

Multi-family Market Report | Q1 2023

Norris & Stevens

INVESTMENT REAL ESTATE SERVICES

Leasing activity in the Portland metro region has decreased as the traditionally slower winter months come to an end. The region's net absorption has significantly changed from its record performance between mid-2021 and mid-2022. Following a rebound in building starts in the urban submarkets, deliveries of new product should heat up in the coming quarters. As a result, vacancies, which had previously decreased by more than 200 basis points, have gradually crept back up to 5.9%.

Despite vacancy pressure, the metro's occupancy rate of 94.1% is in line with the long-term average. Recovery in the urban core regions, which experienced an exodus during the pandemic, has served as a stabilizing influence. For instance, occupancy in the downtown area has increased to nearly 90%, a significant improvement from the low point reached in late 2020.

When considered collectively, these elements will work to maintain a short-term ceiling on rent growth. The market asking price is currently around \$1,615/unit, growing 2.3% year-over-year, slightly less than the three-year average growth rate of 4.7%. But certain supply-constrained suburban submarkets will continue to outperform the metro average. Given the lack of new product competition in well-known and affluent neighborhoods like Hillsboro and Lake Oswego, asking prices, which now range from \$1,800 to \$1,900 per unit, will continue to rise.

Over the last 18 months, there has been a consistent demand for apartments, driven by relocations amidst a healthy regional in-migration rate. However, leasing has slowed

PORTLAND MARKET SNAPSHOT

VACANCY RATE

5.9%



ASKING RENT

\$1,615



CONSTRUCTION

10,361 Units



ABSORPTION

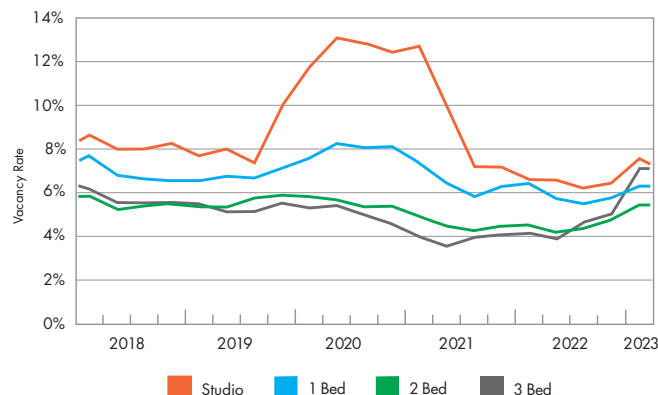
333 Units



down after its record-breaking mid-2021 performance. At 5.9%, the vacancy rate is still quite close to the widely-accepted 5% equilibrium level. This shows a 0.6% change from the previous 12 months, but it is trending lower than the 6.7% national index. This is primarily due to the fact that construction has not kept up with demand thus far. But lately, developers have picked up the slack, and a surge of new units are anticipated in the coming quarters. The majority of these communities are rated Class A. Developers may have a difficult time delivering luxury products at the right time when tenants are closely watching their expenditures to combat inflation, or perhaps put off household formations entirely. With concentrated downward pressure on rent increases, especially in high-end communities, this should produce severe headwinds.

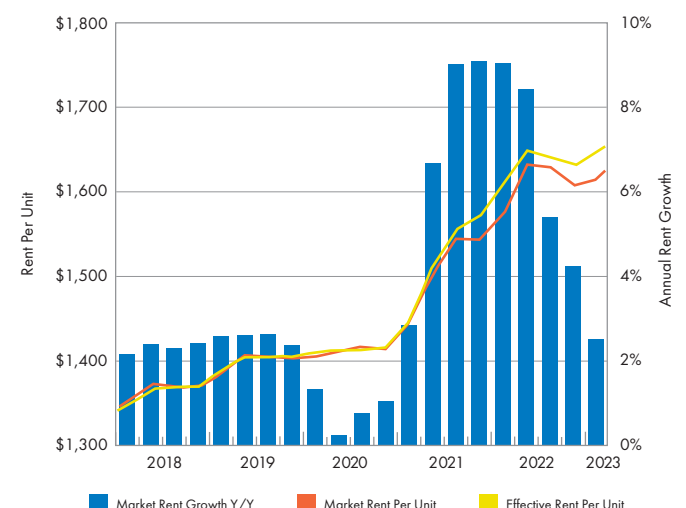
For institutional investors seeking both population expansion and a varied economic basis, Portland

VACANCY RATE BY BEDROOMS



Source: CoStar Group

MARKET RENT PER UNIT & RENT GROWTH



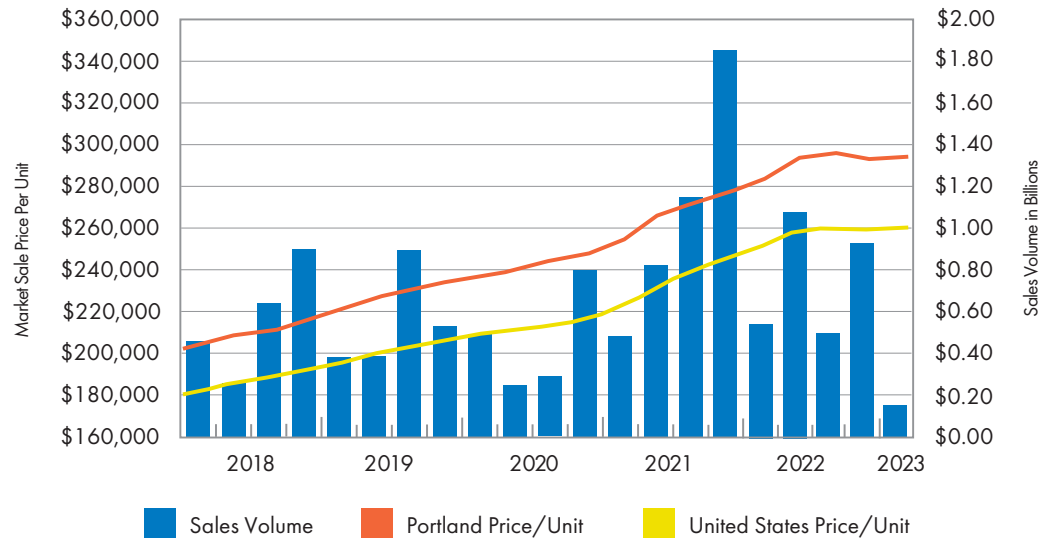
Source: CoStar Group

has grown into a significant market. As a result, cap rates for multi-family properties have tightened during the previous five years. Between late 2020 and mid-2022, this compression did little to dissuade additional capital from entering the market.

Value-add investments have gained popularity in the area, as investors seek out competitive pricing in a developing market. Buyers seem confident that underserved properties with an additional face lift provide strong upside potential given Portland's recent run in rent growth.

Activity in the Portland metro area could continue to slow in 2023. Deals have been more difficult to pencil due to deteriorating lending conditions as the Fed continues to battle inflation. Regardless, from a pricing standpoint, Portland continues to be an attractive market compared to other west coast cities.

SALES VOLUME & MARKET SALE PRICE/UNIT



Source: CoStar Group

OVERALL SALES YEAR OVER YEAR

YEAR	# OF DEALS	SALES VOLUME	TURNOVER	AVERAGE PRICE	AVERAGE PRICE PER UNIT	AVERAGE CAP RATE
YTD	19	\$167.2M	0.4%	\$11,944,071	\$239,223	5.2%
2022	291	\$3B	5.5%	\$13,378,529	\$277,237	5.0%
2021	396	\$4.3B	8.1%	\$13,935,564	\$262,501	5.1%
2020	236	\$1.8B	4.1%	\$9,987,780	\$228,516	5.5%
2019	306	\$2.2B	5.8%	\$9,485,550	\$221,738	5.5%
2018	353	\$2.2B	6.4%	\$9,221,014	\$211,547	5.4%

SIGNIFICANT FIRST QUARTER 2023 SALES

PROPERTY / ADDRESS	# OF UNITS	YEAR BUILT	SALE DATE	SALE PRICE	PRICE PER UNIT	CAP RATE
Heatherbrae Commons 10303 SE Bell Ave Milwaukie, OR	174	1995/ 2014	2/16/2023	\$49,000,000	\$281,609	5.05%
Westridge Lofts 2221 SE 192nd Ave Camas, WA	100	2021	3/1/2023	\$31,000,000	\$310,000	—
Township Eastside 17310 SE Naegeli Dr Portland, OR	168	1991	2/7/2023	\$26,850,000	\$159,821	4.90%
Briarwood Terrace 10267-10275 SE 66th Ave Portland, OR	56	1969	3/8/2023	\$14,336,307	\$208,585	—
Mist Wood Apartments 2655 NE 205th Ave Fairview, OR	49	2018	2/28/2023	\$13,550,000	\$276,531	4.44%
The Williamsburg Apartments 5200 SE Jennings Ave Milwaukie, OR	38	1973	3/8/2023	\$6,322,737	\$208,585	—
Clark Apartments 701 E McLoughlin Blvd Vancouver, WA	20	2018	1/27/2023	\$5,700,000	\$285,000	4.75%

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