VOL. 40 SPRING 2024

MULTIFAMILY NW
The Association Promoting Quality Rental Housing

THE Apartment Report

STAYING ALIVE UNTIL '25

Liz Tilbury, CCIM Tilbury Ferguson Investment Real Estate, Apartment Report Committee

No one would argue that 2024 has been a banner year so far for multifamily on either the sale or the rental side. Rents are flat, sales activity is abysmal and recovery not expected to begin in earnest until 2025, at the earliest. Rents will not rebound until we cycle through all the new construction and in-migration resumes. Although the experts can't agree on just when the market will recover, few expect it will take as long as it did during the last great recession (2008-2010). Patrick Barry, appraiser, reminds us that it took almost six years (until 2015) for sales to return to their previous level in terms of the number of transactions. None of us want to be marking time until '29!

The apartment market currently has some formidable challenges: changing population patterns, a difficult and often confusing regulatory environment, increasing vacancy rates, the high cost of capital, increased expenses and a shortage of labor. In addition, the tarnished image of Portland proper in the eyes of regional and national investors has benefitted neighboring markets, especially Vancouver and vicinity. Portland, however, is still very affordable compared to other, major west coast cities and its beautiful, natural environment, with its parks and green spaces, has a continuing attraction, especially among young adults.

The report says vacancies are up 70 basis points in Portland Metro since our fall report (from 5.47% to 6.17%.) The areas with the lowest vacancy are Aloha and Tigard, Tualatin, Sherwood (all sub-5) while those with high vacancy are in the urban core (NW at 8.7% and Downtown Portland at 7.48%). Studios in Downtown Portland top 12% vacancy. The market with the highest vacancy, however, is St. Johns (over 9%.) In addition to flat rents and the uptick in vacancy, concessions across the metro area, which had virtually disappeared when rents were rising, is back in force. Not surprisingly, concessions are most prevalent in those areas in which new construction is concentrated.

Rents/sq ft are virtually unchanged in the last six months for the more than 48,000 units in Portland Metro covered by the survey. The average rent in the Fall 2023 Apartment Report was $2.04/sf. It's now $2.06/sf.

There are some changes to the report this time with new areas being added: Salem/Keizer, Corvallis/Albany, Forest Grove/Cornelius and McMinnville/Newberg. These outlying markets have seen a marked increase in sales activity, as investor demand has shifted from Portland proper to these outlying markets. Of the new markets which were surveyed, McMinnville/Newberg shows the lowest vacancy at just 3.36% while Bend/Redmond is just over 8%.

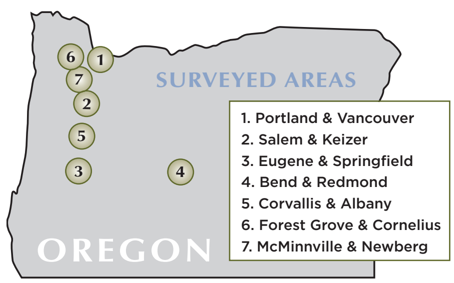
Survey participation for this issue of the Apartment Report was down from fall, as users transitioned to the new software. Going forward, these problems should result in an improved user experience, and provide our members with even better, more consistent data.

The Co-Star Trend Report shows the drastic reduction in apartment sales activity, which has sent shock waves through the brokerage community and its related partners who rely on sales. CoStar reports in that 1Q24 there were just 13 sold transactions with an average cap rate of 6.64%. This compares to 4Q21 when the market was at its peak with low interest rates and 108 sales showing an average cap rate of 4.75%.

(continued on page 2)

SURVEY SAYS!

- Portland Metro vacancies edge up to 6.17%
- Rents overall flat
- Survey expanded to include some new areas
- Sluggish sales market
- Oregon economy performing better than anticipated



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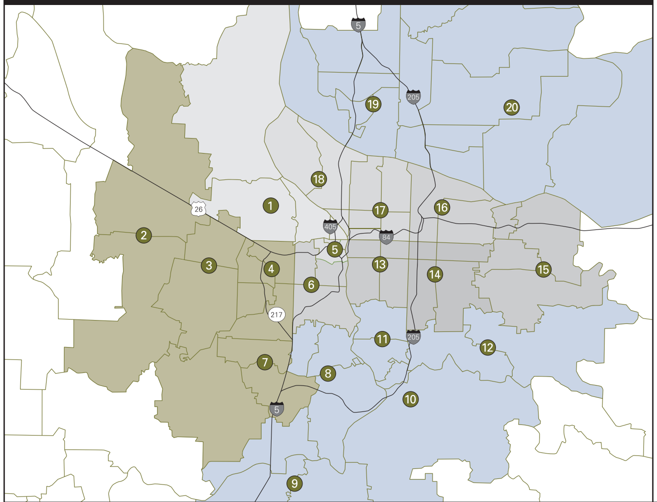


MULTNOMAH COUNTY

- 5 DOWNTOWN PORTLAND
- 1 NW PORTLAND
- 13 INNER & CENTRAL SE (PTLD)
- 17 INNER & CENTRAL NE (PTLD)
- 18 NORTH PORTLAND | ST. JOHNS
- 6 SW PORTLAND
- 14 OUTER SE (PORTLAND)
- 16 OUTER NE (PORTLAND)
- 15 TROUTDALE | FAIRVIEW WOOD VILLAGE | GRESHAM

CLARK COUNTY

- 19 WEST VANCOUVER
- 20 EAST VANCOUVER

CLACKAMAS COUNTY

- 12 CLACKAMAS
- 8 LAKE OSWEGO | WEST LINN
- 11 MILWAUKIE
- 10 OREGON CITY | GLADSTONE
- 9 WILSONVILLE | CANBY

WASHINGTON COUNTY

- 3 ALOHA
- 4 BEAVERTON
- 2 HILLSBORO | NORTH OF HWY 26
- 7 TIGARD | TUALATIN SHERWOOD

OUR CONTRIBUTORS

(continued from page 1)

Josh Lerner, Economist with the Oregon Office of Economic Analysis, tells us the economy remains strong as inflation slows. Business investment and productivity is expected to grow, even with the shortage of labor, which is projected to continue with Baby Boomers retiring and the loss of in migration.

Recent data from the Census shows that Portland has improved in population loss from 2022, when there was a substantial exodus, to a stable unchanged population in 2023. In other words, the population trend, while not good, is less worse.

Josh tells us that, "Even as the baseline population forecast calls for some growth, Oregon has to be open to the possibility that it may not materialize." His office has developed a Zero Migration scenario, which would significantly affect rental housing, as young adults move at the highest rate.

In summary, he sees two different trends, one for the near future and another for the long term. In the short term, new construction faces many hurdles, including high interest rates and construction costs, resulting in multifamily starts being more than 40% below their pre-pandemic levels. In the long term, however, Oregon faces a shortage of housing that requires many new units so demand will be strong.

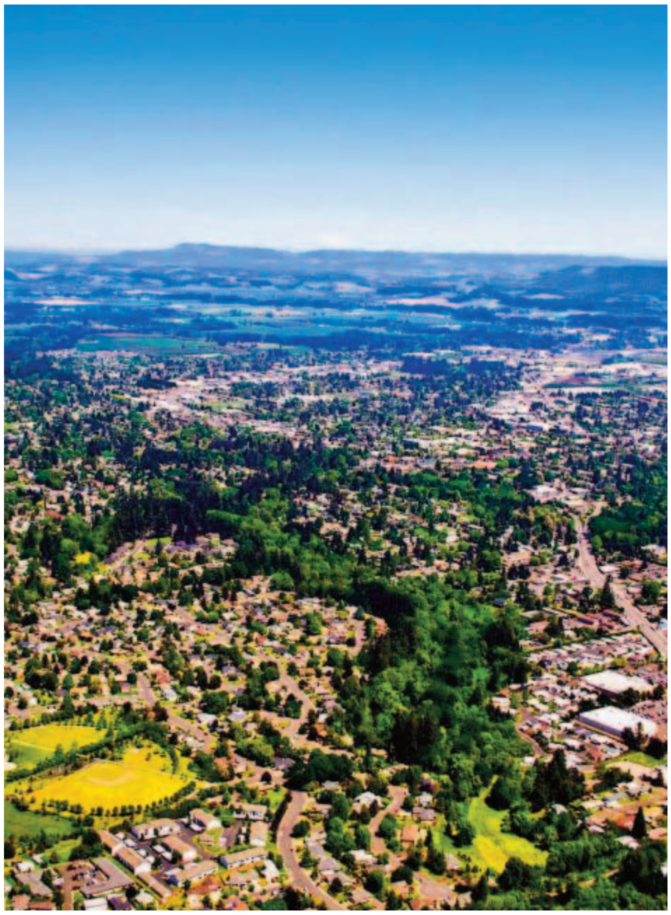
Patrick O. Barry, Appraiser with Barry & Associates, reports on Portland Metro apartment fundamentals. He says, "we should all be thankful that 2023 is in the rearview mirror." With just 97 sales across Portland Metro, it represented a 53% decline from the long-term average.

CoStar reports that rents declined 1.8% during 2023 although forecasts call for rents to rebound in the second half of 2024 and show an overall increase of 3.3%.

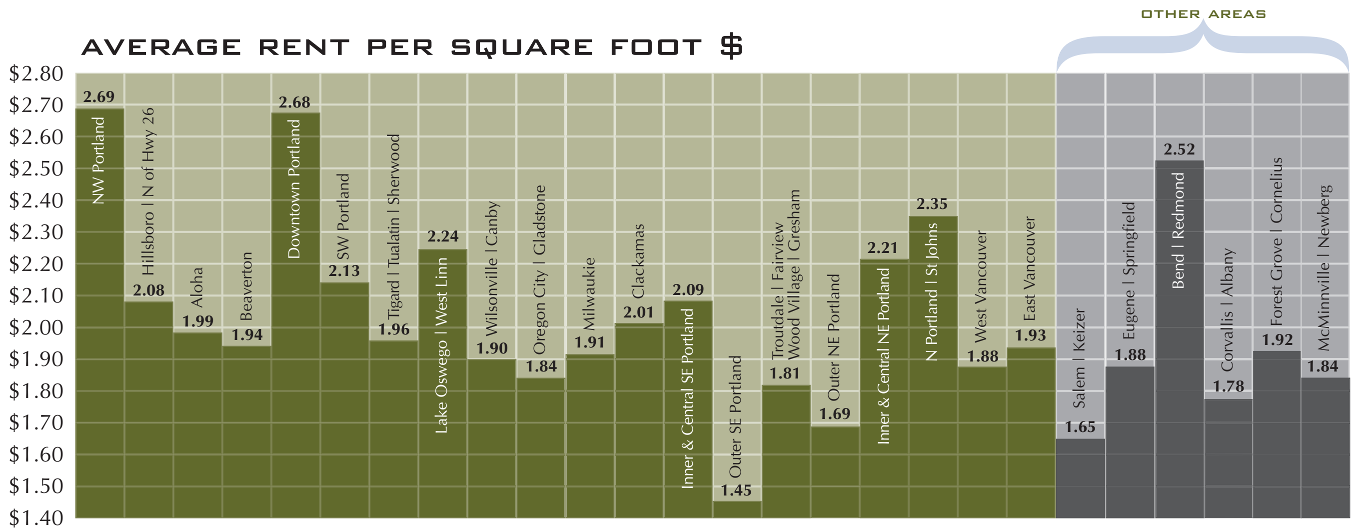
With the dramatic change in interest rates since 2022, Patrick says that "the impact on sales has been astonishing." There has been a broad gap between sellers' expectations and buyers' expectations and few truly motivated sellers. Patrick predicts that this gap will shrink as loans come due and rates stabilize.

Based on the 97 sales that occurred in 2023, Patrick tells us that "the median cost per unit has declined 6.8% to $198,000 and the median cost per sf declined 5.6%." With only 13 sales in 1Q24, Patrick notes that the sample size is small and so may not be totally representative.

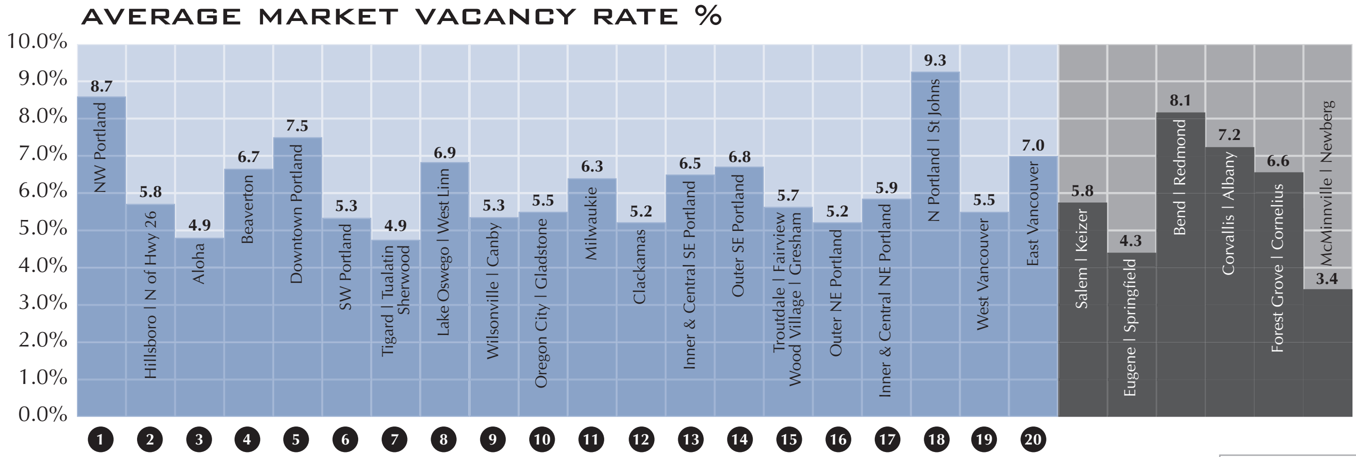
Patrick reports, however, that there is an "underlying optimism for a rebound in the latter half of 2024, driven by anticipated interest rate cuts and increased seller motivation." ■



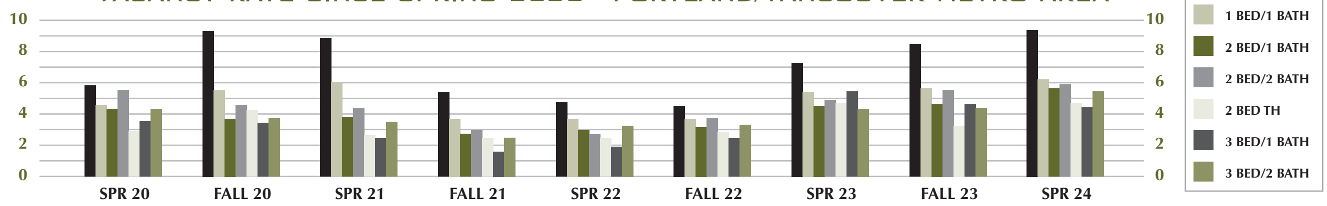
AVERAGE RENT PER SQUARE FOOT $



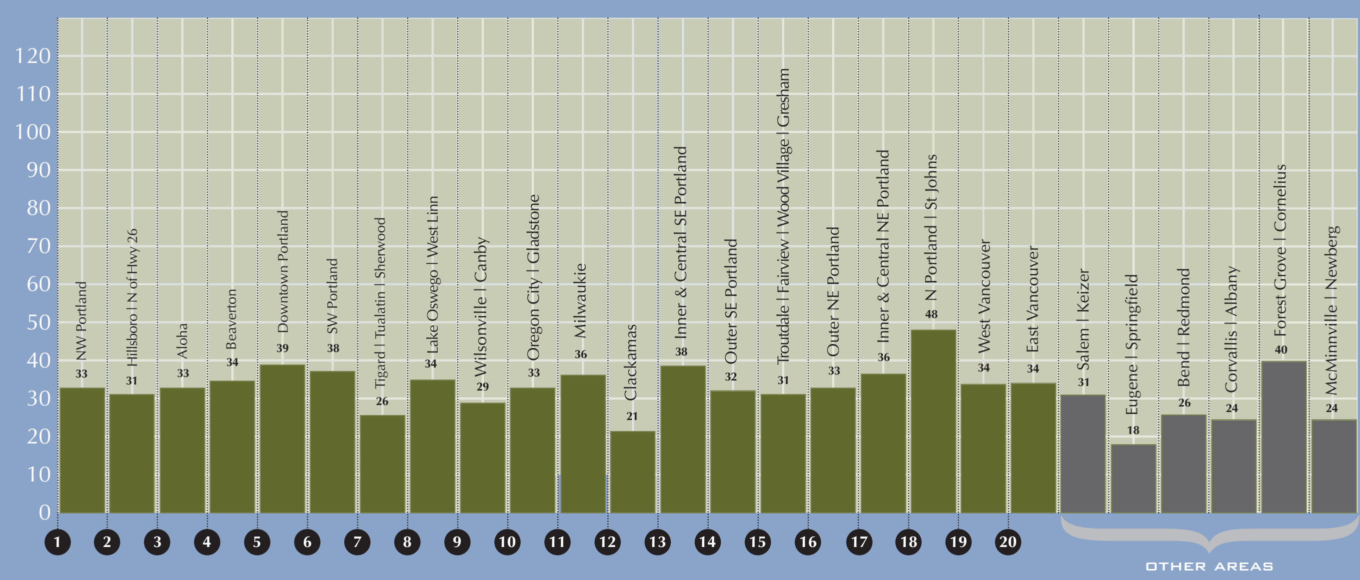
AVERAGE MARKET VACANCY RATE %



VACANCY RATE SINCE SPRING 2020—PORTLAND/VANCOUVER METRO AREA



AVERAGE NUMBER OF DAYS VACANT



SURVEY RESULTS—SPRING 2024

PORTLAND/VANCOUVER METRO AREA

AREA NAME	# OF PROP	DATA	ALL	STUDIO	1 BED 1 BATH	2 BED 1 BATH	2 BED 2 BATH	2 BED TWNHS	3 BED 1 BATH	3 BED 2 BATH
DOWNTOWN PORTLAND	18	AVG MARKET VACANCY RATE %	7.48	12.2	5.53	4.26	9.19	5	0	6.25
(5)		AVG RENT PER SQ FOOT $	2.68	3.36	2.48	2.12	2.85	1.2	2.21	3.18
		AVG RENT PER UNIT TYPE $	-	1233	1659	1817	3099	1090	2100	7040
		SUM OF UNITS SURVEYED	1730	438	962	48	185	80	1	16
NW PORTLAND	66	AVG MARKET VACANCY RATE %	8.7	11.76	8.13	7.23	6.33	14.29	4.17	6.58
(1)		AVG RENT PER SQ FOOT $	2.69	2.95	2.67	2.05	2.75	2.2	1.93	1.88
		AVG RENT PER UNIT TYPE $	-	1352	1846	1789	2775	2631	1814	2475
		SUM OF UNITS SURVEYED	4440	1086	2343	280	628	14	25	64
INNER & CENTRAL	97	AVG MARKET VACANCY RATE %	6.53	7.69	6.55	6.63	3.01	3.7	0	11.11
SE PORTLAND		AVG RENT PER SQ FOOT $	2.09	3.01	2.07	1.6	1.94	1.51	1.4	1.77
(13)		AVG RENT PER UNIT TYPE $	-	1268	1375	1342	2187	1308	1515	2474
		SUM OF UNITS SURVEYED	2919	516	1360	655	179	134	30	45
INNER & CENTRAL	68	AVG MARKET VACANCY RATE %	5.93	8.7	5.13	6.43	4.61	2.63	0	12.5
NE PORTLAND		AVG RENT PER SQ FOOT $	2.21	2.66	2.21	1.78	2.22	1.75	1.48	1.99
(17)		AVG RENT PER UNIT TYPE $	-	1298	1464	1521	2344	1635	1479	2235
		SUM OF UNITS SURVEYED	2520	434	1437	370	199	48	9	23
N PORTLAND & ST JOHNS	14	AVG MARKET VACANCY RATE %	9.25	6.52	10.04	14.86	4.31		0	16.67
(18)		AVG RENT PER SQ FOOT $	2.35	2.65	2.42	1.74	2.55		1.42	1.42
		AVG RENT PER UNIT TYPE $	-	1394	1465	1399	2524		1313	1469
		SUM OF UNITS SURVEYED	1186	276	558	216	116		8	12
SW PORTLAND	31	AVG MARKET VACANCY RATE %	5.26	5.88	5.15	6.27	4.16	3.03	20	4.59
(6)		AVG RENT PER SQ FOOT $	2.13	2.54	2.3	1.88	1.95	1.46	1.6	1.65
		AVG RENT PER UNIT TYPE $	-	1317	1577	1770	2270	1328	1646	1886
		SUM OF UNITS SURVEYED	2026	192	926	396	361	33	10	108
OUTER SE PORTLAND	12	AVG MARKET VACANCY RATE %	6.83		6.42	5.39	4.85	0	0	17.54
(14)		AVG RENT PER SQ FOOT $	1.45		1.47	1.43	1.39	1.62	1.69	1.47
		AVG RENT PER UNIT TYPE $	-		966	1202	1399	1527	1613	1720
		SUM OF UNITS SURVEYED	711		109	241	165	66	8	122
OUTER NE PORTLAND	22	AVG MARKET VACANCY RATE %	5.16	5.26	6.62	4.94	4.91	0	0	5.17
(16)		AVG RENT PER SQ FOOT $	1.69	2.69	1.91	1.63	1.51	1.37	1.36	1.57
		AVG RENT PER UNIT TYPE $	-	1066	1254	1447	1506	1427	1481	1804
		SUM OF UNITS SURVEYED	1351	19	393	541	224	68	12	94
TROUTDALE | FAIRVIEW	29	AVG MARKET VACANCY RATE %	5.65	9.33	6.53	5.74	5.54	3.28	4.69	3.08
WOOD VILLAGE | GRESHAM		AVG RENT PER SQ FOOT $	1.81	2.98	2.04	1.67	1.73	1.64	1.52	1.78
(15)		AVG RENT PER UNIT TYPE $	-	1292	1371	1484	1643	1715	1628	2087
		SUM OF UNITS SURVEYED	3121	75	704	960	940	61	64	317
CLACKAMAS	10	AVG MARKET VACANCY RATE %	5.16	0	4.36	9.84	4.04			6.44
(12)		AVG RENT PER SQ FOOT $	2.01	2.62	2.24	1.87	1.91			1.87
		AVG RENT PER UNIT TYPE $	-	1356	1560	1642	1865			2187
		SUM OF UNITS SURVEYED	1926	39	551	290	782			264
LAKE OSWEGO | WEST LINN	11	AVG MARKET VACANCY RATE %	6.9	5.56	7.23	8.04	5.5	0		10.17
(8)		AVG RENT PER SQ FOOT $	2.24	3.46	2.37	1.83	2.11	1.64		2.29
		AVG RENT PER UNIT TYPE $	-	1299	1738	1625	2089	2230		2902
		SUM OF UNITS SURVEYED	984	28	422	128	319	8		79
MILWAUKIE	17	AVG MARKET VACANCY RATE %	6.26	8.91	7.36	5.05	6.15	5.04	0	4.17
(11)		AVG RENT PER SQ FOOT $	1.91	2.66	2.15	1.68	1.7	1.62	1.37	1.55
		AVG RENT PER UNIT TYPE $	-	1287	1371	1400	1627	1491	1550	1820
		SUM OF UNITS SURVEYED	926	101	258	289	130	121	1	26
OREGON CITY | GLADSTONE	8	AVG MARKET VACANCY RATE %	5.49	4.35	5	3.06	8.76	0	0	5.51
(10)		AVG RENT PER SQ FOOT $	1.84	3.25	2.31	1.79	1.74	1.88	1.86	1.49
		AVG RENT PER UNIT TYPE $	-	1410	1478	1547	1761	1525	1710	2077
		SUM OF UNITS SURVEYED	1084	23	220	209	306	46	8	272
WILSONVILLE | CANBY	13	AVG MARKET VACANCY RATE %	5.31	0	4.9	6.07	5.39	4.76	0	5.28
(9)		AVG RENT PER SQ FOOT $	1.9	3.05	2.19	1.81	1.79	1.58	1.83	1.76
		AVG RENT PER UNIT TYPE $	-	1450	1529	1521	1854	1986	1650	2053
		SUM OF UNITS SURVEYED	2358	36	572	583	743	84	2	338
ALOHA	26	AVG MARKET VACANCY RATE %	4.94		5.75	5.11	4.38	3.03	11.76	3.23
(3)		AVG RENT PER SQ FOOT $	1.99		2.28	1.82	1.86	1.78	1.94	1.77
		AVG RENT PER UNIT TYPE $	-		1511	1595	1811	2066	1821	2024
		SUM OF UNITS SURVEYED	4673		1658	861	1589	33	34	498

PORTLAND/VANCOUVER METRO AREA

AREA NAME	# OF PROP	DATA	ALL	STUDIO	1 BED 1 BATH	2 BED 1 BATH	2 BED 2 BATH	2 BED TWNHS	3 BED 1 BATH	3 BED 2 BATH
BEAVERTON	40	AVG MARKET VACANCY RATE %	6.65	11.03	4.72	2.22	12.33	2.47	0	2.14
(4)		AVG RENT PER SQ FOOT $	1.94	2.41	2.17	1.61	1.92	1.87	1.52	1.54
		AVG RENT PER UNIT TYPE $	-	1536	1436	1465	1949	1868	1913	1877
		SUM OF UNITS SURVEYED	3010	264	886	641	865	147	48	159
HILLSBORO | N OF HWY 26	11	AVG MARKET VACANCY RATE %	5.82	5	5.19	6.33	5.9	7.63		7.01
(2)		AVG RENT PER SQ FOOT $	2.08	2.98	2.38	1.84	1.78	1.68		1.62
		AVG RENT PER UNIT TYPE $	-	1484	1680	1779	2035	2244		2182
		SUM OF UNITS SURVEYED	1694	42	817	221	339	118		157
TIGARD | TUALATIN	33	AVG MARKET VACANCY RATE %	4.93	11.19	4.65	4.64	4.34		7.22	5.29
SHERWOOD		AVG RENT PER SQ FOOT $	1.96	2.92	2.13	1.8	1.83		1.62	1.84
(7)		AVG RENT PER UNIT TYPE $	-	1383	1451	1540	1802		1678	2074
		SUM OF UNITS SURVEYED	3323	134	1132	914	876		97	170
WEST VANCOUVER	34	AVG MARKET VACANCY RATE %	5.47	7.2	5.98	6.07	4.22	6.97	1.96	3.85
(19)		AVG RENT PER SQ FOOT $	1.88	2.7	2.11	1.69	1.84	1.49	1.82	1.63
		AVG RENT PER UNIT TYPE $	-	1406	1488	1547	1852	1599	2104	2048
		SUM OF UNITS SURVEYED	3984	125	1257	1117	1025	201	51	208
EAST VANCOUVER	21	AVG MARKET VACANCY RATE %	6.95	6.12	6.58	6.84	8.27	7.89	1.59	4.31
(20)		AVG RENT PER SQ FOOT $	1.93	2.58	2.24	1.79	1.75	1.42	1.74	1.69
		AVG RENT PER UNIT TYPE $	-	1402	1527	1656	1800	1641	2213	2029
		SUM OF UNITS SURVEYED	4073	205	1178	1024	1222	114	63	267
TOTAL AVG MARKET VACANCY RATE %			6.17	9.31	6.1	5.77	5.94	4.71	4.4	5.34
TOTAL AVG RENT PER SQ FOOT $			2.06	2.86	2.27	1.74	1.91	1.59	1.65	1.72
TOTAL AVG RENT PER UNIT TYPE $				1339	1541	1539	1928	1654	1804	2093
TOTAL SUM OF PROPERTIES SURVEYED			581	185	485	359	227	62	56	147
TOTAL SUM OF UNITS SURVEYED			48039	4033	17743	9984	11193	1376	471	3239

OTHER AREAS

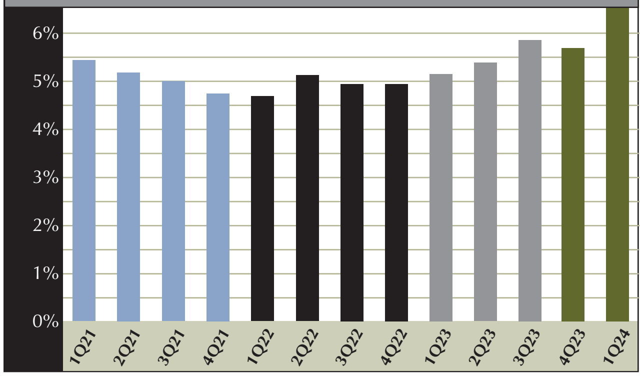
AREA NAME	# OF PROP	DATA	ALL	STUDIO	1 BED 1 BATH	2 BED 1 BATH	2 BED 2 BATH	2 BED TWNHS	3 BED 1 BATH	3 BED 2 BATH
BEND | REDMOND	10	AVG MARKET VACANCY RATE %	8.05	8.78	8.33	6.02	8.95	16.67		1.96
		AVG RENT PER SQ FOOT $	2.52	3	2.63	2.1	2.22	1.47		1.77
		AVG RENT PER UNIT TYPE $	-	1697	1748	1897	2172	1850		2328
		SUM OF UNITS SURVEYED	907	205	372	83	190	6		51
EUGENE | SPRINGFIELD	44	AVG MARKET VACANCY RATE %	4.3	3.02	4.25	3.78	3.41	4.97	0	7.26
		AVG RENT PER SQ FOOT $	1.88	2.74	2.03	1.75	1.75	1.71	1.37	1.55
		AVG RENT PER UNIT TYPE $	-	1029	1368	1435	1852	1786	1845	1851
		SUM OF UNITS SURVEYED	4066	397	879	1268	550	523	8	441
SALEM | KEIZER	50	AVG MARKET VACANCY RATE %	5.82	6.06	7.89	4.5	6.91	7.14	3.45	4.27
		AVG RENT PER SQ FOOT $	1.65	2.08	1.8	1.57	1.68	1.38	1.28	1.6
		AVG RENT PER UNIT TYPE $	-	1366	1296	1380	1636	1479	1652	1832
		SUM OF UNITS SURVEYED	4239	165	616	1769	1210	170	29	280
CORVALLIS | ALBANY	28	AVG MARKET VACANCY RATE %	7.23	5.5	6.48	5.7	9.39	9.09	11.76	12.63
		AVG RENT PER SQ FOOT $	1.78	2.43	2	1.66	1.73	1.31	1.24	1.7
		AVG RENT PER UNIT TYPE $	-	1144	1257	1422	1798	1344	1344	2042
		SUM OF UNITS SURVEYED	2113	109	432	877	543	40	17	95
FOREST GROVE | CORNELIUS	8	AVG MARKET VACANCY RATE %	6.6	5.56	10.19	6.45	3.57	0	4	0
		AVG RENT PER SQ FOOT $	1.92	2.76	2.06	1.49	1.8	1.75	1.48	1.83
		AVG RENT PER UNIT TYPE $	-	1513	1332	1244	1907	1485	1453	2208
		SUM OF UNITS SURVEYED	403	36	108	124	84	2	25	24
MCMINNVILLE | NEWBERG	11	AVG MARKET VACANCY RATE %	3.36	33.33	2.2	2.14	5.3		0	3.57
		AVG RENT PER SQ FOOT $	1.84	2.14	1.93	1.81	1.74		2.23	1.81
		AVG RENT PER UNIT TYPE $	-	1155	1229	1495	1688		1895	2021
		SUM OF UNITS SURVEYED	535	5	182	187	132		1	28
TOTAL AVG MARKET VACANCY RATE %			5.65	5.45	6.23	4.52	6.72	5.81	5.63	6.47
TOTAL AVG RENT PER SQ FOOT $			1.83	2.64	2.05	1.66	1.75	1.61	1.36	1.61
TOTAL AVG RENT PER UNIT TYPE $				1272	1376	1416	1761	1692	1547	1906
TOTAL SUM OF PROPERTIES SURVEYED			151	34	101	98	59	21	18	37
TOTAL SUM OF UNITS SURVEYED			12263	917	2589	4308	2709	741	80	919

Surveys received from Sec 42, Sec 8 and other subsidized affordable housing programs are not included in the current survey data.

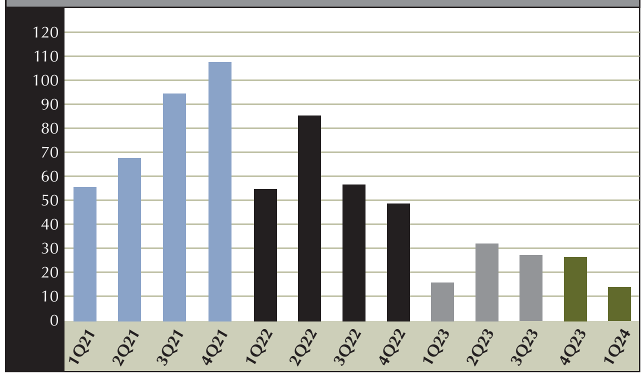
TREND REPORT : PORTLAND METRO AREA

CoStar: Search criteria—Research Status: Published; Market: Portland; PropType: Multi Family; Sale Date: 1/1/2021—3/31/2024; unit: 5 units and greater.

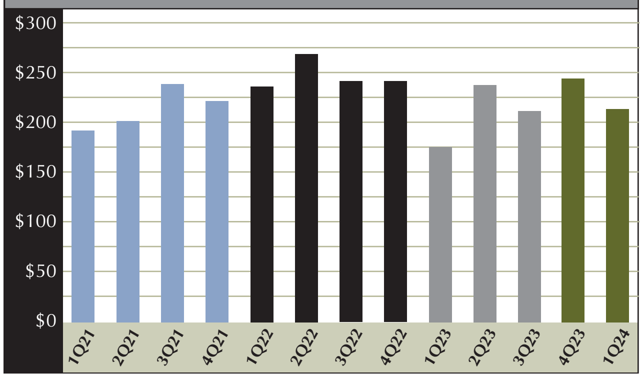
CAP RATE



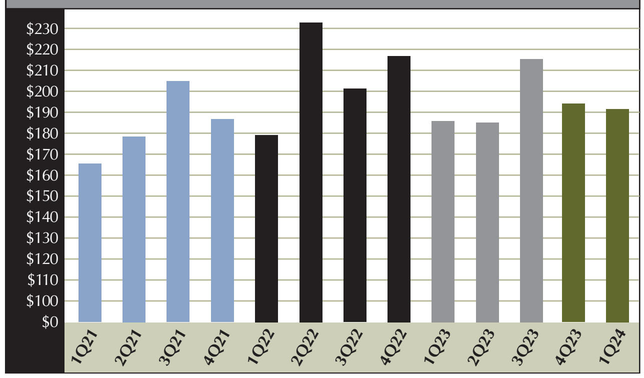
NUMBER OF TRANSACTIONS



MEDIAN PRICE PER SQUARE FOOT



MEDIAN PRICE PER UNIT (IN THOUSANDS)



YEAR	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
# OF TRANS	55	68	94	108	54	85	58	49	16	31	27	26	13
TTL $ VOLUME	$491,065,740	$833,059,130	$1,237,786,456	$1,900,443,148	$561,100,337	$1,311,346,999	$523,235,850	$958,376,592	$172,662,000	$203,610,318	$245,999,950	$329,826,500	$133,242,500
TTL BLDG SF	2,293,892	2,952,871	4,719,186	6,592,388	1,909,495	3,986,024	1,976,499	3,703,068	785,876	913,973	1,044,167	1,296,341	486,278
TTL UNITS	2,338	3,295	5,047	6,533	2,245	4,507	2,151	3,343	806	923	1,130	1,363	550
AVG PRICE	$8,928,468	$12,250,870	$13,167,941	$17,596,696	$10,390,747	$15,427,612	$9,021,308	$19,558,706	$10,791,375	$6,568,075	$9,111,109	$12,685,635	$10,249,423
AVG # OF SF	41,707	43,425	50,204	61,041	35,361	46,894	34,078	75,573	49,117	29,483	38,673	49,859	37,406
AVG $ BLDG SF	$214.08	$282.12	$262.29	$288.28	$293.85	$328.99	$264.73	$258.81	$219.71	$222.77	$235.59	$254.43	$274.00
MED $ P/SF	$191.08	$199.55	$238.76	$223.61	$232.70	$267.68	$239.88	$239.55	$174.68	$237.18	$211.57	$241.88	$216.17
AVG $ P/UNIT	$210,037	$252,825	$245,252	$290,899	$249,933	$290,958	$243,252	$286,682	$214,221	$220,596	$217,699	$241,986	$242,259
MED $ P/UNIT	$166,429	$179,359	$205,077	$187,800	$179,500	$231,167	$201,071	$217,083	$185,833	$185,000	$215,500	$193,583	$191,228
AVG # OF UNITS	43	48	54	60	42	53	37	68	50	30	42	52	42
ACTUAL CAP RATE	5.49%	5.15%	5.01%	4.75%	4.71%	5.10%	4.95%	4.97%	5.13%	5.47%	5.73%	5.66%	6.64%
AVG GRM	11.04	11.84	12.96	13.36	11.88	13.62	11.39	14.51	11.34	–	13.48	12.94	11.36
AVG GIM	–	11.47	–	–	–	–	–	–	–	–	–	–	–

TENANT PAID UTILITIES

MAP AREA	WATER/SEWER	HEAT	GARBAGE
NW PORTLAND	69%	68%	68%
HILLSBORO | N OF HWY 26	84%	92%	84%
ALOHA	82%	97%	82%
BEAVERTON	84%	93%	86%
DOWNTOWN PORTLAND	80%	76%	80%
SW PORTLAND	80%	95%	75%
TIGARD | TUALATIN | SHERWOOD	73%	97%	69%
LAKE OSWEGO | WEST LINN	90%	100%	100%
WILSONVILLE | CANBY	65%	90%	55%
OREGON CITY | GLADSTONE	66%	93%	60%
MILWAUKIE	50%	88%	50%
CLACKAMAS	60%	100%	53%
INNER & CENTRAL SE PTLD	22%	42%	22%
OUTER SE PORTLAND	35%	100%	32%
TROUTDALE | FAIRVIEW WOOD VILLAGE | GRESHAM	80%	100%	74%
OUTER NE PORTLAND	51%	96%	37%
INNER & CENTRAL NE PTLD	28%	44%	30%
NORTH PTLD | ST. JOHNS	46%	65%	46%
WEST VANCOUVER	58%	89%	58%
EAST VANCOUVER	75%	100%	75%
SALEM | KEIZER	75%	95%	77%
EUGENE | SPRINGFIELD	40%	94%	33%
BEND | REDMOND	73%	100%	66%

DO YOU OFFER INCENTIVES?

MAP AREA	FALL 2023	SPRING 2024
NW Portland	21.6%	32.9%
Hillsboro I North of Hwy 26	12.5%	7.7%
Aloha	12.8%	18%
Beaverton	9.8%	11.4%
Downtown Portland	34.5%	48%
SW Portland	17.7%	27.5%
Tigard I Tualatin I Sherwood	14.1%	13%
Lake Oswego I West Linn	5.9%	27.3%
Wilsonville I Canby	9.1%	20%
Oregon City I Gladstone	26.3%	26.7%
Milwaukie	11.1%	19.2%
Clackamas	16.7%	6.7%
Inner & Central SE Portland	7.8%	10.7%
Outer SE Portland	4.6%	3.6%
Troutdale I Fairview I Wood Village I Gresham	17.4%	22.9%
Outer NE Portland	2.4%	6.9%
Inner & Central NE Portland	6.1%	10.7%
North Portland I St. Johns	7.7%	30.8%
West Vancouver	9.5%	30.4%
East Vancouver	20.5%	44.9%
Salem I Keizer	6.1%	37.7%
Eugene I Springfield	9.2%	12.5%
Bend I Redmond	8.3%	40%

SECTION 42 SURVEY RESULTS SPRING 2024

UNIT TYPES	VACANCY RATE (%)	AVG. RENT PER SQ FT ($)
STUDIO	8.66	2.73
1 BED / 1 BATH	4.20	1.74
2 BED / 1 BATH	4.24	1.39
2 BED / 2 BATH	5.34	1.60
2 BED / TH	6.60	1.39
3 BED / 1 BATH	4.27	1.00
3 BED / 2 BATH	4.44	1.35
TOTALS	4.88	2.00

ECONOMY REMAINS STRONG AS INFLATION SLOWS

Josh Lehner, Economist, Oregon Office of Economic Analysis

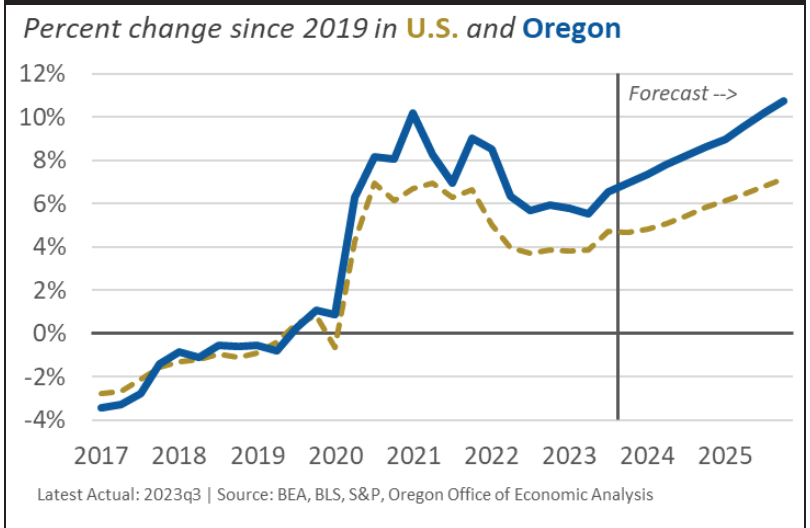
A year ago, economists were warning about the high probability of recession. Historically, inflationary economic booms have not ended well. However, the past year has gone better than economists could have hoped for. Inflation has slowed noticeably but remains above the Federal Reserve's target. The labor market has rebalanced and is no longer overheated. Importantly, underlying economic growth, as measured by real GDP and consumer spending, remains strong.

Looking ahead, expectations are for the economy to remains cyclically strong with low unemployment, and household income growth outpacing inflation. And while the Fed will adjust policy based on the state of the economy, threading the needle will be challenging. Should the Fed cut rates too quickly or deeply, it may spur stronger economic growth and keep inflation high. However, should the Fed not cut rates quickly or deeply enough, it would leave interest rates too high for the economy and ultimately could choke off growth over the next year or two.

The two key drivers of the regional economy are the number of workers, and how productive each worker is. In the decade ahead, labor and capital are expected to be on different, structural trends, providing crosscurrents for the economy.

First, the good news is business investment and productivity are expected to be stronger in the coming years than they have been in the recent past. The start-up boom means there are many more new businesses, which tend to drive innovation. The number of businesses in Oregon has increased 25 percent since 2019. While running a business is difficult, with so many new firms, there is a higher overall probability that at least some of them will hit it big and drive regional economic growth.

REAL GDP PER WORKER



Additionally, productivity is expected to increase due to private and public investment in business expansions, infrastructure, housing, and industrial policies. In the near-term this activity will boost growth, and increase the competition for construction workers, but in the long-run it will provide productivity gains for the entire economy. In particular, the CHIPS and Science Act is expected to see tens of billions of dollars of semiconductor and related investment in Oregon, primarily in the Portland region. This supports thousands of construction jobs in the coming years, and creates thousands more new industry jobs once the projects are complete.

Now, the bad news is net labor gains are expected to be minimal in the years ahead. The labor market is cyclical strong, meaning more working-age adults have a job today than at any point in the past 20 years. The labor market is also structurally tight due to the increased number of retirements as the Baby Boomers reach their 60s and 70s, and due to the slowdown, and even losses, in migration in recent years. The end result is good news for workers, and ongoing challenges for local firms looking to hire in the years ahead.

Our office's baseline population forecast is for a modest rebound in migration in the years ahead. Over the next decade, annual population gains are expected to be just 0.6 percent. This is a far cry from the 1-2 percent gains seen in recent cycles. While the Census Bureau estimates that metro areas up and down the West Coast have seen slowdowns, and/or population losses, the largest impacts in Oregon are in the Portland region.

Recently released 2023 county estimates from Census show the Portland metro area improving from population losses in 2022 to a stable, effectively unchanged population in 2023. However that result is the combination of population declines getting smaller in the Oregon counties in the metro, and the relatively stronger gains in southwest Washington being maintained. When it comes to migration within the Portland region, there has been an increase in local households heading north, across the river. Such households are increasing of higher incomes with the biggest increase among those earning $100-200,000 a year.

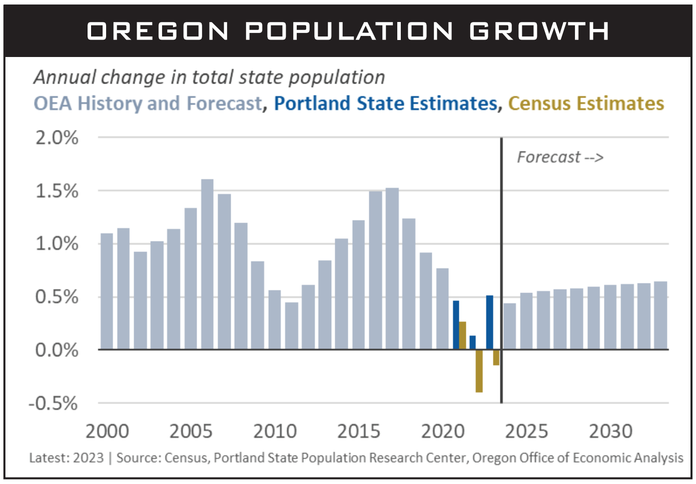
Even as the baseline population forecast calls for some growth, Oregon has to be open to the possibility that it may not materialize. The pandemic may ultimately be a breaking point, where future trends do not look like previous trends. Our office has developed a Zero Migration alternative scenario that models the economic and revenue impacts should migration not rebound. The bottom line is this. In such a scenario, Oregon's economy, income, consumer spending, and public revenues would not crater. Rather, they would all be on a slower growth trajectory. Keep in mind that that due to inflation, wage gains, and rising asset markets, Oregonian incomes and spending will increase. The issue would be the number of Oregonians would not grow as expected, leaving a slowly declining population as deaths outnumber births statewide. Such changes are relatively small in any given year, but do accumulate over time.

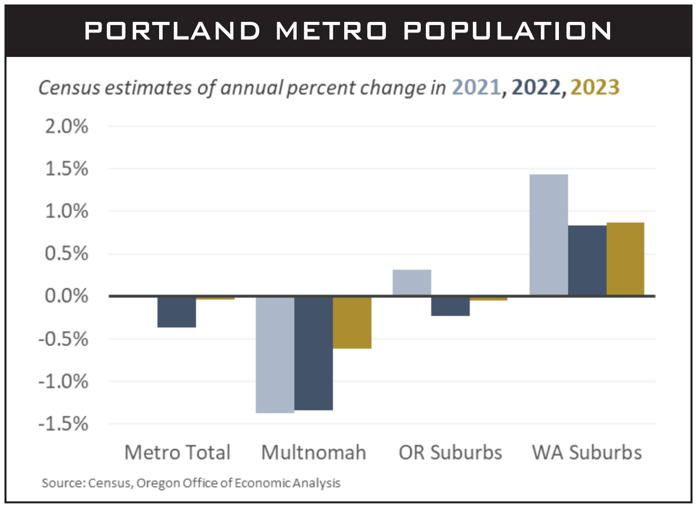
From a housing perspective, Zero Migration would have a proportionately larger impact on the rental market in the decade ahead given young adults move at the highest rates.

In terms of the housing outlook, there are differing trends in the near- and long-term. Today, given high interest rates and construction costs, new construction is difficult. Housing starts statewide are currently running 20 percent below their pre-pandemic averages. However, single family builders have been able to maintain steady production given underlying demographics boosting demand, and lean resale inventory limiting competition.

On the other hand, multifamily faces the same financial challenges but lack the tailwinds and solutions. Multifamily starts are currently running more than 40 percent below their pre-pandemic average. Between Millennials continuing to age into their homebuying years and the slowdown in migration, the classic apartment demographics are not increasing like they used to. Given the new supply coming on the market in recent years, there is increased competition for tenants. Make no mistake, this is good macroeconomic news that helps improve affordability, but does clearly impact the feasibility of new projects. Eventually, the slowdown in new multifamily starts combined with the expected modest rebound in migration will result in a tighter rental market, but not this year.

Shifting to the long-term outlook the state still faces a housing shortage that requires an increase in new construction. That shortage is smaller today, given ongoing housing production combined with slow, to no population gains during the pandemic. Housing affordability is a key factor in migration decisions, in addition to other social or political issues that vary by household.





Later this year our office will release the first set of estimates for the Oregon Housing Needs Analysis (OHNA). These estimates set production targets for cities and counties. Increasing supply, and improving affordability would not only help more of our neighbors to financially make ends meet, it would likely revive some of the lost migration trends, boosting the workforce of tomorrow, and raising the baseline growth trajectory of the region. ■

Josh Lehner is a Senior Economist with the State of Oregon's Office of Economic Analysis. He develops the quarterly Oregon Economic forecast, including outlooks for employment, income and housing. Additional responsibilities include the Oregon Index of Leading Indicators, tracking international developments in Oregon's export markets and forecasting revenues for the Oregon Lottery, Oregon Judicial Department and state tobacco taxes. Mr. Lehner earned a B.A. in Economics from the University of Colorado and an M.S. in Economics from Portland State University.

FALL 2024 APARTMENT FUNDAMENTALS & TRENDS

Patrick O. Barry, Barry & Associates

We can all be thankful that 2023 is in the rearview mirror. No matter how you slice it, 2023 was a very challenging year. There were struggles with market fundamentals (rents, vacancies, expenses), stubbornly high interest rates, and a sales market that was one of the slowest on record. The market faces many similar challenges in 2024, but there are fewer uncertainties and many market participants have accepted that higher rates are unlikely to quickly recede. This article will summarize the Portland apartment market from 2023 and provide an update for YTD 2024.

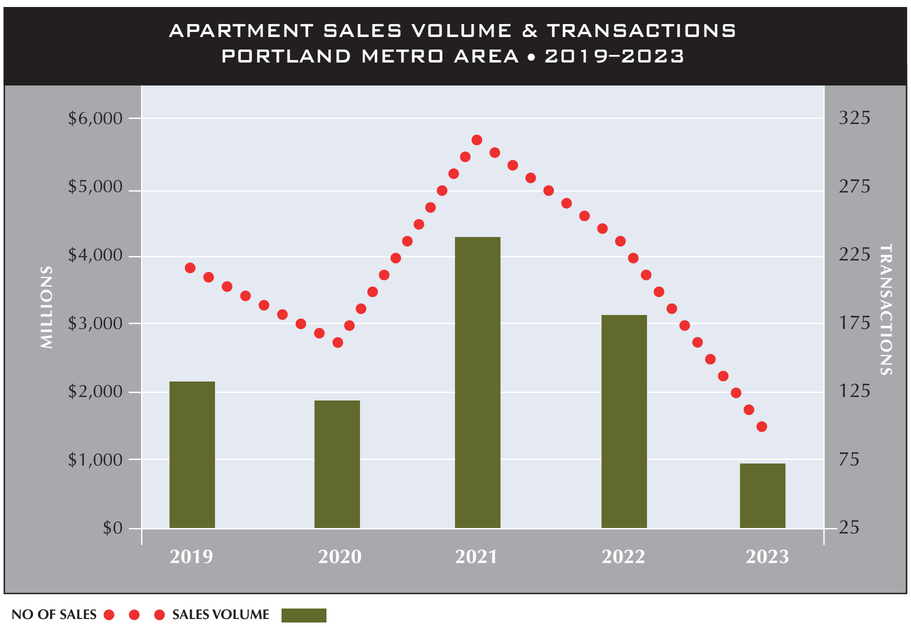
APARTMENT SALES VOLUME & TRANSACTIONS

Describing the 2023 sales market merely as experiencing a slowdown significantly understates the situation. From 2005 to 2022, there were an average of 206 transactions across Portland Metro per year. During 2023, there were only 97 sales across Portland Metro, which represents a 53 percent decline from our long term average. Since at least 1989, it was the first year we did not exceed 100 apartment transactions.

Many market participants had hoped and still hope that 2024 will be a pivot point when the sales market rights itself. Unfortunately, through March 2024 there are few indications of closed sales increasing. Through March 31, 2024, there have been only 13 sales across Multnomah, Washington, Clackamas, and Clark County. When annualized, this would suggest just over 50 sales for 2024, though I'm confident the pace of sales will increase and far exceed the annualized figures through March.

The obvious question right now is when the sales market will pick up. I've spoken with many brokers and bankers that have reported increased inquiries during YTD 2024. While increased inquiries hasn't yet resulted in increased sales, there is a general feeling that transaction activity will accelerate during the second half of 2024. During the second half of 2024, we will likely have more owners feeling increasingly motivated by their current/impending loan situation, a hopeful cut in interest rates by the Fed, and some investors may jump back in as they feel values could be hitting bottom.

While many had hoped for a sharp recovery in sales, that ship has sailed. The decline in sales from 2021 to 2023 is almost identical to the decline in sales from 2007 to 2009, when activity decreased 59 percent following the Great Recession. After 2009 (two years of declining sales), sales activity recovered, albeit slowly. During the Great Recession it was not until 2013 that sales passed 200 transactions again and not until 2015 to reach the previous peak in transactions.



APARTMENT CONSTRUCTION

The apartment construction industry faces an escalating downturn, exacerbated by a series of formidable challenges. In previous articles, we highlighted regulatory hurdles and changing population patterns. Adding to these hurdles are increasing vacancy rates, limited rent growth, softening multifamily values, and development costs which have shown little sign of decreases. Compounding these difficulties is financing which is further constricted, with a scant number of banks willing to extend credit for apartment construction projects. Moreover, the prevailing interest rates create an environment where profitable development becomes increasingly elusive despite some development incentives introduced since late 2023.

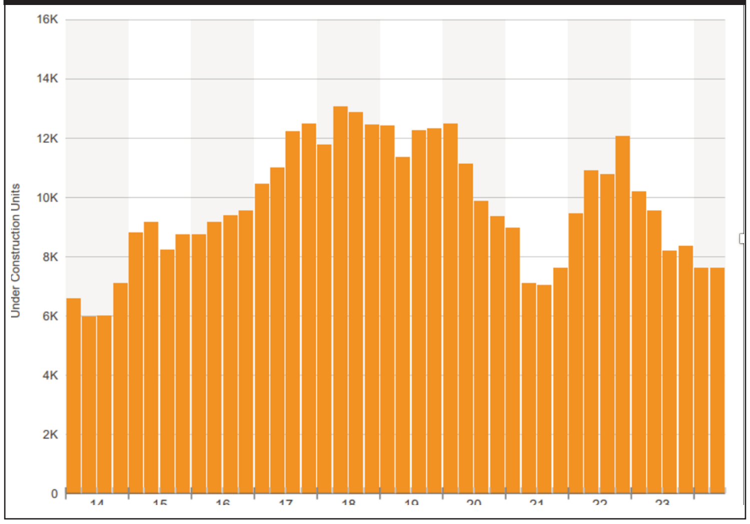
The number of units under construction has been declining since late 2022 with no end in sight. As of spring 2024, CoStar is reporting around 7,600 units are currently under construction. CoStar reports that during 2023, 7,200 units were completed, though the annual number of units delivered will decline over the next three years to 4,550 units in 2024, 3,800 in 2025, and 2,600 in 2026. While some new incentives are in place, the most impactful driver of development will be improved market fundamentals (rents, vacancy, etc.), readily available financing, and stabilized values for new units.

VACANCY AND RENT TRENDS

Vacancies continued their upward path in the first quarter of 2024. As seen in the Report herein, overall vacancy rates are at 6.2 percent, an increase of 70 basis points over the past six months. CoStar reports that vacancies at stabilized properties are around 5.8 percent and are expected to peak at around 6.0 percent in late 2025. While Portland apartment vacancy rates are near 15 year highs, a balanced market is generally considered vacancy rates in the range of 4.0 to 6.0 percent. The increase in vacancy rates during 2023 was driven by new supply of around 7,200 units compared to absorption of 3,400 units. CoStar is forecasting that supply and demand will have a better alignment over the next three years and vacancies will not show significant increases.

With vacancy rates showing another increase, there is continued downward pressure on rents. CoStar reports that rents declined 1.8 percent during 2023 though forecasts call for rents to rebound in the second half of 2024 and show an overall increase of 3.3 percent. In my recent appraisal experience, I continue to see limited rent increases, especially at urban apartments with a modest average unit size (studios/one-bedrooms) which is the submarket showing the highest vacancy rates.

PORTLAND METRO AREA UNITS UNDER CONSTRUCTION



Source: CoStar

As previously reported, the rental survey herein reports Metro vacancy rates at around 6.2 percent. However, there remains a disparity between the urban and suburban markets. The six most urban submarkets in this survey show an average vacancy rate of 7.2 percent while the remaining 14 submarkets which are mostly suburban show an average vacancy rate of 5.7 percent.

APARTMENT VALUES

Since late 2022, we've been in an increasing interest rate environment and the impact on sales has been astonishing. There are few truly motivated sellers and many sales from 2023 came with an attached story behind the seller motivations. Some of the motivations from recent sellers included those with estate issues, partnership dissolutions, construction loans ending, fixed rate loans turning variable, and some investors simply being at the end of their rope owning in Portland. There remains a gap between what price sellers will accept and what buyers are willing to pay. This gap between buyers and sellers is narrowing and will continue to shrink as loans come due and rates start to adjust.

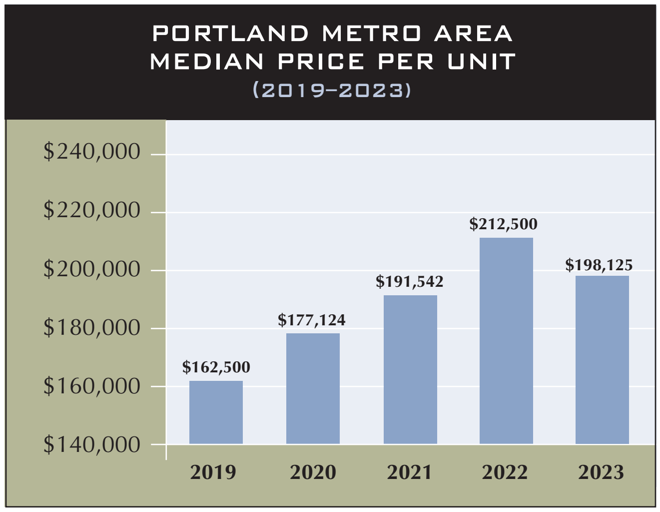
Apartment values had a particularly strong run from 2009 to 2022 and many of the risks inherent to real estate may have been minimized. The apartment market in 2023 has been a reality check for many newer investors as they face challenges on multiple fronts, though most notably financing.

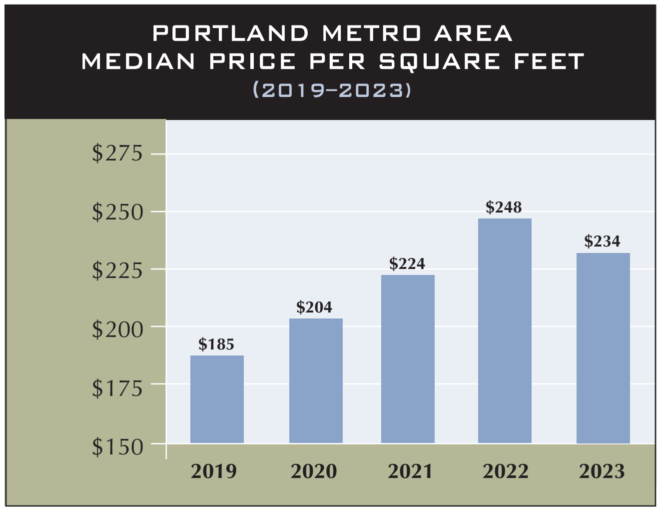
Based on the 97 sales that occurred in 2023, the median price per unit has declined 6.8 percent to $198,000. The median price per Sq. Ft. declined 5.6 percent to $234. CoStar also reports that overall capitalization rates are up around 60 basis points to 5.57 percent. Assuming level net income, a 60 basis jump in overall capitalization rates suggests a decline in prices of around 11.0 percent. In conversations with market participants, opinions have varied though most suggested declines of 10 to 15 percent year over year. The change in values is largely dependent on building type and location.

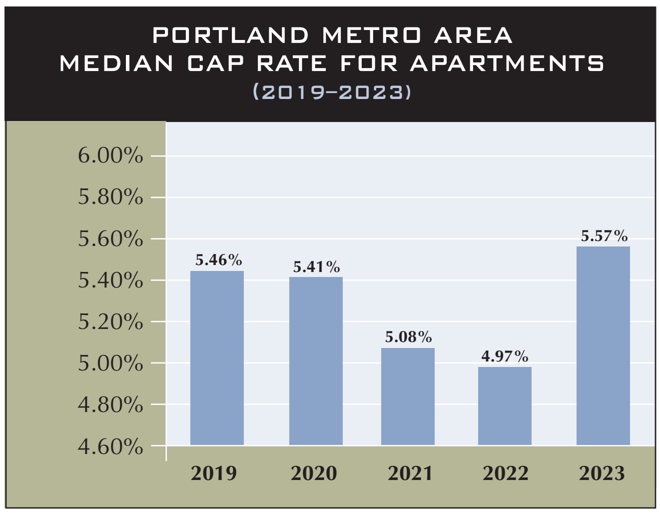
Little weight is given to the sales that have occurred in YTD 2024 based on the limited sample size of only 13 sales. These 13 sales show a median price per unit of around $196,000 and a median price per Sq. Ft. of $228. Both of these indicators are slightly below 2023. CoStar forecasts that values will decline another 6.0 percent in 2024 and will bottom out in early 2025. After bottoming out, CoStar forecasts that values will increase and reach previous peaks in 2028.

SUMMARY

As of spring 2024, Portland's apartment market offers a glimmer of hope following a challenging 2023, characterized by a significant decrease in sales and construction activity amidst high interest rates. Despite a slow start to the year, there's an underlying optimism for a rebound in the latter half of 2024, driven by anticipated interest rate cuts and increased seller motivation. Vacancy rates, while above recent averages, are expected to stabilize as supply and demand align more closely, with rent growth predicted to resume this year. Apartment values, after recent declines, are also expected to bottom out and begin recovering, mirroring the resilience seen in past recovery periods. This outlook captures a cautiously optimistic view that, despite immediate challenges, points towards gradual market recovery and growth. ■







Patrick O. Barry (pb@barryapartmentreport.com) is a certified general appraiser with Barry & Associates, which specializes in apartment appraisal work in the Portland metropolitan area. Patrick is an engineering graduate of the University of Colorado.

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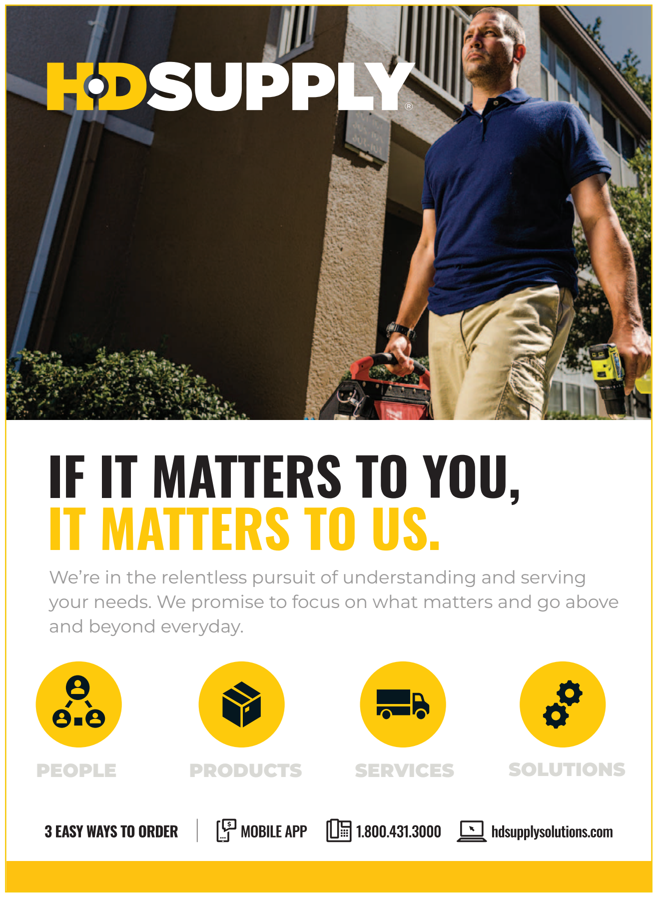
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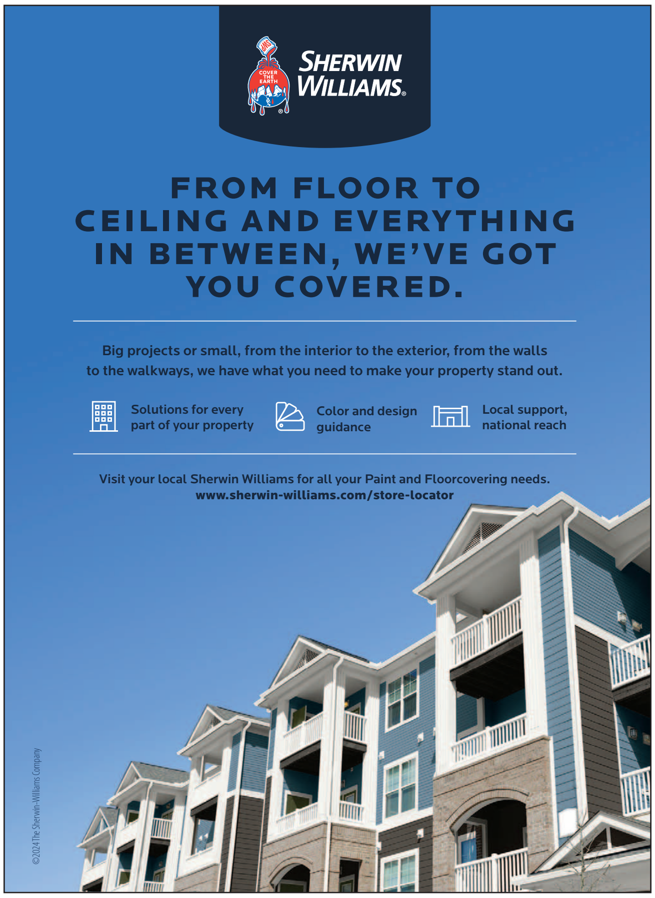
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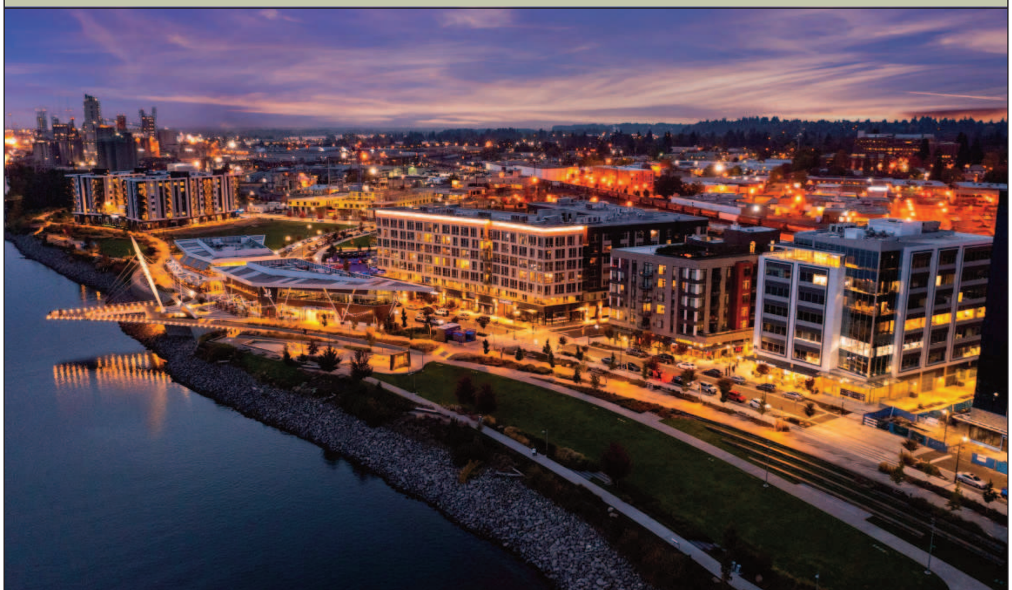

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