

HUD PD&R Regional Reports

Region 9: Pacific

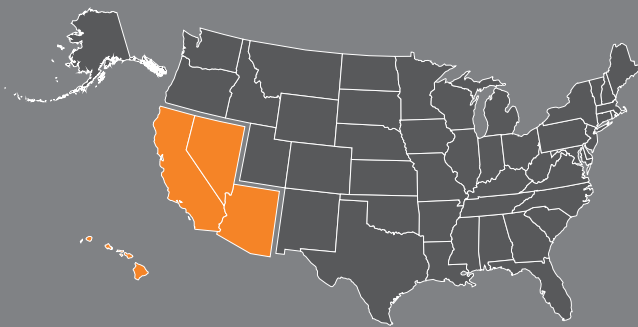


Honolulu, Hawaii

By Elaine Ng | 2nd quarter 2015

Quick Facts About Region 9

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



Overview

Economic conditions continued to improve in the Pacific region during the second quarter of 2015 compared with conditions during the second 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 second quarter of 2015, accounted for 82 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. 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. As a result of tightening apartment market conditions, multifamily construction increased in three of the four states in the region.

During the second quarter of 2015—

- Every nonfarm payroll sector in the region added jobs year over year in each quarter since the third quarter of 2013. Before 2013, the most recent quarter in which job growth occurred in every sector was 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 greater rate than in the nation, in part, because of significant reductions in the numbers of both short sales and real estate owned (REO) sales.
- Home builders responded to tightening apartment market conditions by increasing multifamily construction activity (as measured

by the number of units permitted) in the region. Multifamily permitting increased 10 percent, after increasing only 1 percent during the same period in 2014. The greatest increase occurred in Hawaii, where the number of multifamily units permitted increased threefold from the second quarter of 2014.

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 2015 as nonfarm payrolls exceeded prerecession levels. All four states in the region added jobs during the second quarter of 2015, with overall nonfarm payrolls increasing by 572,900 jobs, or 2.9 percent, to approximately 20.58 million jobs, surpassing the previous second quarter high of 20.03 million jobs in 2007. The region added 2.19 million jobs during the past 5 years, a cumulative increase of 11.9 percent. The professional and business services and the education and health services sectors accounted for 43 percent of net job gains in the region during the second quarter of 2015. Increased building activity throughout the region contributed to job gains in the mining, logging, and construction sector, which increased 5.7 percent and was the fastest growing sector in the region. The sector has added jobs year over year in each quarter since the third quarter of 2011 but is 41 percent below the second-quarter peak of 1.41 million jobs in 2006. The

unemployment rate in the region averaged 6.1 percent during the second quarter of 2015, down from 7.1 percent a year earlier, but above the national average of 5.3 percent. Hawaii recorded the lowest average unemployment rate in the region, at 4.1 percent, down from 4.6 percent during the second quarter of 2014. In Arizona, the unemployment rate averaged slightly above the national average, at 5.8 percent, down from 6.8 percent during the second quarter of 2014. The average unemployment rates in Nevada and California declined from 7.9 and 7.3 percent to 6.9 and 6.2 percent, respectively, but remained among the highest in the nation.

During the second quarter of 2015—

- California added 468,700 jobs, an increase of 3.0 percent, after a 3.1-percent gain during the second quarter of 2014. The professional and business services and the education and health services sectors accounted for 44 percent of net job growth in the state and increased by 129,900 and 75,200 jobs, or 5.4 and 3.1 percent, respectively.

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Year-over-year nonfarm payroll growth increased in every sector in the Pacific region during the second quarter of 2015.

	Second Quarter		Year-Over-Year Change	
	2014 (thousands)	2015 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	20,009.8	20,582.7	572.9	2.9
Goods-producing sectors	2,422.9	2,482.7	59.8	2.5
Mining, logging, and construction	945.2	998.8	53.6	5.7
Manufacturing	1,477.7	1,483.9	6.2	0.4
Service-providing sectors	17,587.0	18,100.1	513.1	2.9
Wholesale and retail trade	2,978.9	3,049.5	70.6	2.4
Transportation and utilities	686.6	711.6	25.0	3.6
Information	517.9	535.5	17.6	3.4
Financial activities	1,054.8	1,071.8	17.0	1.6
Professional and business services	3,030.3	3,179.5	149.2	4.9
Education and health services	2,980.7	3,076.5	95.8	3.2
Leisure and hospitality	2,509.2	2,594.8	85.6	3.4
Other services	691.0	708.7	17.7	2.6
Government	3,137.6	3,172.3	34.7	1.1

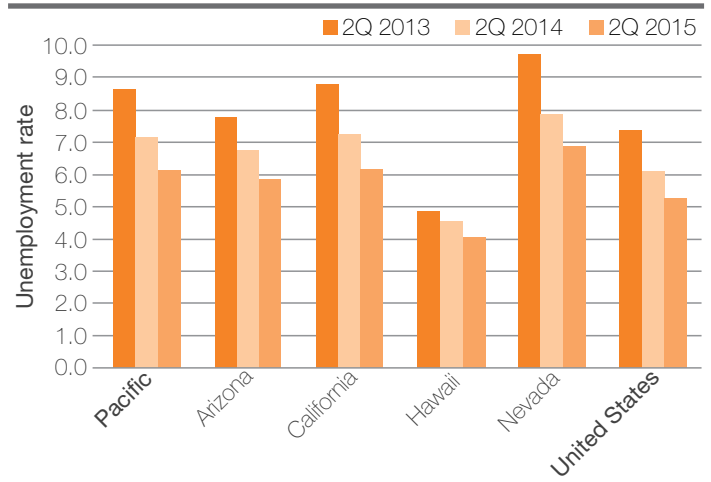
Note: Numbers may not add to totals because of rounding.
Source: U.S. Bureau of Labor Statistics



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- The highest job growth (in percentage terms) in the region occurred in Nevada, where nonfarm payrolls expanded by 39,900 jobs, or 3.3 percent. The leisure and hospitality sector, which added the most jobs in the state, expanded by 16,000 jobs, or 4.7 percent. The \$4 billion Resorts World Las Vegas resort broke ground in May 2015 and is expected to add 8,500 direct jobs when the 6,500-room casino and resort opens in 2018. During buildout, 30,000 construction jobs are expected to be added.
- Nonfarm payrolls in Arizona increased by 56,700 jobs, or 2.2 percent, compared with a gain of 44,000 jobs, or 1.8 percent, during the second quarter of 2014. The professional and business services and the education and health services sectors led job growth in the state and added 14,200 and 13,400 jobs, increases of 3.8 and 3.6 percent, respectively. The state is currently benefiting from several expansions of operations centers, including Northern Trust, which will open its regional operations facility in Tempe in July 2015 and which is expected to add 1,000 new jobs to the area during the next 3 years.
- In Hawaii, nonfarm payrolls increased by 7,600 jobs, or 1.2 percent. The wholesale and retail trade sector, which accounted for both the largest and highest rate of job growth in the state, expanded by 2,475 jobs, or 2.9 percent.

Unemployment rates continued to decline in all four states of the Pacific region but remained higher than the national rate in three of the states during the second quarter of 2015.



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

Sales Market Conditions

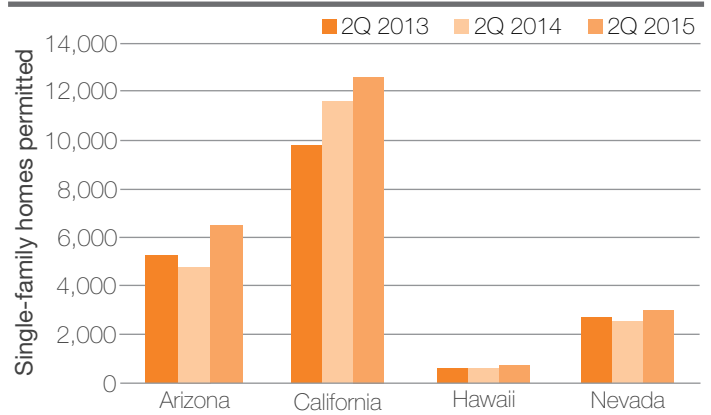
Sales housing markets in the Pacific region ranged from balanced to tight during the second quarter of 2015, unchanged from a year ago. Strong economic conditions have resulted in rising home sales prices throughout the region since 2012. The average home sales price in the region (including single-family homes, townhomes, and condominiums) increased 7 percent, to \$424,900, during the 12 months ending April 2015 after a 17-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 \$255,200, during the 12 months ending April 2015 after 9-percent growth during the previous 12-month period. During the 12 months ending April 2015, average home sales prices increased in all 10 metropolitan areas referenced in this report for the fifth consecutive quarter, ranging from a 4-percent increase in Phoenix-Mesa-Scottsdale, where the sales market was balanced, to an 11-percent increase in San Jose-Sunnyvale-Santa Clara, where the sales market was tight.

The number of homes sold in the region declined 5 percent, whereas the number of homes sold nationwide decreased 2 percent. Home sales declined throughout the region, ranging from 2-percent declines in Urban Honolulu and Sacramento--Roseville--Arden-Arcade to an 8-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 48 and 21 percent, respectively. By comparison, in the nation, the number of short sales and REO sales declined 30 and 16 percent, respectively. The percentage of seriously delinquent

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Single-family permitting increased in every state in the Pacific region during the second quarter of 2015.



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



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mortgage loans (loans that are 90 or more days delinquent or in foreclosure) and REO properties in the region declined to 2.2 percent as of June 2015, lower than the 4.1-percent national rate (Black Knight Financial Services, Inc.). The percentage of seriously delinquent mortgage loans and REO properties in the region is currently down from 2.7 percent during June 2014. The greatest decline was in Nevada, where the rate declined 1.3 percentage points, to 5.2 percent, in June 2015, almost double the 0.7-percent-point decline in the national rate.

During the second quarter of 2015 (preliminary data)—

- Single-family homebuilding activity, as measured by the number of homes permitted, rose 16 percent in the region, to 22,900 homes, after a 7-percent increase during the same period a year earlier. By comparison, the number of homes permitted

nationwide increased 11 percent from the second quarter of 2014 after a 7-percent increase during the same period a year earlier.

- California accounted for 55 percent of the single-family homes permitted in the region. The 12,650 single-family homes permitted in the state represented a 9-percent increase from the 11,600 homes permitted during the second quarter of 2014.
- The greatest increase in single-family permitting occurred in Arizona, where the number of single-family homes permitted expanded by 1,650, or 34 percent, to 6,525 homes following an 8-percent decline during the same period a year earlier.
- In Nevada, the number of homes permitted rose 17 percent, to 3,025, and the number of homes permitted in Hawaii increased 16 percent, to 740 homes.

Home sales declined throughout the Pacific region during the second quarter of 2015, primarily as a result of declining REO and short sales.

	12 Months Ending	Number of Homes Sold			Price			
		2014	2015	Percent Change	Average or Median	2014 (\$)	2015 (\$)	Percent Change
Las Vegas-Henderson-Paradise (N&E)	April	52,357	48,012	- 8	AVG	209,201	226,463	8
Los Angeles-Long Beach-Anaheim (N&E)	April	122,641	113,829	- 7	AVG	621,046	663,968	7
Oxnard-Thousand Oaks-Ventura (N&E)	April	9,731	9,416	- 3	AVG	525,196	549,286	5
Phoenix-Mesa-Scottsdale (N&E)	April	102,768	99,675	- 3	AVG	241,437	250,229	4
Riverside-San Bernardino-Ontario (N&E)	April	71,971	67,187	- 7	AVG	283,761	301,932	6
Sacramento--Roseville--Arden-Arcade (N&E)	April	38,312	37,673	- 2	AVG	314,047	339,037	8
San Diego-Carlsbad (N&E)	April	42,568	39,895	- 6	AVG	517,927	546,977	6
San Francisco-Oakland-Hayward (N&E)	April	55,084	52,545	- 5	AVG	720,122	791,502	10
San Jose-Sunnyvale-Santa Clara (N&E)	April	21,737	20,566	- 5	AVG	794,408	884,033	11
Urban Honolulu (N&E)	April	11,028	10,775	- 2	AVG	546,084	602,838	10

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

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 had apartment vacancy rates below the national average of 4.7 percent during the second quarter of 2015 (Axiometrics, Inc.). Apartment vacancy rates in the region ranged from 3.4 percent in Oxnard-Thousand Oaks-Ventura to 5.6 percent in Las Vegas-Henderson-Paradise. Average rents rose throughout the region, ranging from a 2-percent increase in Urban Honolulu to a 16-percent increase in San Francisco-Oakland-Hayward. Percentage growth in average rents exceeded the national average of 7 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 \$3.15 and \$3.04 per square foot, respectively, more than twice the national average of \$1.34 per square foot.

During the second quarter of 2015 (preliminary data)—

- In response to tight rental market conditions, multifamily building activity in the region increased 10 percent compared with building activity during the second quarter of 2014, to 16,300 units permitted, following a 42-percent growth rate during the same period a year earlier. By comparison, the number of units permitted nationwide increased 58 percent from the second quarter of 2014, after a 23-percent increase during the same period a year earlier.

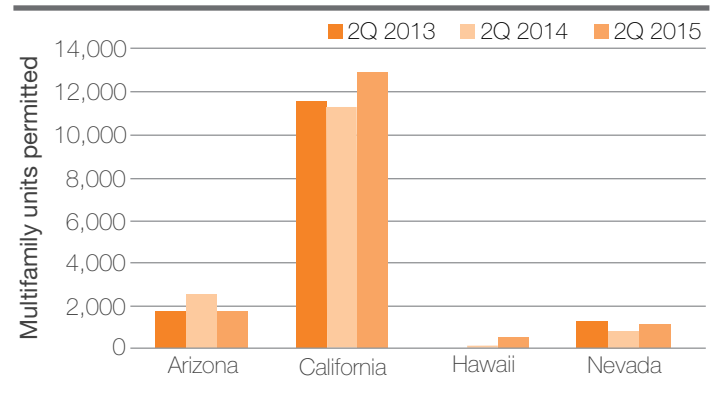
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- California accounted for 79 percent of the multifamily units permitted in the region. Multifamily permitting activity in the state increased 14 percent, to 12,900 units, the highest level recorded during a second quarter since 2004.
- Growth in multifamily permitting was highest in Hawaii (on a percentage basis), where 550 multifamily units were permitted, up from the 130 units permitted during the second quarter of 2014 and up from the 30 units permitted during the second quarter of 2013. Multifamily permitting during the second quarter of 2013 was the lowest level during a second quarter in the state since 2009.
- The number of multifamily units permitted in Nevada increased 36 percent, to 1,100 units, following a 35-percent decrease during the same period in 2014.
- Multifamily permitting activity declined only in Arizona, decreasing 30 percent, to 1,775 units, after a 42-percent increase during the same period a year earlier. Phoenix is one of only two balanced apartment markets in the region, and the decline in multifamily construction activity there accounted for 79 percent of the decline for the entire state.

Multifamily permitting increased in every state of the Pacific region, except in Arizona, during the second quarter of 2015.



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

During the second quarter of 2015, the Pacific region remained home to some of the tightest apartment markets in the country.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2014 (%)	2Q 2015 (%)	Percentage Point Change	2Q 2014 (\$)	2Q 2015 (\$)	Percent Change
Las Vegas-Henderson-Paradise	Balanced	6.7	5.6	- 1.1	830	872	5
Los Angeles-Long Beach-Anaheim	Tight	4.2	4.0	- 0.2	1,891	2,030	7
Oxnard-Thousand Oaks-Ventura	Tight	3.7	3.4	- 0.3	1,727	1,868	8
Phoenix-Mesa-Scottsdale	Balanced	6.1	5.3	- 0.8	833	890	7
Riverside-San Bernardino-Ontario	Tight	4.8	4.1	- 0.7	1,263	1,356	7
Sacramento--Roseville--Arden-Arcade	Tight	4.0	3.7	- 0.3	1,128	1,240	10
San Diego-Carlsbad	Tight	3.7	3.9	- 0.2	1,644	1,785	9
San Francisco-Oakland-Hayward	Tight	3.5	3.6	0.1	2,228	2,590	16
San Jose-Sunnyvale-Santa Clara	Tight	3.5	3.6	0.1	2,452	2,736	12
Urban Honolulu	Tight	6.3	5.5	- 0.8	1,951	1,998	2

2Q = second quarter.
 Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—Axiometrics Inc.

