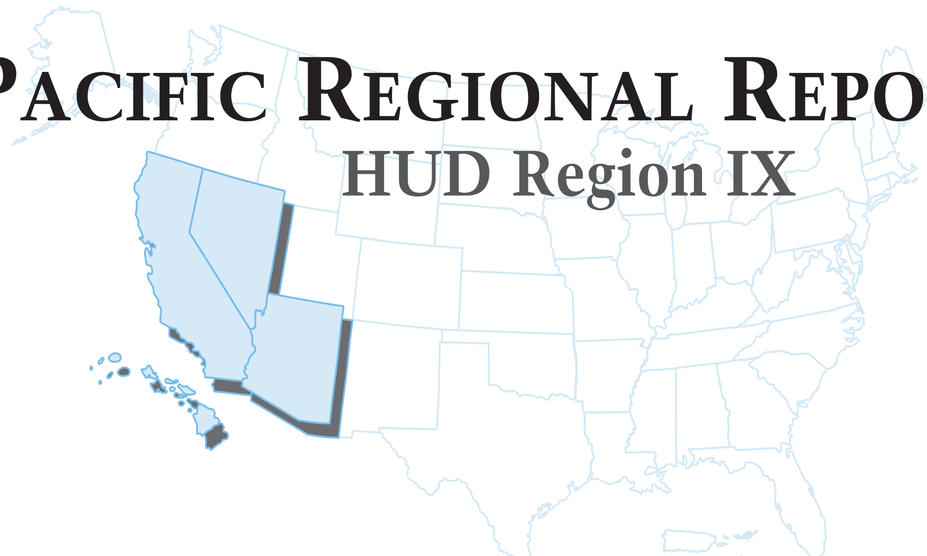
4th Quarter 2009

U.S. Housing Market Conditions

Pacific Regional Report

HUD Region IX

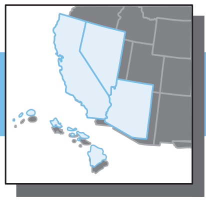


4th Quarter Activity

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.

Employment losses in the Pacific region, which began in 2008, have continued throughout 2009. During 2009, nonfarm employment averaged 18.6 million jobs, reflecting a decline of 941,800 jobs, or 4.8 percent, compared with the number of jobs in 2008. Employment decreased in all sectors except the education and health services sector, which added 27,500 jobs, an increase of 1.2 percent. The construction sector continued to lead job losses, down 219,700 jobs, or more than 19 percent because of the slowdown in both new home and commercial construction. The professional and business services sector and the retail trade subsector lost 163,900 and 140,400 jobs, or 5.7 and 6.5 percent, respectively. The average unemployment rate in the region rose from 6.9 percent during 2008 to 11.1 percent during 2009. Unemployment rates ranged from 7 percent in Hawaii to 11.8 percent in Nevada.

All four states in the region had significant employment losses during 2009. California lost 669,100 jobs, or 4.5 percent, to average 14.3 million; its construction sector alone lost 140,100 jobs, or 18 percent. Employment in Southern California and the San Francisco Bay Area declined by 355,200 and 139,500 jobs, respectively, or 4.2 percent in both areas. Employment decreased in Hawaii by 21,100 jobs, a 3.4-percent change, to average 598,100 jobs. As a result of the $1.3 billion decline in tourist spending from 2008 to 2009, Hawaii's leisure and hospitality sector lost 5,900 jobs, or 5.5 percent. Employment in Arizona declined by 175,500 jobs, or 6.7 percent, to average 2.4 million jobs, with the most significant losses being in the construction and the professional and business services sectors, down 47,700 and 39,600 jobs, respectively. During 2009, Nevada lost 76,100 jobs, or 6 percent, to average 1.2 million jobs. The construction and the leisure and hospitality sectors declined by 27,000 and 21,900 jobs, respectively, as a result of soft conditions in the new home sales market and the 10-percent decline in gaming revenue. More than 3,000 construction jobs were lost when the Fontainebleau Resort and several smaller hotels stopped construction in 2009 because of the weak economy.



The Census Bureau estimated the population of the Pacific region at 47.5 million as of July 1, 2009, a gain of 512,700, or 1.1 percent, compared with the estimate of July 1, 2008. Approximately 78 percent of the regional population increase resulted from net natural change (resident births minus resident deaths), which is consistent with the trend since 2006. Arizona ranked eighth in the nation with a population growth rate of 1.5 percent. Population increased by 1 percent in California and Nevada; the growth rate in Hawaii was only 0.6 percent.

Existing home sales volume increased throughout most major markets in the Pacific region during 2009 because of foreclosures, low interest rates, government buyer programs, and home prices being 46 percent lower on average than their peak price levels in 2006. According to the California Association of REALTORS®, 558,300 existing homes were sold in California in 2009, 1.5 percent more than the number of homes sold in the state during 2008 but 14 percent below the number sold at the peak of the sales market in 2004. The median price of an existing home in the fourth quarter of 2009 was $302,900, up 3 percent from the price in the fourth quarter of 2008 but down 45 percent from the peak price recorded in the fourth quarter of 2006. During the fourth quarter of 2009, foreclosed homes accounted for 41 percent of existing homes sold in California compared with 55 percent of those sold in the fourth quarter of 2008. New home sales in California remained at low levels for the second straight year: according to Hanley Wood, LLC, for the 12-month period ending September 2009 (the most recent data available), in California's 30 largest counties, builders sold 29,100 new homes, a decline of 30 percent from the sales level recorded during the 12 months ending September 2008. In Honolulu during 2009, existing home sales declined 7 percent to 6,200 homes sold. Likewise, home sales prices declined: in the fourth quarter of 2009, the median price of a single-family home fell nearly 6 percent to $581,700, and the median price of a condominium fell 3 percent to $305,000 compared with prices in the fourth quarter of 2008.

Existing home sales continued to increase in both Las Vegas and Phoenix. The *Las Vegas Housing Market Letter* reported that, in 2009, existing home sales in Las Vegas increased to 44,900 homes, up 47 percent from the 30,500 homes sold in 2008. From the fourth quarter of 2008 to the fourth quarter of 2009, the median price of an existing home declined nearly $47,650, or 28 percent, to $124,650. Foreclosed homes represented 65 percent of the existing homes sold during the fourth quarter of 2009, down from an estimated 75 percent in the fourth quarter of 2008. According to the *Phoenix Housing Market Letter*, 93,550 existing homes were sold in Phoenix in 2009, 60 percent more than the number sold during 2008. During the fourth quarter of 2009, the median price of an existing home declined to $126,300, down 16 percent from the price in the fourth quarter of 2008. Foreclosed home sales represented 50 percent of existing home sales in Phoenix in the fourth quarter of 2009, unchanged from the number in the fourth quarter of 2008. From 2008 to 2009, new homes sales declined by 50 percent in Las Vegas to 5,300 homes and 47 percent in Phoenix to 10,850 homes. The new home median price in Las Vegas declined by $34,000, or nearly 14 percent, to $212,500 and by nearly 7 percent in Phoenix to $195,650 between the fourth quarter of 2008 and the fourth quarter of 2009.

As new homes sales continued a 3-year decline, builders throughout the Pacific region reduced single-family home construction activity, as measured by the number of single-family building permits issued. During 2009, 42,850 single-family homes were permitted in the region, based on preliminary data, down 25 percent compared with the number of homes permitted during 2008 and down 84 percent from the 272,450 single-family homes permitted at the peak of new home construction in 2004. In Nevada in 2009, the number of single-family homes permitted decreased by 2,600 to 4,560 homes permitted, 36 percent fewer than were permitted in 2008. From 2008 to 2009, the number of homes permitted in Arizona declined by 27 percent, or 4,600, to 12,450 homes. In California and Hawaii, the number of single-family homes permitted decreased by 22 and 20 percent to 23,800 and 2,000 homes, respectively.

Rental market conditions in northern California ranged from mostly balanced to slightly soft in the fourth quarter of 2009. Reis, Inc., reported that, from the fourth quarter of 2008 to the fourth quarter of 2009, the apartment rental vacancy rate increased from 3.6 to 4.8 percent in the San Francisco submarket, from 4.4 to 5.1 percent in the San Jose submarket, and from 4.7 to 5.8 percent in the Oakland submarket. Average rent declined by more than 6 percent to $1,812 in the San Francisco submarket, by nearly 7 percent to $1,481 in the San Jose submarket, and by 4 percent to $1,331 in the Oakland submarket. In Sacramento, during the fourth quarter of 2009, the rental market softened but remained balanced, with a vacancy rate of 7.3 percent, up from the 5.8-percent rate recorded during the fourth quarter of 2008; the average rent was $913, nearly a 3-percent decrease from the average rent during the fourth quarter of 2008.

The rental markets were tight in San Diego and Santa Barbara Counties and balanced in the remainder of Southern California during the fourth quarter of 2009. Reis, Inc., reported that, from the fourth quarter of 2008 to the fourth quarter of 2009, the apartment rental vacancy rate increased from 4.1 to 4.9 percent in San Diego County, from 4.5 to 5.3 percent in Los Angeles County, from 7 to 8 percent in San Bernardino County, from 4.6 to 5.3 percent in Ventura County, and from 5.1 to 6.4 percent in Orange County. The vacancy rate remained at 8 percent in Riverside County and less than 5 percent in Santa Barbara County. During the fourth quarter of 2009, all submarkets recorded decreases in average rents compared with rents recorded in the fourth quarter of 2008. The average rent declined between 4 and 5 percent in Los Angeles County, Orange County, and Ventura County to $1,400, $1,500, and $1,380, respectively. In Riverside and San Bernardino Counties, the average rent declined by more than 2 percent to $1,030 and, in San Diego County, by more than 1 percent to $1,330.

Phoenix and Las Vegas had soft rental market conditions in the fourth quarter of 2009. According to Reis, Inc., in the fourth quarter of 2009, Phoenix and Las Vegas had vacancy rates of 10.7 and 12.3 percent, respectively, up from the 8.1- and 10.4-percent rates recorded in the fourth quarter of 2008. The average asking rent declined in Phoenix by more than 3 percent to $750 and in Las Vegas by nearly 5 percent to $830 in the fourth quarter of 2009. The Honolulu rental market was balanced, with an estimated vacancy rate of 5 percent in the fourth quarter of 2009, the same as the rate in the fourth quarter of 2008. Honolulu was one of the few places in the Pacific region where the change in average rents was positive: rents increased 3 percent to $1,150 from the fourth quarter of 2008 to the fourth quarter of 2009.

Multifamily construction activity, as measured by the number of units permitted, declined significantly in the Pacific region in 2009. Based on preliminary data, 13,450 multifamily units were permitted in the region in 2009, which represents a decline of 31,850 units, or 70 percent, from the number of multifamily units permitted in 2008 and the lowest level of multifamily units permitted since 1993. The large decline in the region was because of the soft condominium sales market, as builders curtailed construction. In 2005, condominiums represented more than 40 percent of the multifamily units permitted in the region. In 2009, condominiums represented less than 15 percent of the multifamily permits issued. The largest numerical drop in units permitted was in California, where 19,750 fewer units were permitted, down 68 percent to 9,250 units. The Arizona and Nevada rental markets had the largest percentage declines; multifamily construction fell by 80 percent to 1,400 units in Arizona and by 72 percent to 2,200 units in Nevada. In Hawaii, the number of multifamily units permitted declined by 62 percent to 990 units. Honolulu, Las Vegas, Los Angeles, and Phoenix accounted for more than one-half of the drop in multifamily construction for the region in 2009.