

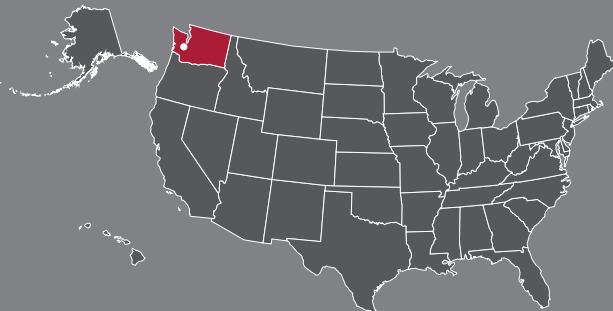
HUD PD&R Housing Market Profiles

Tacoma-Lakewood, Washington



Quick Facts About Tacoma-Lakewood

- Current sales market conditions: very tight
- Current apartment market conditions: tight
- Joint Base Lewis-McChord (JBLM)—the largest U.S. Army-led joint base in the country—employs 38,300 active-duty, National Guard, and Army Reserve members and 16,050 civilian personnel (Army Stationing and Installation Plan as of October 2019). In addition to the military members, approximately 46,500 military family members and 39,600 retirees live within a 40-mile radius of the base.



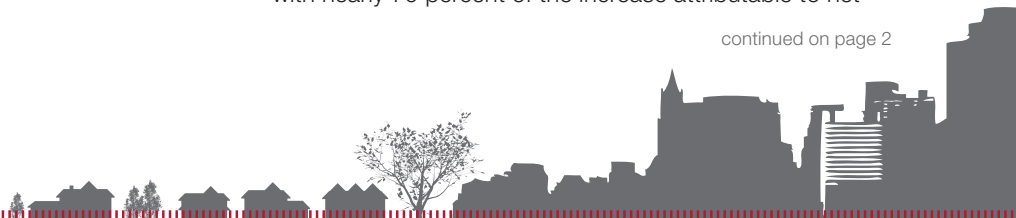
By Hoi Urbas | As of November 1, 2019

Overview

The Tacoma-Lakewood metropolitan division (hereafter, the Tacoma-Lakewood metropolitan area) is made up by Pierce County and is located on the Puget Sound directly south of the Seattle metropolitan area, which includes King and Snohomish Counties. The economy of the Tacoma-Lakewood metropolitan area is closely tied to that of the Seattle metropolitan area, which has a broader economic base. The significantly lower cost of housing in the Tacoma-Lakewood metropolitan area has led to a net inflow of residents from King County—location of the city of Seattle—to Pierce County. JBLM is also important to the area's economy as the largest employer in the metropolitan area, the third largest employer in the state of Washington, and one of the most requested duty stations in the country. In 2018, JBLM had an economic impact on the South Sound—17 communities in Pierce and Thurston Counties and on Nisqually Indian tribal lands—totaling between \$8.3 and \$9.2 billion (South Sound Military and Communities Partnership [SSMCP] and the University of Washington Tacoma Center for Business Analytics).

- As of November 1, 2019, the population of the metropolitan area was estimated at 910,300, reflecting an average annual increase of 15,850 people, or 1.8 percent, since July 2015, with nearly 70 percent of the increase attributable to net

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in-migration. By comparison, from July 2010 to July 2015, population growth averaged 9,275 people, or 1.1 percent, a year, and 43 percent of the growth was due to net in-migration.

- The stronger rate of growth since 2015 is partially attributable to increased net in-migration to the metropolitan area from King County because of the growing disparity in housing costs. The most recent data available estimates a net inflow of 7,250 people from King County to Pierce County in 2017. This is compared with net inflows of 4,600 people in 2016 and 3,850

people in 2015 (American Community Survey [ACS] County-to-County Migration Flows). In 2015, the median sales price of a home in Pierce County was 43 percent less than in King County, and that differential increased to 50 percent in 2017 (Metrostudy, A Hanley Wood Company).

- Approximately 29 percent of the 38,300 currently stationed at JBLM live on base, 40 percent live off base in Pierce County, and 30 percent live in neighboring Thurston County, located to the south of the metropolitan area (SSMCP).

Economic Conditions

Economic recovery in the Tacoma-Lakewood metropolitan area was modest from 2011 through 2012 following the Great Recession, with an average gain of 1,700 nonfarm jobs, or 0.6 percent, annually. Ongoing losses in the construction subsector, a result of the housing market crisis, partially offset growth in most service-providing sectors during the same period. The recovery gained momentum as housing markets improved, and payroll growth increased to an average of 7,800 jobs, or 2.7 percent, annually from 2013 through 2018. During this period, all sectors except the information sector netted jobs, with service-providing sectors accounting for 82 percent of the increase. Economic conditions are currently strong, but the rate of payroll growth has recently slowed. During the 3 months ending October 2019, nonfarm payrolls increased by 6,300 jobs, or 1.9 percent, to an average of 330,700 jobs compared with a gain of 8,800 jobs, or 2.8 percent, a year prior.

During the 3 months ending October 2019—

- Strong housing markets, which were partially a result of increased demand from King County residents moving to Pierce County for more affordable housing options, contributed to the addition of 2,500 jobs, or 9.7 percent, in the mining, logging, and construction sector. More than 95 percent of jobs in the sector were in the construction subsector.
- The in-migration of residents from King County—who, with a median household income of \$95,000 in 2018, tend to have more disposable income than Pierce County residents, who comparatively had a median household income of \$75,407 in 2018 (ACS 1-year data)—helped fuel demand for new restaurants and drinking places, resulting in a gain of 900 jobs, or 2.7 percent, in the leisure and hospitality sector.

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In the Tacoma-Lakewood metropolitan area, nonfarm payroll growth during the most recent 3-month period was split almost evenly between the goods-producing and service-providing sectors.

	3 Months Ending		Year-Over-Year Change	
	October 2018 (Thousands)	October 2019 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	324.4	330.7	6.3	1.9
Goods-Producing Sectors	43.4	46.5	3.1	7.1
Mining, Logging, & Construction	25.8	28.3	2.5	9.7
Manufacturing	17.6	18.2	0.6	3.4
Service-Providing Sectors	281.0	284.2	3.2	1.1
Wholesale & Retail Trade	49.6	50.1	0.5	1.0
Transportation & Utilities	19.0	18.7	-0.3	-1.6
Information	2.5	2.6	0.1	4.0
Financial Activities	14.5	14.7	0.2	1.4
Professional & Business Services	34.3	35.4	1.1	3.2
Education & Health Services	55.1	55.6	0.5	0.9
Leisure & Hospitality	33.8	34.7	0.9	2.7
Other Services	14.4	14.6	0.2	1.4
Government	57.8	57.8	0.0	0.0
	(Percent)	(Percent)		
Unemployment Rate	4.7	5.2		

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



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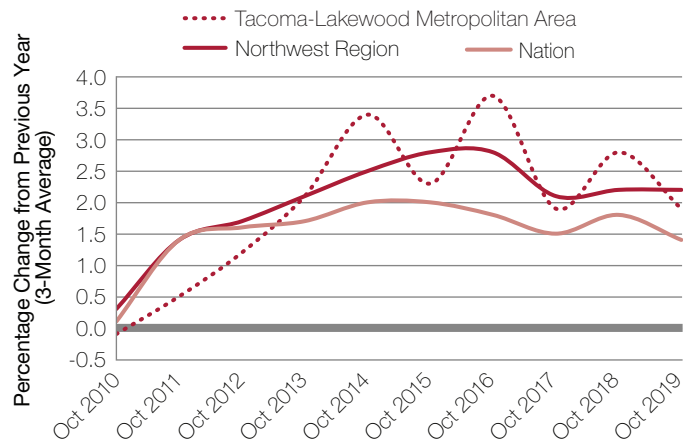
- The loss of 300 jobs, or 1.6 percent, in the transportation and utilities sector followed a loss of 800 jobs, or 3.9 percent, from the 3 months ending October 2017 to the same period in 2018. The Port of Tacoma is an important economic anchor in the metropolitan area and was estimated to account for 14,450 direct jobs in 2017, a large portion of which are included in the transportation and utilities sector, and \$1.3 billion in direct wages (Port of Tacoma). Increased automation for many port-related activities is responsible for most of the recent job loss and is expected to contribute to future job loss as well.
- The average unemployment rate increased to 5.2 percent from 4.7 percent a year ago because the labor force growth exceeded growth in employment. The unemployment rate in the metropolitan area peaked at 10.4 percent in 2010 and declined every subsequent year through 2018.

The relationship between the Tacoma-Lakewood metropolitan area and King County is illustrated by the difference between the metropolitan area's nonfarm payrolls (based on the location of jobs) and resident employment (based on where employees live). In general, resident employment in the Tacoma-Lakewood metropolitan area has been 25 to 30 percent greater than nonfarm payrolls. This is largely explained by commuting patterns. The most recent data available notes that approximately 180,000 Tacoma-Lakewood metropolitan area residents commute outside of the county for work, with approximately 70 percent commuting to King County (2017 U.S. Census Bureau, OnTheMap data). During the 3 months ending October 2019, resident employment in the Tacoma-Lakewood metropolitan area increased by 17,350 jobs, or 4.3 percent, from a year earlier. This is compared with a gain of 9,900 jobs, or 2.5 percent, during the same period from 2017 to 2018. The acceleration in employment of metropolitan area residents contrasts with the deceleration in nonfarm payroll jobs during the corresponding time periods. This is reflective of a slowdown in nonfarm job growth in the Tacoma-Lakewood metropolitan area, which is being mitigated, in part, by strong

Sales Market Conditions

Sales housing market conditions in the Tacoma-Lakewood metropolitan area are currently very tight, with an estimated sales vacancy rate of 0.9 percent, down from 2.6 percent in 2010. Job growth, increased net in-migration driven by the relative affordability of housing, and low levels of new home construction have contributed to the absorption of the excess inventory created during the housing crisis. Although new and existing homes sales prices in King County were stagnant during the past year, prices in the Tacoma-Lakewood metropolitan area continued to increase, averaging a gain of 7 percent during the 12 months ending September 2019 (CoreLogic, Inc., with adjustments by the analyst). The disparity in housing costs between the two counties

Nonfarm payroll growth in the Tacoma-Lakewood metropolitan area has exceeded growth in the nation since 2013.



Note: Nonfarm payroll job growth.
Source: U.S. Bureau of Labor Statistics

Largest Employers in the Tacoma-Lakewood Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Joint Base Lewis-McChord	Government	54,350
MultiCare Health System	Education & Health Services	7,439
Franciscan Health System	Education & Health Services	6,528

Notes: Excludes local school districts. Data for Joint Base Lewis-McChord includes 38,300 active-duty military, National Guard, and Army Reserve members not included in nonfarm payroll totals.

Sources: Moody's Analytics and Army Stationing and Installation Plan [ASIP] as of October 2019

employment growth in King County and the overall Seattle metropolitan area. Payroll growth in the Seattle metropolitan area accelerated from 2.5 percent during the 3 months ending October 2017 to the same period in 2018 to 3.2 percent during the 3 months ending October 2019.

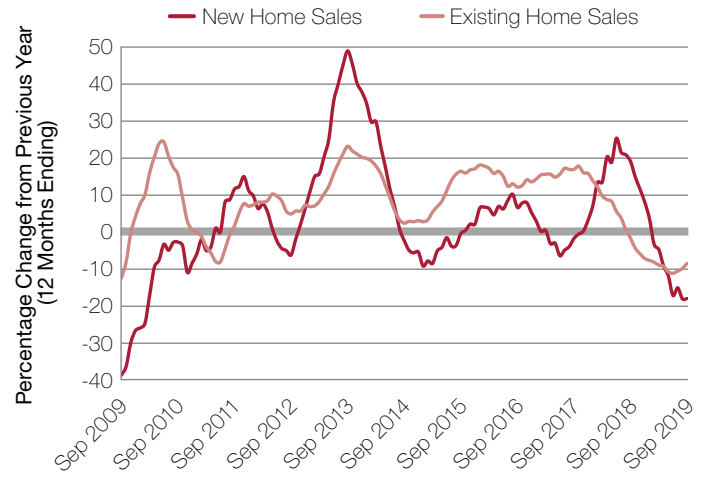
will decrease if this trend continues, which could slow net in-migration to the metropolitan area from King County. Despite increasing home sales prices in Pierce County, the number of sales declined almost 10 percent during the past year, largely because of a prolonged shortage in for-sale housing, which has put upward pressure on sales prices. As of October 2019, a 1.3-month supply of homes was available for sale in the Tacoma-Lakewood metropolitan area—down from a 1.9-month supply a year ago—and has remained below a 6-month supply (generally indicative of balanced market conditions) since 2012 (Redfin). In September 2019, 1.0 percent of home loans in the metropolitan area were seriously delinquent (90 or more days delinquent or

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The recent declines in new and existing home sales in the Tacoma-Lakewood metropolitan area are the largest since housing markets recovered from the Great Recession, largely because of low for-sale inventory.

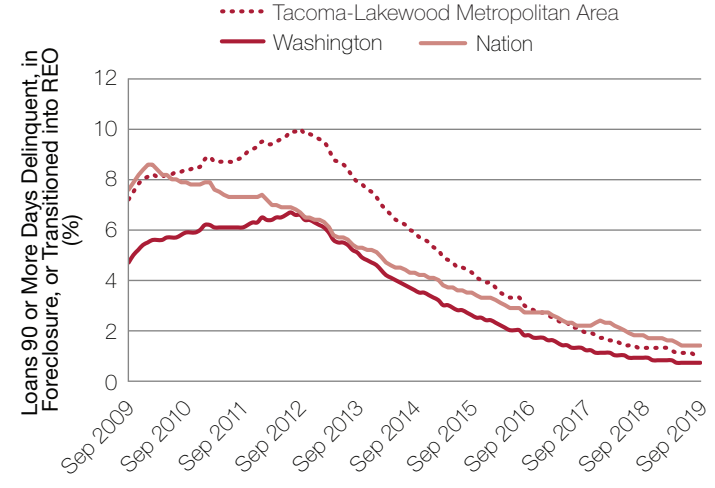


Note: Includes single-family homes, townhomes, and condominiums. Source: CoreLogic, Inc., with adjustments by the analyst

in foreclosure) or had transitioned into real estate owned (REO) status, and the rate has declined every year since reaching a high of 10.0 percent in September 2012. The current rate is higher than the 0.7-percent rate for Washington but lower than the 1.4-percent rate for the nation.

- Approximately 17,750 existing homes—including single-family homes, townhomes, and condominiums—sold in the Tacoma-Lakewood metropolitan area during the 12 months ending September 2019, reflecting a 9-percent decrease compared with a year ago (CoreLogic, Inc., with adjustments by the analyst). By comparison, existing home sales increased at an average annual rate of 16 percent from 2015 through 2017 but declined 7 percent in 2018 as the available inventory continued to decrease.
- The average sales price of an existing home was \$364,800 during the 12 months ending September 2019, up 7 percent from a year ago. By comparison, the average sales price increased at an average annual rate of 11 percent from 2015 through 2018.
- New home sales—including single-family homes, townhomes, and condominiums—totaled 1,925 homes during the 12 months ending September 2019, down 18 percent from a year ago, largely because of a shortage in construction workers and limited land availability caused new home production to slow during the past several years. By comparison, new home sales increased at an average annual rate of 5 percent from 2015 through 2018.

The percentage of home loans 90 or more days delinquent, in foreclosure, or recently transitioned to REO status in the Tacoma-Lakewood metropolitan area has been below that of the nation since 2017.

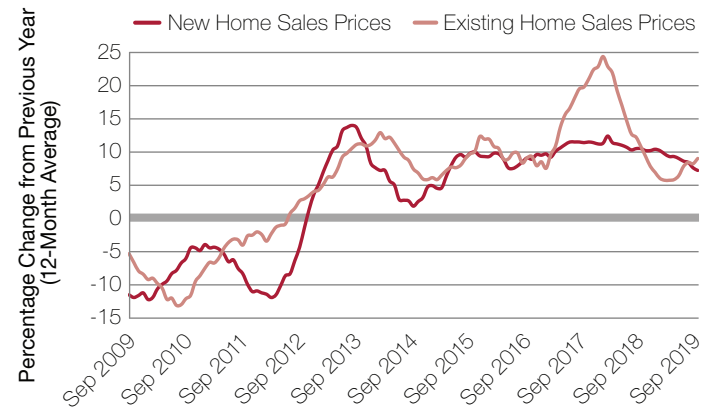


REO = real estate owned. Source: CoreLogic, Inc.

- Despite the slowdown in the number of new home sales, the average sales price of a new home increased 9 percent, to \$525,900, during the 12 months ending September 2019. By comparison, average annual price growth was 12 percent from 2015 through 2018.
- In the Tacoma-Lakewood metropolitan area, 45 percent of homes sold during the 3 months ending October 2019 were sold above the list price, compared with 41 percent a year ago, and the average number of days on the market declined from 25 to 17 days (Redfin).

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New and existing home sales prices in the Tacoma-Lakewood metropolitan area have increased every year since 2013.



Note: Includes single-family homes, townhomes, and condominiums. Source: CoreLogic, Inc., with adjustments by the analyst



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New home construction, as measured by the number of single-family homes permitted, has been relatively flat since the housing market recovered in 2013—with the exception of a brief uptick in 2017—averaging 2,525 new homes a year. Rising labor, land, and materials costs have suppressed growth in new home construction, impeding it from keeping pace with increased demand caused by elevated net in-migration for several years and improved access to credit.

- During the 12 months ending October 2019, approximately 2,450 single-family homes were permitted, down 7 percent from the 2,625 homes permitted during the 12 months ending October 2018 (preliminary data).
- Current new home production is significantly higher than the average of 1,650 homes permitted annually during the worst of the housing market crisis from 2008 through 2012 but is below the average of 4,675 homes permitted a year from 2001 through 2007 during the buildup to the crash.
- The largest concentration of new home sales in the metropolitan area year-to-date occurred in the 4,200-acre master-planned community of Tehaleh, located in the city of Bonney Lake. The community is a 20-minute drive to the nearest commuter train station, which is used by residents that work in downtown Seattle. The development is currently under construction, with 260 new homes sold in four separate subdivisions and median prices ranging from \$520,700 in the Berkeley Park subdivision to \$740,400 in the Pinnacle Ridge subdivision (Metrostudy, A Hanley Wood Company).

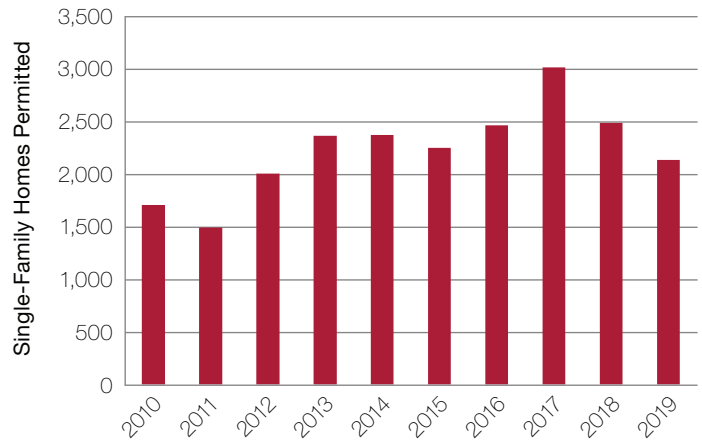
Apartment Market Conditions

Apartment market conditions in the Tacoma-Lakewood metropolitan area have improved considerably since 2010 when conditions were soft. Low levels of apartment construction coupled with a shift away from homeownership, largely attributable to the foreclosure crisis, caused vacancy rates to decline and rent growth to accelerate. Despite greater access to credit and increased apartment construction since 2014, the vacancy rate has remained under 4.0 percent and rent growth has averaged almost 6 percent annually (Reis, Inc.). This is largely because both home sales and apartment construction have not kept pace with demand from the large numbers of net in-migrants from King County. The apartment market is currently tight, with a 2.9-percent vacancy rate during the third quarter of 2019, unchanged from a year ago, though the average asking rent increased 5 percent to \$1,138. During the most recent quarter, rents averaged \$890, \$986, \$1,205, and \$1,538 for studio, one-, two-, and three-bedroom units, respectively.

During the third quarter of 2019—

- Apartment vacancy rates declined or remained stable in four of the seven Reis, Inc.-defined market areas in the metropolitan area compared with rates during the third quarter of 2018.

New home construction in the Tacoma-Lakewood metropolitan area has been relatively stable since 2013, with the exception of a spike in 2017.



Note: Includes preliminary data from January 2019 through October 2019. Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

- The Lipoma Firs master-planned community in the city of Puyallup, approximately 15 miles from the main gate of JBLM, is currently under construction and has reported 170 new home sales in two separate subdivisions since the beginning of 2019—125 sales in the Rainier Ridge subdivision, with a median sales price of \$454,200 and 45 home sales in the Lipoma Firs North subdivision, with a median price of \$386,300.

- The approximately 15,300 active-duty soldiers at JBLM who live off base in Pierce County have contributed to tight apartment market conditions in the market areas nearest the base. The McChord Air Force Base market area, which includes areas closest to JBLM, had the lowest vacancy rate in the metropolitan area at 1.3 percent, down from 1.6 percent a year ago, and the lowest asking rent at \$804, up 5 percent from a year ago. The Lakewood market area, also located near JBLM, had a 2.1-percent vacancy rate, unchanged from a year ago, and the average asking rent increased 3 percent to \$1,157.
- The highest vacancy rate was in the North Tacoma market area, which includes downtown Tacoma, at 5.4 percent, down from 5.8 percent a year ago. An average of 200 new units a year have been completed in the market area since 2014, the highest amount of new construction among all market areas in the metropolitan area.
- Rent growth occurred in all market areas during the past year, ranging from a 3-percent gain in both the Lakewood and Parkland/Spanaway/Midland market areas to a 7-percent

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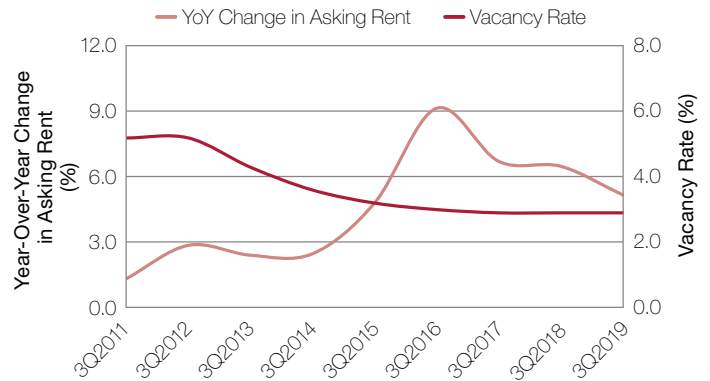
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increase in the East market area. The East market area had the highest asking rent in the metropolitan area at \$1,291, with a 3.6-percent vacancy rate compared to 3.1 percent a year ago.

Apartment construction, as measured by the number of multifamily units permitted, has generally increased since 2014 as strong population growth and a limited supply of for-sale housing continue to encourage development. Construction activity moderated during the past year, however, as builders have been waiting to see how the market responds to the record level of multifamily units permitted in 2018.

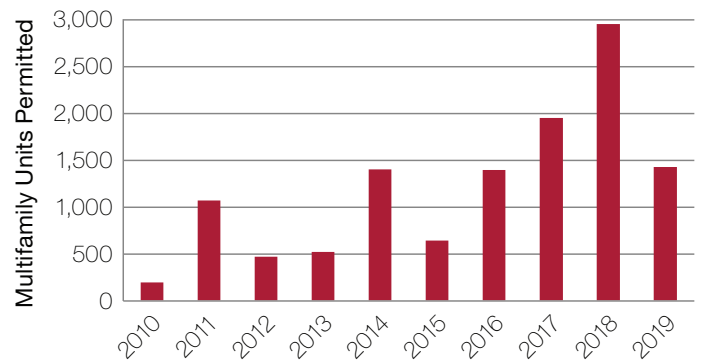
- Approximately 1,950 multifamily units were permitted in the metropolitan area during the 12 months ending October 2019, down 25 percent from the 2,600 units permitted during the 12 months ending October 2018 (preliminary data).
- Despite a one-year low point in 2015, apartment construction averaged 1,675 units annually from 2014 through 2018, significantly higher than the average of 600 units permitted annually from 2008 through 2013 due to the Great Recession and housing market collapse. Current construction levels also surpass levels prior to the collapse; an average of 1,200 units were permitted annually from 2000 through 2007.
- An estimated 1,650 units are currently under construction in the metropolitan area, approximately 60 percent of which are in the city of Tacoma.
- The 240-unit Glacier Run Apartments, part of the master-planned community of Sunrise in the city of Puyallup, began leasing in August and is one of the largest apartment properties to open in the metropolitan area in 2019. Rents start at \$1,366 for a one-bedroom unit, \$1,535 for a two-bedroom unit, and \$1,899 for a three-bedroom unit.
- The 104-unit Koz on Market Street opened in July 2019 in downtown Tacoma with micro-studio units ranging in size from 247 to 334 square feet. The property is currently 86 percent occupied, with rents ranging from \$860 to \$985.

The apartment vacancy rate in the Tacoma-Lakewood metropolitan area has remained stable since 2015.



3Q = third quarter. YoY = year-over-year. Source: Reis, Inc.

The number of multifamily units permitted in 2018 in the Tacoma-Lakewood metropolitan area was at the highest level in three decades.



Note: Includes preliminary data from January 2019 through October 2019. Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

