

# MARKET REPORT

Multifamily

Seattle-Tacoma Metro Area

IPA INSTITUTIONAL  
PROPERTY  
ADVISORS

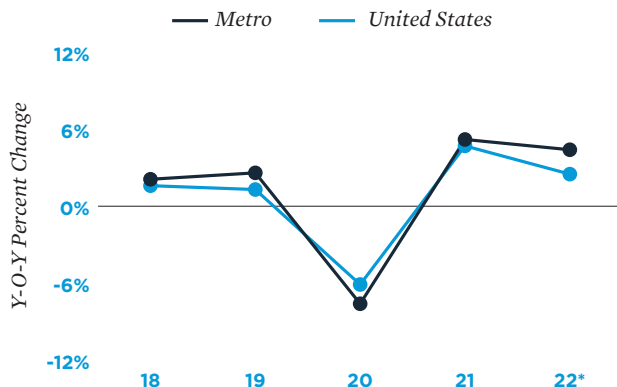
2Q/22

## Unprecedented Renter Demand Warrants Record Supply Wave in the Puget Sound

**Absorption soars to record high.** High-paying job additions in Seattle are driving in-migration, which, in turn, is fueling apartment leasing in the region. Renters are returning to the urban core in force, with net absorption in the CBD approaching the 6,000-unit mark over the past four quarters ending in March, which is an all-time high. Suburban submarkets in the Puget Sound registered historic levels of leasing activity as well during that span, contracting metrowide availability to a 20-year low entering the second quarter. Moving forward, the metro is well positioned to sustain this momentum. Seattle's population is expected to increase by more than 220,000 residents over the next five years. Additionally, over half of this population growth will come from in-migration. Households moving to a new city are more likely to rent, further bolstering regional apartment demand.

**Supply pressure is imminent.** The recent spike in demand has spurred a rise in construction activity. Emerging submarkets, like Redmond and Lynnwood, have noticed an uptick in development, in anticipation of light rail expansions in these neighborhoods. Developers are also active in the University District-Ballard submarket, as the area provides residents convenient access to major office hubs; however, the bulk of near-term completions are slated to deliver in the CBD, where availability is the highest in the region. With supply additions at a 20-year high, a slight vacancy expansion appears to be on the horizon in 2022.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

## Multifamily 2022 Outlook



**90,000  
JOBS**

*will be created*

### EMPLOYMENT:

Employers in Seattle expand head-counts by more than 85,000 workers for the second time on record, following the addition of 102,600 positions in 2021. Hiring velocity this year will exceed the national index by nearly 200 basis points.



**14,400  
UNITS**

*will be completed*

### CONSTRUCTION:

Developers expand rental inventory by 3.4 percent in 2022, marking the largest annual supply wave in over two decades. Completions in the University District-Ballard submarket will reach a two-decade high this year.



**20  
BASIS POINT**

*increase in vacancy*

### VACANCY:

The record wave of supply additions slated for 2022 will place upward pressure on availability, lifting vacancy to 3.3 percent. Nevertheless, the rate remains 110 basis points below the metro's pre-pandemic level.



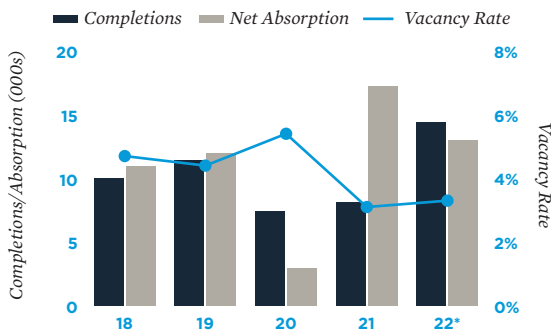
**9.9%  
INCREASE**

*in effective rent*

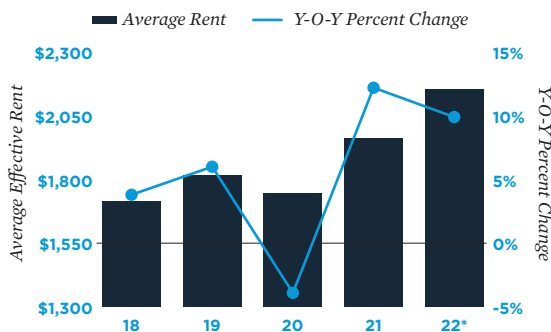
### RENT:

Net absorption approaches the 13,000-unit mark this year, facilitating rent growth that will outpace the national index. The average effective rate will rise to \$2,154 per month by year-end, a new record high for the metro.

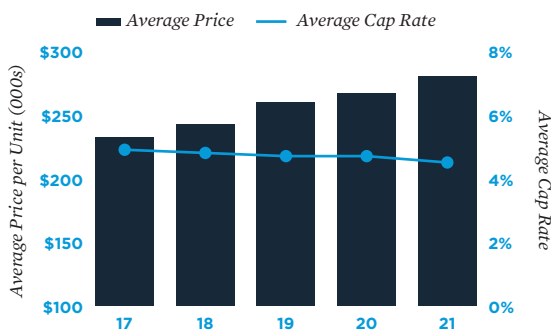
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

**IPA Multifamily**  
**John Sebree**

Senior Vice President

Tel: (312) 327-5400 | jsebree@ipausa.com

For information on national multifamily trends, contact:

**John Chang**

Senior Vice President, National Director | Research Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

## 1Q 2022 - 12-Month Period

### CONSTRUCTION

**9,547 units completed**

- Rental inventory rose by 2.2 percent over the past 12 months ending in March. The bulk of completions were concentrated in the Kirkland-Bothell and South Lake Union-Queen Anne submarkets.
- Completions are not likely to slow in the near term, with roughly 25,000 units underway entering the second quarter.

### VACANCY

**240 basis point decrease in vacancy Y-O-Y**

- All 20 of the metro's submarkets recorded vacancy compression during the past four quarters, lowering availability to 2.9 percent – the lowest rate in over two decades.
- Availability is extremely limited in SeaTac-Burien at 1.3 percent, where rents are roughly 23 percent below the metro average.

### RENT

**14.5% increase in the average effective rent Y-O-Y**

- Widespread vacancy contraction supported double-digit rent growth across all submarkets over the past year, lifting the metro's average effective rate to \$1,991 per month.
- Rent growth was most pronounced in the Class B sector, where a 15.5 percent increase was registered.

## Investment Highlights

- Unprecedented rent growth, coupled with historically low availability, reignited investor activity in the Puget Sound region. Deal flow increased by nearly 50 percent in 2021, resulting in the second-largest annual transaction total over the past two decades. The rise in activity coincided with a 5 percent increase in the average sale price to \$280,000 per unit, while the mean cap rate compressed to 4.5 percent.
- Class C assets under 50 units located in the metro's suburban submarkets are highly sought after, due to their high upside potential. Investors are particularly active in Pierce and Snohomish counties, where properties often trade below the market's mean price point, and first-year returns average in the low- to mid-5 percent range. Similar pricing and yields can be found in South Seattle and Federal Way.
- Investors targeting larger, Class A assets are active in Eastside neighborhoods like Bellevue and Redmond. Entry costs here are the highest in the region, averaging near \$500,000 per unit, with cap rates that often fall below 3 percent. Local expansion plans laid out by Amazon, Microsoft and other major employers will likely heighten buyer interest in the area over the next few years.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

© Marcus & Millichap 2022 | www.institutionalpropertyadvisors.com