HUD PD&R **Regional Reports**

Region 10: Northwest

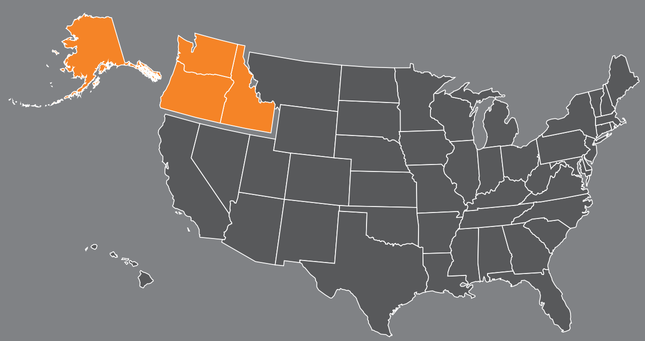
Tacoma, Washington

By Tom Aston | 2nd quarter 2017

Quick Facts About Region 10

- **Sales market conditions—**
  Second quarter 2017: tight.
  First quarter 2017: tight.
  Second quarter 2016: tight.

- **Apartment market conditions—**
  Second quarter 2017: mixed tight to balanced).
  First quarter 2017: mixed (tight to balanced).
  Second quarter 2016: tight.



Overview

Economic conditions are favorable in the Northwest region, as job growth and a declining unemployment rate highlighted economic activity during the second quarter of 2017. Sales housing markets are tight with low for-sale inventories in many of the major metropolitan areas, leading to modest gains and some declines of new and existing homes sales from the second quarter of 2016. Apartment markets in the region are mixed, with conditions ranging from tight to balanced. Conditions started to soften, with the average vacancy rate increasing in the majority of metropolitan areas around the region. Residential construction activity, as measured by the number of units permitted, was brisk especially for apartment development in the Seattle and Portland metropolitan areas.

- The year-over-year rate of nonfarm payroll growth decelerated for 4 consecutive quarters, from 3.1 percent during the first quarter of 2016 to 2.2 percent during the second quarter of 2017.
- After nearly 5 years of relatively tight apartment market conditions in many metropolitan areas, increasing average vacancy rates indicate that apartment construction began to outpace demand.
- During the second quarter of 2017, active sales housing listings in major metropolitan areas in the region declined between 16 to 36 percent in the Boise, Olympia, Portland, and Tacoma metropolitan areas, contributing to average sales prices increasing from 8 to 11 percent from the second quarter of 2016 (CoreLogic, Inc.).

Job growth in the Northwest region was broad-based, with 8 out of the 11 sectors increasing at a growth rate greater than the regional average.

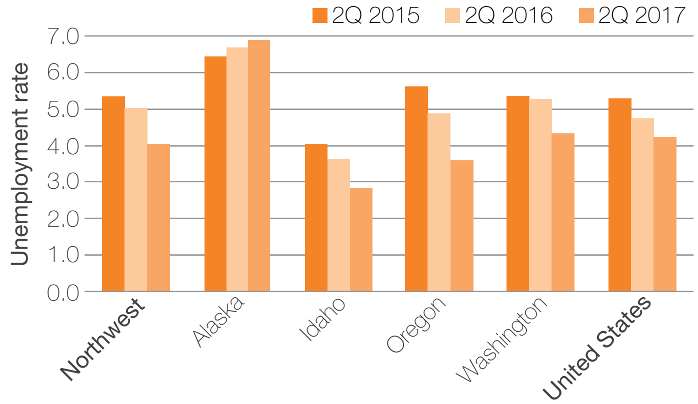
	Second Quarter		Year-Over-Year Change	
	2016 (thousands)	2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	6,118.3	6,255.8	137.5	2.2
Goods-producing sectors	922.7	940.1	17.4	1.9
Mining, logging, and construction	366.0	386.4	20.4	5.6
Manufacturing	556.8	553.7	– 3.1	– 0.6
Service-providing sectors	5,195.6	5,315.7	120.1	2.3
Wholesale and retail trade	934.7	951.8	17.1	1.8
Transportation and utilities	209.3	215.6	6.3	3.0
Information	168.3	172.7	4.4	2.6
Financial activities	292.0	300.8	8.8	3.0
Professional and business services	756.6	772.2	15.6	2.1
Education and health services	878.4	906.4	28.0	3.2
Leisure and hospitality	638.0	653.1	15.1	2.4
Other services	217.9	223.6	5.7	2.6
Government	1,100.3	1,119.4	19.1	1.7

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

Economic Conditions

During the second quarter of 2017, nonfarm payrolls in the Northwest region increased by 137,500 jobs, or 2.2 percent, to an average of 6.3 million jobs compared with an increase of 166,600 jobs, or 2.8 percent, a year earlier. Measured in terms of percentage gains, the mining, logging, and construction sector led all sectors with a 5.6-percent increase, or 20,400 jobs, followed by the education and health services sector with a gain of 3.2 percent, or 28,000 jobs. These two sectors accounted for 35 percent of job growth in the region. Only the manufacturing sector recorded job losses, with a decline of 3,100 jobs, or 0.6 percent. During the second quarter of 2017, strong job growth in Idaho, Oregon, and Washington led to a decline in the average unemployment rate in the region, to 4.1 percent compared with 5.1 percent a year earlier. At 2.8 percent, Idaho had the lowest average unemployment rate in the region. In Alaska, nonfarm payrolls declined for the third consecutive quarter, down by 2,800 jobs, or 0.8 percent, to an average of 336,200 jobs, as low oil prices continued to adversely affect the labor market. Job losses occurred in 6 out of 11 sectors, led by the mining, logging, and construction sector, which contracted payrolls by 2,600, or 8 percent, compared with losses of 4,400 jobs, or 12 percent, a year earlier.

The average unemployment rate in the Northwest region has decreased for 2 consecutive years and is currently below the national jobless rate.



2Q = second quarter.
Source: U.S. Bureau of Labor Statistics

- Nonfarm payrolls in Idaho increased by 17,450 jobs, or 2.5 percent, to an average of 713,400 jobs compared with a year earlier. Job gains were greatest in the education and health services sector, increasing 4.3 percent, or by 4,300 jobs, nearly 85 percent of which were in the healthcare and social assistance industry because of hiring at hospitals and healthcare clinics.
- Primarily because of robust residential construction activity in the Portland metropolitan area, the mining, logging, and construction sector led percentage job growth in Oregon for the second consecutive quarter, with a 10-percent gain, or 10,000 jobs, to an average of 107,100. Total nonfarm payrolls in the state increased 2.4 percent, or by 44,900 jobs, to an average of 1.88 million compared with a year earlier.

continued on page 3

continued from page 2

- Washington nonfarm payrolls increased by 77,950 jobs, or 2.4 percent, to an average of 3.32 million. The trade sector led numerical job growth, increasing to an average 513,000 jobs for a gain of 13,800 jobs, or 2.8 percent. As in Idaho and Oregon, the mining, logging, and construction sector led the percentage gain in job growth, increasing 6 percent, or by 11,300 jobs, mainly because of robust residential construction activity in the Puget Sound area.

Sales Market Conditions

The second quarter of 2017 marked the seventh consecutive quarter of tight sales housing market conditions in the Northwest region except Alaska. During the 12 months ending June 2017, new and existing home sales (including single-family homes, townhomes, and condominiums) were relatively unchanged at 306,300 homes sold, primarily because of declining sales of real estate owned (REO) properties and declining for-sale housing inventories (Metrostudy, A Hanley Wood Company, with adjustments by the analyst; CoreLogic, Inc.). The average price of a home sold was $337,700, up 9 percent from a year earlier. The number of homes that had transitioned into REO status decreased 20 percent from a year ago, to 19,350, and were 6 percent of existing home sales compared with 8 percent a year earlier.

Strong population and job growth in Washington led to the largest percentage increase of new and existing home sales in the region, 4 percent, to 156,250 homes sold. The average sales price increased 10 percent to $382,800. The Olympia metropolitan area led all metropolitan areas in the region with a 15-percent gain in homes sold to 6,175, contributing to a year-over-year decline in for-sale inventories from a 2- to a 1.4-month supply.

Impacted by strong job growth, the demand for sales housing in Oregon during the 12 months ending June 2017 led to for-sale inventory declines of up to 40 percent in metropolitan areas. Consequently, home sales declined 2 percent to 86,500 homes. The average price of homes sold was up 8 percent to $319,600 from a year earlier. For the second consecutive quarter in 2017, the limited supply of homes for sale in the Portland metropolitan area led to a decline in homes sold of 4 percent to 51,300 homes sold.

During the 12 months ending June 2017, the number of new and existing homes sold in Idaho was 50,700 homes, relatively unchanged from a year earlier partly because of a 30-percent decline in REO property sales. The average home sales price increased 5 percent to $241,800. Partly offsetting the decline in REO property sales was a region-leading 16-percent increase in new homes sold to 5,900, at an average price of $281,900, up 5 percent from a year earlier and the lowest average price of a new home sold in the region.

Sales housing market conditions continue be soft in Alaska with new and existing homes sold decreasing 8 percent during the 12 months ending June 2017. The 12,825 homes sold was the lowest 12-month total since May 2013 and marked the fourth consecutive quarter of declining home sales principally attributable to the direct and indirect impacts of declining nonfarm payrolls in the oil and gas industry, especially in the Anchorage metropolitan area where home sales declined 12 percent from the second quarter of 2016. The average price of homes sold in the state was relatively unchanged at $289,600.

continued on page 4

Home prices in the Northwest region rose at a robust pace, increasing 8 percent or more in six of the eight selected metropolitan areas.

	12 Months Ending	Number of Homes Sold			Price			
		2016	2017	Percent Change	Average or Median	2016 ($)	2017 ($)	Percent Change
Anchorage (N&E)	June	9,100	8,032	– 12	MED	301,374	306,800	2
Boise (N&E)	June	23,050	23,350	1	AVG	235,800	254,900	8
Eugene (N&E)	June	7,200	7,625	6	AVG	243,600	252,400	4
Olympia (N&E)	June	5,375	6,175	15	AVG	261,200	282,700	8
Portland (N&E)	June	53,200	51,300	– 4	AVG	344,700	376,800	9
Salem (N&E)	June	7,875	8,175	4	AVG	224,900	250,700	11
Seattle (N&E)	June	57,450	59,450	3	AVG	501,600	545,800	9
Tacoma (N&E)	June	18,250	19,175	5	AVG	276,000	306,200	11

AVG = average. MED = median. N&E = new and existing.
Note: Includes single-family homes, townhomes, and condominiums.
Sources: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

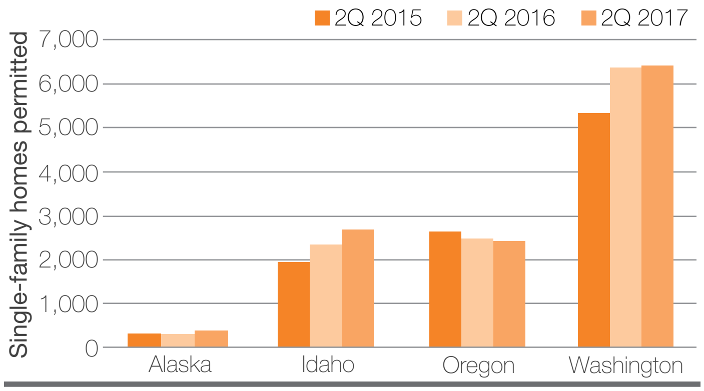
continued from page 3

As of May 2017, 1.4 percent of home loans in the region were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into REO status compared with 2.2 percent a year earlier; at the same time, the national rate decreased from 2.9 to 2.3 percent (CoreLogic, Inc.). The share of seriously delinquent loans and REO properties decreased from 2.0 to 1.4 percent in Washington, from 2.2 to 1.5 percent in Oregon, and from 1.6 to 1.1 percent in Idaho. In Alaska, the share increased to 1.3 from 1.2 percent in May 2016 in response to stagnant economic conditions.

During the second quarter of 2017 (based on preliminary data)—

- Single-family homebuilding activity in the region, as measured by the number of homes permitted, increased 2 percent, or 290 homes, to 11,850 since the second quarter of 2016 compared with a 13-percent increase during the previous year.
- Oregon was the only state in the region where second quarter single-family permitting activity decreased with 2,425 homes permitted, a 3-percent decline, or 80 homes, from a year earlier.
- Construction activity increased in Alaska and Idaho as the number of single-family homes permitted was up 17 percent to 370 homes and 13 percent to 2,675 homes, respectively, from the second quarter of 2016.

Oregon was the only state in the Northwest region where single-family permitting did not increase from a year earlier.



2Q = second quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

- At 6,375 homes permitted, homebuilding activity in Washington was relatively unchanged from a year earlier but remains at its highest level since the sales market recovery began in 2012.

Apartment Market Conditions

During the second quarter of 2017, apartment housing market conditions in the major metropolitan areas of the Northwest region were mixed, ranging from tight to balanced, compared with tight a year ago. Apartment markets in the Spokane and Eugene metropolitan areas were tight, with vacancy rates of 2.1 and 3.6 percent, respectively. In Spokane, the apartment market has been tight since 2014, because apartment construction did not respond to increased demand since the housing crises of the late 2000s until 2015, when over 1,000 units were permitted compared with an average of 525 units permitted a year from 2012 through 2014. Strong apartment demand attributable to accelerating population growth in Eugene during 2015 and 2016 of 1.4 and 1.9 percent, respectively, outpaced apartment development activity contributing to relatively tight apartment market conditions since the second quarter of 2016.

In the Portland, Seattle, and Tacoma metropolitan areas, apartment market conditions were slightly tight. Compared with the first quarter of 2016, the average vacancy rates increased 0.2, 0.3, and 0.9 percentage points in Portland, Seattle, and Tacoma, respectively, mainly because of the completion of 6,600 units in Portland, 10,700 units in Seattle, and 550 units in Tacoma since the second quarter of 2016. Despite rising average vacancy rates, the demand for apartments continues to be strong as average rents increased 4, 8, and 11 percent in Portland, Seattle, and Tacoma, respectively.

Anchorage and Boise were the only major metropolitan areas in the region where the apartment markets were balanced during the second quarter of 2017, with average vacancy rates of 5.1 and 5.0 percent, respectively. In the Anchorage metropolitan area, vacancies increased because of net out-migration related to a sluggish economy and the departure of approximately 1,800 U.S. Army personnel from 2015 through 2016. In the Boise metropolitan area, the apartment market has been balanced since the second quarter of 2016 as construction activity kept pace with demand.

During the second quarter of 2017 (based on preliminary data)—

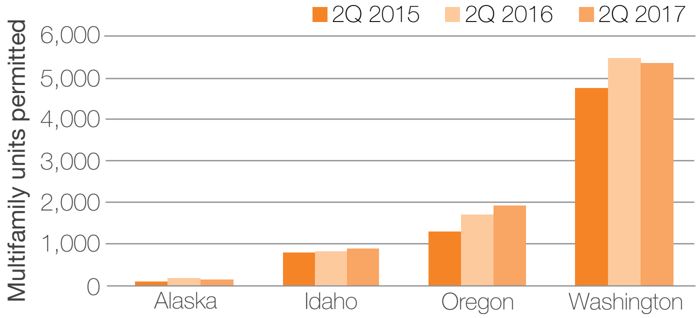
- Approximately 8,275 multifamily units were permitted in the region, a 2-percent, or 110-unit, increase from a year earlier and the second highest number of multifamily units permitted in the second quarter since 2010.
- Multifamily construction activity in Alaska, as measured by the number of units permitted, declined to 150 units but was relatively unchanged from a year earlier as two consecutive years of increasing vacancy rates slowed multifamily development.

continued on page 5

continued from page 4

- In Idaho, multifamily construction activity increased 7 percent to 890 units from a year ago, partially because of the approximately 100 units permitted in the city of Moscow, home to the University of Idaho, and 75 units in the city of Ammon in eastern Idaho near Idaho Falls.
- The number of multifamily units permitted increased 11 percent to 1,900 units in Oregon and remained at historic highs, decreasing only 2 percent to 5,340 units in Washington. The strong demand for multifamily rental housing in the Portland and Seattle metropolitan areas, with 6,700 and 10,500 units absorbed in 2016, respectively, is the main factor for continued high levels of permitting activity in Oregon and Washington (MPF Research).

Idaho and Oregon were the only states in the Northwest region where second-quarter multifamily permitting increased for the past 2 years.



2Q = second quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

The average vacancy rate in the Northwest region increased from a year earlier in every metropolitan area, except Boise.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2016 (%)	2Q 2017 (%)	Percentage Point Change	2Q 2016 ($)	2Q 2017 ($)	Percent Change
Anchorage[a]	Balanced	3.7	5.1	1.4	1,075	1,066	– 1
Boise[b]	Balanced	5.4	5.0	– 0.4	804	844	5
Eugene[b]	Tight	2.9	3.6	0.7	823	861	5
Portland[b]	Slightly tight	4.5	4.7	0.2	1,161	1,211	4
Seattle[c]	Slightly tight	3.9	4.2	0.3	1,550	1,667	8
Spokane[b]	Tight	1.6	2.1	0.5	726	737	2
Tacoma[c]	Slightly tight	3.3	4.2	0.9	1,049	1,160	11

2Q = second quarter.
Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—(a) Alaska Department of Labor-Research and Workforce Analysis Section, (b) Reis, Inc., (c) *Apartment Insights*