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quick FACTS

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Are Apartments rents going to drop, as newly constructed apartments enter the Portland market?

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Most residential Landlords in the Portland, Oregon marketplace are more concerned about regulation by City of Portland Commissioner Eudaley's Rental Services Commission and the Portland Housing Bureau than they are facing the rising apartment vacancy rate.

Are they looking in the wrong direction? Fannie Mae's research team is thumping the drum that the Portland Metro market place will find itself over built by potentially 1,500 units a year in 2019 and 2020, as deliveries of new apartments come into the marketplace.

Commissioner Eudaly and tenant advocates should be happy, because rents will be probably be adjusted downward and landlords will use aggressive concessions to fill their vacant units. Developers will do what they can to keep their rent levels at proforma levels, so they can get permanent financing in place. This should bode well for tenants in Portland in the next 12 months.

Too many units?

According to Fannie Mae analysts, the cumulative effect of the rapid growth of housing stock will cause rent increases to slow substantially. Costar confirms that the "amount of new inventory in the pipeline is formidable." As of September 2018, Costar counted approximately 11,000 units under construction. Expected demand for 2018 is estimated at a robust 6,600 units (CoStar) of which 4,100 have already been delivered as of September 2018. In the last 12 months the Portland Metro marketplace absorbed 7,237 units, which is extraordinary.

As you can see from the chart below, the Portland MSA typically has absorbed an average of about 4,000 units per year. Over the last three

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years absorption has grown from about 4,000 units per year to 7,000 units per year (12 month trailing), as young adults have migrated to Portland for its affordable living costs and livability when compared to San Francisco and Seattle.

Property Class Name	Period	As Of	Geography Name	Vacancy	Occupancy	Net Absorption	Net Absorption 12 Months	Net Completions	Net Completions 12 Months	Stock	Under Construction Stock
Multi-Family	2017 Q1	2018 Q4	Portland - OR	6.4%	93.6%	1,576	3,777	1,699	5,996	180,762	9,623
Multi-Family	2017 Q2	2018 Q4	Portland - OR	6.0%	94.0%	1,588	4,679	1,067	6,089	181,829	10,024
Multi-Family	2017 Q3	2018 Q4	Portland - OR	6.1%	93.9%	599	4,277	689	4,790	182,520	11,492
Multi-Family	2017 Q4	2018 Q4	Portland - OR	6.3%	93.7%	985	4,748	1,426	4,881	183,946	11,412
Multi-Family	2018 Q1	2018 Q4	Portland - OR	6.5%	93.5%	1,783	4,955	2,300	5,482	186,247	10,445
Multi-Family	2018 Q2	2018 Q4	Portland - OR	5.6%	94.4%	2,613	5,980	1,049	5,464	187,296	11,579
Multi-Family	2018 Q3	2018 Q4	Portland - OR	5.2%	94.8%	1,658	7,039	936	5,711	188,232	11,326
Multi-Family	2018 Q4	2018 Q4	Portland - OR	5.1%	94.9%	1,827	7,881	1,601	5,886	189,833	
Multi-Family	2019 Q1	2018 Q4	Portland - OR	5.0%	95.0%	1,700	7,798	1,614	5,200	191,447	
Multi-Family	2019 Q2	2018 Q4	Portland - OR	5.0%	95.0%	1,397	6,582	1,541	5,692	192,988	
Multi-Family	2019 Q3	2018 Q4	Portland - OR	5.1%	94.9%	1,338	6,262	1,588	6,344	194,576	
Multi-Family	2019 Q4	2018 Q4	Portland - OR	5.2%	94.8%	1,214	5,649	1,510	6,253	196,086	
Multi-Family	2020 Q1	2018 Q4	Portland - OR	5.3%	94.7%	1,153	5,102	1,454	6,093	197,540	
Multi-Family	2020 Q2	2018 Q4	Portland - OR	5.4%	94.6%	1,198	4,903	1,415	5,967	198,955	
Multi-Family	2020 Q3	2018 Q4	Portland - OR	5.5%	94.5%	771	4,336	949	5,328	199,904	
Multi-Family	2020 Q4	2018 Q4	Portland - OR	5.5%	94.5%	498	3,620	625	4,443	200,529	
Multi-Family	2021 Q1	2018 Q4	Portland - OR	5.5%	94.5%	727	3,194	784	3,773	201,313	
Multi-Family	2021 Q2	2018 Q4	Portland - OR	5.6%	94.4%	784	2,780	891	3,249	202,204	
Multi-Family	2021 Q3	2018 Q4	Portland - OR	5.6%	94.4%	824	2,833	959	3,259	203,163	
Multi-Family	2021 Q4	2018 Q4	Portland - OR	5.7%	94.3%	824	3,159	998	3,632	204,161	

1. Costar 2018 3rd quarter multifamily Market report

In and Out Migration

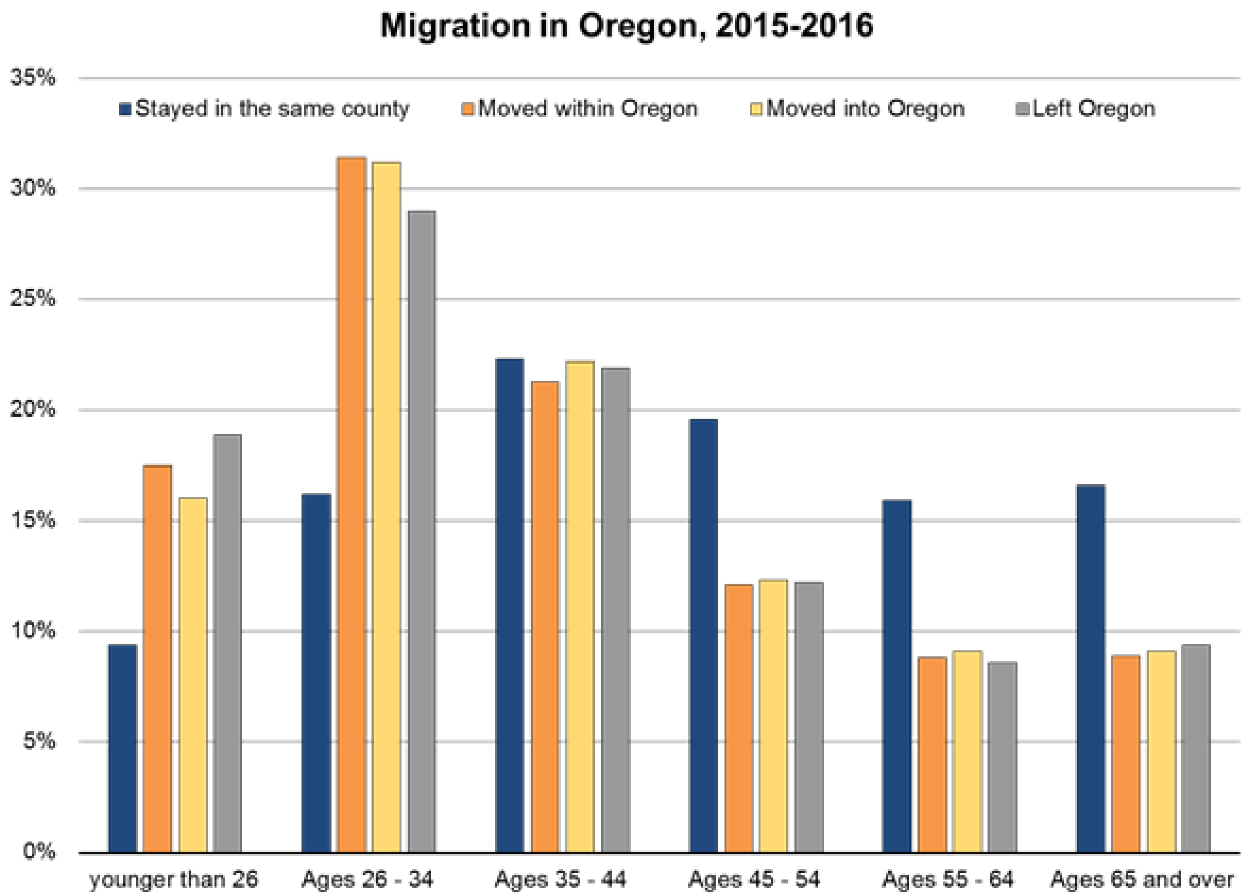
Oregon's growth is driven by job creation focused in the urban centers. For example, Multnomah County received 28,394 migrants Washington County 19,090 Clackamas County 10,172 in 2015 -2016 .

Metro counties losing people to out-of-state destinations included Multnomah 21,649); Washington 14,818 Clackamas 7,786.

According to the Oregon State Employment Department, peak movers both into and out of Oregon have been those aged 26 to 44. In 2015 -2016 the approximate net inflow of new Oregonians was 17,409 (see chart below).

	Review of Oregon income tax returns 2015-2016					
County		Number moving into Oregon		Number moving out of Oregon		Net
Multnomah		28394		21694		6700
Washington		19090		14818		4272
Clackamas		10172		7786		2386
Lane		10035		5984		4051
Total						17409

2 Clark County grew by 9,095 people in 2017, an increase over 1.95%. It is estimated that 50 – 60 percent of these purchase or move into rental homes. The balance rented apartments, moved into manufactured housing or moved in with friends.



Source: Internal Revenue Service, Statistics of Income Division, October 2017

3 State of Oregon Employment Department.

Rents:

Rents have been leveling off and, in some cases, dropping, as the additional supply of housing creates competitive pressure. This is excellent news for tenants as they get to move into new buildings with concessions and sweetheart deals. Class C and D properties that had been able to increase rents a little when there was a housing shortage, are now faced with pressure to roll back some of those increases or give concessions to fill vacancies.

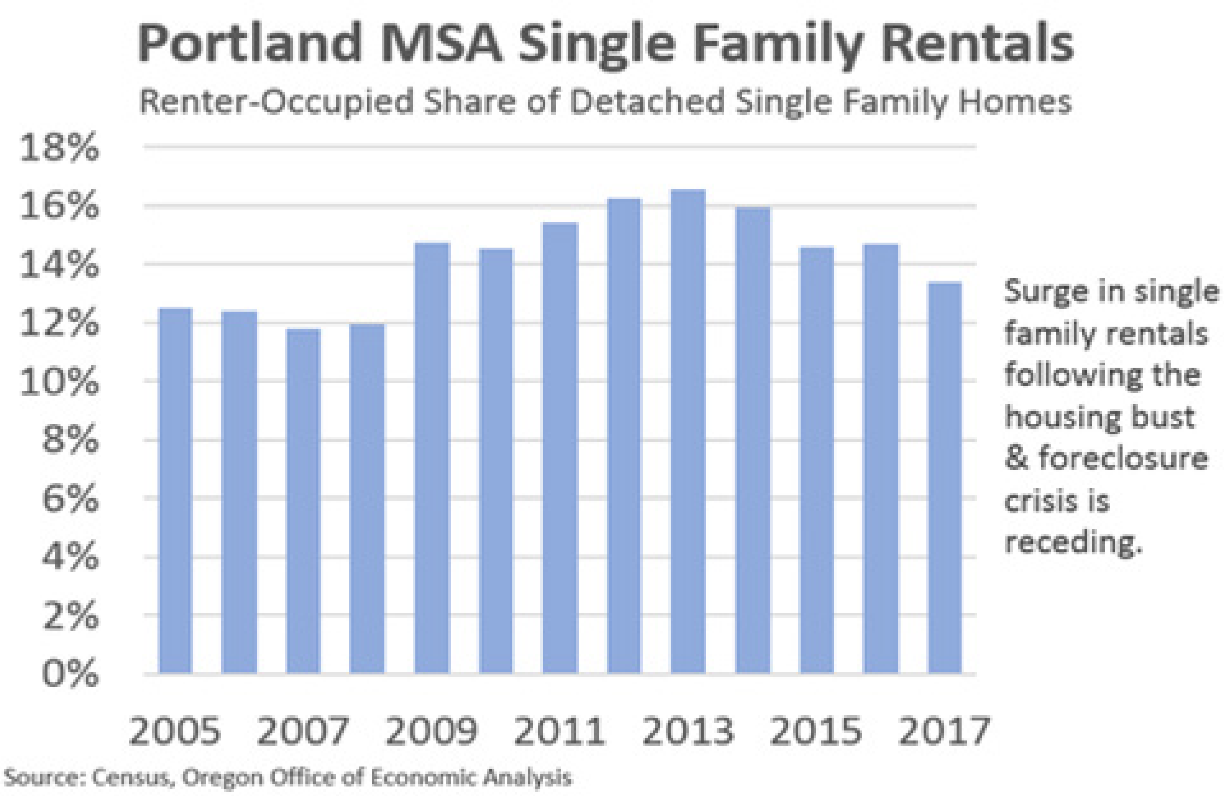
Even with the rent rollbacks, folks on fixed incomes, those on pensions and other government programs, who do not have the ability to increase their income and pay increased rents are stuck in a challenging position, because rents have increased faster than the CPI increases that typically give them the ability to keep up. The current US President is reducing the funds available to Housing Choice Vouchers (formerly Section 8), squeezing the most financially challenged members of our community. The low-income tenant's coalition has been putting pressure on city commissioners, which in turn has helped Commissioner Eudaly give birth to the Rental Services Commission. This group of mostly tenant advocates is looking for any way they can get landlords to rent to tenants that are on the edge of the rental spectrum; those with criminal records, lack of income or adverse rental references.

Median 2 Bedroom Rent Level Portland, Oregon				
	2015	2016	2017	2018
Year over year increase/decrease	5.30%	4.40%	0.40%	-2.20%
Median Rent Level	$1,292	$1,350	$1,355	$1,325

Costar 2018 3rd quarter multifamily Market report

Shifting rental pool from houses to apartments

During and after the foreclosure crisis, single family rentals increased as investors purchased properties at bargain prices and the rental pool expanded when those who lost their homes to foreclosure needed to find a place to live. As the marketplace has strengthened and home values have increased, investors have sold off their investments and cashed in on the increased values.



As you review the chart you can see that there is a shift in the availability of types of rental homes in the region. The number of apartments continues to increase with new construction, but the overall rental market has expanded less than expected given the decline in single family rentals.

Conversely, the ownership market has expanded a bit more than the new construction numbers indicate as more homes are being converted from rentals into homes. The impact on the rental marketplace is significant. The number of rental homes has reduced by about 10,000 single-family rentals in recent years. This is equivalent to 1.5 years of new apartment or new single-family supply!

This reduction in rental housing will be exacerbated as the Portland Rental Services Commission and city commissioners adopt more restrictive rental policies. This will force small investors out of the market and make even more homes available for home ownership and less as rentals. The reduction of low income housing will deliver a devastating blow to low income tenants, exactly the reverse of what the city council is trying to achieve.

Summary

Over the next two or three years, the Portland apartment market will be faced with an oversupply of multifamily units. There will be some short-term impact to the rent levels as the market place adjusts to the supply and lack of demand. The biggest impact will be felt by properties that have been newly constructed with higher rent levels.

As millennials mature and grow their families, they will probably create demand for ownership of homes and small plexes and move out of apartments. The question will be how fast that transition will take place, because it could have a dramatic effect on the absorption of rental housing.

If apartment rents are too high, tenants will find another less expensive town to live and work in and we will continue with a higher vacancy rate. Apartment owners and developers cannot rely on continued strong job growth, because job growth is forecasted to contract as the availability of labor and a slowing of the economy reduce work opportunities. As job growth shrinks so does the demand for housing.

As a sideline impact of the decisions being made at the Rental Services Commission, we expect that those owners of homes and small plexes will liquidate their Portland assets because the new rules will be too complex. This may drive more tenants into apartments. Unfortunately, many of the less expensive rentals will have been eliminated, as the “Ma -Pa” landlords exit the market.

Bottom line is that rents will adjust to the market, and as supply of rental units exceeds demand, there will be downward pressure on rents. This is particularly the case for new construction and Class A rentals. Demand for middle-of-the-road rentals, C and B, will stay strong, but rent increases will be limited by the ability of those tenants to afford the rents.

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