Yardi Matrix

MULTIFAMILY REPORT

Seattle Inches Up

February 2022

Rental Market Records Modest Growth

Construction Struggles to Recover

New Stock Trails 2020 Volume

SEATTLE MULTIFAMILY

Yardi Matrix

Rent Growth Cools As Supply Struggles

Seattle's road to recovery is still slow, as supply chain challenges and labor shortages persisted in 2021. Through December, rents in the metro were up only 0.1% on a trailing three-month basis, while year-over-year growth was 12.4%. Mediocre numbers of new units kept Seattle rates at $2,048, well above the national level of $1,594.

Seattle's unemployment rate dropped to 3.1%, representing the lowest level since the onset of the health crisis, according to preliminary data from the Bureau of Labor Statistics. The employment market added 101,300 jobs across all sectors, up 6.2% in the 12 months ending in October. That's 90 basis points more than the national average. The metro's second biggest sector—professional and business services—added 22,400 positions for an 8.5% increase. Tech giants have remained active in the metro, with both Amazon and Microsoft moving forward with their office projects in Redmond and Bellevue. Meanwhile, Meta added another 213,000 square feet of office space at the underway Building 13 in Bellevue's Spring District.

Construction slowed down in 2021, with developers adding 7,960 units to the metro's multifamily inventory, the lowest number since 2013. Seattle had 26,012 units across 43 multifamily properties under construction as of December, with an additional 93,000 units in the planning and permitting stages.

Market Analysis | February 2022

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Recent Seattle Transactions

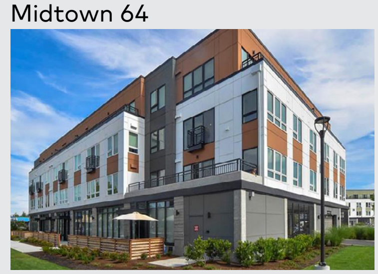
The Bristol at Southport

City: Renton, Wash.
Buyer: Kennedy Wilson
Purchase Price: $190 MM
Price per Unit: $497,945

The Ridgedale

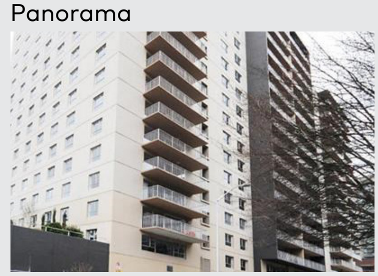
City: Bellevue, Wash.
Buyer: Abacus Capital Group
Purchase Price: $144 MM
Price per Unit: $431,138

Midtown 64



City: Kent, Wash.
Buyer: Security Properties
Purchase Price: $141 MM
Price per Unit: $385,438

Panorama



City: Seattle
Buyer: Pacific Urban Investors
Purchase Price: $120 MM
Price per Unit: $669,641

RENT TRENDS

- Seattle rents rose 0.1% on a trailing three-month (T3) basis through December, 50 basis points less than the national average. Even with modest growth, the metro closed 2021 with an average rent of $2,048, well above the U.S. average of $1,594. While rents year-over-year in the metro were up a solid 12.4%, they didn't surpass the average national rate of 13.5%.

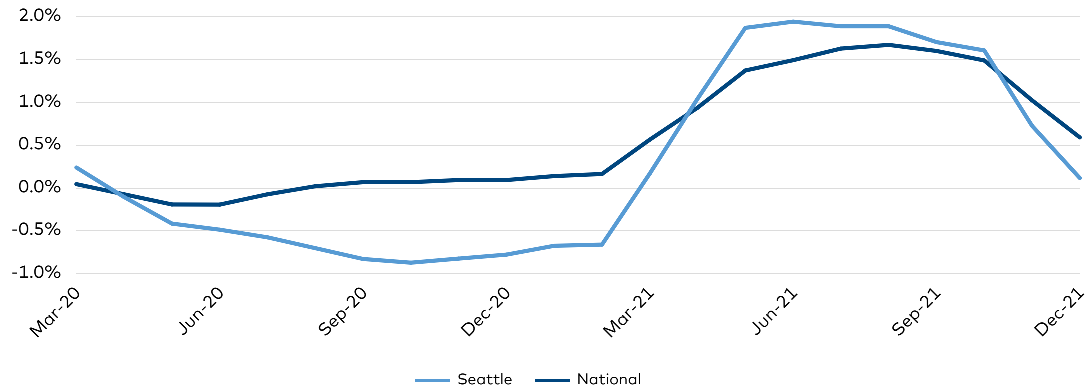
- Rent expansion was equal across the quality spectrum, up 10 basis points on a T3 basis. Renter-by-Necessity assets were up to $1,706, while rents in the Lifestyle segment ended 2021 at $2,328.

- The average occupancy rate in stabilized assets rose 200 basis points year-over-year as of December, to 95.8%. Lifestyle assets saw a 240-basis-point increase in occupancy, to 95.7%. Renter-by-Necessity assets recorded a 96.1% occupancy rate, up 170 basis points.

- The submarkets with the highest rate increases year-over-year closed the year with above-average rents. Bellevue–East rose 18.1% to $2,149, Redmond rents grew 16.0% to $2,278 and Belltown improved 15.9% to $2,667.

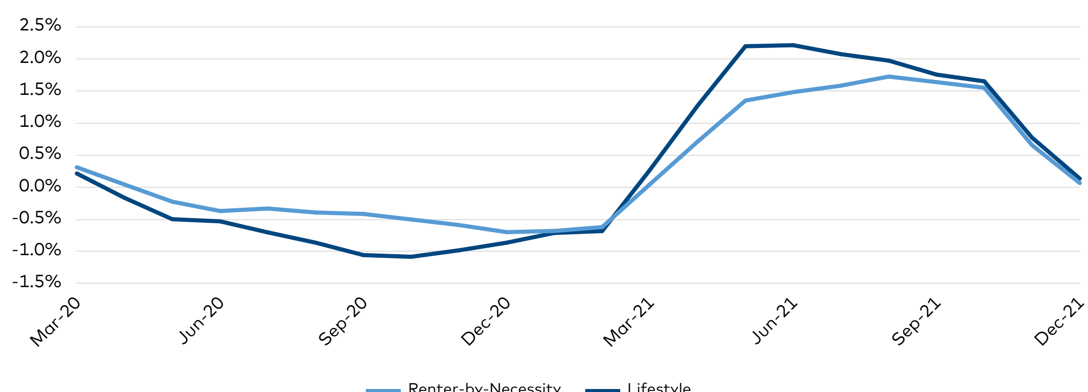
- Rents in the single-family-rental market in Seattle rose 7.0% year-over-year through December to $3,209. While growth was moderate, rents topped U.S. levels. National SFR rents were up 13.8% in the same period, to $2,120.

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

- At 3.1%, Seattle's unemployment rate reached its lowest level since the onset of the health crisis, according to Bureau of Labor Statistics data. The metro's recovery is outpacing the national level, as the U.S. unemployment rate stood at 4.6%, according to November data. In the 12 months ending in October, Seattle added 101,300 jobs across all sectors for a 6.2% increase to the labor market, 90 basis points above the national average.

- The leisure and hospitality sector led job improvement, adding 30,300 jobs, up 26.2%. To help struggling local businesses—especially those hit by the health crisis such as restaurants, bars and live entertainment venues—Washington state offered up to $150,000 in low-interest loans through the Small Business Flex Fund. Businesses with fewer than 500 employees could claim refundable tax credits for the cost of providing paid sick and family leave to their employees due to COVID-19.

- Professional and business services, the metro's second-largest sector, added 22,400 positions. Both Microsoft and Amazon are moving forward with their projects in Redmond and Bellevue. Facebook parent company Meta took 213,000 square feet at Building 13 in the Spring District development in Bellevue.

Seattle Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	146	8.3%
60	Professional and Business Services	285	16.3%
50	Information	142	8.1%
40	Trade, Transportation and Utilities	336	19.2%
65	Education and Health Services	226	12.9%
90	Government	211	12.1%
15	Mining, Logging and Construction	110	6.3%
30	Manufacturing	145	8.3%
55	Financial Activities	89	5.1%
80	Other Services	61	3.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Seattle has consistently added residents throughout the interval, having increased by nearly 135,000 between 2017 and 2020.

- The metro's population rose 1.0% in 2020 alone, well above the 0.4% national rate.

Seattle vs. National Population

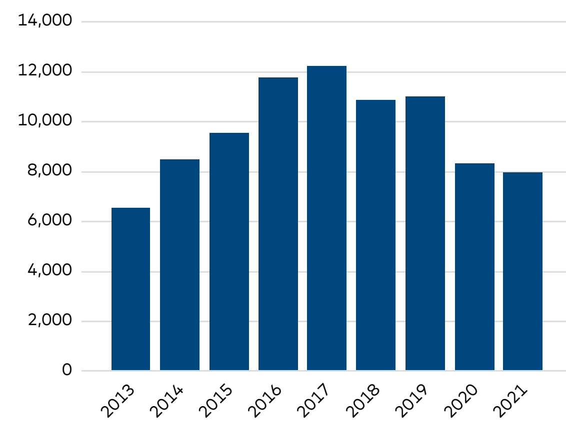
	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Seattle Metro	3,884,469	3,939,363	3,979,845	4,018,598

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

SUPPLY

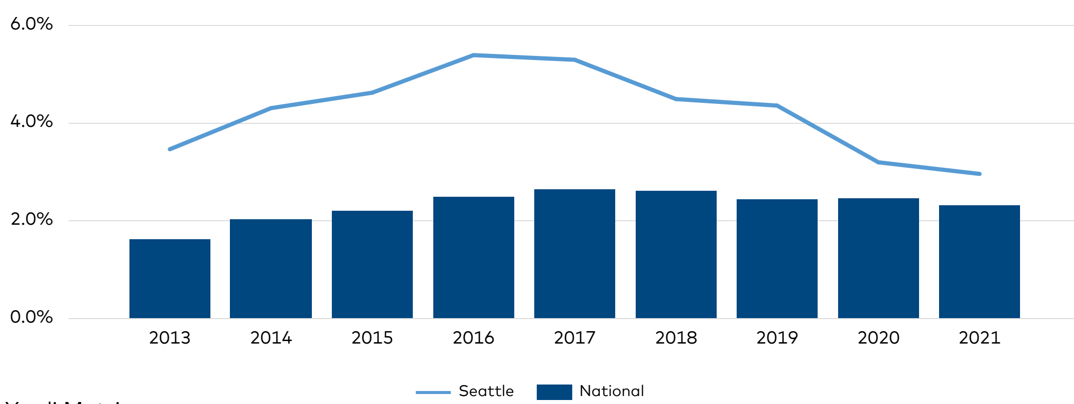
- Seattle had 26,012 units underway across 43 multifamily properties as of December, 4,911 of which were in fully affordable projects. Developers focused on Lifestyle properties, with 71.1% of units under construction catering to the segment. An additional 93,400 units were in the planning and permitting stages.
- Developers added only 7,960 units to Seattle's multifamily inventory in 2021, for the lowest number recorded since 2013. The figure represented 3.0% of total stock and was 60 basis points over the national average. After an average of almost 11,500 units delivered per year between 2016 and 2019, deliveries plummeted to 8,346 units in 2020, as health crisis-induced difficulties impacted construction. Seattle added 4.8% fewer units to the inventory compared to 2020.
- Construction activity was highest in Belltown (5,042), the metro's most densely-populated submarket, as developers remain confident in Seattle's downtown. Almost half of the total units currently under development in the submarket is split between two massive projects: the 1,128-unit Onni South Lake Union and the 1,050-unit 1200 Stewart Street. The developments are within half a mile from one another.
- Developers are active in submarkets that are close to major employers—Redmond (2,949 units) and University (2,117 units). The largest multifamily project in 2021 delivered in the second quarter of the year. Lincoln Property Co. received a $138 million construction loan in 2016 from Daiwa House Group for the 664-unit Parkside. The three-building property has easy access to the Microsoft corporate campus.

Seattle Completions (as of December 2021)



Source: Yardi Matrix

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



Source: Yardi Matrix

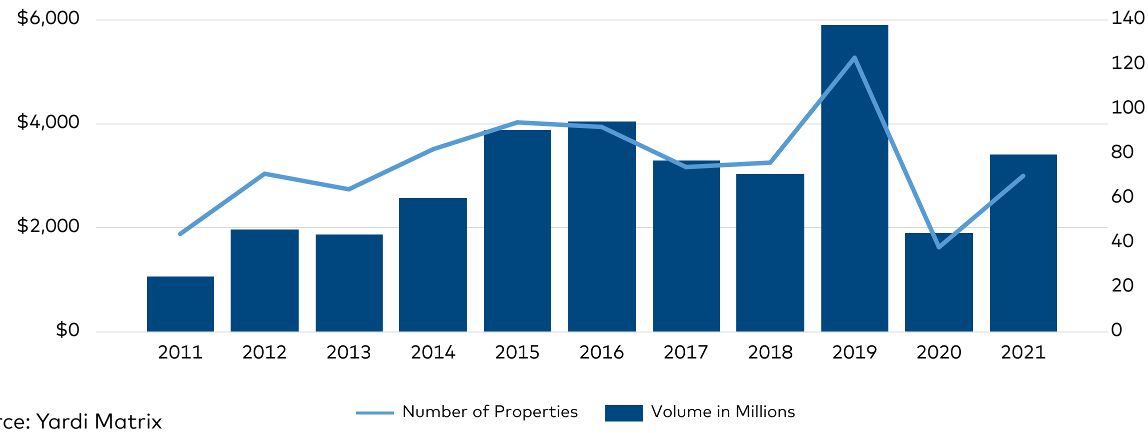
TRANSACTIONS

- Transaction activity in Seattle picked up in 2021, with roughly $3.4 billion in assets sold. This represents a 44.4% increase from the almost $1.9 billion recorded in 2020, when sales dropped to the lowest level since 2013. While investor interest for rental assets has bounced back to pre-pandemic levels, the metro is a good distance from the 2019 cycle high of $5.9 billion.

- Investor interest in Seattle multifamily properties was divided equally between the two quality segments. Of the 70 properties that changed hands in 2021, 36 were upscale assets. The $372,476 price per unit reached a decade high, up 12.5% since 2020, and nearly double the $188,338 U.S. figure.

- Two submarkets attracted more than a quarter of all investor activity. Close to the offices of several tech giants, Bellevue–West ($511 million) and Bellevue–East ($451 million) remained the most in-demand areas.

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



Source: Yardi Matrix

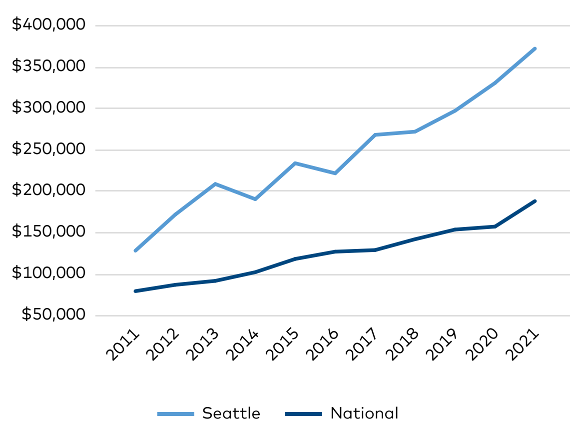
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Bellevue–West	511
Bellevue–East	451
Kent	422
Redmond	269
Renton	231
First Hill	184
Central	150

Source: Yardi Matrix

[1] From January 2021 to December 2021

Seattle vs. National Sales Price per Unit



Source: Yardi Matrix

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MHN MULTI-HOUSING NEWS

Multifamily, New Tech Tools & the COVID-19 Factor

By Lucia Morosanu

At Thrive Communities, a company that manages more than 100 properties across the Puget Sound area and greater Pacific Northwest, the shift toward remote work was almost seamless as the firm had accelerated the use of technology long before the health crisis began to take shape in the U.S. Vice President of Marketing and Technology Paul Edgeman expands on the accelerating use of tech in property management and marketing.

Are there any Seattle submarkets that have been struggling to adapt to the pandemic-induced landscape?

From my perspective, it has been encouraging to watch how different submarkets were challenged but adapted and overcame obstacles to mitigate negative pandemic impacts.

Thrive communities south of Seattle, on average, were spending more time assisting residents with rental payment assistance programs to mitigate delinquency while maintaining solid occupancy metrics, where our core Seattle properties were forced to grant concessions and rate reductions to maintain occupancy.

What new technologies have you implemented at your communities to meet the latest healthguidelines?

Thrive was fortunate in that we already utilized a completely paperless leasing workflow that allows prospects and residents to maintain minimal contact

to the level of their comfort. This was extremely helpful as Thrive has leased up more than 10 communities during the COVID-19 era.

Please talk about how your multifamily marketing strategy changed in the past 18 months.

The pandemic accelerated marketing technology platforms that we had been pushing for years ago to the forefront of the conversation. All of a sudden, advanced AI communication tools, virtual touring platforms, self-service tour booking and SMS enablement were things that needed to be implemented as soon as possible instead of kicked down the road.

With the rise of work-from-home, have residents expressed their need for work spaces within their community?

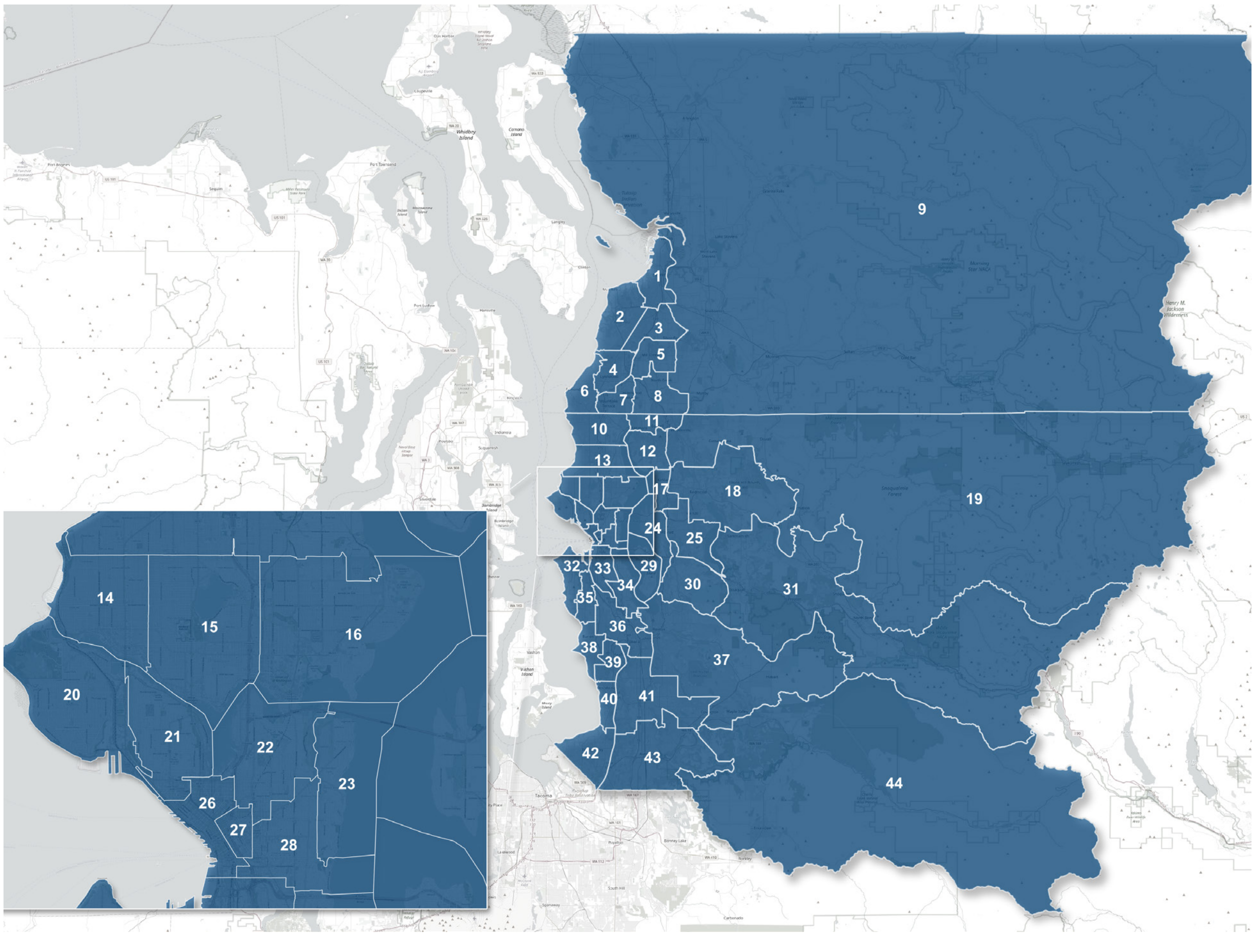
We have had some requests for work-from-home spaces, but not as many as expected. We feel people are meeting their needs instead by moving to communities that offer the space they need inside their home, which is fueling some of the significant movement in the market.

What type of amenities do you think will be the most attractive in a post-pandemic world?

I think the focus has shifted more toward what can be accomplished inside the home. But with that said, we have focused intensely on having class-leading fiber optic telecom capabilities at all buildings eligible. Access control that allows for deliveries and service-based amenities like laundry lockers have also been met with positive feedback.

(Read the full interview on www.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 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.