

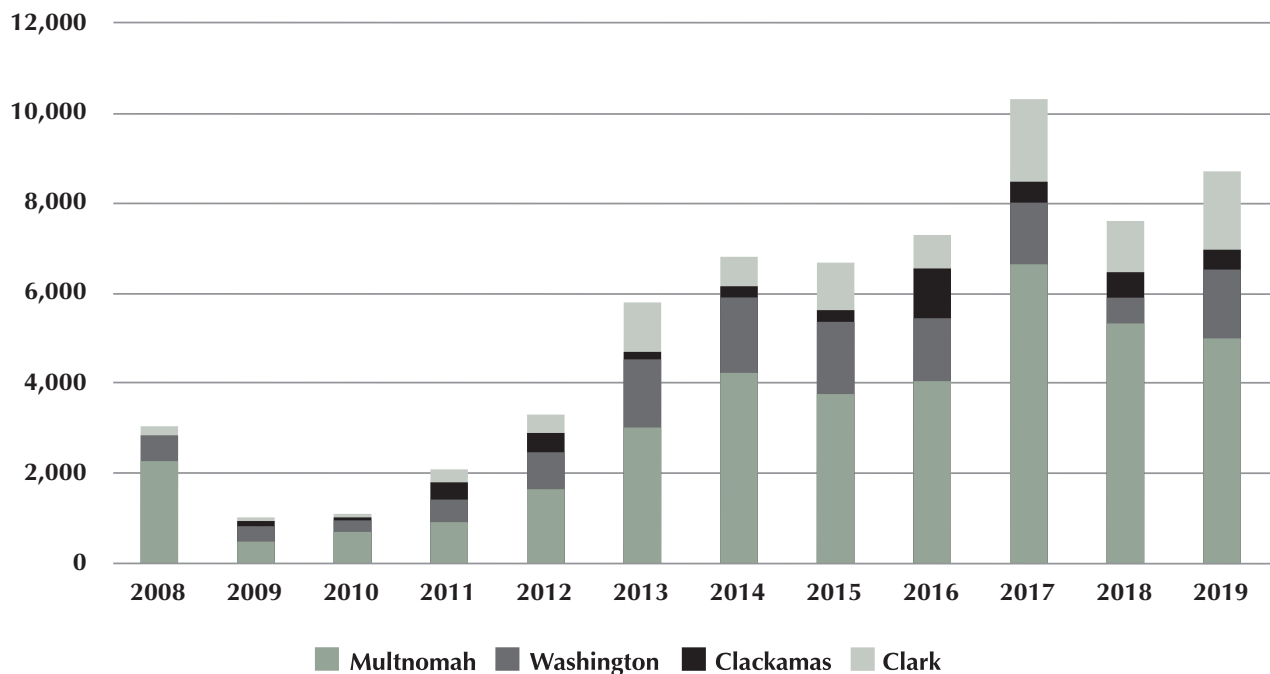
# SPRING 2020 APARTMENT CONSTRUCTION UPDATE

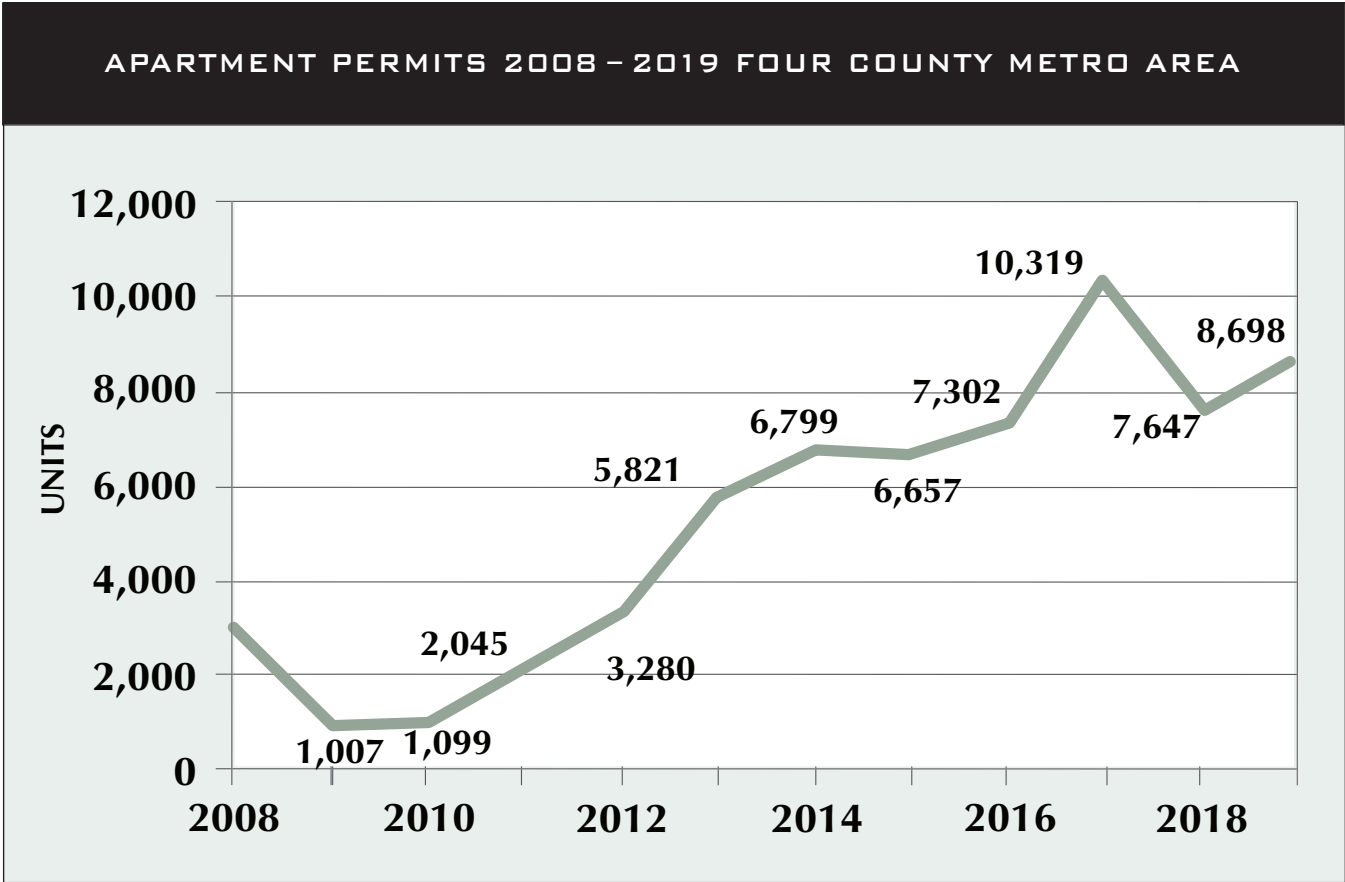
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In 2019, apartment construction in Portland Metro continued to show strength as job and population growth remained solid, though below previous years. The year end 2019 figures from the Census Bureau reported permits for 8,700 units in Portland Metro, which was up 14 percent from 2018, though 1,600 units below our peak in 2017. During 2019, the share of apartment permits in Multnomah County decreased as development picked up in Washington and Clark County. Development in Clackamas County remains slow. Despite Clackamas County accounting for 18 percent of the population in the four-county Metro area, only once since 2013 has the share of total units under construction exceeded 7 percent of units under construction metro wide.



## APARTMENT PERMITS ISSUED BY COUNTY 2008 - 2019





Based on data from CoStar, peak apartment completions occurred in 2019 as at least 6,500 units were finished. This surge of completions represents the final wave of projects that were approved prior to the passage of Inclusionary Housing in early 2017. Due to slower job and population growth across the Metro area, absorption decreased to around 5,150 units in 2019, according to CoStar. Completions in 2019 outpacing absorptions helps explain the increase in vacancies across the Metro area, though in particular at newer apartments. During 2019, developers remained confident in the market, though understood that job and population growth in Portland Metro was slowing. As of early 2020, CoStar reports that 7,100 units were currently under construction in Portland Metro.

As we enter Spring 2020, the world is suddenly a different place. The health, economic, and regulatory impacts of COVID-19 has shifted the development landscape. As of late March 2020, there is considerable uncertainty regarding the impact of COVID-19 on the apartment market and a timeline for recovery. Many economists have tied an economic recovery directly to our ability to contain the COVID-19 virus and restore confidence.



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*There is considerable uncertainty regarding the total economic impact of COVID-19 and reliable forecasts specific to Portland were not available. For this article, I asked seven individuals involved in development to provide their thoughts on the coming years. Below is a summary of comments regarding development in Portland Metro.*

- Participants reported that projects in the planning stages are being delayed or put on hold, and some projects in the initial stages of construction will be mothballed. Final decisions to proceed will be considered when the long-term impacts on the economy are better defined.

- Participants were confident that many of the projects currently in the planning stages will proceed at some point. However, it was estimated that 20% to 25% of planned projects will be scrapped completely.

- One participant reported that projects in the planning stages will move forward, though will intentionally be pushed back as far as possible to allow maximum time for recovery. Two additional participants reported that development delays will occur due to work restrictions for many planning departments and construction workers.

- Lending will become more of a challenge as some lenders exit the business of construction loans and others will turn more conservative. The tightening regulations and higher equity requirements will exclude developers with tighter margins.

- Two participants reported serious concerns regarding the future political landscape, which could drive development decisions. One participant was concerned that rental regulations would further tighten as job losses turn homeowners back to renters at a time when fewer apartments projects will be moving forward. Two participants reported concerns that the City of Portland will temporarily ban rental increases if the economic conditions do not improve quickly.

- There are substantial concerns regarding projects that are in lease-up or will be beginning lease up during spring 2020. Economic uncertainty coupled with “stay at home” orders will decrease the movement of tenants and buildings in lease up during 2020 will be impacted. Buildings in lease up will be further impacted by reported difficulties in attaining bridge loans. Some foreclosures on new projects may be inevitable if conditions do not improve in a timely manner.

Fundamentals in 2019 remained strong and construction showed little sign of slowing. 2020 will be a different story. The uncertainty regarding the impact of COVID-19 will slow future development as many builders are taking a wait and see approach. Given the possible depth of this downturn, most developers will wait for additional market clarity before deciding on whether to proceed. ■