

# HUD PD&R Regional Reports

## Region 9: Pacific



Tucson, Arizona

By Elaine Ng | 3rd quarter 2015

### Quick Facts About Region 9

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



### Overview

Economic conditions continued to improve in the Pacific region during the third quarter of 2015 compared with conditions during the third 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 third quarter of 2015, accounted for 80 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 were tight throughout much of the region but balanced in the Las Vegas-Henderson-Paradise and Phoenix-Mesa-Scottsdale metropolitan areas. Responding to tightening apartment markets, developers ramped up multifamily construction in three of the four states in the region.

During the third quarter of 2015—

- Every sector in the region added jobs during the past year, continuing a trend that began in the third quarter of 2013. Before 2013, the most recent period that job growth occurred in every sector was during the first quarter of 2001.
- The number of homes sold in the region increased and average sales prices continued to rise at a higher rate than in the nation.
- Builders responded to tightening apartment market conditions by increasing multifamily construction activity (as measured by the number of units permitted) 19 percent, after an 11-percent gain during the same period in 2014.



Nonfarm payrolls increased in every sector in the Pacific region for the ninth consecutive quarter.

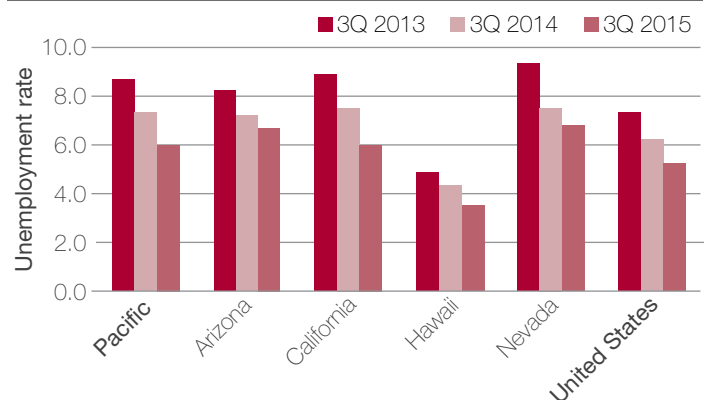
	Third Quarter		Year-Over-Year Change	
	2014 (thousands)	2015 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	20,016.6	20,589.8	573.2	2.9
Goods-producing sectors	2,477.0	2,533.4	56.4	2.3
Mining, logging, and construction	977.3	1,033.6	56.3	5.8
Manufacturing	1,499.7	1,499.9	0.2	0.0
Service-providing sectors	17,539.7	18,056.4	516.7	2.9
Wholesale and retail trade	3,008.2	3,071.9	63.7	2.1
Transportation and utilities	699.1	723.7	24.6	3.5
Information	525.9	541.4	15.5	2.9
Financial activities	1,062.4	1,078.2	15.8	1.5
Professional and business services	3,069.2	3,228.3	159.1	5.2
Education and health services	2,976.0	3,063.7	87.7	2.9
Leisure and hospitality	2,524.5	2,629.9	105.4	4.2
Other services	694.1	708.6	14.5	2.1
Government	2,980.2	3,010.8	30.6	1.0

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 strengthen. All four states in the region added jobs during the third quarter of 2015, with total nonfarm payrolls increasing by 573,200 jobs, or 2.9 percent, to approximately 20.59 million jobs. During the past 5 years, the region added 2.39 million jobs, a cumulative increase of 12.0 percent. The professional and business services and the leisure and hospitality sectors accounted for 46 percent of net job gains in the region during the third quarter of 2015. Increased building activity throughout the region contributed to job gains of 5.8 percent in the mining, logging, and construction sector, which was the fastest growing sector (on a percentage basis) in the region. The sector has added jobs year over year in each quarter since the third quarter of 2011 but remains 28 percent below the peak of 1.44 million jobs during the third quarter of 2006. The unemployment rate in the region averaged 6.1 percent during the third quarter of 2015, down from 7.4 percent a year earlier but above the national average of 5.2 percent. Hawaii had the lowest average unemployment rate in the region at 3.4 percent, down from 4.3 percent a year ago. The average unemployment rate in California declined from 7.5 to 6.0 percent. The highest unemployment rates were in Nevada and Arizona, at 6.8 and 6.7 percent respectively, down from 7.6 and 7.2 percent a year earlier. The unemployment rates in Nevada and Arizona were the fourth and fifth highest unemployment rates in the nation.

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



3Q = third quarter.  
Source: U.S. Bureau of Labor Statistics

During the third quarter of 2015—

- California added 463,700 jobs, a gain of 3.0 percent, after a 3.1-percent gain during the third 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, up by 138,200 and 65,900 jobs, or 5.6 and 2.7 percent, respectively.
- The highest rate of job growth in the region occurred in Nevada, where nonfarm payrolls expanded by 38,100 jobs, or 3.1 percent. The leisure and hospitality sector, which added the most jobs in the state, grew by 16,300 jobs, or 4.8 percent, and

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visitor volume increased to 4.8 million people in June 2015 (the most recent data available), up 1 percent from 4.7 million visitors in June 2014 (University of Nevada Las Vegas, Center for Business and Economic Research). In Las Vegas, the \$373 million Lucky Dragon Hotel and Casino is under construction and is expected to add 2,600 direct jobs when the 230-room casino opens in 2016. During buildout, an estimated 250 construction jobs are being added.

- Nonfarm payrolls in Arizona increased by 60,600 jobs, or 2.4 percent, compared with a gain of 44,300 jobs, or 1.8 percent, during the third quarter of 2014. The education and health

services and the professional and business services sectors led job growth in the state, adding 14,000 and 13,000 jobs, gains of 3.7 and 3.4 percent, respectively. The state is currently benefiting from several expansions of operations centers, including Northern Trust, which opened its regional operations facility in Tempe in July 2015, adding 200 jobs with an additional 800 jobs expected during the next 3 years.

- In Hawaii, nonfarm payrolls increased by 10,800 jobs, or 1.7 percent. The leisure and hospitality sector led job growth, expanding by 2,200 jobs, or 2.0 percent, in part because total spending related to tourism rose to \$3.8 billion, a 1.8-percent increase from the third quarter of 2014 (Hawaii Tourism Authority).

## Sales Market Conditions

During the third quarter of 2015, sales housing markets in the Pacific region ranged from balanced to tight, unchanged from conditions a year ago. Strong economic conditions have 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 6 percent, to \$431,700, during the 12 months ending August 2015 after a 12-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 \$259,600, during the 12 months ending August 2015 after 6-percent growth a year earlier. During the 12 months ending August 2015, average home sales prices rose for the sixth consecutive quarter in all 10 of the metropolitan areas referenced in this report, ranging from a 4-percent

gain in Phoenix-Mesa-Scottsdale, where the sales market was balanced, to an 11-percent gain in San Jose-Sunnyvale-Santa Clara, where the sales market was tight.

During the 12 months ending August 2015, the number of homes sold in the region increased 3 percent, slightly higher than the 2-percent growth recorded nationally. By comparison, home sales in the region declined 9 percent during the 12 months ending August 2014 but rose 5 percent during the previous 12-month period. During the past 12 months, home sales increased 5 percent or more in 6 of the 10 largest metropolitan areas in the region, with the greatest gain, of 10 percent, in Oxnard-Thousand Oaks-Ventura. In those 6 metropolitan areas, home sales price increases were moderate and ranged from 4 percent in Phoenix-Mesa-Scottsdale to 9 percent in Las Vegas-Henderson-Paradise. In the two metropolitan areas

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### Home sales and average sales prices increased throughout the Pacific region, exceeding the national rate of growth.

	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)	August	12,890	13,497	5	AVG	222,227	241,367	9
Los Angeles-Long Beach-Anaheim (N&E)	August	118,456	118,795	0	AVG	641,128	674,907	5
Oxnard-Thousand Oaks-Ventura (N&E)	August	9,500	10,449	10	AVG	533,534	562,210	5
Phoenix-Mesa-Scottsdale (N&E)	August	98,594	105,141	7	AVG	244,571	254,327	4
Riverside-San Bernardino-Ontario (N&E)	August	69,212	70,627	2	AVG	291,275	308,881	6
Sacramento--Roseville--Arden-Arcade (N&E)	August	36,902	39,599	7	AVG	325,170	343,723	6
San Diego-Carlsbad (N&E)	August	40,141	42,112	5	AVG	530,096	554,064	5
San Francisco-Oakland-Hayward (N&E)	August	53,446	53,042	-1	AVG	750,247	807,230	8
San Jose-Sunnyvale-Santa Clara (N&E)	August	21,013	20,913	0	AVG	827,135	916,231	11
Urban Honolulu (N&E)	August	10,152	10,884	7	AVG	557,256	598,480	7

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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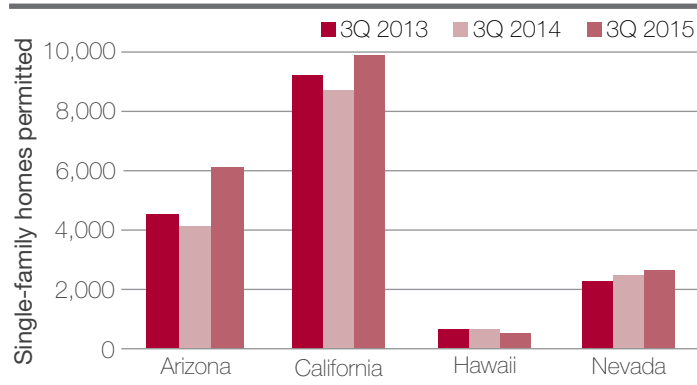
with the highest average home prices and greatest gains, home sales declined or remained flat. Home sales decreased 1 percent in San Francisco-Oakland-Hayward and were unchanged in San Jose-Sunnyvale-Santa Clara; both metropolitan areas had home sales price increases of 8 percent or more. Gains in the region of regular resales and new home sales of 8 and 3 percent, respectively, were partially offset by continued declines in real estate owned (REO) and short sales. During the 12 months ending August 2015, REO and short sales fell 17 and 31 percent, respectively, compared with decreases of 40 and 60 percent during the previous 12-month period. In the nation, the number of REO sales fell 13 percent and short sales fell 18 percent. The percentage of seriously delinquent mortgage loans (loans that are 90 or more days delinquent or in foreclosure) and REO properties in the region declined 0.3 percentage points from September 2014, to 2.3 percent in September 2015, compared with a decline of 0.5 percentage points, to 4.2 percent, for the nation (Black Knight Financial Services, Inc.). The greatest decrease in the region was in Nevada, where the rate declined 0.6 percentage points, to 5.4 percent in September 2015.

During the third quarter of 2015 (preliminary data)—

- Single-family homebuilding activity, as measured by the number of homes permitted, rose 20 percent in the region, to 19,050 homes, after a 5-percent decline during the same period a year earlier. By comparison, the number of homes permitted nationally rose 5 percent from the third quarter of 2014 after a 1-percent gain during the same period a year earlier.

- California accounted for 52 percent of the single-family homes permitted in the region. The 9,875 single-family homes permitted in the state represented a 13-percent increase from the 8,775 homes permitted during the third quarter of 2014.
- The greatest growth in single-family permitting occurred in Arizona, where the number of single-family homes permitted increased by 2,000, or 49 percent, to 6,075 homes after a 9-percent decline during the third quarter of 2014.
- In Nevada, the number of homes permitted rose 5 percent, to 2,575. The only state to report fewer homes permitted was Hawaii, where 550 homes were permitted, an 8-percent decrease from the 600 homes permitted during the third quarter of 2014.

**Single-family permitting increased 20 percent in the Pacific region during the third quarter of 2015 after a 5-percent decrease during the third quarter of 2014.**



3Q = third 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 were balanced to tight, an improvement from the slightly soft to tight conditions a year ago. Of the 10 metropolitan areas referenced in this report, 6 recorded apartment vacancy rates below the national average of 4.6 percent during the third quarter of 2015 (Axiometrics Inc.). Apartment vacancy rates in the region ranged from 3.6 percent in San Francisco-Oakland-Hayward, where the market has remained tight, to 6.1 percent in Las Vegas-Henderson-Paradise, where the market is balanced compared with slightly soft conditions during the third quarter of 2014. Average rents rose throughout the region, ranging from 6 percent in Urban Honolulu and Las Vegas-Henderson-Paradise to 16 percent in San Francisco-Oakland-Hayward. Rent growth exceeded the national average of 7 percent in 6 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 \$3.14 per square foot, respectively, more than twice the national average of \$1.36 per square foot.

During the third quarter of 2015 (preliminary data)—

- In response to tight rental market conditions, multifamily building activity in the region was 19 percent higher than during the third quarter of 2014, at 15,100 units permitted, after an 11-percent gain during the same period a year earlier. By comparison, the number of units permitted nationally fell 5 percent from the third quarter of 2014 after a 15-percent gain during the same period a year earlier.
- California accounted for 77 percent of the multifamily units permitted in the region. Multifamily permitting activity in the state rose 23 percent, to 11,700 units, the highest third quarter level since 2005.
- Growth in multifamily permitting was highest in Hawaii (on a percentage basis), where 670 multifamily units were permitted,

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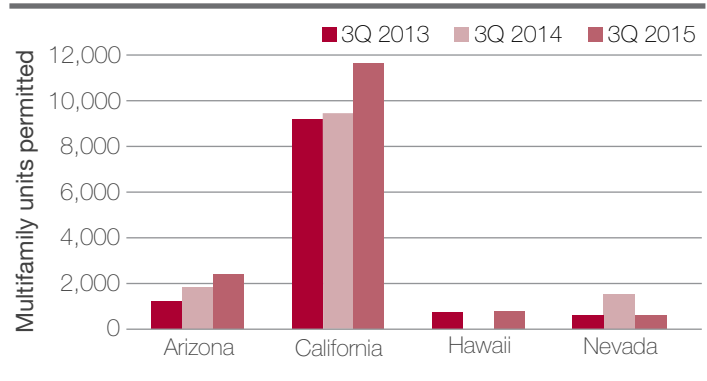


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up from 15 units permitted during the third quarter of 2014. Multifamily permitting in the state has fluctuated widely during previous third quarters, but the current level is on par with the most recent peak of 670 units during the third quarter of 2013.

- The number of multifamily units permitted in Arizona increased 28 percent, to 2,275, after a 54-percent gain during the same period in 2014. Multifamily permitting in the Phoenix-Mesa-Scottsdale metropolitan area accounted for 60 percent of the increase in multifamily permitting during the past year.
- Multifamily permitting activity fell only in Nevada, decreasing 64 percent, to 500 units. Although the current level of multifamily permitting in the state represents a significant decline from the 1,400 units permitted during the third quarter of 2014, recent multifamily permitting is more than double the 230 units permitted, on average, during the third quarters from 2010 through 2013.

**Multifamily permitting increased in every state of the Pacific region except Nevada during the third quarter of 2015.**



3Q = third quarter.  
 Note: Based on preliminary data.  
 Source: U.S. Census Bureau, Building Permits Survey

**Despite 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		
		3Q 2014 (%)	3Q 2015 (%)	Percentage Point Change	3Q 2014 (\$)	3Q 2015 (\$)	Percent Change
Las Vegas-Henderson-Paradise	Balanced	6.4	6.1	- 0.3	838	886	6
Los Angeles-Long Beach-Anaheim	Tight	3.7	4.0	0.3	1,925	2,060	7
Oxnard-Thousand Oaks-Ventura	Tight	3.8	3.8	0.0	1,760	1,899	8
Phoenix-Mesa-Scottsdale	Balanced	6.1	5.4	- 0.7	847	910	7
Riverside-San Bernardino-Ontario	Tight	4.9	4.7	- 0.2	1,286	1,385	8
Sacramento--Roseville--Arden-Arcade	Tight	4.1	4.3	0.2	1,156	1,280	11
San Diego-Carlsbad	Tight	3.6	4.4	0.8	1,692	1,859	10
San Francisco-Oakland-Hayward	Tight	3.2	3.6	0.4	2,386	2,765	16
San Jose-Sunnyvale-Santa Clara	Tight	3.3	4.1	- 0.8	2,536	2,825	11
Urban Honolulu	Tight	6.4	6.0	- 0.4	1,957	2,082	6

3Q = third quarter.  
 Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—Axiometrics Inc.

