HUD PD&R **Regional Reports**

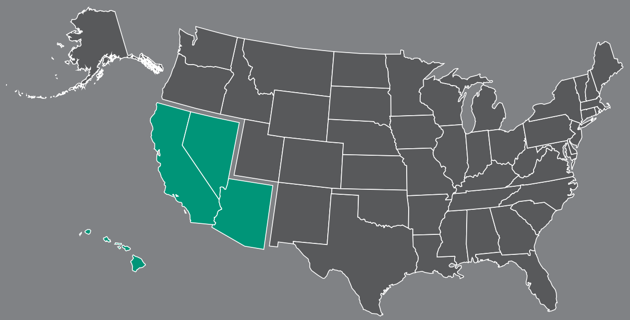
Region 9: Pacific


Los Angeles, California

Quick Facts About Region 9

Sales market conditions—
First quarter 2018: mixed (slightly soft to tight).
Fourth quarter 2017: mixed (balanced to tight).
First quarter 2017: mixed (balanced to tight).

Apartment market conditions—
First quarter 2018: mixed (balanced to tight).
Fourth quarter 2017: mixed (balanced to tight).
First quarter 2017: mixed (slightly soft to tight).



By Wendy Ip | 1st quarter 2018

Overview

Economic conditions remained strong in the Pacific region during the first quarter of 2018, as nonfarm payrolls have continued to expand year over year every quarter since the fourth quarter of 2010. California represented 78 percent of jobs in the region and contributed 77 percent of net job growth during the first quarter of 2018. Sales housing market conditions remained nearly unchanged from a year ago in all states in the region except Hawaii, where conditions softened slightly because of net out-migration. Single-family homebuilding activity increased in all four states of the region including Hawaii, where strong demand remained for new seasonal homes despite an overall softer sales market. Apartment market conditions were tight throughout much of the region, although vacancy rates rose in 2 of the 10 largest markets cited in this report. Average rent growth in major metropolitan areas of the region generally exceeded the national rate during the past year, including two of the most expensive markets of the region.

- Every payroll sector in the region added jobs during the first quarter of 2018, with the largest gains occurring in the education and health services sector, marking the 30th consecutive quarter that the sector added the most jobs in the region. Expansions in the education and health services sector were largely attributed to population growth and the rising need for healthcare services.

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- Home sales in the region increased 3 percent during the 12 months ending February 2018 to 800,300 homes sold. Average single-family home sales prices rose in every state in the region, led by growth in California, where home prices are more than 100 percent higher than the national average. Single-family homebuilding activity, as measured by the number of homes permitted, increased 18 percent to 23,900 homes permitted during the first quarter of 2018, as builders responded to increasing demand for new homes.
- Multifamily permitting during the first quarter of 2018 increased 18 percent in the region compared with a 7-percent gain nationally, partly in response to generally tight apartment market conditions in the region since the third quarter of 2016.

Economic Conditions

Economic conditions in the Pacific region, which began to improve during the fourth quarter of 2010, remained strong during the first quarter of 2018. All four states in the region added jobs, with total nonfarm payrolls increasing by 498,200 jobs, or 2.3 percent, to nearly 21.79 million jobs. This rate is slightly higher than the 2.2-percent growth in nonfarm payrolls in the region a year earlier. Overall, during the first quarter of 2018, nonfarm payroll growth in the region accounted for 23 percent of the net increase in jobs nationally, where jobs were up 1.5 percent compared with 1.7 percent during the first quarter of 2017. The education and health services sector accounted for the largest share of net job gains in the region during the first quarter of 2018, up by 118,200 jobs, or 3.6 percent. The health care and social assistance industry accounted for 80 percent of the net gain in jobs in the sector, largely in response to regional population growth. Residential construction activity increased in the region and contributed to a gain of 85,100 jobs, or 8.0 percent, in the mining, logging, and construction sector, the second largest growth sector in the region during the first quarter of 2018. The sector has added jobs year over year each quarter since the second quarter of 2011, but levels are 26 percent below the peak of 1.44 million jobs averaged during the third quarter of 2006. The leisure and hospitality sector accounted for the third largest share of job gains in the region, up by 70,000 jobs, or 2.6 percent, mainly from growth in tourism in California, which accounted for more than two-thirds of sector gains in the region.

The unemployment rate in the region averaged 4.5 percent during the first quarter of 2018, down from 5.3 percent a year earlier but higher than the national average of 4.3 percent. At 2.0 percent, Hawaii had the lowest average unemployment rate in the region and the nation, down from 2.6 percent a year ago. The unemployment rate declined in California from 5.4 to 4.5 percent and in Arizona from 5.0 to 4.9 percent. The highest unemployment rate in the region and the seventh highest in the nation was in Nevada, at 5.1 percent, down from 5.3 percent a year ago.

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Year-over-year nonfarm payroll growth in the Pacific region exceeded the national rate for the 30th consecutive quarter.

	First Quarter		Year-Over-Year Change	
	2017 (thousands)	2018 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	21,287.5	21,785.7	498.2	2.3
Goods-producing sectors	2,583.7	2,692.0	108.3	4.2
Mining, logging, and construction	1,062.7	1,147.8	85.1	8.0
Manufacturing	1,521.0	1,544.2	23.2	1.5
Service-providing sectors	18,703.9	19,093.7	389.8	2.1
Wholesale and retail trade	3,077.3	3,113.2	35.9	1.2
Transportation and utilities	804.2	837.8	33.6	4.2
Information	592.8	596.1	3.3	0.6
Financial activities	1,126.7	1,144.6	17.9	1.6
Professional and business services	3,196.6	3,266.0	69.4	2.2
Education and health services	3,243.0	3,361.2	118.2	3.6
Leisure and hospitality	2,680.3	2,750.3	70.0	2.6
Other services	709.7	715.4	5.7	0.8
Government	3,273.2	3,309.2	36.0	1.1

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

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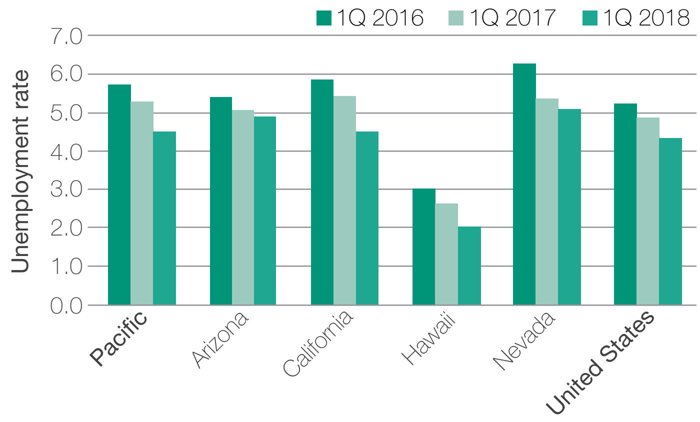
During the first quarter of 2018—

- California added 384,800 jobs, a gain of 2.3 percent, following 2.0-percent growth a year earlier. The education and health services and the leisure and hospitality sectors accounted for nearly 40 percent of net job growth in the state, expanding by 95,000 and 53,800 jobs, or 3.6 and 2.8 percent, respectively. Statewide expansions at Kaiser Permanente® and Dignity Health Group during the past year, caused by greater demand for healthcare services, resulted in approximately 6,600 jobs announced at both employers as of March 2018 (California Employment Development Department). The opening of 72 hotels in the past year supported growth in the leisure and hospitality sector, adding nearly 10,500 rooms at a cost of $2.45 billion in response to increased tourism; the number of annual visitors has increased every year since 2012 to 7.8 million in 2017 (Visit California).
- Nonfarm payrolls in Arizona increased by 65,300 jobs, or 2.4 percent, from a year ago, less than the gain of 67,100 jobs, or 2.5 percent, during the first quarter of 2017. The education and health services sector and the construction subsector led job growth in the state, adding 14,300 and 11,700 jobs, or 4.2 and 8.4 percent, respectively. In addition to increased residential development, the Arizona healthcare industry contributed nearly 5 percent of total construction spending, or $480 million, in the state during 2017 (Arizona Builder's Exchange); developments include the Mercy Gilbert Pediatric Outpatient Center at the Phoenix Children's Hospital that is expected open in April 2018.
- In Nevada, nonfarm payrolls expanded by 39,200 jobs, or 3.0 percent. The mining, logging, and construction sector added the most jobs in the state, up 7,500, or 8.1 percent, compared with the previous year, with virtually all jobs added from gains in the construction subsector. The $1.9 billion Las Vegas Raiders football stadium that began construction in late 2017 contributed to job gains; when complete in 2020, the stadium is anticipated to attract 451,400 new visitors annually, directly and indirectly support 6,000 jobs, and have an economic impact of $620 million annually (Applied Analysis).
- Hawaii added 8,800 nonfarm payroll jobs, a 1.4-percent increase. The leisure and hospitality sector led job gains and accounted for more than 60 percent of overall growth, expanding by 5,400 jobs, or 4.4 percent. Total tourism spending in the state rose 10 percent from a year earlier to $4.8 billion during the first quarter of 2018 (Hawaii Tourism Authority).

Unemployment rates continued to decline throughout the Pacific region during the first quarter of 2018, but the regionwide rate remained greater than the national average due to higher unemployment rates in Nevada and Arizona.



1Q = first quarter.
Source: U.S. Bureau of Labor Statistics

Population

The population of the Pacific region increased by 405,400, or 0.8 percent, from 2016 to 2017, slightly faster than the 0.7-percent growth rate for the nation (Census Bureau population estimates as of July 1). Approximately 36 percent of the population growth in the region from 2016 to 2017 resulted from net in-migration of 149,300 people compared with the 35-percent contribution of net in-migration during the previous year. From 2016 to 2017, net natural change (resident births minus resident deaths) decreased to approximately 260,200 people from 278,600 people during the previous year. Rates of population growth were highest in Nevada and Arizona at 2.0 and 1.6 percent, respectively, followed by California at 0.6 percent. The population in Hawaii, however, declined 0.1 percent because of net out-migration of 6,825 people. Of all states in the nation, Nevada and Arizona had the second and sixth highest population growth rates, respectively.

During the 12 months ending July 1, 2017—

- Strong job growth and relatively affordable housing in Arizona and Nevada contributed to higher rates of population growth than in the other two states in the region. Net in-migration, particularly from the more expensive markets in California, accounted for 74 and 79 percent of population growth in the two states, respectively.
- Population growth in California, the most populous state in the nation, accounted for nearly 60 percent of total population growth in the region. Net in-migration to California totaled 26,700 people, or approximately 11 percent of net in-migration into the region overall. International net in-migration to California of 164,900 people offset domestic net out-migration that was primarily a result of sharply rising home prices. Asia and Latin America have accounted for 57 and 29 percent, respectively, of the foreign-born population entering the state since 2010 (2016 American Community Survey 1-year data).

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The Pacific region represented 16 percent of the population in the nation as of July 1, 2017, but contributed 18 percent of the national population growth from 2016 to 2017.

	Population Estimate (as of July 1)			Percent Change	
	2015	2016	2017	2015 to 2016	2016 to 2017
United States	321,039,839	323,405,935	325,719,178	0.7	0.7
Pacific region	50,144,083	50,573,055	50,978,500	0.9	0.8
Arizona	6,802,262	6,908,642	7,016,270	1.6	1.6
California	39,032,444	39,296,476	39,536,653	0.7	0.6
Hawaii	1,426,320	1,428,683	1,427,538	0.2	– 0.1
Nevada	2,883,057	2,939,254	2,998,039	1.9	2.0

Source: U.S. Census Bureau

Sales Market Conditions

During the first quarter of 2018, sales housing market conditions 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 and net out-migration have contributed to a recent 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 $481,500, during the 12 months ending February 2018, after a 3-percent gain during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). Home sales prices in the region were nearly 70 percent higher than the national average, but the rate of growth in prices was similar. The average home sales price rose 6 percent in the nation, to $284,300, during the 12 months ending February 2018, slightly higher than the 4-percent gain in the previous year. Average home sales prices rose in all four states in the region, with the highest rate of growth occurring in Nevada, which increased 11 percent to $289,700. Among the major metropolitan areas, average home sales prices rose from 6 percent in the Oxnard-Thousand Oaks-Ventura, Phoenix-Mesa-Scottsdale, and San Diego-Carlsbad metropolitan areas—where conditions ranged from balanced to slightly tight—to 14 percent in the San Jose-Sunnyvale-Santa Clara metropolitan area, where conditions were tight.

During the 12 months ending February 2018, the number of home sales in the Pacific region increased 3 percent from a year earlier, following a 4-percent gain during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). Every state in the region had an increase in the number of homes sold except for Hawaii, which had a 14-percent decline in home sales. Overall, the rate of growth in home sales in the region was greater than in the nation, where home sales were unchanged during the 12 months

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Home sales increased in 6 of the 10 largest metropolitan areas in the Pacific region, and average sales prices increased 6 percent or more in all of the major markets.

	12 Months Ending	Number of Homes Sold			Price			
		2017	2018	Percent Change	Average or Median	2017 ($)	2018 ($)	Percent Change
Urban Honolulu (N&E)	February	13,288	11,005	– 17	AVG	634,201	687,122	8
Las Vegas-Henderson-Paradise (N&E)	February	57,188	63,025	10	AVG	253,985	283,085	11
Phoenix-Mesa-Scottsdale (N&E)	February	124,091	132,876	7	AVG	274,002	290,406	6
Los Angeles-Long Beach-Anaheim (N&E)	February	111,483	114,059	2	AVG	764,223	821,674	8
Riverside-San Bernardino-Ontario (N&E)	February	77,583	80,866	4	AVG	337,603	360,318	7
San Diego-Carlsbad (N&E)	February	44,582	44,160	– 1	AVG	598,770	635,251	6
Oxnard-Thousand Oaks-Ventura (N&E)	February	11,193	10,650	– 5	AVG	606,165	641,088	6
San Francisco-Oakland-Hayward (N&E)	February	48,415	49,634	3	AVG	916,701	991,248	8
San Jose-Sunnyvale-Santa Clara (N&E)	February	20,413	20,762	2	AVG	977,709	1,117,183	14
Sacramento--Roseville--Arden-Arcade (N&E)	February	44,165	45,135	2	AVG	377,358	408,821	8

AVG = average. N&E = new and existing.
Note: Data include single-family homes, townhouses, and condominiums.
Sources: CoreLogic, Inc.; Metrostudy, A Hanley Wood Company, with adjustments by the analyst

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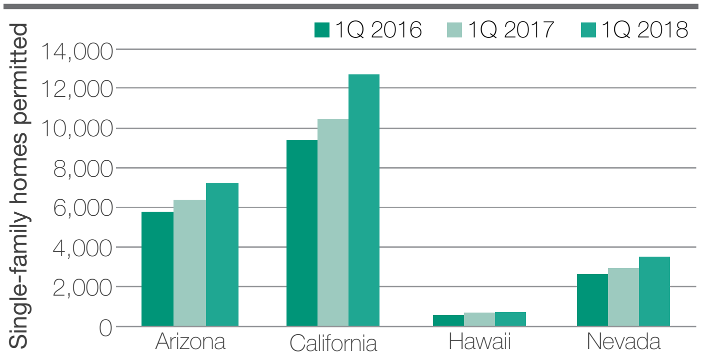
ending February 2018, following a 4-percent gain the year earlier. Home sales increased in 7 of the 10 largest metropolitan areas in the region, with the greatest growth occurring in the Las Vegas-Henderson-Paradise metropolitan area, up 10 percent and accounting for two-thirds of the net gain in sales in Nevada. In the Los Angeles-Long Beach-Anaheim metropolitan area, home sales increased 2 percent during the 12 months ending February 2018 and accounted for 40 percent of the net gain in sales in California. The San Francisco-Oakland-Hayward and San Jose-Sunnyvale-Santa Clara metropolitan areas had home sales that increased 3 and 2 percent, respectively, which contributed to an additional combined one-fourth of home sales growth in California. Home sales in the Phoenix-Mesa-Scottsdale metropolitan area were up 7 percent and accounted for nearly two-thirds of the net gain in sales in Arizona.

A decline in the number of distressed sales (real estate owned [REO] and short sales), because fewer distressed properties were on the market, partially offset regionwide growth in new home sales and regular (nondistressed) resales of 1 and 8 percent, respectively.

Year-over-year single-family permitting increased 18 percent in the Pacific region during the first quarter of 2018, up from an 11-percent increase during the first quarter of 2017.



1Q = first quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

During the 12 months ending February 2018, REO sales fell 40 percent and short sales declined 72 percent, after decreases of 20 and 29 percent, respectively, during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). Nationwide, by comparison, the number of REO sales fell 32 percent and short sales fell 65 percent during the 12 months ending February 2018. The percentage of seriously delinquent (90 or more days delinquent or in foreclosure) mortgage loans and REO properties in the region declined 0.3 percentage point, from 1.4 percent in February 2017 to 1.1 percent in February 2018. The national percentage also declined by 0.3 percentage point to 2.3 percent. In the region, the percentage of seriously delinquent mortgage loans and REO properties was highest in Hawaii, at 2.6 percent, down from 3.1 percent a year ago. The regional rate reflected the lower rates in Arizona and California of 1.1 and 1.0 percent, respectively.

During the first quarter of 2018 (preliminary data)—

- Single-family homebuilding activity, as measured by the number of homes permitted, increased 18 percent in the region, to 23,900 homes, from a year earlier; higher than the 11-percent gain during the first quarter of 2017. By comparison, the number of homes permitted nationally increased 6 percent from a year earlier after a 12-percent gain in the first quarter of 2017.
- Approximately 53 percent of the single-family homes permitted in the region were in California, up from 51 percent during the first quarter of 2017. The number of single-family homes permitted in California rose to 12,600, a 21-percent increase from the first quarter of 2017, after a 12-percent gain during the same period a year earlier.
- Nevada and Arizona had the second and third fastest growth in single-family permitting in the region, where the number of single-family homes permitted increased 18 and 13 percent, respectively, to 3,400 and 7,175 homes.
- Single-family permitting increased 7 percent in Hawaii to 680 homes, down from a 24-percent increase 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 first quarter of 2018, virtually unchanged from a year ago. Vacancy rates in 5 of the 7 major metropolitan areas included in this report continued to be below the national average of 5.5 percent (Axiometrics, Inc.), despite an increase in the number of apartments completed during the past 12 months. Vacancy rates in the Urban Honolulu and Los Angeles-Long Beach-Anaheim metropolitan areas increased in response to the greater supply, but absorption of new units was strong enough that vacancies did not increase sufficiently to change market conditions. A more than 100-percent increase from a year ago in apartment completions in Urban Honolulu, to 780 units during the first quarter of 2018, contributed to a 0.9-percentage point rise in the vacancy rate to 6.5 percent (RealPage, Inc.); however, conditions remained balanced. In Los Angeles-Long Beach-Anaheim, where market conditions remained tight, approximately 3,375 apartments were completed during the first quarter of 2018, compared with 2,750 apartments 1 year earlier, contributing to a 0.3-percentage-point increase in the vacancy rate to 4.2 percent.

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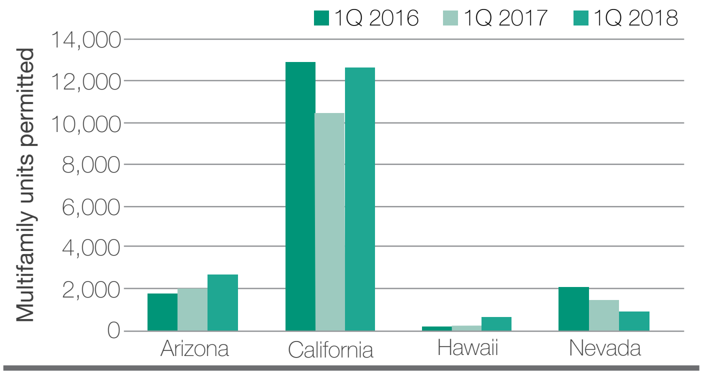
As balanced to tight conditions prevailed in the region, average rent increases exceeded the national rate of 2 percent in nearly all major metropolitan areas in the region during the first quarter of 2018. The highest rate of rent growth occurred in the Las Vegas-Henderson-Paradise metropolitan area, where tight apartment market conditions and 1,675 Class A apartment completions in the past year supported a 6-percent increase in rents. Despite the increase, the Las Vegas-Henderson-Paradise apartment market remains among the most affordable in the region, with rents at least 5 percent below other major metropolitan areas in the region. Among the four other metropolitan areas with higher-than-national rent increases, the growth in the average rent ranged from 3 percent in San Francisco-Oakland-Fremont, where rents are among the highest in the nation, to 5 percent in the Phoenix-Mesa-Scottsdale metropolitan area.

Multifamily construction activity in the Pacific region increased 18 percent during the first quarter of 2018 relative to a year ago, despite the decline in permitting activity in Nevada.



1Q = first quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

Rent growth was slowest in the Riverside-San Bernardino-Ontario metropolitan area, up 1 percent, partly in response to increased sales housing demand in the metropolitan area.

During the first quarter of 2018 (preliminary data)—

- Multifamily permitting increased 18 percent, to 16,700 units, compared with a 16-percent decrease during the first quarter of 2017. By comparison, the number of units permitted nationally increased 7 percent from the first quarter of 2018 following a 1-percent decline during the same period a year earlier.
- California accounted for 76 percent of the multifamily units permitted in the region compared with 74 percent during the first quarter of 2017. Multifamily permitting activity in the state increased 21 percent to 12,600 units. By comparison, multifamily permitting declined 19 percent during the first quarter of 2017.
- In Nevada, where multifamily permitting can fluctuate significantly, the number of units permitted decreased 41 percent, to 880 units, following a 26-percent decline during the first quarter of 2017.
- The number of multifamily units permitted in Arizona increased 32 percent to 2,600 units compared with the 1,975 units permitted during the first quarter of 2017. The Phoenix-Mesa-Scottsdale metropolitan area accounted for 96 percent of multifamily permitting in Arizona during the past year compared with a 94-percent contribution during the first quarter of 2017.
- Multifamily permitting activity increased significantly in Hawaii to 600 units compared with 190 units permitted during the first quarter of 2017. During the 12 months ending March 2018, 1,925 units were permitted compared with 1,425 units permitted during the previous 12-month period and 2,325 units permitted during the 12 months ending March 2016.

Average rents increased fastest in the Pacific region among metropolitan areas with the lowest rents.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		1Q 2017 (%)	1Q 2018 (%)	Percentage Point Change	1Q 2017 ($)	1Q 2018 ($)	Percent Change
Urban Honolulu	Balanced	5.6	6.5	0.9	2,139	2,188	2
Las Vegas-Henderson-Paradise	Balanced	6.1	5.6	– 0.5	919	972	6
Phoenix-Mesa-Scottsdale	Balanced	5.3	5.0	– 0.3	968	1,020	5
Los Angeles-Long Beach-Anaheim	Tight	3.9	4.2	0.3	2,110	2,164	3
Riverside-San Bernardino-Ontario	Tight	4.3	4.0	– 0.3	1,442	1,457	1
San Francisco-Oakland-Hayward	Tight	4.3	4.3	0.0	2,716	2,793	3
San Jose-Sunnyvale-Santa Clara	Tight	4.4	4.3	– 0.1	2,741	2,810	3

1Q = first quarter.
Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—Axiometrics, Inc.