

# City of Mercer Island Economic Analysis

August 24, 2022

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Prepared by:



Prepared for:





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that are important to decision makers.*

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President and CEO:  
Chris Mefford

Project Manager:  
Elliot Weiss

Analysts:  
Cassie Byerly  
Madalina Calen  
Ethan Schmidt

Community Attributes Inc.  
500 Union Street, Suite 200  
Seattle, Washington 98101

[www.communityattributes.com](http://www.communityattributes.com)

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## INTRODUCTION

### **Background and Purpose**

The City of Mercer Island is updating its comprehensive plan as part of the periodic review required by the WA Growth Management Act (GMA). The Comprehensive Plan (Plan) update will extend the planning horizon through the year 2044. The Plan update will include adoption of a new Economic Development Element (EDE). Before drafting an EDE, the City requires an analysis of economic data to describe existing economic conditions and expected growth through the year 2044. This report summarizes these data to establish a shared understanding of the economy on Mercer Island for the City to consider as it adopts a vision, goals, and policies in the EDE.

### **Organization of This Report**

The remainder of this report is organized as follows.

- **Existing Conditions and Trends** includes an overview of current demographic, socio-economic, and housing conditions in Mercer Island.
- **Growth Forecast** includes projections of future regional and local job and housing growth and need.
- **Findings and Implications** outlines opportunities for policy and programmatic action for the City of Mercer Island.

# EXECUTIVE SUMMARY

The Comprehensive Plan serves as the City of Mercer Island’s long-term planning strategy and an Economic Development Element will supplement policy addressing land use, housing, transportation, and utilities across the island. This economic analysis provides the city with context on the current economic conditions and projected changes to inform the development of goals and strategies in the forthcoming Comprehensive Plan Economic Development Element.

Mercer Island’s land use policy and geographic disposition, codified through its community vision, is to maintain a single-family residential community within a unique physical setting. Since 2006, the city has focused on developing Town Center as the mixed use and dynamic downtown area of the island. As of 2022, Town Center features 1,210 multi-family residential units and more than 317,000 square feet of retail space. It is the primary commercial and multi-family cluster on the island. Estimates project that the city could accommodate an additional 35,000 square feet of commercial and retail space, an estimate that may be conservative based on the incoming Riot Games campus and a potential capacity shortfall for projected job growth through 2044.

Two additional areas in Mercer Island currently support a variety of non-residential land uses and could potentially support future housing and commercial demand. A cluster of government, education, and health care facilities are centered on City Hall in northeast Mercer Island. While this area is zoned as commercial and includes professional service providers and other commercial services, there are no current retail uses in the area. It is also bounded by a multi-family residential zone to the west.

The second area is a commercial cluster around the QFC in the southern half of Mercer Island, immediately adjacent to Pioneer Park. This cluster’s zoning permits non-residential and residential uses, although it does not have any residences. It includes a total of 73,000 square feet of retail and commercial space, unchanged from 2006.

## Implications

- **Mercer Island’s economic activity is concentrated in a few areas with decreasing available commercial space.** Town Center accounts for most of the island’s economic activity but has a historically low amount of leasable retail space. Based on a 2021 analysis, the city could support an additional 35,000 square feet of retail capacity, and this estimate does not account for the pending arrival of Riot Games and potentially hundreds of new jobs in the Town Center.

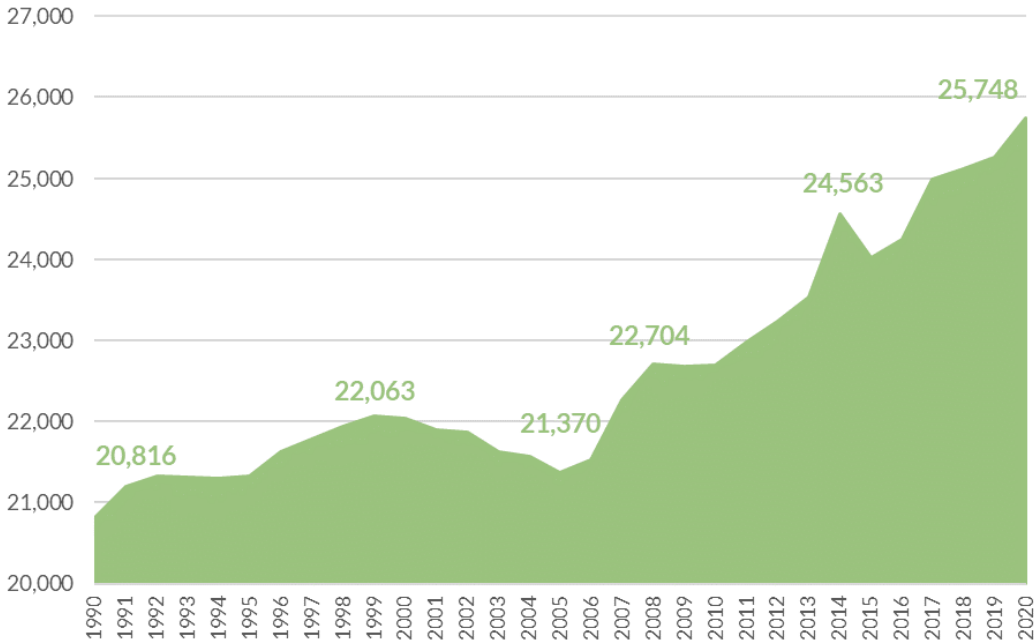
- **Mercer Island’s economy is anchored by professional, technical, and scientific services.** These are some of the highest paid professions. According to the Washington State Employment Security Division, these jobs are typically more resilient in recessions or other times of economic duress, like the COVID-19 pandemic. The Puget Sound Regional Council projects that services will make up more than half of all jobs in the region by 2050.
- **Housing costs are likely unaffordable for many segments of the Mercer Island workforce.** The public sector provides the largest employer base including the City of Mercer Island and the Mercer Island School District, but employees in these industries earn low median wages compared to the city as a whole. Housing costs – for both renters and owners – are on the rise, and nearly half of renters are cost burdened. More moderate- and low- income residents may be increasingly priced out of living on Mercer Island.
- **Very few Mercer Island residents work in the city.** Mercer Island is well-situated between major job hubs like Seattle and Bellevue, and most residents commute outside the city.
- **The city is not on track to accommodate the projected new job growth through 2044, but this does not include the arrival of Riot Games.** Mercer Island is projected to add 1,300 jobs between 2018 and 2044. Its most recent job growth trends indicate that the island does not have the capacity for its projected growth. These projections do not take into account the arrival of Riot Games, which will account for about one-third of the job growth projected through 2044 by the end of 2023.
- **Riot Games’ expansion may have broader economic impacts.** Within one year, Riot Games is projected to become the third largest employer on the island, fulfill nearly one-third of the city’s long-term job growth projection, and bring about 400 high-paying jobs to the island. Riot’s campus may drive additional retail demand in Town Center and housing demand within the vicinity and across the island. These new high-earning workers could place additional pressure on an already tight housing market and existing cost burdened households. Riot employees who opt to live off the island will utilize public parking and transportation systems and increase use rates for public infrastructure in the span of a few weeks.

# EXISTING CONDITIONS AND TRENDS

## Population Profile

Mercer Island is an incorporated city in King County, Washington, and is coterminous with a 6.2 square mile island in Lake Washington, immediately east of Seattle. As of 2020, the population was 25,748 (**Exhibit 1**), an increase of nearly 5,000 since 1990.

**Exhibit 1. Population Change, Mercer Island, 1990 to 2020**



Source: Washington Office of Financial Management, 2020; CAI, 2022.

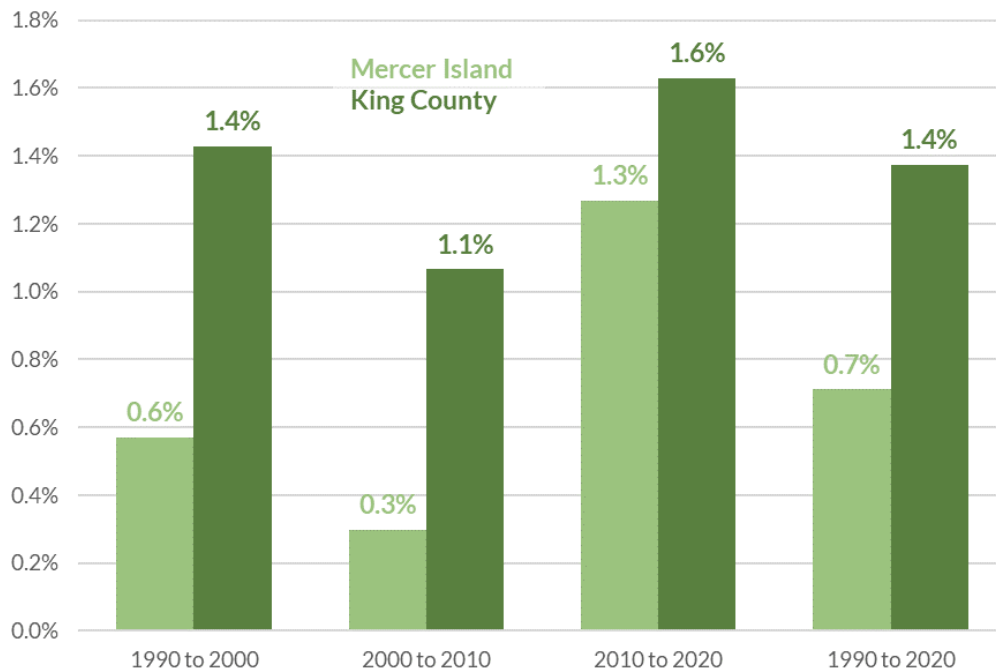
### *Mercer Island is a comparatively slow-growing city*

The city has grown at a rate of 0.7% annually (CAGR) from 1990 to 2020, as shown in **Exhibit 2**, a lower growth rate than King County as a whole. 2010 to 2020 was the period of fastest growth for both Mercer Island and the county. The decade of 2000 to 2010 was the slowest growing for both jurisdictions. Most of Mercer Island’s residential growth occurred in the period between 1940 and 1960, following the opening of the floating bridge, which connected Mercer Island to Seattle and the region.<sup>1</sup> Today, the island is nearly fully developed, limiting new growth in comparison to the county.

<sup>1</sup> Mercer Island Chamber of Commerce.



**Exhibit 2. Annual Growth Rate, Mercer Island and King County, 1990 to 2020**



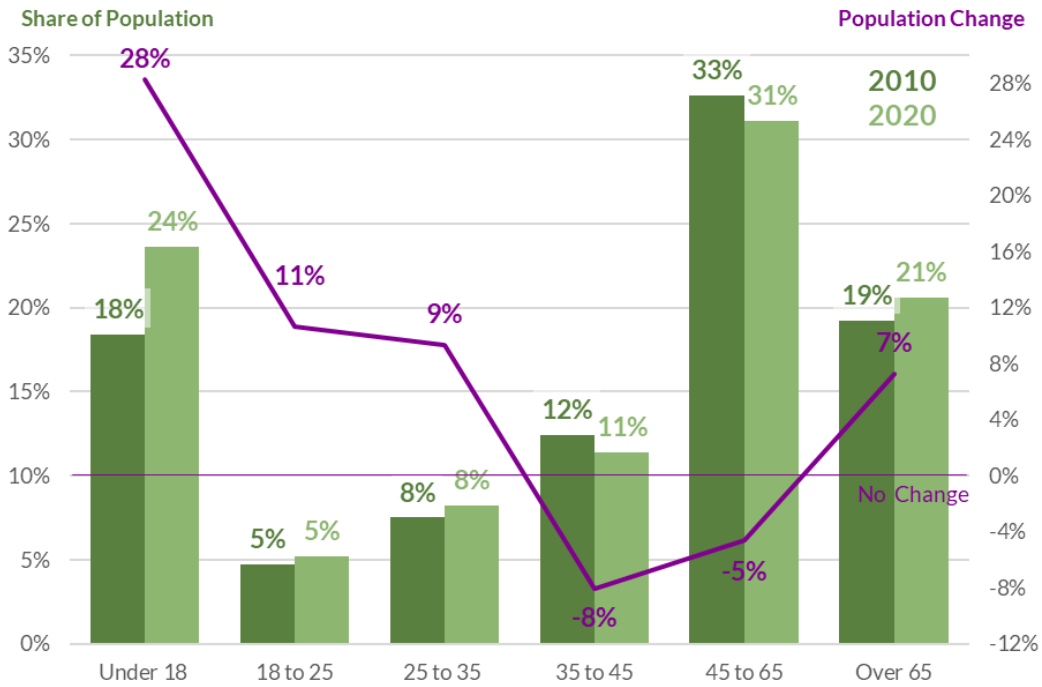
Source: Washington Office of Financial Management, 2020; CAI, 2022.

### *Workforce-aged population groups have shrunk since 2010*

Population groups aged 35 and under, as well as over 65, are increasing in Mercer Island (**Exhibit 3**). The largest population group, aged 45 to 65, decreased by 5% from 2010 to 2020. Residents aged 35 to 45 decreased in that time period by 8%. The median age of those living in Mercer Island was 46 in 2020, unchanged from a decade ago and higher than King County’s median age of 37.<sup>2</sup>

<sup>2</sup> United States Census Bureau American Community Survey, 2020 and 2010 5-Year Estimates.

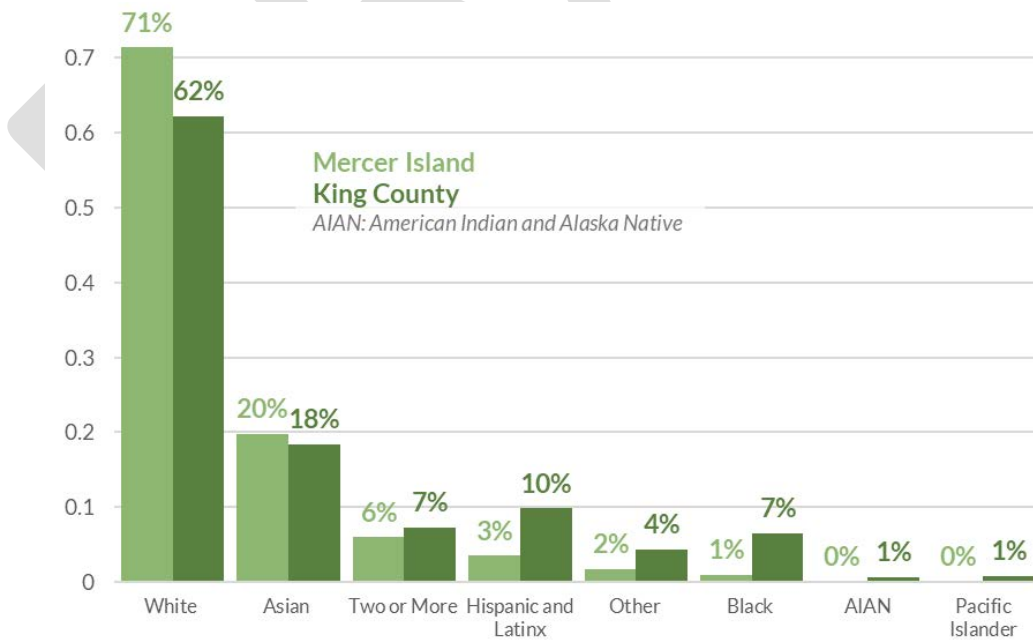
**Exhibit 3. Age Change, Mercer Island, 2010 and 2020**



Source: American Community Survey, 2010, 2020; CAI, 2022.

The majority of Mercer Island and King County residents identify as white (71% and 62%, respectively). Mercer Island has a higher share of white and Asian residents than King County as a whole (**Exhibit 4**).

**Exhibit 4. Race of Residents, Mercer Island and King County, 2020**



Source: American Community Survey, 2020; CAI, 2022.

### *Residents earn more than King County as a whole and median income is increasing*

Mercer Island’s household median income is much higher than King County as a whole (**Exhibit 5**). Median household income in the city has been steadily increasing in recent years after a brief period of stagnation from 2013 to 2015.

**Exhibit 5. Median Household Income by Year, Mercer Island, 2010 to 2020**

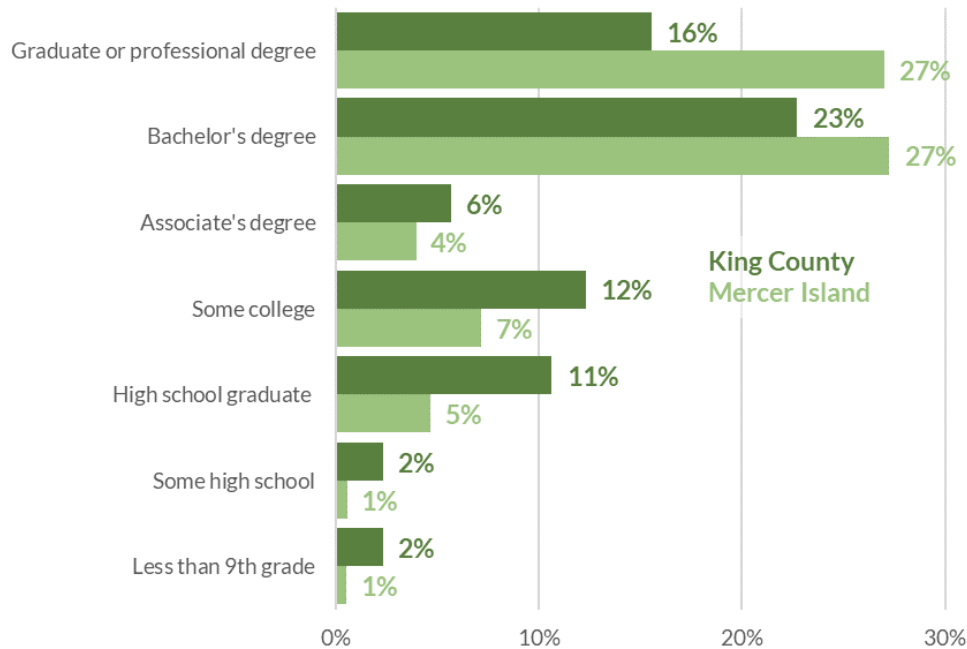


Source: American Community Survey, 2010, 2020; CAI, 2022.

### *Mercer Island residents are highly educated*

More than half of Mercer Island residents hold a college or advanced degree, a higher share than King County (39%), as shown in **Exhibit 6**. Small portions of residents hold an associate’s degree compared to a bachelor’s, advanced degree, or even attending but not graduating from college. An even smaller share of King County and Mercer Island residents did not complete high school.

## Exhibit 6. Education Level, Mercer Island and King County, 2020



Source: American Community Survey, 2020; CAI, 2022.

## Economic Profile

Mercer Island is predominantly zoned as residential, with the exception of three significant commercial or mixed-use areas. The primary retail and mixed-use cluster in Mercer Island is in Town Center. Town Center has its own zoning code (TC) that does not mandate minimum residential lot sizes. As Mercer Island's downtown, Town Center features restaurants, cafes, small businesses, and markets in addition to the bulk of the island's multi-family residential housing. Town Center includes about 20 condominium buildings, nearly all of the island's apartment developments, and several independent and senior living communities.

The second retail and commercial cluster is anchored by a QFC immediately south of Pioneer Park. This area is zoned as a Planned Business Zone (PBZ) that does not mandate minimum residential lot sizes. However, there are no residential units built within this area and it mainly includes restaurants and other service-based businesses like banks, dry cleaners, a storage facility, and a gas station.

The third commercial cluster is located in northeast Mercer Island, anchored by City Hall and immediately adjacent to the south of I-90. The majority of this area is zoned as Commercial Offices (CO) with a small multi-family residential zone to the west of City Hall (MF-2). MF-2 zoning permits a

maximum density of 38 units per acre, but there is only one multi-family development in the area.<sup>3</sup> Surrounding City Hall are schools (including day care and the private French American School), other city buildings and facilities (including the Police Department and Public Works Department), and healthcare and related clinic space. Community organizations such as the Stroum Jewish Community Center and the Herzl Ner-Tamid Synagogue are located adjacent to the commercial office zone, to the southeast.

## Town Center

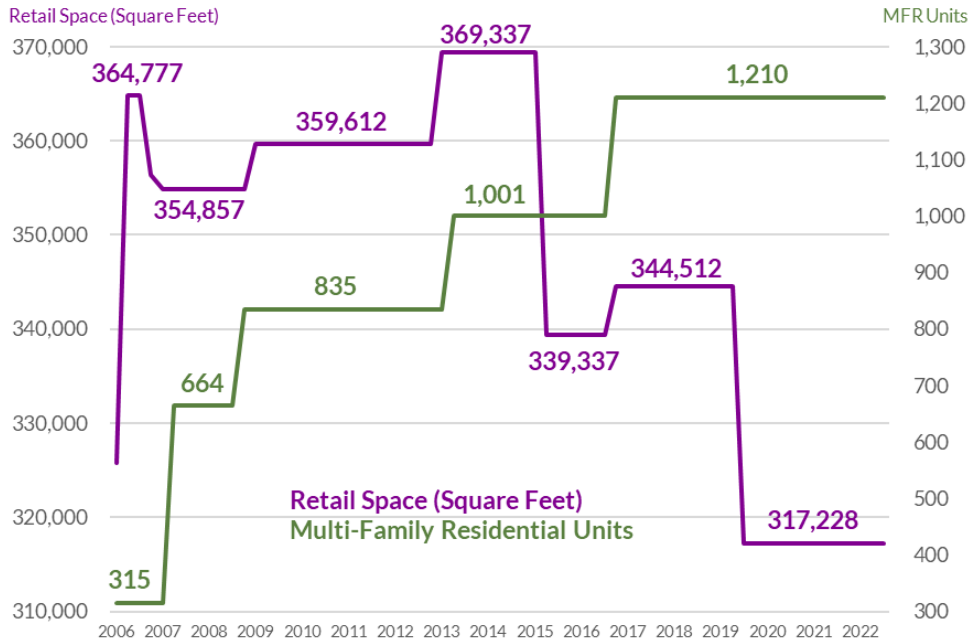
### *Town Center's available retail space is at an all-time low, as housing units steadily increase*

Town Center is the primary hub of retail and other economic activity in Mercer Island. From 2006 to 2022, the multi-family residential units increased by 895 units to a total of 1,210 (**Exhibit 7**). In that same period, the square footage area of retail space initially increased to a peak of about 369,000 square feet in 2013, before decreasing to about 317,000 square feet in the third quarter of 2019. This may be the result of a demolished building at 2431-2441 76th Ave SE. From 2006 to current, the amount retail space has decreased by approximately 2.5% while the number of multi-family residential units have increased by nearly 75%. Although all development in Town Center is interconnected due to the area's mixed use zoning, this data does not mean that the amount of retail space and number of residential units in Town Center are proportional or causal.

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<sup>3</sup> King County Department of Assessments.

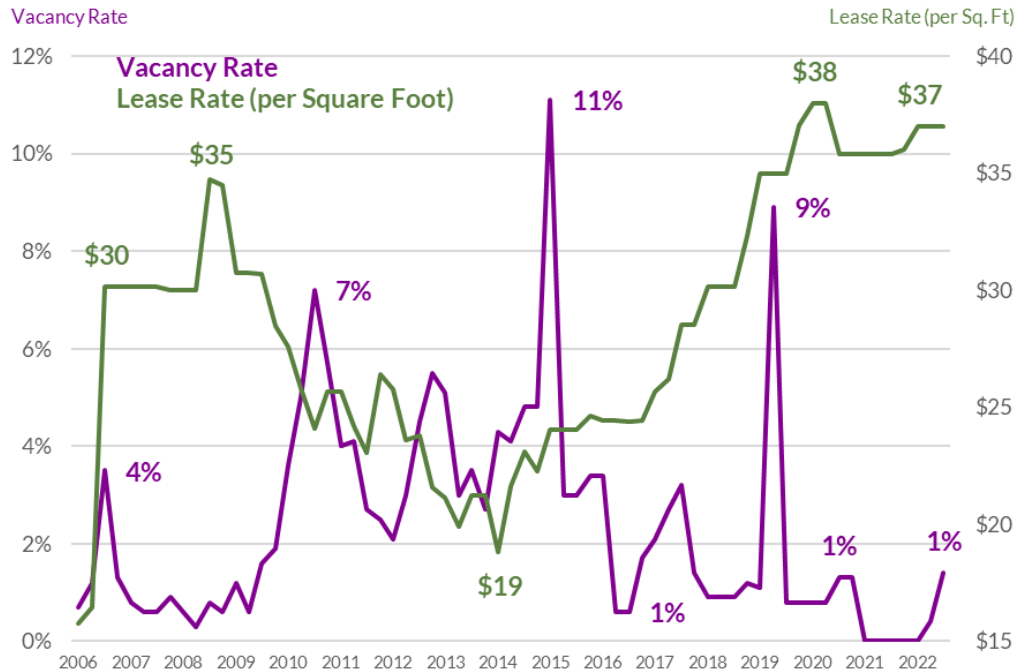
**Exhibit 7. Change in Retail Space and Multi-Family Residential Units,  
Town Center, 2006 to 2022**



Source: CoStar, 2022; CAI, 2021.

In the same period, the yearly lease rate (shown in **Exhibit 8** per square foot of retail space) has increased to \$38 per square foot in the first quarter of 2020 and is now holding at \$37 per square foot. While there was a small spike in the lease rate around 2020 (at the onset of the COVID-19 pandemic and development moratorium), this rate has been on a fairly steady increase since a low of \$19 per square foot in 2014. In that period, lease rates nearly doubled. 2015 saw the highest spike in vacancy in Town Center. Around that time, a retail space of about 30,000 square feet was demolished at 2615 76th Ave SE. The closure of the businesses at that location prior to demolition could contribute to the short-term spike in vacancy. In addition, at the onset of the pandemic, Town Center saw a spike to 9% in the retail vacancy rate. That spike was short-lived and has held at about a 1% vacancy rate since then.

**Exhibit 8. Retail Annual Lease Rate and Vacancy Rate,  
Town Center, 2006 to 2022**



Source: CoStar, 2022; CAI, 2021.

### South End Shopping Center

*There is very little retail and commercial growth or capacity outside of Town Center*

Mercer Island’s secondary retail cluster is the South End Shopping Center located south of Pioneer Park at the intersection of SE 68<sup>th</sup> Street and 84<sup>th</sup> Avenue SE. This retail cluster is anchored by a QFC and includes restaurants and other businesses. It is bounded by city services like the Fire Department to the east and amenities like the Mercer Island Country Club to the south.

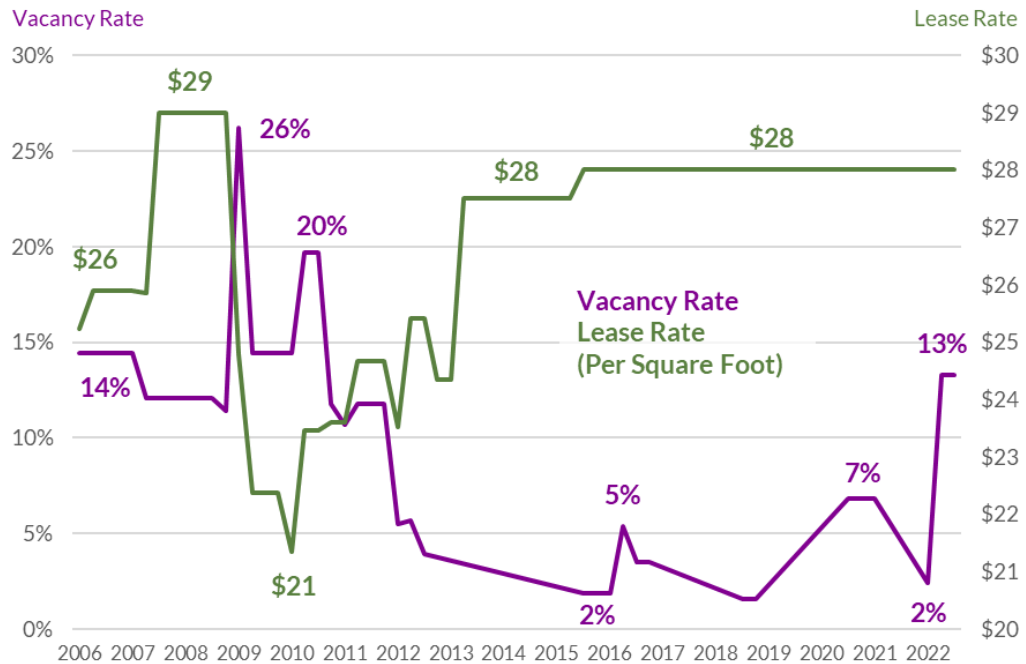
This area is zoned as Commercial and does not permit residential units. In 2006 this area increased its retail space by 15,000 square feet and has remained constant at 73,453 square feet of retail space since then.<sup>4</sup>

Over that period, the vacancy rate of retail spaces within the South End retail cluster have varied from a high of 26% in 2009 to a periodic low of 2% in 2016, 2019, and 2022 (**Exhibit 10**). Vacancy did spike in 2020 and 2021, the same period as the COVID-19 pandemic. In May 2022, Rite Aid closed its South End location, which likely contributed to the 2022 vacancy spike to 13%. Lease rates have changed very little since 2013 and remain at \$28 per

<sup>4</sup> Costar, 2022.

square foot. Prior to 2013, rent prices oscillated between \$21 and \$29 per square foot. Rental rates did not change during the pandemic.

**Exhibit 9. Retail Annual Lease Rate and Vacancy Rate, South End Retail Cluster, 2006 to 2022**



Source: CoStar, 2022; CAI, 2021.

### Mercer Island Retail Capacity

*Mercer Island can accommodate an estimated 35,000 square feet of additional retail space*

**Exhibit 11** estimates supportable retail growth across all of Mercer Island using housing growth projections along with 2020 taxable retail sales and population data. Under these assumptions, estimated population growth is 2,790 through 2044, assuming 1,240 new households and 2.25 persons per household. The taxable retail sales include the retail trade (NAICS 44-45), arts, entertainment, and recreation (NAICS 71), and accommodation and food services industries (NAICS 72). The City of Mercer Island’s 2020 taxable retail sales per capita across these three sectors was \$7,600. Given anticipated population growth and current spending patterns, Mercer Island retailers could capture an estimated \$21.2 million in additional retail spending through 2044 (assuming per capita taxable retail sales does not change). This could support an estimated 34,840 square feet of retail space, after accounting for current retail vacancies on the island, and assuming \$600 per square foot of retail sales.



Exhibit 10. 2044 Population and Supportable Retail Growth, Mercer Island, 2021

<b>Supportable Retail Growth</b>	
<b>Additional Retail Spending Given Population Growth</b>	
<b>Population Growth</b>	
Housing Units Target (2020 - 2044)	1,240
Assumed Population per Household	2.25
<i>Estimated Population Growth</i>	2,790
<b>Taxable Retail Sales</b>	
2020 Estimated Taxable Retail Sales	\$187,238,800
2020 Population - City of Mercer Island (OFM)	24,690
<i>2020 Taxable Retail Sales per Capita</i>	\$7,600
<b>Additional Retail Spending</b>	
Estimated Population Growth	2,790
2020 Taxable Retail Sales per Capita	\$7,600
<i>Estimated Additional Retail Spending</i>	\$21,204,000
<b>Supportable Retail</b>	
Supportable Retail Square Feet*	35,340
Less Vacant Retail Square Feet	500
<b>Estimated Supportable Retail Square Feet</b>	<b>34,840</b>

\*Assuming Sales at \$600/sf

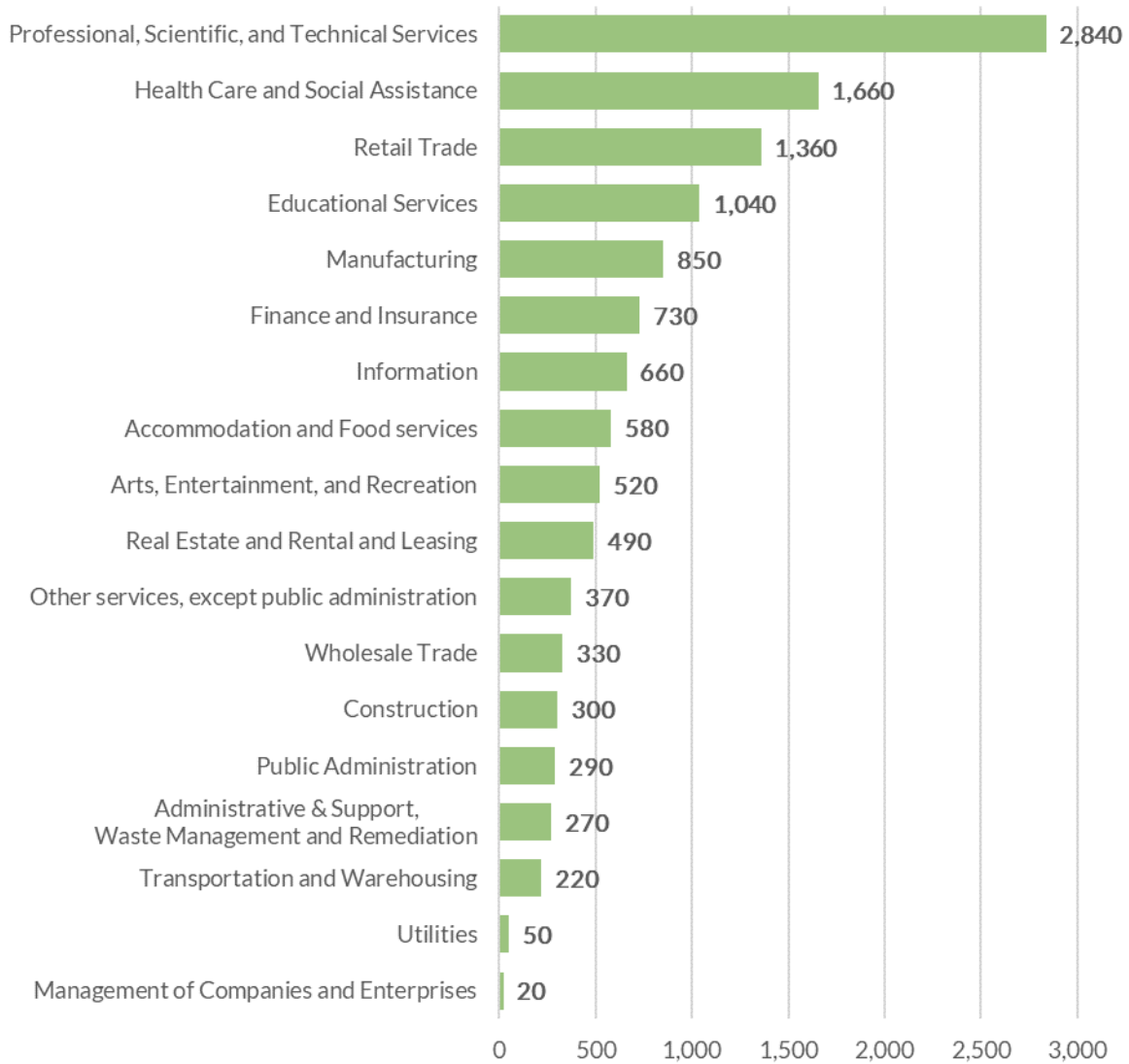
Sources: Washington Office of Financial Management, 2021; Puget Sound Regional Council, 2021; CoStar, 2021; CAI, 2021.

## Workforce Profile

*Mercer Island’s largest sectors are high-earning and relatively resistant to economic distress*

**Exhibit 12** shows employment by industry for Mercer Island residents. This includes residents who work on the Island or commute to another community for work. The professional, scientific, and technical services industry employs the most Mercer Island residents (2,840). This is followed by healthcare and social assistance, retail trade, and educational services, which each employed more than 1,000 Mercer Island residence as of 2020.

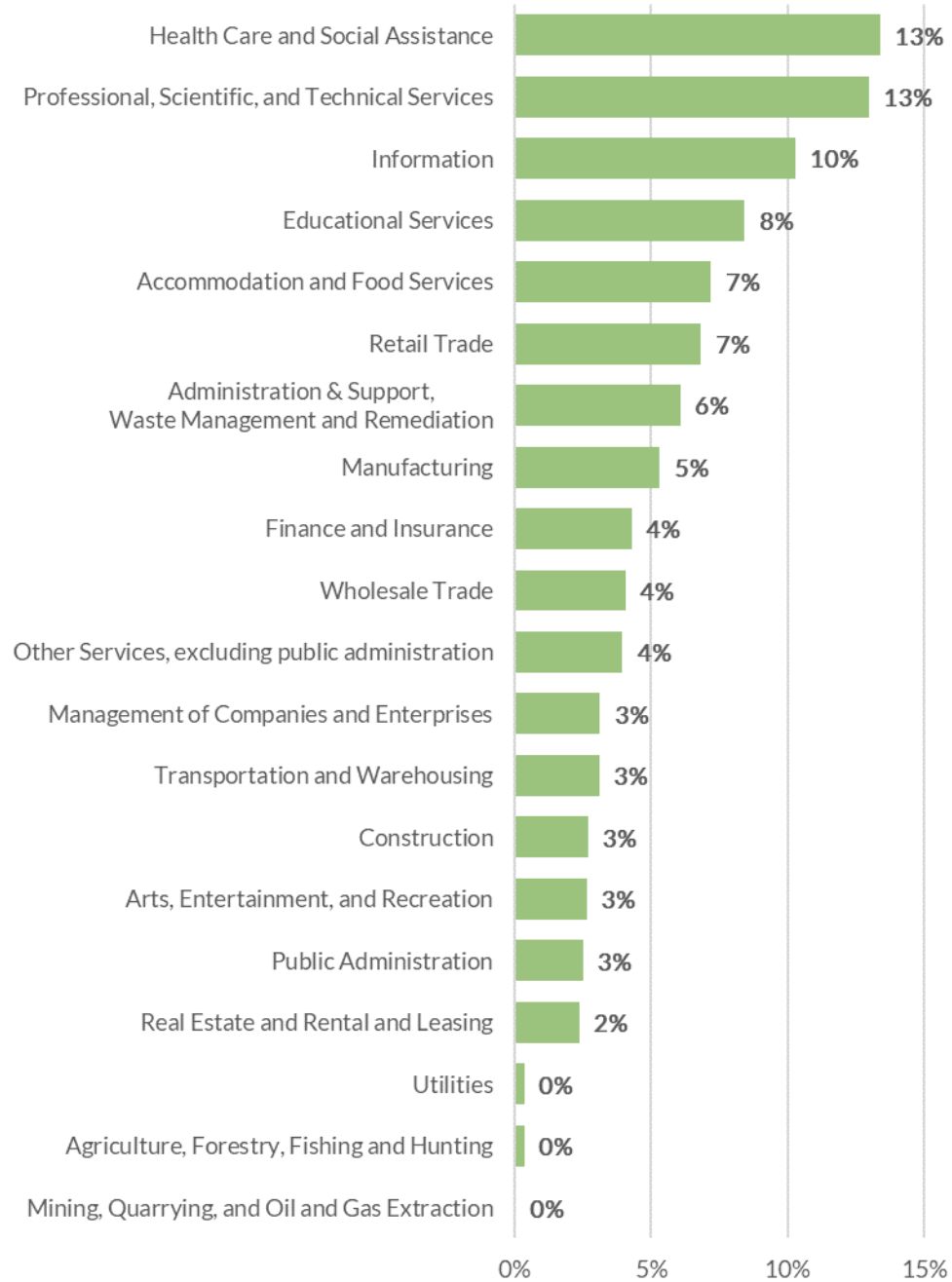
### Exhibit 11. Employment by Industry, Mercer Island Residents, 2020



Sources: US Census Bureau ACS 5-year Estimates, 2020; Community Attributes Inc., 2022.

**Exhibit 13** presents the share of total Mercer Island employment by industry. This captures all jobs located on Mercer Island, whether they are held by Mercer Island residents or residents from the surrounding region. The two most prominent industries are healthcare and social assistance and professional, scientific, and technical services, which represent 26% of Mercer Island’s total jobs (13% a piece), as of 2019. Other top industries include information, educational services, and accommodation and food services.

**Exhibit 12. Employment by Industry, Mercer Island Jobs, 2019**



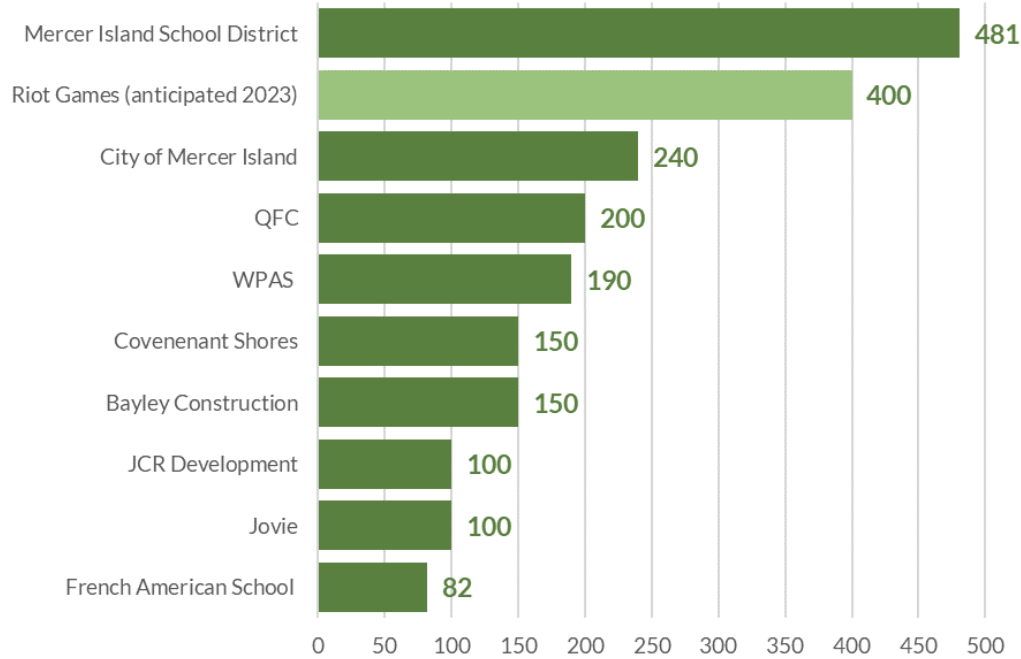
Sources: LEHD, 2019; Community Attributes Inc., 2022.

***Riot Games is anticipated to become the second largest employer in Mercer Island***

The Mercer Island School District is the largest employer on the island, providing nearly 500 jobs combined (**Exhibit 14**). The video game company, Riot Games, announced earlier this year that it plans to open a campus on

Mercer Island for 400 employees in 2023.<sup>5</sup> Riot purchased the six-acre former Farmers Insurance headquarters space at 3003 77<sup>th</sup> Avenue SE.<sup>6</sup>

**Exhibit 13. Largest Employers on Mercer Island, 2022**



Source: ESRI, 2022; Riot, 2022; CAI, 2022.

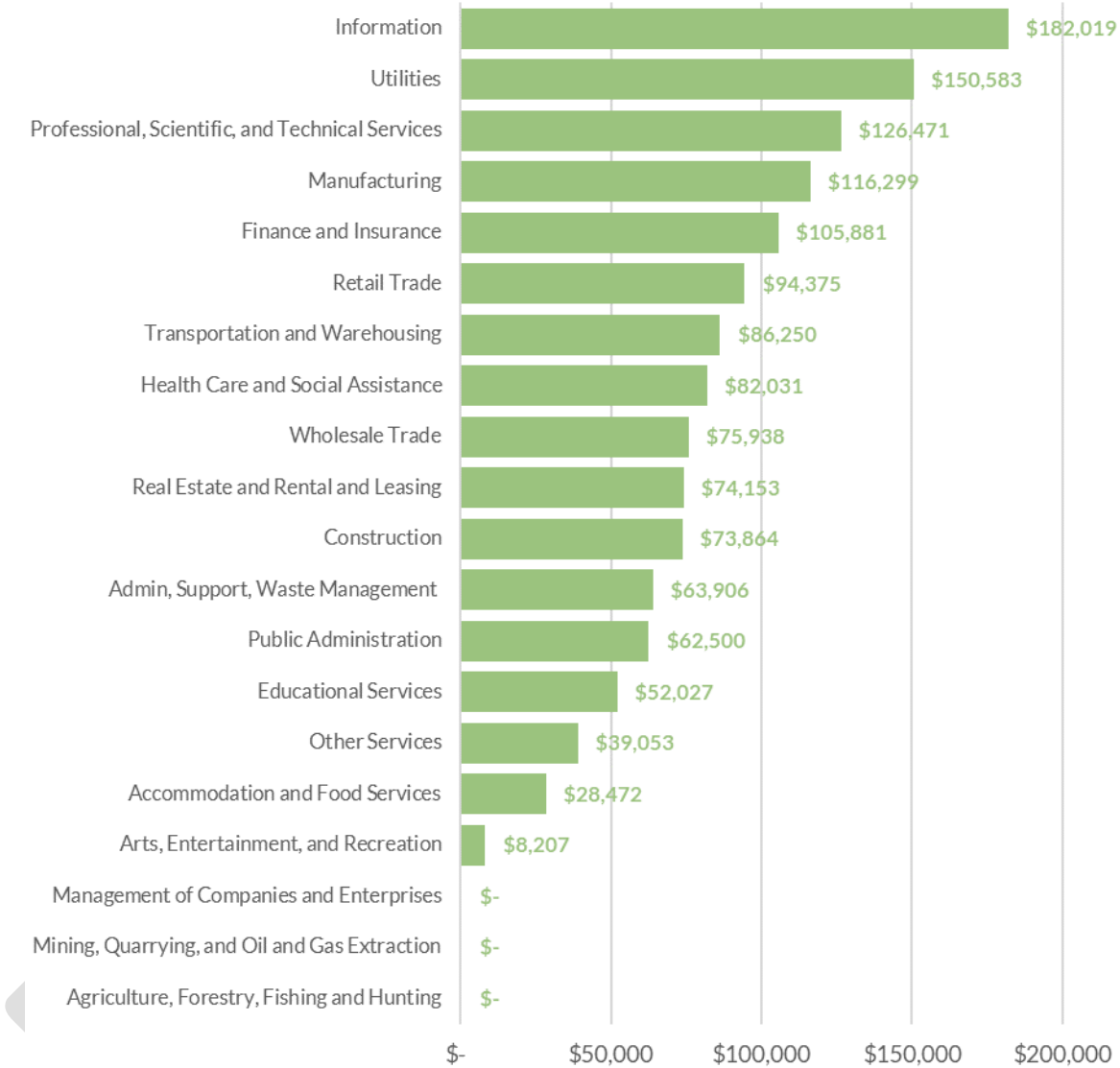
***Mercer Island’s largest industries are also some of its highest paying – including information and professional services***

There are a few industries that have a high share of jobs in Mercer Island and also offer high median wages. Jobs in information make up 10% of all jobs in Mercer Island, and also have the highest median income of \$182,019 (**Exhibit 15**). Professional, scientific, and technical services make up 13% of all jobs and have a high median wage of \$126,471. Other industries offer high wages but have few jobs on Mercer Island, including utilities. Income data on management and natural resource industries is not available.

<sup>5</sup> The Farmers Insurance space has capacity for approximately 800 employees, and Riot Games has indicated that it may ultimately employ 500 to 700 full-time employees at this site.

<sup>6</sup> “Riot Games to open Mercer Island office,” My Mercer Island, January 2022.

**Exhibit 14. Median Income by Industry, Mercer Island, 2020**

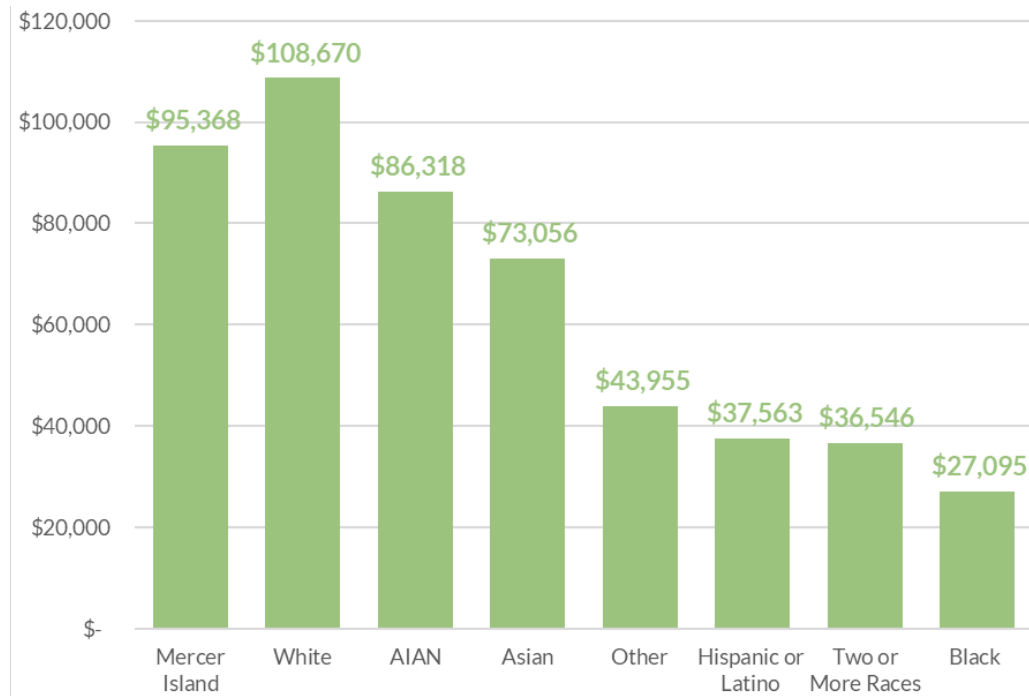


Source: American Community Survey, 2020; CAI, 2022.

**BIPOC residents typically earn less than white residents**

Approximately 70% of Mercer Island residents identify as white, and this population group are likely to be high earners compared to the rest of the population (**Exhibit 16**). All other race and ethnic groups earn less than the average income for Mercer Island as a whole.

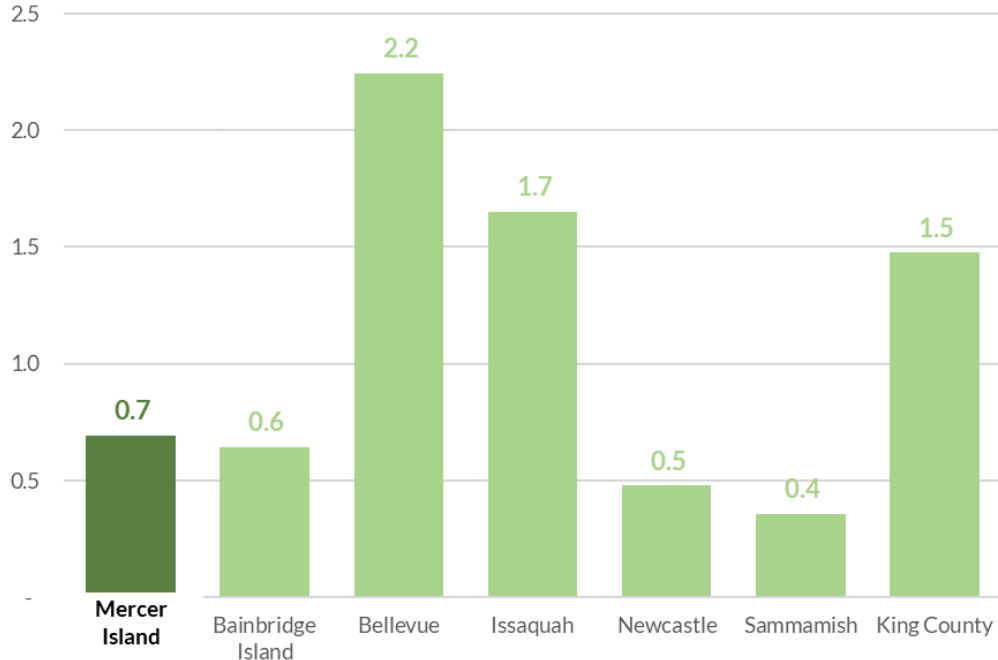
**Exhibit 15. Average Income by Race and Ethnicity, Mercer Island, 2020**



*Source: American Community Survey, 2020; CAI, 2022.*

Mercer Island is part of a robust regional economy and has a highly mobile workforce. Within the region, different cities play different economic roles, with some cities that are job centers. The ratio of jobs to housing units measures how many jobs a community has relative to the number of housing units in the community; it is an indicator of the community's economic role in a given region. Job centers have a ratio much higher than one job per housing unit, and cities with ratios much lower than one job per housing unit are residential centers or bedroom communities. Mercer Island has a jobs-to-housing units ratio of 0.7, lower than King County as a whole (1.5) (**Exhibit 17**).

Exhibit 16. Jobs to Housing Units Ratio, Mercer Island and Peer Cities, 2020

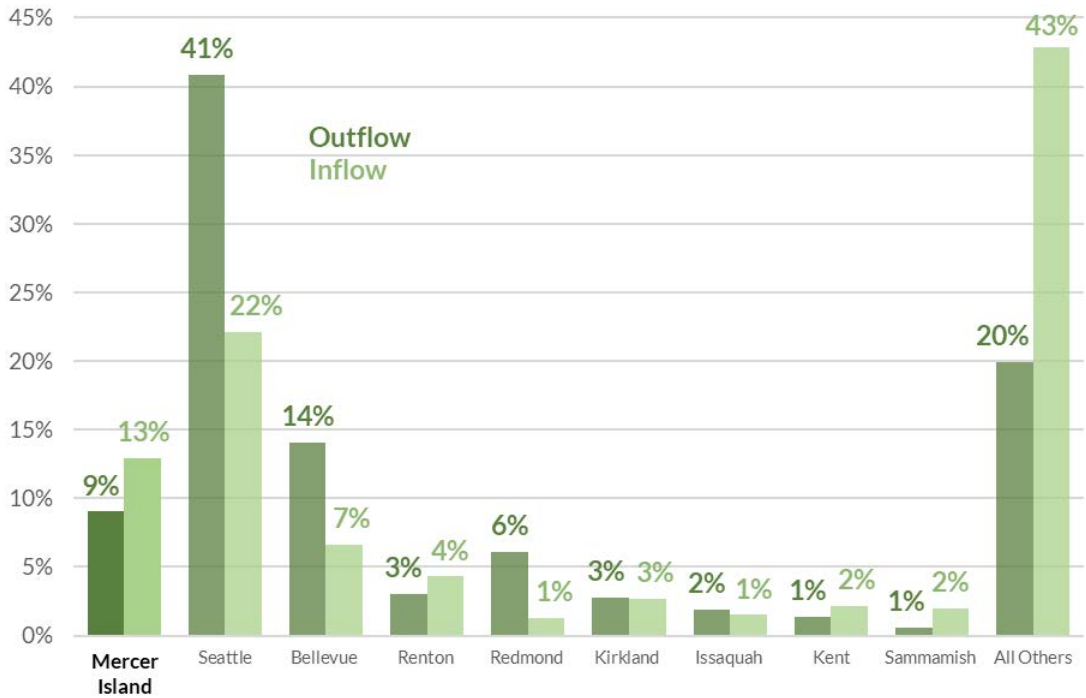


Source: Puget Sound Regional Council, 2020; Washington Office of Financial Management, 2020; CAI, 2022.

### *Less than 10% of Mercer Island residents also work on the island*

The vast majority of Mercer Island residents commute to other cities in the region for work, with about 14% of its population commuting to Bellevue (**Exhibit 18**). Only 9% of resident workers remain in Mercer Island for work, while a significant portion commute to Seattle, Bellevue, and a range of other cities. About 13% of Mercer Island’s workforce is comprised of Mercer Island residents, with the bulk of its workforce commuting in from across the region.

Exhibit 17. Commuter Inflow and Outflow, Mercer Island, 2020



Source: U.S. Census Bureau OnTheMap, 2019; CAI, 2022.

Note: This data includes all public and private sector jobs that are a resident's primary source of income.

## Housing Analysis

### *Most new units since 2010 are multi-family residences*

Mercer Island added about 1,200 housing units between 2010 and 2020, with the majority of new housing units in large scale multi-family developments with more than 20 units (**Exhibit 19**). In that time period, the number of duplexes increased from one to 67, a more than 6,000% increase, although this type of unit represents only 1% of the city's housing stock. The majority of the city's population live in single-family detached homes.



**Exhibit 18. Change in Housing Units and Type, Mercer Island, 2010 to 2020**

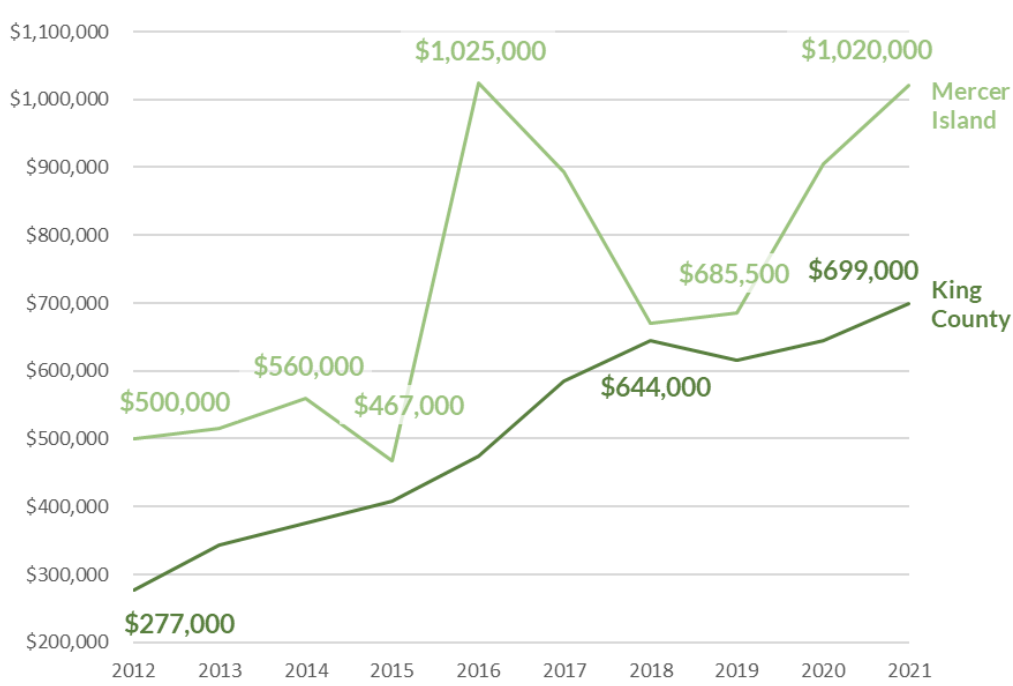
	2010		2020		2010 to 2020 Change	
	<i>Count</i>	<i>Share</i>	<i>Count</i>	<i>Share</i>	<i>Net</i>	<i>Percent</i>
1-unit, detached	7,130	74%	7,306	67%	176	2%
1-unit, attached	197	2%	95	1%	-102	-52%
2 units	1	0%	67	1%	66	6600%
3 or 4 units	65	1%	39	0%	-26	-40%
5 to 9 units	406	4%	502	5%	96	24%
10 to 19 units	376	4%	403	4%	27	7%
20 or more units	1,491	15%	2,463	23%	972	65%
Mobile home	9	0%	11	0%	2	22%
Boat, RV, van, etc.	0	0%	0	0%	0	0%
<b>Total</b>	<b>9,675</b>	<b>100%</b>	<b>10,886</b>	<b>100%</b>	<b>1,211</b>	<b>13%</b>

Source: American Community Survey, 2010, 2020; CAI, 2022.

***Renter and owner housing costs, higher than the region, are on the rise in Mercer Island***

The cost to live on Mercer Island, while typically higher than King County as a whole, has been on the rise since at least 2012. Median home prices increased to more than \$1 million in 2021 from \$500,000 in 2012 (**Exhibit 20**). In that same period, home prices increased from \$277,000 to \$699,000 in King County. As of 2021, the median home value in Mercer Island is about \$320,000 more than King County as a whole. In Mercer Island’s case, specifically, a relatively small sample size of transactions can lead to large swings in median sale price, which may account for some of the volatility; nonetheless, the median sale price of homes in Mercer Island has been consistently higher than in King County as a whole.

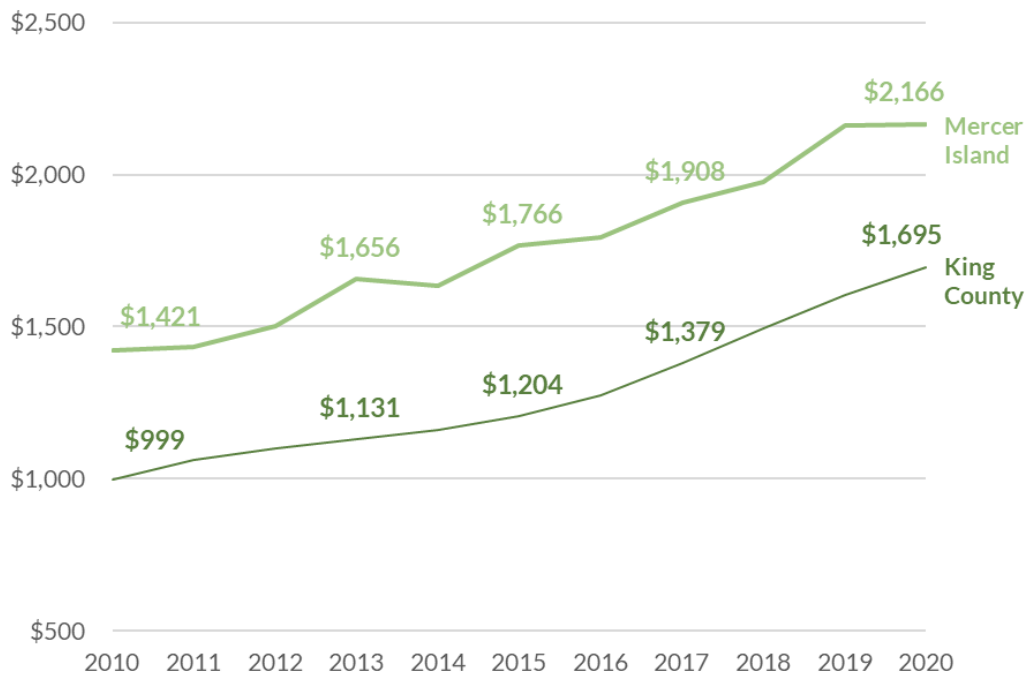
**Exhibit 19. Median Home Sale Price, Mercer Island and King County, 2012 to 2021**



Source: Redfin, 2022; CAI, 2022.

Median rent in Mercer Island increased from \$1,421 to \$2,166 from 2010 to 2020, about a \$750 increase (**Exhibit 21**). In that time period, King County median rent increased from \$999 to \$1,695, about a \$700 increase. The median rental price in 2020 is about \$500 more per month in the city than across the county.

Exhibit 20. Median Rent, Mercer Island and King County, 2010 to 2020

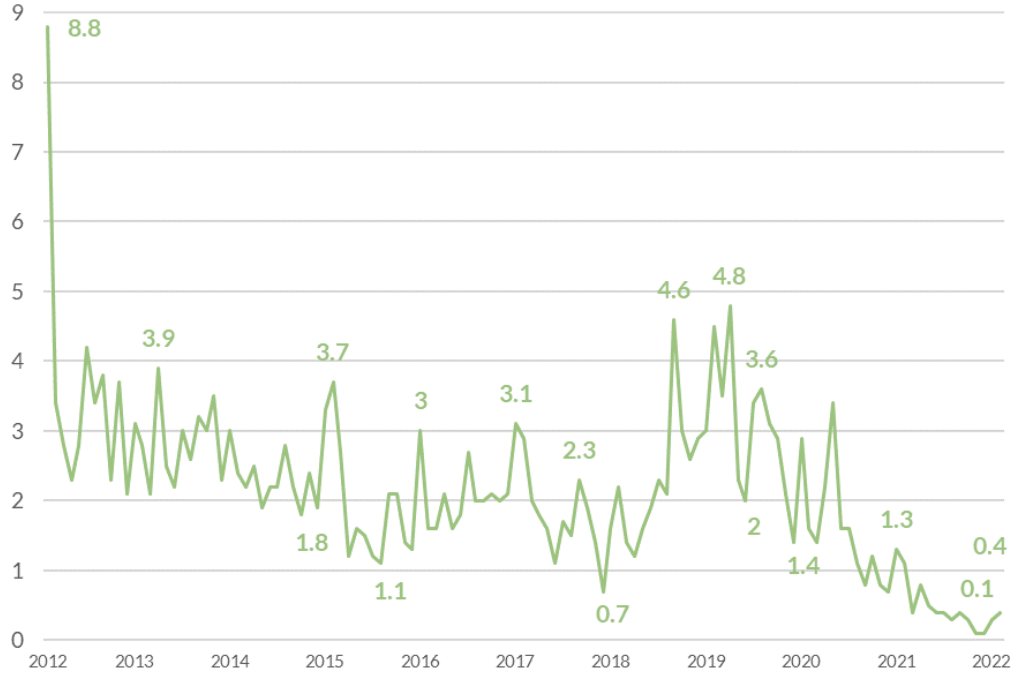


Source: American Community Survey, 2020; CAI, 2022.

*There are few homes currently available for sale in Mercer Island compared to historic for-sale stock*

According to the St. Louis Federal Reserve, "the months' supply is the ratio of new houses for sale to new houses sold." This measure relates the size of the new for-sale inventory to the number of new houses currently being sold. This indicates how long the current new for-sale inventory would last given the current sales rate if no additional new houses were built and is an indicator of the competitiveness of a local housing market. Mercer Island's for-sale inventory has been on the decline since 2019 and the month's supply is currently near zero (**Exhibit 22**).

**Exhibit 21. Month's Supply of Homes, Mercer Island, 2012 to 2022**

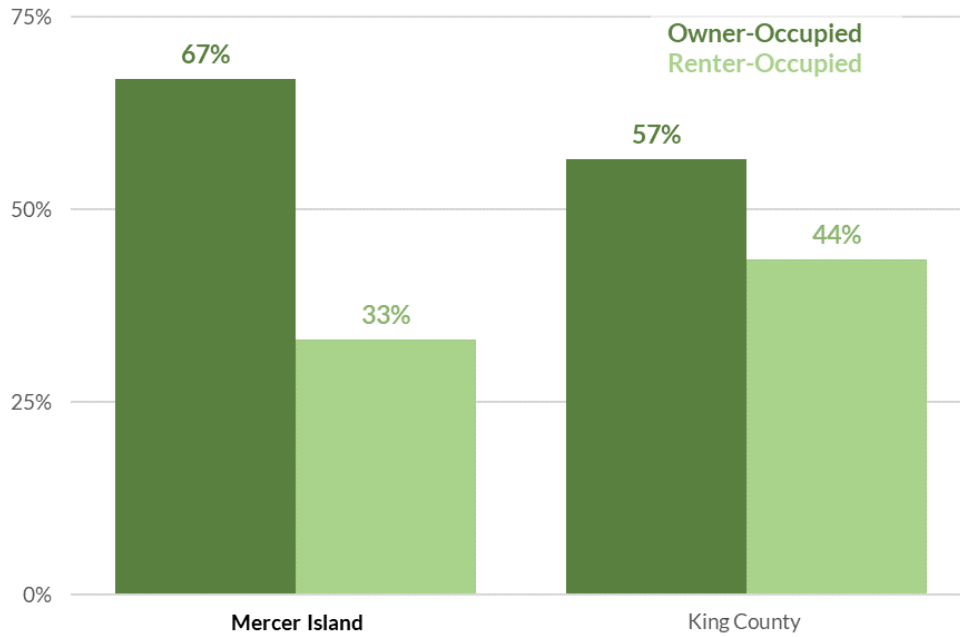


Source: Redfin, 2022; CAI, 2022.

***Most Mercer Island households are owner-occupied***

About two-thirds of Mercer Island residents own their home, compared to 57% of King County households (**Exhibit 23**). Rental households are increasing in Mercer Island and now make up about one-third of all households.

Exhibit 22. Housing Tenure, Mercer Island and King County, 2020

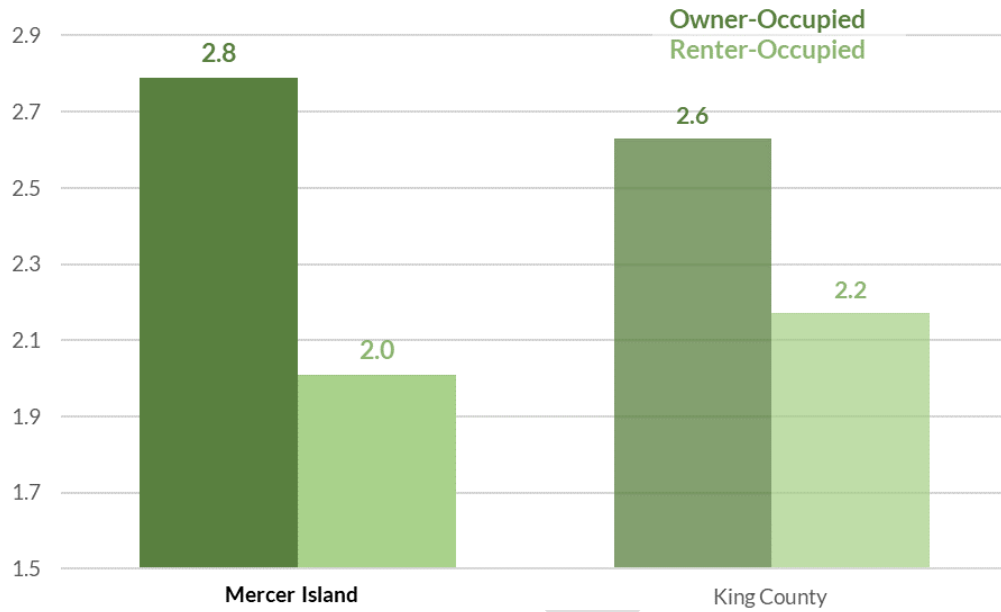


Source: American Community Survey, 2010, 2020; CAI, 2022 .

*Owner-occupied households are typically larger than renter-occupied and are larger than those across King County as a whole*

Households are getting larger across King County and in Mercer Island, although owner-occupied households are typically larger than renter-occupied (**Exhibit 24**).

Exhibit 23. Household Size, Mercer Island and King County, 2020



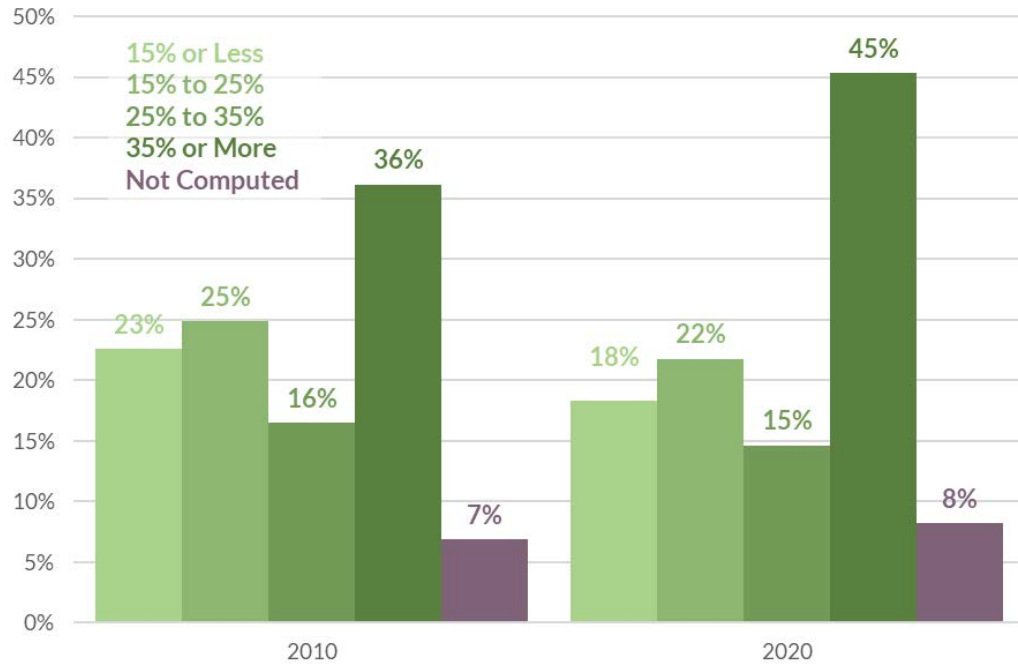
Source: American Community Survey, 2010, 2020; CAI, 2022.

### *Mercer Island renters are increasingly cost burdened*

The Department of Housing and Urban Development defines cost-burdened households as those who pay “more than 30% of their income for housing,” which may lead to difficulty “affording necessities such as food, clothing, transportation, and medical care.”<sup>7</sup> Renter-occupied households are increasingly cost-burdened, with 45% spending more than 35% of their income on housing costs in 2020, up from 36% in 2010 (**Exhibit 25**).

<sup>7</sup> Rental Burdens: Rethinking Affordability Measures, U.S. Department of Housing and Urban Development.

**Exhibit 24. Percentage of Renter Household Income Spent on Housing, Mercer Island, 2010 to 2020**



Source: American Community Survey, 2010, 2020; CAI, 2022.

## GROWTH FORECAST

### *Information, professional, and technical services will comprise more than half of all Puget Sound jobs by 2050*

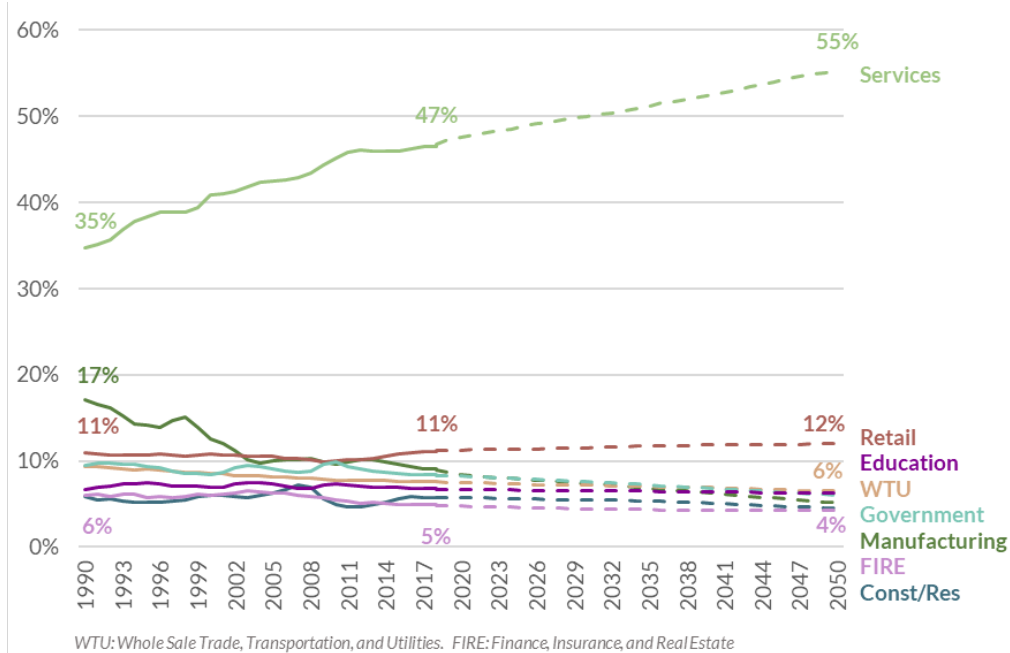
The Puget Sound economy as a whole is anchored by jobs that fall in the Services industry classification, which includes information, professional and technical services, and management (**Exhibit 26**). These industries make up nearly half of all jobs in the region and are projected to increase to about 55% of all jobs by 2050. Retail is projected to grow to 12% of jobs, up from 11% in 2017. All other sectors are projected to decrease slightly.

Mercer Island and the Puget Sound region have a high concentration of industries, like services, that are resilient during economic hardship. According to PSRC data, information and technology, subindustries of the services industry shown in **Exhibit 26**, was the only industry which saw an increase in employment during the pandemic.<sup>8</sup> Nationwide, this industry has accounted for a fraction of job losses. One analysis of early pandemic industry trends cited that “the tech industry appears well-positioned to weather the economic storm and lead the next growth cycle by capitalizing on new

<sup>8</sup> “Helping industries recover from the impact of COVID-19,” PSRC, July 2021.

business and consumer preferences with further innovations that facilitate the ‘new normal.’”<sup>9</sup>

**Exhibit 25. Historic and Projected Employment by Industry, Puget Sound Region, 1970 to 2050**



Source: Puget Sound Regional Council, 2017; CAI, 2022.

### *Manufacturing jobs are forecasted to decrease by 2050*

The increase in share of employment in Services reflects a large increase in the number of the jobs in its subsectors projected through 2050 (**Exhibit 27**). The Puget Sound Regional Council projected an increase of nearly two million jobs in Services between 2017 and 2050. Industries like Government, Education, and Wholesale Trade, Transportation, and Utilities (WTU) have decreasing shares of the economy but will continue to see net job growth. Manufacturing, on the decline since the 1990s, is the only industry that is projected to lose jobs.

<sup>9</sup> “Tech Among Most Resilient U.S. Employment Sectors,” CBRE, May 2020.



**Exhibit 26. Projected Industry Change, Puget Sound  
Region, 2017 to 2050**

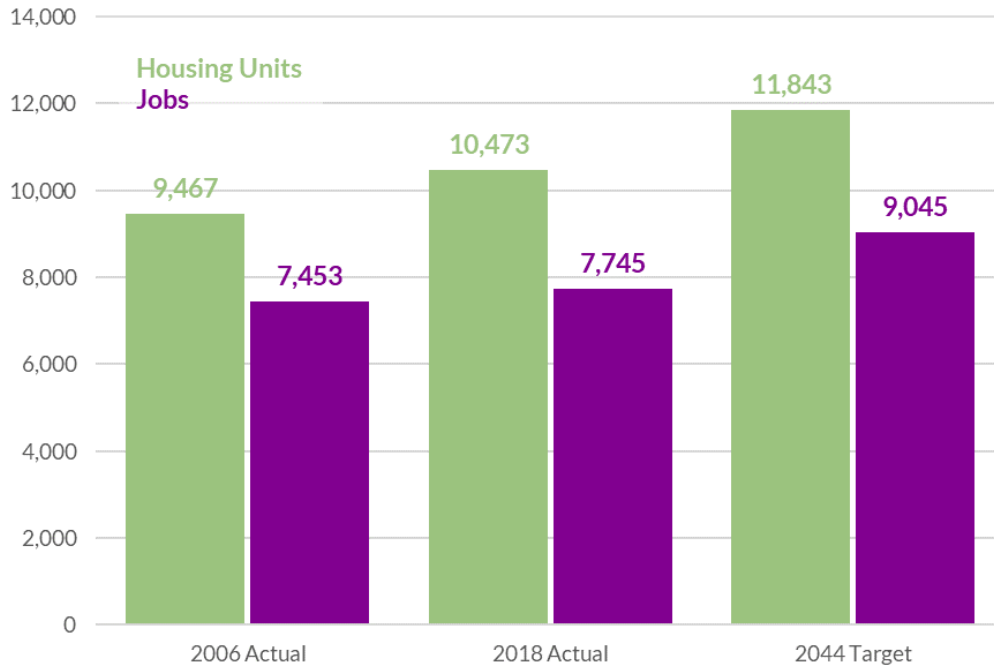
	2017 Total	2050 Forecast	Net Change	Percent Change
Const/Res	120,473	142,093	21,620	18%
FIRE	101,328	136,567	35,239	35%
Manufacturing	189,016	163,186	(25,830)	-14%
Retail	229,365	378,918	149,553	65%
Services	968,387	1,750,802	782,415	81%
WTU	156,937	204,945	48,008	31%
Government	175,257	189,876	14,619	8%
Education	141,294	198,056	56,762	40%

*Source: Puget Sound Regional Council, 2017; CAI, 2022.  
WTU: Wholesale Trade, Transportation, and Utilities.  
FIRE: Finance, Insurance, and Real Estate.*

***Mercer Island has a target to add 1,300 jobs between 2018 and 2044 but currently has the capacity for 961 new jobs***

King County develops long-term housing unit and job projections for each of its jurisdictions, including Mercer Island. It reports on these in the 2021 Urban Growth Capacity (UGC) Report, an update to the 2014 Buildable Lands Report and the county’s buildable lands analysis as required by the Growth Management Act, RCW 36.70A.215. King County projects an addition of 1,239 housing units from 2019 to 2044 in the UGC Report. Mercer Island has since increased this target to 1,370, as shown in **Exhibit 28**. Mercer Island’s target of 1,370 new housing units through 2044 would result in 11,843 housing units. King County’s estimated housing unit capacity of 1,607 units can accommodate Mercer Island’s increased housing target. The UGC also projects a new target of 1,300 jobs through 2044, which would result in a total of 9,045 jobs on the island. King County estimates Mercer Island’s job capacity to be 961 new jobs through 2044, a shortfall of 339 jobs.

**Exhibit 27. King County Countywide Planning Revised Growth Targets, Mercer Island, 2021**

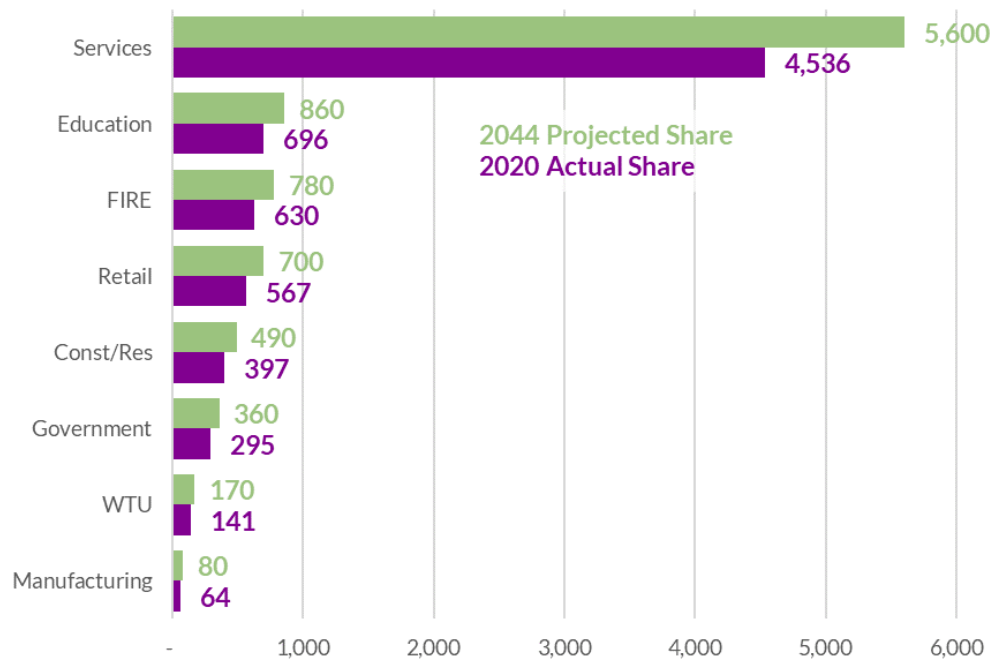


*Source: King County Urban Growth Capacity Report, 2021; CAI, 2022.*

***Services will continue to be Mercer Island’s largest industry***

The Puget Sound Regional Council (PSRC) calculates jobs grouped by industry sectors. Applying the share of each industry calculated by PSRC to the 2044 job growth target calculated by King County in its Urban Growth Capacity report provides an estimate of jobs by sector. The majority of current jobs fall within professional and technical services sector, and this sector may grow by upwards of 1,100 jobs by 2044 (**Exhibit 29**).

**Exhibit 28. Estimated Increase in Jobs by Sector, Mercer Island, 2020 and 2044**



Source: PSRC, 2020; King County Urban Growth Report, 2021; CAI, 2022.

## KEY FINDINGS AND IMPLICATIONS

This section is forthcoming, pending discussion with key stakeholders, including City Council and the Planning Commission.

### Findings

#### Population Profile

- Mercer Island is a comparatively slow-growing city.
- Workforce-aged population groups have shrunk since 2010.
- Residents earn more than King County as a whole and median income is increasing.
- Mercer Island residents are highly educated.

#### Economic Profile

- Town Center’s available retail space is at an all-time low, as housing units steadily increase.
- There is very little retail and commercial growth or capacity outside of Town Center.
- Mercer Island can accommodate an estimated 35,000 square feet of additional retail space.

## Workforce Profile

- Mercer Island's largest sectors are high-earning and relatively resistant to economic distress.
- Riot Games is anticipated to become the second largest employer in Mercer Island.
- Mercer Island's largest industries are also some of its highest paying – including information and professional services.
- BIPOC residents typically earn less than white residents.
- Less than 10% of Mercer Island residents also work on the island.

## Housing Analysis

- Most new units since 2010 are multi-family residences.
- Renter and owner housing costs, higher than the region, are on the rise in Mercer Island.
- There are few homes currently available for sale in Mercer Island compared to historic for-sale stock.
- Most Mercer Island households are owner-occupied.
- Owner-occupied households are typically larger than renter-occupied and are larger than those across King County as a whole.
- Mercer Island renters are increasingly cost burdened.

## Growth Forecast

- Information, professional, and technical services will comprise more than half of all Puget Sound jobs by 2050.
- Manufacturing jobs are forecasted to decrease by 2050.
- Mercer Island has a target to add 1,300 jobs between 2018 and 2044 but currently has the capacity for 961 new jobs.
- Services will continue to be Mercer Island's largest industry.

## Implications

- **Mercer Island's economic activity is concentrated in a few areas with decreasing available commercial space.** Town Center accounts for most of the island's economic activity but has a historically low amount of leasable retail space. Based on a 2021 analysis, the city could support an additional 35,000 square feet of retail capacity, and this estimate does not account for the pending arrival of Riot Games and potentially hundreds of new jobs in the Town Center.
- **Mercer Island's economy is anchored by professional, technical, and scientific services.** These are some of the highest paid professions. According to the Washington State Employment Security Division, these jobs are typically more resilient in recessions or other times of economic duress, like the COVID-19 pandemic. The

Puget Sound Regional Council projects that services will make up more than half of all jobs in the region by 2050.

- **Housing costs in Mercer Island are a challenge for segments of the Mercer Island workforce.** The School District and the City are the largest employers, but employees in these sectors earn low median wages compared to the city as a whole. Housing costs – for both renters and owners – are on the rise and nearly half of renters are cost burdened. More moderate- and low- income residents may be increasingly priced out of living on Mercer Island.
- **Mercer Island is uniquely situated between two of the region’s economic hubs and has an opportunity to onshore some of those jobs.** Very few Mercer Island residents work in the city, with the highest share commuting to Seattle and Bellevue. As some of the region’s largest companies, including Microsoft and Amazon, put their return-to-work plans on hold or adopt a full-time remote option, Mercer Island may have an opportunity to attract some remote employees away from commuting into the office. Investment in office or coworking space could draw in residents who are not ready to commute to the office but may want alternatives to working from home.
- **Mercer Island is well-poised to reinvigorate the retail base.** Town Center is the city’s most viable location for new residential units, and the expected light rail expansion in 2024 combine to create a unique opportunity for Town Center. With concentrated population growth and expanded and affordable access to the region, Town Center is well suited to support a range of walkable urban amenities for residents and visitors alike.
- **The relatively older and aging population, as well as a growing contingent of young adults and families, will have implications on future housing, service, and retail needs.** Aging population groups may need housing options to age in place, downsize within the community, or move to assisted living facilities.<sup>10</sup> Young residents, whether individuals, couples, or growing families, will need access to a range of housing types and sizes. Affordable rental units, starter homes, and homes that will accommodate a growing family are noted housing typologies for households under 35.<sup>11</sup> Furthermore, a variety of demographic types moving into Mercer Island can support a more diverse offering of retail, food, and commercial offerings on the island.

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<sup>10</sup> “Guidance for Developing a Housing Action Plan – Public Review Draft,” Washington State Department of Commerce, June 2020.

<sup>11</sup> Ibid.

- **The city is not on track to accommodate the projected new job growth through 2044, but this does not consider Riot Games' arrival.** Mercer Island is targeted to add 1,300 jobs between 2018 and 2044. Its most recent job growth trends indicate that the island does not have the capacity for its projected growth. These projections do not take into account Riot Games' expansion into the city, which will account for approximately 31% of Mercer Island's 2044 projected job growth by the end of 2023. Furthermore, these new jobs are replacing those lost when Farmers Insurance left in 2018. This may have the two-fold effect to alleviate capacity pressure to meet the 2044 jobs target while increasing demand for even more new businesses.
- **Riot Games' arrival may have broader economic impacts.** With a projected 2024 opening, Riot Games is projected to become the second largest employer on the island, fulfill nearly one-third of the city's long-term job growth projection, and bring at least 400 (and potentially up to 700) mostly high-paying jobs to the island. Riot's campus may drive additional retail and service demand in Town Center and housing demand within the vicinity and across the island. These new high-earning workers could place additional pressure on an already tight housing market and existing cost burdened households. Riot employees who opt to live off the island will utilize public parking and transportation systems and increase use rates for public infrastructure in the span of a few weeks.
- **Mercer Island's high quality of life is one of its most competitive advantages, and the City should ensure it remains accessible to all who want it.** Housing demand has never been higher or most expensive. Post-pandemic retail vacancy rates are low. Major employers like Riot Games are expanding, with the potential to lead a reinvigoration of the retail base on the island. All of housing, workforce, and economic indicators in this report all lead to one assumption: more people than ever want to live, work, and play on Mercer Island. The stark reality is that these same conditions may also result in fewer residents and workers having the ability to do so. The City should work to ensure that aging residents, new and growing families, and crucial components of the Mercer Island workforce can also afford to enjoy Mercer Island's quality of life now and into the future.