

MARKET REPORT

MULTIFAMILY

Seattle-Tacoma Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

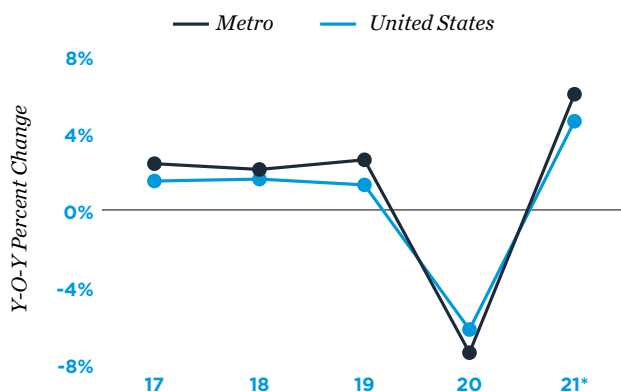
3Q/21

Young Tech Workers Drive Demand; New Supply Pressures Urban Core

Seattle's multifamily outlook remains bright. Ample opportunities in the region's tech industry are attracting Gen Z and millennial workers to the market. The prime multifamily renter cohort, ages 20 to 34, accounts for nearly a quarter of the metro's population, and it's expected to expand at five times the national rate next year. Meanwhile, the median home price in the metro has increased by 27 percent over the past year, which has created challenges for young adults to become homeowners. Instead many are taking advantage of the additional flexibility and opting to rent, especially upper-tier apartments in the suburbs. Class A vacancy in Southwest Pierce County, East Pierce County and Redmond was at least 220 basis points below the metro average.

CBD in recovery but may face some hurdles. High living costs paired with pandemic-induced economic uncertainty prompted renters to prioritize more affordable suburban options. Major tech employers like Amazon and Microsoft have also been expanding to these areas in response to Seattle's new corporate payroll tax, and some have implemented hybrid work models, which may further lift suburban prospects and impact the CBD. Vacancy in the urban core rose to a peak of 9.3 percent in 2020, while the average rent fell 12.8 percent to \$2,041 per month. While vacancy has declined from last year's peak, the CBD may face pressure from supply, as approximately 35 percent of the metro's upcoming supply through 2022 is scheduled to deliver in the urban core.

Employment Trends



* Forecast

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

Multifamily 2021 Outlook



**118,000
JOBS**

will be created

EMPLOYMENT:

Total employment will increase by 6.0 percent in 2021, outpacing the national average of 4.6 percent. Seattle-Tacoma will recover a significant share of jobs lost during the health crisis and employment will climb within 2 percent of the metro's pre-pandemic level.



**11,500
UNITS**

will be completed

CONSTRUCTION:

The highest level of completions in the last two decades will expand the metro's inventory by 2.8 percent this year. A large portion of new supply is targeted in the urban core, highlighted by Omni South Lake Union with over 1,000 units.



**70
BASIS POINT**

decrease in vacancy

VACANCY:

Employment growth and barriers to homeownership will contribute to the metro's vacancy rate falling to 4.6 percent, 20 basis points below the trailing-five-year average.



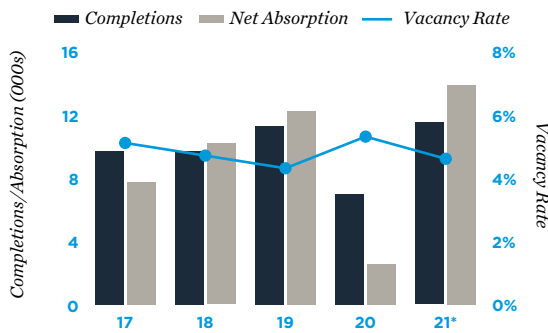
**6.5%
INCREASE**

in effective rent

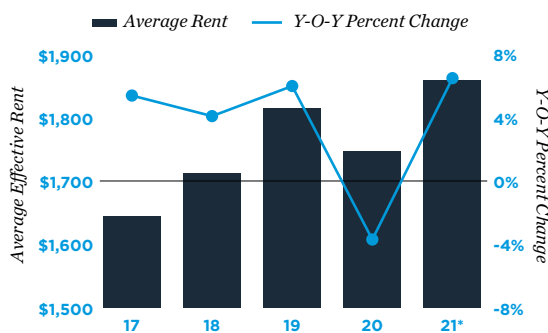
RENT:

Declining availability and elevated household growth will positively impact rents in 2021. Following a 3.7 percent reduction last year, the average effective rate in the metro will increase to \$1,860 per month in 2021.

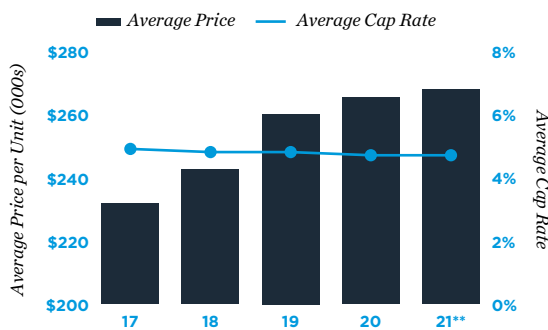
Supply and Demand



Rent Trends



Sales Trends



* Forecast; ** Through 2Q

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

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Price: \$250

2Q21 — 12-Month Period

CONSTRUCTION
8,329 units completed

- Apartment inventory grew 2.0 percent over the yearlong span ended in June, a slight increase from the previous 12-month period's pace.
- Capitol Hill-Central District recorded the greatest increase to supply at 1,613 units, followed by Redmond where 919 apartments were built over the last 12 months.

VACANCY
10 basis point decrease in vacancy Y-O-Y

- Renters absorbed nearly 8,400 units over the past four quarters, lowering Seattle-Tacoma's vacancy rate to 4.3 percent.
- South Tacoma-University Place and Southwest Pierce County posted the metro's lowest vacancies at 1.5 and 2.0 percent, respectively, benefiting from their affordability relative to the rest of the market.

RENT
1.4% decrease in the average effective rent Y-O-Y

- The increased use of concessions contributed to the metro's average effective rent contracting to \$1,810 per month over the past year.
- Falling availability supported the largest rent increases in the South-west Pierce County, South Tacoma-University and East Pierce County submarkets, with rent gains above 10 percent in the last 12 months.

Investment Highlights

- Investment activity in the metro has slowed since the end of last year as many investors are taking a wait and see approach. Sales activity is down about 30 percent year over year in June, yet the average price rose 2 percent to \$268,000 per unit and the average cap rate remained stable at 4.7 percent.
- Upper-tier apartments in Bellevue have remained among the most sought-after assets by institutional investors, due in part to the presence of Amazon and Microsoft and the light rail extension nearing completion. Buyers have been willing to pay top dollar for these assets with an average price per unit above \$480,000 and the properties producing yields in the mid-3 to 4 percent range. Bellevue accounted for approximately 25 percent of all dollar volume in the metro over the last four quarters.
- Lower entry costs and higher yields have drawn private investor interest to Tacoma. Buyers have been targeting Class B and C assets, typically under 50 units and built in the 1970s. Properties in this neighborhood trade at approximately \$100,000 less per unit than the market average and the cap rates fall in the mid-5 percent range.