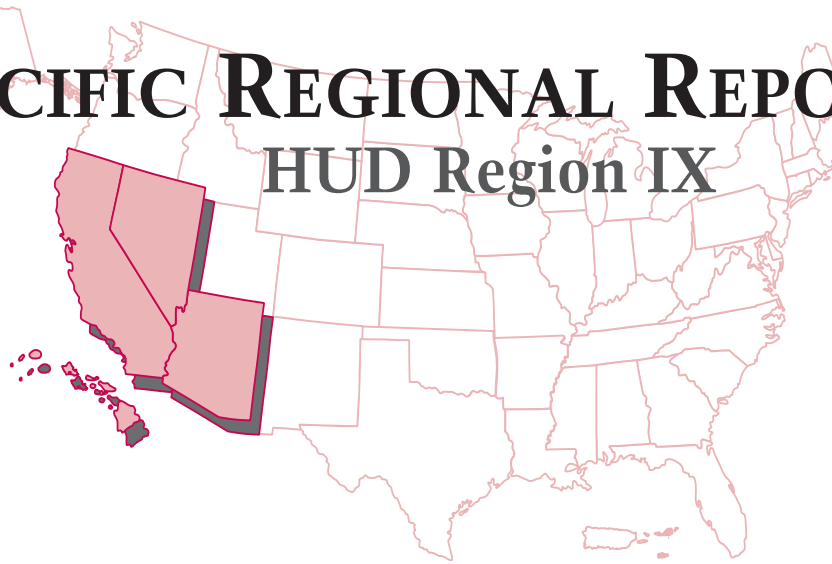




U.S. Housing Market Conditions

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.

Although employment losses persisted in the Pacific region during the past year, the rate of decline has been abating since February 2010. During the 12 months ending September 2010, nonfarm payrolls averaged nearly 18 million jobs, reflecting a 3.2-percent decline, or 583,400 jobs, compared with a decline of 5.6 percent, or 1.1 million jobs, during the 12 months ending September 2009. During the 12 months ending September 2010, the goods-producing sectors declined by 254,300 jobs, or 10.1 percent, with losses in the construction sector down 158,600 jobs, or 17.1 percent, primarily in commercial and infrastructure projects, and in the manufacturing sector down 92,700 jobs, or 6.1 percent. During the 12 months ending September 2010, the service-providing sectors decreased by 329,100 jobs, or 2.1 percent, led by the wholesale and retail trade

sector, down 98,100 jobs, or 3.4 percent. The education and health services sector was the only sector to grow in the region, adding 32,000 jobs, or 1.4 percent, during the same period.

Nonfarm payrolls declined in every state in the region during the 12 months ending September 2010. Payrolls in California decreased by 448,600 jobs, or 3.1 percent, to average 13.9 million jobs. Job losses were concentrated in the construction, trade, and manufacturing sectors with respective job declines of 104,600, 87,000, and 79,400 jobs, or 15.8, 3.9, and 6.0 percent. The education and health services sector gained 19,100 jobs, or 1.1 percent. Payrolls contracted in the San Francisco Bay Area by 119,800 jobs, or 3.8 percent, and in Southern California by 262,700 jobs, or 3.2 percent. Payrolls declined in Hawaii by 9,000 jobs, or 1.5 percent, to average 588,500 jobs.

In Arizona, nonfarm payrolls decreased by 71,700 jobs, or 2.9 percent, during the 12 months ending September 2010, to average 2.4 million jobs. The construction and the professional and business services sectors declined the most, by 26,700 jobs, or 18.9 percent, and 10,000 jobs, or 2.8 percent, respectively. The education and health services sector added 8,700 jobs, an increase of 2.7 percent. In Nevada, decreasing tourism revenue and continued foreclosures led to a decrease of 54,000 jobs, or 4.6 percent,



to average 1.1 million jobs. The construction and the leisure and hospitality sectors declined by 24,100 jobs, or 26.8 percent, and 9,800 jobs, or 3.1 percent, respectively, and the education and health services sector added 2,500 jobs, an increase of 2.6 percent. The average unemployment rate in the region increased from 10.1 percent during the 12 months ending September 2009 to 12.3 percent during the 12 months ending September 2010. During this same period, the unemployment rates in the region ranged from 6.6 percent in Hawaii to 13.6 percent in Nevada.

Most home sales markets in the Pacific region remained soft in the third quarter of 2010, because the brief increase in sales activity from the homebuyer tax credit, which occurred earlier in the year, had dissipated. In California, total home sales fell 8 percent to 424,700 homes sold during the 12 months ending September 2010, reversing the trend of increasing sales activity from the fourth quarter of 2008 through the second quarter of 2010. According to Hanley Wood, LLC, during the 12 months ending September 2010, 396,600 existing homes sold in California, a 6-percent decline compared with the preceding 12 months. Foreclosed home sales accounted for 44 percent of all existing home sales in the 12-month period ending September 2010, down from the 48-percent share in the preceding 12-month period. During the 12 months ending September 2010, the median sales price of foreclosed homes was \$191,500, up 10 percent from the previous 12-month period, and the median sales price of all other existing home sales was \$338,500, up 2 percent. During the 12 months ending September 2010, 28,100 new homes sold in California, a 23-percent decline compared with the 36,700 homes sold in the previous 12 months. The median sales price of a new home was \$348,300 during the 12 months ending September 2010, up 2 percent from the previous period.

In Arizona, soft sales housing market conditions persisted as prices continued to decline, a trend that began in 2005. With the expiration of the homebuyer tax credit, home sales activity fell 5 percent in the 12 months ending September 2010; sales activity had been increasing from the second quarter of 2009 through the second quarter of 2010. During the 12 months ending September 2010, Hanley Wood, LLC, reported that 106,500 existing homes sold in Arizona, a 3-percent decline in volume compared with the number sold during the preceding 12 months. Foreclosed homes accounted for 55 percent of all existing home sales in the 12-month period ending September 2010, up from 49 percent in the preceding period. During the 12 months ending September 2010, the median sales price of a foreclosed home was \$114,500, up 11 percent, and the median home sales price of all other existing home sales was \$166,400, down 4 percent. During the 12-month period ending September 2010, 11,950 new homes sold in Arizona, a 30-percent decline compared with the 17,050 homes sold in the previous 12 months, and the median sales price of a new home was \$192,600, up 3 percent from the previous period.

Sales housing market conditions were similarly soft in Nevada. According to Hanley Wood, LLC, during the 12 months ending September 2010, 55,300 existing homes sold in Nevada, a 2-percent decline compared with the number sold during the preceding 12 months. Foreclosed homes accounted for 62 percent of all existing home sales during the 12 months ending September 2010, down from 65 percent during the previous 12 months. During the 12 months ending September 2010, the median sales price of foreclosed homes was \$124,200, down 4 percent from the previous period, and the median sales price of all other existing home sales was \$161,600, down 10 percent. During the 12 months ending September 2010, 5,655 new homes sold in Nevada, a 17-percent decline compared with the 6,800 homes sold in the previous 12 months. The median sales price of a new home during the 12 months ending September 2010 was \$208,100, down 11 percent from the previous period.

Sales market conditions were strongest in Hawaii, which had the least amount of foreclosure activity since 2008 within the Pacific region. During the 12 months ending September 2010, according to Hanley Wood, LLC, 15,200 existing homes sold in Hawaii, a 37-percent increase in volume from the previous 12-month period. Sales volumes were at the lowest point for the decade in 2008 and in early 2009 as the financial crisis adversely affected the sales of second homes, a major component of the Hawaii market. Sales of foreclosed homes accounted for 12 percent of all existing home sales during the 12 months ending September 2010, up from 7 percent in the preceding period. During the 12 months ending September 2010, the median sales price of foreclosed homes was \$273,000, down 9 percent from the previous 12 months, and the median sales price of other existing home sales was \$389,200, up 7 percent. During the 12 months ending September 2010, sales of new homes remained constant at 1,500 homes and the median sales price of \$460,200 represented a 7-percent increase compared with the median price during the preceding period.

Builders throughout most of the region increased the pace of new home construction, as measured by the number of single-family homebuilding permits issued. During the 12 months ending September 2010, and based on preliminary data, 43,650 single-family homes were permitted in the region, a 7-percent increase compared with the number of permits issued during the preceding 12 months. In California and Nevada during the 12 months ending September 2010, single-family permits increased by 1,200 and 1,325 homes, respectively, or by 5 and 31 percent, to total 24,400 and 5,600 homes. Because land costs have fallen in Nevada, builders are now able to construct new homes that will be competitively priced with foreclosed homes. Although the number of single-family homes permitted increased in Nevada, single-family permits remain significantly below the 10-year average of 24,500 homes. During the 12 months ending September 2010, Arizona had a moderate 2-percent increase in single-family building activity,



up by 190 homes, to total almost 11,750 single-family homes. In contrast, permits for single-family homes in Hawaii remained unchanged, with 1,900 single-family homes permitted during the 12 months ending September 2010.

As of the third quarter of 2010, major rental markets were generally balanced in California and Hawaii but soft in Arizona and Nevada. The overall San Francisco Bay Area rental market was balanced. Vacancy and rent trends differed in the three submarkets. According to Reis, Inc., from the third quarter of 2009 to the third quarter of 2010, the apartment rental vacancy rate decreased from 5.8 to 4.9 percent in the Oakland submarket and from 5.0 to 3.9 percent in the San Jose submarket, but the rate remained essentially unchanged at 4.8 percent in the San Francisco submarket. Average rents increased 1 and 2 percent, respectively, in the San Francisco and San Jose submarkets to \$1,838 and \$1,516, respectively, but declined 1 percent in the Oakland submarket to \$1,339. In Sacramento, as of the third quarter of 2010, the rental market was slightly soft, with a vacancy rate of 6.6 percent, down from 7.2 percent in the third quarter of 2009, and average rents declined 0.4 percent to average \$914 in the third quarter of 2010. From the third quarter of 2009 to the third quarter of 2010, Reis, Inc., reported that the Honolulu apartment vacancy rate increased from 3.2 to 3.3 percent and average rents remained unchanged at \$1,289.

Rental markets in southern California were balanced as rental vacancy rates decreased because landlords lowered rents. From the third quarter of 2009 to the third quarter of 2010, Reis, Inc., reported that the apartment rental vacancy rates decreased by about 0.5 percentage points in all major metropolitan areas, except for Riverside-San Bernardino, which decreased by 1.3 percentage points to 7.1 percent. In the third quarter of 2010, the vacancy

rates in Orange, Los Angeles, Ventura, and San Diego Counties were 5.9, 4.9, 4.9, and 4.5 percent, respectively. In the third quarter of 2010, Reis, Inc., recorded the average rent in Southern California at \$1,367, a 1-percent decrease compared with the average rent of \$1,383 in the third quarter of 2009.

The major rental markets in Arizona and Nevada remained soft but showed some signs of improvement. According to Reis, Inc., the Phoenix apartment market vacancy rate was 10.3 percent in the third quarter of 2010, down from the 12.2-percent rate recorded in the third quarter of 2009. The average asking rent in Phoenix declined 2 percent to \$749 in the third quarter of 2010. From the third quarter of 2009 to the third quarter of 2010, Reis, Inc., reported that the apartment vacancy rate decreased from 10.4 to 9.9 percent in Las Vegas, and the average rent decreased 4 percent to \$817.

Multifamily construction activity, as measured by the number of multifamily units permitted, continued to decline in most of the region. During the 12 months ending September 2010 and based on preliminary data, permits for 18,150 multifamily units were issued, a 3-percent decrease compared with the number of permits issued during the previous 12-month period. In Arizona and Nevada, during the 12 months ending September 2010, the number of multifamily units permitted totaled 1,450 and 940, respectively, reflecting a 22- and 69-percent decline compared with the number permitted during the preceding 12-month period. In contrast, during the 12 months ending September 2010, the number of multifamily units permitted increased to 14,150 in California, or by 10 percent, compared with the number permitted during the previous 12-month period, and to 1,600 units in Hawaii, an 85-percent increase from the previous period.