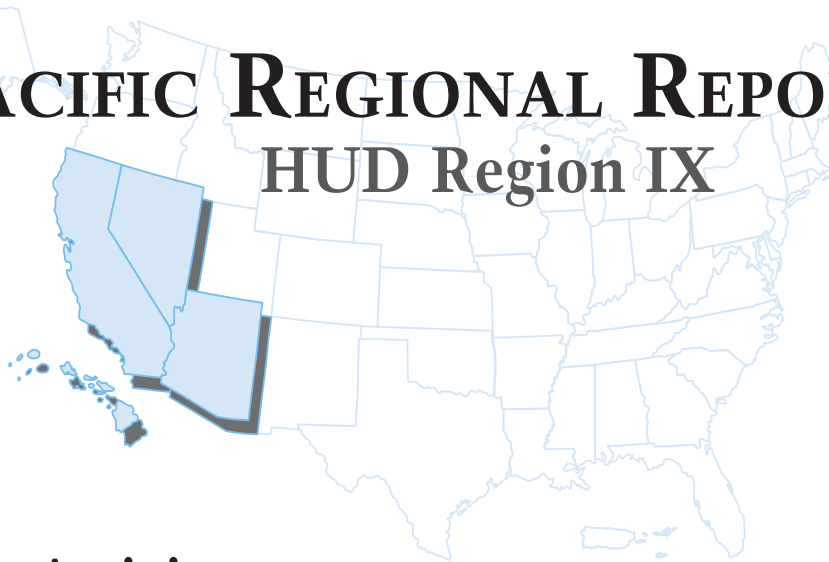




# U.S. Housing Market Conditions

## 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 continued improving in the Pacific region after significant job losses from 2008 through 2010. During 2012, the region added 317,300 nonfarm payroll jobs, an increase of 1.7 percent from 2011. The professional and business services and the leisure and hospitality sectors led job growth, increasing by 99,300 and 66,150 jobs, or 3.7 and 3.0 percent, respectively. The government sector registered the greatest nonfarm payroll decline, losing 34,600 jobs, or 1.1 percent, because of budget cuts in the state and local government subsectors.

Nonfarm payroll growth was positive in all four states in the Pacific region during 2012. California gained 248,200

jobs, or 1.8 percent, compared with a gain of 123,800 jobs, or 0.9 percent, during 2011. The same sectors that led growth in the region drove job growth in California, where the professional and business services sector increased by 86,000 jobs, or 4.0 percent, and the leisure and hospitality sector increased by 48,000 jobs, or 3.1 percent. The government sector declined by 34,300 jobs, or 1.4 percent. Southern California and the San Francisco Bay Area added 117,600 and 76,900 jobs, increases of 1.5 and 2.7 percent, respectively. During 2012, Hawaii nonfarm payrolls gained 9,250 jobs, or 1.6 percent, compared with a gain of 5,175 jobs, or 0.9 percent, during 2011. The leisure and hospitality sector led nonfarm payroll growth in Hawaii, adding 5,050 jobs, an increase of 4.9 percent. Nonfarm payrolls in Arizona rose by 50,500 jobs, or 2.1 percent, during 2012 compared with the increase of 23,450 jobs, or 1.0 percent, during 2011. The professional and business services sector led growth in Arizona, adding 11,200 jobs, an increase of 3.3 percent. Nevada added 9,400 jobs, an increase of 0.8 percent, compared with the addition of 7,725 jobs, a 0.7-percent increase, during 2011. Job gains in Nevada were most significant in the leisure and hospitality sector, which added 6,100 jobs, a 1.9-percent increase. The average unemployment rate for the region decreased to 10.1



percent from 11.4 percent during 2011. The average state unemployment rates in 2012 ranged from 6.0 percent in Hawaii to 11.6 percent in Nevada.

Although it is improving, the sales housing market remained soft in three of the four Pacific region states during the 12 months ending November 2012 because of high unemployment and tight lending requirements. According to Hanley Wood, LLC, new and existing home sales in the region increased 5 percent, to 687,400 homes, during the 12 months ending November 2012 compared with the number of home sales recorded during the previous 12 months. In Arizona, sales declined 1 percent, to 143,500, and the average sales price increased 11 percent, to \$186,600, partially because of a decline in REO (Real Estate Owned) sales. As a percentage of existing home sales, REO sales in Arizona decreased to 32 percent during the 12 months ending November 2012 from 54 percent during the previous 12 months. In Phoenix, home sales declined 2 percent, to 108,100, and the average sales price increased 13 percent, to \$193,100.

In California, the number of new and existing home sales and the average sales price each increased 8 percent during the 12 months ending November 2012, to 463,200 and \$384,300, respectively. As a percentage of existing home sales, REO sales declined to 30 percent from 41 percent a year ago. In the San Francisco Bay Area, 76,100 homes sold, a 12-percent increase compared with the number sold during the previous 12 months. During the same period, the average home sales price increased 8 percent, to \$597,400. The number of homes sold in Southern California increased 9 percent, to 247,300, and the average home sales price rose 7 percent, to \$407,500.

Home sales and average prices moved in opposite directions in both Hawaii and Nevada during the 12 months ending November 2012. In Hawaii, new and existing home sales fell 8 percent, to 15,500 homes sold, but the average home sales price increased 6 percent, to \$493,800. As a percentage of all existing sales, REO sales declined to 10 percent from 17 percent during the previous 12 months. New and existing home sales in Nevada declined 2 percent, to 65,200, but the average sales price rose 6 percent, to \$163,200, during the 12 months ending November 2012 compared with the corresponding figures recorded during the previous 12 months. As a percentage of all existing home sales, REO sales decreased from 61 to 39 percent during the same period. Las Vegas followed the same trend as the state of Nevada. New and existing home sales declined 4 percent, to 50,850 homes, but the average home sales price increased 7 percent, to \$157,200, because of the decline in REO sales.

According to LPS Applied Analytics, as of December 2012, 5.6 percent of home loans in the region were 90 or more days delinquent, were in foreclosure, or transitioned into REO, down from 7.7 percent in December 2011. In December 2012, the number of distressed loans

was 337,100, a decrease of 147,400 loans, or 30 percent, compared with the number of distressed loans in December 2011.

Because of improved home sales markets in the Pacific region, single-family construction activity, as measured by the number of single-family homes permitted, rose during the 12 months ending November 2012. Based on preliminary data, 51,150 single-family homes were permitted in the region, a 36-percent increase compared with the number permitted during the previous 12 months. The greatest percentage increases in home construction occurred in Arizona and Nevada; the number of single-family homes permitted increased by 5,850, or 59 percent, to 15,750 homes in Arizona and by 2,675, or 58 percent, to 7,350 homes in Nevada. The number of single-family homes permitted increased by 4,650, or 22 percent, to 26,150 homes in California and by 310, or 19 percent, to 1,950 homes in Hawaii.

Rental housing markets in California and Hawaii varied from tight to balanced in the fourth quarter of 2012. Rental market conditions softened but remained tight in the San Francisco Bay Area; according to Axiometrics Inc., from the fourth quarter of 2011 to the fourth quarter of 2012, the apartment rental vacancy rates in San Jose and San Francisco increased from 3.6 and 3.5 percent to 4.7 and 4.4 percent, respectively. The rental vacancy rate in Oakland declined from 4.1 to 3.4 percent. During the same period, average effective rents increased 18 percent, to \$2,475, in San Francisco; 5 percent, to \$2,050, in San Jose; and 11 percent, to \$1,725, in Oakland. The rental housing market in Sacramento was balanced, with a rental vacancy rate of 5.5 percent in the fourth quarter of 2012 down from 6.0 percent in the fourth quarter of 2011. During the same period, the average rent increased 4 percent, to \$1,025.

Axiometrics Inc. reported that apartment rental vacancy rates were down from the fourth quarter of 2011 to the fourth quarter of 2012 in all five major markets in Southern California. The apartment vacancy rate declined from 4.6 to 4.4 percent in Los Angeles County and from 5.0 to 4.6 percent in Ventura and Orange Counties. In San Diego County, the apartment vacancy rate decreased from 4.7 to 4.4 percent. During the same period, the apartment vacancy rate declined from 6.1 to 5.2 percent in Riverside and San Bernardino Counties. In the fourth quarter of 2012, the average effective rent in Southern California was \$1,625, up 5 percent from the fourth quarter of 2011. During the same period, in Honolulu, the apartment rental vacancy rate decreased from 5.0 to 4.8 percent, and the average effective rent was \$1,800, down 2 percent from \$1,825 a year ago.

The rental housing markets in the metropolitan areas in Arizona were slightly soft but improving in the fourth quarter of 2012. According to Axiometrics Inc., the apartment rental vacancy rate in Phoenix was 7.0 percent,



down from 7.6 percent in the fourth quarter of 2011, and the average effective rent increased 3 percent, to \$770. Increasing population growth was partially responsible for the decline in vacancy rates. During the fourth quarter of 2012, the rental housing markets in Nevada remained soft because of slow job growth. In Las Vegas, the apartment vacancy rate increased to 8.8 percent, up from 8.1 percent in the fourth quarter of 2011, and the average rent declined 1 percent, to \$750.

Multifamily construction activity, as measured by the number of multifamily units permitted, increased in three of the four Pacific region states during the 12-month period ending November 2012. Based on preliminary data,

36,950 multifamily units were permitted in the region, a 31-percent increase from the previous 12 months. The combination of increased renter demand and declining vacancy rates was the main impetus for the rising number of multifamily permits. During the 12-month period ending November 2012, the number of multifamily units permitted increased by 2,075, or 94 percent, to 3,375 units in Arizona; by 6,600, or 28 percent, to 30,050 units in California; and by 100, or 7 percent, to 1,575 units in Nevada. The number of multifamily units permitted fell 6 percent, to 1,100 units, in Hawaii, down from 1,175 units during the previous 12 months.