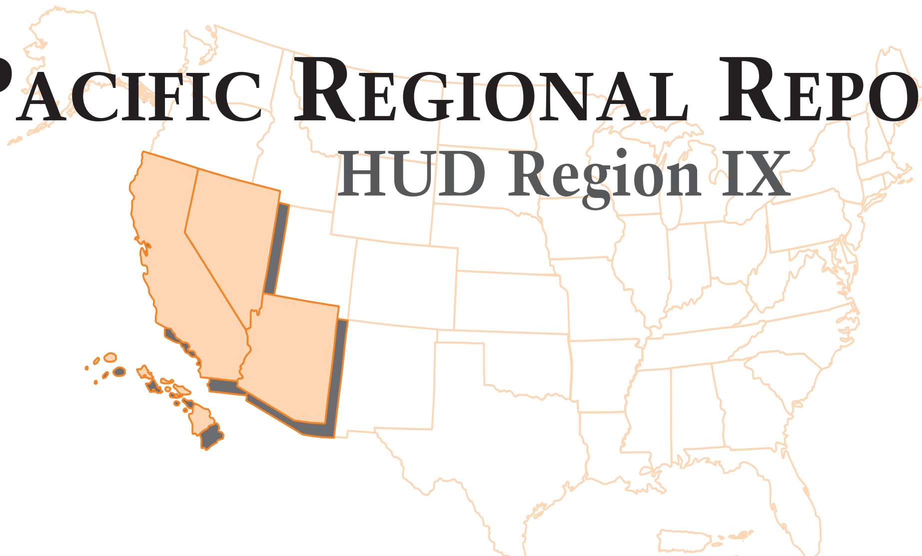
2nd Quarter 2009

U.S. Housing Market Conditions



Pacific Regional Report

HUD Region IX

2nd 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 of the Pacific region continued to contract following a 5-year expansionary period that ended during the second half of 2008. During the 12 months ending June 2009, nonfarm employment averaged 19 million jobs, reflecting a decline of 689,000 jobs, or 3.5 percent, compared with the number of jobs recorded during the previous 12 months. The goods-producing sectors decreased by 295,300 jobs, or 10 percent. Due primarily to soft conditions in the new home sales markets, construction continued to lead all sectors in job losses, down 206,300 jobs, or nearly 17 percent. The service-providing sectors declined 393,800 jobs, or 2.4 percent, led by the retail trade and professional and business services sectors, down 123,200 and 121,900 jobs, respectively. Despite the overall decline in nonfarm employment, the education and health services and the government sectors added 47,900 and 12,700 jobs, respectively.

Employment decreased throughout the region during the 12 months ending June 2009. In California, payrolls decreased by 480,800 jobs, or 3.2 percent, to average 14.7 million positions. Gains of 37,200 jobs in the education and health services sector were not enough to offset the losses that occurred in nearly all other sectors. The construction sector posted the largest decline, with a loss of 134,500 jobs, or 16 percent. Employment declined in the San Francisco Bay Area by 91,400 jobs, a 2.7-percent change; in Southern California by 297,600 positions, a 3.4-percent change; and in Hawaii by 15,600 positions, a 2.5-percent decrease, to average 609,600 jobs.

In Nevada, declining tourism and soft home sales markets resulted in the loss of 55,300 jobs, a decline of 4.3 percent, to average 1.2 million jobs during the 12 months ending June 2009. During the period, the construction and leisure and hospitality sectors contracted the most, losing 20,600 and 16,300 jobs, respectively. In contrast, the education and health services and the government sectors posted gains of 3,000 and 1,200 jobs, respectively.

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During the same period, employment in Arizona declined by 137,300 jobs, or 5.2 percent, to average 2.5 million jobs. Losses were concentrated in the construction and the professional and business services sectors, down 47,600 and 35,800 jobs, respectively. In contrast, the education and health services and the government sectors posted gains of 6,800 and 4,400 jobs, respectively. The average unemployment rate in the region rose from 5.6 percent for the 12 months ending June 2008 to 9.1 percent for the 12 months ending June 2009. Unemployment rates ranged from a low of 5.8 percent in Hawaii to a high of 9.6 percent in California.

Despite the weakening employment conditions, reduced home sales prices supported a strong volume of existing home sales in most of the region through the second quarter of 2009. During the 12 months ending June 2009, the California Association of REALTORS® reported that the number of existing homes sold in the state increased 65 percent to 539,700. The median sales price declined by 31 percent, from $385,300 in the second quarter of 2008 to $266,300 in the second quarter of 2009. Foreclosures accounted for 50 percent of existing home sales in the state, up from 40 percent a year earlier. Sales of new homes remained extremely weak. According to Hanley Wood LLC, during the 12 months ending March 2009, new home sales in the 30 largest California counties fell 41 percent, or by more than 20,000 homes, to 30,200 homes. In Honolulu, 5,600 existing homes were sold in the 12 months ending June 2009, down nearly 30 percent from the number sold in the previous 12-month period. From the second quarter of 2008 to the second quarter of 2009, the median price declined by 11 percent to $569,500 for single-family homes and by 7 percent to $307,500 for condominiums.

In the 12 months ending June 2009, sales of existing homes in Phoenix rose 57 percent to 77,400 homes, according to the *Phoenix Housing Market Letter*. In the second quarter of 2009, the median price of an existing home was $123,300, down 40 percent compared with the median price recorded in the same quarter of 2008. Foreclosed homes accounted for 65 percent of existing sales in the current quarter. In Las Vegas, during the 12 months ending June 2009, according to the *Las Vegas Housing Market Letter*, 38,250 existing homes sold, a 70-percent gain compared with the 22,500 homes sold during the previous 12 months. The median price of an existing home in Las Vegas declined by 43 percent, from $224,300 in the second quarter of 2008 to $128,300 in the second quarter of 2009. With the strong competition from foreclosed homes, new home sales in both Phoenix and Las Vegas remained weak. During the 12 months ending June 2009, new home sales fell by more than 50 percent in both Phoenix and Las Vegas, to 14,400 and 7,100 homes, respectively, according to the *Phoenix* and *Las Vegas Housing Market Letters*.

In response to declining new home sales, builders throughout the region continued to reduce the pace of new construction, as measured by the number of single-family building permits issued. During the 12 months ending June 2009, the number of single-family homes permitted in the region declined by 15,300 to 20,400 homes, a 43-percent decrease compared with the number permitted during the previous 12-month period. In Nevada, single-family permits fell by 55 percent, or 2,350 homes, to 1,900 homes permitted during the 12 months ending June 2009. During this same period, in Arizona, 5,675 single-family permits were issued, a decline of 49 percent, or 5,500 homes, compared with the previous 12-month period. In California and Hawaii, the number of single-family homes permitted during the 12 months ending June 2009 decreased by 37 and 33 percent, to total 11,800 and 1,000 homes, respectively.

Rental vacancy rates increased in all major areas in the region during the past year. Due primarily to lower rents, the San Francisco Bay Area rental housing market remained balanced as conditions eased from a previously tight market. Reis, Inc., reports that from the second quarter of 2008 to the second quarter of 2009, the apartment rental vacancy rate increased from 3.4 to 4.8 percent in the San Jose submarket, from 3.9 to 5 percent in the San Francisco submarket, and from 4.2 to 5.6 percent in the Oakland submarket. In the second quarter of 2009, all submarkets recorded decreases in current average rents compared with those recorded in the second quarter of 2008. The rent in the Oakland submarket declined less than 1 percent to average $1,365. The current average rent in the San Francisco submarket was $1,861, reflecting a 3-percent decline. The San Jose submarket recorded a 4-percent decrease to the current average rent of $1,516. In Sacramento, the rental housing market was balanced, with a current vacancy rate of 7.2 percent, up from the 5.3-percent rate in the second quarter of 2008, and the average asking rent declined by nearly 1 percent to average $932 in the second quarter of 2009.

In Southern California, although all counties reported an increase in rental vacancy rates from the second quarter of 2008 to the second quarter of 2009, rental housing markets in the area remain balanced. The strongest rental markets are in San Diego, Santa Barbara, Los Angeles, and Ventura Counties. The overall rental vacancy is less than 5.5 percent in each county, with an annual change of no more than 1 percentage point. The Orange County vacancy rate increased from 4.5 to 6 percent. Conditions in the inland counties remained the softest. The rental vacancy rate increased from 6.5 to 7 percent in San Bernardino County but remained unchanged, at 8 percent, in Riverside County. The increased conversion of single-family homes to rental housing units and out-migration contributed to the higher vacancy rates. During the 12 months ending

June 2009, an estimated 12,000 single-family and condominium homes in Southern California were converted into rental units, compared with 9,600 homes during the previous 12-month period. According to the Consumer Price Index, during the 12 months ending June 2009, the average rent in Southern California increased by nearly 4 percent.

Other major rental housing markets in the region continued to be affected by the slowing economy and increased competition from single-family homes made available for rent. In the second quarter of 2009, according to Reis, Inc., the Phoenix market was soft, with a vacancy rate of 11.3 percent, up from the 9.5-percent rate recorded in the second quarter of 2008. The average asking rent in Phoenix declined nearly 1 percent to $776 in the second quarter of 2009. According to CB Richard Ellis' second quarter 2009 survey in Las Vegas, the apartment vacancy rate averaged 10.5 percent compared with 8 percent during the second quarter of 2008, and the average rent decreased 8 percent to $860. The Honolulu rental housing market softened, with an overall vacancy of nearly 8 percent in the second quarter of 2009, up from 6.4 percent in the second quarter of 2008.

Multifamily construction activity, as measured by the number of units permitted, decreased significantly in the Pacific region. During the 12 months ending June 2009, 7,550 multifamily units were permitted, reflecting a 72-percent decrease compared with the number permitted during the previous 12 months. Permit volume for multifamily units has been declining since 2006, but the recent dramatic decline in construction activity has been exacerbated by tight credit availability. In California, 5,125 multifamily units were permitted during the 12 months ending June 2009, a 71-percent decrease from the number permitted during the previous 12-month period. In Nevada and Arizona, the number of multifamily units permitted declined by 61 and 86 percent to 1,375 and 630 units, respectively. In Hawaii, 410 multifamily units were permitted in the 12 months ending June 2009, a 51-percent decrease compared with the number permitted during the previous 12-month period.