Yardi Matrix

MULTIFAMILY REPORT

Seattle Market Slow

November 2023

YoY Rent Growth Among Lowest in US

Occupancy Remains Above 95%

Supply, Investment Moderate

SEATTLE MULTIFAMILY

Yardi Matrix

Steady Demand Amid Tepid Fundamentals

Seattle's multifamily fundamentals remained tepid through the first three quarters of 2023, with contracted supply and investment activities and limited positive rent movement. In line with seasonal patterns and after five straight months of slight gains, rent growth dropped back into negative territory, down 0.3% on a trailing three-month basis through September, to $2,186. Yet demand remained healthy, with the annual occupancy rate in stabilized properties staying flat, at 95.4% in August.

Seattle unemployment rose to 3.8% in August, according to data from the Bureau of Labor Statistics, up from the low 3.0% rate it maintained for most of the year. The figure was on par with the U.S. and trailed the 3.6% state average. Meanwhile, in the 12 months ending in July, the employment market added 50,900 jobs, up 3.6%. Although it remained on a downward trend, it was 100 basis points ahead of the national rate. Information was the only sector to contract, down by 8,700 positions. Leading job growth were leisure and hospitality and education and health services, accounting for more than half the jobs gained during the period. Despite challenges, the professional and business services sector expanded by 3,000 jobs.

Developers delivered 3,613 units and had 32,000 units under construction, but the ongoing financing woes halved the volume of new projects. Meanwhile, total investment plummeted to just $654 million through September, for a $332,985 per-unit price.

Market Analysis | November 2023

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Recent Seattle Transactions

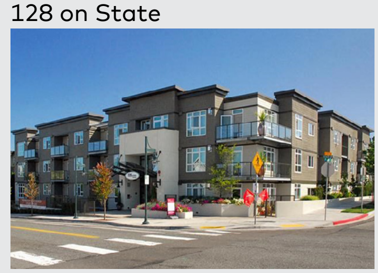
Radiate

City: Redmond, Wash.
Buyer: Jackson Square Properties
Purchase Price: $125 MM
Price per Unit: $346,722

The Lakes

City: Bellevue, Wash.
Buyer: Waterton
Purchase Price: $103 MM
Price per Unit: $388,396

128 on State



City: Kirkland, Wash.
Buyer: Waterton
Purchase Price: $64 MM
Price per Unit: $516,260

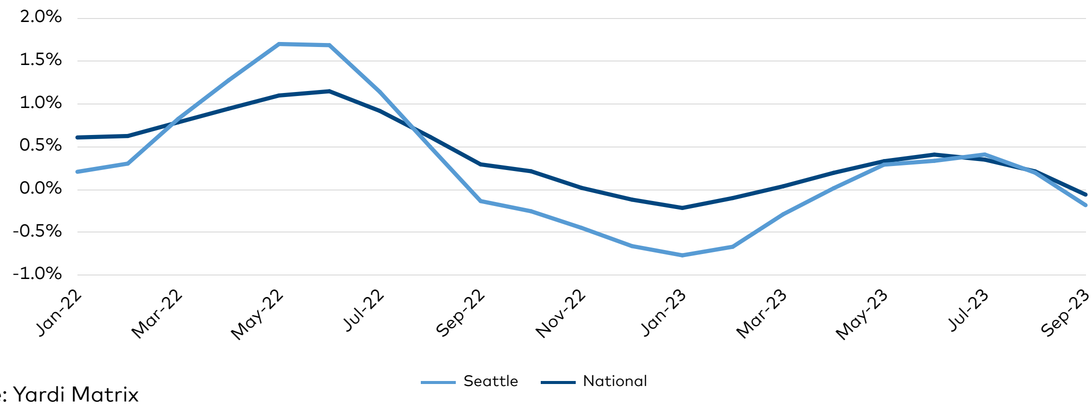
Artesia By The Lake

City: Everett, Wash.
Buyer: MG Properties
Purchase Price: $62 MM
Price per Unit: $320,533

RENT TRENDS

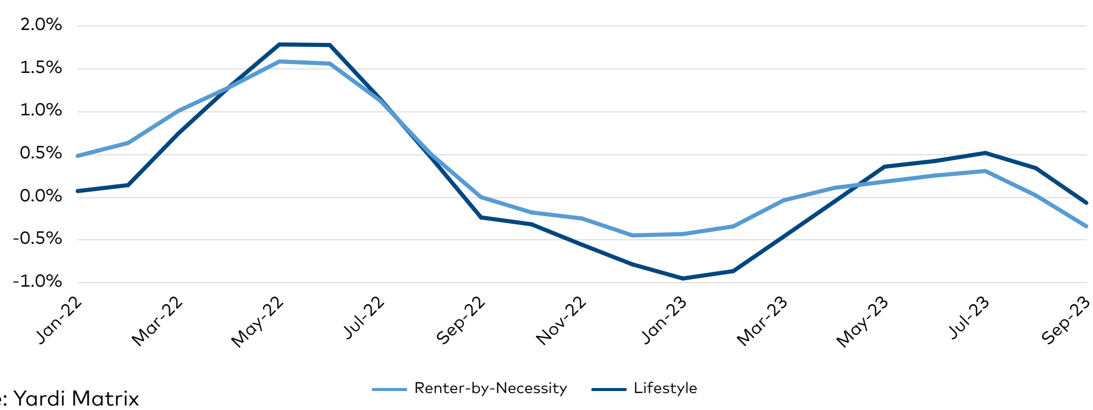
- Following five consecutive months of flat or positive rent growth, Seattle rents dipped back into negative territory, down 0.2% on a trailing three-month (T3) basis through September, to $2,186. Meanwhile, the U.S. rate declined 0.1%, to $1,722. On a year-over-year basis, the metro's rents contracted 2.4%, while the national average rent growth posted a limited 0.8% improvement.
- While nationally the upscale Lifestyle segment led the decrease, in Seattle the working-class Renter-by-Necessity component posted the bigger decline, down 0.3% on a T3 basis through September, to $1,839, while Lifestyle rents inched down just 0.1%, to $2,456.
- The average occupancy rate in stabilized properties for the Lifestyle segment increased 20 basis points year-over-year as of August, to 95.2%, while for RBN units it decreased by 30 basis points, to 95.6%. Overall, occupancy in the metro remained flat, at 95.4%.
- Rent growth was negative in more than half of the metro's submarkets, including some of the most-sought-after areas, including Bellevue-West (down 3.8% year-over-year, to $2,964) and Belltown (-2.6% to $2,725). The latter led in construction and investment volumes.
- In the single-family rental segment, annual rents decreased by 6.8% in September, the second weakest performance among Yardi Matrix's surveyed metros. Yet the occupancy rate posted a 2.4% increase year-over-year through August.

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 unemployment rate spiked to 3.8% in August, according to preliminary data from the Bureau of Labor Statistics, while for most of the year the rate held at the low 3.0% mark. The August figure was on par with the U.S. and trailed the state by 20 basis points.
- In the 12 months ending in July, the employment market gained 50,900 jobs, for a 3.6% expansion, 100 basis points ahead of the national average. Although it continued to outperform the U.S., Seattle's economy remained on a steadily moderating trend, and the information sector posted a contraction of 8,700 positions during the period.
- Leisure and hospitality (13,900 jobs) and education and health services (13,600 jobs) led gains, while Seattle's main economic driver—professional and business services—expanded by just 3,000 jobs. The sector had a tough year as several tech companies including Amazon, Microsoft and T-Mobile laid off significant volumes of workers. This also translated to substantial vacancy hikes, at 22.0% in August. In addition, Amazon's mandate that employees work in office three days a week, viewed as the equivalent of a "relocate or resign" policy, poses further concerns. The policy could reverse some of the work-from-home impacts on the office sector, which had 7.2 million square feet under construction as of August, the second largest volume in the U.S., behind only Boston (14 million square feet).

Seattle Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	174	9.5%
65	Education and Health Services	239	13.0%
90	Government	214	11.6%
30	Manufacturing	152	8.3%
40	Trade, Transportation and Utilities	292	15.9%
80	Other Services	63	3.4%
60	Professional and Business Services	364	19.8%
55	Financial Activities	92	5.0%
15	Mining, Logging and Construction	110	6.0%
50	Information	138	7.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- In 2021, Seattle's population marked its first decline since the 2010 Census, down by 13,177 residents, or 0.3%. Meanwhile, the U.S. inched up 0.1%.
- Still, between 2010 and 2021, Seattle's population rose 16.3%, more than double the 7.3% U.S. rate.

Seattle vs. National Population

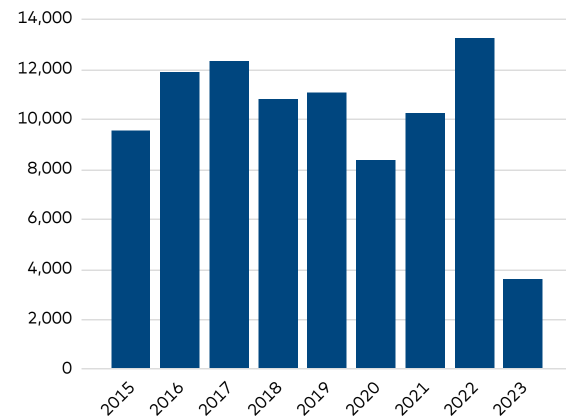
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Seattle	3,937,546	3,977,785	4,024,730	4,011,553

Source: U.S. Census

SUPPLY

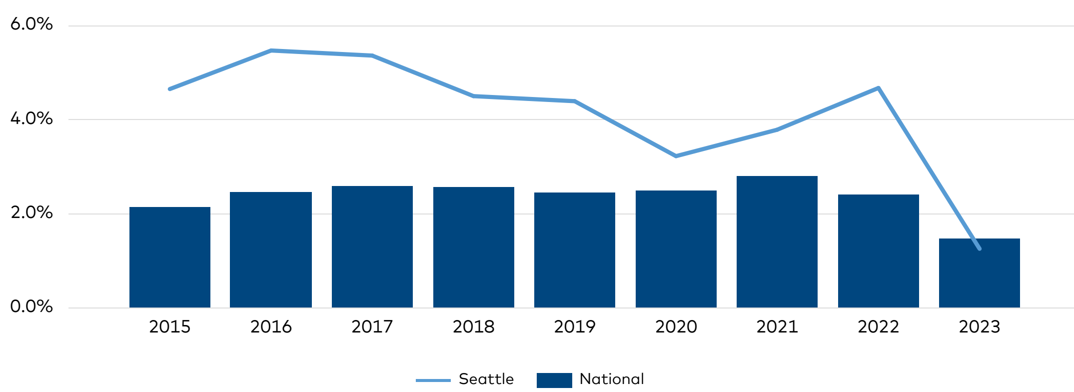
- Developers delivered just 3,613 units during the first three quarters of 2023, the equivalent of 1.3% of existing stock, slightly behind the 1.5% U.S. supply expansion rate. Roughly a third of the recent deliveries were units in fully affordable communities. Still, the bulk of the recent supply, or 63.2%, were units in upscale Lifestyle projects.
- In September, the construction pipeline comprised 32,059 units underway and 98,000 units in the planning and permitting stages. The percentage of Lifestyle units was a substantial 76.5%, with the share of fully affordable communities at 19.2%. By the end of 2023, Yardi Matrix expects developers to deliver another 5,150 units, for a total of 8,763 units for the entire year. This would still be well behind the 10,756-unit average of the last five years.
- Seattle posted a steep drop in construction starts. In 2023 through September, just 6,541 units across 29 properties broke ground, about half of the volume recorded during the same period last year—12,063 units across 61 properties.
- Core submarket Belltown led in construction volume with 4,080 units underway, followed by Redmond with 3,199 units and North Seattle with 2,420 units.
- The largest project delivered through the third quarter was Mason & Main, a 550-unit property located in Central Seattle. Lowe Enterprises built it with aid from a $76 million construction loan originated by Wells Fargo Bank. With a second phase of 215 units under construction, the loan amount increased to $124.1 million.

Seattle Completions (as of September 2023)



Source: Yardi Matrix

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

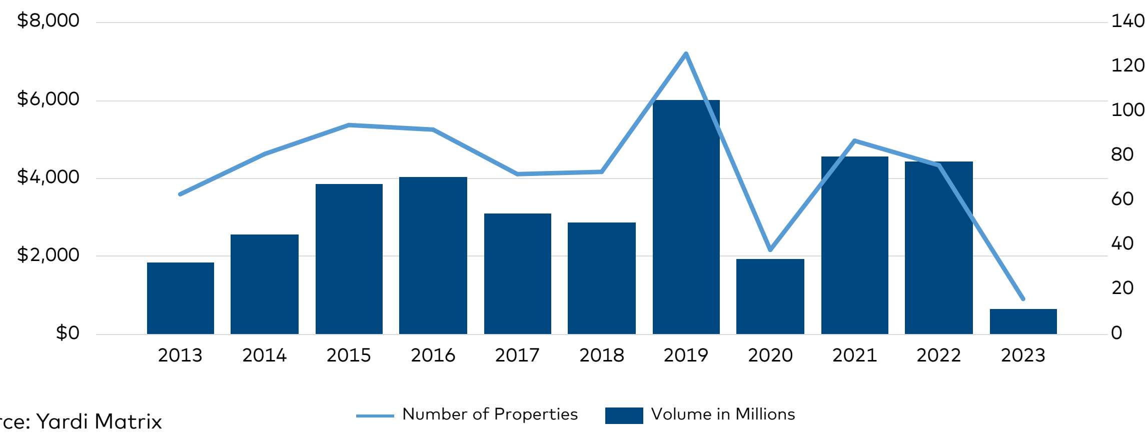


Source: Yardi Matrix

TRANSACTIONS

- Seattle multifamily sales totaled $654 million in 2023 through September, a steep 81% drop from the volume recorded during the same interval last year. This downward trend follows two strong years for investment, when a combined $9 billion in multifamily assets changed hands in the metro. The difficult financing landscape and overall volatility will likely keep investors cautious for the remainder of the year.
- Investor preference was slightly tilted in favor of value-add opportunities, as nine of the 16 deals recorded through September involved RBN assets. The average per-unit price posted a 12.9% year-over-year decline, to $332,985, well above the $189,598 U.S. figure.
- The largest transaction through September was Fairfield Residential's $125 million sale of Radiate in Redmond. Jackson Square Properties acquired the asset with aid from an undisclosed amount from a $321 million line of credit held by Fannie Mae.

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



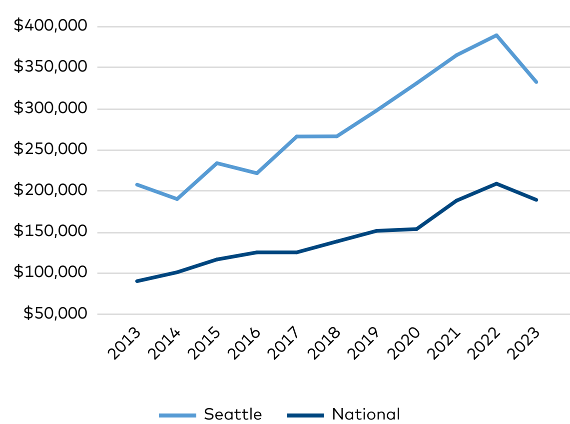
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Belltown	482
Redmond	296
Paine Field	124
Issaquah	114
Bellevue-East	103
Factoria	79
Kirkland	64

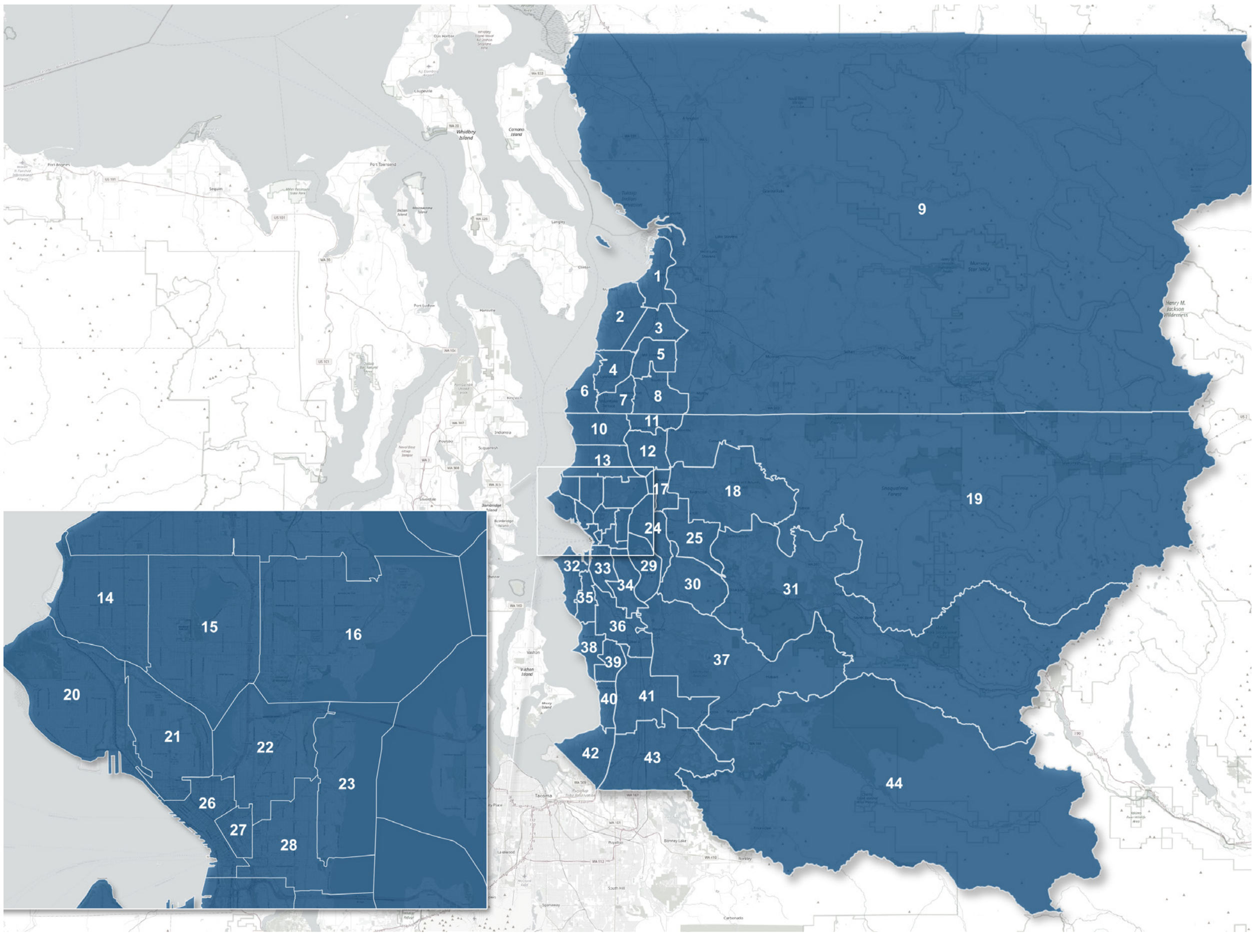
Source: Yardi Matrix
[1] From October 2022 to September 2023

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.

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Yardi Matrix

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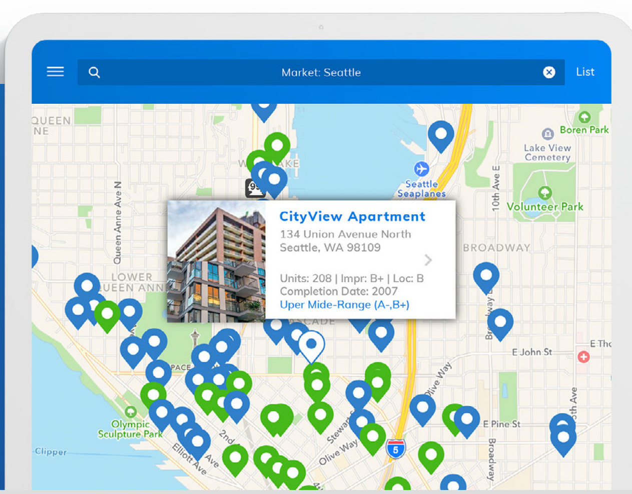
MULTIFAMILY KEY FEATURES

- 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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