

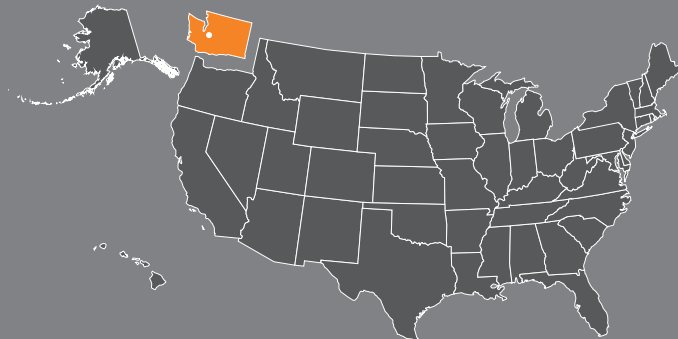
HUD PD&R Housing Market Profiles

Seattle-Bellevue-Everett, Washington



Quick Facts About Seattle-Bellevue-Everett

- Current sales market conditions: very tight.
- Current apartment market conditions: tight.
- Home sales prices, as measured by CoreLogic Case-Shiller® Home Price Index, recorded a year-over-year increase of 13 percent in June 2017, leading the nation for the second consecutive month.



By Holi Weaver | As of June 1, 2017

Overview

Situated along the Puget Sound in northwestern Washington State, the Seattle-Bellevue-Everett (hereafter, Seattle) metropolitan area consists of King and Snohomish Counties. The metropolitan area is recognized as a global center for high-technology (hereafter, high-tech) industries, including aeronautical design and manufacturing; software design; telecommunications; data processing, hosting, and related services; and logistics. The metropolitan area is home to the global headquarters of Microsoft Corporation and Amazon.com, Inc., with statewide employment of 45,535 and an estimated 25,000 to 35,000 people, respectively. The Boeing Company moved its headquarters to Chicago in 2001; however, it remains the largest employer in the metropolitan area with 69,058 employees statewide.

- As of June 1, 2017, the estimated population of the metropolitan area is 2.94 million, reflecting an average annual increase of 2.1 percent, or 59,650 people per year, since July 2014 (State of Washington's Office of Financial Management population estimates, adjusted as of July 1).

continued on page 2



continued from page 1

- Approximately 70 percent of population growth since 2014 has been from net in-migration, averaging 42,300 people a year. Strong job growth, spurred by hiring at Amazon.com and other high-tech firms, is driving net in-migration.
- Although population growth continued during the most recent recession, it was weak compared with recent growth trends.

From 2007 to 2012, population growth averaged 0.9 percent, or 22,950 people, a year. Net in-migration accounted for only 22 percent of the increase. After the economy began to recover, population growth accelerated, averaging 1.6 percent, or 42,450 people, annually, from 2012 to 2014; the share of growth attributable to net in-migration increased to 60 percent.

Economic Conditions

Economic conditions in the Seattle metropolitan area are strong, with the rate of job growth outpacing growth in the nation since 2011. Nonfarm payroll growth in the metropolitan area averaged 3.0 percent a year from 2012 through 2016, compared with the national average annual growth rate of 1.8 percent. Since 1990, one 5-year period has surpassed the current rate of job growth, 1996 through 2000, when nonfarm payrolls increased an average of 3.8 percent annually, because high-tech industries expanded rapidly (known as the dot.com bubble).

- Job growth in the metropolitan area is strong, but the rate of growth slowed recently, increasing 2.8 percent during the 3 months ending May 2017, compared with a gain of 3.5 percent during the 3 months ending May 2016.
- The information sector added the most jobs of any sector, in terms of percentages, during the 3 months ending May 2017.

This addition is, in large part, because the metropolitan area is gaining attention for its highly skilled workforce, which is enticing high-tech firms to expand in the metropolitan area at a rate exceeding that seen during the dot.com bubble.

- Manufacturing was the only sector to report job losses during the 3 months ending May 2017, mainly a result of layoffs at Boeing because of declining airplane orders. An average of 1,435 airplanes was ordered, annually, from 2012 through 2014, compared with 830 a year in 2015 and 2016. At the end of June 2017, Boeing was down 800 employees in a month and 8,650 jobs in a year, with unspecified plans to further reduce their workforce in the next 2 years (The Boeing Company).
- The past 6 years of continual economic expansion in the Seattle metropolitan area resulted in the lowest unemployment rate on record in 50 years.

continued on page 3

In the Seattle area, 6 of the 11 reported sectors expanded by more than 3 percent.

	3 Months Ending		Year-Over-Year Change	
	May 2016 (thousands)	May 2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	1,631.3	1,677.6	46.3	2.8
Goods-producing sectors	260.8	257.3	- 3.5	- 1.3
Mining, logging, and construction	90.9	94.8	3.9	4.3
Manufacturing	169.8	162.5	- 7.3	- 4.3
Service-providing sectors	1,370.5	1,420.3	49.8	3.6
Wholesale and retail trade	241.6	252.8	11.2	4.6
Transportation and utilities	54.3	56.4	2.1	3.9
Information	99.3	104.8	5.5	5.5
Financial activities	82.7	84.9	2.2	2.7
Professional and business services	247.1	253.7	6.6	2.7
Education and health services	207.8	216.4	8.6	4.1
Leisure and hospitality	159.5	167.7	8.2	5.1
Other services	58.0	59.2	1.2	2.1
Government	220.2	224.4	4.2	1.9
	(percent)	(percent)		
Unemployment rate	4.0	3.1		

Note: Numbers may not add to totals because of rounding.
Source: U.S. Bureau of Labor Statistics



continued from page 2

One of the most prominent developments in the Seattle metropolitan area is the rapid expansion of Amazon.com in downtown Seattle. To lend context to the rate the company is growing, it employs 341,000 people globally (not including seasonal workers), up from 32,000 employees 5 years ago, and in early 2017, the company announced plans to hire 100,000 more workers in the United States during the next 18 months. Amazon.com’s new world headquarters, a \$4 billion investment that includes three skyscrapers, is under construction in downtown Seattle. The company’s footprint will exceed 10 million square feet in and around downtown Seattle by 2019, with plans to expand to 12 million by 2022, or roughly equivalent to 20 percent of all office space in the city. The wholesale and retail trade sector is the sector most affected by job growth at Amazon.com, adding 11,200 jobs, or 4.6 percent, during the 3 months ending May 2017—the largest job gains in any sector of the economy. By comparison, wholesale and retail trade payrolls increased by 7,300 jobs, or 3.1 percent, during the 3 months ending May 2016. The metropolitan area not only benefits from each job Amazon.com creates, it also profits from the highly skilled workforce that Amazon.com, along with other larger firms such as Microsoft and Boeing, help create. Seattle ranks as the sixth most-educated city in America (Forbes), and a recent article noted that many Silicon Valley-based high-tech firms choose to expand in the Seattle metropolitan area to take advantage of the intellectual capital and

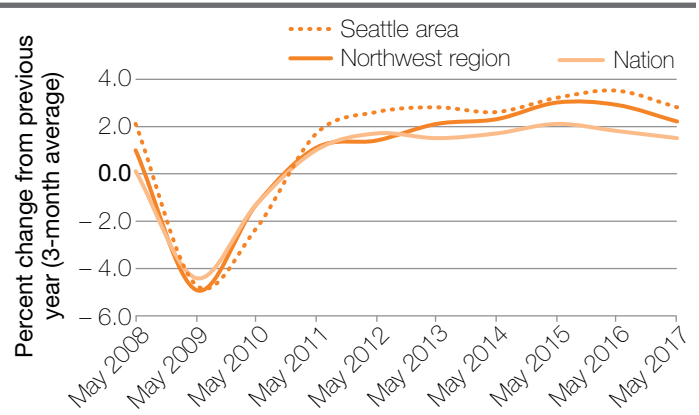
relatively low cost of living as compared with the San Francisco metropolitan area (geekwire.com). Google, Inc. already has several facilities in the metropolitan area and is opening a campus for cloud computing near Amazon.com that will span two full blocks, with completion expected in early 2019. The development will include 600,000 square feet of office space and a residential tower on each block, with a combined 149 apartments. Also, Facebook, Inc., which opened an engineering office in Seattle in 2010, announced it is moving into a new space that will enable the company to grow its local workforce from 1,000 to 4,000 by the end of 2018. Job growth in high-tech industries has a multiplier effect, mainly through increased spending generated by the relatively high wages in high-tech industries, and will support job growth in several sectors, including professional and business services, information, wholesale and retail trade, and education and health services.

Largest employers in the Seattle area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
The Boeing Company	Manufacturing	69,058
Microsoft Corporation	Professional and business services	45,535
University of Washington	Government	34,000

Note: Excludes local school districts.
Sources: Moody’s Economy.com; company websites

The rate of nonfarm payroll growth in the Seattle area slowed to a more sustainable rate.



Note: Nonfarm payroll jobs.
Source: U.S. Bureau of Labor Statistics

Sales Market Conditions

Sales housing market conditions in the Seattle metropolitan area are currently very tight, with an overall estimated vacancy rate of 1.2 percent, compared with 2.6 percent in April 2010. The decline reflects increased demand and a limited supply of for-sale housing. As of May 2017, a 0.8-month supply of homes was available for sale, down from a 1.1-month supply in May 2016 (Redfin). By comparison, the available inventory of homes for sale reached a peak of a 9.3-month supply in January 2010.

- During the 12 months ending April 2017, 53,400 existing single-family homes, townhomes, and condominiums (hereafter, existing homes) sold, up almost 8 percent from a year ago. The average sales price increased slightly more than 8 percent to \$520,400,

marking the fifth consecutive year of increasing sales prices. By comparison, an average of 59,850 homes sold annually from 2003 through 2006, as the economy expanded following the dot.com bubble, and the average sales price peaked in 2007 at \$452,900 (CoreLogic, Inc., with adjustments by the analyst).

- In response to strong economic conditions in the metropolitan area, distressed home sales (short sales and real estate owned [REO] sales) are a less significant part of the sales market than they were during the worst of the housing crisis from 2009 through 2012. During the housing crisis, REO home sales accounted for more than 17 percent of all existing homes but for only 2 percent during the 12 months ending April 2017 (CoreLogic, Inc., with adjustments by the analyst).

continued on page 4



continued from page 3

- Approximately 6,325 new single-family homes, townhomes, and condominiums (hereafter, new homes) sold during the 12 months ending April 2017, up 6 percent from a year prior, and the average sales price increased 11 percent to \$704,200. For context, new home sales averaged 12,675 annually from 2004 through 2007 during the buildup to the housing market crash, and the average sales price peaked in 2008 at \$458,300 (CoreLogic, Inc., with adjustments by the analyst).
- The condominium market was relatively nonexistent during the worst of the housing market crisis but is now very tight, with an estimated 0.7-month supply of inventory for sale as of April 2017, down from a 1.1-month supply a year earlier and a 14.3-month supply in July 2010 (Redfin). Demand for condominiums is

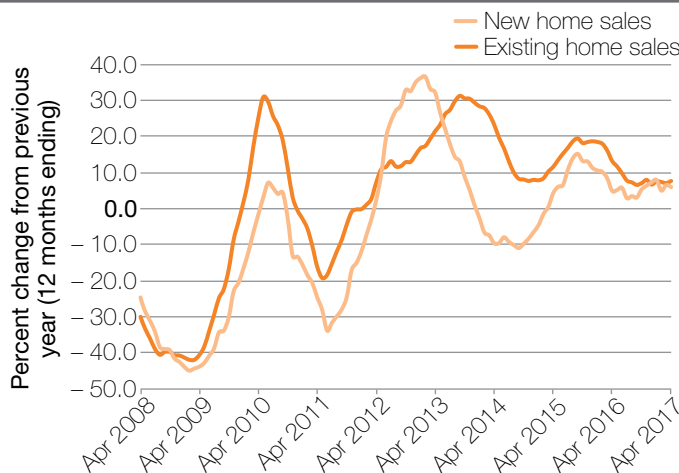
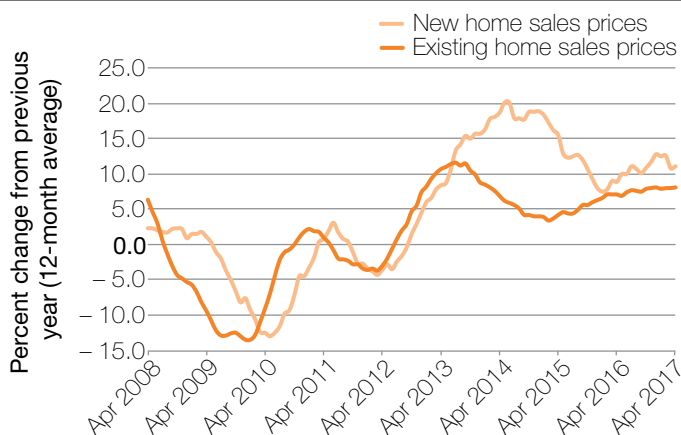
expected to continue to grow, in part, because it is one of the only remaining options for homeownership in downtown Seattle. Most condominium activity in the metropolitan area occurs in King County, where the average sales price of a new condominium was \$827,500 in May 2017, up almost 25 percent compared with \$654,500 in May 2016 (Northwest Multiple Listing Service).

During the 12 months ending May 2017, 6,650 single-family homes were permitted, down 2 percent from a year ago (preliminary data). Despite average annual home price growth of 12 percent since 2012, new home construction has remained relatively flat, averaging 6,275 new homes a year from 2012 through 2016, partly explained by the geographical constraints of the Puget Sound and Lake Washington limiting the amount of buildable land in the metropolitan

continued on page 5

From 2012 through the current date, new and existing home sales prices in the Seattle area increased at average annual rates of 10 and 6 percent, respectively.

In the Seattle area, the growth rate in new and existing home sales slowed because of record low inventory of for-sale housing and a limited amount of new construction.

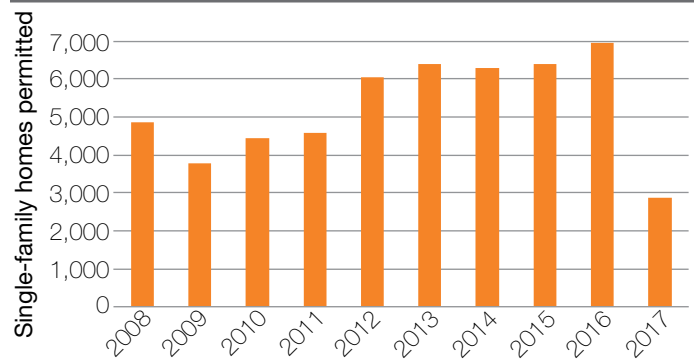
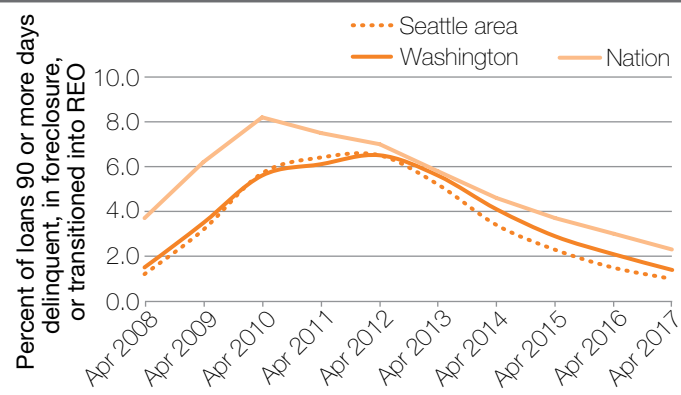


Note: Includes single-family homes, townhomes, and condominiums. Source: CoreLogic, Inc., with adjustments by the analyst

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Strong economic and housing market conditions since 2012 have resulted in a steep decline in seriously delinquent loans and REO properties in the Seattle area.

Single-family permitting has been relatively constant in the Seattle area since 2012, in large part because geographical constraints limit the amount of buildable land.



REO = real estate owned. Source: CoreLogic, Inc.

Note: Includes preliminary data from January 2017 through May 2017. Source: U.S. Census Bureau, Building Permits Survey



continued from page 4

area. Also, new home construction within the city limits of Seattle is limited to small-scale projects, because most of the city is built out, forcing higher density than allowed for by single-family homes, hence the tight condominium market and the record level of apartment construction occurring in the metropolitan area. Currently, an estimated 3,350 single-family homes are under construction.

- According to local developers, the most common target market for new single-family homes is second- and third-time homebuyers looking to upgrade into larger homes. Some developers recognize the need to build more modest homes targeting first-time homebuyers, but because of high land costs, it is significantly more difficult for developers to make a profit.
- Several communities are under construction, with a high concentration of building near the Microsoft and Google campuses on the central-east side of the metropolitan area, with prices ranging from the low \$600,000s to more than \$1 million for a single-family home. Communities in the southern and northern portions of the metropolitan area are priced lower, ranging from the low \$400,000s to the upper \$700,000s for single-family homes.

- The most recently completed condominium developments in the metropolitan area include Insignia, a two-tower, 698-unit project near Amazon.com, and Luma Condominiums, a 24-story building with 168 units in the Capitol Hill neighborhood of Seattle. When the final unit at Insignia sold in March 2017, it marked the most recent new construction condominium available for immediate move-in throughout the metropolitan area.
- Luxury condominiums are becoming increasingly popular in downtown Seattle, especially near Amazon.com campuses. NEXUS, a 347-unit, 40-story tower slated to open in mid-2019, is the largest project under way, with 80 percent of units currently presold. Sales prices range from the high \$500,000s for studio units on the ground floor to \$4.9 million for a top-floor penthouse.
- An additional 40-story highrise is under construction close to Pike Place Market in downtown Seattle, which will add 266 condominiums on completion in 2019. It was intended for apartments when construction began on the site, but a new owner decided to move forward with condominiums, a trend not seen since before the housing market crash (prices and floorplans are unavailable).

Apartment Market Conditions

Apartment market conditions in the Seattle metropolitan area have tightened considerably since 2010, a result of strong net immigration and low inventory of reasonably priced for-sale housing, coupled with demographic changes, as households postpone homeownership. The apartment market is currently tight with an estimated 4.8-percent vacancy rate during the first quarter of 2017, down from 5.3 percent a year ago, and the average asking rent increased 7 percent to \$1,606 (Reis, Inc.). An average of 7,000 apartments were added to the metropolitan area annually from 2013 through 2016, compared with 3,025 constructed annually from 2000 through 2010.

During the first quarter of 2017—

- Monthly rents in the metropolitan area averaged \$1,305, \$1,492, \$1,736, and \$1,915 for studio, one-, two-, and three-bedroom units, respectively (Reis, Inc.). The average asking rent for Class A apartments, which comprise most newly constructed units, increased almost 7 percent to \$1,913, compared with the first quarter of 2016. Class A apartments, with a 6.2-percent vacancy rate and down from 7.2 percent a year earlier, have a slightly higher vacancy rate than the overall apartment market, because they include a large portion of units still in lease up.
- Of the 16 Reis, Inc.-defined market areas in the metropolitan area, the lowest apartment vacancy rates were in the southern portion of the metropolitan area: 1.3 percent in the Tukwila/Sea-Tac area,

up 0.1 percentage points from the first quarter of 2016, and 1.6 percent in the Auburn/Enumclaw area, down from 1.8 percent from a year ago.

- The Downtown/Capitol Hill/Queen Anne area, which encompasses both Amazon.com campuses, recorded the highest vacancy rate at 7.5 percent, down from 9.2 percent a year earlier. However, the average rent increased 5 percent to \$2,178, the highest average rent among all market areas. The relatively high vacancy rate is attributable to a surge in apartment construction in the market area, which captured 55 percent of the units added to the metropolitan area from 2013 through 2016.
- The average monthly rent increased in every market area in the metropolitan area, from a 4-percent increase in the Redmond area, to \$1,850, to a 13-percent increase in the West Seattle/Burien area to \$1,522.

As apartment market conditions tightened and lenders became increasingly confident in the economic recovery, financing for new apartments returned, and builders responded by increasing apartment development, beginning in 2012. Multifamily construction averaged 10,400 units a year from 2012 through 2014, followed by a 33-percent increase to 15,700 units in 2015. During the 12 months ending May 2017, approximately 15,650 multifamily units were permitted, a 26-percent increase from the 12,450 multifamily units permitted during the 12 months ending May 2016 (preliminary data).

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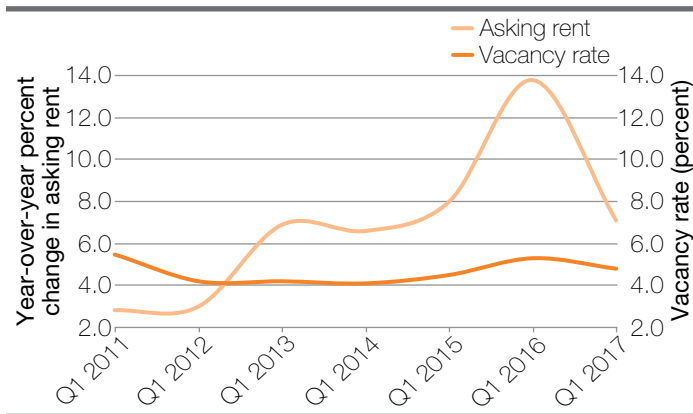
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- Of the estimated 20,800 apartment units under construction in the metropolitan area, approximately 40 percent are in the Downtown/Capitol Hill/Queen Anne area, 16 percent are in the Bellevue/Issaquah area in the central-east portion of the metropolitan area near Microsoft and Google, 13 percent are in the North Seattle/Northgate area, and the remainder are distributed throughout the rest of the metropolitan area (Reis, Inc.).
- Condominiums—classified as multifamily units, even though they are intended for single-family occupancy—accounted for approximately 30 percent of all multifamily construction from 2005 through 2008 but declined to 6 percent in 2009 and 2010. An average of 850 condominiums were constructed, annually, from 2011 through 2016, as economic and housing market conditions recovered from the Great Recession, comprising almost 8 percent of multifamily construction. An estimated 220 condominiums units have been permitted since the beginning of 2017 (McGraw-Hill Construction Pipeline Database).
- Building luxury apartments is a relatively new and increasingly popular trend in downtown Seattle, in large part, because of

increased demand from Amazon.com employees that want to live close to work. The most notable development is Tower12 Apartments, a 34-story highrise one-half mile from the new Amazon.com world headquarters, with 314 units that opened in May 2017, and 60 percent of the units have views of the Puget Sound. Rent for one-bedroom units between 575 and 965 square feet starts at \$2,730 per month, and rent for two-bedroom units between 1,150 to 1,825 square feet starts at \$4,050. Tower12 was 77 percent leased by the middle of June 2017.

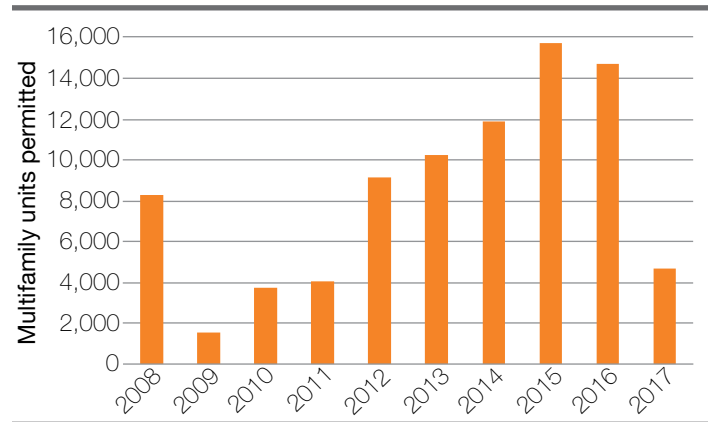
- Also, Stratus, a 41-story high-rise including 396 apartment units and more than 7,750 square feet of retail space across the street from Amazon.com, will be scheduled for occupancy in late 2017. Several additional highrise luxury apartment buildings are currently under construction in downtown Seattle near Amazon.com, including 970 Denny Way, a 40-story tower with 468 units; Kinects, a 40-story tower that will contain 356 apartments should be complete in 2017; and 2202 8th Ave, which will be 40 stories tall with 450 units when complete in 2018 (prices and floorplans are unavailable).

Annual rent growth in the Seattle area has increased at an average annual rate of nearly 9 percent since the first quarter of 2013 compared with slightly more than 4 percent nationwide.



Q1 = first quarter.
Source: Reis, Inc.

The 4-year period from 2013 through 2016 had the highest level of multifamily construction recorded in the Seattle area since the 1987-through-1990 period.



Note: Includes preliminary data from January 2017 through May 2017.
Source: U.S. Census Bureau, Building Permits Survey

