Grow or Stall? An Economic & Real Estate Forecast for 2016

A Presentation to BOMA

Washington Athletic Club, Seattle, Washington
February 22, 2016

Presented by: Matthew Gardner
Chief Economist, Windermere Services Company
Mixed Signals From the U.S. Economy

Steady as She Goes, in a Holding Pattern, or Dropping Back?
U.S. Payroll Jobs Well Above An All Time High

Total Employment (SA)

But Full Time Employment Only Modestly Higher

Part Time Employment is Stable (That’s Good!)

& Persons Working Part Time for Economic Reasons is Dropping. (That’s Even Better!)

Labor Force Participation Rate Nudges Higher

But the *Real* Unemployment Rate isn’t Great!

Unemployment Rate (U6)

Unemployment Rate (U3)

U.S. Monthly U.S. Payroll Change

Source: BLS w/ Windermere Economics Forecasts
Employment Cycles Show a Mediocre Recovery

Source: BLS analyzed by Windermere Economics
Guess Who’s Still Working?

![Graph showing the percentage of people working by age group from January 1983 to July 2015. The graph compares age groups 16-24, 25-34, 35-44, 45-54, and 55+.

Source: BLS – Data through Jan. 2016]
Percent of Balance 90+ Days Delinquent by Loan Type

Source: Federal Reserve Bank of New York – Thru’ Q4-2015
Student Debt Likely to Double by 2025

Source: Federal Reserve w/Windermere Economics Forecasts
We Are Feeling Pretty Good!

Consumer Confidence

Consumer Sentiment Index
The Gardner Misery Index
Unemployment + Inflation

Source: BLS – Misery Index = Unemployment Rate + Annual Change in CPI
U.S. Economic Forecast

• Inflation Will Rise Modestly in 2016;
• 2.5M New Jobs in 2015 and 2.1M in 2016;
• 2.1% GDP Growth in 2016;
• Worries over Global Growth & Oil Will Continue to Cause Heartburn;
• Some Uncertainty Will Still Prevail. (Well it will be an Election Year!); but
• Wages, Spending & Sentiment Do NOT Point to a Recession in 2016.
The Seattle Economy

Better than Most!
2016 Employment Forecast

Source: Windermere Economics
Employment Growth
Seattle Metro Area

Source: WA ESD w/ Windermere Economics Forecasts
Comparative Employment (y/y)


San Jose
Portland
Tacoma
Salt Lake City
San Francisco/Oakland
Seattle
Phoenix
San Diego
Sacramento
Boise
Los Angeles, Long Beach, Glendale
Las Vegas

## Seattle Post-Recession Employment Change

<table>
<thead>
<tr>
<th>Sector</th>
<th>Pre-Recession Peak Employment</th>
<th>Trough Employment</th>
<th>Current Employment</th>
<th>% Change from Prior Peak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Trade</td>
<td>150,700</td>
<td>134,400</td>
<td>171,000</td>
<td>13.5%</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>138,300</td>
<td>128,600</td>
<td>155,800</td>
<td>12.7%</td>
</tr>
<tr>
<td>Information</td>
<td>87,000</td>
<td>84,100</td>
<td>96,900</td>
<td>11.4%</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td>219,800</td>
<td>192,900</td>
<td>243,700</td>
<td>10.9%</td>
</tr>
<tr>
<td>Trade, Transportation, &amp; Utilities</td>
<td>278,600</td>
<td>246,600</td>
<td>296,800</td>
<td>6.5%</td>
</tr>
<tr>
<td>Government</td>
<td>204,100</td>
<td>199,500</td>
<td>217,200</td>
<td>6.4%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>72,800</td>
<td>65,500</td>
<td>71,300</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>94,300</td>
<td>79,000</td>
<td>86,100</td>
<td>-8.7%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>197,300</td>
<td>149,300</td>
<td>170,900</td>
<td>-13.4%</td>
</tr>
<tr>
<td>Construction</td>
<td>101,100</td>
<td>62,300</td>
<td>84,600</td>
<td>-16.3%</td>
</tr>
<tr>
<td>Educational &amp; Health Services</td>
<td>N/A</td>
<td>N/A</td>
<td>205,600</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: WA ESD & Windermere Economics – Current Data 12/2015
2015 Sectoral Growth
Seattle MSA

1/ Transportation, Warehousing & Utilities

- Trade: 8,500
- Professional & Business Services: 5,800
- Leisure & Hospitality: 5,700
- Local Government: 5,100
- Information: 5,100
- Financial Activities: 3,000
- Education & Health Services: 2,600
- TWU 1/: 2,400
- Other Services: 2,200
- Construction: 1,600
- State Government: 1,200
- Other Manufacturing: 600
- Federal Government: 100
- Aerospace Product and Parts Manufacturing: 100

Note: TWU 1/ refers to Transportation, Warehousing, and Utilities.
Who Does What?

Source: WA State ESD – Data as of August 2015

- Construction: 5%
- Aerospace Product and Parts Manufacturing: 6%
- Financial Activities: 5%
- Professional & Business Services: 15%
- Education & Health Services: 13%
- Leisure & Hospitality: 10%
- Other Services: 4%
- Federal Government: 1%
- Local Government: 8%
- State Government: 4%
- Other Manufacturing: 5%
- Trade: 15%
- TWU 1/3: 3%
- Information: 6%
- Financial Activities: 5%

1/ Transportation, Warehousing & Utilities
Unemployment Rates

Source: WA ESD
Seasonally Adjusted Local Unemployment Rate

Source: WA ESD w/ Windermere Economics Seasonal Adjustments
Population vs. Employment (MSA)

Source: Windermere Economics, WA OFM & WA OFD
Migration Patterns
Seattle MSA

Source: Windermere Economics, WA OFM & WA OFD
Migration Patterns

Source: Windermere Economics, WA OFM & WA OFD
Economic Forecast

- Diversification Continues to be Key to Long-Term Growth (Amazon HAS to Slow Down);
- Forecasting 40,000 New Jobs Will Be Created in the Metro Area in 2016;
- Commercial Development Activity will Continue to Drive Additional Demand for Housing; and
- We Will Still Be Cheaper than the Bay Area!
Regional Office Market
Absorption of Office Space
Seattle/Tacoma MSA

Source: CBRE w/ Windermere Economics Forecast

-3,000,000
-2,000,000  -1,000,000
0
1,000,000  2,000,000  3,000,000  4,000,000


(f)
Sub-Market Absorption of Space

Source: CBRE

- Downtown Seattle
- Eastside
- Seattle Close In
- Southend
- Northend
- Pierce County

2014
2015

[Graph showing absorption of space in different sub-markets of Seattle, with bars for 2014 and 2015 for each area.]
# New Office Investor Pipeline
## Seattle/Tacoma MSA

**Source:** CBRE – Data Through Q2 2015 (Inc. Renovations)

<table>
<thead>
<tr>
<th>Puget Sound Office, Investor Owned</th>
<th>Office NRA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned</td>
<td>20,850,678 SF</td>
</tr>
<tr>
<td>Under Construction</td>
<td>6,401,323 SF</td>
</tr>
<tr>
<td>Under Renovation</td>
<td>85,740 SF</td>
</tr>
<tr>
<td>Combo Under Construction/Renovation</td>
<td>6,487,063 SF</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SF Preleased</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned</td>
<td>211,000 SF</td>
</tr>
<tr>
<td>Under Construction</td>
<td>2,203,920 SF</td>
</tr>
<tr>
<td>Under Renovation</td>
<td>21,557 SF</td>
</tr>
<tr>
<td>Combo Under Construction/Renovation</td>
<td>2,225,477 SF</td>
</tr>
</tbody>
</table>

**Combined**

| Planned/Under Construction/Renovation | 27,337,741 SF |
| SF Preleased                          | 2,436,477 SF |
| % Preleased                           | 8.9% |
# New Office Owner & Biotech Pipeline

Puget Sound Office & Biotech, User & Investor Owned

<table>
<thead>
<tr>
<th>Description</th>
<th>Office NRA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned</td>
<td>25,364,478 SF</td>
</tr>
<tr>
<td>Under Construction</td>
<td>7,623,323 SF</td>
</tr>
<tr>
<td>Under Renovation</td>
<td>85,740 SF</td>
</tr>
<tr>
<td>Combo Under Construction/Renovation</td>
<td>7,709,063 SF</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SF Preleased</th>
<th>% Preleased</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned</td>
<td>3,984,800 SF</td>
</tr>
<tr>
<td>Under Construction</td>
<td>3,325,420 SF</td>
</tr>
<tr>
<td>Under Renovation</td>
<td>21,557 SF</td>
</tr>
<tr>
<td>Combo Under Construction/Renovation</td>
<td>3,346,977 SF</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned/Under Construction/Renovation</td>
</tr>
<tr>
<td>SF Preleased</td>
</tr>
<tr>
<td>% Preleased</td>
</tr>
</tbody>
</table>
The Influence of Amazon.com

Amazon.com Growth in Investor-Owned Buildings
Net Absorption from all Other Downtown Seattle Tenants
Expectations

- Slowing Job Growth May Taper Development of Speculative Space;
- EB-5??;
- Don’t Give Up on the ‘Burbs! (Or Bellevue!); and
The Emergence of Building Rehabilitation.

- 30-Year Lifespan;
- Mechanical, then?;
- Can’t Change SqFt, but Can Change Volume;
- Cubicles/Private Offices…. Dodo’s!!! (Unless You are a Law Firm!)
Regional Industrial Market
Industrial Market
Tri-County Area Absorption

January 8, 2015

-6,000,000 -4,000,000 -2,000,000 0 2,000,000 4,000,000 6,000,000 8,000,000

Sub-Market Absorption of Industrial Space

![Bar Chart]

- **Seattle Close-In**: 2014 - 0, 2015 - 0
- **Kent Valley**: 2014 - 2,500,000, 2015 - 3,000,000
- **Tacoma/Fife**: 2014 - 1,000,000, 2015 - 750,000
- **Eastside**: 2014 - 250,000, 2015 - 250,000
- **Snohomish Co.**: 2014 - 500,000, 2015 - 500,000

*Source: Windermere Real Estate*
Total Available Space
Seattle/Tacoma MSA

Q1 2007
Q3 2007
Q1 2008
Q3 2008
Q1 2009
Q3 2009
Q1 2010
Q3 2010
Q1 2011
Q3 2011
Q1 2012
Q3 2012
Q1 2013
Q3 2013
Q1 2014
Q3 2014
Q1 2015
Q3 2015
Expectations

• Poster Child During the Recovery, but Why?
• Activity in the Flex Space Environment Expected to Grow;
• New Development Will Focus on Stand-Alone Buildings Shaped to Accommodate Multiple Users.
Regional Apartment Market
Is it Better to Rent or Buy?

Assumptions

Buying:
Avg. Home Price (2B/2B condo): $385,000
Avg. Price Growth: 4%

Renting:
Avg. Rent (2B/2B Unit): $2,479
Avg. Rental Rate Growth: 4%
Investment Yield: 6%

Source: Dupre & Scott & Windermere Economics
Supply/Demand Balance
Tri-County Market

Source: Dupre & Scott w/ Windermere Economics Forecast

Supply/Demand Balance Chart

Net New
Absorption
Rental Rate Growth
Forecast


-6,000 -4,000 -2,000 0 2,000 4,000 6,000 8,000 10,000 12,000 14,000

-6.0% -4.0% -2.0% 0.0% 2.0% 4.0% 6.0% 8.0% 10.0%
Absorption & Rent

Source: Dupre & Scott

Average Rent

12-Month Absorption

- Seattle
- North King
- South King
- Eastside
- Southeast King
- Snohomish Co.
- Pierce Co.

$1,650
$1,325
$1,067
$1,577
$1,063
$1,123
$924
$0
$200
$400
$600
$800
$1,000
$1,200
$1,400
$1,600
$1,800

Seattle North King South King Eastside Southeast King Snohomish Co. Pierce Co.
2016 Apartment Market Forecast

- Can Belltown Really Absorb over 4K Units? (& Another 6,200 Proposed!!);
- Long-Term Leases…. Interesting Option;
- Institutional Demand Will Not Slow Anytime Soon (Buying @CofO!!); but
- Rental Rate Growth **WILL** Slow & I See Sub-Market Bubbles Forming.
Seattle Area Self Storage Market

• Rental Market Growth a Marked Positive;
• Climate Controlled Rents Up 2.3% (4% - 2014) While Non-Climate Controlled Rents Jumped 4% (4.9% - 2014);
• Supply Increases Slowed Aiding Occupancy Rates;
• 2016 Set to be a Another Good Year, with No Clouds Looming on the Horizon.
Seattle Area Housing Market

Time for Some Tapering!
The Market Cycle

- Euphoria
- Denial
- Despair
- Hope
- Skepticism
- Optimism
- Enthusiasm
- Exhilaration
- Unease
- Pessimism
- Panic
- Despair
- Capitulation
- Relief
- Optimism
- Enthusiasm
- Hope
- Skepticism
- Relief

Years:
- 2004
- 2006
- 2007
- 2008
- 2009
- 2012
- 2015
# Case Shiller Index

<table>
<thead>
<tr>
<th>City</th>
<th>1-Year</th>
<th>2-Year</th>
<th>From Peak</th>
<th>From last Trough</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver</td>
<td>10.9%</td>
<td>18.7%</td>
<td>24.2%</td>
<td>44.9%</td>
</tr>
<tr>
<td>Dallas</td>
<td>9.3%</td>
<td>17.6%</td>
<td>23.2%</td>
<td>38.8%</td>
</tr>
<tr>
<td>Portland</td>
<td>10.9%</td>
<td>17.7%</td>
<td>1.3%</td>
<td>46.4%</td>
</tr>
<tr>
<td>Boston</td>
<td>5.1%</td>
<td>9.6%</td>
<td>1.2%</td>
<td>26.6%</td>
</tr>
<tr>
<td>San Francisco</td>
<td>10.9%</td>
<td>21.2%</td>
<td>-0.3%</td>
<td>84.9%</td>
</tr>
<tr>
<td>Charlotte</td>
<td>4.7%</td>
<td>7.6%</td>
<td>-0.9%</td>
<td>24.3%</td>
</tr>
<tr>
<td><strong>Seattle</strong></td>
<td>8.8%</td>
<td>15.4%</td>
<td>-3.7%</td>
<td>43.6%</td>
</tr>
<tr>
<td>Atlanta</td>
<td>6.1%</td>
<td>10.9%</td>
<td>-7.6%</td>
<td>52.7%</td>
</tr>
<tr>
<td>Cleveland</td>
<td>2.2%</td>
<td>3.0%</td>
<td>-11.7%</td>
<td>15.7%</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>6.2%</td>
<td>11.3%</td>
<td>-12.8%</td>
<td>50.1%</td>
</tr>
</tbody>
</table>

Source: Case Shiller – Data thru’ Nov. 2015
Seattle Appears to Be Balanced Pricewise

Windermere Real Estate
2016 Forecast

• Continued Home Price Growth (± 5.5%);
• Mortgage Rates Will Rise, But at a Modest Pace;
• Construction of Homes Will Improve;
• The Millennials Will *Start* to Enter the Market (Just Don’t Expect a Tsunami of them!); and
• Supply Will Grow (slightly) in 2016.
Contact

m.gardner@windermere.com

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

© 2016 Windermere Services Company and/or its licensors and affiliates (collectively, “WINDERMERE”). All rights reserved. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT WINDERMERE’S PRIOR WRITTEN CONSENT. All information contained herein is obtained by WINDERMERE from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided “AS IS” without warranty of any kind. Under no circumstances shall WINDERMERE have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of WINDERMERE or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if WINDERMERE is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell, hold or develop any asset. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY WINDERMERE IN ANY FORM OR MANNER WHATSOEVER. Each opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security that it may consider purchasing, holding, developing or selling any asset.