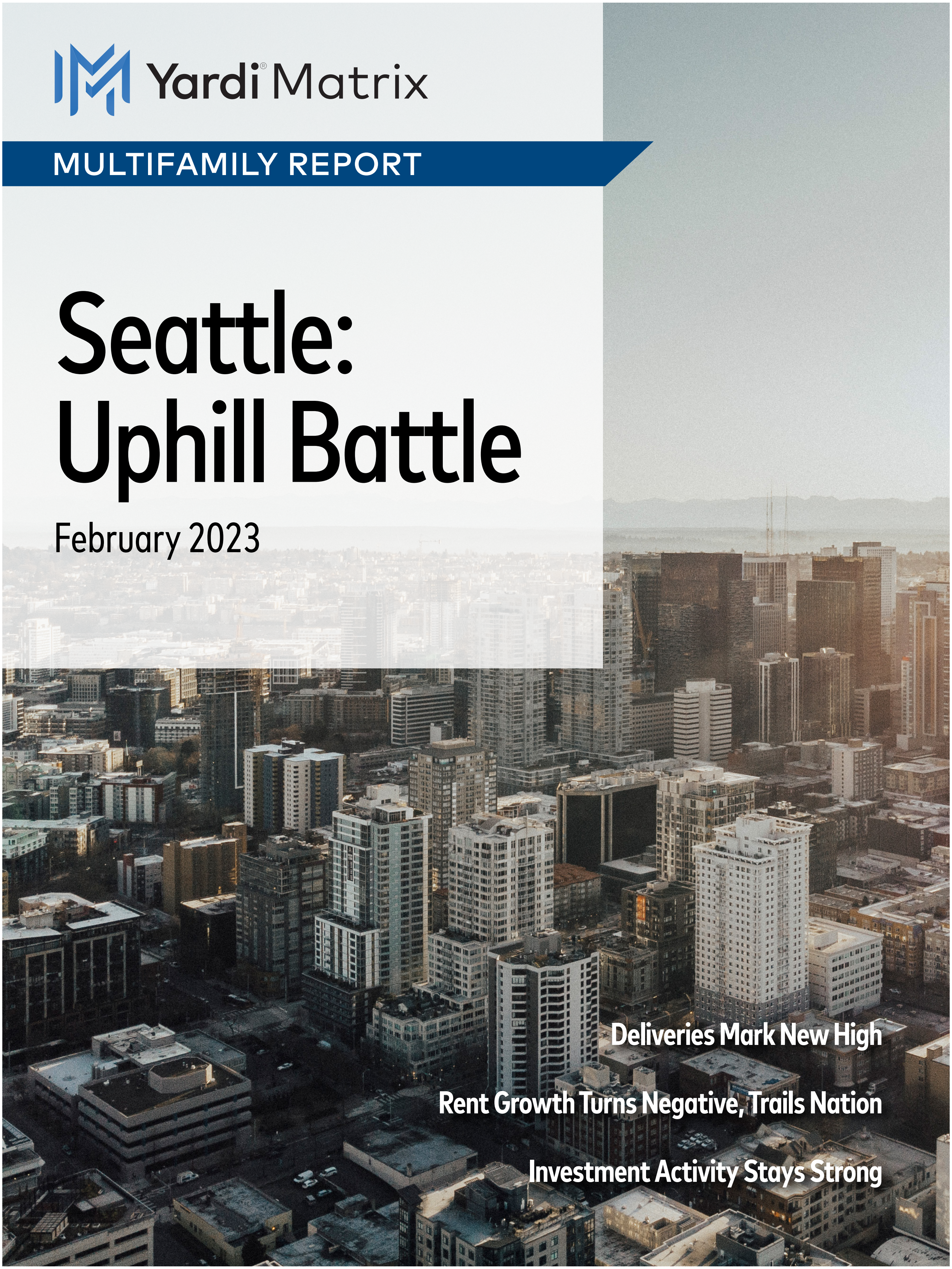
Yardi Matrix

MULTIFAMILY REPORT

Seattle: Uphill Battle

February 2023



Deliveries Mark New High

Rent Growth Turns Negative, Trails Nation

Investment Activity Stays Strong

SEATTLE MULTIFAMILY

Yardi Matrix

Moderating Rents, Solid Demand

Seattle's multifamily fundamentals began moderating in response to the deteriorating economic landscape. Rent growth turned negative in September, and by December, it had posted a 0.6% decline on a trailing three-month basis, outperformed by the 0.2% U.S. rate contraction. Robust stock expansion has played a role, but demand is fairly robust, as the average occupancy rate in stabilized properties declined just 50 basis points year-over-year as of November, to 95.4%.

Seattle's unemployment rate reached pre-pandemic values, at 3.4% in November, outperforming both the state (4.0%) and the U.S. (3.6%), according to preliminary data from the Bureau of Labor Statistics. The job market expanded 5.5%, having added 82,600 jobs in the 12 months ending in October, above the 4.1% U.S. rate. Although leisure and hospitality led gains, up by 14,100 positions, professional and business services and information were not far behind, with 12,800 and 11,800 jobs, respectively.

Developers delivered a record 12,400 units in 2022 and had another 26,400 units underway. Still, the number of construction starts declined from the prior year. Meanwhile, investors traded $4.4 billion in multifamily assets, which was fairly evenly distributed throughout the year. In addition, the average per-unit price rose 6.1% year-over-year, to $392,968, well above the $215,719 U.S. figure.

Market Analysis | February 2023

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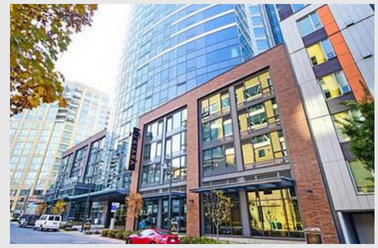
Recent Seattle Transactions

Kiara

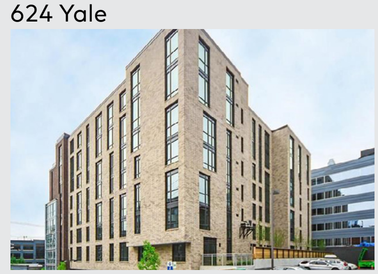


City: Seattle
Buyer: Ponte Gadea
Purchase Price: $322 MM
Price per Unit: $700,522

Madison Sammamish

City: Sammamish, Wash.
Buyer: Pacific Urban Investors
Purchase Price: $114 MM
Price per Unit: $428,323

624 Yale



City: Seattle
Buyer: Security Properties
Purchase Price: $104 MM
Price per Unit: $504,404

The Winsley

City: Everett, Wash.
Buyer: Abacus Capital Group
Purchase Price: $92 MM
Price per Unit: $291,139

RENT TRENDS

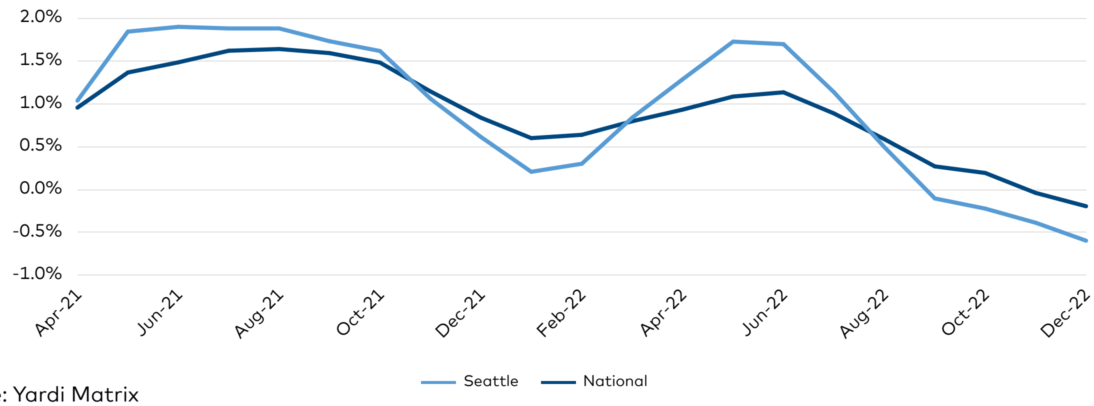
- Rent growth turned negative at the end of the third quarter and closed the year on a downward trend. The average asking rent in Seattle declined 0.6% on a trailing three-month (T3) basis through December, 40 basis points lower than the average U.S. rate. On an annual basis, Seattle rents rose 5.6% in December, lagging the 6.2% U.S. average. Still, at $2,206, Seattle's average asking rent is well above the $1,715 U.S. figure.

- Rents depreciated across quality segments, by 0.7% on a T3 basis in the Lifestyle segment, to $2,486, and by 0.5% in the working-class Renter-by-Necessity segment, to $1,854. Interestingly, the occupancy rate in stabilized properties paints a different picture—the RBN rate fell 70 basis points year-over-year as of November, to 95.7%. Average occupancy in Lifestyle assets declined just 30 basis points, despite robust inventory expansion, to 95.2%. Overall, Seattle's average occupancy rate in stabilized assets clocked in at 95.4%, following a 50-basis-point decrease.

- Only three of the 44 submarkets tracked by Yardi Matrix saw double-digit increases in average rents. As of December, 27 submarkets had crossed the $2,000 mark in rents, up from 20 during the year prior. Bellevue-West (4.8% to $2,991) and Belltown (4.0% to $2,792) were the most-sought-after areas, with the latter also leading in the construction pipeline and investment volume.

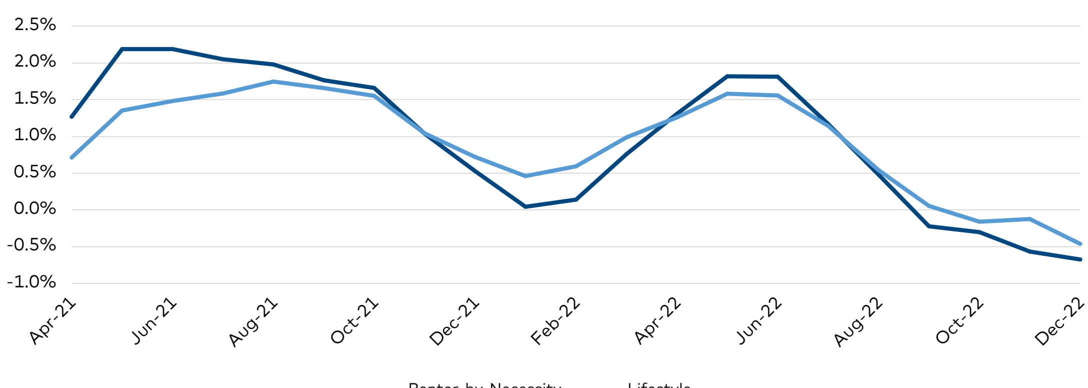
- The SFR market posted a 10.2% annual rent increase in December, but occupancy dropped by 3.6% year-over-year through November.

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 economy rebounded from the pandemic, as the metro had recovered all jobs lost by February 2022. The unemployment rate dropped to pre-pandemic values, clocking in at 3.4% as of November, according to data from the BLS. This rate placed it in a better position than the state (4.0%) and the U.S. (3.6%).
- The employment market expanded 5.5%, having added 82,600 jobs in the 12 months ending in October, leading the national rate by 140 basis points. Although the leisure and hospitality sector led gains (14,100 jobs) and had a strong summer season, it has yet to fully recover. Professional and business services (12,800 jobs) and information (11,800 jobs) followed, as corporate expansions continued. Seattle has a robust tech scene, with Amazon employing more than 75,000 people in the region, Facebook having surpassed 8,800 employees across the state, and Google and Apple with office developments underway. Still, some clouds gathered at the end of 2022, with layoffs affecting tech workers across the nation. Construction also added 11,000 workers during the period, boosted by the growing housing demand fueled by the remote and hybrid-work lifestyles.
- The economy is currently in a delicate balance, and much like the rest of the country, Seattle's economic evolution will be at the mercy of the Federal Reserve's management of inflation.

Seattle Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	154	8.5%
60	Professional and Business Services	295	16.3%
50	Information	152	8.4%
15	Mining, Logging and Construction	117	6.5%
30	Manufacturing	148	8.2%
40	Trade, Transportation and Utilities	346	19.2%
65	Education and Health Services	228	12.6%
90	Government	219	12.1%
55	Financial Activities	91	5.0%
80	Other Services	56	3.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The second pandemic year marked the first demographic contraction since the 2010 Census, as Seattle lost 13,177 residents, a 0.3% population decline. Meanwhile, the U.S. population inched up 0.1%.
- Overall, since 2010, Seattle's has population expanded 16.3%.

Seattle vs. National Population

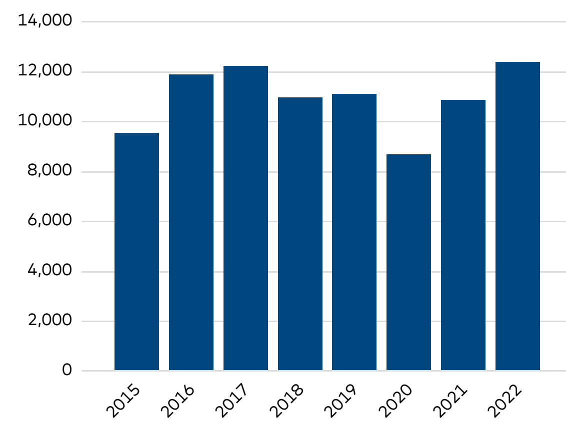
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Seattle	3,937,546	3,977,785	4,024,730	4,011,553

Source: U.S. Census

SUPPLY

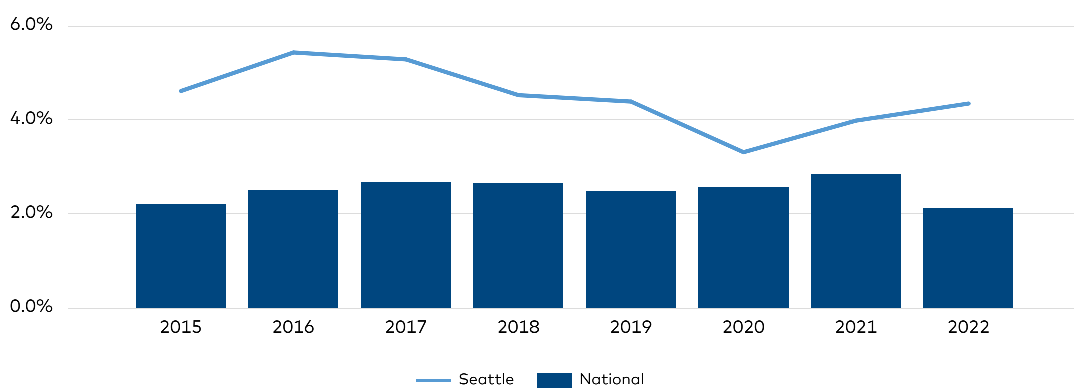
- Seattle's multifamily inventory expanded 4.4% in 2022, more than double the 2.1% U.S. rate. Developers added 12,400 units, the highest volume by number of units ever delivered in the metro. Similar to previous years, the bulk of deliveries mostly consisted of Lifestyle units (76%), while 21% of completions were in fully affordable projects.
- The construction pipeline consisted of 26,379 units underway and another 110,000 units in the planning and permitting stages, as of December. Development activity has moderated, indicated by the number of new construction starts, which in 2022 decreased to 9,514 units from 11,776 units in 2021. Developer interest remained focused on Lifestyle projects, as 74% of the construction pipeline comprised high-end apartments. Similar to deliveries, 21% of the projects underway consisted of units in fully affordable communities.
- Construction activity was spread out across the metro, with 32 of the 44 submarkets tracked by Yardi Matrix having at least 50 units underway. In nine submarkets, developers had more than 1,000 units underway. Belltown—which boasts some of the highest average asking rents in Seattle—led the way by pipeline size, with 3,275 units underway as of December. Next in line were Redmond (2,379 units under construction), Lynnwood (2,107 units) and Central (2,018 units).
- The largest project delivered in 2022, was also in Belltown. The 798-unit Onni South Lake Union, owned by Onni Real Estate, includes 28,090 square feet of retail space.

Seattle Completions (as of December 2022)



Source: Yardi Matrix

Seattle vs. National Completions as a Percentage of Total Stock (as of December 2022)

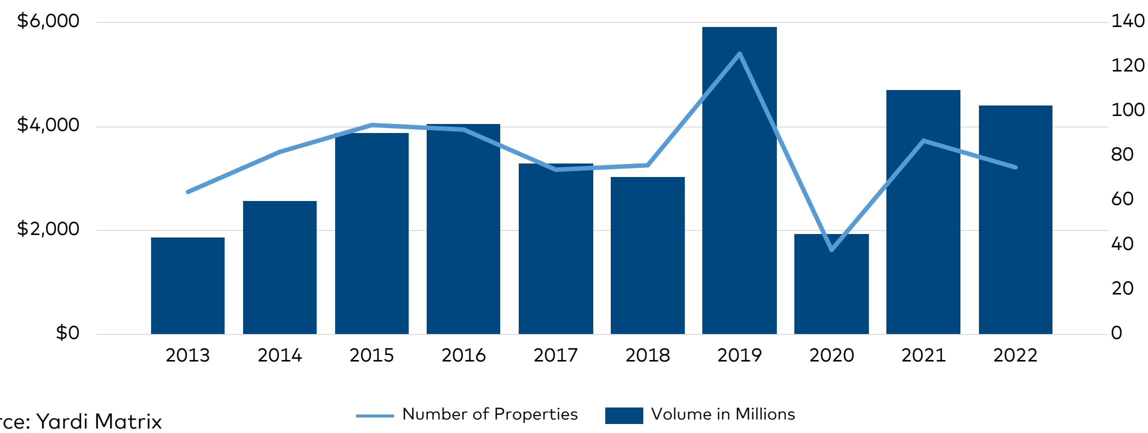


Source: Yardi Matrix

TRANSACTIONS

- Seattle's multifamily investment volume amounted to $4.4 billion in 2022, nearly matching the $4.7 billion total registered in the previous year. Although high, the figure places 2022 in third place for sales total in the last decade. Unlike most metros, the transaction activity in Seattle has been largely evenly distributed across quarters.
- Investors showed greater interest in value-add opportunities, with 60% of the deals involving Renter-by-Necessity properties. But the strong competition in investment pushed the price per unit up 6.1% year-over-year, to a hefty $392,968, well ahead of the $215,719 U.S. average.
- The largest multifamily transaction recorded in 2022 was Oxford Properties Group's $322.2 million sale of Kiara in Belltown in December. Ponte Gadea paid $700,521 per unit for the 460-unit asset. The 41-story property includes 15,100 square feet of retail space and a rooftop terrace.

Seattle Sales Volume and Number of Properties Sold (as of December 2022)



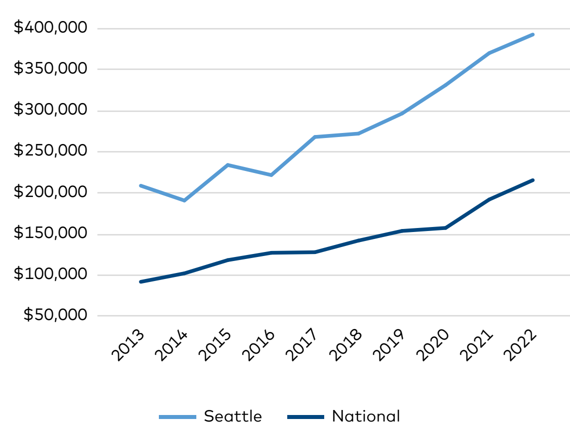
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Belltown	878
Factoria	336
Redmond	322
Kent	282
Juanita	242
Silver Lake	226
Issaquah	218

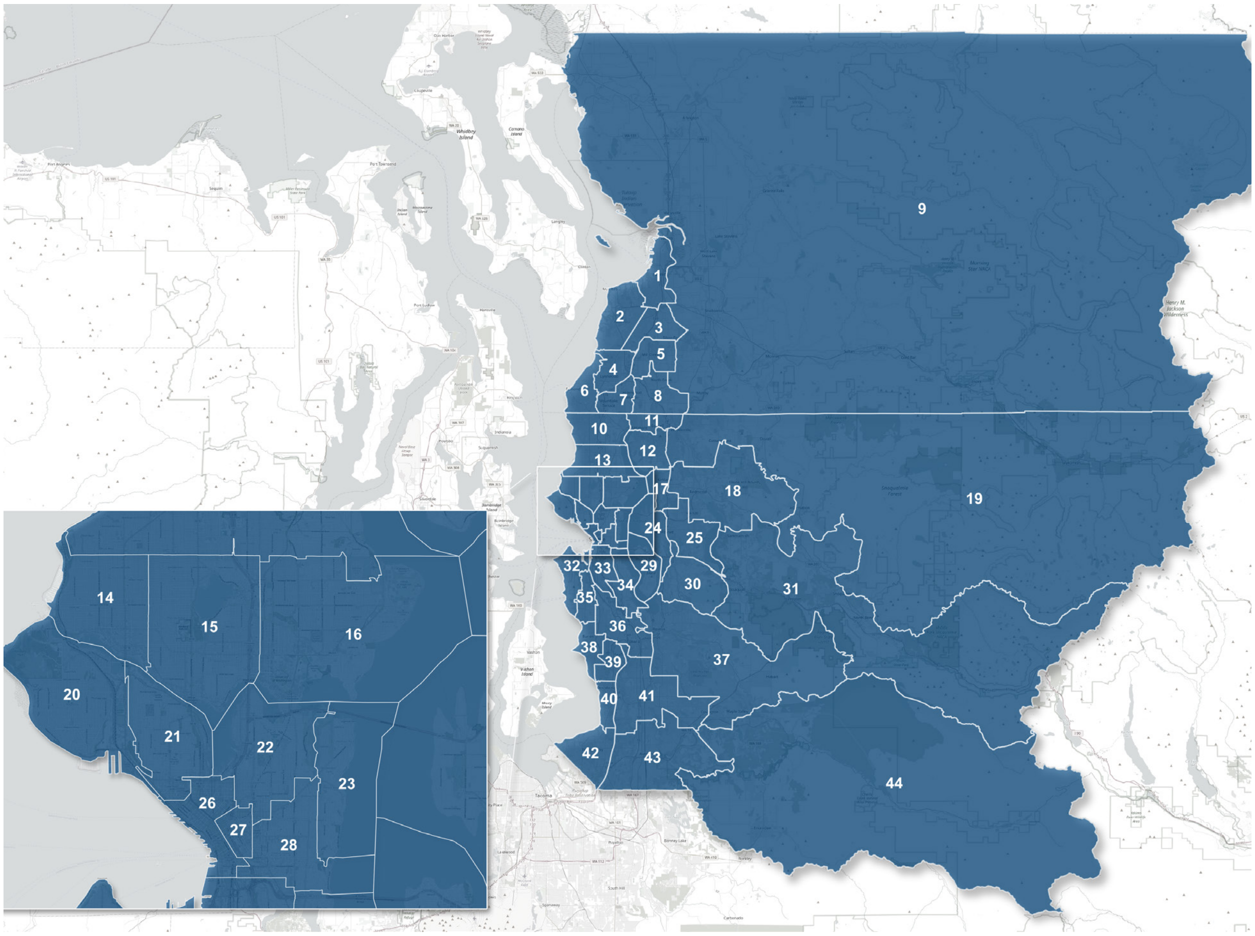
Source: Yardi Matrix
[1] From January 2022 to December 2022

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 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 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, 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:

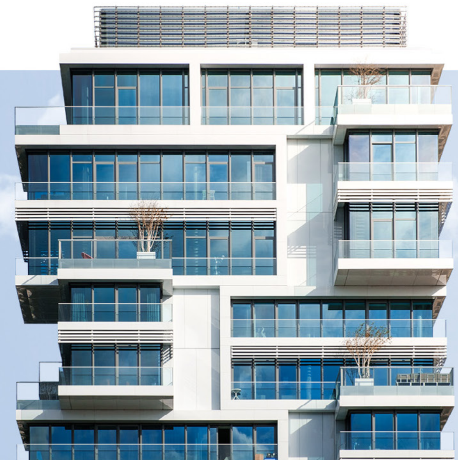
Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

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.

Yardi Matrix



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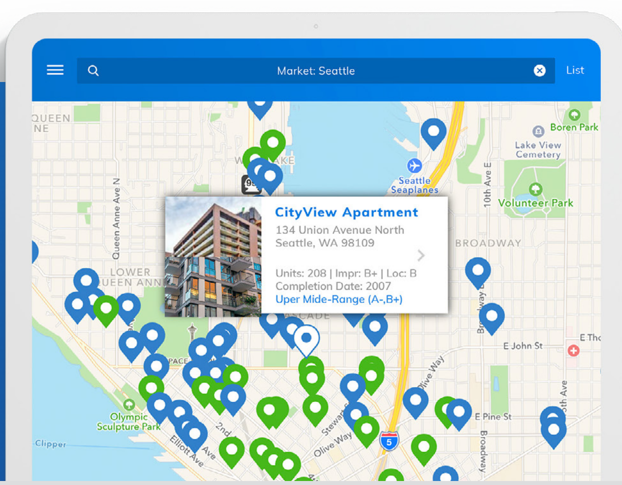
MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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