HUD PD&R **Regional Reports**

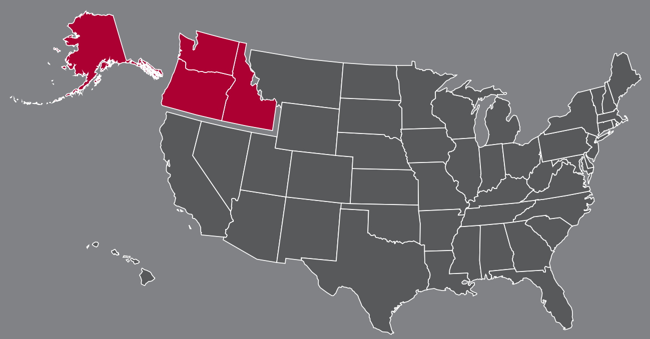
Region 10: Northwest

Anchorage, Alaska

Quick Facts About Region 10

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

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



By Holi Weaver | 3rd quarter 2017

Overview

Economic growth was strong in the Northwest region during the third quarter of 2017, as nonfarm payrolls have continually expanded since the third quarter of 2010. Regional nonfarm payrolls totaled 6.3 million jobs during the third quarter of 2017, reflecting an increase of 137,000 jobs, or 2.2 percent, from a year ago. Job gains were realized in every state of the region, including Alaska, which had reported year-over-year job losses in each of the seven previous quarters. Low levels of for-sale inventory throughout much of the region continued to put upward pressure on sales prices contributing to tight homes sales market conditions in Idaho, Oregon, and Washington. Sales market conditions were slightly soft in Alaska because of weak economic growth. New single-family home construction, as measured by the number of homes permitted, increased in all states in the region but Oregon. Apartment markets in the region are mixed, ranging from very tight to balanced, with more markets considered balanced during the current quarter compared with a year prior.

During the third quarter of 2017—

- For the region, every payroll sector added jobs, including manufacturing, which had recorded year-over-year job losses since the second quarter of 2016.

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- Sales market conditions remain tight across the region since the first quarter of 2015, except in Alaska. Regionwide single-family permitting activity increased 5 percent compared with permitting levels during the third quarter of 2016, despite an 8-percent decrease in Oregon.
- Apartment vacancy rates increased in six of the seven metropolitan areas referenced in this report, and rent growth ranged from 1 percent in Anchorage to 9 percent in Tacoma. Multifamily permitting in the region increased 8 percent compared with the same period a year ago.

Economic Conditions

Economic conditions in the Northwest region, which began to improve during the third quarter of 2010, remained strong during the third quarter of 2017, but the rate of nonfarm job growth slowed. Nonfarm payrolls averaged 6.3 million jobs, up by 137,000 jobs, or 2.2 percent, from the third quarter of 2016. By comparison, year-over-year payroll growth averaged 1.8 percent from September 2011 through September 2013, before accelerating to an average annual growth rate of 2.7 percent through September 2016. Washington and Oregon contributed most of the jobs added in the region, comprising 54 and 35 percent of all gains, respectively. Increased 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 third quarter of 2017, adding 23,000 jobs, or 6.0 percent. The education and health services, leisure and hospitality, and professional and business services sectors had the greatest overall payroll increases during the third quarter of 2017, accounting for more than 50 percent of all job gains in the region. Manufacturing sector payrolls showed modest gains during the third quarter of 2017, up by 3,700 jobs, or 0.7 percent, after recording job losses during the preceding 12 months. This uptick was the result of payroll growth in Idaho and Oregon, as Washington continued to lose manufacturing jobs, mainly in the aerospace product and parts manufacturing industry.

The regional unemployment rate averaged 4.3 percent during the third quarter of 2017 compared with 5.0 percent a year ago, slightly less than the national jobless rate of 4.4 percent. At 2.6 percent, Idaho had the lowest unemployment rate in the Northwest region, down from 3.6 percent a year ago. The unemployment rates declined in Oregon and Washington from 5.0 to 4.3 percent and from 5.3 to 4.4 percent, respectively. Alaska had the highest unemployment rate in the region at 6.5 percent, up from 6.0 percent a year prior. Alaska tied with the District of Columbia for the second highest unemployment rate in the nation, only behind New Mexico.

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The rate of job growth in the Northwest region slowed from the previous year but remained above the national rate of 1.4 percent.

	Third Quarter		Year-Over-Year Change	
	2016 (thousands)	2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	6,155.8	6,292.8	137.0	2.2
Goods-producing sectors	953.6	980.3	26.7	2.8
Mining, logging, and construction	385.0	408.0	23.0	6.0
Manufacturing	568.6	572.3	3.7	0.7
Service-providing sectors	5,202.2	5,312.5	110.3	2.1
Wholesale and retail trade	953.9	966.3	12.4	1.3
Transportation and utilities	213.7	220.5	6.8	3.2
Information	172.4	176.2	3.8	2.2
Financial activities	298.5	303.9	5.4	1.8
Professional and business services	769.2	782.0	12.8	1.7
Education and health services	871.0	899.1	28.1	3.2
Leisure and hospitality	664.7	679.6	14.9	2.2
Other services	219.5	224.3	4.8	2.2
Government	1,039.2	1,060.5	21.3	2.0

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

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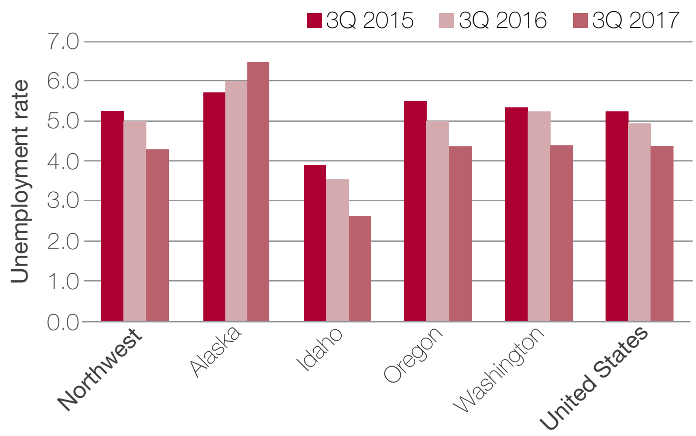
During the third quarter of 2017—

- In Alaska, low oil prices, causing a severe slowdown in oil exploration and drilling activity, continued to dampen economic growth. For the first time in almost 2 years, however, payroll growth resumed, with the addition of 600 jobs, or 0.2 percent, to 351,100 jobs compared with the same period a year ago. All job growth occurred in service-providing sectors, led by the transportation and utilities sector, which added 1,000 jobs, or 4.2 percent.
- In Idaho, nonfarm payrolls averaged 719,100, up by 14,500 jobs, or 2.1 percent, a deceleration from a year ago when payrolls increased by 23,900 jobs, or 3.5 percent. Job growth occurred in all sectors in the state during the third quarter of 2017, led by the education and health services and the government sectors, each of which added 3,300 jobs, increases of 3.3 and 2.8 percent, respectively.
- Oregon reported the fastest nonfarm payroll growth rate in the region and third fastest in the nation behind Nevada and Utah. Nonfarm payrolls averaged 1.88 million, reflecting an increase of 47,400 jobs, or 2.6 percent, compared with a gain of 50,300 jobs, or 2.8 percent during the same period a year earlier. The mining, logging, and construction sector added the most jobs of any sector in the state, up by 12,300 jobs, or 12.0 percent; all job gains were realized in the construction subsector.
- In Washington, nonfarm payrolls increased by 74,600 jobs, or 2.3 percent, to 3.34 million jobs, compared with an increase of 98,400 jobs, or 3.1 percent, during the same period a year earlier. The largest payroll gains occurred in the government sector, which increased by 14,300 jobs, or 2.6 percent, a result of hiring in the state and local government subsectors.

Alaska was the only state in the Northwest region to record an increase in the unemployment rate from a year ago.



3Q = third quarter.
Source: U.S. Bureau of Labor Statistics

Sales Market Conditions

Strong economic growth in the Northwest region led to generally tight sales housing markets during the third quarter of 2017, continuing a trend that began 2 years prior. New and existing home sales (hereafter, home sales) increased 3 percent during the 12 months ending August 2017 to 316,800 homes sold, while the average sales price increased more than 8 percent to $334,100 (CoreLogic, Inc., with adjustments by the analyst). For context, home sales increased at an average annual rate of 15 percent, or 37,700 additional homes sold, from 2012 through 2015, and the average sales price grew at an average annual rate of 6 percent. The slow growth in home sales during the past 12 months is a consequence of record low levels of for-sale inventory throughout the region, rather than decreased demand. All major metropolitan areas in the region for which data are available had less than a 3.5-month supply of homes for sale in August 2017 for the second consecutive year (Redfin). Home sales markets were tight across the region, with the exception of Alaska, where conditions were slightly soft. These tight 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 1.8 percent in August 2016 to 1.3 percent in August 2017. During the same time, the national rate of seriously delinquent home loans and REO properties declined from 2.7 to 2.2 percent (CoreLogic, Inc.).

The number of homes sold increased in Washington and Idaho almost 6 and 3 percent, respectively, during the 12 months ending August 2017. Average annual growth of 14 and 4 percent, respectively, from 2012 through 2015, when the inventory of homes for sale was greater, preceded these gains. Average sales price growth accelerated in both states during the past 12 months, up 9 percent to $380,500 in Washington and up 4 percent to $233,200 in Idaho compared with average annual increases of 6 percent in each state from 2012 through 2015. The Seattle and Tacoma metropolitan areas recorded gains in home sales of 5 and 13 percent, respectively, from a year ago. Both metropolitan areas experienced double-digit price growth, with approximately 50 percent of all homes sold in August 2017 selling above list price (Redfin). Sales market conditions in the Boise metropolitan area were slightly tight as home sales increased 4 percent, and the average sales price rose 6 percent.

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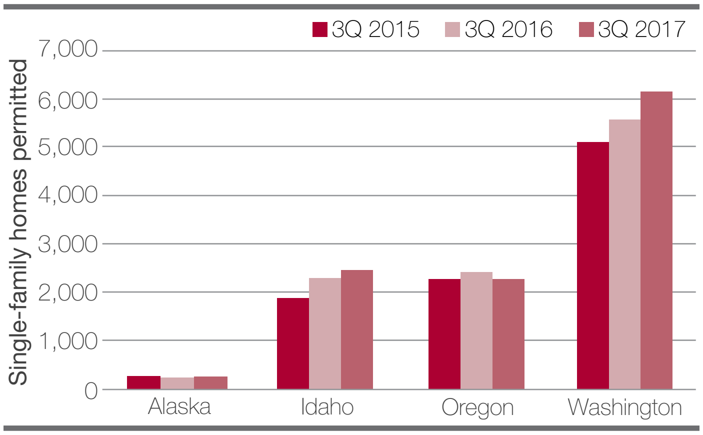
Home sales in Oregon were relatively unchanged from a year ago, with 88,650 sales during the 12 months ending August 2017, but the average sales price increased more than 7 percent to $317,400. By comparison, from 2012 through 2015, home sales and prices increased at average annual rates of 14 and 7 percent, respectively. Home sales declined in the Portland and Bend metropolitan areas during the past 12 months, 2 and 4 percent, respectively. However, the low levels of for-sale inventory put significant upward pressure on sales prices, which led to price gains of 9 percent each in the Portland and Bend metropolitan areas during the past 12 months.

The sluggish Alaskan economy resulted in declining home sales for the second consecutive year, with sales down 7 percent during the 12 months ending August 2017, which followed a drop of 3 percent a year prior. Price growth in Alaska has been modest since the housing market recovery began in 2010, with home prices increasing at an average annual rate of 3 percent from 2010 through 2015.

In the Northwest region, more than 97 percent of the growth in single-family permitting occurred in Idaho and Washington.



3Q = third quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

During the 12 months ending July 2017, the average sales price was relatively unchanged from a year ago at $282,800. Sales market conditions in Anchorage, the largest metropolitan area in the state, mirror state-level trends, with home sales declining in the past 12 months and sales prices remaining stagnant.

During the third quarter of 2017 (preliminary data)—

- Despite strong price growth throughout the region, new home construction, as measured by the number of single-family homes permitted, remains well below prerecession levels, in large part because of factors constraining home builders, including shortages in labor and land and increasing construction costs. An average of 11,125 new homes were permitted in the region during the third quarter of 2017, up only 5 percent from the same time a year ago.
- Washington accounted for almost 56 percent of all new home construction in the region, with 6,175 homes permitted, up 11 percent from a year ago.
- In Idaho, approximately 2,450 single-family homes were permitted, reflecting a 6-percent increase from the third quarter of 2016. This gain followed a 24-percent increase from the third quarter of 2015 to the third quarter of 2016.
- Despite weakening economic and housing market conditions, single-family permitting activity in Alaska increased from 260 homes permitted in the third quarter of 2016 to 280 homes permitted during the third quarter of 2017. 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 11 percent since 2012. Approximately 2,250 single-family homes were permitted during the third quarter of 2017, down 6 percent from a year ago.

In the Northwest region, three metropolitan areas experienced double-digit sales price growth.

	12 Months Ending	Number of Homes Sold			Price			
		2016	2017	Percent Change	Average or Median	2016 ($)	2017 ($)	Percent Change
Anchorage (N&E)	August	9,182	8,444	– 8	AVG	302,153	302,365	0
Bend (N&E)	August	7,162	6,908	– 4	AVG	333,879	362,400	9
Boise (N&E)	August	23,642	24,492	4	AVG	238,362	253,736	6
Eugene (N&E)	August	7,299	7,702	6	AVG	245,143	261,978	7
Portland (N&E)	August	52,727	51,478	– 2	AVG	351,998	382,310	9
Salem (N&E)	August	7,786	8,264	6	AVG	222,945	248,268	11
Seattle (N&E)	August	58,245	61,157	5	AVG	510,733	562,489	10
Tacoma (N&E)	August	18,720	21,209	13	AVG	280,458	313,269	12

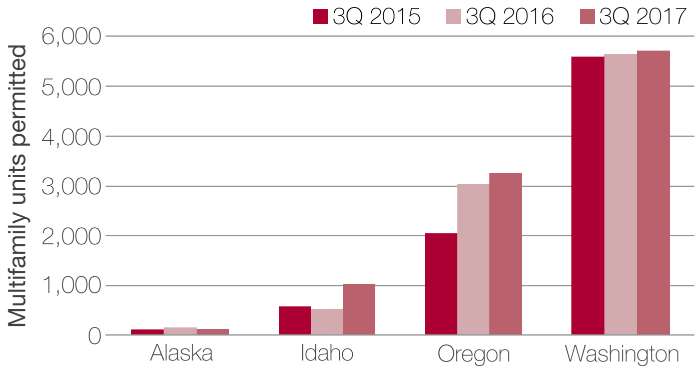
AVG = average. N&E = new and existing.
Note: Data include single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc., with adjustments by the analyst

Apartment Market Conditions

Apartment market conditions were mixed throughout the Northwest region during the third quarter of 2017, ranging from very tight to balanced, which represented a slight easing in some metropolitan areas in the region, compared with a year ago. Among the seven metropolitan areas referenced in this report, vacancy rates ranged from 1.9 percent in the Salem metropolitan area to 4.9 percent in the Bend metropolitan area. Vacancy rates increased in six of the seven metropolitan areas, mainly a result of a high number of units completed in the past year. With large pipelines (units under construction and in planning) throughout much of the region, vacancy rates could continue their upward trajectory during the next 2 to 3 years. The vacancy rate declined in the Boise metropolitan area, however, despite record levels of multifamily construction since 2014. All seven metropolitan areas reported year-over-year rent growth, ranging from 1 percent in Anchorage to 9 percent in Tacoma.

In Portland, an increased vacancy rate and a slowdown in rent growth, to a modest year-over-year gain of 3 percent, signaled balanced market conditions compared with very tight conditions during the third quarter of 2016. Although the vacancy rate in Anchorage is relatively low, rent growth of only 1 percent indicates balanced market conditions as well. In the Seattle metropolitan area, despite the addition of approximately 11,150 apartment units since the third quarter of 2016, apartment market conditions remain tight, with rent growth of 6 percent and an increase of 0.6 percentage points in the vacancy rate. Apartment market conditions in the Bend and Salem metropolitan areas were slightly tight and very tight, respectively, recording rent growth of 8 and 5 percent, respectively, despite vacancy rates increasing in both areas. The Tacoma metropolitan area had the tightest apartment market in the region during the third quarter of 2017 and the strongest rent growth at 9 percent, even though the vacancy rate increased from 2.8 to 3.3 percent.

Idaho and Oregon comprised more than 92 percent of the increase in multifamily construction in the Northwest region.



3Q = third quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

Multifamily construction in the Northwest region, as measured by the number of multifamily units permitted, increased 8 percent to 10,050 units permitted compared with a gain of 12 percent from the third quarter of 2015 to the third quarter of 2016.

During the third quarter of 2017 (preliminary data)—

- The greatest increases and fastest rates of growth in multifamily permitting activity occurred in Idaho, where 1,025 multifamily units were permitted, almost double the number of units permitted a year ago. Almost 60 percent of multifamily construction in Idaho was in the Boise metropolitan area.
- The number of multifamily units permitted in Oregon increased almost 7 percent to 3,250 units, following an 8-percent

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Rent growth across major metropolitan areas in the Northwest region continued despite generally increasing vacancy rates.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2016 (%)	3Q 2017 (%)	Percentage Point Change	3Q 2016 ($)	3Q 2017 ($)	Percent Change
Anchorage[a]	Balanced	2.6	3.1	0.5	1,127	1,142	1
Bend[a]	Slightly tight	1.8	4.9	3.1	869	941	8
Boise[a]	Slightly tight	5.0	4.7	– 0.3	821	863	5
Portland[a]	Balanced	4.7	4.8	0.1	1,252	1,293	3
Salem[a]	Very tight	1.4	1.9	0.5	812	855	5
Seattle[b]	Tight	2.9	3.5	0.6	1,468	1,563	6
Tacoma[c]	Very tight	2.8	3.3	0.5	1,041	1,130	9

3Q = third quarter.
Sources: market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—(a) Reis, Inc., (b) MPF Research, (c) Dupre + Scott Apartment Advisors for the month of September

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decrease during the third quarter of 2016. Approximately 90 percent of multifamily construction in the state was in the Portland metropolitan area. Approximately 360 multifamily units were permitted in the Salem metropolitan area, which may help ease the very tight apartment market.

- Washington accounted for almost 57 percent of the multifamily units permitted in the region. Multifamily construction in the state increased only 1 percent to 5,700 units from a year earlier. In the Seattle metropolitan area, multifamily construction rose 4 percent to 4,400 units, comprising more than three-fourths of all multifamily construction in the state.
- In Alaska, where multifamily construction is relatively low and fluctuates significantly, the number of units permitted declined from 150 to 110 units. The Anchorage metropolitan area accounted for all multifamily construction during the quarter.