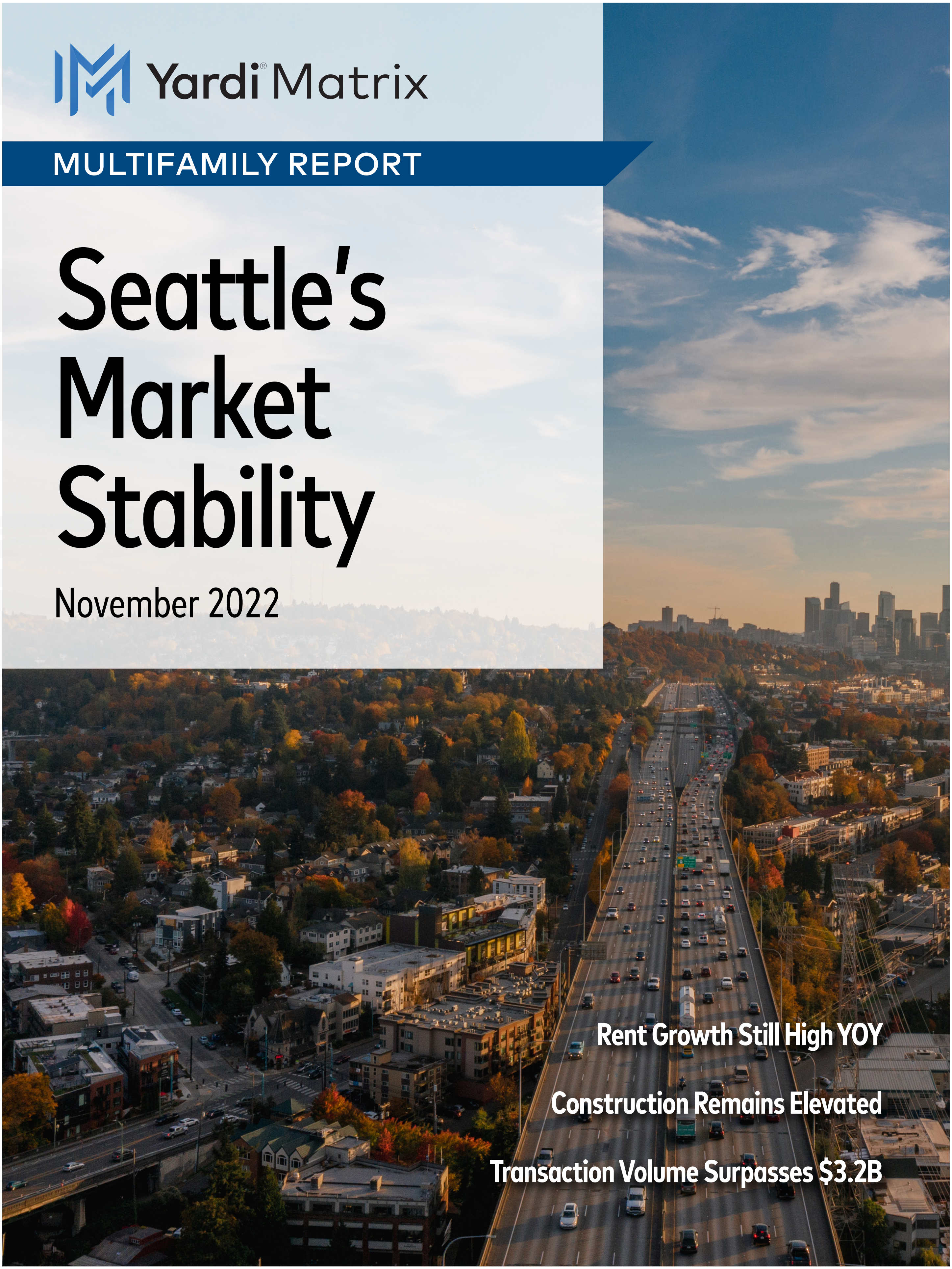
Yardi Matrix

MULTIFAMILY REPORT

Seattle's Market Stability

November 2022



Rent Growth Still High YOY

Construction Remains Elevated

Transaction Volume Surpasses $3.2B

SEATTLE MULTIFAMILY

Yardi Matrix

Supply Surpasses Demand

Seattle's multifamily market still paints a picture of relative stability within a large market. Rent growth on a T3 basis turned negative after 18 consecutive months of sustained gains, down 0.3% as of September, to an overall average of $2,232, while the U.S. rate inched up 0.2% to $1,718. Robust deliveries have impacted occupancy, too, down 30 basis points in the 12 months ending in August, to 95.7%.

Seattle's unemployment rate rose to 3.5% in August, from 2.6% in April, but fared better than the state and the U.S., both at 3.7% according to preliminary data from the Bureau of Labor Statistics. The job market expanded by a solid 6.0% in the 12 months ending in July, outperforming the nation by 150 basis points. All sectors added jobs, with about half of the 95,600 positions gained during this period being added to leisure and hospitality (19,800 jobs) and professional and business services (18,100 jobs). Information followed closely with 16,500 positions. Several companies expanded or are planning expansion in Seattle, including Amazon, Snapchat and Apple.

Development remained elevated, with 7,698 units delivered through September and 28,459 units underway, 8,206 of which broke ground this year. Meanwhile transaction activity surpassed the volume recorded during the same period last year, amounting to more than $3.2 billion. The price per unit continued to climb, up 6.1% year-over-year, to $388,379 in September.

Market Analysis | November 2022

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Recent Seattle Transactions

Uplund at Totem Lake

City: Kirkland, Wash.
Buyer: GID
Purchase Price: $242 MM
Price per Unit: $591,687

Overlook at Lakemont

City: Bellevue, Wash.
Buyer: Acacia Capital
Purchase Price: $204 MM
Price per Unit: $510,225

Alton Heartwood

City: Issaquah, Wash.
Buyer: Seminole Tribe of Florida
Purchase Price: $104 MM
Price per Unit: $767,519

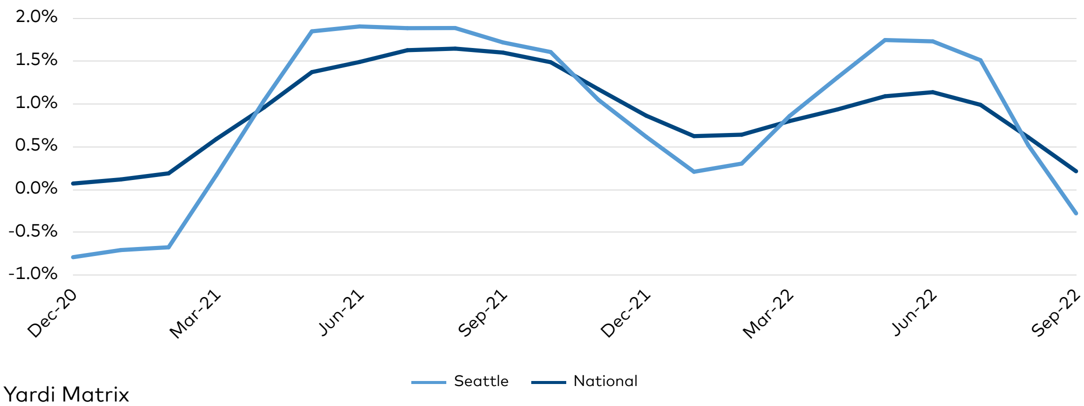
Alley South Lake Union

City: Seattle
Buyer: Pacific Urban Investors
Purchase Price: $90 MM
Price per Unit: $520,930

RENT TRENDS

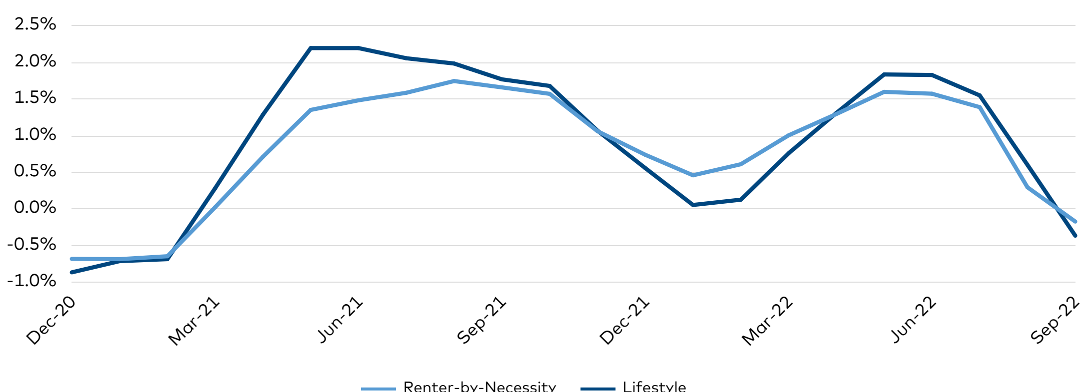
- Seattle's rental market saw a 0.3% contraction on a trailing three-month (T3) basis through September, to an overall average rent of $2,232. Nationally, the average asking rate stabilized at $1,718, following a 0.2% rise. On a year-over-year basis, rents in the metro were still up 9.1% only, 30 basis points behind the U.S. rate.
- Rates contracted in both quality segments, with Lifestyle units taking a slightly bigger hit, down 0.4% on a T3 basis through September, to $2,522, while Renter-by-Necessity figures decreased 0.2%, to $1,869.
- The occupancy rate in stabilized properties also saw a contraction, partly affected by consistent recent deliveries, declining 30 basis points year-over-year as of August, to 95.7%. RBN occupancy posted a slightly bigger decline—down 0.3%—though it remained tight, at 96.0%. Meanwhile, Lifestyle occupancy clocked in at 95.5% following a 20-basis-point decrease.
- Of the 44 submarkets tracked by Yardi Matrix, 18 posted double-digit annual rent gains. As a result, the average in Bellevue-West surpassed the $3,000 mark ($3,072), and the number of submarkets with the average rate above the $2,000 mark increased to 26 from 16 a year ago.
- The single-family rental market posted significant growth, up 12.4% year-over-year through September, well above the 7.8% U.S. rate. This could also explain the 0.6% year-over-year decrease in occupancy.

Seattle vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Seattle Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- Seattle had a 3.5% unemployment rate in August, according to preliminary BLS data, a 90-basis-point increase from April. The metro is faring slightly better than both the state and the nation, which stood at 3.7%.
- The employment market expanded 6.0%, having added 95,600 jobs in the 12 months ending in July. That's 150 basis points above the U.S. rate. All of the metro's employment sectors recorded job gains. The leisure and hospitality sector was initially slow to recover, but thanks to this summer's tourist season it's well on track and led gains with 19,800 positions.
- Next in line was the professional and business services sector (18,100 jobs), which maintained good performance throughout the pandemic, and information (16,500 jobs). Among the companies with expansion projects in the metro in 2022 are Amazon, Snapchat, Stackline and Apple. The latter plans to grow its workforce to 2,000 employees locally, which means that another 200 positions will need to be filled by the end of the year. In addition, with some of these companies having adopted a hybrid work culture, workers are anchored to the metro, which sustains Seattle's housing market.

Seattle Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	160	8.9%
60	Professional and Business Services	294	16.4%
50	Information	155	8.6%
40	Trade, Transportation and Utilities	342	19.1%
30	Manufacturing	148	8.2%
15	Mining, Logging and Construction	114	6.4%
65	Education and Health Services	223	12.4%
55	Financial Activities	91	5.1%
90	Government	210	11.7%
80	Other Services	57	3.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Seattle lost 13,177 residents in 2021, marking the first time since the 2010 Census that the metro's demographic didn't expand. Last year, the U.S. population rose 0.1%.
- Since 2010, the metro's demographic rose 16.3%, more than double the 7.3% national rate.

Seattle vs. National Population

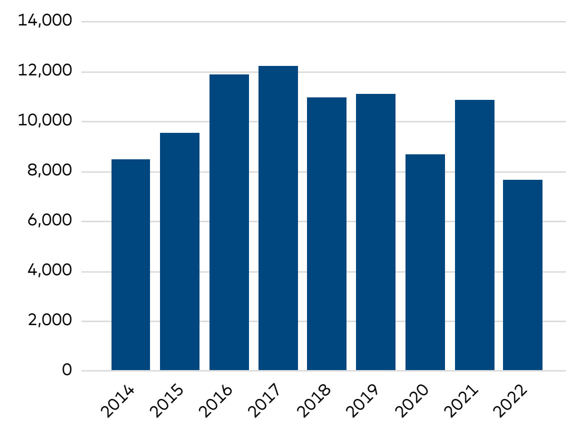
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Seattle Metro	3,937,546	3,977,785	4,024,730	4,011,553

Source: U.S. Census

SUPPLY

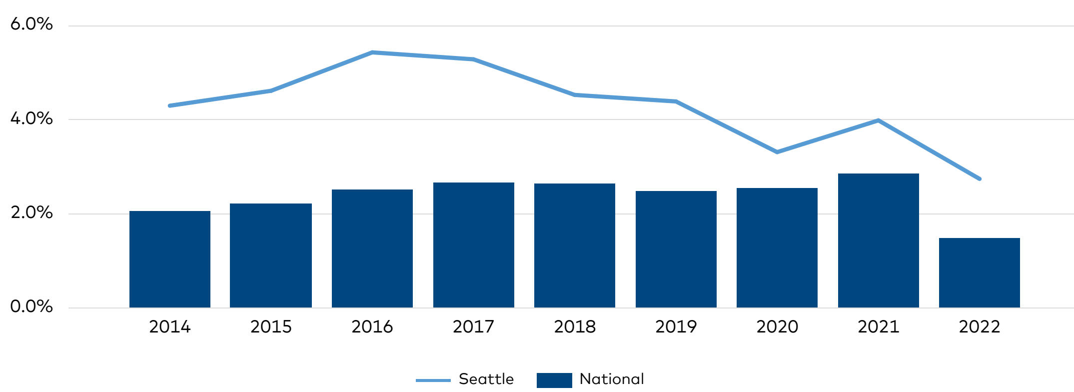
- The metro had 28,459 units under construction as of September, and another 107,000 units in the planning and permitting stages. Of the units underway, 8,206 units broke ground this year (2,463 units in the third quarter), just slightly below the 9,350 units that started construction during the same interval last year.
- Developers delivered 7,698 units during the first three quarters, 2.8% of existing stock and nearly double the 1.5% U.S. rate. Of the projects brought online so far in 2022, the majority were Lifestyle projects, nearly a quarter were units in fully affordable communities, and just 243 were market-rate properties. Yardi Matrix anticipates deliveries will amount to more than 14,000 units in 2022, but delays are likely to push completions well into next year.
- The construction pipeline composition is similar to deliveries—75% Lifestyle projects, 6.1% RBN projects and 18.7% fully affordable communities.
- Developers were active in 33 of the 44 submarkets tracked by Yardi Matrix, and 10 of these had more than 1,000 units under construction. Belltown remained the most sought-after area with 3,733 units underway, followed by Redmond (2,898 units) and First Hill (2,357 units).
- The largest project under construction was the 1,050-unit 1200 Stewart Street in Belltown. Built by Westbank Projects Corp. with aid from a $297 million construction loan issued by Otera Capital, the property is slated for completion by the end of the year.

Seattle Completions (as of September2022)



Source: Yardi Matrix

Seattle vs. National Completions as a Percentage of Total Stock (as of September 2022)

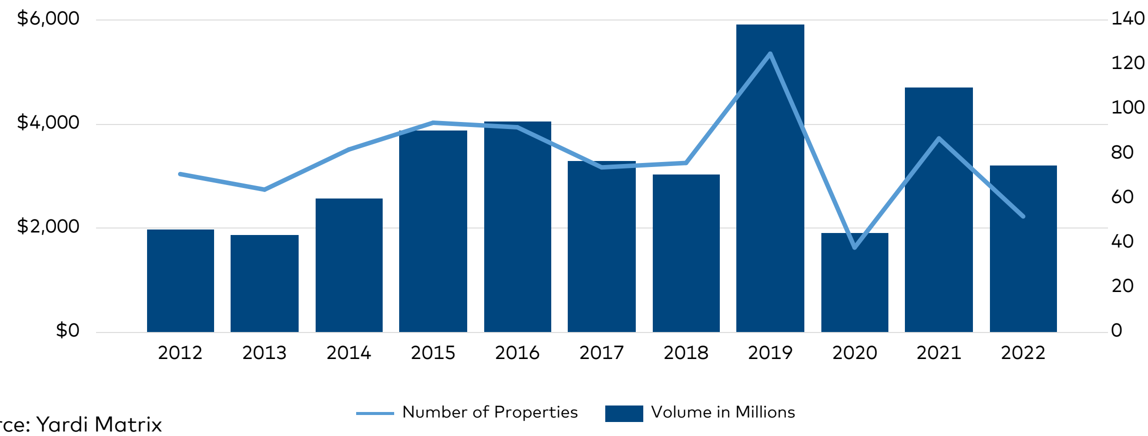


Source: Yardi Matrix

TRANSACTIONS

- Investment activity remained elevated in Seattle, with investors trading more than $3.2 billion in multifamily assets this year through September, surpassing the volume recorded during the same period last year—$2.3 billion. However, the current economic uncertainty may lead to lower transaction activity for the remainder of the year.
- Although some 60% of the sold assets were Renter-by-Necessity apartments, the strong interest in the market pushed the price per unit up 6.1% year-over-year through September, to $388,379. Meanwhile, the national average price clocked in at $216,578.
- The largest transaction of the year through September was GID's acquisition of Uplund at Totem Lake, a 409-unit, partially affordable asset in Kirkland. American Capital Group received $242 million, or $591,687 per unit.

Seattle Sales Volume and Number of Properties Sold (as of September 2022)



Source: Yardi Matrix

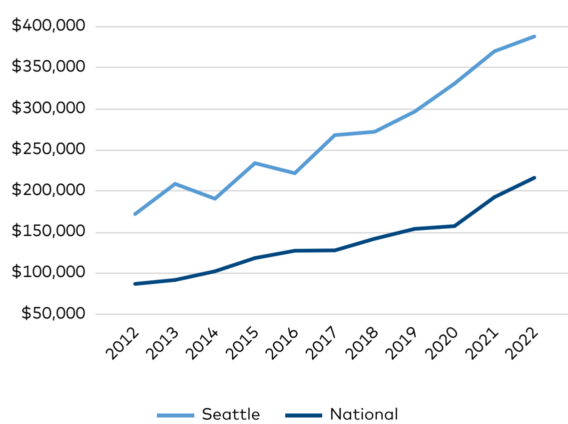
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Silver Lake	639
Belltown	626
Kent	400
Bellevue - East	319
First Hill	298
Factoria	284
Renton	252

Source: Yardi Matrix

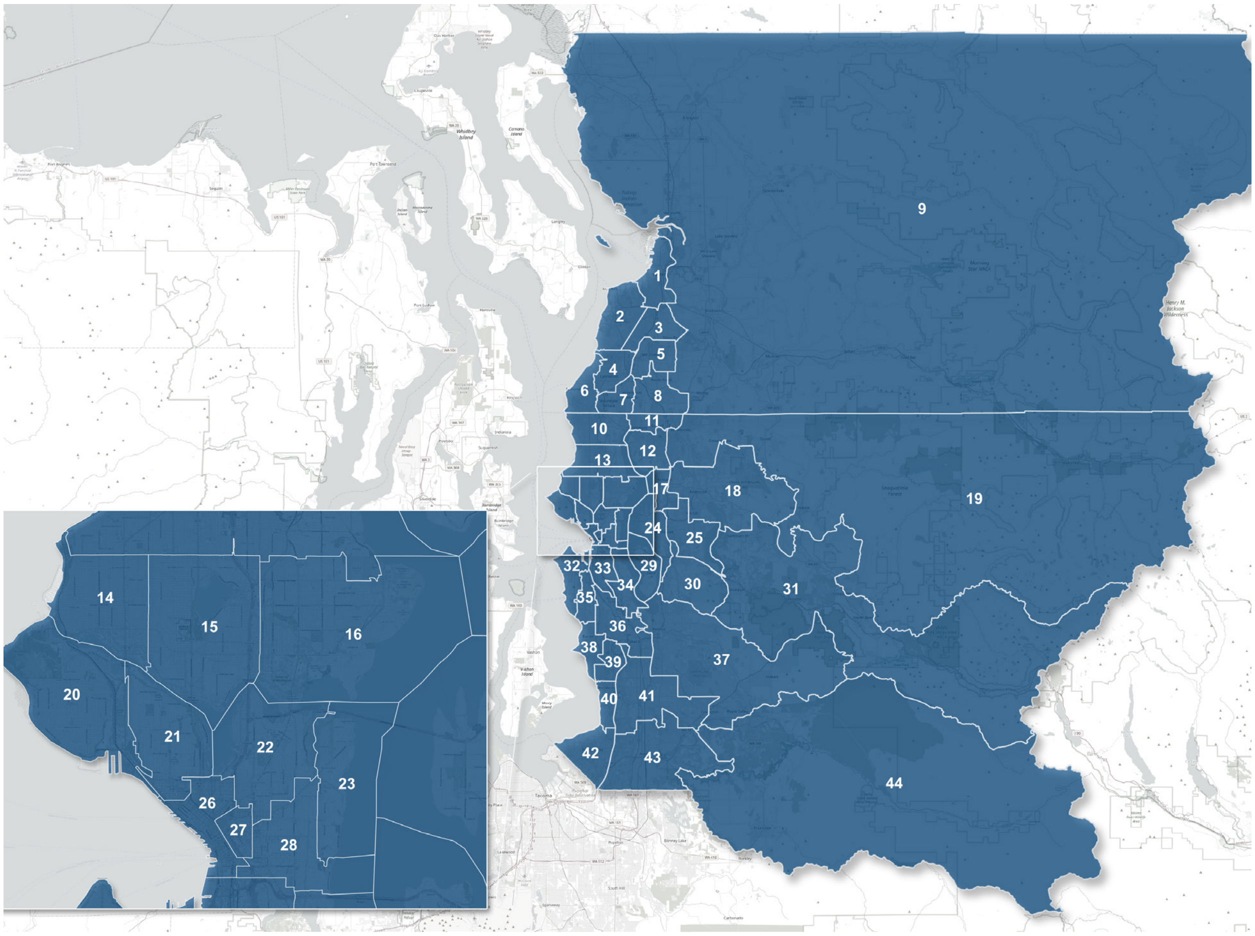
[1] From October 2021 to September 2022

Seattle vs. National Sales Price per Unit



Source: Yardi Matrix

SEATTLE SUBMARKETS



Area No.	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 No.	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 No.	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 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 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, 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.

Yardi Matrix

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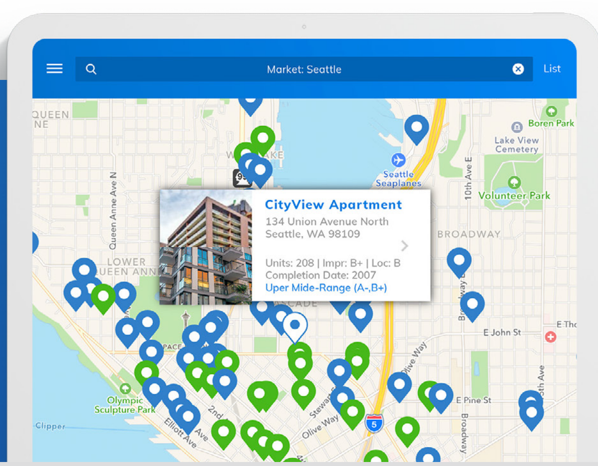
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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