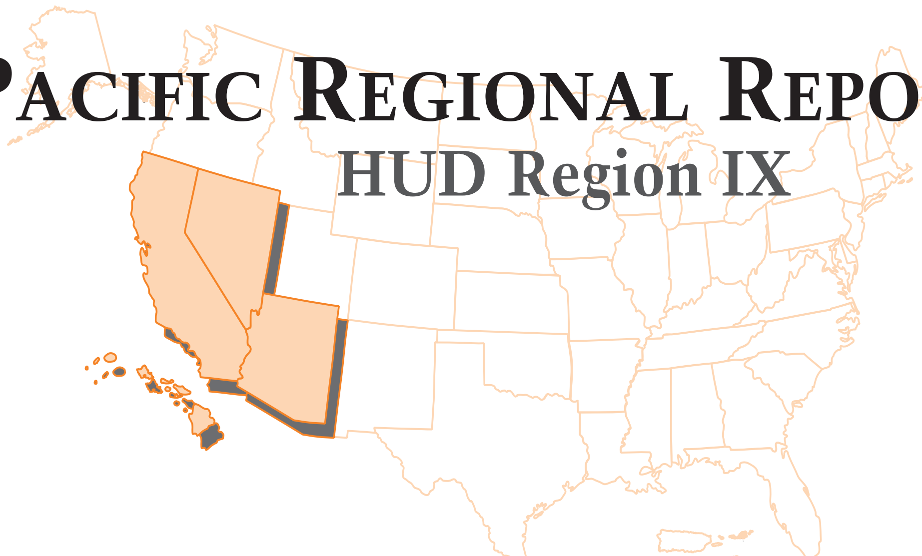
2nd Quarter 2010

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.

Widespread employment losses that began in 2008 in the Pacific region continued to accelerate through the second quarter of 2010. During the 12 months ending June 2010, nonfarm employment averaged 18 million jobs, reflecting a decline of nearly 1 million jobs, or 5.3 percent, compared with the number of jobs during the previous 12 months. In the 12 months ending June 2009, losses totaled 715,200 jobs, or a 3.6-percent decrease compared with the preceding 12-month period. In the 12 months ending June 2010, the goods-producing sectors declined by 381,300 jobs, or 14.3 percent. With continued soft conditions in the real estate markets and reduced lending, the construction sector continued to lead regional job losses, down 220,200 jobs, or 22.3 percent. The service-providing sectors decreased by 618,500 jobs, or 3.8 percent, led by the professional and business services and leisure and hospitality sectors, down 180,200 and 92,100 jobs, or 6.5 percent and 4.1 percent, respectively. The education and health services sector had the only growth in the region, adding 26,900 jobs, or 1.2 percent, during the 12 months ending June 2010.

Nonfarm employment declined in every state in the region. During the 12 months ending June 2010, employment in California decreased by 748,600 jobs, or 5.1 percent, to average 13.9 million jobs. Job losses were concentrated in the construction, trade, and professional and business services sectors with respective job declines of 145,100, 140,600 and 140,000 jobs, or 20.1, 6.2, and 6.5 percent. The education and health services sector gained 15,900 jobs, or 0.9 percent. During the 12 months ending June 2010, employment contracted in the San Francisco Bay Area by 167,400 jobs, or 5.2 percent, and in Southern California by 402,800 jobs or 4.9 percent. During the same period, employment declined in Hawaii by 20,000 jobs, or 3.3 percent, to average 587,900 jobs.

In Arizona, employment during the 12 months ending June 2010 decreased by 141,600 jobs, or 5.6 percent, to average 2.4 million jobs. The construction

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and the professional and business services sectors declined the most, by 43,100 jobs, or 26.7 percent, and 27,300 jobs, or 7.4 percent, respectively. The education and health services sector added 7,800 jobs, or 2.4 percent. Decreasing tourism revenue and continued foreclosure distress in Nevada led to a loss of 89,500 jobs, a 7.4-percent decline, to average 1.1 million jobs, during the 12 months ending June 2010. During the same period, employment levels in the construction and the leisure and hospitality sectors declined by 32,000 jobs, or 30.9 percent, and 17,300 jobs, or 5.4 percent, respectively, and the education and health services sector gained 2,400 jobs, or 2.5 percent. The average unemployment rate in the region increased from 8.7 to 11.8 percent from the 12 months ending June 2009 to the 12 months ending June 2010. During the 12 months ending June 2010, unemployment rates in the region ranged from 6.9 percent in Hawaii to 13.1 percent in Nevada.

Some signs of improved home sales activity are appearing in the home sales markets because of increasing affordability, but most major markets in the region remain soft. According to the California Association of REALTORS®, during the 12 months ending June 2010, 532,200 existing homes were sold, a decline of less than 1 percent compared with the number of sales in the previous 12 months. During the 12 months ending June 2010, the median sales price of an existing home was $299,600, up nearly 5 percent from the median sales price recorded during the previous 12-month period. Foreclosed homes accounted for 36 percent of existing homes sold in California in the second quarter of 2010, compared with 50 percent in the second quarter of 2009 and with the peak level of 58 percent in the first quarter of 2009. The volume of new homes sales in California has also continued to decline, but at a slower rate. According to Hanley Wood LLC, during the 12 months ending March 2010, builders sold 28,750 new homes in the 30 largest California counties, an 11-percent decline compared with the 32,150 homes sold in the previous 12-month period. In Honolulu, existing home sales increased 27 percent, to 7,125 homes sold in the 12 months ending June 2010. In the 12 months ending June 2010, the median price of a single-family home in Honolulu was $585,200, down 1 percent, and the median price of a condominium was $304,300, down 2 percent compared with the median price in the preceding 12-month period.

In Phoenix and Las Vegas, existing home sales have continued to increase since the fourth quarter of 2008 and the percentage of foreclosed home sales fell slightly during the second quarter of 2010. During the 12 months ending June 2010, 96,700 existing homes were sold, an increase of 25 percent compared with the number sold during the previous 12-month period, according to the *Phoenix Housing Market Letter*. From the 12 months ending June 2009 to the 12 months ending June 2010, the median price of an existing home decreased 11 percent to $125,700 and the median price of a new home declined nearly 2 percent to $200,200. New home sales in Phoenix continued to decline, 10,700 new homes sold in the 12 months ending June 2010, down 25 percent compared with the number sold during the preceding 12-month period. Since peaking in the first quarter of 2009 at 65 percent of total existing home sales, the percentage of foreclosed homes in Phoenix has fallen to 49 percent in the second quarter of 2010. The *Las Vegas Housing Market Letter* reported that existing home sales in Las Vegas increased 21 percent to 46,400 homes in the 12 months ending June 2010 compared with 38,250 homes sold in the previous 12 months. From the 12 months ending June 2009 to the 12 months ending June 2010, the median existing home price declined by 23 percent to $124,900 and the median new home price decreased 12 percent to $205,700. The new home sales volume continued to fall in Las Vegas, but at a slower rate, with 5,925 new homes sold in the 12 months ending June 2010, down 16 percent from the previous 12-month period. Since peaking in the second quarter of 2009 at 72 percent, foreclosed homes sales as a proportion of all Las Vegas home sales have declined to 49 percent in the second quarter of 2010.

In a reversal of a 4-year trend that began in 2006, builders throughout most of the region are increasing the pace of new home construction, as measured by the number of single-family home building permits issued. During the 12 months ending June 2010, 46,400 single-family homes were permitted in the region, an 8-percent increase compared with the number of permits issued during the preceding 12 months, but still significantly lower than the 10-year average, from 2000 through 2009, of 182,700 permits. In Nevada and Arizona, single-family permits increased by 1,250 and 1,200 homes, respectively, or by 26 and 10 percent, to total 6,000 and 13,200 homes, during the 12 months ending June 2010. During the same period, California experienced a modest 4-percent increase in single-family building activity, up 980 homes, to total 25,200 single-family homes. In contrast, permits for single-family homes in Hawaii decreased by slightly more than 1 percent, to total 2,000 single-family homes, during the 12 months ending June 2010.

As of the second quarter of 2010, major rental markets were balanced in California but soft throughout the rest of the Pacific region. The San Francisco Bay Area rental market remained balanced because landlords continued to lower rents to maintain occupancy levels. Reis, Inc., reported that from the second quarter of 2009 to the second quarter of 2010, the apartment rental vacancy rate decreased from 5.7 to 5.5 percent in the Oakland submarket, from 5 to 4.2 percent in the San Jose submarket, and remained stable at 5 percent in the San Francisco submarket. Average rents declined by 2 percent in both the Oakland and San Francisco submarkets to $1,334 and $1,819, respectively. The San Jose submarket recorded a 1 percent decrease to the average rent of $1,499. In Sacramento, the rental market was slightly soft, with a current vacancy rate of 7.1 percent, down from 7.2 percent in the second quarter of 2009, and the rents declined by 2 percent to average $911 in the second quarter of 2010.

Rental markets in southern California were balanced in the second quarter of 2010 as rental vacancy rates and rent trends stabilized. From the second quarter of 2009 to the second quarter of 2010, Reis, Inc., reported that the apartment rental vacancy rates increased slightly in the three largest metropolitan areas. For the same period, the vacancy rates in Los Angeles and San Diego increased by 0.1 percentage points to 5.5 and 4.9 percent, respectively, and gained 0.2 percentage points in Orange County to 6.4 percent. Both Ventura County and the Riverside-San Bernardino metropolitan area had modest decreases in their vacancy rates, from 5.5 to 5.3 percent and from 8.1 to 7.8 percent, respectively. In the second quarter of 2010, Reis recorded that the average rent in Southern California was $1,366, a 3-percent decrease compared with the average rent of $1,399 in the second quarter of 2009.

Other major rental housing markets in the region were soft. According to Reis, Inc., the Phoenix apartment market vacancy rate was 11.5 percent in the second quarter of 2010, down from the 11.7-percent rate recorded in the second quarter of 2009. The average asking rent in Phoenix declined 3 percent to $750 in the second quarter of 2010. From the second quarter of 2009 to the second quarter of 2010, Reis, Inc., reported that the apartment vacancy rate increased from 10.1 to 11.1 percent in Las Vegas, and the average rent decreased 4 percent to $820. The Honolulu rental market remained soft, with an estimated vacancy rate of 7 percent in the second quarter of 2010, down from 8 percent in the second quarter of 2009.

Multifamily construction activity, as measured by the number of units permitted, continued to decline in the region. During the 12 months ending June 2010, permits for 16,350 multifamily units were issued, a 37-percent decline compared with the previous 12-month period, based on preliminary data. During the 12 months ending June 2010, permits in Arizona and Nevada totaled 1,500 and 1,525 multifamily units, respectively; this reflected a 51- and 71-percent decline compared with the preceding 12-month period. In California, permits for 11,900 multifamily units were issued during the 12 months ending June 2010, a 28-percent decline compared with the previous 12-month period. In contrast, permits for 1,425 multifamily units were issued in Hawaii, a 34-percent increase compared with the previous 12-month period.