Formation

# Seawall

## Building a Resilient Seattle Economy

September 2026

FORMATION.WORKS

Inclusive growth is really hard if you’re an innovation hub. It is <u>much</u> harder if you’re not.

But Seattle can't be an innovation hub without being expensive, for people and firms.

Diversity dies in expensive economies, and Seattle is dangerously reliant on a few firms.

Seattle has to diversify, which requires a deft hand, not hands-off:

> **Grow** the industries that can tolerate high costs but are sufficiently different: a **narrow set** of “hard tech” firms meet these criteria.
>
> Raise the **productive capacity** of sectors that **determine costs** for families: housing, childcare, energy. Not just subsidies nor “abundance” policy.

What makes this more than a return to mid-2010s? Inclusion at the <u>core</u> of the economy.

# Seattle occupies a **distinct position** among U.S. regions

Source: WIPO Global Innovation Index 2025 (innovation cluster rank); BEA Regional Price Parities, Dec 2024 release (RPP by MSA); Census PEP 2024 (MSA population).

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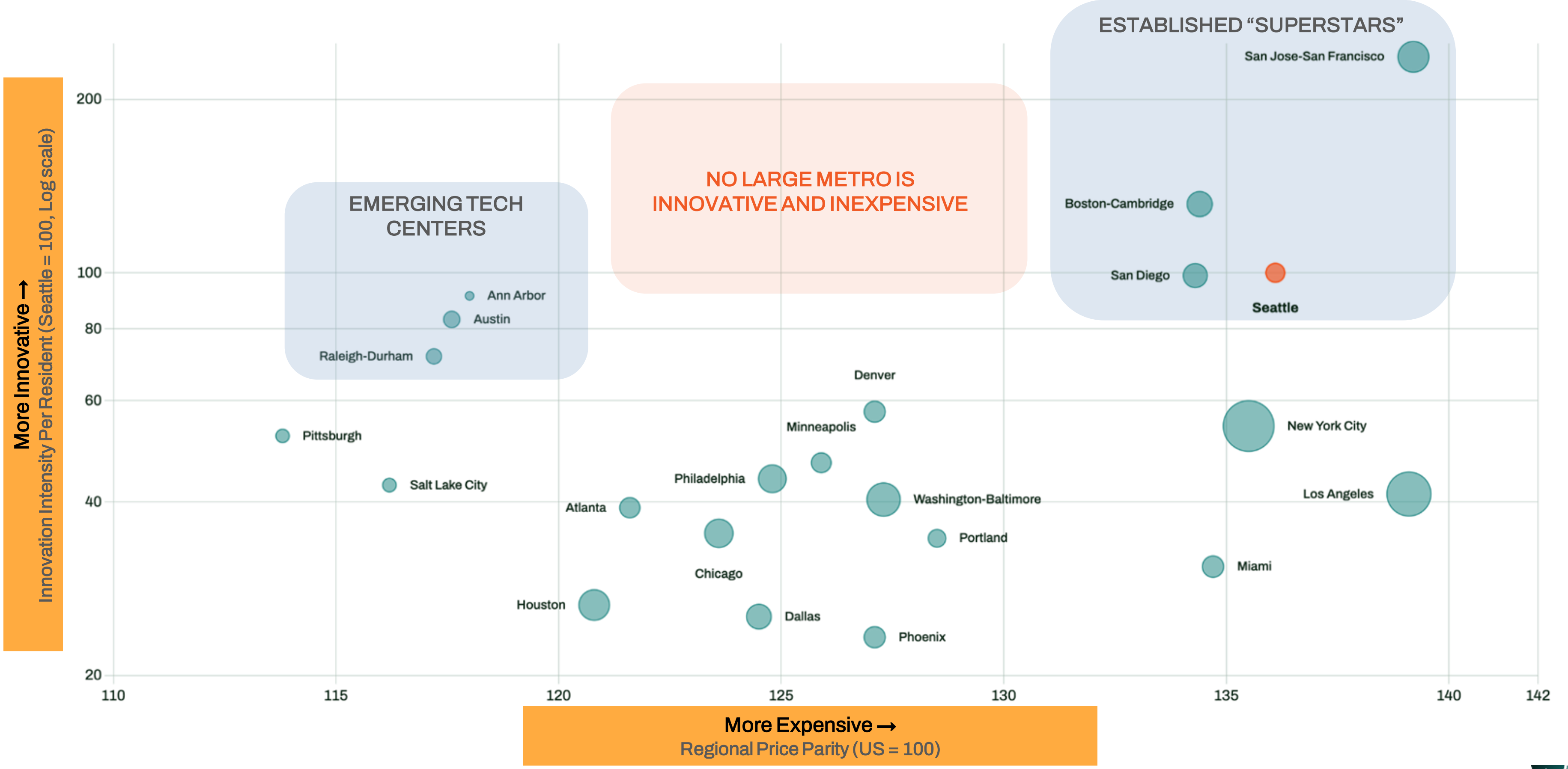

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# Seattle’s **position is threatened** in this disruptive period

Estimate: **16% employment decline** for workers aged 22–25 in AI-exposed jobs **nationally**, **20% decline** for young software developers

**Seattle's** occupational mix is **42% more exposed to AI disruption** than the national average

Sources: Brynjolfsson et al., "Canaries in the Coal Mine? Six Facts About the Recent Employment Effects of Artificial Intelligence," Stanford Digital Economy Lab (Nov. 2025); authors’ analysis of Yale Budget Lab PCA composite occupational exposure data (Feb. 2026).

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**Washington's** energy advantage is eroding: **electricity costs up 12%** from 2024-2025, among top 10 states for rate increases

**Seattle City Light** projects a need for **1.8 GW of new capacity by 2033** – 4x what it projected two years earlier – with no easy way to supply it

Sources: U.S. Energy Information Administration, Electric Power Monthly, Table 5.6.A (2025); Seattle City Light, 2024 Integrated Resource Plan Progress Report.

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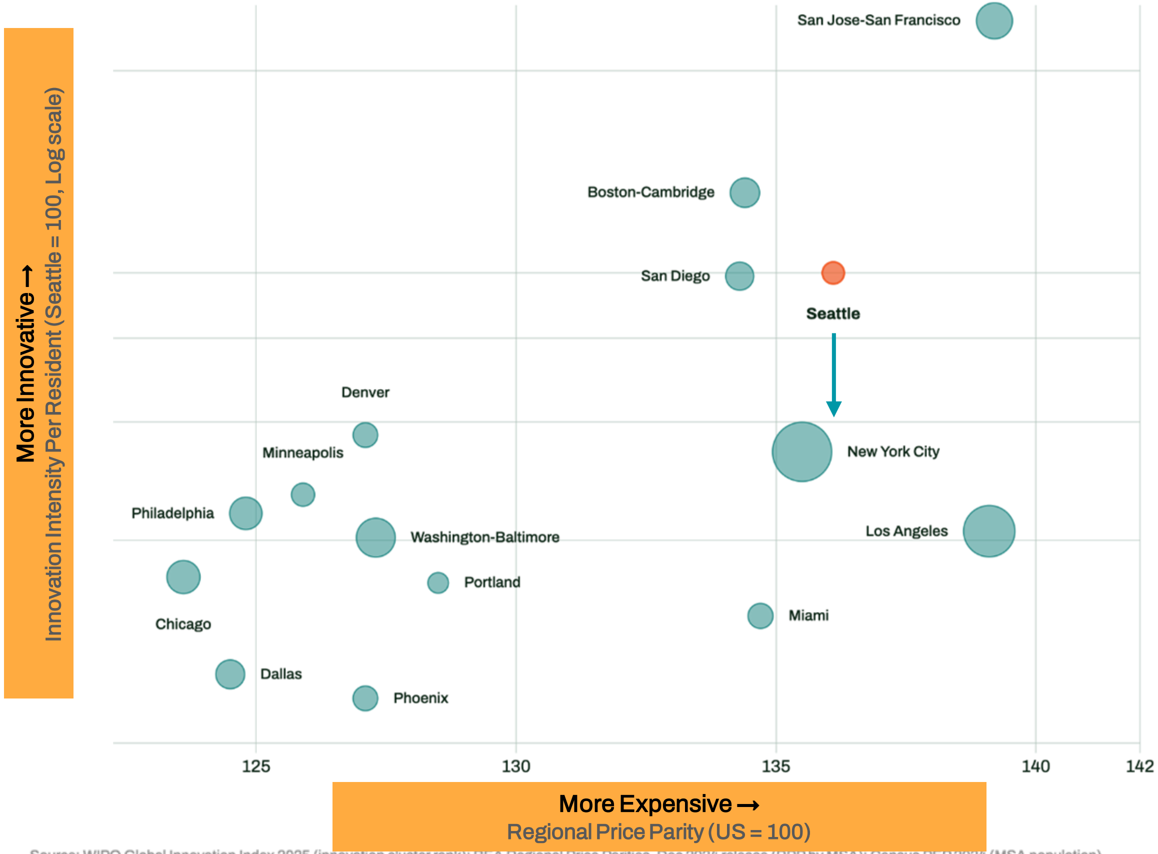
Net international migration fell by 50% from 2024-2025 **nationally**; Census projects a drop of up to 75% in 2026

Foreign-born residents = 83% of net population growth in **King County** since 2015. Just 1 in 6 tech workers in the county grew up in Washington.

Sources: U.S. Census Bureau, Vintage 2025 Population Estimates (Jan. 2026); Census Bureau Population Estimates, components of change, King County; analysis of American Community Survey PUMS, place of birth by occupation, King County.

# The **risk** that motivated our research



If Seattle is dislodged from its “superstar” position  it is much more likely to go down than left.

What does it mean to be less innovative but just as expensive?

Median household incomes in San Francisco are over $30k higher than in Los Angeles, after accounting for cost differences.

Source: WIPO Global Innovation Index 2025 (innovation cluster rank); BEA Regional Price Parities, Dec 2024 release (RPP by MSA); Census PEP 2024 (MSA population).

1 **Making sense of the past decade –** Seattle is strong but vulnerable

2 **The affordability imperative** – why it matters to growth and competitiveness

3 **The diversification imperative** – why it's needed

4 **Assets, opportunities** – and the strategic path forward

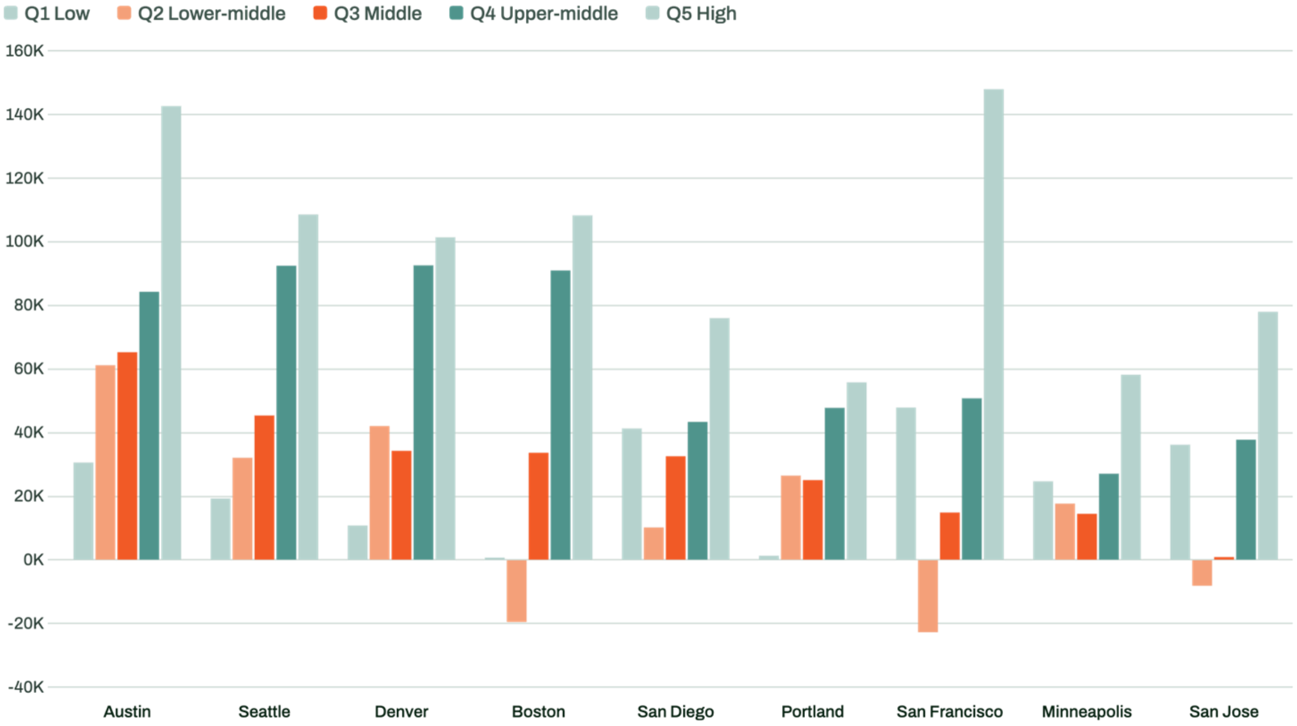
## 1

# Making sense of the past decade

# **Seattle's regional economy succeeded** by the metrics most places aspire to

## Regional job growth reached every wage tier and was strong in the middle; most peers left at least one behind

Net change in employment by wage quintiles, metropolitan areas, 2014-2024



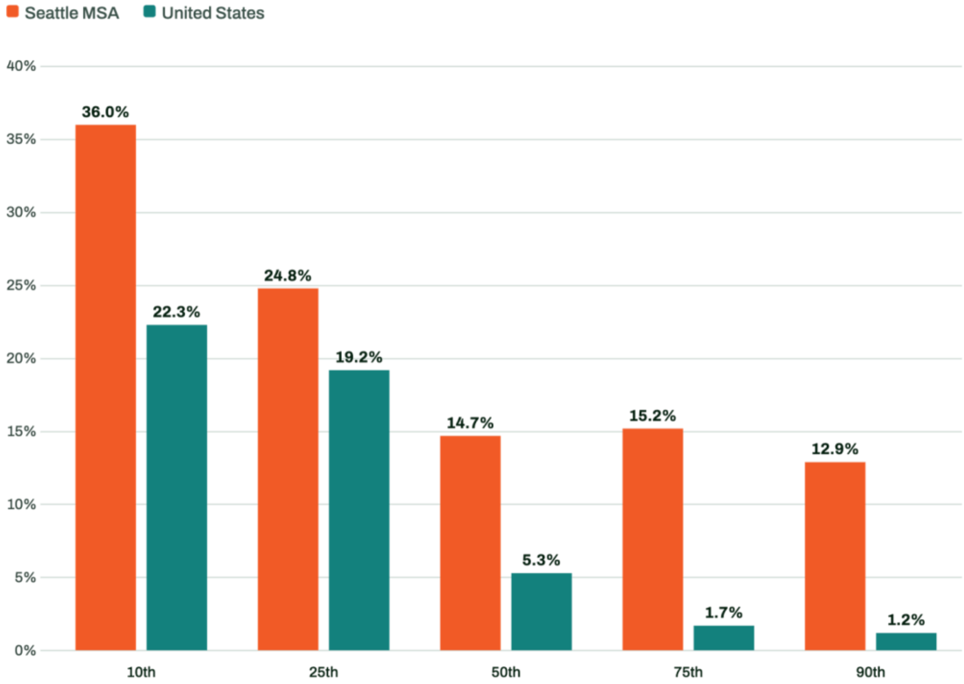
Source: Authors' analysis of Lightcast CORELMI DAT_OCC and DAT_OCC_EARN tables, 6-digit SOC occupations, QCEW employees (CLASSID = 1), 2014 and 2024.

Most peers had **less than half** as much growth **among lower-middle and middle-wage jobs**.

# **Seattle's regional economy succeeded** by the metrics most places aspire to

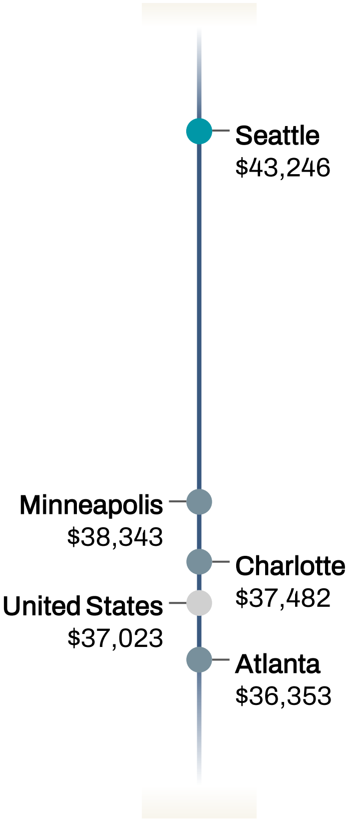
## Real wages grew fastest  in the bottom half of the distribution, and faster than the national average across the spectrum

Total real wage growth by percentile, 2015-2024



Source: Lightcast CORELMI (QCEW employees, all occupations); BEA Metropolitan Area Implicit Regional Price Deflator (FRED) for Seattle; BLS CPI-U (U.S. city average, all items) for the United States.

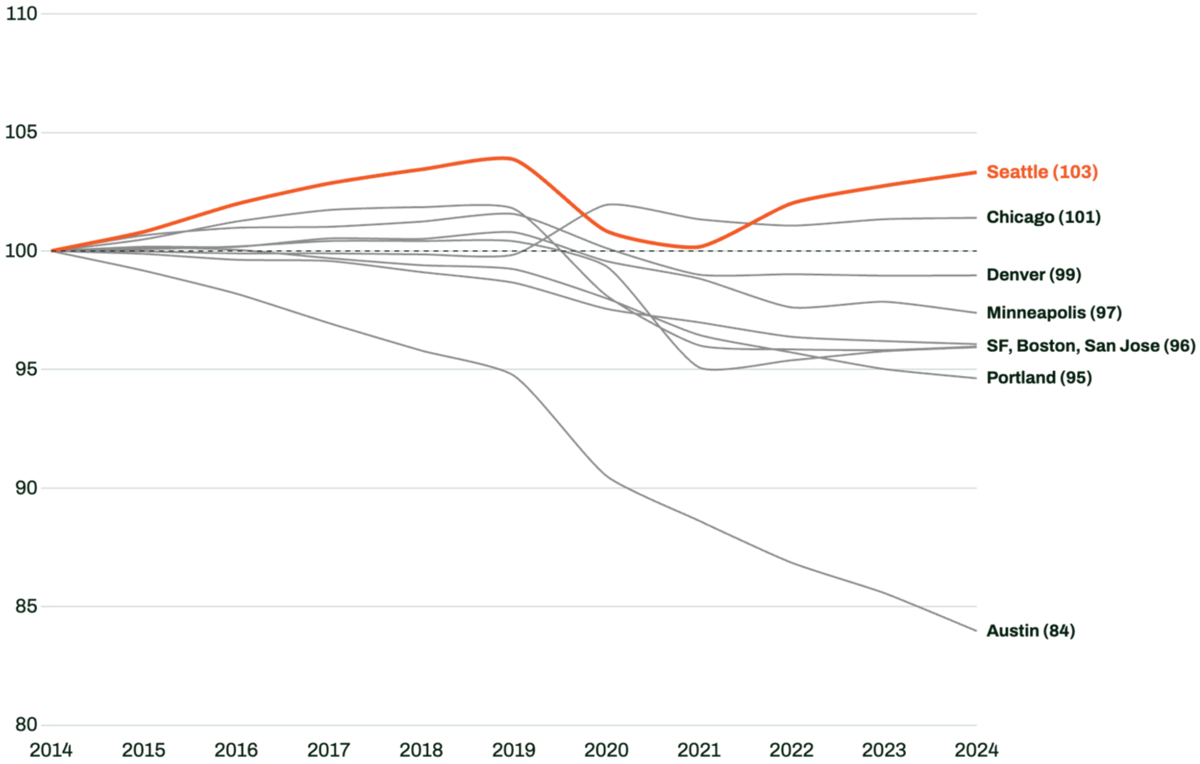
Workers at the **25th percentile** in Seattle **earn 13-15% more in cost-of-living-adjusted terms** than peers in places seen as more hospitable to middle- income families.

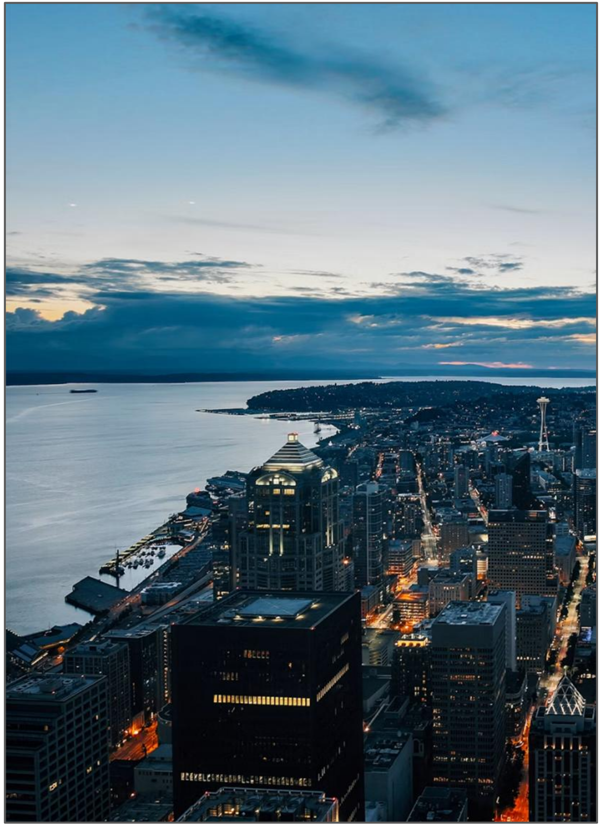


# **The city of Seattle** grew faster than the region, overall and in key sectors

## Seattle gained population share within its metropolitan area

City of Seattle and peer cities, share of metro population indexed to 2014



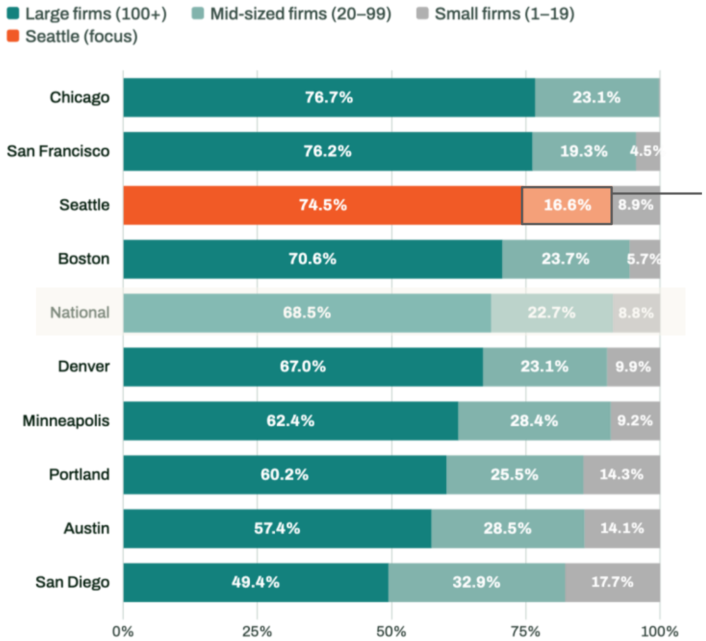


Source: Authors' analysis of Census Bureau Population Estimates Program (PEP), Vintage 2019 and Vintage 2024. City share = city population ÷ MSA population, indexed to 2014.

# But Seattle’s growth is fragile, powered by **a very small number of large firms**

## Large firms drove three-quarters of the Seattle metro’s job growth, mid-sized firms lagged behind

Share of metro area net employment growth by firm size, 2014-2023

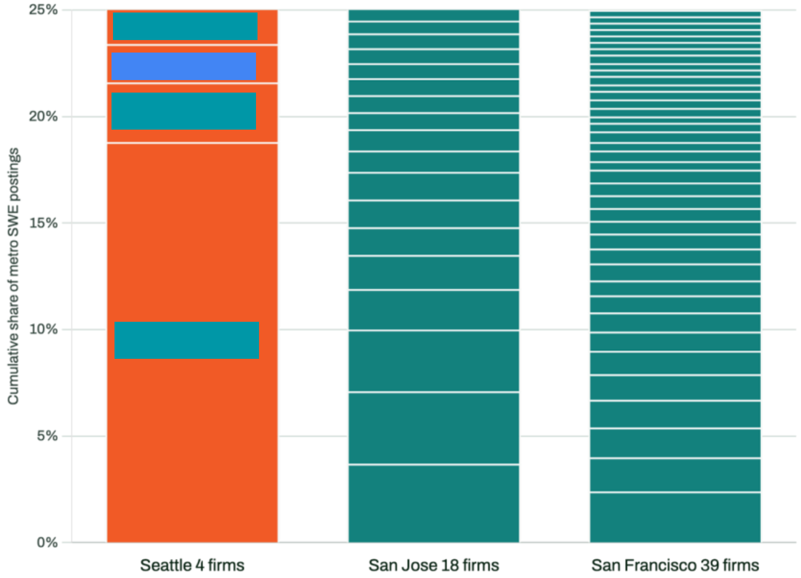


Seattle’s **mid-sized firms** contributed less to job growth than in any peer

Source: Authors' analysis of Census Bureau Business Dynamics Statistics, 2014-2023. Firm size = current employment.

## Just four firms represent a quarter of Seattle’s software engineering demand

Employers needed to reach ~25% of metro software engineer job postings, 2021-2024



Source: Lightcast US Postings (LIGHTCAST.US.POSTINGS_NO_BODY), SOC 15-1252, 2021–2024. Shares computed against each metro's full SWE posting total; "Unclassified" residual excluded from named-firm cumulation.

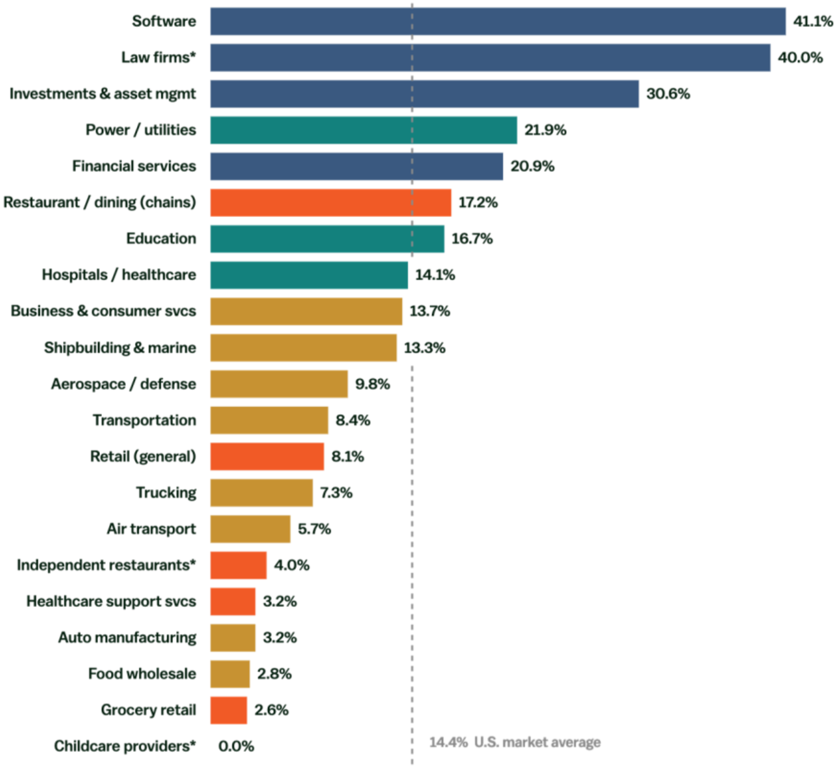
## 2

# **The affordability crisis** – for businesses and people

# Firms are impacted differently by rising costs, depending on **margins** and **mobility**

## Operating margin by industry

Pre-tax, US publicly-traded firms (except where noted)



Source: NYU Stern / Damodaran (January 2026 dataset, U.S. publicly traded firms); National Restaurant Association (independent restaurant margins); Seattle Department of Education and Early Learning (childcare provider margins); AmLaw partnership data (law firm margins).

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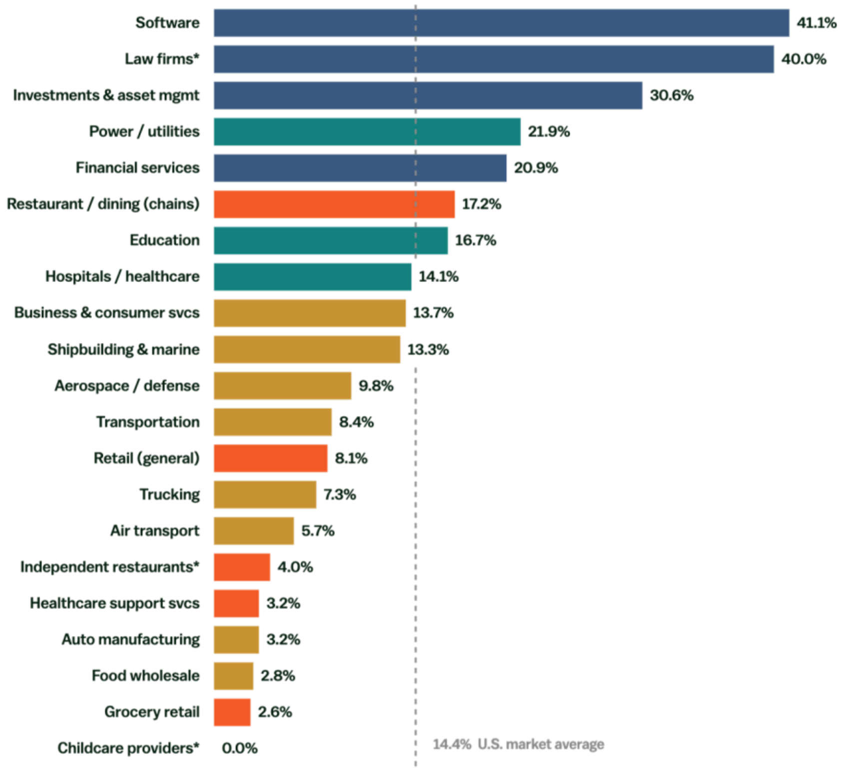

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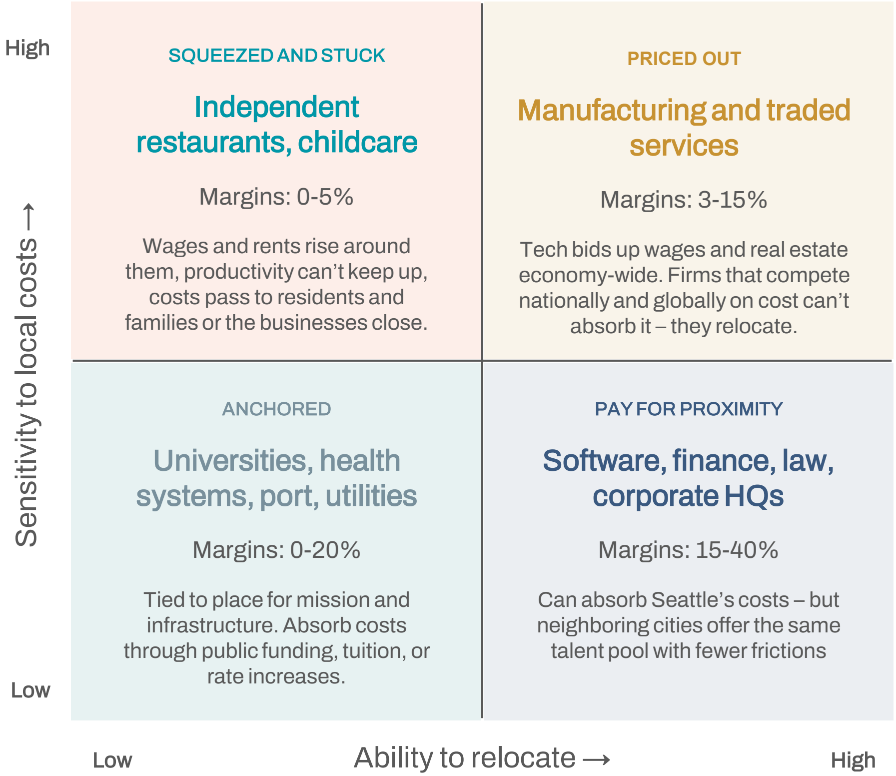


SQUEEZED AND STUCK

**Independent restaurants, childcare**

Margins: 0-5%

Wages and rents rise around them, productivity can't keep up, costs pass to residents and families or the businesses close.

PRICED OUT

**Manufacturing and traded services**

Margins: 3-15%

Tech bids up wages and real estate economy-wide. Firms that compete nationally and globally on cost can't absorb it – they relocate.

ANCHORED

**Universities, health systems, port, utilities**

Margins: 0-20%

Tied to place for mission and infrastructure. Absorb costs through public funding, tuition, or rate increases.

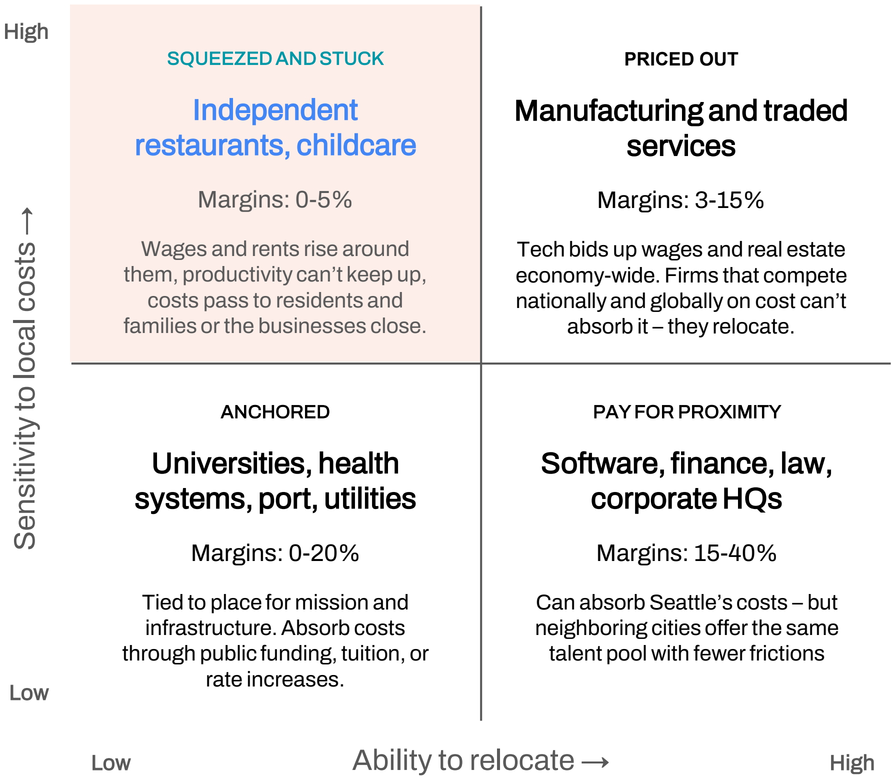
PAY FOR PROXIMITY

**Software, finance, law, corporate HQs**

Margins: 15-40%

Can absorb Seattle's costs – but neighboring cities offer the same talent pool with fewer frictions

# Seattle's neighborhood-serving businesses are increasingly **squeezed and stuck**



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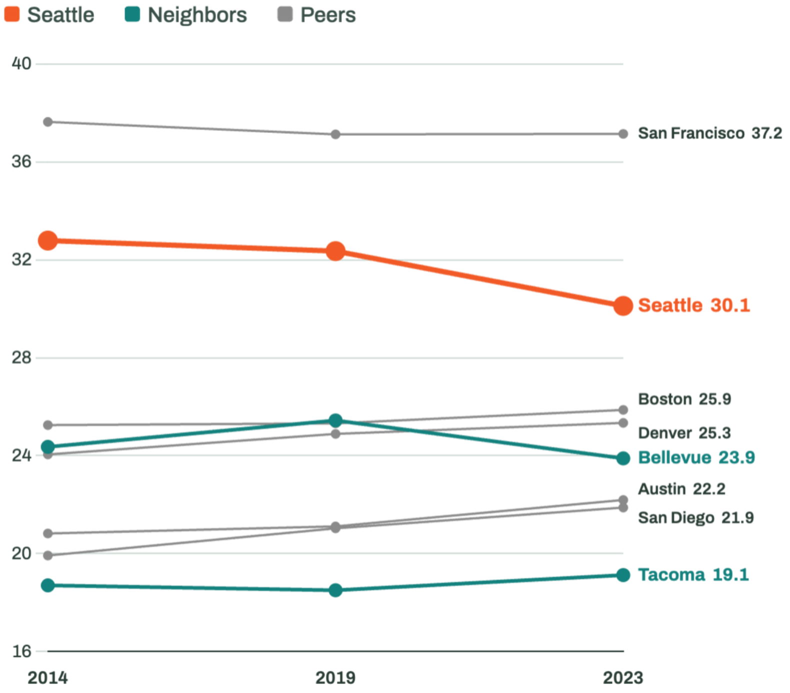
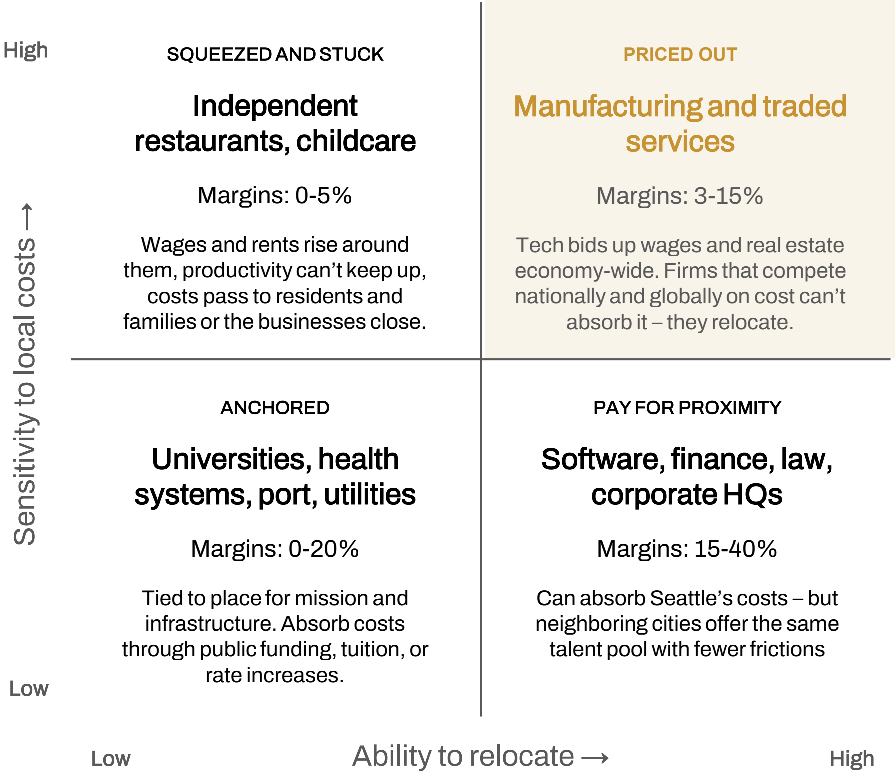
## Seattle shed restaurants per capita both prior to and following COVID-19

Restaurant/bar establishments per 10k residents



Source: Authors' analysis of Census Bureau County Business Patterns ZIP Business Patterns detail files (establishments) and Census Population Estimates Program (city population). Restaurants and drinking places = NAICS 722511 + 722513 + 7224.

# Manufacturing in Seattle shows evidence of being **priced out**



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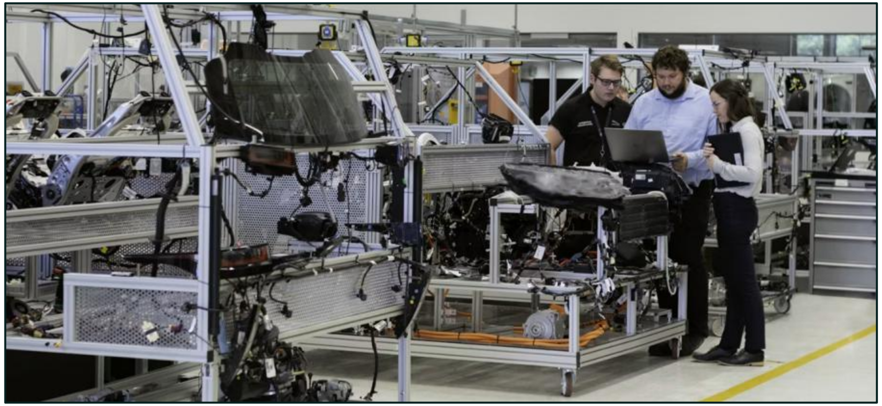


**-7.4%**

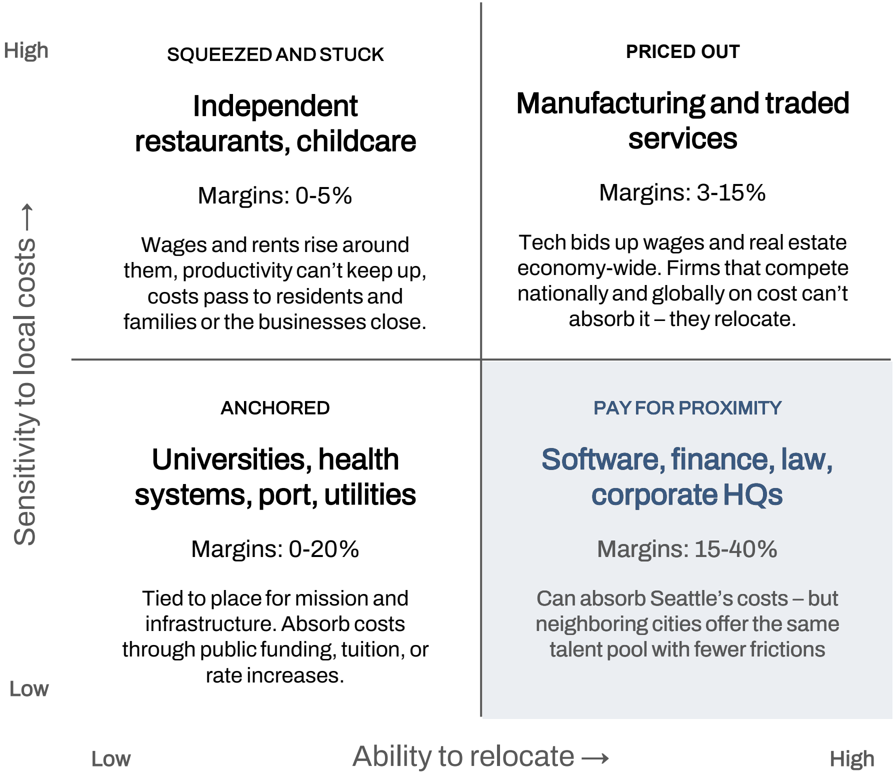
change in manufacturing **firms** in the Seattle metro from 2014-2021

**-11.7%**

change in manufacturing **jobs** in the Seattle metro from 2014-2024

Sources: Census Business Dynamics Statistics and Lightcast data. Manufacturing (NAICS 31-33), Seattle MSA.

# Tech and professional services can absorb higher costs, but can also **relocate**



High

Sensitivity to local costs →

Low

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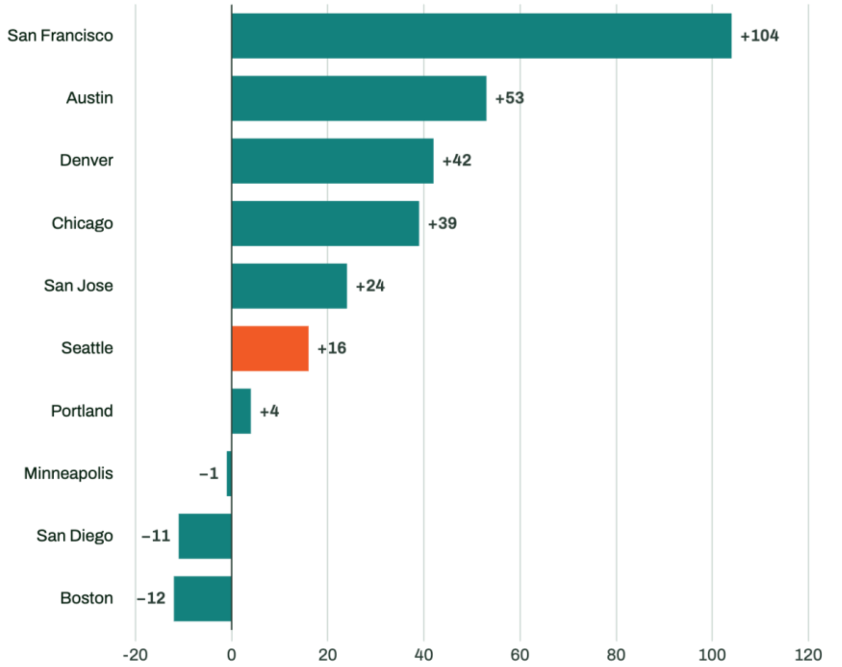
Low

Ability to relocate →

High

## Seattle's peers are gaining mid-sized tech establishments at a faster clip

Net change in tech establishments with 50-249 employees, metropolitan areas, 2017-2023

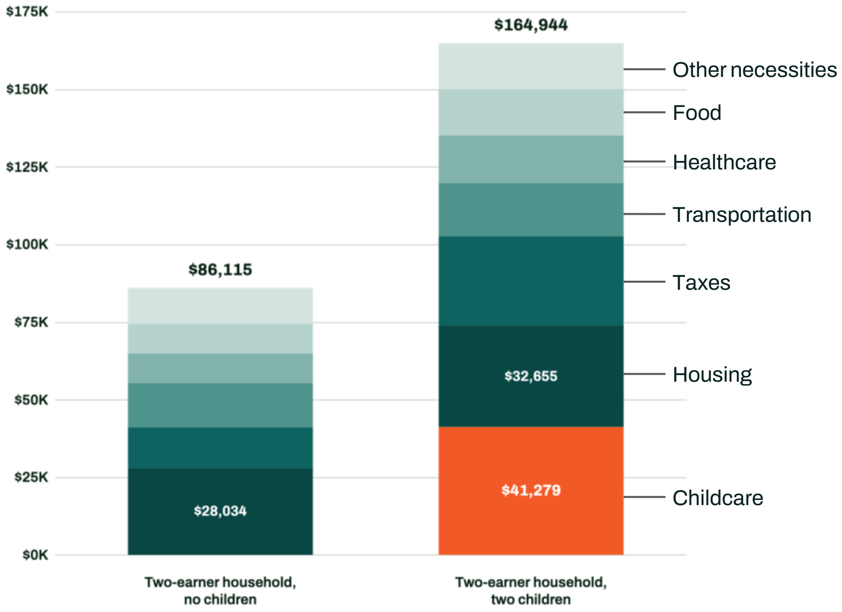


Source: Authors' analysis of U.S. Census Bureau County Business Patterns, MSA files (cbp17msa, cbp23msa); NAICS 2017 codes 5112, 5415, 5182, 5191; establishments with 50–249 employees.

# Seattle has a higher **family cost premium** than every peer region outside the Bay Area

## Housing and childcare drive an outsized share of family expenses in Seattle

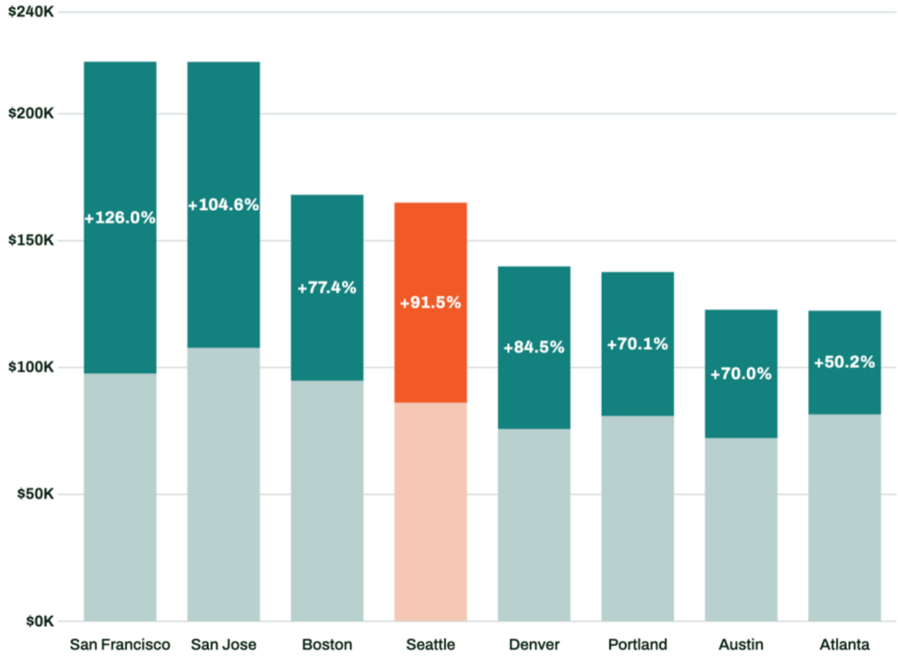
Budget required to meet basic family needs, King County



Source: Economic Policy Institute Family Budget Calculator (March 2026 release; data in 2025 dollars), King County WA

## **Seattle's** family cost premium **is higher than any peer outside the bay area**

Annual basic budget, two-parent household for each metro's central county

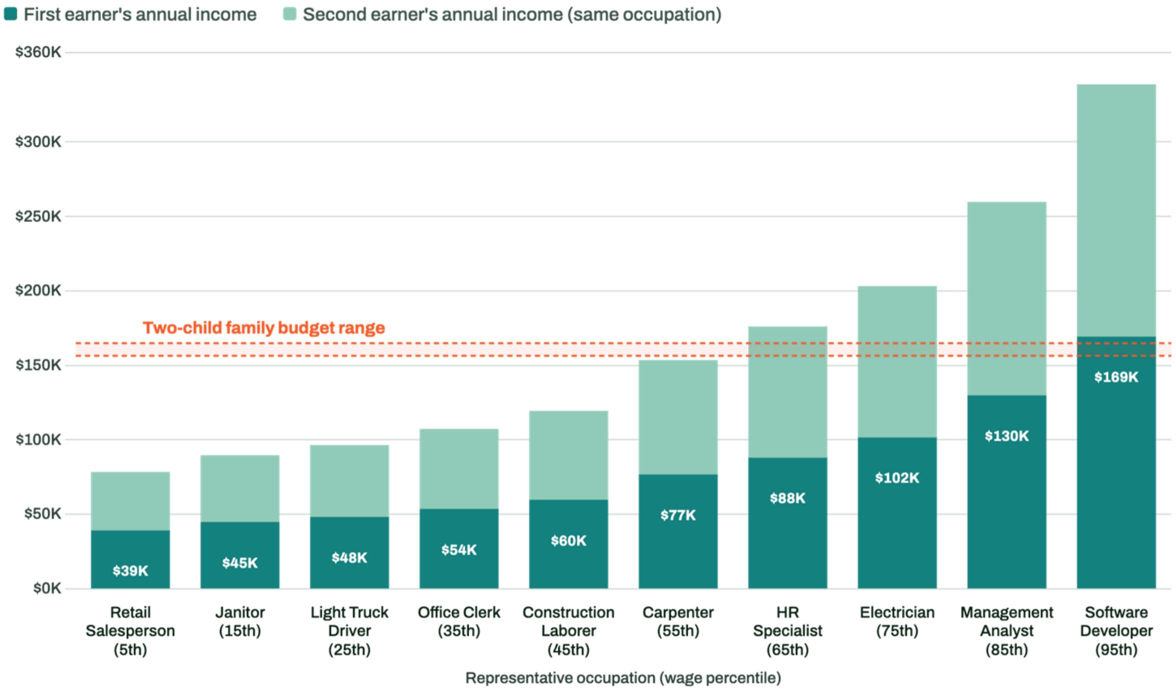


Source: Economic Policy Institute, Family Budget Calculator (March 2026 release; data in 2025 dollars)

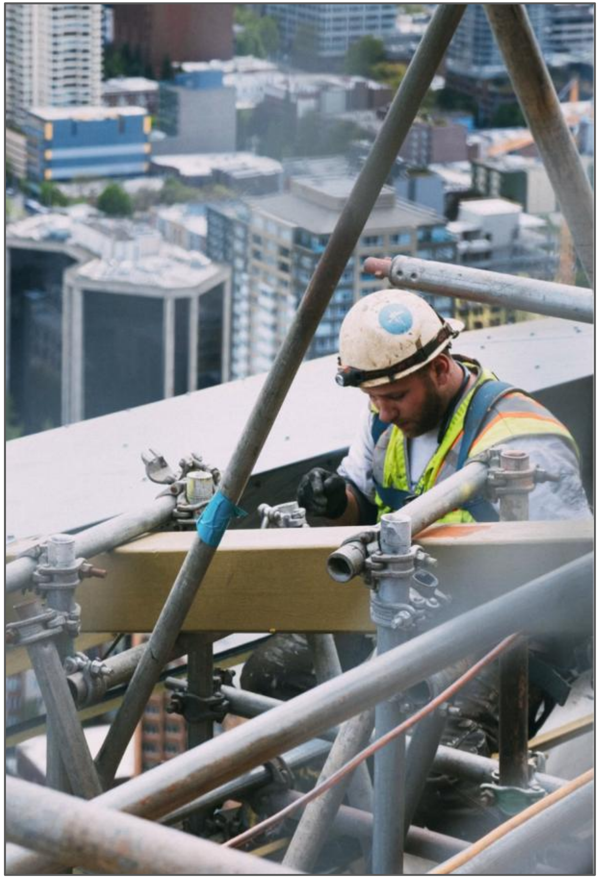
# Raising a family in Seattle is **prohibitively expensive** for many households

## Two median earners must come from the top 40% of Seattle's wage distribution to cover a basic two-child family budget

How one and two earners at each Seattle wage decile (2024) stack up against the EPI basic family budget for two children



Source: Bureau of Labor Statistics OES via Lightcast (Seattle MSA, 2024, QCEW employees); Economic Policy Institute, Family Budget Calculator (March 2026 release; data in 2025 dollars). EPI two-child family budget range reflects $156,415 for a single parent (1P/2C) and $164,944 for two parents (2P/2C); the two differ primarily in absolute tax liability because EPI assumes both children require the same childcare regardless of parent count.



## 3

# The diversification imperative

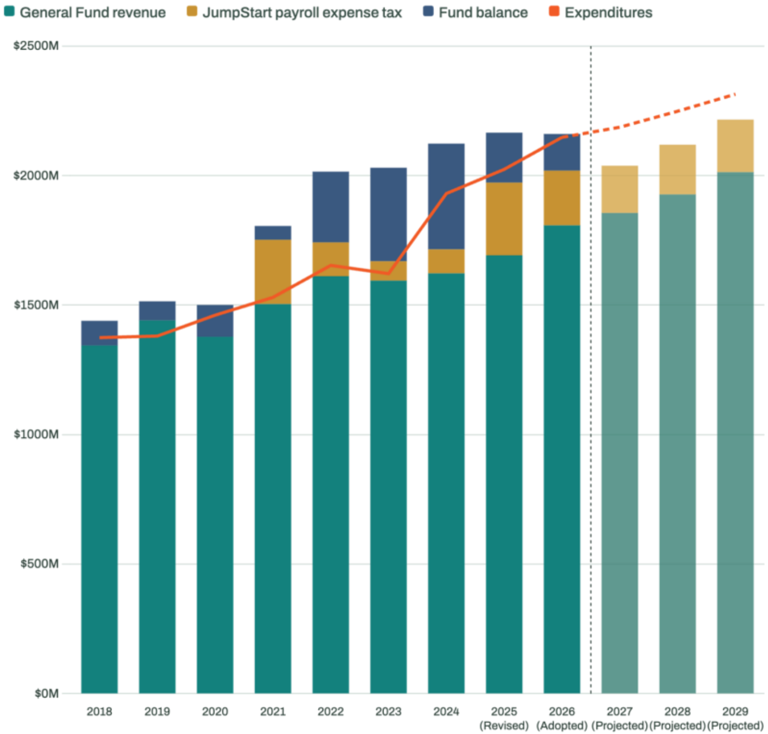
**A** Seattle is very fiscally (and economically) dependent on a few firms

**B** Seattle’s business taxes are not high compared to peers

**C** But they have grown quickly, and their design discourages tech hiring

# As Seattle shifts its tax burden to a small number of companies, it becomes **more dependent on them**

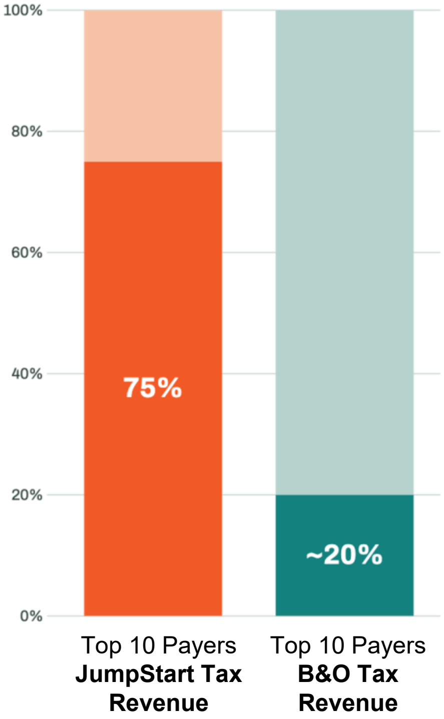
## The City's General Fund now depends on JumpStart transfers to keep up with rising costs...



Source: Seattle City Budget Office. Total Expenditures for 2026-2029 included annualization of reserves. Total Expenditure projection for 2025-2029 includes underspend. Fund Balances are one time. Each year's fund balance is equal to the distance between the line, and the top of the sum of the bars of the prior year. 2026 Fund Balance is a projection.

## ...which, along with the B&O tax are oriented toward a small number of firms

Share of tax revenue from the top 10 payers, 2024



Top **100** contributing firms cover 93% of **JumpStart** tax revenue

A large tech company moving **10,000 workers** out of Seattle could cost the city $50 million per year in **JumpStart** revenue

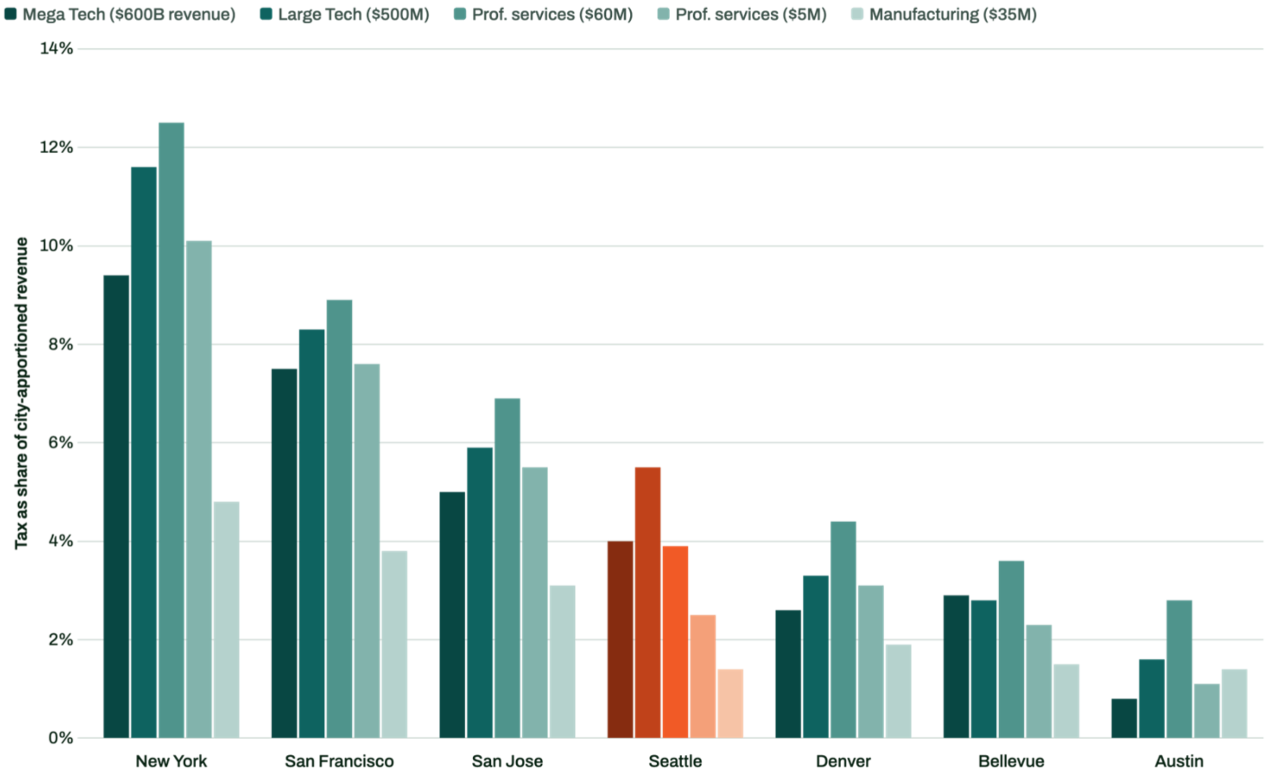
As few as 2,300 firms will owe any **B&O tax** under new shield

Source: Seattle OERF; City of Seattle B&O restructuring estimates

# Seattle’s policy response to its growth and cost trajectory was **rational**

## Seattle’s taxes are moderate compared to competitors across firm types

Taxes as a share of city-apportioned revenue by firm type (modeled for 2026)



Source: Authors' analysis. Modeled state and local tax burden (B&O, JumpStart, social housing, state and city corporate income taxes, gross receipts taxes, and applicable local payroll taxes) as a share of revenue for five firm archetypes across seven peer cities.

Given Seattle’s elite talent base in tech, lower taxes in Denver and Austin are not a huge cause for concern...

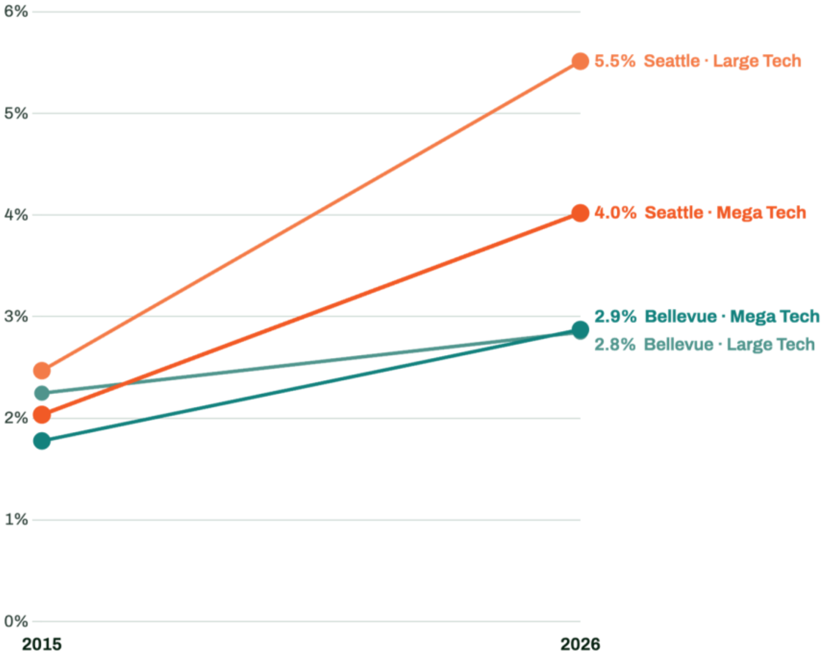
But that could change if Seattle’s talent edge is devalued by AI.

And Bellevue offers lower costs for nearly the same talent access.

# Seattle's policy response to its growth and cost trajectory was **rational**, but **not repeatable**

## Seattle's tax burden on big tech firms roughly doubled since 2015, opening a wide gap with Bellevue

Modeled state and local taxes as a share of city-apportioned revenue, Mega Tech ($600B) and Large Tech ($500M) archetypes



## Adding a software engineer in Seattle costs big tech firms much more in taxes than in peer and neighboring regions.

**+$0**

in **Bellevue** with no payroll tax

**+$0**

in **San Francisco** which taxes firm revenue and profits

**+$5.8k**

in **New York** which has a flat rate on compensation

**+$10-30k** (approximate)

in **Seattle** from JumpStart, which grows with seniority, and Social Housing Tax

Source: Authors' analysis. Modeled state and local tax burden (B&O, JumpStart, social housing, corporate income, gross receipts, and applicable payroll taxes) as a share of city-apportioned revenue, 2015 and 2026; 2015 rates reconstructed by applying historical rates to the same firm archetypes and apportionment. Engineer figures: $650,000 total compensation including equity vesting; Seattle reflects JumpStart's top-tier rate (2.6%, firms with $1B+ Seattle payroll), New York the MCTMT (0.9%); excludes revenue-based taxes, which do not vary with headcount.

## 4

# The strategic path forward

# Seattle needs to pursue two **complementary strategic pathways**

## Reconfigure

Create conditions for existing capabilities to combine in new ways: AI plus aerospace does not *automatically* yield satellite firms.

## Retain

Hold on to the footloose talent and businesses considering leaving for cheaper or more dynamic regions.

## NEITHER WORKS ALONE

***Reconfigure without retain is a losing race***

Replacing 1,000 departing headquarters jobs takes 500+ startup attempts and a generation of scaling.

***Retain without reconfigure makes Seattle a passenger in its own economy***

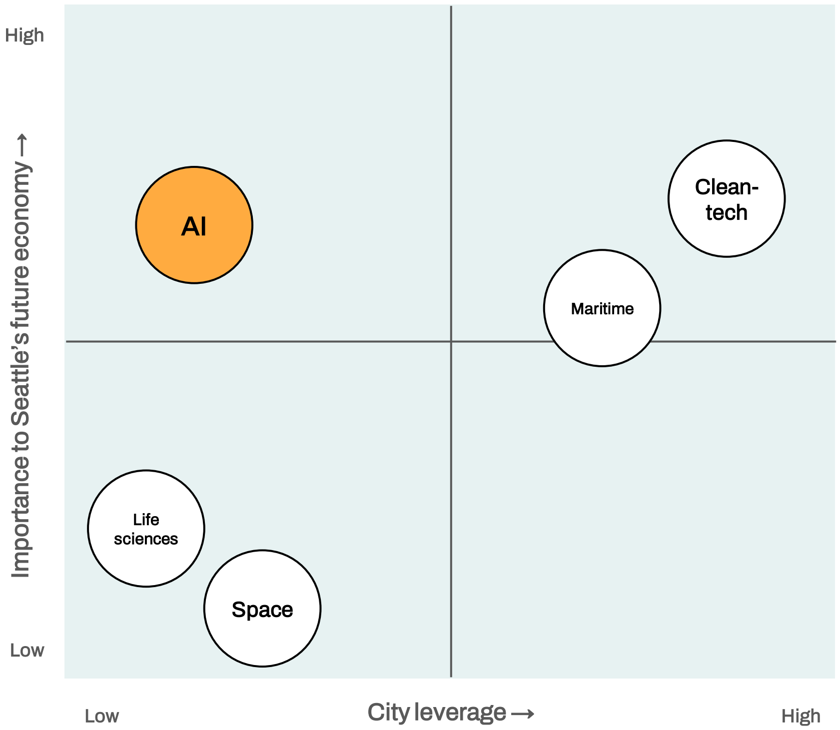
– dependent on external forces.

## BOTH REQUIRE MARKETCRAFTING

Diagnosing why an industry isn't generating what it could and should, then intervening on **all sides** of the market – growing supply of inputs, shaping demand, boosting capabilities of firms – to fix it.

# Reconfigure

## Seattle’s industry focus should be based on **importance to the future economy** and **the city’s influence**



## ...driving city engagement **at different segments of the innovation pipeline**

| | **Startup** | **Scale-up** | **Deployment** |
|---|---|---|---|
| Cleantech | ▩ | 🟦 | ■ |
| AI | ▩ | 🟦 | □ |
| Maritime | □ | 🟦 | □ |
| Life Sciences | □ | 🟦 | □ |
| Space | □ | 🟦 | □ |

Non-gray colors indicating areas where the City can engage.

# Orienting assets to a new economic moment **requires new capabilities**

In the face of intense economic change, Seattle must build institutions — meaning new organizations and new ways of operating within and across organizations — that **operate at the scale and speed of its economy**.

## Orchestrate shared strategy

A quasi-independent entity with the technical depth to understand emerging industries, and the mandate to cultivate them.

NEW YORK CITY

NYC /EDC

ATLANTA

INVEST ATLANTA

DETROIT

Detroit Economic Growth Corporation
GROW HERE, WIN TOGETHER

## Manage public wealth

A development authority that activates the city's land, bonding capacity, and assets for growing capital-intensive sectors.

PHILADELPHIA

PIDC
Driving growth to every corner of Philadelphia

CINCINNATI

THE PORT
Making Real Estate Work

## Engage strategically with business

A forum where the city brings real questions on sectoral strategy and firms engage as substantive partners on shared problems.

CINCINNATI

CINCINNATI FUTURES COMMISSION

CHICAGO

Civic Consulting alliance

SAN FRANCISCO

PfSF PARTNERSHIP FOR SAN FRANCISCO

## Shape state strategy

No region can cultivate new industries without sustained and substantial state investment.

ILLINOIS

IQMP
Illinois Quantum & Microelectronics Park

NORTH CAROLINA

North Carolina Biotechnology Center®

MASSACHUSETTS

MASSACHUSETTS CLEAN ENERGY CENTER®

# What **reconfigure** looks like

The 2008 financial crisis exposed New York's **over-concentration in finance** – and the city had no capacity to grow new industries.

In 2025, NYCEDC committed $100 million and the city-owned Brooklyn Army Terminal to build BATWorks, a 200k SF hub where clean-energy startups prototype, pilot, and scale.

BATWorks is part of NYCEDC's Harbor Climate Collaborative, a $725M partnership with the Brooklyn Navy Yard and Governors Island building 6M SF of climate research, training, and innovation space, projected to create 5,000 jobs and $55B in long-term impact.

Chicago kept launching hardtech startups — and kept losing them when they outgrew office space and **needed manufacturing and lab space the city no longer had**.

mHUB was created in 2017 as a partnership between the city and regional manufacturing industry. Since then **1,200+ startups supported, $1.5 billion in revenue generated, 6,400+ people hired.**

It's now acquiring and upgrading underused buildings near its $50M headquarters into advanced manufacturing space, and is building a **microgrid to serve the site and operate as platform for testing**.

# Retain

**Sectors that determine affordability ( housing, childcare, energy) and sectors that determine livability (e.g., restaurants) should be treated with the same seriousness as industries — a departure from the norm.**

Today they are shaped by policy: zoning, subsidized slots, grants to struggling firms. But none of this changes their productive potential.

| | Unleash supply | Shape demand | Boost productivity |
|---|---|---|---|
| **Housing** | Upzoning | | Pre-approved plans + off-site construction |
| **Childcare** | Facility support & workforce | Employer cost-sharing | Shared operations |
| **Energy** | Grid access | City procurement | Workforce |
| **Neighborhood-scale businesses** | Permitting speed | Density + anchor buying | Sector diagnosis |

# What **retain** looks like

**No single move changes the structure of a market; real progress requires addressing all three fronts at once.**

Subsidies inflate prices if supply is constrained; regulatory fixes unlock capacity that flows wherever the market pays best; grants help individual firms without raising the productivity of the sector.

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## Austin

Cut minimum lot sizes and upzoned for apartments. Added 120,000 homes from 2015 to 2024 — a 30 percent increase in its housing stock — and rents fell from 15 percent above the U.S. median to 4 percent below.

## Michigan

Tri-Share splits childcare costs in thirds: employee, employer, and state each pay a share. Serving 1,000+ children since 2021, with most participating employers reporting it helps them keep staff.

## San Francisco

Prop H required most permit reviews to finish in 30 days, then moved most projects to same-day approval. More than 5,600 commercial projects have cleared the faster track.

Boosting productivity **is often overlooked** in favor of approaches that more immediately address the cost of production and/or consumption.

Formation

# Seawall

## Building a Resilient Seattle Economy

September 2026