MARKET REPORT

Multifamily

Portland Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

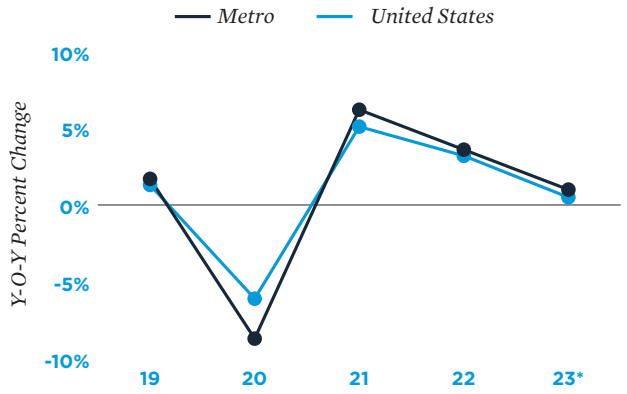
2Q/23

Expense-Reducing Measures Spur Renter Inflow from More-Costly Western Metros

Demand recovers in tandem with migration. Last year, property metrics reversed course from record-setting trends; yet, this rebalancing is bolstering Portland's status as an option for relocating households from other Pacific Coast markets. In 2023, Seattle-Tacoma's rent growth will outpace the Rose City for the first time since 2019, causing the gap between the two metros' average effective rates to widen to a record of nearly $400 per month. Meanwhile, rates in Portland fall more than $800 below most major Northern California markets. Oregon also omits the use of an excise tax, making living expenses in the metro comparatively affordable. The regionally low cost-of-living here — as well as continued hiring throughout 2023 — stokes net in-migration, as over 11,000 new residents relocate to Portland this year. This trend backstops renter demand, returning net absorption to positive territory after falling negative in 2022. This helps soften the rise in vacancy from sustained construction in 2023.

City program moderates development. In 2017, Portland enacted an Inclusionary Housing Ordinance, which dictates developers must dedicate a portion of newly-built units to affordable housing. The wave of proposals that accumulated before the ordinance passed has now crested, resulting in a smaller pipeline. Deliveries in 2022 were at a 10-year low after consecutive highs in the two years prior. While the volume is set to rise in 2023, the amount of units planned or underway thins further out. Development will also be hindered by the city implementing proposal fees, aiding property metrics long-term.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook

13,000 JOBS
will be created

EMPLOYMENT:

Headcount growth slows to 1.0 percent in 2023, though not from a lack of job seekers. Despite adding 10,000 roles over the first three months, unemployment rose 40 basis points to 4.5 percent, indicating entrances into the labor force are outpacing hiring.

4,300 UNITS
will be completed

CONSTRUCTION:

Apartment inventory expands by 1.9 percent this year, returning to a pace closer in-line with the trailing five-year average, after new deliveries moderated in 2022. Of local submarkets, Vancouver has the most units coming online in 2023.

90 BASIS POINT
increase in vacancy

VACANCY:

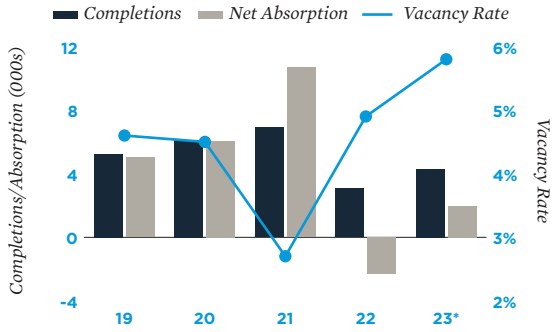
This year's completion slate outpaces a more measured return to positive net absorption, lifting vacancy to 5.8 percent. Still, the ongoing rise is tempering, as this year's increase is less than one-half of 2022's jump.

4.0% INCREASE
in effective rent

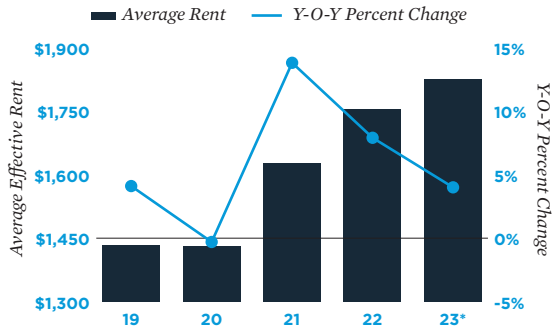
RENT:

Rent growth falls below the long-term average pace of 4.2 percent for the first time since 2020. Vacant stock reaches a record-high in 2023, creating local competition for tenants and lessening upward rent momentum. Still, the average rate lifts to $1,825 per month.

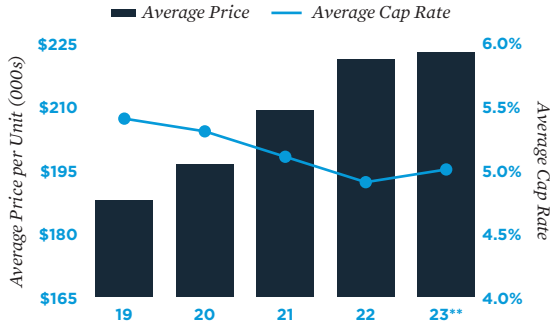
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

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

IPA Multifamily
John Sebree
Senior Vice President, Director
Tel: (312) 327-5400 | jsebree@ipausa.com

IPA Multifamily Research
Greg Willett
First Vice President
Tel: (972) 755-5200 | gwillett@ipausa.com

Price: $250

1Q 2023 - 12-Month Period

CONSTRUCTION

2,528 units completed

- Inventory expansion during the 12 months ended in March fell to 1.1 percent, the slowest pace in nearly a decade.
- Vancouver had the strongest stock growth, with local inventory increasing by 2.7 percent over the past year. Conversely, East Beaverton, Hillsboro and Lake Oswego-Tualatin-Wilsonville each had nominal completions.

VACANCY

250 basis point increase in vacancy Y-O-Y

- For the first time in nearly a decade, net absorption has been negative for each of the past four consecutive quarters. This caused vacancy to jump by a record magnitude year-over-year to 5.3 percent in March.
- Availability increased by at least 230 basis points in each apartment subsector, with elevation the most pronounced in the Class A segment.

RENT

6.5% increase in the average effective rent Y-O-Y

- The average effective rate — at $1,749 per month in March — remains well-above any recording prior to last year. Still, negative net absorption has caused the mean rent to decline since peaking in the third quarter of 2022.
- Class C rents rose 11.0 percent to $1,519 per month. Comparatively, Class A and B rents advanced 6.3 percent and 5.6 percent, respectively.

Investment Highlights

- Amid a significant reworking of local politics — with the city of Portland going through a period of rapidly changing city codes and laws attempting to alleviate issues surrounding the housing crisis — more investors are becoming circumspect on acquisitions. As a result, trading activity in 2022 cooled from the year prior and decelerated to a laggard pace in 2023. Last year's net out-migration and sizable negative net absorption heightened the need for buyers to exercise increased caution when looking for deals.
- Investors that remain active in 2023 are mostly frequenting Vancouver. Several Class B and C trades occurred here throughout this year, with local price points typically landing above $200,000 per unit, higher than each subsectors' average. As the area transitions from being a commuter city to having a sizable economy of its own — with a number of transportation and warehousing companies establishing operations here in 2023 — buyers are looking to capitalize on a long-term inflow of renters.
- Damascus, in the southeast reaches of Portland, is also retaining healthy investor interest. Net absorption here returned to positive territory during the first quarter, keeping local vacancy 110 basis points under the metro average.

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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