2,311.0	2,381.3	70.3	3.0
Other services	652.3	663.1	10.8	1.7
Government	3,083.9	3,097.6	13.7	0.4

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

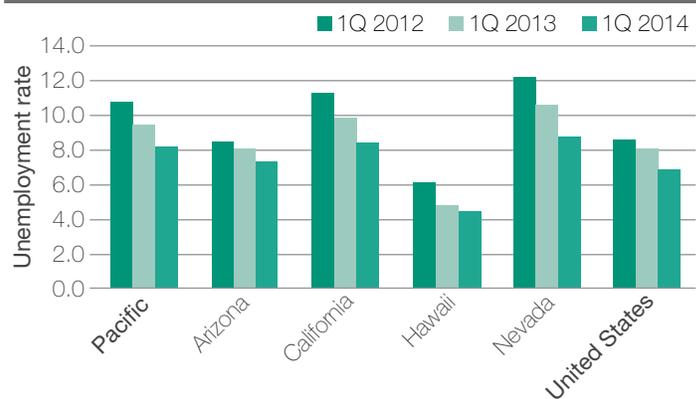
Economic Conditions

Economic conditions in the Pacific region continued a trend of improvement during the first quarter of 2014, when nonfarm payrolls increased by 458,300 jobs, or 2.4 percent, to 19.6 million after a gain of 544,700 jobs, or 2.9 percent, to 19.2 million during the same period in 2013. The greatest gains in nonfarm payroll jobs during the first quarter of 2014 occurred in California and Arizona, which added 356,000 and 49,700 jobs, 2.4- and 2.0-percent increases, respectively. Nevada added 44,200 jobs, a 3.8-percent increase, and Hawaii added 8,500 jobs, a 1.4-percent increase. The average unemployment rate in the region was 8.3 percent, lower than 9.5 percent a year earlier but higher than the 6.9-percent first quarter rate for the nation.

During the first quarter of 2014—

- The mining, logging, and construction sector was the fastest growing sector in the region, expanding by 49,000 jobs, or 5.7 percent, from the first quarter of 2013. The job growth rate was highest in Nevada, where the sector expanded by 5,825 jobs, or 8.6 percent, partially due to a 12.5-percent increase in the total number of buildings (housing plus commercial) permitted in the Las Vegas-Henderson-Paradise metropolitan area (University of Nevada, Las Vegas, Center for Business and Economic Research).
- Job growth in the professional and business services and the education and health services sectors was also significant; the sectors increased by 111,800 and 91,700 jobs in the region, or

Unemployment rates continued to decline in all four states in the Pacific region, but only Hawaii had a lower rate than the nation.



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

3.9 and 3.2 percent, respectively. The professional and business services sector is likely to continue expanding, partially because of the \$600 million development of State Farm Mutual Automobile Insurance Company's new regional headquarters in the Phoenix-Mesa-Scottsdale metropolitan area, which will add 5,000 to 7,000 permanent jobs by the time construction of the complex is complete in 2017.

- The leisure and hospitality sector added 70,300 jobs, a 3.0-percent gain, partially because of increased tourism activity in Arizona, where tourism expenditures totaled \$18.9 billion during the 3 months ending February 2014, a 9-percent gain from the previous year.

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- More than 1,300 hotel rooms costing in excess of \$1 billion are currently under construction in downtown Los Angeles. These additional rooms will help attract larger conventions to the Los Angeles Convention Center.

- The unemployment rate declined in all four states in the region but declined the most in Nevada, dropping from 10.6 to 8.8 percent.

Population

The population of the Pacific region expanded 0.9 percent from July 2012 to July 2013, to 49.15 million, greater than the national rate of 0.7 percent as population growth in all four states in the region exceeded the national average for the second consecutive year. The region represented 15.5 percent of the total population of the nation in 2013.

From July 1, 2012, to July 1, 2013—

- Nevada and Arizona were the fastest growing states in the region in terms of population, expanding 1.3 and 1.2 percent, respectively, as job growth and affordable housing generated net in-migration to both states. Part of the in-migration gains in Nevada and Arizona were from the net domestic out-migration from California.

- Despite strong job growth, sharply rising home sales prices contributed to net domestic out-migration of 49,300 people from California. The population of the state expanded 0.9 percent, however, due to a net natural increase of 250,600 people, the most of any state in the nation. By contrast with losses from net domestic out-migration, California added 123,200 residents via net international in-migration, the most in the nation.
- Hawaii, which had the second highest average home prices and the least job growth in the region, experienced net domestic out-migration of 1,450. The population expanded 1.0 percent, however, due to a net natural increase of 11,450 and net international in-migration of 7,450 people.

The population increase in the Pacific region exceeded the population increase for the nation.

	Population Estimate (as of July 1)			Percent Change	
	2011	2012	2013	2011 to 2012	2012 to 2013
United States	311,582,564	313,873,685	316,128,839	0.7	0.7
Pacific	48,232,325	48,695,471	49,153,335	1.0	0.9
Arizona	6,468,796	6,551,149	6,626,624	1.3	1.2
California	37,668,681	37,999,878	38,332,521	0.9	0.9
Hawaii	1,376,897	1,390,090	1,404,054	1.0	1.0
Nevada	2,717,951	2,754,354	2,790,136	1.3	1.3

Source: U.S. Census Bureau

Sales Market Conditions

Sales housing market conditions continued to improve throughout the Pacific region, but conditions varied from slightly soft to tight as a surplus of distressed properties remained in many areas during the first quarter of 2014. New and existing home sales (including single-family homes, townhomes, and condominiums) rose 1 percent each in Hawaii and Nevada, to 18,700 and 66,950, respectively, during the 12 months ending March 2014 (MetroStudy, A Hanley Wood Company). By contrast, new and existing home sales decreased 7 percent in Arizona and 1 percent in California during the same period. During the first quarter of 2014, 3.1 percent of home loans in the region were 90 or more days delinquent, were in foreclosure, or transitioned into REO (Real Estate Owned) status, down from 5.2 percent during the first quarter of 2013 (Black Knight Financial Services, Inc.). The statewide rates of distressed loans and

REO properties ranged from 2.7 percent in Arizona to 7.5 percent in Nevada, down from 4.5 and 11.6 percent, respectively. The rate of distressed loans and REO properties in Clark County, Nevada, which is coterminous with the Las Vegas-Henderson-Paradise metropolitan area, declined from 12.8 percent in the first quarter of 2013 to 8.3 percent in the first quarter of 2014, the greatest decline of any county in the region and the 49th greatest decline of any county in the nation. As a percentage of total sales, REO and short sales decreased from 25 to 13 percent in Arizona, from 30 to 14 percent in California, from 10 to 8 percent in Hawaii, and from 38 to 22 percent in Nevada from the 3 months ending February 2013 to the 3 months ending February 2014 (CoreLogic, Inc.). These declines in the REO and short sales' share of total sales contributed to significant gains in the average sales prices in Nevada, California, and Arizona. During the 12 months ending March 2014, the greatest

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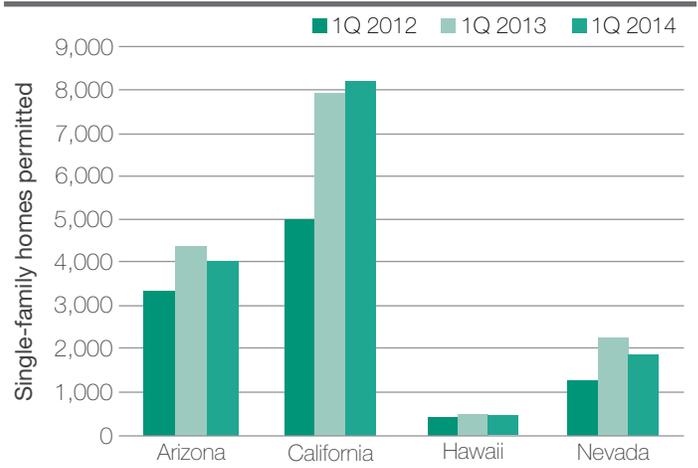
percentage increase in the region occurred in the Sacramento—Roseville—Arden-Arcade and the Las Vegas-Henderson-Paradise metropolitan areas, where the average new and existing home sales prices rose 24 and 23 percent, to \$311,100 and \$208,400, respectively. In the San Francisco-Oakland-Hayward metropolitan area, the average new and existing home sales price increased 22 percent, to \$738,700.

Single-family home construction activity, as measured by the number of homes permitted, during the first quarter of 2014 declined in Arizona and Nevada, rose in California, and remained flat in Hawaii.

During the first quarter of 2014 (preliminary data)—

- Single-family homebuilding in the region declined by 450 homes, or 3 percent, to 14,450 homes permitted from the 14,900 homes permitted in the first quarter of 2013, which was the most homes permitted during the first quarter since 2007, when 38,800 homes were permitted. Single-family construction activity averaged 53,300 homes permitted during the first quarters from 2002 through 2007 and 10,350 homes permitted during the first quarters from 2008 through 2012.
- Single-family building activity declined in Arizona and Nevada by 400 and 350 homes permitted, or 9 and 16 percent, respectively. In Hawaii, single-family building activity remained flat at 440 homes permitted.

Single-family permitting in the Pacific region increased in California, remained flat in Hawaii, and declined in Arizona and Nevada.



1Q = first quarter.
 Note: Based on preliminary data.
 Source: U.S. Census Bureau, Building Permits Survey

- California was the only state in the region to realize a gain in single-family home construction, with an increase of 300 homes permitted, or 4 percent, to 8,200 homes.

The average home sales price increased in 9 of the 10 major metropolitan areas in the Pacific region.

	12 Months Ending	Number of Homes Sold			Price			
		2013	2014	Percent Change	Average or Median	2013 (\$)	2014 (\$)	Percent Change
Honolulu (N&E)	March	11,550	10,950	- 5	AVG	537,500	536,300	0
Las Vegas-Henderson-Paradise (N&E)	March	51,250	50,900	- 1	AVG	169,700	208,400	23
Los Angeles-Long Beach-Anaheim (N&E)	March	121,000	121,000	0	AVG	529,000	636,400	20
Oxnard-Thousand Oaks-Ventura (N&E)	March	9,825	9,200	- 6	AVG	453,500	540,800	19
Phoenix-Mesa-Scottsdale (N&E)	March	116,600	103,700	- 11	AVG	200,900	239,100	19
Riverside-San Bernardino-Ontario (N&E)	March	71,400	72,100	1	AVG	236,000	281,100	19
Sacramento—Roseville—Arden-Arcade (N&E)	March	38,650	38,000	- 2	AVG	251,900	311,100	24
San Diego-Carlsbad (N&E)	March	42,250	42,150	0	AVG	445,300	515,800	16
San Francisco-Oakland-Hayward (N&E)	March	54,800	52,000	- 5	AVG	605,200	738,700	22
San Jose-Sunnyvale-Santa Clara (N&E)	March	20,000	19,950	0	AVG	720,100	833,300	16

AVG = average. N&E = new and existing.
 Source: Metrostudy, A Hanley Wood Company

Apartment Market Conditions

Apartment market conditions remained tight in most of the Pacific region as a result of the significant foreclosure activity that occurred during the end of the previous decade. From the first quarter of 2010 to the first quarter of 2014, the renter share of total occupied

units increased from 31.8 to 35.2 percent in Arizona, 43.3 to 45.5 percent in California, 42.6 to 43.5 percent in Hawaii, and 39.1 to 53.8 percent in Nevada. Apartment housing markets in the Pacific region remain among the tightest in the nation, with apartment vacancy rates in 9 of the 10 major metropolitan areas below the

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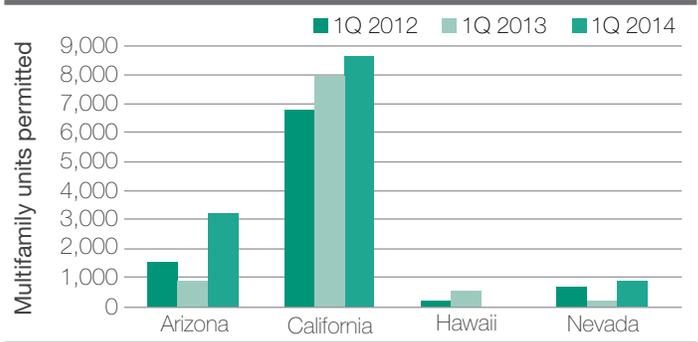
national average of 5.7 percent (Axiometrics Inc.). Apartment vacancy rates declined from the first quarter of 2013 to the first quarter of 2014 in every major metropolitan area in the region except Honolulu, where the rate increased from 4.2 to 4.5 percent. Honolulu was also the only major metropolitan area where the average rent declined, decreasing 4 percent. The increase in average rents in the other 9 major metropolitan areas ranged from 2 percent in Phoenix-Mesa-Scottsdale to 11 percent in San Jose-Sunnyvale-Santa Clara. In the San Francisco-Oakland-Hayward metropolitan area, the apartment vacancy rate declined from 4.2 to 4.0 percent and the average rent increased 6 percent, to \$2,163. Part of the rent increase in San Francisco-Oakland-Haywood resulted from the free busing of more than 5,000 technology employees to the technology centers in San Jose-Sunnyvale-Santa Clara (*Los Angeles Times*). This increased demand for available units in San Francisco enabled landlords to obtain higher rents.

Multifamily construction, as measured by the number of units permitted, rose significantly in three states in the region. Hawaii was the only state to record a decrease in multifamily permitting activity.

During the first quarter of 2014 (preliminary data)—

- The number of multifamily units permitted in the region increased by 3,200, or 33 percent, to 12,800 units permitted. By comparison, multifamily construction averaged 18,200 units permitted during the first quarters from 2003 through 2007.
- In Arizona, multifamily construction increased to 3,250 units permitted compared with 860 units during the first quarter of 2013. More than 90 percent of the statewide total, or about 3,000 units, were permitted in the Phoenix-Mesa-Scottsdale metropolitan area.

Multifamily construction activity increased significantly in three states in the Pacific region because of tightening apartment markets.



1Q = first quarter.
 Note: Based on preliminary data.
 Source: U.S. Census Bureau, Building Permits Survey

- Multifamily construction increased by 690 units permitted in Nevada, to 880 units. Nearly 90 percent of the statewide total, or about 780 units, were permitted in the Las Vegas-Henderson-Paradise metropolitan area.
- In California, multifamily construction rose 8 percent, to 8,625 units permitted, compared with 8,000 units during the first quarter of 2013.
- Hawaii experienced a decline in multifamily building activity of 530 units permitted, or 98 percent, to approximately 15 units. Multifamily permitting activity was unusually high during the first quarter of 2013. Most multifamily units in Hawaii historically are permitted during the latter 6 months of the year.

Apartment markets in the Pacific region remained among the tightest in the nation, with vacancy rates below 5 percent in 8 of the 10 major market areas.

Market Condition	Vacancy Rate			Average Monthly Rent			
	1Q 2013 (%)	1Q 2014 (%)	Percentage Point Change	1Q 2013 (\$)	1Q 2014 (\$)	Percent Change	
Honolulu	Tight	4.2	4.5	0.3	1,971	1,892	- 4
Las Vegas-Henderson-Paradise	Slightly soft	8.7	7.1	- 1.6	801	823	3
Los Angeles-Long Beach-Anaheim	Tight	4.7	4.6	- 0.1	1,775	1,839	4
Oxnard-Thousand Oaks-Ventura	Tight	4.6	3.9	- 0.7	1,583	1,674	6
Phoenix-Mesa-Scottsdale	Balanced	6.7	5.5	- 1.2	803	820	2
Riverside-San Bernardino-Ontario	Balanced	5.4	4.6	- 0.8	1,217	1,253	3
Sacramento—Roseville—Arden-Arcade	Balanced	5.7	4.7	- 1.0	1,056	1,087	3
San Diego-Carlsbad	Tight	4.6	4.3	- 0.3	1,541	1,596	4
San Francisco-Oakland-Hayward	Tight	4.2	4.0	- 0.2	2,050	2,163	6
San Jose-Sunnyvale-Santa Clara	Tight	3.9	3.6	- 0.3	2,085	2,310	11

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

