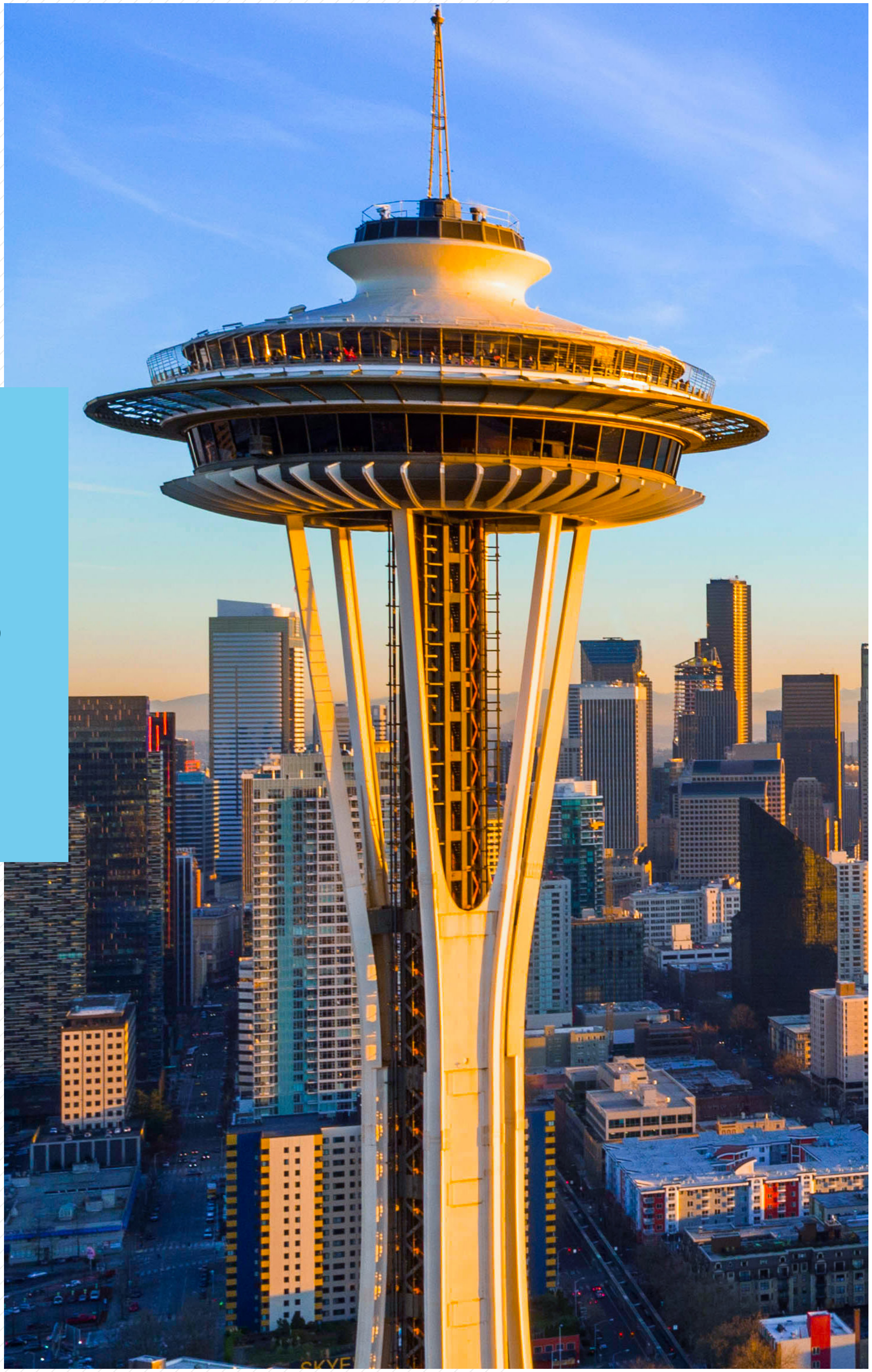
COMPREHENSIVE HOUSING MARKET ANALYSIS

Seattle-Bellevue-Everett, Washington



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

As of June 1, 2023

Share on:

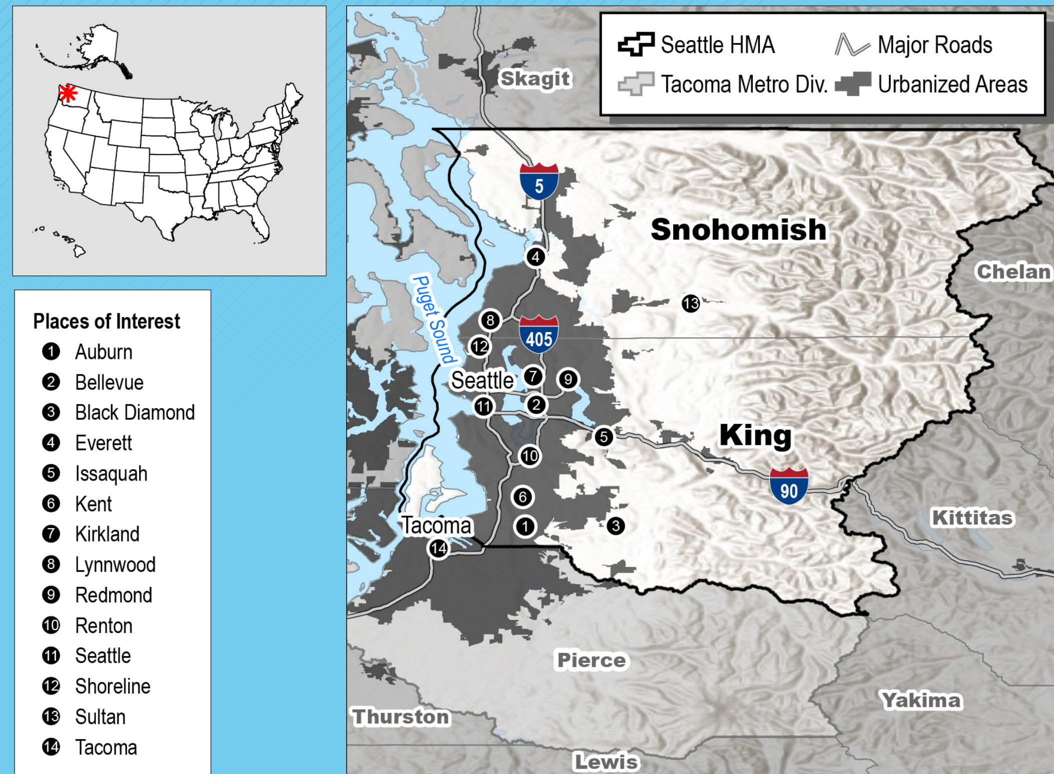
Executive Summary

Housing Market Area Description

Situated along the Puget Sound in northwestern Washington State, the Seattle-Bellevue-Everett Housing Market Area (hereafter, Seattle HMA) is conterminous with the metropolitan division of the same name and includes King and Snohomish Counties. The HMA is an aerospace and technology (hereafter, tech) hub anchored by globally renowned companies, including Amazon.com, Inc., The Boeing Company, and Microsoft Corporation (hereafter, Amazon, Boeing, and Microsoft, respectively).

The current population of the HMA is estimated at 3.13 million.

Amazon, with its global headquarters in the city of Seattle, has been a giant catalyst for economic growth throughout the HMA, expanding from 5,000 employees in 2010 to a current estimate of approximately 65,000 employees. Among the largest 100 metropolitan areas in the country, the Seattle-Tacoma-Bellevue Metropolitan Statistical Area (hereafter, Seattle MSA)—which includes King, Snohomish, and Pierce Counties—ranked number one for science, technology, engineering, and math (STEM) professionals in 2023 (WalletHub). The tech industry has an estimated economic impact of $138 billion on the state of Washington, representing 20 percent of the state economy compared with the national average of less than 9 percent, and approximately 95 percent of the state activity is concentrated in the Seattle MSA (*The Seattle Times*).



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

Strong: During the 12 months ending May 2023, nonfarm payrolls in the Seattle HMA were 3.4 percent above the level of payrolls during the 12 months ending May 2019—the most recent corresponding period before the COVID-19 pandemic—compared with 3.2 percent nationally.

Nonfarm payrolls increased by 69,400 jobs, or 4.0 percent, during the past 12 months, following a gain of 85,700 jobs, or 5.2 percent, during the 12 months ending May 2022. All payroll sectors added jobs except the wholesale and retail trade sector. The tech-heavy professional and business services sector has expanded the most since 2020. The unemployment rate averaged 3.0 percent during the past 12 months compared with 3.3 percent a year ago. During the 3-year forecast period, nonfarm payrolls are expected to increase by an average of 50,500 jobs, or 2.7 percent, annually.

Sales Market

Balanced: Home sales price growth slowed to 1 percent during the 12 months ending May 2023 compared with a 17-percent increase a year before (CoreLogic, Inc., with adjustments by the analyst).

The sales vacancy rate in the HMA is estimated at 1.6 percent as of June 1, 2023, up from 0.9 percent in April 2020, mainly due to the rise in mortgage rates since early 2022, which has suppressed sales demand considerably. Home sales in the HMA declined 38 percent during the past 12 months compared with a 4-percent reduction a year before. The supply of for-sale housing increased year over year from 0.8 to 1.0 month as of May 2023 (Redfin, a national real estate brokerage). During the forecast period, demand is anticipated for 24,800 new sales units in the HMA, and the 4,325 homes currently under construction will meet a portion of the demand.

Rental Market

Balanced: The rental vacancy rate is currently estimated at 6.0 percent, up from 5.0 percent in April 2020 when conditions were tighter.

Apartment market conditions in the HMA are also balanced, with a 6.0-percent vacancy rate as of the second quarter of 2023 compared with 5.4 percent a year ago (CoStar Group). The rate increased from a year ago because absorption fell while apartment completions were elevated due to record levels of rental construction in 2021 and 2022, much of which has recently entered the market. Demand is estimated for 28,500 rental units during the forecast period. The 34,750 units under construction will more than satisfy all expected demand for the next 3 years.

TABLE OF CONTENTS

3-Year Housing Demand Forecast

		Sales Units	Rental Units
Seattle HMA	Total Demand	24,800	28,500
	Under Construction	4,325	34,750

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of June 1, 2023. The forecast period is June 1, 2023, to June 1, 2026.
Source: Estimates by the analyst

Economic Conditions

Largest Sector: Professional and Business Services

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

Primary Local Economic Factors

The tech industry in the HMA has expanded rapidly since 2010, propelled by the expansion of Big Tech—a standard term to describe the most dominant companies in the tech industry, including the Big Five (Amazon, Apple Inc., Meta Platforms, Inc., Google LLC [Alphabet Inc.], and Microsoft), of which several are top employers in the HMA (Table 1). The state of Washington has the highest percentage of tech workers in the country at 9.4 percent compared with the national average of 5.8 percent (*The Seattle Times*). The industry accounts for 30 percent of the economy of the Seattle MSA and nearly 13 percent of the MSA workforce.

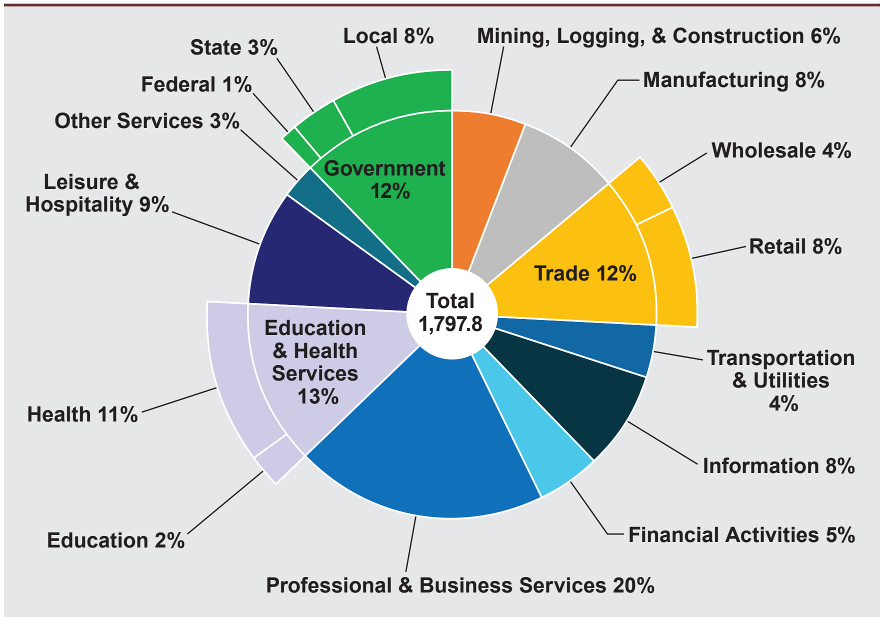
The tech industry supports jobs in several employment sectors, directly affecting the professional and business services and the information sectors, with indirect effects on the manufacturing, the transportation and utilities, the wholesale and retail trade, and the leisure and hospitality sectors. In 2010, the professional and business services sector accounted for 14 percent of total nonfarm payrolls, and that share grew to 20 percent as of the current date (Figure 1). Similarly, information sector payrolls currently account for 8 percent of payrolls compared with less than 5 percent in 2010. These two sectors were the only employment sectors in the HMA to add jobs in 2020 during the height of the pandemic and have been the fastest growing sectors since (Figure 2). Conversely, when the pandemic hit and nearly all downtown tech workers started working remotely, the hospitality industry, which caters to the lunchtime rush and after-work crowds, disproportionately suffered. In addition, the large concentration of high-wage earners in the HMA contributes to the relatively high housing prices. Nationally, the median STEM wage was

Table 1. Major Employers in the Seattle HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
The Boeing Company	Manufacturing	69,800
Amazon.com, Inc.	Wholesale & Retail Trade	65,000
Microsoft Corporation	Professional & Business Services	51,362
University of Washington	Government	46,824
Providence Health & Services	Education & Health Services	17,533
Walmart Inc.	Wholesale & Retail Trade	16,000
Fred Meyer	Wholesale & Retail Trade	15,500
Starbucks Corporation	Leisure & Hospitality	11,239
Swedish Health Services	Education & Health Services	10,759
Costco Wholesale Corporation	Wholesale & Retail Trade	9,264

Note: Excludes local school districts.
Source: *Puget Sound Business Journal* Book of Lists

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

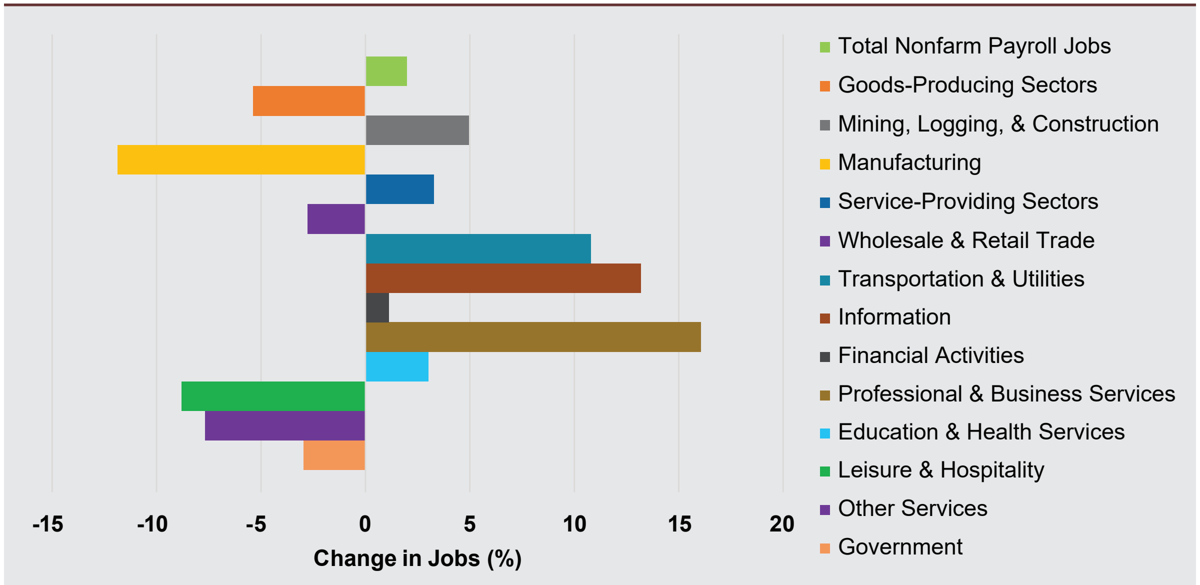


Notes: Total nonfarm payroll is in thousands. Percentages may not add to 100 percent due to rounding. Based on 12-month averages through May 2023.
Source: U.S. Bureau of Labor Statistics

$95,420 in 2021, nearly 2.5 times higher than the non-STEM median wage of $40,120 (U.S. Bureau of Labor Statistics). In the HMA, the average tech wage was $172,009 in 2021, second only to the San Francisco Bay area, where the average tech wage was $185,425 (Global Commercial Real Estate Services [CBRE]).

The city of Seattle remains the epicenter for the tech industry in the HMA. However, in recent years, the city of Bellevue has grown in importance for the industry as well. Information technology jobs increased 40 percent in the city of Bellevue from 2010 to 2020 (*GeekWire*). The city is approximately 10 miles east of the city of Seattle across Lake Washington and is part of the larger geography locally known as the Eastside. The Eastside includes all cities east of Lake Washington, and is where home prices and apartment rents are generally the highest in the HMA. A new light rail extension is expected to be complete in 2025 and will improve the connectivity of the Eastside considerably. The infrastructure will include 10 stops, connecting the cities of Seattle and Bellevue and terminating in the city of Redmond. The city of Redmond is home to the 500-acre Microsoft headquarters campus and the Reality Labs division of Meta. Google and Apple are also major corporate tenants of the Eastside.

Figure 2. Sector Growth in the Seattle HMA, 2020 to Current



Note: Current data are for the 12 months ending May 2023.
Source: U.S. Bureau of Labor Statistics

Current Conditions

Economic conditions in the HMA are currently strong, but job growth slowed during the past year as the economy transitioned from recovery mode to expansion and Big Tech consolidated. During the 12 months ending May 2023, nonfarm payrolls in the HMA increased year over year by 69,400 jobs, or 4.0 percent, to 1.8 million (Table 2). By comparison, payrolls increased by 85,700 jobs, or 5.2 percent, during the 12 months ending May 2022. Strong job growth contributed to current payrolls, which are 3.4 percent above the level of payrolls during the 12 months ending May 2019—the most recent corresponding period before the pandemic—compared with 3.2 percent nationally. For context, in 2020, payrolls in the HMA fell by 101,900 jobs, or 5.8 percent, compared with a 6-percent decline nationally due to the countermeasures to slow the spread of COVID-19.

The rapid tech growth in the HMA, fueled largely by robust demand during the pandemic, has moderated. The level of staffing needed to meet that robust demand is no longer required, nor is the amount of prepandemic office space given the new industry-standard hybrid work model. Nationwide, approximately 560 tech firms have laid off nearly 170,000 employees since the start of 2023 (*GeekWire*). In the HMA, Amazon, Microsoft, and Meta have laid off a combined 6,125 workers since late 2022 (Worker Adjustment and Retraining Notification database, https://esd.wa.gov/about-employees/WARN). Despite significant layoffs, much of the consolidation efforts are in Big Tech because of overzealous hiring during the pandemic, and these companies have job counts in the HMA above prepandemic levels even after the aforementioned reductions. For example, Amazon paused the development of nearly 3 million square feet of office space in the city of Bellevue in 2022 and sublet 55,000 square feet to Flexport, a global supply chain platform startup. However, the presence of Amazon in the city is still large and growing (*Puget Sound Business Journal*). Before the pandemic, Amazon had approximately 2,500 workers in the city of Bellevue, and that figure rose to more than 10,000 as of the summer of 2022, with plans to add 15,000 employees in the next 5 years.

During the 12 months ending May 2023, the professional and business services sector added the most jobs of any employment sector in numeric terms, increasing by 20,200 jobs, or 5.9 percent. By comparison, the sector added 23,800 jobs, or 7.5 percent, during the previous 12 months. Within the sector, the professional, scientific, and technical services industry added 12,600 jobs, or 7.6 percent, reflecting a slowdown compared with a gain of 14,400 jobs, or 9.6 percent during the previous year. Trends are similar in the information sector, with slowing job growth during the past 12 months.

In percentage terms, job growth was swiftest in the leisure and hospitality sector, which increased 11.2 percent, or by 15,900 jobs, during the 12 months ending May 2023, following a 27.4-percent gain, or 30,700 jobs, a year before. Even with strong growth during the past 2 years, the number of jobs in the sector is 8 percent below prepandemic levels, because 51,100 jobs were lost in 2020 due to COVID-19 containment efforts, more than three times as many as in any other economic sector. Despite the ongoing consolidation of Big Tech, the effect of the industry remains huge, especially on the hospitality industry in downtown Seattle. Return-to-work policies—most notably by Amazon, which called its 55,000 Seattle-based employees back to the office 3 days per week starting in May 2023—are correlated with increased economic activity in the leisure and hospitality sector, especially in the South Lake Union and Denny Regrade neighborhoods where Amazon is concentrated (*Axios Seattle*; Amazon.com, Inc.).

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

	12 Months Ending May 2022	12 Months Ending May 2023	Absolute Change	Percentage Change
Total Nonfarm Payroll Jobs	**1,728.4**	**1,797.8**	**69.4**	**4.0**
Goods-Producing Sectors	245.1	256.4	11.3	4.6
Mining, Logging, & Construction	105.0	109.6	4.6	4.4
Manufacturing	140.0	146.9	6.9	4.9
Service-Providing Sectors	1,483.4	1,541.3	57.9	3.9
Wholesale & Retail Trade	215.6	214.1	-1.5	-0.7
Transportation & Utilities	68.3	74.4	6.1	8.9
Information	141.2	142.8	1.6	1.1
Financial Activities	88.6	89.4	0.8	0.9
Professional & Business Services	340.3	360.5	20.2	5.9
Education & Health Services	223.5	232.9	9.4	4.2
Leisure & Hospitality	142.6	158.5	15.9	11.2
Other Services	57.0	59.0	2.0	3.5
Government	206.4	209.6	3.2	1.6

Notes: Based on 12-month averages through May 2022 and May 2023. Numbers may not add to totals due to rounding. Data are in thousands.
Source: U.S. Bureau of Labor Statistics

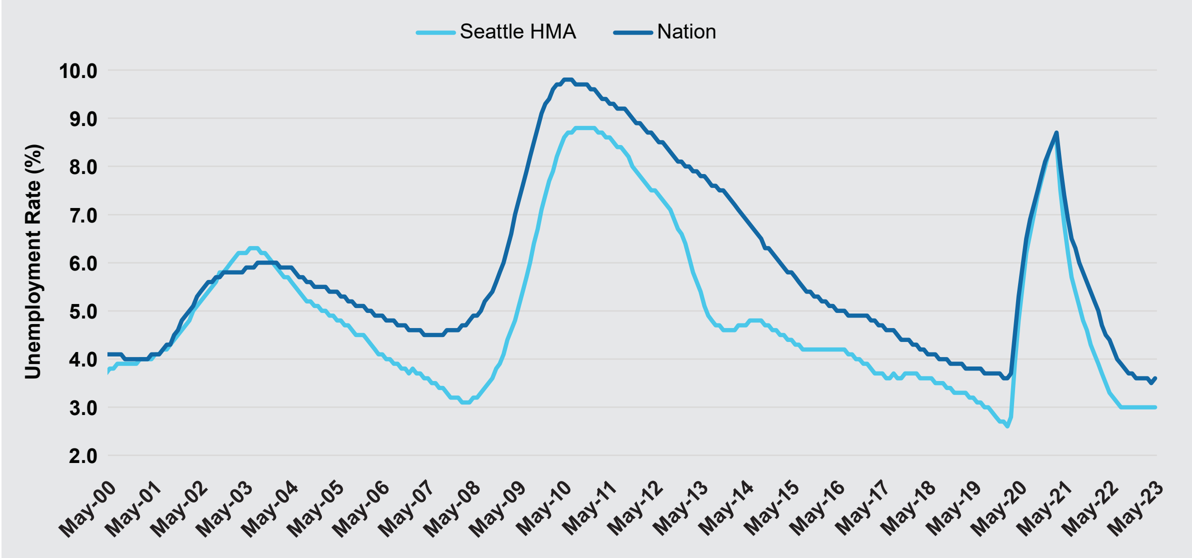
Manufacturing sector payrolls, which generally track employment trends at Boeing, increased during the 12 months ending May 2023 by 6,900 jobs, or 4.9 percent, compared with a decline of 3,100 jobs, or 2.2 percent, a year before. Even with these job gains, payrolls in the sector remain almost 11 percent below prepandemic levels. The aerospace products and parts manufacturing industry, which accounts for nearly one-half of manufacturing sector payrolls in the HMA, was 13 percent below pre-COVID-19 levels, averaging 69,100 jobs during the 12 months ending May 2023. The slow jobs recovery in the sector is due to the disproportionate impacts of the pandemic. Although the sector accounted for 9 percent of payrolls in 2020, it was responsible for 14 percent of all jobs lost, and it continued to lose jobs in 2021, whereas most other sectors started recovering.

The wholesale and retail trade sector was the only employment sector to lose jobs during the past 12 months, falling by 1,500 jobs, or 0.7 percent, compared with an increase of 5,900 jobs, or 2.8 percent, a year earlier. Job declines in the sector occurred mostly because rising interest rates and inflation dampened demand for consumer goods. The food and beverages retailers industry has fully recovered and expanded beyond prepandemic levels, whereas jobs in the general merchandise retailer industry were still 3.8 percent below pre-COVID-19 levels. Currently, wholesale and retail trade sector payrolls are 3.4 percent below prepandemic levels compared with only 2.8 percent below a year ago because payrolls in the sector have fallen.

Current Conditions—Unemployment

The unemployment rate in the HMA averaged 3.0 percent during the 12 months ending May 2023, down from an average of 3.3 percent during the previous 12-month period, because resident employment growth of 3.3 percent outpaced the 3.0-percent growth in the labor force. The rate reached a recent high, averaging 8.5 percent during the 12 months ending February and March 2021 compared with a prepandemic rate of 3.2 percent during the 12 months ending May 2019, and has generally declined every month since. For context, the unemployment rate in the HMA peaked at 8.8 percent during each of the 12-month periods ending August through December 2010 because of the Great Recession. The current rate in the HMA is below the statewide and national unemployment rates of 3.8 and 3.6 percent, respectively (Figure 3).

Figure 3. 12-Month Average Unemployment Rate in the Seattle HMA and the Nation



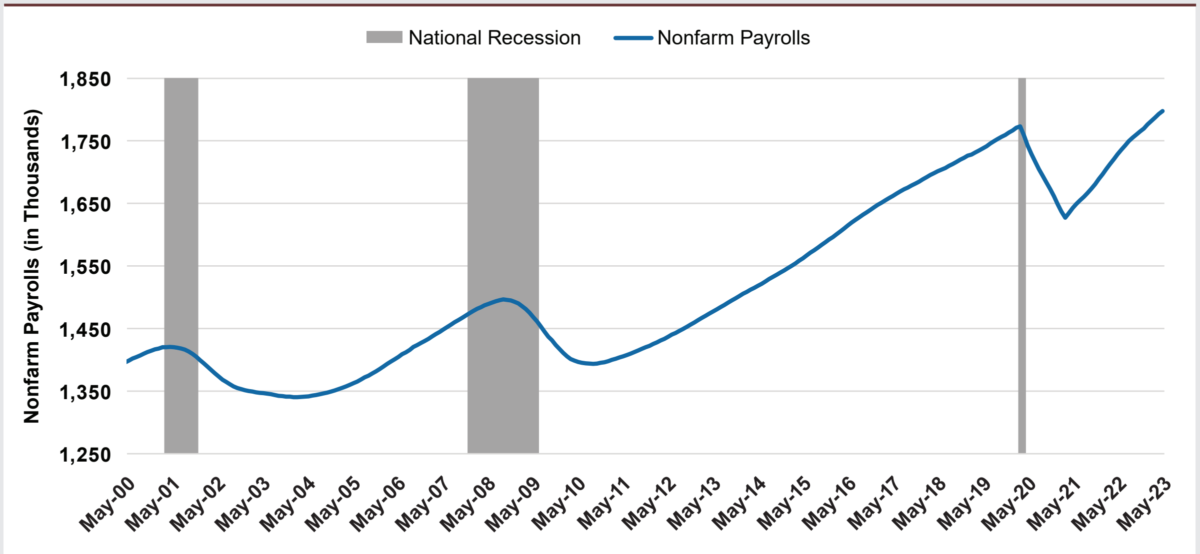
Note: Based on the 12-month moving average.
Source: U.S. Bureau of Labor Statistics

Economic Periods of Significance

2000 Through 2010

Economic growth at the beginning of the 2000s was suppressed because of the dot-com bubble and subsequent recession (Figure 4). The economy recovered and expanded, adding jobs at an average annual rate of 2.4 percent from 2004 through 2007. Job growth was broad across nearly all payroll sectors, largely in response to an influx of new residents to the HMA and increased hiring in the aerospace industry. The manufacturing and the mining, logging, and construction sectors were responsible for 32 percent of total gains. Job gains in the tech-led professional and business services and information sectors combined contributed 36 percent of all jobs gained during the period. Payroll growth slowed to 1.2 percent in 2008 because of job losses that started in the mining, logging, and construction and the financial activities sectors, signaling a turning point in the economy. The localized economic contraction from the Great Recession occurred during 2009 and 2010 when payrolls fell by an average of 48,300, or 3.3 percent, annually. During the 2-year period, the only sectors to continue adding jobs were the government and the education and health services sectors, and the information sector was relatively stable. Approximately 44 percent of total jobs lost were in the mining, logging, and construction and the financial

Figure 4. 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

activities sectors as demand for homes and financial services plummeted. The aerospace industry also contracted, and manufacturing sector payrolls fell an average of 5.1 percent annually.

2011 Through 2019

The economic recovery from the Great Recession began in 2011, and all jobs lost were recovered by mid-2013. From 2014 through 2017, payrolls increased by an average of 45,800 jobs, or 2.9 percent, annually, and all employment sectors added jobs except manufacturing. The average annual decline of 2,200 manufacturing jobs during the period was partly due to Boeing restructuring and moving production of the 787 Dreamliner to South Carolina. Nearly 40 percent of the jobs gained were in the professional and business services and the information sectors as the tech industry expanded considerably. Strong hiring at Amazon had a major effect on job growth in nearly all sectors of the economy and built a wealth of human capital that attracted other Big Tech to the HMA. Elevated net in-migration during this period, mainly caused by the strong jobs market, resulted in increased demand for new homes, and the mining, logging, and construction sector added an average of 6,300 jobs, or 7.7 percent, annually.

During 2018 and 2019, job growth in the HMA averaged 39,300 jobs, or 2.3 percent, annually. The reduced growth rate was partly due to job declines in the wholesale and retail trade and the government sectors and decelerating growth in all but two of the remaining employment sectors. During this period, however, the tech industry continued to grow, and information sector payrolls increased at an accelerated rate, adding an average of 8,800 jobs, or 7.8 percent, annually compared with an average annual increase of 5,100 jobs, or 5.3 percent, from 2014 through 2017. The financial activities sector also added jobs at a faster rate than the previous period, because home sales markets tightened considerably, and the demand for mortgage lending services increased.

Forecast

During the 3-year forecast period, nonfarm payrolls are expected to increase at an average annual rate of 2.7 percent, slower than the current expansion but higher than the average rate for the 2 years prior to the pandemic. Although Big Tech is currently restructuring, substantial job growth is expected in emerging tech fields, such as artificial intelligence (AI) and blockchain, and the payroll sectors that support them. Approximately 40 percent of job openings in the tech industry are in emerging tech, where the HMA currently ranks at the top for job openings among all metropolitan areas in the country (*The Seattle Times*). Walmart Inc.—generally not considered a tech company—moved its Global Tech team to the HMA in 2021 and sublet nearly 20,000 square feet in October 2022 next door to Amazon offices in the city of Bellevue, with 200 jobs currently open in software development and engineering (*Puget Sound Business Journal*). Moderna, Inc., a biotech firm, is opening an office in South Lake Union as part of a West Coast expansion, with plans to hire 220 workers focused on AI and cloud-based tools. Furthermore, changing return-to-work policies at Big Tech companies will contribute to the ongoing downtown recoveries in the cities of Seattle and Bellevue, leading to job gains in the leisure and hospitality sector.

Population and Households

Current Population: 3.13 Million

Since 2017, all net in-migration to the Seattle HMA has been international in origin, mostly from Asia.

Population Trends

As of June 1, 2023, the population of the HMA is estimated at 3.13 million (Table 3). Since April 2020, population growth has averaged 10,300 people, or 0.3 percent, annually compared with an average annual increase of 45,300 people, or 1.6 percent, from April 2010 to April 2020. Since 2020, net natural increase has accounted for all population growth in the HMA compared with 37 percent from 2010 to 2020, as significant net out-migration from 2020 to 2021 has offset in-migrations since 2021 (Figure 5). Net natural change was relatively stable for 2 decades until the pandemic, averaging 16,500 a year from 2000 to 2019 before falling to an average of 11,350 a year in 2020 and 2021.

Population growth trends in the HMA are generally correlated with economic conditions. Job losses because of the dot-com recession in the early 2000s suppressed population growth, which averaged 14,100 people, or 0.6 percent, annually from 2001 to 2004. During this period, net natural increase accounted for all the population growth on average because of net out-migration from 2002 to 2003, largely due to the weak jobs market, which deterred people from moving to the HMA. From 2004 to 2008, a period of strong economic growth, net in-migration accounted for 55 percent of total population growth, averaging 37,700 people, or 1.5 percent, a year. Momentum from the prolonged economic expansion contributed to record-high net in-migration and population growth of 48,650 people, or 1.9 percent, from 2008 to 2009. Population growth

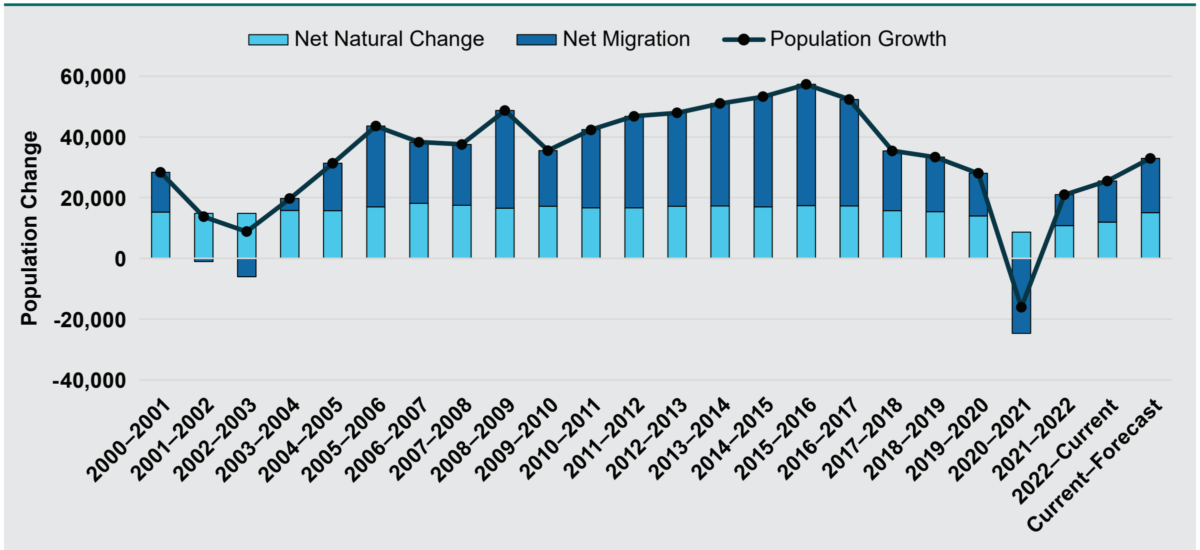
Table 3. Seattle HMA Population and Household Quick Facts

Population Quick Facts		2010	Current	Forecast
	Population	2,644,584	3,130,000	3,229,000
	Average Annual Change	30,150	36,900	32,950
	Percentage Change	1.2	1.3	1.0

Household Quick Facts		2010	Current	Forecast
	Households	1,057,557	1,262,900	1,307,000
	Average Annual Change	12,200	15,600	14,700
	Percentage Change	1.2	1.4	1.2

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 the current date (June 1, 2023) to June 1, 2026.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by the analyst

Figure 5. Components of Population Change in the Seattle HMA, 2000 Through the Forecast



Notes: Data displayed are average annual totals. The forecast period is the current date (June 1, 2023) to June 1, 2026.
Sources: U.S. Census Bureau; current to forecast—estimates by the analyst

slowed to an average of 35,050 people, or 1.3 percent, from 2009 to 2010 during the peak year of job losses in the HMA.

From the start of economic recovery in 2011 to the end of the peak years of net in-migration in 2017, the population of the HMA increased by an average of 51,500, or 1.8 percent, annually, and net in-migration accounted for two-thirds of the growth. During that period, domestic net in-migration accounted for about 40 percent of total net in-migration, and international contributed nearly 60 percent. Asia is currently and has consistently been one of the top origins of migrants to the HMA (Table 4). That demographic is the second most represented in the tech industry nationally, accounting for more than 25 percent of workers (CBRE).

From 2017 to 2019, population growth slowed to an average of 34,400 people, or 1.1 percent, and net in-migration accounted for 55 percent. Despite continued tech growth throughout the HMA, international net in-migration to the HMA started slowing in 2017, partly in response to changes in federal immigration policies. Also, 2017 was the same year domestic net out-migration commenced, mainly because of a prolonged period of tight sales market conditions in the HMA and a persistent lack of affordable home inventory, which enticed many households to move to Pierce County, where home prices are considerably lower. Population growth slowed further to 1.0 percent from 2019 to 2020.

Table 4. Migration Flows

Into HMA	
Asia	23,133
Los Angeles-Long Beach-Anaheim, CA	8,813
Portland-Vancouver-Hillsboro, OR-WA	8,005
Europe	6,794
San Francisco-Oakland-Berkley, CA	6,103
Out of HMA	
Spokane-Spokane Valley, WA	7,954
Olympia-Lacey-Tumwater, WA	7,010
Bremerton-Silverdale-Port Orchard, WA	6,264
Phoenix-Mesa-Chandler, AZ	6,069
Portland-Vancouver-Hillsboro, OR-WA	5,786
Net into HMA	
Los Angeles-Long Beach-Anaheim, CA	3,228
Chicago-Naperville-Elgin, IL-IN-WI	2,626
San Francisco-Oakland-Berkley, CA	2,250
Portland-Vancouver-Hillsboro, OR-WA	2,219
New York-Newark-Jersey City, NY-NJ-PA	2,154

Notes: Data are for the Seattle-Tacoma-Bellevue Metropolitan Statistical Area, which includes Pierce County. Out-migration to foreign destinations is not included in the Out of HMA or Net into HMA totals.
Source: U.S. Census Bureau Migration Flows, 2016–2020 American Community Survey 5-year data

International net in-migration to the HMA fell 20 percent from already-declining levels, and increased deaths due to COVID-19 caused net natural increase to fall to unprecedented lows. The population declined by 9,425, or 0.3 percent, from 2020 to 2021 when low levels of international net in-migration offset only one-fourth of the domestic net outflow. Subsequently, international net in-migration grew in 2022, surpassing prepandemic levels considerably, partly because of waning COVID-19 effects but also because of rapid hiring in the tech industry. At the same time, domestic net out-migration slowed as interest rates rose, housing market conditions eased, and Big Tech announced return-to-work policies. From 2021 to 2022, the HMA population increased by an average of 21,000, or 0.7 percent, and net in-migration accounted for 49 percent of the increase. During the same time, net natural increase averaged 10,750, reflecting a 21-percent increase from the low of 8,900 from 2020 to 2021.

Population by Geography

King County is the predominant county of the HMA, constituting approximately three-fourths of the HMA population in 2022 (U.S. Census Bureau). Snohomish County to the north has an economic center in the city of Everett, where Boeing has a significant presence, but otherwise is generally considered a bedroom community for those working in King County.

Suburban cities, specifically those on the periphery, were among the fastest growing in the HMA from April 2020 to July 2022, coinciding with the largest swaths of buildable land and new home construction. The city of Black Diamond in southeastern King County grew 35 percent during the period, adding almost 1,650 people, and the city of Sultan in northeastern Snohomish County grew 20 percent, or by nearly 1,050 people. The denser but still suburban city of Lynnwood added the second highest number of people, 4,650, or 12.0 percent, behind only the city of Seattle. Of the 10 largest cities in the HMA, the 4 that lost population during the period were concentrated in southern King County. On the Eastside, the population increased less than 1 percent in the city of Bellevue and was unchanged in the city of Kirkland. However, the city of Redmond had a 4.8-percent increase in population.

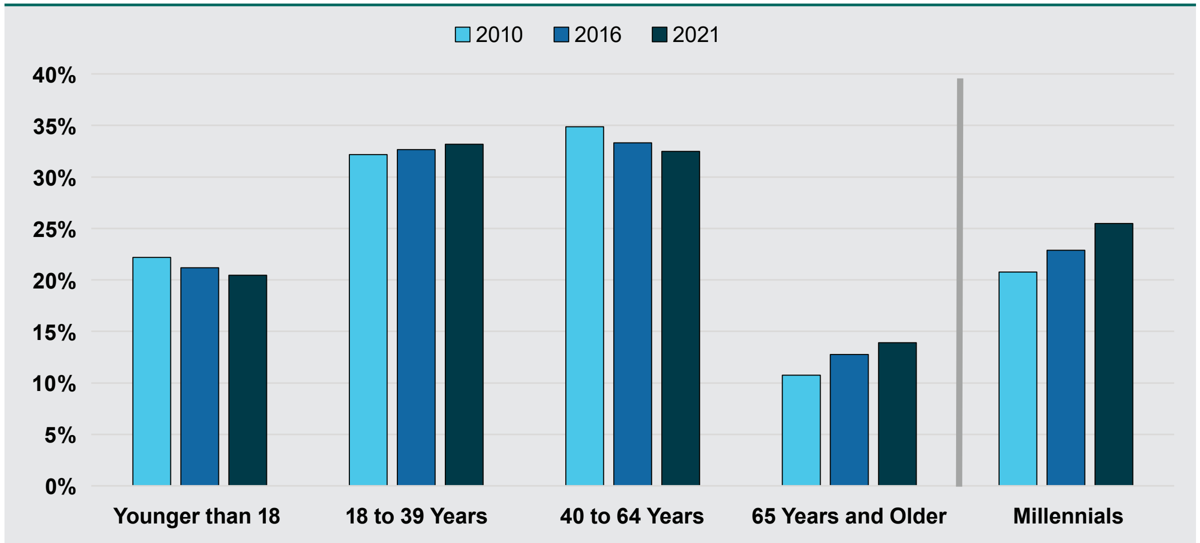
Migration Trends

The fast expansion of tech in the HMA has enticed jobseekers on a global scale, and international in-migration accounted for all net in-migration to the HMA from 2017 to 2022 (Census Bureau estimates). During the period, international net in-migration of 108,600 people offset a domestic net outflow of 58,700. By comparison, 40 percent of net in-migration was domestic from April 2010 to July 2017 (Census Bureau decennial census counts and population estimates). The largest share of domestic movers into the Seattle MSA during 2016 to 2020 were from California markets, where the cost of living is much higher, and from the Portland, Oregon, MSA. For people leaving the Seattle MSA, the most popular destinations are all domestic, including several lower-cost metropolitan areas within the state of Washington.

Age Cohort Trends

In 2021, the largest age cohorts in the HMA were residents 18 to 39 years of age, and residents 40 to 64 years of age, both of which constitute approximately one-third of the total population (Figure 6). These highly educated age cohorts are the mainstays of Big Tech and tech talent. In 2021, 47 percent of HMA residents aged 18 to 64 had a bachelor's degree or higher compared with 33 percent nationally (American Community Survey [ACS] 1-year data).

Figure 6. Population by Age Range in the Seattle HMA



Note: Millennials are defined as born between 1981 and 1996 (Pew Research).
Source: American Community Survey 1-year data

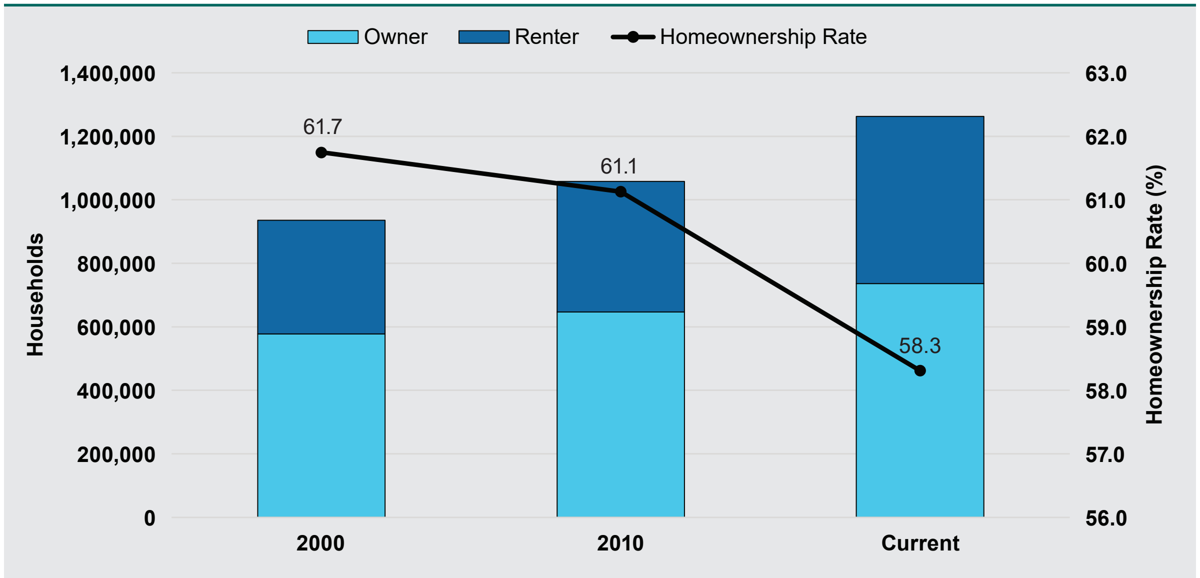
The fastest growing age cohort in the HMA includes people aged 65 and older, which grew from 11 percent of the HMA population in 2010 to 14 percent in 2021, similar to trends nationwide. During the same period, the share of the population younger than 18 declined to 21 percent, down from 22 percent in 2010, and millennials increased from 21 to 26 percent of the population. The increasing share of seniors and millennials in the HMA has opposing effects on net natural change, contributing to relatively stable net natural increase in the HMA until the pandemic. The share of people aged 18 to 39 includes portions of Generation Z and millennials, both of which are in stages of life typically associated with starting a family. This cohort grew at an average annual rate of 1.7 percent from 2010 to 2021, faster than the 1.4-percent overall population growth rate during that time. When isolated only for millennials, the growth rate increased to an average of 3.3 percent annually.

Household Trends

Household growth in the HMA has generally reflected population growth trends since 2000, although an increase in the formation of smaller households has caused household growth to exceed population growth since 2010. An estimated 1.26 million households reside in the HMA, representing an average annual increase of 15,600 households, or 1.4 percent, since 2010 compared with 1.3-percent average annual population growth. The pandemic exacerbated the divergence between household and population growth. Since 2020, households have increased at an average annual rate of 1.5 percent compared with 0.3-percent average annual population growth. For context, both the population and number of households in the HMA increased an average of 1.2 percent annually from 2000 to 2010.

An estimated 58.3 percent of households, or 736,400, are currently homeowners compared with a homeownership rate of 57.1 percent in 2020 and 61.1 percent in 2010 (Figure 7). From 2010 to 2020, owner households increased at an average annual rate of 0.8 percent compared with renter household growth, which averaged 2.5 percent annually. Since 2020, owner household growth has doubled, averaging a gain of 1.6 percent a year, largely in response to historically low mortgage interest rates until 2022, and renter households were relatively unchanged. The slowdown in renter household formation since 2020 results from increased homeownership and slowing population growth, contributing to currently balanced rental market conditions compared with a prolonged period of tight conditions prior to the pandemic.

Figure 7. Households by Tenure and Homeownership Rate in the Seattle HMA



Note: The current date is June 1, 2023.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by the analyst

Population and Household Forecast

Population growth is expected to continue during the 3-year forecast period, with the population reaching 3.23 million by June 1, 2026, reflecting average annual growth of 32,950 people, or 1.0 percent. Approximately 54 percent of the growth will come from net in-migration, in contrast to the lack of net in-migration since 2020. With the pandemic over and loosened immigration restrictions, international net in-migration will likely maintain averages near prepandemic levels, supported by growth in emerging tech fields. Domestic net out-migration will continue but at a slower rate. Although the relative cost of living in the HMA will continue to pose a barrier, it is expected to decline, because the surge in household mobility stemming from remote work policies has passed. In addition, net natural increase is expected to return to prepandemic levels, especially with large cohorts of millennials and Generation Z who are currently in or entering stages of life typically associated with child-rearing.

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 14,700, or 1.2 percent, reaching 1.31 million by June 1, 2026. Owner household growth during the forecast period is expected to slow sharply, averaging 1.0 percent a year in response to higher interest rates and a persistent shortage of affordable for-sale inventory. Renter household growth is expected to increase to an average of 1.4 percent annually, up significantly from the trend from 2020 to the current date due to increased barriers to homeownership and accelerated population growth.

Home Sales Market

Market Conditions: Balanced

Home sales in the Seattle HMA fell substantially during the past year, and sales price growth slowed considerably.

Current Conditions

Sales housing market conditions in the HMA are currently balanced, with an estimated vacancy rate of 1.6 percent (Table 5), up from 0.9 percent in April 2020 but down from 2.6 percent in April 2010. Market conditions eased from very tight when interest rates started to rise in January 2022. However, a drop in new home production since 2022 has constrained the supply of homes and stopped conditions from easing further. Before the rise in rates, market conditions had been tightening since the mid-2010s, because economic growth and the demand for homes in the HMA were high, partly due to the rapid expansion of tech and low mortgage rates. The months of supply of for-sale inventory remains low in the HMA, largely because the rise in rates has deterred potential sellers from listing their homes. In May 2023, the supply of for-sale inventory increased to 1.0 month compared with 0.8 month a year ago (Redfin, a national real estate brokerage). For context, the inventory of homes for sale in May has been less than 3.0 months since 2013.

The HMA is geographically constrained by the Puget Sound, Lake Washington, and a generally mountainous topography, which limits the amount of buildable land exogenous of economic and population growth, all contributing to high construction costs. Increased construction costs, coupled with increased demand from the prolonged period of tech workers with relatively high-paying jobs moving to the area, resulted in swift home sales price appreciation and a decline in the number of sales. During the 12 months ending May 2023, home sales fell 38 percent to 37,150 compared with a 4-percent decline a year ago, following a 26-percent increase during the 12 months ending May 2021 when the demand for homes was strongest (CoreLogic, Inc., with adjustments by the analyst). Although price growth slowed during the past 12 months, with a gain of 2 percent, it follows sharp average annual price growth of 17 and 15 percent during the same period in 2022 and 2021, respectively. The easing of market conditions is more pronounced for the 3 months ending May 2023, when home sales fell 50 percent year over year, and sales prices declined nearly 5 percent. All the decline was because existing home prices fell, whereas new home prices were still up almost 5 percent year over year.

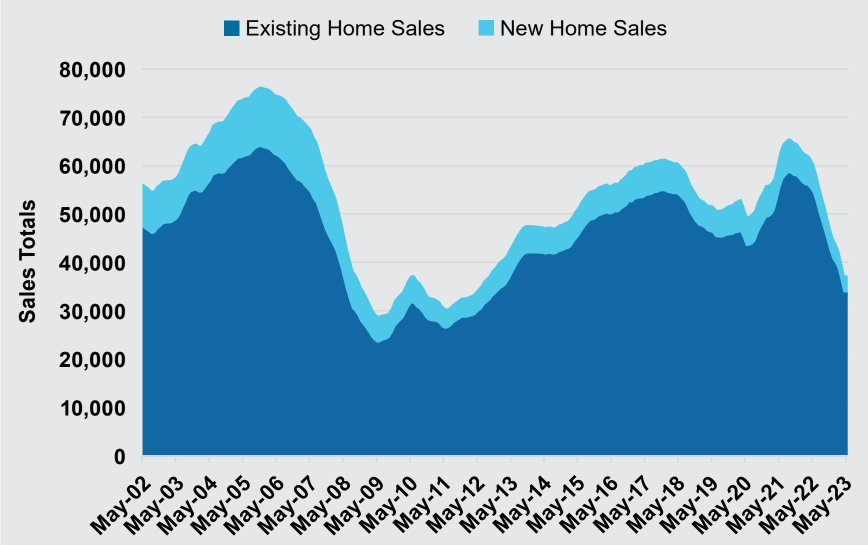
New home sales accounted for approximately 9 percent of total home sales in the HMA during the 12 months ending May 2023 (Figure 8), and that share has generally declined since peaking at 20 percent in 2007 and 2008. The average sales price of a new home was $1.13 million during the past 12 months (Figure 9), up 16 percent from a year ago and approximately 31 percent higher than the average sales price of an existing home. The plurality of existing home sales during the past 12 months was for homes priced from $450,000 to $1.0 million (Figure 10).

Table 5. Home Sales Quick Facts in the Seattle HMA

Home Sales Quick Facts		Seattle HMA	Nation
	Vacancy Rate	1.6%	NA
	Months of Inventory	1.0	1.6
	Total Home Sales	37,150	5,573,000
	1-Year Change	-38%	-27%
	New Home Sales Price	$1,125,000	$497,000
	1-Year Change	16%	10%
	Existing Home Sales Price	$873,600	$390,600
	1-Year Change	1%	1%
	Mortgage Delinquency Rate	0.4%	1.1%

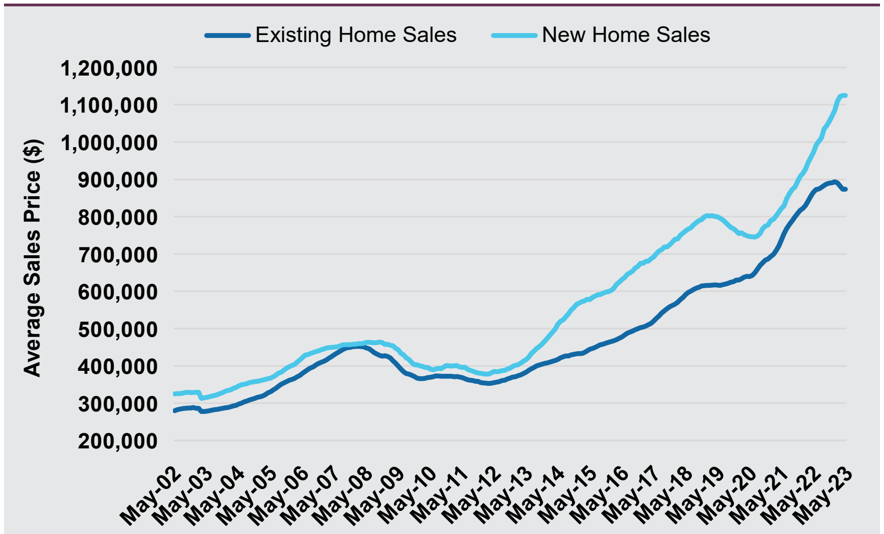
NA = data not available.
Notes: The vacancy rate is as of the current date, home sales and prices are for the 12 months ending May 2023, and months of inventory and mortgage delinquency data are as of May 2023. The current date is June 1, 2023.
Sources: Vacancy rate—estimates by the analyst; months of inventory and mortgage delinquency rate—CoreLogic, Inc.; home sales and prices—CoreLogic, Inc., with adjustments by the analyst

Figure 8. 12-Month Sales Totals by Type in the Seattle HMA



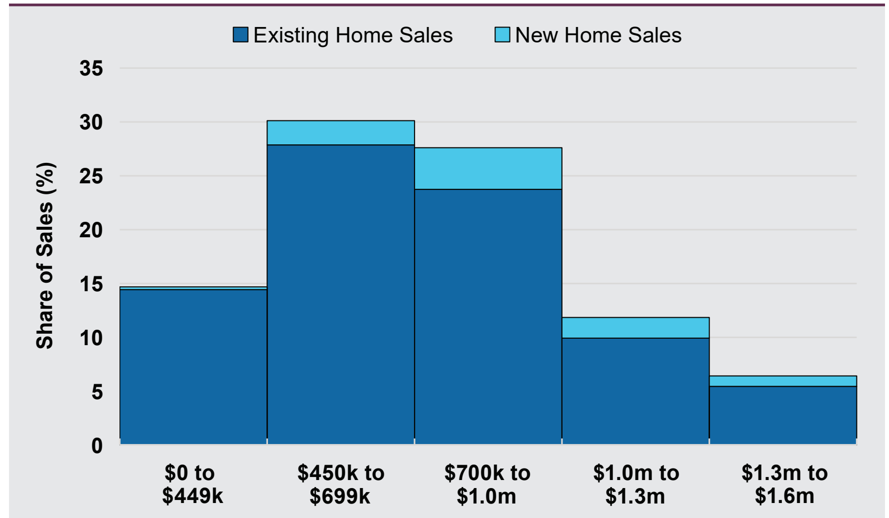
Source: CoreLogic, Inc., with adjustments by the analyst

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



Source: CoreLogic, Inc., with adjustments by the analyst

Figure 10. Share of Overall Sales by Price Range in the Seattle HMA During the 12 Months Ending May 2023



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

Home Sales and Price Trends by Geography

Approximately 3,200 homes sold in the HMA in May 2023 (Redfin, a national real estate brokerage) down 34 percent from the 4,825 home sales in May 2022. The median sales price in the HMA was $800,000 in May 2023, down almost 6 percent from May 2022. In King County, site of nearly 72 percent of home sales, the median sales price fell 6 percent year over year in May 2023 to $835,000, approximately 4 percent higher than the HMA median. Home prices in Snohomish County fell 7 percent year over year in May 2023 to $725,000, approximately 9 percent less than the HMA median sales price.

Among areas in the HMA, home prices were highest on the Eastside and lowest in southern King County. On the Eastside, home sales declined from May 2022 to May 2023, ranging from 23 percent in the city of Bellevue to 37 percent in the city of Redmond. The median sales prices in the cities of Bellevue, Kirkland, and Redmond in May 2023 were $1.35, $1.30, and $1.23 million, down 10, 1, and 9 percent from a year ago, respectively. The tertiary markets on the Eastside—all with median prices above $1 million—had similar trajectories. Home prices and price declines were more modest in southern King County. In the cities of Renton, Kent, and Auburn, respective median prices fell 1, 8, and 3 percent from May 2022 to May 2023 to $745,000, $635,000, and $630,000. Southeastern King County, which has some of the strongest population growth in the HMA, had median sales price declines between 10 and 20 percent. The city of Black Diamond—currently home to Ten Trails, one of the largest master-planned communities in the HMA—was an outlier, with sales price growth of 9 percent. Home sales declined in all areas of the HMA.

Historical Trends

The peak years of the housing boom in the HMA before the Great Recession were 2004 through 2006, when an average of 72,350 homes sold each year, and price growth averaged 12 percent annually (CoreLogic, Inc., with adjustments by the analyst). As economic conditions and population growth slowed, the demand for homes also slowed. During 2007 and 2008, home sales fell an average of 31 percent annually, and price growth slowed to an average annual rate of 2 percent. Continued net in-migration, albeit at reduced levels, during and after the Great Recession contributed to a stable number of home sales from 2009 through 2011, averaging 32,650 home sales a year. However, prices declined during the period at an average annual rate of 6 percent.

Home sales demand surged following the start of the economic recovery, bolstered by strong job growth in high-wage industries. From 2012 through 2017, home sales increased an average of 11 percent annually to a high of 61,300 home sales in 2017. The average sales price rose at an average annual rate of 8 percent during the period, partly fueled by increased purchasing power from the influx of residents from higher-cost areas for jobs in the expanding tech industry. Subsequently, job growth and net in-migration slowed, and the previous prolonged period of strong price growth without an accompanying increase in average wages outside of tech eroded affordability, limiting the number of households in the HMA that could afford homeownership. Home sales during 2018 and 2019 decreased an average of 8 percent annually, while price growth slowed to an average of 5 percent a year. In 2020, historically low mortgage interest rates during a period of increased household mobility with the adoption of remote work policies supported homeownership. Both home sales and prices grew 8 percent.

Delinquent Mortgages and Real Estate Owned Properties

The rate of seriously delinquent mortgages and real estate owned properties in the HMA has been consistently below that of the nation since 2000 (CoreLogic, Inc.). The current rate in the HMA, 0.4 percent, is below the 1.1-percent national rate and is the lowest rate in the HMA since 2000. In mid-2012, the rate in the HMA peaked at 6.7 percent; the national rate reached a high of 8.6 percent in February 2010. The rate in the HMA fell consistently until the onset of the pandemic, and the rate rose to a more recent high of 2.8 percent in August 2020 compared with a national peak of 4.4 percent during the same month.

Sales Construction Activity

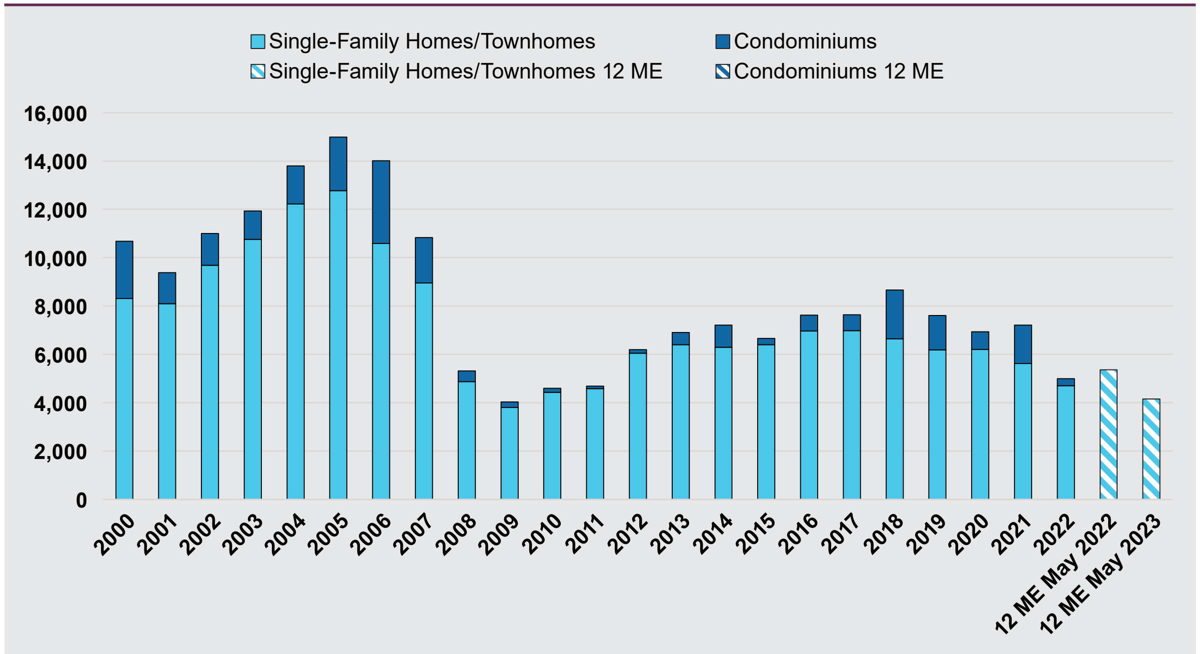
Sales construction activity—as measured by building permits issued for single-family homes, townhomes, and condominiums—fell 23 percent during the 12 months ending May 2023 to 4,150 homes permitted. This level of permitting is down 42 percent from the level in 2021 before mortgage rates started to rise, dampening the demand for sales housing, and is the lowest level of sales construction since 2009. Despite a prolonged period of economic growth and strong sales demand, sales construction activity was relatively steady from 2012 through 2019 (Figure 11), mainly because of land constraints and high construction costs. The average of 7,300 units permitted annually was insufficient to ease tight market conditions during this period. For context, from 2000 through 2009, vacant, developable land was more abundant, and new home construction was more responsive to market conditions, fluctuating with economic growth and contraction.

The largest new home developments in the HMA are the master-planned communities of Ten Trails in the city of Black Diamond and The Ridge at Big Rock in the city of Duvall, both of which are on the periphery of the HMA and have populations of less than 9,000 as of the 2020 Census. Ten Trails, which opened in 2018, is more than 1,200 acres and will ultimately include 6,000 residences, with a mix of single-family homes, townhomes, and apartments. Year to date (YTD), approximately 90 homes have sold in Ten Trails. The plurality of home sales was around a median price of $866,700, with a high of $1.15 million (Zonda). The Ridge at Big Rock is within 12 miles of the Microsoft headquarters campus. The community opened in 2020 and includes a mix of three- to six-bedroom detached single-family homes, luxury two-story duplexes, and townhomes. One of the most prominent builders in the community is Toll Brothers, which offers four-bedroom luxury duplexes starting at $849,995 and four- to six-bedroom detached single-family floorplans starting at $1 million. YTD, approximately 15 homes have sold throughout the master-planned community, with a median sales price of $977,800. Within the city of Seattle, the most common type of new sales housing is townhomes. The highest selling development of this type is Gilman Park Townhomes, slightly north of downtown Seattle in the Ballard neighborhood, where 35 homes sold YTD at a median sales price of $950,000. Floorplans include two- and three-bedroom units ranging in size from 1,250 to 1,740 square feet.

Sales Housing Affordability

Homeownership in the 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 tech boom has put upward pressure on home sales prices. The National Association of Home Builders (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 28.0 during the first quarter of 2023, up from a 10-year low of 18.2 a year earlier but down from a recent peak of 50.1 in the first quarter of 2020 (Figure 12), because homeownership was more affordable when interest rates were historically low and wages had increased. However, despite an almost 9-percent year-over-year increase in wages and salaries during the first quarter of 2023 (Bureau of Labor Statistics; data are for the Seattle Combined Statistical Area), affordability remained low because of record-breaking sales price growth in 2022. During the most recent quarter, 188 of the 237 metropolitan areas measured, or nearly 80 percent of metropolitan areas in the nation, had greater housing affordability than the Seattle HMA.

Figure 11. Annual Sales Permitting Activity in the Seattle HMA

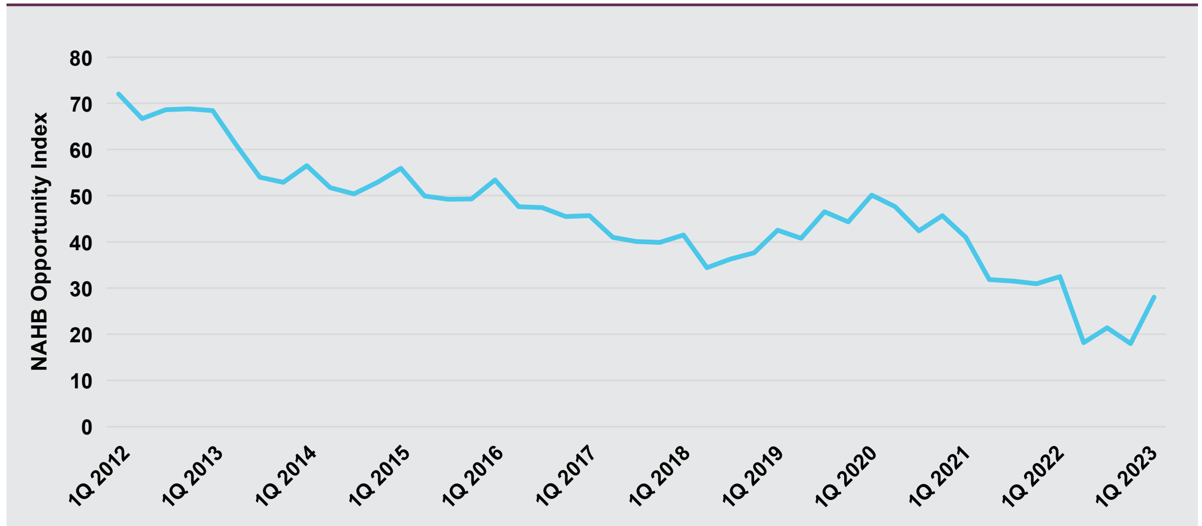


12 ME = 12 months ending.
Sources: U.S. Census Bureau, Building Permits Survey; 2000–22—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

The population in the HMA is relatively 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 aged 25 to 44 years old, relative to the income needed to purchase the 25th percentile-priced home (Figure 13). The index value in the HMA has been above 1.00 since 2010, indicating that most entry-level homes are affordable for young households, but it has declined in recent years. Since a high of 1.45 in 2015, the index has generally trended down and was 1.02 in 2021. Nationwide, the index has followed a similar path but has remained at or above 1.7 every year since 2010. Although this index indicates relative affordability for first-time homebuyers in the HMA, it assumes a down payment of 10 percent of the home value. According to data from Zillow Group, given the current interest rate, median household income, and home values in the Seattle MSA, it would take an average of 13.2 years to save a 10-percent downpayment, compared with 8.9 years nationally.

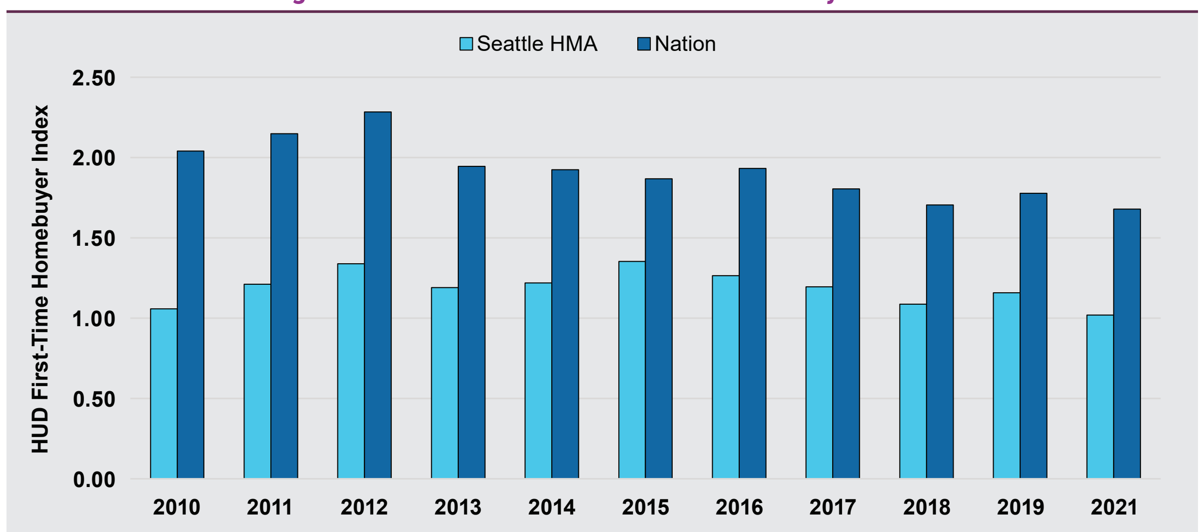
The state of Washington and several local municipalities in the HMA offer down payment assistance depending on income qualifications and other factors. Some statewide programs include up to $10,000 in down payment assistance for veteran, disabled, or first-time

Figure 12. Seattle HMA Housing Opportunity Index



1Q = first quarter. NAHB = National Association of Home Builders.
Source: NAHB/Wells Fargo

Figure 13. Seattle HMA HUD First-Time Homebuyer Index



Note: Data for 2020 are not available.
Sources: American Community Survey 1-year data; Freddie Mac; Zonda

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.

Forecast

During the next 3 years, demand is estimated for 24,800 new homes (Table 6). The 4,325 homes currently under construction will meet a portion of the demand during the first year of the 3-year forecast period. Residential development in the more established cities is expected to be mostly townhomes, whereas detached single-family developments will be concentrated on the periphery.

Table 6. Demand for New Sales Units in the Seattle HMA During the Forecast Period

Sales Units	
Demand	24,800 Units
Under Construction	4,325 Units

Note: The forecast period is June 1, 2023, to June 1, 2026.
Source: Estimates by the analyst

Demand will be strong on the Eastside along the new light rail line that will connect the cities of Seattle and Redmond and in the northern and southeastern portions of the HMA, where vacant land is more available.

Rental Market

Market Conditions: Balanced

A surge in rental construction in 2021 and 2022 and slowing absorption contributed to easing rental market conditions.

Current Conditions and Recent Trends

The overall rental housing market in the Seattle HMA—including apartments, single-family homes, and other housing options available for rent—is balanced, with an estimated overall rental vacancy rate of 6.0 percent, up from 5.0 percent in April 2020 but down from 7.1 percent in April 2010 (Table 7). Conditions have eased during the past year because rental construction significantly outpaced absorption. In 2021, approximately 24 percent of renter households in the HMA lived in single-family homes compared with 26 percent in 2010, and 65 percent lived in multifamily structures with five or more units per building compared with 59 percent in 2010 (ACS 1-year data).

Table 7. Rental Market Quick Facts in the Seattle HMA

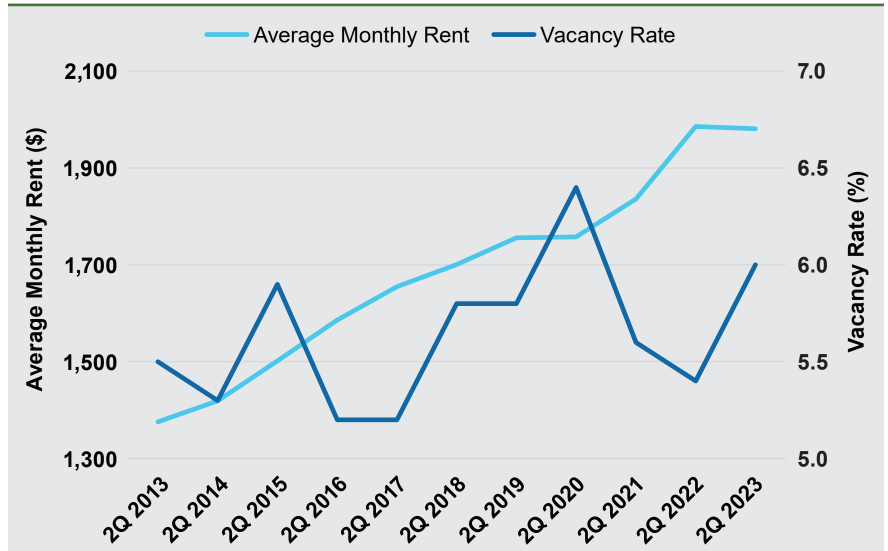
Rental Market Quick Facts		2010 (%)	Current (%)
	Rental Vacancy Rate	7.1	6.0
		2010 (%)	2021 (%)
	Occupied Rental Units by Structure		
	Single-Family Attached & Detached	26	24
	Multifamily (2–4 Units)	13	10
	Multifamily (5+ Units)	59	65
	Other (Including Mobile Homes)	2	1

Notes: The current date is June 1, 2023. Percentages may not add to 100 due to rounding.
Sources: 2010 vacancy rate—2010 Census; current vacancy rate—estimate by the analyst; occupied rental units by structure—2010 and 2021 American Community Survey 1-year data

Apartment Market Trends—HMA

Despite economic and population growth fluctuations during the past decade, apartment market conditions were generally tight from the start of economic recovery from the Great Recession until the past year when conditions eased to balanced. The vacancy rate stayed in a narrow band, ranging from a low of 5.2 percent as of the second quarters of 2016 and 2017—during the peak years of net in-migration to the HMA—to a high of 6.4 percent as of the second quarter of 2020 during the initial phase of the pandemic (CoStar Group; Figure 14). As of the second quarter of 2023, the apartment vacancy rate in the HMA was 6.0 percent, up from 5.4 percent as of the second quarter of 2022. The rate increase was because more than 9,100 apartments were completed in the past year, whereas fewer than 6,000 were absorbed. By comparison, during the previous 4 quarters, the number of units completed and absorbed was equal at approximately 11,750 units.

Figure 14. Apartment Rents and Vacancy Rates in the Seattle HMA



2Q = second quarter.
Source: CoStar Group

Following average annual rent declines of nearly 4 percent from the second quarters of 2008 to 2010, second quarter year-over-year rent growth continued uninterrupted until the pandemic. Rents stabilized from the second quarters of 2019 to 2020. Subsequently, the average rent increased 4 percent year over year as of the second quarter of 2021, supported by strong apartment demand. Approximately 13,750 units were absorbed annually compared with fewer than 2,800 units completed. The following year experienced similar absorption trends. However, builders responded to these trends by significantly increasing apartment construction in 2021 and 2022 during a period of slowing population growth, including 1 year of net out-migration, and absorption has fallen considerably since. As of the second quarter of 2023, the average rent was unchanged from a year ago at $1,981, which was preceded by an 8-percent year-over-year increase as of the second quarter of 2022, the swiftest annual growth rate measured in the second quarter since 2000. For context, the average rent increased at an average annual rate of 4 percent from the second quarters of 2011 to 2019.

Apartment Market Trends—Seattle

The city of Seattle is separated into five CoStar Group-defined market areas (hereafter, areas), including Downtown Seattle, which contains the central business district and close-in neighborhoods such as South Lake Union and Denny Regrade where Big Tech has a large presence, and Ballard, the location of the Gilman Park Townhomes community. The Central Seattle area includes neighborhoods east of the Downtown Seattle area and west of Lake Washington. The West Seattle, South Seattle, and North Seattle areas are as their names suggest. In terms of inventory, the city of Seattle constitutes approximately 28 percent of the CoStar Group-surveyed apartment inventory in the HMA. Downtown Seattle and Central Seattle each constitute about one-third of the market for the city of Seattle, and West, South, and North Seattle each account for 15 to 20 percent.

As of the second quarter of 2023, of the five areas, only Downtown Seattle had an apartment vacancy rate significantly above the HMA average and was the only area with rent declines. The apartment vacancy rate was 9.6 percent as of the second quarter of 2023, up from 7.1 percent a year ago, and the average rent fell 3 percent to $2,334 compared with a 4-percent increase a year earlier. New deliveries during the past 4 quarters totaled 2,100 units, accounting for nearly one-fourth of all units delivered in the HMA during the period, whereas fewer than 1,150 units were absorbed. In the Central Seattle area, the vacancy rate rose year over year from 5.7 to 6.1 percent as of the second quarter of 2023, and the average rent increased almost 1 percent to $1,747 compared with a 4-percent increase a year before. The 770 new units added during the past year represent 8 percent of all new additions in the HMA. However, only 610 were absorbed.

Vacancy rates declined in both the West Seattle and South Seattle areas during the past year, because absorption of units surpassed the number added. These areas combined accounted for 6 percent of all units added in the HMA during the past 4 quarters. As of the second quarter of 2023, the vacancy rate fell year over year from 5.6 to 5.4 percent in the West Seattle area and from 6.2 to 5.8 percent in the South Seattle area. Rent growth in both these areas was above the HMA average at 4 and 2 percent, respectively. Respective rents increased to $1,693 and $1,560 as of the second quarter of 2023. In the North Seattle area, the vacancy rate rose 0.6 percentage point year over year as of the second quarter of 2023, largely because of negative net absorption. However, no units were added to the inventory. At the same time, the average rent in the North Seattle area increased 1 percent to $1,680 compared with an 8-percent increase a year before.

Apartment Market Trends—Eastside

Apartment market data for the Eastside market area include the cities of Bellevue, Kirkland, Redmond, and Issaquah, which combine to account for approximately 15 percent of the apartment inventory in the HMA and 14 percent of the units added in the past year. As of the second quarter of 2023, the vacancy rate was 5.3 percent compared with 5.8 percent a year ago, partly because the number of units absorbed exceeded the number of units completed. During the same period, the average rent declined 2 percent to $2,429 compared with an 11-percent increase a year ago. The average rent in the Eastside area has been 20 to 25 percent higher than the HMA average since 2012, largely supported by a high concentration of tech workers. However, the city of Redmond had the largest rent decline in the HMA during the past year at 5 percent to $2,440, partially due to Big Tech restructuring.

Apartment Market Trends—Remainder

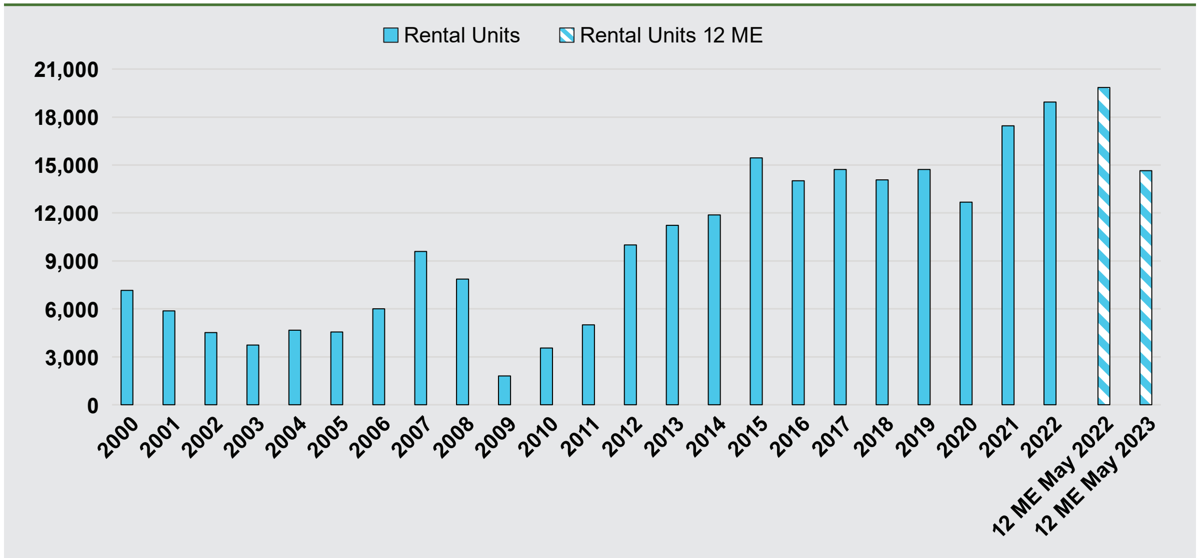
The southern and northern portions of the HMA are generally suburban, and average rents are correlated with the proximity of an area to the largest economic centers of the HMA. Of the CoStar Group-defined market areas closest to the city of Seattle, the highest vacancy rate as of the second quarter of 2023 was in the Shoreline area at 8.9 percent compared with 5.3 percent a year ago, followed by the city of Lynnwood at 7.6 percent, up from 6.6 percent a year ago. The average rent in both areas was unchanged from a year ago. The Lynnwood area had the highest annual absorption of any area in the HMA, except for the Downtown Seattle and Redmond areas, at nearly 500 units. Vacancy rates rose in all other areas of the HMA. The Kent area had the highest vacancy rate south of the city of Seattle at 6.5 percent. However, it is the only area south of the city of Seattle with positive net absorption during the past year. In Snohomish County, the vacancy rate increased 1.0 percentage point to 6.9 percent, and the average rent increased almost 1 percent.

Rental Construction Activity

Builders responded to easing apartment market conditions by reducing apartment construction—as measured by the number of rental units permitted. During the 12 months ending May 2023, rental permitting declined 26 percent to 14,650 units (preliminary data). For context, the highest level of apartment construction on record, 19,850 units, during the 12 months ending May 2022, when market conditions were tight, preceded the decline (Figure 15). The current level of apartment construction is similar to prepandemic levels. From 2015 through 2019, apartment construction was relatively steady, averaging 14,600 units permitted annually during a period of stable vacancy rates and consistent rent growth. Permitting fell temporarily in 2020 in response to the pandemic. For historical context, from 2009 through 2011, an average of 3,450 units were permitted each year. The drop in construction was disproportionate to the decline in market conditions, which transitioned from tight to balanced due to the Great Recession, because construction financing was hard to obtain. Subsequently, apartment construction grew in tandem with economic and population growth, increasing an average of 33 percent a year from 2012 through 2014.

An estimated 34,750 apartments are under construction in the HMA, a level that is 2.4 times greater than the average annual permitting from 2015 to 2019. Much of this growth is due to a surge of permitting in 2021 and 2022 as builders responded to tightening market conditions. Increased construction times,

Figure 15. Annual Rental Permitting Activity in the Seattle HMA



12 ME = 12 months ending.
Note: Includes apartments and units intended for rental occupancy.
Sources: U.S. Census Bureau, Building Permits Survey; 2000–22—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

mostly affecting large-scale developments that began construction within the first 2 years of the pandemic, also contributed to the high number of units under construction. Local builders indicate lack of labor as an ongoing issue, although supply chain constraints have eased somewhat. Of the units under construction, the majority is in the city of Seattle, which accounts for 19,500 units, or 56 percent of the HMA total. The Eastside accounts for 5,825 units, or 17 percent of the HMA total, with 3,100 in the city of Redmond.

The largest development under construction in the HMA, WB1200, is in the Denny Regrade neighborhood of the city of Seattle and will include 1,050 units in two 48-story buildings. The project began construction in 2018 and is expected to be complete in early 2024. A similar development, Onni South Lake Union, opened in 2022 and contains 825 apartments in two towers. The property was approximately 15 percent vacant in June 2023, with rents that averaged $3,115 for one-bedroom units, $4,558 for two-bedroom units, and $7,389 for three-bedroom units. Approximately 830 units are under construction in Northgate, a commuter neighborhood in North Seattle near a future light rail expansion expected to be complete in 2025. On the Eastside, new apartment construction is centered near the light rail expansion, including 620 units in phases one and two at Redmond Grand, also expected to be complete in 2025. Verde Esterra Park, completed in 2022, is one of the largest developments to recently open on the Eastside, with 634 apartments in the city of Redmond, adjacent to a future light rail station. The property was less than 6 percent vacant as of June 2023, with rents averaging $2,087 for studios, $2,630 for one-bedroom units, and $3,434 for two-bedroom units.

Forecast

During the next 3 years, the estimated 34,750 units under construction in the HMA will exceed demand, which is estimated at 28,500 rental units (Table 8). Apartment market conditions will likely continue easing during the 3-year forecast period as the market absorbs the surge in production concurrently with slowing population growth. Developers should plan for additional units beyond those already under construction to enter the market after the third year of the forecast period to prevent market conditions from softening.

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

	Rental Units
Demand	28,500 Units
Under Construction	34,750 Units

Note: The forecast period is June 1, 2023, to June 1, 2026.
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 a housing market area (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.
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.
Existing Home Sales	Includes resale sales, short sales, and real estate owned sales.
Forecast Period	June 1, 2023–June 1, 2026—Estimates by the analyst.
Generation Z	Defined as people born between 1997 and 2012 (Pew Research Center).
Home Sales/ Home Sales Prices	Includes single-family home, townhome, and condominium sales.
Millennials	Defined as people born between 1981 and 1996 (Pew Research Center).
Net Natural Increase	Resident births minus resident deaths.

Rental Market/ Rental Vacancy Rate	Includes apartments and other rental units such as single-family, multifamily, and mobile homes.
Seattle Combined Statistical Area	Includes Island, King, Kitsap, Lewis, Mason, Pierce, Skagit, Snohomish, and Thurston Counties.
Seriously Delinquent Mortgages	Mortgages 90 or more 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 April 10, 2018.
2.	Urbanized areas are defined using the U.S. Census Bureau's 2010 Census Urban and Rural Classification and the Urban Area Criteria.

C. Additional Notes

1.	The National Association of Home Builders 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

Cover Photo	**Adobe Stock**

Contact Information

Holi Urbas, Regional Economist
Seattle HUD Regional Office
206–220–5291
holi.m.urbas@hud.gov