



The Barry Apartment Report is a publication covering economic, financial, and valuation trends impacting apartments in the Portland, Oregon metropolitan area. Barry & Associates is a real estate appraisal firm specializing in multifamily appraisals throughout Portland Metro since 1983.

2021 Forecast: Strong Economic Recovery Expected After a Dark Year

Current Portland Metro Trends

- **Unemployment:** 6.1%
- **Job Growth:** -10.3% (annual)
- **Population Growth:** 0.7%
- **Portland-Salem CPI:** 1.5%
- **Apartment Construction:** Permits for around 5,700 units issued in 2020, or down 35% from 2019.
- **Apartment Sales:** 167 sales in 2020 vs. 220 sales in 2019
- **Apartment Sales Volume:** \$1.8 billion in 2020 vs. \$2.2 billion in 2019.
- **Apartment Values:** Values firm with some increases in 2020
- **Apartment Income:** Most apartments showed a decline in income of 2% to 5% from 2019 to 2020
- **Apartment Vacancies:** 6.7% (all properties) 4.9% (stabilized properties)

This issue of the Barry Apartment Report is based on recent speeches given by Patrick O. Barry, Certified General Appraiser, as well as information from the Office of Economic Analysis (OEA) of the State of Oregon.

The past 12 months have been challenging on many fronts. Shortly after the initial shutdown in March 2020, the outlook for apartments was dire. As the impact of COVID became part of day to day life and the market had a chance to stabilize, the adverse impact on the apartment market was less severe than initial predictions. The Portland apartment market was buoyed by low interest rates, federal and local support, many well capitalized buyers, and a sense of safety in multifamily when compared to office, retail, hospitality, etc.

Portland Economy: Portland Metro was at full employment. as the economy reached a record expansion of ten years since the Great Recession. Portland Metro added 21,100



December 2020 Sale—\$167,010 Unit
97 Unit Van Plaza Apartments
8011 NE 4th Plain Blvd, Vancouver

jobs in 2019. This was the second slowest year of job growth since 2013. However, with the onset of COVID in 2020, **Portland Metro lost 127,000 jobs**, and the unemployment rate is now 6.1%.

Apartment Construction:

Between 2016 and 2019, Portland Metro averaged permits for 8,500 apartment units per year. Its no surprise that 2020 saw a slowdown, with permits for around 5,700 units. This slowdown was due to concerns regarding economic uncertainty, slowing population growth, short term oversupply, shift in tenant preferences to low density areas, less financing availability, and wide scale job losses which tends to push tenants towards lower cost housing.

The location of apartment construction show a shift away from Multnomah County, where permit applications were down 60%, while permits in Clark, Clackamas, and Washington county were stable. Since the onset of COVID, there has been some shift in tenant preference to lower density housing, housing outside the urban area, and units with extra space to better accommodate working from home. The overall decline in appeal of being in a dense urban area, combined with increased regulation and taxes as well as social and political unrest in the City of Portland is making developers think twice about building apartments in the city.

Only 38% of the 2020 permits for new units were issued in Multnomah County, This is down from an average of 64% from 2017 to 2019. Washington County saw 27% of the total units built, while Clark and Clackamas County accounted for 24% and 11% of apartment construction, respectively. The distribution of the new permits is reminiscent of the time from 1990-2002, when suburban counties combined for more new units than Multnomah County.

Apartment Vacancies and Rental Rates:

The latest **Multifamily Northwest Apartment Report (MFNW)** shows a 5.0% vacancy factor vs. 4.7% in Spring of 2020. The five most urban submarkets (downtown, NW, SE, NE, and N) show an average vacancy rate of 7.7% while the remaining 15 submarkets show an average vacancy rate of 4.3%. The urban/suburban divide in vacancy rates is no surprise given the volume of new urban construction that has occurred in the past 10 years along with a shift in tenant preferences toward suburban areas. The highest vacancies were reported in downtown (9.8%) and N Portland (10.9%), while Clackamas, Milwaukie, Beaverton, and Tigard reported sub-3.5% vacancy rates.



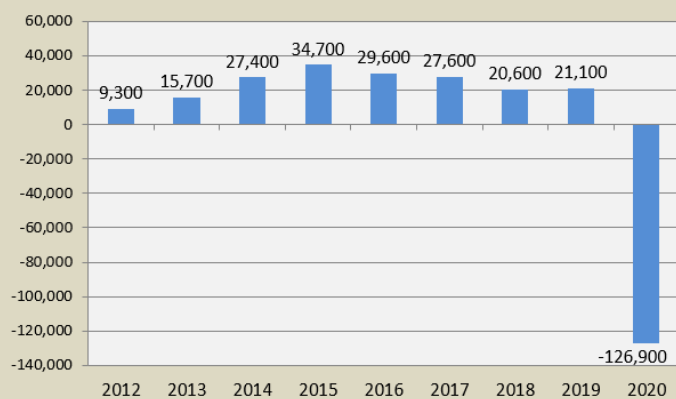
12/20 Sale— \$193,975 Unit
12 Unit Kimberly Cove Apts
2831 SW Dolph Ct, Portland

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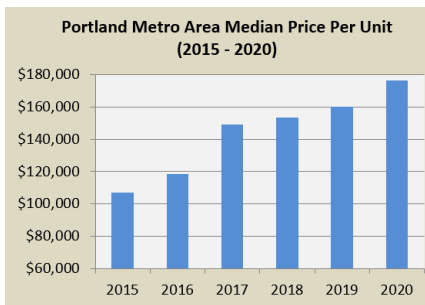
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Portland Metro Wage & Salary Employment
Annual Change 2012-2020

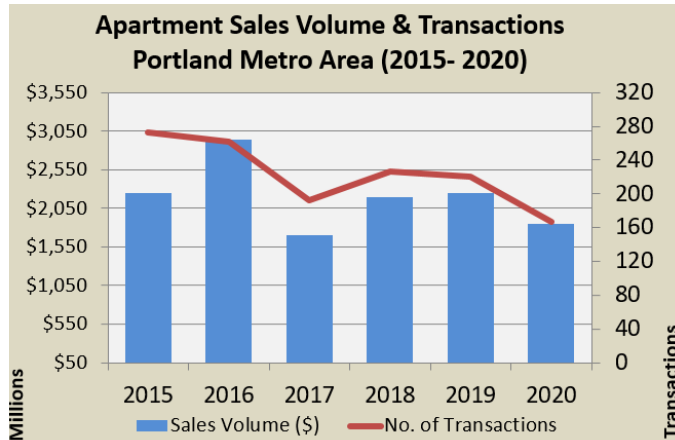


Apartment Expenses: Most expenses remained stable. Property taxes were up a manageable 3% to 4%. Once managers/owners worked out the logistics of completing maintenance in a pandemic, costs have been fairly stable. However, many owners have reported long wait times for some materials. The trend of “self-showing” units accelerated, with few complaints. With increased vacancies in some submarkets, some advertising and tenant retention expenses are making a comeback. While management fees have been stable, administrative expenses have increased due to dealing with the pandemic, and regulatory burdens.



Utilities are expected to increase in 2021. A 5% rate increase was approved in the City of Portland, which is expected to cost an estimated \$72 per household per year.

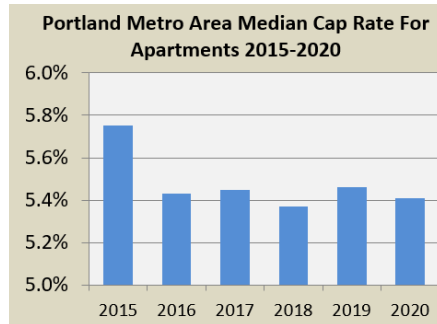
Apartment Values: Upon the onset of COVID, predictions were all over the board regarding values. The only common theme among these predictions was that virtually no one expected values to increase. Once the apartment market showed some stability, the combination of low interest rates, well-capitalized investors, and underperformance in other real estate sections drove apartment values up. If one considers all of the metro area



The sales market for newer apartments remains strong, though investors are hesitant to consider buildings that lack a stable operating history. There were 39 sales of post-2010 built apartments in 2020, which is up from 32 in 2019. During 2020, the median per unit price on newer apartments increased while the median per Sq. Ft. price decreased. This is a result of the average unit size of properties sold increasing in 2020 and a shift towards sales of smaller properties. In 2019, the average new apartment sale was 78 units with an average unit size of 951 Sq. Ft. In 2020, the average sale of a new apartment had 45 units with an average unit size of 1,049 Sq. Ft.

The CoStar figures show a 5.41% median cap rate for 2020, vs.

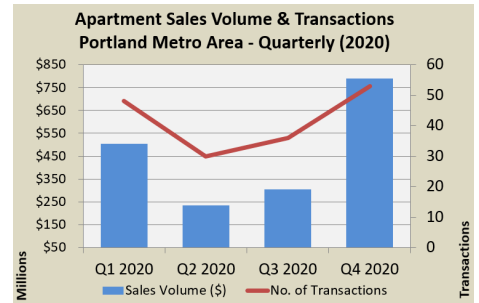
apartment sales for 2020, the median price per Sq. Ft. increased from \$186 in 2019 to \$204 in 2020, and the median price per unit increased from \$160,000 in 2019 to \$176,000 in 2020. This represents increases of 9.7% on a per Sq. Ft. basis and 10.0% on a per unit basis.



Given the current state of job losses, increasing vacancy rates, flat to declining income and increased regulation, value increases were not expected. Many of the 2020 sales represent a flight to quality. Overall transactions were down around 25% from 2019 to 2020. However, sales east of the I-205 freeway declined 60%. There were also fewer value add sales and sales with an emphasis on modest units. The lack of these lower value properties pushed up the median prices. On the opposite end of the spectrum, sales of new buildings actually increased in 2020 as investors sought stability.

5.46% for 2019. Low interest rates and a search for yield helped push down cap rates.

Apartment Sales Volume: 2020 resulted in a roller coaster year for apartment sales as seen in the chart below. The year started off strong, but slowed significantly in spring/summer 2020 due to COVID. Pent up demand resulted in a very strong fourth quarter, with 53 sales worth close to \$800 million.



The final figures from 2020 show 167 transactions and \$1.85 billion in sales. Transactions were down 24% from 2019 and sales volume was down 17%. No question the market was slower in 2020, but transactions and sales volume exceeded most expectations.

Portland remained on the radar of institutional buyers. In 2020 there were 41 sales exceeding \$10M, versus 44 such transactions in both 2018 and 2019.

2021 FORECAST

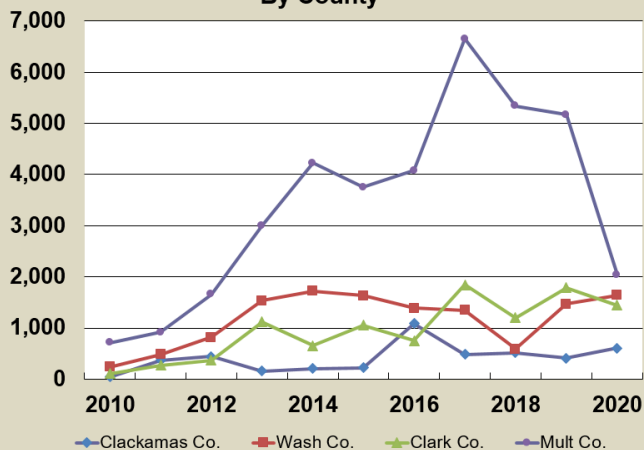
Our thoughts are as follows:

Economy: The March 2021 State of Oregon (OEA) employment forecast stated “Economic growth in 2021 is shaping up to be one of the strongest years in decades, possibly generations.” They anticipate around half of the jobs lost in 2020 will be regained in 2021. and we will return to pre COVID employment levels by early 2023.



10/2020 Sale—\$283,333 Unit
12 Unit Apartment
5080 NE 33rd Avenue, Portland

**Apartment Permits Issued 2010 - 2020
By County**



Developers in the City of Portland face many headwinds. This includes rising construction costs, a large pipeline of units being finished in 2021, increasing vacancy rates, IZ requirements, softening rents, uncertainty as to future regulation, and a some shift towards lower density housing. For the near term, projects in City of Portland are difficult to pencil right now.

Apartment Values: Apartment values increased in 2020, which represented a flight to quality. We expect a continued flight to quality in 2021. However, we also expect more sales of apartments in less stable areas or areas with a challenging recent past. Over the past year, owners in the City of Portland have faced many challenges with increased regulation, civil unrest, closing of many urban amenities, and deteriorating apartment fundamentals. Some investors have lost patience with Portland and Oregon as a whole and will cut their losses in 2021. While there were virtually no distress sales in 2020, we expect to see some distressed sales in 2021 as many forgiveness/forbearance programs come to a close.

There are short term concerns about urban multifamily oversupply. CoStar reports that 5,400 apartment units were completed in Multnomah County during 2020 and another 5,000 units are expected over the next 18 months.

Overall, we expect values to remain stable in 2021, with possibly some modest gains. These gains will be a combination of increasing values at stable, well located, good quality apartments, balanced out by increasing sales of less stable apartments. **However, increasing interest rates in 2021 could quickly dampen the enthusiasm of investors to pay higher prices.**

Unemployment rates are expected to reach 5.0% in 2023. The OEA March 2021 report states “This shift out of physical goods and back into labor intensive, in-person services will create strong employment growth later this year.”

Single Family: COVID, combined with low interest rates has resulted in a very strong single family market. Forecasts call for increased housing starts for the years head. As the oldest millennials hit 40, a transition to homeownership is likely. The Portland metro homeownership ratio has increased since 2016 and this trend will likely continue. **A significant shift towards homeownership puts upward pressure on apartment vacancy rates.**

The share of overall suburban construction is expected to increase in the coming years as City of Portland works through an oversupply of units and also works to regain its appeal to developers.

Apartment Construction: Over the last six years, the inventory of multifamily units in Portland Metro has increased by more than 20%. In 2020, permits were stable or increasing outside Multnomah County. We expect developers to favor areas outside the City of Portland as Portland works to absorb some oversupply. **We expect there will be permits for 10,000 to 14,000 new units in 2021 and 2022, with a majority of units being located outside Portland.**

Apartment Vacancies and Rental Income: Despite some doomsday predictions, vacancies remained relatively stable in 2020, with only modest increases. This is in part due to the current ban on evictions which has held vacancies down. Most surveys report overall vacancies for Portland Metro between 5.0% and 6.5%. However, vacancies at a metro level can be misleading. Vacancies at new high end units and in most close-in areas are up, while suburban vacancies are down.

Apartment Sales Volume: Despite some major headwinds in 2020, institutional buyers remained interested in Portland. The \$800 million in sales in the 4th quarter of 2020 was some reassurance that Portland remains an attractive location for national investors. While regulation and taxes have increased, demand for multifamily remains strong. We expect continued strong demand in 2020 as other real types continue to struggle. **We anticipate sales volume in 2021 reaching \$1.75 to \$2.0B and 175 to 225 apartment sale transactions.**

With 5,000 apartments scheduled for delivery in 2021 and absorption forecast at 3,000 units, **we anticipate metro wide vacancies to continue to increase and approach 7.0% by late 2021. However, the vacancies will be concentrated at new urban units, which CoStar forecasts will reach 12% in mid-2021. Vacancies at older apartments will likely remain below 6.0%**

Politics: Many areas saw a decline in rents in 2020, Thus, **the rent control limits are of little concern today.** However, since rent control was passed, more regulation has followed. While 2020 represented a breaking point for some owners, new investors are lining up to take their place. The current concern is what will happen when the eviction ban expires in July 2021. A major worry is whether the increased regulation in Portland and Oregon will deter out of state investors that have no loyalty or roots in Portland. These out of state investors account for 75% of all sales volume by dollar amount.

In 2020, the tenant shift toward the suburban area resulted in higher rents outside the City of Portland and a decrease rents in the city. The urban area is expected to show only small rent increases in the coming year, though strong rent increases after 2021. Suburban rents have increased as vacancy rates decreased. **Further rent increases of 2% to 5% are expected outside the dense urban area.**



11/20 Sale- \$140,000/Unit
12 Unit Parkside Apartments
883 SE 11th Avenue, Hillsboro

The Barry Apartment Report

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Opportunities

- New COVID cases and hospitalizations are **down by more than two-thirds**
- Households feeling more confident in their ability to safely resume activities
- Record federal aid has boosted incomes higher than before the pandemic
- The CoStar forecast calls for strong annual rental increases of 5%+ after 2021
- \$800 million in Q4 2020 apartment sales confirms Portland's investment appeal
- 2020 absorption in Portland Metro far exceeded expectations
- A continued low interest rate environment in comparison with past years

Risks

- Apartment completions will likely outpace demand in 2021
- Shift toward home ownership and home construction
- Increased regulation is making investors/developers consider locations outside OR
- Slower population growth and aging cohort of prime renters; **Oregon in 2020 had slightly more deaths than births for the first time ever**
- Deteriorating conditions in downtown Portland with a long road to recovery
- What regulation is coming next? Investors make decisions based on a set of assumptions, though the rules in Portland tend to change quickly.
- Elongated recovery in Oregon which trails US as a whole
- Reputational damage in Portland from negative national publicity
- Some clear signs of increasing interest rates as of March 2021

CONCLUSION: Despite all the negative forecasts upon the onset of COVID, 2020 was a solid year for the Portland apartment market. While some fundamentals have declined, investor demand remains high. Apartment values hit record highs in 2020, though there was an obvious flight to quality. In 2021, we expect a generally stable apartment market though fundamentals will differ between the urban and suburban area. We expect greater stability in the suburban area. The urban area will continue to experience less stability in the coming year, though the urban market should show improvement by year end in conjunction with strong anticipated improvement in the local and national economy.



12/20 Sale—\$152,777/Unit
18 Unit The Creek Apartments
8950 SE 79th Place, Clackamas

We have transitioned most of our market updates to electronic only. We send 2-3 emails a year with updates on the Portland apartment market. You can subscribe or unsubscribe on our website.

www.BarryApartmentReport.com