

HUD PD&R Regional Reports

Region 9: Pacific

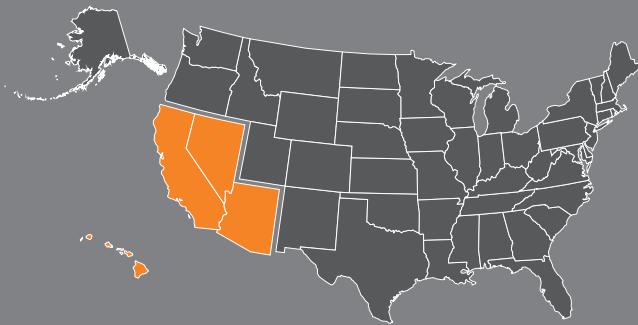


Honolulu, Hawaii

By Ikuo J. Nakano | 2nd quarter 2014

Quick Facts About Region 9

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



Overview

Economic and housing market conditions in the Pacific region continued to improve during the second quarter of 2014. Nonfarm payrolls increased in all four states. The number of new and existing home sales (including single-family homes, townhomes, and condominiums) decreased, but single-family homebuilding and average sales prices increased. Distressed and REO (Real Estate Owned) home sales as a percentage of all existing home sales continued to decline throughout the region, but an excess supply of distressed and REO properties remained in some metropolitan areas. Multifamily construction increased in the region, and apartment vacancy rates declined in all but one major metropolitan area. Average rents were up in every major metropolitan area during the second quarter of 2014 compared with rents during the second quarter of 2013.

- Nonfarm payrolls averaged 19.9 million in the second quarter of 2014, nearly returned to the previous second quarter peak of 20.0 million in 2007.
- Average new and existing home sales prices during the 12 months ending June 2014 were up in all 10 major metropolitan

continued on page 2



continued from page 1

areas compared with prices during the 12 months ending June 2013, with gains ranging from 8 percent in the Honolulu metropolitan area to 18 percent in the Las Vegas-Henderson-Paradise, Sacramento—Roseville—Arden-Arcade and the San Francisco-Oakland-Hayward metropolitan areas.

- Average rents increased from the second quarter of 2013 to the second quarter of 2014, ranging from 1 percent in Las Vegas-Henderson-Paradise and San Francisco-Oakland-Hayward to 11 percent in Honolulu.

Economic Conditions

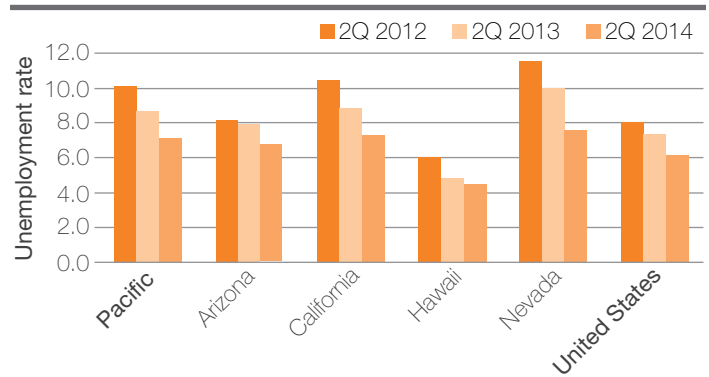
Economic conditions in the Pacific region continued to improve during the second quarter of 2014, when nonfarm payrolls increased by 434,100 jobs, or 2.2 percent, to 19.9 million after an increase of 553,600 jobs, or 2.9 percent, to 19.4 million during the same period in 2013. The greatest gains during the second quarter of 2014 occurred in California and Nevada, which added 345,700 and 43,800 jobs, increases of 2.3 and 3.7 percent, respectively. Payrolls increased in Arizona by 38,800 jobs, or 1.5 percent, and in Hawaii by 5,800 jobs, or 0.9 percent. The average unemployment rate in the region was 7.1 percent during the second quarter, higher than the 6.1-percent rate for the nation but lower than the 8.7-percent rate recorded in the region a year earlier.

During the second quarter of 2014—

- The mining, logging, and construction sector was the fastest growing sector in the region, expanding by 39,100 jobs, or 4.4 percent, from the second quarter of 2013. The rate of job growth

continued on page 3

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



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

Job growth was positive in all but one nonfarm payroll sector in the Pacific region during the second quarter.

	Second Quarter		Year-Over-Year Change	
	2013 (thousands)	2014 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	19,438.9	19,873.0	434.1	2.2
Goods-producing sectors	2,355.5	2,393.0	37.5	1.6
Mining, logging, and construction	898.4	937.5	39.1	4.4
Manufacturing	1,457.1	1,455.4	- 1.7	- 0.1
Service-providing sectors	17,083.3	17,480.0	396.7	2.3
Wholesale and retail trade	2,918.0	2,972.7	54.7	1.9
Transportation and utilities	663.2	679.0	15.8	2.4
Information	508.3	528.2	19.9	3.9
Financial activities	1,052.6	1,054.9	2.3	0.2
Professional and business services	2,920.3	3,033.8	113.5	3.9
Education and health services	2,861.2	2,966.4	105.2	3.7
Leisure and hospitality	2,399.4	2,461.2	61.8	2.6
Other services	665.6	676.1	10.5	1.6
Government	3,094.8	3,107.7	12.9	0.4

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



continued from page 2

was highest in Nevada, where the sector expanded by 5,600 jobs, or 7.8 percent, partially due to a 3.4-percent increase in the total number of building (housing plus commercial) permits issued in Las Vegas-Henderson-Paradise (University of Nevada, Las Vegas, Center for Business and Economic Research).

- Job growth was strongest in the professional and business services and the education and health services sectors, which accounted for one-half of all job growth in the region. Further job creation in the professional and business services sector is expected as Wal-Mart Stores, Inc., expands its Global eCommerce unit in Sunnyvale, California, by 450 employees during 2014 (*San Jose Mercury News*).

- The leisure and hospitality sector added 61,800 jobs, a 2.6-percent gain, partially because of a gain in tourism activity in Arizona and Nevada. Tourism expenditures in Arizona totaled \$18.3 billion during the 3 months ending April 2014, a 6.5-percent increase from the previous year. Visitor volume to Las Vegas-Henderson-Paradise increased from 3.5 million in May 2013 to 3.6 million in May 2014 (Las Vegas Convention and Visitors Authority). Conventions and gambling are the major reasons for the gain in tourism volume in Nevada.
- The unemployment rate in Nevada dropped from 10.0 percent during the second quarter of 2013 to 7.5 percent, the second greatest decrease in the nation.

Sales Market Conditions

Sales housing market conditions improved throughout the Pacific region as the rate of distressed loans and REO properties continued the decline that began in the first quarter of 2010. Current conditions in the region vary from balanced to tight. A decline in the surplus of distressed and REO properties resulted in significantly higher average home prices in many metropolitan areas during the second quarter of 2014. New and existing home sales (including single-family homes, townhomes, and condominiums) decreased in all four states. In Hawaii and Nevada during the 12 months ending June 2014, home sales decreased 8 percent each, to 18,300 and 63,800, respectively, from a year earlier (Metrostudy, A Hanley Wood Company; adjustments by the analyst). During the same period, home sales in California and Arizona decreased 6 and 11 percent, to 444,700 and 140,800, respectively. During June 2014, 2.7 percent of home

loans in the region were 90 or more days delinquent, were in foreclosure, or transitioned into REO status, down from 4.4 percent during June 2013 (Black Knight Financial Services, Inc.). The state-wide rates of distressed loans and REO properties were 2.4 percent (down from 3.7 in June 2013) in Arizona, 2.4 percent (down from 4.0) in California, 6.2 percent (down from 7.9) in Hawaii, and 6.4 percent (down from 10.1) in Nevada. The rate of distressed loans and REO properties in Clark County, Nevada, which is coterminous with the Las Vegas-Henderson-Paradise metropolitan area, dropped from 11.1 percent in June 2013 to 7.1 percent in June 2014. As a percentage of total sales, REO and short sales decreased from 25 to 14 percent in Arizona, from 30 to 14 percent in California, from 12 to 8 percent in Hawaii, and from 37 to 24 percent in Nevada from the 12 months ending May 2013 to the 12 months ending

continued on page 4

The average home sales price increased in all 10 major metropolitan areas in the Pacific region because of declining sales of distressed and REO properties.

	12 Months Ending	Number of Homes Sold			Price			
		2013	2014	Percent Change	Average or Median	2013 (\$)	2014 (\$)	Percent Change
Honolulu (N&E)	June	12,300	10,700	- 13	AVG	538,600	584,000	8
Las Vegas-Henderson-Paradise (N&E)	June	53,200	48,250	- 9	AVG	181,500	213,500	18
Los Angeles-Long Beach-Anaheim (N&E)	June	119,200	112,700	- 5	AVG	560,200	649,300	16
Oxnard-Thousand Oaks-Ventura (N&E)	June	9,825	8,875	- 10	AVG	475,100	547,800	15
Phoenix-Mesa-Scottsdale (N&E)	June	116,300	100,400	- 14	AVG	210,100	239,800	14
Riverside-San Bernardino-Ontario (N&E)	June	73,150	69,800	- 5	AVG	248,100	290,200	17
Sacramento—Roseville—Arden-Arcade (N&E)	June	39,400	36,025	- 9	AVG	272,400	321,400	18
San Diego-Carlsbad (N&E)	June	43,700	40,900	- 6	AVG	465,000	526,700	13
San Francisco-Oakland-Hayward (N&E)	June	53,100	49,850	- 6	AVG	642,300	758,600	18
San Jose-Sunnyvale-Santa Clara (N&E)	June	19,650	19,600	0	AVG	761,400	859,600	13

AVG = average. N&E = new and existing. REO = Real Estate Owned.
 Note: Includes single-family homes, townhomes, and condominiums.
 Sources: Metrostudy, A Hanley Wood Company; adjustments by the analyst



continued from page 3

May 2014 (CoreLogic, Inc.). These declines contributed to significant gains in the average sales prices in Arizona, California, and Nevada. During the 12 months ending June 2014, the greatest sales price gains in the region occurred in San Francisco-Oakland-Hayward, Sacramento—Roseville—Arden-Arcade, and Las Vegas-Henderson-Paradise, where the average new and existing home sales prices were up 18 percent each, to \$758,600, \$321,400, and \$213,500, respectively. The percentage of homebuyers who could afford to purchase a median-priced existing single-family home in California declined from 44 percent in the first quarter of 2013 to 33 percent in the first quarter of 2014 (California Association of REALTORS®).

Single-family home construction, as measured by the number of homes permitted, decreased in Nevada and Arizona but increased in California and remained flat in Hawaii during the second quarter of 2014.

During the second quarter of 2014 (preliminary data)—

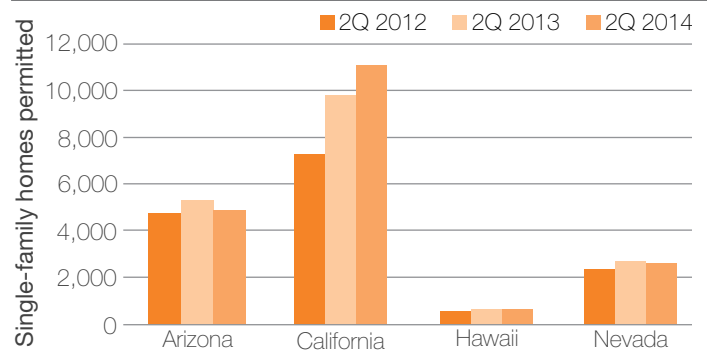
- Single-family homebuilding in the region increased by 820 homes, or 4 percent, to 19,200 homes permitted compared with the 18,400 homes permitted in the second quarter of 2013. Single-family construction activity in the region averaged 62,450 homes permitted during second quarters from 2002 to 2007 and 14,050 homes permitted during the second quarters from 2008 to 2012.

Apartment Market Conditions

Apartment market conditions remained tight in most of the Pacific region as a result of the significant foreclosure activity that has occurred since 2007, when thousands of owner households have become renter households. From the second quarter of 2006 to the second quarter of 2014, the percentage of renter households increased from 27.2 to 35.8 percent in Arizona, from 39.9 to 45.1 percent in California, from 38.1 to 43.4 percent in Hawaii, and from 36.0 to 43.6 percent in Nevada. Apartment markets in the region remain among the tightest in the nation. Of the 10 largest metropolitan areas in the region, only 3—the Honolulu, Las Vegas-Henderson-Paradise, and Phoenix-Mesa-Scottsdale metropolitan areas—had apartment vacancy rates of more than 5.0 percent during the second quarter of 2014. Apartment vacancy rates dropped from the second quarter of 2013 in every major metropolitan area in the region except Honolulu, where the rate increased from 3.9 to 6.3 percent (Axiometrics Inc.). The apartment vacancy rate in Sacramento—Roseville—Arden-Arcade dropped from 5.5 percent during the second quarter of 2013 to 3.9 percent during the second quarter of 2014, the greatest decline in the region. Average rents rose in all 10 major metropolitan areas, ranging from \$9 in Las Vegas-Henderson-Paradise to

- Single-family building activity declined in Arizona and Nevada by 350 and 120 homes permitted, or 7 and 4 percent, respectively. In Hawaii, single-family building activity remained flat at 640 homes permitted.
- California was the only state in the region to realize an increase in single-family home construction, with a gain of 1,275 homes permitted, or 13 percent, to 11,100 homes.

Single-family permitting varied in the Pacific region, increasing in California, remaining flat in Hawaii, and declining in Arizona and Nevada.



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

\$224 in San Jose-Sunnyvale-Santa Clara, during the second quarter of 2014. In downtown San Francisco, the 298-unit Tower Two at One Rincon Hill is now open, with asking rents for one-bedroom units starting at \$3,300, for two-bedroom units starting at \$5,500, and for three-bedroom units starting at \$9,900 per month. High housing prices in the San Francisco Bay Area are sending buyers and renters out farther from the urban core as households increased their commute times and costs to find less expensive housing, a trend similar to that during the housing boom and dot-com boom in the late 1990s.

Multifamily construction, as measured by the number of units permitted, increased in Arizona and Hawaii but dropped in California and Nevada during the second quarter of 2014.

During the second quarter of 2014 (preliminary data)—

- The number of multifamily units permitted in the region remained nearly flat, at 14,700. By comparison, multifamily construction averaged 3,725 units permitted during the second quarters in 2009 and 2010 and 8,400 units permitted during the second quarters in 2011 and 2012.

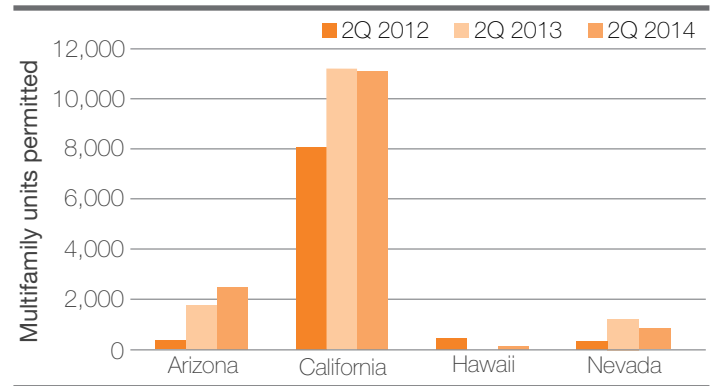
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- In Arizona, multifamily construction increased 43 percent, to 2,525 units permitted, compared with the 1,775 units permitted during the second quarter of 2013. More than 80 percent of the statewide total, or about 2,050 units, were permitted in Phoenix-Mesa-Scottsdale.
- Multifamily construction in Hawaii increased from 30 to 130 units permitted.
- In California, multifamily construction decreased 3 percent, to 11,250 units permitted, compared with the 11,550 units permitted during the second quarter of 2013.
- In Nevada, multifamily construction dropped by 430 units, or 34 percent, to 820 units permitted.

Multifamily construction activity increased in two states in the Pacific region.



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

Apartment markets in the Pacific region remained among the tightest in the nation, with vacancy rates below 5 percent in 7 of the 10 major market areas.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2013 (%)	2Q 2014 (%)	Percentage Point Change	2Q 2013 (\$)	2Q 2014 (\$)	Percent Change
Honolulu	Tight	3.9	6.3	2.4	1,841	2,046	11
Las Vegas-Henderson-Paradise	Balanced	7.8	6.7	- 1.1	822	831	1
Los Angeles-Long Beach-Anaheim	Tight	4.8	4.3	- 0.5	1,802	1,876	4
Oxnard-Thousand Oaks-Ventura	Tight	4.2	3.7	- 0.5	1,623	1,726	6
Phoenix-Mesa-Scottsdale	Balanced	6.7	6.1	- 0.6	805	833	3
Riverside-San Bernardino-Ontario	Balanced	5.5	4.8	- 0.7	1,226	1,264	3
Sacramento—Roseville—Arden-Arcade	Tight	5.5	3.9	- 1.6	1,074	1,129	5
San Diego-Carlsbad	Tight	4.0	3.7	- 0.3	1,573	1,639	4
San Francisco-Oakland-Hayward	Tight	3.8	3.5	- 0.3	2,139	2,159	1
San Jose-Sunnyvale-Santa Clara	Tight	3.6	3.5	- 0.1	2,227	2,451	10

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

