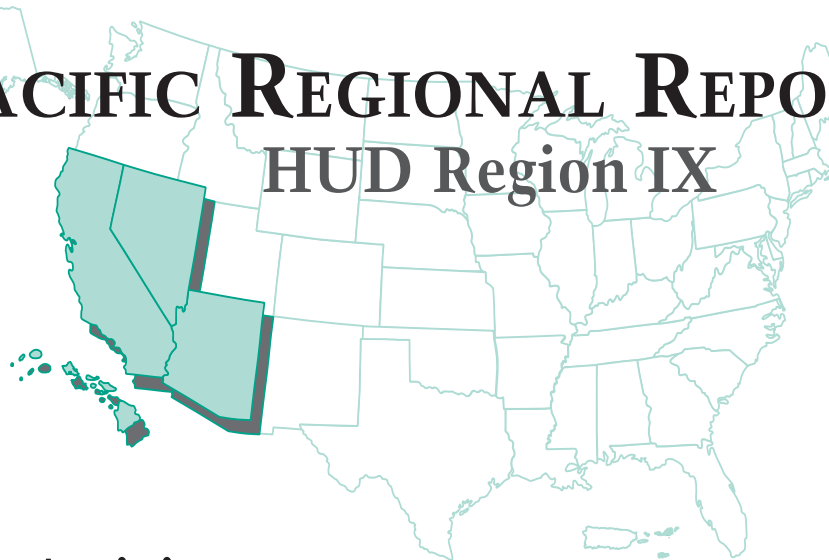




U.S. Housing Market Conditions

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 improved during the first quarter of 2012 after significant job losses from 2008 through 2010. During the 12 months ending March 2012, the region added 168,400 nonfarm payroll jobs, a 0.9-percent increase compared with nonfarm payrolls during the 12 months ending March 2011. The professional and business services, education and health services, and leisure and hospitality sectors led job growth by adding 63,750, 56,200, and 46,300 jobs, increases of 2.4, 2.4, and 2.1 percent, respectively. The government sector realized the largest percentage nonfarm payroll decline, a loss of 66,050 jobs, or 4.7 percent, mainly because of budget cuts in the federal and local government subsectors.

Nonfarm payrolls increased in all four states in the Pacific region during the 12 months ending March 2012. California added 125,200 jobs, a 0.9-percent increase compared with the gain of 31,250 jobs, or 0.2 percent, during the previous 12 months. The same sectors that led growth in the region drove job growth in California. The professional and business services sector added 54,700 jobs, a 2.6-percent increase; the education and health services sector added 44,250 jobs, a 2.5-percent increase; and the leisure and hospitality sector added 25,750 jobs, a 1.7-percent increase. The government sector declined by 56,450 jobs, or 2.3 percent. The San Francisco Bay Area and Southern California added 44,150 and 49,500 jobs, 1.6- and 0.6-percent increases, respectively. During the 12 months ending March 2012, Hawaii added 4,525 jobs, a 0.8-percent increase compared with the gain of 1,125 jobs, or 0.2 percent, during the previous 12 months. The leisure and hospitality and the professional and business services sectors led nonfarm payroll growth in the state, expanding by 3,850 and 2,625 jobs, or 3.8 and 3.6 percent, respectively. According to the Hawaii Tourism Authority, gross expenditures from tourism totaled \$1.2 million during the 12 months ending February 2012, a 12-percent increase from the previous 12 months. During the 12 months ending March 2012, nonfarm payrolls



in Arizona rose by 29,775 jobs, or 1.2 percent, compared with the loss of 15,500 jobs, or 0.6 percent, during the previous 12 months. The education and health services and the leisure and hospitality sectors gained 9,875 and 6,075 jobs, or 2.8 and 2.4 percent, respectively. The Arizona Office of Tourism estimated that state revenue from tourism taxes totaled \$537.6 million during the 12 months ending February 2012, an 8-percent increase from the previous 12-month period. Nevada added 8,900 jobs, a 0.8-percent increase compared with the loss of 13,600 jobs during the previous 12 months. Job gains were most significant in the leisure and hospitality sector, which grew by 10,650 jobs, or 3.4 percent. The average unemployment rate in the region decreased to 11.2 percent during the 12 months ending March 2012, down from the 11.9-percent rate averaged during the 12 months ending March 2011. The average unemployment rate ranged from 6.6 percent in Hawaii to 13.2 percent in Nevada.

The sales housing market in all four states of the Pacific region was soft during the 12 months ending March 2012 as a result of slow job growth and high unemployment. According to Hanley Wood, LLC, new and existing home sales in the region fell by 43,100, or 7 percent, to 617,600 homes sold compared with the number sold during the 12 months ending March 2011. In Arizona, home sales declined by 12,850, or 9 percent, to 130,700 homes. The average sales price increased by \$8,700, or 5 percent, to \$180,700. During the 12 months ending March 2012, Arizona's REO (Real Estate Owned) sales rate decreased to 49 percent of existing home sales from 56 percent during the previous 12 months. In Phoenix, the number of home sales and the average sales price remained flat at 107,000 and \$173,500, respectively.

New and existing home sales totaled 410,700 in California during the 12 months ending March 2012, a decline of 25,000 homes, or 6 percent, compared with the number of homes sold during the previous 12 months. The average home sales price increased by \$6,450, or 2 percent, to \$368,100. The REO sales rate declined slightly to 40 percent of existing home sales from 42 percent a year ago. In the San Francisco Bay Area, 67,450 homes sold, a decline of 400 homes, or 1 percent, compared with the number sold during the previous 12 months; the average home sales price decreased by \$15,850, or 3 percent, to \$541,600 during the same period. The number of homes sold in Southern California decreased by 5,650, or 2 percent, to 231,600, and the average home sales price fell \$8,950, or 2 percent, to \$372,600.

In Hawaii, during the 12 months ending March 2012, new and existing home sales fell by 2,000, or 12 percent, to 15,000 homes sold compared with the number sold during the previous 12 months, and the average home sales price increased by \$5,950, or 1 percent, to \$486,900. The REO sales rate remained flat at 15 percent of all existing sales. New and existing home sales in Nevada declined as well, from 64,550 to 61,250, during the 12

months ending March 2012. The average sales price fell \$5,650, or 3 percent, to \$160,400. The REO sales rate increased from 58 to 60 percent of all existing home sales. During the same period, home sales rose by 900, or 2 percent, to 52,250 homes sold in Las Vegas, and the average home sales price declined by \$14,200, or 9 percent, to \$144,400.

According to LPS Applied Analytics, the 477,500 home loans in the region that were 90 or more days delinquent, in foreclosure, or in REO in March 2012 constituted a decrease of 169,800 loans, or 26 percent, from March 2011. This level represents 7.5 percent of all loans in the region compared with the 9.8-percent rate recorded in March 2011; the national rate was 7.8 percent in March 2012.

New home construction activity, as measured by the number of single-family building permits issued, increased in two of the four states in the Pacific region during the 12 months ending March 2012. Based on preliminary data, 38,900 single-family homes were permitted in the region, an increase of 650 homes, or 2 percent, from the previous 12 months. The number of single-family homes permitted increased in Nevada by 250, or 5 percent, to 4,900 homes and in Arizona by 1,850, or 20 percent, to 11,100 homes. The number of single-family homes permitted declined in Hawaii by 300, or 15 percent, to 1,600 homes and in California by 1,200, or 5 percent, to 21,200 homes.

Rental housing markets varied from tight to balanced in California and Hawaii during the first quarter of 2012. Rental market conditions remained tight in the San Francisco Bay Area. According to Axiometrics Inc., from the first quarter of 2011 to the first quarter of 2012, the apartment vacancy rates in San Jose and San Francisco increased from 3.2 and 3.7 percent to 3.5 and 3.8 percent, respectively. The apartment vacancy rate in Oakland declined from 4.3 to 4.2 percent. During the same period, low vacancy rates and increased rental demand by young professionals drove the average effective rents to increase 17 percent to \$2,350 in San Francisco, 11 percent to \$1,950 in San Jose, and 6 percent to \$1,570 in Oakland. In the first quarter of 2012, the rental housing market in Sacramento was balanced, with an apartment vacancy rate of 6.0 percent, up from 5.7 percent in the first quarter of 2011. During the same period, average rents increased 3 percent, to \$1,000. In the first quarter of 2012, rental markets were tight in Los Angeles and Ventura Counties and balanced in San Diego, Orange, Riverside, and San Bernardino Counties. Axiometrics Inc. reported that apartment vacancy rates increased in three of the five Southern California markets from the first quarter of 2011 to the first quarter of 2012. The apartment vacancy rate increased from 4.6 to 5.4 percent in San Diego County, from 5.9 to 6.2 percent in Riverside and San Bernardino Counties, and from 4.9 to 5.0 percent in Orange County. During the same period, the apartment vacancy rate decreased from 5.6 to 4.9 percent in Los Angeles County



and from 4.9 to 4.6 percent in Ventura County. In the first quarter of 2012, the average rent in Southern California was \$1,575, up 6 percent from the first quarter of 2011. The apartment vacancy rate in Honolulu increased to 4.9 percent from 3.0 percent in the first quarter of 2011. During the same period, the average rent in Honolulu remained unchanged at \$1,900.

The rental housing markets in Arizona and Nevada remain soft but are improving. According to Axiometrics Inc., in Phoenix in the first quarter of 2012, the apartment vacancy rate was 7.4 percent, down from 7.6 percent in the first quarter of 2011, and the average rent increased 2 percent, to \$740. In Las Vegas, the vacancy rate decreased from 8.4 to 8.2 percent, but the average rent remained unchanged at \$740. The vacancy rate decline in Arizona was partially attributable to increasing population growth, whereas the vacancy rate decline in Nevada was because of high foreclosure levels, resulting in increased demand for rental units.

Multifamily construction activity, as measured by the number of multifamily units permitted, increased in every state in the region during the 12-month period ending March 2012. Based on preliminary data, 30,900 multifamily units were permitted in the region, an increase of 9,450 units, or 44 percent, compared with the number of units permitted during the previous 12 months. Increased renter demand and declining vacancy rates were the primary reasons for the rise in multifamily permits. During the 12-month period ending March 2012, the number of multifamily units permitted increased in Arizona by 1,325, or 83 percent, to 2,925 units; in California by 6,950, or 39 percent, to 24,950 units; in Hawaii by 770, or 116 percent, to 1,450 units; and in Nevada by 420, or 35 percent, to 1,600 units.