

# HUD PD&R Regional Reports

## Region 9: Pacific



Tucson, Arizona

By Elaine Ng | 3rd quarter 2017

### Quick Facts About Region 9

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



### Overview

Economic conditions remained strong in the Pacific region during the third quarter of 2017, as nonfarm payrolls have continued to expand year over year during every quarter since the fourth quarter of 2010. California accounted for 78 percent of jobs in the region and 76 percent of net job growth during the third 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 7 of the 10 largest markets cited in this report. Average rent growth in the major metropolitan areas of the region exceeded the national rate of less than 1 percent during the past year in all but one market of this report.

During the third quarter of 2017—

- Every payroll sector in the region except the manufacturing sector added jobs. This quarter is the fifth consecutive quarter that the manufacturing sector lost jobs.

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- Home sales in the region rose more than 4 percent during the 12 months ending August 2017 to 785,500 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. By comparison, home sales rose 6 percent nationally during the same period.
- Single-family homebuilding activity, as measured by the number of homes permitted, increased almost 17 percent in the region compared with 8-percent growth nationally.
- Multifamily permitting increased more than 4 percent to 16,500 units compared with a 9-percent decline nationally.

## Economic Conditions

Economic conditions in the Pacific region, which began to improve during the fourth quarter of 2010, remained strong during the third quarter of 2017, but nonfarm job growth is slowing. All four states in the region added jobs, with total nonfarm payrolls increasing by 355,400 jobs, or 1.7 percent, to approximately 21.45 million jobs. This rate is slower than the 3.2- and 2.6-percent growth in nonfarm payrolls in the region during the third quarters of 2015 and 2016, respectively. Despite the slowing rate, the regional rate of nonfarm payroll job growth exceeded the national rate of 1.4 percent during the third quarter of 2017, which was down from 1.8 percent during the third quarter of 2016. Gains in the education and health services and the leisure and hospitality sectors, combined, accounted for nearly 46 percent of net job gains in the region during the third quarter of 2017, with the addition of 95,800 and 66,000 jobs, or 3.1 and 2.4 percent, respectively. By comparison, during the third quarter of 2016, the two sectors combined for 35 percent of net job gains. Single-family residential construction and commercial building activity expanded in all four states in the region, while

multifamily residential construction grew in three of the four states in the region. This expanded construction activity contributed to a gain of 56,600 jobs, or 5.1 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 20 percent below the peak of 1.44 million jobs averaged during the third quarter of 2006. The only sector to lose jobs during the third quarter was manufacturing. Losses in California and Hawaii, where high land and energy costs in these states resulted in relocations of manufacturing companies to the two relatively lower-cost states in the region and elsewhere, offset manufacturing job gains in Nevada and Arizona.

The unemployment rate in the region averaged 5.1 percent during the third quarter of 2017, down from 5.5 percent a year earlier but higher than the national average of 4.4 percent. At 2.4 percent, Hawaii had the lowest average unemployment rate in the region

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**Every payroll sector in the Pacific region added jobs except manufacturing, which declined for the fifth consecutive quarter.**

	Third Quarter		Year-Over-Year Change	
	2016 (thousands)	2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	21,098.5	21,453.9	355.4	1.7
Goods-producing sectors	2,638.7	2,692.9	54.2	2.1
Mining, logging, and construction	1,099.4	1,156.0	56.6	5.1
Manufacturing	1,539.3	1,536.9	- 2.4	- 0.2
Service-providing sectors	18,459.7	18,761.1	301.4	1.6
Wholesale and retail trade	3,082.8	3,101.2	18.4	0.6
Transportation and utilities	782.3	789.1	6.8	0.9
Information	592.5	598.1	5.6	0.9
Financial activities	1,122.8	1,133.9	11.1	1.0
Professional and business services	3,224.8	3,253.7	28.9	0.9
Education and health services	3,139.9	3,235.7	95.8	3.1
Leisure and hospitality	2,701.7	2,767.7	66.0	2.4
Other services	718.4	736.6	18.2	2.5
Government	3,094.6	3,145.0	50.4	1.6

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

Source: U.S. Bureau of Labor Statistics



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and the third lowest in the nation, down from 3.0 percent a year ago. The unemployment rate declined in Nevada from 5.6 to 5.0 percent and in Arizona from 5.6 to 5.1 percent. The highest unemployment rate in the region and the eighth highest in the nation was in California at 5.2 percent, down from 5.5 percent a year ago.

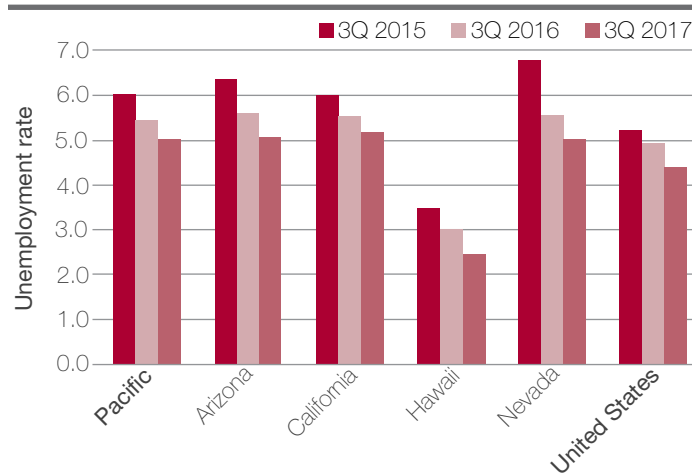
During the third quarter of 2017—

- California added 268,800 jobs, a gain of 1.6 percent, following 2.4-percent growth a year earlier. The education and health services and the leisure and hospitality sectors accounted for 45 percent of net job growth in the state, expanding by 77,100 and 44,600 jobs, or 3.1 and 2.3 percent, respectively. Several hospital expansions occurred in the state because of the Essential Services Buildings Seismic Safety Act mandating hospitals meet structural guidelines to withstand a major earthquake by 2030.
- Nonfarm payrolls in Arizona increased by 39,700 jobs, or 1.5 percent, from a year ago, down considerably from the gain of 74,400 jobs, or 2.9 percent, between the third quarters of 2015 and 2016 primarily due to recent declines in the information, the wholesale and retail trade, and the other services sectors. The leisure and hospitality and the education and health services sectors led job growth in the state, adding 14,000 and 10,700 jobs, gains of 4.6 and 2.6 percent, respectively. Total tourism spending in the state rose 5 percent to \$19.9 billion during the 3 months ending August 2017 compared with tourism spending during the 3 months ending August 2016 (Arizona Office of Tourism).
- In Nevada, nonfarm payrolls expanded by 39,900 jobs, or 3.1 percent. The professional and business services sector added 10,900 jobs, or 6.1 percent, the largest increase and the highest

rate of growth among all sectors. Apple Inc. announced a \$1 billion expansion at its current data center in Reno, Nevada, doubling the facility. The expansion is expected to create 300 construction jobs and add 100 permanent jobs when complete.

- Hawaii added 7,100 nonfarm payroll jobs, a 1.1-percent increase. The leisure and hospitality sector led job gains, expanding by 3,500 jobs, or 2.9 percent. Total tourism spending rose nearly 7 percent from a year earlier to \$4.4 billion during the 3 months ending August 2017 (Hawaii Tourism Authority).

**Since the first quarter of 2011, unemployment rates have continued to decline on a year-over-year basis in all states of the Pacific region but remained above the national rate in every state except Hawaii.**



3Q = third quarter.  
Source: U.S. Bureau of Labor Statistics

## Sales Market Conditions

During the third 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) expanded more than 4 percent to \$469,700 during the 12 months ending August 2017, the same rate as during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). By comparison, the average home sales price in the nation rose 6 percent to \$281,700 during the 12 months ending August 2017, slightly higher than the 4-percent gain in the previous year. Average home sales prices rose in all but 1 of the 10 major metropolitan areas referenced in this report, ranging from a 4-percent gain in the Oxnard-Thousand Oaks-Ventura metropolitan area to 7-percent gains in the Las Vegas-Henderson-Paradise, Riverside-San Bernardino-Ontario,

Sacramento--Roseville--Arden-Arcade, San Francisco-Oakland-Hayward, and San Jose-Sunnyvale-Santa Clara metropolitan areas. Home prices declined 5 percent in the Urban Honolulu metropolitan area.

During the 12 months ending August 2017, the number of home sales in the Pacific region increased 4 percent from a year earlier, the same rate of expansion during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). By comparison, home sales nationally declined 2 percent during the 12 months ending August 2017, after a 4-percent increase the year earlier. Of the 10 largest metropolitan areas in the region, home sales decreased only in the Oxnard-Thousand Oaks-Ventura and San Diego-Carlsbad metropolitan areas, 1-percent drops in each, and remained steady in the Los Angeles-Long Beach-Anaheim metropolitan area. Home sale gains ranged from 2 percent in the Urban Honolulu and San Francisco-Oakland-Hayward metropolitan areas, where demand is high but many buyers are priced out, to 10 and

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14 percent in the relatively affordable Phoenix-Mesa-Scottsdale and Las Vegas-Henderson-Paradise metropolitan areas, respectively.

Regionwide declines in the number of distressed sales (real estate owned [REO] and short sales) partially offset growth in new home sales and regular (nondistressed) resales of 3 and 5 percent, respectively, because fewer distressed properties were on the market. During the 12 months ending August 2017, REO sales fell 29 percent, and short sales declined 56 percent, after decreases of 21 and 18 percent, respectively, during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). Nationwide, by comparison, the number of REO sales fell 29 percent, and short sales fell 57 percent during the 12 months ending August 2017. The percentage of seriously delinquent mortgage loans (90 or more days delinquent or in foreclosure) and REO properties in the region declined 0.3 percentage point from 1.5 percent in August 2016 to 1.2 percent in August 2017. Similar to trends in the region, the national decline was 0.5 percentage point to 2.2 percent. In the region, the percentage of seriously delinquent mortgage loans and REO properties was highest in Hawaii and Nevada at 2.8 and 2.4 percent, respectively. The regional rate reflected the lower rates in Arizona and California of 1.2 and 1.1 percent, respectively.

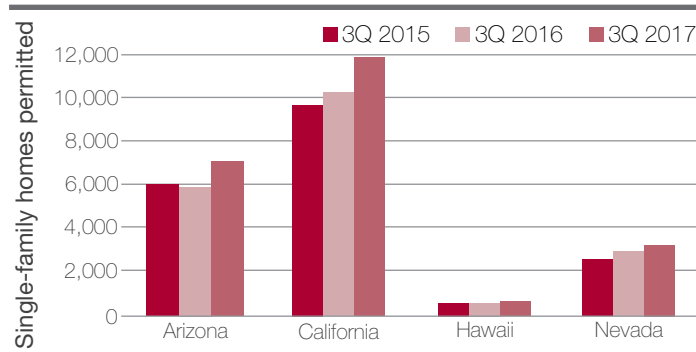
During the third quarter of 2017 (preliminary data)—

- Single-family homebuilding activity, as measured by the number of homes permitted, increased 17 percent in the region to 22,900 homes from a year earlier, much higher than the 13-percent growth during the third quarter of 2016. By comparison, the number of homes permitted nationally increased 8 percent from a year earlier after a 5-percent gain in the third quarter of 2016.
- Approximately 52 percent of the single-family homes permitted in the region were in California, similar to the proportion during the third quarter of 2016. The number of single-family homes

permitted in California rose to 11,900, a 16-percent expansion from the third quarter of 2016, after growth of 6 percent during the same period a year earlier.

- The fastest growth in single-family permitting occurred in Arizona, where the number of single-family homes permitted increased 21 percent to 7,125 homes. By comparison, during the third quarter of 2016, single-family permitting in the state declined 3 percent.
- Single-family permitting increased 12 percent in Nevada to 3,250 homes and 18 percent in Hawaii, where 610 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 Hawaii, single-family permitting in the Urban Honolulu metropolitan area accounted for 37 percent of the state total.

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



3Q = third quarter.

Note: Based on preliminary data.

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

The number of homes sold increased or remained relatively unchanged in all of the 10 largest metropolitan areas of the Pacific region, while the average sales price increased in all areas except Urban Honolulu.

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2016	2017	Percent Change		2016 (\$)	2017 (\$)	Percent Change
Las Vegas-Henderson-Paradise (N&E)	August	53,453	60,927	14	AVG	247,882	265,803	7
Los Angeles-Long Beach-Anaheim (N&E)	August	124,120	124,211	0	AVG	713,608	750,445	5
Oxnard-Thousand Oaks-Ventura (N&E)	August	11,003	10,872	-1	AVG	590,419	616,110	4
Phoenix-Mesa-Scottsdale (N&E)	August	116,567	128,259	10	AVG	266,471	282,242	6
Riverside-San Bernardino-Ontario (N&E)	August	76,326	78,829	3	AVG	327,030	348,880	7
Sacramento--Roseville--Arden-Arcade, (N&E)	August	43,190	45,059	4	AVG	370,936	395,850	7
San Diego-Carlsbad (N&E)	August	44,211	43,806	-1	AVG	584,690	616,209	5
San Francisco-Oakland-Hayward (N&E)	August	53,825	55,112	2	AVG	845,351	903,905	7
San Jose-Sunnyvale-Santa Clara (N&E)	August	20,173	20,788	3	AVG	963,199	1,027,834	7
Urban Honolulu (N&E)	August	12,566	12,833	2	AVG	664,701	632,062	-5

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

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 during the third quarter of 2017. Of the 10 major metropolitan areas referenced in this report, 7 had apartment vacancy rates below the national average of 5.0 percent. The apartment vacancy rate remained unchanged or increased 0.3 percentage point or less in four of the metropolitan areas and declined in the other six metropolitan areas, ranging from a 0.1-percentage-point decline in the Las Vegas-Henderson-Paradise and San Diego-Carlsbad metropolitan areas to a 0.7-percentage-point decrease in the Riverside-San Bernardino-Ontario metropolitan area (Axiometrics, Inc.). Overall apartment market conditions remained relatively unchanged from a year ago in all major metropolitan areas. Average rents rose in all but two of the major metropolitan areas referenced in this report. In the San Francisco-Oakland-Hayward metropolitan area, average rents remained unchanged, while in the Riverside-San Bernardino-Ontario metropolitan area, average rents declined 3 percent. By comparison, the average rent for the nation remained relatively unchanged from a year ago. Among the eight metropolitan areas with rent increases, average rent growth ranged from 1 percent in the Los Angeles-Long Beach-Anaheim metropolitan area to 6 percent in the Urban Honolulu metropolitan area.

During the third quarter of 2017 (preliminary data)—

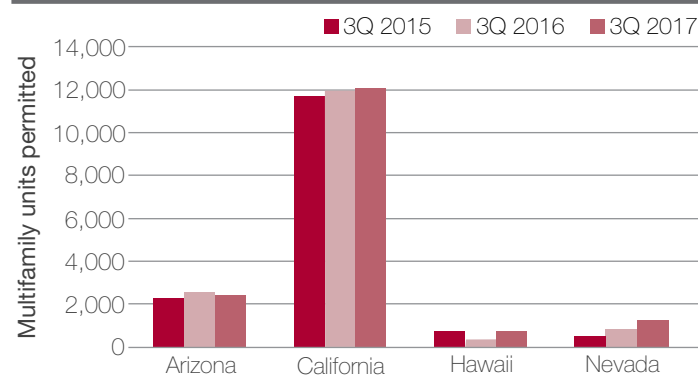
- Multifamily permitting rose 5 percent to 16,500 units, following a 4-percent increase during the same period a year earlier. By

comparison, the number of units permitted nationally dropped 9 percent from the third quarter of 2016 after a 5-percent expansion during the same period a year earlier.

- California accounted for 73 percent of the multifamily units permitted in the region and was steady at 12,000 units relative to a year ago. By comparison, multifamily permitting increased 3 percent during the third quarter of 2016.

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### Multifamily permitting activity increased in every state of the Pacific region except Arizona.



3Q = third quarter.

Note: Based on preliminary data.

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

**Apartment market conditions remained balanced to tight in major metropolitan areas of the Pacific region. Vacancy rates in most metropolitan areas were lower than the national average, and rent growth in most metropolitan areas was above the national average rate.**

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2016 (%)	3Q 2017 (%)	Percentage Point Change	3Q 2016 (\$)	3Q 2017 (\$)	Percent Change
Las Vegas-Henderson-Paradise	Balanced	5.5	5.4	- 0.1	937	962	3
Los Angeles-Long Beach-Anaheim	Tight	3.9	4.0	0.1	2,166	2,177	1
Oxnard-Thousand Oaks-Ventura	Tight	3.6	3.9	0.3	1,936	2,025	5
Phoenix-Mesa-Scottsdale	Balanced	5.3	5.4	0.1	968	988	2
Riverside-San Bernardino-Ontario	Tight	4.5	3.8	- 0.7	1,482	1,433	- 3
Sacramento--Roseville--Arden-Arcade	Tight	3.7	3.7	0	1,388	1,447	4
San Diego-Carlsbad	Tight	3.9	3.8	- 0.1	1,966	2,004	2
San Francisco-Oakland-Hayward	Tight	4.3	4.0	- 0.3	2,789	2,785	0
San Jose-Sunnyvale-Santa Clara	Tight	4.6	4.1	- 0.5	2,795	2,842	2
Urban Honolulu	Balanced	6.3	6.0	- 0.3	2,120	2,249	6

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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- The number of multifamily units permitted grew 52 percent in Nevada to 1,300 units, after a 61-percent increase during the third quarter of 2016.
- In Hawaii, where multifamily permitting can fluctuate significantly, the number of units permitted doubled to 750, after a 53-percent decrease during the third quarter of 2016.
- The only state in which multifamily permitting decreased was Arizona, where 2,425 units were permitted, an 8-percent decline, after a 15-percent increase during the third quarter of 2016. Despite accounting for a very small proportion of multifamily permitting in the state, the decline of 230 multifamily units permitted in the Flagstaff metropolitan area in northern Arizona offset small multifamily construction gains in the Phoenix-Mesa-Scottsdale metropolitan area during the most recent quarter.