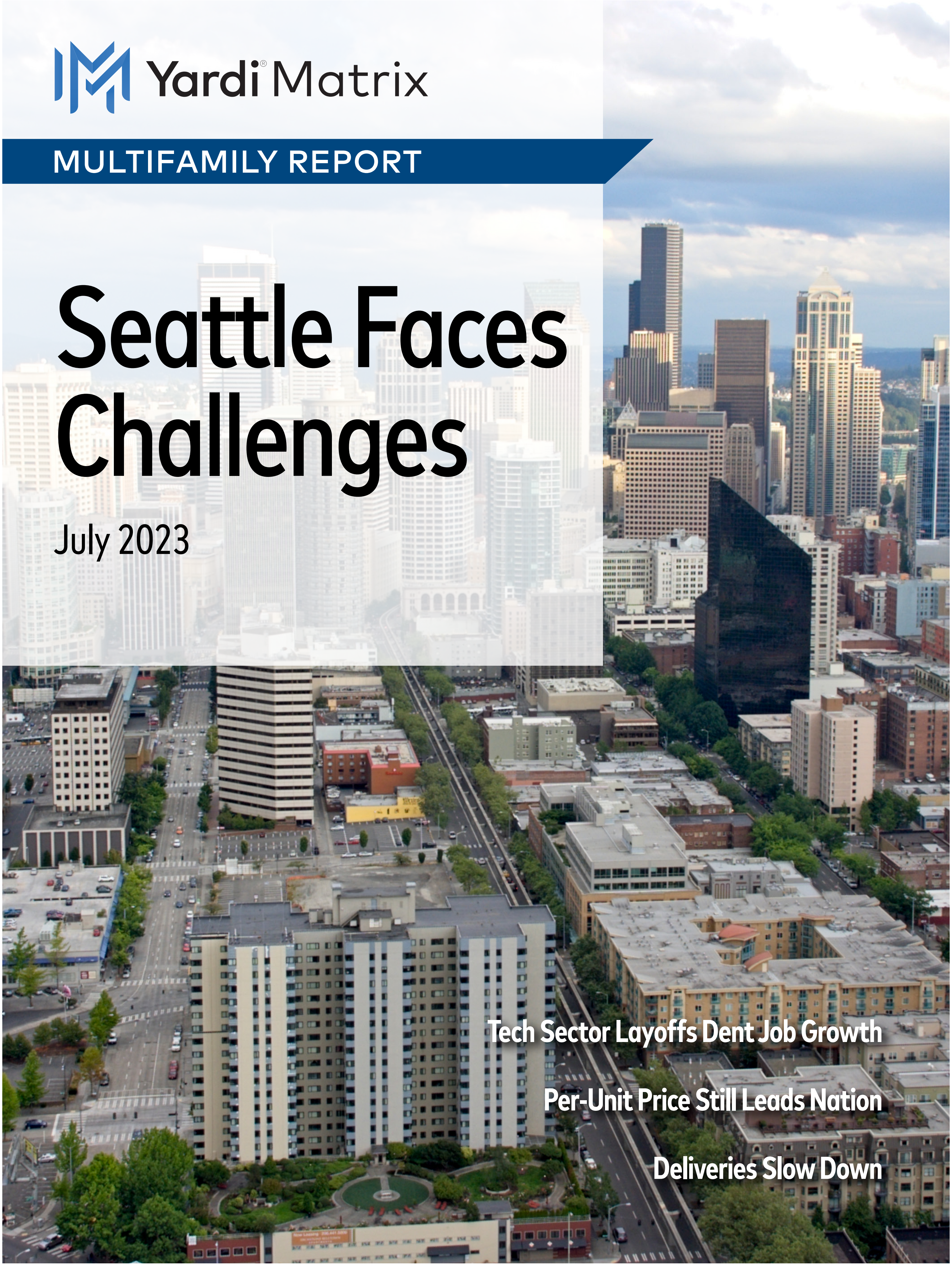
Yardi Matrix

MULTIFAMILY REPORT

# Seattle Faces Challenges

July 2023



Tech Sector Layoffs Dent Job Growth

Per-Unit Price Still Leads Nation

Deliveries Slow Down

# SEATTLE MULTIFAMILY

Yardi Matrix

## Demand Still High, But Deliveries Moderate

The Seattle multifamily market has taken a hit due to the overall deteriorating economic landscape, increasing cost of capital and ongoing layoffs in the tech sector. The metro's rent movement turned negative on a year-over-year basis as of May, at -0.9%. That was far below the 2.5% U.S. rate of rent growth. Demand was fairly robust in the metro, with occupancy remaining at 94.9%.

After returning to pre-pandemic values in November of last year, Seattle's unemployment rate kept improving, reaching 3.0% in April, according to preliminary data from the Bureau of Labor Statistics. The job market expanded 3.8% year-over-year as of March, adding 64,300 new jobs. Leisure and hospitality, which was one of the hardest-hit sectors during the pandemic, gained the most new positions (16,100).

Developers only delivered 1,582 units in Seattle in 2023 through May, 0.6% of total rental inventory. After delivering a record 12,400 units in 2022 and nearly doubling the 2.4% U.S. rate of delivery, the percentage of stock in Seattle was in line with the U.S. through the first five months of 2023. The number of construction starts also declined from last year, with only 3,385 units breaking ground this year. Per-unit prices are still among the highest in the nation and well above the national average, although they dropped 21.2% from 2022 averages, to $307,247 this year.

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## **Market Analysis** | July 2023

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### Recent Seattle Transactions

The Lakes

City: Seattle
Buyer: Waterton
Purchase Price: $102.9 MM
Price per Unit: $388,396.23

128 on State

City: Seattle
Buyer: Waterton
Purchase Price: $63.5 MM
Price per Unit: $516,260.16

Artesia By The Lake

City: Seattle
Buyer: MG Properties
Purchase Price: $61.5 MM
Price per Unit: $320,533.33

206 Bell

City: Seattle
Buyer: Weidner Investment Services
Purchase Price: $37.5 MM
Price per Unit: $307,008.20

## RENT TRENDS

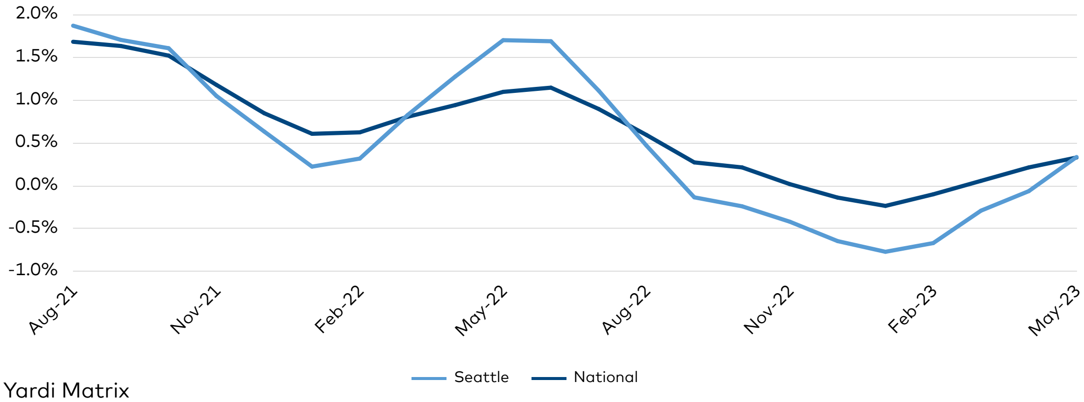
- Seattle rent movement on a trailing three-month (T3) basis turned negative at the end of last year's third quarter, but picked up again in May, to 0.3% growth, in line with the national trend. The average asking rent in the metro stood at $2,186 in May, still well above $1,716 national average. On a year-over-year basis, Seattle figures were down 0.9% as of May, as the metro felt the effects of eight consecutive months of rent deceleration.

- Both quality segments rose 0.3% on a T3 basis as of May. The average rent for Lifestyle apartments was $2,449, while rates in the working-class Renter-by-Necessity segment clocked in at $1,854.

- The average occupancy rate in stabilized properties illustrates a similar dynamic for the two quality segments, decreasing a respective 70 and 80 basis points year-over-year through May, to 94.5% (Lifestyle) and 95.3% (RBN). Overall, occupancy in the metro stood at 94.9% in April.

- Rent growth occurred in 24 of the 44 submarkets tracked by Yardi Matrix on a year-over-year basis. Areas with the most significant improvement were Seatac (5.8% to $1,655) and Central Everett (5.6% to 1,794). The metro's most expensive submarkets, Bellevue-West and Belltown had an average rent decrease of 4.0% year-over-year, from $3,053 to $2,931 and 250 basis points, from $2,783 to $2,713.

**Seattle vs. National Rent Growth** (Trailing 3 Months)



Source: Yardi Matrix

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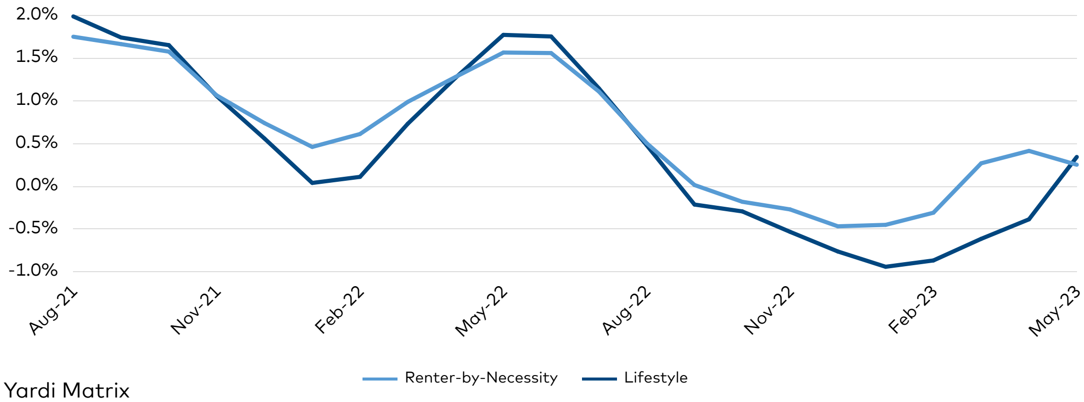
**Seattle Rent Growth by Asset Class** (Trailing 3 Months)



Source: Yardi Matrix

## ECONOMIC SNAPSHOT

- Seattle's unemployment rate stood at 3.0% in April, according to preliminary data from the Bureau of Labor Statistics, a 20-basis-point improvement since the start of the year and 40 basis points lower than the U.S. figure. During the same period last year, the rate was 100 basis points above the U.S. figure.
- The employment market expanded 3.8% year-over-year as of March, adding 64,300 jobs, with the most gains recorded in the leisure and hospitality sector (16,100 positions), still recovering from the impact of the pandemic. Education and health services followed, with 12,300 jobs. Information and financial activities were down a respective 1,500 and 1,700 positions year-over-year.
- The metro's economic cornerstone is its professional and business services sector, which added 8,000 jobs through the interval, despite a number of tech companies conducting massive layoffs. Amazon is one of the largest companies growing its presence in the area, specifically in Bellevue, where it has nearly 3.8 million square feet under construction. Projects include Bellevue 600, a 43-story office development slated for completion in 2024, and new leases at 555 Tower and West Main. Amazon recently laid off more than 9,000 employees, as a looming recession continues to influence business decisions.

### Seattle Employment Share by Sector

| | | Current Employment | |
|---|---|---|---|
| Code | Employment Sector | (000) | % Share |
| 70 | Leisure and Hospitality | 161 | 8.9% |
| 65 | Education and Health Services | 239 | 13.2% |
| 90 | Government | 212 | 11.7% |
| 60 | Professional and Business Services | 361 | 20.0% |
| 30 | Manufacturing | 148 | 8.2% |
| 40 | Trade, Transportation and Utilities | 288 | 15.9% |
| 15 | Mining, Logging and Construction | 109 | 6.0% |
| 80 | Other Services | 61 | 3.4% |
| 50 | Information | 141 | 7.8% |
| 55 | Financial Activities | 88 | 4.9% |

Sources: Yardi Matrix, Bureau of Labor Statistics

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## Population

- The second year of the pandemic 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 population has expanded 16.3%.

### Seattle vs. National Population

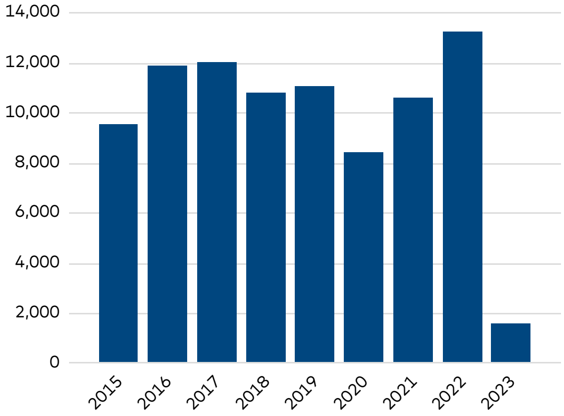
| | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| National | 326,838,199 | 328,329,953 | 331,501,080 | 331,893,745 |
| Seattle | 3,937,546 | 3,977,785 | 4,024,730 | 4,011,553 |

Source: U.S. Census

## SUPPLY

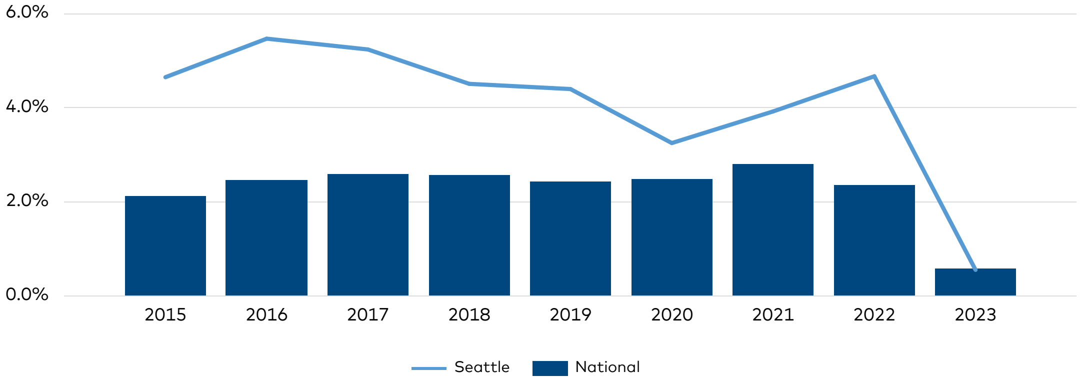
- Developers delivered 1,582 units in Seattle in 2023 through May, accounting for 0.6% of total rental stock. After nearly doubling the 2.4% U.S. rate in 2022 when 13,255 units came online, Seattle's construction rate this year mirrored the national figure, at 0.6%.
- The development pipeline currently has 26,015 units underway and more than 53,000 in the planning and permitting stages. Of the units under construction, 3,385 broke ground this year, below the 3,513 units that started construction during the same period last year. The current pipeline heavily favors upscale projects, which account for about 75% of the units underway; another 20% are in fully affordable communities and just 5% are market-rate units. More than 14,500 units are slated for completion by the end of 2023, but delays will likely occur, as the industry deals with labor shortages, increasing construction material prices and rising interest rates.
- Belltown remains the most active submarket with 3,896 units under construction, followed by Redmond (2,880 units). Two other submarkets have almost 2,000 units underway—Shoreline (1,949 units) and Central (1,908). The Central Everett submarket currently has the largest project underway: the fully affordable 430-unit Four Corners, slated to come online in January 2024.
- The largest project delivered in 2023 through May was the 550-unit Mason & Main, a partially affordable community in the Central submarket. Owned by Lowe Enterprises, the asset has a 6,800-square-foot retail component.

**Seattle Completions** (as of May 2023)



Source: Yardi Matrix

**Seattle vs. National Completions as a Percentage of Total Stock** (as of May 2023)

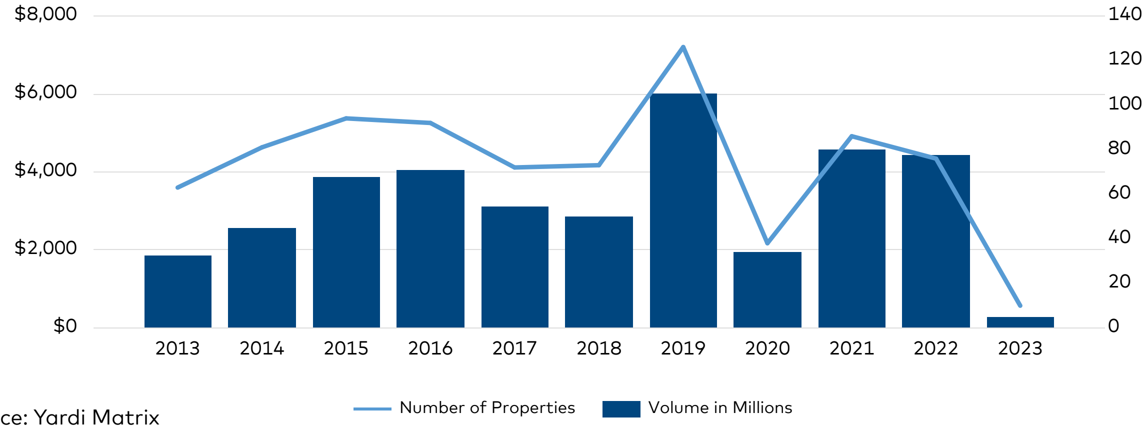


Source: Yardi Matrix

# TRANSACTIONS

- Investors traded nearly $266 million in multifamily assets in 2023 through May, an 84% drop from the $1.7 billion recorded during the same interval last year. Last year's transaction volume rose to $4.4 billion. The market has been impacted by rising capital costs, with a decrease in rent growth, increasing vacancy rates and a robust supply pipeline also playing a factor.
- Sales composition was more heavily driven by RBN plays, as Lifestyle assets accounted for three of the 10 properties that changed hands this year. After peaking at $389,811 in 2022, per-unit prices dropped to $307,247 this year, still nearly double the $179,358 U.S. average.
- The largest transaction completed in the first five months of the year was Prometheus Real Estate Group's sale of 128 on State, a 128-unit Lifestyle asset in Kirkland. Waterton acquired it for $63.5 million, or $307,008 per unit, right in line with the average per-unit price.

**Seattle Sales Volume and Number of Properties Sold** (as of May 2023)



Source: Yardi Matrix

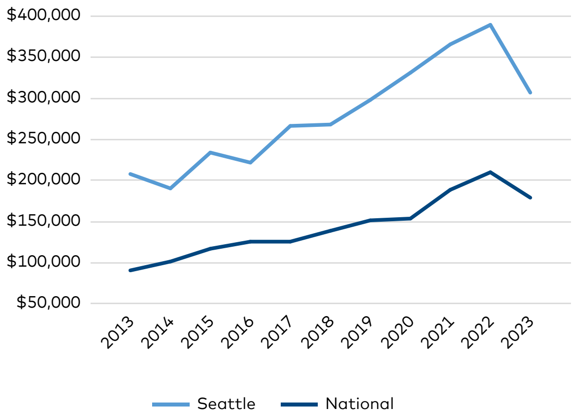
**Top Submarkets for Transaction Volume**[1]

| Submarket | Volume ($MM) |
|---|---|
| Belltown | 641 |
| Factoria | 336 |
| Juanita | 242 |
| Issaquah | 218 |
| Redmond | 150 |
| Paine Field | 124 |
| Silver Lake | 93 |

Source: Yardi Matrix

[1] From June 2022 to May 2023

**Seattle vs. National Sales Price per Unit**



Source: Yardi Matrix

# Property Operations in Stressful Times

By Anca Gagiuc

Wasatch Property Management oversees more than 70 multifamily properties or 17,000 units across five western states. Most of them were technologically prepared for the work-from-home movement, but there is still plenty to do in adapting the management strategy and accommodating new duties to satisfy residents' current needs. Vice President of Marketing Kitty Callaghan shares operational tactics that work in a shifting economy.

*High inflation and, implicitly, higher rents are pushing renters to change their lifestyles to cover these increases. How is this shift perceived from the lessor's perspective?*

Consumers are dealing with difficult decisions about their lifestyle choices. Eating out less often, attending fewer events, and delaying home purchases means residents spend more time in their apartments. As housing is likely the greatest portion of monthly expenditures, it is imperative that the value and service received meet expectations. In fact, we see ourselves as much as a service provider as a multifamily housing organization.

*How do these woes affect marketing duties and budgets?*

Our marketing efforts are laser-focused to provide optimum ROI for every dollar spent. We closely monitor changes to our customers' shopping and buying habits to ensure that our marketing efforts are properly focused, and adjust as necessary. Being data-driven allows us to adjust and refine our efforts for the best results.

*The right sustainability strategy can limit the impact of a recession and facilitate a quick recovery. Where do WPM properties stand in relation to sustainability?*

We are aware that sustainability is so much more than simply recycling bins and reducing water consumption. Therefore, we built one of the first 'virtual power plants' at our solar community Soleil Lofts in Herriman, Utah, which has become a prototype for the future. We are using what we have learned through this project in all future developments.

*Which communication methods do you use with your residents?*

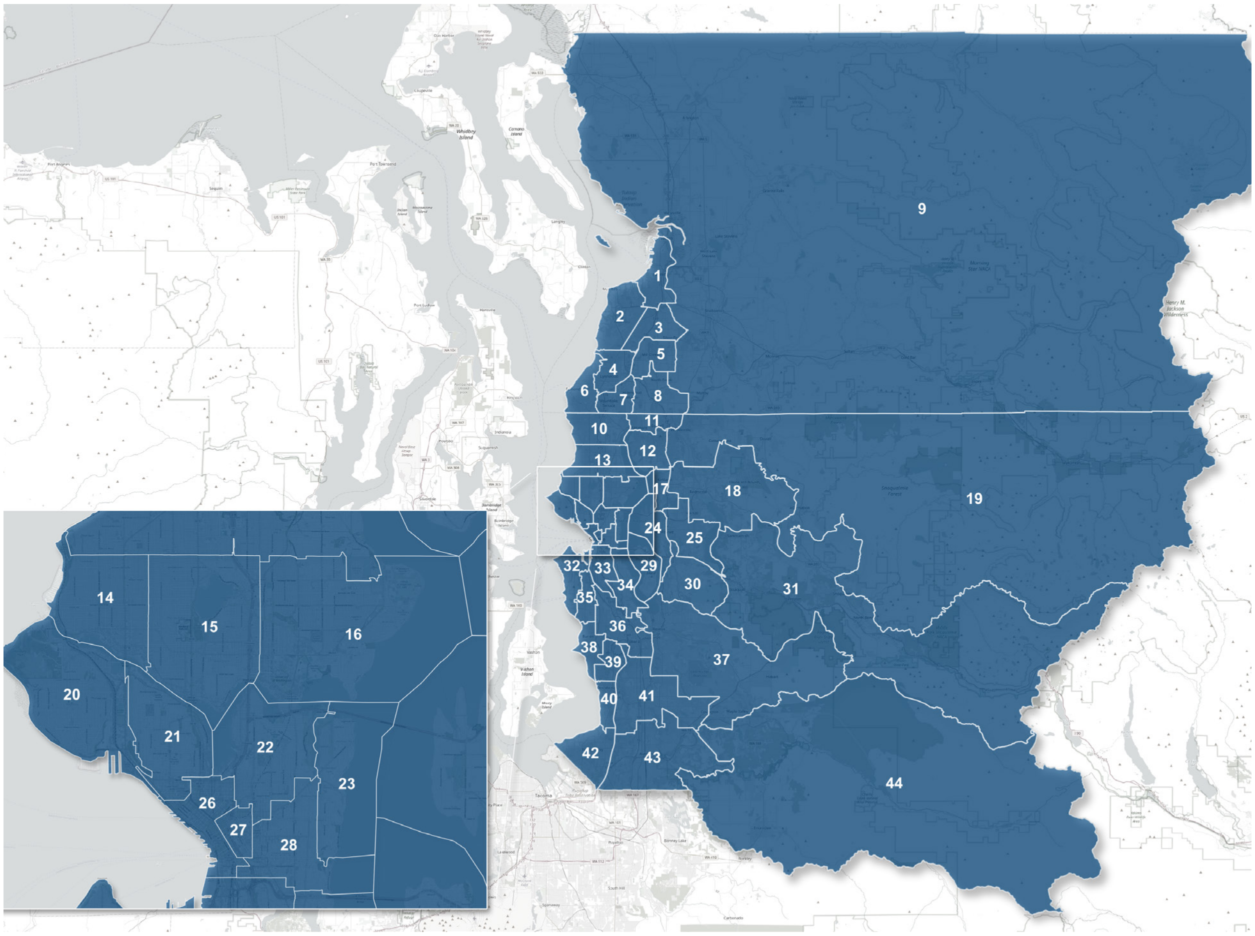
It's important we offer every possible communication channel between residents and on-site property operation teams. Of course, there is not a one-size-fits-all scenario. Different people have different preferences and, whatever their preferred communication channel is, we need to be there. While it's important to listen and be heard, it's also important not to overwhelm them with unnecessary chatter. To be effective, communication must be clear, concise and well-received.

*What are WPM's plans for the rest of the year?*

Contrary to typical conventions, we view a challenging economy as an opportunity. We will continue to watch for opportunities to improve our property operations, streamline processes and increase efficiencies.

*(Read the complete interview on 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 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

# Power your business with the industry's leading data provider

## MULTIFAMILY KEY FEATURES

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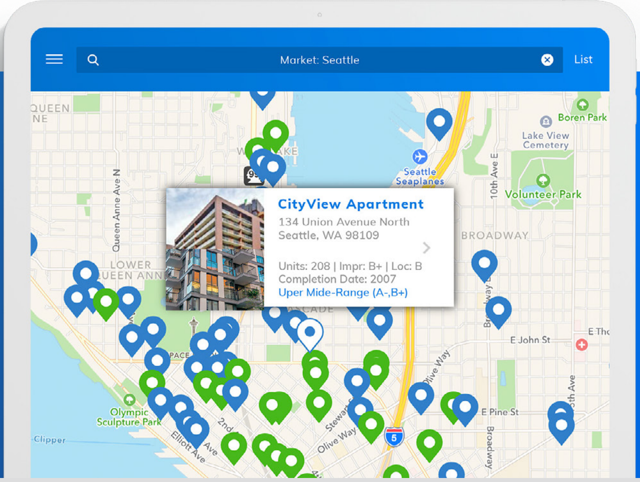
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



**CityView Apartment**
134 Union Avenue North
Seattle, WA 98109

Units: 208 | Impr: B+ | Loc: B
Completion Date: 2007
Uper Mide-Range (A-,B+)

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

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