



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.

Economic conditions are improving in the Pacific region after 3 years of significant job losses from 2008 through 2010. During the 12 months ending June 2012, the region added 215,400 nonfarm payroll jobs, an increase of 1.2 percent from the previous 12 months. Job growth was led by the professional and business services and education and health services sectors, which added 74,750 and 59,400 jobs, or 2.8 and 2.5 percent, respectively. The government sector realized the largest percentage decline in nonfarm payrolls, with the loss of 51,500 jobs, or 1.9 percent, because of budget cuts.

Nonfarm payroll growth was positive in all four states of the region during the 12 months ending June 2012.

In California, 161,200 jobs were added, an increase of 1.2 percent, compared with a gain of 94,300 jobs, or 0.7 percent, during the previous 12 months. Job growth in the state was driven by the same sectors that led growth in the region. In California, the professional and business services sector added 65,500 jobs, or 3.1 percent, and the education and health services sector added 47,500 jobs, or 2.6 percent. The government sector declined by 46,050 jobs, or 1.9 percent. The San Francisco Bay Area and Southern California added 54,650 jobs and 71,200 jobs, or 1.9 and 0.9 percent, respectively. Nonfarm payroll jobs in Hawaii increased by 5,300 jobs, or 0.9 percent, during the 12 months ending June 2012 compared with a gain of 4,000 jobs, or 0.7 percent, during the previous 12 months. The leisure and hospitality sector led nonfarm payroll growth in the state, adding 4,500 jobs, or 4.4 percent. According to the Hawaii Tourism Authority, gross expenditures from tourism totaled \$13.6 billion during the 12 months ending June 2012, an increase of 14 percent from the previous 12 months. Nonfarm payrolls rose by 38,250 jobs, or 1.6 percent, in Arizona during the 12 months ending June 2012 compared with a loss of 320 jobs during the previous 12 months. The education and health services and the leisure and hospitality sectors added



9,750 and 6,900 jobs, or 2.8 and 2.7 percent, respectively. In Nevada, nonfarm payrolls increased by 10,700 jobs, or 1 percent, during the 12 months ending June 2012 compared with the loss of 5,450 jobs during the previous 12 months. Job gains were most significant in the leisure and hospitality sector, which added 10,100 jobs, or 3.2 percent, because visitor volume increased by 82,150 people, or 2.4 percent, during the 12 months ending May 2012 compared with the number of visitors during the previous 12-month period. The average unemployment rate in the region decreased to 10.9 percent during the 12-month period ending June 2012 compared with 11.8 percent during the 12-month period ending June 2011. The average unemployment rate ranged from 6.6 percent in Hawaii to 12.7 percent in Nevada.

The sales housing market in all four states of the Pacific region was soft during the 12 months ending May 2012 as a result of high unemployment and slow job growth. According to Hanley Wood, LLC, new and existing home sales in the region fell by 15,600 homes, or 2 percent, to 636,000 homes sold, compared with the number sold during the 12 months ending May 2011. In Arizona, home sales declined by 8,450, or 6 percent, to 135,100 homes sold. The average home sales price increased by 10 percent to \$186,600, because Real Estate Owned (REO) sales as a percentage of existing home sales decreased to 46 percent during the 12 months ending May 2012 compared with 57 percent during the previous 12 months. In Phoenix, home sales increased 2 percent to 110,100 homes sold and the average home sales price increased 4 percent to \$178,300. Arizona was the only state in the region where new homes sales increased. The number of new homes sales in Arizona increased by 600 homes, or 7 percent, to 10,200 homes sold during the 12 months ending May 2012 compared with the number sold during the previous 12 months.

Sales of new and existing homes totaled 421,800 homes in California during the 12 months ending May 2012, a 1-percent decline compared with the number of homes sold during the previous 12 months. The average home sales price increased 4 percent to \$372,600, because REO sales, as a percentage of existing home sales, declined to 39 percent from 42 percent a year ago. In the San Francisco Bay Area, 71,200 homes were sold, a 7-percent increase compared with the number sold during the previous 12 months; the average home sales price decreased by 2 percent, however, to \$548,500 during the same period. The number of homes sold in Southern California increased by 1 percent to 235,200 homes, and the average home sales price fell 1 percent to \$376,600.

In Hawaii, during the 12 months ending May 2012, new and existing home sales fell 10 percent, to 14,950 homes sold, compared with the number sold during the previous 12 months. The average home sales price increased 6 percent to \$501,600. The home sales price increase resulted from REO sales as a percentage of all existing

sales declining to 13 percent from 16 percent during the previous 12 months. In Nevada, during the 12 months ending May 2012, new and existing home sales remained flat at 64,150 homes sold. The average home sales price remained unchanged at \$162,800. REO sales as a percentage of all existing home sales decreased from 60 percent in the 12 months ending May 2011 to 57 percent during the 12 months ending May 2012. In Las Vegas, during the same period, home sales rose by 7 percent, to 54,500 homes, and the average home sales price declined 6 percent to \$146,100.

According to LPS Applied Analytics, the number of home loans in the region 90 or more days delinquent, in foreclosure, or in REO in June 2012 decreased by 139,000 homes, or 24 percent, to 444,300 homes compared with the number of distressed loans in June 2011. This level represents a rate of 7 percent of all loans in the region in June 2012 compared with a rate of 9.1 percent in June 2011; the national rate was 7.7 percent in June 2012.

Because of the increased number of new home sales in Arizona, new home construction activity, as measured by the number of single-family building permits issued, increased in the region during the 12 months ending June 2012. Based on preliminary data, during the 12 months ending June 2012, 42,700 single-family homes were permitted in the region, an increase of 5,150 permits, or 14 percent, compared with the number permitted during the previous 12 months. The increase in new home construction was most prominent in Arizona, where the number of single-family homes permitted increased by 3,950, or 43 percent, to 13,150. The number of single-family homes permitted in California remained flat at 22,000 homes and declined in Hawaii by 40 homes, or 2 percent, to 1,700 homes permitted.

Rental housing markets in the Pacific region varied from tight to balanced in California and Hawaii in the second quarter of 2012. Although apartment vacancies increased in the San Francisco Bay Area, the rental housing market remained tight; from the second quarter of 2011 to the second quarter of 2012, the apartment vacancy rates in San Jose, Oakland, and San Francisco increased from 2.6 to 3.2 percent, 3.7 to 4.0 percent, and 3.5 to 3.9 percent, respectively, according to Axiometrics, Inc. During the same period, the tight rental housing market resulted in average effective rents increasing 16 percent to \$2,450 in San Francisco, 9 percent to \$2,050 in San Jose, and 6 percent to \$1,600 in Oakland. The average effective rent in the San Francisco Bay Area was \$2,000 in the second quarter of 2012, up 9 percent, compared with the effective rent in the second quarter of 2011. The rental housing market was balanced in Sacramento in the second quarter of 2012, with an apartment vacancy rate of 5.8 percent, up from 5.2 percent in the second quarter of 2011. During the same period, rents increased by 2 percent to \$1,000. Southern California rental market conditions remained tight, except for Riverside and San Bernardino



Counties, which remained balanced. Axiometrics, Inc., reported that, between the second quarter of 2011 and the second quarter of 2012, the apartment rental vacancy rates increased from 5.3 to 5.7 percent in Riverside and San Bernardino Counties, 4.3 to 4.6 percent in Ventura County, and 4.5 to 4.8 percent in Orange County. During the same period, the apartment vacancy rate decreased from 5.2 to 4.8 percent in Los Angeles County and 4.7 to 4.6 percent in San Diego County. The average effective rent in Southern California was \$1,575 in the second quarter of 2012, up 5 percent compared with the effective rent in the second quarter of 2011. Rental housing market conditions remained tight in Honolulu; however, the apartment vacancy rate increased to 3.6 percent in the second quarter of 2012 from 2.7 percent in the second quarter of 2011. During the second quarter of 2012, the average effective rent in Honolulu was \$1,925, up 3 percent compared with the effective rent during the second quarter of 2011.

Rental housing markets in Arizona and Nevada remained slightly soft but are improving. According to Axiometrics, Inc., in the second quarter of 2012, the apartment vacancy

rate in Phoenix was 7.1 percent, down from 7.4 percent in the second quarter of 2011, and the average effective rent increased 2 percent to \$750. In Las Vegas, the apartment vacancy rate decreased from 8.0 to 7.8 percent, but the average effective rent remained unchanged at \$750. The decline in vacancy rates in Arizona was caused in part by increasing population growth, whereas the vacancy rate declines in Nevada resulted from the high levels of foreclosures, which changed owners into renters.

Multifamily construction activity, as measured by the number of multifamily units permitted, increased in every state in the region, except Nevada, during the 12-month period ending June 2012. Based on preliminary data, 32,400 multifamily units were permitted in the region, a 32-percent increase from the previous 12 months. Increased renter demand and declining vacancy rates were the main impetus for rising multifamily permits. During the 12-month period ending June 2012, the number of multifamily units permitted increased in Arizona by 1,900, or 129 percent, to 3,375; in California, by 5,025, or 24 percent, to 26,050; and in Hawaii by 1,275, or 239 percent, to 1,825. The number of multifamily permits in Nevada declined by 400 units, or 26 percent, to 1,175.