



SIMON | ANDERSON TEAM

2020 MICRO REPORT

A MACRO LOOK AT MICROHOUSING

SMALL CHANGES TO MICROHOUSING LEGISLATION & PERMITTING IN 2020 IS A GOOD THING

The regulatory environment for residential development in Seattle remains in a state of flux as policy makers flip back and forth between different policy approaches. Most policy shops, both inside and outside the government, remain relatively committed to policies that facilitate new development, increasing housing supply diversity of new housing types, and access to desirable neighborhoods for all citizens.

At the same time, Seattle’s City Council increasingly leans into populist, anti-development impulses that aim to pin the sole responsibility for solving our housing woes on large corporations and real estate developers. The result is an incoherent approach to housing policy that seems to lurch back and forth rather than in any specific direction we could call progress.

In 2020, most microhousing legislation was temporary in nature, focused on the short-term economic effects of COVID-19. As a result, there is little movement on the legislative front, good or bad. Below are a couple of noteworthy exceptions:

Housing Council Recommends More Microhousing

In January 2020, Mayor Durkan’s Seattle Affordable Middle-Income Housing Advisory Council made this recommendation, “The City should allow market-rate congregate housing in NC2, LR2, and LR3 zones in urban centers and villages.” This is exactly the type of change that is needed to revive congregate housing as a viable market-rate housing strategy. It is unclear if there is any political will behind this recommendation, but it’s encouraging to see it in writing from the Mayor’s Office.

01

SEPA Exemptions Improving Permit Timelines Exceeded

Capitol Hill, First Hill, Mount Baker, 23rd & Union-Jackson, Columbia City, and Roosevelt have now exceeded their Comprehensive Plan 2030 growth targets and are no longer exempt from SEPA review. SEPA exemptions which speed up permitting, remove requirements for historic review and traffic studies reducing overall entitlement risks still remain in other Urban Centers and Urban Villages throughout Seattle.

02

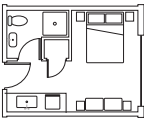
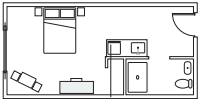

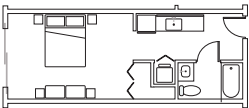
Bicycle Parking Nearly Doubles, Then Retreats

A new director’s rule was issued this year expanding requirements for new bike parking. The draft rule imposed numerous new mandates, including freight sized elevators and bike space minimums that could have easily doubled the size of bike room. Mercifully, the final version of the rule did not impose any meaningful new requirements beyond current requirements.

03

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.

SEATTLE FUNDAMENTALS

Is microhousing still viable?

2020 is certainly testing the assumptions & operations of microhousing.

When the first microapartments were built (2009), developers of microhousing told naysayers that small spaces were the key to affordability and “the neighborhood is your amenity” -- in defense of living “small”. So, what happens when your neighborhood is closed? 100% of microhousing owners firmly believed their properties were recession proof, and many still do. Yet, the initial impact of COVID 19 was palpable at many microhousing properties that house non-essential workers and students suffered operational declines due to business and school closures.

The short answer to the continued viability of microhousing is a resounding “yes”. The below data is only a snapshot of data gathered in November each year, so it fails to adequately tell the story that microhousing quickly rebounded from the initial blow of the pandemic. We are seven months into a pandemic that shocked the very system of urban rental housing. Time will tell, but so far, microhousing is proven resilient.

MICROS

↓ 6.1%

\$963

AVG
RENT

\$4.74

AVG
RENT/SF

90%

AVG
OCCUPANCY

\$144K

AVG SALES
PRICE/UNIT

\$681

AVG SALES
PRICE/NRSF

5.3%

CAP
RATE

SEDUS

↓ 7.4%

\$1,166

AVG
RENT

\$4.04

AVG
RENT/SF

92%

AVG
OCCUPANCY

\$216K

AVG SALES
PRICE/UNIT

\$766

AVG SALES
PRICE/NRSF

4.7%

CAP
RATE

MARKET-RATE APARTMENTS

↓ 1.5%

\$1,561

AVG STUDIO
RENT

\$3.60

AVG STUDIO
RENT/SF

89%

AVG STUDIO
OCCUPANCY

\$422K

AVG SALES
PRICE/UNIT

\$635

AVG SALES
PRICE/NRSF

4.4%

CAP
RATE

RENT & VACANCY

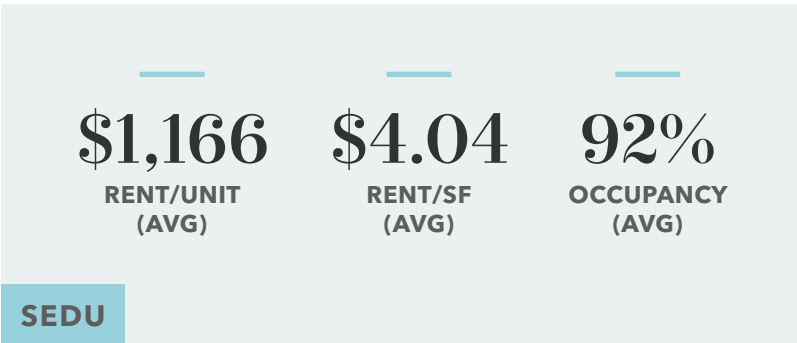
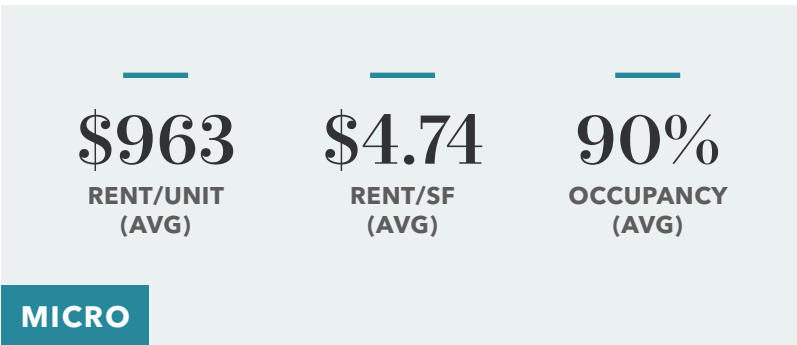
IS MICROHOUSING SAFE?

We’ve talked to owners of over 100 microhousing properties while gathering data for this study and one theme we’ve heard consistently is that the fear of germ transfer had very little impact on operations and residents. Owners have increased the frequency of common area cleanings and not one microapartment has reported a systemic COVID outbreak.

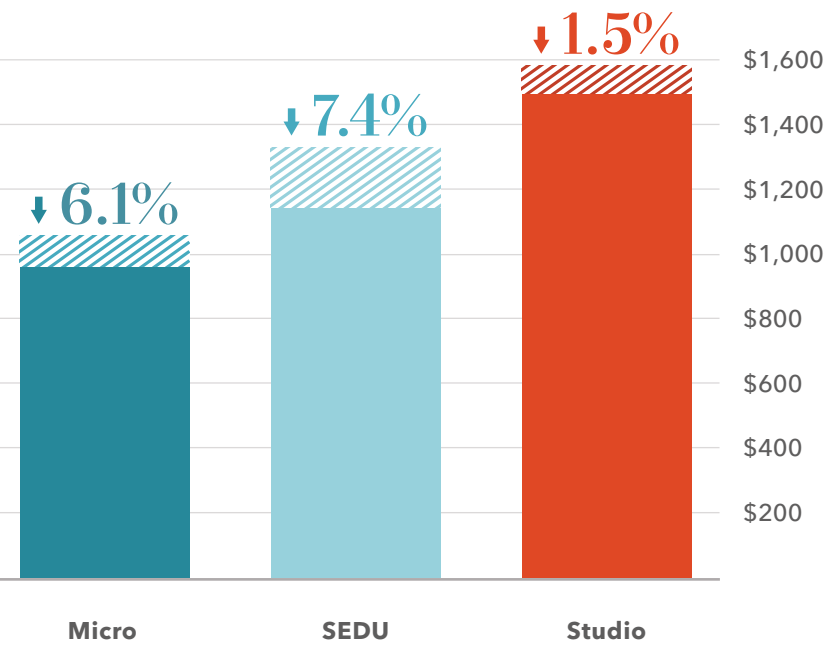
ARE CONCESSIONS IN NEW APARTMENTS AFFECTING MICROHOUSING?

MICRO The pricing floor is \$800 with a ceiling near \$1,100. We believe micros have been less impacted by concessions and more impacted by a shortage of demand from students.

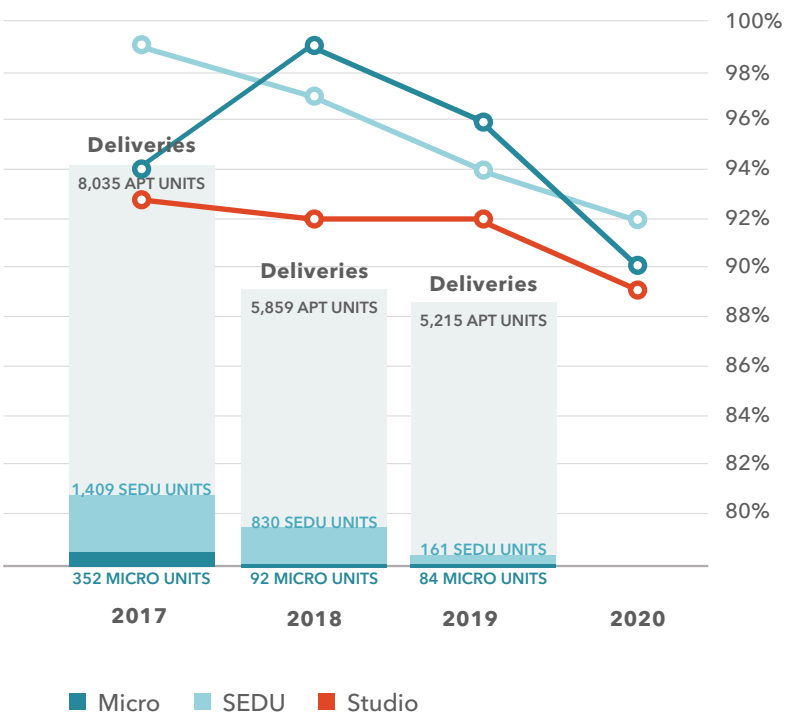
SEDU While we still believe that a \$250 rent delta between studios and SEDUs is a sufficient, widespread concessions of up to 3 months free for studio units is greatly impacting SEDU rental rates.



RENT



OCCUPANCY



	Rent / Unit			Rent / SF			Occupancy		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
<div></div> MICRO*	\$1,024	\$1,051	\$963	\$4.91	\$5.22	\$4.74	97%	96%	90%
<div></div> SEDU*	\$1,286	\$1,319	\$1,166	\$4.83	\$4.85	\$4.04	97%	94%	92%
<div></div> STUDIO†	\$1,521	\$1,584	\$1,561	\$3.85	\$3.72	\$3.60	92%	92%	89%

*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

Total existing stock of microhousing units by neighborhood

NORTH SEATTLE

MICRO	\$945	\$4.31/SF	90%
SEDU	\$1,108	\$3.34/SF	95%

887

BALLARD

MICRO	\$924	\$4.70/SF	90%
SEDU	\$1,089	\$3.76/SF	93%

532

GREEN LAKE, FREMONT, WALLINGFORD

MICRO	\$1,054	\$4.85/SF	95%
SEDU	\$1,265	\$4.37/SF	94%

542

QUEEN ANNE, MAGNOLIA

MICRO	-	-	-
SEDU	\$1,189	\$4.06/SF	92%

135

SOUTH LAKE UNION, EASTLAKE, WESTLAKE

MICRO	\$1,114	\$3.79/SF	95%
SEDU	\$1,186	\$3.91/SF	90%

343

BELLTOWN, DOWNTOWN, PIONEER SQUARE

MICRO	-	-	-
SEDU	\$1,273	\$4.34/SF	89%

83

FIRST HILL, YESLER

MICRO	\$886	\$4.37/SF	98%
SEDU	\$1,269	\$4.42/SF	89%

296

WEST SEATTLE

MICRO	\$898	\$4.76/SF	90%
SEDU	\$1,122	\$3.73/SF	93%

385

UNIVERSITY DISTRICT, ROOSEVELT

MICRO	\$911	\$5.16/SF	-
SEDU	\$1,138	\$4.17/SF	-

1,984

CAPITOL HILL

MICRO	\$993	\$5.15/SF	83%
SEDU	\$1,202	\$3.99/SF	85%

1,372

EASTSIDE

MICRO	\$1,007	\$3.05/SF	-
SEDU	-	-	-

482

CENTRAL DISTRICT

MICRO	\$920	\$4.64/SF	89%
SEDU	\$1,175	\$4.52/SF	90%

491

BEACON HILL, RAINIER VALLEY

MICRO	\$850	\$4.47/SF	96%
SEDU	\$1,290	\$4.02/SF	96%

158

*UNIVERSITY DISTRICT, ROOSEVELT EXCLUDED FROM MARKET AVERAGES. NO DATA DISPLAYED FOR NEIGHBORHOODS WITH DATA FOR ONE BUILDING TO PROTECT ANONYMITY.

RENT & VACANCY BY NEIGHBORHOOD

Believe it or not, supply and demand, the most basic economic fundamental, applies equally to microhousing. Accordingly, it's not surprising that neighborhoods with the lowest inventory of microapartments are experiencing the most stable operations (Beacon Hill and Fremont to name a few). Demonstrating both the viability of microapartments outside of core, urban neighborhoods and the general principal of supply vs. demand, the few microapartments located outside of Seattle are proving some of the best operations in our study.

If you're wondering where to buy or build your next microapartment, look where others are not. Microhousing is in high demand in all neighborhoods and markets with residents seeking an affordable clean new home, not just close-in, densely populated neighborhoods adjacent to downtown Seattle.

SALES & DEVELOPMENT

So far, 2020 saw few apartment sales, and even fewer microhousing sales. Year-to-date, apartment sales volume plummeted 86% from 2019 highs. While several SEDUs came to market (with high price tags), most investors took a “wait and see” approach toward microhousing. Our Team’s pipeline of microhousing sales remains robust with 5 new transactions pending or closed in 2020.

SALES

MICROS

	Property Name	Address	Year Built	Units	Avg Unit Size (SF)	Price	Sale Date	\$/Unit	\$/NRSF	Cap Rate	NOI/NRSF
1	Westward Micros	4546 - 4548 Delridge Way SW	2013	17	187	\$2,600,000	9/4/2020	\$152,941	\$818	5.3%	\$43
2	Footprint Avalon	3266 SW Avalon Way	2014	56	192	\$7,000,000	9/3/2020	\$125,000	\$651	5.0%	\$33
3	Horizon Phinney	8727 Phinney Ave N	2014	79	152	\$10,550,000	6/28/2019	\$133,544	\$877	5.2%	\$46
4	Horizon Greenwood	143 N 85th St	2014	38	235	\$5,300,000	6/28/2019	\$139,474	\$593	5.2%	\$31
5	Wallingford Studios	4516 Meridian Ave N	2013	40	274	\$7,150,000	6/21/2019	\$178,750	\$651	5.4%	\$35
6	Common Madison	1806 23rd Ave	2013	61	172	\$7,900,000	2/28/2019	\$129,508	\$754	5.2%	\$39
7	Common Rogers	2371 Franklin Ave E	2013	35	185	\$4,700,000	1/24/2019	\$134,286	\$725	4.8%	\$35
8	Anew 12th	1806 12th Ave	2014	78	274	\$14,500,000	1/24/2019	\$185,897	\$679	5.2%	\$35
9	Common Capital Hill	422 11th Ave E	2013	54	209	\$9,200,000	1/24/2019	\$170,370	\$817	4.9%	\$40
10	Emerald 10	315 10th Ave	2012	36	176	\$5,000,000	6/27/2017	\$138,889	\$790	5.2%	\$41
11	Westward Micros	4546 - 4548 Delridge Way SW	2013	16	187	\$2,000,000	5/31/2017	\$125,000	\$667	4.9%	\$33
12	Sedona Micros	8520 20th Ave NE	2015	80	207	\$9,000,000	6/10/2016	\$112,500	\$545	5.6%	\$30
Average			2013	49	204			\$143,847	\$714	5.2%	\$36

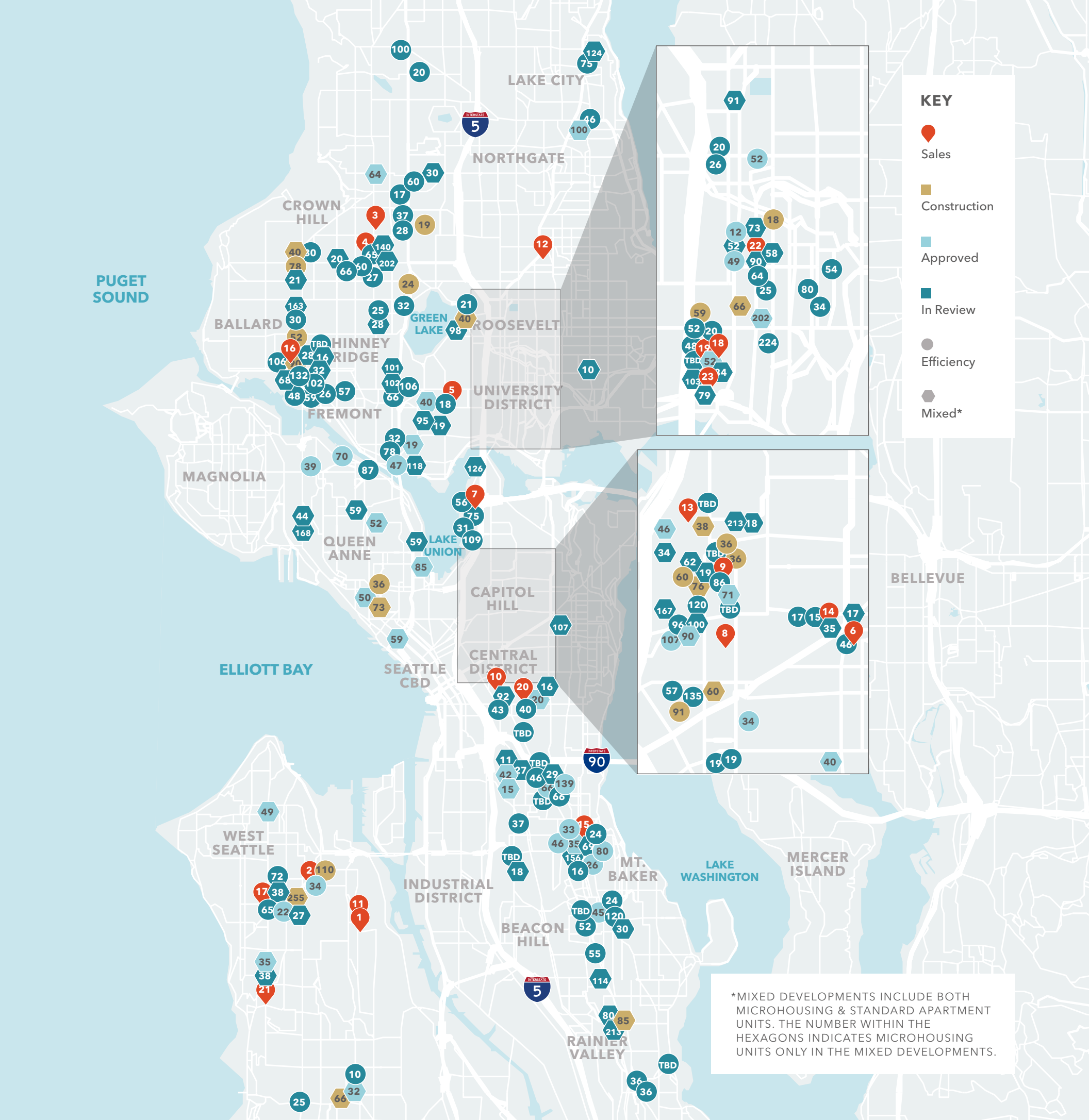
SEDUS

	Property Name	Address	Year Built	Units	Avg Unit Size (SF)	Price	Sale Date	\$/Unit	\$/NRSF	Cap Rate	NOI/NRSF
13	741 Harvard	741 Harvard Ave E	2017	41	253	\$9,575,000	2/4/2020	\$233,537	\$922	4.6%	\$43
14	The Redwood	111 21st Ave E	2017	75	280	\$17,500,000	12/18/2018	\$233,333	\$832	4.5%	\$37
15	Link Studios	2939 S Mt Baker Blvd	2015	60	206	\$7,478,753	8/30/2018	\$124,646	\$604	5.1%	\$31
16	Ballard 57	1731 NW 57th St	2016	48	275	\$11,000,000	8/16/2018	\$229,167	\$833	4.5%	\$37
17	Lofts at the Junction	4535 44th Avenue SW	2015	38	337	\$9,500,000	7/26/2018	\$250,000	\$742	4.6%	\$34
18	Willet	4252 8th Ave NE	2017	20	323	\$5,450,000	4/27/2018	\$272,500	\$843	4.4%	\$37
19	Pomelo Heights	4229 7th Avenue NE	2017	23	246	\$4,950,000	4/24/2018	\$215,217	\$876	4.3%	\$38
20	Jupiter	155 17th Avenue	2015	20	252	\$3,846,500	9/12/2017	\$192,325	\$764	5.0%	\$38
21	Viridian SEDUs	6917 California Avenue SW	2015	30	204	\$5,030,000	6/30/2017	\$167,667	\$821	5.4%	\$44
22	Den on Brooklyn	5043 Brooklyn Avenue NE	2013	50	262	\$8,825,000	2/28/2017	\$176,500	\$674	4.4%	\$30
23	Studio 7	4029 7th Avenue NE	2013	75	327	\$14,450,000	6/30/2016	\$192,667	\$589	4.7%	\$28
Average			2015	44	270			\$207,960	\$773	4.7%	\$36

MARKET-RATE APARTMENTS

Average (Built 2012 or Newer)	2015	66	680	-	-	\$422,774	\$635	4.4%	\$27
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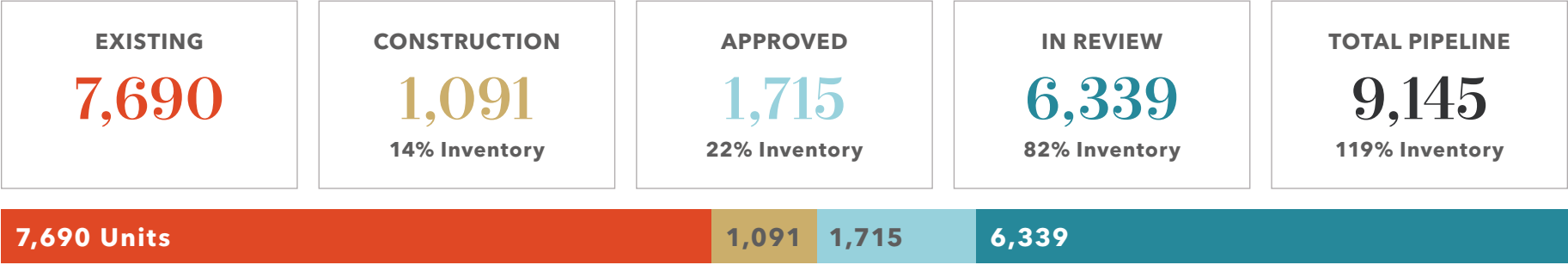
*BASED ON 66 URBAN KING COUNTY SALES (8,253 TOTAL UNITS) FROM JUNE 2016 - PRESENT



INVENTORY & PIPELINE

Only 35% of the units under construction in 2019 delivered in 2020. The cause? Major delays due to construction shutdowns and general construction inefficiency due to COVID related regulations. Additionally, the combination of construction cost escalation and market uncertainty continues to create a backlog of projects yet to break ground; total units permitted but sidelined to break ground increased 17% since 2019.

A bright spot for microhousing supply is the emergence within market-rate developments. Many “market rate” developers have started to incorporate microapartments into their project, raising the number of microhousing units in permitting by 53% year-over-year. The secret is out that microhousing produces more income per rentable foot!



FINANCING

SELLING & REFINANCING DURING THE PANDEMIC

Buyers and lenders alike are scrutinizing operations more than ever. Maintaining strong occupancy is crucial in order to obtain a new loan and to maximize proceeds.

Physical occupancy with “paying” tenants typically needs to be 85%-90% for the preceding 90-day period to qualify for an agency loan. Most bank lenders have similar requirements.

Vacancy and collection loss are more significant to lender’s underwriting than ever before. Vacant or delinquent units are excluded from lenders’ NOI calculation, which means that a single delinquent tenant in a \$1,500 unit can result in a \$250,000+ reduction in loan proceeds for DSCR constrained properties.

SAMPLE LOAN TERMS – PERMANENT FINANCING

Sample Loan Amount	\$10,000,000		
Amortization	30 Years		
Interest-Only	None		
Prepayment	Yield Maintenance		
Limits			
DSC	1.35	1.35	1.35
LTV	65%	65%	65%
Type, Rate & Payments			
Loan Type	5-Year Fixed	7-Year Fixed	10-Year Fixed
Rate	3.30%	3.00%	3.05%
Interest Rate Calculation	Actual/360	Actual/360	Actual/360
Monthly Payment	\$43,796	\$42,160	\$42,431

TIPS TO MAXIMIZE LOAN PROCEEDS

FILL VACANT UNITS even if it requires rent reductions or concessions.

INCENTIVIZE DELINQUENT TENANTS to vacate or resume payments through a payment plan.

MAINTAIN OCCUPANCY during the refinance or sales process. It's not good enough to have 100% occupancy at the time of the loan application or when the building hits the market. Occupancy must be maintained until the sale or refinance is closed.

MICROHOUSING SALES EXPERTS

We don’t just sell microhousing, we’ve created an entire division specializing in the valuation, acquisition, and sale of them.

We believe microhousing is the most innovative way to diversify and improve downturn resilience in your apartment portfolio while providing safe, affordable homes for residents.

Residents have spoken: they’ll trade square footage for location and great access to the city. That’s why we’ve made it our mission to sell and educate the world on microhousing.

Our Track Record

28
MICROHOUSING INVESTMENTS SOLD
& UNDER CONTRACT

100%
MICROHOUSING INVESTORS, OWNERS
& DEVELOPERS IN OUR DATABASE

\$272,500
RECORD SEDU PRICE PER UNIT

\$877
RECORD MICRO PRICE PER SF

4.3%
RECORD MICROHOUSING CAP RATE

JERRID ANDERSON
Executive Vice President
206.499.8191
jerrid.anderson@kidder.com

DYLAN SIMON
Executive Vice President
206.414.8575
dylan.simon@kidder.com

DYLANSIMON.COM

