

2018 EFFICIENCY UNIT STUDY

WHERE IN THE **PUGET SOUND** CAN YOU FIND AN APARTMENT IN A **NEW BUILDING** FOR **\$1,000?**

If you ask the Seattle City Council or a traditional investment committee, the answer is: nowhere. But if you think outside the box, or rather think inside a smaller box, you know the answer: the nearly 11,000 Micro apartments planned and built across the region — from Tacoma to Redmond — since 2009.

Four years ago, when our team initially endeavored to be the first efficiency-unit experts in the nation, we ignored the pundits questioning this new wave of small apartments and built a cult following of 200 efficiency-apartment owners, designers, managers, and developers.

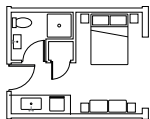
What we did not anticipate was the amount of success this affordable product would have in both bull and bear markets, and the

amount of attention the product type would receive from private investors and large institutions alike. **Today, efficiency units are no longer relegated to congregate buildings of their own — they are crucial ingredients in many market-rate developments — and the pool of people interested in small units has grown into an ocean.**

Whether you got your feet wet in the world of Micros way back in 2009 or are just now learning the definitions of each type of efficiency unit, this study is for you. It’s time to diversify, improve your downturn resilience, and offer a safe, affordable home for your residents. **Micros are the biggest little thing to happen to apartment investments since tenant amenities. It’s time to get on board.**

EFFICIENCY UNIT DEFINITIONS

CONGREGATE

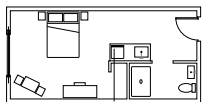


Std: 140–200 SF
Avg: 175 SF
Min: 70 SF

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 STUDIOS

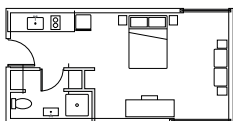


Std: 150–250 SF
Avg: 200 SF
Min: 90 SF

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

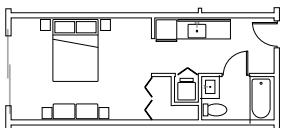


Std: 240–320 SF
Avg: 275 SF
Min: 240 SF*

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.*

SEATTLE MARKET FUNDAMENTALS

In the past year, rental rates in Micros grew and vacancy dropped while the existing stock of efficiency units increased by +10%, year to date. Coupled with the fact that Micros and SEDUs have outpaced average per-foot sales prices of all other apartments in the market — voila — a new multifamily asset class is born.

MICROS

\$1,024

AVG
RENT

\$4.91

AVG
RENT/SF

3.0%

AVG
VACANCY

\$125,463

AVG SALES
PRICE/UNIT

\$667

AVG SALES
PRICE/NRSF

SEDUS

\$1,286

AVG
RENT

\$4.83

AVG
RENT/SF

3.3%

AVG
VACANCY

\$198,940

AVG SALES
PRICE/UNIT

\$739

AVG SALES
PRICE/NRSF

RENT & VACANCY

When introduced to the market in 2009, average rental rates for Micro apartments were \$558/month. Fast forward nine years, and average Micro apartment rental rates hover around \$1,000/month. **That represents 80% cumulative rent growth and 6.7% sustained year-over-year rental rate growth for nearly a decade.** Yes, that includes the Great Recession.

MICRO*

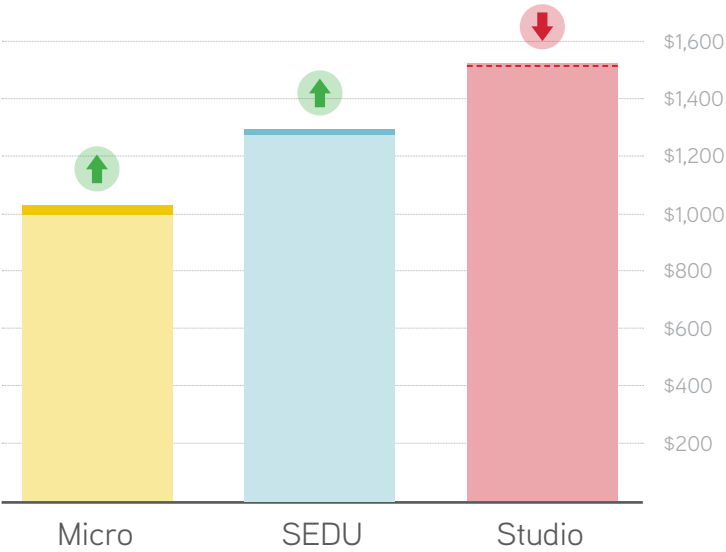
SEDU*

STUDIO†

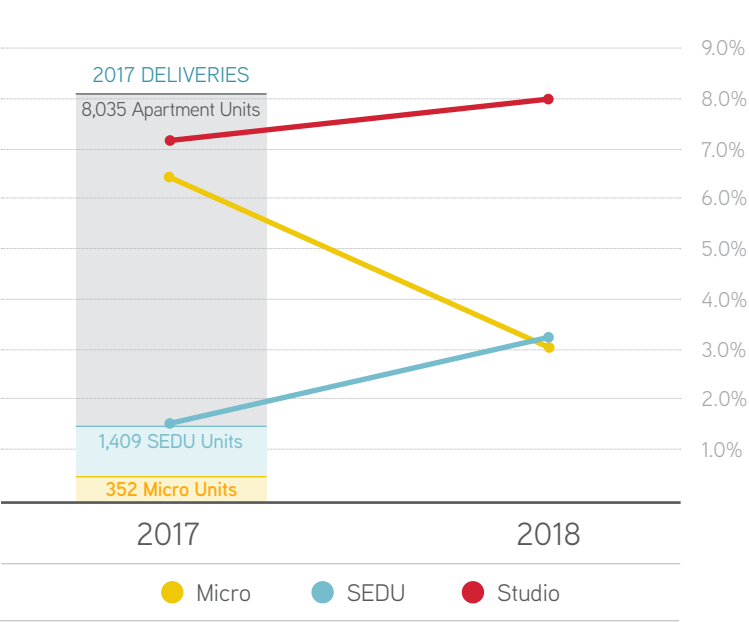
	RENT			RENT / SF		VACANCY	
	2017	2018	YOY Δ	2017	2018	2017	2018
	\$998	\$1,024	3%	\$5.38	\$4.91	6.4%	3.0%
	\$1,275	\$1,286	1%	\$4.80	\$4.83	1.5%	3.3%
	\$1,523	\$1,521	-0.1%	\$3.86	\$3.85	7.2%	8.0%

Note: Vacancy impacted by properties in lease-up.

RENT



VACANCY



*Data Source: Asking Rents and Surveyed Vacancy
†Data Source: CoStar - Asking Rent, Studios Built 2010+; CoStar - Q2 Gross Vacancy, Studios Built 2010+

RENT GROWTH POTENTIAL

	2018	2019 Year 1	2020 Year 2	2021 Year 3	2022 Year 4	2023 Year 5	2024 Year 6	2025 Year 7
Studio Rent	\$1,500	\$1,545	\$1,591	\$1,639	\$1,688	\$1,739	\$1,791	\$1,845
Growth Rate	-	3%	3%	3%	3%	3%	3%	3%
DELTA	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500
Micro Rent	\$1,000	\$1,045	\$1,091	\$1,139	\$1,188	\$1,239	\$1,291	\$1,345
Achievable Growth Rate	-	4.5%	4.4%	4.4%	4.3%	4.3%	4.2%	4.2%

This table proves outsized rental rate growth potential for Micros and SEDUs, comparing a \$1,000/month Micro against a \$1,500/month market-rate studio. When you increase the rental rate of the studio 3% year over year and maintain the \$500/month delta between the rental rate for each, Micro rents grow 40-50% faster.

NORTH SEATTLE

MICRO	\$987	\$4.57/SF
SEDU	\$980	\$3.56/SF

553

BALLARD

MICRO	\$1,006	\$5.57/SF
SEDU	\$1,288	\$4.70/SF

461

GREEN LAKE, FREMONT, WALLINGFORD

MICRO	\$964	\$4.45/SF
SEDU	\$1,250	\$5.12/SF

224

EASTLAKE

MICRO	\$1,089	\$4.57/SF
SEDU	\$1,406	\$5.11/SF

172

QUEEN ANNE, BELLTOWN, SOUTH LAKE UNION

MICRO	\$1,150	\$6.28/SF
SEDU	\$1,363	\$4.96/SF

146

DOWNTOWN, FIRST HILL, YESLER

MICRO	\$1,069	\$3.53/SF
SEDU	\$1,374	\$4.82/SF

385

WEST SEATTLE

MICRO	\$965	\$4.97/SF
SEDU	\$1,272	\$4.56/SF

388

ROOSEVELT, RAVENNA

MICRO	\$1,083	\$5.48/SF
SEDU	\$1,240	\$4.94/SF

661

UNIVERSITY DISTRICT

MICRO	\$983	\$5.06/SF
SEDU	\$1,304	\$4.59/SF

1068

CAPITOL HILL

MICRO	\$1,013	\$5.23/SF
SEDU	\$1,333	\$4.98/SF

1213

EASTSIDE

MICRO	\$974	\$3.98/SF
SEDU	-	-

482

CENTRAL DISTRICT

MICRO	\$1,002	\$5.25/SF
SEDU	\$1,336	\$5.84/SF

443

BEACON HILL, RAINIER VALLEY

Area not surveyed due to limited rent data.

101

Total existing stock of efficiency units by neighborhood

#

AVERAGE RENT BY NEIGHBORHOOD


SALES & DEVELOPMENT

SALES

Three years ago, we launched the first Micro apartment listing in the market. The listing garnered a lot of attention, yet investors were doubtful of the investment’s stability. **Since then, we’ve seen 11 Micro and SEDU sales proving these small units generate 35% more income per square foot.** Micros, which are less expensive per foot, offer investors the highest return out of the three asset types.

The more mainstream Micros and SEDUs become, the greater the cap rate compression this asset class will experience. The first Micro sale closed over two years ago at an approximately 100 basis point spread over market cap rates. Since then, we have seen investor demand reduce the cap rate spread by nearly 50% for Micros, while SEDU sales compressed cap rates within 30 basis points of market-rate apartment sales.

Micros

		Property Name	Address	Year Built	Units	Avg Unit Size (SF)	Price	Sale Date	\$/Unit	\$/NRSF	Cap Rate	NOI/NRSF
OUR SALE	1	Emerald 10	315 10th Ave	2012	36	176	\$5,000,000	6/27/17	\$138,889	\$790	5.2	\$41.09
OUR SALE	2	Footprint Delridge	4546 - 4548 Delridge Way SW	2013	16	187	\$2,000,000	5/31/17	\$125,000	\$667	4.9	\$32.70
OUR SALE	3	Sedona Micros	8520 20th Ave NE	2015	80	207	\$9,000,000	6/10/16	\$112,500	\$545	5.6	\$30.50
AVERAGES				2013	44	190	\$5,333,333		\$125,463	\$667	5.2%	\$34.76

SEDUs

		Property Name	Address	Year Built	Units	Avg Unit Size (SF)	Price	Sale Date	\$/Unit	\$/NRSF	Cap Rate	NOI/NRSF
	4	Link Studios	2939 S Mt Baker Blvd	2015	60	206	\$7,478,753	8/30/18	\$124,646	\$604	5.1	\$30.61
	5	Lofts at the Junction	4535 44th Ave SW	2015	38	337	\$9,500,000	7/26/18	\$250,000	\$742	4.6	\$34.14
OUR SALE	6	Willet	4252 8th Ave NE	2017	20	323	\$5,450,000	4/27/18	\$272,500	\$843	4.4	\$37.10
OUR SALE	7	Pomelo Heights	4229 7th Ave NE	2017	23	246	\$4,950,000	4/24/18	\$215,217	\$876	4.3	\$37.66
	8	Jupiter	155 17th Ave	2015	20	252	\$3,846,500	9/12/17	\$192,325	\$764	5.0	\$38.22
	9	Viridian	6917 California Ave SW	2015	30	204	\$5,030,000	6/30/17	\$167,667	\$821	5.4	\$44.35
	10	Den on Brooklyn	5043 Brooklyn Ave NE	2013	50	262	\$8,825,000	2/28/17	\$176,500	\$674	4.4	\$29.65
	11	Studio 7	4029 7th Ave NE	2013	75	327	\$14,450,000	6/30/16	\$192,667	\$589	4.7	\$27.70
AVERAGES				2015	40	270	\$7,441,282		\$198,940	\$739	4.7%	\$34.93

Market-Rate Apartments*

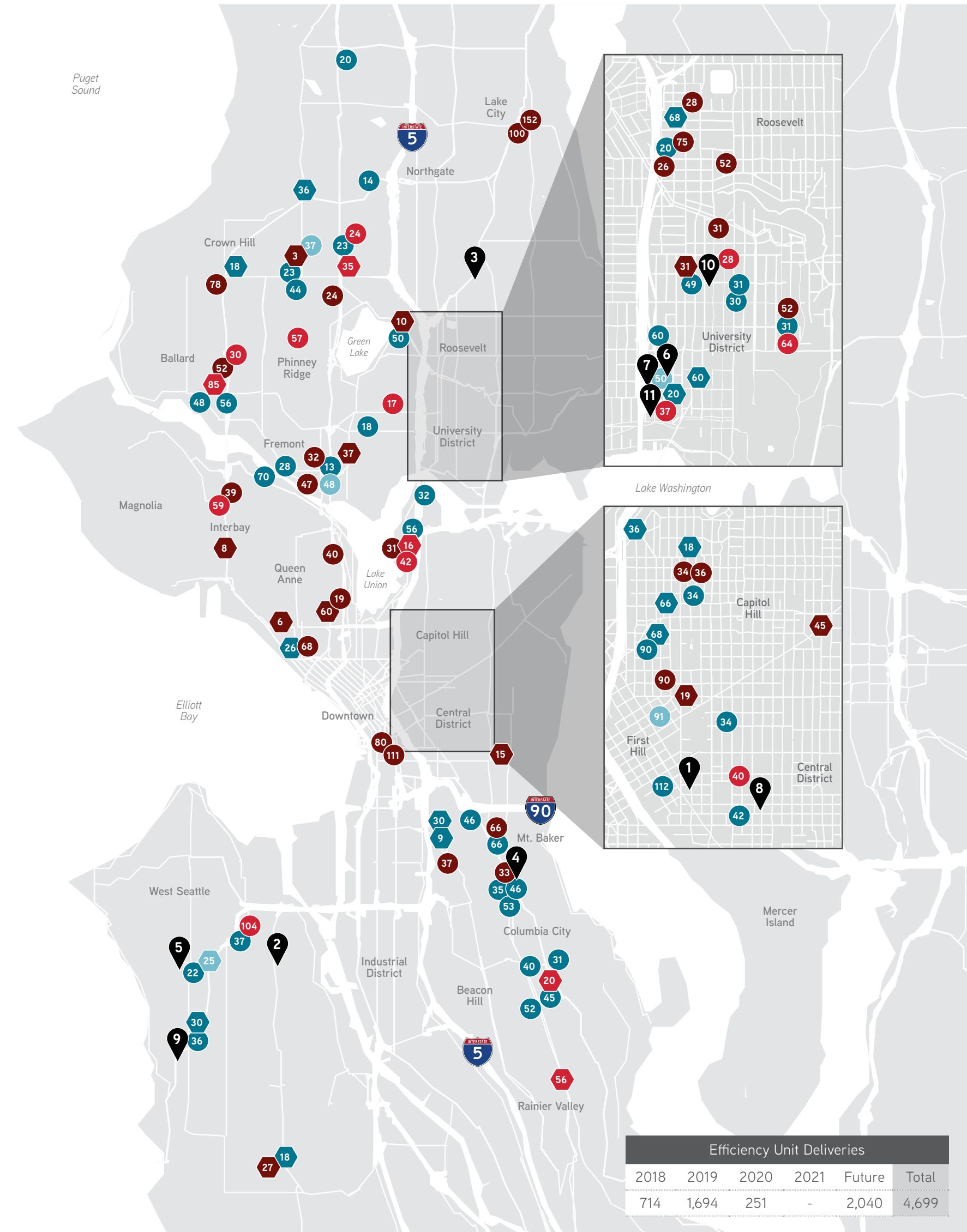
	Year Built	Units	Avg Unit Size (SF)	Price	Sale Date	\$/Unit	\$/NRSF	Cap Rate	NOI/NRSF
AVERAGES (Built 2012 & Newer)	2015	118	674	\$52,818,351	June 2016 - Present	\$407,229	\$628	4.4%	\$26.32

*Based on 41 Urban King County Sales (4,833 Total Units) from June 2016 - Present

SALES & DEVELOPMENT



*Mixed developments include both efficiency and standard apartment units. The number within the hexagons indicates efficiency units only in the mixed developments.



6,297 UNITS
EXISTING INVENTORY

2,659 UNITS
UNDER DEVELOPMENT

2,040 UNITS
FUTURE PIPELINE

SEDU and Micro apartment absorption is strong, established by the unsatisfied demand for these new, affordable apartments. The existing stock of Micros and SEDUs grew by +10% so far in 2018, while vacancy remains under 5%.

Market-rate apartment absorption is weakening. Urban King market-rate apartment supply grew by 6.9% (8,035 units) last year while vacancy in core markets is pushing above 5%.

ABOUT THE SEATTLE MULTIFAMILY TEAM

We are a team of commercial real estate brokers working for apartment owners, developers, and investors — **and the only team in the country specializing in Micro apartment sales.** Our goal is to help you maximize your return on investment, whether we sell your apartment building faster and for more money, or we ensure your purchase is a sound investment. We take a unique approach to the business, serving a broad range of investors to understand the market better than anyone — and delivering expert market knowledge to our clients.

SALES EXPERTISE



EFFICIENCY UNIT
BUILDINGS



5 - 50 UNIT
BUILDINGS



50+ UNIT
BUILDINGS



DEVELOPMENT
LAND

OUR TRACK RECORD

100%

MARKET SHARE OF
ALL MICRO APARTMENT
SALES IN SEATTLE

1,220

EFFICIENCY UNITS
SOLD & ON THE
MARKET

\$272,500

HIGHEST SEDU
SALES PRICE/UNIT
IN SEATTLE MARKET

\$876

HIGHEST SEDU
SALES PRICE/NRSF
IN SEATTLE MARKET

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