

MULTIFAMILY

Portland Metro | April 2023



Portland Metro Market

While new multifamily products are slated to enter the market in the next 12-18 months, absorption remains encouraging in the Portland market and throughout the Northwest region compared to national averages. Oregon became the first to implement statewide rent control in 2020, at 7% plus the West Coast Consumer Price Index, consequently owners are allowed a 14.6% increase in 2023, a "historically large jump" aimed at combating inflation. The aggressive pro-tenant legislation, proposed in Senate Bill 611, aims to reduce the allowed rent increases by more than half and increase monetary allowances for moving expenses.

Despite the moves towards tenant-protected rent control, the Portland-Vancouver multifamily market still has attractive and profitable development and investment opportunities due to the sparse nature of developable land and attractive rental rates compared to other West Coast cities.

Finally, investors still have an appetite for lower cap rates in the Multifamily space relative to Office or Retail properties. That said, there is still a significant spread between asking prices and bids, which could shift seller price expectations the longer we remain in this higher interest rate environment.

Market Stats 1Q2023



6.2% ↑
Vacancy Rate



2.9% ↑
12 mo. Asking Rent
Growth



\$1,618 ↑
Asking Rent



10,044 ↑
Units Under
Construction

Source: CoStar

Vacancy and Rent Growth

"Portland's leasing activity has slowed significantly in the last 24 months, due in part to shifts in location preference, lack of construction starts, and a slowdown of the pandemic in-migration. Given elevated interest rates and a resurgence of construction in the urban areas, Portland can expect to see absorption gains over the next 12-18 months." Source: CoStar

As employers relocate to the outlying suburban markets from downtown Portland and continue to provide a flex-hybrid work schedule, Portland's suburban rental markets have seen the largest shift in rent growth and absorption of vacant units.



West Coast Rent Comparison - March 2023

	Population	Median Rent	YOY Change
Portland, OR	2,511,612	\$2,576	4.80%
Seattle, WA	4,011,553	\$2,812	1.17%
San Diego, CA	3,286,069	\$3,363	5.27%
Riverside, CA	4,653,105	\$2,773	5.28%
San Francisco, CA	4,623,264	\$3,694	3.72%
San Jose, CA	1,952,185	\$3,571	3.77%
Los Angeles, CA	12,997,353	\$3,361	0.50%
Sacramento, CA	2,411,428	\$2,718	2.52%

Source: Rent.com



45%
of Portland
Households are
renters

Source: CoStar

National Unemployment Rate March 2023

3.5% ↑

Oregon Unemployment Rate March 2023

4.4%

Seasonally Adjusted

0.3% ↓

Source: Oregon Employment Department

"... The current baseline forecast no longer calls for a recession this year, but for the economic soft landing and continued expansion. Additional interest rates increases, and holding them higher for longer are likely needed to cool demand and inflation. However, the clear near-term strength in the economy in terms of jobs, income and spending, along with the uncertainty of the exact timing of any potential recession makes forecasting one so far in advance challenging, if not impossible. As Oregon heads into the upcoming 2023-25 biennium, the inflationary economic boom continues."

Source: Oregon Office of Economic Analysis. March 2023 Economic and Revenue Forecast

Location	Units	Vacancy %	Asking Rent	YOY Growth
Aloha	7,234	5.2	\$1,712	4.2
Beaverton	15,894	4.5	\$1,561	3.4
Damascus	12,860	6.1	\$1,615	4.3
Downtown PDX	13,003	10.3	\$1,907	1.7
East Portland	10,298	3.8	\$1,235	3.1
Hillsboro	20,011	5.4	\$1,813	1.7
Lake Oswego	4,088	5.4	\$1,876	0.7
NW Portland	12,810	6.1	\$1,584	1.9
Sherwood/Tualatin	3,888	3.7	\$1,757	4.3
SE Portland	12,979	6.1	\$1,434	1.0
Tigard	7,703	4.5	\$1,757	3.5
Troutdale/Gresham	15,675	5.6	\$1,491	2.8
Vancouver	33,922	5.6	\$1,661	4.9

Source: CoStar

Construction

“High in-migration figures put added pressure on housing needs during 2021 and early 2022 as new residents scrambled to find well-located units. However, new supply in the pipeline will serve to loosen the market in future quarters. This, coupled with tempered leasing, will place downward pressure on rent growth, particularly in the 4 & 5 Star-rated communities, which comprise over 75% of the current pipeline. In fact, the current wave of construction will tilt the balance of Portland's market to favor luxury units. Previously, 3 Star inventory made up the largest share. As a result, while annual rent growth in 4 & 5 Star communities equates to 2.5%, vacancies of 7.3% sit above the metro average, as well as the 3 Star average figure of 5.8%.”

Source: CoStar

Although some of these projects were previously permitted, resurrection of this activity is a clear result of the heavy leasing activity of the last 18 months. Given Portland's land constraints, much of the development in and around the urban cores has shifted to Southwest Portland, where some of the last remaining vacant tracts of readily buildable land remain.

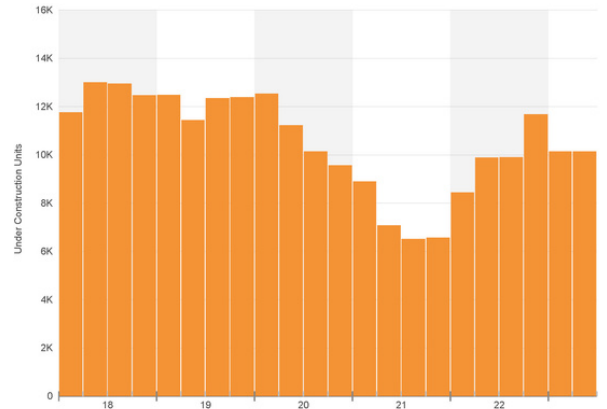
Investment

“Portland has become a significant market for institutional investors chasing population growth and a diverse economic base. Multifamily cap rates have tightened over the past five years as a result. Value-add plays in the region have also been popular, as investors aim for attractive pricing in a growing market.” Source: CoStar

Cap rate compression did little to deter more capital from entering the market between late 2020 and mid-2022. As a result, the volume for the last four quarters rang in at \$2.6 billion, compared to the ten-year average of \$2.3 billion. The national index for price per unit is \$260,000, lower than the Portland market price per unit of \$300,000. Inflation and lending conditions will continue to be hurdles to activity in 2023, although Portland is still an attractive prospect to outside investors due to lack of inventory, and ongoing land use constraints unique to this market.

Sale	Asset Location	Units	Price per Unit
1Q2021	Vancouver	500	\$271K
4Q2022	Lake Oswego	347	\$357K
2Q2022	Hillsboro	357	\$434K
2Q2022	Beaverton	188	\$378K
3Q2022	Tigard	187	\$436K

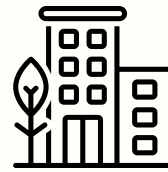
Under Construction



CoStar

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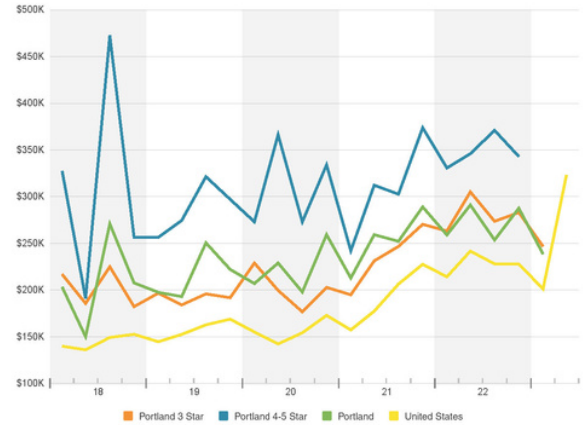
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10,044

Units under construction in PDX for the first time since Q32020
Source: CoStar

Sale Price Per Unit

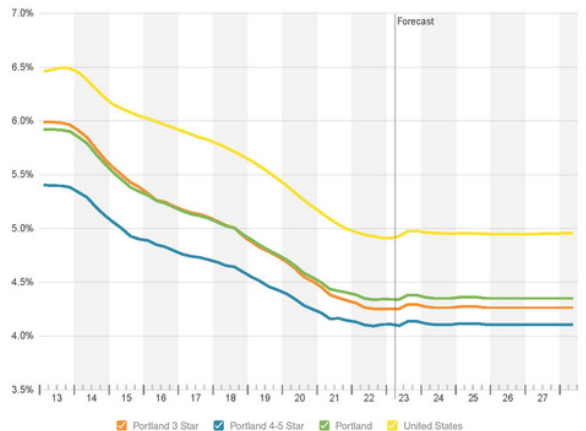


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Market Cap Rate



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