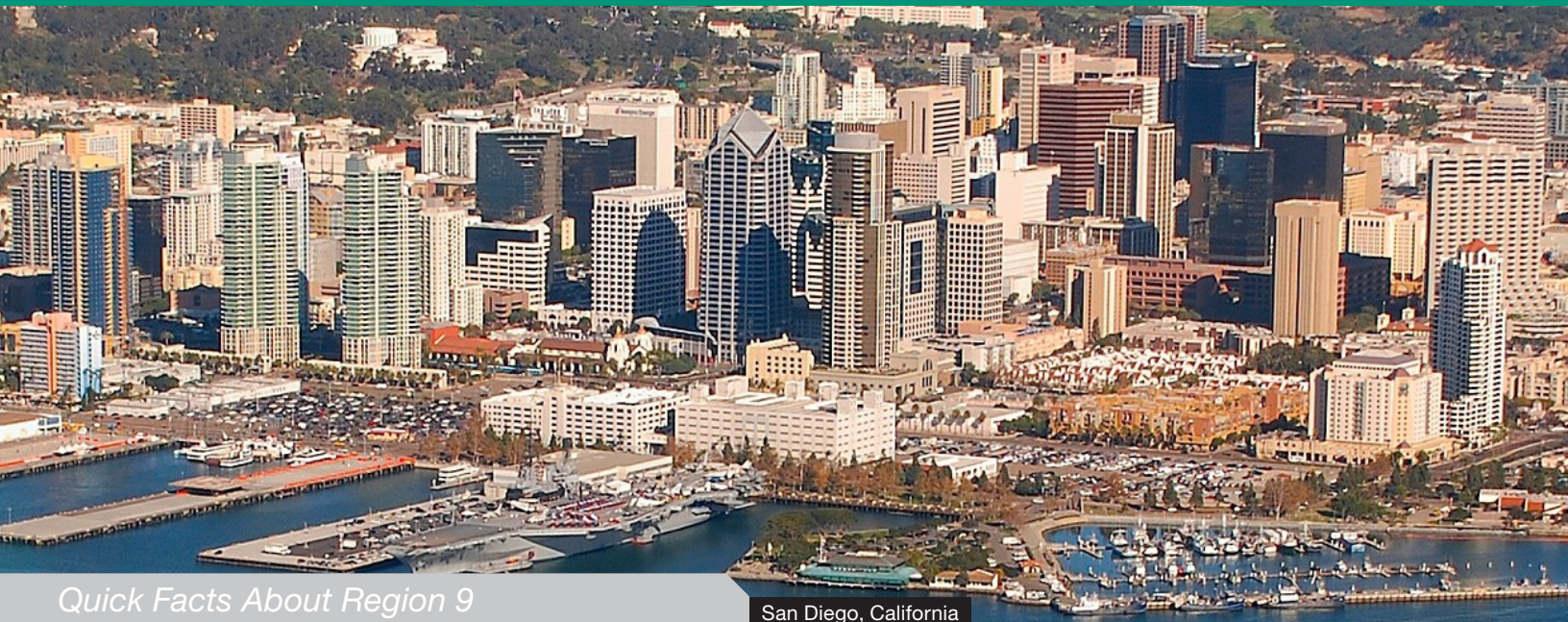


HUD PD&R Regional Reports

Region 9: Pacific



Quick Facts About Region 9

San Diego, California

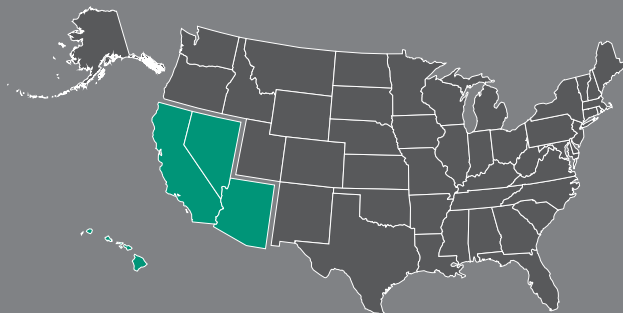
By Elaine Ng | 1st quarter 2016

Sales market conditions—

First quarter 2016: mixed (balanced to tight).
Fourth quarter 2015: mixed (balanced to tight).
First quarter 2015: mixed (balanced to tight).

Apartment market conditions—

First quarter 2016: mixed (slightly soft to tight).
Fourth quarter 2015: mixed (balanced to tight).
First quarter 2015: mixed (balanced to tight).



Overview

Economic conditions continued to strengthen in the Pacific region during the first quarter of 2016 compared with conditions during the first quarter of 2015. Nonfarm payroll jobs have expanded year over year in every quarter since the fourth quarter of 2010. California represented 78 percent of the jobs in the region and also accounted for 78 percent of net job growth in the region during the first quarter of 2016. Sales housing market conditions in the region remained balanced to tight, and single-family homebuilding activity increased. Apartment market conditions were tight throughout much of the region, although vacancy rates rose in 4 of the 10 rental housing markets referenced in this report because of significant apartment construction in recent years. Average rents increased faster than the national average in every major metropolitan area in the region except Urban Honolulu.

During the first quarter of 2016—

- Every sector in the region added jobs from the first quarter of 2015, returning to a trend that had been interrupted during the fourth quarter of 2015, when the manufacturing sector lost jobs.

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Before the fourth quarter of 2015, every sector in the region had added jobs year over year in every quarter since the third quarter of 2013.

- The number of homes sold increased at a higher rate in the region than in the nation.
- Multifamily construction activity, as measured by the number of units permitted, declined 5 percent as builders responded to

increased vacancy rates brought on by previously high levels of apartment construction. By comparison, permitting was 36 percent higher during the first quarter of 2015 than the first quarter of 2014.

- Single-family permitting grew 11 percent, offsetting the multifamily permitting decline, for a 3-percent increase in overall residential construction activity in the region.

Economic Conditions

Economic conditions in the Pacific region, which began to improve during the fourth quarter of 2010, continued to strengthen during the first quarter of 2016. All four states in the region added jobs during the quarter, with total nonfarm payrolls increasing by 572,300 jobs, or 2.8 percent, from the first quarter of 2015, to approximately 20.8 million jobs, compared with 1.9-percent payroll growth in the nation. During the past 5 years, the region added 2.65 million jobs, a cumulative increase of 14.6 percent. The education and health services, professional and business services, and leisure and hospitality sectors together accounted for more than one-half of net job gains in the region during the first quarter of 2016, with increases of 129,300, 97,600, and 88,400 jobs, respectively. Single-family residential and commercial building activity expanded throughout the region and contributed to job gains of 61,000, or 6.3 percent, in the mining, logging, and construction sector, which was the fastest-growing sector (on a percentage basis) in the region. The sector has added jobs year over year in each quarter since the third

quarter of 2011 but remains 15 percent below the peak of 1.44 million jobs during the third quarter of 2006. The unemployment rate in the region averaged 5.6 percent during the first quarter of 2016, down from 6.8 percent a year earlier but above the national average of 5.2 percent. Hawaii had the lowest average unemployment rate in the region, at 3.1 percent, down from 3.9 percent a year ago. The average unemployment rate in Arizona declined from 6.3 to 5.2 percent. The highest unemployment rates were in California and Nevada at 5.7 and 6.0 percent, respectively, down from 6.9 and 7.2 percent a year earlier. The unemployment rates in Nevada and California were the 13th and 15th highest rates, respectively, in the nation.

During the first quarter of 2016—

- California added 445,400 jobs, a year-over-year gain of 2.8 percent, after a 2.9-percent gain during the first quarter of 2015. The education and health services, leisure and hospitality, and

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Year-over-year nonfarm payroll growth in the Pacific region exceeded the national rate for the 16th consecutive quarter.

	First Quarter		Year-Over-Year Change	
	2015 (thousands)	2016 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	20,251.9	20,824.2	572.3	2.8
Goods-producing sectors	2,455.4	2,518.2	62.8	2.6
Mining, logging, and construction	967.0	1,028.0	61.0	6.3
Manufacturing	1,488.4	1,490.2	1.8	0.1
Service-providing sectors	17,796.6	18,306.0	509.4	2.9
Wholesale and retail trade	3,016.4	3,083.7	67.3	2.2
Transportation and utilities	717.8	743.2	25.4	3.5
Information	540.5	559.8	19.3	3.6
Financial activities	1,063.4	1,089.6	26.2	2.5
Professional and business services	3,077.7	3,175.3	97.6	3.2
Education and health services	3,011.2	3,140.5	129.3	4.3
Leisure and hospitality	2,515.8	2,604.2	88.4	3.5
Other services	685.9	697.7	11.8	1.7
Government	3,167.9	3,212.0	44.1	1.4

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

Source: U.S. Bureau of Labor Statistics



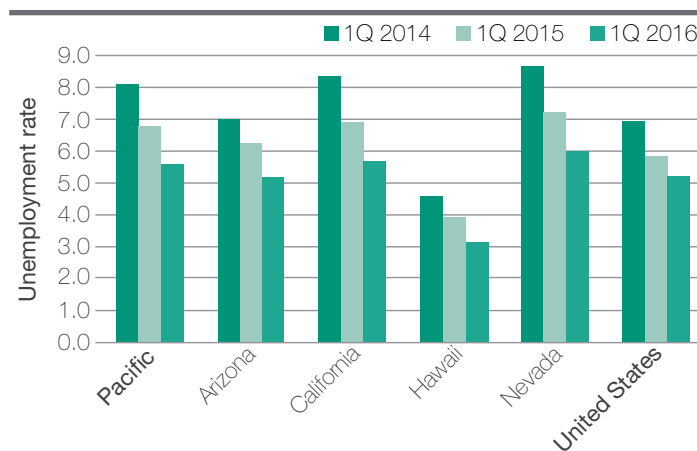
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professional and business services sectors accounted for 56 percent of net job growth in the state, up by 101,700, 75,800, and 73,300 jobs, or 4.2, 4.3, and 3.0 percent, respectively. Sutter Health has invested more than \$11 billion since 2000 in expanding and building new hospital facilities across the state, including the \$2 billion California Pacific Medical Center campus that is currently under construction in San Francisco.

- Nonfarm payrolls in Arizona increased by 80,900 jobs, or 3.1 percent, compared with a gain of 61,000 jobs, or 2.4 percent, during the first quarter of 2015. The education and health services and the professional and business services sectors led job growth in the state, adding 19,400 and 17,300 jobs, gains of 4.9 and 4.4 percent, respectively. Farmers Insurance has announced plans for a \$23.7 million expansion of the Farmers Insurance Exchange in Phoenix, with the addition of 1,000 full-time employees expected during the next several years.
- In Nevada, nonfarm payrolls expanded by 31,600 jobs, or 2.6 percent. The professional and business services and the education and health services sectors, which added the most jobs in the state, grew by 5,800 and 5,500 jobs, or 3.6 and 4.6 percent, respectively. Sutherland Global Services, a provider of technology-enabled business process services, announced the opening of an operations center in Las Vegas, with plans to hire 2,000 customer service support employees.

- In Hawaii, nonfarm payrolls increased by 14,400 jobs, or 2.3 percent. The leisure and hospitality sector led job growth, expanding by 3,600 jobs, or 3.1 percent, in part because total spending related to tourism rose 2.7 percent, to \$4.0 million, during the first quarter of 2016 (Hawaii Tourism Authority).

Unemployment rates continued to decline throughout the Pacific region, but the regionwide rate remained greater than the national rate due to higher unemployment rates in California and Nevada.



1Q = first quarter.

Source: U.S. Bureau of Labor Statistics

Population

The population of the Pacific region, which grew faster than the national average from 2014 to 2015, increased by 515,700, or 1.0 percent, compared with 0.8-percent growth for the nation overall (Census Bureau population estimates as of July 1). Rates of population growth were highest in Nevada and Arizona, at 1.9 and 1.5 percent, respectively, and were lower in California and Hawaii, at 0.9 and 0.8 percent, respectively. Nevada and Arizona had the fourth and ninth highest population growth rates of states in the nation. Approximately 40 percent of the population growth in the

region from July 2014 to July 2015 resulted from net in-migration of 207,000 people, down slightly from 219,500 people, or 44 percent of the growth, during the previous year. Net natural change (resident births minus resident deaths) increased to approximately 298,700 people from 297,400 people from 2013 to 2014.

During the 12 months ending July 1, 2015—

- Strong job growth and relatively affordable housing in Arizona and Nevada contributed to higher rates of population growth

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The Pacific region represented 16 percent of the population of the nation as of July 1, 2015, but recorded 21 percent of the national population growth.

	Population Estimate (as of July 1)			Percent Change	
	2013	2014	2015	2013 to 2014	2014 to 2015
United States	316,427,395	318,907,401	321,418,820	0.8	0.8
Pacific	49,244,058	49,779,612	50,295,331	1.1	1.0
Arizona	6,630,799	6,728,783	6,828,065	1.5	1.5
California	38,414,128	38,792,291	39,144,818	1.0	0.9
Hawaii	1,408,765	1,420,257	1,431,603	0.8	0.8
Nevada	2,790,366	2,838,281	2,890,845	1.7	1.9

Source: U.S. Census Bureau



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than in the other two states in the region. Net in-migration, particularly from the more expensive markets in California, accounted for 64 and 71 percent of population growth in the two states, respectively.

- Population growth in California, the most populous state in the nation, accounted for 68 percent of total population growth in the region. Net in-migration to California totaled 103,500 people

and accounted for one-half of net in-migration into the region overall. International net in-migration to California of 180,700 people offset domestic net out-migration that was primarily a result of sharply rising home prices. Asia and Latin America have accounted for 58 and 27 percent, respectively, of the foreign-born population to enter the state since 2010 (2014 American Community Survey 1-year data).

Sales Market Conditions

During the first quarter of 2016, sales housing markets in the Pacific region ranged from balanced to tight, unchanged from conditions 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 \$440,000, during the 12 months ending January 2016 after a 9-percent gain during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). By comparison, the average home sales price for the nation rose 6 percent, to \$263,500, during the 12 months ending January 2016 after 4-percent growth a year earlier. Average home sales prices rose in all but 1 of the 10 major metropolitan areas referenced in this report; in Urban Honolulu, the average sales price was stable at \$586,900. In each of the other 9 metropolitan areas, the average sales price rose from a year ago, ranging from 4-percent gains in the balanced Phoenix-Mesa-Scottsdale and San Diego-Carlsbad sales markets to an 11-percent gain in the tight San Jose-Sunnyvale-Santa Clara sales market.

During the 12 months ending January 2016, the number of homes sold in the region increased 6 percent following a 7-percent decline during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). By comparison, home sales nationwide rose nearly 4 percent during the 12 months ending January 2016. Home sales have increased in 8 of the largest metropolitan areas in the region, with double-digit gains of 10, 11, and 12 percent in the Oxnard-Thousand Oaks-Ventura, Phoenix-Mesa-Scottsdale, and Sacramento--Roseville--Arden-Arcade metropolitan areas, respectively. In those same 3 metropolitan areas, home sales price increases were moderate, ranging from 4 percent in Phoenix-Mesa-Scottsdale to 6 percent in Oxnard-Thousand Oaks-Ventura. Home sales growth in the most expensive markets was slower. In the San Jose-Sunnyvale-Santa Clara metropolitan area, home sales remained flat, but the area had the greatest gain in home sales price, 11 percent, and the highest average home sales price, \$950,260. Urban Honolulu was the only metropolitan area to record a decline in sales, of 1 percent.

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Home sales and average sales price growth in many metropolitan areas in the Pacific region exceeded the national rate.

	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)	January	48,600	50,444	4	AVG	220,786	239,816	9
Los Angeles-Long Beach-Anaheim (N&E)	January	116,580	120,789	4	AVG	657,545	687,748	5
Oxnard-Thousand Oaks-Ventura (N&E)	January	9,697	10,685	10	AVG	543,391	574,820	6
Phoenix-Mesa-Scottsdale (N&E)	January	98,313	109,614	11	AVG	248,545	258,109	4
Riverside-San Bernardino-Ontario (N&E)	January	68,259	72,369	6	AVG	299,032	314,464	5
Sacramento--Roseville--Arden-Arcade (N&E)	January	36,915	41,455	12	AVG	334,818	352,336	5
San Diego-Carlsbad (N&E)	January	39,823	42,805	7	AVG	542,474	563,936	4
San Francisco-Oakland-Hayward (N&E)	January	52,826	54,869	4	AVG	773,660	827,098	7
San Jose-Sunnyvale-Santa Clara (N&E)	January	20,804	20,762	0	AVG	854,339	950,260	11
Urban Honolulu (N&E)	January	11,852	11,711	-1	AVG	586,842	586,890	0

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

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

Source: CoreLogic, Inc., with adjustments by the analyst



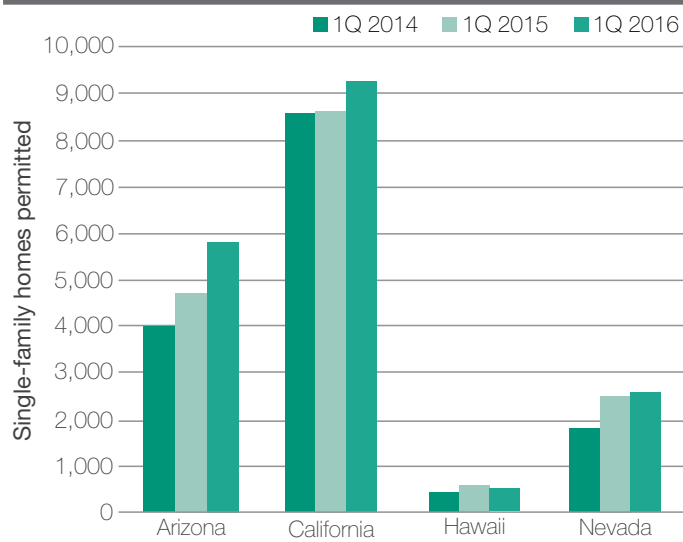
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Regionwide growth of regular resales and new home sales of 10 and 7 percent, respectively, was partially offset by declines in real estate owned (REO) and short sales because fewer distressed properties were on the market. During the 12 months ending January 2016, REO and short sales fell 20 and 18 percent, respectively, compared with decreases of 27 and 55 percent during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). By comparison, the number of REO sales fell 13 percent and short sales fell 11 percent nationwide during the 12 months ending January 2016. The percentage of seriously delinquent (90 or more days delinquent or in foreclosure) mortgage loans and REO properties in the region declined 0.4 percentage point, from 2.3 percent in January 2015 to 1.9 percent in January 2016, compared with a decline of 0.8 percentage point, to 3.3 percent, for the nation. The percentage of seriously delinquent mortgage loans declined in every state in the region, with the greatest decrease in Nevada, where the rate declined 1.3 percentage points, to 4.1 percent, in January 2016. Despite having the largest decline, Nevada also has the highest percentage of seriously delinquent loans in the region and the 13th highest percentage nationwide.

During the first quarter of 2016 (preliminary data)—

- Single-family homebuilding activity, as measured by the number of homes permitted, increased 11 percent in the region, to 18,250 homes, similar to growth during the first quarter of 2015. By comparison, the number of homes permitted nationally increased 12 percent from the first quarter of 2015 after a 6-percent increase during the same period a year earlier.
- California accounted for 51 percent of the single-family homes permitted in the region. The 9,275 single-family homes permitted in the state were 7 percent more than the 8,650 homes permitted during the first quarter of 2015.

Single-family permitting increased 11 percent in the Pacific region during the first quarter of 2016, similar to growth during the first quarter of 2015.



1Q = first quarter.

Note: Based on preliminary data.

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

- The greatest growth in single-family permitting occurred in Arizona, where the number of single-family homes permitted increased by 1,075, or 23 percent, to 5,825 homes after a 19-percent increase during the first quarter of 2015. In Nevada, the number of homes permitted rose 4 percent, to 2,600.
- Single-family permitting declined only in Hawaii, where 540 homes were permitted, reflecting a 7-percent decline from the previous year. Single-family permitting in the state accounts for less than 3 percent of total permitting in the region.

Apartment Market Conditions

Apartment markets in the largest metropolitan areas in the Pacific region, with the exception of Urban Honolulu, ranged from balanced to tight. Although 9 of the 10 major metropolitan areas referenced in this report recorded apartment vacancy rates below the national average of 5.2 percent during the first quarter of 2016, the apartment vacancy rate rose in 4 metropolitan areas and remained stable in the Riverside-San Bernardino-Ontario area (Axiometrics Inc.). Apartment vacancy rate increases ranged from 0.2 percentage point, to 4.3 percent, in the San Diego-Carlsbad market to 2.0 percentage points, to 8.1 percent, in the Urban Honolulu market. Apartment market conditions remained unchanged from a year ago in all major metropolitan areas except Urban Honolulu, where the market is currently slightly soft compared with balanced conditions a year earlier. Average rent

increases occurred throughout the region, ranging from 1 percent in Urban Honolulu to 8 percent in Riverside-San Bernardino-Ontario and San Diego-Carlsbad. Rent growth exceeded the national average of 5 percent in 9 of the 10 metropolitan areas in this report. San Francisco-Oakland-Hayward and San Jose-Sunnyvale-Santa Clara remained among the most expensive rental housing markets in the country, with average rents of \$3.26 and \$3.09 per square foot, respectively, more than twice the national average of \$1.37 per square foot.

During the first quarter of 2016 (preliminary data)—

- Multifamily building activity in the region fell 5 percent, to 16,400 units permitted, from the 17,300 units permitted during the first quarter of 2015. Relatively high multifamily building activity during the first quarter of 2015, which increased 36 percent from the

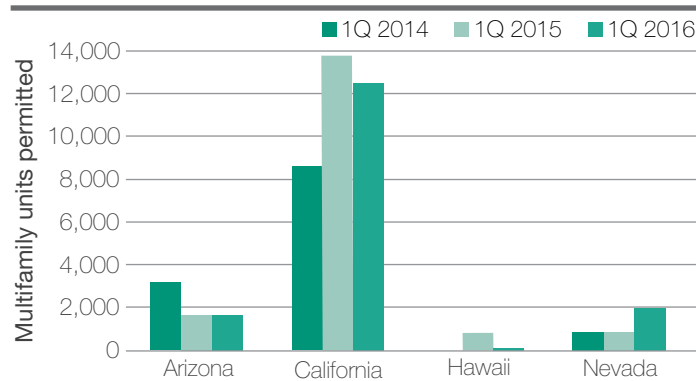
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first quarter of 2014, resulted in increased vacancy rates in several of the largest metropolitan areas in the region. By comparison, the number of units permitted nationally fell 2 percent from the first quarter of 2015 after a 6-percent gain during the same period a year earlier.

- California accounted for 76 percent of the multifamily units permitted in the region. Multifamily permitting activity in the state fell 9 percent, to 12,600 units, from 13,800 units permitted during the same period a year earlier. This decline represents the first quarter that multifamily construction activity in the state has fallen year over year since 2009.
- Multifamily permitting activity also fell in Hawaii, to 110 units, down 87 percent from the 840 units permitted during the first quarter of 2015.
- The number of multifamily units permitted in Arizona remained stable at 1,725 after a 46-percent decrease during the same period in 2015. The Phoenix-Mesa-Scottsdale metropolitan area accounted for 84 percent of multifamily permitting in Arizona during the past year.
- The only state to experience an increase in multifamily permitting was Nevada, where 2,000 multifamily units were permitted, more

Multifamily permitting declined or remained flat in every state in the Pacific region except Nevada.



1Q = first quarter.

Note: Based on preliminary data.

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

than double the 900 units permitted during the first quarter of 2015 and up from the 880 units permitted during the first quarter of 2014. The increase of 1,100 multifamily units permitted in the Las Vegas-Henderson-Paradise metropolitan area accounted for all the net growth in multifamily permitting in the state.

Apartment vacancy rates began to increase in the highest markets in the Pacific region.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		1Q 2015 (%)	1Q 2016 (%)	Percentage Point Change	1Q 2015 (\$)	1Q 2016 (\$)	Percent Change
Las Vegas-Henderson-Paradise	Balanced	4.2	3.9	-0.3	843	897	6
Los Angeles-Long Beach-Anaheim	Tight	4.2	3.9	-0.3	1,976	2,108	7
Oxnard-Thousand Oaks-Ventura	Tight	4.2	4.1	-0.1	1,781	1,886	6
Phoenix-Mesa-Scottsdale	Balanced	5.1	4.9	-0.2	871	934	7
Riverside-San Bernardino-Ontario	Tight	4.5	4.5	0.0	1,323	1,428	8
Sacramento--Roseville--Arden-Arcade	Tight	4.2	4.1	-0.1	1,196	1,283	7
San Diego-Carlsbad	Tight	4.1	4.3	0.2	1,727	1,863	8
San Francisco-Oakland-Hayward	Tight	3.5	4.2	0.7	2,554	2,736	7
San Jose-Sunnyvale-Santa Clara	Tight	3.7	4.6	0.9	2,610	2,782	7
Urban Honolulu	Slightly soft	6.1	8.1	2.0	1,990	2,017	1

1Q = first quarter.

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