



THE Apartment Report

POLITICAL IMPACT ON MARKET

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

Seven months into a rent-controlled and legislatively restricted market, Oregon is starting to see signs of the impact. New construction is slowing, and investors are losing confidence, as the political climate continues to be very challenging for landlords. Portland's four county Metro area will see slightly over 8,000 permitted units this year, down from a peak of 10,300 in 2017. Apartment sales volume declined earlier this year, but recently a few large sales have brought volume to a more normalized rate. Sales in Vancouver are up significantly as investors look to escape Oregon's rent cap and restrictive regulations. Rising cap rates have been mitigated by declining interest rates, and the consensus is that we are entering a buyer's market. Despite the real need for more affordable housing, legislative efforts appear to be hindering the ability of the private market to produce it. Rent growth is slowing, but rent rates continue to rise and vacancy levels are stable. The maximum rent increase in Oregon for 2020 has been published and stands at 9.9%. This cap applies to apartments over 15 years old.

Portland/Vancouver

VACANCY:

The Portland/Vancouver vacancy factor improved from our Spring report, and currently stands at **4.42%**. Inner and Central SE and West Vancouver have the lowest vacancy factors, both under 3.5%. Only four of the remaining eighteen surveyed areas are under 4%, with all others between 4% and 7%. The highest vacancies are found in Lake Oswego/West Linn at 6.6%, followed by Wilsonville and Hillsboro at 5.7%. Both Downtown and Northwest Portland have seen significant improvement in the past six months as newly constructed units are starting to be absorbed. Both areas are now

under 5%. Three-bedroom, one bath units have the best occupancy of all unit types, with average vacancy of 3.7%. Studio units have the highest vacancy of 5%. **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 to push upward. As the building boom continues, and our survey unit count grows, it's important to note that our report includes an increased number of new projects that push the average rates higher. Rent increases in class "B" and "C" are more stable and increasing at a lesser rate. The survey does not differentiate by product class or age. Rent increases have averaged 4% since our Spring survey, but do not represent "effective" rent rates. Four of the twenty surveyed areas experienced declining rents. All of which were very minor reductions of 1% or 2%. Lake Oswego shows a 32% increase in rent rates, but that is caused by the addition of a new, class "A" project, and not indicative of the market segment as a whole.

Average rent per sq. ft. for all areas combined is \$1.74. The Downtown core area has the highest rates at \$2.43, with NW Portland coming in second at \$2.34, and Lake Oswego third with \$2.11. Outer NE Portland and West Vancouver continue to have some of the lowest rates, at \$1.34 and \$1.38 respectively. It's interesting to note that in certain areas one-bedroom units have higher rents than two-bedroom units. This is due to the older age of the projects with two-bedrooms and the prevalence of smaller units in newly constructed properties.

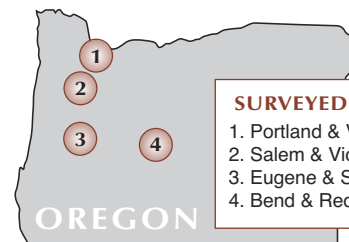
Overall average rents per unit type—Portland:

UNIT TYPE	FALL 19	SPR 19
Studio	\$1183	\$1170
1 bdrm/1 bth	\$1293	\$1268
2 bdrm/1 bth	\$1250	\$1214
2 bdrm/2 bth	\$1588	\$1530
2 bdrm townhome	\$1434	\$1408
3 bdrm/1 bth	\$1378	\$1286
3 bdrm/2 bth	\$1697	\$1610

(continued on page 2)

SURVEY SAYS!

- Vacancy Rates Decrease
- Investors Buying in Vancouver
- Rent Growth Slowing
- Buyer's Market Emerging



SURVEYED AREAS

1. Portland & Vancouver
2. Salem & Vicinity
3. Eugene & Springfield
4. Bend & Redmond

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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

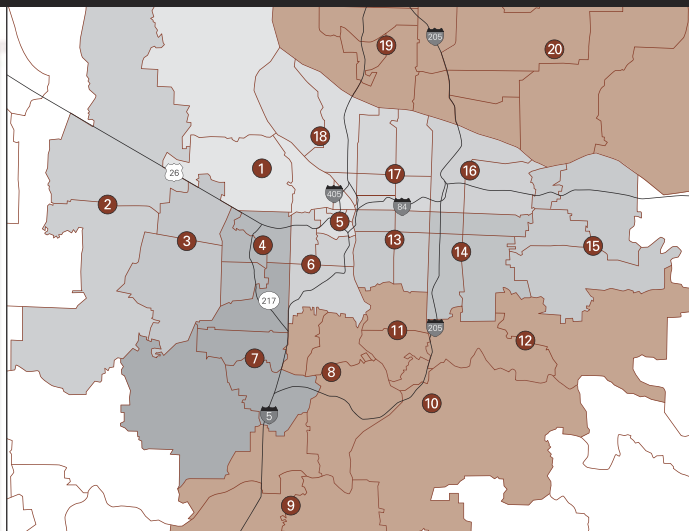
- 12 CLACKAMAS
- 8 LAKE OSWEGO | WEST LINN
- 11 MILWAUKIE
- 10 OREGON CITY | GLADSTONE
- 9 WILSONVILLE | CANBY

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 7% of all Metro properties are offering rental incentives, with aggressive deals being offered in Class A projects in lease-up phase. Incentives are most aggressive in Downtown, with 20% of the surveyed properties offering incentives. The average number of days that a unit will stay vacant for the entire Metro area is 32. Hillsboro, Aloha and Clackamas continue to experience over two months average vacant days between tenants. The Inner and Central SE area is averaging only 10 days between tenants and North Portland/St. Johns is also quick to rent, with a 14-day turnover time.

Other Areas

The Salem market has seen continued softening and has a current vacancy rate over 5%. Salem rents have increased an average of 5.5% year over year. Vacancies in larger two and three bedroom units are particularly high. The Bend/Redmond area has returned to more normal vacancy numbers, averaging slightly over 3%, with rents seeing a 3% increase since last Spring. The vacancy rate in Eugene/Springfield has decreased to 4%, but rents have remained flat. Over 20% of surveyed properties in Eugene/Springfield are offering incentives.

Our Contributors

Liz Tilbury, with Tilbury Ferguson Investment Real Estate, has submitted an article discussing the effect that state and local laws and ordinances are having on both buyers and sellers of apartments. She points out that sales volume is down from 2018 and a shift to a buyer's market is taking place, although some sellers haven't recognized it yet. She has seen institutional buyers shying away from Oregon due to the burden of new regulations, and lender underwriting for unreinforced masonry buildings (URMs) has been difficult to obtain. Liz points out that **"B&C projects are performing solidly...whereas a number of urban projects are continuing to struggle with all the competition."**

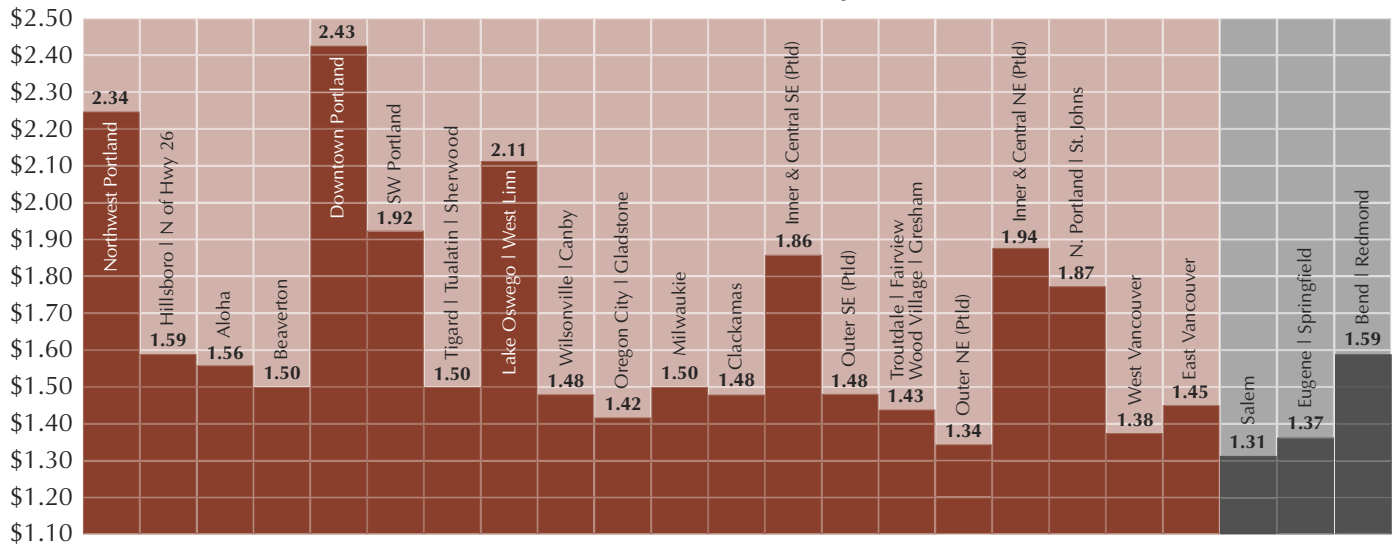
Patrick Barry, from Barry and Associates, examines the overall issues in play throughout the Metro area. He notes how the political climate is having a negative impact on sales and values, and the current gap between buyer and seller expectations has produced a 30% decrease in sales volume on an annualized basis. He predicts that 8,300 units will be permitted this year. Rent growth will continue to slow due to the large number of units nearing completion, but the **"Portland apartment market should remain stable, as we return to a more normal market."**

The increased legal and political challenges for landlords are discussed in an article submitted by **Jeffrey S. Bennett**, Attorney at Law. With the passage of Senate Bill 608, **"...landlords now face significant restrictions on rent increases and no cause notices of termination."** The 2019 legislative session saw the disbandment of the landlord/tenant coalition, further eroding consensus building in Salem. Jeff notes that **"...we live in an era saturated by a burgeoning body of statutes, ordinances and appellate law, the likes of which we've never seen before."** Sounds like we could all use a good lawyer.

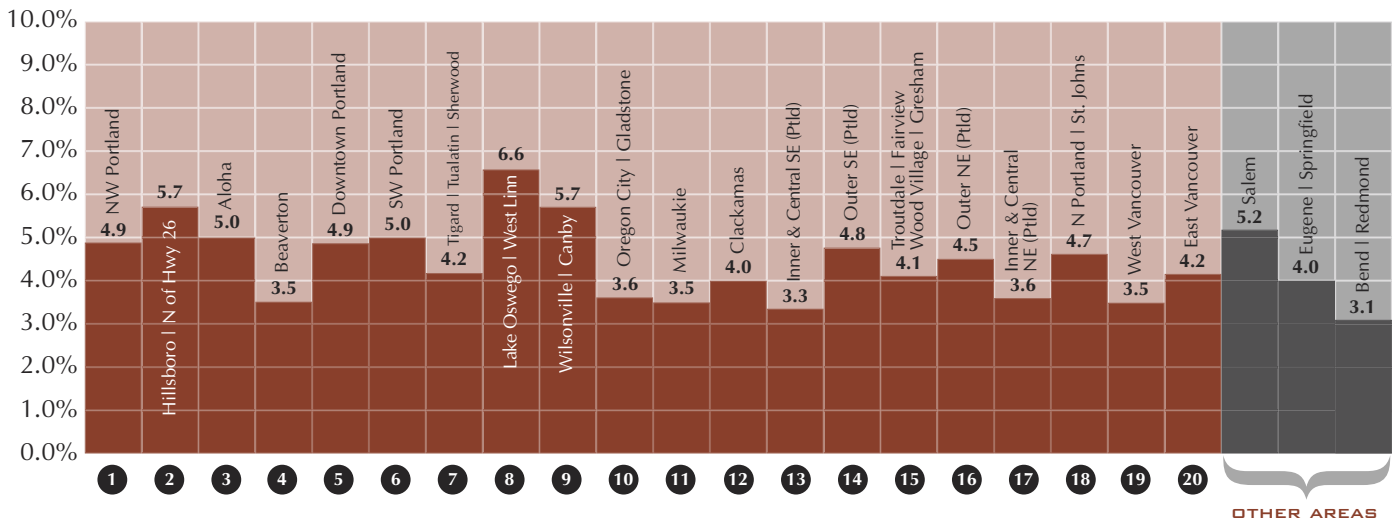
Josh Lehner, State Economist from the Oregon Office of Economic Analysis, discusses both the national and state economic picture. He notes that **"...for the first time in more than 50 years, Oregon has surpassed the national median household income."** Josh points out that the risk of recession is rising, but the economy is largely doing well.

This survey represents a total of 75,601 units from 1,166 properties. All of the articles have been reprinted without editing the content, in order to present unbiased opinions. We'd like to thank all of the management companies and property owners who have submitted information. Their participation is critical in insuring the accuracy of our data and the continued success of this report. ■

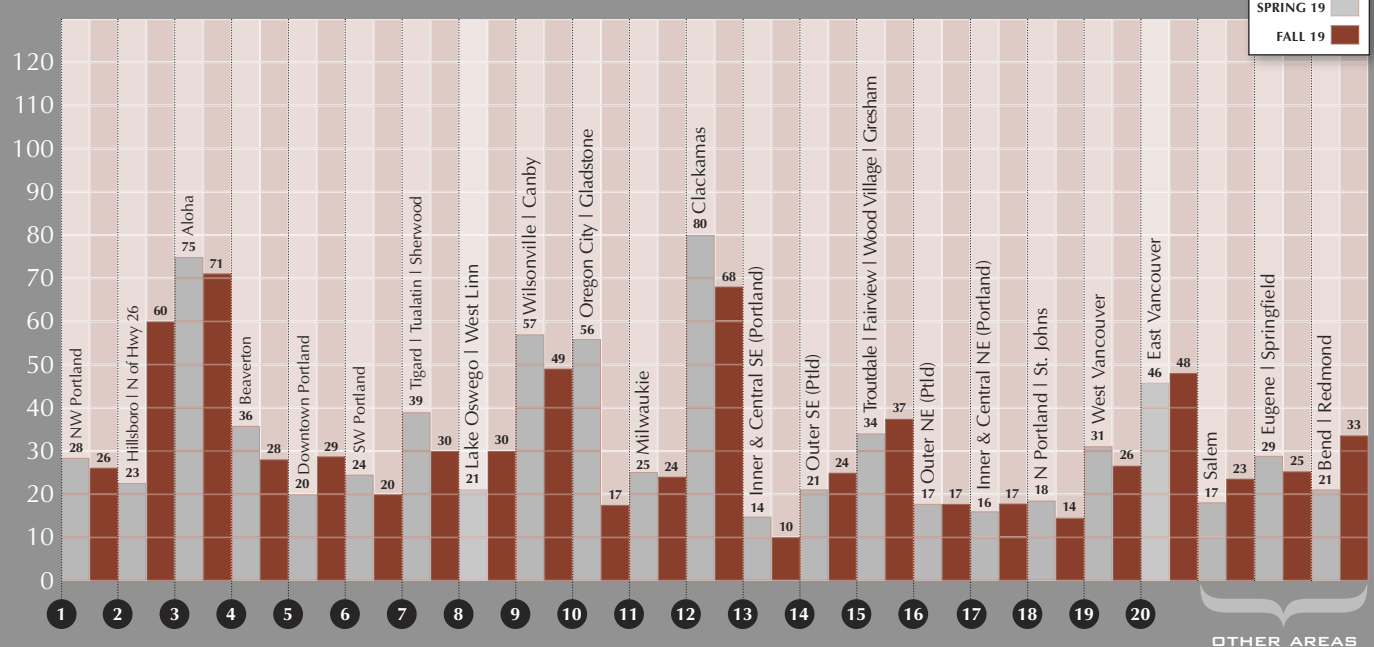
AVERAGE RENT PER SQUARE FOOT \$



AVERAGE MARKET VACANCY RATE %



AVERAGE NUMBER OF DAYS VACANT — PORTLAND/VANCOUVER



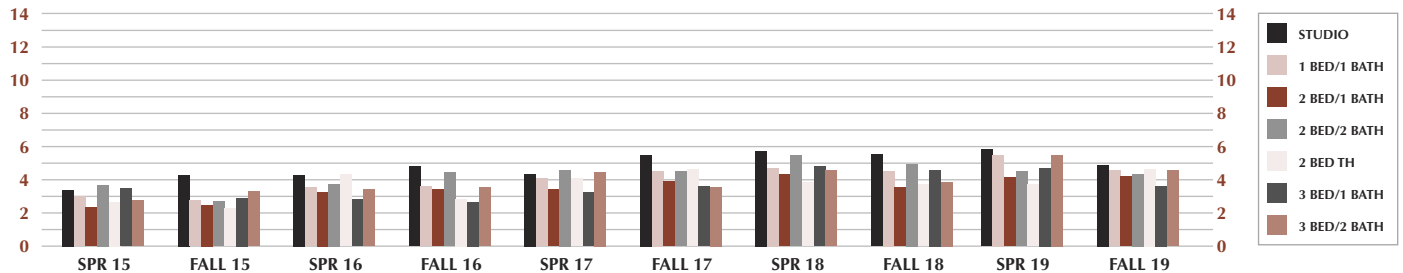
SURVEY RESULTS—FALL 2019

PORTLAND/VANCOUVER METRO AREA

AREA NAME	# OF PROP	DATA	ALL	SPR 19 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)	42	AVG MARKET VACANCY RATE %	4.87	6.46	-0.25	4.67	3.99	7.33	7	17.24	0	0
		AVG RENT PER SQ FOOT \$	2.43	2.4	0.01	2.81	2.27	1.99	2.32	1.95	1.74	1.92
		AVG RENT PER UNIT TYPE \$				1120	1487	1601	2612	2022	1655	4200
		SUM OF UNITS SURVEYED	2689	2027		878	1329	150	300	29	1	2
NW PORTLAND (1)	124	AVG MARKET VACANCY RATE %	4.86	7.88	-0.38	5.43	4.57	6.01	4.66	6.12	11.9	3.54
		AVG RENT PER SQ FOOT \$	2.34	2.23	0.05	2.84	2.38	1.77	2.03	1.78	1.45	1.98
		AVG RENT PER UNIT TYPE \$				1350	1645	1530	2118	1753	1423	2620
		SUM OF UNITS SURVEYED	8023	5840		1583	3935	466	1694	49	42	254
INNER & CENTRAL SE PORTLAND (13)	191	AVG MARKET VACANCY RATE %	3.3	5.4	-0.39	3.75	3.49	3.55	2.84	0.54	0	0
		AVG RENT PER SQ FOOT \$	1.86	1.9	-0.02	2.69	1.9	1.54	1.8	1.4	1.25	1.26
		AVG RENT PER UNIT TYPE \$				1112	1176	1284	1920	1258	1382	1600
		SUM OF UNITS SURVEYED	3994	3538		533	1779	1212	211	185	52	22
INNER & CENTRAL NE PORTLAND (17)	140	AVG MARKET VACANCY RATE %	3.57	4.13	-0.14	7.17	4.52	2.99	0.99	1.9	0	2.13
		AVG RENT PER SQ FOOT \$	1.94	1.88	0.03	2.85	1.9	1.61	1.84	1.47	1.29	1.47
		AVG RENT PER UNIT TYPE \$				1176	1214	1317	1899	1431	1480	1623
		SUM OF UNITS SURVEYED	4374	3753		586	1726	670	1108	211	26	47
N PORTLAND ST JOHNS (18)	35	AVG MARKET VACANCY RATE %	4.7	3.9	0.21	6.19	4.59	2.22	9.62	0	8.33	0
		AVG RENT PER SQ FOOT \$	1.87	1.86	0.01	2.43	1.89	1.68	1.61	1.44	1.38	1.54
		AVG RENT PER UNIT TYPE \$				1072	1285	1337	2025	1147	1350	1380
		SUM OF UNITS SURVEYED	1341	1153		210	588	315	156	59	12	1
SW PORTLAND (6)	56	AVG MARKET VACANCY RATE %	5.01	4.97	0.01	4.68	5.36	5.51	4.19	0	1.61	5.15
		AVG RENT PER SQ FOOT \$	1.92	1.92	0	2.65	2.1	1.48	1.75	1.4	1.29	1.4
		AVG RENT PER UNIT TYPE \$				1222	1466	1200	1937	1539	1479	1711
		SUM OF UNITS SURVEYED	2854	2734		235	1437	563	382	39	62	136
OUTER SE PORTLAND (14)	35	AVG MARKET VACANCY RATE %	4.75	4.27	0.11	3.82	4.83	5.43	3.77	7.27	10.53	3.07
		AVG RENT PER SQ FOOT \$	1.48	1.51	-0.02	2.23	1.67	1.36	1.34	1.26	1.17	1.32
		AVG RENT PER UNIT TYPE \$				926	1035	1111	1326	1360	1095	1671
		SUM OF UNITS SURVEYED	2339	2390		157	600	516	664	220	19	163
OUTER NE PORTLAND (16)	22	AVG MARKET VACANCY RATE %	4.46	5.56	-0.2	0	3.72	5.13	0	7.69	0	5.81
		AVG RENT PER SQ FOOT \$	1.34	1.29	0.04	1.84	1.42	1.3	1.26	1.11	1.1	1.32
		AVG RENT PER UNIT TYPE \$				799	1012	1140	1181	1224	1381	1419
		SUM OF UNITS SURVEYED	1344	1296		19	457	663	58	52	9	86
TROUTDALE FAIRVIEW WOOD VILLAGE GRESHAM (15)	32	AVG MARKET VACANCY RATE %	4.08	3.4	0.2	3.9	5.85	3.48	3.87	4.67	-	2.38
		AVG RENT PER SQ FOOT \$	1.43	1.36	0.05	2.3	1.68	1.34	1.29	1.53	-	1.33
		AVG RENT PER UNIT TYPE \$				966	1091	1252	1263	1552	-	1723
		SUM OF UNITS SURVEYED	2966	2144		77	530	719	982	364	0	294
CLACKAMAS (12)	8	AVG MARKET VACANCY RATE %	3.96	4.05	-0.02	0	3.68	4.59	3.67	12.5	-	3.68
		AVG RENT PER SQ FOOT \$	1.48	1.44	0.03	2.03	1.66	1.41	1.37	1.35	-	1.41
		AVG RENT PER UNIT TYPE \$				932	1120	1241	1324	1295	-	1577
		SUM OF UNITS SURVEYED	1465	1037		44	408	327	491	32	0	163
LAKE OSWEGO WEST LINN (8)	15	AVG MARKET VACANCY RATE %	6.62	3.36	0.97	0	9.19	2.68	4.78	10.61	-	2.99
		AVG RENT PER SQ FOOT \$	2.11	1.6	0.32	2.35	2.41	1.49	2.12	1.55	-	1.91
		AVG RENT PER UNIT TYPE \$				1806	1596	1319	2151	1582	-	2404
		SUM OF UNITS SURVEYED	1057	744		14	468	149	293	66	0	67
MILWAUKIE (11)	22	AVG MARKET VACANCY RATE %	3.51	4.16	-0.16	1.85	3	3.77	2.52	3.92	0	6.82
		AVG RENT PER SQ FOOT \$	1.5	1.5	0	2.18	1.6	1.44	1.46	1.18	1.3	1.43
		AVG RENT PER UNIT TYPE \$				785	1038	1192	1379	1158	1353	1593
		SUM OF UNITS SURVEYED	1539	1779		54	466	663	159	102	7	88
OREGON CITY GLADSTONE (10)	13	AVG MARKET VACANCY RATE %	3.55	4.86	-0.27	6.9	2.53	2.69	3.36	4.92	5.41	5.08
		AVG RENT PER SQ FOOT \$	1.42	1.39	0.02	2.03	1.61	1.34	1.35	1.4	1.36	1.28
		AVG RENT PER UNIT TYPE \$				947	1039	1166	1384	1196	1312	1704
		SUM OF UNITS SURVEYED	1041	803		29	237	260	238	122	37	118
WILSONVILLE CANBY (9)	16	AVG MARKET VACANCY RATE %	5.72	5.76	-0.01	2.7	5.59	5.52	5.18	6.17	0	7.8
		AVG RENT PER SQ FOOT \$	1.48	1.46	0.01	2.46	1.74	1.33	1.47	1.18	1.38	1.4
		AVG RENT PER UNIT TYPE \$				1148	1203	1116	1435	1425	1300	1605
		SUM OF UNITS SURVEYED	1976	2710		37	376	580	618	81	2	282
ALOHA (3)	42	AVG MARKET VACANCY RATE %	4.95	3.66	0.35	4.76	4.84	4.26	5.06	4.37	7.69	6.12
		AVG RENT PER SQ FOOT \$	1.56	1.5	0.04	2.23	1.8	1.46	1.46	1.41	1.57	1.4
		AVG RENT PER UNIT TYPE \$				1054	1226	1287	1455	1722	1588	1623
		SUM OF UNITS SURVEYED	7711	6446		42	2337	1410	2768	252	52	850

PORTLAND/VANCOUVER METRO AREA												
AREA NAME	# OF PROP	DATA	ALL	SPR 19 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)	54	AVG MARKET VACANCY RATE %	3.53	4.76	-0.26	5.43	3.42	2.7	5.64	5.83	3.33	1.72
		AVG RENT PER SQ FOOT \$	1.5	1.49	0.01	2.24	1.66	1.38	1.46	1.43	1.21	1.33
		AVG RENT PER UNIT TYPE \$				961	1133	1241	1489	1444	1309	1674
		SUM OF UNITS SURVEYED	3879	3090		92	1376	1334	621	103	120	233
HILLSBORO N OF HWY 26 (2)	18	AVG MARKET VACANCY RATE %	5.66	4.46	0.27	4.11	6.26	8.79	4.61	4.58	0	3.39
		AVG RENT PER SQ FOOT \$	1.59	1.6	-0.01	2.35	1.78	1.45	1.42	1.29	1.09	1.36
		AVG RENT PER UNIT TYPE \$				1216	1256	1306	1477	1733	1240	1699
		SUM OF UNITS SURVEYED	2684	1098		73	1183	307	738	131	16	236
TIGARD TUALATIN SHERWOOD (7)	51	AVG MARKET VACANCY RATE %	4.17	4.8	-0.13	2.22	3.68	4.6	3.7	5.45	2.42	6.42
		AVG RENT PER SQ FOOT \$	1.5	1.51	-0.01	2.38	1.7	1.43	1.42	1.33	1.34	1.34
		AVG RENT PER UNIT TYPE \$				908	1134	1188	1400	1463	1355	1624
		SUM OF UNITS SURVEYED	4818	4399		45	1493	1325	1188	275	165	327
WEST VANCOUVER (19)	28	AVG MARKET VACANCY RATE %	3.45	5.38	-0.36	0	3.75	2.16	4.78	3.75	0	0
		AVG RENT PER SQ FOOT \$	1.38	1.38	0	1.12	1.56	1.38	1.31	1.22	1.28	1.11
		AVG RENT PER UNIT TYPE \$				686	1065	1116	1368	1334	1600	1393
		SUM OF UNITS SURVEYED	2576	2380		16	826	555	774	240	1	164
EAST VANCOUVER (20)	21	AVG MARKET VACANCY RATE %	4.15	4.01	0.03	1.43	4.72	4.35	4.17	2.17	0	3.81
		AVG RENT PER SQ FOOT \$	1.45	1.36	0.07	2.13	1.54	1.56	1.31	1.26	1.14	1.35
		AVG RENT PER UNIT TYPE \$				1028	1073	1377	1321	1092	1501	1537
		SUM OF UNITS SURVEYED	3157	2717		70	763	805	960	138	1	420
TOTAL AVG MARKET VACANCY RATE %			4.42	4.96	-0.11	4.96	4.52	4.17	4.28	4.58	3.69	4.48
TOTAL AVG RENT PER SQ FOOT \$			1.74	1.68	0.04	2.69	1.92	1.46	1.56	1.38	1.31	1.41
TOTAL AVG RENT PER UNIT TYPE \$						1183	1293	1250	1588	1434	1378	1697
TOTAL SUM OF PROPERTIES SURVEYED			965	709		295	783	599	279	113	91	186
TOTAL SUM OF UNITS SURVEYED			61827	52078		4794	22314	12989	14403	2750	624	3953

VACANCY RATE SINCE SPRING 2015—PORTLAND/VANCOUVER METRO AREA

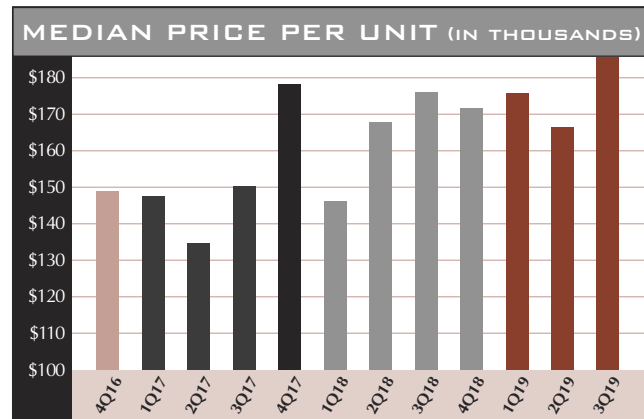
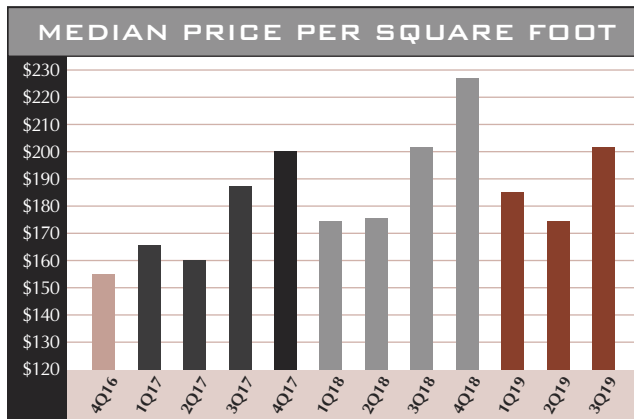
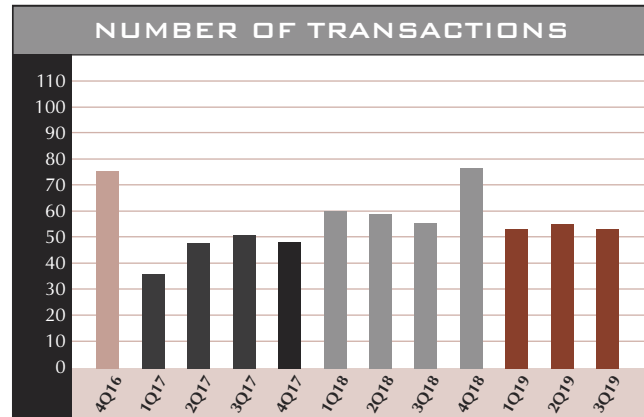
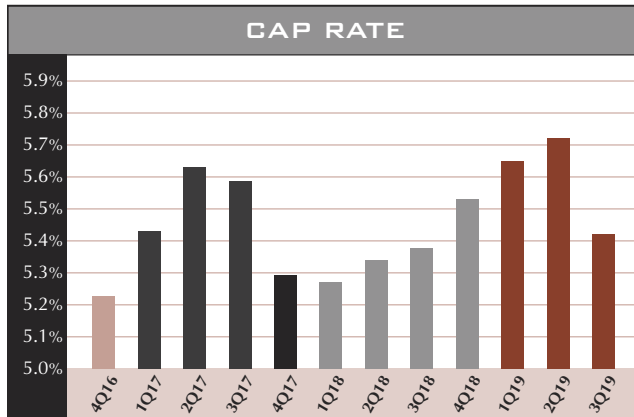


OTHER AREAS												
SALEM & VICINITY	98	AVG MARKET VACANCY RATE %	5.16	4.62	0.12	4.6	5.44	4.92	4.55	8.63	9.2	3.94
		AVG RENT PER SQ FOOT \$	1.31	1.28	0.02	1.88	1.52	1.27	1.21	1.12	1.48	1.16
		AVG RENT PER UNIT TYPE \$				855	929	1064	1168	1130	1310	1324
		SUM OF UNITS SURVEYED	7293	6279		174	1506	3253	1450	417	87	406
EUGENE SPRINGFIELD	93	AVG MARKET VACANCY RATE %	4	4.59	-0.13	5.49	3.8	3.7	4.56	2.37	7.58	4.8
		AVG RENT PER SQ FOOT \$	1.37	1.37	0	2.08	1.44	1.24	1.33	1.24	1.2	1.24
		AVG RENT PER UNIT TYPE \$				757	980	1077	1424	1293	1198	1476
		SUM OF UNITS SURVEYED	5645	4875		364	1735	1485	1030	548	66	417
BEND REDMOND	10	AVG MARKET VACANCY RATE %	3.11	7.62	-0.59	1.08	1.59	8.82	0	12.5	0	6.67
		AVG RENT PER SQ FOOT \$	1.59	1.55	0.03	2.02	1.85	1.22	1.47	0.98	1.01	1.1
		AVG RENT PER UNIT TYPE \$				1154	1324	1061	1490	975	1075	1294
		SUM OF UNITS SURVEYED	836	420		93	314	170	189	8	2	60
TOTAL AVG MARKET VACANCY RATE %			4.56	4.72	-0.03	4.6	4.3	4.69	4.23	5.14	8.39	4.53
TOTAL AVG RENT PER SQ FOOT \$			1.35	1.33	0.02	2.02	1.51	1.26	1.27	1.19	1.35	1.19
TOTAL AVG RENT PER UNIT TYPE \$						842	989	1068	1290	1221	1259	1394
TOTAL SUM OF PROPERTIES SURVEYED			201	196		38	121	121	68	28	39	49
TOTAL SUM OF UNITS SURVEYED			13774	11574		631	3555	4908	2669	973	155	883

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

TREND REPORT : PORTLAND METRO AREA

CoStar: Search criteria—Research Status: Published; Market: Portland; PropType: Multi Family; Sale Date: 10/1/2016—9/30/19; unit: 5 units and greater.



YEAR	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
# OF TRANS	76	35	48	50	49	60	59	56	77	52	54	52
TTL \$ VOLUME	\$1,673,744,898	\$369,926,896	\$240,789,234	\$458,179,000	\$663,623,832	\$460,382,050	\$289,128,756	\$670,608,291	\$899,860,944	\$459,194,151	\$395,662,684	\$747,587,500
TTL BLDG SF	8,226,345	1,910,700	1,522,716	2,380,055	2,143,933	2,357,256	1,611,142	2,591,463	4,245,605	1,955,730	2,041,493	2,934,095
TTL UNITS	7,757	2,030	1,719	2,327	2,793	2,546	1,600	2,419	4,343	1,917	2,075	2,851
AVG PRICE	\$22,618,174	\$10,569,340	\$5,234,549	\$10,181,756	\$13,543,344	\$8,686,454	\$4,984,979	\$11,975,148	\$11,686,506	\$8,830,657	\$8,074,749	\$15,906,117
AVG # OF SF	111,167	56,197	31,723	48,573	43,754	39,288	27,307	46,276	55,863	38,348	37,805	56,425
AVG \$ BLDG SF	\$203.36	\$192.98	\$169.99	\$215.37	\$309.54	\$217.06	\$179.73	\$258.78	\$208.42	\$234.05	\$199.87	\$260.79
MED \$ P/SF	\$154.91	\$164.51	\$160.42	\$187.96	\$200.00	\$173.30	\$175.45	\$201.74	\$227.96	\$183.95	\$173.28	\$200.81
AVG \$ P/UNIT	\$215,222	\$181,639	\$148,087	\$203,886	\$234,237	\$193,432	\$170,414	\$274,726	\$204,872	\$205,072	\$190,162	\$267,485
MED \$ P/UNIT	\$149,125	\$147,083	\$133,818	\$150,532	\$178,571	\$146,454	\$168,750	\$176,714	\$171,429	\$175,000	\$167,000	\$184,189
AVG # OF UNITS	112	60	37	51	59	44	30	46	59	41	42	62
ACTUAL CAP RATE	5.22%	5.42%	5.63%	5.59%	5.29%	5.27%	5.33%	5.38%	5.52%	5.64%	5.71%	5.41%
AVG GRM	11.56	11.82	14.73	11.16	13.64	14.18	10.13	11.33	13.09	12.81	12.61	11.44
AVG GIM	—	—	—	9.01	—	—	—	9.88	—	—	—	—

LIVING IN INTERESTING TIMES

Jeffrey S. Bennett, Attorney at Law, Warren Allen LLP



At the risk of misstating a historical quote, we now live in “interesting times.” More specifically, we live in an era saturated by a burgeoning body of statutes, ordinances and appellate law, the likes of which we’ve never seen before. The pace at which this legal landscape has expanded poses myriad challenges for landlords and makes property management...interesting.

The 2019 Oregon legislative session was unique: The disbandment of the landlord/tenant coalition (the group of landlord and tenant advocates which historically formulated amendments to the Oregon Residential Landlord and Tenant Act) relegated the development of new and amended landlord/tenant laws to the legislature. Setting aside the emotional, political and media-driven underpinnings for the enactment of – and fall out from – Senate Bill 608, landlords now face significant restrictions on rent increases and no cause notices of termination. A landlord’s ability to navigate the scope and breadth of these restrictions – which impose significant administrative burdens and require heightened degrees of legal acumen – has taken

a position of paramount importance... and for good reason: Every newly enacted law compounds the risk that a misguided landlord will be sued for violating the same.

A casual observer may perceive Senate Bill 608 and other new laws as articulate primers on rent increases, no cause notices and relocation assistance payment obligations. However, multiple ambiguities are instead triggering risk assessments, as landlords strive to align their tasks with future interpretations of those ambiguities. Further, landlords already left reeling by local municipalities’ enactment of new ordinances on emergency bases must further prognosticate the effect future amendments may have on their practices. In other words, landlords must align their practices with past, present and future laws, regardless of their clarity or predictability.

As this article is being written, Oregon has already published the 2020 rent increase cap (9.9%), Portland is still wrestling with a pending draft of the Portland Renter Additional Protections ordinance, Portland’s Fair Access in Renting ordinance is teed up to take effect in 2020... and the rumblings of future changes to the ORLTA are already sounding throughout the community. Yes, these are interesting times. Alas, prior decades were similarly interesting. Refinement and modernization have always laid at the core of landlords’ practices, carried them through prior decades, and will remain focal points for future times. ■

Jeffrey S. Bennett is a partner in the Portland law firm of Warren Allen LLP. A member of the Oregon, Washington and Idaho state bars, Mr. Bennett is the head of his firm’s Landlord law department, and is a Hearing Officer for the Clackamas County Housing Authority. He has specialized in residential and commercial landlord/tenant law for the past two decades, and is also a business and real estate attorney. Mr. Bennett represents many of the largest regional and national property management companies doing business in Oregon and Washington all the way down to owners of single family residential homes and small office complexes.



NAVIGATING THE APARTMENT SALES MARKET

Liz Tilbury, CCIM Tilbury Ferguson Investment Real Estate



It's been a tumultuous time in the market with buyers, sellers and property managers trying to navigate through all the changes in the past year, hoping to chart the best path going forward.

Demand is still strong for well-located properties. But gone are the days when the sellers of even prime projects could name almost any price and expect multiple competing offers.

It is surprising that buyers, even in the City of Portland, are still looking for upside in spite of the mandatory rent caps and relocation fees. Given the new legislation, logic would dictate that "value added" rather than "value add" would be the product of choice, but such is not the case.



Affordability continues to be key in the rental market. The B & C projects are performing solidly, often with 100% occupancy and no concessions whereas a number of urban projects are continuing to struggle with all the competition.

Sales volume for 2019 YTD is down from 2018 and the market has been shifting to more of a buyer's market although buyers have been quicker to recognize this than sellers. Even well located, desirable properties need to make some economic sense. Cap rates were clearly on the rise until the precipitous drop in interest rates, which has increased demand and improved returns by virtue of positive leverage. At a 3.75% interest rate, even a 5% cap rate looks attractive.

Micro-management of rental housing by the City of Portland has caused some owners, especially those who self-manage, to exit the market. Many of these people have owned their buildings for many years and have seen very significant appreciation, but now are so burdened by all the new regulations that they feel control being taken out of their hands. They are choosing to re-invest in other markets or, in some cases, take their profits and cash out.

Today's low interest rates may contribute to a shortage of properties for sale in the future. The very attractive rates have prompted a number of owners to refinance and pull out some of their equity tax free rather than sell and struggle to find a replacement property. Since almost all new loans have prepayment penalties, it will be expensive, and in some cases prohibitive, to pay these off and will likely discourage some owners from selling, restricting inventory.



There is no question that the new statewide laws have cast a pall on Oregon. It has especially impacted the institutional market since those buyers are active nationally and not loyal to Portland or Oregon. Some of the institutional demand has shifted to other parts of the country. Boise is hot, as are Las Vegas and Austin.

It is increasingly difficult to find lenders for Unreinforced Masonry Buildings (URM's.) Many of these buildings, which are well located and historic, are among the choicest in the city. They have traditionally been in high demand and some have been held for multiple generations. They are also an important source of affordable housing. The few lenders, however, still willing to loan on URM's insist on low leverage, a well-capitalized buyer and earthquake insurance.



(continued from page 8)

Our strong apartment market is continuing to perform fairly well and buyers are still seeking properties in Oregon, but new investors are not entering our market at the same pace as they were even two years ago. For the first time in many years, the legislative climate has given rise to doubt. Peoples' perception of what will happen is almost as important as what actually happen and shapes the investment outlook. After years of strong appreciation and rent growth, there is less confidence about the future, and whenever there is uncertainty, investors are more hesitant to conduct business. This is true for both buyers and sellers who don't want to make a misstep. ■

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



SECTION 42 SURVEY RESULTS • FALL 2019

TTL # OF PROPERTIES = 109 • TTL # OF UNITS = 8,017

UNIT TYPES	VACANCY RATE (%)	AVG. RENT PER SQ FT (\$)
STUDIO	1.58	2.40
1 BED / 1 BATH	1.58	1.28
2 BED / 1 BATH	1.34	1.10
2 BED / 2 BATH	1.72	1.13
2 BED / TH	1.50	1.04
3 BED / 1 BATH	0.74	1.02
3 BED / 2 BATH	0.88	0.94
TOTALS	1.43	1.34



DO YOU OFFER INCENTIVES?

MAP AREA	SPRING 2019	FALL 2019
NW Portland	12.7%	13.1%
Hillsboro North of Hwy 26	0%	0%
Aloha	17.5%	15.6%
Beaverton	9.3%	9.8%
Downtown Portland	16.7%	20%
SW Portland	17%	11.5%
Tigard Tualatin Sherwood	13%	16.4%
Lake Oswego West Linn	17.7%	5.9%
Wilsonville Canby	13.6%	8%
Oregon City Gladstone	14.3%	0%
Milwaukie	0%	7.4%
Clackamas	0%	0%
Inner & Central SE Portland	6%	4.3%
Outer SE Portland	4%	1.6%
Troutdale Fairview Wood Village Gresham	2.6%	4.6%
Outer NE Portland	8%	7.1%
Inner & Central NE Portland	9.1%	6.2%
North Portland St. Johns	5%	7.8%
West Vancouver	12.5%	2.9%
East Vancouver	4.6%	4%
Salem Vicinity	11%	12.8%
Eugene Springfield	21.9%	20.6%
Bend Redmond	0%	0%

FALL 2019 APARTMENT MARKET UPDATE

Patrick O. Barry, Barry & Associates

STABLE FUNDAMENTALS & A RETURN TO NORMAL

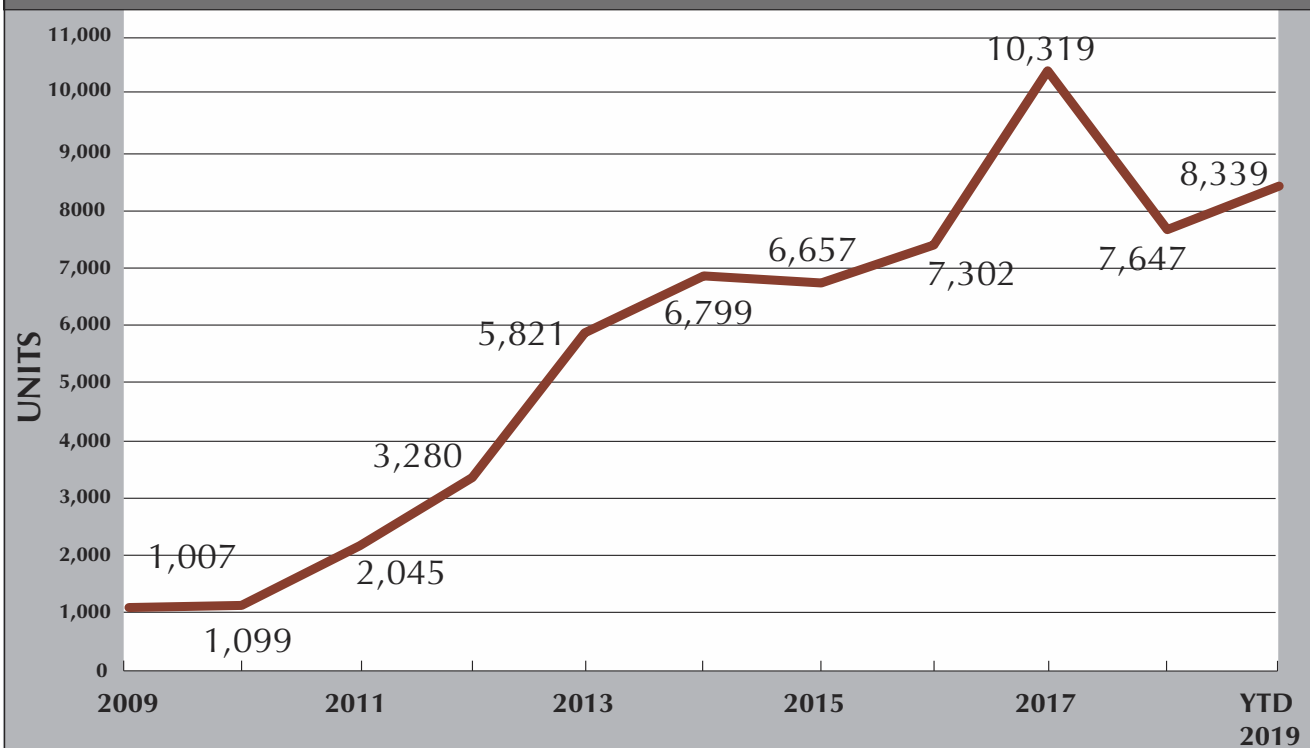
The Portland multifamily market has experienced exceptional growth in recent years. However, in 2019 the apartment market has seen some transition. Vacancies have remained in a balanced state, though rent growth has slowed. Despite declining interest rates and solid job growth, apartment sales have seen a large drop, and the political climate may be impacting investor interest.

SUPPLY & DEMAND

Based on population growth, Portland Metro requires around 4,500 to 6,000 new apartments per year to maintain vacancies. From 2008 to 2012, Portland Metro averaged just 2,100 units per year, compared to an average of 7,400 per year from 2013 to 2018. The increased permit activity in recent years has helped satisfy pent up demand due to a period of underbuilding after the Great Recession. The YTD figures through August suggest around 8,300 units will be permitted in 2019.



APARTMENT PERMITS 2008 - YTD 2019 ANNUALIZED
FOUR COUNTY METRO AREA



VACANCIES & RENTS

Vacancies bottomed out at 2.9% in mid-2015, following years of slow apartment construction. After 4+ years of strong apartment construction, vacancies now sit at around 4.4%, which is down slightly from the previous survey. CoStar forecasts that Portland Metro vacancies will increase to 6.5% by 2022. The forecasted rise in vacancies is due to a surge of completions over the coming six months combined with slowing job/population growth across Portland Metro.

The run up in rents from 2013 to 2015 triggered a wave of new construction. This new construction has moderated rent increases in recent years. CoStar reports year-over-year rent increases of 2.8%. Due to the large volume of units nearing completion, rental growth is expected to slow from around 2.5% to 0.5% by 2022.

TRANSACTIONS & SALES VOLUME

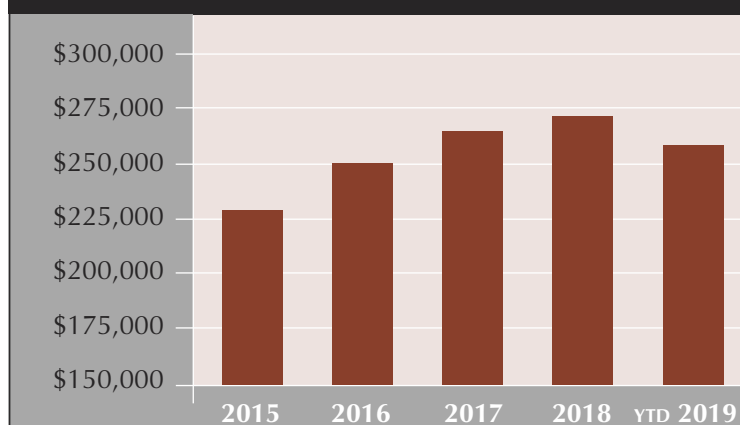
Since 2015 Portland has experienced a flourishing sales market, with these years representing some of the busiest ever. During this period, institutional investors finally took notice of Portland and spent accordingly. However, YTD 2019 sales volume is down significantly. In 2018, there were 230 transactions, versus just 121 sales through September 2019. On an annualized basis, this is around 160 transactions, which is a decrease of 30 percent compared to 2018. Sales volume was on track for steep decline in 2019, but \$730M in sales during July and August will bring likely bring us above \$2B for 2019, which by all measures is a good year, though down from 2018.

VALUES

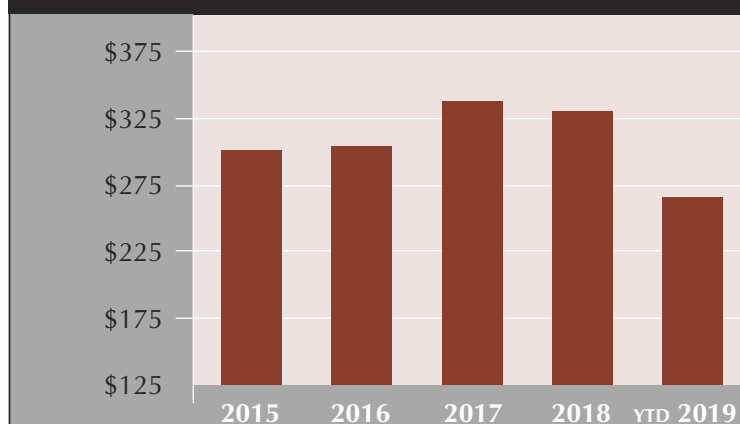
When you consider all apartment sales across Portland Metro, values have increased around 45% since 2015. However, through September 2019, there are indications that values may be leveling. The sales for YTD 2019 are showing stable to moderately increasing values for pre-2010 built units in the suburban counties and Portland. Values are showing slight declines for apartments built since 2010. This decline may be due to a peak in apartment completions which impacts rents and vacancies, and an increase in new apartments for sale. There appears to be a gap between buyer and seller expectations.

(continued on page 12)

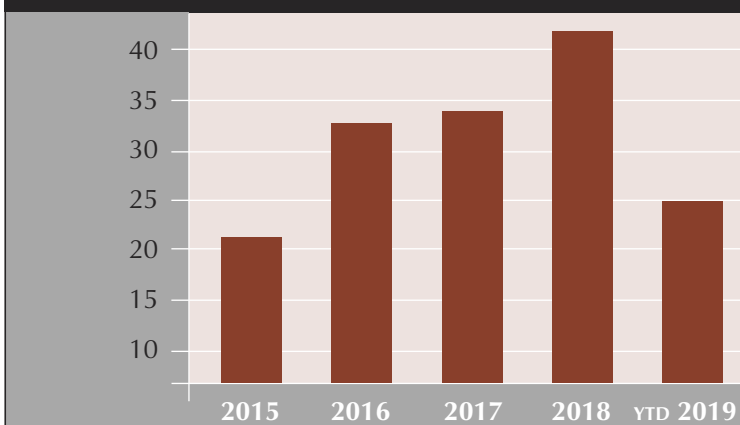
**MEDIAN PRICE PER UNIT
2015-YTD 2019 BUILT APARTMENTS**



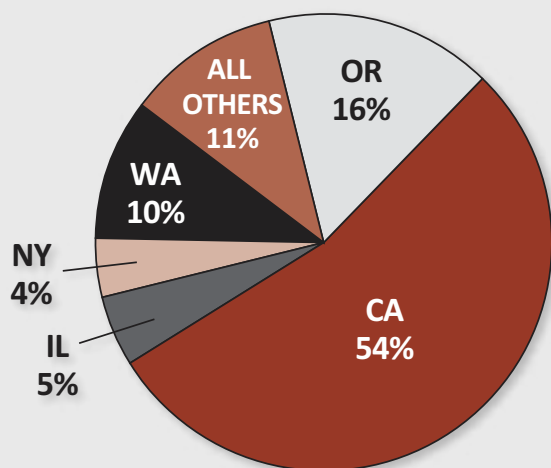
**MEDIAN PRICE PER SQUARE FOOT
2015-YTD 2019 BUILT APARTMENTS**



**NUMBER OF SALES
2015-YTD 2019 BUILT APARTMENTS**



LOCATION OF APARTMENT BUYERS SINCE 2016 (\$VOLUME)



BUYER STATE	SALES VOLUME
California	\$4,040M
Oregon	\$1,167M
All Others	\$837M
Washington	\$742M
Illinois	\$378M
New York	\$270M

POLITICS

The housing related regulations passed at both the local and state level is a new phenomenon. There is considerable uncertainty whether the current regulations and any future regulations can both stabilize housing for existing tenants and encourage development to address the underlying issue of not enough housing.

There is a concern that the stigma of rent control will adversely impact out of state investment in the Oregon multifamily market, on which we rely upon heavily. Since 2016, the top 35 buyers in the Portland Metro market have accounted for over \$4.2 billion in sales and none of these buyers are based in Oregon. These investors have little loyalty to Portland and are more interested in returns. However, based on six months of a rent controlled market, out of state institutional investment has remained stable with no significant drop.

SUMMARY

In the balance of 2019 and in early 2020, we expect vacancies to trend up, slower rent growth, flattening income, and uncertainty on how to deal with the new regulations. Up to this point, these indicators have had no apparent adverse impact on values except for newer units. In the balance of 2019 and into early 2020, the Portland apartment market is expected to remain stable, as we return to a more normal market. ■

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.



EXAMPLES OF 2019 TRANSACTIONS

Portland Metro Area



FIRCREST APARTMENTS
27 UNITS • \$108,148 PER UNIT
19511 NE HALSEY STREET • GRESHAM
APRIL 2019



STEVENS CREEK APARTMENTS
140 UNITS • \$273,750 PER UNIT
11430 SE STEVENS ROAD • HAPPY VALLEY
MAY 2019



WILLOW CREEK APARTMENTS
35 UNITS • \$127,142 PER UNIT
6111 SW BEAVERTON HILLSDALE HWY
APRIL 2019



JOULE APARTMENTS
12 UNITS • \$288,333 PER UNIT
7017 NE GRAND AVENUE • PORTLAND
JULY 2019



LA CRESCENTA APARTMENTS
14 UNITS • \$132,142 PER UNIT
17940 SE ADDIE STREET • MILWAUKIE
MAY 2019



THE STRATFORD APARTMENTS
65 UNITS • \$161,538 PER UNIT
13925 SW ALLEN BLVD • BEAVERTON
JULY 2019

REGIONAL ECONOMY REMAINS STRONG, EVEN AS OUTLOOK UNCERTAIN

Josh Lebner, Economist, Oregon Office of Economic Analysis



The current expansion is now the longest on record, celebrating its tenth birthday over the summer. The economic data flow remains solid overall and classic recession catalysts like an overheating economy are not rearing their heads. The good news is that expansions do not die of old age and the outlook calls for ongoing, but slower growth.

However, expansions do tend to die due to bad behavior and policy mistakes. As such, the risk of recession is clearly rising. Revisions to both GDP and employment reveal a weaker and slower-growing economy than previously believed. Federal tax cuts provided a minimal and short-lived boost that is in the rearview mirror. Past interest rate hikes by the Federal Reserve cooled economic activity as well. On top of this, the trade war escalation is spilling over and weighing on the economy to a larger degree.

In short, businesses are wary as they delay investments and slow their pace of hiring. All of this has financial markets on edge and the Federal Reserve now taking out insurance rate cuts in hopes of heading off a recession. Time will tell whether this is the top of the cycle or just a rough patch.

All of that said, behind the turmoil and uncertainty remains an economy that is largely doing well. In particular, consumer spending is holding up even as sentiment wanes a bit in recent months. We know consumers will spend until given a reason to be scared, which typically means the fear of job loss. The best leading indicator for the labor market is initial claims for

unemployment insurance, a measure of layoffs. Right now initial claims remain at or near historic lows.

Furthermore, newly released Census data shows how strong household finances really are. Oregon's median household income not only is at a record high on an inflation-adjusted basis, but for the first time in more than 50 years, Oregon has surpassed the national median household income. The local economy's stronger growth this cycle is translating into more money in the pockets of Oregonians as the sweet spot, or feel-good part of the business cycle continues.

These improvements really have spread to every corner of the state and across all populations. Income gains are rising the fastest among low-income Oregonians who rely upon the labor market for their only real source of income. Additionally, poverty rates among Oregon and Portland's communities of color are at multi-decade lows, and possibly even historic lows. Now, there remains a substantial racial gap in terms of most socioeconomic data, however it is narrowing in a strong economy. More Oregonians of all backgrounds are working, for more hours, and at higher pay.

The Portland region continues to see strong income growth, but in some respects the latest Census data reveals the area taking a bit of a breather. Specifically, educational attainment and homeownership rates in 2018 held relatively steady after seeing significant gains the previous few years. Now, how much of this reflects year-to-year noise in the data and how much signals a real shift is still an open question. Only time will tell. Of particular note is the ongoing developments in the housing market. Multifamily permitting activity in the Portland region remains strong, despite concerns over local policies, overbuilding, and rising vacancies. It is true that many of these projects entered into the development pipeline years ago and are just now coming to fruition. However, near-term absorption is helped by continued in-migration to the region and by homeownership rates among 20- and 30-somethings that



dropped just a bit in 2018. Given rising household incomes, low interest rates, and Millennials aging into their 30s, it is possible, even likely that ownership will continue to increase in the years ahead.

Longer-term absorption will be helped by population growth of course, but also possibly from higher rates of household formation of existing residents. Today, headship rates among 20- and 30-somethings are at multi-decade lows and they continue to fall. If headship rates today were the same as in the early- or mid-2000s, the Portland region would have 36,000 more households. That is equivalent to nearly 3 years of new construction. Societal changes, increased schooling and the like are part of the story, as are lower levels of housing affordability. However, moderating rents and the strong multifamily supply may encourage higher rates of household formation. If so, this latent housing demand may help the market find an equilibrium sooner rather than later.

Moving forward, the near-term outlook is driven by business cycle dynamics, most of which point toward moderating growth at best. The regional economy is at its strongest vantage point in at least two decades, providing some cushion for the next recession whenever it comes. Over the long-run, the Pacific Northwest's comparative advantage remains our ability to attract and retain working age households. The influx of new residents provide an ample supply of young, skilled labor for local firms to hire and expand. They also provide ongoing demand for housing units of all types. ■

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.



MAP AREA	TENANT PAID UTILITIES		
	WATER/SEWER	HEAT	GARBAGE
NW PORTLAND	63.4%	88.9%	60.1%
HILLSBORO N OF HWY 26	77.3%	100%	68.2%
ALOHA	88.9%	100%	84.4%
BEAVERTON	67.2%	90.2%	57.4%
DOWNTOWN PORTLAND	62%	86%	60%
SW PORTLAND	82%	96.7%	68.9%
TIGARD TUALATIN SHERWOOD	75.4%	98.4%	72.1%
LAKE OSWEGO WEST LINN	76.5%	100%	70.6%
WILSONVILLE CANBY	68%	100%	56%
OREGON CITY GLADSTONE	68.8%	93.8%	31.3%
MILWAUKIE	81.5%	100%	40.7%
CLACKAMAS	100%	100%	87.5%
INNER & CENTRAL SE PTLD	44%	79%	35.9%
OUTER SE PORTLAND	50%	96.8%	30.7%
TROUTDALE FAIRVIEW WOOD VILLAGE GRESHAM	63.6%	100%	52.3%
OUTER NE PORTLAND	71.4%	100%	42.9%
INNER & CENTRAL NE PTLD	43.2%	69.1%	36.4%
NORTH PTLD ST. JOHNS	60.8%	86.3%	51%
WEST VANCOUVER	82.4%	100%	67.7%
EAST VANCOUVER	88%	100%	76%
SALEM VICINITY	57.3%	96.6%	53%
EUGENE SPRINGFIELD	49.5%	100%	45.8%
BEND REDMOND	83.3%	100%	75%



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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