

HUD PD&R Housing Market Profiles

Kennewick-Richland, Washington



Quick Facts About Kennewick-Richland

- Current sales market conditions: tight
- Current rental market conditions: balanced
- Cleanup of the 586-square-mile Hanford Site, which produced the majority of the plutonium in the nation for nuclear weapons production during World War II and the Cold War, began in 1989 (Hanford.gov). The \$17 billion Hanford Tank Waste Treatment and Immobilization Plant (hereafter, Vit Plant)—the largest facility of its type in the world—has been under construction since 2002. The Vit Plant will start treating low activity radioactive waste in 2023 and must be fully operational to treat high-level radioactive waste by 2036 under a federal court order. An estimated 56 million gallons of radioactive waste will be processed into a stable glass form for safe disposal.

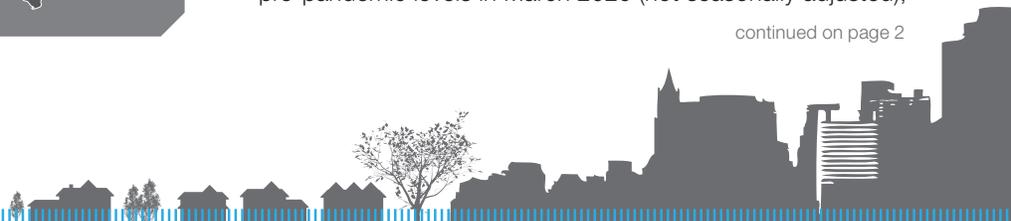
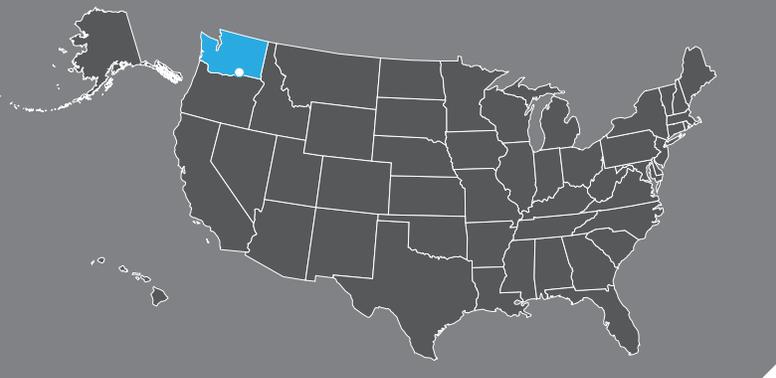
Tri-Cities, Washington

By Holi Urbas | As of January 1, 2021

Overview

The Kennewick-Richland metropolitan area consists of Benton and Franklin Counties in Washington State and is coterminous with the Metropolitan Statistical Area (MSA) of the same name. Known as the Tri-Cities, after the three largest cities in the metropolitan area—Kennewick, Pasco, and Richland—the metropolitan area is the regional trade and services hub for southeastern Washington. The two largest employers in the metropolitan area are the Hanford Site and the Pacific Northwest National Laboratory (PNNL)—a national laboratory that engages in cutting-edge scientific research, some related to waste remediation at the Hanford Site. The metropolitan area is at the confluence of the Yakima, Snake, and Columbia Rivers, which support a thriving agricultural sector. Seven consecutive years of job gains ended with the onset of the pandemic. Measures put in place to slow the spread of the COVID-19 virus, which began in mid-March 2020, caused payrolls to fall by 11,300 jobs, or 9.6 percent, in April 2020 (non-seasonally adjusted). Among the 13 MSAs in the state, the Kennewick-Richland metropolitan area had the third strongest jobs recovery, with payrolls down 3.8 percent in December 2020 compared with pre-pandemic levels in March 2020 (not seasonally adjusted),

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recovering more than 60 percent of the jobs lost in April 2020. Sales market conditions are currently tight, with increasing home sales and prices coupled with low inventory (Tri-Cities Association of Realtors®). Rental market conditions in the area are balanced, and apartment market conditions are slightly tight; year-over-year apartment rent growth resumed in the fourth quarter of 2020 for the first time since the onset of the pandemic (Moody's Analytics, REIS).

- As of January 1, 2021, the population of the metropolitan area was estimated at 305,700, reflecting an average annual increase of 4,850 people, or 1.7 percent, since 2014, and net in-migration accounted for 50 percent of the increase (Census Bureau intercensal population estimates and estimates by the analyst).
- By comparison, population growth averaged 8,550 people, or 3.5 percent, annually from 2007 to 2011. Net in-migration contributed 69 percent of the increase, largely because of funding from the American Recovery and Reinvestment Act (ARRA) for the Hanford Site. Population growth fell to an average of 3,050 people, or 1.1 percent, annually from

2011 to 2014 as ARRA funding expired in late 2011. Net in-migration contributed only 27 percent of the increase.

- Economic and population growth trends in the metropolitan area can be countercyclical to the rest of the state and nation, especially during economic downturns, because of the large federal government presence at the Hanford Site and PNNL, both of which are under the Department of Energy (hereafter, DOE). The Coronavirus Aid, Relief, and Economic Security (CARES) Act allowed for DOE to continue paying most workers and contractors through early December 2020, even for workers prohibited from being on site but had jobs that required it. Another example of this trend is the ARRA during the Great Recession, which provided nearly \$2 billion in funding to the Hanford Site, creating an estimated 2,500 additional jobs and contributing to strong job and population growth every year during the national recession. The ARRA and CARES Act funds were in addition to the approximately \$2 billion in funding that Congress allocates to the cleanup operations each year.

Economic Conditions

Economic conditions in the Kennewick-Richland metropolitan area deteriorated during the past year, largely because of efforts to slow the spread of COVID-19. Approximately 11,300 nonfarm jobs, or 9.6 percent, were lost in April 2020 (non-seasonally adjusted). Nonfarm payrolls increased month-over-month through October 2020 as countermeasures were eased, but payrolls subsequently fell by a total of 1,200 jobs through December 2020 as restrictions were strengthened due to a surge in positive COVID-19 cases during the holidays. In December 2020, payrolls were 3.8 percent below pre-pandemic levels in March 2020 (not seasonally adjusted). Among the MSAs in Washington, only the Lewiston-Clarkston, ID-WA and Longview, WA MSAs recovered more jobs during the period. In 2020, nonfarm payrolls were down 4.3 percent from 2019 levels. For context, before the pandemic, payrolls increased every year since 2000 except twice: once in 2006, when they were unchanged from a year earlier, and again in 2012 when payrolls fell by 2,700 jobs, or 2.6 percent, as ARRA funding expired. The economy expanded every year from 2013 through 2019 by an average of 2,500 jobs, or 2.3 percent.

The total value of agricultural products sold in the metropolitan area was \$1.64 billion in 2017, down 1 percent from 2012; the top five crops in the metropolitan area include apples, potatoes, sweet corn, onions, and grapes (Census of Agriculture). Direct agriculture jobs, such as growing fruit or crops, are not counted in nonfarm payrolls. However, agricultural employment impacts

nonfarm payrolls through food processing (manufacturing), fresh fruit packaging (wholesale and retail trade), and distribution (transportation and utilities). During the third quarter of 2020, agricultural jobs declined almost 12 percent year over year to 14,500. Food processing jobs, which account for 60 percent of manufacturing jobs, fell nearly 4 percent to 4,825 (Quarterly Census of Earnings and Wages [QCEW]).

At the end of December 2020, the Kennewick-Richland metropolitan area was in phase one of the Washington State re-opening plan, prohibiting social gatherings and dining indoors and severely limiting capacity at outdoor entertainment venues. In April 2021, the metropolitan area was in phase three of the plan, allowing nonessential travel to resume and most establishments to operate at reduced capacity while adhering to state-mandated social distancing requirements and health safety standards. The re-opening effects are not captured by the payroll data used in this report (through December 2020).

During the fourth quarter of 2020—

- Year-over-year job losses totaled 5,000, a decline of 4.2 percent from the fourth quarter of 2019. By comparison, payrolls increased by 3,100 jobs, or 2.7 percent, from the fourth quarter of 2018 to the fourth quarter of 2019. Although the number of jobs lost during the current quarter was large, it improved from year-over-year job losses of 9.5 and 6.5 percent during the second and third quarters of 2020, respectively.

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Although year-over-year job losses were significant in the Kennewick-Richland metropolitan area during the fourth quarter of 2020, it is an improvement from the rate and level of losses during the second and third quarters of 2020.

	3 Months Ending		Year-Over-Year Change	
	December 2019 (Thousands)	December 2020 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	119.4	114.4	-5.0	-4.2
Goods-Producing Sectors	18.9	19.1	0.2	1.1
Mining, Logging, & Construction	10.4	10.6	0.2	1.9
Manufacturing	8.6	8.5	-0.1	-1.2
Service-Providing Sectors	100.5	95.3	-5.2	-5.2
Wholesale & Retail Trade	16.8	17.0	0.2	1.2
Transportation & Utilities	3.1	3.1	0.0	0.0
Information	0.8	0.7	-0.1	-12.5
Financial Activities	4.2	4.0	-0.2	-4.8
Professional & Business Services	21.9	21.4	-0.5	-2.3
Education & Health Services	18.5	18.5	0.0	0.0
Leisure & Hospitality	12.0	9.1	-2.9	-24.2
Other Services	3.8	3.6	-0.2	-5.3
Government	19.3	17.9	-1.4	-7.3
Unemployment Rate	5.0%	6.0%		

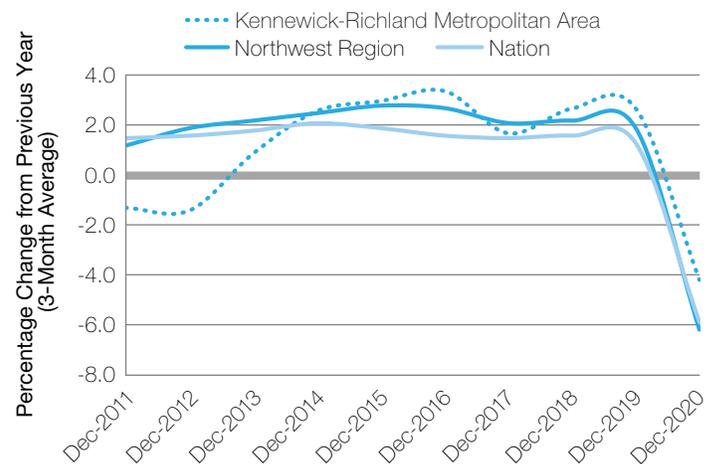
Note: Numbers may not add to totals due to rounding.
Source: U.S. Bureau of Labor Statistics

- Job losses were greatest in the leisure and hospitality sector, which fell by 2,900 jobs, or 24.2 percent, from the fourth quarter of 2019, mainly because the sector includes a high proportion of jobs that were not easily adapted to meet social distancing requirements, one of the countermeasures used to contain the pandemic. For context, since 2000, the sector contracted only twice, in 2001 and 2009, for a combined loss of 300 jobs.
- The professional and business services sector, which is the largest payroll sector in the metropolitan area, lost 500 jobs, or 2.3 percent, from the fourth quarter of 2019, compared with an addition of 1,000 jobs, or 4.8 percent, a year earlier. Approximately 30 percent of professional and business services sector jobs are in the waste management and remediation industry, which added 340 jobs from the third quarter of 2019 to the third quarter of 2020 (QCEW).
- Some of the job losses were mitigated by small increases in the mining, logging, and construction and the wholesale and retail trade sectors, each adding 200 jobs, or 1.9 and 1.2 percent, respectively, from the fourth quarter of 2019.
- The unemployment rate increased to 6.0 percent, up from 5.0 percent during the fourth quarter of 2019, but down from a high of 11.8 percent during the second quarter of 2020. By comparison, the previous high was 10.8 percent in the first quarter of 2012 in response to Hanford-related ARRA funds expiring at the end of 2011.

Although the Hanford Site is part of the DOE, less than 5 percent of the 11,000 jobs associated with the environmental cleanup project are in the government sector. Most of the jobs are done by private contractors and classified in the waste management and remediation industry within the professional and business services sector, including four of the largest employers in the

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Since the onset of the pandemic, nonfarm payroll losses in the Kennewick-Richland metropolitan area have been less severe than in the Northwest region and nation.



Source: U.S. Bureau of Labor Statistics



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metropolitan area: Bechtel Corporation, Jacobs Engineering Group Inc., Mission Support Alliance, LLC, and Washington River Protection Solutions (Moody's Analytics). In 2018, the average wage for Hanford-related jobs was \$75,000 to \$95,000 (tricitiesbusinessreview.com), 10 to 79 percent higher than the average annual wage of \$42,000 to \$87,000 in the metropolitan area (Office of Financial Management, Washington State). In addition to the ongoing construction of the \$17 billion Vit Plant, the DOE is finalizing the details of a new, 10-year contract worth an estimated \$27.6 billion to operate the facility. In February 2021, after the date of this report, the DOE released a draft copy of the contract and requested comments with plans to start requesting bids in the summer of 2021 (*Tri-City Herald*).

Largest Employers in the Kennewick-Richland Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Hanford Site (a)	Professional & Business Services	11,000
Pacific Northwest National Laboratory (operated by Battelle) (a)	Professional & Business Services	4,700
Kadlec Regional Medical Center	Education & Health Services	3,674
Lamb Weston Holdings, Inc.	Manufacturing	3,000
Washington River Protection Solutions	Professional & Business Services	2,971
Mission Support Alliance, LLC	Professional & Business Services	2,240
Jacobs Engineering Group Inc. (previously CH2M Hill)	Professional & Business Services	1,688
Bechtel Corporation	Professional & Business Services	1,450

Notes: Excludes local school districts. (a) Some portion of these jobs are included in federal government payrolls (Department of Energy), but a greater share of the jobs are done by private contractors and included in the professional and business services sector.

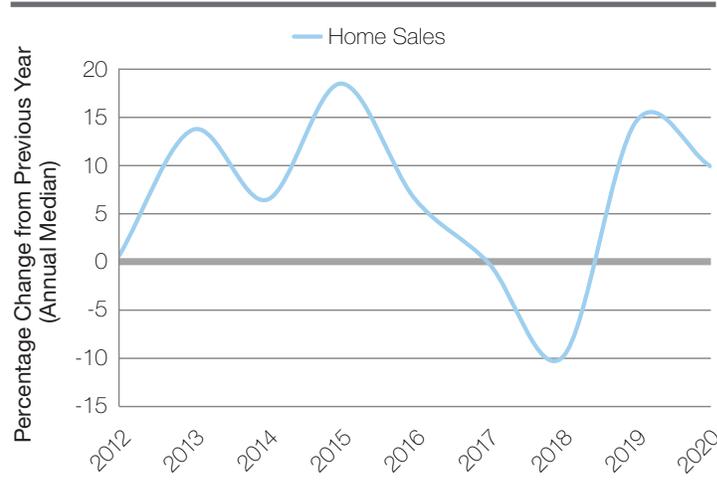
Source: Moody's Analytics Economy.com

Sales Market Conditions

Sales housing market conditions in the Kennewick-Richland metropolitan area are currently tight, with an estimated sales vacancy rate of 1.1 percent, down from 1.3 percent in 2010. A limited supply of for-sale inventory, in conjunction with strong population and economic growth before the pandemic, resulted in increased demand for sales housing and contributed to the decline in the vacancy rate. The inventory of homes for sale has been less than 6 months (typically indicative of a balanced market) since at least 2000 (beginning of data series, Tri-Cities Association of Realtors®). As of December 2020, a 0.7-month supply of homes was available for sale, compared with 1.4 months of inventory a year ago and a high of 5.0 months in December 2012. The prolonged shortage of for-sale housing has resulted in swift home sales price growth.

The percentage of seriously delinquent mortgages (90 or more days delinquent or in foreclosure) and real estate owned (REO) properties in the metropolitan area diverged from state and national trends during the aftermath of the Great Recession because the local economy was continuing to expand, and population growth remained strong. In December 2010, the percent of seriously delinquent mortgages and REO properties in the metropolitan area was 2.9 percent compared with the state and national rates of 6.0 and 7.8 percent, respectively (CoreLogic, Inc.). The rate in the metropolitan area has been

Home sales in the Kennewick-Richland metropolitan area continued to increase during 2020, despite low inventory and swift price growth during the past year.



Note: Sales are for new and existing single-family homes, townhomes, and condominiums. Source: Tri-Cities Association of Realtors®

significantly lower than that of the nation but converged with the state-level rate in early 2017, a trend which continued through the current date. In December 2020, 2.5 percent of mortgages in the metropolitan area were seriously delinquent or in REO

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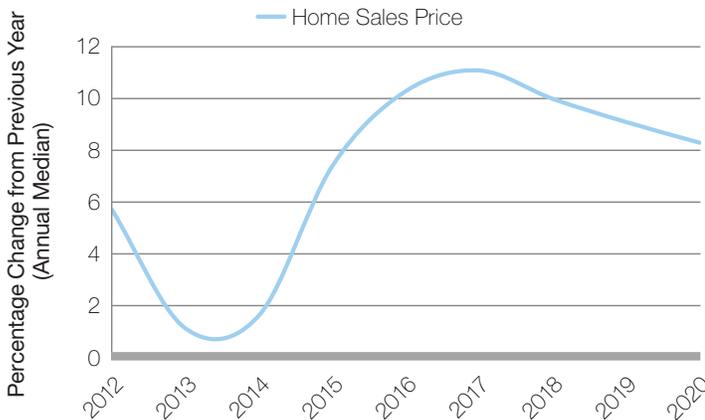


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status compared with 0.6 percent a year before, but down from 4.4 percent in August 2020. All the increase in the delinquency rate was caused by an increase in mortgages 90 or more days delinquent; forbearance policies that have been in place since early in the pandemic have kept homes from going into foreclosure. The national rate was 4.0 percent in December 2020, down from 1.4 percent a year earlier, while the state rate increased from 0.7 to 2.5 percent.

- Home sales (including new and existing home sales) totaled 5,000 in 2020, up 10 percent from a year ago and preceded by a 15-percent increase in 2019 (Tri-Cities Association of Realtors®). Home sales in 2020 represent the most home sales in the metropolitan area since at least 2000 (beginning of data series).
- The conclusion of several Hanford-related contracts caused 1 year of job losses in 2012, which suppressed net in-migration through 2014, contributing to a relatively low level of home sales, averaging 3,225 homes sold each year. As economic and population growth strengthened, home sales increased, averaging 4,250 home sales annually through 2018.
- The median sales price of a home in the metropolitan area was \$325,000 in 2020, up 8 percent from a year ago, which followed a gain of 9 percent in 2019. Since 2000, the median sales price has increased every year except in 2008 and 2011, when prices declined 1 percent each year.
- Home sales price growth, which averaged 10 percent annually from 2015 through 2018, is in stark contrast to average annual price growth of less than 3 percent from 2002 through 2014.

Annual home sales price growth in the Kennewick-Richland metropolitan area has been more than 8 percent since 2015.



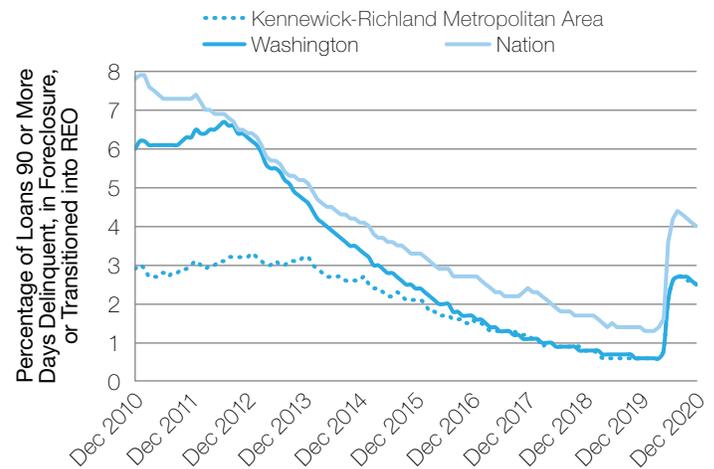
Note: Prices are for new and existing single-family homes, townhomes, and condominiums. Source: Tri-Cities Association of Realtors®

As measured by the number of single-family homes permitted, new home construction generally increased from 2014 through 2020, despite the ongoing pandemic and countermeasures to quell it, which have disrupted supply chains and added significant costs to construction.

- Approximately 1,750 single-family homes were permitted in 2020, up almost 6 percent from the 1,650 homes permitted

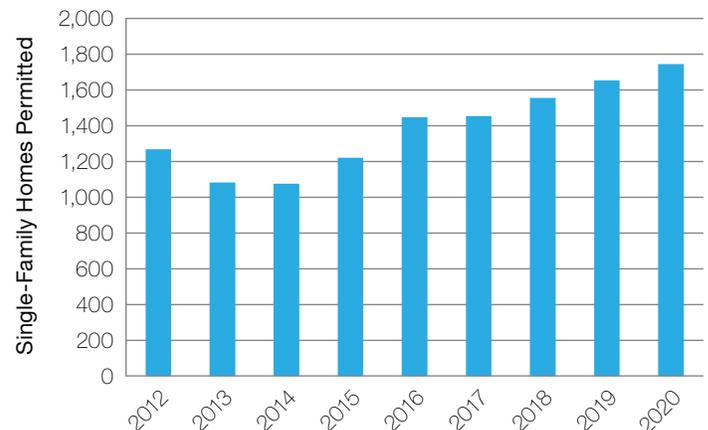
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The rate of seriously delinquent mortgages and REO properties in the Kennewick-Richland metropolitan area increased sharply during the past year, largely due to the measures to slow the spread of COVID-19.



REO = real estate owned. Source: CoreLogic, Inc.

In the Kennewick-Richland metropolitan area, single-family homebuilding activity continued to increase in 2020, despite the pandemic-induced obstacles in the construction supply chain.



Note: Includes preliminary data from January 2020 through December 2020. Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst



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in 2019. Current new home production is significantly higher than the average of 1,175 homes permitted annually from 2007 through 2009, as financing was particularly hard to obtain, despite the continued economic and population growth during the period. However, recent home building activity is below the average of 1,975 homes permitted each year from 2002 through 2006 during the build-up to the national recession.

- New home subdivisions are concentrated in the city of Richland in Benton County, the closest city to the Hanford

Site and PNNL. The Wild Canyon subdivision had the most new home sales in 2020, with 46 new home sales with a median sales price of \$445,800 (Zonda).

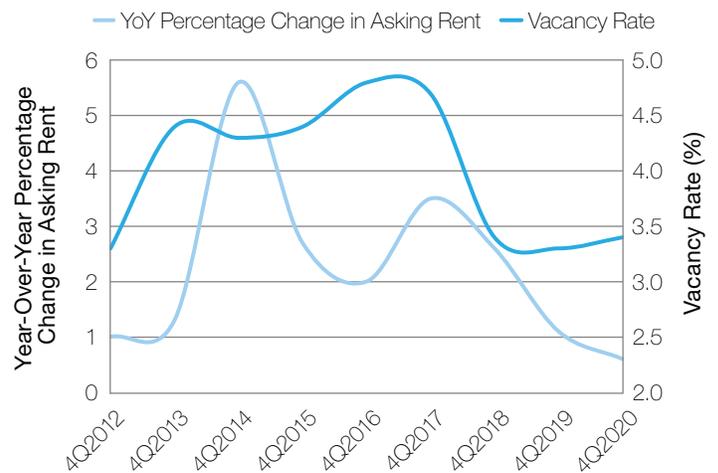
- There were three additional subdivisions in Richland with more than 20 new home sales in 2020, with median sales prices of \$411,400 at Belmont Heights, \$425,000 at West Village, and \$508,300 at Westcliffe Heights; 29, 23, and 20 home sales occurred in 2020 at each subdivision, respectively.

Rental Market Conditions

Rental market conditions are currently balanced, with an estimated 4.0-percent vacancy rate, down from 4.8 percent in 2010. In 2019, approximately 37 percent of renter households in the metropolitan area lived in single-family homes, compared with 31 percent in 2010 (2010 and 2019 American Community Survey 1-year data). Part of this trend is explained by the nature of Hanford-related work, which is often temporary due to the relatively short-term contracts that many of the contractors operate under. Workers are less apt to purchase a home when the duration of employment is short or uncertain. Despite increased apartment construction since a 3-year low from 2013 through 2015, apartment vacancy rates remain low. Rents increased year over year during the fourth quarter of 2020 for the first time since the onset of the pandemic.

- The apartment market in the Kennewick-Richland metropolitan area was slightly tight during the fourth quarter of 2020, with a vacancy rate of 3.4 percent, up slightly from 3.3 percent a year earlier (Moody's Analytics REIS). The apartment vacancy rate has been less than 5.0 percent every fourth quarter since at least 2009 (beginning of data series).
- During the fourth quarter of 2020, the average asking rent in the metropolitan area increased less than 1 percent, to \$971, from a year ago. Rents declined year over year in the second and third quarters of 2020 by less than 1 percent. By comparison, from 2010 through 2018, rents increased at an average annual rate of 3 percent.
- Rents for studios, one-, two-, and three-bedroom units averaged \$696, \$867, \$996, and \$1,173, respectively, during the fourth quarter of 2020.
- Apartment market conditions were very tight from 2009 through 2010—when the vacancy rate averaged 1.7 percent and rent growth averaged 7 percent a year—in response to strong population and job growth during the period and limited new home construction, propelled by increased funding at the Hanford Site and PNNL.

Rent growth in the Kennewick-Richland metropolitan area slowed since spiking in 2014, while the average vacancy rate has fluctuated between 3 and 5 percent.



4Q = fourth quarter. YoY = year-over-year. Source: Moody's Analytics REIS

Apartment construction, as measured by the number of multifamily units permitted, generally increased from 2014 through 2019 because strong population growth and increased demand for rental housing, perpetuated by a limited supply of for-sale housing, continued to encourage development. However, construction activity moderated in 2020 as some builders reported postponing new developments in 2020 until the effects of the pandemic were better understood.

- Approximately 220 multifamily units were permitted in the metropolitan area in 2020, down 54 percent from the 480 units permitted in 2019 (preliminary data).
- Apartment construction averaged 380 units annually from 2014 through 2018, significantly higher than the average of 220 units permitted annually from 2013 through 2015 due

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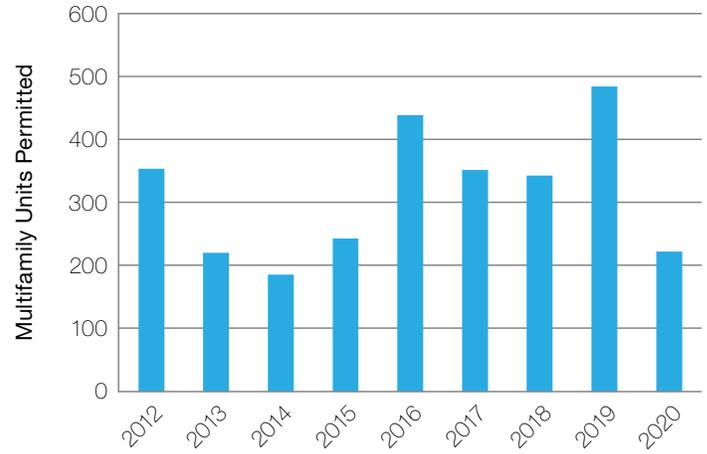


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to a sharp reduction in Hanford funding in 2012. From 2005 through 2009, approximately 110 units were permitted each year, and construction increased to 400 units permitted, annually, in 2010 and 2011.

- During 2020, there was net negative absorption of 10 units which caused the vacancy rate to increase slightly, compared with positive net absorption of 10 units in 2019 (Moody's Analytics REIS). By comparison, net absorption averaged 210 units annually in 2017 and 2018.
- One apartment development was completed in the metropolitan area in 2020, the 276-unit income-restricted Copper Mountain Apartments in Richland. The unit mix includes one-, two-, three-, and four-bedroom units with rents ranging from \$806 to \$1,237.
- An estimated 220 units are currently under construction in the metropolitan area, including a portion of the 106 units at Park Place Apartments in Richland, which is expected to be completed in the spring of 2021. The unit mix includes studios, one-, and two-bedroom units, and rents will range from \$1,275 to \$1,959.

Job losses in the Kennewick-Richland metropolitan area in 2012 resulted in a slowdown in apartment construction through 2014, but construction generally increased through 2019.



Note: Includes preliminary data from January 2020 through December 2020. Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

