

SIMON | ANDERSON TEAM

2020 MID-YEAR SALES UPDATE

JANUARY – JUNE

**PUGET SOUND
APARTMENTS**

DYLANSIMON.COM



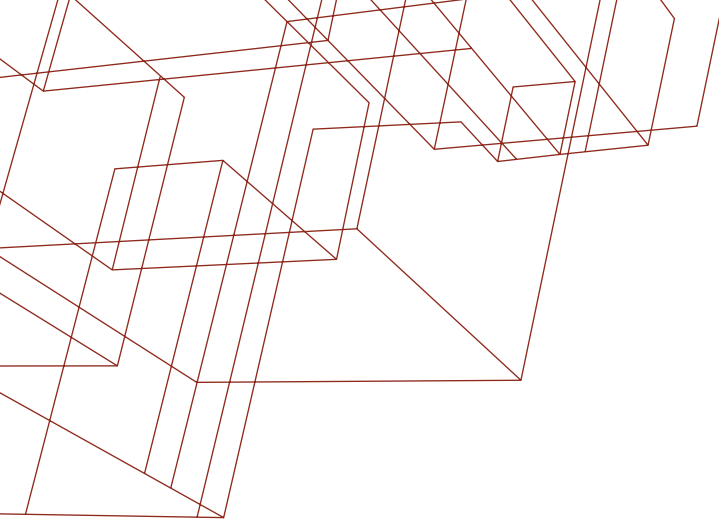


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INTRODUCTION

AUGUST 2020

On the heels of 2019, a record-setting year with over 350 apartment sales and \$7.4B in sales volume, we all had high hopes for 2020.

Although no one expected to best the previous year, stellar job growth and nation-leading economic fundamentals set the stage for another banner sales year in the Puget Sound.

Given the global COVID-19 pandemic, nearly all focus (understandably) turned to apartment building operations, with little concentration on sales transactions.

Well, we’ve got the data!

With any shift in the market, the appropriate first question is that of fundamentals.

It might be a little difficult to look past the drop in sales volume compared to the first half of 2019, but average pricing and capitalization rates in 2020 have a surprisingly positive story to tell apartment investors.

The most important takeaway? Deals are still getting done.

And whether you own an apartment building and plan to sell or are looking to get into the Seattle / Puget Sound market, working with an experienced and active team of sales and lending experts was never more necessary than it is today.

Give us a call to discuss what we can expect from apartment transactions for the remainder of 2020 and to discuss the best path forward if you want or need to sell your building (we've got the buyers!)

DYLANSIMON.COM

APARTMENT BROKERS

PUGET SOUND APARTMENT SALES SPECIALISTS

Our goal is to help you maximize your apartment investments, whether that means selling your apartment building faster and for more money, or providing advisory services for apartment buildings or development land you plan to hold or want to buy. And while anyone can promise you results, we deliver on our promises with a data-driven understanding of the market, an extensive buyer reach, and exceptional marketing that cuts through the noise.

\$1.09B

TOTAL VALUE SOLD &
UNDER CONTRACT

8,155

TOTAL UNITS SOLD &
UNDER CONTRACT

1.1M SF

DEVELOPMENT LAND SOLD &
UNDER CONTRACT

\$75M

ACTIVE LISTINGS & LISTINGS
COMING TO MARKET

Dylan Simon

Executive Vice President



Dylan is a market-leading apartment broker in Seattle and the Puget Sound region, specializing in the sale of apartment buildings and development land, with expertise in sales strategies, market knowledge, and industry trends.

Jerrid Anderson

Executive Vice President



Jerrid is an apartment broker specializing in micro apartment, urban apartment, and development land sales. He is passionate about marketing and video content.

Matt Laird

Senior Associate



Matt is an apartment broker specializing in 5-30 unit urban and suburban apartment sales, underwriting, valuations, and market research.

Brandon Lawler

Associate



Brandon is an apartment broker specializing in the sale of apartment buildings and assisting buyers and sellers with off-the-market purchases of apartment buildings, with expertise in the South Puget Sound market.

Winslow Lee

Associate



Winslow is an apartment broker specializing in sales of apartment buildings and development land across the Puget Sound, with expertise in the Snohomish County market.

Alex Mundy

Debt Finance



Alex specializes in acquisition and construction financing and refinancing for apartment owners and developers. He leads the team's financial underwriting and valuation services.

Cate Chase

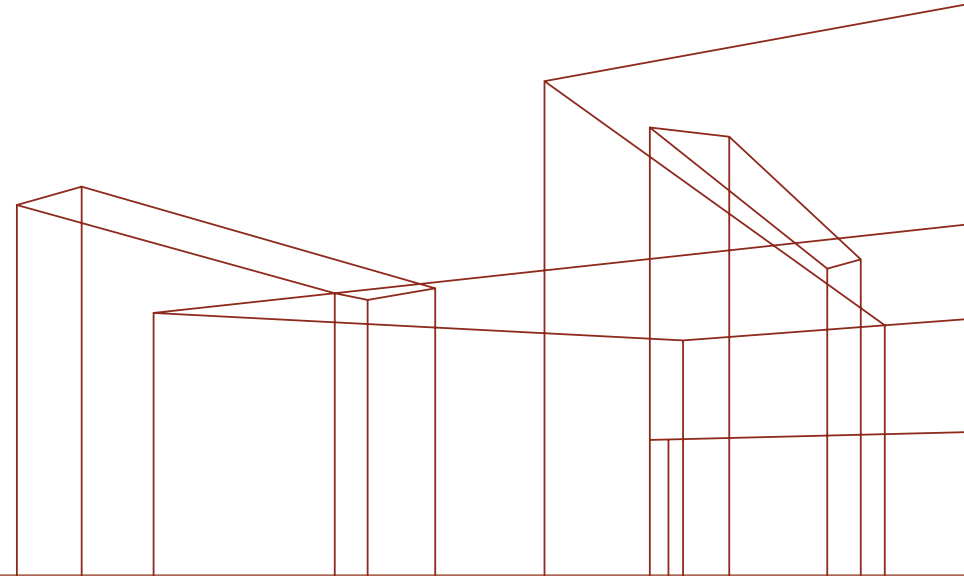
Senior Marketing Specialist



Cate manages promotion and design for both team and property marketing, specializing in writing, branding, digital strategy, PR, and events.

PUGET SOUND

Apartment sales slowed in the first half of 2020, yet pricing remained nearly on par with 2019 sales due to investor demand and low interest rates.



SALES METRICS

2019 VS 2020

| | 2020 JAN - JUNE | 2019 JAN - DEC |
|----------------|--------------------|-------------------|
| No. Sales | 83 | 353 |
| Sales Volume | \$506M | \$7.37B |
| Avg Price/Unit | \$228,648 | \$266,376 |
| Avg Price/SF | \$314 | \$348 |
| Avg Cap Rate | 4.7% | 4.7% |

2020: Q1 VS Q2

| | Q1 2020 JAN-MARCH | Q2 2020 APRIL-JUNE |
|----------------|----------------------|-----------------------|
| No. Sales | 46 | 37 |
| Sales Volume | \$245M | \$261M |
| Avg Price/Unit | \$215,127 | \$245,457 |
| Avg Price/SF | \$304 | \$326 |
| Avg Cap Rate | 4.7% | 4.8% |

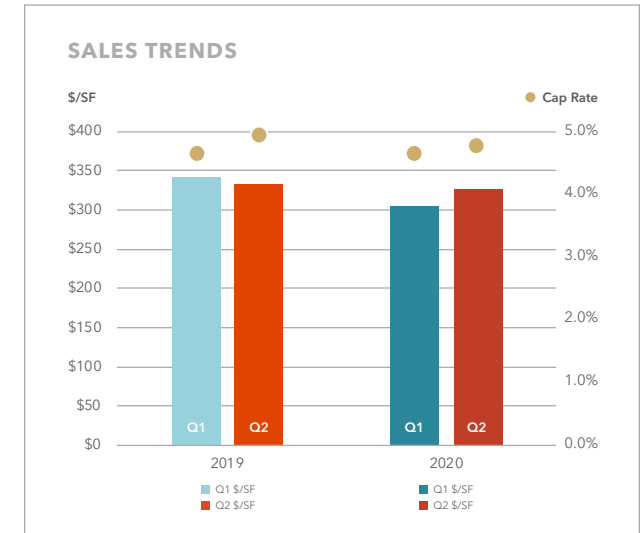
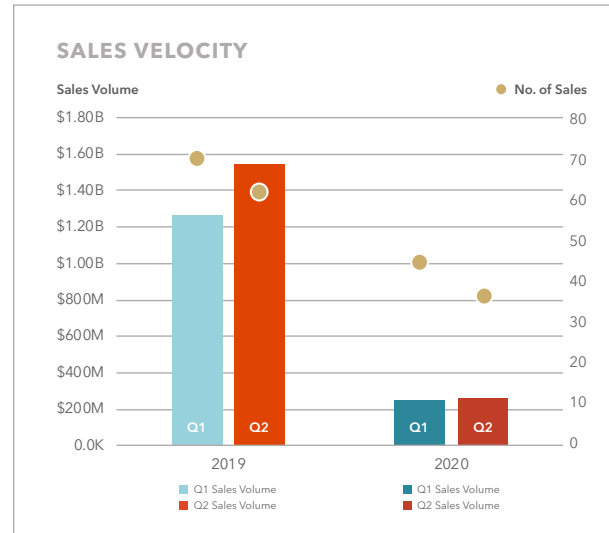
SALES DATA: 2019 VS 2020

NUMBER OF APARTMENT TRANSACTIONS HALTED, YET PRICING HOLDS

Given that four of the first six months of 2020 saw global economies nearly brought to their knees, and the U.S. GDP was down 33% in Q2, it's a surprise that any apartment sales closed. For the most part, March closings were planned pre-COVID-19 and were unimpacted. April onward, however, all sales transactions were at risk of failure.

Yet, momentum in the Puget Sound economy—and apartment market—carried the day for apartment sales in the first half of the year. Although pricing did not increase year-over-year, sales continued to close at pricing very near that of 2019, evidencing surprisingly strong fundamentals and investors' faith in the market.

Q1: JANUARY - MARCH | Q2: APRIL - JUNE



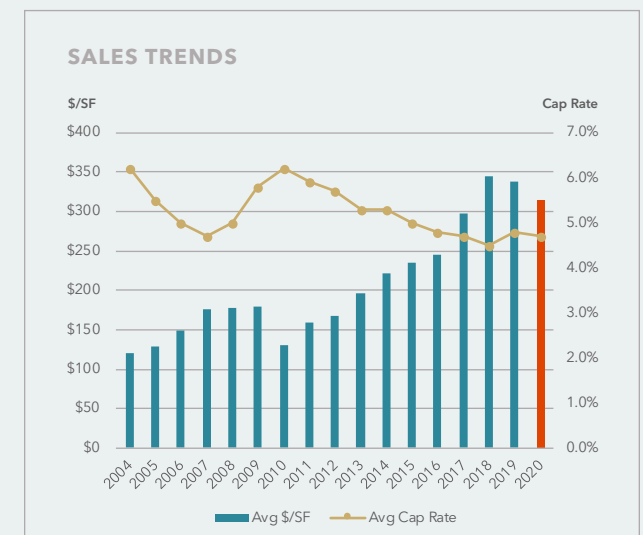
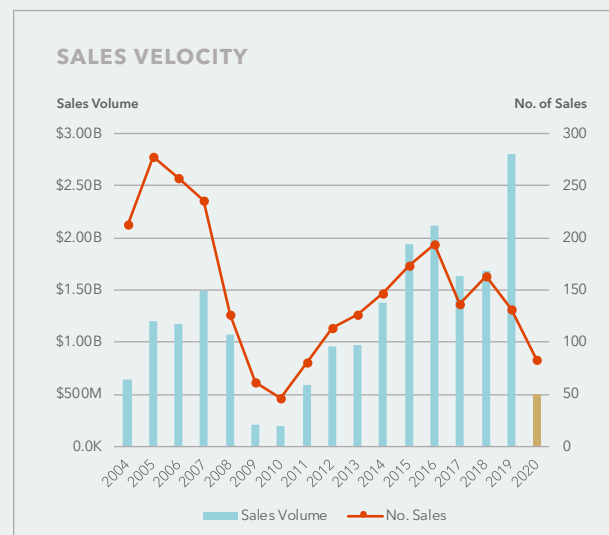
HISTORICAL SALES PERFORMANCE

JANUARY - JUNE | 2004 - 2020

FALLING SALES VOLUME WAS PREDICABLE; STABILIZED SALES PRICING WAS NOT

The Puget Sound apartment investment market experienced record sales volume in 2019, principally driven by a new excise tax moving would-be-sellers off the fence. It's no surprise, therefore, that sales volume would drop in 2020. What is surprising is that amid the COVID-19 pandemic, pricing held relatively strong.

Low capitalization rates and increasing NOI continued to push pricing in the region almost every year since 2012. The slowing of rental rate growth in 2017-2018 caused a plateau in pricing, yet sales in the first half of 2020 showed that mildly declining NOI—not escalating capitalization rates—impacted pricing.



SALES METRICS BY SUBMARKET

2020 SALES: JANUARY – JUNE

The first half of 2020 exhibits strength in the region's apartment market, but likely is not predictive of what's to come in the next six months.

A SHIFT IN FOCUS

For the better part of the last decade, apartment renters and investors scrambled to find a literal and figurative "seat at the table" in the region's urban—and urbanizing—downtowns and neighborhoods. It was predicted that 2020 sales volume would be far off from 2019, yet year-to-date sales in suburban markets such as Pierce County are on track to match last year's numbers.

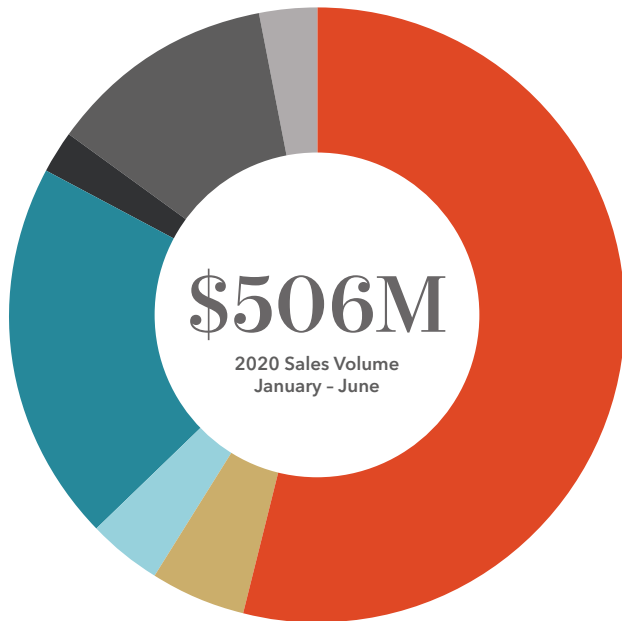
Could it be that the suburbs are not impacted by COVID-19? Assuredly not, yet the density of life in urban markets—along with anti-landlord sentiment and policy—is certainly providing suburban apartment buyers the confidence they are lacking in core, urban markets.

TOO SOON TO TELL

It is practically a miracle that any sales closed in the second quarter of 2020. To say investment markets were a mess in the first half of the year is a vast understatement. Operational performance of apartment communities in Seattle and the Puget Sound are holding up extremely well; however, we expect sales volume to decrease markedly for the remainder of the year.

The trend of apartment investors looking outside of core markets is not new, and the hunt for yield is ongoing. A shift in sales towards suburban locations will likely persist, yet the typical spike in sales volume in all markets in the latter half of 2020 is a near impossibility as buyers and sellers have vastly different viewpoints on pricing.





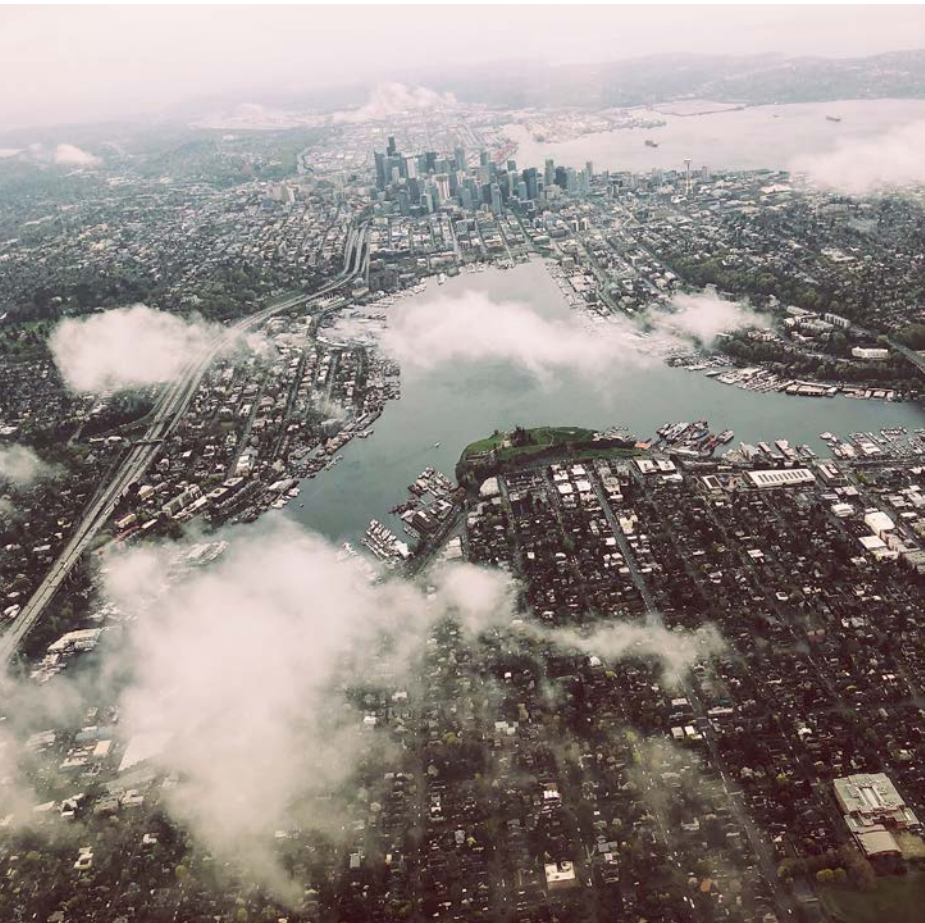
SALES METRICS BY SUBMARKET

2020 SALES: JANUARY – JUNE

| Region | No. of Sales | Sales Volume | Avg Price/Unit | Avg Price/SF | Avg Cap Rate |
|-------------------|--------------|--------------|----------------|--------------|--------------|
| URBAN KING | 35 | \$271.4M | \$290,832 | \$430 | 4.5% |
| NORTH KING | 6 | \$24.1M | \$257,408 | \$332 | 3.7% |
| EAST KING | 2 | \$22.0M | \$343,654 | \$326 | 4.8% |
| SOUTH KING | 9 | \$100.2M | \$205,061 | \$256 | 4.6% |
| SNOHOMISH | 6 | \$9.95M | \$160,323 | \$217 | 4.4% |
| PIERCE | 24 | \$62.6M | \$149,891 | \$189 | 5.5% |
| KITSAP | 1 | \$16.2M | \$162,000 | \$217 | 4.7% |

FOR A COMPARISON OF SALES METRICS FROM 2019, VISIT [DYLANSIMON.COM/RESEARCH](https://www.dylansimon.com/research)





URBAN KING COUNTY

Record-breaking 2019 sales over-emphasize the COVID slump, yet cap rates are improving for buyers.

Nearly every seller with a property worth over \$5M took it to market in 2019 to beat the excise tax hike in 2020. With sales volume in 2019 nearly doubling prior annual records, it's no surprise that sales volume dropped considerably in the first quarter of 2020. Sales volume in the second quarter of 2020 was likely the first indication of our new market, with nearly the same number of transactions trading hands as in the first quarter. A slight expansion of capitalization rates illustrated buyers' reactions to near-term uncertainty and stringent requirements for new financing.

SALES METRICS

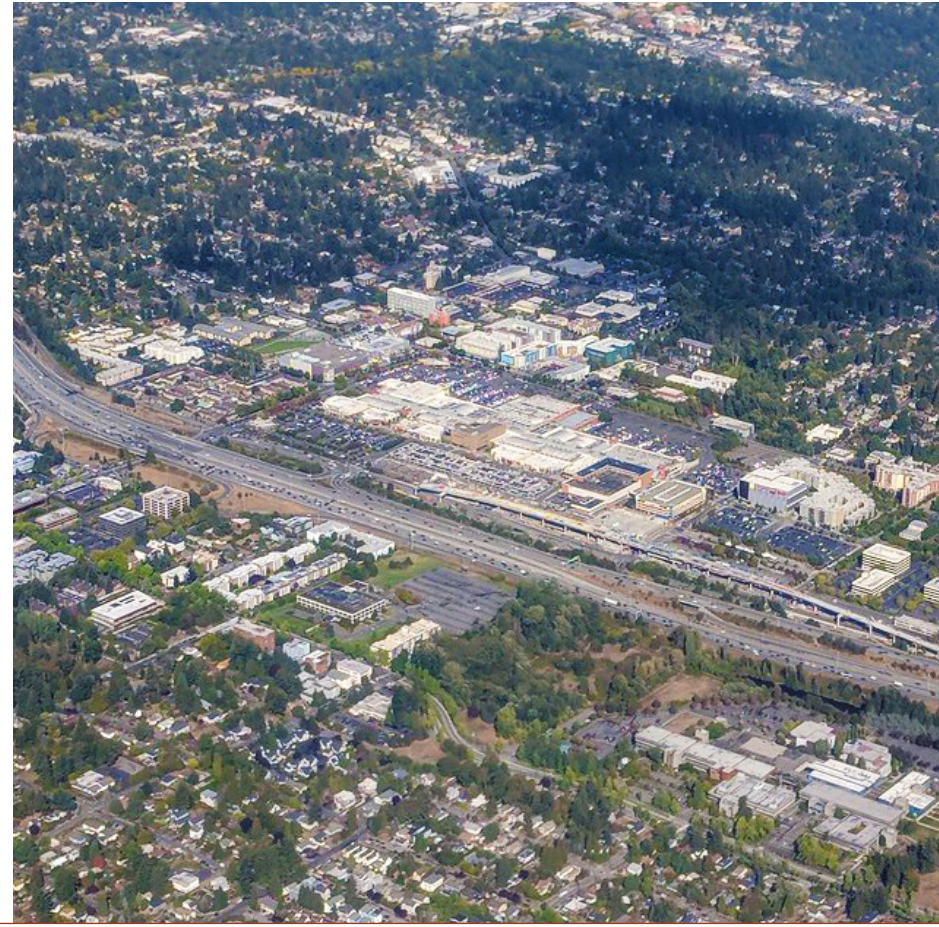
| | No. of Sales | Sales Volume | Avg Price/Unit | Avg Price/SF | Avg Cap Rate |
|---------------------------|--------------|--------------|----------------|--------------|--------------|
| Q1 2020 (JAN - MARCH) | 18 | \$85.1M | \$276,545 | \$443 | 4.2% |
| Q2 2020 (APRIL - JUNE) | 17 | \$186M | \$305,959 | \$416 | 5.0% |
| 2019 (JAN - DEC) | 146 | \$3.19B | \$346,893 | \$486 | 4.3% |

A COMPLETE LIST OF SALES IS AVAILABLE BY CONTACTING A BROKER ON OUR TEAM.

NORTH KING COUNTY

Value-add deals artificially suppress cap rates with one “turn-key” deal pointing toward a 5.0%-cap market.

It's worth noting that North King recorded its lowest annual average capitalization rate—4.4%—in 2017 as investors clamored for apartment buildings near Seattle at a more attractive price point. Since then, average cap rates steadily moved towards 5.0%. With only 6 deals closing in the first half of 2020, 5 of which were poised for value add, it's hard to speculate where market pricing lies. We predict investors will want to see a 20-30 basis point cap rate spread over Urban King investments, which averaged 4.5% during the same period.



SALES METRICS

| | No. of Sales | Sales Volume | Avg Price/Unit | Avg Price/SF | Avg Cap Rate |
|-----------------------------------|--------------|----------------|------------------|--------------|--------------|
| Q1 2020 (JAN - MARCH) | 4 | \$16.5M | \$233,300 | \$305 | 3.6% |
| Q2 2020 (APRIL - JUNE) | 2 | \$7.7M | \$305,625 | \$387 | 3.8% |
| 2019 (JAN - DEC) | 31 | \$331M | \$268,706 | \$353 | 4.7% |

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EAST KING COUNTY

Eastside markets are in demand for all commercial real estate investors, yet multifamily opportunities remain scarce.

Historically, East King has the lowest number of apartment sales of the Puget Sound markets, so it's no big surprise there were only 2 sales in the first half of the year. Despite, or rather due to, low sales volume, East King boasts the highest average price per unit in the region, a number augmented by one banner sale hitting \$550,000 per unit. Although scarcity of available apartment buildings to purchase remains a hurdle, COVID-driven trends may lead to an increase in available apartment investment opportunities as private owners face more complicated operations, potentially becoming willing sellers.

SALES METRICS

| | No. of Sales | Sales Volume | Avg Price/Unit | Avg Price/SF | Avg Cap Rate |
|----------------------------------|--------------|----------------|------------------|--------------|--------------|
| Q1 2020 (JAN - MARCH) | — | — | — | — | — |
| Q2 2020 (APRIL - JUNE) | 2 | \$22.0M | \$343,654 | \$326 | 4.8% |
| 2019 (JAN - DEC) | 11 | \$684M | \$380,603 | \$441 | 4.4% |

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SOUTH KING COUNTY

"What economic slowdown?" said South King's record-setting average sales price per square foot.

Following a remarkable sales volume of \$470M recorded in the fourth quarter of 2019, South King followed up with an additional \$92.5M in sales rolling over to the first quarter of 2020. However, second quarter sales nearly came to a halt, putting the region on track for its lowest annual sales volume in more than four years. Yet, what South King sales lack in quantity this year, they've gain in quality. Average pricing on a per-square-foot basis is the highest in the region's history, and capitalization rates compressed 60-70 basis points from 2019.



SALES METRICS

| | No. of Sales | Sales Volume | Avg Price/Unit | Avg Price/SF | Avg Cap Rate |
|-----------------------------------|--------------|----------------|------------------|--------------|--------------|
| Q1 2020 (JAN - MARCH) | 6 | \$92.5M | \$224,528 | \$256 | 4.6% |
| Q2 2020 (APRIL - JUNE) | 3 | \$7.7M | \$166,128 | \$254 | 4.5% |
| 2019 (JAN - DEC) | 62 | \$1.17B | \$186,501 | \$224 | 5.2% |

A COMPLETE LIST OF SALES IS AVAILABLE BY CONTACTING A BROKER ON OUR TEAM.



SNOHOMISH COUNTY

Sales stalled in the first half of 2020, but other factors will shape investors' future outlook for this market.

While nearly all companies are affected by the global economic slowdown, one of the largest influencers in Snohomish, Boeing, felt the effects early on and experienced a decline in production at their Everett facility, likely impacting investor confidence in the short term. However, headlines of new contracts such as the Defense Department's \$1.2B spend for Boeing-developed fighter jets are demonstrative of the market's resilience, and investors planning for the next 5-10 years won't soon turn a blind eye to the light rail expansions making their way up to Everett.

SALES METRICS

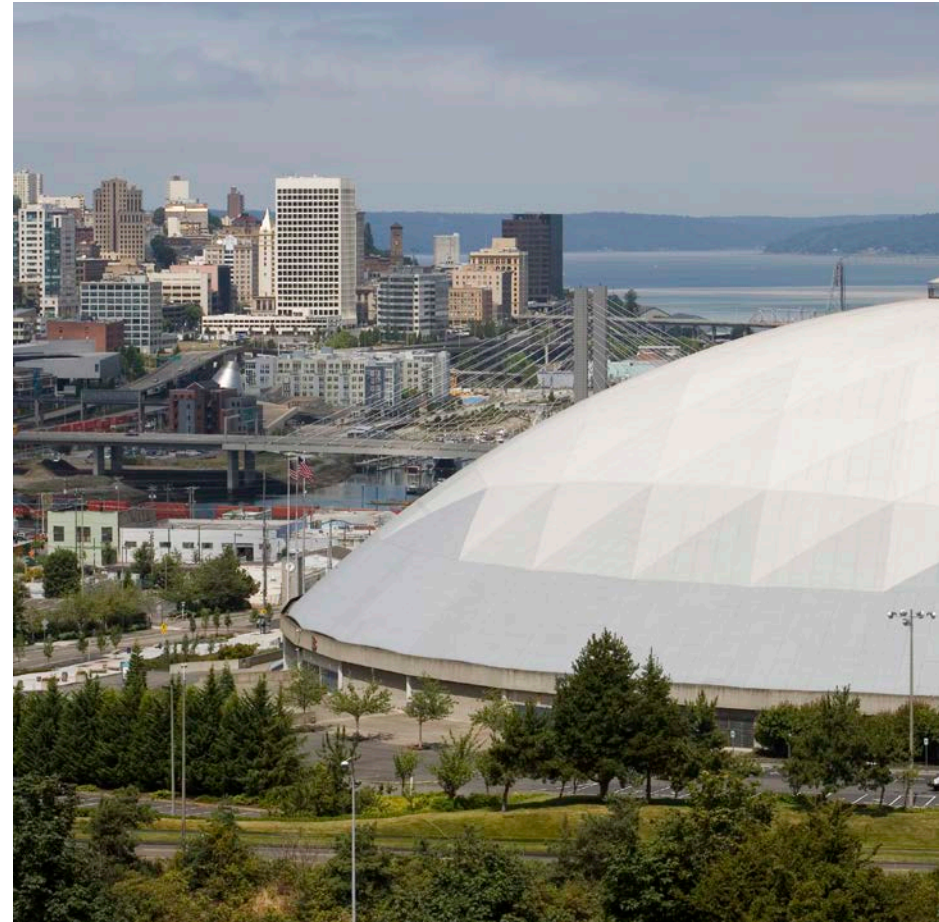
| | No. of Sales | Sales Volume | Avg Price/Unit | Avg Price/SF | Avg Cap Rate |
|-----------------------------------|--------------|----------------|------------------|--------------|--------------|
| Q1 2020 (JAN - MARCH) | 4 | \$5.1M | \$171,304 | \$222 | 4.4% |
| Q2 2020 (APRIL - JUNE) | 2 | \$4.9M | \$138,362 | \$208 | 4.3% |
| 2019 (JAN - DEC) | 47 | \$1.21B | \$212,809 | \$233 | 4.8% |

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PIERCE COUNTY

Investors who traditionally focused on core Seattle and King County are shifting attention south to Pierce.

Pierce had the largest number of sales—24 total—outside of Urban King County in the first half of 2020, and may be the only market we track that kept pace with the number of sales closed in 2019. It's clear why Pierce continues to attract investors: sales from January through June averaged a 5.5% capitalization rate compared to 4.5% in Urban King—a 100-basis-point spread. The average cap rate in Pierce expanded slightly from 2019, largely due to the number of sales occurring in more suburban cities rather than the competitively priced “Urban Tacoma” market.



SALES METRICS

| | No. of Sales | Sales Volume | Avg Price/Unit | Avg Price/SF | Avg Cap Rate |
|-----------------------------------|--------------|----------------|------------------|--------------|--------------|
| Q1 2020 (JAN - MARCH) | 13 | \$30.1M | \$137,726 | \$165 | 5.6% |
| Q2 2020 (APRIL - JUNE) | 11 | \$32.5M | \$164,268 | \$216 | 5.3% |
| 2019 (JAN - DEC) | 50 | \$519M | \$159,034 | \$197 | 5.2% |

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KITSAP COUNTY

Kitsap's sole apartment sale in the first half of 2020 was snapped up before it even officially hit the market.

It's hard to provide true "insight" for a market with only one sale recorded as of June, yet we can provide a deeper understanding of the numbers as we were the sales brokers representing the seller in this transaction. While 2019 marked a year of fully renovated apartment buildings trading hands, the first sale of 2020 was a value-add opportunity, which is reflected in the per-unit pricing and compressed cap rate. Investors see continued growth and attractive ventures outside of the urban core, yet they expect cap rates north of 5.0% on stabilized apartment operations in Kitsap.

SALES METRICS

| | No. of Sales | Sales Volume | Avg Price/Unit | Avg Price/SF | Avg Cap Rate |
|----------------------------------|--------------|----------------|------------------|--------------|--------------|
| Q1 2020 (JAN - MARCH) | 1 | \$16.2M | \$162,000 | \$217 | 4.7% |
| Q2 2020 (APRIL - JUNE) | — | — | — | — | — |
| 2019 (JAN - DEC) | 6 | \$270M | \$225,135 | \$238 | 5.6% |

A COMPLETE LIST OF SALES IS AVAILABLE BY CONTACTING A BROKER ON OUR TEAM.

Our team is focused on providing absolute best-in-class brokerage services to apartment investors, owners, and developers in Seattle and the broader Puget Sound region.

Although we have brokered more than a billion dollars of apartment transactions over the years, our approach to the brokerage business is modern and dynamic. We perform all of the traditional tasks associated with apartment and loan brokerage, yet our clients gain the advantage of modern advisory practices and services.

We think and act in terms of absolute market expertise, exposing arbitrage opportunities and achieving best-in-class sales results. We inspire trust and confidence in our guidance to the market by leveraging data and information to develop Profitable Insights™ on the market. Our clients excel by having an unfair advantage over the marketplace.

SERVICES OFFERED

SALE of stabilized apartment buildings – 5 units to 500 units

OFF-MARKET pursuits of pre-sale and stabilized apartment buildings

SALE of development land, both apartments and mixed-use

STRATEGIC disposition of apartment portfolios

LOAN BROKERAGE for construction, bridge, and permanent financing

Let us turn our expertise into your profit!

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NOTES

Sales data for the Puget Sound region is inclusive of all 5+ unit market-rate apartment buildings in King, Snohomish, Pierce, and Kitsap counties.

DATA SOURCES

King County Registrar

Snohomish County Registrar

Pierce County Planning & Public Works Department

Kitsap County Application Services

CoStar

Real Capital Analytics

Commercial Brokers Association

Dupre & Scott

2020 MID-YEAR SALES UPDATE

DYLAN SIMON

Executive Vice President
206.414.8575
dylan.simon@kidder.com

BRANDON LAWLER

Associate
206.484.8114
brandon.lawler@kidder.com

DYLANSIMON.COM

JERRID ANDERSON

Executive Vice President
206.499.8191
jerrid.anderson@kidder.com

WINSLOW LEE

Associate
425.681.7695
winslow.lee@kidder.com

MATT LAIRD

Senior Associate
425.736.5516
matt.laird@kidder.com

ALEX MUNDY

Debt Finance
206.747.4725
alex.mundy@kidder.com

