



# THE Apartment Report

## MARKET SOFTENS | SUPPLY PEAKING

*Craig McConachie, C&R Real Estate Services, Company, Apartment Report Committee*

The Portland apartment market is moving towards the late stages of the investment/development cycle. Homeownership rates are increasing, the population growth rate is slowing, vacancy rates are up, rent growth rates are declining and apartment construction has slowed. Indications are the market will get softer, before it gets better. With approximately 10,000 units still under construction and a predicted absorption rate of five to six thousand units this year, the Portland MSA will be oversupplied with new units in the near term. Occupancy for Class C product should remain moderately strong, with a majority of the increased vacancy effecting Class A product. The good news regarding absorption is that the projects that were entitled pre-IZ and their subsequent construction will soon be completed, and a more sustainable rate of building will commence.

Some investors are nervous about the Portland market due to the increasing restrictions being placed on owners. With the passage of statewide rent restrictions and draconian ordinances being considered in the City of Portland, the interest in investing and owning multifamily buildings is being hindered. The number of for sale transactions in the Portland MSA last quarter was 72 and overall CAP rates have increased slightly to 5.5%. The median price per unit in 4Q18 was \$175,000 and the median price per square foot was \$228.

### **Portland/Vancouver VACANCY:**

The Portland/Vancouver vacancy factor increased by 55 basis points from our Fall report, and currently stands at 4.95%.

Troutdale/Fairview and Lake Oswego have the lowest vacancy factors of 3.4%. Except for Aloha and St. John's, all other areas are over 4%. The highest vacancies are found in Northwest Portland at 7.9%, followed by Downtown Portland at 6.5%. Both of these areas are being strongly impacted by new product in lease-up. Two-bedroom, townhouse units have the best occupancy of all unit types, with average vacancy of 4%. Studio units have the highest vacancy of 5.9%. 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.

### **RENT RATES:**

Overall rent rates have continued their upward trajectory; however, our report includes an increased number of new projects that push the average rates higher. Rent increases have averaged 4% since our Fall survey, but it's important to note that the surveyed rent rates do not represent "effective" rent rates. Concessions, which are becoming more prevalent, are not factored into the surveyed rates, and may account for 8% or more in rent discounts. Only three of the twenty surveyed areas experienced declining rents. Most notably, Downtown Portland experienced a 3% decrease. Both St. John's and Outer SE saw strong rent growth. St. John's was 11%, and Outer SE was 7%.

Average rent per sq. ft. for all areas combined is \$1.68. The Downtown core area has the highest rates at \$2.40, with NW Portland coming in second at \$2.23, and SW Portland third with \$1.92. Outer NE Portland and Troutdale/Fairview continue to have the lowest rates, at \$1.29 and \$1.36 respectively.

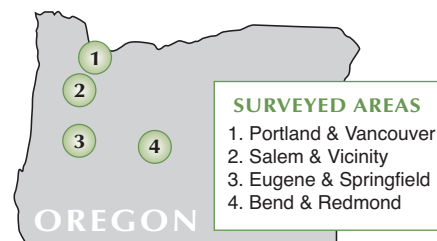
### *Overall average rents per unit type—Portland:*

UNIT TYPE	SPR 19	FALL 18
Studio	\$1170	\$1120
1 bdrm/1 bth	\$1268	\$1230
2 bdrm/1 bth	\$1214	\$1187
2 bdrm/2 bth	\$1530	\$1463
2 bdrm townhome	\$1408	\$1344
3 bdrm/1 bth	\$1286	\$1269
3 bdrm/2 bth	\$1610	\$1584

*(continued on page 2)*

## SURVEY SAYS!

- Vacancy Rates Increase
- New Expense Report
- Construction Peaking
- Investors Wary



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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

### CLACKAMAS COUNTY

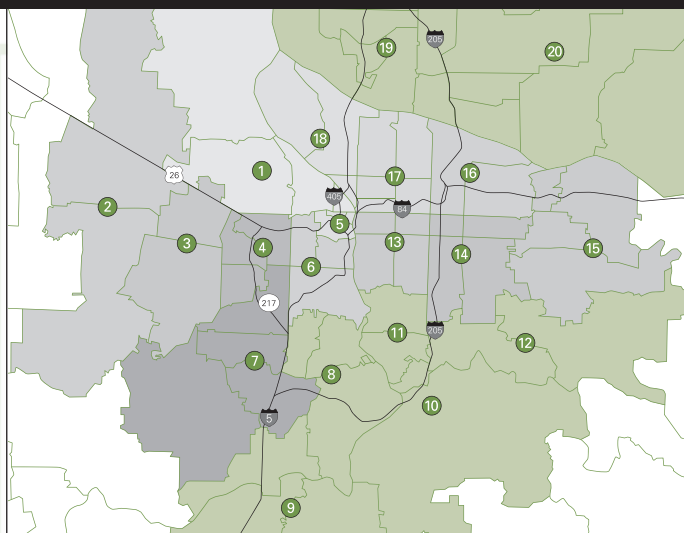
- 12 CLACKAMAS
- 8 LAKE OSWEGO | WEST LINN
- 11 MILWAUKIE
- 10 OREGON CITY | GLADSTONE
- 9 WILSONVILLE | CANBY

### WASHINGTON COUNTY

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

### CLARK COUNTY

- 19 WEST VANCOUVER
- 20 EAST VANCOUVER



(continued from page 1).....

### MARKET CONDITIONS:

Over 9% of all properties are offering rental incentives, with aggressive deals being offered in Class A projects in lease-up phase. Incentives are most aggressive in Downtown, close-in SW and Aloha. The average number of days that a unit will stay vacant for the entire Metro area is 34. Aloha and Clackamas are experiencing over two months average vacant days between tenants. Both of these areas are historically slow to re-tenant. The Inner and Central SE and NE Portland areas have the quickest turnover time of 14 to 16 days.

#### Other Areas

The Salem market has softened and has a current vacancy rate of 4.6%, but rents have increased slightly to \$1.28 psf. Vacancies in three-bedroom units are particularly high at 6.5%. Bend/Redmond indicates a vacancy factor that has more than doubled to over 7%, rents declined by 3% and the turnover time has increased to 36 days. The surveyed unit count decreased in that area, which may account for the abrupt changes. Eugene/Springfield has the highest percentage of properties offering concessions at 22% and the vacancy has increased to 4.6%. U of O students can find some deals if they shop around.

#### Operating Expenses

This issue debuts a new and revised format for our operating expense report. Our expense numbers have been provided by the Co-Star Group. The Co-Star report analyzes expenses on a per square foot basis and unlike our previous reports, includes capital expenditures. There are two charts, a “3-Star” and a “1&2 Star”. The 3-Star equates to what would typically be considered a Class B property and the 1&2 Star a Class C. Class A properties are averaging

30% to 60% higher than the 3-Star properties but are not reflected on these reports. We hope that because Co-Star has access to a much larger data base than we can pull from our membership, these expense numbers will be more accurate and reflective of local operating costs.

#### Our Contributors

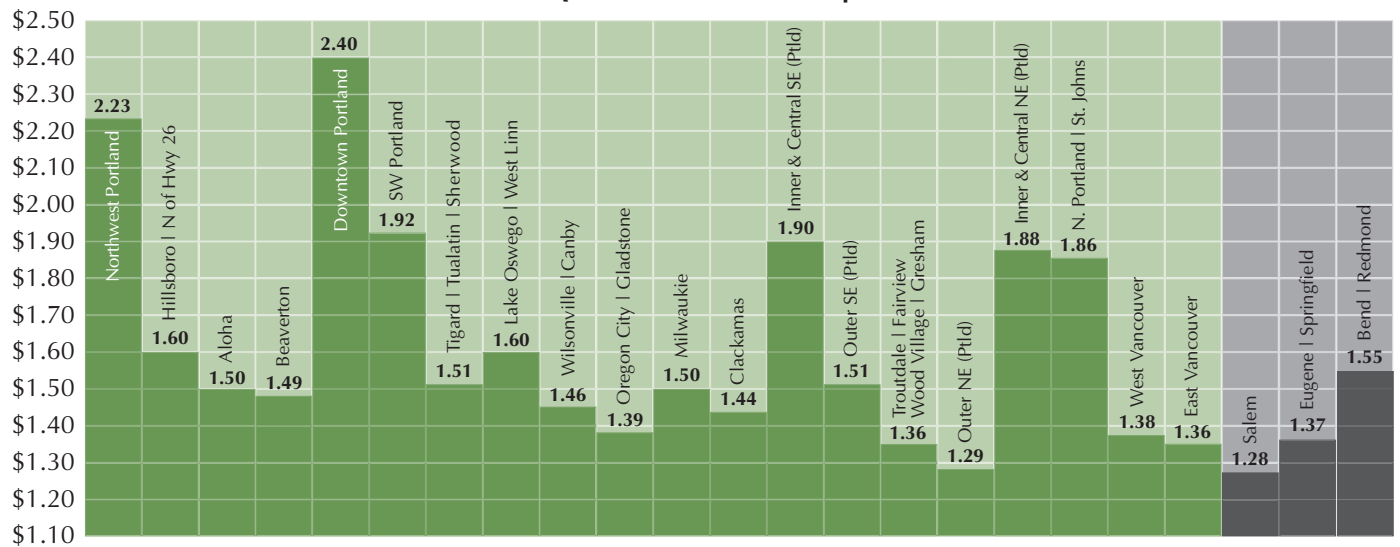
**Whitney Rhoades** and **Danalee Corso**, with Marcus and Millichap examine the overall Portland market and the effect our public policy is having on investors from a broker’s perspective. They note that out-of-state and local investors are “*voicing concerns regarding the public persecution of rental housing providers*”. Despite these concerns they see continued high demand for investing in apartments and point to the fact that Portland ranks fifth nationally in the major markets for long-term appreciation.

**Josh Lehner**, State Economist from the Oregon Office of Economic Analysis, provides an interesting analysis about job polarization, wages and migration. He points out that the slowing in population growth is more pronounced than expected. “*Within the Portland region, the working age population growth slowed the most in Multnomah County while the suburbs saw the steady growth.*” Josh also weighs in on the possible effects of Senate Bill 608 (Rent stabilization/No-cause evictions) and the concerns that his office has on the impact the legislation will have on the market.

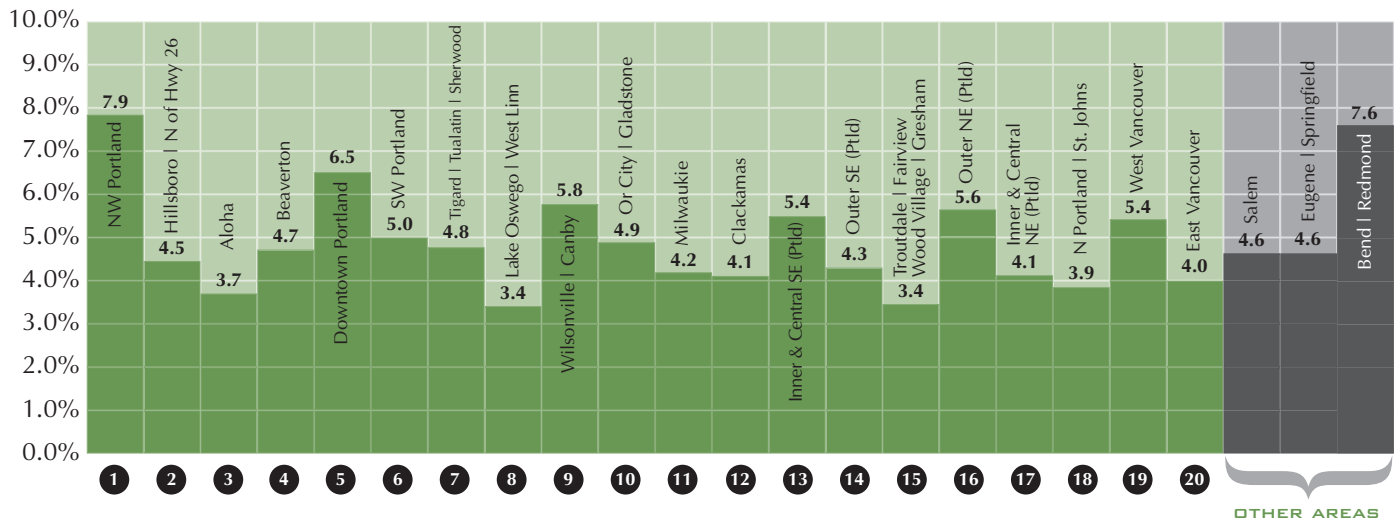
This survey represents a total of 63,662 units from 906 properties. All of the articles have been reprinted without editing the content, in order to present unbiased opinions. We’d like to thank all of the management companies and property owners who have submitted information. Their participation is critical in insuring the accuracy of our data and the continued success of this report.



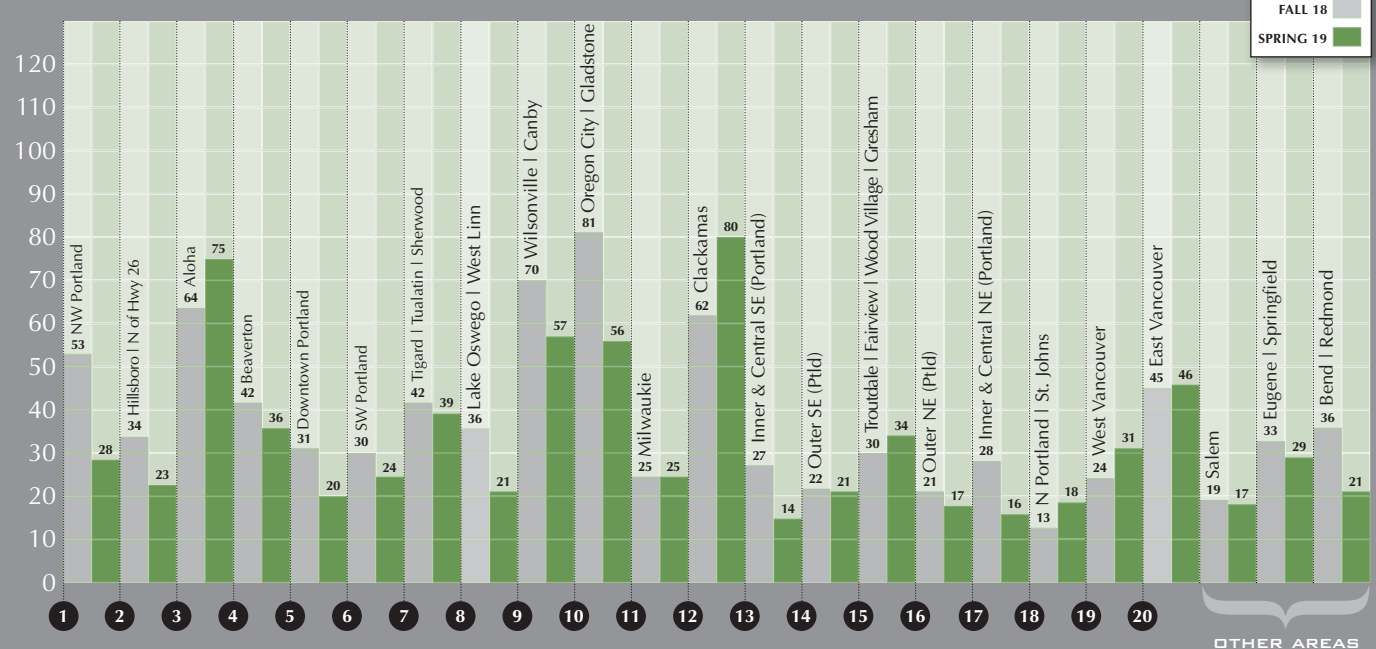
## AVERAGE RENT PER SQUARE FOOT \$



## AVERAGE MARKET VACANCY RATE %



## AVERAGE NUMBER OF DAYS VACANT — PORTLAND/VANCOUVER



# SURVEY RESULTS—SPRING 2019

## PORTLAND/VANCOUVER METRO AREA

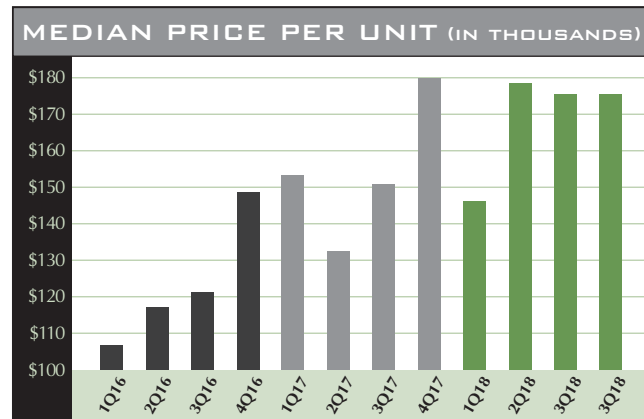
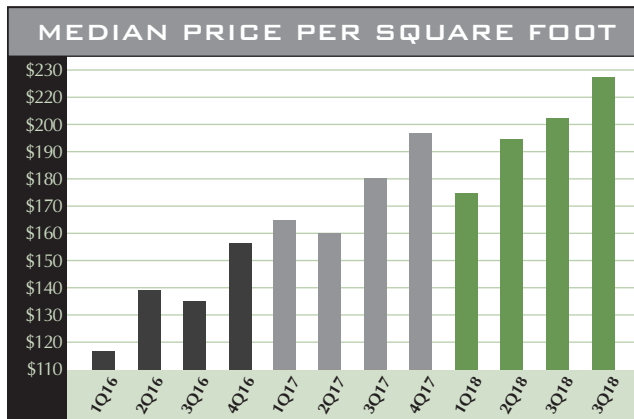
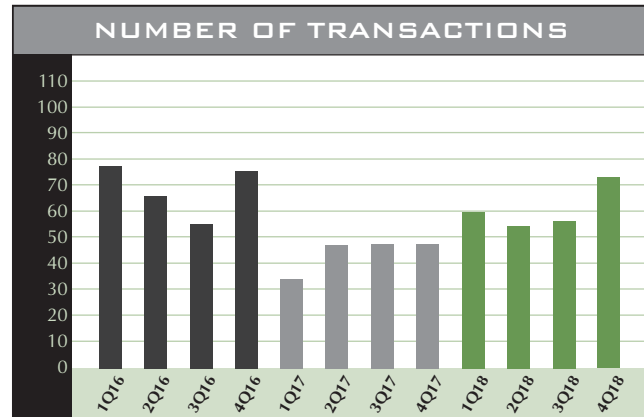
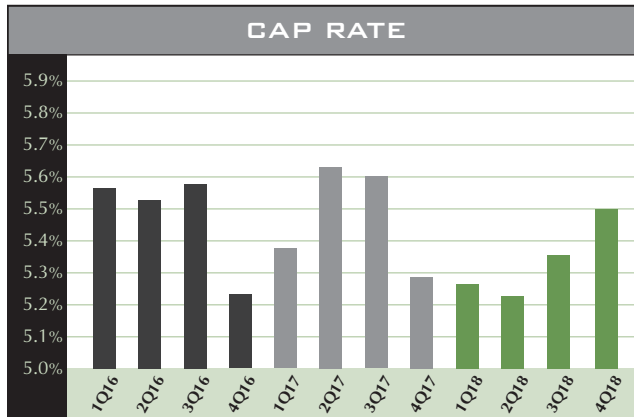
AREA NAME	# OF PROP	DATA	ALL	FALL 18 REPORT	CHANGE	STUDIO	1 BED 1 BATH	2 BED 1 BATH	2 BED 2 BATH	2 BED TWNHS	3 BED 1 BATH	3 BED 2 BATH
DOWNTOWN PORTLAND (5)	31	AVG MARKET VACANCY RATE %	6.46	6.09	0.06	4.26	5.86	10.59	13.1	12.5	0	25
		AVG RENT PER SQ FOOT \$	2.4	2.47	-0.03	2.65	2.31	2.16	2.09	1.79	1.75	2.21
		AVG RENT PER UNIT TYPE \$				1153	1566	1723	2268	2254	1665	2640
		SUM OF UNITS SURVEYED	2027	2085		751	922	85	252	8	1	8
NW PORTLAND (1)	66	AVG MARKET VACANCY RATE %	7.88	6.33	0.24	7.34	7.96	6.61	8.05	6.12	6.06	11.06
		AVG RENT PER SQ FOOT \$	2.23	2.11	0.06	2.69	2.37	1.83	1.87	1.63	1.43	1.58
		AVG RENT PER UNIT TYPE \$				1344	1647	1585	1932	1584	1376	2010
		SUM OF UNITS SURVEYED	5840	7048		1063	2677	348	1453	49	33	217
INNER & CENTRAL SE (PORTLAND) (13)	138	AVG MARKET VACANCY RATE %	5.4	4.06	0.33	3.68	5.59	4.79	9.18	8.99	0	3.23
		AVG RENT PER SQ FOOT \$	1.9	1.87	0.02	2.73	1.96	1.49	1.86	1.44	1.21	1.7
		AVG RENT PER UNIT TYPE \$				1170	1268	1263	2090	1369	1373	1821
		SUM OF UNITS SURVEYED	3538	3648		489	1627	960	196	189	46	31
INNER & CENTRAL NE (PORTLAND) (17)	101	AVG MARKET VACANCY RATE %	4.13	4.87	-0.15	8.61	5.92	3.66	0.54	4.5	0	2.33
		AVG RENT PER SQ FOOT \$	1.88	1.87	0.01	2.89	1.86	1.62	1.77	1.53	1.29	1.61
		AVG RENT PER UNIT TYPE \$				1132	1189	1324	1821	1521	1469	1881
		SUM OF UNITS SURVEYED	3753	3287		395	1435	547	1114	200	19	43
N PORTLAND   ST JOHNS (18)	23	AVG MARKET VACANCY RATE %	3.9	3.64	0.07	4.05	5.13	2.61	3.16	1.72	0	0
		AVG RENT PER SQ FOOT \$	1.86	1.67	0.11	2.36	1.88	1.46	1.84	1.4	1.28	1.56
		AVG RENT PER UNIT TYPE \$				1164	1357	1167	2270	1114	1234	1395
		SUM OF UNITS SURVEYED	1153	686		247	448	230	158	58	11	1
SW PORTLAND (6)	44	AVG MARKET VACANCY RATE %	4.97	5.74	-0.13	6.64	4.35	5.14	5.87	0	2.44	6.56
		AVG RENT PER SQ FOOT \$	1.92	1.93	-0.01	2.63	2	1.54	1.82	1.3	1.16	1.52
		AVG RENT PER UNIT TYPE \$				1240	1391	1264	2054	1478	1251	1806
		SUM OF UNITS SURVEYED	2734	2909		301	1380	467	392	31	41	122
OUTER SE (PORTLAND) (14)	25	AVG MARKET VACANCY RATE %	4.27	4.76	-0.1	5.1	4.55	4.18	3.52	3.77	0	6.28
		AVG RENT PER SQ FOOT \$	1.51	1.41	0.07	2.17	1.78	1.34	1.27	1.47	1.14	1.39
		AVG RENT PER UNIT TYPE \$				902	1132	1111	1236	1554	1066	1653
		SUM OF UNITS SURVEYED	2390	2205		157	703	478	682	159	20	191
OUTER NE (PORTLAND) (16)	19	AVG MARKET VACANCY RATE %	5.56	3.91	0.42	0	4.29	6.98	3.3	17.31	14.29	1.79
		AVG RENT PER SQ FOOT \$	1.29	1.28	0.01	1.57	1.41	1.23	1.19	1.11	1.11	1.28
		AVG RENT PER UNIT TYPE \$				865	1010	1092	1172	1216	1426	1350
		SUM OF UNITS SURVEYED	1296	1737		6	490	473	212	52	7	56
TROUTDALE   FAIRVIEW WOOD VILLAGE   GRESHAM (15)	29	AVG MARKET VACANCY RATE %	3.4	2.87	0.18	5.32	6.09	2	3.73	3.06	-	0.61
		AVG RENT PER SQ FOOT \$	1.36	1.32	0.03	2.15	1.61	1.27	1.23	1.4	-	1.19
		AVG RENT PER UNIT TYPE \$				917	1015	1166	1213	1433	-	1547
		SUM OF UNITS SURVEYED	2144	2717		94	361	600	697	229	0	163
CLACKAMAS (12)	6	AVG MARKET VACANCY RATE %	4.05	4.64	-0.13	3.85	4.63	2.47	4.72	3.13	-	4.27
		AVG RENT PER SQ FOOT \$	1.44	1.43	0.01	1.84	1.63	1.39	1.35	1.27	-	1.35
		AVG RENT PER UNIT TYPE \$				854	1047	1188	1283	1219	-	1526
		SUM OF UNITS SURVEYED	1037	1465		26	259	243	360	32	0	117
LAKE OSWEGO   WEST LINN (8)	13	AVG MARKET VACANCY RATE %	3.36	3.75	-0.1	0	4.2	2.45	4.06	2.86	-	0
		AVG RENT PER SQ FOOT \$	1.6	1.56	0.03	2.68	1.7	1.43	1.55	1.41	-	1.45
		AVG RENT PER UNIT TYPE \$				992	1207	1274	1577	1418	-	1672
		SUM OF UNITS SURVEYED	744	1680		28	262	163	197	70	0	24
MILWAUKIE (11)	19	AVG MARKET VACANCY RATE %	4.16	3.03	0.37	3.6	4.79	4.43	2.09	3.53	0	3.57
		AVG RENT PER SQ FOOT \$	1.5	1.51	-0.01	2.06	1.59	1.39	1.47	1.14	1.28	1.35
		AVG RENT PER UNIT TYPE \$				883	1047	1167	1382	1117	1296	1527
		SUM OF UNITS SURVEYED	1779	1882		111	647	655	191	85	6	84
OREGON CITY   GLADSTONE (10)	7	AVG MARKET VACANCY RATE %	4.86	4.34	0.12	10	3.33	2.91	6.72	1.72	0	8.33
		AVG RENT PER SQ FOOT \$	1.39	1.33	0.05	2.25	1.61	1.34	1.33	1.22	1.16	1.22
		AVG RENT PER UNIT TYPE \$				1100	1041	1134	1363	1035	1104	1688
		SUM OF UNITS SURVEYED	803	1013		20	180	172	238	58	27	108
WILSONVILLE   CANBY (9)	16	AVG MARKET VACANCY RATE %	5.76	3.66	0.57	14.29	5.68	4.6	5.62	7.45	0	8.06
		AVG RENT PER SQ FOOT \$	1.46	1.43	0.02	1.95	1.67	1.39	1.43	1.22	0.67	1.35
		AVG RENT PER UNIT TYPE \$				1100	1198	1226	1424	1399	751	1562
		SUM OF UNITS SURVEYED	2710	2512		7	669	718	836	94	14	372
ALOHA (3)	34	AVG MARKET VACANCY RATE %	3.66	4.03	-0.09	9.8	3.9	3.73	3.34	1.27	2.04	4.33
		AVG RENT PER SQ FOOT \$	1.5	1.48	0.01	2.18	1.72	1.42	1.41	1.38	1.44	1.37
		AVG RENT PER UNIT TYPE \$				1023	1167	1251	1394	1687	1406	1586
		SUM OF UNITS SURVEYED	6446	7365		51	1820	1234	2247	237	49	808



PORTLAND/VANCOUVER METRO AREA												
AREA NAME	# OF PROP	DATA	ALL	FALL 18 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 (4)	40	AVG MARKET VACANCY RATE %	4.7	3.54	0.33	11.11	5.12	3.72	4.47	3.81	9.57	4.1
		AVG RENT PER SQ FOOT \$	1.49	1.43	0.04	1.97	1.69	1.36	1.45	1.38	1.16	1.34
		AVG RENT PER UNIT TYPE \$				993	1150	1211	1423	1397	1222	1640
		SUM OF UNITS SURVEYED	3088	4181		72	996	1022	604	105	94	195
HILLSBORO   N OF HWY 26 (2)	12	AVG MARKET VACANCY RATE %	4.46	3.56	0.25	7.04	5.12	4.21	3.61	33.33	0	1.23
		AVG RENT PER SQ FOOT \$	1.6	1.46	0.1	2.1	1.69	1.44	1.52	1.22	1.18	1.35
		AVG RENT PER UNIT TYPE \$				1200	1289	1161	1582	1200	1350	1581
		SUM OF UNITS SURVEYED	1098	1602		71	469	95	360	6	16	81
TIGARD   TUALATIN SHERWOOD (7)	40	AVG MARKET VACANCY RATE %	4.8	4.17	0.15	10.87	3.79	4.88	5.07	3.88	7.27	6.97
		AVG RENT PER SQ FOOT \$	1.51	1.49	0.01	2.38	1.69	1.42	1.43	1.36	1.3	1.35
		AVG RENT PER UNIT TYPE \$				899	1122	1177	1414	1494	1310	1658
		SUM OF UNITS SURVEYED	4399	5323		46	1478	1107	1084	232	165	287
WEST VANCOUVER (19)	27	AVG MARKET VACANCY RATE %	5.38	3.72	0.45	5.26	5.93	4.73	6.33	1.35	6.25	6.85
		AVG RENT PER SQ FOOT \$	1.38	1.34	0.03	2.03	1.6	1.27	1.26	1.18	1.65	1.05
		AVG RENT PER UNIT TYPE \$				919	1120	1050	1361	1236	1400	1341
		SUM OF UNITS SURVEYED	2380	3079		57	793	529	616	223	16	146
EAST VANCOUVER (20)	19	AVG MARKET VACANCY RATE %	4.01	4.26	-0.06	1.22	6.12	3.7	3.97	1.25	-	2.87
		AVG RENT PER SQ FOOT \$	1.36	1.33	0.02	1.98	1.51	1.34	1.28	1.21	-	1.27
		AVG RENT PER UNIT TYPE \$				943	1042	1167	1291	1231	-	1450
		SUM OF UNITS SURVEYED	2717	2630		82	621	649	856	160	0	349
TOTAL AVG MARKET VACANCY RATE %			4.95	4.4	0.13	5.89	5.41	4.28	4.66	3.95	4.78	5.32
TOTAL AVG RENT PER SQ FOOT \$			1.68	1.62	0.04	2.56	1.87	1.42	1.5	1.35	1.25	1.35
TOTAL AVG RENT PER UNIT TYPE \$						1170	1268	1214	1530	1408	1286	1610
TOTAL SUM OF PROPERTIES SURVEYED			709	762		208	590	464	227	100	71	156
TOTAL SUM OF UNITS SURVEYED			52076	59054		4074	18237	10775	12745	2277	565	3403
VACANCY RATE SINCE FALL 2014—PORTLAND/VANCOUVER METRO AREA												
<div><div>STUDIO</div><div>1 BED/1 BATH</div><div>2 BED/1 BATH</div><div>2 BED/2 BATH</div><div>2 BED TH</div><div>3 BED/1 BATH</div><div>3 BED/2 BATH</div></div>												
OTHER AREAS												
SALEM & VICINITY	112	AVG MARKET VACANCY RATE %	4.62	4.11	0.12	2.56	6.07	4.58	3.83	4.68	6.45	2.97
		AVG RENT PER SQ FOOT \$	1.28	1.21	0.06	1.72	1.46	1.21	1.26	1.1	1.36	1.19
		AVG RENT PER UNIT TYPE \$				750	884	999	1229	1109	1228	1379
		SUM OF UNITS SURVEYED	6279	8355		156	1400	2448	1359	385	93	438
EUGENE   SPRINGFIELD	79	AVG MARKET VACANCY RATE %	4.59	3.23	0.42	3.25	4.45	3.43	6.35	4.17	4.76	7.97
		AVG RENT PER SQ FOOT \$	1.37	1.31	0.05	2	1.52	1.2	1.33	1.2	1.22	1.2
		AVG RENT PER UNIT TYPE \$				716	991	956	1396	1239	1222	1412
		SUM OF UNITS SURVEYED	4875	5139		369	1347	1486	787	480	42	364
BEND   REDMOND	5	AVG MARKET VACANCY RATE %	7.62	2.99	1.55	-	3.95	8.77	13.58	12.5	-	13.04
		AVG RENT PER SQ FOOT \$	1.55	1.6	-0.03	-	1.77	1.22	1.54	0.95	-	0.95
		AVG RENT PER UNIT TYPE \$				-	1295	1080	1561	953	-	1164
		SUM OF UNITS SURVEYED	420	803		0	228	57	81	8	0	46
TOTAL AVG MARKET VACANCY RATE %			4.72	3.73	0.27	3.05	5.18	4.21	5.07	4.47	5.93	5.66
TOTAL AVG RENT PER SQ FOOT \$			1.33	1.27	0.05	1.92	1.51	1.21	1.3	1.15	1.31	1.18
TOTAL AVG RENT PER UNIT TYPE \$						727	964	984	1300	1179	1226	1382
TOTAL SUM OF PROPERTIES SURVEYED			196	222		33	115	115	58	26	34	45
TOTAL SUM OF UNITS SURVEYED			11574	14297		525	2975	3991	2227	873	135	848
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: 1/1/2016—12/31/18; unit: 5 units and greater.



YEAR	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
# OF TRANS	78	65	55	75	33	47	47	47	60	54	56	72
TTL \$ VOLUME	\$533,643,026	\$394,593,400	\$449,628,750	\$1,673,134,898	\$365,176,896	\$229,539,234	\$441,714,000	\$660,010,092	\$460,382,050	\$277,684,156	\$670,608,291	\$873,665,944
TTL BLDG SF	3,017,624	2,157,580	2,572,879	15,455,959	1,897,493	1,472,106	2,377,259	2,140,877	2,330,731	1,518,482	2,596,963	3,642,946
TTL UNITS	3,189	2,477	2,805	7,757	1,948	1,644	2,327	2,731	2,509	1,550	2,419	4,147
AVG PRICE	\$6,930,429	\$6,070,668	\$8,175,068	\$22,919,656	\$11,065,967	\$5,100,872	\$10,517,000	\$14,042,768	\$8,686,454	\$5,239,324	\$11,975,148	\$12,134,249
AVG # OF SF	38,687	33,194	47,646	112,017	59,297	31,321	50,580	45,551	38,846	28,120	46,374	50,596
AVG \$ BLDG SF	\$177.74	\$182.89	\$174.49	\$204.51	\$191.82	\$168.05	\$209.12	\$308.29	\$217.06	\$183.17	\$258.23	\$239.82
MED \$ P/SF	\$116.22	\$139.71	\$133.66	\$155.88	\$164.51	\$160.06	\$180.10	\$196.97	\$173.30	\$193.55	\$201.74	\$227.96
AVG \$ P/UNIT	\$165,804	\$159,303	\$159,791	\$215,222	\$186,846	\$147,994	\$203,886	\$238,231	\$193,432	\$173,882	\$274,726	\$209,999
MED \$ P/UNIT	\$107,843	\$116,667	\$120,733	\$149,125	\$152,199	\$132,500	\$150,532	\$180,000	\$146,454	\$179,808	\$176,714	\$175,000
AVG # OF UNITS	43	38	53	112	61	36	51	61	43	31	46	58
ACTUAL CAP RATE	5.56%	5.51%	5.59%	5.22%	5.38%	5.62%	5.60%	5.29%	5.27%	5.21%	5.35%	5.50%
AVG GRM	9.91	11.30	10.36	11.56	11.82	14.73	11.16	13.64	14.18	10.13	11.33	13.09
AVG GIM	9.44	10.73	—	—	—	—	9.01	—	—	—	9.88	—

## EXPANSION CONTINUES, BUT GROWTH SLOWS

*Josh Lebner, Economist, State of Oregon, Office of Economic Analysis*

The economy experienced another year of strong growth in 2018. Unemployment remains near historic lows and wage growth continues to pick up. The economy will set a new record for the length of an expansion this summer at ten years old. Thankfully the next recession is not yet seen in the data either. That said, the outlook calls for ongoing, but slowing growth this year and next. The tax cuts are fading and past interest rate hikes cool economic activity. The keys to the outlook are the increasingly dovish Federal Reserve and U.S. consumer, which should hold up due to labor market gains despite a few weak months of retail sales.

The Portland region continues its transition down to more sustainable rates of growth. Job gains last year were more than enough to match population growth and the influx of workers. That said, 2018's job growth was the slowest the region has experienced during an economic expansion in the past 40 years. The lone exception was during the Asian Financial Crisis in the late 1990s. Today's slower growth is the result of an economy bumping up against supply side constraints, like the lack of a large pool of readily available workers.



Given people mostly move to Oregon for job-related reasons, as employment growth slows, so too does migration. While the slowing in the latest population estimates is no surprise, it was a bit more pronounced than expected. The sharpest slowdowns were seen among children and seniors while the working-age population increases held up somewhat better. Within the Portland region, the working-age population growth slowed the most in Multnomah while the suburbs saw steady growth.



Looking forward, the region will continue to add residents. The primary driver will be 20- and 30-somethings moving from other parts of the country. Such migrants increasingly have high levels of educational attainment. This is unequivocally good for the local economy. High-wage job growth and the workers who fill these positions continue to drive economic growth and housing demand this cycle.

However, new research from MIT's David Autor furthers our understanding of job polarization, wage stagnation, and migration. A generation ago, workers of all stripes earned higher wages in large, urban areas. There was an economic incentive for individuals to move to cities. Workers responded accordingly and our metro regions have thrived.

Today, due to the decline of good-paying, middle-wage jobs, there is no longer an urban wage premium for workers without a college degree. Someone working in Pendleton earns approximately the same as someone in Portland. All of this before housing and the cost of living are taken into account.

Without a financial incentive, workers without a college degree will continue to move less frequently to big, urban areas. This reduces the relative labor supply in cities, placing more pressure on firms looking to fill low-wage jobs. Conversely this shift raises labor supply in smaller metros and rural areas, supporting stronger overall growth in these locations.

This sorting by educational attainment, job opportunities and the like is not complete. The economy is searching for a new equilibrium. For now these trends point toward young college graduates continuing to drive population growth in the Portland region, while the rest of the state sees more balanced gains.

As for the housing market, the recently passed Senate Bill 608 is top of the mind. In broad terms, SB 608 has two components: restrictions on no-cause evictions, and rent stabilization. Nearly all of the public discussion centers on the latter given the longstanding rent control issues like low levels of new supply and deferred maintenance given there is less economic incentive to build or maintain properties.

Our office recently discussed the legislation with our advisors and the consensus was that the new law is likely to avoid these bad outcomes. SB 608 is not expected to restrict new housing supply given the 15 year exemption for new construction and the relatively high cap for the maximum annual rent increase. These conditions will not bind for the vast majority of developers, landlords or units. As such, the likely impact of the legislation will be preventing the worst displacement scenarios, ensuring somewhat more stability for tenants, and increased administrative costs for landlords.

Now, our office's advisors did raise two concerns. First, they are worried that the annual increase or new construction exemption would be tightened over time, leading to worse housing market outcomes. Second, they wondered who would oversee tenant complaints, ensure landlord compliance and whether there would be funding for increased landlord/tenant court cases.



Finally, as part of the legislation, our office has the reporting requirement for the maximum annual rent increase, which is defined as 7 percent plus inflation. For 2019 this equals 10.3%. Our office now has a dedicated page on our website where one can view this information and download the data. Our office will publish the maximum annual rent increase for 2020 in September 2019. ■

*Josh Lechner 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. Lechner earned a B.A. in Economics from the University of Colorado and an M.S. in Economics from Portland State University.*



## DO YOU OFFER INCENTIVES?

MAP AREA	FALL 2018	SPRING 2019
NW Portland	17.1%	12.7%
Hillsboro   North of Hwy 26	0%	0%
Aloha	8.2%	17.5%
Beaverton	7.4%	9.3%
Downtown Portland	19.5%	16.7%
SW Portland	19.6%	17%
Tigard   Tualatin   Sherwood	8.8%	13%
Lake Oswego   West Linn	9.5%	17.7%
Wilsonville   Canby	5.6%	13.6%
Oregon City   Gladstone	18.2%	14.3%
Milwaukie	3.9%	0%
Clackamas	12.5%	0%
Inner & Central SE Portland	4.5%	6%
Outer SE Portland	1.8%	4%
Troutdale   Fairview   Wood Village   Gresham	2.3%	2.6%
Outer NE Portland	5.7%	8%
Inner & Central NE Portland	9.4%	9.1%
North Portland   St. Johns	3.2%	5%
West Vancouver	9.8%	12.5%
East Vancouver	11.1%	4.6%
Salem   Vicinity	9%	11%
Eugene   Springfield	19.8%	21.9%
Bend   Redmond	0%	0%



# ANNUAL OPERATING EXPENSES

## Co-Star Multi-family Market Report—Portland Market

The Co-Star report analyzes expenses on a per square foot basis and unlike our previous reports, includes capital expenditures. There are two charts, a “3-Star” and a “1&2 Star”. The 3-Star equates to what would typically be considered a Class B property and the 1&2 Star a Class C. Class A properties are averaging 30% to 60% higher than the 3-Star properties but are not reflected on these reports.



### PORTLAND MULTI-FAMILY 3 STAR EXPENSES PER SQUARE FOOT (ANNUAL)

Market / Cluster	Operating Expenses								Capital Expenditures			Total
	Mgmt.	Admin.	Payroll	Water	Utilities	Maint.	Insurance	Taxes	Appliance	Structural	Other	
<b>Portland</b>	\$0.49	\$0.56	\$0.68	\$0.62	\$0.78	\$0.99	\$0.20	\$1.26	\$0.18	\$0.45	\$1.15	<b>\$7.36</b>
Aloha	\$0.36	\$0.54	\$0.51	\$0.61	\$0.78	\$0.49	\$0.20	\$1.23	\$0.17	\$0.44	\$1.06	<b>\$6.39</b>
Beaverton	\$0.49	\$0.54	\$0.52	\$0.67	\$0.78	\$1.01	\$0.20	\$1.37	\$0.17	\$0.44	\$1.05	<b>\$7.24</b>
Central Northeast	\$0.51	\$0.55	\$1.08	\$0.68	\$0.79	\$1.10	\$0.20	\$1.41	\$0.18	\$0.49	\$1.13	<b>\$8.12</b>
Clackamas County	\$0.49	\$0.63	\$1.07	\$1.09	\$1.11	\$2.61	\$0.19	\$1.66	\$0.24	\$0.44	\$1.06	<b>\$10.59</b>
Clark County	\$0.51	\$0.54	\$0.35	\$0.42	\$0.65	\$0.55	\$0.20	\$1.04	\$0.17	\$0.39	\$1.38	<b>\$6.20</b>
Columbia County	\$0.49	\$0.63	\$1.07	\$1.09	\$1.11	\$2.61	\$0.19	\$1.66	\$0.24	\$0.44	\$1.06	<b>\$10.59</b>
Damascus	\$0.50	\$0.63	\$0.36	\$0.54	\$0.65	\$0.88	\$0.20	\$0.97	\$0.17	\$0.44	\$1.06	<b>\$6.40</b>
Downtown Portland	\$0.55	\$0.56	\$0.73	\$0.55	\$0.89	\$0.62	\$0.20	\$1.41	\$0.17	\$0.46	\$1.09	<b>\$7.23</b>
East Portland	\$0.49	\$0.63	\$1.07	\$1.08	\$1.11	\$2.59	\$0.20	\$1.65	\$0.24	\$0.49	\$1.12	<b>\$10.67</b>
Hillsboro	\$0.36	\$0.54	\$0.51	\$0.61	\$0.78	\$0.51	\$0.20	\$1.24	\$0.17	\$0.48	\$1.11	<b>\$6.51</b>
Lake Oswego	\$0.50	\$0.61	\$0.38	\$0.53	\$0.67	\$0.83	\$0.19	\$0.99	\$0.16	\$0.44	\$1.04	<b>\$6.34</b>
North Portland	\$0.50	\$0.57	\$1.07	\$0.88	\$0.94	\$1.84	\$0.20	\$1.51	\$0.20	\$0.44	\$1.04	<b>\$9.19</b>
Northeast Portland	\$0.51	\$0.56	\$1.10	\$0.69	\$0.80	\$1.10	\$0.21	\$1.42	\$0.18	\$0.57	\$1.25	<b>\$8.39</b>
Northwest Portland	\$0.52	\$0.56	\$0.51	\$0.50	\$0.91	\$0.35	\$0.20	\$1.36	\$0.17	\$0.44	\$1.06	<b>\$6.58</b>
Oregon City	\$0.50	\$0.63	\$0.36	\$0.54	\$0.65	\$0.88	\$0.20	\$0.97	\$0.17	\$0.44	\$1.06	<b>\$6.40</b>
Outlying Washingto...	\$0.50	\$0.65	\$1.08	\$1.10	\$1.12	\$2.63	\$0.20	\$1.67	\$0.25	\$0.63	\$1.33	<b>\$11.16</b>
Sherwood/Tualatin	\$0.51	\$0.54	\$1.03	\$0.67	\$0.77	\$1.08	\$0.20	\$1.38	\$0.17	\$0.44	\$1.06	<b>\$7.85</b>
Southeast Portland	\$0.51	\$0.54	\$1.08	\$0.71	\$0.81	\$1.20	\$0.20	\$1.42	\$0.18	\$0.46	\$1.08	<b>\$8.19</b>
Southwest Portland	\$0.57	\$0.55	\$0.50	\$0.46	\$0.95	\$0.30	\$0.20	\$1.39	\$0.17	\$0.44	\$1.04	<b>\$6.57</b>
Tigard	\$0.50	\$0.54	\$1.04	\$0.68	\$0.78	\$1.09	\$0.20	\$1.40	\$0.17	\$0.44	\$1.05	<b>\$7.89</b>
Troutdale/Gresham	\$0.51	\$0.55	\$1.07	\$0.71	\$0.81	\$1.22	\$0.20	\$1.43	\$0.18	\$0.46	\$1.09	<b>\$8.23</b>
Vancouver	\$0.50	\$0.53	\$0.34	\$0.42	\$0.65	\$0.55	\$0.19	\$1.04	\$0.17	\$0.39	\$1.37	<b>\$6.15</b>
Wilsonville	\$0.50	\$0.61	\$0.51	\$0.57	\$0.67	\$0.93	\$0.20	\$1.05	\$0.17	\$0.44	\$1.06	<b>\$6.71</b>
Yamhill County	\$0.49	\$0.62	\$1.07	\$1.08	\$1.09	\$2.53	\$0.20	\$1.63	\$0.23	\$0.51	\$1.15	<b>\$10.60</b>

*Expenses are estimated using NCREIF, IREM, and CoStar data using the narrowest possible geographical definition from Zip Code to region.*

## PORTLAND MULTI-FAMILY 1 & 2 STAR EXPENSES PER SF (ANNUAL)

Market / Cluster	Operating Expenses								Capital Expenditures			Total
	Mgmt.	Admin.	Payroll	Water	Utilities	Maint.	Insurance	Taxes	Appliance	Structural	Other	
<b>Portland</b>	\$0.43	\$0.39	\$0.60	\$0.54	\$0.68	\$0.71	\$0.18	\$1.04	\$0.07	\$0.41	\$0.96	<b>\$6.01</b>
Aloha	\$0.34	\$0.47	\$0.48	\$0.58	\$0.74	\$0.46	\$0.19	\$1.06	\$0.07	\$0.42	\$0.86	<b>\$5.67</b>
Beaverton	\$0.47	\$0.47	\$0.47	\$0.64	\$0.74	\$0.99	\$0.19	\$1.08	\$0.08	\$0.42	\$0.87	<b>\$6.42</b>
Central Northeast	\$0.46	\$0.31	\$1.02	\$0.61	\$0.71	\$0.87	\$0.19	\$1.10	\$0.07	\$0.42	\$0.86	<b>\$6.62</b>
Clackamas County	\$0.38	\$0.23	\$1.01	\$0.78	\$0.58	\$0.61	\$0.19	\$1.05	\$0.06	\$0.42	\$0.86	<b>\$6.17</b>
Clark County	\$0.45	\$0.41	\$0.21	\$0.40	\$0.63	\$0.52	\$0.14	\$0.99	\$0.06	\$0.37	\$1.31	<b>\$5.49</b>
Columbia County	\$0.42	\$0.34	\$1.03	\$0.87	\$0.73	\$1.18	\$0.19	\$1.22	\$0.11	\$0.43	\$0.91	<b>\$7.43</b>
Damascus	\$0.44	\$0.43	\$0.35	\$0.52	\$0.62	\$0.84	\$0.19	\$0.92	\$0.06	\$0.42	\$0.86	<b>\$5.65</b>
Downtown Portland	\$0.48	\$0.41	\$0.76	\$0.55	\$0.78	\$0.60	\$0.19	\$1.15	\$0.09	\$0.42	\$0.90	<b>\$6.33</b>
East Portland	\$0.37	\$0.28	\$0.94	\$0.66	\$0.66	\$0.76	\$0.18	\$1.06	\$0.06	\$0.42	\$0.86	<b>\$6.25</b>
Hillsboro	\$0.34	\$0.47	\$0.48	\$0.58	\$0.74	\$0.48	\$0.19	\$1.06	\$0.07	\$0.42	\$0.86	<b>\$5.69</b>
Lake Oswego	\$0.44	\$0.43	\$0.39	\$0.49	\$0.67	\$0.65	\$0.19	\$0.96	\$0.06	\$0.42	\$0.86	<b>\$5.56</b>
North Portland	\$0.43	\$0.27	\$1.01	\$0.71	\$0.66	\$0.73	\$0.19	\$1.08	\$0.07	\$0.42	\$0.86	<b>\$6.43</b>
Northeast Portland	\$0.48	\$0.31	\$1.02	\$0.64	\$0.74	\$0.86	\$0.19	\$1.10	\$0.08	\$0.42	\$0.86	<b>\$6.70</b>
Northwest Portland	\$0.46	\$0.45	\$0.48	\$0.44	\$0.81	\$0.29	\$0.19	\$1.11	\$0.08	\$0.42	\$0.89	<b>\$5.62</b>
Oregon City	\$0.44	\$0.43	\$0.35	\$0.52	\$0.62	\$0.84	\$0.19	\$0.92	\$0.06	\$0.42	\$0.86	<b>\$5.65</b>
Outlying Washingto...	\$0.39	\$0.24	\$1.01	\$0.79	\$0.59	\$0.65	\$0.19	\$1.06	\$0.06	\$0.42	\$0.86	<b>\$6.26</b>
Sherwood/Tualatin	\$0.38	\$0.50	\$0.17	\$0.60	\$0.73	\$0.98	\$0.16	\$1.18	\$0.08	\$0.42	\$0.86	<b>\$6.06</b>
Southeast Portland	\$0.48	\$0.34	\$1.02	\$0.64	\$0.74	\$0.95	\$0.19	\$1.10	\$0.07	\$0.42	\$0.86	<b>\$6.81</b>
Southwest Portland	\$0.44	\$0.43	\$0.48	\$0.44	\$0.77	\$0.28	\$0.19	\$1.05	\$0.06	\$0.42	\$0.86	<b>\$5.42</b>
Tigard	\$0.35	\$0.51	\$0.16	\$0.64	\$0.74	\$0.99	\$0.19	\$1.11	\$0.07	\$0.42	\$0.86	<b>\$6.04</b>
Troutdale/Gresham	\$0.32	\$0.37	\$1.00	\$0.51	\$0.64	\$0.82	\$0.17	\$1.07	\$0.05	\$0.42	\$0.87	<b>\$6.24</b>
Vancouver	\$0.45	\$0.41	\$0.21	\$0.40	\$0.63	\$0.52	\$0.14	\$0.99	\$0.06	\$0.37	\$1.31	<b>\$5.49</b>
Wilsonville	\$0.44	\$0.43	\$0.35	\$0.52	\$0.62	\$0.84	\$0.19	\$0.92	\$0.06	\$0.42	\$0.86	<b>\$5.65</b>
Yamhill County	\$0.39	\$0.24	\$1.01	\$0.79	\$0.59	\$0.66	\$0.19	\$1.06	\$0.06	\$0.42	\$0.86	<b>\$6.27</b>

*Expenses are estimated using NCREIF, IREM, and CoStar data using the narrowest possible geographical definition from Zip Code to region.*



### SECTION 42 SURVEY RESULTS • SPRING 2019

TTL # OF PROPERTIES = 111 • TTL # OF UNITS = 7,709

UNIT TYPES	VACANCY RATE (%)	AVG. RENT PER SQ FT (\$)
STUDIO	2.74	2.30
1 BED / 1 BATH	1.94	1.31
2 BED / 1 BATH	2.29	1.05
2 BED / 2 BATH	5.08	1.12
2 BED / TH	1.97	0.84
3 BED / 1 BATH	1.81	0.95
3 BED / 2 BATH	1.43	0.81
TOTALS	2.3	1.38



## NAVIGATING THE NEW PORTLAND

*Whitney Rhoades and Danalee Corso, Rhoades-Corso Group*

### URM, IHZ, SB 608, OPPORTUNITY ZONES, INCREASED CONSTRUCTION COSTS, LIMITED SCREENING CRITERIA...

The landscape of Portland area apartments is continually shifting, with what seems like a new guideline or requirement every month. The increasingly frustrated owners who decide to sell and move on to a new frontier are wondering, what will all this mean for my value? Will buyers still have an appetite in this ever-changing market? In this team's humble opinion, absolutely!

The strengths of the local market remain intrinsic, appealing, and growing to keep up with and even outpace each new challenge. Oregon saw nearly 60,000 newly migrated residents in 2018 alone, with would-be locals attracted to the high paying jobs, prolific transportation system, and inherent lifestyle and livability of the city. According to our firm's national 2019 multifamily forecast\*, the Portland metro area remains one of the strongest major markets for long-term appreciation (#5 nationally), and is the least expensive cost of living among west coast cities.

Now, not everything is rosy-hued. Both local and out-of-state investors are voicing concerns regarding the public persecution of rental housing providers, the shift of control regarding rental rates into the state government's hands, and the continually pending requirements surrounding unreinforced masonry. These all pose concerns for both our present owners and those considering investment into Portland and its surrounding communities. While this has caused a longer evaluation period for investments, those investors can calculate the effect of the new risks as the strengths of the market continue to bolster their anticipation of long-term success.

As we look at current transactions as compared to one, two, three or more years ago, we see a continued appetite for apartments in the area surrounding Portland. There has been a marked hesitancy, primarily from local investors, to buy in

Portland – particularly since relocation fees were passed. This hesitancy seems due not to the actual fee so much as the perceived general attitude toward rental housing providers within the city itself. It is yet to be seen how the “leveling of the playing field” from SB 608, which created statewide rent control, will effect investors' minds of Portland vs. Everywhere Else. Investors from other states however, particularly California, which has even more stringent rent control laws in many major markets, remain bullish on Portland's prospects for long term holds. We see continued aggressiveness from investors regarding their acquisition goals. Most recently, an apartment property on offering by our team saw immediate interest from investment groups locally, from Seattle, and from multiple markets in California. Typical other recent transactions are seeing earnest money becoming nonrefundable early, lack of financing contingencies, and competitive pricing from interested investors in the interest of gaining the opportunity to win the deal.

The current headwinds facing owners in this market are many and varied, but we strongly believe the benefits outweigh the threats. The growing population is comprised mainly of the infamous Millennials and Boomers. Consequently, Portland continues to offer a population that favors renting over homeownership, and thus a stable and willing renter base. That continual demand for quality housing will dictate transactions moving forward as buyers look to take advantage of the strengths the market offers, and sellers look to take advantage of the premiums those buyers are willing to pay for the opportunity.

Summarily, despite the newfound obstacles presented by our changing landscape, Portland remains a high demand market for investors. While it might take a bit longer to get to the upside end of the rainbow, the path remains, for the time being, navigable. ■

*Rhoades-Corso Group is a team within Marcus & Millichap, a leading national commercial brokerage firm. RCG focuses on private client apartment sales throughout the Portland MSA and greater Oregon and southwest Washington.*

\* 2008-2018 Average annualized appreciations in price per unit. Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Real Capital Analytics





# THE Apartment Report



**MULTIFAMILY NW**  
The Association Promoting Quality Rental Housing

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

AFFINITY PROPERTY MANAGEMENT  
AMERICAN PROPERTY MANAGEMENT  
AVENUE5 RESIDENTIAL  
BARKER & CALKINS, INC  
BLUESTONE & HOCKLEY REALTY  
BRISTOL EQUITIES INC  
C&R REAL ESTATE SERVICES  
CAPITAL PROPERTY MANAGEMENT  
CASCADE MANAGEMENT  
CTL MANAGEMENT, INC.  
DALTON MANAGEMENT  
GREYSTAR

GUARDIAN REAL ESTATE SERVICES  
HOLLAND RESIDENTIAL  
INCOME PROPERTY MANAGEMENT  
JENNINGS GROUP INCORPORATED  
MDI, LLC  
MG PROPERTY GROUP  
PINNACLE  
PRINCETON PROPERTY MANAGEMENT  
PROMETHEUS REAL ESTATE GROUP  
QUANTUM RESIDENTIAL  
STERLING MANAGEMENT GROUP, INC.  
TOKOLA PROPERTIES  
WINDSOR COMMUNITIES

MAP AREA	TENANT PAID UTILITIES		
	WATER/SEWER	HEAT	GARBAGE
NW PORTLAND	60.8%	83.5%	59.5%
HILLSBORO   N OF HWY 26	64.7%	100%	58.8%
ALOHA	90%	100%	87.5%
BEAVERTON	72.1%	90.7%	55.8%
DOWNTOWN PORTLAND	59.5%	85.7%	57.1%
SW PORTLAND	83%	93.6%	68.1%
TIGARD   TUALATIN   SHERWOOD	80.4%	100%	80.4%
LAKE OSWEGO   WEST LINN	76.5%	100%	70.6%
WILSONVILLE   CANBY	77.3%	100%	72.7%
OREGON CITY   GLADSTONE	100%	100%	57.1%
MILWAUKIE	83.3%	100%	50%
CLACKAMAS	100%	100%	83.3%
INNER & CENTRAL SE PTLD	29.1%	74.8%	24.5%
OUTER SE PORTLAND	46%	100%	28%
TROUTDALE   FAIRVIEW WOOD VILLAGE   GRESHAM	64.1%	100%	53.9%
OUTER NE PORTLAND	60%	96%	40%
INNER & CENTRAL NE PTLD	24.8%	59.5%	19.8%
NORTH PTLD   ST. JOHNS	42.5%	85%	32.5%
WEST VANCOUVER	71.9%	96.9%	56.3%
EAST VANCOUVER	86.4%	100%	72.7%
SALEM   VICINITY	56.7%	97.6%	53.5%
EUGENE   SPRINGFIELD	49%	99%	45.8%
BEND   REDMOND	85.7%	100%	85.7%

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