

Memorandum

Date: April 9, 2024

To: City of Sammamish
 C/o Steve Cecil, FAIA ASLA
 Framework
 1221 E Pike Street, Suite 300
 Seattle, WA 98122
steve@weareframework.com

From: Kidder Mathews
 Blair Howe, CCIM
 Jeff Derus

Re: Sammamish Town Center – Real Estate Market Conditions Summary

Purpose of the Assignment

The purpose of the assignment is to support the City of Sammamish’s planning initiative for the Town Center area to prepare amendments for the Town Center Plan and its Development Code. Specifically, to characterize the local real estate markets to inform ongoing planning work. The depth of the market analysis presented is considered appropriate to guide the generalized planning investigation.

Summary of Findings

- From a demographic perspective, the City of Sammamish is strong with solid population growth and high incomes.
- Demand for for-sale housing is robust.
- The apartment market in Sammamish is currently experiencing weakness with rental income levels not able to support higher project costs.
- The gap in cost between renting and owning a home is large enough so that most renters are not likely to jump to homeownership.
- The demand for senior housing, made up of independent living, assisted living, memory care, and nursing care facilities, appears strong enough to support new development.
- The success of affordable housing hinges on the availability of subsidies - demand is unlimited and resources are scarce. Recent changes in the market make developer subsidized affordable housing difficult to finance.
- Demand for auto-oriented retail is strong, but not unlimited. Retail that lacks exposure to 228th Avenue SE is less desirable.
- The Sammamish office market is small reflecting the relative limited demand. The City of Sammamish has a locational disadvantage relative to other locations that have are considered business centers. The demand for office space in the market is dominated by medical space users. It can be noted that medical office uses can be accommodated in ground floor retail spaces.

Market Summary

| | |
|---------------------|-------|
| Demographic Profile | ***** |
| For-Sale Housing | ***** |
| Apartment | *** |
| Senior Housing | **** |
| Affordable Housing | *** |
| Retail | **** |
| Office | ** |
| Hospitality | * |

- Most hotels thrive on a mix of business and pleasure travelers. Sammamish lacks corporate facilities to drive business travelers to the area. Future work could explore the demand for specialized boutique hotels.

Demographics

Demographics in the City of Sammamish paint a picture of a relatively affluent community with median household income of just more than \$200,000, across its 68,685 residents. Of the 22,834 households in Sammamish, 83.2% owned and 14.3% rental. Of the rentals 2.5% are vacant. Home ownership relative to renting has increased since 2020 where 3% less are renting and 3.3% more are buying. The population growth has slowed in the last three years (2020-2023) growing at an average of .56% as opposed to the 10 years prior (2010-2020) where it grew at an average of 1.66%.

Delivery of new housing in the area has been outpaced by population growth since 2010. From 2010 to 2020 the population grew 24.6% faster than the housing growth rate. Growth rates have slowed in the past three years (2020-2023) to a population growth of .56% and housing growth of .39%.

The most common Tapestry Segmentation demographic is the Professional Pride demographic with a median age of 40.8 years and median income of \$138,100, and median household size of 3.13. It's estimated that as many as 43% of families in Sammamish fit into this category. This category is well educated career professionals that often commute far and have an average net worth of \$1.6mm. Of this group, 91.6% own their home, the majority of which were built during the last 20 years.

The Tapestry segment most likely to support for-rent multifamily is the Enterprising Professional segment with a median household income of \$86,600, median age of 35.3, and median household size of 2.48. This group represents 12.5% of Sammamish households and nearly half of the group rents. It is a well-educated segment heavy in the STEM (science, technology, engineering, mathematics) occupations. They tend to change jobs relatively often and therefore choose to live in less permanent circumstances such as condos, townhomes, or apartments.

For Sale Housing

Overview

The single-family homes, including townhouses, market in Sammamish is one defined by luxury homes. The market sales volume is down by 70% since 2021 and is declining still. However, the average sale price during the start of 2024 has already seen a 20% premium to average sales at the height of the market in 2021. During this period interest rates made homes 37.5% less affordable from a cashflow perspective, and prices still increased by 20%.

Market Data

During 2023 there were 693 single family (including townhomes) and condominium sales in the City of Sammamish. Of these, 40 or 11% of the sales were priced at \$700,000 or less. The average home sale price during 2023 in the City of Sammamish was \$1,683,106, which was a decline from its 2022 average of \$1,684,413. Currently there are 15 active listings in the City of Sammamish with an average ask price of \$2,404,788, which is a 30% premium over the average sale price during 2023. Out of the 15 active listings one listing is lower than \$700,000.

Interest rates on for-sale homes have gone up from 2.96% in 2021 to 6.81% in 2023, an increase of 2.3x. During this time inventory went down 70% driving the average home price upward. The current annualized

trailing six-month sales volume is 546 units, trending upward but still down from 1,322 at the height of the market in 2021. In 2021, homes and condominiums traded at an average price of \$1,463,746. Today, home prices are up 20% from that average in the city of Sammamish. According to NWMLS there are about two months of inventory, whereas a healthy level of inventory is four to six months.

Townhomes have done well in the area with the new Sammamish Townhome development by Ichijo within .25 miles of the Town Center. More townhomes would help create affordability relative to the local market and also would not overlap with the affordability of the for rent market.

Conclusion

Demand for single family homes and townhomes in Sammamish has stayed strong and pushed pricing up significantly, despite the dramatic increase in the cost of borrowing. Overall lower transaction volume reflects the gap in the market between buyers and sellers. To bridge this gap either pricing needs to go up to bring more sellers into the market or new supply needs to be added. Single family home prices are expected to rise in years to come if interest rates remain level and new supplies do not flood the market.

Apartment

Overview

The City of Sammamish apartment market is characterized by a limited inventory, low and declining vacancy rates, and strong absorption.

Market Data

The apartment market in the City of Sammamish consists of 1,087 inventory units across seven buildings, two of which were developed in the last 10 years, adding 252 units. Out of those two recent projects both contain affordable housing, 10% of the units with rents restricted to 80% of the area median income. There have not been any pure market rate developments in the Sammamish in the last 10 years. Rental rates average \$2.86 per square foot, consistent with rates in the Issaquah and Remond markets.

Apartment vacancy rates in Sammamish have been trending downward and today are very low. The vacancy rate for new buildings completed during the last ten years is currently at 2.5%, down from the trailing five-year average of 4.6%. Vacancy rates for older buildings are slightly higher at 3.1%, down from the trailing 5-year trend of 5.4%.

Absorption of new space has been strong. The City's two most recent large multifamily developments successfully leased up in about 12 months. The Samm Apartments finished construction in August of 2017 and delivered 93 units, 60 of which were absorbed by the end of the year and the remaining 32 early in 2018. The Sky Apartments finished in October 2018 and saw 33 units filled by the years end and the remaining units filled during 2019.

Conclusion

Regionally, market rate multifamily is struggling with its general lack of feasibility given the large cost increases that have come from higher interest rates, higher cost of labor and materials, increase in excise tax, and soon to be added costs from the 2024 energy code update. Sammamish multifamily is currently seeing strong absorption, low vacancy, and rent growth which points toward strong demand.

Rent vs. Own

Overview

The cost to own a home in Sammamish is significantly more than the cost to rent and apartment. Apartment renters are unlikely to move to home ownership, given the magnitude of the cost premium to own. There is significant room in rent growth in Sammamish before renters would be able to reasonably become buyers.

Market Data

Over the last three years, the inventory of for sale homes has declined, pushing prices up 20%. In addition to prices going up, rates have also gone up significantly. This combined pressure with rates and prices increasing has resulted in affordability, from a cashflow perspective, decreasing 37%.

In the Sammamish market, the average renter of apartments, built in the last 10 years, is paying an average rent of \$2,680 per month. This is an equivalent to \$447,000 in purchasing power on a for-sale home assuming they could meet a 10% downpayment threshold. During 2023 only six transactions were completed in this price range in the City of Sammamish.

| Monthly Payment | Estimated Purchase Price | 2023 Home Sales (2mi radius from Sky Apts) |
|-----------------|--------------------------|--|
| \$ 2,500.00 | \$ 417,521.00 | 7 |
| \$ 3,000.00 | \$ 501,025.00 | 11 |
| \$ 3,500.00 | \$ 584,529.00 | 11 |
| \$ 4,000.00 | \$ 668,034.00 | 9 |

**10% down 7% rate*

| Monthly Payment (\$) | Estimated Purchase Price (\$) |
|----------------------|-------------------------------|
| 2,500 | 667,366 |
| 3,000 | 800,839 |
| 3,500 | 934,313 |
| 4,000 | 1,067,786 |
| 4,500 | 1,201,259 |

**10% down 2.96% rate (2021)*

It is important to note that if interest rates were to trend downward and match the extreme lows of 2021 at 2.91% the gap between renting and buying in Sammamish would greatly diminish. Top end renters with \$3,000 per month outflow would be closing in on \$800,000 of buying power, which does allow them to participate in the Sammamish For-Sale Market.

Conclusion

When comparing the monthly cash outlays of the cost to own and cost to rent, currently the cost to rent is less expensive, which makes renting an attractive option. There are considerations, other than money, that drive housing decisions as the renter population is segmented and diverse.

Senior Housing

Overview

The senior housing market consists of four segments; independent living (IL), assisted living (AL), memory care (MC), and nursing care (NC). The segments are housed in single and multi-purpose facilities. Location decisions about moving to care facilities are made either by the resident or the resident's children/relatives, or some combination thereof.

Market Data

The Greater Seattle Senior Housing Market totals 27,014 units. During 2021 and 2022 new construction outpaced absorption, however in 2023 the story changed, and absorption outpaced new deliveries and by the end 2023 stabilized occupancy reached almost 86% and 3% above the national average.

The IL and AL markets in King County total 17,317 units, of which 8,081 are IL and 9,236 are AL, a figure that grew by 127 units in 2023. There were 509 new units absorbed during the year and there are currently 849 units under construction. Market penetration is 9% in the IL segment and 10.3% in the AL segment, compared to 11% nationwide.

Average monthly rent is \$4,873 in the IL segment, \$6,844 for AL, and \$8,701 for MC. Annual rent grow in the IL segment is 6.9% and 4.7% in the AI segment.

Conclusion

There are 11,114 people living in Sammamish who are over 50 years of age and those who are over 65 years of age total 3,720. By 2028, these figures are expected to increase to 11,689 and 4,722, respectively. Median household incomes today are \$200,000 and \$194,582 for the cohorts, respectively. There are currently no senior housing facilities in Sammamish and just one new AL facility in final planning, by Aegis.

As the population increases, both in terms of residents needing care and their children overseeing the care, there will be demand for new facilities and further analysis is warranted.

Affordable Housing

Affordable housing comes in many forms, and it is both naturally occurring and subsidized.

Naturally occurring affordable housing building types can include, micro apartment units, co-living, single resident occupancy, accessory dwelling units, manufactured homes, and tiny homes. Single family homes that are older, small, or located in low-cost markets can be naturally affordable. Apartments can be naturally affordable when they are older or located in low-rent markets.

Affordable housing is also created, using funding to reduce or subsidize occupancy costs for residents. There are many programs and funding sources available to off-set the cost of constructing new housing or to buy down rents in existing properties. The programs and approaches to funding affordable housing are diverse in both groups they serve and funding methods they employ. Subsidized affordable housing can serve groups that earn little to no money, to those who earn near or above the area median income.

Funding for subsidized affordable housing is competitive, limited, and in endless demand. So, the potential to create subsidized affordable housing is a function of the availability of funding.

Local jurisdictions are increasingly imposing affordable housing requirements on new development projects. During the most recent market expansion, that began sometime around 2010, requirements of all kinds were imposed on new development and for a time the projects remained financially feasible. The market has shifted, costs have increased, and new development projects are now more difficult to bring to the market.

Retail

Overview

Consistent with other suburban markets in the area, demand for retail space is strong in the City of Sammamish (retail defined as the space used for the sale of goods and services). Demand is derived from within the community and is auto oriented. Retail expenditures are taking place outside the community and the opportunity to capture this demand exists. Demand is strongest for locations that have visibility and access to 228th Ave SE and those locations that are off 228th demand is good, but lower. Consumers in the market want drive-up access to retail and the number of consumers who walk to retail is small. As higher densities in the Town Center are achieved, this number will increase. In other words, near-term retail in Sammamish is dependent on the automobile.

Market Data

The retail market in the City of Sammamish consists of 35 buildings and with 508,000 square feet of space, of which 111,000 square feet have been added to the inventory in the last ten years. There is no new space under construction. Since 2000, the market has on average absorbed 5,695 square feet of space each year.

Market vacancy currently stands at 0.5% and has been below 3.4% for more than 10 years. Rental rates are trending upward and range from \$30 to \$50 per square foot for second generation or finished shell space, with \$40 per square foot typical spaces and the best pad spaces leasing for up to \$50 per square foot. Spaces with less visibility, not within a shopping center, or off the main thoroughfares rent for less.

Buyers and sellers in the market are dominated by private parties, with institutional players having a significant role, followed by REITs, users, and private equity firms. The average sale price is \$392 per square foot during 2023. During the last ten years retail capitalization rates declined from just less than 7% to about 5.6%. Supported by increased interest rates and increases in sales volume, forecasts suggest that capitalization rates will be rising over the next few years.

Conclusion

Demand for auto-oriented retail is strong enough to support new development. The demand for pedestrian oriented retail is strong, but not strong enough to support its construction costs. New retail development will perform better if some parking is provided with direct access to storefronts. The financial performance of retail space can be enhanced through leasing to medical space users. From a planning perspective, development regulations that are flexible and respond to demand are more likely to create successful retail spaces.

Office

Overview

The City of Sammamish office market is dominated by medical office users. The space is located in the City's three commercial nodes: Pine Lake, Town Center, and Sammamish Highlands. Medical office spaces are also found in freestanding buildings and within shopping centers.

Market Data

There are six office buildings in the City of Sammamish totaling 77,700 square feet of space, and of this total 54,300 square feet is medical office space. In 2017, 30,000 square feet of new office space was added to the market. There are currently no new buildings under construction.

Vacancies have historically been quite low, but in 2020 the vacancy rate jumped to almost 23%. Vacancy in the City currently stands at 17.5%, significantly higher than 10% for the Redmond/Issaquah/East King County submarkets.

Since 2010, when rental rates were \$22 per square foot, rates have trended upward. Today asking rates range from \$35 to a high of \$45 square foot, depending on location and condition of the space. For existing spaces tenant improvement allowances are minimal.

The average asking sale price in 2023 was \$530 per square foot for office buildings located on the Eastside, however sales volume was minimal. Since the pandemic capitalization rates for office space have been increasing and, on the Eastside, they currently average 6.6%. Capitalization rates for suburban buildings averaged 6.75%, in urban buildings the figure was 6.57% and in CBDs the average was 6.11%. Forecasts suggest that capitalization rates will be rising over the next few years, to reflect changes in the cost of borrowing.

Conclusion

Regionally, the office market is struggling. Development of new office space is on hold. The City of Sammamish office market is dominated by medical office space. Demand exists for medical office space and in the context of the Town Center, can often be accommodated in new ground floor commercial/retail space.

In Sammamish, an opportunity will always exist to create local-serving office space within a convenient commuting distance of the Town Center, although to date the demand has been quite small. The relative distance from major regional distributor roads and highways and lack of high capacity and frequent transit service reduces the competitiveness of Sammamish when compared to other eastside locations.

Hospitality

Overview

There are currently no hospitality properties located within the City of Sammamish. The area is served by hospitality properties located in Issaquah and Redmond. Hospitality users, primarily business and pleasure travelers, choose these locations because they have good freeway access and are close to business activity centers.

Market Data

The East King County hospitality market consists of 9,983 hotel rooms. Of the total 1,976 rooms are located in Issaquah (650) and Redmond (1,317), those markets that serve Sammamish. There are 223 rooms under construction in the Issaquah/Redmond markets. The twelve-month occupancy in the East King County market is 64%, a figure that represents an almost complete recovery from the pandemic. In Issaquah occupancy is 63.9% and in Redmond it is 65.2%. Forecasts suggest that occupancy in the East King County Market may reach 70% in the not-to-distant future. The average daily rate in East King County is \$191. In Issaquah the rate is \$166 and in Redmond it is \$183. There were four sales within the last 12 months, priced at a 6.8% capitalization rate, above the regional average of 7.7%.

Conclusion

The hospitality markets have recovered from the pandemic and the market is underserved in some locations. Hotels that serve several market segments are likely to perform better. A hotel location that can serve both pleasure and corporate travelers offers diversification and reduced business risk and is likely to perform better. Sammamish is a bedroom/commuter community where its residents travel to work in other cities that have substantial employment centers. Sammamish is not an established hospitality market and new development would be a pioneering endeavor, requiring formal market study.