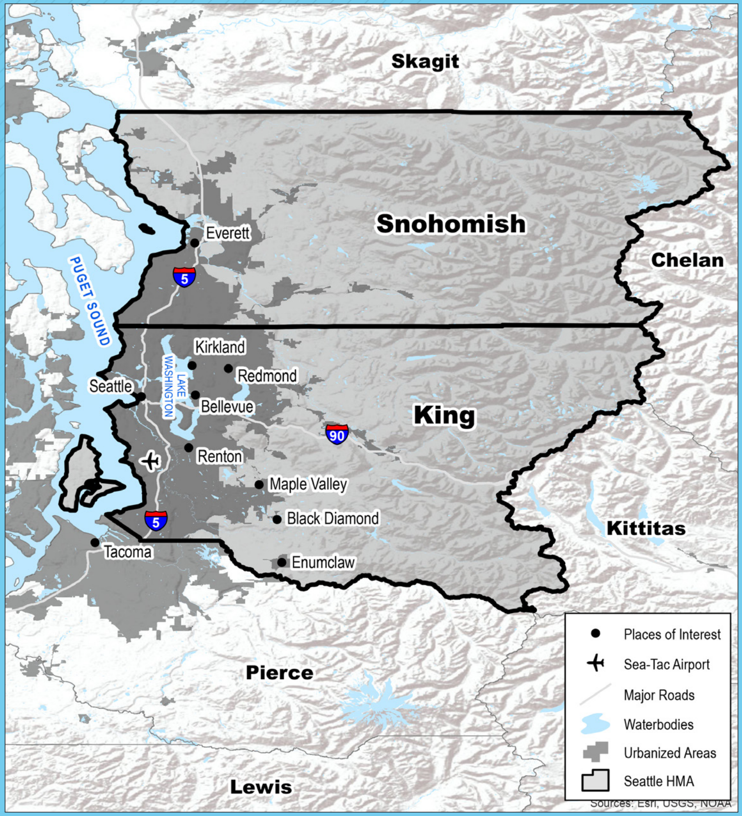
The analysis presented in this report includes data from the early stages of the COVID-19 outbreak in the United States. The unprecedentedly large and rapid changes in many data series, and the similarly unprecedentedly large policy responses, make analysis of, and longer run predictions for, the economy and housing markets exceptionally difficult and uncertain. HUD will continue to monitor market conditions in the HMA and provide an updated report/addendum in the future.

COMPREHENSIVE HOUSING MARKET ANALYSIS

Seattle-Bellevue-Everett, Washington

U.S. Department of Housing and Urban Development,
Office of Policy Development and Research

As of July 1, 2020



Executive Summary

Housing Market Area Description

Situated along the Puget Sound in northwestern Washington State, the Seattle-Bellevue-Everett Housing Market Area (hereafter, the Seattle HMA) is conterminous with the metropolitan division of the same name and includes King and Snohomish Counties. The HMA is recognized as a center for high-tech industries, including aeronautical design and manufacturing, computer systems and software design, data processing and hosting, and logistics; the presence of globally renowned companies includes The Boeing Company, Microsoft Corporation, and Amazon.com, Inc.

The population of the HMA is estimated at 3.10 million as of July 1, 2020.

Tools and Resources

Find interim updates for this metropolitan area, and select geographies nationally, at PD&R's Market-at-a-Glance tool.
Additional data for the HMA can be found in this report's supplemental tables.
For information on HUD-supported activity in this area, see the Community Assessment Reporting Tool.

Market Qualifiers

Economy

Weak. After 9 years of consecutive job gains, nonfarm payrolls in the HMA declined by 20,600 jobs, or 1.2, percent during the 12 months ending June 2020.

Economic conditions weakened sharply during the 12 months ending June 2020 because of efforts to contain the spread of COVID-19. Approximately 36 percent of the jobs lost in March and April 2020 were recovered by June 2020. The unemployment rate averaged 5.6 percent during the 12 months ending June 2020, up from 3.1 percent a year prior. Job growth is expected to return during the forecast period at an average annual rate of 2.1 percent, with the plurality of job growth occurring in high-tech industries and the payroll sectors that support them.

Sales Market

Very Tight. The sales vacancy rate in the HMA is estimated at 0.8 percent, down from 2.6 percent in April 2010.

The home sales market in the HMA is very tight, despite declining home sales since 2018, largely because of a shortage of for-sale inventory since 2014. During the 12 months ending June 2020, the average new and existing home sales price increased 2 percent to $666,100, and home sales totaled 50,550, down 4 percent from a year ago (Zonda). During the 3-year forecast period, demand is expected for 27,000 sales units and the 3,575 units currently under construction will meet a portion of that demand.

Rental Market

Balanced. The rental market vacancy rate is estimated at 5.5 percent compared with 7.1 percent in April 2010.

The apartment market in the HMA is also balanced, with an estimated vacancy rate of 4.6 percent during the second quarter of 2020, compared with 3.9 percent a year ago, and the average rent increased 3 percent to $1,904 (RealPage, Inc.). More than 27 percent of properties offered concessions in the second quarter of 2020, up from less than 10 percent a year ago. The impacts of the countermeasures used to slow the spread of COVID-19 were mostly mitigated during the period because of eviction protection policies at the state and federal levels. During the forecast period, demand is expected for 26,450 rental units and the 18,350 units currently under construction will meet all demand in the first and second years.

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3-Year Housing Demand Forecast

		Sales Units	Rental Units
Seattle HMA	Total Demand	27,000	26,450
	Under Construction	3,575	18,350

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of July 1, 2020. The forecast period is July 1, 2020, to July 1, 2023.
Source: Estimates by the analyst

Economic Conditions

Largest Sectors: Professional and Business Services and Wholesale and Retail Trade

> More than one-half of professional and business services sector jobs in the HMA are in the professional, scientific, or technical services industry, which includes many high-tech jobs.

Primary Local Economic Factors—High-Tech Jobs

Amazon.com, Inc. (hereafter, Amazon), with its global headquarters in the city of Seattle, has been a major catalyst for economic growth throughout the Seattle HMA during the past 10 years, expanding from 5,000 employees in 2010 to a current estimate of approximately 55,000 employees. Until the past couple of years, growth at Amazon was concentrated in the city of Seattle, most prominently in the South Lake Union (SLU) neighborhood of downtown Seattle, occupying an estimated 20 percent of all office space downtown. Recently, however, Amazon has pulled out of several planned leases in Seattle and is focused on expanding in the city of Bellevue. Bellevue is approximately 10 miles east of Seattle across Lake Washington and part of the larger geography locally known as the Eastside, which includes all cities east of Lake Washington. Since 2019, Amazon has leased more than 3 million square feet of office space in Bellevue (downtownbellevue.com), all of which will be within walking distance to a new light rail station and transit hub that will connect the cities of Bellevue and Seattle. The station is expected to be completed in 2023 and terminate in the city of Redmond, home to the 500-acre Microsoft Corporation headquarters campus.

The Boeing Company (hereafter, Boeing) is the largest employer in the HMA (Table 1). The airline industry has been particularly hard hit during the pandemic because nonessential travel has been discouraged to slow the spread of COVID-19. With aircraft deliveries down 71 percent from a year ago, Boeing recorded a $2.4 billion loss in the second quarter of 2020 (*The Seattle Times*). Compounding those struggles, all 737 Max jets have remained grounded since March 2019 following two fatal crashes. Approximately 36,000 workers are employed at the Boeing facility in the city of Everett in Snohomish County; the facility includes the largest manufacturing building in the world by volume, producing the 747, 767, 777, and 787 airplanes. An estimated 12,000 people work at the Boeing production site in the city of Renton, where the 737 Max airplane is assembled (The Boeing Company).

Among the 100 largest metropolitan areas in the country, the Seattle metropolitan statistical area (which includes Pierce County to the south) ranked as number one in 2020 for STEM (science, engineering,

Table 1. Major Employers in the Seattle HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
The Boeing Company	Manufacturing	69,830
Amazon.com, Inc.	Wholesale & Retail Trade	52,000
Microsoft Corporation	Professional & Business Services	51,362
University of Washington	Government	46,824
Providence Health & Services	Education & Health Services	17,553
Walmart Inc.	Wholesale & Retail Trade	16,000
Fred Meyer Stores, Inc.	Wholesale & Retail Trade	15,500
Starbucks Corporation	Leisure & Hospitality	11,239
Swedish Health Services	Education & Health Services	10,758
Costco Wholesale Corporation	Wholesale & Retail Trade	9,264

Note: Excludes local school districts.
Source: Moody's Analytics

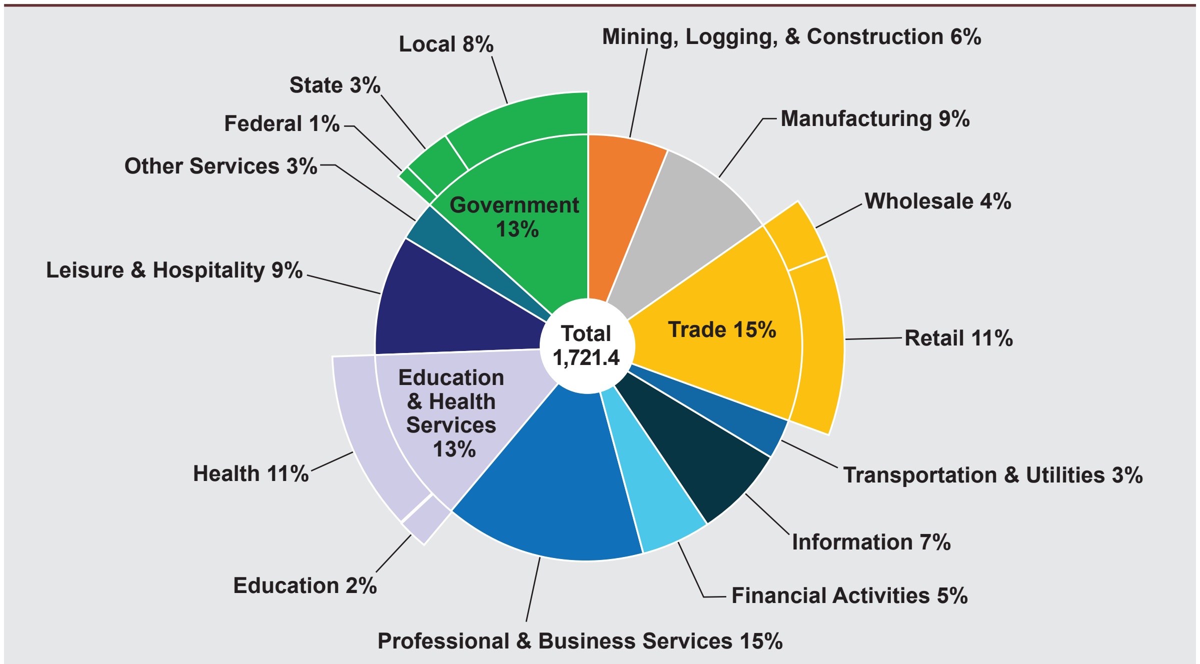
technology, and math) jobs (WalletHub). The high concentration of intellectual capital in the HMA, and relatively low cost of living compared with the Silicon Valley, has attracted other high-tech firms to expand and relocate to the HMA. Despite the ongoing pandemic, both Facebook, Inc. and Alphabet Inc. (parent company of Google) have intentions to expand their footprints in the HMA, especially on the Eastside in the cities of Bellevue, Kirkland, and Redmond. Growth in high-tech industries supports job growth in several payroll sectors, including information, manufacturing, transportation and utilities, professional and business services, and wholesale and retail trade. The latter two sectors are the largest sectors in the economy (Figure 1).

Current Nonfarm Payroll Conditions—Pandemic Impacts

The first case of COVID-19 in the United States was reported in the Seattle HMA on January 21, 2020. Countermeasures taken in mid-March to slow the spread of the virus, including enforcing social distancing, encouraging nonessential businesses to close, and discouraging nonessential travel, caused economic activity in the HMA to slow dramatically. Payroll sectors most affected by the countermeasures are those that rely heavily on in-person interactions that are not easily adapted to social distancing mandates. Most job losses occurred in March and April 2020, and approximately 36 percent were recovered by June 2020. Most nonessential businesses have reopened—many at reduced hours and capacity to continue meeting public health guidelines—since the stay-at-home order in Washington was lifted on May 31, 2020.

A second quarter comparison of the most recent payroll data to the same period a year ago illustrates the sharp impact the countermeasures used to slow the spread of the virus—implemented in mid-March—have had on the economy. During the second quarter of 2020, payrolls in the HMA declined by 210,200, or 11.9 percent, compared with the level of jobs during the second quarter of 2019 (Figure 2). For context, payrolls increased by 41,300, or 2.4 percent, during the second quarter of 2019 compared with the second quarter of 2018. An estimated 43 percent of total jobs lost were in the leisure and hospitality sector, which declined by 90,100 jobs, or 51 percent. The mining, logging, and construction sector fell by 17,000 jobs, or 16.2 percent, partially because nonessential

Figure 1. Share of Nonfarm Payroll Jobs in the Seattle HMA, by Sector



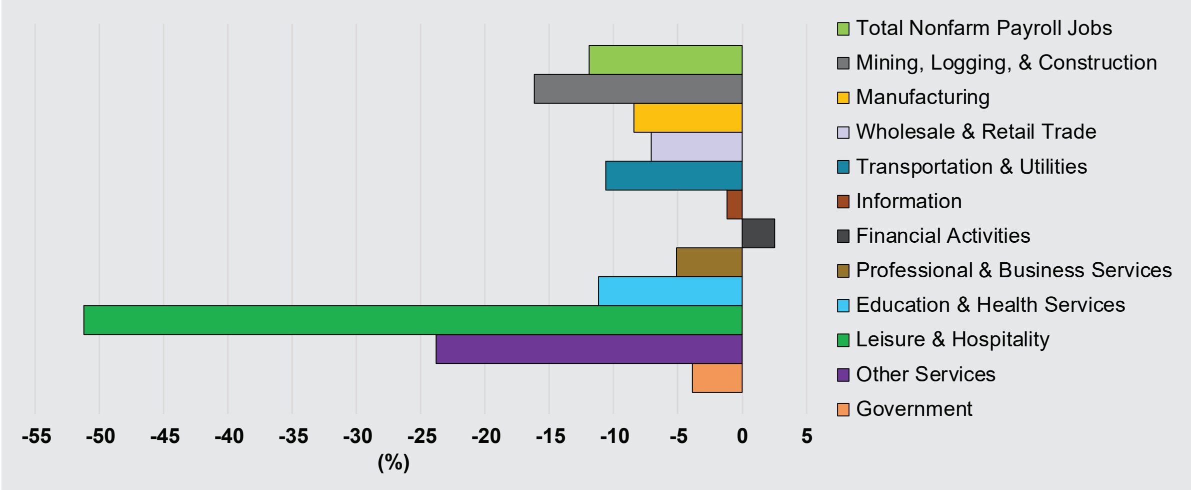
Notes: Total nonfarm payroll is in thousands. Percentages may not add to 100 percent due to rounding. Based on 12-month averages through June 2020.
Source: U.S. Bureau of Labor Statistics

construction projects were put on hold in March and April 2020. Outpatient medical practices were limited to emergency response only, leading, in part, to a decline of 25,400 jobs, or 11.2 percent, in the education and health services sector. Sectors that lost the least amount of jobs, including the information and professional and business services sectors, have a high portion of jobs that easily transitioned to a telework model. The financial services sector was the only sector to add jobs during the period, increasing by 500 jobs, or 2.5 percent.

Current Nonfarm Payroll Trends—12 Months Ending June 2020

Although economic conditions weakened considerably in the past year, the decline is not as sharp when comparing the most recent 12-month average payroll data to the same period a year ago, because most of the losses occurred in March and April 2020 and job growth was strong prior to the pandemic. During the 12 months ending June 2020, payrolls totaled 1.72 million, reflecting a decrease of 20,600, or 1.2 percent (Table 2), compared with the same 12-month period a year ago. For context, during the 12 months ending June 2019, payrolls increased by 37,700, or 2.2 percent. Before the pandemic, economic conditions in the HMA were very strong with 9 years of consecutive job growth, although the rate of job growth

Figure 2. Sector Declines in the Seattle HMA, 2nd Quarter of 2019 to 2nd Quarter of 2020



Note: Second quarter payrolls are the average of the 3 months ending June each year.
Source: U.S. Bureau of Labor Statistics

Table 2. 12-Month Average Nonfarm Payroll Jobs (1,000s) in the Seattle HMA, by Sector

	12 Months Ending June 2019	12 Months Ending June 2020	Absolute Change	Percentage Change
Total Nonfarm Payroll Jobs	**1,742.0**	**1,721.4**	**-20.6**	**-1.2**
Goods-Producing Sectors	268.9	265.6	-3.3	-1.2
Mining, Logging, & Construction	103.9	102.1	-1.8	-1.7
Manufacturing	165.0	163.5	-1.5	-0.9
Service-Providing Sectors	1,473.1	1,455.8	-17.3	-1.2
Wholesale & Retail Trade	266.4	266.6	0.2	0.1
Transportation & Utilities	59.2	58.2	-1.0	-1.7
Information	121.2	128.2	7.0	5.8
Financial Activities	87.3	87.8	0.5	0.6
Professional & Business Services	264.4	266.4	2.0	0.8
Education & Health Services	223.9	220.7	-3.2	-1.4
Leisure & Hospitality	172.8	152.8	-20.0	-11.6
Other Services	61.8	59.8	-2.0	-3.2
Government	216.1	215.3	-0.8	-0.4

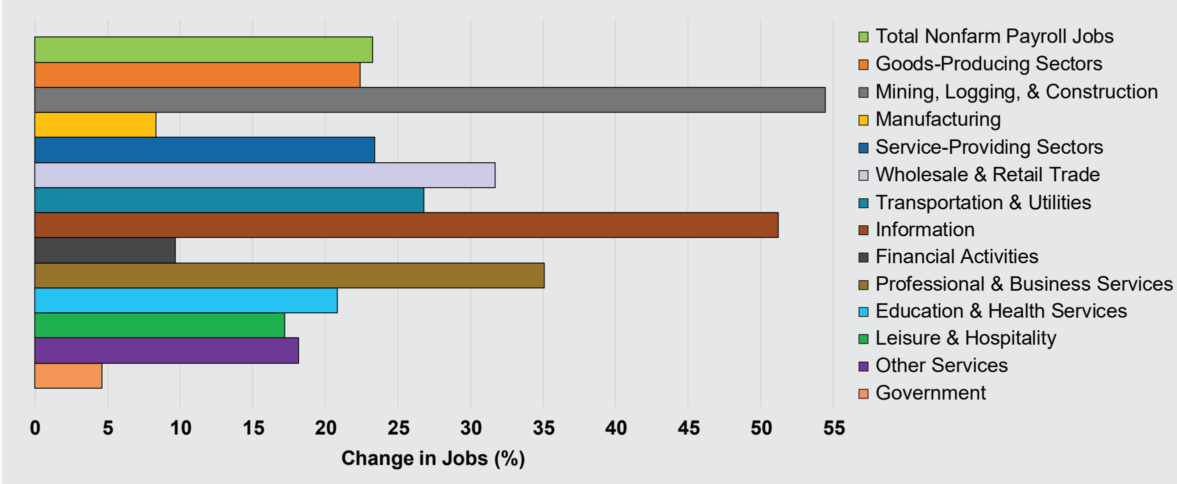
Notes: Based on 12-month averages through June 2019 and June 2020. Numbers may not add to totals due to rounding. Data are in thousands.
Source: U.S. Bureau of Labor Statistics

moderated during the past 2 years. Nonfarm payroll growth averaged 2.7 percent annually from 2011 through 2017 and slowed to an average annual rate of 2.3 percent during 2018 and 2019.

The ability to adapt to the new virtual working environment facilitated continued job growth in the information sector and the professional and business services sector, partially offsetting heavy losses in the leisure and hospitality sector. Respectively, the information and professional and business services sectors have been the second and third fastest growing sectors in the HMA since economic recovery began in 2011 (Figure 3). Facebook, Inc. has added 2,000 jobs in the HMA since 2018, many of which were added after the company occupied new offices in the SLU neighborhood in March 2019. Additionally, Google added approximately 1,000 jobs in 2019 and moved into a newly constructed 607,000-square-foot campus in the SLU neighborhood that spans a full city block and includes 149 apartments. Both companies are expanding on the Eastside, which will contribute to ongoing job gains in both sectors during the next several years.

Payrolls in the leisure and hospitality sector fell by 20,000, or 11.6 percent, during the 12 months ending June 2020, despite adding 14,200 jobs in June 2020 as the stay-at-home order was lifted. A report by Kidder Mathews analyzing the hotel market in the Seattle metropolitan statistical area estimates a 42-percent reduction in demand, an

Figure 3. Sector Growth in the Seattle HMA, 2011 to Current



Note: The current date is July 1, 2020.
Source: U.S. Bureau of Labor Statistics

18-percent decline in room prices, and a 52-percent drop in room revenue during the first half of 2020 compared with the same period in 2019. On a national level, 40 percent of hotel employees are still not working (The American Hotel and Lodging Association).

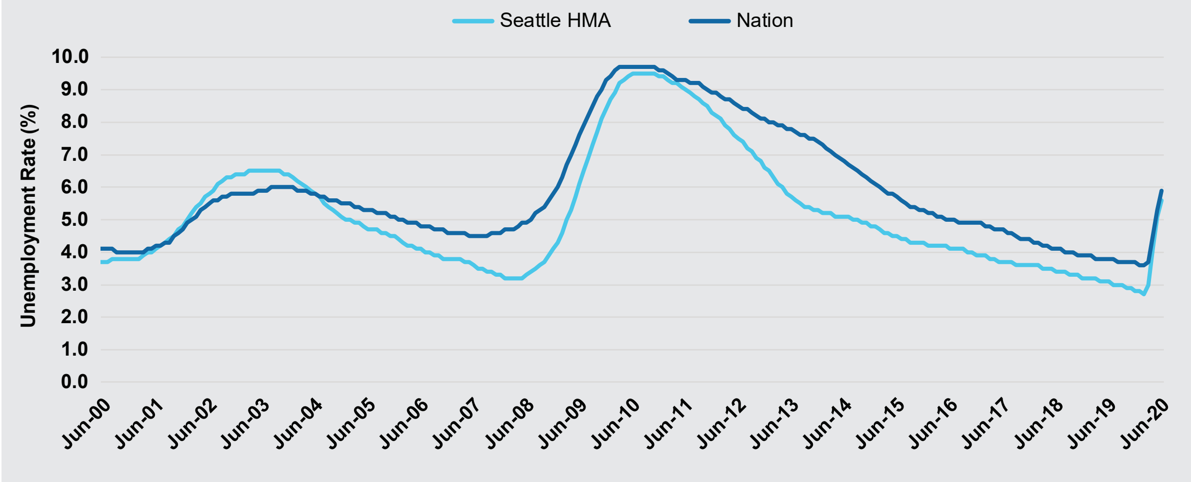
Manufacturing sector payrolls, which generally track employment trends at Boeing, declined by 1,500 jobs, or 0.9 percent, during the 12 months ending June 2020. By comparison, payrolls in the sector increased by 4,600, or 2.9 percent, during the 12 months ending June 2019. Most of the job gains during the latter period occurred prior to the complications that arose from the fatal 737 Max crashes, with job losses in the last half of the period continuing into the current period. The pandemic and public health crisis have resulted in a severe drop in commercial air travel, which will likely lead to continued job losses in the sector during the next several years, depending on how quickly a vaccine is developed and made readily available to the public.

Current Conditions—Unemployment

The unemployment rate in the HMA, which peaked at 9.4 percent in 2010 as a result of the Great Recession, averaged 5.6 percent during the 12 months ending June 2020, up from 3.1 percent a year prior

(Figure 4). By comparison, the national jobless rate peaked at 9.7 percent in 2009, and during the 12 months ending June 2020, the rate was 5.6 percent, up from 3.1 percent a year prior. The increase in the rate during the past year is the result of job declines due to efforts employed to contain the spread of COVID-19. The impact is evident when comparing the unemployment rate during the second quarter of 2020 to the same period a year ago when the rate increased from 2.7 to 13.3 percent. The unemployment rate is expected to decline from the current rate but remain elevated during the forecast as the economy recovers from the pandemic-related economic disruption.

Figure 4. 12-Month Average Unemployment Rate in the Seattle HMA and the Nation

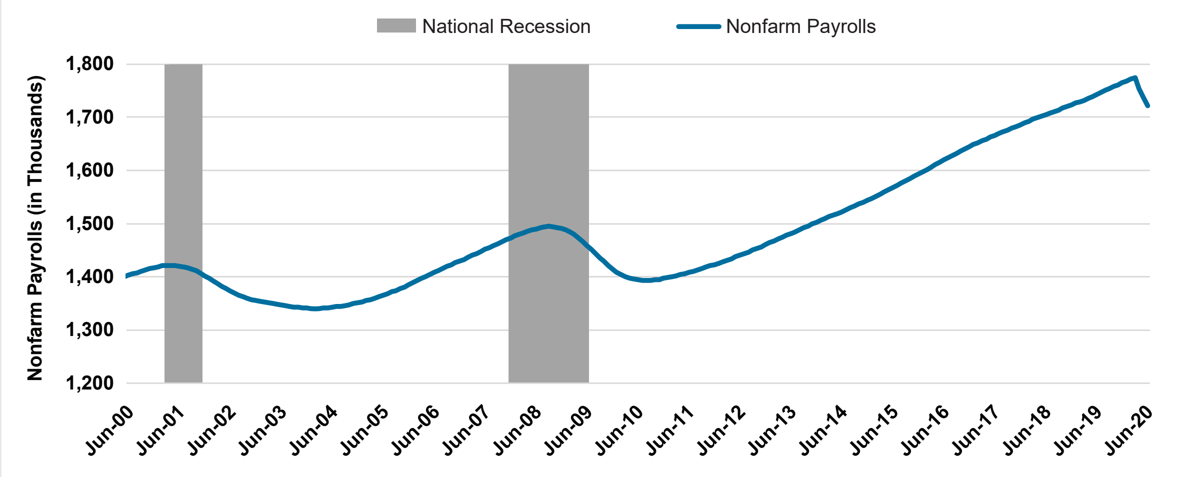


Note: Based on the 12-month moving average.
Source: U.S. Bureau of Labor Statistics

Historic Trends: 2000 through 2008

Economic growth at the beginning of the decade was suppressed because of the dot-com bubble and subsequent recession (Figure 5) that caused payrolls to decline an average of 1.8 percent, annually, from 2001 through 2003. Job gains in the government and education and health services sectors during the period were more than offset by losses in the manufacturing and professional and business services sectors, as these sectors have a large portion of high-tech jobs that were most impacted during the dot-com recession. Economic growth returned in 2004,

Figure 5. 12-Month Average Nonfarm Payrolls in the Seattle HMA



Note: 12-month moving average.
Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research

and, payrolls increased through 2007 at an average annual rate of 2.4 percent. Job growth was broad-based across all payroll sectors, but payrolls in the manufacturing sector and the mining, logging, and construction sector were responsible for nearly one-third of job gains; those job gains happened largely in response to an influx of new residents to the HMA and increased hiring at Boeing and other aerospace firms. Although payrolls continued to increase in 2008, growth slowed to 1.2 percent because of job losses that started in the mining, logging, and construction sector and the financial activities sector, signaling a turning point in the economy.

Historic Trends: 2009 through 2010

The localized economic contraction resulting from the Great Recession lasted from 2009 through 2010. In 2009, nonfarm payrolls fell by 76,400, or 5.1 percent, followed by a decline of 18,000 jobs, or 1.3 percent, in 2010, resulting in an average annual decline of 3.2 percent. During the 2-year period, the only sectors to continue adding jobs were the government and the education and health services sectors. Approximately 15 percent of total jobs lost were in the mining, logging, and construction sector as demand for homes plummeted. Manufacturing sector payrolls fell more than 5.0 percent because of layoffs from Boeing and its suppliers. The professional and business services sector accounted for 18 percent of jobs lost during the period, partly because the recession led to many businesses reducing administrative staff. The information sector reported the smallest payroll declines, down by an average of 300 jobs each year.

Historic Trends: 2011 through 2019

Economic recovery began in 2011, with payrolls increasing 1.9 percent despite continued job losses in the mining, logging, and construction sector and the financial activities sector. The number of jobs lost were recovered by mid-2013, and the economic recovery transitioned to expansion; from 2015 through 2017, payroll growth averaged 47,200 jobs, or 3.0 percent, annually. Nearly 50 percent of the job gains were concentrated in the wholesale and retail trade, professional and business services, and information sectors. Strong hiring at Amazon had a direct effect on job growth in nearly all sectors of the economy and indirectly built a wealth of human capital that attracted high-tech firms to the HMA from across the globe. From 2018 through 2019, economic growth continued but at a reduced rate; job growth averaged 39,600 jobs, or 2.3 percent, annually.

Other service-providing sectors benefitted from the economic expansion, especially because high-tech occupations are among the highest paid; the median wage for STEM occupations in the United States in 2019 was $86,980 compared with $38,160 for non-STEM occupations (Bureau of Labor Statistics). The education and health services and the leisure and hospitality sectors combined to account for 23 percent of payroll growth from 2012 through 2019. During the same period, the strong job market attracted an influx of people to the area, which led to a boom in apartment construction throughout the HMA. Payrolls in the mining, logging, and construction sector increased by an average of 5,100 jobs or 6.4 percent a year during that period.

Employment Forecast

During the forecast period, nonfarm payrolls are expected to increase at an average annual rate of 2.1 percent, with the plurality of job growth occurring in high-tech industries and the payroll sectors that support them. Job growth is expected to be strongest in the first year of the forecast, although most of the growth will be the recovery of some of the jobs lost during the early months of the pandemic. The second and third years of the forecast call for moderate job growth, ending the forecast with approximately 75 percent of the jobs recovered.

Limited commercial travel and ongoing public health concerns are expected to continue plaguing the hotel industry and recovery in the leisure and hospitality sector is expected to be the slowest of all sectors. Furthermore, many companies in the HMA with large campuses in downtown Seattle and elsewhere will allow telework through the summer and fall of 2021, which may jeopardize the viability of businesses in the vicinity that rely on those daily workers for income. Manufacturing sector payroll declines are likely to continue during the forecast because of the pandemic-related effects and the ongoing 737 Max struggles at Boeing. In May 2020, the company announced a nationwide, 10-percent workforce reduction during the next several months; they estimate 12,600 jobs will be lost in Washington State by the end of 2020 (most of which are in the HMA). Furthermore, after the as-of date of this report, Boeing announced it will move the production of the 787 Dreamliner from the city of Everett in Snohomish County to South Carolina in 2021, which will result in thousands more jobs lost in the HMA.

High-tech job growth is anticipated throughout the forecast, mostly on the Eastside where some of the larger high-tech firms have planned expansions, despite the ongoing pandemic. Last year, Amazon declared its plans to move its worldwide operations unit from Seattle to Bellevue. More recently, Amazon announced intentions to hire 10,000 additional workers in Bellevue and is projecting a total of 25,000 jobs in the city during the next few years (Geekwire.com). Facebook, Inc. is set to occupy 400,000 square feet of office space in a new, expansive transit-oriented mixed-use development in Bellevue: the Spring District. Facebook, Inc. also has a growing campus in Redmond for their Oculus and Facebook Reality Labs divisions. Google has leased more than 450,000 square feet of office space in the new Kirkland Urban mixed-used development, which is currently under construction and is expected to be finished in the next 2 years.

Population and Households

Current Population: 3.10 million

International migration to the HMA accounted for all net in-migration from July 2017 to July 2019.

As of July 1, 2020, the population of the Seattle HMA is estimated at approximately 3.10 million (Table 3). Since April 2010, population growth has averaged 44,700 people, or 1.6 percent, annually, with net in-migration accounting for 28,100 people a year, approximately 59 percent of the increase.

Population growth trends in the HMA generally mirror overall economic conditions with a 1- to 2-year lag. Despite weakening economic conditions during the period, the population of the HMA increased by 26,750, or 1.1 percent, from 2000 to 2001 (intercensal population estimates from the Office of Financial Management for the State of Washington), as momentum from the dot-com bubble continued to attract job-seekers to the HMA. Population growth slowed to an average annual increase of 11,300, or 0.5 percent, from 2001 to 2003, a year after the dot-com bubble burst. During this period, net natural change accounted for all population growth, while net out-migration averaged 3,500 people a year. Economic conditions improved from 2003 to 2005 and net in-migration returned, averaging 9,800 people a year, contributing to population growth of 1.1 percent annually. As job growth quickened, so did population growth, averaging 42,050, or 1.7 percent, annually, from 2005 to 2009, before the onset of the Great Recession; net in-migration averaged 24,800 people annually and was responsible for 59 percent of the increase. From 2009 to 2013, population growth slowed sharply, averaging 25,600 people, or 1.0 percent, annually, in response to the housing market crisis and financial collapse that resulted in the Great Recession. This period includes one year of net out-migration of 5,250 from 2010 to 2011, and subdued net in-migration averaging 13,300 in the other years (Figure 6).

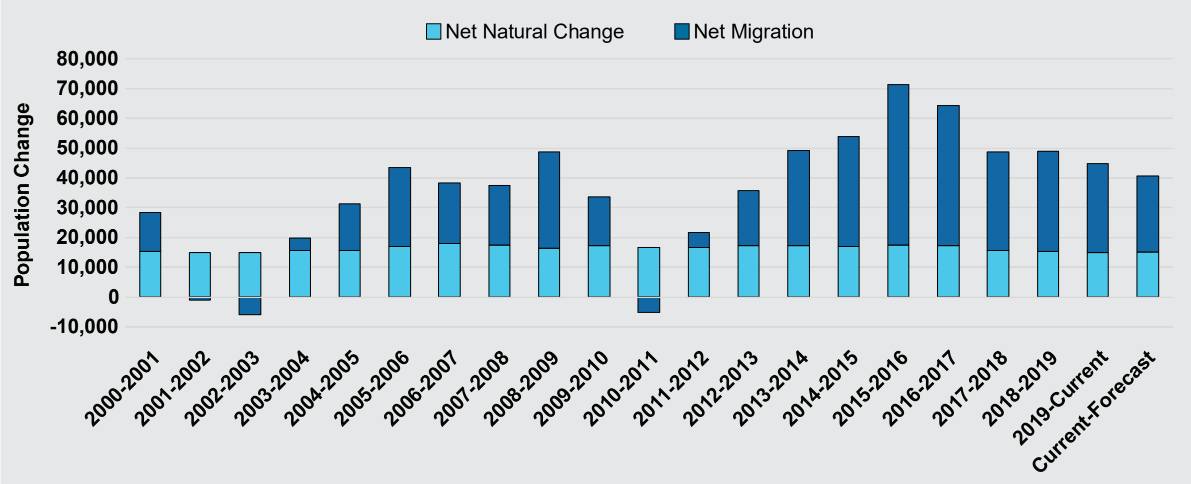
As the economy transitioned from recovery to expansion, population growth accelerated. From 2013 to 2017, the population of the HMA increased by an average of 59,800, or 2.1 percent, a year and net in-migration averaged 42,550 a year, contributing 71 percent of the increase. The rapid expansion of Amazon in the HMA since 2010 has contributed to the strong job growth in the HMA. From 2017 to the current date, population growth averaged 47,600 people, or 1.6 percent, annually. Of the increase in population, 68 percent was from net in-migration, which slowed to an average of 32,250 people a year; population growth slowed in response to slower economic growth. Also contributing to the deceleration in population growth is an emerging trend in migration; for the past 2 years, all net migration to the HMA was international in origin.

Table 3. Seattle HMA Population and Household Quick Facts

		2010	Current	Forecast
Population Quick Facts	Population	2,644,584	3,103,000	3,225,000
	Average Annual Change	30,150	44,700	40,750
	Percentage Change	1.2	1.6	1.3
		2010	**Current**	**Forecast**
Household Quick Facts	Households	1,057,557	1,237,000	1,284,000
	Average Annual Change	12,200	17,500	15,700
	Percentage Change	1.2	1.5	1.3

Notes: Average annual changes and percentage changes are based on averages from 2000 to 2010, 2010 to current, and current to forecast. The forecast period is from the current date (July 1, 2020) to July 1, 2023.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by the analyst

Figure 6. Components of Population Change in the Seattle HMA, 2000 Through the Forecast



Notes: Net natural change and net migration totals are average annual totals over the time period. The forecast period is from the current date (July 1, 2020), to July 1, 2023.
Sources: Washington State Office of Financial Management; current to forecast—estimates by the analyst

Migration Trends

The fast expansion of high-tech firms and startup companies in the HMA has enticed jobseekers on a global scale and, for the second consecutive year, international in-migration accounted for all net in-migration to the HMA (Census Bureau estimates). From July 2017 to July 2019, international net in-migration of 44,750 people offset a domestic net outflow of 2,600. By comparison, from April 2010 to July 2017, 42 percent of net in-migration was domestic (Census Bureau decennial census counts and population estimates).

The largest share of domestic movers out of the HMA relocated to Pierce County and may be explained by the cost of living in the HMA relative to Pierce County, which is directly south of King County and within commuting distance to the city of Seattle. In 2010, the median sales price of a home in King County was 52 percent higher than in Pierce County and the disparity increased to 65 percent in 2017 before price growth started to moderate. In 2019, the median sales price of new and existing homes in King County was $586,000, or 52 percent greater than in Pierce County (Zonda). A net flow of 7,600 people migrated from the HMA to Pierce County in 2018, up from 2,500 in 2017 (US Census County-to-County Migration Flows).

Age Cohort Trends

The largest age cohort in the HMA in 2019 was residents 18 to 39 years of age, constituting approximately 34 percent of the total population (Figure 7). That cohort surpassed the 40-to-64 cohort, which was the largest in 2015 and accounted for 32 percent of the HMA population in 2019.

Nationally, the millennial cohort (ages 23 to 38 in 2019) surpassed the baby boomers (ages 55 to 73 in 2019) as the largest generation in the nation in 2019, reaching 72.1 million people (Pew Research Center), and the trend is similar for the HMA. From 2010 to 2019, the millennial cohort increased from 23 to 26 percent of the total population of the HMA (2010–2019 American Community Survey [ACS], 1-year estimates). The HMA ranked as the number one destination for millennials in the country in a 2020 report by SmartAsset (using 2018 ACS data in the analysis), which estimates that the HMA netted more than 11,250 new millennials from 2017 to 2018; that number is 5,000 more than the Denver, CO metropolitan area, the destination ranked second for millennials.

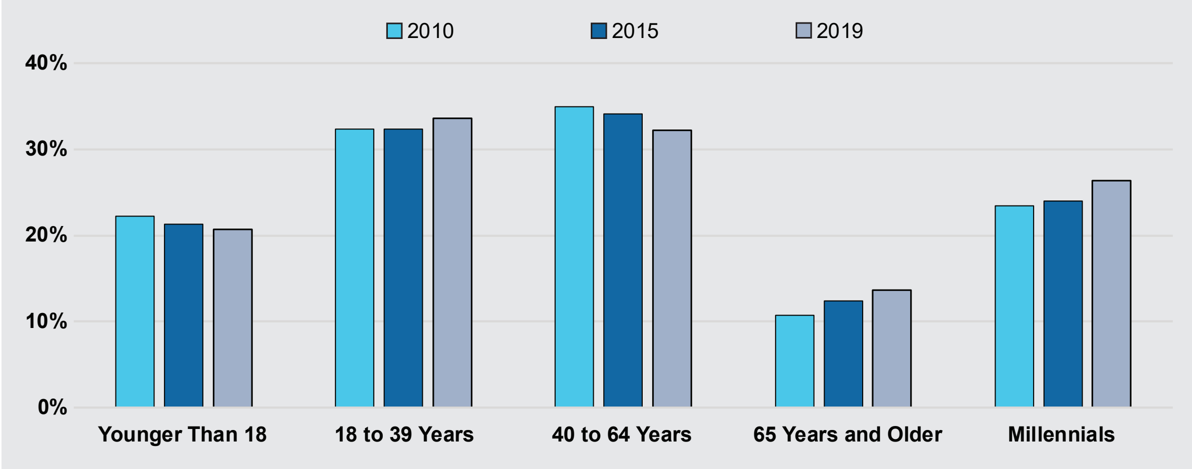
Residents 65 years of age and older represent the fastest growing age cohort in the HMA, increasing at an average annual rate of 4.0 percent from 2015 to 2019. This age cohort made up almost 14 percent of the total population in 2019, which is up from 12 and 11 percent in 2015 and 2010, respectively. Growth in this age cohort will support job growth in the healthcare industry and will also temper net natural change during the forecast period and beyond.

Household Trends

An estimated 1.24 million households reside in the Seattle HMA, representing an average annual increase of 17,500 households, or 1.5 percent, since 2010, compared with an average annual increase of 12,200 households, or 1.2 percent, from 2000 to 2010. An estimated 58.7 percent of households, or 725,700 households, are currently homeowners, compared with a homeownership rate of 61.1 percent in 2010 (Figure 8). From 2010 to the current date, the number of owner households increased at an average annual rate of 1.1 percent, or 7,725 households, the same average annual rate of growth from 2000 to 2010. Renter households increased at an average annual rate of 2.1 percent, or 9,750 households, from 2010 to the current date, compared with an average annual increase of 1.4 percent, or 5,325 households, from 2000 to 2010.

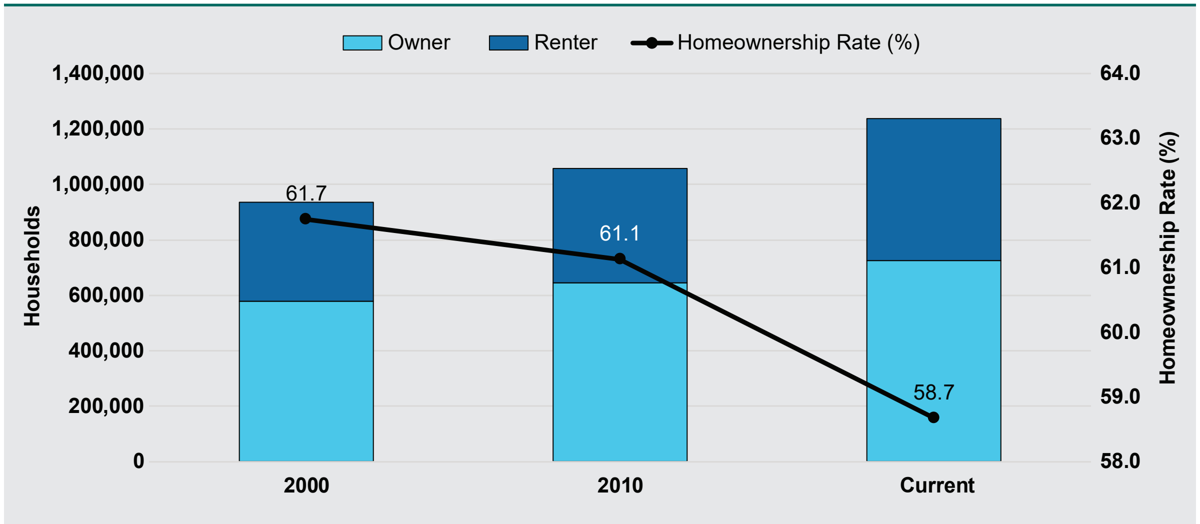
The slowdown in owner household formation and increase in rental household growth since 2010 reflect the prolonged effects of the foreclosure crisis, including stricter mortgage lending standards and a shift in household preferences toward renting. Although access to credit has improved since the end of the Great Recession, many households continue to rent, in part because of demographic differences but also

Figure 7. Population by Age Range in the Seattle HMA



Note: Millennials are defined as those born from 1981 to 1996.
Sources: 2010, 2015, and 2019 American Community Survey, 1-year estimates

Figure 8. Households by Tenure and Homeownership Rate in the Seattle HMA



Note: The current date is July 1, 2020.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by the analyst

for affordability reasons. Millennials accounted for 38 percent of national home purchases in 2019, making them the largest cohort of homebuyers last year (National Association of Realtors [NAR]). According to the 2019 Millennial Homeownership Report (Apartment Lists), the portion of renters that plans to rent forever is on the rise among millennials and the largest barriers to homeownership are the lack of a downpayment and having poor credit and student loan debt. Although nearly 70 percent of millennials think purchasing a home is the most important financial investment they will ever make, only 23 percent of current millennial renters in the Seattle HMA have a savings rate high enough to afford a 10-percent downpayment on a median-priced condominium in the HMA 5 years from now.

Population and Household Forecast

Population growth is expected to continue during the forecast period, with the population reaching 3.23 million by July 1, 2023; that population reflects an average annual growth of 40,750 people, or 1.6 percent. Approximately 63 percent of the growth will come from net in-migration, compared with 68 percent from 2017 to the current date. A distinguishing trait of the millennial generation is that, on average, they chose to delay, relative to other generations, major life choices such as buying a home or starting a family. Although delayed, they are now the largest group of homebuyers in the nation, a lifestyle choice that often coincides with starting a family. The increase in births from this age cohort is expected to be partly mitigated by the rising share of older residents, causing net natural change to remain relatively stable. Additionally, travel restrictions imposed as one of the many countermeasures to slow the spread of COVID-19 are expected to suppress international in-migration to the HMA during the first year of the forecast.

Based on current and anticipated population growth and economic conditions, during the next 3 years, households in the HMA are expected to increase by an average of 15,700, or 1.3 percent, reaching 1.28 million by July 1, 2023. The full economic impact of the interventions implemented to slow the spread of COVID-19 will likely not be realized for some time but is expected to add additional challenges to those saving to buy a home, preventing the homeownership rate from rising during the forecast.

Home Sales Market

Market Conditions: Very Tight

As of June 2020, a 1.1-month supply of homes was available for sale, down from 1.7-months a year ago (Redfin).

Current Conditions

Sales housing market conditions in the Seattle HMA are currently very tight, with an estimated vacancy rate of 0.8 percent (Table 4), down from 2.6 percent in April 2010. The HMA is geographically constrained by the Puget Sound, Lake Washington, and a generally mountainous topography, which limits the amount of buildable land available to use in response to economic and population growth; leading to rising construction costs. Coupled with increased demand from the prolonged period of high-tech workers moving to the area for relatively high-paying jobs, that rise has resulted in swift home sales price appreciation—although price growth slowed recently—and a decline in the number of sales.

Table 4. Home Sales Quick Facts in the Seattle HMA

		Seattle HMA	Nation
Home Sales Quick Facts	**Vacancy Rate**	0.8%	NA
	Months of Inventory	1.1	2.1
	Total Home Sales	41,600	5,430,000
	1-Year Change	-4%	-5%
	New Home Sales Price	$767,600	$408,800
	1-Year Change	-4%	-1%
	Existing Home Sales Price	$649,600	$320,900
	1-Year Change	2%	5%
	Mortgage Delinquency Rate	2.3%	4.0%

NA = data not available.
Notes: The vacancy rate is as of the current date; home sales and prices are for the 12 months ending June 2020; months of inventory and mortgage delinquency data are as of June 2020. The current date is July 1, 2020.
Sources: Months of inventory—Redfin; home sales and prices—Metrostudy, A Hanley Wood Company; delinquency rates—CoreLogic, Inc.

A shortage of for-sale inventory has existed in the HMA since 2014, contributing to the current very tight market conditions. The inventory of homes for sale has been less than a 3-month supply since 2014, compared with a peak of 9.3 months in 2010. As of June 2020, a 1.1-month supply of homes was available for sale, down from a 1.7-month supply a year ago (Redfin). From January to June 2020, the Case-Shiller Home Price Index for Seattle (which includes King, Snohomish, and Pierce Counties) increased from 168 to 178, the second fastest price appreciation among the 20 largest metropolitan areas in the country; this price appreciation is partly due to historically low interest rates that increase purchasing power and extremely low inventory resulting in a supply shortage.

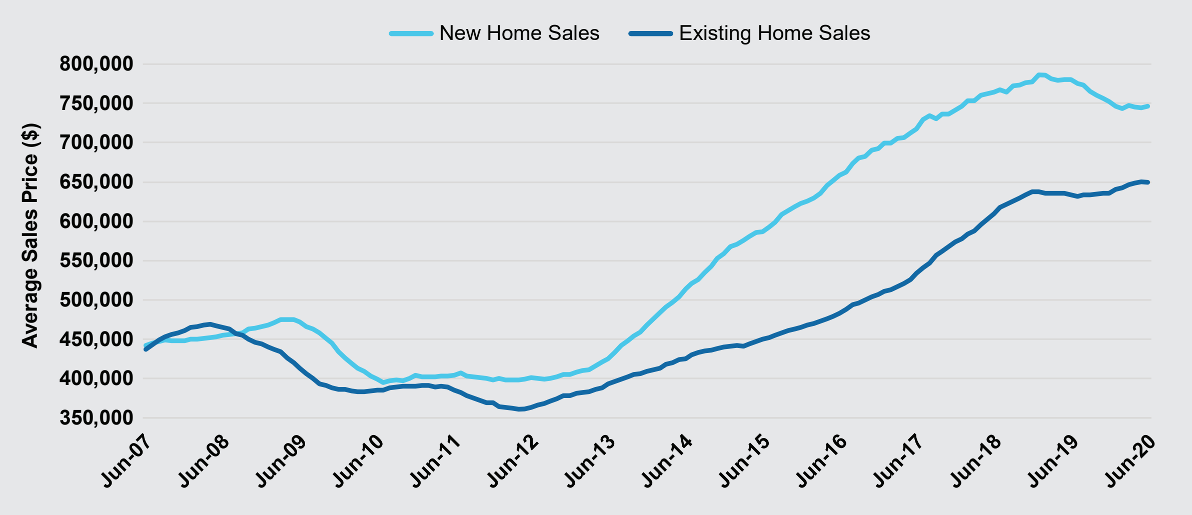
The strong price growth since the beginning of 2020 is not as pronounced when comparing the most recent 12-month average data because price growth was more moderate in the first half the period, mitigating some of the stronger growth since the beginning of 2020. During the 12 months ending June 2020, the average new and existing home sales price increased 2 percent to $666,100, like the 2-percent increase a year prior (Zonda). Home sales totaled 50,550 during the past 12 months, down 4 percent from a year ago, following a 10-percent decline during the 12 months ending June 2019. By comparison, from 2012 through 2018, new and existing home sales prices increased at an average annual rate of 8 percent. The number of home sales increased from 2011 through 2017 at an average annual rate of almost 6 percent. Figures 9 and 10 show average sales prices and total sales by sales type, respectively, for the HMA since June 2007.

Much of the decline in home sales, which began in 2018, is because of swiftly rising home sales prices limiting the number of households that can afford to purchase a home. For context, total compensation costs for private industry workers (which includes wages, salaries, and employer-paid employee benefits) increased 2.1 percent in the greater Seattle area (including Island, King, Kitsap, Lewis, Mason, Pierce, Skagit, Snohomish, and Thurston Counties) during the 12 months ending June 2020, compared with a decline of 0.4 percent during the 12 months ending June 2019 (Bureau of Labor Statistics; not seasonally adjusted).

New Home Sales and Prices

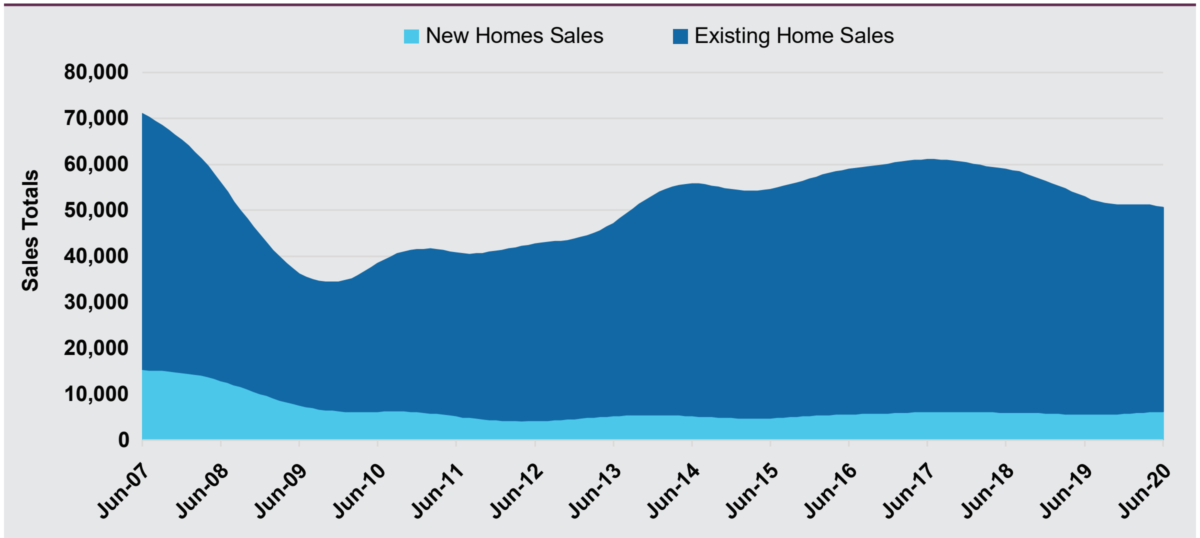
During the 12 months ending June 2020, 6,300 new homes sold, up 10 percent from a year prior and contrasting against a 7-percent decline during the 12 months ending June 2019 (Zonda). New home sales declined at an average annual rate of 22 percent because of the Great Recession, from almost 15,150 new home sales in 2006 to a low of 4,475 in 2011. From 2012 through 2017, new home sales increased an average of 6 percent, annually, before declining at an average annual rate of 4 percent from 2018 through 2019, in large part because of ongoing supply shortages.

Figure 9. 12-Month Average Sales Price by Type of Sale in the Seattle HMA



REO = real estate owned.
Source: Zonda, with adjustments by the analyst

Figure 10. 12-Month Sales Totals by Type in the Seattle HMA



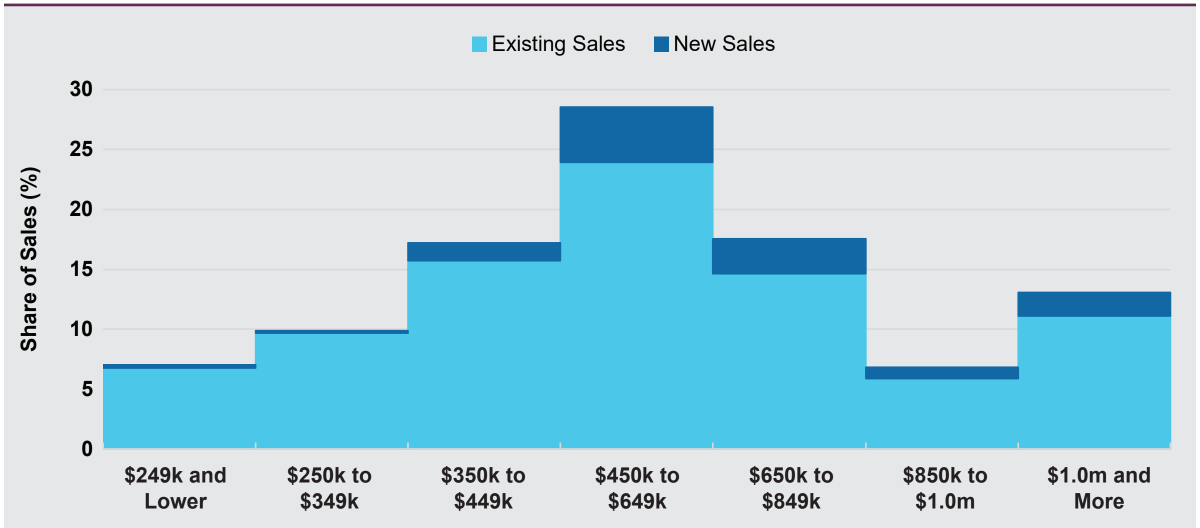
Note: New and existing home sales include single-family homes, townhomes, and condominiums.
Source: Zonda, with adjustments by the analyst

The average new home sales price fell 4 percent during the 12 months ending June 2020 to $746,500, compared with a 2-percent increase a year prior. The current average sales price is 57 percent greater than the prerecession peak in 2008 and more than 87 percent higher than the trough in 2011. From 2012 through 2018, new home sales prices increased at an average annual rate of 11 percent before declining 5 percent in 2019. The largest concentration of new home sales during the past 12 months has been for homes priced from $450,000 to $849,999 (Figure 11).

Existing Home Sales and Prices

During the 12 months ending June 2020, 44,250 existing homes sold, down 6 percent from a year ago and compared with an 11-percent reduction during the 12 months ending June 2019 (Zonda). The trough for existing home sales following the Great Recession occurred in 2009, when 28,950 existing homes sold. Existing home sales increased every year at an average annual rate of 10 percent through 2016 to 46,500, were relatively unchanged in 2017, and declined at an average annual rate of 8 percent through 2019.

Figure 11. Share of Sales by Price Range During the 12 Months Ending June 2020 in the Seattle HMA



Note: New and existing sales include single-family homes, townhomes, and condominiums.
Source: Zonda

Existing home sales prices increased 2 percent during the 12 months ending June 2020 to $649,600, following a 2-percent increase during the 12 months ending June 2019. The average existing home sales price fell an average of 5 percent a year, from a high of $467,800 in 2008 to $399,800 in 2011. The economy started to recover from the Great Recession and sales price growth resumed; from 2012 through 2018, the average existing home sales price increased at an average annual rate of 8 percent and was unchanged in 2019. The largest concentration of existing home sales during the past 12 months has been for homes priced from $350,000 to $649,999.

Condominium Sales and Prices

The condominium market in the HMA is tight, with a 1.9-month supply of inventory for sale as of June 2020, compared with a 2.1-month supply a year earlier and a peak of 14.5-month supply in June 2010 (Redfin). In the HMA, 8,950 condominiums sold during the 12 months ending June 2020, down 6 percent from a year earlier, and the average price increased 3 percent to $457,500 (Zonda). By comparison, during the same period, the average-priced single-family home in the HMA was $766,000. In the cities of Seattle and Bellevue, the disparity is much greater; during the 12 months ending June 2020, the average sales price of a condominium was $512,400 in Seattle and $533,600 in Bellevue, compared with $832,600 and $1.48 million, respectively, for detached single-family homes.

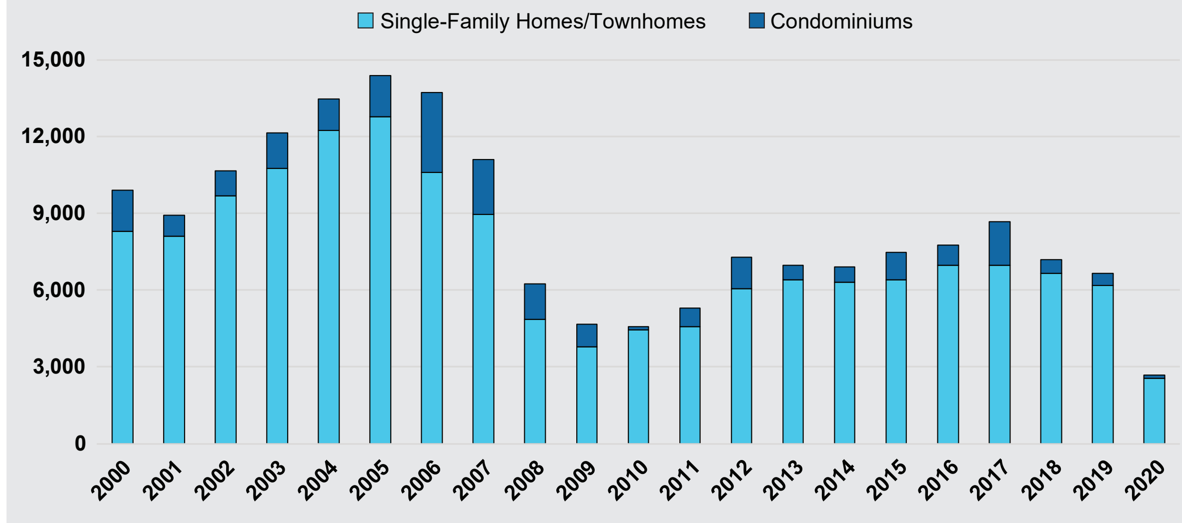
Delinquent Mortgages

The rate of seriously delinquent mortgages and real estate owned (REO) properties in the HMA has remained well below the national rate since 2000 (CoreLogic, Inc.). In mid-2010, the rate of seriously delinquent mortgages and REO properties in the HMA peaked at 6.7 percent; the national rate reached a high of 8.6 percent in February 2010. In June 2020, 2.3 percent of mortgages in the HMA were seriously delinquent or in REO status, up from 0.5 percent a year earlier. Nationally, the rate increased from 1.5 to 3.6 percent during the same period. The increase in June 2020 for the HMA and the nation were abrupt increases compared to the 0.7- and 1.6-percent rates the month before, respectively, as a result of the weak economic conditions and elevated unemployment attributed to the countermeasures to slow the spread of COVID-19.

Sales Construction Activity

Despite monumental improvements in the economy and housing markets, sales construction activity—as measured by building permits issued for single-family homes, townhomes, and condominiums—has been relatively flat since 2012, mainly attributable to the scarcity of land and rising construction costs (Figure 12). During the 12 months ending June 2020, 6,775 sales units were permitted, reflecting a 1-percent increase from the previous 12 months. Approximately 1,025, or 15 percent, of the sales units permitted during the past 12 months were for condominiums, up from 460 during the previous 12 months, or approximately 7 percent of total sales units permitted during the period.

Figure 12. Average Annual Sales Permitting Activity in the Seattle HMA



Notes: Includes single-family homes, townhomes, and condominiums. Data for 2020 are through June 2020.
Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2019—final data and estimates by the analyst; 2020—preliminary data and estimates by the analyst

From 2001 through 2005, sales permitting increased at an average annual rate of 8 percent to a peak of 14,400; 11 percent were condominiums. Although still part of the build-up of the housing bubble, permitting started to decline in 2006 and fell at an average annual rate of 25 percent to a low of 4,575 in 2010. During that time, condominium construction slowed significantly; from 2006 through 2009, condominiums accounted for 21 percent of all sales permits but accounted for only 3 percent in 2010. Sales permitting increased in 2011 during the start of economic recovery, to 5,300, and 13 percent were for condominiums. An average of 7,350 sales units were permitted, annually, from 2012 through 2019, and condominiums accounted for 12 percent of the total.

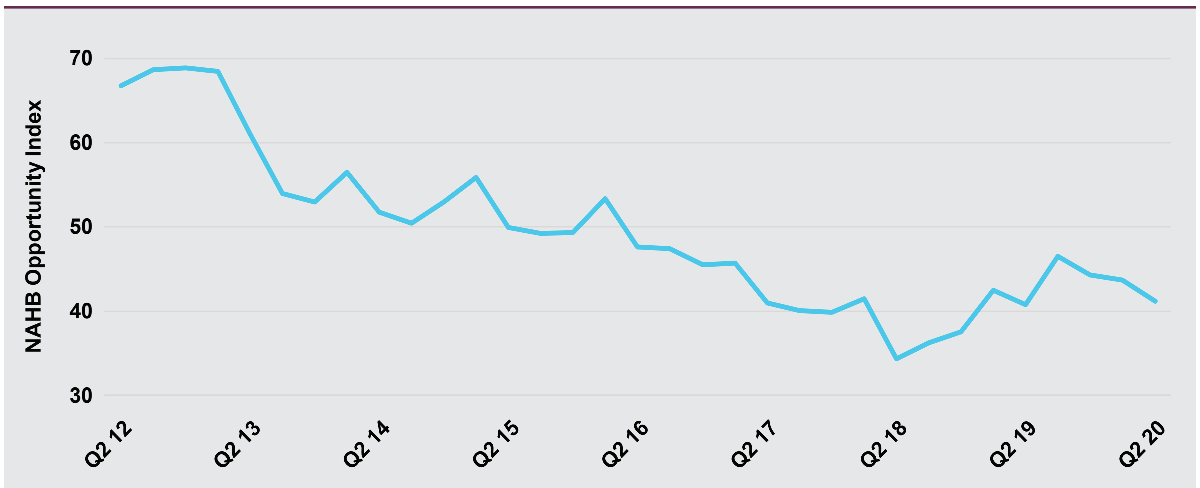
Single-family home developments are limited in the city of Seattle because most of the city is built out and the land that is available is typically used for higher density construction. The larger communities currently under construction are in the eastern, southern, and northern ends of the HMA, which have more developable land. Year-to-date, the development with the most new home sales was Ten Trails, a master-planned community in Black Diamond in southeast King County, where 76 new homes sold in three subdivisions; median sales prices ranged from $446,400 to $550,000 (Zonda). The Suntop Farms subdivision in Enumclaw, also in southeast King County, had 39 new home sales and a median sales price of $408,300.

Condominium construction has been relatively constrained in the HMA because, until new legislation was passed in 2019, Washington law made it easier than most states for homeowners to sue developers. The added liability was enough to discourage developers who, in turn, focused on apartments that have been absorbed at record high levels for the past 5 years. Apartment rent growth has slowed across most market areas in the HMA, however, and developers have started to increase condominium production. One of the largest developments currently under construction in the HMA is the KODA Condominium Flats, a 203-unit, 17-story tower in the International District of downtown Seattle scheduled to be finished later this year. By early 2018, 95 percent of the units were reserved. Unit sizes at KODA Condominium Flats range from 350 to 1,600 square feet and sales prices for available units start at $675,000. Near the future light rail station in Bellevue, The One88 is under construction, representing the first large condominium development in Bellevue in a decade. When complete in 2020, it will feature 143 units in a 21-story tower, with prices starting at $800,000 for a 742-square-foot, one-bedroom unit and increasing to more than $3 million for penthouse suites. Nearly 80 percent of the units were presold by March 2018, with fewer than 10 units remaining; none of the remaining units were priced below $2 million.

Sales Housing Affordability

Homeownership in the Seattle HMA is expensive and the affordability of buying a home in the HMA has declined since 2012, coinciding with the start of the sales market recovery following the Great Recession. Excess inventory has since been absorbed and high demand from workers benefiting from the high-tech boom has put upward pressure on sales prices. The NAHB/Wells Fargo Housing Opportunity Index (HOI) for the HMA, which represents the share of homes sold that would have been affordable to a household earning the local median income, was 41.2 during the second quarter of 2020, up slightly from 40.8 during the second quarter of 2019 (Figure 13). During the most recent quarter, 203 metropolitan areas out of the 237 metropolitan areas measured, or 86 percent of metropolitan areas in the nation, had greater housing

Figure 13. Seattle HMA Housing Opportunity Index

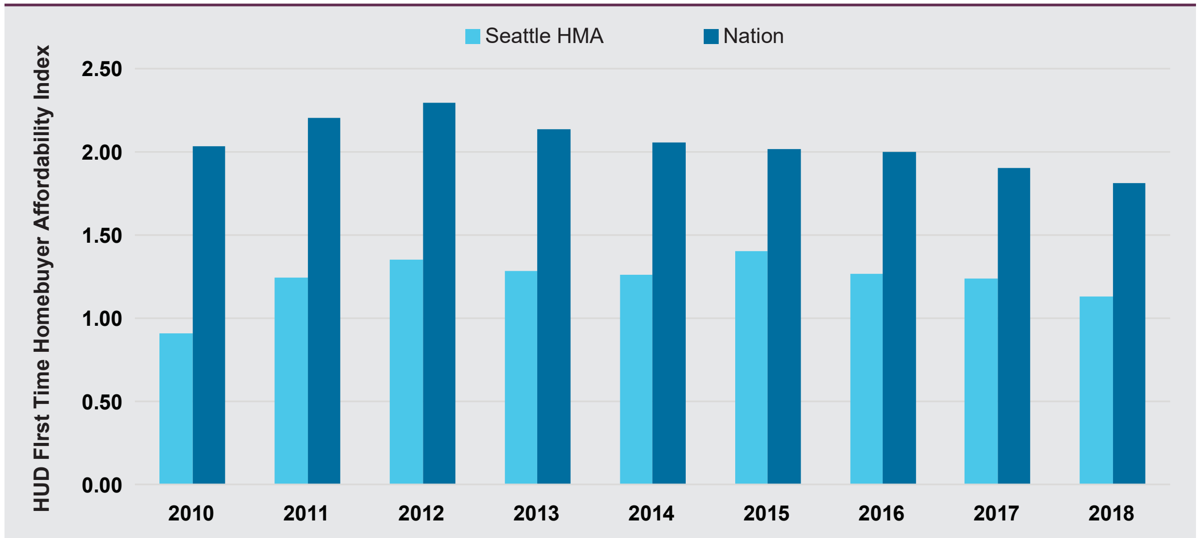


NAHB = National Association of Home Builders. Q2 = second quarter.
Sources: NAHB; Wells Fargo

affordability than the HMA. After reaching a high of 68.4 during the first quarter of 2013, the index declined to 34.4 in the second quarter of 2018, as home construction did not keep pace with the high levels of net in-migration during the period. Since 2018, the index has risen, partly a result of a slowdown in sales price growth.

The population in the HMA is young because of the large share of millennials, and low housing affordability has made it difficult for first-time homebuyers to enter homeownership. The HUD First-Time Homebuyer Affordability Index is a measure of the median household income for householders ages 25 to 44 years old, relative to the income needed to purchase the 25th percentile-priced home. The index value in the HMA has been above 1.00 since 2011—indicating that most entry-level homes are affordable for young households—but has declined in recent years (Figure 14). Since a high of 1.40 in 2015, the index has generally trended down and was 1.13 in 2018. Nationwide, the index also declined, from 1.90 in 2017 to 1.81 in 2018, but during the past decade, the national index has remained above 1.80 in every year. Although this index indicates relative affordability for first-time homebuyers in the HMA, it assumes a downpayment equal to 20 percent of the home value. As previously mentioned in the Households discussion, saving for a downpayment is one of the major obstacles impeding homeownership for this age group.

Figure 14. Seattle HMA HUD First Time Homebuyer Index



Sources: 2010–2018 American Community Survey, 1-year data; Federal Housing Finance Agency; and Zonda

In 2019, the state legislature passed a condominium reform bill. Prior to its passing, state laws made it relatively easy for condominium owners to sue developers, many of whom declined to assume the added risk and the increased liability insurance costs necessary to protect themselves under the previous legal conditions, opting instead to build apartments. Industry experts anticipate a lag between the passing of the 2019 law and a tangible increase in new condominium production, however. Reducing developer-liability is expected to incentivize the construction of more condominiums, which are considered a more affordable option when compared with single-family homes—especially in a land-constrained city setting. Several condominium developments are currently under construction in the HMA, mostly in the cities of Seattle and Bellevue, but development has not spiked, which was the intended result of the legislative reform. The severe economic disruption caused by the countermeasures used to slow the spread of COVID-19 likely caused developers to pause projects and reassess when economic growth improves.

Washington state and several local municipalities in the HMA offer downpayment assistance, depending on income qualifications and other factors. Some statewide programs include up to $10,000 in downpayment assistance for veterans, disabled, or first-time homebuyers. The city of Seattle offers aid up to $55,000 and ARCH East King County (representing the Eastside) offers up to $30,000 in assistance. Most of these programs require repayment but the interest rates are low and the repayment timeframe is long.

Forecast

During the next 3 years, demand is estimated for 27,000 new homes (Table 5). The 3,575 homes currently under construction will meet a portion of the demand during the first year of the forecast. Residential development is expected mostly on the Eastside along the new light rail line, which will connect the cities of Seattle and Redmond, and in the northern and southern portions of the HMA where land is more readily available.

Table 5. Demand for New Sales in the Seattle HMA During the Forecast Period

Sales Units	
Demand	27,000 Units
Under Construction	3,575 Units

Note: The forecast period is from July 1, 2020, to July 1, 2023.
Source: Estimates by the analyst

Rental Market

Market Conditions: Balanced

The apartment vacancy rate increased from 3.9 to 4.6 percent from the second quarter of 2019 to the second quarter of 2020 and average rents increased 3 percent to $1,904 (RealPage, Inc.).

Current Conditions and Recent Trends

Rental housing market conditions in the Seattle HMA are currently balanced, with an overall estimated vacancy rate of 5.5 percent, down from 7.1 percent in April 2010 (Table 6). Strong net in-migration, relatively slow rental construction during the Great Recession (Figure 15), and increased rental household growth spurred by the housing crisis contributed to declining vacancy rates and rising rents (Figure 16). Record high levels of apartment construction since 2014 and the recent economic shock to the economy from the countermeasures to slow the spread of COVID-19 have resulted in balanced market conditions for the first time since economic conditions improved following the Great Recession.

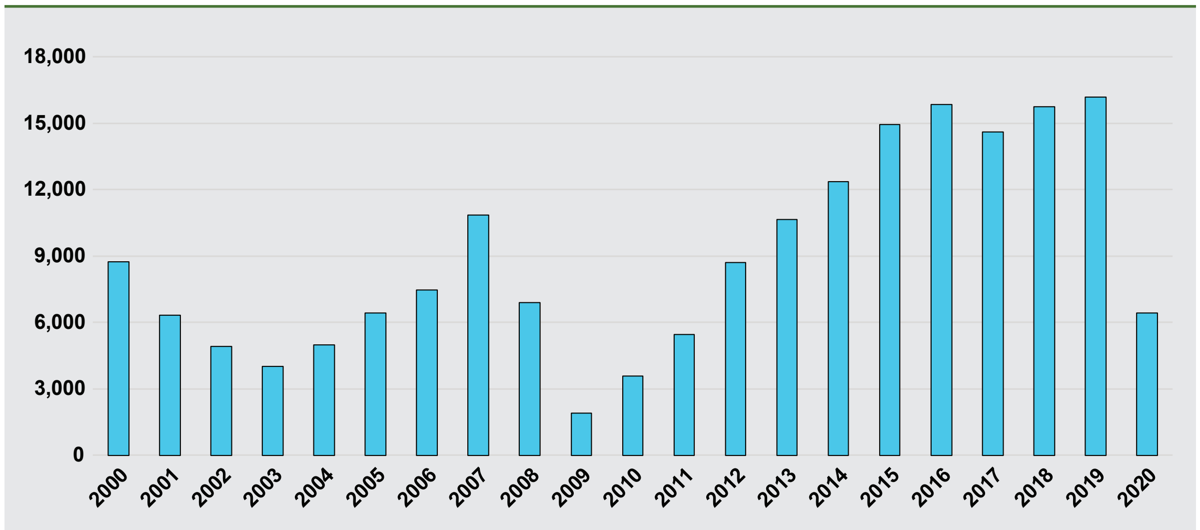
During the second quarter of 2020, apartment market conditions in the HMA were balanced, with a 4.6-percent vacancy rate compared with a 3.9-percent rate a year earlier (RealPage, Inc.). During that time, the average rent increased 3 percent to $1,904; however, more than 27

Table 6. Rental and Apartment Market Quick Facts in the Seattle HMA

		2010 (%)	Current (%)
Rental Market Quick Facts	**Rental Vacancy Rate**	7.1	5.5
	Occupied Rental Units by Structure		
	Single-Family Attached & Detached	26.5	22.0
	Multifamily (2–4 Units)	13.1	11.0
	Multifamily (5+ Units)	60.9	65.0
	Other (Including Mobile Homes)	1.7	1.0
		Current	**YoY Change**
Apartment Market Quick Facts	**Apartment Vacancy Rate**	4.6	70.0
	Average Rent	$1,904	3.2
	Studio	$1,587	2.2
	One-Bedroom	$1,808	3.1
	Two-Bedroom	$2,048	3.1
	Three-Bedroom	$2,263	4.9

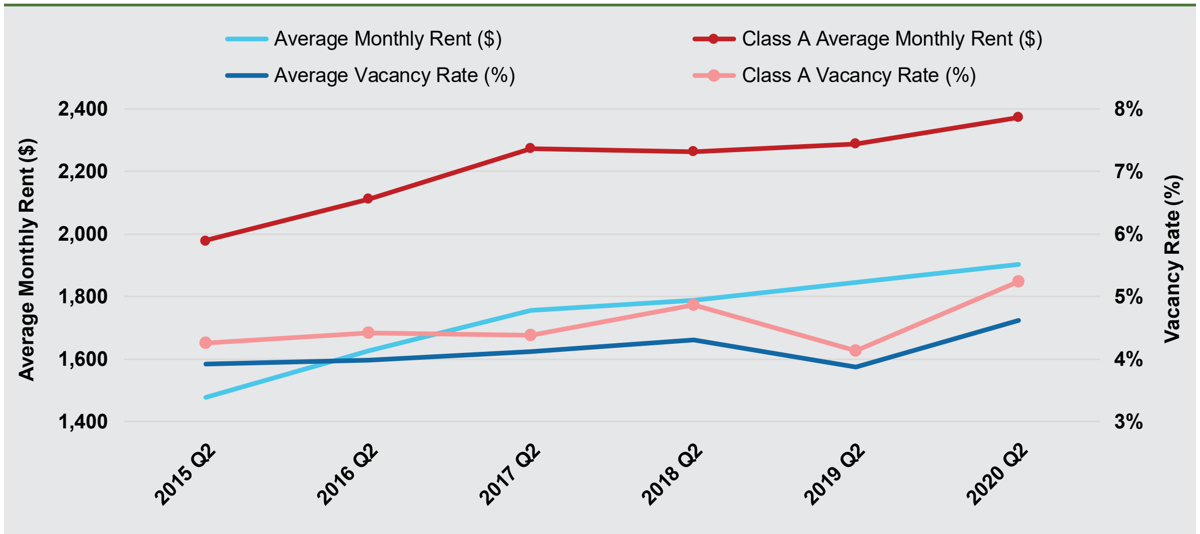
YoY = year-over-year.
Notes: The current date is July 1, 2020. Percentages may not add to 100 due to rounding.
Sources: 2010 and 2019 American Community Survey, 1-year data; Reis, Inc.

Figure 15. Average Annual Rental Permitting Activity in the Seattle HMA



Notes: Includes apartments and units intended for rental occupancy. Data for 2020 are through June 2020.
Sources: U.S. Census Bureau, Building Permits Survey; 2000–2019 final data and estimates by the analyst; 2020—preliminary data and estimates by the analyst

Figure 16. Apartment Rents and Vacancy Rates in the Seattle HMA



Q = quarter.
Source: RealPage, Inc.

percent of properties were offering concessions, up from less than 10 percent a year ago. For Class A apartments, which include most new construction, more than 31 percent of properties offered concessions compared with 13 percent a year ago. Rent growth has slowed recently in response to elevated apartment completions, averaging 8,850 annually, from the second quarter of 2015 to the second quarter of 2020. The impacts of the countermeasures used to slow the spread of COVID-19 were mostly mitigated during the period because of eviction protection policies at the state and federal levels. These trends may become more pronounced as these protections expire throughout the remainder of 2020.

From the second quarter of 2015 to the second quarter of 2017, rent growth averaged 9 percent, annually, and slowed to 3-percent average annual growth from the second quarter of 2018 to the second quarter of 2019. By comparison, from 2000 through 2010, an average of 3,025 units were built annually. The apartment vacancy rate in the HMA peaked at 7.4 percent in 2009, coupled with a 5-percent decline in rents; the vacancy rate has remained below 5.4 percent since 2010. The vacancy rate for Class A apartments was 5.2 percent during the current quarter, compared with 4.1 percent a year prior, and average rents increased almost 4 percent to $2,372, compared with 1-percent rent growth during the previous period.

Apartment Market Trends—Seattle

Of the 16 RealPage, Inc.-defined market areas in the HMA, all 6 that constitute the city of Seattle recorded increased vacancies and accelerated rent growth from the second quarter of 2019 to the second quarter of 2020. During this period, all market areas reported an increase in the percentage of properties offering concessions except the West Seattle/South Seattle market area, where concessions declined slightly. Since the second quarter of 2015, 65 percent, or 34,250, of the more than 53,100 apartments built in the HMA were in the city of Seattle. The lowest vacancy rate was in the Capital Hill/Central District market area at 4.4 percent, up from 3.3 percent a year earlier; the highest vacancy rate was 5.8 percent in the Downtown Seattle market area, compared with 4.8 percent a year ago. The shares of total apartments constructed in the city since the second quarter of 2015 have been 19 and 21 percent, respectively, for the Capital Hill/Central District and the Downtown Seattle market areas. Approximately 25 percent of new construction in the city since the second quarter of 2015 has occurred in the SLU/Queen Anne market area, where Amazon and other high-tech firms have been hiring, and the vacancy rate has increased from 3.9 to 5.0 percent. During the past year, the highest rent was $2,519 in the Downtown Seattle market area, up 7 percent from the second quarter of 2019. The fastest rent growth during the period was 10 percent in the SLU/Queen Anne market area, rising to $2,406, compared with a 1-percent increase the year prior. The North Seattle/Shoreline market area reported the lowest asking rent in the city at $1,614, up 4 percent from a year ago.

Apartment Market Trends—Eastside

All four market areas that encompass the Eastside reported increased vacancies from the second quarter of 2019 to the second quarter of 2020 and rent trends were mixed. More than 30 percent of properties in these market areas are offering concessions, up from less than 10 percent a year ago. Concessions were generally higher for Class A apartments. Annual apartment completions in the city of Seattle declined significantly during the past year, partly because of supply chain and construction delays that resulted from the countermeasures used to slow the spread of the virus. Conversely, on the Eastside, three of the four market areas reported a large increase in completions during the current period, indicating builders continued confidence in the growth that is planned for the Eastside during the next several years.

The Kirkland/Bothell market area was the only area to report declining average rents, which were down 1 percent to $1,890; the market area also had the highest vacancy rate at 4.8 percent, up from 3.9 percent a year ago. Also contributing to the decline in rents was the addition of 1,100 apartments in the market area from the second quarter of 2019 to the second quarter of 2020, compared with an average of 470 a year from the second quarter of 2015 to the second quarter of 2019. In the Redmond market area, rents were unchanged at $2,081, despite the addition of 1,550 new apartments during the past year. The Redmond market area also reported the smallest increase in the vacancy rate, up 0.5 percentage point to 3.8 percent. Rent growth was strongest in the West Bellevue/Mercer Island market area, rising 4 percent to $2,491, which is also the highest asking rent for all market areas in the HMA.

In the East Bellevue/Issaquah market area, rents increased 1 percent to $2,001 and the vacancy rate increased 1.0 percentage point to 4.7 percent. From the second quarter of 2019 to the second quarter of 2020, no apartments were completed in the East Bellevue/Issaquah market area, compared with an average of 740, annually, from the second quarter of 2015 to the second quarter of 2019. Since the second quarter of 2015, the largest concentration of apartment construction, 31 percent, has been in the Redmond market area where development is occurring along the new light rail expansion.

Apartment Market Trends—Remainder

The remaining six market areas in the HMA include three areas in south King County and two in Snohomish County. These southern and northern portions of the HMA are generally suburban, with high numbers of residents who commute to the city of Seattle for work. Combined, these six market areas accounted for less than 10 percent of all apartment construction in the HMA from the second quarter of 2015 through the second quarter of 2020. During the past year, vacancies increased in both Snohomish County market areas, including the Everett market area, which reported the largest increase, from 3.9 to 5.1 percent. The vacancy rate was unchanged at 4.2 percent in the Renton market area and declined from 3.9 to 3.5 percent in the Federal Way/Des Moines market area, the latter of which has zero reported completions since the second quarter of 2015. Rent trends were also mixed during the period. The only market area to report a decline in asking rents was Renton, where rents were down 2 percent to $1,711, following a 5-percent increase the year prior. The strongest rent growth was 6 percent in the SeaTac/Burien market area, where rents increased to $1,506. This market area has expanded rapidly during the past 5 years as development has occurred along the light rail line that connects the SeaTac airport to the city of Seattle.

Rental Construction Activity

Despite increased vacancies and slowing rent growth during the past year, rental construction activity, as measured by the number of multifamily units permitted, increased slightly during the 12 months ending June 2020 to 15,250 units, up 1 percent from a year ago. For context, an average of 5,900 rental units was permitted annually from 2000 through 2005. The number of rental units permitted increased to an average of 9,175 a year in 2006 and 2007 when rental and sales housing market conditions began to deteriorate but before builders reacted to the changing conditions. The onset of the recession and the subsequent housing market collapse caused the permitting of rental units to decline at an average annual rate of 58 percent from 2008 through 2009, to a low of 1,925. Rental permitting activity remained low but nearly doubled in 2010 to 3,575. During this time, financing for new construction was particularly hard to obtain, despite increased demand for rental units brought on by the foreclosure crisis. Lack of financing resulted in a very limited supply of new apartments, which, when coupled with increased demand, caused apartment market conditions to tighten. As lenders became increasingly confident in the economic recovery and financing returned, builders responded by significantly increasing apartment construction; the permitting of rental units increased at an average annual rate of 36 percent from 2011 through 2014. The period from 2015 through 2019 had the highest level of rental construction activity in the HMA during any 5-year period since at least 1980. This period corresponded with strong job and population growth, coupled with a shortage of for-sale housing, and remained elevated, averaging 15,450 units annually through 2019.

The largest development completed year-to-date was the 316-unit Avalon North Creek apartments in the city of Bothell, which opened in February 2020. Asking rents start at $1,525, $1,975, and $2,465 for one-, two-, and three-bedroom units, respectively. Of the developments under construction in the HMA, the largest projects are in the city of Seattle in the SLU/Queen Anne and Downtown Seattle market areas. Onni South Lake Union will include two 41-story towers containing 1,179 apartment units and more than 28,000 square feet of retail and office space, with completion expected in early 2021 (RealPage, Inc., and Seattleinprogress.com). Another project, 1200 Stewart, located in downtown Seattle, will include two 45-story towers with a combined 1,050 units and more than 150,000 square feet of retail space, with completion expected in December 2021.

In Redmond, the Esterra Park master-planned community is currently under construction at the terminus of the light rail expansion and is expected to be complete in 2023. Since 2016, three apartment communities totaling nearly 1,500 units have been completed. An additional three communities are under construction, totaling 1,175 units with expected completion dates in 2021 and 2022.

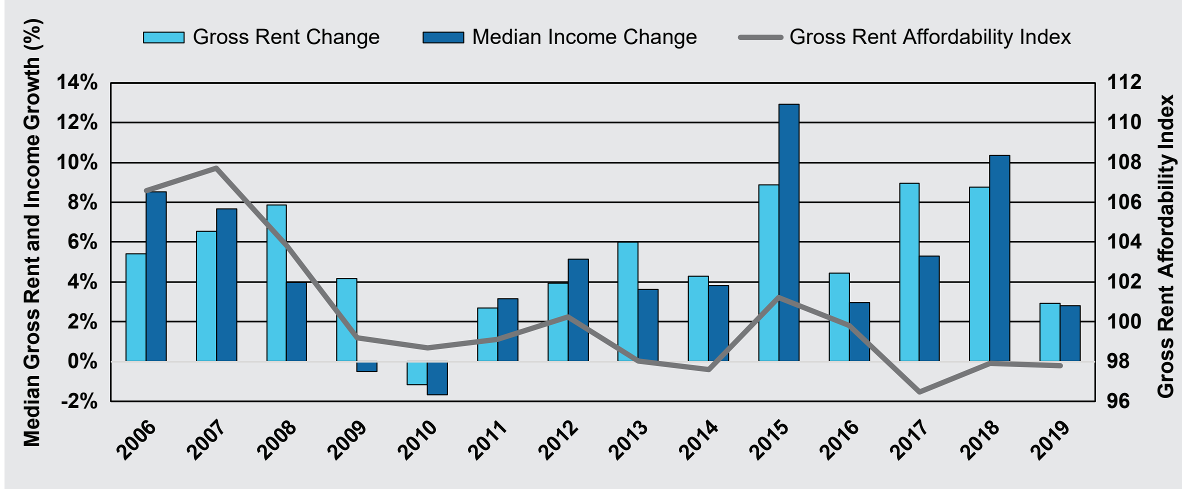
Rental Housing Affordability

Rental housing is expensive in the Seattle HMA and rental affordability has generally trended downward since 2007 because rent growth has outpaced income growth. The median gross monthly rent in the HMA rose 64 percent from $1,033 in 2010 to $1,690 in 2019. During the same period, the median household income for renters increased 62 percent from $40,774 to $66,110. As a result, the HUD Gross Rent Affordability Index, a measure of median renter household income relative to qualifying income for the median-priced rental unit, has trended downward since 2007. The index was 97.8 during 2019 (using the latest data available), nearly unchanged from 97.9 in 2018, but well below the high of 107.7 in 2009 during the Great Recession. Figure 17 compares year-to-year change in the median gross rent (including single-family homes, apartments, and mobile homes for rent) to the respective change in the median gross income. Rental affordability hit a recent peak in 2015 at 101.2, largely a result of the wave of high-wage earners moving to the HMA with few for-sale options. Since then, the index has fallen as wage growth, especially outside of high-tech industries, has slowed relative to rent growth.

During the 2013-through-2017 period, an estimated 22.7 percent of all renter households in the HMA were cost-burdened, spending between 30 and 49 percent of their income on rent, while 20.1 percent were severely cost-burdened, spending more than 50 percent of income toward rent (Table 7). Nationwide, a smaller proportion of renter households were cost-burdened and a larger share was severely cost-burdened, at 21.8 and 22.9 percent, respectively. Cost-burdens, however, are particularly notable for lower-income renter households in the HMA. For renter households with incomes less than 50 percent of the area median family income (AMFI), a higher proportion, 29.6 percent, was paying between 30 and 49 percent of their incomes toward rent; more of the households at these income levels, or 48.3 percent, were severely cost-burdened, however. By comparison, 25.6 percent of lower-income renter households nationwide were spending 30 to 49 percent of incomes toward rent and 50.1 percent were spending more than 50 percent of incomes toward rent.

Several local and statewide policy initiatives are underway to address the rental housing affordability issues in the Seattle HMA. Several cities within the HMA have pledged to add significant numbers of affordable housing units. Most cities on the Eastside have mandatory affordable components for all new developments in exchange for a tax exemption for up to 12 years. The city of Seattle has a similar program, the Multifamily Tax Exemption program, which provides a 12-year tax abatement for developers setting aside 20 percent or more

Figure 17. Seattle HMA Gross Rent Affordability Index



Note: The Gross Rent Affordability Index differs from the HUD Rental Affordability Index published on the U.S. Housing Market Conditions website in that it is based on combined rent and utilities expenditure.
Source: American Community Survey, 1-year data

Table 7. Percentage of Cost-Burdened Renter Households in the Seattle HMA, by Income, 2013–2017

	Cost Burdened: 30–49 Percent of Income Toward Rent		Severely Cost Burdened: More than 50 Percent of Income Toward Rent	
	Seattle HMA	Nation	Seattle HMA	Nation
Renter Households with Income <50% HAMFI	29.6	25.6	48.3	50.1
Total Renter Households	22.7	21.8	20.1	22.9

HAMFI = HUD area median family income.
Source: Consolidated Planning/CHAS Data, 2013-2017 American Community Survey 5-year estimates (huduser.gov)

of their units to low-income households. Although it was voluntary, more than 10,000 units have been funded through this program since 1998. In addition, the city of Seattle recently passed the Mandatory Housing Affordability (MHA) up-zones, which allows for denser construction in 27 neighborhoods across the city. The MHA requires developers in the new up-zoned areas to set aside between 5 and 11 percent of their units for low-income households or pay between $5 and $32.75 a square-foot into a city-run affordable housing fund. The expectation is for the addition of 3,000 affordable units during the next 8 years. Further state-level initiatives under consideration would reduce barriers to adding accessory dwelling units to existing properties, mandate up-zoning near all transit centers currently under construction, including those along the several light rail expansions ongoing in the HMA, ease restrictions on tiny houses, and increase funding sources.

Forecast

Rental demand is expected to increase each year during the 3-year forecast period, but the economic uncertainty stemming from the pandemic and efforts to contain it will likely suppress demand in the first year of the forecast. During the next 3 years, demand is expected for 26,450 new rental units (Table 8). The 18,350 apartment units currently under construction will satisfy demand during at least the first 2 years of the forecast period. Reduced demand is expected in downtown Seattle for at least the first year of the forecast period, as some of the larger tenants in the city—such as Amazon and Google—have committed to remote work for most employees through summer 2021. Most rental demand will occur along the new transit lines on the Eastside and in the suburbs north and south of Seattle.

Table 8. Demand for New Rental Units in the Seattle HMA During the Forecast Period

	Rental Units
Demand	26,450 Units
Under Construction	18,350 Units

Note: The forecast period is July 1, 2020, to July 1, 2023.
Source: Estimates by the analyst

Terminology Definitions and Notes

A. Definitions

Building Permits	Building permits do not necessarily reflect all residential building activity that occurs in an HMA. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.
Cost Burdened	Spending more than 30 percent of household income on housing costs.
Demand	The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.
Forecast Period	7/1/2020–7/1/2023—Estimates by the analyst.
Home Sales/ Home Sales Prices	Includes single-family home, townhome, and condominium sales.
Rental Market/ Rental Vacancy Rate	Includes apartments and other rental units such as single-family, multifamily, and mobile homes.

Seriously Delinquent Mortgages	**Mortgages 90+ days delinquent or in foreclosure.**

B. Notes on Geography

1.	**The metropolitan division definition noted in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated February 28, 2013.**
2.	**Urbanized areas are defined using the 2010 Census Urban and Rural Classification and the Urban Area Criteria of the U.S. Census Bureau.**
3.	**The census tracts referenced in this report are from the 2010 Census.**

C. Additional Notes

1.	**The NAHB Housing Opportunity Index represents the share of homes sold in the HMA that would have been affordable to a family earning the local median income, based on standard mortgage underwriting criteria.**
2.	**This analysis has been prepared for the assistance and guidance of HUD in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.**

3.	**The factual framework for this analysis follows the guidelines and methods developed by the Economic and Market Analysis Division within HUD. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.**

D. Photo/Map Credits

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