



ECONPULSE

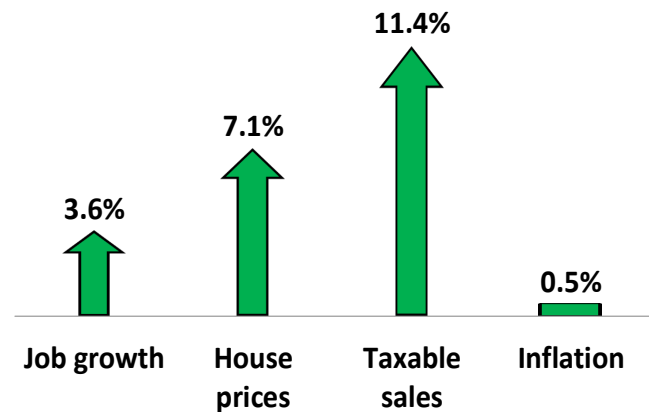
A QUARTERLY LOOK AT THE KING COUNTY ECONOMY
 KING COUNTY OFFICE OF ECONOMIC AND FINANCIAL ANALYSIS

FIRST QUARTER 2015

SUMMARY

- King County employment grew by 3.6% in the first quarter relative to a year ago, led by construction employment, which was up 18.4%.
- Home prices continued their steady increase, up 7.1% in the first quarter compared with the same period in 2014.
- Taxable sales in King County were up 11.4% in January and February from a year prior.
- The slowdown in price growth continued, with inflation up 0.5% year over year.

**King County Key Economic Indicators
 Q1 2015 growth compared to Q1 2014**



DETAIL

Strong job growth continues to drive the King County economy. The first quarter of 2015 found job growth at 3.6%, with the construction sector continuing its rapid employment expansion. Total nonfarm employment in King County increased by 48,500 jobs in March 2015 compared to March 2014, with construction adding 11,500 jobs over that period. Unemployment in King County (not seasonally adjusted) is 4.1%.

Professionals in the technology sector continue to be in high demand, with over 1,600 new job postings for software developers in the month of

March alone, according to the Washington State Employment Security Department. Amazon remains the top employer in King County in terms of hiring, with nearly 6,000 open job listings from December 2014 through March 2015.

**King County Total Employment
 (monthly non-farm jobs, in millions)**
 with recession bars and rolling annual average line

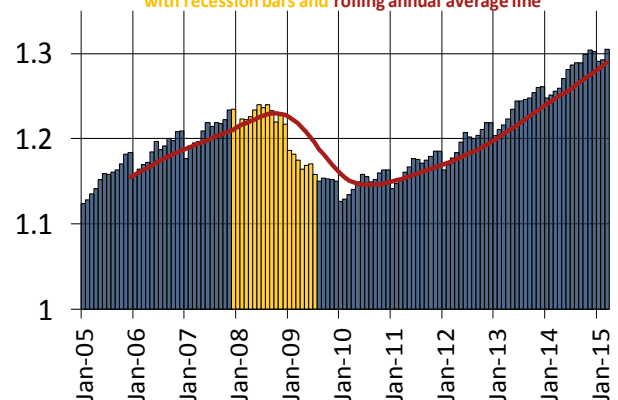


Fig. 1 Non-Farm Employment in King County (Source: WA ESD)

DETAIL (CONT.)

Seattle House Prices
(Case Shiller index, Jan-2000=100)
with recession bars and rolling annual average line

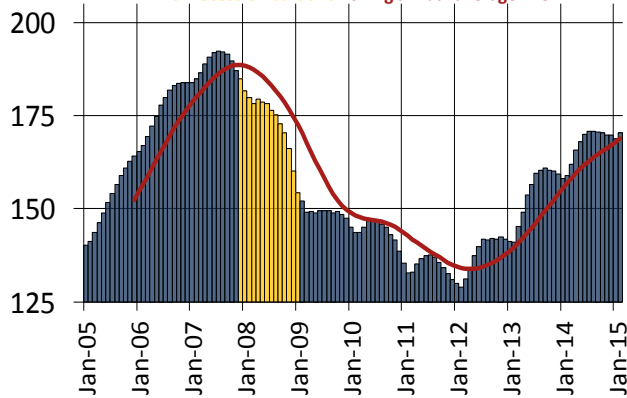


Fig. 2 Seattle Case-Shiller Index (Source: S&P)

Historically low inventory levels remain a major factor in the King County housing market, dropping to 1.3 months of supply in March. Population growth and persistently low interest rates continue to support high demand, leading to a 7% increase in home prices for the first quarter of 2015 year-over-year.

Multi-family permitting has increased tremendously compared to 2014 to accommodate hiring growth and overall housing demand, while single-family permitting actually decreased slightly. For an in-depth look at the pressures in the local housing market, please see page 4.

King County Permit Values
(new, privately-owned, in millions \$)
with recession bars and rolling annual average line

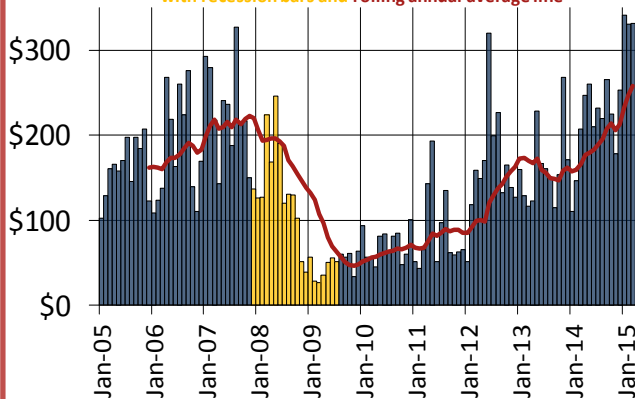
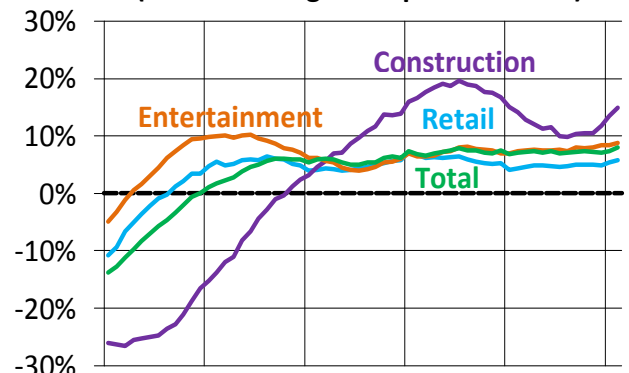


Fig. 3 Value of King County Permits (Source: U.S. Census Bureau)

Taxable retail sales jumped 11.4% in January and February compared to the prior year. Construction sales continue to be the major driver, with an increase of 26.3%. Retail sales, the largest component of overall taxable sales, increased 8%.

Taxable Sales Growth
(annual average of top four sectors)



Jan-10 Jan-11 Jan-12 Jan-13 Jan-14 Jan-15

Fig. 4 Taxable Sales Growth in King County (12 month avg)

(Source: WA DOR)

Downward pressure on inflation continued in the beginning of the first quarter, with energy prices remaining low. The CPI-W for the Seattle area increased only 0.5% year-over-year in February, the latest month available. A small uptick in energy prices in March resulted in slightly higher national inflation figures than in February.

Seattle Inflation
(CPI-W, annually adjusted)

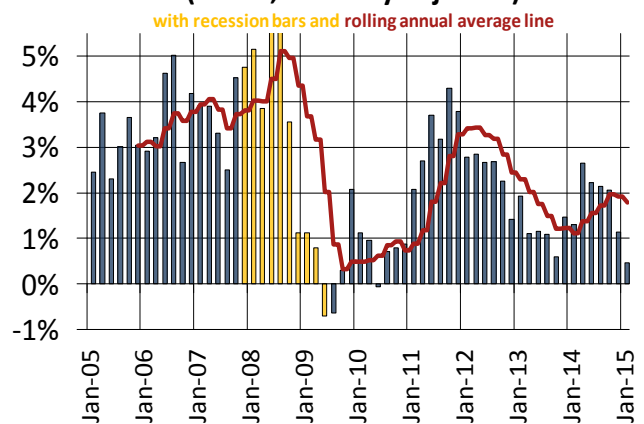


Fig. 5 Seattle Consumer Price Index (Source: BLS)

THE NUMBERS

King County Employment (in thousands)

NAICS Industry	2015:1Q	2014:1Q	Absolute change	% Change
Total Nonfarm	1,296.9	1,251.5	45.4	3.6%
Total Private	1,123.6	1,081.0	42.6	3.9%
Goods Producing	175.0	162.8	12.2	7.5%
Construction	66.5	56.2	10.3	18.4%
Manufacturing	108.1	106.2	1.9	1.8%
Service Providing	1,121.9	1,088.7	33.2	3.0%
Trade, Transportation, and Utilities	238.6	229.6	9.0	3.9%
Information	86.2	83.8	2.4	2.8%
Financial Activities	73.0	70.7	2.3	3.3%
Professional and Business Services	211.8	202.5	9.3	4.6%
Educational and Health Services	170.1	167.1	2.9	1.8%
Educational Services	27.6	26.5	1.1	4.2%
Ambulatory Health Care Services	54.5	53.1	1.3	2.5%
Hospitals	27.1	26.4	0.6	2.4%
Nursing and Residential Care Facilities	21.1	20.8	0.3	1.6%
Social Assistance	39.9	40.3	-0.4	-1.1%
Leisure and Hospitality	122.9	119.7	3.2	2.6%
Arts, Entertainment, and Recreation	23.0	22.6	0.3	1.5%
Accommodation	12.3	12.7	-0.3	-2.6%
Food Services and Drinking Places	87.6	84.4	3.2	3.8%
Other Services	46.0	44.7	1.3	2.9%
Government	173.3	170.5	2.8	1.6%

Other King County Economic Indicators

	2015:1Q	2014:Q1	% Change
Real Estate			
Single Family Permits (No. of units)	892	960	-7.1%
Single Family Permits (\$'000)	\$ 308,300	\$ 300,200	2.7%
Multi-Family Permits (No. of units)	4,867	1,590	206.1%
Multi-Family Permits (\$'000,000)	\$ 761,000	\$ 208,500	265.0%
Avg. sales price (NW Multiple Listing Service)	\$ 485,178	\$ 458,558	5.8%
Number of sales (NW Multiple Listing Service)	6,148	5,591	10.0%
Taxable Retail Sales (\$B, January-February)	\$ 7.97	\$ 7.16	11.3%
Retail/Wholesale	\$ 3.46	\$ 3.20	8.0%
Construction/Real Estate	\$ 1.99	\$ 1.63	22.1%
Food Service, Accommodation, Entertainment	\$ 1.32	\$ 1.23	7.3%
Other	\$ 1.20	\$ 1.10	9.1%
Inflation (Feb.)			
CPI-W (Seattle-Tacoma-Bremerton)	240.74	239.61	0.5%

FOCUS: COUNTY REAL ESTATE ANALYSIS

King County is in the midst of an economic boom. Many economic indicators including employment levels, taxable sales, and construction permits have been growing well above trend. Despite this rapid expansion, price increases for most goods and services have been modest. One major household expense that is growing rapidly is the cost of housing. Residential rents have been increasing significantly as shown in Fig. 6 and residential sales prices have averaged over nine percent annual growth from 2012 to 2015. There are multiple reasons for this rapid increase. Demand for housing has been strong due to population growth, recovering household balance sheets and low mortgage rates and supply has been impacted by factors tied to the great recession.

This edition of Focus considers the number of single family homes for sale in King County and how this and other factors are leaving those in search of these homes facing higher costs and low availability.

Residential Rent Prices and Housing Inventory

The number of houses listed for sale in King County (the “inventory”) is determined by many factors including the state of the local economy, home equity levels and prices, and the number of new homes being constructed at any given time. A significant issue locally is that the sales inventory is at a very low level in King County and this has contributed to significant upward pressure on prices. Figure 7 shows that since 2012, King County active listings are only averaging about four thousand per month (down from about 12,000 in 2010).

There are several explanations that have been offered as to why inventory is so low. First, many homeowners bought their homes during the previous real estate peak (2007-2008) when prices were very high and are now unwilling to sell because they owe more than their house is worth. According to Zillow, about 11% of King County homes are “underwater” as of the last quarter of 2014. Other homeowners are not technically underwater but have too little equity in their home to trade up to a new house. Even those potential sellers that do have sufficient equity and that are ready to trade up may be deciding to stay off the market due to the fact there is so little selection or in anticipation of further increases in the value of their existing home. Additionally, distressed sales/foreclosures have been decreasing and builders have not been building homes at the pace we saw during the last housing boom (see next page). These factors (among others) have led to the current situation of very low supply being met by strong demand, thus increasing prices to levels not far below the peak seen in 2007-2008.

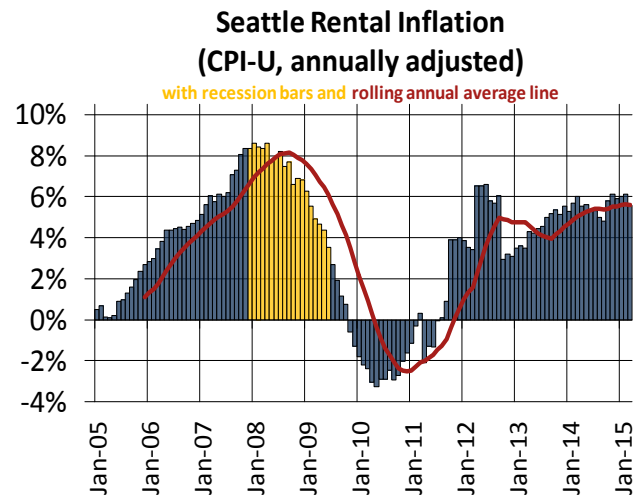


Fig. 6 King County Equivalent Rent Inflation (Source: BLS)

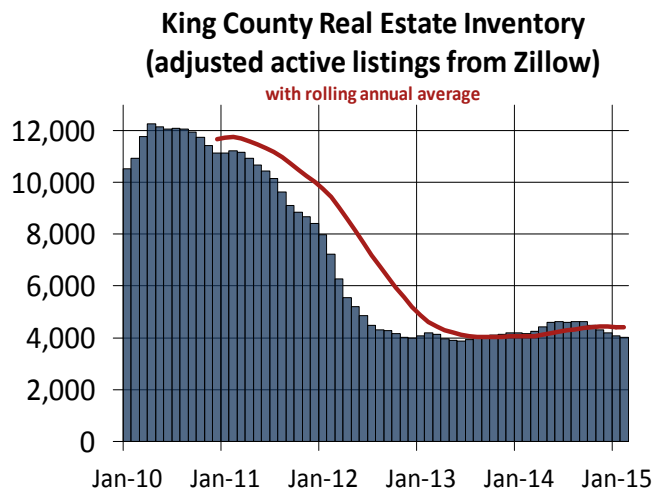


Fig. 7 King County Real Estate Inventory (Source: Zillow)

FOCUS: COUNTY REAL ESTATE ANALYSIS (CONT.)

Distressed sales and foreclosure activity in decline

King County housing prices rose significantly in the mid-2000s as the local economy was strong and easy access to credit led many households to purchase homes. However, when the great recession hit in 2007-2008, there were significant reductions in local employment and housing prices began to fall. Surging unemployment and lower incomes meant some households were not able to pay their mortgages. The chart at right shows the spike in the number of ninety-day foreclosure auction notices in King County during the

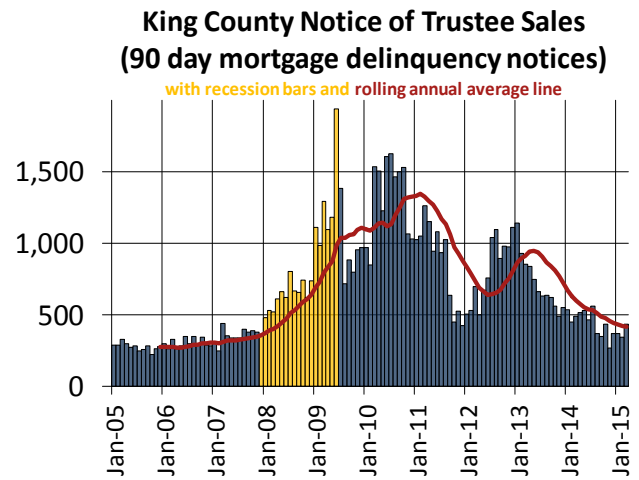


Fig. 8 King County Notice of Trustee Sales (Source: KC Assessor)

housing correction¹. Whereas the Notice of Trustee Sale (NTS) rate had been about 300 per month before the recession, that number more than quadrupled to as many 1,300 per month in 2010. In fact, during the 2010 calendar year, there were nearly 16,000 NTS' recorded in King County! Many of these properties eventually turned into foreclosures (the foreclosure sale rate also spiked) which were then put up for sale and often sold for less than they were originally purchased. It is good news that the NTS rate has declined substantially in the last few years and is now returning to its pre-bubble average. However, this reduction in foreclosure activity also reduces the number of sale listings.

New construction of single family housing is moderate

With the lack of single family housing supply, one might think that builders would have stepped in by now to meet the significant demand for homes. However, so far single family construction activity appears to be moderate. Figure 9 below shows sales prices for new homes in King County. The falling green line is the number of new homes sold per month and the blue bars are the median price.

Leading up to the peak in 2007, builders were adding 300 - 500 homes per month to the supply of homes for sale. However once the bubble burst, that number shrunk to around 150 per month at its low point and is now about half the 2005 levels. Meanwhile, the prices of new houses being constructed and sold have increased significantly. At the end of 2014, the median new house price in King County was around \$600,000.

These factors are all likely contributing to the reduced level of sales inventory in King County. However, house prices and sale inventories have historically been highly correlated and this recent divergence is likely to correct as time passes.

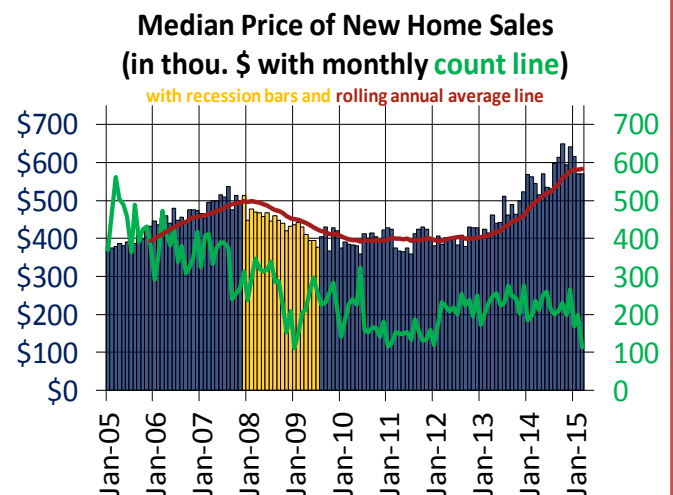


Fig. 9 Median New Home Sales Prices (Source: KC Assessor)

¹When a property is scheduled to be sold at auction in a foreclosure process a "Notice of Trustee Sale" must be filed with the County Recorder's Office at least 90 days prior to the sale date.

The Office of Economic and Financial Analysis operates as an independent agency of King County, and provides economic and financial analysis and forecasting to support county operations and planning and the people of King County.

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