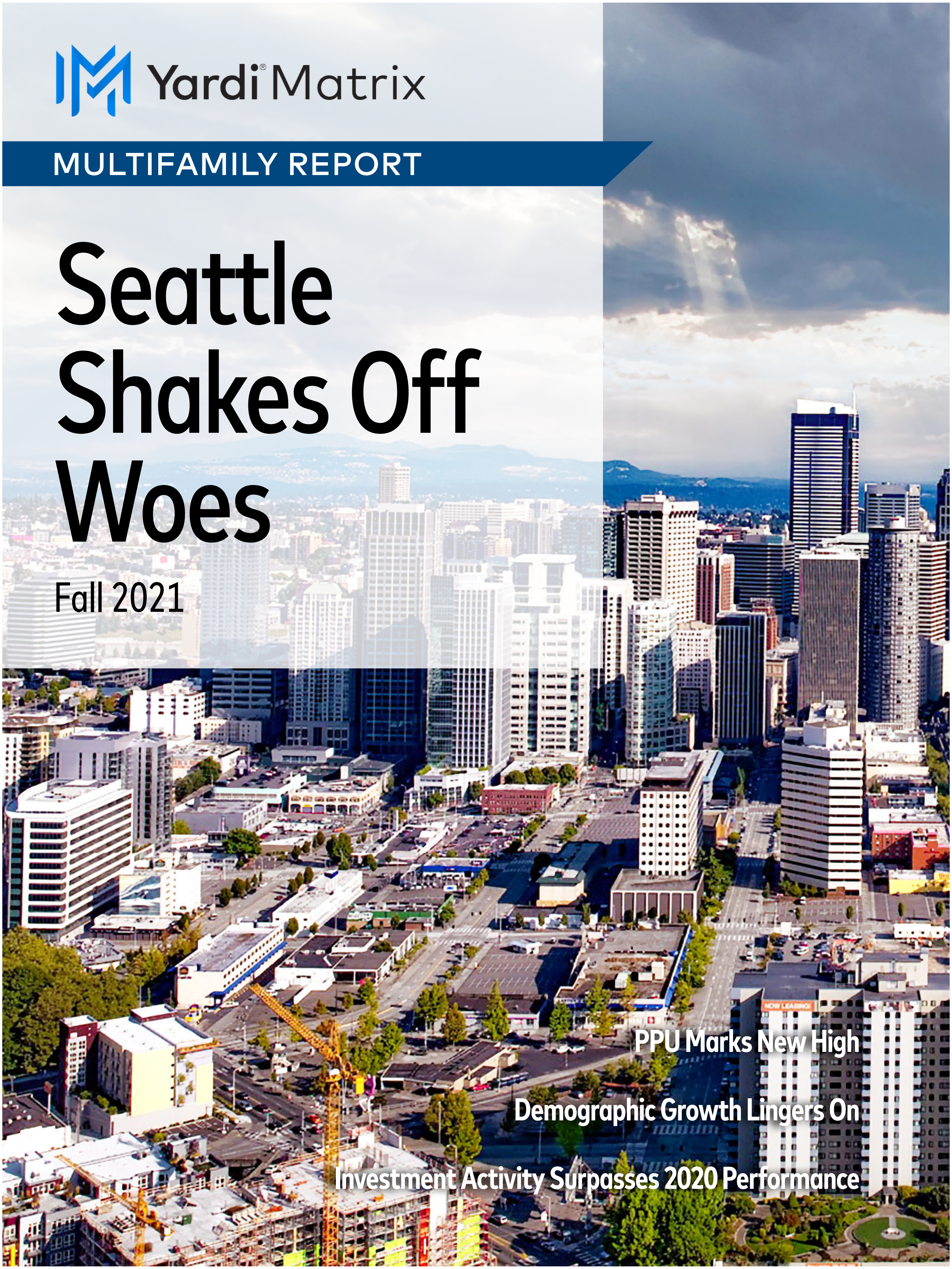

Yardi Matrix

MULTIFAMILY REPORT

Seattle Shakes Off Woes

Fall 2021

PPU Marks New High

Demographic Growth Lingers On

Investment Activity Surpasses 2020 Performance

SEATTLE MULTIFAMILY

Yardi Matrix

Rents Rebound, Deliveries Slow Down

As the economy in the Puget Sound area gets going again and people move back into city centers, rents are also steadily increasing. Through September, Seattle rates rose 2.0% on a trailing three-month basis and 10.0% on a year-over-year basis. The slow pace of deliveries since the outbreak of the health crisis kept the average rent ($2,046) well above the $1,558 national figure.

As of July, the metro's unemployment rate was 5.3%, with Seattle regaining 101,100 jobs year-over-year. After going through a rough time in 2020, the Emerald City's economy is bouncing back, mainly powered by its tech giants. Amazon plans to expand to Bellevue and create 7,000 new jobs over the next few years, while Microsoft intends to continue work at its Redmond campus expansion, which will eventually accommodate 8,000 employees. Moreover, Seattle landed the ninth spot in the Urban Land Institute and PricewaterhouseCoopers' ranking of top real estate markets to watch in 2022, which is bound to further boost its overall appeal.

Only 5,125 units were added to Seattle's inventory in the first three quarters of the year, well below the 10,792-unit annual average for the past five years. But transaction activity has already surpassed last year's total volume of $1.9 billion, a sign that the metro's multifamily investment market is gradually coming out of the health crisis-induced numbness.

Market Analysis | Fall 2021

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Laura Calugar
Senior Editor

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Recent Seattle Transactions

Chandler's Bay

City: Kent, Wash.
Buyer: Harbor Group International
Purchase Price: $90 MM
Price per Unit: $307,338

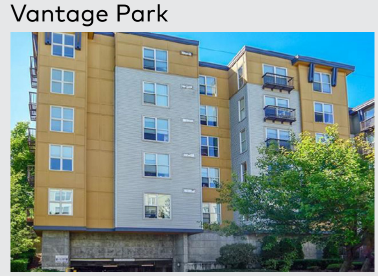
Avana at South Station

City: Tukwila, Wash.
Buyer: Greystar
Purchase Price: $52 MM
Price per Unit: $247,319

Discovery Landing

City: Burien, Wash.
Buyer: RISE Properties Trust
Purchase Price: $46 MM
Price per Unit: $314,768

Vantage Park

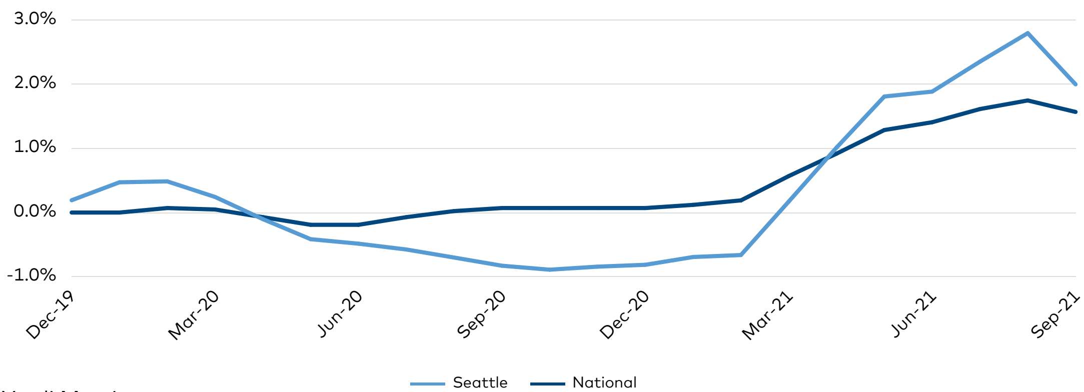


City: Seattle
Buyer: American Capital Group
Purchase Price: $35 MM
Price per Unit: $382,967

RENT TRENDS

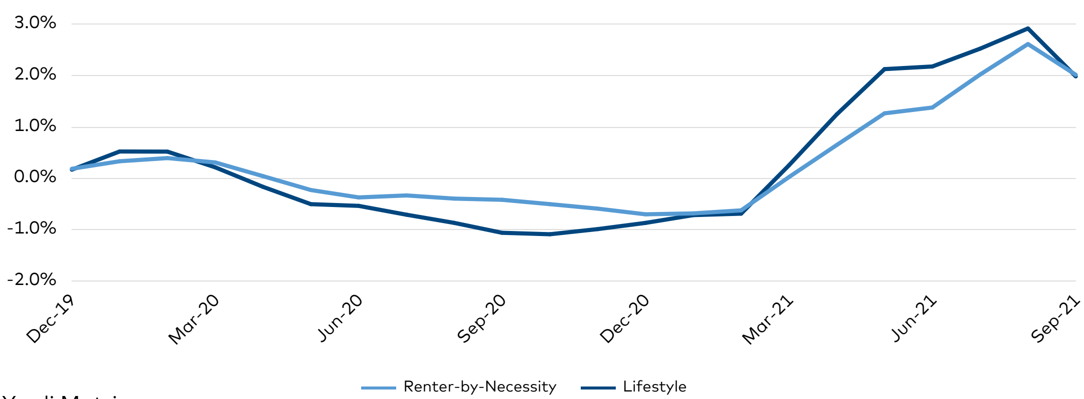
- Seattle rents averaged $2,046 in September, a 2.0% increase on a trailing three-month (T3) basis and 40 basis points above the national rate. On a year-over-year basis, rents were up a solid 10.0%, but did not surpass the U.S. rate (11.4%).
- Rent growth was even across the quality spectrum, with rates for both segments rising 2.0% on a T3 basis. The average rent for Lifestyle assets was $2,322, while rents in the working-class Renter-by-Necessity segment were $1,715.
- The average occupancy rate in stabilized Seattle properties was 95.7% as of August, up 150 basis points year-over-year. Among factors that led to this occupancy increase was Washington state's moratorium on evictions. Meanwhile, as the cost of operating and maintaining rental properties continued to rise, landlords have been able to access mitigation programs to cover their losses. Through the Landlord Covid Relief program, owners can receive up to $15,000 for unpaid rents from March 2020 through December 2021.
- More than half of the 44 submarkets tracked by Yardi Matrix posted double-digit rent growth in the 12 months ending in September. Thrashers Corner (16.3%) and Issaquah (14.1%) were the most sought-after submarkets.
- The Seattle single-family rental market is also performing well, with rents up 10.7% year-over-year through September to $3,205. Meanwhile, SFR rents in the U.S. grew by 14.3% to $1,899.

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 added 101,100 jobs in the 12 months ending in July, with leisure and hospitality (32,200 jobs), along with professional and business services (23,000 jobs) accounting for most of them. The metro's unemployment rate stood at 5.3% in July.

- Amazon and Microsoft, two of the largest employers in the Seattle area, both announced expansions in the metro. Amazon intends to expand to Bellevue—just 10 miles east of its downtown Seattle headquarters—where it is building two sustainable office buildings with a total capacity for more than 7,000 employees. The other tech giant is moving forward with its multibillion-dollar expansion of its Redmond campus, which will eventually total 2.5 million square feet and accommodate 8,000 new employees. These extensions have been supporting the construction industry in the metro area, which has been challenged by project cancellations and significant supply chain issues.

- On a less positive note, the manufacturing industry in the metro was the only one that lost jobs (-8,900 positions). Boeing—the biggest employer in the Puget Sound area—chose to consolidate production of 787 jets at its South Carolina plant, a decision that generated thousands of layoffs at its facility in Renton.

Seattle Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	145	8.4%
60	Professional and Business Services	280	16.2%
65	Education and Health Services	223	12.9%
40	Trade, Transportation and Utilities	334	19.3%
15	Mining, Logging and Construction	112	6.5%
50	Information	140	8.1%
80	Other Services	61	3.5%
55	Financial Activities	89	5.1%
90	Government	204	11.8%
30	Manufacturing	141	8.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Seattle gained 38,753 residents last year, up 1.0% and 60 basis points above the national rate.

- Census data shows that the Seattle metropolitan area—which includes Pierce, King and Snohomish counties—is now the 15th largest in the country.

Seattle vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Seattle Metro	3,884,469	3,939,363	3,979,845	4,018,598

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

SUPPLY

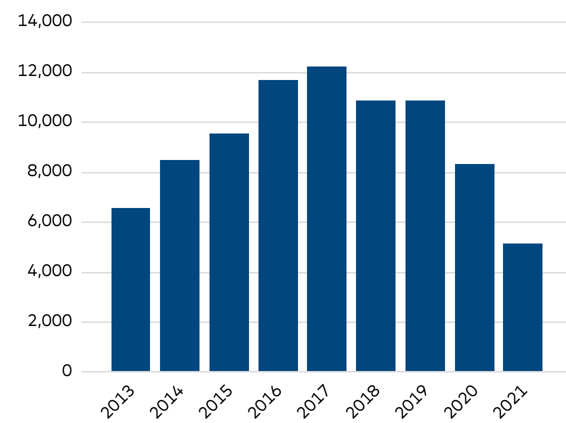
- There were 26,470 units under construction in Seattle as of September, with roughly a third of them in affordable and workforce projects. Developers also had 94,424 units in the planning and permitting stages.

- Just 5,125 apartments were added to the Seattle metro's inventory this year through September, most of them in King County. Projected completions for 2021 sit at 7,161 units, well below the 10,792-unit annual average for the past five years. Contributing to the dip in deliveries this year were the health crisis-driven delays in permitting and financing, the shortage of skilled workers as well the steadily increasing construction materials costs.

- Developers are most active in Belltown (4,704 units under construction) and Redmond (3,291 units), two submarkets that provide easy access to large employment centers. Roughly half of the apartments underway in Seattle's most densely populated submarket—Belltown—are split between the largest and the second-largest multifamily developments in the metro.

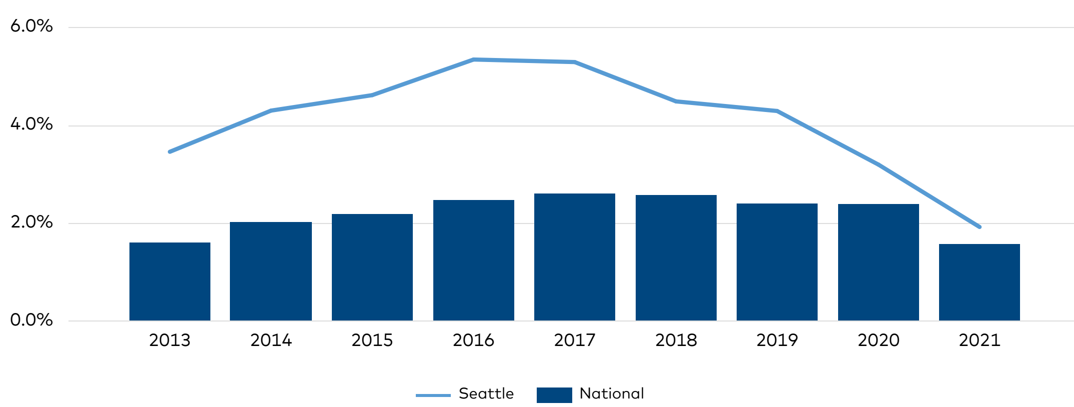
- Onni Real Estate is building the 1,128-unit Onni South Lake Union project using an undisclosed amount from a $373 million construction line of credit funded by Otera Capital, while Westbank Projects Corp.'s 1,050-unit 1200 Stewart is being erected using a $297 million loan funded by the same lender. Both projects are slated to come online by year-end and alter the look of Seattle's Denny Way.

Seattle Completions (as of September 2021)



Source: Yardi Matrix

Seattle vs. National Completions as a Percentage of Total Stock (as of September 2021)



Source: Yardi Matrix

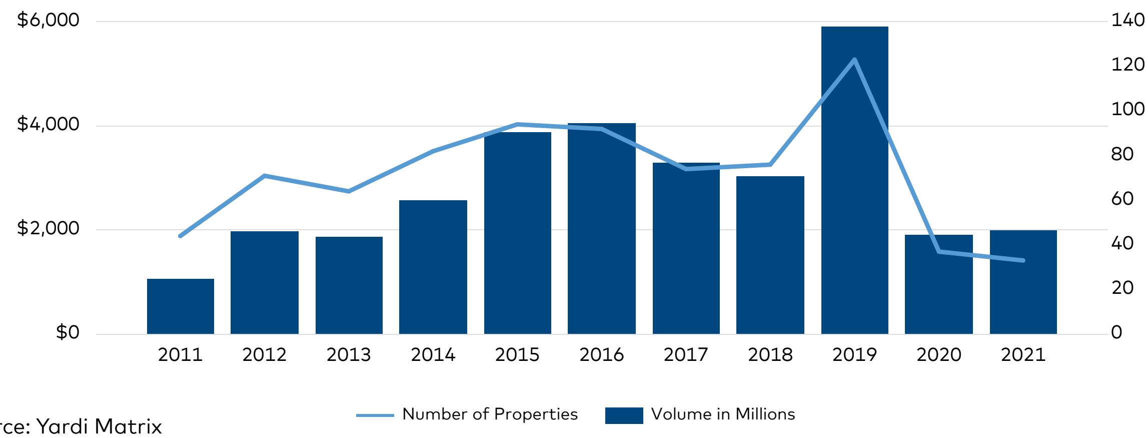
TRANSACTIONS

- Seattle multifamily sales amounted to $2 billion in the first three quarters of 2021, already surpassing last year's $1.9 billion total investment volume. However, transaction activity is still well behind 2019's cycle peak of $5.9 billion.

- With a low number of assets on the market, per-unit prices soared to $374,483 this year, more than double the $179,959 national average and 13% above last year's figure. Sales composition was balanced across segments, with a slight preference for Lifestyle—17 of the 33 deals recorded in the first nine months of 2021 were for high-end assets.

- Bellevue-West and Bellevue-East accounted for more than a third of the $2.9 billion total transaction volume in the 12 months ending in September. Last year, Amazon announced plans to expand in Bellevue and employ another 25,000 people by 2025, which rapidly enhanced the city's overall investment appeal.

Seattle Sales Volume and Number of Properties Sold (as of September 2021)



Source: Yardi Matrix

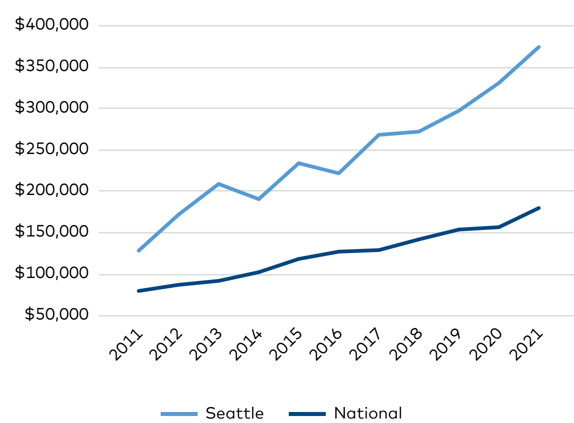
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Bellevue-West	511
Bellevue-East	497
Kent	397
Redmond	269
Des Moines	205
Woodinville/Totem Lake	133
Renton	123

Source: Yardi Matrix

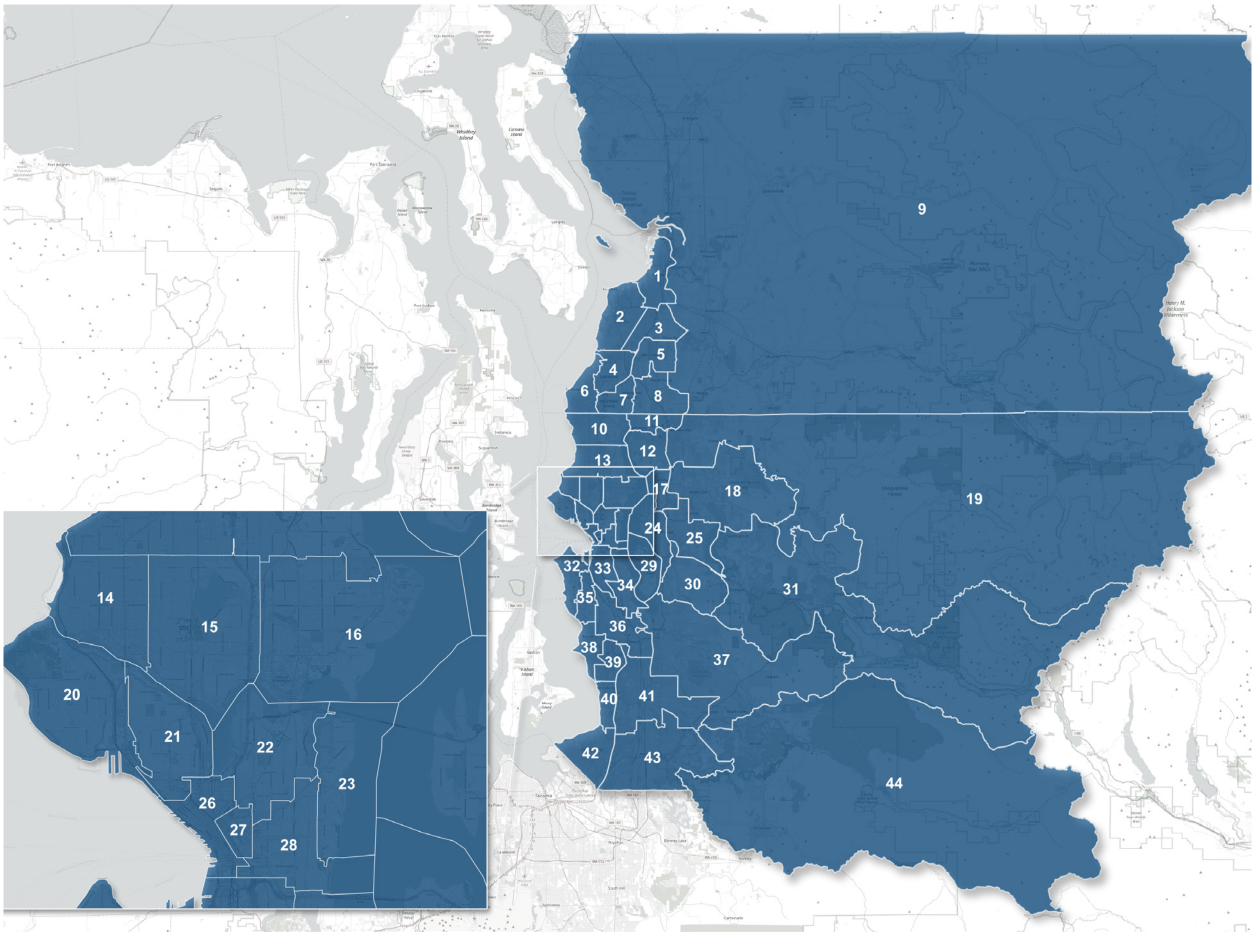
[1] From October 2020 to September 2021

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.