

# **THE REAL ESTATE REPORT**

## **Regional Research on Spokane, Kootenai, Bonner Counties**

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## 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

The U.S. continues to recover from the COVID-19 economic shock. However, due to the introduction of vaccines, accommodative monetary policy, and additional fiscal stimulus, the Federal Reserve's current forecast for U.S. GDP growth is for 6.5% in 2021 and 3.3% in 2022. Because of this strong economic growth, the Federal Reserve's forecast for consumer inflation is for 2.4% in 2021 and 2% in 2022. Although the Federal Reserve's target inflation rate is 2%, it has indicated a willingness to allow inflation to run moderately above 2% as the economy recovers. In addition to strong GDP growth, ongoing supply chain disruptions caused by COVID-19 will also keep inflation elevated in 2021. The Federal Reserve expects the national unemployment rate to return to pre-pandemic levels in 2022. As of June 2021, financial markets expect the Federal Reserve will start increasing their key policy rate, the Federal Funds Interest Rate, at the end of 2022.

### POPULATION

#### Spokane County

Population growth in Spokane County has remained around 1.5% from 2017-2020. The U.S. Census Bureau has estimated a County population of approximately 522,600 as of July 2020. That is an additional 7,350 people than the previous year. The City of Spokane grew at 0.7% while the Spokane Valley grew at 0.8%. These trends are on course with the Washington State Office of Financial Management's projections for the County.

#### Kootenai County

The Census Bureau is estimating 165,697 as of July 2019 for Kootenai County. Current population projections for the County are estimated to reach 167,700 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 over 680,000 represents a very attractive market.

#### Bonner County

The estimated July 2019 population was 45,739. The population in Sandpoint has grown approximately 4%/year from 2015 to 2019.

## DRIVER LICENSE SURRENDERS

### Spokane County

Spokane County has experienced significant growth in the number of driver licenses surrendered—particularly from California residents, followed by Idaho. In 2019, the amount of driver licenses surrendered was down 13.7%. In the year ending in March, driver license surrenders were down 8.3% from the previous year. However, in March 2021 there were 1,009 driver license surrenders, which is up 109.8% from March 2020 numbers.

### 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 March 2021, there were 244,334 residential meters in Spokane County. This is a 9.5% increase from 2020.

### Kootenai County

As of March 2021, there was a record 84,088 residential electric meter customers in the County. Households are becoming more efficient with their energy use. Average annual growth has been approximately 3% per year since 2015.

### Bonner County

As of March 2021, the meter count in Bonner County was 15,146 residential electric meters (Avista and Kootenai Electric only). Avista's meter count increased 7.7% from 13,924 in 2020 to 15,002 in March 2021. Northern Lights has been unable to provide Bonner County data for this report since 2018.

## 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. 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 245,200 (average of first four months of 2021). Approximately 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.

The COVID-19 pandemic prompted stay at home orders in March 2020 and a precipitous drop in employment. Unemployment was as high as 16.7% in April 2020 but has lowered to 6.7% as 2020 ended. Preliminary data reports a 6.9% unemployment rate as 2021 begins. Currently, Spokane's unemployment rate is slightly below the state of Washington, which is at 7.1%.

### 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. Kootenai County's labor force has grown approximately 3% per year since 2015. The number of unemployed had dropped significantly as job opportunities become more plentiful. Preliminary estimates show nonfarm wage and salary employment at 66,500 as of 2020.

The effects of the closing of businesses and the "Shelter in Place" order due to the COVID-19 pandemic are starting to become more known. Idaho State unemployment rates reached a record high of 11.5% with non-farm payrolls losing 79,500 jobs as of April 2020 per the Idaho State Department of Labor website. April's state unemployment rate increased 9% from a record low 2.5% in March to this all-time high that has exceeded record-setting rates of 10.2% in December 1982 and the Great Recession peak rate of 9.6% in June 2009.

As of 2020, the Civilian Labor Force for Kootenai County was 81,200 (up 2% from 2019), of which 5.6% were unemployed.

### 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 4% in 2019—due to a drop in unemployment coupled with an increase in the number of employed. However, through 2020, the rate is up to 7.6%. 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.

## **PERSONAL INCOME**

### Spokane County

Total personal income in Spokane County reached \$27.15 billion in 2020. The annual growth rate projected by Global Insight (provided by Avista Corp) averages approximately 3.9% annually over the next 5 years. Per capita personal income reached \$48,436 in 2019 (most recent data available). In 2019, Spokane County's per capita personal income was 85.78% of U.S. per capita income.

### Kootenai County

Total personal income in Kootenai County reached nearly \$7.7 billion in 2019. Per capita personal income reached \$46,645 in 2019 reflecting a 3.7% increase over the year in 2018 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 \$1.9 billion for 2019—the most recent data available. Per capita personal income was \$42,277 in 2019—a 2.6% increase over the year. Growth in both total personal and per capita income has been greater each year since 2009.

**TAXABLE SALES DATA**Spokane County

Taxable retail sales reached a record of \$11.46 billion for 2019. Of that, 16.9% were in Contracting Sales. As of 3<sup>rd</sup> quarter 2020, taxable retail sales were just over \$8.48 billion.

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.

This data is no longer available for Kootenai and Bonner Counties.

**FORECLOSURES ON DEEDS OF TRUST**Spokane 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. There were 460 foreclosures in 2017, with only 226 in 2018, 199 in 2019, and 139 in 2020, showing signs of improvement. These figures represent completed foreclosures.

Kootenai County

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 were 316 foreclosure actions in 2017 with 2018 at 181, 209 in 2019, 98 in 2020, and 0 through March of 2021. 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 2020, there were 1,439 single family permits issued, with 502 through March 2021.

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, with 2018 and 2019 over 500. There were 2,965 total dwelling unit permits in Kootenai County in 2020—1,572 single-family and a record high 1,393 multi-family units. Through March 2021, there have been 629 total dwelling unit permits – 302 single-family and 327 multi-family.

### 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 1,080 permits in 2018—the highest levels since the recession began. In 2020, there were 1,066 permits reported, and as of April 23, 2021, there have been 497. 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 2020, lots platted totaled 1,545, with 250 in the City of Spokane and 1,295 in Spokane County. There have been 240 lots platted as of 1<sup>st</sup> quarter 2021.

### Kootenai County

Lots platted for Kootenai County were at 1,082 for 2019, up from 799 at year-end 2016, but down from 1,376 in 2017. 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. However, in 2017, lot production in Kootenai County was 1,376 with Spokane County at only 1,128. There have been 720 lots platted as of September 2020. We were unable to get updated data for the Spring 2021 report.

## **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 2020, 7,171 total homes sold in Spokane County, which is just under the peak of 2005. So far, 1,291 homes were sold through the first quarter of 2021. The largest share of homes sold in the County remains to be in Spokane Valley (31.5%) followed by the northwest quadrant (26%) 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 2020 where the average price rose to \$321,347 (13% increase from 2019), and through first quarter 2021 is at \$358,488 (12% higher than 2020) – the highest we have seen.

### 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%—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. There were 4,247 sales in 2016, a 10% increase from 2015, 4,440 sales in 2017, 4,629 sales in 2018, and 4,542 sales in 2019. Sales increased 11% in 2020 to 5,024, and there have been 915 sales through first quarter 2021.

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. In 2019, the average price of a home sold in Kootenai County was \$377,307 (up 8% from 2018). In 2020, the average price increased 25% to \$471,422, and as of first quarter 2021, the average price is 23% higher than 2020 at \$577,595.

### 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 2018, 989 single family homes have sold in Bonner County with over 72% of the sales in Sandpoint and another 22% in the Priest River and Priest Lake area. In 2019, 785 single family homes were sold in Bonner County with an average sale price of \$415,273. The number of total sales increased 16.8% to 917 in

2020 with an average sale price of \$495,886, and as of first quarter 2021, there have been 136 sales with an average sale price of \$638,838 – an increase of 29%.

The average sale price in 2020 was 19% higher than 2019, and median sale price is up 16%.

Average days on the market as of first quarter 2021 was 104, up from 97 in 2020. Thank you to the Selkirk Association of REALTORS for providing this series, which includes financing information.

## **UNSOLD INVENTORY/RESIDENTIAL ACTIVE LISTINGS**

### Spokane County

This data series shows that 37 newly constructed homes on lots of less than one acre were unsold as of April 1, 2021, at a median listing price of \$599,900. The average days on market for new construction is 44, down from 74 a year ago.

The number of existing (resale) homes is down from October 2019—161 compared to 449—and average days on the market is 28 compared to 38 last October. Existing homes are offered at a median listing price of \$410,000 (about 5% higher than six months ago and 17% higher than a year ago). The current average listing price is \$467,346 with an average of 28 days on the market.

### Kootenai County

This data series shows that a total of 9 newly constructed homes (median listing price of \$647,450), and 62 existing resale homes (median listing price of \$569,900) on less than one acre were actively listed as of April 2021, with 65 and 25 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's current index is 100.0 (1Q 2021). The statewide index is 103.2.

### 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 SURVEY**Spokane County

The most recent survey (March 2021) showed an overall vacancy rate of 0.5%. This is the lowest rate we've seen. West has the highest vacancy rate at 2.6% and Central has the lowest at 0.0%. Vacancy rates by bedroom configurations historically have fluctuated. According to the most recent survey, vacancies are currently highest for "Studio" units and lowest for "Three-Bedroom or more" units. The Geographic Areas for Spokane have been extended into Downtown Spokane, South, North, Valley, West, Cheney, East, Veradale and Liberty Lake.

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. However, Spring 2018 dropped to 8,403 units surveyed and fall 2018 is only up to 8,439. The Fall 2019 number of units surveyed has been consistent since Spring 2018, at approximately 8,400. This survey does not include units built before 1963. In Fall 2020, the survey size was increased substantially to over 26,000 units, but dropped to 22,891 units in Spring 2021.

Kootenai County

As of March 2021, Kootenai County had an estimated apartment vacancy rate of 0.2%. This survey only includes the Coeur d'Alene and Post Falls areas, and 3,563 units were surveyed – this is up from the 1,123 units surveyed in spring 2018.

**OFFICE/RETAIL/INDUSTRIAL OCCUPANCY**Spokane County

This survey is now only updated once a year each fall. The copyrighted (used here with permission) current survey of competitive office space from Valbridge Property Advisors (November 2020) suggests that office vacancy in Class "A" space in the Central Business District (CBD) has increased slightly to 14.21% from 12.62% in November 2019—a substantial improvement over the February 2005 survey (24.4% vacant). Lower grade CBD space showed mixed results, with Class "B" vacancy at 15.52% and Class "C" at 15.55%.

Office vacancy is currently at 10.7%. The geographic area with the highest vacancy rates is the West (13.62%).

Medical office space (no geographic breakdown) reached its highest vacancy 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 8%-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 Periphery and West areas are the strongest, at only 2.53% and 3.23% vacant, respectively. The South area is up to 13.48%.

According to Valbridge's survey, industrial space county-wide has been on the decline since 2013 and are relatively low in every geographic area, with an overall vacancy of 3.23%.

### 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 5.2%. The data show office space in Coeur d'Alene with a vacancy rate of 5.39%, Post Falls at 4.98% and 4.72% in Hayden.

Of the areas surveyed, the average retail vacancy rate was 4.88%. The average Industrial vacancy rate was 1.61%.