

GENERAL SUMMARY

OVERVIEW

What are the demographic patterns of the market? What does the inventory look like? What are the characteristics of the labor market and the income patterns? In the long history of this report, the purpose is to provide the best public, and occasionally private, information to assist market participants in their decision-making. We try to provide some answers. This current edition continues that objective.

RELEVANT NATIONAL FACTORS

Growth in real GDP and consumer price inflation is projected to remain slow near the end of 2016 and pick up slightly in 2017, according to the Federal Reserve. Inflation remains low. While the Federal Reserve have recently increased the federal funds rate to a modest 0.66%, the rate for 2017 are projections to rise to 1.1%. However, the timing and domino effect on the broad market is a mystery. For now, real estate participants can proceed without much change in expectations.

POPULATION

Spokane County

Population growth in Spokane County remained just under 1% in 2016. The U.S. Census Bureau has estimated a County population of approximately 499,800 as of July 2017. That is an additional 7,270 people than the previous year. The City of Spokane grew at 1.3% while the Spokane Valley grew a mere 0.8%. These trends are on course with the Washington State Office of Financial Management's projections for the County, an estimated annual growth rate of 1.0% through 2020.

Kootenai County

The Census Bureau is estimating 154,311 as of July 2016 for Kootenai County. Current population projections for the County are estimated to reach 163,500 by 2020. The cities experiencing the most growth during the 2010 to 2015 time period include the most populous cities of Coeur d'Alene and Post Falls.

The combined 2020 market population of the two adjacent Counties of potentially about 670,000 represents a very attractive market.

Bonner County

The estimated July 2016 population was 42,536—a 1.6% increase from 2015. The population in Sandpoint grew at an annual rate of 1.9% during the same time period.

DRIVER LICENSE SURRENDERS

Spokane County

Over the past few years, Spokane County has experienced significant growth in the number of drivers licenses surrendered—particularly from California residents, followed by Idaho. In the year ending in September, driver license surrenders were up 31% from the previous year.

Kootenai County

New data are not available for Idaho at this time. However, similar to Spokane County, California continues to lead the migration.

Bonner County

New data are not available for Idaho at this time.

RESIDENTIAL ELECTRICAL CUSTOMERS

Spokane County

As of September 30, there were 210,620 residential meters in Spokane County. Ten years ago, the number was 193,054—averaging a compound annual growth rate of 0.9%.

Kootenai County

As of September 30, there was a record 72,122 residential electric meter customers in the County. The meter count is up by approximately 1% from 2016. Households are becoming more efficient with their energy use.

Bonner County

As of September 30, the meter count is up slightly in Bonner County at 25,051 residential electric meters. The previous five years reflect slight increases but have remained relatively unchanged since 2011 after seeing large increases each year since 2004 when the data series started.

EMPLOYMENT

Spokane County

There are a variety of data sets to confuse long time followers of this report. Most recent data includes Stevens and Pend Oreille County reflecting the newly defined MSA boundaries. Last year showed an uptick in the labor force—the first time since the depths of the most recent recession. Estimates for 2017 show a slight decrease from the previous year. The unemployment rate has continued to drop since the recession and through the recovery.

The new expanded data series shows total “non-ag, wage and salary” jobs at 242,400, approximately 7,900 additional jobs from 2015. Over 7% of total non-ag jobs continue to be in the manufacturing sector. However, the job mix is changing dramatically with more high paying tech and health care jobs.

Kootenai County

Contrary to Spokane County, the labor force in Kootenai County started to shift gears in 2011 and expanding and accelerated by mid-2014. If the numbers don’t get revised (like they often do), Kootenai County’s labor force grew 1.6% in 2016—the fastest growth since 2008. The number of unemployed has dropped significantly as job opportunities become more plentiful. Total employment climbed to over 70,000 as of October 2017 and sits at 3.6% unemployment. Preliminary estimates show nonfarm wage and salary employment at 62,200 as of October 2017—up from the past two years. The disparity between total employed and nonfarm wage & salary employment indicates more part-time jobs and more self-employed people in this market.

Bonner County

According to most recent estimates, the components of employment in Bonner County has lowered the unemployment rate from 7.1% in 2014 to 3.8% in 2017—due to a drop in unemployment coupled with an increase in the number of employed. The mix of jobs have changed significantly in the County since the recession and the closure of large mills and Coldwater Creek. A high tech culture is cultivated by the strong entrepreneurial spirit in the area. The 3.8% unemployment rate is the lowest since 2007—right before the closure of JD Lumber.

PERSONAL INCOME

Spokane County

Total personal income in Spokane County reached nearly \$19.8 billion in 2015—the most recent data available. This reflects a 4.2% current dollar growth rate over 2014. The annual growth rate projected by Global Insight (provided by Avista Corp) averages approximately 4.6% annually over the next 5 years. Per capita personal income reached \$40,322 in 2015 (most recent data available) reflecting a 2.9% current dollar growth rate over 2014. In 2015, Spokane County’s per capita personal income was 84% of U.S. per capita income, down slightly from previous years.

Kootenai County

Total personal income in Kootenai County reached nearly \$5.7 billion in 2015. This reflects a 2.8% growth rate over 2014. Per capita personal income reached \$38,379 in 2015 reflecting a 4% increase over the year in 2015 dollars. Generally, growth in both total personal and per capita income has been on the rise since 2010.

Bonner County

Total personal income in Bonner County sits at \$1.4 billion for 2015—the most recent data available. This reflects a 3% current dollar growth rate over 2014. Per capita personal income was \$34,634 in 2015—a 2.5% increase over the year. Growth in both total personal and per capita income has been greater each year since 2009.

TAXABLE SALES DATASpokane County

Taxable retail sales reached a record of \$9.1 billion for 2016. Of that, 13.9% were in Contracting Sales which came with a large 14.7% gain over 2015. The 7% gain in total taxable sales was a strong performance.

Kootenai County

Taxable sales plateaued in 2013 and has fallen slightly in subsequent years, down to \$1.21 billion by 2015—an approximate 7% decline from pre-recession levels (adjusted for inflation).

Bonner County

Since the closure of Coldwater Creek, total taxable retail sales have dropped 9.3% in 2014 from a high of \$353.4 million in 2013. Trends continued to incur incremental declines as expected, dropping another 11.4% in 2015. Despite a number of improved statistics for this market, the sales activity is troubling.

FORECLOSURES ON DEEDS OF TRUSTSpokane County

The roller coaster foreclosure problem peaked in 2002 (at 1,152), bottomed out in 2006 at 269, and rose back up, finishing 2011 at 1,112. The 2012 figure declined substantially to 685, but the 2013 figure of 1,211 was a record high. The 2014 year ended at 982, a definite improvement over 2013, but still rather high. There were 714 foreclosures in 2015 and 2016 showed a slight increase to 761. Through November 2017, there have been 443, showing signs of improvement. These figures represent completed foreclosures.

Kootenai County

Foreclosure data was not available for Kootenai County for this edition. Foreclosure actions have been on the decline in Kootenai County and are back to pre-recession levels settling at 435 in 2016 after reaching peak levels of 2,903 in 2010. There have been 250 foreclosure actions through September 2017. The data currently used in Kootenai County is based on a much broader definition than in Spokane County, as it includes initial notices. Not all “notice of defaults” may result in actual foreclosure, so is not directly comparable to Spokane. However, the trend has been better in Kootenai County.

RESIDENTIAL BUILDING PERMITS

Spokane County

The number of single-family permits issued is on the rise once again. Following the housing crash, the number of permits for single family homes dropped to its lowest levels since the last double dip recession in the 1980s to 740 in 2011. By 2013, the housing market started showing some light as the number of building permits started gaining traction throughout Spokane County. Levels continue at this pace. As of year-end 2016, there were over 1,800 single family permits issued, with November 2017 at 1,406.

Multi-family (2+ units) permit issuance are also on the rise as several large complexes have been built and rental rates on the rise. However, this trend may slow as developers are cautious about not saturating the market.

Kootenai County

2011 figures ran at a pre-1990 record low level for single-family (424 units), and at a fairly low level for multi-family (202 units in 2+ unit structures). This follows a record high multi-family year in 2007 (666 units). Since then, 2013 was the closest to reaching such levels with 451 units in multi-family structures. As of November 2017, there were 1,593 total dwelling unit permits in Kootenai County—1,172 single-family and 421 multi-family units.

Bonner County

A fairly new series for Bonner County show that building permits (and the post-1996 “building location permits” which replaced them) peaked from 1992-1997, then again 2004-2007, peaking at 1,384 in 2005. Total building location permits declined substantially from 2009 thru 2012 hitting as low as 472 in 2012. The number of building location permits have been on the rebound bouncing back to a total of 752 permits in 2015—the highest levels since the recession began. There were 801 building permits reported in Bonner County in 2016. As of November 21, 2017, there have been 901 permits reported. No breakdown into commercial versus residential (or into residential structure types) is available.

LOTS PLATTED

Spokane County

Lot production is a bit of a roller coaster. For many years prior to 2004, lot creation had been limited. However, that changed in the years leading up to the housing bubble. From 2004-2008, lot creation EXCEEDED the number of single-family building permits, whereas, this was not the case from 2009 and on as the trend reversed—single-family building permits now exceed lot production. Lot production throughout 2015 exceeded 2014 (763 compared to 693, respectively). Most of the lot production occurred in the southeast section of Spokane County, followed closely by the northwest section of the county.

As of 2016, lots platted totaled 1,466, exceeding the 2015 amount of 763. There have been 647 lots platted as of third quarter 2017.

Kootenai County

Lots platted for Kootenai County were at 865 through September 2017, up from 799 at year-end 2016. Historically, lot production in Kootenai County has been lower than in Spokane County with a few exceptional years. In more recent years, lot inventory has been extremely low which has also driven up prices. In 2016, lot production in Kootenai County was 799 with Spokane County at 1,466.

RESIDENTIAL SALES

Spokane County

Sales volume has picked up since 2012 and keeping momentum. According to the MLS data series, the peak sales number had occurred in 2005 (7,521). In recent years, residential sales volume declined substantially bottoming out at 3,574 in 2011. By the end of 2016, 6,453 total homes sold in Spokane County. So far, 5,280 homes were sold in the third quarter of 2017. The largest share of homes sold in the County remains to be in Spokane Valley (29.2%) followed closely by the northwest quadrant (29%) of the County, similarly to preceding years.

Average and median prices rose sharply in 2016 (average prices went from \$197,630 in 2015 to \$212,144 in 2016). That trend has continued through 2017 where the average price rose to \$228,159.

Beginning in the third quarter of 2008, the federal series on repeat existing home sales (FHFA Index) shows the first drop in value over-the-year previous since the year 2000. These declines accelerated in 2009 and 2010, and continued to pick up speed again in 2011 (6.6% decline from 2010). The rate of decline slowed in 2012, though still negative. After 5 years, this trend finally changed pace into positive territory, at 1.0% in 2013 and 2014 figures showed a surprising 3.4% positive increase. This exceptional growth continued on into 2015, jumping 5.2%. The first quarter of most recent data in 2017 is showing a continued increase.

Kootenai County

As in Spokane County, the recession crushed residential sales volumes in 2008 reaching its lowest levels (2,077) since 2000 (2,039). The market started rebounding, albeit, at a slow pace, until 2013 when sales jumped 23.6 percent—from 2,509 in 2012 to 3,100 in 2013. The ensuing years justified a 5.6% increase in 2014 and jumped 18.2% by 2015 to 3,872 total residential sales reaching an all-time high for the Kootenai County area. There were 4,247 sales in 2016, a 10% increase from 2015. There have been 3,315 sales through the third quarter of 2017.

Average prices peaked in 2007 at \$279,314 (\$319,290 adjusted for inflation) and hit a most recent history low of \$199,788 in 2011 (\$210,518 adjusted for inflation). As of 2015, the average price was \$302,004—5.4% below 2007 adjusted for inflation levels. As of third quarter 2017, the average price of a home sold in Kootenai County was \$320,954.

Similar to Spokane County, the recession played its toll on repeat home sales activity. Over the past few years, the FHFA series on repeat home sales showed stronger appreciation than in Spokane County surging 6.2% in 2013 and another 7.3% in 2014 and 7.2% in 2015.

All are showing signs of gaining consumer confidence back in the marketplace.

Bonner County

Sales of single-family homes in Bonner County have been picking up speed in recent years. There had been a recent low of 369 single-family homes sold in 2009, following a steady decline from the 2004 peak of 939. The subsequent two years proved stagnate with 407 sales each year and jumping in 2012 to 615. This pace has continued and as of 2016, 748 single family homes have sold in Bonner County with over 65% of the sales in Sandpoint and another 24% in the Priest River and Priest Lake area. As of the third quarter of 2017, 651 single family homes were sold in Bonner County with an average sales price of \$344,899.

The average sale price is 2.5% above the peak in 2007, and median sale price is down 6%.

Average days on the market is 126 as of third quarter 2017, down from 141 in 2016 and 142 in 2015. Thank you to the Selkirk Association of REALTORS for providing this series, which includes financing information.

UNSOLD INVENTORY/RESIDENTIAL ACTIVE LISTINGSSpokane County

This data series shows that 151 newly constructed homes on lots of less than one acre were unsold as of October 1, 2017, at a median listing price of \$351,950. The current number of new homes unsold is lower than the "typical range" going back to 1997. The average days on market for new construction is 98, down from 114 a year ago.

The number of existing (resale) homes is about the same from the same month in 2016—2,093 compared to 2,083—and less average days on the market 56 compared to 84 last October. Existing homes are offered at a median listing price of \$239,900 (about 12% higher than a year previous). The current average listing price is \$312,888 with an average of 56 days on the market.

Kootenai County

This data series shows that a total of 345 newly constructed homes, and 1,537 existing resale homes on less than one acre were actively listed as of October 2017, with 119 and 97 average days on the market, respectively. The figures from this data series may include some properties having a purchase agreement pending closing.

AFFORDABLE HOUSING INDEX

The Housing Affordability Index measures the ability of median income family to carry the mortgage payments on a median price home. When the index is 100 there is a balance between the family's ability to pay and the cost. Higher index numbers indicate housing is more affordable. All loans are assumed to be 30 year loans. This "all buyer" index assumes 20% down payment. It is assumed 25% of income can be used for principal and interest payments.

Spokane County

Housing has become increasingly affordable since 2009 in Spokane County. According to University of Washington's Runstad School for Real Estate Studies, Spokane County is one of the most affordable metro areas in Washington, with a current index of 158.6 (3Q 2017). The statewide index is 114.4. The pattern is similar for first time buyers.

Kootenai County

We have unfortunately lost the ability to update this index for Kootenai County, but hope to regain it in the near future.

APARTMENT VACANCY SURVEYSpokane County

The most recent survey (September 2017) showed an overall vacancy rate of 2.9%. This is higher than the same time last year but is low compared to historical survey periods. West Spokane has the highest vacancy rate at 7.9% and Central Spokane has the lowest at 1.8%. Vacancy rates by bedroom configurations historically have fluctuated. According to the most recent survey, vacancies are currently highest for “2 Bedroom/2 Bath” units and lowest for “Studio” and “3 Bedroom/1 Bath” units.

We must note that the survey conducted since March 2015 by the Runstad Center have included well below the standard amount of units surveyed (should be around 10,000 and was only 6,707 in Spring 2015 and 8,876 in Fall 2015). The spring 2016 survey indicated that the sample size had returned to normal with 11,397 apartment units surveyed but the fall 2016 sample was back to 7,434. Spring 2017 was back up at 10,256 units surveyed, and fall 2017 reported 18,260 units surveyed. This survey does not include units built before 1963.

Kootenai County

As of September 2017, Kootenai County had an estimated apartment vacancy rate of 1.8%. This is low in historical terms. Similarly to Spokane County, historical vacancy rates by bedroom configuration has fluctuated. According to this most recent survey, vacancy rates are highest for “Three or more” units at 2.6%. However, the total number of apartments surveyed in Kootenai County remains small and as the number of units surveyed by the Runstad Center continues to increase, survey results become more substantial.

OFFICE/RETAIL/INDUSTRIAL OCCUPANCYSpokane County

The copyrighted (used here with permission) current survey of competitive office space from Valbridge Property Advisors (October 2017) suggests that office occupancy in Class “A” space in the Central Business District (CBD) has from 11.53% in February 2017 to 10.22% in October 2017—a substantial improvement over the February 2005 survey (24.4% vacant). Lower grade CBD space showed mixed results, with Class “B” vacancy at 21.45% and Class “C” at 15.07%, up from the record low vacancy (4.4%) in the fall of 2008, but improved from 2010-2014 results.

Office vacancy is currently at 16.4%. The geographic area with the highest vacancy rates is West of the Spokane River. The North region increased to 21% with the vacancy of the Guardian Life Insurance Building in north Spokane.

Medical office space (no geographic breakdown) reached its highest occupancy since 1994 in the fall of 2014 when vacancy rose to 13.2%. However, it has improved significantly in more recent surveys and remains around 9%. Through most of the earlier part of the 2000s, vacancies moderated around the 6%-9% vacancy level.

Retail occupancy rates tend to be lowest of the classes and show stable conditions in all areas. The South area remains the strongest retail market, at only 4.01% vacant. The CBD Periphery showed the largest fluctuation since the last survey and recent years, increasing to 9%.

According to Valbridge's survey, industrial space county-wide has been on the decline since 2013 and are relatively low in every geographic area.

Kootenai County

This survey is only updated once a year each summer. Office vacancy rates fluctuated by area in Kootenai County. Of the areas surveyed, the average office vacancy rate is 4.78%. The data show office space in Coeur d'Alene with a vacancy rate of 4.6%, Post Falls at 6.09% and 4.85% in Hayden. Office rates dropped in all areas surveyed but Hayden.

Of the areas surveyed, the average retail vacancy rate was 5.7%. Vacancy rates increased slightly in the more populous cities. Rathdrum saw the largest increase to 10.49% and remains the highest amongst all areas.