

Multifamily Metro Outlook:

Seattle - Q1 2022

Overview:

- The Seattle metro area continues to recovery rapidly after having a tumultuous time in dealing with the onset of the virus in 2020. According to CoStar, job growth within the metro continues to expand at a rapid pace and is out-pacing the national rate at 6.1% compared to 4.4%. However, even with the robust recovery, as of Q1 2022, the metro's recovery is just shy of 30,000 jobs from its pre-pandemic high employment total.
- Apartment fundamentals continue to trend in the right direction. Vacancies are approximately 4.75% and rent growth continues to stay positive as it was 2.75% during the period ending Q1 2022. Furthermore, there is a significant amount of new supply coming online. According to Dodge Pipeline, approximately 30,000 units are underway with an expected delivery through 2024.

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% over the next 5 years, besting the national average rate of -0.3%.
- 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 indefinitely and many have even adopted hybrid work models going forward.
- The tech industry in the metro is dominated by tech heavyweights such as Amazon, Apple, Google, Microsoft, etc., however, there is a growing startup scene emerging within the cloud computing cluster of the tech industry. According to Moody's Analytics, the Seattle metro had more venture capital deals and money flowing than many other tech dominant West coast metros such as the Bay Area and Los Angeles in 2021.

Market Weaknesses:

- Boeing (and the local Seattle Aerospace industry as a whole) continue to struggle in the metro area. Boeing's first hurdle started back in 2018 as a result of the 737 MAX fiasco. Furthermore, Boeing continues to experience a myriad of issues. Coupled with the ongoing pandemic impacting manufacturing and trade, Boeing has had to make over 10,000 cuts to its local job force, and more are potentially looming. After dealing with job cuts, impacted production of aircrafts due to global supply chain issues and massive ripple effects from the 737 MAX aircraft, Moody's Analytics has reported of a new looming issue for Boeing. Late in 2020, the 737 MAX was deemed safe again to fly, however supply chain issues still persist. Furthermore, demand for travel has recovered to pre-pandemic levels, however as a result of Boeing decreasing their footprint in the metro, coupled with supply chain issues, it will be harder for the jet maker to keep up with demand in the short-term as it regains its footing.
- Although the tech sector is the economic crutch of the metro, it is prone to volatility. As a result of the ongoing supply chain disruptions and the increased interest rate environment, there is a bit of "throttling" taking place within the Seattle tech industry. According to CoStar, companies such as Microsoft and Meta (Facebook) have slowed hiring and/or do not plan on renewing lease agreements once they expire in the near future.
- As of January 1, 2021, Seattle's new corporate payroll tax has gone into effect. As a result of the new tax, companies with payroll taxes greater than \$7 million will be charged a new set of taxes for different salary ranges. These new corporate taxes will make retaining employers difficult as they look to trim costs.

Development:

- About 62,000 apartment units have been added to rental inventory since the beginning of 2017. Additionally, there are nearly 30,000 units underway.
- Since the beginning of 2006, nearly 21,000 condo units have been completed. Condo development is expected to moderate throughout 2022 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, especially due to the increased interest rates that have recently taken place.

Outlook:

- Rental market fundamentals continue to progress after their swift recovery in previous quarters. Vacancies continue to hover in the 4-5% range (even with the supply uptick) and furthermore, rent growth continues to be very strong after an extended rough patch at the onset of the virus.
- Seattle will continue to be an 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 a reduced local footprint, the continued presence of COVID-19 and manufacturing turmoil, have already caused major supply side issues and job force reduction that will continue to persist throughout 2022.

Five Year Metro Area Growth Forecast

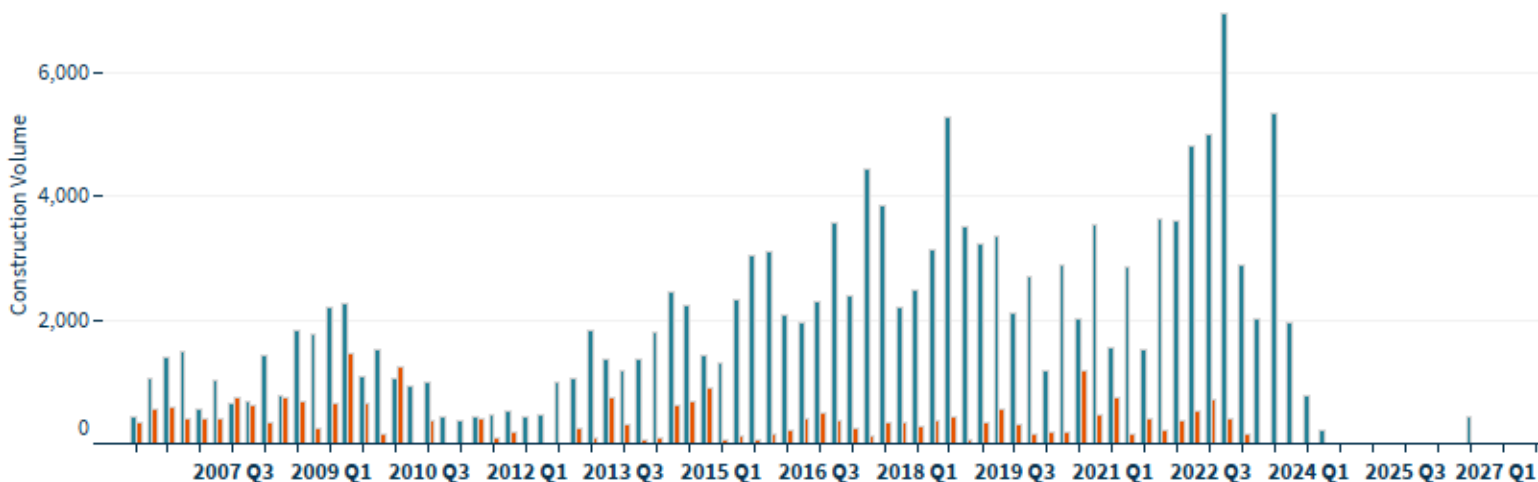
	Q4 2021	Q4 2026	Seattle (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	3,155	3,332	1.09%	0.47%
Households (000s)	1,231	1,342	1.75%	0.90%
Renting Cohort (Ages 20-34) (000s)	725	730	0.16%	-0.30%
Total Employment (000s)	1,753	1,910	1.73%	1.08%
Median Household Income	\$98,263	\$116,148	3.40%	3.30%
Median SF Home Price	\$784,326	\$879,276	2.31%	1.93%
Net Migration (Annualized)	21,635	21,738		

Source: Moody's

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



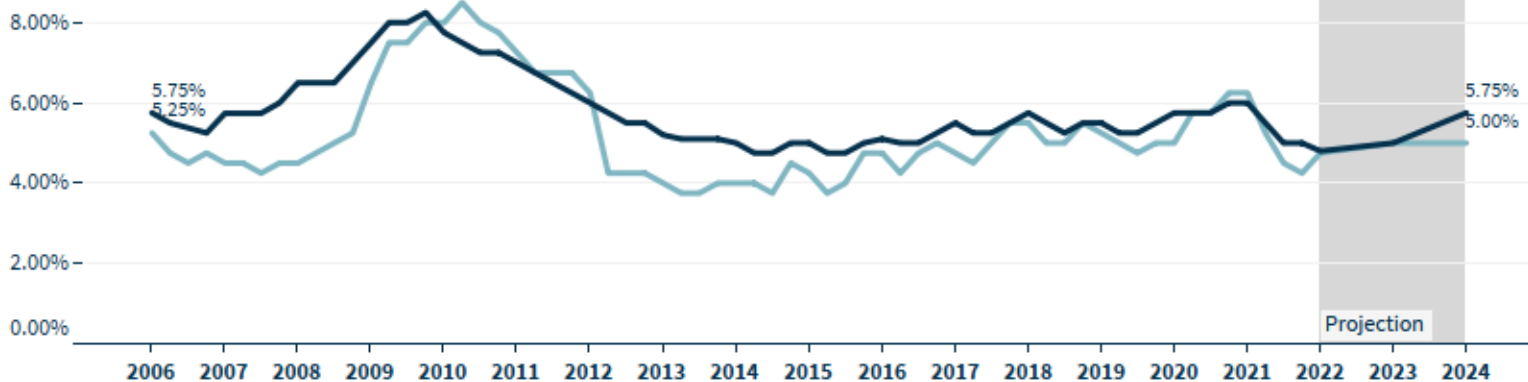
Vacancy & Rent Composite Estimates

Vacancy Rates

Seattle | National

Q1 2022 Vacancy Rate:

4.75%

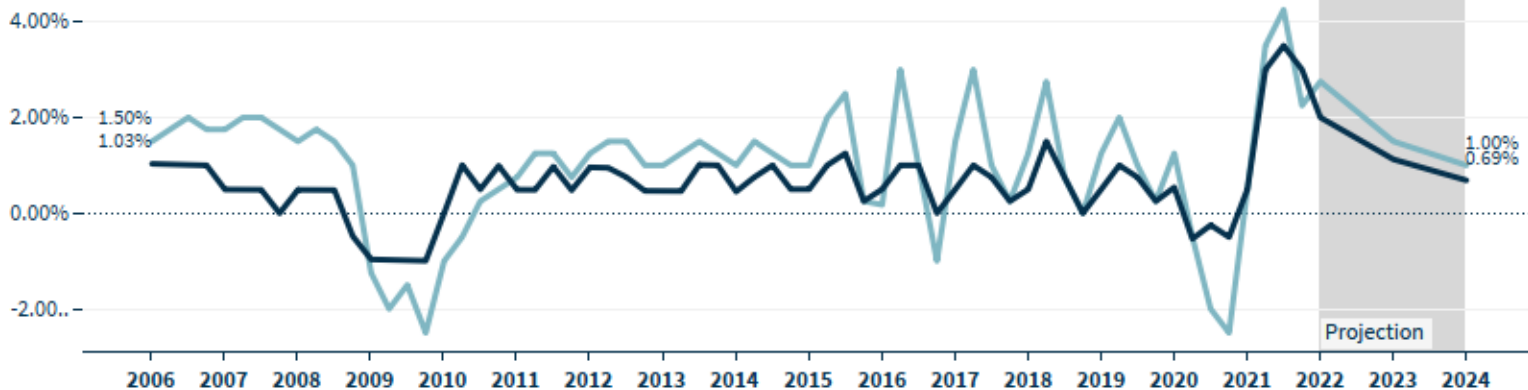


Asking Rent Growth

Seattle | National

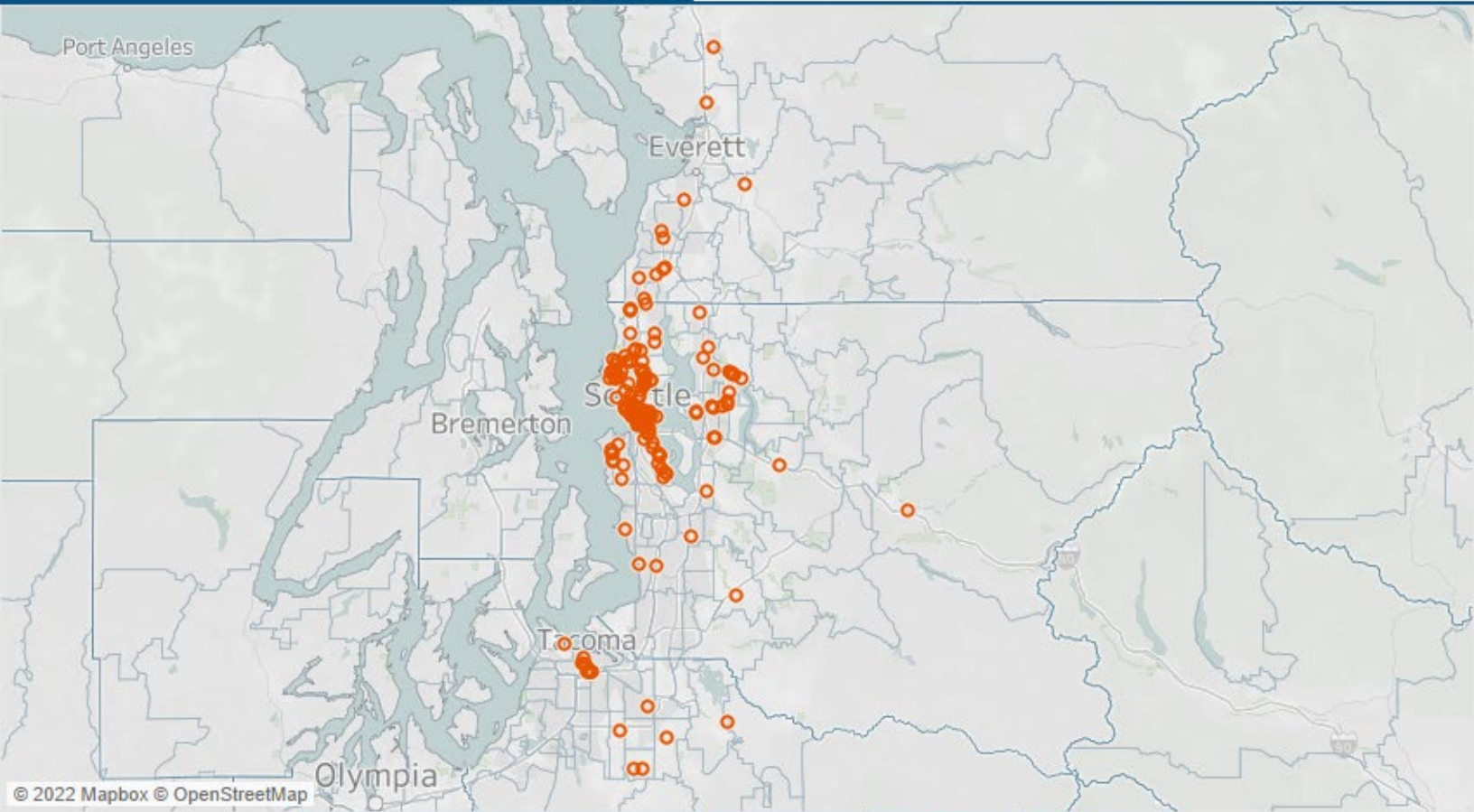
Q1 2022 Asking Rent:

\$1,980



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>TWR Submarket Name</i>	<i>Apartments</i>	<i>Building Units</i>	<i>Building Area SF</i>
Capitol Hill/Central District	34	3,828	3.43M
Downtown Seattle	14	6,114	7.28M
East Bellevue/Issaquah	7	1,497	1.64M
East Pierce County	6	108	0.13M
Everett	4	912	1.35M
Federal Way/Des Moines	1	14	0.02M
Kent/Auburn	2	639	0.73M
Kirkland/Bothell	4	774	0.77M
Lynnwood/Edmonds/Mukilteo	7	1,926	1.97M
North Seattle/Shoreline	10	1,598	1.68M
North Tacoma	12	1,988	1.84M
Redmond	8	2,494	2.35M
Renton	2	437	0.48M
SeaTac/Burien	1	230	0.25M
South Lake Union/Queen Anne	15	2,117	2.23M
University District/Ballard	29	3,526	3.60M
West Bellevue/Mercer Island	2	719	1.02M
West Seattle/South Seattle	18	1,105	0.93M
Grand Total	176	30,026	31.69M

Multifamily: ESR Team

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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

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