



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.

After 2 straight years of significant job losses, economic conditions in the Pacific region are showing signs of improvement. The region added 15,600 nonfarm payroll jobs, a 0.4-percent increase, during the 12 months ending June 2011. The professional and business services and education and health services sectors led job growth in the region, with increases in both sectors of 2.5 percent, or 16,650 and 13,900 jobs, respectively. The construction subsector had the largest percentage decline in nonfarm payrolls, 4.6 percent, or a loss of 8,875 jobs because of the slowdown in residential and commercial construction.

Moderate gains in nonfarm payrolls occurred in both California and Hawaii, but jobs declined in Arizona and Nevada during the 12 months ending June 2011.

California added 79,100 jobs, a 0.6-percent increase, during the 12 months ending June 2011 after losing 670,600 jobs, a 4.1-percent decline, during the previous 12 months. Nonfarm payroll increases of 65,600 jobs, or 3 percent, in the professional and business services sector and of 40,300 jobs, or 2 percent, in the education and health services sector led the turnaround in employment, despite a decline in the construction subsector of 18,600 jobs, or 3.2 percent. San Francisco Bay Area and Southern California nonfarm payrolls increased by 4,075 jobs, or 0.1 percent, and 27,550 jobs, or 0.2 percent, respectively. During the 12 months ending July 2011, Hawaii added 4,325 jobs, a 0.7-percent increase, compared with the loss of 19,250 jobs during the previous 12 months. The retail trade subsector realized the largest nonfarm payroll gain, of 1,450 jobs, or 15.4 percent, during the 12 months ending June 2011 because of a 13-percent increase in tourist spending compared with spending during the previous 12 months. Nonfarm payrolls continued to decline in Arizona, which lost 10,250 jobs, a 0.4-percent decrease, during the 12 months ending June 2011 compared with the number of jobs a year earlier. In Nevada, nonfarm payrolls fell by 9,325 jobs, or 0.8 percent, to an average of 1,124,100 jobs. The largest declines in both states came in the construction subsector, which lost 6,000 jobs, a 5.2-percent decline,



in Arizona and 10,600 jobs, a 15.8-percent decline, in Nevada. During the 12 months ending June 2011, the average unemployment rate in the region increased to 12 percent from 11.7 percent during the previous year. The average unemployment rate ranged from 6.5 percent in Hawaii to 14.6 percent in Nevada.

The sales housing market was soft in all four states of the Pacific region during the 12 months ending June 2011 because of high unemployment. According to Hanley Wood, LLC, new and existing home sales fell by 12 percent to 599,800 homes. In Arizona, 112,200 homes sold, a 14-percent decline compared with the number sold during the previous 12-month period, and the average home sales price declined by 7 percent to \$170,200. In Arizona, REO (Real Estate Owned) sales as a percentage of existing home sales increased slightly to 53 percent. In the Phoenix metropolitan area, home sales declined by 9 percent to 47,750 homes, and the average sales price declined by 7 percent to \$171,500.

During the 12 months ending June 2011, new and existing home sales fell by 12 percent in California, to 413,200 homes, and the average home price rose by 1 percent to \$361,700. REO sales as a percentage of existing home sales decreased to 41 percent during the 12 months ending June 2011 from 44 percent a year earlier. In the San Francisco Bay Area, 66,500 homes sold during the 12 months ending June 2011, an 11-percent decline compared with the number sold during the previous 12 months, and the average home sales price increased by 2 percent to \$557,100 during the same period. In Southern California, home sales decreased by 12 percent to 155,300 homes, and the average home sales price was unchanged at \$555,400.

In Hawaii, during the 12 months ending June 2011, new and existing home sales fell by 10 percent to 15,100 homes sold compared with the number sold during the previous 12 months, and the average home sales price rose by 5 percent to \$513,300. REO sales as a percentage of all existing sales increased from 11 to 17 percent. In Nevada, new and existing home sales fell by 10 percent to 59,250 homes during the 12 months ending June 2011, and the average home sales price fell by 7 percent to \$161,600. During the same period, REO sales as a percentage of all existing home sales declined from 62 to 58 percent. In Las Vegas, home sales fell by 9 percent to 47,700 homes, and the average home sales price declined 14 percent to \$154,300.

According to LPS Applied Analytics, the number of homes in the region 90 or more days delinquent, in foreclosure, or in REO in June 2011 decreased by 156,400 homes, or 21 percent, to 589,100 homes compared with the number recorded in the previous 12-month period. This level represents 8.9 percent of all loans in the region in June 2011 compared with a rate of 11.1 percent in June 2010; the national rate was 7.8 percent in June 2011.

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 June 2011. Based on preliminary data, 37,800 single-family homes were permitted, a 19-percent decrease compared with the number of homes permitted during the previous 12 months. During the 12-month period ending June 2011, the number of single-family homes permitted in Arizona declined by 3,700, or 29 percent, to 9,350; in California, by 3,300, or 13 percent, to 22,000; in Hawaii, by 150, or 8 percent, to 1,800; and in Nevada, by 1,350, or 23 percent, to 4,525.

Rental housing markets varied from tight to balanced in California and Hawaii in the second quarter of 2011. The tight rental housing market in the San Francisco Bay Area tightened further. According to Reis, Inc., from the second quarter of 2010 to the second quarter of 2011, the apartment rental vacancy rates in Oakland, San Jose, and San Francisco declined from 5.5 to 4.2 percent, 4.2 to 3.2 percent, and 5.0 to 4.2 percent, respectively. During the same period, rents increased by 5 percent to \$1,571 in San Jose, 4 percent to \$1,888 in San Francisco, and 2 percent to \$1,359 in Oakland. Rental housing market conditions improved in Sacramento, becoming balanced during the second quarter of 2011 as the rental vacancy rate decreased to 5.4 percent, down from 7.1 percent in the second quarter of 2010, and rents increased by 2 percent to \$931. Reis, Inc., also reported that apartment rental vacancy rates decreased throughout Southern California from the second quarter of 2010 to the second quarter of 2011. Conditions in Riverside and San Bernardino Counties remained balanced, with the apartment vacancy rate declining from 8 to 6 percent. During the same period, the apartment vacancy rate decreased from 5.5 to 4.4 percent in Los Angeles County, 6.4 to 4.7 percent in Orange County, 4.9 to 3.7 percent in San Diego County, and 5.3 to 4.2 percent in Ventura County. Reis, Inc., recorded the average rent in Southern California as \$1,380 in the second quarter of 2011, up 1 percent compared with the average rent in the second quarter of 2010. The apartment rental vacancy rate in Honolulu declined to 2.3 percent in the second quarter of 2011, down from 2.9 percent in the second quarter of 2010. The average rent in Honolulu increased 1 percent to \$1,286 during the same period.

The rental housing markets in Arizona and Nevada remain soft but are improving. According to Reis, Inc., in the second quarter of 2011, the apartment rental vacancy rate in Phoenix was 8.3 percent, down from 11.5 percent in the second quarter of 2010, and the average rent increased 1 percent to \$758. Reis, Inc., reported an apartment rental vacancy rate of 8.1 percent in Las Vegas, down from 11.1 percent in the second quarter of 2010, and the average rent decreased 2 percent to \$805. Most of the vacancy rate declines in both states were the result of foreclosures that changed owners into renters.



Multifamily construction activity, as measured by the number of multifamily units permitted, increased in three of the four states in the region. During the 12-month period ending June 2011, based on preliminary data, permits for 24,850 multifamily units were issued in the region, a 55-percent increase from the number of units permitted during the 12 months ending June 2010. Declining vacancy rates resulting from increased renter demand were the main reason for the

permitting increases. During the 12-month period ending June 2011, in Arizona, the number of multifamily units permitted increased by 100, or 5 percent, to 1,550, in California, by 9,300 units, or 80 percent, to 21,000, and in Nevada, by 50 units, or 4 percent, to 1,550. These increases were partially offset by the decline in the number of units permitted in Hawaii, which recorded a decrease of 700 units, or 47 percent, to 750 units.