

Multi-family Market Report | Q3 2023

Norris & Stevens

INVESTMENT REAL ESTATE SERVICES

Portland's multi-family demand is still sharply down from its recent peaks. On a trailing 12-month basis, net absorption as of the third quarter of 2023 is 2,500 units, a significant decrease from the top performance of 11,000 units in the third quarter of 2021 and now approaching the historical average of 3,000 units.

Class A properties have been particularly hit by the slowdown; yearly net absorption has decreased to 1,700 units from almost 7,000 units in 2021. Portland's current unit mix under construction significantly favors high-end product, which may be even more troubling for luxury community landlords. After this construction cycle is over, the remaining inventory will bring Class A nearly even with the Class B products. The timing may present difficulties since residents are scrutinizing expenditure in an effort to combat historic inflation; some are even delaying the establishment of households entirely.

Overall, deliveries of new product will remain steady in the coming quarters. Portland's current construction pipeline of 7,822 units will increase market inventory by 3.5%. However, construction starts have slowed dramatically since the beginning of 2022. Some developers may be forced to pull back in the mid-term due to debt and equity scarcity, as well as stricter underwriting standards, which might give the market more time to catch up with the current wave of units.

After a record-breaking performance in the middle of 2021, leasing has significantly decreased. As of the third quarter of 2023, the trailing four-quarter net absorption is equal to 2,500 units, down from the average yearly number of

PORTLAND MARKET SNAPSHOT

VACANCY RATE

7.0%



ASKING RENT

\$1,601



CONSTRUCTION

7,822 Units



ABSORPTION

1,178 Units

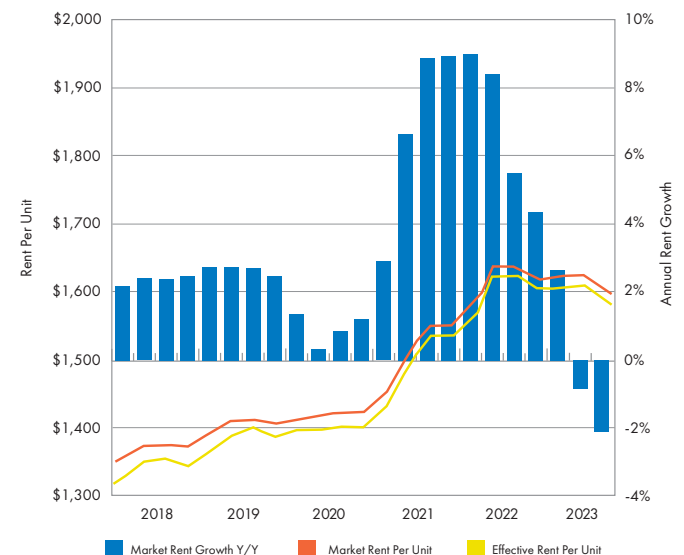


5,800 units for the previous five years. In response, the trend for vacancies has been 7.0%, representing a 1.9% change over the previous 12 months.

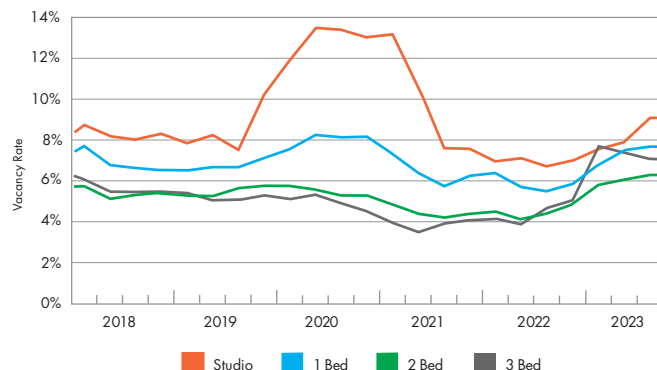
Approximately 45% of households in Portland are made up of renters overall. Portland is a highly land-constrained market despite the expansion of the Urban Growth Boundary, which artificially restrains urban sprawl. Other limits include the protection of wetlands and farmland, open space regulations, and density requirements. Large land areas appropriated for single-family subdivisions are comparatively scarce. Thus, a sizable portion of inhabitants may continue to be forced to choose apartment living due to the lack of new single-family house supply in significant amounts.

Despite difficulties in the market and declining rent growth, multi-family properties remain the preferred choice for

MARKET RENT PER UNIT & RENT GROWTH



VACANCY RATE BY BEDROOMS



Source: CoStar Group

Source: CoStar Group



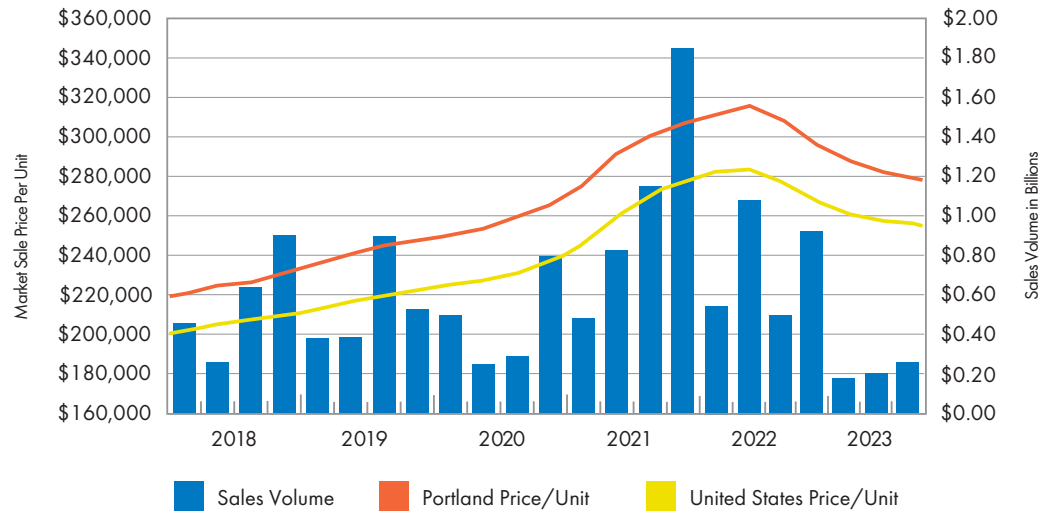
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Portland investors. However, investment activity has continued to decline in 2023. As of the third quarter of 2023, trailing four-quarter sales volume has slowed to \$1.4 billion, compared with the ten-year average of \$2.3 billion per year in multifamily deals. Volume previously peaked at \$4.6 billion in early 2022. Notably, though, sales volume has increased marginally for the past two quarters while remaining depressed overall. This increase has been supported by value-add plays and institutional capital purchases of key luxury assets.

Compared to the national index of \$240,000 per unit, market pricing is currently trending at \$260,000 per unit, well below the record high of \$290,000 per unit set in mid-2022. Aside from recent transactions, high borrowing rates and economic uncertainties will likely need to subside before a large number of buyers return to the market.

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	91	\$622.7M	1.4%	\$8,302,865	\$222,637	5.4%
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 THIRD QUARTER 2023 SALES

PROPERTY / ADDRESS	# OF UNITS	YEAR BUILT	SALE DATE	SALE PRICE	PRICE PER UNIT	CAP RATE
Lumina Apartments 2700 W Powell Blvd Gresham, OR	440	1994	8/22/2023	\$98,000,000	\$222,727	—
Woodspring Apartments 16100 SW 113th Ave Tigard, OR	172	1991	7/6/2023	\$46,600,000	\$270,930	—
The York by Trion Living 7582 SW Hunziker St Tigard, OR	52	1969	8/14/2023	\$10,850,000	\$208,654	6.83%
Nota 5681-5687 NE Glisan St Portland, OR	30	2020	9/25/2023	\$8,200,000	\$273,333	5.50%
SpringWater Court 5906 SE 122nd Ave Portland, OR	32	2009	7/11/2023	\$8,150,000	\$254,688	4.64%
Gateway Plaza Apartments 9910 NE Glisan St Portland, OR	51	2004	8/15/2023	\$8,009,500	\$177,990	—
Ventura Park Plaza Apartments 12110 E Burnside St Portland, OR	54	2005	8/15/2023	\$7,890,210	\$146,115	—

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