HUD PD&R Regional Reports

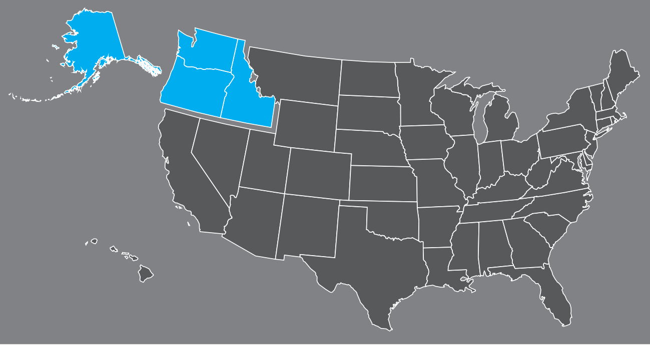
Region 10: Northwest


Seattle, Washington

Quick Facts About Region 10

- **Sales market conditions—**
  Fourth quarter 2017: mixed (very tight to slightly soft).
  Third quarter 2017: mixed (very tight to slightly soft).
  Fourth quarter 2016: mixed (tight to balanced).

- **Apartment market conditions—**
  Fourth quarter 2017: mixed (tight to balanced).
  Third quarter 2017: mixed (very tight to balanced).
  Fourth quarter 2016: mixed (very tight to balanced).



By Holi Weaver | 4th quarter 2017

Overview

Economic growth in the Northwest region remained strong during the fourth quarter of 2017, marking the eighth consecutive year of economic expansion. Regional nonfarm payrolls totaled 6.31 million jobs during the fourth quarter of 2017, reflecting an increase of 133,000 jobs, or 2.2 percent, from a year ago. Job gains occurred in every state of the region but Alaska. Nonfarm payrolls in Alaska have declined year-over-year since the fourth quarter of 2015, except for the third quarter of 2017. Sales market conditions in the region ranged from very tight to slightly soft, with year-over-year home sales prices increasing in all metropolitan areas in the region outside of Alaska. Apartment market conditions are mixed, ranging from tight to balanced, with strong rent growth in most metropolitan areas despite generally increasing vacancy rates. Single-family and multifamily permitting activity increased regionwide.

During the fourth quarter of 2017—

- Idaho, Oregon, and Washington were among the top 10 fastest growing states in the country with nonfarm payroll growth in excess of 2.0 percent.
- Regionwide single-family permitting activity increased 13 percent compared with permitting levels during the fourth quarter of 2016, despite an 8-percent decrease in Oregon.
- Multifamily permitting in the region increased 17 percent compared with the same period a year ago, reflecting a slowdown in growth compared with a 35-percent increase from the fourth quarter of 2015 to the fourth quarter of 2016.

During the fourth quarter of 2017, more than three-fourths of all job growth in the Northwest region was attributable to service-providing sectors.

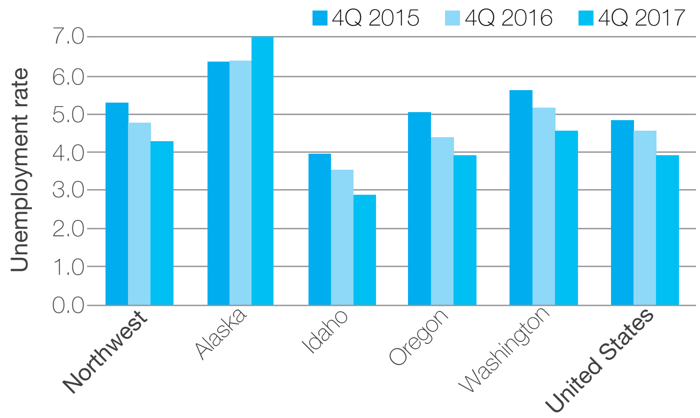
	Fourth Quarter		Year-Over-Year Change	
	2016 (thousands)	2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	6,181.8	6,314.8	133.0	2.2
Goods-producing sectors	921.0	951.4	30.4	3.3
Mining, logging, and construction	374.4	397.8	23.4	6.3
Manufacturing	546.6	553.7	7.1	1.3
Service-providing sectors	5,260.8	5,363.4	102.6	2.0
Wholesale and retail trade	964.1	974.1	10.0	1.0
Transportation and utilities	214.6	223.9	9.3	4.3
Information	172.4	175.7	3.3	1.9
Financial activities	297.2	303.4	6.2	2.1
Professional and business services	762.1	778.6	16.5	2.2
Education and health services	899.5	923.6	24.1	2.7
Leisure and hospitality	625.8	636.3	10.5	1.7
Other services	218.8	223.8	5.0	2.3
Government	1,106.4	1,123.8	17.4	1.6

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

Economic Conditions

Economic conditions in the Northwest region, which began to improve during the third quarter of 2010, remained strong during the fourth quarter of 2017, but the rate of nonfarm job growth slowed to the lowest fourth quarter growth rate since 2013. Nonfarm payrolls averaged 6.31 million jobs, up by 133,000 jobs, or 2.2 percent, from the fourth quarter of 2016. By comparison, year-over-year payroll growth averaged 1.5 percent from the fourth quarter of 2010 through the fourth quarter of 2013, before accelerating to an average annual growth rate of 2.7 percent through the fourth quarter of 2016. Combined, Washington and Oregon accounted for 83 percent of all jobs in the region and almost 89 percent of all net job gains during the fourth quarter of 2017. High levels of residential and commercial construction in most major metropolitan areas across the region contributed to strong growth in the mining, logging, and construction sector, which was the fastest growing sector during the fourth quarter of 2017, adding 23,400 jobs, or 6.3 percent. The education and health services, government, and professional and business services sectors had the greatest overall payroll increases during the fourth quarter of 2017, accounting for more than 43 percent of all job gains in the region. Manufacturing sector payrolls showed significant improvement, up by 7,100 jobs, or 1.3 percent, compared with a 1.0-percent decline a year ago. Oregon captured three-fourths of all manufacturing job growth in the region, mainly in the fabricated metal product manufacturing, machinery manufacturing, and computer and electronic product manufacturing industries. Manufacturing job losses were concentrated in Washington, which continued to lose jobs in the aerospace product and parts manufacturing industry, and in Alaska, which has been in a state-level recession since the latter half of 2015 because of plummeting gas and oil prices.

Idaho was the only state in the Northwest region with an unemployment rate lower than that of the nation.



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

The regional unemployment rate averaged 4.3 percent during the fourth quarter of 2017 compared with 4.8 percent a year ago. Nationally, the jobless rate fell from 4.5 to 3.9 percent. At 2.9 percent, Idaho had the lowest unemployment rate in the Northwest region, down from 3.5 percent a year ago. The unemployment rates declined in Oregon and Washington from 4.3 to 3.9 percent and from

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5.1 to 4.5 percent, respectively. Alaska had the highest unemployment rate in the region and nation at 7.0 percent, up from 6.4 percent a year prior.

During the fourth quarter of 2017—

- In Alaska, low oil prices, causing a severe slowdown in oil exploration and drilling activity, continued to dampen economic growth, but the rate of job loss slowed. Nonfarm payrolls declined by 700 jobs, or 0.2 percent during the fourth quarter of 2017, compared with a loss of 7,600 jobs, or 2.3 percent a year prior. Payroll losses were most notable in the wholesale and retail trade and manufacturing sectors, but some of those losses were offset by modest gains in the transportation and utilities sector and construction industry.
- Nonfarm payrolls averaged 725,200 in Idaho, up by 16,600 jobs, or 2.3 percent, reflecting a deceleration from a year ago when payrolls increased by 25,400 jobs, or 3.7 percent. The government, education and health services, and wholesale and retail trade sectors added the most jobs, comprising almost 61 percent of net job gains.
- Oregon reported the fastest nonfarm payroll growth rate in the region at 2.5 percent, an increase of 45,600 jobs to 1.91 million. The mining, logging, and construction sector added the most jobs of any sector in the state, up by 10,300 jobs, or 10.1 percent; approximately 97 percent of all job gains were in the construction subsector.
- In Washington, nonfarm payrolls increased by 71,400 jobs, or 2.2 percent, to 3.37 million jobs, a slowdown compared with an increase of 105,600 jobs, or 3.3 percent, during the same period a year earlier. Job growth occurred in all sectors of the economy except manufacturing, with the largest gains in the government sector, which added 11,300 jobs, or 2.6 percent, a result of hiring in the state and local government subsectors.

Sales Market Conditions

During the fourth quarter of 2017, sales housing market conditions in the Northwest region ranged from very tight to slightly soft, compared with tight to balanced conditions a year ago. The current range of conditions includes slightly soft only because of market conditions in Alaska, which have weakened in step with the economy of the state. Regionwide new and existing home sales (hereafter, home sales) increased 2 percent during the 12 months ending November 2017 to 322,200 homes sold, while the average sales price rose more than 8 percent to $340,600 (CoreLogic, Inc., with adjustments by the analyst). By comparison, home sales increased by an average of 15 percent, or an additional 37,700 homes sold, each year from 2012 through 2015, and the average sales price grew at an average annual rate of 6 percent. Contributing to the relatively slow growth in new home sales the past 12 months is the consistently low level of for-sale inventory throughout most of the region, which has remained under a 3.5-month supply since the spring of 2016, and less than a 6-month supply since early 2012 (Redfin). Generally tight sales market conditions led to a decline in the percentage of seriously delinquent home loans (loans that are 90 or more days delinquent or in foreclosure) and real estate owned (REO) properties from 1.7 percent in November 2016 to 1.1 percent in November 2017. During the same time, the national rate of seriously delinquent home loans and REO properties declined from 2.7 to 2.3 percent (CoreLogic, Inc.).

Home sales increased 4 percent to 164,900 sales in Washington and 2 percent to 54,600 in Idaho, during the 12 months ending

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Home prices in the Northwest region increased 7 percent or more in seven of the eight selected metropolitan areas, despite home sales falling in three areas.

	12 Months Ending	Number of Homes Sold			Price			
		2016	2017	Percent Change	Average or Median	2016 ($)	2017 ($)	Percent Change
Anchorage (N&E)	November	9,051	8,286	– 8	AVG	304,399	303,732	0
Bend (N&E)	November	7,192	6,923	– 4	AVG	340,831	372,883	9
Boise (N&E)	November	24,526	24,939	2	AVG	241,066	259,740	8
Eugene (N&E)	November	7,548	7,811	3	AVG	249,608	266,238	7
Portland (N&E)	November	53,202	51,668	– 3	AVG	360,571	389,481	8
Seattle (N&E)	November	60,106	61,594	2	AVG	520,924	578,421	11
Spokane (N&E)	November	11,996	13,293	11	AVG	202,065	215,489	7
Tacoma (N&E)	November	19,430	22,016	13	AVG	288,123	323,910	12

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

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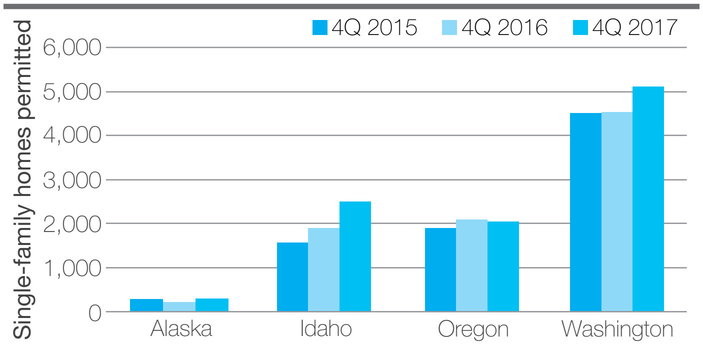
November 2017. By comparison, from 2012 through 2015, when the inventory of homes for sale was greater, home sales in Washington and Idaho increased at an average annual rate of 14 and 4 percent, respectively. Average sales price growth accelerated in both states during the past 12 months, up 10 percent to $389,500 in Washington and up 5 percent to $237,300 in Idaho compared with average annual increases of 7 and 4 percent from 2012 through 2015, respectively. The Seattle and Tacoma metropolitan areas experienced double-digit price growth during the past 12 months, and approximately 38 percent of home sales in the two metropolitan areas sold above the list price in December 2017 (Redfin). In the Spokane metropolitan area, home sales and prices increased 11 and 7 percent, respectively. Sales market conditions in the Boise metropolitan area were slightly tight as home sales increased 2 percent, and the average sales price rose 8 percent.

In Oregon, home sales were relatively unchanged from a year ago with 90,000 homes sold during the 12 months ending November 2017, but the average sales price was up 7 percent to $321,800. By comparison, from 2012 through 2015, home sales and prices in Oregon increased at average annual rates of 14 and 7 percent, respectively. Home sales decreased in the Portland and Bend metropolitan areas because of limited for-sale inventory, which, combined with steady demand, caused prices to increase significantly, up 8 and 9 percent, respectively. In the Eugene metropolitan area, home sales and prices increased 3 and 7 percent, respectively. The weak economy in Alaska resulted in declining home sales for the second consecutive year, with sales down more than 7 percent during the 12 months ending November 2017, compared with a 3-percent decline a year prior. Price growth in Alaska has been relatively slow since the housing market recovery began, with home prices increasing at an average annual rate of 3 percent from 2010 through 2015. During the 12 months ending November 2017, the average sales price declined almost 1 percent from a year ago to $284,100. Sales market conditions in Anchorage, the largest metropolitan area in the state, mirrored state-level trends, with home sales declining in the past 12 months and stagnant sales prices.

Homebuilding activity in the Northwest region increased 13 percent despite declining in Oregon for the fourth consecutive quarter.



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

During the fourth quarter of 2017 (preliminary data)—

- Regionwide new home construction, as measured by the number of single-family homes permitted, increased 13 percent from the same time a year ago, to 9,825 new homes permitted. By comparison, from the fourth quarter of 2015 to the fourth quarter of 2016, new home construction increased 7 percent.
- Washington captured more than 50 percent of all new home construction in the region, and comprised 45 percent of the net gain in permitting activity.
- In Idaho, new home construction increased 31 percent to 2,475 single-family homes permitted. An almost 20-percent increase from the fourth quarter of 2015 to the fourth quarter of 2016 preceded this gain.
- Despite poor economic conditions in Alaska, single-family permitting activity increased to 260 homes permitted compared with 220 homes permitted in the fourth quarter of 2016. This increase represents an improvement from a year prior when permitting activity was relatively flat.
- Oregon was the only state in the region to record a decrease in new home construction, despite annual price growth of more than 7 percent since 2012. Approximately 2,000 single-family homes were permitted during the fourth quarter of 2017, down 3 percent from a year ago.

Apartment Market Conditions

Apartment market conditions in the largest metropolitan areas in the Northwest region ranged from tight to balanced, compared with very tight to balanced conditions during the fourth quarter of 2016, reflecting a slight easing in some markets. Of the seven metropolitan areas referenced in this report, six posted vacancy rate increases; the three largest metropolitan areas—Portland, Boise, and Seattle—recorded a vacancy rate above the national average of 4.5 percent during the fourth quarter of 2017 (Reis, Inc.). In the apartment markets that posted vacancy rate increases, the changes ranged from 0.1 percentage point in the Portland and Tacoma metropolitan areas to 0.6 percentage point in the Eugene and Seattle metropolitan areas, mainly a result of a high number of units completed in the past year. Even with generally increasing vacancy rates, all seven metropolitan areas recorded year-over-year rent growth from the

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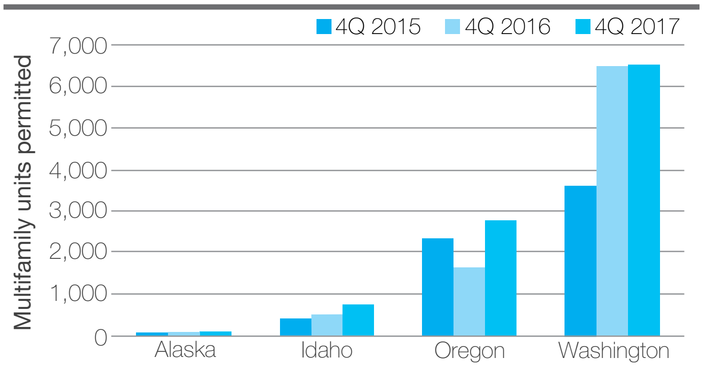
fourth quarter of 2016 to the fourth quarter of 2017, ranging from a 1-percent increase in the Anchorage metropolitan area to a 6-percent increase in both the Tacoma and Eugene metropolitan areas.

Weak economic conditions in Alaska have resulted in softening apartment market conditions in the Anchorage metropolitan area for the past 2 years. The apartment vacancy rate increased to 3.3 percent during the fourth quarter of 2017 compared with 2.8 percent a year ago, and 1.7 percent during the same period of 2015. Since 2015, rent growth has averaged only 1 percent. Conversely, strong economic conditions throughout the rest of the Northwest region have spurred high levels of apartment construction in most major metropolitan areas, a trend which began around 2012. These past several years of elevated apartment construction have begun to ease market conditions that had generally been very tight since the housing market collapse. Apartment market conditions in the Portland metropolitan area illustrate this trend well. Apartment market conditions were extremely tight from 2014 through 2016, with an average vacancy rate of 3.0 percent coupled with average annual rent growth of 14 percent. During this time, however, an average of nearly 2,000 units were completed a year, which allowed supply to nearly catch up with demand, and during the fourth quarter of 2017, apartment market conditions in the Portland metropolitan area were only slightly tight (RealPage, Inc.). The remaining markets cited in this report are experiencing some degree of softening as well, and large pipelines throughout most of the region will likely push these markets further toward balanced conditions during the next 2 to 3 years.

Multifamily permitting increased in every state in the Northwest region.



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

Although several markets in the region are showing signs of softening, builders responded to the current, generally tight, apartment market conditions with increased apartment construction, as measured by the number of units permitted. Multifamily permitting increased 17 percent, to 10,150 units, after a 35-percent increase during the fourth quarter of 2016.

During the fourth quarter of 2017 (preliminary data)—

- The 2,775 multifamily units permitted in Oregon reflect a 72-percent increase from a year ago; more than 90 percent of the units permitted are in the Portland metropolitan area, relatively unchanged from a year ago. Oregon was responsible for 80 percent of the regionwide increase in multifamily permitting activity, despite comprising only 27 percent of total units permitted.
- Approximately 64 percent of all multifamily permitting activity in the region was in Washington. However, apartment construction in the state increased only 1 percent to 6,525 units from a year earlier. In the Seattle metropolitan area, multifamily construction rose 15 percent to 5,275 units, comprising more than 80 percent of all multifamily construction in the state.
- In Idaho, multifamily building activity increased 48 percent to 760 units permitted. The Boise metropolitan area accounted for approximately 42 percent of multifamily construction in the state.
- In Alaska, where multifamily construction is relatively low and fluctuates greatly, the number of units permitted increased from 75 to 90 units, all within the Anchorage metropolitan area.

Vacancy rates increased in six of the seven selected metropolitan areas in the Northwest region.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		4Q 2016 (%)	4Q 2017 (%)	Percentage Point Change	4Q 2016 ($)	4Q 2017 ($)	Percent Change
Anchorage[a]	Balanced	2.8	3.3	0.5	1,138	1,152	1
Boise[a]	Slightly tight	5.8	4.7	– 1.1	838	872	4
Eugene[a]	Tight	2.8	3.4	0.6	838	892	6
Portland[b]	Slightly tight	4.9	5.0	0.1	1,266	1,327	5
Seattle[b]	Slightly tight	4.6	5.2	0.6	1,640	1,725	5
Spokane[a]	Slightly tight	2.4	2.7	0.3	732	761	4
Tacoma[a]	Tight	2.9	3.0	0.1	963	1,025	6

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