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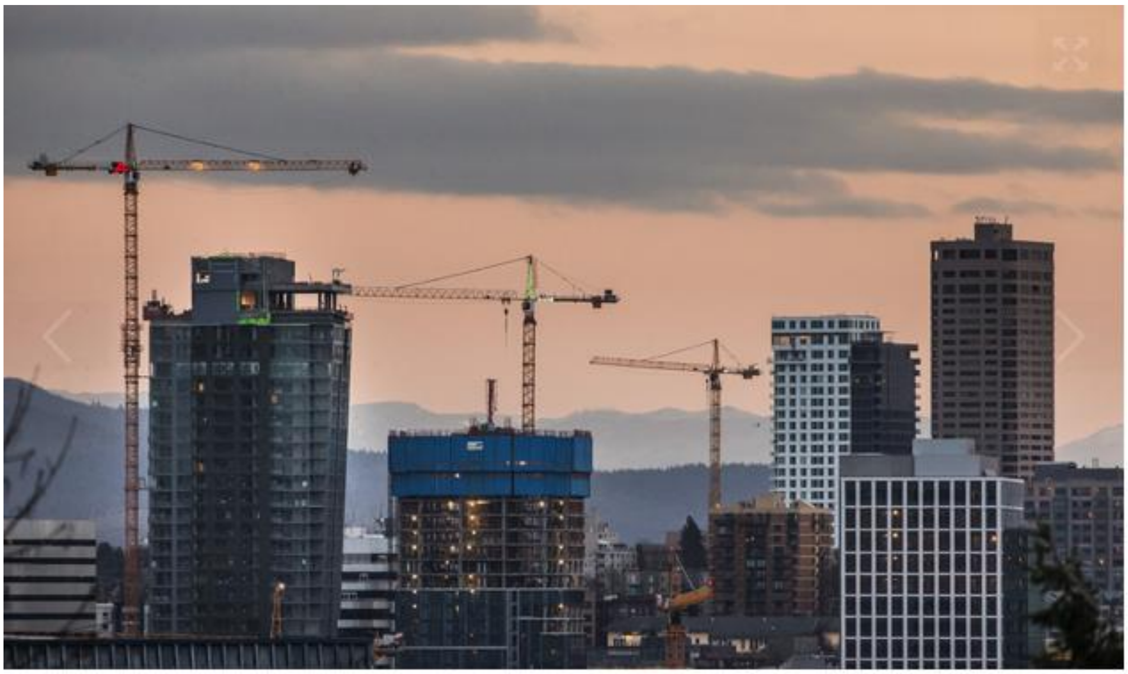


1 of 3 Downtown construction viewed from Kerry Park on Queen Anne. Much of the building work currently under way in Seattle is related to apartments. (Dean Rutz/The Seattle Times)

Nearly 10,000 new apartments are set to open in Seattle during 2017 — almost twice as many as in any previous year.

By Mike Rosenberg
Seattle Times business reporter

The apartment boom in Seattle has already reached historic heights — more units opened in each of the past four years than ever before.

Now, the real boom is about to begin.

Seattle is set to see almost 10,000 new market-rate apartments open in 2017, nearly twice as many as in any other year in the city's history.

With the construction surge set to continue through the rest of the decade, rent increases that have hit Seattle about as hard as any city in the country are forecast to be cut in half during 2017.

The magnitude of the construction is remarkable. The city is on pace to see more apartments built this decade than in the previous 50 years combined — and the vast majority of the new units haven't opened yet, according to the Dupre + Scott research firm.

A half-dozen experts who study the local market for various research firms all think the extra supply will help ease rent increases next year in Greater Seattle, which had among the fastest-growing rents in the country in 2016.

The analysts predicted rents would rise an average of 5 to 6 percent next year — the slowest rent growth since 2011, and nearly half the average rent hike seen last year. They also expect the size of rent increases to shrink again in 2018.

"It's not going to be like this forever in Seattle," said Svenja Gudell, Zillow's chief economist. "I definitely think that adding more supply helps reduce the growth of rents."
The suburbs aren't far behind in the building spree: The entire Puget Sound region, from Tacoma to Snohomish County, is slated in 2017 to have its second-busiest year in history for apartment construction, just shy of a suburban building boom in the late 1980s.

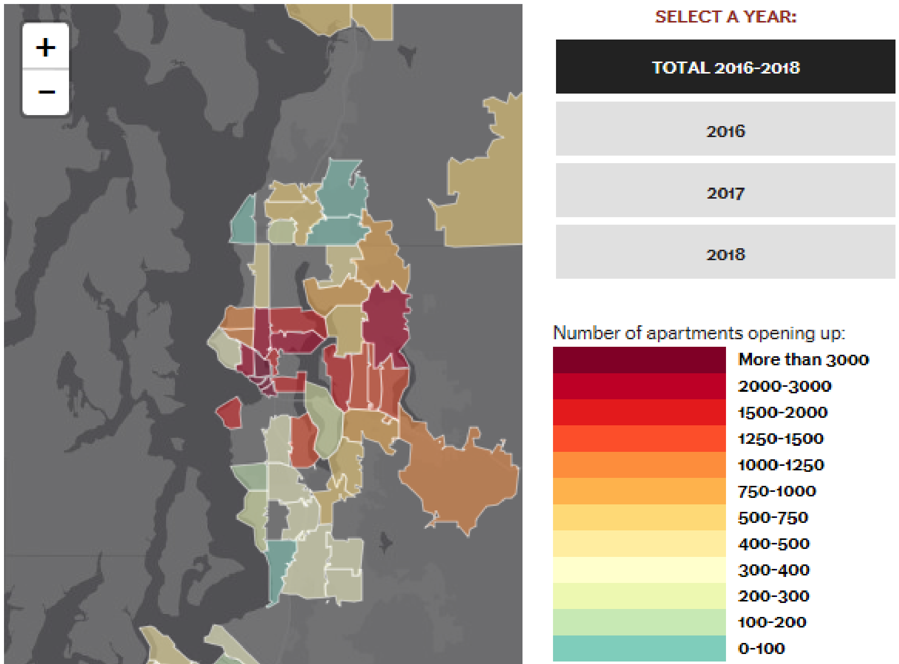
The new apartments are transforming neighborhoods across the city and often stick out amid rows of older buildings. And the rush to design and build the new units so quickly has given them a cookie-cutter reputation.

Robert White, 29, and his girlfriend just moved back to Seattle and rented a one-bedroom in an older building in First Hill after being turned off by the "ticky-tacky catalog feel of the new apartments."

"Looking at ads, you could see the same living room 15 times across different buildings," White said. "They looked like hotels; I don't want to live at a Best Western."

Where the apartments are going

Most of the new apartments are slated for popular Seattle neighborhoods. Click on each area to see the number of new apartments set to open each year.



NOTE: Data not provided for all neighborhoods
Source: Dupre & Scott
EMILY M. ENG / THE SEATTLE TIMES

No panacea

Of course, the new apartments won't instantly solve the housing crisis. Demand for rentals has grown so quickly — with out-of-towners lured by jobs here, and many locals priced out of the homebuying market — that the recently added supply hasn't been enough to stop rents from soaring 43 percent in the last four years.

What's more, most of the new units will be luxury apartments, which won't help lower-income renters much, while some middle-class renters are turned off by the mundane similarity of many of the new buildings.

Another issue: Areas that need more housing the most, in South Seattle and the southern part of King County, are getting barely any new buildings.

Still, there are early signs that the new apartments are starting to have an impact, even if it's not obvious to anyone who's shopped around for a new place recently.

Rents actually dipped slightly in 2016's fourth quarter compared with a few months prior, even though rents typically hold steady this time of year. More landlords are offering incentives such as a free month's rent to move in. Vacancy rates, the biggest predictor for future rents, are climbing.

With the new buildings bringing more empty apartments, landlords are becoming increasingly anxious to fill their homes, giving tenants more negotiating power. Because of all the new apartments, the vacancy rate is now at its highest point in six years and is on pace to hit recession-era levels — the last time rents dropped — in less than two years, according to Dupre + Scott.

"It's a big change in the city right now because of the density coming in at one time, but it's what we need to do to keep housing costs relatively under control as we grow," said Jake McKinstry, a principal at Spectrum Development, which builds apartments.

Supply and demand

Other cities have already seen this scenario play out. New York had a record number of apartments open in 2015, and rents there finally stopped climbing in 2016. Rents have also slowed recently in Boston; Washington, D.C.; Denver; and Houston following a rise in apartment construction in those cities.

"It is a pattern that's registering in a lot of other places," said Greg Willett, chief economist for the rental firm RealPage.

On the opposite end, Sacramento, Calif., stopped building apartments in the last decade and has now seen its normally tepid rental market surge to become one of the hottest in the nation. Ditto for Oakland.

More apartments are popping up in many cities, but Seattle was already among the busiest cities in the country for housing construction last year and figures to stay near the top of the rankings in 2017.

In some cases, recent city of Seattle rule changes — such as allowing denser housing or rolling back requirements to build costly parking garages — have incentivized some building, while other developers are rushing to build before the city adopts a new surcharge on apartment projects.

But mostly, developers say they are building simply because the demand is so huge.

"The number one thing? People still underestimate the Amazon effect," McKinstry said, pointing to the company's rapidly expanding workforce. "There are no other cities when you travel around and see anything like that."

Construction on Stratus overshadows Westlake Avenue. The apartment tower is at 2101 9th Avenue. Photographed Wednesday, December 28, 2016. (Dean Rutz/The Seattle Times)

Limits to appeal

The new apartments go only so far. Most of Seattle's new housing units are opening as luxury units, since they make developers the most money. Those fancy new digs, which can include features such as rooftop terraces, yoga rooms and dog areas, come with an average of 40 percent higher rents than old buildings, Dupre + Scott says.

Those new luxury options might help lift richer tenants out of the middle-class rental market, keeping competition down for average renters. But realistically, it could take decades for those new buildings popping up now to grow old enough to become outdated and, usually, cheaper.

Jessa Lewis has found that out the hard way. After getting laid off from her job at a startup last year, the single mother gave up her $2,000-a-month apartment in Ballard and moved with her 14-year-old daughter and dog into the basement of a house for $700. But then her landlord decided to rent the entire house and evicted her, and the hunt for her latest place to live has left her so discouraged she's now convinced she'll be priced out of the city soon.

"There's a shortage of entry-level apartments," Lewis said. "All these new ones that are being built are at a higher rate. If they are at a price point I can afford, they are studios or (micro-unit) aPodments."

Even if the extra units help slow down rent growth, Seattle would likely remain among the hotter rental markets in the country.

The rent growth projected by local analysts would bump Seattle's average rental from $1,715 in late 2016 to $1,800 in late 2017. That amounts to an extra $1,020 in rent over the course of a year, and would far surpass the roughly 2 percent rent growth that the average American city is seeing now.

That average is pushed higher, however, by all the new luxury units. The actual rent hike for someone remaining in the same, old apartment would most likely be lower.

Construction on Stratus overshadows Westlake Avenue. The apartment tower is at 2101 9th Avenue. Photographed Wednesday, December 28, 2016. (Dean Rutz/The Seattle Times)

Who's getting apartments

The impact on rent should vary by location because not every neighborhood will see construction.

Most notably, only 5 percent of the apartments scheduled for completion across King County in the next two years are being built in the area south of Seattle, even though that region is now seeing both home prices and rents rise at the fastest rate in the region as more people get priced out of Seattle. South Seattle won't see nearly as many units as the wealthier central and northern parts of town, even though South End rents are generally rising faster.

The most apartments, by far, are expected to hit downtown Seattle, where high-rises are easier to build — about 7,400 units in the next two years from trendy Belltown to fast-growing South Lake Union. Queen Anne and the University District are booked for more than 2,000 units in the next two years, and North Seattle and First Hill aren't far behind.

The overall impact will be huge: In an average day next year, Seattle is scheduled to get 27 new apartments. Historically, it's gotten three new units per day.

Elsewhere, Bellevue is on tap to get about 2,000 new units through 2018, leading the Eastside, where in the coming years the apartment growth rate is set to triple compared with the past decade.

Snohomish County is slowing down a bit after its recent peak in apartment construction, while Pierce County is expecting to peak in 2018.

Building bubble?

While the units opening next year are almost all under construction already, questions remain about whether all of those long-range projects will ultimately get built.

Despite the nonstop demand for rentals, those who build and bankroll apartments remain concerned about a possible oversupply bubble, especially for luxury units.

Tom Parsons, executive managing director of apartment developer Holland Partner Group, notes that costs for building apartments have surged 35 percent in the last half-decade, lowering profits and making Seattle less attractive for big investors. That could be exacerbated if the city next year approves its long-planned affordable housing fees for developers of new projects.

"Given the increase in the overall cost of housing over the past five years, we believe that capital has reached the tipping point and many of the projects being planned will be unable to be financed," Parsons said. That last happened when the market tanked during the recession and barely anything got built.

A pullback would be dramatic: King County has 675 projects with at least 50 units going on or in the pipeline, with about 500 of those in Seattle. About 40 percent of those aren't slated to open until 2019 or later, and most of them could still be yanked before construction begins.

But investors have been forecasting a retreat since building activity started to ratchet up in 2011.

"So far nobody's been right about predicting when the end of the cycle is going to happen," said Jeremiah Jolicoeur, local managing director at Alliance Residential Co. "It's not going to go on forever, but Seattle is very strong compared to other markets."