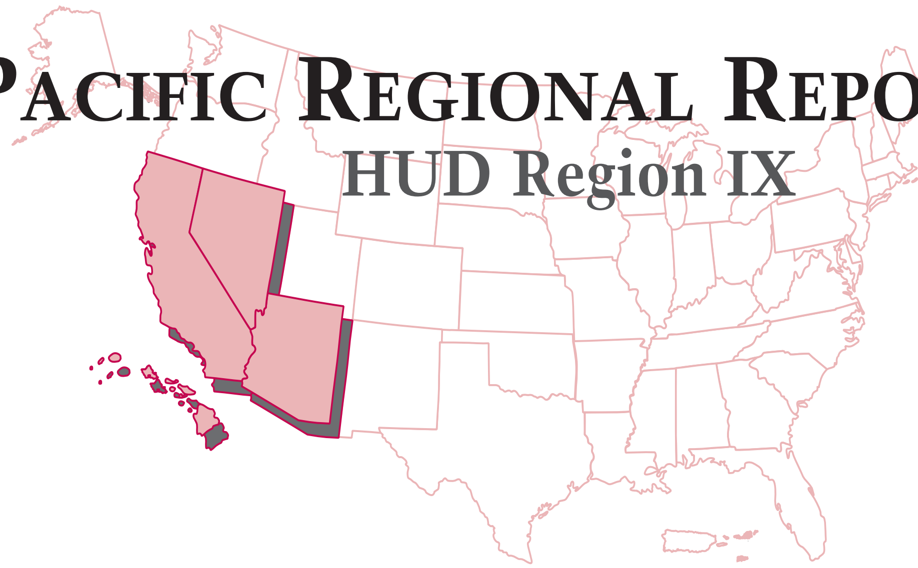
3rd Quarter 2009

U.S. Housing Market Conditions

Pacific Regional Report

HUD Region IX



3rd 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.

vBroad-based employment losses continue to affect the Pacific region. During the 12 months ending September 2009, nonfarm employment averaged 18.8 million jobs, reflecting a decline of 867,100 jobs, or 4.4 percent, compared with the number of jobs recorded during the previous 12 months. Due primarily to soft conditions in the real estate markets, the construction sector continued to lead job losses, down 219,800 jobs, or nearly 19 percent. The professional and business services sector and the retail trade subsector lost 158,000 and 142,900 jobs, decreases of 5.5 and 6.5 percent, respectively. Despite the overall contraction in nonfarm employment, the education and health services sector added 34,900 jobs, reflecting an increase of 1.6 percent.

Employment declined significantly in every state in the region during the 12 months ending September 2009. California payrolls decreased by 609,300 jobs, or 4 percent, to average 14.5 million positions. With the addition of 29,200 jobs, the education and health services sector was the only employment sector that grew. The construction sector continued to lead losses in the state, with a decrease of 140,900 jobs, or 17 percent. Employment contracted in the San Francisco Bay Area by 123,600 jobs, a 3.7-percent change, and in Southern California by 345,600 jobs, a 4-percent loss. During the same period, employment decreased in Hawaii by 18,300 jobs, a 2.9-percent change, to average 604,500 jobs.

In Arizona, during the 12 months ending September 2009, employment declined by 170,400 jobs, or 6.4 percent, to average 2.5 million jobs. Losses were concentrated in the construction and the professional and business services sectors, down 50,100 and 42,000 jobs, respectively. In contrast, the education and health services sector added 2,200 jobs and was the only sector in the state to post a gain. During the same period, declining tourism revenue and soft home sales markets in Nevada resulted in the loss of 69,200 jobs, a decrease of 5.4 percent, to average 1.2 million jobs. The construction and the leisure and hospitality sectors contracted the most, losing 24,400 and 20,500 jobs, respectively. Construction employment was affected by the cessation of the building activity for two Las Vegas hotel-casino resorts with a planned total of 8,725 rooms. In contrast, the education and health services and the natural resources and mining sectors posted gains of 2,700 and 300 jobs, respectively. The average unemployment rate in the region rose from 6.2 percent during the 12 months ending September 2008 to 10.2 percent during the 12 months ending September 2009. Unemployment rates ranged from a low of 6.5 percent in Hawaii to a high of 10.7 percent in both California and Nevada.

Home sales volume increased throughout most major markets in the Pacific region because buyers were attracted by falling home sales prices, low interest rates, and buyer incentive programs. According to the California Association of REALTORS®, during the 12 months ending September 2009, 543,500 existing homes were sold, a 45-percent gain compared with the number of homes sold in the state during the previous 12 months. During the third quarter of 2009, the median price of an existing home was $291,500, down 15 percent from the median price recorded during the same quarter a year earlier but up 17 percent compared with the median price posted during the first quarter of 2009. During the third quarter of 2009, foreclosed homes accounted for 43 percent of existing homes sold in California. The proportion of foreclosed homes to total sales has declined compared with 48 percent in the third quarter of 2008 and the peak level of 58 percent in the first quarter of 2009. In California, new home sales volume remained very slow through the second quarter of 2009. According to Hanley Wood LLC, during the 12 months ending June 2009, builders sold 29,000 new homes in the 30 largest California counties, a decline of nearly 40 percent compared with the 47,300 homes sold in those counties during the previous 12-month period. Sales housing markets are soft in most inland California metropolitan areas and relatively balanced in coastal California areas. In Honolulu, where conditions in the home sales market are also balanced, existing home sales declined 22 percent to 5,600 homes sold in the 12 months ending September 2009. In the third quarter of 2009, the median price of a single-family home sold fell 5 percent to $587,000 and the median price of a condominium also fell 5 percent to $302,300.

Existing home sales volume continued to increase in both Phoenix and Las Vegas. According to the Phoenix Housing Market Letter, during the 12 months ending September 2009, 85,900 existing homes were sold in Phoenix, a 62-percent gain compared with the number sold during the previous 12-month period. During the third quarter of 2009, the median price of an existing home declined 27 percent to $131,800 compared with the median price recorded during the same quarter in 2008. The median price has increased 7 percent since the quarterly low of $123,300 recorded in the second quarter of 2009. The Las Vegas Housing Market Letter reported that, during the 12 months ending September 2009, existing home sales in Las Vegas increased 58 percent to 41,200 homes compared with 26,100 homes sold in the previous 12 months. The sales volume has increased since the recent low of 22,300 homes sold in the 12 months ending June 2008. From the third quarter of 2008 to the third quarter of 2009, the median price of an existing home declined by 40 percent, or nearly $80,000, to $124,100. The proportion of foreclosed homes to total sales has increased in Phoenix and Las Vegas and has placed downward pressure on prices. From the third quarter of 2008 to the same quarter of 2009, the share of foreclosed home sales increased from 50 to 57 percent in Phoenix and from 63 to 69 percent in Las Vegas. According to the Phoenix Housing Market Letter and the Las Vegas Housing Market Letter, during the 12 months ending September 2009, sales of new homes in Phoenix and Las Vegas declined approximately 55 percent in both areas, to 11,700 and 5,800 homes, respectively.

Due to significant price pressures from the increased sales of foreclosed homes, builders throughout the Pacific region continue to reduce the pace of new construction, as measured by the number of single-family building permits issued. During the 12 months ending September 2009, based on preliminary data, 40,750 single-family homes were permitted in the region, reflecting a nearly 40-percent decrease compared with the number of homes permitted during the preceding 12 months. In Nevada, the number of single-family homes permitted fell by 53 percent, or 4,825, to total 4,325 homes during the 12 months ending September 2009. During the same period, in Arizona, the number of homes permitted declined by 40 percent, or 7,825, to total 11,550 homes. In California and Hawaii, the number of single-family homes permitted decreased by 35 and 36 percent to total 23,000 and 1,900 homes, respectively.

Rental vacancy rates increased in all major areas in the Pacific region from the third quarter of 2008 to the third quarter of 2009. Although average rents were lower, the San Francisco Bay Area rental market remained balanced as conditions eased from a previously tight market. Reis, Inc., reports that, from the third quarter of 2008 to the third quarter of 2009, the apartment rental vacancy rate increased from 3.7 to 4.7 percent in the San Francisco submarket, from 3.3 to 4.8 percent in the San Jose submarket, and from 4.1 to 5.8 percent in the Oakland submarket. During the third quarter of 2009, all submarkets recorded decreases in average rents compared with rents recorded in the third quarter of 2008. The average rent declined in the Oakland submarket by more than 2 percent to $1,353, in the San Francisco submarket by more than 5 percent to $1,824, and in the San Jose submarket by nearly 7 percent to $1,487. In Sacramento, the rental market was slightly soft, with a current vacancy rate of 7.2 percent, up from the 5.4-percent rate recorded during the third quarter of 2008, and the current average rent was $918, nearly a 3-percent decrease from the rent recorded during the third quarter of 2008.

The Southern California rental markets were also balanced in the third quarter of 2009, even though rental vacancy rates increased and rents declined. From the third quarter of 2008 to the third quarter of 2009, rental vacancy rates increased in all counties except Riverside and Santa Barbara Counties. In San Diego, Los Angeles, and San Bernardino Counties, the rental vacancy rate increased by 0.5 percentage point to 5.0, 5.5, and 7.0 percent, respectively. The vacancy rate increased from 4.5 to 5.5 percent in Ventura County and from 4.5 to 6.0 percent in Orange County. Slower household formation and households doubling up during the employment weakness have led to the increased vacancy rates. Vacancy rates in Riverside and Santa Barbara Counties remained unchanged, at 8 percent and less than 5 percent, respectively. Reis, Inc., reported that, during the third quarter of 2009, the average rent in Southern California was $1,384, reflecting a 3-percent decrease compared with the average rent of $1,428 recorded in the third quarter of 2008.

Other major rental housing markets in the Pacific region continued to be affected by the weak employment conditions and the increase in rental inventory during the past several years. According to Reis, Inc., the Phoenix market was soft, with a vacancy rate of 11.9 percent in the third quarter of 2009, up from the 10.4-percent rate recorded in the third quarter of 2008. The average asking rent in Phoenix declined nearly 2 percent to $767 in the third quarter of 2009. From the third quarter of 2008 to the same quarter of 2009, Reis, Inc., reported that the vacancy rate increased from 7.5 to 10.3 percent in Las Vegas, while the average rent decreased nearly 3 percent to $847. In the third quarter of 2009, the Honolulu rental market softened, with an overall estimated vacancy rate of 8 percent, up from the 4-percent rate recorded in the third quarter of 2008.

Multifamily construction activity, as measured by the number of units permitted, declined significantly in the Pacific region. During the 12 months ending September 2009, based on preliminary data, 18,650 multifamily units were permitted, a 65-percent drop compared with the number permitted during the previous 12-month period. The tighter credit market conditions that began in 2008 continue to affect new construction activity. During the 12 months ending September 2009, 1,850 and 3,000 units were permitted in Arizona and Nevada, respectively, representing 78- and 74-percent declines, compared with the number permitted during the previous 12-month period. In California, during the 12 months ending September 2009, permits were issued for 12,900 multifamily units, a 59-percent decline compared with the number permitted during the previous 12-month period. In Hawaii, during the 12 months ending September 2009, 890 multifamily units were permitted, a 43-percent decline compared with the number permitted during the previous 12-month period.