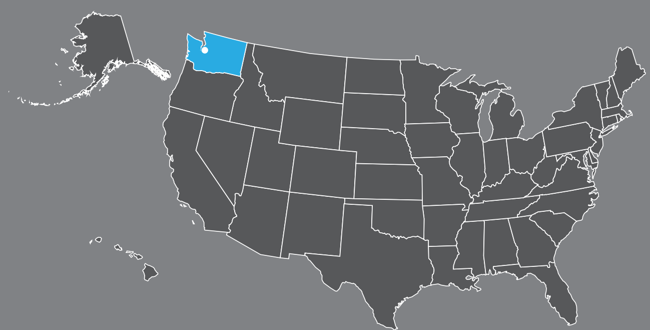
HUD PD&R Housing Market Profiles

Tacoma-Lakewood, Washington

Tacoma, Washington

Quick Facts About Tacoma-Lakewood

- **Current sales market conditions: very tight**
- **Current apartment market conditions: tight**
- **Joint Base Lewis-McChord (JBLM), the largest U.S. Army-led joint base in the country, has 38,300 active-duty military, National Guard, and Army Reserve members and 16,050 civilian personnel (Army Stationing and Installation Plan [ASIP] as of October 2019). In addition to the active-duty military, 46,500 family members and 39,600 retirees live within a 40-mile radius of the base.**



By Holi Urbas | As of November 1, 2020

Overview

The Tacoma-Lakewood metropolitan division (hereafter, Tacoma-Lakewood metropolitan area) is located on the Puget Sound directly south of the Seattle metropolitan area (King and Snohomish Counties) and consists of Pierce County. All three counties combined constitute the Seattle-Tacoma-Bellevue metropolitan statistical area (hereafter, the Seattle MSA). The economy of the Tacoma-Lakewood metropolitan area is closely tied to that of the Seattle MSA, which has a broader economic base. The significantly lower cost of housing in the Tacoma-Lakewood metropolitan area has caused a net inflow of residents from King County (home to the city of Seattle) to Pierce County. Also important to the economy is JBLM, the largest employer in the metropolitan area, the third largest employer in the state of Washington, and one of the most requested duty stations in the country. In 2018, JBLM had an economic impact on the South Sound (17 communities in Pierce and Thurston Counties and on Nisqually Indian tribal lands) between $8.3 and $9.2 billion (South Sound Military and Communities Partnership [SSMCP] and the University of Washington Tacoma Center for Business Analytics).

- As of November 1, 2020, the population of the metropolitan area was estimated at 918,700, reflecting an average annual

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increase of 14,050, or 1.6 percent, since July 2015; nearly 70 percent of the increase was attributable to net in-migration. By comparison, from July 2010 to July 2015, population growth averaged 9,275 people, or 1.1 percent, a year, and 43 percent of the growth was because of net in-migration.

- The stronger rate of population growth in the metropolitan area since 2015 is largely because of increased net in-migration from King County (home to the city of Seattle), which is partly attributable to the disparity in housing costs; the average home sales price in Pierce County has been approximately 50 percent less than the average home sales price in King County since 2013, compared with a 25- to 45-percent discount from 2005 through 2012 (Zonda). The most recent data available estimates a net flow of 7,600 people from King County to Pierce County in 2018, compared with 2,500, 4,600, and 3,850 in 2017, 2016, and 2015, respectively (U.S. Census County-to-County Migration Flows).
- Of the 38,300 active-duty military, National Guard, and Army Reserve members currently stationed at JBLM, approximately 29 percent live on base, 40 percent live off base in Pierce County, and 30 percent live off base to the south, in neighboring Thurston County (SSMCP).

Economic Conditions

The interventions taken in mid-March to slow the spread of COVID-19, including a stay-at-home order (partially lifted in June 2020) and ongoing social distancing mandates, caused economic activity in the metropolitan area to slow dramatically. Before the pandemic, economic conditions in the metropolitan area were strong, with 9 years of consecutive nonfarm payroll growth averaging 6,200 jobs, or 2.1 percent, annually from 2011 through 2019. During the 12 months ending October 2020, which includes 4 full months before the pandemic, payrolls totaled 313,900, reflecting a decline of 12,000, or 3.7 percent, compared with the same period a year ago. The effect of the countermeasures is more pronounced when looking at payroll data during the most recent 3-month period compared with a year ago because all months in the current series encapsulate the pandemic. During the 3 months ending October 2020, payrolls fell by 15,100, or 4.6 percent, compared with an increase of 5,500, or 1.7 percent, during the 3 months ending October 2019. This percentage, however, is an improvement from the 3 months ending July 2020, when payrolls were down by 24,900, or 7.6 percent, compared with the same period a year earlier.

At the end of October 2020, Pierce County was in Phase 2 of the Washington State phased reopening plan, which allowed nonessential travel to resume and most establishments to operate while adhering to state-mandated social distancing requirements and health safety standards. In response to rising positive COVID-19 cases, the State of Washington announced another stay-at-home-order from mid-November 2020 until early January

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During the 3 months ending October 2020, only three payroll sectors added jobs in the Tacoma-Lakewood metropolitan area compared with a year ago.

	3 Months Ending		Year-Over-Year Change	
	October 2019 (Thousands)	October 2020 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	329.5	314.4	-15.1	-4.6
Goods-Producing Sectors	44.2	39.9	-4.3	-9.7
Mining, Logging, & Construction	26.3	23.4	-2.9	-11.0
Manufacturing	17.9	16.5	-1.4	-7.8
Service-Providing Sectors	285.3	274.5	-10.8	-3.8
Wholesale & Retail Trade	49.4	48.1	-1.3	-2.6
Transportation & Utilities	18.9	19.3	0.4	2.1
Information	2.2	2.0	-0.2	-9.1
Financial Activities	14.9	15.0	0.1	0.7
Professional & Business Services	35.3	36.9	1.6	4.5
Education & Health Services	57.0	55.3	-1.7	-3.0
Leisure & Hospitality	35.1	29.9	-5.2	-14.8
Other Services	14.5	13.4	-1.1	-7.6
Government	58.0	54.5	-3.5	-6.0
Unemployment Rate	4.6%	8.8%		

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

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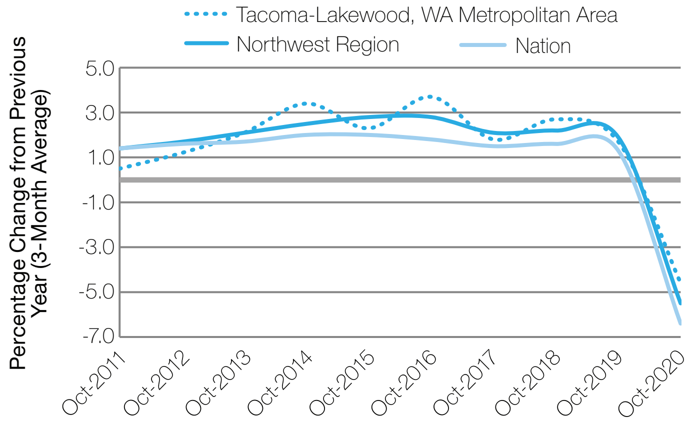
2021, causing many businesses to close again; however, the effects of the most recent stay-at-home order are not captured in the currently available payroll data (through October 2020).

During the 3 months ending October 2020—

- Payroll sectors most affected by the countermeasures applied to slow the spread of COVID-19 were those that rely heavily on in-person interactions. Approximately 40 percent of total jobs lost in the metropolitan area were in the leisure and hospitality and the education and health services sectors, which declined by 5,200 and 1,700 jobs, or 14.8 and 3.0 percent, respectively, from the 3 months ending October 2019. For context, both sectors added jobs every year from 2011 through 2019.
- The government sector declined by 3,500 jobs, or 6.0 percent; 85 percent of the losses were in the local and state government subsectors because of budget shortfalls stemming from pandemic-related woes, including reduced tax revenue and increased unemployment benefits. Employment at JBLM, including civilian and contract employees, was relatively unchanged.
- Sectors with a high concentration of jobs that easily transitioned to a telework model, including professional and business services and financial activities, continued adding jobs during the period but at reduced rates compared with pre-pandemic growth rates. Transportation and utilities sector payrolls increased as well, largely attributed to a surge in online shopping.
- The unemployment rate increased to 8.8 percent, compared with 4.6 percent during the 3 months ending October 2019 and a high of 10.4 percent in 2010 because of the Great Recession.

Part of the relationship between the Tacoma-Lakewood metropolitan area and King County is illustrated by commuting patterns. According to the most recent data available, 48.9 percent of employed Tacoma-Lakewood metropolitan area residents, or approximately 186,100 people, commute outside the county for work, of which approximately 72 percent commute to King County (Census Bureau, On the Map, 2018 data). By comparison, in 2015, 47.5 percent of Pierce County residents worked outside the county, and 71 percent commuted to King County.

Job losses stemming from the responses to the pandemic were less severe in the Tacoma-Lakewood metropolitan area than in the Northwest Region and the nation.



Source: U.S. Bureau of Labor Statistics

Largest Employers in the Tacoma-Lakewood Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Joint Base Lewis-McChord	Government	54,350
MultiCare Health System	Education & Health Services	7,439
CHI Franciscan	Education & Health Services	6,528

Notes: Excludes local school districts. Data for Joint Base Lewis-McChord.
Sources: Moody's Analytics and Army Stationing and Installation Plan [ASIP] as of October 2019

Sales Market Conditions

Sales housing market conditions in the Tacoma-Lakewood metropolitan area are currently very tight, with an estimated sales vacancy rate of 0.9 percent, down from 2.6 percent in 2010. A limited supply of for-sale inventory, in conjunction with strong population and economic growth before the pandemic, resulted in increased demand for sales housing and contributed to the decline in the vacancy rate. The inventory of homes for sale has been less than 6 months (typically indicative of a balanced market) since the beginning of 2012 and less than 3 months since early 2015 (Redfin, a national real estate brokerage). As of October 2020, a 0.6-month supply of homes were available for sale, compared with 1.3 months of inventory a year ago.

The prolonged shortage of inventory, coupled with increased demand from King County residents, has resulted in strong home sales (including new and existing homes) price growth in the Tacoma-Lakewood metropolitan area that averaged more than 9 percent, annually, from 2015 through 2019 (Zonda). During the 12 months ending October 2020, the average sales price in Pierce County was $417,300, up 9 percent from a year ago. By comparison, the average sales price of a home in King County was $770,500 during the 12 months ending October 2020, up 7 percent from a year ago. Supply-side constraints that supported the increased sales price growth in Pierce County were also partly responsible for a 24-percent decline in the number of home sales

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during the past year. A 9-percent decline in home sales during the 12 months ending October 2019 preceded that decline, following an average annual increase of 5 percent from 2015 through 2018.

- Approximately 13,200 existing homes sold in the Tacoma-Lakewood metropolitan area during the 12 months ending October 2020, down 23 percent from a year ago and following a 13-percent decline during the previous 12-month period (Zonda). During the same time, the average sales price increased 10 percent, to $405,800, which was preceded by a gain of 10 percent during the 12 months ending October 2019.
- New home sales, which account for less than 9 percent of all home sales in the metropolitan area, fell 35 percent, to 1,200 sales, during the 12 months ending October 2020, compared with a 13-percent decline during the 12 months ending October 2019. The average sales price increased 6 percent, to $540,000, during the past 12 months, compared with a 9-percent gain during the previous 12-month period.
- In the Tacoma-Lakewood metropolitan area, 57 percent of homes sold during the 3 months ending October 2020 sold above the list price, compared with 43 percent a year ago, and the average days on the market declined from 18 to 6 (Redfin, a national real estate brokerage).
- In September 2020, 3.3 percent of home loans in the Tacoma-Lakewood metropolitan area were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into real estate owned (REO) status; that rate was up from 0.9 percent in February 2020, before the pandemic and compared with a high of 10.0 percent during the aftermath of the Great Recession in 2012.
- In 2020, the percentage of adults in the Seattle MSA living in households not current on rent or mortgage payments, where eviction or foreclosure in the next 2 months is either very likely or somewhat likely, increased from 20 percent during the week ending August 31 to 22.6 percent during the week ending November 9 (U.S. Census Household Pulse Survey). The percentage jumped to 32.5 percent during the week ending

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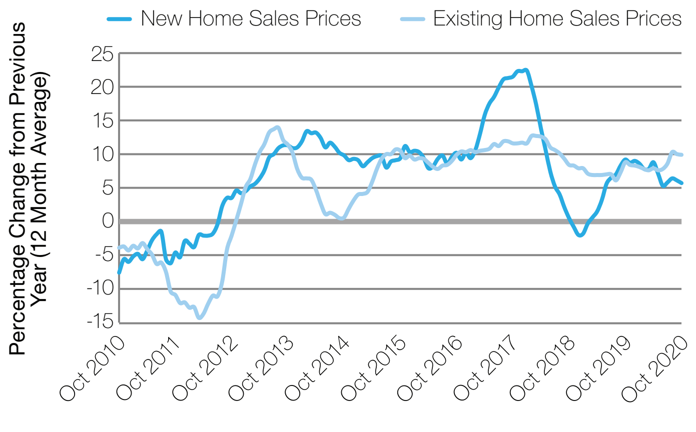
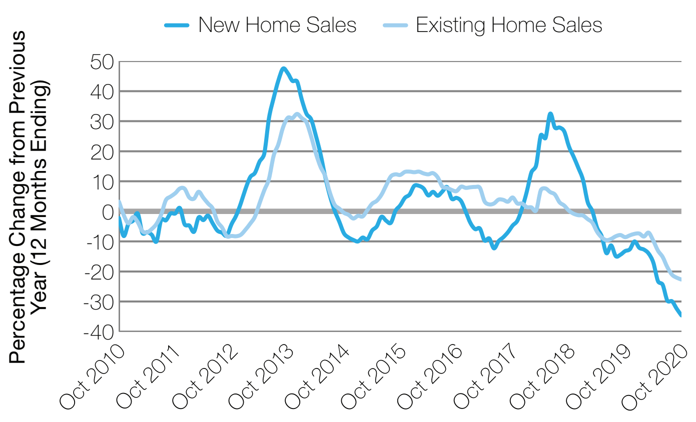
New and existing home sales prices continued increasing in the Tacoma-Lakewood metropolitan area during the past 12 months despite the large economic disruption caused by efforts to slow the spread of COVID-19.



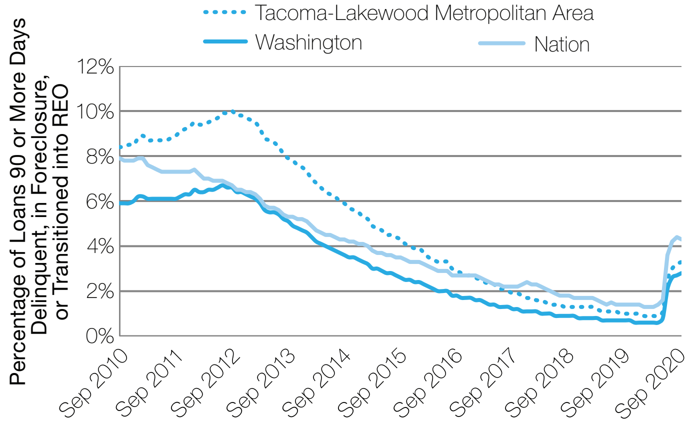
Note: Prices are for single-family homes, townhomes, and condominiums.
Source: Zonda

New and existing home sales have been declining in the Tacoma-Lakewood metropolitan area since early 2019 because of a prolonged shortage of for-sale inventory.



Note: Sales include single-family homes, townhomes, and condominiums.
Source: Zonda

The percentage of home loans 90+ days delinquent, in foreclosure, or recently transitioned to REO status spiked since the onset of the pandemic, although the rate in the Tacoma-Lakewood metropolitan area remains lower than that of the nation.



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

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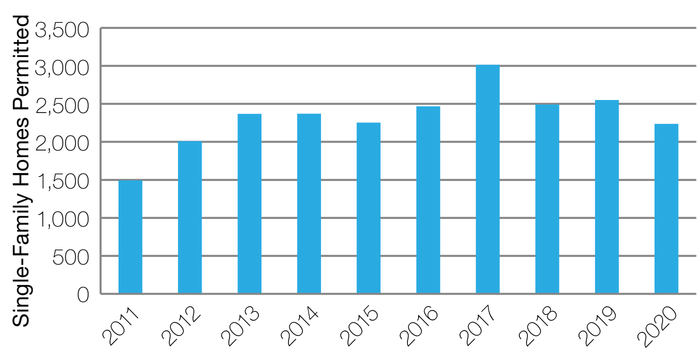
November 23, coinciding with the stay-at-home order that began a week earlier. Consequently, the number of seriously delinquent loans in the region may remain elevated or increase in the upcoming months.

New home construction, as measured by the number of single-family homes permitted, has been relatively flat since the housing market recovered in 2013, except for an uptick in 2017, averaging 2,525 new homes a year. Rising labor, land, and materials costs have suppressed growth in new home construction from keeping pace with increased demand caused by elevated net in-migration for several years and improved access to credit.

- During the 12 months ending October 2020, approximately 2,650 single-family homes were permitted, up 9 percent from the 2,450 homes permitted during the 12 months ending October 2019 (preliminary data).
- Current new home production is significantly higher than the average of 1,650 homes permitted annually from 2008 through 2012, during the worst of the housing market crisis, but below the average of 4,525 homes permitted a year from 2001 through 2007, during the build-up to the national recession.
- The most new home sales in the metropolitan area year-to-date occurred in the Observation Ridge subdivision in Tehaleh, a 4,200-acre master-planned community in the city of Bonney Lake, a 20-minute drive away from the commuter train for people that work in downtown Seattle. A total of 86 new homes have sold since the beginning of 2020, with a median sales price of $635,700 (Zonda).
- Hawk's Ridge in the city of Spanaway, approximately 15 miles from the main gate of JBLM, reported 30 new home sales since the beginning of 2020, with a median sales price of $409,400 (Zonda).

New home construction in the Tacoma-Lakewood metropolitan area has been relatively stable since 2013 except for a spike in 2017.



Note: Includes preliminary data from January 2020 through October 2020.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

Apartment Market Conditions

Apartment market conditions in the Tacoma-Lakewood metropolitan area are currently tight, with a 2.9-percent vacancy rate during the third quarter of 2020, compared with 3.1 percent during the third quarter of 2019, whereas the average asking rent increased almost 2 percent, to $1,162 (Reis, Inc.). Despite increased apartment construction since 2014, the vacancy rate remained under 4.0 percent and rent growth averaged almost 6 percent, annually, through 2019. During the most recent quarter, rents averaged $954, $1,022, $1,223, and $1,544 for studios, one-bedroom, two-bedroom, and three-bedroom units, respectively.

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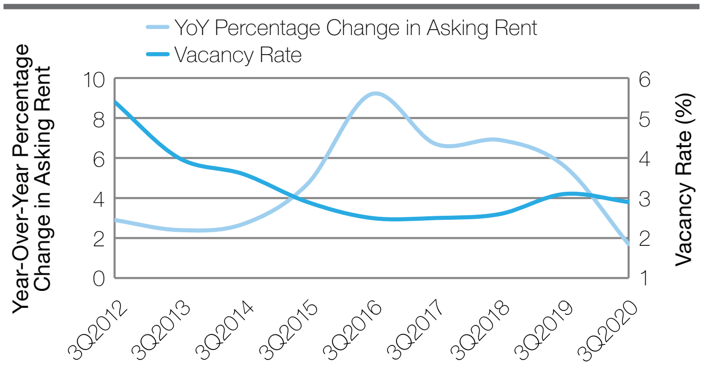
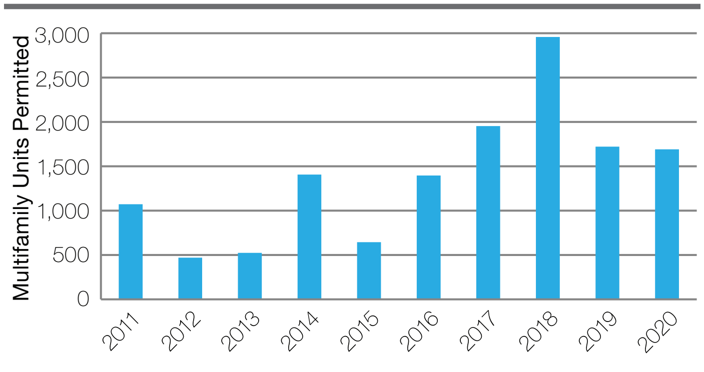
The apartment vacancy rate in the Tacoma-Lakewood metropolitan area declined during the third quarter of 2020, and rent growth slowed to the lowest rate since at least the third quarter of 2012.



3Q = third quarter. YoY = year-over-year.
Source: Reis, Inc.

The number of multifamily units permitted in 2018 in the Tacoma-Lakewood metropolitan area was the highest level in three decades.



Note: Includes preliminary data from January 2020 through October 2020.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

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During the third quarter of 2020—

- Apartment vacancy rates increased in five of the seven Reis, Inc.-defined market areas in the metropolitan area compared with rates during the third quarter of 2019, ranging from a 0.1-percent increase in both the Parkland/Spanaway/Midland and North Tacoma market areas to a 0.5-percent increase in the Lakewood market area.
- The largest decline in the vacancy rate, from 7.4 to 4.3 percent, was in the McChord Air Force Base market area, which includes areas closest to JBLM, and the average asking rent increased 3 percent, to $943, the lowest asking rent among all seven market areas.
- The highest vacancy rate was 5.2 percent, in the North Tacoma market area, which includes downtown Tacoma, up from 5.1 percent a year ago. An average of 230 new units a year have been completed in the market area since 2014, the highest amount of new construction among all market areas in the metropolitan area.
- Rent growth occurred in five of the seven market areas in the metropolitan area during the past year, ranging from a 2-percent gain in the Lakewood market area to a 5-percent increase in the University Place/Fircrest market area. Rents declined 3 percent in the Parkland/Spanaway/Midland area, compared with a 4-percent increase a year ago. Rents were unchanged in the East market area but remained the highest asking rent among the submarket areas, at $1,270.

Apartment construction, as measured by the number of multifamily units permitted, has generally increased since 2014 because strong population growth and a limited supply of for-sale housing continue to encourage development. Construction activity moderated during the past 2 years, however, as builders wait to see how the market responds to the record level of multifamily units permitted in 2018. In addition, some builders reported postponing new developments in 2020 until the effects of the pandemic were better understood.

- Approximately 1,925 multifamily units were permitted in the metropolitan area during the 12 months ending October 2020, down 1 percent from the 1,950 units permitted during the 12 months ending October 2019 (preliminary data).
- Despite a 1-year low point in 2015, apartment construction averaged 1,675 units, annually, from 2014 through 2019, significantly higher than the average of 600 units permitted annually from 2008 through 2013 due to the Great Recession and the housing market collapse. Current levels also surpass levels before the collapse; an average of 1,200 units were permitted, annually, from 2000 through 2007.
- During the first three quarters of 2019, net absorption of units totaled 315, compared with negative net absorption of 30 units during the same period in 2020 (Reis, Inc.).
- An estimated 1,625 units are currently under construction in the metropolitan area; approximately 60 percent of them are in the city of Tacoma.
- The 408-unit View by Vintage in the city of Bonney Lake opened in September 2020 and had leased 45 units by early November 2020 (ALN). Monthly rents are $914, $1,101, and $1,275 for one-, two-, and three-bedroom units.