

HUD PD&R Regional Reports

Region 9: Pacific



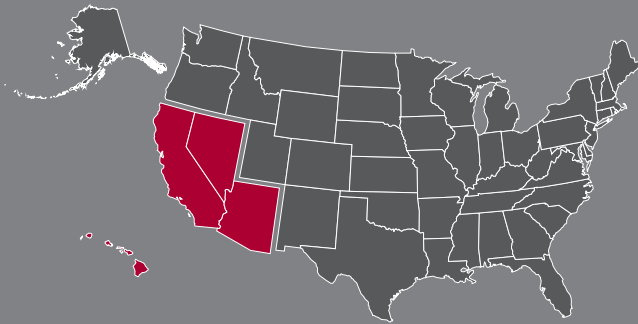
Tucson, Arizona

By Elaine Ng | 3rd quarter 2016

Quick Facts About Region 9

- **Sales market conditions—**
Third quarter 2016: mixed (balanced to tight).
Second quarter 2016: mixed (balanced to tight).
Third quarter 2015: mixed (balanced to tight).

- **Apartment market conditions—**
Third quarter 2016: mixed (balanced to tight).
Second quarter 2016: mixed (soft to tight).
Third quarter 2015: mixed (balanced to tight).



Overview

Economic conditions continued to strengthen in the Pacific region during the third quarter of 2016 compared with conditions during the third quarter of 2015. Nonfarm payrolls have expanded year over year every quarter since the fourth quarter of 2010. California represented 78 percent of jobs in the region and contributed 75 percent of net job growth during the third quarter of 2016. 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 California and Nevada. Apartment market conditions were tight throughout much of the region, although vacancy rates rose in 4 of the 10 largest markets cited in this report and remained the same in the Phoenix-Mesa-Scottsdale market. Average rent growth in 6 metropolitan areas of the region exceeded the national average during the past year.

During the third quarter of 2016—

- Every payroll sector in the region except the manufacturing sector added jobs. This quarter marks the third time in the past four quarters that the manufacturing sector lost jobs while every other sector added jobs. Before the fourth quarter of 2015, every sector in the region had added jobs year over year since the third quarter of 2013.
- Home sales in the region were relatively unchanged from the third quarter of 2015 at 720,700 homes sold, due more to decreased inventory at the lowest price ranges than to lack of demand.

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- Single-family homebuilding activity, as measured by the number of homes permitted, increased 3 percent in the region compared with 6-percent growth nationally.
- Multifamily construction activity, as measured by the number of units permitted, increased 5 percent compared with growth of less than 1 percent nationwide.

Economic Conditions

Economic conditions in the Pacific region, which began to improve during the fourth quarter of 2010, continued to strengthen during the third quarter of 2016. All four states in the region added jobs, with total nonfarm payrolls increasing by 473,400 jobs, or 2.3 percent, from the third quarter of 2015, to approximately 21.1 million jobs. By contrast, the national rate of nonfarm job growth was 1.7 percent. Since the third quarter of 2010, the region has added 2.8 million jobs, a cumulative increase of 15.3 percent. The education and health services and the professional and business services sectors continued to drive job growth in the region. The two sectors, combined, contributed approximately 45 percent of net job gains during the third quarter of 2016, with additions of 111,600 and 100,600 jobs, respectively. Multifamily residential construction and commercial building activity expanded in three of the four states in the region and contributed to a gain of 44,700 jobs, or 4.3 percent, in the mining, logging, and construction sector, which recorded the highest growth rate of any sector in the region. The sector has added jobs year over year in each quarter since the third quarter of 2011 but remains 24 percent below the peak of 1.44 million jobs during the third quarter of 2006. All the manufacturing sector job losses occurred in California; the state's high land and

energy costs resulted in relocations of manufacturing companies to relatively lower-cost areas such as Nevada, New Mexico, Arizona, or abroad.

The unemployment rate in the region averaged 5.6 percent during the third quarter of 2016, down from 6.1 percent a year earlier but still above the national average of 4.9 percent. Hawaii had the lowest average unemployment rate in the region at 3.3 percent, down from 3.5 percent a year ago. The unemployment rate declined in Nevada from 6.7 to 5.9 percent and in California from 6.1 to 5.6 percent. The highest unemployment rate was in Arizona, at 6.0 percent, down from 6.5 percent a year ago. The unemployment rates in Arizona and Nevada were the sixth and seventh highest in the nation, respectively, and the unemployment rate in Hawaii was the fourth lowest.

During the third quarter of 2016—

- California added 356,300 jobs, a year-over-year gain of 2.2 percent, after 3.3-percent growth during the third quarter of 2015. Similar to trends in the region, the education and health services and the professional and business services sectors, combined, accounted for 47 percent of net job growth in the state, up by

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Nonfarm payrolls increased in every sector except manufacturing in the Pacific region.

	Third Quarter		Year-Over-Year Change	
	2015 (thousands)	2016 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	20,583.0	21,056.4	473.4	2.3
Goods-producing sectors	2,575.4	2,607.8	32.4	1.3
Mining, logging, and construction	1,046.4	1,091.1	44.7	4.3
Manufacturing	1,528.9	1,516.7	-12.2	-0.8
Service-providing sectors	18,007.6	18,448.5	440.9	2.4
Wholesale and retail trade	3,061.9	3,110.4	48.5	1.6
Transportation and utilities	744.2	760.0	15.8	2.1
Information	554.5	567.5	13.0	2.3
Financial activities	1,088.3	1,109.3	21.0	1.9
Professional and business services	3,159.7	3,260.3	100.6	3.2
Education and health services	3,045.5	3,157.1	111.6	3.7
Leisure and hospitality	2,617.2	2,703.5	86.3	3.3
Other services	702.2	704.0	1.8	0.3
Government	3,034.2	3,076.5	42.3	1.4

Note: Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics



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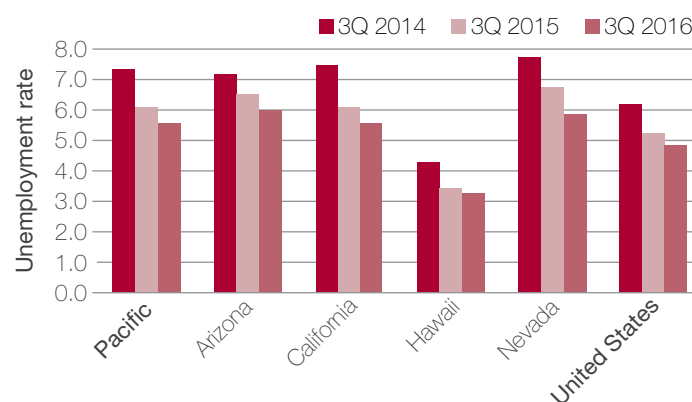
85,700 and 83,100 jobs, or 3.5 and 3.3 percent, respectively. A significant portion of job growth in the professional and business services sector was in high-tech industries, with the computer systems design and related services subsector contributing 19 percent of job gains in the sector. During 2015, California alone accounted for almost one-third of all high-tech jobs created in the nation (CompTIA, Inc.).

- Nonfarm payrolls in Arizona increased by 65,700 jobs, or 2.5 percent, from a year ago, slightly less than the gain of 68,700 jobs, or 2.7 percent, during the third quarter of 2015. The education and health services and the professional and business services sectors led job growth in the state, adding 17,800 and 12,000 jobs, gains of 4.5 and 3.0 percent, respectively. Several call centers expanded in Arizona in recent years, particularly in the Phoenix-Mesa-Glendale metropolitan area, where American Express Company runs the largest call center in the country, with over 5,000 employees (Site Selection Group, LLC).
- In Nevada, nonfarm payrolls expanded by 36,600 jobs, or 2.9 percent. The leisure and hospitality, the mining, logging, and construction, and the professional and business services sectors—the three fastest-growing sectors in the state—added 7,000, 6,000, and 4,500 jobs, increases of 2.0, 7.1, and 2.7 percent, respectively. The Wynn Las Vegas is one of many casinos and resorts expanding in Las Vegas, and it is currently developing two new additions. The Wynn Paradise Park will include a 38-acre lagoon attraction, a 1,000-room hotel, a casino,

and restaurants, among other features, and the Wynn Plaza will include more than 75,500 square feet of luxury retail space. Both developments are expected to be complete by 2017.

- Hawaii added 14,800 nonfarm payroll jobs, 2.3-percent growth. The leisure and hospitality and the education and health services sectors led job gains, expanding by 5,200 and 4,100 jobs, or 4.5 and 5.0 percent, respectively. Total tourism spending rose 5.3 percent from a year earlier, to \$3.9 billion during the third quarter of 2016 (Hawaii Tourism Authority).

Unemployment rates continued to decline throughout the Pacific region, but the rates in three of four states remained above the national rate.



3Q = third quarter.

Source: U.S. Bureau of Labor Statistics

Sales Market Conditions

During the third quarter of 2016, 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 5 percent, to \$461,800, during the 12 months ending August 2016 after a 6-percent gain during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). The average home sales price in the nation also rose 5 percent, to \$269,600, during the 12 months ending August 2016, similar to price gains a year earlier. 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 and Phoenix-Mesa-Scottsdale metropolitan areas, where conditions were balanced, to a 9-percent gain in the Urban Honolulu metropolitan area, where conditions tightened.

During the 12 months ending August 2016, the number of home sales remained unchanged from a year earlier, after a 6-percent

expansion during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). By comparison, home sales nationwide contracted 3 percent during the 12 months ending August 2016. Home sales decreased in all but 3 of the 10 largest metropolitan areas in the region, with declines ranging from 2 percent in the Riverside-San Bernardino-Ontario metropolitan area to 8 percent in the San Jose-Sunnyvale-Santa Clara metropolitan area. 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. The unsold inventory averaged a 2.2-month supply in Santa Clara County (part of the San Jose metropolitan area) and a 3.2-month supply in San Francisco County (California Association of Realtors®). Sales growth was flat in the San Diego-Carlsbad metropolitan area but positive in the Phoenix-Mesa-Scottsdale and Sacramento--Roseville--Arden-Arcade metropolitan areas, where sales prices were relatively more affordable than in nearby metropolitan areas.

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Regionwide growth in new home sales and regular (nondistressed) resales of 6 and 2 percent, respectively, was partially offset by 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 August 2016, distressed sales fell 24 and 21 percent, respectively, after decreases of 15 and 30 percent during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). Nationwide, by comparison, the number of REO sales fell 21 percent and short sales fell 15 percent during the 12 months ending August 2016. The percentage of seriously delinquent mortgage loans (90 or more days delinquent or in foreclosure) and REO properties in the region declined 0.5 percentage points, from 2.0 percent in August 2015 to 1.5 percent in August 2016. By comparison, the national decline was 0.8 percentage points, to 2.7 percent. In the region, the percentage of seriously delinquent mortgage loans and REO properties was highest in Hawaii and Nevada, at 3.3 and 3.2 percent, respectively; however, the overall regional rate also reflected the lower rates in California and Arizona of 1.3 and 1.4 percent, respectively.

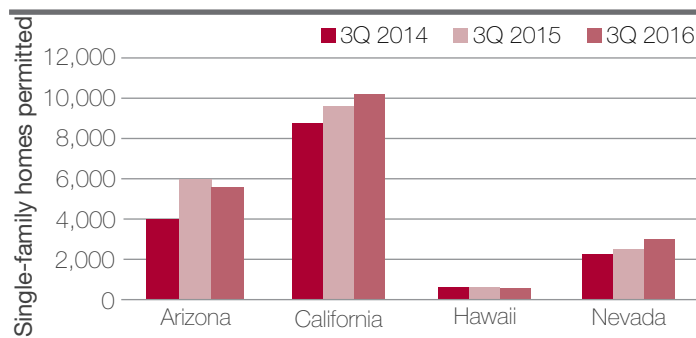
During the third quarter of 2016 (preliminary data)—

- Single-family homebuilding activity, as measured by the number of homes permitted, increased 3 percent in the region, to 19,500 homes, from a year earlier; however, this increase was less than the 19-percent gain during the third quarter of 2015. By comparison, the number of homes permitted nationally increased 6 percent from a year earlier after a 5-percent gain in the third quarter of 2015.
- Approximately 52 percent of the single-family homes permitted in the region were in California. The number of single-family

homes permitted in California rose to 10,200, a 5-percent increase from the third quarter of 2015, after an 11-percent gain during the same period a year earlier.

- The fastest growth in single-family permitting occurred in Nevada, where the number of single-family homes permitted increased 13 percent, to 2,925 homes. By comparison, during the third quarter of 2015, single-family permitting in the state grew 5 percent.
- Single-family permitting declined 4 percent from the previous year in both Hawaii and Arizona. In Hawaii, 530 homes were permitted, and, in Arizona, 5,850 homes were permitted.

In the Pacific region, single-family permitting increased in California and Nevada, offsetting declines in Arizona and Hawaii.



3Q = third quarter.

Note: Based on preliminary data.

Source: U.S. Census Bureau, Building Permits Survey

The number of homes sold declined in many metropolitan areas in the Pacific region, while average sales prices increased in all 10 of the major markets, due in part to low sales inventory.

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2015	2016	Percent Change		2015 (\$)	2016 (\$)	Percent Change
Las Vegas-Henderson-Paradise (N&E)	August	50,856	47,535	- 7	AVG	232,524	249,113	7
Los Angeles-Long Beach-Anaheim (N&E)	August	122,785	118,448	- 4	AVG	674,652	712,733	6
Oxnard-Thousand Oaks-Ventura (N&E)	August	10,869	10,384	- 4	AVG	565,925	586,092	4
Phoenix-Mesa-Scottsdale (N&E)	August	106,907	112,707	5	AVG	254,842	265,824	4
Riverside-San Bernardino-Ontario (N&E)	August	72,655	71,339	- 2	AVG	311,064	325,236	5
Sacramento--Roseville--Arden-Arcade (N&E)	August	39,981	42,756	7	AVG	344,868	370,823	8
San Diego-Carlsbad (N&E)	August	43,001	43,125	0	AVG	557,304	582,632	5
San Francisco-Oakland-Hayward (N&E)	August	54,909	53,177	- 3	AVG	805,353	850,080	6
San Jose-Sunnyvale-Santa Clara (N&E)	August	21,424	19,775	- 8	AVG	917,027	966,120	5
Urban Honolulu (N&E)	August	13,080	12,315	- 6	AVG	584,251	635,867	9

AVG = average. N&E = new and existing.

Note: Includes single-family homes, townhomes, and condominiums.

Source: 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. Of the 10 major metropolitan areas referenced in this report, 7 recorded apartment vacancy rates below the national average of 4.8 percent during the third quarter of 2016. The apartment vacancy rate rose in 4 of the metropolitan areas, however, and remained stable in the Phoenix-Mesa-Glendale metropolitan area (Axiometrics Inc.). In the apartment markets that posted vacancy rate increases, the changes ranged from 0.5 percentage point in the Urban Honolulu metropolitan area to 0.8 percentage point in the San Francisco-Oakland-Hayward metropolitan area. 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 6.4 percent during the third quarter of 2016 and year-over-year rent growth of 2 percent. A year earlier, conditions in Urban Honolulu were tight, with an apartment vacancy rate of 5.9 percent and much faster rent growth of 7 percent. Despite the slower rent growth, renter households who have been priced out of the market are more likely to double up or move out of state, causing apartment vacancies to be high. Conditions remained tight in the San Francisco-Oakland-Hayward market, with a 4.3-percent vacancy rate. Average rents rose in all the major metropolitan areas referenced in this report except San Jose-Sunnyvale-Santa Clara, the most expensive housing market in the region, where rent growth was flat. Among areas with rent increases, the growth in the average rent ranged from 1 percent in San Francisco-Oakland-Hayward to 7 percent in the Phoenix-Mesa-Scottsdale, Riverside-San Bernardino-Ontario, Sacramento--Roseville--Arden-Arcade, and San Diego-Carlsbad metropolitan

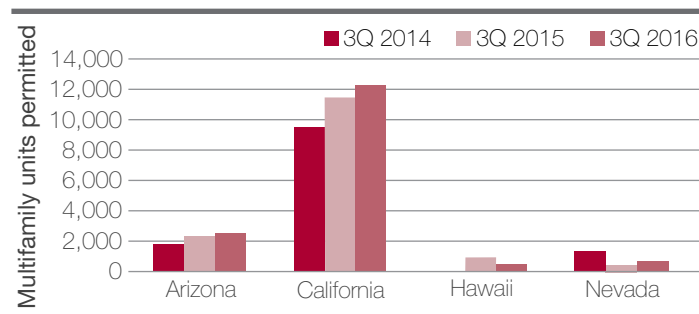
areas. Rent growth exceeded the national average increase of 3 percent in 6 of the 10 metropolitan areas in this report. San Francisco-Oakland-Hayward and San Jose-Sunnyvale-Santa Clara remain among the most expensive rental housing markets in the country, with average rents of \$3.30 and \$3.10 per square foot, respectively, more than twice the national average of \$1.40 per square foot.

During the third quarter of 2016 (preliminary data)—

- Builders in the region responded to tight apartment market conditions with increased multifamily building activity, as measured by the number of units permitted. Multifamily permitting increased 5 percent, to 15,950 units, after a 19-percent increase during the third quarter of 2015. By comparison, the number

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Multifamily permitting increased in every state of the Pacific region except Hawaii during the third quarter of 2016.



3Q = third quarter.

Note: Based on preliminary data.

Source: U.S. Census Bureau, Building Permits Survey

Average rents increased in every major metropolitan area in the Pacific region except San Jose-Sunnyvale-Santa Clara, where average rents were already the highest in the region.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2015 (%)	3Q 2016 (%)	Percentage Point Change	3Q 2015 (\$)	3Q 2016 (\$)	Percent Change
Las Vegas-Henderson-Paradise	Balanced	6.1	5.5	- 0.6	880	937	6
Los Angeles-Long Beach-Anaheim	Tight	4.0	3.9	- 0.1	2,056	2,166	5
Oxnard-Thousand Oaks-Ventura	Tight	3.8	3.6	- 0.2	1,898	1,940	2
Phoenix-Mesa-Scottsdale	Balanced	5.3	5.3	0.0	905	970	7
Riverside-San Bernardino-Ontario	Tight	4.7	4.5	- 0.2	1,390	1,494	7
Sacramento--Roseville--Arden-Arcade	Tight	4.0	3.7	- 0.3	1,296	1,386	7
San Diego-Carlsbad	Tight	3.9	4.6	0.7	1,832	1,962	7
San Francisco-Oakland-Hayward	Tight	3.5	4.3	0.8	2,760	2,788	1
San Jose-Sunnyvale-Santa Clara	Tight	3.9	4.6	0.7	2,816	2,807	0
Urban Honolulu	Balanced	5.9	6.4	0.5	2,049	2,083	2

3Q = third quarter.

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

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of units permitted nationally rose by less than 1 percent from the third quarter of 2015 following an 8-percent gain during the same period a year earlier.

- California accounted for 77 percent of the multifamily units permitted in the region. Multifamily permitting activity in the state grew 5 percent, to 12,250 units. Before the first quarter of 2015, when multifamily permitting activity fell, multifamily construction in the state had grown year over year since 2009.
- In Nevada, where multifamily permitting has fluctuated, the number of units permitted increased 61 percent, to 850, after a 62-percent decline during the third quarter of 2015.
- The number of multifamily units permitted in Arizona increased 12 percent, to 2,550, compared with the 2,275 units permitted during the third quarter of 2015. The Phoenix-Mesa-Scottsdale metropolitan area accounted for 88 percent of multifamily permitting in Arizona during the past year compared with a 71-percent contribution during the third quarter of 2015.
- Multifamily permitting activity declined only in Hawaii, to 320 units, a 53-percent drop, from the 670 units permitted during the third quarter of 2015.