

SIMON | ANDERSON MULTIFAMILY TEAM
Puget Sound & Washington State Apartment Sales Specialists

SEATTLE & PUGET SOUND *MICRO REPORT*

2023 Special Annual Report



SEATTLE HOUSING REGULATIONS UNDERGO MAJOR CHANGES

SEPA GONE FOR HOUSING

In April 2023, SB 5412 eliminated State Environmental Policy Act (SEPA) reviews for housing projects in Seattle and paved the way for other cities to do the same by mid-2025. Previously, SEPA had been used to delay and obstruct housing projects. This change simplifies the permit process by no longer requiring specialized reports, like traffic and historic assessments.

DESIGN REVIEW TRANSFORMATION

The Design Review process is changing and might vanish by mid-2025. That's because, in July 2023, CB 120591 ended design review for low-income housing and gave market-rate projects an exemption option if they chose the Mandatory Housing Affordability performance path, instead of fees. Combining this with the SEPA exemption allows developers to skip the Master Use Permit process, potentially saving eight to 12 months in apartment building permitting.

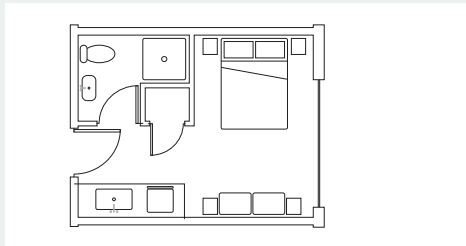
UNCERTAINTY AROUND MICRO-HOUSING

Seattle's 2014 legislation shifted developers' focus from congregate to small efficiency dwelling units (SEDUs), but later increased SEDU size and cost. Since then, discussions about micro-housing have been ongoing, and Mayor Bruce Harrell and Andrew Lewis have shown interest in single room occupancy (SRO) units. While no formal legislation is out yet, there are talks of revising SEDU rules to make them smaller and more efficient. Statewide legislation might also push for congregate housing, despite local opposition.



MICROHOUSING DEFINITIONS

CONGREGATE

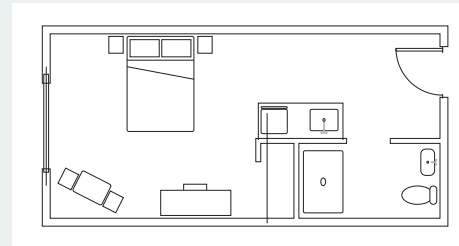


Standard	140 - 200 SF
Average	175 SF
Minimum	70 SF

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

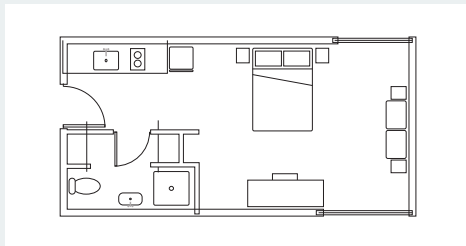


Standard	200 SF
Average	200 SF
Minimum	90 SF

Historically, apartment or townhouse dwelling consisting of no more than eight sleeping suites (private room with private bath) and one common kitchen or kitchen/lounge.

Max number of sleeping suites varies by municipality

SMALL EFFICIENCY DWELLING UNIT (SEDU)

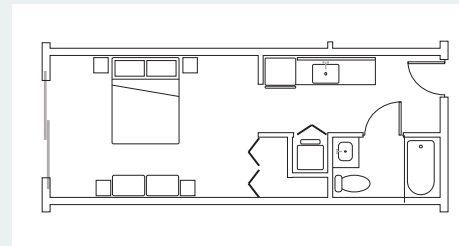


Standard	240 - 320 SF
Average	275 SF
Minimum	240 SF*

Very compact conventional studio apartment, complete with cooking and bathing facilities and closet space. The max gross floor area allowed is 320 square feet – anything larger is an Efficiency Dwelling Unit (EDU).

Allowed

EFFICIENCY DWELLING UNIT (EDU)



Standard	321 - 400 SF
Average	375 SF
Minimum	310 SF*

Small, conventional studio apartment with a main living space (“habitable space”) of no less than 190 square feet.

Allowed

For the sake of this study, we use the words “microhousing” and “microapartments” to identify all types (micro, congregate, SEDU, and EDU).

*The minimum SEDU/EDU sizes are determined by minimum living room area (150 and 190 SF respectively), yielding 240 SF SEDU and 310 SF EDU units.

HOW SEATTLE KILLED AFFORDABLE HOUSING

STEP 1 - HUMANE-NESS

During the last recession, micro-housing concepts emerged as a solution for those looking for a well-located, walkable place to live. These shared-kitchen micro units provided clean, safe and affordable living for \$500. Then, as the city's economy improved, competition for affordable units increased. Throughout the next seven years, micro units experienced significant development and rent growth. However, when Seattle labeled them "inhumane" and imposed development restrictions, it effectively banned new development of the most cost-effective housing option.

STEP 2 - RED-TAPE

Next, Seattle targeted SEDU apartments, which were slightly larger and more amenitized than micro units. Specifically, the city increased permitting obstacles, costs, and unit sizes, thereby raising downstream costs to residents by 20% to 30% and following its trend of eliminating affordable options.

STEP 3 - LUXURY

Due to self-imposed rules, Seattle has only been able to provide 400 new affordable units annually for the past 30 years. In 2021, the city exacerbated the issue by acquiring SEDU apartment buildings at a premium to market rate pricing by using taxpayer money – setting an imprudent precedent. For-profit developers began to compete for the city's attention by building higher end apartments, resulting in unaffordable units. And, while some housing developers benefited, many were left with luxury microhousing units that are overpriced for the target market. Now, this has further widened the affordability gap for units delivered in 2023-2024.

MICROS

↑ 2%		No Change		
<i>\$1,074</i>	<i>\$5.37</i>	<i>94%</i>	<i>No Sales</i>	<i>No Sales</i>
AVG RENT	AVG RENT/SF	AVG OCCUPANCY	AVG SALES PRICE/UNIT	AVG SALES PRICE/NRSF

SEDUs

↓ 2%		↓ 3%		
<i>\$1,310</i>	<i>\$4.46</i>	<i>92%</i>	<i>\$283K</i>	<i>\$1,016</i>
AVG RENT	AVG RENT/SF	AVG OCCUPANCY	AVG SALES PRICE/UNIT	AVG SALES PRICE/NRSF

MARKET-RATE STUDIOS

↓ 4%		↓ 0.8%		
<i>\$1,620</i>	<i>\$4.01</i>	<i>94%</i>	<i>\$431K</i>	<i>\$520</i>
AVG RENT	AVG RENT/SF	AVG OCCUPANCY	AVG SALES PRICE/UNIT	AVG SALES PRICE/NRSF

Data Sources: Kidder Mathews Research, CoStar (Q2 Asking Rent, Studios Built 2010+), CoStar (Q2 Stabilized Vacancy, Studios Built 2010+)

RENT & VACANCY

Inflation hits price-sensitive residents hard by reducing demand for high-end SEDU apartments.

MICRO

Notably, micro apartments have had stable asking rents, averaging \$1,061 monthly during four of the past five years (even with a 9% pandemic-related dip in rents that lasted 12 months). For comparison, SEDUs saw more rent fluctuations with demand changes with a 13% decrease. Although occupancy fully recovered by 2022, new supply continues to threaten the stabilization of SEDU apartment buildings.

SEDU

At the same time, vacancy rates remained at 94% for congregate micros for the third year in a row with SEDUs ranging from 92% to 95%. Now, with more than 2,000 new SEDU units under construction, owners, investors, and lenders alike will be watching rent and vacancy rates closely during the next 12 months.

MICRO

\$1,074

RENT/UNIT (AVG)

\$5.37

RENT/SF (AVG)

94%

OCCUPANCY (AVG)

SEDU

\$1,310

RENT/UNIT (AVG)

\$4.46

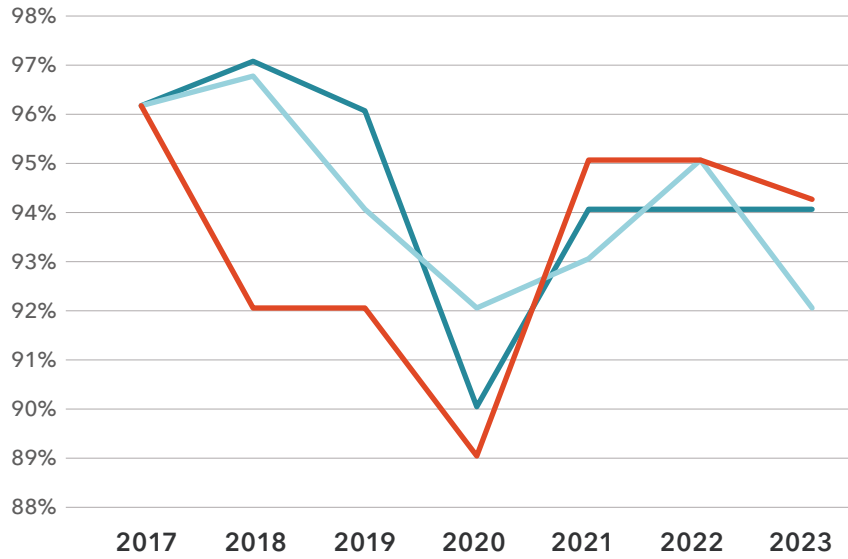
RENT/SF (AVG)

92%

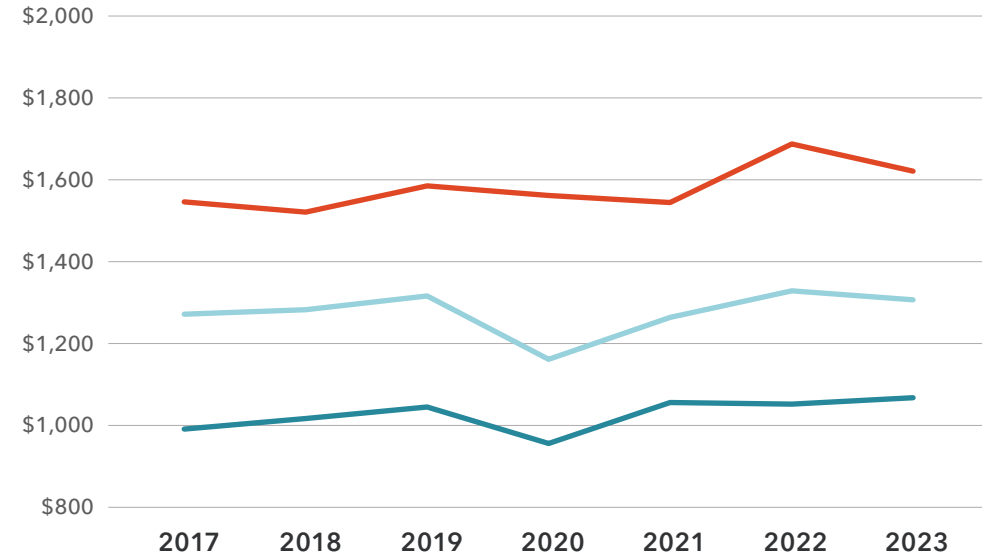
OCCUPANCY (AVG)



Occupancy



Rent



— MICRO — SEDU — STUDIO

RENT / UNIT

RENT / SF

OCCUPANCY

	2021	2022	2023	2021	2022	2023	2021	2022	2023
■ MICRO*	\$1,026	\$1,058	\$1,074	\$5.03	\$5.34	\$5.37	94%	94%	94%
■ SEDU*	\$1,267	\$1,331	\$1,310	\$4.17	\$4.50	\$4.46	93%	95%	92%
■ STUDIO†	\$1,544	\$1,685	\$1,620	\$3.63	\$3.86	\$4.01	95%	95%	94%

*Data Source: Asking Rents and Surveyed Vacancy

†Data Source: CoStar - Data Source: CoStar - Q3 Asking Rent, Studios Built 2010+, CoStar - Q3 Stabilized Vacancy, Studios Built 2010+

AVERAGE RENT & OCCUPANCY BY NEIGHBORHOOD

Total existing stock of efficiency units by neighborhood

NORTH SEATTLE

1,061

MICRO	94%	\$976	\$4.63
SEDU	94%	\$1,158	\$4.59

BALLARD

802

MICRO	94%	\$1,021	\$5.84
SEDU	97%	\$1,232	\$4.63

GREEN LAKE, FREMONT, WALLINGFORD

520

MICRO	88%	\$1,028	\$5.65
SEDU	92%	\$1,331	\$4.47

MAGNOLIA, QUEEN ANNE

410

MICRO	100%	\$1,195	\$5.69
SEDU	95%	\$1,383	\$4.62

SOUTH LAKE UNION, EASTLAKE, WESTLAKE

318

MICRO	94%	\$1,091	\$5.10
SEDU	91%	\$1,395	\$4.61

DOWNTOWN, FIRST HILL, YESLER

722

MICRO	89%	\$1,146	\$5.23
SEDU	90%	\$1,311	\$4.45

WEST SEATTLE

421

MICRO	96%	\$962	\$4.92
SEDU	98%	\$1,382	\$4.60

2,543

UNIVERSITY DISTRICT ROOSEVELT

MICRO	95%	\$1,195	\$5.55
SEDU	89%	\$1,428	\$5.20

EASTSIDE

481

MICRO	97%	\$1,178	\$5.05
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1,452

CAPITOL HILL

MICRO	88%	\$1,052	\$5.91
SEDU	93%	\$1,329	\$4.45

644

OTHER NEIGHBORHOODS

SEDU	92%	\$1,160	\$3.59
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470

CENTRAL DISTRICT

MICRO	94%	\$1,040	\$5.33
SEDU	83%	\$1,337	\$3.86

416

BEACON HILL, RAINIER VALLEY

MICRO	96%	\$1,000	\$5.53
SEDU	92%	\$1,308	\$4.48

RENT & VACANCY BY NEIGHBORHOOD

MOST IMPROVED:

University District & Roosevelt

Operations in the U District were so bad in 2020 that we had to remove the numbers from our market averages. Fast forward to 2023 and the market has stabilized to a 95% occupancy rate with the highest average SEDU rents in the market.



BIGGEST LOSER

Green Lake, Wallingford & Fremont

It's rare that we see micro-housing headwinds in the 98103 zip code. However, it's clear that demand has waned, and we suspect that residents who moved north during the pandemic are now moving closer to work again with online work fading.



BIGGEST WINNER

West Seattle

The pandemic and bridge closure combination was painful for West Seattle investors. In 2023, we're starting to see the effects of a depleted new supply due to limited new deliveries – namely, a higher combination of occupancy and rent growth than any other neighborhood.



SALES & DEVELOPMENT

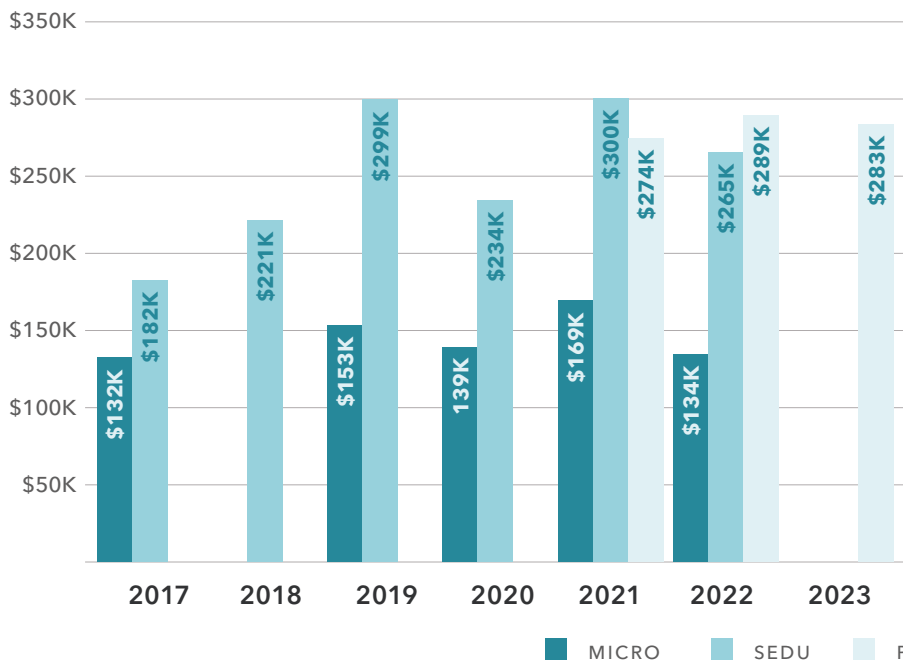
Affordable housing operators dominate SEDU purchases in 2023.

After beginning in 2021, the trend of affordable housing operators dominating SEDU purchases is now common in 2023. Of course, selling to affordable housing groups is profitable; however, developers who don't get the golden ticket face losses or cash-in refinancing post-development. Likewise, congregate micros continue to sell, but aren't popular among affordable groups. Additionally, pricing is driven solely by the above-market cash-flow micros that investors offer due to higher sale cap rates.

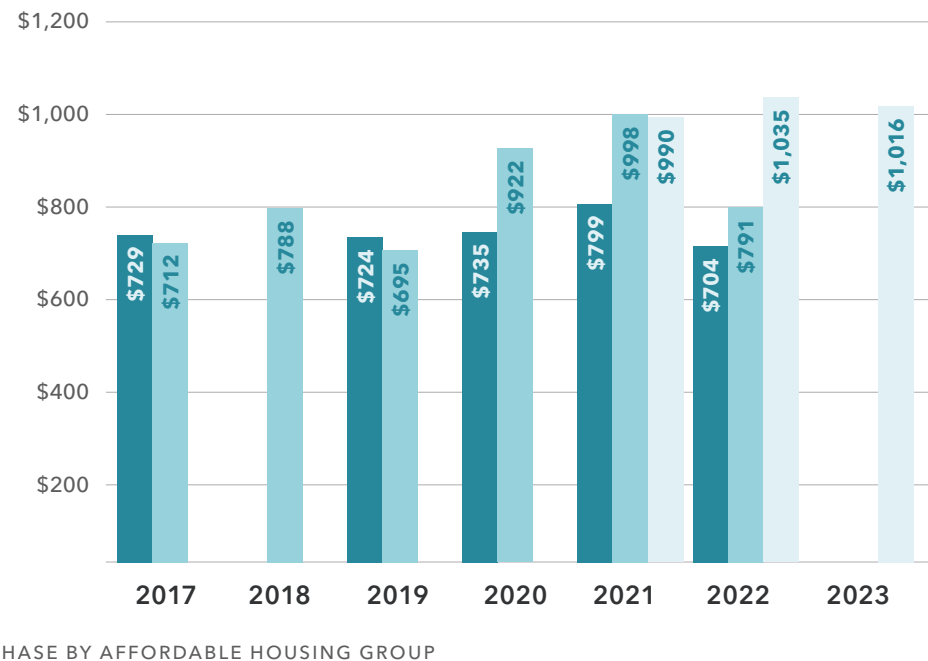
SO, WHAT DOES IT TAKE TO ATTRACT AN AFFORDABLE HOUSING BUYER?

- LOCATION / TRANSIT
- 100+ UNITS
- ELEVATORS
- VACANT

Average Price per Unit



Average Price per NRSF



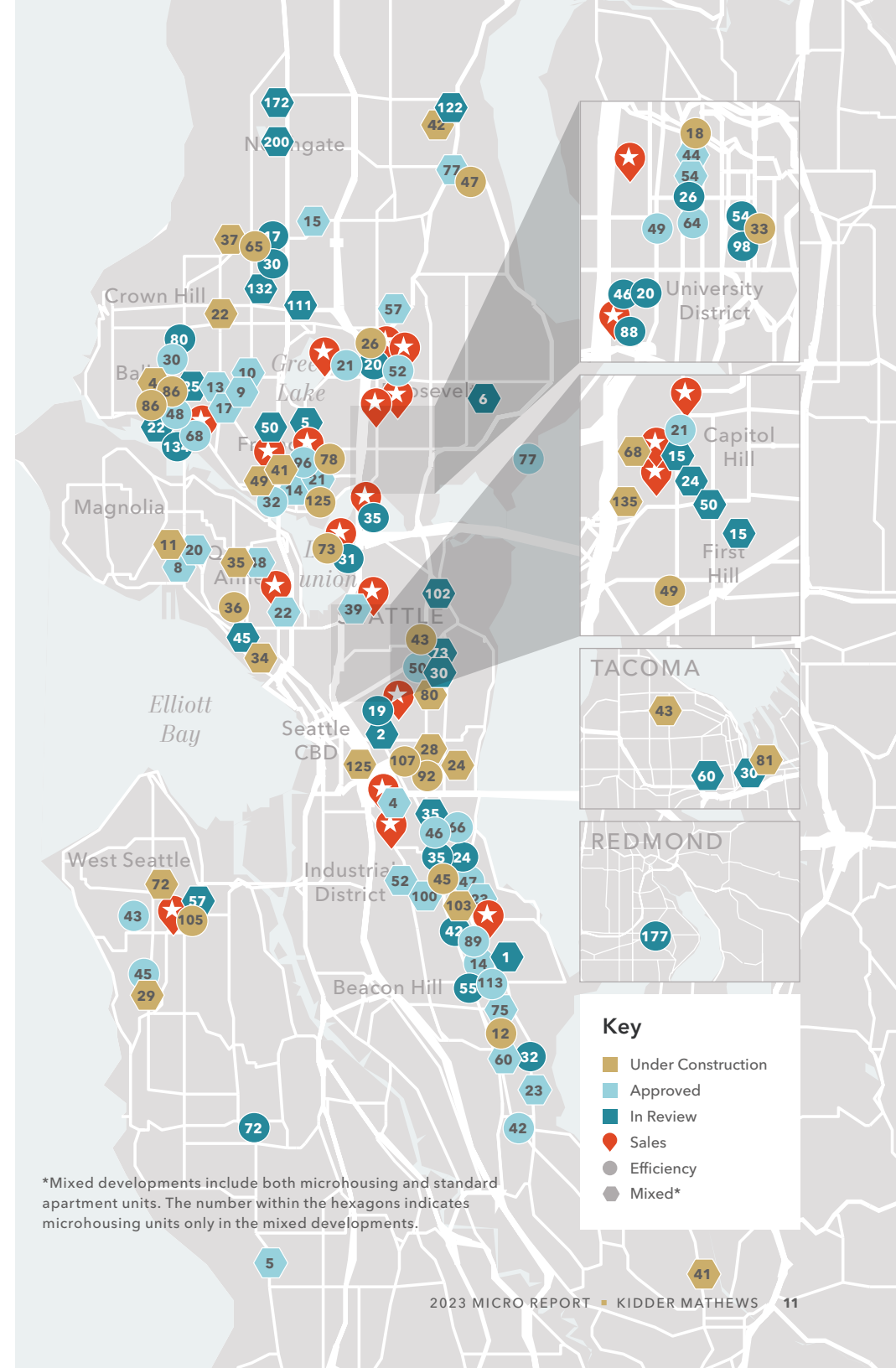
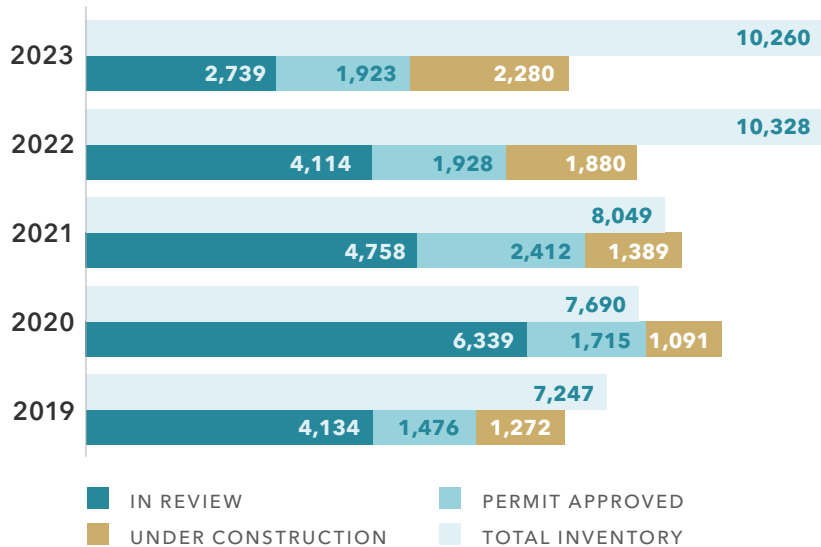
DEVELOPMENT

Short-term pain could lead to long-term gain.

With 2,280 micro-housing units under construction, it appears that there may be challenging times ahead for micro-housing developers and operators. At the same time, micro-housing permit applications are lower than they've been since the inception of micro-housing, which points to supply constraints after the glut of supply is absorbed, likely by 2025.

- 68** Unit decrease in microhousing supply YoY due to more units sold to affordable housing operators than delivered
- 33%** Reduction in microhousing permit applications year over year
- 209%** Number of microhousing units under construction in 2023 compared to 2020

Historic Efficiency Pipeline



OUR MICROHOUSING TRACK RECORD

33%

% MICROHOUSING SALES MARKET SHARE

2,062

OF MICROHOUSING UNITS SOLD & UNDER CONTRACT

99 SF

SMALLEST MICROHOUSING UNIT WE'VE SOLD

143

OF MICROHOUSING BUILDINGS WE'VE TOURED & VALUED

\$169M

OUR MICROHOUSING SALES VOLUME

TEAM MICROHOUSING SALES



WHY US?



We sell microhousing

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



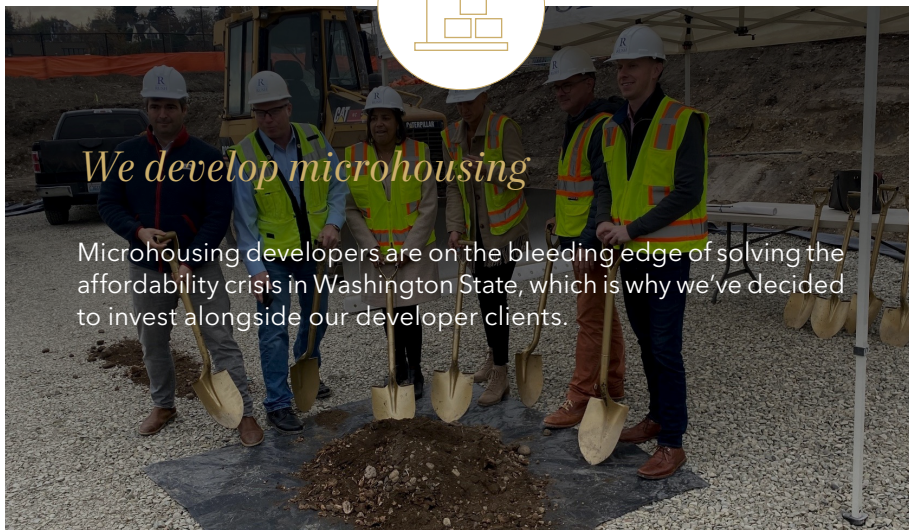
We own microhousing

We own microhousing because we believe it's the very best investment in the Puget Sound.



We develop microhousing

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



Let's discuss your microhousing housing needs

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