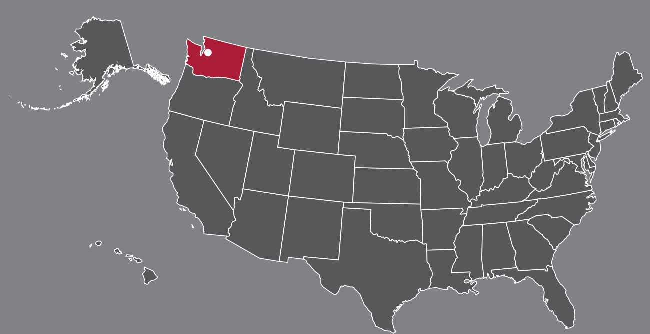
HUD PD&R **Housing Market Profiles**

Seattle-Bellevue-Everett, Washington

Quick Facts About Seattle-Bellevue-Everett

- **Current sales market conditions: tight**
- **Current apartment market conditions: slightly tight**
- **Month-to-month home sales prices started falling in the Seattle metropolitan area in July 2018, and in September 2018, they fell faster than in any other area in the country after leading the nation in price appreciation for nearly 2 years (Case-Shiller Home Price Index).**



By Holi Urbas | As of October 1, 2018

Overview

Situated along the Puget Sound in northwestern Washington State, the Seattle-Bellevue-Everett (hereafter, Seattle) metropolitan area, coterminous with the metropolitan division of the same name, consists of King and Snohomish Counties. The metropolitan area is recognized as a global center for high-tech industries, including aeronautical design and manufacturing; computer systems and software design; data processing, hosting, and related services; and logistics. The rapid expansion of Amazon.com, Inc. (hereafter, Amazon), with its global headquarters in Seattle, has been a giant catalyst for economic growth throughout the metropolitan area during the past 8 years, expanding from 5,000 employees to a current estimate of 45,000 employees in the metropolitan area. During this time, net in-migration has soared, especially among the well-educated millennial population, causing swiftly rising home prices.

- As of October 1, 2018, the population of the metropolitan area is estimated at 3.02 million, reflecting an average annual increase of 57,250, or 2.0 percent, a year since July 2013 (Washington State's Office of Financial Management, population estimates as of April 1, with adjustments by the analyst).

continued on page 2

continued from page 1

- Since July 2013, approximately 70 percent of population growth has been from net in-migration, averaging more than 40,000 people a year. Millennials and international migrants compose a large share of net in-migration to the Seattle metropolitan area. From July 2013 to July 2017, approximately 60 percent of all net in-migration was international (2013 and 2017 Census Bureau estimates). During that time, the millennial cohort (people born between 1981 and 1996) increased from 20.7 to 23.9 percent of total population.
- Recent population growth has surpassed growth before the Great Recession. From July 2004 to July 2007, the population increased by an average of 38,450 people, or 1.5 percent, a year, and net in-migration accounted for 56 percent of the growth.

Economic Conditions

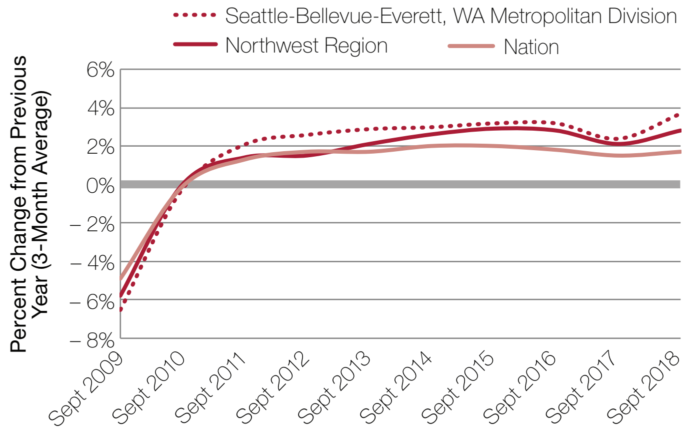
The economy of the Seattle metropolitan area has been expanding since 2011, with job growth accelerating almost every subsequent year. From 2011 through 2014, nonfarm payroll growth averaged 2.5 percent annually, compared with 3.0 percent a year from 2015 through 2017. By comparison, payrolls fell an average of 3.2 percent annually from 2008 through 2010. The current nonfarm payroll total of 1.76 million jobs surpasses the prerecession peak of 1.49 million jobs in 2008 by more than 18 percent.

During the third quarter of 2018—

- Nonfarm payrolls increased by 63,200 jobs, or 3.7 percent, from the third quarter of 2017. By comparison, from the third quarter of 2016 to the third quarter of 2017, payrolls grew by 39,800 jobs, or 2.4 percent.
- The wholesale and retail trade and the professional and business services sectors accounted for more than one-half of all job growth during the period. Wholesale and retail trade is the sector most impacted by hiring at Amazon, which has

continued on page 3

Nonfarm payroll growth in the Seattle area accelerated during the past year.



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

All payroll sectors added jobs in the Seattle area, with 6 of 11 sectors increasing in excess of 3.0 percent.

	3 Months Ending		Year-Over-Year Change	
	September 2017 (Thousands)	September 2018 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	1,697.2	1,760.4	63.2	3.7%
Goods-Producing Sectors	261.1	269.0	7.9	3.0%
Mining, Logging, & Construction	99.9	104.8	4.9	4.9%
Manufacturing	161.2	164.1	2.9	1.8%
Service-Providing Sectors	1,436.1	1,491.4	55.3	3.9%
Wholesale & Retail Trade	264.7	280.7	16.0	6.0%
Transportation & Utilities	57.7	58.8	1.1	1.9%
Information	110.9	118.7	7.8	7.0%
Financial Activities	84.7	87.9	3.2	3.8%
Professional & Business Services	258.2	274.2	16.0	6.2%
Education & Health Services	212.5	219.6	7.1	3.3%
Leisure & Hospitality	172.2	175.8	3.6	2.1%
Other Services	59.5	59.6	0.1	0.2%
Government	215.7	216.1	0.4	0.2%
	(Percent)	(Percent)		
Unemployment Rate	4.1%	3.4%		

Source: U.S. Bureau of Labor Statistics

continued from page 2

been strong during the past year. More than one-third of jobs gains in the professional and business services sector were in the computer systems design and related services industry, as high-tech firms expand in the area.

- Manufacturing sector payrolls increased by 2,900 jobs, or 1.8 percent, reflecting a significant improvement from a year ago when payrolls fell by 8,100 jobs, or 4.8 percent. Most of the job losses and job gains are the result of employment trends at The Boeing Company, the metropolitan area's largest employer.
- The unemployment rate declined from 4.1 to 3.4 percent because employment growth far outpaced growth in the labor force.

Amazon currently occupies 10.3 million square feet of office space in the city of Seattle, with another 3.6 million square feet under construction, roughly equivalent to 20 percent of all office space in the city. With the company shifting focus to their recently announced HQ2 sites, one in New York City and the other in Arlington, VA, hiring is expected to moderate in the greater Seattle area; however, currently, 8,250 full-time job openings are in and around Seattle on the company's website job board. Job growth in the metropolitan area is expected to remain strong because other high-tech companies have expanded and relocated to the area, attracted by the large concentration of intellectual capital developed, in part, by Amazon. Furthermore, housing in the Seattle metropolitan area is still relatively affordable compared with housing in Silicon Valley (Santa Clara County). Median home sales prices of $545,000 versus Silicon Valley's median of $1.18 million, as of September 2018, help attract and retain newcomers to the Seattle area (Redfin). A new Google campus is currently under construction in the South Lake Union (SLU) neighborhood of Seattle, next to Amazon, that will span two full city blocks and include four office buildings and 150 apartments, totaling almost 610,000 square feet. Construction is expected to start late in the fourth quarter of 2019 on a third block: a 322,000-square-foot, 12-story building expected to be complete in 2021 and bringing Google's Seattle footprint to nearly 1 million square feet. The campus will be anchored by Google's cloud computing division, with the potential for 4,500 to 6,200 new jobs (geekwire.com). Facebook's presence in Seattle is now the largest outside its headquarters in Silicon Valley: Facebook has doubled its workforce in Seattle during the past 2 years to more than 2,000. In March 2018, Facebook opened a new office building in SLU, with room for 900 workers, only 2 years after opening a 2,000-person engineering center nearby. The company is also leasing Arbor Blocks, two buildings currently under construction in SLU large enough to house an additional 2,000 employees on completion in 2019. Other high-tech companies that have recently, or are currently, expanding in Seattle include, but are not limited to, Airbnb, Inc.; Expedia Group; Zillow Group; Redfin; and Snapchat.

Largest Employers in the Seattle Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
The Boeing Company	Manufacturing	64,300
Amazon.com, Inc.	Wholesale & Retail Trade	45,000
Microsoft Corporation	Professional & Business Services	43,031

Note: Excludes local school districts.
Source: Moody's Economy.com

Sales Market Conditions

Sales housing market conditions in the metropolitan area are currently tight, with an estimated vacancy rate of 1.0 percent, down from 2.6 percent in April 2010. The decline in vacancies reflects increased demand for, and a limited supply of, for-sale housing. The inventory of homes for sale has been less than 3 months since 2014, compared with a peak of 9.3 months in 2010. As of September 2018, a 2.3-month supply of homes was available for sale, up from a 1.1-month supply a year ago (Redfin).The small uptick in inventory coupled with declining month-to-month sales prices since July 2018 (Case-Shiller Home Price Index) could indicate that the currently tight sales market is starting to moderate; however, year-over-year sales price growth accelerated during the past 12 months.

During the 12 months ending August 2018—

- Existing home sales totaled 52,100, reflecting a 6-percent decline from a year ago and marking the first year of declining sales since 2011 (CoreLogic, Inc., with adjustments by the analyst). By comparison, existing home sales increased at an average annual rate of 14 percent from 2012 through 2017.
- The average price of an existing home was $608,800, up 12 percent from a year ago. By comparison, the average sales price increased at an average annual rate of 9 percent from 2013 through 2017.
- New home sales declined 9 percent to 5,775 sales compared with a year ago. Approximately 5,525 new homes sold annually from 2009 through 2016, despite the housing market crisis during the beginning of the period.
- The average sales price of a new home was $777,800, up 9 percent from the previous 12 months. By comparison, average annual price growth was 12 percent from 2012 through 2016.
- Much of the decline in home sales is a result of low for-sale inventory, but also swiftly rising home sales prices and increasing interest rates limit the number of households that can afford to purchase a home. For context, wage growth in the greater Seattle area (including Island, King, Kitsap, Lewis, Mason, Pierce, Skagit, Snohomish, and Thurston Counties) averaged 3.7 percent from September 2017 to September 2018 (Bureau of Labor Statistics; not seasonally adjusted),

continued on page 4

continued from page 3

compared with the previously mentioned increases in new and existing home sales prices.

- The share of seriously delinquent home loans (90 or more days delinquent or in foreclosure) and real estate owned (REO) properties was 0.6 percent in August 2018, less than one-half the national rate of 1.8 percent (CoreLogic, Inc.).

Despite monumental improvements in the economy and housing market of the Seattle metropolitan area since the end of the Great Recession, single-family homebuilding, as measured by the number of single-family homes permitted, has been relatively flat since 2012. The geographic constraints of Puget Sound and Lake Washington limit the amount of buildable land in the metropolitan area, causing the price of land to rise considerably and exacerbating the rising costs of materials and labor that homebuilders face. Those factors contributed to a decline in single-family home construction during the past year.

- New home construction, as measured by the number of single-family homes permitted, totaled 6,525 homes during the 12 months ending September 2018, down nearly 5 percent from the 6,825 homes permitted the previous 12 months (preliminary data).
- By comparison, new home construction averaged 11,600 homes a year from 2003 through 2006 and only 4,425 homes a year from 2008 through 2011 because of the recession and

continued on page 5

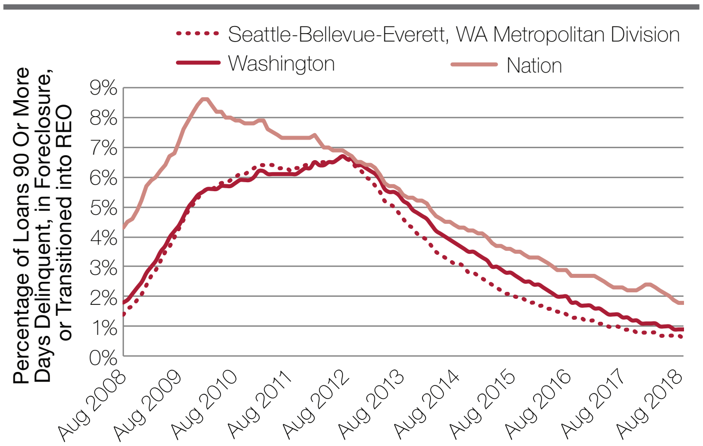
The rate of price growth in the Seattle area for existing homes slowed recently, while new homes sales price growth accelerated.

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

New and existing home sales in the Seattle area declined during the past 12 months.

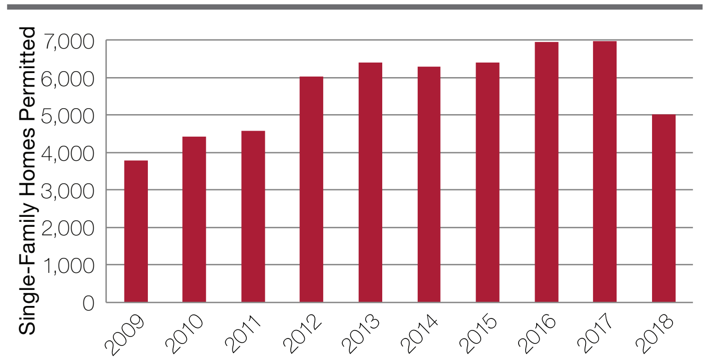
Note: Includes single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc., with adjustments by analyst

The proportion of seriously delinquent loans and REO properties in the Seattle area has been below the state and nationwide rates since October 2012.



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

Single-family permitting activity in the Seattle area has generally increased since 2009, when permitting reached a 25-year low.



Note: Includes preliminary data from January 2018 through September 2018.
Source: U.S. Census Bureau, Building Permits Survey

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the housing market collapse. From 2012 through 2017, an average of only 6,500 homes were permitted annually, despite new home price growth averaging 12 percent a year during the period.

- Since 2010, approximately 63 percent of new home construction has occurred in King County; the remainder has been in Snohomish County, with little variation among the years.
- Single-family home developments are limited in the city of Seattle because most of the city is built out, and land that is available is used for higher density construction. The larger communities that are currently under construction are concentrated near the Microsoft campus in Redmond and in the southern and northern ends of the metropolitan area, which have more developable land.
- In Redmond, Ray Meadows has nine move-in ready homes starting at $1.1 million for a four-bedroom, 2,790-square-foot home. In Lake Stevens, 10 miles east of Everett in Snohomish County, the Daysala subdivision has six move-in ready homes for sale starting at $632,000 for a four-bedroom, 2,700-square-foot home, with nine more under construction.

Apartment Market Conditions

Apartment market conditions in the Seattle metropolitan area have tightened considerably since 2010, a result of strong net in-migration and a low inventory of affordable for-sale housing. Demographic changes have also contributed to the strong demand for apartments in the metropolitan area, with millennials postponing homeownership longer than did previous age cohorts. The apartment market is currently slightly tight, with an estimated 4.1-percent vacancy rate during the third quarter of 2018, down from 4.6 percent a year ago, despite the addition of more than 7,500 apartments in the past year (RealPage, Inc.).

During the third quarter of 2018—

- Average rents grew 3 percent to $1,790, compared with the third quarter of 2017—significantly less than the average annual growth of 8 percent from 2013 through 2017 because of several years of elevated apartment construction.
- Of the 16 RealPage, Inc.-defined market areas in the metropolitan area, the four that constitute the city of Seattle recorded stable or declining rents, whereas the remaining market areas reported rent growth. Since the third quarter of 2013, almost 60 percent of the more than 54,000 apartments built in the metropolitan area were in the city of Seattle.
- Rent growth was strongest in the Kent/Auburn market area in the southern portion of the metropolitan area, at 6 percent, followed by 5-percent increases in the Everett and SeaTac/Burien market areas. The West Bellevue/Mercer Island market area, with the highest asking rent in the metropolitan area at $2,393, also reported a 5-percent increase.
- The SLU/Queen Anne market area had the second highest asking rent despite decreasing 4 percent to $2,169. Since the third quarter of 2013, almost 15 percent of all new construction has occurred in the SLU/Queen Anne market area, as developers capitalize on strong hiring in the high-tech occupations concentrated in the market area. Average asking rent in the Capitol Hill/Central District market area declined 3 percent to $2,077 and was unchanged in the Downtown Seattle and University District/Ballard market areas, at $2,449 and $2,052, respectively.
- Apartment vacancy rates declined or remained stable in 13 of the 16 market areas compared with rates during the third quarter of 2017. The SeaTac/Burien market area had the lowest rate at 2.5 percent, down from 3.5 percent a year ago, and the highest rate was in the Downtown Seattle market area at 4.8 percent, unchanged from a year ago.

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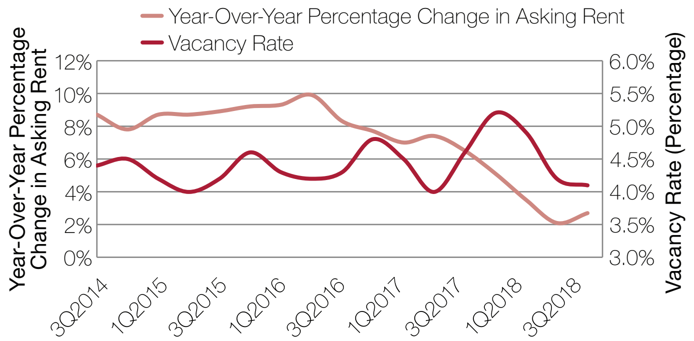
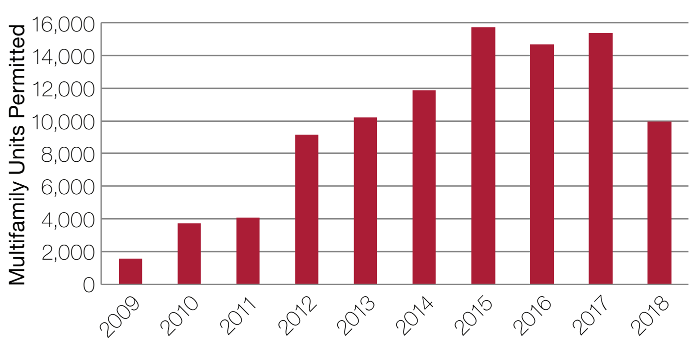
Rent growth in the Seattle area has slowed since peaking in 2016 because of elevated levels of apartment construction.



Source: RealPage, Inc.

The level of multifamily permitting in 2015 was surpassed only once during the previous 30 years, in 1988.



Note: Includes preliminary data from January 2018 through September 2018.
Source: U.S. Census Bureau, Building Permits Survey

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Apartment construction from 2013 through 2017, as measured by the number of multifamily units permitted, was the highest level of permitting during any 5-year period since at least 1980, averaging 13,550 units annually. Strong job growth and a limited supply of for-sale housing continues to encourage multifamily development in the metropolitan area, and during the 12 months ending September 2018, 15,200 units were permitted, up 3 percent from a year ago (preliminary data). That growth in construction activity reflects some moderation, however, when compared with a 15-percent increase in permitting activity from the 12 months ending September 2016 to the 12 months ending September 2017.

- An average of 8,425 units were permitted annually from 2004 through 2008, as the economy expanded following the dot.com recession. From 2009 through 2011, construction declined to an average of 3,125 units annually, a result of the Great Recession.
- Currently, approximately 16,000 apartments are under construction in the metropolitan area; 20 percent of them, or 3,150 units, are in the SLU/Queen Anne market area. The Redmond market area, home to Microsoft Corporation, constituted 18 percent of units under construction. Market areas encompassing the southern portion of the metropolitan area, which reported the lowest vacancy rates during the current quarter, accounted for only 2 percent.
- Year-to-date, seven apartment developments have opened in the SLU/Queen Anne market area, with an average size of 200 units. The largest project, Cascade, opened 477 units in January 2018, with rents starting at $1,795 for studios and one-bedroom units. Two-bedroom unit rents were unavailable.
- The Downtown Seattle and Capitol Hill/Central District market areas have had 1,400 and 600 completions, respectively, since the beginning of 2018, with average development sizes of 275 and 90 units, respectively. The 435-unit Stratus, a 41-story luxury apartment tower in the Downtown Seattle market area adjacent to Amazon's Day 1 Tower, opened in September with rents starting at $2,368 and $3,924 for one- and two-bedroom apartments, respectively. The 195-unit Batik opened in April in the Capitol Hill/Central District market area, consisting of all one-bedroom units, with rent starting at $2,075 a month.