

MARKET REPORT

Multifamily
Seattle-Tacoma Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

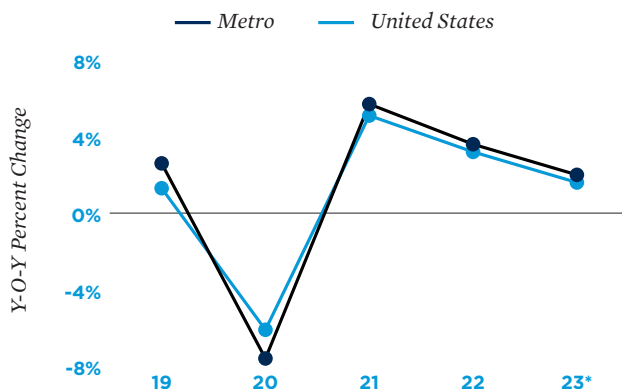
3Q/23

Positive Absorption Restores Some Stability, But is Unlikely to Match the Pace of New Supply

Demand begins to recover ahead of historic development. Despite the market's recent challenges, including the tech sector losing 11,500 jobs through the 12 months ended in June, rental demand is gaining momentum. Nearly 2,400 apartments were absorbed on net over the first half of this year, offsetting net relinquishments during the final six months of 2022. Improving rental demand has been a welcome sign for the multifamily sector, especially after weaker absorption gave rise to a 190-basis-point vacancy climb last year. On the supply-side, however, development is slated to pick up over the second half of 2023 and accelerate in 2024, outstripping demand expectations. Next year, over 20,000 units are slated for completion, a volume that almost doubles the market's prior high and increases the likelihood for additional vacancy elevation over the mid-term.

Redmond has limited availability, despite recent surge in supply. While most of the market experienced abrupt rises in vacancy since the pandemic, conditions in Redmond have remained solid. Here, the rate stood 60 basis points below its year-end 2019 rate in June of this year, despite local inventory growing by 26.4 percent over the span. The submarket's rental demand has been relatively stable, as it noted positive net absorption in 11 out of the 12 quarters trailing June. With construction here expected to downshift this year amid the completion of a five-year low 700 units, effective rents here are also poised to pick up, after being static over the year ended in June.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook



**43,000
JOBS**
will be created

EMPLOYMENT:

Combined, the education and health services, alongside the leisure and hospitality, sectors added a net of 22,800 personnel over the first half of 2023. This hiring places the overall job tally on track to grow by 2.0 percent this year.



**9,000
UNITS**
will be completed

CONSTRUCTION:

Deliveries will exceed 8,000 units for the 11th straight year, expanding marketwide stock by 2.1 percent. About 7,400 units are slated for Seattle and its suburbs, while Tacoma is expected to have 1,600 new rentals.



**70
BASIS POINT**
increase in vacancy

VACANCY:

The overall vacancy rate closes out 2023 at 5.8 percent. North Tacoma and North Seattle-Shoreline face the greatest vacancy pressures near-term, as they host the completion of 900 and 1,000 units, respectively, this year.

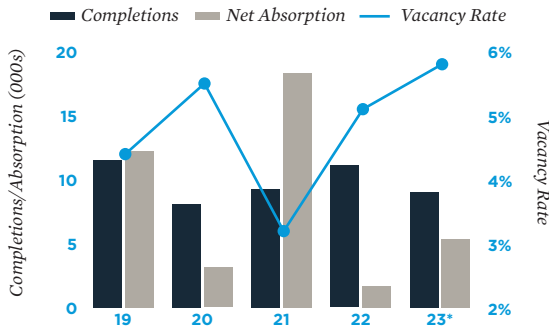


**1.0%
INCREASE**
in effective rent

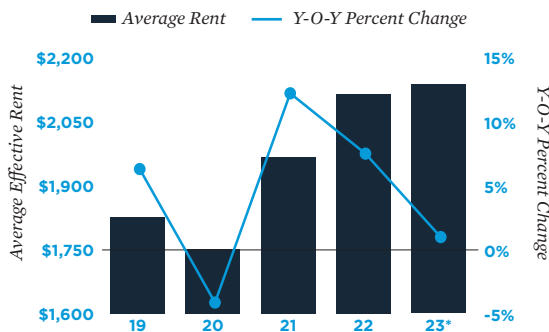
RENT:

Effective rents hold steady amid the delivery of 5,400 units over 2023's second half, ending the year at an average of \$2,135 per month. Still, milder supply across Bellevue could support greater momentum here.

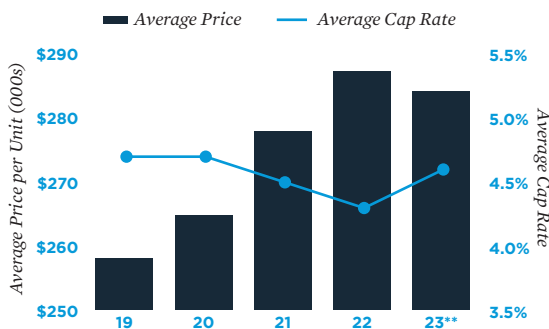
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

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

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Price: \$250

2Q 2023 - 12-Month Period

CONSTRUCTION

8,939 units completed

- Inventory grew by 2.1 percent over the year ended in June, as South Lake Union-Queen Anne and Redmond had more than 1,300 units delivered.
- Redmond's 8.4 percent supply expansion was the strongest among any sub-market located in major Pacific coast metros during the period. At the same time, North Tacoma's 5.1 percent advance was a local record.

VACANCY

180 basis point increase in vacancy Y-O-Y

- Each apartment class noted at least a 110-basis-point vacancy climb over the past year, placing the overall marketwide metric at 5.3 percent in June.
- Vacancy was highest in Downtown Seattle and Capitol Hill-Central District, with each noting rates of 6.3 percent. However, their respective year-over-year rises of 10 and 80 basis points were among the metro's lowest.

RENT

1.8% increase in the average effective rent Y-O-Y

- Rents have fluctuated despite recovering demand, placing the market's average effective rate at \$2,110 per month. As of June, every east side submarket was above that mark, while every Tacoma submarket was below it.
- Downtown Seattle was the only submarket to note a year-over-year rent decline, as the average effective rate here dipped to \$2,526 per month.

Investment Highlights

- New landlord and tenant laws in Tacoma may serve as a weight on trading activity in the city, after a higher cost of borrowing has already thinned out margins for local value-add strategies. Effective starting July 23, landlords in Tacoma must give a written, 120-day notice of intended rent increases. This could negatively impact occupancy among assets that buyers are pursuing for renovations, and effectively shift more investors to other opportunistic locations, such as Everett or South Seattle.
- On the east side, Downtown Redmond has remained the most-transacted area thus far this year. Meta's ongoing construction and planned 350,000-square-foot move-in to its new Building X campus later this year has sustained interest among investors. Most local assets have commanded premium pricing above \$380,000 per unit over the first six months of 2023.
- Aside from Capitol Hill, Class A trading activity this year in Seattle has mostly been confined to areas proximate to Belltown and Pioneer Square. More recently, transactions for top-tier assets have been relatively muted across Seattle's eastern suburbs and in Tacoma.

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.