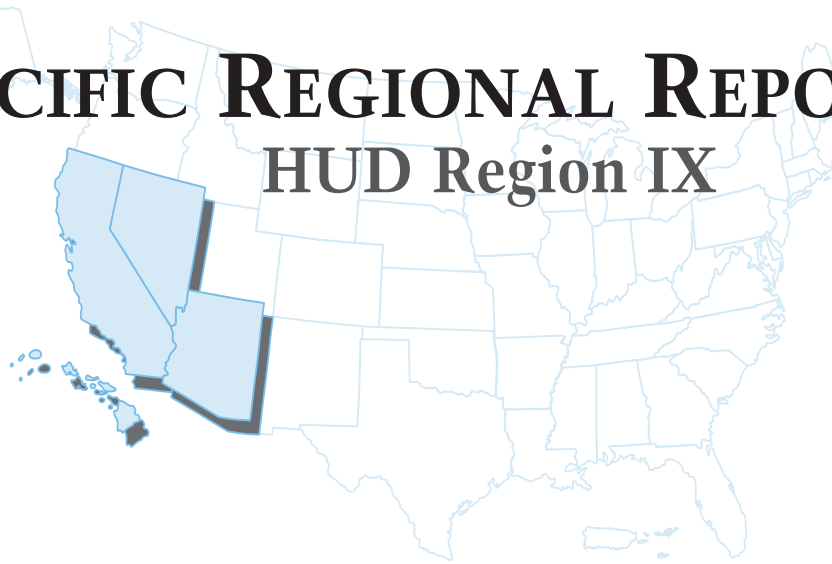




U.S. Housing Market Conditions

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.

Economic conditions improved in the Pacific Region in 2011 after significant job losses between 2008 and 2010. During 2011, the region added 229,250 nonfarm payroll jobs, a 1.3-percent increase compared with nonfarm payrolls in 2010. The professional and business services, education and health services, and leisure and hospitality sectors, which grew by 18,500, 16,950, and 12,400 jobs, or 2.8, 3.0, and 2.3 percent, respectively, led job growth. The government sector had the largest percentage decline in nonfarm payrolls with the loss of 7,900 jobs, or 1 percent, primarily because of federal and local government budget cuts.

Nonfarm payroll growth was positive in all four states in the region during 2011. California nonfarm payrolls increased by 196,450 jobs, or 1.4 percent, to 14.1 million

jobs in 2011 compared with a loss of 193,000 jobs, or 1.4 percent, during 2010. In California, the professional and business services sector added 69,350 jobs, a 3.3-percent increase, and the education and health services sector added 47,750 jobs, a 2.7-percent increase. The government sector declined by 33,700 jobs, or 2.3 percent. The San Francisco Bay Area and Southern California increased by 32,600 and 86,350 jobs, respectively, or 0.7 percent each. During 2011, Hawaii added 7,200 jobs, a 1.2-percent increase, to 594,000 jobs compared with a loss of 4,900 jobs, or 0.8 percent, during 2010. The information, financial activities, and professional and business services sectors led nonfarm payroll growth in the state, expanding by 3,050, 2,800, and 2,500 jobs, or 4.3, 3.7, and 2.5 percent, respectively. Nonfarm payrolls rose by 23,500 jobs, or 1 percent, to 2,400,800 jobs in Arizona during 2011. The education and health services and the leisure and hospitality sectors added 15,350 and 7,550 jobs, increases of 4.5 and 3 percent, respectively. The Arizona Office of Tourism estimated that gross sales from tourism totaled \$49.1 billion during the 12 months ending October 2011, a 10-percent increase from the previous 12-month period. In Nevada, nonfarm payrolls grew by just 2,100 jobs, or 0.2 percent, to 1,117,700 jobs during 2011. Job losses were significant in the government sector, construction subsector, and manufacturing sector, which lost 4,800,



3,450, and 1,800 jobs, or 3.1, 5.9, and 4.8 percent, respectively. The average unemployment rate in the region decreased to 11.3 percent in 2011, down from 12.1 percent during 2010. The average unemployment rate ranged from 6.3 percent in Hawaii to 13 percent in Nevada.

The sales housing market in all four states of the Pacific region has been soft since 2006 as a result of foreclosures, tight lending standards, and slow job growth. According to Hanley Wood, LLC, new and existing home sales fell by 3 percent to 616,300 homes in 2011. In Arizona, homes sales were down 2 percent to 115,900 homes compared with 2010 sales. The average sales price declined by 4 percent to \$168,900. Arizona REO (Real Estate Owned) sales as a percentage of all existing home sales decreased to 41 percent in 2011 compared with 57 percent in 2010. In Phoenix, home sales rose by 3 percent to 96,400 homes, and the average sales price declined by 5 percent to \$170,300.

In California, sales of new and existing homes totaled 422,400 homes in 2011, a 3-percent decline compared with the number of homes sold in 2010. The average home sales price fell by 3 percent to \$351,100. REO sales as a percentage of all existing home sales decreased to 35 percent from 43 percent in 2010. In the San Francisco Bay Area, 67,450 homes sold, a 1-percent decline compared with the number sold in 2010, and the average home sales price decreased by 4 percent to \$540,100 during the same period. The number of homes sold in Southern California decreased by 6 percent to 226,100 homes, and the average home sales price fell 2 percent to \$375,000.

In Hawaii, new and existing home sales fell by 5 percent in 2011 to 15,700 homes sold compared with the number sold in 2010, and the average home sales price remained unchanged at \$487,700. REO sales as a percentage of all existing sales increased from 14 to 16 percent. Nevada was the only state in the region with an increase in new and existing home sales in 2011, rising by 1 percent to 62,350 homes sold, primarily as a result of an 11-percent reduction in the average sales price to \$153,400. From 2010 through 2011, Nevada REO sales as a percentage of all existing home sales declined from 60 to 52 percent. During the same period in Las Vegas, home sales rose by 2 percent to 49,650 homes, and the average home sales price declined 12 percent to \$146,700.

According to LPS Applied Analytics, the number of home loans in the region 90 or more days delinquent, in foreclosure, or in REO in December 2011 decreased by 198,900 homes, or 29 percent, to 484,500 homes compared with the number in December 2010. This level represents 7.7 percent of all mortgage loans in the region in December 2011 compared with a 10.2-percent rate in December 2010; the national rate was 7.6 percent in December 2011.

Because of soft sales market conditions, new home construction activity, as measured by the number of single-family building permits issued, decreased in all Pacific region states during 2011. Based on preliminary

data, 37,400 single-family homes were permitted, a 10-percent decline from 2010. The number of single-family homes permitted declined in Nevada by 650, or 12 percent, to 4,725; in Hawaii by 280, or 15 percent, to 1,625; in California, by 2,000, or 12 percent, to 20,950; and in Arizona, by 300, or 3 percent, to 10,100.

Rental housing markets varied from tight to balanced in California and Hawaii in the fourth quarter of 2011. Rental market conditions remained tight in the San Francisco Bay Area. According to Axiometrics Inc., from the fourth quarter of 2010 to the fourth quarter of 2011, the apartment rental vacancy rates in Oakland, San Jose, and San Francisco declined from 4.2 to 3.9 percent, 3.9 to 3.7 percent, and 4 to 3.6 percent, respectively. During the same period, average effective rents increased by 8 percent to \$1,550 in Oakland, by 12 percent to \$1,900 in San Jose, and by 18 percent to \$2,300 in San Francisco. The rental housing market remained balanced in Sacramento in the fourth quarter of 2011, with a 6-percent apartment rental vacancy rate, up from 5.7 percent in the fourth quarter of 2010. During the same period, rents increased by 1 percent to \$975. Axiometrics Inc. also reported that apartment rental vacancy rates decreased throughout Southern California from the fourth quarter of 2010 to the fourth quarter of 2011. Rental market conditions were tight except for in Riverside and San Bernardino Counties, which had balanced markets. The apartment vacancy rate decreased from 5.8 to 4.5 percent in Los Angeles County, from 5.1 to 4.9 percent in Orange County, from 4.9 to 4.7 percent in San Diego County, and from 5.0 to 4.6 percent in Ventura County. The average apartment vacancy rate in Riverside and San Bernardino Counties increased from 6.0 to 6.1 percent. The average rent in Southern California was \$1,550 in the fourth quarter of 2011, up 6 percent from the fourth quarter of 2010. The apartment rental vacancy rate in Honolulu declined to 3.5 percent in the third quarter of 2011 (the latest data available) 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 fourth quarter 2011, the apartment rental vacancy rate in Phoenix was 7.6 percent, down from 8.1 percent in the fourth quarter of 2010, and the average rent increased by 4 percent to \$740. In Las Vegas, the vacancy rate declined from 8.9 to 8.1 percent and the average rent was unchanged at \$760 during the same period. Increased rental demand from owner households converting to renter households because of foreclosures and short sales was a major reason for the decline in vacancy rates.

Multifamily construction activity, as measured by the number of multifamily units permitted, increased in every state in the region except in Hawaii. During 2011, based on preliminary data, 27,750 multifamily units were issued permits in the region, a 29-percent increase from



the number of units permitted during 2010. Increased renter demand and declining vacancy rates were the main reasons for rising multifamily permits. During 2011, the number of multifamily units permitted increased by 340 units, or 33 percent, to 1,375 units in Nevada; by 5,675

units, or 33 percent, to 23,125 units in California; and by 450 units, or 29 percent, to 2,050 units in Arizona. During the same period, the number of multifamily units permitted in Hawaii declined by 19 percent to 1,225 units.