FOR IMMEDIATE RELEASE Contact Lauren Haslett: 206.448.5752

RENT VS. BUY – ***Downtown Seattle Renters Lost Nearly $10,000 in Income Tax Deductions on Tax Day 2020; Missed an Estimated $325,000 in Capital Appreciation Over the Last Decade***

SEATTLE, WA (July 15, 2020) - Executives of Realogics Sotheby's International Realty (RSIR), Caliber Home Loans and O'Connor Consulting Group today have published research revealing that, over the last decade, new residents who elected to live in brand new, luxury apartments instead of owning a condominium have paid more than $50 million in unrecoverable rent, collectively. Meanwhile, the average renter missed an estimated $325,000 in capital appreciation over the same period and approximately $9,228 of income tax deductions for 2019 on Tax Day.

The collaborative estimated the financial differences between owning and renting in downtown Seattle, during the past ten-year term. Approximately 27,000 new multifamily housing units were delivered in the urban core, however 93% of this new supply was purpose-built for rent and not for sale. According to the Downtown Seattle Association (DSA), more than 88,000 residents now live in the city center. In one of America's fastest growing cities, 82% of the housing stock is now comprised of rental apartments. Nationally, the homeownership rate is 65.3% per the U.S. Census Bureau.

"No other city has witnessed such population growth and increases in both household prices and rent growth," said Dean Jones, President and CEO of RSIR. "An unfortunate result of so many residents opting to lease a downtown apartment instead of owning a downtown condominium is that they missed out on both capital appreciation and annual mortgage interest deductions on Tax Day."

The report revealed the following statistics for downtown Seattle between 2010-2019:

- Typical rents averaged $1,241 in 2010 but soared 84% higher to average $2,230 in 2019.
- Newer apartments are smaller, averaging 650 sq. ft., and command an average rent of $2,404.

- New residents that rented newly built apartments paid more than $50 million in rent over the last decade (not including the 36,609 existing apartment units built before 2010).

- Based on a median household income of $114,000, the typical condominium owner will receive an annual income tax savings of approximately $9,228, not including capital appreciation*.

- The average price for a condominium in 2010 was $524,842, but swelled to $849,481 in 2019.

- Typical condominiums appreciated 62% last decade, or an average of 6.2% per year.

- Renters of new apartment buildings typically paid out $218,983 last decade, while condominium owners of similar housing gained an average of $324,639 in capital appreciation.

- Only 10 new condominium buildings were delivered over the last decade (just 1,727 units) and 91% of this inventory is already sold out (new construction towers in the pipeline are currently offering presales and this inventory is more than 50% presold with deliveries through 2023).

*See analysis by Caliber Home Loans.

In addition to sporting the nation's strongest market fundamentals, which drew an average of six new residents per day over the past decade, downtown Seattle is home to thousands of employees who work in the tech industry and many of whom benefit from restricted stock units (RSUs) as part of their compensation. Companies like Amazon, which alone has approximately 50,000 employees in the Seattle area, are trading at record stock prices and creating a new wealth effect. While most inbound residents will initially prefer to rent, once they vest their stock portfolio and lay roots in Seattle, mortgage lenders say that they are prime candidates for homeownership, both for walk-to-work condominiums located in downtown Seattle and for single-family and townhome properties throughout the city.

"We view those pricey apartment towers as incubating our future homeowners—at some point renters are encouraged to explore their investment options," said Luke Easterly, Area Sales Manager for Caliber Home Loans. "We can help qualify clients with RSUs for mortgages and given that interest rates are at record lows, hovering just below 3.0%, so there's never been a better time to buy."

To be sure, pending resales of downtown Seattle condominiums in July 2020 are trending more than three-and-a-half times the volumes since bottoming in April 2020, immediately following the COVID-19 "stay-home" decree.

Meanwhile, new construction closings have been unprecedented with more than 350 condominium closings so far in 2020 in downtown Seattle. Brokers also report a strong uptick in presales at towers currently under construction. Likewise, throughout the city of Seattle, pending sales of new and resale single-family homes have skyrocketed 48% in July 2020 compared with the prior month. Year-to-date sold volumes are just 3.2% below 2019 despite the COVID-19 pandemic. However, inventory levels citywide are nearly 38% lower than this time last year. That's putting upward pressure on prices, especially at price points in conforming loan limits (mortgages below $741,750) where purchases can be made with just 5% down payments.

A recent rush to buy has also resulted in many listings experiencing multiple offers and price escalation above the asking price. The story is similar throughout King County, where a typical home (single-family and town home) sold for a median price of $725,000, which posted a 4.3% increase year-over-year but a 7.9% rise from May 2020, according to recent data from NWMLS, as brokers point to a check mark-shaped recovery from the housing headwinds caused by COVID-19.

“Prospective home buyers are experiencing FOMO (fear of missing out)—they need to make a move soon to enjoy preferred selection, lock down today’s record-low interest rates and start benefiting from both price appreciation and tax advantages,” said Tadashi Shiga, Executive Director of RSIR’s Land Development. “With the rising cost of land and construction, it’s an ongoing challenge to deliver new, quality housing at affordable price points.”

Shiga’s team has been a pioneer in working with developers to design efficiently-scaled townhomes and even micro-housing for sale. For example, a recent six-unit project, called Kai Townhomes in Ballard by Isola Homes, sold out in just ten days at prices starting at $670,000, which commanded record values in the submarket at $640 per sq. ft. for unparked units.

Market pundits believe the Seattle area suffers from a lack of supply in for-sale property, especially within the urban core, where it can take three or four years to design and develop a high-rise.

“The reality is condominiums are a greater risk for developers, so they’ve overwhelmingly preferred to build apartments and that’s been a very profitable venture given the robust job and population growth,” said Brian O’Connor, Principal of O’Conner Consulting Group. “The Condominium Act of Washington limits non-refundable earnest money deposits during presales to just 5% and the developer can’t draw those funds from escrow until closing, and then there’s construction defect liabilities. All the while the upside in appreciation goes to the home buyer. Basically, the consumer protection legislation is so biased to the home buyer, it discourages developers from building more condominiums, so prices rise.”

Alternatively, apartment demand has been strong and rents have been consistently rising each year. That said, O’Connor predicts vacancy rates will rise in 2020 amidst COVID-19 and as more renters become homeowners. However, rents will ultimately keep climbing unless rent controls are imposed in Seattle as they have been in most other West Coast markets.

“Owning the apartment building in Seattle has become a globally recognized, blue-chip investment,” adds O’Connor. “That’s good news for landlords but sobering for consumers experiencing price inclines both for rent and for homeownership.”

According to the Downtown Seattle Association, the median age of a downtown Seattle resident is just 37 years. Contrary to the belief that millennials prefer to rent, they actually represent the largest cohort of home buyers in the United States, per the National Association of Realtors. Given the more affordable price points of condominiums, future housing demand to own in downtown Seattle is likely to rise quicker than supply.

“Long term, homeownership is a compelling investment and the only way to control housing costs in upswing markets like Seattle,” adds Easterly. “Tax Day is a good reminder of these advantages as only owners receive the benefits while renters will miss out.”

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About Realogics Sotheby’s International Realty - Realogics Sotheby’s International Realty (RSIR) is a leading global sales and marketing brokerage firm in the Pacific Northwest. The boutique real estate firm of 300+ active brokers service branches in downtown Seattle, Bainbridge Island, Kirkland, Madison Park. Mercer Island and now downtown Bellevue. RSIR is also a leading project marketing specialist currently representing and advising on more than $1.5 billion in new condominium developments planned throughout the Puget Sound region. www.RSIR.com

EDITORS NOTES: Market data, graphs, project photography and head shots of principals available.