

2021 MICRO REPORT

THE GOOD, THE GREAT AND THE EXPENSIVE

NEW SHERIFF IN TOWN

The 2021 Mayoral election brought Bruce Harrell and Sara Nelson into office, both running as strong supporters of business with an interest in making Seattle an easier place to build housing. Time will tell if they plan to move the ball forward, but at least there is hope the pendulum may swing back to a more builder-friendly environment in Seattle.

POD MICROS ARE BACK

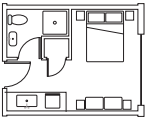
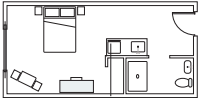

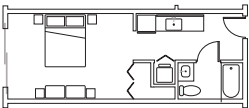
In 2014, the city council passed legislation that killed off pod micro-housing development. The legislation was largely understood to make it impossible to build the kind of 8br/8ba townhouse pods we call “Micros”, because complications were created with the land use code, essentially starving Micros of a land base where they could be built. However, in most instances, Micros can now be permitted again as they were prior to 2014. There are a few new projects underway using this pod model, which can now be used in most urban villages in any zone where multi-family development is allowed in Seattle.

NEW ENERGY CODE

The new 2018 Energy Code went into effect March 2021. While most architects and engineers are still going through their first round of projects designed under the new code, the profession is struggling with the difficulty and expense of complying with the new code. The effects are felt most acutely in the design of building systems for HVAC and hot water. The changes are adding a minimum of \$10,000-\$15,000 per unit to meet the requirements for balanced ventilation systems, no fossil fuels combustion, heat pump based hot water and HVAC systems, more renewable energy, and tighter envelopes. Developments with smaller sized units are most negatively affected by these changes as many of these extra costs are accrued on a per-unit basis, not on a per square foot basis.

MICROHOUSING DEFINITIONS

For the sake of this study we use the words microhousing and microapartments to identify all types (Micro, Congregate, SEDU, EDU).

CONGREGATE		Std 140 - 200 SF Avg 175 SF Min 70 SF	A type of housing that has a private sleeping room and typically a bathroom, but is not a complete dwelling unit and may share a bathroom, common kitchen, dining room, and facilities with other units.	Allowed in Certain Zones
MICRO		Std 150 - 250 SF Avg 200 SF Min 90 SF	An apartment or townhouse dwelling unit consisting of no more than eight sleeping suites (private room with private bath) and one common kitchen or kitchen/lounge.	Not Allowed (Since 2014)
SEDU		Std 240 - 320 SF Avg 275 SF Min 240 SF*	A very compact conventional studio apartment, complete with cooking and bathing facilities and closet space. The max gross floor area allowed is 320 SF – anything larger is an Efficiency Dwelling Unit (EDU).	Allowed
EDU		Std 321 - 400 SF Avg 375 SF Min 321 SF	A small conventional studio apartment with a main living space (“habitable space”) of no less than 220 SF.	Allowed

*THERE IS NO MINIMUM SEDU SIZE, JUST MINIMUM LIVING SPACE, WHICH IS 120 SF, YIELDING A 240 SF UNIT.

2021 SEATTLE FUNDAMENTALS

A MACRO RECOVERY FOR MICROS

Some buildings have lagged, but as a whole, the microhousing market established resiliency in 2021

While only a handful of investors currently develop, own and operate microhousing in the Puget Sound, thousands have watched the microhousing boom with equal parts intrigue and skepticism. The most common question and objection investors have about microhousing developments and buildings we’ve sold is, “how will these small units perform in a market recession?” Now we have the answer. 2020 and the COVID 19 pandemic presented the ultimate test for microhousing.

Nearly every apartment property in our region was challenged by the impacts of the pandemic and social unrest in 2020. Urban located apartments were impacted much more severely than suburban ones, and within the urban core, properties that were heavily dependent on students and service level workers were impacted greatest. Microhousing specifically serves those exact demographics in exactly those locations, so if microhousing was going to fail as a long-term investment thesis, 2020-2021 would have proven the doubters correct.

Microhousing rents & vacancy both improved year over year, and while they have not topped 2019 numbers, they are poised for a surge. The return to in-person classes at most universities had a robust impact on the microhousing, and as COVID and the strict regulations surrounding it subside in 2022, we expect an even more robust recovery as thousands of service jobs and workers return.

MICROS

↑ 6.1%					
\$1,026	\$5.03	94%	\$143K	\$717	5.1%
AVG RENT	AVG RENT/SF	AVG OCCUPANCY	AVG SALES PRICE/UNIT	AVG SALES PRICE/NRSF	CAP RATE

SEDUS

↑ 7.8%					
\$1,267	\$4.17	93%	\$218K	\$768	4.7%
AVG RENT	AVG RENT/SF	AVG OCCUPANCY	AVG SALES PRICE/UNIT	AVG SALES PRICE/NRSF	CAP RATE

MARKET-RATE STUDIOS

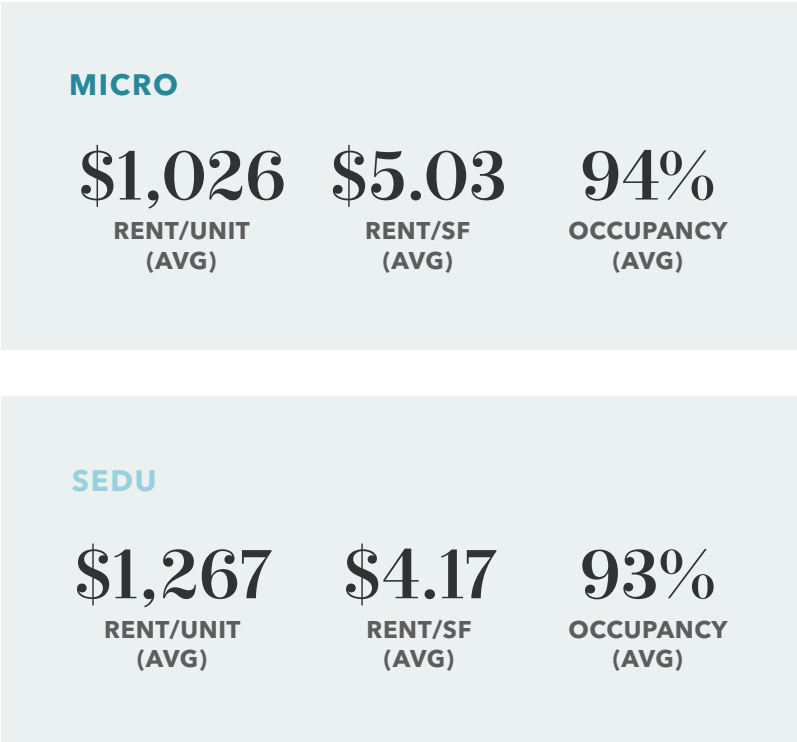
↓ 1.08%					
\$1,544	\$3.63	95%	\$458K	\$568	4.3%
AVG RENT	AVG RENT/SF	AVG OCCUPANCY	AVG SALES PRICE/UNIT	AVG SALES PRICE/NRSF	CAP RATE

RENT & VACANCY

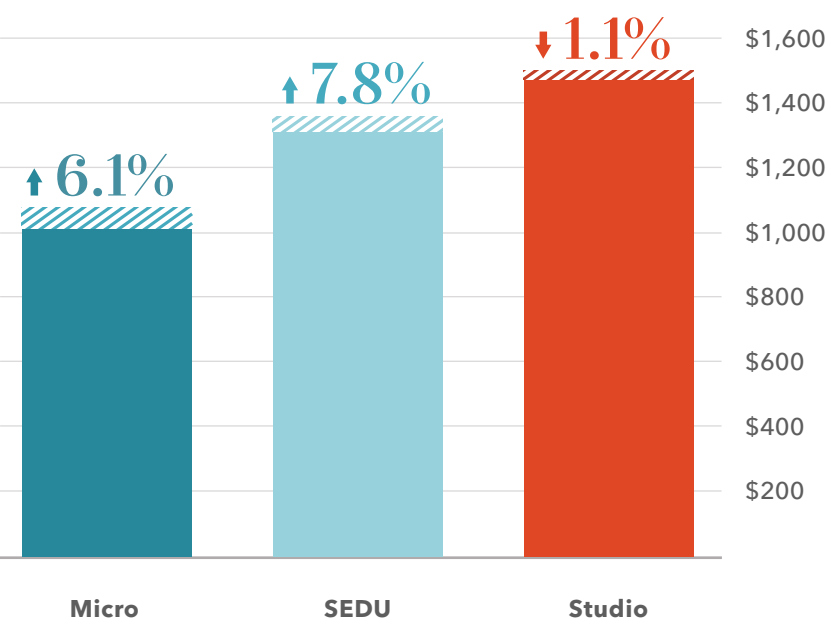
HOW HAS MICROHOUSING RECOVERED COMPARED TO MARKET RATE APARTMENTS?

MICRO True Micros have proven to be more volatile than both SEDUs and Studios when comparing rent and vacancy; however, as of November 2021 they have a higher occupancy rate than SEDUs and have outpaced market rate apartments in rent growth by a wide margin. Owners of these properties understand it’s a hands-on business with higher-than-average turnover and those that watch over their investment closely have done substantially better than owners that have taken a more passive approach.

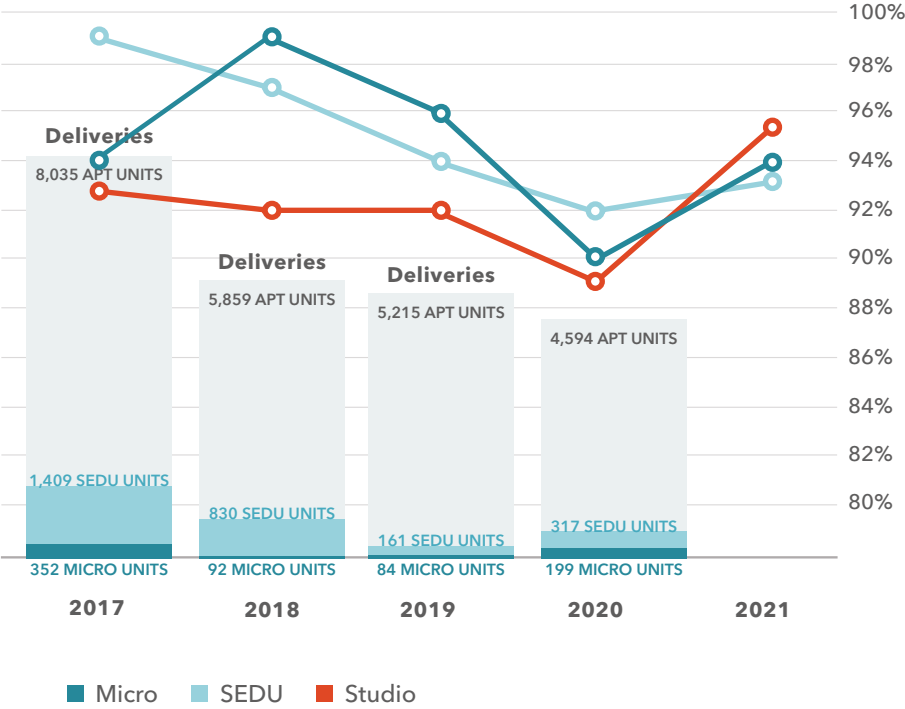
SEDU SEDU apartments have been less volatile than Micros and studios from an occupancy perspective, but still have the lowest occupancy rate. SEDUs also experienced the largest percentage decline in rents during 2020 (11.6%) and the largest percentage increase in 2021 (7.8%). The primary cause for lower occupancy and greater rent growth in SEDUs year over year was the limited number of deliveries of new SEDUs in 2020. That was followed by a flood of new units which are still being absorbed, but at higher rates than older vintage SEDUs as the developers continue to push the envelope of building and unit fit & finish.



RENT



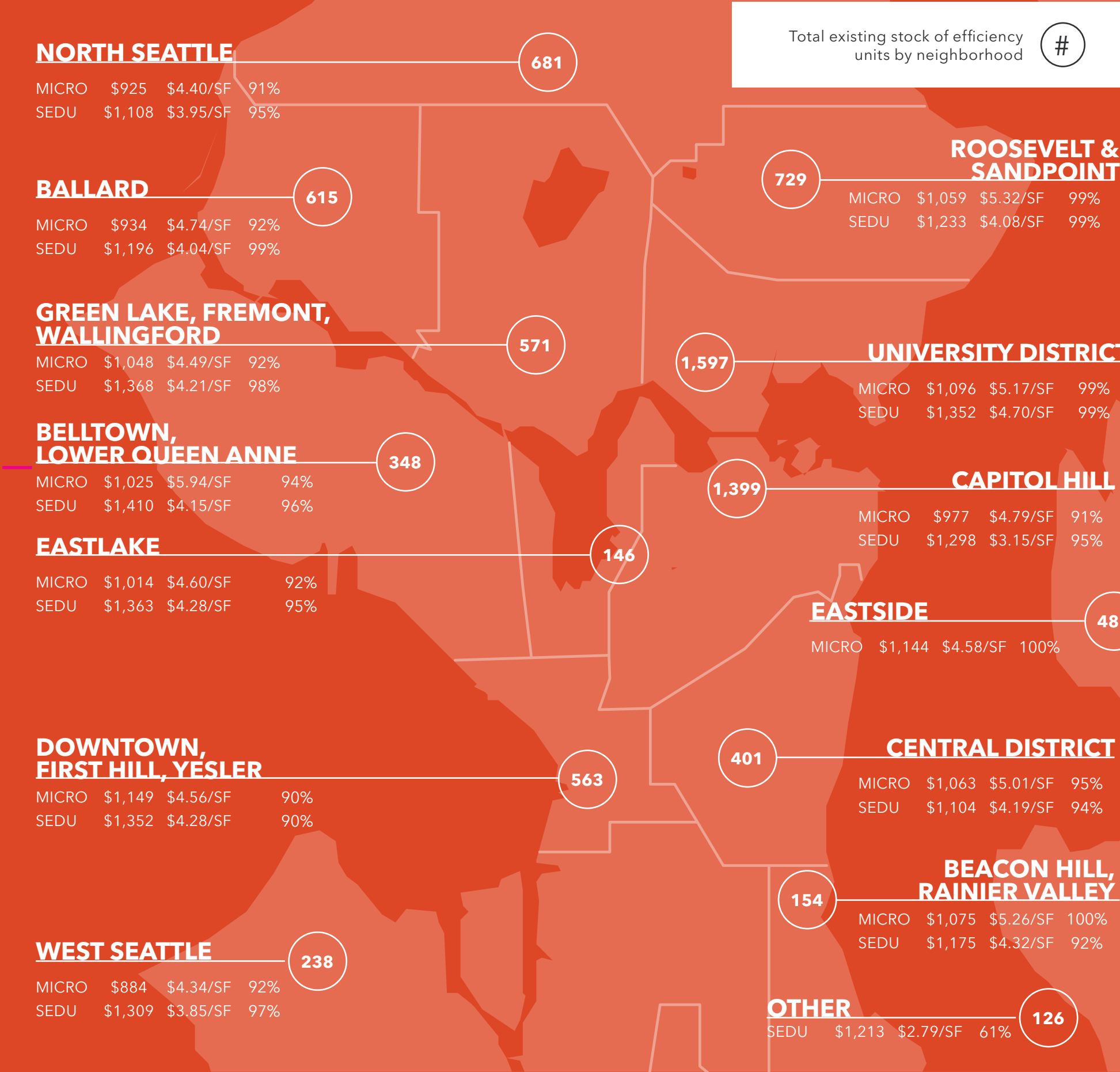
OCCUPANCY



	Rent / Unit			Rent / SF			Occupancy		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
<div></div> MICRO*	\$1,051	\$963	\$1,026	\$5.22	\$4.74	\$5.03	96%	90%	94%
<div></div> SEDU*	\$1,319	\$1,166	\$1,267	\$4.85	\$4.04	\$4.17	94%	92%	93%
<div></div> STUDIO†	\$1,584	\$1,561	\$1,544	\$3.72	\$3.60	\$3.63	92%	89%	95%

*DATA SOURCE: ASKING RENTS AND SURVEYED VACANCY
†DATA SOURCE: COSTAR - ASKING RENT, STUDIOS BUILT 2010+; COSTAR - Q2 GROSS VACANCY, STUDIOS BUILT 2010+
NOTE: VACANCY IMPACTED BY PROPERTIES IN LEASE-UP.

AVERAGE RENT & OCCUPANCY BY NEIGHBORHOOD



RENT & VACANCY BY NEIGHBORHOOD

Last year we excluded Micro and SEDU occupancy levels in the University District & Roosevelt from our averages because of the severe impact they had on the remainder of the market. Fast forward 12 months and those two markets have the highest occupancy levels of all Seattle markets, bested only by the few microhousing buildings located in East King County.

The jury is still out on whether 2020 or 2021 occupancy levels are the anomaly in the University District & Roosevelt. Looking more broadly we’ve recognized three themes for demand.

Build near new market rate housing

200+ unit apartment buildings spend a lot on marketing and drive a lot of interest to their location. Positioning your microhousing within walking distance will help you attract people looking for more affordable housing.

01

Build away from other microhousing

It’s easy to follow the herd into the most walkable neighborhoods and near universities, but the select few clients that have developed microhousing outside of the core have seen more stable occupancy and better returns.

02

Focus on the layouts

200-300sf is not a lot of space. Developers and architects that are judicious about how the space lays out have designed more livable spaces and seen higher retention and occupancy over time.

03

SALES & DEVELOPMENT

While Micro and SEDU price per unit and price per square foot metrics have seen only moderate growth and decline over the last few years that will soon change.

- 1. City and affordable housing groups will close several sales in the near future well above market pricing - this will severely impact comparables but is not indictive of market value (they are being purchased vacant and pricing is not based on cash flow).
- 2. Operations are still recovering - once net operating income at Micro and SEDU properties exceed pre pandemic levels, we anticipate cap rate compression given the resiliency of the investments.

SALES

MICROS

	Property Name	Address	Year Built	Units	Avg Unit Size (SF)	Price	Sale Date	\$/Unit	\$/NRSF	Cap Rate
1	Spring Park Flats	1519 E Spring St	2016	43	167	\$ 5,600,000	2/9/2011	\$130,233	\$781	2.7%*
2	Westward Micros	4546-4548 Delridge Way SW	2013	17	187	\$ 2,600,000	9/4/2020	\$152,941	\$818	5.3%
3	Footprint Avalon	3266 SW Avalon Way	2014	56	192	\$ 7,000,000	9/3/2020	\$125,000	\$651	5.0%
4	Horizon Phinney	8727 Phinney Ave N	2014	79	152	\$ 10,550,000	6/28/2019	\$133,544	\$877	5.2%
5	Horizon Greenwood	143 N 85th St	2014	38	235	\$ 5,300,000	6/28/2019	\$139,474	\$593	5.2%
6	Wallingford Studios	4516 Meridian Ave N	2013	40	274	\$ 7,150,000	6/21/2019	\$178,750	\$651	5.4%
7	Common Madison	1806 23rd Ave	2013	61	172	\$ 7,900,000	6/21/2019	\$129,508	\$725	4.8%
8	Common Rogers	2731 Franklin Ave E	2013	35	185	\$ 4,700,000	1/24/2019	\$134,286	\$725	4.8%
9	Anew 12th	1806 12th Ave	2014	78	274	\$ 14,500,000	1/24/2019	\$185,897	\$679	5.2%
10	Common Capitol Hill	422 11th Ave E	2013	54	209	\$ 9,200,000	1/24/2019	\$170,370	\$817	4.9%
11	Emerald	315 10th Ave	2012	36	176	\$ 5,000,000	6/27/2017	\$138,889	\$790	5.2%
12	Westward Micros	4546-4548 Delridge Way SW	2013	16	187	\$ 2,000,000	5/31/2017	\$125,000	\$667	4.9%
13	Sedona Micros	8520 20th Ave NE	2015	80	207	\$ 9,000,000	6/10/2016	\$112,500	\$545	5.6%
Average			2014	49	201			\$ 142,799	\$ 717	5.1%

SEDUS

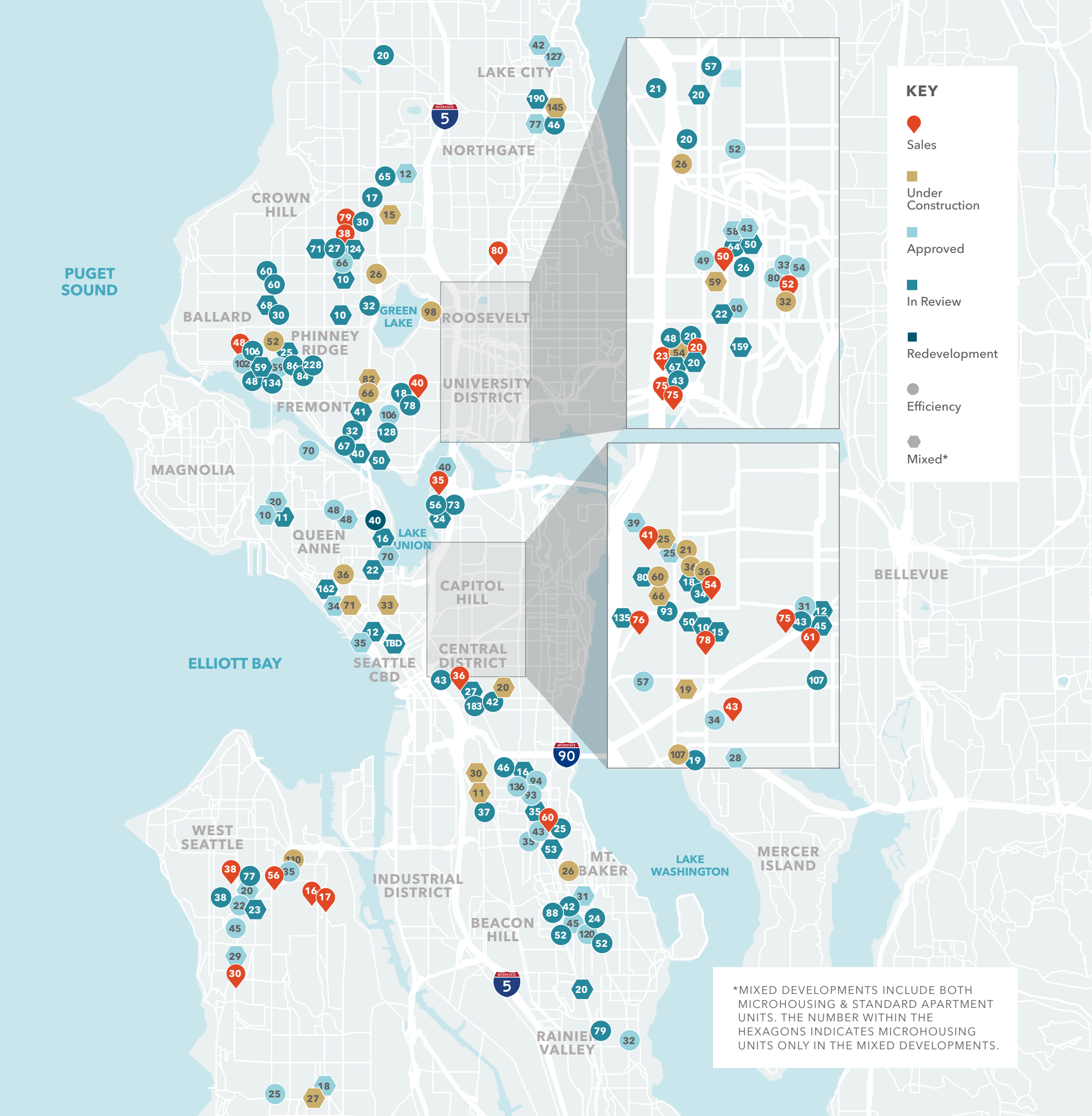
	Property Name	Address	Year Built	Units	Avg Unit Size (SF)	Price	Sale Date	\$/Unit	\$/NRSF	Cap Rate
13	Studio 7	4029 7th Ave NE	2013	75	309	\$ 15,800,000	12/07/2021	\$210,667	\$681	1.7%*
14	Fity Two Apartments	4710 20th Ave NE	2019	52	281	\$ 12,175,000	6/30/2021	\$234,135	\$833	5.3%
15	Clay	602 E Howell St	2019	76	279	\$ 18,314,354	3/19/2021	\$240,978	\$807	-
16	741 Harvard	741 Harvard Ave E	2017	41	253	\$ 9,575,000	2/4/2020	\$233,537	\$922	4.6%
17	The Redwood	111 21st Ave E	2017	75	280	\$ 17,500,000	12/18/2018	\$233,333	\$832	4.5%
18	Link Studios	2939 S Mt. Baker Blvd	2015	60	206	\$ 7,478,753	8/30/2018	\$124,646	\$604	5.1%
19	Ballard 57	1731 NW 57th St	2016	48	275	\$ 11,000,000	8/16/2018	\$229,167	\$833	4.5%
20	Lofts at Junction	4535 44th Ave SW	2015	38	337	\$ 9,500,000	7/26/2018	\$250,000	\$742	4.6%
21	Willet	4252 8th Ave NE	2017	20	323	\$ 5,450,000	4/27/2018	\$272,500	\$843	4.4%
22	Pomelo Heights	4229 7th Ave NE	2017	23	246	\$ 4,950,000	4/24/2018	\$215,217	\$876	4.3%
23	Jupiter	155 17th Ave	2015	20	252	\$ 3,846,500	9/12/2017	\$192,325	\$764	5.0%
24	Viridian SEDUs	6917 California Ave SW	2015	30	204	\$ 5,030,000	6/30/2017	\$167,667	\$821	5.4%
25	Den on Brooklyn	5043 Brooklyn Ave NE	2013	50	262	\$ 8,825,000	2/28/2017	\$176,500	\$674	4.4%
26	Studio 7	4029 7th Ave NE	2013	75	327	\$ 14,450,000	6/30/2017	\$192,667	\$589	4.7%
Average			2016	50	281			\$ 212,173	\$ 708	4.7%

*REMOVED FROM AVERAGES

MARKET-RATE APARTMENTS

		Year Built	Units	Avg Unit Size (SF)	Price	Sale Date	\$/Unit	\$/NRSF	Cap Rate
Average (Built 2012 or Newer)**		2017	157	725	-	-	\$ 457,647	\$ 568	4.26%

**BASED ON 98 URBAN KING COUNTY SALES (15,368 TOTAL UNITS) FROM OCTOBER 2016 - PRESENT

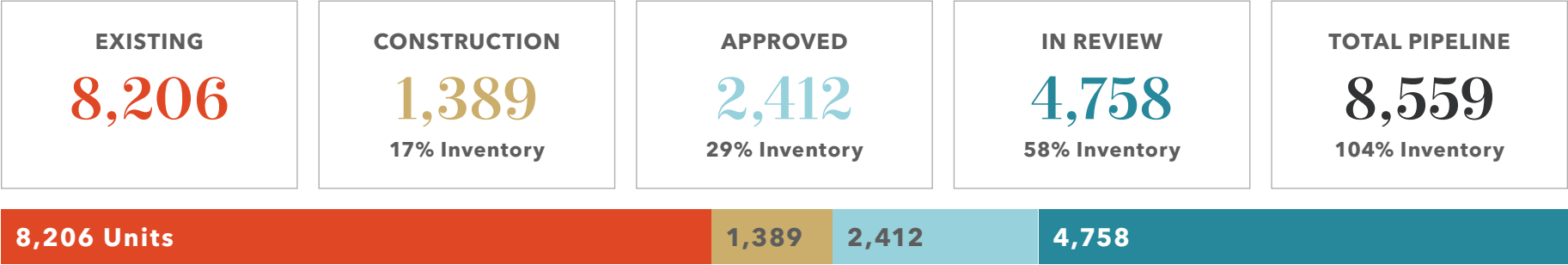


DEVELOPMENT

Nearly 50% of the microhousing development pipeline under construction in 2020 was completed in 2021. That doubles 2020’s deliveries, but the two most common delays still plaguing developers are utility providers and supply chain issues.

2021 marks the first year of a decline in permits for microhousing since their inception. While an 8% pipeline decrease seems nominal, it’s worth noting that the number of projects with permits approved that are on hold grew to 41%. Speaking with Developers, COVID concerns and hard costs are the main reasons many projects have been shelved or put on hold.

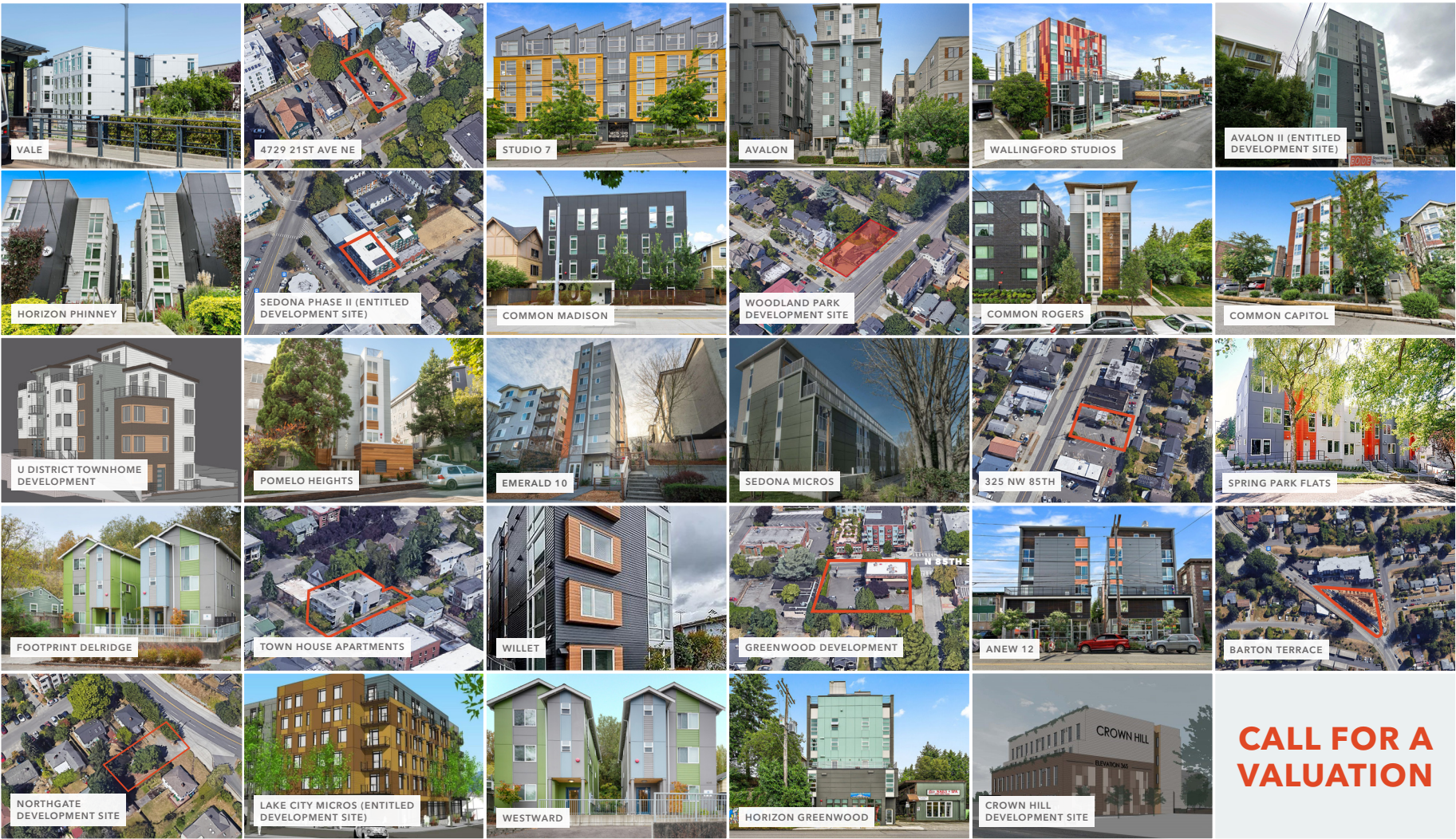
Most importantly, if the permitting, development, and energy code challenges posed by Seattle cause microhousing to fall out of favor with developers, the city will continue to get less and less affordable as the Puget Sound grows.



OUR MICROHOUSING TRACK RECORD

59%	1,733	99 SF	89	\$153M
% MARKET SHARE, MORE THAN ALL BROKERS COMBINED	# OF MICROHOUSING UNITS WE'VE SOLD	SMALLEST MICROHOUSING UNIT WE'VE SOLD	# OF MICROHOUSING BUILDINGS WE'VE TOURED & VALUED	OUR MICROHOUSING SALES VOLUME

TEAM MICROHOUSING SALES



WHY US?



WE SELL MICROHOUSING

Whether it's land for development, a rooming house or institutional grade apartment building, we've sold more microhousing than all other brokers combined.



WE DEVELOP MICROHOUSING

Microhousing developers are on the bleeding edge of solving the affordability crisis in Seattle, and that is why we've decided to invest alongside our developer clients.



WE OWN MICROHOUSING

Other brokers own cars, boats, and vacation homes. We own microhousing because we believe it is the very best investment in the Puget Sound.



WE OPERATE MICROHOUSING

Owning microhousing is like owning a small business. We work hand in hand with our managers, vendors and residents to improve the operation and livability of microhousing on a daily basis.

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