HUD PD&R **Regional Reports**

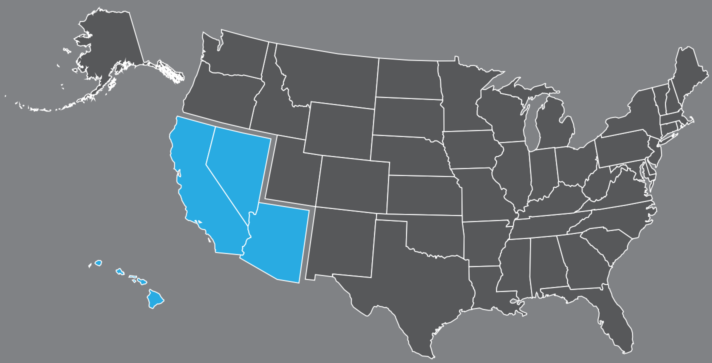
Region 9: Pacific

San Francisco, California

Quick Facts About Region 9

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

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



By Elaine Ng | 4th Quarter 2020

Overview

Economic conditions in the Pacific region were weak during the fourth quarter of 2020. Before the start of the pandemic, economic conditions in the Pacific region were strong, with year-over-year job gains in the region exceeding the national rate of job growth during each quarter from the second quarter of 2012 to the first quarter of 2020. During the fourth quarter of 2020, however, nonfarm payrolls in the region remained 7.4 percent below payrolls a year ago. By comparison, nonfarm payrolls in the nation remained 6.0 percent below payrolls a year ago. All states in the region lost jobs (year-over-year) during the most recent quarter; the respective rates of job loss, however, were notably less severe than during the second quarter of 2020, when most of the job losses from COVID-19 countermeasures occurred. California—the most populous state in the region—accounted for 82 percent of the regional decline during the fourth quarter of 2020 after accounting for 70 percent of all job gains regionwide during the fourth quarter of 2019. Sales housing market conditions in the region ranged from balanced to tight—unchanged from a year ago. Home sales prices rose, and the number of home sales in the region decreased. Single-family homebuilding

continued on page 2

continued from page 1

activity, as measured by the number of homes permitted, increased significantly. Apartment market conditions continued to soften in the most expensive metropolitan areas of the region but tightened in the more affordable markets—a trend that began during the second quarter of 2020. Apartment vacancy rates decreased in 7 of the 10 metropolitan areas cited in this report, and apartment rents rose in 6 of the largest metropolitan areas in the region.

- During the fourth quarter of 2020, every nonfarm payroll sector in the region lost jobs compared with a year earlier, with the largest decline in the leisure and hospitality sector. That trend generally mirrors the pattern of year-over-year job losses during the second quarter of 2020.
- Home sales in the region decreased 2 percent during the 12 months ending November 2020, to 646,600 homes sold, compared with 661,700 sales a year earlier, and the average home sales price rose 9 percent, to $637,400 (Zonda). Single-family homebuilding activity in the region—as measured by the number of homes permitted—expanded 21 percent from a year earlier, to 30,250 homes, during the fourth quarter of 2020.
- Multifamily home permitting rose 1 percent in the region during the fourth quarter of 2020, with increases in Arizona and Nevada largely offset by declines in California and Hawaii. By comparison, multifamily permitting activity fell 11 percent nationwide.

Economic Conditions

Nonfarm payrolls in the Pacific region increased at a strong rate (year-over-year) during each quarter from the second quarter of 2012 through the first quarter of 2020. During the second quarter of 2020, to slow the spread of COVID-19, all states in the region subsequently introduced countermeasures, which included enforcing social distancing and discouraging nonessential travel and entertainment outings; those countermeasures contributed to declines in economic activity throughout the region. Phased reopenings have since continued regionwide, and by December 2020, the region had recovered 55 percent of all jobs lost during March and April 2020 (non-seasonally adjusted data). During the fourth quarter of 2020, year-over-year job losses in the region accounted for 18 percent of jobs lost nationally. By comparison, nonfarm payroll growth in the region accounted for 17 percent of national job growth during the fourth quarter of 2019. Because travel and entertainment often rely on in-person interactions, the leisure and hospitality sector—which declined by 656,100 jobs, or 23.0 percent—accounted for the largest and fastest declines in the region during the fourth quarter of 2020 compared with a year earlier. Job losses in California accounted for 77 percent of the regionwide decline in the leisure and hospitality sector. Losses in the government, the wholesale and retail trade, the professional and business services, and the education and health services sectors were also significant and combined to account for 42 percent of job losses in the region.

The unemployment rate in the region averaged 8.5 percent during the fourth quarter of 2020—up significantly from the 3.7-percent rate a year earlier and above the 6.5-percent national rate. Continued business reopenings in all states in the region contributed to a reduction in the average regional unemployment rate, however, from the 15.6-percent rate during the second quarter of 2020. Nevada and Hawaii, where tourism employment is of particular significance, had the highest statewide unemployment rates in both the region and the nation, at 10.3 percent and 11.2 percent, respectively, during the fourth quarter of 2020. The respective unemployment rates were 3.4 percent and 2.5 percent in the two states a year ago. The more diversified economies of Arizona and California led to smaller, but still significant, year-over-year increases in their unemployment rates. During the fourth quarter of 2020, the unemployment rate in Arizona increased from 4.3 percent a year ago to 7.6 percent, and the unemployment rate in California rose from 3.7 percent to 8.5 percent.

During the fourth quarter of 2020—

- California lost 1.37 million jobs—a decline of 7.8 percent from a year ago—but the state has recovered 47 percent of jobs lost during the second quarter of 2020 (non-seasonally adjusted data). Recent year-over-year job losses were significant in the leisure and hospitality, the government, and the wholesale and retail trade sectors, with declines of 503,800, 189,800, and 158,600 jobs, or 24.7, 8.8, and 6.6 percent, respectively. In the government sector, job losses in the state and local government educational services industries contributed a combined 93 percent of all job losses sectorwide; the transition to remote learning resulted in layoffs by the California State University and University of California systems and many K–12 schools and community colleges.
- Nonfarm payrolls in Arizona declined by 87,500 jobs, or 2.9 percent, from the fourth quarter of 2019, but the state recovered all jobs lost during the second quarter of 2020 (non-seasonally adjusted data). The leisure and hospitality and the professional and business services sectors led job declines from the fourth quarter of 2019 in the state, with losses of 46,200 and 25,300 jobs, or 13.8 percent and 5.5 percent, respectively.
- In Nevada, nonfarm payrolls declined by 109,000 jobs, or 7.6 percent, compared with the fourth quarter of 2019, and

continued on page 3

continued from page 2

During the fourth quarter of 2020, the number of nonfarm payrolls in the Pacific region remained below payrolls a year earlier but represent a 51-percent recovery from job losses during the second quarter of 2020.

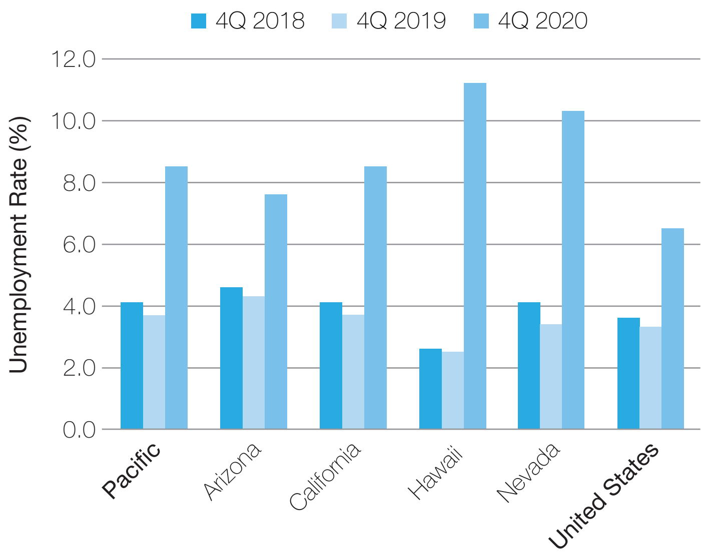
	Fourth Quarter		Year-Over-Year Change	
	2019 (Thousands)	2020 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	22,773.7	21,096.5	-1,677.2	-7.4
Goods-Producing Sectors	2,823.4	2,699.1	-124.3	-4.4
Mining, Logging, & Construction	1,252.2	1,233.7	-18.5	-1.5
Manufacturing	1,571.2	1,465.4	-105.8	-6.7
Service-Providing Sectors	19,950.3	18,397.4	-1,552.9	-7.8
Wholesale & Retail Trade	3,108.6	2,932.2	-176.4	-5.7
Transportation & Utilities	965.8	944.9	-20.9	-2.2
Information	649.7	591.3	-58.4	-9.0
Financial Activities	1,184.1	1,183.3	-0.8	-0.1
Professional & Business Services	3,490.3	3,335.0	-155.3	-4.4
Education & Health Services	3,559.9	3,407.8	-152.1	-4.3
Leisure & Hospitality	2,849.8	2,193.7	-656.1	-23.0
Other Services	745.3	634.5	-110.8	-14.9
Government	3,396.8	3,174.8	-222.0	-6.5

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

the leisure and hospitality sector lost the most jobs, down by 47,700 jobs, or 13.6 percent. About 1.54 million visitors traveled to Las Vegas during the fourth quarter of 2020—a 57-percent decline from the 3.55 million visitors during the fourth quarter of 2019 (Las Vegas Convention and Visitors Authority). During the fourth quarter of 2020, Nevada recovered 59 percent of jobs lost during the second quarter of 2020 (non-seasonally adjusted data).

- Hawaii lost 109,400 nonfarm payroll jobs—a 16.5-percent decrease—compared with the fourth quarter of 2019. That rate was both the fastest year-over-year decline in the region and the smallest improvement from the second quarter of 2020, when nonfarm payrolls declined by 18.1 percent statewide compared with the second quarter of 2019. The reopening process has been notably slow in the state as a result of a mandatory quarantine or pre-testing requirement for entry into the Hawaiian Islands. During the fourth quarter of 2020, the leisure and hospitality sector in the state lost 58,500 jobs, or 46.2 percent, compared with the fourth quarter of 2019—similar to the year-over-year loss of 68,100 jobs, or 54.0 percent, during the second quarter of 2020.

Unemployment rates in the Pacific region remained elevated as states maintained slow and phased reopening plans.



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

Impact of COVID-19 on Statewide Economies

Arizona has fared the best in the region economically, with the lowest level and rate of job losses because of fewer COVID-19 restrictions on businesses. Arizona had 9,487 cases per 100,000 residents and 158 deaths per 100,000 residents, however—the highest in the region (week of January 14, 2021, Centers for Disease Control). Those figures are the highest

continued on page 4

continued from page 3

of any state in the region; they represent a 10-percent higher caseload and 26-percent higher death rate per 100,000 residents than in Nevada, a 24-percent higher caseload and an 82-percent higher death rate than in California, and a 460-percent higher caseload and 681-percent higher death rate than in Hawaii. The economy has recovered slowest in Hawaii because of significant restrictions on travel and tourism to the Hawaiian Islands, but the state has the lowest caseload and death rate in the region. During the fourth quarter of 2020, Hawaii recovered only 16 percent of jobs lost during the second quarter of 2020; significantly fewer jobs were recovered in the state than the other three states in the region (non-seasonally adjusted data).

Sales Market Conditions

During the fourth quarter of 2020, conditions in sales housing markets in the Pacific region ranged from balanced to tight. The 8-year period of strong economic expansion that began in 2012 supported home sales price increases throughout the region through early 2020. Despite weak economic conditions that began during the second quarter of 2020, home prices rose during the recent 12-month period as housing preferences have shifted toward homeownership, and the active for-sale inventory has declined by 18 percent compared with 2019 (CoreLogic, Inc.).

The average sales price for a home (including single-family homes, townhomes, and condominiums) in the region increased to $637,400 during the 12 months ending November 2020—up 9 percent from the 12 months ending November 2019 (Zonda). The increase during the past year was notably faster than the 1-percent increase during the previous 12-month period. The average home sales price for the region was 79 percent higher than the national average of $373,200 during the most recent 12 months, but the 11-percent rate of price growth in the nation was faster than the regional rate. Home prices rose in all states of the region except Hawaii, where the average sales price declined 1 percent. Sale prices generally rose most quickly in the more affordable, often suburban areas of the region, where demand increased the most. During the 12 months ending November 2020, the average sales price increased 8 percent in California and 14 percent in both Nevada and Arizona—higher than the respective rates of 0, 6, and 6 percent a year earlier. Average home sales prices also increased in all metropolitan areas cited in this report, ranging from a 1-percent increase in Urban Honolulu to a 14-percent increase in Phoenix-Mesa-Scottsdale. The highest average home sales prices, $1.56 million and $1.25 million, were in the San Jose-Sunnyvale-Santa Clara and San Francisco-Oakland-Hayward metropolitan areas—up 7 and 9 percent, respectively, from a year ago.

During the 12 months ending November 2020, the number of home sales in the Pacific region decreased 2 percent, to approximately 646,600 homes sold, matching the 2-percent decline during the previous 12-month period. By comparison, sales declined by 4 percent nationwide during the 12 months ending November 2020, compared with a 1-percent decline a year earlier. The number of home sales fell in three states in the region, declining 3, 6, and 12 percent in California, Hawaii, and Nevada, respectively, during the 12 months ending November 2020, whereas sales increased 3 percent in Arizona. The decline in sales during the past 12 months was primarily due to a significant decline in sales during the early stages of the pandemic in the second quarter of 2020, when prospective buyers and sellers were particularly wary of attending open houses or making home moves. During the 3 months ending November 2020, however, regionwide sales were up 14 percent from the same period a year ago, with significant increases in sales in California and Arizona offsetting small declines in Hawaii and Nevada. The number of homes sold declined in 8 of the 10 major metropolitan areas cited in this report during the 12 months ending November 2020, ranging from slight declines in both the Riverside-San Bernardino-Ontario and Sacramento–Roseville–Arden-Arcade metropolitan areas to respective drops of 10 and 12 percent in the San Francisco-Oakland-Hayward and Urban Honolulu metropolitan areas. The only increases in home sales in the region were a 1-percent gain in the San Diego-Carlsbad metropolitan area and a 2-percent gain in the Phoenix-Mesa-Scottsdale metropolitan area.

Although sales market conditions in the region remained mostly unchanged from a year ago, the rate of seriously delinquent mortgages (loans 90 or more days delinquent or in foreclosure) and real estate owned (REO) properties rose sharply. In November 2020, the share of mortgages in the Pacific region that were seriously delinquent or had transitioned into REO status was 3.5 percent—up from 0.7 percent a year earlier, with all states in the region reporting higher rates than during 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 6.1 and 5.3 percent, respectively—up from rates of 1.9 and 1.2 percent a year ago. In Arizona and California, the rates rose to 2.9 and 3.3 percent—up from 0.7 and 0.6 percent, respectively, during

continued on page 5

continued from page 4

In most of the largest metropolitan areas of the Pacific region, home sales declined during the past year and average sales prices rose.

		Number of Homes Sold			Price			
	12 Months Ending	2019	2020	Percent Change	Average	2019 ($)	2020 ($)	Percent Change
Urban Honolulu, HI (N&E)	November	11,600	10,200	-12	AVG	$724,400	$732,700	1
Las Vegas-Henderson-Paradise, NV (N&E)	November	48,300	44,000	-9	AVG	$381,200	$425,900	12
Phoenix-Mesa-Scottsdale, AZ (N&E)	November	131,900	135,100	2	AVG	$330,700	$376,000	14
Los Angeles-Long Beach-Anaheim, CA (N&E)	November	101,400	97,100	-4	AVG	$893,000	$967,500	8
Riverside-San Bernardino-Ontario, CA (N&E)	November	66,300	66,200	0	AVG	$443,800	$489,400	10
San Diego-Carlsbad, CA (N&E)	November	37,700	38,000	1	AVG	$749,500	$814,900	9
Oxnard-Thousand Oaks-Ventura, CA (N&E)	November	9,175	8,700	-5	AVG	$717,100	$796,300	11
San Francisco-Oakland-Hayward, CA (N&E)	November	42,900	38,400	-10	AVG	$1,150,000	$1,250,000	9
San Jose-Sunnyvale-Santa Clara, CA (N&E)	November	14,500	14,200	-2	AVG	$1,460,000	$1,560,000	7
Sacramento-Roseville-Arden-Arcade, CA (N&E)	November	35,000	34,800	-1	AVG	$523,100	$584,900	12

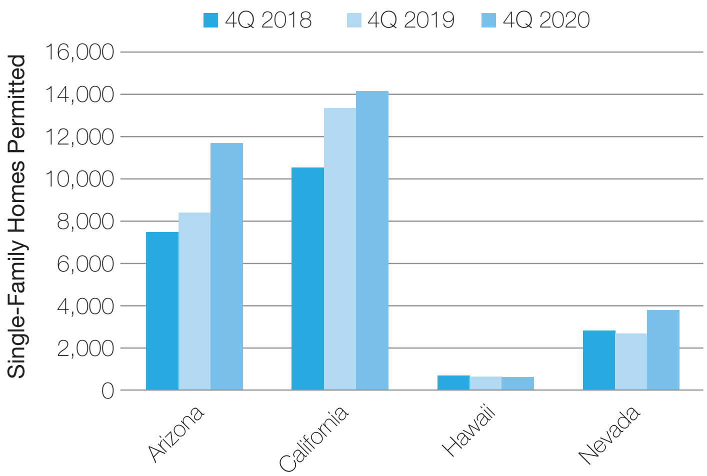
AVG = average. N&E = new and existing.
Note: Data include single-family homes, townhomes, and condominiums.
Source: Zonda

November 2019. Nationally, the rate of seriously delinquent mortgages and REO properties increased from 1.4 percent a year ago to 4.1 percent during November 2020. The rise in delinquencies partly reflects an increased reliance on mortgage forbearance by borrowers, which was provided for under the $2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act. Approximately 218,350 mortgages in the region were 90 or more days past due in November 2020—almost a fourfold increase from November 2019; however, the number of foreclosures declined 36 percent. Regionwide, about 12 percent of homeowners reported having little or no confidence in being able to pay the next-month mortgage, compared with 10 percent nationwide (U.S. Census, Week 21 Household Pulse Survey, December 9–December 21, 2020).

During the fourth quarter of 2020 (preliminary data)—

- Single-family homebuilding activity in the region increased 21 percent from a year ago, to 30,250 homes permitted, after a 17-percent year-over-year rise in permitting activity during the fourth quarter of 2019. The number of homes permitted nationally increased 27 percent during the fourth quarter of 2020 after an 11-percent increase during the fourth quarter of 2019.
- California accounted for 47 percent of single-family homebuilding activity in the region, and permitting increased 6 percent, to 14,150 homes.
- Single-family permitting increased 39 percent in Arizona, to 11,700 homes, after a 12-percent increase during the fourth quarter of 2019. The state accounted for 63 percent of the regionwide increase during the past year.
- In Nevada, single-family homebuilding rose 41 percent, to 3,775 homes. The smallest increase in single-family construction activity in the region was in Hawaii, where 630 homes were permitted—a 1-percent gain from a year ago.

Single-family home permitting activity increased in all four states of the Pacific region during the fourth quarter of 2020.



4Q = fourth 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 tight in the 10 major metropolitan areas cited in this report during the fourth quarter of 2020, with some metropolitan areas easing from tight conditions a year earlier. The recent economic contraction has led many renters to search for more affordable rental housing. Conversely, households with the means and expected long-term work-from-home options have become increasingly likely to transition into homeownership since the pandemic began. Apartment market conditions softened in 4 of the 10 largest metropolitan areas cited in this report, with the most significant softening in markets with the highest rents. In the San Francisco-Oakland-Hayward, San Jose-Sunnyvale-Santa Clara, Los Angeles-Long Beach-Anaheim, and Urban Honolulu metropolitan areas, apartment market conditions ranged from balanced to slightly tight during the fourth quarter of 2020, compared with tight conditions in all four metropolitan areas a year ago. Apartment vacancy rates rose 0.3, 1.6, and 2.3 percentage points in the Los Angeles-Long Beach-Anaheim, San Francisco-Oakland-Hayward, and San Jose-Sunnyvale-Santa Clara metropolitan areas but declined by 0.5 percentage points in the Urban Honolulu metropolitan area, to 3.9, 5.6, 6.1, and 4.0 percent, respectively (RealPage, Inc.). Apartment vacancy rates declined and apartment market conditions remained tight in the other six metropolitan areas in the region. Apartment vacancy rate declines ranged from 0.2 percentage points in both the Phoenix-Mesa-Scottsdale and San Diego-Carlsbad metropolitan areas, where the respective rates were 3.7 and 3.3 percent, to 1.7 percentage points in the Riverside-San Bernardino-Ontario metropolitan area, where the rate was 1.8 percent.

Average rents increased in the six metropolitan areas in the region where apartment market conditions remained tight during the fourth quarter of 2020, with the fastest rent growth in the least expensive metropolitan areas. Rent increases ranged from 1 percent in San Diego-Carlsbad to 9 percent in Riverside-San Bernardino-Ontario. Conversely, average rents declined in the metropolitan areas where conditions softened from a year ago. Average rents decreased 2 percent in the Los Angeles-Long Beach-Anaheim metropolitan area, to $2,211; 3 percent in the Urban Honolulu metropolitan areas to $2,130; 10 percent in the San Francisco-Oakland-Hayward metropolitan areas, to $2,524; and 11 percent in the San Jose-Sunnyvale-Santa Clara metropolitan areas, to $2,595.

During the fourth quarter of 2020 (preliminary data)—

- Multifamily home permitting in the region rose 1 percent, to 19,350 units permitted, following a 20-percent year-over-year increase during the fourth quarter of 2019. Nationally, by comparison, the number of units permitted decreased 11 percent, following a 16-percent increase during the same period a year ago.
- Multifamily permitting activity increased in both Arizona and Nevada, by 25 and 32 percent, to 4,500 and 1,800 units,

continued on page 7

Apartment market conditions remained tight in most of the metropolitan areas of the Pacific region during the fourth quarter of 2020 but softened in the most expensive metropolitan areas, where vacancy rates increased and average rents declined.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		4Q 2019 (%)	4Q 2020 (%)	Percentage Point Change	4Q 2019 ($)	4Q 2020 ($)	Percent Change
Urban Honolulu	Slightly Tight	4.5	4.0	-0.5	2,203	2,130	-3
Las Vegas-Henderson-Paradise	Tight	4.6	3.5	-1.1	1,115	1,160	4
Phoenix-Mesa-Scottsdale	Tight	3.9	3.7	-0.2	1,184	1,253	6
Los Angeles-Long Beach-Anaheim	Slightly Tight	3.6	3.9	0.3	2,258	2,211	-2
Riverside-San Bernardino-Ontario	Tight	3.5	1.8	-1.7	1,570	1,711	9
San Diego-Carlsbad	Tight	3.5	3.3	-0.2	2,051	2,079	1
Oxnard-Thousand Oaks-Ventura	Tight	3.4	2.1	-1.3	2,036	2,130	5
San Francisco-Oakland-Hayward	Balanced	4.0	5.6	1.6	2,815	2,524	-10
San Jose-Sunnyvale-Santa Clara	Balanced	3.8	6.1	2.3	2,904	2,595	-11
Sacramento-Roseville-Arden-Arcade	Tight	3.5	2.6	-0.9	1,498	1,599	7

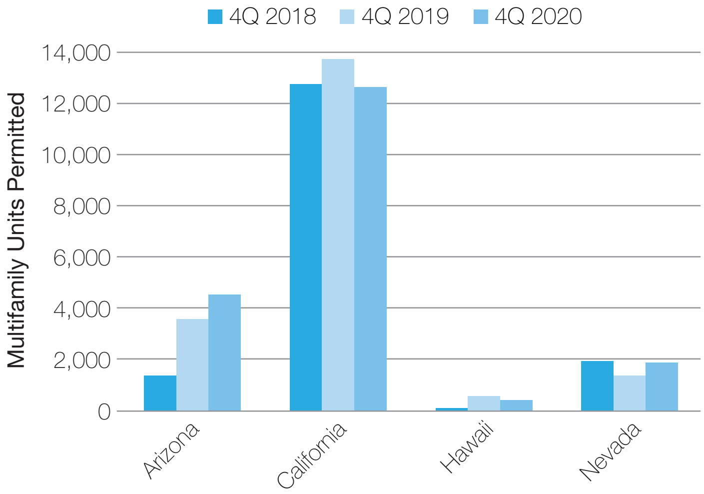
4Q = fourth quarter.
Sources: Market condition—Economic and Market Analysis Division; vacancy rate and average monthly rent—RealPage, Inc.

continued from page 6

respectively. Significant increases in the largest metropolitan areas of the two states were responsible for much of the growth in permitting activity. In the Phoenix-Mesa-Scottsdale metropolitan area, multifamily permitting increased 30 percent, to 4,200 units, accounting for 93 percent of all multifamily units permitted in Arizona. Similarly, in Nevada, multifamily permitting more than doubled, to 1,225 units, in the Las Vegas-Henderson-Paradise metropolitan area, which accounted for 68 percent of all units permitted statewide.

- Multifamily permitting activity declined in California by 1,050 units, or 8 percent, to 12,650 units. The state accounted for 65 percent of all multifamily permitting regionwide—down from 71 percent during the fourth quarter of 2019. Multifamily permitting activity declined significantly in the San Jose-Sunnyvale-Santa Clara and San Francisco-Oakland-Hayward metropolitan areas, by 59 and 51 percent, respectively.
- In Hawaii, multifamily construction activity declined by 25 percent. The number of units permitted fell to 430—down from 570 units a year ago but well above the 100 units permitted during the fourth quarter of 2018.

Multifamily construction activity rose 1 percent in the Pacific region during the fourth quarter of 2020, with increases in Arizona and Nevada largely offset by declines in California and Hawaii.



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