

Multifamily Metro Outlook:

Seattle - Q3 2021

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 6.2% compared to 4.6%.
- Apartment fundamentals had a very tumultuous 2020, however as of Q3 2021, the recovery continues to expand. Vacancies continue to tighten to 5.25% and rent growth continues its ascension as it was 4.25% during the same period. Furthermore, there is a significant amount of new supply coming online. According to Dodge Pipeline, approximately 79,000 units are in the planning stages and an additional 27,000 units are underway with an expected delivery throughout 2022.

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 0.3% 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.
- Amazon's growth in the Seattle metro has blossomed some friendly competition amongst tech titans. Amazon's recent moves of expansion have 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:

- Port activity for the Northwest Seaport Alliance (which includes Seattle and Tacoma ports) was down approximately -8% in 2020. However, activity has been much more fruitful in 2021 as import activity has increased by 23% as of Q3 2021.
- 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 the company is sitting on a stockpile of completed aircrafts as Boeing waits for China to approve the airline. Awaiting approval from China means that Boeing will be sitting on inventory that could help get the company regain its footing, but until China decides, the company is in limbo.
- As the local economy continues to recover from the virus, 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 lost 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.
- 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 64,000 apartment units have been added to rental inventory since the beginning of 2016. However, there are nearly 79,000 units in the planning stages and nearly 27,000 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 continue their swift recovery. Vacancies continue to decline at 4.5% (even with the supply uptick) and furthermore, rent growth has finally gained its footing after an extended rough patch.
- 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 trade disputes with China, the arrival of COVID-19 and manufacturing turmoil, have already caused major supply side issues and job force reduction that will continue to persist into 2022.

Five Year Metro Area Growth Forecast

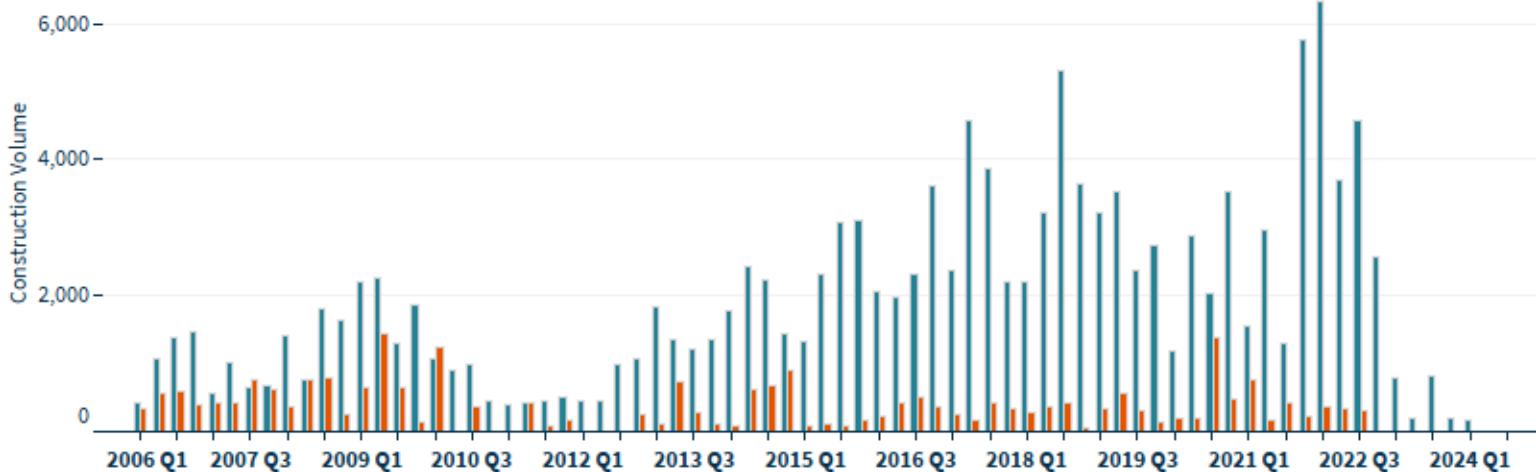
	Q4 2020	Q4 2025	Seattle (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	3,134	3,319	1.15%	0.52%
Households (000s)	1,198	1,340	2.26%	1.41%
Renting Cohort (Ages 20-34) (000s)	724	736	0.32%	-0.26%
Total Employment (000s)	1,647	1,896	2.85%	1.71%
Median Household Income	\$96,022	\$112,283	3.18%	2.83%
Median SF Home Price	\$698,387	\$901,917	5.25%	4.30%
Net Migration (Annualized)	18,521	22,906		

Source: Moody's

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



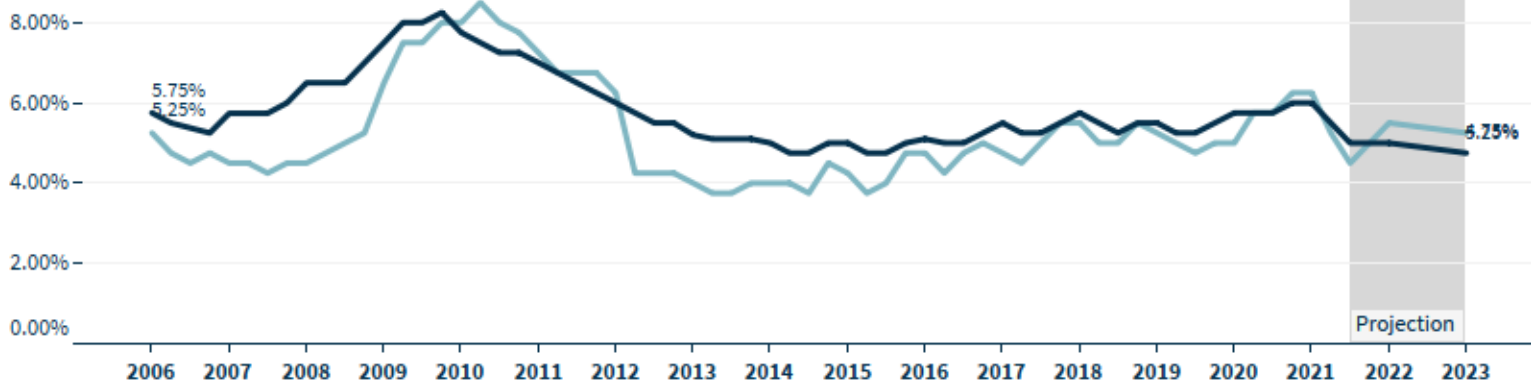
Vacancy & Rent Composite Estimates

Vacancy Rates

Seattle | National

Q3 2021 Vacancy Rate:

4.50%

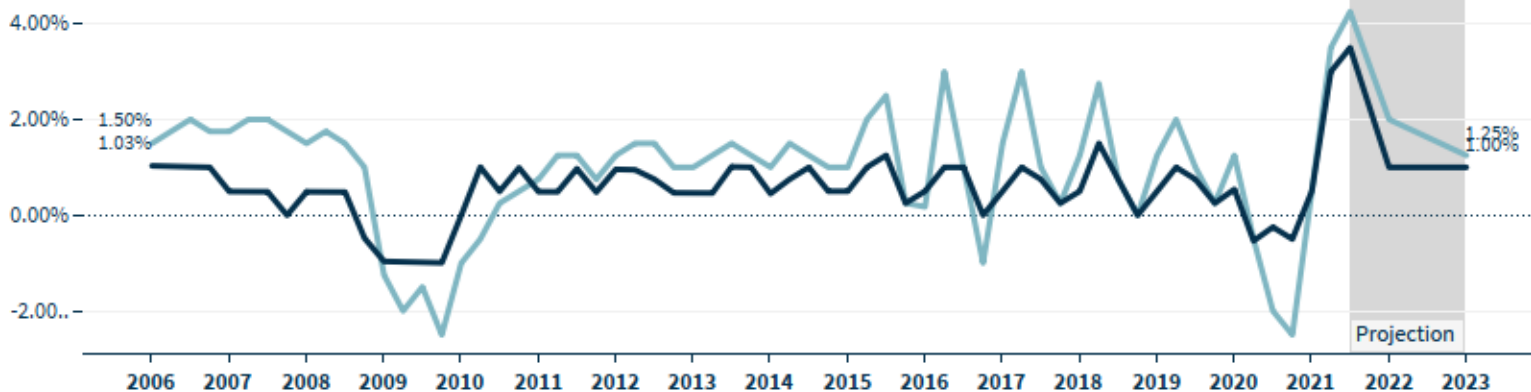


Asking Rent Growth

Seattle | National

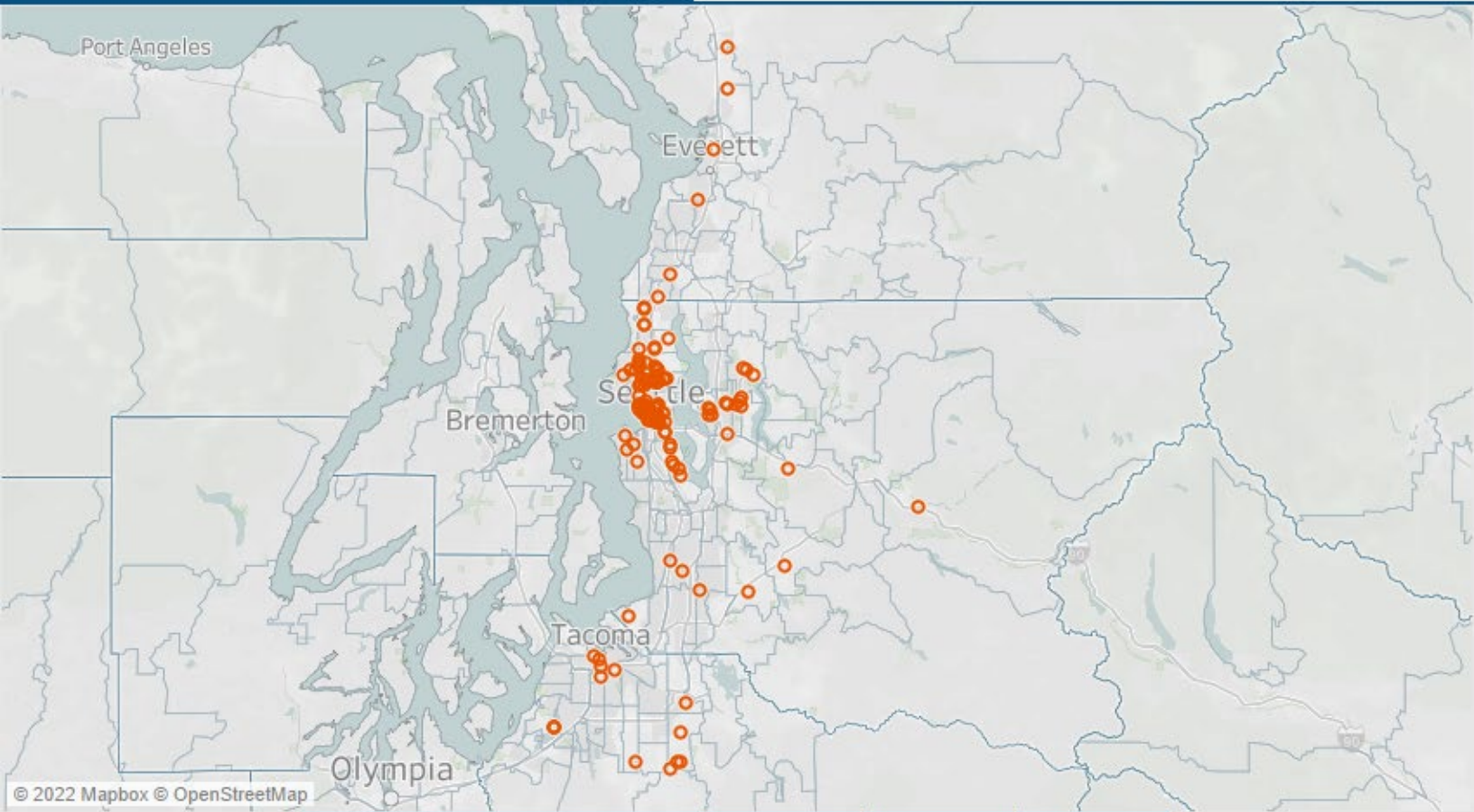
Q3 2021 Asking Rent:

\$1,900



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>Sub-Market</i>	<i>Projects</i>	<i>Units</i>	<i>Sq. Ft. (M)</i>
Capitol Hill/Central District	19	2,663	2.62M
Downtown Seattle	19	7,278	8.16M
East Bellevue/Issaquah	7	1,412	1.68M
East Pierce County	7	229	0.27M
Everett	4	1,003	1.40M
Federal Way/Des Moines	1	5	0.01M
Kent/Auburn	4	1,343	1.49M
Lynnwood/Edmonds/Mukilteo	2	409	0.38M
North Seattle/Shoreline	9	1,692	1.76M
North Tacoma	3	449	0.46M
Redmond	5	1,865	1.67M
Renton	1	186	0.27M
South Lake Union/Queen Anne	13	3,321	3.54M
South Tacoma/University Place	1	30	0.02M
Southwest Pierce County	3	18	0.02M
University District/Ballard	31	2,988	3.37M
West Bellevue/Mercer Island	4	828	1.02M
West Seattle/South Seattle	10	1,271	1.23M
Grand Total	143	26,990	29.35M

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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