



**WHATCOM COUNTY
URBAN GROWTH AREA REVIEW**

**Background Research on
Selected Economic, Demographic, and Housing Trends**

November 8, 2013

Prepared by: BERK

I. INTRODUCTION

Whatcom County, in coordination with the cities in Whatcom County, is engaged in a multi-year project to update the Whatcom County Comprehensive Plan and conduct an urban growth area (UGA) review by 2016, as required by the Washington State Growth Management Act (GMA). In order to support this effort and inform discussions about alternative growth scenarios, Whatcom County has requested consultant services to provide additional background research on selected economic, demographic and housing trends. This technical memo summarizes key findings from research into the following topic areas:

- The influence of Canadian consumers on the Whatcom County housing, retail, and commercial real estate markets.
- Broad housing market trends and housing preferences, both nationally and locally.
- Migration patterns to and from Whatcom County in recent years.

II. CANADIAN INFLUENCE ON WHATCOM REAL ESTATE MARKETS

Whatcom County shares a border and five major border crossings with Canada including the Peace Arch (Blaine/Surrey; Interstate 5), Pacific Highway (Blaine/Surrey; State Route 543), Sumas/Huntingdon (State Route 9 to Abbotsford), Lynden/Aldergrove (State Route 539), and Point Roberts (Tye Drive to Tsawwassen) Crossings. The first four crossings combined have had an annual average of just over four million vehicle crossings into Whatcom County in the ten year period between 2001 and 2011¹. The number of Canadians crossing into Washington through these five crossings has increased steadily over the past six years. In the first three months of 2013, 3.6 million persons crossed from Canada to Whatcom County, 10% more southbound entries than over the same period in 2012².

Exhibit 1
Border Crossings between Canada and Whatcom County



Source: Washington State Department of Transportation, 2013.

¹ Whatcom Council of Governments, 2013.

² Western Washington University, Center for Economic and Business Research, 2013.

MARKET DRIVERS

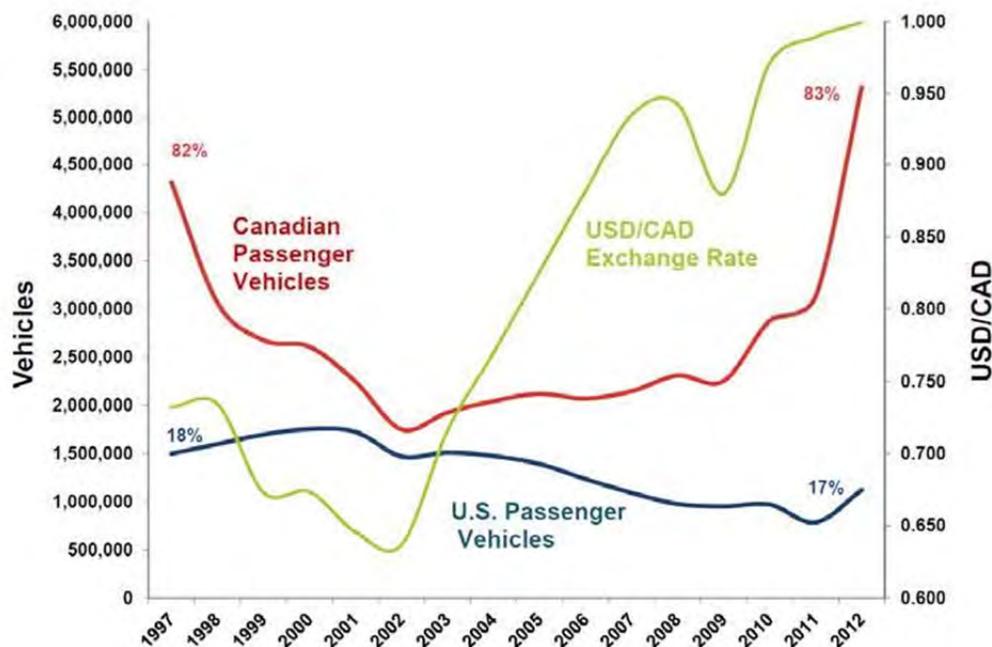
Several market drivers stimulate Canadian travel to and investment in the United States, for both retail goods and real estate:

- The Canadian dollar has steadily gotten stronger relative to the US dollar throughout much of the last decade;
- Cheaper retail prices for certain goods such as gas and dairy products, as well as product selection, attract Canadian consumers to shop in the U.S.;
- Canadian residents will pick up internet shopping purchases at U.S. addresses in Whatcom County to save on shipping costs and sales taxes;
- Higher real estate prices in major Canadian metropolitan areas have made Whatcom County real estate attractive for both vacation and investment purposes; and
- Over the long term, population growth in southwest British Columbia, at the Whatcom County border, will continue to generate demand for goods, services, housing, and recreation in Whatcom County.

Each of these drivers is discussed in greater detail below.

Effect of the Exchange Rate on Border Crossings

Exhibit 2
Cascade Gateway Passenger Vehicles by US-Canadian Residence, with Exchange Rate, 1997-2012



Source: International Mobility and Trade Corridor Program, 2013

Note: The Cascade Gateway consists of the four border crossings shown in Exhibit 1.

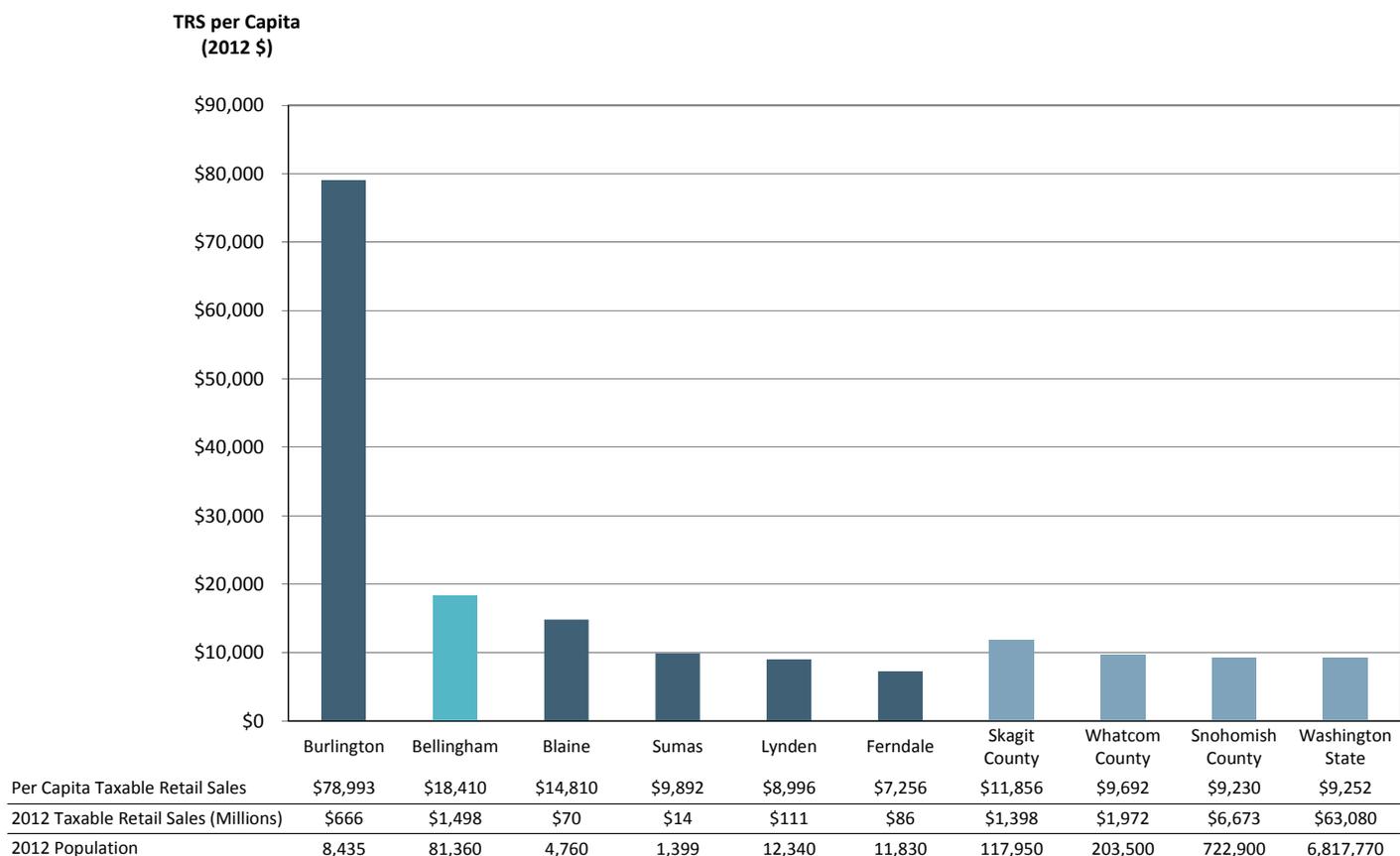
- The chart above tracks vehicle border crossings compared to the relative strength of the Canadian dollar to the U.S. dollar. The chart shows that Canadian vehicle crossings increase the stronger the Canadian dollar gets.
- In the summer of 2013, the International Mobility & Trade Corridor Program (IMTC) conducted a passenger intercept survey of Canadians crossing the border into the U.S. The survey found that the top three purposes of Canadian's trips into the U.S. were shopping (31%), gas (21%), and recreation (19%).

Retail Prices Attracting Canadian Shoppers

Increased Canadian consumption of U.S. goods is evidenced by the sales tax generation in Bellingham, where per capita taxable retail sales (TRS) is about double that of the State (see Exhibit 3). In 2012, the Center for Economic and Business Research (CEBR) hosted a roundtable discussion for a border policy research group, in which they called area businesses, including Wal-Mart, Costco, Target, and Fred Meyer and learned that up to 50% of retail sales in some of these store locations were from purchases made by Canadians.

A recent passenger vehicle intercept survey by the International Mobility and Trade Corridor Program (IMTC) in July of 2013 found significant increases in the number of Canadians crossing the border for shopping purposes. Approximately 45% of interviewees indicated shopping as their primary purpose for crossing the border (30.5% for general shopping, 14.3% for gas purchases). This more than doubled the 19% of interviewees who crossed the border for shopping in 2007, the last time the survey study was conducted. The survey also found that the purpose of “picking up mail” rose from 2% in 2007 to 7% in 2013. This is likely due to increases in online shopping and Canadians shipping purchases to U.S. addresses to save on shipping costs.

Exhibit 3
Taxable Retail Sales per Capita, 2012



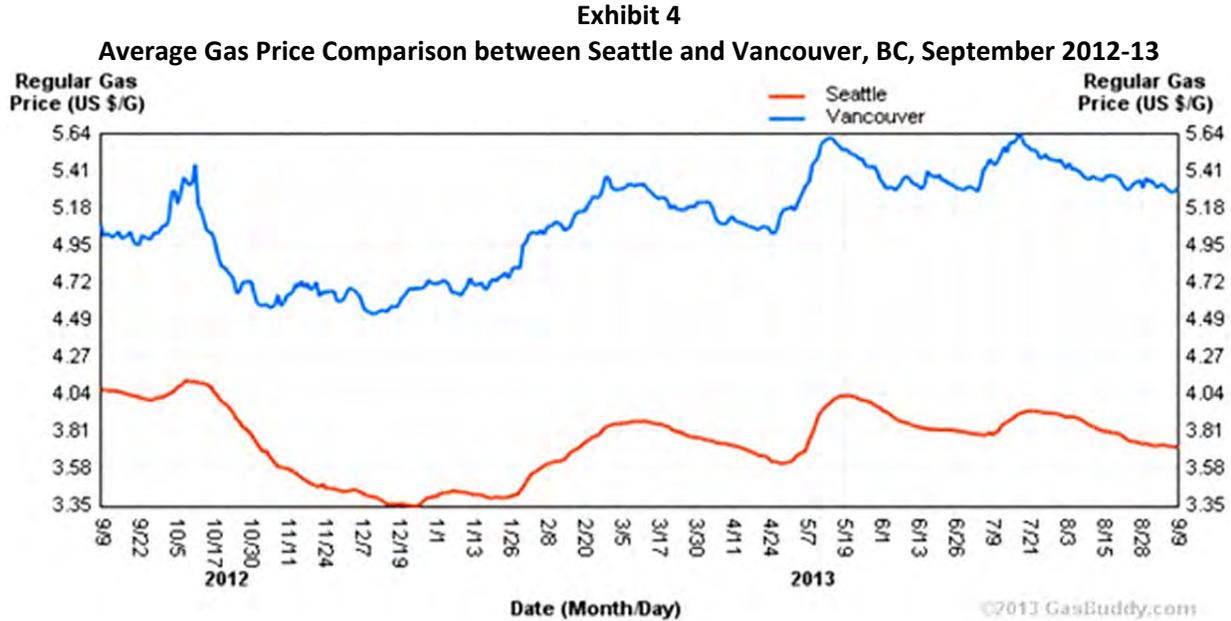
Source: Washington Department of Revenue, 2013; Office of Financial Management, 2013.

Note: County totals include sales in both incorporated cities and unincorporated areas.

- Bellingham has the highest total (\$1.5B) and per capita (\$18,410) TRS for cities in Whatcom County.
- Burlington, in Skagit County, has very high TRS per capita (\$78,993) due to its small population and concentration of destination retailers in the city.

Gasoline is Cheaper in the United States

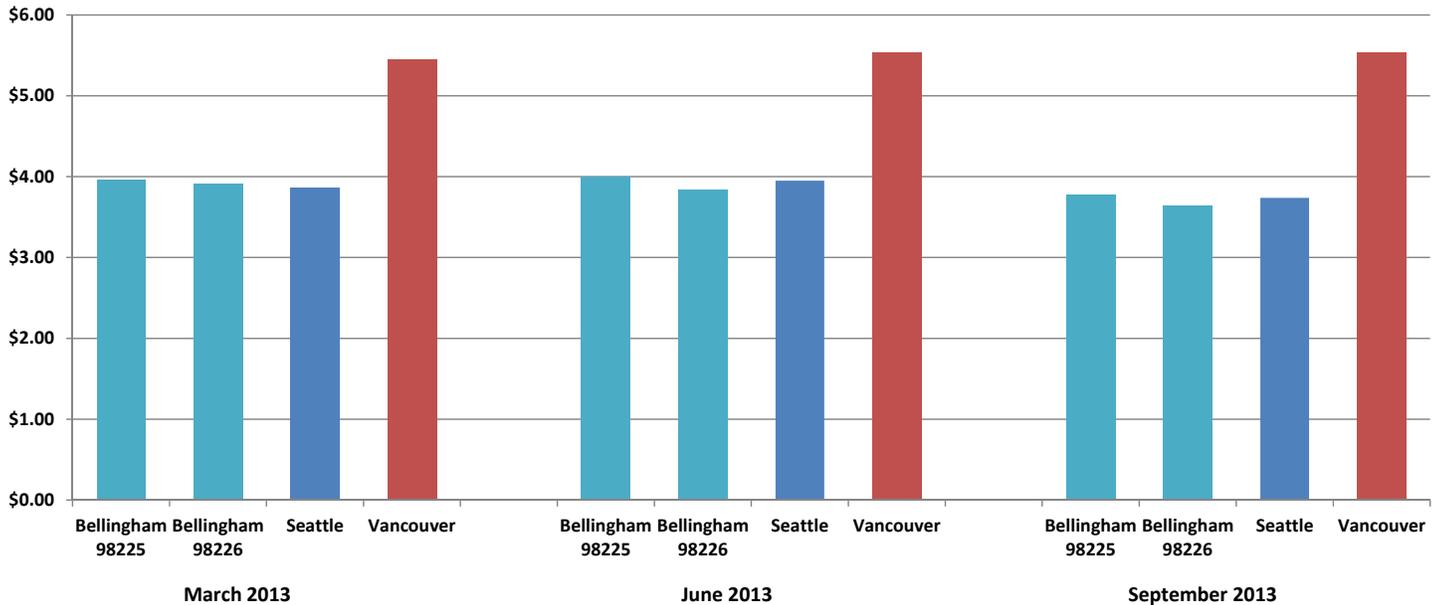
Gasoline is one good frequently purchased by Canadian visitors to the United States. The difference in gas prices between Seattle, Bellingham, and Vancouver, BC is shown in the exhibits below.



Source: Gas Buddy, 2013.

Note: Records of Bellingham’s monthly gas prices were not available in this format, so Seattle was used instead.

Exhibit 5
Monthly Average Gas Price per Gallon in Bellingham, Seattle, and Vancouver, BC, 2013



Source: Gas Buddy, 2013. All prices converted to US dollars per gallon.

- Exhibit 4 shows that gas trends \$0.75 to \$1.50 more expensive per gallon in Vancouver, BC than in Seattle, WA.

- Exhibit 5 shows that over the course of 2013, gas prices in Bellingham are within \$0.10, plus or minus, of the gas prices in Seattle, and between \$1.50 and \$1.89 cheaper than gas sold in Vancouver, BC.
- One of the major reasons that gas is more expensive in Canada is that it is more highly taxed than in Washington State. Canadians pay almost \$0.40 per liter³ (\$1.51 per gallon) in taxes on top of the retail price of the gas. In comparison, purchasers in Washington State are taxed about \$0.376 per gallon⁴, a discrepancy (\$1.13) that accounts for the majority of the difference between gas prices in Canada in Washington State.

Dairy Prices are Cheaper in the United States

Another good that is disproportionately more expensive in Canada than the United States is milk. Dairy prices in Canada are more expensive than in the United States. This is primarily due to government subsidies for U.S. dairy farmers that allow for lower dairy prices in the U.S., coupled with Canada's "dairy supply management" program, which rather than subsidizing Canadian dairy farmers, limits milk production and keeps dairy imports out to increase consumer milk prices⁵. CEBR research in 2012 reported that the Bellingham Costco sells more dairy products than any other Costco location in the U.S. and is in the top five for gas sales.

Exhibit 6
Price Comparisons Between the U.S. and Canada for Common Retail Goods, 2013

Product	Canada price	U.S. price	Percent savings
2-percent milk, half gallon	\$ 3.42	\$ 2.00	41.6%
Butter, 1 pound	\$ 3.99	\$ 3.32	16.9%
Medium cheddar cheese, 1 pound	\$ 7.77	\$ 3.21	58.6%
Eggs, 1 dozen	\$ 2.94	\$ 1.83	37.9%
Cheerios, big box	\$ 6.38	\$ 4.44	30.4%
Lays potato chips, about 9.5 oz.	\$ 3.45	\$ 2.91	15.7%
Heinz ketchup, about 34 oz.	\$ 4.33	\$ 1.98	54.3%
Coke, 2 liter	\$ 2.28	\$ 1.53	32.9%
Energizer AA batteries, 6 pack	\$ 6.97	\$ 4.89	29.8%
Advil, 200 mg, 50 tabs	\$ 8.18	\$ 6.60	19.2%

Source: Business Council of British Columbia, 2013.

Note: Prices are adjusted to reflect product sizes/quantities and assume an exchange rate of \$0.98 CAD to \$1.00 USD. Prices are the average of non-sale offerings at two stores in each country.

- Exhibit 6 shows that many common retail goods, including dairy products like milk, butter, and cheddar cheese, are cheaper by 15% or more in the United States.

Overall, the cheaper prices on products such as gasoline and dairy products, coupled with the attractiveness of U.S. retail options and selection, will continue to drive Canadian consumers to make retail purchases in Whatcom County. This demand will drive the construction of additional retail spaces and demand for commercially-zoned land with good highway access near the Canadian border. A good example of the types of commercial projects partially-driven by Canadian consumers is the proposed Costco and 142,000 square-foot shopping center being considered in Bellingham near the intersection of Bakerview Road and I-5.

³ [http://retail.petro-canada.ca/en/fuelsavings/2152.aspx#How do taxes affect gas prices?](http://retail.petro-canada.ca/en/fuelsavings/2152.aspx#How%20do%20taxes%20affect%20gas%20prices?)

⁴ http://www.washingtongasprices.com/tax_info.aspx

⁵ The Conference Board of Canada, "Making Milk: The Practices, Players, and Pressures Behind Dairy Supply Management," 2012.

Canadian Air Travel Through US Airports

Beyond traditional retail goods like dairy products and gasoline, Canadians are increasingly making travel arrangements that have them flying out of the Bellingham International Airport. About 62% of the Bellingham International Airport's flyers are from Canada⁶, again, because Canadian taxes make flying out of Bellingham economical. In 2012, Bellingham International Airport had over 570,000 enplaned passengers and has experienced rapid growth in enplanements in recent years partially due to demand from Canadian travelers. To keep pace with demand, a few airlines, notably Allegiant, have expanded their departures from Bellingham to a variety of attractive vacation destinations.

Exhibit 7
Airlines with Routes Out of Bellingham International Airport

Airlines	Destinations
Alaska Airlines	Honolulu Las Vegas Seasonal: Kahului
Horizon Air	Seattle/Tacoma Seasonal: Portland, OR
Allegiant Air	Honolulu, Kahului, Las Vegas, Los Angeles, Oakland, San Diego Phoenix/Mesa, Reno/Tahoe, Seasonal: Palm Springs
Frontier Airlines	Seasonal: Denver

Real Estate Prices Attracting Investors

An additional market driver that is bringing Canadians into the United States, are the affordable real estate prices. The average attached dwelling unit (namely condominiums, duplexes, and town homes) in Vancouver runs about \$573,259 (with a median price of \$511,000) and the average detached home (or single family dwelling unit) runs about \$1,104,896 (with a median price of \$856,000)⁷—far exceeding the \$250,000-\$350,000 price tag of a comparable single family home in Whatcom County. Exhibit 8 shows that in 2011 the average price of a detached single family home in Whatcom County was \$282,421, and the median price was \$248,444. Exhibit 9 shows condominiums with a lower average price of \$209,519, and a median price of \$165,000.

The Canadian-U.S. sales price discrepancy peaked in 2010 when the Canadian Harmonized Sales Tax, which instituted a 12% sales tax on home purchases, went into effect. This tax was repealed by voters in 2011, and is no longer a major factor driving Canadian investment in Whatcom County— however it does show the effect that Canadian taxes and market conditions can have on Whatcom markets.

⁶ Canadian Airports Council, "Cross Border Shopping of Air Travel a National Phenomenon," March 20, 2012.

⁷ Real Estate Board of Greater Vancouver, "MLS HPI, Average, and Median Home Prices Over a Year," September 2011. These figures are in Canadian dollars. In 2012, the average exchange rate for CAD to \$1 US was \$0.999.

Exhibit 8
Single Family Home Sales in Whatcom County, 2000-2011

Year	Number Sold	Average Price	Median Price
2000	2,911	\$167,038	\$144,500
2001	3,190	\$174,903	\$151,050
2002	3,574	\$181,949	\$159,900
2003	4,213	\$200,916	\$174,000
2004	4,454	\$236,604	\$212,325
2005	4,316	\$288,277	\$259,900
2006	3,341	\$324,852	\$283,000
2007	3,142	\$340,448	\$290,725
2008	2,312	\$323,172	\$278,533
2009	2,204	\$301,124	\$259,900
2010	2,014	\$291,985	\$255,000
2011	1,990	\$282,421	\$248,444

Source: Whatcom County Real Estate Research Report, 2012.

Exhibit 9
Condominium Sales in Whatcom County, 2000-2011

Year	No. Sold	Average	Median
2000	342	\$118,457	\$107,000
2001	363	\$124,663	\$112,500
2002	449	\$125,034	\$110,000
2003	570	\$137,473	\$124,000
2004	701	\$170,526	\$150,000
2005	825	\$204,602	\$184,800
2006	835	\$225,149	\$202,000
2007	832	\$228,296	\$200,000
2008	526	\$227,750	\$198,000
2009	372	\$206,968	\$189,000
2010	357	\$224,439	\$189,900
2011	283	\$209,519	\$165,000

Source: Whatcom County Real Estate Research Report, 2012.

Exhibit 10
Single Family Housing Units Sold in Whatcom County by Price and Type, 2009-2011

Price Range	2009			2010			2011		
	New	Existing	Total	New	Existing	Total	New	Existing	Total
\$1,000,001 and over	0	19	19	0	15	15	0	10	10
\$750,001-1,000,000	1	39	40	0	25	25	0	24	24
\$501,000-750,000	9	123	132	1	101	102	1	108	109
\$451,000-500,000	6	68	74	2	57	59	1	56	57
\$401,000-450,000	7	71	78	7	84	91	6	78	84
\$351,000-400,000	27	141	168	12	143	155	12	126	138
\$326,000-350,000	12	93	105	10	97	107	11	82	93
\$300,000-325,000	14	121	135	10	97	107	14	93	107
\$276,000-300,000	22	181	203	21	153	174	22	124	146
\$250,000-275,000	17	219	236	30	179	209	37	152	189
\$226,000-250,000	34	210	244	24	224	248	27	201	228
\$201,000-225,000	43	219	262	33	205	238	27	194	221
\$176,000-200,000	17	189	206	17	168	185	3	178	181
\$151,000-175,000	2	107	109	2	129	131	4	151	155
\$150,000 and under	3	183	186	1	167	168	0	248	248
Total	214	1,983	2,197	170	1,844	2,014	165	1,825	1,990

Source: Whatcom County Real Estate Research Report, 2012.

- The distribution of recent home sales by price and type, shown in Exhibit 10, shows that 78% of homes purchased in Whatcom County between 2009 and 2011 were less than \$350,000.

Long-term Population Growth in British Columbia

Southwest British Columbia, including greater Vancouver and the Fraser Valley, is the most populated region of British Columbia. Since 2000, the Southwest region population has grown by over 442,000 to 2,805,577 in 2012. This represents an annual average growth rate of 1.4%, the fastest growth rate of any region in British Columbia. This growth trajectory is predicted to continue as the Southwest region is projected to grow at an annual average rate of 1.2% and grow by over 1,000,000 people by 2036.⁸

TYPES OF CANADIAN REAL ESTATE INVESTORS

The previous section described some of the major drivers of Canadian travel and investment in Whatcom County. These factors all influence real estate demand in the Whatcom County market. There are four major categories of foreign investment in Whatcom County real estate:

1. Vacation Home Investors
2. Urban Residential Income Property Investors
3. Commercial Real Estate Investors
4. Agricultural Land Purchases

Vacation Home Investors

Canadians have long been venturing into Whatcom County to purchase vacation homes in waterfront communities such as Blaine, Birch Bay, and Semiahmoo. Depending on economic conditions and other market factors, the type of housing product being demanded has fluctuated. In the past, highly desirable, upper-end, waterfront property

⁸ BCStats (central statistical agency of the Province of British Columbia). Official population estimates and projections, 2013.

was in demand but in recent years, Canadian demand for vacation homes has veered toward a preference for more affordable units seen as good investments. According to Mike Kent, a real estate agent and Whatcom County real estate expert, many homes over \$500,000 are on the market for less than their replacement price and homes that would have once fetched \$1 million are selling in the range of \$600,000 to \$700,000. The types of housing characteristics currently in demand include:

- Single family homes or condos, under \$300,000,
- Smaller homes, in the 1,600-1,800 sf range, on ¼ acre lots (zoned to allow 4 units per acre), and
- Nearby resort amenities, as well as retail amenities such as U.S. big box stores.

Many Canadian vacation home investors are buying in cash, using the equity from their homes in Canada, and looking to take advantage of the U.S. housing market slowdown, which dropped U.S. home prices significantly. These vacation home investors are purchasing condos and other single-family homes to be a “home base” for vacation and shopping trips, and a source of seasonal vacation rental income. For example, in Birch Bay Village, which has 950 homes, there are usually only 2-3 available to rent year-round. The rest are periodically used by owners throughout the year.

Prices for these kinds of modest vacation homes have remained relatively steady, because Canadian purchases have supported the local market and mitigated the price drops seen across the U.S. housing market in recent years.

According to Kent, the biggest competitor to the Whatcom County real estate market, for Canadians looking for a second home, is Phoenix or Palm Springs.

Urban Residential Income Property Investors

Some Canadian investors are seeking properties in urban communities rather than waterfront vacation homes. Some of these investors are viewing condos and homes as potential income investments to be rented year-round, while others are using these homes for personal use during shopping trips and other U.S. travel.

After U.S. housing prices dropped during the 2007-09 U.S. recession, a significant amount of below-market-value property was on the market through a combination of short-sale, real estate-owned or bank-owned sales, and foreclosure auctions. This created an opportunity for Canadian investors to purchase property under market value, in hopes that a market rebound in the U.S. would generate long-term profits. On top of that, low vacancy rates (Windermere Property Management in Bellingham has vacancy rates below 2% for all categories of residential units) are making it easy to rent these units—allowing Canadian buyers to hold investments until the market rebounds.

Doug Wight, owner of Windermere Property Management, says that because vacancy rates are low for all categories of housing units (condominiums, apartments, single family homes, townhomes, and other), Canadian investors are purchasing all types of units. Rather than unit type, these investors are looking at two main purchasing criteria: location and price per square foot. Popular locations in the County include the urban areas (primarily Bellingham, but also Lynden and Blaine), areas close to Interstate 5, and the traditional vacation areas of Birch Bay and Blaine’s Semiahmoo neighborhood.

Commercial Real Estate Investors

Canadians also play a significant role investing in commercial property in Whatcom County. In recent years there have been several large purchases of commercial property by Chinese investors with Canadian ties. These foreign investors have taken a patient approach and are generally holding their investments and not starting any redevelopment efforts.

At this point, it is unclear what the impact of foreign investment will be on the commercial real estate market in Whatcom County. On one hand, foreign investors with large equity reserves can afford to hold property for a long period and not redevelop their holdings until optimal market conditions return. On the other hand, foreign investors with ample equity can afford to develop larger scale projects that can have transformative effects on local commercial markets. These investors can afford to assemble larger parcels of land and make significant infrastructure investments if necessary.

IMPLICATIONS FOR LONG-RANGE PLANNING

The influence of Canadian real estate purchases and retail spending is worth considering when developing long-term plans for growth in Whatcom County. Canadian retail spending in the U.S. will lead to additional demand for commercial land and Canadian investors will contribute to residential demand in Whatcom County.

In Vacation Communities

According to Mike Kent, Canadian demand for Whatcom County real estate has increased in recent years, but he does not see a constraint in the land supply in the communities of Birch Bay and Blaine. Indeed, according to Whatcom County Planning Staff⁹, several large planned developments that were in foreclosure as a result of the U.S. recession have been bought and are under consideration for development again. Three of these projects are in Birch Bay and another is in Semiahmoo:

- **The Waterslides in Birch Bay.** This project is 15 acres and the new owner plans to expand to include residential (primarily multifamily) development and include some commercial-retail space.
- **The Sealinks at Birch Bay.** This project included a plan to build 150-200 multifamily units, and the new owner has interest in moving forward with those existing development plans.
- **Horizons in Birch Bay.** This project currently includes approximately 70 single-family residential plots, with the potential for additional development.

Along with these previously foreclosed projects moving forward, the reopening of the Semiahmoo Resort is a positive development that will shore up demand for additional waterfront development and Canadian investment. The balance of developable land in Birch Bay and Blaine provides a decent amount of supply in the long term.

In Bellingham and other Urban Communities

In the urban markets, particularly Bellingham, the current low vacancy rates indicate possible unmet demand for multifamily units. This issue is discussed in greater detail in the next section.

As discussed earlier, retail demand from Canadian consumers is partially supporting large-format retail centers in Whatcom County. Commercial land near the border with good highway access will continue to be in high demand due to the Canadian influence. In addition to retail demand, Canadian travelers will also support other types of commercial development such as hotels and lodging. Several new hotels have been recently constructed or are planned in the north part of Bellingham. These hotels will cater to corporate and business clients in Bellingham as well as leisure travelers, including Canadians.

⁹ Conversation with Amy Keenan, Senior Planner, Whatcom County Planning and Development Services, September 19, 2013.

III. HOUSING TRENDS AND PREFERENCES

NATIONAL TRENDS: STATE OF THE NATION'S HOUSING REPORT 2013

This section includes a summary of national housing trends summarized from *The State of the Nation's Housing 2013* report, which is researched and organized by the Joint Center for Housing Studies of Harvard University. While the report focuses on the overall United States housing market, many trends have implications for the Whatcom County market.

Housing markets are recovering but there are many changes that indicate the future may not look like the past. There is a significant projected increase in seniors, who will demand different housing types and home locations, but limited financial resources restricts their options.

Real incomes are stagnant and debt (mortgage, student loan) is high. This may limit homeownership opportunities, especially as interest rates inevitably increase. Young adults will find it hard to move into home ownership due to low wages, rising home prices, and student loan debt. Minority and foreign born households are on the rise and will also affect the nature of housing demand in the next twenty years.

Overall State of the Housing Market

- A long awaited housing recovery started to take place in 2012 with rising home prices, and declining vacancy rates and rising rents in the rental market. Key indicators include:
 - Existing home sales climbed to their highest since 2007;
 - New home sales had their first year-over-year increase since the downturn began;
 - Single family starts increased by 24% over 2011 levels;
 - Multifamily starts climbed for the second year in a row and increased by 37.7% in 2012;
 - Residential construction made its first positive contribution to GDP in seven years.
- Multiple factors have contributed to rising housing prices, including steady employment growth and record low mortgage rates. Low mortgage interest rates have made owning a home more affordable on a monthly basis than at any time except the 1970s.
- Metro areas with the strongest house price appreciation had relatively strong employment growth and very low inventories of homes for sale.
- Given the depth of the housing market downturn, there are several challenges to strong and sustainable demand. Jobs and income are taking longer to rebound than in previous cycles and many homeowners still owe more on their mortgages than their homes are worth.

Rental Market

- Rents rose 2.7% from April 2012 to April 2013 slightly outpacing inflation as measured by the consumer price index.
- Across the country, approximately 186,000 rental units (both multi-family and single family) were constructed in 2012.
- A typical new unsubsidized apartment completed in 2013 had an asking rent of \$1,185; a potential renter would need an annual income of more than \$47,000 to make the monthly payment no more than 30% of their income.
- As of early 2013, renters make up 35% of all households. Renters are more likely to be young, low-income, minority, and living in single-person households.

- Conversion of single-family homes from the owner to the rental market has contributed significantly more than new construction to the expansion of the rental inventory. Much of this conversion was driven by the housing market downturn and foreclosure crisis that resulted in excess housing supply and more demand for rental housing. Between 2007 and 2011, on net 2.4 million homes switched from owner-occupied to renter-occupied.

Senior Housing

- With the baby boomers now reaching 65 years of age, the number of senior households will surge in 2013-2023. This will bring a significant shift in the nature of demand for housing and home improvements.
- These older households are projected to increase by 9.8 million. Most of this growth will reflect the aging of existing households rather than the creation of new households. The amount of seniors age 65 and over will increase by 1.2 to 1.6 million annually through the end of the decade.
- In the past, home equity helped seniors prepare for retirement by helping to reduce monthly housing costs or eliminate them if their mortgage was paid off. Equity could also be tapped to pay for medical and other costs if needed. Seniors who owned their homes could downsize and use the sale proceeds to pay for other expenses.
 - However, today more Americans are carrying mortgage debt later into life. Between 1989 and 2010, the share of home owners aged 60-69 with mortgage debt rose from 32% to 60%.
- While many older Americans want to age in place, without sufficient savings and access to services, they may not be able to do so. Needs will change over time and meeting those needs will require modifications to existing homes, and expansion of transportation networks and supportive services. Expansions of senior support services will require both public and private sector initiatives.

Young Adults

- Young adults will take longer to set up their own households, and the transition to home ownership will be more difficult.
- Real Incomes among households under age 35 are back down to 1990s levels.
- Many young adults living on their own have still not formed independent households. As unemployment rates rose, the number of young adults living independently went down, even though the population under 35 grew.
- Young households are more mobile, with 52.7% under the age of 25 changing residences in 2011.

Student Loan Debt

- According to the Federal Reserve Bank of New York, the number of young adults under 30 with outstanding student loan debt increased by 39% between the start of 2005 and the end of 2012, with the average amount rising from \$13,300 to \$21,400.
- Student loan debt also affects older populations' ability to meet their mortgage obligations.
 - The increase in outstanding student loan debt was even larger for those in their 30s. The number of borrowers increased by 76%, and average debt climbed from \$20,000 to \$29,400
 - 38% of the \$600 billion of outstanding student loans in 2005-2012 was held by householders in their 40s.

Minority Households

- Between 2013 and 2023, seven out of ten net new households nationwide are projected to be minority households. Minorities will make up an even larger portion of first time homebuyers.
- Minorities will have fewer resources to draw on to pay home purchase down payments, or additional upfront rental costs like first and last month rent, and a security deposit. Among renters aged 25-34 in 2010, the median net worth (total assets less debt and liabilities), was the following for each race: \$1,400 for blacks; \$4,400 for Hispanics; and \$6,500 for whites.
- The children of minority immigrants are adding to the echo-boom population (aged 15-24 in 2010) and have lifted the minority share of this population to 43.4%.

Immigrant Households

- The number of foreign born households rose nearly 400,000 annually in the years 2001-2007, accounting for 30% of overall household growth.
- Beginning in 2008, the number of incoming immigrants started to decrease. By 2009 and 2010, the number of foreign born households had experienced a net decline. But, with the US economy gaining strength, immigration may begin to increase again.

Stagnant Incomes

- Real income, adjusted for inflation, has declined or stayed flat for many households.
 - As mentioned earlier, incomes among households under age 35 are back down to 1990s levels.
 - The recession had an even bigger impact on those between the ages of 35 and 54, whose incomes are now lower than in 1971. Even in their prime earning years, those in this age group are making less than in 1971. When this group starts to hit retirement age, it may be difficult for them to stop working.
 - 45-54 year olds have seen their real median incomes fall 6% from what they made 10 years ago.
- The magnitude of decline also varies based on race and ethnicity. While real incomes for all groups fell over the last ten years, the median income for black households declined the most, twice as much as whites.

Slide in Homeownership

- The national homeownership rate fell for the eighth straight year in 2012, from 66.1% to 65.4%. This shift is driven by 1.1 million additional renters, and also a net loss of 161,000 homeowners in 2012.
- For each 10 year age group between 25 and 54, the share of households owning homes is at its lowest point since data collection began in 1976. The only reason that homeownership is as high as it is, is because households over 65 have the highest homeownership rates on record and are an even larger share of the current population.

The Effect of Current Housing Costs on Low-income Households

- 17.9% of all US households devote more than half of their income to housing.
- The total number of households paying more than half their incomes for housing grew by 6.7 million from 2001 to 2011, an increase of 49%.
- Improving the energy efficiency of homes would slow the increase of housing cost burden.

- There are not many low income housing opportunities available. Due to competition from higher income renters and the declining condition of affordable housing units, for every 100 extremely low income renters, there are only 30 units of affordable and adequate housing available. In addition, the affordable housing inventory has been declining in recent years. Since 2001, 12.8% of low-cost rental inventory was permanently lost.

ELDERLY HOUSING PREFERENCES

This section outlines findings from additional research into elderly housing preferences, augmenting the trends reported above from the *State of the Nation's Housing* report.

Aging in Place

The 2010 AARP Home and Community Preferences survey, which polled adults aged 45 and older, showed that approximately 86% of total respondents indicated a preference for remaining in their current homes as long as possible. The percentage of respondents indicating this preference was higher (88%) for the 65+ age group.¹⁰

In addition to evaluating preference to remain in their own homes, the AARP survey polled respondents about their preference to remain in their current local community. 85% of respondents indicated a preference for remaining in their communities as long as possible, though follow-up questions indicated that this choice is partially motivated by being unable to afford moving. Follow-up questions indicated that younger respondents (under 65) were more likely to remain in their communities because of affordability issues than older respondents (65 and older). (AARP, 2010)

Housing Type Preferences and Home Ownership Rates

A study conducted in 2010 by MetLife Mature Market Insurance and the National Association of Home Builders using data from the 2009 American Housing Survey indicated that households over the age of 55 showed a strong preference for single-family home ownership, accounting for 71% of households in this age group. In comparison, households under 55 displayed a lower percentage of single-family ownership (54%).¹¹

Home ownership rates for the senior population have traditionally been high, often 80% or higher, according to the Joint Center for Housing Studies at Harvard University.¹² In 2000, nearly 75% of the nation's seniors lived in conventional housing (as opposed to age-restricted communities, supported housing, or nursing homes), consistent with the group's general strong preference for aging in place. However, the recent economic downturn and housing crisis have led to decreased home values for many seniors. Many seniors also experience a decreased ability to pay for the costs associated with home ownership as they age, and the proportion of renters that are 65 or older has increased in recent years. According to a JCHS study, while Baby Boomers are generally wealthier than their generational predecessors, the proportion of senior renters is projected to continue increasing as seniors seek housing options that are more affordable and require less maintenance commitment.¹³

¹⁰ American Association of Retired Persons. 2010. *Home and Community Preferences of the 45+ Population*. Prepared by Teresa A. Keenan, Ph.D. Washington, DC.

¹¹ MetLife Mature Market Institute and the National Association of Home Builders. 2011. *Housing Trends Update for the 55+ Market – New Insights from the American Housing Survey*. New York, NY.

¹² Joint Center for Housing Studies of Harvard University. 2000. *Housing America's Seniors*. Cambridge, MA.

¹³ Joint Center for Housing Studies of Harvard University. 2011. *America's Rental Housing – Meeting Challenges, Building on Opportunities*. Cambridge, MA.

Proximity to Family, Friends, and Work

While seniors are less likely to relocate than their younger counterparts, some senior migration does occur for a variety of reasons. Proximity to family and friends is one of the most commonly cited reasons for moving among seniors, and it was also highly ranked as a criterion for choosing a new home. Proximity to work, while not as highly ranked among respondents over age 65, was a significant factor for those aged 55-64.¹⁴ This may become a larger factor in the future as more seniors delay retirement, enter semi-retirement, or choose to pursue new careers.

WHATCOM COUNTY HOUSING MARKET TRENDS

Housing trends in Whatcom County are similar to overall national housing trends. This section outlines the following indicators:

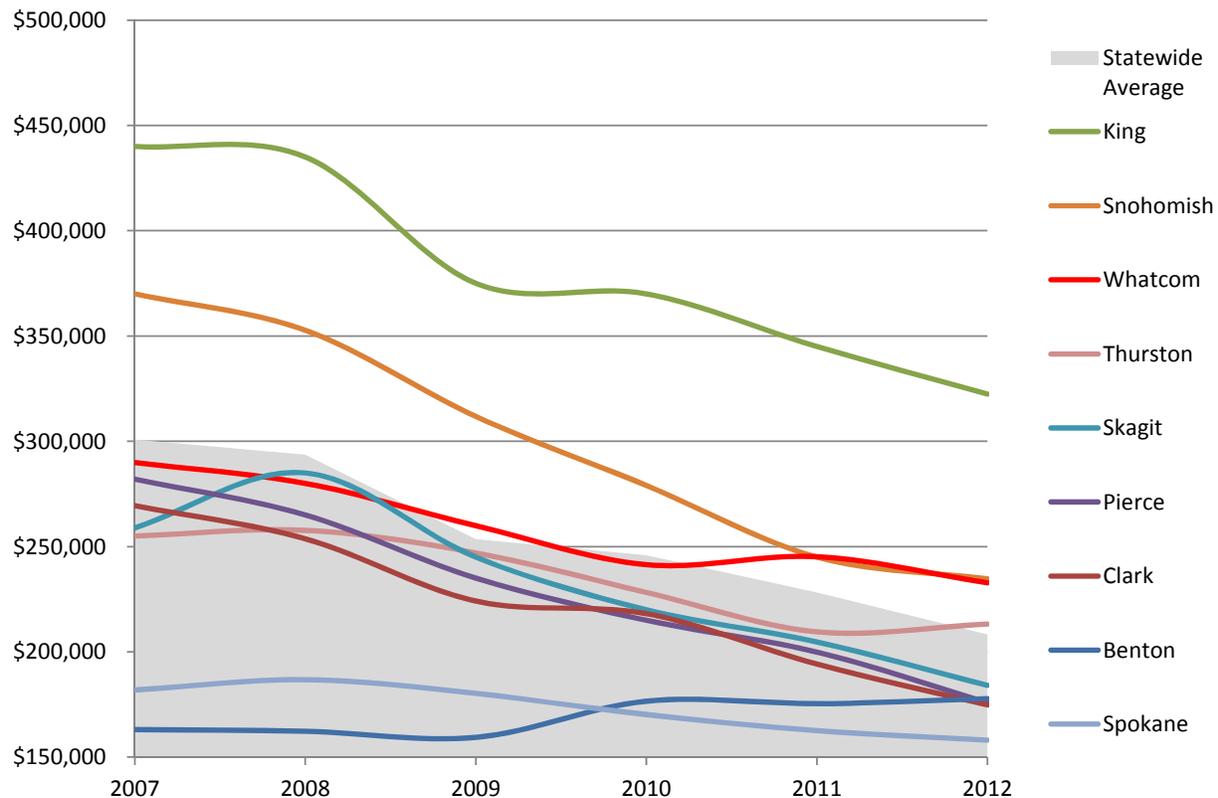
- Relatively high housing prices and low housing affordability in Whatcom County compared to other Washington Counties.
- Multifamily housing demand measured by building permits and apartment rent trends.

Housing Prices and Affordability

Housing affordability is generally determined by comparing the cost of housing in a selected area to income levels in the same area. Exhibit 11 shows trends in median home prices in selected Washington counties to highlight the relatively higher prices of housing in Whatcom County.

¹⁴ MetLife Mature Market Institute, 2011

Exhibit 11
First Quarter Median Home Prices for Selected Washington Counties, 2007 - 2010



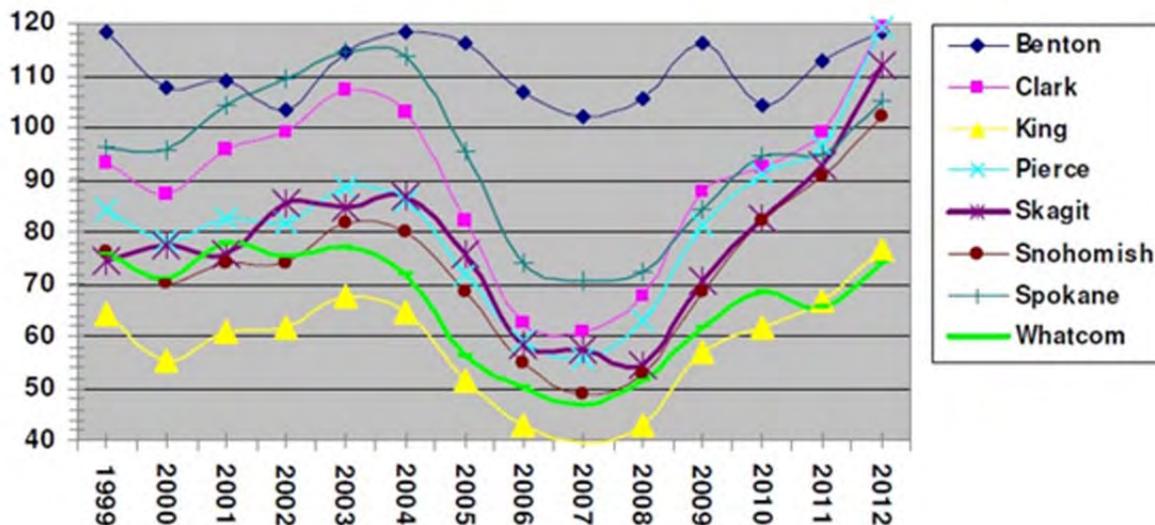
Source: Whatcom County Real Estate Research Report 2012, and BERK, 2013.

- Median home prices have declined across Washington since the housing market crash in 2007. In Whatcom County, the median home price has dropped from \$289,900 in 2007 to \$232,800 in 2012.
- Over the past five years, compared to other counties, Whatcom County median home prices have been relatively high. Currently, median home prices are about the same as Snohomish County and only trail prices in King County.

When income levels are factored in, housing affordability in Whatcom County starts to approach levels in King County. The Whatcom County Real Estate Research Report includes a section on Whatcom County Affordability that calculates an affordability index to measure housing affordability among different counties.¹⁵ Trends in the housing affordability index for first time homebuyers, shown in Exhibit 12, highlight Whatcom County's relatively low housing affordability. The exhibit shows that it has been more challenging to become a first-time homebuyer in Whatcom County than in metropolitan Seattle during the last two years.

¹⁵ Crellin, Glenn E., Runstad Center for Real Estate Studies, University of Washington. 2012. *Whatcom County Affordability*. Included in 2012 Whatcom County Real Estate Research Report.

Exhibit 12
First-time Buyer Affordability First Quarters, 1999-2012



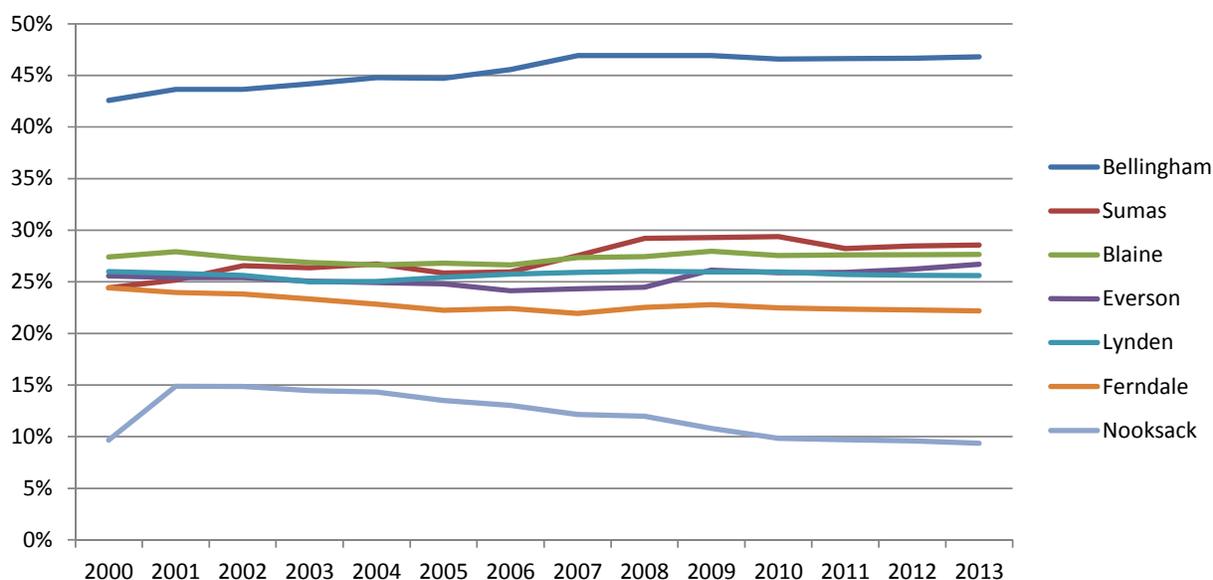
Source: Whatcom County Real Estate Research Report, 2012.

The affordability index in Exhibit 12 is calculated by factoring in several indicators including the median home price in each county, the average monthly mortgage payment (based on a 20% down payment and a 30-year mortgage), the minimum qualifying income for a home loan, and the median family income in each county. Under this affordability index scale, a housing market that provides first-time buyers with reasonable expectations of becoming homeowners (average monthly payments not exceeding one-quarter of monthly income) generally has an index value of 80 or more. At the peak of the housing market bubble, many county housing markets were below the 80 threshold. In the wake of the housing market downturn, most counties now have affordability indexes above 80. Since 2010, the only two counties with index values still below 80 are King County and Whatcom County.

Multifamily Housing Market Trends

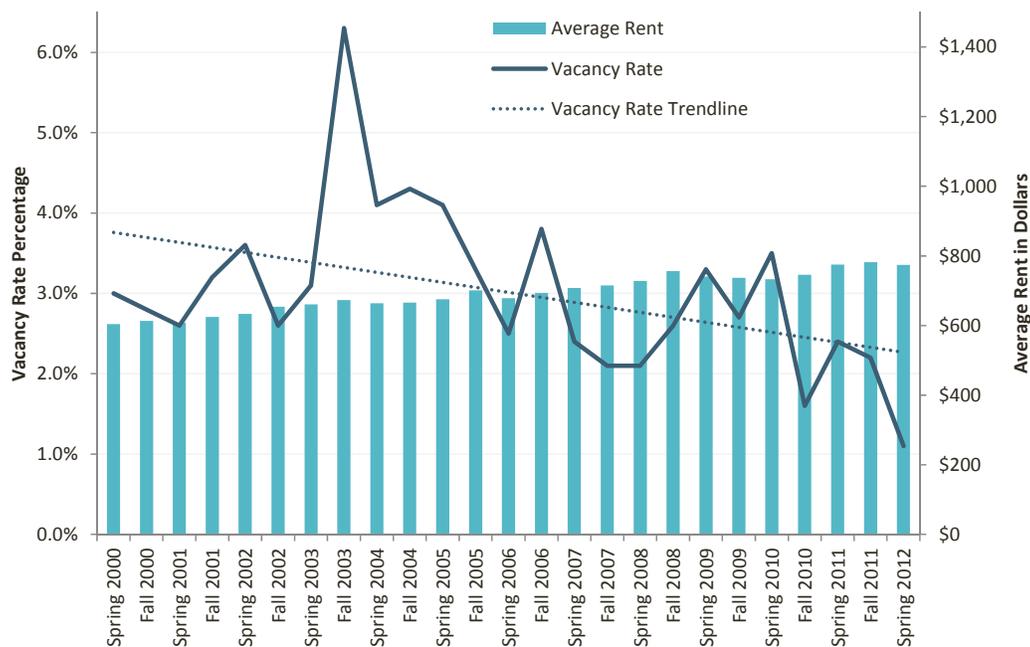
Several of the national trends highlighted earlier suggest growing demand for multifamily housing as demographic and economic forces drive more households to live in urban areas in smaller, less expensive, housing options. In Whatcom County, this effect is being seen most prominently in Bellingham. Exhibit 13 shows the percentage of total housing units that are multifamily units in each Whatcom County city. Bellingham has the highest percentage of multifamily units and has seen this share increase from 43% in 2000 to 47% in 2013. Most other cities in Whatcom County have multifamily percentages between 20% and 30% and have seen multifamily concentrations remain flat or increase slightly. Sumas has seen the greatest increase in multifamily share from 24% in 2000 to 29% in 2013. Ferndale (24% to 22%) and Nooksack (10% to 9%) were the only cities to see a decline in multifamily percentage. These data indicate that multifamily demand is growing in the Bellingham market but has not yet spread to any of the smaller cities in the County.

Exhibit 13
Percentage of Total Housing Units that are Multi-Family Units, 2000-2013



Source: Washington Office of Financial Management, Small Area Estimates Program, 2013.

Exhibit 14
Whatcom County Apartment Vacancy Rate and Average Rent, 2000-2012



Source: Whatcom County Real Estate Research Report 2012, Dupre + Scott Apartment Advisors, Inc. (through 9/06), and Washington Center for Real Estate Research (beginning 3/07)

Trends in apartment vacancy rates and average rents are additional indicators of multifamily housing demand. Exhibit 14 shows these trends in Whatcom County, but it is worth noting that the majority, if not all, apartments sampled to generate these data are located in Bellingham.

- Since 2000, average apartment rents have steadily increased, with little fluctuation or volatility.
- In contrast, vacancy rates have fluctuated more, ranging from close to 1% in 2012 to over 6% in 2003. The trend line shown in the chart shows that overall, vacancy rates have been decreasing as rents have increased.
- Apartment vacancy rates are currently at an all-time low. Overall, the decreasing vacancy rates, despite gradually increasing average rents, indicates growing demand for apartments.

IMPLICATIONS FOR LONG-RANGE PLANNING

Due to effects of the Great Recession, there are prolonged consequences that have resulted in long-term changes to the overall American housing market. The data suggests that although there will still be strong demand for single family housing, there may be a need for more multi-family and rental housing units based on the needs of senior, young adult, and minority households. Senior households are increasing as the baby boom generation ages, and despite a desire to age in place, many senior households may not have the financial ability to do so due to low home equity, high mortgage debt, and high medical costs. Young adults, many of whom were seriously affected by the Great Recession, will take longer to transition to home ownership due to low net wealth, student loan debt, and stagnant incomes. The data suggest that minority households may have challenges in building up the resources for home purchase down payments or upfront rental costs (first/last month rent and security deposits) for higher value rentals. These households will have less money to devote to housing, and the trends suggest that they will look for smaller housing units at lower costs.

In Whatcom County, housing prices are relatively high compared to other Washington counties, and affordability is a challenge, particularly for younger households and first-time homebuyers. This challenge may be one of the

factors driving demand for multifamily housing in Bellingham and affordable single-family housing in other areas of the county. Trends in multifamily building and the apartment market indicate steady demand for multifamily housing in Bellingham.

APPENDIX A - WHATCOM COUNTY MIGRATION PATTERNS

As discussed in the July 22, 2013 Phase I Technical Report on population and employment projections, migration is one of the key components of population change in a community. This appendix provides additional information on the states and counties where people are moving to and from Whatcom County. Population moving into Whatcom are referred to as inbound, and population moving out of Whatcom are referred to as outbound. The combined effect of inbound and outbound flows is referred to as net migration.

The data in this section is collected from the Census Flows Mapper, which is a web mapping application that utilizes data from the 2006-2010 American Community Survey to estimate 5-year annual average migration flows.

Exhibit 15
Highest Net Migration to Whatcom County by State, 2006-2010 Annual Average

State Name	Net Migration	Percent
1 Washington	2,666	62%
2 California	366	9%
3 Montana	237	6%
4 Texas	217	5%
5 Oregon	110	3%
6 Alaska	101	2%
7 New Jersey	92	2%
8 Illinois	61	1%
9 Colorado	61	1%
10 Nevada	60	1%
Total Positive Net Migration	4,269	100%

Exhibit 16

Highest Inbound Migration to Whatcom County by State, 2006-2010 Annual Average

State Name	Inbound Migration	Percent
1 Washington	8,084	67%
2 California	992	8%
3 Oregon	370	3%
4 Texas	298	2%
5 Montana	250	2%
6 Arizona	212	2%
7 Alaska	197	2%
8 Colorado	175	1%
9 North Carolina	120	1%
10 Nevada	117	1%
Other States	1,322	11%
Total All States	12,137	100%

Highest Outbound Migration Away From Whatcom County by State, 2006-2010 Annual Average

State Name	Outbound Migration	Percent
1 Washington	5,418	60%
2 California	626	7%
3 Arizona	541	6%
4 Oregon	260	3%
5 Hawaii	136	2%
6 North Carolina	125	1%
7 Michigan	121	1%
8 Pennsylvania	116	1%
9 Colorado	114	1%
10 Ohio	101	1%
Other States	1,482	16%
Total	9,040	100%

Source: U.S. Census American Community Survey, Census Flows Mapper, 2006-2010 five-year averages

Note: "Total positive net migration" does not equal the combination of total inbound and outbound migration because states with negative net migration are not included.

- The highest level of migration is within the State of Washington. There is more inbound migration to Whatcom County than outbound migration overall.
- Most of the movement to and from Whatcom County is from other Western States, with California being the top destination and origin.

Exhibit 17
Highest Net Migration to Whatcom County by County, 2006-2010 Annual Average

	County	State	Net	
			Migration	Percent
1	King County	Washington	1,229	18%
2	Snohomish County	Washington	528	8%
3	Island County	Washington	340	5%
4	Kitsap County	Washington	318	5%
5	Pierce County	Washington	251	4%
6	Thurston County	Washington	248	4%
7	San Diego County	California	172	3%
8	Los Angeles County	California	135	2%
9	Bergen County	New Jersey	107	2%
10	Spokane County	Washington	104	2%
Total Positive Net Migration			6,848	100%

Exhibit 18

**Highest Inbound Migration to Whatcom by
County, 2006-2010 Annual Average**

	County	State	Inbound	
			Migration	Percent
1	King County	Washington	2,882	24%
2	Snohomish County	Washington	1,295	11%
3	Pierce County	Washington	522	4%
4	Skagit County	Washington	476	4%
5	Island County	Washington	411	3%
6	Thurston County	Washington	391	3%
7	Kitsap County	Washington	350	3%
8	Spokane County	Washington	342	3%
9	Clark County	Washington	218	2%
10	San Diego County	California	211	2%
Other Counties			5,039	42%
Total All Counties			12,137	100%

**Highest Outbound Migration to Whatcom by
County, 2006-2010 Annual Average**

	County	State	Outbound	
			Migration	Percent
1	King County	Washington	1,653	18%
2	Snohomish County	Washington	767	8%
3	Skagit County	Washington	559	6%
4	Whitman County	Washington	358	4%
5	Yakima County	Washington	357	4%
6	Maricopa County	Arizona	278	3%
7	Pierce County	Washington	271	3%
8	Spokane County	Washington	238	3%
9	Grant County	Washington	177	2%
10	Thurston County	Washington	143	2%
Other Counties			4,239	47%
Total All Counties			9,040	100%

Source: U.S. Census American Community Survey, Census Flows Mapper, 2006-2010 five-year averages

Note: "Total positive net migration" does not equal the combination of total inbound and outbound migration because states with negative net migration are not included.

- Most net migration is coming from other Washington counties, which comprise the top six net migration counties.

Exhibit 19
Highest Net Migration by County (Excluding Washington State Counties),
2006-2010 Annual Average

County	State	Net	
		Migration	Percent
San Diego County	California	172	3%
Los Angeles County	California	135	2%
Bergen County	New Jersey	107	2%
Lane County	Oregon	98	1%
Hill County	Texas	97	1%
Coryell County	Texas	94	1%
Missoula County	Montana	85	1%
Deschutes County	Oregon	73	1%
Anchorage Municipality	Alaska	71	1%
Santa Barbara County	California	67	1%
Total Positive Net Migration		6,848	100%

Exhibit 20

Highest Inbound Migration to Whatcom by
County (Excluding Washington State Counties),
2006-2010 Annual Average

County	State	Inbound	
		Migration	Percent
San Diego County	California	211	5%
Los Angeles County	California	172	4%
Maricopa County	Arizona	146	4%
Anchorage Municipality	Alaska	118	3%
Lane County	Oregon	112	3%
Bergen County	New Jersey	107	3%
Hill County	Texas	97	2%
Coryell County	Texas	94	2%
Clark County	Nevada	90	2%
Buncombe County	North Carolina	90	2%
Other non WA Counties		2,816	69%
Total All non WA Counties		4,053	100%

Highest Outbound Migration Away from
Whatcom County (Excluding Washington State
Counties), 2006-2010 Annual Average

County	State	Outbound	
		Migration	Percent
Maricopa County	Arizona	278	8%
Navajo County	Arizona	118	3%
Oakland County	Michigan	110	3%
Multnomah County	Oregon	106	3%
San Joaquin County	California	101	3%
Maui County	Hawaii	91	3%
Forsyth County	North Carolina	88	2%
Garland County	Arkansas	79	2%
Riverside County	California	76	2%
Sarasota County	Florida	76	2%
Other Non WA Counties		2,499	69%
Total All non WA Counties		3,622	100%

Source: U.S. Census American Community Survey, Census Flows Mapper, 2006-2010 five-year averages

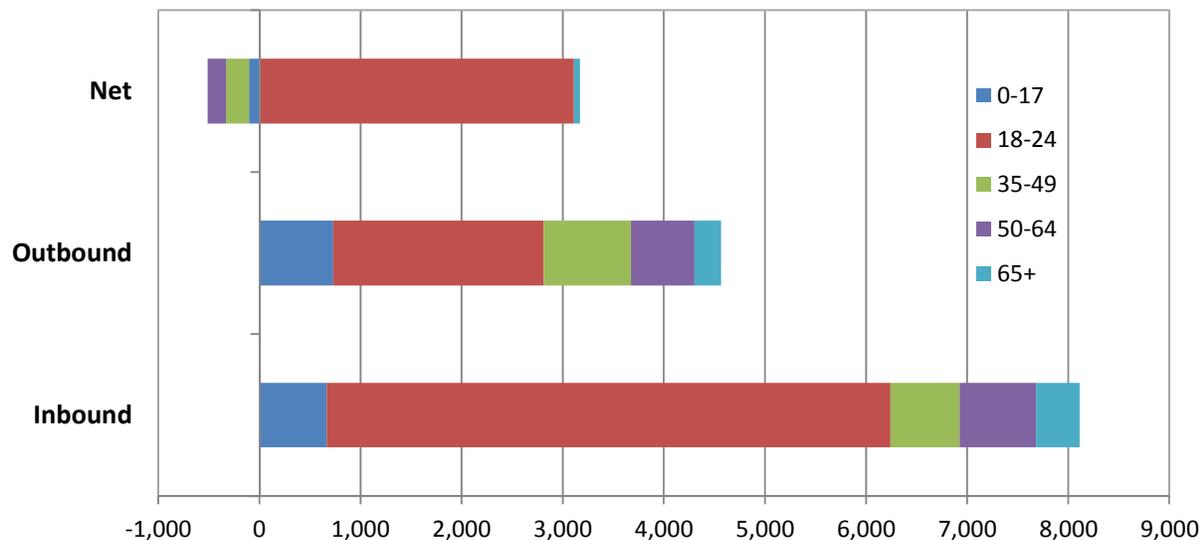
Note: "Total positive net migration" does not equal the combination of total inbound and outbound migration because states with negative net migration are not included.

- When excluding Washington Counties, highest inbound migration is from San Diego County and Los Angeles County in California.
- When excluding Washington Counties, highest outbound migration is to Maricopa County and Navajo County in Arizona.

Migration by Age

Five-year annual average migration flows are also available by age category, although some data are suppressed when sample sizes are too small.

Exhibit 21
Whatcom County Migration by Age Group, 2006-2010 Annual Average



Age	Inbound	Outbound	Net
0-17	666	730	-104
18-24	5,575	2,081	3,110
25-34	1,332	1,343	-120
35-49	686	864	-226
50-64	757	628	-182
65+	430	265	63
Total	9,446	5,911	2,541

Source: U.S. Census American Community Survey, Census Flows Mapper, 2006-2010 five-year averages

Note: Totals do not add exactly due to data suppression in cases with insufficient sample sizes.

- The largest source of inbound migration is the 18-24 age group. This migration pattern is partially due to the presence of Western Washington University and other higher education institutions in Whatcom County.
- Most other age groups have comparable levels of inbound and outbound migration.
- The 65 and over age group has slightly higher inbound migration so on a net basis, migration is contributing to an increase in senior population in Whatcom County.

Exhibit 22**Top Origins/Destinations for Whatcom County Migration in the 65+ Age Group**

Top Inbound Origins		Top Outbound Destinations	
State	Percent	State	Percent
Washington	61%	Washington	73%
California	31%	Nevada	13%
Alaska	3%	Arizona	7%
Oregon	3%	California	4%
Idaho	2%	Oregon	3%

Source: U.S. Census American Community Survey, Census Flows Mapper, 2006-2010 five-year averages

- Outside of Washington, the most popular destination for Whatcom County residents age 65 and over is Nevada (13% of outbound 65+ migration).
- Outside of Washington, the state contributing most inbound 65 and over migration to Whatcom County is California (31% of inbound 65+ migration).