MULTIFAMILY

Portland Metro | August 2023

Portland Metro Market

Assumptions of market disrepair and inactivity have risen parallel with interest rates in the past quarter; however, we find it necessary to point out that not all of the doom & gloom is warranted. Friction creates opportunity, and in this case, the Portland Metro Market is finally seeing the healthy entrance of new product, with the *"construction pipeline surging to 9,000 units," reflecting a "40% increase from the third quarter of 2021."* Trade buyers and opportunistic investors are finding value in the current market chop. While transaction volume is undeniably down, per the 2Q 2023 CoStar Multifamily Portland Report that states, *"first-quarter volume was down nearly 70% from the first quarter of 2022"*, recent months have seen an uptick in activity.

With the Federal Funds Rate at 5.33% and the Wall Street Journal Prime Rate at 8.5%, many investors fear talking to lenders about multifamily loans. Financing for multifamily properties is still available and competitive. Traditional lenders have become the go-to source, replacing agency lenders in the last year, with many quoting interest rates between 4.68% and 6.08% with interest-only options. A recent West Coast transaction closed by George Smith Partners includes a $3,800,000 loan amount, 4.93% fixed rate on a 5-year term, interest only, with a 5%,4%,3%, open prepayment penalty, loan to value was 70%. Interest-only loans allow for positive leverage on lower cap rate acquisitions and equate to a bridge loan, allowing an investor to have higher upfront returns for a few years while allowing a refinance without egregious prepayment penalties with the expectation that interest rates will come down.

Market Stats
2Q 2023

6.6%
Vacancy Rate

-1.0%
12 mo. Asking Rent Growth

$1,620
Asking Rent

3.9%
Average Portland Rent Growth Per Year

Source: CoStar

MACADAM FORBES COMMERCIAL REAL ESTATE SERVICES Presented by: Skip Rotticci, CCIM and Cooper Collins

Rent Growth

"As of the third quarter of 2023, market rent in Portland equates to $1,620/unit, reflecting year-over-year growth of -1.0%. By comparison, the national index posted average growth of 1.2% over the same period. Over the past ten years, Portland has averaged rent growth of 3.9% per year. High in-migration figures put added pressure on housing needs during 2021 and early 2022, as new residents scrambled to find well-located units. New supply currently in the pipeline, however, will serve to loosen the market in future quarters. This, coupled with tempered leasing, will place some downward pressure on rent growth, particularly in the 4 & 5 Star rated communities, which make up over 75% of the current pipeline."

Source: CoStar

Specific areas, such as the South Waterfront and Hillsboro, will observe the lion's share of the mentioned downward pressure as they have witnessed large amounts of new product being brought online. Owners in Sotutheast Portland, Southwest Portland, and several neighboring submarkets such as Vancouver (Clark County), Tigard, and Clackamas County are all slated to experience continued positive rent growth (although marginal in some cases).

West Coast Rent Comparison | August 2023

	Population	Median Rent	YOY Change
Portland, OR	2,511,612	$2,335	-9.81%
Seattle, WA	4,011,553	$2,833	-10.75%
San Diego, CA	3,286,069	$3,642	6.42%
Riverside, CA	4,653,105	$2,725	-1.05%
San Francisco, CA	4,623,264	$3,773	-5.79%
San Jose, CA	1,952,185	$3,978	7.38%
Los Angeles, CA	12,997,353	$3,654	3.81%
Sacramento, CA	2,411,428	$2,632	-3.93%

Source: Rent.com

Construction

"Portland's apartment construction pipeline now stands at 9,000 units underway as of the third quarter of 2023, which will expand existing inventory by 4.0%. While some of these projects were previously permitted and put on hold, the uptick is nonetheless a sign that developers may be starting to react in earnest to the historically heavy leasing of the past 18 months. Not all of these units will be hitting the market immediately, but net deliveries over the past 12 months totaled 5,700 units. Vancouver, Washington, is a popular destination for builders too. Around 2,500 units have delivered here since the beginning of 2021 with thousands more underway, ranking at the top of all Portland submarkets."

Source: CoStar

With the most significant spike in development primarily focused on the urban core of Portland & Vancouver and consisting of 4 & 5-star product, absorption is slated to remain strong in the suburban submarkets. Permitting data suggests a respite in the frenzied post-COVID construction, as developers aim to let costs of materials drop and absorption catch up.

45%
of Portland Households are renters

Source: CoStar

National Unemployment Rate
August 2023

3.5%

Oregon Unemployment Rate
August 2023

3.4%↓
Seasonally Adjusted

0.1%↓
The sixth consecutive monthly drop in unemplaoyment

Source: Oregon Employment Department

"... Oregon's economy will slow noticeably in the upcoming 2023-25 biennium, however for good reasons. The recovery from the pandemic has been faster, and more inclusive than any in recent memory. With the economy operating at or near full employment, underlying gains in the labor market will be closely tied to demographics and population growth. To maintain even stronger economic growth in the years ahead Oregon will need to see faster population gains, and/or rely on business investment and capital to increase productivity."

Source: Oregon Office of Economic Analysis. May 2023 Economic and Revenue Forecast

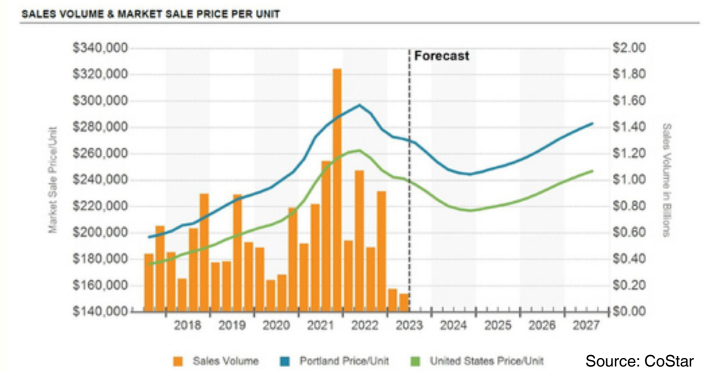
Construction Stats

- **61 Properties**
- **8,986 Units**
- **4.0% Inventory**

Investment

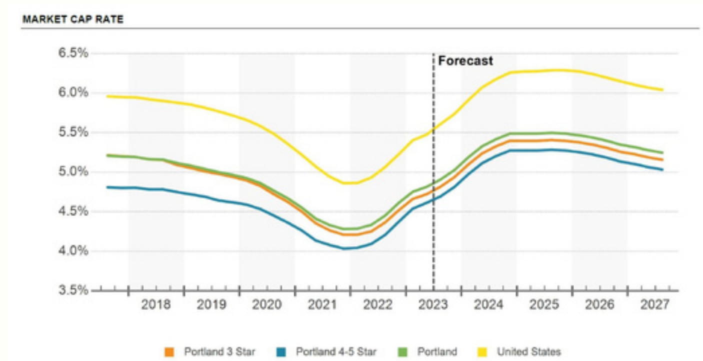
“As of the third quarter of 2023, trailing four quarter sales volume has slowed to $1.6 billion, compared with the ten-year average of $2.3 billion per year in multifamily deals. That said, Portland remains attractive from a pricing standpoint, relative to some of its other Western gateway peer markets, and certain investors have shown a willingness to execute deals creatively in a time of high inflation and high rates.”

Source: CoStar



Source: CoStar

Buyers & sellers alike are learning to operate in the higher interest rate environment. Even with more turbulence from the Fed anticipated, the fundamentals behind transactions carry on. Buyers continue to need to place funds via trade or otherwise, with sellers slowly embracing the shift necessary in capitalization rates to transact. Most importantly, lenders are getting creative with financing, offering interest-only options in some scenarios, allowing buyers to posture for refinancing in a less turbulent capital market.



Source: CoStar

Capital Market

"The real estate capital markets, and the investment realm as a result, have been through quite a volatile year. The Federal Reserve’s July increase ushered in the highest target rate since 2001 and their surge since mid-2022 has been the steepest climb in 40 years, bringing us out of an era of unprecedentedly low coupons and ever-compressing cap rates.

However, there are green shoots in our market. A reliable, robust, and active lending pool exists with Gantry’s correspondent Life Insurance Companies and both Fannie Mae and Freddie Mac (Agency / GSE lenders), seasoned and stalwart lenders. Given recent transaction data can be hard to come by these lenders are focusing heavily on income in place in addition to the term and quality of tenants. Both are sizing to a minimum DSCR (debt service coverage ratio) of 1.20x and can provide both interest-only and non-recourse terms depending on property type and leverage level.

Both Life Company and Agency lenders lock rate at application, removing the concern of rate risk through closing which can otherwise negatively impact loan proceeds if rates increase prior to funding.

Life Companies, as well, have discretion of funds. Their source of funding is cash derived from policy premiums that already exists on their balance sheet and they are not regulated in the same manner as banks, so they will never require a depository relationship and infrequently seek structure or covenants.

For any questions or quotes on active transactions please contact Charlie Kokernak at Gantry Inc, a capital markets intermediary representing life companies, agency lenders, banks, credit unions and debt funds."

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