The analysis presented in this report includes data from the early stages of the COVID-19 outbreak in the United States. The unprecedentedly large and rapid changes in many data series, and the similarly unprecedentedly large policy responses, make analysis of, and longer run predictions for, the economy and housing markets exceptionally difficult and uncertain. HUD will continue to monitor market conditions in the HMA and provide an updated report/addendum in the future.

COMPREHENSIVE HOUSING MARKET ANALYSIS

Olympia, Washington

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

As of July 1, 2020

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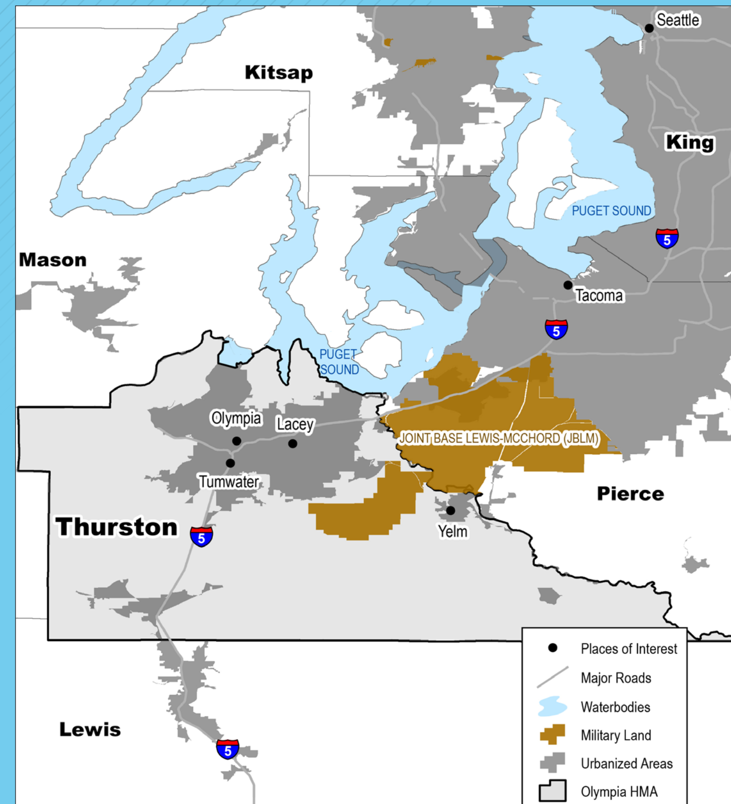

Executive Summary

Housing Market Area Description

The Olympia Housing Market Area (hereafter, the Olympia HMA) is defined as Thurston County, Washington, and is coterminous with the Olympia, WA Metropolitan Statistical Area (MSA). The HMA is in the Puget Sound region, along Interstate 5 between the cities of Seattle and Portland. The city of Olympia is the state capital, county seat, and economic center of the HMA.

The current population of the HMA is estimated at 295,100.

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

Weak: Nonfarm payrolls decreased 0.6 percent during the 12 months ending June 2020.

Economic conditions in the Olympia HMA were strong before the impact of COVID-19, with nonfarm payrolls increasing by an average of 2,800 jobs, or 2.6 percent, annually from 2012 through 2019. COVID-19 and the interventions taken to slow its spread have weakened economic conditions in the Olympia HMA and caused payrolls to decline during the 12 months ending June 2020, and the unemployment rate increased from 5.0 to 6.7 percent. Job growth is expected to slow compared with the 2012-through-2019 levels, averaging 1.3 percent, annually, during the 3-year forecast period.

Sales Market

Slightly Tight: A 1.3-month supply of available inventory was for sale during June 2020—down from a 1.5-month supply during June 2019.

The home sales market has an estimated vacancy rate of 1.0 percent—down from 2.4 percent during 2010. Existing home sales prices increased 6 percent during the 12 months ending June 2020, following an increase of 10 percent during the previous 12-month period. During the next 3 years, demand is expected for 3,475 new homes. The 320 homes under construction are expected to meet a portion of that demand.

Rental Market

Slightly Tight: Rent growth averaged 6 percent annually from 2016 through 2019.

The rental housing market in the HMA has an overall estimated vacancy rate of 4.2 percent—down from 7.0 percent in April 2010. The apartment market is also slightly tight, with an average vacancy rate of 2.7 percent during the second quarter of 2020, and the average rent increased 2 percent on an annual basis (Reis, Inc.). During the forecast period, demand is estimated for 1,425 new apartment units. The 820 units under construction will satisfy a portion of that demand.

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3-Year Housing Demand Forecast

		Sales Units	Rental Units
Olympia HMA	Total Demand	3,475	1,425
	Under Construction	320	820

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of July 1, 2020. The forecast period is July 1, 2020, to July 1, 2023.
Source: Estimates by the analyst

Economic Conditions

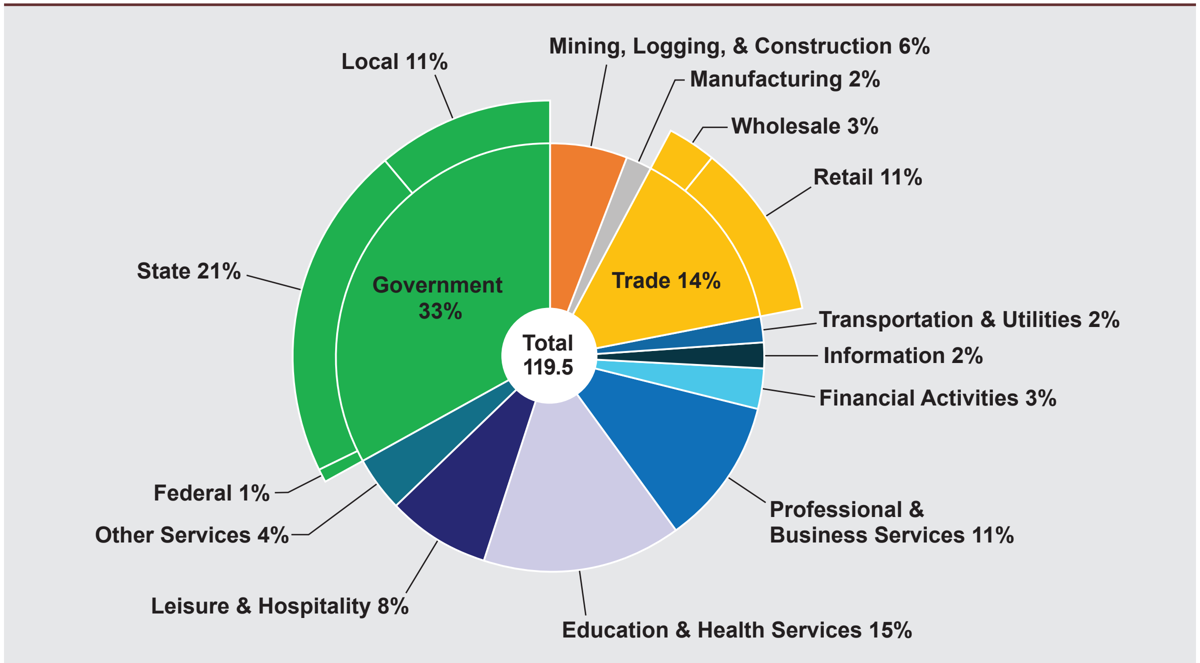
Largest Sector: Government

Government employment is the foundation of the Olympia HMA economy and is more than twice the size of the next largest economic sector (Figure 1).

Primary Local Economic Factors

The state of Washington is the largest employer in the HMA and has historically served as the base of the local economy, but it has decreased in size relative to the overall economy since 2000. Although the number of state government jobs has trended upward since 2000, total nonfarm payrolls have increased at a faster rate; the share of state government jobs in the HMA declined from 27 percent in 2000 to 21 percent in 2019. During that period, more than 80 percent of all payroll growth occurred in the private service-providing sectors, which increased from 50 percent of payrolls in 2000 to 60 percent in 2019. Despite the declining percentage of state government jobs in the HMA, the sector continues to support a disproportionate number of well-paying jobs: the average annual earnings for state government workers was $70,650 in 2019 (Quarterly Census of Employment and Wages), approximately 30 percent higher than overall average earnings in the HMA.

Figure 1. Share of Nonfarm Payroll Jobs in the Olympia HMA, by Sector



Notes: Total nonfarm payroll is in thousands. Percentages may not add to 100 percent due to rounding. Subsector percentages may not add to sector totals because of rounding. Based on 12-month averages through June 2020.
Source: U.S. Bureau of Labor Statistics

COVID-19 and Current Economic Conditions

COVID-19 and the interventions taken to slow its spread have weakened economic conditions in the Olympia HMA. During the second quarter of 2020, nonfarm payrolls decreased by 9,600 jobs, or 7.9 percent, from the level of jobs during the second quarter of 2019. By comparison, the number of jobs increased by 1,200, or 1.0 percent, during the second quarter of 2019 compared with the same 3 months a year earlier. The economic slowdown in the Olympia HMA has been less severe than for the nation, for which nonfarm payrolls declined by 11.3 percent during the second quarter of 2020. A major reason job losses were less severe in the HMA was the relatively smaller size of the leisure and hospitality sector, which accounted for 5.9 percent of all payrolls in the HMA during the second quarter, compared with 7.7 percent nationally.

Approximately one-half of all job losses during the second quarter of 2020 occurred in the leisure and hospitality sector, which declined by 4,700 jobs, or 42 percent, as public health measures that were imposed to slow the spread of COVID-19 caused restaurants and bars to curtail operations. The education and health services sector had the second largest job loss related to COVID-19, declining by 1,800 jobs, or 9.4 percent, during the second quarter of 2020. Providence St. Peter Hospital, a part of Providence Health & Services (Table 1)—the largest private employer in the HMA—implemented pay cuts and furloughs in response to the prohibition of nonessential or elective procedures during the pandemic. The mining, logging, and construction sector also significantly contracted, decreasing by 1,100 jobs, or 16.7 percent, during the second quarter of 2020. A construction moratorium was in place from March 26 through April 24 to impede the spread of COVID-19. In addition, increased uncertainty caused by the recent economic slowdown has led developers to be more cautious in starting new construction projects.

The government sector—including federal, state, and local government jobs—declined by 1,200 jobs, or 3.0 percent, to 38,300 jobs during the second quarter of 2020, compared with the same period in 2019. Almost all jobs losses occurred in the local government sector, which declined by 1,000 jobs, or 7.7 percent, to 12,000 jobs. Public health countermeasures—including distance learning and the reduction of in-person public services—led to job losses, furloughs, and decreased hiring in the local government sector. In addition, tribal casinos and resorts are a major employer in the HMA and are included in the local government sector. Public health measures necessitated the temporary closure of many of those businesses, and most are currently operating at limited capacity; the Lucky Eagle Casino & Hotel, an employer of approximately 690 before the impact of COVID-19, was operating with only 50 percent of its pre-COVID-19 staffing levels as of June 15, 2020. State government payrolls were relatively less affected during the second quarter of 2020, decreasing by only 100, or 0.3 percent, because most state government employees are able to telework, and the state was able to draw upon its emergency reserve fund. Despite the current stability in state government employment, reduced tax revenues may necessitate additional reductions in personnel.

Table 1. Major Employers in the Olympia HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
State of Washington	Government	25,500
Providence Health and Services	Education & Health Services	2,850
Safeway Inc.	Wholesale & Retail Trade	1,025
Walmart Inc.	Wholesale & Retail Trade	1,000
Nisqually Red Wind Casino	Government	760
Lucky Eagle Casino & Hotel	Government	690
The Kroger Co. (parent company of Fred Meyer, Inc.)	Wholesale & Retail Trade	670
Washington State Employees Credit Union	Financial Activities	660
Capital Medical Center	Education & Health Services	650
Conduent Inc. (formerly Xerox)	Information	650

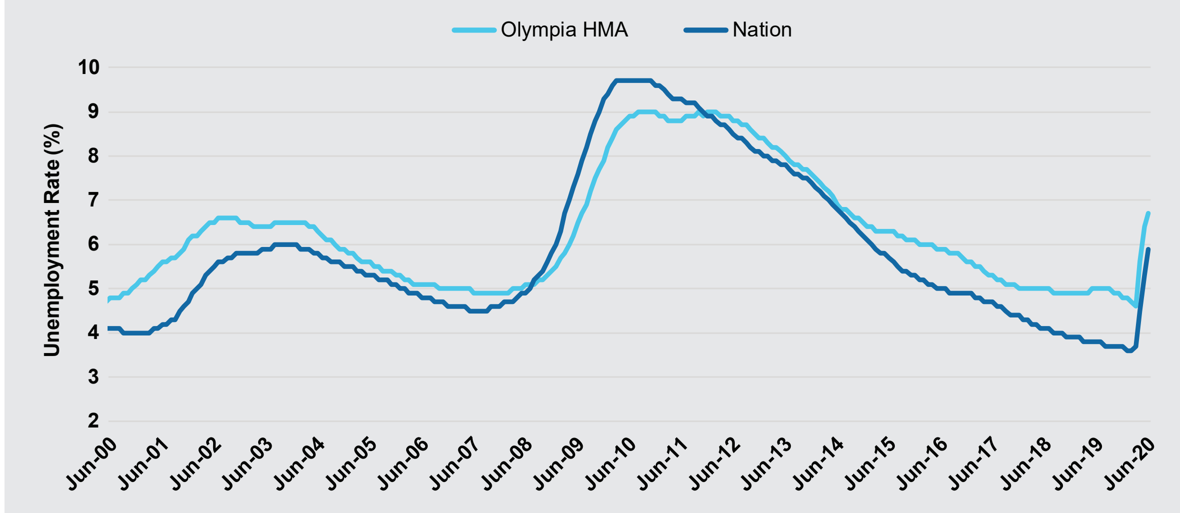
Notes: Excludes local governments and school districts. Statistics predate the impact of COVID-19.
Source: Thurston Regional Planning Council, with adjustments by the analyst

During the second quarter of 2020, only the professional and business services and the information sectors added jobs, growing by 700 and 100 jobs, or 5.9 and 6.1 percent, respectively. Both sectors are primarily made up of jobs that can be performed at home.

Unemployment Trends

The unemployment rate in the HMA declined from 2012 through 2019 but at a slower rate than the rate for the nation (Figure 2). Due in large part to job losses during the past recession, the unemployment rate in the HMA averaged 9.0 percent in 2010 and 2011—up from an average of 5.0 percent in 2006 and 2007. The unemployment rate in the HMA has declined each year from 2012 through 2019 but increased from 5.0 to 6.7 percent during the 12 months ending June 2020, compared with the 12 months ending June 2019. All the increase in the unemployment rate occurred during the second quarter of 2020, when the unemployment rate increased from 4.9 to 13.1 percent—compared with the second quarter of 2019—and was associated with the economic slowdown caused by COVID-19 and the public health measures taken to prevent its spread. By comparison, the national unemployment rate averaged 12.9 percent during the second quarter of 2020.

Figure 2. 12-Month Average Unemployment Rate in the Olympia HMA and the Nation



Note: Based on the 12-month moving average.
Source: U.S. Bureau of Labor Statistics

Nonfarm Payroll Trends

The Olympia HMA entered the 21st century with strong job growth, despite a national recession in the early 2000s. From 2001 through 2008, nonfarm payrolls increased by an average of 2,200 jobs, or 2.4 percent, annually. During that period, four sectors led job growth, adding an average of 400 jobs annually: the professional and business services, education and health services, wholesale and retail trade, and government sectors grew by an average of 6.6, 3.8, 2.9, and 1.0 percent, respectively. The impact of the national recession of late 2007 and 2008 was delayed in the HMA but led to average payroll declines of 1.7 percent, or 1,700 jobs, a year from 2009 through 2011. Job losses were especially severe in the mining, logging, and construction sector, which lost an average of 600 jobs, or 11.6 percent, annually, during that period, as the level of residential and commercial construction sharply contracted.

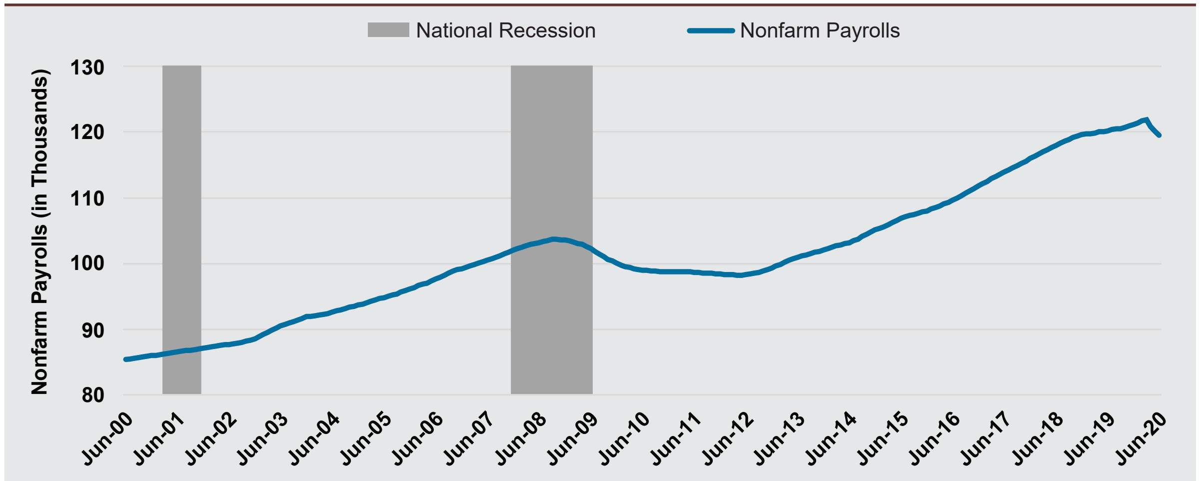
Economic conditions in the Olympia HMA were strong from 2012 through 2019, before the impact of COVID-19, with nonfarm payrolls increasing an average of 2.6 percent, or 2,800 jobs, each year (Figure 3). Job growth returned slowly in 2012, with an increase of 900 jobs, or 0.9 percent, but accelerated to an average increase of 2,900 jobs, or 2.8 percent, annually, from 2013 through 2015. Payroll growth from 2013 through 2015 was broad based, with all economic sectors growing except the information sector, and five economic sectors added at least 400 jobs annually. Job growth accelerated from 2016 through 2018, with payrolls increasing by an average of 3,900 jobs, or 3.5 percent, annually. During that period, the education and health services sector led job growth, adding an average of 900 jobs, or 5.1 percent, annually, with Providence St. Peter

Hospital expanding employment by approximately 1,000 positions. Increased multifamily residential and commercial construction from 2016 through 2018 led to job growth in the mining, logging, and construction sector of 600 jobs, or 10.4 percent, annually—the second fastest growing sector in percentage terms behind the information sector. Job growth slowed to 1,500, or 1.3 percent, during 2019, with approximately one-half of the growth coming from the professional and business services sector. During the 12 months ending June 2020, nonfarm payrolls declined by 700 jobs, or 0.6 percent—almost entirely because of the economic downturn during the second quarter of 2020 (Table 2).

Government Sector

The State of Washington—the largest employer in the HMA—grew by an average of 200 jobs, or 1.0 percent, from 2001 through 2008, as consistent economic and population growth led to increased tax revenues and demand for government services. The onset of widespread job losses and economic contraction in 2009 led to budgetary pressures: total tax revenue fell by 11 percent between 2008 and 2010 and did not return to prerecession levels until 2013. As a result, the number of state government payrolls declined from 2009 through 2012 at an average rate of 500 jobs, or 2.2 percent, annually. As the state economy improved, the HMA added an average of 500 state government jobs

Figure 3. 12-Month Average Nonfarm Payrolls in the Olympia HMA



Note: 12-month moving average.
Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research

Table 2. 12-Month Average Nonfarm Payroll Jobs (1,000s) in the Olympia HMA, by Sector

	12 Months Ending June 2019	12 Months Ending June 2020	Absolute Change	Percentage Change
Total Nonfarm Payroll Jobs	**120.2**	**119.5**	**-0.7**	**-0.6**
Goods-Producing Sectors	9.8	9.6	-0.2	-2.0
Mining, Logging, & Construction	6.7	6.6	-0.1	-1.5
Manufacturing	3.1	3.0	-0.1	-3.2
Service-Providing Sectors	110.4	109.9	-0.5	-0.5
Wholesale & Retail Trade	16.2	16.1	-0.1	-0.6
Transportation & Utilities	2.8	2.9	0.1	3.6
Information	1.7	1.8	0.1	5.9
Financial Activities	4.0	4.0	0.0	0.0
Professional & Business Services	12.2	13.1	0.9	7.4
Education & Health Services	18.6	18.5	-0.1	-0.5
Leisure & Hospitality	11.1	9.8	-1.3	-11.7
Other Services	4.8	4.7	-0.1	-2.1
Government	38.9	39.1	0.2	0.5

Notes: Based on 12-month averages through June 2019 and June 2020. Numbers may not add to totals due to rounding. Data are in thousands.
Source: U.S. Bureau of Labor Statistics

annually from 2013 through 2017—an average annual increase of 2.0 percent. Despite strong population growth, the number of state government employees remained stable during 2018 and 2019 and increased by 300, or 1.0 percent, to 25,500 jobs during the 12 months ending June 2020.

In addition to the direct effect of state government employment in the HMA are indirect effects of government employment. Joint Base Lewis-McChord (JBLM), the largest military installation on the west coast, is in neighboring Pierce County. Although direct employment at JBLM is not included in the HMA, approximately 10 percent of the 38,300 military personnel and 15,400 civilian and contract employees reside in the HMA. Staffing levels at JBLM have not changed significantly since 2012 and are expected to remain constant during the forecast period.

Forecast

During the forecast period, the local economy is expected to expand, with initially slow payroll growth during the first year accelerating during the second and third years of the forecast. The number of state government payrolls is expected to decline during the next year because of shortfalls of tax revenue due to the pandemic-induced economic slowdown. The state government of Washington has implemented a hiring freeze and is furloughing most employees one day a week in response to decreased tax revenues. The Evergreen State College, the largest college in the HMA, is planning to implement a 10-percent cut to its FY 2021 budget, which will result in the elimination of 26 positions and furloughs of one day per month for most employees. Washington state is expected to have a $4.5 billion budget deficit through 2021 because of declining economic conditions, which may necessitate additional reductions in personnel. A potential source of job growth in the government sector is the Chehalis Tribe, which owns the Lucky Eagle Casino & Hotel. The Chehalis Tribe is building the first tribal-owned craft distillery in America, which required the repeal of a law from 1834 to open. The distillery is expected to employ 130 people when fully complete in late 2020. During the next 3 years, the unemployment rate is expected to decline but remain elevated compared with pre-COVID-19 levels.

Population and Households

Current Population: 295,100

Greater in-migration from the Seattle-Tacoma-Bellevue, WA (hereafter, Seattle) MSA has resulted in faster population growth in the HMA since 2015.

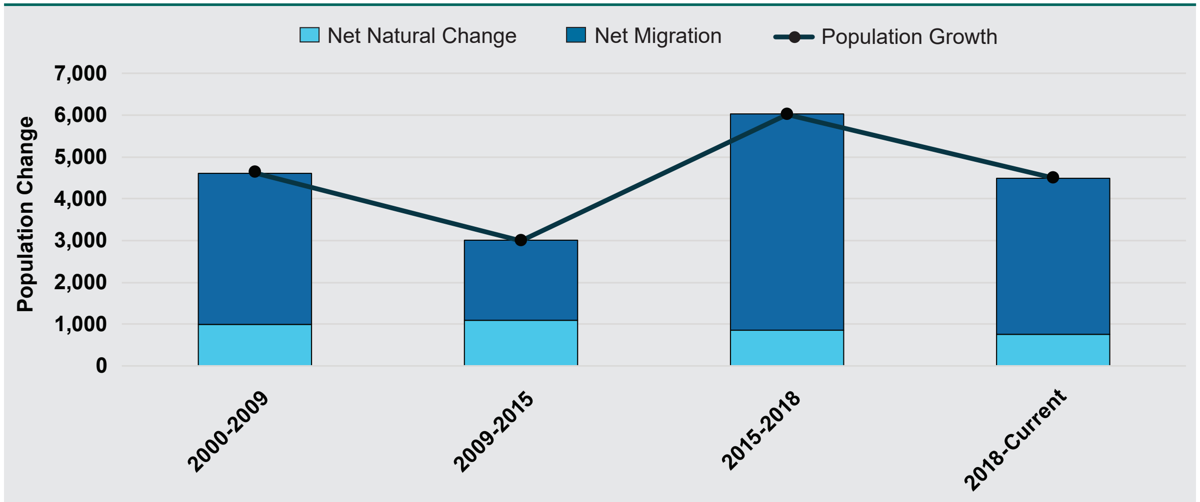
Population Trends

Population growth in the Olympia HMA has been generally consistent since 2000, averaging at least 1 percent annually in each year except 2012. Population growth was high from 2000 to 2009, averaging 4,600 people, or 2.0 percent, primarily because of tight labor market conditions before 2009 that attracted workers to the area (Figure 4). In addition, staffing at JBLM—then known as Fort Lewis and McChord Field—increased during the late 2000s, drawing military and civilian personnel to the HMA.

From 2009 to 2015, population growth slowed to an average of 3,000 people, or 1.2 percent annually. The slowdown was caused by decreased net in-migration that averaged 1,900 people annually from 2009 to 2015, compared with 3,600 people a year from 2000 to 2009. Poor labor market conditions throughout much of this period and a lower price differential between the HMA and the neighboring Seattle MSA led to fewer households being drawn to the area. During the same periods, net natural change (resident births minus resident deaths) increased from 1,000 to 1,100 people. As the local economy improved, population growth increased. The population of the HMA increased by an average of 6,025, or 2.2 percent, annually from 2015 to 2018—the 3 highest consecutive years of population growth since 2000, partially because of increased migration from the Seattle MSA. All the increase in population growth was caused by higher net in-migration that averaged 5,175 people during this period, while net natural change slowed to an average of 850 people annually. In turn, all the increase in net in-migration was domestic in origin, which increased from an average of 1,150 people annually from 2010 to 2015 to 4,675 people from 2015 to 2018. Migration from the Seattle MSA was responsible for much of the increase. From 2014 through 2018, approximately 75 percent of all net domestic migration to the HMA originated from the Seattle MSA (U.S. Census Bureau Metro-to-Metro Migration Flows; 2014–2018 American Community Survey (ACS) 5-year data).

Migrants from the Seattle MSA are attracted to the lower relative cost of housing in the Olympia

Figure 4. Components of Population Change in the Olympia HMA, 2000 Through the Forecast



Notes: Net natural change and net migration totals are average annual totals over the time period. The forecast period is from the current date (July 1, 2020) to July 1, 2023.
Sources: U.S. Census Bureau; current to forecast—estimates by the analyst

HMA; average existing home sales prices in the HMA in 2018 were 43 percent lower than in the Seattle MSA, yet average annual wages were only 34 percent lower. The price differential between the two areas has increased since 2011, when home prices in the HMA were only 26 percent lower than in the Seattle MSA; that change has increased the economic incentive for migration to the Olympia HMA.

As the rate of job creation slowed in 2019 and the number of jobs began to decline in 2020, population growth slowed to an average of 4,525 people, or 1.6 percent, annually, from 2018 to 2020. During that period, average annual net in-migration slowed to 3,775 people, while net natural change continued to slow to an average of 750 people annually as a result of declining fertility trends and an aging population.

Age Cohort Trends

The Olympia HMA has a relatively old population, with a median age of 39.6 years compared with 38.6 years nationally. It also has a low percentage of children, with 21.2 percent of the population of the HMA younger than 18 compared with 22.4 percent nationally (2019 ACS 1-year data). The cohort of residents aged 62 and older grew at an average rate of nearly 5 percent annually from 2010 to 2019, compared with an overall average annual population growth of nearly 2 percent. As a result, the cohort of residents aged 62 and older increased from 16.6 to 21.0 percent of the population of the HMA. During the same period, the median age in the HMA increased by 3 years. The increasing age of the population has contributed to the declining rate of net natural change and has attracted the development of age-restricted housing.

Population Forecast

During the next 3 years, the population of the HMA is expected to increase an average of 4,025, or 1.3 percent, annually, to 307,200—a slowdown compared with the rate of population growth in the 2018-to-current period. Weak economic conditions and public health measures taken to counteract the spread of COVID-19 are expected to lead to a decline in net in-migration during the first 2 years of the forecast period. In addition, the rate of net natural change is expected to continue declining because of an aging population. Net in-migration, however, is expected to increase during the third year of the forecast period, as local economic conditions strengthen and home prices in the HMA remain far below those in the Seattle MSA.

Household Trends and Forecast

As of July 1, 2020, the number of households in the HMA is estimated at 115,700—an increase of 1,475 households, or 1.4 percent, annually since 2010 (Table 3). By comparison, household growth averaged 1,900, or 2.1 percent, annually from 2000 to 2010. Household growth has primarily declined since 2010 because of slower population growth. The homeownership rate is currently estimated at 64.8 percent—

Table 3. Olympia HMA Population and Household Quick Facts

		2010	Current	Forecast
Population Quick Facts	**Population**	252,264	295,100	307,200
	Average Annual Change	4,500	4,175	4,025
	Percentage Change	2.0	1.5	1.3
		2010	**Current**	**Forecast**
Household Quick Facts	**Households**	100,650	115,700	120,100
	Average Annual Change	1,900	1,475	1,475
	Percentage Change	2.1	1.4	1.3

Notes: Average annual changes and percentage changes are based on averages from 2000 to 2010, 2010 to current, and current to forecast. The forecast period is from the current date (July 1, 2020) to July 1, 2023.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by the analyst

down from 66.6 percent in 2010 because of the lasting effects of the Great Recession. The homeownership rate in the HMA is higher than the national average, which was 64.1 percent in 2019 (2019 ACS 1-year data). Renter households accounted for approximately 33 percent of household growth from 2000 to 2010, increasing to approximately 48 percent of household growth since 2010. Household growth during the next 3 years is expected to average 1,475 households, or 1.3 percent, annually—like the period since 2010.

Home Sales Market

Market Conditions: Slightly Tight

Existing home prices in the HMA have increased an average of 5 percent annually since 2012.

Current Conditions

The sales housing market in the Olympia HMA is currently slightly tight. As of July 1, 2020, the overall sales vacancy rate is estimated at 1.0 percent (Table 4)—down from 2.4 percent during 2010. During June 2020, the HMA had 490 single-family homes, condominiums, and townhomes for sale, representing 1.3 months of supply—down from 790 homes for sale, or a 1.5-month supply, during June 2019 (Redfin, Inc.). The number of new listings has sharply declined as a result of measures taken to counteract COVID-19; new listings totaled 430 in June 2020—down 30 percent from the 610 new listings in June 2019.

Existing Home Trends

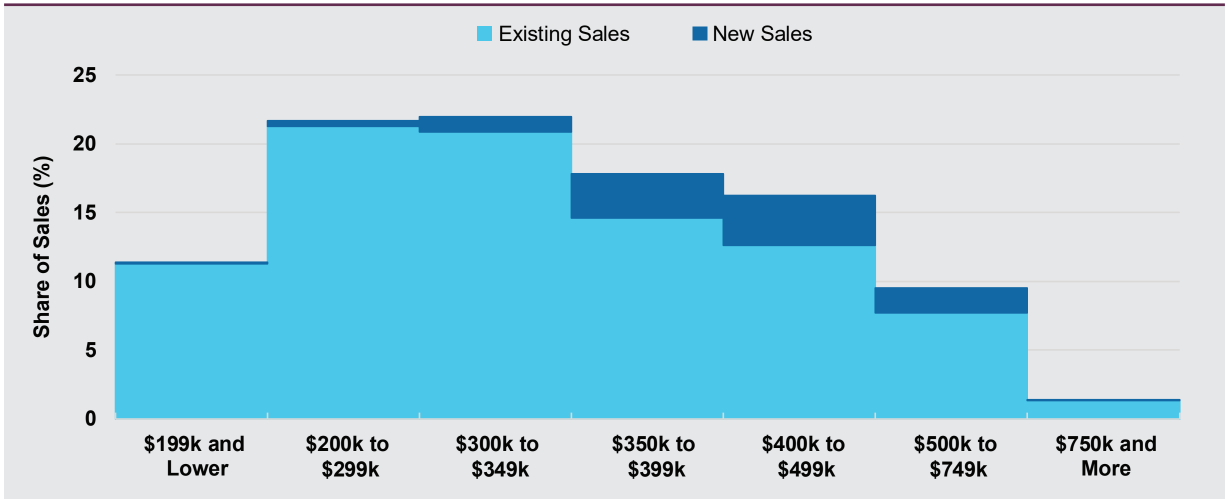
Low levels of for-sale inventory have contributed to a decline in the number of existing home sales and rising prices in the HMA. Existing home sales (including regular resales and distressed sales) totaled 4,475 homes in the HMA during the 12 months ending June 2020—down 14 percent from the 12 months ending June 2019 (Metrostudy, a Hanley Wood Company, with adjustments by the analyst). During the same period, the average sales price increased 6 percent, to $357,800. Trends in the existing home sales market were moving in the same direction in the preceding 12-month period, with home sales decreasing by 6 percent and prices increasing by 10 percent. During the 12 months ending June 2020, most existing home sales were between $200,000 and $400,000 (Figure 5).

Table 4. Home Sales Quick Facts in the Olympia HMA

		Olympia HMA	Nation
Home Sales Quick Facts	Vacancy Rate	1.0%	NA
	Months of Inventory	1.3	4.2
	Total Home Sales	5,025	5,164,000
	1-Year Change	-14%	-4%
	New Home Sales Price	$426,400	$421,500
	1-Year Change	2%	1%
	Existing Home Sales Price	$357,800	$323,600
	1-Year Change	6%	4%
	Mortgage Delinquency Rate	2.4%	4.0%

NA = data not available.
Notes: The vacancy rate is as of the current date; home sales and prices are for the 12 months ending June 2020; and months of inventory and mortgage delinquency data are as of June 2020. The current date is July 1, 2020.
Sources: CoreLogic, Inc.; Metrostudy, A Hanley Wood Company

Figure 5. Share of Overall Sales by Price Range During the 12 Months Ending June 2020 in the Olympia HMA



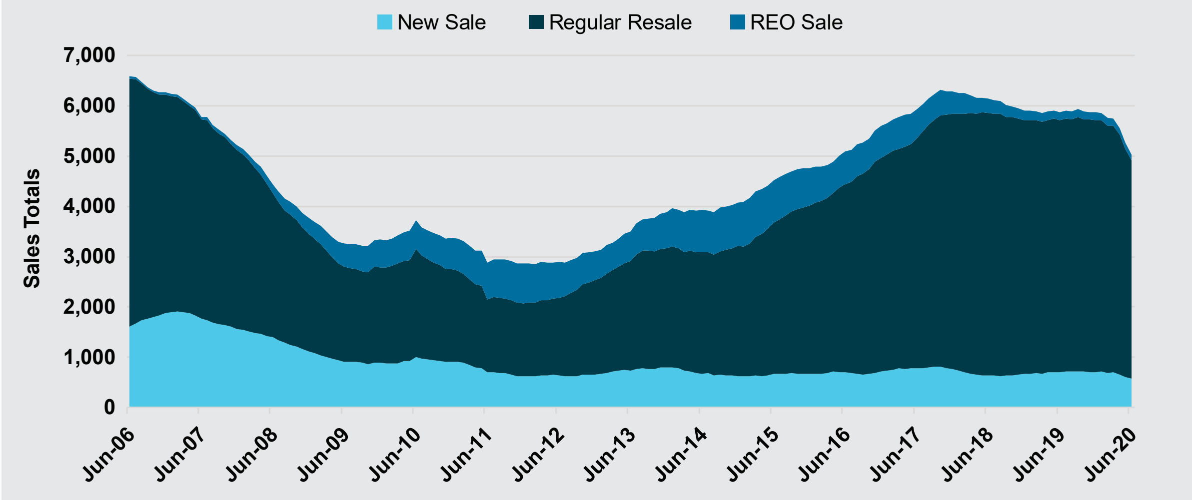
Note: New and existing sales include single-family homes, townhomes, and condominium units.
Source: Metrostudy, A Hanley Wood Company

Existing home sales prices increased before the national recession of the late 2000s, averaging gains of 9 percent during 2006 and 2007. During that period, strong economic conditions in the HMA and strong population growth led to increasing demand for homes, which in turn caused upward pressure on home prices. Concurrently, the amount of available inventory declined, and lenders increased borrowing standards, causing existing sales to decline. During 2005, approximately 5,175 existing homes were sold, but that number declined by an average of 490 home sales, or 13 percent, annually from 2006 through 2011 (Figure 6).

As existing home sales declined, the volume of real estate owned (REO) sales increased; during 2005 and 2006, REO sales accounted for approximately 1 percent of existing home sales—a figure that increased to 35 percent during 2011. Poor economic conditions and increased REO sales caused existing home prices to decrease an average of 7 percent annually from 2008 through 2010 to an average low of $230,100 from 2010 through 2013. During those years, the average price of a regular resale was $239,800, and REO sales averaged $191,000 (Figure 7).

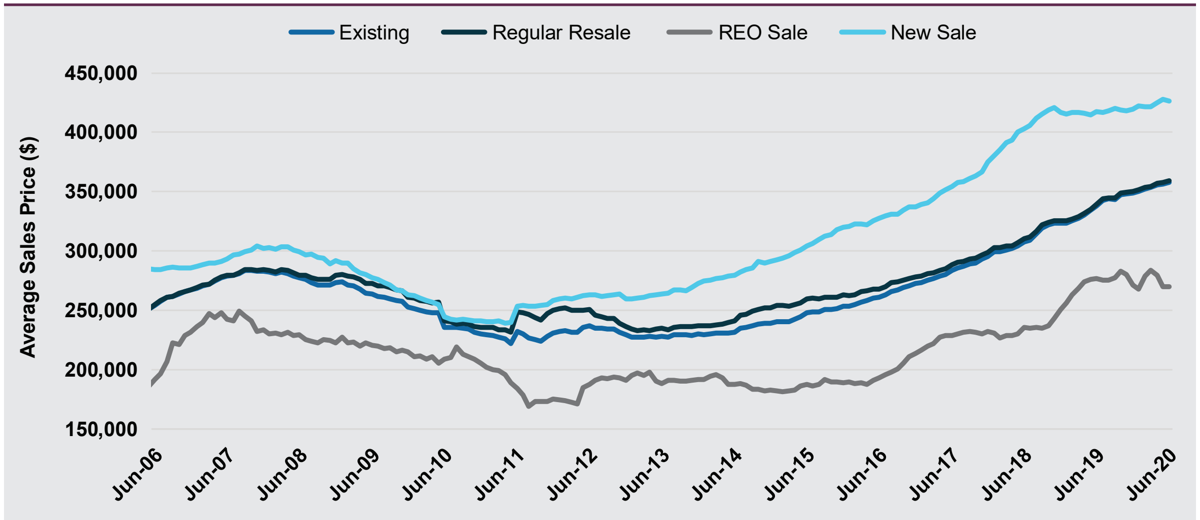
Following the return of job growth in 2012, the number of existing homes sold increased at an average annual rate of 16 percent from 2012 through 2017. All the increase in existing home sales came from regular resales; the number of

Figure 6. 12-Month Sales Totals by Type in the Olympia HMA



REO = real estate owned.
Source: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

Figure 7. 12-Month Average Sales Price by Type of Sale in the Olympia HMA



REO = real estate owned.
Source: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

REO sales declined an average of 9 percent annually. Despite the increase in the number of sales during 2012 and 2013, existing home prices did not begin to increase until 2014. The significant inventory of for-sale homes and the presence of large numbers of distressed properties—which made up 25 percent of all existing home sales in 2013—kept prices from appreciating. From 2014 through 2017, as the sales market tightened and competition among homebuyers increased, existing home prices increased an average of $16,350, or 6 percent, annually.

During 2018 and 2019, the stock of REO homes was depleted, and the level of for-sale inventory was very low, leading the number of existing home sales to fall an average of 3 percent annually, whereas average annual price growth was 9 percent.

Delinquent Home Sales

The number of seriously delinquent mortgages and REO properties increased significantly during June 2020. As of June 2020, 2.4 percent of home loans were seriously delinquent or had transitioned into REO status—up from 0.8 percent in June 2019. Almost all the increase occurred in the month of June 2020, and the rate was only 0.9 percent in May 2020. The sharp increase likely reflects the number of homeowners who stopped paying their mortgage at the onset of the COVID-19 pandemic in March 2020, becoming 90 days delinquent on their mortgage by June. That trend occurred on the national level as well, with the percentage of seriously delinquent mortgages and REO properties increasing from 1.6 percent in May 2020 to 4.0 percent in June 2020. Despite the increase in June 2020, the current percentage of seriously delinquent mortgages and REO properties in the HMA represents a significant improvement from a high of 6.5 percent in September 2012, when the national rate was 6.7 percent.

New Home Trends

Declining levels of excess vacancy and rising existing home prices have not led to increased new home sales since 2011. Approximately 570 new homes were sold in the Olympia HMA during the 12 months ending June 2020—down 18 percent from the 12 months ending June 2019, whereas the average price of a new home increased 2 percent, to $426,400 (Metrostudy, A Hanley Wood Company, with adjustments by the analyst). New home sales have been relatively stable since 2011, averaging 690 homes sold annually from 2011 through 2019; during the same period, new home prices increased an average of 6 percent annually. A portion of that price growth was caused by new construction increasingly targeting the upper-price end of the home sales market; the average size of a new home increased 13 percent between the 2010-to-2011 and the 2018-to-2019 periods.

Despite significant growth in home prices, new home sales remain at approximately 45 percent of the 2005-to-2007 level—a period when 1,600 new homes were sold annually—but declined an average of 21 percent annually from 2008 through 2011. New home prices averaged $293,400 from 2006 through 2008 but declined to a low of $240,900 during 2010. The decline in both new home sales and prices was caused by worsening economic conditions because of the national recession and the housing crisis.

Sales Construction Activity

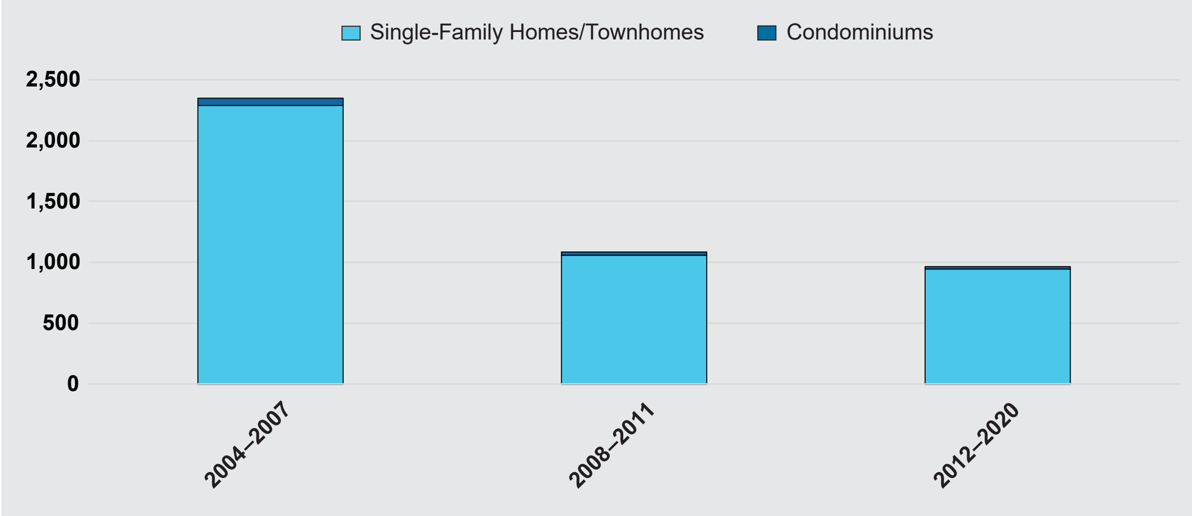
Homebuilding—as measured by the number of single-family homes, townhomes, and condominium units permitted—has been stable in the HMA since 2012, with an average of 980 homes permitted annually from 2012 through 2019. Homebuilding is well below the historically high levels reached during the housing boom in the mid-2000s, however, (Figure 8). Homebuilding peaked from 2004 through 2007, at an average of 2,350 homes permitted annually, then declined by an average of 290 homes, or 18 percent, annually from 2008 through 2011, as demand for new homes fell. Several factors have been constraining growth in homebuilding since 2012. The HMA, along with the rest of the state, mandates that almost all significant housing development take place within urban growth boundaries that surround the principal cities of the HMA. Those boundaries were set in

1990 and have not been changed significantly. Although urban growth boundaries have been successful at conserving natural and agricultural areas in the HMA, they have likely increased the cost of development by restricting the supply of available land. A second factor constraining development in the HMA is competition for labor with construction in the Seattle MSA. Contractors and laborers who would otherwise be available for projects in the Olympia HMA may be able to receive a wage premium for working in the relatively higher cost-of-living Seattle MSA.

During the 12 months ending June 2020, 750 homes were permitted—down approximately 3 percent from the preceding 12-month period (preliminary data). The entire decline in permitting was caused by decreased home construction during the second quarter of 2020, which was concurrent with the implementation of public health policies designed to halt the spread of COVID-19. Despite the relatively slow rate of new home construction, signs indicate that it may increase during the forecast period. During 2019, approximately 940 new lots were created in Thurston County—up 62 percent compared with 2018 and the highest level recorded since 2008 (Thurston County Regional Planning Council).

Most new home construction is occurring in subdivisions in the cities of Lacey and Tumwater and in unincorporated Thurston County.

Figure 8. Average Annual Sales Permitting Activity in the Olympia HMA



Note: Includes single-family homes, townhomes, and condominiums.
Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2019—final data and estimates by the analyst; 2020—preliminary data and estimates by the analyst

Silver Hawk, a 300-lot subdivision in Lacey, led new home sales in 2019, with 59 new home sales, and offers homes on one-half-acre lots starting at $450,000.

Forecast

Based on current and anticipated economic and population growth and the current slightly tight sales market conditions in the HMA, demand is estimated for 3,475 new homes during the next 3 years (Table 5). The 320 homes currently under construction are expected to meet a portion of demand during the first year of the forecast.

Table 5. Demand for New Sales Units in the Olympia HMA During the Forecast Period

	Sales Units
Demand	3,475 Units
Under Construction	320 Units

Note: The forecast period is from July 1, 2020, to July 1, 2023.
Source: Estimates by the analyst

Rental Market

Market Conditions: Slightly Tight

Apartment construction has increased since 2016, but vacancy rates have remained low and rent growth has been high.

Current Conditions and Recent Trends

Overall rental housing market conditions in the Olympia HMA are currently slightly tight, with an overall estimated rental vacancy rate of 4.2 percent—down from 7.0 percent in 2010 (Table 6). Higher levels of renter household growth have contributed to declining vacancy rates and rising rents despite increased construction since 2016.

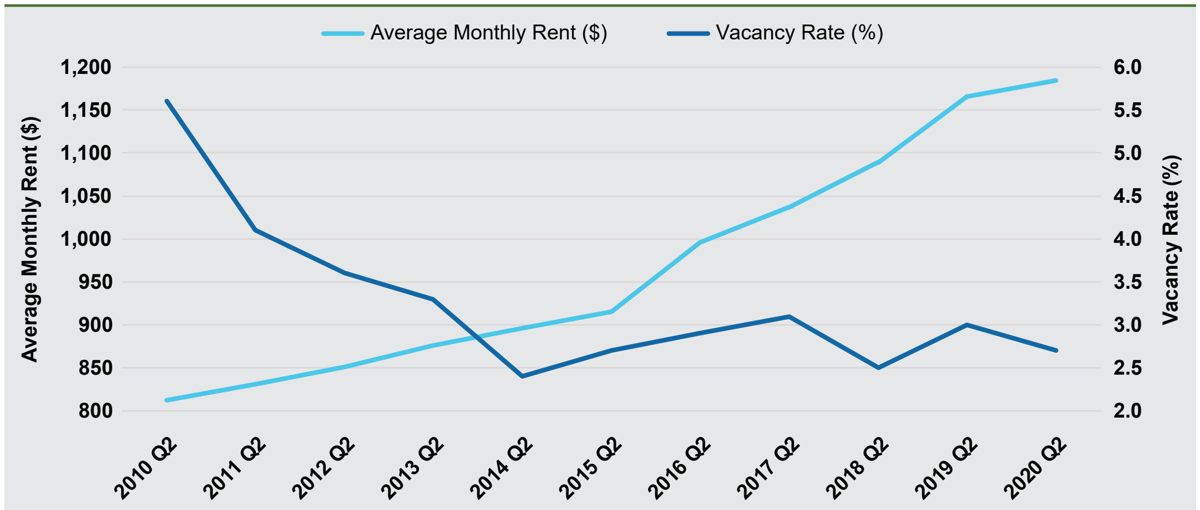
The apartment market, which makes up approximately one-half of renter-occupied units in the HMA (2019 ACS 1-year data), is also slightly tight. The apartment vacancy rate averaged 2.7 percent during the second quarter of 2020—down from 3.0 percent a year earlier (Reis, Inc.). The apartment vacancy rate has tended to remain between 2.5 and 3.0 percent since 2014 (Figure 9). During the second quarter of 2020, the average asking rent for apartments in the HMA increased 2 percent from the second quarter of 2019, to $1,184—down from average annual increases of 6 percent during the second quarters of 2016 through 2019. Poor economic conditions, increased uncertainty, and a temporary eviction moratorium

Table 6. Rental and Apartment Market Quick Facts in the Olympia HMA

		2010 (%)	Current (%)
Rental Market Quick Facts	**Rental Vacancy Rate**	7.0	4.2
	Occupied Rental Units by Structure		
	Single-Family Attached & Detached	40	38
	Multifamily (2–4 Units)	15	18
	Multifamily (5+ Units)	40	37
	Other (Including Mobile Homes)	5	8
		Current	**YoY Change**
Apartment Market Quick Facts	**Apartment Vacancy Rate**	2.7	-0.3
	Average Rent	$1,184	2
	One-Bedroom	$1,058	2
	Two-Bedroom	$1,239	2
	Three-Bedroom	$1,527	6

YoY = year-over-year.
Notes: The current date is July 1, 2020. Percentages may not add to 100 percent due to rounding.
Sources: 2010 and 2019 American Community Survey 1-year data; Reis, Inc.

Figure 9. Apartment Rents and Vacancy Rates in the Olympia HMA



Q2 = second quarter.
Source: Reis, Inc.

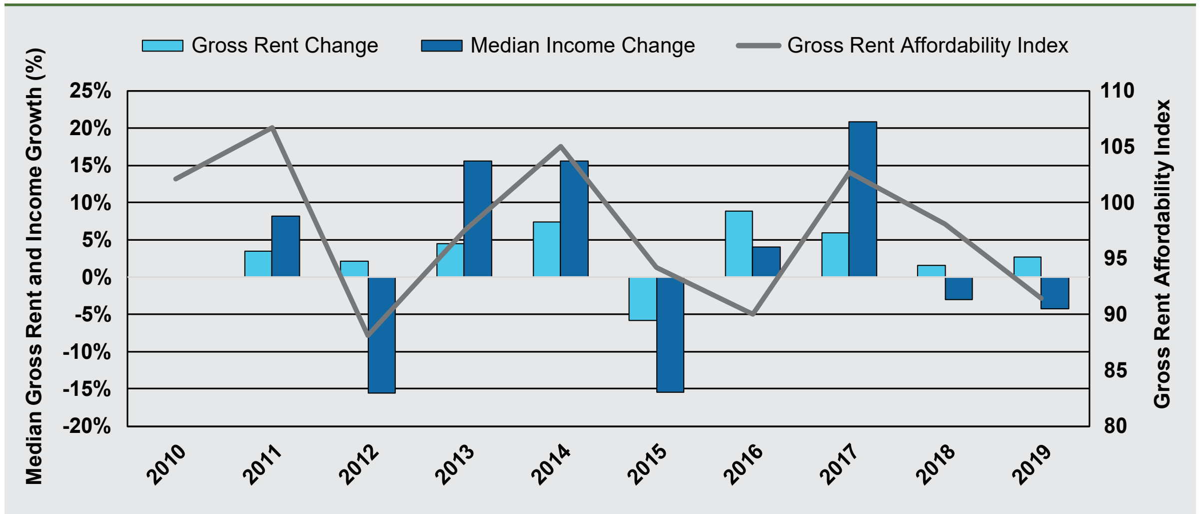
during the second quarter of 2020 made it more difficult for property managers to increase rents compared with previous years. During the second quarter of 2020, average rents for one-, two-, and three-bedroom apartments were $1,058, $1,239, and $1,527, respectively.

Housing Affordability: Rental

Rental housing in the Olympia HMA has increased in price since 2011, but rising rents have been partially offset by high income growth. Between 2010 and 2019, the median gross rent increased by 34 percent, whereas the median income of renter households increased by 20 percent. As a result, the HUD Rental Affordability Index—a measure of median renter household income relative to qualifying income for the median-priced rental unit—decreased from 102.1 in 2010 to 91.4 in 2019, signifying a less affordable rental market (Figure 10). A rental affordability index below 100 indicates that the median gross rent is unaffordable at the median income of renter households. In addition, the affordability index in the HMA was lower than the national average, which was 95.8 during 2019.

Among households that have incomes below 50 percent of area median family income, approximately 21.6 percent are cost burdened, spending between 30 and 49 percent of their income on rent; an additional 53.5 percent are severely cost burdened, spending more than 50 percent of their income on rent (Table 7).

Figure 10. Olympia HMA Gross Rent Affordability Index



MSA = metropolitan statistical area.
Notes: Rental affordability is for the larger Olympia MSA. The Gross Rent Affordability Index differs from the HUD Rental Affordability Index published on the U.S. Housing Market Conditions website in that it is based on combined rent and utilities expenditure.
Source: 2010–2019 American Community Survey, 1-year data

Table 7. Percentage of Cost–Burdened Renter Households, by Income, 2013–2017

	Cost-Burdened: 30–49 Percent of Income Toward Rent		Severely Cost-Burdened: More than 50 Percent of Income Toward Rent	
	Olympia HMA	Nation	Olympia HMA	Nation
Renter Households with Income <50% HAMFI	21.6	24.3	53.5	46.7
Total Renter Households	18.3	16.3	13.1	14.2

HAMFI = HUD area median family income.
Source: Consolidated Planning/CHAS Data, 2013–2017 American Community Survey 5-year estimates (huduser.gov)

The share of those households spending more than 50 percent of their income on rent is much higher than the national share. Nationally, 24.3 and 46.7 percent of similar families spend between 30 and 49 percent and more than 50 percent of their income on rent, respectively.

Homelessness

Approximately 995 people throughout the HMA were homeless in January 2020—up from 800 people in 2019 (Point-in-Time Count). During the same period of time, the number of unsheltered individuals increased 37 percent, to 541—the highest number since the survey began in 2006. Nearly all homeless shelters in the HMA and approximately 80 percent of unsheltered homeless individuals reside in the city of Olympia. The need to implement social distancing policies to reduce transmission of COVID-19 has led emergency shelters in the HMA to reduce occupancy. Before the impact of COVID-19, the HMA had approximately 400 shelter beds; now, it has only about 230.

Current Affordable Housing Options: LIHTC, PBRA, HCV

The Low-Income Housing Tax Credit (LIHTC) is the primary source of funding for new affordable rental housing in the nation. From 2000 through 2009, approximately 430 new LIHTC units were placed in service in the HMA—an average of nearly 40 units annually. Since 2010, 1,400 new LIHTC units—or an average of nearly 140 units annually—have been placed in service in the HMA. Of those placed in service since 2010, approximately 73 percent have been in the city of Olympia, 16 percent in the city of Lacey, and 11 percent in the city of Yelm.

In addition to LIHTC, income-eligible residents may qualify for project-based rental assistance (PBRA) or housing choice vouchers (HCVs) through the local public housing authority (PHA). The PHAs in the HMA administered approximately 2,150 HCVs in 2019. The waitlists for HCVs and public housing in the HMA are currently closed, with a waiting time of 3 to 5 years. About 570 units are subsidized through PBRA and other programs (Picture of Subsidized Households). The number of households that have an HCV in the HMA has increased an average of 0.7 percent annually since 2010, about one-half the rate of overall household growth.

Several income-restricted apartment properties have been recently completed in the HMA. Merritt Manor, an 82-unit apartment complex in the city of Olympia, opened in early 2020; this development will provide below-market rental housing to families—with children—making between 60 and 80 percent of median household income. Merritt Manor was privately funded and developed by a partnership between Fourth Street Housing, Olympia Federal Savings, and the nonprofit Help Us Move In.

Policy Initiatives

Several local policy initiatives address housing affordability in the HMA. The city of Olympia implemented the Home Fund, a levy for affordable housing in 2018. The Home Fund is funded by a .1-percent sales tax increase and is expected to fund the construction and maintenance of 350 affordable homes through 2028. The first project funded through this levy will be a development that includes 60 shelter beds and 60 supportive housing apartments for individuals that have experienced homelessness. In addition to direct funding for affordable housing, some initiatives in the HMA have sought to remove regulatory barriers to make construction of low-cost housing easier. Several jurisdictions, including the cities of Olympia and Lacey, have implemented policy changes to make building accessory dwelling units (ADUs) easier. ADUs are small apartments or cottages that are contained within the lot of a single-family home.

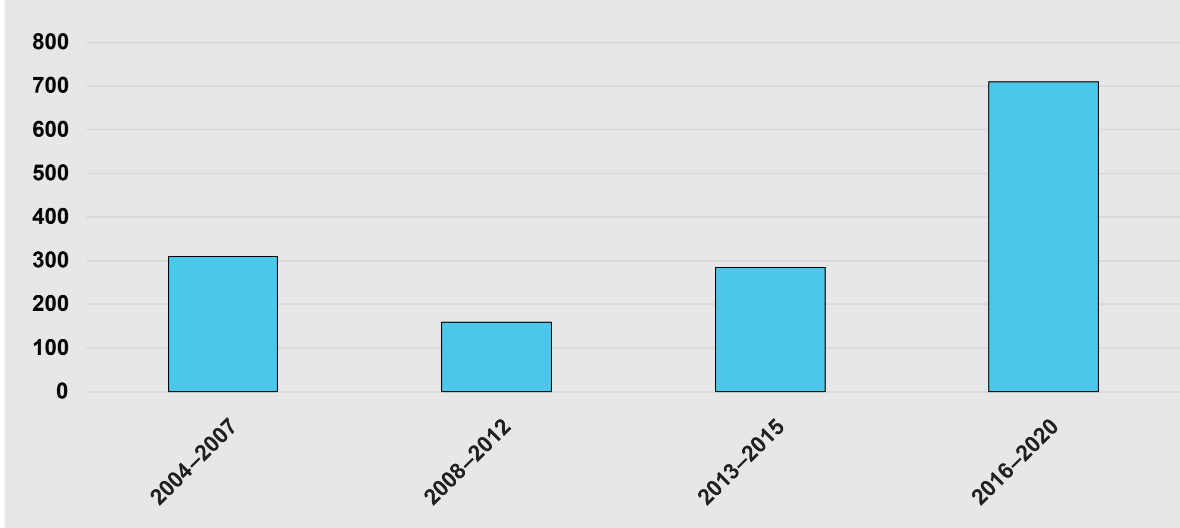
Rental Construction Activity

Rental construction, as measured by the number of rental units permitted, has increased significantly since 2016 (Figure 11). Rental construction averaged 310 units annually from 2004 through 2007, as strong economic conditions and population growth supported rental development. Following the onset of the housing crisis and declining economic conditions, rental construction declined sharply and remained low, averaging 160 units annually from 2008 through 2012. Improving economic conditions and the increased availability of credit led to increased levels of rental construction after 2012; from 2013 through 2015, an average of 280 units were permitted annually. Despite increased rental construction, apartment vacancy rates continued to decline. That trend, along with increasing population growth, led rental permitting to increase to an average of 770 units annually from 2016 through 2019—the highest level since 2000. During the 12 months ending June 2020, approximately 570 rental units were permitted—down from 1,000 during the previous 12-month period. A large portion of the decline was caused by the countermeasures taken to prevent COVID-19; only 15 multifamily units were permitted during the second quarter of 2020—down from 330 during the second quarter of 2019. Increased economic uncertainty and public health-related construction moratoriums likely led many developers to delay planned projects.

Recently Built Apartments

Almost all apartment properties that were recently built or are under construction are in the cities of Olympia, Lacey, and Tumwater. Tumwater Pointe Apartments, a 140-unit apartment complex in Tumwater, is expected to be complete in late 2020. When complete, one-, two-, and three-bedroom apartments will start at $1,425, $1,525, and $1,875. A significant number of recent apartment developments are targeted at retirees. Affinity at Lacey, a 170-unit market-rate property, was completed in 2019, and The Reserve at Lacey, a 240-unit affordable property, is currently under construction. Both developments will offer apartments restricted to residents aged 55 and older.

Figure 11. Average Annual Rental Permitting Activity in the Olympia HMA



Note: Includes apartments and units intended for rental occupancy.
Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2019—final data and estimates by the analyst; 2020—preliminary data and estimates by the analyst

Forecast

During the 3-year forecast period, demand is estimated for 1,425 apartments in the HMA (Table 8). Demand is expected to decline compared with the 2016-to-2019 period because of slower population growth and poor economic conditions. The 820 units currently under construction will fulfill all expected demand during the first and most of the second years of the forecast period.

Table 8. Demand for New Rental Units in the Olympia HMA During the Forecast Period

	Rental Units
Demand	1,425 Units
Under Construction	825 Units

Note: The forecast period is July 1, 2020, to July 1, 2023.
Source: Estimates by the analyst

Terminology Definitions and Notes

A. Definitions

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.
Cost Burdened	Spending more than 30 percent of household income on housing costs.
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.
Distressed Sales	Short sales and real estate owned (REO) sales.
Forecast Period	7/1/2020–7/1/2023—Estimates by the analyst.
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.**
Seriously Delinquent Mortgages	**Mortgages 90+ days delinquent or in foreclosure.**

B. Notes on Geography

1.	**The metropolitan statistical area definition noted in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated April 10, 2018.**
2.	**Urbanized areas are defined using the U.S. Census Bureau 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 National Association of Home Buyers (NAHB)/Wells Fargo 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/Map Credits

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