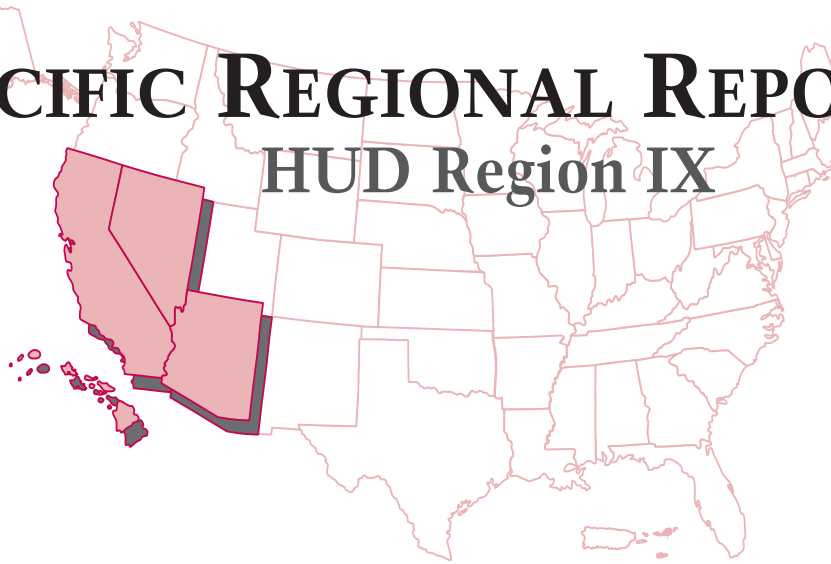


3rd Quarter 2011



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.

Economic conditions in the Pacific region are showing modest signs of improvement after declining by an average of 169,100 jobs annually between October 2008 and September 2010. Nonfarm payrolls increased by 36,700 jobs, or 0.8 percent, during the 12 months ending September 2011 compared with the number of jobs during the previous 12 months. The professional and business services sector led job growth in the region, adding 17,200 jobs, an increase of 2.6 percent. The construction subsector had the largest decline in nonfarm payrolls, with a loss of 3,250 jobs, or 1.7 percent, because of slow residential and commercial construction.

Gains in the number of nonfarm payroll jobs occurred in Arizona, California, and Hawaii, but the number of jobs declined in Nevada. California added 135,700 jobs,

an increase of 1.0 percent, during the 12 months ending September 2011, compared with a loss of 406,500 jobs, or 2.8 percent, during the previous 12 months. Job growth was driven by an increase of 66,250 jobs, or 3.2 percent, in the professional and business services sector as a result of employers hiring additional administrative support staff. The government sector declined by 47,000 jobs, or 1.9 percent. The San Francisco Bay Area and Southern California added 12,850 and 56,250 jobs, or 0.3 and 0.4 percent, respectively. In Hawaii, 7,075 jobs, or 1.2 percent, were added during the 12 months ending September 2011 compared with a loss of 12,400 jobs, or 2.1 percent, during the previous 12 months. The retail trade subsector had the largest percentage gain in employment, adding 1,425 jobs, or 14.9 percent, resulting from a 16-percent increase in tourist spending during the 12 months ending September 2011, compared with the number of jobs during the previous 12 months. Nonfarm payrolls increased by 8,725 jobs, or 0.4 percent, in Arizona during the 12 months ending September 2011. The education and health services sector added 14,050 jobs, an increase of 3.2 percent. In Nevada, nonfarm payrolls fell by 4,775 jobs, or 0.4 percent, to an average of 1,115,000 jobs. The largest percentage declines in both Arizona and Nevada were in the construction subsector, which lost 1,875 and 6,550 jobs, or 1.7 percent and 10.5 percent, respectively. The average



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unemployment rate in the region increased to 11.8 percent, up slightly from 11.7 percent during the previous year. The average unemployment rate ranged from 6.2 percent in Hawaii to 14.2 percent in Nevada.

The new and existing sales housing markets in all four states of the Pacific region were soft during the 12 months ending September 2011 due to high unemployment and stricter lending standards. According to Hanley Wood, LLC, new and existing home sales fell by 7 percent to 605,300. In Arizona, the number of sales decreased to 114,100 homes, a 6-percent decline compared with the number sold during the previous 12-month period. The average home sales price declined by 7 percent to \$167,700. Arizona REO (Real Estate Owned) sales as a percentage of existing home sales decreased to 48 percent during the 12 months ending September 2011 compared with 55 percent during the previous 12 months. In the Phoenix area, the number of homes sold declined by 1 percent to 95,700 homes and the average home sales price declined by 8 percent to \$168,900.

California reported 415,800 new and existing homes sales during the 12 months ending September 2011, an 8-percent decline compared with the number of homes sold during the previous 12 months. The average home sales price increased by 2 percent to \$357,700. REO sales, as a percentage of existing home sales, decreased to 38 percent from 44 percent a year ago. In the San Francisco Bay Area, 67,050 homes were sold, a 6-percent decline compared with the number sold during the previous 12 months, but the average home sales price increased by 1 percent to \$550,200. The number of homes sold in Southern California decreased by 10 percent to 226,100 and the average home sales price was unchanged at \$380,000.

The number of new and existing home sales fell by 11 percent in Hawaii during the 12 months ending September 2011 to 15,550 homes sold compared with the number sold during the previous 12 months, and the average home sales price increased by 2 percent to \$499,600. REO sales, as a percentage of all existing home sales, increased from 12 to 16 percent. In Nevada, the number of new and existing home sales fell by 6 percent to 59,900 homes during the 12 months ending September 2011 compared with the number sold during the previous 12-month period; the average home sales price fell by 11 percent to \$155,900. From the 12 months ending September 2010 to the 12 months ending September 2011, REO sales, as a percentage of all existing home sales, declined from 62 to 56 percent. In Las Vegas, the number of home sales fell by 4 percent to 48,850 homes and the average home sales price declined by 11 percent to \$149,000 during the 12-month period ending September 2011 compared with sales and prices during the previous 12 months.

According to LPS Applied Analytics, the number of homes in the region 90 or more days delinquent, in foreclosure, or in REO in September 2011 decreased by 176,400 homes,

or 25 percent, to 540,600 homes compared with the number reported in September 2010. This level represents a rate of 8.3 percent of all mortgage loans in the region in September 2011 compared with a rate of 10.6 percent in September 2010; the national rate was 7.7 percent in September 2011.

Because of weak sales housing market conditions, 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 August 2011. Based on preliminary data, 37,300 single-family homes were permitted, a 16-percent decline compared with the number permitted during the previous 12 months. The number of single-family homes permitted declined in Arizona by 2,525, or 21 percent, to 9,425; in California by 3,325, or 13 percent, to 21,600; in Hawaii by 140, or 7 percent, to 1,775; and in Nevada by 1,325, or 23 percent, to 4,500.

Rental housing markets varied from tight to balanced in California and Hawaii in the third quarter of 2011. Rental market conditions remained tight in the San Francisco Bay Area. According to AXIOMETRICS, Inc., from the third quarter of 2010 to the third quarter of 2011, the apartment rental vacancy rates in Oakland, San Jose, and San Francisco declined from 3.7 to 3.5 percent, 3.6 to 3.2 percent, and 3.7 to 2.9 percent, respectively. During the same period, average effective rents increased by 10 percent to \$1,575 in Oakland, 15 percent to \$1,950 in San Jose, and 17 percent to \$2,250 in San Francisco. The rental housing market was balanced in Sacramento in the third quarter of 2011, with a rental vacancy rate of 5.5 percent, up from 5.1 percent in the third quarter of 2010, and rents increased by 3 percent to \$1,000. AXIOMETRICS, Inc., also reported that apartment rental vacancy rates decreased throughout most of Southern California from the third quarter of 2010 to the third quarter of 2011. Riverside and San Bernardino Counties remained balanced, with the apartment vacancy rate declining from 6.3 to 5.7 percent. The apartment vacancy rate decreased from 5.8 to 4.9 percent in Los Angeles County, from 5.3 to 4.5 percent in Orange County, and from 4.8 to 4.1 percent in San Diego County. The only increase occurred in Ventura County, where the vacancy rate rose from 4.4 to 4.7 percent during the same period. The average rent in Southern California was \$1,550 in the third quarter of 2011, up 6 percent compared with rent during the third quarter of 2010. The apartment rental vacancy rate in Honolulu declined to 3.5 percent in the third quarter of 2011, down from 5.4 percent in the third quarter of 2010. The average rent in Honolulu increased by 19 percent to \$1,925 during the same period.

The rental housing markets in both Arizona and Nevada remain soft, but are improving. According to AXIOMETRICS, Inc., in the third quarter of 2011, the apartment rental vacancy rate in Phoenix was 7.5 percent, down from 8.5 percent in the third quarter of 2010, and the



average rent increased by 5 percent to \$740. In Las Vegas, the vacancy rate fell from 8.6 to 7.8 percent and the average rent increased by about 1 percent to \$760 during the same period. The decline in housing vacancy rates in both states is partly the result of rising foreclosures, which lead to an increased demand for rental units.

Multifamily construction activity, as measured by the number of multifamily units permitted, increased in every state in the region except in Hawaii. During the 12-month period ending August 2011, based on preliminary data, permits for 25,200 multifamily units were issued in

the region, a 44-percent increase from the number of units permitted during the previous 12 months. Increased renter demand, declining vacancy rates, and rising rents were the main impetus for an increase in the number of multifamily permits. During the 12-month period ending August 2011, the number of multifamily units permitted increased in Arizona by 1,075, or 84 percent, to 2,350; in California by 7,250 units, or 53 percent, to 20,800; and in Nevada by 420, or 36 percent, to 1,575. These increases were partially offset by the 70-percent decline to 460 units permitted in Hawaii.