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REAL ESTATE INSIGHT

Real Estate Regulation Following the Election

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With the Presidential election, the challenges with the Covid-19 pandemic, and the ongoing downtown protests over policing and race relations, 2020 was a busy year in politics in Portland, Oregon. While much of the public was focused on national events, the Portland business and real estate communities were focused on local and regional politics. This essay will review three local elections and identify the most significant policy issues facing the real estate community in the upcoming year.

PORTLAND MAYOR'S RACE

In the headline race, Mayor Ted Wheeler overcame a strong challenge from liberal activist Sarah Iannarone, winning that race 46-41% in November. After being drawn into a run-off election, Mayor Wheeler spent much of the Fall campaign trailing Ms. Iannarone, as well as being engaged in a name-calling contest with US President Donald Trump.

During the campaign, Portland experienced nightly protests following the killing of Black citizen George Floyd in Minneapolis, Minnesota, at the hands of local police. Participation in the protests included a wide variety of Portland area citizens and activists, but also attracted people who were intent on confrontation with Portland Police. These protests extended into the evening hours, and often led to violent clashes with City of Portland police outside the downtown Portland Justice Center. With downtown Portland largely devoid of office workers, protesters frequently overwhelmed local police capabilities, and some engaged in rioting and destruction of private and public property.

These conflicts became more acute when in July, 2020, President Trump encouraged Federal security officers to quell the protests as they endangered the Mark Hatfield Federal Courthouse next to the Portland Justice Center. President Trump used the situation in Portland to burnish his law and order image, using Mayor Wheeler and liberal Portland as a political foil. Combined with the widespread camping by homeless people in downtown Portland, the city became a poster child for ineffective, liberal local government.

Private polling in the late Summer indicated that Mayor Wheeler trailed challenger Sarah Iannarone, creating the prospect that a relatively inexperienced and idealistic activist would become Portland's new mayor. Leaders in the business community then organized an independent expenditure campaign, highlighting the positions taken by Ms. Iannarone and helping Mayor Wheeler win the election. Iannarone carried North Portland and inner Southeast Portland, but lost West Portland, Northeast Portland, and outer Southeast Portland.

PORTLAND CITY COUNCIL RACE

The second race of importance to the real estate community was the election for Position 4 on the Council between incumbent Chloe Eudaly and Black political scientist, Mingus Mapps. Commissioner Eudaly, a former bookstore owner, won her office four year ago as an activist in the tenants' rights community in Portland. She spent much of her term in office supporting rent control, tenant relocation fees, and new regulations on leasing apartments, known as the Fair Access in Renting (FAIR) ordinance.

Mapps had worked as a university professor and served under Commissioner Eudaly as an employee in the Office of Community and Civic Life. Mapps had criticized the Commissioner's management of the Office and was fired by Eudaly. Mapps and Eudaly both defeated former Portland Mayor Sam Adams in the primary and Mapps won the November election 56-43.

The 2020 election has brought a wholesale change to the composition of the Portland City Council, and the outcome promises the most business-friendly city council in at least four years.

THE REAL ESTATE COMMUNITY AND THE CITY OF PORTLAND

The election of Ted Wheeler and Mingus Mapps, along with the new members of the City Council, Dan Ryan, Carmen Rubio, and since 2018, JoAnn Hardesty, have created a new tenor and professional character to city government, and offer a lot of hope for reforms which are needed by the real estate community. Of those reforms, two stand out: charter reform and inclusionary zoning.

Regarding charter reform, the city's charter requires a Charter Review Commission be convened every 10 years to make recommendations to the City Council. While previous commissions have focused on minor housekeeping measures, Mayor Wheeler has appointed a new commission and encouraged them to review the city's form of government. Portland has a commission form of government, in which the mayor and city council are all elected on a city-wide basis, with the mayor assigning bureau responsibilities to each commissioner. Known as a "weak mayor" form of government, the distribution of Portland's city bureaus among the various commissioners limits policy coordination, as bureau directors report to different members of the City Council. This lack of coordination has led to significant delays in real estate development permitting.

Regarding inclusionary zoning, the City sought and obtained permission from the state legislature in 2017 to impose requirements on new housing development to provide for the provision of "affordable housing". With these new powers, the City implemented an ordinance that requires the developers of buildings with 20 or more housing units to provide at least 20% of its housing units to rent at levels that would be more than 30% of the income of households at 80% of median family income. While the specific rules and compliance options are more complicated, the requirement of meeting the 99-year affordability requirement has presented a challenge to housing developers and led to a very small number of affordable housing units.

The effects of this policy have only slowly become apparent. The city allowed developers to initiate development proposals prior to the imposition of the new regulations in February, 2017, that would be grandfathered or exempted from this regulation. As a result, development proposals representing some 12,000 housing units. As a result, we didn't see a precipitous drop in housing units produced due to the regulation, but rather a slow reduction each year as developers produced the units proposed in the grandfathered proposals.

METRO TRANSPORTATION BOND AND SOUTHWEST LIGHT RAIL

The third election of importance to the real estate industry in November, 2020, was the $4.2 billion transportation bond measure that was proposed by the regional government, Metro, and supported by the Get Moving 2020 coalition of bicycle, pedestrian, and transit activists. The bond measure partially fulfilled a campaign pledge by Metro Council President Lynn Peterson to fund 20 new transportation corridors in the region. The funding for the bond measure came from a 0.75% payroll tax on private employers with 25 or more employees, with a promised contribution of an additional $2.8 billion in Federal government contributions. However, the proposed measure exempted public employers and quickly ran into stiff opposition by Portland's business community.

During 2019 and 2020, Metro created a task force to explore which corridors and projects would receive funding from the bond measure. The task force's public hearings were mostly held next to Metro's headquarters and became dominated by climate activists who argued against new road investments being included in the overall expenditure package. In addition, the package was dominated by the Southwest Corridor light rail project from downtown Portland to Tigard, costing $975 million, or 23% of the $4.2 billion package. Given that only 6% of Portland area commuters use mass transit to get to work, this enormous project dominated the overall proposal.

A careful review of the Southwest Corridor project finds that the project would cost about $20.82 per additional transit user compared to a no-build scenario, or over $41 per round trip. While the proponents pointed to the estimate of 41,600 daily riders, 59% of those rider were really diverted bus commuters. Even factoring a 50% federal funding match, the new transit line offered a high cost mechanism to reduce traffic on neighboring highways and would almost certainly reduce traffic capacity by occupying a lane on Barbur Boulevard.

TABLE 1: The Capital Cost of Southwest MAX

Ridership	41.600 daily boardings
	300 days per year (weekends about 50% of weekday boardings)
	12 million riders per year
	59% of light rail riders are diverted bus riders
	4.9 million new rides per year
Cost	$2.78 billion
	$1.39 billion in Metro and local funds (ie, 50% Federal share)
	$102 million per year, assuming 4.0% bonds for 20 years
	$20.82 per boarding ($102 million/4.9 million)

Beyond the light rail proposal, the bond measure identified many other corridors in the region for investment, but a careful examination finds that very little of those investments represent new lanes of roadway. Here is a list of the projects with the author's interpretation of how that spending is being utilized.

TABLE 2: CORRIDOR PROJECTS IN METRO'S PROPOSED 2020 TRANSPORTATION BOND

DOLLAR AMOUNTS IN MILLIONS

Project	Local Investment ($ millions)	Author's interpretation of spending	Road Investment
Southwest Light Rail	$ 975	Transit	
Tualatin Valley Highway	700	Transit, pedestrian	
82nd Avenue	540	50/50 roads, transit	$270
Burnside	370	50/50 roads, transit	185
Sunrise Highway/Hwy. 212	240	Largely roads	240
Central City	240	Transit	
McLoughlin Boulevard	230	Largely transit, pedestrian	
185th Avenue	190	Transit	
Clackamas to Columbia	150	Roads	150
162nd Avenue	110	50/50 roads, non-roads	55
Powell Boulevard	110	Transit	
122nd Avenue	100	Transit, Bicycle	
Albina Vision	85	Transit, Bicycle, pedestrian	
Highway 43	70	Bicycle, pedestrian	
Highway 217	18	Roads	18
Pacific Highway 99W	5	Roads	5
Highway 26	1	Roads	1
	$ 4,114		$924

While some of the above categorizations can be challenged, the overall mix of road investments, compared to transit, bicycle, and pedestrian uses doesn't match the current behavior of Portland residents. Only 22% of the local dollars on the project list would be spent on roads, whereas 85% of commuters use automobiles and essentially all goods movements in the region depend upon roads.

The heavy emphasis on transit and bicycle projects also explains why the measure's proponents chose a payroll tax over a gasoline tax as their funding mechanism. The Oregon state constitution mandates that gasoline taxes must be spent on road construction or road repair. The payroll tax offered a funding source that allowed funds to be spent on non-road projects.

TUALATIN VALLEY HIGHWAY OR TUALATIN VALLEY BOULEVARD…?

Understanding the purpose and impact of the proposed Transportation Bond requires careful examination of each project to understand Metro's thinking about transportation and mobility. For example, the proposed investment in the "Tualatin Valley Highway project" doesn't expand or improve the capacity of this important regional highway. Instead, this line item called for purchasing 20 electric articulated buses, construction of 60 new traffic signals designed for priority for buses, 24 marked pedestrian crossings, new sidewalks along the highway, separated or buffered bikeways, new planted median strips, a new pedestrian and bike trail from Hillsboro to Forest Grove, and an enhanced Hillsboro Transit Center. There were no proposals in the $700 million investment to increase road lane capacity or any promises of how this project would improve traffic conditions. The bond measure included no bridges or over-passes that would increase mobility along the highway.

Instead, the Metro proposal would convert the Tualatin Valley Highway into a boulevard that's safe for bicycles and pedestrians. Metro is following a policy known as Vision Zero, which aims to redesign streets within the region to slower speeds and no pedestrian deaths and this redesign of TV Highway follows this same path. While reducing pedestrian accidental deaths is an admirable goal, the Tualatin Valley Highway seems poorly suited towards that goal.

First, for most of its length, the highway follows an existing freight railroad line and therefore has relatively little connection to neighborhood streets or pedestrian pathways. Moreover, buses on TV Highway only operate at 15-20 minute headways, so prioritizing signals for bus operations will have relatively little benefit for transit riders.

Second, Vision Zero advocates often overlook that the corridors with the lowest pedestrian deaths in our region are the limited-access highways. And while Council President Peterson has argued that adding traffic lights and signal prioritization for buses along the TV Highway will increase mobility, that result has not been demonstrated by the measure's proponents. Moreover, the bigger risk will be that slower speeds on this important corridor will shift traffic and congestion to the parallel limited-access Sunset Highway (US Highway 26).

Ultimately, one would expect a project list that included the word "highway" multiple times to offer significant improvements to the region's highway network. When displayed on a map, these projects suggest a commitment to improving traffic conditions and a distribution of projects throughout the region. However, closer examination of the projects at the bottom of the list (Highway 217, Pacific Highway 99W, and Highway 26) show that they were really planning grants to explore U modifications of those highways.

In fact, the only true new road development in the project list is the so-called "Clackamas-to-Columbia" or C2C project that was promoted by Clackamas County officials. The project creates a new north-south road connection between 172nd Street and 190th Street in Clackamas County that allows a direct connection between the Sunrise Highway in Clackamas County and Interstate 84 in Multnomah County. However, while the proposal would call for four lanes of right of way to be purchased, only two lanes would be constructed initially and future development would be governed by Metro's "regional street" designation which calls for the 3rd and 4th lanes to be bus-only.

WHY THE TRANSPORTATION BOND FAILED

Metro's Transportation Bond measure failed in all three counties in Metro's Jurisdiction, including Multnomah County, which generally supports most spending measures. In the same election, voters in Portland and Multnomah County supported a parks measure, a school bond measure, tuition-free pre-school education measure, and a library bond measure. In other words, the defeat of the Transportation Bond was not part of a general anti-tax trend. More detailed analysis by Joe Cortright shows that the measure passed only in downtown Portland, North Portland, and close-in East Portland neighborhoods, and failed in West Portland, Gresham, and the mid-County area, as well as Portland's two suburban counties.

TABLE 3: NOVEMBER, 2020 ELECTION RESULT FOR MEASURE 26-218

	Clackamas County	Multnomah County	Washington County	Total
Yes	58,288	201,355	112,504	372,147
No	111,981	235,463	161,236	508,680
Yes Percent	34.2%	46.1%	41.1%	42.2%
No Percent	65.8%	53.9%	58.9%	57.8%

Source: Multnomah County Elections Division

Part of the failure of the measure came from Metro trying to satisfy all interest groups. The advisory committee that produced the project list heard repeated testimony from climate activists in favor of transit and against road improvements. Yet for this group, any project that included road improvements was suspect. Several projects were concentrated in East Portland, but failed to win the majority of voters in those precincts. Most striking of all, the measure failed in all the Portland neighborhoods that were adjacent to the proposed light rail line.

For the business community, very little about the measure held much attraction. Most Portland area workers drive to work, yet the package included mostly non-road, non-automobile investments. The relatively stiff payroll tax was implemented as a permanent tax, yet did little to make their workplaces more accessible. Late in the campaign, Metro suggested that they could reduce the tax rate or make it temporary, but at the same time, the proponents exempted public employers from the tax.

Metro appears eager to put a similar measure on a future ballot, but they would be advised to start with a different framework regarding equity and efficiency.

Regarding efficiency, it makes sense to build transportation capacity that reflects what voters and users are willing to pay for. Transportation infrastructure tends to be positively associated with economic development if it allows workers and commuters to be able to travel further distances to get to their place of work and access more potential employers.

Regarding equity, The traditional model for transportation investment has been a user cost model, whereby users of the transportation investments pay for the improvements that they use. This model can imply gasoline taxes, highway tolls, or fees associated with vehicle miles travelled (VMT). Had they started with a gasoline tax increase, Metro would have forced to select projects that added new roads, new lanes, and new bridges. Voters would have seen a direct connection between the proposed taxes and the benefits received.

Trying to satisfy the climate activists with a transportation measure will be much harder. While it's true that global warming requires that we have a lower carbon emission form of transportation, it's much more likely that we will achieve that by changing fuel sources, rather than adopting transit or bicycles in a significant way. You can see that by imagining a huge transit investment plan that would double transit's share of commuting from 6% to 12%. Even that heroic achievement would put a small dent on the amount of automobile community, from 85% of workers to only 79% of workers.

Moreover, carbon is emitted in all sorts of industrial processes and household activities, not just transportation. Carbon is imbedded in everything we buy, and it's hard to tease out the carbon content from any individual purpose. For example, we can use our estimate above regarding the proposed Southwest Light Rail project. The marginal capital cost of each light rail boarding is about $21 per boarding, along with about $2 of operating costs. The $21 in capital cost represents a lot of energy used in steel, concrete, and equipment manufacturing, all of which emit carbon, too. Just because the train is powered by electricity doesn't mean that it's carbon-free.

As a result, we should be thinking about an economy-wide carbon tax and let those carbon charges show up in the price of goods that we buy. Given that, the best carbon tax will be a well-head tax imposed by the federal government. We won't achieve a cooler planet by municipal regulation.

Moving forward, the real estate industry needs to become more engaged in the transportation debate that Metro is trying to lead. Transportation infrastructure is critical for all types of real estate, when it's freeway entrance ramps for an industrial park or new arterials for apartment development and new master planned communities. However, the industry should hold out for transportation investments which add road capacity and increase overall mobility at a reasonable cost.

POLICY AGENDA FOR REAL ESTATE

Given the successes of the business community in the November, 2020 elections, what are the key policy areas that the industry needs to focus in 2021 and beyond…?

The region's reputation among US real estate investors has been damaged by the nightly political protests and vandalism, Portland's reputation for high income taxes and the accumulating regulations on development activity. In a frequently cited survey of real estate investors by the Urban Land Institute, Portland fell in a ranking of 80 metropolitan areas from #3 in 2017 to #66 in 2021. Given their lack of confidence, Portland-area real estate developers need to bring more equity and offer higher returns than developers in other communities.

Unfortunately, nothing that's been proposed really changes the dynamic on the ground, whether in terms of permitting or homeless camping or prosecution of vandals, much less the more chronic regulatory issues that the real estate community faces. There's no magic Opening Day when downtown Portland becomes active and safe for workers and residents and the Portland economy starts to rebound. Portland officials pay lip service to income inequality and racial equity, when their longstanding UGB constraints only raise land values and apartment rents and block employment in the well-paid construction trades.

What is needed is a new political paradigm that places real estate development as a core element of economic development. Yes, housing is a necessity, but most necessities in life are paid by individual consumers in a competitive market. In this new paradigm, all forms of development – high-density and low-density – needs to be respected, so that consumers can find apartments and single-family homes at a reasonable price. Infrastructure development, especially roads, sewers, and water supply, needs to be seen as an essential function of state and local government, rather than an amenity that developers should pay for. Social goals, like income support or housing assistance for the poor, should be seen as a core function of state government, not an amenity that developers should pay for.

02 //

economic analysis

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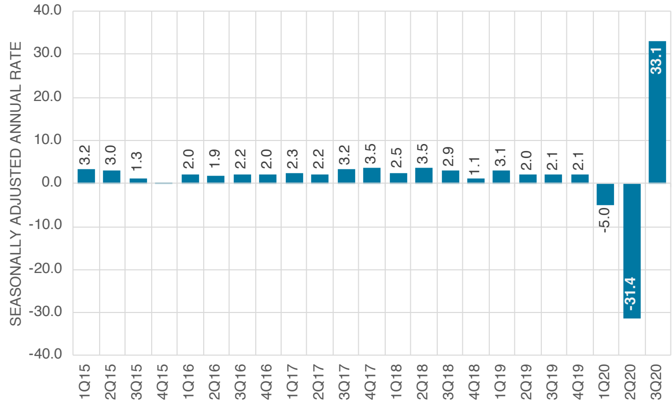
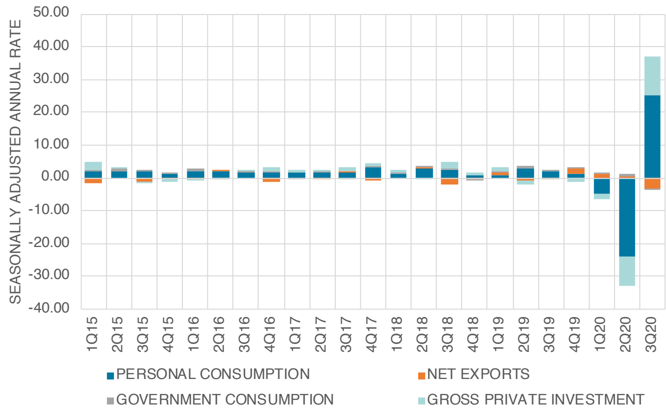
REAL GDP - PERCENT CHANGE FROM PRECEDING QUARTER



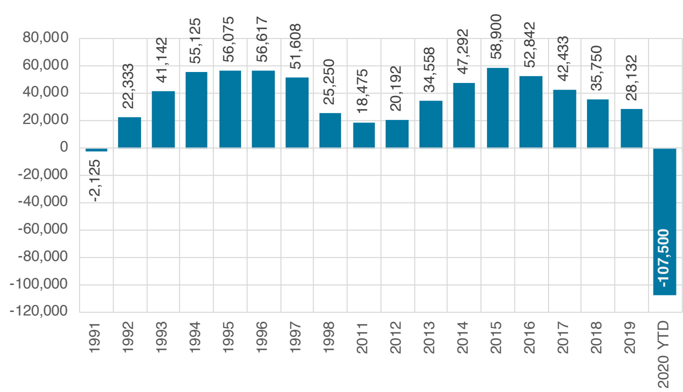
U.S. Bureau of Economic Analysis

GDP GROWTH BY CONTRIBUTING SECTOR



U.S. Bureau of Economic Analysis

NONFARM EMPLOYMENT GROWTH - OREGON CES DATA

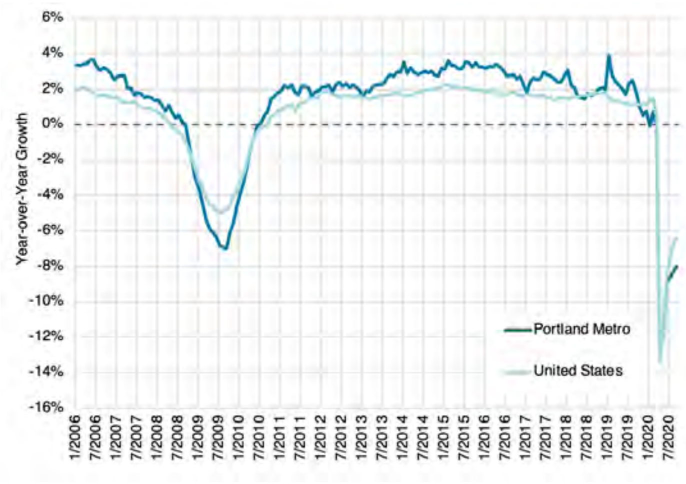


Despite the ongoing pandemic and policy responses, the national economy appears to have recorded strong growth in the third quarter of 2020, with the "advance" estimate showing 33.1% growth during the quarter. While this number is subject to revisions as additional data becomes available, it is a welcome sign of life. Despite the rapid rate of growth, the overall estimated GDP in the third quarter remained 2.9% below the third quarter 2019.

A strong rebound in personal consumption and private investment offset modest declines in net exports and government consumption. An interesting aspect of this downturn that may continue to fuel personal consumption is a sharp increase in savings, with checkable deposits surging in March and April.

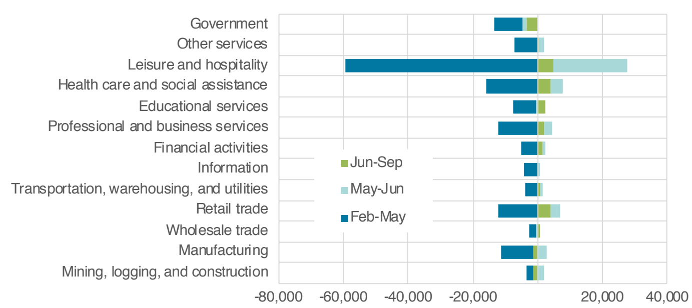
Average employment levels in the State of Oregon have been 107,500 below 2019 levels through September. Employment trends in the Portland metropolitan area have reflected national trends, with a strong rebound in employment reported during the second quarter following the sharp decline at the end of the first quarter. The recent rate of employment growth in the Portland metro area has lagged national levels somewhat, and preliminary indications is that that variance may increase when better data is available.

RATE OF EMPLOYMENT GROWTH - YEAR OVER YEAR



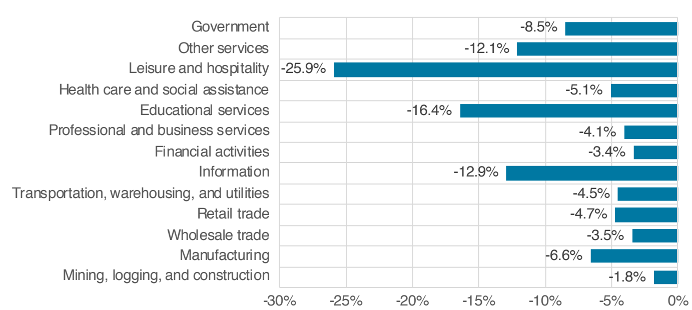
Bureau of Labor Statistics

EMPLOYMENT CHANGE SINCE PANDEMIC START-PORTLAND METRO



State of Oregon Employment Department

PERCENT EMPLOYMENT CHANGE - PORTLAND METRO - FEB-SEPT 2020



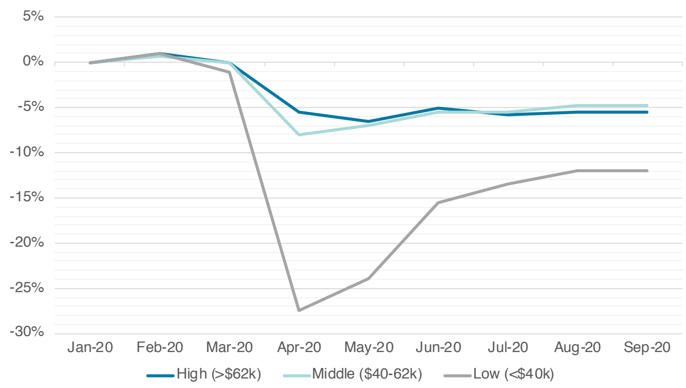
State of Oregon Employment Department

In the Portland metro area, the employment sectors reporting the greatest percentage decline since February have been leisure and hospitality (25.9%), educational services (16.4%), information (12.9%), and other services (12.1%). While the most significantly impacted in terms of magnitude of employment loss, leisure and hospitality, health-care and social assistance, and retail trade have accounted for much of the recent rebound in employment. Government employment is down modestly, likely reflecting the closure of recreational facilities. As noted in the previous quarter, the heavy reliance of local governments in Oregon on property taxes should help mitigate income shocks from the pandemic. This is not the case for the State of Oregon, although the State's income tax revenues are likely to show less volatility than a sales tax would.

The nature of the employment losses during this downturn have disproportionately impacted lower wage professions. Employment levels for workers making less than $40,000 per year declined roughly 27% in April and have remain roughly 12% below January levels. Employment levels for higher wage industries have never exceeded 8% and are currently roughly 5% below January levels. The disparate impact of the current recession on differing industries has led to a sharp differentiation in the degree to which the downturn has impacted economic fortunes.

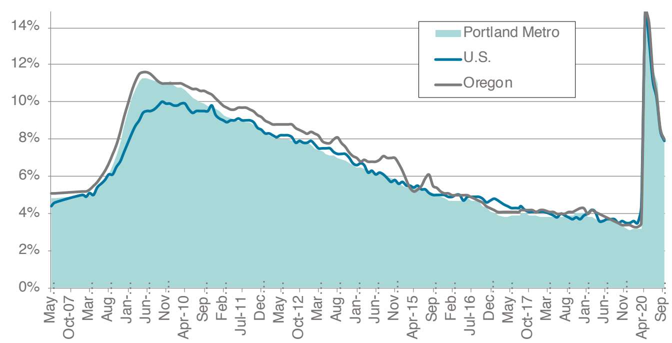
The unemployment rate declined to 7.9% at the national level in September, while declining to 8.0% in the State of Oregon and Portland metro areas. Unemployment levels have been moderated somewhat by a reduction in labor force participation, and some of the recent reduction in rate reflects movement out of the labor force.

EMPLYMENT SHIFT BY WAGE RANGE, OREGON



Oregon Employment Departement, Oregon Office of Economic Analysis

UNEMPLOYMENT RATES OVER TIME

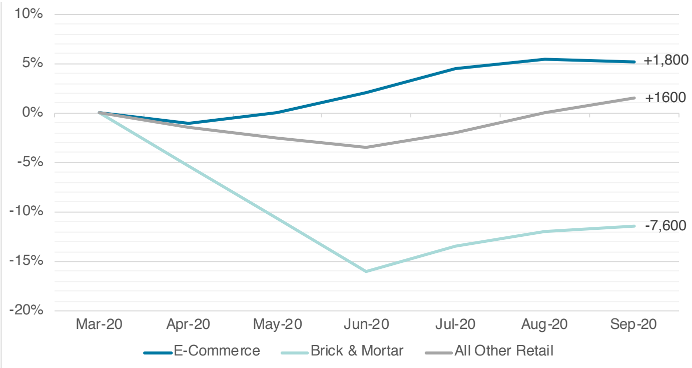


The pandemic has had a profound impact on real estate, with the most direct impacts on retail and office space. CB Richard Ellis conducted a survey of real estate professionals in August regarding when they expected investment activity to return to pre-pandemic levels by sector. The results indicated confidence in the industrial market and an expected quick return for multifamily, but a much more pessimistic outlook for office and retail space. CBD office space was rated as the most problematic sector, as telecommuting has proven to be more viable than expected and many firms (particularly in the technology sector) have expressed an openness to retaining the option to telecommute for employees.

A sustained decline in downtown office populations would have impacts outside of office space. This includes ground floor retail space in urban areas, which could lose significant market support with a lower daytime population level. Daytime employment supports an enhanced level of urban amenity that is marketable to urban residual uses, and that level of amenity could decrease if office populations decrease. There could also be reductions in transit usage as commutes to the central city become less common as well as less congested. This also impacts parking demand.

Over the last decade we have seen e-commerce account for an increasing share of retail sales, but this trend accelerated during the downturn as brick and mortar locations were closed or operations sharply limited. At a statewide level since March 2020, we have seen a reduction of employment in brick & mortar retailers of 7,600 jobs, while e-commerce employment has increased by 1,800 jobs and other retail employment by 1,600 jobs. The retail sector has always been a strong Darwinist aspect to retail, with forms and patterns changing regularly.

OREGON EMPLOYMENT CHANGE SINCE MARCH 2020



For the residential components of the market, the primary metrics to monitor is household growth and employment. The State of Oregon and the Portland metro area have relied heavily on in-migration, which provides an adequate labor force to support economic expansion as well as driving demand for residential products. The pandemic is expected to reduce the level of in-migration, although the degree is difficult to forecast. This would be expected to result in an associated drop in the demand for residential products. In addition, the degree to which jobs are recovered in the economy will determine the level of household formation, particularly for renter households. Unemployed or underemployed individuals are less likely to be able to maintain an independent household (capable of paying rent).

As with office space, central areas have been hardest hit by COVID, as preferences shift from densely populated areas and small housing units. Job losses and reduced incomes have also caused renters to move to less expensive suburban markets. Central Portland has been faced with additional challenges related to riots, crime, and a reduced level of amenity from ground level retail. This has led to an exodus from the central apartment market to suburban areas. According to CoStar, the current overall vacancy rate (including lease-ups) is 11.0% in Central Portland and 5.5% in the Suburban Metro Area. The stabilized vacancy rate (which CoStar tends to overstate) is 7.5% in Central Portland and 4.8% in Suburban Metro. CoStar's data further indicate annual rent growth of -1.7% in central areas and 1.5% in the suburbs.

03

RENT RELIEF PROGRAMS

COVID-19 Rent Relief and Other Landlord-Tenant Assistance Programs

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The Covid-19 pandemic has led to unprecedented declines in economic activity and household incomes in the United States, which in turn, has had significant impacts on multi-family housing. In this article, we will look at the Federal programs to provide rent relief during the pandemic and the efforts by the states of Oregon, Washington, Colorado, and Arizona to implement those federal programs.

According to an October 2020 study conducted by the Federal Reserve Bank of Philadelphia, of 32 million renter households with at least one worker in February 2020, 7.5 million (23.5 percent) have experienced some unemployment between March 2020 and August 2020 (Reed and Divringi). The study estimates nearly 1.34 million households, or 4.2% of renter households will owe $7.2 million (approximately $5400 per household) by December 2020 when the national moratorium is over. Rental assistance is crucial for Americans to remain in their homes. On March 13, 2020, President Trump issued a proclamation and declared the COVID-19 outbreak in the United States a national emergency beginning March 1, 2020. Two weeks later he signed the Coronavirus Aid, Relief, and Economic Security Act into law, providing over $2 trillion in economic assistance to American families, small businesses, and state, local and tribal governments. In response to the pandemic, many state and local organizations have expanded or created programs to provide housing assistance to those that have been financially impacted.

The CARES Act provides three main funding groups for emergency rental assistance; Community Development Block Grants (CDBG-CV), Coronavirus Relief Fund (CRF), and Emergency Solutions Grants (ESG-CV). The CDBG-CV is administered by HUD and can provide up to six months of emergency housing assistance. HUD initially allocated $2 billion on 4/2/2020. Round 2 allocated $1 billion by 5/11/2020 and Round 3 funds of $1.99 billion must be committed by 9/30/22 (see fy2020-CARES). The Dept of Treasury-administered CRF received $150 billion, all of which need to be used by 12/30/20 (see Interim Report). $3.96 billion was allocated for ESG-CV, which is primarily for homelessness response, but eviction prevention is an allowable use. States do not oversee programs and funds are disbursed through community action agencies.

ELIGIBILITY REQUIREMENTS

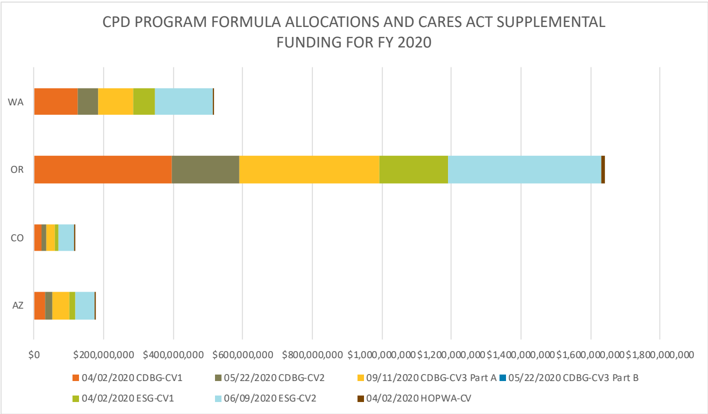
Eligibility requirements vary by program, but most require proof of household income, proof of residency, proof of rent or utilities and explanation of financial hardship. Household incomes in Crook, Deschutes (which includes Bend), Jefferson and Multnomah counties and Confederated Tribes of Warm Springs must not exceed 80% of Area Median Income (AMI) while household income in Arizona cannot exceed 100% of AMI. Arizona tenants must submit documentation proving 10% loss of income due to COVID-19, but a self-certified letter is acceptable. CDBG-CV typically requires income not exceed 80% of AMI while CRF does not have income limits.

The King County Eviction Prevention and Rent Assistance Program seems to have the strictest rules. Income needs to be at or below 50% of AMI for the past 60 days and at least one month of rent is either not paid or partially unpaid since March 1, 2020. Tenants can self-certify if third-party documents are not available. Additionally, one of the following must be met: 50% or more of monthly income is needed to pay rent, tenant has been homeless within last 5 years, tenant has been evicted within last 7 years, had housing disruption due to race, ethnicity, gender identity, sexual orientation or religion, is 62 years or older, has underlying health condition, or is disabled (HIV/AIDS qualifies). Landlords must accept up to 3 months discounted rent at 80%, must not terminate or raise rent until 3/31/2020, and rental debt more than 3 months must be forgiven.

ASSISTANCE DURATION & PAYMENT AMOUNTS

Multnomah County (Portland) and King County (Seattle) residents can receive up to 3 months of rental assistance; Multnomah County prioritizes rent due on and after 10/1/2020 while King County funds cannot pay future rent. In Phoenix tenants can receive a one-time assistance payment for rent or mortgage up to $3300, utilities up to $600 and water up to $300. Through Arizona's program, eligible households pay 30% of monthly gross income while the program pays for monthly rent balance up to $2000. Applicants can either apply online or by calling 211 and processing can take up to 90-120 days. Tenants can reapply once their initial application is marked "Approved and Closed", and it has been 30 days after the initial application submission.

CPD PROGRAM FORMULA ALLOCATIONS AND CARES ACT SUPPLEMENTAL FUNDING FOR FY 2020



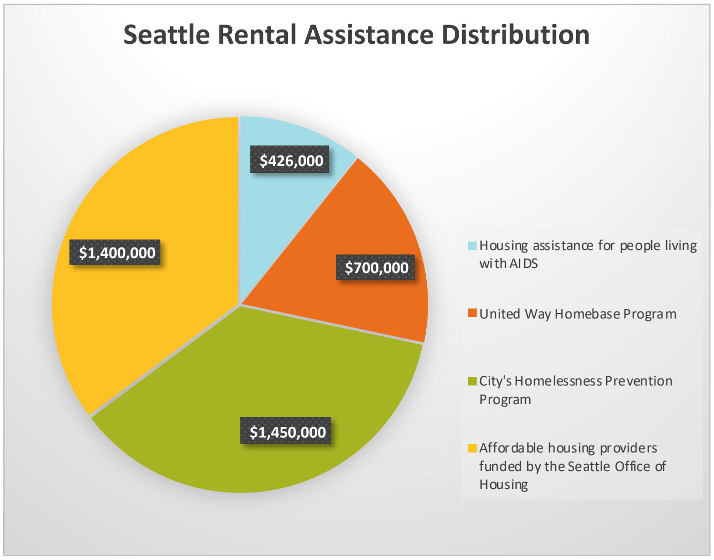
ALLOCATION & DISTRIBUTION

Some programs provide rent assistance directly to the landlord. Colorado has a unique Property Owner Preservation (POP) Program which received $19.65M from CRF when House Bill 20-1410 was signed. Landlords can apply for rent arrear assistance on behalf of their tenants who have been impacted by COVD-19 on or after March 1, 2020 and can apply more than once if the tenant still has a need. Owners who are legally related to the tenant cannot apply for this program; tenants must request assistance from the Emergency Housing Assistance Program (EHAP) through a local agency.

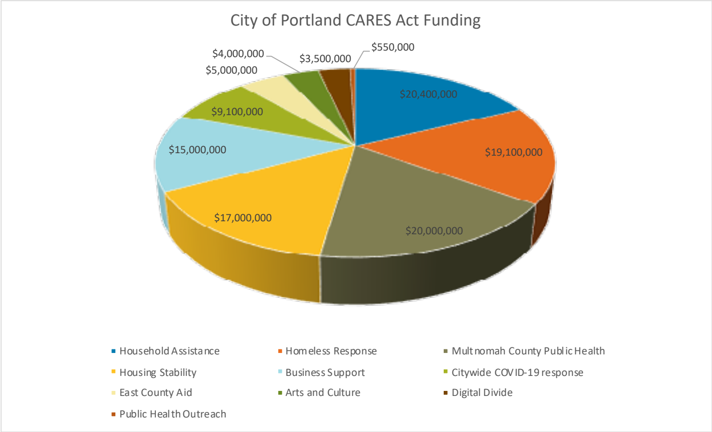
A list of requirements must be met in order to qualify for the POP program. The tenant must attest in writing their need for rental assistance due to COVID-19 and that they have not received other assistance. The rent must be below the Maximum Rent for the number of bedrooms in a specified county per Department of Local Affairs (DOLA) Division of Housing table. The property owner must register online or by paper application, certify housing quality standards, execute a Housing Assistance Payment (HAP) agreement with the State of Colorado, and complete a W-9 form. The property must not be in foreclosure and all property taxes must be paid. King County has allocated $41 million to the Eviction Prevention and Rent Assistance Program, while the Oregon Legislature has dedicated $15 million in Energy Assistance Stability Coronavirus Relief Program (EASCR) and $60 million in COVID-19 Rent Relief Program (CVRRP), $25 million of which is from the CARES Act. $11.3 million of CVRRP will be distributed through the (Short Term Rental Assistance) community of 19 partners, $5 million through 211info and Bienestar de la Familia (a Multnomah program for Latino and African immigrant communities) and $4.5 million through Portland Housing Bureau's providers, prioritizing BIPOC and disabled residents.

The Oregon Legislature allocated $60 million to the CVRRP in June; however, as of October 2nd approximately 38% of the funds had been distributed to 7,431 households statewide according to an Oregon Housing and Community Services report (Goldberg). According to the news coverage, Multnomah County had distributed 16% and committed an additional 11% of its $11.7 million, and Clackamas County had distributed 8% and committed an additional 15% of its

SEATTLE PIE CHART



CITY OF PORTLAND CARES ACT FUNDING



$3.3 million. These percentages from the metropolitan Portland area seem low compared to those of the community action agencies serving the Deschutes, Jefferson, and Crook counties and Confederated Tribes of Warm Springs, who had already distributed 75% of its $3.1 million in early October. Since funds were provided through CRF monies need to be distributed by December 30 or they will be forfeited.

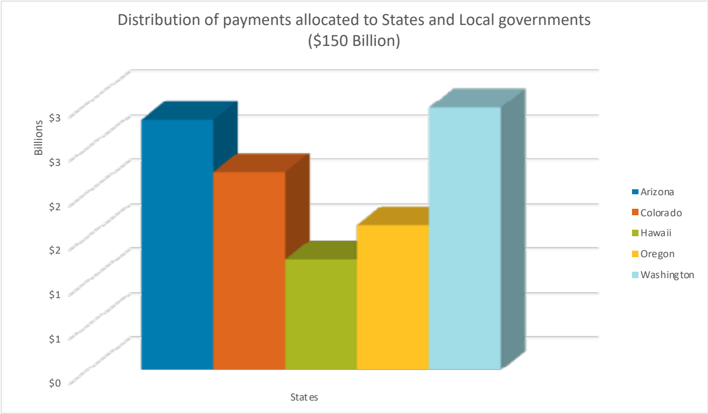
On a local level, the City of Portland received $114 million in federal CARES ACT funds for COVID-19 related expenses incurred between March 31 – December 30. In July the City approved allocating 90% of the funds while reserving some for emergency response expenses (see Portland pie chart). In May, the Seattle City Council approved the allocation of almost $4 million to help families and individuals who haven't been able to pay their rent due to COVID-19. See Seattle pie chart for distribution of resources (Hightower). Out of the $126.8 million Denver received from CRF, $4 million has been allocated to rent and utility assistance.

Tenants and small landlords applying for the King County EPRAP will be chosen by a weekly lottery. If they are selected, the community action agency will assist in completing the application, and tenants should be notified within 2 weeks. Tenants will remain in the lottery each week if not selected. Arizona's program is on a first come first served basis and application processing can take up to 90-120 days. First come first served distribution may provide funds quicker, but it may help English-speaking households who have access to technology and the internet. The lottery system may be a more equitable way to distribute funds. Some programs prioritize BIPOC households. 211info.org serves Oregon and SW counties and the website is available in Spanish, Arabic, Russian, Chinese and Vietnamese. Information on the King County EPRAP is available in over 25 languages. Additionally, application assistance and interpreters through partner organizations are available to overcome language and technology barriers.

OTHER SUBSIDIES

Many Oregon electricity, natural gas, internet and telecommunications providers are suspending service disconnects and waiving late fees. Charter and Comcast cable systems are offering free internet access for 60 days. Portland COVID-19 Household Assistance Program (CVHAP) is providing $500 prepaid VISA cards for

DISTRIBUTION OF PAYMENTS ALLOCATED TO STATES AND LOCAL GOVERNMENTS ($150 BILLION)



households whose income does not exceed 80% of AMI. Seattle Public Utilities and Seattle City Light are offering utility payment relief and discounts for household incomes that do not exceed 70% of the state's median income. Residential and commercial customers who have been impacted by COVID-19 can request a payment plan, and residential customers who do not exceed income limits can apply for enrollment in the Utility Discount Program. Participants can receive a 60% discount on their Seattle City Light bill and a 50% discount on their Seattle Public Utilities bill.

Rental assistance provided by the CARES Act is a good start, but more help is needed. According to data compiled by Multifamily NW, 12% to 15% of Oregon renters could not keep up with rent payments during the pandemic (Goldberg). If tenants are unable to pay rent, it trickles up and landlords don't get the income they need to cover expenses. Many property owners are small landlords with one or two units and do not have the funds to finance their tenants housing. For some landlords, rental income is their retirement. Out of the 380 housing providers surveyed by Multifamily NW, 180 provided narrative responses. One landlord indicated the tenant has decided not to pay rent because she "CAN" and wasn't interested in paying her rent. I am a small landlord with rental properties in Hawaii and Washington and am thankful for the November and December rent check a Hawaii community action agency has prepared due to my tenant's loss of income.

It is extremely concerning what will happen once the eviction moratorium is over. How long will the pandemic last and how many households will be displaced? Will small landlords be forced to sell property because they cannot pay mortgages? I am hopeful that the HEROES Act will become law and provide more funds to bridge the gap for both tenants and landlords during this unexpected economic crisis. The bigger question is how are these stimulus packages being funded – will Americans eventually pay for it through more increased taxes and will the working class need to support the non-working class?

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04

TENANT EVICTION MORATORIUM

Eviction Moratorium and Relocation Fees

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The COVID-19 pandemic has disrupted every sector of the economy and continues to restrict commerce, decimate household wealth, and create an uncertain future for businesses and individuals alike. The dramatic loss of jobs and wages has brought an expected decrease in household income, productivity, and household savings. As with any recession, the housing market is directly affected as unemployment leads to uncertainty about paying rents or mortgages. And the ability to secure housing has direct effects on physical health, particularly during a pandemic.

In response to the sudden and dramatic loss of jobs and shutdown of businesses, Congress passed the CARES Act which, among other things, creates a temporary moratorium on federally-owned residential properties and properties with mortgages backed by the federal government. States quickly moved to extend those moratoriums to more properties until, in September, the CDC ordered a national moratorium on evictions over all residential units until the end of the year 2020.

This paper aims to analyze the short-term and long-term impact of the eviction moratorium on the multifamily housing market and explore the implications for both the landlord and the tenant. The paper will assess actions that could be taken to help stabilize the market and create relief for all those affected by the moratorium. Finally, the paper will examine the expenses that landlords incur in the form of relocation fees. These fees are enforced by local municipalities and paid to the tenant when the tenant leaves as a result of rent increases. Together, the eviction moratorium and relocation fees create a financial impact on landlords that will undoubtedly impact their cash flow, property values, rents, and new construction for the foreseeable future.

This article is being written in late October, 2020, and the CDC's eviction moratorium is set to expire on December 31, 2020. With no explicitly stated plan for an extension, future federal policy is unknown. This article will serve as a snapshot in time regarding the state of multifamily apartment regulation during the worst pandemic in over a century, and even if the circumstances dramatically change over the following weeks, it still serves as a critical study into the multifaceted impacts of housing laws and the ripple effect these policies can have.

This paper will examine economic data and the political landscape impacting the entire nation but will take a concentrated look at the situation in four Western cities: Phoenix, Arizona; Denver, Colorado; Seattle, Washington; and Portland, Oregon. Examining these four cities will provide specific insight into how these local communities are grappling with an issue impacting the entire globe.

ECONOMIC CONDITIONS PRIOR TO COVID

The economic conditions entering 2020 contributed to the vulnerability of the US economy to the COVID pandemic. Prior to 2020, the American economy was, by several measures, continuing in a decade-long trend of economic recovery and improving on indicators such as GDP and unemployment. However, that economic growth did not reach many low and middle-income Americans who have benefitted less than the nation as a whole.

In many areas of the country, wages were not improving at rates necessary to keep up with inflation and increased living costs. In 2018, the Federal Reserve released the Report on the Economic Well-Being of U.S. Households, which determined that 40% of American households could not afford an unexpected expense of $400. Many of the these at-risk Americans worked in sectors most impacted by the pandemic-related shutdowns and therefore bore the brunt of the massive wave of unemployment.

In 2019, hospitality, retail, transportation, and manufacturing made up a combined total of 31% of the total jobs in America, according to the Bureau of Labor Statistics. These relatively low-wage jobs were particularly impacted by the COVID-related shutdowns and furloughs. According to the Brookings Institution, "The COVID-19 pandemic and associated economic shutdown created a crisis for all workers, but the impact was greater for women, non-white workers, lower-wage earners, and those with less education".

The COVID pandemic created a massive spike in unemployment during a period where many Americans were financially vulnerable. Unfortunately, the segments of Americans who lost their jobs were also living paycheck-to-paycheck and had limited ability to keep themselves afloat following a layoff.

HOUSING MARKET CONDITIONS PRIOR TO COVID

Housing market conditions appeared strong prior to the Covid outbreak. However, a closer look illustrates the vulnerability of many renters and landlords. CBRE, one of the largest real estate brokerage firms in the nation, delivered an optimistic summary in their 2019 market assessment on multifamily properties, noting, "The overall multifamily market will retain its solid footing… Demand for multifamily housing has been very healthy through this cycle..."

However, the report indicated challenges facing workforce housing, occupied by lower and middle-income renters who do not qualify for affordable housing. CBRE's 2019 outlook stated that, "Demand for workforce housing currently exceeds supply, resulting in above-average rent growth." Expressed differently, the multifamily developers have strong incentives for luxury housing, which collects high rents from tenants, and affordable housing, using powerful tax incentives for investors. Fitting into neither of these categories, developers have little reason to build workforce housing, with middle class tenants relying upon the filtering of apartments vacated by higher income tenants.

In addition, small landlords, who make up a large share of ownership of multifamily units across the country, represent a vulnerable sector in the economy. According to data from the 2015 American Housing Survey, small landlords own roughly 47% of all rental units in the country. Larger landlords and corporations managing a large number of apartment units have the safety net of a diversified portfolio such that losses in one property that can be made up by income from other properties. When three or four units within a 200-unit complex stop paying their rent, the financial damage is manageable provided that other tenants pay on time. A landlord who owns two rental units cannot afford either one to stop paying and often rely on their rental income as their sole income to pay the mortgage, taxes, and operating expenses of the property, as well as providing income for the owner's household.

The small landlords' financial condition is an under appreciated risk to their tenants and the rental market as a whole. The problem of a landlord who is delinquent in his or her mortgage and tax payments will have immediate ramifications on the property and the tenants who live there. The financial pressure may leave the landlord with no options but to sell to a new owner, who will try to change the money-losing property into a profitable one. If no transaction is possible, landlords may be forced into foreclosure, which not only wipes out the landlord's investment but can also damage the property's value and result in tenant evictions.

A study done in 2015 by the Institute for Research on Poverty at the University of Wisconsin on evictions in Milwaukee from 2009 to 2011 found that nearly 1 in 4 evictions was due to landlord foreclosure. Multifamily transactions often lead to new capital investment, which can trigger property tax re-assessment, creating upward pressure on rents. While relocation fees may help individual tenants, the shift in ownership from local landlords to national investors will tend to drive up rents for long-term tenants.

THE APARTMENT MARKET IN THE WESTERN CITIES

Like much of the country, the apartment market in Phoenix, Arizona was badly affected by the COVID pandemic. Both the City of Phoenix and the State of Arizona struggled to keep up with the demand for affordable and workforce housing, as demonstrated by a study conducted by the National Low Income Housing Coalition in March, 2020. The study ranked Arizona as the third-worst country in the nation in terms of the supply of affordable housing. At the same time, Phoenix is experiencing rapid population growth due to its reputation as a business-friendly city with lower living costs than larger metropolitan areas such as New York or Los Angeles. According to the U.S. Census, Phoenix ranked as the 10th fastest-growing city in 2020.

Denver, Colorado also experienced a decade of significant population growth and the city struggled to develop new housing supply to meet that demand. According to Drew Hamrick, Senior Vice President of Government Affairs for the Apartment Association of Metro Denver, "Colorado experienced massive population growth, adding 500,000 new inhabitants primarily from 2013-2017. Because of various restrictions on development, we were only able to build 37 new housing units for every 100 people that moved here. Dramatic rent increases got the attention of policymakers, who responded with placing more restrictions on existing units rather than growing our housing inventory." Like so many cities, Denver faced a challenge of a new workforce arriving in a city where most of new construction was aimed at high-income luxury apartments or subsidized low-income housing.

In Portland, Oregon, the Q4 2019 Multifamily Report of the Colliers brokerage firm highlighted the 93.8% occupancy rate in the Portland market and the development pipeline of over 6,200 units. And the 2019 annual report of Multifamily Northwest 2019 documented the rise in rents for Class A properties, with class B and C apartments experiencing more stable rents.

In Seattle, Washington, the Yardi Matrix 2019 Multifamily Report noted strong job growth as a driver for an increase in rent, but also an increase in supply that has limited rent increases. Rent increases reached 2.9% annual growth, which is below the national growth rate of 3.2%. Seattle's job growth of 3.1% annually far exceeded national rate of 1.8%. In 2019, Seattle added nearly 10,000 new construction units, which helped prevent a more drastic rent increase.
Eviction Moratorium Status, Impact, and Outlook.

On a federal level, the current eviction moratorium was issued as an "agency order" by the Center for Disease Control (CDC) on September 4, 2020. The order is in place between the enactment date through December 31, 2020, and has halted the evictions across all rental units within the United States for households that make less than $99,000 per year. The order does not preclude states, cities, and territories from issuing their moratorium or offering further assistance to their citizens, such as rental assistance to the tenant or foreclosure assistance to the landlord.

However, the order does not release rental tenants from ultimately paying their rent while still in their lease. The federal moratorium does not necessarily prevent eviction cases from being filed and brought to court; however, those cases would not be enforced in the form of removal of a tenant. And the CDC order did not provide any measures to protect tenants from being evicted after January 1, 2021.

These last two points are perhaps the most concerning for renters across America who were not prepared for the prolonged income loss associated with the pandemic. According to CNBC, between September to mid-October, there were nearly 100,000 evictions filed by large corporate landlords across 23 counties in Arizona, Florida, Georgia, Tennessee, and Texas. The same report showed that evictions have increased since then as the CDC clarified the landlord's option to file for eviction, as 2,000 more evictions were filed in one week in October.

The accumulating rent obligation of low income households will lead to a reckoning once the moratorium ends. In June 2020, the COVID-19 Eviction Defense Project (CEDP), a coalition of economic and legal experts, founds that between 19-23 million renters were at risk of eviction by September 30, which amounted to roughly 20% of renters in America. This report gave the federal government ample incentive to issue a moratorium to avoid a tumultuous number of evictions, legal proceedings, displacement, and disruption in Americans' ability to survive and stay in the workforce. However, this data also serves as a dramatic warning for the inevitable conflict between landlords and renters once eviction protections are removed.

The potential damage to renters who have avoided paying rent and face eviction in January is multifaceted and can have ripple effects on the housing market and the overall economy. The Federal CARES Act enacted a moratorium on evictions in all federally-financed mortgages starting with its passage on March 27, 2020. The combined moratorium of that act and the CDC's moratorium will amount to a total of nine months of eviction protection, with some households accumulating many months of unpaid rent.

EVICTIONS IN THE WESTERN STATES.

In Arizona, there was an intense spike of COVID cases in Summer, 2020, which led the Governor to issue an eviction moratorium in July, which was eventually reinforced by the CDC moratorium. The statewide moratorium, currently in place until October 31, was challenged in the Arizona Supreme Court by the Arizona Multihousing Association. The challenge failed as the Court affirmed the Governor's legal authority to prevent landlords from removing tenants during these circumstances. It remains to be known if the Governor will extend the statewide moratorium after the 31st or simply rely on the CDC's federal moratorium until the end of the year.

The City of Denver and State of Colorado have both taken aggressive measures on evictions and rental assistance in response to the pandemic. Not only have their policy decisions been responsive, but their studies and public information are also exemplary for the rest of the nation. In Spring, 2020, Colorado Governor Jared Polis enacted a statewide eviction moratorium to cover renters who were not protected by the CARES Act moratorium. The statewide moratorium expired in June but was reinstated in October through the end of the year.

Governor Polis also created a 10-member Eviction Prevention Task Force, "To examine housing instability challenges due to COVID-19 and report these recommendations to the Governor…" According to their website, the commission of comprised of, "Ten individuals that represent a variety of perspectives and backgrounds from the housing and development space." The Task Force's recommendations led the Governor to reinstate a statewide moratorium and prevent landlords from charging late fees to any tenants through the end of the year.

The Task Force released a startling report in October that reported that between, "150,000 and 230,000 Colorado households could be at risk of eviction by December 31, 2020. The total amount of rent in arrears for these Colorado tenants is estimated at $470 million, with 70 percent of those debts for people making 80 percent [of Area Median Income] or less." Denver residents make up roughly 21% of all renters in the state and 19% of all evictions filed in the state. The Task Force found that in Denver, delinquencies were highest in "C" grade properties inhabited by lower-income tenants who do not qualify for traditional rental assistance. The city's public assistance programs have helped as Denver's Temporary Rental and Utility Assistance Program allocated $6 million to assist 1,200 households with their rent since January.

In a similar way, the city of Seattle, Washington acted quickly when confronted with the COVID pandemic. After declaring a civil emergency on March 3, 2020, Seattle Mayor Jenny Durkan signed executive orders to create a moratorium within the city of Seattle on evictions of both residential tenants as well as commercial tenants who are small businesses or non-profits. Simultaneously, Washington Governor Jay Inslee enacted a statewide moratorium on residential tenants.

Mayor Durkan's first moratorium expired on May 14 but was then extended on July 31 through the end of the year. The extension applied to both residential and qualifying commercial tenants. The order goes even further by allowing tenants to declare covid-related financial difficulty and avoid eviction for an additional 6-month period after the moratorium ends in January 2021.

The Seattle Office of Economic Development has offered monetary relief for small businesses, granting 469 grants of $10,000 each to assist companies during the economic turmoil and help preserve local employees' jobs. The city went further than most local officials by requiring landlords to, "Make their best effort" to create a repayment plan for those tenants who are in arrears, stating that tenants must pay their back rent within one year following the end of the moratorium.

The city also prevented landlords from charging late fees or interest. Brett Waller, Director of Government Affairs for the Washington Multi-Family Housing Association, notes the lack of balance between the landlord and tenant in these policies. "The City of Seattle has invested heavily in rental assistance, but landlord concerns have not been heard. These actions hurt landlords' ability to assist other tenants and virtually eliminate their capacity to pay their operating expenses. This could lead small landlords to sell their property as the cost of doing business outweighs rental property value. We are hoping for modest changes that will allow for more enforcement of community rules and lease obligations. We also have to address the nonpayment of rent and repayment plans."

Brett Waller's statement reflects the concern of many landlords about their ability to maintain and operate their properties given the loss of rental income. These concerns led to a lawsuit filed by a group of Seattle landlords against Mayor Durkan and Governor Inslee. The suit was filed in September and challenged the constitutionality of the city and state enforcing these moratoriums. Osho Brandon, one of the plaintiffs and an owner of low-income housing in Seattle, stated that the moratoriums have reduced landlords' ability to assist vulnerable tenants who struggle with mental illness.

The City of Portland, Oregon has multiple layers of eviction moratoriums and ordinances that apply to its residents. The Portland City Council has a moratorium set in place until January 8, 2021. This moratorium is reinforced by a statewide moratorium enacted in an executive order of Governor Kate Brown and extends through the end of 2020. The moratorium protects renters from evictions, forbids landlords from even filing for eviction, and prevents landlords from reporting nonpayment of rent to credit reporting agencies.

Multnomah County, which Portland resides in, has also enacted a 6-month grace period for tenants to repay their rent starting once the moratorium has been lifted or the County's emergency declaration ends, whichever is later. According to the City of Portland's website, the city and county are "Assessing all options to assist renters and homeowners once the moratorium is lifted." However, no plan is currently in place to address the evictions in 2021, and there is ample evidence that they are coming. The Portland Housing Bureau estimated that Portland tenants were collectively in arrears to the amount of $120 million by the end of September.

TENANT RELOCATION FEES

In addition to the financial damage resulting from lost rent and declining demand, landlords face increasing burdens due to newly-enacted relocation fees. Relocation fees are legally-enforced fees paid by the landlord to tenants who are forced to vacate the premises. Relocation fees are typically enforced at a city level, with each city regulating the amount and conditions for their application. Ostensibly, these relocation fees are designed to assist the previous tenant in finding new housing.

Given the moratoria in place, these policies will obligate landlords to pay potentially thousands of dollars to their tenants, as those tenants are walking away with thousands of dollars owed to the landlord. These obligations will further harm landlords who are struggling to keep up with operating expenses and plan for capital expenditures necessary to prepare their units for future renters. Landlords' ability to stabilize their operation depends on a smooth transition back to regular rental payments. If enforced immediately upon eviction, the relocation expenses will push landlords further into debt as they re-tenant their property. Without a viable solution to this problem, landlords will be forced to raise their rents in order to compensate.

TENANT RELOCATION FEES IN THE WESTERN STATES

The City of Portland passed an ordinance in 2017 that created mandatory relocation assistance if the landlord terminates tenancy without cause or raises the rent by 10% or more. This ruling was modified due to Covid-19 to apply to apartments that increase their rent any amount. That ordinance will apply until March 31, 2021. There are exemptions for week-to-week leases, tenants occupying the same unit as the landlord, landlords who only own a single unit, and tenants who only rent out a unit in the landlord's absence.
The City of Portland's relocation fees are charged at the following rates:

- $2,900 for a studio or single room occupancy
- $3,300 for a one-bedroom
- $4,200 for a two-bedroom
- $4,500 for a three-bedroom or larger

The City of Seattle does not mandate relocation fees for eviction or rental increases but does mandate relocation fees when units become vacated for construction or demolition. Tenants only qualify for relocation fees if they make less than 50% of Area Median Income (AMI). The relocation fee expense is shared 50/50 between the landlord and city and is a flat rate of $4,170 per household.

The City of Phoenix has a relocation assistance program focused on households living in mobile home parks to help them rehabilitate their home in a different property. The money is allocated through the Arizona Department of Housing, which created a fund to provide assistance to those who are experiencing relocation due to renovations or a rent increase, provided they qualify for low-income assistance.

According to the Mobile Home Residential Landlord and Tenant Act, mobile home tenants will be provided funds, "To pay premiums and other costs of purchasing… insurance coverage for tenant relocation costs due to a change in use. If such insurance is not available, or if the insurance costs exceed the amount available from the fund, the fund shall be used to make direct payments for tenant relocation costs." The limited tenant relocation assistance program in Phoenix is funded with tax dollars and is not an obligation on the landlord, as is the program in Portland, nor a shared-cost model, such as the program in Seattle.

SHORT AND LONG TERM RISK TO TENANTS & LANDLORDS

The impending end of the eviction moratoria will lead to demands for action at federal, state, and local level to prevent displacement. At the end of September, 2020, one-fifth of American renters were on the brink of eviction. At the same time, Americans who were unemployed during the pandemic received an extra $300 per week in supplemental unemployment benefits (beyond amounts mandated in each state), as well as the $1,200 stimulus checks issued in April. Neither of those two programs included any provision that the recipient must dedicate some of that money for past due rent.

In effect, the Federal and local governments have created an economic relief program that is partly funded by government and partly funded by private landlords. The public portion is represented by payments to unemployed workers and the stimulus checks to households and is paid by taxpayers generally. The private portion is paid by individual landlords in the form of rent suppression (or rent control), rent payment deferment, and (in effect) rent forgiveness. For landlords as a class, these public relief requirements will lead to declines in property value and, for owners who rely upon apartments for their income, declines in household income. Not only have rents declined in many markets due to the pandemic, landlords have been prevented or hampered from collecting those rents.

Brett Waller, Director of Government Affairs for the Washington Multi-Family Housing Association, points out the potential long-term impacts on real estate investments. "This is going to change the way people feel about real estate for a long time. COVID has exposed the true risk of real estate investing in the world. There's so much uncertainty about operational costs, and it's hard for landlords even to establish a budget for 2021."

A catastrophe such as COVID is an extraordinary event and not a circumstance most investors would consider when evaluating the risk of a property. However, this experience highlights the risk for small landlords who hold a singular, undiversifiable income source. Landlords have been left at the mercy of federal and local governments who regulate their ability to operate, leaving them no mechanism to recuperate their losses and little guidance on moving forward. As many businesses, from manufacturing to restaurants to retail, have found ways to adapt to the pandemic and continue operating, landlords are left with no options but to sit and wait as their bills continue to mount.

Courts across America have affirmed the power of governors and mayors to restrict landlord eviction rights with no bright line as to the extent of economic calamity that necessitates that type of restriction. As investors and lenders recognize the power of governors and mayors to enact such legislation, this will lead to declines in asset values, reduced lending for apartment development, and declines in housing production. At a time when more housing is needed, the economic incentives to build and own housing have been diminished.

Relocation fees have been established in Portland and Seattle to create stability for dislocated tenants, particularly as incomes have declined with the pandemic. However, this legislation ought to recognize the balance between the financial burden of the tenant evicted and the financial burden to landlords as those burdens are inevitably passed onto future tenants over time. The policy in Seattle of splitting these relocation fees between the landlord and the City at least stands out in recognizing that economic relief is largely a public concern, not a private matter. And the City of Phoenix stands out as a jurisdiction that recognizes that tenant assistance is a role for government spending, not a reason to regulate lease contracts.

CONCLUSION

As many have noted, the burden of the Covid pandemic has been unevenly distributed among the US population, depending upon their form of employment and their ability to participate in the digital economy. Landlords and property owners have been forced to bear substantial economic losses and are subject to increasing regulation by state and local governments. While legislators and local officials may view landlords as wealthy, many property owners depend upon multifamily properties for the retirement income or have substantial loan obligations that must be met. And if market participants view landlord-tenant law as a tool of local governments to redistribute incomes, this will raise the cost of financing, deter new investment, and result in declining housing production in the future.

It’s vital to shift away from the perspective that the landlord-tenant relationship is a zero-sum game and understand the detrimental impact that can happen as multifamily properties continue to endure hardship. Like any business owner, landlords can only tolerate so much loss before they are forced to sell their investment. Apartments are unique in their lack of diversification and their risk from local government regulation that ignores what happens when these landlords go under. Forcing landlords to sell or foreclose their properties will add to the rising cost of housing for working-class.

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05

TENANT SCREENING REGULATIONS

Tenant Screening Rules in Oregon, Washington, and Colorado

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"As many as 100 million U.S. adults – or nearly one-third of the population – have a criminal record of some sort… African Americans and Hispanics are arrested, convicted, and incarcerated at rates disproportionate to their share of the general population,"

(HUD 2016)

Housing discrimination in the U.S. against various identities, such as race, religion, and gender, is well documented. These, and many other identities are now protected by the Fair Housing Act ("FHA"). However, there are many characteristics historically associated with these identities that are not protected under federal law. To adapt to the changing times, state and local governments have created their own laws to prevent landlords from screening for these characteristics. Perhaps the most notable characteristic that is historically associated with race is a history of incarceration or criminal record.

In addition to criminal record, local governments have also created ordinances to prevent landlords from using other non-legal aspects of tenant applicants' pasts to deny them housing. Some examples of this include credit, income, and rental history. Preventing this type of screening could be construed to be more of an overreach than protecting against searching for criminal history. However, proponents of these laws will likely argue that credit, income, and rental history are historically associated with protected identities such as race, perhaps even more so than a criminal record.

This article will examine the laws that the states of Colorado, Oregon, and Washington – as well as their largest cities – have enacted to prevent landlords from screening for various characteristics that are historically associated with protected identities. It will also compare these state laws to federal guidelines from 2016 regarding the screening of tenant applicants.

MASS INCARCERATION AND SCREENING FOR CRIMINAL HISTORY

In April 2016, the U.S. Department of Housing and Urban Development issued a memorandum of guidance on the application of the FHA to the use of criminal records by landlords. According to the HUD guidance:

"As many as 100 million U.S. adults – or nearly one-third of the population – have a criminal record of some sort… African Americans and Hispanics are arrested, convicted, and incarcerated at rates disproportionate to their share of the general population," (HUD 2016).

The memo goes on to state that:

"In 2013, African Americans were arrested at a rate more than double their proportion of the general population.

> *"In 2013, African Americans were arrested at a rate more than double their proportion of the general population. Moreover, in 2014, African Americans comprised approximately 36 percent of the total prison population in the United States, but only about 12 percent of the country's total population"*
>
> (HUD)

Moreover, in 2014, African Americans comprised approximately 36 percent of the total prison population in the United States, but only about 12 percent of the country's total population" (HUD).

According to HUD, in 2014 Hispanic-identifying people were also incarcerated at a rate higher than their share of the population. Conversely, Whites comprised about 62 percent of the total U.S. population, but only about one-third of the U.S. prison population at the time.

Because of this, screening for criminal records can have a disproportionately negative affect on African American and Hispanic individuals. However, in order to prove unlawful discrimination, HUD stated in the memo that a policy or practice must have, "*a disparate impact on individuals of a particular race, national origin, or other protected class*" (HUD).

HUD then sought to evaluate whether screening for criminal history has a discriminatory effect on tenant applicants, and if there is a less discriminatory alternative to screening for prior arrests and convictions. The department found that, "[an] individualized assessment of relevant mitigating information beyond that contained in an individual's criminal record is likely to have a less discriminatory effect than categorical exclusions" (HUD). Instead of denying someone based on the binary matrix of whether or not they have committed a crime, HUD recommends that housing providers evaluate each applicant on a case-by-case basis.

The guidance concludes that, "*Policies that exclude persons based on criminal history must…take into consideration such factors as the type of the crime and the length of the time since conviction*" (HUD). While HUD cannot legislate statutes, it is arguing that in order to satisfy the disparate impact standard, landlords must look at the amount of time that has passed since a crime was committed, among other factors. In response to this, lawmakers in the states of Colorado, Oregon, and Washington – and in their biggest cities – have recently passed legislation restricting the ability of landlords to screen tenant applicants for criminal history and ability to pay rent.

Because of this, landlords have to pay more for the screening process, and if they do not comply with the law, they are liable to be penalized for it. This has almost universally hurt small landlords for a few reasons: they

"Policies that exclude persons based on criminal history must…take into consideration such factors as the type of the crime and the length of the time since conviction"

(HUD)

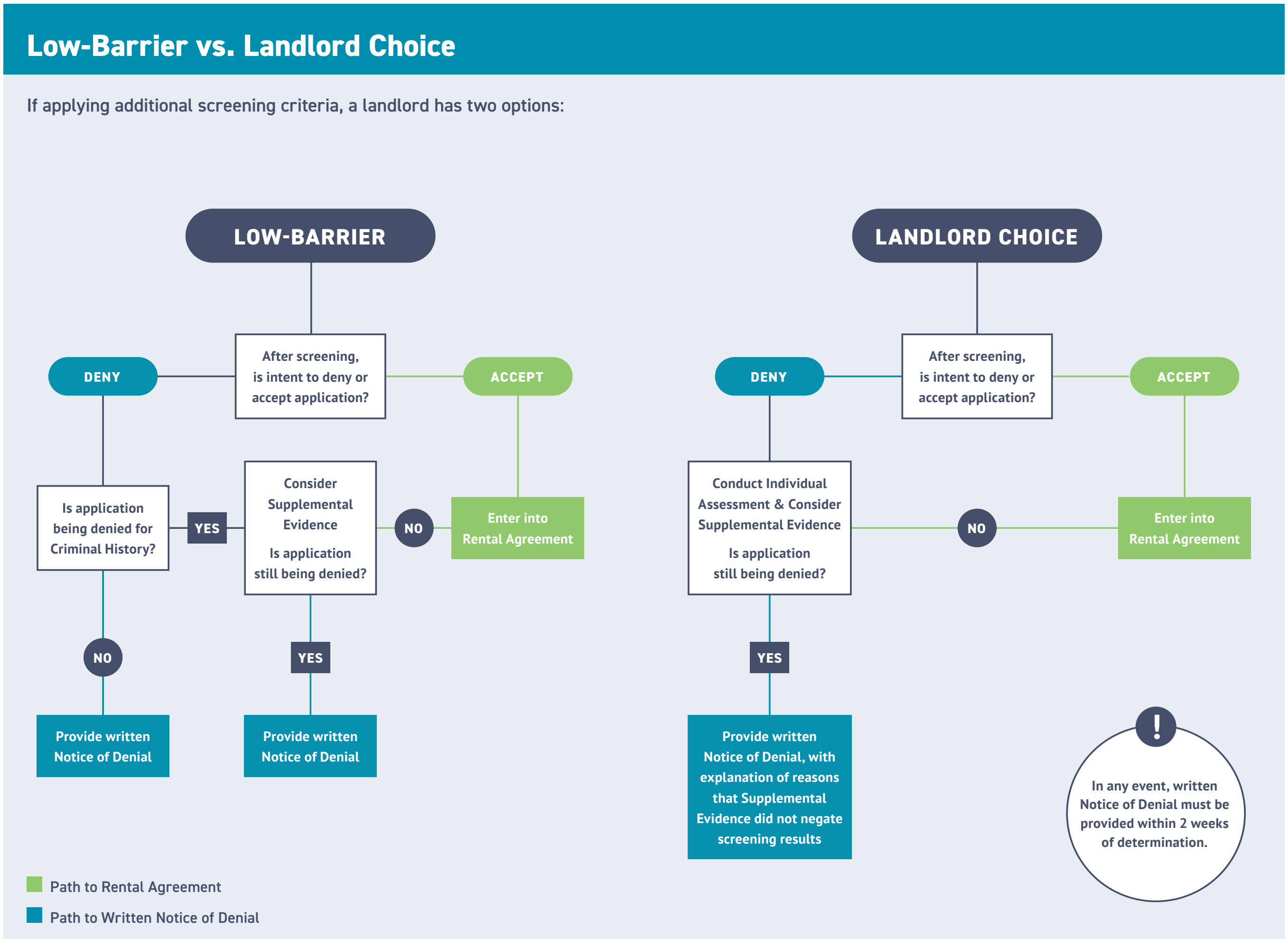
cannot profit off of the screening process, they have been forced to shift management to third party companies for compliance reasons, and they might be forced to accept a tenant who cannot reliably pay their rent. The COVID-19 pandemic, and the resulting eviction moratoriums in all three states have only added fuel to this fire.

LANDLORD-TENANT LAW IN DENVER

Tenant applicant screening in Denver is much less restrictive than its counterparts in Portland and Seattle. For one, landlords in Denver are still able to conduct criminal background checks on tenant applicants, while there are strict impediments to conducting background screening in Seattle and Portland. Interestingly, Colorado only established immigration status as a protected class for housing this year, with SB20-224. Some areas in which Colorado is perhaps more restrictive than Oregon or Washington is with House Bills 1048 and 1332, both of which have been signed into law.

Colorado HB20-1048 protects tenant applicants from discrimination on the basis of race, including, "traits historically associated with race, such as hair texture, hair type, and protective hairstyles" (Colorado General Assembly, 2020). Additionally, as of January 1, 2021, HB-1332 prohibits discrimination based on a person's source of income, as long as it is legal and verifiable, for landlords with four or more dwelling units. Landlords with five or fewer single family home rentals are not subject to this law. Both of these statutes seem to be quite reasonable.

Another positive step that the State of Colorado has taken during the COVID-19 pandemic has been the Senate Bill 20B-002. This bill authorized $54 million in housing assistance for people economically impacted by the COVID-19 pandemic. Through this bill, Colorado created the Property Owner Preservation ("POP") program, in which property owners can apply for rental assistance from the state on behalf of their tenants. This is an example of state legislation that benefits both landlords and tenants. The states of Oregon and Washington could certainly benefit from a program like this (Colorado Department of Local Affairs, 2020).



(Portland Housing Bureau)

TENANT SCREENING LAW IN SEATTLE

In August 2017, the Seattle City Council passed the Fair Chance Housing Act, which prohibits private landlords from screening for criminal history for any reason, with very minimal exceptions. This law also requires housing providers to include the following statement on tenant applications: "[Housing Provider] is prohibited from requiring disclosure, asking about, rejecting an applicant, or taking adverse action based on any arrest record, conviction record, or criminal history, except sex offender registry information" (WMFHA, 2020). There was a lawsuit filed against this ordinance in 2018 that is currently pending.

One exception of the Fair Chance Housing Act is if the landlord's dwelling unit shares a single family home with the dwelling unit that they rent, they can conduct a criminal background screening. Another exception is that landlords may search for tenant applicants on local, state, or national sex offender registries. However, even if a tenant is on national sex offender registry, the Fair Chance Act requires landlords to conduct an individual assessment before denying a tenant's application.

The Fair Chance Act only affects private developers, so public housing authorities are still allowed to conduct criminal background checks. In addition to reducing the competitiveness of private developers, this could reduce both the quality and overall supply of affordable housing stock in Seattle, as the majority of affordable housing units are built by non-public developers. The law is so strict, in fact, that landlords cannot even screen tenants for being on the Office of Foreign Assets Control watch list for money laundering, and potentially the financing of terrorist activity.

While this policy certainly has good intentions, it fails to account for the amount of time since a crime has happened. The HUD memorandum of guidance argues that a policy that does not account for the length of time since a certain crime has happened will ultimately fail to:

"*serve a 'substantial, legitimate, nondiscriminatory interest'… especially in light of criminological research showing that, over time, the likelihood that a person with a prior criminal record will engage in additional criminal conduct decreases until it approximates the likelihood that a person with no criminal history will commit an offense*" (HUD).

Instead of accounting for the amount of time since a crime was committed like the HUD memo recommends, Seattle has done the opposite in a sense, and categorically banned screening for any criminal history aside from sexual assault. This is simply put a reactive, rather than proactive, reform. The City of Seattle should amend this ordinance to account for the amount of time since a crime has happened, and it ought to apply to all developers – not just private businesses. This would increase the overall quality and supply of affordable housing in Seattle.

TENANT SCREENING LAW IN PORTLAND

In June 2019, the Portland City Council passed the Fair Access in Renting ("FAIR") ordinance, and it took effect March 1, 2020. Portland City Commissioner Amanda Fritz was the only City Council member to vote against the FAIR ordinance, while Commissioner Jo Ann Hardesty was absent for the vote. Fritz was dismayed by the ordinance's lack of protection for landlords in screening against tenants with violent criminal histories. In June of 2019, she was quoted by Oregon Public Broadcasting as saying: "Will any landlords choose to use the low-barrier process with that in mind?" (Templeton, 2019). Fritz was also concerned that the FAIR ordinance could in fact be harmful to renters by, "driving up costs, discouraging new housing development, and prompting units that are currently rented to convert to owner-occupied housing," (Templeton).

FAIR instituted a low-barrier criteria of screening tenant applicants that landlords can choose in order to avoid having to complete an individual assessment. These criteria include not denying tenant applicants for: misdemeanors that are more than three years old; convictions that are more than seven years old; any credit score over 500; any past-due unpaid obligations reported by a consumer credit reporting agency of less than $1,000; and Chapter 13 Bankruptcy (Bluestone & Hockley, 2020). Failure to comply with any of these regulations or complete an individual assessment when required would result in a $250 fine on landlords. FAIR also includes penalties of twice the amount of the security deposit if landlords fail to send a move out settlement or deposit refund within 31 days, or include the depreciation schedule, name of banking institutions, and condition report in the Rental Agreement.

Another implication of FAIR are the limits imposed on screening fees on tenant applicants. If a landlord does all of his or her screening through a third party, they may only pass on that fee to the applicant, and cannot make any additional income on it (Portland Housing Bureau). This creates an undue burden on the landlord because they have to spend a certain amount of time, energy, and resources coordinating the tenant screening. However, they receive no net income for this type of screening, so it becomes a cost on their balance sheet.

Additionally, if a landlord does some, but not all of the screening for a tenant applicant, they can pass on an additional 25% fee to the tenant. However, if the landlord does all of the screening by him or herself, they can only charge what a screening company would plus an additional 10%. Now, let's assume that the cost of the screening conducted by the third party company is the same as what it would cost the landlord to do themselves. In this situation, why would any landlord not hire a third party company? They only stand to benefit from doing so because they could charge an extra 15% (25%

minus 10%) on top of the screening cost. This is plainly a disincentive for the landlord to conduct their own screening.

INDIVIDUAL ASSESSMENTS

If landlords do not choose the low-barrier criteria option created by the FAIR ordinance, and they deny an applicant for something covered in the criteria, they must complete an individual assessment, regardless of whether the applicant requests one (Portland Housing Bureau, 2020). Individual assessments are expensive and time-consuming for landlords to conduct. This requirement could cause many landlords to contract with a third party property management firm, or to shift to another firm altogether. Whether the landlord performs the assessment themselves, or hires a third party management firm, they are reducing their net income.

FAIR's requirement to conduct an individual assessment – regardless of whether the applicant requests one – would seem to be targeted to applicants who do not have access to adequate legal counsel. One possible solution to the problems that this rule causes could be a standardized online application which contains a disclaimer that if a tenant is denied for criminal history, they have the right to an individual assessment. Any such disclaimer would have to be reviewed by experts in the field, but one would believe it would have to be written in a large font, in laymen's terms, and at the beginning and end of the application. The tenant applicant could also be sent an email with the proper information and be required to verify that they have read the information in the email before submitting the application.

Another option, or something that could be used in conjunction with a disclaimer on a standardized application, would be an automated service, instituted by the City of Portland. This type of service could be conducted by a small team of municipal workers, perhaps four to six people. This team would automatically be directed to call and/or email anyone who is denied a unit, and happens to have a criminal history, low credit score, or low income. As with any option that could potentially affect FHA regulations, these options would have to be vetted by experts to ensure that it would not create a disparate impact among different groups of people.

CONCLUSION

Clearly of these three municipalities, Denver has the least restrictive screening processes for tenant applicants. Restrictions in Portland and Seattle appear to be more difficult on landlords. Seattle's Fair Housing Chance Act puts landlords in the difficult position of not being able to look up virtually any crime that any tenant applicant has committed. While Portland's FAIR ordinance allows for some assessment of criminal history, both ordinances have been burdensome on landlords. Eviction moratoriums in both states have only made it more difficult for landlords. In terms of rent payment during the COVID-19 pandemic, Oregon and Washington State could certainly benefit from instituting a similar system to the POP program in Colorado.

What is clear is that our criminal justice system is broken, and that there are institutions that have kept non-White people in a cycle of legal and financial hardship. We must condemn and address the systemic racism that has caused these cycles, rather than burdening landlords by making it harder for them to screen applicants. In the next legislative cycle, the Cities of Portland and Seattle will have to examine the ordinances that they have passed to ensure the sustainable development of residential properties in their jurisdictions. There are many services that could be created to educate renters in the Northwest, and hopefully these cities become more proactive, rather than reactive, in creating fair housing for all.

LANDLORD PENALTY CHART | FAIR ACCESS IN RENTING (FAIR) ORDINANCES, CITY OF PORTLAND, OREGON

Failure to include all required items in your ad. Items include date applications can be processed, criteria, whether this is an ADU or not, screening fee	$250
Failure to process applications in the correct order	$250
Not including the proper forms and sections with or on your applications	$250
Credit screening a Non-Applicant and using that against them in the screening process	$250
Charging more than the allowable screening fee	$250
Improperly deny an otherwise qualified applicant	$250
Not conducting the proper individual assessments before denying an applicant	$250
Failure to follow the appeals policy	$250
Charging more than the allowable security deposit	2x the deposit
Not including the proper information in the Rental Agreement. Information includes: Depreciation schedule, banking institution name and address, condition report	2x the deposit
Not providing a rental history form upon termination notice	2x the deposit
Charging a tenant for items not listed on the depreciation schedule or improperly charging an amount based on incorrect schedule, updated condition reports, charging for routine maintenance or normal wear and tear	2x the deposit
Not sending out the move out settlement and/or deposit refund within 30/31 days	2x the deposit
Not including the security deposit notice of rights with the move out settlement	2x the deposit

(BlueStone & Hockley Real Estate Services)

RESTRICTIONS ON LANDLORDS IN DENVER, PORTLAND & SEATTLE

Can landlords who share single family homes with their tenants in...	Denver	Portland	Seattle
Screen for applicants on sex offender registries?	Yes	Yes	Yes
Screen for applicants on OFAC watchlist?	Yes	Yes	Yes
Profit on screenings done by third parties?	Yes	No	No
Deny applicants based on source of income?	Yes	No	No
Can landlords who do not share single family homes with their tenants but have < 4 dwelling units, or < 6 single family homes in...	**Denver**	**Portland**	**Seattle**
Screen for applicants on sex offender registries?	Yes	Yes	Yes
Screen for applicants on OFAC watchlist?	Yes	Yes	No
Profit on screenings done by third parties?	Yes	No	No
Deny applicants based on source of income?	Yes	No	No
Can landlords with > 3 dwelling units or > 5 single family homes in...	**Denver**	**Portland**	**Seattle**
Screen for applicants on sex offender registries?	Yes	Yes	Yes
Screen for applicants on OFAC watchlist?	Yes	Yes	No
Profit on screenings done by third parties?	Yes	No	No
Deny applicants based on source of income?	No	No	No
Landlords with > 5 units must conduct individualized assessments in...	**Denver**	**Portland**	**Seattle**
For denying applicants with convictions < 7 years old	No	No	Yes
For denying applicants with convictions > 7 years old	No	Yes	Yes
For denying applicants with misdemeanors < 3 years old	No	No	Yes
For denying applicants with misdemeanors < 3 years old	No	Yes	Yes

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06 //

multi-family residential report

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Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

The end of Q3 2020 brings us 6 months after Covid-19 took the world by surprise. 2020 has been nothing short of curious times with the virus, civil unrest, and fires devastating homes and causing the Portland metro to have the worst air quality in the world. What a year 2020 has been.

With all this chaos, the multifamily residential sector continues to outperform other sectors of the industry. The remnants of the last decade's construction boom have flowed into 2020 with 5,500 units being delivered through the third quarter. Residential permitting has seen a 25% decrease from last year which likely will impact future deliveries. September was supposed to see the end of eviction moratorium, but Governor Kate Brown has extended the eviction moratorium until December 31st, 2020. It is still uncertain what economic fallout will occur when the moratorium is lifted. On top of the moratorium, in September the City of Portland unanimously approved further renter protection for any rent increases through March of 2021. If rents are increased and the tenant finds they cannot afford it and decide to move, landlords are responsible for the relocation fees that range from $2,900 to $4,500. This places a further burden on landlords during the pandemic. September's unemployment numbers indicate that Oregon has recovered 45% of its jobs lost but is not estimated to not return to pre-Covid numbers until mid- 2023.
(Oregon Office of Economic Analysis).

SUPPLY, PERMITTING

Year to date inventory growth has increased by 2.6% and is projected to reach 3.3% by the end of the year totaling. An estimated 6,840 units will be delivered, the third highest of the decade (Costar). This in part reflects the 8,830 units that were permitted in 2019 and some of those units beginning construction. Even though Covid caused developers and investors to pause on breaking ground, some had already begun. The pandemic also caused delays due to supply chain issues and job sites shutting down.

As seen in the graph, through August 2020, 4,325 units have been permitted in the metro area, reflecting a 25% decrease from 2019's August YTD. Multnomah County in March of 2020 had the most units permitted with a total of 703 units and in August only 8 units, signifying a diminishing future pipeline. At the end of 2019 and before Covid-19, developers had been wary of the market softening. Market rates had plateaued and 2019 had seen a record year of deliveries. Covid-19 augmented those concerns, ultimately bringing slowing to the pipeline of new projects. With a 2019 record of deliveries, plateaued rents, increased construction costs, an economic recession, another year of high deliveries, we can expect many developers to hold off on breaking ground until the uncertainty diminishes and the economics of delivering new supply improves.

Data Source: HUD

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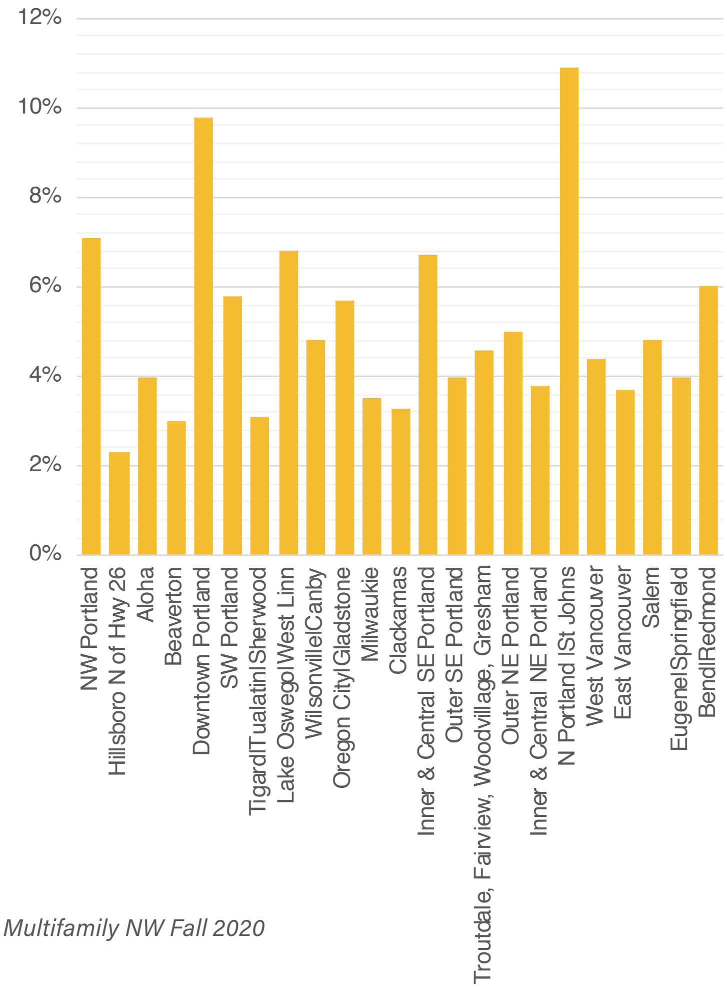
MULTIFAMILY NW FALL VACANCY



Multifamily NW Fall 2020

DEMAND, ABSORPTION

Occupancy rates for the Portland metro area have remained relatively flat for the third quarter, seeing a 25 basis points increase to around 93%. High-end apartment units have seen the highest uptick in vacancy this year with vacancy rates near 11% as new apartments continue to come online. Overall vacancy in Class C apartments is at 5%. Studios have also taken a drastic hit in occupancy with reports of only 87% occupancy.

Approximately 2,000 units came online this quarter, 500 units more than the second quarter. Year to date nearly 5,500 units have been delivered and 7,125 are currently under construction. With a strong pipeline of units under construction, absorption for the first time has outpaced construction with an absorption of almost 3,000 units. Vacancy rates may be increasing, but this indicates people are still moving into new units in Portland. Net absorption levels may be elevated though by the eviction ban, as not all occupied units may be paying rent.

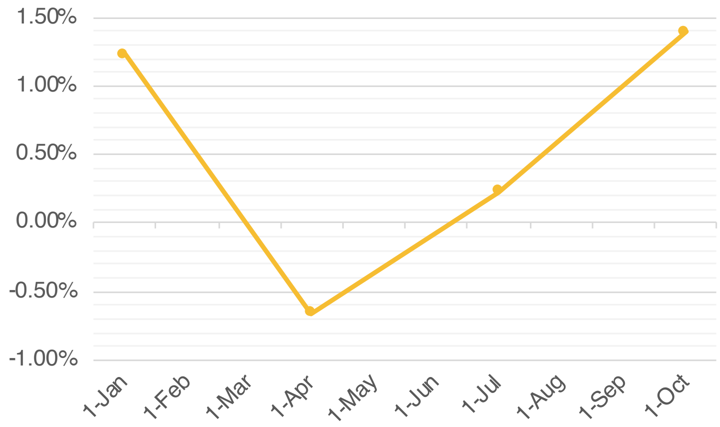
Another trend being seen is an increase in suburban flight, where renters are pursuing areas outside the City of Portland. With the continuation of working from home, renters are able to take advantage of the larger units and more affordable rates. The trend towards greater work from home also favors larger units as renters are looking for home office solutions. The City of Portland has seen a 2.8% year over year drop in occupancy while Clackamas County and Clark County have seen an increase of vacancyin occupancy of 0.8% and 2.8%, respectively.

RATES, COSTS

The Portland metro area's effective rental rates have been relatively flat in 2020 but saw a slight uptick from the second quarter, increasing to $1.62 a square foot but still down 0.7% from the third quarter of 2019. With Covid-19 and the national attention of protests and riots, Downtown Portland has been hit the hardest with a 5.4% year over year decrease in effective rents at $2.27/SF, or $1,648 per unit. Following Downtown Portland are NW and NE Portland, seeing a decrease of 4.9% and 4.0%, respectively. Suburban markets on the other hand, like Clackamas County and Clark County, have seen a year over year rent growth of 3.2%. Covid-19 has greatly impacted the attraction of living in an urban setting. With remote working and urban amenities still lackluster, the desire to pay urban prices has diminished. On top of that, even though suburban rental rates have increased, they still are substantially more affordable than the urban rates. Areas like Clackamas County, Clark County, and Beaverton have average asking rates in the high $1,200s while Downtown Portland asking rates are at $1,700 for smaller units.

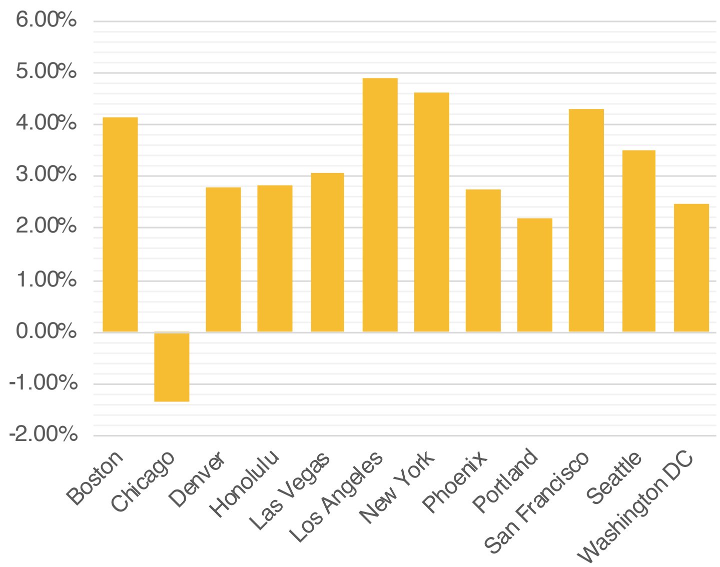
With 2,000 units brought online this quarter and 7,125 units still under construction, supply will continue to increase, and it is likely that the market will struggle to maintain pricing power. Most of these units will be luxury style apartments, reflecting both their location as well as construction costs. To compete with the existing and onboarding inventory, concessions had been rising and at the end of October 25% of properties were offering concessions. The average concessions have been 1-months free rent with a twelve-month lease, and some new in lease-up projects offering 2 months of free rent.

PORTLAND CONSTRUCTION COST INDEX OCT 19 - JULY 20



RLB Q3 Construction Report

US COMPARATIVE CONSTRUCTION COST INDEX Q3 2020



RLB Q3 Construction Report

CONSTRUCTION COSTS

Governor Kate Brown allowed construction to continue by declaring it an essential business, but the Bureau of Labor Statistics reported in April that 8,600 construction workers were unemployed in the metro area. In July employment surprisingly bounced back to pre-Covid numbers and in August increased by another 2,500 employees. By end of September employment had dropped 4.7% to 75,000 employed. As labor is one the driving factors of construction costs, costs increased slightly in the third quarter by .23% and 2.2% annually from July 2019 in the Portland metro area. Compared to other western cities, Portland saw the least year over year increase, where Seattle, San Francisco, and Los Angeles saw year over year increases of 3.5%, 4.3%, and 4.9%, respectively. In the third quarter of 2019, Rider Levett Bucknall reported indicative construction costs for multifamily ranging from $160 to $250 a square foot. This year during the third quarter that range is $175 to $275 a square foot.

The global pandemic and natural disasters have disrupted supply change causing an increase in cost for lumber, PVC, steel, and copper. Lumber costs have doubled since March (Mortenson).

COLLIER NOTABLE SALE TRANSACTIONS

Property	Sale Date	Sale Price	# Units	Price/SF	Year Built	Seller	Buyer
Hearth 16516 SE Mill Plain Blvd, Vancouver, WA	8/28/20	$51,000,000	179	$290.47	2019	FORE PROPERTY COMPANY	MG Properties
Meadows at Heron Creek 10667 NE Heritage Pky, Hillsboro, OR	9/28/20	$48,200,000	177	$263.71	2006	Polygon Northwest Co.	Rise Properties
Silverwood Apartments 4777-4780 SW 11th St, Gresham, OR	9/21/20	$30,000,000	164	$185.71	1991	HFO Investment Real Estate	Gelt Inc.
Lake Crest 8106 SE Lake Rd, Milwaukie, OR	8/11/20	$22,200,000	229	$126.96	1972	Peak Capital Partners	ColRich
Latitude 45 11202 NE 20th St, Vancouver, WA	9/23/20	$20,500,000	90	$227.78	2019	Ginn Property Management	Watt Company
Andresen Park Apartments 4602 NE 72nd Ave, Vancouver, WA	7/31/20	$11,000,000	82	$157.82	1995	Marianne & Robin Smith	Barry Brenneke
River Crest 937 Se Sheridan Rd, Sheridan, OR	8/13/20	$6,546,000	61	$118.90	1997	Danny Riggio	Gary R Coe
Willamalane 7407 SE Boardman Ave, Milwaukie, OR	8/25/20	$5,960,000	52	$138.28	1972	Guardian Real Estate Services	DevCo, LLC
Hillsdale Terrace Apartments 3212-3300 SW Beaverton-Hillsdale Hwy	9/3/20	$5,427,000	42	$173.02	1977	Joseph E Weston Public Foundation	Ira Virden
Park Vista 10918 SE Stark St, Portland, OR	7/23/20	$4,600,000	59	$45.54	2001	Human Soluations	TableRock Capital,

SALES ACTIVITY

Sales activity in the Portland metro area still lags this year with third quarter sales volume at $300 million, almost one third of the roughly $900 million reported in the third quarter of 2019. Unlike the last recession where property values dropped, the average price per unit has continued to increase, reaching $212,000 a unit. Actual capitalization rates saw a slight increase this quarter from 5.31% to 5.35% but are still historically low. The most notable sales transactions for this quarter all took place in suburban markets, which may account for the marginal increase in cap rates. The Hearth in Vancouver sold for $51,000,000, or $284,916 a unit, and was the biggest deal this quarter. Even though prices are continuing to rise, investors could see discounts in the near term as developers look to off load completed projects that aren't stabilized.

CONCLUSION

As mentioned, the multifamily is still outperforming most other sectors but still has many challenges causing uncertainty. The delivery schedule of units is still strong which likely will push vacancy rates higher while reducing pricing power for existing projects. Developers and property owners will continue to compete by offering more concessions to lure renters into their newly built projects, with existing projects having to work to retain tenants. The pace of new development has dropped 35% from last year and will eventually lead to a decrease in the rate of new supply.

RESOURCES

https://static1.squarespace.com/static/52b886f5e4b-00d4e733f7a27/t/5f9985aced26e268c3d0e-ca7/1603896750816/MFNW+-+Fall+2020+Apart-ment+Report.pdf

https://s28259.pcdn.co/wp-content/uploads/2020/10/Q3-2020-QCR.pdf - RLB Construction Costs May-July 2020

https://www.bls.gov/eag/eag.or_portland_msa.htm - Portland MSA unemployment

https://static1.squarespace.com/static/52b886f5e4b-00d4e733f7a27/t/5f9985aced26e268c3d0e-ca7/1603896750816/MFNW+-+Fall+2020+Apart-ment+Report.pdf – Multi Family NW sales/caps

https://portlandrentalmanagement.com/eviction-cost/ - Evic-tions

https://product.costar.com/home/news/shared/196044694?utm_source=newsletter&utm_me-dium=email&utm_campaign=personalized&utm_con-tent=p4 – Costar Q3 video report

file:///Users/andrewtucker/Downloads/20_11%20Young%20Adults%20Living%20at%20Home%20Special%20Re-port%20pdf.pdf – Marcus Millichap Special Report

https://static1.squarespace.com/static/52b886f5e4b-00d4e733f7a27/t/5f9985aced26e268c3d0e-ca7/1603896750816/MFNW+-+Fall+2020+Apart-ment+Report.pdf – MF NW Fall 2020 Report

https://oregoneconomicanalysis.com/2020/10/15/ore-gon-employment-september-2020/ - Oregon Office of Economic Analysis

https://socds.huduser.gov/permits/index.html - HUD Building Permit

Costar

07 //

single family home

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2020 has been a year of unexpected highs and lows in all aspects, but the single-family housing market has been one of the more stable real estate sectors.

The year started out with a strong rising trend in sales and home purchases, but once the global pandemic emerged in March of 2020, the housing market and the entire economy came to a halt. Oregon and Washington both experienced a drastic decrease in sales, prices, and inventory, due to new construction of homes being stopped or delayed. However, this downhill hiccup didn't seem to last for long, as Q2 & Q3 2020 reported an upward trend in the housing market overall.

In a recent article titled 'Today's Unbelievably Good Housing Market, Explained', Ali Wolf analyzes the reasons behind the sudden success of the single family housing market just six weeks after the shut downs, restrictions, and stay at home orders from COVID-19. She emphasizes the significance of the demographics of home buyers, the consistently low mortgage interest rates, and how the relationship with homes are important as most are now active workspaces for individuals. In the past most millennials have been classified as a generation that aren't interested in owning homes and having such large spaces but are rather drawn to apartments and rental options for more flexibility. This global pandemic has somewhat turned the tables for millennials, according to Ali Wolf, millennials are "representing about 40% of all home sales.". Additionally, the low mortgage rates continue to entice new homebuyers or current homebuyers to refinance their home, as the rates have remained below 3% in August and September of 2020. Finally, with a majority of individuals being required to work from home for the remainder of 2020, many people find themselves creating a stronger relationship with their home. In other words, a home has now become not only a place of shelter and sleep, but also a workspace and office, a gym, and a school for people with children. The versatility and reliance on a home has never been in a state as such (Wolf). In addition, the need for dedicated home office space has changed space requirements.

TABLE ONE
PORTLAND ACTIVE LISTINGS

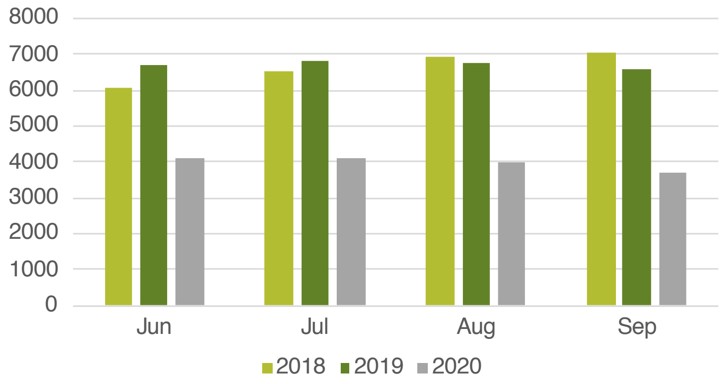


TABLE TWO
PORTLAND AVERAGE SALES PRICE

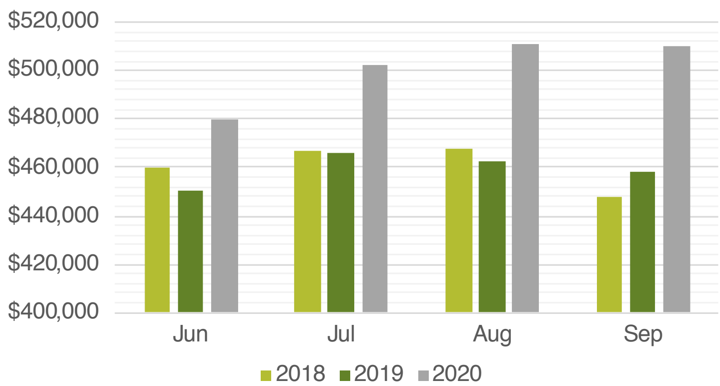
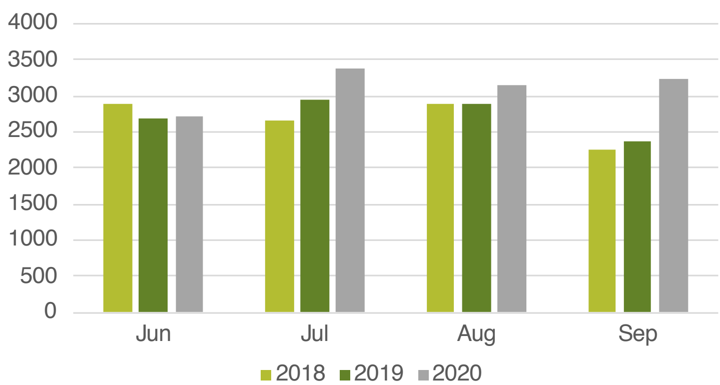


TABLE THREE
PORTLAND CLOSED SALES



PORTLAND METRO

Through the years Oregon has reported consistent increases in its population, especially within the Portland metro area. It's no secret that in the past this area has had trouble keeping up with the housing demand. Due to COVID-19 this is no longer the case for several reasons. As was previously reported, in Q1 & Q2 2020 there was a decrease in listings, pending sales, and inventory, but a gradual increase in closed sales. The transition from Q2 2020 to Q3 2020 was fairly smooth with minimal changes overall, other than a change in the trajectory for closed sales. New listings surprisingly rose 15.8% from June to July, representing a significant jump in reported numbers. According to RMLS, there were 3,658 listings reported in June 2020, and 4,236 listing reported in July 2020. With this rise in new listings, closed sales numbers followed. Closed sales increased 25.2% from June to July 2020. More specifically, it went from 2,709 sales in June to 3,391 sales in July, which are shockingly high numbers overall given the global pandemic circumstances to say the least. Despite the excitement that this rising trend was causing, it didn't seem to last for long, as a decline seemed to be right around the corner.

From July to August of 2020 new listings dropped 8.3%. In other words, it went from 4,236 listings in July to 3,885 listings in August. As could be anticipated with this dip in listings, closed sales also decreased. Portland saw a 7.1% decline, as sales in July were reported at 3,391 and sales in August were reported at 3,149. Although the area was decently managing its way through the early stages of COVID-19 in Q2 2020, with a hopeful future, it is now clearly experiencing the effects of the pandemic and seeing a decline in a majority of trends. Towards the end of Q3 2020, new listings continued to report a regression. There was a 16% decrease from August to September 2020, almost double what it was from July to August 2020. New listings dropped from 3,885 in August to 3,264 in September. Ironically, closed sales ended up increasing from 3,149 sales in August to 3,251 sales in September. Although it was only a 3.2% rise, the closed sales seemed to be on the uptick (RMLS).

Overall, these statistics indicate that homeowners have been continuing to pull their houses off the market and/or have been reticent to list new properties as new listings have consistently declined. However, it's difficult to speculate on the reasons behind the fluctuations in closed sales, especially as individuals continue to take advantage of the mortgage interest rates being lower than 3%.

In regard to average home sale prices, they are one of the main aspects of the housing market that has continued to gradually rise. Q2 2020 reported an increase, which seemed to bleed into Q3 2020 as well. In June 2020 the average sales price was recorded at $479,700, and in July 2020 it rose by 4.7% to an average sales price of $502,300. Then following the month of July, August 2020 reported an average sales price of $511,000, for a total increase of 1.7% from July to August. In these two months, the average sales price had a sizable increase of $31,300, or roughly 6.4% overall, which is notable considering the challenges of the pandemic. To finish out Q3 2020, September reported a minimal decrease of 0.2%, as the average sales price went from $511,000 in August to $510,000 in September. Keeping these numbers in mind, this decrease in sales price could be attributed to the slight increase in closed sales in September 2020 as well.

Finally, active residential listings have taken a substantial hit in 2020 compared to 2019 and 2018. Active listings during Q1 2020 ranged from roughly 3,500 to 4,300, which was lower than the 4,500 to 4,900 active listings reported for Q1 2019. The number of active listings continued to decline in Q2 and Q3 2020, which is likely attributable at least in part to COVID-19. July, August, and September 2020 reported between 3,700 to 4,200 active listings, and in comparison, to the prior year, July, August, and September 2019 reported between 6,600 to 6,800 active listings. This discrepancy in active listings year over year is largely attributable to the pandemic and its repercussions. Overall, the Portland metro area has seen a decrease in active listings for single-family housing for Q3 2020, which has likely caused the escalation in their housing prices, nevertheless, it still remains difficult to predict the future trajectory for this market.

TABLE FOUR
CLARK COUNTY ACTIVE LISTINGS

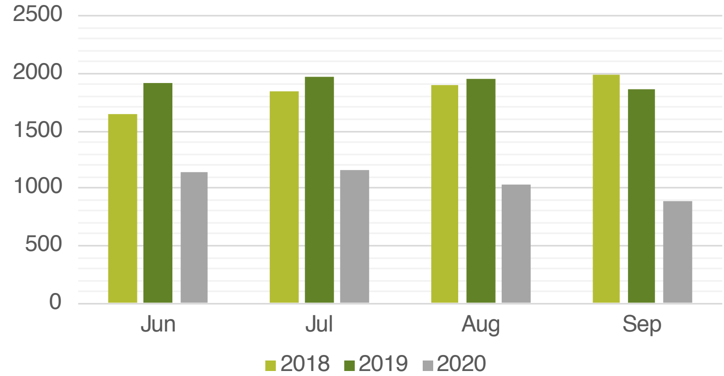


TABLE FIVE
CLARK COUNTY AVERAGE SALES PRICE

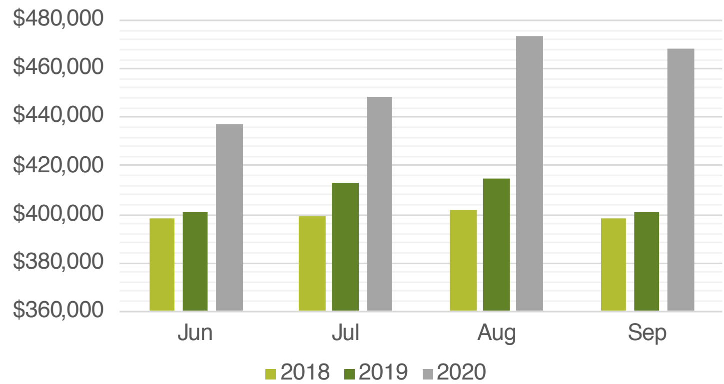
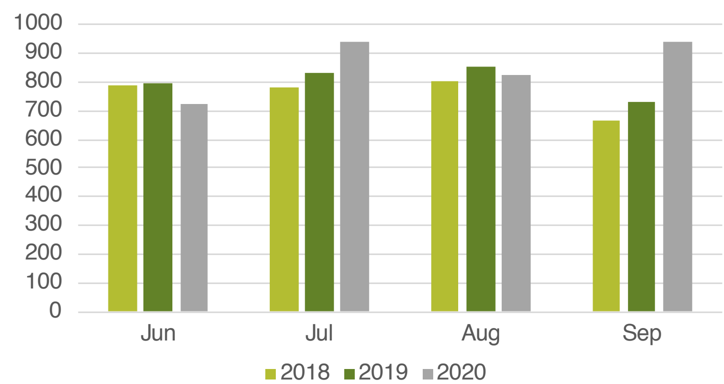


TABLE SIX
CLARK COUNTY CLOSED SALES



CLARK COUNTY

Although the Southwestern Washington area has historically followed the housing market trends of the broader Portland metro area, Q3 2020 was quite an anomaly as Clark County's experience varied significantly from the metro area. Towards the end of Q2 2020 (June), Clark County reported a substantial increase in new listings and closed sales, which continued into early Q3 2020. According to RMLS, new listings rose 19.9% from June to July, as listings in June went from 979 to 1,174 in July. This increase was likely due to two main reasons. The first was that a significant number of people were putting their houses on the market and having to downsize because of unemployment and job transitions. The second was that new construction speculative homes were arriving on the market. However, as August rolled around, new listings took a dip by 8.6%, putting the reported number of listings at 1,074. This declining trend continued into September, as new listings dropped to 979. Many have explored the possibility that this decrease was due to the inability to keep up with demand in the area. Construction activity was halted in Q2 2020 because of the pandemic and state orders, therefore, inventory saw a decline as well.

Contrary to the decline in new listings, closed sales experienced a notable upturn in the Clark County area. In June 2020, 724 closed sales were recorded, increasing to 939 in July. This reflected a substantial increase of 29.7%. While this may be largely attributable to unusually low mortgage rates enticing new homebuyers, a few credible real estate agents in the area argue that due to ongoing political and social events within the Portland metro area they have seen an increasing number of people wanting to live in a more suburban area such as Clark County. Another key aspect drawing buyers to the Washington side of the Columbia River is that, unlike Oregon, there is no income tax. Clark County did see a slight decrease of roughly 12.6% in August 2020, bringing closed sales to 821. Following this month, September surprisingly rose back up again, as they reported 940 closed sales, for a total increase of 14.5% from the prior month. With this steady increase catching the eyes of many, Mike Lamb, a local broker at Windermere Stellar, was quoted in the Columbian as "he considered September to mark three months in a row of exceptionally strong new sales activity." (Macuk). He goes on to emphasize these records sales as they surpassed the closed sales records in 2005 that had been holding strong for over fifteen years.

Keeping in mind the effects of new listings and closed sales trends, average sales prices of homes also plays a significant role in the overall housing market statistics. As was stated earlier, demand remains strong, and with new listings continuing to decline, inventory is having trouble keeping up. As a result, average sales prices have spiked to some of the highest numbers Clark County has yet to see in Q3 2020. In June 2020, the average sales price of a home was recorded at $437,100, and in July 2020 it rose 2.5%, hitting $448,100. Closely after, August 2020 increased even further by 5.6%, reaching an average sales price of $473,400, which is a record high for the area. It's surprising that Southwest Washington reached its highest sales price to date while the nation is still in the midst of battling a global pandemic. The recent escalation likely reflects that inventory hasn't been this low since early Q1 2018. Typically, as inventory goes down and listings decrease, resulting in less houses available on the market, then home prices tend to go up. At the end of Q3 2020, September took a slight turn, as the average sales prices dropped a mere 1.1%, for a price of $468,400.

NORTH COASTAL COUNTIES

Similar to the Portland metro area and Clark County, the North Coastal Counties experienced ebbs and flows within their single-family housing market, especially in Q3 2020. To further clarify, the North Coastal Counties are the areas located in the upper North Western part of Oregon, such as Seaside, Gearhart, and Arch Cape. As it did in most counties, when COVID-19 hit the North Coastal area in late Q1 2020, the housing market experienced a sharp decrease in new listings and closed sales. Their market seemingly pushed through this challenge, as the nation adjusted to the pandemic and statewide regulations. The area started to recover its footing around May 2020 as trends began to head in a positive direction. This was clearly shown in the RMLS report, as there were 195 new listings reported in June 2020, and this number jumped significantly by 28.2%, resulting in 250 listings in July 2020. Following this increase, August and September both surprisingly saw a decrease, as there were only 209 new listings reported in August 2020 and 159 in September 2020 (RMLS). However, in comparing the new listing numbers with the rising inventory and closed sales trends, it's apparent that even though new listings and inventory were declining, closed sales were increasing, which means that there was not enough supply to keep up with demand.

From June to July 2020, closed sales increased by approximately 22.8% in the North Coastal Counties. More specifically, June recorded 167 closed sales, which rose to 205 closed sales in July. August experienced a minimal decrease of 3.9%, which quickly turned itself around in September, as it increased by 4.6%, bringing it back to a total of 206 closed sales to end Q3 2020. Overall, the single-family home sales have remained fairly consistent throughout July, August, and September 2020, despite the challenges that the pandemic has presented.

Another aspect of this market that has a considerable contribution to the statistics is the average home sales price. The North Coastal Counties have seen a gradual increase in terms of sales prices, as this area has become highly coveted over the years, and second homes for many.

TABLE SEVEN
NORTH COASTAL COUNTIES ACTIVE LISTINGS

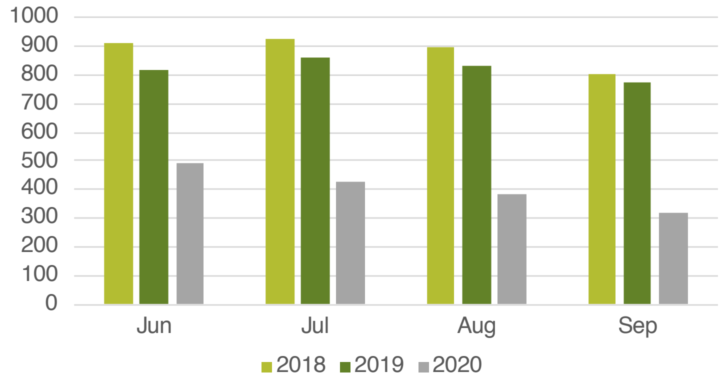


TABLE EIGHT
NORTH COASTAL COUNTIES AVERAGE SALES PRICE

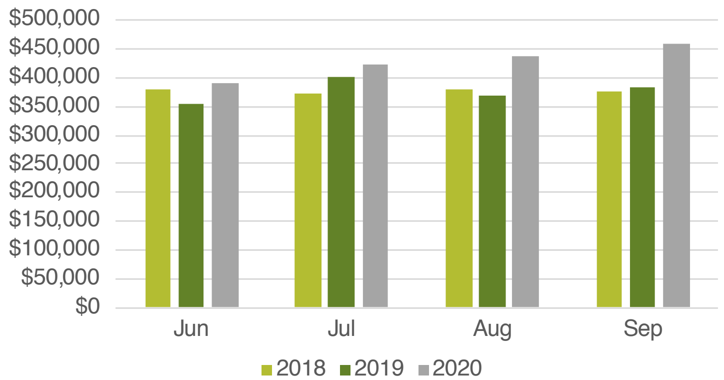
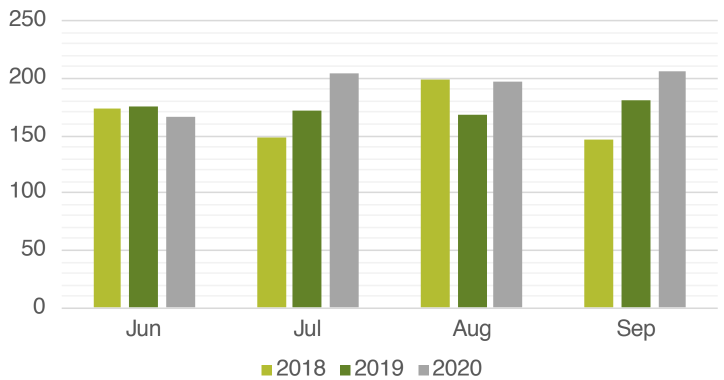


TABLE SIX
NORTH COASTAL COUNTIES CLOSED SALES



According to RMLS, the average sale price went from $388,800 in June 2020 to $423,600 in July 2020. This 9% increase was quite a hefty jump. If one breaks this down, this means that in just thirty days the average price rose by nearly $34,800, that's a sizeable difference. August then continued this trend as the sales price moved upward even further to $437,300, which then bled into September as the sales price skyrocketed even further as it hit $457,500. Over three months, the price rose by $68,700, which is some of the largest growth in price these counties have yet to see.

In conclusion, the single family-housing market has experienced an extensive rise in closed sales and sale prices, despite the decline in new listings and inventory in not only the Portland metro area, but Clark County and the North Coastal Counties as well. It is unusually difficult to anticipate what Q4 2020 will bring in light of the pandemic, and if 2021 will continue recent trends in the housing market as the economy slowly begins to recover. Overall, the hope is that mortgage interest rates remain low and that the housing supply and inventory increases in order to better keep up with the demand, but as most people know, this remains as an unpredictable sector of the economy.

SOURCES

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Wolf, A. (2020, September 30). Today's Unbelievably Good Housing Market, Explained. https://www.builderonline.com/money/economics/todays-unbelievably-good-housing-market-explainedo?utm-source=newsletter

https://www.rmlsweb.com/v2/public2/loadfile.asp?id=10880

08

HOUSING PRODUCTION REPORT

Suburban Single-Family Dwelling Construction Up in the COVID-19 Economy

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OVERALL OUTLOOK

As of November 2020, the COVID-19 pandemic still governs our daily lives. Without a vaccine, economic uncertainty is the new normal. Responding to the Center for Disease Control (CDC) efforts to control an exponential surge of the virus, governors across the nation imposed partial economic shutdowns - limiting nonessential business operations, closing schools, and restricting social activity. This COVID surge comes as Oregon recovers from late summer wildfires, the most destructive wildfires in state history, that took at least 11 lives, burned over 1 million acres, destroyed 4,009 homes, entire towns, businesses, livelihood, and an estimated 15-billion board feet of timber. In fact, Oregon construction jobs were the most adversely impacted employment sector during wildfire evacuations contributing to high Q3 unemployment rates compared to last year - both national and statewide October 2020 unemployment rates at 6.9% compared to 3.4% last year. Even as Oregon got a one-two punch with COVID and wildfires, its construction sector remains in the essential business category allowing Q3 2020 housing production to keep humming along, primarily in the low-density single-family market, at a steady but slow pace.

NATIONAL HOUSING PRODUCTION: DEMAND SHIFTS TO LOW-DENSITY HOUSING

Nationally, Q3 2020 residential construction contributed 15.5% to the gross domestic product (GDP), down 16% in Q2 – but, the highest share of the GDP for housing since the summer of 2008. Residential construction was up 8.6% year-to-date, with the Midwest and other lower density markets leading the way. Single-family building increased 6.4 percent to a 1.18 million seasonally adjusted annual rate. In fact, even as unemployment levels remain high, low interest rates are driving high demand, creating the prefect formula for strong confidence in building single-family homes: October 2020 was the highest national residential production rate since Spring of 2007.

The NAHB/Wells Fargo Housing Index, which measures home builder confidence, hit an all-time high of 78 in August 2020, principally bolstered the current low supply of new home inventory. In U.S. cities, even as overall construction biannual count dropped by 40-cranes, 455 to 415, from Q1 to Q3 2020, residential projects accounted for 40% of all cranes, the most of any sector. In fact, construction starts experienced a boost within the single-

TABLE 1.1
STATE OF OREGON

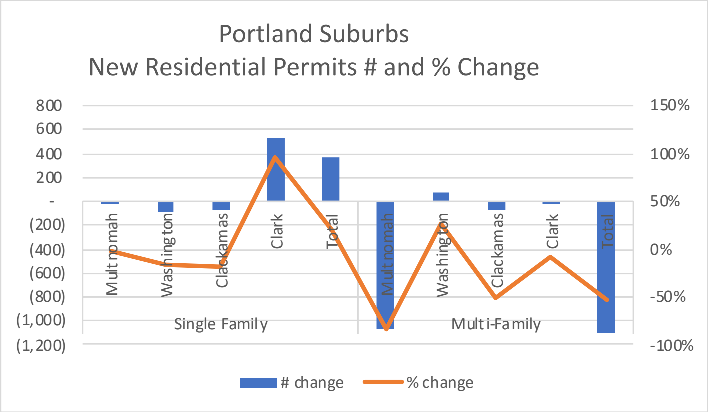
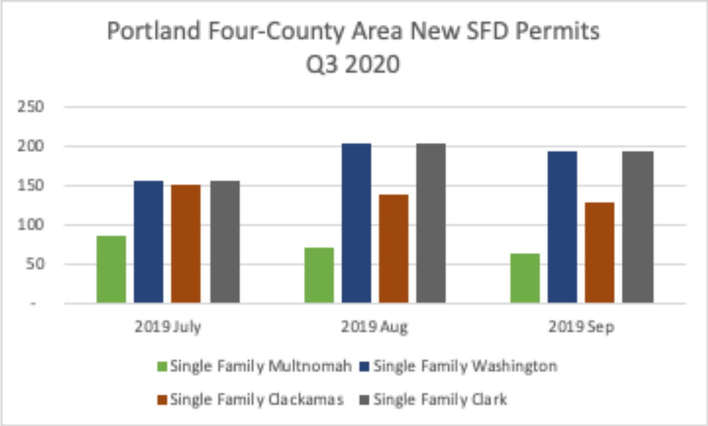


TABLE 1.2
FOUR-COUNTY NEW SFD AND MFD PERMITS



"Covid has not gone away, yet the demand for projects appears to have spiked up."

family home sector, the single-family housing for rent (SFHFR).

In Q3, Portland's MSA and suburban areas experienced a similar uptick in lower-density single-family dwelling new construction permits in July and August. But, this is where the national similarities end and the Portland, Oregonian contrast begins. Hampered by the summer wildfires, supply chain material and labor shortages, projects are generally more expensive and are taking longer to complete. And, compared to last year, the total new permit count is down dramatically.

PORTLAND HOUSING PRODUCTION: GEOGRAPHIC SHIFT TO SUBURB AND EXURBS

First, taking a look at the similar national trend, as we see in Table 1.1, Q3 2020 statewide housing production shifted from high density new construction multifamily to single family and other low-density smaller detached dwellings under 5-units. Notably, MFD new permits started low in July with only 28 and steadily declined to 8-new permits through September. While lower density duplexes, triplexes, and under 5-units, followed the same trend as SFD permit patterns, peaking in August with a decline in September.

In the four Portland county areas that the CRE Quarterly analyzes – Multnomah, Washington, Clackamas, and Clark, the low-density trend continued from high density central city core to the more open-space city edges – to the suburban and exurban areas. In fact, the Q3 2020 Table 1.2 shows all four counties shifted gains away from multifamily dwelling new construction permits to single-family permits.

The two suburban counties, Clark and Washington, experienced the most positive gains in both single-family and multifamily new construction permits - with 1,081-SFDs in Clark, and 389-MFDs in Washington. The more densely populated Multnomah County lagged behind in both property types – with 213-SFDs and 208-MFDs.

Q3 2020 Portland MSA also followed the national and suburban trend, with gains in lower density non-multifamily buildings with 5+ units. Table 1.3 shows gains in single family new permits, and with triplexes, quadplexes.

TABLE 1.3
PORTLAND MSA

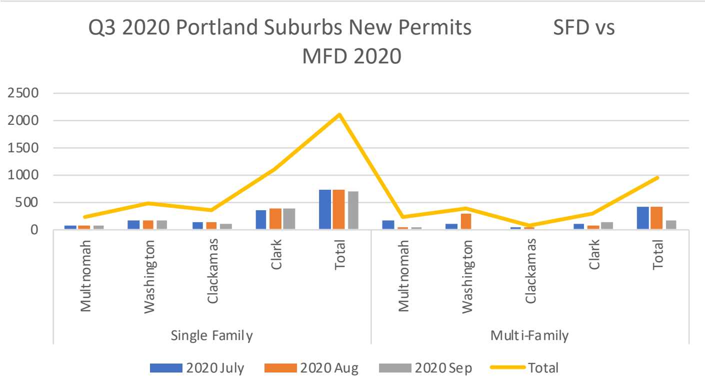


TABLE 1.4
PERCENT CHANGE OF SFD VS MFD FROM CITY TO SUBURBAN

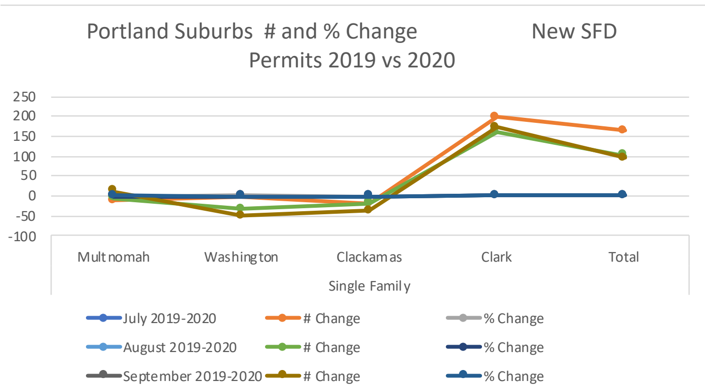
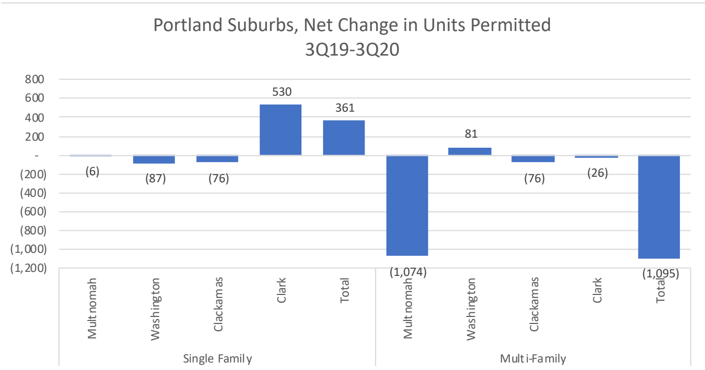


TABLE 1.5
PERCENT CHANGE 2019-2020 NEW PERMITS (STATE-WIDE, MSA, 4-COUNTY)



ALL PERMIT COUNTS DOWN FROM 2019 TO 2020

Even as permit numbers are up in the low-density residential projects, compared to Q3 2019, Q3 2020 geographic gains, Table 1.5 show total new permits statewide, Portland MSA, and all 4-counties are significantly down across the board in all property types. Overall, total new construction permits are down 86% with SFD down 83%.

HIGHER CONSTRUCTION COSTS: LABOR AND SUPPLY CHAIN SHORTAGES, HIGHER CONSTRUCTION RATES

Although the Oregon construction industry remains open for business, COVID and summer fire related issues have led to project delays, slower construction completion schedules, and increased total production costs. "The summer 2020 wildfires burned nearly four times what Oregon's industry harvests each year." In fact, this past summer's wildfires contributed to labor shortages already occurring as a result of COVID-19. Building material, skilled labor shortages, social distancing, and some pandemic illnesses have led to project delays, slower construction schedules, higher construction interest rates, increasing higher total production costs.

With regard to labor, according to the Oregon Employment Development Department, Q3 2020 construction jobs gained 6,100 construction jobs . But, the Bureau of Labor Statistics document fluctuating job percentage losses from July to September from negative to positive territories starting in July at -1.7, to 0.4 in September, back to a stark drop of -2.7 in October 2020. In the geographic jurisdictions affected by Level 3 wildfire evacuations, construction jobs were disproportionately affected with 13-percent, compared with 8-percent of all jobs. Pandemic outbreaks in manufacturing plants and mandated business closures created a lack of contractors, skilled laborers, and created a backlog in building materials.

Compounding building material supply chain shortages, emergency efforts to rebuild wildfire or storm damaged homes on both east and west coasts have stressed the supply side as builders draw from the same sources making it challenging to meet high residential construction demand. Shortages in steel, surfacing and case goods are limited. The shortage of lumber has caused a shift for substitutes such as plywood, causing

"Our builders in our region are some of the hardest working people you'll ever meet, but in the situation we have today, it's impossible for them to build to the demand of the market."

(Brad Bennington, Executive Officer of Governmental Affairs, at the Builders Association of Southern Oregon: September 22, 2020)

"Average New Home Price Now $16,000 Higher Due to Lumber"

(NAHB August 2020)

substitute shortages.

Whereas lumber prices were already up because of tariffs with China, the Oregon wildfires have now caused lumber shortages and additional price increases. The higher productions costs risk impacting the middle-housing market.

With higher for-sale prices, low inventory, and high demand for more elbow-room COVID-living space, it is not surprising that the single-family homes in the for-rent submarket experienced an up-tick in production.

AFFORDABLE HOUSING IN THE COVID ECONOMY: UPTICK IN THE FOR-RENT SINGLE-FAMILY DWELLING PRODUCTION

Included in the single-family dwelling data is the resurgence of the more affordable single-family homes for rent (SFHFR) market. Compared with Q3 2020 production increased by 27% compared to Q3 last year. According to NAHB, a total of 14,000 units were built in 2020 compared with 11,000 units in Q3 2019. Although the construction configuration is different, the SFHFR market niche produces nonsubsidized for-profit affordable housing as a single-family dwelling for-rent product. It meets the increasing demand for more rental living space as people must continue to work/study at home during the pandemic. These for-rent consumers receive the spatial and mobility benefits of living in a rental single-family dwelling without the financial burden of a hefty down payment as is required in the for-sale market. This continues the demand trend for single-family dwellings.

CONCLUSION

The confluence of events – the COVID pandemic and the summer wildfires, has created a mixed-bag of new permit housing production levels in Oregon. What is clear: right now, there is a geographic shift and structural construction shift from high density multifamily dwellings to low-density and suburban housing production. Whether or not this is a permanent shift remains to be seen.

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09 //

office market analysis

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Approximately eight months have gone by since Governor Kate Brown issued the state-wide "stay at home" order, and the impacts of the pandemic and policy responses are continuing to have a detrimental effect on the office market in the Portland metro area and beyond. As the Fall and Winter seasons are approaching, and with no vaccine available for distribution, there has been a continuous decline in leasing and investment in the Portland Metro area. The most notable trend we're seeing is the shift of interest from the central business district to less dense, suburban markets to the west. [1]

DELIVERIES

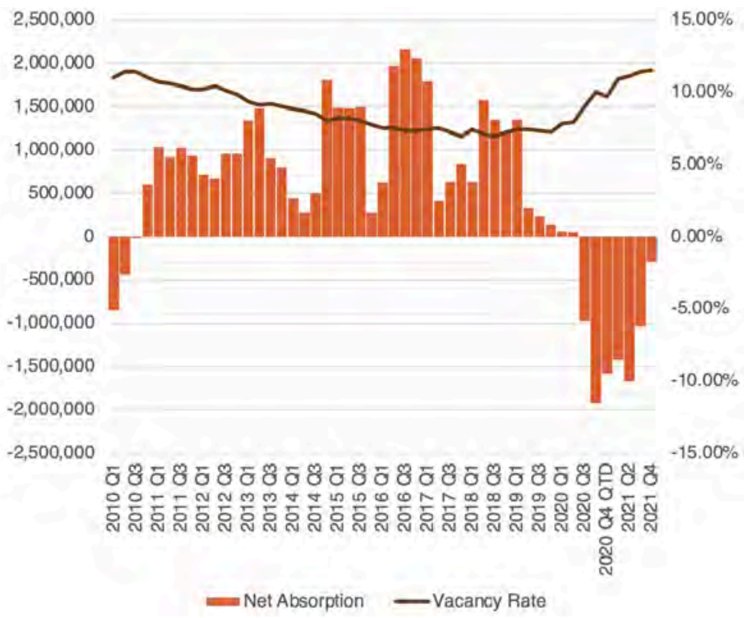
After a relatively stagnant second quarter of 2020, there was approximately 400,000 square-feet of new deliveries in the Portland Market during the third quarter. [2] This represents a nearly 500% increase compared to the second quarter. However, the vast majority of this new office product was already in the pipeline prior to any knowledge of COVID-19.

One of the more significant additions to the Portland office market is the 5 MLK building, a Class A mixed-use building with 220 multi-family units and 120,400 square feet of available office space.[3] Developed and managed by Gerding Edlen, this 17-story building offers office space in a highly desirable location with its ease of access to public transit and sustainable design.

Another significant addition to the central business district is the Canvas at Press Blocks.[1] Located west of the traditional CBD near Providence Park, Canvas at Press Blocks is the first delivery of a planned three-part development. Canvas is a multi-use building, including eight floors of creative office space totaling 150,000 square feet.[4] Together, 5 MLK and Canvas at Press Blocks account for approximately two-thirds of the office product deliveries in the third quarter of 2020.

Regarding future deliveries in the pipeline, both Nike and Adidas have built-to-suit additions to their respective headquarters expected to be delivered in over next six months. These developments account for 1,183,585 square feet of additional office product.[5] The other major construction in the pipeline is the Block 216 building in the central business district. Block 216 is a 35-story multi-use building that will include 169,188 square feet of Class A office space. [5]

TABLE ONE
NET ABSORPTION AND VACANCY RATE



ABSORPTION

As we have seen throughout the first half of 2020, more and more companies are moving out of office spaces around Portland, leading to an overall negative net absorption. However, with the inability of companies to fully utilize office space due to the effects of COVID-19, we saw a record setting -834,905 square feet of negative absorption in the third quarter of 2020.[2] This is by far the worst net absorption observed in the Portland area over the past decade. It should be noted that the vast majority of this negative absorption is attributed to "tenant move-outs of less than 20,000 square feet each",[2] mostly located in and around the central business district. Social distancing guidelines that encourage employees to work from home have made many of these office spaces impractical. Additionally, the relatively high rents are a huge financial burden on all tenants with reduced revenues but are especially harmful to smaller businesses without strong capital reserves. Furthermore, the Urban Core "afflicted by the ongoing pandemic and civil unrest accounted for more than half of the [third quarter] negative absorption." The extent of this trend of negative absorption is not fully known, but it's expected to continue through the end of 2020 and beyond until both economic and social order is restored.

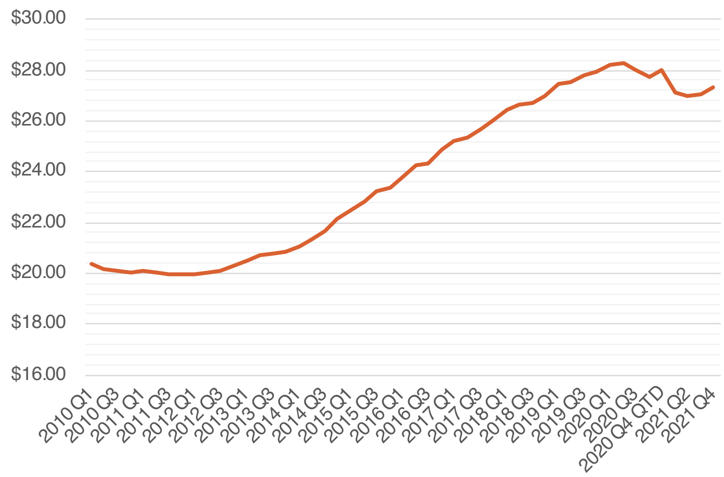
Despite the overwhelming negative absorption in the Central Business District and Downtown, there are a couple submarkets with significant positive absorption. The 217 Corridor (Beaverton) and the East Columbia Corridor had total net absorptions of 28,320 square feet and 46,341 square feet, respectively.[5] Again, this statistic illustrates the prevailing trend of office tenants preferring spaces in less dense, suburban environments. Suburban office products allow tenants significant financial and social benefits due to relatively lower rents, and distance from the vandalism and disorder taking place downtown as part of ongoing social conflicts.

VACANCY

The primary factors impacting office vacancy rates in the Portland Office Market are the high number of deliveries and decreasing leasing activity. Portland has become a highly competitive job market, especially for technology-based endeavors. Investors and developers have been working over the past five years to build enough office spaces to accommodate these needs; however, we're now seeing an inflection where the boom in office market deliveries is surpassing the demand. This delivery boom, coupled with the decrease in demand due to tenant caution stemming from the COVID-19 pandemic have led to the highest vacancy rates in the past eight years. Another contributing factor to the decrease in office space demand is the increase in telecommuting, particularly in technology sectors. Some employers are finding that allowing their employees to work from home is more efficient than leasing office space. At the end of Q3 2020, the vacancy rate for the Portland office market was estimated to be 9.0%, a significant 1.1% increase from Q2 2020.[2] Although this trend is a negative indicator of the Portland office market, the vacancy rate is 1.7% lower than the national vacancy rate.[2]

This trend of rising vacancy rates is not only affecting Portland, but is being observed in markets nationwide. Due to nationwide stay-at-home orders, many businesses are operating close to full capacity without utilizing their dedicated office spaces. It only makes sense that a number of these companies will determine that leasing dedicated office space isn't necessary for them to operate and will opt for having a fully remote workforce in the future. Microsoft, for example, is currently rolling out an initiative to allow employees to work from home up to 50% of the time. The software developer has unveiled a hybrid workplace guidance that will allow for far greater flexibility once offices around the country finally reopen.[6] In some cases, abandoning traditional office spaces may not be an option, but a necessity for some struggling companies to stay in business. Due to the continued delivery of new office product and the unknown duration of COVID-19, vacancy rates are expected to continue to rise throughout the next year.

TABLE TWO
MARKET RENT PER SF



LEASING

Due to the 'stay-at-home' guidelines resulting from COVID-19, tenants have been maintaining a heightened sense of caution when committing to new leases. Future revenues are too unpredictable, as is the ability to utilize traditional office space. For the most part, this means that relatively few leases have been executed in Q3 2020. Of the 379,955 square feet of leased space in Q3 2020, 299,251 square feet (or 78%) of the total space was located in suburban areas."[5] As for the leases that have been signed, parties involved have had to get creative with lease conditions, where short-term and flexible leases are being highly favored. In addition, many leases are now including a number of concessions (i.e. tenant improvement allowances, free rent, etc.) that wouldn't have been necessary a year ago. One example of a newly executed lease was by Brainium Studios, LLC, a game developer who has committed to leasing 22,600 square feet of office space at Tanner Point in the Pearl District.[7] This is a great example of the growing technology industry in the Portland area.

While overall leasing has all but paused, the prevalence of subleases has almost doubled over the past year. "Sublease space is a key office market indicator, and Portland's overall office market has experienced a 92% YOY increase in the availability of sublease space, closing the third quarter with 589,000 square feet of sublease space being advertised. The majority of the new sublease opportunities are in Downtown Portland."[7] This sharp increase in subleases opportunities represents a clear drop in market demand, and is driving a steady decrease in market rents.

Over the past decade, following the economic recession in 2009, market rents for office properties throughout the country have been steadily increasing at a rate of $0.94 per square foot per year. Portland's market has followed the same general trend but has consistently been approximately 20% below the national rate. In Q3 2020, the average rent per square foot of office space in Portland was $27.89, and the average rent per square foot in the United States was $34.35. These relatively low market rates have attracted a lot of companies to move to Portland, particularly technology and distribution-based companies like Intel and Amazon, to expand from other hubs such as the Bay Area and Seattle.

TABLE THREE
SALES VOLUME AND MARKET SALES PRICE PER SF

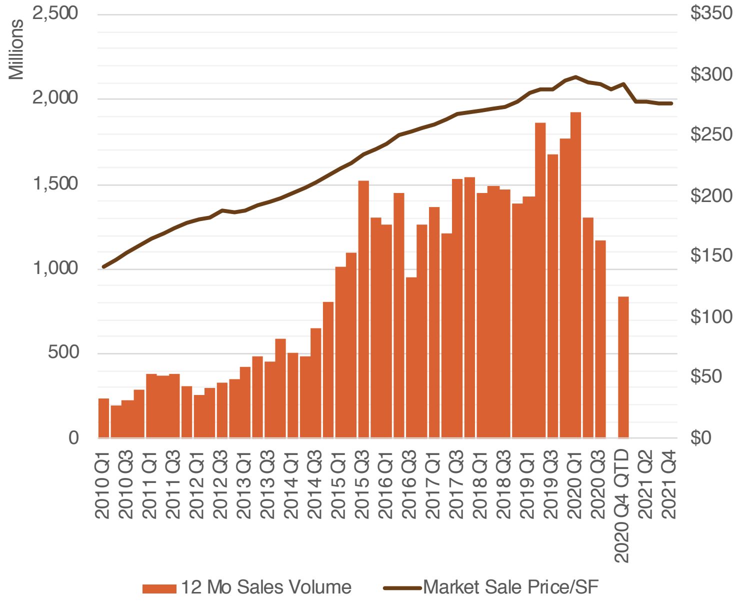


IMAGE ONE
NIMBUS CORPORATE CENTER

SALES

The Portland office market has been a lucrative investment opportunity over the past 10 years due to high demand, a thriving economy, and an increase of investment from distribution and technology companies looking to avoid the high property values in Seattle and the Bay Area. However, due to the COVID-19 pandemic and related uncertainty, sales volume has been relatively stagnant. In Q3 2020, the Portland Office Market only saw $150M of total sales, compared to $450M in Q1 2020. Market prices have also dropped from $304 per square foot to $297 per square foot.[2] This is the first time market prices have dropped in the last 10+ years. Once COVID-19 either subsides or can be effectively managed and there is a greater level of certainty regarding sustained impacts, the market is expected to pick back up, but the timeline for that to happen is unknown. In the midst of this relative stagnation, Q3 2020 did see the single largest purchase of the year; "the Nimbus Corporate Center [was bought] for $130M by DRA Advisors and Prescott Partners."[1] The Nimbus Corporate Center is a 16-building office campus in Beaverton, Oregon, one of the fastest growing suburban communities near Portland. The campus has a total of 691,036 square feet of usable office space, and is currently leased to tenants involved in technology, financial services, insurance, and manufacturing. "The market is demonstrating increased demand for suburban, flex office product as more millennials look to move to the suburbs along with tenants continuing to refine their real estate strategy during COVID-19."[8]

CONCLUSION

The COVID-19 pandemic and ongoing civil unrest have been the main factors affecting the office real estate market in Portland, Oregon. All the parameters we've analyzed are indicating an overwhelming shift in the demand for office space from the central business district to suburban areas. Office Market absorption reached an all-time low in Q3 2020, along with a steady decrease in leasing activity and overall investment. Due to the high supply and relatively low demand for office space, property owners are being forced to offer additional concessions and negotiate flexible, short-term leases for tenants that are operating with an increased level of caution.

While the Q3 2020 data has given us a better understanding of immediate effects of COVID-19, tenants and investors alike are reluctant to make any significant investments until we have a more complete vision of the future of office space.
The last major recession in 2009 was a housing related recession that led to more people moving into cities and living in more densely populated, multi-family developments. In our current economic downturn, we're seeing the opposite effect; people and businesses alike are being incentivized to transition to more suburban settings, where property prices and population densities are lower. Regardless of what happens, it's safe to say that the real estate market is adapting to these new conditions, and will continue to do so for the foreseeable future.

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industrial market analysis

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The outlook for the Portland industrial sector is more appealing today than it was prior to the pandemic. Coronavirus has primarily acted as an accelerant for the short- and long-term demand fundamentals that were driving the industrial sector before the close of Q1 2020. These fundamentals include the well documented growth in e-commerce that scored a staggering $6.7B jump in revenue during the government mandated shutdown. This was supplemented by the increased demand for space from distributors who are strategically repositioning their inventory levels and supply chain sources to minimize exposure to potential supply chain disruption. And as the industrial sector thrives in these unique times, other CRE classes face long-term uncertainty and are scrambling to reposition themselves to capture rapidly shifting consumer patterns.

These risk and opportunity dynamics across commercial real estate have played out in the capital markets, with investors diverting newly available funds towards industrial's favorable forecast and low-risk profile. Foreign money drawn to the low interest and high liquidity traits of the United States' "deep and diverse capital markets" are choosing industrial when placing their money. National players are also looking to deploy capital that was unlocked by the recent stimulus packages into low-risk assets. Adding to the competitive climate is the shift from tenant to landlord. Given the low interest rates, well-capitalized National companies are preferring to take on debt than take out a lease, eyeing potentially significant capital appreciation courtesy of continued cap rate compression. Strikingly, cap rates of 2 to 3% for industrial properties are being reported in regions across the United States.

Craig Meyer, JLL's President of Industrial Services recently described industrial's growth potential at NAIOP's Fall conference, "the fact that e-commerce still has a long runway for growth makes industrial real estate the darling of the commercial real estate industry". This runway can be described numerically; E-Commerce represented 16% of total retail sales in 2019 but could grow to 30% or more. Giving an indication of the scope of potential demand, ProLogis has stated that for every $1Bn of E-commerce sales, 1.2MSF of new warehouse space is required to be built. This adds up to over 400 billion square feet of new space. Meyer added that for JLL, "currently, as much as 50% of our leasing activity can be attributed to e-commerce related operations".

Faced with a series of disruptions caused by Covid, wildfires and the China trade war, companies that failed to preemptively implement "supply chain risk management and business continuity strategies" prior to the pandemic have lost market share and revenue. Locally, firms such as Columbia Sportswear were significantly impacted. The outbreak caused factory closures in China as well as a protracted return to work, and as a result disrupted the ability of Columbia's manufacturer to acquire the specific raw materials necessary for production. The company stated that "it expects its supply chain issues to affect its ability to fulfill orders and meet consumer demand in a timely manner, and the potential order fulfillment delays would impact future seasons.". Efforts to offset these risks are intensifying demand for industrial space nationally. Companies are abandoning old strategies centered around minimized stock levels that cater to fluctuating supply and demand dynamics, rather opting to significantly increase their safety stock. Additional strategies include diversifying supply chain sources geographically and vertical integration of the manufacturing process when access to raw materials is available.

Amongst all of this positivity around Industrial, there are challenges to growth according to industry participants. With the Urban Growth Boundary acting as an artificial supply constraint, the small inventory of parcels that remain are typified by lower quality and prevailing issues. One such issue is the lack of infrastructure - power, sewer, water, transportation – and the State's inability or unwillingness to invest. Prohibitively expensive topographical and environmental issues also deter development. As a result, a lack of developable land along the Columbia Corridor or I5 as well as congestion along Highway 26, is enticing projects north of Vancouver to areas such as Ridgefield, and south of Portland to areas such as Woodburn. This lack of expansion potential has acted as a deterrent to some investors, and limited certain existing companies' local expansion. Those who wish to tackle the challenges of remaining parcels need to be "patient and creative" according to Gabriela Frask, land use planner at Mackenzie, accepting that breaking ground might be at least 2 years post acquisition. Another emerging challenge is skilled labor availability. Despite widespread unemployment, as fulfilment centers increase their technological makeup with automation and robotics, the skill level required by workers is being elevated. These new requirements combine with fulfilment centers being employment intensive, making skilled labor availability and retention issues as being a priority for bigger companies moving into 2021.

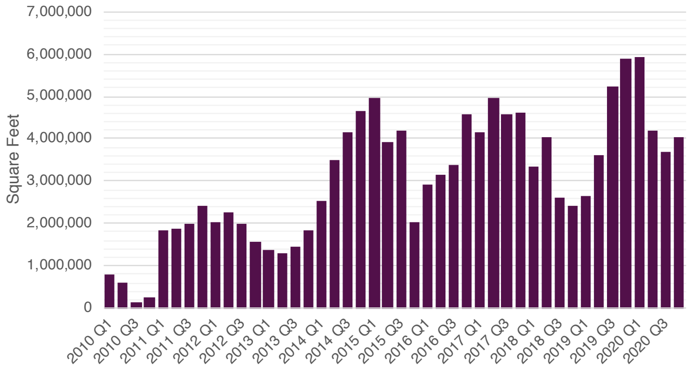
Before going into a more detailed analysis of Portland's Q3 industrial performance, a snapshot of the market can be described as; structural vacancy levels with increasing availability rates, market rents are typically inelastic and remaining stable but are destined for a short-term contraction in rental rate growth forecasted until Q2, 2021. Absorption remained positive but will be tested as a large amount of new space gets delivered over the subsequent quarters, including a high percentage of speculative development. Growth remains strongest around transportation nodes along I5 and along the Columbia and Willamette Rivers. From discussions with brokers, forbearance, and concessions are largely unheard of, rather many tenants are seeking to expand if space is available. Success across the industrial sector is fragmented by product type, with big box warehouse spaces proximate to urban centers quickly transacting whereas demand for smaller industrial space, flex, and certain types of manufacturing are softening.

SUPPLY

At the start of 2020, Portland had more industrial square footage under construction than it had since the start of the real estate cycle (Table 1). These builds have continued to come online slowly in Q3 with approximately 571,361 square feet of space delivered. Including an additional 267,425 square feet of warehouse and distribution space delivered in North/Northeast Submarket, and 169,864 of space delivered in the Westside Submarket. Subaru invested $19M to expand their 40-acre Gresham Vista Business Park by 236,225S square feet. New deliveries reduce that record number of construction (5.8MSF in Q1 2020) to 3.8MSF in Q3 2020. Per Colliers Q3 Brokerage Report , little new construction was undertaken in Q3, with the exception of Rivergate Commerce Center which commenced a 40,890 square foot construction.

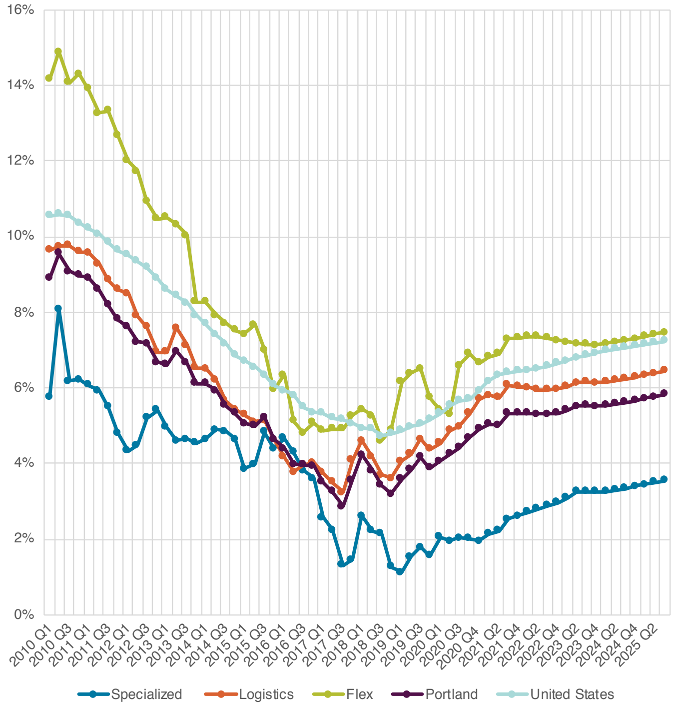
According to CoStar, Q4 will see 1.7MSF of new deliveries brought online, impacting absorption, and vacancy metrics in Q4 2020 and Q1, Q2 of 2021. 75% of that 1.7MSF to be delivered is not pre-leased, so developers may choose delay delivery to ensure assets are allowed favorable market conditions. Submarkets that have low pre-leasing and large deliveries in the pipeline include: Airport Way, East Columbia Corridor, Sherwood, CBD/West Vancouver, St Johns/Central Vancouver, and Rivergate. Pre-leasing has been strongest in Sunset/Hillsboro and outlying areas of Southeast Portland. Notable builds coming online in Q4 2020 include Columbia Distributing, Bldg B/A - 755 NE Columbia, and 15250 NE Airport Way. As discussed, the UGB is broadly constricting the supply of new developable land. Developers will likely start to turn their focus to renovating older assets, and perhaps converting obsolete office and retail to meet demand.

TABLE ONE
PORTLAND MSA INDUSTRIAL UNDER CONSTRUCTION



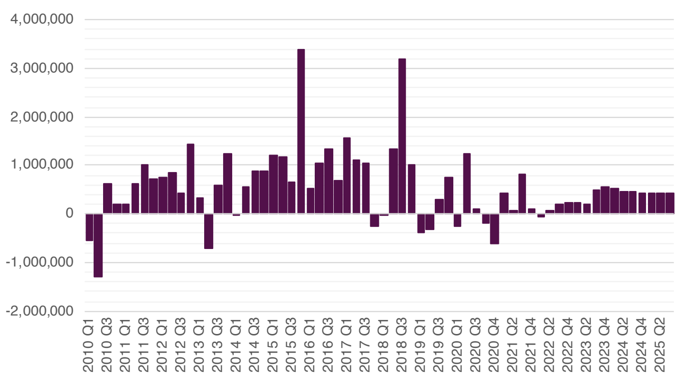
Source data from CoStar

TABLE TWO
PORTLAND MSA INDUSTRIAL VACANCY RATE



Source data from CoStar

TABLE THREE
PORTLAND MSA INDUSTRIAL NET ABSORPTION



Source data from CoStar

DEMAND

Vacancy rates for distribution/warehouse space continues to tighten in the Portland Metro courtesy of E-commerce's expansion, with a 20bps reduction in vacancies across Q3 settling at 4.5%. There was a minor market-wide increase in vacancy rate of 20bps during Q3, reaching 4.5%, however this is largely attributable to softening demand for Flex space that scored 120bps increase from 5.4% to 6.6%. These market dynamics play out against the backdrop of vacancy rate compression that has been occurring at a steady clip in the Portland metro since Q2 2010 (Table 2).

Surveying the trends across submarkets between Q2 and Q3 , Clark County saw a 30bps increase in vacancy levels reaching 2%, and the Westside submarket saw a 70bps increase to 3.7%. Noticeably, the vacancy rate for Flex Space in the Westside submarket jumped 130bps to 5.9%. In the highly coveted Southeast submarket, Distribution/ Warehouse's Q3 vacancy rate dropped 160bps from 4.1% to 2.5%. This contraction is occurring while availability rates have reached their highest point since Q1 2015, hitting 7.1% in Q3 2020. Perhaps suggesting that whilst space is getting newly leased, an increased number of tenants are stuck in leases looking to sublet, or that tenants are contracting their size requirements. Looking forward, market-wide vacancy rates are expected to rise over the next two years before plateauing at just under 6%. A large cause of this increase in vacancy rates is an absorption delay between Q4 2020 to Q2 2021, when over a million square feet of new space is brought online.

Portland Metro's net absorption in Q3 was more subdued, with Q3 registering 335,870 square feet compared Q2 2020 with 1.2MSF (Table 3). The positive absorption was driven by leasing of warehouse and distribution spaces with 665,368SF of net absorption, whereas both flex and manufacturing experienced negative absorption. Noticeable trends were in the Westside submarket, where there was negative absorption of 335,947 square feet, and in Clark

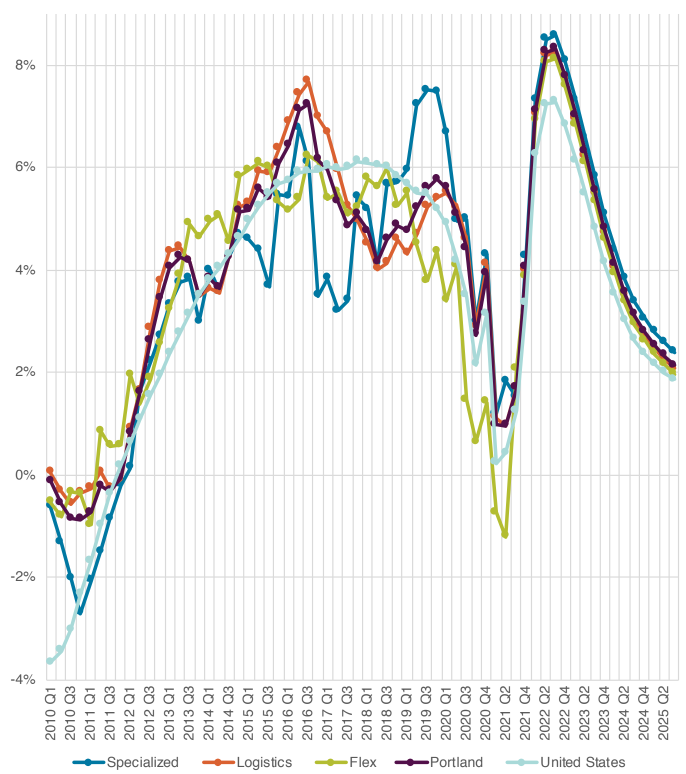
County which went from posting a million plus sq ft of positive absorption in Q2 to negative absorption metrics in Q3. The SE Submarket's proximity to supply sources and target demand continues to drive strong demand, seeing almost 350,000 square feet of positive absorption.

To detail some of this demand, highly financed, nationally based companies are preferring new Class A warehouses that feature a larger number of longer loading docks, and 36-42 foot clear heights to accommodate mezzanine levels. Class B & C landlords are attempting to achieve market rents similar to Class A with mixed results due to demand being limited by the financial scope of local and regional companies. There is a rapid growth in grocery good delivery, spiking interest in cold storage facilities. As a broad flow-on effect, businesses that support e-commerce's functioning such as 3PL, box manufacturers, plastic bag manufacturers are also actively leasing and purchasing. Also of note, the reduced demand for office space that is impacting the composition of flex space with tenants substituting office space for increased distribution capacity. This may impact flex market rent metrics given office commands a higher price than shell rates.

RATES / COSTS

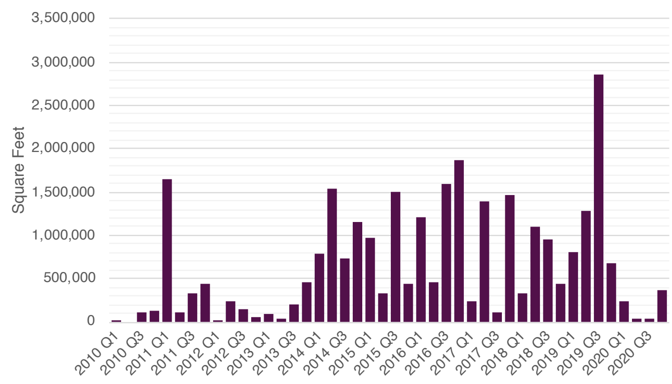
Industrial rents are inelastic, with a lower correlation to market pressures than other product types such as multifamily and office. Consequently, it is not surprising that we have seen rental rate stability despite the overall economic duress being experienced by the broader economy. Yet according to CoStar estimates, Q3 2020 represents a significant turning point, with rent growth expected to drop sharply from above 4% in Q3 2020, to negative 2% in Q2 2021 as seen in Table Four. Perhaps contributing to this inversion is the influx of speculative developments and the resultant loss in landlord leverage. The 1.7MSF of space expected to be delivered in Q4 2020 will put upward pressure on availability and vacancy rates. Amongst this movement, flex and specialized industrial are expected to experience the most pricing volatility. (CoStar)

TABLE FOUR
PORTLAND MSA INDUSTRIAL MARKET RENT GROWTH



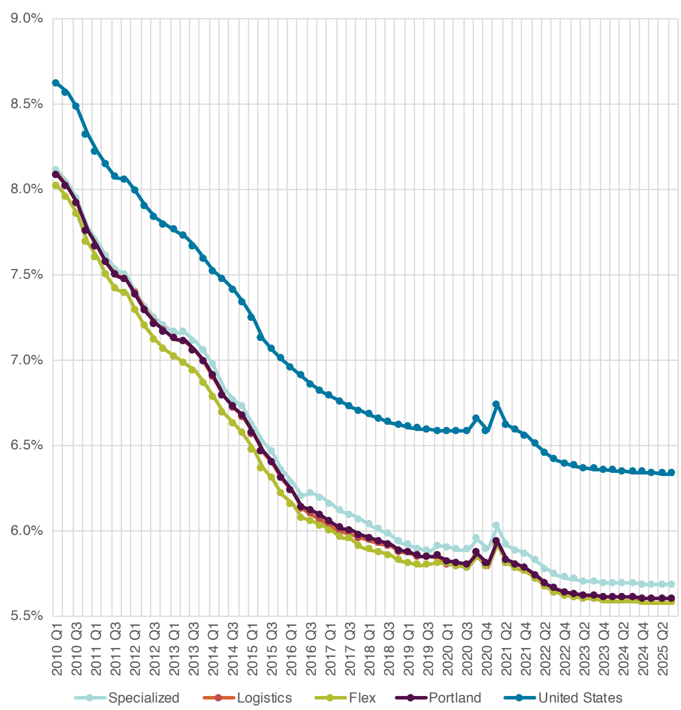
Source data from CoStar

TABLE FIVE
PORTLAND MSA INDUSTRIAL CONSTRUCTION STARTS



Source data from CoStar

TABLE SIX
PORTLAND MSA INDUSTRIAL MARKET CAP RATES



Source data from CoStar

Rent gains have been strongest for submarkets along the Columbia and Willamette river including Hayden Island / Swan island, East Columbia Corridor, and Rivergate. Poorer performing submarkets have a lower amount of industrial land and are geographically dislocated from Portland's key logistics hubs around the Columbia river. Per Cushman and Wakefield's Q3 brokerage report , rental rates have remained stable with Warehouse/Distribution seeing a 3% increase in rental rate growth from Q2. Flex, and manufacturing saw small drops in average net prices. Newly delivered construction is achieving the highest shell rates, whereas older products are experiencing greater pricing variation subject to location. Northwest Portland submarket saw substantial gains in the average rental rate.

In terms of construction costs, compared to Q3 2019, Q3 2020 costs have inflated 2.4%. As seen in table five. fewer construction starts have had a depressive impact on suppliers and contractor rates yet supply chain disruption is pushing up material costs. HVAC and plumbing costs have increased 2.4% and 1.9% respectively since Q2 2020.

SALES / LEASING ACTIVITY

Portland industrial market sales volume continues to outperform office and retail in Q3, drawing significant attention from capital markets. However, Q3 2020 sales volume remains significantly below pre-Coronavirus levels, when 2019 boasted all-time record sales (Table 6). Factoring into this dynamic; uncertainty in investor sentiment due to Coronavirus, the Presidential election, potential pockets of oversupply impacting negotiations and underwriting assumptions, and expansion limitations due to lack of developable land. Q2 saw prices eclipse $140PSF for the first time in this current cycle, whilst Q3 saw these prices start a downward trend that is expected to last until Q1 2021 before starting an exponential recovery that is expected to last through until Q2 2022. Again, likely to reflect when the Portland market finally absorbs any short-term oversupply. Transaction sales prices which had previously trended below market prices for the majority of the cycle, have jumped above market rates in Q3, reaching $180 per square foot.

Perhaps this is hinting at the competitive sales climate where core orientated buyers are willing to pay a premium for preleased assets with national credit tenants offering stable returns. Transaction cap rates dipped below 5% in Q3, whilst Market Cap rates continued their stable trajectory having gravitated around the 6% mark since 2017. This underscores that debt and equity is still largely available for eligible developments, further supported by favorable financing terms.

Private Equity and institutional investors were active buyers in Q3. REITs who were highly active Q1 took a backseat in Q2, and Q3. Notable sales in Q3 included Capstone Partners LLC and their joint venture partner PCCP LLC divesting their leasehold interest in of one of Port of Portland's Airport Way properties; the 257,000 square foot two building PDX Logistics center Phase III (pictured) which sold for $43.5 million, at a 5.48% cap rate. The building was fully leased at the time of sale. This continues Clarion Partners acquisition of the center having already purchased Phase I and Phase II. The Cubes at Troutdale in the East Columbia Submarket (pictured) also sold in Q3 for $61 million, with CRG selling the Class A 349,000 square foot space to KKR. Hawthorne Hydroponics signed a large new lease in the East Columbia submarket, taking on 378,000 square feet of space in the Blue Lake Corporate Park. Cascades Tissue Group also signed a new lease in Rivergate, with 225,000 square feet of space at the 6308-6310 N Marine Dr. property.

PDX Logistics Center Phase III. Source: CoStar

The Cubes at Troutdale. Source: Real CRG

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retail market analysis

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With capital markets shying away, and stories of bankruptcies, closures and the rise of e-commerce circling, it is tempting to paint a damning portrait of the retail sector in Portland. Yet through a deeper look at both the successes and failures occurring amidst the pandemic, one notices that the underlying demand for storefront retail has not disappeared, rather it is undergoing an evolution expedited by a black swan event. Creative developers and forward thinkers are being rewarded, and those companies who failed to upscale or integrate online prior to the pandemic, have had the fragility of their demand exposed. Additionally, the unexpected set of variables and rules introduced by the pandemic is favoring certain retail types whilst adversely impacting others.

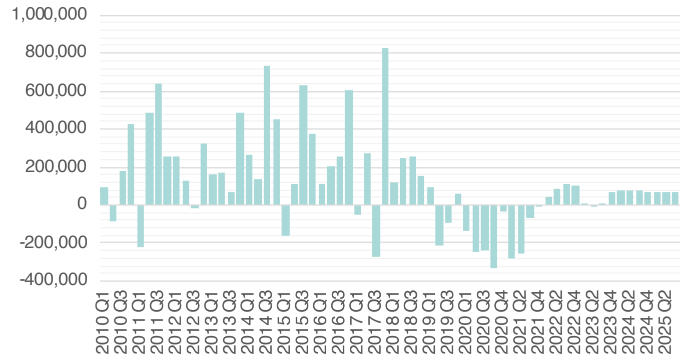
Well capitalized companies who understood that e-commerce and storefront retail were symbiotic prior to the pandemic, and were already tailoring a seamless end-user omnichannel experience - Warby Parker or Peloton - have performed solidly. These types of companies will be eying expansion when primely located distressed assets soon become available. Indeed, brick and mortar stores have multiple purposes for a well-integrated company in the year 2020. Lululemon CEO Calvin McDonald captured this sentiment when reflecting upon Q2 2020's earnings, stating that "we continue to believe physical stores are and always will be an extremely important part of our ecosystem. Our stores are our local hubs and communities across the globe, gathering spots for our ambassadors and our connection to local studios. They facilitate e-commerce transactions via our ship-from-store and buy online, pick up in-store capabilities, and are a portal to bring new guests into our brand". The fact that E-Commerce heavyweight Amazon continues to expand their storefront presence with Amazon 4-star, Whole Foods, also points to the vital role that a physical presence plays in "customer acquisition, brand engagement, and awareness building".

Conversely, private retailers with poor financial leverage, no online presence or means to acquire new online customers have either closed or are limping to Christmas to capture final sales before pulling down their shutters. Perhaps some of these closures will be what the market was calling for prior to Covid - the U.S. possesses 50% more GLA per capita than the second largest national market, despite only generating 33% more retail sales - perhaps suggesting a glut of underperforming assets and will likely be replaced by smaller store footprints, a stronger online presence, overall better tenant mix and a curated end-user experience.

Then there are mixed accounts of retailers who have been lucky or unlucky due to the unique variables introduced by COVID; classification as an essential business, population density being a shortfall, and the short term skewing of consumption patterns. Executive Order 20-12 closed all malls, fitness centers, grooming, and entertainment businesses directly impacting revenues for multiple product types including malls, community centers, and strip centers. Civil unrest, closed offices, the freezing of tourism and hospitality industries has completely undercut the demand for retail in downtown Portland. The 80,000 people daily that previously frequented Downtown Portland have largely disappeared. With increased space, safety, and a residential demand base, suburban retail has picked up the slack. As people are stuck at home with excess time on their hands, home improvement trends have spiked with a 23% increase in revenue for Home Depot between May and July, giving a boost to power centers. Childcare, and doggy daycare have experienced strong growth as parents contend with a new work-life balance and the realities of impulse pet purchases. Stand-alone grocery stores, and grocery anchored neighborhood centers are performing well with people forced to cook at home. Other success stories include Cannabis, liquor, drug and hardware stores. Some regional malls that were struggling before the pandemic are really suffering now. However, certain outdoor malls and gallerias have been finding ways to appeal to customers by offering everything from drive through coronavirus testing, to increased sanitation and ventilation, social distancing practices, curbside pickup, spot holding and newfound attempts to insert themselves as an important part of the social equation.

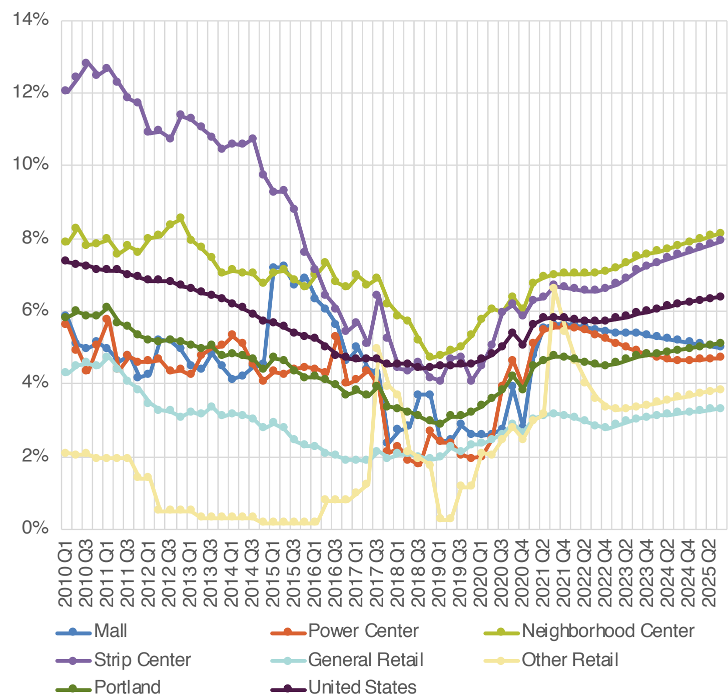
When surveying the Q3 brokerage reports and CoStar data below, some of these above dynamics are evident, yet a lot of the difficulty being experienced is not so obvious. For instance, market rents have remained stable as landlords opt for rental concessions and abatements over lowering market rental rates per square foot, drastically reducing effective rents and revenues. Vacancy rates have seen upward movement, but the eviction memorandum muted any sizable shift in vacancy over the last few quarters. Low new supply of inventory over the past year has kept the negative absorption patterns under control. And as new variables align in Q4 - eviction memorandum expired on the 30th of September, the holiday period arriving shortly, Coronavirus cases on the increase – many retailers will face uncertainty.

TABLE ONE
PORTLAND MSA RETAIL NET ABSORPTION



Source data from CoStar

TABLE TWO
VACANCY RATE BY PRODUCT



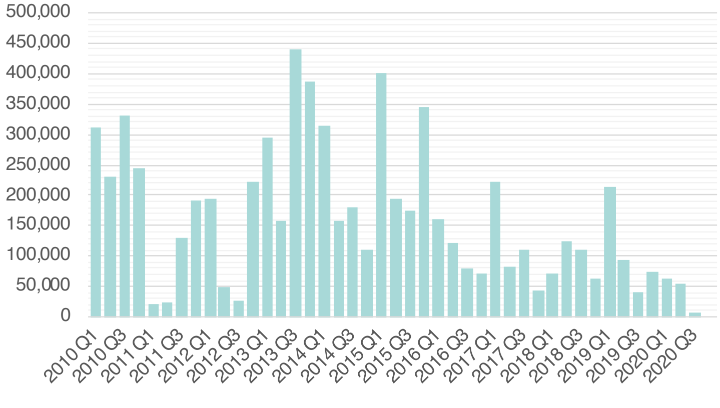
Source data from CoStar

DEMAND / ABSORPTION

Portland's strong economic and population expansion had driven an eight year run of vacancy rate compression and positive absorption, which eventually came to a halt in Q2 2019. Potential causes for the softening demand were changes in consumer patterns, the growth of e-commerce, and an oversaturation of retail space. And as is widely discussed, COVID has acted as an accelerator for trends that were occurring across commercial real estate. This was evident in Q3 2020, with negative absorption of 237,000 square feet, adding onto the approximately 400,000 square feet of negative absorption during Q1 and Q2 (Table One). CoStar's base case forecast predicts this trend to continue with negative absorption to occur through mid 2022. The impact of this metric is heightened due to no significant new supply of space being added during the timeframe.

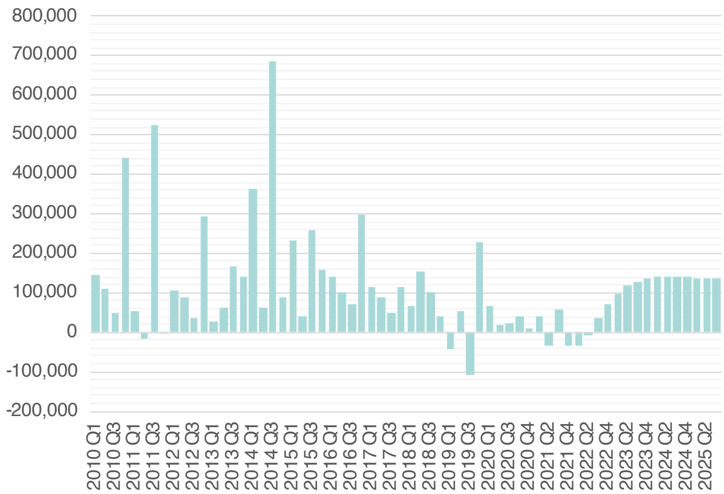
Product specific vacancy rates shed some more light on the different dynamics at play. Strip centers have seen a sharp rise in vacancies which have increased 90bps to 6% in Q3, with an overall 1.5% increase during 2020 as seen in Table Two. Power centers have been impacted with a 140bps uptick during Q3 reaching 3.9%. The vacancies and economic damage happening in malls have not yet been registered as a metric with a mild 20bps increase in vacancy over 2020. With the eviction memorandum expiring at the end of Q3, and Christmas around the corner, Mall's performance over Q4 2020 and Q1 2021 will be telling. CoStar predicts a jump in vacancy after the Holiday period jumping from 2.8% in Q3 2020 to 5.5% in Q2 2021. The availability rate has jumped in strip centers 200bps since Q1, with Q3 at 5.7%. Neighborhood centers seem to be holding steady with a 20bps uptick since the start of 2020 to the end of Q3. That said, neighborhood centers are becoming more reliant on their grocery anchors, and "essential in-line stores".

TABLE THREE
PORTLAND MSA RETAIL CONSTRUCTION STARTS



Source data from CoStar

TABLE FOUR
PORTLAND MSA RETAIL NET DELIVERIES



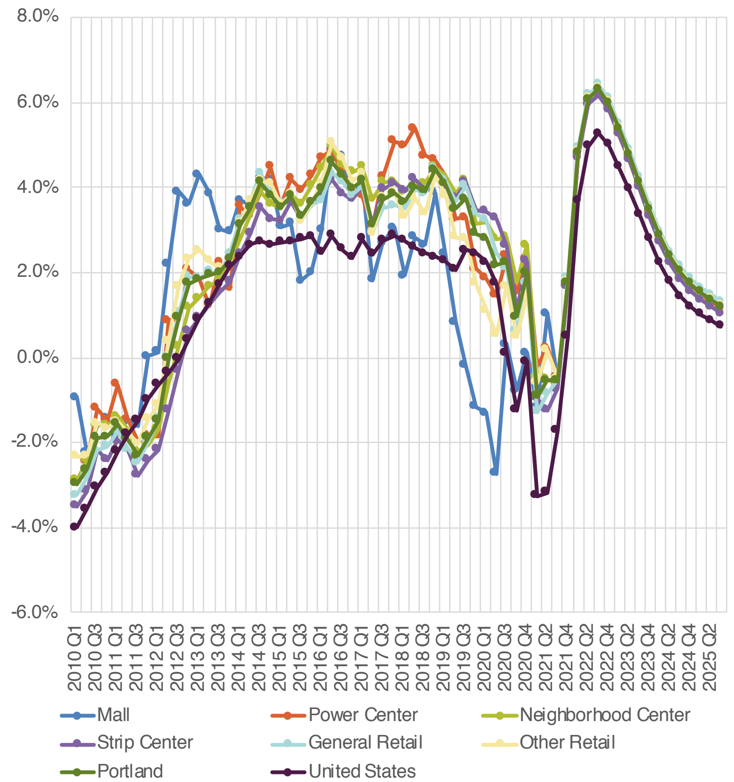
Source data from CoStar

SUPPLY

The low vacancy rates and solid rent growth is partially attributable to the modest amount of inventory added during this real estate cycle compared to other expansionary periods. This delivery of new space has further tightened due to the pandemic, with virtually all new construction coming to a standstill. In terms of construction starts, Q3 2020 reported only 7,413 square feet of new construction starts, the lowest on record since the Great Financial Crisis (Table Three). In terms of deliveries, 23,500 square feet of new space was added during Q3, with another 40,000 square feet of new space expected during Q4 (Table Four). This leaves the tally of under-construction space at 315,581 square feet, and a lot of that space could potentially fall through due to financing issues.

Suburban and outlying markets remain the focus, with the Kruse Way, Clark County Outlying, North Beaverton and East Columbia Corridor submarkets all representing the bulk of construction activity. However, no submarket surpasses 100,000 square feet of new construction in the pipeline. In Clark County, Ridgefield Pioneer Village is a new proposal in the works which will be a mixed-use development with apartments and a retail section. The Willamette Falls Legacy Project is an opportunity for retail developers with a plan to develop the area into a commercial zone with restaurants, shops and other commercial buildings.

TABLE FIVE
PORTLAND MSA RETAIL MARKET
RENT GROWTH (YOY)



Source data from CoStar

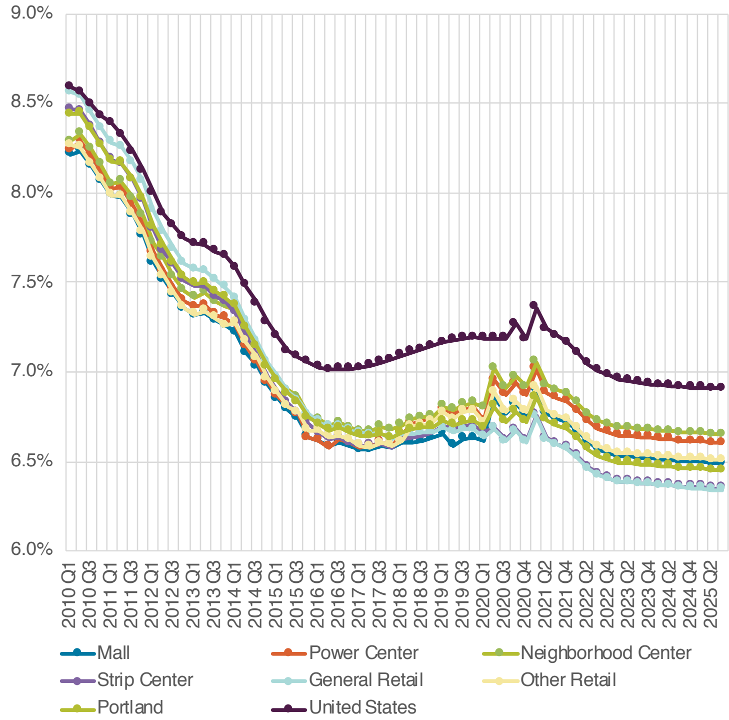
RENTAL / CONSTRUCTION RATES

Q3 saw a slight improvement on rental rates from Q2 across all retail types (Table Five). Neighbor-hood centers increased $0.41 to $24.90 per square foot, and malls jumped $0.64 to $23.88 per square foot. CoStar is predicting another dip in rental rates post the Holidays, perhaps forecasting the effect of post-Christmas closures and softened demand for new leases. After plateauing in mid-2021, rents are expected to rise slowly. Stabilizing the rents are landlords preferring concessions and abatement over lowering prices. And feedback from brokers is that some tenants will have a 50% rent reduction with the balance being amortized back into the lease. Some tenants are simply paying a lump sum at the end of the lease. For new leasing activity, landlords are offering concessions in the first year with 3-5 months of free rent, and 3 to 4 months of half rent the following year, then full rents in the third year onwards.

With regard to YOY Market rent growth, there were mixed performances across product types. Strip centers had a 70bps drop, whereas Neighborhood centers remained static. Power centers jumped 90 bps to 2.4% YOY rent growth, with general retail dropping 40bps to 2.1%. All product types rental growth remained positive during Q3 but are predicted by CoStar's base case forecast to turn negative in Q1 2021 and remain that way until Q4 2021, when the Christmas 2021 period will cause a rapid recovery in rental prices.

Construction costs remained relatively stable from Q2 2020 to Q3 2020. Demand for better ventilation saw HVAC costs increase 2.4%, and plumbing systems also saw a 1.9% cost hike. Across 2020, demand for contractors and suppliers has dropped due to less construction activity signaling lower costs, yet disruption of supply chains has meant many materials have come with a premium. The Mortenson Construction index is predicting "over-all project costs remaining flat with some contin-ued volatility in pricing as the market adjusts to ongoing events".

TABLE SIX
PORTLAND MSA RETAIL MARKET CAP RATE



Source data from CoStar

Albertson's in Lake Oswego. Source CoStar

SALES / LEASING

Given the current economic environment, it is no surprise that sales volume has sharply contracted in the Portland retail market. Institutional investors, REITs and Private Equity shifted their focus away from retail in mid 2019, a telling sign that detailed analysis was revealing retail's weakening fundamentals. In turn, portfolio sales dissipated in mid 2019, and of the few transactions completed in Q3, the majority were by singular purchases by private investors. Q3 exceeded Q2's sales volume crossing the $100M threshold, but similar to Q2 represents a quarterly low unseen since 2012 (Table Six). Price per square foot has remained relatively stable, which perhaps implies that potential sellers are holding out for a turn in the market recognizing the strong intrinsic value of Portland land and location. Similarly, institutional capital is presumably waiting for the market to get more distressed before attempting any value-add strategies. CoStar base forecast has not anticipated any great movement in price per square foot in the coming quarters.

After eight years of cap rate compression, the pandemic instantly caused a 17bps jump in cap rates in Q2 2020. Rates settled back down slightly during Q3 back to 6.7% - a rate that has prevailed since 2016 - but are expected to worsen after the Holidays. Tellingly, all of 2020's $10M plus sales have been triple net leased grocery stores. Major transactions include a 40,000 square foot Albertsons in Lake Oswego (Pictured) that sold for $16.8M at a 5% cap rate. The lease had 2% annual rent escalations with a long horizon of 14.4 years left on the lease. The purchaser was Florida based Benderson Development Company, and the seller was REIT Spirit Realty Capital from Dallas Texas. August also saw a Walgreens sale in Sandy for $6.6 million, at a 6.3% cap rate. Buyer G&S Family LP picked up the Tanasbourne Town Center in the Sunset Corridor / Hillsboro Submarket for $6.3 million. The asset was 100% leased at the time and is 25,000 square feet. Other sales include a Mall on SE 122nd Ave, and McMinnville Toyota in the Yamhill County Submarket. Large leases include a 25,000 square foot space at Evergreen Plaza in Vancouver.

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