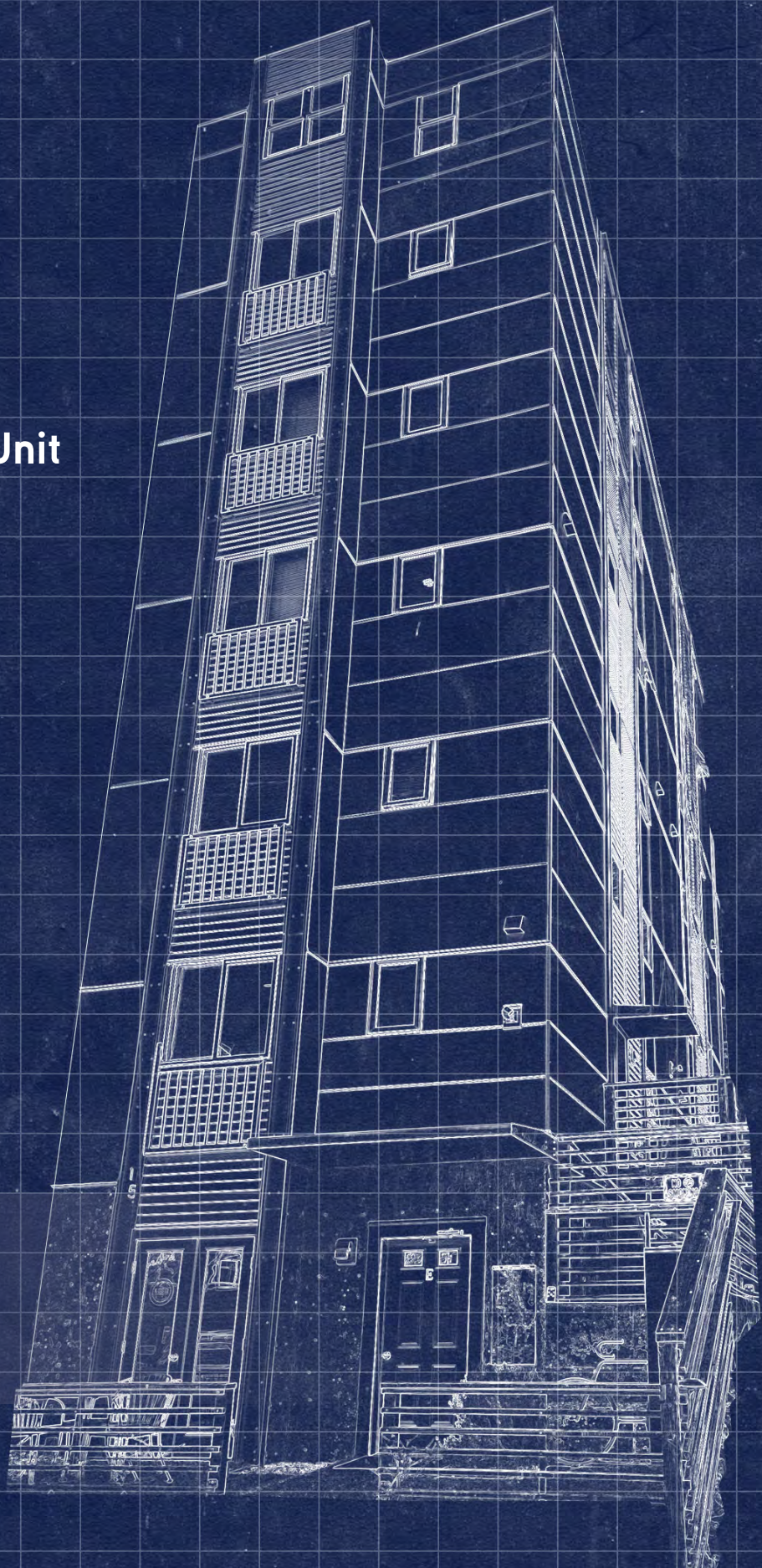


The SMT Report

2017 Efficiency Unit
Report

Colliers
INTERNATIONAL

SEATTLE
MULTIFAMILY
TEAM



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SMT - Who We Are



About the Seattle Multifamily Team

Colliers' Seattle Multifamily Team is a team of dedicated, expert commercial real estate brokers working for apartment owners, developers, and investors. 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.

A handwritten signature in black ink, reading "Dylan Simon".

Dylan Simon
Senior Vice President

A handwritten signature in black ink, reading "Jerriid Anderson".

Jerriid Anderson
Senior Associate

A handwritten signature in black ink, reading "Matt Laird".

Matt Laird
Associate

Efficiency Unit Report

There was substantial skepticism when the first micro apartments were built. The country was struggling through a crippling economic downturn, and taking risks was the last strategy on most investor's minds. As vacancy rates continued to climb, the idea of renting units the size of a parking stall seemed ludicrous.


Yet while market rate apartments tried to stop the bleeding, micros filled up quickly. Not only were micro buildings fully leased, but there was a waiting list! And thus, efficiency housing was (re)born.

Whether you call them pods, micros, SEDUs, or any other moniker, there is one thing you can't deny: efficiency units have had a major impact on Seattle.

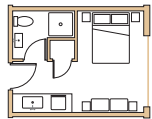
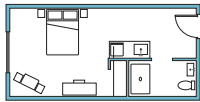
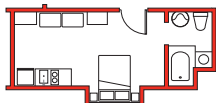
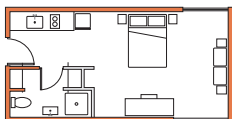
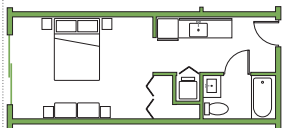
As market rate apartments continue to stray from what the average worker can afford, efficiency housing in Seattle is in its highest demand ever.

Our team is passionate about efficiency housing, and our mission is to evangelize the unit type while educating the market about the durability & benefits of owning and developing efficiency units.

In this study you will find an aggregation of efficiency unit data: rent & vacancy, sales & development, and income & expenses. We invite you to use this study as a tool and reference, and call us to discuss your efficiency housing needs and goals!


Jerriid Anderson

Efficiency Unit Definitions

Unit Type	Floor Plan	Average Size Minimum Size	Description	Status
Congregate Housing	 172 AVG SF	140-200 SF MIN: 70 SF	A type of housing in which each unit has a private bedroom or living quarters, but shares with other units a common dining room, recreational room, or other facilities.	Allowed in Certain Zones
Micro Housing	 219 AVG SF	140-200 SF MIN: 70 SF	Housing style started in Seattle in 2009. Up to eight bedrooms containing a kitchenette and private bathroom, and sharing one common area, like a kitchen. This style of project was banned by legislation in 2014.	Not Allowed
SEDU (old)	 223 AVG SF	220-250 SF MIN: 220 SF	A Small Efficiency Dwelling Unit (SEDU) is a slightly undersized conventional studio apartment. It has a complete kitchen, bathroom and closet space.	Not Allowed
SEDU (new)	 297 AVG SF	270-300 SF MIN: 220 SF	This unit designation is a result of SDCI adopting a new interpretation of building code language that establishes the "minimum clear floor space" in a dwelling unit. The result is that it is almost impossible to design a unit at the minimum size of 220 SF. These rules are currently under review and may or may not change in the future.	Allowed
EDU	 330 AVG SF	300-370 SF MIN: 300 SF	An Efficiency Dwelling Unit (EDU) is simply a conventional studio apartment. Typically these are called Efficiency Dwelling Units when the average unit size in a building is less than 400 SF.	Allowed

RENT & VACANCY

We aggregated data from 50+ properties across the city in order to provide a snapshot of current efficiency housing rental rates and vacancy rates.

Please refer to the introduction on page 1 to learn more about the difference between micro apartments and SEDUs (Small Efficiency Dwelling Units).



MICROS AND SEDUS WORK

Efficiency housing works because people are willing to trade space for money. Throughout Seattle there is a \$550 delta between the average rent for market rate studio units and micros, and there's a \$275 delta between the average price of a studio and a SEDU.

MARKET FUNDAMENTALS



Average Micro Rent: \$998
Average Micro \$/SF: \$5.38



Average SEDU Rent: \$1,275
Average SEDU \$/SF: \$4.80



Average Studio Unit* Rent: \$1,546
Average Studio Unit* \$/SF: \$3.40
**Built 2010 and Newer*



Average SEDU/Micro Vacancy: 3.9%



Average Studio Unit* Vacancy: 3.9%
**Built 2010 and Newer*



SEDUs COULD SEE HIGHER VACANCY

As SEDUs continue to test the rent ceiling, they run a higher vacancy rate than micros. If market rate apartment rents soften, SEDUs are less sheltered from the impact and could experience even higher vacancy rate increases.

Source: Colliers Research; Dupre+Scott (Studio Apt Rent & Vacancy Data)



WHO LIVES IN MICROS/SEDUS?

Efficiency housing is clean, easy, and affordable. Despite popular belief, just because people *can* afford a new, large apartment doesn't mean they want to spend their hard-earned money on a luxury unit.







The age of tenants in SEDU buildings is typically younger, but don't be surprised if you see a Google software engineer, a bartender, an airline pilot and a librarian all sharing the same floor.

SALES




When something is new or different, investors proceed with caution. We launched marketing for our first micro sale in the Summer of 2015, and we conducted over 30 different tours. While some investors treated efficiency housing like a social experiment, others had a keen interest in understanding why they worked. Since 2015, we have now seen 6 different efficiency housing properties trade hands and each listing we bring to market garners more interest.

Although the locations and unit sizes for the recent sales play a big role, it is important to note that the two most recent efficiency housing sales were for \$790 and \$821 per square foot. That is a higher price per foot than any other stick-built apartment building in our entire market, and we will continue to push the upper limits of pricing for our clients!

MICROS

	Property Name	Address	Year Built	Units	NRSF	Avg Unit Size	Price	Sale Date	\$/Unit	\$/NRSF	Cap Rate
 	Emerald 10	315 10th Ave	2012	36	6,327	176	\$5,000,000	6/27/2017	\$138,889	\$790	5.2%
 	Footprint Delridge	4546 Delridge Way SW	2013	16	2,997	187	\$2,000,000	5/31/2017	\$125,000	\$667	4.9%
 	Sedona Micros	8520 20th Ave NE	2015	80	16,526	207	\$9,000,000	6/10/2016	\$112,500	\$543	5.6%
AVERAGES			2013	44	8,617	190	\$5,333,333		\$125,463	\$667	5.2%

SEDUs

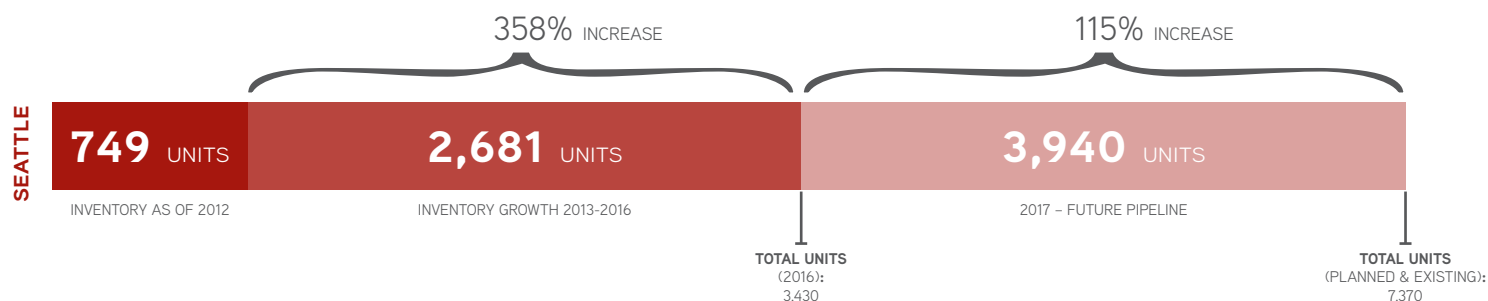
	Property Name	Address	Year Built	Units	NRSF	Avg Unit Size	Price	Sale Date	\$/Unit	\$/NRSF	Cap Rate
	Viridian	6917 California Ave SW	2015	30	6,124	204	\$5,030,000	6/21/2017	\$167,667	\$821	5.9%
	The Den on Brooklyn	5043 Brooklyn Ave NE	2013	50	13,096	262	\$8,825,000	2/28/2017	\$176,500	\$674	4.4%
	Studio 7	4029 7th Ave NE	2014	75	24,520	327	\$14,450,000	6/30/2016	\$192,667	\$589	4.7%
AVERAGES			2014	52	13,807	281	\$9,430,833		\$178,861	\$694	5.0%

DEVELOPMENT

Price sensitivity is the most common reason renters choose efficiency apartments. Whether we are in the trough of the recession or the middle of the biggest apartment boom in the city's history, one constant remains: affordability will always be a concern.

Prescient developers and investors looking for cash flow have bought into efficiency apartments, and regardless of city legislation, we expect creative developers to maintain a healthy pipeline of new efficiency apartment developments now and into the future.

Efficiency Unit Development Overview



SALES & DEVELOPMENT



NEIGHBORHOOD FACTS

Most Efficiency Units (Existing):

- University District/Roosevelt (1,006)
- Capitol Hill (808)
- Central District/First Hill (633)

Most Efficiency Units (Planned):

- Capitol Hill (886)
- University District/Roosevelt (764)
- West Seattle (348)

Fewest Efficiency Units (Planned):

- South Lake Union (47)
- Interbay (59)
- Eastlake (59)

Efficiency Unit Deliveries

2017	2018	2019	2020	FUTURE	TOTAL
770	2,271	522	38	339	3,940

MICRO/SEDU EXPANSION

As the Puget Sound region continues to grow, we will see efficiency apartments mixed into market rate developments, and we predict they will make their way into transit-oriented second ring markets for residents, providing clean, affordable living throughout the region, not just downtown.



INCOME & EXPENSES

Micro and SEDU buildings operate somewhat differently than apartment buildings, from unique cleaning expenses to free internet and easier turnover. The differences and similarities between efficiency unit buildings and market-rate apartments are illustrated below in a sample income & expenses budget.

Sample Proforma	200 SF Micro (30 Unit Building)	250 SF SEDU (30 Unit Building)
Income	Other Income - Per Unit	
Utility Reimbursement	\$40 per Month	\$65 per Month
Laundry	\$150 per Year	\$150 per Year
Pet Rent	\$35 per Month per Pet	\$35 per Month per Pet
Storage	\$20 per Month per Locker	\$20 per Month per Locker
All Other	\$300 per Year	\$300 per Year
Expenses	Expenses - Per Unit Annually	
Real Estate Taxes	\$700	\$1,600
Insurance	\$175	\$225
Utilities	\$800	\$1,000
Professional Management	6.0%	6.0%
On-Site Management	\$360	\$360
Repairs and Maintenance	\$350	\$500
Turnover	\$100	\$100
Landscaping	\$50	\$50
Marketing	\$50	\$50
Administrative	\$200	\$200
Cleaning	\$200	-
Internet	\$150	-
Total Expenses		
Expenses per Unit	\$3,881	\$4,991
Expenses per Square Foot	\$19.40	\$19.96
Expenses Load	31%	33%

*This data is an average of annual efficiency housing income and expenses, based on interviews and budgets from over 20 owners and properties.

INCOME & EXPENSES EXPLANATIONS

INCOME		
	MICROs	SEDUs
Utility Reimbursement	Although some micros still offer free utilities, most charge between a \$30 to \$50 flat monthly utility fee per unit.	SEDUs are often submetered, allowing management to capture a percentage of Utility consumption. The industry standard for collection is 80%.
Laundry	We have seen everything from coin-op laundry to a mandatory monthly laundry fee. \$150 per unit annually was the average of our survey. NOTE: Some SEDUs have in-unit w/d.	
Pet Rent	\$35 per pet per month, approximately 10% occupancy in micros and closer to 20% pet occupancy in SEDU buildings.	
Storage	\$20 per month, however just 25% of tenants are paying for storage.	
All Other	\$300 per unit annually, includes month-to-month rent, forfeited deposits, late fees, and miscellaneous income.	
EXPENSES		
Real Estate Taxes	*Micro apartment taxes average approximately \$700 per unit annually. Micros are relatively new to the assessors, and we only have 3 sales to date. As more micros sell, assessors will likely increase values and adjust assessments accordingly. SEDUs, on the other hand, have experienced the exact opposite treatment of micros, coming in at a range of \$1,200 to \$2,200 per unit per year with an average of \$1,600. Assessors treat SEDUs more like newly constructed apartments and have not accounted for their small rental space.	
Insurance	There are insurance policies as low as \$100 per unit per year for micros and \$150 for SEDUs, but those are typically included in an umbrella policy which is not standard for smaller owners. After analyzing policies for micros and SEDUs ranging from 16 to nearly 100 units, we believe \$175 per unit per year for micros and \$225 per unit per year for SEDUs is accurate and attainable for most owners.	
Utilities	Of all the expense line items, utilities were the most volatile among micros, ranging from \$500 to \$1,000 annually. Different buildings have to meet varying efficiency standards which causes some variance, but the median for micros is approximately \$800 per unit per year while SEDUs averaged about \$1,000 per unit annually.	
Professional Management	Efficiency apartment management companies and owners report that combined fees between Professional Management and On-Site Management generally equate to 8% of the Effective Gross Income, with a variance of how much is weighted to each line item depending on the management company.	
On-Site Management	This annual expense is based on a per door model which costs \$30 per door per month. Most micro apartments are serviced by a roaming manager/leasing agent who services several buildings. Once the property stabilizes, this is an efficient way to manage.	
Repairs and Maintenance	Micros are quite simple units. Compared to a market rate apartment building, micros have much less to repair and maintain. The caveat is that smaller spaces experience more wear and tear due to the amount of use in the entire living space. SEDUs also require less repairs and maintenance due to the limited space and features; however, because of some more expensive appliances, additional sinks, and slightly larger spaces, there is a higher annual budget for this line item.	
Turnover	Most micro/SEDU managers we talked to mentioned the ease of turning over the units. Easy turnover coupled with the reduced wear on hallways and stairways from the lighter move make this line item one of the lowest compared to market rate apartment units.	
Landscaping	Almost all micros and SEDUs are built on small lots and offer few amenities, so there's little space to landscape and maintain on the building's exterior. Although a few outlier buildings with more landscaping needs budgeted \$200 per unit per year, most hovered around \$50 per unit annually.	
Marketing	Not many micro and SEDU owners or managers advertise on paid leasing websites, keeping the annual marketing budget quite low. The bulk of marketing is done on Craigslist and Zillow, and website maintenance is the largest marketing expense.	
Administrative	The administrative expense is in-line with market rate apartments. Fees, personal property tax, permits, legal and professional costs are the same regardless of the unit type.	
Cleaning	An uncommon expense associated with micros - but not SEDUs - is weekly cleaning. Tenants share common living spaces, most importantly kitchens. To keep the kitchens in clean and usable condition, most owners hire cleaners to come from 1-2 times per week. Some owners have begun to charge a convenience fee to offset the cost of the cleaning, but it is less common.	
Internet	Free internet is unique to micros. While a handful of market rate apartments and SEDU buildings may offer free internet to tenants, it is not commonplace. One of the biggest draws for micro tenants is the affordability and ease of moving. While free internet was the norm, in the last year owners began billing tenants for their monthly internet.	

*We applied full taxes for all buildings participating in the MFTE program.

WHO WE ARE

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We believe in building a long-term relationship, not just brokering a transaction. We take a unique approach to the business, serving a broad range of investors in the market in order to understand the market better than anyone - and delivering expert market knowledge to our clients.

Our Expertise



5 - 50
Unit Buildings



50+
Unit Buildings



Development
Land



Efficiency Unit
Buildings

Our Advantage



Best-in-Class
Marketing



11,500+
Buyer Database



Expert Market
Analysis



Industry-Leading
Research

Our Team



Dylan Simon
Senior Vice President

Market leading apartment broker in Seattle specializing in institutional & urban apartment sales.



Jerrod Anderson
Senior Associate

Apartment broker specializing in urban apartment and development sales.



Matt Laird
Associate

Specializes in apartment analysis and market research.



Ashley Woodliff
Project Coordinator

Project management support for all marketing and sale efforts.



Katie Reynolds
Marketing Specialist

Marketing & design coordination for property marketing, PR & communications.

OUR EFFICIENCY UNIT SALES

MICROS

\$16M
SALES VOLUME

132
UNITS



EMERALD 10

First Hill
Sales Price: \$5,000,000
\$790 NRSF
36 Units



FOOTPRINT DELRIDGE

West Seattle
Sales Price: \$2,000,000
\$667 NRSF
16 Units



SEDONA MICROS

North Seattle
Sales Price: \$9,000,000
\$545 NRSF
80 Units

MICRO DEVELOPMENT LAND

\$10.3M
SALES VOLUME

471
UNITS



AVALON II - LAND

West Seattle
Sales Price: \$2,850,000
\$396 LSF
104 Units



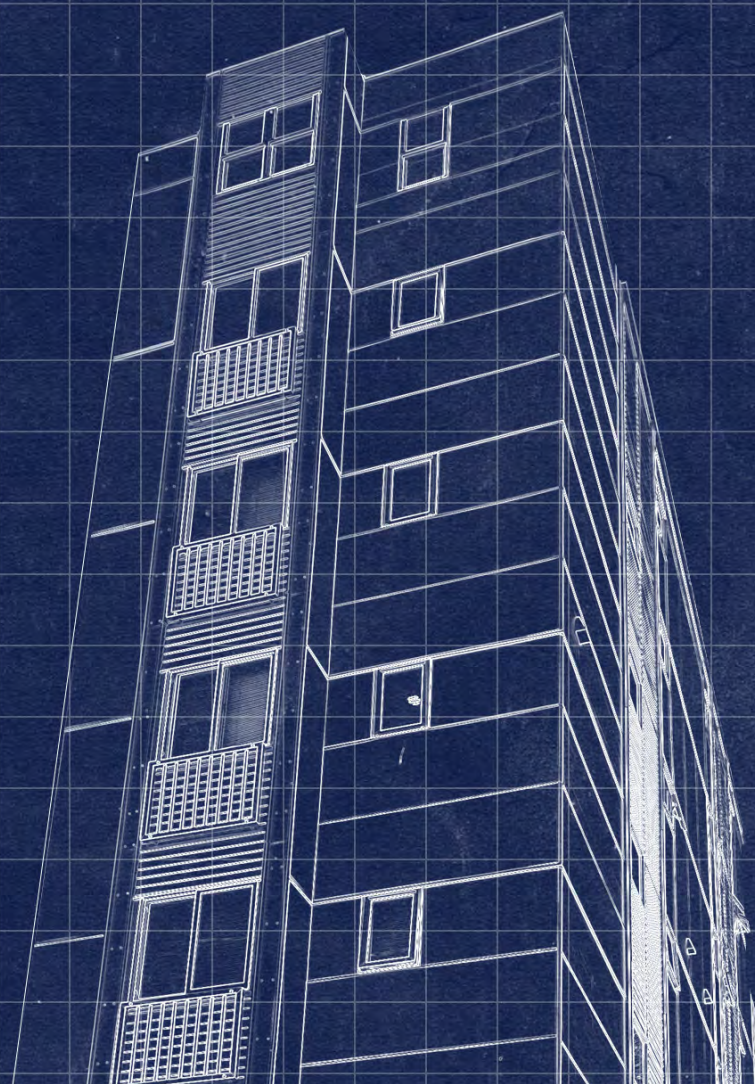
LAKE CITY MICROS - LAND

Lake City
Sales Price: \$3,500,000
\$245 LSF
152 Units



SEDONA LAND

North Seattle
Sales Price: \$3,900,000
\$175 LSF
215 Units



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