FALL 2020

WASHINGTON APARTMENT OUTLOOK

Presented by

Dylan Simon
September 30, 2020
PRESENTATION
AGENDA

RENT VACANCY CONCESSIONS COLLECTIONS
DEVELOPMENT PIPELINE
THE FUTURE OF DEMAND
SALES TRENDS FORECAST
# RENT & VACANCY TRENDS

## REGIONAL OVERVIEW

<table>
<thead>
<tr>
<th>Region</th>
<th>Sept. 2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rent</td>
<td>Vacancy</td>
</tr>
<tr>
<td>URBAN KING</td>
<td>$1,978</td>
<td>7.0%</td>
</tr>
<tr>
<td>NORTH KING</td>
<td>$1,549</td>
<td>6.2%</td>
</tr>
<tr>
<td>EAST KING</td>
<td>$2,004</td>
<td>8.1%</td>
</tr>
<tr>
<td>SOUTH KING</td>
<td>$1,486</td>
<td>5.1%</td>
</tr>
<tr>
<td>SNOHOMISH</td>
<td>$1,538</td>
<td>5.1%</td>
</tr>
<tr>
<td>PIERCE</td>
<td>$1,306</td>
<td>4.2%</td>
</tr>
<tr>
<td>KITSAP</td>
<td>$1,422</td>
<td>6.3%</td>
</tr>
</tbody>
</table>

SOURCE: COSTAR, MULTIFAMILY INVESTMENT TEAM, KIDDER MATHEWS
REGIONAL RENT GROWTH & DECLINES

Change in Rent, March Peak to August 25

- Puyallup: +2.10%
- Tacoma: +1.30%
- Shoreline: +0.80%
- Federal Way: +0.60%
- Burien/Des Moines/SeaTac: +0.40%
- Auburn: 0.00%
- McChord: -0.70%
- Northeast Seattle: -1.20%
- Kent: -1.50%
- Everett: -1.60%
- Snohomish County: -1.70%
- Lynnwood: -1.80%
- North Seattle: -2.30%
- Bothell/Kenmore: -2.40%

- Eastern King County: -2.80%
- South Seattle: -3.00%
- Issaquah: -3.20%
- Kirkland: -3.70%
- Queen Anne: -4.00%
- Ballard: -4.80%
- Central Seattle: -5.20%
- Renton/Tukwila: -5.20%
- Bellevue: -7.10%
- Redmond: -7.10%
- West Seattle: -7.90%
- Downtown Seattle: -11.00%
- Lake Union: -12.90%
CONCESSIONS

Monthly Concession Rate

% of Properties Offering Concessions

Avg. Concession Rate
CONCESSIONS

Monthly Concession Rate – Units Built Since 2017

- January: 4.3%
- February: 7.1%
- March: 3.5%
- April: 4.0%
- May: 5.1%
- June: 5.7%
- July: 7.9%

% of Properties Offering Concessions
Avg. Concession Rate
**Data collected from between 11.1 - 11.5 million apartment units each month**

<table>
<thead>
<tr>
<th>Month</th>
<th>6th*</th>
<th>13th</th>
<th>20th</th>
<th>27th</th>
<th>End of Month</th>
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</thead>
<tbody>
<tr>
<td>April</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>97.7%</td>
</tr>
<tr>
<td>May</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>96.6%</td>
</tr>
<tr>
<td>June</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>96.0%</td>
</tr>
<tr>
<td>July</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>96.6%</td>
</tr>
<tr>
<td><strong>August</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>95.8%</td>
</tr>
<tr>
<td>April</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>94.6%</td>
</tr>
<tr>
<td>May</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>95.1%</td>
</tr>
<tr>
<td>June</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>95.9%</td>
</tr>
<tr>
<td>July</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>95.7%</td>
</tr>
<tr>
<td><strong>August</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>94.5%</td>
</tr>
</tbody>
</table>

**Collection Loss Full Month**

SOURCE: NATIONAL MULTIFAMILY HOUSING COUNCIL (NMHC)
RENT FORECASTING

SOURCE: COSTAR, MULTIFAMILY INVESTMENT TEAM, KIDDER MATHEWS KING, SNOHOMISH & PIERCE COUNTY

PREDICTIONS: MARKET “ASKING RENT”

March 2020
RENT FORECASTING

3% - 7% Annual Growth

PREDICTIONS: MARKET RENT GROWTH (YOY)

SOURCE: COSTAR, MULTIFAMILY INVESTMENT TEAM, KIDDER MATHEWS
KING, SNOHOMISH & PIERCE COUNTY
VACANCY FORECASTING

PREDICTIONS:
STABILIZED VACANCY RATE

SOURCE: COSTAR, MULTIFAMILY INVESTMENT TEAM, KIDDER MATHEWS
KING, SNOHOMISH & PIERCE COUNTY
RENT & VACANCY TRENDS

KEY TAKEAWAYS

RENT & VACANCY | Expect Volatility; each Submarket will Behave Differently

COLLECTIONS | Collection Loss is the New Vacancy

CONCESSIONS | Creeping into the Market; Keep Watchful Eye on New Development

TIMING OF VOLATILITY | Rough Winter Ahead, Likely 12 – 24 Months for Mark Stability
DEVELOPMENT PIPELINE
REGIONAL APARTMENT INVENTORY

336,000 UNITS IN REGION

85,000 UNITS DELIVERED THIS CYCLE

102,000 UNITS IN DEVELOPMENT

27,000 UNITS IN CONSTRUCTION
### Regional Development Pipeline

**2010 – 2020: 34% Inventory Growth**

<table>
<thead>
<tr>
<th>Year</th>
<th>Urban King</th>
<th>Suburban King</th>
<th>Snohomish</th>
<th>Pierce</th>
<th>Kitsap</th>
<th>Subtotal</th>
<th>Total Delivered</th>
<th>Total Pipeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1,916</td>
<td>1,721</td>
<td>691</td>
<td>653</td>
<td>353</td>
<td>4,581</td>
<td>84,482</td>
<td>101,691</td>
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<tr>
<td>2011</td>
<td>1,769</td>
<td>772</td>
<td>108</td>
<td>108</td>
<td>-</td>
<td>2,006</td>
<td>70,546</td>
<td>101,691</td>
</tr>
<tr>
<td>2012</td>
<td>2,637</td>
<td>823</td>
<td>352</td>
<td>357</td>
<td>-</td>
<td>4,778</td>
<td>42,140</td>
<td>101,691</td>
</tr>
<tr>
<td>2013</td>
<td>4,692</td>
<td>688</td>
<td>619</td>
<td>966</td>
<td>-</td>
<td>6,731</td>
<td>11,110</td>
<td>101,691</td>
</tr>
<tr>
<td>2014</td>
<td>6,999</td>
<td>2,081</td>
<td>924</td>
<td>601</td>
<td>251</td>
<td>10,816</td>
<td>4,417</td>
<td>101,691</td>
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<tr>
<td>2015</td>
<td>5,884</td>
<td>2,255</td>
<td>1,213</td>
<td>848</td>
<td>12</td>
<td>11,319</td>
<td>484</td>
<td>101,691</td>
</tr>
<tr>
<td>2016</td>
<td>6,625</td>
<td>2,635</td>
<td>60</td>
<td>833</td>
<td>71</td>
<td>9,483</td>
<td>484</td>
<td>101,691</td>
</tr>
<tr>
<td>2017</td>
<td>6,957</td>
<td>2,237</td>
<td>441</td>
<td>979</td>
<td>245</td>
<td>10,527</td>
<td>484</td>
<td>101,691</td>
</tr>
<tr>
<td>2018</td>
<td>5,460</td>
<td>3,453</td>
<td>48</td>
<td>313</td>
<td>166</td>
<td>10,937</td>
<td>484</td>
<td>101,691</td>
</tr>
<tr>
<td>2019</td>
<td>1,652</td>
<td>3,082</td>
<td>1,073</td>
<td>1,213</td>
<td>114</td>
<td>10,942</td>
<td>484</td>
<td>101,691</td>
</tr>
<tr>
<td>Q1 2020</td>
<td>16,392</td>
<td>546</td>
<td>-</td>
<td>126</td>
<td>38</td>
<td>2,362</td>
<td>484</td>
<td>101,691</td>
</tr>
</tbody>
</table>

**Total Units Delivered + Pipeline**

- Urban King: 117,799
- Suburban King: 4,417
- Snohomish: 11,110
- Pierce: 11,510
- Kitsap: 3,614
- Subtotal: 186,173

**2020: 30% of Inventory in Development Pipeline**
DEVELOPMENT PIPELINE

URBAN KING: CONCENTRATION OF DEVELOPMENT

67,257
UNITS UNDER DEVELOPMENT IN URBAN PIPELINE

2,901 UNITS | 43%
FREMONT, GREENLAKE & WALLINGFORD

2,317 UNITS | 41%
BALLARD

2,961 UNITS | 29%
QUEEN ANNE & MAGNOLIA

7,363 UNITS | 62%
SOUTH LAKE UNION, EASTLAKE, & WESTLAKE

16,091 UNITS | 104%
BELTOWN, DOWNTOWN, & PIONEER SQUARE

2,564 UNITS | 33%
WEST SEATTLE

3,534 UNITS | 46%
KIRKLAND

6,831 UNITS | 69%
UNIVERSITY DISTRICT & ROOSEVELT

6,708 UNITS | 63%
WEST BELLEVUE & MERCER ISLAND

3,049 UNITS | 17%
CAPITOL HILL

2,737 UNITS | 97%
CENTRAL DISTRICT

4,543 UNITS | 66%
FIRST HILL & YESLER TERRACE

5,658 UNITS | 119%
SOUTH SEATTLE

75,257 UNITS UNDER DEVELOPMENT IN URBAN PIPELINE
SUPPLY vs DEMAND

Seattle Apartment Forecast: Baseline

Vacancy Rate

Quarterly Change in Demand
Quarterly Change in Supply
Vacancy

Forecast

(1K)
(2K)
0K
1K
2K
3K
4K
5K
06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25
SEATTLE APARTMENT FORECAST: SEVERE DOWNSIDE

[Diagrams showing trends in apartment demand and supply with a forecast for severe downside]
DEVELOPMENT PIPELINE

KEY TAKEAWAYS

SIGNIFICANT NEW DELIVERIES | Need to absorb +10,000 units/year for next 3 years

CONCENTRATIONS POST CHALLENGES | Already seeing declining rents & escalating concessions greater in urban markets

SLOWING OF PIPELINE | Slowing rent “growth” & Expensive construction will slow pipeline

TREND TO URBAN-SUBURBAN | Timing is perfect for more suburban located development
THE FUTURE OF DEMAND
### CURRENT MARKET HIGHLIGHTS

<table>
<thead>
<tr>
<th></th>
<th>Seattle</th>
<th>Eastside</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Market Size (SF)</td>
<td>87,988,394</td>
<td>44,982,970</td>
</tr>
<tr>
<td>Year-End Vacancy</td>
<td>4.80%</td>
<td>3.80%</td>
</tr>
<tr>
<td>Net Absorption (SF)</td>
<td>3,511,402</td>
<td>89,849</td>
</tr>
<tr>
<td>Under Construction (SF)</td>
<td>5,897,387</td>
<td>3,255,961</td>
</tr>
<tr>
<td>Pre-Leased Space (%</td>
<td>34%</td>
<td>82%</td>
</tr>
<tr>
<td>Under Construction)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# Eastside Office Development Dynamics

<table>
<thead>
<tr>
<th></th>
<th>Downtown Bellevue</th>
<th>East Bellevue</th>
<th>Redmond</th>
<th>Kirkland Juanita Totem Lake</th>
<th>Kenmore Bothell Woodinville</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Inventory</strong></td>
<td>11.1 M</td>
<td>14.7 M</td>
<td>7.6 M</td>
<td>5.1 M</td>
<td>6.5 M</td>
<td>45 M</td>
</tr>
<tr>
<td><strong>Total Under Construction (2020-2024)</strong></td>
<td>1.8 M</td>
<td>1.4 M</td>
<td>0</td>
<td>50.4 K</td>
<td>0</td>
<td>3.3 M</td>
</tr>
<tr>
<td><strong>Total Proposed (2020-2024)</strong></td>
<td>8.3 M</td>
<td>1.3 M</td>
<td>286.0 K</td>
<td>536.7 K</td>
<td>706 K</td>
<td>11.1 M</td>
</tr>
<tr>
<td><strong>Total Pipeline</strong></td>
<td>10.1 M</td>
<td>2.7 M</td>
<td>286.0 K</td>
<td>587.1 K</td>
<td>706 K</td>
<td>14.4 M</td>
</tr>
<tr>
<td><strong>% of Inventory</strong></td>
<td>16.2%</td>
<td>9.6%</td>
<td>–</td>
<td>1%</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Vacancy Rate</strong></td>
<td>4.1%</td>
<td>1.9%</td>
<td>3.3%</td>
<td>3.6%</td>
<td>8.0%</td>
<td>–</td>
</tr>
<tr>
<td><strong>Average Rate ($/SF)</strong></td>
<td>$51.51</td>
<td>$34.52</td>
<td>$35.55</td>
<td>$41.92</td>
<td>$30.19</td>
<td>–</td>
</tr>
</tbody>
</table>

**Source:** COSTAR
RESIDENTIAL DEVELOPMENT
Kirkland, Juanita, Totem Lake

SUPPLY / DEMAND DYNAMICS

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Pipeline (SF)</td>
<td>587,071</td>
</tr>
<tr>
<td>Potential Jobs (200SF/PP)</td>
<td>2,935</td>
</tr>
<tr>
<td>Multiplier Jobs (4:1)</td>
<td>11,741</td>
</tr>
<tr>
<td>Total Potential Jobs</td>
<td>14,677</td>
</tr>
<tr>
<td>Apartment Demand (1 unit/4 jobs)</td>
<td>3,669</td>
</tr>
<tr>
<td>Apartment Pipeline</td>
<td>3,534</td>
</tr>
</tbody>
</table>

LIFESTYLE DYNAMICS

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Apartment Rent</td>
<td>$1,999/month</td>
</tr>
<tr>
<td>Average Mortgage (Zillow Index)</td>
<td>$3,836</td>
</tr>
<tr>
<td>State School District Rank</td>
<td>5</td>
</tr>
<tr>
<td>District</td>
<td>Lake Washing</td>
</tr>
</tbody>
</table>
RESIDENTIAL DEVELOPMENT
Kenmore, Bothell, Woodinville

SUPPLY / DEMAND DYNAMICS
Office Pipeline (SF) 706,302
Potential Jobs (200SF/PP) 3,532
Multiplier Jobs (4:1) 14,126
Total Potential Jobs 17,658
Apartment Demand (1 unit/4 jobs) 4,414
Apartment Pipeline 1,365

LIFESTYLE DYNAMICS
Average Apartment Rent $1,918/month
Average Mortgage $3,266/month
(Zillow Home Value Index)
($680,000 avg home price)
School Score A
State School District Rank 6
District North Shore

[Map showing locations of Kenmore, Bothell, and Woodinville with indicators for units under construction, approved, and in review.]
THE FUTURE OF DEMAND

KEY TAKEAWAYS

- **ALL EYES ON EASTSIDE** | Job growth remains strong, office developers staying ahead of it

- **EASTSIDE “HUB & SPOKE”** | Nodes of office + apartment development expanding

- **BALANCING, NOT A TOTAL SHIFT** | It’s Eastsides time to shine; don’t count Seattle out
SALES TRENDS
## SALES TRENDS

### SALES OVERVIEW - HISTORICAL SALES VOLUME

**King | Snohomish | Pierce | Kitsap Counties**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Sales</td>
<td>257</td>
<td>248</td>
<td>305</td>
<td>338</td>
<td>344</td>
<td>267</td>
<td>265</td>
<td>353</td>
<td>83</td>
</tr>
<tr>
<td>Total Sales Volume</td>
<td>$2.64B</td>
<td>$2.64B</td>
<td>$3.28B</td>
<td>$4.74B</td>
<td>$5.56B</td>
<td>$4.18B</td>
<td>$4.17B</td>
<td>$7.37B</td>
<td>$506M</td>
</tr>
<tr>
<td>Average PPU</td>
<td>$143,835</td>
<td>$165,680</td>
<td>$169,590</td>
<td>$192,867</td>
<td>$207,802</td>
<td>$244,654</td>
<td>$259,602</td>
<td>$266,376</td>
<td>$228,648</td>
</tr>
<tr>
<td>Average PPSF</td>
<td>$191</td>
<td>$221</td>
<td>$237</td>
<td>$258</td>
<td>$275</td>
<td>$336</td>
<td>$368</td>
<td>$348</td>
<td>$314</td>
</tr>
<tr>
<td>Average Cap Rate</td>
<td>5.4%</td>
<td>5.2%</td>
<td>5.1%</td>
<td>4.8%</td>
<td>4.8%</td>
<td>4.5%</td>
<td>4.4%</td>
<td>4.7%</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

SOURCE: MULTIFAMILY INVESTMENT TEAM, KIDDER MATHEWS
What is a Cap Rate?

\[ Cap \ Rate = \frac{Net \ Operating \ Income \ (NOI)}{Market \ Value} \]

Why is it important?

It’s a universal measure of “rate of return”
SALES TRENDS
CAPITALIZATION RATES – SEATTLE/PNW VS NATION

SOURCE: REAL CAPITAL ANALYTICS, AUGUST 2019
SALES TRENDS

SALES OVERVIEW – VELOCITY & PRICING

SALES VELOCITY

<table>
<thead>
<tr>
<th>Sales Volume</th>
<th>No. of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.80B</td>
<td>80</td>
</tr>
<tr>
<td>$1.60B</td>
<td>70</td>
</tr>
<tr>
<td>$1.40B</td>
<td>60</td>
</tr>
<tr>
<td>$1.20B</td>
<td>50</td>
</tr>
<tr>
<td>$1.00B</td>
<td>40</td>
</tr>
<tr>
<td>$0.80B</td>
<td>30</td>
</tr>
<tr>
<td>$0.60B</td>
<td>20</td>
</tr>
<tr>
<td>$0.40B</td>
<td>10</td>
</tr>
<tr>
<td>$0.20B</td>
<td>0</td>
</tr>
</tbody>
</table>

Q1 2019: $1.80B, Q2 2019: $1.60B, Q1 2020: $1.40B, Q2 2020: $1.20B

SALES TRENDS

<table>
<thead>
<tr>
<th>$/SF</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
</tr>
<tr>
<td></td>
<td>Q1 $/SF</td>
<td>Q2 $/SF</td>
</tr>
<tr>
<td></td>
<td>Q1 $/SF</td>
<td>Q2 $/SF</td>
</tr>
</tbody>
</table>

Cap Rate: 2019: 5.0%, 2020: 4.0%

SOURCE: MULTIFAMILY INVESTMENT TEAM, KIDDER MATHEWS
CAPITALIZATION RATES
BY LOCATION TYPE

SOURCE: COSTAR
SALES TRENDS

KEY TAKEAWAYS

IT'S ALL ABOUT NOI | Expect cap rates to remain steady, NOI is decreasing

SALES MARKET SLOWING | Big-Ask spread will result in far fewer sales

INTEREST RATES IMPACTING PRICING | Cheap money = sales still happening

SALES WILL PICK UP, EVEN IN A RECESSION | Capital needs a home
FORECAST
FORECAST

EXPANSION CYCLE LASTED 128 MONTHS – LONGEST IN US HISTORY

Post WWII Economic Expansions Total Months in Recovery

- EXPANSION CYCLE LASTED 128 MONTHS – LONGEST IN US HISTORY
- AVG OF 65 MONTHS
NEAR-TERM CHALLENGES

WHERE TO FOCUS

- **RENTAL RATES VS. OCCUPANCY** – BALANCING RENTAL RATES WITH VACANCY
- **RISKY ASSETS** – NEW CONSTRUCTION & HIGHLY LEVERAGED ASSETS
- **EXPENSES** – OPERATIONAL COSTS / TAX ASSESSMENTS REMAIN HIGH
- **REVERSING TRENDS** – URBAN VS. SUBURBAN / AMENITIES VS. OUTDOORS / STUDIO VS. 2-BED
- **LEGISLATION** – LOTS OF HEADWINDS!
FORECAST OF MARKET CYCLE

WHEN DOES THE NEXT EXPANSION CYCLE BEGIN?

San Francisco Real Estate Cycle

- Global shipment of software
- Technology ecosystems
- Concentration of workforces
PREVIOUS CYCLES

HISTORICAL LOOK – RENT & VACANCY DYNAMICS
LONG-TERM FORECAST

Key Takeaways

Seattle will be one of the 1st markets to see economic vibrancy

Global Health / Science / Technology sectors will lead recovery

Everyone will agree that we are recovered by 2024, yet actual recovery will take hold closer to mid-2022 / early-2023

It will be a bumpy-ride, but hang-on as the PNW remains one of the best regions in the world
THANK YOU!

SIMON | ANDERSON MULTIFAMILY INVESTMENT TEAM

DYLAN SIMON  
Executive Vice President

JERRID ANDERSON  
Executive Vice President

ALEX MUNDY  
Debt & Equity Finance

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