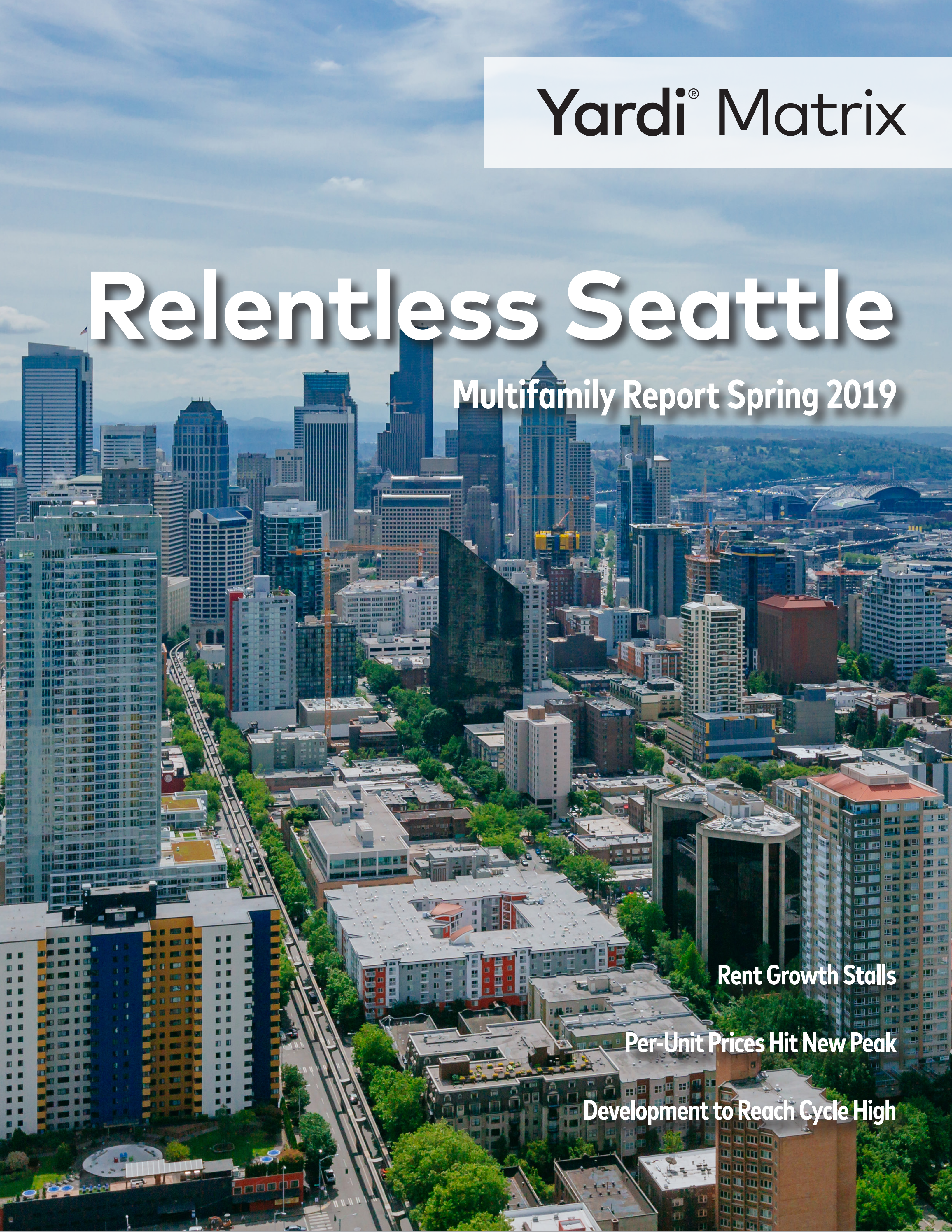
Yardi® Matrix

Relentless Seattle

Multifamily Report Spring 2019



Rent Growth Stalls

Per-Unit Prices Hit New Peak

Development to Reach Cycle High

Market Analysis

Spring 2019

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Strong Employment Powers Demand

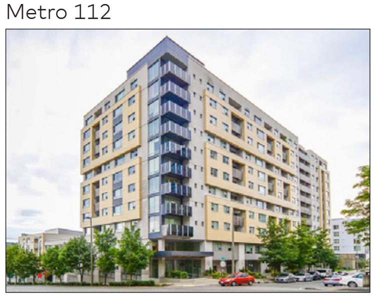
Tech and e-commerce continue to fuel Seattle's economy, keeping the metro among the country's top-performing multifamily markets. Young professionals are boosting housing demand, maintaining healthy absorption amid a slow but steady rent growth deceleration. With the pace of development slowing down, the year-over-year rent growth rate remained almost flat in the last quarter of 2018 and going into 2019, at 2.5% as of February.

Seattle added 57,800 jobs in 2018, with nearly two-thirds in trade, transportation and utilities (16,900 jobs), professional and business services (11,900) and information (8,000)—the metro's top-performing sectors. The future looks even brighter with Google, Facebook, WeWork and Amazon announcing expansions. Amazon alone has more than 9,000 open positions in the metro.

Seattle remained attractive to both out-of-state and Canadian investors, as more than $500 million in multifamily assets sold in the metro during the first two months of 2019. Although new deliveries are anticipated to peak this year, employment and population growth should push rental demand further. Yardi Matrix expects Seattle rents to advance 4.0% in 2019.

Recent Seattle Transactions

Metro 112

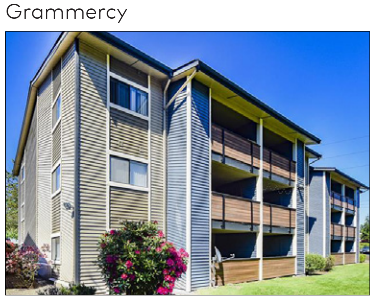


City: Bellevue, Wash.
Buyer: Nuveen Real Estate
Purchase Price: $160 MM
Price per Unit: $446,927

The Park in Bellevue

City: Bellevue, Wash.
Buyer: Continental Properties
Purchase Price: $91 MM
Price per Unit: $493,207

Grammercy



City: Renton, Wash.
Buyer: Bridge Investment Group
Purchase Price: $87 MM
Price per Unit: $228,141

Boulder Creek

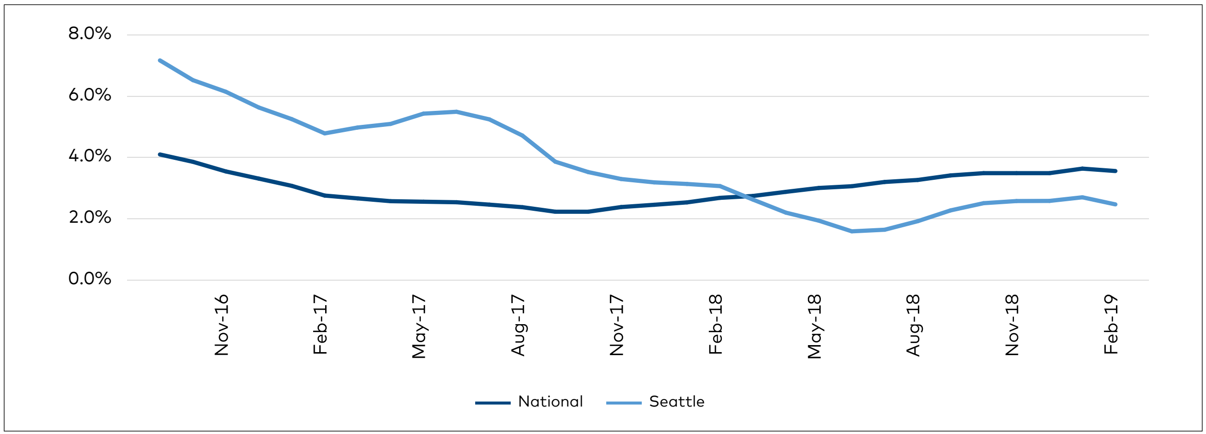
City: Sammamish, Wash.
Buyer: Nuveen Real Estate
Purchase Price: $85 MM
Price per Unit: $414,706

On the cover: Photo by Mark Zhu/iStockphoto.com

Rent Trends

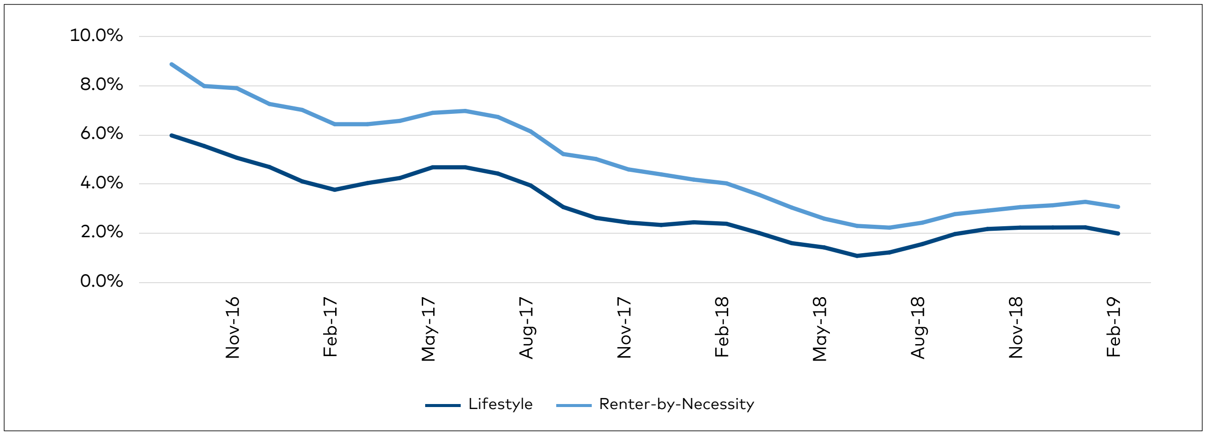
- Seattle rents were up 2.5% year-over-year through February, 110 basis points below the national rate. The average rent climbed to $1,825, well above the U.S. rate of $1,426.
- The working-class Renter-by-Necessity sector continued to lead growth, with rates advancing 3.1% to $1,541. Rent growth in the Lifestyle sector recorded almost no fluctuation in the last quarter of 2018 and going into 2019, with the average rate up 2.0% year-over-year as of February.
- Submarkets within or close to the city core commanded the highest rents, with Bellevue–West ($2,524), Belltown ($2,510), Mercer Island ($2,172) and First Hill ($2,153) topping the list. Several relatively affordable areas recorded strong growth, including Marysville/Monroe (7.0% to $1,576), Silver Lake (5.1% to $1,434) and Federal Way (4.3% to $1,400), but so did some of the metro's pricier submarkets, such as Bellevue–East (5.5% to $1,892), Redmond (4.4% to $2,000) and Issaquah (3.6% to $2,142).
- Seattle was one of the supply-pressured markets during the better part of this cycle, alongside other booming cities such as Denver and Charlotte. However, the metro's solid and expanding economy, coupled with rapid population growth, is expected to continue fueling housing demand. Although deliveries are expected to hit a new cycle peak, we anticipate the average rent to advance 4.0% in 2019.

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)

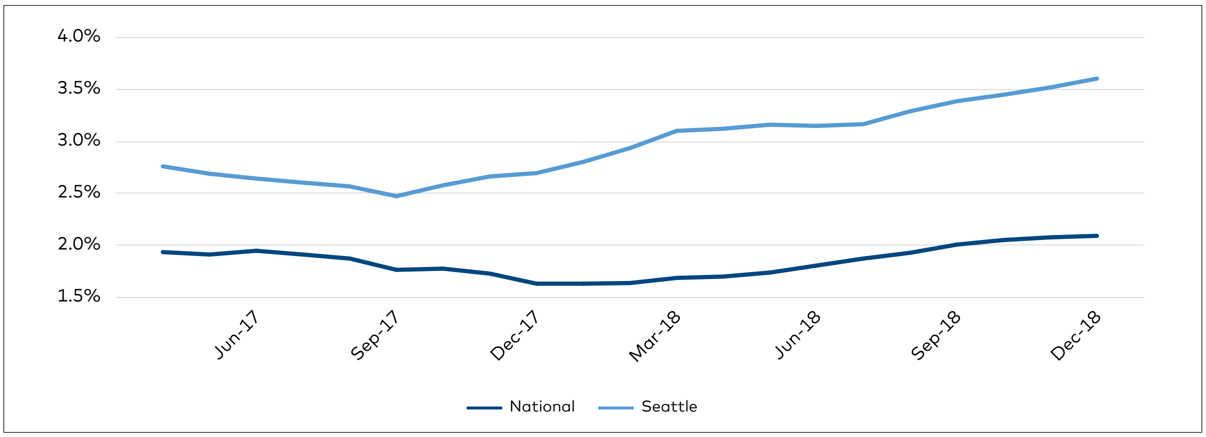


Source: YardiMatrix

Economic Snapshot

- Seattle added 57,800 jobs in 2018 for a 3.6% expansion, 150 basis points above the national rate. Technology and coworking companies continue to expand, boosting the local economy and maintaining a tight unemployment rate—3.4% as of December.
- Gains were led by trade, transportation and utilities (16,900 jobs), boosted by the growing e-commerce industry, with companies such as SBS Transportation and Best Buy expanding with leases in the Fife/Milton and Puyallup submarkets. Professional and business services (11,900), manufacturing (9,000) and information (8,000) followed. Information recorded the largest expansion—7.2% for the whole of 2018.
- WeWork, Google, Facebook and Amazon have announced growth plans for their operations in the metro, attracting even more tech talent to the area. Amazon, Seattle's main economic anchor, made headlines once again recently, when it changed its mind regarding a 722,000-square-foot lease in the Rainier Square tower, now underway. Instead, the company resumed construction on Block 18—a 17-story business tower in the Denny Triangle. Amazon had more than 9,000 jobs open in the metro as of February, according to a statement from the company.

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)

Code	Employment Sector	Current Employment (000)	Current Employment % Share	Year Change Employment	Year Change %
40	Trade, Transportation and Utilities	347	19.5%	16,900	5.1%
60	Professional and Business Services	273	15.4%	11,900	4.6%
30	Manufacturing	167	9.4%	9,000	5.7%
50	Information	119	6.7%	8,000	7.2%
65	Education and Health Services	226	12.7%	7,300	3.3%
15	Mining, Logging and Construction	105	5.9%	3,200	3.1%
70	Leisure and Hospitality	172	9.7%	1,600	0.9%
55	Financial Activities	88	5.0%	1,600	1.9%
80	Other Services	60	3.4%	1,200	2.0%
90	Government	220	12.4%	-2,900	-1.3%

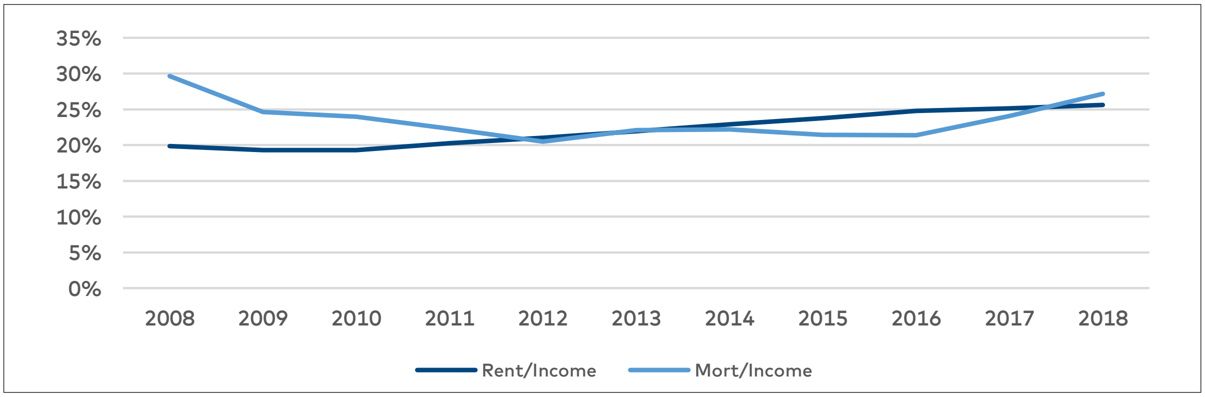
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

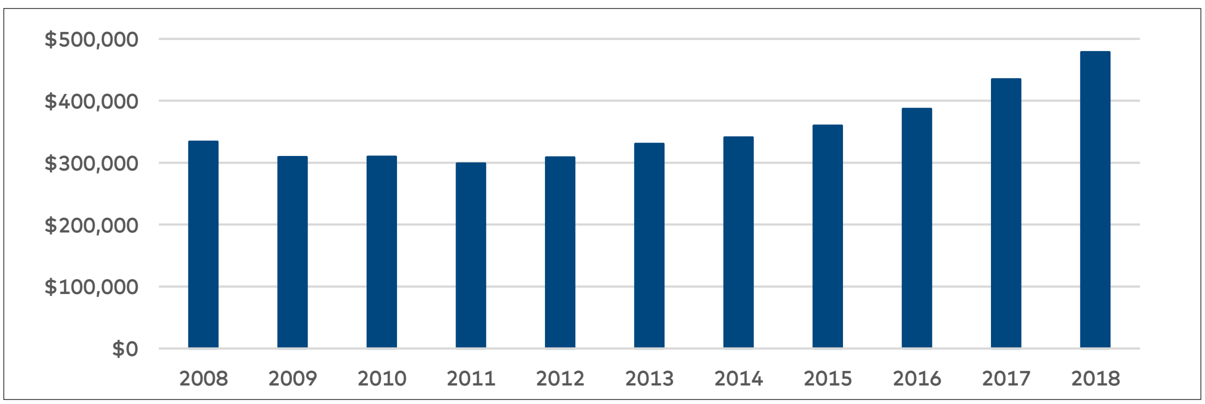
- The median home price in Seattle peaked at $478,269 in 2018, up 10% for the year and 60% higher than in 2011, when the market began its recovery. For the first time in seven years, renting was more affordable than owning in 2018, with the average rent accounting for 26% of the area median income while the average mortgage payment equated to 27%.
- Seattle's upzoning package, which the city council passed in March, is meant to address the metro's affordable housing shortage. On top of permitting higher density across many neighborhoods, the plan requires developers to dedicate 5 to 11 percent of their projects to low-income renters or pay fees.

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 256,466 residents between 2013 and 2017.
- The metro's population growth rate stood at 1.7% in 2017, 100 basis points above the U.S figure.

Seattle vs. National Population

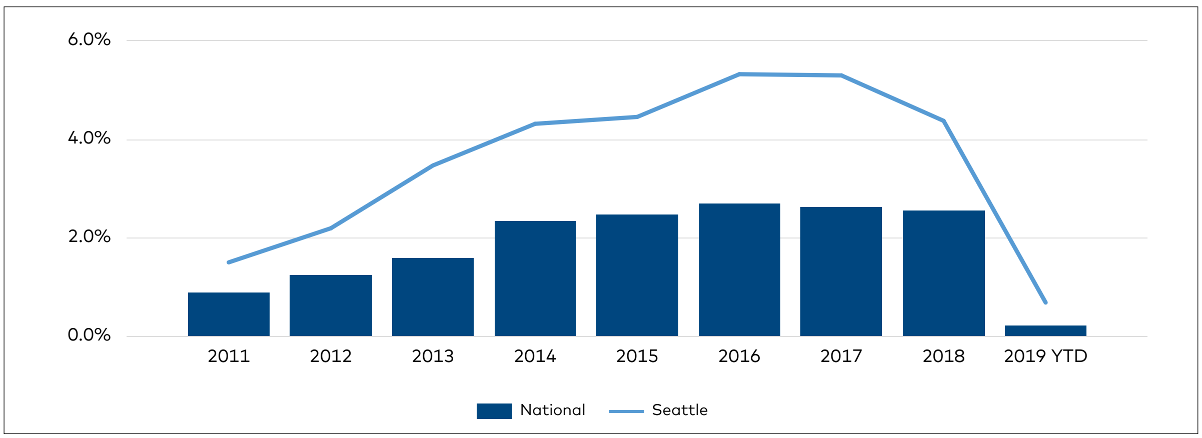
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Seattle Metro	3,610,580	3,667,189	3,728,606	3,802,660	3,867,046

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

Supply

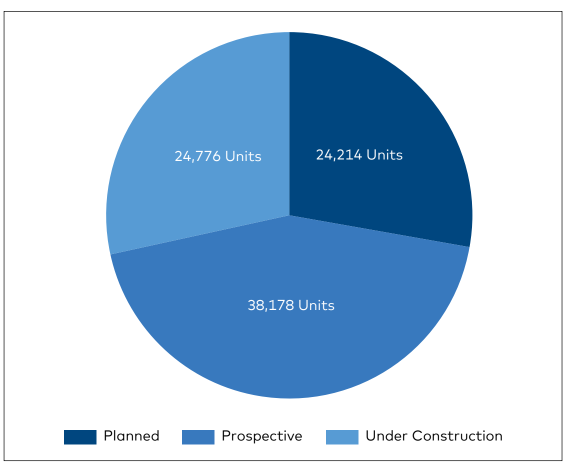
- The construction boom continues, as developers added 10,514 units in Seattle in 2018. That accounts for 5.0% of the total stock, nearly double last year's U.S. average. Housing demand remains strong, leading to fast absorption of new apartments. As a result, the occupancy rate in stabilized properties dropped just 10 basis points over 12 months, to 95.1% as of January.
- The development surge endures as Seattle prepares for another banner year. The metro had 24,776 units under construction as of February and more than 62,000 units in the planning and permitting stages. The demolition of the Alaskan Way Viaduct is expected to breathe new life along downtown Seattle's waterfront, with several new and adaptive reuse projects already springing up. Actually, the Belltown submarket leads the pack for new development, with 3,863 units underway, followed by Redmond (3,047) and Central Seattle (2,000).
- Despite the lingering labor shortage and mounting development costs, the metro is gearing up for what is expected to be a strong year for multifamily completions across most of the U.S. We expect 12,450 units to come online in Seattle in 2019, marking a new cycle peak.

Seattle vs. National Completions as a Percentage of Total Stock (as of February 2019)



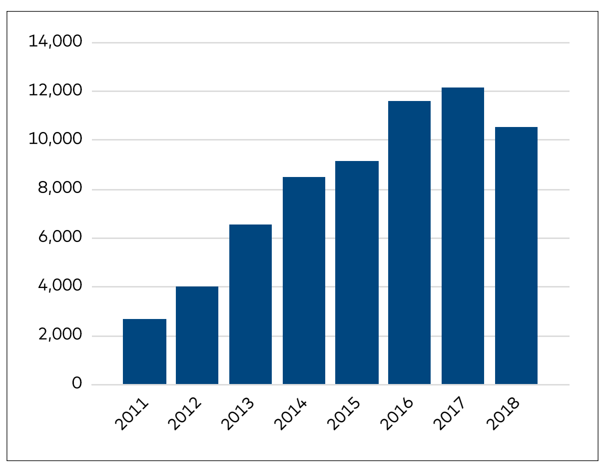
Source: YardiMatrix

Development Pipeline (as of February 2019)



Source: YardiMatrix

Seattle Completions (as of February 2019)

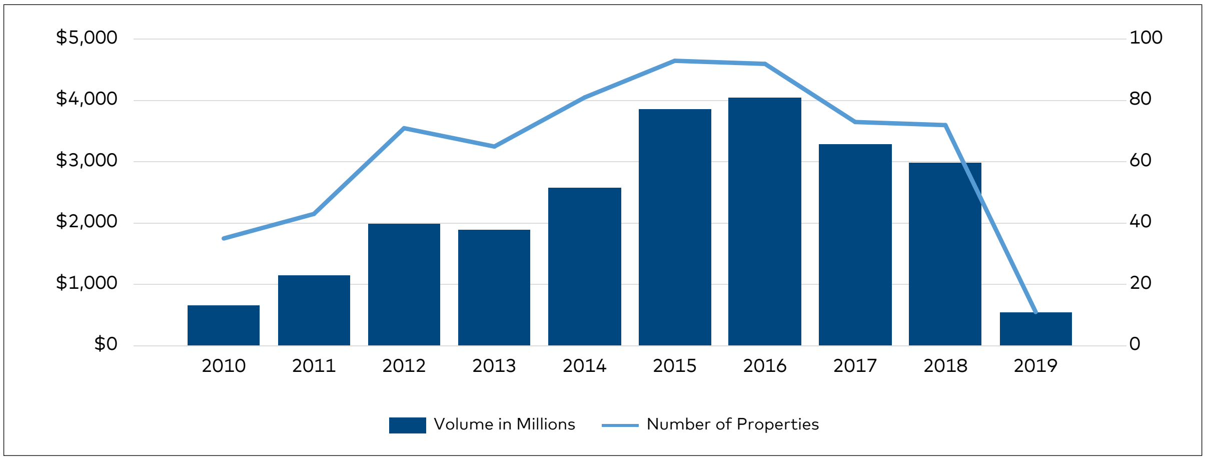


Source: YardiMatrix

Transactions

- Seattle had a good start to 2019, with $540 million in multifamily properties trading in the first two months of the year. By comparison, that is nearly the total volume for 2010, when 35 deals closed in the metro for $654 million, as the market bottomed. If investors maintain the pace, this year's total value could surpass the $4 billion of 2016, the current cycle peak.
- Strong demand has led to an average per-unit price of $294,124 in the first two months of 2019, above last year's cycle peak and almost double the $156,428 U.S. figure. Out-of-state and Canadian investors looking to diversify and expand their portfolios closed the largest deals of the 12 months ending in February. Value-add opportunities have traditionally proved to be the most attractive, but investor interest have remained fairly balanced between Lifestyle and Renter-by-Necessity assets so far in 2019.

Seattle Sales Volume and Number of Properties Sold (as of February 2019)



Source: YardiMatrix

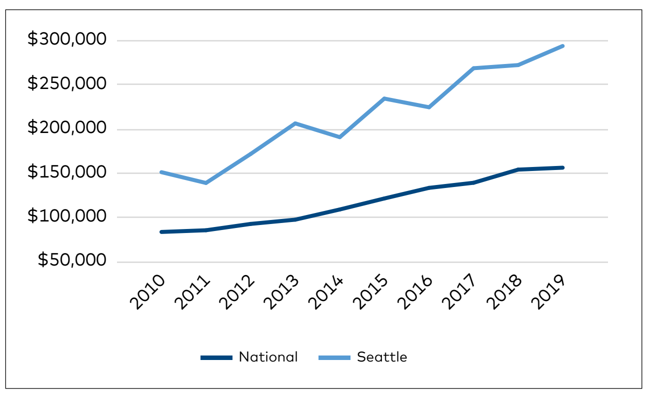
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Renton	581
Bellevue–West	251
Federal Way	236
Bothell	218
Issaquah	207
Kirkland	175
Bellevue-East	150
Capitol Hill/Eastlake	140

Source: YardiMatrix

[1] From March 2018 to February 2019

Seattle vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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2 Microunit Multifamily Assets Change Hands

Wilshire Capital Partners paid $23.4 million for two communities located in Seattle and Portland, Ore. CBRE negotiated the deal on behalf of the seller, East To West Capital.

RedHill Realty Purchases $72M Community

Berkadia arranged the sale on behalf of FPA MultiFamily in its disposition of MIRO at Dash Point, a 386-unit garden-style property in Federal Way.

WA Community Changes Hands

Madison Residential purchased the 63-unit Class B asset for approximately $10 million, with Opus Bank providing more than $7 million in acquisition financing.

LMC Breaks Ground On Seattle Mixed-Use Project

Ovation is a 548-unit luxury apartment community scheduled for completion in 2021. The development also features 6,000 square feet of ground-level retail.

Berkadia Arranges $37M Loan for WA Community

The company secured the long-term, fixed-rate, permanent loan through New Jersey-based PGIM Real Estate Finance on behalf of the borrower, Madison VK LLC.

TruAmerica Sells Suburban Community

The buyer of the 249-unit Class B asset funded the acquisition with a $30 million Freddie Mac loan originated by CBRE. The financing package matures in 2034.

Top 10 Multifamily Completions in the Pacific Northwest

MULTI-HOUSING NEWS
data by Yardi® Matrix

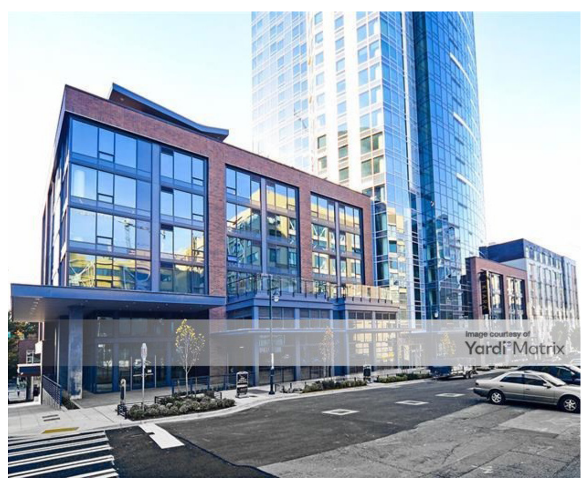
By Roxana Baiceanu

Demand for residential units in the Pacific Northwest's main metros, Seattle and Portland, was strong in 2018 and is expected to hold throughout 2019, as the area continues to add jobs. Known for the quality of living and affordable housing costs compared to other West Coast tech hubs, the two cities have been attracting a large number of young professionals.

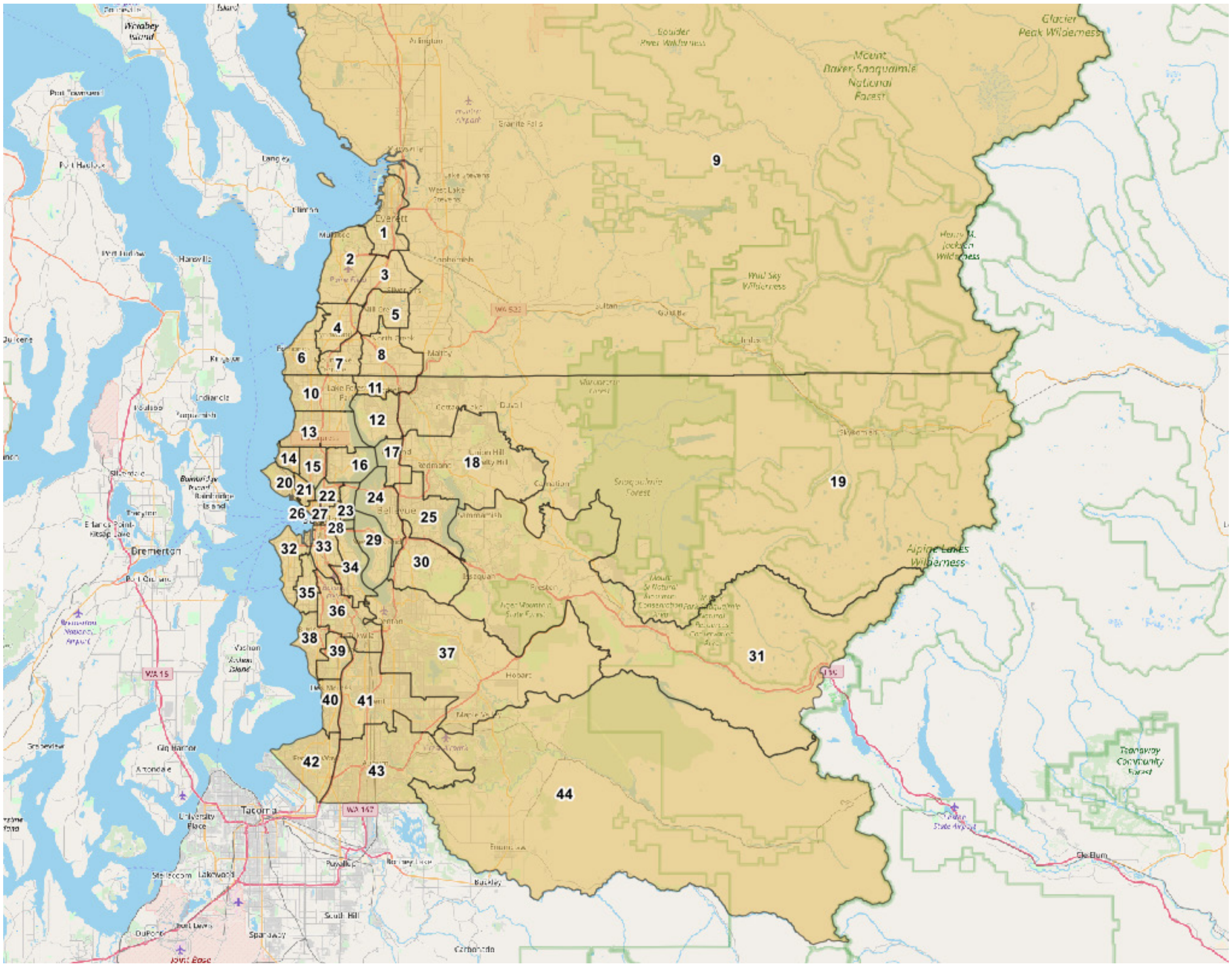
Property Name	Units	Address	City	Completion Date
Kiara	460	111 Terry Ave. N.	Seattle	11/9/2018
McKenzie	450	2202 Eighth Ave.	Seattle	7/27/2018
Sitka	384	1255 Harrison St.	Seattle	1/3/2019
Assembly 118	359	4200 S. Othello St.	Seattle	4/30/2018
Airmark	358	229 Andover Park E.	Tukwila, Wash.	6/8/2018
Arrive	344	2116 Fourth Ave.	Seattle	2/22/2019
West Edge	340	1430 Second Ave.	Seattle	5/4/2018
Highland Crossing	332	11806 N.E. 122nd Ave.	Vancouver, Wash.	4/12/2018
Broadstone Saxton	325	520 Terry Ave.	Seattle	3/22/2019
Southside by Vintage	298	125 S.W. 112th St.	Seattle	2/22/2019

KIARA – SEATTLE

The Belltown submarket has seen the completion of several luxury residential towers during the last 12 months, with Kiara topping the list of the largest projects. The 41-story development at 111 Terry Ave. N. provides 460 units and more than 15,000 square feet of retail space. The building is waiting for a LEED Silver certification. Amenities include a first-floor dog run, a gym, a fitness studio on the seventh floor and a rooftop deck. Monthly rents average $3,500, while the size of the apartments ranges between 420 and 3,000 square feet. In 2015, owner Holland Partners obtained a $180 million construction loan via North America Sekisui House to complete the building.



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.