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multi-family residential report

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Q2 of 2020 was the first full quarter since the start of the pandemic. This report aims to illustrate the far-reaching impact of COVID-19 across different facets of the local multifamily market from this very small period of time. It is important to note that as the quarter progressed, behaviors changed, further illustrating how inconsistent and unknown the full economic impact of this pandemic will be. We remain in a state of flux, still trying to figure out how to safely re-open the economy and continuing to deal with the looming effects of returning to school, work, and other "normal life" things that might very well be changed for quite a while to come, if not for good.

Suffice it to say, it now sounds like a broken record, but we are living in unprecedented times. However, the multifamily market continues to perform strongly compared to industry counterparts, as apartments tend to do during times of recession. The uncertainty over the looming end of the eviction moratorium in tandem with other macroeconomic events from the pandemic still cloud overall sentiment, and compared to last year, the actual number of transactions is down in a big way. Yet in closer ex-

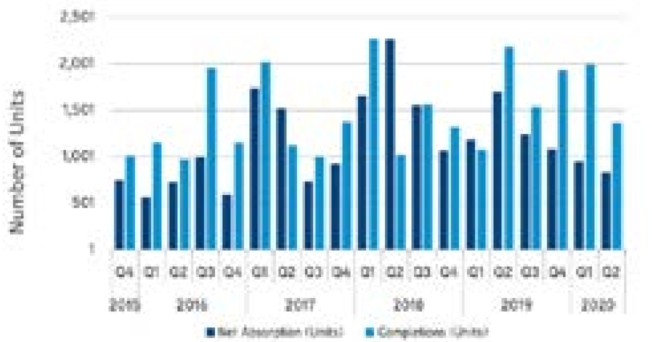
The pandemic has further emphasized that notion, with the remote working lifestyle at most companies – including many major ones such as Google and Facebook, who are headed towards permanent remote working policies – allowing young people to mass exit large cities in favor of a more user-friendly, cost-effective and "livable" environment. Furthermore, the lack of events, sports with no fans, and a drastically limited restaurant and bar scene has deeply diminished the appeal of living downtown or in the heart of a major cities such as San Francisco, New York, Los Angeles, or even Seattle. As such, cities like Portland with unparalleled outdoor amenities to offer (such as Denver or Boulder), or mid-size cities that are more affordable (such as Las Vegas or Phoenix), are finding a similar surge in recent transplants. As a whole, the remote work lifestyle fits well into apartment living in desirable cities like Portland and by consequence its surrounding suburbs, and it could actually lead to an even greater demand for multifamily units over the coming 6-12 months.

SUPPLY, PERMITTING

The pandemic had just started to have an effect on supply at the tail end of Q1, and Q2 continued this result. With sustained uncertainty, the supply pipeline will continue to slow and projects not yet under construction will likely incur delay. Most existing projects in progress during Q2 experienced some sort of delay due to a combination of a mandated shutdown (in Washington), delays in materials, or labor issues.

With the economic climate in a state of flux, many developers are waiting to get a better understanding of demand in the coming months. Banks have been reticent to provide construction loans, with many terminating deals that involve any retail product. It is likely that in the coming months we will continue to see permitted projects either put on hold or outright canceled.

NET ABSORPTION & COMPLETIONS



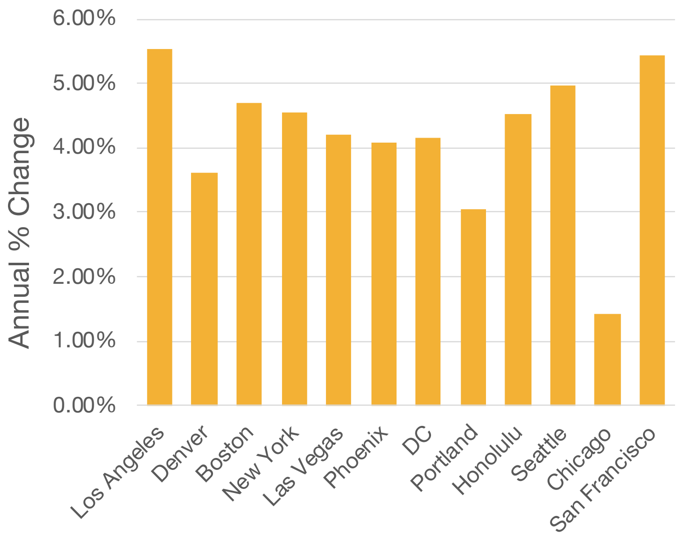
DEMAND, ABSORPTION

Occupancy rates in the Portland Metropolitan area dipped marginally during Q2 and occupancy remained relatively stable at about 93%. This includes the delivery of nearly 1400 units during this quarter, which are likely offering high concessions as a means to lease up quickly during this difficult time.

One interesting note reported from some local property managers is a trend toward the desire for larger units. If affordable, many renters are upgrading their units to a larger space with the intention of creating an office area to better accommodate remote working. The difficulties of working from home have exposed themselves, especially for multi-income households or roommates who struggle with having a productive shared workspace. This is of even greater concern as the start of the schoolyear approaches with the prospect of having to further share the workspace with children attending virtual school. As such, the need for a clearer delineation of work, school and home/family areas has led to an interesting need for more space. This is especially noteworthy as recent trends have indicated the desire for smaller spaces, the response being some buildings in downtown Portland that offer just studios and 1-bedroom units (the Westover Tower Apartments in NW Portland is a notable example). While this trend could be short-lived, remote working appears to be here to stay at least through the better part of 2021. For Portland, this could lead to a surge in demand for 2- and 3-bedrooms in a market that does not have enough large unit supply. As such, this shift in preference could also lead to a move to suburban areas where the comparable cost per square foot is less.

RENT & OCCUPANCY

US COMPARATIVE CONSTRUCTION COST INDEX Q2 2020



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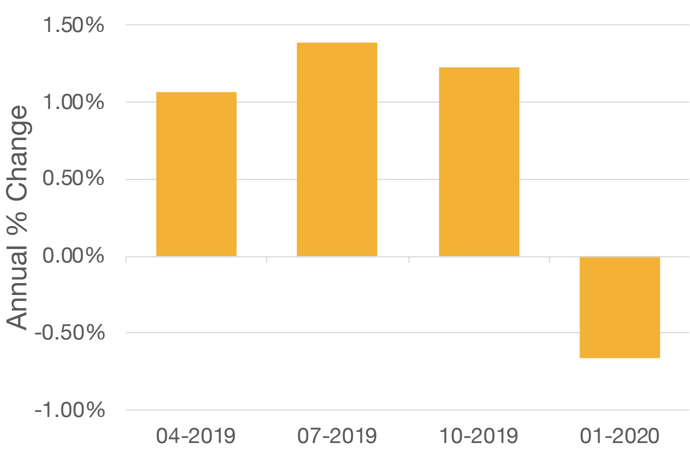
PORTLAND CONSTRUCTION COST INDEX JULY 2019 - APRIL 2020



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RATES, COSTS

Quoted rental rates dipped slightly but remained relatively stable with an average effective rent of $1.56 PSF. As previously noted, this is likely due to the high concessions required at newly constructed units as a way to attract renters who might otherwise look for more affordable prices. In addition, with the rental market having previously been extremely strong, the fact that landlords are renewing without an increase is not as "bad" as one might think since the existing rates were relatively high to begin with.

Construction costs for Portland in Q2 dropped again for the second quarter in a row, and actually dipped 0.66% below the national average. However, in comparison to 2019, Portland has seen a decline of just 3.05% change in costs, with most cities ranging between 1-4% in declining change.

As always, a key indicator of construction costs is the employment levels of construction workers. The high volume of construction projects over the past several years has led to a high demand for skilled workers and thereby extremely high costs. However, with the pandemic hitting the US at the end of Q1 2020, Q2 was a tumultuous time during which construction unemployment hit 6.9% in March 2020 and rose all the way to 16.6% in April 2020 (the highest since March 2012) with the closure of many construction sites due to state-specific COVID-19 restrictions. As restrictions began to lift in April and May with sites starting to reopen, construction unemployment dropped accordingly, down to 12.7% in May 2020. It is clear that construction unemployment will continue to decline as the year goes on and more job sites get going; however, with the continued economic uncertainty still plaguing the start of new construction projects, it is unlikely that the construction unemployment rate will decline to where it was pre-pandemic when it dropped as low as 3.2% in Q3 2019.

SALES ACTIVITY

Unsurprisingly, multifamily sales in Portland are drastically down, nearly half of what it was just one year ago in Q2 2019. This steep drop is directly indicative of the economic plunge and continued uncertainty around the future, making underwriting future growth more challenging. However, the actual transaction values themselves grew slightly, showing a larger affinity for the high-end product by investors and indicating that this market was not affected in value as the lower end one was. In looking at the chart below, you can see for the June 2019/2020 comparison that while the sales numbers have dropped drastically, the average price per unit, average price per square foot, and total sale value have increased.

Sales	Date	Type	Units	Price	$/Unit	SqFt/Ur	$/SqFt	Built	Cap Rate	Total Sales
20	June 2019	Average	52.4	$8,333,789.00	$171,617.00	868.8	$207.15	1983	5.71%	$166,675,785.00
12	June 2020	Average	54.6	$15,552,917.00	$284,939.00	810.1	$313.68	1996	5.39%	$186,635,000.00
-40%	% change between 2019 v		4.20%	86.60%	66.00%	-6.80%	51.40%	199600.00%	-5.50%	12.00%

Furthermore, while the transaction volume in multifamily assets has declined, overall the sector is outperforming others. The capital markets in multifamily appear to still reflect a high level of interest, especially on an opportunistic level waiting for distressed assets. The strength of the multifamily market during times of recession could be a reason for this, with higher-than-expected collection rates furthering the continued demand. As noted below, the largest sale of significant note during the 2nd quarter was for the Gossamer Portland, which is actually still under construction. Despite the construction being in progress and the pandemic-driven recession, the property sold in June for $87.5 million at a price per square foot of $440 to Virtú Investments, a private equity firm based in California.

NOTABLE Q2 2020 MULTIFAMILY ASSET SALES TRANSACTIONS

Property	Sale Date	Sale Price	# Units	Price/SF	Year Built	Seller	Buyer
Gossamer Portland **255 NW 10th Avenue Portland, OR**	6/1/20	$87,500,000	204	$440.00	2021	PGIM / Mill Creek Residential Trust	Virtú Investments
Uptown at Lake Oswego **295 3rd Street Lake Oswego, OR**	5/14/20	$16,810,000	71	$464.00	1955/ 2015	Meranda Chang Living Trust	Pacific Insurance Investment Company
Theory 33 **3325 SE Division Street Portland, OR**	6/5/20	$11,500,000	30	$479.00	2018	Urban Asset Advisors	
Irvington Apartments **1532 NE 21st Avenue Portland, OR**	5/4/20	$9,300,000	44	$271.00	1961	Pacific Insurance Investment Company	Richard A. Miller Trust
Menlo Parc **5930 SW Menlo Drive Beaverton, OR**	5/21/20	$8,200,000	41	$147.00	1976	Trion Properties	John Geyer
Westwood Green Apartments **10650 SW 121st Avenue Tigard, OR**	5/21/20	$8,000,000	53	$200.00	1977	Karen G. Gardner Living Trust	McCloud Property Acquisitions
Nicholson Road Portfolio **3525 Nicholson Road Vancouver, WA**	6/5/20	$7,500,000	25	$208.00	2019	Phil Wuest	
Oak View Village **2305-2335 SW Briggs Road Beaverton, OR**	5/15/20	$7,000,000	41	$228.00	1978	Hs Westside Properties LLC	Janet S. Yocom
Blanton Commons **16919 SW Blanton Street Beaverton, OR**	5/10/20	$6,850,000	33	$214.00	2018	Saj Jivanjee	Vanamor Investments
Jackson Square **5318 Lakeview Boulevard Lake Oswego, OR**	6/2/20	$5,600,000	28	$222.00	1970	Rick & Linda Polier	Scott Investments

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From a property management and ownership perspective, we approach a potential inflection point with the end of the eviction moratorium imposed by Governor Brown coming up on September 30. Concerns about the deadline are already mounting, with property managers worried about mass evictions and how to deal with them legally and efficiently. It has led to an extensive response from local multifamily organizations holding numerous webinars and trainings on how to deal with the issue, what property managers can and cannot do, and the legal restrictions around all of it, some of which are very strict.

These added trainings and the stress that comes with the thought of these evictions coming up is evident across individuals in these training. However, in the grand scheme of things, multifamily assets are typically stable through both times of recession and growth, and even with the pandemic exemplifying some of the more drastic stressors on the economy in living history, the market still remains somewhat steady with strong prospects for continued transactional growth in the future.

LOOKING AHEAD

General sentiment appears to believe that the worst of the virus and need for a complete shutdown is behind us, and that while it may take a long while, things will slowly get better from here on out. The multifamily sector is actually not doing so badly, with much of the worry taking place at the start with the skyrocketing of unemployment leading to concerns over evictions and rent collection. In looking at Q2, occupancy levels and rent collection rates have been surprisingly high despite eviction moratoriums and rent forbearance, much of which is attributed to the emergency federal support that helped residents pay their bills.

On a national level, on average, rents have gone negative during Q2 for the first time since the Great Recession. With maintaining high levels of occupancy as a primary concern, landlords have renewed many of their residents' leases with little to no increase in rent. Furthermore, higher-end new build communities are having a hard time leasing up within the usual timeframe, with many residents choosing to stay put where they are for the time being or seeking less expensive options due to financial hardship. This trend appears to continue through the year with no real end in sight to the economic uncertainty and public uneasiness, but as things improve, rents are expected to as well, likely in 2021.

There is still cause for concern ahead, with unemployment levels remaining high (11.1% in June) despite most states being in some early phase of re-opening, mainly because many businesses have decided to drastically cut back or fully close due to the continued uncertainty of consumer spending and re-opening restrictions. This, of course, is in tandem with the expiration of federal financial aid, the implications which are potentially catastrophic. Small businesses in particular are hit hard, with many owners unable to survive the economic uncertainty with no end in sight. The added $600 to unemployment checks already expired in July, and for Oregon, the eviction moratorium is scheduled to expire at the end of September. As such, while it might currently be considered an "early recovery" stage for the multifamily sector, it is quite feasible for this recovery stage to continue for the next several quarters as the uncertainty continues to roil the economy.

SOURCES

RCLCO Mid-Year 2020 Sentiment Survey

Yardi Matrix Multifamily National Report Summer 2020

SMI Commercial Real Estate June 2020

Rider Levett Bucknall Quarterly Construction Cost Report Q2 2020

Colliers Portland Multifamily Report Q2 2020