

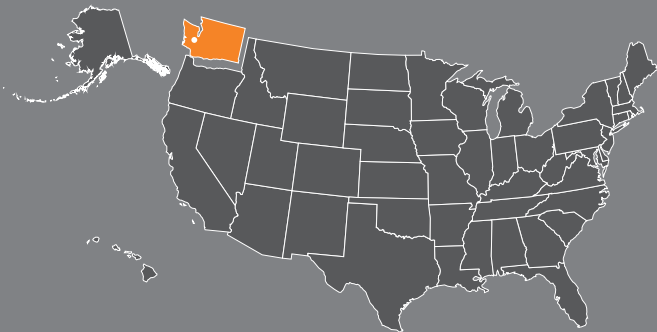
HUD PD&R Housing Market Profiles

Tacoma-Lakewood, Washington



Quick Facts About Tacoma-Lakewood

- **Current sales market conditions: balanced.**
- **Current apartment market conditions: tight.**
- **Joint Base Lewis-McChord, the largest U.S. Army-led joint base in the country, has 40,750 active-duty military and 16,400 civilian personnel. It is the largest employer in the metropolitan area and the third largest in Washington, and 61,550 family members and 58,600 retirees live within a 50-mile radius of the base.**



By Holi Weaver | As of June 1, 2016

Overview

The Tacoma-Lakewood metropolitan area, approximately 30 miles south of Seattle on the Puget Sound, is coterminous with Pierce County, Washington. The metropolitan area is home to Joint Base Lewis-McChord (JBLM), the only Army Power Projection Platform (a strategically located base that serves as a major deployment and mobilization center) west of the Rocky Mountains. JBLM is also one of the most requested duty stations in the country. As the third largest employer in Washington, JBLM had a statewide economic impact estimated at \$6.1 billion in 2012 (study by South Sound Military and Communities Partnership [SSMCP]). The Budget Control Act of 2011 mandated a reduction in military forces across the country, which resulted in the decommissioning of a brigade of approximately 4,500 soldiers in February 2014. An additional 900 troop cuts were anticipated during the next 2 years, but active-duty military already declined by 1,250 soldiers during 2015 (SSMCP). It is uncertain if JBLM will have further job losses in the near future.

- As of June 1, 2016, the population of the Tacoma-Lakewood metropolitan area is estimated at 853,900, reflecting an average annual increase of 9,500, or 1.2 percent, since April 2010.

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- Approximately 44 percent of population growth since 2010 has been from net in-migration to the metropolitan area, averaging 4,175 people annually. Strong employment growth and a lower cost of living in the Tacoma-Lakewood metropolitan area compared with the Seattle metropolitan area are driving net in-migration.
- Of the estimated 40,750 active-duty service members currently stationed at JBLM, an estimated 29,350, or 72 percent, live off base in the surrounding communities. Of the service members living off base, approximately 18,800, or 64 percent, reside in Pierce County and the rest live to the south, in neighboring Thurston County (SSMCP).

Economic Conditions

The Tacoma-Lakewood metropolitan area experienced modest job growth from 2011 through 2012, averaging a gain of 2,000 jobs, or 0.6 percent, annually compared with an average annual decline of 5,000 jobs, or 1.7 percent, from 2008 through 2010. Nonfarm payroll growth accelerated in recent years, increasing by an average of 8,000 jobs, or 2.7 percent, a year, from 2013 through 2015.

During the 3 months ending May 2016—

- Nonfarm payrolls averaged 303,500 jobs, reflecting an increase of 8,700 jobs, or 3.0 percent, compared with payrolls during the 3 months ending May 2015. During the same time, the unemployment rate declined from 6.5 to 6.2 percent.
- Strong labor market conditions resulted in improved household finances and increased consumer spending, benefiting the wholesale and retail trade and the leisure and hospitality sectors,
- which increased by 3,000 jobs, or 6.2 percent, and 1,400 jobs, or 4.7 percent, respectively from the same time a year ago.
- Nonfarm payrolls in the mining, logging, and construction sector increased by 1,600 jobs, or 8.2 percent, from a year ago; nearly all payrolls in the sector are in the construction subsector. Most of this job growth is a result of strong economic and housing market conditions that led to increased demand for new homes and construction labor.
- The manufacturing sector added 100 jobs, or 0.6 percent, from a year earlier. Job growth in this sector is unlikely to continue during the next year because The Boeing Company is scaling back production of its 777 jet, which will result in job cuts at its plant in the city of Fredrickson (20 miles south of the city of Tacoma) that manufactures the composite tails.

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During the 3 months ending May 2016, the Tacoma-Lakewood area recorded 303,500 jobs, surpassing the prerecession peak by more than 6 percent.

	3 Months Ending		Year-Over-Year Change	
	May 2015 (thousands)	May 2016 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	294.8	303.5	8.7	3.0
Goods-producing sectors	36.6	38.2	1.6	4.4
Mining, logging, and construction	19.6	21.2	1.6	8.2
Manufacturing	17.0	17.1	0.1	0.6
Service-providing sectors	258.1	265.3	7.2	2.8
Wholesale and retail trade	48.4	51.4	3.0	6.2
Transportation and utilities	13.1	12.9	- 0.2	- 1.5
Information	2.8	3.0	0.2	7.1
Financial activities	13.8	14.5	0.7	5.1
Professional and business services	26.5	27.5	1.0	3.8
Education and health services	51.9	52.7	0.8	1.5
Leisure and hospitality	30.0	31.4	1.4	4.7
Other services	13.6	13.8	0.2	1.5
Government	58.0	58.3	0.3	0.5
	(percent)	(percent)		
Unemployment rate	6.5	6.2		

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

Source: U.S. Bureau of Labor Statistics

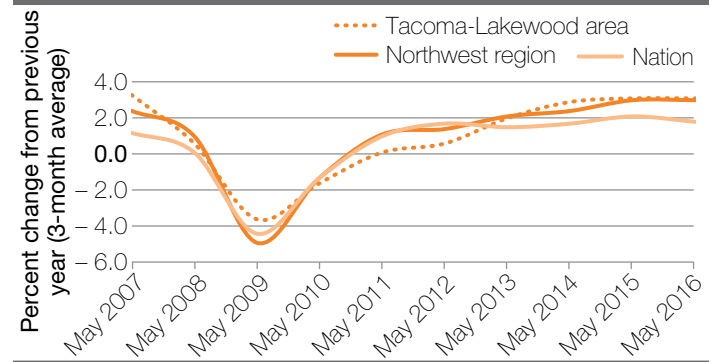


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International and domestic trade are important to the economy of the metropolitan area because of its advantageous location, with access to the Puget Sound, rail lines, and major interstates. In 2015, the Port of Seattle and Port of Tacoma formed the Northwest Seaport Alliance to jointly manage marine cargo operations and increase their global competitive advantage. The Port of Tacoma and the Port of Seattle combine to make the third largest port in North America in terms of container volume, with an estimated economic impact of \$4.3 billion statewide in 2013 (Port of Tacoma). During the 3 months ending May 2016, the transportation and utilities sector, which largely consists of jobs related to port activities, declined by 200 jobs, or 1.5 percent, from a year ago. This trend may continue because of a slowdown in global markets, especially in Asia,

which is one of the region's largest markets. Over the next year, the Port of Tacoma will spend \$141 million readying its terminals to accommodate larger ships that will cross through the widened Panama Canal, helping to protect its share of trans-Pacific trade amid increased competition from East Coast ports. This upgrade may help offset some of the loss in economic activity expected from a reduction in trade with Asian markets.

The rate of nonfarm payroll growth in the Tacoma-Lakewood area has surpassed those of the Northwest region and the nation for the past 3 years.



Note: Nonfarm payroll jobs.

Source: U.S. Bureau of Labor Statistics

Largest employers in the Tacoma-Lakewood area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Joint Base Lewis-McChord	Government	57,130
Franciscan Health System	Education and health services	11,847
Multicare Health System	Education and health services	10,847

Notes: Excludes local school districts. Data for Joint Base Lewis-McChord include 40,750 military service personnel, who are not included in the nonfarm payroll data. Sources: economy.com; South Sound Military and Community Partnership

Sales Market Conditions

Sales housing market conditions in the Tacoma-Lakewood metropolitan area are currently balanced, with an estimated vacancy rate of 2.0 percent, down from 2.6 percent in April 2010. The decline in vacancies reflects increased demand for homes because household finances and access to credit are improving, and much of the excess inventory that resulted from the foreclosure crisis has been absorbed. The inventory of homes for sale represented a 2.0-month supply in May 2016 compared with a 2.9-month supply in May 2015 (Northwest Multiple Listing Service).

- During the 12 months ending April 2016, approximately 14,850 existing single-family homes, townhomes, and condominiums (hereafter, existing homes) sold, up 17 percent from the 12,650 existing homes that sold during the previous 12 months. During the same time, the average sales price increased almost 10 percent, to \$265,700 (CoreLogic, Inc., with adjustments by the analyst).
- Approximately 1,925 new single-family homes, townhomes, and condominiums (hereafter, new homes) sold during the 12 months ending April 2016, up 3 percent from a year ago, and the average sales price increased more than 8 percent, to \$344,500 (CoreLogic, Inc., with adjustments by the analyst).

- The percentage of seriously delinquent loans (those 90 or more days delinquent or in foreclosure) and real estate owned homes in the metropolitan area has declined steadily from a high of 10.0 percent in September 2012 to 3.4 percent in April 2016 (CoreLogic, Inc.).
- During the 12 months ending April 2016, the average sales price of new and existing homes in the Tacoma-Lakewood metropolitan area was \$271,700, approximately 45 percent less than the average sales price in the Seattle metropolitan area. The relatively lower cost of living, especially housing costs, makes the Tacoma-Lakewood metropolitan area an attractive place to live for commuters; net migration from King County to Pierce County averaged an estimated 3,150 people annually from 2009 through 2013 (2009–2013 American Community Survey County-to-County Migration Flows table). This trend is expected to persist as housing costs continue to diverge.

Despite increasing home sales and prices and strong economic conditions, single-family home construction, as measured by the number of single-family homes permitted, was relatively unchanged at an average of 2,325 new homes built annually from 2013 through 2015. New home construction remained relatively flat,

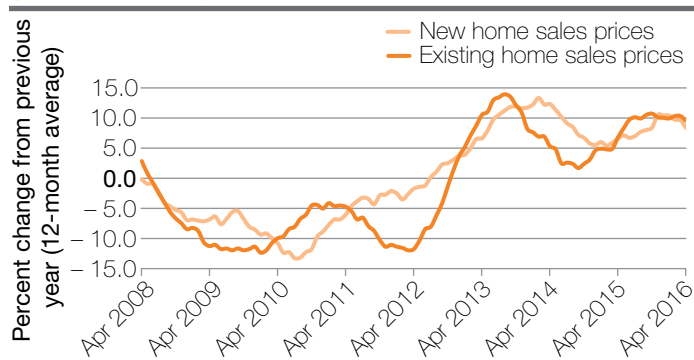
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partially because the market was absorbing a significant amount of excess inventory resulting from the foreclosure crisis, but also because shortages in land availability and construction labor are constraining home builders.

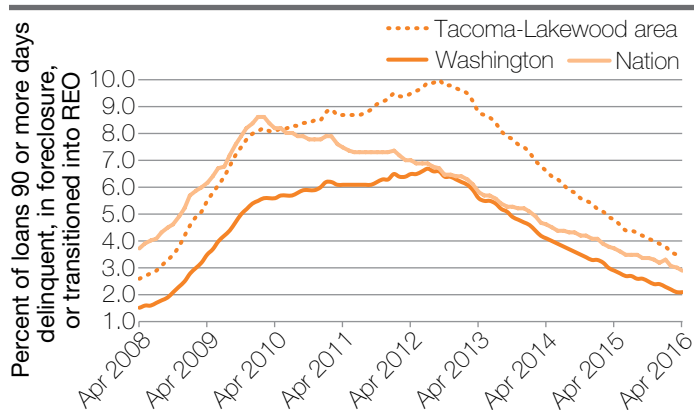
- Permits were issued for 700 single-family homes during the three months ending May 2016, up 23 percent from the 570 permits issued during the same time a year earlier (preliminary data).
- Tehaleh, a 4,200-acre master-planned community in city of Bonney Lake (15 miles southeast of Tacoma), currently has 600

Home prices have increased every year since 2012 in the Tacoma-Lakewood area, with year-over-year growth of nearly 10 percent in April 2016.



Note: Includes single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc., with adjustments by the analyst

The percentage of seriously delinquent loans and REO homes in the Tacoma-Lakewood area has been consistently higher than the state and national rates.

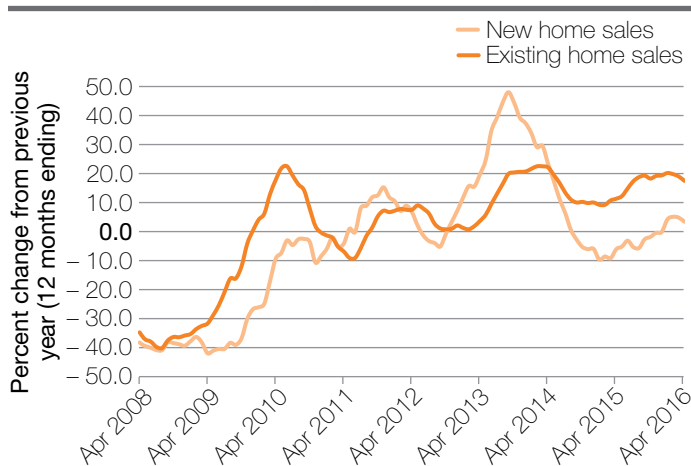


REO = real estate owned.
Source: CoreLogic, Inc.

homes built out of the 5,900 allotted for phases 1 and 2. Approximately 40 percent of all home sales in the Tehaleh community have been in Trilogy, a 55-and-older neighborhood. The strong demand for homes in age-restricted developments was unexpected, prompting the developer to request that the city increase the number of homes allowed to 9,200 so they can incorporate more age-restricted housing. Prices for all home types range from the low \$300,000s to the low \$600,000s.

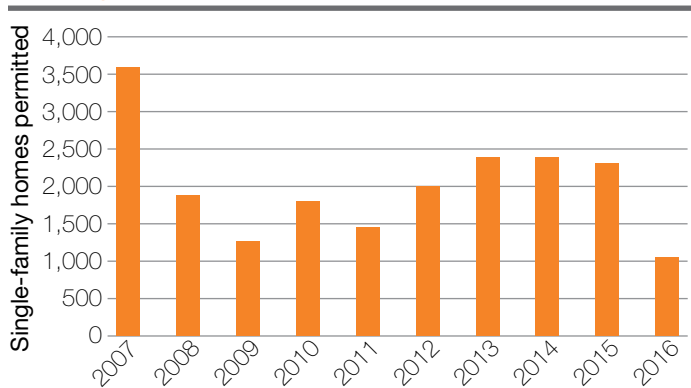
- An estimated 1,025 single-family homes are currently under construction in the metropolitan area (preliminary data).

The rate of growth in home sales in the Tacoma-Lakewood area has been slowing because of a low level of for-sale inventory.



Note: Includes single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc., with adjustments by the analyst

Single-family home construction in the Tacoma-Lakewood area has increased modestly since reaching a low in 2009 but remained well below the annual average of 4,675 homes permitted during the housing market bubble.



Note: Includes preliminary data from January 2016 through May 2016.
Source: U.S. Census Bureau, Building Permits Survey

Apartment Market Conditions

Apartment market conditions in the Tacoma-Lakewood metropolitan area are currently tight, with an estimated vacancy rate of 3.6 percent in the spring of 2016, down from 4.2 percent a year earlier (Dupre + Scott Apartment Advisors, Inc.).

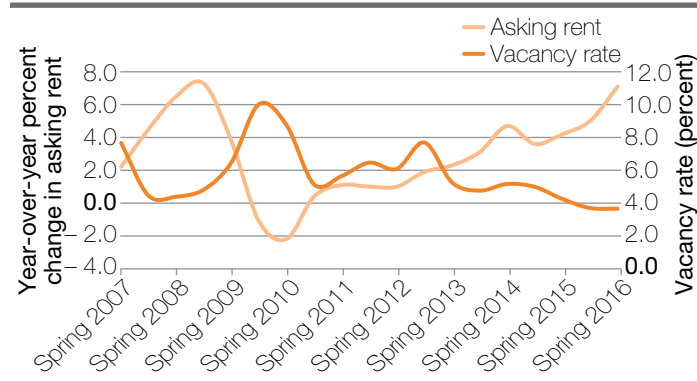
- The average rent in the spring of 2016 was \$990, up more than 7 percent from a year ago. Rents averaged \$782 for studio units, \$845 for one-bedroom units, \$1,179 for two-bedroom/two-bathroom units, and \$1,403 for three-bedroom/two-bathroom units (Dupre + Scott Apartment Advisors, Inc.).
- The vacancy rate for apartments built since 2010 was 3.5 percent, and the average rent was \$1,321, approximately 33 percent higher than the overall average (Dupre + Scott Apartment Advisors, Inc.).
- Of the 14 submarket areas (hereafter, areas) delineated by Dupre + Scott Apartment Advisors, Inc., the East Tacoma area had the lowest vacancy rate, at 2.0 percent, and the Downtown Tacoma area had the highest vacancy rate, at 4.4 percent. The higher vacancy rate in the Downtown Tacoma area is mainly a result of new units still in lease up.
- Of the estimated 18,800 active-duty military living off base in the Tacoma-Lakewood metropolitan area, approximately 11,280, or 60 percent, are renters, providing a long-term, continuous source of renter demand (SSMCP). The Lakewood area, which is close to a main access gate to JBLM, had a 2.9-percent vacancy rate in the spring of 2016, down from 4.2 percent a year ago, and the average rent increased almost 6 percent, to \$861 (Dupre + Scott Apartment Advisors, Inc.).

Multifamily construction, as measured by the number of multifamily units permitted, has fluctuated during the past 10 years because, although the military provides a stable source of renter demand

over the long run, the year-to-year level of demand can vary significantly because of deployments, which can be unpredictable. Prolonged effects from the housing market collapse and economic recession also contributed to subdued multifamily construction during this time.

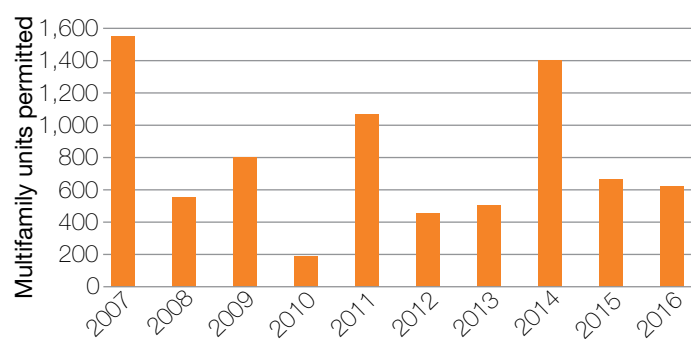
- During the 12 months ending May 2016, 980 multifamily units were permitted, down 24 percent from the 1,275 units permitted during the 12 months ending May 2015 (preliminary data).
- An estimated 880 apartments are currently under construction in the metropolitan area.
- Simon's Mill, a 154-unit apartment development in Edgewood, is expected to be complete in October 2016. Proposed rents are \$1,285 for studio units, \$1,140 to \$1,275 for one-bedroom units, \$1,425 to \$1,495 for two-bedroom/two-bathroom units, and \$1,575 for three-bedroom/two-bathroom units. According to the leasing agent, 11 units have been preleased.
- The 124-unit Arbors at Edgewood is currently under construction and slated to be complete in the fall of 2016. Proposed rents are \$1,250 to \$1,275 for one-bedroom units, \$1,425 to \$1,500 for two-bedroom/two-bathroom units, and \$1,575 to \$1,625 for three-bedroom units. Preleasing information was unavailable.
- Approximately 400 apartments were completed in the city of Tacoma during 2015 at four different properties. Rents are highest at The Henry, a 161-unit apartment building on the waterfront in downtown Tacoma, starting at \$1,275 for studio units, \$1,525 for one-bedroom units, and \$2,160 for two-bedroom/two-bathroom units. The property opened in September 2015 and, as of July 2016, 137 units were leased, equating to an average monthly absorption of 14 units.

Rent growth spiked in the Tacoma-Lakewood area in the spring of 2016 because of a stable vacancy rate of just below 4 percent.



Source: Dupre + Scott Apartment Advisors, Inc.

Multifamily permitting activity in the Tacoma-Lakewood area has been erratic for the past 10 years, with a postrecession high of 1,400 units permitted in 2014.



Note: Includes preliminary data from January 2016 through May 2016.

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