VOL. 37 FALL 2022

MULTIFAMILY NW
The Association Promoting Quality Rental Housing

THE Apartment Report

BACK TO BUSINESS

Ariel Wilsey-Gopp, C&R Management Group, Apartment Report Committee

If it was *almost starting to feel normal again* when Craig McConachie penned his Spring 2022 Apartment Report cover article, perhaps the feeling this time is that we are finally getting back to business. It seems that we all share a sense of normalcy within the lingering effects of change the pandemic brought: from occasional mask-wearing to the normalized use of QR codes wherever we go, the old blends with the new and we find ourselves taking that trip we've put off for the last few years, this time with a fresh sense of gratitude.

As the *Safe Harbor* period came to an end in Oregon on September 30, 2022, we find ourselves navigating new territory alongside the return of the old: vacancies remain stable, and rents are on the rise; supply chain issues continue across markets as turnover costs have increased exponentially. Urban areas still face challenges with homelessness, lack of population growth, and hybrid work structures, although construction has picked up significantly, particularly in non-urban areas. Inflation keeps rising and forthcoming decisions around how it will be handled remain to be seen. One thing for sure is that inflation continues to be the biggest concern as it impacts our development pipeline, rent affordability and investment decisions.

SALES

Final numbers for the first quarter of 2022 landed at 96 sold transactions, showing more growth in the second quarter with 110 sold transactions and then decreasing to 64 sold transactions in the third quarter of 2022. Third quarter of 2021 was very active with 146 sold transactions for comparison. Portland can still feel the sting from its negative publicity, and rent control laws in Oregon continue to remain a concern for investors. CAP rates closed the third quarter averaging 4.77%, down from 2nd quarter 2022 at 5.04%. Third quarter median price per unit was $200,000. Investors are moving away from urban areas and looking to non-urban markets where there are lower taxes and less impact from crime and homelessness.

Portland/Vancouver

VACANCY

There was no change in the Portland/Vancouver vacancy factor from our Spring report (3.56%), currently holding at 3.59%. Milwaukie and Beaverton have the lowest vacancy factors, respectively at 1.92% and 2.1%, followed by Outer NE Portland at 2.4%. The highest vacancies are found in Downtown Portland (5.37%) and North Portland/St. Johns (5.08%). Vacancies increased significantly from the Spring report in both Clackamas and Lake Oswego, and decreased significantly in NW Portland and Milwaukie, but other surveyed areas remained relatively stable. (This survey excludes new projects in the lease-up phase that haven't reached stability, unless they are over one year old or over 85% occupied). Last year's predictions of vacancy rates in the 7-12% range have still not materialized. As noted in our Spring report, absorption of new product has continued to remain relatively strong due to continued high levels of in-migration. With home prices remaining high and the demand for multi-family investments strong, we should continue to see low vacancy rates into the Spring of 2023.

Three-bedroom one bath units continue to have the best occupancy of all unit types, with average vacancy of 2.33%. Two-bedroom townhomes are not far behind, with average vacancy of 2.9%.

Overall average rents per unit type:

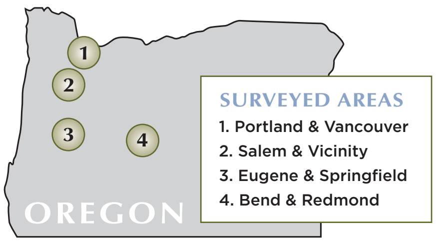
UNIT TYPE	FALL 22	SPR 22
Studio	$1,269	$1,204
1 bdrm/1 bth	$1,464	$1,393
2 bdrm/1 bth	$1,455	$1,380
2 bdrm/2 bth	$1,820	$1,714
2 bdrm townhome	$1,685	$1,543
3 bdrm/1 bth	$1,541	$1,533
3 bdrm/2 bth	$2,038	$1,883

**Average rent has increased for all unit types as per above.*

(continued on page 2)

SURVEY SAYS!

- Portland Vacancy Rate Below 4%
- Rent Growth Up .5%
- Sales Market Stabilizing
- Eugene Vacancy Under 2%



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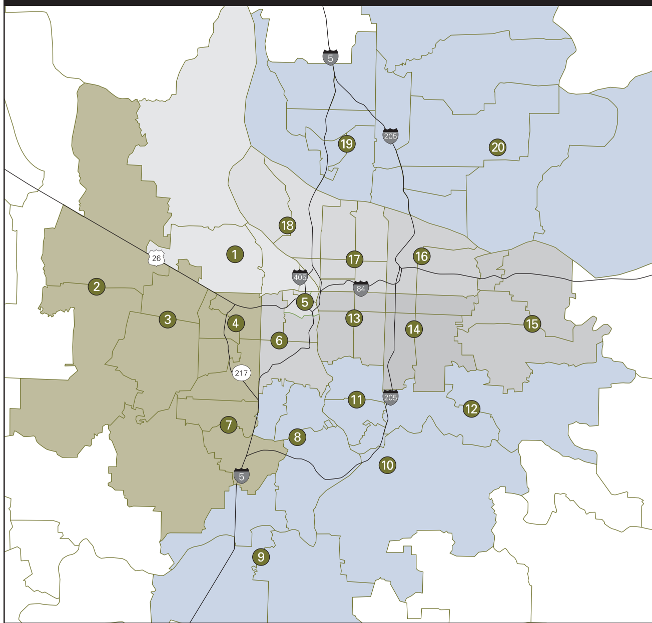
PORTLAND METRO AREA



MULTNOMAH COUNTY

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

CLARK COUNTY

- 19 WEST VANCOUVER
- 20 EAST VANCOUVER

CLACKAMAS COUNTY

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

WASHINGTON COUNTY

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

RENT RATES

(continued from page 1)

Overall rent rates increased by 5% since our Spring report, from $1.88 psf. to an average of $1.98 psf. Only two areas reported decreases, with 18 areas reporting minor increases or zero change.

Both Downtown Portland and NW Portland area lead at $2.50 psf, with N. Portland / St. Johns ($2.30), Inner and Central NE Portland ($2.26), Inner and Central SE Portland ($2.25), and SW Portland ($2.22) all extremely close behind. Northwest Portland has climbed back on top with its rent rates, since its decline back in our Spring report. Outer NE Portland continues to have some of the lowest rates, with an average of $1.50 psf, followed by Beaverton at $1.62 psf and Troutdale/Fairview/Wood Village/Gresham at $1.64 psf. Close behind were West Vancouver and Outer SE Portland at $1.69 psf.

Other Areas

Vacancy rates in outlying areas around Portland Metro increased overall to 2.77% (from 1.98% in the Spring). The Salem market vacancy rate increased to 3.27% (from 2.14%) and vacancies in one-bedroom one bath units are lowest at 2.31%. The Bend/Redmond area shows vacancies decreasing slightly to 2.3% (from 2.9% in the Spring). The vacancy rate in Eugene/Springfield remains at a low rate of 1.93% (up slightly from 1.6% in the Spring).

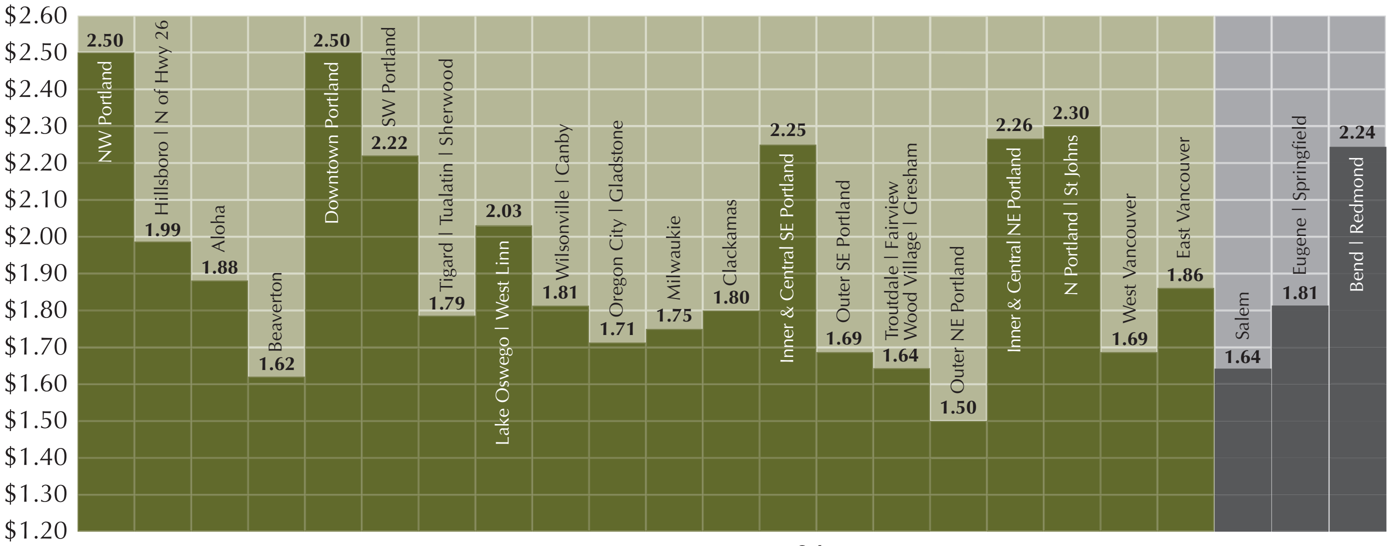
Our Contributors

Robert Black of Newmark Group and **Liz Tilbury** of Tilbury Ferguson Investment lend a broker's perspective to the Fall report, highlighting the effects on multifamily investments from the volatility and uncertainty playing out in capital markets. The transaction outlook today has come down from Portland Metro's record sales volume in 2021. The increase in interest rates that began in March 2022 was cause for a dramatic 44% increase in borrowing costs over less than a month's time, which in turn directly reduced values for multifamily properties 10-15% - even further by the end of September. The aggressive deal terms and low interest rates of 2021 have disappeared, but the demand for the multifamily product remains strong. Transactions are fewer and taking longer to close. The window to the future is opaque, Black and Tilbury state, **"If the volatility in capital markets starts to settle and the City of Portland continues to work at taming the issues with unhoused, we expect values to settle and trades to pick up in the new year."**

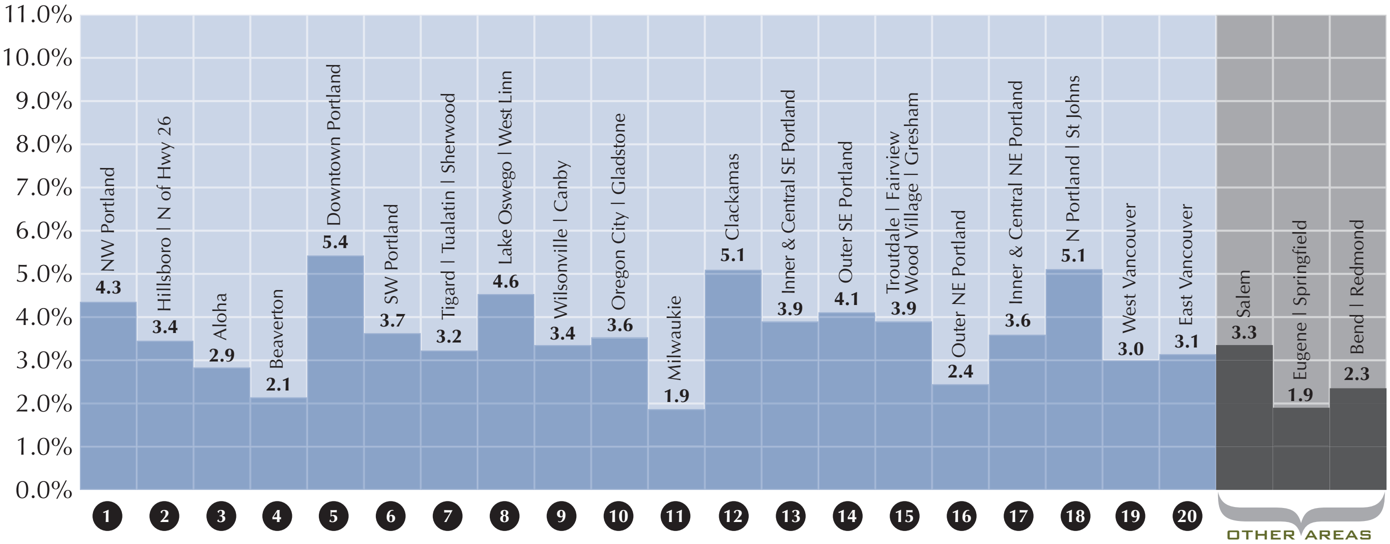
Oregon's state economist from the Oregon Office of Economic Analysis, **Josh Lehner,** notes that the biggest concern we are faced with is the fastest growing inflation we have seen in 40 years. The effects of how the storm plays out will remain to be seen. Within the next six months, the Fed will have likely raised interest rates a total of five percentage points in the span of a year's time. During the pandemic, every state across the nation reported household formation surpassing new construction which led to tight ownership and rental markets. As we navigate the last quarter of 2022 and move into 2023, we should see household formation on the decline. The effects of the expiration of rental assistance and eviction moratoriums will also lead to a decline in households. **"On the other hand," Josh states, "the combination of income growth, rebounding migration, underlying demographics, and sharp decline in ownership affordability all point toward solid rental demand."**

This survey represents a total of 89,780 units from 1,232 properties. All of the articles have been reprinted without editing the content, in order to present unbiased opinions. We'd like to thank all of the management companies and property owners who have submitted information. Their participation is critical in insuring the accuracy of our data and the continued success of this report.

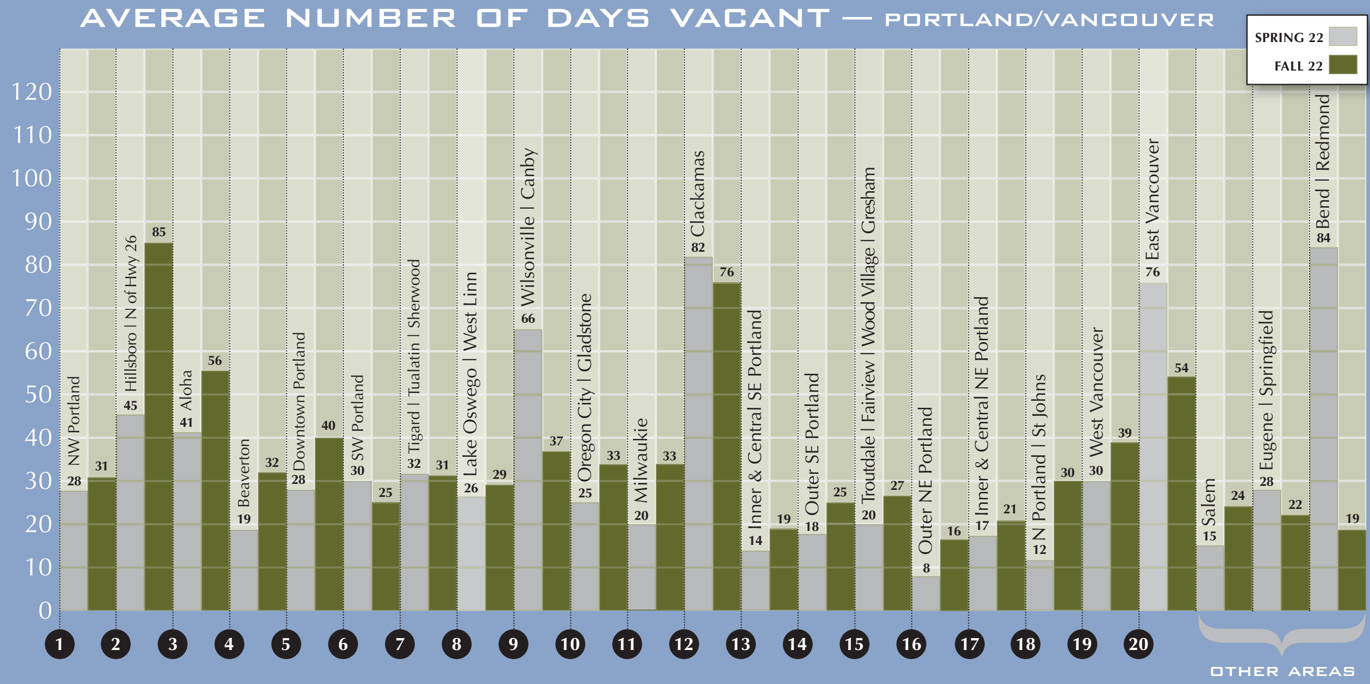
AVERAGE RENT PER SQUARE FOOT $



AVERAGE MARKET VACANCY RATE %



AVERAGE NUMBER OF DAYS VACANT — PORTLAND/VANCOUVER



SURVEY RESULTS—FALL 2022

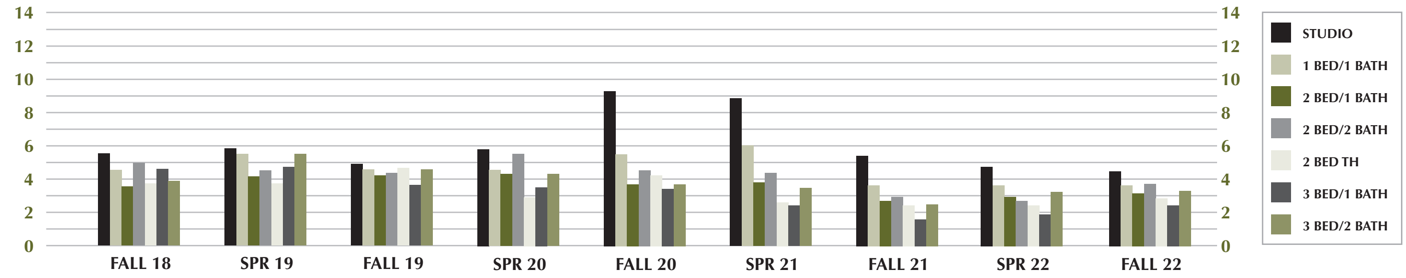
PORTLAND/VANCOUVER METRO AREA

AREA NAME	# OF PROP	DATA	ALL	SPR 22 REPORT	CHANGE	STUDIO	1 BED 1 BATH	2 BED 1 BATH	2 BED 2 BATH	2 BED TWNHS	3 BED 1 BATH	3 BED 2 BATH
DOWNTOWN PORTLAND	51	AVG MARKET VACANCY RATE %	5.37	5.54	-0.03	4.98	5.44	1.64	7.66	4.39	0	6.45
(5)		AVG RENT PER SQ FOOT $	2.5	2.45	0.02	2.91	2.33	2.14	2.19	2.32	2.02	2.45
		AVG RENT PER UNIT TYPE $				1211	1522	1707	2404	2233	2435	3422
		SUM OF UNITS SURVEYED	4392	4006		1447	2079	183	535	114	3	31
NW PORTLAND	128	AVG MARKET VACANCY RATE %	4.29	5.24	-0.18	3.71	4.48	2.03	4.87	-	5.41	6.31
(1)		AVG RENT PER SQ FOOT $	2.5	2.25	0.11	2.91	2.52	2.06	2.28	-	1.86	1.86
		AVG RENT PER UNIT TYPE $				1263	1723	1751	2366	-	1984	2435
		SUM OF UNITS SURVEYED	7572	7114		1646	3616	590	1477	0	37	206
INNER & CENTRAL SE	185	AVG MARKET VACANCY RATE %	3.94	3.6	0.09	4.92	3.47	4.31	2.62	3.92	3.39	2.04
PORTLAND		AVG RENT PER SQ FOOT $	2.25	2.19	0.03	2.94	2.17	1.69	2.12	1.47	1.43	1.72
(13)		AVG RENT PER UNIT TYPE $				1265	1368	1392	2211	1352	1633	2449
		SUM OF UNITS SURVEYED	5333	4839		1382	2420	927	343	153	59	49
INNER & CENTRAL NE	125	AVG MARKET VACANCY RATE %	3.55	4.47	-0.21	4.6	3.15	4.27	2.68	3.13	5.88	0
PORTLAND		AVG RENT PER SQ FOOT $	2.26	2.31	-0.02	2.97	2.16	1.75	2.18	1.71	1.32	1.82
(17)		AVG RENT PER UNIT TYPE $				1286	1427	1488	2282	1551	1514	2121
		SUM OF UNITS SURVEYED	4027	4723		848	2093	562	411	64	17	32
N PORTLAND | ST JOHNS	40	AVG MARKET VACANCY RATE %	5.08	5.16	-0.02	5.87	4.65	3.57	6.6	8	0	-
(18)		AVG RENT PER SQ FOOT $	2.3	2.17	0.06	2.82	2.41	1.71	2	2.05	1.37	-
		AVG RENT PER UNIT TYPE $				1338	1601	1385	2025	2722	1288	-
		SUM OF UNITS SURVEYED	1868	1472		392	838	308	288	25	17	0
SW PORTLAND	54	AVG MARKET VACANCY RATE %	3.68	3.38	0.09	4.69	3.71	4.22	3.26	0	0	0.72
(6)		AVG RENT PER SQ FOOT $	2.22	2.01	0.1	2.9	2.33	1.73	2.22	1.36	1.27	1.69
		AVG RENT PER UNIT TYPE $				1345	1486	1470	2336	1223	1422	1929
		SUM OF UNITS SURVEYED	3067	3285		405	1429	616	429	33	17	138
OUTER SE PORTLAND	36	AVG MARKET VACANCY RATE %	4.12	4.13	0	0	4.29	3.08	4.97	3.03	-	3.33
(14)		AVG RENT PER SQ FOOT $	1.69	1.66	0.02	2.26	1.88	1.59	1.55	1.51	-	2.03
		AVG RENT PER UNIT TYPE $				955	1271	1352	1558	1649	-	2500
		SUM OF UNITS SURVEYED	2948	2932		57	769	584	1067	231	0	240
OUTER NE PORTLAND	25	AVG MARKET VACANCY RATE %	2.4	3.66	-0.34	0	3.56	2.25	1.18	0	2.33	0
(16)		AVG RENT PER SQ FOOT $	1.5	1.46	0.03	1.8	1.65	1.43	1.46	1.17	1.24	1.33
		AVG RENT PER UNIT TYPE $				921	1183	1299	1445	1366	1365	1527
		SUM OF UNITS SURVEYED	1664	1393		9	562	710	255	34	43	51
TROUTDALE | FAIRVIEW	40	AVG MARKET VACANCY RATE %	3.86	3.01	0.28	3.29	4.27	2.88	4	3.57	0	5.02
WOOD VILLAGE | GRESHAM		AVG RENT PER SQ FOOT $	1.64	1.55	0.06	2.5	1.89	1.48	1.54	1.56	1.21	1.43
(15)		AVG RENT PER UNIT TYPE $				1199	1280	1309	1531	1617	1367	1765
		SUM OF UNITS SURVEYED	3365	2892		152	750	624	1276	252	12	299
CLACKAMAS	11	AVG MARKET VACANCY RATE %	5.1	3.72	0.37	3.23	5.59	4.3	5.59	-	0	4.62
(12)		AVG RENT PER SQ FOOT $	1.8	1.7	0.06	2.62	2.05	1.69	1.7	-	2.41	1.72
		AVG RENT PER UNIT TYPE $				1318	1455	1524	1688	-	2100	1908
		SUM OF UNITS SURVEYED	2080	1857		31	519	535	733	0	2	260
LAKE OSWEGO | WEST LINN	16	AVG MARKET VACANCY RATE %	4.6	3.39	0.36	-	4	5.1	5	5.56	0	0
(8)		AVG RENT PER SQ FOOT $	2.03	2.31	-0.12	-	2.17	1.69	2.01	1.77	1.74	2.48
		AVG RENT PER UNIT TYPE $				-	1622	1499	2263	1578	2099	3428
		SUM OF UNITS SURVEYED	1120	1149		0	475	196	380	36	1	25
MILWAUKIE	27	AVG MARKET VACANCY RATE %	1.92	2.68	-0.28	2.82	1.39	1.9	3.3	0	0	4.26
(11)		AVG RENT PER SQ FOOT $	1.75	1.68	0.04	2.77	1.95	1.6	1.72	1.38	1.37	1.69
		AVG RENT PER UNIT TYPE $				1224	1293	1354	1654	1280	1346	1900
		SUM OF UNITS SURVEYED	1768	2280		71	502	789	182	125	5	94
OREGON CITY | GLADSTONE	18	AVG MARKET VACANCY RATE %	3.59	3.84	-0.07	-	1.21	2.97	6.05	0.79	0	5.84
(10)		AVG RENT PER SQ FOOT $	1.71	1.67	0.02	-	1.93	1.68	1.49	1.67	1.68	1.6
		AVG RENT PER UNIT TYPE $				-	1243	1413	1531	1399	1588	2045
		SUM OF UNITS SURVEYED	1310	1511		0	247	404	314	126	34	154
WILSONVILLE | CANBY	18	AVG MARKET VACANCY RATE %	3.38	3.22	0.05	0	3.64	3.13	3.8	1.3	0	3.23
(9)		AVG RENT PER SQ FOOT $	1.81	1.66	0.09	2.79	2.07	1.73	1.68	1.39	1.57	1.7
		AVG RENT PER UNIT TYPE $				1318	1475	1530	1723	1533	1475	1953
		SUM OF UNITS SURVEYED	3516	2361		43	935	1086	1001	77	2	372
ALOHA	43	AVG MARKET VACANCY RATE %	2.85	2.67	0.07	0	2.85	2.41	3.51	0.49	0	2.56
(3)		AVG RENT PER SQ FOOT $	1.88	1.77	0.06	2.74	2.12	1.77	1.76	1.68	1.34	1.82
		AVG RENT PER UNIT TYPE $				1304	1500	1572	1758	2172	1339	2116
		SUM OF UNITS SURVEYED	6668	7082		59	2001	1369	2280	203	14	742

PORTLAND/VANCOUVER METRO AREA

AREA NAME	# OF PROP	DATA	ALL	SPR 22 REPORT	CHANGE	STUDIO	1 BED 1 BATH	2 BED 1 BATH	2 BED 2 BATH	2 BED TWNHS	3 BED 1 BATH	3 BED 2 BATH
BEAVERTON	56	AVG MARKET VACANCY RATE %	2.1	2.87	-0.27	3.41	1.96	2.2	2.11	1.06	2.01	2.24
(4)		AVG RENT PER SQ FOOT $	1.62	1.62	0	2.39	1.82	1.49	1.52	1.52	1.46	1.39
		AVG RENT PER UNIT TYPE $				1016	1188	1339	1484	1489	1560	1682
		SUM OF UNITS SURVEYED	3612	3731		88	1173	1270	615	94	149	223
HILLSBORO | N OF HWY 26	16	AVG MARKET VACANCY RATE %	3.4	3.08	0.1	3.02	3.87	3.98	2.91	3.11	-	2.66
(2)		AVG RENT PER SQ FOOT $	1.99	1.74	0.14	2.59	2.21	1.77	1.79	1.68	-	1.74
		AVG RENT PER UNIT TYPE $				1597	1608	1685	1899	2145	-	2231
		SUM OF UNITS SURVEYED	3730	2664		199	1576	352	1066	161	0	376
TIGARD | TUALATIN	59	AVG MARKET VACANCY RATE %	3.2	3.4	-0.06	3.45	3.37	2.93	3.55	2.58	0.78	3.26
SHERWOOD		AVG RENT PER SQ FOOT $	1.79	1.76	0.02	2.92	2.03	1.69	1.71	1.49	1.43	1.62
(7)		AVG RENT PER UNIT TYPE $				1169	1370	1394	1735	1644	1460	1976
		SUM OF UNITS SURVEYED	5406	6054		58	1690	1398	1523	271	129	337
WEST VANCOUVER	49	AVG MARKET VACANCY RATE %	3.02	2.13	0.42	2.44	3.19	3.37	2.69	4.03	1.49	2.55
(19)		AVG RENT PER SQ FOOT $	1.69	1.54	0.1	2.63	2.01	1.59	1.55	1.43	1.44	1.45
		AVG RENT PER UNIT TYPE $				1239	1381	1412	1654	1547	1633	1860
		SUM OF UNITS SURVEYED	6065	5436		164	1598	1482	1972	273	67	509
EAST VANCOUVER	28	AVG MARKET VACANCY RATE %	3.1	2.64	0.17	4.81	3.44	2.62	2.64	3.63	0	3.25
(20		AVG RENT PER SQ FOOT $	1.86	1.69	0.1	2.56	2.17	1.72	1.71	1.49	1.21	1.66
		AVG RENT PER UNIT TYPE $				1348	1423	1568	1741	1719	1600	1970
		SUM OF UNITS SURVEYED	5097	5532		208	1510	991	1513	413	1	461
TOTAL AVG MARKET VACANCY RATE %			3.59	3.56	0.01	4.38	3.72	3.03	3.78	2.9	2.33	3.28
TOTAL AVG RENT PER SQ FOOT $			1.98	1.88	0.05	2.87	2.17	1.67	1.77	1.56	1.45	1.68
TOTAL AVG RENT PER UNIT TYPE $						1269	1464	1455	1820	1685	1541	2038
TOTAL SUM OF PROPERTIES SURVEYED			1025	1008		338	843	624	358	111	96	227
TOTAL SUM OF UNITS SURVEYED			74664	72313		7307	26782	14976	17660	2692	645	4602

VACANCY RATE SINCE FALL 2018—PORTLAND/VANCOUVER METRO AREA



OTHER AREAS

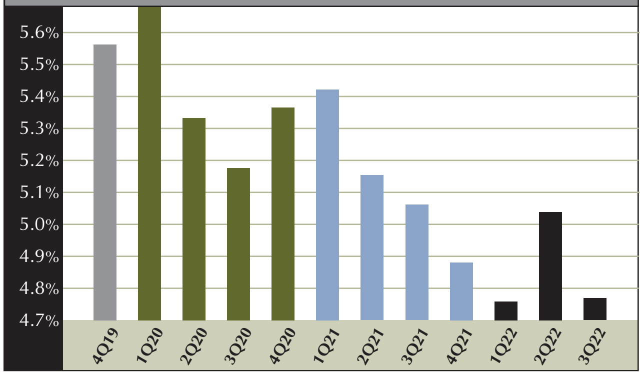
AREA NAME	# OF PROP	DATA	ALL	SPR 22 REPORT	CHANGE	STUDIO	1 BED 1 BATH	2 BED 1 BATH	2 BED 2 BATH	2 BED TWNHS	3 BED 1 BATH	3 BED 2 BATH
SALEM & VICINITY	124	AVG MARKET VACANCY RATE %	3.27	2.14	0.53	6.32	2.31	3.09	3.5	4.16	5.88	3.81
		AVG RENT PER SQ FOOT $	1.64	1.53	0.07	2.34	1.97	1.51	1.6	1.27	1.88	1.51
		AVG RENT PER UNIT TYPE $				1141	1224	1272	1568	1289	1610	1768
		SUM OF UNITS SURVEYED	8932	7108		285	1817	3468	2254	481	102	525
EUGENE | SPRINGFIELD	63	AVG MARKET VACANCY RATE %	1.93	1.61	0.2	2.22	1.67	1.82	2.21	2.02	0	2.24
		AVG RENT PER SQ FOOT $	1.81	1.67	0.08	2.83	2.09	1.64	1.66	1.47	1.25	1.48
		AVG RENT PER UNIT TYPE $				1234	1371	1427	1730	1582	1547	1771
		SUM OF UNITS SURVEYED	4196	6008		315	1197	934	589	544	36	581
BEND | REDMOND	20	AVG MARKET VACANCY RATE %	2.31	2.94	-0.21	0.97	1.75	2.92	3.39	0	-	2.86
		AVG RENT PER SQ FOOT $	2.24	2.37	-0.05	2.92	2.46	1.78	2.05	1.3	-	1.53
		AVG RENT PER UNIT TYPE $				1611	1748	1524	2156	1381	-	1944
		SUM OF UNITS SURVEYED	1988	1157		310	684	377	502	10	0	105
TOTAL AVG MARKET VACANCY RATE %			2.77	1.98	0.4	3.08	2	2.82	3.26	3	4.35	2.97
TOTAL AVG RENT PER SQ FOOT $			1.77	1.66	0.07	2.71	2.1	1.56	1.68	1.37	1.71	1.5
TOTAL AVG RENT PER UNIT TYPE $						1333	1368	1322	1684	1444	1593	1785
TOTAL SUM OF PROPERTIES SURVEYED			207	221		41	122	116	79	30	27	52
TOTAL SUM OF UNITS SURVEYED			15116	14273		910	3698	4779	3345	1035	138	1211

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

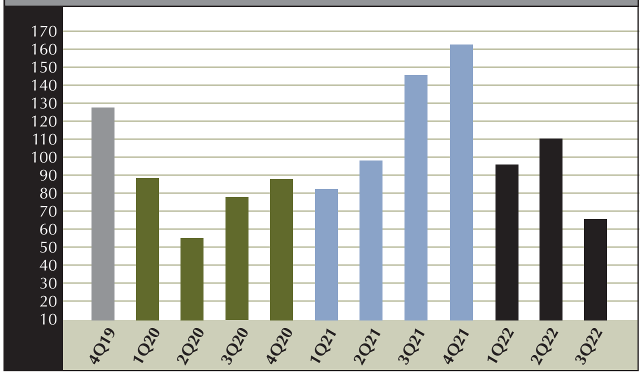
TREND REPORT : PORTLAND METRO AREA

CoStar: Search criteria—Research Status: Published; Market: Portland; PropType: Multi Family; Sale Date: 10/1/19—9/30/22; unit: 5 units and greater.

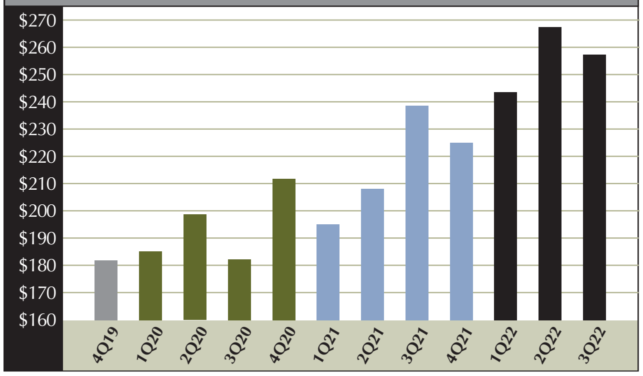
CAP RATE



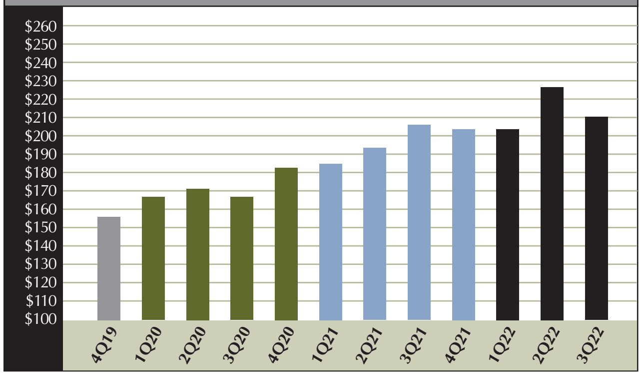
NUMBER OF TRANSACTIONS



MEDIAN PRICE PER SQUARE FOOT



MEDIAN PRICE PER UNIT (IN THOUSANDS)



YEAR	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
# OF TRANS	129	89	55	79	88	82	99	146	164	96	110	64
TTL $ VOLUME	$588,567,967	$529,283,582	$250,845,564	$332,299,890	$802,297,018	$500,261,240	$846,076,380	$1,244,600,950	$1,951,338,684	$483,955,191	$1,187,145,554	$473,102,520
TTL BLDG SF	3,610,330	2,761,143	1,171,328	1,865,542	3,581,560	2,580,334	3,198,447	5,180,760	7,008,309	2,022,862	4,037,934	1,972,357
TTL UNITS	3,324	2,901	1,236	1,964	3,461	2,650	3,649	5,672	7,172	2,488	4,687	2,184
AVG PRICE	$7,545,743	$7,899,755	$5,701,036	$5,538,332	$12,343,031	$7,579,716	$10,709,828	$12,083,504	$15,486,815	$8,202,630	$13,338,714	$9,276,520
AVG # OF SF	27,987	31,024	21,297	23,614	40,700	31,467	32,308	35,485	42,734	21,071	36,708	30,818
AVG $ BLDG SF	$199.68	$204.98	$230.82	$186.04	$254.81	$222.60	$283.51	$264.03	$289.81	$283.29	$312.15	$279.47
MED $ P/SF	$180.74	$185.66	$198.87	$181.13	$210.95	$194.88	$208.01	$239.37	$225.50	$242.50	$267.09	$257.00
AVG $ P/UNIT	$212,339	1.34	0.81	0.97	1.62	1.40	1.05	1.30	1.66	0.94	1.89	1.57
MED $ P/UNIT	$156,757	$168,882	$170,732	$168,846	$182,411	$184,444	$192,875	$206,478	$192,829	$192,500	$226,071	$200,000
AVG # OF UNITS	28	33	24	25	40	34	37	40	44	26	43	35
ACTUAL CAP RATE	5.56%	5.70%	5.32%	5.17%	5.37%	5.42%	5.16%	5.07%	4.89%	4.76%	5.04%	4.77%
AVG GRM	12.91	12.25	10.91	14.32	14.73	10.33	12.18	13.23	13.36	12.98	13.78	12.60
AVG GIM	—	10.35	—	—	—	—	11.47	—	—	—	—	—

TENANT PAID UTILITIES

MAP AREA	WATER/SEWER	HEAT	GARBAGE
NW PORTLAND	57.3%	88.8%	55.2%
HILLSBORO | N OF HWY 26	94.1%	100%	94.1%
ALOHA	87.2%	97.9%	85.1%
BEAVERTON	72.1%	88.5%	50.8%
DOWNTOWN PORTLAND	61.3%	85.5%	59.7%
SW PORTLAND	80.7%	94.7%	70.2%
TIGARD | TUALATIN | SHERWOOD	83.6%	98.5%	76.1%
LAKE OSWEGO | WEST LINN	81.3%	93.8%	68.8%
WILSONVILLE | CANBY	80.8%	92.3%	76.9%
OREGON CITY | GLADSTONE	57.9%	68.4%	47.4%
MILWAUKIE	61.8%	91.2%	52.9%
CLACKAMAS	90.9%	90.9%	81.8%
INNER & CENTRAL SE PTLD	48.7%	79.5%	46.7%
OUTER SE PORTLAND	67.3%	98.1%	57.7%
TROUTDALE | FAIRVIEW WOOD VILLAGE | GRESHAM	70%	98%	54%
OUTER NE PORTLAND	69%	100%	44.8%
INNER & CENTRAL NE PTLD	36.5%	62.8%	35%
NORTH PTLD | ST. JOHNS	60.4%	84.9%	56.6%
WEST VANCOUVER	87.3%	98.2%	74.6%
EAST VANCOUVER	81.3%	100%	75%
SALEM | VICINITY	52.8%	93.1%	49.3%
EUGENE | SPRINGFIELD	62.7%	97.3%	57.3%
BEND | REDMOND	92.3%	96.2%	84.6%

DO YOU OFFER INCENTIVES?

MAP AREA	SPRING 2022	FALL 2022
NW Portland	18.9%	11.9%
Hillsboro | North of Hwy 26	0%	0%
Aloha	8.7%	8.5%
Beaverton	3.5%	1.6%
Downtown Portland	29.7%	21%
SW Portland	14.8%	12.3%
Tigard | Tualatin | Sherwood	9.4%	6%
Lake Oswego | West Linn	11.8%	6.3%
Wilsonville | Canby	14.3%	7.7%
Oregon City | Gladstone	11.8%	10.5%
Milwaukie	8.3%	2.9%
Clackamas	0%	9.1%
Inner & Central SE Portland	8.7%	7.2%
Outer SE Portland	3%	1.9%
Troutdale | Fairview | Wood Village | Gresham	10.6%	14%
Outer NE Portland	2.9%	3.5%
Inner & Central NE Portland	9.4%	7.3%
North Portland | St. Johns	13.5%	13.2%
West Vancouver	3.6%	10.9%
East Vancouver	3.2%	9.4%
Salem | Vicinity	4.6%	4.9%
Eugene | Springfield	3.3%	2.7%
Bend | Redmond	0%	7.7%

SECTION 42 SURVEY RESULTS • FALL 2022

TTL # OF PROPERTIES = 114 • TTL # OF UNITS = 9,196

UNIT TYPES	VACANCY RATE (%)	AVG. RENT PER SQ FT ($)
STUDIO	5.60	2.68
1 BED / 1 BATH	3.23	1.79
2 BED / 1 BATH	2.41	1.39
2 BED / 2 BATH	2.14	1.37
2 BED / TH	2.72	1.28
3 BED / 1 BATH	3.15	1.18
3 BED / 2 BATH	1.35	1.25
TOTALS	3.12	1.71

THE ECONOMY IN THE EYE OF THE STORM

Josh Lehner, Economist, Oregon Office of Economic Analysis

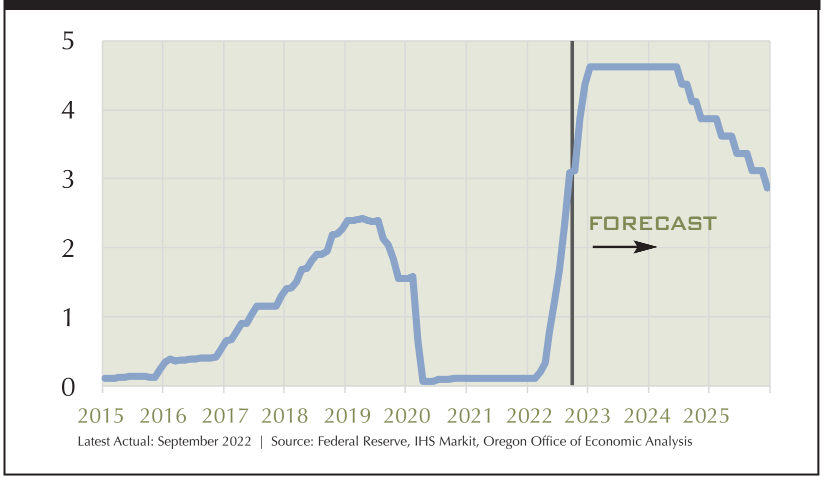
Oregon households continue to hold up well despite the fastest inflation in 40 years. Jobs, incomes, and spending are all increasing, allowing the economy to weather the storm to date. Inflation is the key issue to watch. Unfortunately, the risks are real and have not yet abated. At best we are in the eye of a weakening storm with choppy waters still ahead. At worst the economy capsizes due to inflation and the Federal Reserve's response to bring it down.

The real challenge is that inflation is higher, more persistent, and more broad-based than anticipated. Issues related to reopening the economy, supply chains, and the oil shock following Russia's invasion of Ukraine worsened the situation. These issues are now improving, or at least not getting worse. Inflation will slow some from today's highs. However, the underlying trend in inflation is above the Fed's target, driven largely by faster income and spending growth than the pre-pandemic pace.

Given the strength in the labor market, the Fed's entire focus today is on inflation. Over the past year their policy and economic outlook has shifted considerably. They have raised interest rates 3 percentage points so far this year, with another 1-2 percentage points expected in the coming six months. The Fed's goal is to slow demand and bring it into better balance with existing supply. Monetary policy impacts financial markets immediately and the real economy with a lag. This will be a multiyear process even under the best of circumstances. Once inflation is under control the Fed expects to take its foot off the brakes and start to cut interest rates in 2024 and 2025.

THE FEDERAL RESERVE & INTEREST RATES

THE FED'S OWN FORECAST OF THE FED FUNDS RATE



Latest Actual: September 2022 | Source: Federal Reserve, IHS Markit, Oregon Office of Economic Analysis

However, the combination of slower economic growth, high inflation, and rising interest rates has economists on recession watch. Should inflation not slow as expected the Fed is likely to continue to raise rates higher, and hold them there longer than currently anticipated. This increases the risk of recession. For now those inflation and interest rate storm clouds have gathered, even as the economy continues to do well today.

Population growth is the key Oregon issue to watch. After slowing earlier in the pandemic, our office's forecast calls for migration to pick up this year and next. What matters the most is net migration. Right now there are some mixed signals. In-migration, as measured by surrendered driver licenses at Oregon DMVs, is running above the pre-pandemic trend. However new research from the Cleveland Fed shows somewhat higher out-migration from large, high-cost metros like Portland. In the coming months the 2022 population estimates will be released by both Portland State and the Census Bureau. Given the lingering effects of the pandemic, it may take until 2023 to have a true sense of where population growth settles.

OREGON HOUSEHOLD FORMATION
PANDEMIC BOOM

	HOUSING UNITS	HOUSEHOLDS
2019	1,808,500	1,649,400
2021	1,837,000	1,702,600
CHANGE	28,500	53,200
DIFFERENCE	–24,700	

Source: Census, Oregon Office of Economic Analysis

While population growth slowed in the pandemic, overall household formation certainly did not. The just released 2021 American Community Survey confirms something discussed as a possibility in the previous Apartment Report. From 2019 to 2021 the increase in the number of Oregon households outpaced net new construction by nearly 25,000. This deficit was evident in all parts of the state, resulting in tight ownership and rental markets. Unfortunately, Oregon was not alone. During the pandemic the housing shortage went national with household formation outpacing new construction in every single state.

Looking forward, household formation will slow. Some of the recent, strong increases likely represent a pull forward of demand from future years. This is particularly the case for homeownership given the large increase in both headship and ownership rates among Millennials. With mortgage rates expected to remain high for the foreseeable future, it will likely be a couple of years before ownership demand fully returns.

Rental demand has more cross currents. The near-term risks are weighted to the downside. On one hand, some of the pandemic strength is due not to more households being formed per se but due to fewer households dissolving. The expiration of rental assistance and eviction moratoriums means some households will be lost. Furthermore, when a contagious virus is going around, people desire to have fewer roommates for health reasons. As the pandemic wanes, living with roommates will again be more common. This should be most evident among young renters in the city, as compared to fewer changes in household size in the suburbs.

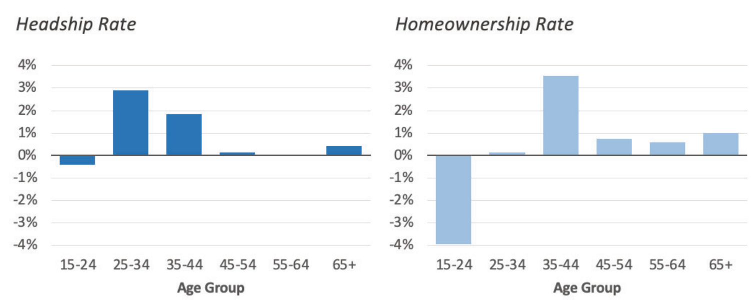
On the other hand, the combination of income growth, rebounding migration, underlying demographics, and sharp decline in ownership affordability all point toward solid rental demand.

One wildcard here are rents themselves. Affordability problems are a big reason why household formation slowed in recent decades. To the extent that today's high rents once again impact people's ability to live on their own or require them to share the costs across more roommates, then the recent household formation boom may be short-lived. However, given the boom only really brings local headship rates back to where they were in 2010, it is likely that most of the increases stick even if there are pockets of decline.

Bottom Line: The 2020s economy should not be a repeat of the tepid 2010s. The labor market will be tighter and income growth likely faster. Household formation should be stronger, especially if new construction is boosted to address Oregon's historical underproduction. The baseline outlook calls for the inflation storm to subside and for the economy to navigate the choppy waters. However, given inflation and the Federal Reserve's response, the full force of the storm may still be ahead. ■

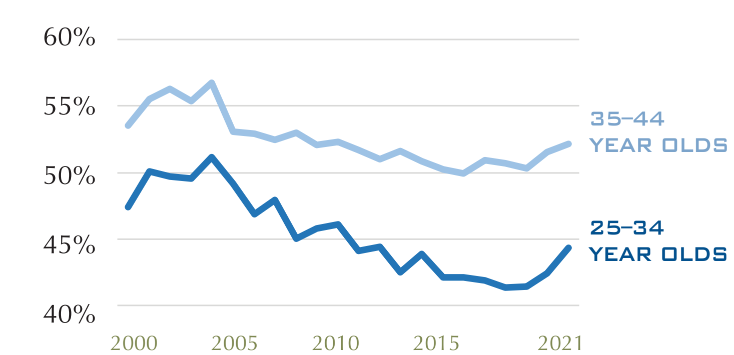
Josh Lehner is a Senior Economist with the State of Oregon's Office of Economic Analysis. He develops the quarterly Oregon Economic forecast, including outlooks for employment, income and housing. Additional responsibilities include the Oregon Index of Leading Indicators, tracking international developments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

OREGON'S PANDEMIC HOUSING MARKET
CHANGE IN OREGON FROM 2019 TO 2021



Data: ACS 1 year estimates | Source: Census, Oregon Office of Economic Analysis

OREGON'S REBOUNDING HEADSHIP RATE
SHARE OF POPULATION THAT IS A HOUSEHOLDER (FORMERLY HEAD OF HOUSEHOLD)



Data: ACS | Source: Census, IPUMS-USA, Oregon Office of Economic Analysis

VOLATILE CAPITAL MARKETS CREATE UNCERTAINTY IN LOCAL MARKET

Liz Tilbury, CCIM, Tilbury Ferguson Investment Real Estate
Robert Black, Senior Managing Director, Newmark

The volatility and uncertainty in the broader capital markets are playing out in real-time for multifamily investments. Portland Metro experienced its highest sales volume in history in 2021 with \$4.45B in aggregate volume, totaling 307 transactions of 10+ unit buildings. This brisk pace of sales was fueled by historically low interest rates, high quantities of both institutional and private investment capital and exceptionally strong operational fundamentals coming out of the Pandemic.

Attractive financing terms (in particular, high leverage bridge loans) drove capitalization rates surprisingly close to historic lows. The fever pitch of competition compressed cap rates to the same level (approximately 3.5% cap) across all locations, vintages and asset qualities. This all changed quite dramatically in March. Interest rates, which had slowly been growing since the start of the year, leapt higher with the 10-Year US Treasury yield increasing from 1.72% on March 4th to 2.49% by March 24th, a blistering 44% increase in borrowing costs in less than 3 weeks. The impact of this increased cost on investor's underwriting was almost instantaneous, directly reducing values for many multifamily properties by 10%-15% by the end of March. This was particularly true for the institutional sector. Interest rates have continued to accelerate with the 10Y-UST yield in September at ~3.7%, potentially pushing values down another 10%-15%.

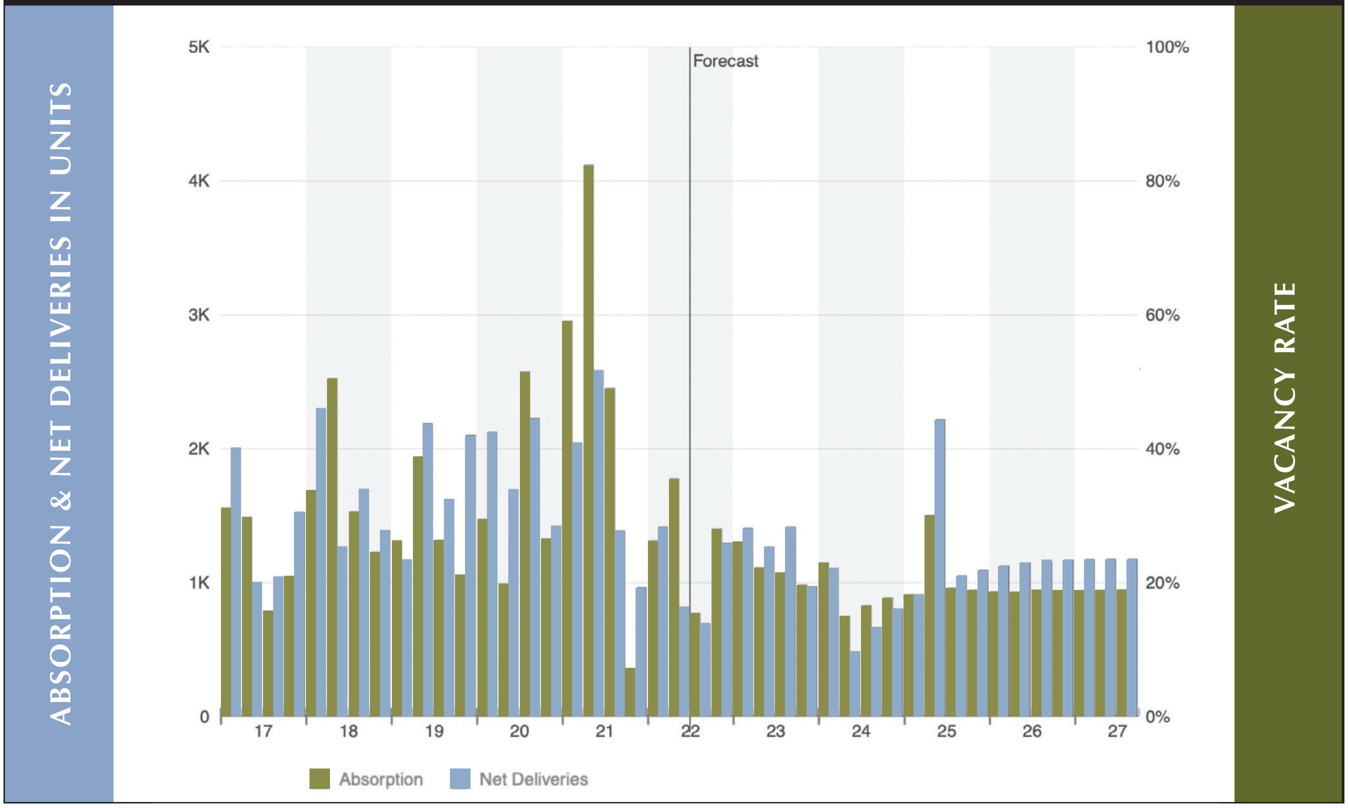
All of this has dramatically changed investor sentiment and the dynamics of the sales market. While demand for multifamily remains strong, aggressive deal terms (non-refundable earnest money on contract signing, shortened due diligence, etc.) have all but disappeared. Buyers are often seeing their loan proceeds shrink as rates continue to rise, affecting what they can afford to pay. At the same time, sellers are looking back, hoping for last year's prices. Knowledgeable sellers see the need to be flexible and move with urgency, which is better understood if a seller is active both buying and selling.

Given these challenges, far fewer transactions are occurring today. Of the six 100+ unit urban deals that were launched in Q1 & Q2 2022, none were able to come to terms with a buyer and were pulled from the market. Listings are taking longer to sell, with a materially reduced population of buyers and offers. Sales have fallen out of escrow or been renegotiated with buyers coming back with "worst and final" rather than "best and final," given the opportunity to re-submit their offer.

Fortunately, rents are up with dramatic increases on turnover, having been held down artificially since before the start of the pandemic. We are continuing to see double digit rent increases in the suburbs. Urban occupancy has bounced back with sharp reduction in concessions for most stabilized properties. Strong single-digit rent growth is the norm for most properties downtown.

The search for better returns as well as concerns over crime, homelessness and taxes in Portland has led many investors to seek opportunities just outside the Portland metro. Locations such as Albany, Canby, and Woodburn are seen as up and coming and have become very competitive markets. Salem, Corvallis and Eugene have all been beneficiaries of the flight from Portland/Multnomah County. Even small communities like Lebanon, Sweet Home and Monmouth, which would have been largely overlooked a few years ago, have suddenly become attractive to many investors.

ABSORPTION, NET DELIVERIES AND VACANCY



The Portland Metro continues to see a housing shortage in the region evidenced by the continued outsized rent growth in many submarkets. The increase in borrowing costs has yet to affect the development pipeline. New construction in the suburbs is still moving at warp speed with developers continuing to put new sites under contract. Even Portland is seeing significant permitting and construction with several large developments recently announcing their intention to move ahead and break ground. This is all occurring, despite continued high construction costs, growth in municipal impact fees, inclusionary housing mandates and the cost of construction financing.

The outlook in the near-term is opaque. If the volatility in capital markets starts to settle and the City of Portland continues to work at taming the issues with unhoused, we expect values to settle and trades to pick up in the new year. ■

Liz Tilbury is the owner of Tilbury Ferguson Investment Real Estate, Inc., and has been in the apartment brokerage business since 1982. During that time she has closed over $600,000,000 in sales ranging from historic, inner city buildings to newer, suburban garden courts. As a fifth generation Oregonian, she is very familiar with the local area. Liz Tilbury has been a CCIM since 1986 and has built her success on repeat business. She attended Vassar College in Poughkeepsie, N.Y. and graduated from University of Oregon with a B.S. in Journalism.

Robert Black joined Newmark as senior managing director in 2015 where he focuses on multifamily brokerage services and client development in the Portland Metro area. Robert's award-winning background includes over two decades in commercial real estate, focusing on multifamily and multifamily land development projects totaling billions in transaction revenue. Robert also specializes in affordable housing and closes multiple transactions every year with a number of the region's non-profit housing developers that includes REACH, Innovative Housing, Rose CDC, Bridge Housing, and Security Properties.

THE Apartment Report

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Thank you to all who contributed to the making of this report.

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