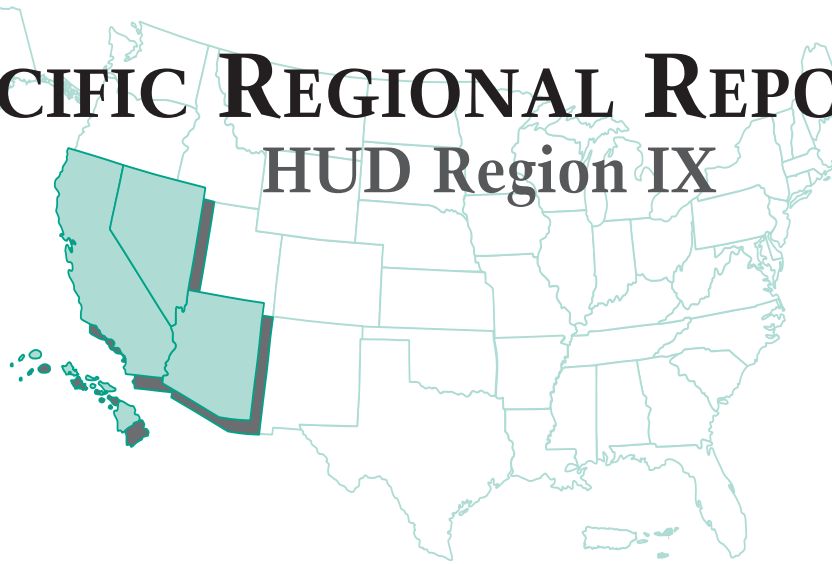


1st Quarter 2011



# 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.

Nonfarm job losses that started in the Pacific region in 2008 continued during the 12-month period ending March 2011, but at a slower average rate of decline. During the 12-month period ending March 2011, nonfarm payrolls averaged more than 18 million jobs, reflecting a decline of 51,900 jobs, or 0.3 percent, compared with a decline of 1.2 million jobs, or 6 percent, during the 12 months ending March 2010. During the more recent period, the construction sector lost 62,100 jobs, or 8 percent, because of the slowdown in both residential and commercial construction. Job gains occurred in the professional and business services, education and health services, and leisure and hospitality sectors, which added 52,200, 13,300, and 10,600 jobs, or 2, 2, and 1 percent, respectively.

During the 12 months ending March 2011, three of the four states in the region had nonfarm job losses compared with a decline in all four states during the 12 months ending March 2010. In California, nonfarm payrolls declined by 13,300 jobs, or 0.1 percent, to average 13.9 million jobs. The government sector, which lost 55,500 jobs, or 6.2 percent, replaced construction as the sector with the largest number of job losses in the state because of state and local government revenue shortfalls. In Southern California, nonfarm payrolls declined 17,700 jobs, or 0.2 percent. San Francisco Bay Area payrolls added 2,750 jobs, or 0.1 percent, as gains in the professional and business services and the education and health services sectors offset the losses in the construction sector. In Arizona, during the 12 months ending March 2011, nonfarm payrolls decreased by 23,250 jobs, or 1 percent, to average 2.4 million jobs. The decrease was driven by a decline of 10,300 jobs, or 8.6 percent, in the construction sector. In Nevada, nonfarm payrolls decreased by 16,200 jobs, or 1.4 percent, to average 1.1 million jobs. Nevada's construction sector declined by 14,900 jobs, or 20.4 percent, as home sales continued to decline. The 3-percent increase in total visitors to Las Vegas supported the gain in the leisure and hospitality sector of 2,800 jobs, or 2.8 percent. Hawaii was the only state in the region with a gain in nonfarm payrolls, adding 900 jobs, or 0.2 percent, to average 588,900 jobs.



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During the 12 months ending March 2011, the construction sector in Hawaii lost 1,900 jobs, or 6.2 percent, compared with the number of construction jobs lost during the previous 12 months. The professional and business services sector led job gains in Hawaii, with an increase of 10,200 jobs, or 3.8 percent. From the 12 months ending March 2010 to the 12 months ending March 2011, the average unemployment rate in the region increased from 11.6 to 11.9 percent. State unemployment rates ranged from 6.6 percent in Hawaii to 14.5 percent in Nevada.

Real Estate Owned (REO) sales and high unemployment rates resulted in soft sales housing markets in three of the four states in the Pacific region. The home sales markets in both Arizona and Nevada remained soft during the first quarter of 2011, a condition that has existed since the third quarter of 2007 in Arizona and the first quarter of 2007 in Nevada. According to Hanley Wood, LLC, during the 12-month period ending March 2011, 111,200 new and existing homes sold in Arizona, which represents a 17-percent decline compared with the number sold during the previous 12-month period. During the 12-month period ending March 2011, the average home sales price declined by 6 percent, to \$134,700. From the 12 months ending March 2010 to the 12 months ending March 2011, Arizona REO sales as a percentage of all existing home sales increased from 51 to 58 percent. In the Phoenix metropolitan area, new and existing home sales declined by 11 percent, to 92,300 homes sold, but the average home price increased by 3 percent to \$166,700. In Nevada, during the 12 months ending March 2011, 59,500 new and existing homes sold, a decline of 11 percent compared with the number sold during the 12-month period ending March 2010, and the average home sales price decreased 4 percent to \$139,700. In Nevada, from the 12 months ending March 2010 to the 12 months ending March 2011, REO sales as a percentage of all existing home sales declined from 65 to 60 percent. In Las Vegas, from the 12 months ending March 2010 to the 12 months ending March 2011, sales decreased by 11 percent, to 47,900 homes. During that same period, the average home price decreased from \$165,000 to \$161,200.

In California, during the first quarter of 2011, the home sales market also remained soft, a condition that has existed since the first quarter of 2007. According to Hanley Wood, LLC, the number of new and existing homes sold totaled 426,100, a 9-percent decrease compared with the number of homes sold during the previous 12-month period. During the 12-month period ending March 2011, the average home sales price increased by 2 percent to \$276,100. From the 12 months ending March 2010 to the 12 months ending March 2011, REO sales as a percentage of existing home sales decreased from 46 to 43 percent. In the San Francisco Bay Area, during the 12 months ending March 2011, 68,100 homes sold, which was a 7-percent decrease compared with the number sold during the previous 12 months; the average home sales price increased by 6 percent to \$534,300 during the same period. In

Southern California, during the same period, the number of homes sold decreased by 9 percent to 234,300 homes, but the average home sales price increased 3 percent to \$500,100.

Because of moderate employment growth, Hawaii was the only state in the region that had a balanced sales housing market as of the first quarter of 2011. During the 12 months ending March 2011, according to Hanley Wood, LLC, the number of new and existing homes sold totaled 15,550, a 2-percent increase compared with the number sold during the previous 12 months. During the 12-month period ending March 2011, the average home sales price in Hawaii increased by 7 percent to \$400,300. From the 12 months ending March 2010 to the 12 months ending March 2011, REO sales as a percentage of all existing sales increased from 9 to 16 percent. In the Honolulu area, during the 12 months ending March 2011, 9,700 homes sold, a decline of less than 1 percent compared with the number sold during the 12 months ending March 2010. The average home sales price increased 6 percent to \$517,100. According to the Honolulu Board of REALTORS®, the months of supply of unsold homes decreased from 6.4 months in March 2010 to 5.6 months in March 2011.

According to LPS Applied Analytics, in the region in March 2011, the number of homes 90 or more days delinquent, in foreclosure, or in REO decreased by 154,000 homes, or 19 percent, to 653,500 homes compared with the number of homes with distressed mortgages during March 2010. This level represents a current rate of 9.8 percent of all loans in the region in March 2011 compared with a rate of 12 percent in March 2010. In March 2011, the national rate was 8.1 percent.

New home construction activity, as measured by the number of single-family building permits issued, declined in every state in the Pacific region during the 12 months ending March 2011. Based on preliminary data, 43,700 single-family homes were permitted, a 17-percent decrease compared with the number of permits issued in the previous 12 months. During the 12-month period ending March 2011, in Arizona, the number of single-family homes permitted decreased by 4,700 permits, or 32 percent, to 9,900; in California, by 2,900 permits, or 10 percent, to 26,700; in Hawaii, by 900 permits, or 32 percent, to 1,900; and, in Nevada, by 800 permits, or 13 percent, to 5,100.

Rental housing markets varied from tight to balanced in California and tight in Hawaii during the first quarter of 2011. The rental housing market in the San Francisco Bay Area was tight. According to Reis, Inc., from the first quarter of 2010 to the first quarter of 2011, the apartment rental vacancy rate decreased from 5.5 to 4.3 percent in Oakland, from 4.7 to 3.4 percent in San Jose, and from 5.0 to 4.0 percent in San Francisco. During the same period, in San Francisco, rents increased more than 3.0 percent to \$1,866; in San Jose, more than 4.0 percent to \$1,543; and



in Oakland, more than 1.0 percent to \$1,350. In Sacramento, in the first quarter of 2011, the rental vacancy rate was 5.7 percent, down from 7.1 percent in the first quarter of 2010, but average rents increased more than 1.0 percent to \$928. From the first quarter of 2010 to the first quarter of 2011, Reis, Inc., reported that the apartment rental vacancy rates decreased throughout Southern California. Riverside and San Bernardino Counties remained balanced, with the rental vacancy rate declining from 8.0 to 6.0 percent. The rental markets were tight in Los Angeles, Orange, San Diego, and Ventura Counties, with declines in vacancy rates from 5.5 to 4.5 percent, from 6.4 to 4.9 percent, from 4.9 to 3.9 percent, and from 5.3 to 4.5 percent, respectively. Reis, Inc., recorded that, in the first quarter of 2011, the average rent in Southern California was \$1,372, unchanged from the rent recorded during the first quarter of 2010. From the first quarter of 2010 to the first quarter of 2011, according to Reis, Inc., the apartment vacancy rate in Honolulu declined from 3.6 to 2.7 percent, but the average rent increased 1.0 percent to \$1,298.

The rental housing markets in both Arizona and Nevada are soft but improving. According to Reis, Inc., in the first quarter of 2011, the Phoenix apartment vacancy rate was 8.9 percent, down from the 12.1-percent rate recorded in the first quarter of 2010, but the average rent increased

nearly 1 percent to \$755. Reis, Inc., reported that, from the first quarter of 2010 to the first quarter of 2011, the apartment vacancy rate in the Las Vegas apartment market decreased from 11.8 to 8.6 percent, and the average rent decreased nearly 3 percent to \$803.

Multifamily construction activity, as measured by the number of multifamily units permitted, increased in only two of the four states in the Pacific region. During the 12-month period ending March 2011, based on preliminary data, permits for 21,200 multifamily units were issued in the region, a 44-percent increase compared with the number of units permitted during the 12 months ending March 2010. The decline in vacancy rates resulting from increased demand was the main reason for the permit increases. In Arizona and California, during the 12 months ending March 2011, the number of units permitted increased by 300 units, or 22 percent, to 1,600 units and by 7,400 units, or 71 percent, to 17,800 units, respectively, compared with the number of units permitted during the previous 12 months. These increases were partially offset by the 43-percent decline, down to 700 units permitted, in Hawaii and the 36-percent decline, down to 1,200 units permitted, in Nevada compared with the number permitted during the 12-month period ending March 2010.