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NEWS RELEASE

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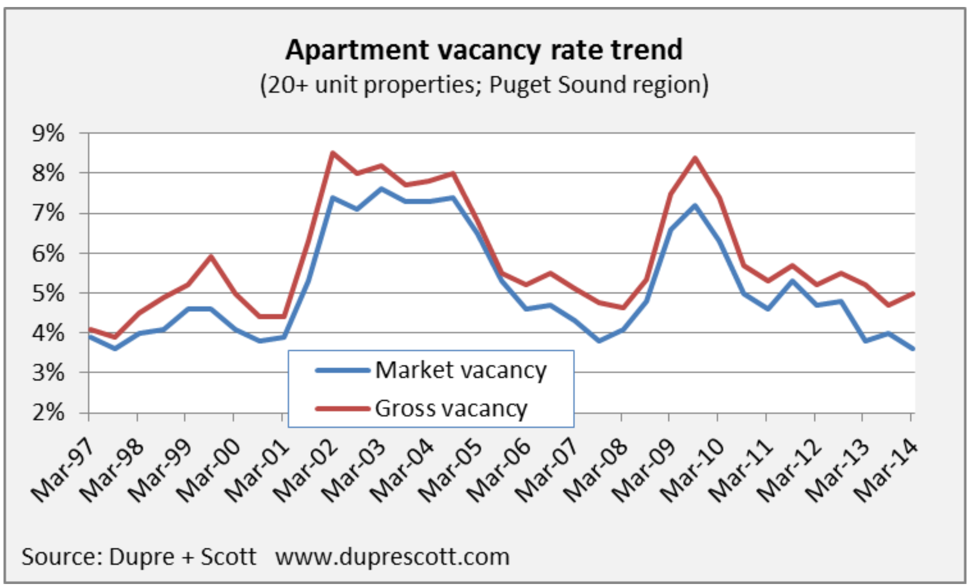
Apartment Rental Market Trends For the Puget Sound Region

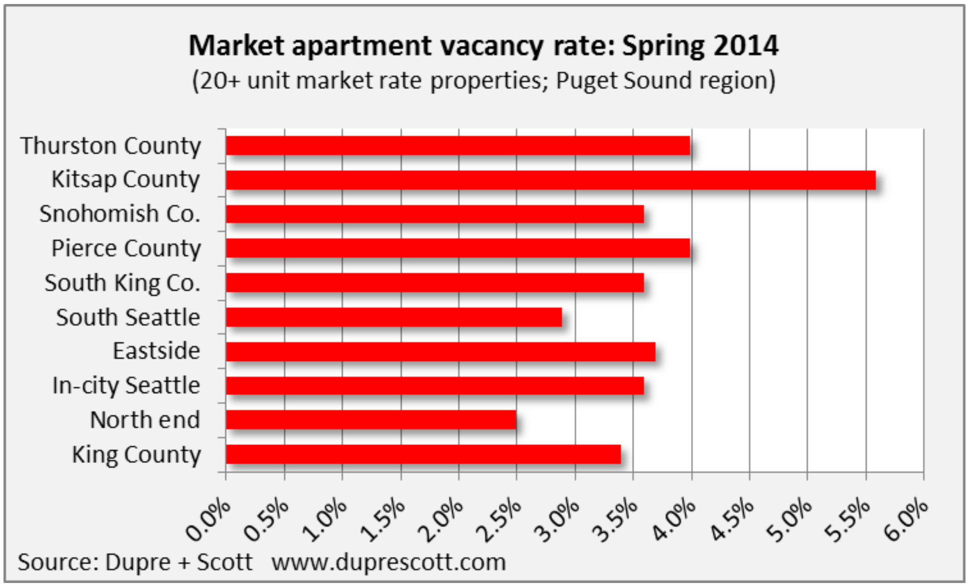
If this is the calm before the storm – It's an extremely good way to start.

- The vacancy rate is 3.6%, down from 4% last fall.
- It has only been this low once before since 1980.
- Vacancies fell in all five counties over the past six months.
- Rents are up 3.3% in the past six months and 7.5% in the past 12 months.
- Managers plan to raise rents another 2.9% by September.
- Developers opened almost 4,000 units in the past six months.
- Developers will open close to 7,000 new units in the next six months
- You have to go back 20+ years to find production anywhere near that level.
- Only 15% of the properties we surveyed last week offer concessions.
- But concessions are moving higher. They average $580 now, up from $461 last fall.



Vacancy trends

The market vacancy rate is 3.6% in the Puget Sound region. That's down from 4% last fall. Patty Dupre, a principal with Dupre + Scott, notes that, "The vacancy rate has only been this low once before since 1980. So, if this is the calm before the storm, it is an extremely good way to start." The market rate excludes vacancies in new properties in lease-up.

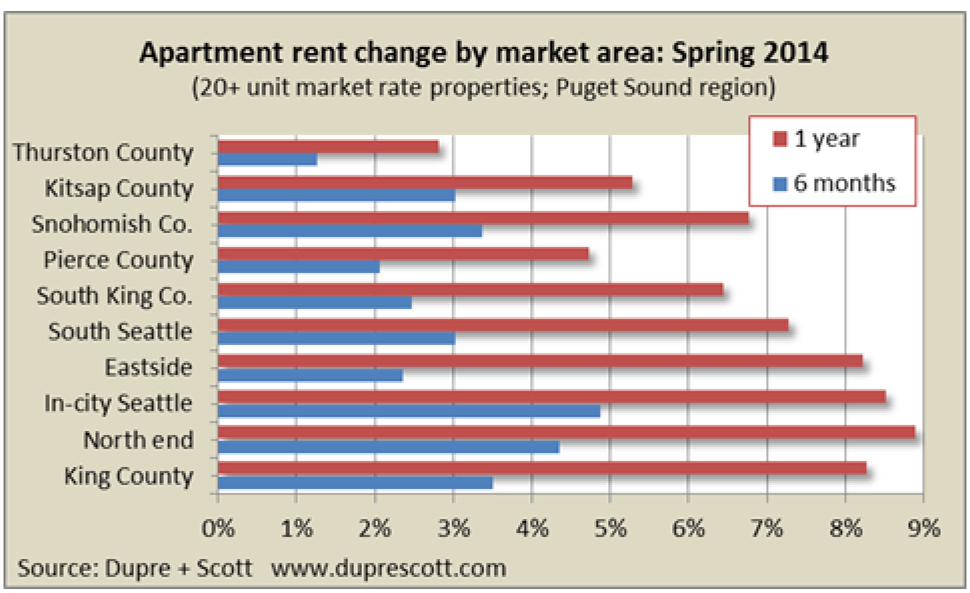


In addition to monitoring the "market" vacancy rate, Dupre + Scott also tracks the "gross" vacancy rate. The gross rate includes vacancies in existing properties and new properties in lease-up. It is 5% now, up from 4.7% last fall, but down from 5.2% a year ago.

New construction is leasing well so far. According to Dupre, "There are 9,400 units in lease-up today and they are already 64% occupied."

Rent trends

Rents rose 3.3% in the region over the past six months and are 7.5% higher than they were a year ago. Rents are higher in all five counties than they were six months ago.



Beware the "skew of the new"

One thing to be careful of now is the impact of new construction on rents. New construction typically gets a rent premium of more than 40%. This rent premium has not mattered much in most of the past dozen years because there has not been a lot of new construction.

But right now, with all the new construction opening up this year and next year, the higher rents in new units will create an inflated rent trend, especially in neighborhoods with a lot of development activity.

For example, one-bedroom rents jumped 18% in the past two years in the South Lake Union market. But developers added more than 2,000 units in the same period. That increased the stock by almost one-third, which creates a significant impact. If you exclude those new units, one-bedroom rents increased just under 10% in the past two years. That's still a significant increase, at close to 5% a year, but it is almost half the rent increase when you mix in all the new units.

"We're just beginning to see the rent distortion that new construction will create in a number of neighborhoods like Ballard, West Seattle, Capitol Hill, downtown Bellevue, and others. So beware the skew of the new," Dupre advises.

Hot markets

Dupre singled out those neighborhoods because there's a lot of new development happening there. A key question is how are they positioned right now to deal with it all? For the most part, pretty good.

The gross vacancy rate on Capitol Hill is just 3.6%. West Seattle is at 4.5%. Downtown Bellevue is 5.1%. The Belltown/Downtown/South Lake Union market is 8.6%, but just 3.9% when you exclude the new units in lease-up.

Ballard's market vacancy is a mere 2.8%. But its gross vacancy rate is the highest in the region, at 17.3%. Now that's downright scary, isn't it? Yes and no. If Ballard was a city with 100,000 rental units and it had a 17% vacancy rate, then yes that would be scary. But there are fewer than 2,500 units in Ballard. That means there are 423 vacant units right now. And since developers increased the total supply of rental housing by more than 50% in Ballard over the past 18 months, it's doing pretty well.

About the research

These are some of the findings of Dupre + Scott's survey of 20-unit and larger apartments in the Puget Sound region, published in their *Apartment Vacancy Report*. The survey ended on Friday the 21st. They proofed the data on Saturday and published the report online on Sunday.

Dupre + Scott surveyed the entire market and collected reliable information for 223,100 units in 2,163 properties. That's 88% of the market. An annual audit of actual year-end operating statements shows that this twice a year survey accurately reflects the vacancy properties experience during the course of the year.

Rental demand

Demand continues to outpace new supply. That's partly due to job growth. Conway Pedersen Economics reports that our region added 49,100 jobs since the first quarter of last year. Another positive trend has been in-migration to the region. While not exactly a measure of in-migration, driver license data is a close to "real-time" substitute. So far this year, the number of people in this region who turned in out-of-state licenses is up 16% from the same period last year.

What's next?

Last September investors and property managers said they planned to increase rents 2.7% by March. They did better than that. Now they are telling us they plan to raise rents another 2.9% by September.

It's good to be optimistic, but investors will likely find it more challenging than normal to raise rents between April and September. That's because developers will open close to 7,000 new units in the next six months.

You have to go back 20+ years to find production anywhere near that level. In fact, developers will open more units in the next six months alone than they have in any full calendar year since 1991, except for last year.

Concessions

All of this new construction should be increasing the use of concessions. So far it hasn’t made much of an impact. Only 15% of the properties we surveyed last week offer concessions. That’s the same as we saw last fall and lower than we’ve seen in half a dozen years.

But the amount of concession is getting bigger. The average concession is now $580. Last fall they averaged $461. We expect the use and size of concessions will grow significantly over the next six to twelve months.

We’re already seeing higher concessions in submarkets with a lot of new construction. For example, the in-city Seattle market area (stadiums to Ship Canal and Lake to Sound) has an average concession right now of $1,330. There are still not many properties offering concessions there though. Concessions are concentrated in new properties in lease-up.