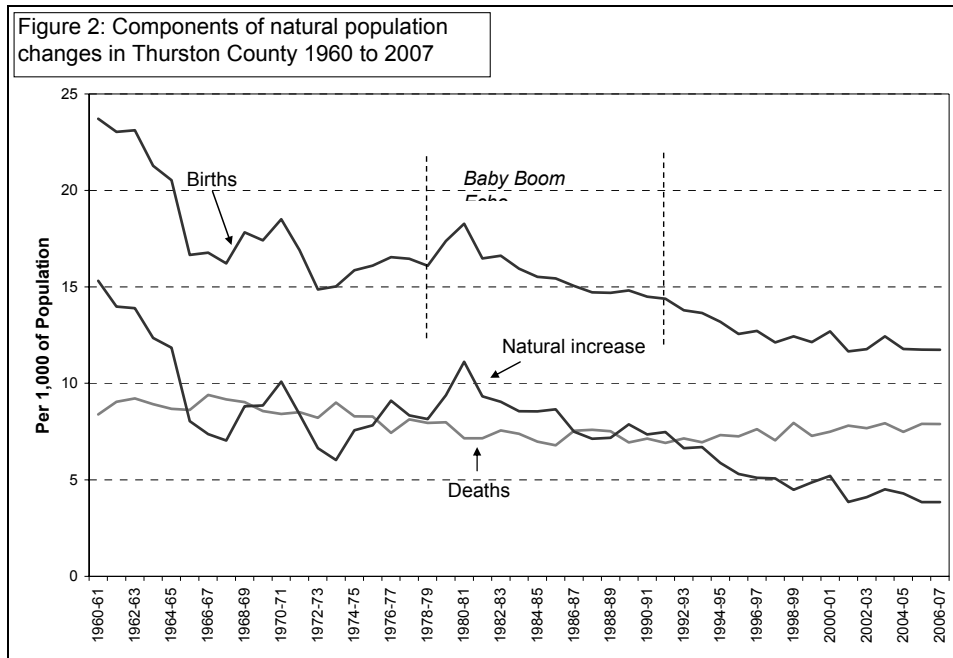




## A. Components of population change

There are two components of population change. The “natural increase” is counted as births minus deaths. This rate changes slowly over time. Net in-migration counts people moving into the area, minus people moving out of the area. Migration, as will be seen below, changes dramatically over time and is the main cause of swings in population growth in Washington.

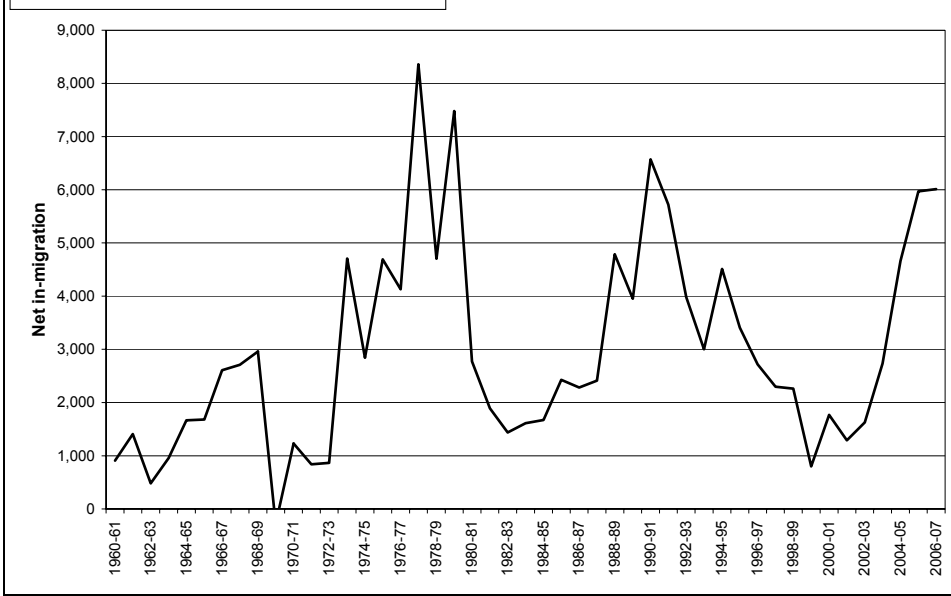
Figure 2 shows the natural population growth rates for Thurston County since 1980. After falling during the 1960s and 1970s, the death rate has leveled off. Meanwhile, the birth rate has fallen significantly during this time. The early 1960s saw the end of the Baby Boom, and the plummet of the birth rate into the “Baby Bust” generation of the 1970s. Nationally, and in the state as a whole, the “Baby Boom Echo” generation of the 1980s and early 1990s shows a distinct bump upward in the birth rate. In Thurston County, however, this bump was short-lived, and the birth rate has fallen steadily since 1980. Thurston County’s birth rate of 11.4 births per 1,000 population is well below the state rate of 13.2 births per 1000. Nationally and statewide, the birth rate has begun to trend upward as the Baby Boom Echo generation enters its own childbearing years. The 2006 birth cohort is the biggest since 1961!



The implications of this varying birth rate for housing are worth noting. The smaller Baby Bust generation came into the housing market in the 1990s, with lower demand for housing in general, and the lower birth rate of the past 15 years has taken pressure off the market for family-oriented housing.

The Echo generation is now in the housing market, but their tastes are somewhat different. Raised on *Seinfeld* and *Friends*, many in the Echo cohort are looking for the urban experience, as they delay starting families and moving into traditional detached housing. New York Times columnist David Brooks has identified a new stage of life – The Odyssey – during which young adults delay starting families and “settling down” into conventional neighborhoods. But with the birth rate now trending up, we can see new demand for family-friendly detached housing as the Echo generation moves toward its 30s.

Figure 3: Net migration to Thurston County 1960 to 2007



But for most of Washington, including Thurston County, the real story of population growth is migration. Figure 3 shows net in-migration for Thurston County since 1960. In every year but one (the Boeing Bust recession of 1970 which led to net outmigration around the state) Thurston County has seen net in-migration. In-migration peaked in the late 1970s, dropped off during the recession of the early 1980s, then peaked again in the early 1990s. Since a low point in 2001, net migration has shot upward and is now approaching the peaks of the early 1990s. (This data is based on OFM’s “residual” method and produces spiky estimates. More explanation of migration data below.)

Figure 4: Components of population change in Thurston County 1960 to 2007

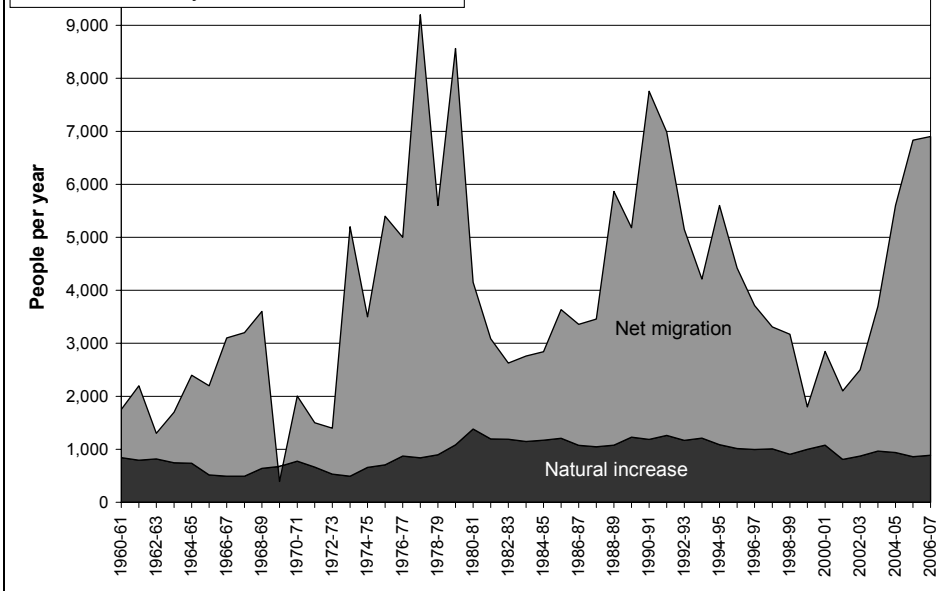


Figure 4 shows the cumulative effect of natural population growth and net in-migration. (Total population growth for the year is the outer edge of the light-colored area.) While natural population growth is relatively steady over time, migration varies sharply, and for

much of the past 40 years has been a larger force in population change than natural growth. OFM estimates that net migration to Thurston County has driven nearly 90 percent of the county’s growth. So while the emergence of the Echo generation and its children into housing markets will be a force nationally, Thurston County’s housing picture will be dominated by the needs of in-migrants. The origins and profile of these in-migrants will be discussed in more detail below.

## B. Age structure

Housing needs change by age, so shifts in the age structure of a population can provide clues to the demand for various types of housing. Figure 5 shows the change in population structure of Thurston County between the 1990 Census and the 2006 American Community Survey (ACS). The falling birth rate, as shown above, is reflected in the smaller population share under 20 years old. The Echo generation is seen in the rising share between 20 and 30, and the Baby Bust is seen in the shrinking share between 30 and 40. And as would be expected, the share between 50 and 60 – the heart of the Baby Boom, has grown dramatically.

Although there is often discussion about the graying of the population, the share of the population over 60 has actually shrunk. This is due, no doubt, to the fact that the bulk of the in-migrants to the county are relatively young, as will be discussed more below. But it is worth remembering that the biggest years of the Baby Boom were the late 1950s and early 1960s, and the children born in those years are mostly still in their 40s.

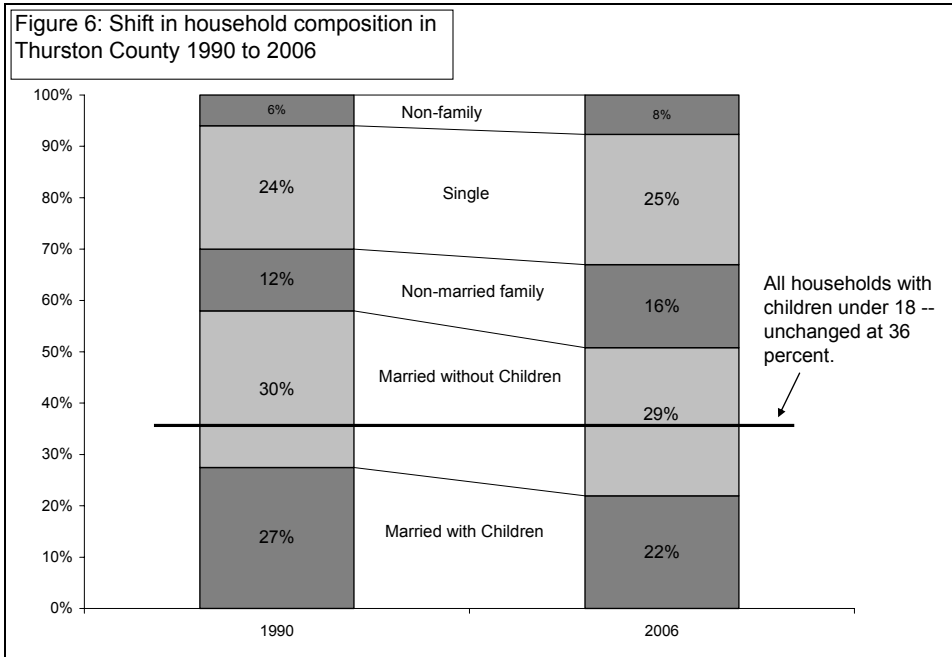


## C. Household Structure

Demand for different types of housing is also driven by household type. Figure 6 shows changes in household structure between the 1990 census and the 2006 ACS. Here the change is more significant. Married couple families have shrunk as a share of the population, while non-married families (mostly single parents of minor children, but also adult children living

with unmarried parents) have grown in number. Singles and non-family groups (unmarried couples and shared housing) have remained steady. But what is crucial to note is that the percentage of households with children under 18 years old has remained exactly the same, at just under 36 percent.

The reality of household structure represents a opportunity. With less than a quarter of all households having a traditional two-parent-with-children family, and 36 percent having any children under 18, nearly two thirds of households might be interested in alternative types of housing. Yet two thirds of Thurston County’s housing stock consists of single family detached houses, and another 12 percent consists of mobile homes.



## II. Wages and Occupations

### A. Wages and Per Capita Personal Income

Housing affordability is a function not just of price, but of income. Figure 7 shows the growth rate for both wages and per capita personal income (PCPI) for Thurston County and the state. (PCPI data from the Bureau of Economic Analysis. Wage data from Washington State Department of Employment Security).

In the case of wages (wages and salaries shown on a paycheck) Thurston County residents saw their earnings grow at about the same rate as the state through the mid-1990s, but begin to lag in the late 1990s. However, all of the sharp growth in state average wages in the late 1990s can be attributed to King County, so that removing King County from the state average shows Thurston wages slightly above the average of the remainder of the state. Growth in per capita personal income (wages plus investment earnings) in Thurston County has tracked very close to the state average.

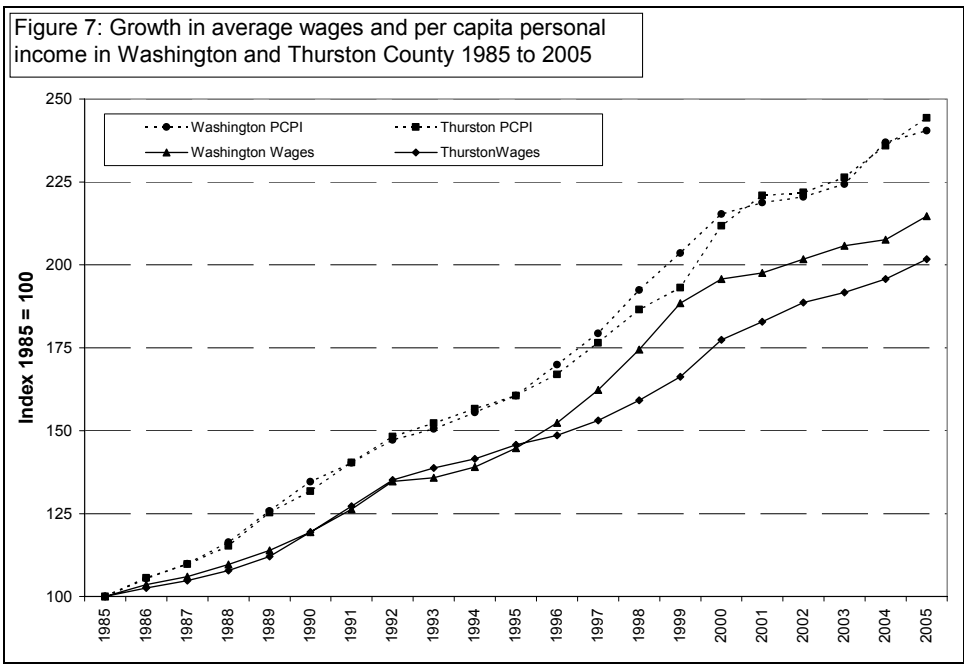


Figure 8 shows actual wages and PCPI for Thurston County and the state since 1985. Thurston County wages are about 10-12 percent behind the state average, but after removing King County from the equation, Thurston County wages are about five percent above the average for the remainder of the state. Thurston County PCPI has been lagging the state average by four to six percent.

The relatively better performance of PCPI over wages in Thurston County might be attributable to a couple of factors. First, there may be a larger share of older workers, upper income workers and retirees, all of whom have access to non-wage income, which shows up in PCPI but not wages. Secondly, household size has been dropping slightly, so that income available to a household is divided by a smaller number to get per capita income.

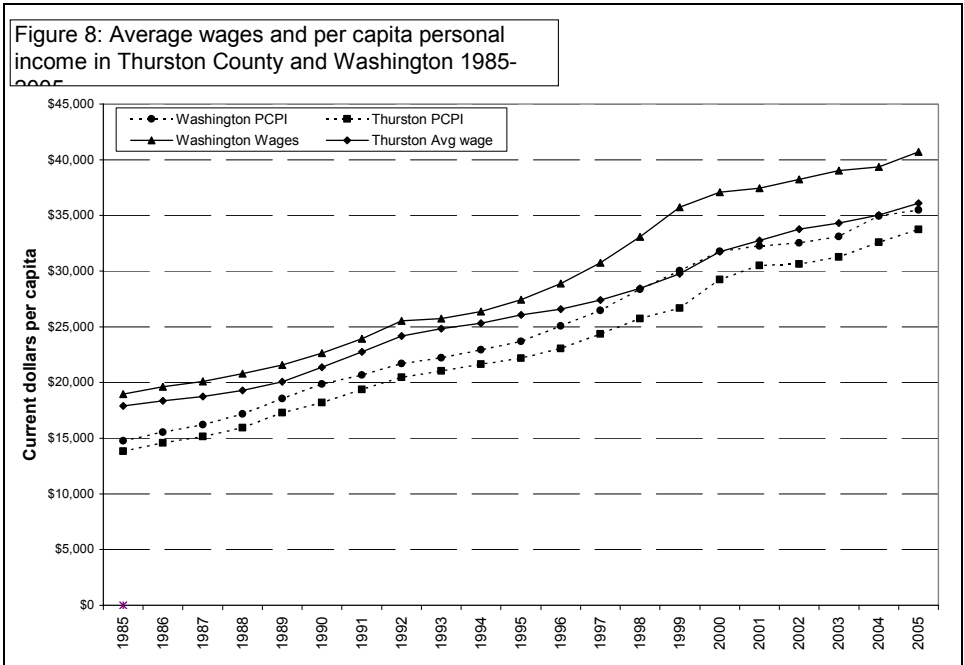
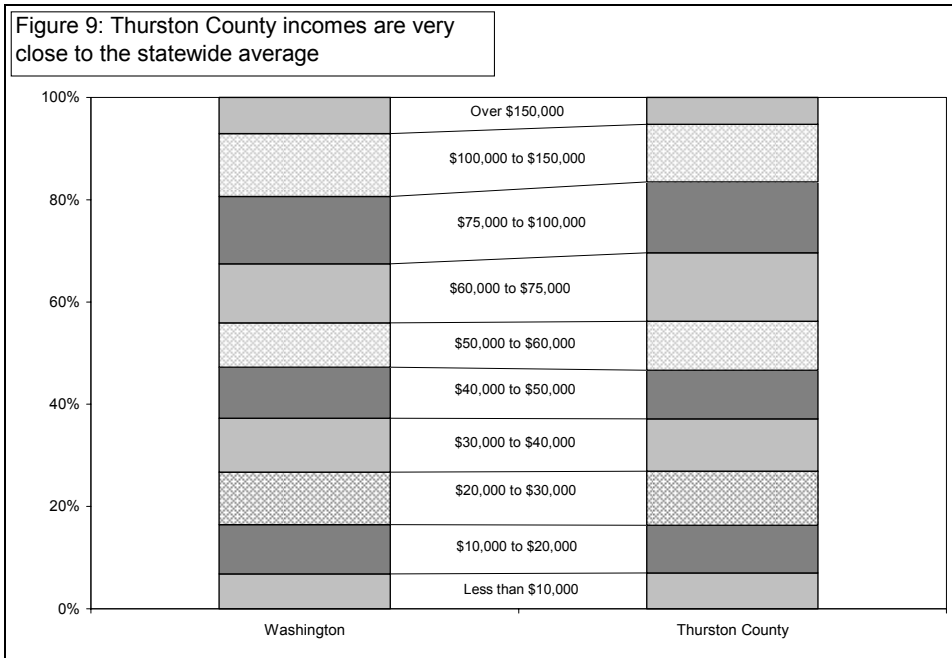


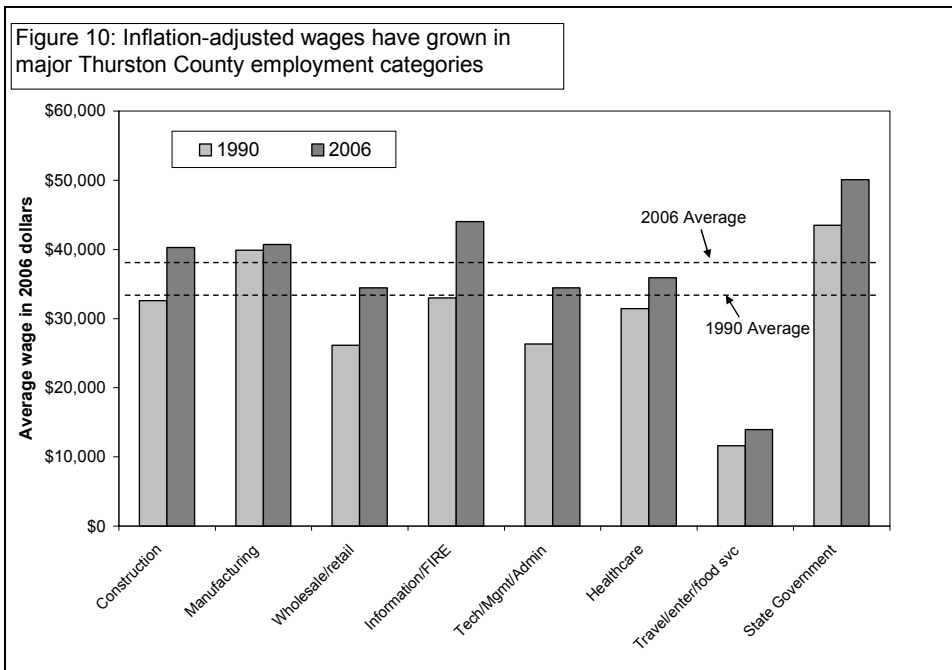
Figure 9 shows, household incomes for Thurston County and Washington State, as reported in the ACS (Thurston County figures are averaged across the ACS of 2005 and 2006. Statewide figures for only 2006). Figure 9 indicates that Thurston County has a slightly smaller share of very low income and very high households and a slightly larger share of middle income households than the state as a whole. But for the most part, Thurston county closely mirrors the state average income structure. Median household income, as reported in the ACS, was just shy of \$53,000, or about \$500 higher than the statewide average.



Higher than average household incomes can be reconciled with lower than average wages and PCPI through one simple fact: Thurston County has a larger than average household size. Thurston County household average 2.50 people, while the average for the state was 2.36 people. Thus, although the average Thurston County individual will have lower wages and other income, there will be more of them in the average Thurston County household than in the average Washington household.

## B. Wage Growth by Major Employment Sector

Average wage data masks changes within various sectors. Figure 10 shows the inflation-adjusted growth in average wages in the principal industry categories of the private sector, plus state government, in Thurston County between 1990 and 2005. (Source: Washington State Department of Employment Security) Most sectors have experienced real wage growth, the main exception being manufacturing. State government is still the highest paid sector in the county, but the information/FIRE sector is catching up.



The industry structure of Thurston County has changed over the past 15 years. Figure 11 shows that the manufacturing is shrinking, as it is in most areas of the state, with a net loss of jobs during this period. State government, the largest sector in the county, has grown in absolute numbers, but is shrinking as a share of the county's employment base. The most significant growth has been in the technology/management/administration sector, especially in professional and administrative services industries.

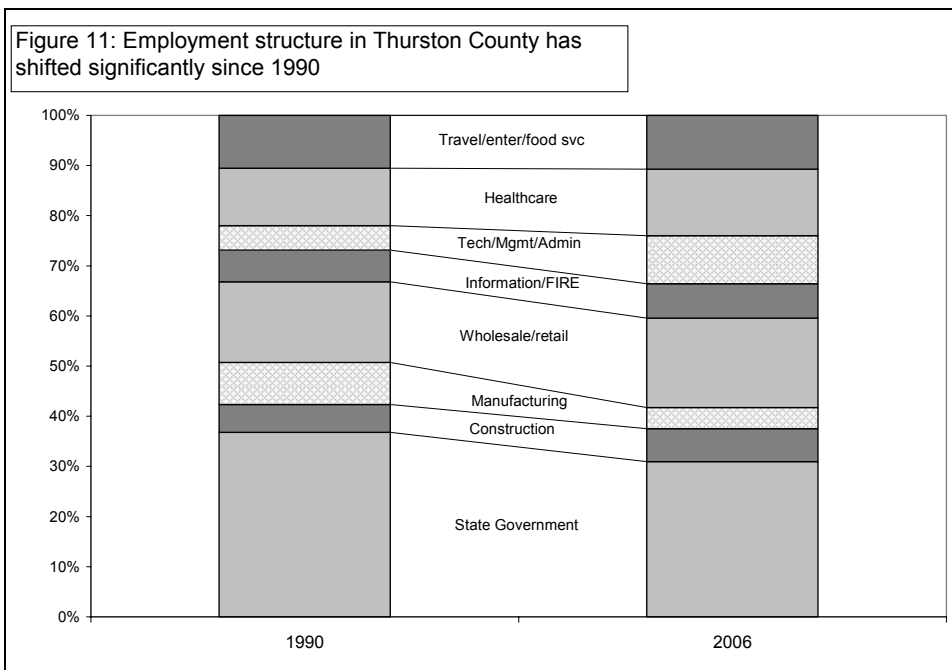
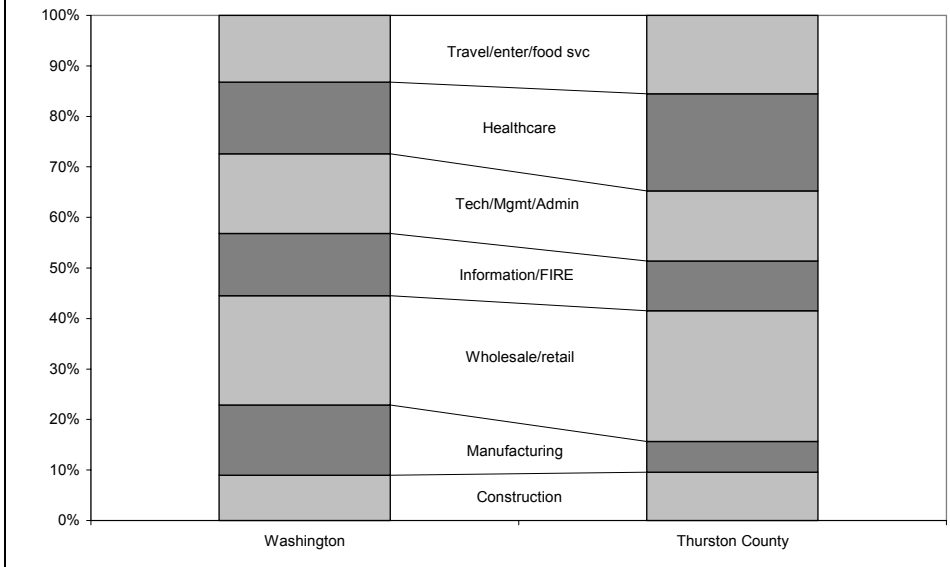


Figure 12 compares private sector employment in Thurston County to the state. Since state government is such a large part of the economic base of the county (i.e. brings in money from outside), it is not surprising that the private employment base is so skewed toward services such as retail and healthcare that support the large government-employee population.

Figure 12: Private employment structure in Thurston County emphasizes personal services



### III. Migration

Figure 4, above, shows the dramatic impact that migration has on the population of Thurston County. While homebuilding will need to keep up with the demands of the Baby Boom Echo generation that is now entering the housing market, the biggest challenge to housing supply and affordability will be those who move to Thurston County. To prepare for those migrants it helps to know a bit about them.

First, a note on the data available about migration. Given the carefully protected right of all Americans to move wherever they want, whenever they want, and given privacy laws, it is not easy to track migration on a regular basis with any great accuracy. There are several data sources, each with its own shortcomings:

**Washington State Office of Financial Management (OFM).** OFM has responsibility for tracking population in the state. Their method of accounting for migration is simply to subtract the known natural rate of growth from the known total population. This “residual” method provides adequate estimates, but little more useful information. The data in Figures 3 and 4 use OFM data.

**Census Bureau.** The decennial census does ask if people have moved in the past five years and reports those movements by county pairs (origin and destination) nation-wide. That data is quite accurate and can be divided by lots of different factors, such as age, income or family status. Unfortunately, we are now eight years from the last time that question was asked of Thurston County residents. The ACS asks if people have moved in the past year, and that data can be similarly divided up by various demographic factors. But with the sampling techniques, the error margins are quite large when the data is divided in small pieces, making it impossible to see subtle trends. ACS data is used in Figures 16.

**Drivers licenses.** States keeps track of migrants through the trading in of drivers licenses. The Washington State Department of Licensing reports this data by state or origin and destination county in Washington. This data is quite accurate and up-to-date, but only reveals where a person came from, and nothing more about them. Drivers license data is not used in this report

**IRS tax returns.** The Internal Revenue Service keeps track of migration by noting when a taxpayer has filed a tax return from a different address. This data is collected in county pairs and also includes information that provides surrogates for household size and income. Since nearly all households file a tax return, the data is quite accurate. Unfortunately, counties of origin are only named when at least 10 taxpayers came from them. IRS data is used in Figures 13, 14 and 15.

## A. Origins of migrants

This section describes the origins of migrants to Thurston County. The data in figures 14-16 count gross in-migrants, and do not account for those who moved away.

Figure 13 shows the origins of people who moved to Thurston County between 2001 and 2006, based on IRS tax return data. In each of those years, about nine percent of the households that filed tax returns from Thurston County had filed returns from another county the year before. So although it is impossible to know how far those people came, we can estimate that Thurston County either acquired or turned over close to 50 percent of its population in six years. Figure 14 breaks out the origins further, by state and region, for 2006.

<b>Figure 13: Tax Returns Filed in Thurston County 2001-2006</b>				
	<b>Returns</b>	<b>Exemptions</b>	<b>Exemptions per Return</b>	<b>Average AGI per Return</b>
<b>Total In-migrants</b>	44,063	87,829	2.0	\$38,351
<b>From Other States</b>	17,617	36,172	2.1	\$38,855
<b>From Other Wash. Counties</b>	25,210	48,383	1.9	\$38,166
<b>From Outside U.S.</b>	1,236	3,274	2.6	\$34,920
<b>From California</b>	2,491	4,902	2.0	\$47,200
<b>Non-migrants (2006 only)</b>	80,338	170,524	2.1	\$56,295

Source: Internal Revenue Service

Figure 14: Tax Returns Filed in Thurston County 2006

Previous Year in	Returns	Percent of in-migrants	Exemptions	Exemptions per Return	Average AGI per Return
Washington	4,588	57.3%	8,678	1.9	\$41,058
California	536	6.7%	1,068	2.0	\$51,524
Oregon	308	3.8%	570	1.9	\$53,539
Texas	152	1.9%	383	2.5	\$38,737
Arizona	148	1.8%	291	2.0	\$37,338
Hawaii	79	1.0%	218	2.8	\$34,949
Nevada	74	0.9%	132	1.8	\$41,095
Alaska	67	0.8%	117	1.7	\$41,388
Idaho	60	0.7%	102	1.7	\$33,917
Colorado	55	0.7%	147	2.7	\$37,218
Northeast	241	3.0%	442	1.8	\$36,162
Midwest	396	4.9%	723	1.8	\$35,932
Other South*	815	10.2%	1,922	2.4	\$43,275
Other West*	490	6.1%	978	2.0	\$37,971
All Domestic	8045	97%	15,910	2.0	\$41,741

\*Includes returns from states not named in the chart, plus returns from counties in named states with fewer than ten migrants to Thurston County

Source: Internal Revenue Service

Figure 15 further breaks out in-migrants to Thurston County by major origin counties in Washington. About 20 percent of all migrants over this period came from Pierce County, which is not surprising. But what is notable is that these migrants had a relatively large average household size, indicating that the group includes more families than would normally be expected among migrants. Also, income levels of those migrating from Pierce County are lower than migrants from King County and out-of-state, (especially on a per-capita basis) indicating that many of these households are moving to Thurston County in search of more affordable housing. In 2006, while 1,704 households moved from Pierce County to Thurston County, 1,134 households moved from Thurston to Pierce, for a net inflow of 570 households and 1,468 people.

At the same time that Thurston County was experiencing a net inflow of households from Pierce County, it was experiencing a net outflow of households to Lewis County. In 2006, 460 households moved from Thurston County to Lewis County, while 385 households moved from Lewis to Thurston, for a net outflow to Lewis County of 75 households and 194 people. The average household income of those moving to Lewis County from Thurston County was \$5,000 per year lower than the average income of those moving in the opposite direction, reinforcing the idea that households are migrating south from King, to Pierce, to Thurston and then to Lewis counties in search of housing affordability.

Figure 15: Tax Returns Filed in Thurston County 2001-2006

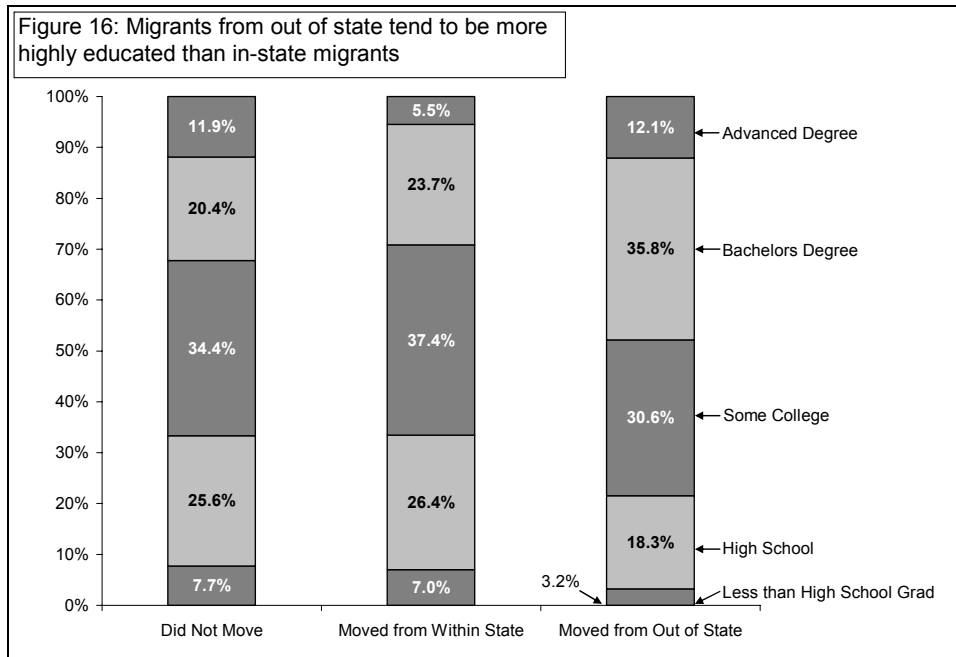
Previous Year in	Returns	Percent of Domestic	Exemptions	Exemptions per Return	Average AGI per Return
Pierce County	8,543	19.9%	18,342	2.15	\$39,599
King County	4,955	11.6%	8,234	1.66	\$42,275
Lewis County	2,280	5.3%	4,410	1.93	\$33,086
Mason County	2,010	4.7%	3,622	1.80	\$36,090
Grays Harbor County	1,661	3.9%	2,980	1.79	\$34,062
Snohomish County	964	2.3%	1,924	2.00	\$43,121
Spokane County	623	1.5%	1,134	1.82	\$33,921
Kitsap County	615	1.4%	1,137	1.85	\$38,023
Clark County	562	1.3%	1,195	2.13	\$41,788
Whatcom County	469	1.1%	748	1.59	\$28,264
Yakima County	350	0.8%	684	1.95	\$33,814
Cowlitz County	281	0.7%	534	1.90	\$36,534
Clallam County	242	0.6%	440	1.82	\$34,818
Skagit County	174	0.4%	325	1.87	\$37,109
Benton County	170	0.4%	317	1.86	\$40,029
Pacific County	162	0.4%	298	1.84	\$40,741
Whitman County	148	0.3%	233	1.57	\$28,257
Kittitas County	133	0.3%	241	1.81	\$28,173
Chelan County	128	0.3%	236	1.84	\$36,047
Island County	108	0.3%	182	1.69	\$33,750
Jefferson County	104	0.2%	182	1.75	\$43,808
Other Wash counties	528	1.2%	985	1.87	\$30,089
Total in-state	25,210	58.9%	48,383	1.92	\$38,166

Source: Internal Revenue Service

The migration picture shown in Figures 13-15 is somewhat different from that of other counties in the state. There would typically be differences between migrants from out of state and those migrating from other counties within the state, but that is not the case with Thurston County, as seen in Figure 13. In other fast-growing areas of the state, in-state migrants have much smaller household sizes and lower average incomes, indicating that in-state migrants are younger people without families and with fewer marketable skills. As noted above, Thurston County is more of a magnet for families seeking lower cost housing.

Another contrast with other areas of the state concerns migrants from out-of-state, especially California. Californians constitute the largest in-migrant group to the state, and typically bring higher incomes. In-migrants from California to Clark, Spokane and Whatcom counties all had higher average incomes than current residents, while the average income of Californians migrating to Thurston County was much lower than current residents. Moreover, Californians migrating to Thurston County had lower incomes than Californians migrating to those other counties. So, while Thurston County is a magnet for families from within Washington seeking housing affordability, it is less of a magnet for out-of-state migrants with good job offers or high outside incomes.

The education levels of in-migrants are generally consistent with data from elsewhere in the state as well. Figure 16 shows educational attainment (i.e. highest level achieved) for non-migrants and in-migrants from in-state and out-of-state. Thurston County has a relatively high level of educational attainment (likely due to the large state government sector) and in-migrants from within the state bring a lot of college degrees with them. As with other counties, the out-of-state migrants bring even higher levels of educational attainment. Migration has been very good for the education levels of the county: in 1990, 25 percent of Thurston County residents over 25 years old had college degrees, and by 2006 that had increased to 32 percent.



#### IV. Retirement and second homes

An area of increasing interest around the state is the impact of activities that affect the real estate market but are not connected to the local economy and its job base. It is challenging enough to predict housing demand based on job growth in the county and in adjacent counties, but it is very difficult to assess the impact of retirees, telecommuters and vacation home owners on housing demand. These effects could be substantial in Thurston County.

Up-to-date data on migration of retirees is very difficult to find. The American Community Survey does collect age data along with migration, but the relatively high margin of error in the sampling make it difficult to track trends from year to year. IRS and drivers license data do not include ages.

One indicator might be the percentage of the population over age 65. But Figure 5 shows that the over-65 group remains steady as a percentage of the population. In any case, heavy in-migration, such as Thurston County has experienced, will include enough young people to offset the impact of a surge in retirees, when looking strictly at age brackets.

We can look at retiree populations more from a qualitative perspective, however. As with other areas of the state such as Whatcom, Walla Walla and Spokane counties, Thurston County has many of the features that Baby Boom retirees would seem to value. Two national surveys shed some light on Thurston County's future potential as a retirement destination.

### **Del Webb Baby Boomer Survey**

In 2005 Pulte Homes, and its Del Webb retirement community subsidiary, commissioned an extensive nationwide poll of Baby Boomers and recent retirees to test their preferences for retirement living. The survey segmented the 1800 respondents into three age groups: 41-49, 50-59 and 60-69. The data show some interesting shifts in attitudes about retirement living among the younger group, versus the older group (In 2005, the first Baby Boomers turned 60, making the 60-69 age group a useful control group against which to measure Boomer attitudes).

- When asked if they plan to buy a new home for retirement, 33 percent of the respondents in their 60s said they plan to, while 59 percent of respondents in their 40s said they would. By a margin of 45 percent to 38 percent, the younger group said they would likely move out of their current state.
- All three groups cited as their prime motivation for moving, the search for more affordable housing. In deciding to move to a different state, the younger group was more concerned with the overall cost of living, and the older group more concerned with property taxes.
- When deciding which state to move to, the younger group was far more concerned than the older group about state income taxes. Among all groups, the least tax sensitivity surrounds sales taxes.
- Although states with warmer climates still attract the most retirees, affordability of housing and the general cost of living are still more important than climate in choosing a location.

The relative affordability of Thurston County, as compared to King, Snohomish or Pierce counties, make it a logical place for retirees looking to take advantage of lower costs, no income tax and proximity to family to the north.

### **AARP Retirement Places Survey**

In 2003, AARP (formerly known as the American Association of Retired Persons) released its list of the "15 Best Places to Reinvent Your Life" AARP has determined that:

*"Once again baby boomers are breaking the rules . . . This time they have bumped traditional 'retirement communities,' and are looking for something different. . . the following trends are emerging about future retirees:*

- *Unlike previous generations, boomers tend to get along with their kids and have no plans to get away from them. Fewer than one out of 20 move across county lines each year and even less cross state lines to relocate.*

- *For those who do move, familiarity is key, whether it be to move closer to family or college towns that have a familiar feel as well as a youthful vibe, great medical facilities and sophisticated restaurants.*
- *Boomers are choosing a new locale first – opting for appealing cultural and recreation lifestyles – and then looking for a job or opting to become an entrepreneur.*

For years, demographers have been pointing to mid-sized cities in pleasant surroundings, especially those with a presence of higher education institutions, as the ideal alternative to living in large metropolitan areas or Sunbelt retirement communities.. Bellingham scores the #2 slot on the AARP list, and Spokane came in at # 14. Thurston County shares many of the attributes of these areas, and has, itself, shown up on lists of best places to retire.

If a new influx of retirees heads to Thurston County, they will likely bring with them substantial equity that they will sink into the more affordable housing of the area.

## **Conclusion**

Thurston County has been one of the fastest growing counties in the state, and from the mid-1970s to just a few years ago, it was the fastest growing. Part of this growth can be attributed to the consistent growth of state government employment and the multiplier effect of that growth. More recently, there has been growth in information and management services, many associated with state government.

But while migration and population overflow from Pierce County and Fort Lewis have been part of the story, the underlying economy of Thurston County has been growing substantially. Since 1990, while population has grown 45 percent and housing by 46 percent, employment has grown 51 percent. And as Figure 11 shows, that growth is not primarily in state government.

Booming employment and solid incomes mean continued growth in housing demand and rising prices. Home prices have increased by 75 percent in the last five years, and the county will become increasingly unaffordable to moderate income households, placing further pressures on housing in Lewis, Mason and Grays Harbor counties. Thurston County has been the end of the line for the trickle down of housing demand from King County, but that flow is now moving beyond the confines of the Puget Sound region.

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