COMPREHENSIVE HOUSING MARKET ANALYSIS

Kennewick-Richland, WA

U.S. Department of Housing and Urban Development,
Office of Policy Development and Research

As of October 1, 2018

Executive Summary

Housing Market Area Description

The Kennewick-Richland Housing Market Area consists of Benton and Franklin Counties in south-central Washington State and is coterminous with the Kennewick-Richland, WA Metropolitan Statistical Area. Also known as the Tri-Cities, the HMA is the regional trade and services hub for southeastern Washington and is home to the Hanford Site (formerly Hanford Nuclear Site) and the Pacific Northwest National Laboratory. The HMA is at the confluence of the Yakima, Snake, and Columbia Rivers, which support a thriving agricultural sector and commercial transportation.

Legend:
- ● Places of Interest
- Urbanized Areas
- Kennewick-Richland HMA
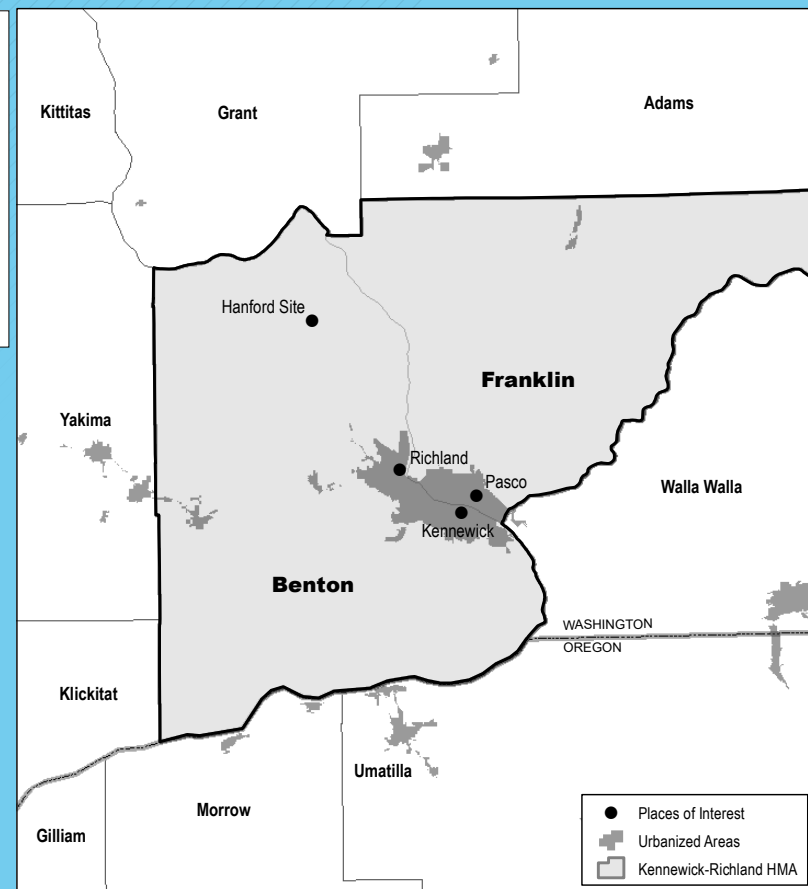
Tools and Resources

Find interim updates for this metropolitan area, and select geographies nationally, at PD&R's Market-at-a-Glance tool.
Additional data for the HMA can be found in this report's supplemental tables.
For information on HUD-supported activity in this area, see the Community Assessment Reporting Tool.

Market Qualifiers

Economy

Strong: Since 2014, nonfarm payrolls have increased by 2.9 percent, or 3,100 jobs, annually.

Led by job growth in the mining, logging, and construction sector, nonfarm payrolls increased by 3,000 jobs, or 2.7 percent, to 114,900 jobs during the 12 months ending September 2018. Robust commercial and residential construction accounted for strong job growth in the construction subsector, and steady population growth led to job gains in the information (telecommunications), financial activities (banking), and education and health services (ambulatory services) sectors.

Sales Market

Tight: The for-sale inventory has been below 3-months supply since June of 2015.

As of October 2018, the sales market is tight, with an estimated vacancy rate of 1.0 percent and a 2.2-month supply of for-sale housing. The limited number of homes available for sale constrained total home sales to 6,425 homes sold during the 12 months ending September 2018, relatively unchanged from the previous 12 months. During the 3-year forecast period, demand is expected for 3,625 new homes, with the 520 homes under construction satisfying a portion of demand.

Rental Market

Tight: The apartment market has been slightly tight to tight since the third quarter of 2014.

The rental market is tight, with an overall vacancy rate for all types of rental housing estimated at 3.0 percent. The apartment market is also tight, with a vacancy rate of 3.7 percent as of the third quarter of 2018, compared with 4.8 percent a year earlier, and the average apartment rent was $953, up 3 percent. In response to tight rental conditions, demand for 1,150 units is expected during the forecast period. The approximately 290 units currently under construction will meet a portion of the demand.

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3-Year Housing Demand Forecast		
	Sales Units	Rental Units
Kennewick-Richland HMA Total Demand	3,625	1,150
Under Construction	520	290

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of October 1, 2018. The forecast period is October 1, 2018, to October 1, 2021.
Source: Estimates by the analyst

Economic Conditions

Largest sector: Professional and business services

A strong labor market and an expanding economy, combined with a quality of life that supports in-migration, is sustaining economic growth in the Kennewick-Richland HMA.

The HMA is home to the Hanford Site (hereafter Hanford) and the Pacific Northwest National Laboratory (PNNL). Hanford was a plutonium production facility for atomic weapons and a provider of steam for producing electricity from 1943 to 1987. Since that time, it has become one of the nation's largest restoration projects involving removal of radiative materials from the soil and seeding it with native plants. PNNL engages in research to increase U.S. energy capacity, prevention of terrorism, reduction of the environmental effects of human activities, creation of sustainable systems to prevent pollution, and protection from unacceptable safety and health risks.
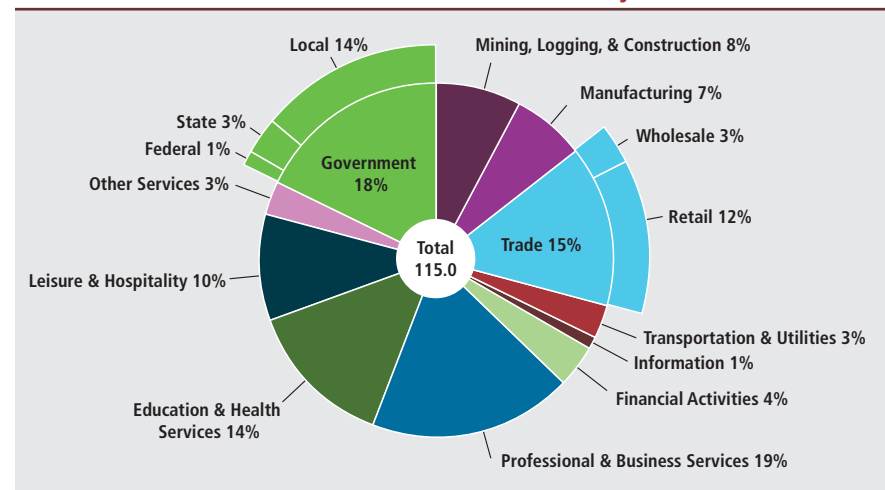
Primary Local Economic Factors

The Kennewick-Richland HMA is southeast Washington's regional economic center for retail trade, financial and health services, manufacturing, and tourism. Jobs increased in 16 of the past 17 years in the HMA (Figure 1). Principally because of the presence of the Hanford Site and PNNL, the professional and business services and the government sectors are the largest job sectors in the HMA, with 19 and 18 percent of nonfarm payrolls, respectively (Figure 2). Food processing is the principal manufacturing activity, accounting for 68 percent of the manufacturing sector's workforce, partly because of the presence of Lamb Weston Holdings, Inc., a producer of innovative frozen potato products and one of the major employers in the HMA.

Figure 1. 12-Month Average Nonfarm Payrolls in the Kennewick-Richland HMA
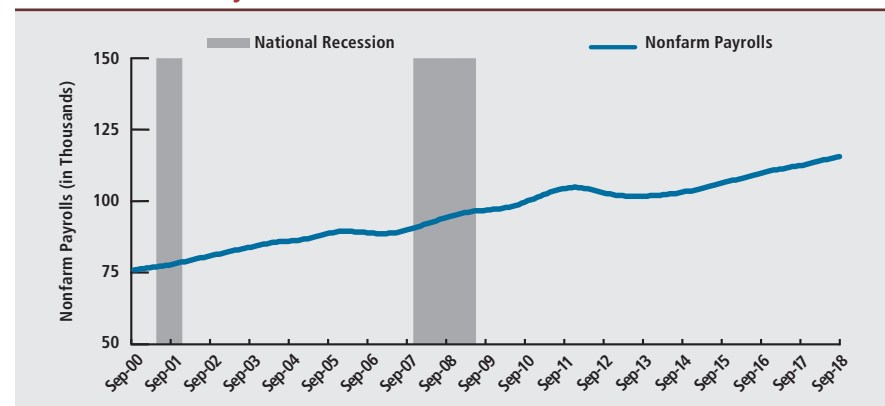
Note: 12-month moving average.
Source: U.S. Bureau of Labor Statistics

Figure 2. Current Nonfarm Payroll Jobs in the Kennewick-Richland HMA, by Sector

Local 14%
Mining, Logging, & Construction 8%
Manufacturing 7%
Wholesale 3%
State 3%
Federal 1%
Government 18%
Other Services 3%
Retail 12%
Trade 15%
Leisure & Hospitality 10%
Total 115.0
Transportation & Utilities 3%
Information 1%
Financial Activities 4%
Education & Health Services 14%
Professional & Business Services 19%

Note: Total nonfarm payrolls is in thousands. Numbers may not add to 100 percent due to rounding.
Source: U.S. Bureau of Labor Statistics

Current Conditions—Nonfarm Payrolls

Labor market conditions are strong in the Kennewick-Richland HMA, with steady job growth and a declining unemployment rate. During the 12 months ending September 2018, nonfarm payrolls increased by 2,900 jobs, or 2.6 percent, to 114,900 jobs (Table 1) compared with an increase of 2,600 jobs, or 2.4 percent, during the previous 12-month period. Job gains were greatest in the mining, logging, and construction, education and health services, and wholesale and retail trade sectors, up by 800, 600, and 500 jobs, or 9.6, 3.9, and 3.0 percent, respectively.

Table 1. 12-Month Average Nonfarm Payroll Jobs in the Kennewick-Richland HMA, by Sector

|	12 Months Ending September 2017	12 Months Ending September 2018	Absolute Change	Percentage Change
Total Nonfarm Payroll Jobs	**112.0**	**114.9**	**2.9**	**2.6%**
Goods-Producing Sectors	16.2	16.8	0.6	3.7%
Mining, Logging, & Construction	8.3	9.1	0.8	9.6%
Manufacturing	7.9	7.7	-0.2	-2.5%
Service-Providing Sectors	95.8	98.1	2.3	2.4%
Wholesale & Retail Trade	16.4	16.9	0.5	3.0%
Transportation & Utilities	3.1	3.2	0.1	3.2%
Information	0.8	0.9	0.1	12.5%
Financial Activities	3.9	4.1	0.2	5.1%
Professional & Business Services	21.5	21.7	0.2	0.9%
Education & Health Services	15.3	15.9	0.6	3.9%
Leisure & Hospitality	11.3	11.5	0.2	1.8%
Other Services	3.5	3.6	0.1	2.9%
Government	20.0	20.3	0.3	1.5%

Notes: Based on 12-month averages through September 2017 and September 2018. Numbers may not add to totals due to rounding. Numbers are in thousands.
Source: U.S. Bureau of Labor Statistics

Current Conditions—Unemployment

During the 12 months ending September 2018, the unemployment rate decreased from 5.9 to 5.5 percent compared with a decline from 4.5 to 4.0 percent for the nation (Figure 3). The unemployment rate decreased because employment grew by 2,175, or 1.7 percent, which outpaced labor force growth of 1,750, or 1.3 percent.

### Figure 3. 12-month Average Unemployment Rate in the Kennewick-Richland HMA
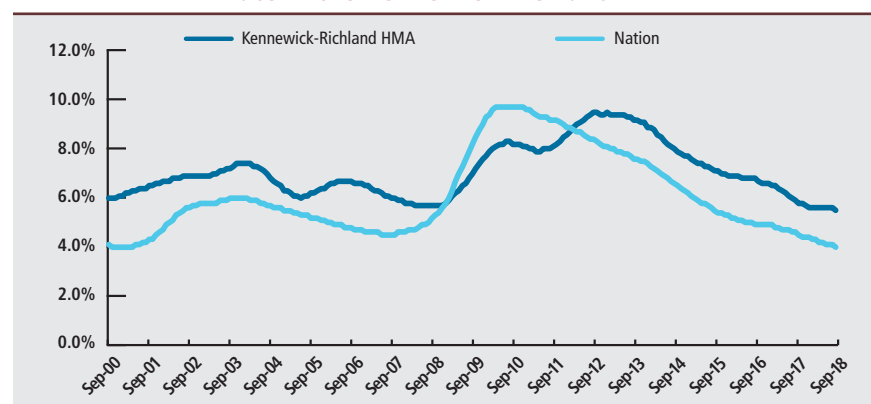
Source: U.S. Bureau of Labor Statistics

Economic Sectors of Significance

Overview

Since 2000, nonfarm payrolls decreased only once in 17 years. From 2001 through 2006, nonfarm payrolls increased by an average of 1,900 jobs, or 2.4 percent, annually to 88,100. Mainly because of strong residential and commercial building activity, the mining, logging, and construction sector led job growth, increasing every year during the period. From 2007 through 2011, nonfarm payrolls increased at an average of 3,100 jobs, or 3.3 percent, annually, to 103,800 jobs. Growth was led by an average annual increase of 1,200 jobs, or 5.8 percent, in the professional and business services sector because of funding for the Hanford Site from the American Recovery and Reinvestment Act of 2009. Also, the education and health services sector showed an average annual increase of 600 jobs, or 5.2 percent, which is attributable to an increase in ambulatory services and physician and dental clinics. The only year when job losses occurred was 2012; those losses were caused by a decline in mining, logging, and construction employment of 500 jobs, or 7.7 percent, nearly all in the construction subsector, and 3,100 jobs, or 12.4 percent, in the professional and business services sector, related to declines in the engineering services, environmental consulting, and waste remediation subsectors. From 2013 through 2017, job growth averaged 2,300 jobs, or 2.2 percent, annually to 112,700, led by an average annual increase of 500 jobs, 7.5 percent, and 400 jobs, or 3.5 percent, in the mining, logging, and construction and the leisure and hospitality sectors, respectively. Since 2000, primarily because of strong population growth and steady nonfarm payroll gains, the mining, logging, and construction sector has led job growth, measured in percent gains, increasing 4.5 percent, or 300 jobs, annually, with the education and health services sector a close second, adding jobs at a rate of 500 employees, or 4.1 percent, a year, respectively (Figure 4).

Figure 4. Sector Growth in the Kennewick-Richland HMA since 2000 to Current
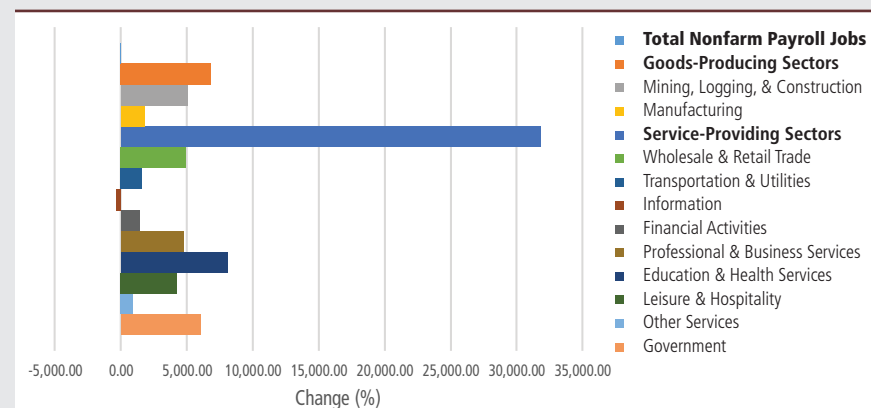
Notes: Nonfarm payroll is in thousands. Numbers may not add to 100 percent due to rounding.
Source: U.S. Bureau of Labor Statistics

Professional and Business Services Sector

The professional and business services sector is significantly affected by the progress of the Hanford Site Restoration project and is the primary reason it is the largest nonfarm payroll sector in the HMA. For more than 4 decades, reactors at the Hanford Site in Benton County produced plutonium for the U.S. national defense program. As described on the Hanford.gov website, "The process of making plutonium is extremely 'inefficient' in that a massive amount of liquid and solid waste is generated yet only a small amount of plutonium is produced." The environmental cleanup project currently involves about 9,000 private-sector workers, most of whom are classified in the waste management and remediation industry within the professional and business services sector. In addition to U.S. Department of Energy employees, several contractors are involved in the operation of the cleanup project, four of which are major employers in the HMA: Bechtel National, Inc., CH2M, Mission Support Alliance, and Washington River Protection Solutions, LLC (Table 2). One of the major projects underway is the

Hanford Tank Waste Treatment and Immobilization Plant, which is expected to be completed in 2023. Depending on the phase of construction, the project employs up to 2,700 workers. Since 2010, employment at Hanford has decreased as a share of total payrolls in the HMA because of job gains in the transportation and utilities, the education and health services, and the leisure and hospitality sectors. Consequently, the professional and business services sector has declined from 24 percent of nonfarm payrolls in the HMA in 2010 to 19 percent in 2018. During the 12 months ending September 2018, payrolls in the sector increased 0.9 percent, or by 200 jobs, to 21,700 jobs.

Table 2. Major Employers in the Kennewick-Richland HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Pacific Northwest National Laboratory	Professional & Business Services	4,500
Kadlec Regional Medical Center	Education & Health Services	3,525
Lamb Weston Holdings, Inc.	Manufacturing	3,000
Bechtel National, Inc.	Professional & Business Services	2,950
Washington River Protection Services, LLC	Professional & Business Services	2,125
Mission Support Alliance	Professional & Business Services	1,900
CH2M	Professional & Business Services	1,675
Tyson Foods, Inc.	Manufacturing	1,300
Trios Health	Education & Health Services	1,275
Energy Northwest	Transportation & Utilities	1,100

Notes: Excludes local school districts. The vast majority of payrolls attributed to PNNL, a federal facility, are employees of contractor firms.
Source: TRIDEC—Tri-Cities Washington Economic Development Council

Mining, Logging, and Construction Sector and Education and Health Services Sector

During the 12 months ending September 2018, the mining, logging, and construction and the education and health services sectors accounted for nearly 50 percent of job growth in the HMA. The mining, logging, and construction sector led all sectors in the number of jobs gained, with an increase of 800 jobs, or 9.6 percent, to 9,100 jobs, mainly because of commercial, residential, and public-sector

construction projects. A 10-screen movie theatre complex, a Gensco Inc. building for HVAC products, a 93-room Comfort Suites hotel, a medical building, and a dental clinic are among the commercial projects underway or scheduled to start construction in 2018. Kennewick's largest construction project during 2017 was the Chinook Middle School, which opened in January 2018; two more schools are under construction in the Kennewick School District and are scheduled to open in 2018. (Residential construction activity in the HMA will be discussed in the Sales Market and Apartment Market sections of this report). Job growth in the education and health services sector increased by 600 jobs, or 3.9 percent, to 15,900 jobs, most of which were in the health services industries, as providers keep pace with increased demand from population growth and a recent influx of retirees. Two new dental clinics were constructed in the HMA—Aspen Dental in late 2017 and Bright Now in 2018, in Pasco and Kennewick, respectively.

Leisure and Hospitality Sector

During the 12 months ending September 2018, the leisure and hospitality sector gained 200 jobs, or 1.8 percent, to 11,500 jobs. The Kennewick-Richland HMA is popular as a tourist destination, generating job gains for 8 consecutive years averaging 300 jobs, or 3.2 percent, annually. Since 2000, nonfarm payroll losses occurred only during the national recession years of 2000 and 2009. Major tourist attractions include the 23-mile Sacagawea Heritage Trail, Bechtel National Planetarium, Coyote Canyon Mammoth Site, LIGO Hanford Observatory, Manhattan Project National Historical Park, golf, and water sports. According to Visit Tri-Cities, during 2017, visitor spending increased 10.3 percent from a year earlier to $491 million, with spending increases across all categories (lodging, food, beverage, transportation, recreation, and retail). Visitor spending generated $54 million in local and state sales tax revenue.

Manufacturing Sector

During the 12 months ending September 2018, manufacturing payrolls decreased by 200 jobs, or 2.5 percent, to 7,700 jobs, which followed a loss of 100 jobs, or 1.1

percent, during the previous 12 months mainly because of restructuring in the food processing industry. From 2005 through 2015, job growth in the manufacturing sector increased by an average of 200 jobs, or 3.4 percent, annually, to 8,100 jobs. Food processing accounts for approximately 5,300, or 68 percent, of all manufacturing jobs and involves a range of agricultural products, including potatoes, apples, sweet corn, and grapes. Lamb Weston Holdings Inc. is the third largest employer in the HMA, with a workforce of 3,000 employees. The company is one of the largest producers of frozen potato products in the United States. Richland-based Preferred Freezer Services operates the largest cold-storage facility in North America. Other manufactured products include chemicals, fertilizers, and zirconium products.

Employment Forecast

During the 3-year forecast period, job growth is expected to remain strong but slightly slower, to an average of 2,600 jobs, or 2.4 percent, annually, led by the mining, logging, and construction sector. Several commercial and residential projects are expected to get underway, including restaurants, hotels, schools, office and commercial buildings. The education and health services sector will also contribute to job growth in the sector, with the arrival of anticipated medical facilities in response to steady population growth.

Population and Households

Current population: 297,300

> Sustained job growth and an attractive quality of life that appeals to job seekers and retirees led to nearly two decades of strong population growth.

Population Trends

As of October 1, 2018, the population in the Kennewick-Richland HMA was estimated at 297,300, compared with 253,340 in 2010, increasing at an average of 5,175, or 1.9 percent, compared with population growth averaging 6,150, or 2.8 percent, annually from 2000 through 2010 (Table 3). The rate of population growth was greatest when job growth was robust, from 2002 through 2010, as nonfarm payrolls increased at an average annual rate of 2.8 percent, or 2,500 jobs, and population growth averaged 2.9 percent, or 6,600, annually. Net in-migration during this period averaged 4,125, partially because of job gains in the professional and business services sector in response to increased federal funding for the Hanford Site Cleanup project and hiring in the education and health services sector. From 2011 through 2016, net natural change (resident births minus resident deaths) was the leading source of annual population growth, increasing an average of 2,600 persons, compared with net in-migration of 1,450 persons, mainly as a result of reduced rates of resident employment and nonfarm payroll growth. From 2014 through 2017, nonfarm payrolls and resident employment growth accelerated, and by 2017, net in-migration increased to 3,975, compared with a net natural change gain of 2,525. Figure 5 shows the components of population change in the HMA from 2000 to the forecast date.

Consistent with anticipated steady employment growth, the overall population is expected to increase at an average rate of 4,350, or 1.4 percent, annually to 310,300 during the 3-year forecast period.

Table 3. Kennewick-Richland HMA Quick Facts

Population Quick Facts		2010	Current	Forecast
	Population	253,340	297,300	310,300
	Average Annual Change	6,150	5,175	4,350
	Percentage Change	2.8%	1.9%	1.4%

Household Quick Facts		2010	Current	Forecast
	Households	88,549	103,500	107,800
	Average Annual Change	2,075	1,750	1,425
	Percentage Change	2.7%	1.9%	1.4%

Note: Average annual changes and percentage changes are based on averages from 2000–2010, 2010 to current, and current to forecast.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast – estimates by the analyst

Figure 5. Components of Population Change in the Kennewick-Richland HMA, 2000 through the Forecast
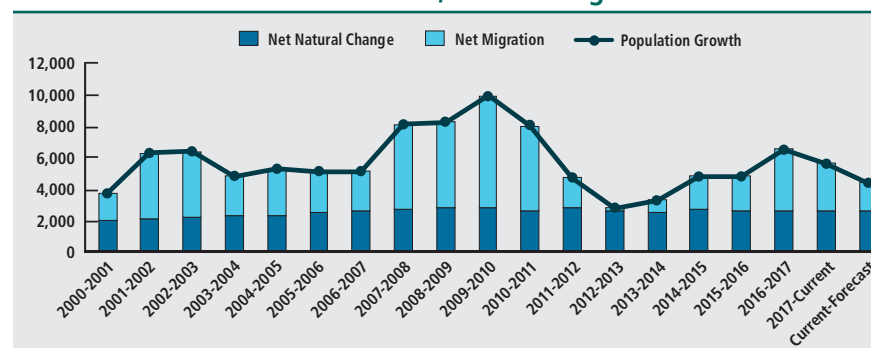
Note: Net natural change and net migration totals are average annual totals over the time period.
Sources: U.S. Census Bureau, Bureau of Labor and Statistics, current and forecast—estimates by the analyst

Household Trends

In tandem with slowing population growth from 2010 to the current period, the rate of household growth has slowed substantially compared with growth from 2000 to 2010. As of October 1, 2018, the number of households in the HMA was estimated at 103,500, compared with 88,549 in 2010, reflecting an average rate of growth of 1.9 percent, or 1,750, annually, compared with household growth of 2,075, or 2.7 percent, annually, from 2000 to 2010. Household growth is expected to continue at an average rate of 1,425, or 1.4 percent, annually, during the 3-year forecast period.

The percentage of owner-occupied homes decreased slightly, from 68.1 percent in 2000 to 67.7 percent in 2010, primarily because of the influx of contract workers in response to the dramatic increase in funding designated for environment remediation at the Hanford Site. Sustained nonfarm job growth since 2010 led to increasing home purchases starting in 2015 and to a rise in the homeownership rate to 68.2 percent as of the current date (Figure 6).

Figure 6. Households by Tenure and Homeownership Rate in the Kennewick-Richland HMA
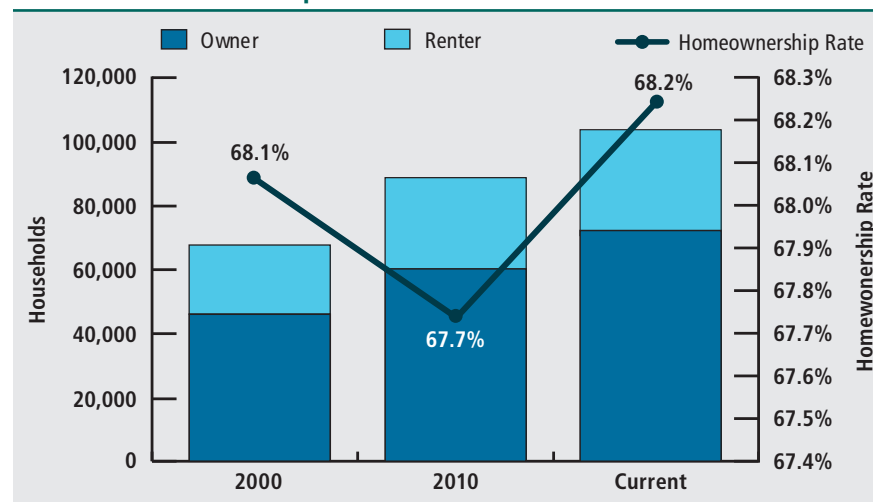
Sources: 2000 and 2010—U.S. Census; current estimates by the analyst

Home Sales Market Conditions

Market Conditions: Tight

> The demand for sales housing is strong, but homes sales activity is limited by a low inventory of for-sale housing and rising prices.

Current Conditions

The sales market in the Kennewick-Richland HMA is tight, with an estimated vacancy rate of 1.0 percent, down from 1.3 percent in 2010. As of September 2018, a 2.2-month supply of for-sale housing was available, unchanged from a year earlier and down from a 5.5-month supply as of September 2010 (CoreLogic, Inc., with adjustments by the analyst). Total home sales decreased 0.3 percent to 6,425 during the 12 months ending September 2018, compared with a 0.4 percent decrease for the nation (Table 4).

Existing Home Sales

During the 12 months ending September 2018, nearly 5,275 existing single-family homes, townhomes, and condominiums were sold, up more than 1 percent from a year ago (CoreLogic, with adjustments by the analyst). During the same period, sales of distressed properties (defined as real estate owned [REO] and short sales) declined from 162 to 107 and were just 2 percent of existing home sales. Mainly because of steady job growth in the HMA during the Great Recession, the distressed sales as a percent of existing homes have been relatively low since 2007, peaking at nearly 13 percent in 2009 and averaging 6 percent since 2010 (Figure 7). By comparison, in Washington state, distressed sales as a percentage of existing homes sold peaked at 33 percent in December 2011 and has averaged 18 percent since 2010.

From 2003 through 2006, the number of existing homes sold increased from 4,725 to 5,050, or at an average annual rate of 2 percent, peaking in June 2006 at 5,375. Concurrent with slowing job growth during the Great Recession, home

Table 4. Home Sales Quick Facts in the Kennewick-Richland HMA

		Kennewick-Richland HMA	Nation
Home Sales Quick Facts	**Vacancy Rate**	1.0%	NA
	Months of Inventory	2.2	6.5
	Total Home Sales	6,425	6,148,000
	1-Year Change	-0.3%	-0.4%
	Average Price-Total	$254,200	$380,200
	1-Year Change	11%	3%
	Average Price-New	$332,500	$290,900
	1-Year Change	11%	6%
	Mortgage Delinquency Rate	0.9%	1.8%

NA = data not available.
Notes: Vacancy rate is as of the current date, home sales and prices are for the 12 months ending September 2018, and months of inventory and mortgage delinquency data are as of September 2018.
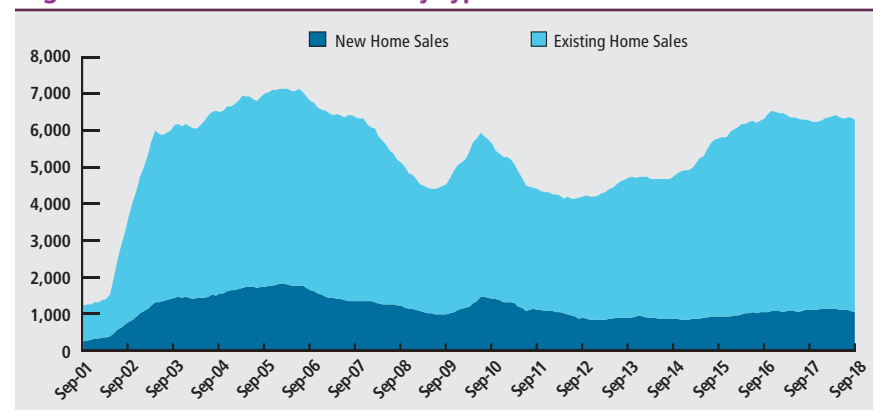Source: Metrostudy, A Hanley Wood Company

Figure 7. 12-Month Sales Totals by Type in the Kennewick-Richland HMA

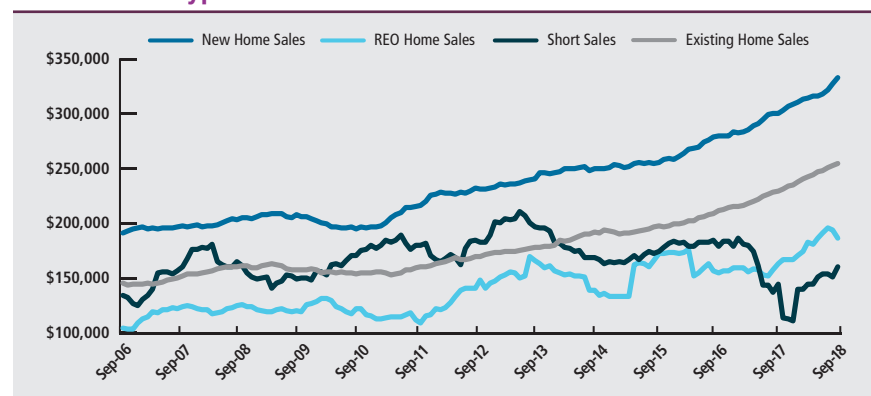Source: CoreLogic, Inc., with adjustments by the analyst

sales declined at an average of 360 homes, or 8 percent, annually from 2007 through 2009, averaging 3,975 homes sold in 2009. Home sales stabilized with the implementation of the first-time homebuyer tax credit program, as 3,975 homes were sold in 2010, only to decline by 300 homes sold, or 8 percent, a year, to 3,375 in 2012. Starting in 2013, existing home sales recovered significantly, averaging an increase of 510 homes sold, or 13 percent, annually, to 5,425 in 2016. At nearly the same time, the for-sale inventory fell from a 5-month supply in December 2014 to a 1.1-month supply in December 2016. Primarily because of the low inventory of homes for sale, existing home sales declined 5 percent, to 5,175 homes sold in 2017. Increasing home prices also contributed to the decline in home sales.

During the 12 months ending September 2018, the average price of an existing home sold (single-family homes, townhomes, and condominiums) was up 11 percent from a year earlier, to $254,200. In 2003, the average price of an existing home sold was $123,250, increasing at an average annual rate of $6,975, or 6 percent, to $144,100 in 2006 in response to strong demand for home purchasing because of readily accessible credit for home mortgages and strong job growth. Despite strong job growth from 2007 through 2012, the average price of an existing home increased by an average of only $4,775, or 3 percent, annually, as the availability of mortgage credit was severely limited following the Great Recession. From 2013 through 2017, the average price of a home sold increased $12,400 a year, from $179,430 to $234,900, or 6 percent, in response to easing mortgage credit availability and steady nonfarm payroll growth (Figure 8).

New Home Sales

New home sales activity was relatively unchanged from a year earlier during the 12 months ending September 2018, with 1,050 homes sold, compared with 1,100 during the previous year. New home sales peaked during the height of the home purchasing boom from 2004 through 2006, averaging 1,625 units a year.

Figure 8. 12-Month Average Sales Price by Type of Sale in the Kennewick-Richland HMA


REO = real estate owned.
Source: CoreLogic, Inc. with adjustments by the analyst

Starting with the onset of mortgage credit contraction in 2007, new home sales decreased to about 1,100 homes sold in 2009. After an increase to 1,300 homes sold in 2010, home sales fell for 4 consecutive years, averaging 910 homes sold annually, to a 12-year low of 820 homes sold in 2014, as resident employment declined by 1 percent a year, from 122,275 to 116,925. During the following 3 years, home sales slowly recovered, from 920 homes sold in 2015 to 1,100 homes sold in 2017, and resident employment recovered to 126,025. Despite the fluctuations in new home sales since 2000, the average price of a new home sold decreased in only one year, from $201,500 in 2009 to $196,500 in 2010. From 2001 through 2009, the average price of a new home increased from $114,200 to $201,500, an average increase of $10,500, or 7 percent. Similarly, from 2010 through 2017, the new home average price increased at an annual rate of 7 percent, from $196,500 to $308,000, or by $15,950 a year. During the 12 months ending September 2018, new home sales were most active in the $300,000-to-$399,000 price range. (Figure 9).

**Figure 9. Sales by Price Range During the 12 Months Ending September 2018 in the Kennewick-Richland HMA**
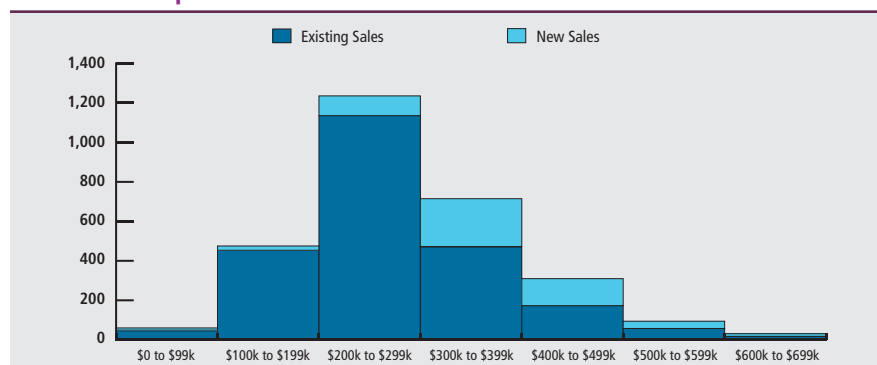
Source: Metrostudy, A Hanley Wood Company

Sales Permit Activity

During the 12 months ending September 2018, approximately 1,550 single-family homes were permitted, a 5-percent increase, or 75 homes, compared with 1,475 permits issued during the previous 12-month period (preliminary data). In response to relatively tight sales market conditions and steady job growth, permit issuing activity has increased every year since the end of 2014, averaging nearly 1,400 permits a year through 2017. Although recent permit activity has increased for 3 consecutive years, it is below the level of activity observed from 2002 through 2005, when permitting averaged 2,175 homes a year. (Figure 10).

Subdivisions where sales were most active during the 12 months ending September 2018 include Linda Loviisa, Three Rivers West, and Madison Park. The 70 homes sold in Linda Loviisa ranged in price from $238,000 to $366,000 and had three to four bedrooms and two and one-half bathrooms and averaged 2,200 square feet. In the Three Rivers West subdivision, the 42 homes sold ranged from $210,00 to $347,500, with three to four bedrooms and two bathrooms and averaged 2,100 square feet. In the Madison Park subdivision, 41 homes were sold, priced from $217,100 to $393,300, with three to four bedrooms and two bathrooms and averaging 2,150 square feet.

Figure 10. Average Annual Sales Permitting Activity in the Kennewick-Richland HMA
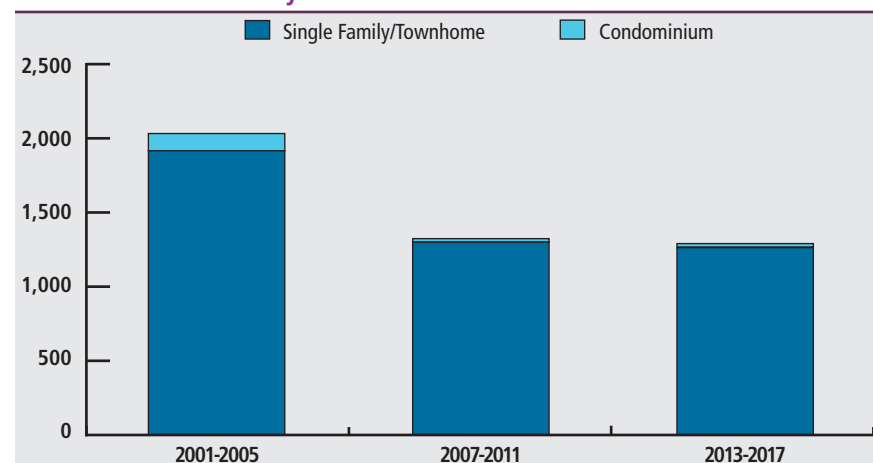
Sources: U.S. Census Bureau, Building Permits Survey; 2000–2017 final data and analyst estimates

Forecast

During the 3-year forecast period, demand for 3,625 new homes is expected in the HMA, with demand decreasing slightly during the 3-year period in response to slowing net in-migration. The 520 new homes under construction will satisfy a portion of the demand (Table 5).

Table 5. Demand for New Sales Construction Units in the Kennewick-Richland HMA, During the Forecast Period

Sales Units	
Demand	3,625 Units
Under Construction	520 Units

Source: Estimates by the analyst

Rental Market Conditions

Market Conditions: tight

Strengthening demand attributable to job and population growth and increasing home prices are contributing to low vacancy rates and increasing rent in the HMA rental market.

Current Conditions and Recent Trends

As of October 1, 2018, the rental market in the Kennewick-Richland HMA was tight, with an estimated overall vacancy rate of 3.0 percent, compared with 4.8 percent in 2010. The apartment market was also tight, with a vacancy rate of 3.7 percent during the third quarter of 2018, compared with 4.8 percent a year earlier (Reis, Inc.). The apartment vacancy rate increased from 1.9 percent in 2010 to 4.4 percent in 2016 in response to the nearly 1,350 units that were completed during the period.

Renters living in structures of two to four units constitute 20 percent of the rental market, compared with 16 percent in 2010 and compared with an increase from 39 percent to 43 percent for renters living in multifamily structures with five or more units. The proportion of renters living in single-family units has declined from 31 percent in 2010 to 26 percent as of 2016, as owners put their property up for sale because of the steady increase in sales housing prices (Table 6).

Rent Growth

The average apartment rent was $953 during the third quarter of 2018, an increase of 3 percent from the third quarter of 2017 (Reis, Inc.). In response to steady demand because of population growth and pent-up demand from lagging apartment construction activity, the average rent increased more than 2 percent a year from 2008 through 2012. More recently, strong net in-migration and slowing apartment construction activity led to average rent increasing nearly 3

Table 6. Rental and Apartment Market Quick Facts in the Kennewick-Richland HMA

		2010	Current
Rental Market Quick Facts	**Rental Vacancy Rate**	4.8%	3.0%
	Occupied Rental Units by Structure		
	Single-Family Attached & Detached	31%	26%
	Multifamily (2-4 units)	16%	20%
	Multifamily (5+ units)	39%	43%
	Other (including Mobile Homes)	14%	2%

		Current	YoY Change
Apartment Market Quick Facts	**Apartment Vacancy Rate**	3.7%	-1.1
	Average Rent	$953	3%
	Studio	$706	3%
	One-Bedroom	$833	3%
	Two-Bedroom	$999	5%
	Three-Bedroom	$1,196	3%

YoY = year-over-year.
Notes: The current date is October 1, 2018. Current data for "occupied rental units by structure" is American Community Survey, 1-year data; Reis, Inc. 1-year data. Apartment data is American Community Survey, 1-year data; Reis, Inc.
Sources: American Community Survey, 1-year data; Reis, Inc.

percent annually from 2013 through 2017. As of the third quarter of 2018, the average rent for a studio is $706, a one-bedroom unit is $833, a two-bedroom unit is $999, and a three-bedroom unit is $1,196. Compared with a year ago, the average rent increased 3 percent for a studio, one-bedroom unit, and three-bedroom unit, but 5 percent for a two-bedroom unit.

Rental Permit Activity

During the 12 months ending September 2018, approximately 425 multifamily units were permitted, compared with about 220 units during the previous 12 months (preliminary data). Multifamily permit activity averaged approximately 310 units a year from 2010 through 2017. The peak period of multifamily permit activity was from 2001 through 2004, when it averaged 625 units a

year, the strongest 4-year period of permit activity since 1980. Starting in 2005 and continuing through 2009, multifamily permitting fell to an average of 80 units a year, in part because of a lack of available financing during the national recession that began in 2007 (Figure 11). The majority of apartment construction activity has been in Benton County, where approximately 75 percent of newly constructed apartments have been built since 2010. Recently completed apartment developments include: Badger Canyon Apartments, a 100-unit complex in Kennewick that was completed in 2016, with rent for one-bedroom units ranging from $895 to $945 and for two-bedroom units from $1,045 to $1,220; 575 Columbia Apartments, a 95-unit development in Richland built in 2017, with rents for one-bedroom units from $1,108 to $1,324 and for two-bedroom units from $1,275 to $1,545; and The Commons Apartments, a 150-unit complex built in 2017, with studio rents ranging from $900 to $990, one-bedroom units from $1,050 to $1,150, and two-bedroom units from $1,200 to $1,290. Currently under construction is Phase II of the Badger Canyon Apartments, which, when completed will consist of 660 units. Currently

in planning is Park Place Apartments, a 106-unit apartment complex in south downtown Richland that will also include 3,350 square feet of retail space.

Vista Field, site of the former 103-acre airport in northwest Kennewick, is slated to become the future location for 350 apartments units, 495 single-family homes, 250 condominiums, 750,000 square feet of commercial space, and 273,000 square feet of parks and open space. Construction to develop infrastructure on the first 20 acres is scheduled to begin in late 2018, and construction of commercial and residential property is expected to begin in mid-2019.
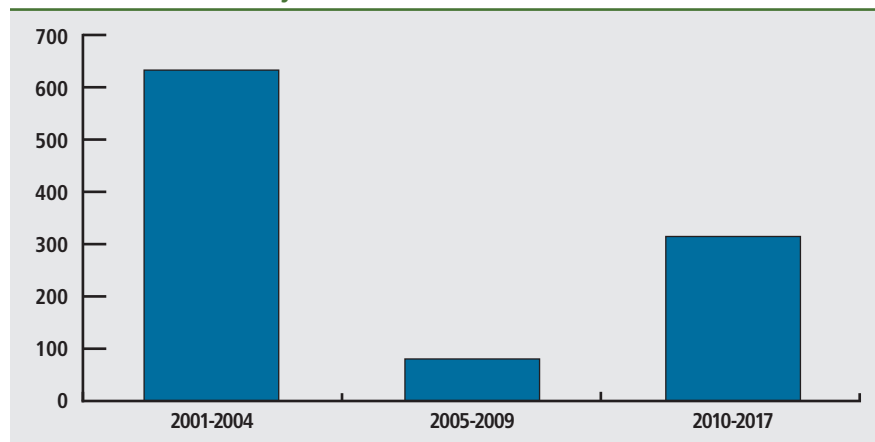
Forecast

During the 3-year forecast period, demand for 1,150 new rental units is anticipated, with demand gradually decreasing each year during the forecast period mainly because of slower population growth. The nearly 290 units under construction are expected to meet a portion of that demand. (Table 7).

Figure 11. Average Annual Rental Permitting Activity in the Kennewick-Richland HMA

Sources: U.S. Census Bureau, Building Permits Survey; 2000–2017 final data and analyst estimates

Table 7. Demand for New Rental Construction Units in the Kennewick-Richland HMA, During the Forecast Period

Rental Units	
Demand	1,150 Units
Under Construction	290 Units

Source: Estimates by the analyst

Terminology Definitions and Notes

A.   Terminology Definitions

Demand	The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.
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 an HMA. 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 analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.
Distressed Sales	Short sales and real estate owned (REO) sales.
Seriously Delinquent Mortgages	Mortgages 90+ days delinquent or in foreclosure.

Home Sales/Home Sales Prices	Includes single-family, townhome, and condominium sales.
Rental Market/ Rental Vacancy Rate	Includes apartments and other rental units, such as single-family, multifamily, and mobile homes.
Forecast Period	10/1/2018 to 10/1/2021—Estimates by the analyst
Cost Burdened	Spending more than 30 percent of household income on housing costs.

B.   Notes on Geography

1.	The metropolitan statistical area definition noted in this report is based upon the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated February 28, 2013.
2.	Urbanized areas are defined using the U.S. Census Bureau's 2010 Census Urban and Rural Classification and the Urban Area Criteria.
3.	The Census Tracts referenced in this report are from the 2010 Census.

C.   Additional Notes

1.	The NAHB Housing Opportunity Index represents the share of homes sold in the HMA that would have been affordable to a family earning the local median income, based on standard mortgage underwriting criteria.
2.	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.
3.	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.

D.   Photo Credit

Cover Photo	iStock

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