Yardi® Matrix

Seattle Steams Ahead

Multifamily Report Summer 2019

Job Growth Outperforms

Deliveries Slated for Cycle Peak

Investor Interest Remains Elevated

Market Analysis

Summer 2019

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Construction Booms in Emerald City

Seattle's multifamily market continues to show strong fundamentals, exceeding national averages for most indicators. Along with a healthy economy and robust population growth, the metro is recording impressive investment activity and steady apartment absorption despite a strong development pipeline.

Seattle gained nearly 50,000 jobs in the 12 months ending in May for a 2.5% expansion, outperforming the 1.6% U.S. figure. While education and health services led growth, manufacturing has rebounded, with the sector gaining 7,700 positions. Home not only to Amazon but also Google, Facebook and many other tech companies, Seattle remains a tech juggernaut, adding high-paying jobs at a fast pace. The information sector gained 5,700 positions for a strong 5.0% expansion in the 12 months ending in May.

Although developers remain extremely busy, absorption is keeping up and there is little risk of overbuilding. There were more than 21,500 units under construction as of June, with 8,131 expected to come online by December, in addition to the 6,314 apartments delivered in this year's first two quarters. And although development is slated to hit another cycle peak, we expect the average Seattle rent to advance 3.9% in 2019.

Recent Seattle Transactions

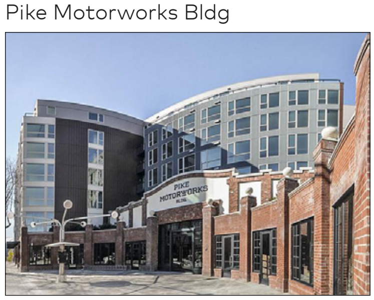
Metro 112

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

Taluswood

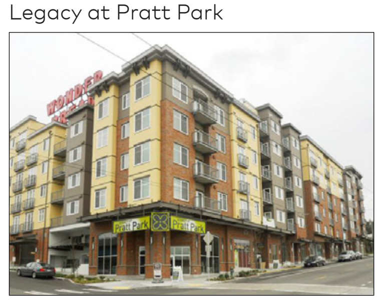
City: Mountlake Terrace, Wash.
Buyer: Security Properties
Purchase Price: $132 MM
Price per Unit: $257,715

Pike Motorworks Bldg



City: Seattle
Buyer: TA Realty
Purchase Price: $128 MM
Price per Unit: $528,106

Legacy at Pratt Park

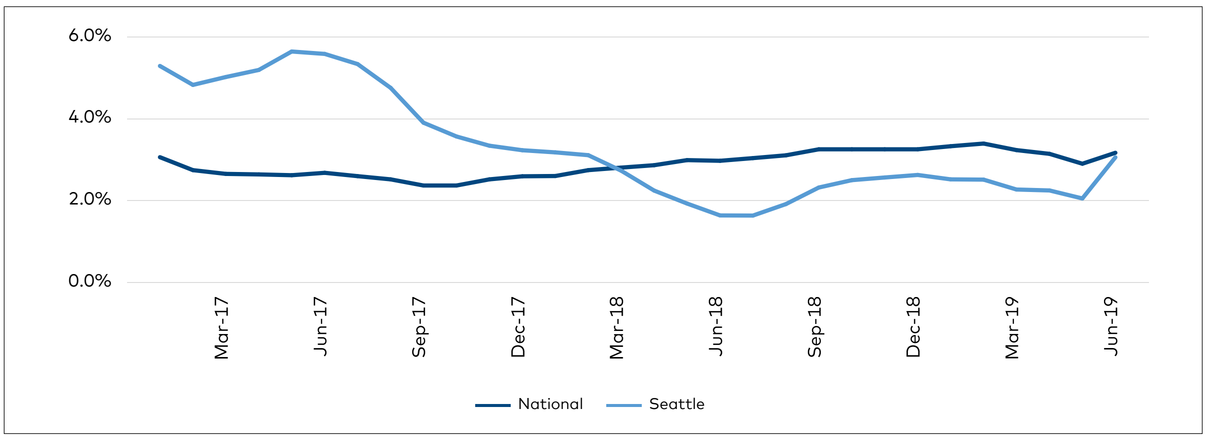


City: Seattle
Buyer: Security Properties
Purchase Price: $92 MM
Price per Unit: $369,960

Rent Trends

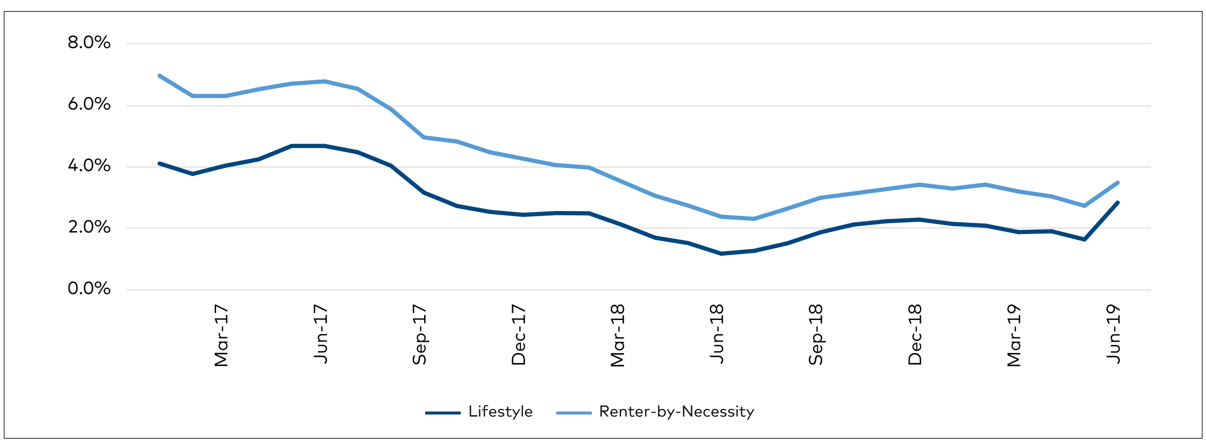
- The average Seattle rent was up 3.1% year-over-year through June, 20 basis points below the national figure. The average rate stood at $1,920, well above the $1,465 U.S. average. At 1.3% as of June, Seattle recorded the highest rent hike among all major U.S. metros on a trailing three-month basis, reflecting refreshed strength despite a lingering development boom.
- Demand for working-class Renter-by-Necessity units continued to be robust, with rents in the class advancing 3.5% year-over-year through June, to $1,602. Meanwhile, the average Lifestyle rent rose 2.8%, to $2,210. In the 12 months ending in May, the occupancy rate in Lifestyle assets actually rose 10 basis points to 95.3%, while occupancy in RBN assets dropped 10 basis points, to 95.9%.
- Areas that used to be relatively affordable recorded some of the strongest hikes: Beacon Hill (10.4%), Factoria (8.1%), Woodinville/Totem Lake (6.9%). Bellevue–West ($2,674) and Belltown ($2,636) remained the most expensive, leading the 13-submarket list with average rents above the $2,000 mark.
- Despite continued strong supply, the overall occupancy rate in stabilized properties stood at 95.6% as of May, down just 10 basis points over 12 months. With demand expected to match supply across most submarkets, we expect the average Seattle rent to advance 3.9% this year.

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

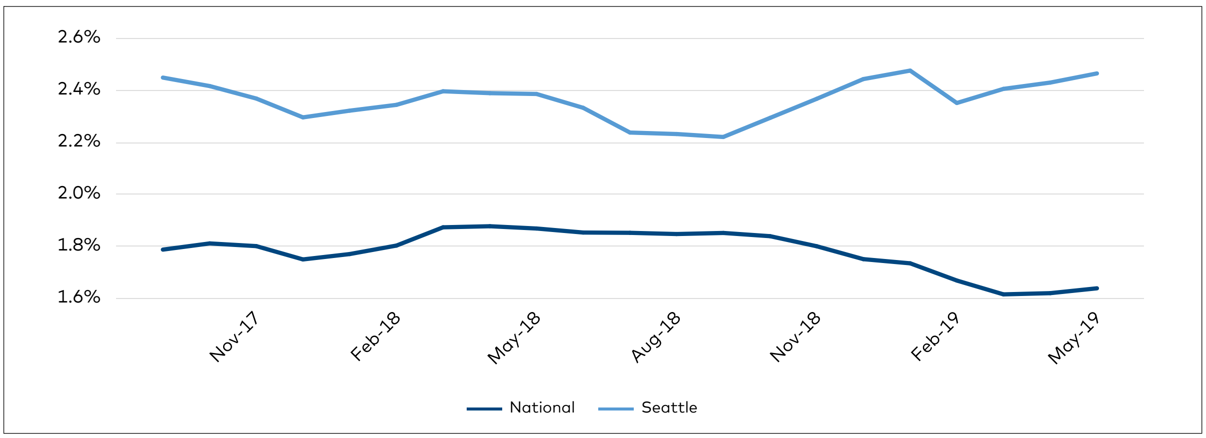
Economic Snapshot

- Seattle added 49,700 jobs in the 12 months ending in May for a 2.5% year-over-year increase, 90 basis points above the national rate. The metro's strong population growth, coupled with robust gains in high-paying industries, continues to boost Seattle's fast-paced economy. The metro's unemployment rate stood at 3.4% as of April, nearly flat since April 2018.

- The metro's economy benefits from a long list of local strong points, including universities, health-care systems and expanding tech employers. The education and health services sector led growth, gaining 11,700 positions and recording the largest year-over-year expansion—5.3% as of May. Manufacturing has rebounded, gaining 7,700 jobs for a 4.8% expansion. Government was the only sector to contract, losing 5,500 positions.

- Information and professional and business services added a collective 12,700 jobs in the 12 months ending in May, maintaining Seattle's status as a talent magnet. The metro's office pipeline mirrors the surge: Seattle added 2.6 million square feet of office space in the last year and a half, with an additional 11.5 million square feet underway as of late-June. Almost two-thirds of Seattle's current office pipeline is located within 1.5 miles of downtown.

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	%
65	Education and Health Services	234	13.2%	11,700	5.3%
30	Manufacturing	168	9.5%	7,700	4.8%
60	Professional and Business Services	267	15.1%	7,000	2.7%
70	Leisure and Hospitality	181	10.2%	6,900	4.0%
50	Information	119	6.7%	5,700	5.0%
40	Trade, Transportation and Utilities	326	18.4%	5,000	1.6%
15	Mining, Logging and Construction	107	6.0%	5,000	4.9%
55	Financial Activities	90	5.1%	3,100	3.6%
80	Other Services	62	3.5%	3,100	5.2%
90	Government	218	12.3%	-5,500	-2.5%

Sources: YardiMatrix, Bureau of Labor Statistics

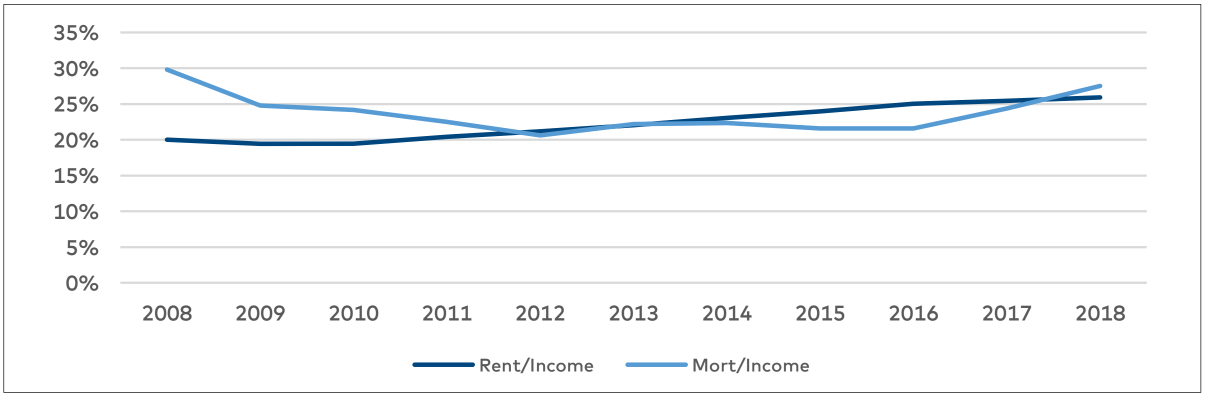
Demographics

Affordability

- Seattle's median home price peaked at $478,218 last year, up 10% in a year and 45% since 2013. In 2018, the average mortgage payment accounted for 28% of the area median income, while the average rent equated to 26% of the same amount.

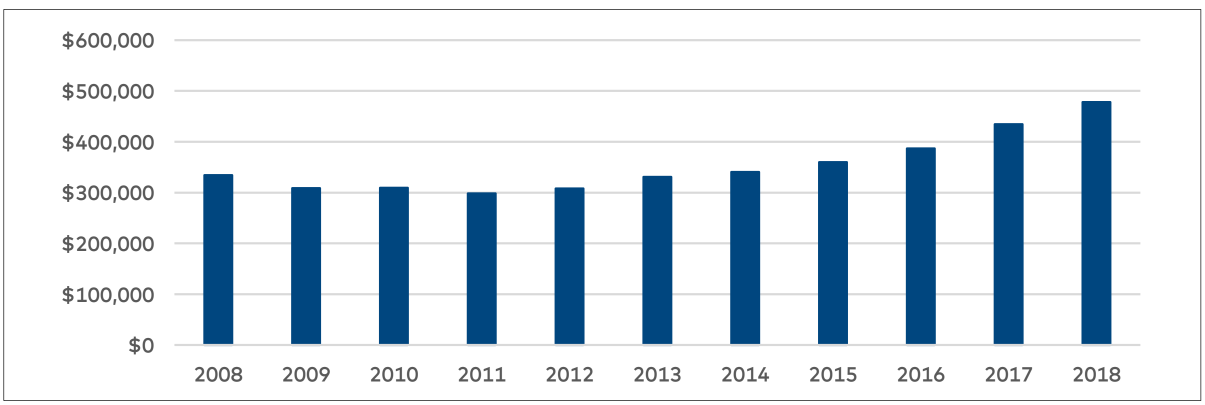
- Approved by the city in March, Seattle's new zoning changes are set to bring higher density across 27 neighborhoods, a move that is expected to boost the number of low-income units and alleviate some of the metro's housing issues. Additionally, developers are required to either include affordable units in their projects or pay into a general fund set up for this goal.

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's fast-paced expansion is fueling a booming economy and generating affordability issues at the same time. Seattle added 64,386 residents in 2017 alone for a 1.7% uptick, more than double the U.S. rate.

Seattle vs. National Population

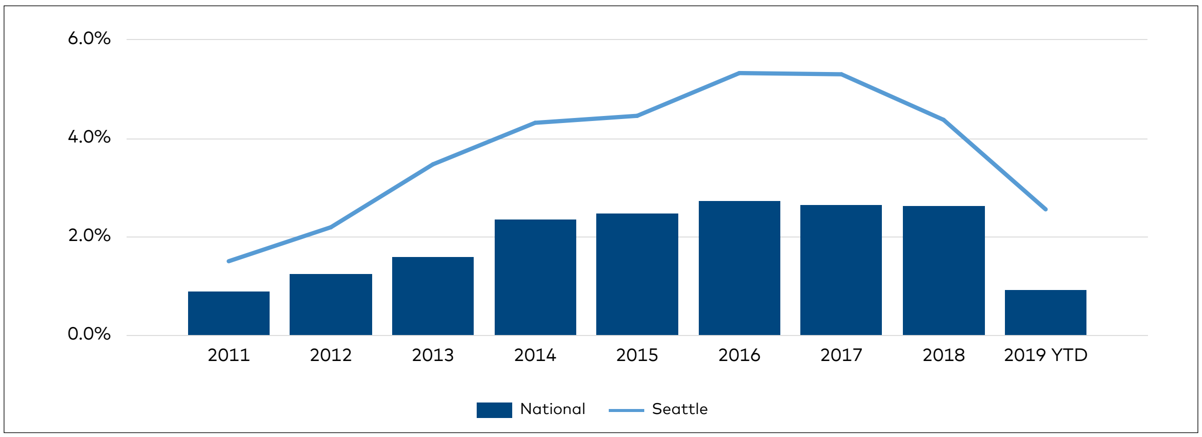
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Seattle Metro	3,610,580	3,667,189	3,728,606	3,802,660	3,867,046

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

Supply

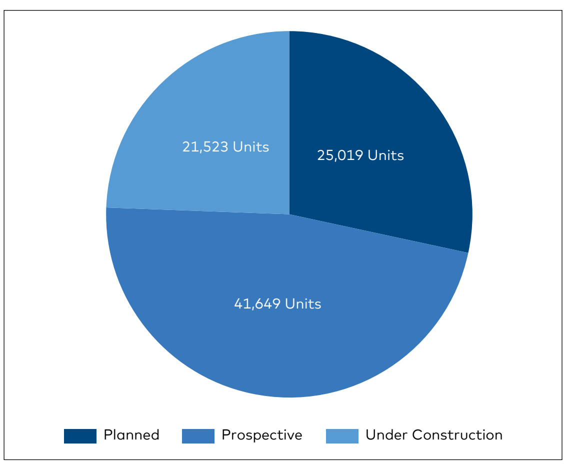
- There were 21,523 units under construction across the metro as of June, with more than 8,000 expected to come online by year-end for a new cycle peak. Boosted by the metro's expansion, developers added almost 50,000 units across nearly 300 projects since the beginning of 2015, three-quarters of which are in upscale assets.
- Seattle's construction boom showed no signs of stopping going into 2019 and developers brought online more than 6,300 units in the first half of the year. And while construction continues to focus on upscale product, the city's economy is generating jobs across the board. This, in turn, is likely to put further pressure on low-income households.
- Although development is spread across the map, four submarkets accounted for more than 40% of all units underway as of June: Belltown (3,018 units), Redmond (2,580), Central (1,393) and First Hill (1,155). Belltown is also home to the metro's largest projects under construction: Onni Real Estate's 1120 Denny Way and Westbank Projects Corp.'s partially affordable 1200 Steward Street. The two upcoming communities add up to 2,178 units.

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



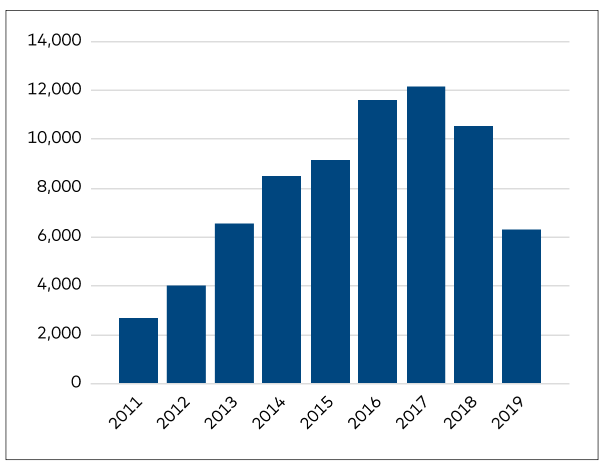
Source: YardiMatrix

Development Pipeline (as of June 2019)



Source: YardiMatrix

Seattle Completions (as of June 2019)

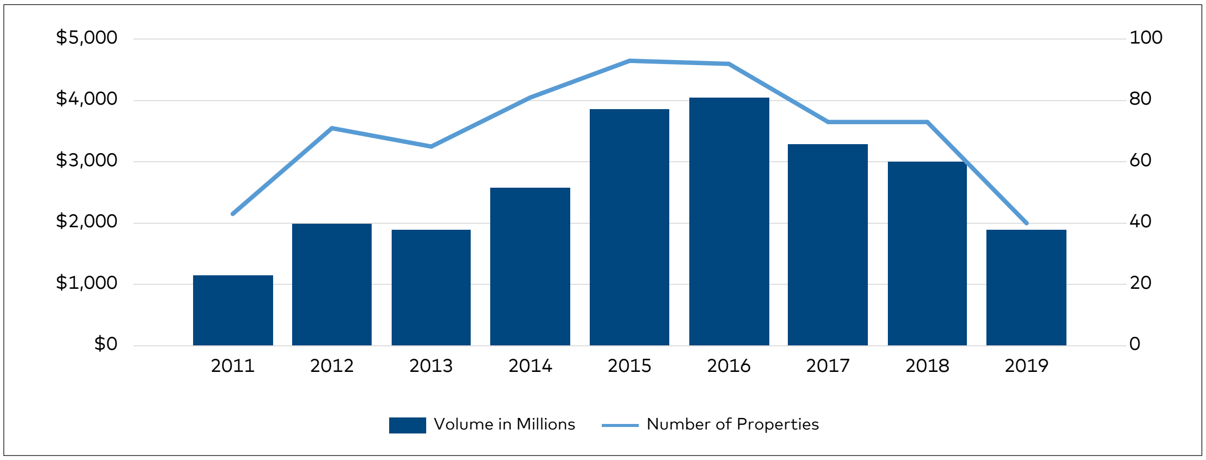


Source: YardiMatrix

Transactions

- Seattle's multifamily market kicked off 2019 in high gear—$1.8 billion in assets traded in the first half of the year, on the heels of 2018's total of roughly $3 billion. Although stabilized Class A properties continue to sell at a premium, value-add opportunities are also a target. Of the 40 properties that traded in the first two quarters of this year, 26 were Renter-by-Necessity assets.
- During the year's first six months, the average per-unit price in Seattle was $269,741, well above the $157,028 U.S. average. Acquisition yields remain some of the lowest in the nation, ranging between 4.0% for core Class A assets and 6.0% or slightly more in the case of lower-class value-add plays.
- Security Properties was one of the metro's top investors in the 12 months ending in June, buying four assets for a total of roughly $356 million, or about $340,000 per unit.

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



Source: YardiMatrix

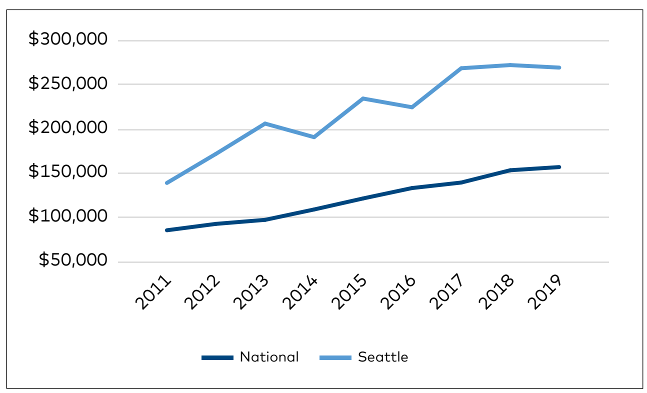
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Renton	494
Bellevue–West	251
Bothell	218
Federal Way	216
Issaquah	207
Thrashers Corner	195
First Hill	191
Kent	188

Source: YardiMatrix

[1] From July 2019 to June 2018

Seattle vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

Get the latest in local real estate news on Multi-HousingNews.com

JRK Property Holdings Acquires $57M Asset

The buyer will complete renovations started by the seller. Additionally, the company will update the community's common areas and amenities.

Wood Partners Breaks Ground On Seattle Community

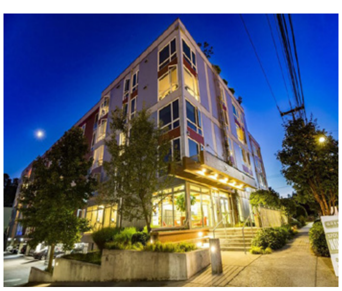
Located in the historic Columbia City neighborhood, the 243-unit Alta Columbia City marks the company's third multifamily project in the metro.

Security Properties, Rockwood Capital Buy Seattle-Area Asset

Taluswood in Mountlake Terrace is one of the largest garden-style apartment communities north of Seattle and will be managed by Security Properties Residential.

JLL Income Property Trust Grows Portfolio

The company paid $81.8 million for a 280-unit luxury asset located in the Seattle suburb of Bothell. The acquisition brings the company's aggregate apartment allocation to more than $820 million.



NorthMarq Arranges $19M Refi for Seattle Community

The 10-year, fixed-rate loan was given to J.B. Matteson Inc. for the 124-unit Greenhouse Apartments, a LEED Silver-certified property.

Seattle Property Lands $52M In Financing

CBRE originated the 10-year mortgage through Freddie Mac, less than a month after a joint venture purchased the 344-unit multifamily asset for $83.2 million.

Top 5 Multifamily Transactions in Seattle

MULTI-HOUSING NEWS

data by Yardi® Matrix

By Roxana Baiceanu

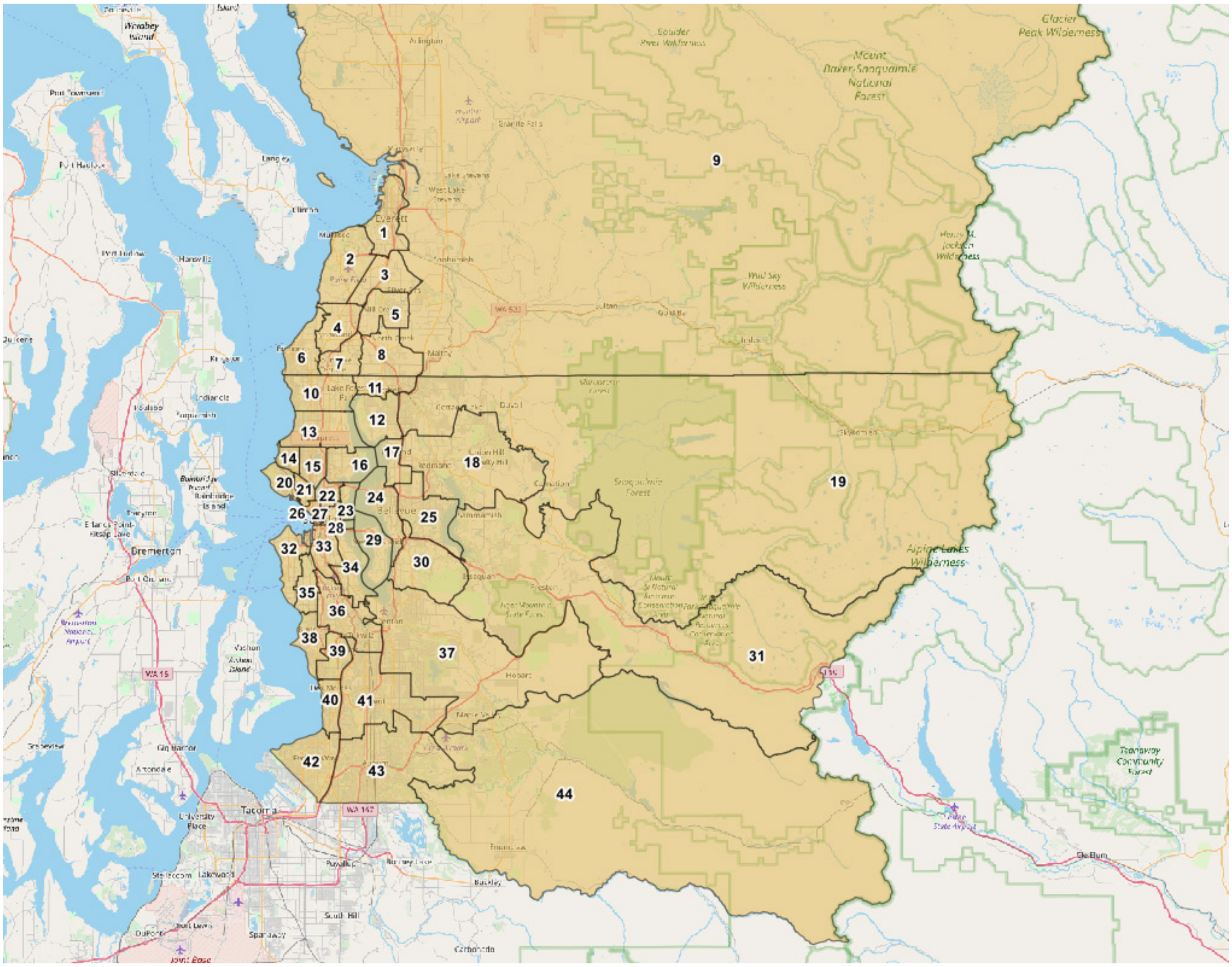
Sales activity in Seattle's multifamily market through the year's first two quarters shows that the city is one of the most coveted and competitive markets in the U.S. A total of 6,867 units were sold in the metro during the first six months. At the same time, as highlighted by the list below, four properties traded for more than $100 million each, bringing the midyear total investment volume to $1.9 billion.

Property Name	Address	City	Units	Sale Price Per Unit
Metro 112	317 112th Ave., N.E.	Bellevue	358	$446,927
Taluswood	4208 236th St., S.W.	Mountlake Terrace	512	$257,715
Pike Motorworks Bldg.	715 E. Pine St.	Seattle	243	$528,106
Bailey Farm	1225 183th St., S.E.	Bothell	372	$305,108
Legacy at Pratt Park	1800 S. Jackson St.	Seattle	248	$369,960

METRO 112 ($160M)

Topping our list is Nuveen Real Estate's $160 million purchase of Metro 112. The transaction was part of a portfolio deal, which included a smaller Boulder Creek property in Sammamish, Wash., bringing Nuveen's Seattle portfolio to a total of 1,900 units. Located at 317 112th Ave. in Bellevue, Metro 112 was constructed in two phases in 2010 and 2018 and encompasses two towers. The property offers 358 luxury units featuring studio-, one- and two-bedroom apartments with an average unit size of 843 square feet. The community also includes 20,000 square feet of retail space and provides access to a rooftop terrace. Simpson Property Group will continue to handle property management duties for Metro 112, which was only 5 percent vacant as of May.

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.

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