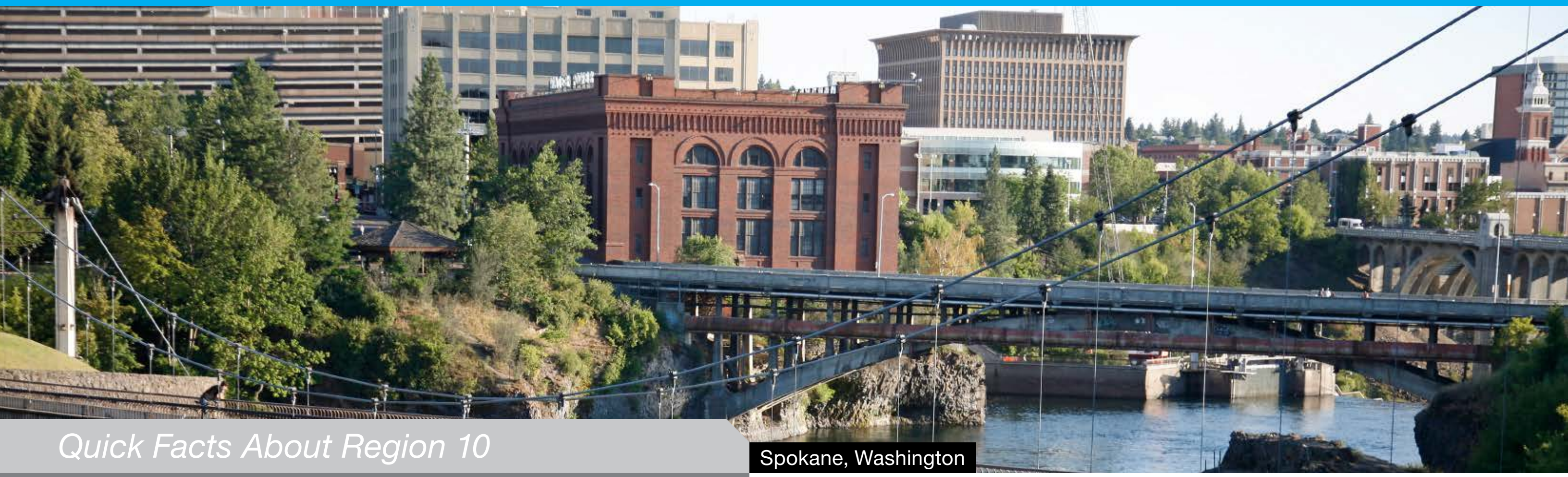
HUD PD&R **Regional Reports**

Region 10: Northwest

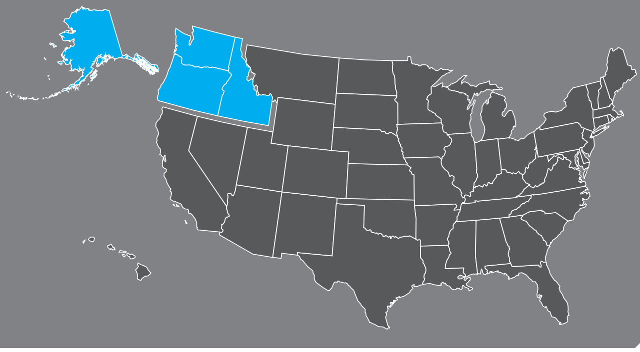


Spokane, Washington

Quick Facts About Region 10

- **Sales market conditions—**
  Fourth quarter 2016: mixed (balanced to tight).
  Third quarter 2016: tight.
  Fourth quarter 2015: tight.

- **Apartment market conditions—**
  Fourth quarter 2016: mixed (very tight to balanced).
  Third quarter 2016: mixed (very tight to slightly tight).
  Fourth quarter 2015: mixed (very tight to balanced).



By Tom Aston | 4th quarter 2016

Overview

Robust job growth led to the greatest increase in year-over-year fourth quarter job gains since the labor market recovery began in 2010; nonfarm payrolls increased by 166,800 jobs, or 2.8 percent. The fourth quarter unemployment rate dropped to 4.8 percent, the first time the average unemployment for the region was less than 5 percent since the second quarter of 2008. Sales housing market conditions in the region were mixed, ranging from balanced to tight, with increases in home sales, prices, and single-family home construction in every state in the region except Alaska. Apartment market conditions in the region ranged from very tight to balanced, with rapid rent growth in the Portland, Seattle, and Olympia metropolitan areas.

- With gains of 3.1 percent, Oregon and Washington matched Florida with the highest nonfarm payroll growth in the nation, and Idaho matched Georgia for seventh highest with an increase of 2.3 percent.
- Average home sales price growth in the Northwest region outpaced the national average during the 12 months ending November 2016, increasing 8 percent to $315,700. Home prices in Portland and Seattle increased 11 and 9 percent, respectively.
- Multifamily construction activity in the region, as measured by the number of units permitted, exceeded the previous quarterly record of 7,900 units, set in 1998, by 780 units, or 10 percent, during the fourth quarter of 2016.

Job growth in the Northwest region was diverse, with 7 out of 11 nonfarm payroll sectors recording percentage increases greater than the region average.

	Fourth Quarter		Year-Over-Year Change	
	2015 (thousands)	2016 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	6,029.3	6,196.1	166.8	2.8
Goods-producing sectors	897.8	913.6	15.8	1.8
Mining, logging, and construction	348.8	371.0	22.2	6.4
Manufacturing	549.0	542.5	– 6.5	– 1.2
Service-providing sectors	5,131.5	5,282.6	151.1	2.9
Wholesale and retail trade	947.6	967.6	20.0	2.1
Transportation and utilities	207.2	215.3	8.1	3.9
Information	166.5	175.0	8.5	5.1
Financial activities	291.2	300.2	9.0	3.1
Professional and business services	742.4	768.9	26.5	3.6
Education and health services	876.2	910.1	33.9	3.9
Leisure and hospitality	601.0	613.7	12.7	2.1
Other services	213.1	221.9	8.8	4.1
Government	1,086.3	1,109.8	23.5	2.2

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

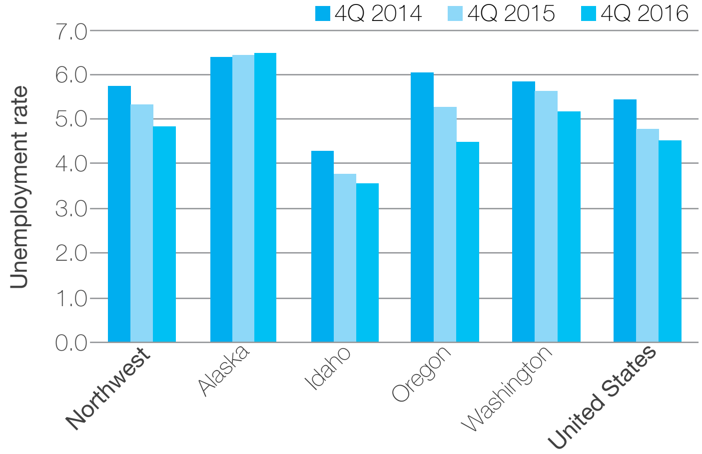
Economic Conditions

During the fourth quarter of 2016, year-over-year nonfarm payrolls increased by 166,800 jobs, or 2.8 percent, to 6.2 million jobs. Mainly because of residential and commercial construction activity, nonfarm payroll sector growth in percentage terms was led by the mining, logging, and construction sector, which increased 6.4 percent, or by 22,200 jobs, followed by the information sector, which increased 5.1 percent, or by 8,500 jobs. The education and health services sector had the greatest numerical gain with 33,900 jobs, or 3.9 percent; the professional and business services sector was a close second, increasing by 26,500 jobs, or 3.6 percent. Only the manufacturing sector recorded a decrease in nonfarm payrolls with a 1.2-percent decline, or by 6,500 jobs, nearly all of which were in Washington state and related to jobs losses in the aerospace industry.

During the fourth quarter of 2016—

- At 3.1 percent, nonfarm payroll growth in Oregon and Washington matched Florida as the most rapid rate of job growth of all states in the nation. In Oregon, the net addition of 56,800 jobs to the1.87 million total was led by the professional and business services and education and health services sectors, which increased by 15,800 and 11,300 jobs, or 6.8 and 4.3 percent, respectively. Measured in percentage terms, the leading growth sector was mining, logging, and construction, with a gain of 8.2 percent, or 7,600 jobs, all in the construction subsector. The only sector in which job losses occurred was manufacturing, down 0.9 percent, or by 1,600 jobs, with approximately 1,200 lost in the computer and electronics industry. Increasing job opportunities led to a decrease in the fourth quarter unemployment rate to 4.5 percent from 5.3 percent a year earlier.

The unemployment rate in the Northwest region continued to exceed the national jobless rate because of job losses in Alaska and, in Washington, labor force gains that outpaced resident employment growth.



4Q = fourth quarter.
Source: U.S. Bureau of Labor Statistics

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- Nonfarm payrolls in Washington increased by 98,700 jobs to 3.3 million. Measured in percentage terms, the mining, logging, and construction sector led all sectors with an 8.5-percent gain, or 15,300 jobs, principally because of the multitude of commercial and residential projects underway in the Puget Sound Region. Numerically, job growth was greatest in the education and health services sector, which increased by 18,300 jobs, or 4.0 percent, nearly all of which were attributable to hiring in the healthcare and social assistance industry. The unemployment rate averaged 5.2 percent during the fourth quarter of 2016, slightly less than the 5.6 percent rate from a year earlier but more than the national jobless rate, mainly because of strong labor force gains from job seekers from outside the state.
- Job growth in Idaho ranked tied for seventh with Georgia out of all U.S. states, as nonfarm payrolls increased 2.3 percent, or by 15,500 jobs, to 703,400. The professional and business services sector led job growth with a numerical gain of 3,000 jobs, or 3.6 percent, as hiring was concentrated in professional technical services. The percentage gain in nonfarm payrolls was led by the financial activities sector, which increased 6.0 percent, or by 2,000 jobs, with 80 percent of the gain in the banking and insurance industries. Job gains in Idaho were recorded in all nonfarm payroll sectors. The unemployment rate during the fourth quarter of 2016 was 3.6 percent, down from 3.8 percent a year earlier and the lowest jobless rate of any state in the region.
- Alaska was one of seven states where nonfarm payrolls contracted, decreasing 1.3 percent, or by 4,200 jobs, to 323,400, marking only the second time the state has recorded year-over-year job losses since 1988. In numerical and percentage terms, job losses were greatest in the professional and business services sector, which decreased by 2,700 jobs, or 9.3 percent; the job losses were mainly a result of the declines of technical professions and business support services related to production in the oil and gas industry that were made in response to low oil prices. Another 1,300 jobs, or 2.6 percent, were lost in the wholesale and retail trade sector resulting from the indirect effect of declining output from energy-producing firms. Led by job losses in the oil and gas industry, the mining, logging, and construction sector nonfarm payrolls declined 5.8 percent, or by 1,900 jobs. Nonfarm payrolls in the education and health services sector increased 5.3 percent, or by 2,500 jobs, one of only three sectors to record job gains. During the fourth quarter of 2016, the unemployment rate was 6.5 percent, unchanged from a year earlier; it was the fifth consecutive quarter that the jobless rate in Alaska had been the highest for any state in the region.
- Robust job growth led to a decline in the average unemployment rate for the region to 4.8 percent from 5.4 percent a year earlier, the lowest fourth quarter unemployment rate since 2007.

Sales Market Conditions

Sales housing markets in the Northwest region were mixed, ranging from balanced to tight, a slight improvement from the tight sales market conditions a year earlier. Continued economic growth has contributed to rising home sales prices throughout the region since 2012. The average home sales price for the region (including single-family homes, townhomes, and condominiums) increased nearly 8 percent to $315,700 during the 12 months ending November 2016, after average annual increases of 6 percent from 2012 through 2015 (CoreLogic, Inc., with adjustments by the analyst). By comparison, home prices increased by an average of 6 percent nationally during the 12 months ending November 2016. The two most populous states in the region, Oregon and Washington, led sales price growth during the most recent 12-month period, with prices increasing 9 and 8 percent, to $302,700 and $356,300, respectively, primarily because of large price increases in the Portland and Seattle metropolitan areas. Home prices grew more slowly in Idaho and Alaska, increasing 3 and 2 percent, to $224,600 and $284,400, respectively. The Boise metropolitan area accounted for most of the price growth in Idaho, with home prices increasing 4 percent.

During the 12 months ending November 2016, the number of home sales in the Northwest region increased 6 percent, to 308,300, compared with a decrease of 5 percent nationally (CoreLogic, Inc., with adjustments by the analyst). Washington and Idaho led home sales growth, with increases of 8 and 7 percent, respectively, with the greatest gains occurring in the Olympia and Boise metropolitan areas. Home sales growth was slower in Oregon, with sales increasing 3 percent because of limited inventory in the Portland metropolitan area. During the 12 months ending November 2016, new home sales grew much faster than existing home sales in Idaho, Oregon, and Washington, increasing 19, 12, and 11 percent, respectively. Total home sales in Alaska declined 6 percent during the same period because of job losses and slow population growth. Unlike in the rest of the region, new home sales in Alaska declined sharply during the most recent 12-month period, decreasing 21 percent.

Regionwide growth in new home sales and regular (nondistressed) resales of 12 and 8 percent, respectively, was partially offset by declines in the number of distressed sales (real estate owned (REO) and short sales) because fewer distressed properties were on the

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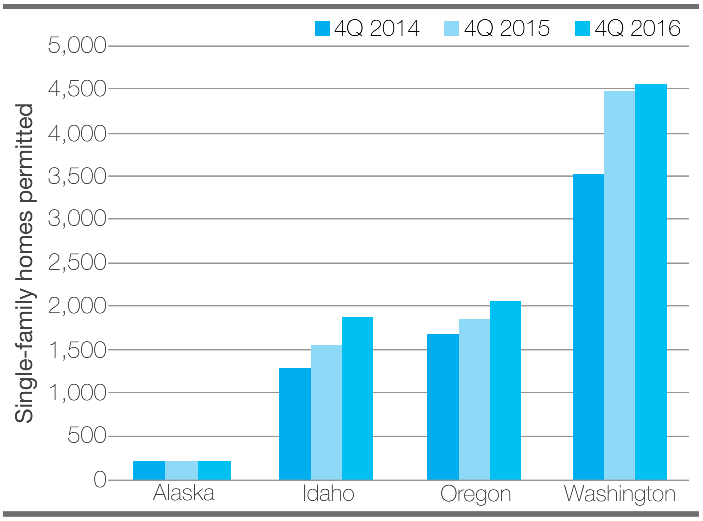
market. During the 12 months ending November 2016, REO and short sales fell 22 and 21 percent, respectively, after decreases of 5 and 13 percent during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). Nationwide, by comparison, the number of REO sales fell 16 percent and short sales fell 26 percent during the 12 months ending November 2016. The percentage of seriously delinquent mortgage loans (loans 90 or more days delinquent or in foreclosure) and REO properties in the region declined 0.7 percentage points, from 2.4 percent in November 2015 to 1.7 percent in November 2016. The national decline was also 0.7 percentage points, to 2.6 percent. In the region, the percentage of seriously delinquent mortgage loans and REO properties ranged from 1.8 and 1.7 percent in Oregon and Washington, respectively, to 1.1 percent in Alaska and 1.3 percent in Idaho. The highest rates of seriously delinquent mortgages and REO properties occurred in smaller metropolitan areas in Oregon and Washington, with rates of 2.5, 2.4, and 2.3 percent in the Medford, Salem, and Olympia metropolitan areas, respectively.

In the Northwest region, approximately 90 percent of growth in single-family permitting occurred in Idaho and Oregon.



4Q = fourth quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

During the fourth quarter of 2016 (preliminary data)—

- Single-family homebuilding activity, as measured by the number of homes permitted, increased 7 percent in the region, to 8,700 homes, from a year earlier compared with a 10-percent gain for the nation.
- Approximately 52 percent of the single-family homes permitted in the region were in Washington. The number of single-family homes permitted in Washington rose to 4,525, a 1-percent increase from the fourth quarter of 2015, after a 27-percent gain during the same period a year earlier. The decreased growth in single-family home construction was caused by a slowdown in construction growth outside of the Seattle metropolitan area, where permitting increased 8 percent compared with 56 percent during the same period a year earlier.
- The fastest growth in single-family permitting occurred in Idaho, where the number of single-family homes permitted increased 20 percent, to 1,875 homes. The second greatest increase occurred in Oregon, where permitting increased 11 percent, to 2,050 homes.
- Single-family homebuilding remained relatively unchanged in Alaska, at 230 homes, after remaining unchanged during the fourth quarter of 2015. Weak economic conditions and slow population growth caused home construction levels in Alaska to remain low.

The number of homes sold and home prices increased in every major market in the Northwest region outside of Alaska.

	12 Months Ending	Number of Homes Sold			Price			
		2015	2016	Percent Change	Average or Median	2015 ($)	2016 ($)	Percent Change
Anchorage (N&E)	November	9,291	8,654	– 7	AVG	297,784	303,218	2
Boise (N&E)	November	21,711	24,002	11	AVG	230,394	240,603	4
Eugene (N&E)	November	6,788	7,366	9	AVG	232,435	248,289	7
Kennewick (N&E)	November	5,856	6,275	7	AVG	206,714	226,521	10
Olympia (N&E)	November	4,997	5,811	16	AVG	250,807	269,448	7
Portland (N&E)	November	51,502	52,283	2	AVG	324,062	359,400	11
Seattle (N&E)	November	73,144	78,405	7	AVG	425,016	462,905	9
Spokane (N&E)	November	10,766	11,549	7	AVG	187,678	202,437	8

AVG = average. N&E = new and existing.
Note: Includes single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc., with adjustments by the analyst

Apartment Market Conditions

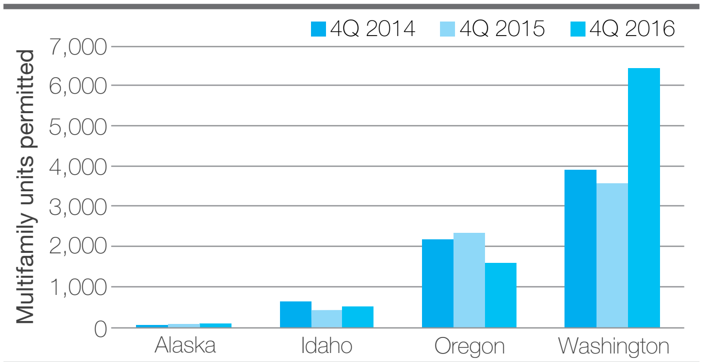
Apartment markets in the major metropolitan areas of the Northwest region were mixed, ranging from very tight to balanced, a slight improvement from the condition of the apartment market a year ago. In Washington, markets ranged from very tight to tight, as strong economic and population growth supported increased rental demand. High rents and low vacancies in the Seattle market area created additional demand in nearby areas; the apartment vacancy rate of the adjacent Olympia market area declined from 2.7 to 2.1 percent during the fourth quarter of 2016, and rents increased 11 percent. Seattle is one of the fastest-growing apartment markets in the nation, with approximately 11,000 units absorbed in 2016 and 20,000 units under construction (MPF Research). The Bellingham and Spokane areas both had tight but stable markets, with vacancy rates of 2.8 and 2.5 percent, unchanged since the fourth quarter of 2015, and modest rent growth of 3 and 2 percent, respectively.

During 2016, the vacancy rate in the Portland apartment market increased but rent growth remained strong, increasing 8 percent; the market absorbed 2,650 units with nearly 8,725 units still under construction. The Anchorage market was tight but stable, as low construction levels enabled vacancy rates to remain low despite weak economic growth. Conversely, the Boise market improved from slightly tight conditions, as a large construction pipeline caused the apartment vacancy rate to rise from 5.6 to 6.0 percent, and rent growth averaged 3 percent; approximately 1,500 units are still under construction in the Boise market (analyst estimates).

During the fourth quarter of 2016 (preliminary data)—

- Approximately 8,675 multifamily units were permitted in the Northwest region, a 35-percent, or 2,225-unit, increase from a year earlier and the greatest number of fourth quarter units permitted on record.
- In Washington, 6,475 multifamily units were permitted, up 80 percent from a year earlier and the most multifamily units permitted in a single quarter on record in the state. Approximately 5,125 multifamily units were permitted in the Seattle area, an increase of 72 percent from the fourth quarter of 2015.
- The number of multifamily units permitted in Oregon declined 31 percent, to 1,600, from a year earlier. Despite the decline, the number of units permitted during the fourth quarter of 2016 was the fourth most multifamily units permitted during the fourth quarter since 2000. Approximately 60 percent of all units permitted were in Multnomah County, which contains the city of Portland.
- Multifamily construction activity in Idaho increased 22 percent to 510 units permitted, after a decrease of 37 percent during the fourth quarter of 2015. Ada County, which contains the city of Boise, accounted for 35 percent of all multifamily construction in the state, down from 44 percent during the fourth quarter of 2015.
- Multifamily construction activity in Alaska was unchanged, with 75 units permitted.

Multifamily permitting activity increased 80 percent in Washington but declined elsewhere in the Northwest region during the fourth quarter of 2016.



4Q = fourth quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

Rents increased in the major metropolitan areas of the Northwest region.

	Market Condition	Vacancy Rate 4Q 2015 (%)	Vacancy Rate 4Q 2016 (%)	Vacancy Rate Percentage Point Change	Average Monthly Rent 4Q 2015 ($)	Average Monthly Rent 4Q 2016 ($)	Average Monthly Rent Percent Change
Anchorage[a]	Tight	1.7	2.8	1.1	1,125	1,139	1
Bellingham[a]	Tight	2.8	2.8	0.0	853	876	3
Boise[a]	Balanced	5.6	6.0	0.4	797	819	3
Olympia[b]	Very tight	2.7	2.1	– 0.6	923	1,024	11
Portland[b]	Tight	3.1	4.2	1.1	1,163	1,252	8
Seattle[b]	Very tight	3.6	3.4	– 0.2	1,356	1,456	7
Spokane[a]	Tight	2.5	2.5	0.0	711	723	2

4Q = fourth quarter.
Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—(a) Reis, Inc.; (b) MPF Research