

HUD PD&R Regional Reports

Region 10: Northwest

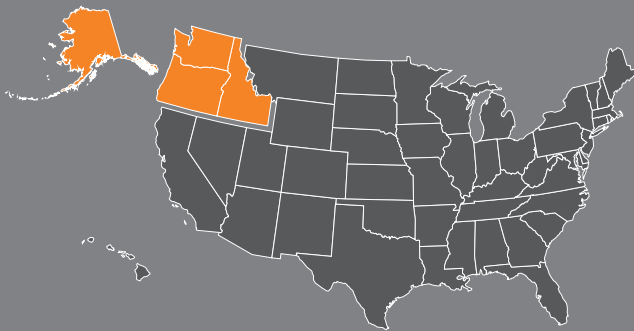


Seattle, Washington

By Tom Aston | 2nd quarter 2016

Quick Facts About Region 10

- **Sales market conditions—**
Second quarter 2016: tight.
First quarter 2016: tight.
Second quarter 2015: tight.
- **Apartment market conditions—**
Second quarter 2016: mixed (tight to balanced).
First quarter 2016: mixed (very tight to balanced).
Second quarter 2015: mixed (tight to very tight).



Overview

Economic activity in the Northwest region was robust during the second quarter of 2016. Nonfarm payrolls increased 3.0 percent from a year earlier, marking the fifth consecutive year of second quarter job gains. Sales housing market conditions have been tight since the fourth quarter of 2014, with for-sale inventories during the second quarter of 2016 ranging from a 1.2- to 4.2-month supply and sales of new and existing homes increasing in every major metropolitan area. Apartment market conditions were mixed for the sixth consecutive quarter, with vacancy rates increasing in every major metropolitan area.

- The 6.13 million nonfarm payroll jobs in the Northwest region during the second quarter of 2016 surpassed the prerecession peak of 5.68 million jobs recorded in 2008 by nearly 8 percent.
- Seattle and Portland continue to experience rapid rent growth, with year-over-year rent increases during the second quarter of 2016 averaging 9 and 8 percent, respectively. Annual rent growth has exceeded 5 percent in both cities every quarter since the first quarter of 2014.



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Year-over-year nonfarm payroll growth in the Northwest region has accelerated every year since the labor market recovery began in 2010.

	Second Quarter		Year-Over-Year Change	
	2015 (thousands)	2016 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	5,955.0	6,133.9	178.9	3.0
Goods-producing sectors	898.9	912.7	13.8	1.5
Mining, logging, and construction	347.9	363.1	15.2	4.4
Manufacturing	551.1	549.6	-1.5	-0.3
Service-providing sectors	5,056.1	5,221.2	165.1	3.3
Wholesale and retail trade	914.7	945.2	30.5	3.3
Transportation and utilities	203.3	209.6	6.3	3.1
Information	161.3	171.2	9.9	6.1
Financial activities	287.0	296.2	9.2	3.2
Professional and business services	724.7	758.4	33.7	4.7
Education and health services	860.7	885.6	24.9	2.9
Leisure and hospitality	609.5	629.5	20.0	3.3
Other services	212.0	219.3	7.3	3.4
Government	1,082.9	1,106.3	23.4	2.2

Note: Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics

Economic Conditions

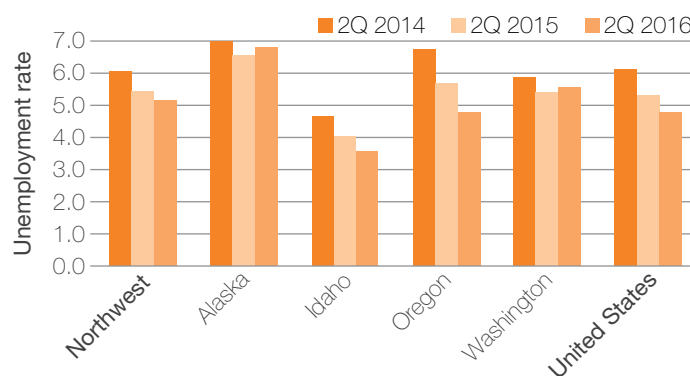
The economy of the Northwest region continued to expand during the second quarter of 2016, maintaining a trend that began more than 5 years ago. Nonfarm payrolls averaged 6.13 million during the second quarter of 2016, a gain of 178,900 jobs, or 3.0 percent, compared with the number of jobs recorded during the second quarter of 2015. Idaho, Oregon, and Washington were among the top seven fastest growing states in the country, all reporting nonfarm payroll gains exceeding 3.0 percent. Alaska, however, was among five states that reported job losses from the second quarter of 2015 to the second quarter of 2016.

Job gains occurred in every sector of the economy, except in the manufacturing sector. In numerical terms, job growth was strongest in the professional and business services sector, followed by the wholesale and retail trade and the education and health services sectors, which increased by 33,700 jobs, or 4.7 percent, 30,500 jobs, or 3.3 percent, and 24,900 jobs, or 2.9 percent, respectively. Job growth measured in percentage terms was greatest in the information sector, with a gain of 6.1 percent, or 9,900 jobs. The unemployment rate in the Northwest region averaged 5.1 percent during the second quarter of 2016, down from 5.4 percent a year ago.

During the second quarter of 2016—

- Nonfarm payrolls in Alaska declined by 1,000 jobs, or 0.3 percent, to 344,600 jobs, compared with a gain of 2,000 jobs, or 0.6 percent, from the second quarter of 2014 to the second

In the Northwest region, the unemployment rates in Oregon and Idaho fell below the national rate during the second quarter of 2016.



2Q = second quarter.

Source: U.S. Bureau of Labor Statistics

quarter of 2015. Job losses were greatest in the mining, logging, and construction sector, which declined by 3,500 jobs, or 9.7 percent, mainly because of job losses in the oil and gas industry, followed by the professional and business services sector, which was down 2,100 jobs, or 6.8 percent. Some of these losses were offset by gains of 2,000 jobs, or 4.2 percent, in the education and health services sector, and 1,300 jobs, or 2.9 percent, in the wholesale and retail trade sector.

- In Idaho, nonfarm payrolls averaged 696,200 jobs, reflecting a gain of 3.2 percent, or 21,700 jobs. By comparison, payrolls increased by 17,800 jobs, or 2.7 percent, from the second quarter of 2014 to the second quarter of 2015. The professional

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- and business services, leisure and hospitality, and education and health services sectors led job growth in Idaho, increasing by 3,800 jobs, or 4.7 percent, 3,700 jobs, or 5.4 percent, and 3,000 jobs, or 3.1 percent, respectively. An elevated level of commercial and residential construction led to higher construction subsector payrolls, which increased by 2,700 jobs, or 6.9 percent.
- Oregon reported the fastest nonfarm payroll growth rate in the Northwest region and ranked second in the nation behind Utah. Nonfarm payrolls averaged 1.84 million, up by 60,300 jobs, or 3.4 percent, from a year ago. The strong economic expansion was the result of growth in high-tech industries and increased demand for administrative support services, prompting hiring in the professional and business services sector, which added 14,600 jobs, an increase of 6.4 percent. The education and health services sector added 10,900 jobs, an increase of 4.2 percent, mainly a result of strong population growth and increased demand for healthcare services.

- Nonfarm payrolls in Washington increased by 97,900 jobs, or 3.1 percent, to 3.25 million jobs, slightly less than the gain of 99,200 jobs, or 3.2 percent, recorded a year earlier. The wholesale and retail trade sector contributed the most job gains of any sector, up 19,600 jobs, or 4.1 percent, partially a result of hiring at Amazon.com, which is headquartered in downtown Seattle. Similar to Oregon, Washington has a high concentration of high-tech industries, contributing to strong job growth in the professional and business services sector, which increased by 17,400 jobs, or 4.5 percent. The manufacturing sector was the only sector in the economy to lose jobs, down 3,200 jobs, or 1.1 percent, mainly because of layoffs at The Boeing Company.
- The unemployment rate increased in Alaska and Washington, but for opposite reasons. In Alaska, weak economic conditions led to a decline in employment, whereas in Washington, robust economic conditions resulted in very strong population growth and an increase in the labor force.

Sales Market Conditions

Sales housing markets were tight for the sixth consecutive quarter in the Northwest region. During the 12 months ending May 2016, total home sales (new and existing homes, including single-family homes, townhomes, and condominiums) increased 12 percent, to 296,600 homes sold in the region, the greatest number of homes sold since the 12 months ending May 2007 (Metrostudy, A Hanley Wood Company, with adjustments by the analyst). The average price of homes sold increased 7 percent, to \$305,200, slightly more than the peak average price since 2000 of \$303,200 during the 12 months ending May 2008. New home sales increased 16 percent, to 24,350 homes sold, and the average price of a new home sold increased 1 percent, to \$372,300. Sales of existing homes increased 11 percent,

to 272,300 homes sold, and the average price of a home sold increased 7 percent, to \$296,500. Real estate owned (REO) home sales increased 7 percent, to 24,050 homes sold, accounting for 9 percent of existing home sales compared with 7 percent a year earlier.

Primarily because of robust payroll and population growth, the sales housing market in Oregon is very tight. During the 12 months ending May 2016, Oregon led the region with the greatest percentage increase of total home sales, up 16 percent, to 87,700 homes sold, the greatest second quarter gain in home sales since the housing market recovery began in 2010. The average sales price increased 8 percent, to \$290,000, just \$5,600 less than the peak

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Bend and Portland were the only metropolitan areas in the Northwest region to reach double-digit percentage gains for homes sold and average sales price during the second quarter of 2016.

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2015	2016	Percent Change		2015 (\$)	2016 (\$)	Percent Change
Anchorage (N&E)	May	8,925	9,025	1	AVG	289,600	297,400	3
Bend (N&E)	May	6,100	6,825	12	AVG	298,000	329,300	11
Boise (N&E)	May	18,600	21,250	14	AVG	231,100	249,300	8
Eugene (N&E)	May	6,075	7,350	21	AVG	220,300	234,000	6
Medford (N&E)	May	4,375	4,825	10	AVG	245,500	268,500	9
Portland (N&E)	May	46,700	53,500	15	AVG	306,600	337,200	10
Seattle (N&E)	May	68,800	74,500	8	AVG	411,500	422,800	3
Spokane (N&E)	May	10,300	11,200	9	AVG	181,700	193,400	6

AVG = average. N&E = new and existing.

Note: Includes single-family homes, townhomes, and condominiums.

Source: CoreLogic, Inc.



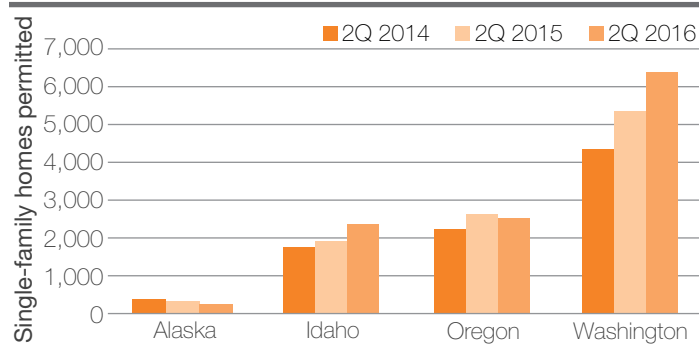
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average price recorded during the 12 months ending May 2008. In the Eugene metropolitan area, the number of total homes sold increased 21 percent, a much higher gain than the state average increase in the number of homes sold, and the average price of a home sold increased 6 percent, to \$234,000. Sales housing markets in the Portland, Bend, and Medford metropolitan areas were tight, with total home sales increases of 15, 12, and 10 percent and an inventory of for-sale housing of 1.5-, 1.8-, 4.2-month supply, respectively.

Strong demand for new sales housing placed Idaho first among the states in the region in the percentage increase in new homes sold. During the 12 months ending May 2016, sales of new homes increased 22 percent and the average price was \$264,500, for a gain of 3 percent. The average price of a new home sold in Idaho is \$100,000 less than the average of any other state in the region. Existing home sales increased 12 percent, to 43,800 homes sold, and the average sales price rose 6 percent, to \$226,200. Total home sales growth in the Boise metropolitan area outpaced the state average of 13 percent, increasing 14 percent, to 21,250 homes sold, and the average price was up 8 percent, to \$249,300. Strong home sales led to a decline in the for-sale inventory to a 2-month supply in May 2016 compared with a 3-month supply a year ago.

Total home sales in Washington and Alaska increased 10 and 2 percent, to 146,500 and 13,775 homes sold, respectively. For both

Of Northwest region states, only Idaho and Washington have recorded two successive second quarter gains in single-family homes permitted since the second quarter of 2014.



2Q = second quarter.

Note: Based on preliminary data.

Source: U.S. Census Bureau, Building Permits Survey

states, total sales were at the highest levels since the 12-month period ending May 2007. The average price of total homes sold was \$277,600 in Alaska, for a 3-percent gain, and \$342,250 in Washington, for a 7-percent gain. Mainly because of sluggish job growth in the Anchorage metropolitan area, total homes sold increased 1 percent, one-half the statewide gain, and the average price was up 3 percent, to \$297,400. The sales housing market in the Seattle metropolitan area is tight, with a for-sale inventory of only a 1.2-month supply. Total homes sold increased 8 percent, to 74,550, and the average price increased 3 percent, to \$442,800.

Strengthening sales market conditions led to a decrease in the rate of seriously delinquent loans (90 or more days delinquent or in foreclosure) and REO properties. As of May 2016, 2.8 percent of home loans in the region were seriously delinquent or had transitioned into REO status, down from 3.3 percent in March 2015; at the same time, the U.S. rate decreased from 4.1 to 3.7 percent. The share of seriously delinquent loans and REO properties decreased from 3.4 to 2.8 percent in Washington, from 3.5 to 3.1 percent in Oregon, from 2.7 to 2.2 percent in Idaho, and from 1.9 to 1.8 percent in Alaska.

Strong demand for new homes leading to rising new home sales and prices led to an increase in the number of single-family homes permitted for the sixth consecutive quarter.

During the second quarter of 2016 (preliminary data)—

- In the region, single-family homebuilding activity, as measured by the number of homes permitted, increased 13 percent, or by 1,300, to 11,500 homes permitted from the second quarter of 2015 compared with an increase of 16 percent during the previous year.
- Robust demand for new homes in Idaho and Washington led to single-family permitting gains in each state of 23 and 19 percent, or 440 and 1,025 homes, respectively.
- In Oregon, homebuilding activity declined 5 percent, or by 135 homes permitted, to 2,500 homes from a year earlier after posting an 18-percent gain during the previous year.
- Single-family building activity in Alaska declined by 25 homes, to 290 homes permitted, compared with a decline of 109 homes during the previous year but was more than the 3-year second quarter average of 280 permits from 2011 through 2013.

Apartment Market Conditions

Apartment market conditions in major metropolitan areas of the Northwest region were mixed, ranging from tight to balanced during the second quarter of 2016. Although rental market conditions varied from market to market, vacancy rates increased in every market

area. The two largest metropolitan areas in the region, Seattle and Portland, experienced rent growths of 9 and 8 percent, respectively, compared with growth during the second quarter of 2015, despite the completion of 10,170 and 4,550 units in the past 12 months

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(MPF Research; Reis, Inc.) The number of completions in the Seattle area was more than in any year since 2009 and in the Portland area was more than in any year since 1999. The large number of completed units in these markets caused the vacancy rate to increase to 3.1 and 4.9 percent in Seattle and Portland, respectively. The Anchorage metropolitan area had both the lowest vacancy rate, at 2.0 percent, and rent increase, \$15, or 1 percent, during the second quarter of 2016. Market conditions in the Spokane metropolitan area were similar, with a 2.0-percent vacancy rate and 3-percent rent growth, the second lowest rent increase in the region. The apartment vacancy rate in the Boise metropolitan area increased 1.8 percentage points, to 4.8 percent, the greatest increase in the Northwest region. The addition of approximately 1,300 apartments in Ada County, which includes the principal city of Boise, during 2015, the second most active year since 2000, contributed to this increase in the vacancy rate. Apartment market conditions in Olympia remained tight, with the vacancy rate increasing from 2.7 to 2.9 percent and rents increasing 4 percent, to \$957.

Multifamily construction in the Northwest region increased during the second quarter of 2016 when developers increased construction activity in strong Oregon and Washington rental markets.

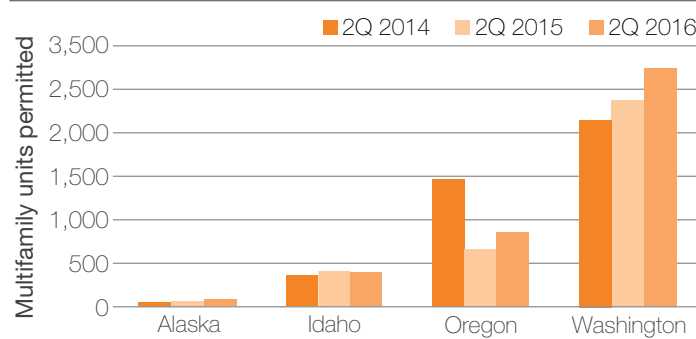
During the second quarter of 2016 (preliminary data)—

- Approximately 160 multifamily units were permitted in Alaska, an increase of 70 units from the second quarter of 2015. By comparison, an average of 65 units were permitted during the second quarters of 2010 through 2015.
- Multifamily construction activity in Idaho declined 5 percent, to 770 units permitted, compared with the number permitted in the second quarter of 2015. The statewide decline was caused

by decreased multifamily construction in the Boise metropolitan area as increased apartment vacancy rates slowed development activity.

- In Oregon, after declining 56 percent between the second quarters of 2014 and 2015, the number of multifamily units permitted increased 30 percent, or by 1,675 units, during the second quarter of 2016. Increased construction in secondary markets, such as the Eugene and Medford metropolitan areas, offset a slight decline in construction in the Portland metropolitan area.
- The number of multifamily units permitted in Washington increased 16 percent, to 5,500, the highest level of second quarter multifamily construction since 2000. The increase in multifamily starts during the second quarter of 2016 was entirely the result of increased construction in the Seattle metropolitan area.

Multifamily permitting activity increased in every state in the Northwest region except Idaho.



2Q = second quarter.

Note: Based on preliminary data.

Source: U.S. Census Bureau, Building Permits Survey

Average monthly rents increased on an annual basis in every major apartment market in the Northwest region.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2015 (%)	2Q 2016 (%)	Percentage Point Change	2Q 2015 (\$)	2Q 2016 (\$)	Percent Change
Anchorage ^a	Tight	1.2	2.0	0.8	1,125	1,140	1
Boise ^a	Balanced	3.0	4.8	1.8	779	803	3
Olympia ^a	Tight	2.7	2.9	0.2	916	957	4
Portland ^a	Tight	3.7	4.9	1.2	1,015	1,099	8
Seattle ^b	Tight	2.9	3.1	0.2	1,458	1,593	9
Spokane ^a	Tight	1.4	2.0	0.6	697	719	3

2Q = second quarter.

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