



WINDERMERE
Economics

An Economic & Real Estate Market Forecast

Presented by: Matthew Gardner

CHIEF ECONOMIST WINDERMERE REAL ESTATE

How Much Longer Can the Expansion Continue?



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We are Still in the “*Goldilocks Zone*”!



U.S. Has Added Jobs for 109 Straight Months;

Unemployment is Stable at Under 4%; and

Wages Are (Finally) Picking Up!

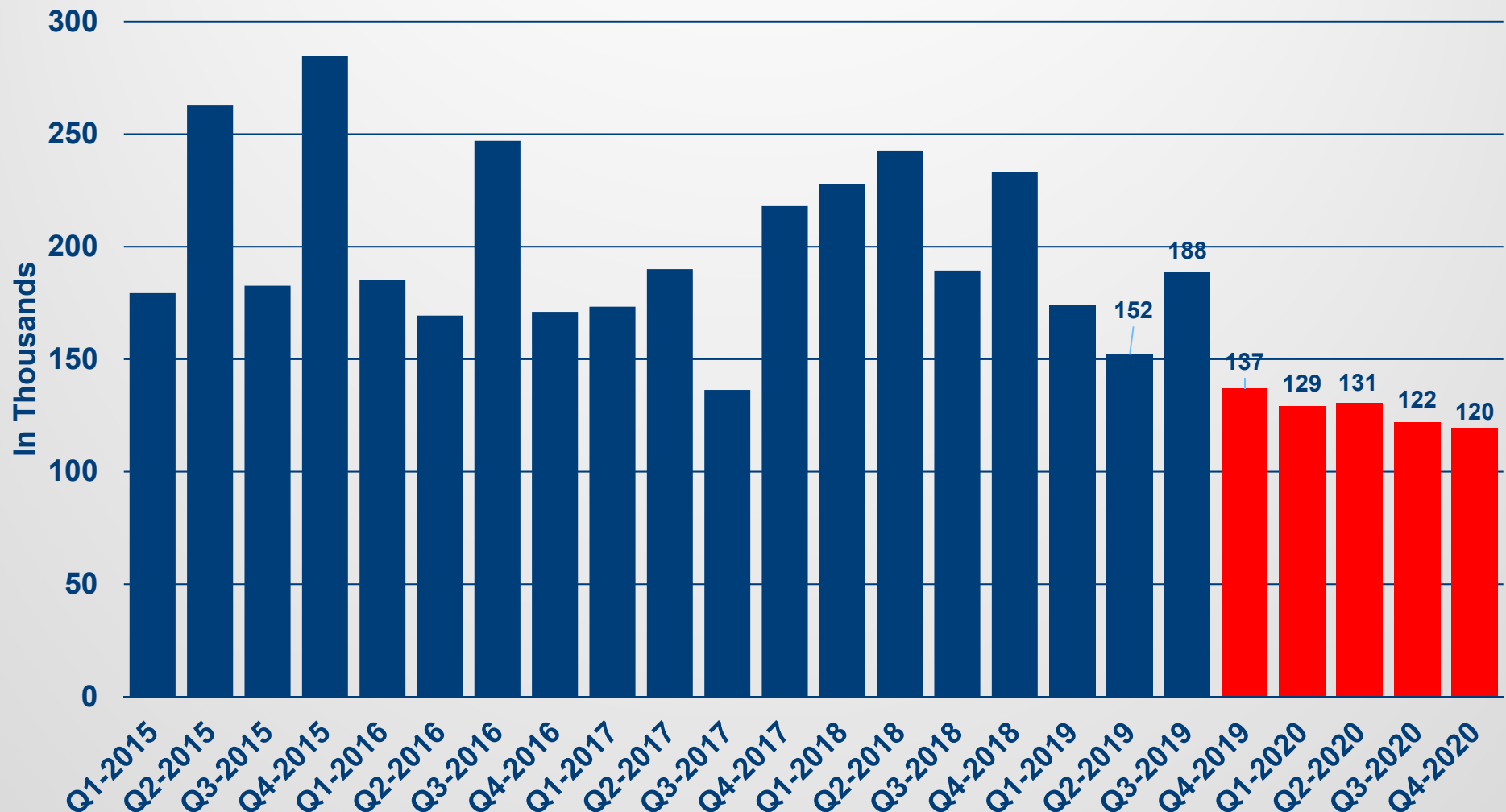
The U.S. Economy



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We Will Add More Jobs, But at a Slower Pace

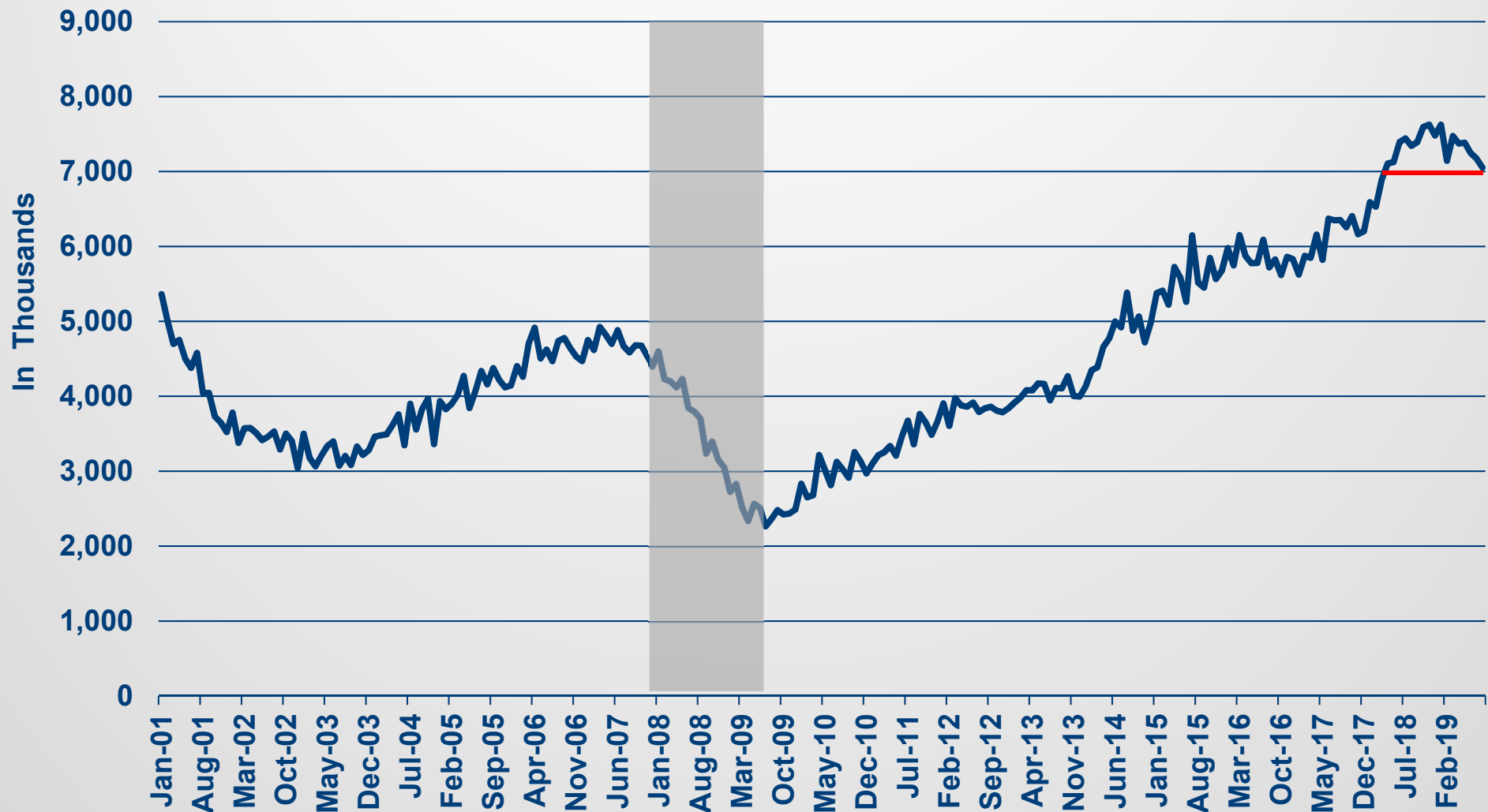
Non-Farm Payrolls: Monthly Average Growth



Source: BLS with Windermere Economics Forecasts

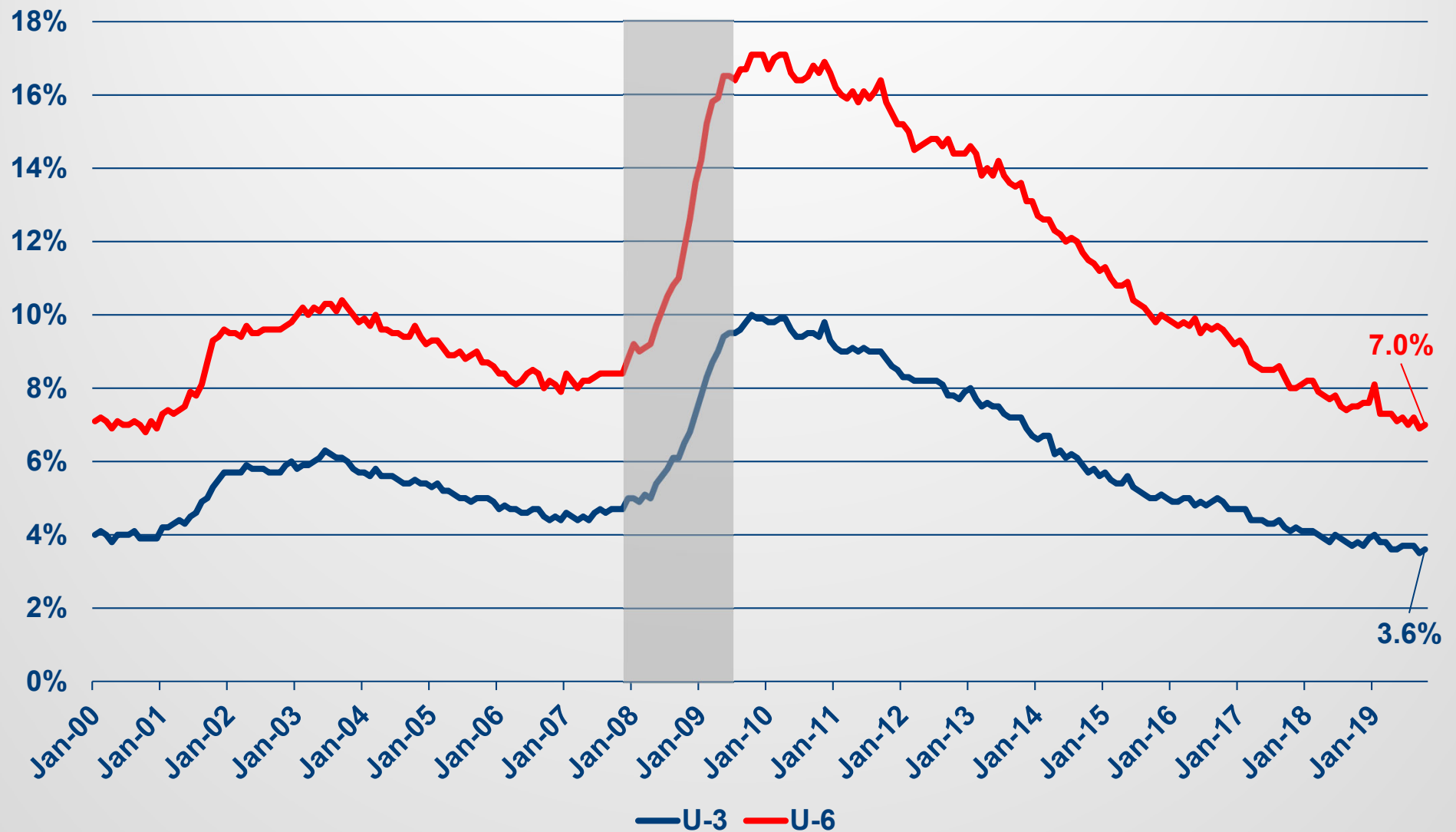
As Job Openings Are Starting to Soften

Total Job Openings



Source: BLS

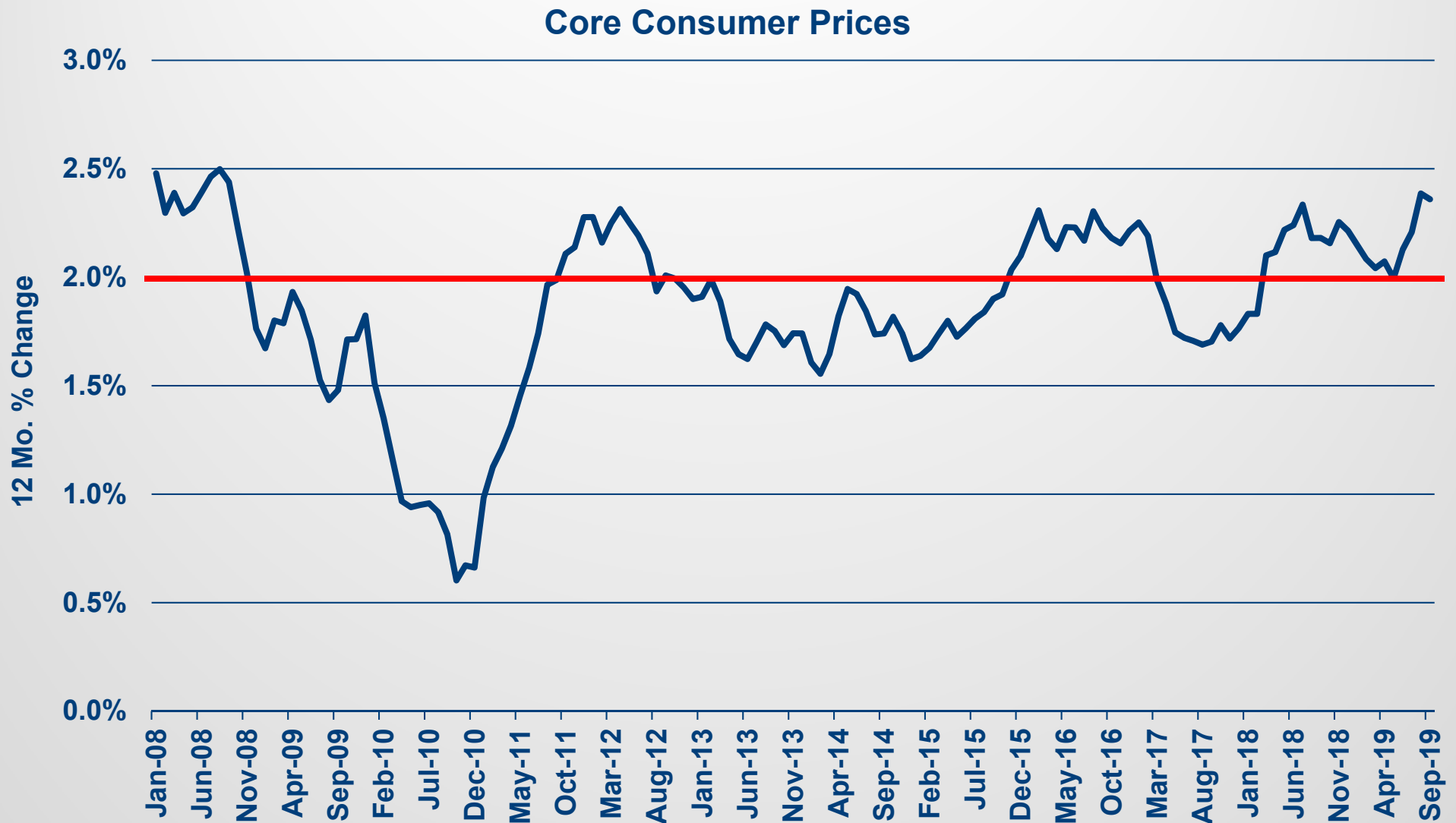
Unemployment Rates Still Looking Good



Source: BLS – Data through Oct. 2019

Inflation is Making Fed Decisions Harder to Predict

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Source: BLS – All Items - Data Through Sept. 2019

The Gardner Misery Index (Unemployment + Inflation)



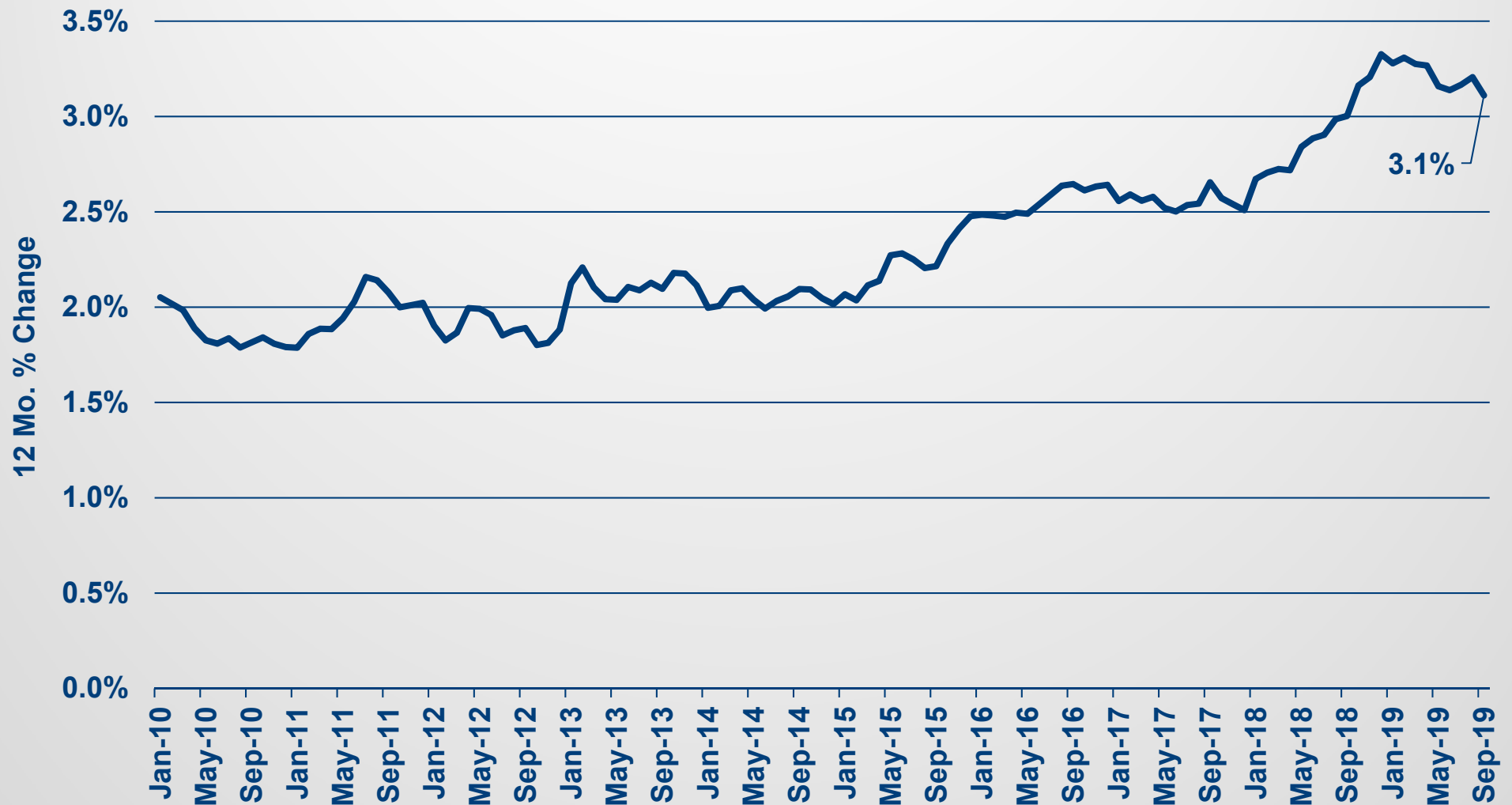
Source: Windermere Economics Analysis of BEA & BLS data

U.S. Income Growth has Flattened



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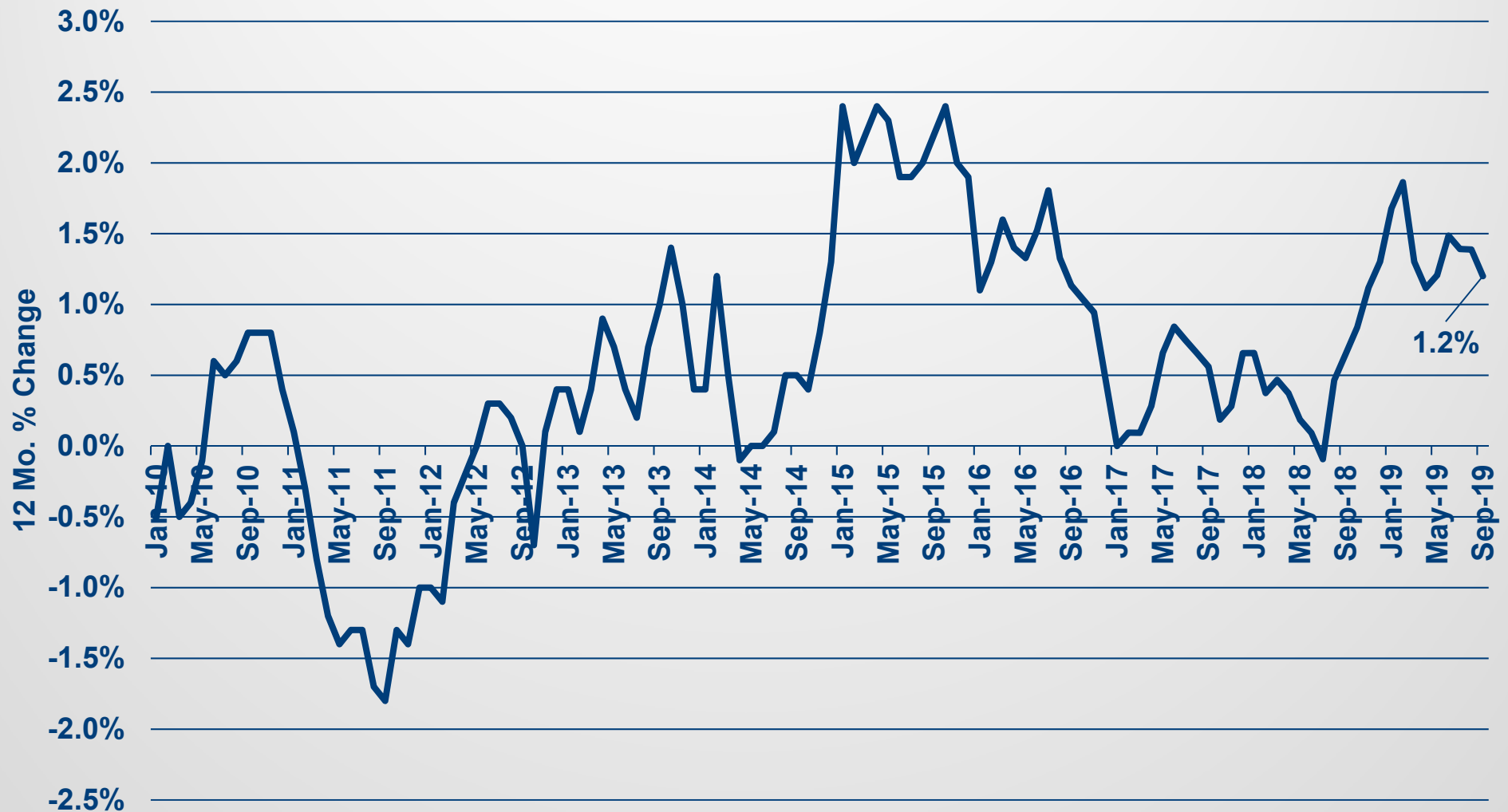
Average Hourly Earnings



Source: BLS & Windermere Economics – Data Thru' Sept. 2019

& Real Income Growth is Still Disappointing

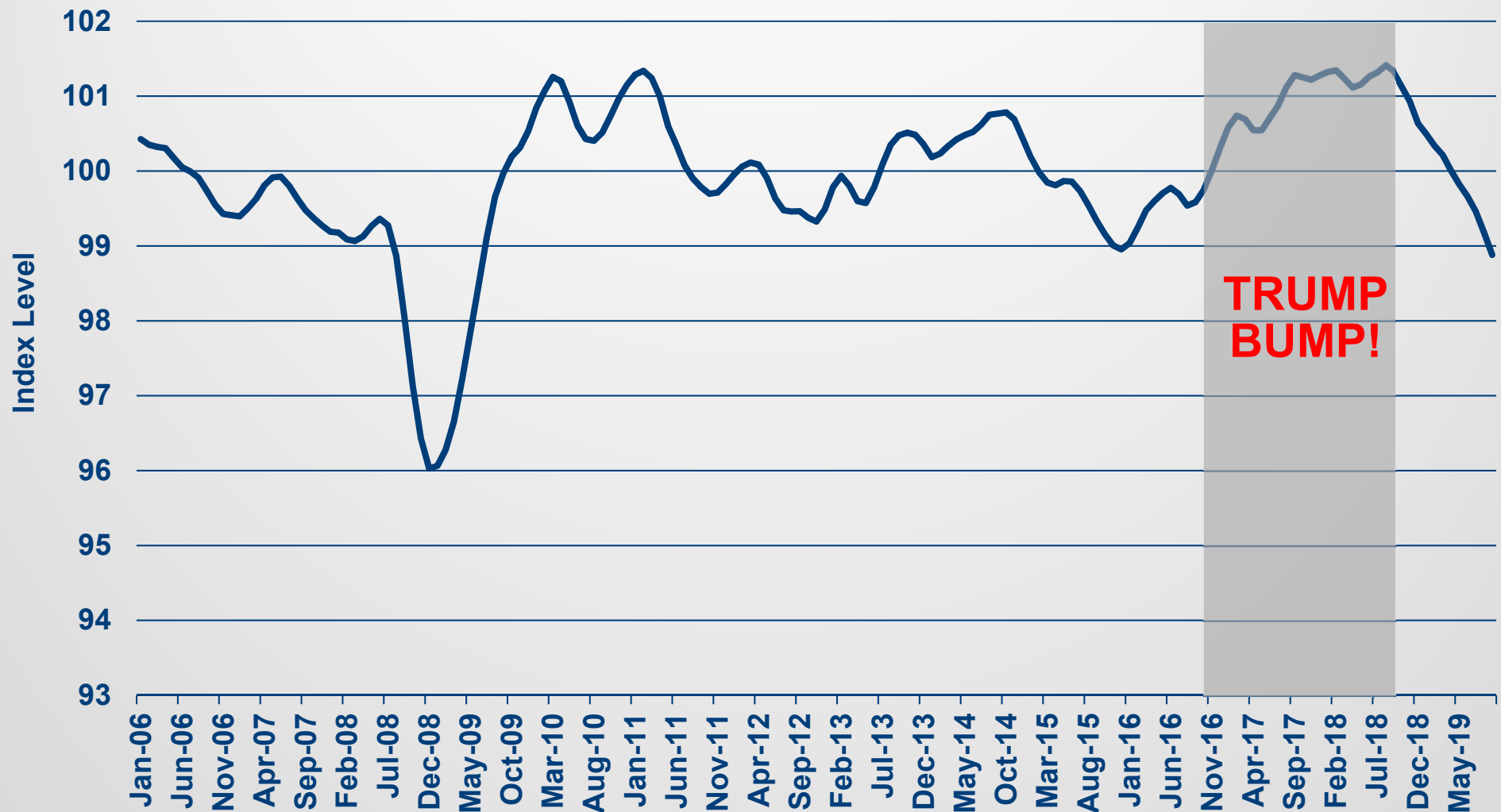
Real Average Hourly Earnings



Source: BLS & Windermere Economics – Data Thru' Sept. 2019

Business Confidence is Dropping

Business Confidence Index (BCI)



Source: OECD - Main Economic Indicators: Business tendency and consumer opinion survey

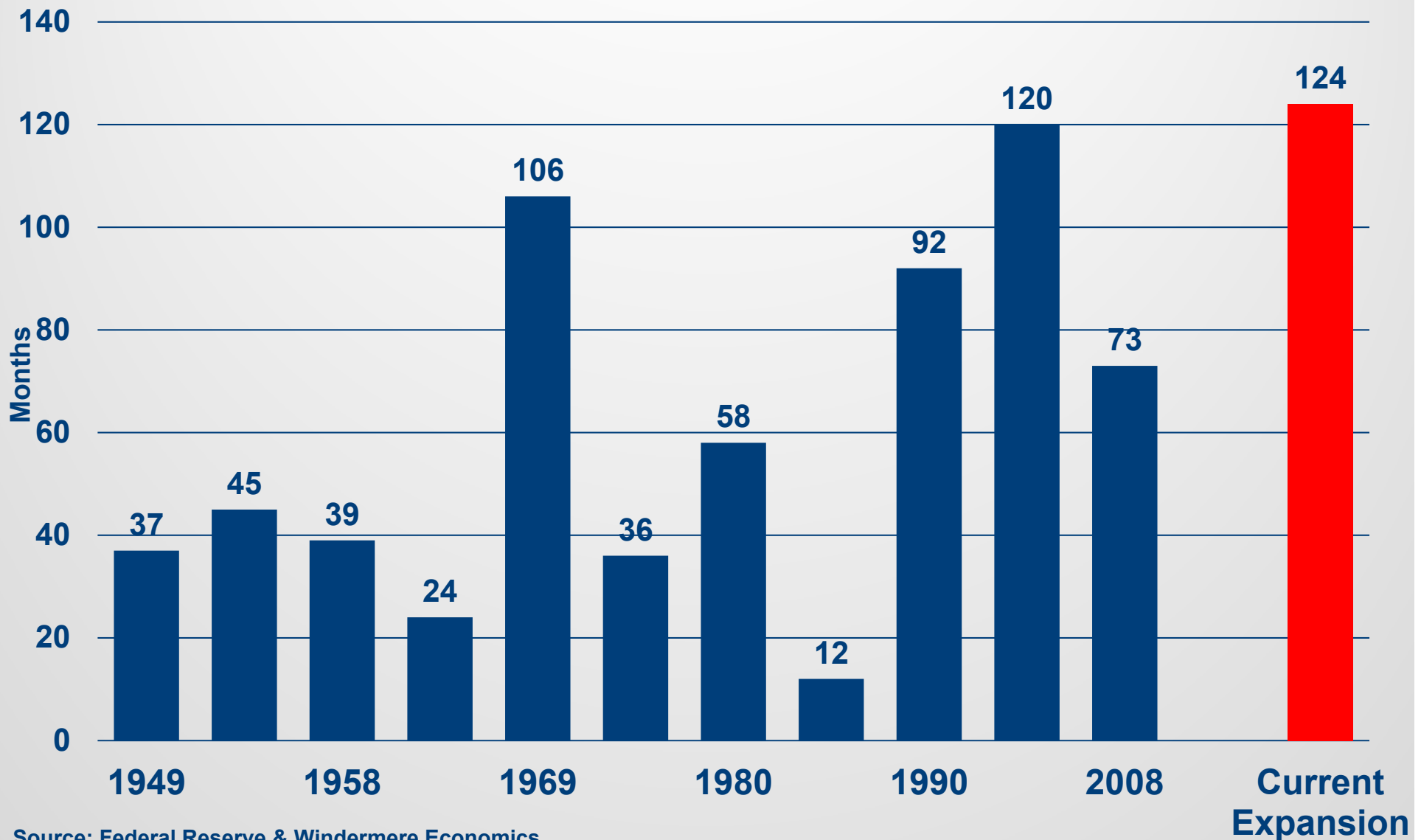
Is a Recession Looming?



Average Number of Months Between Recessions



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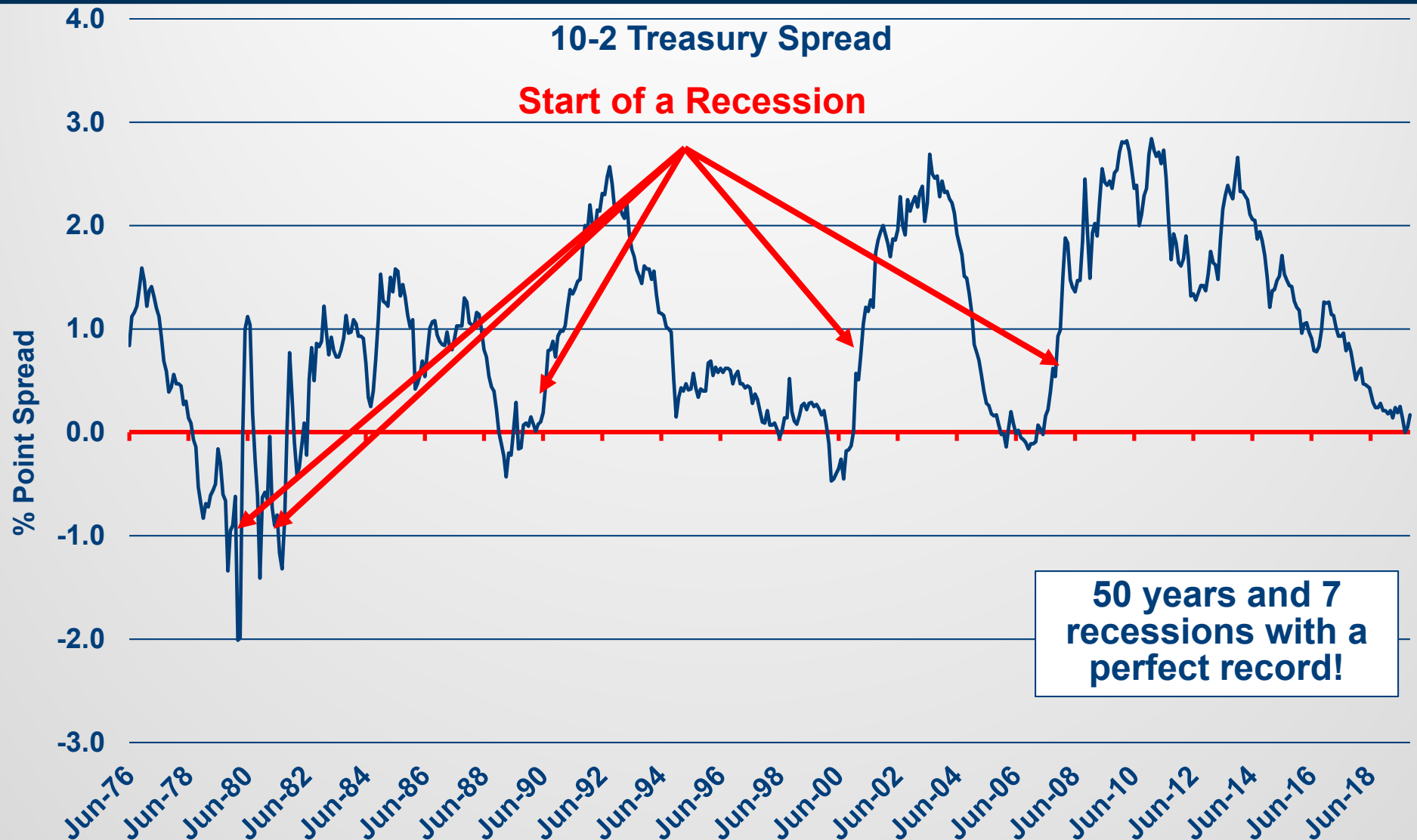


Recession Indicators

- ❑ The Yield Curve;
- ❑ The Natural Unemployment Rate;
- ❑ ISM Manufacturing Index; and
- ❑ Consumer Sentiment.



1. The Yield Curve



Source: Federal Reserve Bank & Windermere Economics

Daily Yield Curve

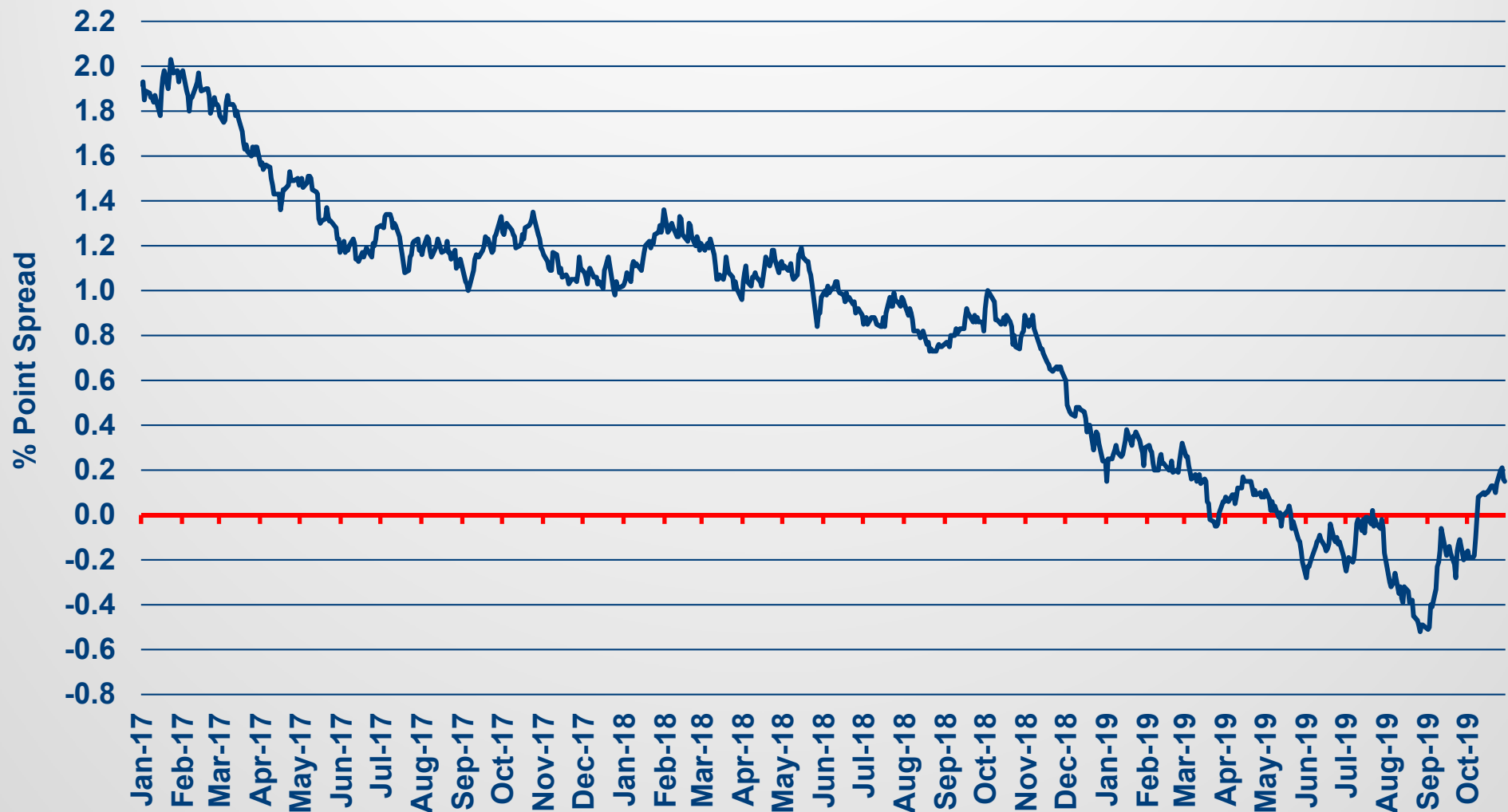
Daily 10-2 Treasury Spread



Source: Federal Reserve Bank & Windermere Economics

Daily Yield Curve

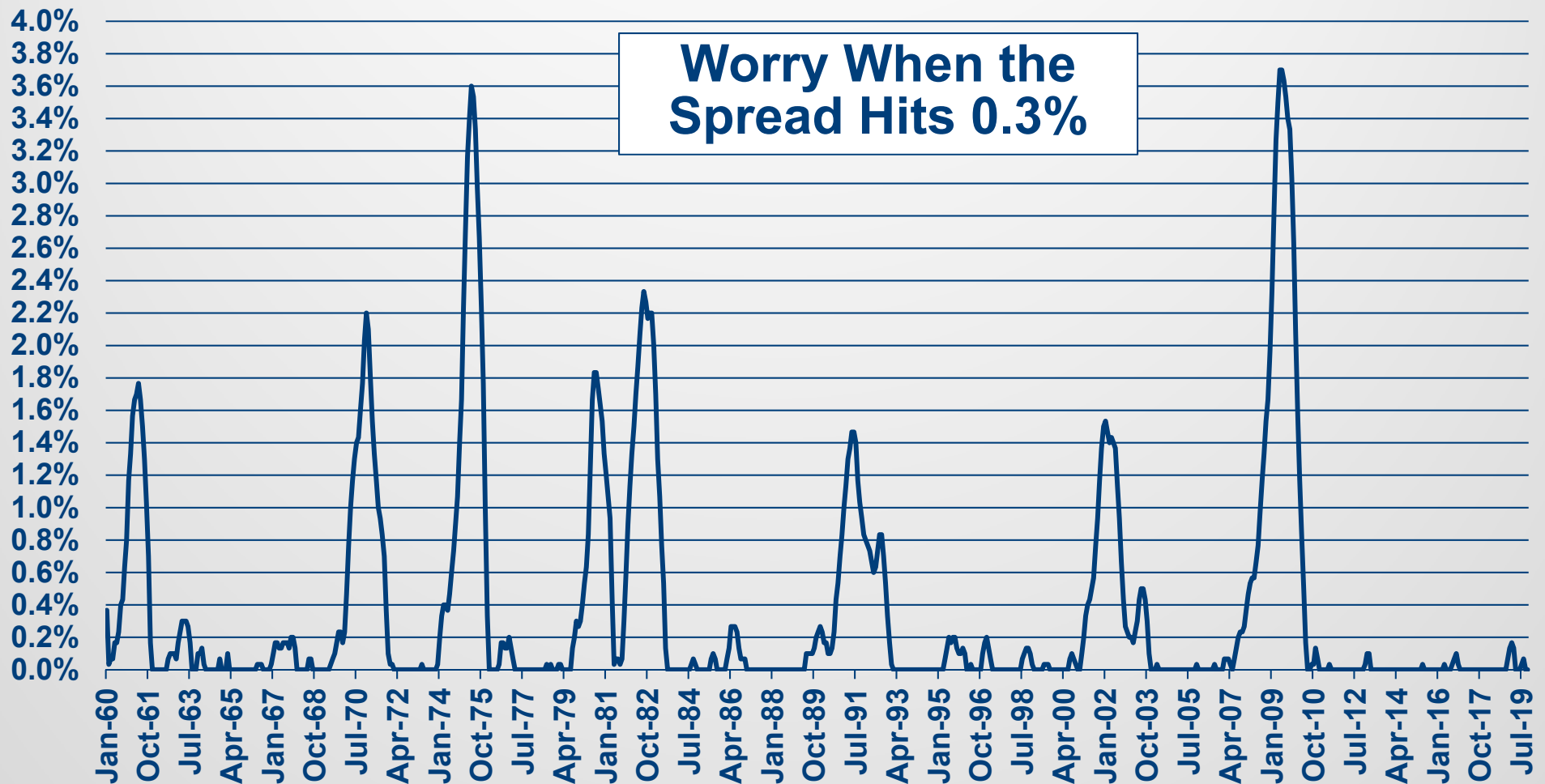
Daily 10-3 Month Treasury Spread



Source: Federal Reserve Bank & Windermere Economics

2. U.S. Unemployment Rate

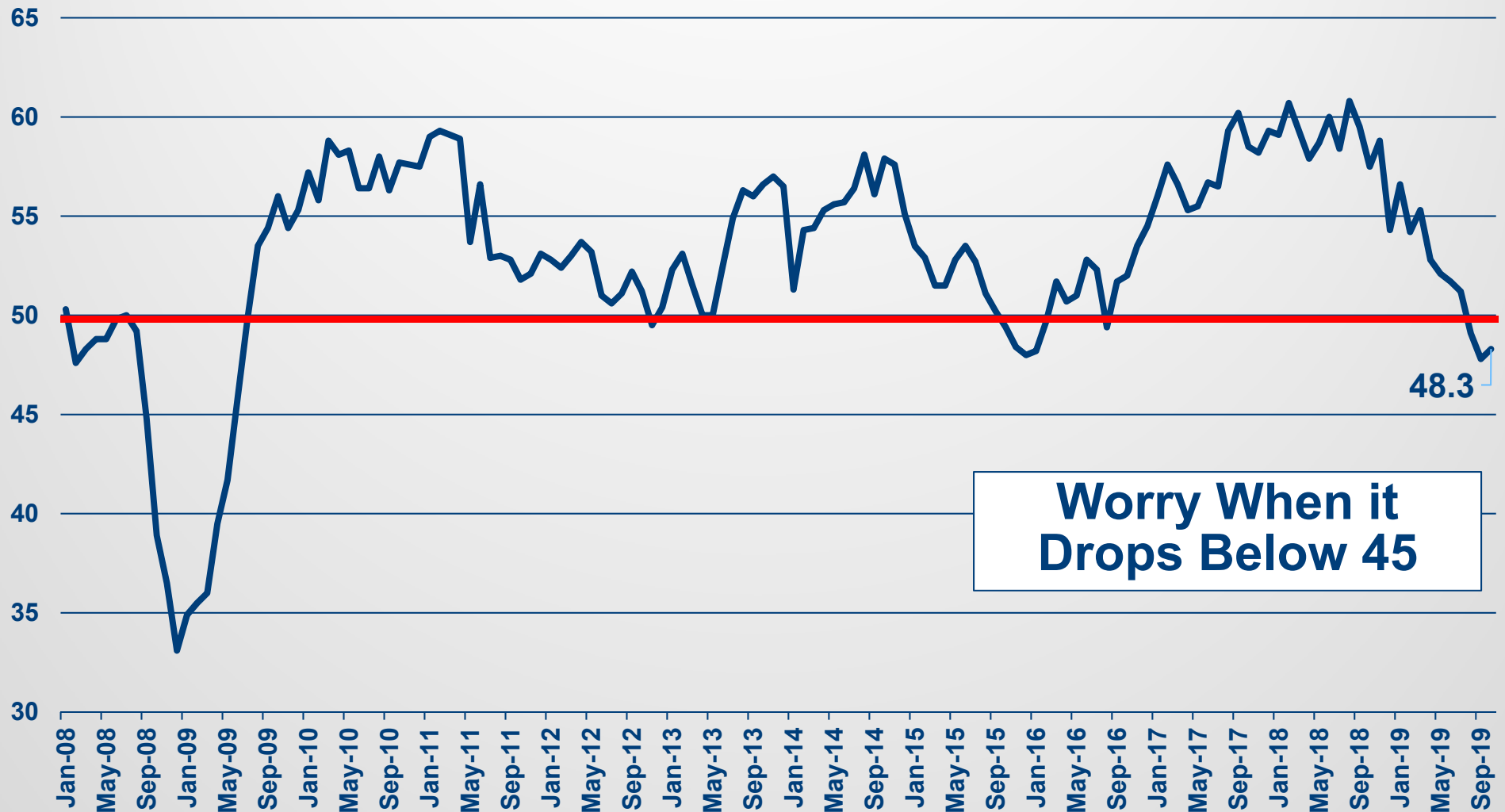
Gap between the unemployment rate and its low point over the previous 12 months



Source: BLS – Spread between current rate & 12-Mo Low

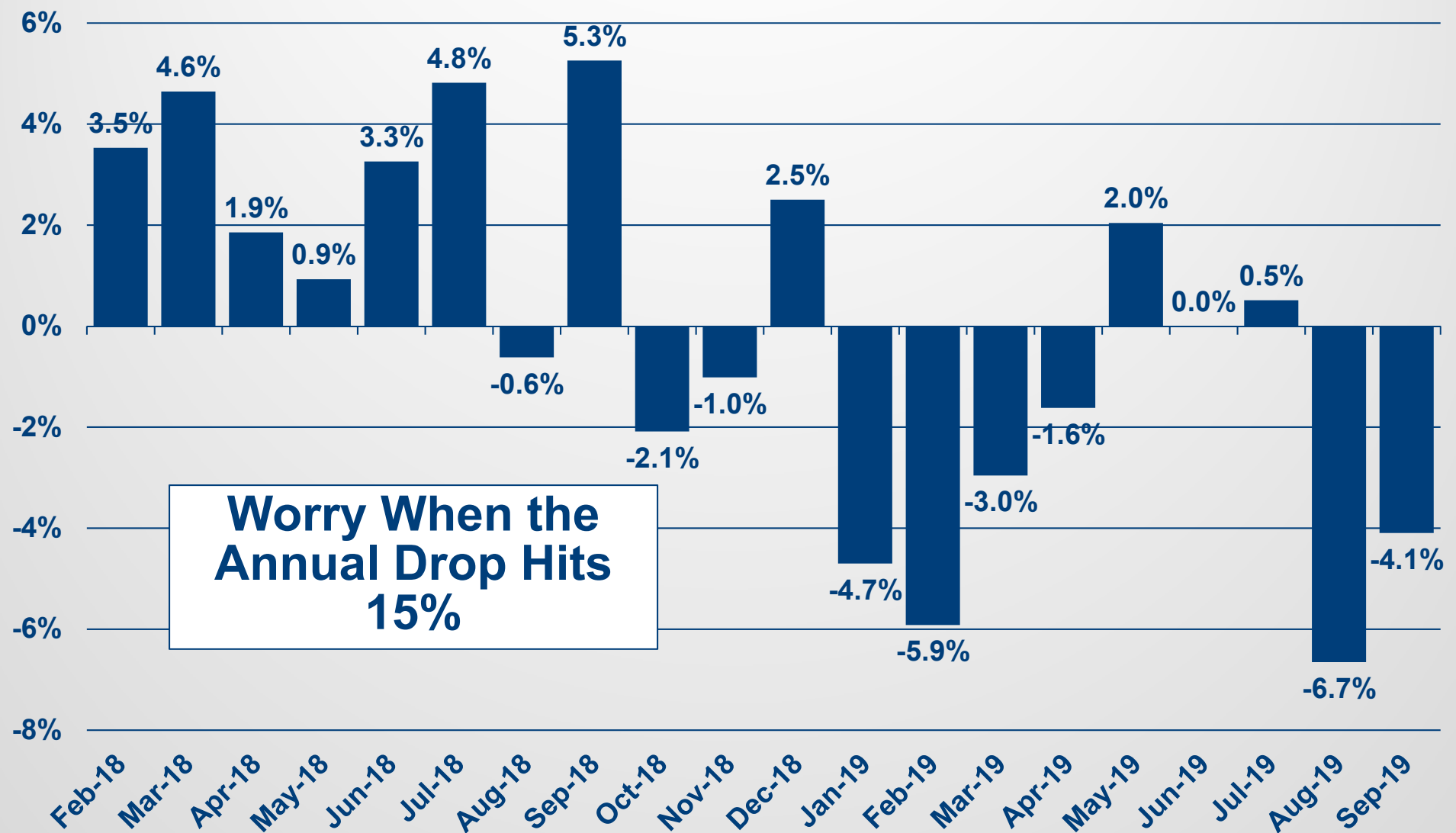
3. ISM Manufacturing Index

ISM Composite Index



Source: Trading Economics

4. Consumer Sentiment



Source: University of Michigan; 12 Month Change in Sentiment: analyzed by Windermere Economics

Recession Indicators



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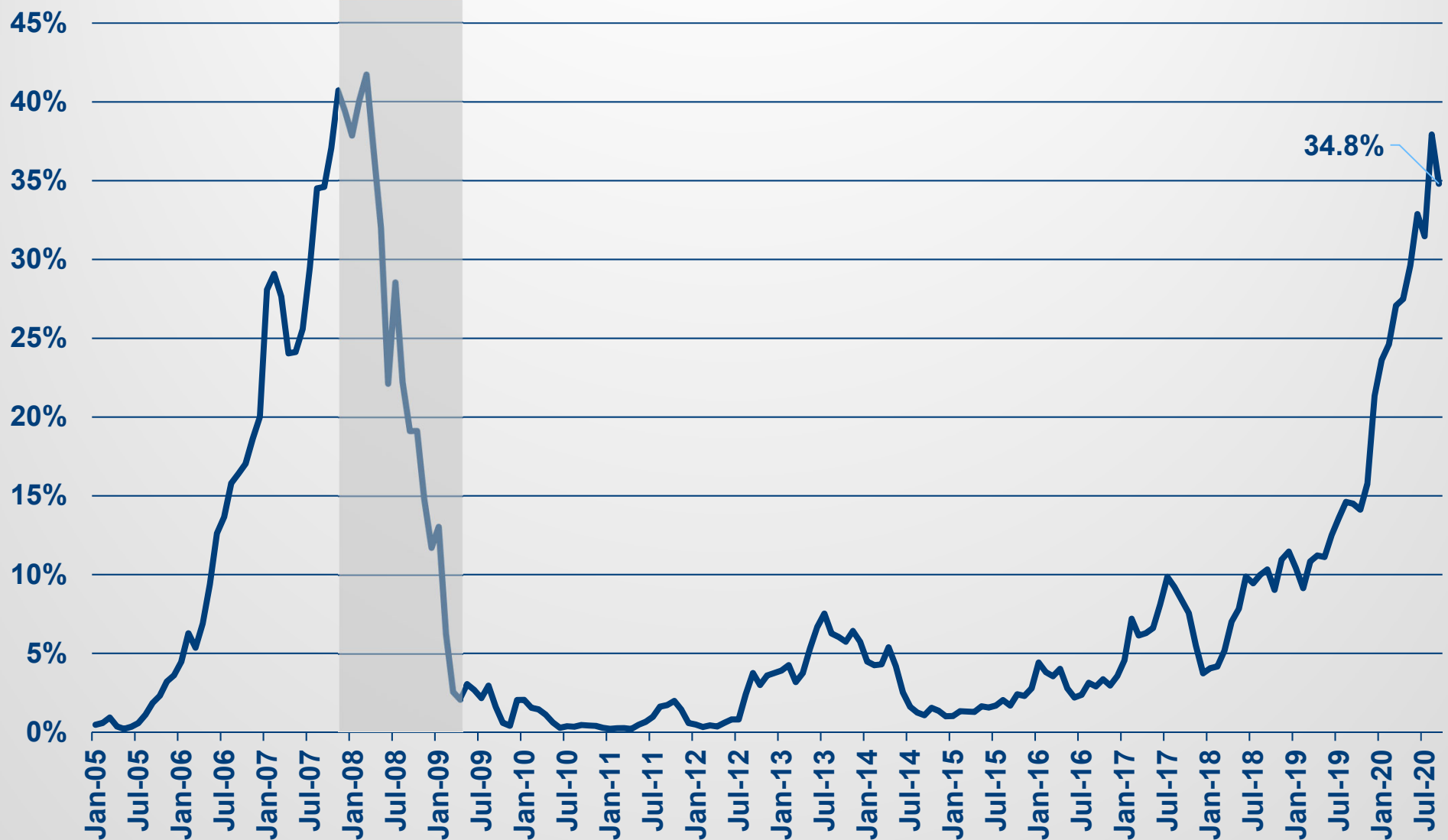
- ☒ The Yield Curve;
- ☐ The Natural Unemployment Rate;
- ☐ ISM Manufacturing Index; and
- ☐ Consumer Sentiment.



NY Federal Reserve Recession Model



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Source: New York Federal Reserve

What Are We Worried About?

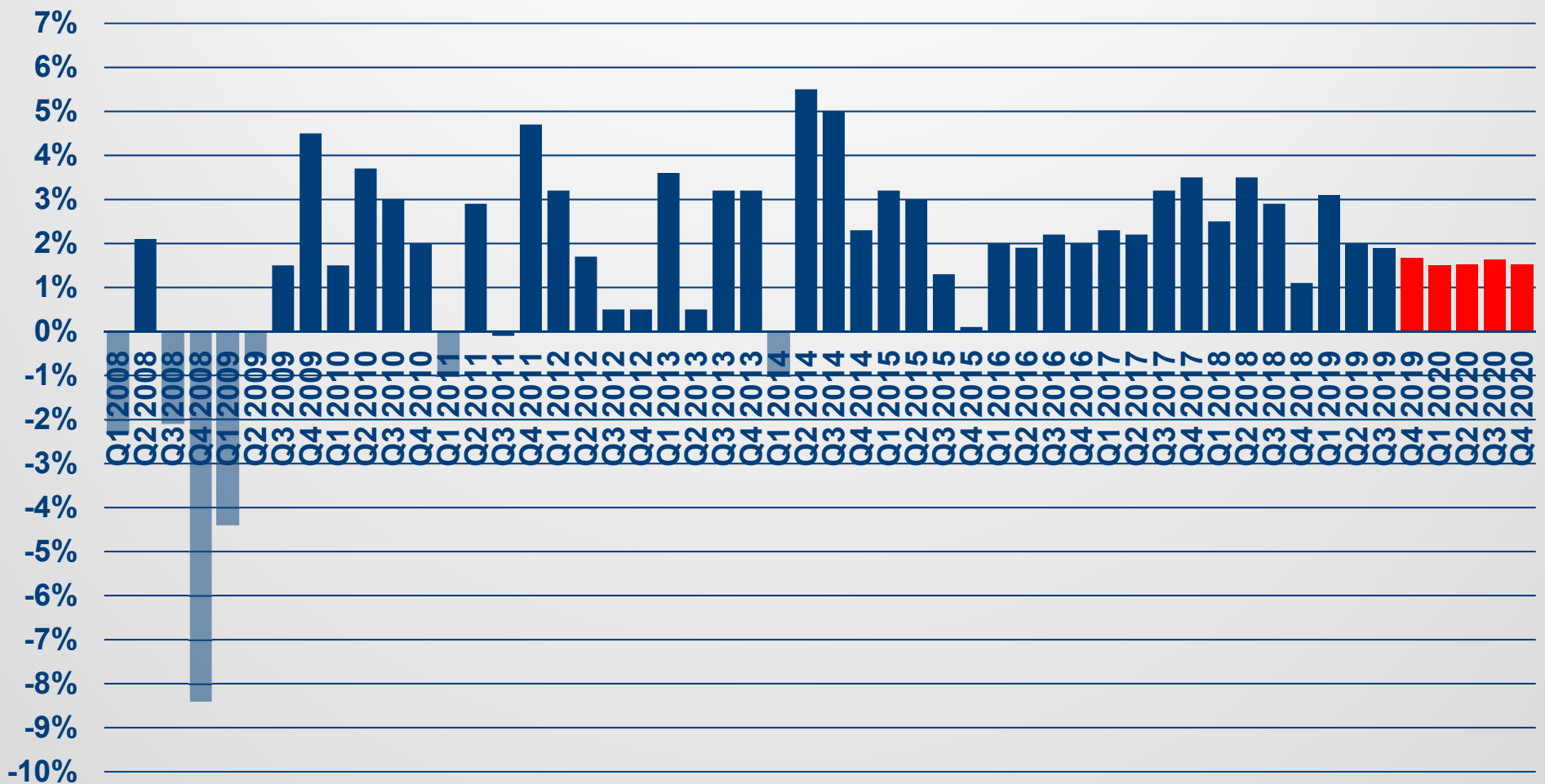
- Trade Wars Dragging On;
- Rising Tariffs Against the EU;
- US Limiting Portfolio Investments in China;
- EU Retaliation on Boeing Subsidies;
- The USMCA Not Passing; and
- The Potential for Another Gov't Shutdown.

Best Case Scenario (65% Likelihood)



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United States Real Gross Domestic Product
(Quarterly Growth Rate)



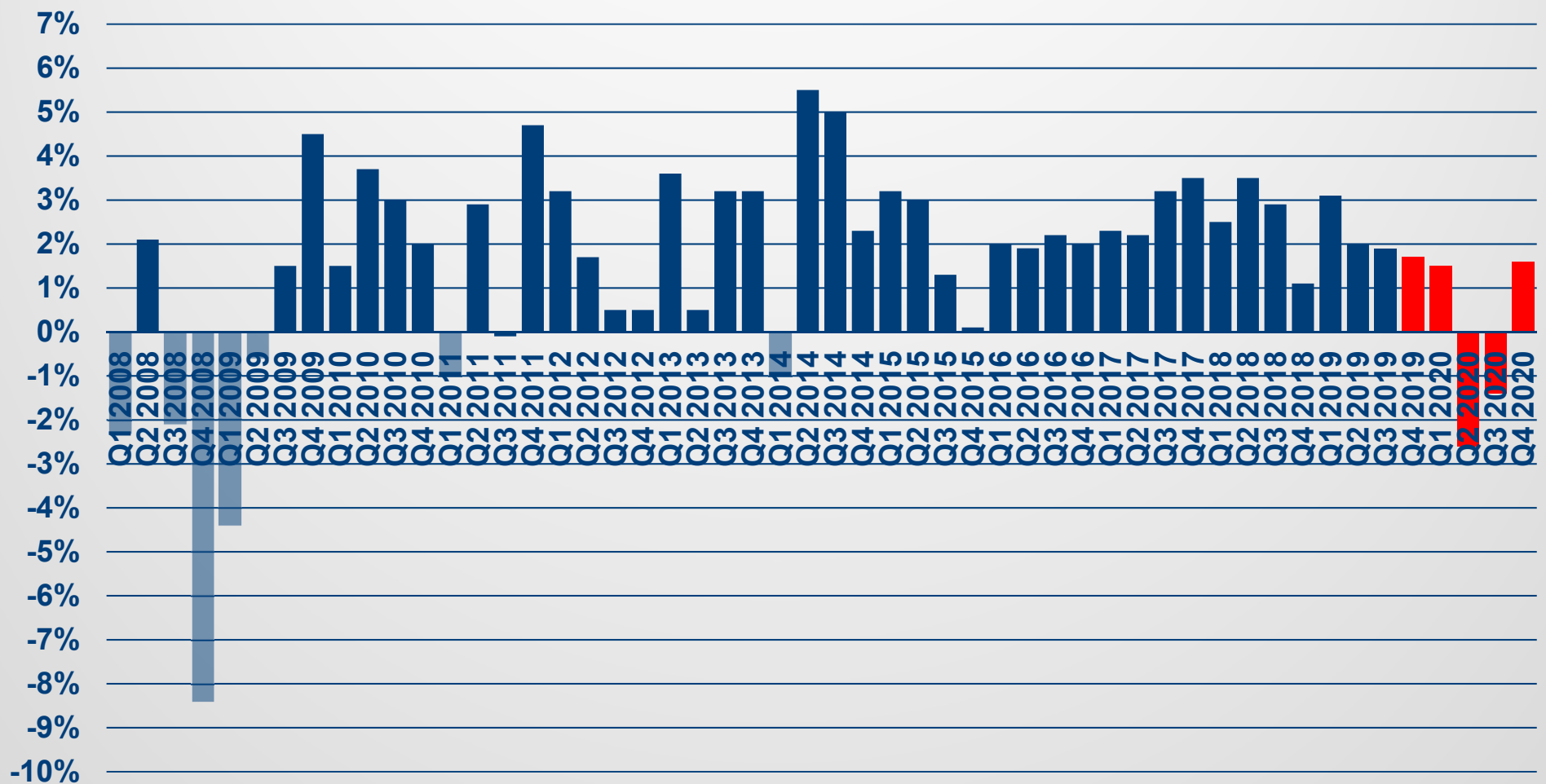
Source: BEA w/ Windermere Economics Forecasts

Worse Case Scenario (35% Likelihood)



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United States Real Gross Domestic Product
(Quarterly Growth Rate)



Source: BEA w/ Windermere Economics Forecasts

U.S. Economic Forecast



- Trade Wars Unlikely To Be Fully Resolved Any Time Soon;
- Roughly 2.0M New Jobs Will be Added in 2020;
- Unemployment Rate Ends '19 at 3.6%, Rising to 4.3.% by the End of '20; and
- *We Should* Start to See Real Wage Growth Improve Next Year.

The Seattle Metro Area Economy

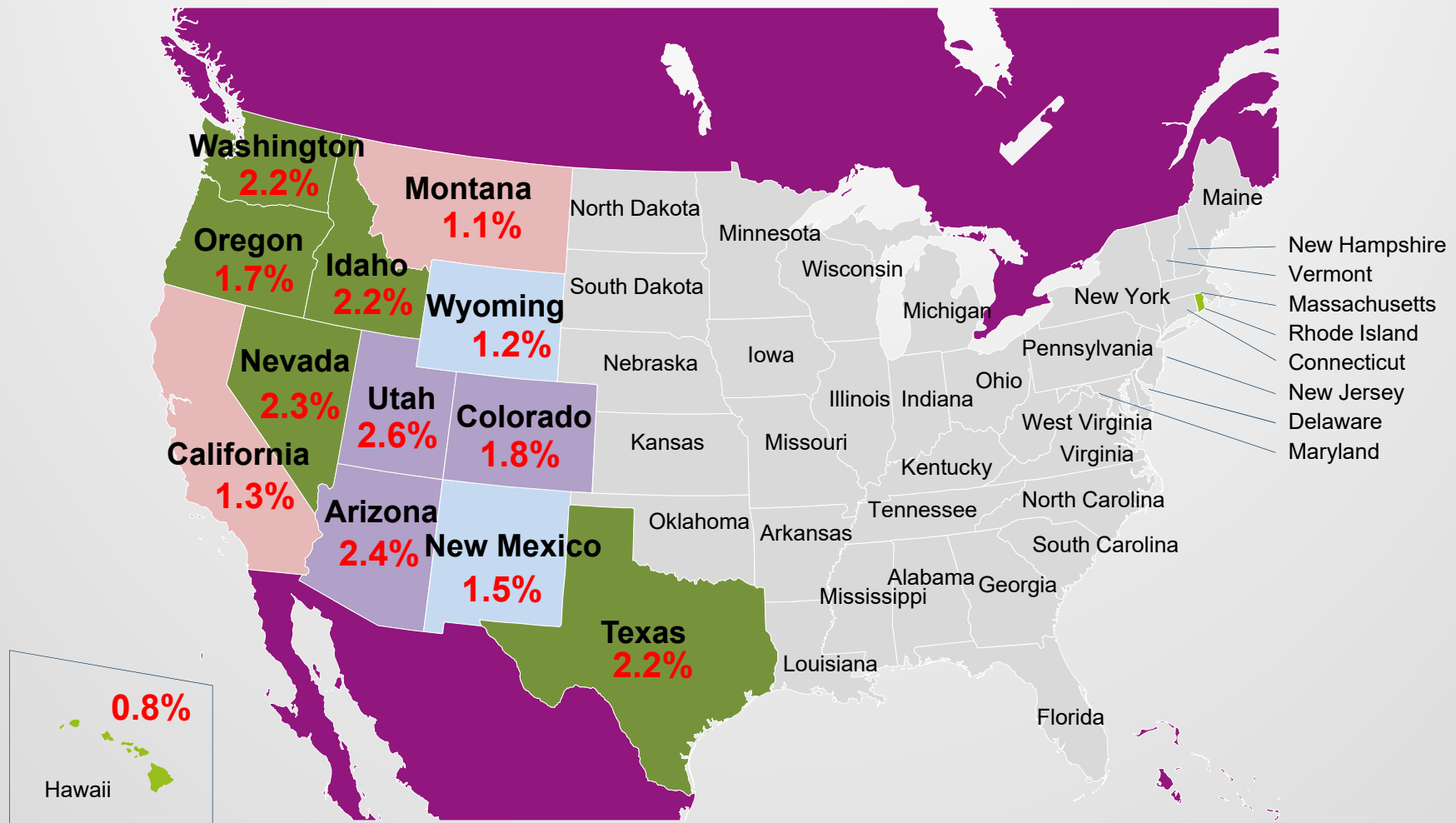


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Employment Growth Forecast (2020)



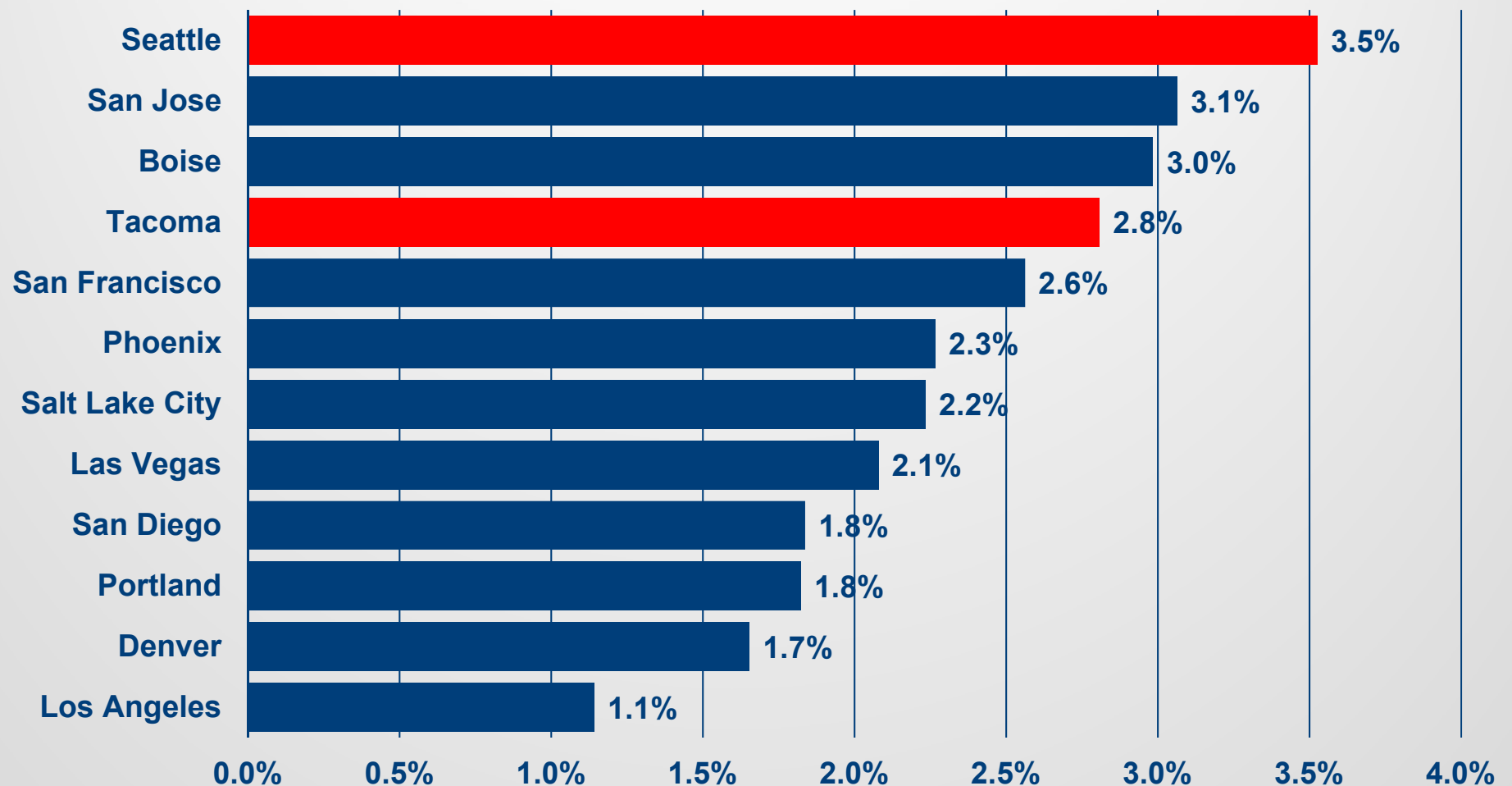
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Source: Windermere Economics – Updated 10/19

Comparative Employment (y/y)

Annual Employment Growth in Major West Coast Markets



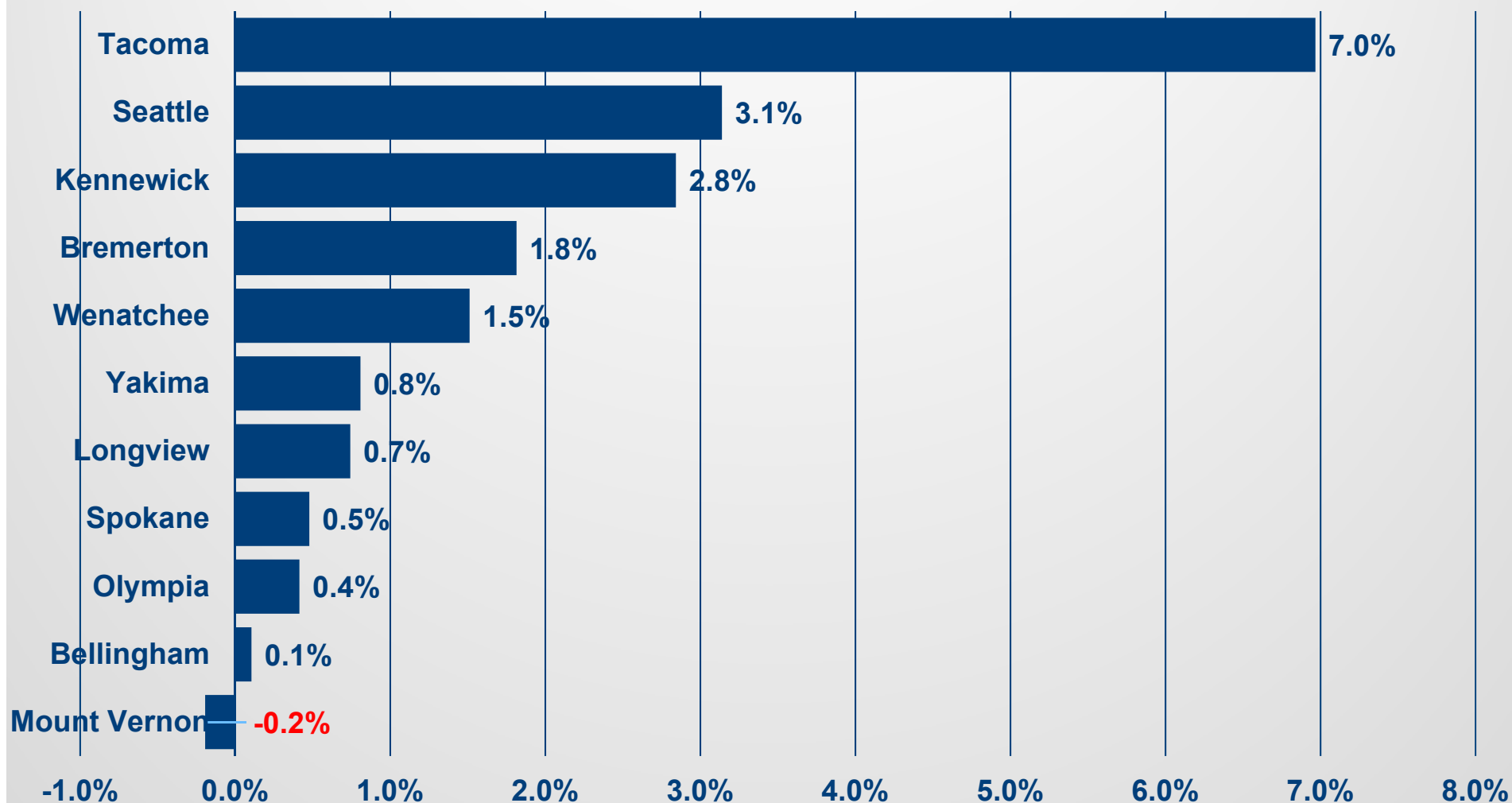
Source: BLS – Sept. 2018 to Sept. 2019

Comparative Employment (y/y)



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12-Month Employment Growth

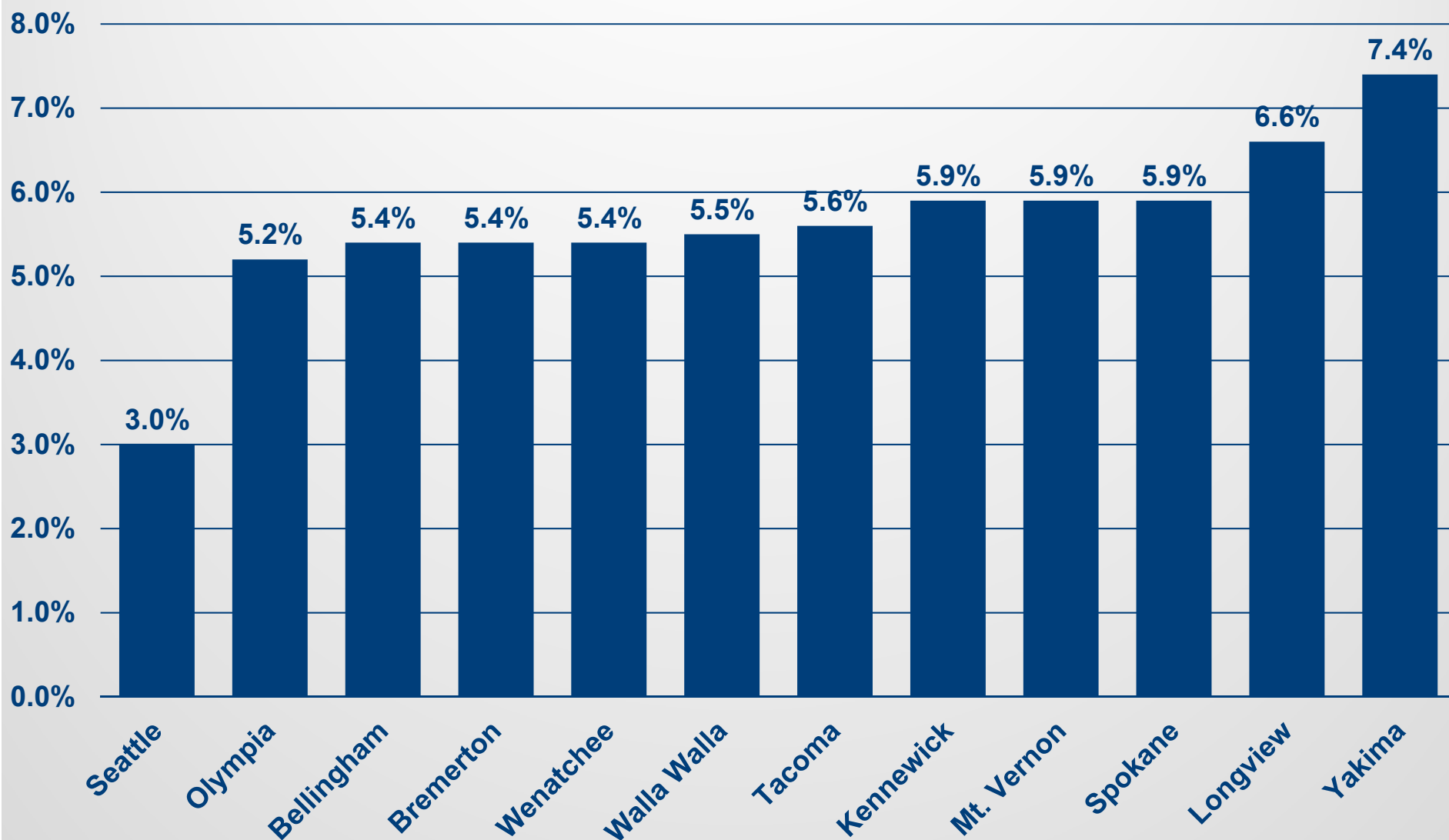


Source: BLS – Sept. 2018 to Sept. 2019

Statewide Unemployment Rates



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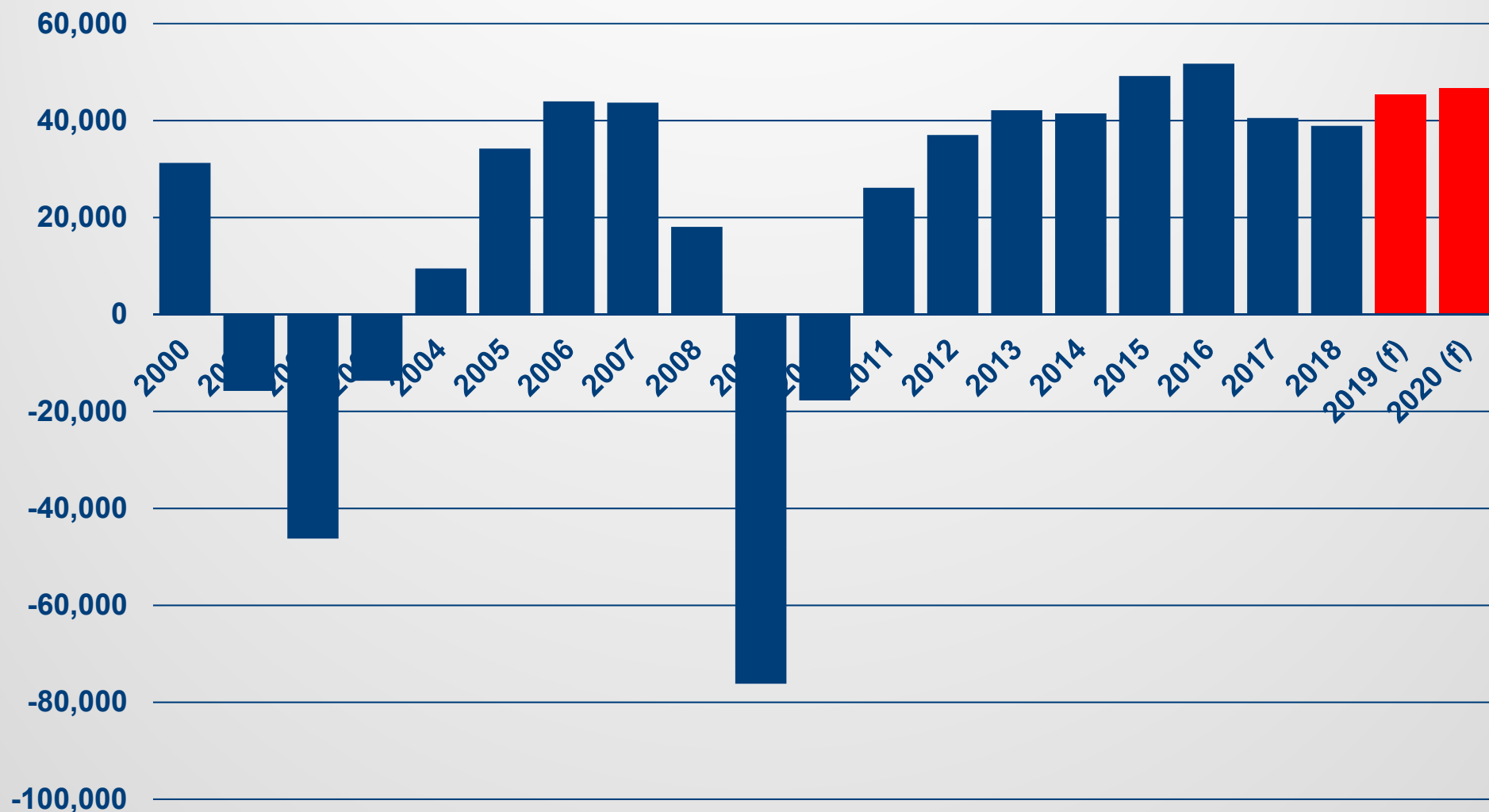


Source: WA ESD – Sept. 2019

Employment Growth Seattle Metro Area

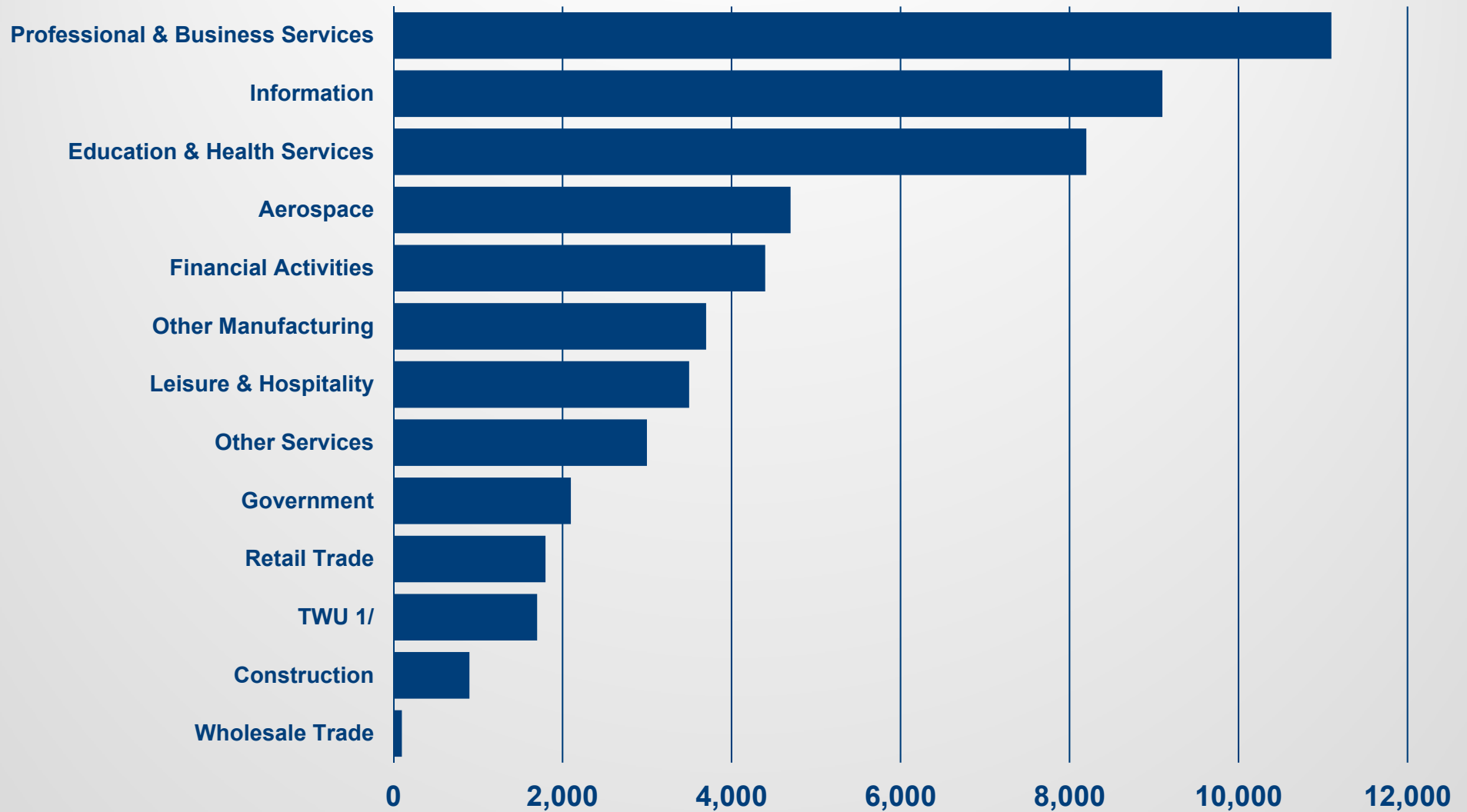


Seattle MSA Employment Growth



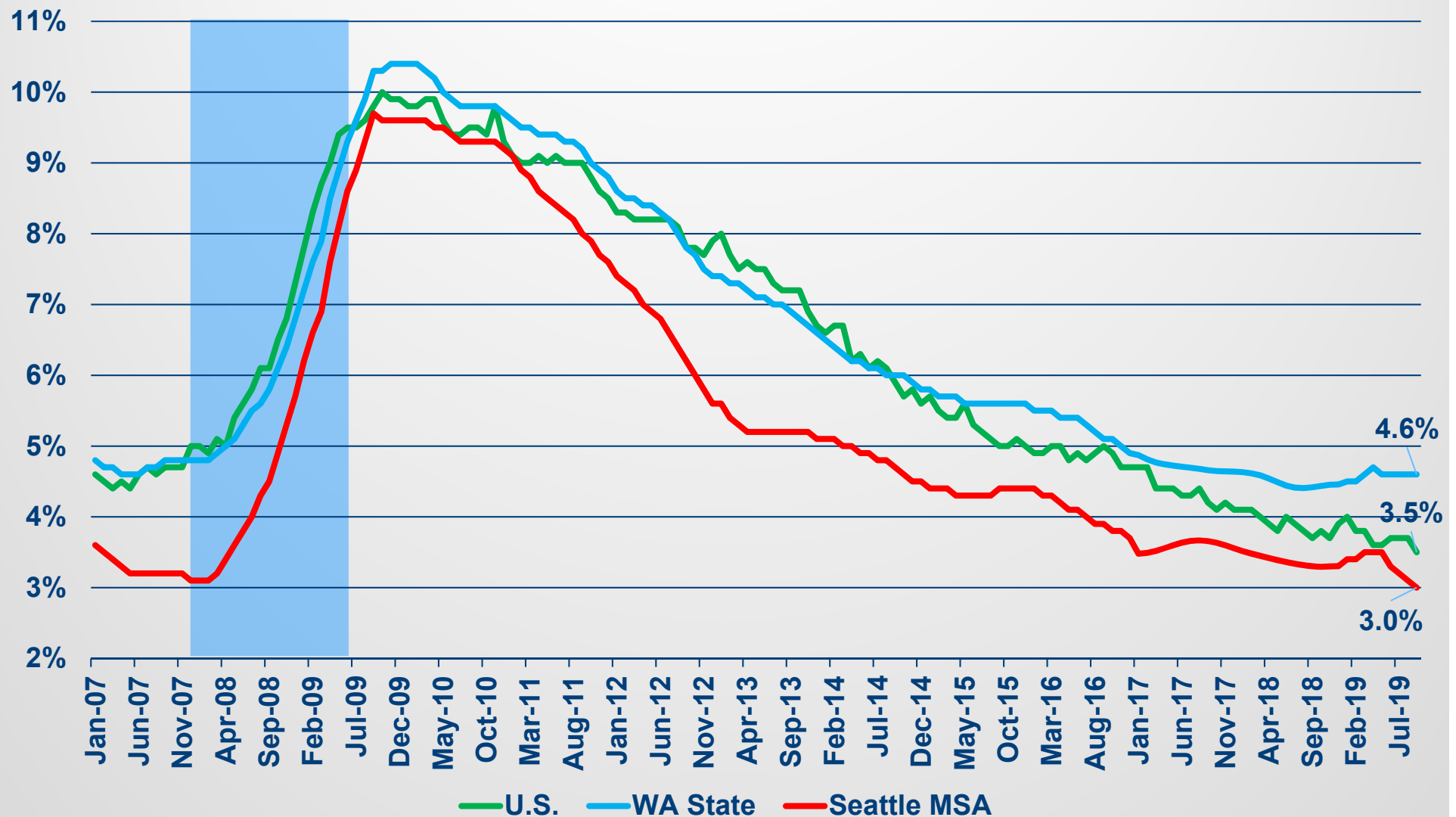
Source: WA ESD w/ Windermere Economics Forecasts – 12-Month Average Change

Sectoral Growth Seattle MSA



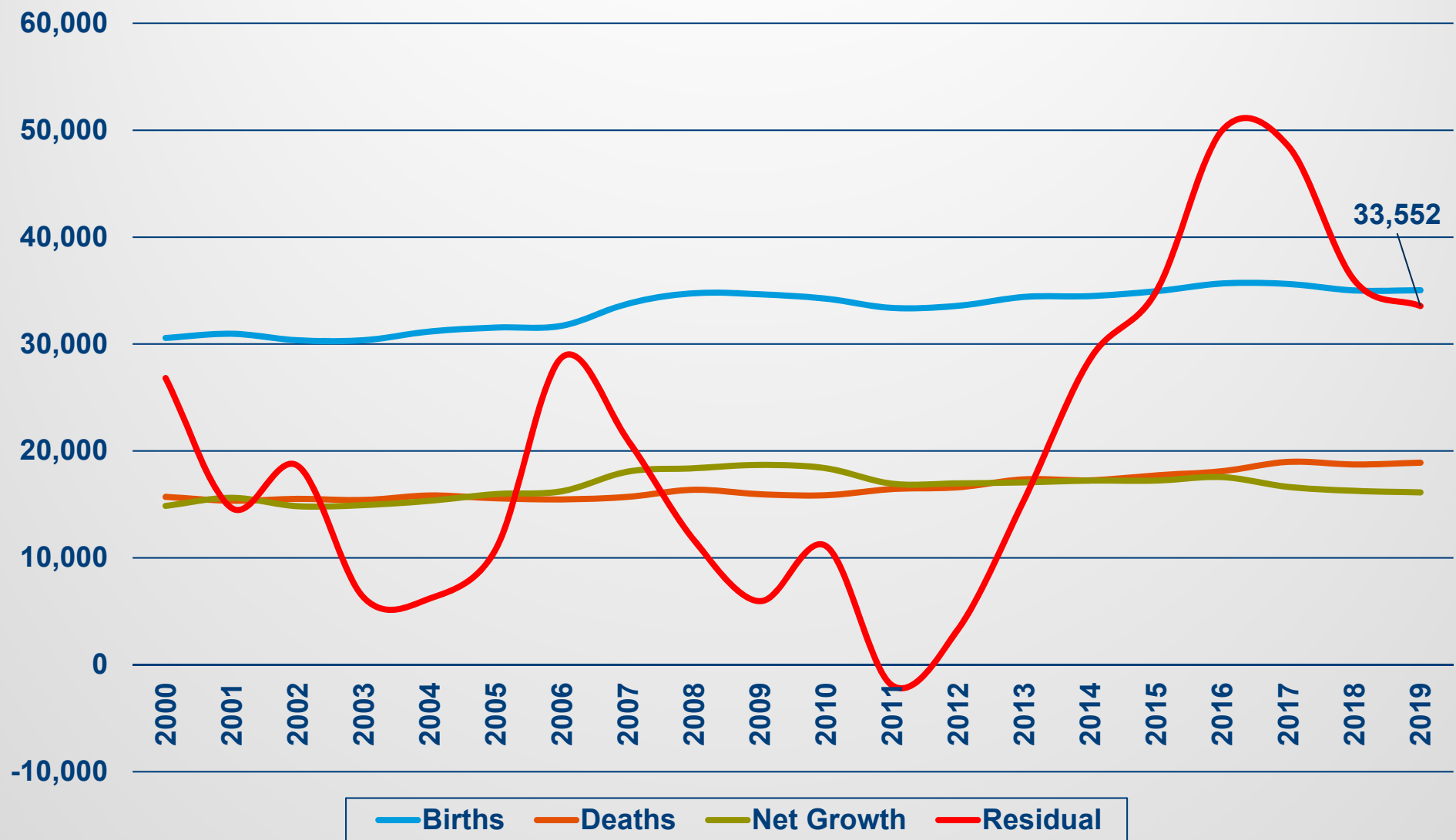
1/ Transportation, Warehousing & Utilities
Sept. 2018 – Sept. 2019

Relative Unemployment Rates



Source: WA ESD -Data thru' Sept. 2019

Migration Patterns Seattle MSA



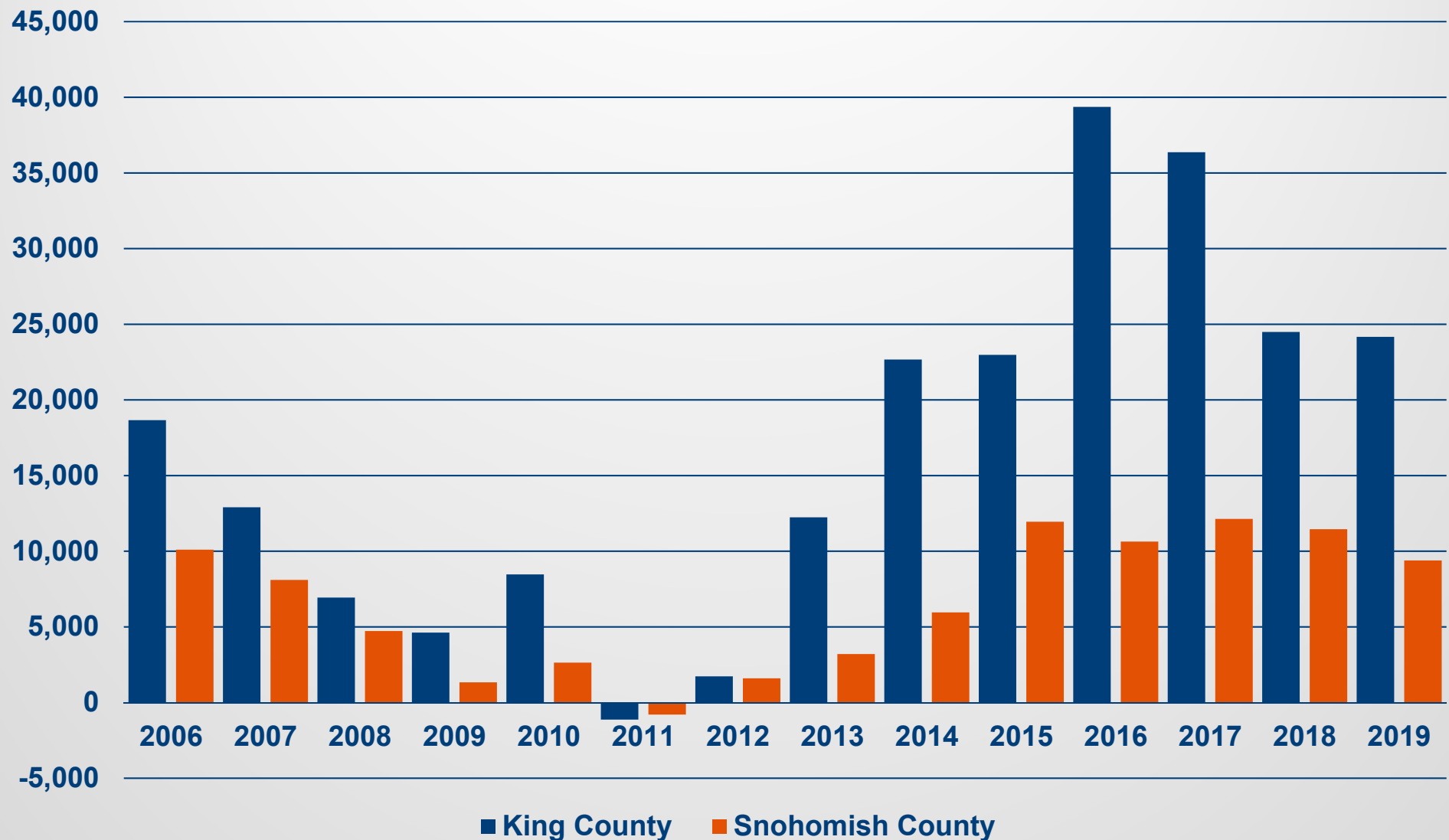
Source: Windermere Economics, WA OFM & WA OFD

Housing is Pushing People Out

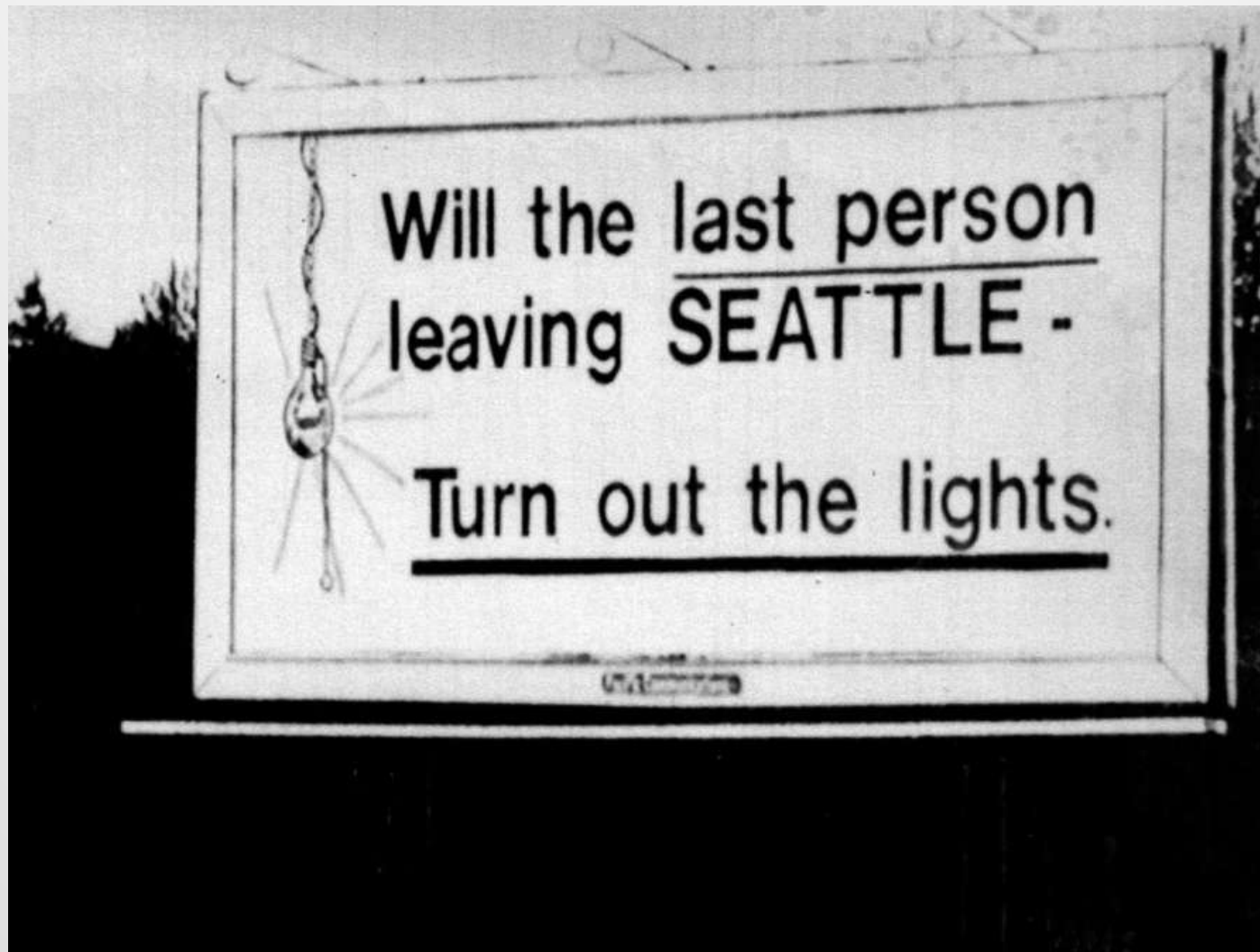
Residual Migration Patterns



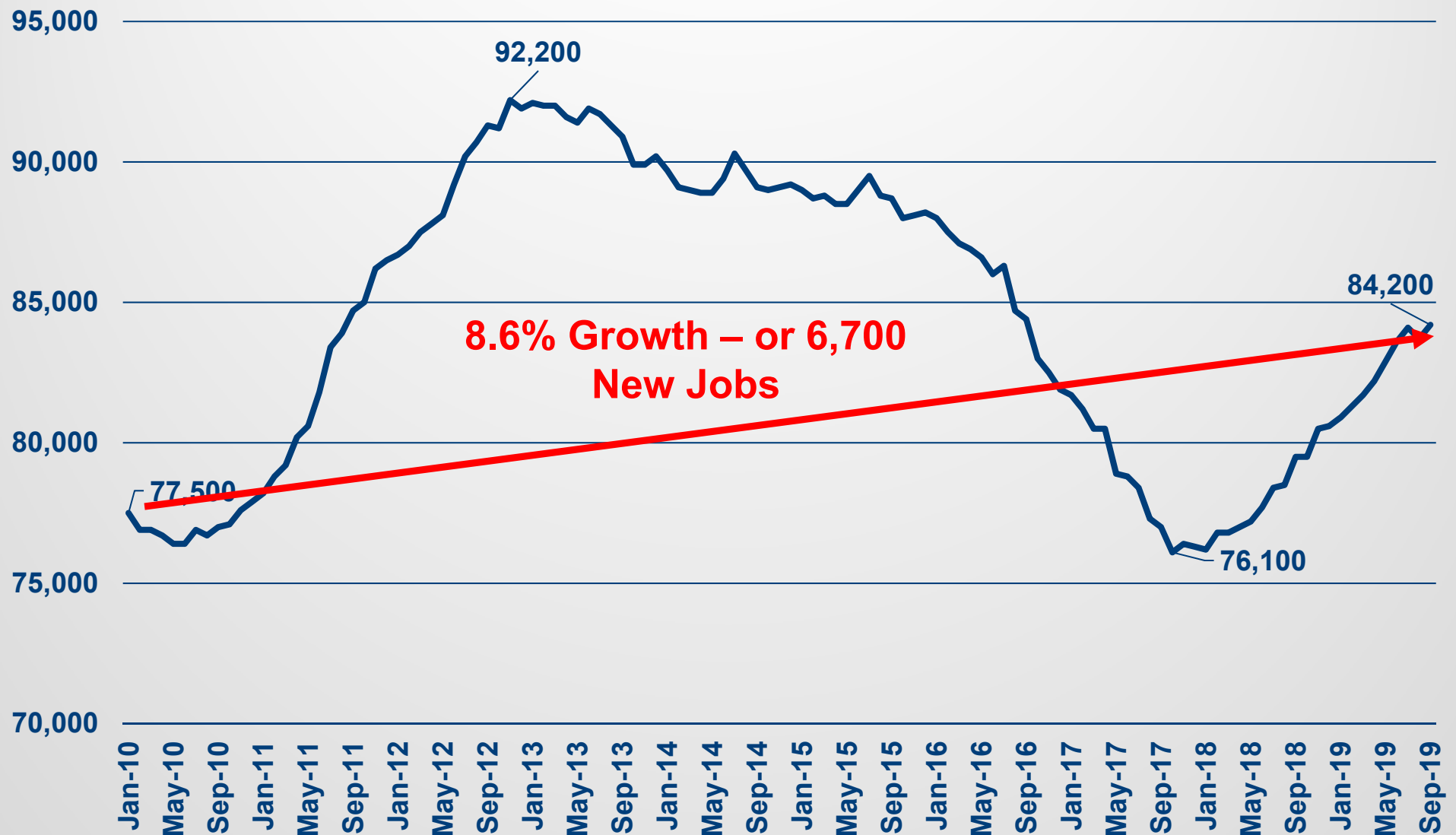
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Source: Windermere Economics, WA OFM

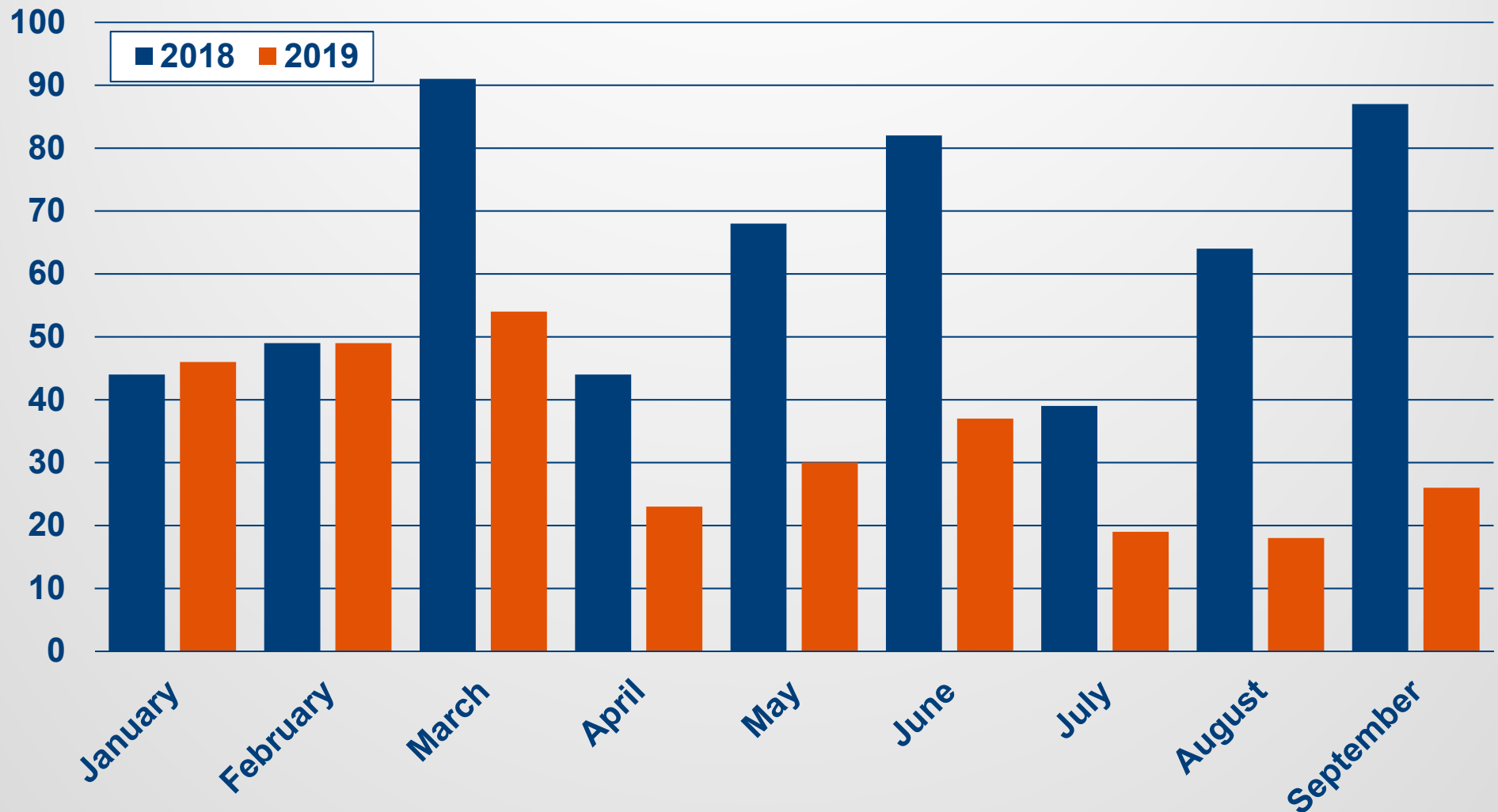


Aerospace Employment



Source: WA ESD

Boeing Commercial Aircraft Deliveries



Industry Diversification

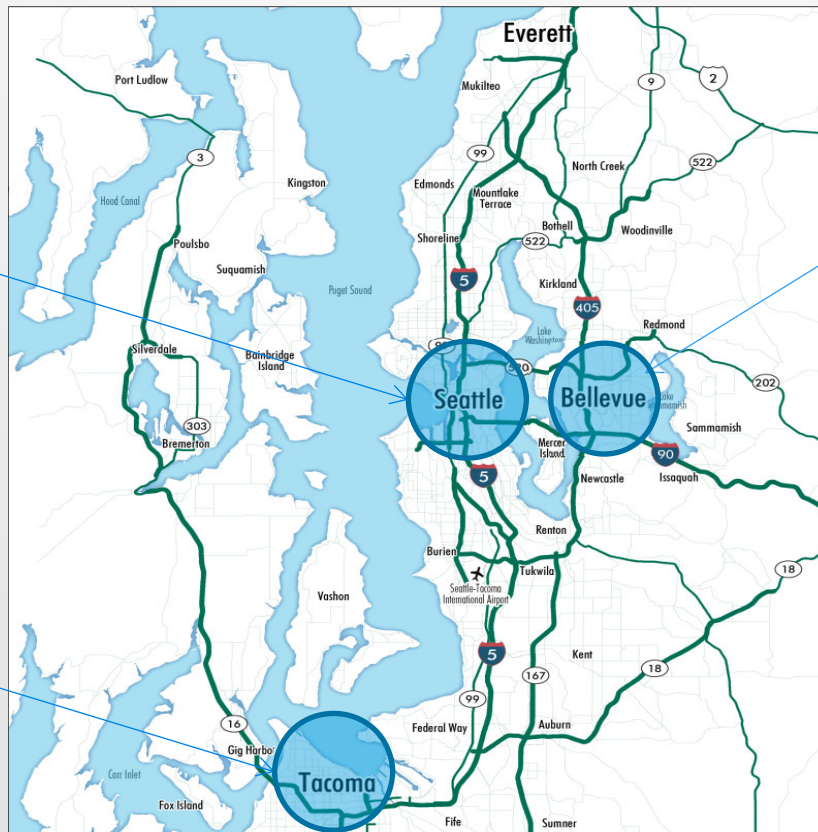


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SEATTLE EMPLOYERS



TACOMA EMPLOYERS



EASTSIDE EMPLOYERS



OTHER PUGET SOUND EMPLOYERS



How Important is Technology to Seattle?



By the Numbers: Technology in Seattle



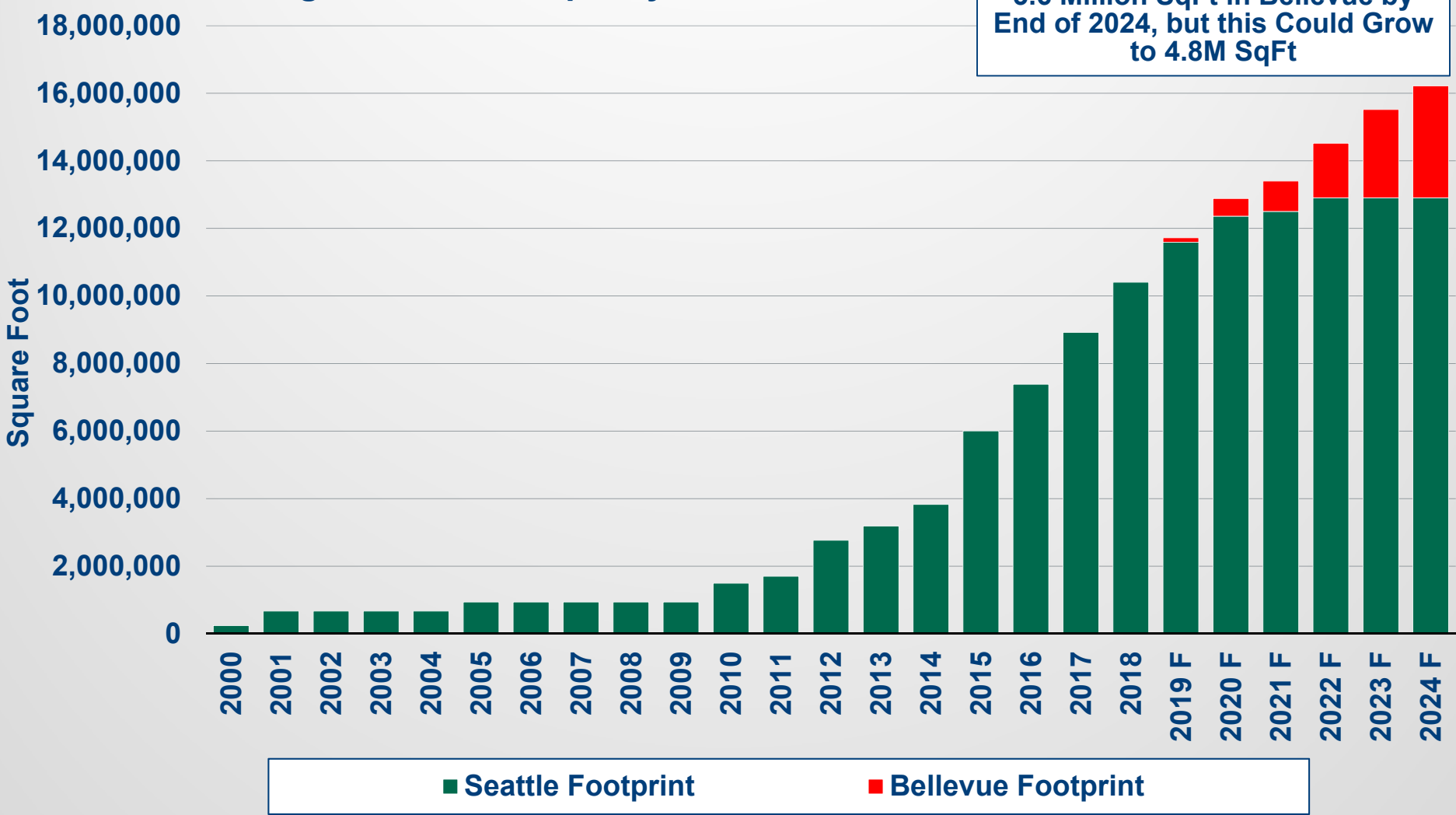
298,555	Jobs in Tech;
11,550	Net New Jobs in 2018;
4.0%	YoY Change in Net Tech Employment
14.2%	Employment as a % of Total Workforce;
10,346	Tech Companies;
93,303	Tech Occupation Job Postings (2018)
66%	Emerging Tech Job Postings % Change
9th	Net Tech Employment Rank
4th	Net Tech Jobs Added Rank;
3rd	Economic Impact Rank

Amazon in Bellevue



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Amazon.com's Puget Sound Occupancy



Source: CBRE & Windermere Economics

I-976 is Something We All Need to be Worried About



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Transportation Infrastructure. By 2040....

	2018	2040
Annual Hours of vehicle travel daily per motorist	36	49
Average additional time (minutes) it takes to drive during peak period	31	48
Number of traffic collisions	52,000	63,000
Commercial aircraft delay hours	11,000	115,000

WA Trade with China

Type	Who	How
Loss of Exports	Washington Businesses, farmers	Displacement of Washington market share in China with cheaper competitors, such as Russia. Impairment of existing buyer relationships.
Reduction in cargo handling	Cargo handling operations, e.g., terminal operators, rail, trucking, logistics	Reduction in cargo flows, especially on imports, will potentially lead to labor reductions.
Supply chain disruptors	Washington businesses	Too expensive to procure from established sources due to tariffs, need to find new suppliers and likely more expensive.
Consumer goods more expensive	Washington households	Many products that are no longer produced in the U.S. and with inelastic demand will be more expensive for families.
Services exports & investment impact	Washington service providers	While tariffs do not directly apply to services exports, services markets often follow development of goods markets.

Regional Economic Forecast for 2020



- Total Employment in the Seattle MSA Rises by 2.5% in 2020;
- Continued Corporate Growth – Mainly in Urban Hubs (Tech Continues as an Economic Driver);
- Income Growth Will Continue to Head Higher But at Slower Rates); and
- The Economy Will – Yet Again – Outperform the U.S. Next Year.

Regional Office Market

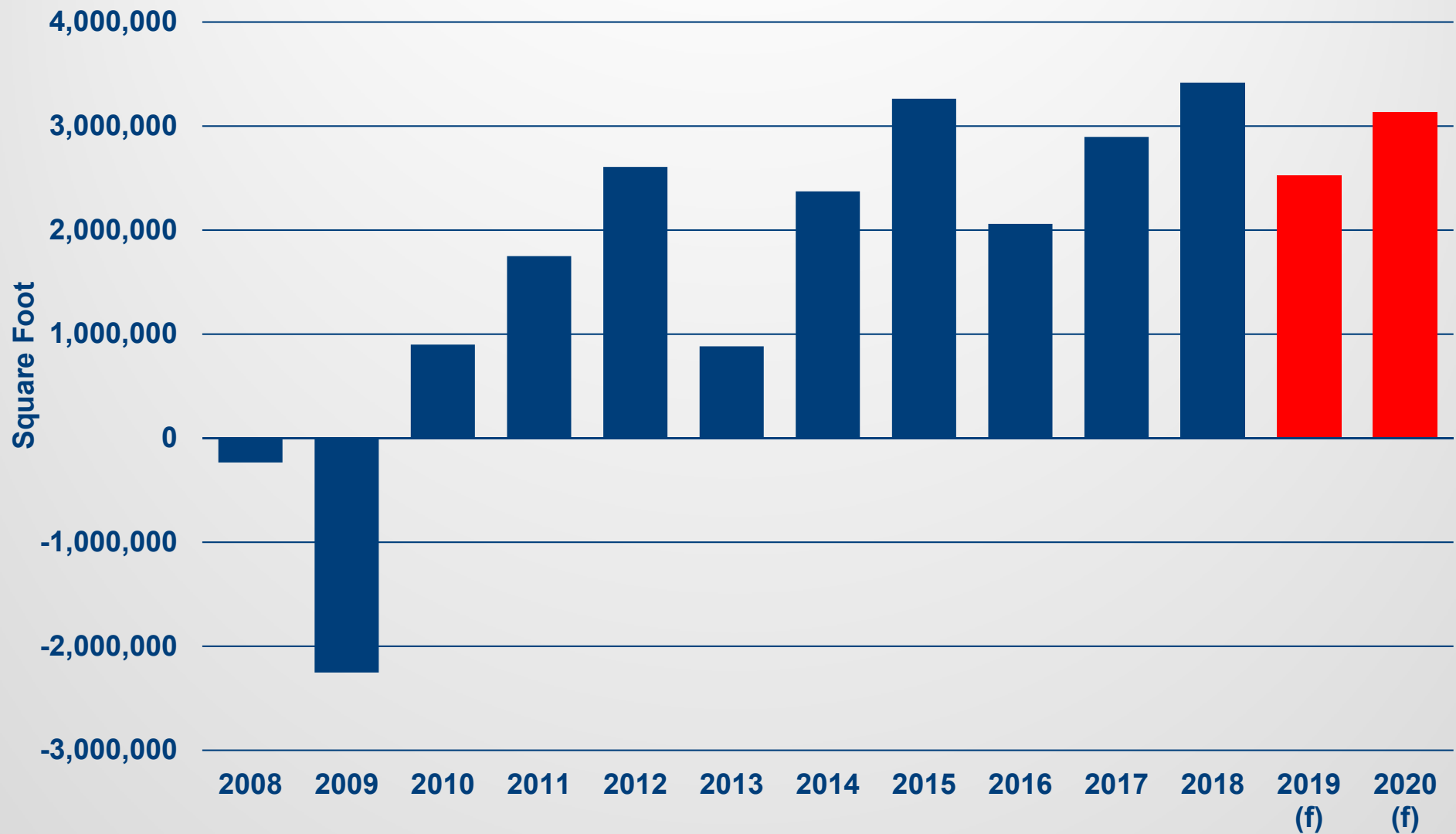


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Absorption of Office Space Seattle/Tacoma MSA

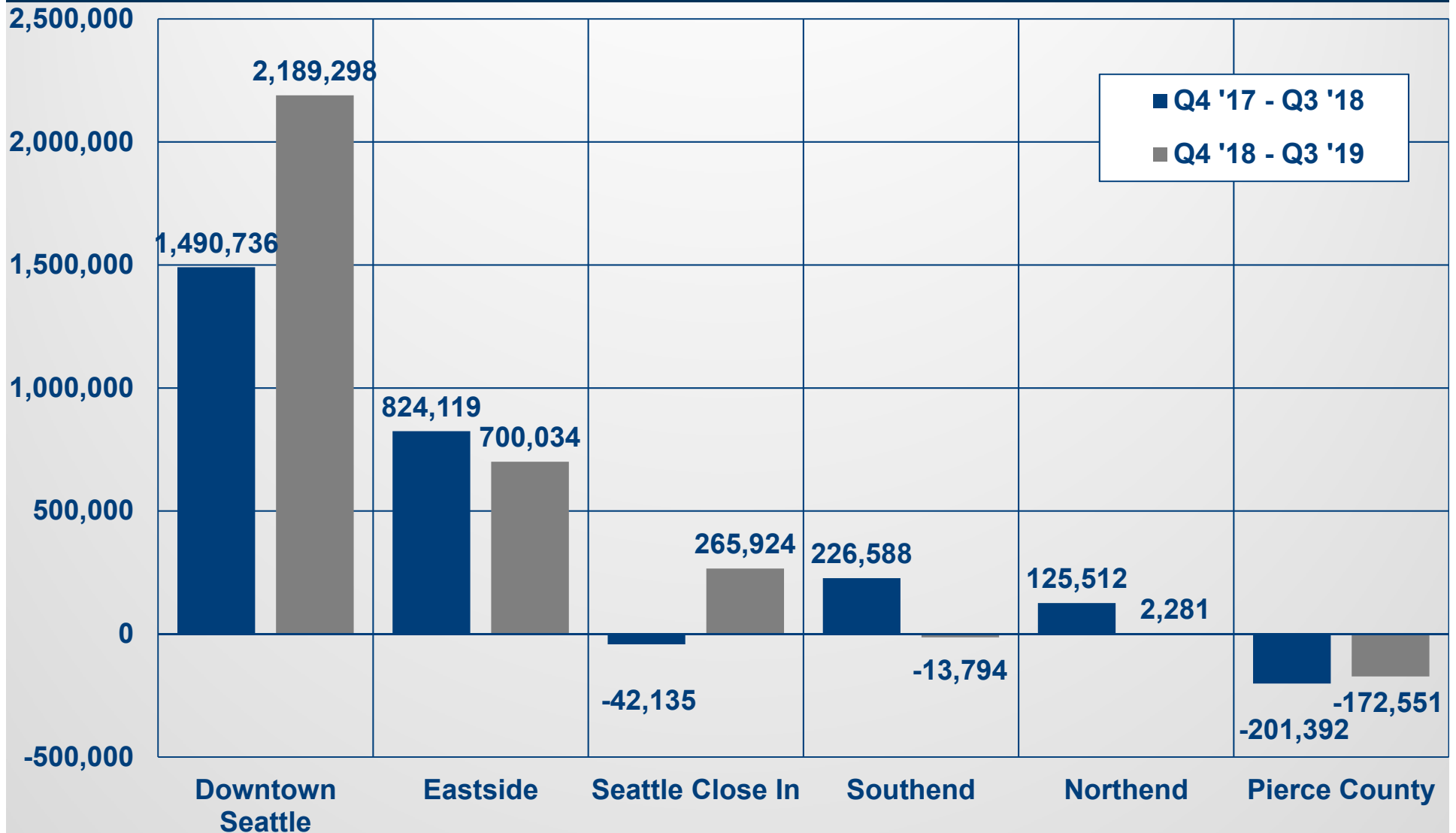


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Source: CBRE History w/ Windermere Economics' Forecasts

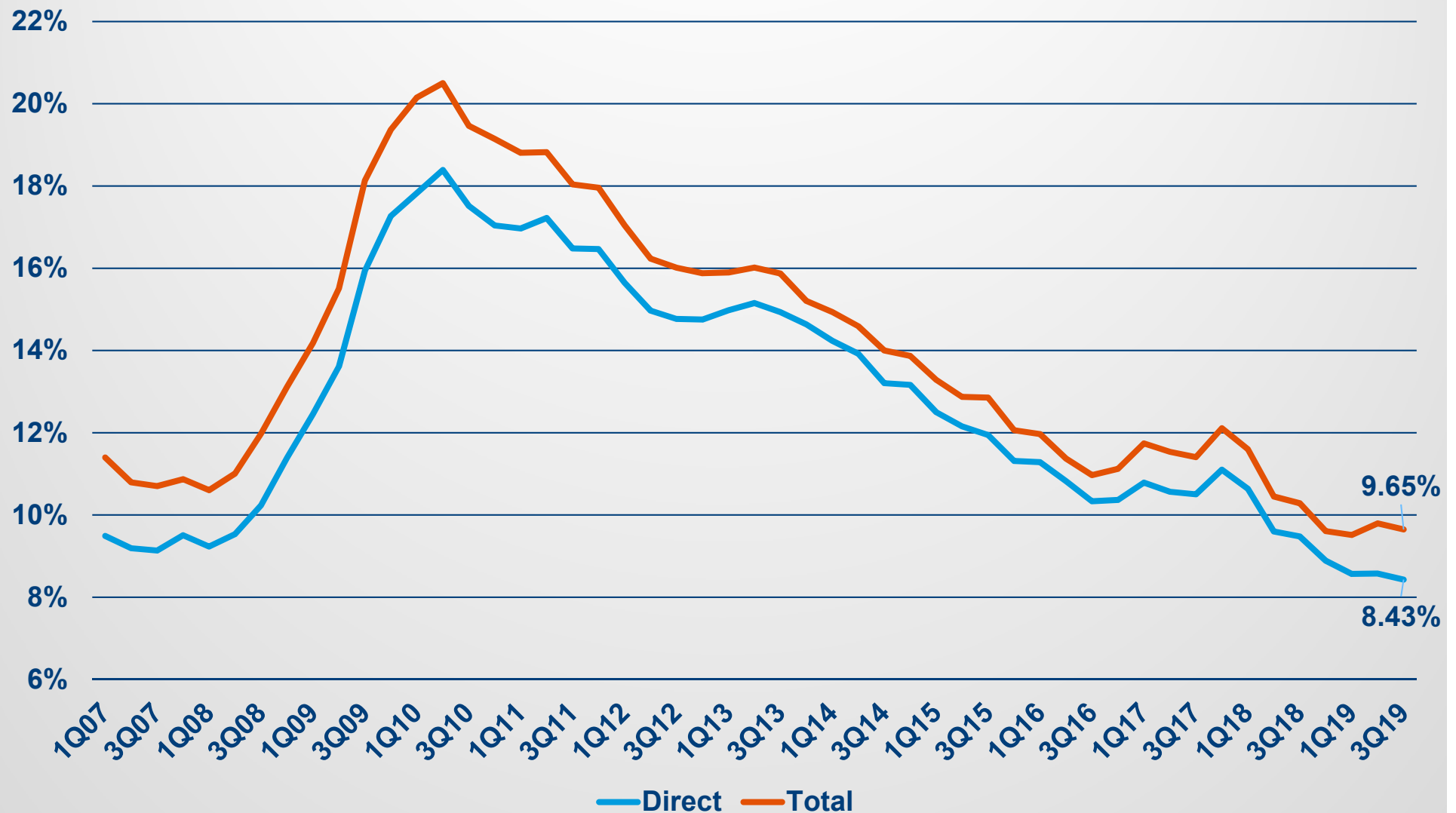
Sub-Market Absorption



Source: CBRE History w/ Windermere Economics' Forecasts

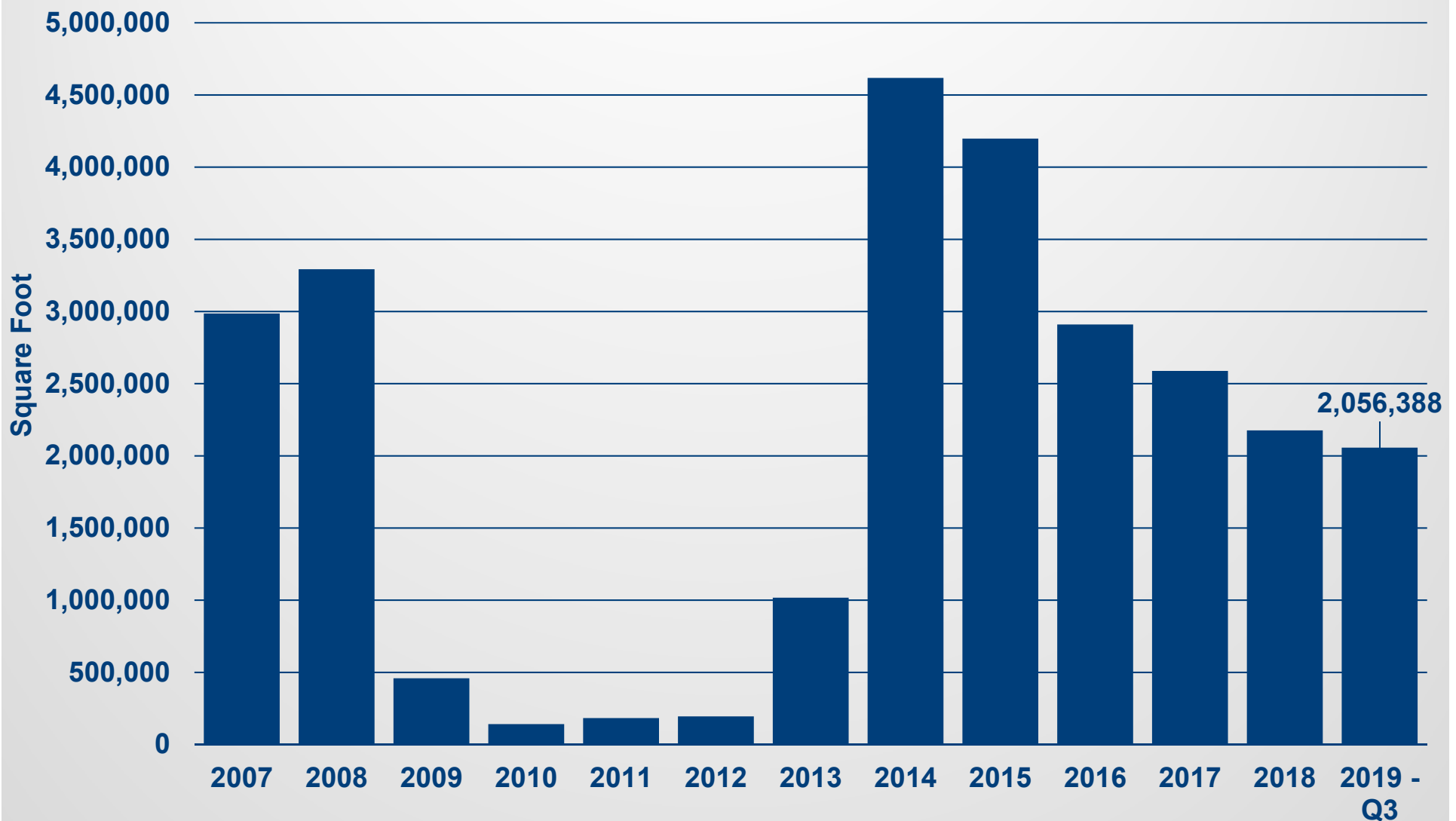
Vacancy Rates

Seattle/Tacoma MSA



Source: CBRE

Availability in New Buildings



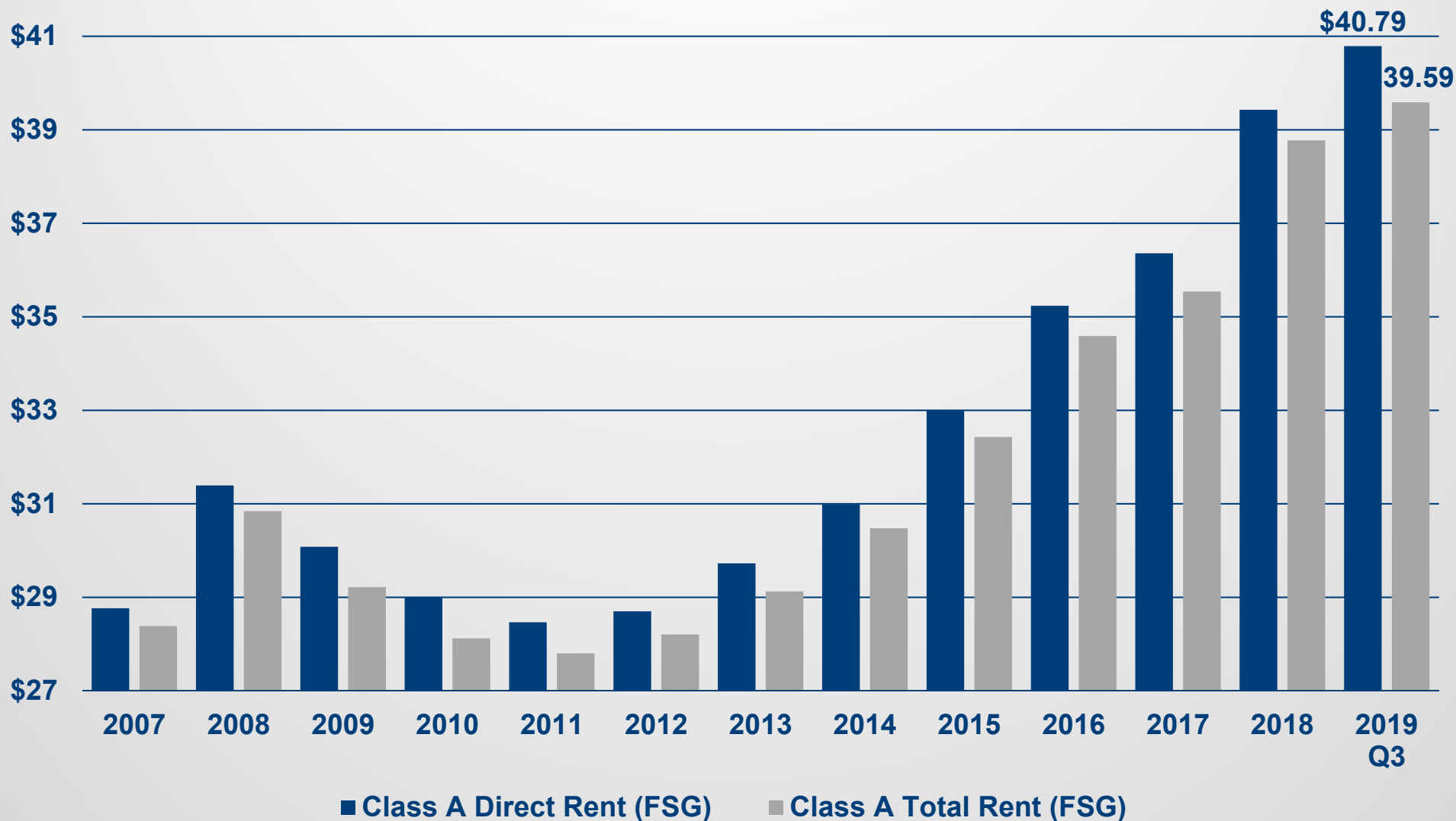
Source: CBRE

Class A Rental Rates

Seattle/Tacoma MSA



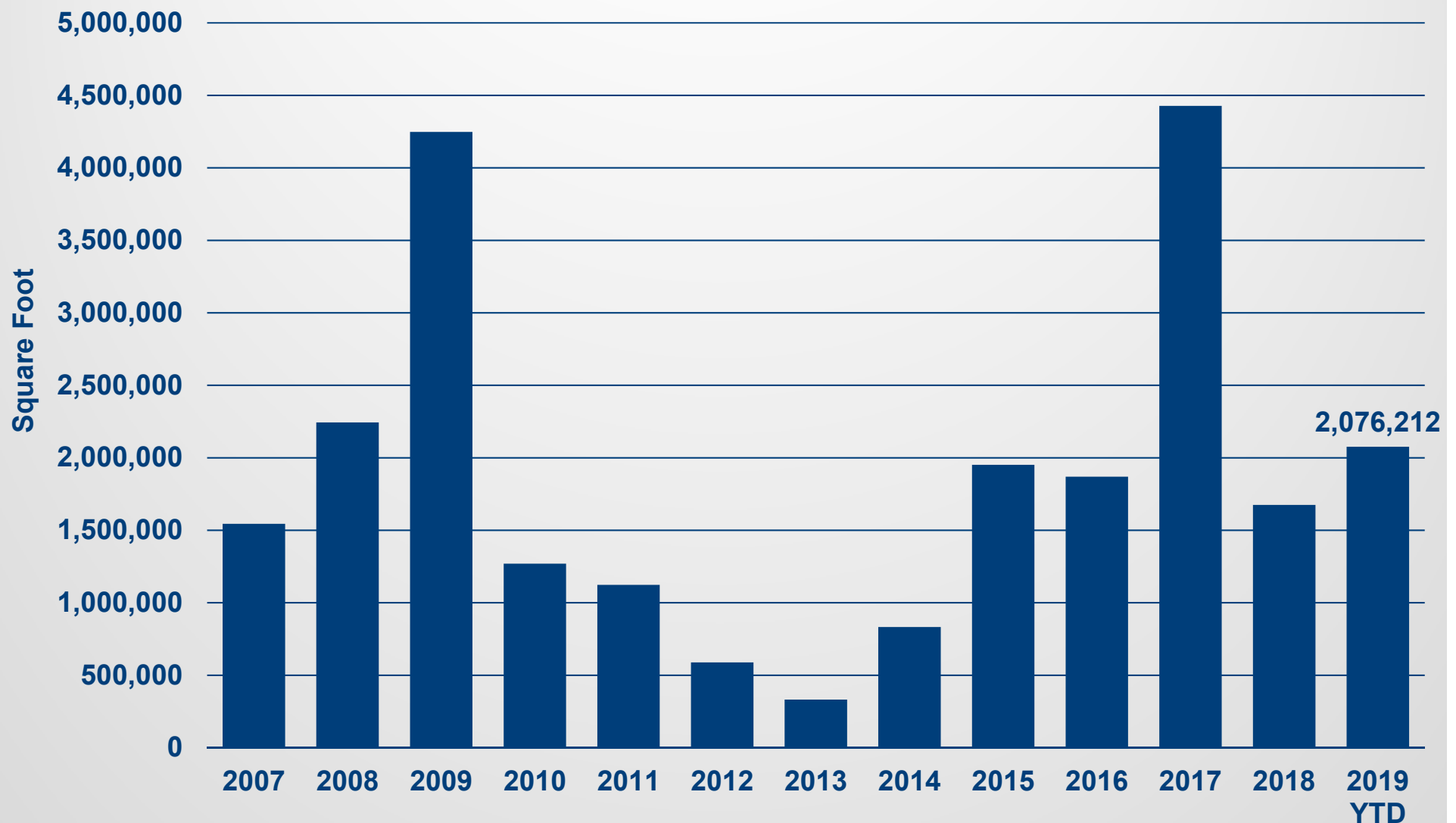
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Source: CBRE

New Office Deliveries

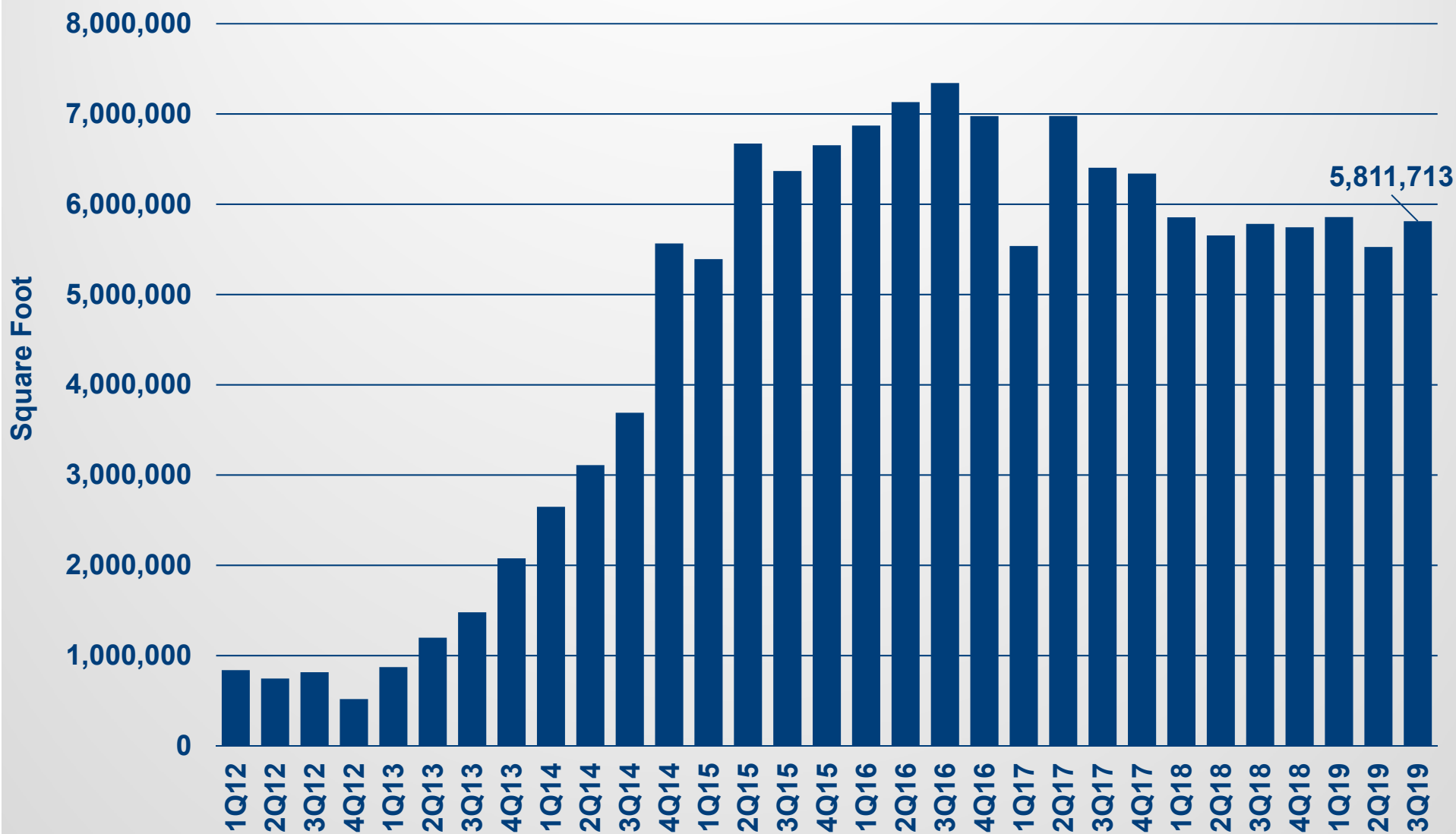
Seattle/Tacoma MSA



Source: CBRE

Construction Activity

Seattle/Tacoma MSA



Source: CBRE

Expectations

- We Work...;
- Seattle CBD Continues To Outperform – Driven by Tech Expansion (54% of U/C Space is Pre-leased);
- Look to the East (Bellevue CBD Lease Rates Now Over \$58);
- Tacoma Establishing as a Start-Up Locale; and
- Fed Leading Borrowing Costs Lower!

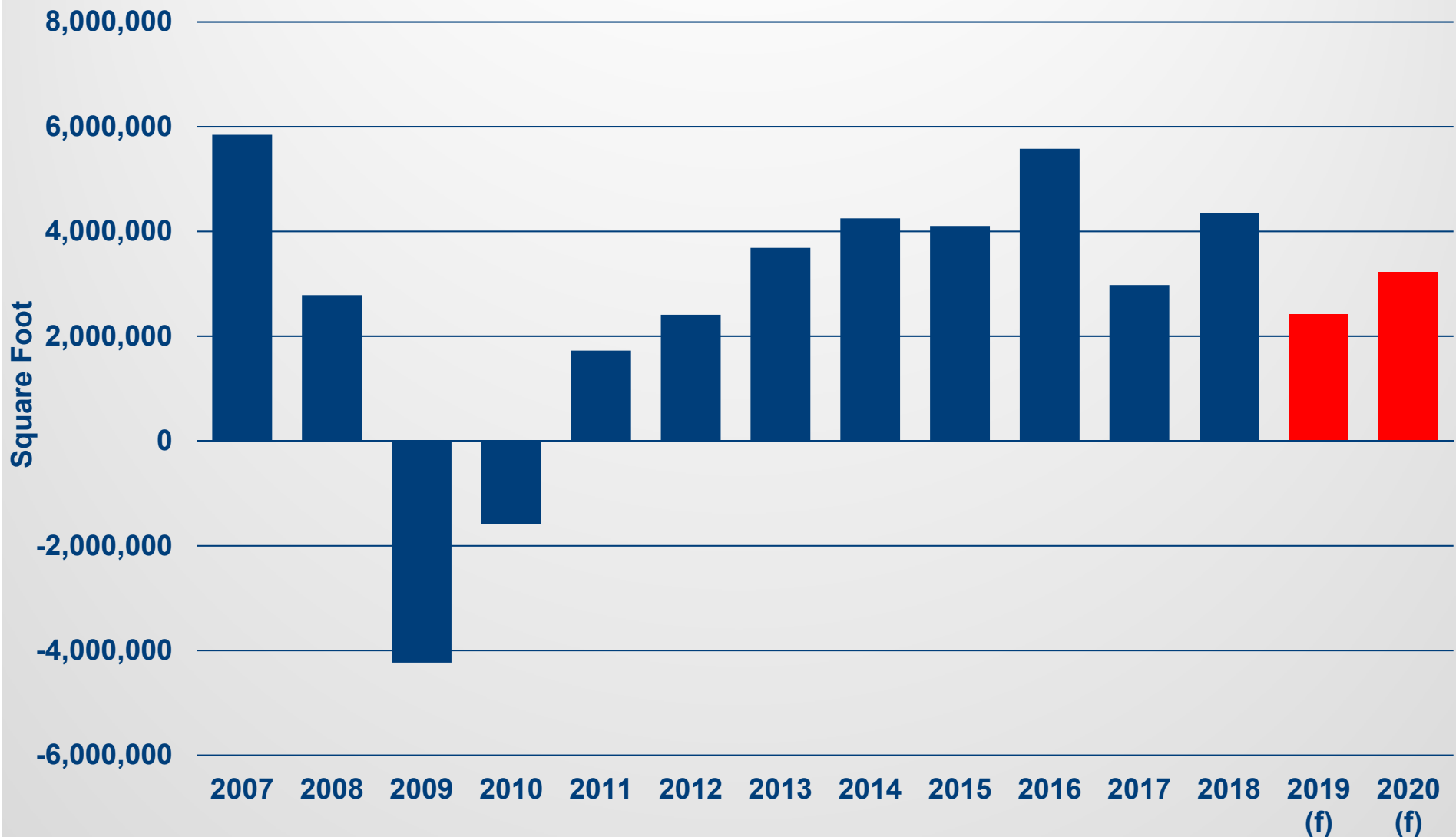
Regional Industrial Market



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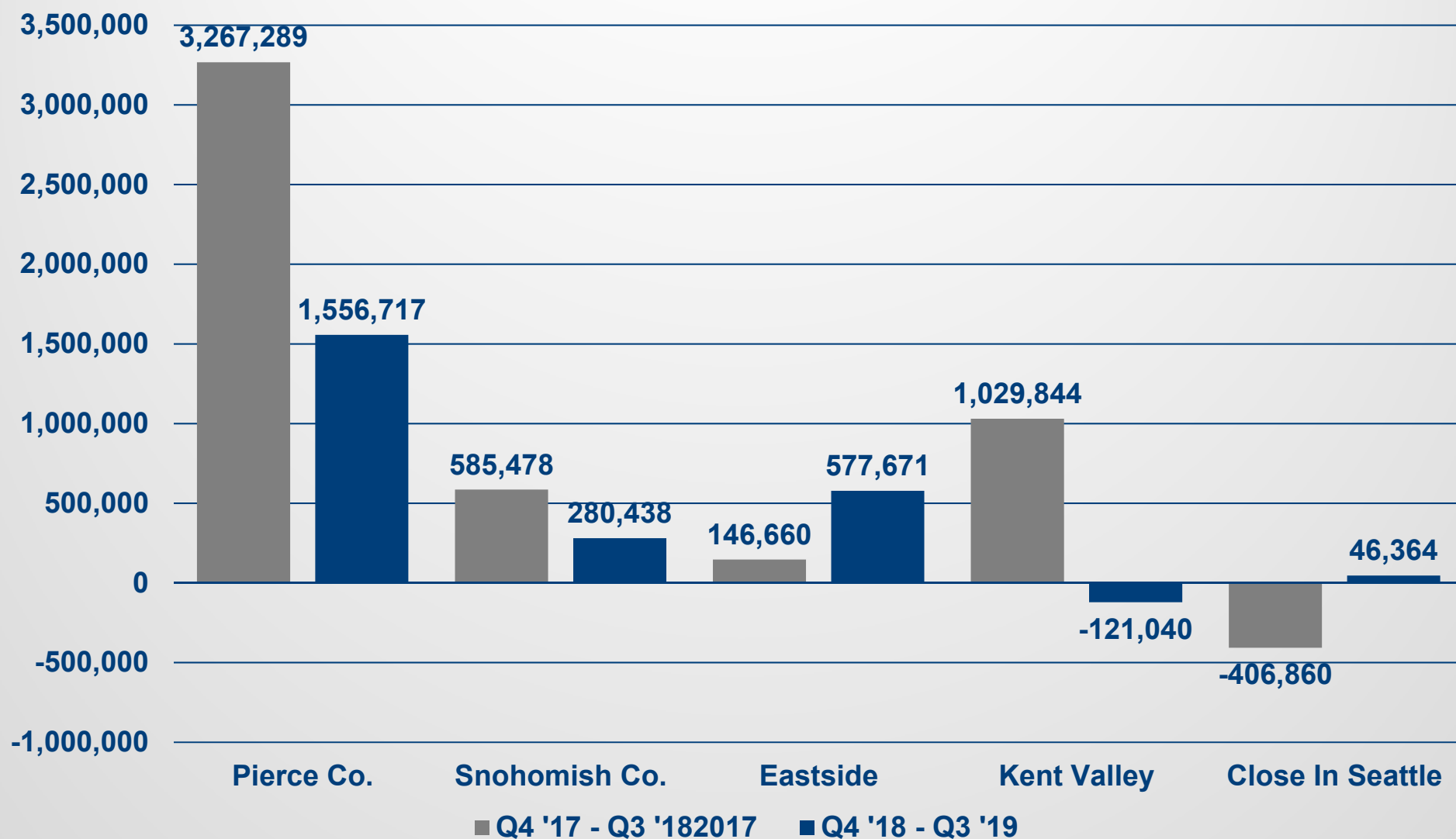
Industrial Absorption

Seattle/Tacoma MSA



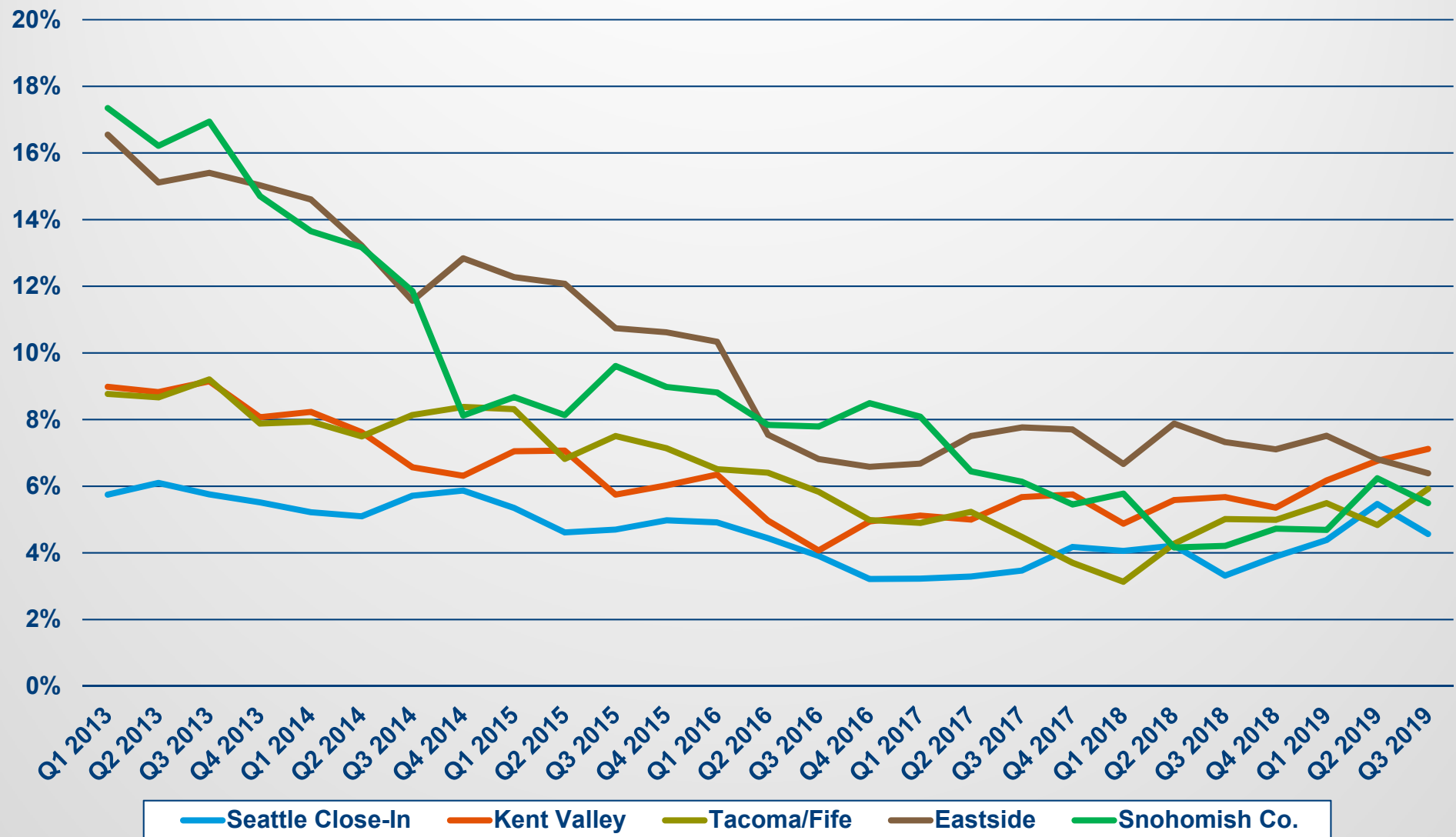
Source: CBRE History w/ Windermere Economics' Forecasts

Sub-Market Absorption



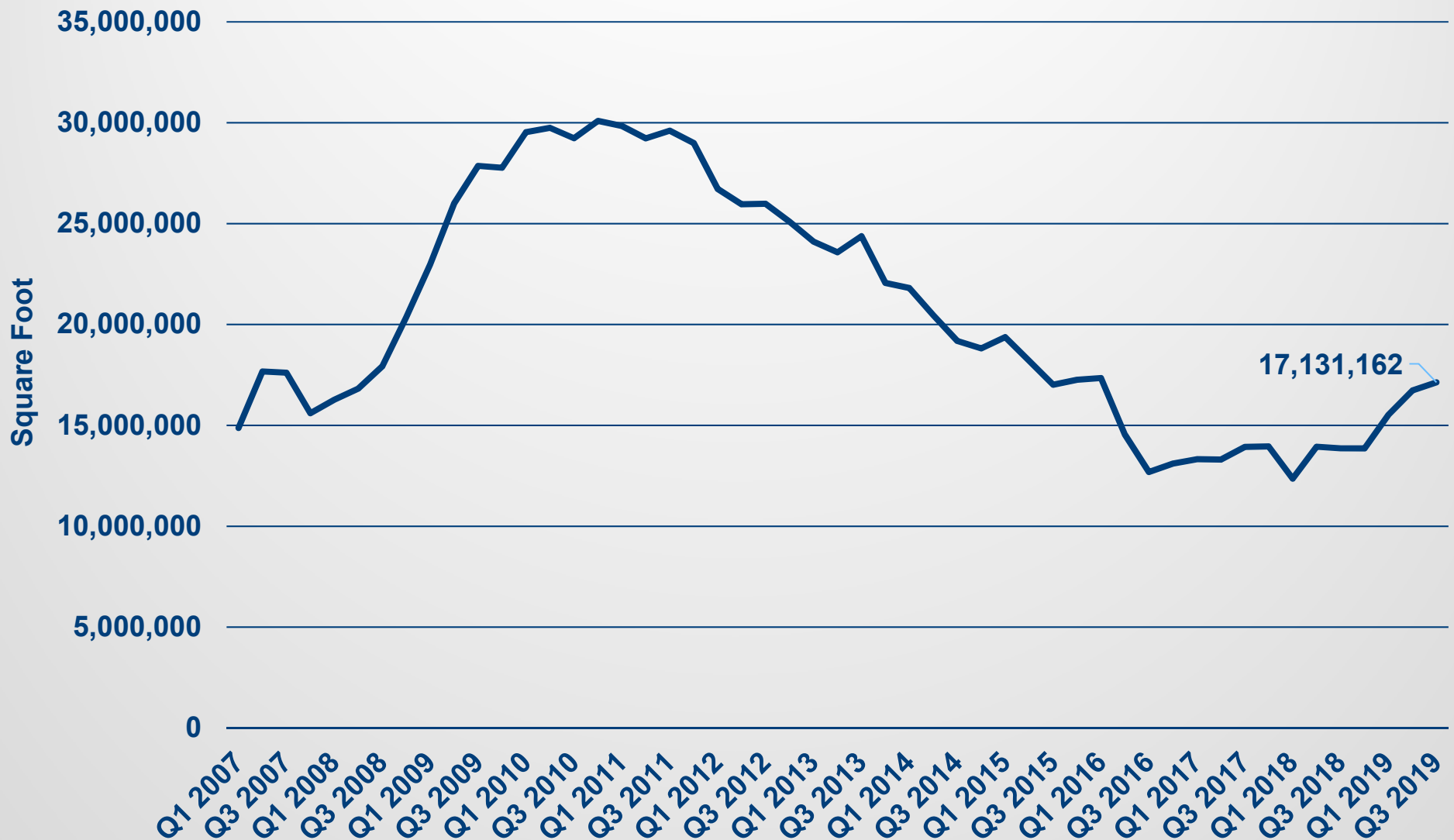
Source: CBRE

Availability Rates by Sub-Market



Source: CBRE

Total Available Space

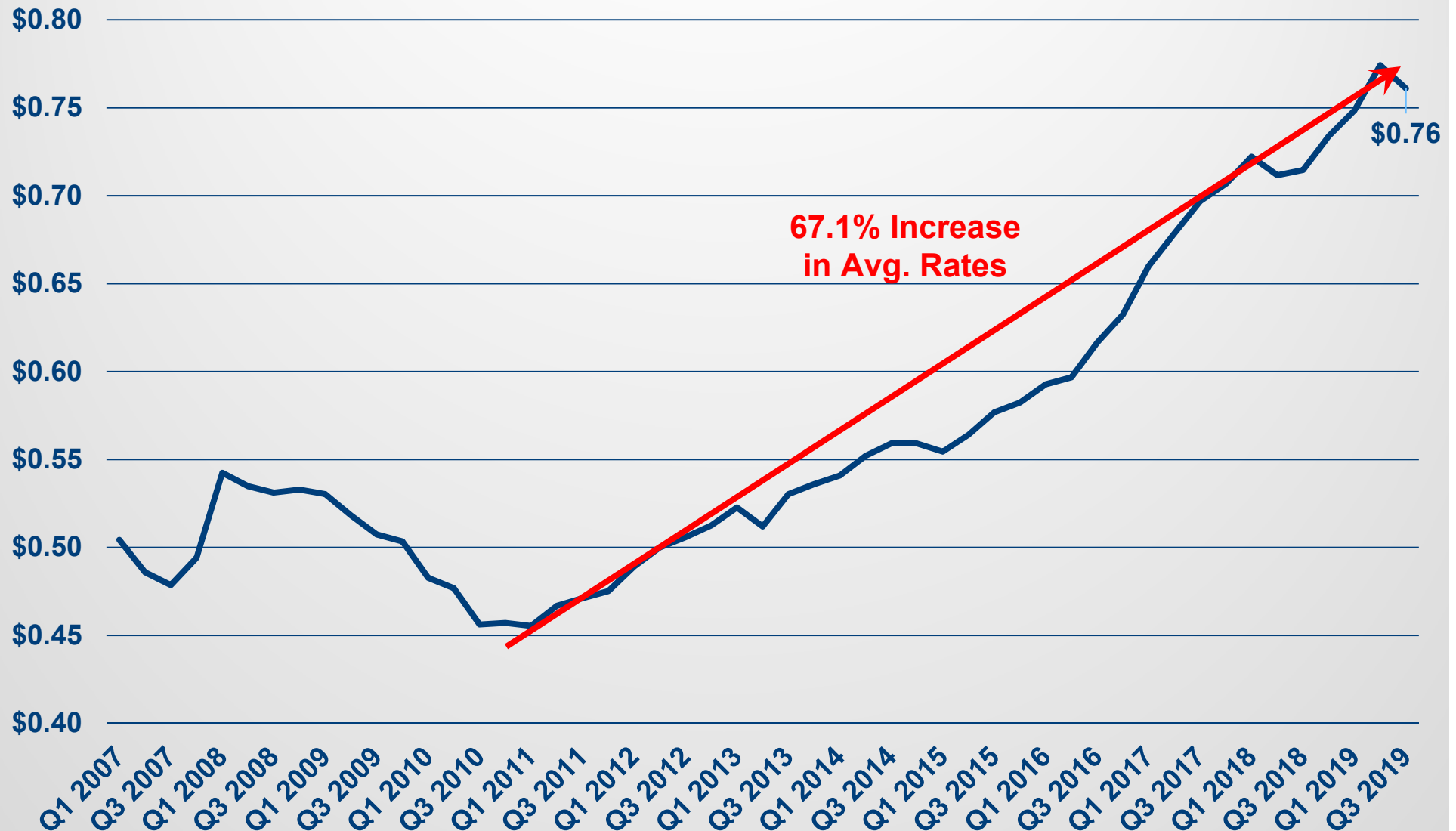


Source: CBRE

Average Rental Rates Seattle/Tacoma MSA

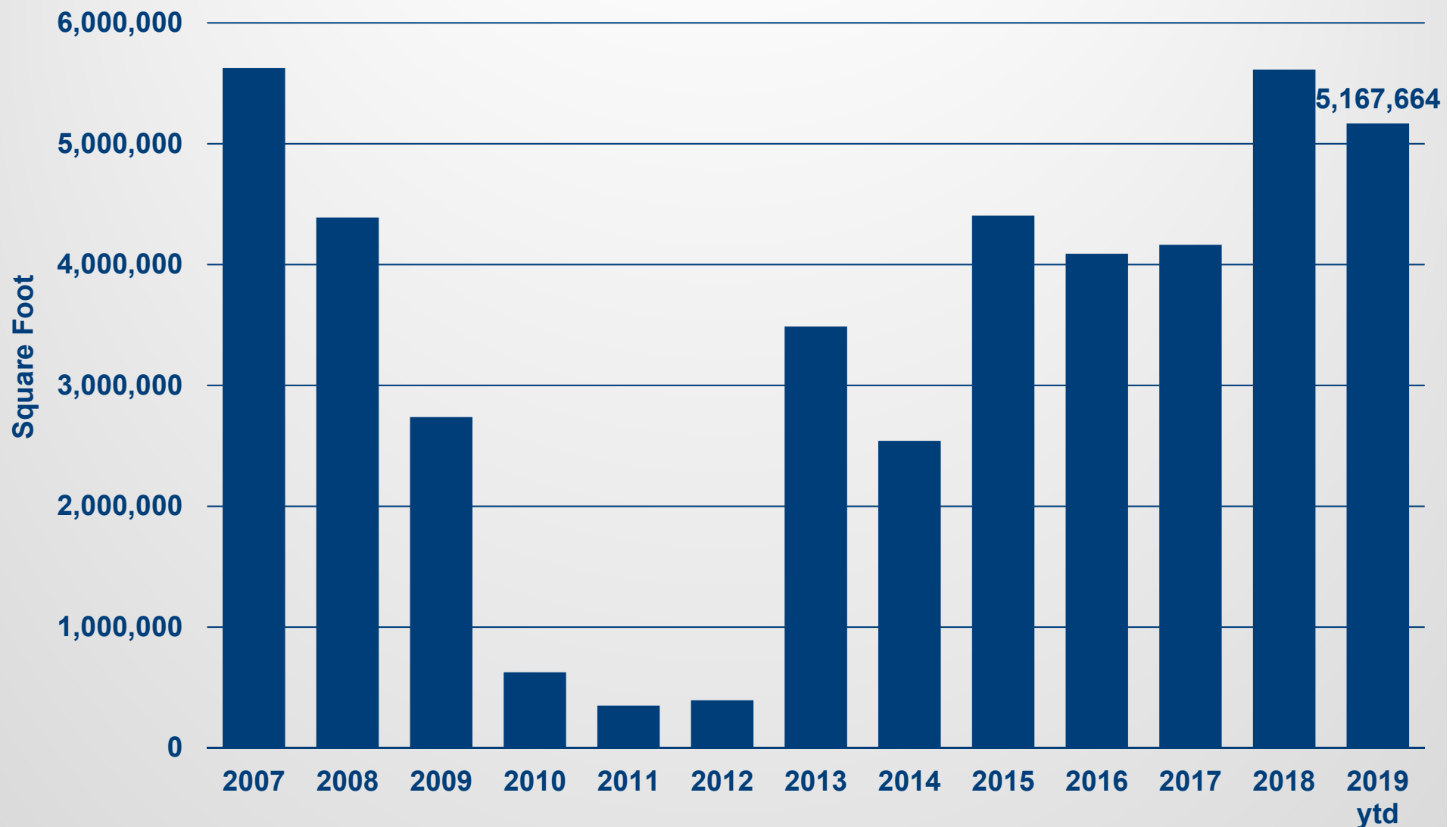


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Source: CBRE

New Deliveries Seattle/Tacoma MSA



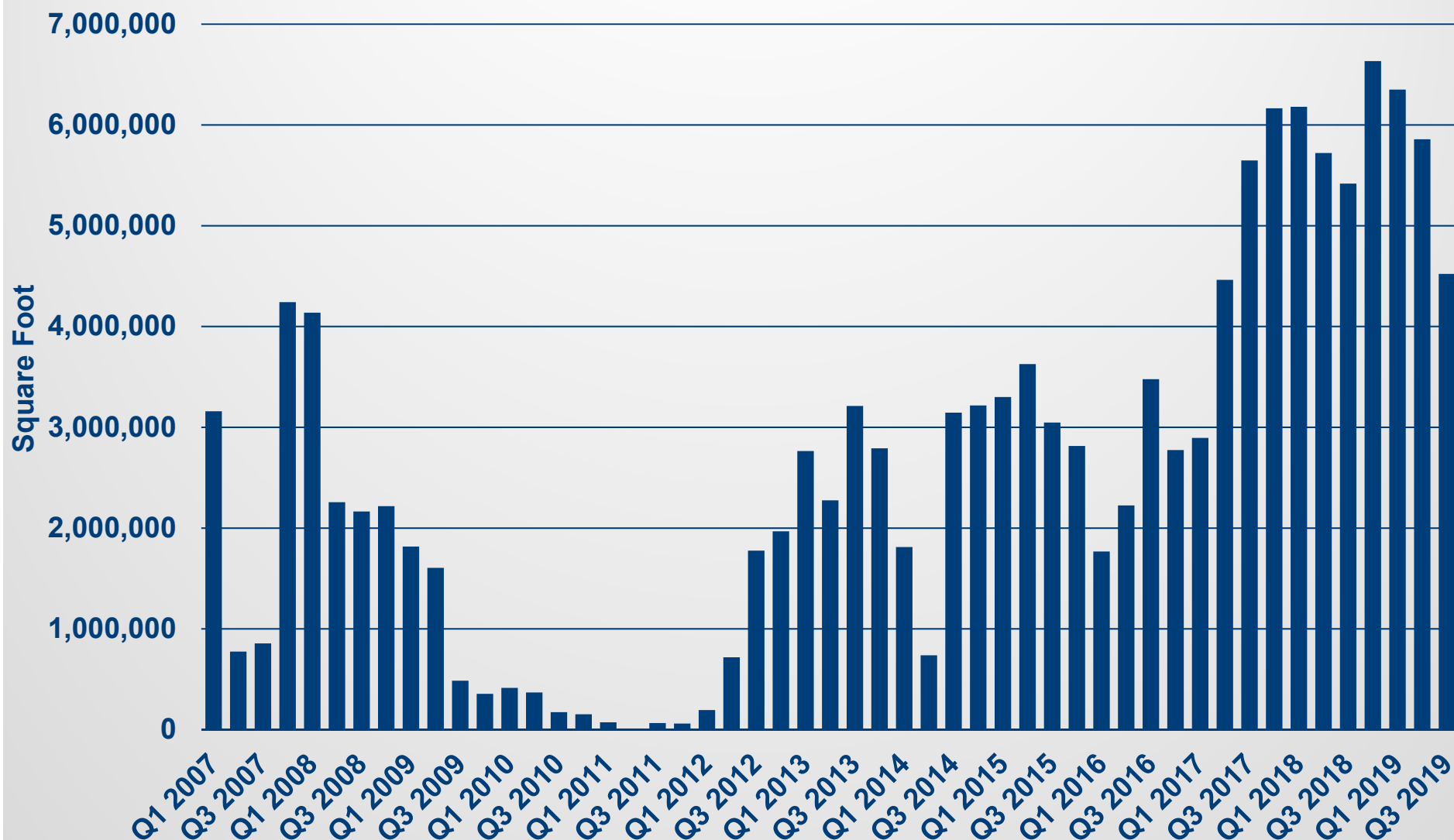
Source: CBRE

Construction Activity

Seattle/Tacoma MSA



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Source: CBRE

Expectations

- Construction Deliveries at a Decade High;
- Even with New Supply, Lease Rates are Up 6.5% y/y;
- Rental Rate “Fatigue” Setting into Some Markets;
- SeaPort Alliance Suggest 6.5% Growth in Container Volume – That Will Drive Demand; and
- Population Growth Continues to be a Significant Demand Driver.

The Income Property Market

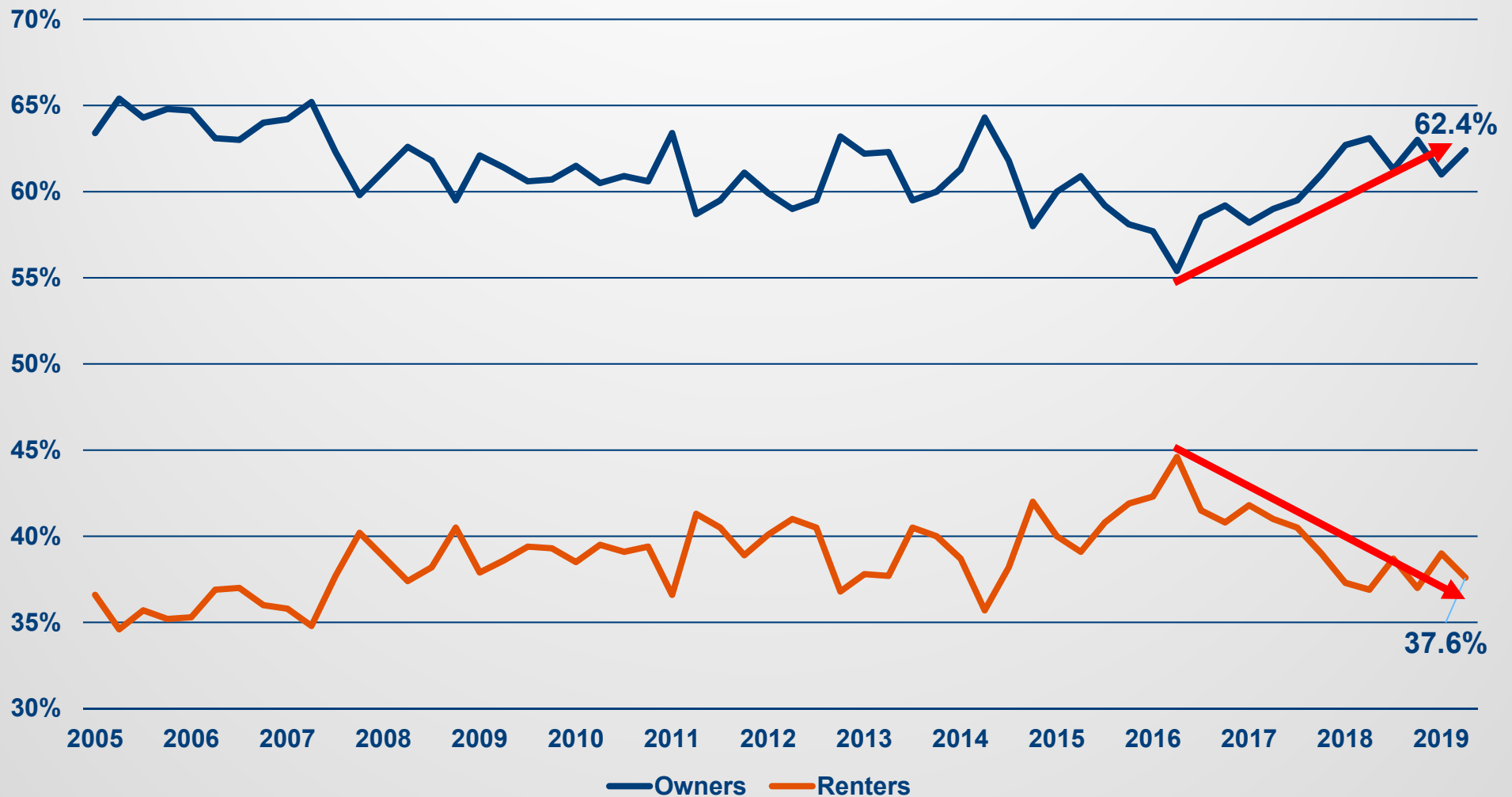


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Owner & Renter H' Holds Seattle Metro Area



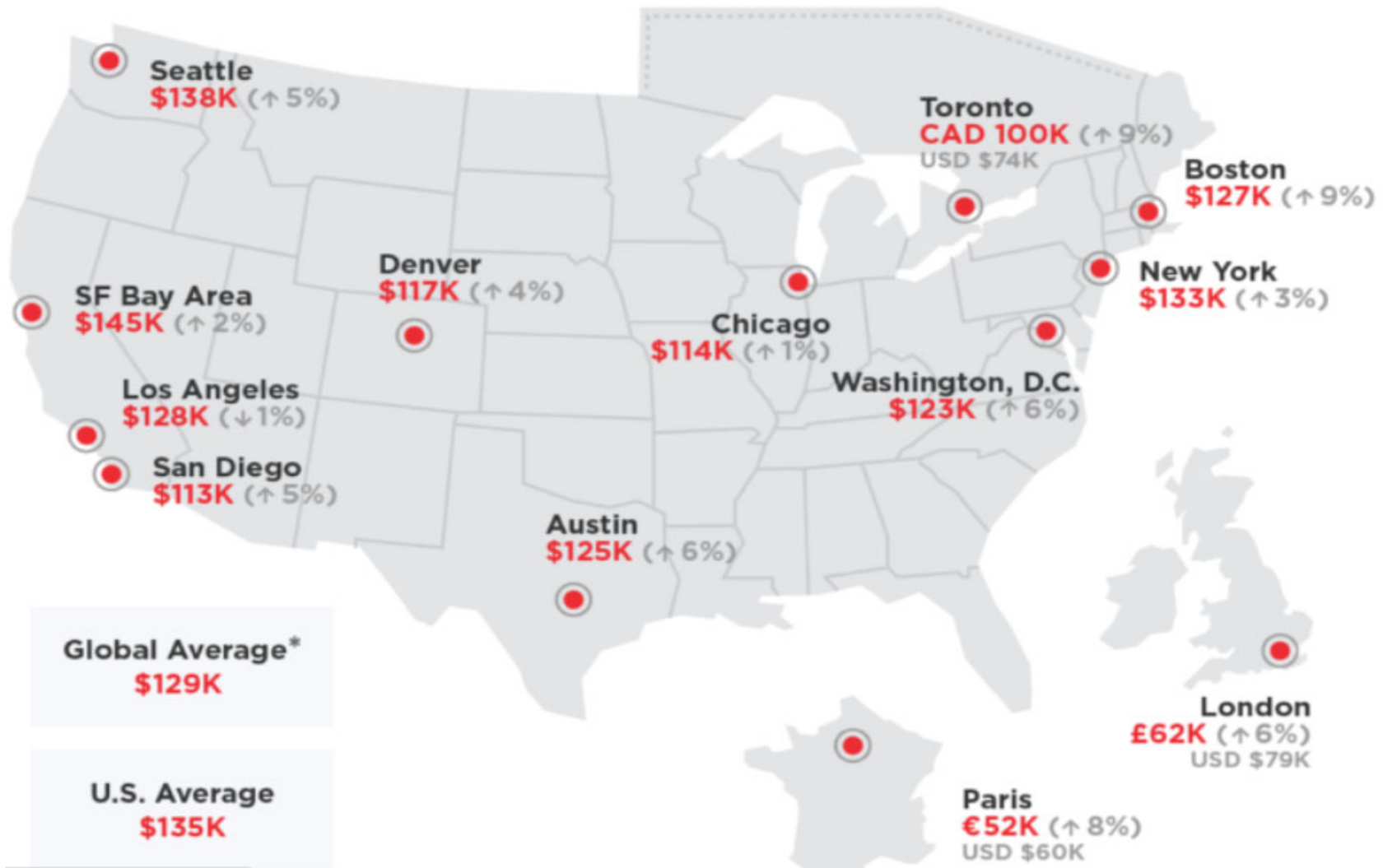
Owner & Renter Households - Seattle Metro



2019 Average Tech Worker Salaries



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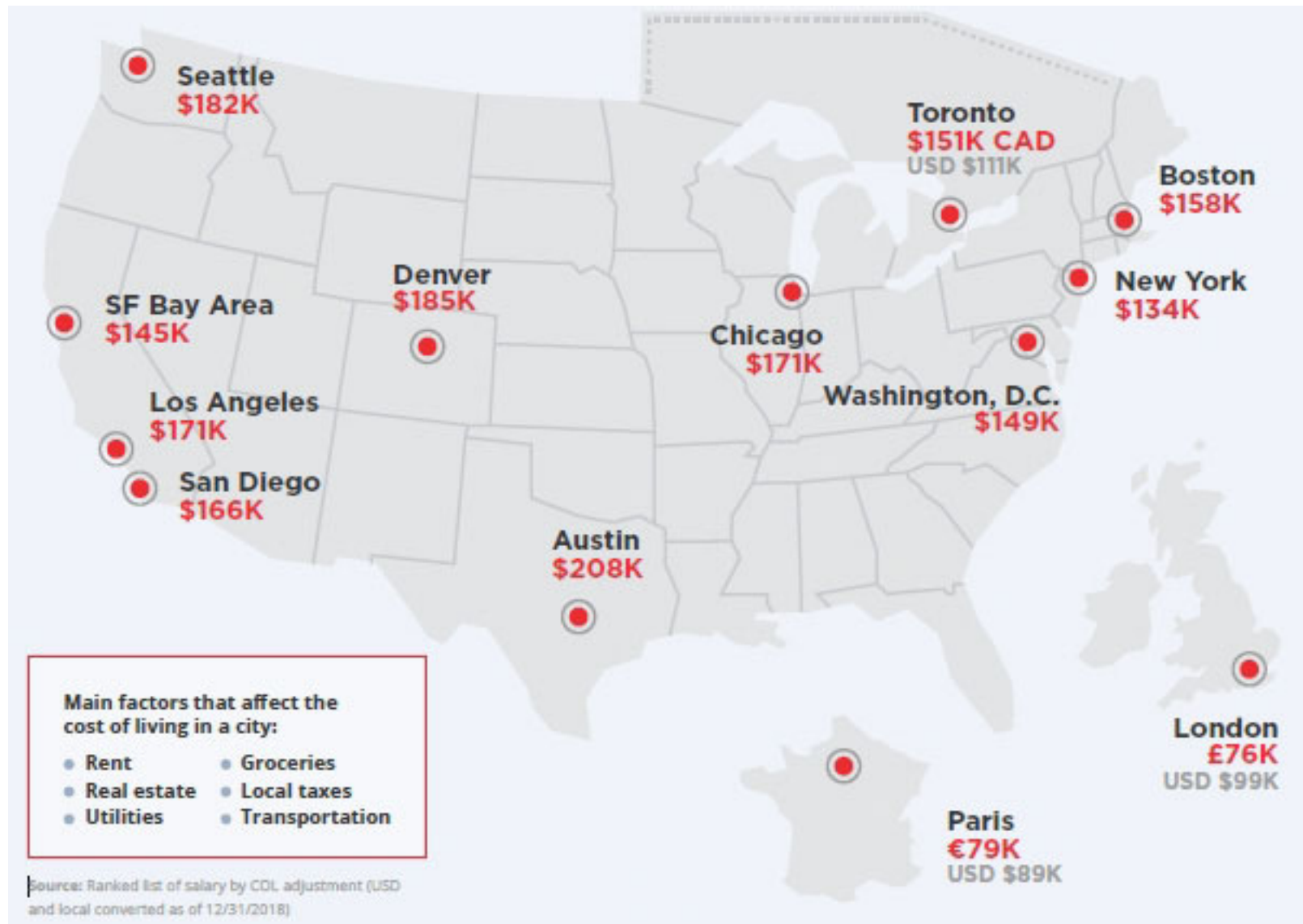


Source: [Hired.com](https://www.hired.com)

Adjusted for CoL



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Drivers of Apartment Demand



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Still Room For Growth

	Class A Office Rent	Median Home Sale Price	Median 1-Bed Apartment Rent	Avg. 2019 Tech Salary
San Francisco	\$90 nnn	\$1,805,000	\$3,700	\$145K/Year
Seattle	\$50 nnn	\$765,200	\$1,880	\$138K/Year
Seattle Savings:	44%	58%	49%	-5%*
Source:	CoStar	Zillow	Zumper	Hired.com

* The marginal tax rate in California with \$145K/year in earnings is 9.3%; Washington State does not have a state income tax.

Concentration of Development (U/C, Approved & Review)



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60,854 Total Units

1,944 UNITS | **3%**

FREMONT, GREENLAKE & WALLINGFORD

1,990 UNITS | **3%**

BALLARD

2,557 UNITS | **4%**

QUEEN ANNE & MAGNOLIA

8,501 UNITS | **14%**

SOUTH LAKE UNION, EASTLAKE, & WESTLAKE

15,608 UNITS | **26%**

BELLTOWN, DOWNTOWN, & PIONEER SQUARE

2,345 UNITS | **4%**

WEST SEATTLE

3,515 UNITS | **6%**

KIRKLAND

6,467 UNITS | **11%**

UNIVERSITY DISTRICT & ROOSEVELT

1,947 UNITS | **3%**

WEST BELLEVUE & MERCER ISLAND

2,530 UNITS | **4%**

CAPITOL HILL

2,546 UNITS | **4%**

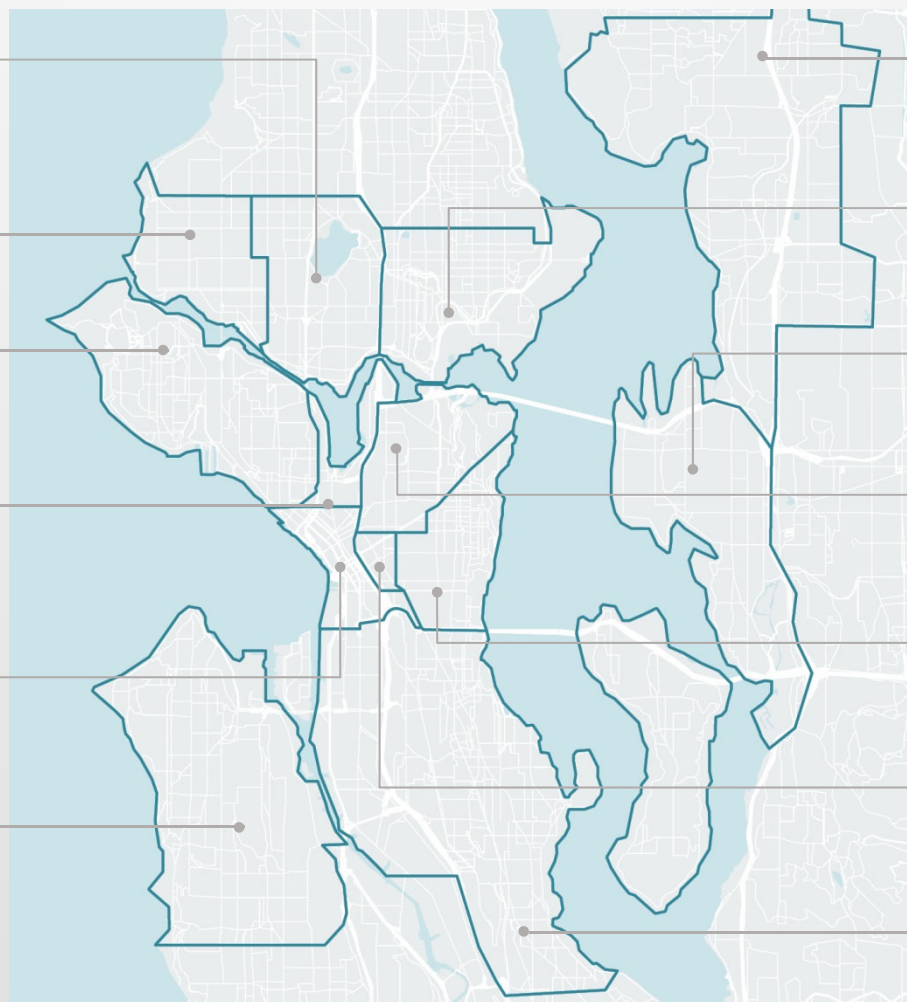
CENTRAL DISTRICT

5,400 UNITS | **9%**

FIRST HILL & YESLER TERRACE

5,504 UNITS | **9%**

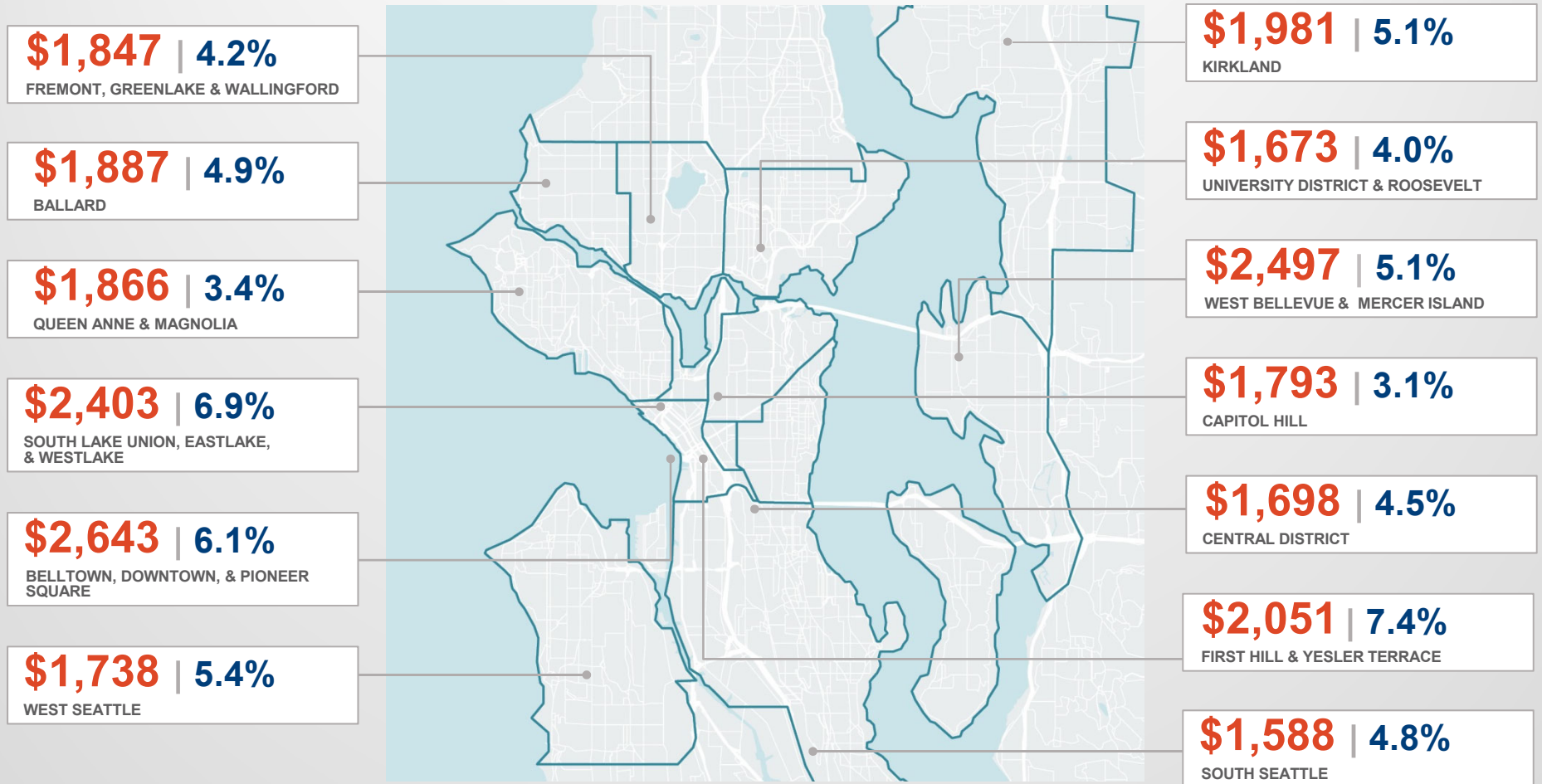
SOUTH SEATTLE



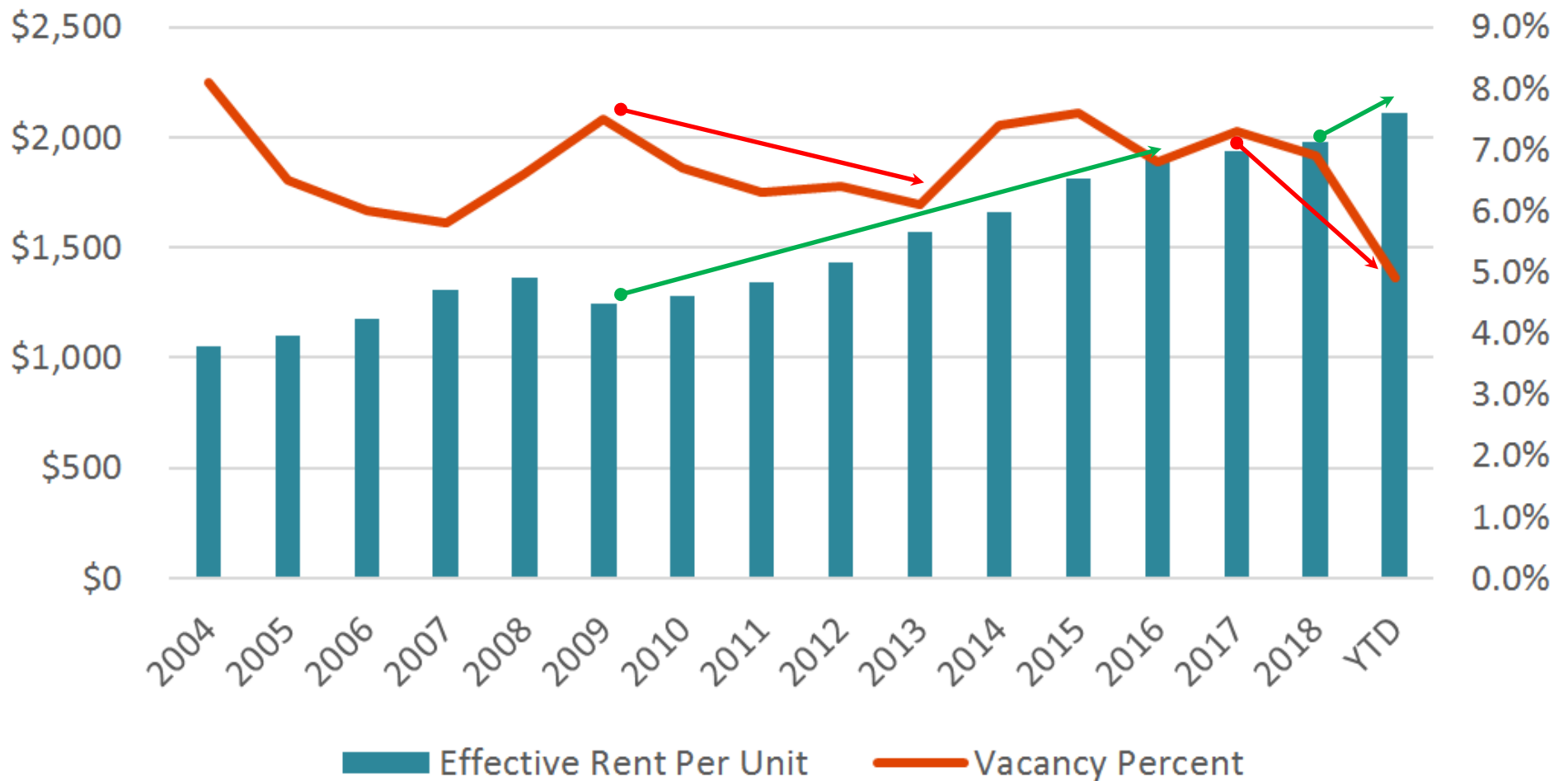
Rent & Vacancy Rate Trends



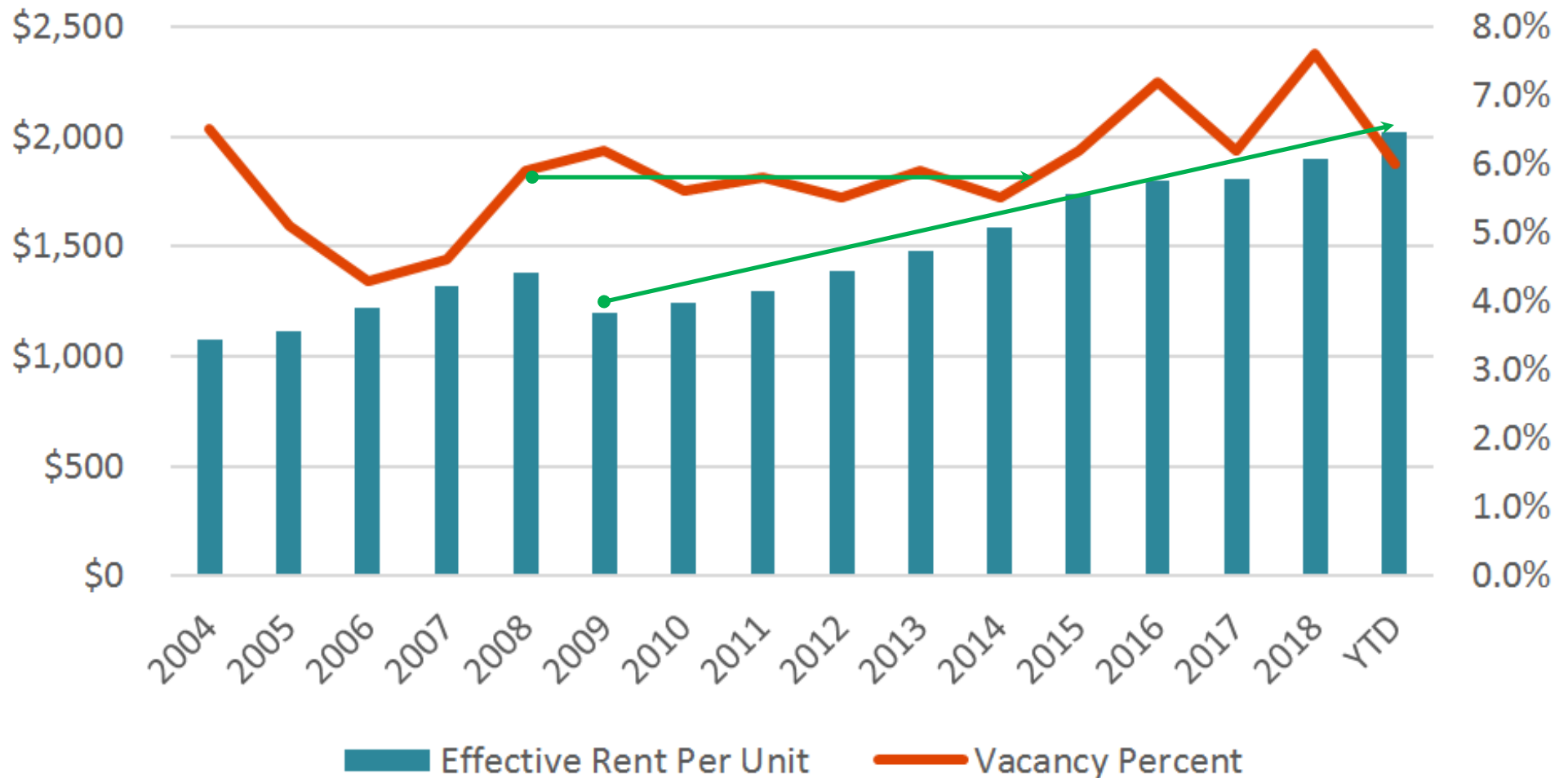
Rent & Vacancy Rate Trends



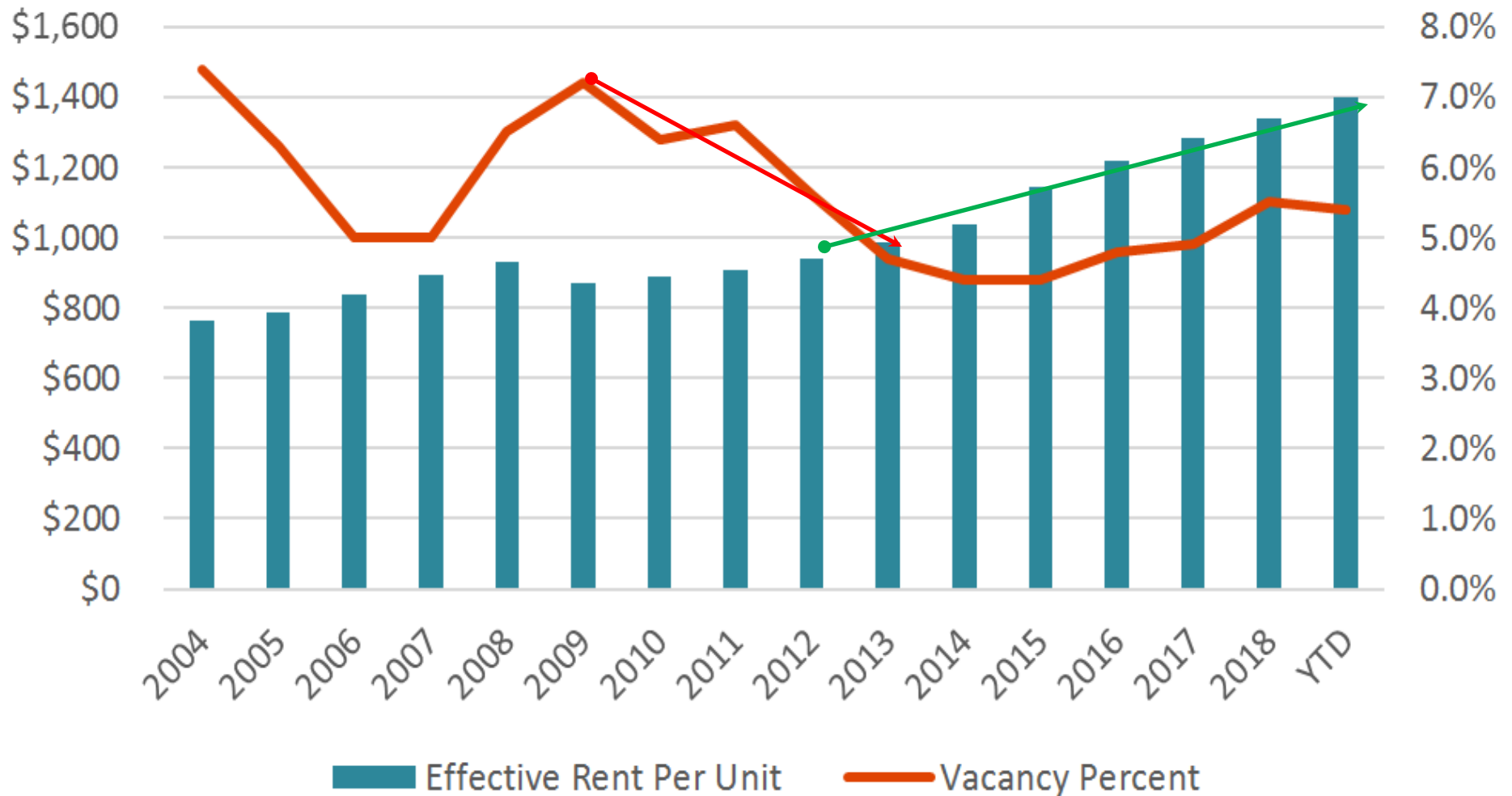
Rent & Vacancy Rate Trends (Urban)



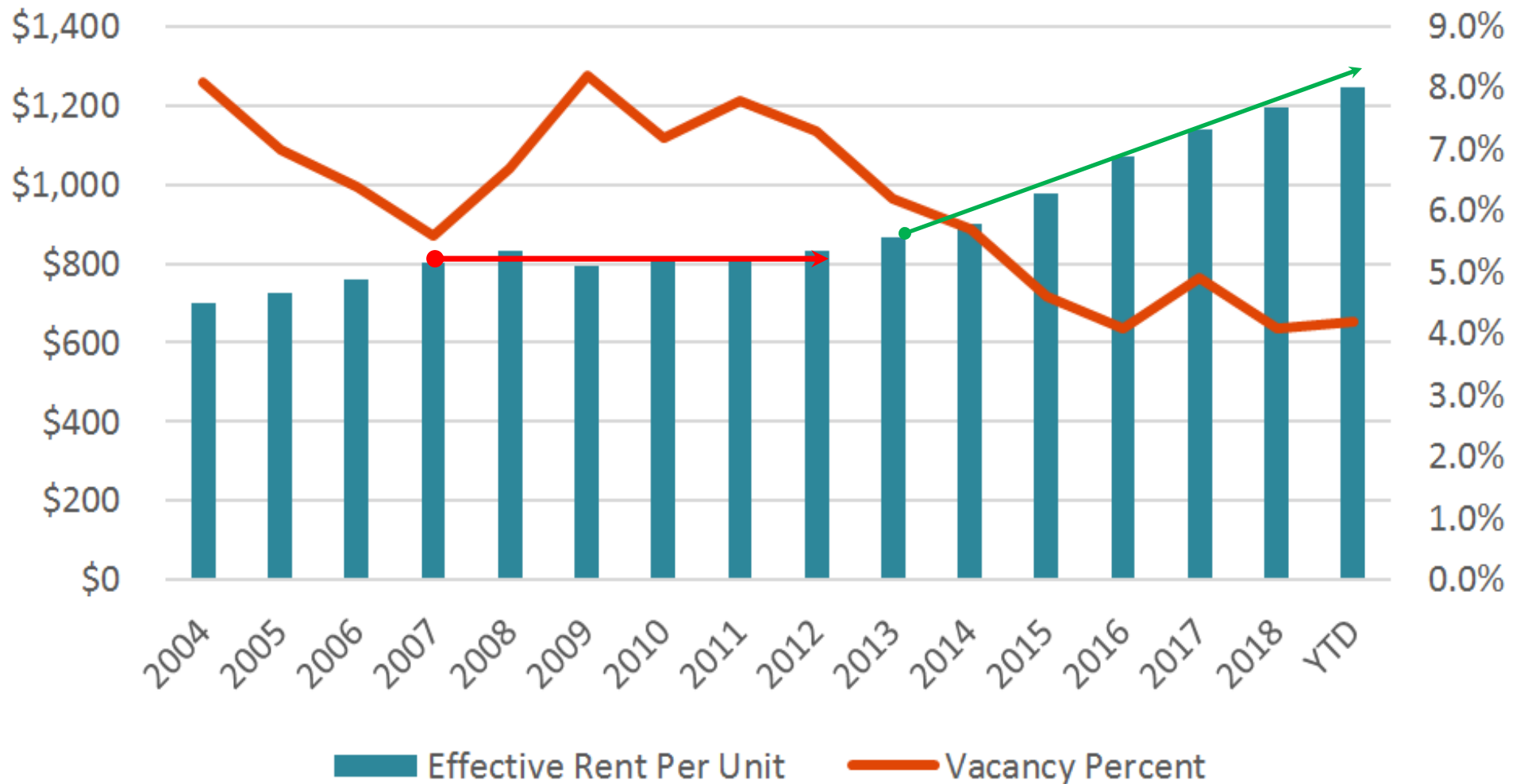
Rent & Vacancy Rate Trends (Eastside)



Rent & Vacancy Rate Trends (So. King)



Rent & Vacancy Rate Trends (Pierce Co.)



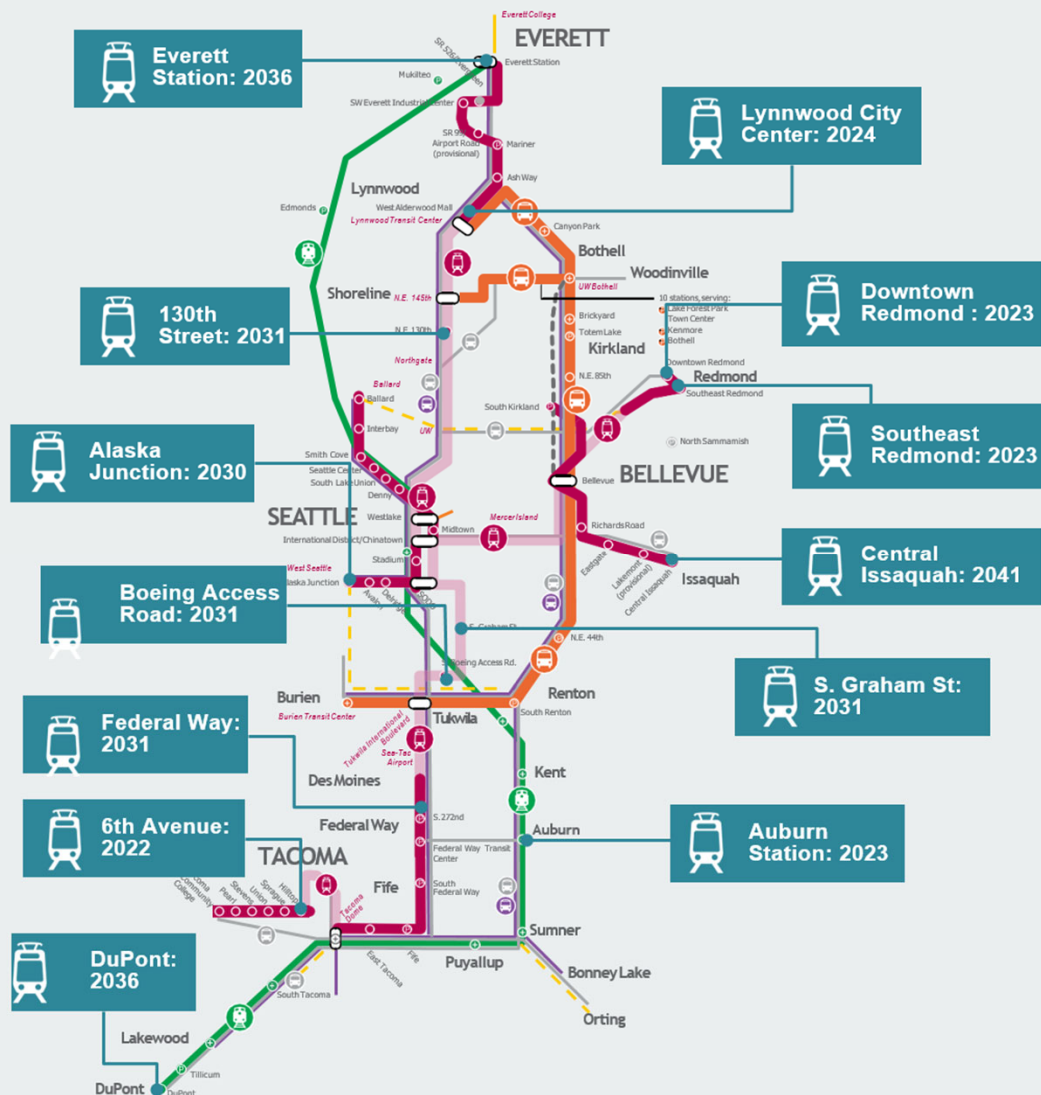
Emerging Trends



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TRANSIT ORIENTED DEVELOPMENT (TOD)

We Will Continue to
See Interest in, and
Development of,
Apartment Units that
are Proximate to Mass
Transit Stops



Closing Thoughts

- The Regional Economy Will Continue to Slow & So Will Demand – But I'd Rather Be Here than Anywhere Else!;
- Cheap Financing Continues to Drive New Development;
- Rising REET Costs Will Push Up Rents; and
- Rent Control Will Be a Big Topic in '20.

Questions?



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Facebook: Windermere Economics

Instagram: matthewgardnerecon



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