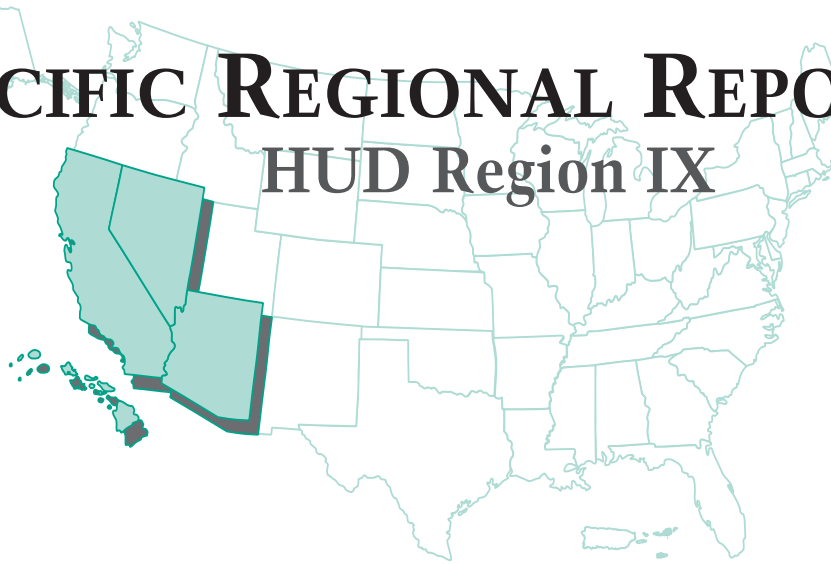




U.S. Housing Market Conditions

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.

The economy in all four states of the Pacific region, during the first quarter of 2010, continued the decline that began in 2008. Nonfarm employment during the 12-month period ending March 2010 averaged 18.1 million jobs, a decline of 1.2 million jobs, or 6 percent, compared with nonfarm employment during the previous 12 months. During the most recent 12-month period, the goods-producing sectors lost 424,500 jobs, or 15.4 percent. The construction sector, with 244,100 job losses, or 23.7 percent, recorded the largest decline of any sector, because of a severe decline in homebuilding. Employment in the service-providing sectors fell by 733,600 jobs, or 4.5 percent, notably in the leisure and hospitality sector, retail trade subsector, and professional and business services sector, which lost

107,900, 137,400, and 222,000 jobs, or 4.8, 6.5, and 7.9 percent, respectively. The only employment sector to record job growth was the education and health services sector, which added nearly 23,000 jobs, or 1 percent.

Employment declined at a faster rate in every state in the region during the 12 months ending March 2010 compared with the rate of decline during the previous 12 months. In California, nonfarm employment fell by 857,300 jobs, or 5.8 percent, compared with a loss of 366,000 jobs during the previous 12-month period. The largest losses occurred in the professional and business services sector, construction sector, and retail trade subsector, which decreased by 170,500, 159,000, and 105,600 jobs, respectively. The education and health services sector added 12,800 jobs and was the only sector in California to increase employment. Employment in the San Francisco Bay Area declined by 198,400 jobs, or 6 percent, continuing a downward trend that started in mid-2008. In Southern California, employment fell by 506,000 jobs, or 6 percent. In Arizona, during the 12 months ending March 2010, employment fell by 6.7 percent, or nearly 171,300 jobs, compared with employment during the same period a year earlier. The construction sector in Arizona lost 50,600 jobs, accounting for nearly 30 percent of the state's job losses, as both residential and nonresidential building



activity significantly declined. In Nevada, in the past 12 months, employment declined by 104,800 jobs, or 8 percent, compared with a loss of 51,900 jobs in the previous 12-month period, which occurred because of declines in convention business and tourism. During the 12 months ending March 2010, employment in Hawaii declined by 24,600 jobs, or 4 percent, compared with the 13,100 jobs lost in the state during the previous 12 months. After 2 years of decline, tourism started to improve in the first quarter of 2010. Because of the declining economy in each of the four states during the 12 months ending March 2010, the average unemployment rate in the Pacific region rose to 11.1 percent, up substantially from the 8-percent rate recorded a year earlier. Unemployment rates range from 6.9 percent in Hawaii to 12.6 percent in Nevada.

Although there are signs of improvement, sales market conditions in the region remain soft. The volume of existing home sales rose in most major markets in the Pacific region during the first quarter of 2010. The homebuyer tax credit program, more affordable home price levels, and low interest rates were the main factors in the sales increases. According to the California Association of REALTORS®, during the 12 months ending March 2010, the number of existing homes sold in the state increased by more than 2 percent to 516,600 homes. During the first quarter of 2010, the median sales price was \$299,400, up more than 20 percent from the median price recorded during the same quarter a year earlier. During the same period, the median number of days a house remained on the market fell to approximately 40, down from 50 during the same period a year earlier. Foreclosed homes accounted for 43 percent of homes sold, a decrease from 58 percent of homes sold a year earlier. Contributing to the decline in foreclosure sales was that more lenders are agreeing to short sales, which prevents the homes from going into foreclosure. Short sales represent up to 17 percent of total existing sales in the major California counties. The level of new home sales in California remains low. According to Hanley Wood, LLC, new home sales in the 30 largest counties in California declined by 17 percent, from 34,900 homes in 2008 to 28,900 homes in 2009 (the most recent data available). During the 12 months ending March 2010, existing home sales increased in Honolulu to nearly 6,600 homes, up 11 percent from the previous 12-month period. The median prices for existing single-family homes and condominiums were \$590,800 and \$303,000, up 5 percent and unchanged, respectively, from the first quarter of 2009.

Sales housing market conditions improved in both Las Vegas and Phoenix during the past year. According to the *Las Vegas Housing Market Letter*, during the 12 month period ending March 2010, the volume of existing home sales rose 37 percent to 46,650 homes compared with the number sold during the same period a

year earlier. The median price of an existing home was \$124,500, a decline of more than 15 percent, or \$22,800, from the first quarter of 2009 and down \$163,500, or 57 percent, from the peak price recorded during the third quarter of 2006. According to Realty One Group, in March 2010, foreclosures accounted for 50 percent of sales, and short sales represented another 25 percent of the existing homes sold. Foreclosure sales are down from 75 percent and short sales increased significantly from the 8-percent rate recorded a year earlier. In Phoenix, according to the *Phoenix Housing Market Letter*, during the 12 months ending March 2010, the volume of existing home sales rose to 96,900 homes, 47 percent higher than the 65,800 sales recorded during the previous 12 months. In the first quarter of 2010, the median price of an existing home increased by 3 percent to approximately \$124,800 compared with the median price recorded during the same period last year. The increase in sales volume did not extend to the new homes market. During the 12 months ending March 2010, sales of new homes declined 40 percent in both Phoenix and Las Vegas to 10,500 and 5,200 homes, respectively, compared with sales during previous 12-month period.

Single-family homebuilding activity, as measured by the number of building permits issued, declined by 2,600, or 5 percent, to 47,300 homes permitted during the 12 months ending March 2010, based on preliminary data, with declines in all states. In California, home construction activity decreased by nearly 6 percent to 25,600 homes permitted. Home construction activity in Hawaii decreased by nearly 12 percent to 1,950 homes permitted. The number of homes permitted during the past 12-month period in Arizona was 14,100, about the same as in the previous 12-month period. In Nevada, only 5,650 homes were permitted, approximately 10 percent less than were permitted in the previous 12-month period.

Rental market conditions in northern California ranged from tight in San Jose to balanced, but softening conditions in Sacramento in the first quarter of 2010. According to a Reis, Inc., survey, the apartment vacancy rate in San Francisco increased to 5 percent, up from the 4.3-percent rate recorded in the first quarter of 2009 as conditions are now more balanced compared with tight conditions a year ago. In the same survey, the vacancy rate declined in San Jose from 5.3 to 4.7 percent and in Oakland from 5.7 to 5.5 percent. At the same time, average rents declined by more than 4 percent to \$1,810 in San Francisco, by more than 5 percent to \$1,475 in San Jose, and by more than 3 percent to \$1,329 in Oakland. In Sacramento, the rental market had a vacancy rate of 7.1 percent, up from the 6.5-percent rate recorded during the first quarter of 2009. The current average rent of \$913 is nearly 3 percent less than the average rent during the first quarter of 2009.



The rental markets were tight in San Diego and Santa Barbara Counties and balanced in the remainder of Southern California during the first quarter of 2010. Reis, Inc., reported that, from the first quarter of 2009 to the first quarter of 2010, the apartment rental vacancy rate was relatively unchanged at 4.8 percent in San Diego County and 5.5 percent in Los Angeles County. The vacancy rate increased from 7.6 to 8 percent in San Bernardino County, from 5 to 5.3 percent in Ventura County, and from 6 to 6.4 percent in Orange County. Vacancy rates remained unchanged in Riverside County and Santa Barbara County at 8 percent and 4.5 percent, respectively. Average rents declined throughout southern California during the first quarter of 2010 compared with average rents recorded during the first quarter of 2009. Average rents declined between 2 and 4 percent in Los Angeles, Orange, and Ventura Counties to \$1,390, \$1,510, and \$1,400, respectively. In both Riverside and San Bernardino Counties, the average rent declined by more than 1 percent to \$1,030 and, in San Diego County, by more than 1 percent to \$1,320.

Phoenix and Las Vegas continued to have soft rental market conditions in the first quarter of 2010. According to Reis, Inc., in the first quarter of 2010, Phoenix and Las Vegas had vacancy rates of 12.1 and 11.5 per-

cent, respectively, up from rates of 11.6 and 8.8 percent recorded in the first quarter of 2009. The high vacancy rates in Phoenix and Las Vegas contributed to the decline of average asking rents to \$750 and \$820, down 3 and 5 percent, respectively. Based on data from the Census Bureau, the Honolulu rental market softened slightly in the first quarter of 2010 but remained balanced, with a vacancy rate of 6.9 percent, up from the 5.7-percent rate recorded in the first quarter of 2009. Honolulu was one of the few places in the Pacific region where the change in average rents was positive: from the first quarter of 2009 to the first quarter of 2010, rents increased 3 percent to \$1,150.

Multifamily construction activity, as measured by the number of units permitted, fell by 23,400 units, or 62 percent, to 14,600 units during the 12 months ending March 2010 compared with the number of units permitted in the previous 12 months, based on preliminary data for the region. Multifamily building activity decreased by 57 percent to 10,200 units permitted in California and by 74 percent to 1,900 units permitted in Nevada. In Arizona, the number of units permitted declined by 4,200, or nearly 79 percent, to 1,300 units. In Hawaii, the number of multifamily units permitted declined 35 percent to 1,200 units.