Fannie Mae

Multifamily Metro Outlook:

Seattle – Q3 2020

Overview:

- The Seattle metro area faces a potentially arduous uphill battle on its road to recovery from COVID-19. Not only is the metro dealing with the immediate and short-term impacts of the virus, but the metro is also dealing with the ongoing fallout of its largest employer, Boeing, going through a period of tumultuous change and the resulting layoffs.
- Apartment fundamentals continue to trend in the wrong direction. Vacancies continued to hover around 5.75 percent however, rent growth nose dived to -2 percent. However even with fundamentals performing decently there is a significant amount of new supply coming online. According to Dodge Pipeline, approximately 72,000 units are in the planning stages and an additional 21,000 units are underway with an expected delivery throughout 2021.

Market Strengths:

- According to Moody's Analytics, the metro also continues to attract the prime rental cohort (ages 20-34), which is expected to expand by 0.2 percent over the next 5 years, besting the national average rate of -0.2 percent.
- Seattle primarily being a tech market is actually a plus for the local economy. The most impacted employment sectors by the virus are Retail, Leisure/Hospitality and Manufacturing. However, unlike those sectors, the tech sector which is comprised of two of the biggest employers in the metro, Amazon and Microsoft, have successfully pivoted to remote work without impacting much of their daily operations. According to CoStar, tech employers Amazon, Microsoft and Google have announced plans to let employees work remotely well into 2021.
- Amazon's growth in the Seattle metro has blossomed some friendly competition amongst tech titans. Amazon's recent moves of expansion has caused other tech employers such as Apple, Microsoft, Facebook, and Google to expand their presences within the metro to keep the (tech) competition healthy in the Seattle area.

Market Weaknesses:

- Affordability is a big concern for the Seattle metro. With high salaries, and a reliance on the tech sector, over 40,000 households are paying more than 50 percent of their monthly income on rent and not every Seattle worker is a member of the tech community capable of paying high rents.
- Boeing continues to be a major issue for the Seattle metro area. Since the end of 2018, Boeing's newest commercial jet, the 737 Max has been facing ongoing issues and has yet to be brought back into production. The grounding of the 737 Max has impacted Boeing's bottom line and is continuing to do so. As a result of the 737 Max debacle mixed with the onset of COVID-19, Boeing has announced plans to cut up to 15 percent of its (local) workforce which may amount to more than 10,000 jobs lost. Furthermore, Boeing continues to stay in the headlines for the wrong reasons as one of its passenger jets was involved in a fatal crash and Boeing has been fined $2.5 billion for the 737 MAX fiasco.
- As the virus continues to impact the local economy, the metro is in danger of losing jobs to neighboring cities as a result of tax revenue deficits. According to CoStar, the city council in Seattle is pushing the onus of loss revenue from taxes onto larger corporations and as a result, employers such as Amazon are looking to Bellevue and Redmond as places to move some of their operations in order to shrink tax bills.

Development:

- About 72,000 apartment units have been added to rental inventory since the beginning of 2014. However, there are over 72,000 units in the planning stages and more than 21,000 units underway.
- Since the beginning of 2006, nearly 21,000 condo units have been completed. Condo development is expected to moderate throughout 2021 with approximately 2,400 additional units expected to deliver. However, condo development should not have too much of an impact as the for-sale market is out of reach for many.

Outlook:

- Rental market fundamentals are performing decently. Vacancies are in good standing at 5.75 percent (even with the supply uptick) however, rent growth is a bit of a concern as it continues to trend in the wrong direction. Furthermore, the impact of virus combined with high levels of incoming supply could cause fundamentals to take a slight dip.
- Seattle will continue to be above-average job market as the prime renter cohort will be lured to the area by the high paying tech jobs. As long as Amazon (and to a lesser extent Microsoft, Google, etc.) continue to grow, the metro will also continue to expand. However, the metro's reliance on the expansion of Amazon is also something to watch in the long-term as much of the metro's growth prospects are dependent on the company's growth. Boeing's ongoing troubles with its new jet coupled with trade disputes with China, the arrival of COVID-19 and now a significant fine for the 737 MAX debacle, have already caused major supply side issues and job force reduction that will persist throughout 2021.

Five Year Metro Area Growth Forecast

	Q2 2020	Q2 2025	Seattle (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	3,118	3,276	1.00%	0.52%
Households (000s)	1,209	1,303	1.51%	0.81%
Renting Cohort (Ages 20-34) (000s)	722	730	0.22%	-0.19%
Total Employment (000s)	1,550	1,862	3.73%	2.81%
Median Household Income	$97,409	$113,054	3.02%	1.88%
Median SF Home Price	$606,559	$759,754	4.61%	3.38%
Net Migration (Annualized)	15,646	17,115		

Source: Moody's

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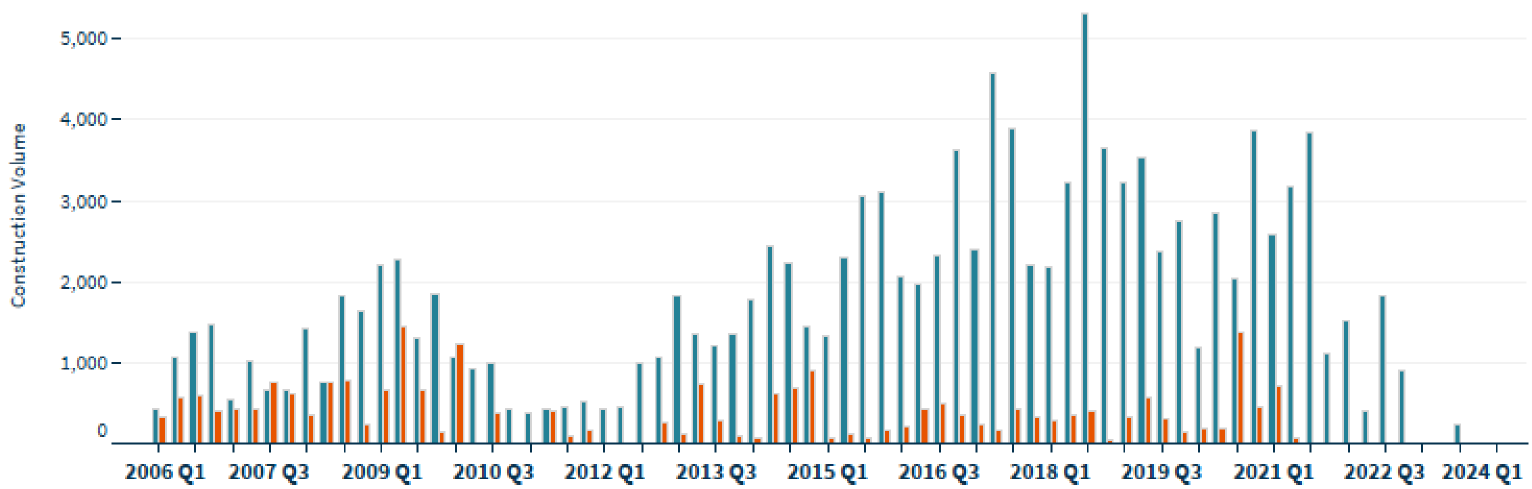
SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | *Condos*



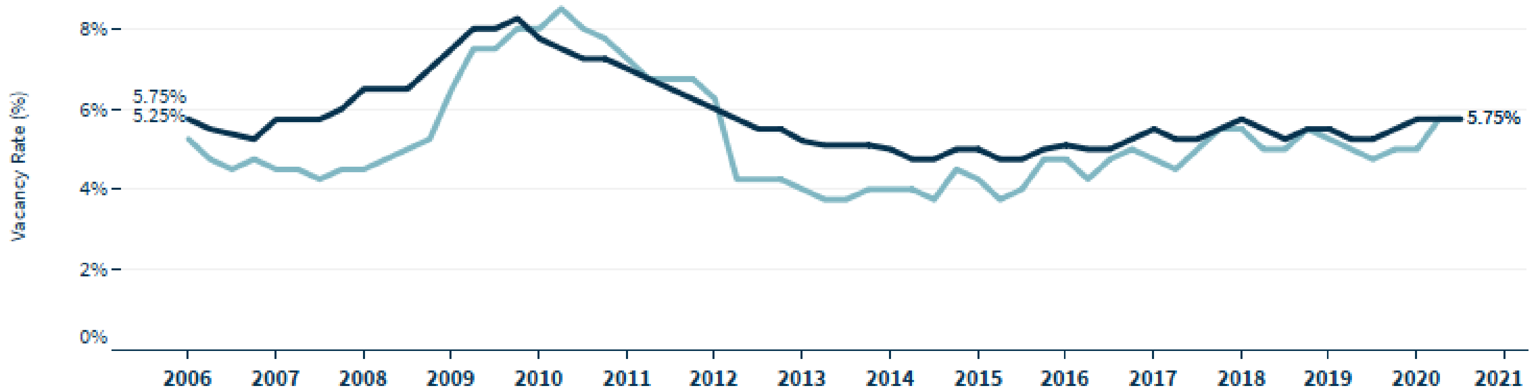
Vacancy & Rent Composite Estimates

Vacancy Rates

Seattle | *National*

Q3 2020 Vacancy Rate:

5.75%

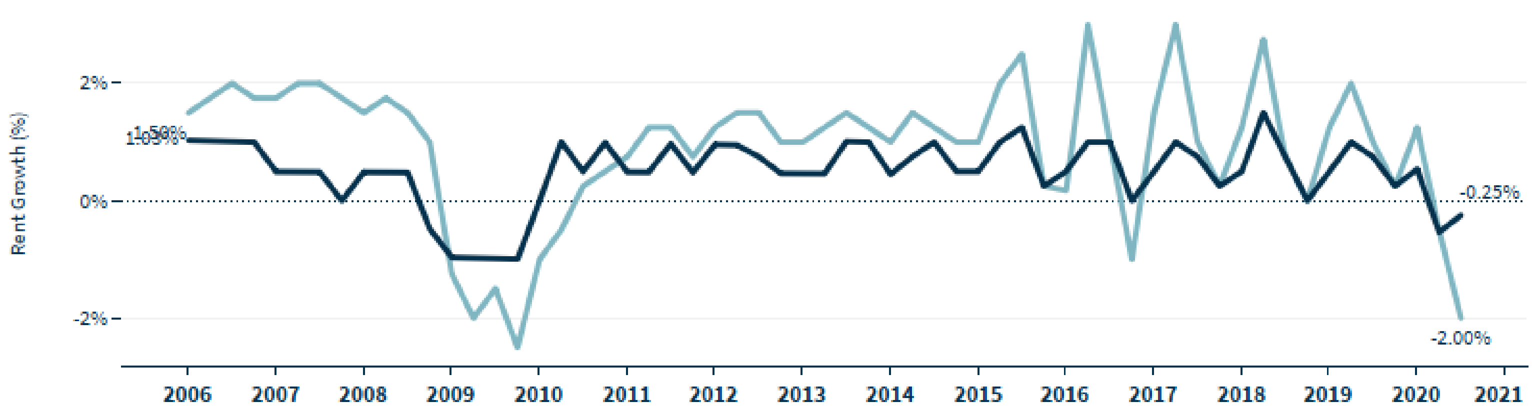


Asking Rent Growth

Seattle | *National*

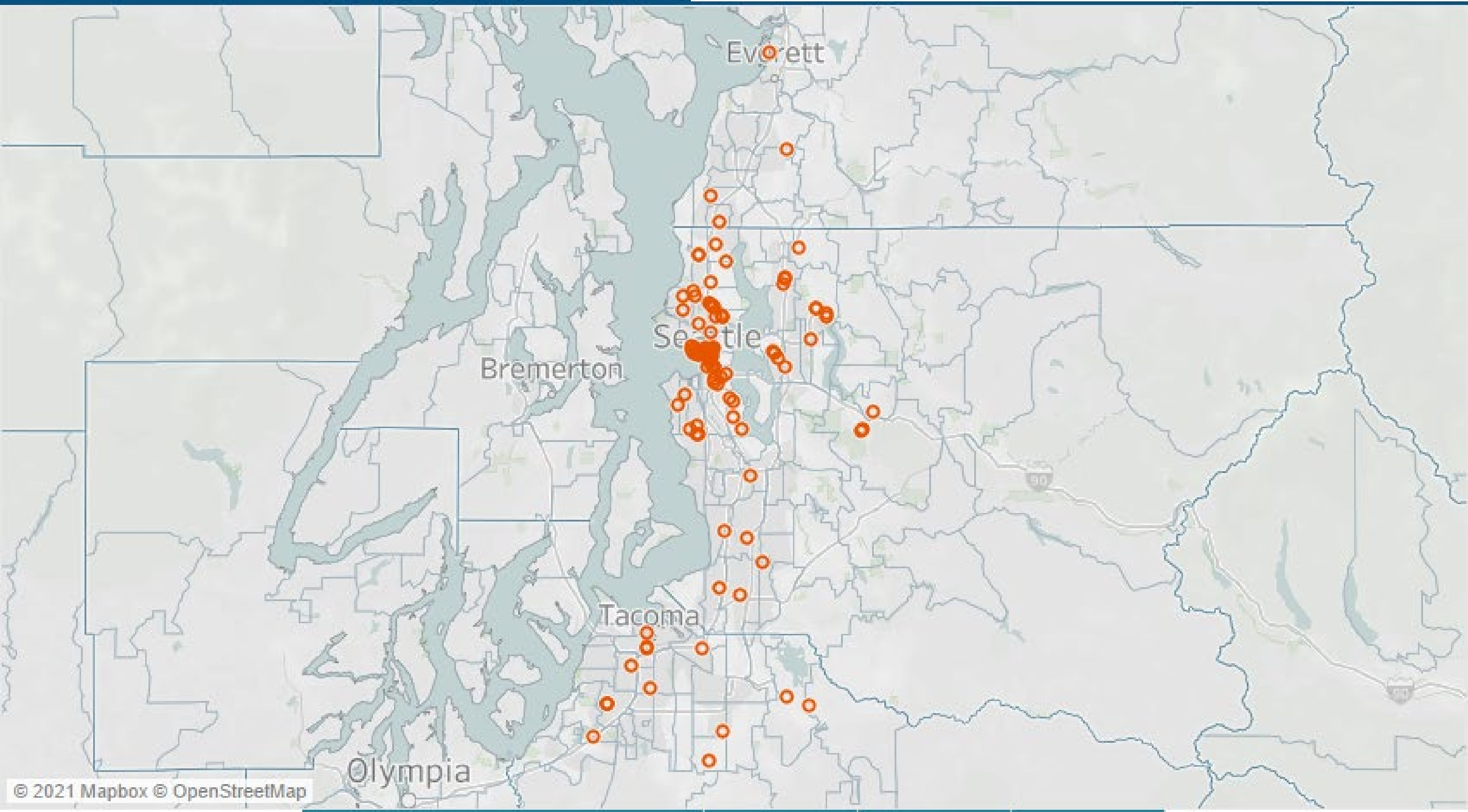
Q3 2020 Asking Rent:

$1,790



Source: Multifamily Economics and Research

Construction: Bidding & Underway



Sub-Market	Projects	Units	Sq. Ft. (M)
Capitol Hill/Central District	15	1,083	0.95M
Downtown Seattle	18	6,209	6.80M
East Bellevue/Issaquah	4	346	0.49M
East Pierce County	5	567	0.61M
Everett	1	266	0.25M
Federal Way/Des Moines	2	480	0.49M
Kent/Auburn	3	1,054	1.16M
Kirkland/Bothell	5	1,748	1.92M
Lynnwood/Edmonds/Mukilteo	2	255	0.38M
North Seattle/Shoreline	5	1,069	1.21M
North Tacoma	3	87	0.07M
Redmond	5	1,811	1.75M
SeaTac/Burien	2	80	0.10M
South Lake Union/Queen Anne	6	2,273	2.04M
South Tacoma/University Place	2	20	0.02M
Southwest Pierce County	4	55	0.04M
University District/Ballard	13	1,518	1.72M
West Bellevue/Mercer Island	3	818	0.99M
West Seattle/South Seattle	11	863	0.96M
Grand Total	**109**	**20,602**	**21.95M**

Multifamily: ESR Team

We welcome your feedback! Please give us a call or send an email with any comments, suggestions, or insight you may have or information you'd like covered in future editions.

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi