

INVESTMENT FORECAST

Multifamily
Seattle-Tacoma


IPA
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ADVISORS


2020

Tech Firm Influx Bolsters Employment Growth, Fueling Demand Across Seattle

No slowdown in sight for Puget Sound region as tech firms compete for talent. Seattle stands out as one of the nation's most robust economies moving into the next decade, maintaining a healthy employment outlook that continues to drive rental demand. The metro created approximately 65,000 jobs last year, the strongest annual increase in more than two decades as firms competed for top-tier talent. Deep tech roots motivate a long list of tech titans to grow their workforce in Seattle's South Lake Union neighborhood and on the Eastside as the local infrastructure is strained and commutes into the city remain a challenge. Sound Transit's Link light-rail expansion will connect the Eastside to downtown Seattle and other parts of the metro in 2023, bringing some relief to the region. Developers have moved forward with major apartment projects near future stations across the metro, contributing to a large pipeline that at the end of 2019 had more than 18,000 units underway. Much of the new supply targets higher-income renters in the urban core, driving more middle-income renters to areas of Everett, Kent and Federal Way, where rent gains are outpacing the market average.

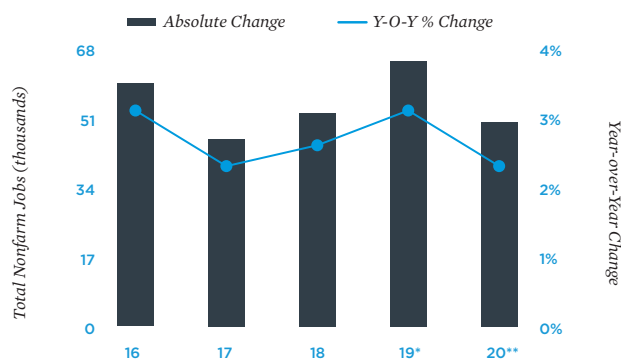
Transaction market hitting on all cylinders. Seattle remains firmly in the top tier of investors' list of target acquisition markets for the coming year. The market will maintain a deep and diverse investor profile, especially with institutional, cross-border and REITs highly focused on purchasing newly developed mid- and high-rise properties in or near downtown. In addition, Amazon's recent expansion plans for Bellevue should raise these similar investors' attention level to the Eastside. These neighborhoods contain the highly prized professional and tech employed renter profile living in walkable locations that leverage the live-work-play setting institutional buyers strongly desire. The sustained demand for assets has kept competition for assets strong and average cap rates for properties selling above \$20 million sitting near cycle lows. The current valuations have owners' and developers' attention, which has created a robust disposition pool to satisfy the elevated demand for acquisitions. The search for higher yields, however, will push private capital sources into the farther north and south submarkets seeking either value-add opportunities or properties near major employers in Everett or Tacoma. Overall, the transaction market enters the new year with significant positive momentum carrying over that should be preserved due to the healthy underlying market fundamentals.

23.0%  2019 share of local population between 20 and 34 years old

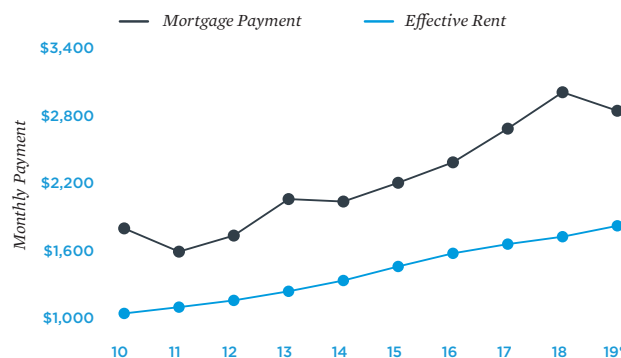
40.2%  of local population hold bachelor's degree or higher*

\$526,094  2019 median home price

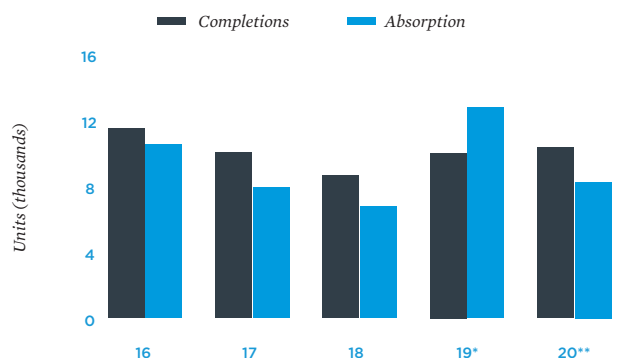
Employment Trends



Housing Affordability Gap



Supply and Demand



* Estimate ** Forecast * Through 3Q
* 2019: 25+ years old

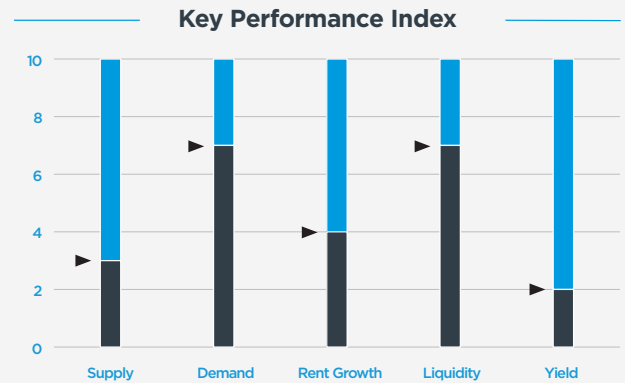
Sources: Marcus & Millichap Research Services; RealPage, Inc.

2020 Investment Outlook

Rising supply and demand indexes over the past six months appear to place Seattle in position to continue producing solid operational results going into 2020. Rent growth remained at 7 while supply moved up one notch to 3. Demand rose to 7 and remains strong enough to support the overall fundamentals.

The expanding pool of buyers in the market appears well covered as liquidity edged up one point and now resides at 7. The increased investor pool, however, has also pushed down the yield index from 3 to 2 as a competitive bidding marketplace.

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



2020 Market Forecast

Employment
50,000 jobs



Metro **2.3%**
U.S. **1.0%**

Construction
as % of inventory*



Metro **2.5%**
U.S. **1.7%**

Class A Vacancy
Up 70 bps



Metro **5.0%**
U.S. **5.3%**

Class A Rent
\$2,181 per month

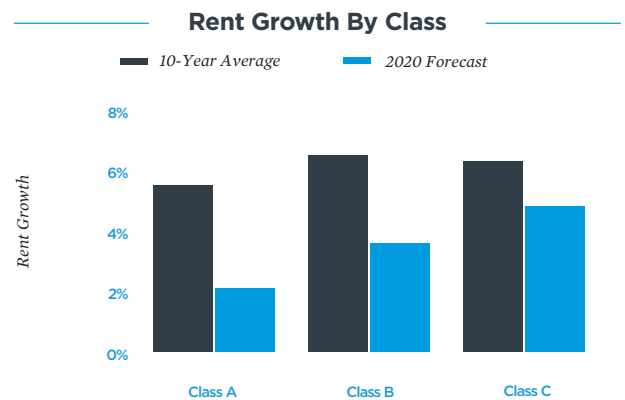
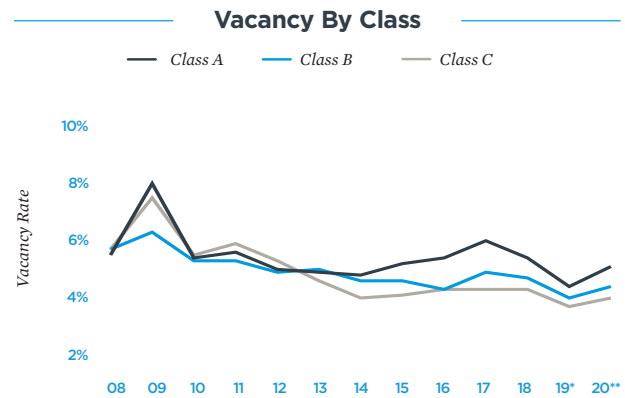


Metro **2.1%**
U.S. **3.3%**

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



Deals: **64**
Volume: **\$3.9 billion**



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* Estimate ** Forecast
* Arrow reflects completions trend compared with 2019
Sources: Marcus & Millichap Research Services;
CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics