Summer 2023 The Barry Apartment Report

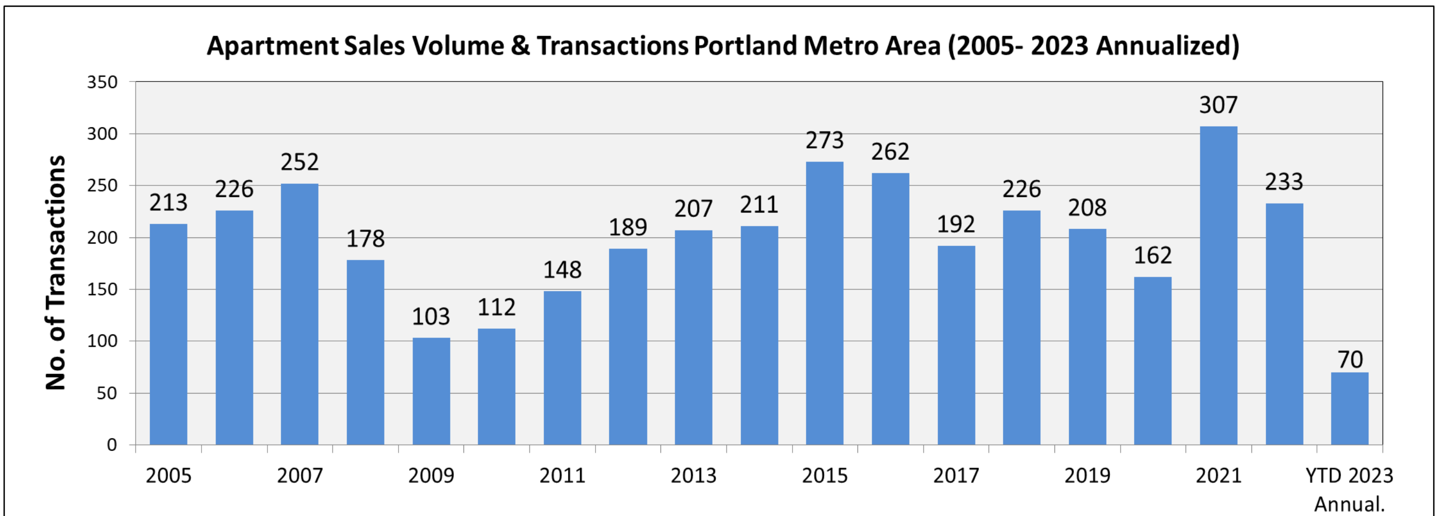
The Barry Apartment Report is a publication covering economic, financial, and valuation trends impacting apartments in the Portland, Oregon metropolitan area. Barry & Associates is a real estate appraisal firm specializing in multifamily appraisals throughout Portland Metro since 1983.

As we near the mid-point of 2023, the Portland apartment market has shifted dramatically from 2022 which was a record breaking year on many levels. In the first half of 2023 we've seen apartment fundamentals return to a more balanced market, though the sales market has ground to a halt.

Sales Transactions

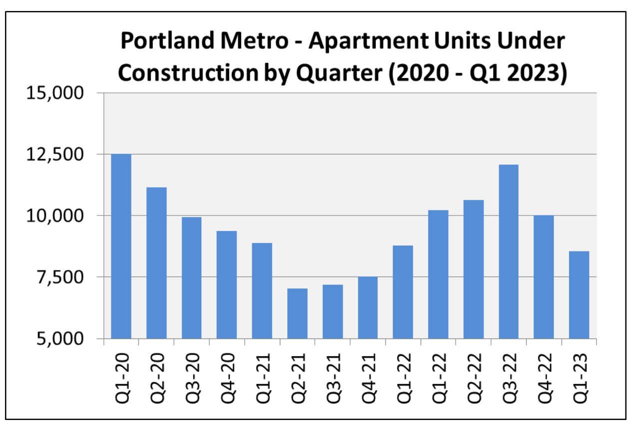
Through the first half of 2023, the apartment sales market in Portland Metro has shown an unprecedented slowdown. Through late June 2023, only 35 apartment sales have closed across the four county Metro Area. **When annualized, this suggests around 70 sales for the year, or down 70 percent from 2022.** To provide some perspective, from 1990 to 2022, there was an average of 208 sales per year with a previous low in 2009 with only 103 total sales.

There are a number of reasons for fewer sales including a dramatic rise in interest rates, greater economic uncertainty, continuing challenges with livability throughout the urban area, some destabilization in the banking sector, and buyers/sellers being unable to agree on current market pricing. Sellers have little urgency to accept lower prices as most owners have a low interest rate loan, stable rent/vacancy, ample equity, and there are few reasonably priced alternative investments. However, apartments are not alone as all property types have shown a major slowdown in YTD 2023.



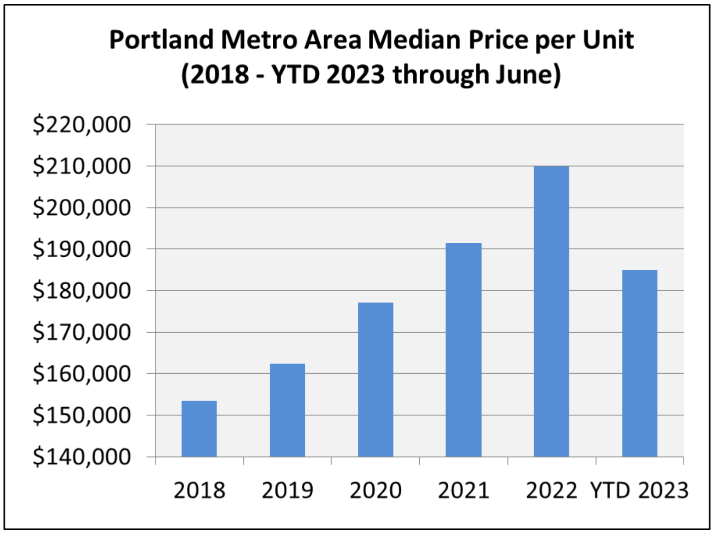
Construction

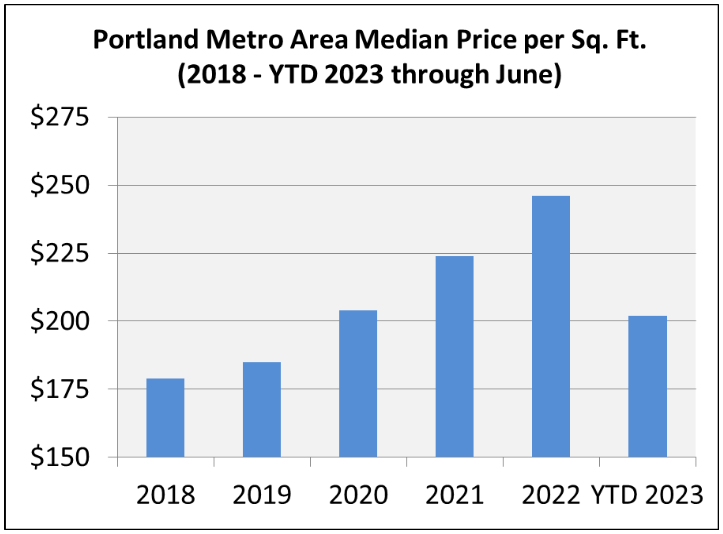
Since interest rates have increased, the number of units under construction has been declining, with additional declines expected. As of the first quarter of 2023, around 8,500 units were under construction across the Metro Area. **Apartment completions will outpace new starts in the near term future.** Fewer lenders are eager to loan on new apartment construction and some developers are having trouble making new units pencil out with changing demographics and balanced fundamentals.



Values

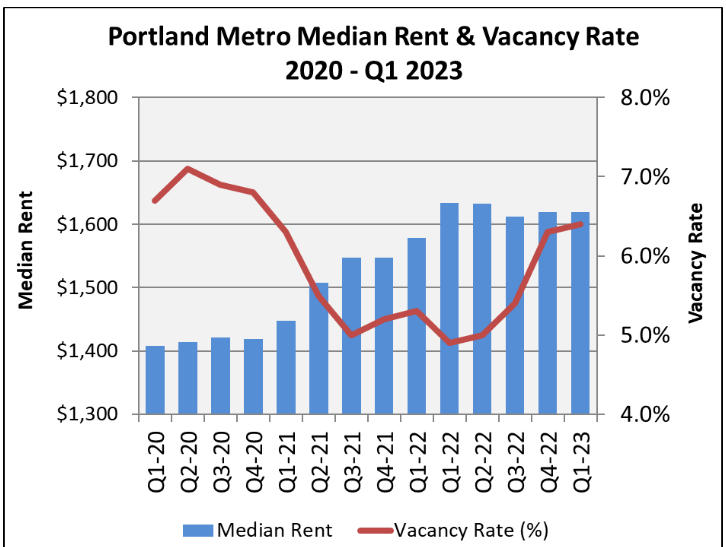
The 35 sales from YTD 2023 suggest some softening of values on a per unit and per Sq. Ft. basis. Median per unit values are down around 12 percent to $185,000 per unit while median per Sq. Ft. values have declined around 18 percent to $202 per Sq. Ft. **These suggested declines in value are likely overstated based on the particularly small sample size and the profile of properties sold.** Many of the YTD 2023 sales had deferred maintenance, operational challenges, or locations with safety concerns which resulted in a discounted price.





Rents & Vacancies

The market has returned to a more balanced state. CoStar reports vacancies are up around 150 basis points year over year and currently sit at 6.2 percent. Multifamily NW Reports that vacancies are closer to 5.1 percent. This increase in vacancies is driven by some recent population loss, a high number of recent completions, and increased economic uncertainty. With the increased vacancies, rents have flattened out. CoStar is reporting rents are flat or down slightly year over year. Based on the appraisals we've completed in YTD 2023, rents have softened in the urban area though are more resilient outside the core. In addition, most of the higher vacancies are concentrated in recent completions and urban areas impacted by livability concerns.



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Forecasts for 2023

- The second half of 2023 will see a slight increase in transactions, though there will be less than 90 total for the year
- The pipeline of units under construction will continue to slow due to declining fundamentals and financing
- Based on data from CoStar, values will fall in 2023 with a rebound occurring in late 2024. However, not all submarkets and properties are equal
- Vacancies will peak by the end of 2023 which coincides with rent growth turning positive, though growth will be slower than years past
- If population continues to decline and livability in the urban area does not improve, most of the forecasts herein would show increased pessimism