

HUD PD&R Regional Reports

Region 9: Pacific

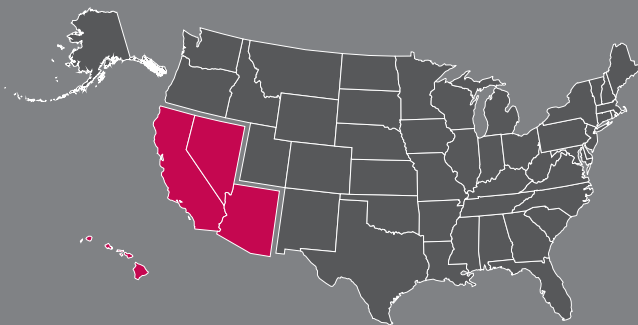


Tucson, Arizona

By Ikuo J. Nakano | 3rd quarter 2014

Quick Facts About Region 9

- **Sales market conditions—**
Third quarter 2014: mixed (balanced to tight).
Second quarter 2014: mixed (balanced to tight).
Third quarter 2013: mixed (slightly soft to balanced).
- **Apartment market conditions—**
Third quarter 2014: mixed (slightly soft to tight).
Second quarter 2014: mixed (soft to tight).
Third quarter 2013: mixed (soft to tight).



Overview

Economic conditions in the Pacific region continued to improve during the third quarter of 2014, but sales market conditions remained mixed, from balanced to tight, and apartment market conditions tightened. Nonfarm payrolls increased and unemployment decreased in all four states in the region. The number of new and existing home sales (including single-family homes, townhomes, and condominiums) decreased, but average home sales prices increased. The number of distressed properties continued to decline throughout the region, but an excess supply remained in some areas. Apartment market conditions tightened throughout much of the region during the third quarter of 2014. Apartment vacancy rates decreased and average rents increased in all 10 of the major metropolitan areas during the third quarter of 2014 compared with vacancies and rents during the previous year. The number of multifamily units permitted increased in three of the four states as multifamily construction increased in the region as a whole.

- Nonfarm payrolls in the region averaged 19.8 million during the third quarter of 2014, an increase of 414,900 jobs, or 2.1 percent, from the same period in 2013. The payroll average of 19.8 million was the highest level recorded since the previous peak of 20.0 million jobs during the third quarter of 2007.

continued on page 2



PD&R

continued from page 1

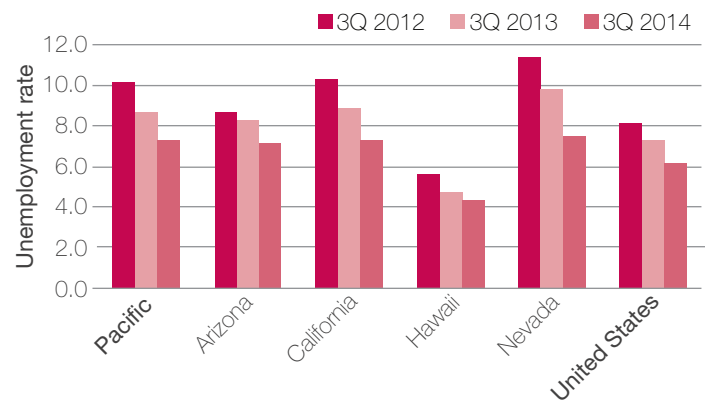
- The average new and existing home sales prices increased during the 12 months ending August 2014 from the 12 months ending August 2013 in all 10 of the major metropolitan areas in the region, with increases ranging from 7 percent in the Honolulu metropolitan area to 17 percent in the San Francisco-Oakland-Hayward metropolitan area.
- Average apartment rent changes in the third quarter of 2014 ranged from a 1.4-percent increase in the Honolulu metropolitan area to a 9.8-percent increase in the San Jose-Sunnyvale-Santa Clara metropolitan area compared with average rents a year earlier.

Economic Conditions

Economic conditions in the Pacific region continued a trend of improvement during the third quarter of 2014, when nonfarm payrolls increased by 414,900 jobs, or 2.1 percent, to 19.8 million after an increase of 574,700 jobs, or 3.0 percent, to 19.4 million during the same period in 2013. The largest gains in nonfarm payrolls during the third quarter of 2014 occurred in California and Arizona, which added 312,600 and 55,900 jobs, or 2.1 and 2.2 percent, respectively. The nonfarm payroll growth rate was greatest in Nevada, which added 38,400 jobs, or 3.3 percent, the fourth greatest growth rate in the nation. Hawaii added 7,900 jobs, or 1.3 percent, the smallest growth rate in the region. The SLS Las Vegas Hotel & Casino reopened in August 2014. This complex took 3 years to renovate, at a cost of \$415 million, and contains more than 1,600 guest rooms and suites. The reopening resulted in the addition of 2,700 jobs. The average unemployment rate in the region was 7.3 percent, less than the rate of 8.8 percent a year earlier, but higher than the 6.2-percent rate for the nation.

continued on page 3

Unemployment rates continued to decline in all four states in the Pacific region but exceeded the national rate in every state but Hawaii.



3Q = third quarter.

Source: U.S. Bureau of Labor Statistics

Job growth was positive in all but one nonfarm payroll sector in the Pacific region during the third quarter of 2014.

	Third Quarter		Year-Over-Year Change	
	2013 (thousands)	2014 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	19,418.3	19,833.2	414.9	2.1
Goods-producing sectors	2,411.9	2,445.3	33.4	1.4
Mining, logging, and construction	933.2	968.2	35.0	3.8
Manufacturing	1,478.8	1,477.1	-1.7	-0.1
Service-providing sectors	17,006.3	17,387.8	381.5	2.2
Wholesale and retail trade	2,946.7	2,991.2	44.5	1.5
Transportation and utilities	674.6	683.6	9.0	1.3
Information	516.3	538.4	22.1	4.3
Financial activities	1,055.0	1,058.1	3.1	0.3
Professional and business services	2,947.2	3,074.1	126.9	4.3
Education and health services	2,849.6	2,948.5	98.9	3.5
Leisure and hospitality	2,416.7	2,477.8	61.1	2.5
Other services	664.3	673.4	9.1	1.4
Government	2,936.0	2,942.7	6.7	0.2

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

Source: U.S. Bureau of Labor Statistics

continued from page 2

During the third quarter of 2014—

- The professional and business services sector added the most jobs, expanding by 126,900 jobs, or 4.3 percent, compared with the number of jobs recorded in the sector a year earlier.
- Job growth in the education and health services and the leisure and hospitality sectors was also significant in the region. These sectors added 98,900 and 61,100 jobs, increases of 3.5- and 2.5-percent, respectively. Job gains in the leisure and hospitality sector were partially due to increased tourism activity in Arizona, where tourism expenditures totaled \$16.7 billion during the 3 months ending August 2014, a 4.8-percent increase from the previous year.

- The mining, logging, and construction sector added 35,000 jobs, a 3.8-percent increase. Job growth was greatest in Nevada, where the sector expanded by 5,625 jobs, or 7.0 percent, partially due to a 4.1-percent increase in the total number of buildings (housing plus commercial) permitted in the Las Vegas-Henderson-Paradise metropolitan area during the 12 months ending August 2014 (University of Nevada, Las Vegas Center for Business and Economic Research).
- The unemployment rate in Nevada dropped from 9.8 to 7.5 percent, the largest decrease in the region and the second largest decrease in the nation.

Sales Market Conditions

Despite a declining number of homes sold, sales housing markets continued to improve throughout the Pacific region. Average home sales prices increased significantly during the third quarter of 2014 and the number of distressed properties declined. New and existing home sales (including single-family homes, townhomes, and condominiums) decreased during the 12 months ending August 2014 by 2,550 homes, or 14 percent, to 16,100 homes sold in Hawaii and by 9,575 homes, or 15 percent, to 63,800 homes sold in Nevada (CoreLogic, Inc.; adjustments by the analyst) compared with the 12 months ending August 2013. New and existing home sales decreased by 14,200 homes, or 9 percent, to 137,500 homes in Arizona and by 55,600 homes, or 11 percent, to 444,500 homes in California during the same period. During the third quarter of 2014, 2.6 percent of home loans in the region were 90 or more days delinquent, were in foreclosure, or transitioned into REO status, down from 4.0 percent during the third quarter of 2013 (Black

Knight Financial Services, Inc.). The statewide rates of distressed loans and REO properties during the third quarter of 2013 ranged from 2.3 percent in California and 2.4 percent in Arizona, down from 3.6 and 3.3 percent, respectively, to 6.1 percent in both Hawaii and Nevada, down from 7.6 and 9.4 percent, respectively. The rate of distressed loans and REO properties in Clark County, Nevada, which is coterminous with the Las Vegas-Henderson-Paradise metropolitan area, dropped from 10.3 percent in the third quarter of 2013 to 6.7 percent in the third quarter of 2014, the second largest decline of any county in the region, and the 65th largest decline of any county in the nation.

Declines in the number of distressed properties sold contributed to significant increases in the average home sales prices in all four states of the region. The metropolitan areas with the greatest rates of increase in new and existing home sales prices during the 12

continued on page 4

The average home sales price increased in all 10 major metropolitan areas in the Pacific region because of declining sales of distressed properties.

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2013	2014	Percent Change		2013 (\$)	2014 (\$)	Percent Change
Honolulu (N&E)	August	11,472	9,926	– 13	AVG	530,496	565,014	7
Las Vegas-Henderson-Paradise (N&E)	August	56,361	47,630	– 15	AVG	188,683	211,421	12
Los Angeles-Long Beach-Anaheim (N&E)	August	130,174	114,599	– 12	AVG	566,944	636,386	12
Oxnard-Thousand Oaks-Ventura (N&E)	August	10,532	9,097	– 14	AVG	486,067	530,476	9
Phoenix-Mesa-Scottsdale (N&E)	August	110,182	96,899	– 12	AVG	223,456	244,368	9
Riverside-San Bernardino-Ontario (N&E)	August	76,090	66,965	– 12	AVG	256,587	290,832	13
Sacramento--Roseville--Arden-Arcade (N&E)	August	41,502	36,965	– 11	AVG	280,867	324,783	16
San Diego-Carlsbad (N&E)	August	45,655	39,442	– 14	AVG	477,339	528,352	11
San Francisco-Oakland-Hayward (N&E)	August	57,940	53,079	– 8	AVG	643,582	749,841	17
San Jose-Sunnyvale-Santa Clara (N&E)	August	22,485	20,800	– 7	AVG	725,987	826,532	14

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

Source: Metrostudy, A Hanley Wood Company, with adjustments by analyst.



continued from page 3

months ending August 2014 were San Francisco-Oakland-Hayward, increasing 17 percent, to \$749,800, and Sacramento--Roseville--Arden-Arcade, increasing 16 percent, to \$324,800. In the San Jose-Sunnyvale-Santa Clara metropolitan area, the average new and existing home sales price increased by \$100,500, or 14 percent, to \$826,500. The drop in investors buying distressed homes coupled with tighter mortgage lending continued to slow sales in the Phoenix-Mesa-Scottsdale area. Investors accounted for 14.4 percent of homes purchased in August 2014 compared with about 40 percent in 2012 (*Phoenix Business Journal*). As a sign of rising home prices in Southern California, a builder in Beverly Hills, California, listed one of the highest priced speculative built homes on the market during the third quarter of 2014. This 23,000 square foot home was listed at \$85 million.

Single-family home construction activity, as measured by the number of homes permitted, decreased during the third quarter of 2014 in three out of the four states in the region, increasing only in Nevada. Although single-family construction activity remains much less than historic levels, construction activity is up from the lows experienced during the recession.

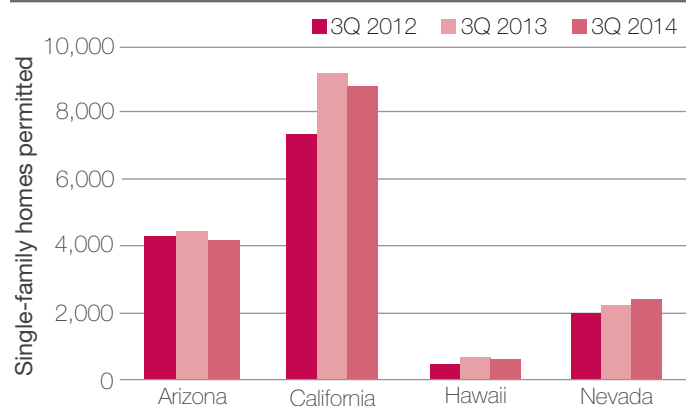
During the third quarter of 2014 (preliminary data)—

- Single-family homebuilding in the region declined by 600 homes, or 3 percent, to 16,100 homes permitted compared with the number permitted during the third quarter of 2013. Single-family construction activity averaged 65,200 homes permitted during

the same 3-month period from 2002 through 2005. An average of 9,300 single-family homes were permitted in the region during the third quarters of 2010 and 2011.

- Single-family building activity decreased in Arizona, California, and Hawaii by 280, 400, and 50 homes permitted, or 6, 4, and 7 percent, respectively. In Nevada, single-family building activity increased to 2,475 homes permitted, a 7-percent increase from the third quarter of 2013.

In the Pacific region, single-family permitting increased only in Nevada and declined in Arizona, California, and Hawaii.



3Q = third quarter.

Note: Based on preliminary data.

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

Apartment Market Conditions

Apartment market conditions remained tight in 7 of the 10 largest metropolitan areas in the Pacific region, where rental household formation has exceeded multifamily construction since the late-2000s. In the Las Vegas-Henderson-Paradise market area, apartment market conditions moved from soft to slightly soft, while apartment market conditions in Phoenix-Mesa-Scottsdale and Riverside-San Bernardino-Ontario remained balanced. Apartment vacancy rates dropped from the third quarter of 2013 to the third quarter of 2014 in every major metropolitan area in the region. The two largest declines occurred in the Sacramento--Roseville--Arden-Arcade and Phoenix-Mesa-Scottsdale metropolitan areas, where the apartment vacancy rates decreased from 4.0 to 2.9 percent and from 7.1 to 6.0 percent, respectively. Of the 10 largest metropolitan areas in the region, only 3—Las Vegas-Henderson-Paradise, Phoenix-Mesa-Scottsdale, and Riverside-San Bernardino-Ontario—had apartment vacancy rates of more than 3.0 percent during the third quarter of 2014. Average rents rose in all 10 major metropolitan areas, ranging from a 1.4-percent increase in Honolulu to a 9.8-percent increase in San Jose-Sunnyvale-Santa Clara, during the third quarter of 2014.

Multifamily construction, as measured by the number of units permitted, increased in three of the four states in the region. Multifamily permitting activity declined in Hawaii during the third quarter of 2014.

During the third quarter of 2014 (preliminary data)—

- The number of multifamily units permitted in the region increased by 1,525 units permitted, or 13 percent, to 13,025 units compared with the number permitted during the third quarter of 2013. Multifamily construction averaged 5,025 units permitted during the third quarters in 2009 through 2011 compared with an average of 11,500 units permitted during the third quarters of 2012 through 2014.
- In Arizona, multifamily construction increased by 54 percent, to 1,775 units permitted, compared with 1,150 units permitted during the third quarter of 2013. Nearly 85 percent of the statewide total, or about 1,500 units, were permitted in the Phoenix-Mesa-Scottsdale metropolitan area. Almost all these permits were located in the cities of Chandler, Phoenix, Tempe, and Scottsdale.

continued on page 5

Apartment markets in the Pacific region remained among the tightest in the nation, with vacancy rates at or below 3 percent in 7 of the 10 major market areas.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2013 (%)	3Q 2014 (%)	Percentage Point Change	3Q 2013 (\$)	3Q 2014 (\$)	Percent Change
Honolulu ^a	Tight	2.7	1.5	- 1.2	1,380	1,400	1
Las Vegas-Henderson-Paradise ^b	Slightly soft	7.7	6.8	- 0.9	733	765	4
Los Angeles-Long Beach-Anaheim ^b	Tight	3.8	3.0	- 0.8	1,669	1,721	3
Oxnard-Thousand Oaks-Ventura ^b	Tight	3.4	2.6	- 0.8	1,479	1,530	3
Phoenix-Mesa-Scottsdale ^b	Balanced	7.1	6.0	- 1.1	770	805	5
Riverside-San Bernardino-Ontario ^b	Balanced	4.9	4.0	- 0.9	1,099	1,156	5
Sacramento--Roseville--Arden-Arcade ^b	Tight	4.0	2.9	- 1.1	973	1,034	6
San Diego-Carlsbad ^b	Tight	3.2	2.8	- 0.4	1,475	1,532	4
San Francisco-Oakland-Hayward ^b	Tight	2.9	2.4	- 0.5	1,948	2,120	9
San Jose-Sunnyvale-Santa Clara ^b	Tight	2.9	2.4	- 0.5	2,068	2,271	10

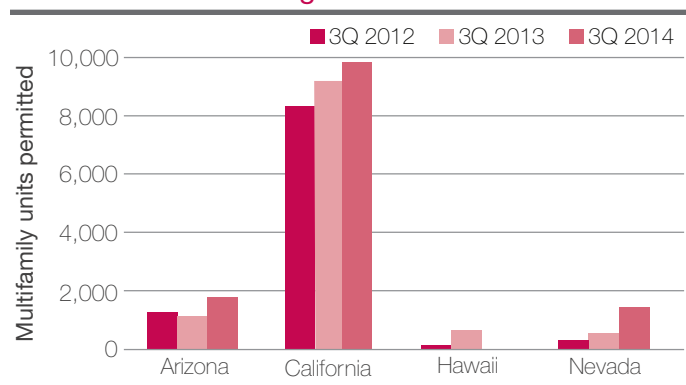
3Q = third quarter.

Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—(a) Reis, Inc., and represents the average of July and August 2014; (b) MPF Research

continued from page 4

- In California, multifamily construction increased to 9,850 units permitted, up 8 percent compared with 9,150 units during the third quarter of 2013.
- In Nevada, multifamily construction more than doubled, increasing by 870 units, to 1,400 units permitted.
- Multifamily construction declined in Hawaii to fewer than 20 units from 660 units during the third quarter of 2013. The decline comes after multifamily construction increased from 110 units permitted in the third quarter of 2012 to 670 units permitted in the third quarter of 2013. Multifamily units permitted in the third quarters of 2010 through 2012 averaged 320 units.

Multifamily construction activity increased in three states in the Pacific region.



3Q = third quarter.

Note: Based on preliminary data.

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