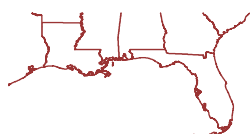




Puerto Rico

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of September 1, 2017

PD&R



Commonwealth of Puerto Rico

The Commonwealth of Puerto Rico (hereafter, Puerto Rico) is an archipelago on the eastern edge of the Caribbean Sea, consisting of the main island of Puerto Rico and several smaller islands, which is divided into 78 municipalities. Christopher Columbus arrived in Puerto Rico on November 19, 1493, during his second voyage, and on August 8, 1508, Juan Ponce de León founded the first Spanish settlement at Caparra, which is slightly west of the city of San Juan.

During September 2017, two hurricanes, Irma and Maria, impacted Puerto Rico, with Maria being the more damaging storm. Nearly 272,000 housing units, or more than 17 percent of the total housing inventory, are estimated to have sustained moderate or major damage or were destroyed from the hurricanes (Federal Emergency

Management Agency most recent estimates as of January 2, 2018). Due to the large number of housing units and businesses that sustained damage, the U.S. Department of Housing and Urban Development (HUD), Economic and Market Analysis Division (EMAD) is unable, at this time, to produce any estimates of the demand for additional sales or rental housing within Puerto Rico during the next 3 years. This report will serve as a baseline report of the housing market conditions that existed at the time of the hurricane impacts and will be used by HUD to gauge the progress of the recovery efforts. EMAD will produce another report on the commonwealth in the near future that will discuss the impacts of the hurricanes and provide a forecast of housing needs, as the commonwealth recovers from this natural disaster.

Summary

Economy

Economic conditions in Puerto Rico have been weak since 2006. During the 12 months ending August 2017, nonfarm payrolls totaled 886,700, a decline of 8,200 jobs, or 0.9 percent, from the previous 12 months. Since peaking in 2005 at more than 1.05 million jobs, nonfarm payrolls have declined by an average of 14,100, or

1.4 percent, annually. The unemployment rate is currently 11.3 percent, down from 11.8 percent a year earlier and a peak of 16.4 percent in 2010. The declining unemployment rate is a function of the labor force decreasing by an average of 23,800, or 2.0 percent, annually since 2010, while resident employment has fallen by an average of 11,500, or 1.1 percent, annually.

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Sales Market

The sales housing market in Puerto Rico is currently very soft, because declining population has resulted in a large number of vacant units on the market. The current owner vacancy rate is estimated at 3.4 percent, up from 2.8 percent in 2010 and 1.7 percent in 2000. Since 2010, the estimated number of owner households has declined by an average of 13,325, or 1.4 percent, annually. An estimated 1,650 owner units are currently under construction in Puerto Rico (Table 1). Not included in the vacancy rate is an estimated 300,000 other vacant units that are not actively on the market at this time.

Rental Market

The rental housing market in Puerto Rico is currently soft with a

12.8-percent vacancy rate, up from 10.0 percent in 2010 and 7.4 percent in 2000 due to continued population loss resulting in an increasing number of vacancies. With the prolonged economic downturn, more residents became renters in Puerto Rico, limiting the overall decline in renter households since 2010 to an average of 1,225 a year, or more than 0.3 percent, annually. Currently, 500 rental units are under construction in the commonwealth as of September 1, 2017 (Table 1).

Table 1. Housing Currently Under Construction in Puerto Rico

	Puerto Rico	
	Sales Units	Rental Units
Under construction	1,650	500

Note: Units under construction as September 1, 2017.

Source: Estimates by analysts

Economic Conditions

Economic conditions remain weak in Puerto Rico, which has been in a prolonged economic downturn. Since 2006, nonfarm payrolls have declined every year except for a brief increase during 2012. Several factors caused this long-term downturn, including a change in U.S. tax law. Section 936 of the U.S. tax code, which was enacted in 1976, granted U.S. corporations a tax exemption on income earned in U.S. territories. This law made it attractive for U.S. firms to invest in Puerto Rico. In 1996, legislation was enacted that phased out Section 936 during a 10-year period. The Section 936

exemption fully expired in 2006 and an international economic downturn followed that exacerbated the effects of the tax law in Puerto Rico. When the U.S. economy began to add jobs again in 2011, out-migration from Puerto Rico, which was still in a recession, to the mainland United States increased, causing a population decline and further depressing economic conditions as demand for goods and services in the commonwealth declined. The declining population along with the economic downturn put enormous strain on Puerto Rico's governmental finances when tax revenues continued to

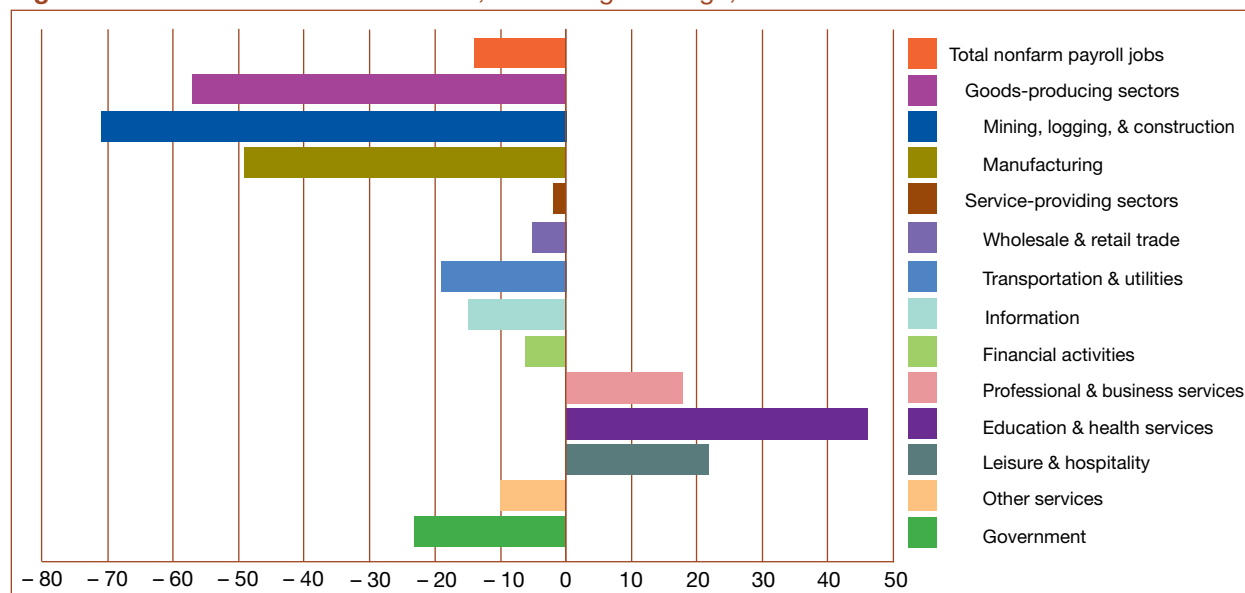
decline sharply. Government spending and employment has been sharply curtailed, further contributing to the economic downturn.

In 2000, nonfarm payrolls totaled slightly less than 1.03 million jobs, but when the U.S. economy entered a recession in 2001, jobs declined for the next 2 years by an average of 10,100, or 1.0 percent, annually in the commonwealth. At the time that the overall U.S. economy began to recover from the recession, job growth began again in Puerto Rico. From 2003 through 2005, nonfarm payrolls in the commonwealth increased by an average of 15,400, or 1.5 percent, annually to reach an all-time peak of more than 1.05 million jobs in 2005. The long economic downturn for Puerto Rico started slowly in 2006, when nonfarm payrolls began to decline. From 2006 through 2008, nonfarm payrolls declined by an average of 12,500, or 1.2 percent, annually, but when the U.S. economy began to lose jobs, the pace of job losses in Puerto Rico accelerated, and from 2009 through 2011, nonfarm payrolls declined by

an average of 29,800, or 3.0 percent, annually. During 2012, nonfarm payrolls increased by 15,900 jobs, or 1.7 percent, as economic conditions in the U.S. mainland improved, leading to an increase in tourism to the island. The leisure and hospitality sector added 2,900 jobs, or 4.0 percent, during this year, but in 2013, nonfarm payroll declines resumed, and by 2016, payrolls totaled only 894,000, an average decline of 11,500, or 1.2 percent, annually. From 2000 to the current date, 8 of the 11 employment sectors in Puerto Rico lost jobs (Figure 1). The largest percentage declines have been in the mining, logging, and construction, the manufacturing, and the government sectors, with each declining more than 20 percent. The only three sectors to have net growth in Puerto Rico since 2000 have been the education and health services, the leisure and hospitality, and the professional and business services sectors.

During the 12 months ending August 2017, nonfarm payrolls in Puerto Rico totaled 886,700, a decline of 8,200 jobs, or 0.9 percent, from the previous

Figure 1. Sector Growth in Puerto Rico, Percentage Change, 2000 to Current



Note: Current is based on 12-month averages through August 2017.

Source: U.S. Bureau of Labor Statistics

12 months (Table 2). Nonfarm payrolls in Puerto Rico are below 890,000 jobs for the first time since 1994. During the 12 months ending August 2017, job losses occurred in 7 of the 11 employment sectors in the commonwealth. The unemployment rate during the 12 months ending August 2017 averaged 11.3 percent, down from the average of 11.8 percent during the previous 12 months. The decline in the unemployment rate is attributable to a decline in the labor force of 13,500, or 1.2 percent, during the 12 months ending August 2017. Figure 2 shows

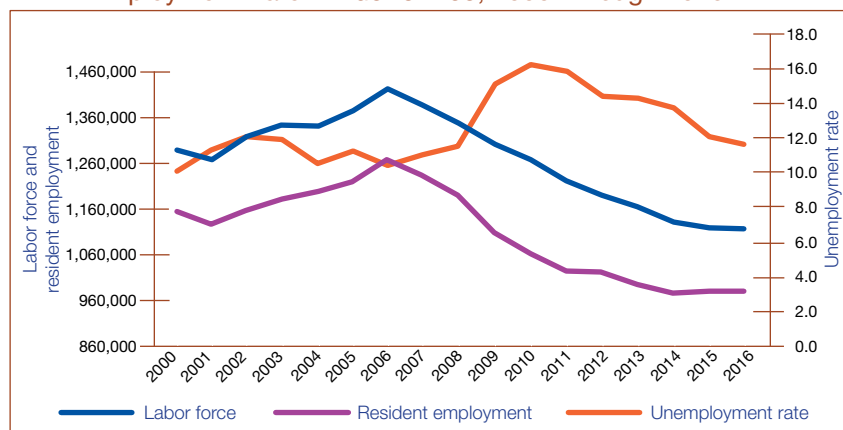
Table 2. 12-Month Average Nonfarm Payroll Jobs in Puerto Rico, by Sector

	12 Months Ending		Absolute Change	Percent Change
	August 2016	August 2017		
Total nonfarm payroll jobs	894,900	886,700	- 8,200	- 0.9
Goods-producing sectors	97,600	94,500	- 3,100	- 3.2
Mining, logging, & construction	23,700	21,900	- 1,800	- 7.6
Manufacturing	73,800	72,600	- 1,200	- 1.6
Service-providing sectors	797,400	792,200	- 5,200	- 0.7
Wholesale & retail trade	158,400	157,900	- 500	- 0.3
Transportation & utilities	15,500	15,900	400	2.6
Information	18,300	17,500	- 800	- 4.4
Financial activities	42,300	42,700	400	0.9
Professional & business services	113,500	115,500	2,000	1.8
Education & health services	122,500	122,300	- 200	- 0.2
Leisure & hospitality	81,000	81,000	0	0.0
Other services	17,500	17,800	300	1.7
Government	228,400	221,700	- 6,700	- 2.9

Notes: Numbers may not add to totals because of rounding. Based on 12-month averages through August 2016 and August 2017.

Source: U.S. Bureau of Labor Statistics

Figure 2. Trends in Labor Force, Resident Employment, and Unemployment Rate in Puerto Rico, 2000 Through 2016

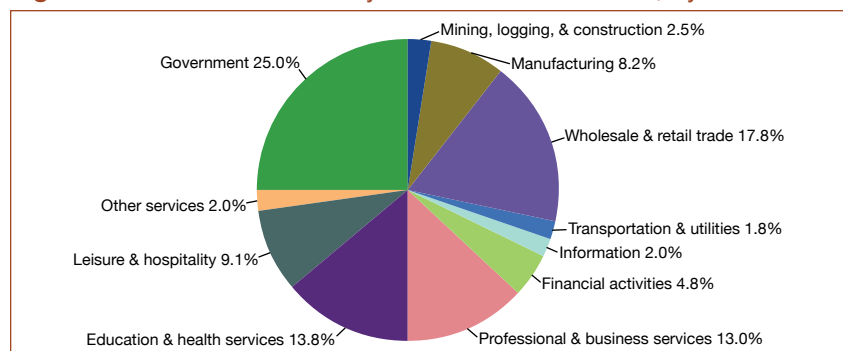


Source: U.S. Bureau of Labor Statistics

trends in the labor force, resident employment, and unemployment rate from 2000 through 2016.

The government sector, which declined by 6,700 jobs, or 2.9 percent, to 221,700, led job losses during the 12 months ending August 2017. Even with the recent declines, the government sector is still the largest employment sector in Puerto Rico, accounting for 25 percent of all nonfarm payroll jobs (Figure 3). Most of the job losses in the government sector were in the state government subsector, as the prolonged economic downturn created a severe fiscal crisis in Puerto Rico. During the 12 months ending August 2017, nonfarm payrolls in the state government subsector accounted for 17 percent of total nonfarm payrolls totaling 152,500, a decline of 6,300 jobs, or 4.0 percent, from the previous 12 months. Employment in the state government subsector has been steadily declining since peaking in 2004 at 230,800 jobs, or nearly 22 percent of all nonfarm payroll jobs in the commonwealth. Following this peak, employment in the state government subsector declined by an average of 6,200, or 3.2 percent, annually through a combination of attrition and layoffs, with the largest decline occurring in 2010, when state government employment declined by 19,800, or 9.4 percent. One reason the state government subsector is so large is that Puerto Rico has only one school system, which is administered at the state level. Therefore, all public school teachers are in the state government subsector as opposed to the local government subsector, as they would be in the mainland United States.

During the 12 months ending August 2017, the mining, logging, and

Figure 3. Current Nonfarm Payroll Jobs in Puerto Rico, by Sector

Note: Based on 12-month averages through August 2017.

Source: U.S. Bureau of Labor Statistics

construction sector had the largest percentage decline of any employment sector in Puerto Rico, declining 7.6 percent, or by 1,800 jobs, to 21,900. The prolonged economic downturn and declining population in Puerto Rico has led to a severe contraction in construction activity, because the declining population has limited demand for new residential construction, and the lack of job growth has curtailed demand for new commercial, retail, or industrial buildings across the commonwealth. From 2001 to the current date, this sector also had the largest percentage drop in employment of any sector of the economy, declining by an average of 3,300 jobs, or 7.2 percent, annually.

Since 2000, no nonfarm payroll sector has lost more total jobs than the manufacturing sector, which declined by 70,100 jobs, an average decline of 4,200, or 4.0 percent, annually. The trend of declining manufacturing employment continues through the present because of international competition with countries where wages are lower and because of technological advancement in the manufacturing sector increasing labor productivity of the workers and decreasing the number of people needed in this sector. During the 12 months ending August 2017,

nonfarm payrolls in the manufacturing sector declined by 1,200 jobs, or 1.6 percent, to 72,600. The current level of employment in this sector is well below the 142,700 manufacturing jobs in 2000 and the 159,000 all-time peak in 1995, before the repeal of Section 936 of the tax code. One of the major components of manufacturing in Puerto Rico is pharmaceutical manufacturing. Puerto Rico has 49 U.S. Food and Drug Administration-approved pharmaceutical plants, including one of the largest employers in the commonwealth, Medtronic PLC, a surgical and medical devices manufacturer with 3,725 employees. During the 12 months ending August 2017, the chemical manufacturing industry, which includes the making of pharmaceutical products, totaled 16,800 jobs, a decline of 700 jobs, or 4.0 percent, from the previous 12 months. The chemical manufacturing industry accounts for more than 23 percent of manufacturing jobs in Puerto Rico. However, like the rest of the manufacturing sector, the chemical manufacturing industry jobs have been declining since peaking in 2005 at 32,700 jobs, and payrolls in the chemical manufacturing industry declined by an average of 1,275 jobs, or 5.2 percent, annually.

The education and health services sector has been one of the bright spots in the local economy and has had the largest percentage and job increase of any payroll sector in Puerto Rico since 2000. Metro Pavia Health System and HIMA-San Pablo, with 4,950 and 4,875 employees, respectively, are the fourth and fifth largest employers in Puerto Rico (Table 3). During the 12 months ending August 2017, employment in the education and health services sector totaled 122,300, an average annual increase of 2,300 jobs, or 2.3 percent, from 2001 through the current date. With an aging population creating increasing demand for healthcare services, this sector has continued to grow since 2000, but the declining population base may now be starting to impact this sector. During the 12 months ending August 2017, nonfarm payrolls in the education and health services sector declined by 200 jobs, or 0.2 percent.

Tourism is a major component of the local economy, with 3.7 million people

visiting Puerto Rico during 2016, including 1.5 million cruise ship passengers (Puerto Rico Tourism Company). Tourism to Puerto Rico has been increasing and is up from 3.2 million visitors during 2014, contributing nearly \$4 billion dollars annually to the local economy. The industry has helped to maintain payroll growth in the leisure and hospitality sector even with the local prolonged economic downturn. During the 12 months ending August 2017, payrolls in the leisure and hospitality sector totaled 81,000, unchanged from the previous 12 months. From 2001 through the current date, employment growth in this sector has averaged 900 jobs, or 1.2 percent, annually.

The professional and business services sector led employment growth in Puerto Rico during the 12 months ending August 2017, increasing by 2,000 jobs, or 1.8 percent, to 115,500. From 2001 through the current date, payrolls in this sector increased by an average of 1,000 jobs, or 1.0 percent, annually. Most of the job growth has been in the administrative and support services industry. During the 12 months ending August 2017, nonfarm payrolls in the administrative and support services industry totaled 67,500 and, from 2001 to the current date, increased by an average of 700 jobs, or 1.2 percent, annually, which accounts for 70 percent of the expansion in the professional and business services sector during that period.

Table 3. Major Employers in Puerto Rico

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Wal-Mart Stores, Inc.	Wholesale & retail trade	13,300
Banco Popular	Financial activities	7,225
Supermercados Econo	Wholesale & retail trade	6,550
Metro Pavia Health System	Education & health services	4,950
HIMA-San Pablo	Education & health services	4,875
Walgreen Co.	Wholesale & retail trade	4,500
Sistema Universitario Ana G. Méndez	Manufacturing	3,875
Interamerican University of Puerto Rico	Information	3,850
Medtronic PLC	Education & health services	3,725
Caribbean Restaurants, LLC	Education & health services	3,450

Note: Excludes local school districts.

Source: The Caribbean Business Book of Lists

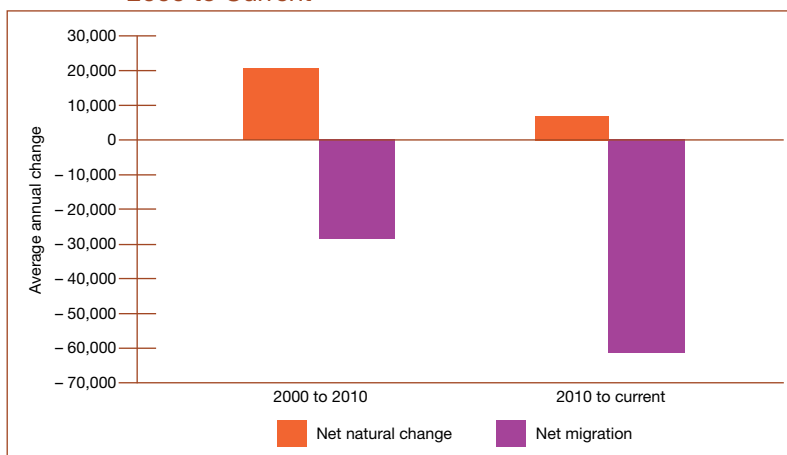
Population and Households

The population of Puerto Rico is currently estimated at slightly less than 3.33 million. With the prolonged economic downturn in the commonwealth, the population has been steadily declining since 2010 when Puerto Rico had a population of 3.73 million. Since 2010, the population of Puerto Rico has declined by an average of 54,050, or 1.5 percent, annually, with net out-migration averaging 60,900 people annually. By comparison, the population of Puerto Rico declined much more slowly during the previous decade, at an average annual decline of 8,275, or 0.2 percent. Net out-migration during this period averaged 28,450 people annually. Since 2010, net natural change (resident births minus resident deaths) averaged 6,850 a year, which is well below the net natural increase of 20,175 people annually from 2000 to 2010. Figure 4 shows the components of population change from 2000 to the current date.

The declining rate of net natural change is tied to the high levels of out-migration from Puerto Rico since 2010. Many of the young adults in the commonwealth have migrated to

the mainland in search of job opportunities because of the prolonged local recession. As many as 657,521 people were between the ages of 20 and 34, which accounts for approximately 19 percent of Puerto Rico's total population (2016 Puerto Rico Community Survey [PRCS]). This number is down from the 747,546 people in this age group in 2010, when they accounted for more than 20 percent of the commonwealth's population. Because the group of people in the prime childbearing ages declined in Puerto Rico, the number of children aged 5 years or younger also dropped. In 2010, 223,247 people under the age of 5 resided in Puerto Rico, accounting for nearly 6 percent of the population, but by 2016, that number declined to 159,753 and accounted for slightly less than 5 percent of the Puerto Rico's population. Conversely, the population age 65 and older has continued to increase. In 2010, 545,721 people aged 65 or older lived in Puerto Rico, accounting for nearly 15 percent of total population, but by 2016, the number had increased to 645,885, nearly 19 percent of the total population. The median age of the population increased from 37.2 years old in 2010 to 40.7 in 2016. All these demographic changes continue trends from the previous decade. In 2000, 295,406 people under the age of 5, 835,523 people between the ages of 20 and 34, and 425,137 people over the age of 65 resided in Puerto Rico, which accounted for 7.8, 21.9, and 11.1 percent of the total population respectively, and the median age of the population was 32.1 years. The population of Puerto Rico is aging much faster than the population of the United States as a whole due to the out-migration of young people. In

Figure 4. Components of Population Change in Puerto Rico, 2000 to Current



Note: The current date is September 1, 2017.

Sources: 2000 and 2010–2000 Census and 2010 Census; current and forecast—estimates by analysts

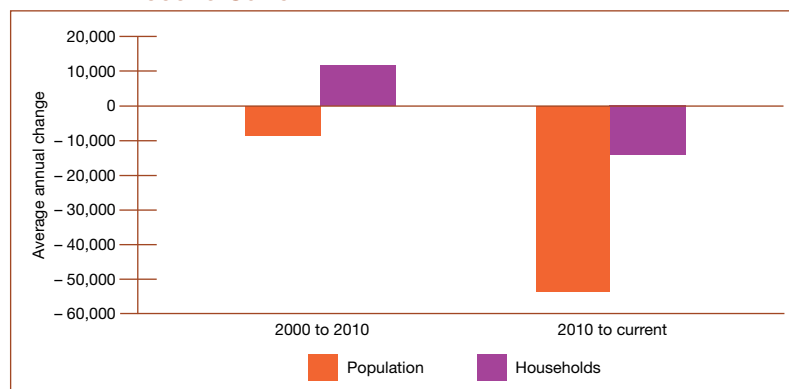
2000, the median age for the United States was 35.3 years of age, increasing to 37.2 in 2010 and 37.9 in 2016.

Currently, an estimated 1.27 million households are in Puerto Rico, a decline of 14,600, or 1.1 percent, annually since 2010. Figure 5 shows population and household growth in Puerto Rico from 2000 to the current date. The declining number of households is a reversal from the previous decade, when households increased by an average of 11,500, or 0.9 percent,

annually. Even though the population declined from 2000 through 2010, household growth occurred and household size declined. The smaller households also reflect a significant increase in the number of single-person households, which increased by an average of 9,500, or 3.5 percent, annually. The increase in single-person households from 2000 through 2010 accounted for more than 82 percent of all household growth in Puerto Rico. As the number of single-person renter households increased, it has contributed to the homeownership rate steadily declining in Puerto Rico, which is currently estimated at 69.9 percent, down from 71.6 percent in 2010 and 72.9 percent in 2000 (Table DP-1). Figure 6 shows the number of households by tenure.

A low level of incomes and lack of income growth contributed to the declining homeownership rate in Puerto Rico. The median household income in the commonwealth generally has trended upward since 2000 but at a slower rate since 2010. From 2010 through 2016, the median household income increased an average 1.3 percent a year to \$20,078 compared with an average increase of 2.0 percent annually in the nation. From 2000 to 2010, median household income in the commonwealth increased an average of 2.4 percent annually compared with an average increase of 1.8 percent a year in the nation.

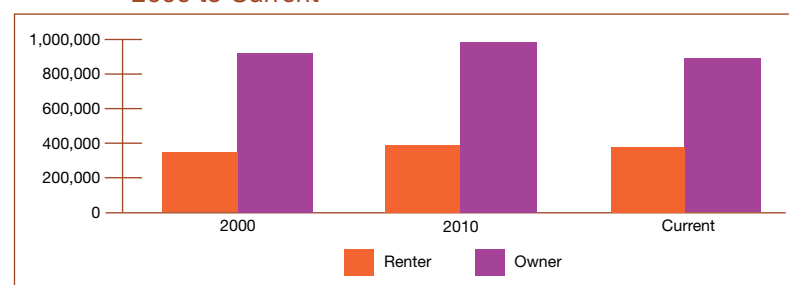
Figure 5. Population and Household Growth in Puerto Rico, 2000 to Current



Note: The current date is September 1, 2017.

Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analysts

Figure 6. Number of Households by Tenure in Puerto Rico, 2000 to Current



Note: The current date is September 1, 2017.

Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analysts

Housing Market Trends

Sales Market

Current sales housing market conditions in Puerto Rico remain very soft, because the prolonged economic recession and declining population contribute to increasing vacancy rates. As of September 1, 2017, the owner vacancy rate was estimated at 3.4 percent, up from 2.8 percent in 2010 and 1.7 percent in 2000. More than 81 percent of homeowners live in single-family homes, which is slightly lower than the 83 percent across the United States as a whole (2016 PRCS and American Community Survey [ACS] 1-year data). The decline in the homeownership rate is partly the result of an elevated rate of seriously delinquent (90 or more days delinquent or in foreclosure) and real estate owned (REO) properties compared with the nation, caused by the local economic downturn combined with the Great Recession and the national housing crisis. As of August 2017, 12 percent of all home loans were seriously delinquent or had transitioned into REO status, down from 15.7 percent 1 year earlier and 16.5 percent in August 2015 (Black Knight, Inc.). By comparison, seriously delinquent loans and REO properties in the nation during August 2017 averaged 2.7 percent, down from 3.4 percent in August 2016 and 4.2 percent during the same time in 2015.

Home sales data are not readily available for Puerto Rico, so the discussion of home sales and prices uses mortgage origination data as a proxy for home sales and a price index as a proxy for home sales prices. Mortgage originations in Puerto Rico during the 12 months ending June 2017 totaled 18,350, a decline of 800, or approximately 4 percent, from 19,150 during

the previous 12 months (Commissioner of Financial Institutions of Puerto Rico). With the declining population and prolonged economic downturn limiting demand for homes, the current level of mortgage originations is down approximately 80 percent from the all-time peak in 2005. During 2001, approximately 77,050 mortgages were issued in Puerto Rico, and the number of mortgages issued increased during the next 4 years by an average of 3,925, or 5 percent, annually to reach a peak of 92,700 mortgages issued in 2005. During 2006, with the start of the long economic downturn in Puerto Rico, mortgage originations declined sharply and continued to decline for the next 5 years. By 2010, mortgage originations totaled 32,450, an average decline of 12,050, or nearly 19 percent, annually. During the next 2 years, mortgage originations had a slight uptick, and by 2012, the year of economic growth, they totaled 36,950, an average increase of 2,250, or nearly 7 percent, annually. Beginning in 2013, the number of mortgage originations began to decline once more by an average of 5,300, or 17 percent, annually to only 21,100 by 2015.

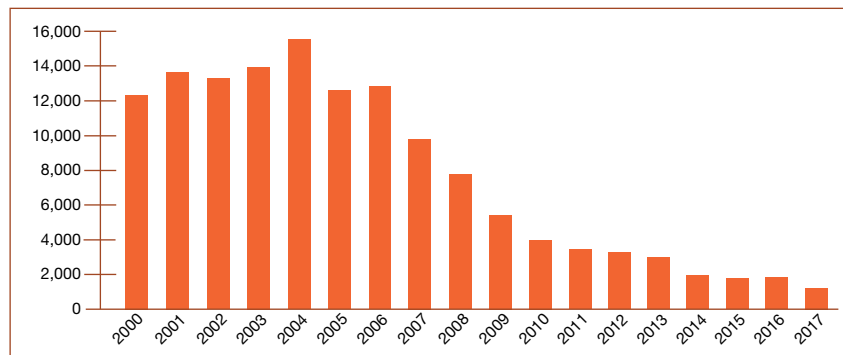
The Federal Housing Finance Agency's (FHFA's) quarterly purchase-only, nonseasonally adjusted housing price index measures home sales prices for Puerto Rico. In this home price index, 1995 is the base year with a value of 100. During the second quarter of 2017, this index was 141.91, which was a decline of more than 10 percent from the second quarter of 2016. The home price index in Puerto Rico is currently nearly 2 percent below the level of 144.36 recorded during the fourth quarter of 2000 and more

than 29 percent below the peak in the fourth quarter of 2007. When home sales were generally increasing, the home price index increased steadily from 2000 through 2005, with an average increase of 6 percent annually to reach 197.22 during the fourth quarter of 2005 before declining nearly 2 percent to 193.45 during 2006, when the beginning of the long economic downturn impacted the sales price of homes. During 2007, the home price index rebounded and reached a peak in the fourth quarter at a level of 204.17, an increase of 6 percent from 2006, despite deteriorating economic conditions and decreasing home sales. During 2008 and 2009, home prices again oscillated with a decline of 4 percent in 2008 followed by an increase of 3 percent in 2009 to 201.07. Beginning in 2010, when out-migration from Puerto Rico increased, the home price index began a 3-year decline and, by 2012, fell to 176.04, a decline of more than 4 percent annually. Following the 1-year improvement in the economy, the FHFA home price index had a 1-year increase of almost 4 percent when it rose to 182.54 in 2013. During the next 2 years, when economic conditions and homes sales continued decreasing, home prices declined significantly and by the fourth

quarter of 2015, the home price index was down to 156.7, an average decline of more than 7 percent annually.

Building activity, as measured by the number of single-family homes permitted, has been limited during the long economic downturn, because an increasing number of vacant available homes and declining population limited the need for new housing. During the 12 months ending August 2017, single-family homebuilding totaled 1,775 homes, an increase of 75, or 4 percent, from the previous 12 months. Despite the slight uptick during the past year, building activity is well below previous levels due to very limited demand. From 2000 through 2006, an average of 13,350 single-family homes were permitted annually in Puerto Rico. When the local economy began contracting, housing production slowed significantly during the next 4 years, declining by an average of 2,225 homes, or 26 percent, annually from 2007 through 2010, when 3,850 single-family homes were permitted. From 2011 through 2015, declines in single-family home construction continued but at a slower pace. During this time, declines averaged 420 homes, or 15 percent, annually, and by 2015, only 1,750 single-family homes were permitted (Figure 7). Not all single-family home construction in the commonwealth is permitted, however. Government officials estimate that one-half of the Puerto Rican housing stock, or approximately 1 million units, was built informally without permits and oversight. Many homes are built without permits on government-owned land for which the residents do not have titles or lease rights to the land. An estimated 48,000 homes are built on government-owned land.

Figure 7. Single-Family Homes Permitted in Puerto Rico, 2000 to Current



Notes: Includes townhomes. Current includes data through August 2017.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analysts

New single-family home construction occurs across Puerto Rico, but more than 75 percent of production occurs in the capital of San Juan and other nearby cities. Approximately 100 miles southwest of San Juan in Cabo Rojo, 22 homes of the Colinas del Mar subdivision are complete; the community is expected to have 50 homes at buildout. Prices start at \$119,000 for a three-bedroom, two-bathroom home. Approximately 12 miles south of San Juan, recent new home construction in the city of Bayamón includes the Aventura en Bayamón subdivision, where construction was stalled during the late 2000s because of the

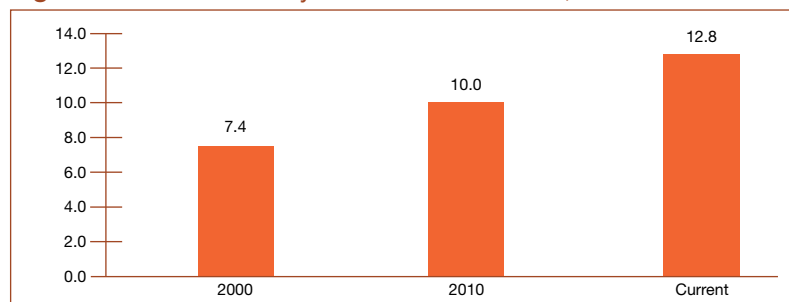
economic downturn. Construction of the final 95 homes started in 2016, and all are nearly complete; at buildout the community will have 166 homes. Prices start at \$168,900 for a three- or four-bedroom home with two-bathrooms. Slightly east of Bayamón and southeast of San Juan in the city of Carolina, the Mirador Parque Escorial subdivision is currently under way. Construction began in January 2017, with 16 of the 75 homes expected at completion currently under construction; the entire development is expected to be complete December 2018. Prices range from \$219,900 to \$327,000 for three- and four-bedroom homes.

Rental Market

The rental housing market in Puerto Rico is currently soft, with an estimated 12.8-percent vacancy rate, up from 10.0 percent in 2010 and 7.4 percent in 2000 (Figure 8). Continued population loss in Puerto Rico has led to increasingly soft rental market conditions and rising vacancy rates. The rental market in Puerto Rico is significantly different than in the mainland United States, because large-scale, market-rate apartment complexes are virtually nonexistent. With significantly lower incomes

than on the mainland and higher material costs, nearly all the apartment complexes built in Puerto Rico have some form of subsidy attached. A significant portion of rental units built in multifamily structures is condominium units in highrises that, although originally built for owner occupancy, investors will purchase to rent. Single-family homes also make up a substantial portion of the rental inventory and account for nearly 48 percent of renter-occupied units in the commonwealth (2016 PRCS 1-year data), up from 45 percent in 2010, which is significantly higher than the mainland averages of 28 percent in 2016 (2016 ACS 1-year data) and 27 percent in 2010. Rental units in buildings with five or more units account for 26 percent of the total rental market, up from 25 percent in 2010. In the United States mainland, currently 43 percent of all renter households reside in buildings with five or more units.

Figure 8. Rental Vacancy Rates in Puerto Rico, 2000 to Current



Note: The current date is September 1, 2017.

Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analysts

With a lack of market-rate apartment complexes in Puerto Rico, independent third-party rental data are not readily available. Only 60 percent of the units that were renter occupied actually paid rent, which is down from nearly 63 percent in 2010 and is significantly lower than the 95 percent of renter-occupied units in the United States that pay rent (2016 PRCS). Of the renter households that pay rent, the median gross rent in the Commonwealth during 2016 was \$463, which was up an average of more than 1 percent annually from \$429 in 2010. By comparison, in the nation, median gross rents increased an average of more than 2 percent annually from 2010 through 2016 to \$981. For households in occupied rental units paying rent in 2016, more than 52 percent of all renter households paid more than 30 percent of income on rent, with nearly 45 percent paying more than 35 percent. Approximately 15,100 households in Puerto Rico pay more than \$1,000 a month in rent, of which 13,500, or 89 percent, are in the San Juan metropolitan area. An estimated 17 percent of all renter households in San Juan were cost burdened, defined as having housing costs between 30 and 50 percent of income (*Comprehensive Housing Affordability Strategy, 2010–2014*). An additional 21 percent were severely cost burdened, defined as having housing costs of at least 50 percent of income. By comparison, the respective rates were 13 and 17 percent in Puerto Rico and 22 and 24 percent in the nation.

Because of the limited supply of market-rate apartment complexes, the Puerto Rico Public Housing Administration (PRPHA) has a significant presence in the Puerto Rico housing

supply and is the second largest social housing agency in the United States, following New York City Housing Authority based on the number of units operated. PRPHA has a portfolio of 334 rental properties, with 53,545 units in the commonwealth. During the second quarter of 2017, the average vacancy rate was 4 percent for these properties, with a waiting list for properties. In addition, the PRPHA provided nearly 33,000 renter households with Section 8 housing choice vouchers. Also, 91 properties with 5,204 units are financed under the Office of Rural Development (RD) Section 515 program (U.S. Department of Agriculture). The RD properties had a vacancy rate of 1.1 percent in August 2017, and every property had a waiting list. The Low-Income Housing Tax Credit (LIHTC) Program also plays an important role in the assisted-rental housing market in Puerto Rico, with more than 17,000 units. Since 2010, 4,318 LIHTC units have been placed in service in the commonwealth.

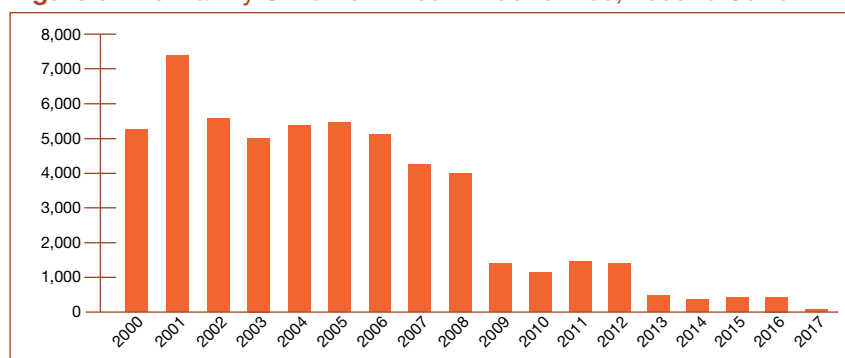
Building activity, as measured by the number of multifamily units permitted, continues to be limited in Puerto Rico, because the declining population has resulted in restricted demand for new units. During the 12 months ending August 2017, 220 multifamily units were permitted, down by 180, or 45 percent, from the previous 12 months. From 2000 through 2006, an average of 5,575 multifamily units were permitted annually, but from 2007 through 2008, permitting activity declined by an average of 590 units, or 12 percent, annually to 3,925 units permitted in 2008. From 2009 through 2012, multifamily building activity declined even further to an average of 1,325 units permitted annually. Permitting activity continued to decline with the

population, and from 2013 through 2015, an average of only 410 units was permitted annually. Figure 9 shows the number of multifamily units permitted in Puerto Rico from 2000 to the current date.

Two large-scale multifamily properties are currently under construction in the commonwealth and another is in planning. These three properties will be the first mixed-finance developments in Puerto Rico for which the financing will include multiple subsidy programs. Subsidized units will be a combination of public housing, Section 8, and LIHTC and will make up 80 percent of the units at the properties; the remaining 20 percent will be market-rate units. When complete, the three properties will be three- to four-story walkup buildings and, in two of the three cases, will replace highrise, high-density properties. In

the financial district of the city of San Juan, the mixed-use \$32 million, 140-unit Renaissance Square will replace Las Gladiolas, which was built in 1969 and demolished in 2011. When complete in early 2018, the property will include 56 public housing units, 28 Section 8 units, of which 27 will be provided through the LIHTC program, and 29 market-rate units. The property will include one-, two-, and three-bedroom units, with rents ranging from \$292 to \$565, \$339 to \$670, and \$370 to \$765, respectively. Approximately 5 miles northwest of Renaissance Square, near Old San Juan, the \$36 million, 174-unit mixed income Puerta de Tierra will include 12 buildings to replace the first public housing property in Puerto Rico—El Falansterio. Built in 1937 with 216 units, it served as a model for design and development of low-density public housing. Puerta de Tierra is expected to be complete in the fall of 2018. Finally, approximately 20 miles south of Puerta de Tierra, a \$98 million, 438-unit property is planned to replace the 492-unit highrise, high-density public housing José Gautier Benítez in Caguas. When complete, the property will include 238 general-occupancy units and 200 age-restricted units. Although a proportion of the units will be subsidized, specifics have not been published.

Figure 9. Multifamily Units Permitted in Puerto Rico, 2000 to Current



Notes: Excludes townhomes. Current includes data through August 2017.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analysts

Table DP-1. Puerto Rico Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%)	
				2000 to 2010	2010 to Current
Total resident employment	1,161,033	1,061,047	984,600	– 0.9	– 1.1
Unemployment rate	10.1%	16.4%	11.3%		
Nonfarm payroll jobs	1,025,300	931,600	886,700	– 1.0	– 0.7
Total population	3,808,605	3,725,789	3,325,000	– 0.2	– 1.5
Total households	1,261,325	1,376,531	1,268,400	0.9	– 1.1
Owner households	919,769	986,165	887,200	0.7	– 1.4
Percent owner	72.9%	71.6%	69.9%		
Renter households	341,556	390,366	381,200	1.3	– 0.3
Percent renter	27.1%	28.4%	30.1%		
Total housing units	1,418,476	1,636,946	1,656,000	1.4	0.2
Owner vacancy rate	1.7%	2.8%	3.4%		
Rental vacancy rate	7.4%	10.0%	12.8%		
Median Family Income	NA	NA	NA	NA	NA

NA = data not available.

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 2000, 2010, and the 12 months through August 2017. The current date is September 1, 2017.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analysts

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census
 2010: 4/1/2010—U.S. Decennial Census
 Current date: 9/1/2017—Estimates by the analysts

Other Vacant Units: In this analysis conducted by the U.S. Department of Housing and Urban Development (HUD), other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as “other” vacant by the Census Bureau.

Building Permits: Building permits do not necessarily reflect all residential building activity that occurs in the Commonwealth. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analysts, through diligent fieldwork, make an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.

Government Employment: “State government” subsector employment means employment in the Government of the Commonwealth of Puerto Rico, which is classified as state government employment in U.S. government statistics.

Puerto Rico Community Survey (PRCS): The PRCS is conducted by the U.S. Census Bureau and is largely equivalent to the American Community Survey (ACS) conducted in the mainland United States. PRCS statistics are reported with ACS statistics.

For additional data pertaining to the housing market for the Commonwealth of Puerto Rico, go to huduser.gov/publications/pdf/CMARtables_PuertoRico_18.pdf.

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This analysis has been prepared for the assistance and guidance of HUD in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by the Economic and Market Analysis Division within HUD. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

For additional reports on other market areas, please go to huduser.gov/portal/ushmc/chma_archive.html.