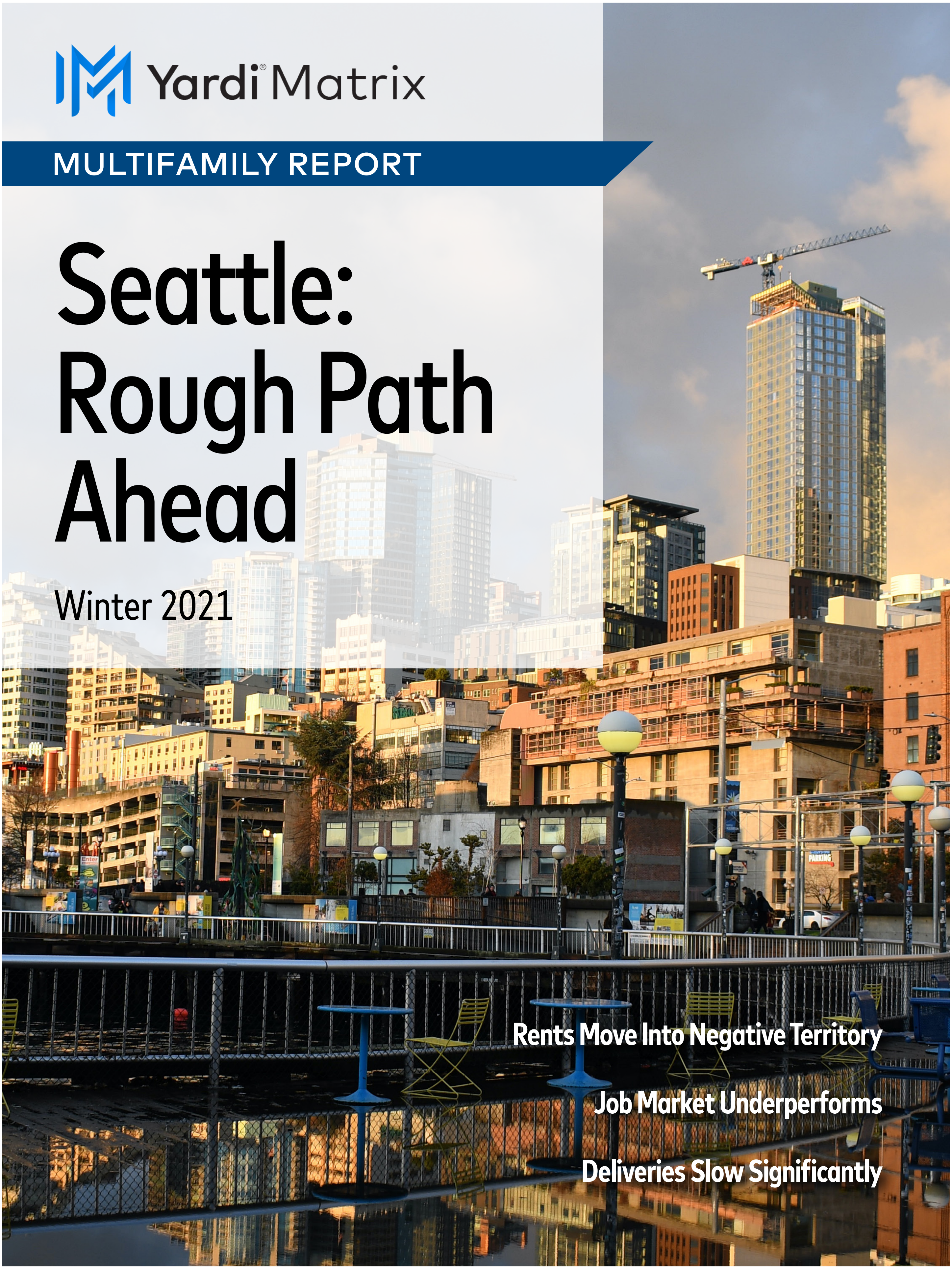
Yardi Matrix

MULTIFAMILY REPORT

Seattle: Rough Path Ahead

Winter 2021



Rents Move Into Negative Territory

Job Market Underperforms

Deliveries Slow Significantly

SEATTLE MULTIFAMILY

Yardi Matrix

Rents Due For A Rebound In 2021

Following several years of consistent performance, Seattle's multifamily market ended 2020 in a difficult position. Rents declined by 1.1% on a three-month basis through December, to an average of $1,797, with the drop expanding the gap between the local and national average to 100 basis points. On a year-over-year basis, rents in the Emerald City contracted by 6.2% in 2020, the fourth-largest dip among major U.S. metros.

Employment posted an 8.1% decline last year, underperforming against the -7.3% U.S. rate. Although the leisure and hospitality sector lost a third of its workforce, construction, financial activities and professional and business services added a total of 5,800 jobs. As the main driver behind Seattle's growth over the past decade, technology remained healthy last year, contributing to the metro's overall economy. Despite embracing a remote-work model, Microsoft, Amazon and Facebook all expanded their local footprints.

Multifamily development was stymied by the pandemic, with only 7,806 apartments coming online in 2020, after four consecutive years of deliveries averaging 11,344 units per year. Following 2019's cycle peak of $5.9 billion, transaction volume slowed and only $1.6 billion in multifamily assets changed hands. Yardi Matrix expects rents to increase by 0.9% in 2021 as restrictions slowly start to lift and COVID-19 vaccines become widely available.

Market Analysis | Winter 2021

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Recent Seattle Transactions

Vue 22

City: Bellevue, Wash.
Buyer: MG Properties Group
Purchase Price: $191 MM
Price per Unit: $423,503

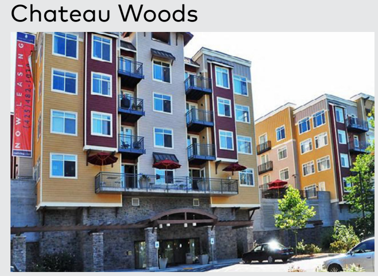
The Windsor

City: Renton, Wash.
Buyer: LivCor
Purchase Price: $56 MM
Price per Unit: $277,713

Alderwood Park

City: Lynnwood, Wash.
Buyer: Blackstone Group
Purchase Price: $49 MM
Price per Unit: $260,638

Chateau Woods



City: Woodinville, Wash.
Buyer: Sack Properties
Purchase Price: $46 MM
Price per Unit: $401,316

RENT TRENDS

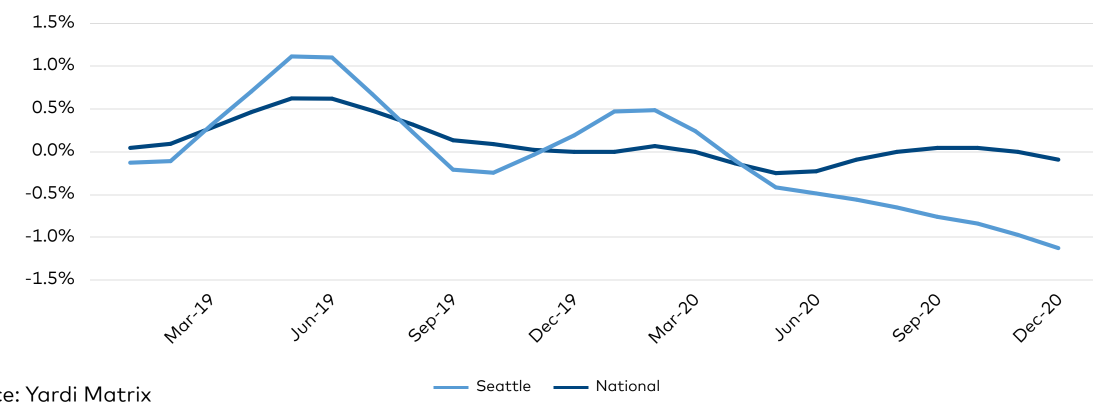
- Rents contracted by 1.1% on a trailing three-month (T3) basis through December, to $1,797, while national rents only slid 0.1%. Moreover, Seattle ranked second for month-over-month rent declines (-1.3%), following another high-cost market, San Jose (-2.4%). Rent expansion in Seattle has fluctuated over the past few years, with the health crisis moving it into negative territory.

- Lifestyle properties were the hardest hit, falling 1.2% on a T3 basis to $2,016. Considering the vast majority of upcoming deliveries are upscale units, this decline is likely to continue. At the same time, working-class Renter-by-Necessity rents contracted by 0.9% to $1,540.

- Of the 44 Seattle submarkets that Yardi Matrix tracks, only seven saw positive rent movement in 2020. Rents dropped significantly in some of the most expensive areas such as Bellevue-West (-6.4% to $2,437) and Belltown (-11.6% to $2,300). Meanwhile, the highest-performing areas were southern submarkets Federal Way and Des Moines, with an average rate hike of 2.9% and 1.8%, respectively.

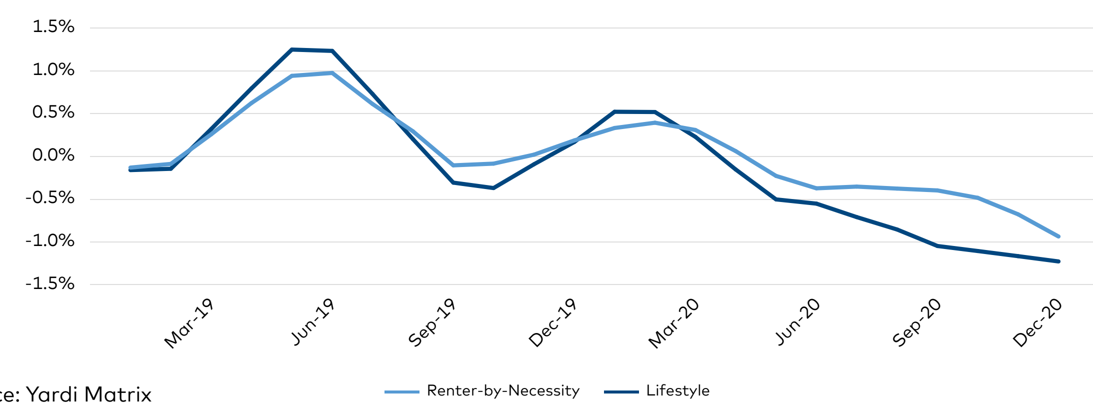
- Washington state extended its eviction moratorium for the third time, allowing low-income renters struggling because of the ongoing economic crisis to receive temporary relief until March 31. However, debt is amassing and those that are behind on payments are counting on rental assistance funds included in the $900 billion relief bill that passed in late December.

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

- Seattle's unemployment rate dropped from an all-time high of 16.1% in April to 4.4% in November, according to preliminary BLS data. In the 12 months ending in November, Seattle lost 128,600 jobs, mostly in leisure and hospitality.

- As in most parts of the country, the shift from brick-and-mortar to e-commerce has been boosting the metro's industrial market, as companies needed to add capacity quickly. Bridge Development Partners acquired 117 acres for the future site of a 1.9 million-square-foot industrial park close to the Port of Tacoma. Additionally, despite embracing a work-from-home model, Seattle's tech sector real estate footprint is unlikely to shrink. Microsoft's multibillion-dollar redevelopment of its Redmond campus moved forward during the pandemic, while Facebook paid almost $368 million for a 400,000-square-foot office campus in Bellevue. Amazon also leased an additional 2 million square feet in Bellevue, where it intends to bring 10,000 new employees in the next few years.

- With eastern submarkets buoyed by renter and investor demand, work on The Eastrail—a new 42-mile trail system that connects the Eastside cities—has also advanced in the past few months, although the challenges of 2020 have extended the project's construction timeline.

Seattle Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
15	Mining, Logging and Construction	110	6.6%
55	Financial Activities	90	5.4%
60	Professional and Business Services	273	16.5%
50	Information	126	7.6%
80	Other Services	54	3.3%
40	Trade, Transportation and Utilities	323	19.5%
90	Government	207	12.5%
65	Education and Health Services	214	12.9%
30	Manufacturing	143	8.6%
70	Leisure and Hospitality	117	7.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- In 2019, the metro added 40,482 residents, up 1.0% and 70 basis points above the U.S. growth rate.

- Seattle's population has been on a steady upward trajectory over the past decade, marking a 15.4% increase since 2010. Growth was mostly boosted by in-migration.

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

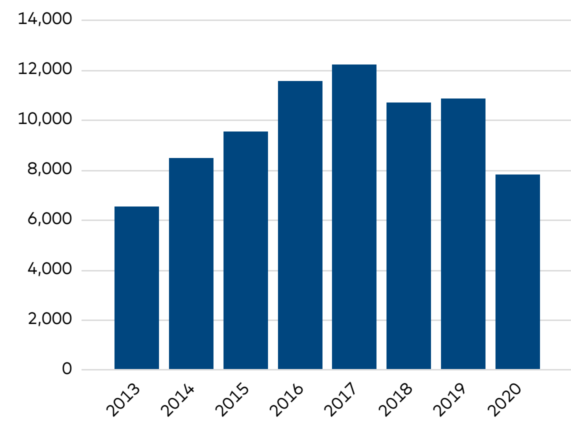
- Seattle had 23,113 units underway at the end of last year, with three-quarters of them geared toward high-income residents. Although construction starts slowed in 2020—with developers breaking ground on 7,686 units, compared to 8,152 units in 2019—they were still above 2018 and 2017 levels.

- Following four years when deliveries surpassed the 10,000-unit mark, only 7,806 apartments came online in 2020. Of those, 70% catered to the Lifestyle segment, which has been the focus for most developers over the past decade. However, the demand for more affordable housing options has been on the rise, particularly over the past 12 months due to pandemic-mandated layoffs and furloughs. Recently, Amazon and Microsoft—two of the largest employers in the Puget Sound—committed to investing billions of dollars in the preservation and creation of more affordable housing units over the next few years.

- The top 5 submarkets for development accounted for half of the projects underway. Belltown led construction activity with 4,552 units underway as of December, followed by Redmond, Rainier Valley, Woodinville/Totem Lake and Kent.

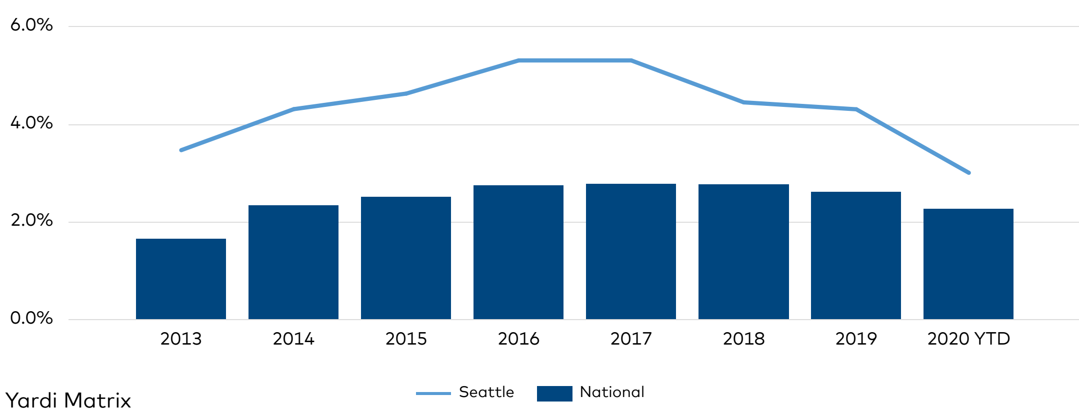
- Seattle's most densely populated submarket, Belltown, also accounts for the two largest projects in the metro: Onni South Lake Union—a 1,128-unit project developed by Onni Real Estate—and 1200 Stewart, another 1,000-plus-unit development from Westbank Projects Corp.

Seattle Completions (as of December 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

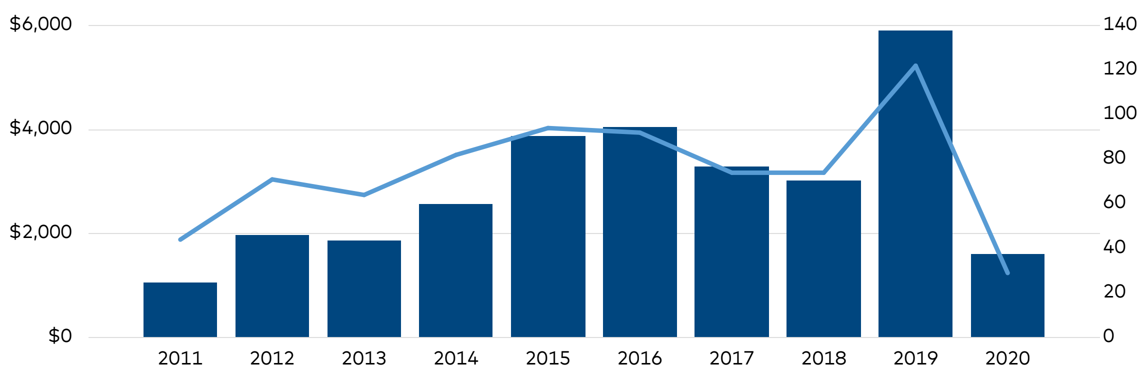
TRANSACTIONS

- Transaction activity in Seattle slowed significantly last year. Only $1.6 billion in multifamily assets changed hands—the lowest volume since 2011. This followed 2019's cycle peak of $5.9 billion. Most deals were closed in the second half of 2020, after the health crisis-generated lockdowns were lifted.

- Investor interest was split between asset classes, and, despite the overall decline in volume, the average price per unit hit a peak of $348,483, a 17% year-over-year increase and more than double the U.S. figure. The average price was influenced by the largest multifamily transaction of the past decade: Oxford Properties Group paid $320 million, or $695,652 per unit, for the 460-unit, LEED Gold-certified Kiara in Belltown.

- Suburbs such as Bellevue-East, Kent and Renton were among the most coveted as investors looked to capitalize on growing tenant demand for more affordable areas outside of the city core.

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



Source: Yardi Matrix

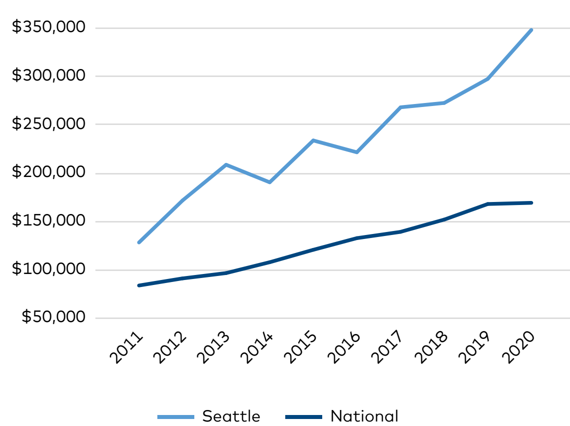
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Belltown	386
Bellevue-East	191
Kent	181
Renton	167
Central	125
Redmond	117
Juanita	93

Source: Yardi Matrix

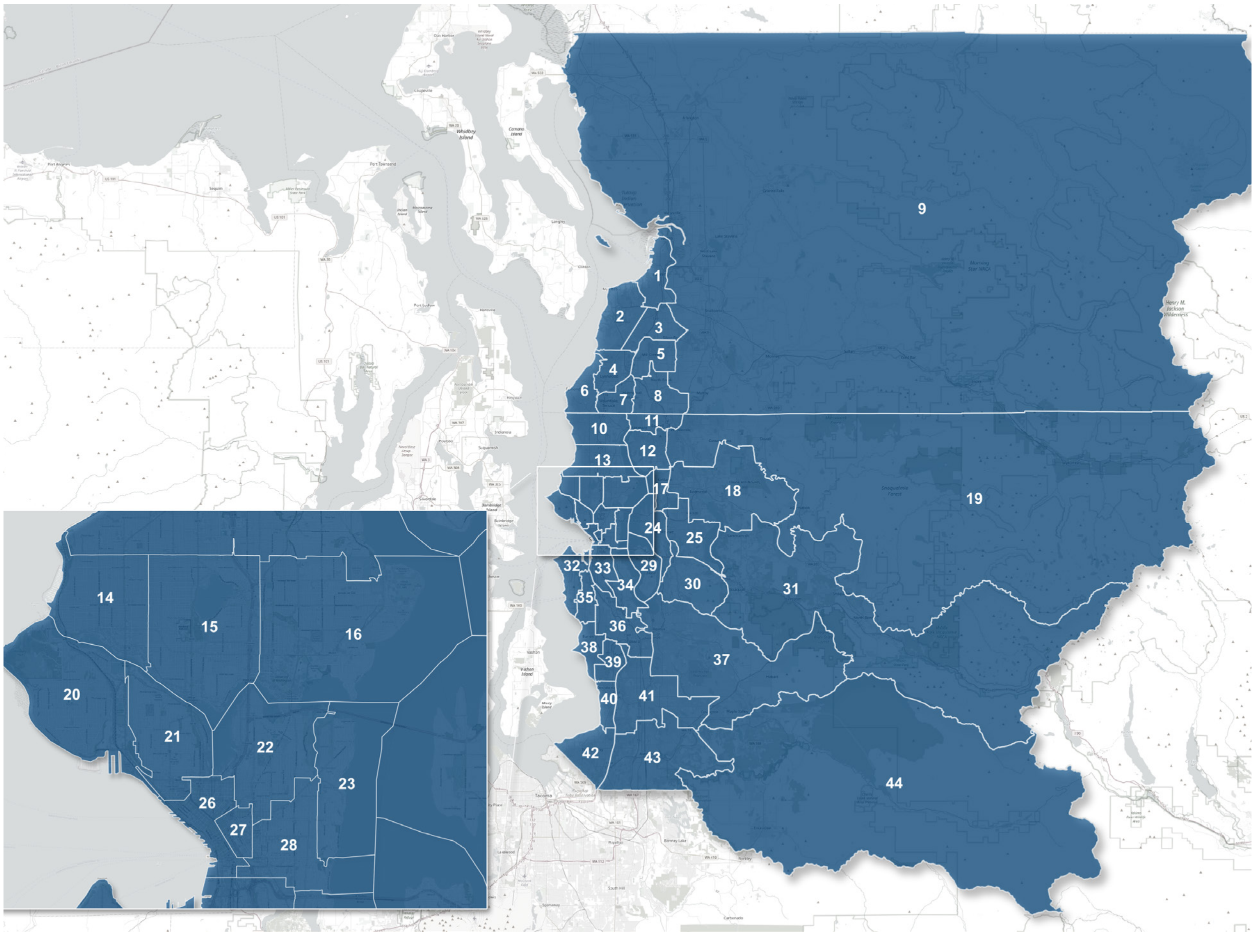
[1] From January 2020 to December 2020

Seattle vs. National Sales Price per Unit



Source: Yardi Matrix

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 December 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 December 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, December 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.

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