Yardi® Matrix

Evergreen Seattle

Multifamily Report Fall 2019

Job Growth Ranks 3rd in the Nation

Investors Target Value-Add Assets

Development Surge Continues

Market Analysis

Fall 2019

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Employment Growth Bolsters Demand

Seattle's strong economic expansion has lasted beyond expectations. Good demographic trends have strengthened the multifamily market and pressured developers despite the robust supply additions of recent years. Significant completions have kept rent growth moderate, up 2.9% year-over-year through October to $1,903. Demand for apartments remains elevated, with the occupancy rate in stabilized properties rising 40 basis points year-over-year to 95.8% in September.

The market gained 61,100 jobs in the 12 months ending in September for a 3.1% year-over-year increase, only trailing Orlando (up 3.7%) and Dallas (up 3.2%). With a strong presence in the medical and tech industries, the metro continued to add jobs at a fast pace in these sectors—education and health services gained 11,800 jobs and professional and business services added 10,800 jobs. With medical facilities likely to expand for decades to come and with large corporations attracted by Seattle's talent pool and highly skilled workforce, both sectors are poised for growth for the foreseeable future.

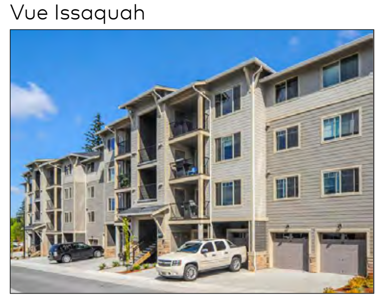
Investment volume surpassed $3.8 billion in 2019 through October, with a per-unit price up 3.1% to $281,472. The development boom continued this year through October: 9,917 units came online while another 20,852 units were under construction.

Recent Seattle Transactions

Met Tower

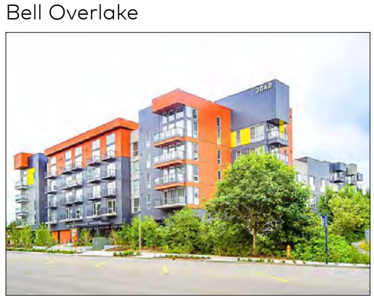
City: Seattle
Buyer: Continental Properties
Purchase Price: $216 MM
Price per Unit: $589,687

Vue Issaquah



City: Issaquah, Wash.
Buyer: Pacific Urban Residential
Purchase Price: $125 MM
Price per Unit: $418,713

Bell Overlake



City: Redmond, Wash.
Buyer: Bell Partners
Purchase Price: $96 MM
Price per Unit: $393,469

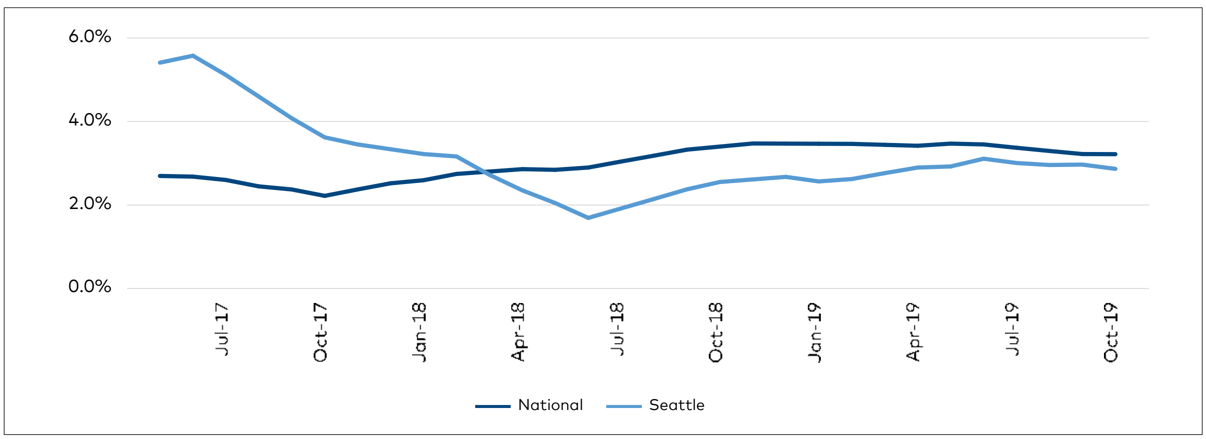
Huntington Park

City: Everett, Wash.
Buyer: New York Life Real Estate Investors
Purchase Price: $88 MM
Price per Unit: $232,237

Rent Trends

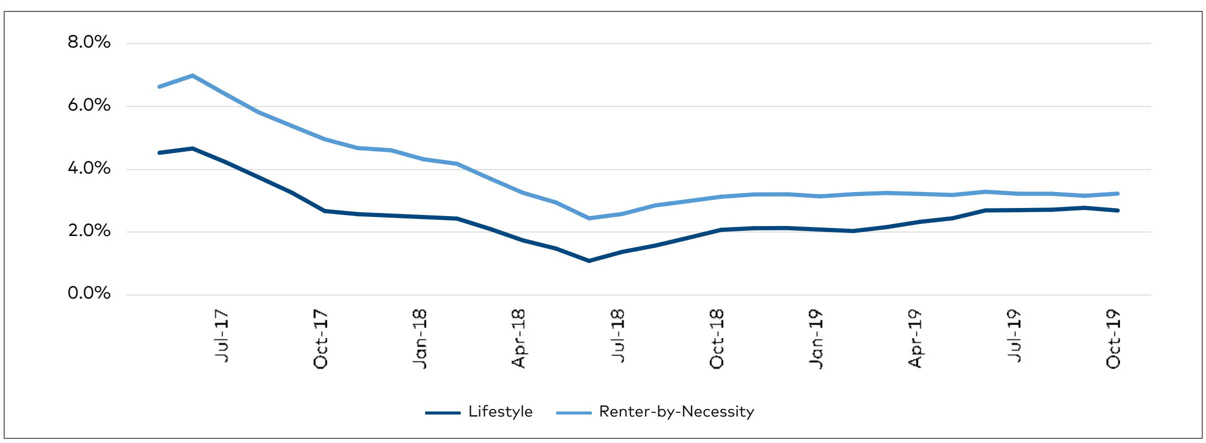
- Seattle's robust supply additions have kept rent growth in check—strong demand pushed the average rate to 2.9% year-over-year through October, 30 basis points below the national rate. The average rent in the metro reached $1,903, above the $1,476 national amount.
- Rent gains were strongest in the working-class Renter-by-Necessity segment, up 3.2% to $1,600 year-over-year through October. Rents in the upscale Lifestyle segment rose 2.7% to $2,178 during the same period.
- Rent growth was uneven across the map; rents rose in most submarkets, except for some distant regions where they contracted or remained flat over the 12 months ending in October. One such area is Burien, where the average rent dropped 1.5% to $1,472, while in Mercer Island it remained unchanged at $2,257.
- Belltown—the submarket with the greatest number of units under construction—remained the most sought-after area in Seattle, with the average rent hiking 3.5% to $2,654. The most affordable submarkets in the metro, located south of State Route 518, also commanded higher rents: Seatac (up 3.0% to $1,351), Auburn (up 4.0% to $1,441) and Des Moines (up 4.6% to $1,441).

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)

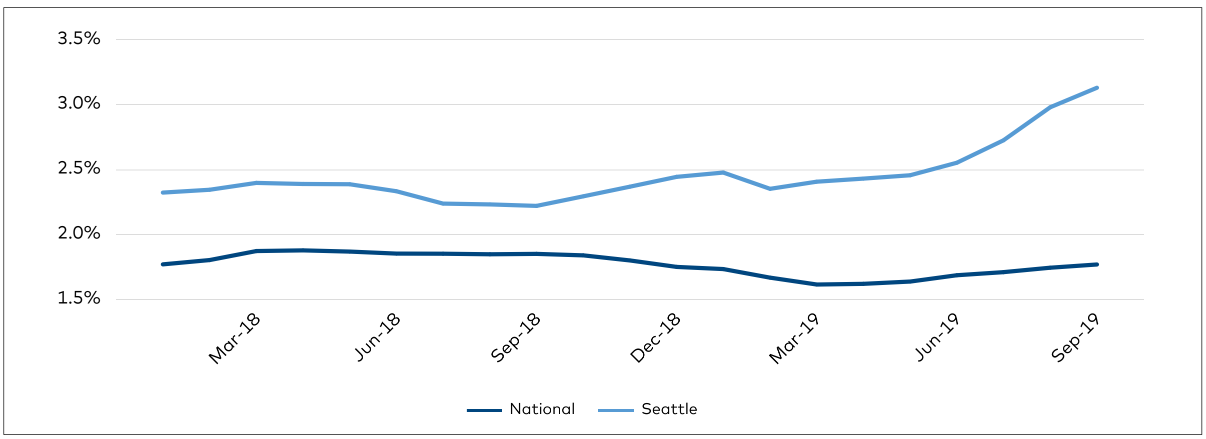


Source: YardiMatrix

Economic Snapshot

- Seattle gained 61,100 jobs in the 12 months ending in September for a 3.1% rate of employment growth year-over-year. That's 130 basis points above the national figure. The growth rate accelerated at the end of the second quarter and hasn't shown signs of softening. The unemployment rate slid to 3.2% as of September, 60 basis points below January's levels.
- All sectors registered growth; the education and health services sector led with 11,800 jobs. Seattle's health services sector is well-served and continues to expand: Seattle Children's Hospital opened Building Cure, a 540,000-square-foot pediatric research facility in the downtown area, now providing 1.1 million square feet of research space. The University of Washington, in continued expansion mode over the past 15 years, will add more facilities over the next 10 to 20 years in a plan that includes 86 development sites and 8 million gross square feet.
- Professional and business services came in second, gaining 10,800 jobs. Thanks to its strong talent pool and skilled workforce, Seattle is one of the growth leaders in the tech industry with some of the largest players bolstering their presence here: Facebook and Google leased additional office space that will house a few thousand more employees, and Microsoft is renovating the Redmond campus with room for 8,000 new jobs. Moreover, Amazon had more than 10,000 job listings in the area as of November.

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	232	12.9%	11,800	5.4%
60	Professional and Business Services	276	15.4%	10,800	4.1%
30	Manufacturing	171	9.5%	7,900	4.8%
70	Leisure and Hospitality	182	10.1%	7,200	4.1%
50	Information	126	7.0%	6,700	5.6%
55	Financial Activities	93	5.2%	6,000	6.9%
15	Mining, Logging and Construction	110	6.1%	4,600	4.4%
40	Trade, Transportation and Utilities	328	18.3%	3,200	1.0%
80	Other Services	62	3.5%	1,500	2.5%
90	Government	215	12.0%	1,400	0.7%

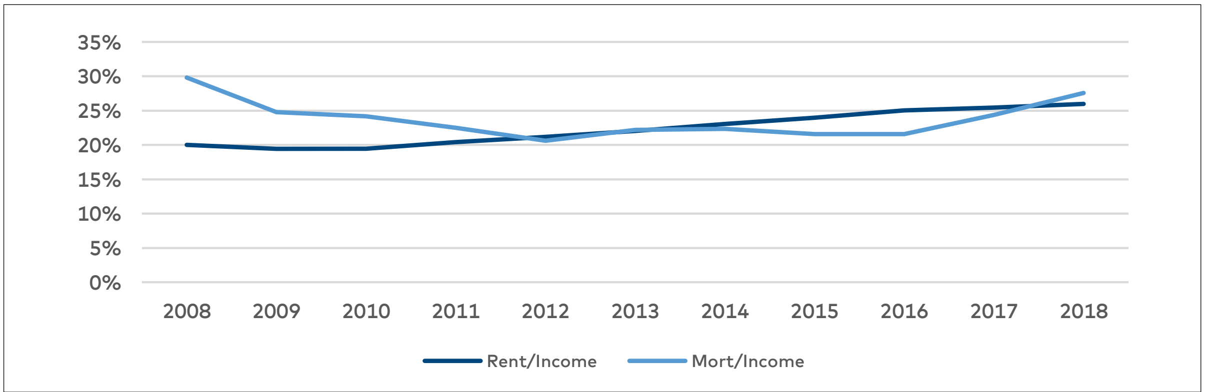
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

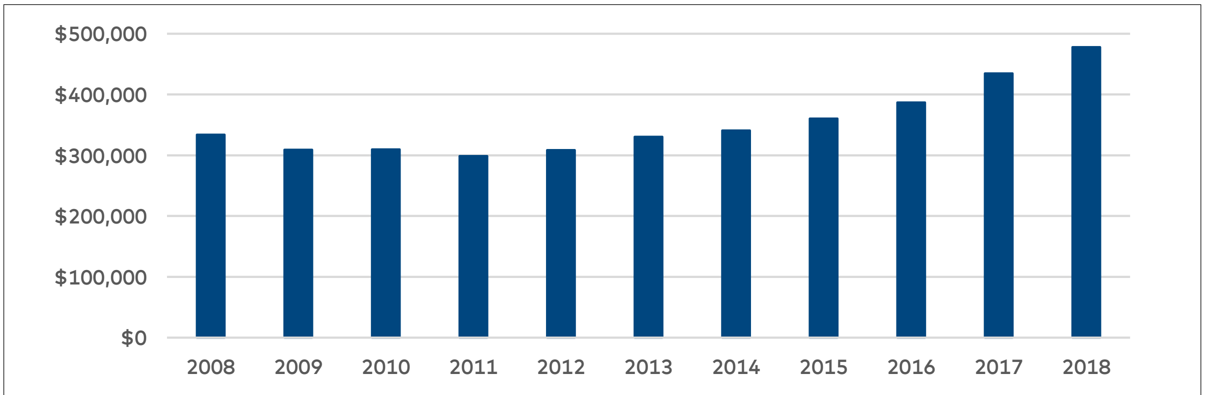
- The median home price in Seattle rose 10% in 2018 compared to 2017 and 43% compared to a decade ago. The average mortgage accounts for 28% of the area median income. Renting equated to 26% of the area median income in 2018.
- A recently approved rezoning initiative is set to increase housing density and expand the affordable inventory by 6,000 units. In addition, the metro gained 1,736 units in 12 fully affordable assets in 2019 through October, while another 2,146 units in 15 properties were underway. Following its $500 million pledge for affordable housing, Microsoft has started accepting applications.

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 boasts a fast-paced demographic expansion, fueled by a robust economy. The metro gained 54,894 residents in 2018.
- That's a 1.4% growth rate, which is more than double the 0.6% national figure.

Seattle vs. National Population

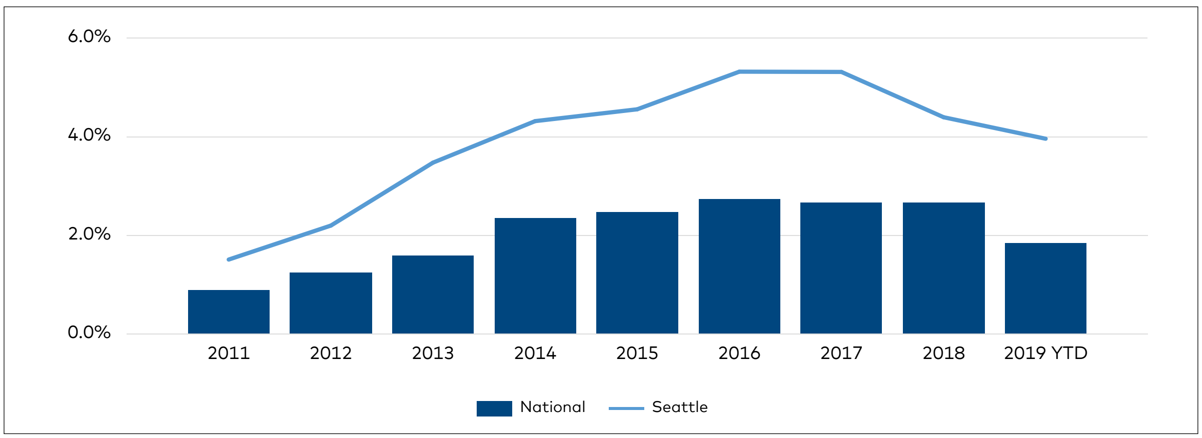
	2014	2015	2016	2017	2018
National	318,386,421	320,742,673	323,071,342	325,147,121	327,167,434
Seattle Metro	3,672,067	3,738,316	3,814,369	3,884,469	3,939,363

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

Supply

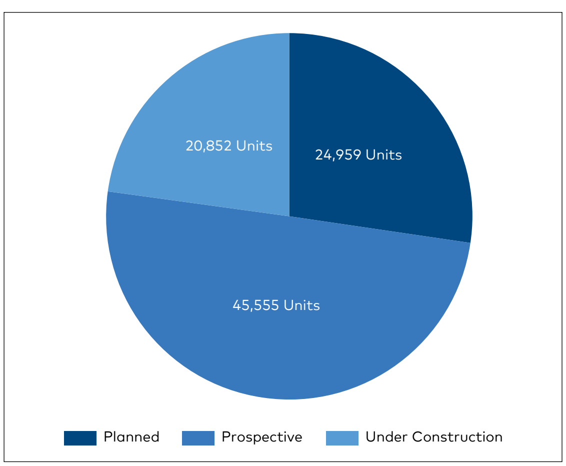
- Developers added 9,917 rental units through the first 10 months of the year, some 4.0% of total stock. That's 210 basis points higher than the national figure. Less than a quarter of completions were geared toward the Renter-by-Necessity segment. Since 2016, annual deliveries have consistently surpassed the 10,000 threshold, a trend that's likely to repeat in 2019.
- The development surge continues as 20,852 units were under construction in Seattle as of October this year, while another 70,500 were in the planning and permitting stages. Despite the high number of deliveries, demand was robust and the occupancy rate in stabilized properties actually rose 40 basis points year-over-year, to 95.8% as of September. The influx of high-wage workers pushed the occupancy rate for Lifestyle assets a solid 80 basis points year-over-year through September to 95.5%, while for Renter-by-Necessity assets it advanced 30 basis points to 96.1% during the same period.
- Among all regions, four submarkets had more than 1,000 units under construction, with the heaviest development in Belltown (3,737 units), Redmond (2,514 units) and Central (1,655 units).

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



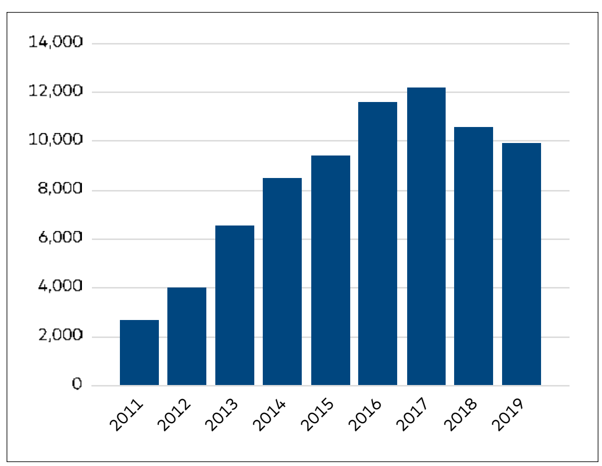
Source: YardiMatrix

Development Pipeline (as of October 2019)



Source: YardiMatrix

Seattle Completions (as of October 2019)



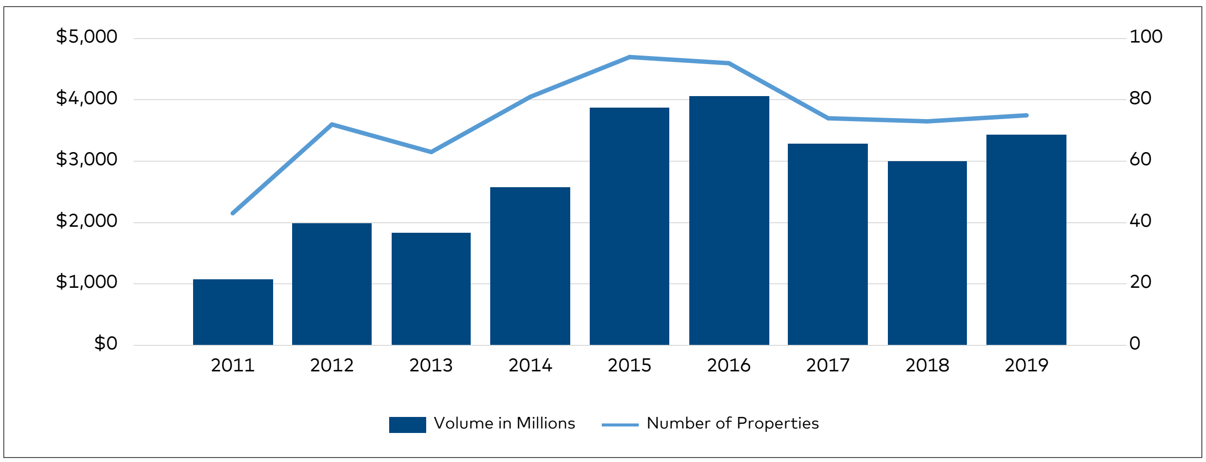
Source: YardiMatrix

Transactions

- Investors paid $3.4 billion for Seattle multifamily assets in 2019 through October, already making this year the third-best year of the cycle. Deals heavily favored value-add plays; of the 75 assets that changed hands in the metro, nearly two-thirds were in the Renter-by-Necessity segment. With the increased real estate excise tax taking effect next year for assets that sell for more than $1.5 million, more owners could be motivated to move forward with sales before year's end.

- The average price per unit rose 3.1% year-over-year through October to $281,472; the average per-unit price for RBN assets rose 1.4% to $209,266, while the average price per unit for Lifestyle properties contracted by 1.9% to $363,236. Security Properties was one of the most active investors in the metro, having acquired 920 units for a combined $271 million across three Seattle assets through October.

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



Source: YardiMatrix

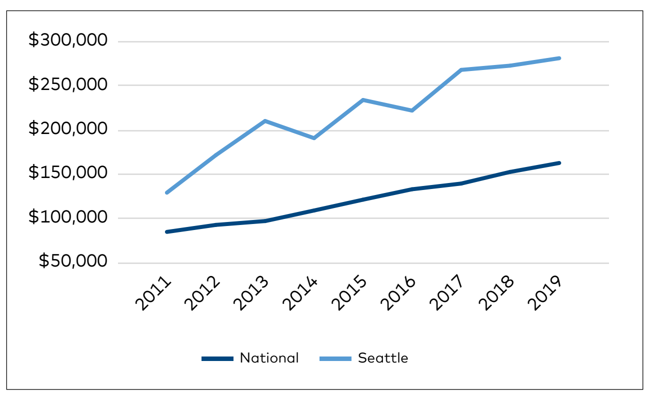
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Belltown	529
Federal Way	288
Kent	270
Bothell	256
Silver Lake	255
Bellevue–West	251
First Hill	224
Issaquah	209

Source: YardiMatrix

[1] From November 2018 to October 2019

Seattle vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Vulcan Cashes In On $69M Luxury Sale

IPA brokered the disposition of the recently completed community in South Lake Union.

Met Tower Commands $216M

JLL was instrumental in negotiating the sale of the iconic residential building, which is across the street from Amazon's headquarters.

Augusta Apartments Trades for $98M

JLL brokered the sale of the 210-unit property that includes ground-floor retail.

Seattle Community Sells for $96M

The five-story property is located close to major employers including Google, Amazon, Microsoft and Facebook.

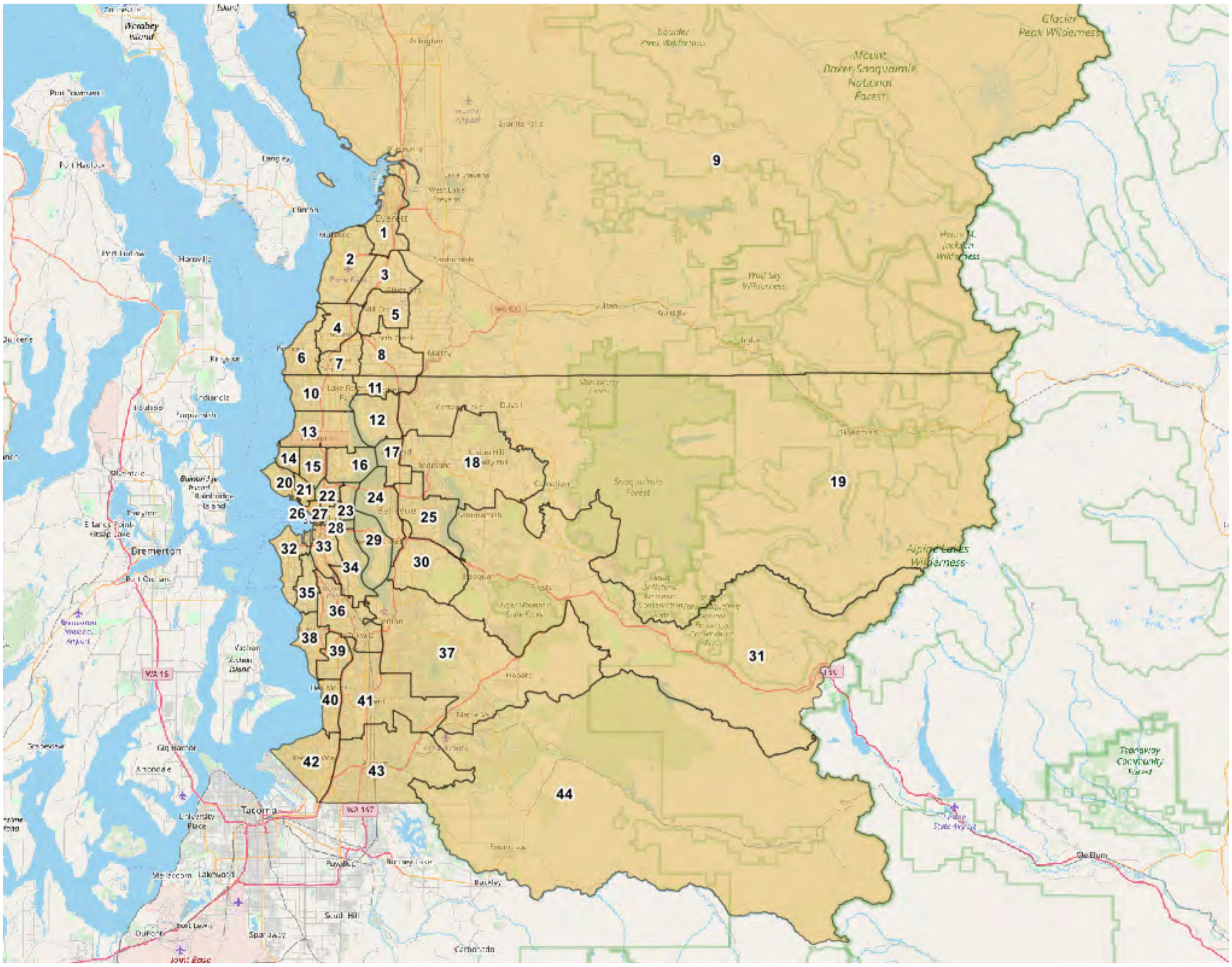
Senior Project Targets a Green First

Scheduled for completion in spring 2021, Aegis Living Lake Union will be the first assisted living community to achieve an elite international green status certification.

Decron Buys 2nd Community for $79M

The real estate developer snapped up a 302-unit property in Kent, boosting its portfolio in the region to 860 units.

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.

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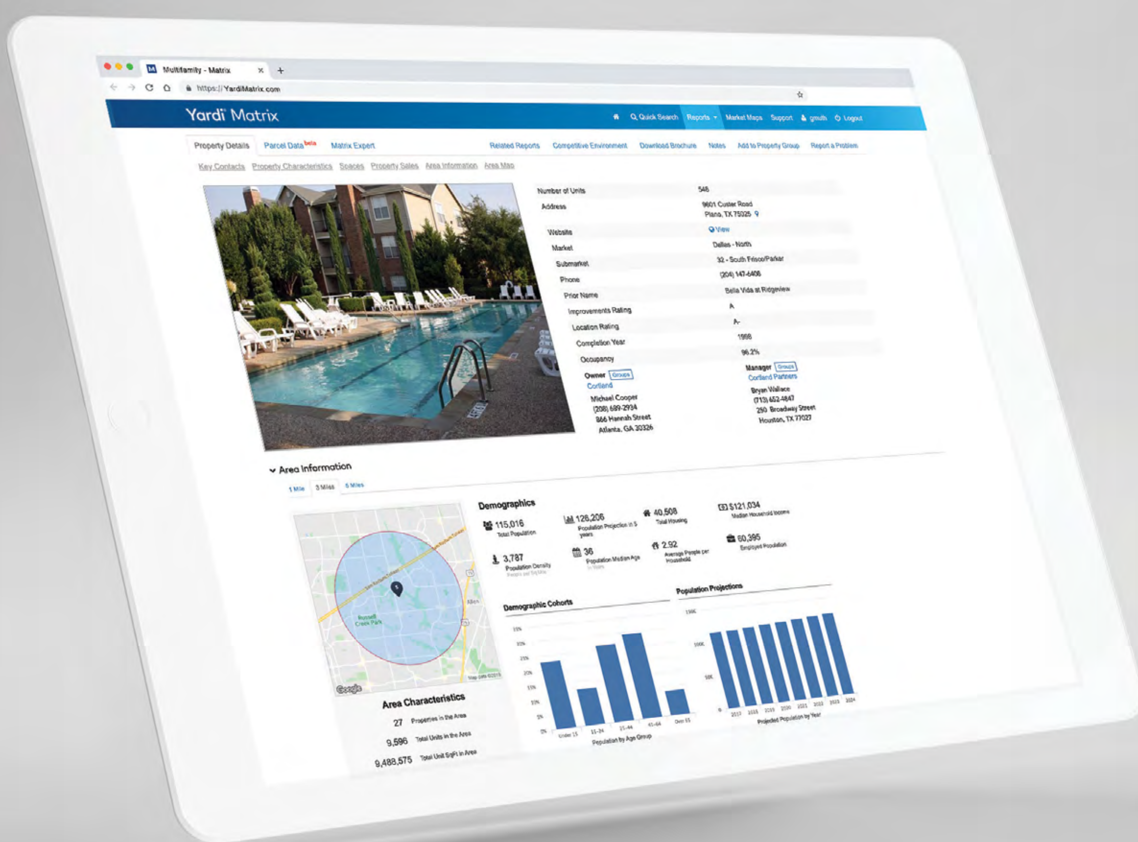

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