HUD PD&R Regional Reports

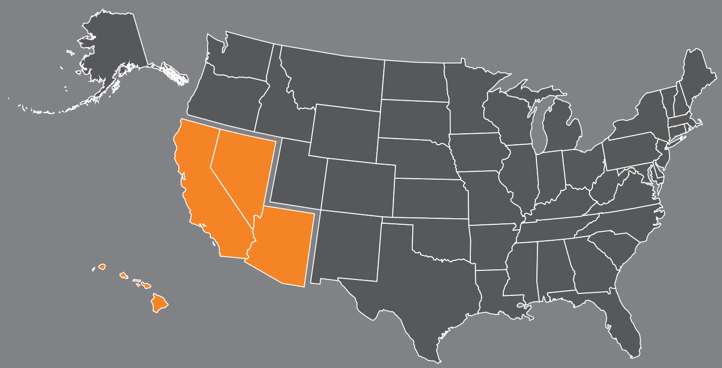
Region 9: Pacific

Scottsdale, Arizona

Quick Facts About Region 9

- **Sales market conditions—**
  Second quarter 2021: tight
  First quarter 2021: mixed (balanced to tight)
  Second quarter 2020: mixed (balanced to tight)

- **Apartment market conditions—**
  Second quarter 2021: mixed (balanced to very tight)
  First quarter 2021: mixed (balanced to tight)
  Second quarter 2020: mixed (slightly soft to tight)



By Gabe Labovitz | 2nd Quarter 2021

Overview

Economic conditions in the Pacific region strengthened during the second quarter of 2021 as COVID-19 vaccines were made available to all persons over age 12 in the region, allowing pandemic-related restrictions on businesses to be further eased. Year-over-year job growth in the Pacific region was strong during the second quarter of 2021, primarily because payrolls during the base comparison period were so low—nonfarm payrolls during the second quarter of 2020 were the lowest since the second quarter of 2013. Strong job growth in the Pacific region lagged the national rate of job growth during the second quarter of 2021, though. The current count of jobs in the Pacific region is approximately 94 percent of the total averaged during the second quarter of 2019 and slightly below the national recovery rate of 96 percent. Improving economic conditions in the region led to tightening in both the sales housing and apartment markets. Total home sales in the Pacific region rose at the fastest annual rate since 2009, and average home sales prices in the region reached record levels for the region and in all four states (Zonda). The inventory of homes for sale remains historically low. Apartment market conditions in the major metropolitan areas of the Pacific

continued on page 2

continued from page 1

region were unchanged or had tightened compared with conditions a year earlier and during the previous quarter.

- As of July 1, 2021, approximately 59 percent of the eligible population in the Pacific region had received at least one dose of a vaccine against the COVID-19 virus (Centers for Disease Control and Prevention, COVID-19 Vaccine Distribution and Administration Data Tracker). Nationally, the rate was 55 percent.
- During the second quarter of 2021, all nonfarm payroll sectors in the Pacific region except the government sector added jobs. Job growth was led by the leisure and hospitality and the wholesale and retail trade sectors—which were the same sectors that declined the most 1 year earlier, when social distancing protocols were widely adopted to slow the spread of the COVID-19 virus.
- In response to tightening sales and apartment market conditions throughout the Pacific region, builders increased construction of both single-family homes and multifamily units during the second quarter of 2021. Single-family home permitting during the second quarter of 2021 is at the highest level in more than 10 years, and multifamily permitting also rose compared with a year earlier but is below recent second quarter levels.

Economic Conditions

As the recovery from COVID-19-induced job losses began, jobs in the Pacific region increased strongly during the second quarter of 2021. Nonfarm payrolls averaged 21.17 million jobs during the second quarter of 2021, a gain of more than 1.54 million jobs, or 7.9 percent, compared with a year earlier. By contrast, nationally, nonfarm payrolls rose 8.5 percent during the same quarter. Because the second quarter of 2020 had the lowest job count in the Pacific region since the pandemic began, year-over-year job gains were relatively large this quarter. Despite this rapid job growth, nonfarm payrolls have not recovered from the significant downturn at the beginning of the pandemic. From February 2020 to April 2020, the Pacific region lost 3.46 million jobs, a decline of 15.3 percent (data not seasonally adjusted); by contrast, nationally, the decline was 13.7 percent. From April 2020 to June 2021, 2.05 million jobs have been recovered in the Pacific region, or 59.1 percent; nationally, the job-recovery rate is 78.5 percent. By Pacific region state, Nevada and Arizona have improved the fastest, with 70.0 and 67.7 percent of lost jobs recovered, respectively, whereas California and Hawaii have recovered 57.8 and 39.8 percent of lost jobs, respectively.

Every job sector in the Pacific region increased during the second quarter of 2021 except the government sector, which declined by 40,500 jobs, or 1.3 percent, because losses of 43,800 jobs in California and 5,500 jobs in Arizona more than offset modest job gains in Hawaii and Nevada. The two job sectors with the largest

continued on page 3

All nonfarm payroll sectors in the Pacific region except the government sector added jobs during the second quarter of 2021.

	Second Quarter		Year-Over-Year Change	
	2020 (Thousands)	2021 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	19,624.5	21,166.5	1,542.0	7.9
Goods-Producing Sectors	2,619.0	2,740.2	121.2	4.6
Mining, Logging, & Construction	1,155.4	1,234.6	79.2	6.9
Manufacturing	1,463.6	1,505.5	41.9	2.9
Service-Providing Sectors	17,005.5	18,426.4	1,420.9	8.4
Wholesale & Retail Trade	2,608.4	2,890.0	281.6	10.8
Transportation & Utilities	904.0	1,009.8	105.8	11.7
Information	564.4	598.7	34.3	6.1
Financial Activities	1,120.3	1,135.3	15.0	1.3
Professional & Business Services	3,138.3	3,353.9	215.6	6.9
Education & Health Services	3,283.0	3,467.9	184.9	5.6
Leisure & Hospitality	1,663.6	2,208.2	544.6	32.7
Other Services	552.8	632.2	79.4	14.4
Government	3,170.7	3,130.2	-40.5	-1.3

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

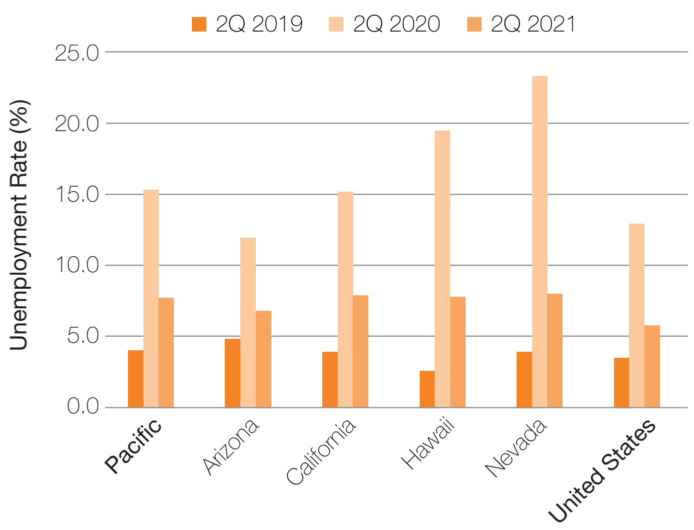
continued from page 2

increases during the second quarter of 2021 also reported the largest declines a year earlier: the leisure and hospitality and the wholesale and retail trade sectors. These two sectors typically include jobs requiring interpersonal interaction and jobs often considered nonessential. Jobs in the leisure and hospitality sector grew the fastest during the second quarter of 2021, increasing by 544,600 jobs, or 32.7 percent; this sector was the most severely affected when state and local governments began enacting social distancing measures a year earlier to slow the spread of the COVID-19 virus. Despite the growth in leisure and hospitality sector jobs during the second quarter, the current total, 2.21 million jobs, is only 77 percent of sector jobs reported during the second quarter of 2019. In the wholesale and retail trade sector, 281,600 jobs were added, a nearly 11-percent increase from a year earlier. The wholesale and retail trade sector recovered approximately 68 percent of jobs during the second quarter of 2021. An ongoing shift in consumer preferences from in-store to online purchases is likely contributing to the changes affecting jobs in the sector, as well as COVID-19-induced changes in shopping behavior.

During the second quarter of 2021—

- The unemployment rate in the Pacific region averaged 7.7 percent, nearly one-half of the 15.3 percent rate a year earlier. By contrast, the national unemployment rate averaged 5.8 percent, down from 12.9 percent a year earlier. The unemployment rates for Pacific region states ranged from 6.8 percent in Arizona to 8.0 percent in Nevada.
- California gained 1.12 million jobs, an increase of 7.4 percent and nearly 73 percent of all jobs gained in the Pacific region. Nevertheless, this gain is only 52 percent of the job losses sustained a year earlier, and the current total of 16.37 million jobs in California is nearly 6 percent below the jobs count during the second quarter of 2019. The 365,100 jobs added in the leisure and hospitality sector in California represented two-thirds of the regionwide job gains, but only 42 percent of the sector jobs lost in California during the second quarter of 2020 have been recovered. All payroll sectors in California increased except the government sector.
- In Nevada, nonfarm payrolls grew by 185,900 jobs, or 16.3 percent, compared with a decline of nearly 20 percent a year earlier. The leisure and hospitality sector increased by 82,300 jobs, or nearly 45 percent, compared with a 49-percent decline a year earlier. Tourist visits to Las Vegas totaled 8.4 million during the second quarter of 2021, compared with 1.3 million visits a year earlier, during the beginning of the pandemic, and approximately 78 percent of the visits reported during the second quarter of 2019 (Las Vegas Convention and Visitors Authority). All job sectors in Nevada reported stable or increased job counts during the second quarter of 2021.
- In Arizona, nonfarm payrolls increased by 181,900, or nearly 7 percent, compared with a similar decline a year earlier; nonfarm payrolls gained during the second quarter of 2021 were nearly 96 percent of payrolls lost a year earlier. Jobs in the leisure and hospitality sector increased by 67,300, or nearly 29 percent; the wholesale and retail trade and the education and health services sectors gained 33,200 and 29,400 jobs, growing 8.4 and 6.7 percent, respectively. The average of 2.9 million jobs in Arizona during the second quarter of 2021 is nearly equal to its jobs count during the second quarter of 2019.
- In Hawaii, nonfarm payrolls averaged 567,700, a gain of 52,300 jobs, or 10.1 percent, from a year earlier but a recovery of only 37 percent of the 142,600 jobs lost a year earlier. Jobs in the leisure and hospitality sector led gains during the second quarter of 2021, increasing by 29,900 jobs, or 50.3 percent; however, job gains in this sector represent only 45 percent of the losses a year ago. Tourist visits to Hawaii averaged 634,900 during the second quarter of 2021, compared with 10,250 visits a year earlier (Hawaii Tourism Authority). By contrast, tourist visits averaged 870,800 during the second quarter of 2019. The Hawaii Tourism Authority has proposed limits to tourists to Oahu, the most populous Hawaiian island, due to crowding.

During the second quarter of 2021, unemployment rates fell sharply in all Pacific region states, but all were above the national rate.



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

Sales Market Conditions

Sales housing markets in the Pacific region were tight during the second quarter of 2021. Home sales (including single-family homes, townhomes, and condominiums) in the region rose sharply, increasing more than 16 percent during the 12 months ending May 2021, following a decline of 4 percent a year earlier (Zonda). By contrast, home sales rose 12 percent nationally during the 12 months ending May 2021 after declining 1 percent during the 12 months ending May 2020. The inventory of homes available for sale in the region averaged 1.4 months of supply during May 2021, down from 2.2 months of supply a year earlier; nationally, 1.3 months of supply was reported during May 2021, down from 2.6 months of inventory a year earlier. Historically tight sales markets contributed to strong sales price gains. The average sales price for a home (including single-family homes, townhomes, and condominiums) rose more than 18 percent, to $650,200, during the 12 months ending May 2021, compared with the national average sales price of $373,300, an increase of 16 percent from a year earlier. Average sales prices in all four Pacific region states were above the national average. During the 12 months ending May 2021, average home sales prices in the Pacific region states ranged from $400,900 in Arizona to $785,400 in California, and the rate of increase in the four states ranged from 13 percent in Hawaii to 21 percent in Arizona. Average home sales prices in the major metropolitan areas in the Pacific region reported similar price gains, ranging from a 5-percent increase to $755,300 in Urban Honolulu to a 21-percent increase to $420,800 in the Phoenix-Mesa-Scottsdale metropolitan area. The Phoenix-area price is the second lowest average sales price among large metropolitan areas in the Pacific region, despite the recent gain. The San Francisco-Oakland-Hayward and the San Jose-Sunnyvale-Santa Clara metropolitan areas are the two highest priced metropolitan areas in the Pacific region and are among the highest priced sales housing markets in the country; both of those metropolitan areas reported slower, but still significant, price increases of 13 and 12 percent, to $1.22 million and $1.43 million, respectively.

Home sales rose in all Pacific region states. The impact of teleworking and sheltering at home because of social distancing initiatives during the past year, along with low mortgage interest rates and strong job growth for people who have not had work interruptions, contributed to the increased sales in the Pacific region and nationally. The number of homes sold rose most in California, increasing more than 18 percent compared with sales a year earlier, and in Arizona, where home sales rose 15 percent. Sales increased in both Hawaii and Nevada but at lower rates of 10 percent each. Concurrently, sales increases were large in most major metropolitan areas in the Pacific region, ranging from 19 percent in the Phoenix-Mesa-Scottsdale metropolitan area, to 151,700 homes sold, to unprecedented 34- and 35-percent increases in the San Francisco-Oakland-Hayward and the San Jose-Sunnyvale-Santa Clara metropolitan areas, respectively. Sales also rose 9 percent, to 12,250 home sales, in the Urban Honolulu metropolitan area. The two most expensive markets reported the largest rate of sales increase, whereas areas with lower sales prices, including Los Angeles-Long Beach-Anaheim and Urban Honolulu, reported comparatively low increases in home sales. The two lowest priced sales markets in the region—Las Vegas-Henderson-Paradise and Phoenix-Mesa-Scottsdale—also reported comparatively low sales increases. The rate of seriously delinquent

continued on page 5

In the major metropolitan areas of the Pacific region, home sales and average home sales prices rose significantly.

		Number of Homes Sold			Price			
	12 Months Ending	2020	2021	Percent Change	Average	2020 ($)	2021 ($)	Percent Change
Urban Honolulu, HI (N&E)	May	11,221	12,273	9	AVG	$716,689	$755,319	5
Las Vegas-Henderson-Paradise, NV (N&E)	May	52,631	63,196	20	AVG	$339,300	$388,166	14
Phoenix-Mesa-Scottsdale, AZ (N&E)	May	127,000	151,664	19	AVG	$346,595	$420,829	21
Los Angeles-Long Beach-Anaheim, CA (N&E)	May	100,131	120,838	21	AVG	$866,778	$993,396	15
Riverside-San Bernardino-Ontario, CA (N&E)	May	70,613	88,200	25	AVG	$410,871	$473,486	15
San Diego-Carlsbad, CA (N&E)	May	38,211	46,537	22	AVG	$708,693	$809,239	14
Oxnard-Thousand Oaks-Ventura, CA (N&E)	May	8,994	10,967	22	AVG	$698,947	$805,698	15
San Francisco-Oakland-Hayward, CA (N&E)	May	40,390	54,033	34	AVG	$1,080,863	$1,217,292	13
San Jose-Sunnyvale-Santa Clara, CA (N&E)	May	14,633	19,797	35	AVG	$1,283,361	$1,431,848	12
Sacramento-Roseville-Arden-Arcade, CA (N&E)	May	37,299	47,230	27	AVG	$468,062	$540,920	16

AVG = average.
Note: Data include single-family homes, townhomes, and condominiums.
Source: Zonda

continued from page 4

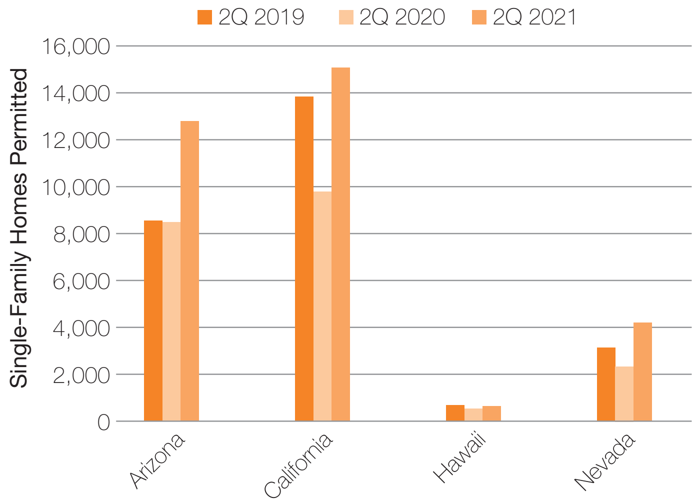
mortgages (loans 90 or more days delinquent or in foreclosure) and real estate owned (REO) properties has increased during the past year, averaging 3.4 percent during May 2021 compared with 0.7 percent a year earlier.

In response to significant price increases and continued low rates of for-sale inventory, developers increased production of new single-family homes in the Pacific region during the second quarter of 2021.

During the second quarter of 2021 (preliminary data)—

- Homebuilding activity in the region, as measured by the number of single-family homes permitted, increased 55 percent from a year earlier, to 32,600 homes permitted, following declines of 20 and 8 percent during the previous two second quarters. The current level of single-family home permitting is the highest second quarter total in more than 10 years. By comparison, single-family home permitting nationally also rose strongly, increasing nearly 46 percent, following an 8-percent decline a year earlier.
- California, which typically includes the most single-family home permitting in the Pacific region, accounted for 46 percent of single-family homebuilding activity in the region, and permitting rose nearly 55 percent, to 15,100 homes.
- Single-family home permitting rose at a similar rate in Arizona, increasing 51 percent, to 12,750 homes permitted, and contributed 37 percent of the increase in single-family homes permitted regionwide.
- In Nevada and Hawaii, the number of homes permitted rose 82 and 24 percent, to 4,150 and 600 homes, compared with decreases of 27 and 25 percent a year earlier, respectively.

In response to increasing home sales and average home sales prices in the Pacific region during the second quarter of 2021, single-family home permitting rose in all four states.



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 balanced to very tight in the 10 major metropolitan areas cited in this report during the second quarter of 2021. All metropolitan areas cited in this report have apartment markets that are either unchanged or tighter than a year earlier. Rapid economic growth and a likely reversal of households doubling up from earlier during the pandemic have contributed to recent renter household growth. In addition, tight sales housing markets throughout the region also contribute to an increased propensity to rent. Despite current balanced conditions, the apartment vacancy rate during the second quarter of 2021 rose in the San Jose-Sunnyvale-Santa Clara metropolitan area, to 5.2 percent, and was unchanged in the San Francisco-Oakland-Hayward metropolitan area, at 4.9 percent (RealPage, Inc.). These are the two most expensive apartment markets in the Pacific region and among the most expensive apartment markets in the country. Apartment vacancy rates declined, in some places significantly, in the remaining eight large metropolitan areas cited in this report. Declining vacancy rates ranged from 1.1 and 1.2 percentage points in the Sacramento-Roseville-Arden-Arcade and Los Angeles-Long Beach-Anaheim metropolitan areas to a decline of 4.1 percentage points in the Urban Honolulu metropolitan area, to a 2.2-percent vacancy rate. Vacancy rates within the Urban Honolulu apartment market can fluctuate widely in response to economic and demographic trends. Nationally, the average apartment vacancy rate was 3.7 percent, down from 4.6 percent a year earlier.

Average apartment asking rents fluctuated widely in the 10 metropolitan areas cited in this report, likely because of the rapid increase in jobs and continued telework leading to increased geographic mobility of households. Within several metropolitan areas in the region, some renters are likely moving from downtown locations to suburban locations where rents are, on average, lower. In the two most expensive apartment markets in the Pacific region, the San Jose-Sunnyvale-Santa Clara and the San Francisco-

continued on page 6

continued from page 5

Oakland-Hayward metropolitan areas, the average rents fell 8 and 7 percent, to $2,657 and $2,600, respectively. Average rents rose in each of the remaining eight large metropolitan areas in the Pacific region, with increases ranging from 3 percent, to $2,293, in the Los-Angeles-Long Beach-Anaheim metropolitan area to an increase of 16 percent in the Phoenix-Mesa-Scottsdale metropolitan area and the Riverside-San Bernardino-Ontario metropolitan area, where the average rents were $1,382 and $1,853, respectively. In the Phoenix-Mesa-Scottsdale metropolitan area, where the average vacancy rate fell to 3.1 percent, the average rent was among the lowest of the large metropolitan areas in the Pacific region; only the Las Vegas-Henderson-Paradise metropolitan area had a lower average rent. Workers utilizing telework are likely moving from relatively higher priced apartments in the neighboring Los Angeles-Long Beach-Anaheim metropolitan area to less expensive units in the Riverside-San Bernardino-Ontario metropolitan area. For context, the average asking rent nationally rose 4.2 percent, to an average of $1,495, during the second quarter of 2021.

For the two metropolitan areas cited in this report where apartment market conditions did not tighten significantly, their downtown market areas seemingly influenced the trends. In the San Francisco-Oakland-Hayward metropolitan area, where the vacancy rate was unchanged and the average rent declined, the average asking rent in the RealPage, Inc.-defined Downtown San Francisco market area fell almost twice as fast as the overall metropolitan area rent, declining nearly 13 percent, to $2,829, during the second quarter of 2021 compared with the second quarter of 2020. Average concessions in this submarket rose sharply as well, doubling from 5.2 percent to 10.4 percent of average asking rent during the same period. In the San Jose-Sunnyvale-Santa Clara metropolitan area, where the vacancy rate rose and the average asking rent fell, average asking rents fell in all nine RealPage, Inc.-defined submarket areas that generally make up the metropolitan area, but for the four market areas with average rents above the overall area average, the rents fell more than 9 percent.

In response to tight and tightening apartment market conditions in the Pacific region, developers have increased multifamily production, as measured by the number of multifamily units permitted.

During the second quarter of 2021 (preliminary data)—

- Multifamily permitting in the region rose 15 percent, to 17,600 units permitted, following a 14-percent decline a year earlier. Nationally, by comparison, the number of multifamily units permitted rose more than 23 percent, following a decline of 8 percent from the second quarter of 2019 to the second quarter of 2020.
- In California, multifamily permitting rose nearly 14 percent, to 11,150 units permitted, which contributed more than 63 percent of units permitted in the region. The number of multifamily units permitted rose in four of the major metropolitan areas but fell in the Sacramento-Roseville-Arden-Arcade and the San Diego-Carlsbad metropolitan areas. Despite the increase in multifamily permitting from a year ago, the current level is below the 15,200 units permitted, on average, during the second quarters of 2015 through 2018.
- In Nevada and Arizona, multifamily permitting rose 15 and 28 percent, to 1,525 and 4,825 units permitted, respectively, following declines of 42 and 8 percent a year earlier. A decline

continued on page 7

In the major metropolitan areas in the Pacific region, apartment market conditions tightened, and average rents rose in all but the most expensive markets during the second quarter of 2021.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2020 (%)	2Q 2021 (%)	Percentage Point Change	2Q 2020 ($)	2Q 2021 ($)	Percent Change
Urban Honolulu	Slightly Tight	6.3	2.2	-4.1	2,114	2,267	7.2
Las Vegas-Henderson-Paradise	Tight	4.9	3.3	-1.6	1,110	1,248	12.4
Phoenix-Mesa-Scottsdale	Tight	4.4	3.1	-1.3	1,196	1,382	15.6
Los Angeles-Long Beach-Anaheim	Slightly Tight	4.5	3.3	-1.2	2,225	2,293	3.1
Riverside-San Bernardino-Ontario	Very Tight	3.6	1.5	-2.1	1,598	1,853	16.0
San Diego-Carlsbad	Tight	4.2	2.5	-1.7	2,029	2,174	7.1
Oxnard-Thousand Oaks-Ventura	Very Tight	3.9	1.7	-2.2	2,029	2,253	11.0
San Francisco-Oakland-Hayward	Balanced	4.9	4.9	0	2,797	2,600	-7.0
San Jose-Sunnyvale-Santa Clara	Balanced	4.7	5.2	0.5	2,892	2,657	-8.1
Sacramento-Roseville-Arden-Arcade	Tight	3.4	2.3	-1.1	1,520	1,710	12.5

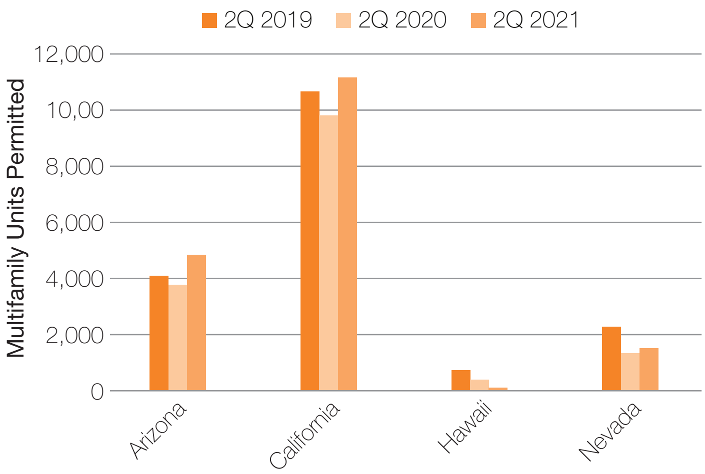
2Q = second quarter.
Sources: Market condition—Economic and Market Analysis Division; vacancy rate and average monthly rent—RealPage, Inc.

continued from page 6

of 150 units permitted, or 17 percent, in the Las Vegas-Henderson-Paradise metropolitan area was offset by gains elsewhere in Nevada, including in Reno, where multifamily permitting increased nearly 37 percent, to 610 units permitted. In Arizona, nearly 94 percent of the increase in units was in the Phoenix-Mesa-Scottsdale and the Flagstaff metropolitan areas, where multifamily units permitted rose by 750, or 23 percent, and by 240 units, or more than 100 percent, respectively.

- Hawaii was the only state where multifamily permitting fell, declining 78 percent, to 80 units permitted, following a 48-percent decline during the second quarter of 2020. The number of multifamily units permitted in Hawaii can fluctuate widely and has recently ranged from 30 units permitted during the second quarter of 2013 to 750 units permitted during the second quarter of 2016.

Multifamily permitting activity rose in three of the four Pacific region states during the second quarter of 2021.



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