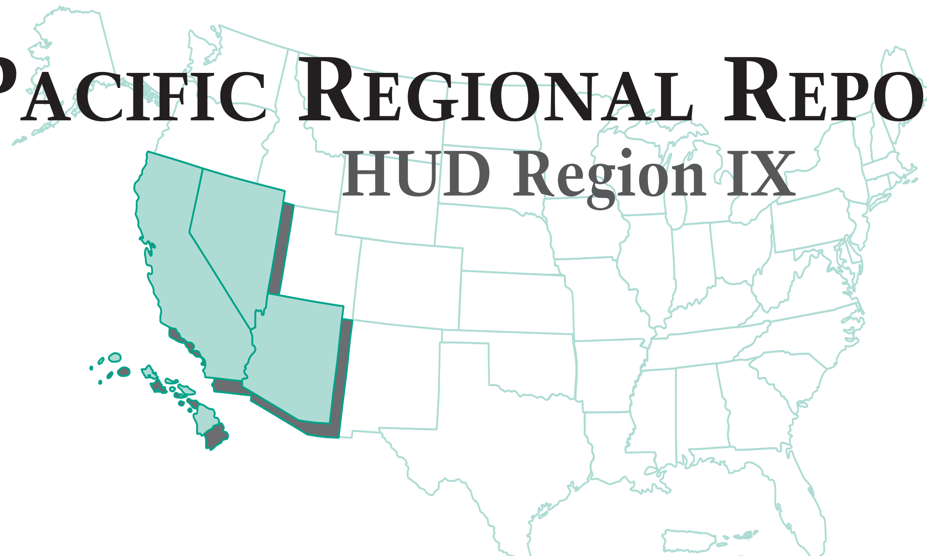
1st Quarter 2009

U.S. Housing Market Conditions

Pacific Regional Report

HUD Region IX



1st Quarter Activity

The following summary of the Pacific region's housing market conditions and activities has been prepared by economists in the U.S. Department of Housing and Urban Development's (HUD's) field offices. The report provides overviews of economic and housing market trends within the Pacific region. The report is based on information obtained by HUD economists from state and local governments, from housing industry sources, and from their ongoing investigations of housing market conditions carried out in support of HUD's programs.

Economic conditions in the Pacific region continued to slow during 2008 and the first quarter of 2009. During the 12 months ending March 2009, nonfarm employment averaged 19.3 million jobs, a decline of 463,000 jobs, or 2.3 percent, compared with the number of jobs during the previous 12 months. In contrast, employment rose by 94,000 jobs, a 0.5-percent gain, during the 12 months ending March 2008. During the most recent 12-month period, the goods-producing sectors lost 248,000 jobs, or 8 percent; of those job losses, 186,000 were in the construction sector, which recorded the largest decline of any sector, as a result of the severe decline in homebuilding. Employment in the service-providing sectors fell by 214,700 jobs, or 1.3 percent, notably in the retail trade and professional and business services sectors, which lost 93,000 and 81,000 jobs, respectively. The only major sectors to record job growth were the education and health services sector and the government sector, adding nearly 65,000 and 31,000 jobs, respectively.

Employment declined significantly in every state in the region during the 12 months ending March 2009. In California, nonfarm employment fell by 313,400 jobs, or 2.1 percent, compared with the addition of 62,000 jobs during the previous 12-month period. The largest losses occurred in the construction and retail trade sectors, down by 122,000 and 70,000 jobs, respectively. Partly offsetting the declines were the addition of 49,000 and 14,500 jobs in the education and health services and the government sectors, respectively. Employment in the San Francisco Bay Area declined by 51,300 jobs, a 1.5-percent loss; San Francisco and the Silicon Valley areas have benefited from a high concentration of advanced technology industries that have been more resilient in the overall economic downturn. In Southern California, employment fell by 219,000 jobs, or 2.5 percent. In Arizona, employment fell by 3.7 percent, or nearly 99,000 jobs, during the 12 months ending March 2009. In comparison, employers in the state added 22,000 jobs during the same period a year earlier. Because of continuing declines in both residential and commercial building activity, the construction sector in Arizona lost 43,000 jobs, accounting for nearly one-half of the state's job losses. Industries serving the growing state population, primarily those in the education and health services sector and government sector, added 11,600 and 9,800 jobs, respectively. In Nevada, employment declined by 39,500 jobs, or 3.1 percent, in the past 12 months, down significantly from a 4,100-job increase recorded in the previous 12-month period. In Hawaii, declining tourism resulted in a loss of 11,300 jobs, or 1.8 percent, during the 12 months ending March 2009, after the state added 5,600 jobs during the previous 12 months. Because of the rapidly slowing economy, during the 12 months ending March 2009, the average unemployment rate in the Pacific region rose to 8 percent, up substantially from 5.3 percent a year earlier. Unemployment rates ranged from 4.9 percent in Hawaii to 8.4 percent in California.

Despite the slowing economy, the volume of existing home sales rose in most major markets in the Pacific region during the first quarter of 2009, reflecting dramatically more affordable home price levels and low interest rates. According to the California Association of REALTORS®, during the 12 months ending March 2009, the number of existing homes sold in the state increased by more than 60 percent to 506,550. During the first quarter of 2009, the median sales price was $251,300, down 40 percent compared with the median price recorded during the same quarter a year ago. The first quarter 2009 median price was the lowest price recorded in the state since 2001. During the first quarter of 2009, the median number of days required to sell an existing home fell to 50 from 66 during the same period a year earlier, and foreclosed homes accounted for 58 percent of homes sold, a significant increase from 33 percent of homes sold a year ago. According to Hanley Wood, LLC, new home sales in the 30 largest counties in California declined by 42 percent, from 61,000 homes in 2007 to 35,500 homes in 2008. During the 12 months ending March 2009, existing home sales declined in Honolulu, where nearly 6,000 homes were sold, down 31 percent from the number sold during the previous 12-month period and down more than 50 percent from the record-setting 12,600 homes sold in 2005. During the first quarter of 2009, the median prices of an existing single-family home and a condominium were $565,000 and $302,300, respectively, down 7 and 8 percent, respectively, compared with the median prices for these units during the same quarter of 2008.

In Las Vegas, according to the *Las Vegas Housing Market Letter*, during the 12 months ending March 2009, the volume of existing home sales rose 52 percent to nearly 34,000 homes compared with the number of sales recorded during the same period a year ago. Buyers were attracted by the much lower home prices; during the first quarter of 2009, the median price of an existing home was $147,000, a decline of 37 percent, or $88,000, from the median price recorded during the first quarter of 2008 and down more than $140,000 from the peak price recorded during the third quarter of 2006. The downward price pressure is attributed to the persistently high inventory of unsold homes, which has averaged 29,000 homes a month during the past 2 years, and the high proportion of bank-owned homes, which accounted for three-fourths of the existing homes sold in the first quarter of 2009. In Phoenix, according to the *Phoenix Housing Market Letter*, during the 12 months ending March 2009, the volume of existing home sales rose 27 percent to 65,800 homes, compared with the low volume of 51,750 sales recorded during the previous 12 months. The median price of an existing home declined by 40 percent to approximately $128,000 in the first quarter of 2009, from $214,600 in the first quarter of 2008. During the 12 months ending March 2009, in both Phoenix and Las Vegas, sales of new homes declined by 50 percent to just 17,300 and 8,700 homes, respectively. Sales volumes in Phoenix and Las Vegas have continued to decline since 2005, when record new home sales of approximately 57,400 and 29,750 homes, respectively, were recorded, according to the *Phoenix Housing Market Letter* and *Las Vegas Housing Market Letter.*

Reflecting weak sales of new homes and falling prices in the region, single-family homebuilding activity, as measured by the number of building permits issued, declined by nearly 50,000, or 50 percent, to 50,900 homes permitted during the 12 months ending March 2009. In both California and Hawaii, home construction activity decreased by nearly 50 percent, to 28,100 and 2,100 homes permitted, respectively. During the past 12 months, in Arizona and Nevada, the number of homes permitted was 14,400 and 6,300, respectively; the pace of home construction fell by 52 percent in both states compared with activity recorded during the previous 12-month period.

Rental housing markets in most major areas in the Pacific region recorded increased apartment vacancy rates in the first quarter of 2009. The San Francisco Bay Area has a balanced rental market due to demand for rental housing stemming from household growth, relatively high home prices, and limited rental construction activity. According to Reis, Inc., during the first quarter of 2009, the apartment rental vacancy rate in the San Francisco submarket was approximately 4 percent, virtually unchanged from a year ago. The vacancy rate in the Oakland submarket increased from 4.2 percent during the first quarter of 2008 to a current rate of 5.7 percent. The San Jose submarket softened more than the Oakland submarket did; in San Jose, the rental vacancy rate increased to 5.2 percent from 3.5 percent a year ago. Annual changes in average rents varied considerably in the Bay Area, including a nearly 2-percent increase in the Oakland submarket, no change in the San Francisco submarket, and a minor decrease of less than 1 percent in the San Jose submarket. The first quarter 2009 average asking rents in the Oakland, San Jose, and San Francisco submarkets were $1,379, $1,557, and $1,896, respectively. In Sacramento, the apartment market remains balanced, with a current vacancy rate of 6.3 percent, up from 5.3 percent in the first quarter of 2008. The average rent increased by less than 1 percent to $937 during the same period.

In Southern California, rental housing market conditions changed from tight to balanced in the first quarter of 2009. Rental vacancy rates in Los Angeles, Orange, San Diego, Santa Barbara, and Ventura Counties increased from less than 5 percent in the first quarter of 2008 to approximately 6 percent in the first quarter of 2009. The rates rose primarily due to the increased conversion of single-family detached homes and condominiums into rental housing units. During the 12 months ending March 2009, it is estimated that more than 12,000 single-family homes and condominiums units in Southern California were converted into rental units. The vacancy rates in San Bernardino and Riverside Counties remained at 6.5 and 8 percent, respectively. According to the Consumer Price Index for Southern California, during the 12 months ending March 2009, the average rent increased by 4 percent, significantly less than the 6-percent rent increase recorded during the previous 12-month period.

The rental markets in both Las Vegas and Phoenix continued to soften through the first quarter of 2009 due to the slowing economy and increased competition from single-family and condominium homes made available for rent. According to Reis, Inc., the apartment vacancy rate in Las Vegas rose to 8.4 percent in the first quarter of 2009, up nearly 2 percentage points from the rate recorded in the same quarter a year ago. Rental market conditions are relatively balanced overall but apartment vacancy rates vary widely by submarket, ranging from less than 6 percent in the Southwest Valley to more than 10 percent in North Las Vegas. The average asking rent in Las Vegas rose from $857 in the first quarter of 2008 to $865 in the first quarter of 2009, an increase of just 1 percent compared with a 2.5-percent gain recorded between the first quarter of 2007 and the first quarter of 2008. In Phoenix, the rental market remained soft; Reis, Inc., reported an apartment vacancy rate of 11 percent in the first quarter of 2009 compared with 9 percent in the first quarter of 2008. Asking rents currently average $779, essentially unchanged from the past year. The Honolulu rental market is balanced, with an overall vacancy of nearly 6 percent, compared with 5 percent during the previous year. According to the Consumer Price Index, rents rose more than 2 percent between the second half of 2007 and the second half of 2008 (the most recent data available).

Multifamily construction activity, as measured by the number of units permitted, fell by 21,300 units, or 36 percent, to 38,100 units permitted in the region during the 12 months ending March 2009. The recent construction volume is far below the annual average of nearly 75,000 units permitted from 2003 through 2006. During the past 12 months, multifamily building activity decreased by 35 percent to 24,100 units permitted in California and by 44 percent to 6,300 units permitted in Nevada. In Arizona, the number of units permitted declined by 3,600, or nearly 40 percent, to 5,600. Hawaii was the only state in the region to register an increase in the number of multifamily units permitted; 2,050 units, a 17-percent gain, were permitted in the state. Most of the decline in multifamily production in the region is attributed to the soft sales market for new condominiums and the resulting decrease in condominium construction.