HUD PD&R **Regional Reports**

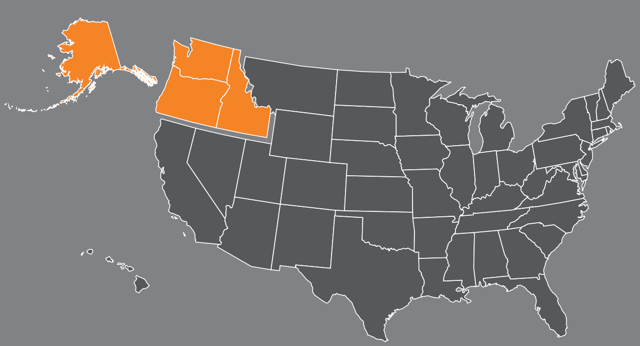
Region 10: Northwest

Portland, Oregon

Quick Facts About Region 10

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

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



By Adam Tubridy | 2nd quarter 2018

Overview

Economic growth in the Northwest region remained strong during the second quarter of 2018, with nonfarm payrolls expanding for the eighth consecutive time during the second quarter. Regional nonfarm payrolls averaged 6.41 million, an increase of 150,800 jobs, or 2.4 percent, from the second quarter of 2017. Sales market conditions in Idaho, Oregon, and Washington were tight, with average home prices increasing by 7 percent or more in every one of the major metropolitan areas listed in this report, as a result of limited construction activity. Despite rapid increases in home prices, single-family home construction did not increase significantly. The only exception to tight sales markets was in Alaska, where markets are slightly soft, with declining home sales and stable price growth. Apartment market conditions are mixed throughout the region, ranging from tight to balanced, with average rents rising in every highlighted metropolitan area. In 2017, multifamily construction in the Seattle and Portland metropolitan areas was at its highest level since 1990, which slowed recent rent growth compared to previous years. Multifamily construction throughout the region decreased compared with the second quarter of 2017 but still represented the fourth highest rate of second quarter construction since 2000.

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- Job growth in three of the four states of the region was among the top 10 nationwide, with nonfarm payroll growth at or above 2.0 percent. The only exception was Alaska, where nonfarm payrolls decreased by 2,200, or 0.7 percent.
- Tight sales markets in Idaho, Oregon, and Washington are the result of a low supply of available homes, with each state having 3 months or less of available supply (CoreLogic, Inc.).
- Average apartment rents in the Seattle and Portland metropolitan areas both increased 2 percent from a year ago, the lowest annual rate since 2013 (latest data available, RealPage, Inc.).

Economic Conditions

Economic conditions in the Northwest region remained strong during the second quarter of 2018, with nonfarm payrolls increasing in every state in the region except Alaska. Nonfarm payrolls increased to 6.41 million, an increase of 150,800, or 2.4 percent, accelerating from growth of 141,600, or 2.3 percent, during the second quarter of 2017. Job growth has continued to expand since recovering from the national recession, and regional nonfarm payrolls have increased every year since 2011 at an average rate of 2.2 percent annually. Job gains were widespread during the second quarter of 2018, with every private nonfarm payroll sector expanding. The government sector was the only sector to lose jobs during the second quarter of 2018, with a decline of 8,000 jobs, or 0.7 percent.

The education and health services sector led job growth in the region, growing by 40,400 jobs, or 4.5 percent. More than half of this growth occurred in the social assistance industry, which includes day cares, non-healthcare services for people who are elderly and people with disablilities and other social outreach programs, that added 21,900 jobs, or 12.9 percent, to 192,200 payrolls. However, the majority of this industry's increase did not represent actual growth but instead the reclassification of almost 20,000 home health workers in Oregon from the government sector. If this reclassification had not occurred, every economic sector would have expanded.

The wholesale and retail trade sector added the second highest number of payrolls in the region, growing by 23,800 or 2.5 percent. Job growth in the retail trade subsector was the primary source of this job growth, expanding by 20,200 jobs, or 2.8 percent, and accounting for 85 percent of the job growth in the sector. Much of the increase was concentrated in the Seattle-Tacoma-Bellevue metropolitan area, where the retail trade subsector added 14,700 jobs, or 6.6 percent, owing to the continued expansion of Amazon.com, Inc.'s headquarters. At the end of 2017, Amazon.com, Inc. occupied more than 10 million square feet of office space in downtown Seattle, up from 8.5 million during July 2017 with plans to expand to 14 million by 2022 (Downtown Seattle Association).

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All private nonfarm payroll sectors in the Northwest region grew during the second quarter of 2018.

	Second Quarter		Year-Over-Year Change	
	2017 (thousands)	2018 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	6,262.1	6,412.9	150.8	2.4%
Goods-producing sectors	940.1	969.9	29.8	3.2%
Mining, logging, and construction	387.1	407.2	20.1	5.2%
Manufacturing	553.0	562.6	9.6	1.7%
Service-providing sectors	5,321.9	5,443.0	121.1	2.3%
Wholesale and retail trade	958.2	982.0	23.8	2.5%
Transportation and utilities	215.5	221.5	6.0	2.8%
Information	174.9	180.5	5.6	3.2%
Financial activities	298.9	308.0	9.1	3.0%
Professional and business services	776.3	799.5	23.2	3.0%
Education and health services	899.4	939.8	40.4	4.5%
Leisure and hospitality	657.7	676.3	18.6	2.8%
Other services	220.1	222.6	2.5	1.1%
Government	1,120.8	1,112.8	-8.0	– 0.7%

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

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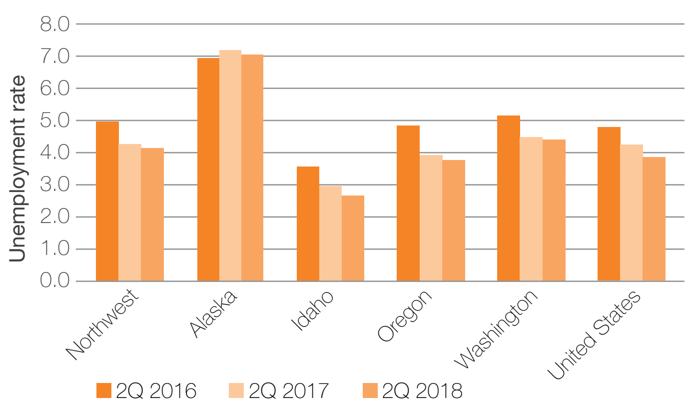
During the second quarter of 2018, the regional unemployment rate averaged 4.1 percent, down from 4.3 percent during the second quarter of 2017. The regional unemployment rate has declined for eight consecutive second quarters but remains above the national average. Idaho had the lowest unemployment rate in the region at 2.7 percent, followed by Oregon and Washington at 3.8 and 4.4 percent, respectively. Alaska had the highest unemployment rate at 7.1 percent, which declined after increasing for the past two consecutive second quarters.

Although the unemployment rate declined in all states of the region, Idaho was the only state with a rate lower than the nation.



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

During the second quarter of 2018—

- In Washington, nonfarm payrolls averaged 3.42 million, up 92,800 jobs, or 2.8 percent compared with a year prior. Job growth was faster in the Seattle-Tacoma-Bellevue metropolitan area, increasing at a rate of 3.1 percent, while jobs in the remainder of the state grew by 2.3 percent.
- Nonfarm payrolls averaged 1.92 million in Oregon, up by 38,300, or 2.0 percent compared with the second quarter of 2017. The construction subsector grew at a faster rate than in any other state in the region, adding 7,100 jobs, or 7.3 percent, to 103,900 jobs.
- Idaho had the fastest payroll growth rate in the region at 3.1 percent, or 22,000 jobs, to 739,300 jobs. The education and health services, professional and business services, and government sectors led growth, adding 3,500, 3,200, and 3,100 jobs, or 3.4, 3.5, and 2.5 percent, respectively.
- In Alaska, nonfarm payrolls declined for the third consecutive second quarter because of low oil and gas prices and past job losses in resource-extracting industries. From 2015 through 2017, payrolls in the mining, logging, and construction sector decreased by almost 20 percent, causing a decrease in demand for goods and services produced by other sectors. The largest job losses occurred in the retail trade subsector, which declined by 1,600 jobs, or 4.2 percent, to 35,300 jobs.

Sales Market Conditions

Sales housing market conditions were tight in much of the Northwest region during the second quarter of 2018, with the exception of Alaska, which has slightly soft markets. During the 12 months ending May 2018, new and existing home sales (including single-family homes, townhomes, and condominiums) increased 2 percent in the region to 326,500 homes sold, while the average sales price rose by 9 percent to $355,700 (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 May 2018, the volume of home sales has been constrained by a low inventory of available homes, with Idaho, Oregon, and Washington having 1.9, 2.5, and 3.0 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 real estate owned (REO) properties to decline regionwide, from 1.4 percent in May 2017 to 0.9 percent in May 2018. By comparison, the national rate declined from 2.3 to 2.0 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 0.8 percent in Idaho, 0.9 percent in Washington, and 1.0 percent in Oregon.

During the 12 months ending May 2018, Washington led the region in home price growth, with an increase of 11 percent to $409,600, while home sales increased by 1 percent to 165,900. Home price gains were widespread in Washington, with all major metropolitan areas recording significant increases, ranging from 14 percent in Tacoma to 10 percent in Spokane. As of May 2018, the S&P CoreLogic Case-Schiller Composite National Home Price Index increased 13.6 percent in the Seattle metropolitan area from May 2017, the highest increase among any other major metropolitan area in the 20-City Index.

Idaho was the only state in the region to report a significant increase in the number of homes sold during the 12 months ending

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Home prices increased 7 percent or more in every selected metropolitan area, where the markets are balanced to tight, 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)	May	7,650	7,800	2%	AVG	$302,600	$306,300	1%
Boise (N&E)	May	24,650	25,900	5%	AVG	$248,200	$274,300	11%
Eugene (N&E)	May	7,725	8,050	4%	AVG	$253,400	$277,000	9%
Portland (N&E)	May	52,600	51,100	– 3%	AVG	$375,600	$402,900	7%
Salem (N&E)	May	8,250	8,150	– 1%	AVG	$241,000	$264,900	10%
Seattle (N&E)	May	61,750	60,700	– 2%	AVG	$542,900	$611,200	13%
Spokane (N&E)	May	12,450	13,600	9%	AVG	$204,400	$224,700	10%
Tacoma (N&E)	May	20,550	22,150	8%	AVG	$303,200	$346,800	14%

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

May 2018. During this period, home sales increased 8 percent to 57,650, while average home prices increased 9 percent to $251,700. 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 metropolitan area, where home prices increased by 11 percent to $274,300.

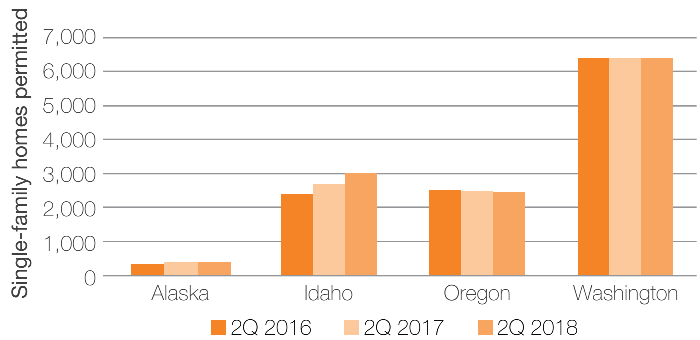
In Oregon, home sales were relatively unchanged from a year ago, with 90,400 homes sold during the 12 months ending May 2018, while the average sales price was up 7 percent to $332,300. Home price increases were led by the Salem and Eugene metropolitan areas, the second and third largest metropolitan areas in the state, with price growth of 10 and 9 percent, or $23,900 and $23,600, respectively.

A weak economy and declining population in Alaska resulted in home sales decreasing by 7 percent, to 12,700, during the 12 months ending May 2018, after declining by an average of 6 percent annually in 2016 and 2017. Home prices were stable, remaining at $285,300, compared with the previous 12-month period. While conditions in Anchorage were still slightly soft, they were better than the state at-large, with small increases in homes sold and home prices during the most recent 12-month period.

During the second quarter of 2018 (preliminary data)—

- The number of single-family homes permitted in the Northwest region increased 2 percent to 12,150 homes. Since 2012, the number of homes permitted during the second quarter has increased every year at an average annual rate of 15 percent.
- Nearly all of the increase in single-family home building in the region occurred in Idaho, where 3,000 homes were permitted, an increase of 320 homes, or 12 percent compared to the second quarter of 2017.
- Single-family permitting activity in Alaska and Washington consisted of 380 and 6,350 homes, respectively, and did not change significantly compared with the second quarter of 2017.
- In Oregon, 2,425 homes were permitted, down 2 percent compared with the second quarter of 2017. Single-family home permitting has declined for three consecutive second quarters in Oregon.

Single-family permitting in the Northwest region increased, due almost entirely to an increase in homebuilding in Idaho.



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

Apartment Market Conditions

Apartment market conditions in the major metropolitan areas in the Northwest region ranged from tight to balanced during the second quarter of 2018, unchanged from a year ago. Vacancy rates were below the national average of 4.8 percent in six of the seven metropolitan areas highlighted in this report, with only the Boise metropolitan area having a large increase in vacancy rates. Average monthly rents increased in two metropolitan areas faster than or equal to the national rate of 5 percent (Reis, Inc.).

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Average apartment rents increased in all seven selected metropolitan areas in the Northwest region.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2017 (%)	2Q 2018 (%)	Percentage Point Change	2Q 2017 ($)	2Q 2018 ($)	Percent Change
Anchorage[a]	Balanced	4.2	4.3	0.1	1,134	1,159	2
Boise[a]	Balanced	4.6	6.6	2	844	909	8
Eugene[a]	Tight	3.6	2.9	– 0.7	861	901	5
Portland[b]	Slightly tight	4.4	4.2	– 0.2	1,309	1,332	2
Salem[a]	Slightly tight	2.1	1.8	– 0.3	839	875	4
Seattle[b]	Slightly tight	3.9	4.2	0.3	1,735	1,768	2
Spokane[a]	Slightly tight	2.6	2.3	– 0.3	743	776	4

2Q = second quarter.
Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; Vacancy Rate and Average Monthly Rent: (a) Reis, Inc.; (b) RealPage, Inc.

The apartment market in the Seattle metropolitan area remained slightly tight during the second quarter of 2018, with the apartment vacancy rate increasing from 3.9 to 4.2 percent and average rents increasing 2 percent to $1,768. Rent growth has slowed sharply compared to the 2014 through 2016 period when average rents increased by an average of 8 percent annually despite similar economic and demographic conditions. Despite continued economic and population growth, high levels of apartment construction have helped alleviate upward pressure on rents; approximately 63,050 multifamily units were permitted during the 2014-to-2017 period, compared with 29,400 during the previous 4 years. The Portland metropolitan area also had a slightly tight apartment market, with the apartment vacancy rate declining from 4.4 to 4.2 percent and rents increasing by 2 percent to $1,332. Like Seattle, the rent growth rate in Portland was much lower than the 2014-through-2016 average of 9 percent; the apartment stock in Portland has also expanded substantially in recent years, with an estimated 30,850 multifamily units permitted during the 2014-to-2017 period, up from 12,500 during the preceding 4 years.

Completions of new, Class A apartments in the Boise metropolitan area led to an increase in the apartment vacancy rate from 4.6 to 6.6 as of the second quarter of 2018, while average rents increased by 8 percent to $909 partly because of higher rents at newly opened apartment complexes. By comparison, average rents in the Boise metropolitan area increased by an average of 5 percent annually from 2015 through 2017. In Anchorage, the apartment market remained balanced despite a decreasing population and slightly soft sales market because of limited construction of new apartments. During the second quarter of 2018, the apartment vacancy rate in Anchorage increased from 4.2 to 4.3 percent, while the average rent increased 2 percent; rent growth averaged 1 percent annually from 2015 through 2017 while a relatively low number of new apartments entered the market.

The apartment markets in the Eugene, Salem, and Spokane metropolitan areas all tightened during the second quarter of 2018. In Eugene, the only tight apartment market highlighted in this report, the apartment vacancy rate declined from 3.6 to 2.9 percent while rents increased by 5 percent. However, during the previous 12-month period, the vacancy rate increased from 2.9 to 3.6 percent while rents increased by only 1 percent. Apartment vacancy rate decreases were more modest in Salem and Spokane, with the vacancy rate in each metropolitan area decreasing by 0.3 percentage point during the second quarter while the average rent increased by 4 percent in both areas.

Despite declining rent growth in the two largest apartment markets in the region, multifamily construction remains at high levels. During the second quarter of 2018, multifamily permitting declined by 9 percent to 7,400 units, following a decline of 3 percent during the second quarter of 2017 (preliminary data). Although multifamily construction activity has decreased for 2 consecutive second quarters, the 7,400 units permitted during the second quarter of 2018 represent the fourth highest rate of construction in the region during a second quarter since 2000.

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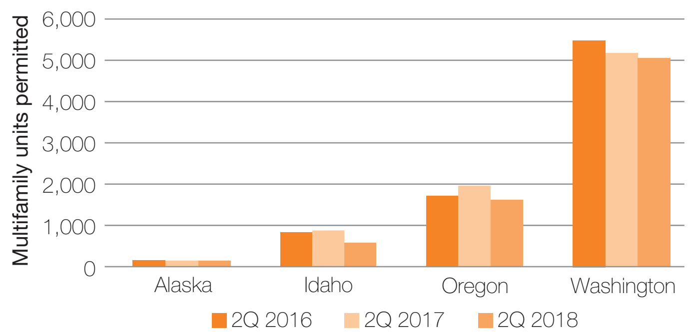
Multifamily construction activity decreased or remained stable in every state in the Northwest region.



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

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During the second quarter of 2018 (preliminary data)—

- Multifamily permitting decreased by 35 percent to 580 units in Idaho, the highest rate of decline in the region. Approximately 80 percent of this decline was caused by lower construction in the Boise metropolitan area, where multifamily permitting decreased by 45 percent to 290 units.
- Almost 70 percent of all multifamily permitting in the region occurred in Washington, where construction activity decreased by 2 percent to 5,050 units.
- Approximately 1,625 multifamily units were permitted in Oregon, down 17 percent from the second quarter of 2017. The entirety of this decline was caused by decreased construction activity in the Oregon portion of the Portland metropolitan area; multifamily permitting increased in both the Eugene and Salem metropolitan areas.
- In Alaska, multifamily permitting remained low but stable, with approximately 150 permits issued, unchanged from the second quarter of 2017.