YARDI® Matrix

Seattle's Banner Year

Multifamily Report Spring 2017

Safe Harbor Welcomes Investors

Apartment Bubble Soon to Burst

Key Sectors Sustain Strong Job Growth

Market Analysis

Spring 2017

Contacts
Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

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

Author
Adina Marcut
Associate Editor

Supercharged Demand

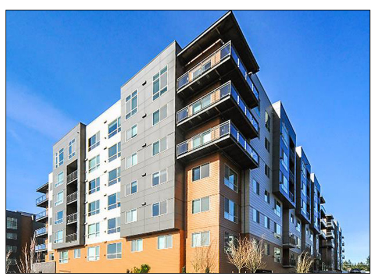
Seattle's vibrant economy has produced job growth in a broad range of sectors, supporting housing demand and kickstarting an apartment boom. Nearly 10,000 new units are planned to debut this year. Despite the surge in supply, afffordability remains a concern, increasingly driving renters and investors out of the city's core and submarkets into the farflung suburbs.

Job growth isn't just in technology but in industries that are expanding to service and/or support the metro's main drivers. Trade, transportation and utilities (13,300 new jobs during the past year), hospitality, education and health services, and construction also grew at fairly robust levels. The prosperity starts with the metro's tech sector, though. Amazon, for example, is constructing a 306,000-square-foot office building in the Denny Triangle neighborhood.

To keep up with demand for housing, construction is on the rise, with more than 69,000 units in the development pipeline. Average rents are at $1,657 and new inventory is primarily focused in the upscale Lifestyle segment, pushing residents into fringe submarkets. However, consistent job growth and rising home prices are boosting apartment demand, and occupancy remains high. With demand not likely to let up soon, we expect rent growth to remain strong, at 7.6% for 2017.

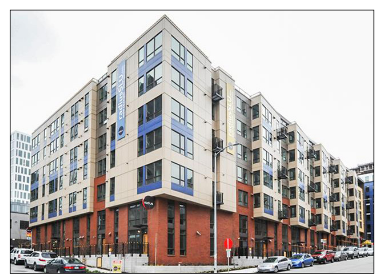
Recent Seattle Transactions

LIV Bel - Red



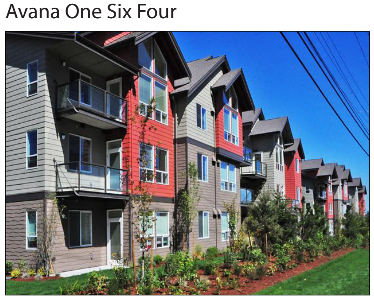
City: Bellevue, Wash.
Buyer: Kennedy Wilson
Purchase Price: $172 MM
Price per Unit: $380,624

Radius



City: Seattle
Buyer: Kennedy Wilson
Purchase Price: $141 MM
Price per Unit: $500,000

Avana One Six Four



City: Lynnwood, Wash.
Buyer: Greystar
Purchase Price: $132 MM
Price per Unit: $260,869

Overlook at The Lakemont

City: Bellevue, Wash.
Buyer: Security Properties
Purchase Price: $122 MM
Price per Unit: $305,000

On the cover: Photo by LoweStock/iStockphoto.com

Rent Trends

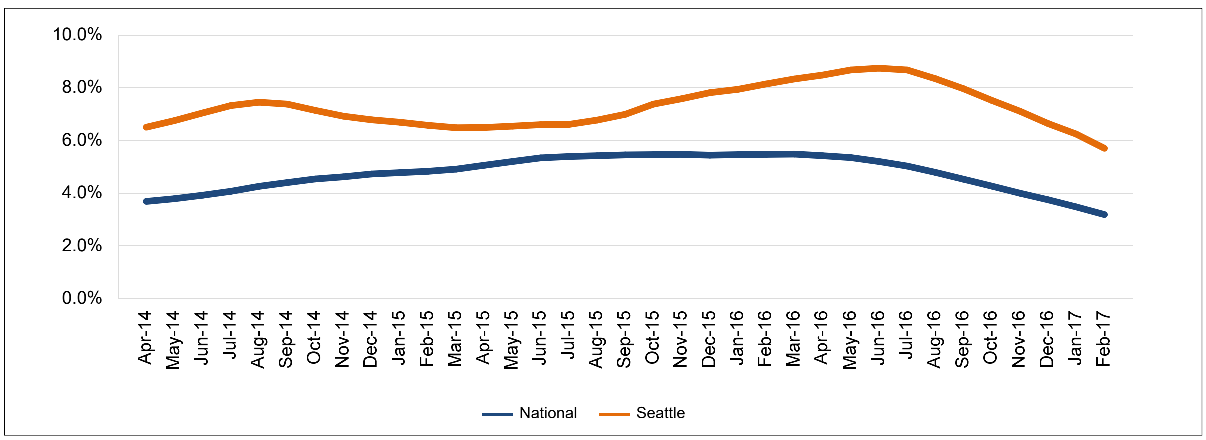
- Rents increased by 5.7% year-over-year through February, exceeding the national rate by 250 basis points. According to a Yardi Matrix survey, rents, which reached $1,657 and topped the nation's $1,306 average, are among the 10 highest nationwide. Robust demand for rentals is being fueled by sustained job growth, significant population gains and high home prices.

- The working-class Renter-by-Necessity segment saw the highest gains, with rents rising 6.9% through February and reaching an average of $1,420. Although the occupancy rate in stabilized properties dipped by 10 basis points in January, to 96.6%, as a result of new supply, long-term demand is likely to remain strong. High-income residents are filling a number of luxury units near the major companies' campuses, leading the Lifestyle segment to 4.9% year-over-year growth.

- Submarkets with the largest rent increases were Marysville/Monroe (12.1%), Edmonds (10.5%) and White Center (9.6%). Low- and median-income residents are being priced out of the downtown area and forced to concentrate in suburban areas such as White Center, Burrien, Seatac and Kent.

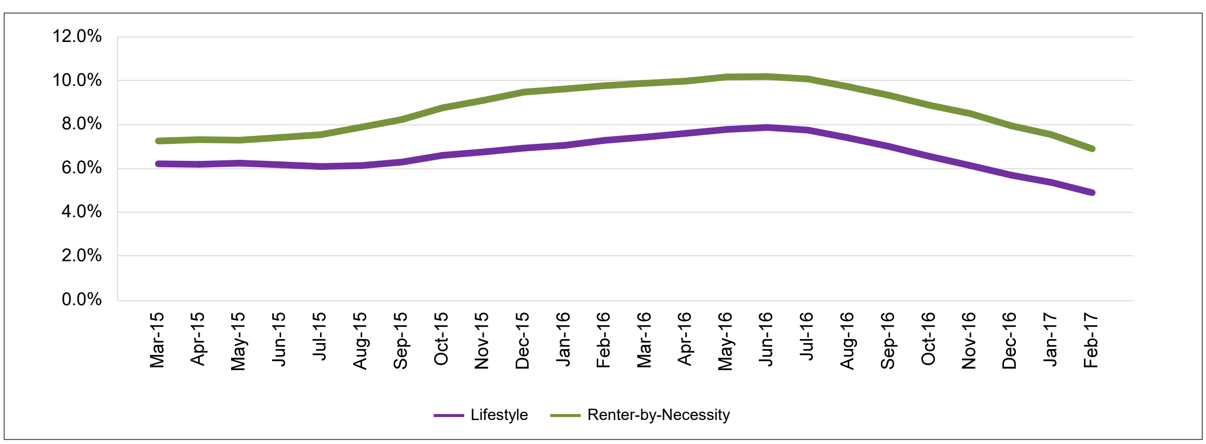
- With occupier demand remaining high, we forecast 7.6% rent growth for 2017.

Seattle vs. National Rent Growth (Sequential 3-Month, Year-Over-Year)



Source: YardiMatrix

Seattle Rent Growth by Asset Class (Sequential 3-Month, Year-Over-Year)



Source: YardiMatrix

Economic Snapshot

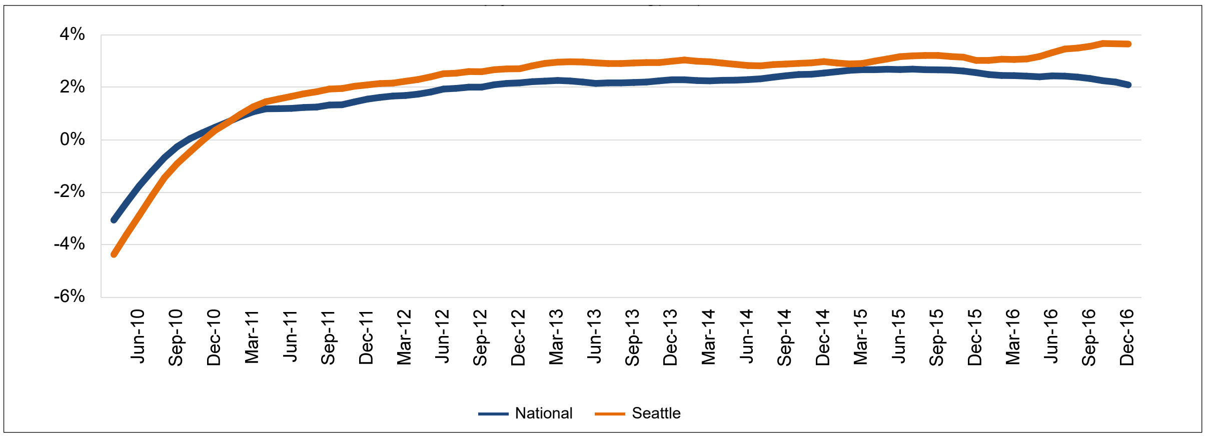
- Employers added 57,800 new jobs in 2016, representing a 3.7% increase, significantly above the 2.1% national average. Growth was led by the trade, transportation and utilities sector (13,300), while leisure and hospitality added 8,500 jobs amid an increase in tourism. Fueled by technology, the metro's signature information sector grew by 7,900 jobs, an 8.1% increase.

- Construction added 5,900 jobs via a range of residential and commercial developments. Infrastructure development also grew through projects such as Seattle's $54 billion Sound Transit 3, which aims to expand the bus, light-rail and commuter train systems in King, Pierce and Snohomish counties.

- Nearly 12 million square feet of new office space is expected to come online by the end of 2019. Office construction is concentrated in South Lake Union, where major companies are expanding, including Google at Lakefront Blocks and Facebook at Arbor Blocks. Amazon has an $85 million office building under construction in the Denny Triagle neighborhood. In 2016, Amazon added 1.7 million square feet of new office downtown and surpassed 340,000 employees globally, 25,000 of them at its Seattle headquarters.

- Manufacturing contracted by 6,500 jobs, due in part to Boeing reducing its Puget Sound-area workforce by roughly 1,800 positions.

Seattle vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Seattle Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
40	Trade, Transportation and Utilities	318	19.0%	13,300	4.4%
70	Leisure and Hospitality	163	9.7%	8,500	5.5%
65	Education and Health Services	215	12.8%	8,300	4.0%
50	Information	106	6.3%	7,900	8.1%
90	Government	222	13.2%	6,800	3.2%
60	Professional and Business Services	252	15.0%	6,700	2.7%
15	Mining, Logging and Construction	93	5.5%	5,900	6.8%
80	Other Services	61	3.6%	5,000	8.9%
55	Financial Activities	85	5.1%	1,900	2.3%
30	Manufacturing	163	9.7%	-6,500	-3.8%

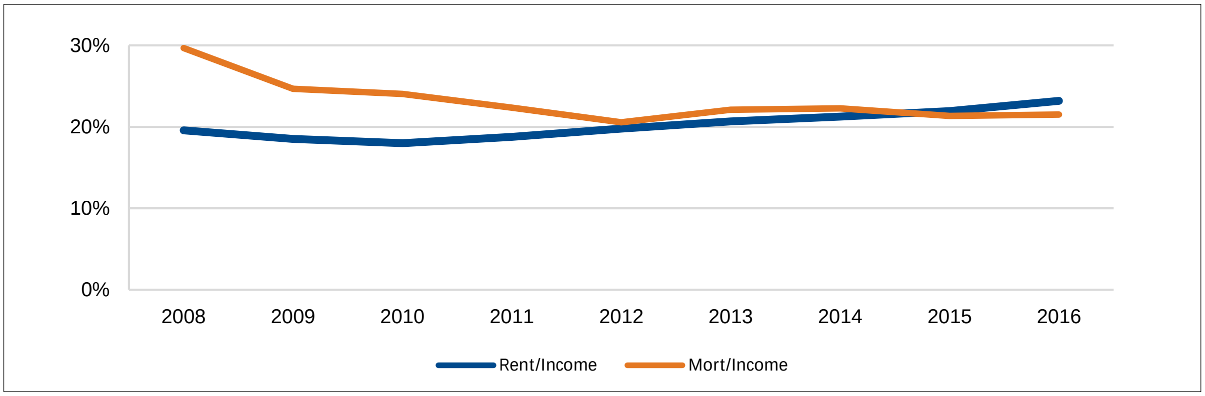
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

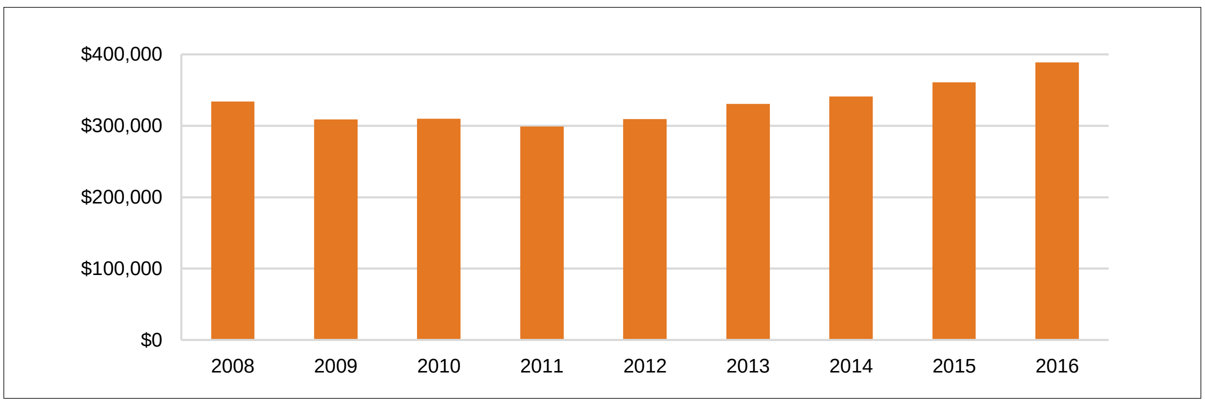
- Single-family home prices are beyond the reach of most residents, shifting demand to affordable housing and forcing residents from central Seattle to the suburbs. The median home price rose to a record $388,863 in 2016, with the average mortgage payment equating to 22% of median income.
- The affordability issue continues to be a problem, leading the city council to implement a program giving multifamily developers an option to either set aside between 5% and 11% of units as affordable housing or to pay into an affordable housing fund.

Seattle Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Seattle Median Home Price



Source: Moody's Analytics

Population

- Seattle grew by 47,921 residents in 2015, at a rate of 1.7%, which is more than double the national average of 0.8%.
- Population is expected to keep growing at an above-trend rate.

Seattle vs. National Population

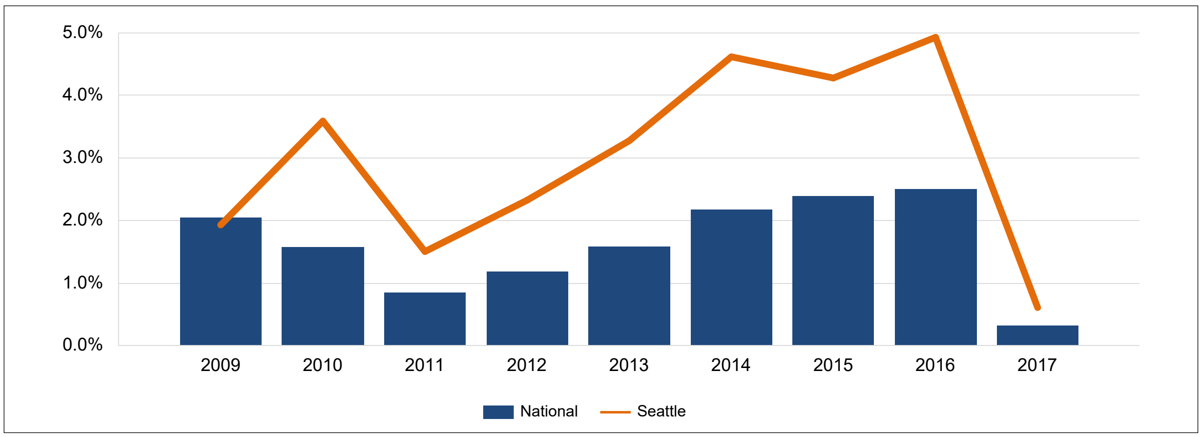
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Seattle-Bellevue-Everett, Wash., Metropolitan Division	2,695,042	2,742,044	2,793,626	2,841,705	2,889,626

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

Supply

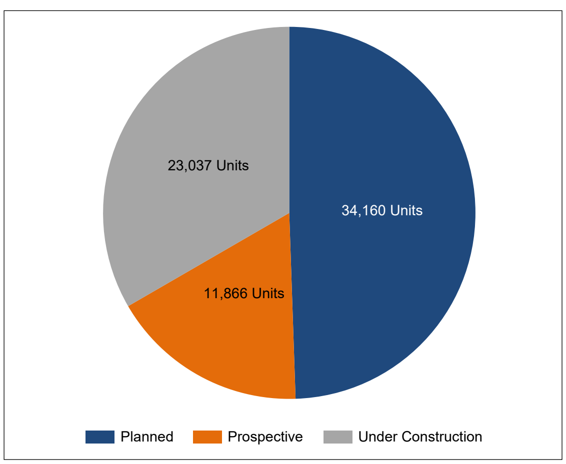
- Seattle added roughly 10,700 multifamily units in 2016, and new supply has been steadily increasing since bottoming in 2011. The increase expanded stock by 4.9%, nearly twice the 2.5% national average.
- With occupancy for stabilized properties at 96.6% and strong demand from young workers migrating to the region, developers should have little problem filling new stock. The expansion of major employers such as Google and Facebook in South Lake Union is also attracting young professionals.
- The apartment boom is likely to continue for years, as more than 69,000 units are in various stages of development. About one-third are under construction and more than half are in the planning stages. The supply coming online is mostly high-end and too costly for renters in most income segments.
- The Belltown submarket saw the largest jump in supply, adding more than 6,800 units. Other submarkets with high development activity are Queen Anne (1,488), Redmond (1,173) and First Hill (1,132). The largest project underway is 1,000 units at Antioch University in Belltown, which is being built by Paragon Real Estate Advisors of Seattle and is scheduled to come online in June 2018.

Seattle vs. National Completions as a Percentage of Total Stock (as of February 2017)



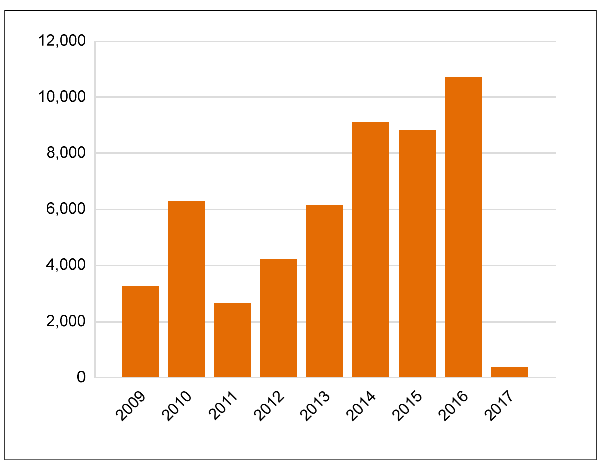
Source: YardiMatrix

Development Pipeline (as of February 2017)



Source: YardiMatrix

Seattle Completions (as of February 2017)

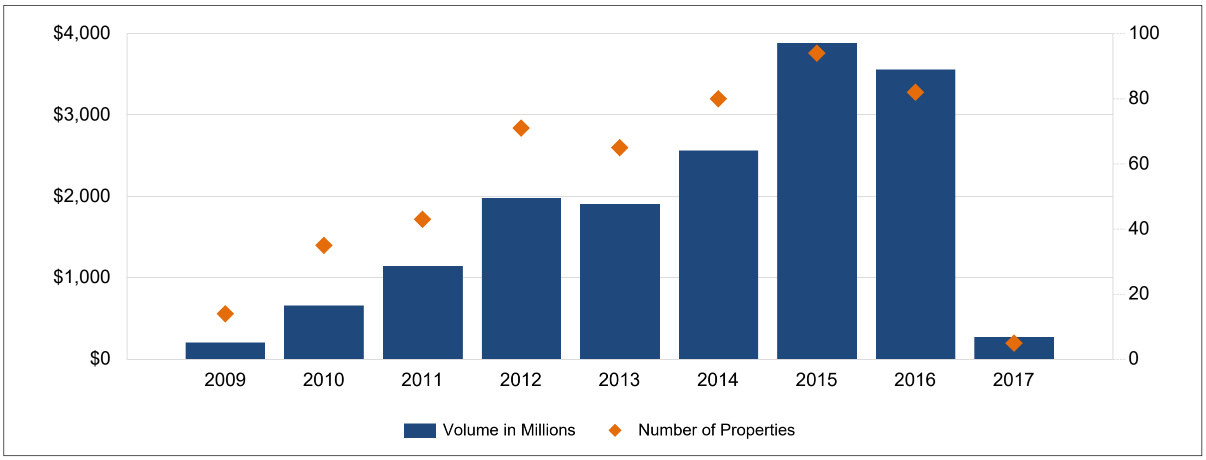


Source: YardiMatrix

Transactions

- Last year, $3.5 billion worth of properties changed hands, pointing to healthy demand. Despite an 8.9% drop in investment sales from the previous year, a wide range of investors—including foreign capital and large domestic institutions—remain attracted to Seattle's performance, exposure to major corporate tenants and growth potential.
- Per-unit prices closed 2016 at $232,245, almost double the national average of $133,903. Acquisition yields for Class A properties can dip below 4%.
- Bellevue–East, Belltown and Lynnwood were the busiest submarkets over the last 12 months, with $444 million worth of assets sold through February. LIV Bel-Red in Bellevue was the most expensive property that traded in 2016. Kennedy Wilson acquired the asset from Goodman Real Estate for $172 million, or $380,624 per unit.

Seattle Sales Volume and Number of Properties Sold (as of February 2017)



Source: YardiMatrix

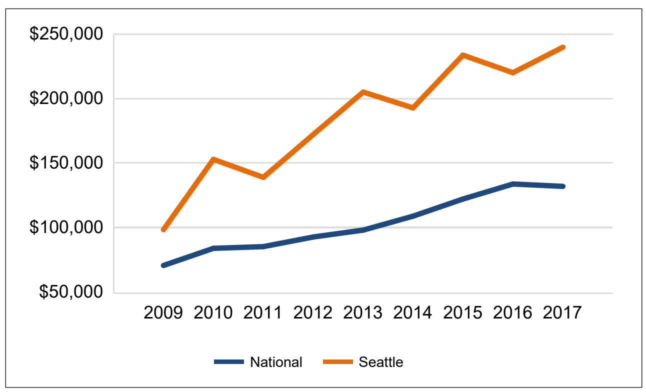
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Renton	343
Belltown	325
Federal Way	292
Lynnwood	242
Paine Field	187
Bellevue–East	186
Kent	161
Silver Lake	158

Source: YardiMatrix

[1] From March 2016 to February 2017

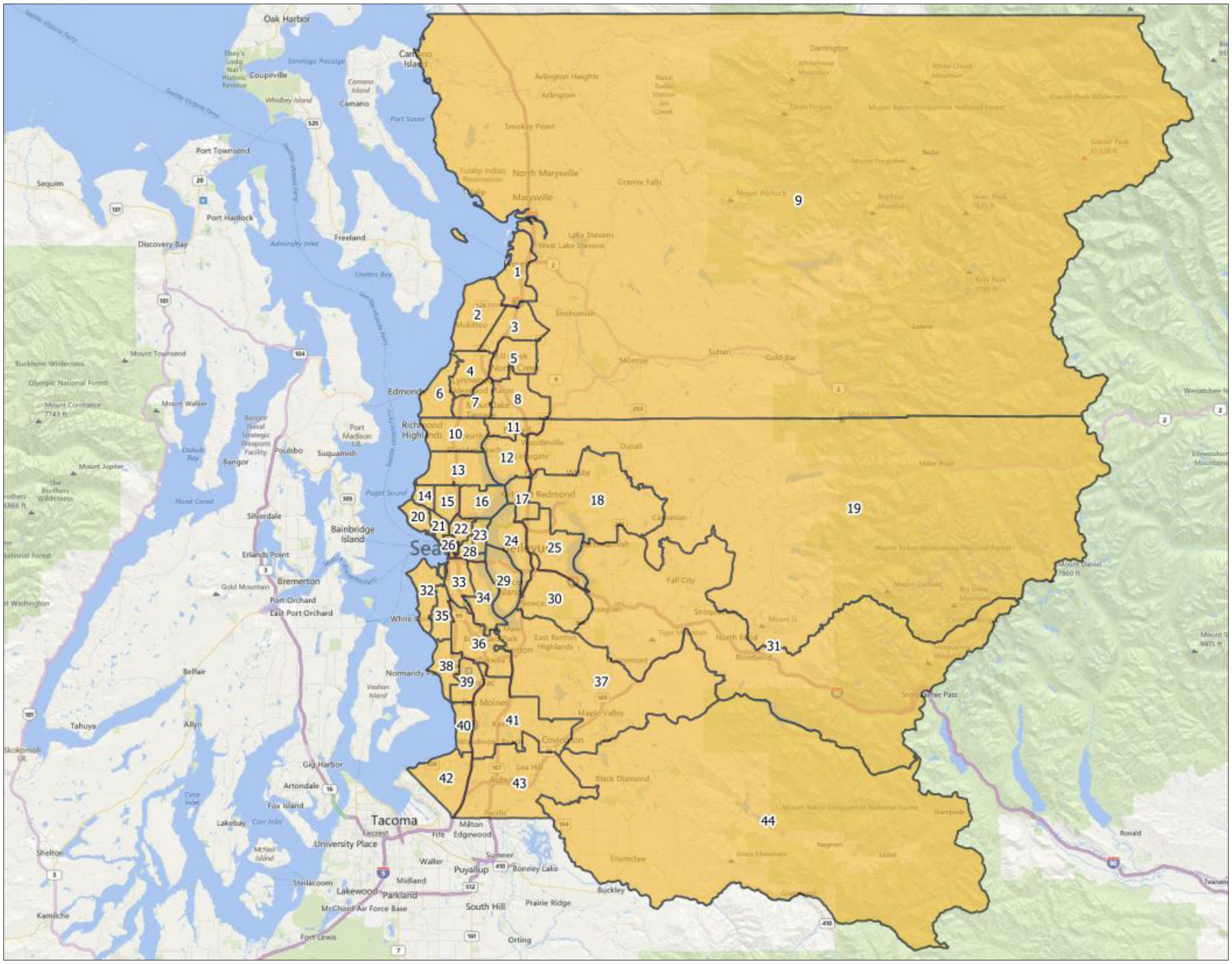
Seattle vs. National Sales Price per Unit



Source: YardiMatrix

Photo by Skyhobo/iStockphoto.com

Seattle Submarkets



Area #	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
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
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 may 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 may 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, may 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.