

THOUGHT LEADER FORUM



2020

THE
FUTURECAST
FORUM

The Future is Near. Plan with Perspective.

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Puget Sound Business Journal recently held an exchange with real estate and financial industry leaders as part of its ongoing Thought Leader Forum series.

This Thought Leader Forum included market prognosticators **Dean Jones**, Owner, Realogics Sotheby's International Realty; **Trevor Bennett**, Branch Manager, Caliber Home Loans; **Christian Chan**, Executive Vice President, Burrard Group; **Brian Evans**, Owner and Wealth Manager, Madrona Financial Services; **Brian O'Connor**, Owner and Principal, O'Connor Consulting Group and **Marc Rouso**, CEO, JayMarc Homes. The Forum discussion was moderated by Puget Sound Business Journal Publisher, **Emory Thomas**.

Tell me about the FutureCast Forum. Why has it been created? Why now?

Jones: The FutureCast Forum provides an industry insider's perspective on the trends and market fundamentals affecting Puget Sound area consumers and stakeholders into the year 2020 and beyond. Our new media channel looks forward so we can plan ahead with better perspective. For instance, The Puget Sound Regional Council's VISION 2040 plan was to accommodate five million residents in the four county region by 2040 but our actual job and population growth has, so far, exceeded these annual estimates in urban areas as demand and development is not distributed evenly. Meanwhile other initiatives, like Sound Transit 3, will take longer than hoped to fully realize. These dynamics create market pressures, opportunities and challenges that need to be explored and considered.

What are some of the key challenges facing our urban core with respect to residential and commercial real estate?

O'Connor: The Washington State Growth Management Act is designed to limit urban sprawl so my view is the current level of development activity in downtown Seattle and downtown Bellevue is on target. However, from a residential perspective the overwhelming preference is for developers to build apartments considering the rising rents (climbing 50-percent during the current

decade) and low cap rates. In some cases, apartment buildings have been selling at unit values similar to condos. That's good news for developers but challenges prospective homebuyers as inventory is tight and prices are skyrocketing. Of the 25,115 new multi-family units we're tracking in downtown Seattle (2010 and 2019), only six-and-a-half-percent is offered for sale and two-thirds of what's under construction is already presold. We'll see more condo development in the next decade but demand will rise quicker than the supply.

What is the biggest change we will see regionally because of market pressures in the next decade?

Chan: The region, Seattle and Bellevue, will become further urbanized given the implementation of sound planning policies that promote sustainable densification, as well as rising demand for all sectors. Traffic congestion has led to increased preference for a walkable and/or transit oriented lifestyle. Major employers, especially in the technology sector, understand the recruiting and retention benefits of urban campuses. The light rail expansion will ultimately help, but the net effect may take up to 10 years to realize. To continue to support a thriving job market, we need to be able to address the residential needs of the workforce. That means we need quality, high-density, mixed-use residential options close to urban job centers that support a variety of income types and demographics, including those raising families – for rent and especially for sale. This was the thesis for our NEXUS Condominium project and, I think, a primary reason we are more than 85-percent presold since our public debut in March 2017.

If we'll see rising demand for ownership, how is the mortgage industry evolving to meet changing consumer needs today and in the future?

Bennett: We recognize that all of those apartment towers are incubating thousands of would be home-buyers. Many of them work in tech firms and a significant portion of their income is received in the form of restricted stock units paid by those firms. Fortunately, underwriting guidelines have responsibly evolved so that we can use income from restricted stock units as income for loan qualification. This type of income has become



Urban Realities:

- **Downtown Seattle is the fastest-growing sub region with an estimated 25,115 new multi-family units built between 2010-2019 (93.5% of the new urban dwellings are/will be rentals).**
- **Policies within the Washington State Condominium Act indirectly limit the volume of for-sale product in high-density areas like Seattle.**
- **The greatest consumer demand is for homes priced below \$700,000, which is the hardest to deliver under the current regulations but new mortgage options make this more affordable.**
- **The Cities of Seattle and Bellevue have encouraged greater height and density to accommodate demand and public benefit initiatives like affordable housing.**
- **Mounting traffic congestion and quickly maturing urban amenities will continue to make downtown living more attractive than ever.**
- **Demographic shifts will impact both ends of the market as Millennials dominate growth and Empty-Nesters and Retirees downsize.**

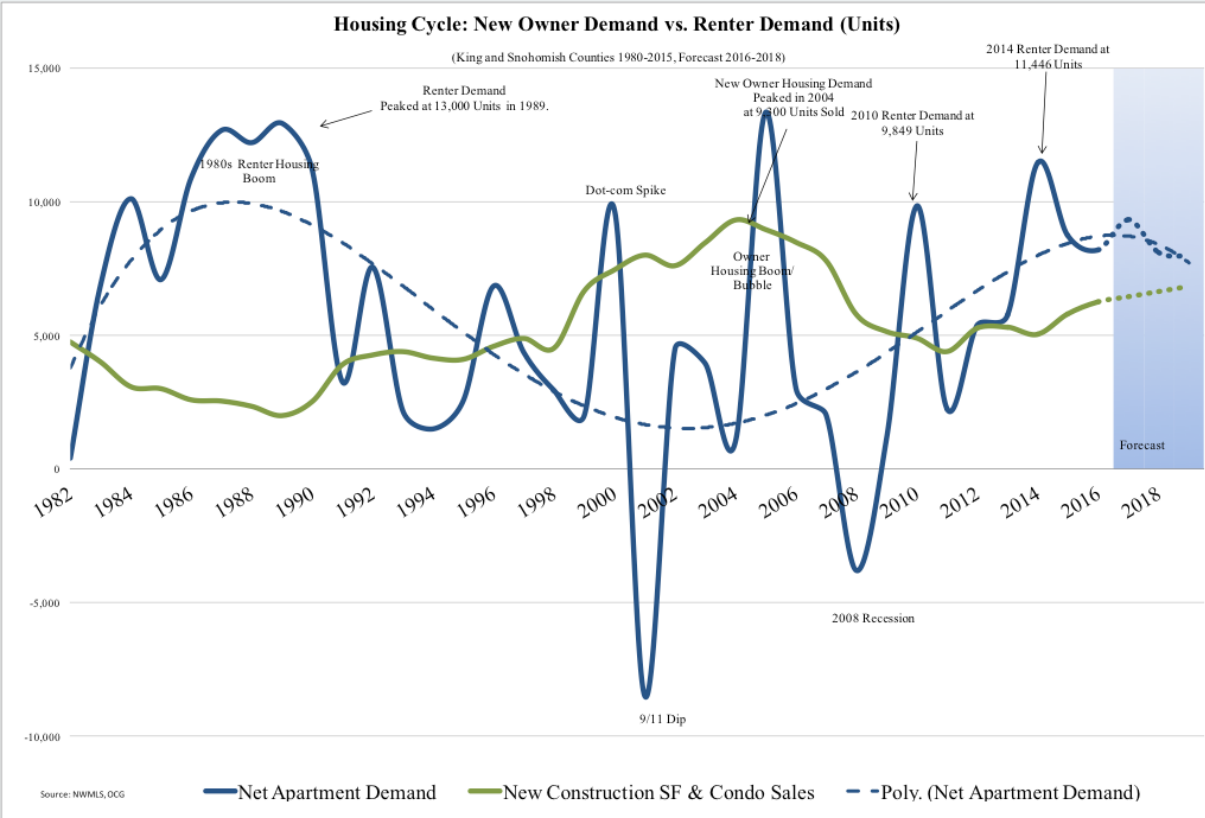
a significant factor in our housing market when you consider how people are paid by some of the leading technology companies. We have to serve our clients in an increasingly mobile-centric world that is quick, convenient and effective. These are differentiating factors for us.

“To continue to support a thriving job market, we need to be able to address the residential needs of the workforce.”

CHRISTIAN CHAN
Burrard Group



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Brian O'Connor has tracked the housing cycles in King and Snohomish Counties since 1982 and monitors absorption for both apartments and condominiums. His forecast indicates positive demand for both apartments and condominiums into 2020 and pent-up demand for affordable in-city condominiums near job centers.

How about the single-family home building industry – what trends are developers and consumers facing ahead?

Rousso: New home construction has been strong, but land and construction costs are rising quickly, while in some municipalities new regulations are restricting development. These create economic headwinds that will be reflected in higher production costs, which may challenge affordability and reduce the volume of new builds ahead. This will put further pressure on inventory and home prices will continue to rise. The only cure to fast-rising prices in the city and in our neighborhoods is more inventory. At JayMarc Homes, we’ve begun to explore more custom builds leveraging our volume efficiencies and proven team. Whether on our lot or theirs, we identify a buyer early and build what they want, on their schedule and budget. This approach resolves the consumer fear of having to bid on a spec home while removes some of the risk for the builder trying to align with market demands. This is a growing niche.

What about resale homes – won’t we see baby boomers retiring, downsizing and adding some much-needed inventory to choose from?

Evans: Eventually, yes. There’s a lot of equity in those houses but just as Millennials are taking longer to get married and buy homes, empty nesters and retirees are staying put longer. Many of our clients are still active landlords of rental properties and want to fully retire, but not only fear the tax burden of selling, but are worried about losing rental income cash flow. One popular solution is a DST (Delaware Statutory Trust), which is a like-kind exchange offering tax deferral and monthly rental cash flow into multi-family apartments, self-storage, or health care facilities. Using the DST strategy provides the freedom and the income to explore other lifestyle pursuits like condo living downtown, owning a second home elsewhere and travelling the world. There’s an enormous number of would-be sellers in this demographic group (baby-boomers) and as urban living rises in popularity, I think we’ll see more downsizing and liquidation of rental properties so these neighborhood properties can recycle to the next generation.

FutureCast Forum
Key Takeaways:

- Our region is experiencing meteoric economic expansion and population growth.
- Seattle’s rise as a global city and its relative affordability will draw more international investment.
- Rising land and construction costs are leading to a slowdown in new single-family home development, especially in close-in neighborhoods as affordability is tested.
- As traffic congestion worsens, and lifestyle pursuits demand greater flexibility and access to amenities near the workplace, more and more people will want to live and work in the Seattle and Bellevue urban cores.
- Geographic and demographic trends promote urban development, but developer preferences to build apartments and The Condominium Act of Washington indirectly impedes growth of multi-family ownership options in high-density areas.
- An aging demographic cohort will enter retirement, sell larger single-family homes and leverage tax-deferring strategies to reduce active investments, downsize into “lock and leave” condominiums and explore lifestyle pursuits.
- The next decade will be defined by innovative and efficient design, a sharing economy and urban-centric lifestyle pursuits.

THOUGHT LEADERS



DEAN JONES

Owner, Realogics Sotheby's International Realty



Dean Jones is recognized as the marketing strategist behind many of the Pacific Northwest's most respected real estate projects over the past 20 years. A former developer, he is CEO of the region's global real estate brokerage Realogics Sotheby's International Realty offering market research, product development, marketing and sales solutions. He oversees more than 225 real estate brokers in five branch offices, which consistently rank among the top-producing brokerage offices in the markets they serve. Realogics Sotheby's International Realty has been consistently recognized as among the "100 Fastest Growing Private Companies" in Washington State by The Puget Sound Business Journal.



TREVOR BENNETT

Branch Manager, Caliber Home Loans



Trevor Bennett is a branch manager and nationally-recognized top producer for Caliber Home Loans. With almost 20 years' experience in the mortgage business, Trevor and his team help people integrate their home mortgage plan with their personal financial goals, consistently ranking in the Top 1% of the nation, taking pride in bringing expert advice and clarity to the home financing process. Caliber has rapidly increased its mortgage production volume year-over-year, while its servicing portfolio has grown to over \$100 billion. This tremendous growth was made possible by a strong balance sheet and commitment to responsible lending.




CHRISTIAN CHAN

Executive Vice President, Burrard Group




Christian Chan serves as the Executive Vice President of the Burrard Group, providing leadership through his extensive education in urban planning and architecture and utilizing influence from years spent residing in several global cities. For over 40 years, the Burrard Group has been active in the real estate industry, building a diverse portfolio of successful master-planned communities, multi-family and single family residential developments, commercial projects, lodging properties and golf courses. They lead every project with a responsibility for enhancing communities and the surrounding environment. Burrard projects showcase forward-thinking design and high quality construction.




BRIAN EVANS

Owner and Wealth Manager, Madrona Financial Services




Brian Evans, CPA/PFS founded Madrona Financial Services, LLC, a Registered Investment Advisory firm that offers comprehensive financial planning investment services and currently manages more than \$200 million in assets, with offices in Everett, Bellevue, Seattle and Tacoma. He is also the owner of Bauer Evans, Inc., a multi-office CPA firm of 15+ CPAs managing approximately 3,500 clients. Brian is the host of the Growing Your Wealth weekly radio show and was honored to ring the opening bell on the NYSE.




BRIAN O'CONNOR

Owner and Principal, O'Connor Consulting Group




Brian O'Connor received his MAI designation in May 1996 and is certified as a general real estate appraiser for the state of Washington. Brian has over twenty years experience as a Market Analyst and Fee Appraiser and is the principal author of the Seattle Metropolitan Area Apartment Market Report. Other related experiences include economic feasibility analyses concerning rental housing, condominiums, marinas, retail and office uses. Mr. O'Connor has also been qualified as an expert witness concerning both apartments and condominiums for purposes of construction defects and market feasibility issues.



MARC ROUSSO

CEO, JayMarc Homes



The entrepreneur spirit runs deep for Marc Rousso - from his first venture with childhood friend Jay Mezistrano to his current position as CEO of JayMarc Homes - Marc has loved overseeing a company where his team loves where they work. Marc and Jay created JayMarc Homes to build luxury and custom homes on Seattle's Eastside. JayMarc's "neighborhood approach" fosters the return to the spirit of community in each home they build. Focusing on move-in ready, pre-sale and custom homes with an emphasis on best-in-class experience, JayMarc Homes has experienced dramatic growth as one of the preeminent luxury homebuilders in the area.

Visit www.SEATTLEin2020.com to join the conversation and learn from additional contributors.

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