

SIMON | ANDERSON MULTIFAMILY TEAM  
Puget Sound & Washington State Apartment Sales Specialists

# SEATTLE *MICRO REPORT*

*2023 Special Annual Report*

# SEATTLE HOUSING REGULATIONS UNDERGO MAJOR CHANGES

## SEPA GONE FOR HOUSING

In April 2023, SB 5412 eliminated State Environmental Policy Act (SEPA) reviews for housing projects in Seattle and paved the way for other cities to do the same by mid-2025. Previously, SEPA had been used to delay and obstruct housing projects. This change simplifies the permit process by no longer requiring specialized reports, like traffic and historic assessments.

## DESIGN REVIEW TRANSFORMATION

The Design Review process is changing and might vanish by mid-2025. That's because, in July 2023, CB 120591 ended design review for low-income housing and gave market-rate projects an exemption option if they chose the Mandatory Housing Affordability performance path, instead of fees. Combining this with the SEPA exemption allows developers to skip the Master Use Permit process, potentially saving eight to 12 months in apartment building permitting.

## UNCERTAINTY AROUND MICRO-HOUSING

Seattle's 2014 legislation shifted developers' focus from congregate to small efficiency dwelling units (SEDUs), but later increased SEDU size and cost. Since then, discussions about micro-housing have been ongoing, and Mayor Bruce Harrell and Andrew Lewis have shown interest in single room occupancy (SRO) units. While no formal legislation is out yet, there are talks of revising SEDU rules to make them smaller and more efficient. Statewide legislation might also push for congregate housing, despite local opposition.



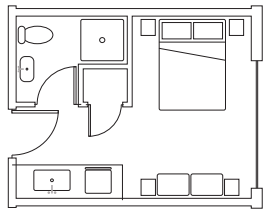
This legislative & zoning update was compiled in collaboration with  
Neiman Taber Architects





# MICROHOUSING DEFINITIONS

## CONGREGATE

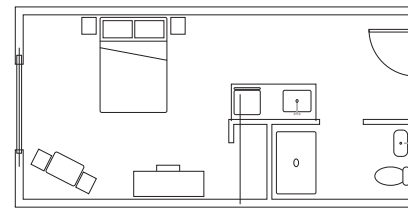


A type of housing that has a private sleeping room and typically a bathroom but is not a complete dwelling unit and may share a bathroom, common kitchen, dining room, and facilities with other units.

Standard	140 - 200 SF
Average	175 SF
Minimum	70 SF

**Allowed in certain zones**

## MICRO

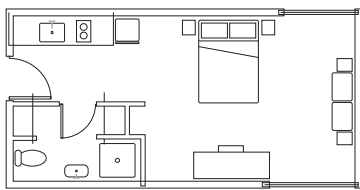


Historically, apartment or townhouse dwelling consisting of no more than eight sleeping suites (private room with private bath) and one common kitchen or kitchen/lounge.

Standard	200 SF
Average	200 SF
Minimum	90 SF

**Max number of sleeping suites varies by municipality**

## SMALL EFFICIENCY DWELLING UNIT (SEDU)

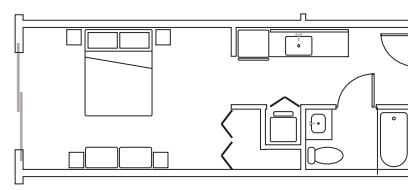


Very compact conventional studio apartment, complete with cooking and bathing facilities and closet space. The max gross floor area allowed is 320 square feet – anything larger is an Efficiency Dwelling Unit (EDU).

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.

# HOW SEATTLE KILLED AFFORDABLE HOUSING

A photograph of the Seattle skyline at dusk or dawn. The Space Needle is prominent on the left, with its white structure and observation deck. Behind it and to the right are various skyscrapers, some with lights on. The sky is a deep blue with some clouds. The overall tone is professional and informative.

## STEP 1 - HUMANE-NESS

During the last recession, micro-housing concepts emerged as a solution for those looking for a well-located, walkable place to live. These shared-kitchen micro units provided clean, safe and affordable living for \$500. Then, as the city's economy improved, competition for affordable units increased. Throughout the next seven years, micro units experienced significant development and rent growth. However, when Seattle labeled them "inhumane" and imposed development restrictions, it effectively banned new development of the most cost-effective housing option.

## STEP 2 - RED-TAPE

Next, Seattle targeted SEDU apartments, which were slightly larger and more amenitized than micro units. Specifically, the city increased permitting obstacles, costs, and unit sizes, thereby raising downstream costs to residents by 20% to 30% and following its trend of eliminating affordable options.

## STEP 3 - LUXURY

Due to self-imposed rules, Seattle has only been able to provide 400 new affordable units annually for the past 30 years. In 2021, the city exacerbated the issue by acquiring SEDU apartment buildings at a premium to market rate pricing by using taxpayer money – setting an imprudent precedent. For-profit developers began to compete for the city's attention by building higher end apartments, resulting in unaffordable units. And, while some housing developers benefited, many were left with luxury microhousing units that are overpriced for the target market. Now, this has further widened the affordability gap for units delivered in 2023-2024.



# MICROS

↑ 2%		No Change		
<i>\$1,074</i>	<i>\$5.37</i>	<i>94%</i>	<i>No Sales</i>	<i>No Sales</i>
AVG RENT	AVG RENT/SF	AVG OCCUPANCY	AVG SALES PRICE/UNIT	AVG SALES PRICE/NRSF

# SEDUs

↓ 2%		↓ 3%		
<i>\$1,310</i>	<i>\$4.46</i>	<i>92%</i>	<i>\$283K</i>	<i>\$1,016</i>
AVG RENT	AVG RENT/SF	AVG OCCUPANCY	AVG SALES PRICE/UNIT	AVG SALES PRICE/NRSF

# MARKET-RATE STUDIOS

↓ 4%		↓ 0.8%		
<i>\$1,620</i>	<i>\$4.01</i>	<i>94%</i>	<i>\$431K</i>	<i>\$520</i>
AVG RENT	AVG RENT/SF	AVG OCCUPANCY	AVG SALES PRICE/UNIT	AVG SALES PRICE/NRSF

Data Sources: Kidder Mathews Research, CoStar (Q2 Asking Rent, Studios Built 2010+), CoStar (Q2 Stabilized Vacancy, Studios Built 2010+)

# RENT & VACANCY

*Inflation hits price-sensitive residents hard by reducing demand for high-end SEDU apartments.*

## MICRO

Notably, micro apartments have had stable asking rents, averaging \$1,061 monthly during four of the past five years (even with a 9% pandemic-related dip in rents that lasted 12 months). For comparison, SEDUs saw more rent fluctuations with demand changes with a 13% decrease. Although occupancy fully recovered by 2022, new supply continues to threaten the stabilization of SEDU apartment buildings.

## SEDU

At the same time, vacancy rates remained at 94% for congregate micros for the third year in a row with SEDUs ranging from 92% to 95%. Now, with more than 2,000 new SEDU units under construction, owners, investors, and lenders alike will be watching rent and vacancy rates closely during the next 12 months.

## MICRO

**\$1,074**

RENT/UNIT (AVG)

**\$5.37**

RENT/SF (AVG)

**94%**

OCCUPANCY (AVG)

## SEDU

**\$1,310**

RENT/UNIT (AVG)

**\$4.46**

RENT/SF (AVG)

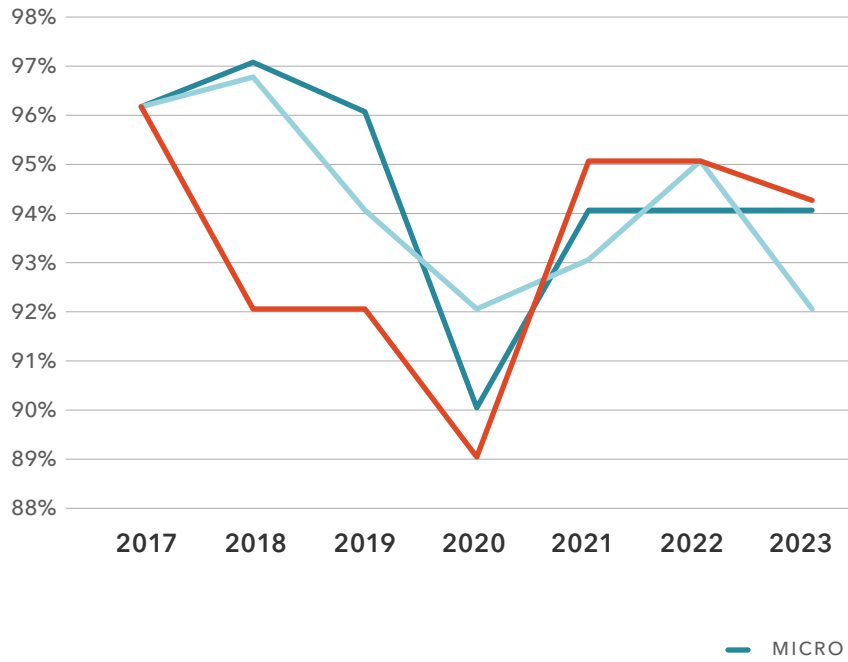
**92%**

OCCUPANCY (AVG)

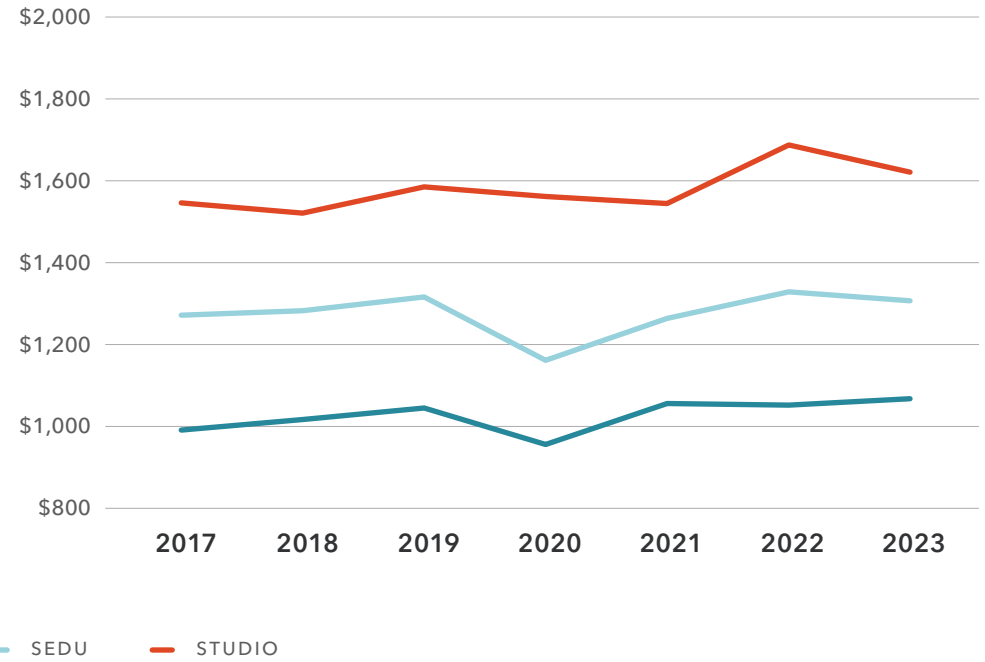




## Occupancy



## Rent



	RENT / UNIT			RENT / SF			OCCUPANCY		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
MICRO*	\$1,026	\$1,058	\$1,074	\$5.03	\$5.34	\$5.37	94%	94%	94%
SEDU*	\$1,267	\$1,331	\$1,310	\$4.17	\$4.50	\$4.46	93%	95%	92%
STUDIO†	\$1,544	\$1,685	\$1,620	\$3.63	\$3.86	\$4.01	95%	95%	94%

\*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

1,061

MICRO	94%	\$976	\$4.63
SEDU	94%	\$1,158	\$4.59

## BALLARD

802

MICRO	94%	\$1,021	\$5.84
SEDU	97%	\$1,232	\$4.63

## GREEN LAKE, FREMONT, WALLINGFORD

520

MICRO	88%	\$1,028	\$5.65
SEDU	92%	\$1,331	\$4.47

## MAGNOLIA, QUEEN ANNE

410

MICRO	100%	\$1,195	\$5.69
SEDU	95%	\$1,383	\$4.62

## SOUTH LAKE UNION, EASTLAKE, WESTLAKE

318

MICRO	94%	\$1,091	\$5.10
SEDU	91%	\$1,395	\$4.61

## DOWNTOWN, FIRST HILL, YESLER

722

MICRO	89%	\$1,146	\$5.23
SEDU	90%	\$1,311	\$4.45

## WEST SEATTLE

421

MICRO	96%	\$962	\$4.92
SEDU	98%	\$1,382	\$4.60

2,543

## UNIVERSITY DISTRICT ROOSEVELT

MICRO	95%	\$1,195	\$5.55
SEDU	89%	\$1,428	\$5.20

## EASTSIDE

481

MICRO	97%	\$1,178	\$5.05
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1,452

## CAPITOL HILL

MICRO	88%	\$1,052	\$5.91
SEDU	93%	\$1,329	\$4.45

644

## OTHER NEIGHBORHOODS

SEDU	92%	\$1,160	\$3.59
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470

## CENTRAL DISTRICT

MICRO	94%	\$1,040	\$5.33
SEDU	83%	\$1,337	\$3.86

416

## BEACON HILL, RAINIER VALLEY

MICRO	96%	\$1,000	\$5.53
SEDU	92%	\$1,308	\$4.48



# RENT & VACANCY BY NEIGHBORHOOD

## MOST IMPROVED:

### University District & Roosevelt

Operations in the U District were so bad in 2020 that we had to remove the numbers from our market averages. Fast forward to 2023 and the market has stabilized to a 95% occupancy rate with the highest average SEDU rents in the market.



## BIGGEST LOSER

### Green Lake, Wallingford & Fremont

It's rare that we see micro-housing headwinds in the 98103 zip code. However, it's clear that demand has waned, and we suspect that residents who moved north during the pandemic are now moving closer to work again with online work fading.



## BIGGEST WINNER

### West Seattle

The pandemic and bridge closure combination was painful for West Seattle investors. In 2023, we're starting to see the effects of a depleted new supply due to limited new deliveries – namely, a higher combination of occupancy and rent growth than any other neighborhood.



# SALES & DEVELOPMENT

## *Affordable housing operators dominate SEDU purchases in 2023.*

After beginning in 2021, the trend of affordable housing operators dominating SEDU purchases is now common in 2023. Of course, selling to affordable housing groups is profitable; however, developers who don't get the golden ticket face losses or cash-in refinancing post-development. Likewise, congregate micros continue to sell, but aren't popular among affordable groups. Additionally, pricing is driven solely by the above-market cash-flow micros that investors offer due to higher sale cap rates.

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



LOCATION /  
TRANSIT



100+ UNITS

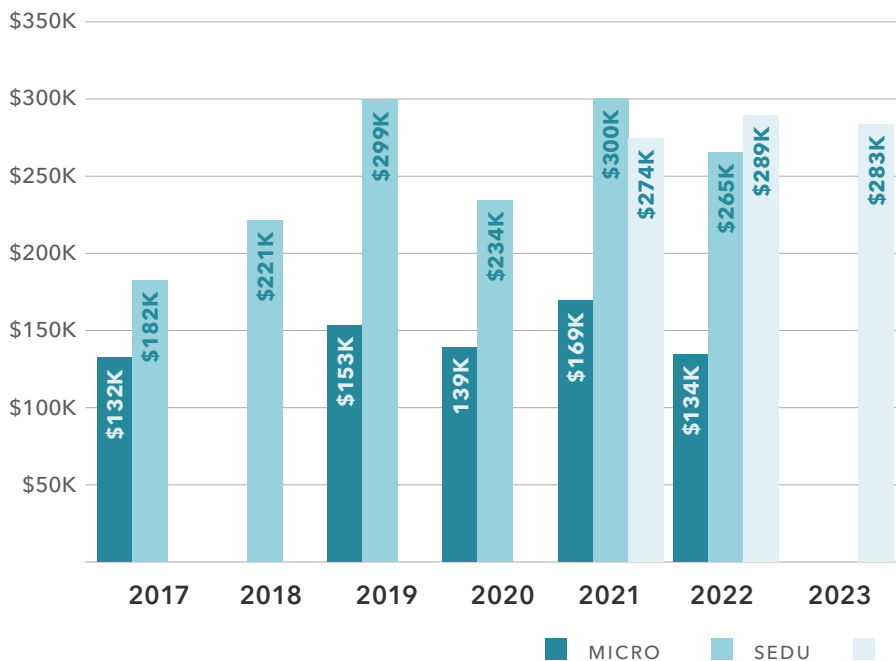


ELEVATORS

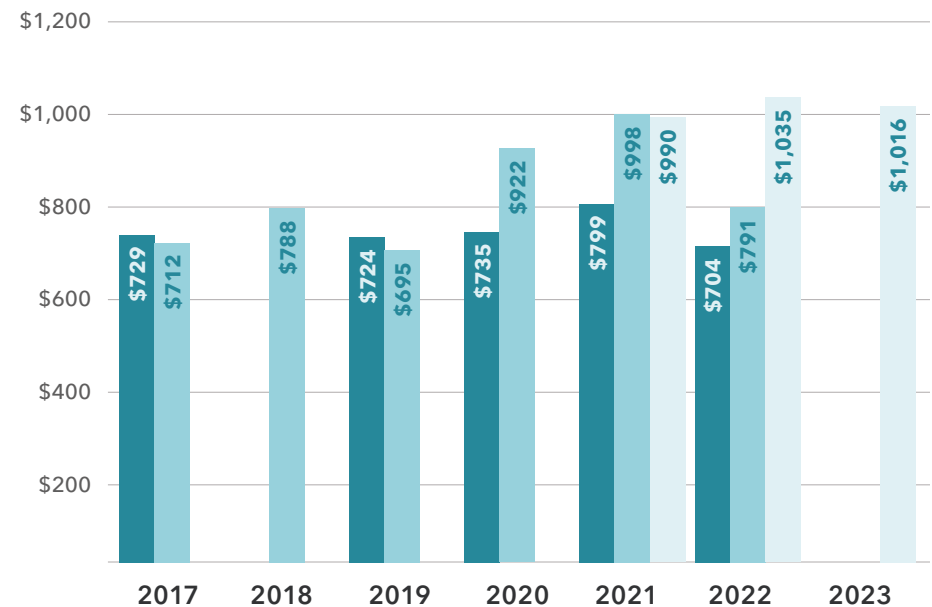


VACANT

### *Average Price per Unit*



### *Average Price per NRSF*





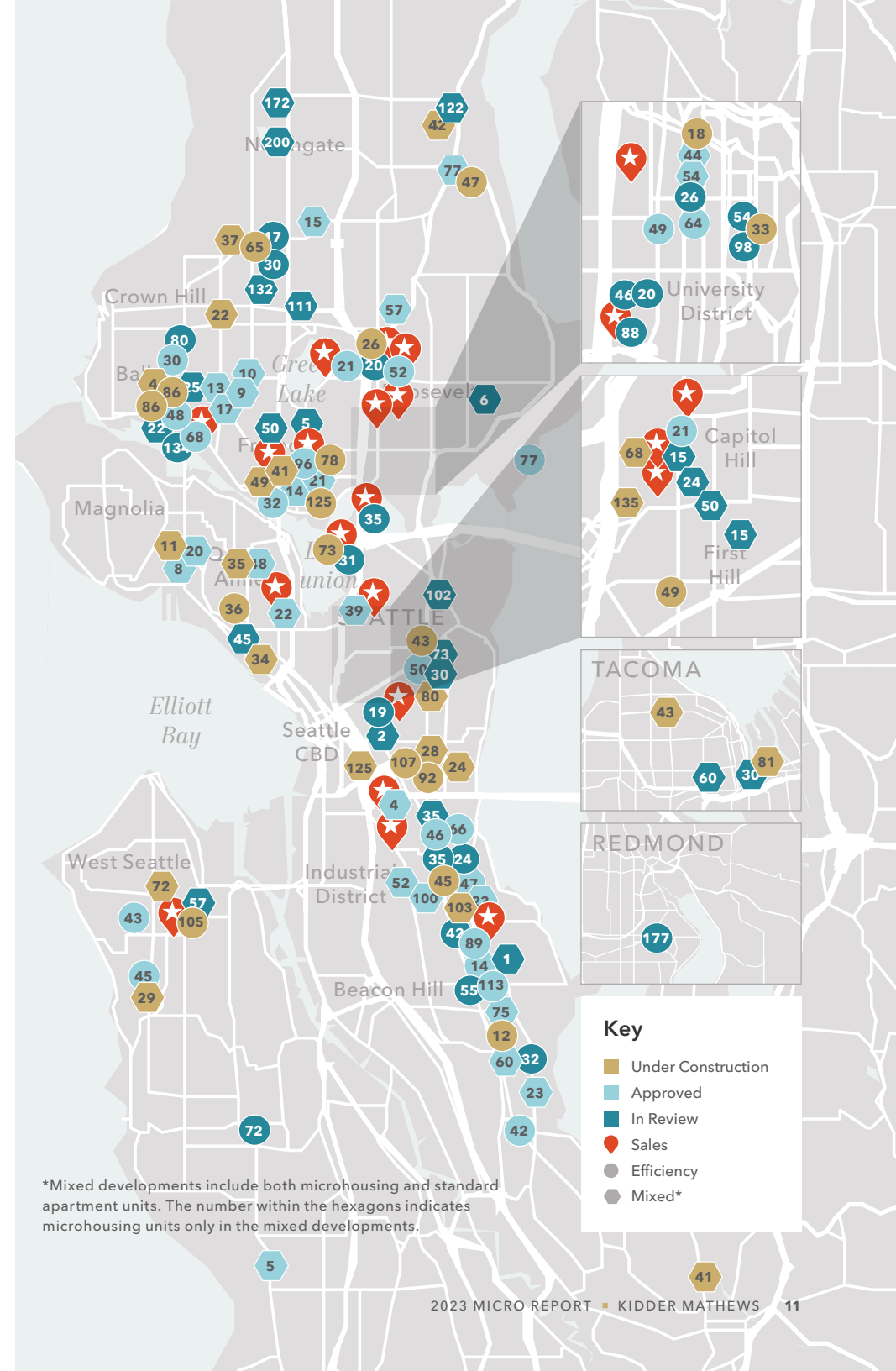
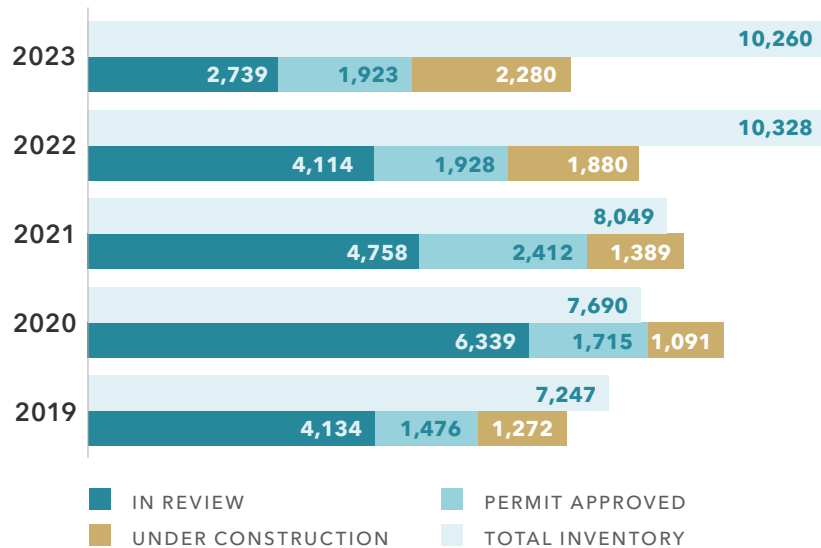
# DEVELOPMENT

## *Short-term pain could lead to long-term gain.*

With 2,280 micro-housing units under construction, it appears that there may be challenging times ahead for micro-housing developers and operators. At the same time, micro-housing permit applications are lower than they've been since the inception of micro-housing, which points to supply constraints after the glut of supply is absorbed, likely by 2025.

- 68** Unit decrease in microhousing supply YoY due to more units sold to affordable housing operators than delivered
- 33%** Reduction in microhousing permit applications year over year
- 209%** Number of microhousing units under construction in 2023 compared to 2020

## *Historic Efficiency Pipeline*



# OUR MICROHOUSING TRACK RECORD

33%

% MICROHOUSING SALES  
MARKET SHARE

2,062

# OF MICROHOUSING UNITS  
SOLD & UNDER CONTRACT

99 SF

SMALLEST MICROHOUSING  
UNIT WE'VE SOLD

143

# OF MICROHOUSING BUILDINGS  
WE'VE TOURED & VALUED

\$169M

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.



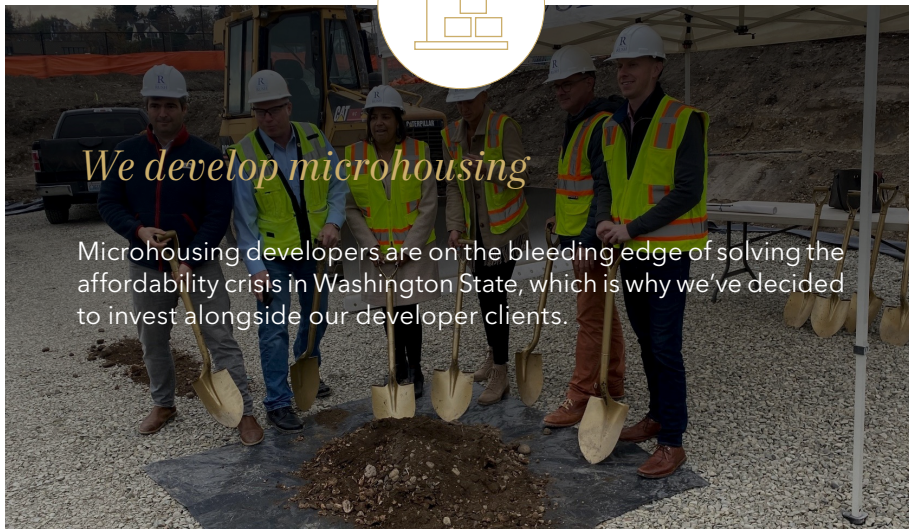
## *We own microhousing*

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*

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*Researched & Published by*

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