Yardi® Matrix

Seattle's Growth Trajectory

Multifamily Report Summer 2017

Investors Pivot to Inland Assets

Developers Add Units at Cycle-High Rates

Rent Growth Rebounds After Lackluster Spring

Market Analysis

Summer 2017

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Robust Development, Insatiable Demand

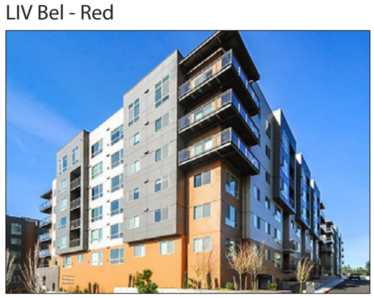
Seattle has been one of the strongest rental markets during the current cycle. Over the last five years, average rents have risen nearly $500 to $1,770. Development activity has kicked into high gear, leading to the delivery of 23,000 units since the start of 2015. With the rate of completions set to continue, the metro is faced with questions of overbuilding. However, a strong employment market continues to provide jobs at a rate that further drives population growth, generating an insatiable appetite for housing.

Trade, transportation and utilities benefited from the ongoing expansion of the Link light rail network into Federal Way and Redmond. The proposed $1.6 billion Washington State Convention Center expansion is slated to add 1.2 million square feet of exhibition and meeting space, a 30-story residential tower and a 16-story office building. The project is the result of continued growth in leisure and hospitality, which has brought up talks about the existing center's limitations.

Completions are expected to exceed the 11,000-unit mark in 2017, which would lead to a new cycle peak. Only Dallas, Denver, Houston and Washington, D.C., are slated to add more units this year, but rent growth is by far the most significant in Seattle, as overbuilding is rapidly becoming a factor in other markets. There are 23,000 units underway in the metro, pointing to high levels of new stock. Demand is set to keep up with completions, leading to a 4.9% rent growth by year-end.

Recent Seattle Transactions

LIV Bel - Red

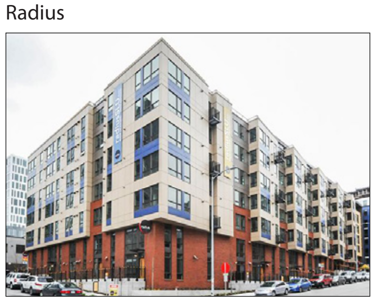


City: Bellevue, Wash.
Buyer: Kennedy Wilson
Purchase Price: $172 MM
Price per Unit: $380,624

JUXT

City: Seattle
Buyer: Blackstone Group
Purchase Price: $150 MM
Price per Unit: $416,664

Radius



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

Avana One Six Four

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

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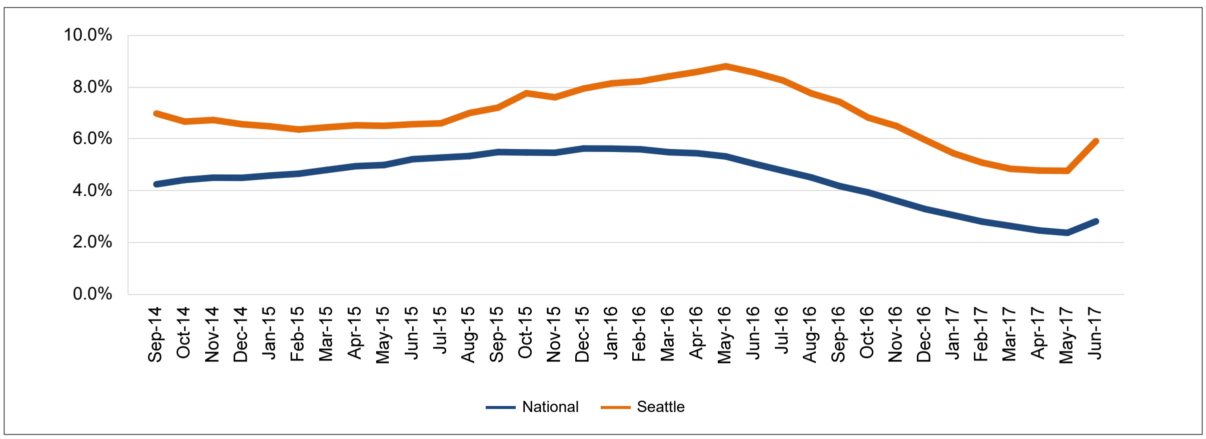
Rent Trends

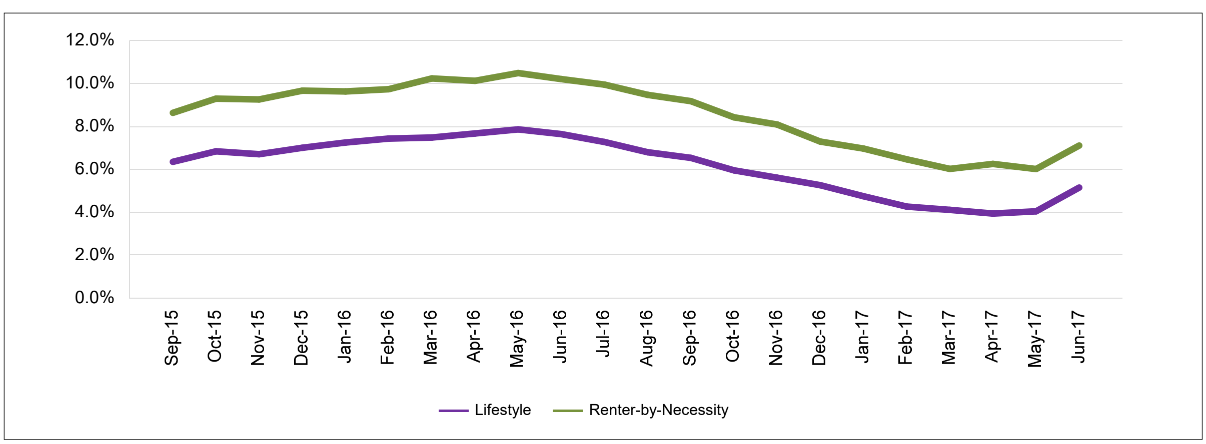
- Seattle rents rose 5.9% year-over-year through June, more than double the national rate. After slowing down this spring, growth has picked up again, leading to an average rent of $1,770, the latest Yardi Matrix survey shows.
- Although units have been added at a high clip, overall occupancy in stabilized properties has dropped by only 10 basis points year-over-year, to 96.2% as of June. Strong employment continues to generate a high demand, as a rapid absorption of upscale units and insufficient working-class stock drive further need for housing.
- Working-class Renter-by-Necessity assets claimed an average rent of $1,492 in June, up 7.1% year-over-year, as the bulk of deliveries was in the upscale segment. High rates of development in the Lifestyle segment led to an average rent of $1,999, up 5.1% year-over-year.
- Renter interest was highest in suburban areas, with rents in Marysville/Monroe (11.8%), Shoreline (10.7%), Edmonds (10.6%) and Central Everett (10.0%) growing at the fastest rates. A robust development pipeline will continue to increase rental supply, leading to slightly tempered rent growth. As a result, we expect Seattle rents to appreciate by 4.9% in 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

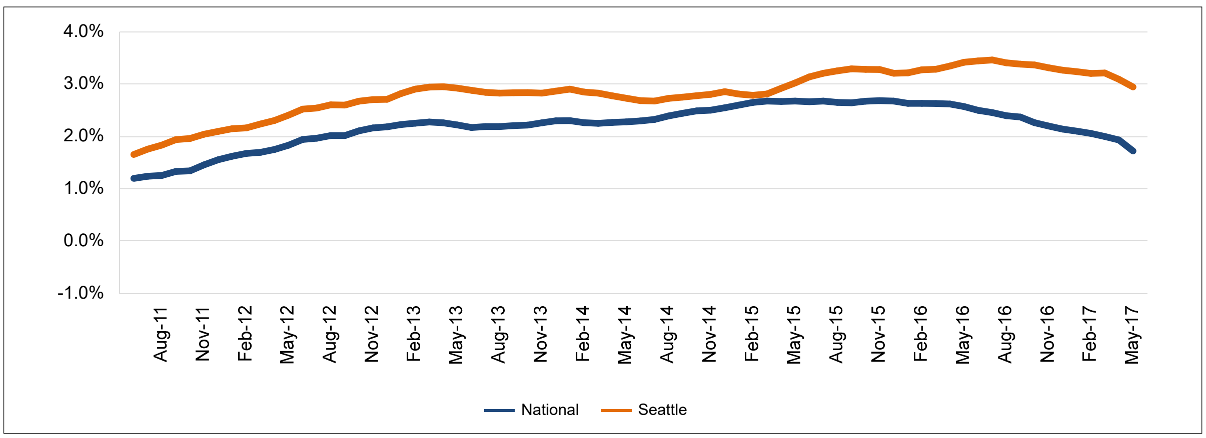
- Seattle added 40,000 jobs in the 12 months ending in May, marking a 2.9% increase, 100 basis points above the national growth rate. The metro's technology industry continues to thrive, with the information sector adding 5,100 jobs, up 5.1% year-over-year.

- Trade, transportation and utilities added 12,400 positions year-over-year, as Sound Transit continues to work on expanding the Link light rail into Northgate and Redmond, where extensions are now underway. Further plans to expand the transit line into Federal Way—where investors have already acquired more than $400 million in multifamily properties over the past 12 months—are in the environmental review phase, pointing to further improvement for the employment sector.

- Manufacturing contracted by 7,600 jobs year-over-year, with the effects of Boeing's announced move out of Washington affecting the job market.

- Continued employment growth at rates well above the national average has pushed the city's office market to new highs. Roughly 2 million square feet of office space has been added to the market during the year's first half, while leasing rates for Class A assets continue to rise along with property values.

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	311	18.5%	12,400	4.2%
65	Education and Health Services	216	12.8%	7,900	3.8%
70	Leisure and Hospitality	171	10.2%	7,600	4.7%
60	Professional and Business Services	254	15.1%	5,600	2.3%
50	Information	105	6.2%	5,100	5.1%
90	Government	225	13.4%	3,300	1.5%
15	Mining, Logging and Construction	95	5.6%	2,900	3.1%
55	Financial Activities	85	5.0%	2,300	2.8%
80	Other Services	59	3.5%	500	0.8%
30	Manufacturing	162	9.6%	-7,600	-4.5%

Sources: YardiMatrix, Bureau of Labor Statistics

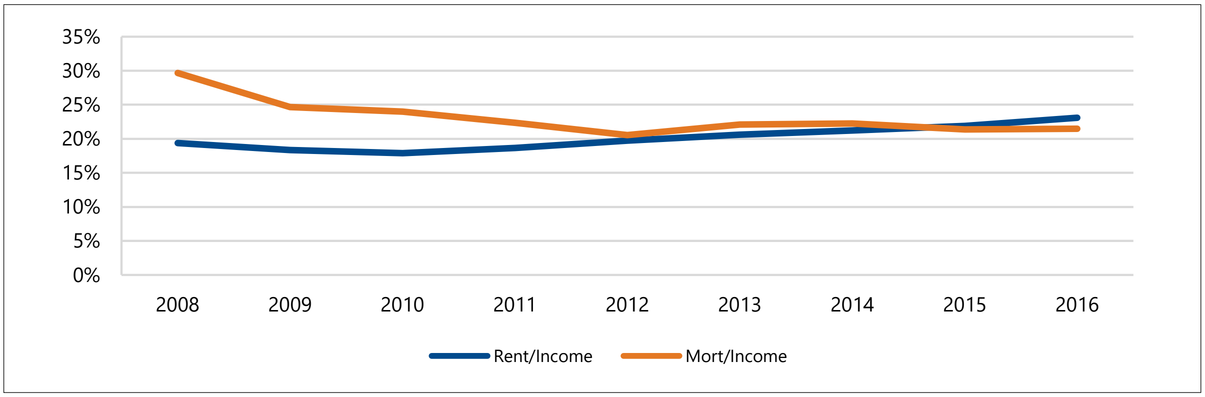
Demographics

Affordability

- The median home price hit $388,482 last year, up 30% since 2011, when the market bottomed out. Since then, prices have constantly escalated as buyers depleted available inventory. Average rents were $1,770 in June, with growth rebounding this summer at some of the highest rates over the past 12 months. As a result, both options take up just under a quarter of the median income in Seattle.

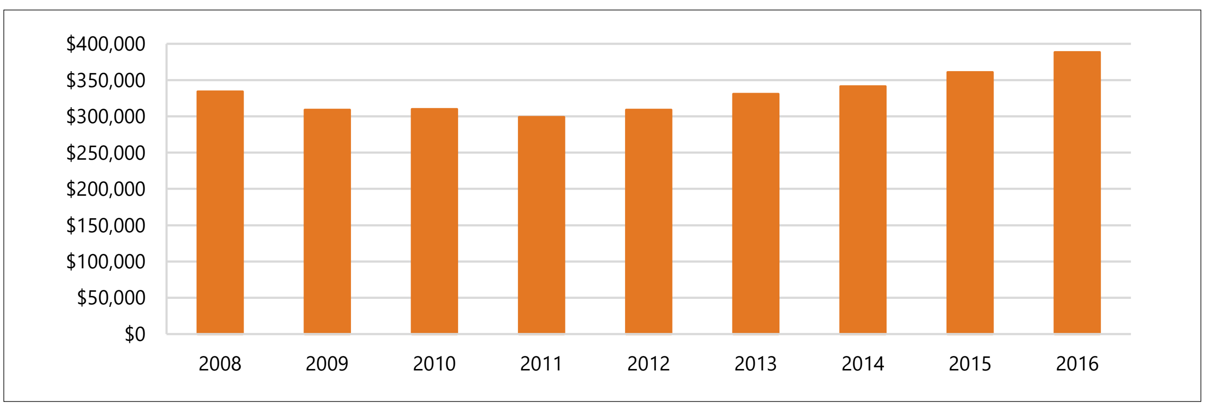
- With more than 110,000 units in the Lifestyle segment and the bulk of the pipeline slated to add units in the upscale area, affordable housing is hard to come by in Seattle. A dearth of new single-family housing leaves some families little choice but to rent, which is contributing to the market's growing affordability issues.

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 added 71,800 residents in 2016, a 1.9% growth rate, or nearly three times the 0.7% U.S. average.

- Strong employment and the availability of high-paying jobs are driving population growth.

Seattle vs. National Population

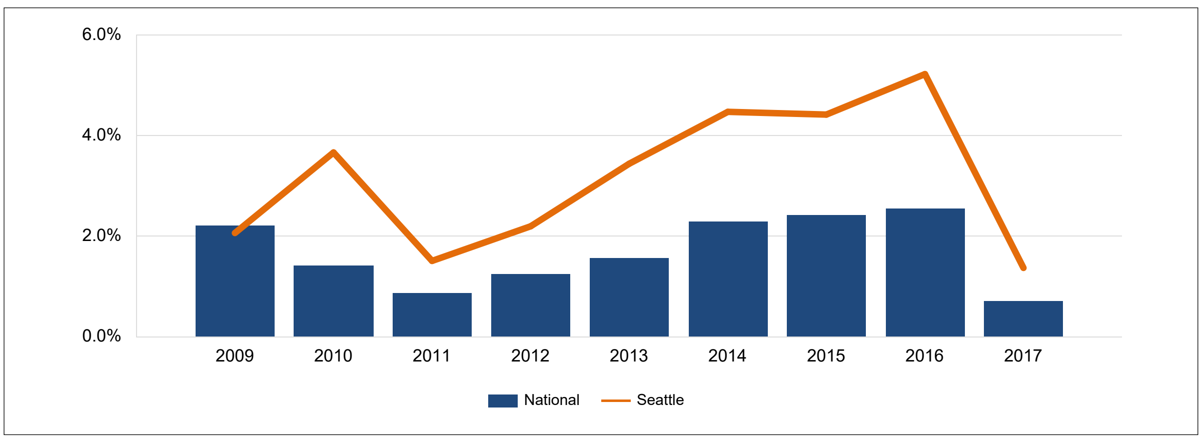
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Seattle Metro	3,552,815	3,609,617	3,667,042	3,727,097	3,798,902

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

Supply

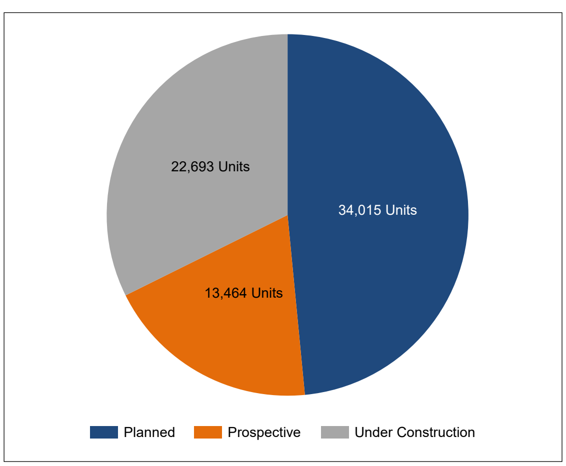
- Roughly 2,600 units were added to the market in the first half of 2017. With 12,000 units slated to come online in 2017, the high rate of completions is set to continue. About 33,000 units have been added to the market since the start of 2014.
- The city's multifamily pipeline will continue to be robust beyond this year, as roughly 22,000 units are under development and more than 70,000 units are in different stages of development as of June.
- Although developers are adding units at nearly double the national average rate, occupancy in stabilized properties has dropped only 10 basis points year-over-year, reaching 96.2% in June.
- Developers are focusing on employment hotspots like Belltown (6,478 units under construction), Redmond (1,634) and First Hill (1,132), as well as affluent residential neighborhoods such as Queen Anne (1,583). The largest project underway is Onni Group's twin-tower, 1,179-unit community at 1120 Denny Way in South Lake Union.

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



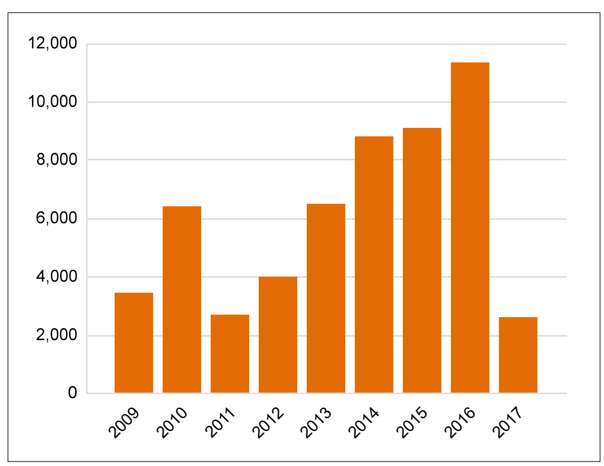
Source: YardiMatrix

Development Pipeline (as of June 2017)



Source: YardiMatrix

Seattle Completions (as of June 2017)

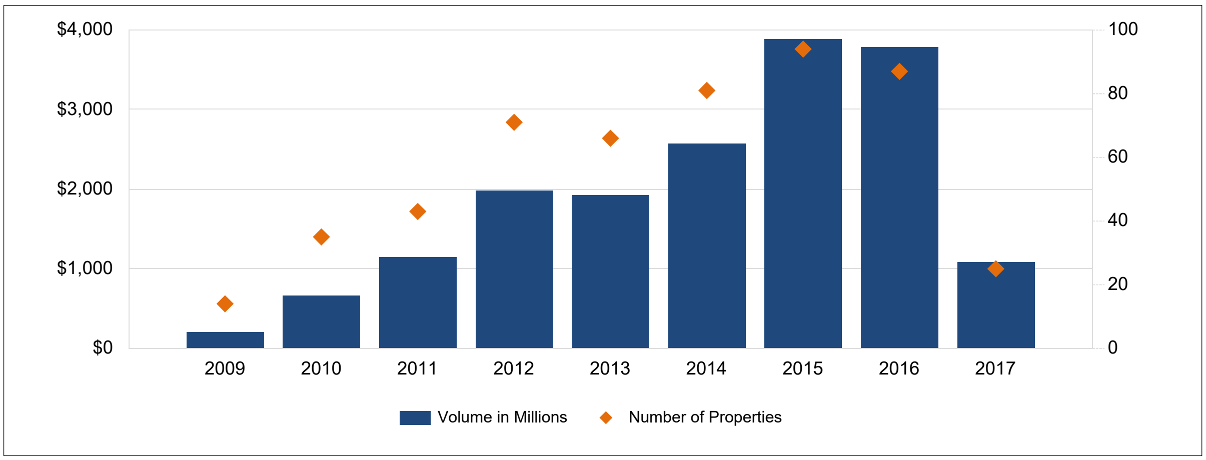


Source: YardiMatrix

Transactions

- More than $1 billion of multifamily properties traded during the first six months of 2017, a less robust level than in the previous two years, when a combined $7.5 billion worth of multifamily assets transacted. With property values rising, acquisition yields have compressed below the 5% mark, as assets in coastal markets continue to appreciate. Per-unit prices hit a new cycle peak of $240,700 in 2017, 82% higher than the national average, at $132,548 for the year's first half. With transaction yields so tight, investors are seeking more opportunities in suburban and value-add assets.
- With investor interest pivoting to submarkets farther inland and around the metro's fringes, activity was highest in Federal Way ($411 million) and Kent ($319 million). Kennedy Wilson was the most active buyer in the 12 months ending in June, having paid $402 million for three Seattle-area assets, at an average per-unit price of $481,376.

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



Source: YardiMatrix

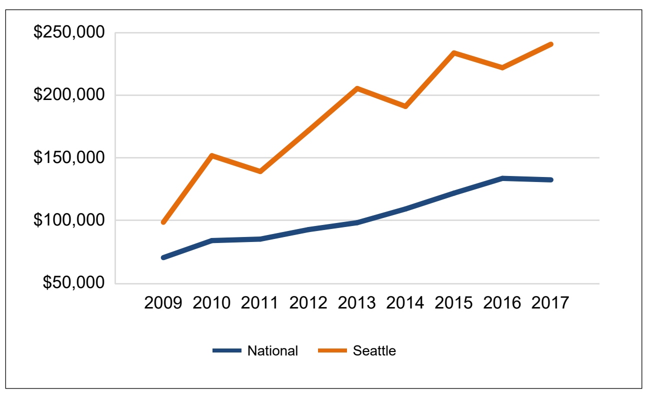
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Federal Way	412
Kent	319
Belltown	295
Renton	290
Silver Lake	228
Bellevue-East	186
Queen Anne	178
Paine Field	170

Source: YardiMatrix

[1] From July 2016 to June 2017

Seattle vs. National Sales Price per Unit



Source: YardiMatrix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Geolo Capital JV
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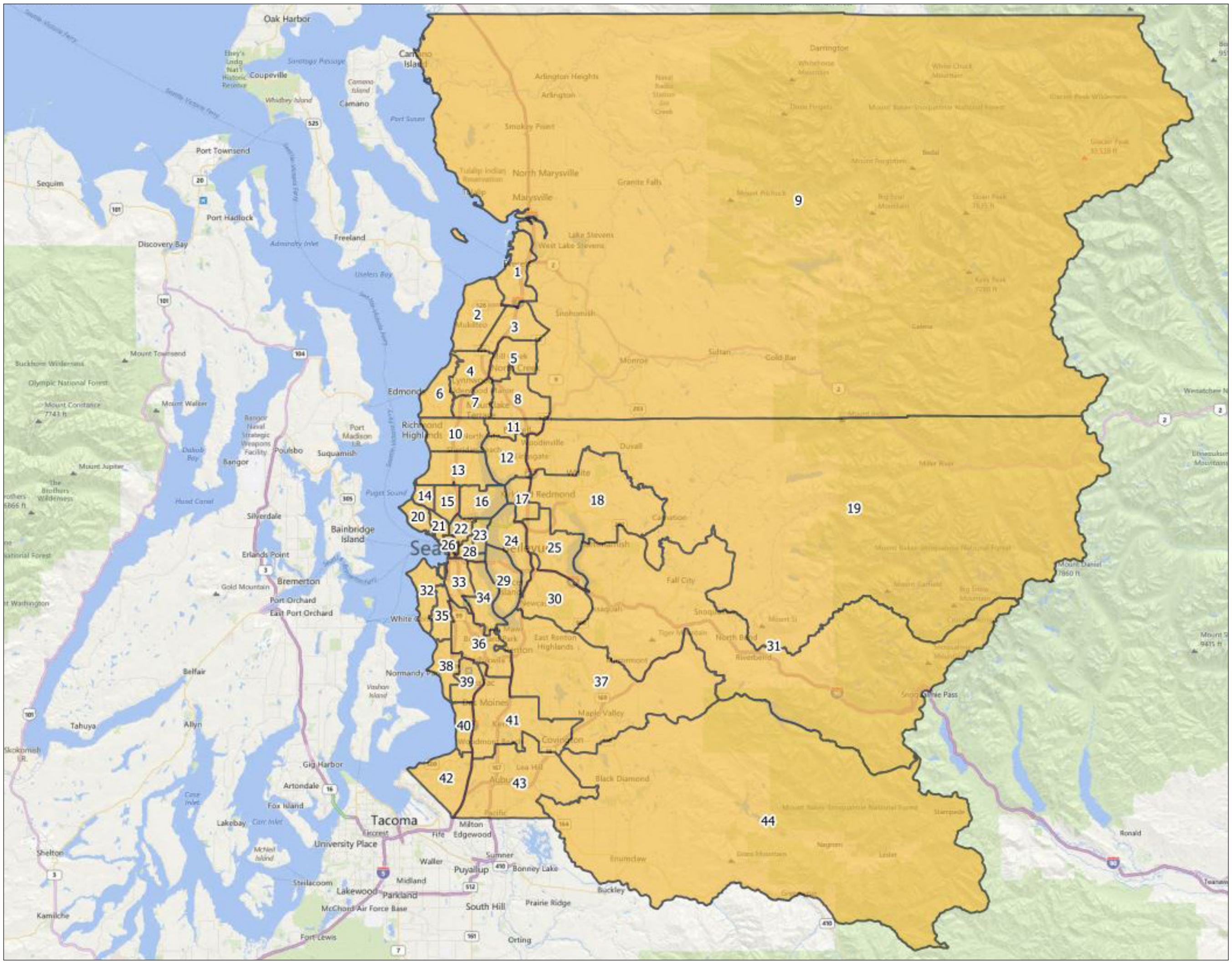
Seattle Submarkets



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

Area #	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 #	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 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.