

MARKET REPORT

Multifamily
Portland Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

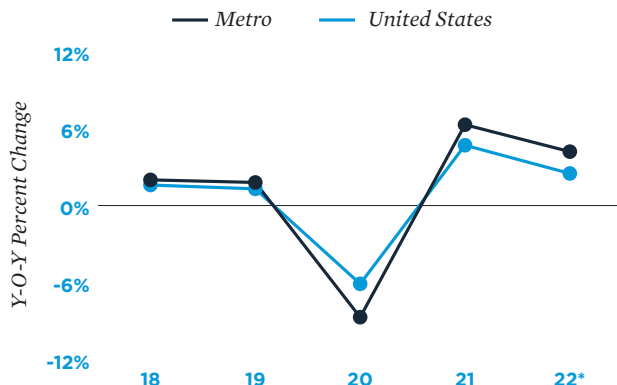
2Q/22

Regionally Low Rents Drive In-Migration, Spurring Leasing and Investment Activity

Renter demand returns to the CBD. Effective rents roughly 20 percent below monthly averages in major markets nearby, like Seattle and the Bay Area, is driving robust in-migration to the metro. As a result, over 10,000 units were absorbed in the past year ending in March, slicing availability to the lowest rate in over two decades entering this year. Renters are still showing a preference for apartments in the market's suburbs, highlighted by sub-2 percent vacancy rates in Vancouver and East Beaverton. At the same time, demand is returning to the urban core, evident by the 370-basis-point vacancy plunge recorded year-over-year in March, lowering the rate 160 basis points below the pre-COVID-19 level. The metro is well positioned to sustain this momentum, as robust population growth and rapidly rising home prices continue to stimulate apartment demand in the near term.

Development falls to a seven-year low. Despite experiencing the largest demand surge in over 20 years, construction in Portland will taper in 2022. Elevated material costs, due to the global supply chain crunch, coupled with labor shortages, are hindering the groundbreaking of new projects. Deliveries slated for this year are concentrated in Central Portland; however, developers are also active in Vancouver, where projects are not subject to Oregon's rent control laws and Portland's zoning requirements. The limited pipeline will serve to tighten availability even further, while promoting robust rent growth this year.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook



**50,000
JOBS**

will be created

EMPLOYMENT:

The pace of hiring slows moderately this year relative to the 71,300 jobs that were added in 2021. Still, employers will expand headcounts by 4.2 percent in 2022, lifting total employment roughly 8,800 positions above the pre-pandemic peak by year-end.



**4,200
UNITS**

will be completed

CONSTRUCTION:

Supply additions exceed the 4,000-unit mark for the eighth consecutive year, increasing apartment inventory by 1.8 percent in 2022; however, construction activity slows from last year's pace, when over 6,800 units were finalized throughout the metro.



**20
BASIS POINT**

decrease in vacancy

VACANCY:

Robust renter demand, paired with a moderation in construction, allows for the third straight year of annual vacancy compression. The rate will fall to 2.5 percent in 2022, about 210 basis points below the pre-pandemic rate.



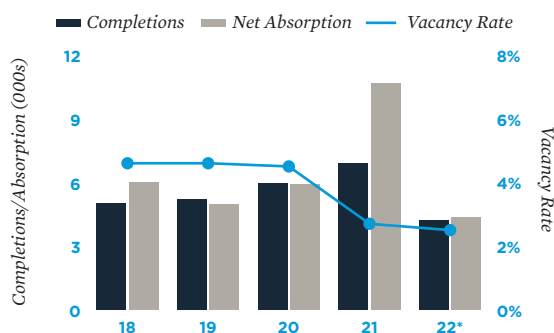
**9.2%
INCREASE**

in effective rent

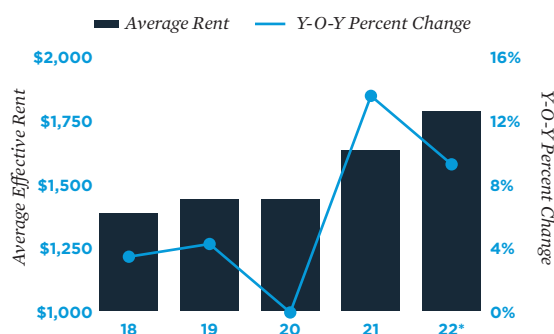
RENT:

Limited availability supports an additional rise in the average effective rent to \$1,781 per month this year. The pace of rent growth nearly mirrors the national rate of increase and ranks as the third largest annual growth rate in the metro on record.

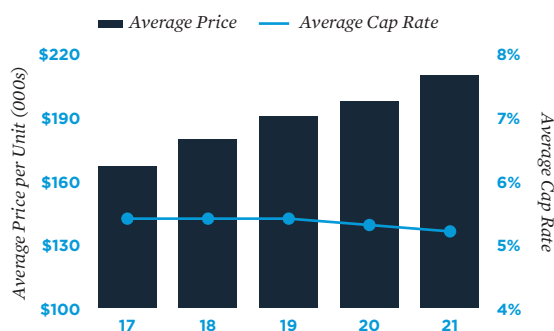
Supply and Demand



Rent Trends



Sales Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

6,512 units completed

- Developers increased the rental supply in the metro by 2.8 percent year-over-year in March.
- Supply additions were concentrated in Vancouver, receiving over 2,100 units in 2021. This marks the submarket's largest supply wave in over two decades, nearly double the previous record high.



VACANCY

190 basis point decrease in vacancy Y-O-Y

- Renters absorbed over 10,000 units during the past four quarters, lowering availability to 2.7 percent. During the previous 12-month span, metrowide vacancy remained flat at 4.6 percent.
- All but one of the region's 11 submarkets experienced vacancy compression of at least 100 basis points since the second quarter of 2021.



RENT

13.7% increase in the average effective rent Y-O-Y

- The average effective rate rose to \$1,647 per month over the past 12 months ending in March. This growth rate was spearheaded by the 13.8 percent rent surge in the metro's suburbs.
- Hillsboro led all submarkets in rent gains, with the average local rate rising more than 22 percent over the past four quarters.

Investment Highlights

- Robust in-migration and historically tight fundamentals are heightening investor interest in Portland. Regionally low entry costs are luring investors from California and Washington to the metro, contributing to the 90 percent increase in deal flow recorded in 2021. The average sale price rose 6 percent to \$209,400, as a result of increased competition for listings, compressing the mean cap rate to 5.2 percent.
- Investors interested in Class C properties are primarily targeting assets in outlying suburban communities, as they continue to post the strongest rent gains in the market. Buyers looking to maximize their upside potential look to areas like Troutdale-Gresham, where entry costs often fall below the metro mean and first-year returns average in the low-6 percent range. Meanwhile, elevated competition for available assets is pushing entry costs in Hillsboro, Beaverton and Vancouver above the metro average.
- Southeast Portland represents another area of emphasis for investors seeking assets under 50 units, garnering the most transaction activity over the past year. Entry costs here generally fall in line with the market mean, with cap rates averaging in the low-5 percent range.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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