



## **Executive Summary**

ōLiv Seattle, built and being effective in 2022, is 25-story high-rise apartments located in U District. The specific address is 4515 Brooklyn Ave NE, Seattle, WA 98105. This property is within the SM-U 95-320 (M1) zoning district. Currently, ōLiv Seattle is mix-used property that consists of commercial space on the first floor and 211 residential units on floors two through twenty-five. As a newly luxury apartment, ōLiv Seattle was rated with “good” in its building quality and “excellent” in its location. ōLiv Seattle is in the core focus area of Seattle’s U district. Adjacent landmarks include the Ave, the UW campus, Neptune theater, UW Tower, and a light rail station.

The building has gross squared feet of 264,766 and net square feet of 170,939. The floor plans available in the building include 43 studios, 61 two-bedroom flats, 21 three-bedroom flats, 82 four-bedroom flats and 4 five-bedroom flats, which cater to a diverse range of residents with varying social and privacy needs and preferences. ōLiv Seattle includes parking lots and various amenities, like pool and fitness center. Every unit is equipped with an air conditioner. Since the air conditioner and pool are relatively less common in apartments at U-district, the comparatively higher rents in ōLiv Seattle are acceptable and reasonable. Intended users are young professionals and students. The highest and best use of the ōLiv Seattle is student housing, as it aligns with market demand, the property's location, zoning regulations, and the potential for favorable financial returns.

In this paper, I will estimate the value of ōLiv Seattle by using the three different methods: the cost approach, the income approach, and the comparable sales approach. To gather relevant information about the property, I utilized various sources such as the King County parcel viewer, Kidder Mathews, the Census Bureau, etc. The access limitations and unverified information can affect the appraisal process and final value. Three approaches respectively give the value of \$149,343,664, \$137,369,419, \$131,532,061. I assign weight of 2%, 95%, 8% to cost approach, income approach, sales comparison approach respectively. The final opinion of value for ōLiv Seattle is \$137,141,915.

## **National housing market:**

Real estate and housing market play an important role in the U.S. economy. According to Federal Reserve data, the share of household's net worth that comes from their home has been relatively stable over the past several years. This means that the value of the home has remained an important contributor to a household's financial position.

In recent years, Covid-19 pandemic has had significant impacts on the housing market. Housing flipping and residential real estate investing have risen drastically. At the start of the pandemic, residential real estate markets across the country experienced slowdown in housing activity. After a temporary lull, the property market quickly rebounded as demand revitalized. With record-low mortgage rates and rise of remote work, there has been a significant increase in the demand for housing, particularly in larger suburban homes and single-family housing. As a result, there has been a rise in housing price. The lack of new housing also holds up housing prices. Due to the low interest rates, broken supply chains, high business costs, and a labor shortage, there was a high inflation experienced during 2021 and 2022, which leads to a decrease in purchasing power. Now, the Fed Reserve raised interest rates in an effort to curb persistent inflation, and the housing market has entered a cooling phase. Demand for existing homes is resilient. In the short term, homes prices do drop, especially in metro areas with a high population density and growing industry. New and secondary home inventory across most markets is also down. Single family homes still remain in high demand, and many markets are expected to keep appreciating in 2023.

## **Regional Market:**

According to Wall Street Journal, home prices are falling in the west coast, while prices in the east are increasing. During Covid-19 pandemic, highly populous and economically significant metropolitan areas like California and New York saw a decline in population. According to Census Bureau estimates, California lost 600,000 people as of July 2022 after reaching a peak of 39,6 million in January 2020. Nowadays, due to the economic slowdown, a wave of layoffs, and pre-existing affordability issues, more people move to east coast. According to the Black Knight Home Price Index, Seattle home prices fell 7.5%; San Francisco home prices fell 10.3%; and Los Angeles

home prices fell 10.5%. On the contrary, Buffalo home prices increased 8.3%; Orlando home prices increased 9.3%; and Miami home prices increased 12%.

## **Local Market:**

Situated along the Puget Sound in northwestern Washington state, the Seattle metropolitan area has tight sales market due to the shortage of for-sale housing slightly tight rental market, whereas apartment markets in the metropolitan area are generally balanced. Recent layoffs and declining valuations of tech stocks are potentially exerting downward pressure on the Seattle real estate market, which led to declines in housing prices. According to the Kidder Mathews, as of the first quarter of 2023, the homeowner vacancy rate in Seattle is estimated to be around 8%, and the cap rate is around 4.5%. As the Redfin shows, in March 2023, the median home price is about \$790k, which was down 10.2% compared to last year. In the Seattle housing market, homes in the price range of 500k to 1M are in high demand and typically sell the fastest. In accordance with housing market forecast predictions, the inventory will remain low in a seller's market beyond 2023 and the home prices will go up which are joined by raising mortgage rates.

The U-district is an evolving residential and commercial real estate market. Developers and property owners who are active in the U-District indicated that the development of high-rise buildings would be a reasonable proposition within the next a few years as long as it aligns with the existing zoning regulations. The U-District's housing stock is significantly influenced by the University of Washington, and is dominated by rental housing units, including a significant share of single-family homes. Due to the higher constructions cost of tall buildings, high-rise development is generally less able to accommodate a considerable number of large units without subsidies. As a result, as the high-rise buildings become financially feasible, the unites sizes are likely to be small unless there are significant advancements in building technology. A majority of residents in the U District are students and young professional.

The University District is relatively affordable compared to other neighborhoods in the city. However, The U-District is not a well-established market for commercial office spaces, including

general office, research and development office and biotech.

## **Cost Approach:**

Cost Approach for Houses					
	Cost	Units		Finished Cost	
Raw Land Value	\$ 8,925,600	1	\$ 8,925,600	High Quality Per SF	\$200
Site Improvements		1	\$0	Avg Quality Per SF	\$175
Site Value			\$8,925,600	Low Quality Per SF	\$125
				Unfinished Cost	
Building					
Finished SF	600	170,939	\$102,563,400	High Quality Per SF	\$60
Unfinished SF	150	93,827	\$ 14,074,050	Avg Quality Per SF	\$50
Subtotals			\$116,637,450	Low Quality Per SF	\$40
Builder's Profit		5%	\$ 5,831,873		
Cost New			\$122,469,323		
Less: Depreciation			\$ (1,530,867)	Depreciation	
Subtotal			\$120,938,456	Useful Life	80
Add: Site Value			\$ 8,925,600	Age w/usual maint.	1
Cost to developer			\$129,864,056	Depreciation	1%
Entrepreneurial Incentive		15.00%	\$ 19,479,608	Selling costs	7%
Subtotal			\$149,343,664		
Less Selling Costs			\$ (10,454,057)		
Final Net to Developer			\$ 9,025,552		
			\$0		

From King County parcel viewer, the appraised land value in 2021 is \$8,925,600. The cost for finished square feet is relatively high. I identified several factors that may contribute to the high construction costs. Firstly, as a luxury apartment, oLiv Seattle involving unique designs and complex architectural features require specialized expertise and materials, which led to higher costs. Secondly, high-rise building, built in limited and compact space, requires more specialized and complex structural systems to support it. The estimated profit margin for builders is approximately 5%. Due to the high demand and competitiveness of the U-District market, builders will encounter strong competition within their specific market segment. As a result, builders need to offer good pricing and incentives to stay competitive. Also, oLiv Seattle is a large-scale construction project, which will lead to the economies of scale. I set 15% for the entrepreneurial incentives. According to the report from Federal appraisal LLC, the entrepreneurial incentive typically is in the range of 15% to 20%. Our subject property is expected to have a strong market demand and low perceived risk, as a result of which entrepreneurs may be motivated to take on the project with a low percentage of entrepreneurial

incentive. What's more, I tested the entrepreneurial incentive at 15% and 20% and compared the value with the results from the other two approaches. After careful evaluation, I determined that a 15% entrepreneurial incentive is a reasonable and satisfactory value.

The indicated value of subject property is \$149,343,664. Due to the lack of accurate data and limited applicability to income-generating properties, the value generated from cost approach will not be heavily emphasized.

### **Income Approach:**

The ōLiv Seattle offers a variety of unit types to accommodate different preferences and needs. Unit type include studios, 2-bedroom, 3-bedroom, 4-bedroom, 5-bedroom. The monthly rental prices for each type of unit at ōLiv Seattle are higher than the median prices suggested by Rentometer, an online platform that offers rental property comparisons and data analysis. The reason of higher rents can be attributed to luxury amenities, good property management and services, excellent location and high demand at U district. I use the information available on the official website of ōLiv Seattle to calculate the average rental prices for each type of unit. For example, to calculate the average rent for 2b2b. I add up all the different rents for that unit type and then divide the sum by the number of different units. Please refer to the income approach table for specific monthly rents.

ōLiv Seattle offers limited parking spaces for rent within a garage that is both climate-controlled and access-controlled. From the King County parcel viewer, the proposed gross square foot for parking is 33,827 square feet. Suppose the average size of a parking space is 320 square feet, there will be approximately 105 parking space. However, because the actual net square footage can vary depending on the specific design and layout of the parking lot and high-rise buildings tend to have lower parking space availability, the actual parking space may be around 70. Since there are a lot of residents living in ōLiv Seattle, the rent of a limited parking lot is likely to be higher. Let's say the monthly rent for one parking space is \$200.

There are no shared laundry facilities in ōLiv Seattle. Every unit is designed with in-unit laundry

facilities. Therefore, there is no income generated from laundry services.

Pets are allowed in oLIV Seattle but require an application process. oLIV Seattle is not considered as pet-friendly, which means that there are restrictions or limitations in place regarding pet ownership. Suppose only 20% residents have pets. According to the apartment expenses in 2018, average monthly pet fee was \$32.

Utility fees can include charges for water, electricity, sewer, trash, etc. However, I do not have access to specific information regarding utility fees. I will estimate utility fees based on the Apartment Expenses Report 2018. I found that parking income and utility fees are the highest income among all the revenues. Utility fees tend to be higher in high-rise building than low-rise building because high-rise building accommodate larger number of occupants and more shared facilities such as elevators and lighting, which led to higher energy consumption. Therefore, I think the annual utility fee is about the same as the annual parking income.

According to Kidder Mathews, In the first quarter of 2023, the cap rate in North King County is approximately 4.5%, while the vacancy rate stands at around 9%. Since the Seattle market has strong demand and relatively limited supply, the investors are willing to accept lower returns in exchange for the potential appreciation and stability. The vacancy rate might be higher. U District is experiencing a significantly increase in the construction of new housing. Since there is a balance between people moving out and people moving into U-district, the vacancy rate in older apartments is likely to increase as the availability of new flats increased. The oLIV Seattle features energy-efficient appliances, lighting, and HVAC systems, leading to less utility expenses. New apartment requires fewer immediate maintenance and repairs, which result in lower maintenance costs. According to the Apartment Expenses Report 2018, operating expenses for oLIV Seattle may be 42% of the building's effective gross income.

Income approach table:

$$\text{Annual parking rent per unit} = \text{utility fees} = 200 * 70 * 12 / 211 = \$796.$$

$$\text{Annual pet rent per unit} = 211 * 20\% * 32 * 12 / 211 = \$76$$

$$\text{Annual Miscellaneous income per unit} = \$796 + \$796 + \$76 = \$1,668$$

Property Address			Income Approach Calculations		
INCOME APPROACH:			Potential Gross Inc.	\$11,325,216	This is annualized
Unit Type	Number or Area	Market Rent	Vac. & Cr. Loss (%)	9.00%	
Sleeping Room			Vac. & Cr. Loss Amt	-\$1,019,269	
Open one-bed			Oth. Income Amt	\$351,948	
Studio	43	\$ 1,718	<b>Effective Gross Inc.</b>	<b>\$10,657,895</b>	
Two bed, one-bath	58	\$ 3,334	Expenses (%)	42%	
Two bed, two-bath	3	\$ 3,164	Expenses Amount	-\$4,476,316	
Three-bed, one-bath	3	\$ 4,140	<b>Net Oper. Income</b>	<b>\$6,181,579</b>	
Three-bed, two-bath or more	18	\$ 4,921	Capitalization Rate	4.50%	
Four-bed, two-bath or more	82	\$ 6,580	<b>Indicated Value</b>	<b>\$137,368,419</b>	
Five-bed, two-bath or more	4	\$ 6,618			
Commercial (Triple net rent)					
Miscellaneous Income (incl. parking)	211	\$ 1,668			

The indicated value of oLiv Seattle is \$137,368,419. oLiv Seattle is an income-generating property. Therefore, the income approach will play a crucial role in determining the final opinion of value for oLiv Seattle.

## Sales Comparison Approach:

SALES COMPARISON APPROACH:	SUBJECT	ASSESSOR COMP #1	ASSESSOR COMP #2	ASSESSOR COMP #3	ASSESSOR COMP #4
Account Number	88174000-5403	88164009-8508	19862003-1007	19757004-8003	6560004-0003
Property Name	oLiv Seattle	THE 'M'	KIARA	WEST EDGE TOWER	Dorian Apartments
Property Address	4515 BROOKLYN AVE NE	4700 BROOKLYN AVE NE	120 TERRY AVE N	1430 2ND AVE	311 CEDAR ST
Neighborhood	U District	U District	Denny Triangle	Downtown	Downtown
Sale Price	\$ 137,728,629	\$322,240,000	\$292,830,000	\$66,454,000	
Months Since Sale	-	20	5	15	34
Excise Number	3146856	3220566	3173975	3056787	
Year Built / Effective Year	2022	2019	2018	2016	2011
Number of Units	211	230	461	340	185
Building Quality / Building Condition	Good/ Average	Excellent/Average	Good/Average	Good/Excellent/Average	Average/Average
Percent Commercial Area	1%	4%		3%	2%
% of units with view (estimated)	66%	66%	70%	25%	25%
Pool	Yes	No	No	No	No
Sale Price per Unit	\$0	\$ 598,820	\$ 699,002	\$ 861,265	\$ 359,211
Trended Sale Price / Unit	\$ -	\$ 628,761.13	\$ 707,739.70	\$ 893,562.13	\$ 389,743.73
Adjusted Price / Unit		<b>\$622,473.52</b>	<b>\$686,508</b>	<b>\$723,785</b>	<b>\$381,949</b>
<b>ADJUSTMENT GRID:</b>					
Age		0%	0%	0%	0%
Number of Units		0%	0%	0%	0%
Unit Size		5%	0%	-4%	3%
Quality		0%	0%	0.0%	0%
Condition		0%	0%	0.0%	1%
View		0%	0%	0%	0%
Pool / Amenities		0%	0%	0%	0%
Commercial Area		-6%	0%	-12%	-3%
Location		0%	-3%	-3%	-3%
Noise		0%	0%	0%	0%
<b>Total Net Adjustments</b>		<b>-1%</b>	<b>-3%</b>	<b>-19%</b>	<b>-2%</b>
Sum of Absolute Adjustments		11%	3%	19%	10%
	211.00	\$603,678.80	\$127,376,227		

To use the sales comparison approach to estimate the value of oLiv Seattle, I found four similar properties that have recently sold in the market from the report of institutional sales after 1-1-20. Those three properties are the M, Kiara, West Edge Tower, and Dorian Apartments. The reason why I select them is that they are all high-rise buildings in high-demand markets. All of them are closed

to the I-5 highway and have similar amenities.

After collecting detailed information about each comparable sale, I compare oLiv Seattle with each comparable property and identify the differences. Factors I will consider when making adjustments include age, number of units, unit size, building quality, building condition, view, amenities, commercial area, location and noise. For example, if a comparable property has larger unit size than the subject property, a negative adjustment may be applied to account for the difference of unit size. By applying a negative adjustment for the larger unit size, the value of the comparable property can be brought closer to the subject property, making the comparison more accurate and equitable.

I did not apply any adjustment for the age, number of units, building quality, building condition, view, amenities, and noise. Age between subject property and comparable properties has not much difference. Therefore, the influence that age on the value of the property would be relatively small. The building quality and building condition of all properties are above average, so the difference between good and average may not result in significant adjustments to the price. Since all the properties are high-rise buildings, it can be assured that they offer a certain view. Although the subject property has amenities such as a pool and sauna room that comparable properties does not have, the comparable properties have other amenities that help bridge the gap. For example, the M has an indoor basketball court. West edge tower has car charging and washing stations. Kiara has game room and park. All comparable properties are far apart from airport and highway, so the adjustments for noise are zero. The difference in commercial areas matter because the extra income generated from commercial activities can increase the overall value of the property. I would adjust downward 1 % for each 1,000 Sf of commercia area. What's more, location is an important factor that affects the price. From my perspective, downtown is both a desirable location and a superior housing market. The demand for housing in downtown remains consistently high because of its convenience and accessibility. I adjust +/-3% for location.

After applying the adjustment to the sale prices of the comparable properties, I am able to determine the adjusted sale prices for each comparable property. I assign weights to the comparable sales price based on their similarity to our subject property. To better understand the

data, I made a table that includes the adjusted price per unit, weight and indicated value of the subject property.

Here is the table:

Comparable	Adjusted \$/Unit	Weight	Price/Unit \$623374.7	Indicated Value \$131,532,061
1	\$622,473	95%		
2	\$686,508	2%		
3	\$723,785	2%		
4	\$381,949	1%		

I have assigned the weight of 95%, 2%, 2% and 1% to each of the four comparable buildings based on their similarity to oLiv Seattle. I assigned weight 95% to The M because oLiv Seattle and The M both are located in the U district, and two buildings are both student housings. However, due to the lack of data of comparable properties, the indicated value found in this approach is not accurate. Therefore, this indicated value will not become the major consideration on my final reconciliation.

## **Reconciliation:**

oLiv Seattle is a new building less than 1 year old, cost approach is supposed to be suitable for estimating its value. However, the value \$149,343,664 derived from cost approach will not be given excessive weight due to the lack of specific and accurate data. Builder profit, cost per square foot, and entrepreneurial incentive are all estimated values. The income approach is primarily used for income-generating properties. oLiv Seattle, as rental apartment, is an income generating properties. We have great data of the monthly rent and expense information that is supported by the market. By applying proper capitalization rate and vacancy rate, the income approach gives a value of \$137,369,419, which will become the major contributor to my final assessment. For comparison sales approach, the comparable properties I chose are the M, Kiara, West edge tower, Dorian Apartments. By adjusting the price to account differences between comparable properties and subject properties and assigning appropriate weights to the comparable properties, the sales comparison approach provides the value of \$131,532,061. However, among four comparable properties, the M is the only one situated in the U-District and designed specifically for student housing. Due to the limited availability of comparable sales in U District and the variance on the location and housing market, the sales comparison approach may not capture the value of subject property.

I found that there are only slight differences in the three values derived from the three approaches, which indicates the estimated values are relatively consistent across the different methods. I think the income approach is the most appropriate one in the context of subject property. I have assessed the sustainability and reasonableness of the monthly rent posted by oLiv Seattle. The rents are likely to be maintained in the long term. However, many uncertainties remain in the miscellaneous income and expenses. Therefore, I would assign weight of 90% to income approach. I assign weight of 2% to cost approach and 8% to sales comparison approach since more uncertainties associated with the cost approach compared to the sales comparison approach.

The final opinion of value for oLiv Seattle is \$137,141,915.

Reference:

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