Yardi® Matrix

Seattle's Sturdy Economy

Multifamily Report Winter 2018

Rent Growth Cools Off

Jobs Outpace Nation

Property Values Hit Post-Bubble Best

Market Analysis

Winter 2018

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Tech Scene Continues to Thrive

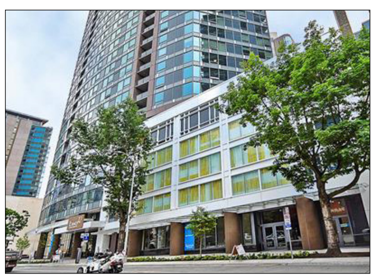
Fueled by the continued expansion of the technology sector and population growth, Seattle's multifamily market remains healthy. However, the metro is showing signs of slowing, following the robust gains of the last several years. The metro has fallen from the list of top U.S. metros in year-over-year rent growth, and was negative in the most recent three-month period. That could be a short-term blip, but the weight of new supply and declining affordability could signal more moderate growth moving forward.

Job growth has been outpacing the national average since 2012. In the 12 months ending in October, the metro added 38,200 jobs, a 2.5% increase. Gains were led by the government sector, which added 8,100 positions. The tech industry continues to prosper, with the information sector adding 4,100 jobs, a 3.9% year-over-year change. As part of the metro's tech industry growth, companies such as Amazon, Google and Facebook are expanding in Puget Sound.

After reaching a cycle high in 2016, multifamily development has cooled off, with roughly 8,500 units coming online in the 12 months through October. With nearly 71,800 units in different stages of development—of which more than a third are under construction—rent growth is expected to temper. More than $2.4 billion in multifamily assets changed hands as of October, mostly in suburban markets. Yardi Matrix forecasts rents to appreciate by 3.7% by year's end.

Recent Seattle Transactions

Tower 12



City: Seattle
Buyer: Weidner Investment Services
Purchase Price: $225 MM
Price per Unit: $716,356

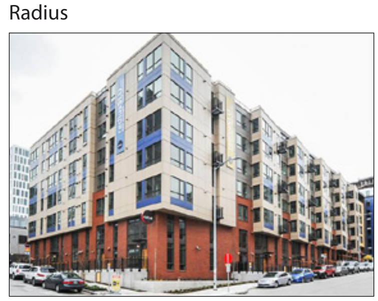
Shorewood Heights

City: Mercer Island, Wash.
Buyer: Greystar
Purchase Price: $210 MM
Price per Unit: $325,581

Venn at Main

City: Bellevue, Wash.
Buyer: Equity Residential
Purchase Price: $177 MM
Price per Unit: $504,285

Radius



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

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On the cover: Photo by aiisha5/iStockphoto.com

Rent Trends

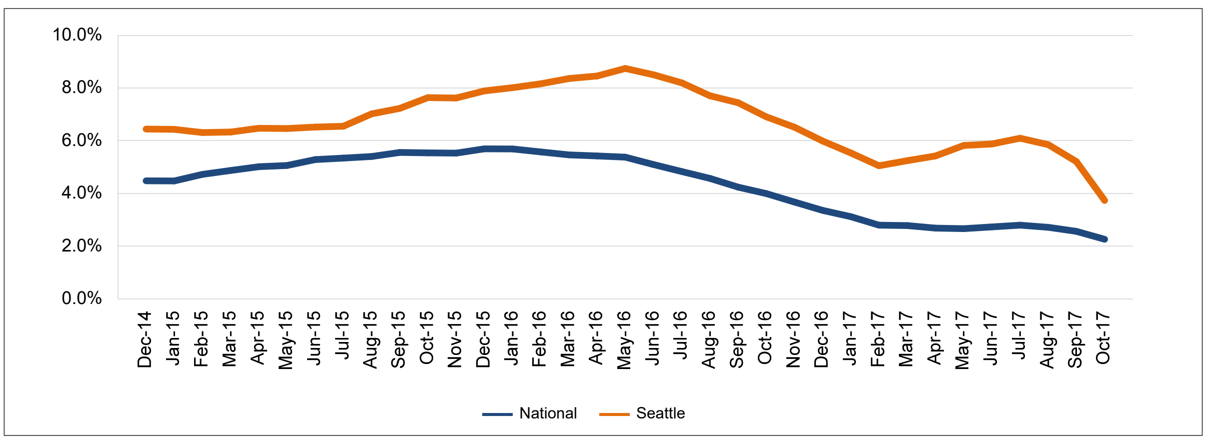
- Rent growth in the metro fell to 3.7% in October 2017 from 6.5% in 2016, but remains above the 2.3% national average. The monthly rent was $1,751 as of October, $393 above the national average. Healthy job growth—which has been outpacing the nation's average since 2012—coupled with a 1.9% population increase is likely to keep demand for housing robust.

- Rent growth in the region has decelerated, caused in large part by a heavy construction of luxury supply. Deliveries will add nearly 4% to stock in 2017. Rents in the Lifestyle segment rose 3.0% year-over-year, up to an average of $1,960, while rents in the working-class Renter by Necessity segment increased 4.9%, to $1,489.

- Submarkets with the highest rent growth included Enumclaw (15.3%), Kent (8.9%), Mill Creek (8.1%) and Belltown (7.6%), while submarkets with the highest rental rate included Bellevue ($2,473), Belltown ($2,440) and Mercer Island ($2,232).

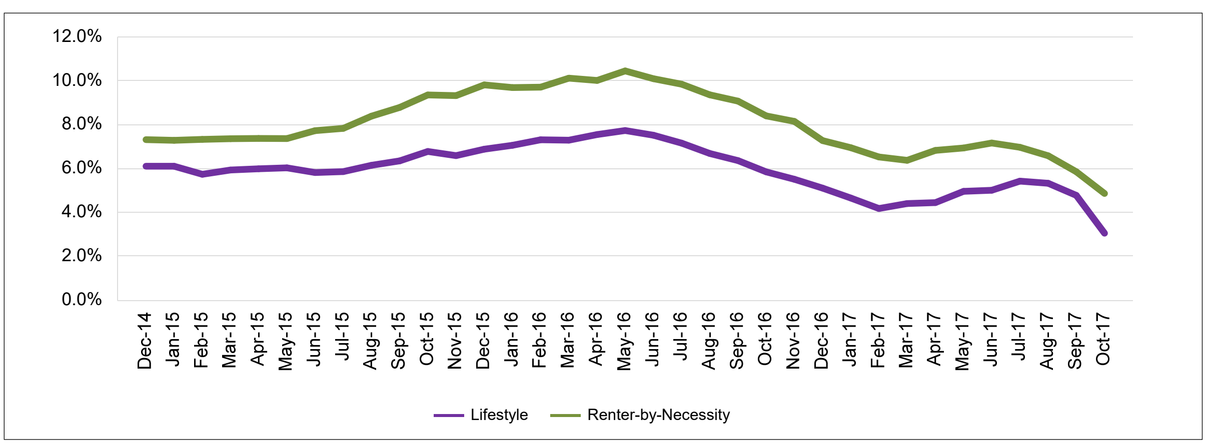
- With Seattle's occupancy rate at 96.0% for stabilized properties as of September, the metro's lack of affordable rental options and ongoing new deliveries are likely to put a damper on rent growth. Yardi Matrix forecasts rents to appreciate by 3.7% by year-end.

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)

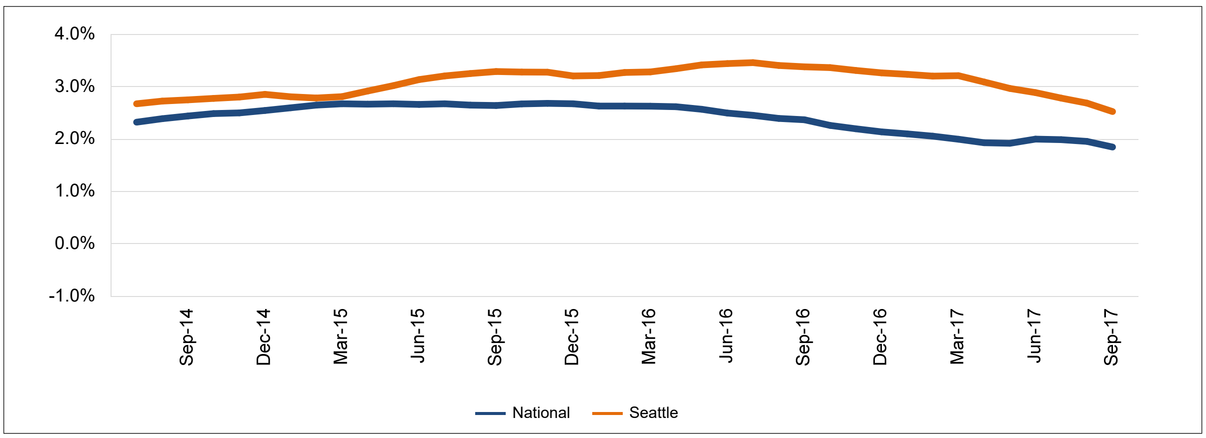


Source: YardiMatrix

Economic Snapshot

- The job market remains strong, as the metro added 38,200 jobs in the year ending in September, a 2.5% increase, 70 basis points above the national average. The unemployment rate remains low, at 4.1% as of August.
- Growth was led by the government sector, which added 8,100 jobs, followed closely by trade, transportation and utilities (7,800), which was helped in part by the $54 billion Sound Transit 3 project, which will expand the existing Link light rail system in King, Pierce and Snohomish counties.
- The information sector remains a strong economic driver, with 4,100 jobs added, up 3.9% year-over-year. Many Bay Area firms are increasing their footprint in the metro, as employees move to the Puget Sound for a lower cost of living. Google's new 600,000-square-foot campus, Amazon's Tilt49, a 306,000-square-foot campus and Facebook's double footing contributed to the 7 million square feet of office under construction across the Seattle/Puget Sound region, of which 6.8 million square feet are located in Seattle and 750,000 square feet on the Eastside and South King County.
- The only sector that lost jobs was manufacturing, which contracted by 5,800 workers, representing a -3.4% year-over-year change. Boeing's move was the primary factor.

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	%
90	Government	224	13.2%	8,100	3.8%
40	Trade, Transportation and Utilities	314	18.5%	7,800	2.5%
65	Education and Health Services	215	12.7%	6,900	3.3%
70	Leisure and Hospitality	172	10.1%	5,400	3.2%
60	Professional and Business Services	258	15.2%	5,400	2.1%
50	Information	109	6.4%	4,100	3.9%
80	Other Services	61	3.6%	2,800	4.8%
55	Financial Activities	87	5.1%	2,100	2.5%
15	Mining, Logging and Construction	98	5.8%	1,400	1.4%
30	Manufacturing	163	9.6%	-5,800	-3.4%

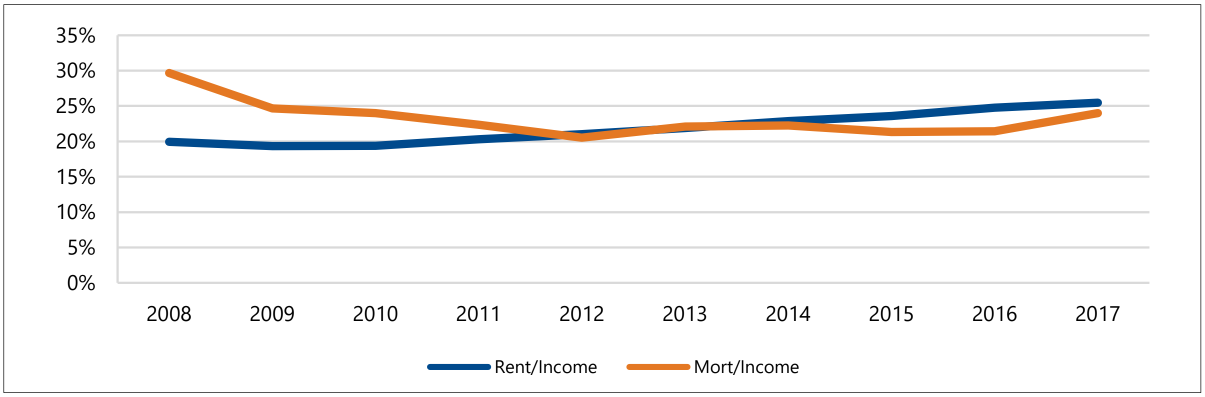
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

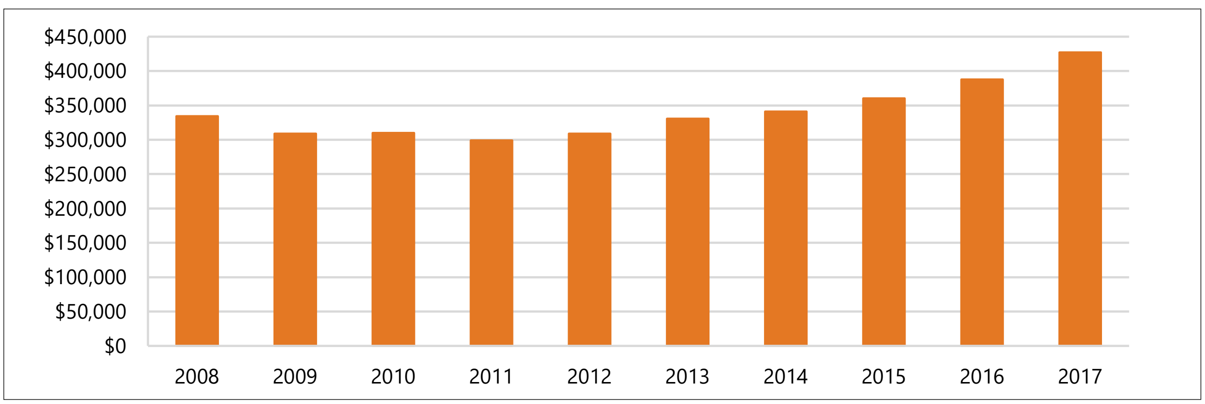
- The median home price reached a new cycle high of $427,033 in the first half of 2017, with the average mortgage payment comprising 24% of the median income. With the average rental rate, at $1,751 as of October, accounting for 25% of income, owning continues to be slightly more affordable than renting.
- As rents continue to grow and new development is concentrated more on the luxury segment in core submarkets, the city council approved the Mandatory Housing Affordability, which will require developers to either include affordable housing units in each project or contribute to a fund dedicated to future housing projects. The requirements target areas such as Downtown, University District, South Lake Union and Uptown.

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 has added 246,000 residents since 2012, a 6.9% growth rate, well above the 2.9% U.S. average. The metro is expected to attract more residents, due in part to growth in employment.

Seattle vs. National Population

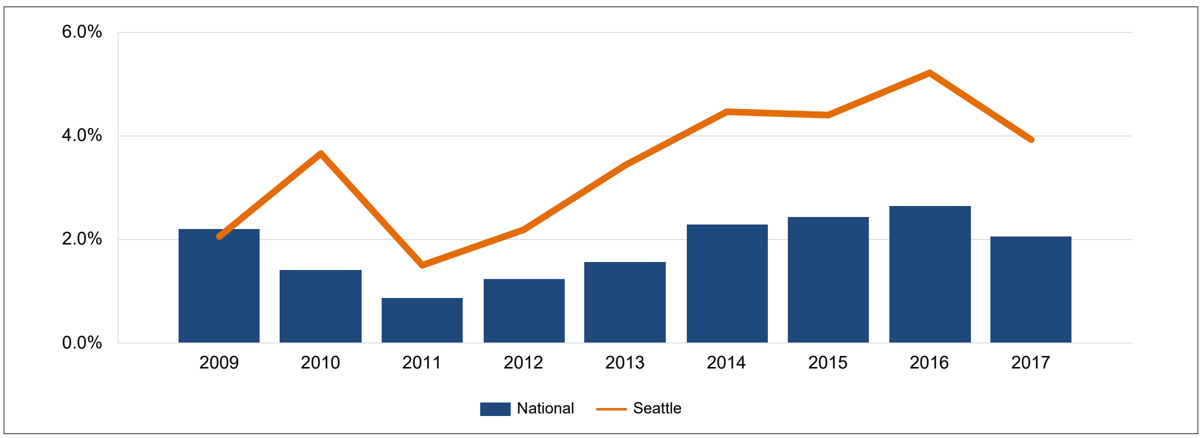
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Seattle Metro	3,552,815	3,609,617	3,667,042	3,727,097	3,798,902

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

Supply

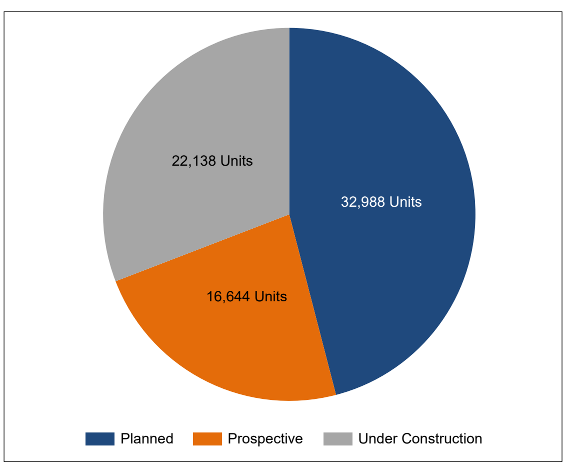
- Multifamily development in Seattle is robust, with more than 8,500 units delivered year-to-date through October. Completions are expected to reach 10,000 for the year, which would mark a 4.6% increase in stock, slightly down from 2016's cycle high of 11,000 units.
- Development is likely to remain high, as more than 22,000 units were under construction as of October. According to Yardi Matrix' latest survey, occupancy for stabilized properties was 96.0% as of September. The increase in population, coupled with the expansion of major companies attracting young workers in the area, demand is likely to remain robust, especially in the Puget Sound submarkets.
- Deliveries are concentrated in the high-demand cores of Seattle and Belltown (6,879 units under construction), as well as South Lake Union area, where Amazon and Google's campuses are underway. Other submarkets with high development activity include Redmond (2,058 units), First Hill (1,201) and North Seattle (1,082).
- Onni Group of Cos.'s 41-story twin-tower—the largest project underway—will add 1,179 units and more than 28,000 square feet of retail space to the South Lake Union submarket.

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



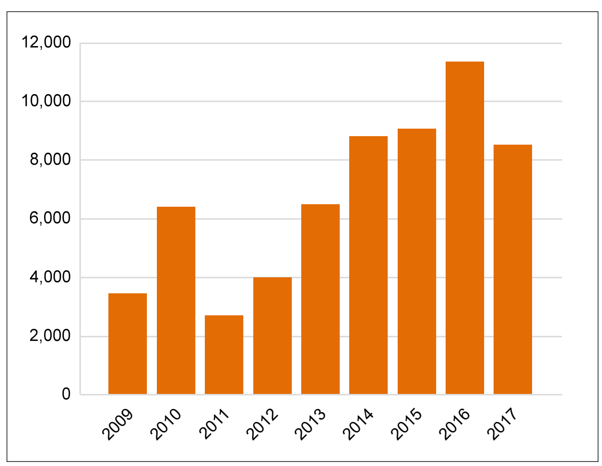
Source: YardiMatrix

Development Pipeline (as of October 2017)



Source: YardiMatrix

Seattle Completions (as of October 2017)

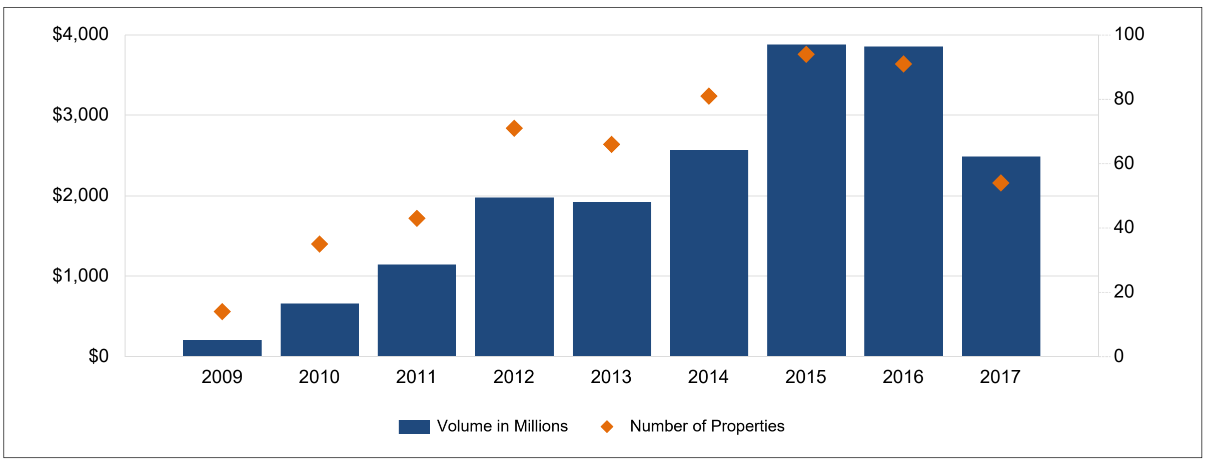


Source: YardiMatrix

Transactions

- More than $2.4 billion in properties changed hands year-to-date through October. Although that is running at a rate below 2016's $3.9 billion sales volume, investor demand remains strong. Seattle has become more attractive to institutional investors, as the market grows and increases its international flavor. Per-unit prices hit a new cycle high of $269,606, well above the $135,622 national average. Acquisition yields for Class C assets in King County traded in the 4% to 5% range, while in Pierce County, returns for similar assets were roughly 120 basis points higher.
- Investors' appetite was geographically diverse, mostly in secondary submarkets such as Belltown ($401 million), Kent ($331 million), Mercer Island ($306 million) and University ($257 million). The largest transaction of the year was Weidner Investment Services' $225 million acquisition of Tower 12 from Continental Properties. The sale amounted to $716,356 per unit.

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



Source: YardiMatrix

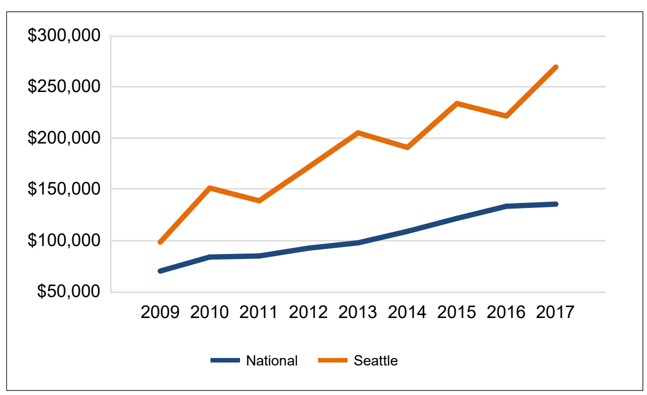
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Belltown	401
Kent	331
Mercer Island	306
University	257
Redmond	249
Renton	229
Federal Way	205
Bellevue–West	204

Source: YardiMatrix

[1] From November 2016 to October 2017

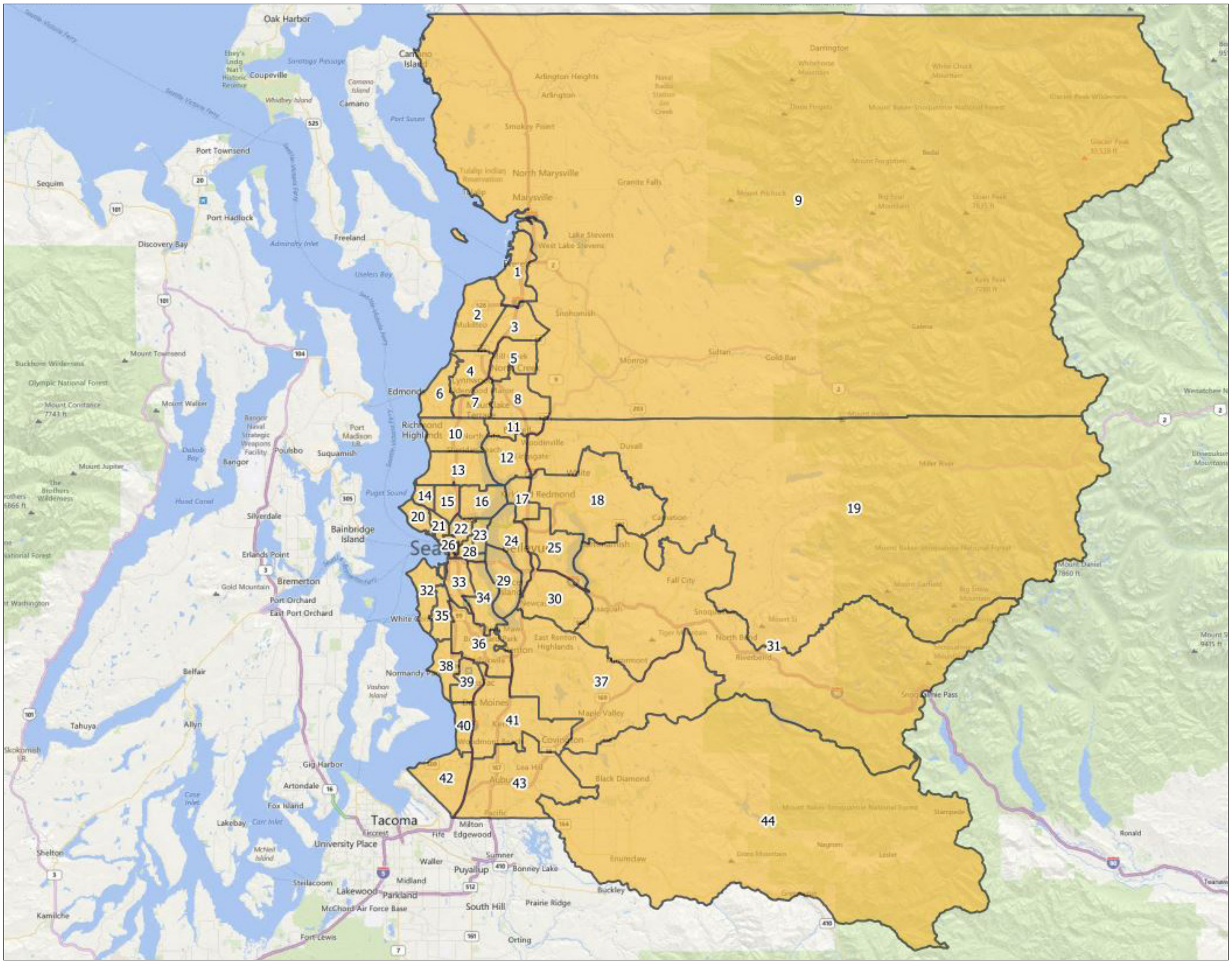
Seattle vs. National Sales Price per Unit



Source: YardiMatrix

Photo by Art Wager/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

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.

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