Whatcom County Comprehensive Plan

Background Research on Selected Economic, Demographic, and Housing Trends

Prepared by: Leland Consulting Group

6-03-2024

LELAND CONSULTING GROUP
People Places Prosperity | www.lelandconsulting.com

610 SW Alder Street, Suite 1200, Portland, Oregon 97205 | 503.222.1600

Table of Contents

Introduction

This document is intended to inform County and city comprehensive plan update processes underway in Whatcom County. It provides a background survey of broad trends in factors likely to help shape Whatcom County's future growth and economic activity. This review looks at trends across the following topic areas:

- Canadian influence on Whatcom County economy and real estate markets;
- National, regional, and local housing trends and preferences;
- Telecommunication and other trends affecting migration and local land use needs;
- Whatcom County migration patterns

Canadian Influences on Whatcom County Economics and Demographics

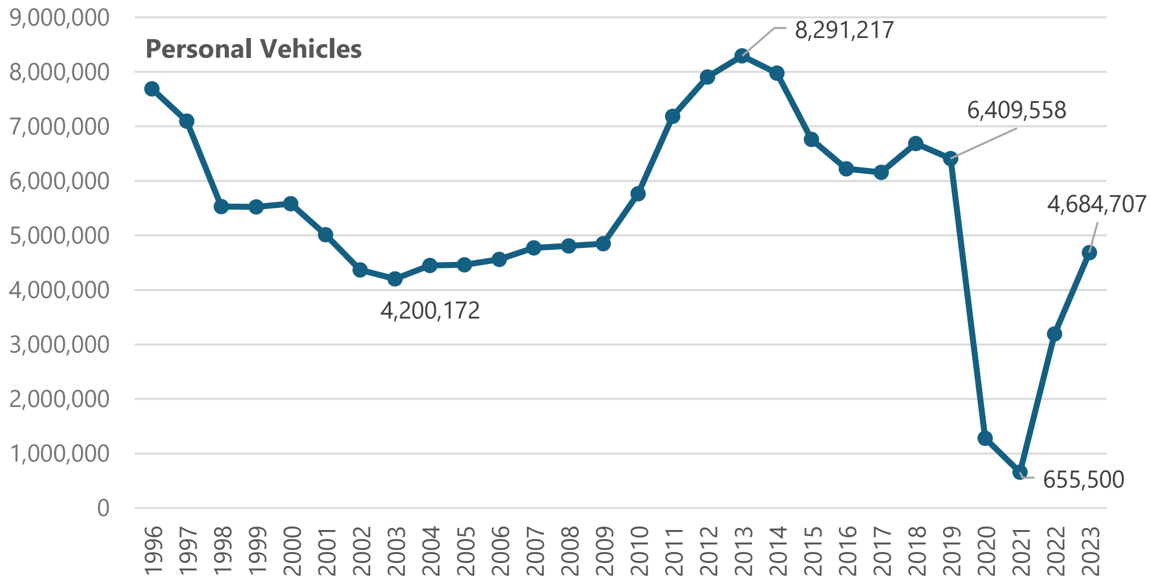
Whatcom County is one of the nation's most important border regions, with active border crossings connecting the County to British Columbia. These border crossings are: Blaine/Douglas Peace Arch, Pacific Highway Blaine, Lynden/Aldergrove, Sumas/Abbotsford-Huntingdon, and Point Roberts/Boundary Bay. The area serves as key gateway between the sprawling Seattle and Vancouver, B.C. metropolitan areas. This section of the report addresses several potential facets of the Canadian influence on Whatcom County's economy including currency exchange trends, cross-border retail, and housing price differentials.

Border Traffic Volumes and Currency Exchange Trends

The chart below tracks the total count of southbound personal vehicle crossings into Whatcom County across the five border crossings along its border with Canada – collectively referred to as the Cascade Gateway. Crossing had already been in decline in the late 1990s prior to the post-9/11 low point of 4.2 million southbound personal vehicles in 2003. After gradual increases through the early 2000s, crossings ramped up quickly in the post-Great Recession years, peaking at a new record of 8.3 million in 2014.

Most analysts attribute at least a portion of that upward trend in crossing to Canadian consumers eager to spend Canadian dollars, which during roughly the same stretch had been increasing in value against the U.S. dollar. Conversely, the subsequent decline in crossings were seen as a response to unfavorable currency exchange trends. The trough in 2020 and 2021 is, of course, due to border restrictions during the COVID-19 pandemic. As shown, crossing activity has not fully resumed – only reaching 70% of 2019 levels by 2023 (and well below the 2014 high water mark).

Figure 1: Personal Vehicle Crossings into Whatcom County from Canada, 1996 to 2023



Source: U.S. Department of Transportation, Bureau of Transportation Statistics

Notes: Total of 5 Crossings

Crossings by truck, while a vital component of cross-border commerce, are less directly tied to the Whatcom County economy than personal vehicle crossings. Whereas personal vehicles tend to be bound for destinations relatively near the border, commercial trucks tend to be bound for more distant delivery destinations along I-5 and beyond. Truck crossing traffic was at a peak prior to 9-11 in 2001, at just over 700,000 per day, then fell to a low of 503,000 by 2009 and actually climbed during the U.S. Great Recession. With the exception of a minor blip in 2020 due to COVID-19, truck traffic has been relatively stable over the past decade.

Figure 2: Truck Crossings into Whatcom County from Canada, 1996 to 2023

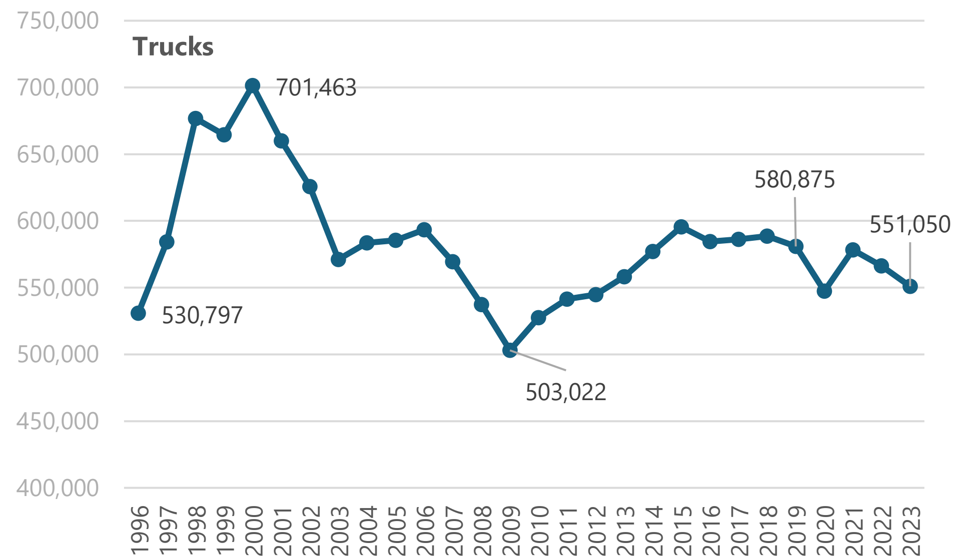
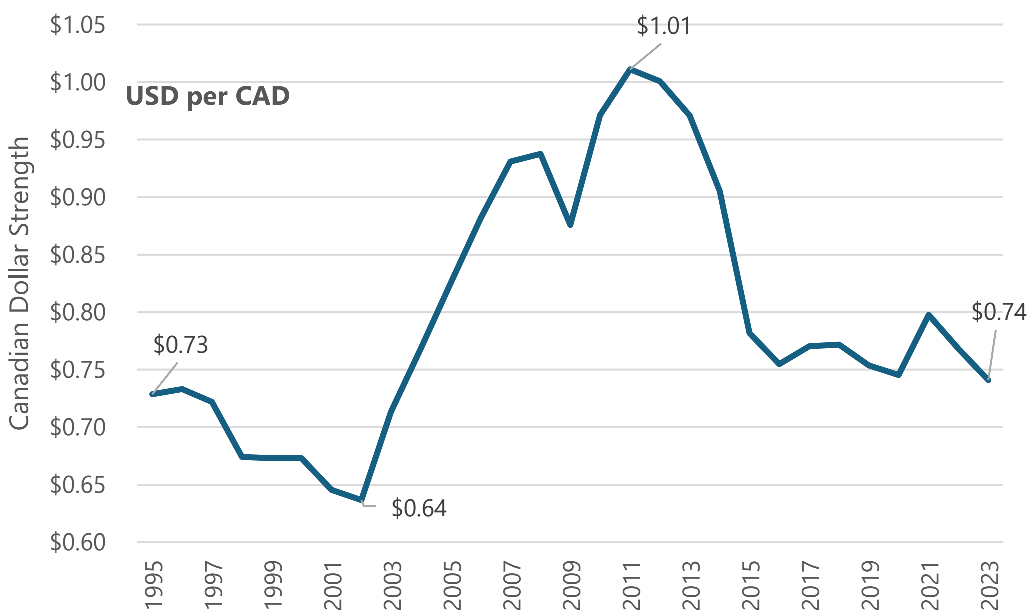


Figure 3: Exchange Rate, US Dollar per One Canadian Dollar

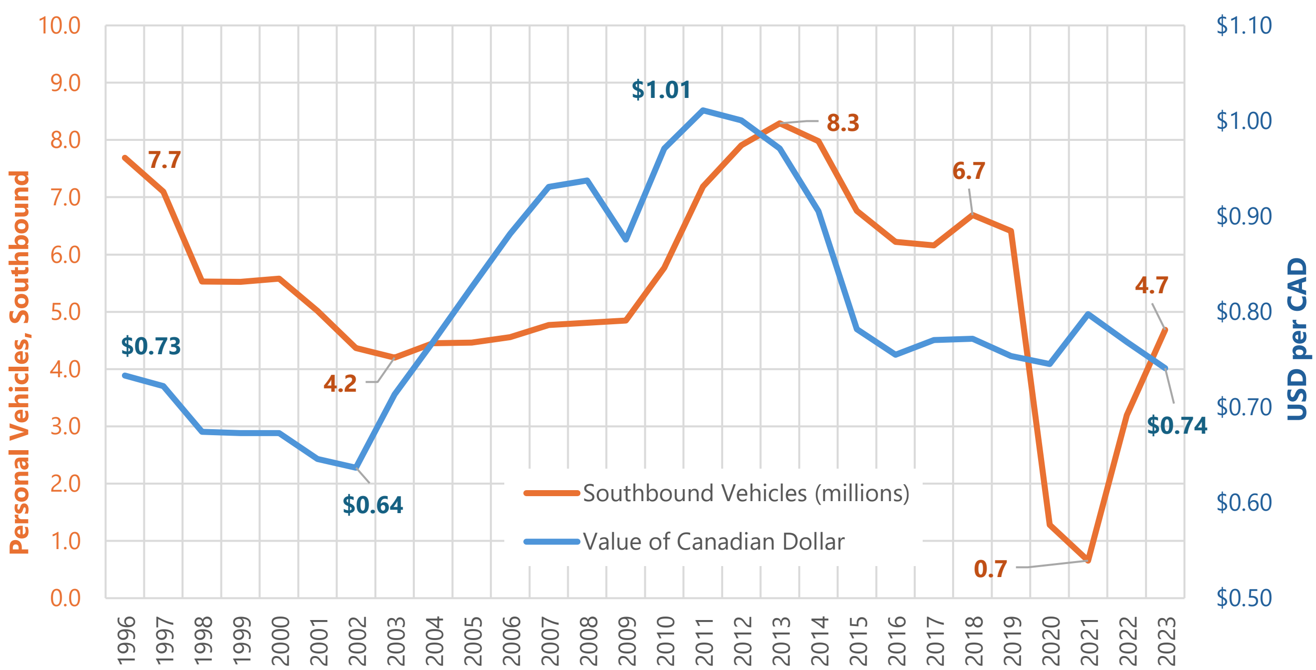


When the Canadian dollar strengthens against the U.S. dollar, it increases the purchasing power of Canadians shopping in the U.S., making goods and services cheaper for them in relative terms. This can lead to an increase in cross-border shopping, which, in turn, could boost retail sales in border counties like Whatcom. The reverse is also true; if the Canadian dollar weakens, cross-border shopping might decrease as goods and services in the U.S. become relatively more expensive for Canadians.

However, while the directional relationship is logical, quantifying it can be complex due to the influence of other factors such as changes in border crossing policies, economic conditions in both countries, specific local events, and broader global economic trends. As shown in the combined graph below, some correlation is evident during certain time periods, but the relationship is far from a clean one, due to a host of complicating factors that also figure into the cross border economy.

From 1996 to 2001, both the Canadian dollar's strength and border crossing volumes were generally in decline. The extended period of rising strength in the Canadian dollar from 2002 to its peak in 2011, when it was briefly equal in value to the U.S. dollar, was generally accompanied by a (slightly lagged) rise in border crossing activity. About two years after the Canadian dollar had already begun to decline, southbound crossings again began to drop. The last few years have shown a lack of correlation between crossings and exchange rates, as COVID-related volatility has disrupted both border travel and international economic trends.

Figure 4: Trends in Exchange Rate (USD per 1 Canadian Dollar) and Border Activity, 1997 to 2023



Source: U.S. Department of Transportation, Bureau of Transportation Statistics, and U.S. Federal Reserve Bank of St. Louis

Cross-Border Retail Shopping Behavior

According to the Border Policy Research Institute (BPRI) at Western Washington University in Bellingham, of the 6.7+ million Canadians who entered the U.S. through a Cascade Gateway border crossing in 2018, 25% indicated that shopping in Whatcom County was the primary purpose of their trip. Quantifying the retail spending of such visitors is difficult, but the U.S. Department of Commerce estimated (in 2018) that just those crossing for the express purpose of shopping in the County likely spent some $140 million, at an average of $80 per vehicle/party. Other parties traveling for other primary reasons are likely to add to this spending total by some reduced amount per vehicle.

The BPRI conducts two ongoing research projects in the region that provide valuable insights into the impact that Canadian shoppers have on the retail economy of the County. A License Plate Survey is conducted to count the prevalence of Canadian license plates in major shopping center parking lots along Whatcom County's I-5 corridor. As of 2024, results had been reported from surveys conducted during multiple seasons in 2013, 2016, and 2019 (but no post-COVID years).

In addition, a Passenger Vehicle Intercept Survey (PVIS), was administered along with local research partners at the border crossings themselves. A variety of survey questions are asked of travelers as they cross the border (both northbound and southbound) including questions on origin and destination, trip purpose, and frequency of travel.

The figure below ranks the primary destinations for Canadian visitors of any type in 2018, including those indicating shopping as their primary purpose along with those listing other reasons. The high ranking of Blaine, nearly tied with Bellingham at just over two million visitors that year, is somewhat surprising given its much smaller size. According to the BPRI, because Blaine is home to the most active border crossing, providing direct access to Interstate 5, the southbound border traffic coming through Blaine is bound for a diverse range of possible activities, some in Whatcom County, but mostly to more populous destinations further south, as opposed to specific shopping goals within Whatcom County.

Figure 5: Primary Destinations for Canadians Entering Whatcom County, 2018

Destination	Canadians traveling to destination	Estimated Canadian Visitors
Bellingham	30.3%	2,105,000
Blaine	29.5%	2,050,000
Outside Whatcom County	22.4%	1,556,000
Sumas	8.3%	577,000
Lynden	4.0%	278,000
Birch Bay	3.5%	243,000
Ferndale	2.0%	139,000
Cascade Gateway Total	100.0%	6,948,000

Source: Border Policy Research Institute Western Washington University, 2018 Passenger Vehicle Intercept Survey (PVIS)

Indeed, the next table makes clear that Bellingham is far and away the main destination for cross-border retail spending. Nearly two-thirds of those naming Bellingham as their destination also indicated a primary trip purpose as shopping. Visitors to Blaine were far less likely to name shopping as a primary trip goal.

Again, spending estimates for Canadian shoppers in the U.S. are imprecise and difficult to track, but analysts at the BPRI consider the $108 million figure for Bellingham spending in 2018 to be a conservative estimate and based solely on those whose primary purpose was stated as shopping.

Figure 6: Primary Trip Purpose of Canadians and Estimated Spending by Whatcom County Destination, 2018

Destination	**Canadians: Primary Trip Purpose** (% "Shopping")	**Estimated Spending by Canadians** (US$ millions)
Bellingham	64%	107.8
Blaine	15%	24.6
Sumas	11%	5.1
Lynden	18%	4.0
Ferndale	14%	1.6
Birch Bay	3%	0.6

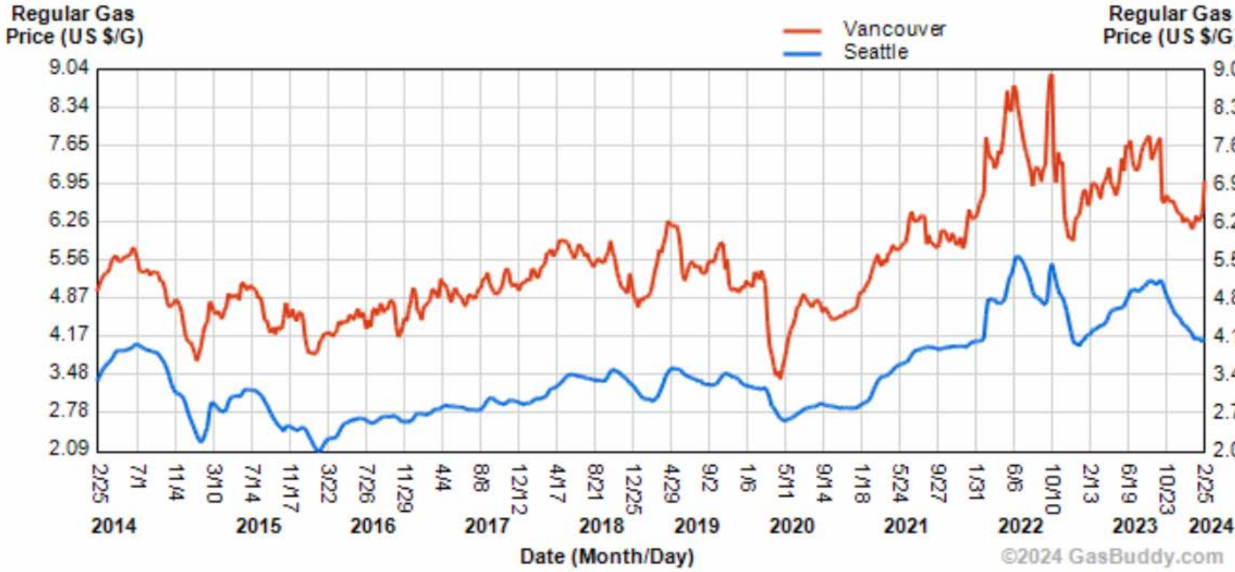
Source: Border Policy Research Institute, PVIS, 2018

Note: Based on $80/vehicle estimate when the primary trip purpose is "shopping,", developed by the U.S. Department of Commerce

Some cross-border shopping is specifically motivated by pricing advantages for particular categories of goods, like gasoline, dairy products, and air travel that are persistently cheaper in the U.S. due to policy and taxation factors unrelated to exchange rate differences. These three categories are discussed briefly below.

Gasoline: The price of gasoline can vary significantly between the U.S. and Canada due to differences in taxes, environmental regulations, and subsidies. For instance, gasoline taxes are generally higher in Canada, which can make fuel substantially cheaper in U.S. border towns, attracting Canadian drivers regardless of the exchange rate. As the chart below shows the gasoline price movement in Vancouver, B.C. and Seattle (Bellingham price trends were not available from this source) over the past decade have been highly correlated and consistently separated in favor of U.S. by 30% or more on average, creating an additional incentive for cross-border trips to the U.S. involving gas purchases.

Figure 7: Gasoline Price Trends, Seattle vs. Vancouver, B.C.



Source: GasBuddy, 2024

Dairy Products: Canada's dairy industry operates under a supply management system, which controls the production, pricing, and importation of dairy to maintain stable prices. This system can result in higher prices for dairy products in Canada compared to the U.S., where the market is more influenced by supply and demand dynamics. Thus, even if the exchange rate does not favor Canadian shoppers, the substantial price differential for dairy products can still make cross-border shopping attractive. The Bellingham Costco (in both its old and new location) has long been anecdotally cited as one of that company's best performers in the U.S. for dairy sales.

Air travel: A study released in 2023 by the Montreal Economic Institute (MEI) found that excessive fees and taxes on airlines and airports were being passed down to travelers and making ticket prices less competitive for Canadian flights. As the MEI report points out, current "security fees" range" from $7.48 for a one-way domestic flight and $25.91 for an international flight but are set to increase by almost 33% to $9.94 for a one-way domestic flight and $34.42 for an international flight. A 2016 USA Today article cited the Director of Aviation at the Bellingham International Airport as estimating that as many as 65% of its customers come from Canada to take advantage of inexpensive parking and lower fares. A follow-up interview in April of 2024 confirms that similar pricing differentials are still driving Canadians to use Bellingham's Airport. Management estimates that 53% of their current (2024) business is from Canadian passengers.

Changes in policy or regulations can have a sudden and significant impact on cross-border shopping trends. For example, a change in dairy pricing policy or gasoline taxes in either country could alter the flow of cross-border shopping more dramatically than gradual shifts in the exchange rate.

Retail development in response to Canadian demand: caveats

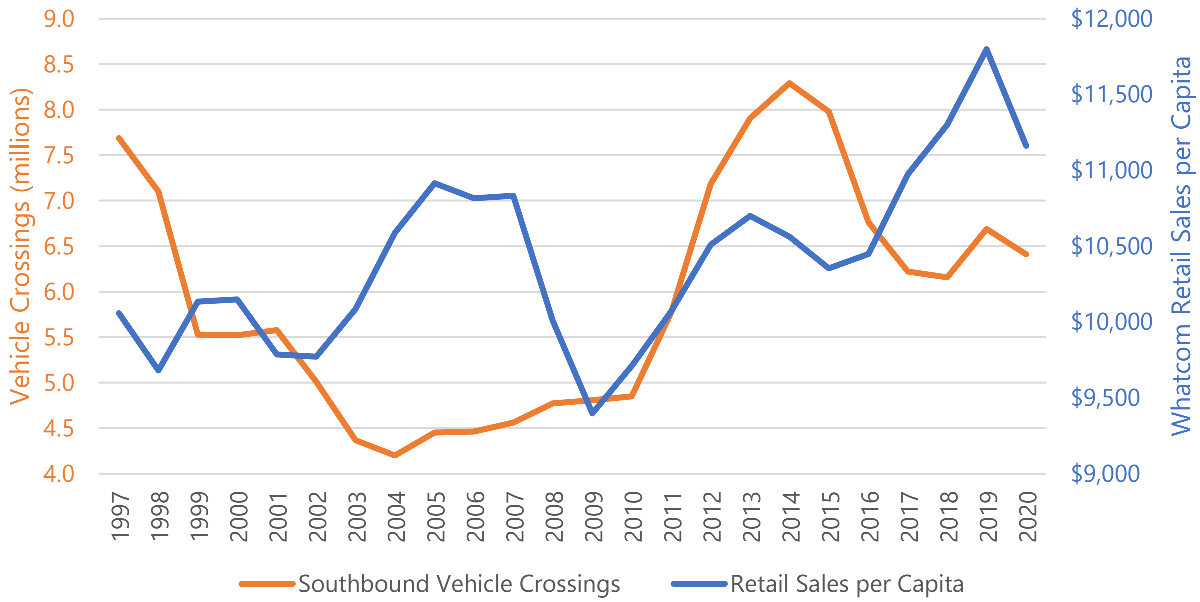
When large new retail options like the moved/expanded Costco on W. Bakerview Rd. are built, in part to satisfy perceived excess demand driven by Canadian shoppers, those stores carry some performance and profitability risk to the extent that cross-border shopping motivations may change unexpectedly, leaving the retailer overly dependent on local U.S. demand in a market that may be oversaturated.

Consumer behaviors can evolve due to various factors, including changes in the economic landscape, preferences, and shopping habits (e.g., the rise of online shopping). These shifts can influence the volume and nature of cross-border shopping, potentially leading to a stabilization or even a decrease in physical retail activity. Cross-border shopping is highly sensitive to broader economic and political factors, including exchange rates, trade policies, and regulations on both sides of the border. Any changes in these areas can significantly impact the flow of cross-border retail activity, making it unpredictable and not solely dependent on retail sector developments.

Increased retail activity, especially in border areas, can lead to infrastructure and congestion challenges. Over time, these challenges may deter cross-border shopping, especially if the costs (time and hassle) outweigh the benefits (price differentials).

Finally, the chart below explores whether a relationship exists between border crossing activity and retail sales per capita in Whatcom County. As with the relationship between crossings and currency exchange rates, there are periods of visual correlation, such as the upward trend for both from 2009 to 2013, but overall there are more exceptions than rules and the relationship over time is actually quite weak.

Figure 8: Border Crossing Activity and Whatcom County Retail Sales per Capita, 1997 to 2020



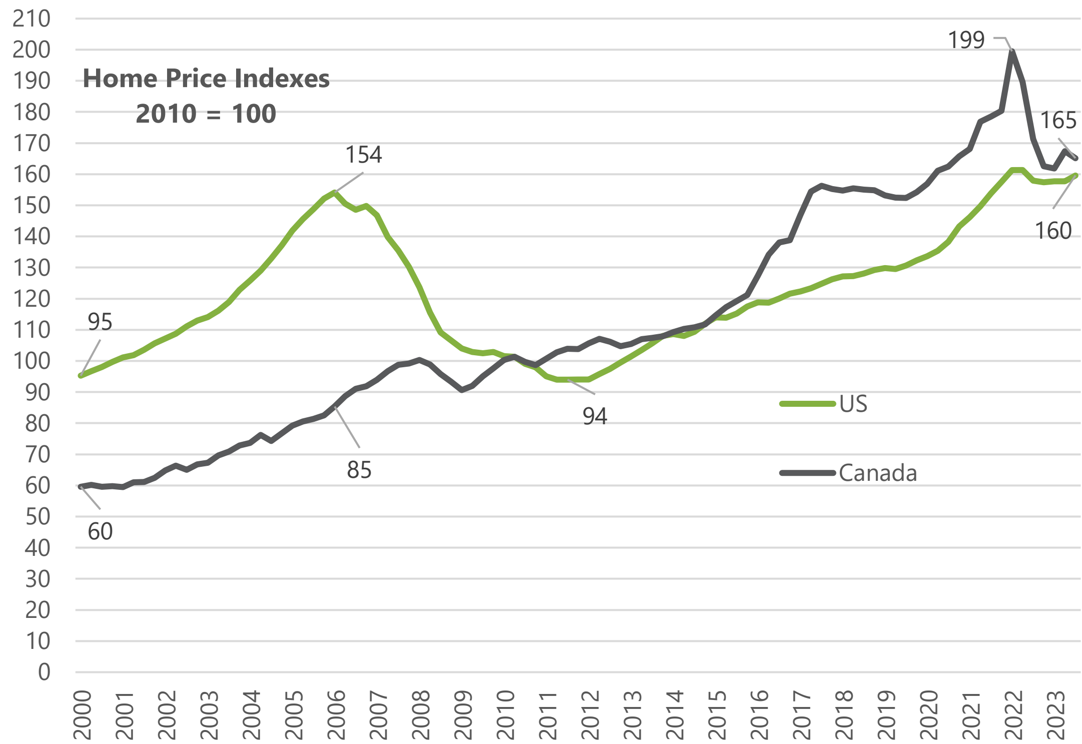
Source: OFM, U.S. Department of Transportation, Bureau of Transportation Statistics

Housing Price and Cost-of-Living Differentials

Another important facet of the cross-border economy relates to the differences in housing costs and cost-of-living in general. Housing for the U.S. as a whole was historically trending considerably more expensive than Canadian housing until the lead up to the Great Recession of 2007-2009. In 2006, average U.S. housing prices were nearly 70% higher than Canadian prices.

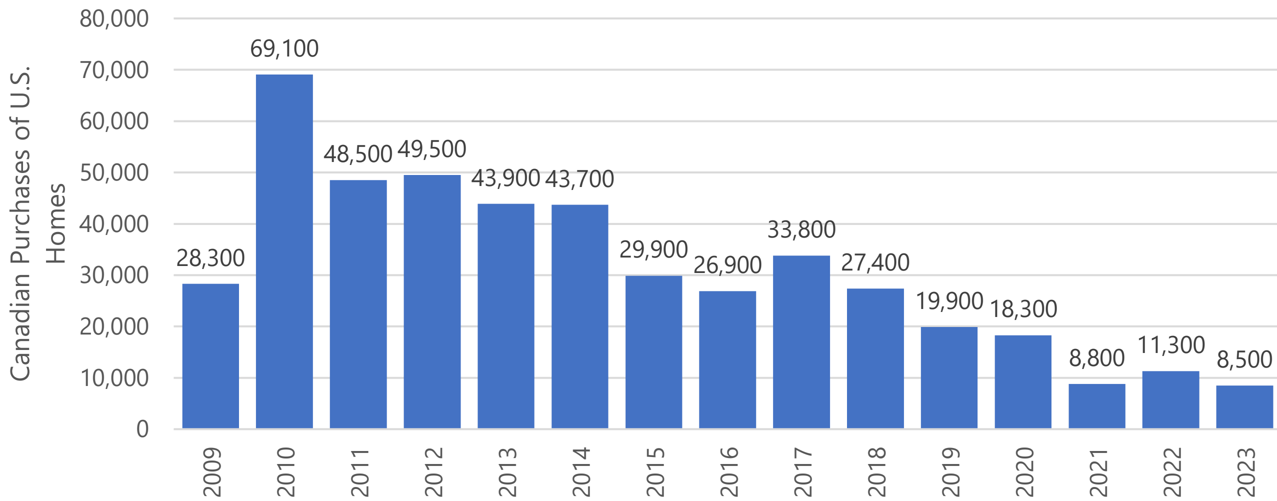
Beginning in about 2006, inflation-adjusted U.S. housing prices began to decline, slightly at first, then precipitously between 2008 and 2012 – losing 60% of their relative value between peak and trough. Over the same period, Canadian home prices (also controlled for inflation) marched steadily upward, with only a relatively subdued blip in 2009, actually gaining pricing momentum in the mid-2010s. After boom years in residential values from 2019 to 2021 for both countries, Canada has had a steeper correction in 2023, with little difference in the countries as of that year.

Figure 9: Real Residential Home Price Index. U.S. vs. Canada, 2000 to 2023



An ongoing study of international foreign investment in residential real estate by the National Association of Realtors (U.S.) tracks the volume and value of new homes being purchased by Canadian buyers in the U.S. As shown in the table below, Canadian buyers were at their most active buying U.S. homes during the depths of the U.S. Great Recession, from 2010 to 2014, when American home prices were increasingly becoming bargains relative to Canadian home prices, which were holding remarkably steady. Because Canadian homes were maintaining their value much better than U.S. homes over that period Canadian second-home purchasers and investors had strong collateral in their Canada homes to use to help finance purchases of U.S. homes. Likewise, Canadians moving to the U.S. had a more reliable resale value of their Canada homes to apply towards the purchase of increasingly affordable U.S. homes.

Figure 10: Canadian Purchases of U.S. Homes, (Unit Count), 2010 to 2023



Source: National Association of Realtors

In terms of the border regions encompassing the Seattle and Vancouver, B.C. metropolitan areas and areas in between, housing price comparisons can be difficult to make accurately, with many location-specific differences to be found in valuations on both sides of the border. While some Whatcom County homes in particularly scenic locales can be comparable in pricing to Seattle and Vancouver, price points are generally considerably lower than in either of those major cities (though still higher than the national median).

The phenomenon of Canadian buyers purchasing second homes in Whatcom County and its implications for the local housing market is complex on many levels, with both positive and negative aspects to consider. The dynamics of cross-border real estate investment are influenced by a variety of factors including exchange rates, relative housing market conditions in Canada versus the U.S., and broader economic trends.

While such activity can have a boosting effect on the local economy and property values, one of the primary concerns is the impact on housing affordability. An influx of buyers, particularly those not constrained by local income levels, can drive up home prices and make it more difficult for local residents to afford housing.

National, Regional, and Local Housing Trends

This section discusses overall housing trends on a national and regional level which may impact Whatcom County's housing needs and housing supply over the next twenty years. Like the west coast in general, Whatcom County has seen escalating housing prices and an overall decrease in housing affordability in recent decades, particularly since 2020. National and regional demographic shifts which impact housing are also discussed, as well as factors more specific to Whatcom County, including potential future migration trends due to climate change.

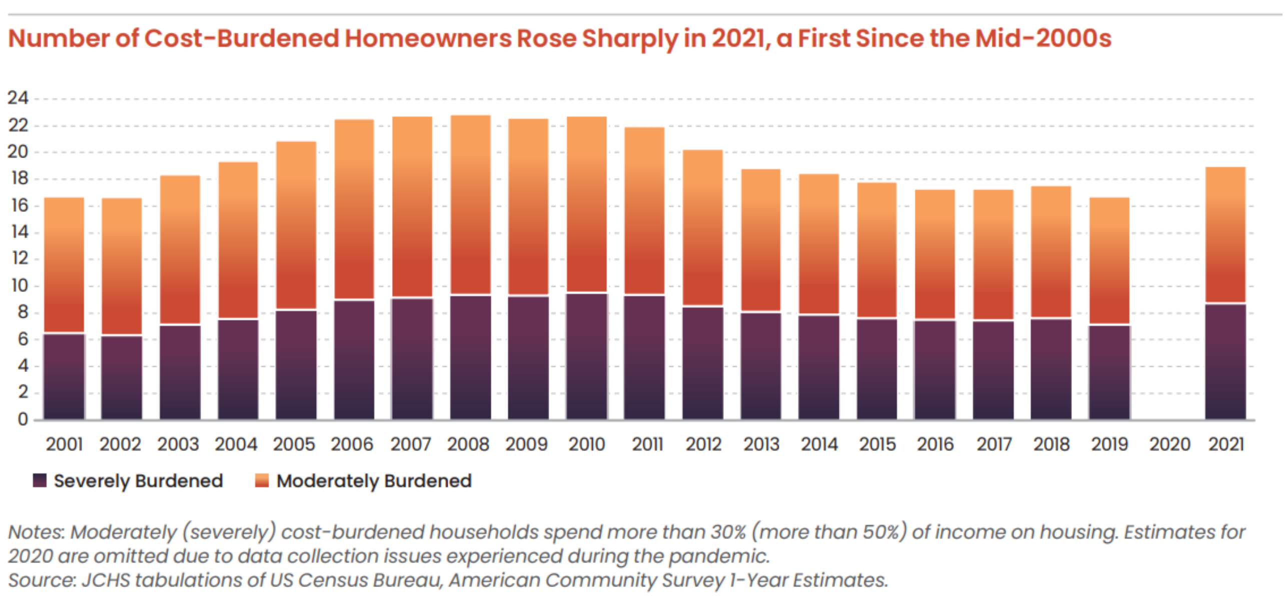
National Trends

Single Family & Homeownership Trends

Rising interest rates in 2023 impacted the affordability of owner-occupied housing units and slowed market activity nationwide. Interest rates caused the national median home price to drop from $379,300 in March 2022 to $375,400 in March 2023 *(Harvard Joint Center for Housing Studies, "State of the Nation's Housing 2023")*. Despite the small drop in the median home price, the annual income required to afford a home at the median price rose from $97,400 to $117,100 due to the added costs of borrowing in a high-interest rate environment. As of 2022, the median household income in the United States was $75,149 – less than two thirds the income it would require to buy the median home in 2023.

The shortage of housing nationwide has resulted in a high number of cost-burdened households. As of 2021, 19 million households were moderately cost-burdened, spending more than 30% of their income on housing costs. Of these, nearly nine million were severely cost-burdened, spending more than 50% of their incomes on housing.

Figure 11. Cost-Burdened Homeowner Households, 2001-2021



Source: Harvard Joint Center for Housing Studies, "State of the Nation's Housing 2023"

Despite these trends, homeownership continues to increase in the US. Between 2019 and 2022, the homeownership rate among households under 35 years old increased by 2.3 percentage points. Homeownership rates also increased for those aged 35 to 44. However, it has become more difficult for first-time homebuyers to enter the market. In 2022, the number of purchase loans originated to first-time homebuyers dropped by 22%. This will continue to pose a challenge as younger and lower-income households are effectively shut out of a primary wealth building tool.

Household growth is primarily being driven by older homeowners. As of 2022, nearly 80% of adults age 65 or older own their homes, compared with 65.8% of all households in the U.S. This percentage has remained stable since 2016, but these older Americans now make up 27% of total households, up from 24% in 2016.

Older adults are increasingly living in smaller households, driving up the demand for smaller, more accessible housing units. While between 2002 and 2012 the US added just over two million households with householders between 65 and 69 years old, between 2012 and 2022 that segment grew by over three million households. The sharp rise in older adult households is due to a combination of an aging population of Baby Boomers and a shift toward aging in place, which is increasing the demand for smaller, more accessible housing units in many communities. At the same time, the rise in multigenerational households is fueling demand for more flexible housing types, like small middle housing and accessory dwelling units (ADUs).

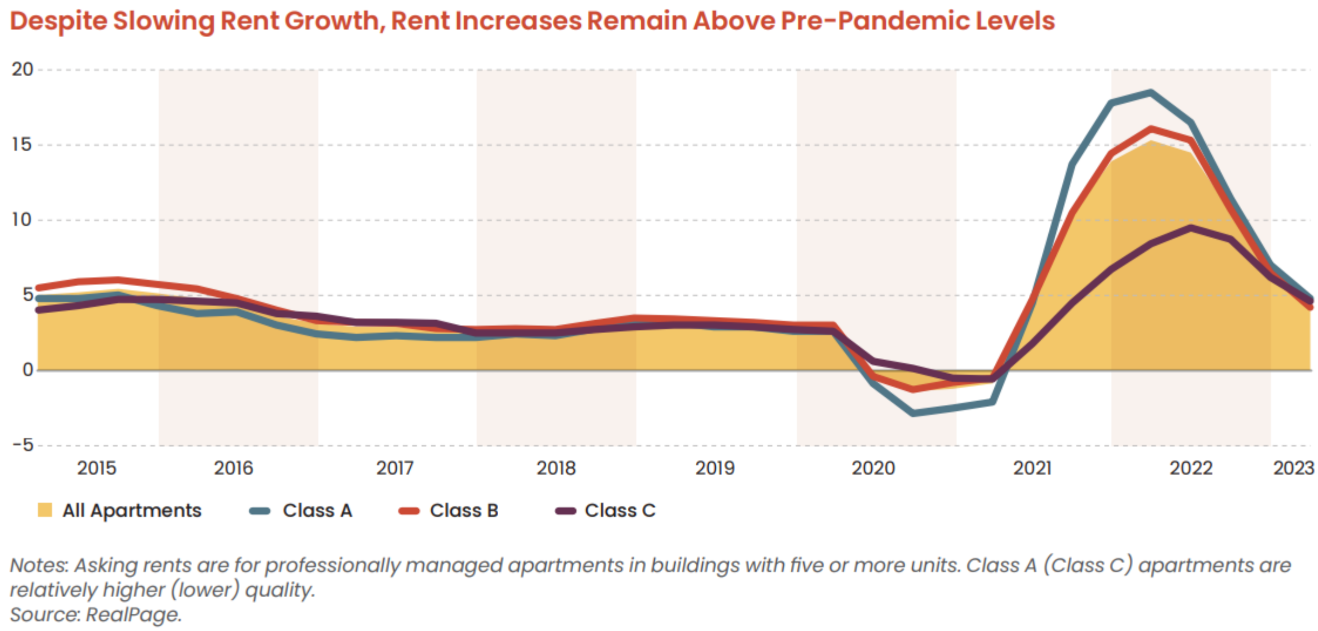
There continue to be disparities in homeownership rates among different racial and ethnic groups, despite some increases in homeownership over the past few years. In Whatcom County, among all ages, just 44% of Black households and 46% of Hispanic or Latino households own their homes compared with 69% of white households.

Multifamily & Rental Market Trends

In 2022, 34.2% of households nationwide rented their homes, down from 36.6% in 2016. This is in part due to the increase in homeownership among the wealthiest renter households in 2020 and 2021. Harvard's *State of the Nation's Housing 2023* report also cites a slowdown in household formation due to high inflation rates, rising rents, and economic uncertainty as one reason for the rise in rental vacancy rates. In addition, 342,000 new multifamily rental units were built in 2022. These units were mainly in high-end market rate developments with a median asking rent of $1,805 per month.

Uncertainty and a high interest rate environment has slowed the construction of new multifamily rental housing. However, there are still rental unit shortages in metro areas throughout the US – a slowdown in construction will likely result in lower vacancy rates and rising rents in the future. At the same time, just 17.1% of units rented for below $600 in 2021, compared with 26.7% in 2011. Southern and midwestern states in particular saw a significant drop in the number of low-cost units, but 36 states nationwide lost more than ten percent of their affordable housing stock. At all income levels, the share of cost-burdened renters increased between 2019 and 2021.

Figure 12. Annual Change in Rents (percent), 2015-2023



Source: Harvard Joint Center for Housing Studies, "State of the Nation's Housing 2023"

Multigenerational Households, Caregivers, Aging in Place, & Accessibility

According to OFM's countywide population forecasts, the share of older residents in Whatcom County is expected to increase significantly over the coming decades. In 2023, 20.6% (48,680 residents) of the countywide population was over 65 years old. This share is expected to increase to 23.1% by 2045, signaling a need for more housing to serve the needs of this aging population cohort.

AARP's [2021 Home and Community Preferences Survey]() shows a growing need for more accessible housing that allows seniors to age in place with the help of in-home caregivers. According to the survey, 20% of Americans are caregivers and 40% of those caregivers care for someone in their homes. Caregivers understand the need for a variety of housing types (59%), especially the need for houses with accessible features to support those with mobility challenges (53%).

Among seniors in the U.S., there is a desire to stay in their homes, with 79% of those over 50 owning their current homes (51% without a mortgage). Aging in place is the most desired and most affordable option for this age group, though 34% believe that modifications would be necessary so that they or a loved one could continue living in their homes. Nearly half of adults would be open to alternative housing arrangements that would allow them to live independently – this includes living in smaller structures like accessory dwelling units (ADUs). Two thirds of all adults want to stay in their current communities (79% of those over 50 years old). Maintaining social and community supports is an essential part of independent aging.

In 2024, the need for accessible housing suitable to elderly and/or disabled residents and their caregivers is more essential than ever. The COVID-19 pandemic has been called a "mass-disabling event" by medical institutions, journalists, and long-COVID advocacy groups. In 2022, the Brookings

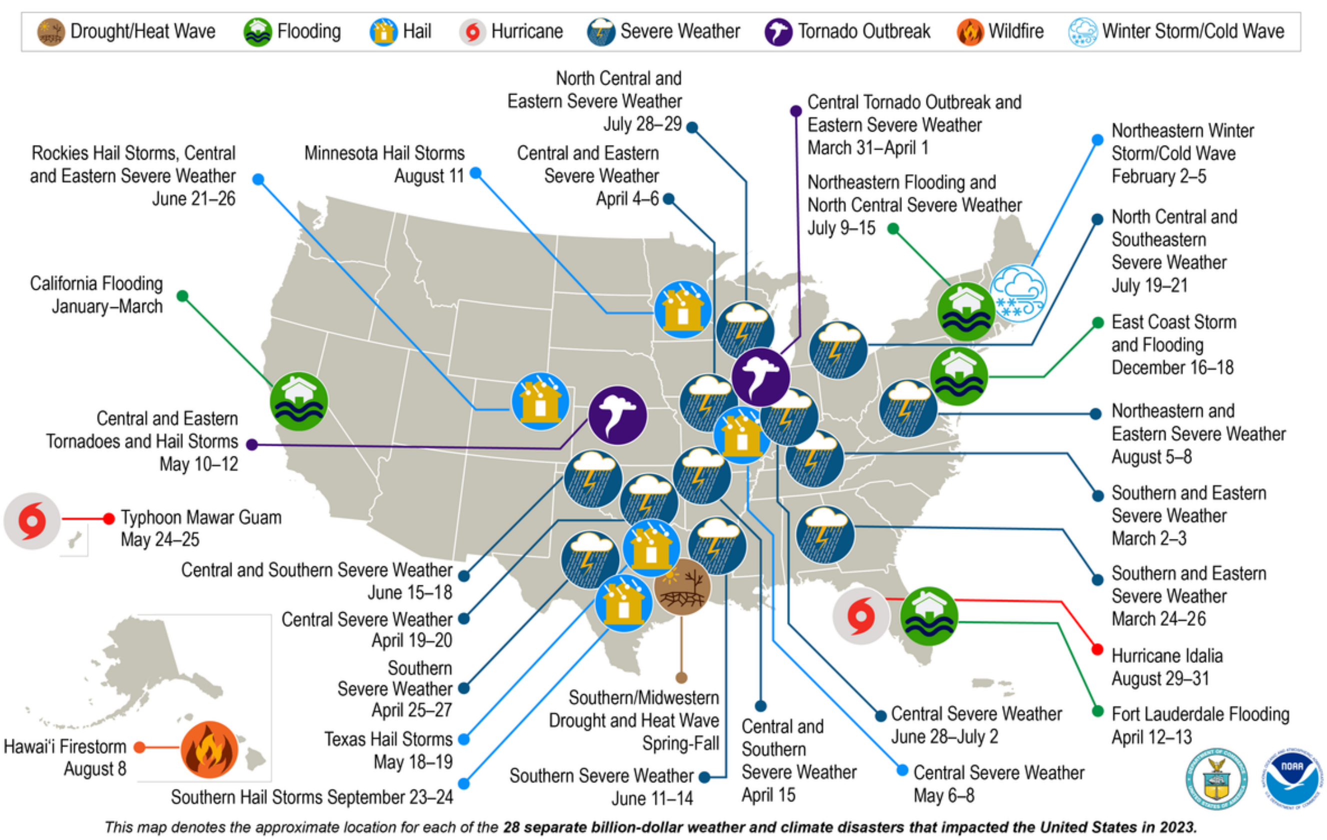
Institute estimated that two to four million of the known 16 million Americans with long COVID have been pushed out of the workforce. This crisis has the potential to shift typical housing demand patterns as newly disabled long-COVID sufferers move in with caregivers, join multi-generational households, and struggle to afford housing due to a lack of income.

As Baby Boomers age and more Americans become disabled from long-COVID and other events, there will be a high demand for accessible, likely single-story housing that can facilitate independent living, as well as housing units large enough to accommodate multigenerational housing.

Climate Migration

Climate change has caused a sharp increase in natural disasters over the past several years, including wildfires, hurricanes, and unprecedented heat events. Because of its temperate climate, many consider the Pacific Northwest to be a potential destination for climate migrants or refugees fleeing areas that have become less habitable. Figure 13 below shows the billion-dollar weather and climate disasters that occurred in 2023, the majority of which are clustered in the Midwest and Southern US.

Figure 13. Billion Dollar Weather & Climate Events in the US, 2023



Source: National Oceanic and Atmospheric Administration.

Many of the effects of climate change in the near and long term are still unknown, even as jurisdictions throughout the Pacific Northwest are working to plan for future infrastructure needs. If it were to occur, a sudden, large migration event would be likely to upend regional planning efforts. In 2016, a report by researchers at the University of Washington and Portland State University concluded that a sudden and dramatic population increase is unlikely to occur due to climate change. Since that time, wildfires along with heat and drought events in the Pacific Northwest have called into question whether the region is in fact a potential climate-haven. Between 1900 and 2018, the region warmed by 2 degrees, causing reduced snowpack and an increase in drought and wildfires. A 2018 report by the US Global Change Research Program argued that climate as a driver of migration to the Pacific Northwest is speculative.

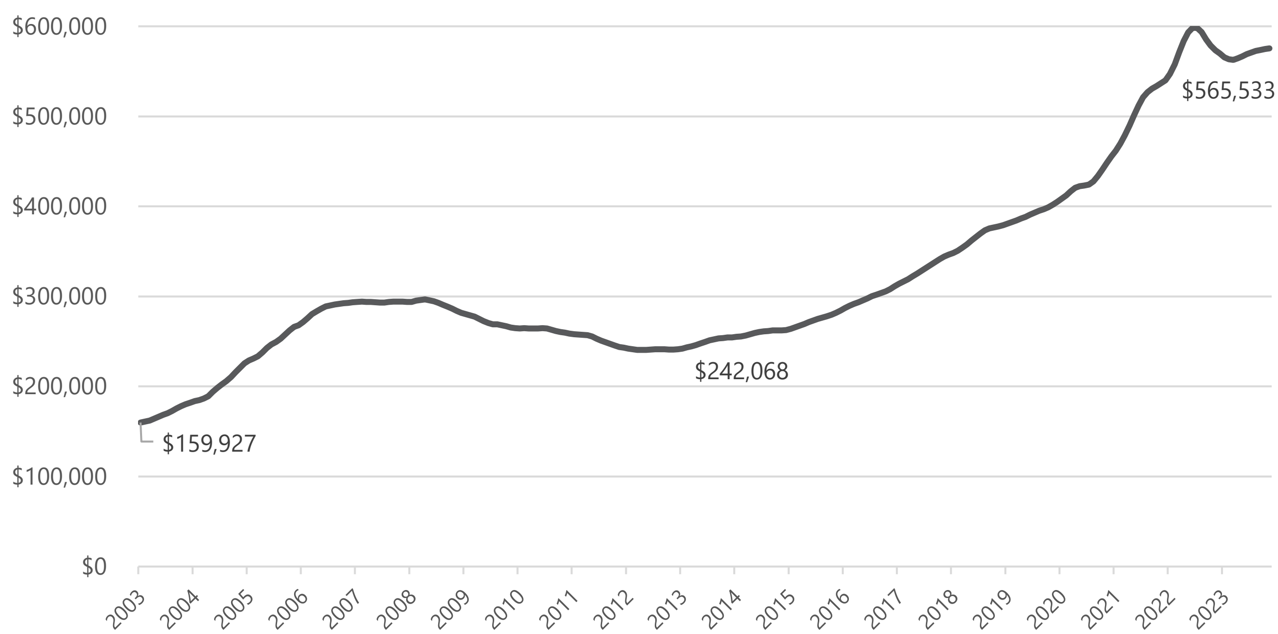
The US Department of Agriculture predicts that in Oregon, Washington, and Idaho there will be slightly higher winter precipitation, lower summer precipitation, and more extreme precipitation events. In addition, there will be higher climate variability leading to longer drought events and extreme weather like atmospheric rivers. Coastal areas are expected to see an increase in storm surges, large waves, erosion, and flooding. Whether these events will be considered preferable to the impacts of climate change on other areas of the country is not clear. In its analysis of future climate migration patterns, investigative news outlet ProPublica cited a 2018 study suggesting that one in twelve Americans living in the southern half of the country will move to California, the Mountain West, or the Northwest by 2070. However, housing shortages and increased homelessness in these regions could impact the extent of this migration.

Regional & Local Trends

Whatcom County Housing Market

The median home price in Whatcom County was $565,533 as of 2023, up from $159,927 in 2003, as shown below in Figure 14. These prices have not been adjusted for inflation.

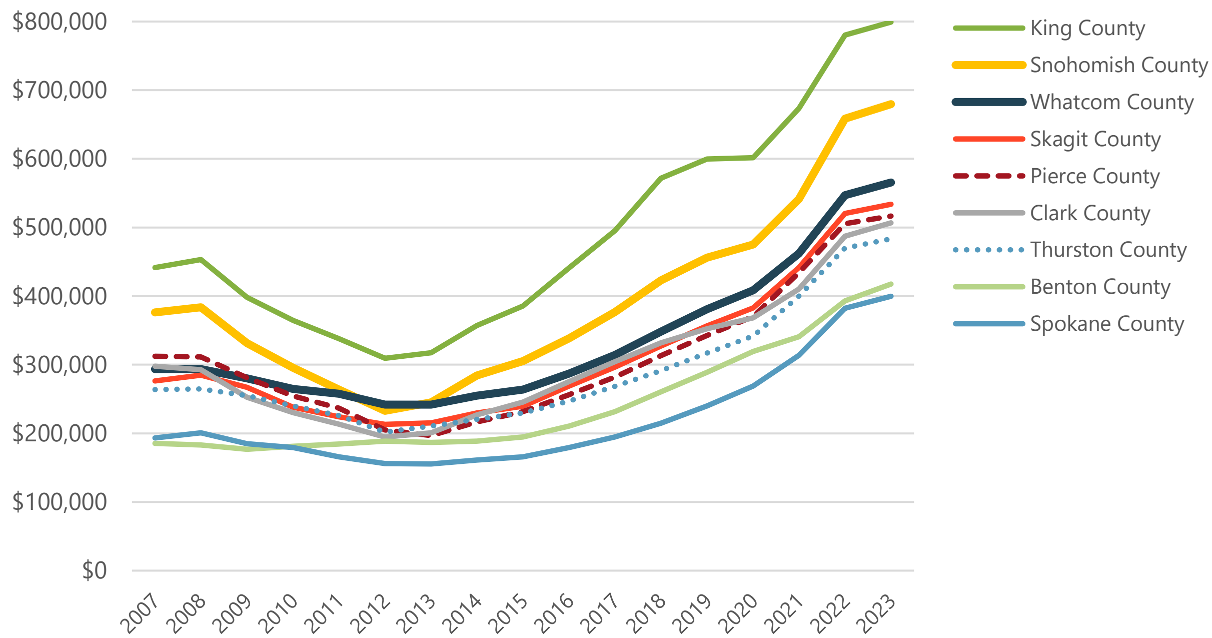
Figure 14. Median Home Price in Whatcom County, 2003-2023



Source: Zillow

This represents a 254% price increase over twenty years , a faster rate of growth than the rest of the counties in Figure 15 below. Over the same period, King County home prices rose by 182% while Snohomish County prices rose by 176% and Skagit County prices rose by 212%. Whatcom County now has the third highest median home price among the state's nine most populous counties, having outpaced Clark and Pierce Counties.

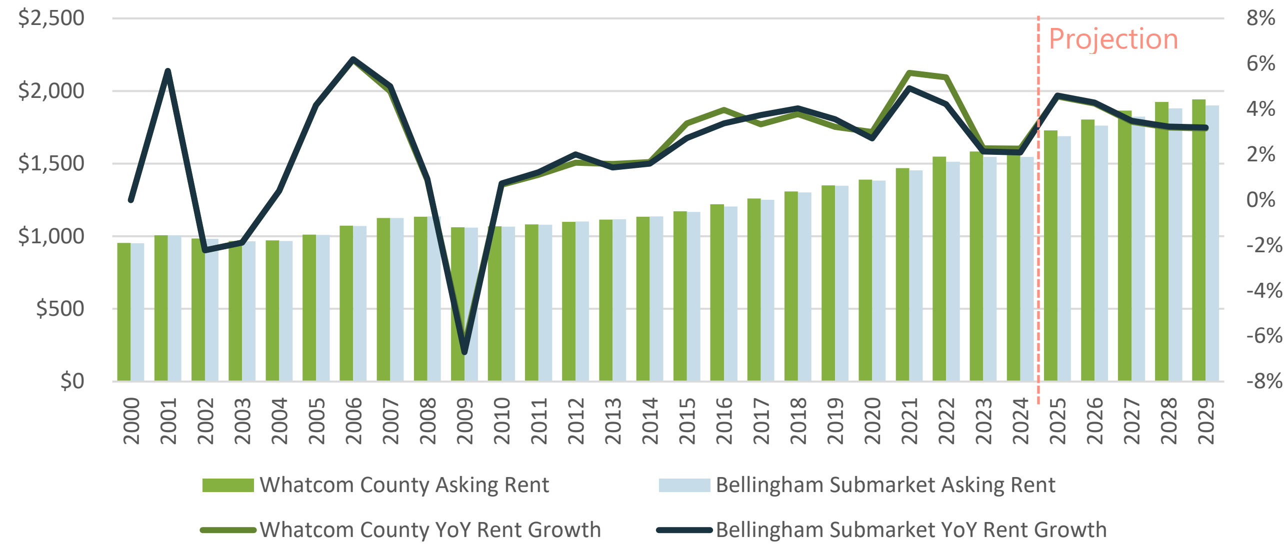
Figure 15. Median Home Price by County, 2007-2023



Source: Zillow

Between 2000 and 2023, rent in Whatcom County grew by 66% (roughly 2.9% per year). Since 2010, Whatcom County has seen positive rent growth each year. As of 2023, the market asking rent for multifamily housing in the county is $1,584. CoStar's five-year growth projections indicate that rents in both Bellingham and Whatcom County are likely to rise over the next year and then settle around 3% thereafter.

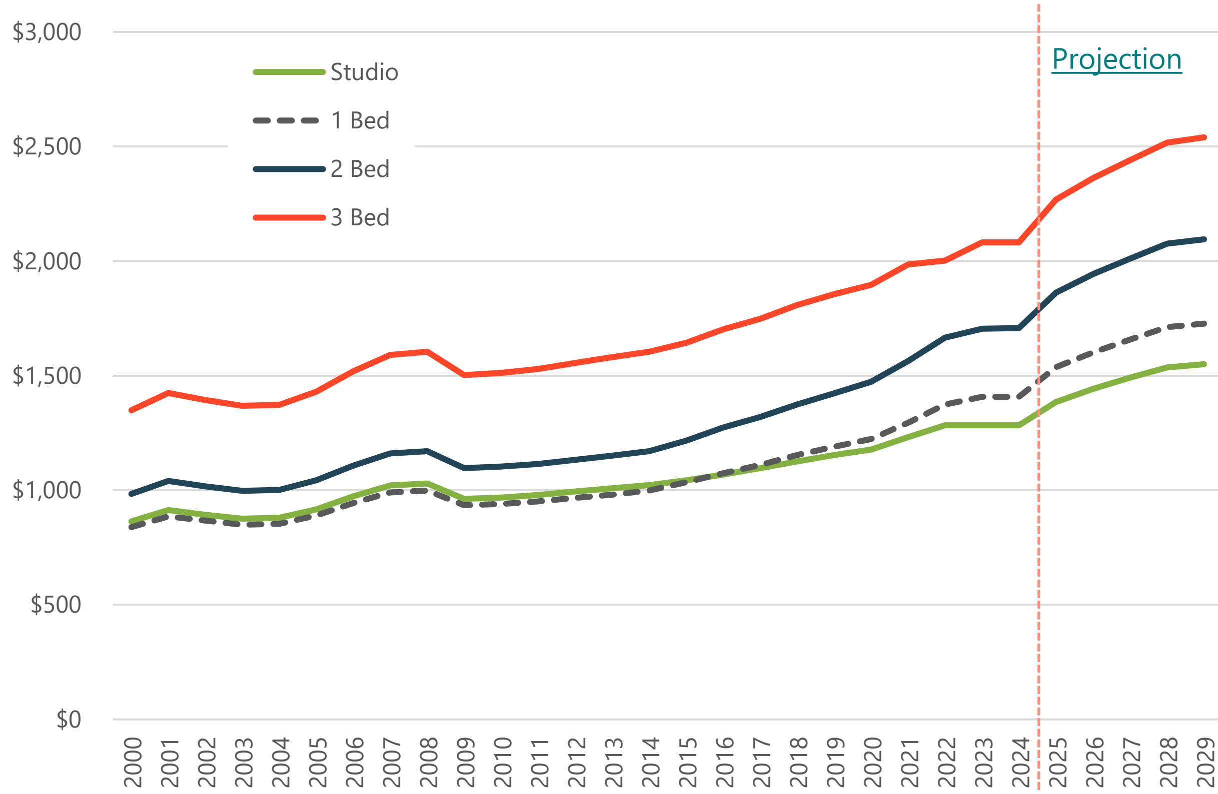
Figure 16. Asking Rent and Annual Growth Rate in Whatcom County and Bellingham, 2000-2029



Source: CoStar (projections based on currently known activity pipeline)

As is typical, the market asking rent for multifamily units in Whatcom County increases with the number of bedrooms. The market asking rent for three-bedroom units in 2023 is $2,082, compared with $1,283 for studios.

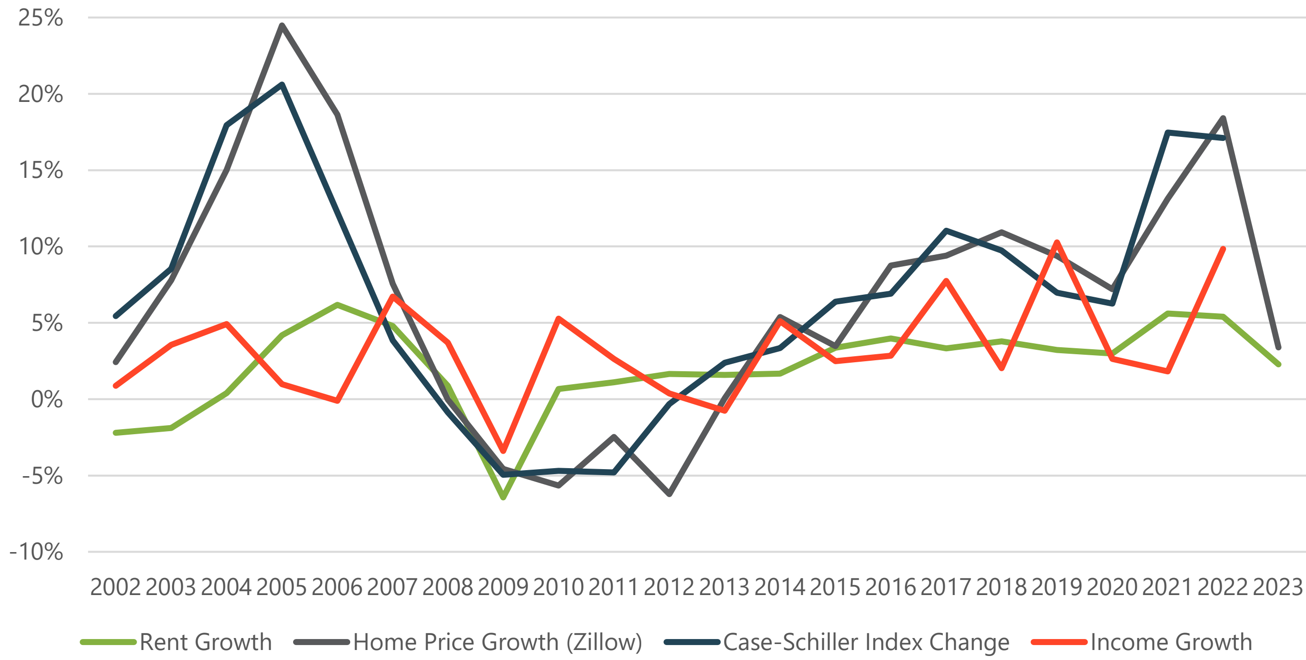
Figure 17. Market Asking Rent by Unit Type in Whatcom County, 2000-2029



Source: CoStar (projections based on currently known activity pipeline)

Over the last twenty years, rent growth in Whatcom County has averaged 2.11%. At the same time, however, home prices have grown an average of 6.81% annually while the median income has grown by an average of 3.31% per year. With home price growth substantially outpacing income growth, more county residents are likely to rent. Without adequate new construction, this additional demand for rental housing could accelerate rent growth.

Figure 18. Annual Rent, Home Price, and Income Growth in Whatcom County between 2002 and 2023

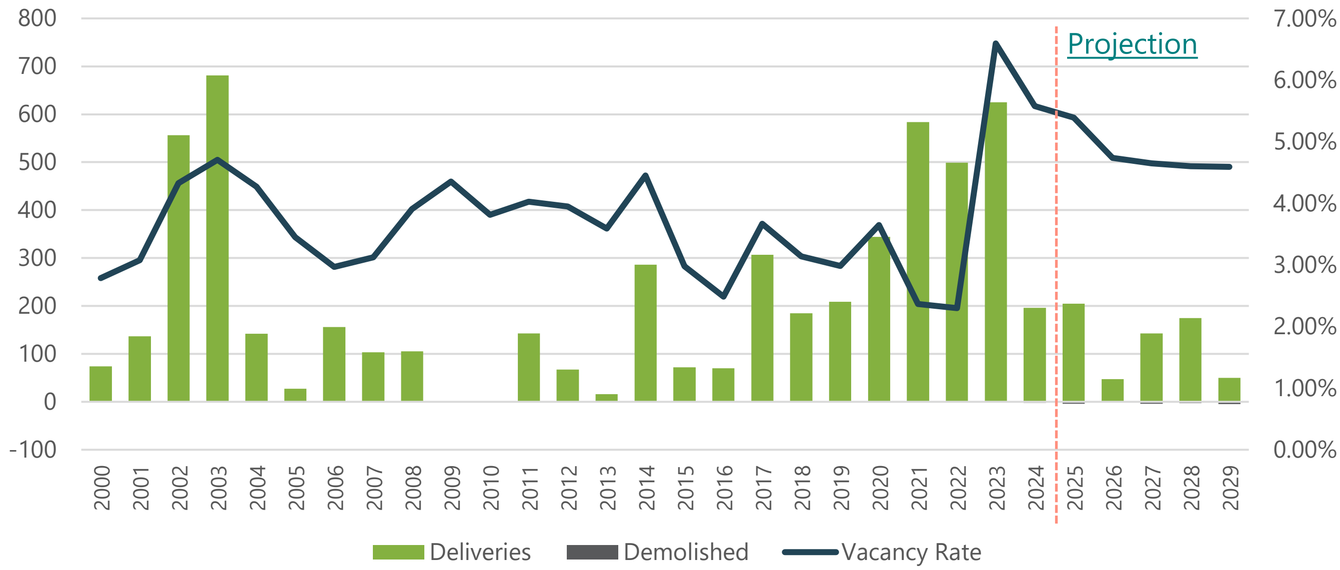


Note: 2023 data is not available for the Case-Schiller Index or Income Growth.

Source: CoStar; Zillow; Federal Reserve Bank of St. Louis (FRED).

Between 2000 and 2022, the multifamily vacancy rate in Whatcom County has remained below 5%, the threshold that indicates a relatively healthy market. Construction activity over the past few years drove the vacancy rate up to 6.59% in 2023, but that is expected to normalize as the new housing stock is absorbed by the market. Since 2000, roughly 5,400 new multifamily rental units have been added to the Whatcom County housing market. The most active construction years were 2003 and 2023.

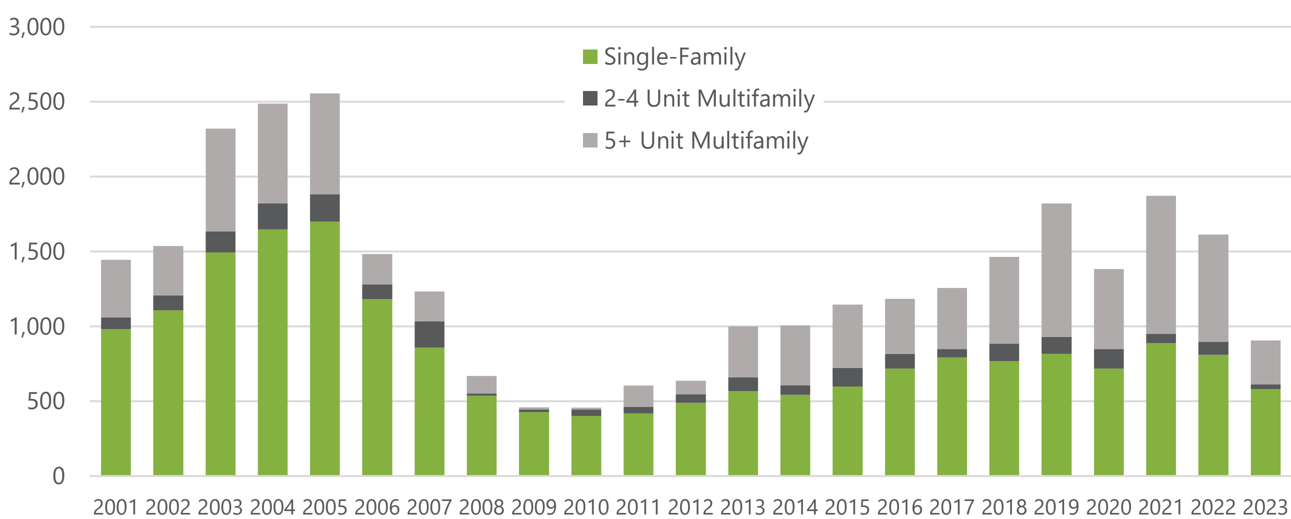
Figure 19: Multifamily Construction Deliveries and Vacancy Rate since 2000, Whatcom County



Source: CoStar (projections based on currently known activity pipeline)

According to the US Department of Housing and Urban Development (HUD), permitting activity in Whatcom County (including the cities) has not returned to its pre-Great Recession peak in 2005 at the height of the housing boom, when over 2,500 units were permitted. In 2021, the most recent high point for permitting, 1,871 units were permitted. However, while in 2005 two thirds of permitted units were single-family dwellings, in 2021 over half were in multifamily dwellings, mainly in projects with more than five units. There was a significant drop in permitting activity in 2023, likely due to rising interest rates and construction costs.

Figure 20. Units Permitted in Whatcom County, 2001-2023



Source: US Department of Housing and Urban Development SOCDS Building Permit Database

Whatcom County includes cities like Bellingham and Ferndale as well as unincorporated urban growth areas. The Birch Bay UGA is a protected bay on the east shore of the Salish Sea, boasting scenic views and serene beaches. Because of its natural beauty, the area is a popular vacation destination. As of 2022, 15% of homes in Birch Bay (903 units) were seasonal, recreational, or occasionally used. That is a significant decrease since 2012, when 27% of homes in Birch Bay (1,476 units) were vacation homes. Nearly 20% of all vacation homes in Whatcom County in 2022 were in Birch Bay.

Figure 21. Characteristics of Vacant Housing Units in Whatcom County (2012-2022)

2012	Whatcom County	Peaceful Valley	Birch Bay	Bellingham	Blaine	Everson	Ferndale	Lynden	Nooksack	Sumas
Total Housing Units	90,665	1,495	5,411	36,760	2,420	892	4,440	4,900	443	529
Total Vacant	11,315	151	1,939	2,597	280	24	246	282	27	112
For Rent	1,457	0	88	680	23	20	70	142	10	33
Rented, Not Occupied	529	0	34	376	0	0	0	0	0	10
For Sale	879	43	183	260	0	0	43	70	0	11
Sold, Not Occupied	397	0	0	88	19	0	42	0	12	0
For Seasonal, Recreational, or Occasional Use	**6,399**	**93**	**1,476**	**461**	**196**	**0**	**71**	**39**	**5**	**26**
Percent of Total Units	**7%**	**6%**	**27%**	**1%**	**8%**	**0%**	**2%**	**1%**	**1%**	**5%**
For Migrant Workers	21	0	0	0	0	0	0	0	0	0
Other Vacant	1,633	15	158	732	42	4	20	31	0	32

2022	Whatcom County	Peaceful Valley	Birch Bay	Bellingham	Blaine	Everson	Ferndale	Lynden	Nooksack	Sumas
Total Housing Units	100,064	1,157	5,904	41,267	2,584	1,045	5,624	5,972	590	565
Total Vacant	9,223	121	1,096	2,273	255	0	445	186	29	32
For Rent	1,033	0	0	790	38	0	93	0	0	0
Rented, Not Occupied	443	0	0	369	0	0	73	0	0	0
For Sale	596	0	67	106	82	0	79	36	0	14
Sold, Not Occupied	186	0	0	0	0	0	57	42	10	0
For Seasonal, Recreational, or Occasional Use	**4,588**	**102**	**903**	**413**	**89**	**0**	**0**	**0**	**0**	**7**
Percent of Total Units	**5%**	**9%**	**15%**	**1%**	**3%**	**0%**	**0%**	**0%**	**0%**	**1%**
For Migrant Workers	13	0	0	0	0	0	0	0	0	0
Other Vacant	2,364	19	126	595	46	0	143	108	19	11

Change, 2012-2022	Whatcom County	Peaceful Valley	Birch Bay	Bellingham	Blaine	Everson	Ferndale	Lynden	Nooksack	Sumas
Total Housing Units	9,399	(338)	493	4,507	164	153	1,184	1,072	147	36
Total Vacant	(2,092)	(30)	(843)	(324)	(25)	(24)	199	(96)	2	(80)
For Rent	(424)	0	(88)	110	15	(20)	23	(142)	(10)	(33)
Rented, Not Occupied	(86)	0	(34)	(7)	0	0	73	0	0	(10)
For Sale	(283)	(43)	(116)	(154)	82	0	36	(34)	0	3
Sold, Not Occupied	(211)	0	0	(88)	(19)	0	15	42	(2)	0
For Seasonal, Recreational, or Occasional Use	**(1,811)**	**9**	**(573)**	**(48)**	**(107)**	**0**	**(71)**	**(39)**	**(5)**	**(19)**
For Migrant Workers	(8)	0	0	0	0	0	0	0	0	0
Other Vacant	731	4	(32)	(137)	4	(4)	123	77	19	(21)

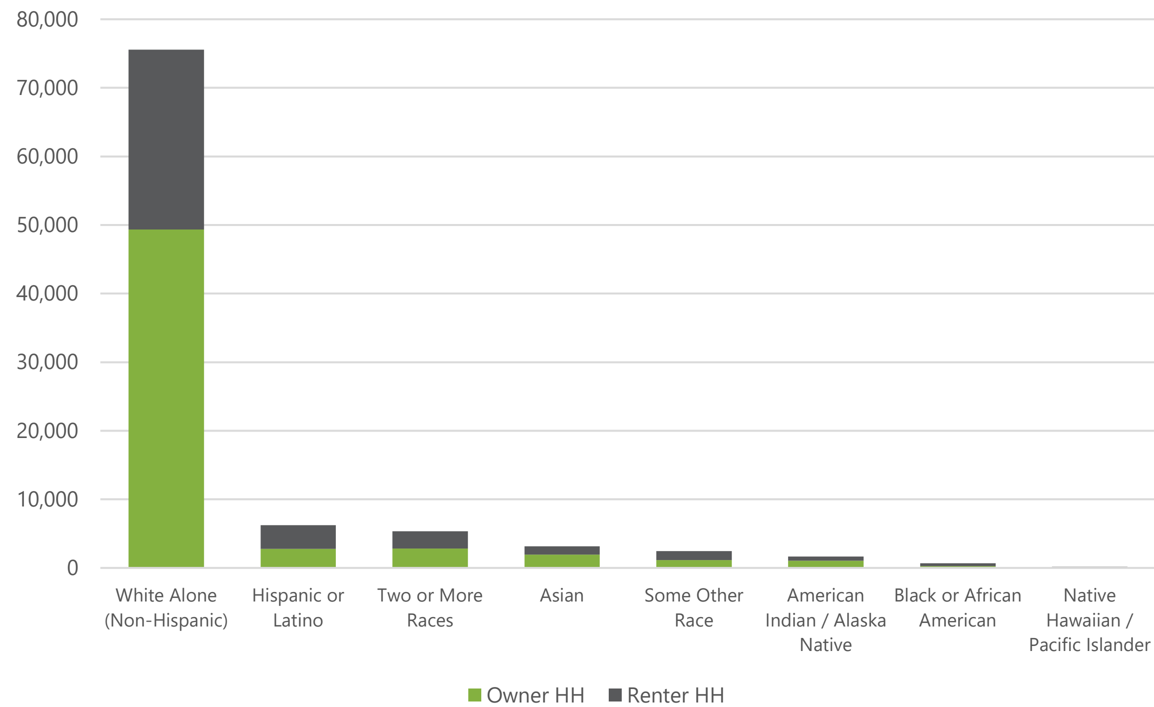
Source: US Census (ACS 5-Year Estimates, Table B25004; Decennial Census, Table H1).

Note: Peaceful Valley and Birch Bay are Census Designated Places (CDPs). The other geographies in these tables are cities.

Homeownership Demographics

In 2022, there were a total of 91,171 households in Whatcom County. In Whatcom County, 37% of households rent their homes and 63% own their homes. The vast majority of households (83%) are headed by a white homeowner.

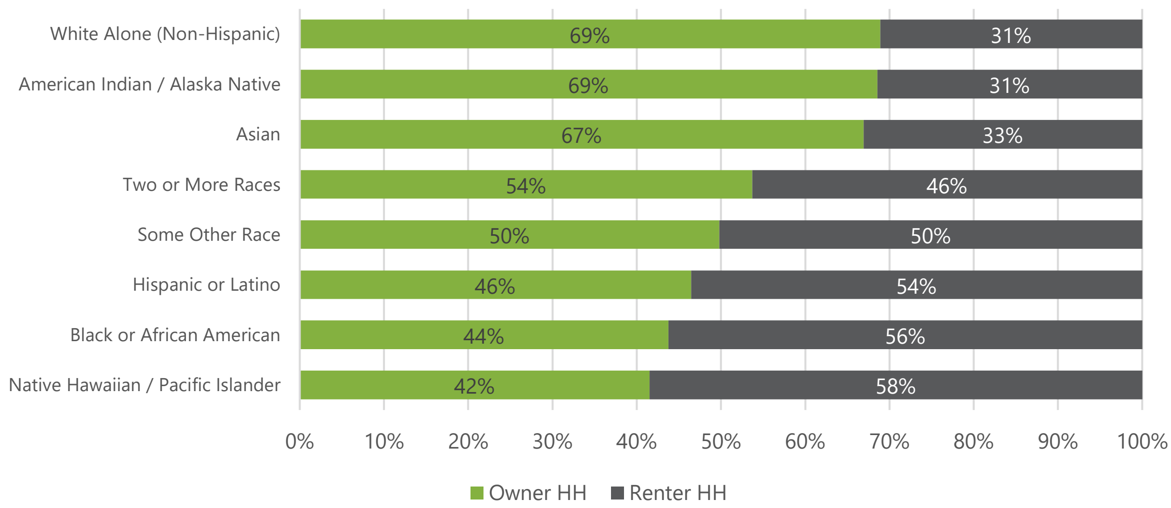
Figure 22. Housing Tenure by Race and Ethnicity, Whatcom County (2022)



Source: US Census (ACS 5-Year Estimates, Table S2502).

White and American Indian-led households have similar rates of homeownership, but there are 75,548 white households in the county compared with 1,680 American Indian/Alaska Native households. Hispanic/Latino, Black/African American, and Native Hawaiian/Pacific Islander households in Whatcom County have the lowest rates of homeownership, with less than half of households in each group owning their homes.

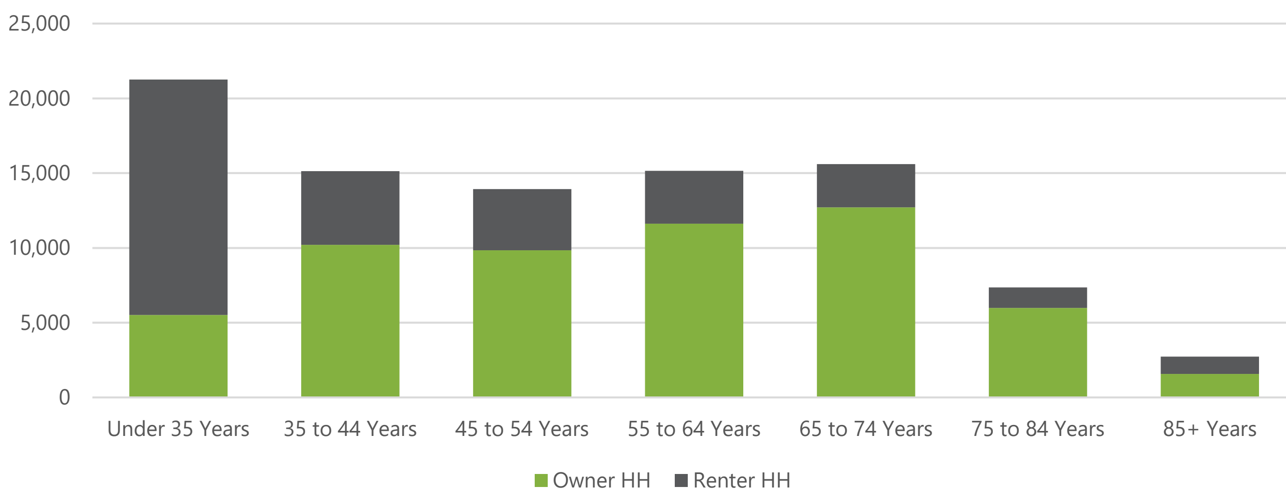
Figure 23. Share of Renters and Homeowners by Race and Ethnicity, Whatcom County (2022)



Source: US Census (ACS 5-Year Estimates, Table B25008).

The largest age group among householders is those under 35 years old. Nearly 16,000 of these households are renters while 5,500 own their homes. This is the only age group in the county that is more likely to rent than own.

Figure 24. Housing by Tenure & Age of Householder, Whatcom County (2022)



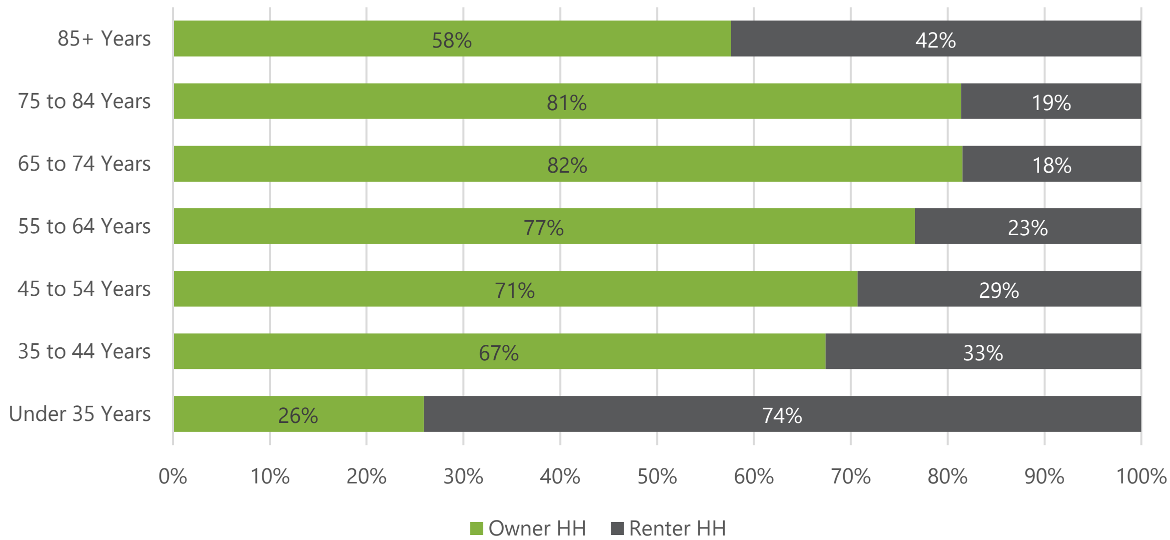
Source: US Census (ACS 5-Year Estimates, Table S2502).

Note: The US Census defines "Householder" as the person, or one of the people, in whose name the home is owned, being bought, or rented.

The age groups most likely to own their homes in Whatcom County are between 65 and 84 years old. However, households led by those 85 or older are have the second highest rentership rates among age cohorts. Older homeowners may choose to live in smaller spaces with fewer stairs or other hazards.

They also may live alone or in an ADU on the property of friends or family members. As the Baby Boomer generation ages, there may be a significant shift toward renting among the oldest householders.

Figure 25. Share of Renters and Homeowners by Age, Whatcom County (2022)



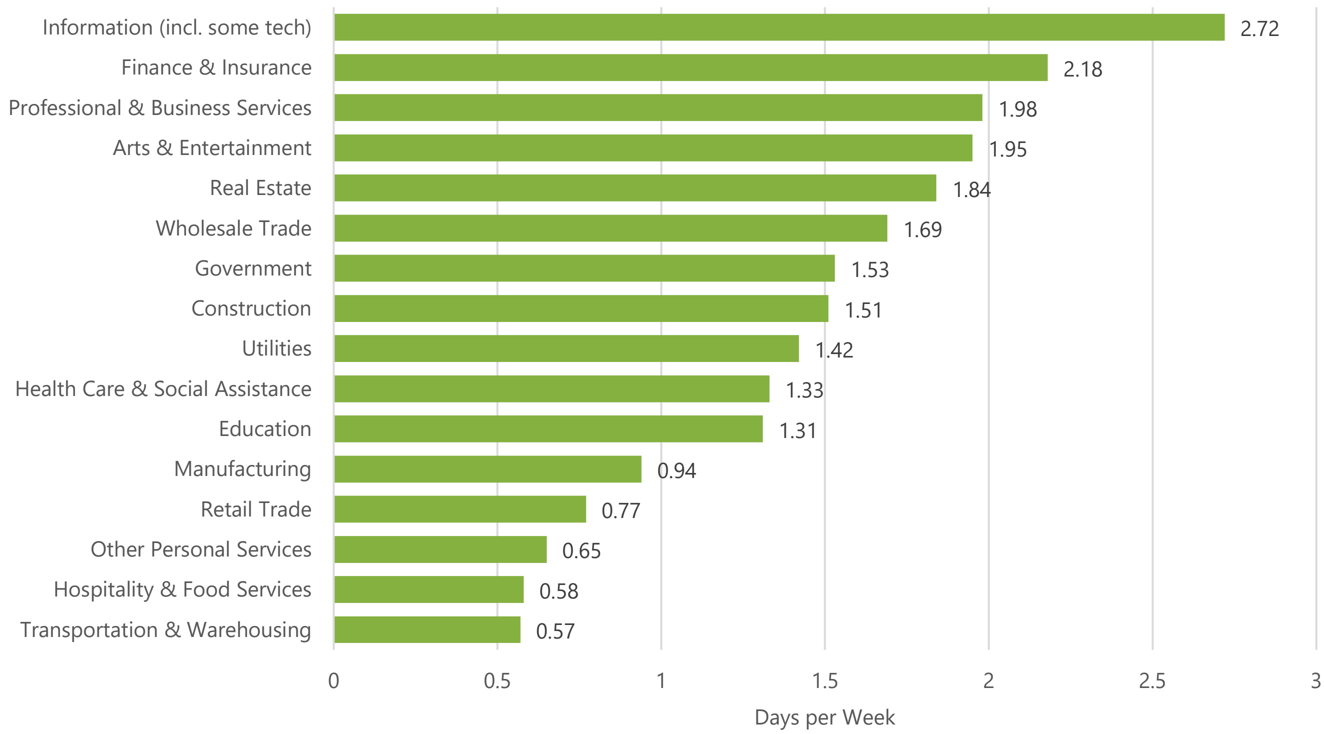
Source: US Census (ACS 5-Year Estimates, Table S2502).

Work-From-Home Trends

The COVID-19 pandemic accelerated trends in remote work. Since 2020, employees and employers have adapted to new ways of working using video-conferencing software to collaborate from anywhere. As offices have opened back up, work has not returned to what it looked like in the past. The "new normal" involves employees who work hybrid or fully remote schedules, in some cases from locations outside of what would be considered typical commuting distances. The "zoomtowns" phenomenon describes a migration of remote workers to cities outside of major job centers that offer a high quality of life. The website Rent.com lists Bellingham as one of ten unique zoomtowns remote workers should consider relocating to. The website highlights Bellingham's location on the coast, proximity to Mount Baker, relatively low home prices, and ample coworking spaces as the top reasons why it may be attractive to remote workers.

According to the American Community Survey (ACS), the percentage of people primarily working from home increased from 5.7% in 2019 to 17.9% in 2021 in the COVID-19 pandemic. In 2022, nearly 12% of American workers and 16% of workers in Washington worked from home. While this is a lower share than at the height of the pandemic, it is still well above the share of remote workers in 2019. While the Census has state- and national-level data on work from home, there is a dearth of city- or county-level information. In 2023, researchers José María Barrero, Nicholas Bloom, and Steven J. Davis estimated the typical workdays worked from home each week by employment sector. Information workers in the US work an average of 2.72 remote days per week, while those working jobs requiring physical labor such as retail, hospitality, and transportation typically work less than one day per week from home.

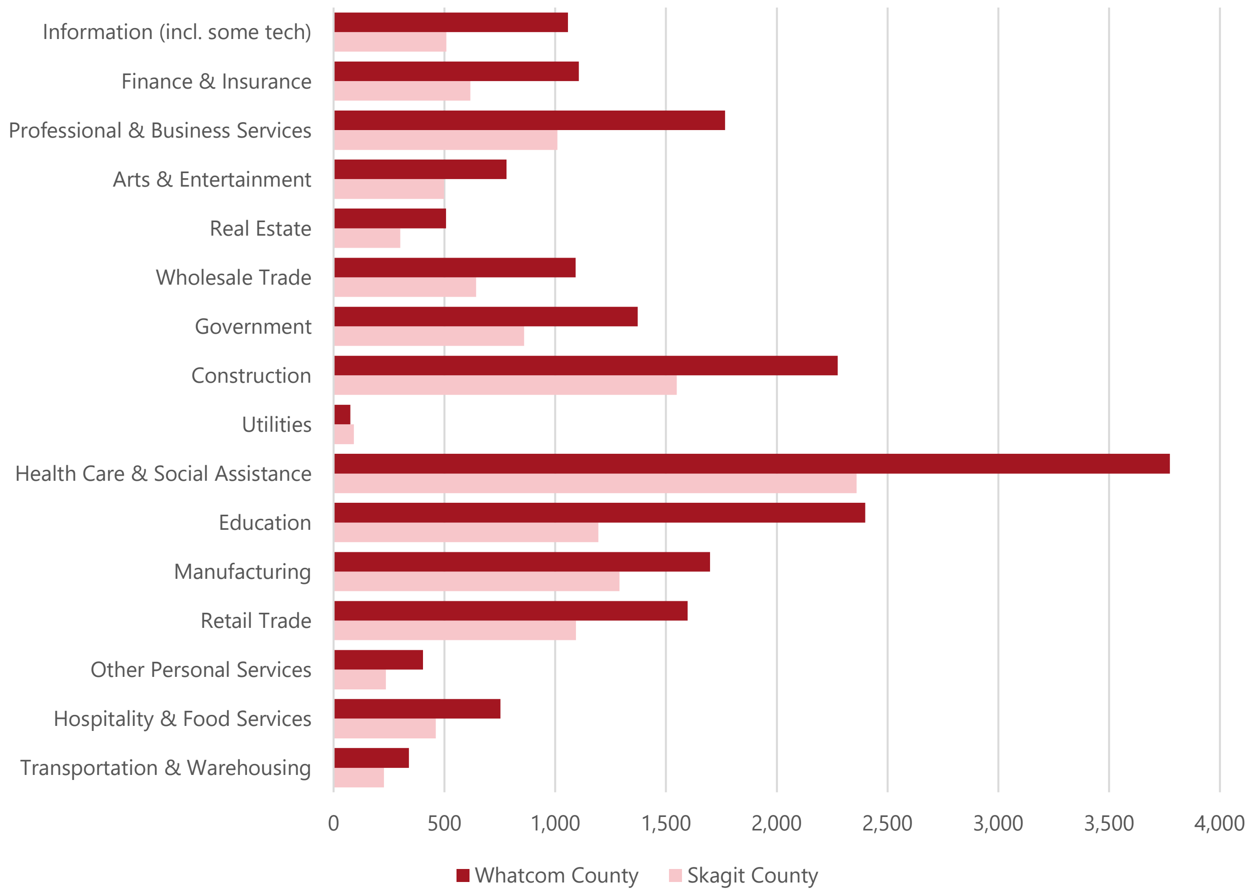
Figure 26. Work from Home Days per Week by Job Sector in the US (2023)



Source: Barrero et al.

If these trends hold true in Whatcom County, an estimated 23.1% of workdays each week take place at home. Based on the number of employed residents employed in each sector, this is roughly 21,000 people working from home on a given workday.

Figure 27. Estimated Workers Working from Home by Sector on a Given Workday, Whatcom & Skagit Counties



Source: Barrero et al; LEHD OntheMap; LCG.

Remote work trends will impact office and multifamily trends over the next several years. It is not clear when, if ever, employees will return to in-person work at the rates common before 2019. This may mean that companies will start to reduce physical office space, or demand space with high-quality HVAC systems to prioritize the health and safety of their workforce as COVID and other infectious diseases continue to circulate. It may also lead to renters and homebuyers preferring homes with an extra bedroom that can be converted into office space. For renters who work from home, the neighborhood will be an important amenity – neighborhoods that offer a variety of services within walking distance will be the most attractive. Relatedly, retailers that previously located near office clusters may choose to locate in areas with dense multifamily housing to ensure a steady supply of foot traffic throughout the day. However, given the uncertainty in the market and the rapid changes these trends represent, it may be challenging for jurisdictions like Whatcom County to make long term projections based on these recent trends.

Whatcom County Migration Patterns

Every year, some households move into Whatcom County, others move outside the county, and the vast majority of county residents stay put – or at least stay within the county. Those dynamics of household migration help to shape the character and economy of the county and its constituent jurisdictions.

Migration Data Sources

There are two main sources of data tracking those intercounty migratory movements. The first source is the U.S. Census. Every ten years the decennial Census asks every household questions about where they lived in the prior year, and how many years they have been living in the same home. For intervening non-census years, demographic analysts such as OFM rely on the American Community Survey (ACS), which poses similar questions to a limited sample of households. Because that data is subject to sampling error, those estimates of inflow, outflow, and net migration tend to be most reliable for statewide estimates and for larger counties (including Whatcom) in the aggregate. However, smaller county and subgroup comparisons, like estimates of counties of origin/destination for migration flows can include statistical margins of error that raise serious questions about data accuracy[1].

An alternate source of U.S. county-to-county migration data is the Internal Revenue Service. By tracking households that file federal taxes from a different county in consecutive years, the IRS can compile and share aggregated information on county-to-county migrant households, their relative incomes (average adjusted gross incomes or AGI), and their approximate household sizes (average individuals per return). The resulting data typically covers about 90-95% of all households (with missing values skewing towards very low income households who may not regularly file taxes). Many of the following tables and graphs rely on this IRS data to explore some basic comparisons across Whatcom in-migrants, out-migrants, and non-migrants, for each year ending in 2017 through 2021.

Selected Migration Characteristics for Whatcom County

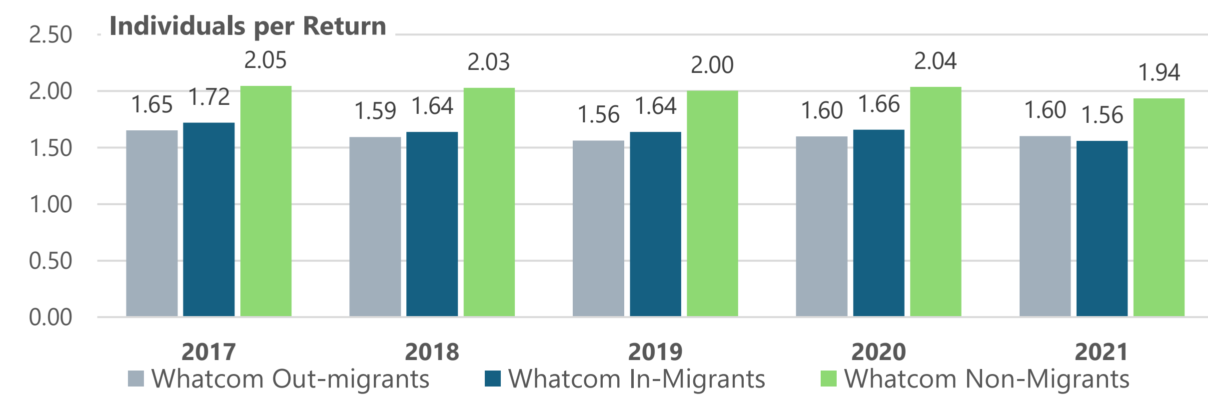
The charts below compare Whatcom County in-migrants, out-migrants, and non-migrants over time in terms of household size and incomes over three points in time, revealing a consistent pattern of differences. Namely, out-migrants tend to have slightly smaller households than in-migrants (with a slight exception in 2021), and both migrant groups have considerably smaller households than the much larger population of non-migrating households in the County.

---

[1] For example, the 5-year ACS survey for 2016-2020 identifies Kootenai County, Idaho (home of Coeur d'Alene) as the largest destination for net out-migration of Whatcom residents, with an annual net loss of 595 people. On closer inspection, the margin of error for that estimate is +/- 660, meaning that the actual yearly net migration could range anywhere from a loss of 1,255 to a gain of 65 residents and still fall within the survey's 90% confidence interval. Presumably, those county-level sources of survey error would tend to largely cancel out when aggregating up across all county origins and destinations, but it does not instill much confidence in using that survey to understand Whatcom migration much beyond the countywide aggregate.

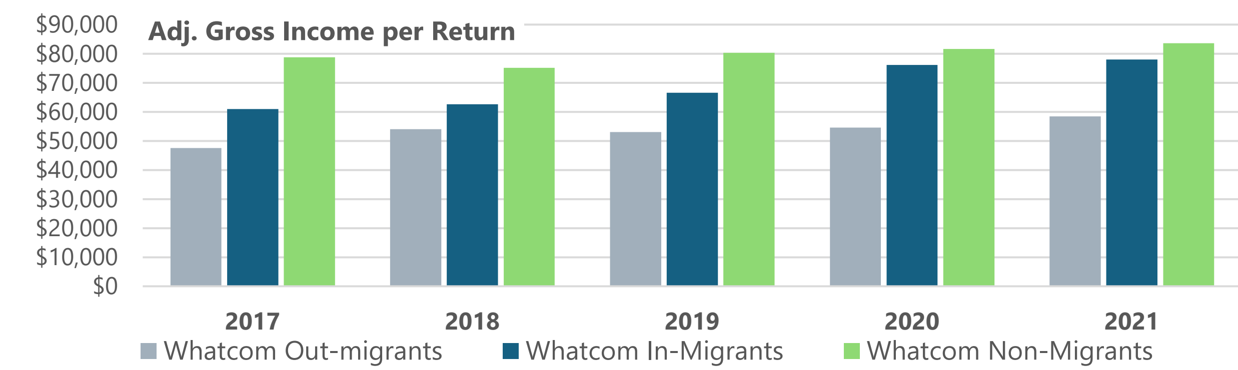
That finding is consistent with a strong likelihood that migrating individuals and households tend to be younger (perhaps with a smaller added skew for single and downsizing retirees). The patterns of average income, also illustrated below, help bolster the argument for younger migrants. When comparing the adjusted gross income per tax return (a surrogate for average household income), an even stronger relationship emerges, with out-migrants (households and individuals leaving Whatcom County) having considerably lower incomes than in-migrants, on average, and both migrant groups having lower incomes than non-migrants.

Figure 28: Household Size Comparisons for Whatcom County Migration Flow Groups, 2017-2021



Source: IRS County-to-County Migration Data; Leland Consulting Group

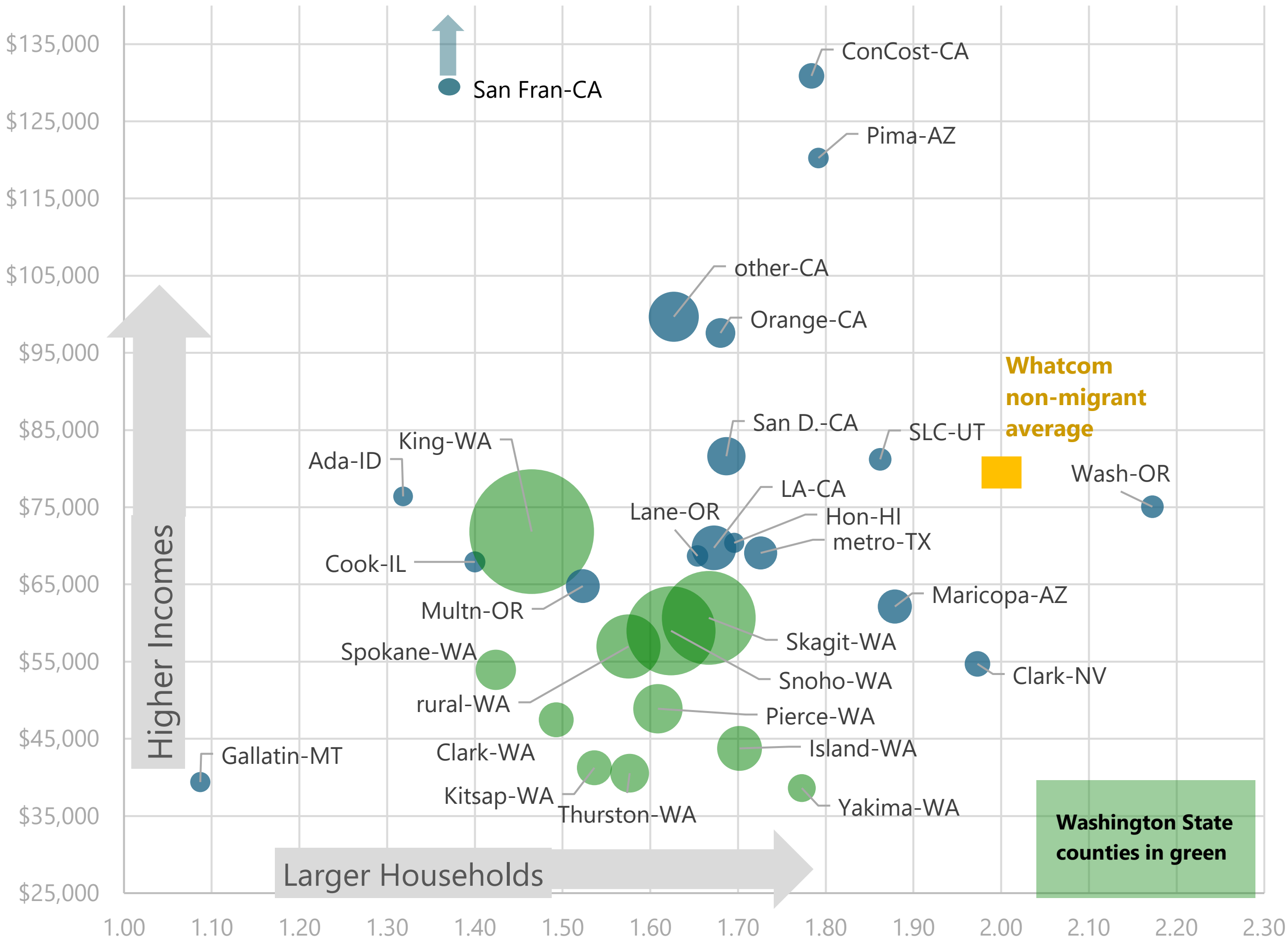
Figure 29: Household Income Comparisons for Whatcom Migration Flow Groups, 2017-2021



Source: IRS County-to-County Migration Data; Leland Consulting Group

For Whatcom County, the mix of origin and destination counties varies considerably from year to year. Large neighboring counties in Washington are almost always the leading sources of both origin and destinations for Whatcom, led by Seattle's King County.

Figure 30: Characteristics of Migrants into Whatcom County by County of Origin, 2018-19



Source: IRS County-to-County Migration Data; Leland Consulting Group

Notes: Average AGI per return is a surrogate for average household income and average individuals per return is a surrogate for household size.

The final two graphs compare incoming migrants based on their county of origin based on two measures, relative household size and average adjusted gross income. The size of the dots illustrate the relative size of the in-migrant group for a given county, and the position on the chart shows both income and household size characteristics.

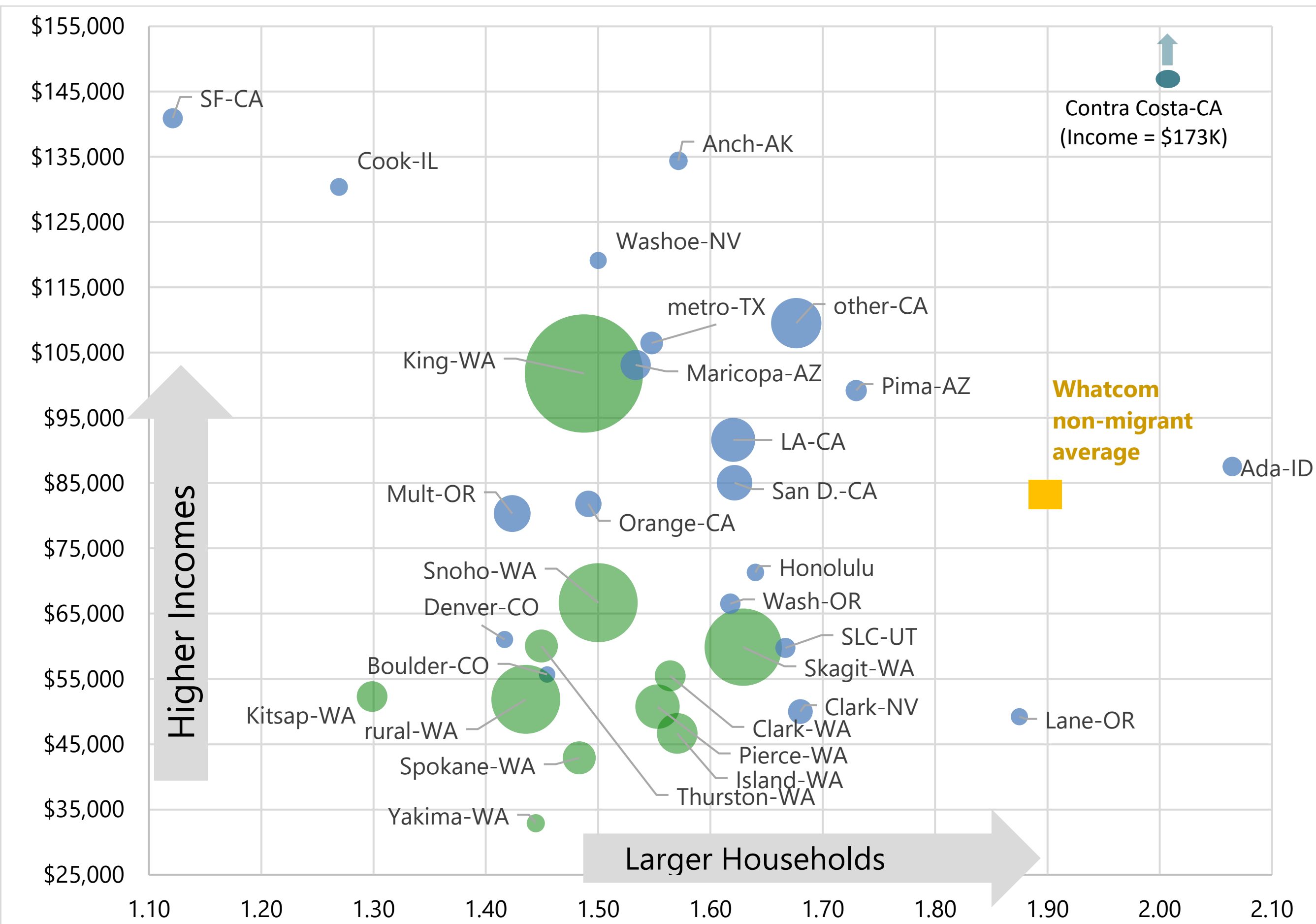
For the pre-COVID year ending in 2019 …

- In-state movers tended towards smaller households and lower incomes, on average, than out-of-state mover to the county.

- In-migrant households, in general, had smaller households than Whatcom County non-migrants – true on average for every county of origin, except for Washington County, Oregon, in suburban Portland.
- Incomes of Whatcom non-migrants, on average, were higher than those of in-migrants from any county in Washington.

Without accompanying qualitative or survey data, the reasons behind the IRS data cannot be known with certainty. The patterns suggests, however, at least for Washington State counties of origin, that those households migrating into Whatcom County may include disproportionate numbers of younger single adults (including university students) and older retirees, as both groups would tend towards smaller households and may have lower incomes. The data patterns for out-of-state in-migrants, with larger households and higher incomes is suggestive of more established families looking to upgrade lifestyle.

Figure 31: Characteristics of Migrants into Whatcom County by County of Origin, 2020-2021



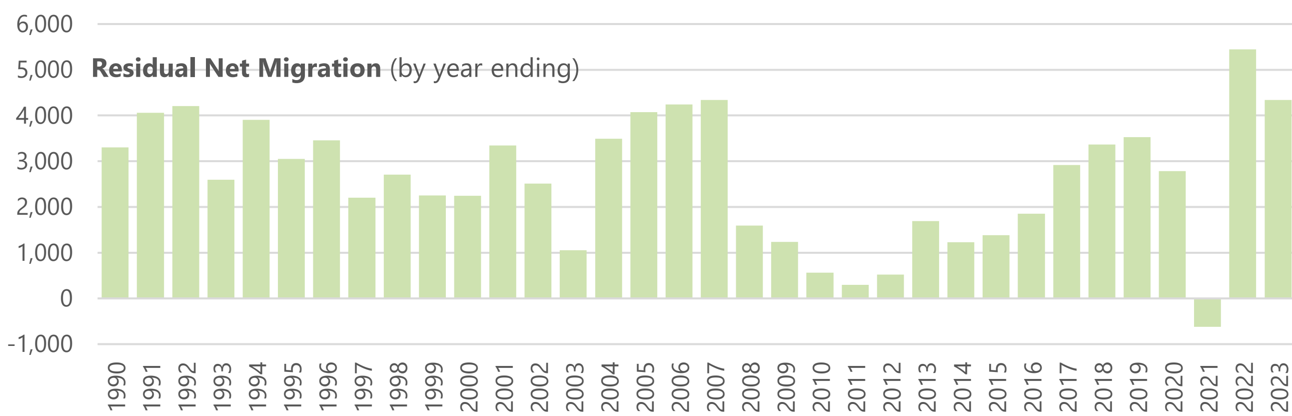
Source: IRS County-to-County Migration Data; Leland Consulting Group

The chart above is another scatterplot of in-migration origin counties, this time depicting data for migrant inflows to Whatcom County for 2020 to 2021. While the pre-COVID 2018-19 information is likely more typical of annual flows, this year may begin to give hints of trends related to remote work-from-home migration choices.

Compared to the 2019 date, there is less of a clear separation between migrants from other Washington State counties and out-of-state origins in terms of household size. For example, small but significant inflow from San Francisco and Cook County (Chicago) show migrants with very small households (individuals per tax return). Although purely speculative, this could in part be evidence of a "zoomtown" phenomena, with a mobile workforce from relatively expensive housing markets beginning to explore remote work options in a high quality-of-life setting.

The State's OFM produces estimates of net migration into or out of each county in Washington on an annual basis. These estimates are independent of the IRS methodology described above and are not based directly on Census questions about mobility. The annual OFM figures are instead assumed to be equal to the amount of population change (itself based on decennial Census counts plus housing unit additions and population-per-household multipliers) that is not accounted for by records of births and deaths for a given year.

Figure 32: Annual Estimates of Residual Net Migration into Whatcom County, 1990-2023



Source: State of Washington OFM

The trend in this metric for Whatcom County is shown in the figure above. Note that the county has experienced strong net migration for most of the past 33 years, with the exception of periods of economic instability (Dot Com recession, Great Recession, COVID-19). From 1990 to 2007, this residual averaged 3,169 per year, followed by a prolonged slowdown from 2008 to 2013. The last decade of estimates, even including one year of negative *out-migration*, showed average annual in-migration of 2,622 residents.