

SEATTLE & PUGET SOUND

MICRO SPECIAL REPORT

2024

2024 SEATTLE HOUSING REGULATIONS SUMMARY

SIMPLIFIED PROCESS TO BUILD HOUSING

Last year, the state passed SB 5412, which removed SEPA review requirements for housing projects in Seattle. In other cities, this change will take effect in mid-2025 as they update their comprehensive plans. Seattle has also eliminated design review for projects that meet on-site affordable housing requirements through the Mandatory Housing Affordability program. As a result, many projects can now bypass all discretionary and appealable permitting steps and directly apply for a building permit.

MICROHOUSING IS RE-LEGALIZED

In April 2024, the state passed HB 1998, requiring cities and counties within urban growth areas to permit “co-living” housing in any zone that allows at least six multifamily residential units. This marks a complete reversal of the anti-microhousing bill that Seattle enacted in 2014. Seattle’s mayor has already introduced the implementation of the legislation to the city council. By the end of 2024, this legislation is expected to take effect, once again enabling microhousing development in all areas where multifamily housing is permitted.

MISSING MIDDLE-HOUSING

Seattle is currently in the middle of its decennial rewrite of the city’s comprehensive plan. The central feature of the new plan will allow the development of various middle-housing types in zones that previously only permitted single-family homes. These housing types will include cottages, townhomes, four-plexes, six-plexes, and small apartment buildings. Because state law requires the allowance of at least six units in many instances, the changes will likely open up some opportunity for building micros in today’s single-family zones. Granted the details of the new comprehensive plan are still under development and will likely be fiercely contested until the end. One way or another, it will be a game-changer for small, infill development in Seattle and other counties undergoing similar processes to comply with state legislation.



BUILDING CODE CHANGES

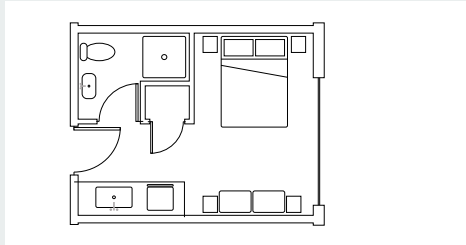
In recent years, much attention has been focused on the need to reverse anti-housing policies in our zoning codes. However, many obstacles to development are embedded in technical documents, like the Building Code. Earlier this year, the legislature passed HB 2071, which requires the State Building Code Council to consider two significant changes: 1) reducing minimum room sizes to allow for smaller and more efficient SEDUs, and 2) introducing new rules that permit small apartment buildings to be constructed under the (simpler and less expensive) residential building code. These potential changes will be reviewed by the State Building Code Technical Advisory Group throughout the next several months. If approved, they will be incorporated into the next building code cycle in 2026.



This legislative & zoning update was compiled in collaboration with Neiman Taber Architects.

MICROHOUSING DEFINITIONS

CONGREGATE

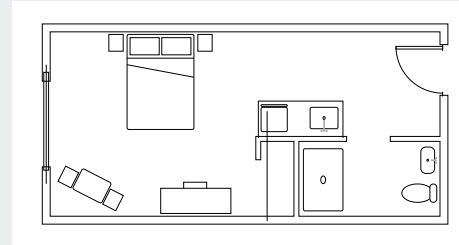


A type of housing that has a private sleeping room and typically a bathroom, but is not a complete dwelling unit and may share a bathroom, common kitchen, dining room, and facilities with other units.

Standard	140 - 200 SF
Average	175 SF
Minimum	70 SF

Allowed in certain zones

MICRO

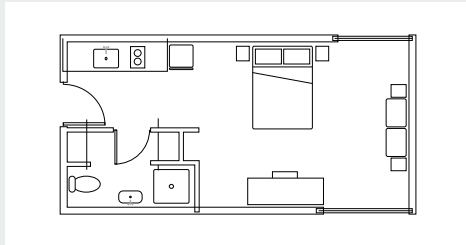


Historically, apartment or townhouse dwelling consisting of no more than eight sleeping suites (private room with private bath) and one common kitchen or kitchen/lounge.

Standard	150-225 SF
Average	200 SF
Minimum	90 SF

Max number of sleeping suites varies by municipality

SMALL EFFICIENCY DWELLING UNIT (SEDU)

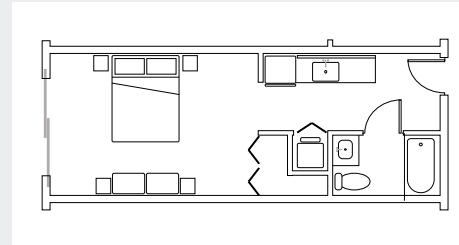


Very compact conventional studio apartment complete with cooking and bathing facilities and closet space. The max gross floor area allowed is 320 square feet – anything larger is an Efficiency Dwelling Unit (EDU).

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

Allowed

EFFICIENCY DWELLING UNIT (EDU)



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

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

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.

2024 SEATTLE FUNDAMENTALS

Microhousing continues to exhibit relative resilience in an otherwise softening residential landscape. That said, investors should always keep a close eye on the supply/demand dynamics of each submarket.

SEDU RENTS CONTINUE TO HOLD FIRM

Among microhousing types, SEDU fundamentals have stood out by demonstrating their resilience amid a softer year for residential real estate. Rents for this product are up 2.5% year-over-year, as compared to a decline of 1.0% and 2.7% for studios and micros, respectively.

FUNDAMENTALS VARY ACROSS SUBMARKETS

However, the story is not necessarily the same from submarket to submarket with some microhousing markets showing substantial year-over-year increases in both occupancy and rental rates, while others fall behind. From what we can see, it always comes back to supply and demand.

AFFORDABLE HOUSING GROUPS SCALE BACK

Challenging market conditions and a lack of funding availability have caused affordable housing groups to scale back investment activity. In turn, this has reduced the number of sales and subsequent visibility of pricing trends this past year.

PORTAGE BAY FLATS

MICROS

↓ 3%

<i>\$1,045</i>	<i>\$5.07</i>	<i>91%</i>	<i>\$154K</i>	<i>\$864</i>
AVG. RENT	AVG. RENT/SF	AVG. OCCUPANCY	AVG. SALES PRICE/UNIT	AVG. SALES PRICE/NRSF

SEDUs

↑ 2%

<i>\$1,343</i>	<i>\$4.40</i>	<i>92%</i>	--	--
AVG. RENT	AVG. RENT/SF	AVG. OCCUPANCY	AVG. SALES PRICE/UNIT	AVG. SALES PRICE/NRSF

MARKET-RATE STUDIOS

↓ 1%

<i>\$1,603</i>	<i>\$3.01</i>	<i>91%</i>	<i>\$273K</i>	<i>\$384</i>
AVG. RENT	AVG. RENT/SF	AVG. OCCUPANCY	AVG. SALES PRICE/UNIT	AVG. SALES PRICE/NRSF

Data Sources: Kidder Mathews Research, CoStar (Q3 Asking Rent, Studios Built 2010+), CoStar (Q3 Stabilized Vacancy, Studios Built 2010+)

RENT & VACANCY

Rental rates and occupancy levels have softened amid the broader market slowdown we've seen throughout the last few quarters.

MICRO

\$1,045 **\$5.07** **91%**
RENT/UNIT (AVG) RENT/SF (AVG) OCCUPANCY (AVG)

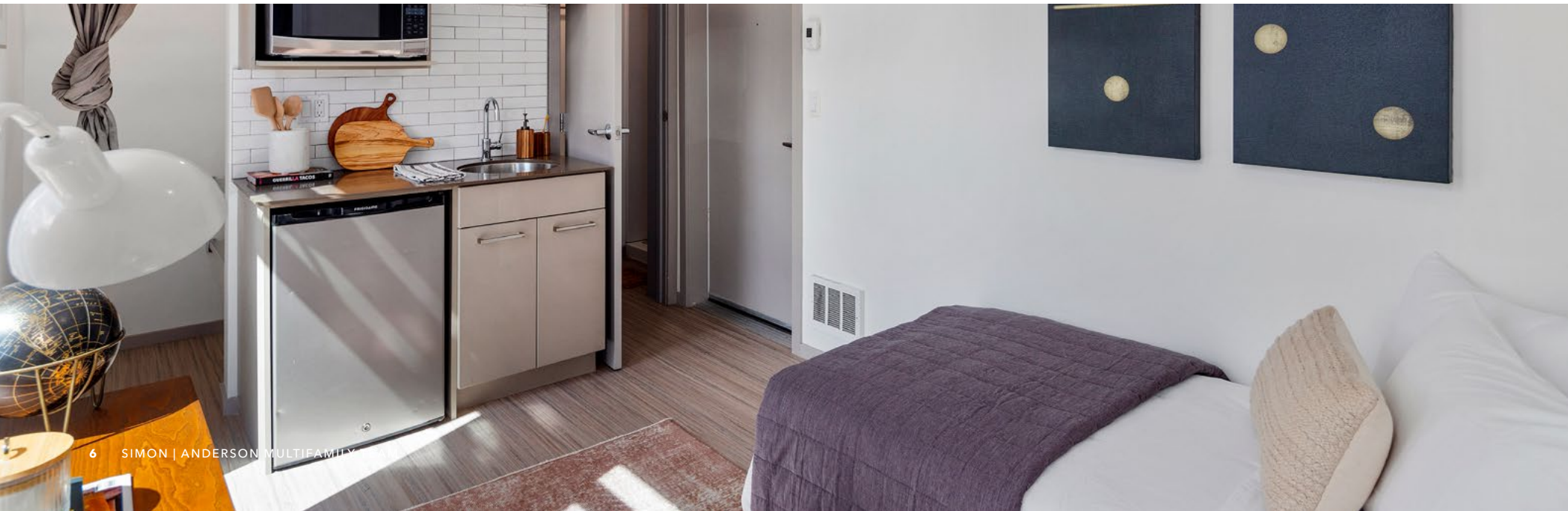
Microhousing fundamentals have softened in the last year (not unlike the broader residential rental market) with average rents per unit down 2.7% year-over-year to \$1,045 (from \$1,074). Occupancy also pulled back materially and is down 3% year-over-year to land at 91%. However, with occupancy still above 90% and little new construction expected to reach completion in the coming quarters, it's unlikely that we'll continue to see any further material downward steps in rental rates for this asset class.

SEDU

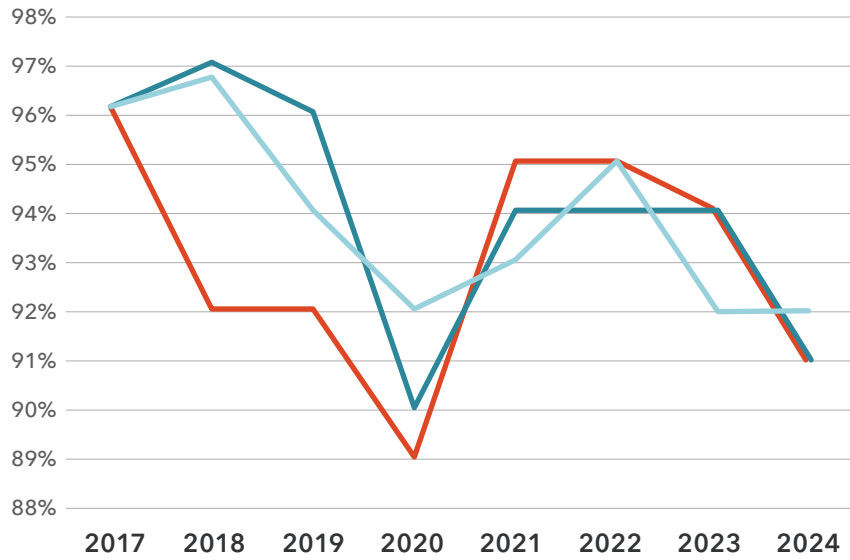
\$1,343 **\$4.40** **92%**
RENT/UNIT (AVG) RENT/SF (AVG) OCCUPANCY (AVG)

Among SEDUs, average rent per unit is up 2.5% year-over-year from \$1,310 previously to \$1,343 now. While this rent growth may well be received as positive news to investors in such product, it's worth noting that the delta between the average rents of SEDUs and studios is narrowing and is now \$260 - down from \$354 in 2022. If this delta continues to shrink, the value proposition of SEDUs could be under pressure.

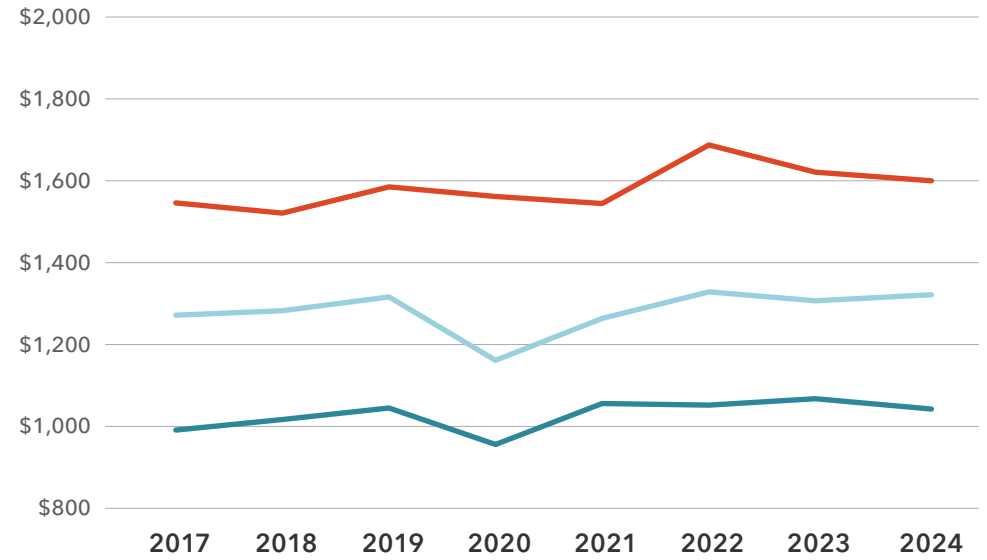
With occupancy having held firm year-over-year at 92%, SEDUs have stood out this year as a uniquely solid asset class, insulated from the relative weakness in the broader residential rental market.



Occupancy



Rent



— MICRO — SEDU — STUDIO

RENT / UNIT

RENT / SF

OCCUPANCY

	2022	2023	2024	2022	2023	2024	2022	2023	2024
■ MICRO*	\$1,058	\$1,074	\$1,045	\$5.34	\$5.37	\$5.07	94%	94%	91%
■ SEDU*	\$1,331	\$1,310	\$1,343	\$4.50	\$4.46	\$4.40	95%	92%	92%
■ STUDIO†	\$1,685	\$1,620	\$1,603	\$3.86	\$4.01	\$4.01	95%	94%	91%

*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

1,069

MICRO	89%	\$1,012	\$4.35
SEDU	88%	\$1,313	\$4.77

BALLARD

944

MICRO	87%	\$1,052	\$5.36
SEDU	96%	\$1,285	\$4.28

GREEN LAKE, FREMONT, WALLINGFORD

662

MICRO	95%	\$1,001	\$4.93
SEDU	93%	\$1,445	\$4.01

MAGNOLIA, QUEEN ANNE

514

MICRO	94%	\$1,150	\$5.69
SEDU	86%	\$1,319	\$4.40

SOUTH LAKE UNION, EASTLAKE, WESTLAKE

318

MICRO	91%	\$1,076	\$5.42
SEDU	100%	\$1,453	\$4.47

DOWNTOWN, FIRST HILL, YESLER

760

MICRO	87%	\$1,022	\$4.86
SEDU	83%	\$1,320	\$4.71

WEST SEATTLE

595

MICRO	83%	\$946	\$5.09
SEDU	92%	\$1,357	\$4.30

2,600

UNIVERSITY DISTRICT ROOSEVELT

MICRO	98%	\$1,130	\$5.59
SEDU	93%	\$1,248	\$4.54

1,635

CAPITOL HILL

MICRO	97%	\$1,010	\$4.77
SEDU	92%	\$1,326	\$4.38

470

CENTRAL DISTRICT

MICRO	85%	\$1,200	\$4.90
SEDU	93%	\$1,624	\$4.64

416

BEACON HILL, RAINIER VALLEY

MICRO	96%	\$882	\$4.64
SEDU	95%	\$1,398	\$4.57

RENT & VACANCY BY NEIGHBORHOOD

While microhousing and SEDU fundamentals remain relatively healthy, there are notable disparities in occupancy and rental rate growth across submarkets.

MICRO

Occupancy rates for microhousing units vary considerably across neighborhoods, ranging from as low as 83% in West Seattle to as high as 98% in University District & Roosevelt. The latter neighborhood is also among the highest rents in terms of dollar per square foot (\$5.59, just behind Queen Anne at \$5.69), thereby drawing students and young professionals seeking affordable living close to the many urban amenities.

SEDU

While rental rates have softened across most residential types and markets throughout the last year, SEDU fundamentals in certain Seattle neighborhoods have stood out among the pack as notable exceptions. For example, in the Central District, rents are up approximately 20% year-over-year, and the occupancy rate has increased from 83% to 93%. It's also worth noting that the Central District is one of the only submarkets that has seen no new SEDU deliveries in the last year.



SALES & DEVELOPMENT

Along with much of the broader market, affordable housing groups scale back investment activity in 2024.

Affordable housing groups have somewhat slowed their pace of activity in 2024 due, in part, to challenging market conditions and a lack of available funding. So far this year, there have been no recorded sales of microhousing or SEDUs to affordable housing groups, which equates to less of a readthrough to pricing trends.

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



LOCATION / TRANSIT



100+ UNITS

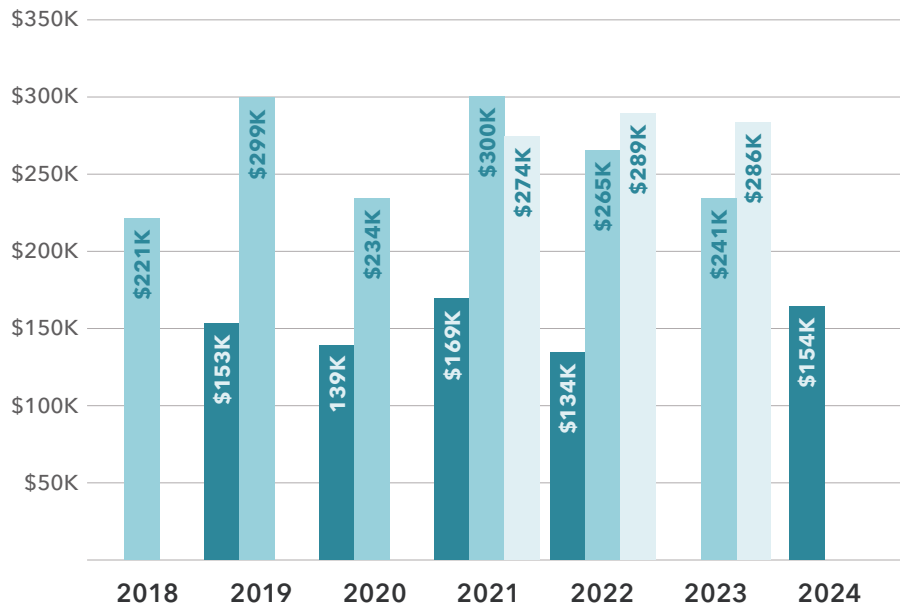


ELEVATORS

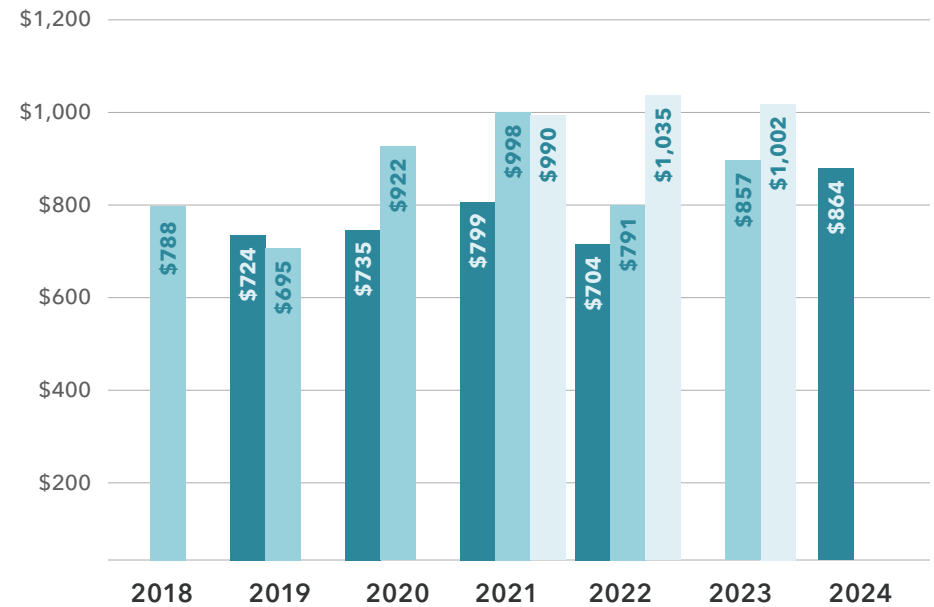


100% VACANT

Average Price per Unit



Average Price per NRSF



■ MICRO ■ SEDU ■ PURCHASE BY AN AFFORDABLE HOUSING GROUP

DEVELOPMENT

Just last year, microhousing units under construction represented more than a whopping 20% of existing inventory. Since then, a large chunk of that pipeline has been delivered to the market. Now, there are 1,333 units under construction, which is about 12% of existing inventory. This is more in line with historical norms and, in our view, no longer represents a meaningful threat to occupancy or rental rate growth.

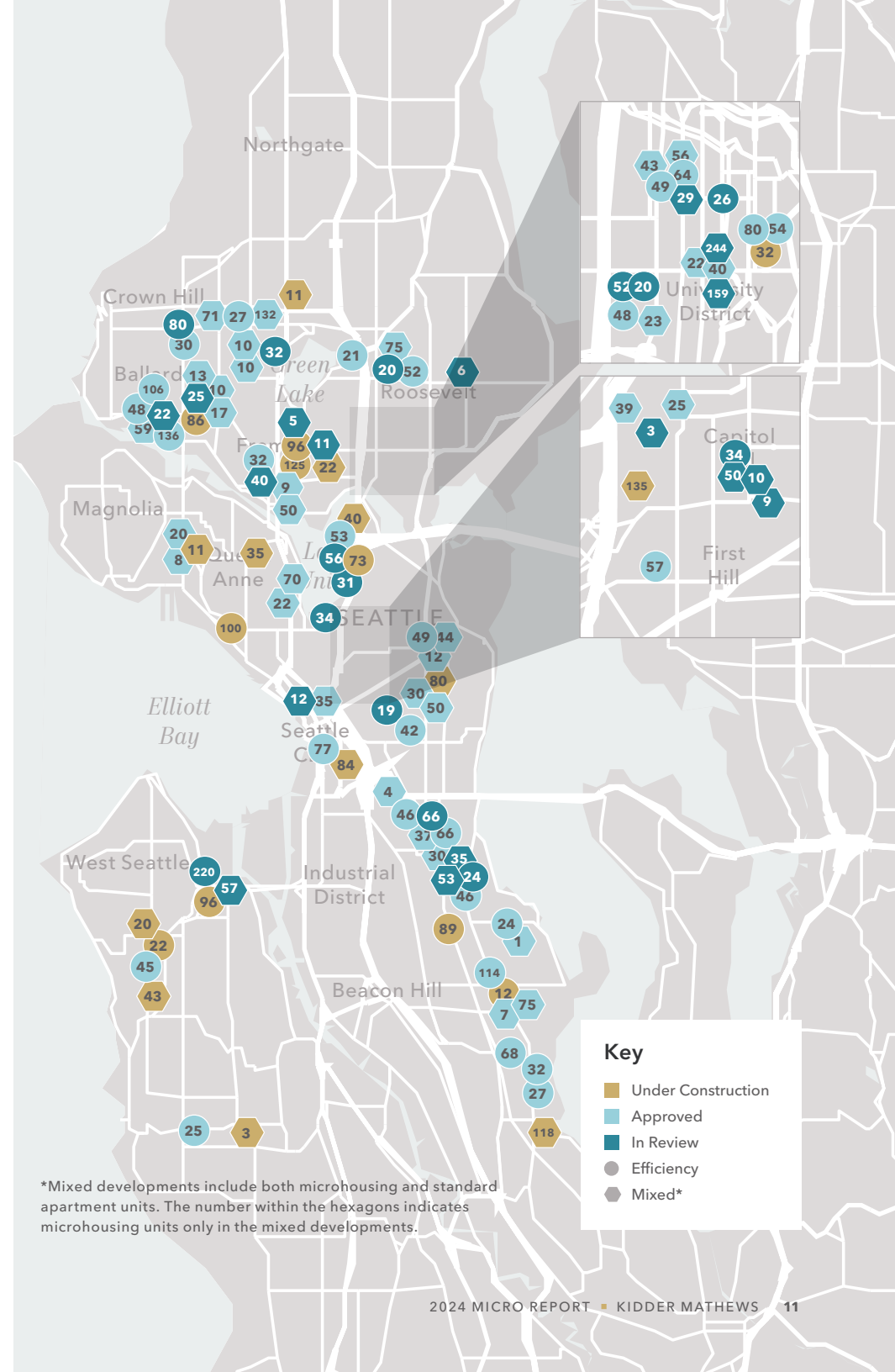
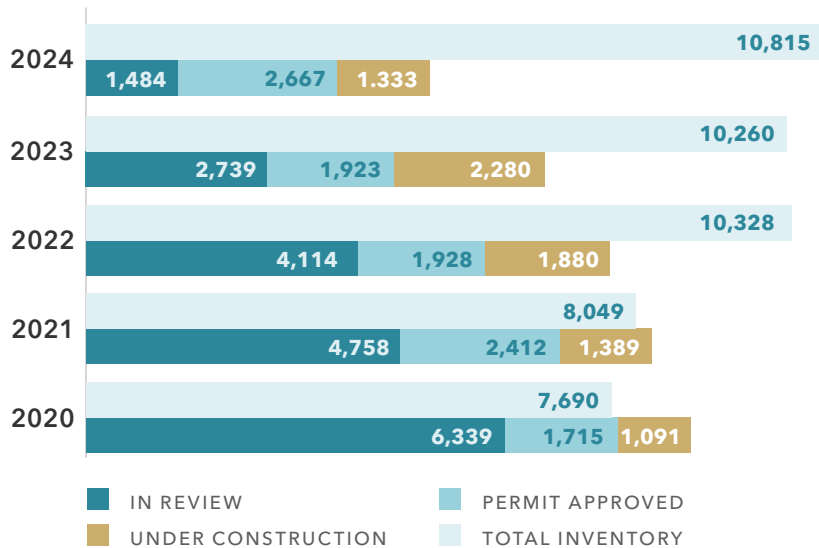
However, the number of projects with permits approved is higher than ever. As market conditions continue to improve, we expect these to continue to convert to shovels in the ground.

- 555** Microhousing units delivered in the last year

- 42%** Year-over-year reduction in the active construction pipeline

- 2,667** Permits approved, over 700 more than last year

Historic Efficiency Pipeline



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

OUR MICROHOUSING TRACK RECORD

36%

MICROHOUSING SALES
MARKET SHARE

2,098

MICROHOUSING UNITS SOLD
& UNDER CONTRACT

99 SF

SMALLEST MICROHOUSING
UNIT WE'VE SOLD

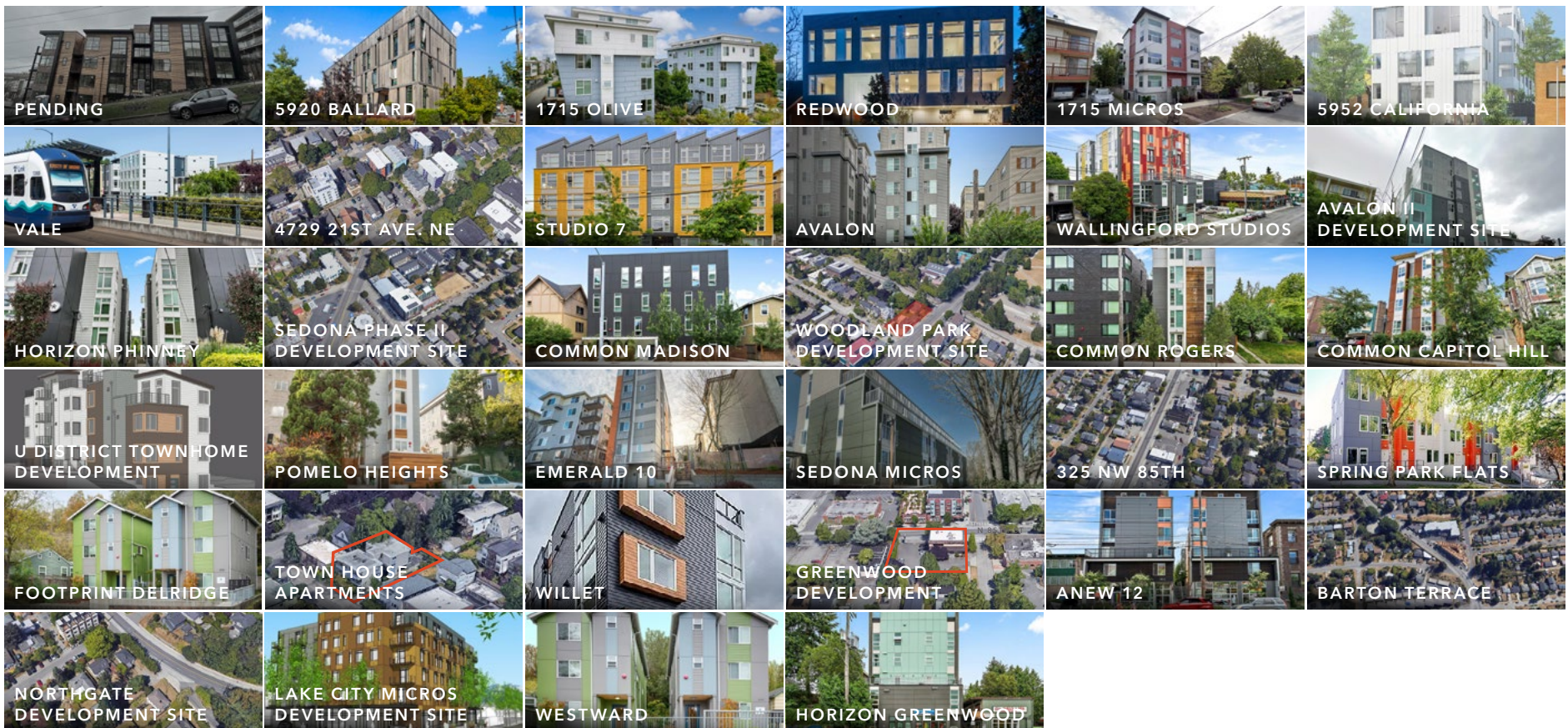
149

MICROHOUSING BUILDINGS
WE'VE TOURED & VALUED

\$175M

OUR MICROHOUSING
SALES VOLUME

TEAM MICROHOUSING SALES



WHY US?



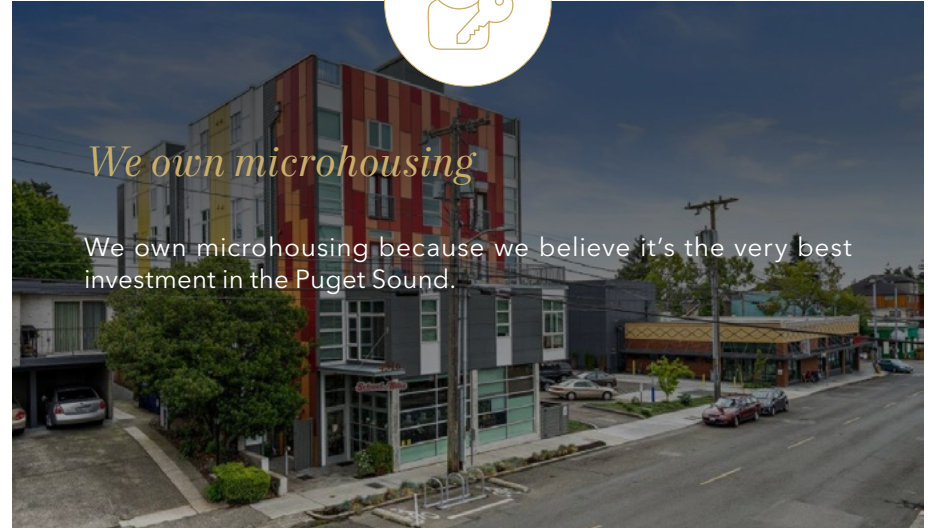
We sell microhousing

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



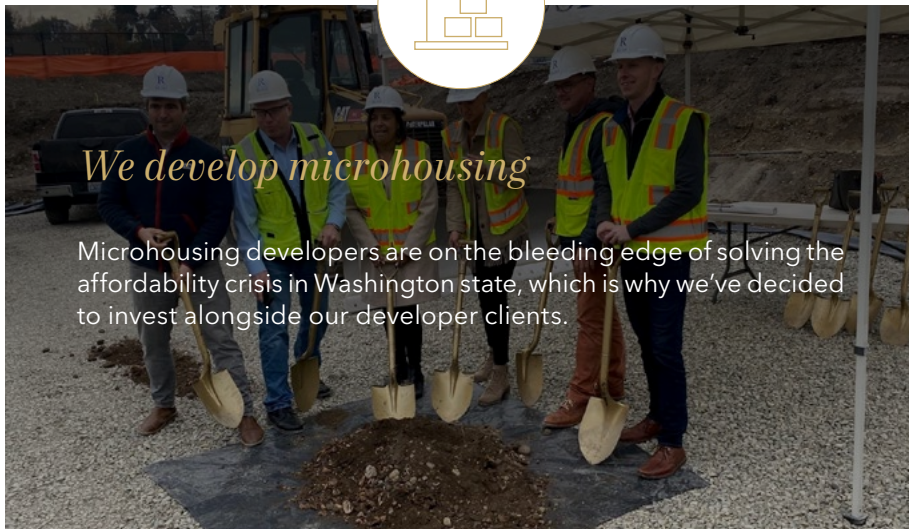
We own microhousing

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

JERRID ANDERSON

Executive Vice President

206.499.8191

jerrid.anderson@kidder.com

Researched & Published by

SIMON | ANDERSON MULTIFAMILY TEAM

TEAM FOUNDERS

DYLAN SIMON

Executive Vice President
206.414.8575
dylan.simon@kidder.com

JERRID ANDERSON

Executive Vice President
206.499.8191
jerrid.anderson@kidder.com

LEAD BROKERS

MATT LAIRD

First Vice President
425.736.5516
matt.laird@kidder.com

MAX FRAME

Associate Vice President
509.494.3116
max.frame@kidder.com

JD FULLER

Associate
206.665.3272
jd.fuller@kidder.com

JACK SHEPHARD

Associate
425.691.6826
jack.shephard@kidder.com

SIMONANDERSONTEAM.COM — KIDDER.COM

