HUD PD&R **Regional Reports**

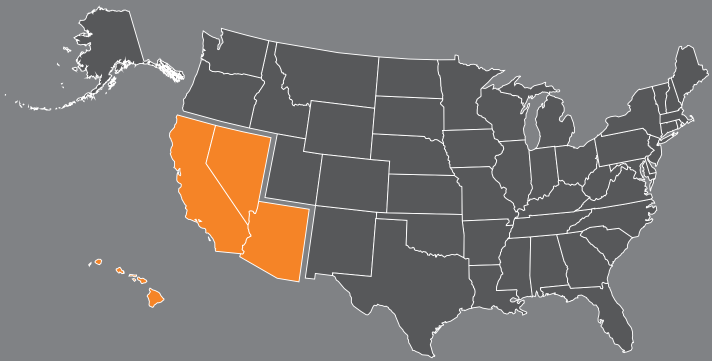
Region 9: Pacific

San Diego, California

Quick Facts About Region 9

- **Sales market conditions—**
  Second quarter 2020: mixed (balanced to tight)
  First quarter 2020: mixed (balanced to tight)
  Second quarter 2019: mixed (balanced to tight)

- **Apartment market conditions—**
  Second quarter 2020: mixed (slightly soft to tight)
  First quarter 2020: mixed (slightly tight to tight)
  Second quarter 2019: mixed (balanced to tight)



By Elaine Ng | 2nd Quarter 2020

Overview

Economic conditions in the Pacific region weakened during the second quarter of 2020, largely due to interventions taken to slow the spread of the COVID-19 virus. Before the start of the pandemic, economic conditions in the region were strong, with 9 consecutive years of job growth, although the rate of job growth moderated during the past 3 years. The rate of job gains in the Pacific region had exceeded the national rate for every quarter since 2012; during the second quarter of 2020, by contrast, the 11.8-percent rate of job losses in the region outpaced the 11.0-percent decline nationwide. As the most populous state, California contributed the most net job losses in the region, accounting for 81 percent of the regional decline during the second quarter of 2020. A year earlier, by comparison, California contributed 71 percent of all job gains regionwide. Sales housing market conditions ranged from balanced to tight, unchanged from a year ago. The number of sales in the region decreased, but the average home sales price continued to rise. Single-family homebuilding activity, as measured by the number of homes permitted, decreased in the region overall. Apartment market conditions weakened and vacancy rates increased in all 10 markets cited in this

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report, although apartment rents rose in all but three of the largest markets in the region, where apartment rents were among the highest in the region.

- Every nonfarm payroll sector in the region lost jobs during the second quarter of 2020, with the largest decline in the leisure and hospitality sector. Before the most recent quarter, nearly every sector had continuously added jobs since the second quarter of 2017, except for the wholesale and retail trade and the manufacturing sectors, which started to lose jobs during 2019.
- Home sales in the region decreased 6 percent during the 12 months ending May 2020, to 653,900 homes sold, compared with sales a year earlier, and the average home sales price rose 3 percent, to $590,700 (Metrostudy, A Hanley Wood Company, with adjustments by the analyst). Single-family homebuilding activity in the region, as measured by the number of homes permitted, fell 19 percent from a year earlier to 21,100 homes during the second quarter of 2020.
- Multifamily permitting decreased 17 percent in the region during the second quarter of 2020. Multifamily permitting declined in all four states in the region, with the largest decline in California. By comparison, multifamily permitting activity fell 9 percent nationwide.

Economic Conditions

Nonfarm payrolls in the Pacific region posted continuous year-over-year increases from the fourth quarter of 2010 through the first quarter of 2020, when countermeasures to slow the spread of COVID-19 were introduced in all states of the region. Interventions, including enforcing social distancing and discouraging nonessential travel and entertainment outings, contributed to significantly slower economic activity in the region. Despite phased re-openings that began in all states during the second quarter of 2020, total nonfarm payrolls in the region declined by more than 2.6 million jobs, or 11.8 percent, to 19.8 million jobs, compared with growth of 1.7 percent a year earlier. During the second quarter of 2020, job losses in the region accounted for 15 percent of jobs lost nationally. By comparison, nonfarm payroll growth in the region accounted for 18 percent of national job growth during the second quarter of 2019. Because travel and entertainment often rely on in-person interactions, the leisure and hospitality sector accounted for the greatest job declines in the region during the second quarter of 2020, declining by 1.1 million jobs, or 38.5 percent. Job losses in California led declines in the region overall and contributed to 75 percent of the regionwide decline in the leisure and hospitality sector. The wholesale and retail trade, the professional and business services, and the education and health services sectors also lost significant numbers of jobs, falling by 352,900, 275,600, and 239,500 jobs, or 11.7, 8.1, and 6.9 percent, respectively. California also accounted for most of the declines in these sectors, with 87, 75, and 87 percent of the job losses in the region, respectively.

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All nonfarm payroll sectors lost jobs in the Pacific region during the second quarter of 2020, ending a 9-year trend of consecutive quarterly nonfarm payroll gains.

	Second Quarter		Year-Over-Year Change	
	2019 (Thousands)	2020 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	22,384.3	19,750.6	-2,633.7	-11.8
Goods-Producing Sectors	2,808.1	2,596.0	-212.1	-7.6
Mining, Logging, & Construction	1,236.4	1,162.4	-74.0	-6.0
Manufacturing	1,571.7	1,433.5	-138.2	-8.8
Service-Providing Sectors	19,576.2	17,154.7	-2,421.5	-12.4
Wholesale & Retail Trade	3,024.2	2,671.3	-352.9	-11.7
Transportation & Utilities	907.5	862.3	-45.2	-5.0
Information	622.4	573.4	-49.0	-7.9
Financial Activities	1,164.9	1,149.4	-15.5	-1.3
Professional & Business Services	3,412.7	3,137.1	-275.6	-8.1
Education & Health Services	3,481.2	3,241.7	-239.5	-6.9
Leisure & Hospitality	2,866.8	1,764.2	-1,102.6	-38.5
Other Services	743.2	572.5	-170.7	-23.0
Government	3,353.3	3,182.7	-170.6	-5.1

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

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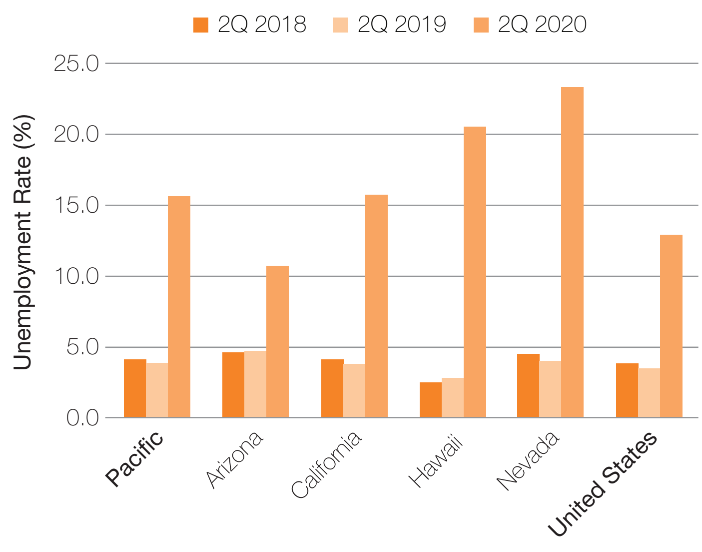
The unemployment rate in the region averaged 15.6 percent during the second quarter of 2020, up significantly from the 3.9-percent rate a year earlier and higher than the national average of 12.9 percent. Hawaii and Nevada reported the highest unemployment rates in the region and the nation at 20.5 percent and 23.3 percent, respectively, because of the reliance on tourism employment. For comparison, the respective unemployment rates were 2.8 percent and 4.0 percent in the two states a year ago. In Arizona and California, the diversified economies led to smaller but still significant increases in the unemployment rate. In Arizona, the unemployment rate increased from 4.7 percent to 10.7 percent, and the unemployment rate in California increased from 3.8 percent to 15.7 percent.

- California lost 2.13 million jobs, a decline of 12.2 percent, compared with growth of 1.5-percent a year earlier. Job losses were significant in the leisure and hospitality, the education and health services, and the professional and business services sectors, with declines of 828,800, 208,400, and 207,300 jobs, or 40.4, 7.5, and 7.7 percent, respectively. Much of the job losses in the leisure and hospitality sector occurred in southern California metropolitan areas such as Los Angeles-Long Beach-Anaheim and Riverside-San Bernardino-Ontario. Job declines in all southern California metropolitan areas combined accounted for 58 percent of the losses in the leisure and hospitality sector statewide.
- Nonfarm payrolls in Arizona declined by 159,200 jobs, or 5.5 percent, from a year ago, compared with the gain of 74,400 jobs, or 2.6 percent, a year earlier. The leisure and hospitality sector led job declines in the state, with the loss of 88,800 jobs, or 26.8 percent. Since the start of the pandemic in early March, at least 19 hotels within the state have laid off a combined 6,225 resort and hotel workers.
- In Nevada, nonfarm payrolls declined by 224,600 jobs, or 15.9 percent, and the leisure and hospitality sector lost the most jobs, down by 117,000 jobs, or 32.6 percent. Fewer tourist visits to the Las Vegas-Henderson-Paradise metropolitan area were responsible for almost all of the decline in the sector; job declines in casino hotels, food services, and drinking places statewide accounted for a combined 93 percent of the job losses in the sector. In an effort to slow the spread of COVID-19, in mid-March 2020, the Las Vegas strip closed for the first time since 1963. During the 3 months ending May 2020, gross casino gaming revenue in the Las Vegas Strip averaged $102.4 million, 80 percent lower than the average of $517.0 million during the same period a year earlier (Las Vegas Convention and Visitors Authority).
- Hawaii lost 118,400 nonfarm payroll jobs, an 18.1-percent decrease, the largest rate of decline in the region because the state economy is heavily dependent on tourism. As a result, the leisure and hospitality sector lost 67,900 jobs, or 53.9 percent, and the monthly average number of visitors to the Hawaiian islands declined to 149,500 visitors during the 3 months ending May 2020, an 82 percent decline compared with the monthly average of 835,800 visitors during the same period a year earlier (Hawaii Tourism Authority).

During the second quarter of 2020, the unemployment rates rose significantly in all four states in the Pacific region due to countermeasures to contain the spread of COVID-19.



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

Sales Market Conditions

During the second quarter of 2020, conditions in sales housing markets in the Pacific region ranged from balanced to tight. The 9-year period of uninterrupted economic growth that lasted through 2019 supported home sales price increases throughout the region since 2012. The average sales price for a home (including single-family homes, townhomes, and condominiums) in the region increased 3 percent from a year earlier, to $590,700, during the 12 months ending May 2020. This followed a 4-percent increase during the previous 12-month period (Metrostudy, A Hanley Wood Company, with adjustments

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by the analyst). The average home sales price for the region was 70 percent higher than the national average of $347,100, but the 5-percent rate of price growth in the nation in the past 12 months was faster than the regional rate. Home prices rose in all states of the region except Hawaii, where the average sales price declined 2 percent. Although prices rose in the three other states of the region, the price gains during the 12 months ending May 2020 were lower than those of the previous 12-month period. The average sales price increased 2, 9, and 8 percent in California, Arizona, and Nevada, respectively, during the 12 months ending May 2020, below the increases of 3, 10, and 10 percent a year earlier. Average home sales prices also increased in 7 of the 10 metropolitan areas cited in this report, ranging from a 2-percent increase in San Francisco-Oakland-Hayward and Los Angeles-Long Beach-Anaheim to an 8-percent increase in Las Vegas-Henderson-Paradise. The average sales price declined, however, in the more expensive metropolitan areas of the region, including declines of 1 percent in San Jose-Sunnyvale-Santa Clara, 2 percent in Oxnard-Thousand Oaks-Ventura, and 6 percent in Urban Honolulu.

During the 12 months ending May 2020, the number of home sales in the Pacific region decreased 6 percent from a year earlier, to approximately 653,900 homes sold, following an 8-percent decline during the previous 12-month period. Nationwide, sales also declined by 6 percent during the 12 months ending May 2020, compared with a 1-percent decline a year earlier. The number of home sales fell in all four states of the region, likely the result of COVID-19 stay-at-home orders, which reduced the number of home showings. During the 12 months ending May 2020, the number of active listings in the region declined 15 percent, compared with the same period a year earlier (CoreLogic, Inc.). Home sales declined 3 and 4 percent in Arizona and Hawaii, respectively, while larger declines of 6 and 9 percent were recorded in California and Nevada, respectively. Home sales remained flat or declined in all 10 of the largest metropolitan areas cited in this report, ranging from negligible declines in Phoenix-Mesa-Scottsdale and Oxnard-Thousand Oaks-Ventura to 13 percent declines in both San Francisco-Oakland-Hayward and San Jose-Sunnyvale-Santa Clara. The two areas with the largest declines in home sales are also the most expensive, with respective average home sales prices of $1.18 million and $1.47 million in the San Francisco-Oakland-Hayward and San Jose-Sunnyvale-Santa Clara metropolitan areas.

As of May 2020, the percentage of seriously delinquent mortgage loans (90 or more days delinquent or in foreclosure) and real estate owned (REO) properties in the region was 1.0 percent, up from 0.7 percent a year earlier, with all states of the region reporting a higher rate than the previous year (CoreLogic, Inc.). The percentage of seriously delinquent mortgage loans and REO properties in the region was highest in Hawaii and Nevada, at 2.1 and 1.5 percent, respectively—up from rates of 2.0 and 1.3 percent a year ago. In Arizona and California, the rates rose to 0.8 and 0.9 percent, respectively, up from 0.7 percent each.

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Despite the recent economic contraction, the number of homes sold declined only slightly in the largest metropolitan areas of the Pacific region, while average home prices continued to rise in many markets.

		Number of Homes Sold			Price			
	12 Months Ending	2019	2020	Percent Change	Average	2019 ($)	2020 ($)	Percent Change
Urban Honolulu, HI (N&E)	May	11,400	11,063	-3	AVG	$773,561	$724,109	-6
Las Vegas-Henderson-Paradise, NV (N&E)	May	50,777	45,718	-10	AVG	$362,542	$392,665	8
Phoenix-Mesa-Scottsdale, AZ (N&E)	May	130,340	129,870	0	AVG	$324,763	$342,006	5
Los Angeles-Long Beach-Anaheim, CA (N&E)	May	106,435	101,416	-5	AVG	$902,119	$915,923	2
Riverside-San Bernardino-Ontario, CA (N&E)	May	68,530	66,590	-3	AVG	$422,623	$446,671	6
San Diego-Carlsbad, CA (N&E)	May	38,000	36,798	-3	AVG	$736,511	$768,870	4
Oxnard-Thousand Oaks-Ventura, CA (N&E)	May	8,991	8,952	0	AVG	$734,433	$721,643	-2
San Francisco-Oakland-Hayward, CA (N&E)	May	45,421	39,742	-13	AVG	$1,161,597	$1,182,833	2
San Jose-Sunnyvale-Santa Clara, CA (N&E)	May	15,209	13,261	-13	AVG	$1,481,608	$1,471,705	-1
Sacramento-Roseville-Arden-Arcade, CA (N&E)	May	37,153	33,677	-9	AVG	$505,529	$534,106	6

AVG = average. N&E = new and existing.
Note: Data includes single-family homes, townhomes, and condominiums.
Source: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

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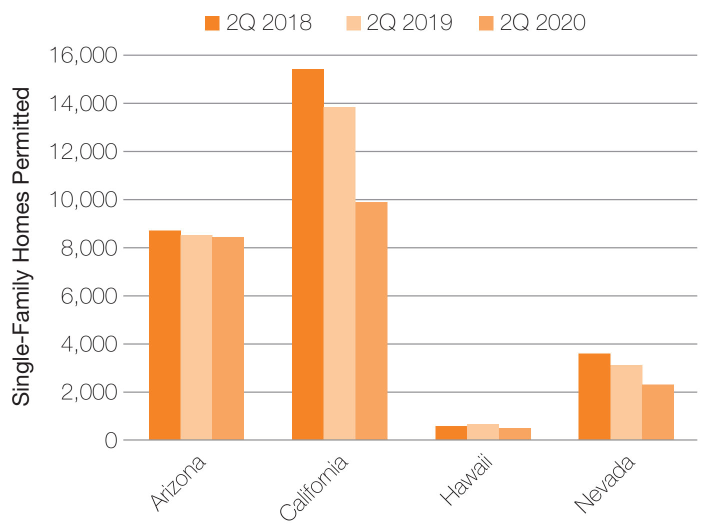
During the second quarter of 2020 (preliminary data)—

- Single-family homebuilding activity in the region, as measured by the number of homes permitted, decreased 19 percent from a year earlier to 21,100 homes, which followed an 8-percent year-over-year decline during the second quarter of 2019. The number of homes permitted nationally during the same period decreased 9 percent from a year earlier after declining 5 percent during the second quarter of 2019.
- California accounted for 47 percent of the single-family units permitted in the region—down from a 53-percent contribution during the second quarter of 2019. Single-family permitting activity in the state declined by nearly 3,950 homes, or 28 percent, to 9,900 homes, and accounted for almost 80 percent of the regionwide decline.
- Single-family permitting declined at the slowest rate in Arizona—1 percent—to 8,450 homes, after increasing for the past three consecutive quarters.
- In Hawaii, single-family permitting activity declined 25 percent, to 480 homes, and in Nevada, single-family permitting declined 27 percent, to 2,275 homes.

Single-family permitting activity declined in the Pacific region during the second quarter of 2020, with declines in all four states of the region.



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

Apartment Market Conditions

Apartment market conditions in the Pacific region ranged from slightly soft to tight in the 10 major metropolitan areas cited in this report during the second quarter of 2020, deteriorating from balanced to tight conditions in many of those metropolitan areas a year earlier. The recent economic contraction has led many renters to search for more affordable rental housing or, for those with the means and long-term work-from-home options, to transition into homeownership. The result has been a weakening in apartment market conditions in 6 of the 10 largest metropolitan areas cited in this report; the most significant softening was reported in the apartment markets with the highest rents. In both the San Francisco-Oakland-Hayward and San Jose-Sunnyvale-Santa Clara metropolitan areas, the apartment markets were balanced during the second quarter of 2020, compared with tight conditions during the second quarter of 2019. However, in four metropolitan areas where average apartment rents are among the lowest of the largest metropolitan areas cited in this report, apartment market conditions remained unchanged, ranging from slightly tight to tight. While the apartment vacancy rates increased in all but 1 of the 10 major metropolitan areas included in this report, the rate rose slowly where conditions remained unchanged, ranging from no change in the Sacramento-Roseville-Arden-Arcade area to a 0.7- and 0.8-percent increase in the Phoenix-Mesa-Scottsdale and Oxnard-Thousand Oaks-Ventura metropolitan areas, respectively. The apartment vacancy rate rose the most—at 2.3 percentage points—in Urban Honolulu, and the apartment market deteriorated the most significantly from tight to slightly soft during the second quarter of 2020. Reduced international in-migration and a lack of seasonal apartment demand from long-term visitors contributed to the softening of the apartment market in Urban Honolulu.

Despite the recent weakening of the apartment market, average rents increased in 7 of the 10 major metropolitan areas during the second quarter of 2020. Average rent growth was fastest in the more affordable markets of the region, where demand is greatest, and exceeded the 2-percent rate of rent growth in the nation. Rents increased by the most—almost 5 percent from a year earlier—in the Phoenix-Mesa-Scottsdale metropolitan area. Rents also rose between 3 and 4 percent in the Riverside-San Bernardino-Ontario and the Sacramento-Roseville-Arden-Arcade metropolitan areas, where the average rents are generally lower. The average rent declined in the three metropolitan areas where the apartment rent is the highest; rents declined 1 percent in San Jose-Sunnyvale-Santa Clara to $2,884, 2 percent in San Francisco-Oakland-Hayward to $2,783, and 3 percent in Urban Honolulu to $2,068.

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Apartment market conditions softened in the Pacific region during the second quarter of 2020, as shown by increased vacancy rates in all 10 of the largest metropolitan areas—although rents increased in many of the same markets.

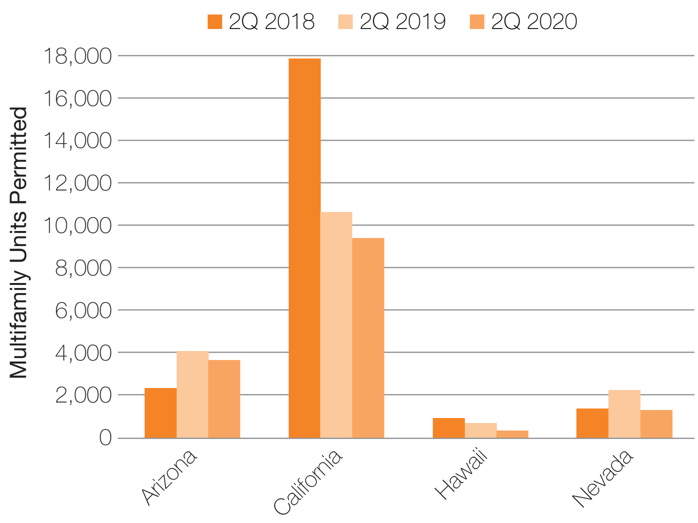
	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2019 (%)	2Q 2020 (%)	Percentage Point Change	2Q 2019 ($)	2Q 2020 ($)	Percent Change
Urban Honolulu	Slightly Soft	3.9	6.2	2.3	2,140	2,068	-3.4
Las Vegas-Henderson-Paradise	Balanced	3.9	4.9	1	1,090	1,109	1.7
Phoenix-Mesa-Scottsdale	Slightly Tight	3.7	4.4	0.7	1,141	1,195	4.7
Los Angeles-Long Beach-Anaheim	Slightly Tight	3.6	4.5	0.9	2,216	2,219	0.1
Riverside-San Bernardino-Ontario	Tight	3.3	3.6	0.3	1,536	1,596	3.9
San Diego-Carlsbad	Slightly Tight	3.4	4.2	0.8	2,007	2,035	1.4
Oxnard-Thousand Oaks-Ventura	Tight	3.1	3.9	0.8	2,017	2,030	0.6
San Francisco-Oakland-Hayward	Balanced	3.6	4.8	1.2	2,845	2,783	-2.2
San Jose-Sunnyvale-Santa Clara	Balanced	3.6	4.7	1.1	2,920	2,884	-1.2
Sacramento-Roseville-Arden-Arcade	Tight	3.4	3.4	0.0	1,471	1,519	3.3

2Q = second quarter.
Sources: Market condition—Economic and Market Analysis Division; vacancy rate and average monthly rent—RealPage, Inc.

During the second quarter of 2020 (preliminary data)—

- Multifamily permitting in the region decreased 17 percent from a year earlier to 14,800 units, followed by a 21-percent year-over-year decline during the second quarter of 2019. Nationally, by comparison, the number of units permitted decreased 9 percent, following a 3-percent decline during the same period a year earlier.
- In Arizona, multifamily permitting declined 10 percent to 3,675 units. Significant increases in multifamily permitting activity in the state led regionwide multifamily permitting gains for the previous two consecutive quarters.
- Multifamily permitting activity declined the most in California by 1,250 units, or 12 percent, to 9,425 units. However, California still accounted for 64 percent of all permitting regionwide, up from a 60-percent contribution during the second quarter of 2019.
- In Hawaii and Nevada, multifamily construction activity declined 48 and 42 percent, to 370 and 1,325 units permitted, respectively.

The number of multifamily units permitted declined in the Pacific region during the second quarter of 2020, and permitting fell in all four states of the region.



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Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey