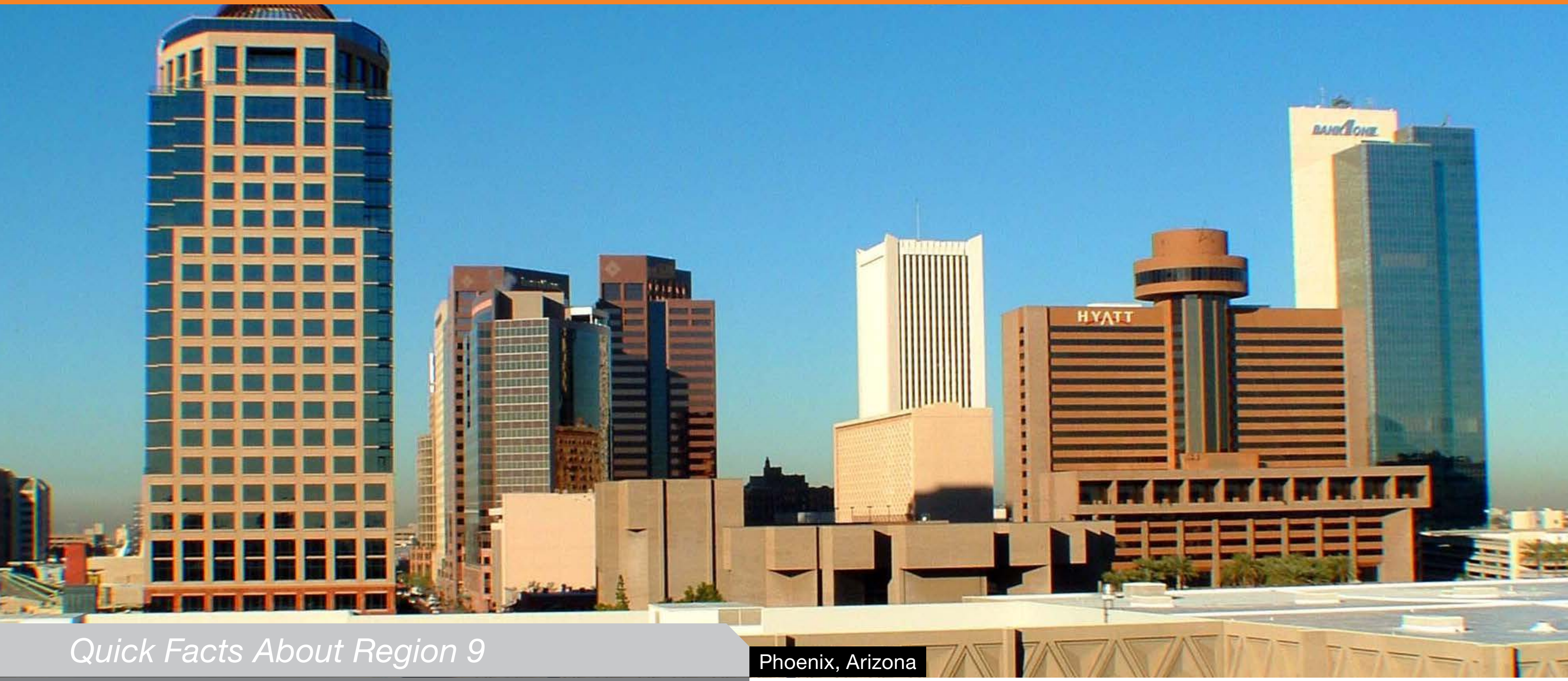
HUD PD&R Regional Reports

Region 9: Pacific



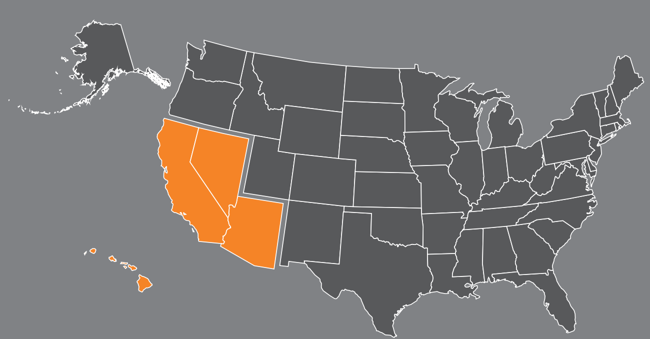
Phoenix, Arizona

By Elaine Ng | 2nd quarter 2017

Quick Facts About Region 9

- **Sales market conditions—**
  Second quarter 2017: mixed (balanced to tight).
  First quarter 2017: mixed (balanced to tight).
  Second quarter 2016: mixed (balanced to tight).

- **Apartment market conditions—**
  Second quarter 2017: mixed (balanced to tight).
  First quarter 2017: mixed (balanced to tight).
  Second quarter 2016: mixed (soft to tight).



Overview

Economic conditions remained strong in the Pacific region during the second quarter of 2017, as nonfarm payrolls have continued to expand year over year during every quarter since the fourth quarter of 2010. California represented 78 percent of jobs in the region and contributed 73 percent of net job growth during the second quarter of 2017. Sales housing market conditions in the region remained unchanged from a year ago, ranging from balanced to tight, and single-family homebuilding activity increased in all four states of the region. Apartment market conditions were tight throughout much of the region, with vacancy rates remaining stable or declining in the 10 largest markets cited in this report. Average rent growth in the major metropolitan areas of the region exceeded the national rate during the past year in all but the two most expensive markets of the region.

During the second quarter of 2017—

- Every payroll sector in the region except the manufacturing and information sectors added jobs.

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- Home sales in the region increased almost 3 percent during the 12 months ending May 2017, to 766,900 homes sold. The low rate of growth in home sales in the region was generally because of decreased inventory, particularly at the lower price ranges, and not lack of demand.
- Single-family homebuilding activity, as measured by the number of homes permitted, increased 15 percent in the region compared with 9-percent growth nationally.
- Multifamily permitting increased more than 15 percent, to 18,700 units, compared with a 3-percent increase nationally.

Economic Conditions

Economic conditions in the Pacific region, which began to improve during the fourth quarter of 2010, remained strong during the second quarter of 2017, but nonfarm job growth is stabilizing. All four states in the region added jobs, with total nonfarm payrolls increasing by 392,800 jobs, or 1.9 percent, to approximately 21.48 million jobs. This rate is similar to the 2.0- and 2.1-percent growth in nonfarm payrolls in the region during the second quarters of 2016 and 2015, respectively. By contrast, the national rate of nonfarm job growth was 1.5 percent during the second quarter of 2017, down from 1.7 percent during the second quarter of 2016. Gains in the education and health services and the leisure and hospitality sectors, combined, accounted for more than 40 percent of net job gains during the second quarter of 2017, with the addition of 87,700 and 71,900 jobs, or 2.8 and 2.7 percent, respectively. By comparison, during the second quarter of 2016, the sectors accounted for a combined 35 percent of net job gains. Single-family residential construction and commercial building activity expanded in all four states in the region. This expanded construction activity contributed to a gain of 56,600 jobs, or 5.3 percent, in the mining, logging, and construction sector, which had the highest growth rate in the region. The mining, logging, and construction sector has added jobs year over year in each quarter since the second quarter of 2011 but remains 22 percent below the peak of 1.44 million jobs averaged during the third quarter of 2006. Manufacturing sector job losses were primarily in California and Hawaii, where the high land and energy costs in these states resulted in relocations of manufacturing companies to relatively lower-cost states, such as Nevada, New Mexico, or Arizona, or abroad.

The unemployment rate in the region averaged 4.6 percent during the second quarter of 2017, down from 5.3 percent a year earlier but higher than the national average of 4.2 percent. At 2.9 percent, Hawaii had the lowest average unemployment rate in the region and the fifth lowest in the nation, down from 3.2 percent a year ago. The unemployment rate declined in Nevada from 5.8 to 4.7 percent and in California from 5.3 to 4.6 percent. The highest unemployment rate in the region and the eighth highest in the nation was in Arizona, at 4.9 percent, down from 5.3 percent a year ago.

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Every payroll sector in the Pacific region added jobs except the manufacturing and information sectors.

	Second Quarter		Year-Over-Year Change	
	2016 (thousands)	2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	21,086.8	21,479.6	392.8	1.9
Goods-producing sectors	2,585.5	2,638.5	53.0	2.0
Mining, logging, and construction	1,064.7	1,121.3	56.6	5.3
Manufacturing	1,520.9	1,517.2	– 3.7	– 0.2
Service-providing sectors	18,501.3	18,841.1	339.8	1.8
Wholesale and retail trade	3,060.5	3,084.2	23.7	0.8
Transportation and utilities	765.8	779.6	13.8	1.8
Information	594.9	593.2	– 1.7	– 0.3
Financial activities	1,111.5	1,129.4	17.9	1.6
Professional and business services	3,177.8	3,227.0	49.2	1.5
Education and health services	3,157.3	3,245.0	87.7	2.8
Leisure and hospitality	2,682.8	2,754.7	71.9	2.7
Other services	712.5	732.5	20.0	2.8
Government	3,238.2	3,295.5	57.3	1.8

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

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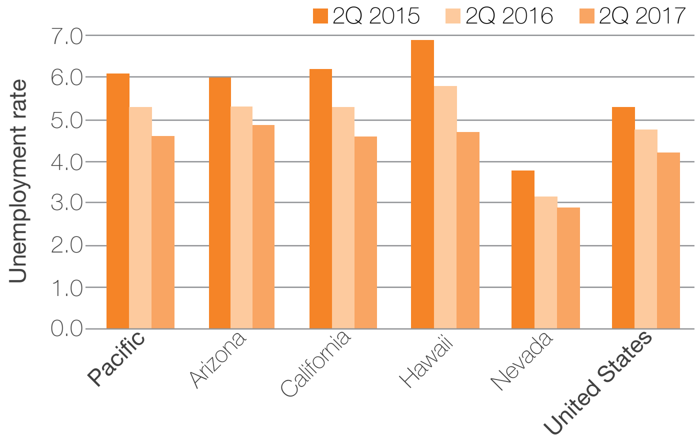
During the second quarter of 2017—

- California added 285,800 jobs, a gain of 1.7 percent, following 3.0-percent growth a year earlier. The education and health services sector accounted for 24 percent of net job growth in the state, expanding by 69,200 jobs, or 2.7 percent. Several hospital expansions occurred in the state because of the Seismic Safety Act mandating hospitals meet structural guidelines to withstand a major earthquake by 2030.
- Nonfarm payrolls in Arizona increased by 53,400 jobs, or 2.0 percent, from a year ago, less than the gain of 69,500 jobs, or 2.7 percent, during the second quarter of 2016. The leisure and hospitality and the education and health services sectors led job growth in the state, adding 17,200 and 11,700 jobs, gains of 5.5 and 2.9 percent, respectively. Total tourism spending in the state rose 6 percent to $21.9 billion during the 3 months ending May 2017, after 2-percent growth the year prior (most recent data available, Arizona Office of Tourism).
- In Nevada, nonfarm payrolls expanded by 44,800 jobs, or 3.5 percent. The professional and business services sector added 11,200 jobs, or 6.4 percent, the largest increase and the highest rate of growth among all sectors. Apple Inc. announced a $1 billion expansion of its current data center in Reno, Nevada, doubling the existing size. The expansion is expected to add 300 construction jobs and 100 permanent jobs when complete.

Unemployment rates continued to decline in all states of the Pacific region but remained above the national rate in every state except Hawaii.



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

- Hawaii added 8,800 nonfarm payroll jobs, a 1.4-percent increase. The leisure and hospitality sector led job gains, expanding by 4,000 jobs, or 3.4 percent. Total tourism spending rose nearly 10 percent from a year earlier to $3.9 billion during the 3 months ending May 2017 (most recent data available, Hawaii Tourism Authority).

Sales Market Conditions

During the second quarter of 2017, sales housing market conditions in the Pacific region ranged from balanced to tight, unchanged from a year ago. Continued economic growth has 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 nearly 4 percent, to $459,800, during the 12 months ending May 2017, similar to the 4-percent gain during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). The average home sales price in the nation rose 6 percent, to $278,300, during the 12 months ending May 2017, slightly higher than the 4-percent gain in the previous year. Average home sales prices rose in all 10 major metropolitan areas referenced in this report, ranging from 4-percent gains in the Oxnard-Thousand Oaks-Ventura, San Diego-Carlsbad, and San Jose-Sunnyvale-Santa Clara metropolitan areas to a 7-percent gain in the Sacramento--Roseville--Arden-Arcade metropolitan area.

During the 12 months ending May 2017, the number of home sales in the Pacific region increased almost 3 percent from a year earlier, after a 7-percent expansion during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). By comparison, home sales nationally declined 4 percent during the 12 months ending May 2017, after a 6-percent increase the year earlier. Home sales decreased in 5 of the 10 largest metropolitan areas in the region, ranging from 2-percent declines in the Los Angeles-Long Beach-Anaheim, San Diego-Carlsbad, and San Francisco-Oakland Hayward metropolitan areas to 3-percent declines in the Oxnard-Thousand Oaks-Ventura and San Jose-Sunnyvale-Santa Clara metropolitan areas. Recent declines in sales are primarily a result of shortages of for-sale inventories, rather than of decreased demand, particularly for homes priced in the most affordable ranges. In the San Diego-Carlsbad, Oxnard-Thousand Oaks-Ventura, Los Angeles-Long Beach-Anaheim, and San Francisco-Oakland-Hayward metropolitan areas, the number of homes for sale declined 23, 22, 18, and 17 percent, respectively, during June 2017, compared with June 2016 (CoreLogic, Inc.). Active listings data were not available for the San Jose-Sunnyvale-Santa Clara metropolitan area. Home sales gains in the other 5 metropolitan areas ranged from 1 percent in Riverside-San Bernardino-Ontario to 11 percent in the Las Vegas-Henderson-Paradise metropolitan area. The metropolitan areas with home sales increases were ones where sales prices were relatively more affordable than in nearby metropolitan areas.

Regionwide growth in new home sales and regular (nondistressed) resales of 4 and 6 percent, respectively, was partially offset by

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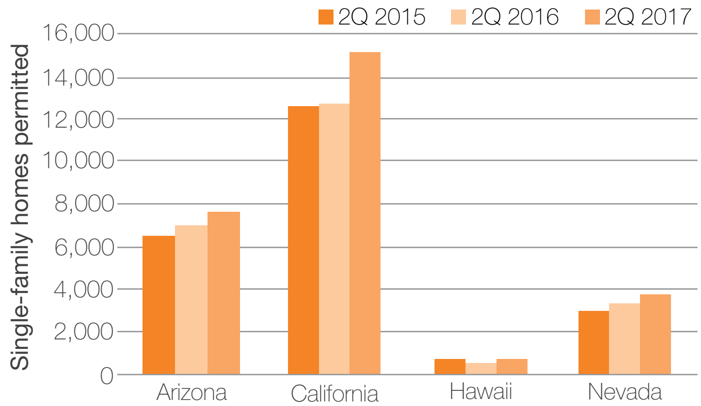
declines in the number of distressed sales (real estate owned [REO] and short sales), because fewer distressed properties were on the market. During the 12 months ending May 2017, REO sales fell 24 percent, and short sales declined 40 percent, after decreases of 19 and 17 percent, respectively, during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). Nationwide, by comparison, the number of REO sales fell 28 percent, and short sales fell 40 percent during the 12 months ending May 2017. The percentage of seriously delinquent mortgage loans (90 or more days delinquent or in foreclosure) and REO properties in the region declined 0.4 percentage point, from 1.6 percent in May 2016 to 1.2 percent in May 2017. By comparison, the national decline was 0.4 percentage point to 2.3 percent. In the region, the percentage of seriously delinquent mortgage loans and REO properties was highest in Hawaii and Nevada, at 2.8 and 2.5 percent, respectively. The regional rate reflected the lower rates in Arizona and California of 1.2 and 1.1 percent, respectively.

During the second quarter of 2017 (preliminary data)—

- Single-family homebuilding activity, as measured by the number of homes permitted, increased 15 percent in the region to 27,200 homes from a year earlier, much higher than the 3-percent growth in the second quarter of 2016. By comparison, the number of homes permitted nationally increased 9 percent from a year earlier after a 6-percent gain in the second quarter of 2016.
- Approximately 56 percent of the single-family homes permitted in the region were in California, up from 54 percent during the second quarter of 2016. The number of single-family homes permitted in California rose to 15,200, a 19-percent increase from the second quarter of 2016, after growth of less than 1 percent during the same period a year earlier.
- The fastest growth in single-family permitting occurred in Hawaii, where the number of single-family homes permitted increased 50 percent to 750 homes. By comparison, during the second quarter of 2016, single-family permitting in the state declined 31 percent.
- Single-family permitting increased 8 percent in Nevada, to 3,700 homes, and 9 percent in Arizona, where 7,625 homes were permitted. Single-family construction activity was concentrated in the largest metropolitan areas of the two states. In Nevada, the Las Vegas-Henderson-Paradise metropolitan area accounted for 76 percent of total single-family permitting in the state, and in Arizona, single-family permitting in the Phoenix-Mesa-Scottsdale metropolitan area accounted for 74 percent of the state total.

Single-family permitting increased in all four states of the Pacific region for the third consecutive quarter.



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

The number of homes sold declined in 5 of the 10 largest metropolitan areas in the Pacific region, and the average sales price increased in all 10 of the major markets due in part to low sales inventory.

	12 Months Ending	Number of Homes Sold			Price			
		2016	2017	Percent Change	Average or Median	2016 ($)	2017 ($)	Percent Change
Urban Honolulu (N&E)	May	12,624	13,244	5	AVG	620,946	656,111	6
Las Vegas-Henderson-Paradise (N&E)	May	52,839	58,526	11	AVG	245,415	259,382	6
Los Angeles-Long Beach-Anaheim (N&E)	May	124,243	121,857	– 2	AVG	702,181	738,748	5
Oxnard-Thousand Oaks-Ventura (N&E)	May	10,955	10,655	– 3	AVG	586,641	608,298	4
Phoenix-Mesa-Scottsdale (N&E)	May	115,120	125,464	9	AVG	263,069	277,937	6
Riverside-San Bernardino-Ontario (N&E)	May	75,621	76,182	1	AVG	322,475	342,848	6
Sacramento--Roseville--Arden-Arcade, (N&E)	May	42,375	44,384	5	AVG	361,593	388,314	7
San Diego-Carlsbad (N&E)	May	44,162	43,489	– 2	AVG	579,359	603,292	4
San Francisco-Oakland-Hayward (N&E)	May	54,063	52,848	– 2	AVG	829,618	873,792	5
San Jose-Sunnyvale-Santa Clara (N&E)	May	20,451	19,903	– 3	AVG	958,500	995,689	4

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

Apartment Market Conditions

Apartment market conditions in the largest metropolitan areas in the Pacific region ranged from balanced to tight during the second quarter of 2017. Of the 10 major metropolitan areas referenced in this report, 8 had apartment vacancy rates below the national average of 5.0 percent. The apartment vacancy rate remained unchanged or increased 0.2 percentage point or less in six of the metropolitan areas and declined in the other four metropolitan areas, ranging from a 0.1-percentage-point decline in the Sacramento--Roseville--Arden-Arcade metropolitan area to a 3.6-percentage-point decrease in the Urban Honolulu metropolitan area (Axiometrics, Inc.). Overall apartment market conditions remained unchanged from a year ago in all major metropolitan areas except Urban Honolulu, where the market is currently balanced, with an apartment vacancy rate of 4.6 percent during the second quarter of 2017 and year-over-year rent growth of 8 percent. A year earlier, conditions in Urban Honolulu were soft, with an apartment vacancy rate of 8.2 percent but year-over-year rent growth of 6 percent. Apartment market conditions in Urban Honolulu are dynamic and variable, given the relatively smaller market. Average rents rose faster than the national average increase of 2 percent in all the major metropolitan areas referenced in this report except San Jose-Sunnyvale-Santa Clara and San Francisco-Oakland-Hayward, where average rents increased 1 percent in both markets. These two metropolitan areas are the two most expensive housing markets in the region, with average rents of $3.37 per square foot in San Francisco-Oakland-Hayward and $3.20 per square foot in San Jose-Sunnyvale-Santa Clara, more than twice the national average of $1.43 per square foot. Among the eight other metropolitan areas with higher-than-national rent increases, the growth in the average rent ranged from 4 percent in the Las Vegas-Henderson-Paradise, Los Angeles-Long Beach-Anaheim, Oxnard-Thousand Oaks-Ventura, Phoenix-Mesa Scottsdale, and San Diego-Carlsbad metropolitan areas to 8 percent in the Urban Honolulu metropolitan area.

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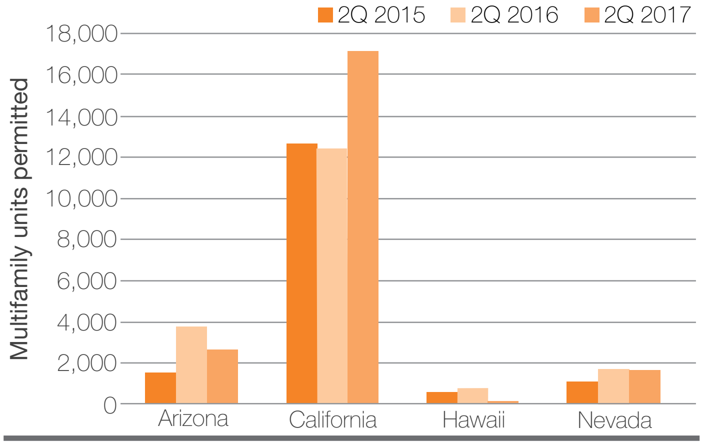
Multifamily permitting in the Pacific region increased, due entirely to a surge of construction activity in California, as permitting fell in the other three states of the region.



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

Apartment vacancy rates remained relatively unchanged or declined in all 10 of the major metropolitan areas of the region, while rents increased faster than the nation in all but two of the most expensive markets.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2016 (%)	2Q 2017 (%)	Percentage Point Change	2Q 2016 ($)	2Q 2017 ($)	Percent Change
Las Vegas-Henderson-Paradise	Balanced	5.4	5.4	0	928	967	4
Los Angeles-Long Beach-Anaheim	Tight	4.0	4.1	0.1	2,126	2,205	4
Oxnard-Thousand Oaks-Ventura	Tight	3.8	3.9	0.1	1,930	2,014	4
Phoenix-Mesa-Scottsdale	Balanced	5.0	5.1	0.1	960	994	4
Riverside-San Bernardino-Ontario	Tight	4.4	4.5	0.1	1,464	1,537	5
Sacramento--Roseville--Arden-Arcade	Tight	3.7	3.6	– 0.1	1,372	1,449	6
San Diego-Carlsbad	Tight	3.9	3.7	– 0.2	1,922	2,005	4
San Francisco-Oakland-Hayward	Tight	3.9	4.1	0.2	2,768	2,804	1
San Jose-Sunnyvale-Santa Clara	Tight	4.5	3.9	– 0.6	2,805	2,846	1
Urban Honolulu	Balanced	8.2	4.6	– 3.6	2,091	2,251	8

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

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During the second quarter of 2017 (preliminary data)—

- Multifamily permitting increased 16 percent, to 21,600 units, following an 18-percent decline during the same period a year earlier. By comparison, the number of units permitted nationally rose 3 percent from the second quarter of 2016 after a 24-percent decline during the same period a year earlier.
- California accounted for 79 percent of the multifamily units permitted in the region and the entire increase in the region. Multifamily permitting activity in the state rose 38 percent to 17,150 units from a year earlier, after declining 2 percent during the second quarter of 2016. Increased multifamily construction activity in the San Francisco-Oakland-Hayward and San Jose-Sunnyvale-Santa Clara metropolitan areas were responsible for 75 percent of the total growth statewide.
- In Nevada, where multifamily permitting can fluctuate significantly, the number of units permitted decreased 7 percent to 1,650, after a 59-percent increase during the second quarter of 2016.
- Similarly, in Arizona, the number of multifamily units permitted decreased 31 percent to 2,625, after a 149-percent increase during the second quarter 2016. The Phoenix-Mesa-Scottsdale metropolitan area accounted for 90 percent of multifamily permitting in Arizona during the most recent quarter and was responsible for almost all the decline in the state, as multifamily permitting declined 36 percent to 2,350 units.
- The number of multifamily units permitted declined 77 percent in Hawaii to 170 units, after a 37-percent increase during the second quarter of 2016.