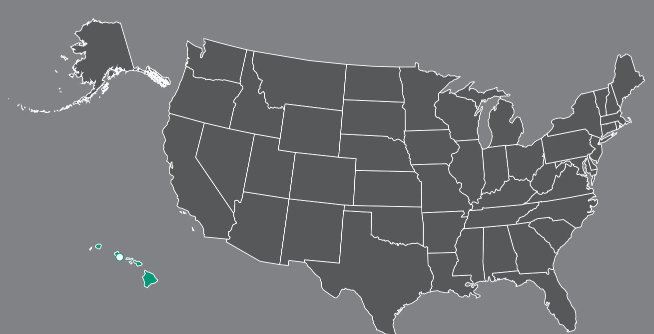
HUD PD&R **Housing Market Profiles**

Urban Honolulu, Hawaii

Honolulu, Hawaii

Quick Facts About Urban Honolulu

- **Current sales market conditions: balanced**
- **Current rental market conditions: slightly tight**
- **The Urban Honolulu metropolitan area is home to all six branches of the U.S. Armed Forces. Both the military and the tourism industry have traditionally supported economic growth in the metropolitan area, contributing a combined $10 billion in annual economic impact on Hawaii since 2018 (Chamber of Commerce Hawaii and Hawaii Tourism Authority).**



By Wendy Ip | As of April 1, 2020

Overview

The Urban Honolulu metropolitan area includes Honolulu County, Hawaii, which is the most populous county in the state and home to the state capital, Honolulu. The metropolitan area is a regional center for the military. Approximately 97 percent of all military and 73 percent of all civilian defense personnel throughout Hawaii are stationed in the metropolitan area (Defense Manpower Data Center). The metropolitan area is among the most popular tourist destinations in the nation, typically accounting for 60 percent of all visitors to Hawaii (Hawaii Tourism Authority). The number of visitors to the metropolitan area has supported the leisure and hospitality sector, one of the largest growth sectors in the economy since the end of the Great Recession. During the 3 months ending March 12, 2020, the number of domestic visitors to the metropolitan area reached 721,700, up 6 percent from the 680,900 visitors during the same period in 2019 (Hawaii Department of Business, Economic Development, & Tourism), contributing to job gains during the first quarter of 2020. Tourism growth, however, is expected to significantly decline in the upcoming quarter due to countermeasures taken to limit the contagion of COVID-19.

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- As of April 1, 2020, the estimated population of the Urban Honolulu metropolitan area is 973,100. The population has decreased by an average of 5,225, or 0.5 percent, annually since 2016 due to net out-migration that averaged 8,825 people a year. Slower economic growth and a subsequent contraction in jobs along with higher home sales prices contributed to a surge in net out-migration compared with the period from 2013 to 2016, as a greater number of residents moved to other parts of the nation.
- From 2013 to 2016, net out-migration averaged 3,650 people annually despite generally stronger economic conditions following the Great Recession. The metropolitan area, however, remained a popular destination for retirees from abroad. A portion of the domestic net out-migration since 2013 was offset by international net in-migration.
- Population growth was at the highest annual rate during the period from 2007 to 2013, averaging 10,150 people, or 1.1 percent, a year due to net in-migration that averaged 3,250 people a year. A decline in home sales prices during the housing crisis and subsequent improvement in economic conditions following the Great Recession supported net in-migration during the period.

Economic Conditions

The Urban Honolulu metropolitan area economy has expanded each year since the Great Recession until recently. During the first 5 years following the Great Recession, nonfarm payroll job growth averaged 1.5 percent annually from 2011 through 2015. By 2016, nonfarm payroll job growth began to slow, averaging 0.6 percent annually from 2016 through 2018 before jobs began to decline by the second quarter of 2019.

During the first quarter of 2020—

- Nonfarm payrolls averaged 472,700 jobs, declining by 100 jobs compared with the first quarter of 2019 due to losses in 6 of the 11 sectors. That decrease contrasts with the 1,200-job, or 0.3-percent, year-over-year gain that occurred during the first quarter of 2019, but was significantly less than the 3,900-job, or 0.8-percent, year-over-year loss during the second quarter of 2019.
- The wholesale and retail trade sector, which was down by 1,600 jobs, or 2.6 percent, from the first quarter of 2019, contributed the most to the overall net decline in nonfarm payrolls. The retail trade subsector, which was down by 1,400 jobs, or 2.9 percent, accounted for most of the decrease in the sector. A combined 110 retail jobs were lost throughout the metropolitan area after Tesla, Inc. ceased retail operations and four Pier 1 Imports Inc. stores closed due to a shift in preferences toward e-commerce.

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Nonfarm payroll job losses in the wholesale and retail trade sector contributed the most to the overall decline in jobs in the Urban Honolulu metropolitan area during the 3 years ending March 2020.

	3 Months Ending		Year-Over-Year Change	
	March 2019 (Thousands)	March 2020 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	472.8	472.7	-0.1	0.0
Goods-Producing Sectors	37.8	38.3	0.5	1.3
Mining, Logging, & Construction	26.7	27.4	0.7	2.6
Manufacturing	11.1	10.8	-0.3	-2.7
Service-Providing Sectors	435.0	434.4	-0.6	-0.1
Wholesale & Retail Trade	62.3	60.7	-1.6	-2.6
Transportation & Utilities	24.1	24.7	0.6	2.5
Information	7.8	7.0	-0.8	-10.3
Financial Activities	22.7	22.6	-0.1	-0.4
Professional & Business Services	57.4	57.3	-0.1	-0.2
Education & Health Services	65.5	66.1	0.6	0.9
Leisure & Hospitality	75.6	76.1	0.5	0.7
Other Services	21.7	21.5	-0.2	-0.9
Government	97.9	98.3	0.4	0.4
Unemployment Rate	2.7%	2.5%		

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

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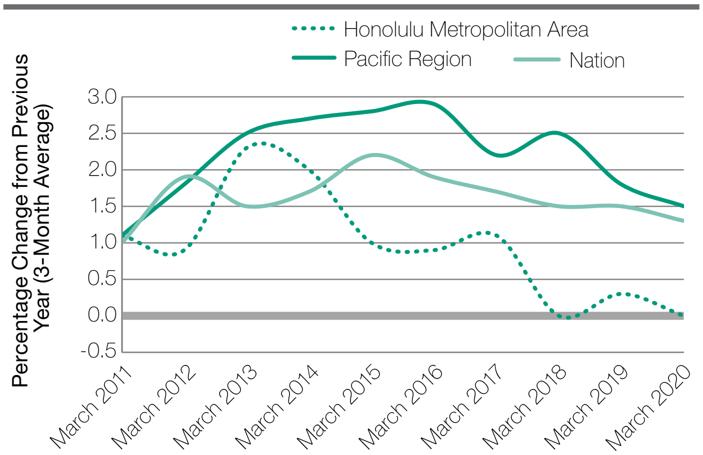
Nonfarm payroll growth in the Urban Honolulu metropolitan area has been consistently below the rates of growth for the nation and the Pacific region since April 2014.



Notes: Nonfarm payroll jobs.
Source: U.S. Bureau of Labor Statistics

- The information sector, which was down by 800 jobs, had the fastest rate of job decline, at 10.3 percent. General Dynamics Information Technology, Inc. laid off nearly 80 employees, contributing to losses in the sector.
- Partly offsetting jobs losses were notable gains in the mining, logging, and construction; the transportation and utilities; and the education and health services sectors, which increased by 700, 600, and 600 jobs, or 2.6, 2.5, and 0.9 percent, respectively, from the first quarter of 2019. A 200-job increase in specialty construction contractors contributed to gains in the mining, logging, and construction sector, whereas a 400-job increase in air transportation contributed to gains in the transportation and utilities sector. One-hundred jobs added at hospitals throughout the metropolitan area also contributed to recent gains.
- The leisure and hospitality sector continued to grow, up by 500 jobs, or 0.7 percent, compared with the first quarter of 2019, when the sector increased by only 100 jobs, or 0.1 percent, compared with the same quarter a year earlier. The completion of the $60 million Residence Inn by Marriott Hotel Oahu Kapolei, which added 40 jobs, contributed to sector gains.
- Despite the overall decrease in jobs, the unemployment rate declined to 2.5 percent, down from 2.7 percent during the first quarter of 2019, as the decline in the labor force exceeded the decrease in resident employment.

In upcoming quarters, job losses in the leisure and hospitality sector are expected due to countermeasures implemented by late March 2020 to limit the contagion of COVID-19. During the last 2 weeks of March 2020, the number of domestic visitors to the metropolitan area declined 67 percent to 85,200 compared with the same 2-week period in 2019 (Hawaii Department of Business, Economic Development, and Tourism). That impact was not fully captured in the March 2020 nonfarm payroll data. In addition, a total of nine hotels throughout the metropolitan area filed notices of layoffs that totaled more than 1,000 employees in the same 2-week period. Overall, the hotel industry is expected to be affected the most, with industry payrolls anticipated to decrease by more than 80 percent throughout Hawaii by the end of April 2020 (University of Hawaii Economic Research Organization).

Largest Employers in the Urban Honolulu Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Schofield Barracks	Government	17,100
Pearl Harbor Naval Complex	Government	16,250
Marine Corps Base Hawaii Kaneohe Bay	Government	13,550

Note: Excludes local school districts. Data above include military personnel, who are generally not included in nonfarm payroll survey data.
Source: Pacific Business News

Sales Market Conditions

The sales housing market in the Urban Honolulu metropolitan area is balanced, similar to a year ago, with an estimated vacancy rate of 1.1 percent. Sales market conditions had improved from slightly tighter conditions that prevailed during 2016 through 2018. Net domestic out-migration and a rise in for-sale inventory since 2018 had allowed the market to transition from slightly tight to balanced. The inventory of homes for sale rose 2 percent, or by 120 homes, during the 12 months ending March 2020 compared with a year ago, and inventories were up 4 percent, or by 200 homes, from levels during 2018. The number of months homes remained on the market increased from an average of 2.3 months during 2018, to 2.6 months during the 12 months ending March 2020 but was still considerably below the peak of 3.8 months during 2009. New and existing home sales (including single-family homes, townhomes, and condominiums) increased at a moderate rate during the 12 months ending March 2020 but was up from a decline a year ago as condominium sales stabilized. The number of condominiums sold in the metropolitan area typically account for 60 percent of total home sales and greatly influence total sales volume. New home prices declined because fewer new luxury condominiums sold, while existing home prices rose and are at the highest level since 2009. The percentage of home loans in the Urban Honolulu metropolitan area that were seriously delinquent (90 or more days delinquent or in foreclosure) or transitioned into real estate owned (REO) status declined to 1.7 percent in February 2020 from 1.9 percent in February 2019 (CoreLogic, Inc.). The current rate

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New home sales prices in the Urban Honolulu metropolitan area have fallen below existing home sales prices because of considerably fewer new luxury condominiums sold since early 2019.

Note: Prices are for single-family homes, townhomes, and condominiums.
Source: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

is slightly below the 1.8-percent rate for Hawaii, but above the 1.3-percent rate for the nation.

During the 12 months ending March 2020—

- New home sales declined 31 percent, or by 320 homes, to a total of 730 homes sold compared with the 12 months ending March 2019 (Metrostudy, A Hanley Wood Company, with adjustments by the analyst); sales were down 45 percent, or by 610 homes, from the average of 1,325 homes sold annually during 2017 and 2018. Most of the decline during 2017 and 2018 resulted from an 89-percent decrease in new condominium sales.
- Existing home sales totaled 11,150, a 4-percent year-over-year increase, or by 400 homes sold; sales were up slightly from the average of 11,000 homes sold annually during 2017 and 2018. A 5-percent increase in existing condominium sales contributed to nearly three-fourths of the increase in existing home sales during the past 12 months.
- The average sales price for a new home was $598,500, down 19 percent from the average price of $735,800 during the previous year and down 48 percent compared with the average price of $1,141,000 during 2017 and 2018. The decline in the average price resulted from a reduction in the number of luxury condominiums sold during the period.
- The average sales price for existing homes was $716,900, a 1-percent gain, compared with the average price of $713,200 during the 12 months ending March 2019, and was 5 percent higher than the average price of $684,000 during 2017 and 2018. Fewer REO home sales, which are priced an average of $72,500 less than non-distressed resales, partly contributed to the increase in the average existing home price.

New home sales construction activity, as measured by the number of single-family homes, townhomes, and condominiums permitted (hereafter, homes), has moderated slightly since 2016.

- During the 12 months ending March 2020, the number of homes permitted declined 15 percent to 1,575 homes from 1,875 homes permitted a year earlier (preliminary data), partly in response to lower levels of luxury condominium construction. Condominiums accounted for 42 percent of total sales

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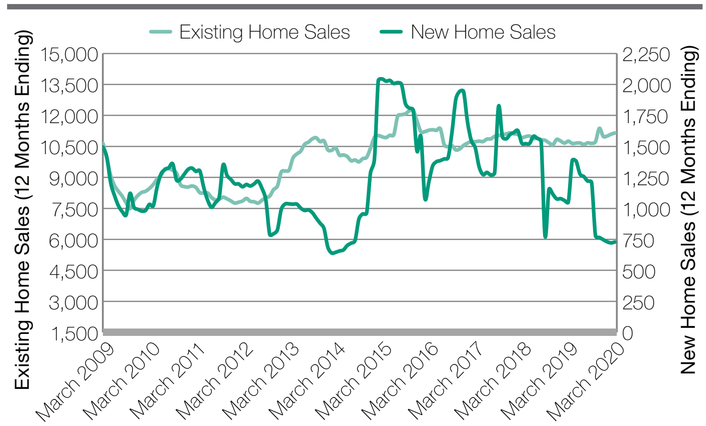
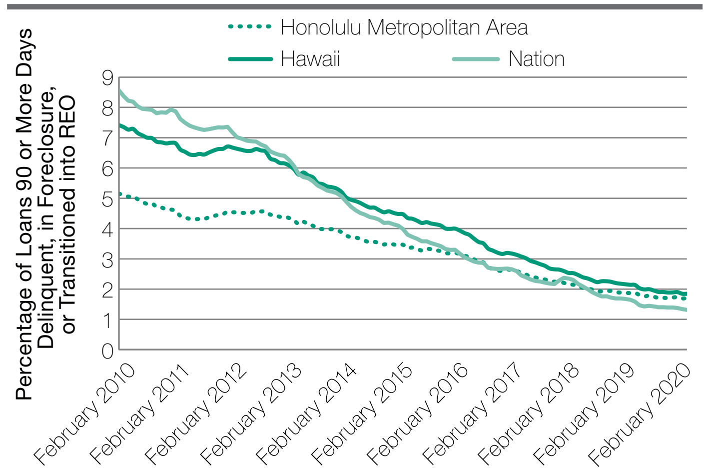
New home sales have generally decreased in the Urban Honolulu metropolitan area since early 2019, contrasting with relatively more stable existing home sales.



Note: Sales are for single-family homes, townhomes, and condominiums.
Source: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

The proportion of seriously delinquent loans and REO properties in the Urban Honolulu metropolitan area has decreased substantially since the early 2010s.



REO = real estate owned.
Source: CoreLogic, Inc.

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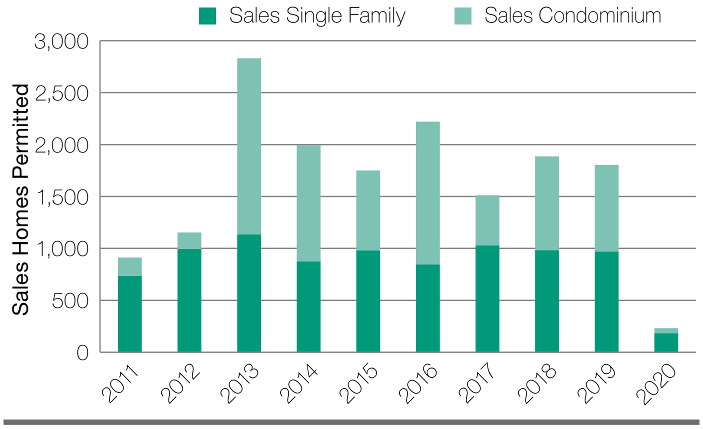
construction activity during the 12 months ending March 2020, down from 47 percent during the previous 12-month period and an average of 49 percent a year from 2016 through 2018.

- Home sales construction activity increased by an average of 960 homes permitted a year, from a low of 910 homes in 2011 to a peak of 2,825 homes by 2013, before activity slowed to a relatively constant average of 1,975 homes permitted annually from 2014 through 2016. Home construction activity declined to 1,525 homes permitted in 2017, before increasing to an average of 1,850 homes permitted annually during 2018 and 2019.
- Iliahi at Hoʻopili is among the largest developments under way in the metropolitan area, with 156 single-family homes and townhomes planned at buildout in the Ewa Plain, in southwest Honolulu County. A total of 25 homes have been completed, and an additional 6 single-family homes will become available by the fall of 2020. Three-bedroom homes will start at $678,000, and four-bedroom homes start at $794,400. The sale of homes will be by lottery due to the desirability of the location and the shortage of new single-family homes for sale in the metropolitan area.
- Condominiums under way include the 751-unit ʻAʻaliʻi, located in the Ward Village, which is expected to be complete by mid-2021. The property began construction in late 2018, with prices ranging from $400,000 for studio units to $1,500,000 for luxury two-bedroom units.

Sales housing construction in the Urban Honolulu metropolitan area has moderated since 2017, partly due to relatively fewer condominiums permitted.



Note: Includes preliminary data from January 2020 through March 2020.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

Rental Market Conditions

Rental housing market conditions in the Urban Honolulu metropolitan area are currently slightly tight, compared with balanced conditions during 2010. The increase in the number of renter households since 2010 has outpaced the construction of new rental units and the conversion of single-family homes and condominiums to rental use, contributing to the tightening of the rental market.

- The estimated vacancy rate for all rental units (including single-family homes, mobile homes, and apartments) was 5.5 percent as of April 1, 2020, a decrease from 5.9 percent in 2010.
- The apartment market, which represents approximately 60 percent of all rental units, is also slightly tight, with a 5.4-percent vacancy rate as of the first quarter of 2020, down from 5.6 percent a year earlier and from a recent peak of 10.0 percent in the first quarter of 2016 (RealPage, Inc.). The apartment vacancy rate declined because of fewer apartment units completed since 2017, more than one-half of which were permitted in 2014.
- Apartment completions peaked in 2016 with approximately 1,200 units completed, and apartment completions subsequently declined to an average of approximately 540 units a year in 2018 and 2019. As of the first quarter of 2020, a total of 121 units were completed, nearly all of which were affordable units.
- The average monthly apartment asking rent was $2,157 as of the first quarter of 2020, a decrease of 1 percent from a year ago. Rent growth in the metropolitan area has fluctuated from the recent decline of 1 percent to an increase of 10 percent in 2007, year over year, each first quarter since 2016, but much

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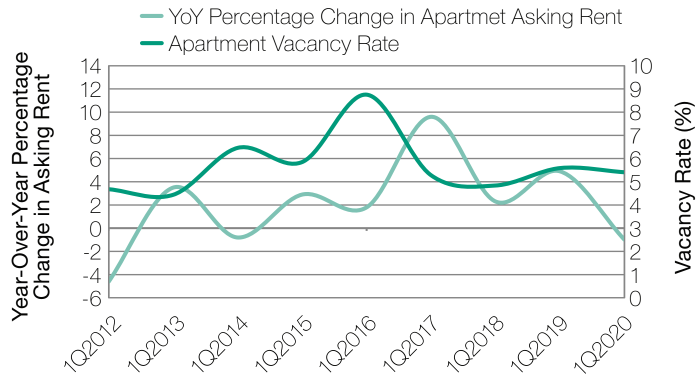
Although apartment rents declined slightly in the Urban Honolulu metropolitan area during the first quarter of 2020, apartment market conditions are slightly tight, with a relatively low vacancy rate.



1Q = first quarter. YoY = year-over-year.
Source: RealPage, Inc.

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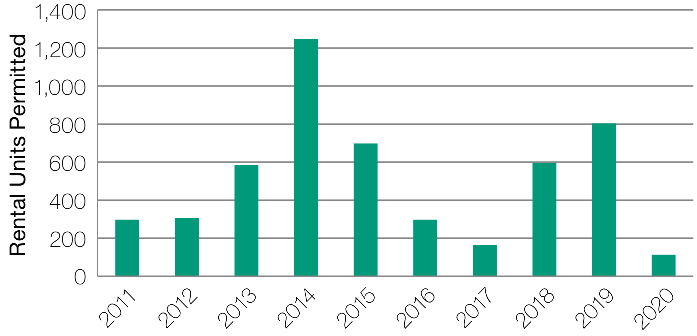
of the fluctuation in rents reflected the types of new apartments added to the inventory.

Rental construction activity, as measured by the number of rental units permitted, has been at lower levels after reaching a peak in 2014 in response to high-development costs and the number of units that needed to be absorbed.

- During the 12 months ending March 2020, approximately 720 rental units were permitted, up 11 percent from 650 units permitted during the same period a year ago (preliminary data with adjustments by the analyst).
- Rental construction increased by an average of 320 units a year from a low of 300 units in 2011 to a peak of 1,250 units in 2014, before declining 44 percent to 700 units permitted in 2015. Rental construction activity slowed further from 2016 through 2017, averaging only 230 units permitted annually, before increasing each year to reach 800 units permitted by 2019.
- Apartment properties under construction include East Kapolei II, with 320 affordable townhome-style apartments in the East Kapolei master-planned community, which will have one-, two-, and three-bedroom units that will start, depending on income, from $587 for a one-bedroom unit to $784 for a three-bedroom unit. The completion of East Kapolei II is planned for mid-2020. In addition, The Element, with 64 affordable units and 254 market rate units, is expected to be completed by the fall of 2020. Rents for the market rate units will be available in the summer of 2020, whereas the affordable units will have rents affordable to households with incomes at or below 80 percent of the area median income.

Rental construction in the Urban Honolulu metropolitan area has been increasing each year since 2018 but remains below the peak in 2014.



Note: Includes preliminary data from January 2020 through March 2020.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst