Yardi® Matrix

Sizzling Seattle

Multifamily Report Spring 2018

Above-Trend Rent Growth Persists

Home Prices Set New Record

Deliveries Gain Momentum

Market Analysis
Spring 2018

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Demand Shines in Emerald City

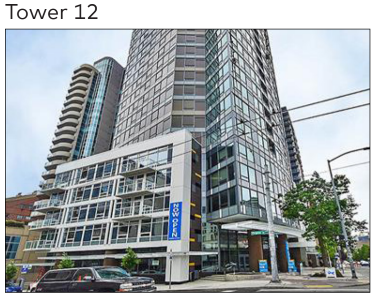
Seattle continues to be one of the strongest multifamily markets in the country, due to its substantial population growth and solid employment. Despite tapering over the past two years, the metro's rent growth was still above the national average, due to high demand from healthy demographic trends and escalating household formation.

Downtown Seattle's construction boom has served as a magnet for white-collar workers, while also motivating more companies to settle in the area. The metro added 45,700 jobs last year, buoyed by a thriving technology sector. Trade, transportation and utilities also grew, along with construction and business services. Expanding the city's office pipeline, CRG will develop a 1.6 million-square-foot, institutional-quality business park on the site of the former Intel campus. Redmond—home to Microsoft's headquarters—plans to accommodate significant urban growth in the Overlake area through a 170-acre transit-oriented project. Manufacturing is the only sector to lose jobs last year, amid growing concerns that new tariffs on imported steel and aluminum could jeopardize more jobs in the state.

As long as major technology companies maintain a robust hiring pace, demand for rentals across Puget Sound should remain heightened. Yardi Matrix expects rent growth of 4.8% by year-end.

Recent Seattle Transactions

Tower 12



City: Seattle
Buyer:Weidner Investment Services
Purchase Price: $225 MM
Price per Unit: $716,357

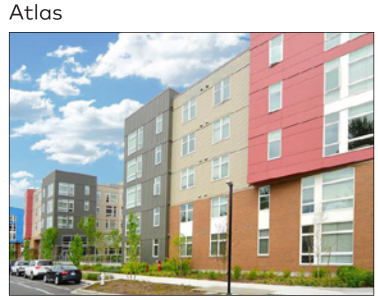
Shorewood Heights

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: $504,286

Atlas



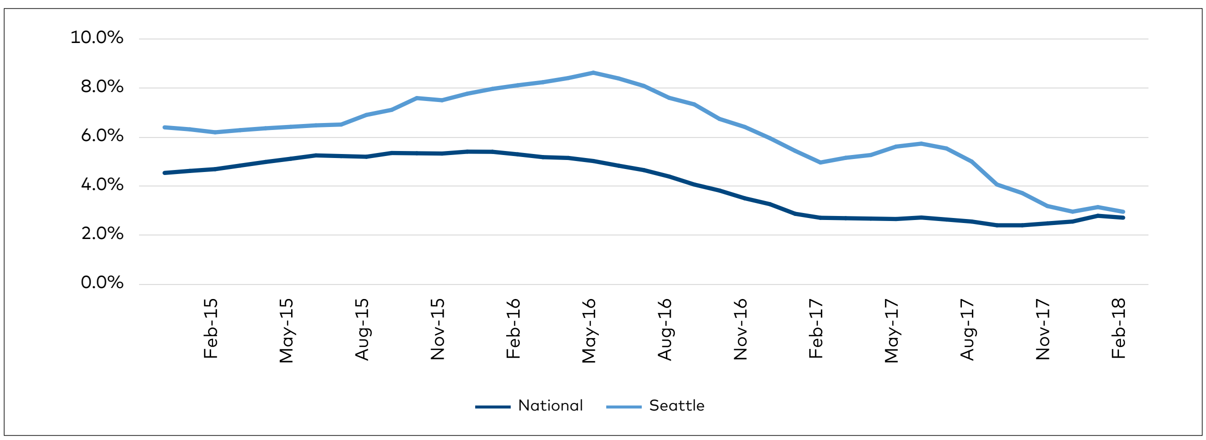
City: Issaquah, Wash.
Buyer: Kennedy Wilson
Purchase Price: $135 MM
Price per Unit: $391,570

On the cover: Photo by Roman Khomlyak/iStockphoto.com

Rent Trends

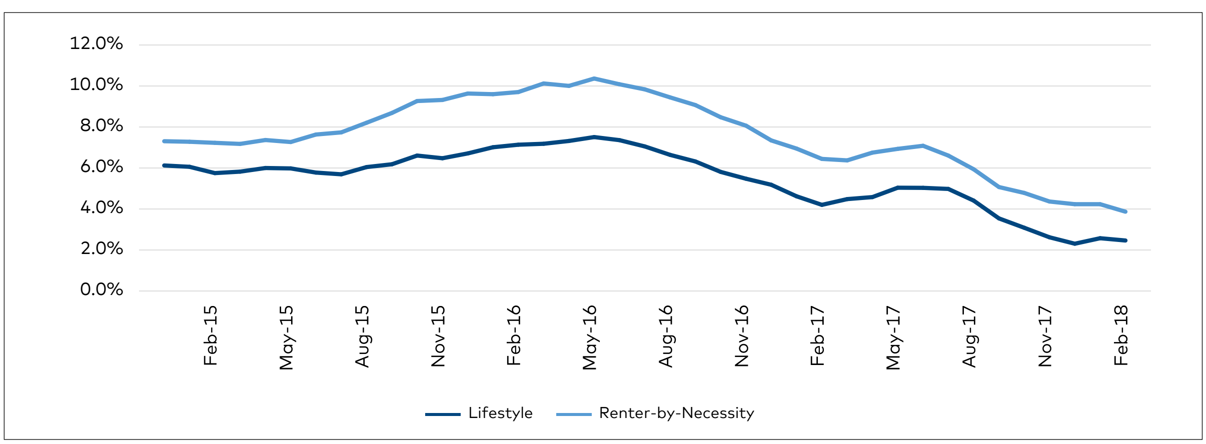
- Seattle rents rose 3.0% year-over-year through February, 30 basis points above the national rate. The average rent stood at $1,743, $379 higher than the U.S. average. Rents have been well above national figures for the past five years, highlighting intensifying demand in a metro stimulated by extended job and population growth.
- The working-class Renter-by-Necessity segment continued to lead growth, with rents up 3.9% year-over-year through February, to $1,475. Lifestyle rents are still on a downward trajectory, rising just 2.5% to $1,955. Most of the units under construction are geared toward high-income residents, so rents in the upscale segment should continue to decrease.
- Submarkets with the highest rent growth were Enumclaw (19.4%) and Madison/Leschi (11.6%). However, core urban submarkets such as Bellevue–West ($2,425) and Belltown ($2,362) are still the most expensive areas in the metro. Positive job growth and net-migration continue to fuel demand within the rental market.
- Due to last year's record deliveries, occupancy rates for stabilized properties have decreased to 95.1% as of January. Yardi Matrix expects rents to appreciate 4.8% 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)

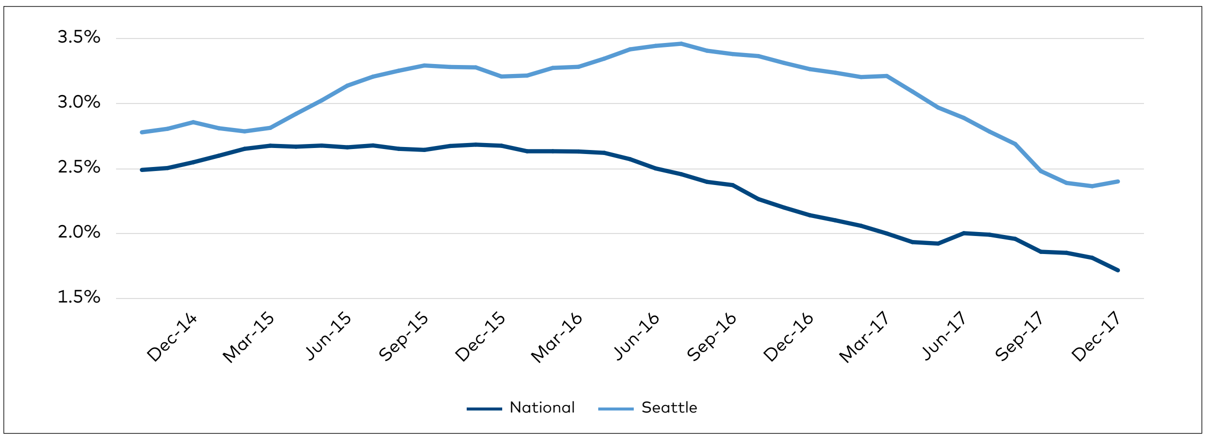


Source: YardiMatrix

Economic Snapshot

- The metro added 45,700 jobs last year, marking a 2.4% increase, 70 basis points above the national average. The unemployment rate remains below the 4.0% mark.
- With 9,300 jobs added last year, trade, transportation and utilities is a driving force for job growth in Seattle. Roughly $350 million is being invested in the redevelopment of Colman Dock, the ferry terminal supporting transportation across Puget Sound. The sector should get a boost this year with a $1.6 billion expansion project that aims to double the available space at the convention center.
- Due to its history as a technology hub and status as a hotbed for startups, Seattle was recently named the No. 1 U.S. market for STEM job growth in a WalletHub report. Professional and business services added 7,600 jobs in 2017, a 15.1% increase. Manufacturing is the only sector to lose jobs, contracting by 4,700 positions, with aerospace manufacturing shrinking in the wake of Boeing's exit.
- Nearly 6 million square feet of office space is under construction, as a solid stream of new commercial developments is set to change Seattle's skyline. Developer Wright Runstad & Co. broke ground on Rainier Square Tower, a $570 million office-residential high-rise slated to open in mid-2020.

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	324	18.9%	9,300	3.0%
70	Leisure and Hospitality	173	10.1%	7,700	4.7%
60	Professional and Business Services	259	15.1%	7,600	3.0%
90	Government	226	13.2%	5,800	2.6%
15	Mining, Logging and Construction	99	5.8%	5,300	5.7%
55	Financial Activities	88	5.1%	4,500	5.4%
65	Education and Health Services	218	12.7%	4,500	2.1%
50	Information	109	6.4%	3,700	3.5%
80	Other Services	61	3.6%	2,000	3.4%
30	Manufacturing	159	9.3%	-4,700	-2.9%

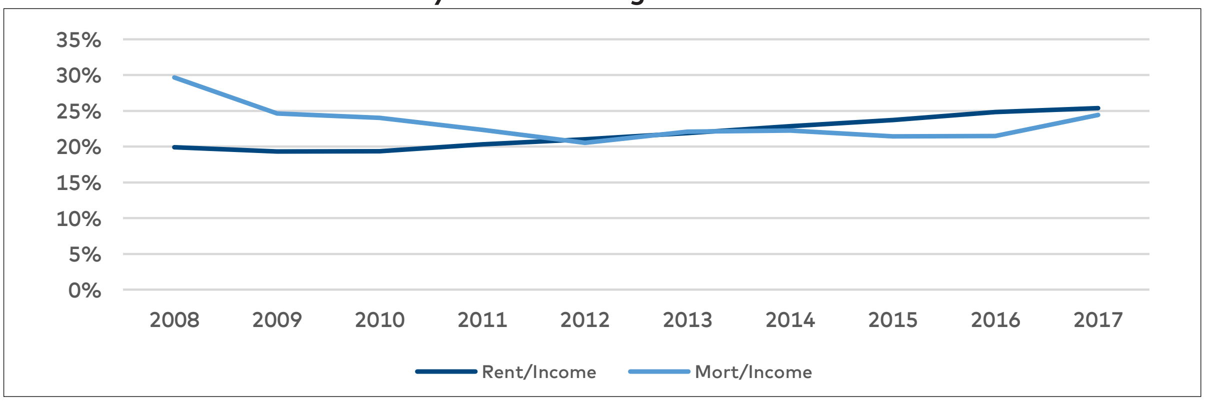
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

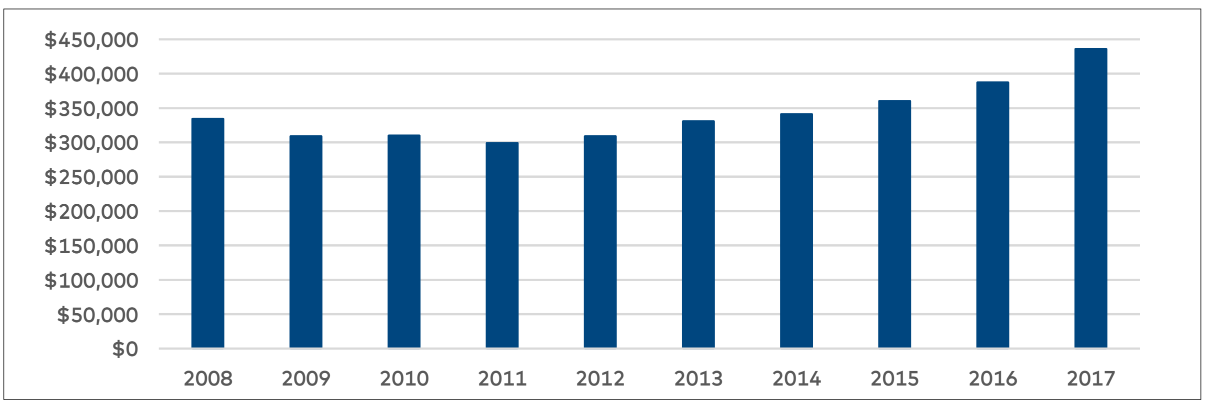
- The median home price crossed the $400,000 mark in 2017, establishing a new cycle high of $435,790. Driven by healthy demographics and strong employment growth, home prices have been on an upward trajectory since 2011.
- Owning is on par with renting, with mortgages taking up 24% of the average income, while rents account for 25%. The city's Housing Affordability and Livability Agenda—a plan that calls for the addition of 20,000 units of affordable housing by 2025—is not enough to keep up with demand coming from rent-burdened residents. Seattle is changing its land-use codes to allow for more housing density.

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 350,000 residents between 2010 and 2016, at a rate of 10.2%, more than double the 4.5% national average.
- STEM job demand is likely to continue to attract more residents to the city.

Seattle vs. National Population

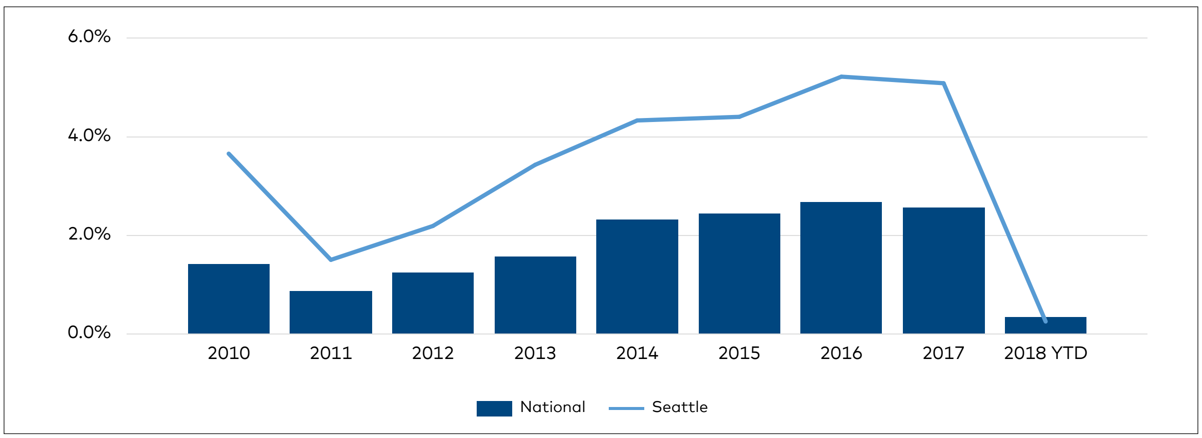
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Seattle Metro	3,552,815	3,609,617	3,667,042	3,727,097	3,798,902

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

Supply

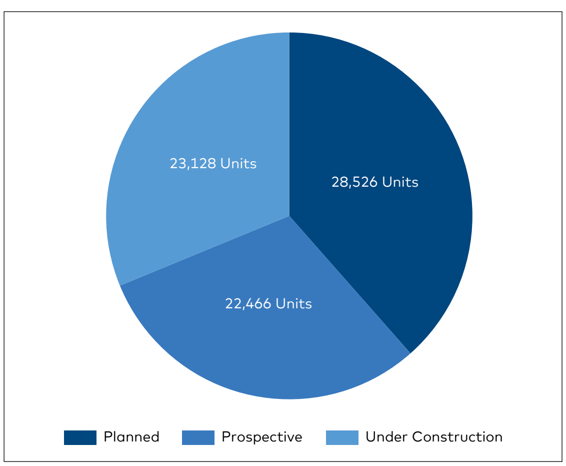
- Seattle's apartment supply has been gaining momentum over the past few years, with nearly 11,700 units delivering in 2017—a new cycle peak. Roughly 12,400 units are slated for completion in the metro by year-end, representing 4.2% of total stock and a new cycle high, at a time when the U.S. market is gearing up for its strongest year of deliveries since the crash.
- Roughly 23,000 units are underway, and another 51,000 are in the planning and permitting stages. Young professionals continue to be attracted to the area by tech powerhouses like Amazon, Microsoft and Google. Developers are targeting core areas, with Belltown (5,478 units underway) topping the list. Other areas near the metro's main urban nodes—such as Redmond, Bellevue–East, First Hill and Central—also have robust pipelines. These four submarkets have a combined 6,400 units under construction, which are likely to be rapidly absorbed going forward.
- Belltown is one of the submarkets with the most significant construction activity. The submarket is home to the largest project underway—1120 Denny Way, totaling 1,128 units in two 41-story towers—as well as retail and amenity space. Onni Real Estate is in charge of the project.

Seattle vs. National Completions as a Percentage of Total Stock (as of February 2018)



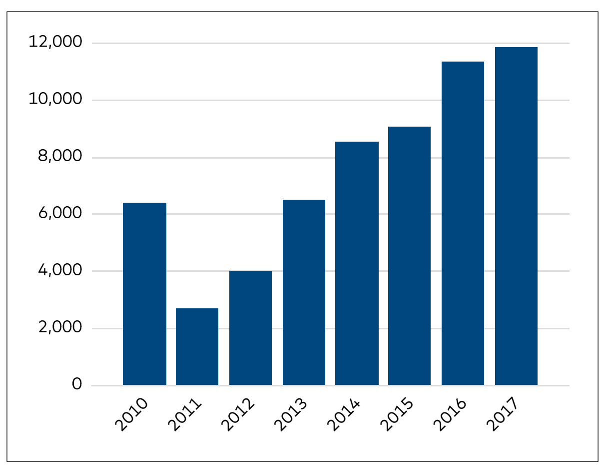
Source: YardiMatrix

Development Pipeline (as of February 2018)



Source: YardiMatrix

Seattle Completions (as of February 2018)



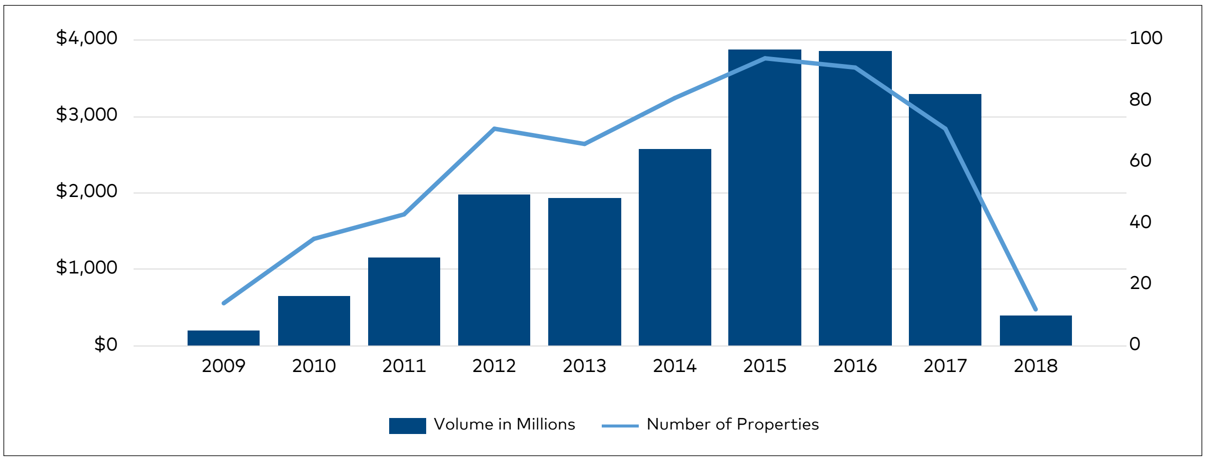
Source: YardiMatrix

Transactions

- Investor appetite remains strong, with nearly $400 million in multifamily assets trading year to date. Fueled by strong demand and the metro's continued potential for growth, investment sales—and in turn, annual transaction volume—are poised to have another solid year, following three consecutive years when total volumes exceeded the $3 billion mark. The average per-unit price was $270,723 last year, representing a new cycle high. This value reflects Seattle's rapid economic development, which has led investors to widen their search to include Class B/C assets in secondary submarkets, such as Kent, in their investment strategies.

- With more than $1 billion in assets trading in the 12 months ending in February, Belltown, Kent and Mercer Island were the most sought-after submarkets. Weidner Investment Services purchased Tower 12, a 2017-built asset in Belltown. The luxury tower traded for $225 million, marking the largest transaction within that interval.

Seattle Sales Volume and Number of Properties Sold (as of February 2018)



Source: YardiMatrix

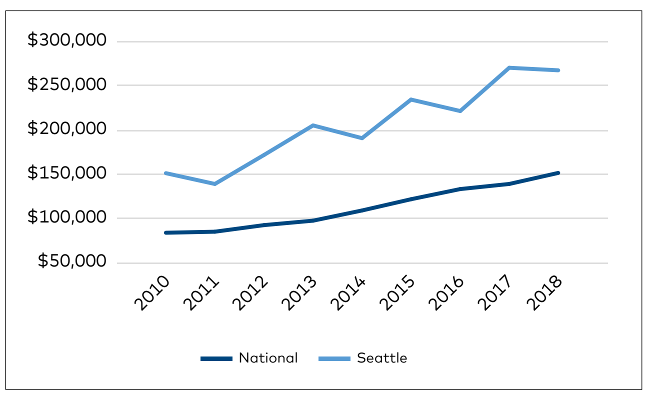
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Belltown	352
Kent	348
Mercer Island	306
University	257
Shoreline	216
Bellevue–West	204
West Seattle	147
Issaquah	135

Source: YardiMatrix

[1] From March 2017 to February 2018

Seattle vs. National Sales Price per Unit



Source: YardiMatrix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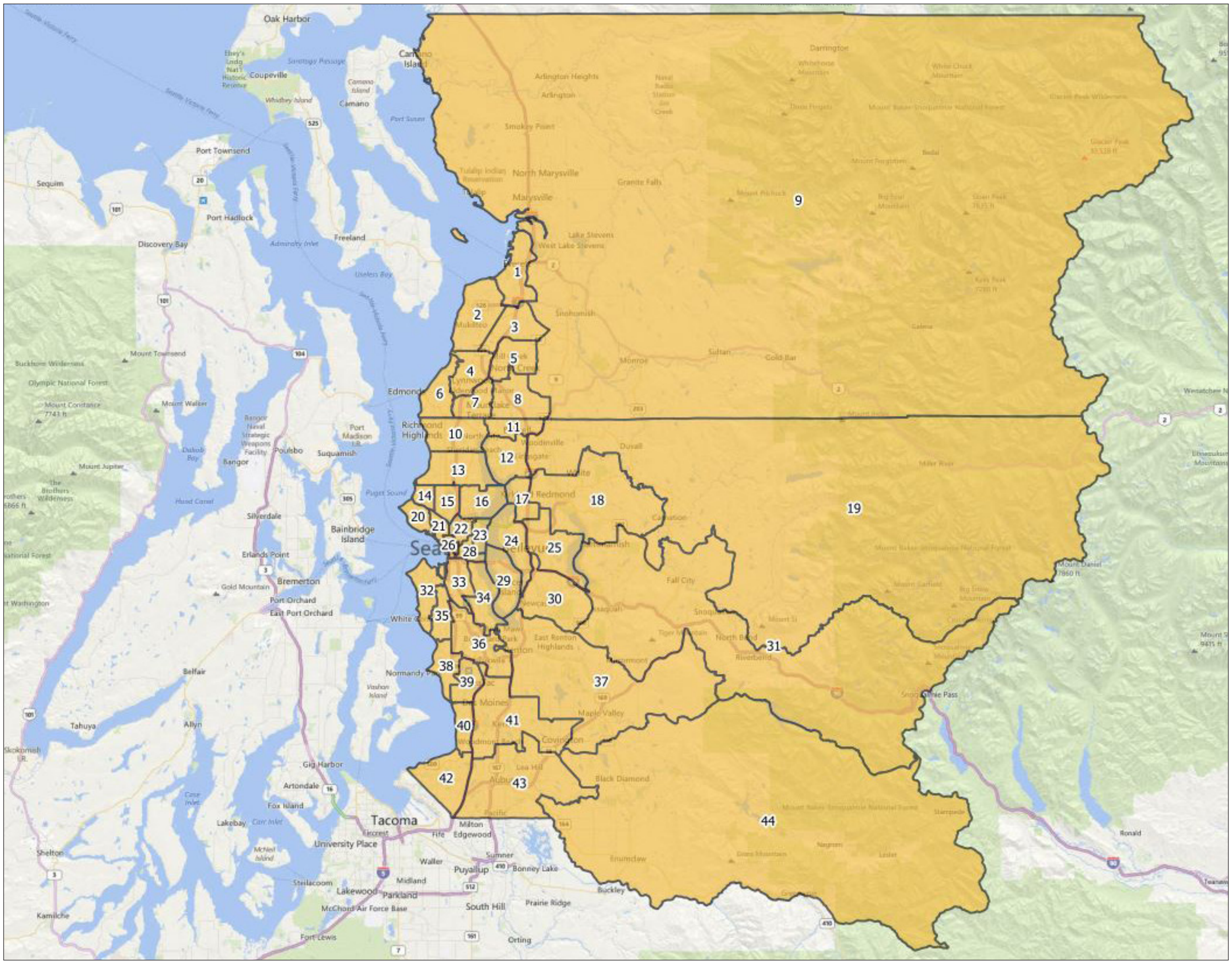
Seattle Submarkets



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.