MARKET REPORT

Multifamily

Seattle-Tacoma Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

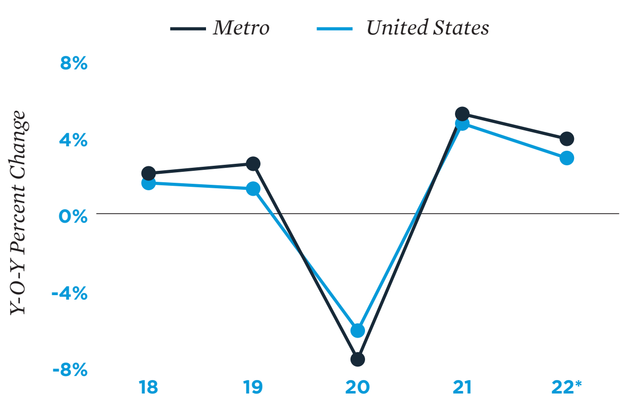
3Q/22

Companies Target Bellevue for Growth; Developers Anticipate Tech Return to Office

Businesses key in on Bellevue, tightening local conditions. The Seattle-Tacoma metro added jobs at a pace roughly three times its long-term average during the yearlong span ending in June. A growing number of firms are choosing locations in Bellevue, as evidenced by the flurry of office leasing in the East Bellevue-Issaquah and West Bellevue-Mercer Island submarkets over the past year. These corporate expansions have bolstered apartment demand west of Lake Washington, with vacancy in both of these locales compressing by no less than 180 basis points during the 12-month period ending in the second quarter. Most notably, West Bellevue-Mercer Island contracted to a historically low rate at 2.9 percent in June. The potential for further compression exists here, as the area is slated to welcome Snapchat and Pokémon offices later this year.

Development focus shifts to trio of urban submarkets. Builders have been more active in suburban zones since the onset of the health crisis. This trend, however, is coming to a halt, as the bulk of upcoming deliveries are centered in heavily-urbanized areas. Entering July, Downtown Seattle, South Lake Union-Queen Anne and Capitol Hill-Central District each had active pipelines consisting of at least 3,300 units. These projects are likely to benefit from tech firms' plans to bring employees back to offices in some form later this year. The resulting demand for higher-tier rentals that these business decisions could generate has the potential to limit upward pressure on vacancy when these developments enter lease-up.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook

80,000 JOBS *will be created*

EMPLOYMENT:

Seattle's employment total is expected to expand by 3.9 percent in 2022, aided by additions in the professional and business services sector. As of June, the sector was the metro's sole industry to have its employment total surpass its pre-pandemic peak.

10,300 UNITS *will be completed*

CONSTRUCTION:

Annual completions eclipse the 10,000-unit mark for the first time since the onset of the pandemic. Construction during the second half is headlined by deliveries at the 1,100-unit Onni South Lake Union.

40 BASIS POINT *increase in vacancy*

VACANCY:

Metrowide availability bumps up to 3.5 percent as the pace of development exceeds net absorption through the final three quarters of the year. Aside from 2021, the year-end rate will still be Seattle's lowest in two decades.

10.6% INCREASE *in effective rent*

RENT:

Heightening vacancy and increased concession usage will somewhat temper the pace of rent growth during the latter half of this year. Nonetheless, the average rate of $2,170 in December will mark a 24 percent increase since January 2021.

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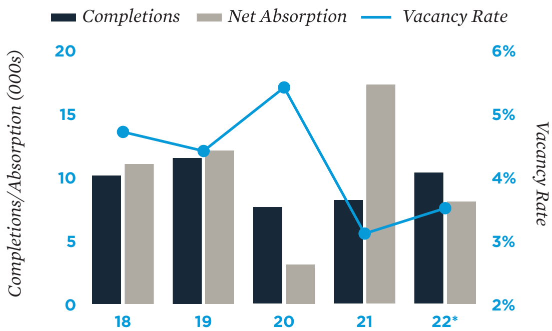
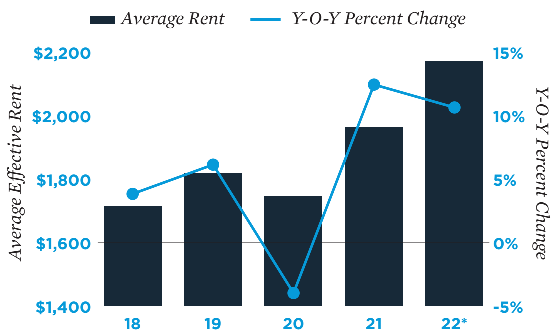
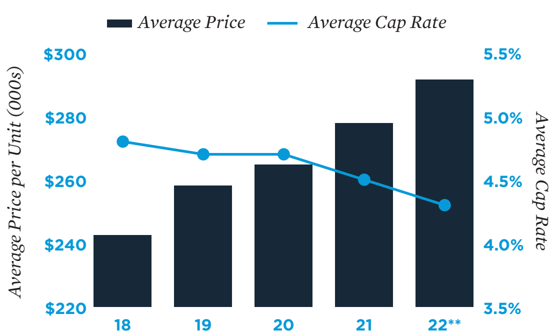
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

9,258 units completed

- Over the yearlong span ending in June, local inventory grew by nearly 5 percent in West Seattle-South Seattle and Lynnwood-Edmonds-Mukilteo.
- Entering July, the CBD comprised a substantial share of the active pipeline, with 10,400 units underway. However, among suburban locales, University District-Ballard currently has the most development at 2,700 units.

VACANCY

90 basis point decrease in vacancy Y-O-Y

- Robust demand helped pull vacancy down to 2.9 percent in March, before easing and facilitating a 50-basis-point jump during the second quarter. Overall, this activity placed availability at 3.4 percent in June.
- Vacancy declined by at least 300 basis points year-over-year in SeaTac-Burien, West Seattle-South Seattle and University District-Ballard.

RENT

14.2% increase in the average effective rent Y-O-Y

- Every submarket recorded double-digit rent growth over the past year, lifting the metrowide average to $2,066 per month in June.
- Seven out of 20 submarkets registered two-decade high rent gains, with the sharpest increases observed in Lynnwood-Edmonds-Mukilteo. Here, the average rate improved by 18.3 percent to $1,950 per month.

Investment Highlights

- Drawn by strong fundamentals that have outperformed historical norms, investors completed a record number of transactions during the 12-month period ending in June. Heightened competition, spurred by a deepened buyer pool, drove the average price per unit up 8 percent over the yearlong period to $292,000. Meanwhile, rising valuations contributed to a 30-basis-point drop in the metro's average cap rate to 4.3 percent.
- Investors seeking more stable, long-term returns are most active in areas proximate to the CBD, such as Queen Anne and Central Seattle. At these locations, institutional buyers are purchasing a mix of sub-100-unit, lower- and mid-tier assets, as well as newly-built luxury complexes, with average cap rates mostly ranging from mid-3 to low-4 percent. Entry costs in these areas often exceed the market mean, at $343,000 per unit on average.
- Institutions with a preference for larger-scale Class B assets in the suburbs may hone in on Redmond and East Bellevue-Issaquah, where mid-tier vacancy was at 2.0 percent or lower in the second quarter of 2022. This exceptional tightness in the segment allowed each submarket to post Class B rent growth of at least 14 percent over the 12-month span ended in June.