Yardi® Matrix

Seattle Strikes Investors' Fancy

Multifamily Report Summer 2018

Demand Outpaces Supply

Job Growth Stays Well Above Nation

Development Activity Targets Belltown

Market Analysis

Summer 2018

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Construction Surge Continues

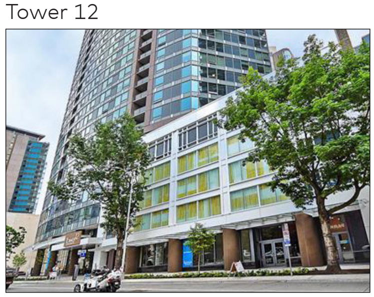
Seattle's multifamily market remains strong, with robust investor interest and an economy-galvanizing tech industry. After the metro reached a cycle peak in deliveries last year, occupancy in stabilized properties decreased by 50 basis points, to 95.7% as of June. A rapid hiring pace sustained by technology companies, along with soaring single-family home prices, maintains a high demand for apartments across the city, especially among young professionals.

The metro added more than 54,000 jobs in the 12 months ending in May, as Seattle continues to boast one of the strongest job markets in the country. Although trade, transportation and utilities led employment growth with more than 14,600 new jobs, the information sector saw the largest year-over-year increase—5.4%—with the addition of 5,800 jobs. Seattle's strong commercial real estate market is fueled by Amazon, which holds about 20% of the metro's prime office real estate. The company's most significant project underway is the 1.1 million-square-foot Rufus 2.0 Block 20 in Denny Triangle, coincidentally the city's largest office development.

Multifamily development activity remains robust, as roughly 23,000 units were under construction as of July, and an estimated 9,700 units are set to be delivered this year.

Recent Seattle Transactions

Tower 12



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

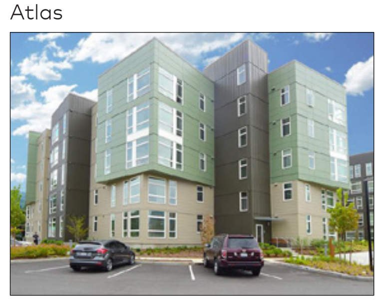
Shorewood Heights

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

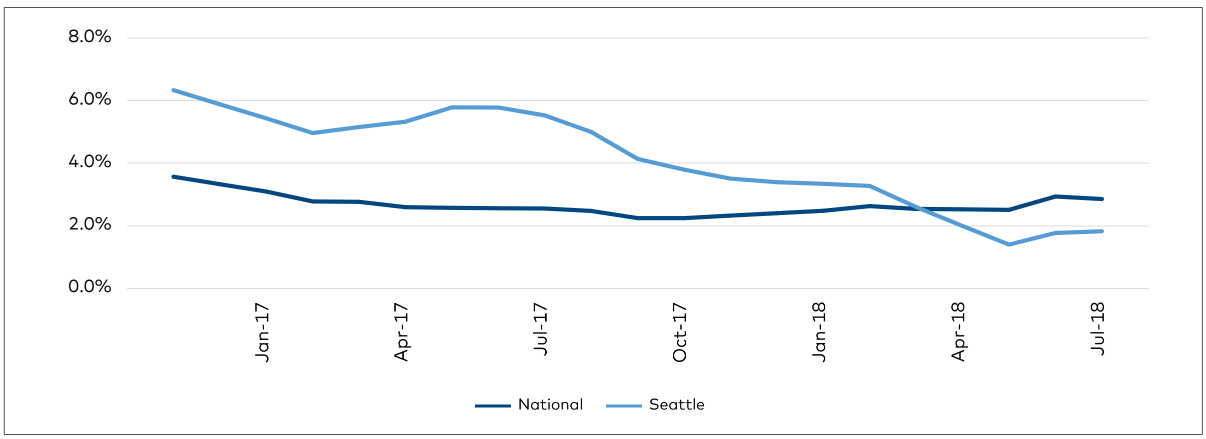


City: Issaquah, Wash.
Buyer: Kennedy Wilson
Purchase Price: $135 MM
Price per Unit: $391,570

Rent Trends

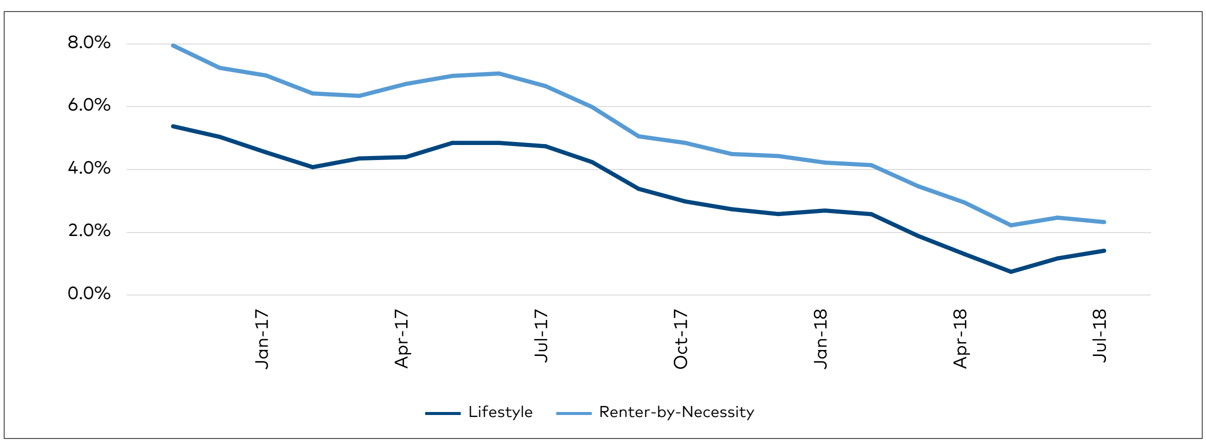
- Rent growth in the metro was 1.8% year-over-year as of July, 100 basis points below the national average. The average monthly rent stood at $1,848, well above the $1,409 U.S. figure.
- Demand for apartments continues to exceed supply, especially for low-income renters, as developers concentrate on upscale units, which are out of reach for many of those looking to create new households. Rents in the Lifestyle segment grew 1.4% year-over-year, to an average of $2,084. Rents in the working-class Renter-by-Necessity segment rose 2.3%, to $1,541.
- Rents grew at the fastest rate in submarkets such as Burien (7.3%), Marysville/Monroe (5.8%) and Lynnwood (5.3%). Although contracting by 1.4% and 1.1%, respectively, core areas such as Belltown ($2,598) and First Hill ($2,208) remain the most expensive submarkets.
- An unprecedented development boom in Seattle last year had an impact on the occupancy rate in stabilized properties—at 95.7% as of June. That's down 50 basis points year-over-year. The metro has been among the nation's leaders in rent gains over the past months, and we expect rents to increase further by the end of 2018.

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)

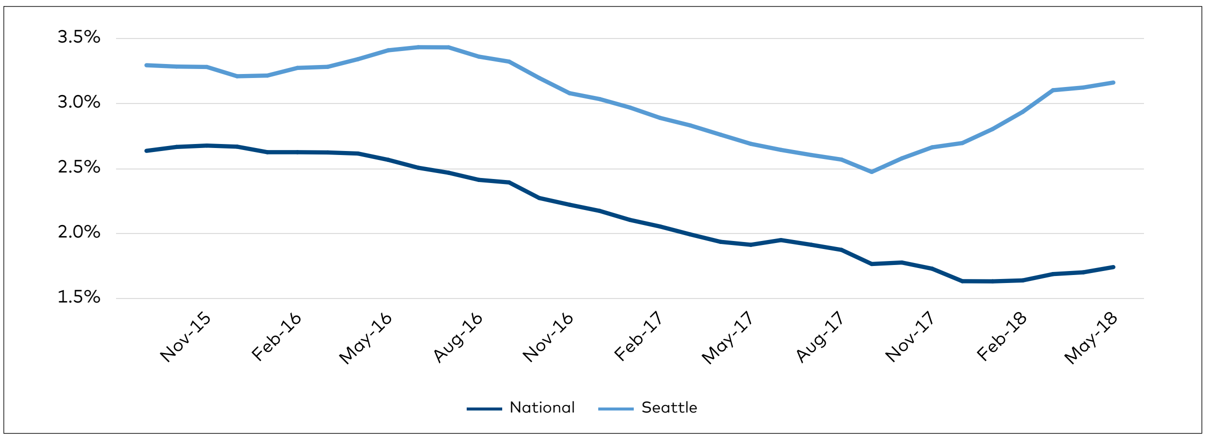


Source: YardiMatrix

Economic Snapshot

- Seattle added more than 54,000 jobs in the 12 months ending in May. This represents a 3.2% year-over-year increase, which is 150 basis points above the national average, placing the metro among the nation's top cities for employment growth.
- Gains were led by trade, transportation and utilities, which added 14,600 jobs. The city has a few major transportation developments underway, including the $350 million Colman Dock and the RapidRide line on Madison Street, a $120 million project that is part of the metro's seven RapidRide corridors.
- The information sector saw the largest year-over-year increase—5.4%—with the addition of 5,800 jobs. The metro's healthy economy has been supercharged by the presence of Amazon, which is holding about 20% of Seattle's prime office space, more than any other employer in a major U.S. city. The e-commerce giant had more than 13 million square feet of office space in 2017, nearly 12 million square feet of which is located in the South Lake Union/Denny Triangle/Belltown area.
- According to Yardi Matrix, 7.7 million square feet of office space was under construction as of July, 1.6 million square feet of which will be delivered in the central business district. Amazon's 1.1 million-square-foot Rufus 2.0 Block 20 in Denny Triangle ranked as the metro's largest office project underway.

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	329	18.9%	14,600	4.6%
60	Professional and Business Services	265	15.2%	10,300	4.1%
65	Education and Health Services	223	12.8%	9,000	4.2%
70	Leisure and Hospitality	175	10.1%	5,800	3.4%
50	Information	113	6.5%	5,800	5.4%
15	Mining, Logging and Construction	101	5.8%	4,100	4.2%
55	Financial Activities	87	5.0%	3,100	3.7%
90	Government	227	13.1%	1,700	0.8%
80	Other Services	59	3.4%	600	1.0%
30	Manufacturing	161	9.3%	-800	-0.5%

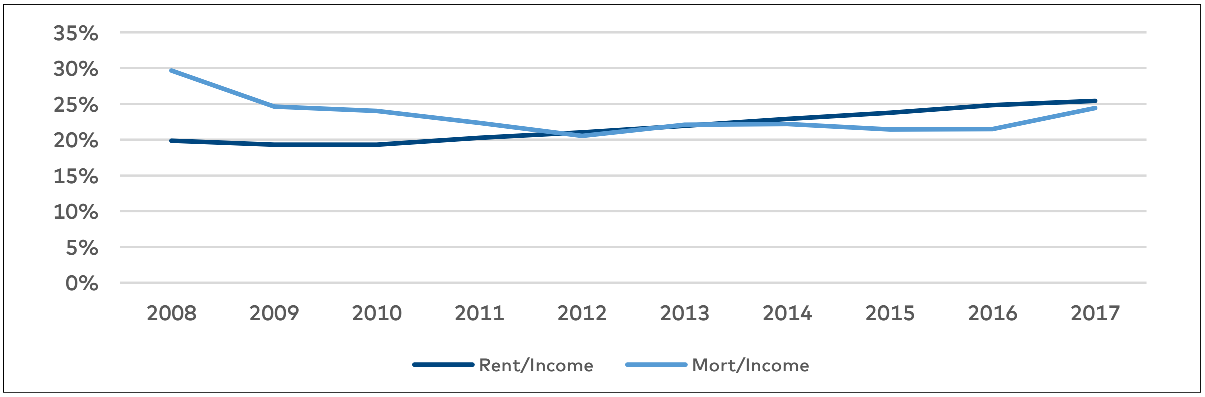
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

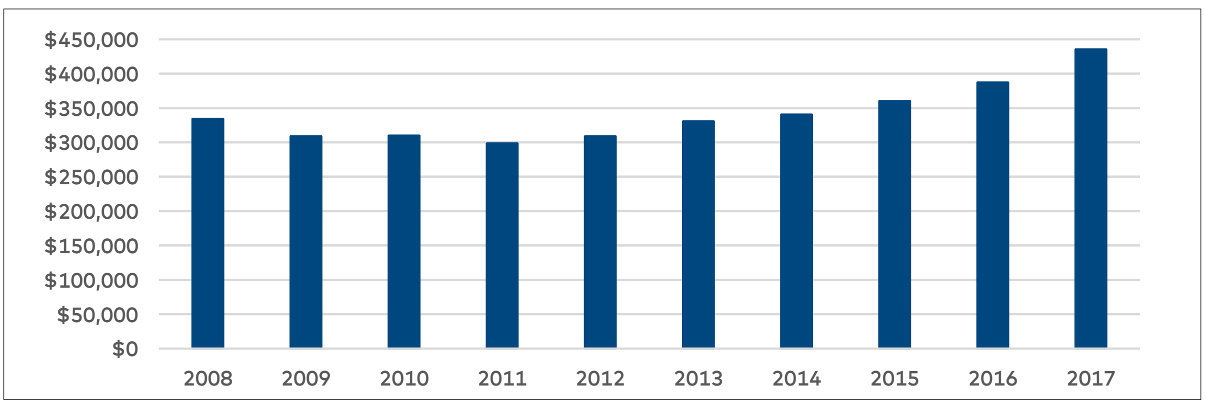
- The Emerald City's median home price hit a new record of $435,396 last year, further heightening affordability issues and alienating first-time buyers. Although home prices have increased by 41% since 2012, owning remains slightly more affordable than renting, with the average mortgage payment accounting for 24% of the area median income. At $1,848, the average rent equates to 23% of income.
- Seattle trails only New York and Los Angeles in largest homeless populations in the U.S. In April, the city council proposed a head tax on employees at big businesses to fund low-income housing and homeless shelters, which has since fallen through, forcing policy makers to look elsewhere for relief.

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 more than 64,000 residents in 2017, a 1.7% increase, 100 basis points above the U.S. average.
- In the past five years, the metro gained nearly 315,000 residents.

Seattle vs. National Population

	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Seattle Metro	3,610,580	3,667,189	3,728,606	3,802,660	3,867,046

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

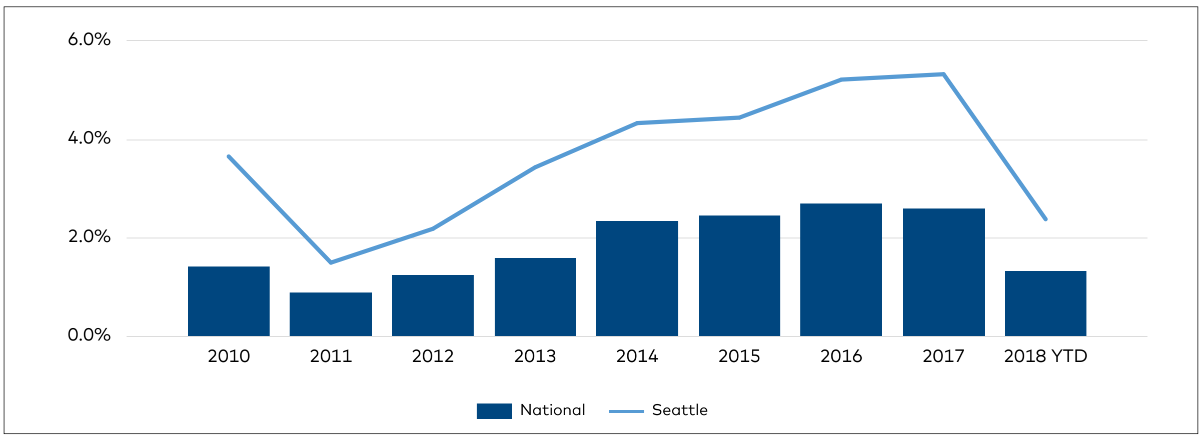
Supply

- Developers added more than 5,600 units this year through July, comprising 2.4% of total stock, above the 1.3% national growth. Following the construction boom of 2017, when more than 12,000 units came online, occupancy in stabilized properties decreased by 50 basis points, to 95.7% as of June. Technology companies continue to drive the local economy, pushing up demand for apartments across the metro. We expect a total of 9,700 units to be delivered this year.

- There were 23,000 units under construction as of July and more than 55,000 in the planning and permitting stages. A strong job market bolstered by technology companies such as Amazon, Google and Microsoft is attracting young professionals to the metro, further increasing demand for multifamily product. Developers continue to focus on the Belltown submarket, where construction activity was the highest, with 4,185 units underway.

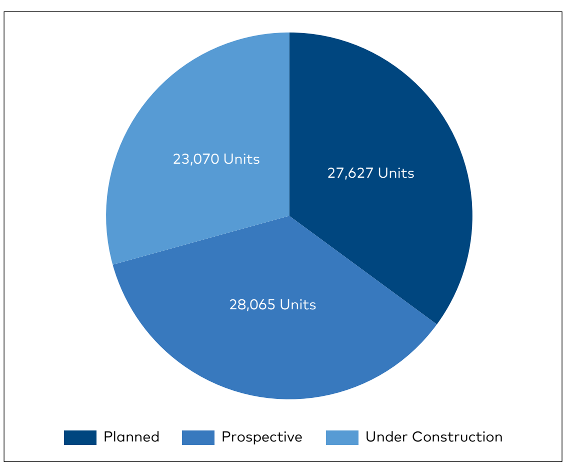
- The largest project to be completed in 2018 will be Carmel Partners' Hyde Square, a 618-unit community rising in east Bellevue. According to Yardi Matrix data, the property was 28% preleased as of July.

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



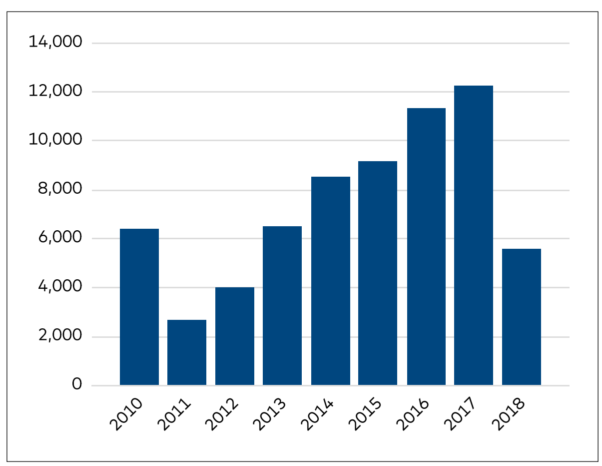
Source: YardiMatrix

Development Pipeline (as of July 2018)



Source: YardiMatrix

Seattle Completions (as of July 2018)

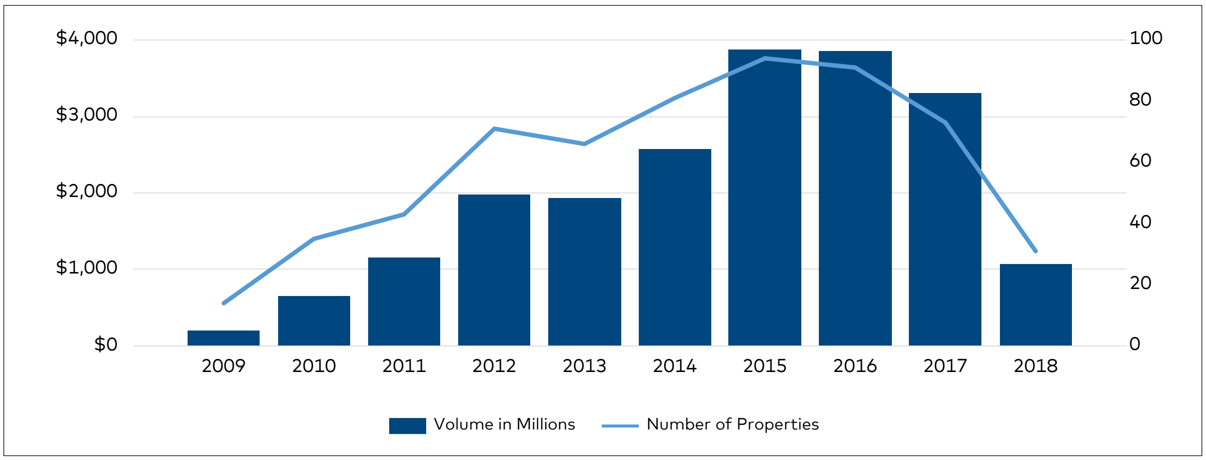


Source: YardiMatrix

Transactions

- In the 12 months ending in June, more than $1 billion in assets traded in Seattle, as investment activity is slightly tapering compared to the 2015 to 2017 interval. As of July, per-unit prices saw a decrease as well, reaching an average of $256,555, but remained well above the $148,902 national figure. Acquisition yields for Class A assets in King County were in the high-3% to low-5% range, while in the Pierce and Snohomish counties, yields were about 80 basis points higher. Positive demographic trends and robust rent growth are expected to keep investment levels strong, despite the slowdown.
- Investor appetite was divided, as both Lifestyle (14 transactions) and Renter-by-Necessity communities (17 transactions) saw activity during the year's first half. Seattle's largest transaction included Weidner Investment Services' Tower 12, a luxury high-rise in the Belltown submarket. Continental Properties sold the asset for $225 million, or $716,936 per unit.

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



Source: YardiMatrix

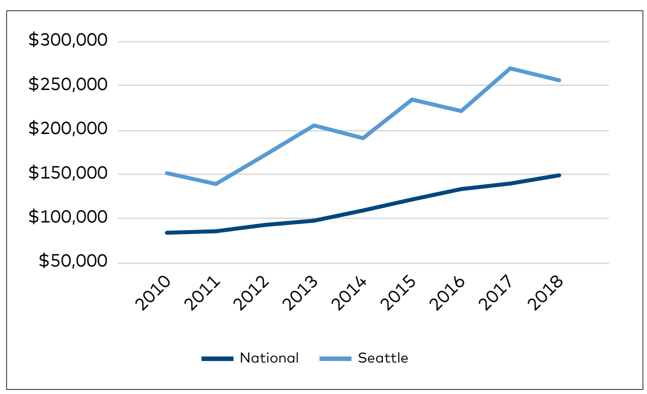
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Belltown	352
Mercer Island	306
Kent	248
University	236
Bellevue–West	177
Renton	147
Issaquah	135
Shoreline	131

Source: YardiMatrix

[1] From July 2017 to June 2018

Seattle vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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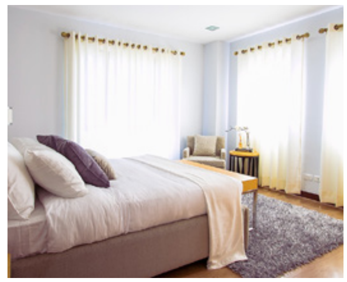
Colliers Brokers Record Sale of West Seattle Community

Completed in 2015, the 38-unit asset sold for a record price. The property is situated approximately 6 miles from downtown.



Security Properties Expands WA Portfolio

The company acquired Insignia, a 162-unit apartment community in Bremerton, which brings its total inventory in the Puget Sound area to 4,000 units.

Phase 1 Of Seattle-Area Senior Housing Debuts

Sustainable Housing for the Ageless Generation and the city of Tukwila, Wash., have opened Tukwila Village, a 193-unit affordable community situated within 10 minutes of downtown.

Goodman Real Estate Buys WA Property For $32M

Colliers brokered the sale of the apartment community, which encompasses 216 units in six buildings. The 1985-built property was recently renovated.

CBRE Hires Affordable Housing Expert

In her new role as director & industry specialist, Sarah Garland will support the origination of affordable and workforce housing debt financing.

Greystar Unveils Luxury Apartments In Seattle

Elan Uptown Flats includes 182 units and a pet park, a car charging station and bike storage.

Log on to Multi-HousingNews.com to get the latest metro-specific news.

Top 10 Largest Multifamily Conversions In the Pacific Northwest

By Corina Stef

data by Yardi® Matrix

The area recorded a high number of adaptive reuse projects that transformed hotels into affordable multifamily communities, breathing new life into historic buildings. Some of the structures served military purposes during World War II.

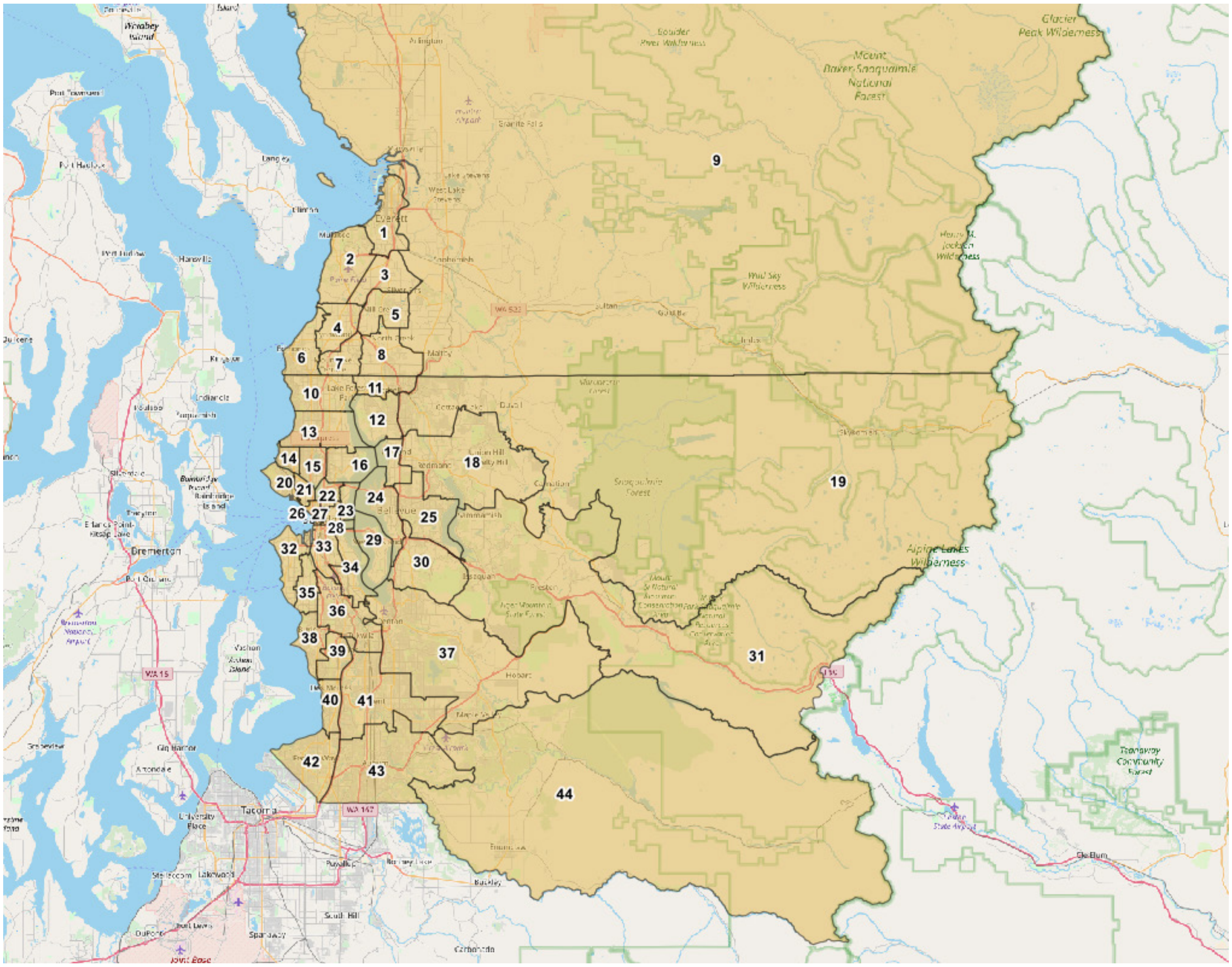
Adaptive reuse continues to be a growing trend in high-density markets, contributing to the revitalization of the urban landscape and creating new opportunities for businesses and residents. The largest metros in the Pacific Northwest, Seattle and Portland, have recorded strong population gains in recent years, which has led to a rise in household formation and a need for more low-income housing.

Property Name	City	Units	Stories	Property Quality	Location Quality	Completion Date
Addison on Fourth	Seattle	254	9	C-	B-	07/01/2013
The Frye	Seattle	234	10	C-	B-	01/01/1970
The Josephinum	Seattle	221	14	C-	B+	01/01/1991
Lowell Emerson	Seattle	196	8 and 10	C	B	01/01/1950
Winthrop	Tacoma	194	12	C-	B	01/01/1975
Estate Building	Portland	191	5	C-	B	01/01/2008
South Block	Salem	179	4	B+	B-	12/15/2016
Madrona Studios	Portland	176	4	C-	B-	03/29/2010
Mark on 8th	Seattle	174	7	A-	B	05/03/2016
The Senator	Yakima	161	2 and 3	C	C-	01/01/1977

ADDISON ON FOURTH IN SEATTLE

The largest converted multifamily property on the list is Addison on Fourth, located at 308 S. Fourth Ave. in the Belltown neighborhood of Seattle. The nine-story property is listed on the National Register of Historic Places and was previously known as New Richmond Hotel. Completed in 1910 and used as a military hospital during WWII, it was rebranded in 1966 as the Downtown Hotel Apartments. It underwent conversion to low-income apartments and was renamed the Downtowner Apartments in 1971. Goodman Real Estate acquired the building in 2012 through tax credits and low-income housing provisions. Following complete renovations and a seismic retrofit, Addison on Fourth features a new hybrid solar-thermal system, new lobby, resident lounge and fitness center.

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.