HUD PD&R **Regional Reports**

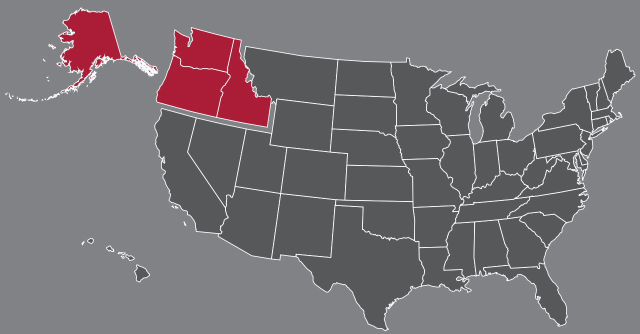
Region 10: Northwest

Olympia, Washington

Quick Facts About Region 10

- **Sales market conditions—**
  Third quarter 2018: mixed (tight to slightly soft).
  Second quarter 2018: mixed (tight to slightly soft).
  Third quarter 2017: mixed (very tight to slightly soft).

- **Apartment market conditions—**
  Third quarter 2018: mixed (very tight to balanced).
  Second quarter 2018: mixed (tight to balanced).
  Third quarter 2017: mixed (very tight to balanced).



By Tom Aston | 3rd quarter 2018

Overview

Nonfarm payroll growth accelerated during the third quarter of 2018 at an average annual rate of 2.8 percent outpacing, along with Region 8, the other eight HUD regions and the nation. Job gains occurred in Idaho, Oregon, and Washington, but not in Alaska. Sales market conditions ranged from slightly soft in Alaska to tight in Idaho, Oregon, and Washington. Single-family construction activity, as measured by homes permitted, was mixed, reaching an 11-year high in Oregon while declining in Washington. Apartment market conditions ranged from very tight to balanced with vacancy rates declining in the Puget Sound region (which includes Bremerton, Seattle, and Tacoma) and increasing in Anchorage, Boise, Bend, and Portland. Like the single-family market, construction activity in the apartment market was mixed, as Idaho was the only state in the region with an increase in apartment development activity. Although residential construction activity may be slowing in Oregon and Washington, major infrastructure and corporate projects in those states are keeping construction workers in high demand, making the mining, logging, and construction sector the strongest growth sector in the region.

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- Nonfarm payrolls increased by 176,500 jobs, the highest third quarter gain since 2015.
- The average price of a home sold in Idaho, Washington, and Oregon increased 10, 9, 7 percent, respectively.
- Multifamily permit activity declined in the region during the third quarter of 2018 for first time since the first quarter of 2016, as slower rent growth in some markets and increasing vacancy rates in others were cautionary signals for developers.

Economic Conditions

During the third quarter of 2018, economic conditions in the Northwest region were strong, with nonfarm payrolls expanding in every state in the region except Alaska. Nonfarm payrolls increased to 6.47 million, with the net addition of 176,500 jobs, or 2.8 percent, outperforming growth of 137,000 jobs, or 2.2 percent, from a year earlier. Job gains in the educational and health services sector and percentage growth in the mining, logging, and construction sector led the job gains that occurred in every private nonfarm payroll sector. The government sector was the only sector to lose jobs during the third quarter of 2018, with a decline of 5,300 jobs, or 0.5 percent.

The education and health services sector led job growth in the region with a gain of 38,100 jobs, or 4.3 percent, to 930,700. More than one-half of this growth occurred in the social assistance industry, with most of the increase attributable to the reclassification of almost 20,000 home health workers in Oregon from the government sector in January of 2018. Prior to the reclassification, during the fourth quarter of 2017, education and health services sector nonfarm payrolls increased by 24,100, or 2.7 percent from a year earlier. Job growth in the professional and business services sector increased by 31,300 jobs, or 4.0 percent, to 819,900 nonfarm payrolls, the second largest payroll gain in the region. Job gains were the strongest in the computer systems design industry and the administrative support services industries; hiring through employment placement services, which accounted for 85 percent of the growth from the third quarter of 2017, led those job gains.

The highest percentage increase in nonfarm payrolls occurred in the mining, logging, and construction sector with a 5.4-percent gain, or 21,700 jobs. The construction subsector accounted for all the gain, with Oregon and Washington leading the region, adding 9,400 and 10,000 jobs, respectively. Major construction projects in the Portland metropolitan area include a 1.2 million-square-foot Amazon.com Inc. warehouse, expansion of Nike's headquarters, and the development of the Knight Cancer Institute and Center for Health and Healing. In Seattle, a few of the many large construction projects include Sound Transit's light rail line from Seattle to Bellevue, the Highway 99 tunnel, and the Google South Lake Union Campus.

The regional unemployment rate averaged 3.9 percent during the third quarter of 2018, down from 4.4 percent from a year earlier. The jobless rate decreased from a year ago in all four states. Alaska had the largest decline falling from 6.6 to 5.6 percent primarily because the decline in labor force outpaced the decline in resident employment.

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Led by the mining, logging, and construction sector, nonfarm payroll growth was robust during the third quarter of 2018.

	Third Quarter		Year-Over-Year Change	
	2017 (thousands)	2018 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	6,289.0	6,465.5	176.5	2.8
Goods-producing sectors	971.8	1,009.0	37.2	3.8
Mining, logging, and construction	405.6	427.3	21.7	5.4
Manufacturing	566.2	581.7	15.5	2.7
Service-providing sectors	5,317.2	5,456.5	139.3	2.6
Wholesale and retail trade	976.2	1,003.0	26.8	2.7
Transportation and utilities	218.8	225.9	7.1	3.2
Information	177.9	186.0	8.1	4.6
Financial activities	304.1	312.1	8.0	2.6
Professional and business services	788.6	819.9	31.3	4.0
Education and health services	892.6	930.7	38.1	4.3
Leisure and hospitality	681.1	703.2	22.1	3.2
Other services	221.8	225.1	3.3	1.5
Government	1,056.0	1,050.7	– 5.3	– 0.5

Source: U.S. Bureau of Labor Statistics

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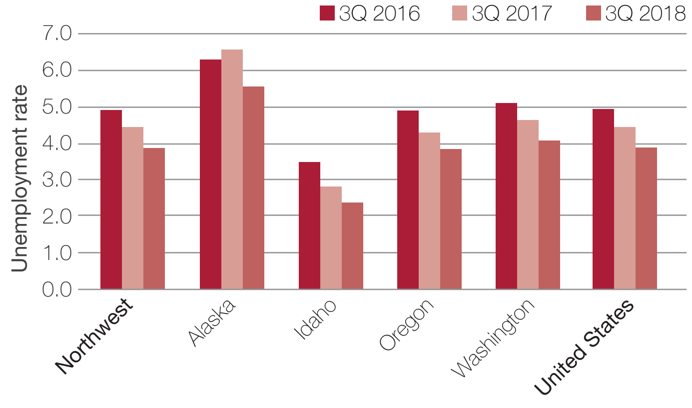
During the third quarter of 2018—

- Washington led the region with a 3.2-percent increase in nonfarm payrolls, or by 106,700 jobs, to 3.45 million compared with a year earlier. The information and professional and business sectors led job growth with gains of 8,600 and 24,500 jobs, 6.7 and 5.8 percent, respectively.
- Nonfarm payrolls increased 3.1 percent in Idaho, a gain of 22,700 jobs to a total of 746,100. The manufacturing sector grew at the fastest rate, increasing 5.4 percent, or 3,700 jobs, the largest percentage gain in manufacturing of any state in the region.
- Oregon nonfarm payrolls grew 2.7 percent, or by 49,700 jobs, to 1.92 million. The state led the region in mining, logging, and construction sector job growth as a 8.6-percent increase, or 9,400 jobs, raised total employment to 119,100 jobs, mainly because of commercial and residential activity in the Portland metropolitan area.
- Job losses extended to three consecutive quarters in Alaska with a 0.7-percent decline, or 2,500 jobs, in nonfarm payrolls to 345,600 jobs. Nonfarm payrolls have declined in eight of the past nine quarters at an average annual rate of 0.8 percent since the third quarter of 2016 in response to the decline in oil prices, which started in July 2014.

In tandem with the nation, the unemployment rate in Idaho, Oregon, and Washington has declined for three consecutive quarters.



3Q = third quarter.
Source: U.S. Bureau of Labor Statistics

Sales Market Conditions

Sales housing market conditions were tight in much of the Northwest region during the third quarter of 2018, with the exception of Alaska, which has slightly soft markets. During the 12 months ending August 2018, new and existing home sales (including single-family homes, townhomes, and condominiums) totaled 324,300, virtually unchanged from a year ago, while the average sales price rose 8 percent to $360,600 (CoreLogic, Inc., with adjustments by the analyst). By comparison, new and existing home sales (hereafter, home sales) increased an average of 10 percent a year from 2012 through 2017, while average prices increased 7 percent, annually. Despite the significant price increase during the 12 months ending August 2018, the volume of home sales has been constrained by a low inventory of available new and existing homes, with Idaho, Oregon, and Washington having 2.2, 3.1, and 2.5 months of inventory, respectively. Increasing home prices and a tight sales market allowed distressed homeowners to quickly sell their homes and helped existing real estate owned (REO) properties find buyers, causing the percentage of seriously delinquent home loans (loans that are 90 or more days delinquent or in foreclosure) and REO properties to decline regionwide, from 1.3 percent in August 2017 to 0.9 percent in August 2018. By comparison, the national rate declined from 2.2 to 1.8 percent during the same period. Alaska was the only state in the region where the rate of seriously delinquent home loans and REO properties did not decline, remaining constant at 1.3 percent. In the other states of the region, the rate was 0.7 percent in Idaho, 0.9 percent in Washington, and 0.9 percent in Oregon.

During the 12 months ending August 2018, Idaho led the region in home price growth, with an increase of 10 percent to $257,800, and was the only state in the region to have an increase in the number of homes sold, increasing 8 percent to 51,650. Idaho had the fastest population growth of any state in the nation in 2017; increased demand from recent arrivals led to the increase in home sales and caused the home prices to increase. Approximately 50 percent of all population growth in the state occurred in the Boise city-Nampa metropolitan area, where home prices increased 11 percent to $282,100.

Washington had the highest average home price in the region, at $415,200, which increased 9 percent during the 12 months ending August 2018, while home sales decreased 1 percent to 163,200. Home price gains were widespread in Washington, with all major metropolitan areas having significant increases, ranging from 14 percent in Bellingham to 10 percent in Olympia. As of August 2018, the S&P CoreLogic Case-Schiller Composite National Home Price Index increased 9.6 percent annually in the Seattle metropolitan area, the third highest among major metropolitan areas in the 20-city index.

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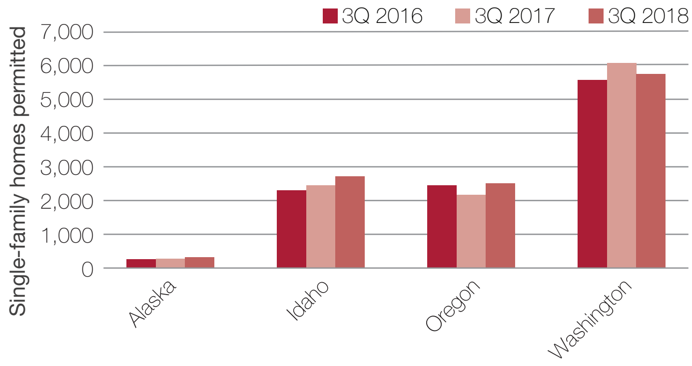
In Oregon, home sales decreased 2 percent from a year ago, with 89,200 homes sold during the 12 months ending August 2018, while the average sales price was up 7 percent to $338,900. The Portland and Bend metropolitan areas led home price increases, with price growth of 7 and 11 percent, to $410,100 and $400,700, respectively.

The home sales market in Alaska is slightly soft but is improving. A weak economy and declining population resulted in home sales decreasing 3 percent, to 12,900, during the 12 months ending August 2018, after declining an average of 6 percent annually in 2016 and 2017. However, average home prices in Alaska increased 2 percent to an average of $293,600, compared with the previous 12-month period, the highest rate of increase since 2015.

Single-family permitting in the Northwest region increased in every state except Washington.



3Q = third quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

During the third quarter of 2018 (preliminary data)—

- The number of single-family homes permitted in the Northwest region increased 3 percent to 11,350 homes. By comparison, the number of homes permitted during the third quarter increased at an average annual rate of 11 percent from 2015 through 2017.
- The largest increase in single-family home permitting occurred in Oregon, where 2,500 homes were permitted, an increase of 330 homes, or 15 percent, compared with the third quarter of 2017, and was the highest level of third quarter homebuilding since 2007.
- Single-family permitting activity in Alaska and Idaho consisted of 330 and 2,725 homes, an increase of 45 and 280 homes, or 15 and 11 percent, respectively compared with the third quarter of 2017.
- In Washington, 5,775 homes were permitted, down 5 percent compared with the third quarter of 2017. All the decline occurred in the Seattle-Tacoma-Bellevue metropolitan area, where the number of single-family homes permitted decreased 16 percent.

Home prices increased 7 percent or more in every metropolitan area except for Alaska.

	12 Months Ending	Number of Homes Sold			Price			
		2017	2018	Percent Change	Average or Median	2017 ($)	2018 ($)	Percent Change
Anchorage (N&E)	August	8,800	8,250	– 6	AVG	302,500	310,000	2
Bellingham (N&E)	August	4,600	5,525	20	AVG	296,800	337,500	14
Bend (N&E)	August	7,125	7,100	0	AVG	361,500	400,700	11
Boise (N&E)	August	25,100	26,450	5	AVG	253,200	282,100	11
Kennewick (N&E)	August	6,300	6,400	2	AVG	238,400	263,700	11
Olympia (N&E)	August	6,725	6,875	2	AVG	285,900	314,900	10
Portland (N&E)	August	52,600	50,000	– 5	AVG	382,300	410,100	7
Seattle (N&E)	August	61,900	57,850	– 7	AVG	559,400	625,300	12

AVG = average. N&E = new and existing.
Sources: CoreLogic, Inc., with adjustments by the analyst

Apartment Market Conditions

Apartment market conditions were mixed throughout the Northwest region during the third quarter of 2018, ranging from very tight to balanced, unchanged from a year ago. Among the seven metropolitan areas referenced in this report, vacancy rates ranged from 2.7 percent in Bremerton to 5.8 percent in Portland. Vacancy rates increased in four of the seven metropolitan areas—Anchorage, Bend, Boise, and Portland—and declined in three: Bremerton, Seattle, and Tacoma. With large apartment development pipelines in major metropolitan areas (19,500 units in Seattle, 11,000 units in Portland, 2,400 units in Tacoma, and 1,700 units in Boise), vacancy rates in these areas could trend upwards soon. All seven metropolitan areas reported year-over-year rent growth, ranging from 2 percent in Anchorage to 7 percent in Boise.

In the Portland metropolitan area, an increased vacancy rate from a year ago and a modest year-over-year 3-percent rent gain indicate balanced market conditions, unchanged from a year ago. An increase in the vacancy rate from 4.1 to 5.0 percent and rent growth of only 2 percent in the Anchorage metropolitan area signal balanced market conditions compared with a slightly tight apartment market a year ago, reflecting the impact of sustained labor market weakness. In the Seattle metropolitan area, despite the completion of nearly 45,000 apartment units during the past 5 years, strong apartment demand led to tightening apartment market conditions. Nevertheless, apartment managers tapered rent increases to achieve satisfactory occupancy levels, decreasing annual rent growth to 3 percent compared with 6 percent rent growth a year ago. Apartment market conditions in the two other metropolitan areas in the Puget Sound region, Tacoma and Bremerton, were very tight, with vacancy rates under 3 percent; those conditions are mainly in response to renters attracted to areas with rents that are 40 to 33 percent lower, respectively, than in the Seattle metropolitan area. In the Boise metropolitan area, strong apartment demand resulting from a strengthening job market and population growth led to an increase in the average monthly rent of 7 percent despite the vacancy rate trending up from 4.0 to 5.0 percent.

Mainly in response to increased vacancy rates and slowing rent growth in the Portland metropolitan area, apartment development activity in the Northwest region, as measured by the number of multifamily units permitted, decreased 33 percent to 7,225.

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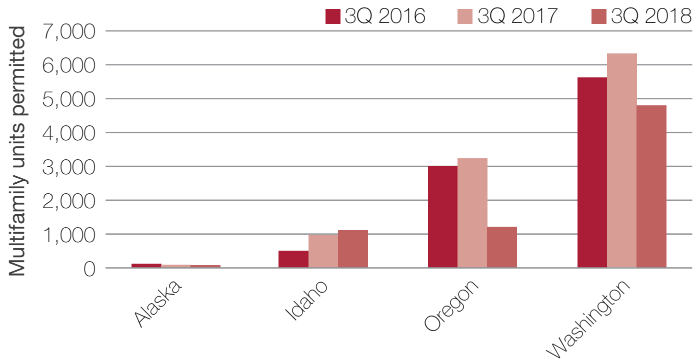
Idaho was the only state in the region where multifamily building permit activity increased for three consecutive quarters.



3Q = third quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

Though apartment market conditions were mixed ranging from very tight to balanced, rents increased in all seven metropolitan areas.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2017 (%)	3Q 2018 (%)	Percentage Point Change	3Q 2017 ($)	3Q 2018 ($)	Percent Change
Anchorage[a]	Balanced	4.1	5.0	0.9	1,134	1,162	2
Bend[a]	Slightly Tight	3.4	4.2	0.8	980	1,035	6
Boise[c]	Balanced	4.0	5.0	1	975	1,043	7
Bremerton[a]	Very Tight	3.3	2.7	– 0.6	1,157	1,198	4
Portland[c]	Balanced	4.7	5.8	1.1	1,327	1,370	3
Seattle[b]	Slightly Tight	4.6	4.1	– 0.5	1,743	1,790	3
Tacoma[a]	Very Tight	3.3	2.9	– 0.4	1,016	1,074	6

3Q = third quarter.
Sources: market condition—Economic and Market Analysis Division; vacancy rate and average monthly rent—(a) Reis, Inc.; (b) Real Page; (c) ALN Apartment Data, Inc.

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During the third quarter of 2017 (preliminary data)—

- The greatest increases and fastest rates of growth in multifamily permitting activity occurred in Idaho, where 1,100 multifamily units were permitted, an 8-percent gain in the number of units permitted compared with a year ago. This is the second consecutive third quarter when multifamily permit activity has exceeded 1,000 units after averaging nearly 550 units from 2012 through 2016.
- The number of multifamily units permitted in Oregon decreased 62 percent to 1,225 units, following a 7-percent decrease during the third quarter of 2017. The sharp decline represents a return to typical third quarter permit activity in Oregon following the third quarter of 2017, when highest level of multifamily permit activity was recorded since the housing recovery began in 2012.
- Multifamily construction in Washington declined 24 percent from the third quarter of 2017 compared with a gain of 13 percent during the previous year. Nearly all the decline occurred in King County (Seattle metropolitan area) and is partially attributable to slowing rent growth.
- In Alaska, the number of multifamily units permitted declined from 113 to 90 units, or 18 percent below the 2012–2017 third quarter average of 110 units. Most of the decline occurred in the Anchorage metropolitan area, where the apartment vacancy rate has been increasing during the past year.