An Economic & Commercial Market Forecast

Presented by: Matthew Gardner
CHIEF ECONOMIST WINDERMERE REAL ESTATE
We are Still in the “Goldilocks Zone”!

U.S. Has Added Jobs for 100 Straight Months; Unemployment is Stable Around 4%; and Wages Are (Finally) Picking Up!
Economic Growth Set to Moderate

United States Gross Domestic Product (Quarterly Growth Rate)

Source: BLS w/ Windermere Economics Forecasts
But a Recession is Getting Closer

Source: Federal Reserve Bank & Windermere Economics
Employment Growth Will Continue in 2019

Annual Payroll Change

Source: BLS with Windermere Economics Forecasts
Job Openings Remain Plentiful

Source: BLS
Measures of Unemployment
Looking Good

Source: BLS – Data through Jan. 2019
But Consumers Not Feeling as Good as they Were!

Sources: Conference Board & University of Michigan
The Gardner Misery Index (Unemployment + Inflation)

Source: Windermere Economics Analysis of BEA & BLS data
U.S. Income Growth Starting To Improve BUT…

Average Hourly Earnings (Y/Y % Change)

Source: BLS & Windermere Economics
Real Income Growth is Not So Great (But Getting Better!)

Real Hourly Earnings (Y/Y Change)

Source: BLS & Windermere Economics
2019 U.S. Economic Forecast

- No One Wins a Trade War!
- A Split Congress Isn’t a Bad Thing!
- 3.0% GDP in 2018 & 2.3% in 2019;
- Fed Has Some Big Decisions Going Forward;
- 1.3% Job Growth in 2019;
- Unemployment Rate Averages 3.7% Next Year; and
- We Are Likely to Start to See Real Wage Growth Improve.
The Seattle Metro Area Economy
Employment Growth Forecast (2019)

Source: Windermere Economics

Hawaii 1.1%

Alaska 2.9%

Idaho 2.9%

Wyoming 1.6%

Oregon 2.2%

Nevada 3.4%

Utah 3.0%

Colorado 2.8%

Washington 2.9%

Arizona 2.6%

New Mexico 1.4%

Texas 2.4%
Top Global Cities for Real Estate Investment

Source: Association of Foreign Investors in Real Estate
Top U.S. Cities for Real Estate Investment

Source: Association of Foreign Investors in Real Estate
Comparative Employment (y/y)

Source: BLS – Dec. 2017 to Dec. 2018
Employment Growth
Seattle Metro Area

Source: WA ESD w/ Windermere Economics Forecasts
Sectoral Growth
Seattle MSA

1/ Transportation, Warehousing & Utilities

-7,700
-500

<table>
<thead>
<tr>
<th>Sector</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information</td>
<td>9,300</td>
</tr>
<tr>
<td>Construction</td>
<td>8,100</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td>7,300</td>
</tr>
<tr>
<td>Education &amp; Health Services</td>
<td>6,200</td>
</tr>
<tr>
<td>Trade</td>
<td>5,400</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>4,900</td>
</tr>
<tr>
<td>Local Government</td>
<td>4,300</td>
</tr>
<tr>
<td>Aerospace</td>
<td>3,800</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>3,400</td>
</tr>
<tr>
<td>TWU 1/</td>
<td>3,300</td>
</tr>
<tr>
<td>Other Manufacturing</td>
<td>2,900</td>
</tr>
<tr>
<td>Other Services</td>
<td>2,400</td>
</tr>
<tr>
<td>Federal Government</td>
<td>-500</td>
</tr>
<tr>
<td>State Government</td>
<td>-7,700</td>
</tr>
</tbody>
</table>
Relative Unemployment Rates

Unemployment Rates (SA)

Source: WA ESD – Data thru’ Dec. 2018
Seasonally Adjusted Unemployment Rates

County Unemployment Rates (SA)

Source: WA ESD w/ Windermere Economics Seasonal Adjustments
Migration Patterns
Seattle MSA

Source: Windermere Economics, WA OFM & WA OFD
Will the last person leaving SEATTLE -

Turn out the lights.
Industry Diversification
How Important is Technology to Seattle?
& Here's Why!  
(2017 Avg. Tech Worker Salary)

Seattle: $132K  
Bay Area: $142K  
Los Angeles: $129K  
San Diego: $108K  
Denver: $112K  
Chicago: $112K  
New York: $129K  
D.C.: $116K  
Austin: $118K  
Toronto: $92K  
Boston: $117K
& When You Adjust it for SF Cost of Living....

Seattle +$50K
Bay Area $142K
Los Angeles +$53K
San Diego +$58K
Denver +$65K
Chicago +$61K
Austin +$84K
Toronto +$34K
Boston +$33K
New York +$7K
D.C. +$32K
New York +$7K
Regional Economic Forecast for 2019

• Total Employment in the Seattle MSA Rises by 2.3% in 2019;
• Continued Corporate Growth – Mainly in Urban Hubs (Tech Continues as an Economic Driver);
• Income Growth Will Continue to Head Higher (± 4.5%); and
• The Economy Will Outperform the U.S. Next Year; but
• City Councils Needs to Be Very Careful With Policy Decision.
The Tacoma MSA Economy
Employment Growth
Tacoma Metro Area

Source: WA ESD w/ Windermere Economics Forecasts
Migration Patterns
Tacoma MSA

Source: Windermere Economics, WA OFM & WA OFD
Regional Economic Forecast for 2019

• Total Employment in the Tacoma MSA Rises by 2.5% in 2019;
• Income Growth Will Continue to Head Higher (± 4.0%);
• Unemployment Will Drop Back Below 5%; and
• The Economy Will Continue to Outperform the U.S. This Year
The Seattle Metro Commercial Markets
The Greater Seattle Commercial Markets
The Office Market
Absorption of Office Space
Seattle/Tacoma MSA

Source: CBRE w/Windermere Economics Forecasts
Sub-Market Absorption of Class A Space

Source: CBRE
Vacancy Rates
Seattle/Tacoma MSA

Source: CBRE & Windermere Economics
Availability in New Buildings
Seattle/Tacoma MSA

Source: CBRE & Windermere Economics – Data taken at year end

2007: 2,986,015
2008: 3,292,906
2009: 458,692
2010: 141,200
2011: 183,129
2012: 194,965
2013: 1,017,072
2014: 4,617,768
2015: 4,197,403
2016: 2,909,432
2017: 2,587,680
2018: 2,436,043

Source: CBRE & Windermere Economics – Data taken at year end
Average Class A Rental Rates
Seattle/Tacoma MSA

Source: CBRE & Windermere Economics
Average Rental Rates - All Seattle/Tacoma MSA

Source: CBRE & Windermere Economics
New Office Deliveries
Seattle/Tacoma MSA

Source: CBRE & Windermere Economics
# Sub-Market Reconnaissance

<table>
<thead>
<tr>
<th>Sub Market</th>
<th>2018 Absorption</th>
<th>Direct Vacancy Rate (Total)</th>
<th>U/C</th>
<th>Planned</th>
<th>Available</th>
<th>Direct Class A Rent (Total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downtown Seattle</td>
<td>2,341,162</td>
<td>6.7% (7.4%)</td>
<td>4,023,934</td>
<td>7,868,319</td>
<td>5,268,318</td>
<td>$48.43 ($46.92)</td>
</tr>
<tr>
<td>Close-In Seattle</td>
<td>176,166</td>
<td>5.6% (6.5%)</td>
<td>300,564</td>
<td>1,264,250</td>
<td>424,540</td>
<td>$42.57 ($40.51)</td>
</tr>
<tr>
<td>Eastside</td>
<td>935,130</td>
<td>8.1% (8.9%)</td>
<td>705,415</td>
<td>7,620,652</td>
<td>3,012,480</td>
<td>$43.68 ($41.76)</td>
</tr>
<tr>
<td>Northend</td>
<td>31,983</td>
<td>10.8% (10.8%)</td>
<td>0</td>
<td>141,150</td>
<td>562,710</td>
<td>$27.30 ($25.56)</td>
</tr>
<tr>
<td>Southend</td>
<td>75,101</td>
<td>21.0% (21.1%)</td>
<td>714,078</td>
<td>47,800</td>
<td>2,538,056</td>
<td>$25.76 ($25.68)</td>
</tr>
<tr>
<td>Pierce County</td>
<td>32,854</td>
<td>7.2% (7.9%)</td>
<td>0</td>
<td>0</td>
<td>786,160</td>
<td>$26.80 ($27.07)</td>
</tr>
</tbody>
</table>

Source: CBRE & Windermere Economics (Class A Rents inc. Sublease)
Expectations

• Economic Fundamentals Continue to Drive Demand;
• Seeing Significant Demand for New Construction;
• Don’t Underestimate Co-Working Space; and
• Rental Rate Growth Will Continue Given Low Vacancy Rates & Tenant Demand.
The Industrial Market
Industrial Market
Tri-County Area Absorption

Source: CBRE & Windermere Economics
Sub-Market Absorption of Industrial Space

Source: CBRE & Windermere Economics
Vacancy (Availability) Rates

Source: CBRE & Windermere Economics
Total Available Space
Seattle/Tacoma MSA

Source: CBRE & Windermere Economics
Direct Lease Rates
Seattle/Tacoma MSA

Source: CBRE & Windermere Economics
<table>
<thead>
<tr>
<th>Sub Market</th>
<th>2018 Absorption</th>
<th>Direct Vacancy Rate (Total)</th>
<th>U/C</th>
<th>Planned</th>
<th>Available</th>
<th>Direct Lease Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Puget Sound</td>
<td>4,496,725</td>
<td>3.6% (4.0%)</td>
<td>6,648,225</td>
<td>24,543,845</td>
<td>13,937,422</td>
<td>$0.73</td>
</tr>
<tr>
<td>Close-In Seattle</td>
<td>-400,718</td>
<td>2.3% (2.5%)</td>
<td>681,532</td>
<td>2,139,500</td>
<td>2,096,997</td>
<td>$0.98</td>
</tr>
<tr>
<td>Eastside</td>
<td>173,074</td>
<td>5.4% (6.1%)</td>
<td>461,500</td>
<td>1,593,860</td>
<td>1,852,324</td>
<td>$1.02</td>
</tr>
<tr>
<td>Kent Valley</td>
<td>2,001,345</td>
<td>3.7% (4.2%)</td>
<td>1,761,643</td>
<td>6,992,228</td>
<td>6,647,180</td>
<td>$0.62</td>
</tr>
<tr>
<td>Snohomish Co.</td>
<td>616,402</td>
<td>3.7% (3.9%)</td>
<td>333,155</td>
<td>3,782,672</td>
<td>893,107</td>
<td>$0.75</td>
</tr>
<tr>
<td>Pierce Co.</td>
<td>2,106,622</td>
<td>3.6% (4.0%)</td>
<td>3,410,395</td>
<td>10,035,585</td>
<td>2,447,814</td>
<td>$0.55</td>
</tr>
</tbody>
</table>

Source: CBRE & Windermere Economics
Expectations

• Vacancy (4.0%) Still Hovering Around the Lowest Level Seen Since the Late 1990’s;
• SeaPort Alliance & On-Line Retail Continues to Drive Demand;
• Growth Continues to be Driven by Growing Need from 3PL’s & Consumer Goods; and
• Significant Demand from Transportation & Storage Tenants Responding to Employment/Population Growth.
Questions?

m.gardner@windermere.com

Twitter: SeattleEcon
LinkedIn: Matthew Gardner
Facebook: MJDGardner & Windermere Economics
Instagram: matthewwgardnerecon