MULTIFAMILY NW
The Association Promoting Quality Rental Housing

THE Apartment Report

STEADY AS SHE GOES

Craig McConachie, C&R Management Group, Company, Apartment Report Committee

It almost is starting to feel normal again. After what we have experienced in the multifamily industry over the past two plus years, I'm nervous to even think that. Our masks are off, and we are once again recognizing our friends and co-workers. Moratoriums have ended, vacancies are stable, and rents are slowly rising. Last year, astute investors realized the end was in sight and sales volume hit record highs. Construction has slowed considerably, helping push vacancies lower and rents higher. The urban areas still face challenges with homelessness, lack of population growth, and jobs moving to the suburbs and remote working. The government has provided much needed rental assistance to help get us through these tough times and the state's employment picture and average wage growth are both encouraging.

Despite these positive signs, inflation is perhaps the biggest concern as it impacts our development pipeline, rent affordability and investment appetite. This is compounded by labor shortages and supply chain challenges. But overall, the year ahead looks good for our industry as we chart our course in search of calmer waters.

SALES

After a robust sales market in 2021, 2022 is starting off somewhat slower with 86 sold transactions in the first quarter compared with 166 in 2021 fourth quarter. We are still seeing strong interest from out of state buyers in search of higher yields than other West Coast markets. Portland is recovering from negative publicity and rent control laws in Oregon remain a concern for investors. CAP rates closed the first quarter averaging 4.8%, down slightly from 4th quarter 2021 at 4.9%, with a median price per unit of $187,900. Concerns about increasing interest rates are creating some urgency with buyers.

Portland/Vancouver

VACANCY

The Portland/Vancouver vacancy factor increased slightly from our Fall report (3.36%), and currently stands at 3.56%. West and East Vancouver have the lowest vacancy factors, both at 2.1% and 2.6%, followed by Aloha at 2.7%. The highest vacancies are found in Downtown Portland (5.5%) and NW Portland (5.2%). Vacancies doubled from the Fall report in both Tigard/Tualatin and Lake Oswego, but most 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 years predictions of vacancy rates in the 7-12% range have not materialized as absorption of new product has remained relatively strong due to continued high levels of in-migration. With deliveries of new apartments projected to decline from the five-year average, and home prices continuing to climb, vacancy rates should remain low throughout 2022.

Three-bedroom one bath units continue to have the best occupancy of all unit types, with average vacancy of 1.9%. Studio units have seen an improvement in vacancy from over 5.2% last fall to 4.7% now.

Overall average rents per unit type–Portland:

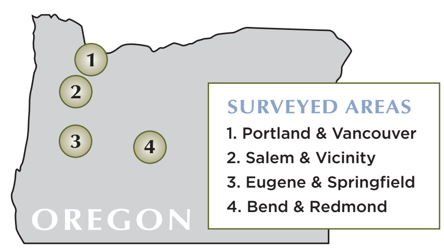
UNIT TYPE	SPR 22	FALL 21
Studio	*$1204	$1207
1 bdrm/1 bth	$1393	$1381
2 bdrm/1 bth	$1380	$1335
2 bdrm/2 bth	*$1714	$1728
2 bdrm townhome	*$1543	$1564
3 bdrm/1 bth	*$1533	$1535
3 bdrm/2 bth	$1883	$1823

**Average rent has declined.*

(continued on page 2)

SURVEY SAYS!

- Portland Vacancy Rate Below 4%
- Rent Growth Up 1%
- Sales Market Strong
- Eugene Vacancy Under 2%



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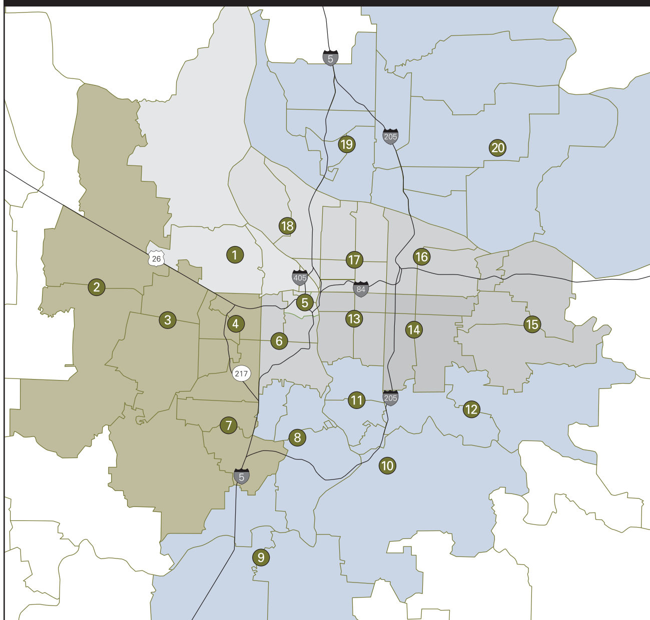
PORTLAND METRO AREA



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 marginally since our Fall report, up only 1% to an average of $1.88 psf. Only four areas reported decreases (all less than 3%), with 16 areas reporting minor increases. This is somewhat surprising, given the prior predictions of rapidly increasing rates. There were some exceptions; Inner and Central NE Portland saw a 16% jump in rents which can be attributed to approximately 400 newer units being surveyed this time. Tigard/Tualatin, Clackamas and Outer SE Portland areas all reported increases in excess of 7%.

The Downtown Portland area at $2.45 psf, and both Lake Oswego and Inner NE Portland areas at $2.31, lead all areas in rates. For the first time since we've been presenting these surveys, Northwest Portland has fallen out of the top three areas for rent rates, reporting at $2.25 psf. Outer NE Portland has some of the lowest rates, with an average of $1.46 psf, followed by West Vancouver at $1.54 psf.

Other Areas

The Salem market is stable with a vacancy rate dropping to 2.1%. Rents continue to see upward pressure and have increased 10% since the Fall report. Vacancies in studio units are particularly low at 1.6%. The Bend/Redmond area shows vacancies more than doubling from 1.3% to 2.9%, and rents increasing by 14%. Year over year rent rates in Bend have increased by 23%. The vacancy rate in Eugene/Springfield continues to decline to an extremely low rate of 1.6%, and rents have remained stable, with only a 3% increase.

Our Contributors

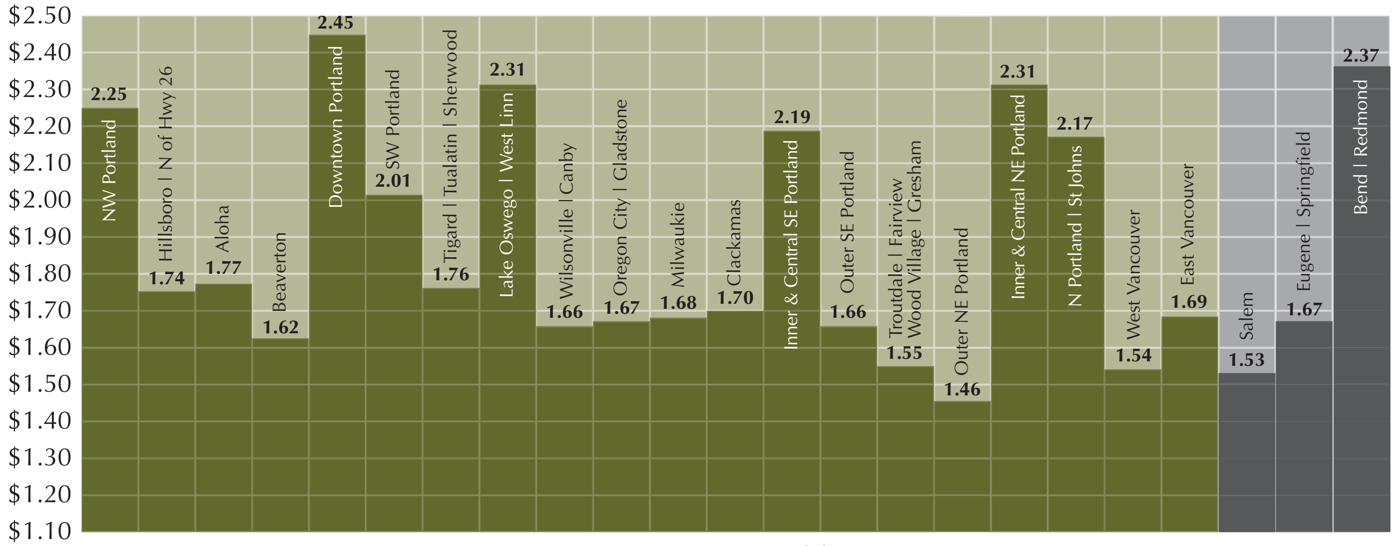
Patrick Barry, with Barry & Associates has submitted a comprehensive article outlining apartment fundamentals and trends. He is predicting continued stability in 2022, citing decreased supply, low vacancies and strong rent growth, but cautions that rising interest rates could eventually impact capitalization rates. He notes **"…there appears to be a lack of urgency to clean up the urban area. This has caused investors to think twice about their involvement in the City of Portland and Oregon".**

Oregon's state economist from the Oregon Office of Economic Analysis, **Josh Lehner,** discusses our continuing economic boom, but notes that the biggest concern we are faced with is inflation. Although average wages in Oregon have risen by 17% in the past two years, inflation is eroding household budgets, which could ultimately result in slower job gains or even losses. Josh states that Oregon's allowable rent increase in 2023 is likely to be 13-14%, which will no doubt stir political pressure to further restrict landlord rights. **"The outlook calls for higher interest rates to cool demand, slowing inflation and ensuring a continued economic expansion".**

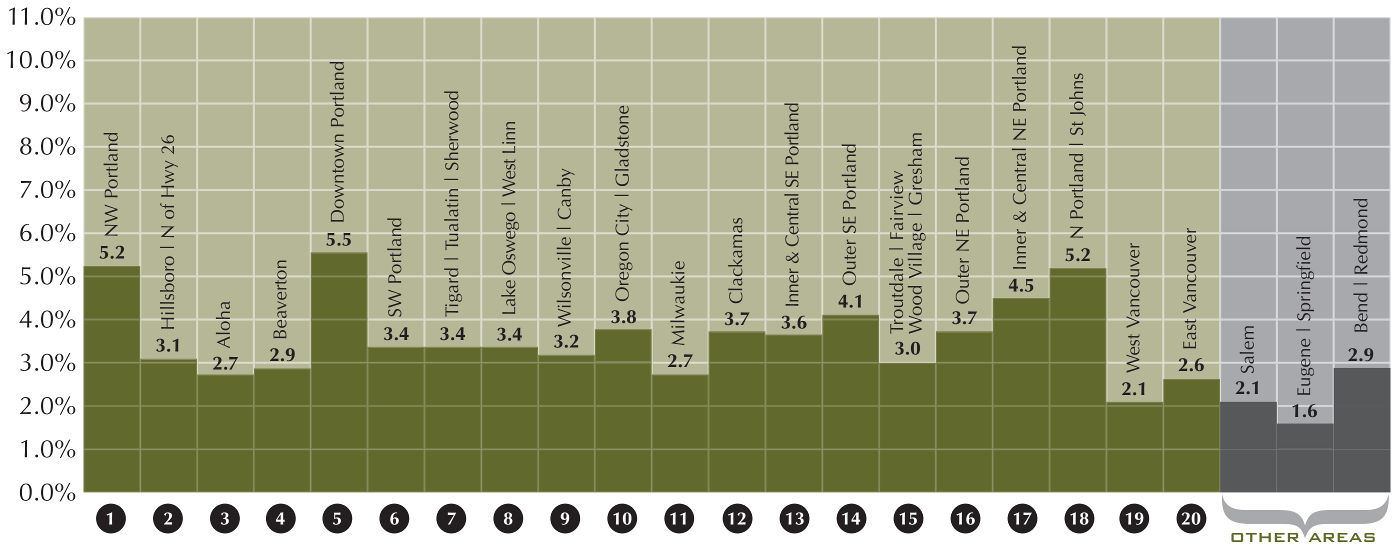
And finally, **Greg Frick,** from HFO Investment Real Estate, has submitted an article that examines historic operating costs and how inflation has impacted returns to investors. Greg has tracked a group of specific properties over a five-year period and discovered that in some instances operating costs have surpassed the increase in collected income. **"In other words, despite increased rents, housing providers do not see increased revenue".** While politicians continue to focus on rent control and affordability, the true cost of providing housing, both from an operational standpoint and a development perspective, deserves increased consideration.

This survey represents a total of 86,589 units from 1,231 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. ■

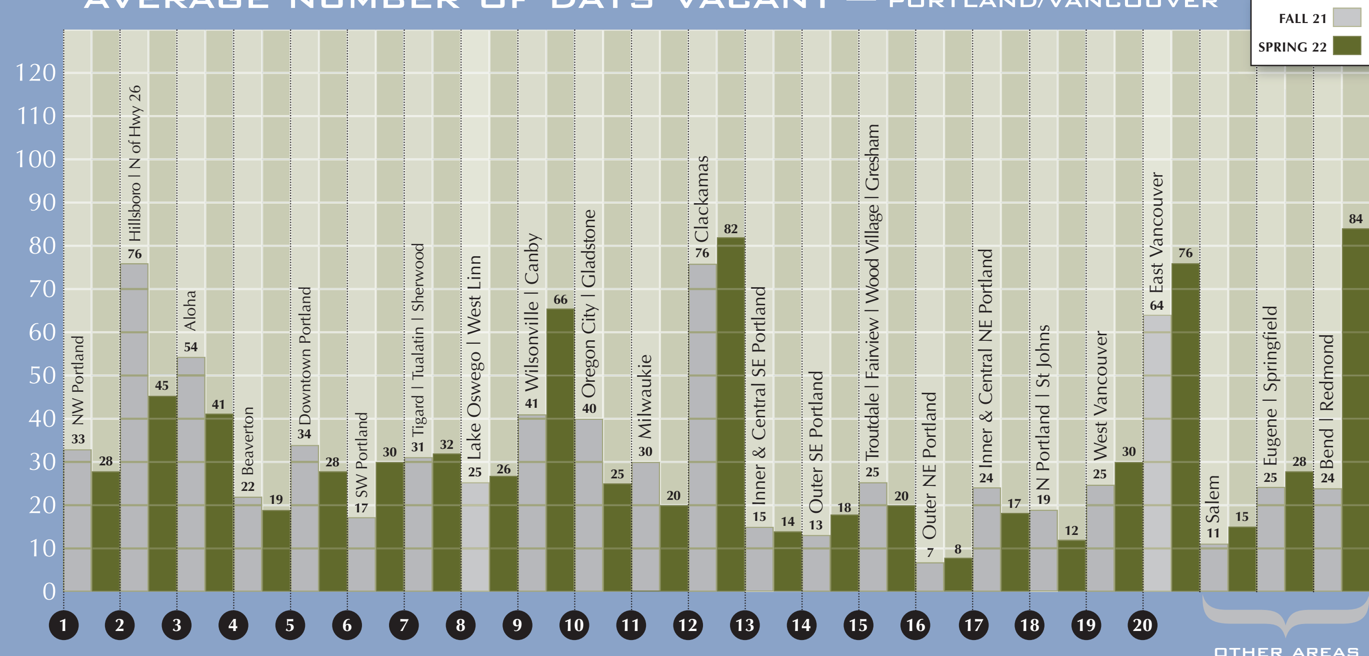
AVERAGE RENT PER SQUARE FOOT $



AVERAGE MARKET VACANCY RATE %



AVERAGE NUMBER OF DAYS VACANT — PORTLAND/VANCOUVER



SURVEY RESULTS—SPRING 2022

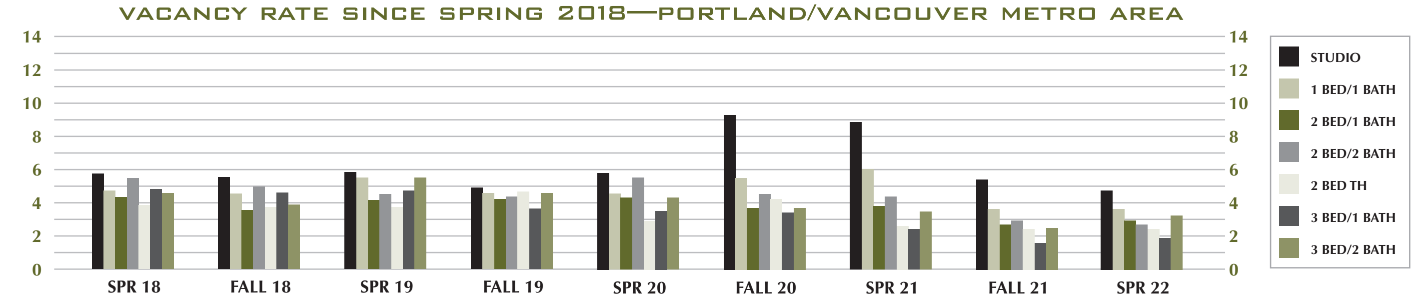
PORTLAND/VANCOUVER METRO AREA

AREA NAME	# OF PROP	DATA	ALL	FALL 21 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	54	AVG MARKET VACANCY RATE %	5.54	4.63	0.2	5.82	5.12	5.73	6.35	5.49	0	8
(5)		AVG RENT PER SQ FOOT $	2.45	2.43	0.01	2.82	2.29	2.09	2.16	2.33	1.92	2.59
		AVG RENT PER UNIT TYPE $				1125	1513	1673	2361	2223	2299	3583
		SUM OF UNITS SURVEYED	4006	3436		1357	1913	192	425	91	3	25
NW PORTLAND	131	AVG MARKET VACANCY RATE %	5.24	6.11	-0.14	6.35	5.15	4.12	4.94	2.63	2.5	5.35
(1)		AVG RENT PER SQ FOOT $	2.25	2.31	-0.03	2.68	2.31	1.8	1.99	1.98	1.71	1.63
		AVG RENT PER UNIT TYPE $				1209	1614	1574	2064	2530	1906	2096
		SUM OF UNITS SURVEYED	7114	8190		1432	3300	558	1559	38	40	187
INNER & CENTRAL SE	181	AVG MARKET VACANCY RATE %	3.59	3.77	-0.05	3.92	3.3	3.38	7.88	1.91	0	3.45
PORTLAND		AVG RENT PER SQ FOOT $	2.19	2.18	0	2.86	2.11	1.64	2.24	1.51	1.44	1.56
(13)		AVG RENT PER UNIT TYPE $				1221	1317	1339	2201	1374	1661	1799
		SUM OF UNITS SURVEYED	4841	4534		1302	2123	977	203	157	50	29
INNER & CENTRAL NE	129	AVG MARKET VACANCY RATE %	4.47	2.79	0.6	4.79	4.03	3.66	7.02	1.64	0	5.71
PORTLAND		AVG RENT PER SQ FOOT $	2.31	1.99	0.16	2.69	2.32	1.72	2.2	1.68	1.32	2.04
(17)		AVG RENT PER UNIT TYPE $				1268	1470	1471	2301	1498	1507	2571
		SUM OF UNITS SURVEYED	4723	4343		1169	2380	546	513	61	19	35
N PORTLAND | ST JOHNS	37	AVG MARKET VACANCY RATE %	5.16	5.45	-0.05	4.29	6.68	1.97	7.2	-	0	0
(18)		AVG RENT PER SQ FOOT $	2.17	2.13	0.02	2.72	2.28	1.65	1.89	-	1.38	1.78
		AVG RENT PER UNIT TYPE $				1254	1444	1329	1921	-	1292	1775
		SUM OF UNITS SURVEYED	1472	1120		326	584	304	236	0	17	5
SW PORTLAND	53	AVG MARKET VACANCY RATE %	3.38	4.46	-0.24	2.33	3.28	3.26	4.37	4	0	4.41
(6)		AVG RENT PER SQ FOOT $	2.01	2	0	2.57	2.15	1.59	1.88	1.32	1.31	1.38
		AVG RENT PER UNIT TYPE $				1252	1478	1337	2019	1533	1452	1578
		SUM OF UNITS SURVEYED	3285	2419		386	1584	582	526	50	21	136
OUTER SE PORTLAND	33	AVG MARKET VACANCY RATE %	4.13	3.12	0.32	2.04	4.9	4.07	3.92	3.52	0	3.51
(14)		AVG RENT PER SQ FOOT $	1.66	1.54	0.08	2.36	1.9	1.51	1.58	1.43	1.55	1.57
		AVG RENT PER UNIT TYPE $				936	1325	1278	1578	1422	1489	1852
		SUM OF UNITS SURVEYED	2932	2274		49	857	491	1072	227	8	228
OUTER NE PORTLAND	28	AVG MARKET VACANCY RATE %	3.66	4.1	-0.11	0	4.24	3.71	1.9	5.88	0	8.51
(16)		AVG RENT PER SQ FOOT $	1.46	1.43	0.02	1.91	1.65	1.33	1.49	1.06	1.47	1.45
		AVG RENT PER UNIT TYPE $				921	1126	1219	1490	1237	1604	1635
		SUM OF UNITS SURVEYED	1393	1025		15	401	647	211	34	38	47
TROUTDALE | FAIRVIEW	36	AVG MARKET VACANCY RATE %	3.01	2.58	0.17	6.67	2.27	2.46	3.42	3.88	0	3.04
WOOD VILLAGE | GRESHAM		AVG RENT PER SQ FOOT $	1.55	1.51	0.03	2.3	1.73	1.52	1.46	1.48	1.37	1.46
(15)		AVG RENT PER UNIT TYPE $				980	1188	1365	1421	1487	1625	1780
		SUM OF UNITS SURVEYED	2892	3184		60	617	691	1053	232	9	230
CLACKAMAS	10	AVG MARKET VACANCY RATE %	3.72	2.68	0.39	0	2.18	3.37	5.69	-	0	1.6
(12)		AVG RENT PER SQ FOOT $	1.7	1.59	0.07	2.32	1.91	1.59	1.62	-	1.72	1.64
		AVG RENT PER UNIT TYPE $				1157	1364	1415	1600	-	1500	1849
		SUM OF UNITS SURVEYED	1857	1532		31	458	475	703	0	2	188
LAKE OSWEGO | WEST LINN	14	AVG MARKET VACANCY RATE %	3.39	1.63	1.08	6.25	3.74	1.98	3.49	3.13	-	2.5
(8)		AVG RENT PER SQ FOOT $	2.31	2.27	0.02	2.74	2.78	1.63	2.08	1.9	-	2.2
		AVG RENT PER UNIT TYPE $				1339	1783	1466	2236	2181	-	2785
		SUM OF UNITS SURVEYED	1149	1045		48	455	202	372	32	0	40
MILWAUKIE	30	AVG MARKET VACANCY RATE %	2.68	3.32	-0.19	2.44	2.63	3.12	3.52	1.29	0	0
(11)		AVG RENT PER SQ FOOT $	1.68	1.73	-0.03	2.36	1.78	1.52	1.68	1.36	1.43	1.61
		AVG RENT PER UNIT TYPE $				1111	1157	1270	1581	1295	1405	1798
		SUM OF UNITS SURVEYED	2280	2321		164	800	866	199	155	5	91
OREGON CITY | GLADSTONE	15	AVG MARKET VACANCY RATE %	3.84	2.45	0.57	3.03	0.89	2.65	6.29	0	3.23	7.65
(10)		AVG RENT PER SQ FOOT $	1.67	1.6	0.04	2.79	1.95	1.59	1.56	1.43	1.49	1.57
		AVG RENT PER UNIT TYPE $				1302	1312	1350	1579	1194	1422	2013
		SUM OF UNITS SURVEYED	1511	1101		33	337	415	429	70	31	196
WILSONVILLE | CANBY	15	AVG MARKET VACANCY RATE %	3.22	3.45	-0.07	0	4.68	2.23	2.84	2.7	0	4.12
(9)		AVG RENT PER SQ FOOT $	1.66	1.71	-0.03	2.59	1.9	1.55	1.57	1.3	1.54	1.54
		AVG RENT PER UNIT TYPE $				1218	1350	1382	1595	1436	1450	1796
		SUM OF UNITS SURVEYED	2361	2435		42	620	674	669	111	2	243
ALOHA	44	AVG MARKET VACANCY RATE %	2.67	2.66	0	5.56	2.85	2.3	2.85	1.5	0	2.57
(3)		AVG RENT PER SQ FOOT $	1.77	1.73	0.02	2.62	2.05	1.64	1.67	1.48	1.65	1.6
		AVG RENT PER UNIT TYPE $				1209	1380	1424	1641	1928	1525	1846
		SUM OF UNITS SURVEYED	7082	6537		54	2067	1479	2421	200	45	816

PORTLAND/VANCOUVER METRO AREA

AREA NAME	# OF PROP	DATA	ALL	FALL 21 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	52	AVG MARKET VACANCY RATE %	2.87	3.02	-0.05	2.56	3.09	2.95	2.9	0	2.14	2.88
(4)		AVG RENT PER SQ FOOT $	1.62	1.62	0	2.08	1.83	1.48	1.61	1.54	1.38	1.39
		AVG RENT PER UNIT TYPE $				940	1237	1328	1589	1566	1458	1755
		SUM OF UNITS SURVEYED	3731	4079		39	1263	1256	723	102	140	208
HILLSBORO | N OF HWY 26	14	AVG MARKET VACANCY RATE %	3.08	2.98	0.03	1.5	2.38	3.4	4.11	2.78	0	2.24
(2)		AVG RENT PER SQ FOOT $	1.74	1.67	0.04	2.33	1.98	1.59	1.57	1.49	1.53	1.49
		AVG RENT PER UNIT TYPE $				1535	1450	1502	1728	1599	1300	1871
		SUM OF UNITS SURVEYED	2664	3361		133	923	206	1047	36	6	313
TIGARD | TUALATIN	54	AVG MARKET VACANCY RATE %	3.4	1.72	0.98	5.56	3.66	3.77	3.07	0.88	4	2.68
SHERWOOD		AVG RENT PER SQ FOOT $	1.76	1.64	0.07	2.71	1.94	1.66	1.64	1.51	1.53	1.61
(7)		AVG RENT PER UNIT TYPE $				1148	1305	1384	1649	1594	1543	1947
		SUM OF UNITS SURVEYED	6054	4659		108	2076	1460	1597	227	175	411
WEST VANCOUVER	54	AVG MARKET VACANCY RATE %	2.13	1.87	0.14	2.59	2.3	1.69	2.16	3.75	1.49	2
(19)		AVG RENT PER SQ FOOT $	1.54	1.58	-0.03	2.49	1.81	1.47	1.41	1.3	1.31	1.31
		AVG RENT PER UNIT TYPE $				1102	1221	1302	1517	1419	1476	1698
		SUM OF UNITS SURVEYED	5436	4018		116	1436	1597	1527	293	67	400
EAST VANCOUVER	25	AVG MARKET VACANCY RATE %	2.64	1.98	0.33	3.06	2.8	2.99	2.2	1.04	0	3
(20)		AVG RENT PER SQ FOOT $	1.69	1.62	0.04	2.24	1.83	1.63	1.58	1.52	1	1.77
		AVG RENT PER UNIT TYPE $				1084	1285	1510	1580	1436	1	1993
		SUM OF UNITS SURVEYED	5532	3229		98	1534	1505	1635	192	1	567
TOTAL AVG MARKET VACANCY RATE %			3.56	3.36	0.06	4.75	3.69	2.98	3.71	2.43	1.91	3.16
TOTAL AVG RENT PER SQ FOOT $			1.88	1.86	0.01	2.7	2.07	1.59	1.68	1.49	1.47	1.57
TOTAL AVG RENT PER UNIT TYPE $						1204	1393	1380	1714	1543	1533	1883
TOTAL SUM OF PROPERTIES SURVEYED			1009	932		330	826	624	334	112	93	212
TOTAL SUM OF UNITS SURVEYED			72315	64842		6962	25728	15123	17120	2308	679	4395

VACANCY RATE SINCE SPRING 2018—PORTLAND/VANCOUVER METRO AREA



OTHER AREAS

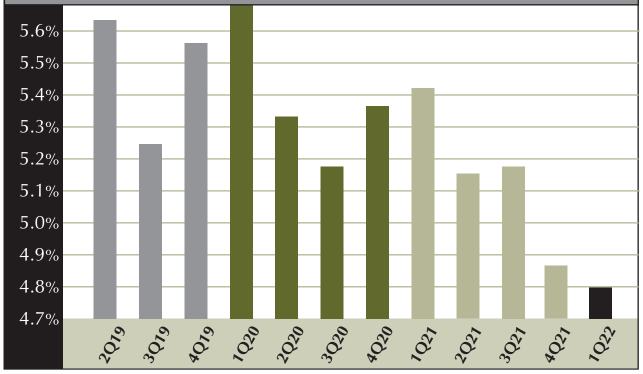
AREA NAME	# OF PROP	DATA	ALL	FALL 21 REPORT	CHANGE	STUDIO	1 BED 1 BATH	2 BED 1 BATH	2 BED 2 BATH	2 BED TWNHS	3 BED 1 BATH	3 BED 2 BATH
SALEM & VICINITY	112	AVG MARKET VACANCY RATE %	2.14	2.19	-0.02	1.57	2.53	2.05	1.7	2.46	2.47	2.19
		AVG RENT PER SQ FOOT $	1.53	1.39	0.1	2.12	1.72	1.42	1.58	1.32	1.71	1.46
		AVG RENT PER UNIT TYPE $				1061	1075	1182	1545	1291	1384	1752
		SUM OF UNITS SURVEYED	7108	7078		191	1739	3314	1061	448	81	274
EUGENE | SPRINGFIELD	99	AVG MARKET VACANCY RATE %	1.61	2.16	-0.25	1.92	1.87	1.23	1.47	1.31	1.56	2.51
		AVG RENT PER SQ FOOT $	1.67	1.62	0.03	2.7	1.77	1.43	1.59	1.39	1.38	1.4
		AVG RENT PER UNIT TYPE $				1025	1123	1129	1627	1472	1532	1655
		SUM OF UNITS SURVEYED	6009	5837		574	1707	1546	954	765	64	399
BEND | REDMOND	11	AVG MARKET VACANCY RATE %	2.94	1.27	1.31	0.93	2.06	7.79	3.99	25	-	4.35
		AVG RENT PER SQ FOOT $	2.37	2.08	0.14	3	2.44	1.6	2.16	1.21	-	1.21
		AVG RENT PER UNIT TYPE $				1566	1734	1399	2351	1205	-	1477
		SUM OF UNITS SURVEYED	1157	948		216	534	77	276	8	0	46
TOTAL AVG MARKET VACANCY RATE %			1.98	2.11	-0.06	1.63	2.19	1.88	1.88	1.88	2.07	2.5
TOTAL AVG RENT PER SQ FOOT $			1.66	1.54	0.08	2.65	1.84	1.43	1.65	1.37	1.56	1.41
TOTAL AVG RENT PER UNIT TYPE $						1151	1184	1169	1676	1404	1450	1681
TOTAL SUM OF PROPERTIES SURVEYED			222	222		47	131	135	61	33	33	43
TOTAL SUM OF UNITS SURVEYED			14274	13863		981	3980	4937	2291	1221	145	719

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

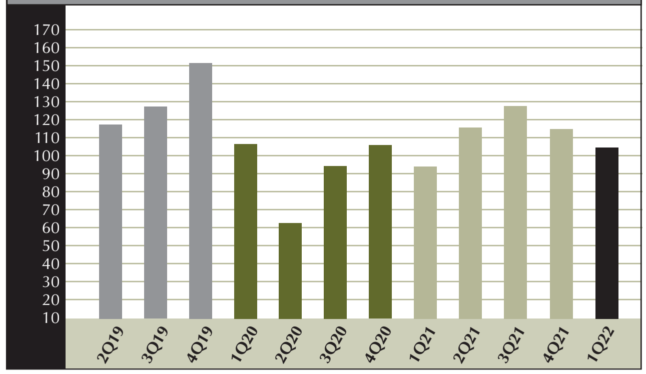
TREND REPORT : PORTLAND METRO AREA

CoStar: Search criteria—Research Status: Published; Market: Portland; PropType: Multi Family; Sale Date: 4/1/19—3/30/22; unit: 5 units and greater.

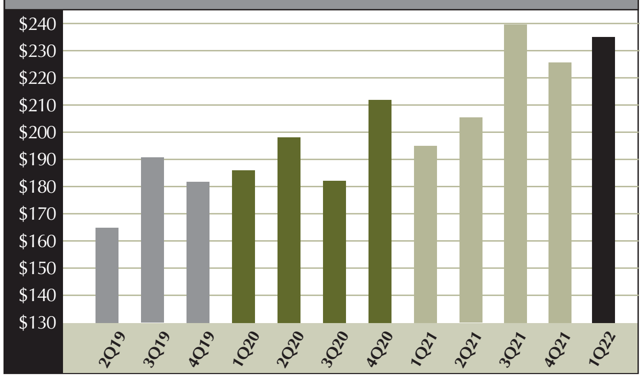
CAP RATE



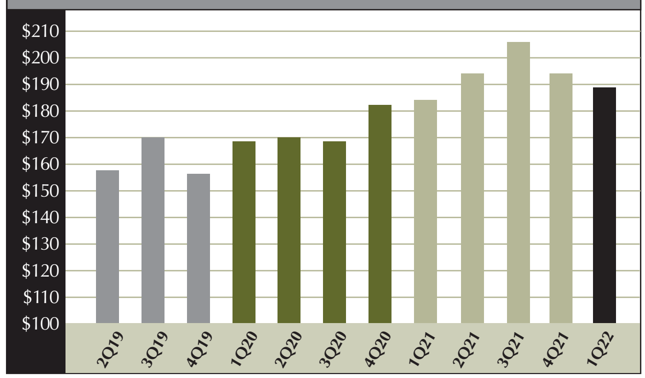
NUMBER OF TRANSACTIONS



MEDIAN PRICE PER SQUARE FOOT



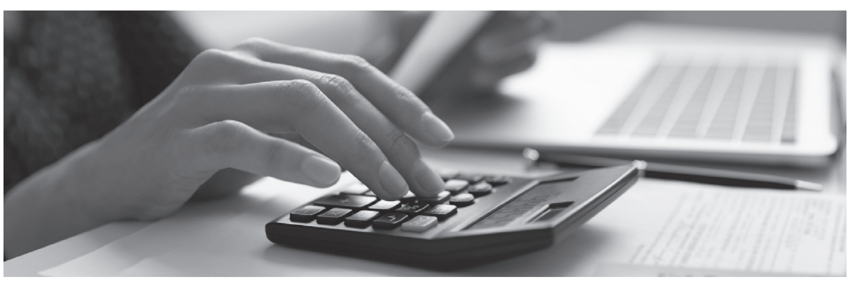
MEDIAN PRICE PER UNIT (IN THOUSANDS)



YEAR	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
# OF TRANS	101	107	127	89	55	79	88	82	99	146	166	86
TTL $ VOLUME	$415,084,073	$912,605,260	$588,567,967	$529,283,582	$250,845,564	$332,299,890	$802,297,018	$500,261,240	$844,976,380	$1,244,600,950	$1,955,623,421	$431,123,136
TTL BLDG SF	2,423,609	3,704,829	3,584,870	2,761,143	1,171,328	1,865,542	3,578,156	2,582,345	3,157,273	5,178,478	7,048,132	3,600,269
TTL UNITS	2,565	3,570	3,324	2,901	1,236	1,964	3,461	2,650	3,590	5,669	7,219	2,479
AVG PRICE	$5,609,244	$10,995,244	$7,545,743	$7,899,755	$5,701,036	$5,538,332	$12,343,031	$7,579,716	$10,833,031	$12,083,504	$15,520,821	$8,453,395
AVG # OF SF	23,996	34,625	28,227	31,024	21,297	23,614	40,661	31,492	31,892	35,469	42,459	41,864
AVG $ BLDG SF	$198.06	$256.66	$199.68	$204.98	$230.82	$186.04	$255.08	$222.40	$287.57	$264.16	$292.79	$141.19
MED $ P/SF	$164.96	$190.46	$180.74	$185.66	$198.87	$181.13	$210.95	$194.88	$204.68	$239.62	$226.03	$234.63
AVG $ P/UNIT	$188,832	$260,827	$212,339	$194,852	$217,468	$177,987	$267,958	1$210,384	$254,588	$245,168	$289,208	$246,764
MED $ P/UNIT	$158,172	$170,000	$156,757	$168,882	$170,732	$168,846	$182,411	$184,444	$194,354	$206,400	$192,829	$187,857
AVG # OF UNITS	27	34	28	33	24	25	40	34	36	40	43	29
ACTUAL CAP RATE	5.64%	5.24%	5.56%	5.70%	5.32%	5.17%	5.37%	5.42%	5.16%	5.17%	4.88%	4.80%
AVG GRM	12.64	11.94	12.91	12.25	10.91	14.32	14.73	10.33	12.18	13.23	13.36	12.98
AVG GIM	—	—	—	10.35	—	—	—	—	11.47	—	—	—

TENANT PAID UTILITIES

MAP AREA	WATER/SEWER	HEAT	GARBAGE
NW PORTLAND	57.3%	88.1%	55.2%
HILLSBORO | N OF HWY 26	86.7%	100%	86.7%
ALOHA	93.5%	100%	89.1%
BEAVERTON	67.2%	91.4%	60.3%
DOWNTOWN PORTLAND	65.6%	82.8%	60.9%
SW PORTLAND	85.2%	98.2%	72.2%
TIGARD | TUALATIN | SHERWOOD	78.1%	100%	71.9%
LAKE OSWEGO | WEST LINN	76.5%	100%	70.6%
WILSONVILLE | CANBY	76.2%	100%	71.4%
OREGON CITY | GLADSTONE	70.6%	94.1%	58.8%
MILWAUKIE	69.4%	94.4%	47.2%
CLACKAMAS	90.9%	90.9%	81.8%
INNER & CENTRAL SE PTLD	49.2%	79.5%	45.1%
OUTER SE PORTLAND	42.4%	100%	34.9%
TROUTDALE | FAIRVIEW WOOD VILLAGE | GRESHAM	63.8%	100%	55.3%
OUTER NE PORTLAND	51.4%	100%	28.6%
INNER & CENTRAL NE PTLD	39.1%	63.8%	36.2%
NORTH PTLD | ST. JOHNS	59.6%	84.6%	53.9%
WEST VANCOUVER	82.1%	94.6%	66.1%
EAST VANCOUVER	83.9%	100%	71%
SALEM | VICINITY	42.4%	88.6%	38.6%
EUGENE | SPRINGFIELD	47.2%	95.1%	41.5%
BEND | REDMOND	92.3%	100%	92.3%



SECTION 42 SURVEY RESULTS • SPRING 2022

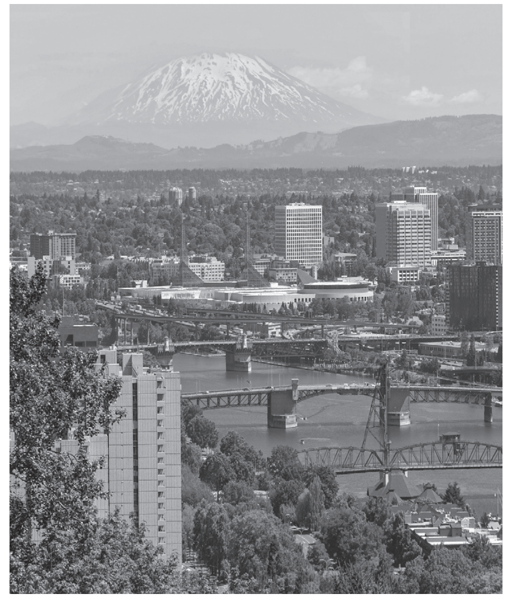
TTL # OF PROPERTIES = 123 • TTL # OF UNITS = 8,641

UNIT TYPES	VACANCY RATE (%)	AVG. RENT PER SQ FT ($)
STUDIO	4.46	2.69
1 BED / 1 BATH	1.83	1.46
2 BED / 1 BATH	1.45	1.24
2 BED / 2 BATH	2.28	1.25
2 BED / TH	1.49	1.13
3 BED / 1 BATH	1.21	1.23
3 BED / 2 BATH	1.61	1.06
TOTALS	2.05	1.48

SPRING 2022 APARTMENT FUNDAMENTALS & TRENDS

Patrick O. Barry, Barry & Associates

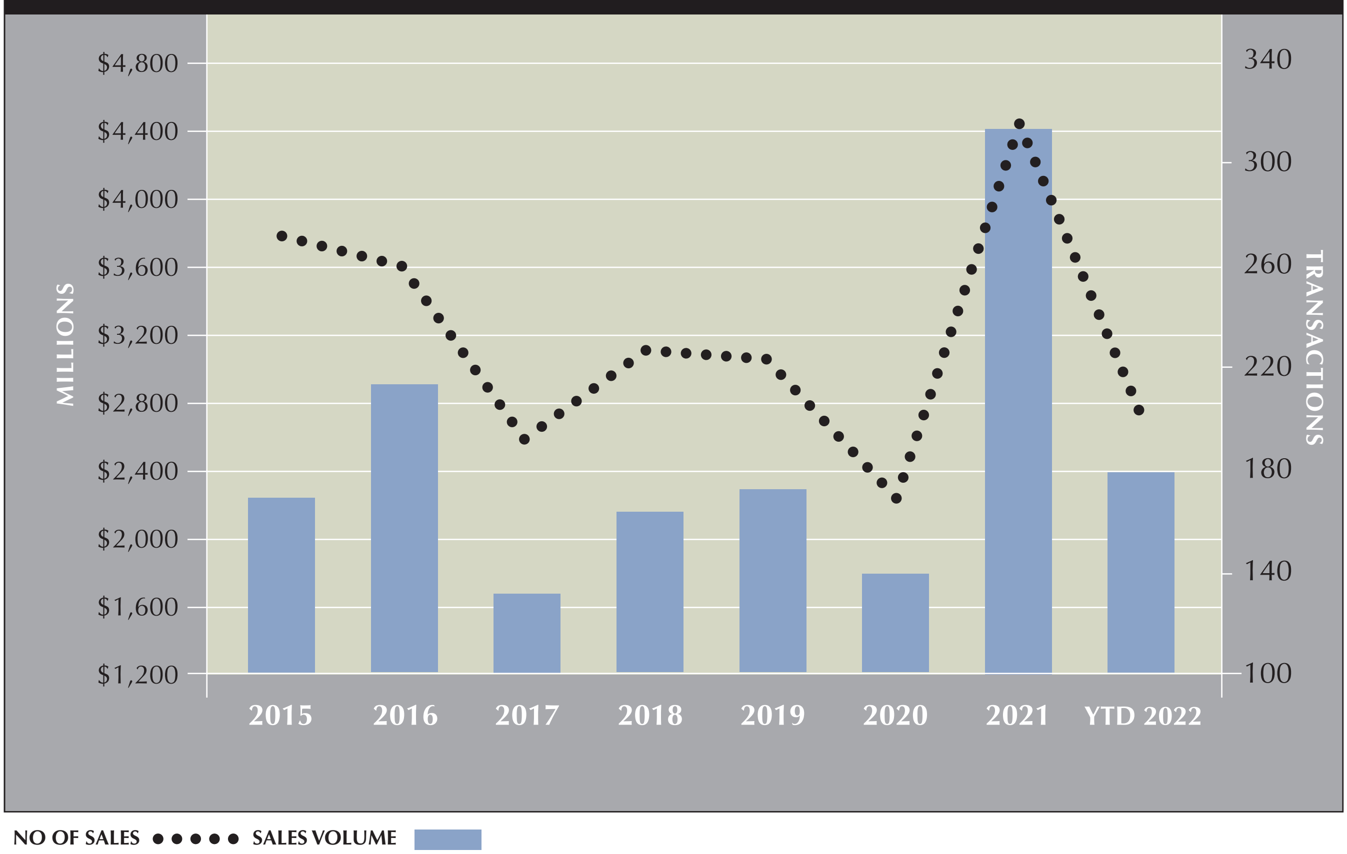
Since the onset of COVID in spring of 2020, Portland apartment market participants have experienced a sweeping range of emotions from dread, to timid optimism, to downright enthusiastic. The market in 2021 was fueled by record low interest rates, vast equity chasing return, and favorable apartment fundamentals. Coming off a staggeringly strong 2021, we enter spring of 2022 with some additional risk and uncertainty. This article will address Portland Metro apartment fundamentals, value, sales, and rental trends for 2021 and YTD 2022.

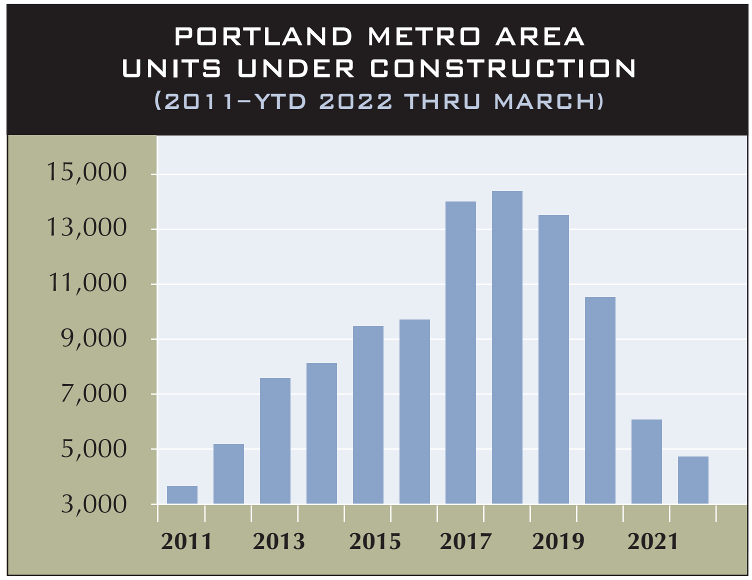


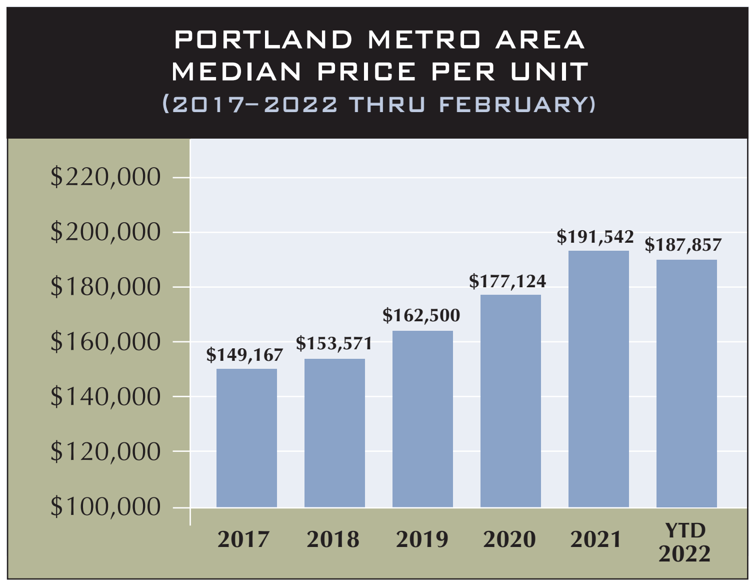
APARTMENT SALES VOLUME & TRANSACTIONS

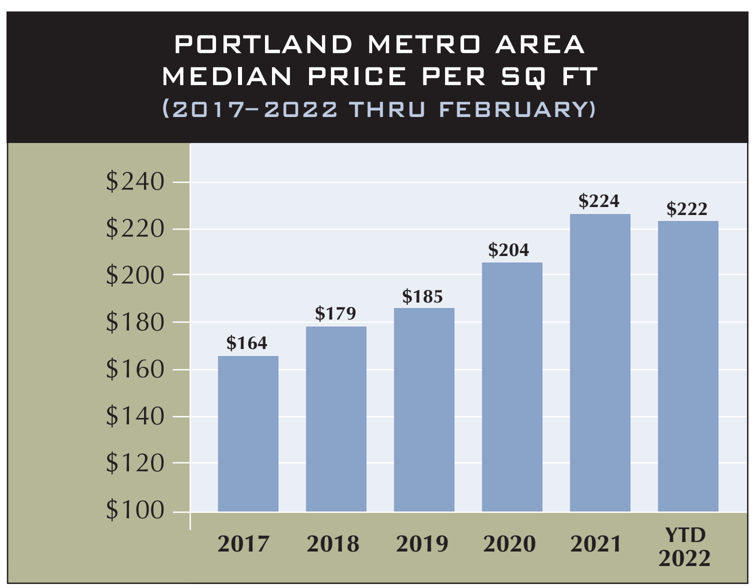
Like many areas of the economy, the Portland apartment market was the beneficiary of pent up demand. Prior to 2021, the busiest year for transactions was 2015 with 273 sales and the largest dollar volume of sales was 2016 with $2.95 billion. During 2021, there were 315 sales which is 15 percent above the previous peak and over 85 percent above 2020. These 315 sales showed a total value of $4.42 billion, or 50 percent above the previous peak and more than 100 percent above 2020. Given the sales activity, it is easy to understand why so many apartment market participants felt overwhelmed in 2021. YTD 2022 sales have been steady, though not enough data is available to come to any reliable conclusions.

APARTMENT SALES VOLUME & TRANSACTIONS
PORTLAND METRO AREA • 2015–2022 ANNUALIZED









APARTMENT CONSTRUCTION

Apartment construction remains a major concern for the apartment market as vacancies decline and rent increases accelerate. Portland's relatively low cost of housing compared to other West Coast markets has been a major driver for recent job and population growth. As rents continue to increase, Portland risks losing a competitive advantage (lower cost housing) we've long held over the major metros of California and Washington.

The surge in apartment construction from 2017 through 2019 was a driving force in pushing up vacancy rates and limiting rent increases. Since 2019, the number of units under construction has plummeted. In 2020, there were around 10,500 apartment units under construction compared with only 4,600 to start the second quarter of 2022. These 4,600 units under construction will be completed across a span of around 18 months. CoStar reports that Portland Metro absorption since 2014 has averaged 5,600 units per year. Assuming similar absorption in the coming years, demand will outpace supply, which will likely result in consistently low vacancy rates and little slowdown in rental increases.

There are a host of potential reasons for slowing construction. This includes some national trends such as rising material prices, and labor shortages, but also includes local barriers that have repelled some developers. This includes rent control, inclusionary housing requirements, some reputational damage, the considerable uncertainty with local regulatory changes, and persistent safety/cleanliness concerns in many urban neighborhoods.

There is a bright spot on the horizon as permit application figures from the Census Bureau have been trending up. During 2021, permit applications were filed for 6,750 units, which is just below the average number of permit applications over the past eight years. Units typically begin construction 1-4 months after being issued permits and will be available for rent 1.5 to 2.5 years after the permit is issued.

VACANCY AND RENT TRENDS

Many owners saw a considerable increase in income from 2020 to 2021. This was due to tightening market conditions along with the expiration of some COVID related restrictions. Every major forecast is predicting continued rent increases in Portland Metro. This will be driven by forecasted population growth, a 10 year low in the number of units under construction, and declining vacancies. CoStar is forecasting that Portland Metro vacancies will remain below 4.5 percent at stabilized properties for at least the next four years and that year over year rent growth will range from 3.0 to 9.0 percent over the next four years

The rental survey herein reports Metro vacancy rates at around 3.6 percent and a rent increase of 1.1 percent since fall 2021. In a shift from the fall 2021 Multifamily NW Survey, 11 of the 20 submarkets surveyed reported increasing vacancy rates though only four submarkets reported decreasing rents. The return of tenants to the urban area has remained slow. The five most urban submarkets in this survey show an average vacancy rate of 4.8 percent while the remaining 15 submarkets which are mostly suburban show an average vacancy rate of 3.2 percent. There are five submarkets with vacancy rates below 3.0 percent, which includes Aloha, Milwaukie, East Vancouver, and West Vancouver.

APARTMENT PERMITS 2008–2021
FOUR COUNTY METRO AREA

APARTMENT VALUES

With 315 sales on the books, 2021 finished up with a median price of $191,542 per unit and $224 per Sq. Ft. The 2021 per unit prices are up 8.1 percent compared to 2020 and per Sq. Ft. prices were up 9.8 percent from 2020. The increasing values in apartments can be attributed to low interest rates as investors at all levels search for yield, owners with large equity positions looking to place the money, improving fundamentals, and some shifting investor preferences toward quality (typically higher per unit values). It is too early to make any conclusions for YTD 2022, but based on 34 sales through February, the median price per unit and price per Sq. Ft. were both down slightly.

SUMMARY

Despite many concerns entering 2021, the market in 2021 will represent a high water mark for sales activity and a new high in values. Stability is expected to continue in 2022, though there has been a shift towards an owner's market with decreased new supply, low vacancy rates, and higher rent growth. Increasing permit activity will hopefully translate to more housing supply, though until the units are delivered, vacancies are likely to remain low and rents will continue to increase. ■

Patrick O. Barry (pb@barryapartmentreport.com) is a certified general appraiser with Barry & Associates, which specializes in apartment appraisal work in the Portland metropolitan area. Patrick is an engineering graduate of the University of Colorado.

RISKS

While many of the apartment and economic fundamentals are encouraging, some potential risks are emerging in 2022.

- Two years into COVID, there appears to be a lack of urgency to clean up the urban area. This has caused investors to think twice about their involvement in City of Portland and Oregon.
- There are concerns that existing regulations on rent control will be tightened in response to an undersupplied housing market and rapidly increasing rents. The current market conditions are comparable to the period of 2015 to 2017 when rent control was introduced.
- Changes in population growth patterns. Most economists are forecasting steady growth over a 10 year horizon in Portland Metro, though recently reported Census Bureau data suggests a loss in population in Portland Metro from July 2020 to July 2021. This period of time included many unique situations including excess deaths, some temporary moves from Portland metro with remote work now an option, and near complete shutdown of international migration. Future growth forecasts in Portland Metro remain unchanged and it was reported that the trend of population decline likely reversed itself by July 2021.
- Rapidly rising interest rates in YTD 2022 could eventually impact overall capitalization rates. Information from the Federal Reserve Economic Data reports that between January 1, 2022 and March 31, 2022, the average 30 year fixed rate mortgage increased from 3.18 percent to 4.67 percent, or 47 percent. Interest rates and overall capitalization rates tend to move in a similar direction.

THE INFLATIONARY ECONOMIC BOOM IS GOOD, FOR NOW

Josh Lehner, Economist
Oregon Office of Economic Analysis

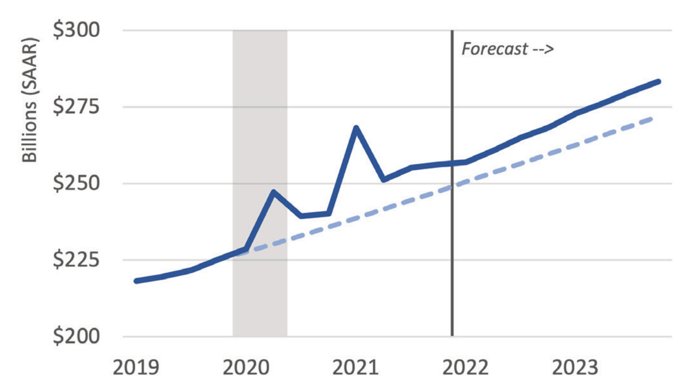
The inflationary economic boom continues. Jobs, incomes, and output are all rising quickly. The economy will reach full employment much quicker than following recent recessions. However, this cycle brings different challenges. The nation's large urban economies lag due to increased working from home and lack of business travel. However no challenge or risk today is bigger than inflation. The outlook calls for higher interest rates to cool demand, slowing inflation and ensuring a continued economic expansion. That said, a boom today leading to a bust in a year or two is not out of the question should high inflation persist.

Household finances are the key to the strong economy. Rising current incomes, accumulated savings, record asset markets, and low household debt usage all provide tailwinds for consumers. Today the key source of income growth is fast-rising wages due to a tight labor market. The average wage in Oregon has risen 17 percent in the past two years. These wage gains offset the fading impact of federal aid from earlier in the pandemic.

With households flush with cash, they have the ability and are showing the willingness to pay higher prices for goods and services. Supply chains are not broken. Rather they are overloaded due to strong consumer demand, particularly for goods. Businesses can pass along cost increases, maintaining or even increasing profit margins.

OREGON PERSONAL INCOME IS STRONG

CURRENT FORECAST | PRE-PANDEMIC FORECAST



Latest Data: 2021q4 | Source: BEA, Oregon Office of Economic Analsyis

As a result, inflation is running hotter than it has in the past 40 years. Inflation is not costless. Higher prices eat into those strong wages gains and erode household budgets. Demand destruction occurs when prices get too high and people stop buying as much. Fewer sales feeds back into the production side of the economy, resulting in slower job gains or even losses. These dynamics are not widespread today but remain a risk to the outlook.

As such, the Federal Reserve is raising interest rates faster, and higher than they previously anticipated. The good news is the economy can withstand higher rates. In fact, the Fed estimates the neutral rate of interest – where policy is neither stimulating nor restricting the economy – is about 2.5%. The federal funds rate today is the range from 0.25-0.5%. Expectations are the Fed will raise rates to close to neutral this year and monitor the impacts. The real question is whether the economy needs restrictive policy to truly slow inflation. The risk is recessions tend to happen after policy becomes restrictive.

Inflation is likely to remain above the Fed's target this year and into next, but on a slowing trajectory. As supply chains improve and demand cools, the sharp increases in durable goods prices are likely to reverse somewhat. Headline inflation will also slow as the oil shock from the war in Ukraine fades. However, the key items to watch are to what extent service inflation accelerates, and whether wage growth slows from its brisk pace.

One direct rental housing implication of today's high inflation is Oregon's maximum allowable rent increase in 2023 is likely to be 13-14%. Our office will publish the official figure in September.

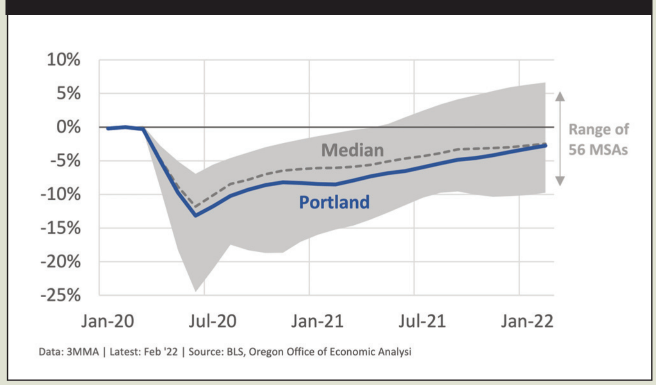
When it comes to housing there are somewhat contradictory data points. On one hand, housing demand is strong as evidenced by the home sales data and a declining rental vacancy rate. On the other hand, estimates of local population growth range from small losses to small gains, depending upon the source. Regardless, it is clear there has been no pandemic migration boom in Portland or Oregon.

One way to square these seemingly contradictory data points is if there has been a mini-household formation boom among existing residents. Household formation rates have declined in recent decades, but a small reversal would boost housing demand enough to offset weaker population gains. Such an outcome is possible given the large Millennial cohort is aging into their 30s and 40s when living with roommates is less common.

Over the longer-term, housing demand will come more from the rebound in migration patterns to Portland and Oregon. Migration is pro-cyclical. People move in search of better opportunities during good economic times. More tangible is the strong, recent rebound in the number of surrendered driver licenses at Oregon DMVs.

PORTLAND AND LARGE METROS

Percent change since Feb. 2020 among the 56 MSAs with population greater than 1 million



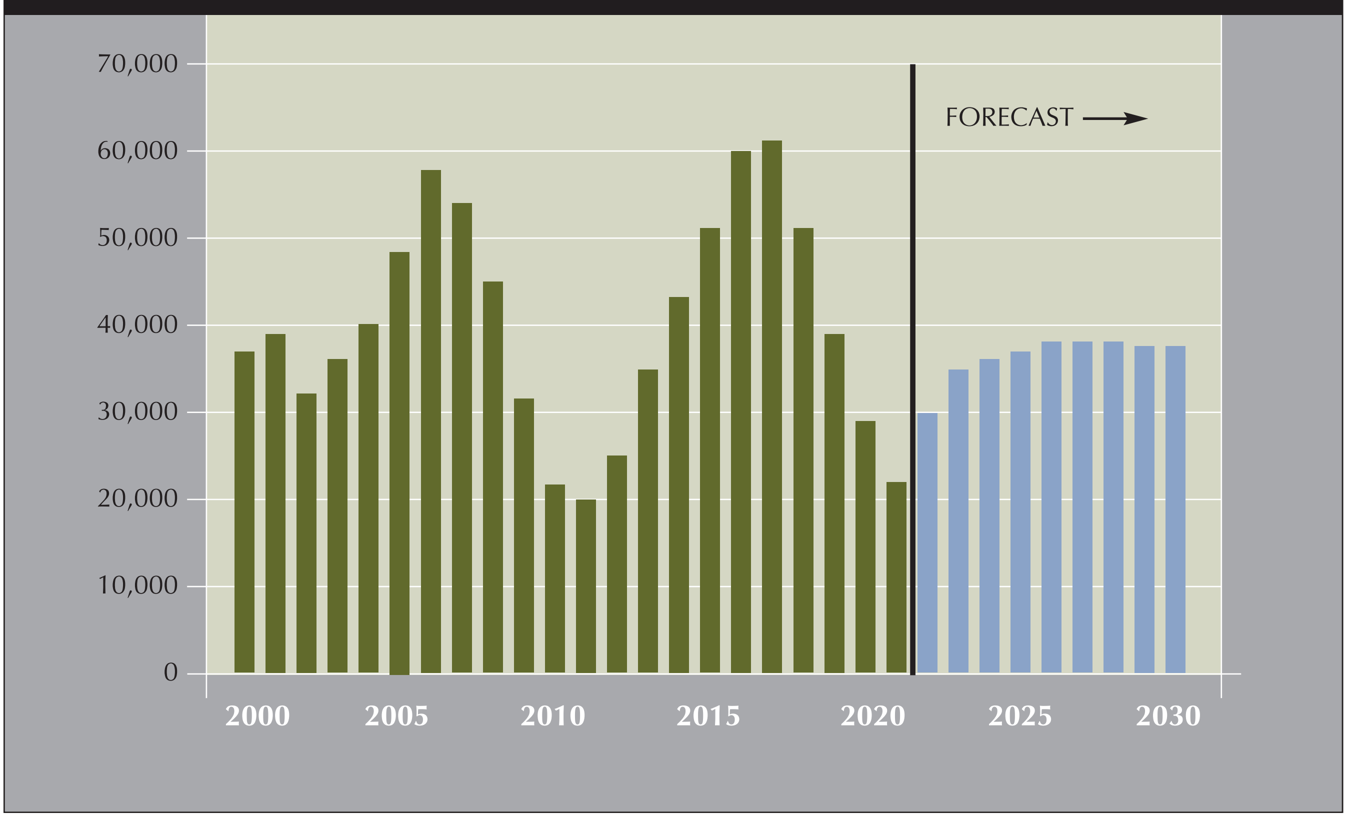
When it comes to the Portland region, the outlook is looking up. It's hard not to be. Most of the nation's large metro areas are lagging economically and seeing slow population gains or outright declines. Cities thrive on in-person interactions. Urban amenities include walkable neighborhoods, clusters of knowledge workers, and nightlife entertainment. However, with social distancing and increased working from home, these turn into outright dis-amenities, impacting the local economy.

The silver lining is Portland is not alone. Regional employment so far during the pandemic is right inline with the typical large metro nationwide. And according to the latest Census population estimates, the largest counties within popular metros like Denver, Minneapolis, Portland, and Seattle lost population, to say nothing of the larger losses in New York and San Francisco. Even the high-flying Sun Belt was not immune. The largest counties in the Atlanta, Dallas, Nashville, and Orlando metros lost population as well. Now, those metros grew overall but their urban cores shrank.

With migration flows returning, and the pandemic waning, large metros will continue to grow. The risks lie not with outright declines but with relatively weaker growth than in past cycles. However, even with the rebound in migration, our office's forecast for Oregon's population is modest by historical standards. The state is expected to grow by 0.8 percent per year this decade. A key part of the slower growth is deaths now outnumber births, offsetting some of the positive net migration. ■

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 POPULATION GROWTH
ANNUAL CHANGE IN THE TOTAL POPULATION



INFLATION AND THE COST OF PROVIDING HOUSING

Greg Frick, Co-Founder, HFO Real Estate Investment

According to the US Department of Labor news release, the February 2022 Consumer Price Index for All Urban Consumers(CPI-U) rose 7.9 percent over the last 12 months. This steady increase is now the largest since the period ending January 1982. In addition, the All Items Less Food and Energy index rose 6.4 percent, the most significant 12-month change since the period ending August 1982. The energy index rose 25.6 percent over the last year, and the food index increased 7.9 percent, the largest 12-month increase since July 1981.

The local press in the Portland market continues to report the narrative of rising rental rates being the most significant cause of homelessness in the area. Yes, the rising cost of housing does play a part in the homelessness situation in the city, but there are other factors that have a significant effect on the situation as well. We could do a whole report on those other factors, but that is for a different article.

One aspect seldom discussed by local and national press is the increase in expenses and costs for rental housing providers. Yes, stated rents have increased, but that is along side all the expenses in providing and operating housing in the market.

We thought it would be interesting to look at actual properties to see what has happened to their expenses over the last handful of years. In some cases, increases in operating costs surpassed the increase in collected income for these properties. In other words, despite increased rents, housing providers do not see increased income.

PROPERTY TAXES

Oregon passed a property tax limitation bill in the 1990s. People will often argue that property taxes are capped at an annual increase of no more than 3%, yet they forget to account for the added tax amount from bond levies.

In the properties reviewed for this article, the lowest annual increase in property taxes over the five-year period was 3.5%. Again, this is a year-over-year increase that averaged a 3.5% yearly increase in property taxes. Washington County properties had the lowest annual growth rate, while Multnomah County had the highest. We found annual increases ranging from 4.5% to 7.2% for properties in Multnomah County. Clearly, typical annual increases are higher than 3%.

UTILITIES

We recognize that utility costs can vary significantly year-over-year based on circumstances like increasing turnover, landscaping, capital improvement projects, and other factors. But our study gave us a good snapshot of utility increases that rental housing providers are experiencing.

Water and sewer charges varied greatly throughout all the properties, regardless of location. This variance has to do with each property's individual circumstances mentioned above. The lowest annual increase in water and sewer charges during the five-year analysis period was approximately 6%. We saw some properties with a yearly increase rate as high as 15%, but feel this does not indicate normal operations.

Garbage and trash had a slightly lower annual increase than water and sewer charges. Garbage and trash increased between 1.5% and 5.7% per year.

ADMINISTRATIVE

Administrative expense is a catchall that makes it difficult to get a consensus on what is being accounted for in the property expense reports category. It was beneficial to look at the same property year-over-year instead of seeking an industry standard. All the properties had substantial annual increases in administrative expenses, including legal, advertising, office expense, payroll, and software. The yearly increases ranged from 9% to 25% over the five years. We recognize that each property could experience unique situations, like implementing new software, additional employees, and cost to deal with city and state policies, which could skew the annual increase. In looking at the data, it was very consistent that all properties, regardless of location, size or age, had significant increases in their administrative costs.

REPAIR | MAINTENANCE

Repairs and maintenance is another category that can vary greatly depending on the capital improvement projects performed at a property. Anecdotally, in talking to various property operators, it is the case that the cost of doing repairs and maintenance, from materials to labor, has similar or more significant increases than other operating expense categories.

There are always two sides to the story, and in reviewing the operating expenses of rental housing providers, it is clear that only one side is being reported. Stated or asking rental rates are increasing, but that does not necessarily translate to the bottom line for rental housing providers. We continue to hear about supply chain issues and increased costs of all goods and services. Providing housing is a service that is not unaffected by these circumstances, and only hearing about the increase in potential income without discussing the costs of providing the service does not give an accurate picture of the situation.

Politicians only want to talk about price controls, which we have seen do not work. Suppose you put rules on pricing without addressing the underlying problem of too much demand and not enough supply. In that case, you will constrict the supply, as it will become unaffordable to deliver a product to the market. With increased pricing controls, developers will look to provide new housing units in other markets, and the quality of the existing rental housing will significantly decrease due to unfavorable economics. ■

Greg Frick is co-founder of HFO Real Estate Investment based in Portland, Oregon, and brings more than 30 years of multifamily investment sales and advisory experience. His granular knowledge of the market has helped HFO become the market leader for multifamily transactions in Oregon and SW Washington for both private and institutional clients. Greg currently serves on the board of MFNW.

DO YOU OFFER INCENTIVES?

MAP AREA	FALL 2021	SPRING 2022
NW Portland	25.2%	18.9%
Hillsboro I North of Hwy 26	6.7%	0%
Aloha	11.9%	8.7%
Beaverton	9.8%	3.5%
Downtown Portland	35.7%	29.7%
SW Portland	17%	14.8%
Tigard I Tualatin I Sherwood	10%	9.4%
Lake Oswego I West Linn	5.6%	11.8%
Wilsonville I Canby	9.1%	14.3%
Oregon City I Gladstone	0%	11.8%
Milwaukie	6.1%	8.3%
Clackamas	0%	0%
Inner & Central SE Portland	8.9	8.7%
Outer SE Portland	0%	3%
Troutdale I Fairview I Wood Village I Gresham	4.4%	10.6%
Outer NE Portland	3.9%	2.9%
Inner & Central NE Portland	6.7%	9.4%
North Portland I St. Johns	13.6%	13.5%
West Vancouver	3.8%	3.6%
East Vancouver	4.2%	3.2%
Salem I Vicinity	4.9%	4.6%
Eugene I Springfield	13.2%	3.3%
Bend I Redmond	0%	0%

THE Apartment Report

MULTIFAMILY NW
The Association Promoting Quality Rental Housing

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

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