VOL. 39 FALL 2023

MULTIFAMILY NW
The Association Promoting Quality Rental Housing

THE Apartment Report

NAVIGATING THE COURSE

Ariel Wilsey-Gopp, CRMG, Apartment Report Committee

Interest rates are high, we can all agree on that. The recession was supposed to hit like a rock, but it hasn't quite, not like it was supposed to. A dozen eggs might have set record prices in recent months, but people continue to spend and take financial chances, which in the end might allow us to break our fall gently. We are getting through it, one day at a time, and it seems that the worst is behind us.

That said, vacancies continue to stress our industry and we continue to try and pivot with new tactics as rental markets continue to soften. Flattening rent rates and increased operating expenses have impacted NOI and valuation. While we are almost completely "back to work," with job recruiters seeing glimpses of pre-pandemic norms, urban areas continue to struggle with problems exacerbated during the pandemic, and apartment seekers continue to explore new suburban areas. New construction and development have slowed due to high interest rates and struggles with financing, and we continue to see rapid innovation in technology, which is yet more to learn and implement before the competition does. But as an industry we are resilient if we are nothing else. We have proven to ourselves that we can go through the unexpected and come out tattered and worn, but ready to keep moving forward. The light is dim, but it's brighter ahead; we just have to keep our ship on course and check the wind.

SALES

High interest rates are not doing any favors to the sales market. In looking at the Portland Metro Area, buyers that might have purchased in the Spring are now looking at dramatically different set of options. Costar's Trend Report for the area shows a total of 28 transactions in the the third quarter of 2023. We are still waiting for numbers to start materializing like we were seeing during 2022. The challenges posed by Portland's housing regulations and urban crime, drugs, and homelessness in city centers continue to play a role in the housing market, compounded by continued high tax rates. CAP rates closed the third quarter averaging 5.77%, up from the first quarter of 2023 at 5.06%. At the time of this report, cap rates are sitting at 5.52%. Third quarter median price per unit was $218, 625, slightly up from the first quarter of $216,667. Investors continue to expand into non-urban markets, where new communities are starting to develop even further out from city centers.

Portland/Vancouver

VACANCY

Vacancy is up across the Portland / Vancouver area, at 5.47%, up from 5.09% in the Spring of 2023. To compare, in the Fall of 2022 we reported vacancy of 3.59%, measuring an overall 52% increase over the last 12 months. In our Spring report, Downtown Portland far exceeded vacancies at 10%, with NW Portland in second position at 6.97%; however, since our last report, Downtown Portland has come down to 8% with NW Portland having increased to 7.42%. While Downtown Portland continues to report the highest vacancies of all surveyed areas, the almost equal vacancy levels of Downtown and NW is a notable change. At the same time, people are moving out into newly booming suburban areas. The Wilsonville / Canby area is experiencing the lowest vacancy currently, at 3.89%, a decrease of 24% from Spring 2023 – the only area reporting vacancy under 4% in the Portland Metro area. Beaverton continues to rise in vacancy, sitting at 6.23% (a 35% increase from Spring), with renters seemingly migrating South along the I-5 corridor to Woodburn and surrounding areas. North Portland / St. Johns, Oregon City / Gladstone, and Clackamas areas had vacancy rates over 6% with the rest of areas surveyed landing around 4-5% vacancy rates. (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).

Three-bedroom / two-bath units have the best occupancy of all unit types at the time of print, with average vacancy of 4.28%. For comparison, three-bedroom / one-bath units are at 5.36% vacancy, up from 2.33% in the Fall of 2022. Two-bedroom / one-bath units are not far behind the 3x2 units, with average vacancy of 4.51%. The highest vacancy across unit type was for studios at 7.13%.

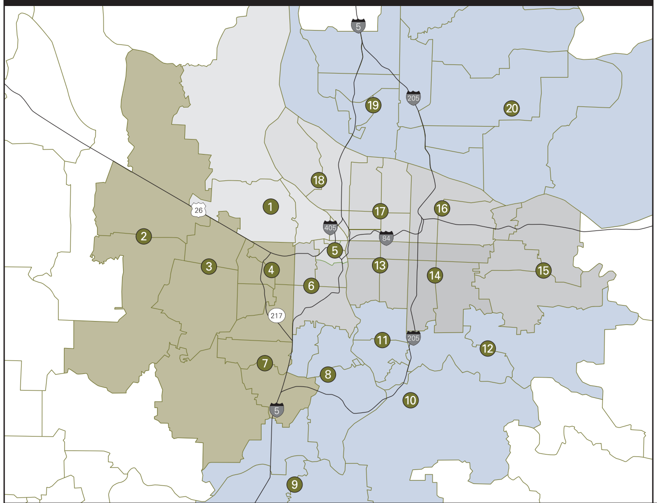
(continued on page 2)

SURVEY SAYS!

- Portland Vacancy Rate Inching Towards 5.5%
- Average Rent Per SF Just Over $2
- Cap Rates at 5.52%
- Sales Market Creeping
- Significant Increase in Expenses

TABLE OF CONTENTS

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 remained constant since our Spring report, reported at an average of $2.04 psf. Greatest fluctuations were noted in NW Portland (up to $2.51 from $2.39 psf), Inner & Central NE Portland (up to $2.27 from $2.19 psf), and North Portland / St. Johns (down to $2.13 from $2.28 psf).

Overall average rents per unit type:

UNIT TYPE	FALL 23	SPR 23
Studio	$1,317	$1,283
1 bdrm/1 bth	$1,509	$1,490
2 bdrm/1 bth	$1,525	$1,519
2 bdrm/2 bth	$1,881	$1,857
2 bdrm townhome	$1,724	$1,723
3 bdrm/1 bth	$1,689	$1,691
3 bdrm/2 bth	$2,058	$2,044

**Average rent has increased slightly or remained relatively constant for all unit types as per above. Comparatively, in Spring 2023, we noted a marked increase across all unit types.*

Other Areas

Vacancy rates in outlying areas around Portland Metro increased overall to 4.26% (from 4.21 % in the Spring); however, the percentage change was less dramatic than the prior period change. The Salem market vacancy rate surpassed 4% at the time of our survey, at 4.03% (from 3.79%) and vacancies in three-bedroom / two-bath units are lowest at 2.39%. Aside from three-bedroom / two-bath units, the Salem area saw vacancies increase by unit type. Studio vacancy rates continued to surpass by far all other unit types in the Salem area, with the highest vacancy rate at almost 10% (9.77%), approximately double the vacancy rate of all other units in the area.

In the Eugene/Springfield area, three-bedroom / two-bath units reported vacancy at 5.15% in comparison to Bend/Redmond, at 8.55%, more than double the percentage vacant from the Spring.

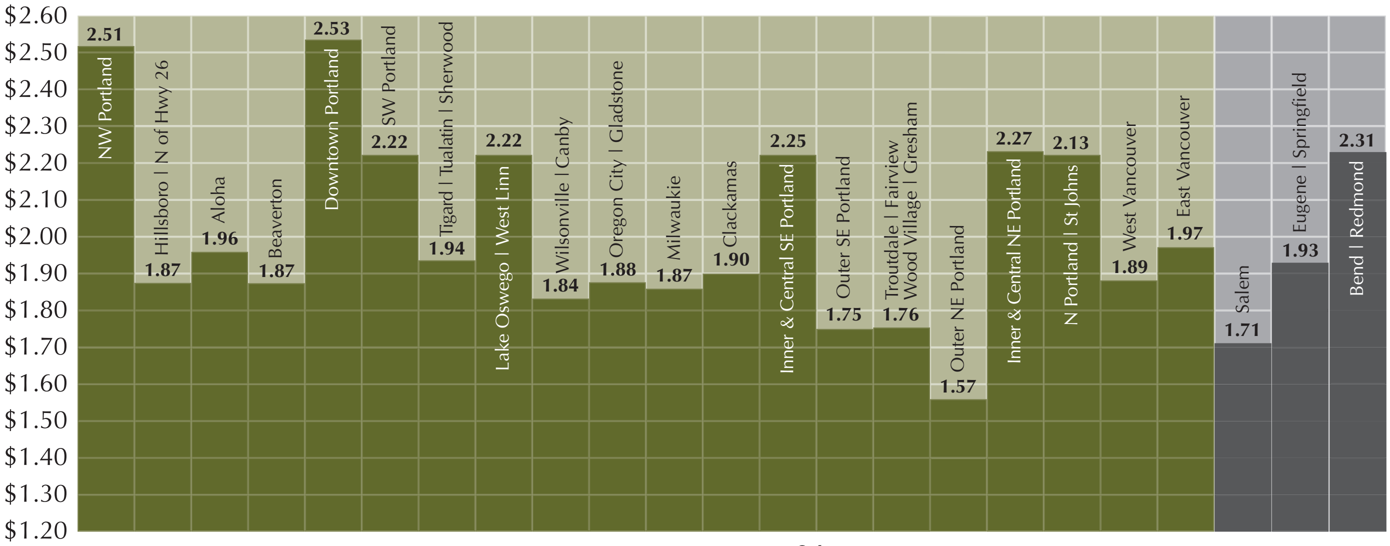
Our Contributors

Patrick O. Barry, Appraiser at Barry & Associates, reports on Portland Metro apartment fundamentals, values, sales, and rental trends for YTD 2023. Barry emphasizes that while rents and vacancies may be balancing out, values and sales are down, pointing to a market in transition. Barry presents a sobering picture of where we stand: that while the worst likely may be behind us, if we look at the past and to current sales trends, the recovery period may take more time than we all have hoped. Barry compares the period of 2021-2023 (68% decline) to that of 2007-2009 (59% decline), and what we might expect on the horizon if we look to history. As for construction activity, although having been steadily in decline, Barry notes that currently more than half of all units under construction are in Multhomah County – a shift worthy of noting as we look at discussions at forecasting vacancy and in-migration within the Portland Metro Area neighborhoods. Barry highlights trends in vacancies, contrasting to The Great Recession of 2009, as well as significant factors at play in this transitional market: non-traditional lending environment, significant space between sellers and buyers, stagnant population growth in Oregon and the Portland Metro Area. In conclusion, Barry states: **"As we move forward, property owners and real estate professionals should prepare for continued changes, particularly as lending environments evolve and economic forecasts remain uncertain."**

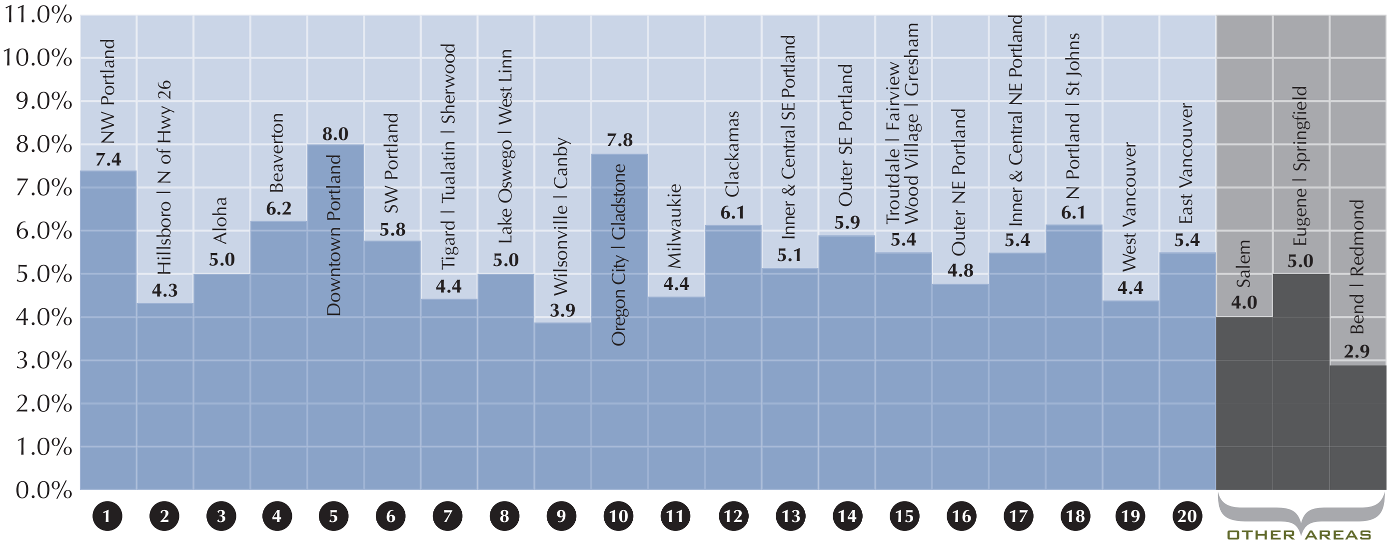
In the aptly titled article *Economic Headwinds* by **Jon Spikkeland** of Johnson Economics, Spikkeland makes clear that by and large, our nation's economy continues to prove resilient in spite of the continuing post-COVID recovery and skyrocketing interest rates. Jobs, income, and spending continue strong in spite of the Federal Reserve's repeated rate hikes. Annual inflation is down, as well as core inflation signifying that a recession may not be the impact we feared several months ago. However, the real estate industry as a whole is still vulnerable to the long period of high interest rates, with rental markets taking significant hits on financing leading to construction delays and over-leveraged projects. Demographically, Spikkeland emphasizes reasons that the Portland Metro Area is not seeing the influx of young jobseekers that it did prior to the pandemic. However, Strikkeland emphasizes that the Portland Metro Area continues to have constraints on expanding single family housing, which will continue to funnel people into multifamily units: **"Over the near term, high mortgage rates will shift additional demand from the ownership market to rentals. On the supply side, the high interest rates will limit new development, allowing for higher occupancy at existing properties."**

This survey represents a total of 87,469 units from 1,269 properties. All 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 ensuring the accuracy of our data and the continued success of this report. ■

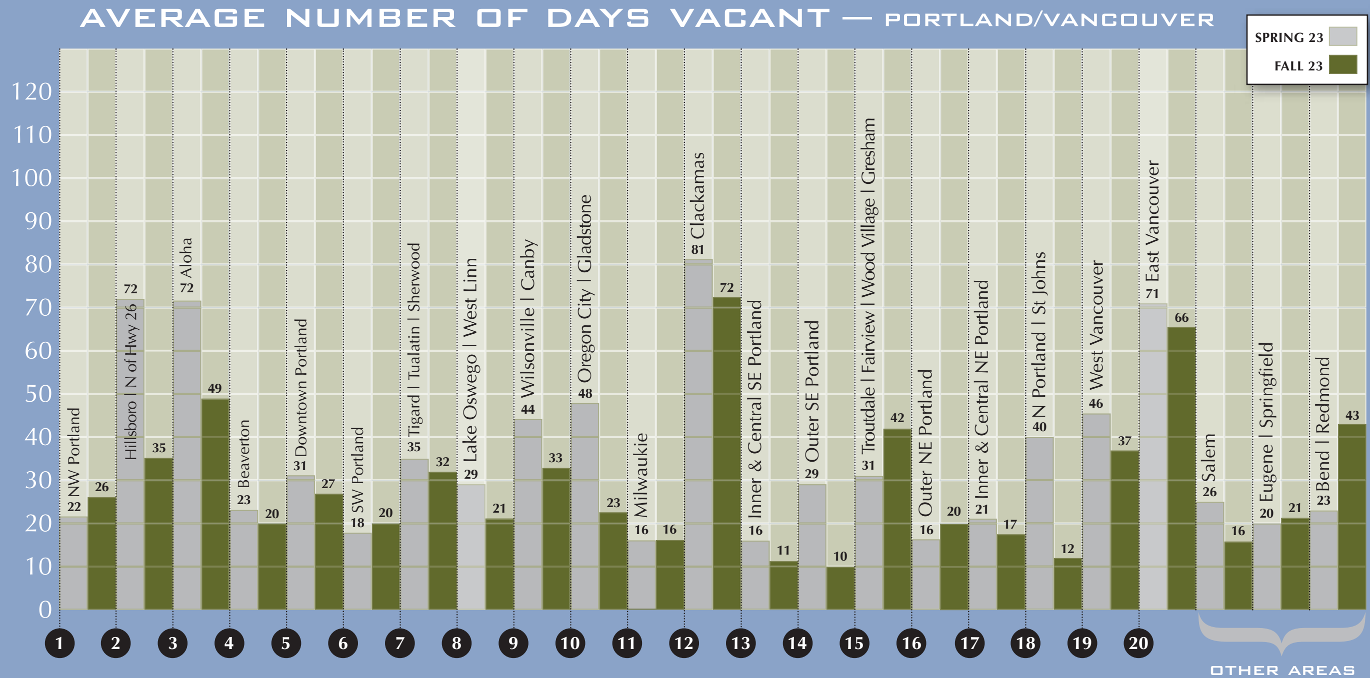
AVERAGE RENT PER SQUARE FOOT $



AVERAGE MARKET VACANCY RATE %



AVERAGE NUMBER OF DAYS VACANT — PORTLAND/VANCOUVER



SURVEY RESULTS—FALL 2023

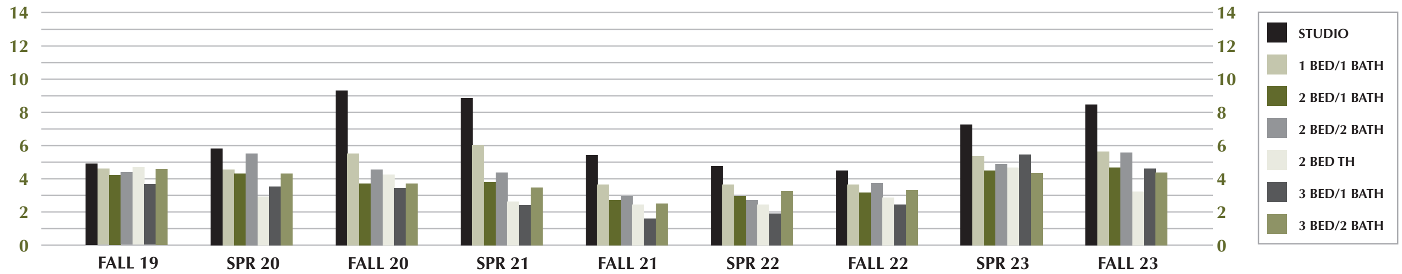
PORTLAND/VANCOUVER METRO AREA

AREA NAME	# OF PROP	DATA	ALL	SPR 23 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	47	AVG MARKET VACANCY RATE %	8	10.5	-0.24	8.4	7.55	5.47	9.73	4.95	-	17.86
(5)		AVG RENT PER SQ FOOT $	2.53	2.48	0.02	2.88	2.34	2.14	2.45	2.47	-	2.99
		AVG RENT PER UNIT TYPE $				1228	1587	1784	2696	2315	-	4026
		SUM OF UNITS SURVEYED	3124	2952		1012	1523	128	329	101	0	28
NW PORTLAND	113	AVG MARKET VACANCY RATE %	7.42	6.97	0.06	10.54	6.95	6.75	5.7	10.34	11.36	5.03
(1)		AVG RENT PER SQ FOOT $	2.51	2.39	0.05	2.92	2.58	2.04	2.2	1.97	1.72	2.05
		AVG RENT PER UNIT TYPE $				1416	1772	1762	2245	2362	1993	2636
		SUM OF UNITS SURVEYED	6901	6581		1471	3166	504	1508	29	44	179
INNER & CENTRAL SE	199	AVG MARKET VACANCY RATE %	5.06	4.76	0.06	8.84	4.36	2.78	4.15	1.11	8.33	2.63
PORTLAND		AVG RENT PER SQ FOOT $	2.25	2.21	0.02	2.96	2.17	1.75	2.1	1.63	1.5	1.59
(13)		AVG RENT PER UNIT TYPE $				1237	1357	1458	2359	1532	1574	1908
		SUM OF UNITS SURVEYED	5017	4936		1279	2177	1078	217	180	48	38
INNER & CENTRAL NE	120	AVG MARKET VACANCY RATE %	5.4	5.25	0.03	6.9	4.96	4.54	6.02	4.69	0	10.53
PORTLAND		AVG RENT PER SQ FOOT $	2.27	2.19	0.04	2.94	2.21	1.78	2.1	1.74	1.34	2.08
(17)		AVG RENT PER UNIT TYPE $				1373	1442	1490	2320	1577	1487	2732
		SUM OF UNITS SURVEYED	3738	3030		754	2018	485	382	64	16	19
N PORTLAND | ST JOHNS	34	AVG MARKET VACANCY RATE %	6.11	4.81	0.27	7.77	7.06	3.01	7.23	-	0	0
(18)		AVG RENT PER SQ FOOT $	2.13	2.28	-0.07	2.78	2.23	1.8	1.68	-	1.48	1.97
		AVG RENT PER UNIT TYPE $				1194	1388	1464	1799	-	1420	1930
		SUM OF UNITS SURVEYED	1064	1372		193	425	266	166	0	11	3
SW PORTLAND	57	AVG MARKET VACANCY RATE %	5.82	5.65	0.03	7.3	5.05	5.64	7.49	0	3.23	7.97
(6)		AVG RENT PER SQ FOOT $	2.22	2.18	0.02	2.97	2.39	1.75	2.01	1.41	1.5	1.6
		AVG RENT PER UNIT TYPE $				1346	1512	1439	2009	1327	1719	1822
		SUM OF UNITS SURVEYED	3023	2532		315	1486	550	467	36	31	138
OUTER SE PORTLAND	35	AVG MARKET VACANCY RATE %	5.86	6.32	-0.07	4.17	6.8	5.54	7.15	2.55	9.09	2.71
(14)		AVG RENT PER SQ FOOT $	1.75	1.81	-0.03	2.48	1.97	1.68	1.6	1.57	1.56	1.7
		AVG RENT PER UNIT TYPE $				982	1337	1432	1567	1671	1571	2025
		SUM OF UNITS SURVEYED	2322	2198		48	632	596	657	157	11	221
OUTER NE PORTLAND	33	AVG MARKET VACANCY RATE %	4.75	6.11	-0.22	5	6.04	4.62	2.69	0	2.27	5.45
(16)		AVG RENT PER SQ FOOT $	1.57	1.54	0.02	2.33	1.66	1.52	1.51	1.33	1.42	1.64
		AVG RENT PER UNIT TYPE $				1013	1194	1374	1495	1300	1520	1821
		SUM OF UNITS SURVEYED	2086	1244		20	695	974	260	38	44	55
TROUTDALE | FAIRVIEW	38	AVG MARKET VACANCY RATE %	5.35	3.75	0.43	4.88	4.51	5.95	6.4	1.98	14.81	4.31
WOOD VILLAGE | GRESHAM		AVG RENT PER SQ FOOT $	1.76	1.72	0.02	2.66	2.06	1.63	1.63	1.67	1.7	1.61
(15)		AVG RENT PER UNIT TYPE $				1236	1373	1467	1601	1729	1756	2041
		SUM OF UNITS SURVEYED	3344	2957		123	688	656	1204	252	27	394
CLACKAMAS	11	AVG MARKET VACANCY RATE %	6.13	4.62	0.33	3.23	5.91	6.95	6.42	-	0	4.25
(12)		AVG RENT PER SQ FOOT $	1.9	1.86	0.02	2.64	2.12	1.78	1.8	-	2.41	1.86
		AVG RENT PER UNIT TYPE $				1317	1510	1602	1775	-	2100	2106
		SUM OF UNITS SURVEYED	1991	1991		31	508	475	763	0	2	212
LAKE OSWEGO | WEST LINN	14	AVG MARKET VACANCY RATE %	5.03	5.33	-0.06	5.88	4.33	3.02	7.84	2.94	-	5.41
(8)		AVG RENT PER SQ FOOT $	2.22	2.17	0.02	3.5	2.27	1.77	2.38	1.78	-	2.31
		AVG RENT PER UNIT TYPE $				1343	1745	1618	2580	1686	-	3038
		SUM OF UNITS SURVEYED	975	1295		34	416	199	255	34	0	37
MILWAUKIE	29	AVG MARKET VACANCY RATE %	4.44	3.73	0.19	6.93	5.91	4.41	8.57	0	0	1.32
(11)		AVG RENT PER SQ FOOT $	1.87	1.82	0.03	2.71	2.1	1.72	1.93	1.49	1.36	1.69
		AVG RENT PER UNIT TYPE $				1233	1289	1409	1820	1467	1650	1890
		SUM OF UNITS SURVEYED	1735	1609		101	541	771	35	207	4	76
OREGON CITY | GLADSTONE	15	AVG MARKET VACANCY RATE %	7.78	6	0.3	9.09	12.99	3.78	6.89	4.76	2.94	9.38
(10)		AVG RENT PER SQ FOOT $	1.88	1.8	0.04	2.82	2.19	1.78	1.78	1.67	1.76	1.69
		AVG RENT PER UNIT TYPE $				1303	1464	1506	1808	1373	1671	2118
		SUM OF UNITS SURVEYED	1569	1384		33	385	370	450	105	34	192
WILSONVILLE | CANBY	14	AVG MARKET VACANCY RATE %	3.89	5.11	-0.24	0	4.37	4.32	3.48	0	0	4.82
(9)		AVG RENT PER SQ FOOT $	1.84	1.85	-0.01	2.83	2.1	1.74	1.73	1.5	0.8	1.73
		AVG RENT PER UNIT TYPE $				1339	1504	1568	1741	1613	895	2035
		SUM OF UNITS SURVEYED	2265	3015		43	618	532	747	62	14	249
ALOHA	42	AVG MARKET VACANCY RATE %	4.95	3.8	0.3	6.9	5.11	4.34	5.34	5.16	2.13	4.48
(3)		AVG RENT PER SQ FOOT $	1.96	1.96	0	2.65	2.26	1.89	1.82	1.77	1.88	1.8
		AVG RENT PER UNIT TYPE $				1265	1527	1663	1799	2093	1843	2092
		SUM OF UNITS SURVEYED	7032	6574		29	2056	1450	2416	252	47	782

PORTLAND/VANCOUVER METRO AREA

AREA NAME	# OF PROP	DATA	ALL	SPR 23 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 %	6.23	4.62	0.35	13.16	5.93	3.77	10.74	3.49	1.89	1.91
(4)		AVG RENT PER SQ FOOT $	1.87	1.8	0.04	2.66	2.01	1.67	1.98	1.7	1.63	1.5
		AVG RENT PER UNIT TYPE $				1483	1378	1503	1972	1739	1742	1836
		SUM OF UNITS SURVEYED	3675	2987		114	1180	1114	866	86	106	209
HILLSBORO | N OF HWY 26	12	AVG MARKET VACANCY RATE %	4.31	4.69	-0.08	-	3.97	5.36	4.95	-	-	1.83
(2)		AVG RENT PER SQ FOOT $	1.87	1.95	-0.04	-	2.13	1.73	1.76	-	-	1.59
		AVG RENT PER UNIT TYPE $				-	1602	1623	2000	-	-	2022
		SUM OF UNITS SURVEYED	2040	3094		0	731	261	829	0	0	219
TIGARD | TUALATIN	61	AVG MARKET VACANCY RATE %	4.42	4.18	0.06	5.47	4.48	5.02	3.76	2.55	4.55	5.08
SHERWOOD		AVG RENT PER SQ FOOT $	1.94	1.89	0.03	2.92	2.17	1.78	1.81	1.61	1.66	1.78
(7)		AVG RENT PER UNIT TYPE $				1332	1462	1504	1809	1662	1684	2170
		SUM OF UNITS SURVEYED	6216	5355		128	2141	1534	1647	196	176	394
WEST VANCOUVER	67	AVG MARKET VACANCY RATE %	4.37	4.16	0.05	10.46	5.42	4.5	3.68	2.91	0	1.3
(19)		AVG RENT PER SQ FOOT $	1.89	1.81	0.04	2.94	2.23	1.62	1.74	1.47	1.95	1.51
		AVG RENT PER UNIT TYPE $				1387	1570	1459	1813	1609	1727	1906
		SUM OF UNITS SURVEYED	7751	6303		306	2361	1377	2689	309	18	691
EAST VANCOUVER	31	AVG MARKET VACANCY RATE %	5.41	4.21	0.29	2.6	5.73	5.31	5.69	5.19	0	5.09
(20)		AVG RENT PER SQ FOOT $	1.97	1.9	0.04	2.63	2.24	1.84	1.79	1.99	1.44	1.71
		AVG RENT PER UNIT TYPE $				1403	1527	1667	1813	1903	1900	1962
		SUM OF UNITS SURVEYED	5768	5653		231	1674	1244	1740	308	1	570
TOTAL AVG MARKET VACANCY RATE %			5.47	5.09	0.07	8.41	5.63	4.69	5.56	3.06	4.55	4.19
TOTAL AVG RENT PER SQ FOOT $			2.04	2	0.02	2.89	2.23	1.75	1.84	1.69	1.63	1.71
TOTAL AVG RENT PER UNIT TYPE $						1317	1509	1525	1881	1724	1689	2058
TOTAL SUM OF PROPERTIES SURVEYED			1024	935		323	834	628	345	107	92	236
TOTAL SUM OF UNITS SURVEYED			71636	67062		6265	25421	14564	17627	2416	637	4706

VACANCY RATE SINCE FALL 2019—PORTLAND/VANCOUVER METRO AREA



OTHER AREAS

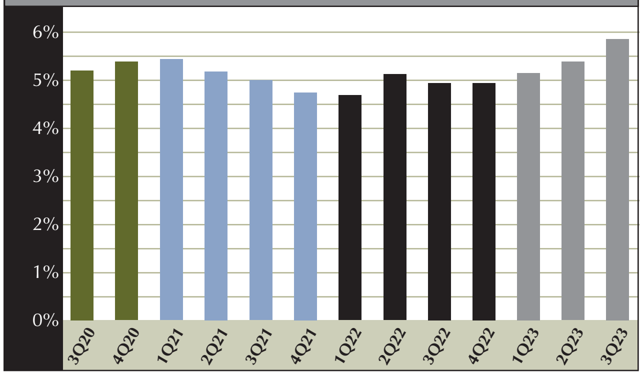
AREA NAME	# OF PROP	DATA	ALL	SPR 23 REPORT	CHANGE	STUDIO	1 BED 1 BATH	2 BED 1 BATH	2 BED 2 BATH	2 BED TWNHS	3 BED 1 BATH	3 BED 2 BATH
SALEM & VICINITY	129	AVG MARKET VACANCY RATE %	4.03	3.79	0.06	9.77	3.87	3.46	4.88	4.46	3.42	2.39
		AVG RENT PER SQ FOOT $	1.71	1.68	0.02	2.46	2.01	1.58	1.65	1.36	1.95	1.52
		AVG RENT PER UNIT TYPE $				1167	1255	1323	1608	1405	1671	1782
		SUM OF UNITS SURVEYED	8181	8422		266	1785	3351	1803	314	117	545
EUGENE | SPRINGFIELD	96	AVG MARKET VACANCY RATE %	4.99	4.23	0.18	6.16	4.96	4.36	4.85	4.66	15.79	5.15
		AVG RENT PER SQ FOOT $	1.93	1.87	0.03	2.84	2.13	1.74	1.83	1.61	1.52	1.53
		AVG RENT PER UNIT TYPE $				1040	1337	1373	1870	1712	1613	1883
		SUM OF UNITS SURVEYED	5812	5601		568	1613	1536	846	687	57	505
BEND | REDMOND	20	AVG MARKET VACANCY RATE %	2.93	6.58	-0.55	2.35	1.93	3.06	3.5	0	-	8.55
		AVG RENT PER SQ FOOT $	2.31	2.21	0.05	3.02	2.55	1.84	2.1	1.56	-	1.62
		AVG RENT PER UNIT TYPE $				1679	1772	1609	2155	1949	-	2133
		SUM OF UNITS SURVEYED	1840	1428		298	621	360	400	44	0	117
TOTAL AVG MARKET VACANCY RATE %			4.26	4.21	0.01	6.01	4.01	3.7	4.69	4.4	7.47	4.2
TOTAL AVG RENT PER SQ FOOT $			1.86	1.8	0.03	2.8	2.14	1.65	1.76	1.53	1.81	1.53
TOTAL AVG RENT PER UNIT TYPE $						1238	1368	1357	1752	1630	1652	1860
TOTAL SUM OF PROPERTIES SURVEYED			245	224		49	148	141	78	39	30	61
TOTAL SUM OF UNITS SURVEYED			15833	15451		1132	4019	5247	3049	1045	174	1167

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

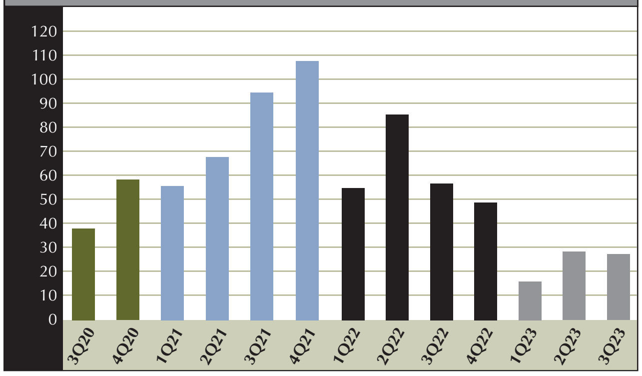
TREND REPORT : PORTLAND METRO AREA

CoStar: Search criteria—Research Status: Published; Market: Portland; PropType: Multi Family; Sale Date: 7/1/2020—9/30/2023; unit: 5 units and greater.

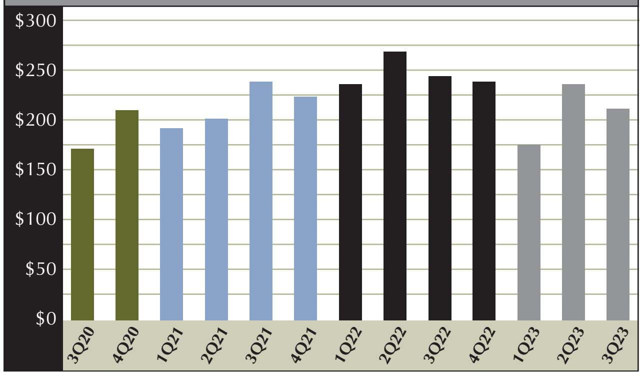
CAP RATE



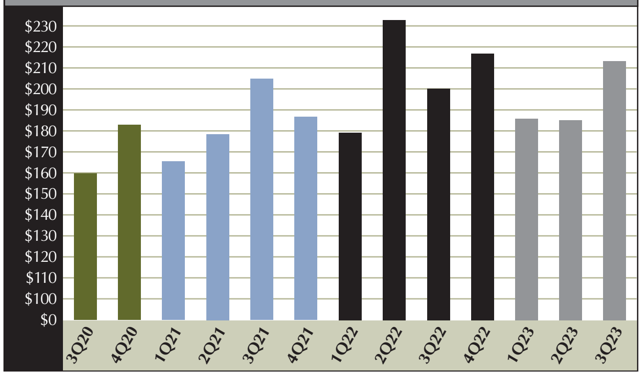
NUMBER OF TRANSACTIONS



MEDIAN PRICE PER SQUARE FOOT



MEDIAN PRICE PER UNIT (IN THOUSANDS)



YEAR	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
# OF TRANS	39	59	55	68	93	108	54	85	57	49	16	29	28
TTL $ VOLUME	$319,672,290	$635,634,747	$491,065,740	$833,059,130	$1,235,786,900	$1,899,750,318	$561,100,337	$1,311,346,999	$521,235,850	$958,376,592	$172,662,000	$195,357,918	$247,994,950
TTL BLDG SF	1,657,943	2,554,258	2,171,258	2,911,738	4,663,006	6,600,291	1,908,603	3,886,024	1,966,499	3,703,068	785,876	855,255	1,055,503
TTL UNITS	1,746	2,637	2,338	3,295	5,042	6,533	2,245	4,507	2,143	3,343	806	882	1,137
AVG PRICE	$8,196,725	$10,773,470	$8,928,468	$12,250,870	$13,288,031	$17,590,281	$10,390,747	$15,427,612	$9,144,489	$19,558,706	$10,791,375	$6,736,480	$8,856,962
AVG # OF SF	42,511	43,293	39,477	42,820	50,140	61,114	35,345	45,718	34,500	75,573	49,117	29,492	37,697
AVG $ BLDG SF	$192.81	$248.85	$226.17	$286.10	$265.02	$287.83	$293.98	$337.45	$265.06	$258.81	$219.71	$228.42	$234.95
MED $ P/SF	$173.02	$208.96	$191.41	$200.91	$239.37	$223.61	$232.70	$270.11	$241.57	$239.55	$174.68	$237.18	$210.99
AVG $ P/UNIT	$183,088	$241,045	$210,037	$252,825	$245,099	$290,793	$249,933	$290,958	$243,227	$286,682	$214,221	$221,494	$218,113
MED $ P/UNIT	$160,000	$181,250	$166,429	$179,359	$204,891	$187,800	$179,500	$231,167	$200,000	$217,083	$185,833	$185,000	$212,077
AVG # OF UNITS	45	45	43	48	54	60	42	53	38	68	50	30	41
ACTUAL CAP RATE	5.21%	5.42%	5.49%	5.15%	5.01%	4.75%	4.71%	5.10%	4.95%	4.97%	5.13%	5.42%	5.82%
AVG GRM	14.29	14.74	11.04	11.84	12.96	13.36	11.88	13.62	11.39	14.51	11.34	—	13.02
AVG GIM	—	—	—	11.47	—	—	—	—	—	—	—	—	—

TENANT PAID UTILITIES

MAP AREA	WATER/SEWER	HEAT	GARBAGE
NW PORTLAND	71.2%	90.4%	68%
HILLSBORO | N OF HWY 26	75%	100%	68.8%
ALOHA	87.2%	100%	85.1%
BEAVERTON	75.4%	95.1%	65.6%
DOWNTOWN PORTLAND	67.2%	87.9%	65.5%
SW PORTLAND	82.3%	96.8%	74.2%
TIGARD | TUALATIN | SHERWOOD	81.7%	100%	74.7%
LAKE OSWEGO | WEST LINN	76.5%	100%	70.6%
WILSONVILLE | CANBY	68.2%	95.5%	68.2%
OREGON CITY | GLADSTONE	73.7%	94.7%	63.2%
MILWAUKIE	63.9%	86.1%	47.5%
CLACKAMAS	100%	100%	91.7%
INNER & CENTRAL SE PTLD	45.7%	79.9%	40.2%
OUTER SE PORTLAND	45.5%	95.5%	37.9%
TROUTDALE | FAIRVIEW WOOD VILLAGE | GRESHAM	71.7%	97.8%	58.7%
OUTER NE PORTLAND	61%	100%	43.9%
INNER & CENTRAL NE PTLD	37.9%	60.6%	34.9%
NORTH PTLD | ST. JOHNS	51.9%	84.6%	48.1%
WEST VANCOUVER	73.8%	97.6%	63.1%
EAST VANCOUVER	82.1%	97.4%	74.4%
SALEM | VICINITY	54.1%	96%	48.7%
EUGENE | SPRINGFIELD	45.8%	95.8%	40%
BEND | REDMOND	87.5%	100%	87.5%

DO YOU OFFER INCENTIVES?

MAP AREA	SPRING 2023	FALL 2023
NW Portland	13.7%	21.6%
Hillsboro I North of Hwy 26	12.5%	12.5%
Aloha	14.3%	12.8%
Beaverton	10%	9.8%
Downtown Portland	24.6%	34.5%
SW Portland	16%	17.7%
Tigard I Tualatin I Sherwood	9.1%	14.1%
Lake Oswego I West Linn	5.9%	5.9%
Wilsonville I Canby	12%	9.1%
Oregon City I Gladstone	18.8%	26.3%
Milwaukie	0%	11.1%
Clackamas	8.3%	16.7%
Inner & Central SE Portland	7.4%	7.8%
Outer SE Portland	0%	4.6%
Troutdale I Fairview I Wood Village I Gresham	17.5%	17.4%
Outer NE Portland	7.1%	2.4%
Inner & Central NE Portland	5.6%	6.1%
North Portland I St. Johns	8.5%	7.7%
West Vancouver	11.3%	9.5%
East Vancouver	19.4%	20.5%
Salem I Vicinity	6.6%	6.1%
Eugene I Springfield	15.2%	9.2%
Bend I Redmond	4.8%	8.3%

SECTION 42 SURVEY RESULTS • FALL 2023

TTL # OF PROPERTIES = 138 • TTL # OF UNITS = 9849

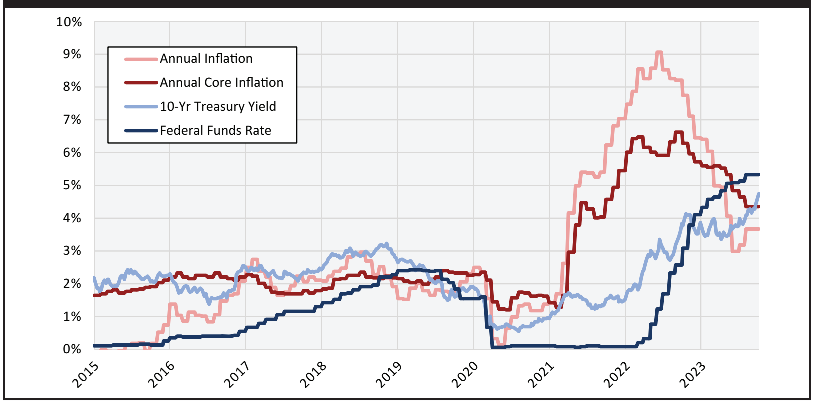
UNIT TYPES	VACANCY RATE (%)	AVG. RENT PER SQ FT ($)
STUDIO	3.41	2.66
1 BED / 1 BATH	3.89	1.69
2 BED / 1 BATH	5.46	1.49
2 BED / 2 BATH	4.43	1.46
2 BED / TH	2.78	1.51
3 BED / 1 BATH	3.71	1.30
3 BED / 2 BATH	5.81	1.28
TOTALS	4.44	1.65

ECONOMIC HEADWINDS

Jon Spikkeland, Senior Analyst, Johnson Economics

As the post-COVID recovery continues, the national economy has shown surprising resilience in the face of higher interest rates. So far, consumers continue to increase their spending, and firms continue to hire. The strength of the economy has forced the Federal Reserve to raise interest rates 11 consecutive times since March 2022, pushing the Funds Rate up more than five percentage points. The Fed finally paused on rate hikes in September, after seeing encouraging signs that inflation is retreating. Overall annual inflation is now down to 3.7%, after reaching a high of 9.1% in mid-2022. Core inflation, which is a more important metric to the Fed, is down to 4.3%, after peaking at 6.6% a year ago. The declines have caused some optimism that a soft landing might be achievable this time; that inflation can be brought under control without triggering a recession. However, we are still some distance away from the 2.0% inflation target, and the Fed has signaled that an additional rate hike will likely be needed later this year, with the first rate cut unlikely to occur until late next year.

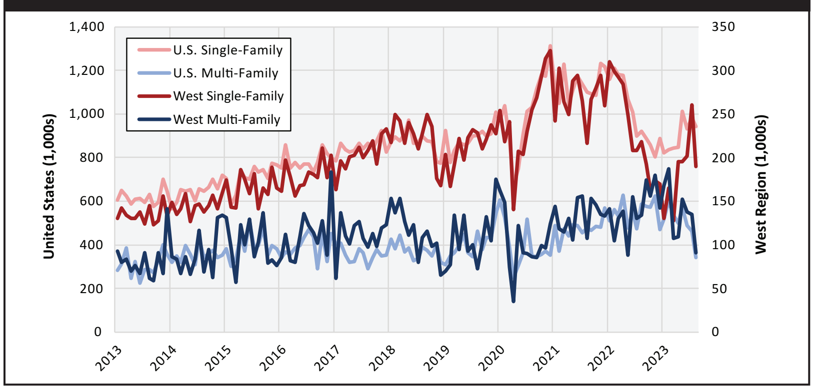
INFLATION AND INTEREST RATES



Source: Federal Reserve Bank of St. Louis, U.S. Bureau of Labor Statistics

Though many economists expect rate cuts to come sooner than indicated by the Fed, the possibility of a long period of high interest rates is particularly troubling for the real estate industry, which is so dependent on debt. Within the housing sector, the multi-family segment has taken the biggest hit so far, with a dramatic decline in construction starts this year. This is the case both nationally and on the West Coast. Many multi-family projects in the Portland Area have been shelved over the past year due to the higher cost of capital, and we see fewer new projects being initiated at the planning stage.

ANNUALIZED HOUSING STARTS



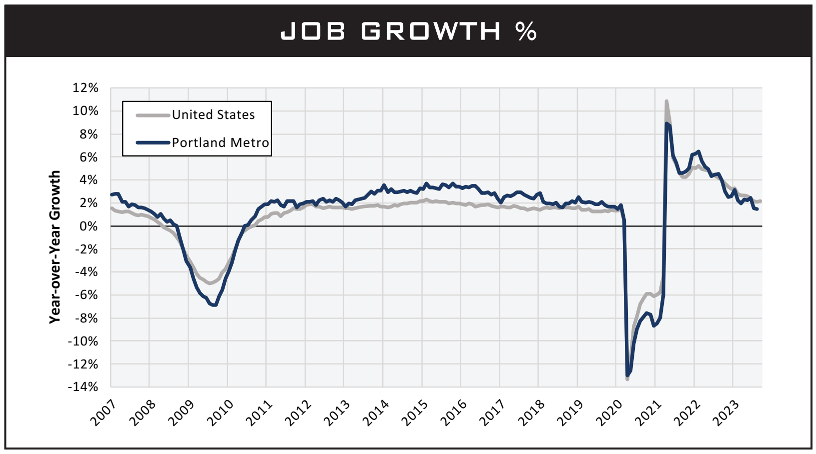
Source: Federal Reserve Bank of St. Louis

In terms of job growth, the Portland Metro Area is currently adding around 20,000 jobs year-over-year, according to the Oregon Employment Department. This represents a 1.5% annual rate, and is roughly on par with pre-COVID growth. The 180,000 jobs that were lost early in COVID were recovered by January this year – seven months after losses had been recovered on the national level. The job gains were strong early in the recovery but have slowed gradually as available labor has been absorbed (the regional unemployment rate is now 3.3%, near the pre-COVID low). Higher interest rates may also have contributed to the slowdown in job growth, though the full effect of current interest rates on employment is likely ahead of us. Given the deceleration in job growth both nationally and regionally, we would therefore expect job growth below pre-COVID levels over the coming 12 months.

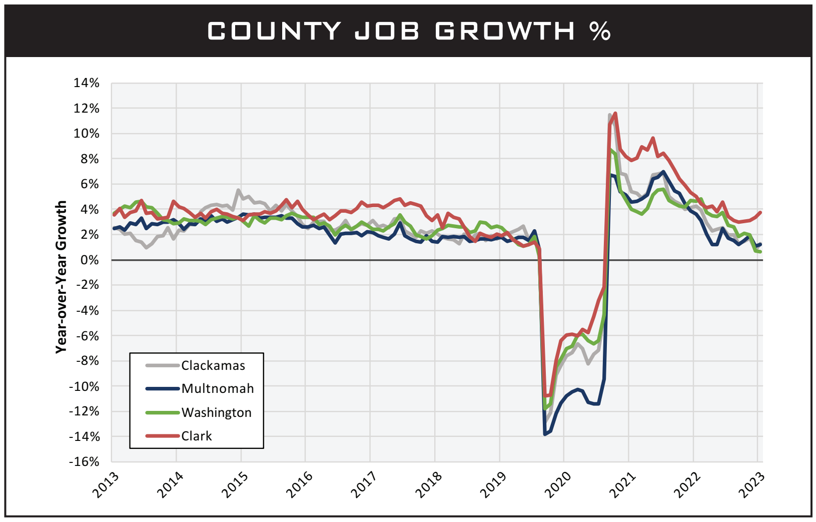
When job growth slows, so does in-migration. The Portland Metro Area benefitted from strong in-migration during the previous decade, especially around the middle of the decade, when the regional job growth was 3-4% per year – exceeding national growth by 1-2 percentage points. It was not just the relative abundance of jobs in this region that attracted new residents. Portland's appeal to millennials was also a factor. As the economy gained steam in the mid-2010s, a large millennial cohort stood ready to enter the labor force. Many had enrolled in higher education during the preceding downturn, and graduated around this time. Being young – and often single – the millennials were remarkably mobile and willing to relocate to areas with job opportunities and vital urban lifestyles. This benefitted the Portland Metro Area, and caused a surge in demand for apartments in the region. The millennial wave is largely employed today, and we don't have the same number of Gen Z workers looking for jobs. Moreover, Portland's reputation for urban vitality has diminished considerably. These factors, combined with the weaker hiring in the region, result in less in-migration from young workers, and weaker demand growth in the apartment market.

Against these economic and demographic headwinds, there are other currents that contribute to apartment demand in the Portland Metro Area. The region has one of the strictest land use policies in the nation, and the short supply of development land constrains the production of single-family housing. This is forcing more households into multi-family units. We expect this to continue to generate apartment demand in the region over the long run. Over the near term, high mortgage rates will shift additional demand from the ownership market to rentals. On the supply side, the high interest rates will limit new development, allowing for higher occupancy at existing properties.

Within the Portland Metro Area, Clark County has been the strongest county since the onset of COVID. The county lost relatively few jobs early in the pandemic, and has grown faster than the remainder of the region during the recovery. It had already recaptured its initial COVID losses by May 2021. As of August this year, its job growth was 6,800 jobs (3.7%) year-over-year. The growth has contributed to record strong apartment absorption and a sharp increase in development activity.



Source: U.S. Bureau of Labor Statistics, Oregon Employment Department



Source: Oregon Employment Department, Washington Employment Security Department

Multnomah was the weakest county in the region during COVID, and still has an employment level 3.4% below its pre-COVID peak. However, its most recent job growth has been on par with Washington and Clackamas counties, at around 1.0% per year. Both Washington and Clackamas fully recovered their COVID losses late last year. In absolute terms, Multnomah County has been adding around 6,000 jobs year-over-year recently, while Clackamas and Washington each have added around 2,000.

Jon Spikkeland is a Senior Analyst with JOHNSON ECONOMICS. Jon specializes in market research for public and private clients, across the spectrum of use types. He tracks local demand and supply conditions and conducts ongoing research on trends that impact the character and magnitude of demand. Jon's background in financial analysis adds experience to the firm in the area of pro forma analysis and cap rate projections. Prior to joining Johnson Economics, Jon worked for an asset management group and management of a real estate development partnership. Prior to joining Johnson Economics, Jon worked for an asset management group and management of a real estate development partnership. Jon studied at Washington State University and Menighetsfakultetet, where he obtained degrees in Business Administration/Finance, Cultural/Social Studies, and a Masters of Religious Studies.

FALL 2023 APARTMENT FUNDAMENTALS & TRENDS

Patrick O. Barry, Barry & Associates

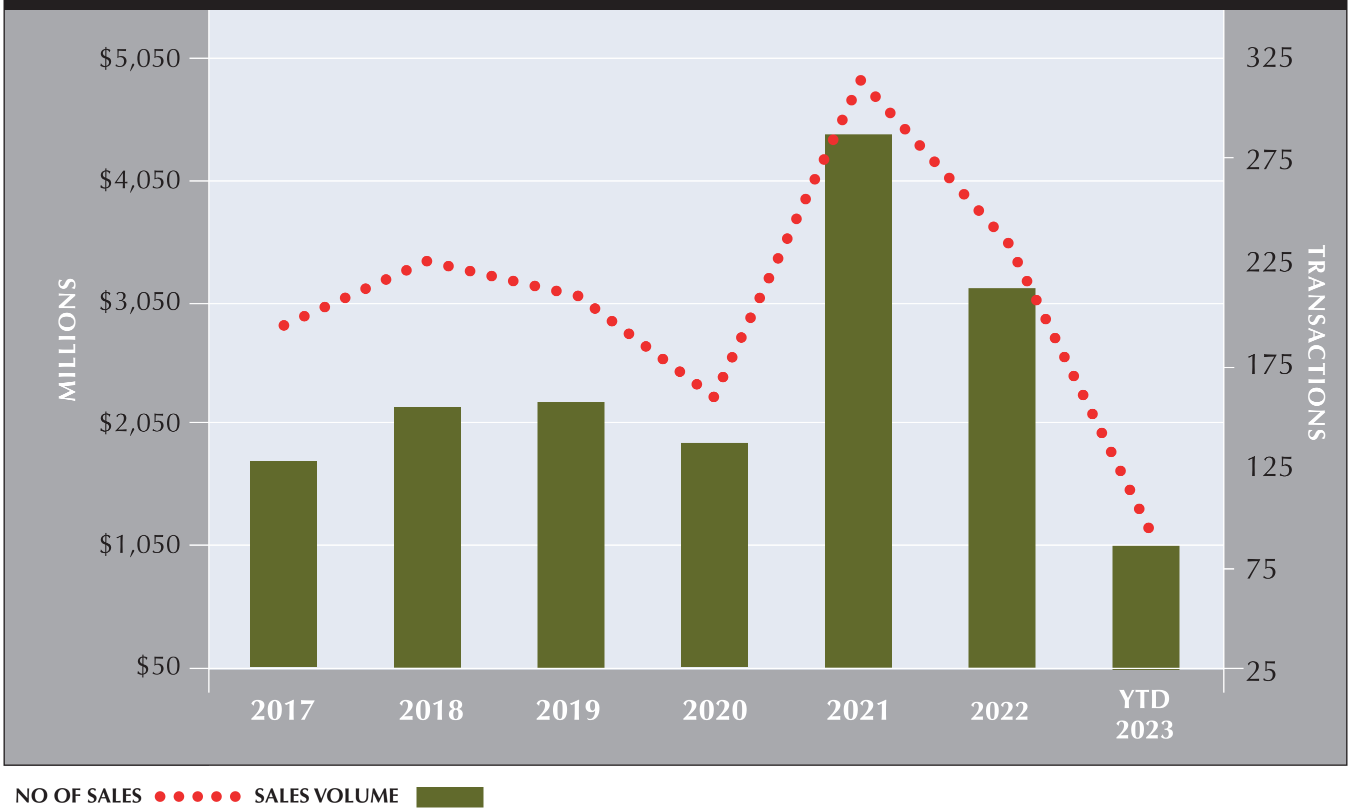
Markets in transition, like that of 2023, can be challenging to define. While rents and vacancies could be described as in balance, values have declined and the sales market is excruciatingly slow. Market participants are starting to accept that conditions today might be the new normal. This article will address Portland Metro apartment fundamentals, values, sales, and rental trends for YTD 2023.

APARTMENT SALES VOLUME & TRANSACTIONS

During 2022, there were 225 transactions totaling just over $3.0 billion across Portland Metro. From 2005 to 2022, there were an average of 206 transactions across Portland Metro. The slowdown in sales during YTD 2023 has been dramatic, though not unprecedented. Through September 2023 CoStar reports a total of 72 transactions across Multnomah, Washington, Clackamas and Clark County. When annualized, this puts us on track for 96 sales, or a 68 percent decline from 2021. The sales market does appear to be gaining some momentum as sales increased in each quarter throughout 2023.

Many real estate professionals rely on market activity (sales and refinances) to sustain their business. There is a hope that 2023 will represent the trough in terms of number of transactions. However, what type of changes in sales can be realistically expected in the coming years? The decline in sales from 2021 to 2023 is almost identical to the decline in sales from 2007 to 2009, when activity went from 252 to 103 sales following the Great Recession, or a 59 percent decline. After 2009, sales activity recovered, albeit slowly. It was not until 2013 that sales passed 200 transactions again and not until 2015 to reach the previous peak in transactions.

APARTMENT SALES VOLUME & TRANSACTIONS
PORTLAND METRO AREA • 2017–YTD 2023 ANNUALIZED



APARTMENT CONSTRUCTION

Significant headwinds continue to hamper the apartment construction industry. In a previous article, we highlighted the ever changing regulations, declining population, permitting delays, and one of the nation's highest tax rates. Added to this list are softening multifamily values, limited rent increases, few banks actively seeking apartment construction financing, and interest rates that are not conducive to profitable developments.

As financing dries up and market uncertainty lingers, the number of units under construction has fallen for five straight quarters. As of fall 2023, around 7,800 units are currently under construction. Development has shifted back towards Multnomah County, where more than half of all units under construction are located. CoStar forecasts that during 2023, Portland Metro will deliver 7,500 units, though this number will decrease to 2,800 to 4,500 per year through 2025 as the development pipeline shrinks.

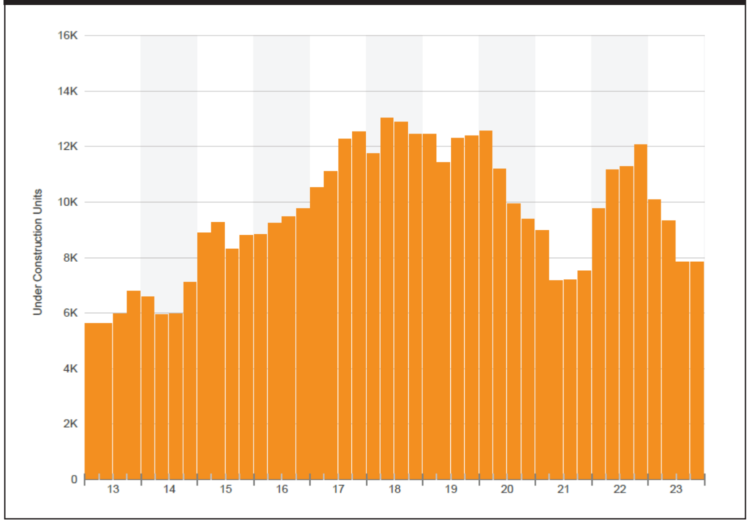
VACANCY AND RENT TRENDS

Vacancies have continued their upward trajectory in YTD 2023. As seen in the Report herein, overall vacancy rates are 5.5 percent, an increase of around 190 basis points since Fall 2022. CoStar reports that vacancies at stabilized properties are also around 5.5 percent and are expected to peak at around 6.1 percent in late 2025. The last instance when vacancy rates approached 5.5 percent was during the Great Recession in 2009. It's important to keep in mind that a balanced market typically shows vacancies between 4.0 and 6.0 percent. The current supply of new units is projected to outpace demand through 2024. Supply outpacing demand is the major driver behind the forecasted increase in vacancies.

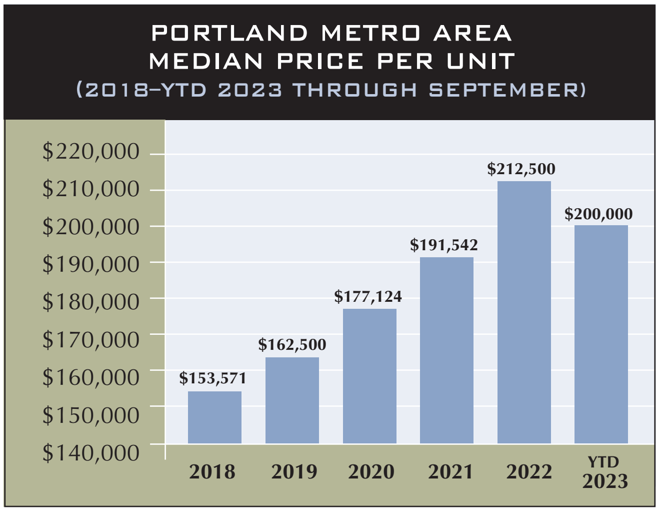
With vacancy rates increasing, there has been some downward pressure on rents. The Multifamily NW Report concludes that rents are up around 3.0 percent year over year, though CoStar suggests that rents are down around 1.5 percent year over year. In my recent appraisal experience, I've seen only limited rent increases on turnover and it is not uncommon to see lower rents if the previous lease occurred in during 2021 or early 2022.

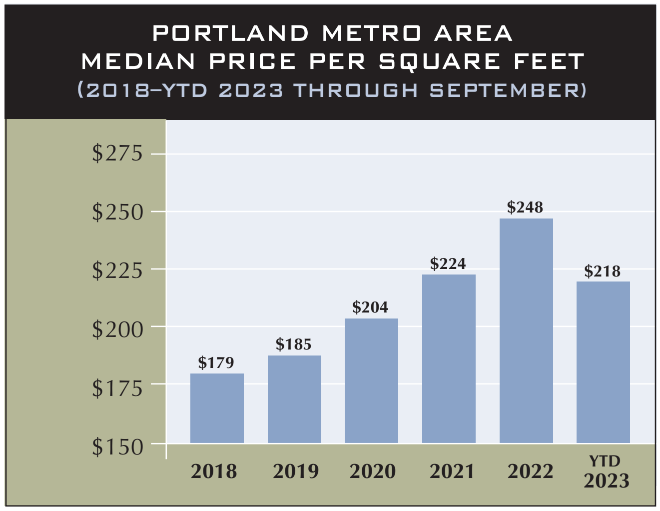
As previously reported, the rental survey herein reports Metro vacancy rates at around 5.5 percent. In this report, 14 of the 20 submarkets surveyed reported increasing vacancy rates and four submarkets reported decreasing rents. The six most urban submarkets in this survey show an average vacancy rate of 6.4 percent while the remaining 14 submarkets which are mostly suburban show an average vacancy rate of 5.2 percent.

PORTLAND METRO AREA UNITS UNDER CONSTRUCTION



Source: CoStar





APARTMENT VALUES

Over the past 18 months, we've been in an increasing interest rate environment and the impact on sales has been astonishing. While there are many properties listed for sale, there appears to be fewer motivated sellers as many owners are locked for a low rate in the near term future. The quote below summarizes the mindset of many owners today.

> *"We're going to hold-off on selling right now. Our fixed-rate loan won't be due for another two years. Also, vacancies are low, we're getting higher rents, and a more stable tenant base. So there's no rush on our end."*

There remains a significant gap between what price sellers will accept and what buyers are willing to pay. However, as many loans come due and rates start to adjust, sellers may become increasingly motivated.

Prices have declined in YTD 2023, which comes as no big surprise. The declining prices can be attributed to a number of factors including softening fundamentals, changing demographics, and some economic uncertainty. However, the biggest impact by far is rising interest rates and the increasing challenges with obtaining financing. Not only have rates increased, but there are fewer banks lending on apartments and the banks that are lending are more conservative.

Based on the 72 sales that occurred in YTD 2023 through September, the median price per unit has declined 5.9 percent to $200,000. The median price per Sq. Ft. declined 12.1 percent to $218. CoStar also reports that overall capitalization rates are up around 50 basis points to 5.50 percent. Assuming level net income, a 50 basis jump in overall capitalization rates suggests a decline in prices of around 9.0 percent. In conversations with market participants, opinions have varied though most suggested declines of 10 to 20 percent year over year. CoStar forecasts that values will decline another 6 to 7 percent and will bottom out in late 2024. After 2024, CoStar forecasts that values will increase and reach previous peaks in 2027.

RISKS & FORECASTS

Many risks remain in the market as of late 2023. Some of the more notable risks are summarized below.

- As loans mature and/or rates adjust, property owners will face a completely different lending environment with many traditional lenders now absent. Some owners will be forced to choose whether to refinance at a higher rate/lower value or to brave the market and sell.
- Significant space remains between buyers and sellers evidenced by a record low number of transactions. If sales/refinance activity remains stalled, expect to see staffing adjustments across the support services similar to what was seen following the Great Recession.
- Early evidence does not suggest Oregon and Portland Metro will see any population boom in the near future. As stagnant population growth becomes a reality, there are concerns regarding the economic outlook in 2024 and beyond.

SUMMARY

In 2023, the Portland Metro apartment market has navigated significant shifts, mirroring transitional phases of years past. While sales volume has slowed, there's a silver lining as momentum appears to be gradually building. Challenges persist in the construction sector. Furthermore, while vacancies have seen an uptick, they remain within the bounds of what is considered a balanced market. Rents have faced downward pressures but remain elevated from pre-pandemic levels. Additionally, the apartment value landscape is shaped heavily by increasing interest rates and lending challenges. As we move forward, property owners and real estate professionals should prepare for continued changes, particularly as lending environments evolve and economic forecasts remain uncertain. ■

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.

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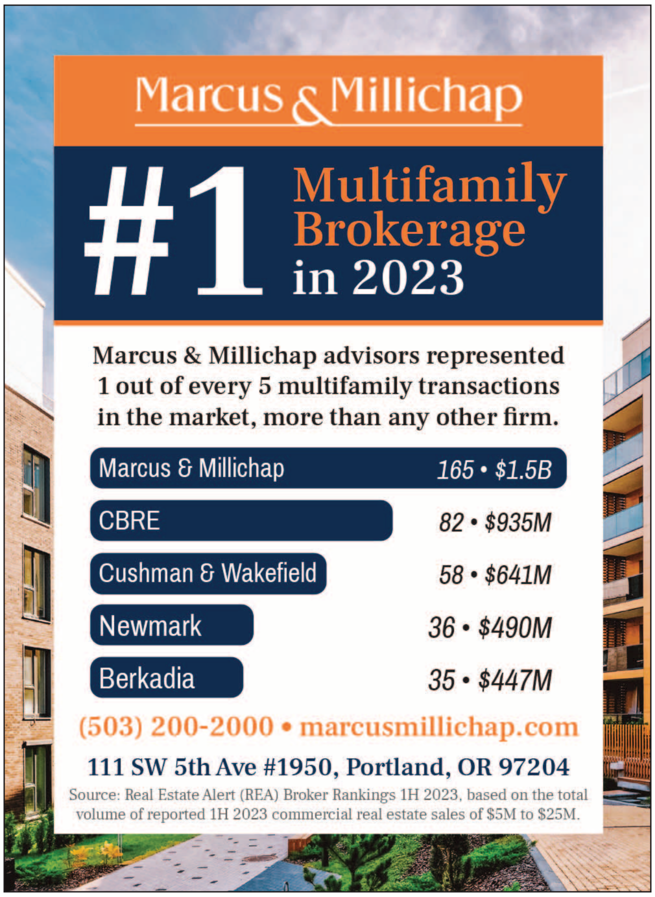
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Source: Real Estate Alert (REA) Broker Rankings 1H 2023, based on the total volume of reported 1H 2023 commercial real estate sales of $5M to $25M.


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Whether a tenant, owner or property manager, the emotional and financial hardships of a property disaster – big or small – can be overwhelming. BELFOR knows that it takes compassion – because every unit, every property, and every family matters.
PREFERRED RECOVERY PARTNER
BELFOR has agreements to be the preferred recovery partner for many of the largest property management companies in the U.S. We have an industry-wide reputation for quality, dependability, fairness and honesty.
LICENSED GENERAL CONTRACTORS
We have the skills, resources, equipment and experience to handle both small and large reconstruction, renovation or capital improvement projects.
CONSISTENT SERVICE
Our interest is always your best interest. You can trust us to deliver consistent and dependable service – and to always be considerate of your recovery needs.
AGREED PRICING
BELFOR gives you fair and competitive pricing from the start. We work one-on-one with insurance companies to make sure project costs are detailed and approved.
RESTORATION SERVICES
BELFOR is recognized as an industry-leading provider of comprehensive disaster recovery solutions.
• Emergency Board-Up and Site Containment
• Smoke and Soot Removal
• Water Extraction & Dehumidification
• Structural Cleaning and Disinfection
• Reconstruction & General Contracting
• Mold Removal and Remediation
• Deodorization
• Air Duct Cleaning
• Commercial Kitchen Exhaust Cleaning
• Contents Restoration
• Document and Media Recovery
• Electronics Restoration
• Equipment and Machinery Decontamination
• Machinery Rebuilding and Repair
• Environmental Services
• Asbestos and Lead Removal
• Consulting & Pre-Planning
STANDARDS AND CODES
BELFOR strictly adheres to all industry standards as well as government regulations and local building and/or environmental codes.
FIRE RESTORATION
24-Hour Emergency Services. Smoke and odor removal. Safety inspection. Site containment. Water extraction. Structural drying. Structural cleaning. Air quality testing. Demolition and reconstruction.
WATER EXTRACTION
24-Hour Emergency Services. Structural drying and structural dehumidification. Mold removal and corrosion control. Contents restoration.
MOLD REMOVAL
Mold identification and removal. Water extraction. Structural dehumidification. Air quality testing. Reconstruction.
CONTENTS RESTORATION
Detailed cleaning and finishing. Art, antique and heirloom restoration. Bar-coded inventory and secure storage.
CONTENTS RESTORATION
Full-service general contracting. Emergency board up and shrink wrap. Security/safety barriers. Selective demolition. Remodeling. Renovation. Full-scale carpentry and roofing configurations. Interior build-out and finishes. Hi-rise reconstruction. Historic reconstruction and restoration.
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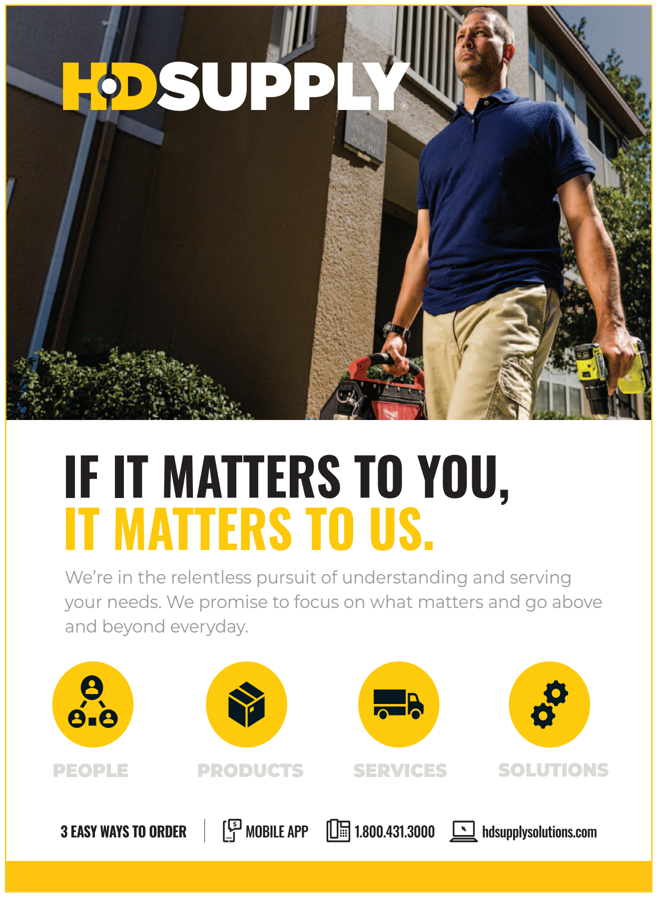
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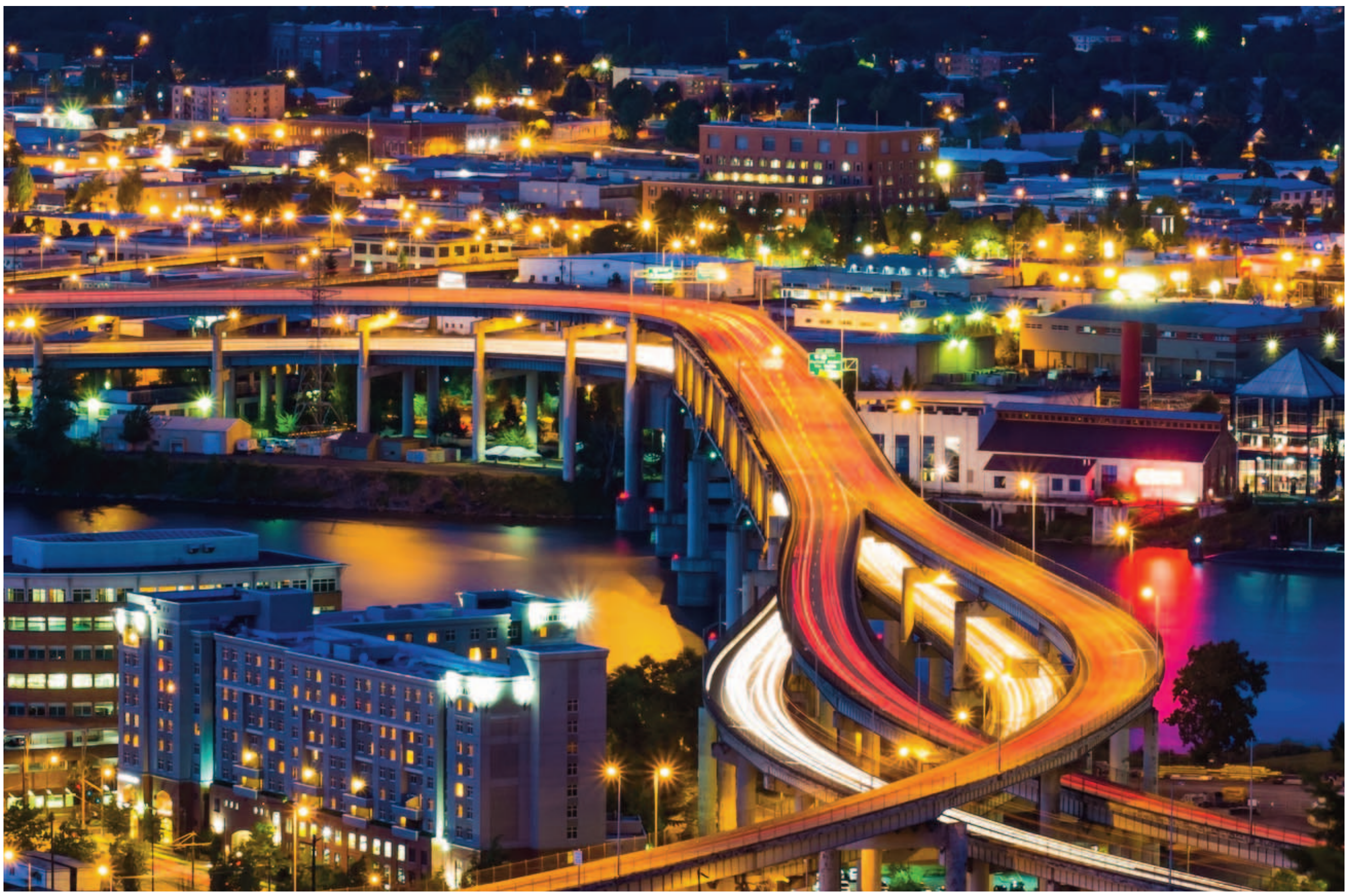

THE Apartment Report

MULTIFAMILY NW
The Association Promoting Quality Rental Housing

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

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APARTMENT MANAGEMENT CONSULTANTS, LLC
AVENUE 5 RESIDENTIAL
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STERLING MANAGEMENT GROUP, INC.
THE ALPINE GROUP, INC.
VILLA PROPERTY MANAGEMENT
WILDWOOD
WPL ASSOCIATES

This report would not be possible without the dedication and commitment of the Multifamily NW staff and the Apartment Report Committee. Thank you to the many contributors, writers and consultants who have generously taken the time to provide this information.

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