



THE Apartment Report

2024: YEAR OF TRANSITION

Greg Frick, Co-Founder, HFO Real Estate, Apartment Report Committee

In many aspects, 2024 will go down as a year of transition. Portland will transition into a new form of government as the City Council will expand from 5 members to 12, with members representing 4 new geographic districts. Each district will elect 3 representatives using ranked-choice voting.

In September 2024, the Federal Reserve shifted its policy by cutting interest rates by 50 basis points. This marked the first rate cut since March of 2020.

The apartment market has entered a phase marked by rising overall occupancy, rent stabilization, and a notable slowdown in the new construction pipeline.

Apartment sales activity in 2024 remains sluggish, with transaction volumes failing to recover from the historically low levels seen in 2023. Real estate brokers continue to echo phrases like "survive until 2025," "wait until after the election," and "the market will shift when the Federal Reserve lowers rates." With the election less than a month away and the Fed beginning its policy shift, improving market fundamentals suggest that sales volumes could rebound in 2025.

One of our contributors, Patrick Barry, says in his article, **"The light at the end of the tunnel is becoming more visible, signaling better days ahead for the Portland apartment market."**

The Fall 2024 report shows that light is getting brighter.

The Portland/Vancouver Metro Area report includes data from over 507 properties representing over 38,000 units. This marks a

12% decrease in the number of properties and a 20% decrease in the number of units compared to the Spring 2024 Apartment Report. Several factors have contributed to this significant drop in property participation, but we anticipate these numbers will begin to rise in 2025. This variation in property reporting is evident across different submarkets and may explain some of the inconsistencies in the figures.

The Portland/Vancouver metro area survey shows the Fall 2024 vacancy rate down 168 basis points since the Spring 2024 report. This drop from 6.17% to 4.49% is a 27% decrease in the vacancy rate from the Spring 2024 report. The areas with the lowest vacancy rate and most significant reduction in vacancy rate are Lake Oswego/West Linn, with a vacancy rate of 2.3%, and Inner & Central SE Portland, with a vacancy rate of 1.47%. The areas with the highest reported vacancy rate are East Vancouver at 6.22% and North Portland & St. Johns at 6.42%. The North Portland & St. Johns rate has significantly decreased from the 9.25% vacancy rate reported in the Spring 24 report.

Outside of the metro area the report showed the McMinnville/Newberg vacancy rate at 1.66%, a sharp contrast to the Bend/Redmond vacancy rate of 12.66%. Remember that the number of properties surveyed in these submarkets was limited in this report. Overall, the report's Other Areas experienced a 37% decrease in the number of properties and units contributing to the report.

Rents in the Portland/Vancouver Metro Area declined slightly from the Spring 2024

report. The average rent per square foot dropped from \$2.06 in the Spring to \$2.04 in the current report, equal to the Fall 2023 report rents.

(continued on page 2).....

SURVEY SAYS!

Vacancy rate in the Portland Metro down 168 basis points to 4.49%

Rents remained relatively flat

Construction activity has slowed

Apartment sales activity is sluggish, with expectations for an uptick in 2025

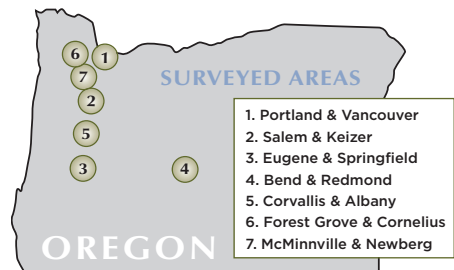
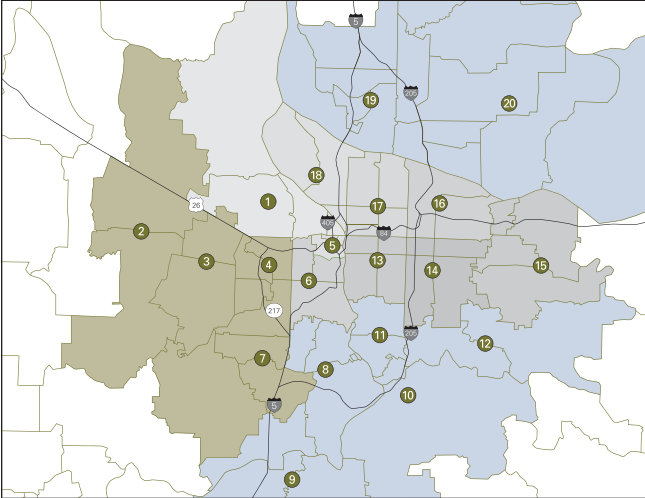


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PORTLAND METRO AREA



MULTNOMAH COUNTY

- 5 DOWNTOWN PORTLAND
- 1 NW PORTLAND
- 13 INNER & CENTRAL SE (PTLD)
- 17 INNER & CENTRAL NE (PTLD)
- 18 NORTH PORTLAND | ST. JOHNS
- 6 SW PORTLAND
- 14 OUTER SE (PORTLAND)
- 16 OUTER NE (PORTLAND)
- 15 TROUTDALE | FAIRVIEW
WOOD VILLAGE | GRESHAM

CLACKAMAS COUNTY

- 19 WEST VANCOUVER
- 20 EAST VANCOUVER

CLACKAMAS COUNTY

- 12 CLACKAMAS
- 8 LAKE OSWEGO | WEST LINN
- 11 MILWAUKIE
- 10 OREGON CITY | GLADSTONE
- 9 WILSONVILLE | CANBY

WASHINGTON COUNTY

- 3 ALOHA
- 4 BEAVERTON
- 2 HILLSBORO | NORTH OF HWY 26
- 7 TIGARD | TUALATIN
SHERWOOD

OUR CONTRIBUTORS

(continued from page 1)

The Apartment Fundamentals & Trends article by **Patrick Barry, Appraiser with Barry & Associates**, "summarizes the Portland apartment market... and provides some insights into the coming year."

The Portland apartment market shows signs of stabilization after slow sales and declining values. Sales activity remains low, with only 57 sales recorded year-to-date in 2024, far below the historical average. However, investor sentiment is improving, with many believing property values have nearly bottomed out.

The impact of interest rates on sales volume is significant. The U.S. 10-year Treasury yield, the primary index used for Commercial Real Estate loans, was just over 4.00% in October 2022—a sharp rise from 1.5% in October 2021. By October 2023, it reached 4.95%, but today, the yield has returned to around 4.00% after dropping as low as 3.60% in September 2024.

Construction activity has significantly slowed, with only 4,250 units currently under construction, and further declines are expected through 2026. This lack of new supply should reduce vacancy rates in the coming years.

Apartment values remain below peak levels. However, the gap between buyer and seller expectations has narrowed significantly, suggesting a potential pickup in transactions as interest rates ease and investor confidence grows. Patrick Barry states in his article, "**The outlook for the Portland apartment market is cautiously optimistic, suggesting that the worst may be behind us and better days are on the horizon.**"

Where the light is getting dim is the skyrocketing operating cost of owning and managing apartment properties. The year 2024 will be remembered as when rental housing providers in the Pacific Northwest understand what other parts of the county are experiencing with surging insurance rates. As **Mike Nielsen of Nielsen Insurance Agency** explains in his article, the primary drivers of the increased cost of premiums are the rising costs of materials and labor, the increased legal

fees and large court awards (referred to as "nuclear awards"), and the marked increase in catastrophic weather-related losses.

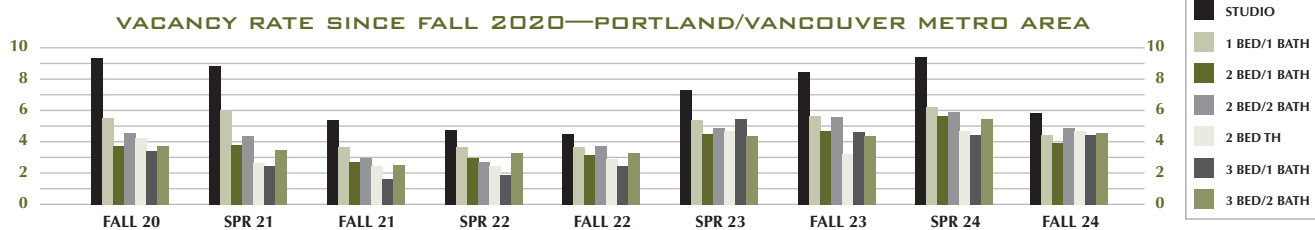
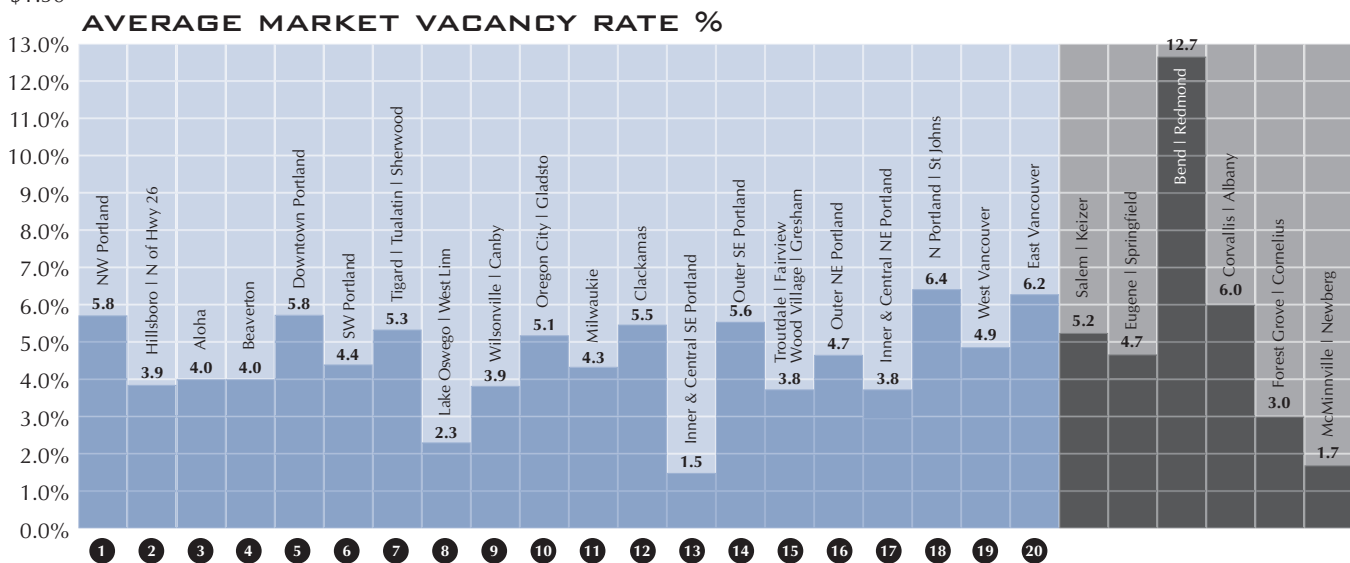
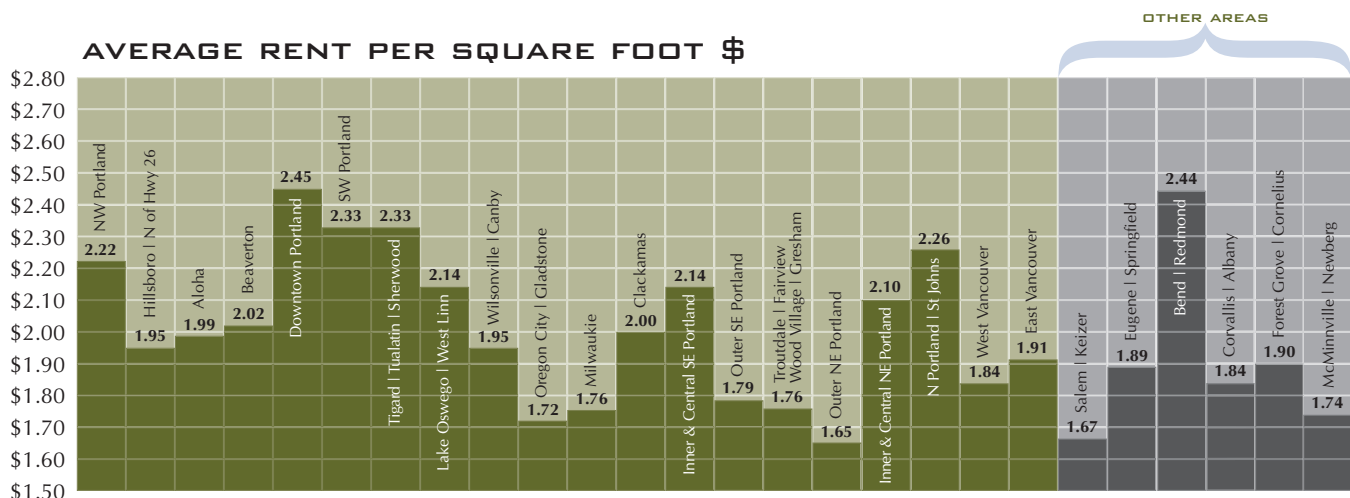
Apartmenters are seeing explosive increases in operating expenses, including insurance rates, property taxes, utilities, and maintenance costs. As an industry, we need to work together to explain these realities to our elected officials so they can concentrate on policies to spur the building of a new housing supply instead of legislation adding to the cost and burden for rental housing providers and developers.

PLEASE VOTE!!!

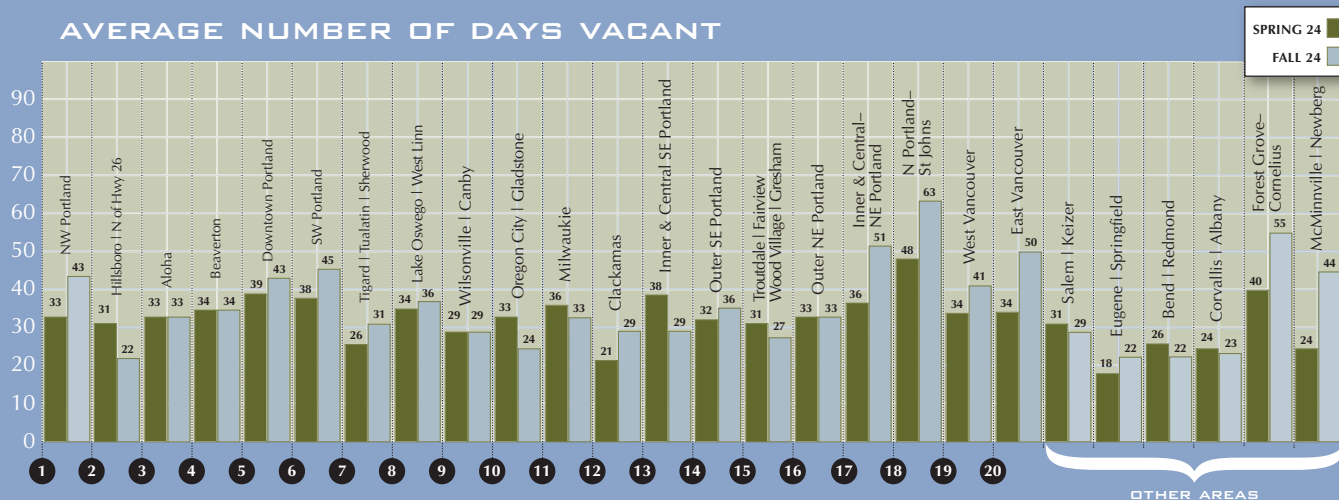
All articles in the Apartment Report have been reprinted without edits to ensure that all opinions are presented objectively. We thank the management companies and property owners who contributed their data. Their participation is crucial in maintaining the accuracy and ongoing success of this report. ■



Salem, Oregon



AVERAGE NUMBER OF DAYS VACANT



SURVEY RESULTS—FALL 2024

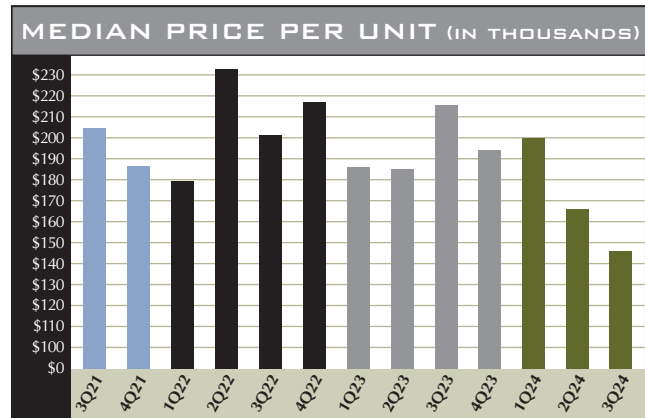
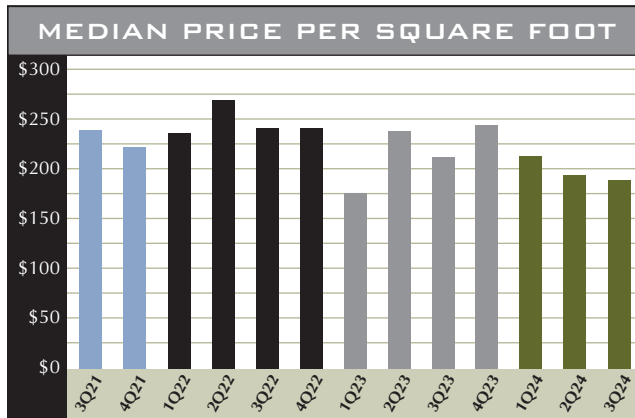
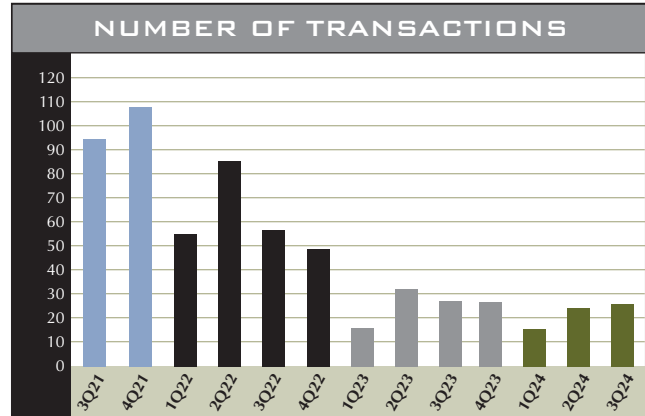
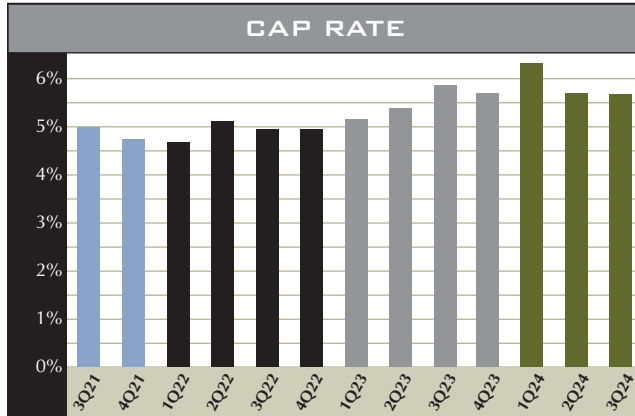
PORTLAND/VANCOUVER METRO AREA

AREA NAME	# OF PROP	DATA	ALL	SPR 24 REPORT	CHANGE	STUDIO	1 BED 1 BATH	2 BED 1 BATH	2 BED 2 BATH	2 BED TWNHS	3 BED 1 BATH	3 BED 2 BATH
DOWNTOWN PORTLAND (5)	16	AVG MARKET VACANCY RATE %	5.75	7.6	-0.24	6.73	5.78	3.17	6.76	2.5	0	0
		AVG RENT PER SQ FOOT \$	2.45	2.68	-0.09	2.57	2.36	2.04	2.81	2.64	2.21	3.46
		AVG RENT PER UNIT TYPE \$				1054	1559	1619	3256	2400	2100	7686
		SUM OF UNITS SURVEYED	1726	1757		414	921	132	164	80	1	14
NW PORTLAND (1)	45	AVG MARKET VACANCY RATE %	5.8	8.7	-0.33	9.18	4.68	2.05	7.36	0	0	2.69
		AVG RENT PER SQ FOOT \$	2.22	2.69	-0.17	2.75	2.3	2.03	1.96	2.21	1.6	1.64
		AVG RENT PER UNIT TYPE \$				1298	1566	1896	1985	1795	2295	2279
		SUM OF UNITS SURVEYED	2339	4440		400	1023	195	532	2	1	186
INNER & CENTRAL SE PORTLAND (13)	102	AVG MARKET VACANCY RATE %	1.47	6.42	-0.77	3.8	1.38	0.15	1.55	0	0	2.08
		AVG RENT PER SQ FOOT \$	2.14	2.08	0.03	2.95	2.2	1.65	2.02	1.53	1.44	1.69
		AVG RENT PER UNIT TYPE \$				1312	1414	1387	2246	1335	1555	2220
		SUM OF UNITS SURVEYED	3212	2892		526	1513	758	193	134	32	56
INNER & CENTRAL NE PORTLAND (17)	63	AVG MARKET VACANCY RATE %	3.82	5.93	-0.36	3.89	4.46	1.43	4.15	2.04	0	0
		AVG RENT PER SQ FOOT \$	2.1	2.21	-0.05	2.63	2.1	1.74	2.09	1.76	1.5	2.29
		AVG RENT PER UNIT TYPE \$				1228	1413	1489	2057	1671	1505	2726
		SUM OF UNITS SURVEYED	1941	2520		253	1130	297	193	50	9	9
N PORTLAND & ST JOHNS (18)	13	AVG MARKET VACANCY RATE %	6.42	9.25	-0.31	5.08	6.39	6.42	7.94	—	0	—
		AVG RENT PER SQ FOOT \$	2.26	2.35	-0.04	2.54	2.53	1.76	1.91	—	1.22	—
		AVG RENT PER UNIT TYPE \$				1460	1553	1439	2075	—	1150	—
		SUM OF UNITS SURVEYED	1128	1186		259	427	185	251	—	6	—
SW PORTLAND (6)	19	AVG MARKET VACANCY RATE %	4.42	5.26	-0.16	2.75	2.85	8.02	5.02	3.57	21.43	4.76
		AVG RENT PER SQ FOOT \$	2.33	2.13	0.09	2.88	2.35	2.9	1.87	1.55	2.71	1.66
		AVG RENT PER UNIT TYPE \$				1304	1514	2419	1919	1504	2893	1928
		SUM OF UNITS SURVEYED	1246	2026		109	590	188	233	28	14	84
OUTER SE PORTLAND (14)	14	AVG MARKET VACANCY RATE %	5.63	6.83	-0.18	0	6.2	6.67	4.97	4.17	0	6.12
		AVG RENT PER SQ FOOT \$	1.79	1.45	0.23	3.85	2.18	1.61	1.62	1.55	1.68	1.68
		AVG RENT PER UNIT TYPE \$				1000	1403	1294	1709	1500	1470	2056
		SUM OF UNITS SURVEYED	842	711		1	243	175	317	24	17	65
OUTER NE PORTLAND (16)	16	AVG MARKET VACANCY RATE %	4.74	5.16	-0.08	0	5.6	4.23	5.32	1.67	0	6.9
		AVG RENT PER SQ FOOT \$	1.65	1.69	-0.02	2.27	1.95	1.55	1.54	1.42	1.41	1.57
		AVG RENT PER UNIT TYPE \$				1082	1270	1351	1552	1523	1504	1787
		SUM OF UNITS SURVEYED	885	1351		10	215	347	185	60	10	58
TROUTDALE FAIRVIEW WOOD VILLAGE GRESHAM (15)	21	AVG MARKET VACANCY RATE %	3.77	5.65	-0.33	0	4.67	3.5	3.56	0	10.42	2.36
		AVG RENT PER SQ FOOT \$	1.76	1.81	-0.03	1.81	2.03	1.68	1.69	1.89	1.52	1.87
		AVG RENT PER UNIT TYPE \$				905	1407	1480	1617	1923	1670	2277
		SUM OF UNITS SURVEYED	2320	3121		2	432	657	959	10	48	212
CLACKAMAS (12)	13	AVG MARKET VACANCY RATE %	5.51	5.16	0.07	4.62	5.04	3.97	6.02	8.44	—	5.64
		AVG RENT PER SQ FOOT \$	2	2.01	0.00	2.59	2.23	1.92	1.95	1.62	—	1.86
		AVG RENT PER UNIT TYPE \$				1282	1532	1666	1874	2008	—	2204
		SUM OF UNITS SURVEYED	2722	1926		65	746	438	970	154	—	349
LAKE OSWEGO WEST LINN (8)	6	AVG MARKET VACANCY RATE %	2.3	6.9	-0.67	—	0	3.45	0	0	—	0
		AVG RENT PER SQ FOOT \$	2.14	2.24	-0.04	—	2.2	1.75	2.32	1.74	—	2.04
		AVG RENT PER UNIT TYPE \$				—	1602	1409	2200	1500	—	2629
		SUM OF UNITS SURVEYED	492	984		—	220	65	138	10	—	59
MILWAUKIE (11)	21	AVG MARKET VACANCY RATE %	4.32	6.26	-0.31	9.8	5.69	3.53	4.17	2.9	0	2.63
		AVG RENT PER SQ FOOT \$	1.76	1.91	-0.08	2.49	1.9	1.69	1.67	1.58	1.44	1.63
		AVG RENT PER UNIT TYPE \$				1072	1192	1424	1506	1536	1725	1836
		SUM OF UNITS SURVEYED	1037	926		51	246	510	48	122	11	49
OREGON CITY GLADSTONE (10)	7	AVG MARKET VACANCY RATE %	5.14	5.49	-0.06	15	1.52	2.73	7.44	5.88	7.41	4.62
		AVG RENT PER SQ FOOT \$	1.72	1.84	-0.07	2.85	2.06	1.63	1.59	1.93	1.99	1.52
		AVG RENT PER UNIT TYPE \$				1392	1439	1450	1634	1849	1795	2200
		SUM OF UNITS SURVEYED	772	1084		20	132	68	242	68	4	238
WILSONVILLE CANBY (9)	6	AVG MARKET VACANCY RATE %	3.93	5.31	-0.26	0	3.72	3.94	5.11	0	0	2.73
		AVG RENT PER SQ FOOT \$	1.95	1.9	0.03	2.81	2.14	1.87	1.91	1.39	1.83	1.8
		AVG RENT PER UNIT TYPE \$				1480	1624	1659	2019	1530	1650	2156
		SUM OF UNITS SURVEYED	1046	2358		6	327	345	242	34	2	90
ALOHA (3)	28	AVG MARKET VACANCY RATE %	4.04	4.94	-0.18	9.09	3.67	4.19	4.42	3.82	0	3.91
		AVG RENT PER SQ FOOT \$	1.99	1.99	0.00	2.39	2.25	1.84	1.9	1.79	2.06	1.83
		AVG RENT PER UNIT TYPE \$				1528	1544	1631	1880	2319	1944	2107
		SUM OF UNITS SURVEYED	4901	4673		11	1496	1027	1560	152	34	621

PORTLAND/VANCOUVER METRO AREA												
AREA NAME	# OF PROP	DATA	ALL	SPR 24 REPORT	CHANGE	STUDIO	1 BED 1 BATH	2 BED 1 BATH	2 BED 2 BATH	2 BED TWNHS	3 BED 1 BATH	3 BED 2 BATH
BEAVERTON (4)	48	AVG MARKET VACANCY RATE %	3.98	6.65	-0.40	4.58	4.56	3.51	3.66	9.84	2.27	2.27
		AVG RENT PER SQ FOOT \$	2.02	1.94	0.04	2.39	2.38	1.63	2.05	1.79	1.69	1.57
		AVG RENT PER UNIT TYPE \$				1560	1565	1501	2061	1778	1931	1936
		SUM OF UNITS SURVEYED	3221	3010		240	924	797	939	84	44	193
HILLSBORO N OF HWY 26 (2)	10	AVG MARKET VACANCY RATE %	3.92	5.82	-0.33	0	3.7	4.39	3.66	–	–	4.76
		AVG RENT PER SQ FOOT \$	1.95	2.08	-0.06	1.97	2.19	1.94	1.79	–	–	1.77
		AVG RENT PER UNIT TYPE \$				1030	1583	1829	1959	–	–	2281
		SUM OF UNITS SURVEYED	1564	1694		3	556	253	542	–	–	210
TIGARD TUALATIN SHERWOOD (7)	26	AVG MARKET VACANCY RATE %	5.33	4.93	0.08	6.63	5.24	4.7	6.04	2.04	3.53	6.25
		AVG RENT PER SQ FOOT \$	2.33	1.96	0.19	2.96	2.77	1.83	1.91	9.3	1.7	1.88
		AVG RENT PER UNIT TYPE \$				1350	1807	1553	1889	7792	1752	2141
		SUM OF UNITS SURVEYED	3044	3323		165	983	844	706	49	85	212
WEST VANCOUVER (19)	23	AVG MARKET VACANCY RATE %	4.93	5.47	-0.10	2.94	4.79	5.25	4.87	5.56	0	2.5
		AVG RENT PER SQ FOOT \$	1.84	1.88	-0.02	2.94	2.02	1.73	1.72	1.43	1.88	1.54
		AVG RENT PER UNIT TYPE \$				1354	1383	1535	1761	1496	1639	1918
		SUM OF UNITS SURVEYED	2016	3984		57	668	629	526	72	4	60
EAST VANCOUVER (20)	10	AVG MARKET VACANCY RATE %	6.22	6.95	-0.11	5.94	6.44	6.61	4.04	14.93	0	8.73
		AVG RENT PER SQ FOOT \$	1.91	1.93	-0.01	2.36	2.21	1.78	1.84	1.66	1.65	1.7
		AVG RENT PER UNIT TYPE \$				1443	1600	1659	1918	1874	1929	2049
		SUM OF UNITS SURVEYED	1593	4073		101	335	229	594	67	15	252
TOTAL AVG MARKET VACANCY RATE %			4.49	6.17	-0.27	5.7	4.3	3.86	4.97	4.7	4.26	4.5
TOTAL AVG RENT PER SQ FOOT \$			2.04	2.06	-0.01	2.69	2.26	1.78	1.89	2.02	1.7	1.76
TOTAL AVG RENT PER UNIT TYPE \$						1302	1518	1557	1906	2044	1781	2168
TOTAL SUM OF PROPERTIES SURVEYED			507	581		131	419	334	184	60	51	138
TOTAL SUM OF UNITS SURVEYED			38047	48039		2693	13127	8139	9534	1200	337	3017
OTHER AREAS												
BEND REDMOND	6	AVG MARKET VACANCY RATE %	12.66	8.05	0.57	7.56	4.58	3.33	15.09	0	–	32.32
		AVG RENT PER SQ FOOT \$	2.44	2.52	-0.03	2.97	2.77	2.74	2.16	1.63	–	2.23
		AVG RENT PER UNIT TYPE \$				1819	1819	2196	2021	2140	–	2583
		SUM OF UNITS SURVEYED	852	907		119	226	8	398	16	–	85
EUGENE SPRINGFIELD	23	AVG MARKET VACANCY RATE %	4.69	4.3	0.09	4.58	7.29	7.43	2.33	2.03	0	1.37
		AVG RENT PER SQ FOOT \$	1.89	1.88	0.01	2.82	2.04	1.66	1.87	1.53	0.99	1.69
		AVG RENT PER UNIT TYPE \$				1055	1414	1511	1902	1640	1376	2098
		SUM OF UNITS SURVEYED	2076	4066		262	533	466	247	395	42	131
SALEM KEIZER	27	AVG MARKET VACANCY RATE %	5.23	5.82	-0.10	5.97	3.81	5.9	4.64	9.02	2.5	3.52
		AVG RENT PER SQ FOOT \$	1.67	1.65	0.01	2.52	1.79	1.6	1.69	1.44	1.41	1.66
		AVG RENT PER UNIT TYPE \$				1360	1269	1378	1664	1573	1824	1866
		SUM OF UNITS SURVEYED	2687	4239		67	467	1107	706	130	40	170
CORVALLIS ALBANY	26	AVG MARKET VACANCY RATE %	5.99	7.23	-0.17	7.34	2.9	5.19	7.69	30	6.67	3.13
		AVG RENT PER SQ FOOT \$	1.84	1.78	0.03	2.44	2.04	1.63	1.75	1.31	1.25	1.77
		AVG RENT PER UNIT TYPE \$				1152	1284	1355	1817	1205	1328	2112
		SUM OF UNITS SURVEYED	1598	2113		109	414	366	572	26	15	96
FOREST GROVE CORNELIUS	7	AVG MARKET VACANCY RATE %	3.03	6.6	-0.54	5.56	5.1	0	3.57	0	5	–
		AVG RENT PER SQ FOOT \$	1.9	1.84	0.03	2.84	2.19	1.43	1.87	1.75	1.49	–
		AVG RENT PER UNIT TYPE \$				1558	1413	1190	1972	1485	1459	–
		SUM OF UNITS SURVEYED	356	403		36	102	111	84	2	21	–
MCMINNVILLE NEWBERG	4	AVG MARKET VACANCY RATE %	1.66	3.36	-0.51	–	1.22	4.08	0	–	–	–
		AVG RENT PER SQ FOOT \$	1.74	1.84	-0.05	–	1.71	1.85	1.69	–	–	–
		AVG RENT PER UNIT TYPE \$				–	1006	1582	1718	–	–	–
		SUM OF UNITS SURVEYED	148	535		–	40	42	66	–	–	–
TOTAL AVG MARKET VACANCY RATE %			6.03	5.59	0.08	5.9	4.57	5.64	7.41	4.96	2.56	9.45
TOTAL AVG RENT PER SQ FOOT \$			1.86	1.82	0.02	2.75	2.07	1.62	1.83	1.5	1.25	1.79
TOTAL AVG RENT PER UNIT TYPE \$						1291	1388	1401	1817	1618	1536	2104
TOTAL SUM OF PROPERTIES SURVEYED			93	151		23	66	57	40	16	16	24
TOTAL SUM OF UNITS SURVEYED			7717	12263		593	1782	2100	2073	569	118	482
Surveys received from Sec 42, Sec 8 and other subsidized affordable housing programs are not included in the current survey data.												

TREND REPORT : PORTLAND METRO AREA

CoStar: Search criteria—Research Status: Published; Market: Portland; PropType: Multi Family; Sale Date: 7/1/2021—9/30/2024; unit: 5 units and greater.



YEAR	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
# OF TRANS	94	108	53	84	58	49	16	32	26	25	15	24	25
TTL \$ VOLUME	\$1,237,786,456	\$1,901,526,305	\$560,715,337	\$1,302,992,174	\$532,084,076	\$958,376,592	\$172,611,044	\$206,402,818	\$243,679,840	\$327,176,500	\$223,242,500	\$187,337,185	\$305,781,326
TTL BLDG SF	4,719,186	6,591,907	1,904,148	3,929,555	1,978,839	3,703,068	780,802	935,726	1,056,735	1,288,773	901,107	1,228,837	1,218,765
TTL UNITS	5,047	6,535	2,239	4,498	2,127	3,343	787	949	1,106	1,357	900	1,213	1,382
AVG PRICE	\$13,167,941	\$17,606,725	\$10,579,535	\$15,511,812	\$9,173,863	\$19,558,706	\$10,788,190	\$6,450,088	\$9,372,302	\$13,087,060	\$14,882,833	\$7,805,716	\$12,231,253
AVG # OF SF	50,204	61,036	35,927	46,780	34,118	75,573	48,800	29,241	40,644	51,551	60,074	51,202	48,751
AVG \$ BLDG SF	\$262.29	\$288.46	\$294.47	\$331.59	\$268.89	\$258.81	\$221.07	\$220.58	\$230.60	\$253.87	\$247.74	\$152.45	\$250.89
MED \$ P/SF	\$238.76	\$224.78	\$234.63	\$275.66	\$241.87	\$239.55	\$192.19	\$237.10	\$222.78	\$240.14	\$207.26	\$195.92	\$188.23
AVG \$ P/UNIT	\$245,252	\$290,976	\$250,431	\$289,683	\$250,157	\$286,682	\$219,328	\$217,495	\$220,325	\$241,103	\$248,047	\$154,441	\$221,260
MED \$ P/UNIT	\$205,077	\$187,800	\$180,000	\$228,619	\$211,250	\$217,083	\$199,750	\$183,378	\$217,062	\$190,500	\$200,000	\$162,133	\$147,222
AVG # OF UNITS	54	61	42	54	37	68	49	30	43	54	60	51	55
ACTUAL CAP RATE	5.01%	4.75%	4.71%	5.09%	4.95%	4.97%	5.13%	5.47%	5.73%	5.66%	6.24%	5.65%	5.60%
AVG GRM	12.96	13.36	11.88	13.62	11.39	14.51	11.34	-	13.48	12.94	11.36	11.88	12.98
AVG GIM	-	-	-	-	-	-	-	-	-	-	-	-	-

MAP AREA	WATER/SEWER	HEAT	GARBAGE
NW PORTLAND	66%	72%	66%
HILLSBORO N OF HWY 26	92%	92%	92%
ALOHA	84%	100%	84%
BEAVERTON	86%	92%	82%
DOWNTOWN PORTLAND	80%	88%	80%
SW PORTLAND	79%	93%	72%
TIGARD TUALATIN SHERWOOD	77%	97%	75%
LAKE OSWEGO WEST LINN	100%	100%	100%
WILSONVILLE CANBY	61%	100%	50%
OREGON CITY GLADSTONE	75%	100%	62%
MILWAUKIE	58%	93%	54%
CLACKAMAS	68%	100%	63%
INNER & CENTRAL SE PTLD	28%	43%	28%
OUTER SE PORTLAND	42%	96%	38%
TROUTDALE FAIRVIEW WOOD VILLAGE GRESHAM	75%	100%	65%
OUTER NE PORTLAND	46%	92%	30%
INNER & CENTRAL NE PTLD	26%	51%	26%
NORTH PTLD ST. JOHNS	48%	79%	41%
WEST VANCOUVER	63%	86%	65%
EAST VANCOUVER	78%	100%	78%
SALEM KEIZER	67%	97%	64%
EUGENE SPRINGFIELD	37%	89%	34%
BEND REDMOND	71%	100%	64%

TENANT PAID UTILITIES



MAP AREA	SPRING 2024	FALL 2024
NW Portland	32.9%	20.3%
Hillsboro North of Hwy 26	7.7%	7.1%
Aloha	18%	10.5%
Beaverton	11.4%	5.9%
Downtown Portland	48%	36%
SW Portland	27.5%	6.9%
Tigard Tualatin Sherwood	13%	7.5%
Lake Oswego West Linn	27.3%	0%
Wilsonville Canby	20%	5.6%
Oregon City Gladstone	26.7%	12.5%
Milwaukie	19.2%	3.2%
Clackamas	6.7%	10.5%
Inner & Central SE Portland	10.7%	9.4%
Outer SE Portland	3.6%	3.9%
Troutdale Fairview Wood Village Gresham	22.9%	17.2%
Outer NE Portland	6.9%	7.7%
Inner & Central NE Portland	10.7%	7.3%
North Portland St. Johns	30.8%	27.6%
West Vancouver	30.4%	36.8%
East Vancouver	44.9%	47.4%
Salem Keizer	37.7%	17.7%
Eugene Springfield	12.5%	10.3%
Bend Redmond	40%	57.1%

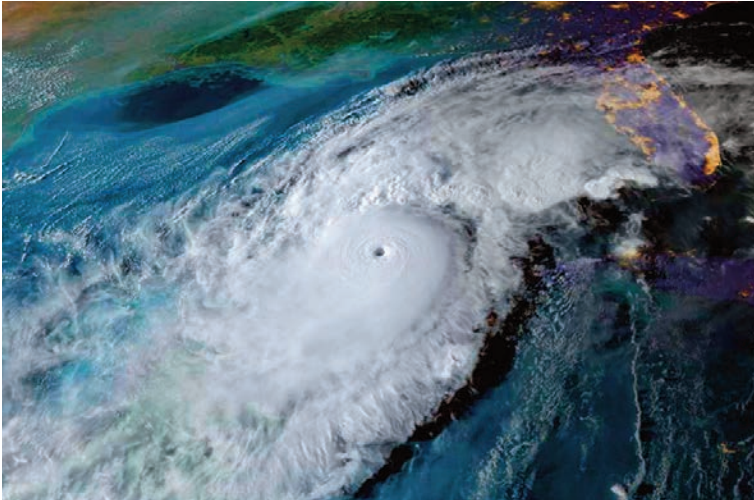
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SECTION 42 SURVEY RESULTS FALL 2024		
UNIT TYPES	VACANCY RATE (%)	AVG. RENT PER SQ FT (\$)
STUDIO	4.25	2.55
1 BED / 1 BATH	6.58	3.83
2 BED / 1 BATH	4.16	1.31
2 BED / 2 BATH	22.33	1.44
2 BED / TH	6.42	1.45
3 BED / 1 BATH	3.57	2.97
3 BED / 2 BATH	6.78	1.25
TOTALS	6.62	3.00

THE STATE OF THE MULTIFAMILY INSURANCE MARKET

Mike Nielsen, Nielsen Insurance Agency



The insurance market for Multifamily has been experiencing significant headwinds over the past several years. After years of moderate rate changes, the market has witnessed very aggressive increases. This is in addition to deep dive underwriting, restrictions in coverage and appetite of carriers as well as an increased focus on proper insurance reconstruction costs. A number of carriers have non-renewed their Habitational (multi-family) risks, paused writing new business or have restricted eligible business to 30 years or newer year of construction.

So, what has caused this dramatic shift in the loss ratios of insurance companies? Certainly the cost of material has increased as has the cost of labor and workmanship. But what else has changed? A large impact has been the expense of social inflation and litigation, resulting in nuclear awards by the courts. These alone have had a large impact. However, the most influential factor has been a notable increase in catastrophic weather-related losses on a regional and national scale.

A recently published report by NOAA* quantified the impact of weather and natural disasters over the past 50 years.

An overview of their data reveals that there has been a marked increase of disasters, particularly in recent years. For example, in the 1980's there was an average of 3.3 billion dollar+ weather disasters annually. The 1990's saw an increase to 5.7 billion dollar+ plus events. This ticked up to 6.7 per year in the 2000's then 13.1 during the following decade. The last 3 years from 2019-2022 the number of catastrophic events increased to 22 per year with 2023 recording 28 separate billion dollar+ weather catastrophes for a total of \$441 billion in losses for the decade.

This has resulted in the insurance industry reacting strongly in an effort to regain a profitable bottom line. The most recent several years have seen carriers averaging 110%+ loss ratio. This is not sustainable. As a result, carriers have re-underwritten their books of business, cancelled properties with losses and increased rates by double digit percentages for the last 3 years.

For the property owners, this has come at a time of rent control, increased lending rates and higher operating costs for their properties—an unfortunate storm of multiple pressures.

However, there are signs in the market that we may have reached the apex of these disturbing pricing trends. Industry reports indicate decreasing loss ratios experienced by carriers. Reinsurance markets are achieving more stability and future pricing models reveal a moderation of rate increases by a number of carriers. But be assured there will continue to be disciplined underwriting efforts by the carriers, active engagement of loss control measures and focused management of large losses by adjusters.

Hopefully for owners this will mean a return to predictable insurance costs without the overwhelming year over year increases that have been so onerous in recent years. ■

**<https://www.ncei.noaa.gov/access/billions/>*

Mike Nielsen has owned Nielsen Insurance Agency for 20+ years. He has been recognized for multiple national awards including Presidents Council and the Championship Toppers Club. Nielsen Insurance has been recognized as a top Commercial Agency for multiple years in Oregon, and Top 10 Agencies Nationwide. Specialties include expertise in Large Portfolio Management, Multi-Family/Habitational Insurance, Commercial Real Estate Insurance, and coverage for Contractors/Trucking Insurance Surplus Lines.



FALL 2024 APARTMENT FUNDAMENTALS & TRENDS

Patrick O. Barry, Barry & Associates



As we enter the final quarter of 2024, it is clear that while the apartment sector hasn't experienced a dramatic turnaround, the market appears to have passed the most challenging phase. While sales activity remains sluggish, apartment fundamentals have stabilized or shown some improvement, suggesting that the market has finally hit bottom. Although challenges remain, there's a sense of cautious optimism that conditions will gradually improve in the near future. The light at the end of the tunnel is becoming more visible, signaling better days ahead for the Portland apartment market. This article will summarize the Portland apartment market from YTD 2024 and provide some insights to the coming year.

APARTMENT SALES VOLUME & TRANSACTIONS

After a record slow year for sales in 2023, it seemed unlikely that sales could slow further. During 2023, we had only 97 sales across the metro area, which is well below our long term average of around 206 annual sales since 1990. Through September 2024, there have only been 57 apartment sales across Multnomah, Washington, Clackamas, and Clark County. When annualized, this would suggest we are on track for around 76 total sales, or around 63 percent below the

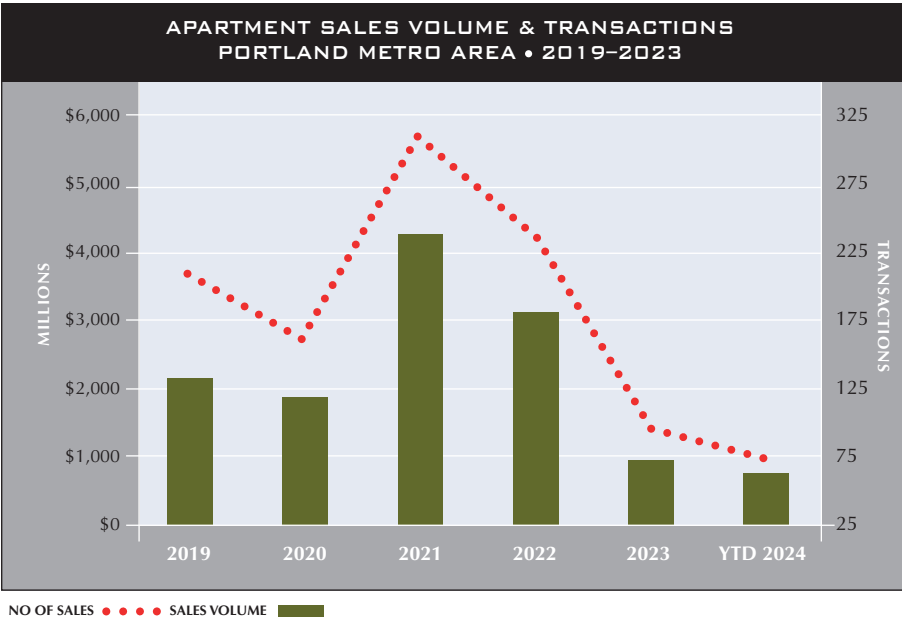
long term average. This may redefine what we consider 'slow' sales.

So far, buyers have largely stayed on the sidelines throughout 2023 and into 2024, holding out for what they anticipated would be steeply discounted properties. As we enter late 2024, many local market participants as well as some industry experts feel that we are at or near the bottom of values for this cycle.

According to CoStar, Portland Metro apartment values are expected to bottom out in the first quarter of 2025, with a recovery to the previous 2022 peaks projected by 2027. The CBRE Cap Rate Survey further supports this outlook, with the majority of respondents indicating that cap rates have likely peaked and will begin to decline over the next six months. Investor sentiment has notably improved, with many believing that property values have reached their lowest point. Additionally, as of mid-2024, Blackstone, one of the world's largest commercial property owners, expressed the view that real estate values are nearing a bottom.

The question remains regarding when the sales market will pick up. Many market participants have been disappointed that increased investor inquiries have not yet

resulted in increased sales during YTD 2024. However, the Fed cut rates in September and the sales market is expected to gain momentum in 2025 as investor's sense that pricing is nearing or at its floor. This sense of stability, combined with the potential for additional interest rate reductions, should encourage more activity. Additionally, many investors will be compelled to make critical financing decisions as loans come due or variable rates adjust, prompting action. These factors are likely to drive increased transaction volume, especially as the buyers/sellers begin to feel more confident about the market direction and outlook.



APARTMENT CONSTRUCTION

The apartment construction industry continues to face a deepening downturn, further intensified by a series of daunting challenges. While we've previously touched on regulatory obstacles and shifting population trends, the situation worsened over the past 18 months with increased vacancy rates, sluggish rent growth, softening multifamily values, and stubbornly high development costs. Financing has shown little signs of thawing but fewer lenders are rushing back in to construction loans. Moreover, the current interest rate environment makes profitable development increasingly difficult, despite relief on interest rates. As a result, construction activity has only declined further, signaling tougher times ahead for the industry.

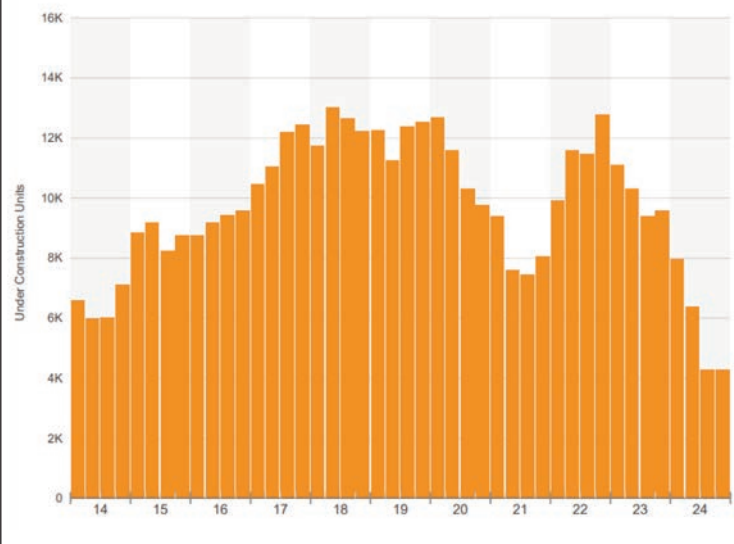
The number of units under construction has declined for nearly 10 straight quarters and continues to decline with no end in sight. As of fall 2024, CoStar is reporting around 4,250 units are currently under construction, which is similar to construction levels seen around 2011/2012. CoStar forecasts that deliveries of finished units will decline over the next two years to 2,900 units in 2025 and 2,300 units in 2026 before seeing an increase in 2027 to 3,900 units. The most impactful driver of development will be improved market fundamentals (rents, vacancy, etc.), readily available financing, and stabilized values for new units. The lack of new supply in the coming years will likely put some upward pressure on market fundamentals.

VACANCY AND RENT TRENDS

After a challenging two years, apartment fundamentals appear to have reached a turning point. As seen in the Report herein, overall vacancy rates are at 4.5 percent, a decrease of 170 basis points over the past six months. CoStar reports that vacancies at stabilized properties are around 5.5 percent, which represents a 30 basis point decrease over the past six months. As Portland Metro absorbs the glut of units completed in 2023 and YTD 2024, vacancies are expected to show moderate declines in the coming years due to a lack of new supply. CoStar projects that vacancy rates will experience gradual declines over the next five years, reaching approximately 4.5 percent by 2029.

As vacancy rates stabilize or decrease, there will be some upward pressure on rents. CoStar reports that rents declined 1.5 percent in 2023 but have increased 1.5 percent in YTD 2024. CoStar forecasts that rent increases over the next five years will range from 2.5 to 6.0 percent. In my recent appraisal experience, I see modest improvement in rental rates. Most units leased in YTD 2024 are exceeding levels from 2023, and similar to rental rates from 2021/2022.

PORTLAND METRO AREA UNITS UNDER CONSTRUCTION



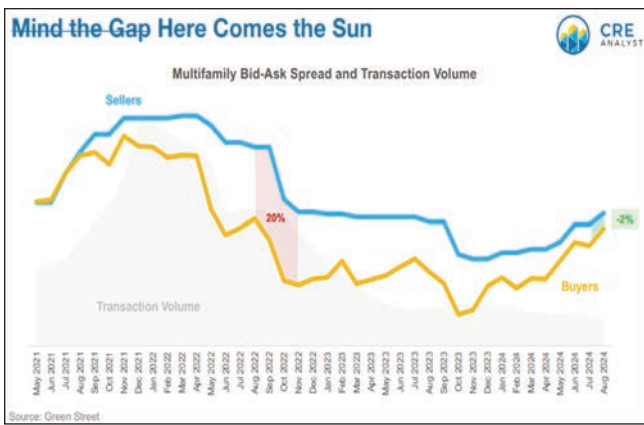
Source: CoStar



APARTMENT VALUES

Values have continued their retreat throughout YTD 2024 as truly motivated sellers remain scarce. Many of the sales from YTD 2024 have a story regarding seller motivations and very few are choosing to sell because they feel like the timing is great. On a positive note, the bid-ask gap between buyers and sellers have narrowed dramatically. Green Street reports that back in the fall of 2022, the bid-ask gap between buyers and sellers was around 20 percent. However, as of August 2024, this gap has narrowed to around 2.0 percent.

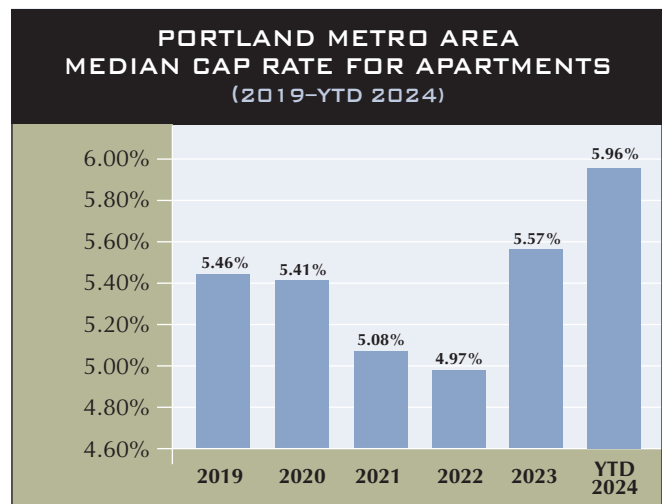
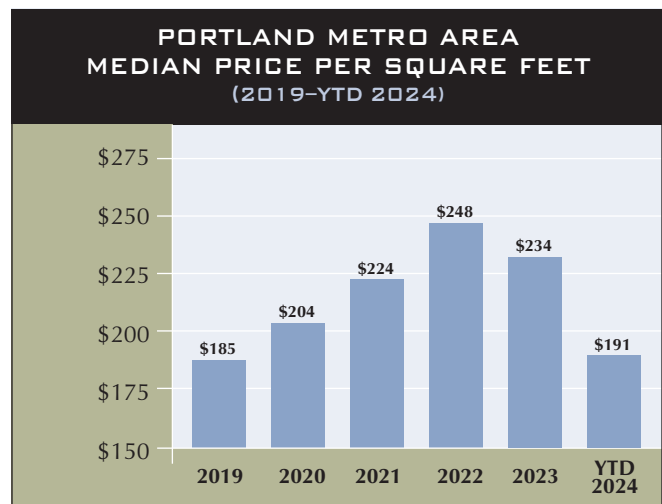
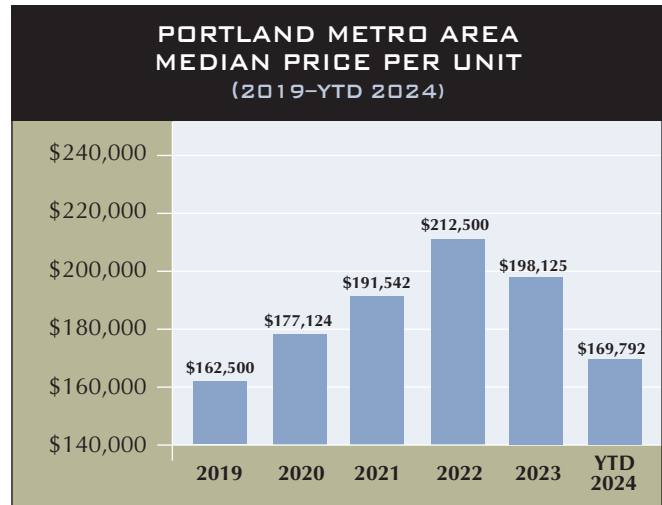
Apartment values had a particularly strong run from 2009 to 2022 and many of the risks inherent to multifamily real estate may have been minimized. Sellers had a reality check in 2023 as values pulled back for the first time 13 years. In YTD 2024, the decline in values have continued. Based on the 53 sales that occurred in YTD 2024, the median price per unit has declined to around \$170,000. This is 14.3 percent below values from 2023 and 20.1 percent below peak values from 2022.



The median price per Sq. Ft. declined to \$191. This is 18.4 percent below values from 2023 and 23.0 percent below peak per Sq. Ft. values in 2022. CoStar also reports that overall capitalization rates increased around 40 basis points to 5.96 percent. Assuming level net income, a 40 basis jump in overall capitalization rates suggests a decline in prices of around 6.5 percent. In conversations with market participants, opinions have varied though most suggested declines of 10 to 15 percent year over year. The change in values is largely dependent on building type and location.

SUMMARY

The Portland apartment market, while still facing challenges, is showing clear signs of stabilization. As interest rates begin to ease and the bid-ask gap narrows, there is growing optimism for increased transactions in 2025 and beyond. The decline in new construction is expected to create upward pressure on rents, while vacancy rates continue to trend downward. Although values remain below their peak, the recovery of apartment fundamentals, combined with improved investor sentiment, points towards gradual improvement. With these factors in play, the outlook for the Portland apartment market is cautiously optimistic, suggesting that the worst may be behind us and better days are on the horizon. ■



Patrick O. Barry (pb@barryapartmentreport.com) is a certified general appraiser with Barry & Associates, which specializes in apartment appraisal work in the Portland metropolitan area. Patrick is an engineering graduate of the University of Colorado.

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Sources: Real Estate Alert (REA) Broker Rankings 2024, based on the total volume of reported 1H 2024 commercial multifamily real estate sales of \$5M to \$25M.
2023 results from CoStar Group, Inc. for all transactions over \$1 million in Oregon and Washington.



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