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HOUSING MARKET

Multi-Family Residential Report

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Portland Metro area in this report is defined as Vancouver, Beaverton, Gresham, Hillsboro, Milwaukie, Lake Oswego, Oregon City, Fairview, Wood Village, Troutdale, Tualatin, Tigard, West Linn, Battle Ground, Camas and Washougal.

INTRO

The Portland metro multi-family market has shown a robust recovery over the past six months. Vacancies are forecasted to decline over the next three years, returning to 2013- 2016 levels. Multi-family year over year rents are forecasted to increase around 4.0% to 9.0% over the next three years. The number of units under construction has dropped from a high of around 13,000 in 2018 to 4,800 for 2021, with future development levels uncertain. Portland's metro population growth is forecasted to increase and return to 2012-2013 levels in the coming years.

While we are still amid the pandemic, investors are confident that the floor is no longer falling and recovery, while slow, has begun. Children will be returning to school full-time this year, although mask and vaccination policies are still being figured out. Challenges are still upcoming as employers strategize solutions for having employees safely return to work. It is expected that there will be some degree of flexibility for remote working as high-risk individuals will need to continue to keep social distance from others, while the rise of Delta variant cases will also need to be closely monitored. Unemployment is steadily dropping as the hardest hit employers such as restaurants, entertainment venues, and retailers are opening back up.

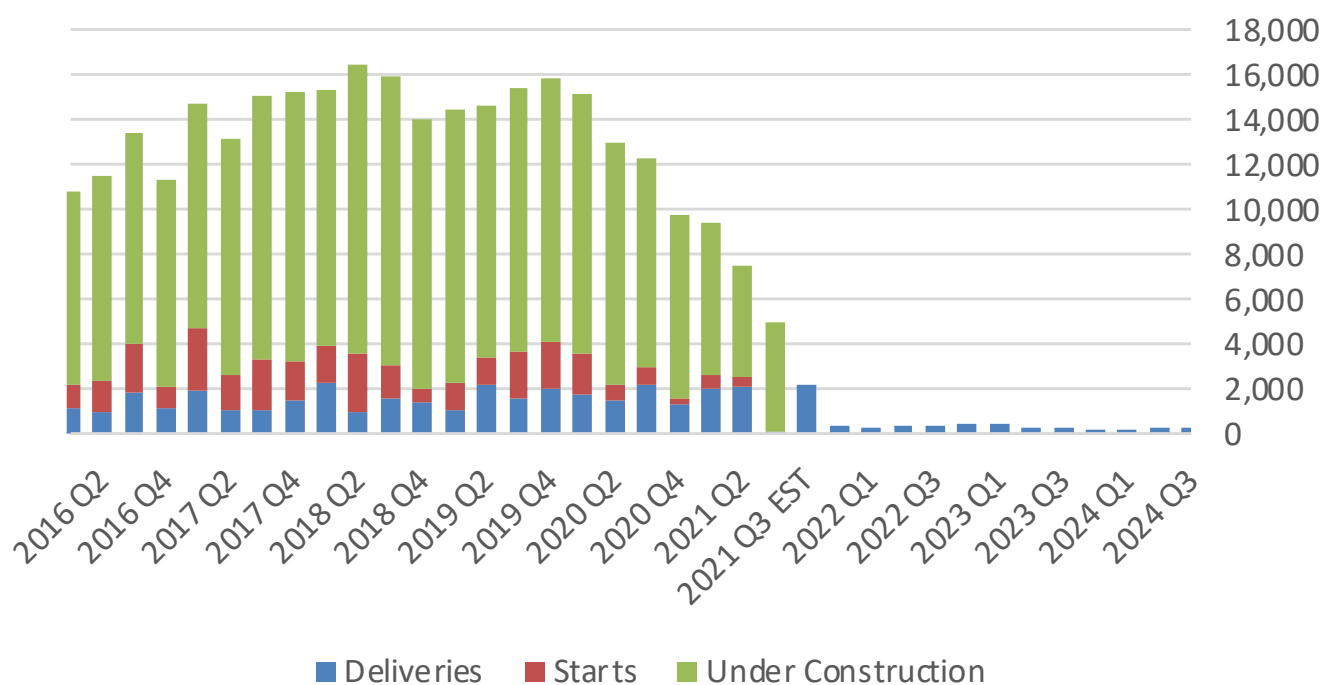
Portland continues to lead the west coast in affordability which is driving new demand from more expensive metro areas like Seattle, Los Angeles, and San Francisco. Meanwhile, existing renters in the market shifted from the downtown/CBD submarket to the suburban submarkets, driving absorption and rent in those areas. The downtown/CBD recovery is the slowest in the metro area as the heart of the city was on full display nationally with both positive protests and negative riots.

However, consumers are once again out eating and shopping downtown. As employers in the downtown/CBD submarket continue to reopen their doors, increased foot traffic will decrease crime, and we should see the plywood in windows start to come down. Overall, Portland's economy and multi-family market was able to weather the pandemic and will continue to be a desirable destination for future investment.

SUPPLY AND PERMITTING

The Portland metropolitan area's supply continued to grow, adding 7,000 new units in 2020, with another 4,800 units recently completed or being delivered in 2021 (shown in Table 1). The

Table 1



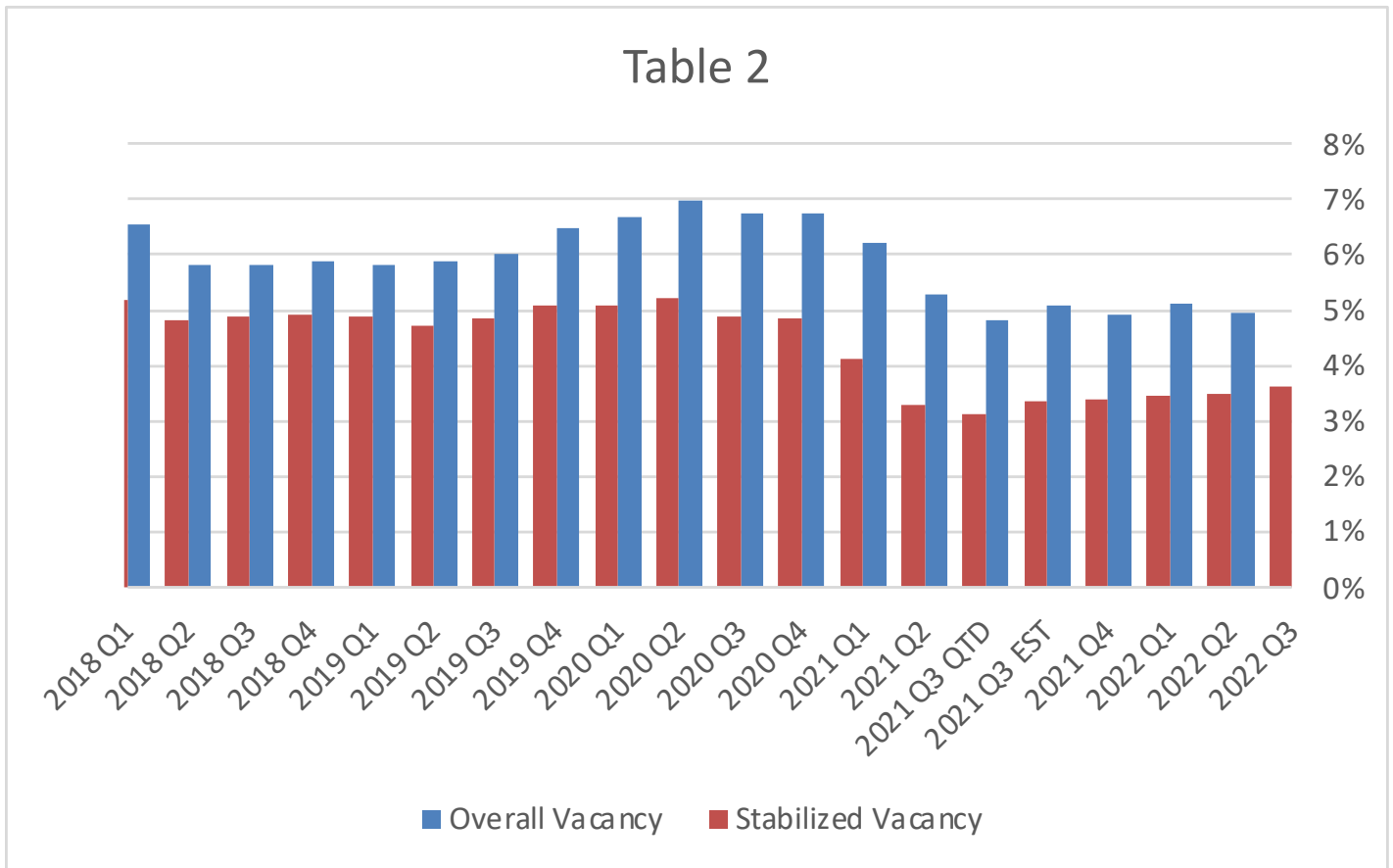
pipeline of multi-family units peaked in 2018 with 13,000 units delivered. As we approach the end of 2021, we are starting to get a better picture of deliveries for 2022. While deliveries continue to see delays due to supply chain issues, it is expected that at least 2,700 units will be added.

One highlighted project is the Alta Art Tower which expects to be delivered in early 2022. This 21-story tower expects to add 314 units to the urban core. However, it's important to note that it is the suburban submarkets that are really driving new supply. For example, the Vancouver submarket added 1,100 new units to the metropolitan market, accounting for 23% of total new inventory in the Portland metropolitan area. The suburban submarkets of Lake Oswego, Beaverton, Hillsboro and Vancouver are seeing 2% rent growth during the pandemic, indicative of the movement out of the downtown area.

The largest project underway in the metro area is the 352-unit AmberGlen South in Hillsboro, owned by American Capital Group and Artemis Real Estate Partners. Through April 2021, the largest project delivered was Zera at Reed's Crossing, a 324-unit lifestyle community in Hillsboro built by Holland Partners.

For urban living, northwest and southeast Portland have been the most desirable markets. Absorption remains high here compared to other parts of the urban core. We are still in a “wait and see” approach when anticipating future new supply. While some renters moved out to the suburbs, others are moving in from neighboring metropolises such as Seattle, San Francisco, and Los Angeles.

Table 2

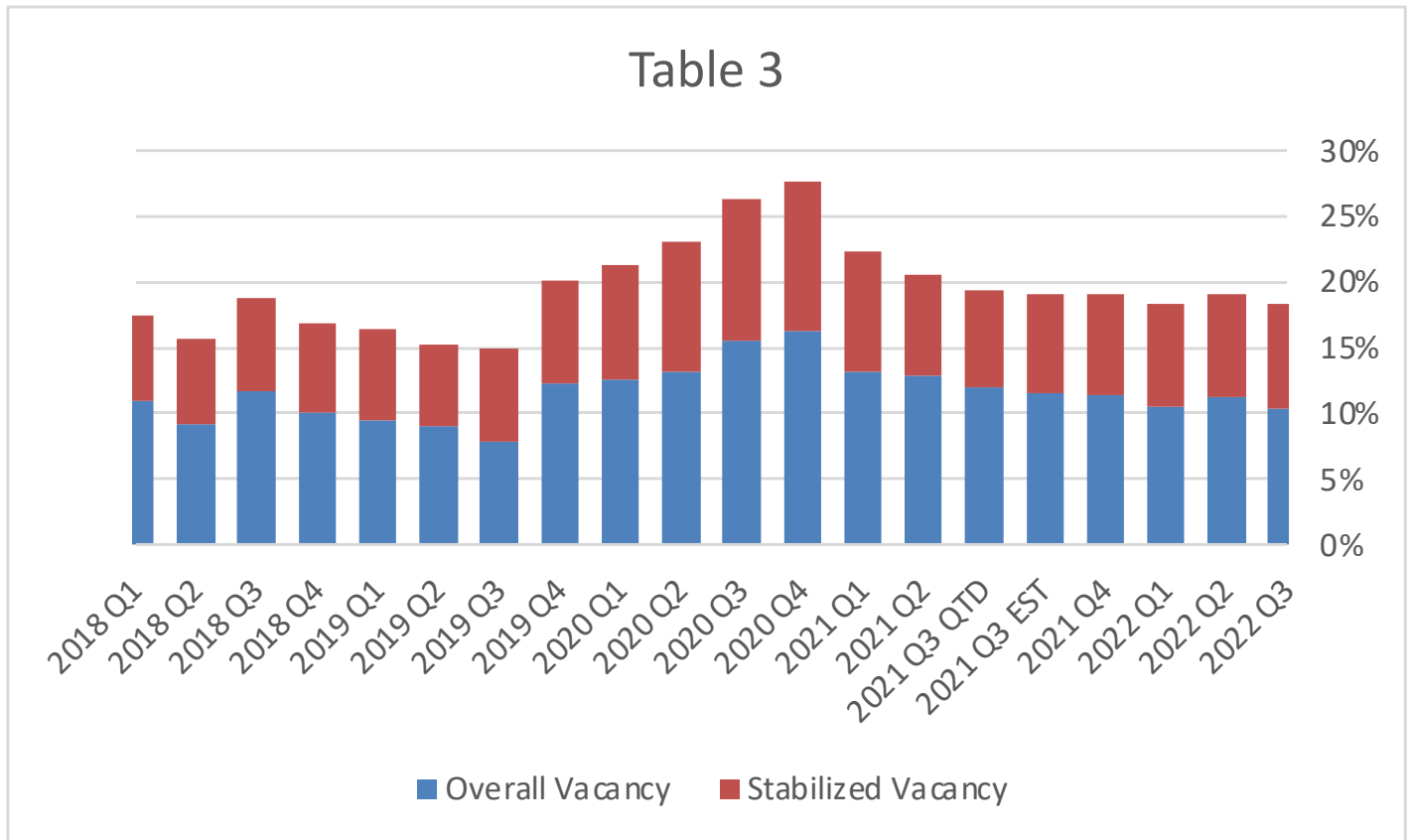


DEMAND AND ABSORPTION

Vacancy rates in the Portland metropolitan area decreased marginally during the second and third quarters, from 5.27% to 4.81% (shown in Table 2). Much uncertainty looms as the rent moratorium for Multnomah County expired on June 30th. Real time data is not accessible yet, but there are millions of Americans that are behind on their rent, and landlords aren’t receiving mortgage relief to offset those balances. Renters face evictions and loss of their home while landlords face loss of their property if they are unable to make their mortgage payments.

Those who were able to maintain income throughout the pandemic are prolonging the trend of moving to either larger units or units with more outdoor space.

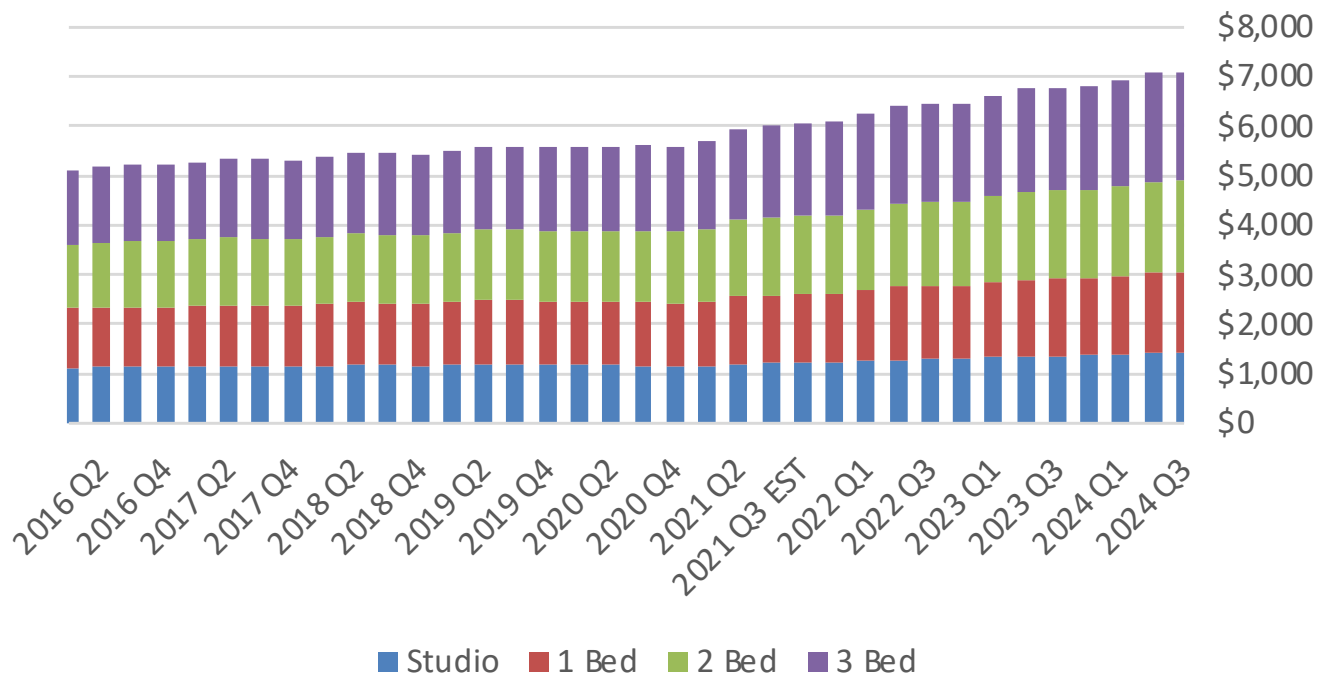
Many renters are upgrading their units to a larger space or relocating to the suburbs because the difficulties of working from home have led to shifting preferences. This is evident as the downtown/CBD submarket currently boasts the highest vacancy rate in the market at 11.6% (shown in Table 3).



Tenants have had to learn to share their remote working space with spouses, roommates, and children, and this has proven to be a difficult test for some. For now, the start of this upcoming school year approaches, and children are heading back to school full-time. Most employers are beginning to put processes in place to get employees back to the office, though this could slow as the rise in Delta variant cases continues.

Rents are up overall in the market, showing a healthy recovery as units continue to be absorbed. Beaverton (190 units), Lake Oswego (118 units), and Vancouver (743 units) all set submarket records for absorption during the second quarter. It is evident that suburban markets have high absorption, and as long as the pandemic persists, we expect that renters will continue to shift their preferences towards suburban markets. The metropolitan area as a whole has weathered the storm better than most thanks to the robust job growth that occurred over the last decade.

Table 4



RATES AND COSTS

The pandemic has been volatile to say the least, but as of the third quarter of 2021, average rent levels in Portland are rising fast. After considerable losses in the early and later months of the pandemic, a strong spring and early summer leasing season has helped to boost the market. Market rent metro-wide is currently \$1,490 per month (shown in Table 4), reflecting year to year growth of 7.8%. As discussed previously, renter preferences have shifted as the importance of being downtown diminished, and Portland’s suburban communities have posted the strongest rent growth. In Lake Oswego, Vancouver, and Beaverton, rents grew by more than 2% in 2020 despite the economic disruption. In contrast, rents were falling in the pricey, downtown submarkets that are coming off a wave of new construction. Rents fell by more than 6% last year in downtown Portland, and more than 5% in northwest Portland. However, the bottom was reached in late 2020 for these submarkets, as the first and second quarter of 2021 gave way to visible rent growth.

Construction costs continue to remain higher than national averages. According to Rider, Levett, and Bucknall’s construction report, Portland’s metropolitan

area is seeing construction costs that are 5.7% higher than they were in 2020. Construction employment was a major issue in 2020 as 10% of the pool was not working, that number has dropped to 8.1% as of the first quarter of 2021. While labor is coming back, bottlenecks in the supply chain, volatile pricing, and extended permitting periods continue to disrupt the industry. This indicates that demand is driving cost increases while supply is struggling to keep up. The Portland metro area was ranked third in highest construction cost change behind New York City metro and Washington DC metro. Despite the rise in construction costs, developers are continuing to move forward with their projects, and all signs indicate that the Portland metro area remains atop the west coast in affordability.

SALES ACTIVITY

Over the past few years, Portland has started to attract a wider variety of investors. The multi-family cap rates have further tightened, trending well below 5% over the past few years. These are signals of a strong market for investment. Predictably, overall volume fell in 2020 as many investors waited for the market to settle in the wake of the pandemic. However, sales volume in 2020 still eclipsed 2017 figures, and several major deals at the end of the year and the beginning of 2021 provided evidence that Portland's strong performance during the slowdown is drawing investor interest from around the country.

In January 2021, real estate conglomerate the Blackstone Group purchased The Passage Apartments as part of a portfolio purchase. The 104-unit complex located in Vancouver sold for \$23.2 million, or \$223,077 per unit. The property was built in 1991 and renovated in 2015. The seller was TruAmerica Multifamily.

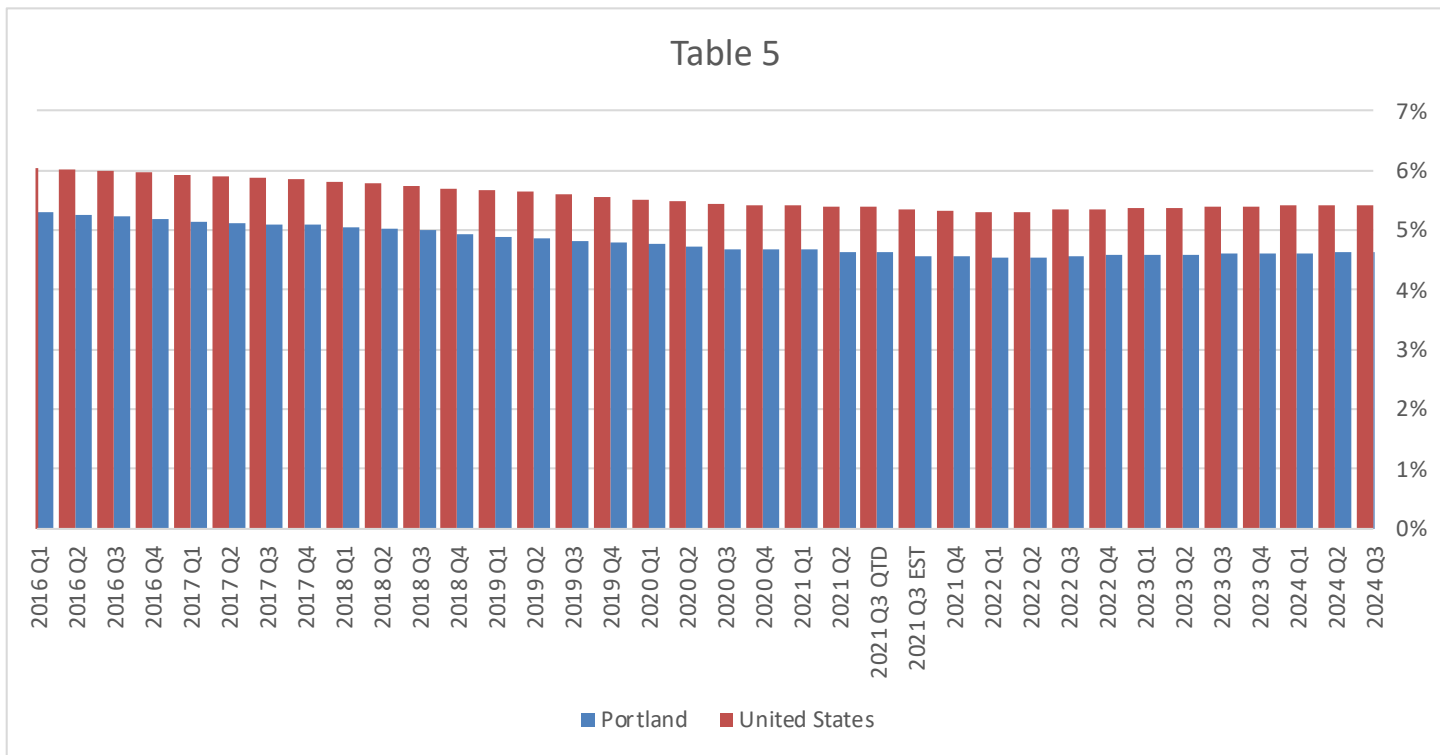
In May 2021, Arc Central, a 230-unit, 4-star mid-rise complex sold to St. Regis Properties, a California-based investor for \$77 million at a 4.1% cap rate. At closing, the apartments were 87% occupied, and the \$335,000 per unit price was well above the market average. The facility is well-located, within easy walking distance to the Beaverton Central MAX light rail station. Built in 2019, the mixed-use property contains nearly 6,000 SF of retail space on the ground floor.

In June 2021, new to market The Calida Group purchased the Autumn Grove apartments located in Vancouver. This 148-unit complex of one- and two-bedroom apartments was completed in 2020. It was approximately 10% vacant at the time of sale. RGNL disposed of this asset for \$39.5 million, or \$266,892 per unit. Lastly, in July of 2021, one of the higher profile sales in the metro was the Sky3 Place, a 196-unit complex located in the downtown/CBD submarket close to the Portland State University campus. It sold for \$71 million, or \$362,245 per unit and was 9.6% vacant at time of sale. This property was completed in May 2017, and the

buyer was Scottsdale, Arizona based The Wolff Group.

These four recent sales highlight out of state investors' interest in the Portland market, as it weathered the COVID-19 storm well, and may be better positioned than most metro areas on the west coast as normal life resumes.

Table 5



LOOKING AHEAD

In general, it is believed that despite the rise in Delta variant cases, the worst of the virus and the need for any further lockdowns are behind us. While we are still slowly recovering, we are seeing encouraging signs of improvement, and the multi-family sector has mostly recovered its market rent and vacancy losses.

One major question that looms is the effect that the end of the eviction moratorium will have on the current state of the market. There are programs in place to help renters who have fallen behind catch up, but money has been slow getting to them. Also, landlords who fell behind on mortgage payments are at risk of foreclosures.

Rental rates nationwide have returned to pre-pandemic levels. When looking closer at the Portland metro market, there has been active absorption of suburban units as renters have left the downtown/ CBD area in pursuit of larger units. In addition, there has been an influx of new demand from renters moving from other more expensive metro areas as Portland remains one of the more affordable west coast options. This shift from urban to suburban has helped

give rise to great year over year rent growth for property owners in those markets. One would expect as the downtown/CBD offices reopen and start rehiring again, these buildings will once again be an attractive destination for those who wish to be close to work and have walkable amenities.

In March of 2021, the State of Oregon Economic Development Department published a report that detailed a strong economic response for this year. The report states, “As the pandemic continues to wane, pent-up demand will be unleashed, fueling growth in the months ahead. The shift in spending out of physical goods and back into labor-intensive, in-person consumer services will raise employment significantly. While the labor market remains in a deep hole today, a bit more than half of these lost jobs will be regained in 2021.” The prediction is that Oregon’s economy will return to full employment by early 2023.

The Portland metro’s multifamily sector should continue to see year over year rent growth, strong absorption, and new demand. While growth will likely not be as explosive as in the 2010s, it should remain steady in the short- to medium-term.

RESOURCES

1. Costar Portland Multifamily Report Q3 2021
2. Yardi Matrix Portland Multifamily Summer Report 2021
3. Rider, Levett, & Bucknall Construction Cost Report Q3 2021
4. Norris & Stevens Spring/Summer 2021 Rent Survey Data