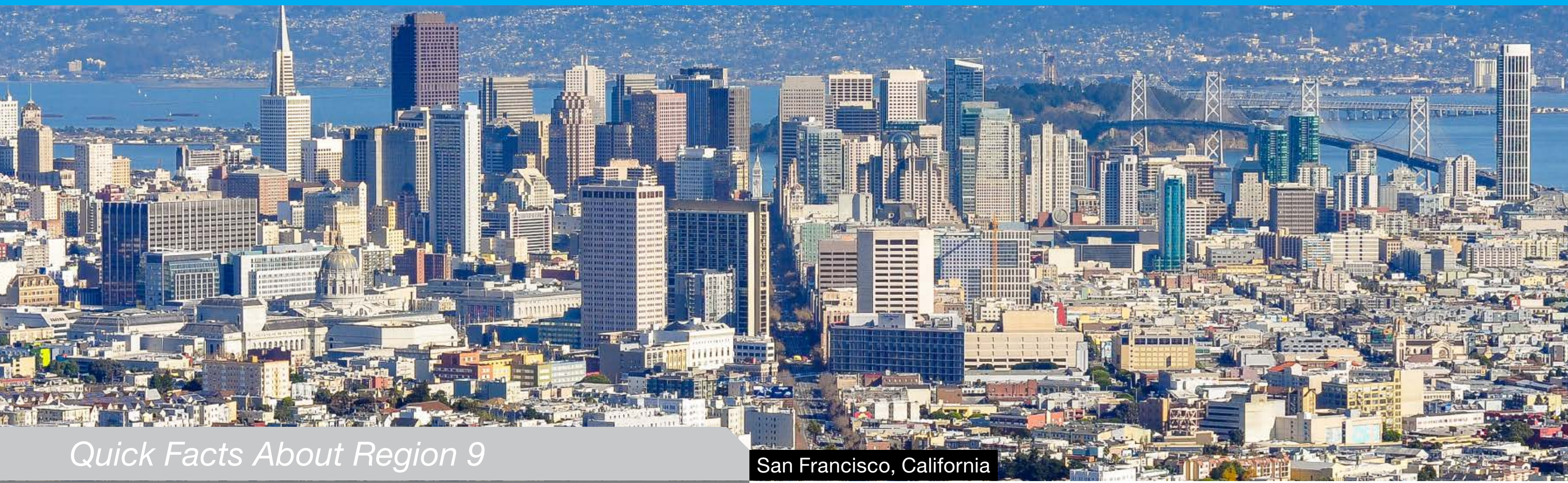
HUD PD&R **Regional Reports**

Region 9: Pacific

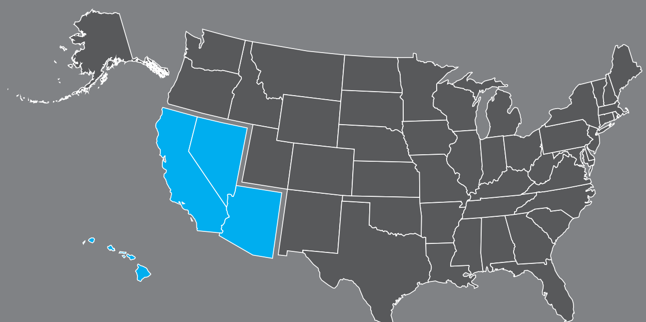


San Francisco, California

Quick Facts About Region 9

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

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



By Diana Villavicencio | 4th quarter 2017

Overview

The economy in the Pacific region continued growing in the fourth quarter of 2017, as the current expansion entered its seventh year. Nonfarm payrolls expanded 1.8 percent in the region from 1 year ago to 21.88 million jobs. This increase was consistent with the rate of growth during the past two quarters but below the 2.8-percent average annual growth rate from 2014 through 2016. During the fourth quarter of 2017, payrolls increased in all states in the region, led by growth in California, which accounted for 78 percent of net job gains, up from 76 percent during the fourth quarter of 2016 but lower than the 80-percent rates during the fourth quarters of 2014 and 2015. Because of continued economic expansion in the region, sales housing and apartment market conditions remained balanced to tight in major metropolitan areas in the region. Home sales and home sales prices rose in most major markets, while apartment vacancy rates remained stable or declined in 7 of the 10 largest markets cited in this report. Average apartment rents were stable or increased in 9 of the markets.

During the fourth quarter of 2017—

- The education and health services, the mining, logging, and construction, and the leisure and hospitality sectors led job growth in the region and accounted for nearly 60 percent of the payroll growth in the region, increasing by a combined 231,700 jobs, or 3.3 percent.

continued on page 2

continued from page 1

- Home sales and average home sale prices in the region rose 4 and 5 percent, respectively, during the 12 months ending November 2017 to 793,600 homes sold and an average price of $474,800.
- Single-family construction activity (as measured by the number of homes permitted) in the region increased 16 percent to 22,450 homes permitted compared with 9-percent growth nationally. Single-family home permitting increased in every state in the region.
- Multifamily permitting increased nearly 10 percent to 20,350 units compared with a 4-percent increase nationally. Multifamily permitting increased in every state in the region.

Economic Conditions

The economy in the Pacific region grew at a steady pace during the fourth quarter of 2017. Nonfarm payrolls increased by 389,500 jobs, or 1.8 percent, from a year earlier, to approximately 21.88 million jobs, compared with 3.2- and 2.1-percent rates of growth during the fourth quarters of 2015 and 2016, respectively. Although the regional rate of nonfarm payroll job growth moderated, it exceeded the national rate of 1.4 percent during the fourth quarter of 2017, and every nonfarm payroll sector in the Pacific region expanded. Significant job growth occurred in the mining, logging, and construction sector, partly because of an increase in single-family and multifamily residential construction in all four states in the region. This growth contributed to a gain of 68,200 jobs, or 6.3 percent, in the mining, logging, and construction sector, which was the fastest-growing sector in the region. The sector has added jobs year over year in each quarter since the second quarter of 2011 but remains 20 percent below the peak of 1.44 million jobs averaged during the third quarter of 2006. In addition, the education and health services and the leisure and hospitality sectors increased significantly. The two sectors combined contributed approximately 42 percent of net job gains during the fourth quarter of 2017, with additions of 97,900 and 65,600 jobs, or 3.0 and 2.4 percent, respectively. The education and health services sector is the second largest employment sector in the region and accounts for more than 15 percent of all nonfarm payroll jobs.

The unemployment rate in the region declined in every state and averaged 4.2 percent in the region, down from 5.0 percent a year earlier but higher than the national average of 3.9 percent. At 1.9 percent, Hawaii had the lowest average unemployment rate in the nation, while Nevada, with a rate of 4.8 percent, had the third highest in the nation.

During the fourth quarter of 2017—

- California added 303,200 jobs, a gain of 1.8 percent, following 2.0-percent growth a year earlier. The education and health services and the leisure and hospitality sectors accounted for 43 percent of net job growth in the state, expanding by 79,000 and 52,400 jobs, or 3.1 and 2.7 percent, respectively. The mining,

continued on page 3

During the fourth quarter of 2017, nonfarm payrolls increased in every sector in the Pacific region.

	Fourth Quarter		Year-Over-Year Change	
	2016 (thousands)	2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	21,489.7	21,879.2	389.5	1.8
Goods-producing sectors	2,611.1	2,681.6	70.5	2.7
Mining, logging, and construction	1,090.9	1,159.1	68.2	6.3
Manufacturing	1,520.2	1,522.5	2.3	0.2
Service-providing sectors	18,878.7	19,197.6	318.9	1.7
Wholesale and retail trade	3,177.7	3,191.7	14.0	0.4
Transportation and utilities	796.9	815.8	18.9	2.4
Information	597.6	608.4	10.8	1.8
Financial activities	1,131.4	1,142.9	11.5	1.0
Professional and business services	3,256.2	3,291.0	34.8	1.1
Education and health services	3,217.4	3,315.3	97.9	3.0
Leisure and hospitality	2,694.6	2,760.2	65.6	2.4
Other services	721.5	738.9	17.4	2.4
Government	3,285.5	3,333.4	47.9	1.5

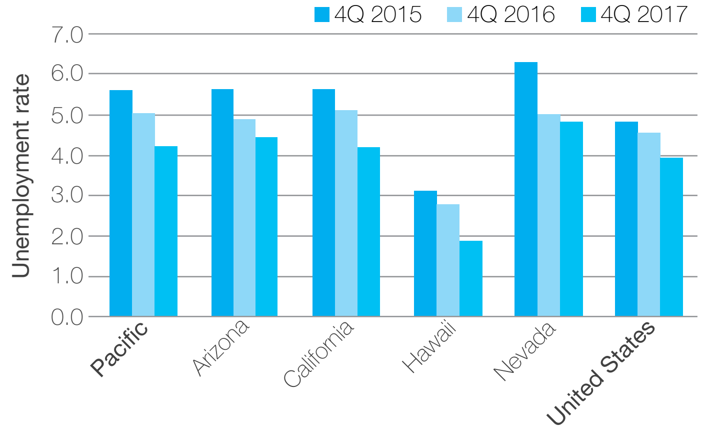
Note: Numbers may not add to totals because of rounding.
Source: U.S. Bureau of Labor Statistics

continued from page 2

logging, and construction sector had the fastest growth rate, increasing 6.1 percent while adding 49,600 jobs, partly the result of increased residential construction, including construction needed for some of the 9,500 homes affected by the California wildfires in October 2017.

- Nonfarm payrolls in Arizona increased by 38,800 jobs, or 1.4 percent, from a year earlier, lower than the gain of 58,300 jobs, or 2.2 percent, during the fourth quarter of 2016, primarily due to recent declines in the wholesale and retail trade, the information, and the other services sectors. The education and health services and the leisure and hospitality sectors led job growth in the state, adding 11,500 and 8,000 jobs, gains of 2.8 and 2.5 percent, respectively. Total tourism spending in the state rose 10 percent to $20.7 billion during the 3 months ending November 2017 compared with tourism spending during the 3 months ending November 2016 (Arizona Office of Tourism).
- In Nevada, nonfarm payrolls expanded by 39,900 jobs, or 3.0 percent, compared with 39,700 jobs, or 3.1 percent, added during the same period 1 year earlier. The mining, logging, and construction sector added 11,000 jobs, or 11.7 percent, the largest increase and the highest rate of growth among all sectors. The construction subsector accounted for nearly all the increase, partly as a result of an increase in residential construction and the ongoing construction of a $1.4 billion, 4,000-room Resorts World Las Vegas hotel expected to open in 2020.
- Hawaii added 7,600 nonfarm payroll jobs, a 1.2-percent increase compared with growth of 7,200 jobs, or 1.1 percent, 1 year earlier. The leisure and hospitality sector and the professional and business services sectors led job gains, expanding by 2,900 and 2,800 jobs, or 2.4 and 3.3 percent, respectively. Total tourism spending rose nearly 6 percent from a year earlier to $4.2 billion during the 3 months ending December 2017 (Hawaii Tourism Authority).

The unemployment rate fell in every state of the Pacific region, and the 1.9-percent unemployment rate in Hawaii is the lowest statewide rate in the nation.



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

Sales Market Conditions

Sales housing market conditions in the Pacific region were mixed, ranging from balanced to tight, unchanged from the previous quarter and the previous year. Continued economic growth and a decline of distressed home sales (real estate owned [REO] and short sales) have contributed to rising home sales prices throughout the region since 2012. During the 12 months ending November 2017, the average home sales price for single-family homes, townhomes, and condominiums in the region rose 5 percent to $474,800 compared with a 4-percent increase during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). By comparison, the average home sales price in the nation rose 6 percent to $283,200 during the 12 months ending November 2017, higher than the 4-percent gain during the previous year. Average home sales prices rose in all 10 major metropolitan areas referenced in this report. Increases ranged from 4 percent in the Urban Honolulu metropolitan area, where the average home sales price was $674,900, to 10 percent growth in the San Jose-Sunnyvale-Santa Clara metropolitan area, with an average home price of nearly $1.1 million. Demand in the San Jose-Sunnyvale-Santa Clara metropolitan area is high, but affordability prevents many buyers from purchasing. Among the major metropolitan areas in the Pacific region, the average home sales prices were lowest at $273,500 and $286,100, respectively, in the Las Vegas-Henderson-Paradise and the Phoenix-Mesa-Scottsdale metropolitan areas.

Total home sales (including single-family homes, townhomes, and condominiums) remained relatively stable in most of the Pacific region, as job growth slowed. During the 12 months ending November 2017, home sales in the region totaled 793,600, up 4 percent, the same rate of increase during the 12 months ending November 2016 (CoreLogic, Inc., with adjustments by the analyst). By comparison, home sales nationally declined 0.4 percent during the 12 months ending November 2017, after a 4-percent increase 1 year earlier. Home sales remained steady in the Los Angeles-Long Beach-Anaheim and the San Francisco-Oakland-Hayward metropolitan areas. Elsewhere, home sale gains ranged from 2 percent in the Sacramento--Roseville--Arden-Arcade and the San Jose-Sunnyvale-Santa Clara metropolitan areas to 9 and 12 percent in the relatively affordable Phoenix-Mesa-Scottsdale and Las Vegas-Henderson-Paradise metropolitan areas, respectively. Home sales decreased

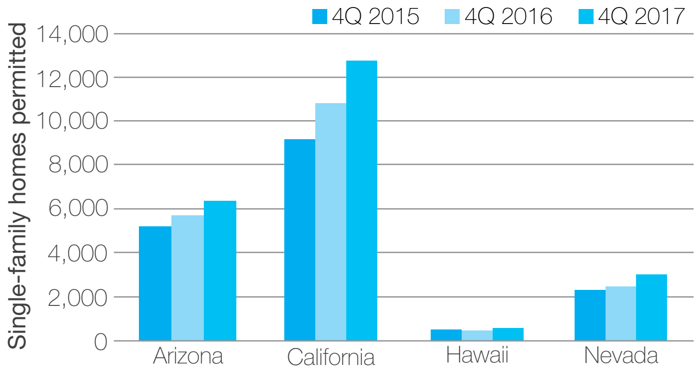
continued on page 4

continued from page 3

in 3 of the 10 largest metropolitan areas in the region, with declines ranging from 1 percent in the San Diego-Carlsbad metropolitan area to 11 percent in the Urban Honolulu metropolitan area.

Declines in the rates of seriously delinquent mortgages (loans that are 90 or more days delinquent or in foreclosure) and REO properties in the Pacific region were likely the result of continued job growth in the region. In November 2017, 1.1 percent of home loans in the region were seriously delinquent or had transitioned into REO status, down from 1.5 percent a year earlier (CoreLogic, Inc.). The percentage of seriously delinquent mortgage loans and REO properties declined in every state in the region, with the greatest decrease of 0.9 percentage point occurring in Nevada, down to 2.2 percent. By comparison, the national rate was 2.3 percent during November 2017. The percentage of seriously delinquent mortgage loans and REO properties was highest in Hawaii at 2.7 percent and lowest in Arizona and California at 1.1 and 1.0 percent, respectively.

Year-over-year single-family permitting increased in all four states of the Pacific region for the fifth consecutive quarter during the fourth quarter of 2017.



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

During the fourth quarter of 2017 (preliminary data) —

- Single-family homebuilding activity in the region, as measured by the number of homes permitted, increased 16 percent to 22,450 homes from a year earlier, higher than the 13-percent growth during the fourth quarter of 2016. By comparison, the number of homes permitted nationally increased 9 percent, after a 7-percent gain in the fourth quarter of 2016.
- The largest increase in single-family homebuilding activity in the region occurred in California, where single-family home permitting rose 18 percent to 12,650 homes. The state accounted for 56 percent of the single-family homes permitted in the region, similar to the proportions during the fourth quarters of 2015 and 2016.
- The fastest rate of growth in single-family permitting occurred in Nevada, where the number of single-family homes permitted increased 21 percent to 2,950 homes. Permitting in the Las Vegas-Henderson-Paradise metropolitan area accounted for 73 percent of total single-family permitting in the state.
- Single-family permitting increased 12 percent in Arizona to 6,300 homes and 4 percent in Hawaii, where 540 homes were permitted. Single-family construction activity was concentrated in the largest metropolitan areas of the two states. In Arizona, the Phoenix-Mesa-Scottsdale metropolitan area accounted for 73 percent of total single-family permitting in the state, and in Hawaii, single-family permitting in the Urban Honolulu metropolitan area accounted for 41 percent of the state total.

Economic growth in the Pacific region contributed to increased home sales in one-half of the metropolitan areas highlighted in this report, and home sales prices rose in all 10 large metropolitan areas.

	12 Months Ending	Number of Homes Sold			Price			
		2016	2017	Percent Change	Average or Median	2016 ($)	2017 ($)	Percent Change
Las Vegas-Henderson-Paradise (N&E)	November	55,554	62,435	12	AVG	251,405	273,546	9
Los Angeles-Long Beach-Anaheim (N&E)	November	124,720	125,325	0	AVG	722,170	761,369	5
Oxnard-Thousand Oaks-Ventura (N&E)	November	11,063	10,432	– 6	AVG	593,281	626,976	6
Phoenix-Mesa-Scottsdale (N&E)	November	120,195	130,755	9	AVG	271,303	286,120	5
Riverside-San Bernardino-Ontario (N&E)	November	77,045	81,146	5	AVG	332,072	354,369	7
Sacramento--Roseville--Arden-Arcade (N&E)	November	44,213	45,234	2	AVG	378,925	405,116	7
San Diego-Carlsbad (N&E)	November	44,595	44,210	– 1	AVG	591,597	624,473	6
San Francisco-Oakland-Hayward (N&E)	November	53,836	53,849	0	AVG	850,527	916,722	8
San Jose-Sunnyvale-Santa Clara (N&E)	November	20,346	20,732	2	AVG	970,968	1,068,849	10
Urban Honolulu (N&E)	November	13,494	12,036	– 11	AVG	647,572	674,868	4

AVG = average. N&E = new and existing.
Source: CoreLogic, Inc. with adjustments by the analyst

Apartment Market Conditions

Apartment market conditions in the largest metropolitan areas in the Pacific region ranged from balanced to tight during the fourth quarter of 2017, unchanged from the same quarter a year earlier. Apartment completions increased in many metropolitan areas, but absorption of the new units was strong enough that vacancies did not increase significantly. Apartment rents increased or remained stable in most major metropolitan areas in the Pacific region.

Among the seven major California markets referenced in this report, conditions were tight, and apartment vacancy rates were below the national average of 5.3 percent (Axiometrics, Inc.). The vacancy rate declined in four metropolitan areas in California, with declines ranging from 0.1 percentage point in the San Diego-Carlsbad metropolitan area to 0.4 percentage point in the Riverside-San Bernardino-Ontario metropolitan area, to 3.9 and 4.1 percent, respectively. The vacancy rate remained unchanged at 4.2 percent from the same quarter 1 year earlier in the Sacramento--Roseville--Arden-Arcade metropolitan area, because demand created by job and population gains helped absorb the 400 units completed during the fourth quarter of 2017, up from 30 units a year earlier (RealPage, Inc.). The apartment vacancy rate increased 0.1 percentage point to 4.1 percent in the Los Angeles-Long Beach-Anaheim metropolitan area and 0.6 percentage point to 4.5 percent in the Oxnard-Thousand Oaks-Ventura metropolitan area, where approximately 410 units were completed during the fourth quarter of 2017, up from zero units during the same period a year earlier (RealPage, Inc.). Average monthly rents increased in four metropolitan areas in California, ranging from 1 percent in the Oxnard-Thousand Oaks-Ventura and the San Diego-Carlsbad metropolitan areas to 4 percent in the Sacramento--Roseville--Arden-Arcade metropolitan area. Average rents remained unchanged in three other metropolitan areas, including the San Francisco-Oakland-Hayward metropolitan area, which along with the San Jose-Sunnyvale-Santa Clara metropolitan area continues to be among the most expensive rental housing markets in the country.

In the three major metropolitan areas outside of California, apartment market conditions were balanced, also relatively unchanged from the same quarter 1 year earlier. The apartment vacancy rate in the Las Vegas-Henderson-Paradise and the Phoenix-Mesa-Scottsdale metropolitan areas each decreased 0.1 percentage point to 5.6 and 5.5 percent, respectively, and rent grew 2 percent in each to $962 and $996, respectively. Conditions remained balanced in the Urban Honolulu metropolitan area despite an uptick in construction activity that caused vacancies to rise from 5.6 to 6.0 percent and rents to decrease 1 percent.

During the fourth quarter of 2017 (preliminary data)—

- The number of multifamily units permitted in the Pacific region rose to 20,350, up by 1,825 units, or 10 percent, compared with the same quarter a year earlier. By comparison, the number of units permitted nationally increased 4 percent from the fourth quarter of 2016.
- California accounted for 73 percent of the multifamily units permitted in the region. Multifamily permitting activity in the state rose by 1,275 units, or 9 percent, to 14,900, following a 10-percent increase during the same quarter 1 year earlier.

continued on page 6

Average rents increased or remained stable in nearly all Pacific region major metropolitan areas except Urban Honolulu, where increased construction led to an increased vacancy rate and a decline in the average rent.

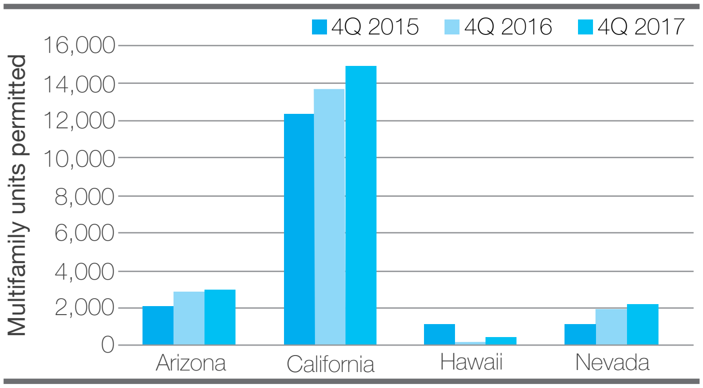
	Market Condition	Vacancy Rate			Average Monthly Rent		
		4Q 2016 (%)	4Q 2017 (%)	Percentage Point Change	4Q 2016 ($)	4Q 2017 ($)	Percent Change
Las Vegas-Henderson-Paradise	Balanced	5.7	5.6	– 0.1	946	962	2
Los Angeles-Long Beach-Anaheim	Tight	4.0	4.1	0.1	2,172	2,162	0
Oxnard-Thousand Oaks-Ventura	Tight	3.9	4.5	0.6	1,938	1,967	1
Phoenix-Mesa-Scottsdale	Balanced	5.6	5.5	– 0.1	974	996	2
Riverside-San Bernardino-Ontario	Tight	4.5	4.1	– 0.4	1,497	1,492	0
Sacramento--Roseville--Arden-Arcade	Tight	4.2	4.2	0.0	1,384	1,443	4
San Diego-Carlsbad	Tight	4.0	3.9	– 0.1	1,949	1,968	1
San Francisco-Oakland-Hayward	Tight	4.5	4.3	– 0.2	2,724	2,732	0
San Jose-Sunnyvale-Santa Clara	Tight	5.1	4.8	– 0.3	2,691	2,760	3
Urban Honolulu	Balanced	5.6	6.0	0.4	2,146	2,135	– 1

4Q = fourth quarter.
Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—Axiometrics, Inc.

continued from page 5

- In Hawaii, where multifamily permitting can fluctuate significantly, the number of units permitted more than doubled to 400 from the 150 units permitted during the fourth quarter of 2016. The Urban Honolulu metropolitan area accounted for 66 percent of multifamily permitting in Hawaii during the fourth quarter of 2017; no units were permitted during the fourth quarter of 2016.
- Multifamily permitting grew by 210 units, or 11 percent, in Nevada to 2,150. During the period, more than two-thirds of the multifamily units permitted in the state were in the Las Vegas-Henderson-Paradise metropolitan area.
- The number of multifamily units permitted in Arizona increased by 100 units, or nearly 4 percent, to 2,950 units permitted. The Phoenix-Mesa-Scottsdale metropolitan area accounted for 82 percent of multifamily permitting in Arizona.

Multifamily permitting activity increased in every state of the Pacific region during the fourth quarter of 2017.



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