

INVESTMENT FORECAST

Multifamily
Seattle-Tacoma


IPA
INSTITUTIONAL
PROPERTY
ADVISORS


2022

Robust In-Migration and Rising Home Prices Strengthen Rental Demand

Completions poised to reach a two-decade high. Seattle's diverse economy is attracting residents to the metro, underpinning rental demand in the Puget Sound, especially in suburban neighborhoods. The rise in population coupled with the addition of 118,000 jobs last year contributed to the largest spike in annual net absorption over the past two decades. As a result, vacancy contracted around 200 basis points to near a historical low, despite deliveries reaching a 20-year high in 2021. Expectations for robust employment growth this year will continue to stimulate in-migration, further bolstering apartment demand. Additionally, many prospective homebuyers are opting to delay homeownership, as single-family home prices rank among the highest in the nation. Limited housing options will steer these individuals to the rental market, prompting developers to ramp up construction. Deliveries will surpass last year's record supply wave, resulting in a modest uptick in vacancy in 2022. However, the rate still remains below the 10-year-trailing average.

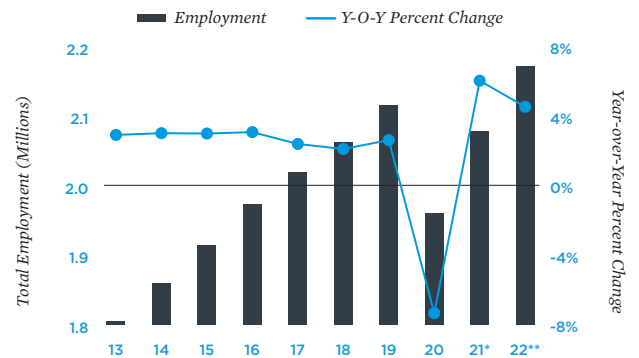
Investors shift their focus to suburban submarkets. Following a brief slowdown in investment activity during the pandemic, transaction velocity returned to pre-recession levels in 2021, with deals over \$20 million reaching a record level. The metro attracts plenty of interest from out-of-state investors, particularly from Southern California and the Bay Area, where cap rates are generally the lowest in the nation. Additionally, Seattle led all major metros in cross-border transaction volume in 2021, highlighting the deep and diverse investor pool that is elevating competition for assets across the Puget Sound. As a result, sale prices are surging to record highs and first-year returns are compressing to the mid-4 percent range. As work-from-home trends became more prevalent, renter demand shifted to suburban submarkets and buyers took notice. Assets in Pierce County, particularly in Tacoma and Puyallup, are highly sought after, and rents are growing at a pace well above the market average. Investors are also targeting well positioned assets in Bellevue and Everett as corporate relocations and the extension of the metro's light rail system bolstered demand in neighborhoods north and east of central Seattle. Tight fundamentals anticipated throughout 2022 should maintain the current positive momentum in the Seattle area at large.

23.1%  2021 share of local population between 20 and 34 years old

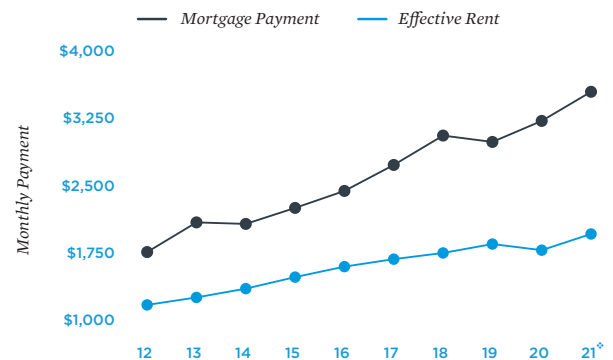
39.2%  of local population hold bachelor's degree or higher*

\$701,300  2021 median home price

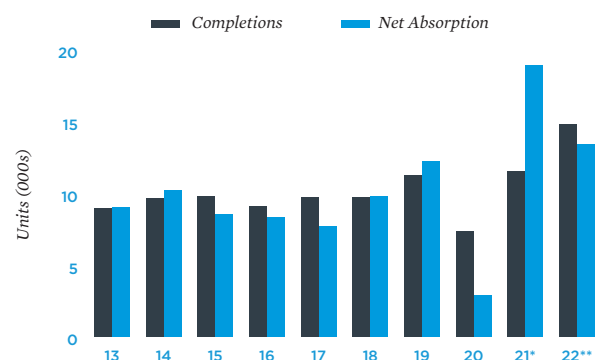
Employment Trends



Housing Affordability Gap



Supply and Demand



* Estimate ** Forecast * Through 3Q
**2021: 25+ years old

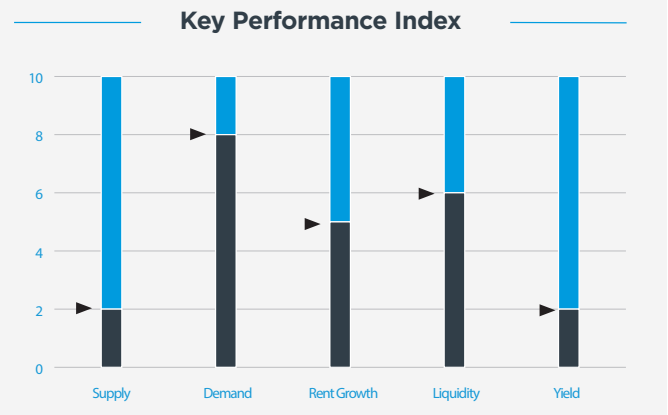
Sources: Marcus & Millichap Research Services; BLS; Freddie Mac; National Association of Realtors; RealPage, Inc.

2022 Investment Outlook

The supply, demand and rent growth portions of the Key Performance Index are all mostly unchanged relative to the pre-pandemic measure, despite plenty of turbulence since then. The jobs recovery is going strong, helping lift absorption totals to match or exceed new supply.

Multifamily momentum in Seattle is noteworthy, but some investors remain cautious, leading to a liquidity score of 6. This is a solid ranking compared to all U.S. markets, but below the pre-pandemic level. Meanwhile, yield sits at 2 as the market has a low average cap rate.

Note: The Key Performance Index provides a metro-level relational benchmark scaled from 1-10 for five key metrics.



2022 Market Forecast

Employment

94,000 jobs



Metro **4.5%**
U.S. **2.5%**

Construction

as % of inventory*



Metro **3.5%**
U.S. **2.2%**

Class A Vacancy

Up 20 bps



Metro **4.1%**
U.S. **3.6%**

Class A Rent

\$2,382
per month



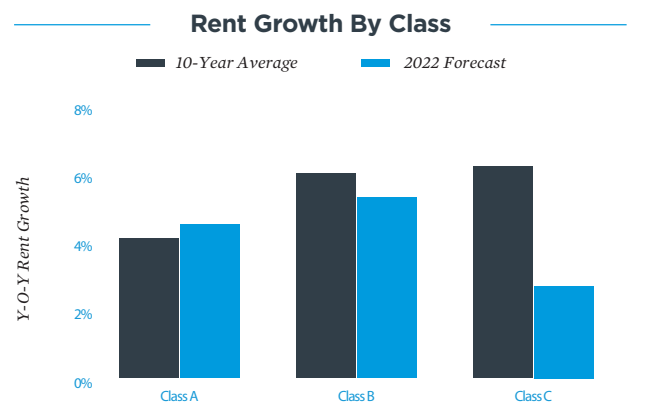
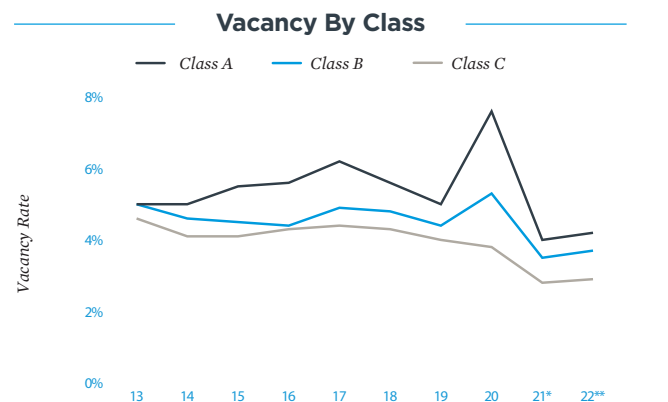
Metro **4.5%**
U.S. **7.5%**

Investment

3-yr. avg. activity
\$20+ million



Deals: **48**
Volume: **\$3.2 Billion**



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* Estimate ** Forecast
* Arrow reflects completions trend compared with 2021
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics