

HUD PD&R Regional Reports

Region 9: Pacific



San Jose, California

Quick Facts About Region 9

- **Sales market conditions—**
Fourth quarter 2018: mixed (slightly soft to tight)
Third quarter 2018: mixed (slightly soft to tight)
Fourth quarter 2017: mixed (balanced to tight)
- **Apartment market conditions—**
Fourth quarter 2018: mixed (balanced to tight)
Third quarter 2018: mixed (slightly tight to tight)
Fourth quarter 2017: mixed (balanced to tight)



By Elaine Ng | 4th quarter 2018

Overview

Economic conditions remained strong in the Pacific region during the fourth quarter of 2018, as nonfarm payrolls have had continuous year-over-year increases since the fourth quarter of 2010. California represented 78 percent of jobs in the region and contributed two-thirds of the net job growth during the fourth quarter of 2018, down from 76 percent of the total during the fourth quarter of 2017. Sales housing market conditions remained nearly unchanged from a year ago. Sales in the region declined, however, as a result of a limited inventory of homes for sale in California and softening market conditions in Hawaii due to net out-migration from the state. Despite a low inventory and rising sales prices, single-family homebuilding activity, as measured by building permits issued, decreased in the region overall, as declines in California and Nevada offset increased permitting in Arizona and Hawaii. Apartment market conditions were tight throughout much of the region, and vacancy rates declined or remained unchanged in 8 of the 10 largest markets cited in this report. Rent growth in one-half of the major metropolitan areas in the region equaled or exceeded the national rate during the past year, including in two of the most expensive markets of the region.

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- Almost every payroll sector in the region added jobs during the fourth quarter of 2018, with the largest gains occurring in the professional and business services sector; the sector led job growth in every state of the region except Arizona. Jobs declined in the wholesale and retail trade sector and remained mostly flat in the other services sectors.
- Home sales in the region declined 5 percent during the 12 months ending November 2018 to 772,400 homes sold. Average home sales prices, however, rose in every state of the region, with the largest gains in California and Nevada.
- Single-family homebuilding activity in the region, as measured by the number of homes permitted, decreased 4 percent, to 21,550 homes, during the fourth quarter of 2018.
- Multifamily permitting declined 20 percent in the region during the fourth quarter of 2018, with reduced construction activity in each state in the region, compared with a 5-percent increase nationally. Despite the decline, multifamily development in the region continues to account for 16 percent of all multifamily development in the nation, similar to the average annual proportion from 2010 through 2017.

Economic Conditions

Economic conditions in the Pacific region began to improve during the fourth quarter of 2010 and remained strong during the fourth quarter of 2018. All four states in the region added jobs, with total nonfarm payrolls increasing by 462,200 jobs, or 2.1 percent, to 22.4 million jobs. This rate is slightly higher than the 2.0-percent growth in nonfarm payrolls in the region a year earlier. During the fourth quarter of 2018, nonfarm payroll growth in the region accounted for about one-fifth of the 1.7-percent increase in jobs nationally. The professional and business services sector accounted for the largest share of net job gains in the region during the fourth quarter of 2018, adding 123,200 jobs, or 3.7 percent, mainly from growth in California, which accounted for 73 percent of the sector gains in the region. The education and health services sector contributed the second largest share of job gains in the region, up by 88,500 jobs, or 2.6 percent. The healthcare and social assistance industry accounted for 89 percent of the net gain in

jobs in the sector, largely in response to continued regional population growth. Large-scale construction projects across the region, including those mentioned below, contributed to a gain of 54,000 jobs, or 4.7 percent, in the mining, logging, and construction sector, the fastest growing sector in the region during the fourth quarter of 2018. The sector has added jobs year-over-year each quarter since the second quarter of 2011, but current employment levels are 19 percent below the prerecession peak of 1.44 million jobs during the third quarter of 2006.

The unemployment rate in the region averaged 4.1 percent during the fourth quarter of 2018, down from 4.2 percent a year earlier but higher than the national average of 3.6 percent. Despite a 0.5 percentage point rise in the unemployment rate, Hawaii had the lowest unemployment rate in the region, at 2.5 percent, and the

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All but one nonfarm payroll sector in the Pacific region grew on a year-over-year basis during the fourth quarter of 2018, led by gains in the professional and business services sector.

	Fourth Quarter		Year-Over-Year Change	
	2017 (Thousands)	2018 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	21,942.6	22,404.8	462.2	2.1
Goods-Producing Sectors	2,700.6	2,775.8	75.2	2.8
Mining, Logging, & Construction	1,156.0	1,210.0	54.0	4.7
Manufacturing	1,544.5	1,565.8	21.3	1.4
Service-Providing Sectors	19,242.0	19,629.0	387.0	2.0
Wholesale & Retail Trade	3,190.9	3,184.8	-6.1	-0.2
Transportation & Utilities	854.8	888.0	33.2	3.9
Information	607.7	620.9	13.2	2.2
Financial Activities	1,146.1	1,157.4	11.3	1.0
Professional & Business Services	3,293.6	3,416.8	123.2	3.7
Education & Health Services	3,343.0	3,431.5	88.5	2.6
Leisure & Hospitality	2,760.1	2,835.9	75.8	2.7
Other Services	723.8	724.1	0.3	0.0
Government	3,322.1	3,369.8	47.7	1.4

Note: Numbers may not add to totals due to rounding.

Source: U.S. Bureau of Labor Statistics



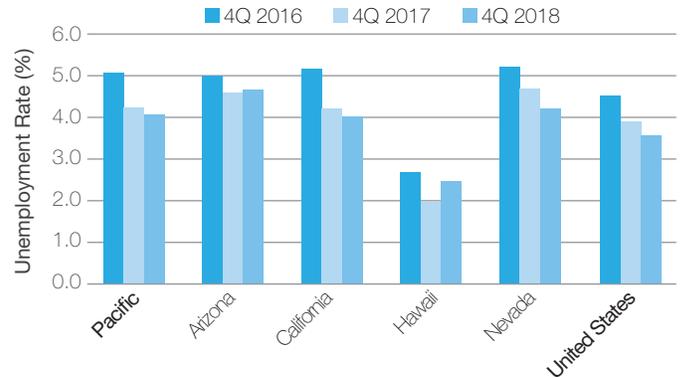
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fifth lowest rate in the nation. The unemployment rate declined in California, from 4.2 to 4.0 percent, and in Nevada, from 4.7 to 4.2 percent. The highest unemployment rate in the region, and the fourth highest in the nation, was in Arizona, at 4.7 percent, up from 4.6 percent a year earlier.

During the fourth quarter of 2018—

- California added 304,000 jobs, a gain of 1.8 percent, lower than the 2.0-percent rate of growth a year earlier. The professional and business services and the education and health services sectors, combined, accounted for more than one-half of the job growth in the state, expanding by 89,600 and 66,500 jobs, or 3.4 and 2.5 percent, respectively. Hospital expansions at Kaiser Permanente, UnitedHealth Group, Adventist HealthCare, and Providence Health & Services during the past year resulted in approximately 3,925 combined jobs announced through December 2018 (California Employment Development Department). In the professional and business services sector, payrolls in the scientific and technical services industry increased by 50,800 jobs, or 4.1 percent, accounting for 57 percent of total sector growth. Job postings in the high-tech industry totaled approximately 423,000 during 2017, with an 8-percent increase in job postings related to emerging technologies such as artificial intelligence and machine learning (CompTIA, 2017).
- Nonfarm payrolls in Arizona increased by 96,200 jobs, or 3.4 percent, from a year ago, greater than the gain of 57,100 jobs, or 2.1 percent, during the fourth quarter of 2017. The construction subsector and the education and health services sector led job growth in the state, adding 19,000 and 18,400 jobs, or 12.6 and 4.3 percent, respectively. The healthcare industry in Arizona has expanded during the past year, including construction of the Mercy Gilbert Pediatric Outpatient Center at the Phoenix Children’s Hospital, which opened earlier in 2018. Construction growth is expected to continue; at least six significant hospital expansions, costing more than \$100 million each, are currently underway in the state. The \$648 million expansion of the Mayo Clinic, which will nearly double the size of its Phoenix campus, is expected to add 2,000 jobs by 2029.
- In Nevada, nonfarm payrolls expanded by 51,500 jobs, or 3.8 percent. The professional and business services and the mining, logging, and construction sectors added the most jobs in the state, up 11,400 and 10,400 jobs, or 6.3 and 12.1 percent, respectively. Currently, six major construction projects,

The unemployment rate declined in California and Nevada during the fourth quarter of 2018, but the regional average rate remained higher than the national rate.



4Q = fourth quarter.
Source: U.S. Bureau of Labor Statistics

worth a combined \$10 billion, are underway in Las Vegas and are expected to add more than 10,000 construction jobs by 2020. The largest is the \$1 billion expansion of the Las Vegas Convention Center, which hosts meetings and trade shows that draw 150,000 participants to the area annually. The expansion is expected to create 1,400 construction jobs and more than 7,800 full-time permanent jobs by the time it is completed in 2021. A significant number of the permanent jobs to be added are for support services. During the fourth quarter of 2018, job gains in the administrative and support services industry accounted for 64 percent of total job additions in the professional and business services sector in Nevada.

- Hawaii added 10,600 nonfarm payroll jobs, a 1.6-percent increase. The professional and business services and leisure and hospitality sectors led job gains and, combined, contributed 59 percent of overall growth, expanding by 3,800 and 2,500 jobs, or 4.6 and 2.0 percent, respectively. Tourism spending in the state totaled \$4.2 billion during the fourth quarter of 2018, unchanged from a year earlier (Hawaii Tourism Authority). Job additions in the administrative and support and the waste management and remediation services industries accounted for 93 percent of total job gains in the professional and business services sector in the state.

Sales Market Conditions

During the fourth quarter of 2018, conditions in sales housing markets in the Pacific region ranged from slightly soft to tight. Continued economic growth has supported rising home sales prices throughout the region since 2012, but price pressures have contributed to declining or flat home sales in all the largest

metropolitan areas in the region and a softening of the market in Hawaii, which transitioned from balanced to slightly soft in the past year. The average home sales price for the region (including single-family homes, townhomes, and condominiums) increased 6 percent, to \$504,300, during the 12 months ending November

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Average sales prices increased in all but one of the largest metropolitan areas in the Pacific region during the 12 months ending November 2018, and sales in all areas declined or remained unchanged.

	12 Months Ending	Number of Homes Sold			Price			
		2017	2018	Percent Change	Average or Median	2017 (\$)	2018 (\$)	Percent Change
Urban Honolulu, HI (N&E) ^(a)	November	12,317	9,730	-21	AVG	677,234	671,088	-1
Las Vegas-Henderson-Paradise, NV (N&E) ^(a)	November	63,278	61,684	-3	AVG	273,574	309,514	13
Phoenix-Mesa-Scottsdale, AZ (N&E) ^(a)	November	133,712	133,758	0	AVG	286,672	310,409	8
Los Angeles-Long Beach-Anaheim, CA (N&E) ^(b)	November	117,062	105,102	-10	AVG	830,022	898,566	8
Riverside-San Bernardino-Ontario, CA (N&E) ^(a)	November	83,109	76,185	-8	AVG	355,549	378,306	6
San Diego-Carlsbad, CA (N&E) ^(a)	November	44,868	41,228	-8	AVG	628,035	666,241	6
Oxnard-Thousand Oaks-Ventura, CA (N&E) ^(a)	November	11,035	9,988	-9	AVG	634,806	662,954	4
San Francisco-Oakland-Hayward, CA (N&E) ^(b)	November	47,014	44,681	-5	AVG	1,053,074	1,159,956	10
San Jose-Sunnyvale-Santa Clara, CA (N&E) ^(a)	November	21,024	19,688	-6	AVG	1,070,375	1,227,025	15
Sacramento-Roseville-Arden-Arcade, CA (N&E) ^(a)	November	45,251	43,256	-4	AVG	401,662	434,188	8

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

Note: Data includes single-family homes, townhomes, and condominiums.

Sources: (a) CoreLogic, Inc.; (b) Metrostudy, A Hanley Wood Company, with adjustments by the analyst

2018, after a 5-percent gain during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). Home sales prices in the region were 71 percent higher than the national average, but the rate of growth in prices was similar. The average home sales price rose 5 percent in the nation, to \$294,500, during the 12 months ending November 2018, the same rate of growth as in the previous year. Average home sales prices rose in all four states in the region, with the highest price gain occurring in California, where prices increased by \$38,900, or 7 percent, to \$620,300. Among the major metropolitan areas in the region, increases in average home sales prices ranged from 4 percent in the Oxnard-Thousand Oaks-Ventura metropolitan area—where conditions were slightly soft—to 15 percent in the San Jose-Sunnyvale-Santa Clara metropolitan area, where conditions were tight. Average home sales prices declined only in Urban Honolulu, where prices fell 1 percent, to \$671,088.

During the 12 months ending November 2018, the number of home sales in the Pacific region decreased 5 percent from a year earlier, following a 6-percent gain during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). Overall, the decline in home sales in the region mirrored that of the nation, where sales decreased 2 percent, following a 3-percent gain a year earlier. Lower levels of regional home sales were partly in response to rising home sales prices and a 5-percent reduction in the available inventory of homes for sale, compared with the previous year, with California accounting for nearly one-half of the reduced regional inventory. Home sales declined 3 percent in Nevada, 7 percent in California, and 17 percent in Hawaii, while sales remained unchanged from the previous year in Arizona. Among

the 10 largest metropolitan areas in the region, 9 had decreased home sales, with the greatest decline occurring in the Urban Honolulu metropolitan area, down 21 percent, and accounting for 80 percent of the net reduction in sales in Hawaii. In the Los Angeles-Long Beach-Anaheim and Riverside-San Bernardino-Ontario metropolitan areas, home sales decreased 10 and 8 percent, respectively, during the 12 months ending November 2018 and accounted for more than 53 percent of the net loss in home sales in California. In the remaining major metropolitan areas of California, home sales declines ranged from a 4-percent drop in the Sacramento-Roseville-Arden-Arcade metropolitan area to a 9-percent decrease in the Oxnard-Thousand Oaks-Ventura metropolitan area. A 3-percent decline of home sales in the Las Vegas-Henderson-Paradise metropolitan area accounted for 60 percent of the total decline in Nevada home sales. None of the major metropolitan areas in the region had increased home sales, and the Phoenix-Mesa-Scottsdale metropolitan area was the only area to have stable sales during the 12 months ending November 2018.

The number of distressed sales (real estate owned [REO] and short sales) in the region declined significantly because fewer such properties were in the for-sale inventory. During the 12 months ending November 2018, REO sales fell 31 percent and short sales declined 47 percent, after decreases of 35 and 71 percent, respectively, during the previous 12-month period. Nationwide, by comparison, the number of REO sales fell 27 percent, and short sales fell 19 percent during the 12 months ending November 2018. The percentage of seriously delinquent mortgage loans (90 or more days delinquent or in foreclosure) and REO properties in

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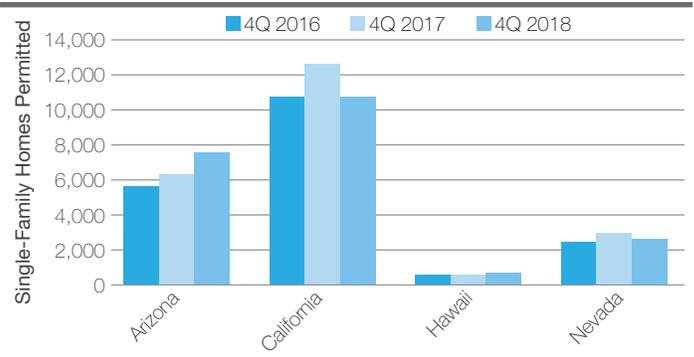
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the region declined from 1.2 percent in December 2017 to 0.9 percent in December 2018. The national percentage declined by a 0.7 percentage point to 1.7 percent. In the region, the percentage of seriously delinquent mortgage loans and REO properties was highest in Hawaii, at 2.2 percent, down from 2.6 percent a year ago. The regional rate reflected lower rates in Arizona and California of 0.9 and 0.8 percent, respectively.

During the fourth quarter of 2018 (preliminary data)—

- Single-family homebuilding activity, as measured by the number of homes permitted, decreased 4 percent in the region, to 21,550 homes, from a year earlier, compared with a 16-percent gain during the fourth quarter of 2017. The number of homes permitted nationally remained unchanged from a year earlier after a 10-percent gain in the fourth quarter of 2017.
- Much of the decline was due to lower single-family homebuilding activity in California, which accounted for 50 percent of total single-family permitting activity in the region, down from 56 percent during the fourth quarter of 2017. The number of single-family homes permitted in California declined 15 percent, to 10,750 homes during the fourth quarter of 2018, after an 18-percent increase during the same period a year earlier. The 21-percent decline in single-family permitting in the Los Angeles-Long Beach-Anaheim metropolitan area, where 2,150 homes were permitted, accounted for one-third of the overall statewide decline.

Single-family permitting declined in the Pacific region during the fourth quarter of 2018 as the increase in homes permitted in Arizona and Hawaii did not offset declines in California and Nevada.



4Q = fourth quarter.
 Note: Based on preliminary data.
 Source: U.S. Census Bureau, Building Permits Survey

- Single-family permitting declined by 310 homes, or 11 percent, in Nevada, to 2,650 homes, following a 21-percent increase a year earlier.
- In Arizona and Hawaii, single-family homebuilding activity increased 19 and 25 percent, to 7,500 and 670 homes, respectively, during the fourth quarter of 2018, after increases of 12 and 4 percent, respectively, during the same period a year earlier.

Apartment Market Conditions

Apartment market conditions in the largest metropolitan areas in the Pacific region ranged from balanced to tight during the fourth quarter of 2018, similar to conditions during the fourth quarter of 2017. Higher home sales prices have made homeownership less attainable in the region, contributing to increased rental demand and tighter apartment market conditions. Vacancy rates declined or remained unchanged among 8 of the 10 major metropolitan areas included in this report; 8 areas had vacancy rates that were at or below the national average of 4.5 percent (RealPage, Inc.). The vacancy rate declined the most in the Phoenix-Mesa-Scottsdale metropolitan area, where market conditions transitioned from balanced to slightly tight and the vacancy rate declined a percentage point, to 4.5 percent. Vacancy rates also declined significantly in the Las Vegas-Henderson-Paradise and Urban Honolulu metropolitan areas, the only two areas with apartment vacancy rates above the national average, falling 0.7 and 0.4 percentage points, to 4.8 and 6.3 percent, respectively. Conditions tend to fluctuate in the Urban Honolulu metropolitan area because

of seasonal demand and are currently balanced despite the decline in the apartment vacancy rate. Meanwhile, conditions tightened in the Las Vegas-Henderson-Paradise metropolitan area, compared with balanced conditions in the fourth quarter of 2017. Vacancy rates increased slightly in the Oxnard-Thousand Oaks-Ventura metropolitan area, by 0.2 percentage point to 3.8 percent, and in the San Francisco-Oakland-Hayward metropolitan area, by 0.1 percentage point to 3.9 percent, but conditions remain tight in both markets.

As generally tight market conditions prevailed in the region, average rent increases equaled or exceeded the national rate of 5 percent in one-half of the major metropolitan areas in the region during the fourth quarter of 2018. The highest rates of rent growth occurred in the Las Vegas-Henderson-Paradise and the Phoenix-Mesa-Scottsdale metropolitan areas, where apartment market conditions supported 8-percent increases in rents. Despite the gain, both apartment market areas remain among the most affordable in the region, with rents significantly below rents in

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Apartment market conditions remained tight throughout the major metropolitan areas of the Pacific region during the fourth quarter of 2018—with rents increasing in all markets and vacancy rates declining or remaining unchanged in all but two markets.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2017 (%)	2Q 2018 (%)	Percentage Point Change	2Q 2017 (\$)	2Q 2018 (\$)	Percent Change
Urban Honolulu	Balanced	6.7	6.3	-0.4	2,006	2,025	1
Las Vegas-Henderson-Paradise	Tight	5.5	4.8	-0.7	953	1,030	8
Phoenix-Mesa-Scottsdale	Slightly Tight	5.5	4.5	-1.0	993	1,075	8
Los Angeles-Long Beach-Anaheim	Tight	3.8	3.6	-0.2	2,075	2,161	4
Riverside-San Bernardino-Ontario	Tight	3.8	3.6	-0.2	1,421	1,478	4
San Diego-Carlsbad	Tight	3.6	3.6	0	1,865	1,963	5
Oxnard-Thousand Oaks-Ventura	Tight	3.6	3.8	0.2	1,837	1,918	4
San Francisco-Oakland-Hayward	Tight	3.8	3.9	0.1	2,607	2,752	6
San Jose-Sunnyvale-Santa Clara	Tight	4.5	4.2	-0.3	2,666	2,800	5
Sacramento-Roseville-Arden-Arcade	Tight	3.5	3.5	0	1,345	1,404	4

4Q = fourth quarter.

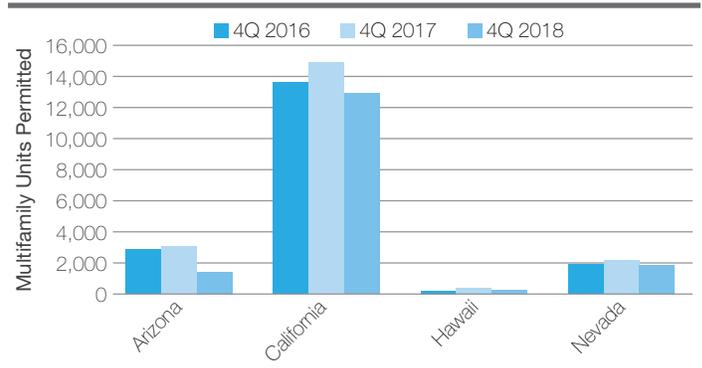
Sources: Market Condition—Economic and Market Analysis Division; Vacancy Rate and Average Monthly Rent—RealPage, Inc.

other major metropolitan areas in the region. In the other three metropolitan areas with rent increases above or equal to the national average, the growth in the average rent was 5 percent in the San Diego-Carlsbad and the San Jose-Sunnyvale-Santa Clara metropolitan areas and 6 percent in the San Francisco-Oakland-Hayward metropolitan area, where rents are among the highest in the nation. Rent growth was slowest in the Urban Honolulu metropolitan area, up 1 percent during the fourth quarter of 2018, partly in response to existing high rents, which were the fourth highest in the region.

During the fourth quarter of 2018 (preliminary data)—

- Multifamily permitting declined 20 percent, to 16,350 units, compared with a 10-percent increase during the fourth quarter of 2017. By comparison, the number of units permitted nationally increased 5 percent from the fourth quarter of 2018 following a 4-percent increase during the same period a year earlier.
- California accounted for 79 percent of the multifamily units permitted in the region, compared with 73 percent during the fourth quarter of 2017. Multifamily permitting activity in the state declined 13 percent, to 12,900 units, and accounted for one-half of the decrease in the region. By comparison, multifamily permitting increased 9 percent in the state during the fourth quarter of 2017.
- In Nevada, where multifamily permitting often fluctuates significantly, the number of units permitted decreased 13

Multifamily permitting declined in every state of the Pacific region during the fourth quarter of 2018.



4Q = fourth quarter.

Note: Based on preliminary data.

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

- percent, to 1,875 units, following an 11-percent increase during the fourth quarter of 2017.
- Multifamily permitting activity decreased significantly in both Hawaii and Arizona. In Hawaii, multifamily permitting declined by 53 percent, to 190 units; reduced multifamily construction activity in the Urban Honolulu metropolitan area contributed to 83 percent of the net decline in the state. In Arizona, 1,400 units were permitted, a 52 percent decline from the fourth quarter of 2017, with the entire statewide decline attributable to a drop in multifamily construction activity in the Phoenix-Mesa-Scottsdale metropolitan area.

