Yardi® Matrix

Seattle Keeps Soaring

Multifamily Report Winter 2019

Job Gains Take Off Once Again

Investment Sales Top $2 Billion

Supply Slows Rent Growth

Market Analysis

Winter 2019

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Supply Closes in On Demand

Young professionals continue to drive rental demand in Seattle, keeping the metro one of the strongest and most stable multifamily markets in the U.S. Although the healthy, long-term demographic and economic expansions are still pushing up demand, accelerating deliveries have managed to dampen rent growth. At a more sustainable 2.4% year-over-year through November, rent growth fell 70 basis points behind the U.S. average.

In the 12 months ending in September, Seattle added 66,300 jobs for a 3.4% expansion, a strong 140 basis points above the national figure. Trade, transportation and utilities led growth, generating 17,400 positions. The metro's $3.2 billion Lynnwood Link Extension is set to add 8.5 miles of light-rail line connecting Lynnwood to downtown Seattle. Professional and business services and information also expanded, adding a total of 23,900 jobs and further boosting upscale housing demand along the way. The information sector, one of Seattle's main economic drivers, registered the largest year-over-year increase—6.9%.

The city's solid fundamentals continue to attract investors, with nearly $2.3 billion in multifamily assets trading in the first 10 months of 2018. Roughly 8,200 units were delivered in the metro last year through November, with an additional 24,470 apartments underway.

Recent Seattle Transactions

The Reserve

City: Renton, Wash.
Buyer: Griffis Residential
Purchase Price: $143 MM
Price per Unit: $325,000

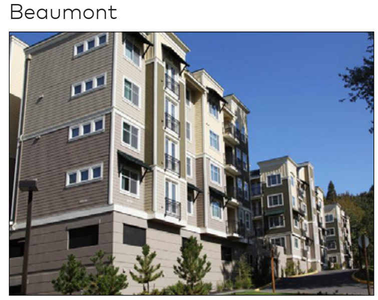
Atlas

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

Ballinger Commons

City: Shoreline, Wash.
Buyer: King County Housing Authority
Purchase Price: $131 MM
Price per Unit: $270,054

Beaumont

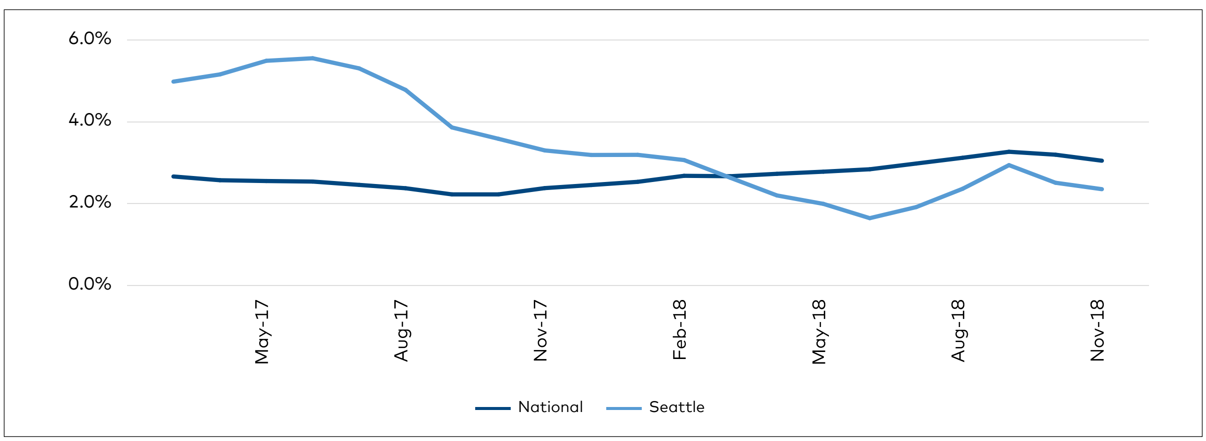


City: Woodinville, Wash.
Buyer: MG Properties Group
Purchase Price: $99 MM
Price per Unit: $287,791

Rent Trends

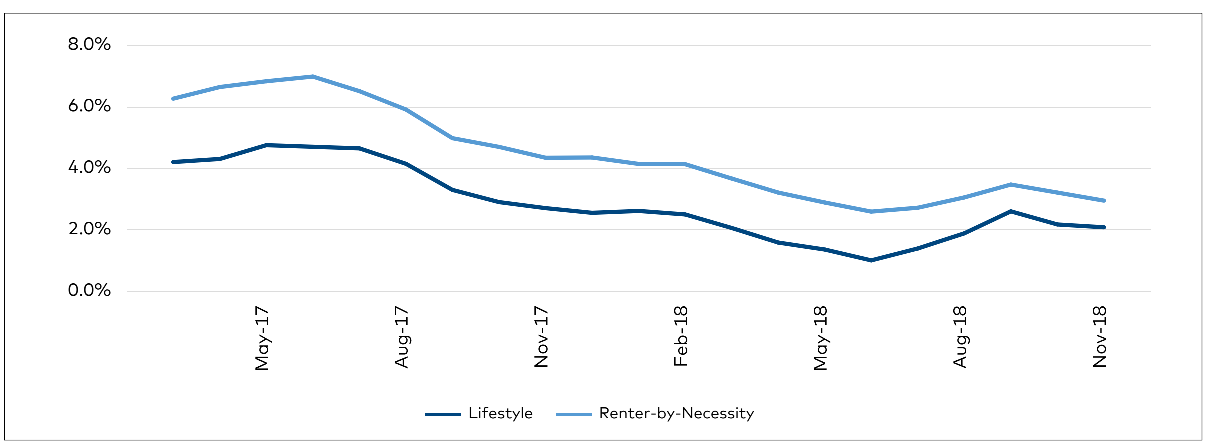
- Rents in Seattle rose 2.4% in the 12 months ending in November, 70 basis points below the U.S. figure. The average monthly rate stood at $1,826, more than $400 above the national average.
- Rates in the working-class Renter-by-Necessity segment continued to lead growth in the metro. Rents for RBN properties were up 3.0%, to an average of $1,530, while the Lifestyle segment rose 2.1% year-over-year through November, to an average of $2,047.
- Up 7.0% year-over-year, Lynnwood rents registered the strongest hike. Meanwhile, rates dropped across several submarkets, including Rainier Valley (-4.2%), White Center (-3.5%), Edmonds (-0.8%) and First Hill (-0.7%). Belltown—the submarket leading development—also had the highest rents as of November, with the average down 60 basis points year-over-year, to $2,520.
- Robust population growth, a strong economy led by tech companies and the metro's lack of affordable housing continue to drive rental demand in Seattle. And although a relatively steady pipeline has slowly dampened rent growth, absorption remains healthy. The metro's occupancy rate in stabilized properties actually went up 10 basis points in the 12 months ending in October, reaching 95.4%.

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)

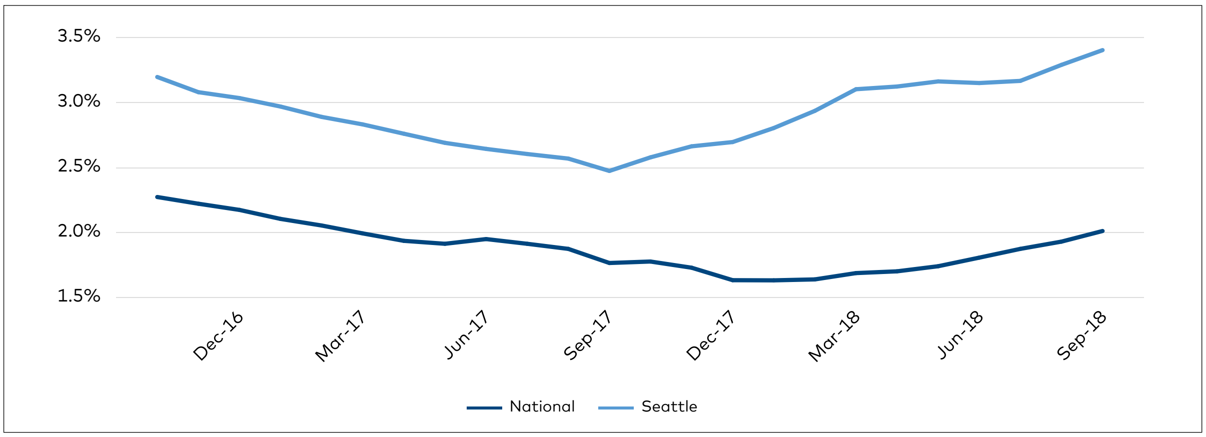


Source: YardiMatrix

Economic Snapshot

- Seattle's economy continues to be one of the strongest in the U.S. It added 66,300 jobs in the 12 months ending in September, marking a 3.4% year-over-year increase, 140 basis points above the national figure. The unemployment rate remained below the 4.0% threshold, clocking in at 3.6% as of September.
- Job growth was led by the trade, transportation and utilities sector, which added 17,400 positions. Roughly $3.2 billion is being earmarked for the development of Lynnwood Link Extension, an 8.5-mile light-rail project set to connect Lynnwood to downtown Seattle, with the average ride estimated at 28 minutes. The information sector saw the largest year-over-year increase (6.9%), followed by professional and business services (6.3%). These expansions reinforce the metro's status as a primary magnet for tech talent.
- Amazon remains Seattle's main economic anchor. Meanwhile, companies including Google, Facebook, F5 Networks and Uber are expanding in the metro, further solidifying its appeal as a tech mecca. Amazon's Seattle footprint is expected to increase to more than 12 million square feet over the next five years. With thousands of new jobs being added, demand for housing is expected to continue to soar.

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	340	19.3%	17,400	5.4%
60	Professional and Business Services	275	15.6%	16,300	6.3%
50	Information	118	6.7%	7,600	6.9%
65	Education and Health Services	221	12.5%	7,200	3.4%
15	Mining, Logging and Construction	105	6.0%	4,800	4.8%
30	Manufacturing	165	9.4%	4,600	2.9%
55	Financial Activities	88	5.0%	3,300	3.9%
90	Government	219	12.4%	2,700	1.2%
70	Leisure and Hospitality	172	9.8%	2,200	1.3%
80	Other Services	59	3.3%	200	0.3%

Sources: YardiMatrix, Bureau of Labor Statistics

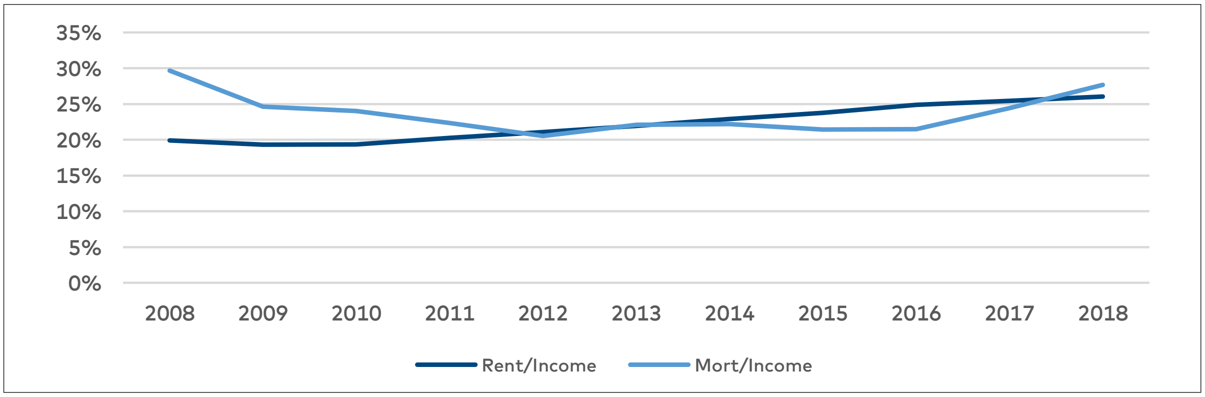
Demographics

Affordability

- Rapidly declining affordability rates remain one of Seattle's thorniest issues. The median home value reached $479,251 in the first half of 2018, up 10% over the 2017 value and roughly 60% higher than 2011, when the market last bottomed out.

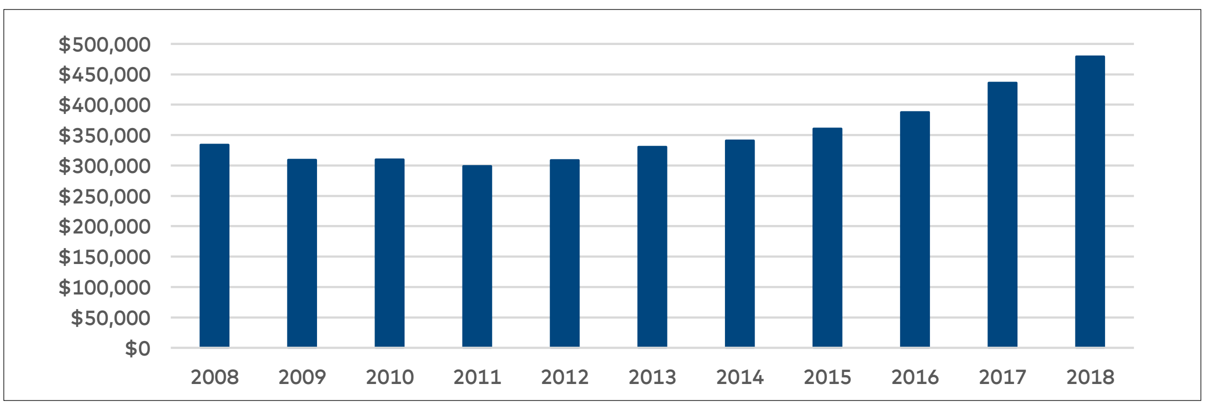
- Due to the fast pace of appreciation in home prices, renting became slighly more affordable than owning in Seattle in the first half of 2018. The average rent equated to 26% of the area's median income, while the average mortgage payment accounted for as much as 28%.

Seattle Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Seattle Median Home Price



Source: Moody's Analytics

Population

- The metro added roughly 64,000 residents in 2017, a 1.7% growth rate, outpacing the 0.7% national average.
- Between 2014 and 2017, metro Seattle's population expanded by 5.4%.

Seattle vs. National Population

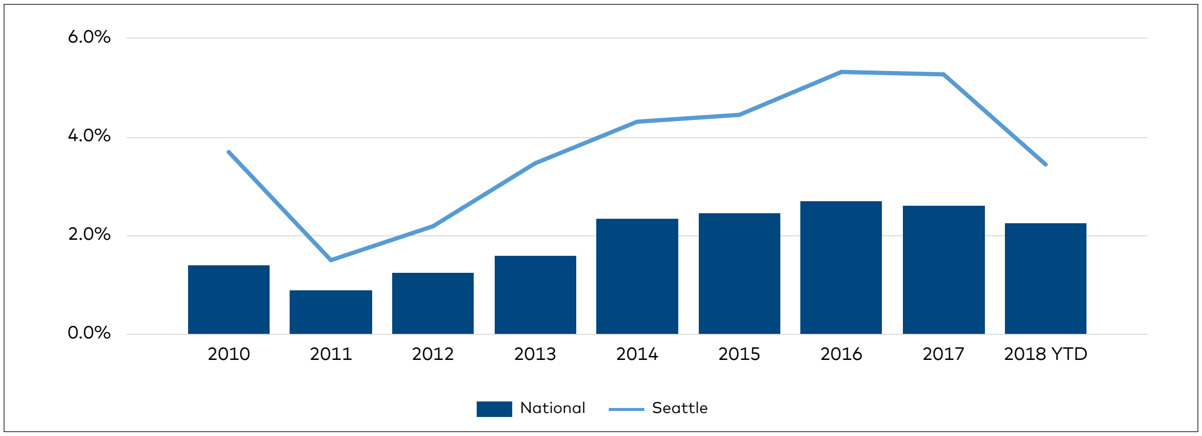
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Seattle Metro	3,610,580	3,667,189	3,728,606	3,802,660	3,867,046

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

Supply

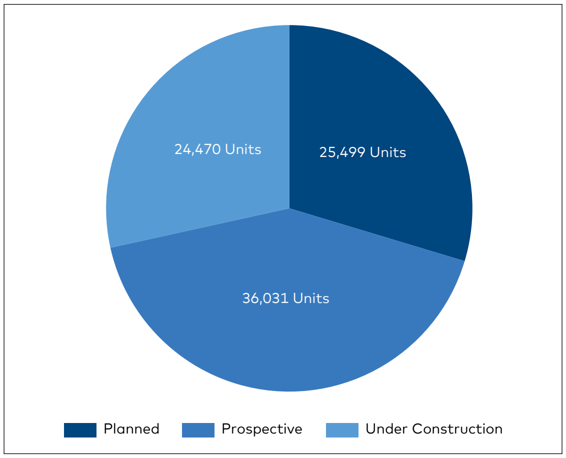
- Construction activity in Seattle continued to be strong in 2018, with the addition of roughly 8,200 units through November. New supply accounted for 3.4% of total stock, well above the 2.3% U.S. average.
- Almost 24,500 units were underway in the metro as of November, with an additional 61,530 units in the planning and permitting stages. With a total of 7,561 apartments underway, Belltown and Redmond were, by far, the most active submarkets for multifamily construction. Other submarkets with high development activity included First Hill (1,583 units), Central (1,553) and North Seattle (1,190).
- The metro's largest project underway is Onni Real Estate's 1120 Denny Way, a 1,128-unit mixed-use community including two 42-story towers. Upon completion in 2020, the property is also set to include more than 28,000 square feet of retail space.
- Despite the strong pace of deliveries, occupancy in stabilized properties increased, reaching 95.4%. Rent growth has tempered and the residential pipeline is set to deliver units at a fast clip, but the metro is not risking overbuilding—at least in the shorter run—due to its very healthy fundamentals.

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



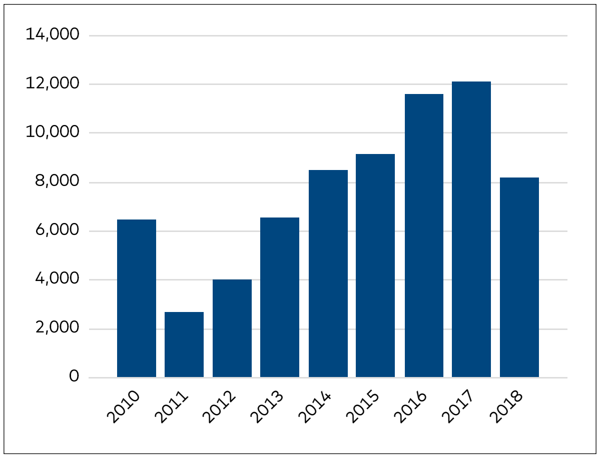
Source: YardiMatrix

Development Pipeline (as of November 2018)



Source: YardiMatrix

Seattle Completions (as of November 2018)

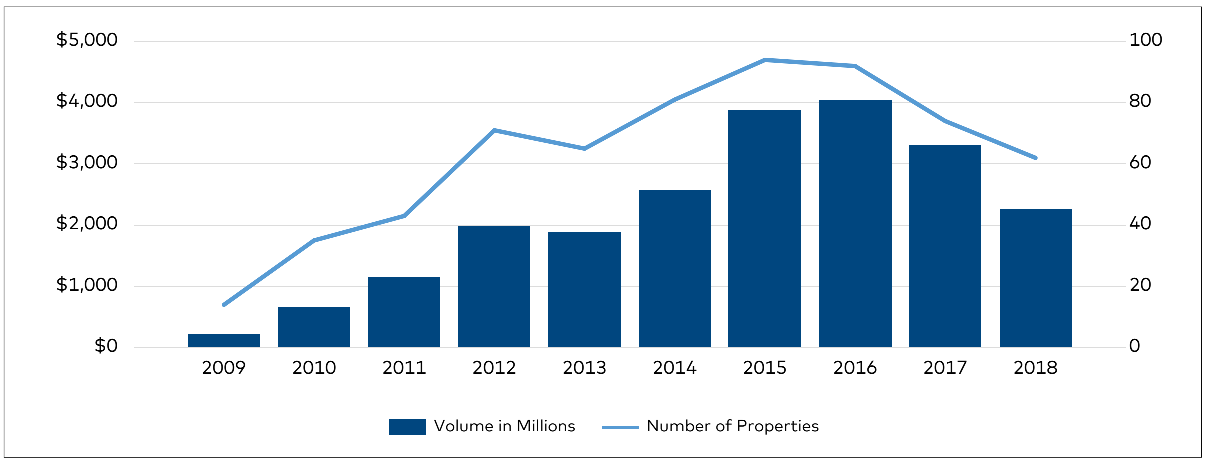


Source: YardiMatrix

Transactions

- Although transaction velocity shifted down a gear after the 2016 cycle high, Seattle continues to attract investor interest, with roughly $2.3 billion in multifamily assets trading last year through October. Per-unit prices remained relatively flat in 2018 against the previous year, with the average at roughly $260,000, well above the $152,601 U.S. figure. With acquisition yields in the 5.0% range, the metro continued to attract significant volumes of out-of-state capital.
- Non-core areas such as Renton, Kirkland, Issaquah and Kent were the most sought after, with the collective volume for the four submarkets reaching roughly $910 million in the 12 months ending in October 2018. Griffis Residential's acquisition of The Reserve, a 440-unit community in Renton, was the largest transaction of the year. Fairfield Residential sold the asset for $143 million, or $325,000 per unit. Constructed in 2010, the Class A property traded in September.

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



Source: YardiMatrix

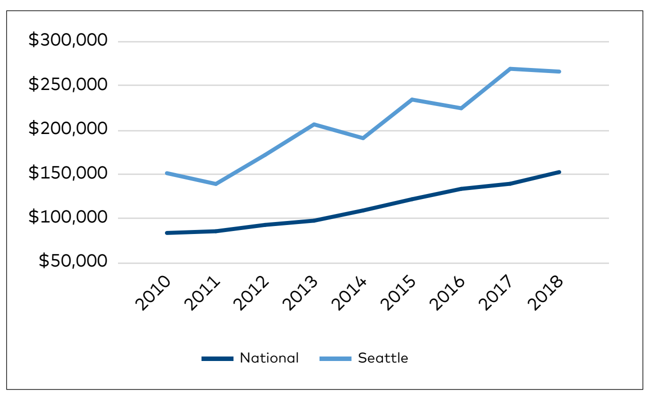
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Renton	414
Kirkland	175
Issaquah	175
Kent	147
Shoreline	146
Paine Field	137
Capitol Hill/Eastlake	123
North Seattle	121

Source: YardiMatrix

[1] From November 2017 to October 2018

Seattle vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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MULTI-HOUSING NEWS

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Seattle-Area Community Sells For $173M

Los Angeles-based Decron Properties entered the Puget Sound market with the acquisition of Avana 522, in one of the largest transactions in the region this year.

2 Affordable WA Assets Land Acquisition Loans

Hunt Real Estate Capital has secured $5.5 million in funding for Colvos Terrace and Street Fawcett, two communities in Tacoma totaling 87 units.

Capstone Development Opens $350M in Student Housing Assets

The properties include The Village Phase 2, The University of Massachusetts Boston Residence Hall and Dining Center, Vi Hilbert Hall, Montage on College and Calaveras Hall.

Value-Add University District Portfolio Commands $20M

Seattle University District L.P. acquired two student housing buildings located on high-rise-zoned land, which is hard to find in Seattle.

Seattle Student Housing Receives $64M Construction Loan

The 24-story community will serve students attending the University of Washington, situated roughly two miles from the project. CapitalSource provided the five-year term loan.

Local Developer Adds 70 Units To Seattle Affordable Housing Supply

Lake City's former Fire Station 39 site has been revitalized as an apartment building dedicated to low-income individuals and families. Rents range from $526 to $1,353.

Executive Insight

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MULTI-HOUSING NEWS

The Organic Development of Co-Living Communities

By Beata Lorincz

For the last three years, Common has been successfully operating its furnished co-living communities in major markets such as New York City, San Francisco and Washington, D.C. The shared living experience is one of the top trends in contemporary multifamily design and it's thriving on the concept of building a community. Last summer, the company launched its first two homes in Seattle, in partnership with developer Anew Apartments. Totaling 161 rooms, the communities represent the company's fifth expansion in the U.S.

You now have about three years of experience in managing co-living facilities. What was the most surprising thing you learned along the way?

When we first started out, we knew we wanted to program our buildings with activities so members could get together and build relationships, but we didn't expect their genuine willingness to take the lead. Across our network of homes, members have planned weekly Sunday brunches, movie nights, neighborhood outings, spontaneous TV binge watching sessions and so much more. By providing beautiful and comfortable shared community spaces throughout our buildings, we created a successful backdrop for something we didn't immediately expect—the organic development of community building.

I also came to realize how critical long-term residents are to building a community. The thing is, it's nearly impossible to build relationships and invest in people when they might be gone in three months. We have largely moved away from this model and now more than 75 percent of our members are on year-long leases.

What segment of the population does co-living attract and why?

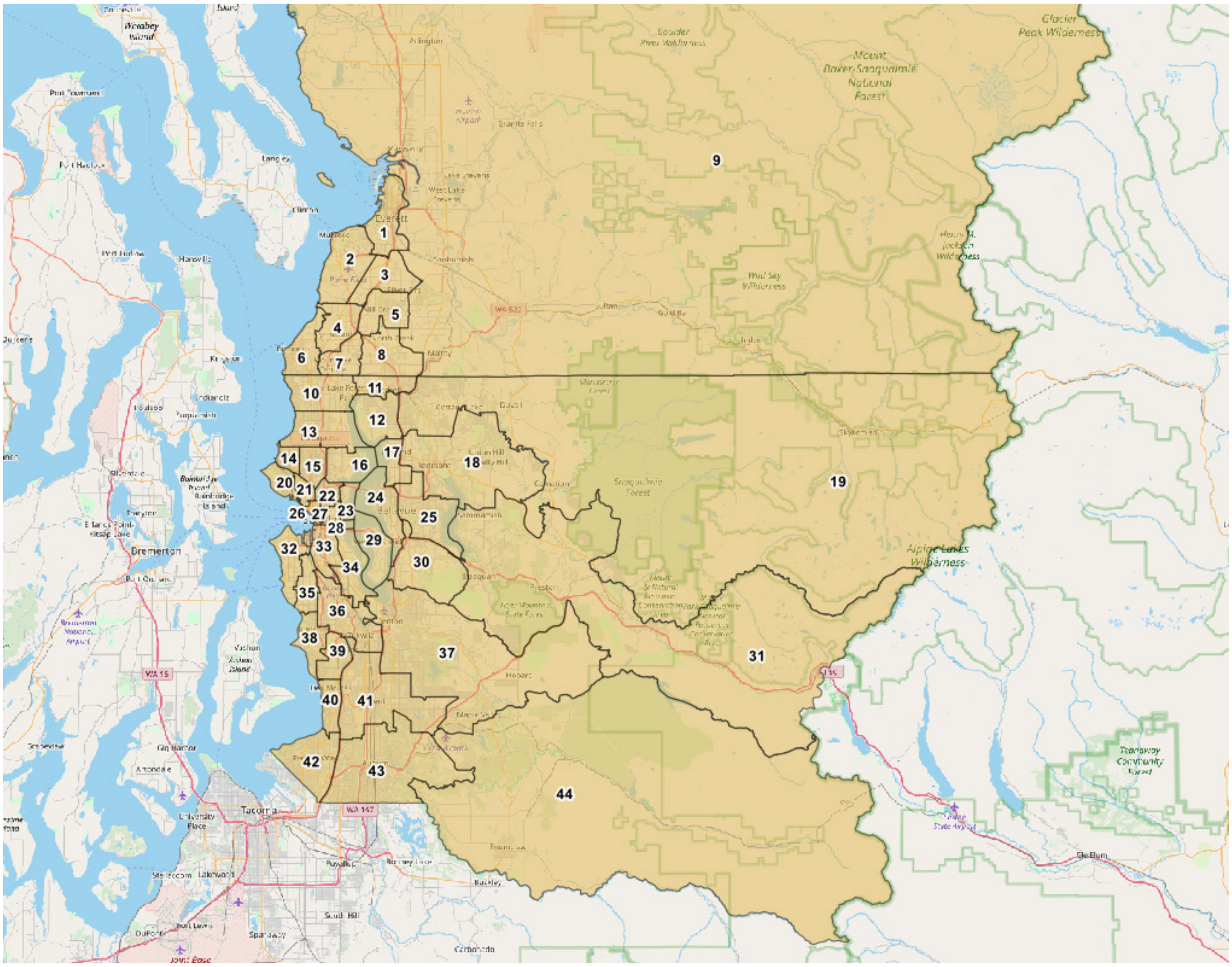
Our membership is very diverse, including young professionals, couples, people moving to new cities for a job opportunity, those moving from abroad and even Baby Boomers. (...) Common homes across the country accommodate a wide range of renters who are currently underserved in today's housing market and are seeking out the kind of convenience and community we offer in urban centers.

Tell us more about the two new Seattle communities and the reasons for choosing those particular sites.

For our Seattle market entrance, we partnered with Anew Apartments on two co-living homes in the centrally located neighborhoods of Capitol Hill and First Hill. Beyond the clear quality of design and architecture, I saw a huge opportunity in aligning with their team, who had already been working on both projects before Common got on board. They have an incredibly compelling vision for what efficient housing in Seattle can be, and we're thrilled to be working alongside them to achieve it.

I'm excited about these communities because they embody the type of neighborhood our members look for, but can't always afford to live in—vibrant, walkable communities with access to public transit, so they don't have to rely on a car—great restaurants, culture and local retail.

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.