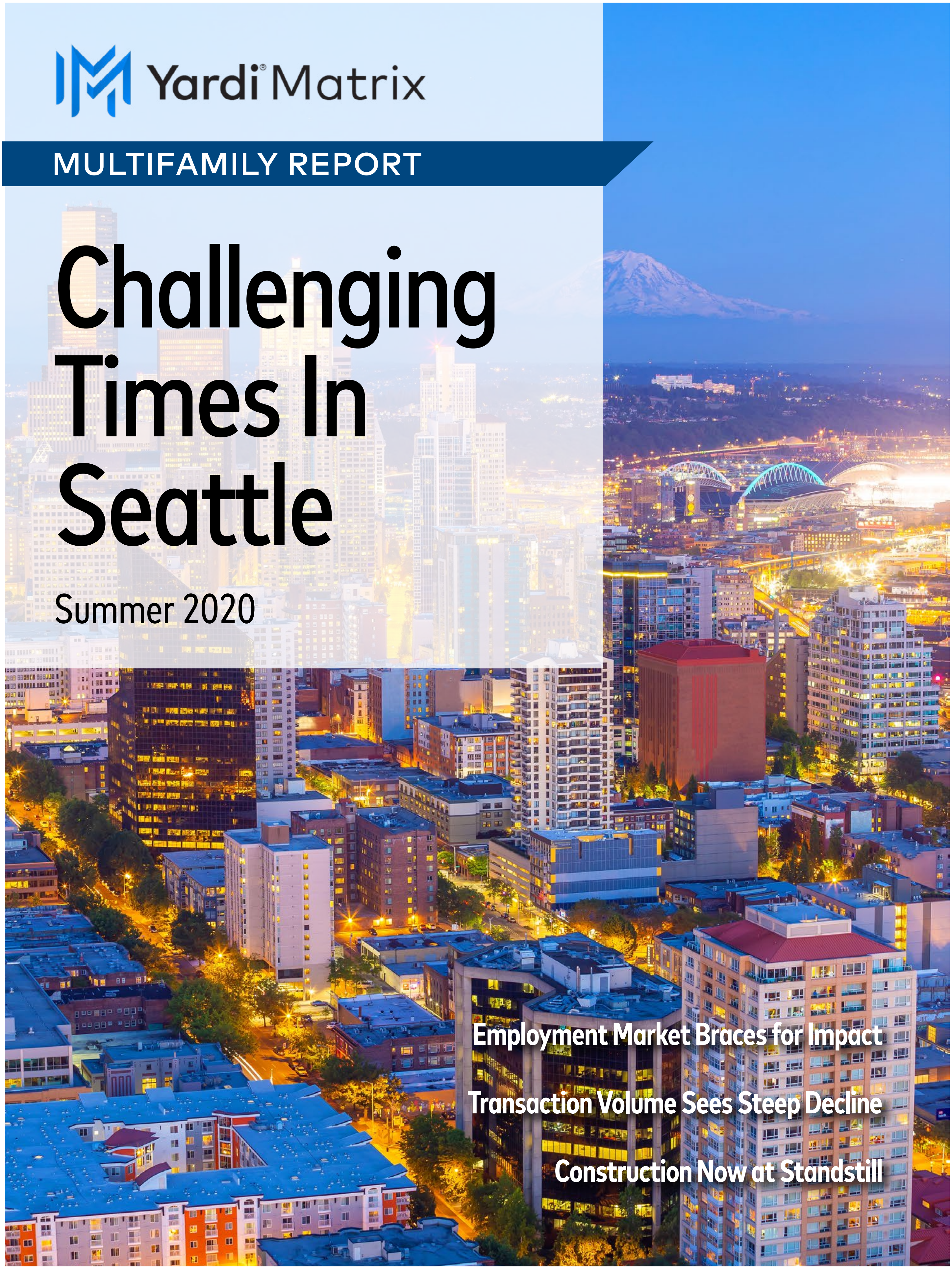
Yardi Matrix

MULTIFAMILY REPORT

Challenging Times In Seattle

Summer 2020



Employment Market Braces for Impact

Transaction Volume Sees Steep Decline

Construction Now at Standstill

SEATTLE MULTIFAMILY

Volatility Projected Across the Metro

Seattle's multifamily market finds itself in a precarious position. Rents have held steady at $1,908, falling only 0.1% on a trailing three-month basis through August. However, investment volume took a dive to $670 million in the first eight months of the year—its lowest level in nearly a decade and close to $2 billion less than the total during the same period in 2019. Although the pandemic has left a large mark on the metro, other factors—most notably a hefty property sales tax increase in January—have compounded the market's challenges.

The Emerald City's economy has struggled due to the pandemic, with gross business revenues down by $13.4 billion in the first half of 2020. With all employment sectors registering heavy job losses, unemployment soared to 16.1% in April before falling below the national rate to 8.5% in July. Seattle's tech giants are thriving, as both Amazon and Microsoft have reported record profits through the pandemic. However, other sectors face significant challenges ahead, as hospitality and aerospace jobs will likely be impacted even more.

Development slowed across the metro, with fewer than 4,200 units completed through August. Though 22,356 units were underway, we expect some 2,800 units to deliver before year-end. As occupancy softens, rents will likely fall by 2.4% by the end of the year.

Market Analysis | Summer 2020

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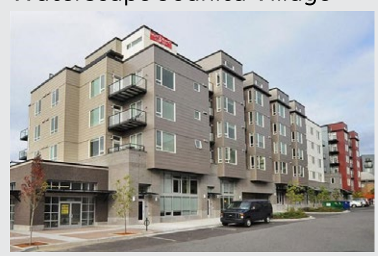
Recent Seattle Transactions

Kiara

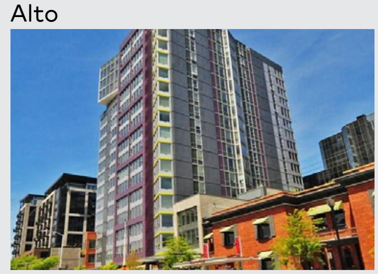
City: Seattle
Buyer: Oxford Properties Group
Purchase Price: $320 MM
Price per Unit: $695,652

Waterscape Juanita Village



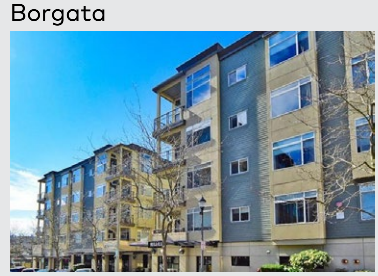
City: Kirkland, Wash.
Buyer: Stream Real Estate
Purchase Price: $93 MM
Price per Unit: $473,135

Alto



City: Seattle
Buyer: Westbrook Partners
Purchase Price: $66 MM
Price per Unit: $359,211

Borgata



City: Bellevue, Wash.
Buyer: Stream Real Estate
Purchase Price: $50 MM
Price per Unit: $698,451

RENT TRENDS

- Seattle rents fell 0.1% on a trailing three-month (T3) basis through August, as the national figure remained flat. Seattle's average rate was $1,908, far above the national average of $1,463.

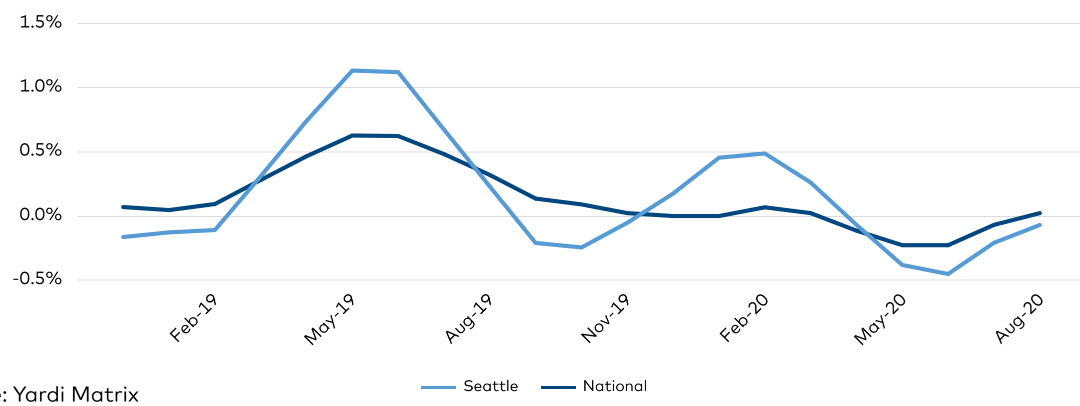
- Lifestyle and working-class Renter-by-Necessity rents both slid 0.1%. Given the metro's upscale development pipeline, Lifestyle rents are expected to fall more swiftly, as renter demand shifts toward more affordable apartments. RBN rents will likely recover sooner, due to limited supply and rising demand.

- Seattle renters have been protected by a citywide eviction moratorium, enacted by the mayor in mid-March and extended through the end of the year. The local executive order is broader in scope than the statewide eviction ban which is set to expire in October. Several renter assistance programs were also put in place at the county level, partially funded by federal dollars from the coronavirus relief bill.

- Belltown had the highest rents in August, averaging $2,620. The submarket benefited from a high-end inventory—nearly 70% of its inventory targets Lifestyle renters—and a prime location among Amazon's Denny Triangle office buildings and a short distance from Facebook's and Google's Seattle campuses.

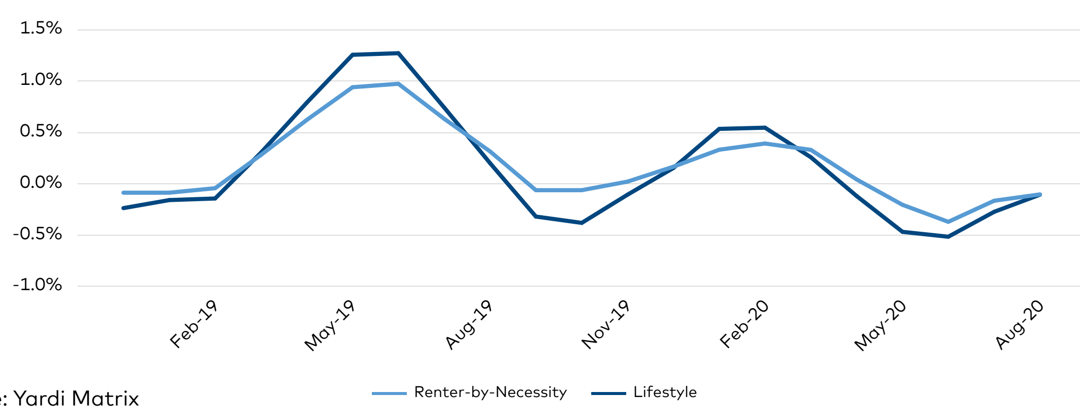
- Given falling demand amid moderate multifamily deliveries, we expect Seattle rents to decrease 2.4% by year-end.

Seattle vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Seattle Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- The COVID-19 pandemic is leaving its mark on Seattle's economy. Unemployment peaked in April at 16.1%, then declined to 8.5% in July, 170 basis points lower than the national rate. Leisure and hospitality jobs were hit the hardest during the 12 months ending in June, shedding 79,000 jobs for a decline of 44% year-over-year, compared to an overall job loss of 10%. The metro's tourism economy will take time to recover, following the cancellation of cruises through the end of the year and numerous canceled or postponed conferences and conventions.

- Despite registering losses, Seattle's vibrant technology sector is likely to recover fast due to increased demand for cloud services, as employees continue working remotely. Amazon announced plans to increase its footprint in Bellevue by some 15,000 employees in the next few years, signing a 2 million-square-foot lease with developer Vulcan Real Estate this summer.

- Seattle's gross business revenues took a $13.4 billion hit in the first half of the year compared to the same period in 2019, according to the Seattle Metropolitan Chamber of Commerce. Further challenges lie ahead as many of the metro's largest employers, particularly in the aerospace industry, announced layoffs.

Seattle Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
55	Financial Activities	87	5.4%
50	Information	125	7.8%
15	Mining, Logging and Construction	102	6.4%
60	Professional and Business Services	257	16.1%
80	Other Services	52	3.3%
90	Government	206	12.9%
30	Manufacturing	153	9.6%
40	Trade, Transportation and Utilities	312	19.5%
65	Education and Health Services	206	12.9%
70	Leisure and Hospitality	101	6.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Seattle added 40,482 residents in 2019, increasing its population by 1%, compared to the national rate, which stood at 0.3%.

- The metro's booming tech industry continued to attract Millennials, even as living costs remained high.

Seattle vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Seattle Metro	3,814,369	3,884,469	3,939,363	3,979,845

Sources: U.S. Census, Moody's Analytics

SUPPLY

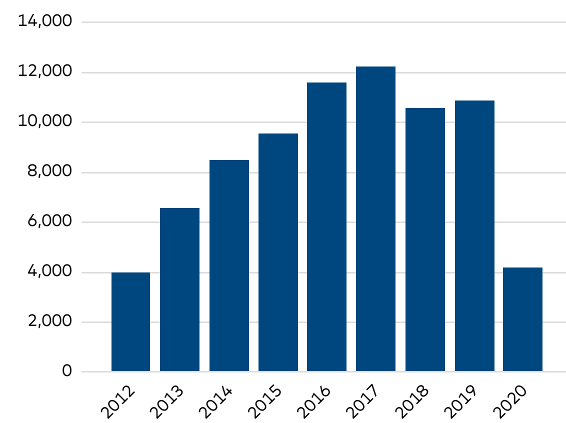
- Seattle had 22,356 units under construction as of August. More than 83% of the units underway targeted Lifestyle renters, though few new high-end projects are expected to break ground before year-end owing to economic uncertainty linked to the coronavirus pandemic.

- Developers added 4,193 units to Seattle's inventory year-to-date through August, accounting for 1.6% of total stock. Construction was halted on most projects during the state's lockdown period in March and April, and further delays due to social distancing measures and labor shortages are likely. As a result, only 2,791 additional units are expected to deliver before the end of the year.

- Units underway were close to an even split between suburban and urban locations. The most active submarket—Belltown—also had the largest project underway: Onni Real Estate's 1,128-unit Onni South Lake Union. The 43-story, mixed-use development is targeting LEED Silver certification. The property will include retail and office space in addition to its upscale residential component.

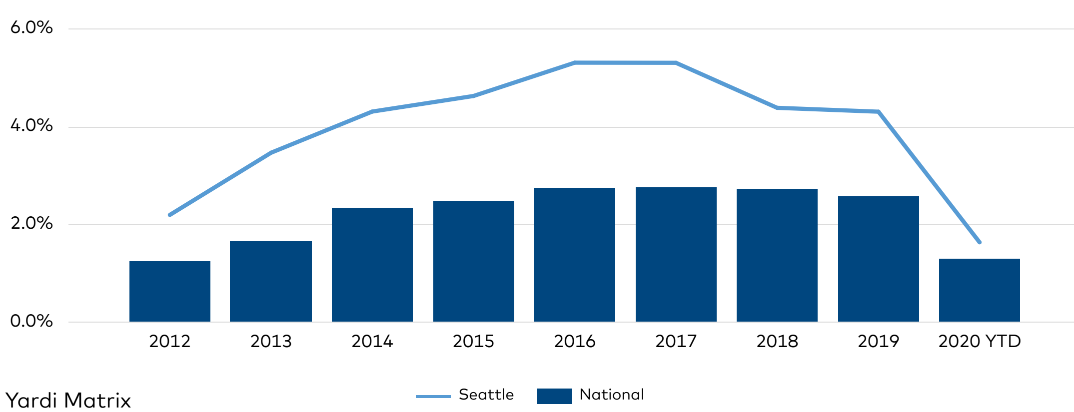
- Heartland Construction's 326-unit Waterview Crossing in the Des Moines submarket was the largest project to deliver in 2020. The fully affordable development, backed by $79 million in construction financing from the Washington State Housing Finance Commission, broke ground in mid-2018.

Seattle Completions (as of August 2020)



Source: Yardi Matrix

Seattle vs. National Completions as a Percentage of Total Stock (as of August 2020)

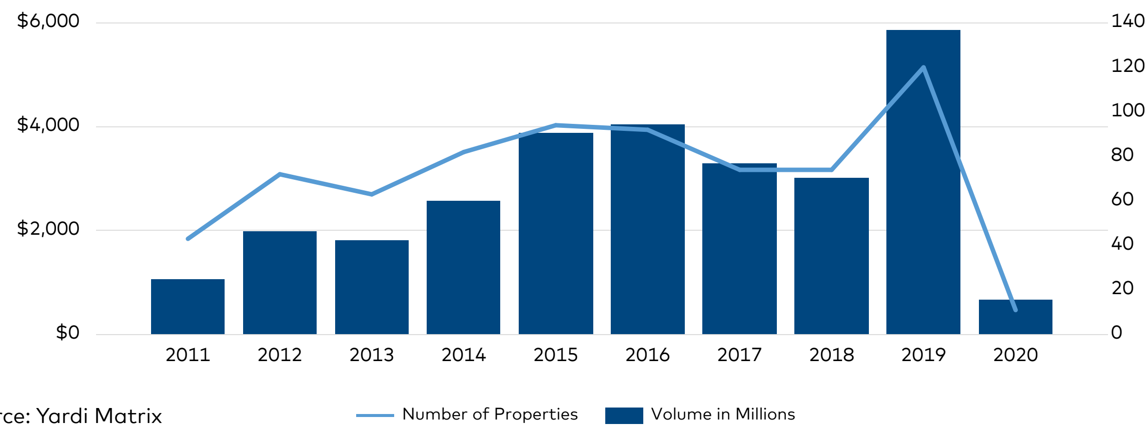


Source: Yardi Matrix

TRANSACTIONS

- Seattle's transaction volume totaled $670 million in 2020 through August, far less than the $2.6 billion sold during the same period in 2019. The state's implementation of a steep property sales tax increase in January, combined with pandemic-related investor hesitancy, will likely lead to reduced volume for the remainder of the year.
- Per-unit prices stood at $413,931, far greater than the national average of $163,833 and 38.7% higher than the 2019 metro average of $298,423. Investors targeted Lifestyle assets, which accounted for nearly 75% of sales volume.
- The largest transaction of 2020 was Oxford Properties Group's $320 million acquisition of the 461-unit Kiara in Belltown. The seller, a joint venture between Holland Partners and North America Sekisui House, opened the 41-story LEED Gold-certified community in 2018.

Seattle Sales Volume and Number of Properties Sold (as of August 2020)



Source: Yardi Matrix

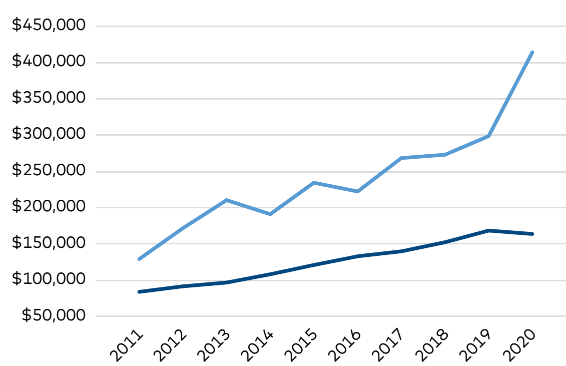
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Belltown	926
First Hill	407
Kent	309
Issaquah	288
Redmond	276
North Seattle	236
Greenlake/Wallingford	231

Source: Yardi Matrix

[1] From September 2019 to August 2020

Seattle vs. National Sales Price per Unit



Source: Yardi Matrix

EXECUTIVE INSIGHTS

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MULTI-HOUSING NEWS

Seattle's Micro-Housing Movement: A Developer's Take

By Laura Calugar

With some of the largest tech players such as Facebook, Google and Microsoft bolstering their presence in Seattle, the city's affordable and workforce housing inventory has always been under pressure. Micro apartments have been viewed as a solution to the crisis. Housing Diversity Corp. CEO Brad Padden explains why the micro-unit trend is bound to continue in the new economic environment and talks about his projects across the Puget Sound area.

Why are micro units an attractive option for both renters and investors in the new economic context?

Micro apartments are a successful way of addressing the housing crisis, as they offer residents a private, healthy and hygienic environment. The micro apartments we build feature dedicated HVAC units, and most of them have balconies. For investors, micro apartments are an attractive investment option in tough economic times, when affordability is at the top of everyone's mind.

Please share a few details about the affordable and workforce housing projects you are currently working on.

We are currently working on a number of projects across Seattle, where the supply of attainable and workforce housing is extremely constrained. Our most recent projects are an 84-unit adaptive reuse through Anew Apartments at 510 Broadway in First Hill, completed just this month, and a 107-unit ground-up project next door

at 500 Broadway, scheduled to be completed in early 2022.

What sustainability features do you usually integrate into the communities you build?

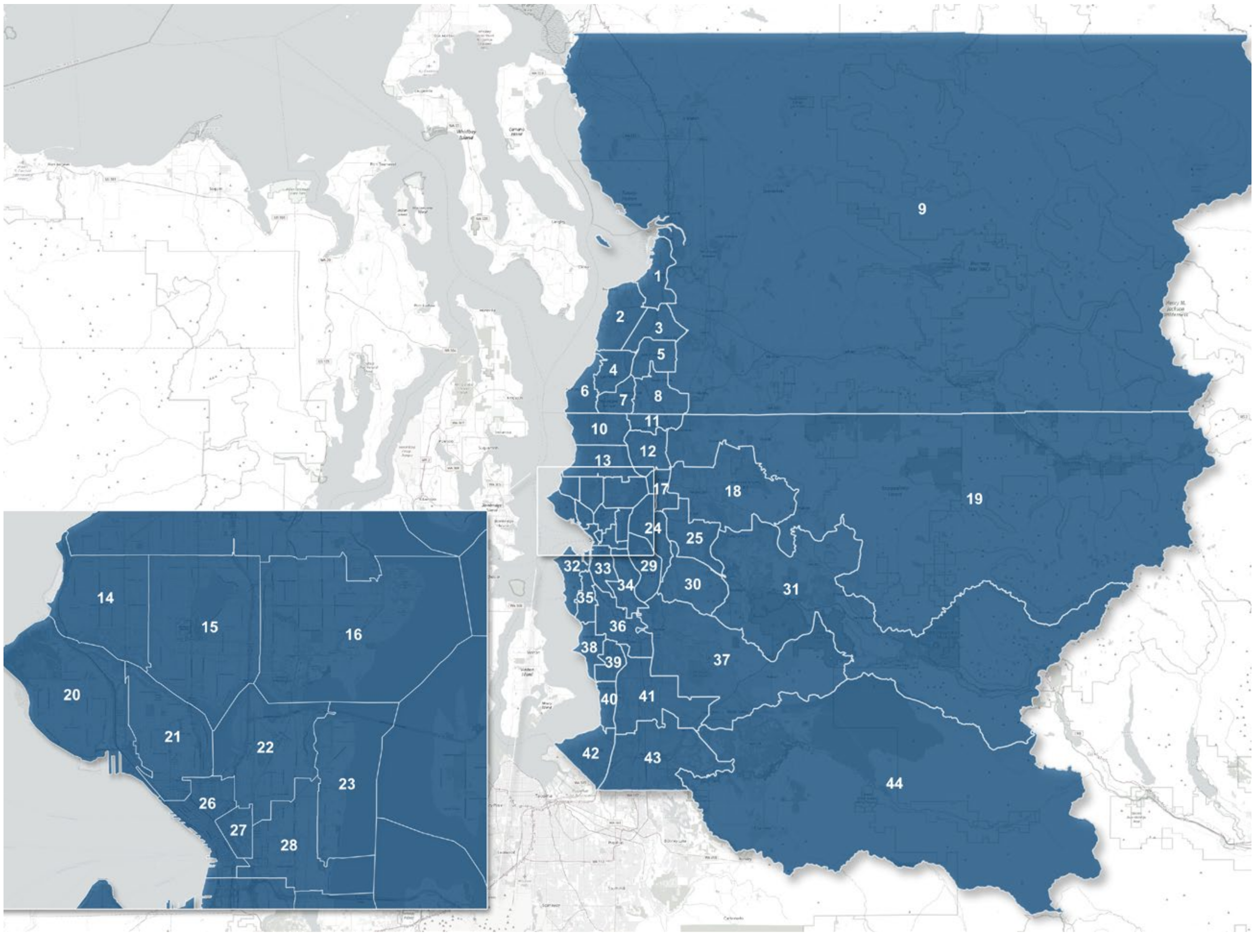
Through their inherent design, our micro apartments are sustainable. Energy consumption is reduced due to the small footprint of living spaces, combined with retained heating and cooling within the building. When possible, we integrate solar energy, utilize heat pumps and look for other strategies to maximize the efficiency of utilities. We are also building to Seattle's energy code, which is one of the most stringent in the nation. Additionally, our residents tend to live a lifestyle with fewer possessions, and, generally, without cars. This reduces carbon footprint while simultaneously stimulating local neighborhood growth and utilization as residents will spend more time near their home.

What are your expectations for the Seattle multifamily market?

We expect to see some contraction in terms of pricing as people pull back from city life, opting to work remotely where there is more access to open space and the cost of living is less. In the immediate future, there will be less competition for rentals, with some price softening, and more concessions. We believe that cities will regain their appeal once people are able to participate in their neighborhoods again, and we expect we could even see a surge in people seeking the community that city living provides.

(Read the complete interview on multihousingnews.com.)

SEATTLE SUBMARKETS



Area No.	Submarket
1	Central Everett
2	Paine Field
3	Silver Lake
4	Lynnwood
5	Mill Creek
6	Edmonds
7	Mountlake Terrace
8	Thrashers Corner
9	Marysville/Monroe
10	Shoreline
11	Bothell
12	Juanita
13	North Seattle
14	Ballard
15	Greenlake/Wallingford

Area No.	Submarket
16	University
17	Kirkland
18	Redmond
19	Woodinville/Totem Lake
20	Magnolia
21	Queen Anne
22	Capitol Hill/Eastlake
23	Madison/Leschi
24	Bellevue–West
25	Bellevue–East
26	Belltown
27	First Hill
28	Central
29	Mercer Island
30	Factoria

Area No.	Submarket
31	Issaquah
32	West Seattle
33	Beacon Hill
34	Rainier Valley
35	White Center
36	Riverton/Tukwila
37	Renton
38	Burien
39	Seatac
40	Des Moines
41	Kent
42	Federal Way
43	Auburn
44	Enumclaw

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also August span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which August barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, August extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.