

## *Seattle Proposition 1A Social Housing Tax* Frequently Asked Questions:

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### Q: What changes were enacted under Proposition 1A?

A: Proposition 1A introduces a 5 percent payroll tax within the city of Seattle to the portion of an employee's annual compensation if it exceeds \$1 million, producing an estimated \$50 million in annual revenue that will be channeled into the Seattle Social Housing Developer (SSHD). By establishing a lasting and dedicated funding mechanism, this measure aims to counteract rising rents and offer a wider range of affordable housing.

- The SSHD is mandated to develop, own and manage permanently affordable mixed-income housing.
- Revenues will fund land purchases, construction and ongoing operating costs, ensuring long-term affordability.
- Only a small portion of the generated revenue is allocated to administrative fees, with the majority directed toward direct housing initiatives.
- This social housing initiative targets households earning between 0 percent and 120 percent of Area Median Income, as the city aims to help a diverse cross-section of residents.

### Q: How will the new tax work?

A: The new levy applies to employers that compensate at least one individual above \$1 million annually. Collection is to start in 2025, once the city finalizes systems for enforcement and reporting.

- A 5 percent rate is charged on all compensation — salary, bonuses, stock or other remuneration — above the \$1 million threshold. For example, a \$1.5 million total pay package triggers a tax on \$500,000, costing the employer \$25,000 each year.
- Roughly 95 percent of proceeds will be funneled into the SSHD's operating budget, ensuring direct support for land acquisition and construction projects, while a small fraction covers administrative overhead.
- The measure supplements Seattle's existing JumpStart tax rather than replacing it, reflecting the city's reliance on progressive taxation to tackle entrenched housing affordability gaps.

### Q: How will this affect commercial real estate?

A: Proposition 1A is likely to have its earliest and most visible impact on firms with multiple high-salary roles, potentially shaping their expansion or relocation decisions. Over the longer term, a successful deployment of social housing resources could stabilize area rents and foster more balanced community development.

- Companies in tech, finance or other high-paying sectors may weigh new labor costs when deciding whether to lease office space or grow their footprints within the City of Seattle.
- If a notable share of employers deem the tax too burdensome, the city could see slower office absorption or renewed interest in surrounding submarkets or markets that lack such a levy, influencing rent growth and cap rate assumptions.
- By helping fund mixed-income housing, Proposition 1A could mitigate workforce turnover and reduce cost-driven commuting strains related to housing, eventually drawing more residents closer to employment centers.
- Improved housing stability, if realized, might benefit retailers and service-based tenants in mixed-use districts, partially offsetting any near-term moderation in office demand.

### Q: When will this ruling go into effect?

A: The tax officially commences in 2025, with the first payment due early 2026, granting the city time to establish an enforcement framework and integrate updated payroll tracking procedures. Although the SSHD is a relatively new organization, it is poised to begin using these funds on acquisitions and new construction projects almost immediately.

- Initial plans call for producing or preserving at least 2,000 permanently affordable units over the next decade, with an emphasis on mixed-income housing types.
- Households earning up to 120 percent of Area Median Income will be eligible for these below-market units, ensuring a broad base of Seattle residents benefit from the initiative.
- Proposition 1A is designed to operate indefinitely and has made promises regarding transparency, responsible budgeting and the timely execution of housing proposals. Successful implementation could accelerate the city's efforts to broaden affordability, ultimately attracting a more diverse labor force and strengthening Seattle's long-term economic outlook.

## Key Elements of Proposition 1A

By levying a 5 percent tax on compensation exceeding \$1 million per employee, Proposition 1A applies broadly across industries, affecting any employer that pays high salaries, including executives and business owners. Employers, rather than employees, are responsible for remitting the tax, but because it also applies to members, partners and sole proprietors, it could directly impact high-earning business owners. The measure exempts compensation already taxed or disallowed by federal or state law. Resulting annual revenue is projected to be between \$50 million and \$53 million, nearly all of which will be directed to the SSHD to acquire property, build new rental units and manage operational and administrative tasks.

## Seattle Social Housing Crisis

Seattle has long faced severe housing affordability challenges and a growing homeless population, exceeding 14,000 individuals in 2024. From 2010 to 2020, the city's overall population grew by 21 percent — more than twice the national rate — driving up demand and causing home prices in the Seattle-Tacoma area to surge over 110 percent between 2015 and 2024. By comparison, prices nationwide rose by about 85 percent during this period. As a result, the local price-to-income ratio now stands at approximately 7.0, placing Seattle among the top 10 most expensive U.S. housing markets and making a median-priced home of \$820,000 unattainable for many buyers. In this environment, social housing — permanently affordable units owned by a public entity — has gained momentum. Early in 2023, voters approved the Seattle Social Housing Developer (SSHD) through Initiative 135, but without a designated revenue stream. Proposition 1A now stands as the critical step in establishing a permanent funding mechanism for Seattle's social housing efforts.

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## Potential Economic and Social Impacts

Because it specifically affects firms with extremely high-paid employees, Proposition 1A may encourage some companies to reevaluate office location or expansion plans to avoid the new levy. Although this could lead to reduced demand for office space within the city of Seattle, its real impact remains uncertain, as only a small fraction of businesses pay million-dollar salaries. Meanwhile, housing advocates predict that annual revenue of around \$50 million will help alleviate the housing crunch by creating or preserving roughly 2,000 permanently affordable units over the next decade. This increase in social housing, they argue, could stabilize rent levels and support essential workers who currently struggle to live near their jobs.

## Commercial Real Estate Consideration

The new tax raises questions about Seattle's long-term economic revitalization, particularly for downtown offices. If enough high-paying companies downsize or relocate, higher vacancy rates and lower lease rates could ensue, affecting the city's commercial real estate market. Recent trends suggest this is already happening, with Bellevue emerging as a key relocation destination for major employers. Amazon has significantly expanded there, growing its workforce to 12,000 employees with plans to reach 25,000 — a shift that followed tensions over Seattle's corporate tax policies. Additionally, companies like TikTok and Zoom have opened or expanded offices in Bellevue, further diversifying the city's corporate landscape. Smaller and mid-sized businesses, however, remain less affected, meaning much of the city's entrepreneurial base may see no direct effect. Over time, the development of publicly owned, permanently affordable apartments could spur more vibrant and mixed-use neighborhoods, potentially boosting retail and service sectors.

## Implementation Timeline and Challenges

Proposition 1A took effect on January 1, 2025, with the first payments for the 2025 tax year due at the start of 2026 and with quarterly filings thereafter. The city anticipates a one-year window to fully integrate the tax into its system, develop new forms and conduct outreach to affected businesses. During this period, the SSHD must expand its staff and infrastructure, likely seeking a city-backed loan to cover operational costs until 2026 revenues arrive. Legal challenges are also anticipated, echoing lawsuits filed over Seattle's JumpStart payroll tax. Advocates plan to track metrics such as units produced, tenant income brackets and budget efficiency to assess the policy's overall success.

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