

The Real Estate Report

Spring 2009

GENERAL SUMMARY

OVERVIEW

This report provides a wide variety of regional real estate data as of the end of the first quarter of 2009. After reviewing the information, most readers will conclude that the market for real estate assets has suffered a serious retrenchment. They should also conclude that the effects of the international credit crisis were probably not as bad in the three counties covered in the report as it has been in many other areas. Since the cut-off date of the report, there is abundant evidence that the worst of the current recession has passed. There will be many confusing signals as we maneuver toward the fall evaluation of this market!

RELEVANT NATIONAL FACTORS

Real national production and real GDP per capita both increased (weakly) in 2008. While the "recession" officially began in December 2007 (as per the dating committee), the credit crisis of September, 2008 was the significant event in this economic cycle. The nation, and ultimately the world, went into panic mode that caused serious financial consequences for almost everyone. So, 2009 will be recorded as a recession year. By 2010 and 2011, the recovery capability of the U.S. economy should be in full bloom. C.P.I. inflation should be well contained in this modest growth period, according to most analysts. Short term rates are expected to remain low and longer term rates are expected to slowly drift upwards as signs of improved economic activity surfaces. The balancing act for 2009 will be a contest between mortgage rates and policies attempting to re-stimulate the housing sector versus market expectations for higher rates caused by federal government deficit spending. Tension will be in play!

POPULATION

Spokane County

As noted in previous reports, it is becoming somewhat more difficult to be confident about population estimates because we are only a year away from the actual U.S. government Census. Also, the changing economic environment may be having a dramatic impact on migration because job opportunities have been cut back, to some degree, everywhere. Most of the correlation data provided in this report would support an estimate for the M.S.A. population of about 465 thousand as of July of this year. The 47 thousand increase since the last Census represents a compound annual growth rate of 1.19%. At present, we are expecting the 2010 Census number to come in at about 470 thousand. That would be a ten year increase of 12.5% compared to 14.9%, 5.7% and 18.9% for the prior three decades. The 30 year growth rate of 1.07% is very close to the 1.03% for the nation during the same period.

Kootenai County

The U.S. Census Bureau has estimated the population at about 137.5 thousand as of July, 2008. Our sources continue to exhibit quite a divergence in the numbers. It looks like the Census count could end up somewhere between 130 thousand and 147 thousand. A simple correlation with other data in this report would favor a number near 140 thousand. An increase of 31 thousand for the decade following the prior decade increase of almost 39 thousand still presents a picture of very strong growth. The 30 year annual, compound growth rate of 2.88% has attracted much notice and a wide range of investments.

Bonner County

Bonner County recorded 36.8 thousand people in the last Census. The growth rate was 38.4%. Based on a variety of public sources, including the Idaho Department of Labor, it appears that the current population is about 41.2 thousand. The total is likely to reach a number of about 42 thousand by the time of the Census. The 14% rate of growth is still strong ...but much restrained from the exuberance in the last decade. The 30 year compound rate of growth appears to be about 1.86% which must be viewed as quite strong.

DRIVER LICENSE SURRENDERS

Spokane County

Based on the drivers license surrender data, migration to the state of Washington has been slowing down over the last 18 months. Spokane County experienced a 3% drop of surrendered licenses in 2008 and that trend continued into the first quarter. To be clear though, the rate of in-migration that is implied by this data compares very favorably with the averages all during the "nineties."

Kootenai County

The data about drivers license surrenders for the state of Idaho through 2008 indicates that migration has returned to more normal levels after a four year period of boom that peaked in 2006. Kootenai County surrenders have now declined for three years in a row and are back to typical, long-term rates. So the boom is over ...but households are still moving into the County at a very decent rate.

Bonner County

The years 2004 and 2005 were boom in-migration years for Bonner County, based on the driver's license surrender data. Led by California transplants the surrenders hit about 1,700 for both years. The total for 2008 was only 1,181 or about 70% of the peak years. The key to rejuvenation of Bonner County in-migration would appear to be the rate at which California residents re-locate to the area.

RESIDENTIAL ELECTRICAL CUSTOMERS

Spokane County

The meter count for residential customers further verifies a major slowdown in population (household) growth compared to the 2004 to 2006 growth period. The meter count is growing at no more than the long term population rate of about 1% a year.

Kootenai County

The 12 month moving average of electrical meters in use in the County reached an all time record of 64.7 thousand as of March 31st. The 30.6% increase since the year 2000 corresponds very well with the 28% increase in population for the same period. Like Spokane County, the current rate of increase is unusually low but is not expected to stay low for a long period of time.

Bonner County

For the first time, this report includes electric meter data for Bonner County. As of March 31st, the estimated meter count was about 18.5 thousand. Growth has been strong but may be slowing a little at present.

EMPLOYMENT

Spokane County

The County's partial immunity from the harsh, credit-induced recession has not gone unnoticed by job seekers. During the first quarter, the labor force zoomed up to almost 246 thousand able bodied workers. At the same time, total employment dropped by 4 thousand workers from the 2008 average. Not surprisingly, the number unemployed increased to an amazing 24 thousand people. Unemployment averaged 9.8% of the work force during the quarter. The unemployment rate is well short of the numbers experienced in the last big recession in 1982. Non-agriculture employment declined sharply, led by drops in manufacturing, construction and trade.

Kootenai County

The data in this report covers our time series through 2008. More recent information through March reveals that the labor force has increased to about 72 thousand. Employment has declined to below the 2007 level. The unemployment rate moved up to 4.8% in 2008. More recent information is reporting that the number of unemployed is about 5.8 thousand and the rate is back to the long term historic rate of 8%.

Bonner County

This report now has complete employment data through 2008 for the County. Employment averaged 20.3 thousand for the year and the unemployment rate was a respectable 5.3% for the annual average. More recent data is reporting that employment is moving back to the 2005 level and unemployment is now up to 9%. It may be a while before significant improvement is seen in the Bonner County employment picture.

PERSONAL INCOME

Spokane County

Personal income for the County reached 15.1 billion in 2008. Per capita personal income was about \$32.0 thousand or 82% of the U.S. average. Our Avista source is estimating that the 2009 County total income will reach \$15.2 billion, which is very little, if any, increase over 2008. Median household income should be about \$45 thousand or an increase of 20.5% since the 2000 Census. Inflation is up about 25% over that same period. So, as we concluded in our last report, while total incomes are growing, the issue of even modest inflation and its effects on local purchasing power is a factor.

Kootenai County

Our Avista source is estimating that the rate of personal income growth is slowing for now in this market. The estimate is that total personal income for the County will be almost \$4.4 billion in the current year. Our sources at the Washington Center for Real Estate Research show that median household income for the County reached \$42.4 thousand last year. The total will probably not increase much, if at all, in the current year!

Bonner County

Our official data for this County is through 2007. Based on correlations with other data from the County, it appears that the 2008 number will be close to \$1.26 billion and 2009 might come in at about the same level. Per capita personal income should be over \$30 thousand at present. This County is experiencing the same sharp slowdown in overall economic growth as Spokane and Kootenai Counties.

TAXABLE SALES DATA

Spokane County

As we anticipated in the fall 2008 report, the drop in nominal, taxable sales was the largest in the last 30 years! The 4.2% drop matched the decline at the State level. Construction sales declined for the first time since the 1982 recession. Even so, commercial and public projects have remained above \$1 billion and still constitute almost 15% of total sales. That is a strong showing and 2009 may hold up quite well despite the slump in new residential construction.

Kootenai County

Taxable sales in this County dropped 2.9% in 2008. Considering the economic climate, a further drop back to a total closer to \$1.1 billion would not be a surprise for the current year. The current bout of sales weakness is very unusual for this market. Events at the national level, and especially in California and Oregon, may have a big impact on returning the County to the more robust growth that was experienced early in this decade.

Bonner County

As this report anticipated last fall, taxable retail sales declined to \$342 million in 2008. The 8.4% drop was major and nothing similar has happened in the last 25 years. The need for a rejuvenation of tourist activities is screaming out for Sandpoint retailers! Hopefully, the damage will be contained for the current year and 2010 will find activity returning to more normal increases of 3% to 6% annual growth.

FORECLOSURES ON DEEDS OF TRUST

Spokane County

The roller coaster foreclosure problem peaked in 2002 (at 1152), bottomed out in 2006 at 269, and is currently rising, finishing 2008 at 560, and extrapolated to 725 for 2009. This is actually a moderate increase, given national conditions.

Kootenai County

Foreclosures had also declined in Kootenai County from a recent peak (in 2001 – 781) to a more modest 340 in 2005, but rose to 768 for 2007, then exploded up to 1520 for 2008. The first quarter of 2009 has continued the strong upward trend at 598, extrapolated to 2400 for the year. The data used in Kootenai County is based on a broader definition than in Spokane County. Hence, not all “notice of defaults” may result in actual foreclosure. However, Kootenai County clearly has a much deeper current problem than Spokane County.

RESIDENTIAL BUILDING PERMITS

Spokane County

The number of single-family permits issued has fallen dramatically from the peak year of 2005 (2,707 units) which was on par with the boom years of 1977 and 1978. This growth moderated in 2006 (2,311) and 2007 (2,109), with 2008 single-family activity totaling only 1,041. The first quarter of 2009 saw only 103 permits issued, compared to 210 for the same period in 2008. Multi-family (2+ units) permit issuance for 2008 was higher than in many previous years, finishing at 963 units. 2004 had been the peak year in recent times at 1,618 units. The first quarter 2009 multi-family total was nonexistent at zero units, compared to 190 for the same period in 2008.

Kootenai County

2008 figures ran at a very low level for single-family (699 units, the lowest since 1990), and at an extremely low level for multi-family (75 units in 2+ unit structures), following a record high

year in 2007. The first quarter 2009 single-family total was 109, below the 166 for the same period in 2008, but strangely above the Spokane County figure. First quarter 2009 multi-family units totaled only 10.

LOTS PLATTED

Spokane County

Lot production in 2008 (1,166) was well below the record year of 2006 (3,087 lots), but still in a "normal" range. The projected amount for 2009 is around 500, which would be "low." Lot production in 2008 represented provision for 112% of new single-family building permits issued, which has been the case for most years beginning in 2004. 2004 had been the first time in recent memory that the amount of lot creation EXCEEDED the number of single-family building permits.

Kootenai County

Lot production in 2008 (1,191) was slightly above Spokane County production, reversing the new trend (2006-2007) of higher production in Spokane County, following many years of higher production in Kootenai County. The first quarter of 2009 showed more lots created in Kootenai County (204 to 136).

CONDOMINIUM UNITS FILED

Spokane County

A record number of condo units were created in Spokane County in 2006 (601), but this declined to 485 in 2007, and nearly died off in 2008 (178). Zero condos were created in the first quarter of 2009.

Kootenai County

New data became available for Kootenai County recently, breaking out the condominium units created from lots platted, back to 1999. Condo production started to pick up in 2005, and was very strong in 2006 (592) and 2007 (488). It declined to 382 in 2008, and was only 48 for the first quarter of 2009.

RESIDENTIAL SALES

Spokane County

2008 residential sales volume declined substantially to 4,333, according to the MLS data series, which continued (but accelerated) the annual decline from the peak of 2005 (7,521). The first quarter 2009 sales total of 546 compares poorly to 787 the year previous. Average and median prices fell slightly in 2008, down from the records set in 2007. First quarter 2009 prices show similar results in both average (\$200,475) and median (\$175,000) prices compared to first quarter of 2008. The huge price declines in many other markets are not happening here, and the market appears to be pretty stable.

Beginning in the third quarter of 2008, the federal series on repeat existing home sales (FHFA Index) shows the first drops in value over the year previous since the year 2000. The annual figure was up 1.5%.

Kootenai County

As in Spokane County, Kootenai County sales volumes were also substantially down in 2008 (to 2,075), the lowest level since 2000, and to only 297 in the first quarter of 2009 (was 418 in the same period of 2008). Average prices for the full year of 2008 (\$256,156) were down 8.3% from the year previous. The average stands at \$193,668 in the first quarter of 2009, a sharp drop

from the \$249,172 from a year previous. This may reflect the type of product currently selling. Median figures are (unfortunately) not available.

The FHFA series on repeat home sales showed stronger appreciation than in Spokane County over the past few years, but that trend stopped in the third quarter of 2006, and the Kootenai County data turned negative in the first quarter of 2008, showing a 2.4% decline for the year. This is a modest decline compared to national figures.

Bonner County

Two new data series were created in the last issue for Bonner County, to reflect single-family sales (with average days on market data) by geographic area, and going back to 2002. A companion series shows the method of financing those sales (a unique series for this report). The sales data shows total sales of 442 single-family homes in 2008, a steady decline from the 2004 peak. First quarter 2009 sales were 103. The median sales price peaked at \$250,000 in 2007/2008. The average price fell back in 2008 to \$326,081. Average days on the market have been rising since the 2005 low point of 109 days.

UNSOLD INVENTORY/RESIDENTIAL ACTIVE LISTINGS

Spokane County

This data series shows that 630 newly constructed homes on lots of less than one acre were unsold as of April 21, 2009, at a median listing price of \$284,990. The current number of new homes unsold is lower than the spring of 2008 (794), but is still higher than the "typical range" going back to the start of the series in 1997. In reflection of the high number of homes on the market, the median listing price is measurably lower (was at a high of \$317,000 on 3/31/07). The number of existing (resale) homes is high at 2,911 (and above the 2,749 in the spring of 2008), and offered at a median listing price of \$222,950 (about 3% lower than a year previous). The current average listing price is \$290,441, near the record high from last fall.

Kootenai County

This data series was significantly reformatted in the last issue due to space considerations (geographic split dropped, but new and existing now broken out, and price classes changed to match Spokane County). It shows that a total of 138 newly constructed homes, and 699 existing resale homes on less than one acre were actively listed in the spring of 2009. These are lower than the figures for the fall of 2008. The figures from this data series may include some properties having a purchase agreement pending closing.

RESIDENTIAL RENTAL RATES

Spokane County

This data series continues to show a four-year pattern of increases in rental rates in most major categories of rental units and bedroom sizes, but appear to be rising much more slowly now. The average contract rent for a three bedroom single-family house has risen to \$976, and is \$634 for a two bedroom garden-style apartment. However, there appear to be many concessions currently available in the market, as the vacancy rate has climbed recently.

APARTMENT VACANCY SURVEY

Spokane County

The most recent survey (March 2009) showed an overall rate of 5.5%. This is moderately high compared to historic survey periods, and is above spring survey levels of any year since 2005, but below many years (1995-2004). The geographic areas have roughly equivalent vacancies (but lower in the south). Rates by bedroom configurations are currently lowest for studio units).

Per square foot rents have stabilized at around \$0.77. This survey does not include units built before 1963.

Kootenai County

On March 15, 2009, Kootenai County had an estimated apartment vacancy rate of 4.6%. This is very “average” in historical terms. The total number of apartments in Kootenai County remains small, although apartment construction has been (relatively speaking) moderately high in the last couple of years (2006-2007), but almost nonexistent in 2008 and early 2009. Per square foot rents are (like Spokane County) around the \$0.77 mark.

HOUSING AFFORDABILITY

Spokane and Kootenai Counties

The housing affordability index has improved to the “most affordable” level since 2005 in both counties, and remain affordable compared to the Western Washington communities.

OFFICE/RETAIL/INDUSTRIAL OCCUPANCY

Spokane County

The copyrighted (used here with permission) current survey of competitive office space from Aulsebrook, Jolicoeur & Gentry (February 2009) suggests that office occupancy in Class “A” space in the CBD has declined somewhat (at 9.6% vacant) from the strong market in the fall of 2008. However, this is a substantial improvement over the February 2005 survey (was 24.4%). Lower grade CBD space also showed weaker results, with Class “C” vacancy rising to 8.8% from the record low vacancy (4.4%) in the fall of 2008. Recent per square foot rents are showing stable results in all grades. Office occupancy is generally falling only slightly in the outlying areas compared to the past few surveys. Medical office space (no geographic breakdown) reached its highest occupancy in the fall of 2003, then has modulated around the 6%-9% vacancy level (currently 7.2% vacant).

Retail occupancy (percentage) shows mixed results by area, but is generally improving or stable (although the number of buildings surveyed has been modified in a couple of areas – making historical comparisons difficult). The Valley continues to have lower retail occupancy percentages than the other non-CBD areas (11% vacant), although vacancy in the north area has risen to about 9%.

Industrial space surveyed shows county-wide totals having risen to 8.8% vacant, which is still better than the period of 2002-2003. Average rental rates are pretty stable, after a period of modest growth.

Kootenai County

This relatively new data series will receive its second annual update in the fall. The office portion of the fall 2008 survey showed high occupancy (97-100%) in all areas, except for some vacancy in Coeur d’Alene (10%). The total amount of office space surveyed increased, and was about 1.9 million square feet.

The retail portion was also more extensive in the fall 2008 update, and covered 451 properties. It reflected fairly high occupancy in Coeur d’Alene, Dalton Gardens and Hayden, but moderate occupancy in the other areas. Occupancy was generally a little lower than in Spokane County.

The industrial portion was also larger in coverage, and reflected about 3.3 million square feet. Occupancy was generally high (93% or higher).