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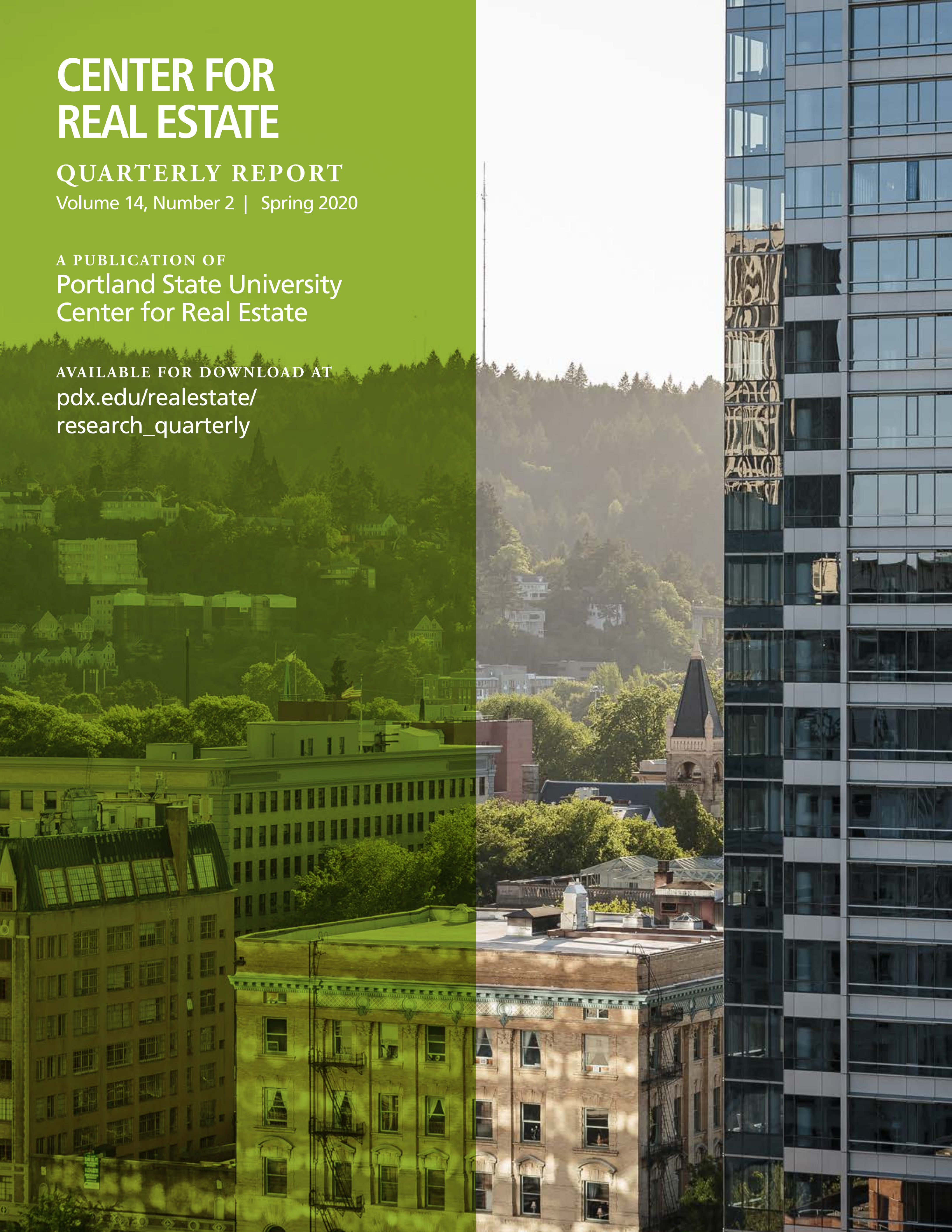

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01 //

impacts *of* statewide rent control

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Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

Rent control remains a polarizing topic between policy makers and the business, real estate, and economic development communities. As a result, policy makers need to review the purpose of the legislation, and further evaluate the long-term impacts these policies may cause.

This article will serve to review current economic literature on rent control around the country. In addition, it will compare the existing rent control legislation in California, the District of Columbia, New Jersey, New York, and Oregon, and provide a graphical overview of each.

THE SHIFT IN SUPPORT OF RENT CONTROL

Oregon's debate over rent control in 2019 inspired visceral reactions from those who both support and oppose the policy. The resurgence of the rent control discussion results from the widely-accepted belief that America's cities face an overall housing shortage, which has led to an affordability crisis. Large numbers of both renters and homeowners pay an increasingly high percentage of their incomes on housing. This affordability crisis has forced policy makers to seek answers through policy intervention, such as rent control.

A recent study performed by the economics division of the National Association of Home Builders suggests there is currently a net housing shortfall of approximately 1 million single-family homes and apartments across the U.S. This lack of supply drives up rental rates, and causes a ripple effect throughout the economy including reduced homeownership, deferred wealth generation among young people, and a higher percentage of young adults continuing to live with their parents relative to prior generations.

The challenge then becomes what policies, if any, should be enacted to mitigate these affordability issues. Most economists believe that rent control in practice is an ineffective and misguided tool, providing a band-aid to incumbent renters while making the underlying housing supply shortage even worse.

For example, the nation's poorest 20% of individuals do not make enough to afford minimum quality housing without subsidies. As Jenny Schuetz, a Fellow at the Brookings Institution's Metropolitan Policy Program, points out, housing unaffordability isn't a failure of housing markets, but a function of the low wages and unstable incomes generated by labor markets. This, combined with the fact we simply haven't built enough housing in the last 40 years within cities where people want to be, is what led to our current reality. The last thing we want to do now, is further restrict the supply of new housing, which is exactly what rent control will do.

TENANT RESPONSE TO RENT CONTROL

As Harvard University economist Edward Glaeser recently said, rent control is, "Not a good way of helping the downtrodden. It's a way that freezes a city and stops it from adjusting to changes, a way that freezes people in apartments and stops the motion that is inherent in cities."

Going further, the freezes that Professor Glaeser references above refer to rent controls' favoritism to people who already occupy rental housing units. Rent controlled apartments are always assigned to existing tenants in place. However, those seeking new housing, often younger families and minorities, will face higher housing cost due to scarcity of apartments, as there are few incentives for the existing tenants to vacate.

If an individual who already has housing is protected by rent control for a period of years, their decision to move requires a new living arrangement much better than their existing situation. They have the option to stay in their existing unit and remain protected by rent control. If they seek new housing that better meets their needs, they will generally need to pay significantly more than their current rents. For most tenants, the choice is easy, and they decide to stay where they're at, preventing new tenants from moving in.

The premium rent for a new apartment often leads to a mismatch between the apartment unit and the household's needs. Empty nesters forgo the option of giving up their multi-bedroom apartment because of its rent-controlled status. Households who find a new job in another part of the region will either suffer the longer commute or give up the opportunity. Tenants in these favored situations will give up the mobility that renting allows. And the young households who are living in their parents' home or in a less than satisfactory apartment remain powerless to compete for the apartments of the incumbent tenants.

INVESTOR RESPONSE TO RENT CONTROL

Real estate development is driven by investment by both institutions and high net worth investors, who seek risk-adjusted rates of return on their investments. When investor returns diminish, or if investors sense there's growing government policy intervention in a region, it's not uncommon for those investors to seek different markets and different real estate asset classes.

In October of 2019, the National Multifamily Housing Council ("NMHC") conducted a survey which found that market participants in cities and states with rent control (and even those jurisdictions which are considering rent control) expect to decrease their investment significantly moving forward. Of the survey respondents, 58% currently operate in markets that recently imposed rent control or are seriously considering doing so. Of that group, 34% have already cut back on investment or development, while an additional 49% are considering doing so moving forward.

Some of these challenges may be masked by the current conditions of low interest rate. We may see further reduction in investment for new housing in cities with rent control regulation once these rates begin to rise.

LANDLORD RESPONSE TO RENT CONTROL

Rent control often triggers a harmful response from landlords who become unable to increase rents at a rate necessary to keep up with adequate building maintenance and inflation. With their income fixed, landlords will neglect routine upgrades to the building and property, or even begin converting the building to a property use not governed by rent control, such as the conversion to condominiums.   Another tool landlords may use is to preemptively begin raising rents before the building reaches the age required to be controlled by rent control. That is, the rent control ceiling becomes a floor for future rent increases. Landlords experiencing a recessionary market, such as with the current Corona-virus outbreak, may decide to offer one-time rent concessions to attract tenants, rather than permanent reductions in their statutory rent.

When adequate standards of maintenance are not met, building quality, as well as overall tenant quality of life may fall below acceptable standards. The decline in maintenance may also damage city finances, as reduced investment will lead to lower building assessed values, which ultimately means less property tax revenue generated for the jurisdiction implementing rent control, thereby driving up tax burdens on non-rent controlled buildings.

Most states with rent control have established minimum building sizes to be subject to the rent restrictions. As a result, developers considering a housing project may choose to build fewer units then they otherwise would have to avoid building the unit threshold subject to rent control. By reducing the scope of their projects, this reaction will reduce housing supply further, causing rents to continue to rise.

Other negative impacts include the increasing payment of "key money," or what effectively becomes a bribe paid by a prospective tenant to property managers to secure a unit in a rent-controlled building. Finally, it's not always clear that the existing tenants in an apartment are beneficiaries of the legislation. In sublease situations, a sublessor may charge their roommate or sublet tenant a higher than proportional rent for the space. In no market with rent control are sublet rents regulated.

Of course, not everyone sees rent control as a burdensome action against landlords. In a recent interview with Bisnow, New York State Senator Brian Kavanagh said he believes that The Housing Stability and Tenant Protection Act of 2019 (the "Act") – which ushered in many new rules on housing – created a balance among the many interests at stake in a way the reflects the public interest. When asked about landlords reactions to the Act, Senator Kavanagh had this to say, "My premise is not that all landlords are bad people, or even that most landlords are bad people, [but] I do think that landlords respond to economic incentives, and we've adjusted those incentives so that you'll have a healthier market [and] better outcomes."

	Age of Units Covered by Rent Control	Size of Building Covered by Rent Control (i.e., exemption for duplexes, etc.)	Number of Jurisdictions in the state that are included (i.e., statewide or local option)	Rent Increase Limits	Vacancy control or decontrol
California	15 years or more	2 or more units	Various municipalities	5% statewide, plus local rate of inflation, or 10% of the lowest rent charged at any time during the 12-monts prior to the increase (whichever is less).	Vacancy decontrol
District of Columbia	Units built prior to 1975	All housing accommodations (apartment building or apartment complex) in the District of Columbia. Title II of the act, which provides for rent stabilization, applies to rental units (single apartment or house).	All housing accommodations (apartment building or apartment complex) in the District of Columbia. Title II of the act, which provides for rent stabilization, applies to rental units (single apartment or house).	2% plus CPI, not to exceed 10%	Vacancy decontrol
New Jersey	Varies by municipality	Varies by municipality	Local option, individual municipalities may adopt rent control	Varies by municipality	Varies by municipality.
New York	Rent Control - Units built prior to February 1, 1971. Rent Stabilized - Units built before January 1, 1974.	Rent Control - Tenants continuously occupying rent-controlled units since before July 1, 1971. Rent Stabilized - Generally, 6 or more units.	Statewide	7.5%	Rent Control - Vacancy decontrol Rent Stabilized - Vacancy control.
Oregon	15 years or more	5 or more units.	Statewide	7% + CPI	Vacancy control

NEW RENT CONTROL LEGISLATION

Rent control in the United States is limited to only four states – California, New York, New Jersey, and Oregon, and the cities of Washington, DC and Tacoma Park, Maryland. This section will review new initiatives in rent control that have taken place in recent years.

CALIFORNIA

California implemented statewide rent control that became effective January 1, 2020. Assembly Bill 1482, or the "Tenant Protection Act of 2019," (the "Bill") now caps rent increases for qualifying units at 5% plus the increase in the regional Consumer Price Index, or 10% of the lowest rent charged at any time during the 12-months prior to the increase, whichever is less. California Governor Gavin Newsom has said that with the Bill, California will boast the "nation's strongest statewide renter protections."

Rent may only be increased twice over any 12-month period, and must remain within the rent cap of 5%; the Bill will not overrule the more restrictive city and county rent controls that may exist within a jurisdiction. The Bill prohibits an owner of residential real property from terminating a tenancy without "just cause," which may include "at fault" just cause such as a default on rental payments, or "no fault" just causes such as the property owner's intent to occupy the real property themselves or one of their family members.

The Bill applies to rental units in an apartment building, but does not apply to single family homes, condominiums, or units which have been issued a certificate of occupancy within the previous 15 years.

Analysts at CoStar speculate that at the state level, the new rent control law may have a minimal impact on the current housing crisis in California. Based on rent growth this economic cycle, annual rent increases (minus inflation) for properties more than 15 years old in California, averaged about 2.7%; this is well below the new rent cap of 5%, suggesting that the statewide law may not be a binding constraint on rents.

WASHINGTON, DC

The Rental Housing Act of 1985, as amended (the "Act"), is the law governing rent control within the District of Columbia ("DC"). Under the Act, an apartment building or apartment complex is defined as a "housing accommodation," and a single apartment or house is called a "rental unit"; the Act applies to all rental housing accommodations in Washington, DC.

Under the Act, any increase in rent must meet specific conditions, including but not limited to the following:

1. The new rent charged may not be more than the prior rent plus an allowable increase (described below).

2. The increase in rent charged cannot be more than the increase allowed under any single section of the Act.

3. The last increase in rent must have been at least 12 months prior (except for vacant units).

4. The increase must not violate the terms of the lease.

5. The housing accommodation must be properly registered with the Rental Accommodations Registration.

6. The housing provider (property owner) must provide a 30-day notice of any increase in rent.

For tenants who are not elderly or disabled, the most their rent can automatically increase is the annual CPI plus 2%, but not to exceed 10%. However, there is an exception to the rental increase, which comes into play upon vacancy of a unit. The housing provider may raise rent charged upon a vacancy to 10% more than was charged for the rental unit before it was vacated, or to the rent level of a substantially identical unit in the same building, but no more than 30% than was charged for the vacated unit.

Certain exemptions from rent control include units that are federally or locally subsidized, units built after 1975, units owned by a person who owns no more than four rental units in DC, and units which were vacant after the Act took effect.

NEW JERSEY

Although the state of New Jersey does not have a law controlling or governing rent increases statewide, any municipality within the State may adopt ordinances controlling rent increases.

For example, in the City of Newark, New Jersey, no landlord may request an increase greater than the percentage increase in the CPI, from the CPI 15 months prior to the month of the proposed rent increase, and in no case shall the allowable rent increase exceed 4%.

The State of New Jersey finds itself uniquely positioned in that recent, more stringent rent control laws in New York has spurred significant investment in the Garden State by investors fleeing other rent-controlled markets. How New Jersey handles this influx of investment moving forward remains to be seen.

NEW YORK

New York City has two parallel rent controls in the form of both rent stabilization (by far the most commonly applied) as well as rent control. To qualify for rent control, a tenant must have been continuously living in an apartment since July 1, 1971, or be a qualifying family member who succeeded to such tenancy.

When a rent-controlled unit becomes vacant, it either becomes rent stabilized, or when in a building with less than six units, the apartment is removed from regulation altogether. As a result, rent controlled units in New York City have gone from around two million units in the 1950's, to now only 22,000 units. The maximum rent increases for rent-controlled tenants is now set at the average of the last five Rent Guidelines Board annual rent increases for one-year rent-stabilized renewals, or at 7.5%, whichever is less.

While only around 1% of units in New York City are now controlled by rent control, close to 50% of the city's units are rent stabilized (or approximately 1 million units). Rent stabilization generally applies to apartments in buildings with six or more units that were built between 1947 and 1974. Once a tenant is in a rent stabilized unit, the landlord can only raise rent by a percentage determined by the New York City Rent Guidelines Board.

As part of the Housing and Stability and Tenant Protection Act of 2019, rent regulations have been made permanent, and will no longer expire every four to eight years within New York City. In addition, this new legislation has made it even more difficult for landlords to bring rent stabilized units up to market rate rents through the appeal of certain vacancy decontrols such as high rent vacancy decontrol (which previously allowed a landlord to deregulate their unit if the rent exceeded $2,700 and the previous tenant left).

After signing the new rent control bill into law, New York Governor Andrew Cuomo proclaimed, "I'm confident the measure passed today is the strongest possible set of reforms that the Legislature was able to pass and are a major step forward for tenants across New York." Governor Cuomo may be right in his assessment, but the ripple effects are yet to be seen.

OREGON

In March of 2019, Oregon Governor Kate Brown signed Senate Bill 608 ("SB 608") into law, becoming the first state in the nation to pass statewide rent control. Following about her decision, Brown stated, "Every Oregonian should have access to housing choices that allow them and their families to thrive. Today I signed the country's first statewide rent control bill, providing immediate relief to Oregonians struggling to keep up with rising rents."

SB 608 limits annual increases in rent to 7% plus the Consumer Price Index (CPI), maintains the existing law that no rent increases are allowed in the first year of a month-to-month tenancy, and requires that landlords give 90-day notice of rent increases thereafter. The seemingly innocuous threshold of 7% plus CPI made voting for rent control relatively easy for state legislators. Because of the relatively high limit on rent increases, the Oregon business community decided to focus their efforts on fighting the carbon reduction legislation, instead of statewide rent control. SB 608 exempts new construction (i.e. certificate of occupancy was issued less than 15 years ago), new tenancy, and subsidized housing.

Although the long-term effects of SB 608 remain to be seen, there are many provisions within the legislation that appear problematic.

SB 608 ignores, or fails to recognize that certain landlords previously held rent below market rents without the need for regulation. By capping the allowed rent rate increases, this will discourage "value-add" investing, whereby an owner buys a Class B or Class C property, makes substantial improvements, and re-rents the apartment at Class A or Class B rents. The reduced investment will lead to a long-term deterioration in housing quality. Given the complexity of the new rules, small landlords have been selling their properties and putting property management in the hands of third-party property specialists, recognizing the need to preserve their rights to charge market rents.

Many economists believe that rents will rise faster in 2020 and 2021 than previous years, however, this is expected to be more due to the lack of supply than a result of the rent control legislation. For some properties, the "CPI + 7%" cap might be tested. It's also possible that the cap will be increased by future legislatures.

The 15-year certificate of occupancy requirement, which determines what buildings are covered by the legislation creates a long-term threat to the real estate market. This provision was written into the legislation to shield proponents from the charge of harming new construction. Of course, a better-written legislation would have said, "2004 or more recent." Historically, that was how New York's rent control legislation was written, which is how the "pre-war, post-war" distinction came about.

For Oregon, this means the number of units covered by SB 608 will grow over time, and eventually all units will be covered by the legislation. The unstated goal of the advocates of rent control is to turn rental housing into a public utility.

CONCLUSION

With the new legislation in California, New York and Oregon, the past two years have seen the greatest legislative activity in rent control since the inflation of the 1970's. Yet over 75% of the US population lives in states without rent control. In those states, landlords and tenants negotiate each year over apartment rents and the landlord-tenant relationship is voluntary. Landlords invest and maintain quality levels in order to achieve the highest rent possible. Yet the competition among landlords means that tenants retain bargaining power and quality levels are maintained.

The states that have chosen to put rent control legislation are changing the voluntary relationship between landlords and tenants into a statutory one. Limits on rent increases will reduce incentives for developers to build new housing units, even if the legislation explicitly exempts new units. Maintenance of housing units will suffer as property owners will need see any compensating increase in rent for their investment. Small landlords will likely exit the market as professional property managers will be better equipped to navigate the new legal environment. And ultimately, the tenant benefits that accrue to primary tenants is unlikely to be equitably distributed, as young and minority households are less likely to have an existing apartment tenancy.

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02 //

portland's new regulations on multi-family landlords

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Portland's landlord tenant laws have drastically transformed over the past few years. The city has focused in on rental properties and pushed through many new regulations and requirements that carry heavy penalties for landlords. The intentions behind the new rules are well meant but not fully thought out and applied. These new rules and regulations are increasing costs and risks for local owners who are invested in rental units within the city. Many longtime local property owners, landlords, and property management companies are concerned that the city has been too aggressive and that these new rules and regulations will end up hurting local owners, while unintentionally forcing them to sell their properties to large national investors.

Let us begin by focusing on the recent Portland FAIR ordinance in housing. FAIR stands for Fair Access In Renting. The stated goal of the ordinance is to remove criteria of the rental process that can be used as a basis to discriminate on race or class with a goal to create a fair process(Eudaly). Unfortunately, this new ordinance has created much confusion along with many hurdles and barriers with high consequences for rental property owners and operators.

SCREENING AND APPLICATION

The new rules and regulations begin with the application process. The application process is now on a "first come, first serve" policy. It is now illegal to get a batch of applications, run credit checks, employment checks, background checks and then choose who will be a good fit for your property. You must offer the first applicant that meets all of the predetermined criteria the unit for rent. As a landlord or property manager you must log and time stamp every application you receive to protect yourself and prove that you have complied with the new rules (Templeton). In addition to the "first come, first serve" policy, if you are advertising your rental property, you must give a 72-hour notice stating when you will begin to accept applications. If an application is accepted early, that applicant is subject to an 8-hour penalty. Therefore, their application will technically be received 8 hours after your starting time. (Bluestone & Hockley).

Additionally, there are other qualifying rules that have changed. The city has offered a set rules of criteria for screening applicants called the low barrier screening criteria. Landlords have a choice when screening applicants to either use the city's designated "low barrier screening criteria" or their own criteria (Templeton). If a landlord chooses to use their own criteria, they must document all reasons why an applicant was disqualified in writing (Bluestone & Hockley). Obviously, the reasons for disqualification cannot be for any reasons that could be seen as discriminatory. The challenge will be explaining in writing, why a tenant was disqualified, without making any errors that could be seen as discriminatory or put a landlord in position to get sued.

The low barrier criteria is meant to be "black and white" in terms of who is allowed to qualify for a rental unit, with the goal of offering more access to housing. An applicant is not allowed to be denied for any misdemeanors over 3 years old or felonies over 7 years old. This is an ethical dilemma as I believe most people want to be fair and help others, but it would be a hard pill to swallow, knowing you have to accept an applicant who is a known felon, a felon that could be a murder or rapist. It seems the city would be better off spending time creating housing partner programs with property owners to house recovering criminals.

Another screening rule forbids rejection of an application due to a court ordered eviction less then 3 years old (PCC 30.01.086). This rule is also very worrisome as it is directly related to the transaction at hand. You have a potential tenant that could have possibly been through a court order eviction only 3 plus years ago and you now have to offer them a place to live because they turned in an application first. A credit score below 500 cannot be a cause for application denial. Other regulations include limiting application fees, applicants do not need to provide social security number or have valid government issued identification.

All tenants do not have to undergo an application process, applicants can choose an adult to be the applicant (PCC 30.01.086).

When a tenant has been selected and is moving in, the landlord must create a detailed itemized list of appliances or assets in the unit and document the age and depreciation of the appliances and assets. Tenant will have to approve this list and only will be held liable for remaining value of appliance. (Garcia)

The new requirements for renting properties essentially takes control out of the hands of owners and property managers. It flips the application process of reducing risk into a high-risk scenario with increased unknown variables. It leaves a lot of room for a landlord to misstep and be held liable for a significant amount of money. In addition to the risk of not feeling comfortable or safe with a prospective tenant, there are increased financial penalties for any mistake or infraction made during this new complicated process. Violations during the screening process carry a penalty of $250 per infraction (Bluestone & Hockley).

Failure to include all required items in your ad. Items include date applications can be processed, criteria, whether this is an ADU or not, screening fee.	**$250**
Failure to process application in the correct order	**$250**
Not including the proper forms and sections with or on your applications	**$250**
Credit screening a Non-Applicant and using that against them in the screening process	**$250**
Charging more than the allowable screening fee	**$250**
Improperly deny an otherwise qualified applicant	**$250**
Not conducting the proper individual assessments before denying an applicant	**$250**
Failure to follow the appeals policy	**$250**
Charging more than the allowable security deposit	**2x the deposit**
Not including the proper information in the Rental Agreement. Information includes: Depreciation schedule, banking institutions name and address, condition report	**2x the deposit**
Not providing a rental history form upon termination notice	**2x the deposit**
Charging a tenant for items not listed on the depreciation schedule or improperly charging an amount based on incorrect schedule, update condition reports, charging for routine maintenance or normal wear and tear	**2x the deposit**
Not sending out the move out settlement and/or deposit refund within 30/31 days	**2x the deposit**
Not including the security deposit notice of rights with the move out settlement	**2x the deposit**

Bluestone & Hockley, 2020

TERMINATION AND SECURITY DEPOSITS

The FAIR Ordinance also creates many new process and steps when it comes to termination of a lease. In a normal lease termination, a tenant gives notice and the landlord or property manager must respond with in 5 days with a completed rental history form that is provided by Portland Housing Bureau. This rental history form details the last two years of rent history payments. After tenant moves out the landlord must perform a walk-through of the property within 7 days of move out. The former tenant or a representative of the tenant (ie, any individual of the tenant's choice), have the right to be present. An itemized and documented list must be completed and given to the tenant for any repairs over $200 (PORTLAND HOUSING BUREAU).

Security deposits also have many new regulations on handling and limits of deposits. Landlords must present in writing to the tenant with a bank name and address of where the security deposit is being held, this bank account must be separate from the landlord's personal bank account and tenants must be given any earned interest on the deposit. Tenants are limited to how much the deposit can be. A deposit will be limited to 1.5 times the monthly rent and tenants will have 3 months to make payments towards the deposit (Portland Housing Bureau). As with screening, the penalties are very heavy. For any violation, landlord can be liable for up to 2 times the security deposit plus legal fees. For example, if you are renting out a unit for $2,000 a month, with a month and half deposit of $3,000, You could be liable for a $6,000 penalty, even for making a simple clerical or administrative mistake, which Increases the risk for a landlord or property owner. (Bluestone & Hockley, 2020)

The mandatory fees for relocation assistance are:

Studio/SRO	**$2,900**
1 Bedroom	**$3,300**
2 Bedroom	**$4,200**
3 Bedroom	**$4,500**

Portland Housing Bureau

MANDATORY RENTER RELOCATION ASSISTANCE

Another large piece to this Portland landlord-tenant law puzzle is the new 'Mandatory Relocation Assistance'. Tenants are now lawfully entitled to relocation assistance, "If they have to move to no fault of their own, their rent is increasing significantly, or if there is a substantial change to the lease terms."(Portland Housing Bureau).

These mandatory fees must be paid to tenant within 31 days of receiving written notice from tenant (Portland Housing Bureau). The main requirements to receive relocation assistance are that the tenant resides in Portland city limits, the tenant does not live with landlord, the tenancy is not week-to-week, and it does not apply to for-cause terminations. There are about 12 exemptions from the mandatory rental relocation assistance. Some of the exemptions include a landlord living on site, a landlord temporarily rent out a primary residence due to active military duty or if less then 3 years, the property is certified affordable housing, or if the property is deemed uninhabitable not due to landlord action or inaction (Callahan).

This new relocation law is extremely challenging for local property owners. The amount of cash reserves owners will have to carry now will be much larger due to the potential -relocation assistance. Again, this is one more regulation that increases risk, liability, and potential administration challenges for smaller local owners.

RENTAL REGISTRATION

Portland City Code 7.02.890 now requires all residential rental owners to register their rental units with the city of Portland. This comes with an annual $60 fee. The city is attempting to create a current inventory of the rental units within city limits and are requiring property owners to pay for administration of this new program.

The rental registration is well intended but it causes two problems. One, while a relatively small fee per unit per year, it creates yet another obstacle for owners of rental properties. Second, the rental registration will be passed down to all tenants through increased rent. The more fees and costs will force rents to continue to creep up. Property owners have to be able to increase revenue to absorb these increased expenses while also paying for operating expenses and making sure they are meeting the minimum requirements of their mortgage debt.

CONCLUSION

Portland should reevaluate their policies in order for Portland to continue to thrive on the foundations that have built this city. A creative solution for Portland would be to focus on incentivizing multi-family property owners, local landlords, and developers to build more units, as well as incentivizing the updating of the current rental supply. Such a program could include incentivizing local landlords to invest in the community with affordability and diversity bonuses. Offering reduced SDC fees, FAR bonuses, and higher unit densities will help increase the supply of units in the city, reduce rents, and can help move Portland more to be a more equitable city.

While it is completely understood that these new regulations are meant to help protect renters from potential discrimination, my conclusion is that the added obstacles and costs of all these new regulations will actually end up driving up rents and chasing out local developers. The increase of rent and challenges in the city are additionally going to further drive development to the neighboring cities where one can build with less barriers. A recent report from the Portland Business Journal shows that the majority of the fastest appreciating neighborhoods of Q1 2020 are located outside of Portland city limits (Giegerich). The move of population and development activity away from the city of Portland will hurt Portland's tax revenue and have a downward domino effect on public services.

Another possible consequence of these restrictive and cost prohibitive policies is that local landlords might choose to sell their investments rather than increase their exposure to lawsuits. In turn this could open the doors for deep pocketed institutional investors to buy up assets in Portland. Larger national investors will be able to absorb these added costs while spreading the risk out over many properties and potentially raising rents. This will cause a loss to community-based landlords and a human connection for renters in Portland and turn housing into a sterile transactional relationship. Portland's slogan is "the city that works", yet Portland's new housing regulations are not working for local owners and operators.

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best practices for landlords during covid-19

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Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

COMMUNICATION WITH TENANTS

Clear communication during COVID-19 should be a primary focus for landlords. As tenants are instructed to stay home by the state and local government, peace of mind and clear communication can set your community at ease.

Those living in small spaces that share walkways, elevators and stairwells are feeling additional stress from the density of the living environment. Signage with clear instructions on elevator capacity is helpful. Keeping your tenants informed of local park and business amenities open in your neighborhood provides meaningful resources.

One Jefferson Parkway located in Mountain Park has engaged the local food cart community by programming a different food cart each day of the week during lunch time. This allows residents to follow the stay at home orders while enjoying different food options. It's important to be factual and transparent when sharing information with employees, residents and suppliers. In emergency situations, employees will look to you for guidance and residents will feel more comfortable knowing you are prepared.

RESIDENT INFECTION

If a resident tests positive for the coronavirus and notifies the property owner or manager, the owner or manager should follow the CDC's guidance and work with local health officials. A notice to the community should go out should a resident or employee have a confirmed case. If emergency personnel takes a resident away in a stretcher and information is not known regarding COVID-19, it is always good to check in with your community and let them know you will provide any information as soon as it is available. By keeping residents in the loop, they may have the option to take extra precautions.

A tenant or employee's identity should not be disclosed. A tenant was taken out by stretcher in my apartment complex in early May. This caused some anxiety for tenants within the building. No communication was distributed. A simple awareness e-mail stating that management is aware of the incident as well as any suggested precautionary measures should have been communicated.

RESIDENT EVENTS

Recent federal and state/local recommendations limit group gatherings. Management is encouraged to find alternative ways to engage residents through social media to keep the community connected.

AMENITY SPACE

Many owners have closed all amenity spaces. This compensates for the additional time needed to perform sanitization and other preventive measures focusing primarily on access points and common areas.

Keep in mind, many tenants may feel constricted with business centers, work out facilities, and common areas closed. Reducing hours, and limiting number of users in a space may be a better option to accommodate your residents. It may be unbearable for some tenants to be confined to their individual unit and many residents will consider the amenity space as an area they are paying for. Consider reducing rent for tenants that have paid full rent for lack of use of these common areas should these areas be completely shut down.

LEASING OFFICE

Notify residents to avoid physically visiting the office if possible, as this is a preventive measure that will help both residents and the onsite staff to stem the spread. Encourage visitors by appointment only. Encourage residents to speak over the phone or via email when possible. Encourage all residents to utilize their community website, resident portal and email for all service requests, rent payments and general questions, where applicable.

COLLECTING RENT

Some residents have been or will be financially impacted by COVID-19. Communicate your policy on working with residents on alternate payment schedules. Provide tenants with resource information on how to apply for unemployment or rent assistance. Making your tenants aware that there will be repayment schedules in the future may motivate them to seek out the assistance that exists should they need it. During the Moratorium landlords are required to accept partial payments. Once the statewide moratorium is lifted (end of June 2020), landlords will be able to issue notices that only allow a short time for tenants to pay what is owed. Multnomah County has issued Executive Order 388 stating that Landlords must give tenants 6 months to repay outstanding rent after the Moratorium has ended.

EVICTIONS

As of April 1, 2020 the statewide eviction moratorium (Executive Orders 20-11 and 20-13) ordered by Governor Kate Brown prohibits 72-hour Non-payment and No Cause terminations and evictions through the end of June 2020. Tenants will still owe rent, utilities, and other costs and fees.

1. **The statewide moratorium prohibits landlords from issuing termination notices to tenants or filing for evictions in court for non-payment of rent, utilities, costs and fees.**
2. **Prohibits landlords from issuing tenants termination notices for no cause or filing for evictions in court for no cause.**
3. **Waives any late fees that landlords may want to charge tenants for non-payment during this time.**
4. **Sheriffs are not allowed to remove people from their homes, if the eviction was based on nonpayment of rent or a termination without cause until at least June 20, 2020. Landlords are still able to issue termination notices and file for evictions in court for other types of evictions.**

What tenants must do

1. **Tenants must notify their landlord of their inability to pay rent as soon as possible.**
2. **If tenants are "financially able" to make either a full or a partial payment to their landlords, they must.**

The statewide eviction moratorium does not stop landlords from issuing For Cause termination notices, other than 72-hour Non-payment. It does not stop landlords from filing an eviction case in court for For Cause terminations or prevent sheriffs from forcing tenants out of their homes at the end of the eviction process for cases other than Non-payment and No Cause evictions.

PACKAGE ACCEPTANCE

Follow the guidance of the local public health agency concerning package deliveries. If you currently allow delivery of packages in the leasing office, consider referring deliveries directly to the package recipients address. Packages should be left outside the apartment door to avoid contact with any self-quarantining resident.

CLEANING PROTOCOL

A strong focus by staff should be placed on sanitizing work areas, public areas and commonly touched places (door handles, elevator buttons, etc.) and placing hand sanitizers in common areas. The U.S. Environmental Protection Agency (EPA) released a list of EPA-registered disinfectant products that are qualified for use against this strain of coronavirus through the agency's Emerging Viral Pathogen program.

TOURING PROSPECTS

Consider moving all prospect tours to virtual tours using technology such as Zoom, Google Meet-Up or FaceTime.

- **Pre-record videos of model or vacant apartments and post on YouTube. Then, share the link with prospects via email or text where authorized.**
- **Consider accompanying the prospect to the model, but simply let them in and allow them to self-tour.**
- **Any modifications you make to your process for touring should be applied consistently and be compliant consistent with Fair Housing Administration and Fair Housing regulations.**

SERVICE REQUESTS

Defer non-essential maintenance, resulting in only handling emergency or urgent issues as allowed by applicable law.

Maintenance associates should wear disposable latex exam type gloves when performing service in an occupied apartment home and thoroughly wash their hands after completing any service.

MODIFICATIONS TO LOANS & FORBEARANCE

Borrowers should contact their lender to discuss their actual or anticipated inability to make debt service payments. A borrower might request modifications such as a reduction in the interest rate, the conversion of an amortizing loan to require interest-only payments for a period, a reduction in payment amount, or a forbearance for a period of time.

A borrower might also want request that the lender consent to the addition of one or more new equity partners.

Lenders may agree to the borrower's requested loan modifications or respond with a variation of the request.

Refinancing The lending market is still active and interest rates are low. Lenders may require higher cash reserves to cover non-paying tenants and loan to value ratios requirements may be lower due to the increase in uncertainty the current market is experiencing. Overall, tenants in Oregon have been paying their rent.

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cre sentiment survey results *for* Q1/2020

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Dr. Julia Freybote is an Assistant Professor in Finance and Real Estate in The School of Business at Portland State University. Her research interests are in investor behavior, the information environment of investors in real estate markets as well as real estate asset pricing. Her research has been published in the three leading scholarly real estate journals, Real Estate Economics, the Journal of Real Estate Finance and Economics and the Journal of Real Estate Research. In 2019, she received the William N. Kinnard Scholar Award from the American Real Estate Society (ARES), which recognizes outstanding real estate scholars early in their academic career. Prior to joining academia, she gained industry experience in institutional real estate investment, investment advisory and corporate real estate management. Dr. Freybote teaches real estate finance I and II in the Master of Real Estate Development (MRED) program at PSU.

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This report presents the results of a flash poll conducted at the end of April/beginning of May 2020 among commercial real estate market participants in Oregon and SW Washington. Our goal is to understand the impact that the COVID-19 crisis is having on the local commercial real estate industry in general and on landlords, tenants, lenders, developers, investors & brokers in particular. We will repeat this flash poll on a regular basis in the next months.

In total, 232 respondents completed the survey, and we would like to thank all respondents for their participation. We would also like to thank BOMA Oregon, CCIM Oregon/SW Washington, CREW Portland, CoreNet Global Oregon and IREM Oregon-Columbia for cooperating with us on this survey.

OVERVIEW

Executive Summary

General Impact of COVID-19 on Commercial Real Estate Industry

Impact of COVID-19 on Landlords and Professionals Representing Landlords (PM)

Impact of COVID-19 on Tenants

Impact of COVID-19 on Lenders

Impact of COVID-19 on Developers

Impact of COVID-19 on Investors

Impact of COVID-19 on Brokers

Respondent Profile

For questions or comments about the survey, please contact Dr. Freybote at **freybote@pdx.edu**.

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EXECUTIVE SUMMARY

IMPACT OF COVID-19 Overall, 69.27% of respondents rate the impact of COVID-19 on their business as high or very high. However, this percentage varies across property types from Hotel-Budget (82.35%), Retail-Other (82.00%) and Apartment-Affordable (80.36%) at the high end to Industrial-Manufacturing (65.52%), Healthcare-Senior & Assisted Living (58.62%) and Healthcare-Hospitals (47.83%) at the low end. The percentage also varies across professional backgrounds from 91.30% for lenders to 71.18% for developers.

LENGTH OF IMPACT Overall, 39.83% of respondents expect COVID-19 to seriously impact their business operations for more than 12 months. However, for office, industrial (manufacturing and flex) and healthcare, the highest percentage of respondents anticipates the impact to last 7 to 12 months.

BUSINESS CHANGES DUE TO COVID-19 The majority of respondents (87.01%), irrespective of property type focus or background, agrees that COVID-19 has changed the way business is done.

STAFFING CHANGES Overall, the majority of respondents (41.00%) does not plan any changes with regard to full-time staffing over the next three months. Exceptions represent Retail-Power Centers, Healthcare-Senior & Assisted Living and Hotel-Budget for which the largest percentage of respondents is waiting to see what happens, Hotel-Other for which the largest percentage already made cuts and Healthcare-Hospitals for which the largest percentage is currently adding staff.

LANDLORDS – RENT COLLECTIONS IN APRIL Overall, the majority of respondents (64.00%) received 80% or more of their typical rent collections in April. However, this percentage varies from apartment (78.60%) to retail (44.64%).

LANDLORDS – TENANTS WITH NEED FOR RENT REDUCTION, RELIEF AND/OR LEASE MODIFICATIONS FOR MAY Overall, 48.63% of respondents had 24% or less of their tenants approach them about rent reduction, relief and/or lease modifications for May. However, the majority of retail landlords had 50 to 100% of their tenants approach them. Rent deferrals/abatements represent the most frequently used tenant strategy (26.49%).

LANDLORDS – LOST NEW LEASES Overall, the majority of landlords (42.36%) lost 10% or less of previously negotiated leases or new lease leads. However, for industrial and retail, landlords lost noticeably higher percentages of new leases.

LANDLORDS – APPROACHING LENDERS Overall, 62.73% of landlords did not approach their lenders for loan modifications and/or relief. Retail-Other represents an exception as the majority of landlords for this sub-property type approached their lenders. The most frequent loan adjustment landlords are considering with their lenders are periods of interest-only payments and deferral of principal payment (18.95%).

TENANTS – RENT REDUCTION, RELIEF AND/OR LEASE MODIFICATIONS Overall, responses are relatively evenly split between tenants that approached some or all of their landlords (44.11%) and those that did not (41.18%). The percentage of tenants that approached their landlords is the highest for retail (48%) and lowest for healthcare (33.34%). Tenants most frequently negotiated rent referrals/abatements (27.27%), adjustments to term (14.14%) and adjustments to rent (12.12%) with their landlords.

TENANTS – SPACE NEEDS Overall, the majority of respondents (64.18%) assesses their space demand for the next three months as highly or somewhat decreased. This percentage is the highest for retail (68.00%) and lowest for healthcare (52.18%).

LENDERS – NEED OF BORROWERS FOR MORTGAGE RELIEF AND/OR MODIFICATIONS Overall, the majority of lenders (52.00%) had 11 to 49% of their borrowers approach them regarding mortgage relief and/or modifications to loan terms. This percentage is the lowest for apartment (44.45%) and highest for hotel (80%). The most frequently considered loan adjustment are periods of interest-only payments and deferral of principal payments (20.00%).

LENDERS – TIGHTENED LENDING AND UNDERWRITING The majority of lenders (66.67%) have tightened their lending and underwriting standards with regard to, for example, cash reserves, tenants or documentation.

DEVELOPERS – PIPELINE The responses of developers regarding the percentage of projects that have been put on indefinite hold or been canceled since the start of the crisis in March are relatively spread out. Overall, 25% of developers have cancelled/put on hold none of their projects while 33.33% have cancelled/put on hold 75% or more of their projects.

DEVELOPERS – CONSTRUCTION The responses of developers are relatively bimodal. Overall, 28.81% of respondents have fewer than 50% of their construction projects continuing without significant delays while 30.51% experience no significant delays at all.

INVESTORS – PIPELINE Overall, the majority of investors (46.24%) have canceled or put on indefinite hold 50% or more of the transactions in their pipeline. This percentage is highest for hotel (75.00%) and lowest for apartment (47.55%).

INVESTORS – CONCERNS Overall, 55.91% of respondents consider investors they are working with (e.g. limited partners) to be very concerned about their investments. This percentage is the highest for hotel (68.75%) and lowest for industrial (44.44%).

INVESTORS – STRATEGY CHANGES The majority of investors (65.59%) has changed their investment strategy as a result of the COVID-19 crisis. Changes include capital preservation, property type focus, pricing, a reduced risk appetite and the search for new buying opportunities/distressed assets.

BROKERS – BUSINESS DECLINE Overall, 50.66% of brokers have experienced a decline in their business of 50% or more as a result of the COVID-19 crisis. This percentage is the highest for hotel (77.78%) and lowest for industrial (47.37%). The most frequently employed strategies by brokers to assist their clients in the crisis are an increase in communication & information shared (24.32%) and an increased role as advisor (22.01%).

RESPONDENT PROFILE The respondents to the survey were very diverse with regard to their professional background with property and asset management (15.29%), non-institutional investment (13.45%) and development (12.27) being the most frequent. Retail (22.65%) was the most frequent property type respondents focus on followed by industrial (20.13%), apartment (17.71%), office (17.71%), healthcare (12.20%) and hotel (8.67%). 18.80% of respondents are active in Multnomah County, followed by Washington County (15.50%), Clackamas County (14.15%) and Clark County, WA (10.17%). Note: Retail is Note:

GENERAL IMPACT OF COVID-19 ON COMMERCIAL REAL ESTATE INDUSTRY

HOW WOULD YOU RATE THE IMPACT OF COVID-19 ON YOUR BUSINESS?

	All	Apartment - Affordable	Apartment - Luxury	Apartment - Other	Office – CBD	Office - Suburban
Very low	1.30%	0.00%	0.00%	1.47%	0%	1.08%
Low	3.90%	1.79%	4.55%	2.94%	4.26%	4.30%
Moderate	25.54%	17.86%	24.24%	25.00%	23.40%	23.66%
High	38.10%	42.86%	45.45%	42.65%	42.55%	44.09%
Very high	31.17%	37.50%	25.76%	27.94%	29.79%	26.88%

	Industrial - Warehouse	Industrial - Manufact.	Industrial - Flex	Retail - Neighbor	Retail - Regional	Retail - Power	Retail - Lifestyle	Retail – Other
Very low	1.20%	0.00%	334	0.00%	2.27%	0.00%	0.00%	0.00%
Low	6.02%	6.90%	4.29%	2.74%	2.27%	3.45%	4.55%	2.00%
Moderate	24.10%	27.59%	24.29%	19.18%	22.73%	17.24%	20.45%	16.00%
High	38.55%	41.38%	44.29%	42.47%	36.36%	41.38%	43.18%	50.00%
Very high	30.12%	24.14%	27.14%	35.62%	36.36%	37.93%	31.82%	32.00%

	Hotel - Luxury	Hotel - Economy	Hotel – Budget	Hotel - Other	Healthcare - Med Office	Healthcare - Sen Assist Living	Healthcare - Hospitals	Healthcare – Other
Very low	0.00%	0.00%	0.00%	0.00%	1.67%	0.00%	4.35%	0.00%
Low	9.68%	15.00%	5.88%	9.52%	8.33%	17.24%	17.39%	9.52%
Moderate	22.58%	10.00%	11.76%	19.05%	21.67%	24.14%	30.43%	19.05%
High	32.26%	35.00%	29.41%	33.33%	40.00%	37.93%	26.09%	33.33%
Very high	35.48%	40.00%	52.94%	38.10%	28.33%	20.69%	21.74%	38.10%

	Landlord/PM	Tenant	Lender	Developer	Investor	Broker
Very low	1.38%	0.00%	0.00%	1.69%	2.20%	1.28%
Low	3.45%	4.84%	0.00%	0.00%	2.20%	0.00%
Moderate	23.45%	14.52%	8.70%	27.12%	21.98%	16.67%
High	38.62%	40.32%	52.17%	42.37%	42.86%	44.87%
Very high	33.10%	40.32%	39.13%	28.81%	30.77%	37.18%

NOTES

Retail is the most frequent property type respondents focus on (22.65%), followed by industrial (20.13%), office (17.71%) and apartment (17.71%). Hotel and healthcare are the focus of only 8.67% and 12.20% of respondents respectively, which means that frequencies for these two property types are based on only a few responses. Respondents can select more than one property type.

165 respondents identified as landlords or professionals representing landlords/ property management (PM), followed by investors (93 respondents), brokers (78), tenants or professionals representing tenants (71), developers (61) and lenders (25). A single respondent can identify as more than one category.

OVERALL, HOW LONG ARE YOU EXPECTING COVID-19 TO SERIOUSLY IMPACT YOUR BUSINESS OPERATIONS?

	All	Apartment - Affordable	Apartment - Luxury	Apartment - Other	Office - CBD	Office - Suburban
No impact	1.30%	0.00%	0.00%	1.47%	1.06%	2.15%
1 to 3 months	6.06%	5.36%	7.58%	5.88%	5.32%	4.30%
4 to 6 months	22.08%	26.79%	21.21%	30.88%	15.96%	23.66%
7 to 12 months	28.14%	25.00%	24.24%	27.94%	39.36%	35.48%
More than 12 months	39.83%	42.86%	46.97%	30.88%	37.23%	33.33%
No Opinion/Unsure	2.60%	0.00%	0.00%	2.94%	1.06%	1.08%

	Industrial - Warehouse	Industrial - Manufact.	Industrial - Flex	Retail - Neighbor	Retail - Regional	Retail - Power	Retail - Lifestyle	Retail - Other
No impact	1.20%	1.72%	0.00%	0.00%	2.27%	0.00%	0.00%	0.00%
1 to 3 months	6.02%	6.90%	5.71%	5.48%	9.09%	10.34%	13.64%	8.00%
4 to 6 months	18.07%	13.79%	18.57%	24.66%	15.91%	20.69%	27.27%	34.00%
7 to 12 months	36.14%	43.10%	41.43%	27.40%	31.82%	34.48%	25.00%	24.00%
More than 12 months	38.55%	34.48%	34.29%	41.10%	40.91%	34.48%	34.09%	34.00%
No Opinion/Unsure	0.00%	0.00%	0.00%	1.37%	0.00%	0.00%	0.00%	0.00%

	Hotel - Luxury	Hotel - Economy	Hotel - Budget	Hotel - Other	Healthcare - Med Office	Healthcare - Sen Assist Living	Healthcare - Hospitals	Healthcare - Other
No impact	3.23%	5.00%	5.88%	0.00%	1.67%	3.45%	4.35%	1.67%
1 to 3 months	9.68%	10.00%	5.88%	9.52%	10.00%	10.34%	8.70%	10.00%
4 to 6 months	25.81%	30.00%	23.53%	23.81%	18.33%	24.14%	21.74%	18.33%
7 to 12 months	22.58%	10.00%	5.88%	19.05%	35.00%	34.48%	34.78%	35.00%
More than 12 months	38.71%	45.00%	58.82%	47.62%	33.33%	27.59%	26.09%	33.33%
No Opinion/Unsure	0.00%	0.00%	0.00%	0.00%	1.67%	0.00%	4.35%	1.67%

	Landlord/PM	Tenant	Lender	Developer	Investor	Broker
No impact	0.68%	0.00%	0.00%	0.00%	1.10%	1.28%
1 to 3 months	4.05%	1.61%	0.00%	1.69%	5.49%	5.13%
4 to 6 months	20.27%	24.19%	26.09%	15.25%	15.38%	26.92%
7 to 12 months	27.70%	32.26%	30.43%	30.51%	31.87%	25.64%
More than 12 months	44.59%	38.71%	39.13%	49.15%	41.76%	41.03%
No Opinion/Unsure	2.70%	3.23%	4.35%	3.39%	4.40%	0.00%

OVERALL, HAS THE COVID-19 CRISIS CHANGED HOW YOU DO BUSINESS?

	All	Apartment - Affordable	Apartment – Luxury	Apartment - Other	Office - CBD	Office - Suburban
Yes	87.01%	85.71%	86.36%	85.29%	87.23%	83.87%
No	9.52%	10.71%	12.12%	10.29%	10.64%	12.90%
NA/Unsure	3.46%	3.57%	1.52%	4.41%	2.13%	3.23%

	Industrial - Warehouse	Industrial - Manufact.	Industrial - Flex	Retail - Neighbor	Retail - Regional	Retail - Power	Retail - Lifestyle	Retail - Other
Yes	84.34%	84.48%	88.57%	83.56%	84.09%	82.76%	86.36%	90.00%
No	10.84%	13.79%	8.57%	13.70%	11.36%	13.79%	9.09%	10.00%
NA/Unsure	4.82%	1.72%	2.86%	2.74%	4.55%	3.45%	4.55%	0.00%

	Hotel - Luxury	Hotel - Economy	Hotel - Budget	Hotel - Other	Healthcare - Med Office	Healthcare - Sen Assist Living	Healthcare - Hospitals	Healthcar e - Other
Yes	83.87%	75.00%	82.35%	85.71%	88.33%	86.21%	91.30%	88.24%
No	16.13%	20.00%	11.76%	9.52%	10.00%	13.79%	8.70%	11.76%
NA/Unsure	0.00%	5.00%	5.88%	4.76%	1.67%	0.00%	0.00%	0.00%

	Landlord/PM	Tenant	Lender	Developer	Investor	Broker
Yes	85.81%	90.32%	86.96%	86.44%	84.62%	89.74%
No	10.81%	8.06%	8.70%	10.17%	12.09%	6.41%
NA/Unsure	3.38%	1.61%	4.35%	3.39%	3.30%	3.85%

WHAT HAS CHANGED?

selected comments

REMOTE WORK AND VIRTUAL MEETINGS

Vastly increased communication via phone, emails and videos; it will dramatically alter how we use space; Working from home full time; using Zoom all the time; harder to work on collaborative things remotely.

SOCIAL DISTANCING

Special maintenance procedures; keeping building safe with less people in and out of the building both owners and employees. Additional disinfecting with janitorial services.

OPERATIONS AND TENANTS

Increasing efficiency; revising lease assumptions for 2020 budgets; different payment options set up for tenant rent; some commercial tenants not making their rent; significant modification of lease obligations; work through rent relief requests; leasing activity is "nonexistent" and lease renewals are extremely challenging.; vacant properties – more homeless camps.

CLIENT RELATIONSHIPS Business development mindset has become more patient and empathetic; no/little property tours; harder to start new relationships. Focusing on existing relationships; shows more flexibility towards customers, with higher emphasis on long term relationship; limited client contact, virtual tours; revising marketing to offer more tenant incentives; currently no cold-calling for leasing side of business; being more selective of potential clients; increased level of communication with clients and tenants; being more of an emotional support broker – providing free advice versus pursuing transactions.

REAL ESTATE DEVELOPMENT All development projects on hold; construction paused. New construction held up. timeline is uncertain.; harder to check on buildings/longer lead times; update job site safety and the way in which we prospect; Ability to obtain financing for new construction has become very challenging so alternative business strategies are evaluated and more time is spent on asset management.

TRANSACTIONS Sellers are holding properties to see how it all shakes out. Seller and buyer expectations are in very different places; less tours, new business has slowed, deals take much longer to close; resetting client expectations; investment decisions have changed; deals changing for COVID language; Due to public office closures throughout the US, we have delays in obtaining documents for research and in some cases recording transactions.; Active sales transactions mostly on hold so we're spending most of our time talking to clients about what we're seeing in the market, and developing new relationships with potential clients.; shift focus from business development to portfolio management.

CAPITAL AVAILABILITY AND LENDING Lending is much more challenging to find and complete.; seeking lending at banks and very little lending for commercial real estate; dealing with many loan forbearance requests; conversion from originations to workouts; activity for loan origination is down and borrower/lender issues with existing loans are now focus; number of lenders for CRE has shrunk, ones that are left are very conservative.; Banks are extremely cautious.; Hard money lenders are pushing back closings for 90 days on construction projects and refinancing.

HUMAN RESOURCE MANAGEMENT Reduced wages and furloughs; staff reductions; reviewing personnel processes and procedures; loss of overall productivity; most staff working from home, which seems to be less efficient; providing employee help related to mental health, food, etc.; We have benched our service team (with pay) and all servicing is being done by the owners.; Staff is effectively working from home. I'd say communication and productivity may have actually improved.

TECHNOLOGY AND INNOVATION Introduction of equipment and procedures to avoid person to person and person to equipment interaction; applying technology to make more work processes virtual.; Being innovative in how we address client solutions around design and operations.

DECISION-MAKING Large decisions are put on hold until the market stabilizes; delay capital projects; adjust forecasting and budgets for facility and construction projects; The primary change is the creation of uncertainty for everyone of what the future holds which slows or stops the decision making process on most matters related to business.; Evaluation metrics of new and existing opportunities has changed.

WHAT ARE YOUR PLANNED CHANGES WITH REGARD TO FULL-TIME STAFFING OVER THE NEXT THREE (3) MONTHS?

	All	Apartment - Affordable	Apartment - Luxury	Apartment - Other	Office - CBD	Office - Suburban
No changes	41.00%	44.90%	35.59%	29.03%	43.02%	41.46%
Currently adding new hires	7.50%	8.16%	11.86%	8.06%	6.98%	8.54%
Undecided/waiting	19.00%	16.33%	20.34%	25.81%	16.28%	19.51%
Likely reducing staff soon	2.00%	2.04%	0.00%	0.00%	3.49%	1.22%
Total hiring freeze right now	13.50%	18.37%	23.73%	17.74%	19.77%	19.51%
Already made staffing cuts	13.50%	8.16%	8.47%	14.52%	8.14%	8.54%
Other[1]	3.50%	2.04%	0.00%	4.84%	2.33%	1.22%

	Industrial - Warehouse	Industrial - Manufact.	Industrial - Flex	Retail - Neighbor	Retail - Regional	Retail - Power	Retail - Lifestyle	Retail - Other
No changes	36.62%	31.25%	32.79%	33.33%	27.03%	18.52%	30.77%	42.22%
Currently adding new hires	11.27%	14.58%	11.48%	6.35%	10.81%	14.81%	12.82%	4.44%
Undecided/waiting	21.13%	16.67%	21.31%	28.57%	24.32%	29.63%	23.08%	20.00%
Likely reducing staff soon	1.41%	0.00%	1.64%	1.59%	0.00%	0.00%	0.00%	0.00%
Total hiring freeze right now	21.13%	25.00%	19.67%	19.05%	21.62%	22.22%	10.26%	13.33%
Already made staffing cuts	7.04%	10.42%	11.48%	6.35%	13.51%	7.41%	17.95%	11.11%
Other	1.41%	2.08%	1.64%	4.76%	2.70%	7.41%	5.13%	8.89%

	Hotel - Luxury	Hotel - Economy	Hotel - Budget	Hotel - Other	Healthcare - Med Office	Healthcare - Sen Assist Living	Healthcare - Hospitals	Healthcare - Other
No changes	40.00%	26.32%	25.00%	5.00%	28.30%	22.22%	14.29%	13.33%
Currently adding new hires	13.33%	21.05%	6.25%	15.00%	15.09%	22.22%	28.57%	26.67%
Undecided/waiting	16.67%	21.05%	31.25%	20.00%	22.64%	29.63%	23.81%	20.00%
Likely reducing staff soon	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total hiring freeze right now	16.67%	10.53%	12.50%	25.00%	20.75%	22.22%	23.81%	26.67%
Already made staffing cuts	13.33%	21.05%	25.00%	35.00%	13.21%	3.70%	9.52%	13.33%
Other	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

	Landlord/PM	Tenant	Lender	Developer	Investor	Broker
No changes	45.86%	32.08%	44.44%	43.40%	48.75%	44.62%
Currently adding new hires	5.26%	5.66%	5.56%	7.55%	3.75%	3.08%
Undecided/waiting	17.29%	24.53%	22.22%	13.21%	17.50%	24.62%
Likely reducing staff soon	2.26%	3.77%	5.56%	1.89%	2.50%	3.08%
Total hiring freeze right now	15.04%	18.87%	16.67%	20.75%	11.25%	9.23%
Already made staffing cuts	10.53%	9.43%	5.56%	11.32%	12.50%	12.31%
Other	3.76%	5.66%	0.00%	1.89%	3.75%	3.08%

1 *No change in staffing but reducing expenses and compensation where possible; We will maintain our current staff/employees. We are evaluating hiring a Property Management Company to manage our properties instead of self-managing.; Members/partners voluntarily leaving the firm to avoid having to cover operating deficits.*

IMPACT OF COVID-19 ON LANDLORDS AND PROFESSIONALS REPRESENTING LANDLORDS (PM)

WHAT PERCENTAGE OF YOUR TYPICAL RENT COLLECTIONS DID YOU RECEIVE IN APRIL?

	All	Apartment - Affordable	Apartment - Luxury	Apartment - Other	Office - CBD	Office - Suburban
Less than 10%	2.05%	3.23%	0.00%	2.50%	1.67%	1.69%
11 to 24%	2.05%	3.23%	2.70%	5.00%	3.33%	3.39%
25 to 49%	3.42%	0.00%	0.00%	2.50%	1.67%	5.08%
50 to 59%	8.90%	3.23%	5.41%	5.00%	5.00%	8.47%
60 to 69%	4.11%	0.00%	0.00%	0.00%	3.33%	6.78%
70 to 79%	6.16%	6.45%	2.70%	0.00%	13.33%	10.17%
80 to 89%	24.66%	29.03%	21.62%	37.50%	16.67%	18.64%
90 to 99%	28.08%	32.26%	45.95%	30.00%	38.33%	23.73%
100%	11.64%	16.13%	10.81%	12.50%	5.00%	8.47%
NA/Unsure	8.90%	6.45%	10.81%	5.00%	11.67%	13.56%

	Industrial - Warehouse	Industrial - Manufact.	Industrial - Flex	Retail - Neighbor	Retail - Regional	Retail - Power	Retail - Lifestyle	Retail - Other
Less than 10%	3.51%	0.00%	4.55%	2.04%	0.00%	0.00%	0.00%	5.88%
11 to 24%	3.51%	2.78%	2.27%	4.08%	0.00%	0.00%	4.76%	5.88%
25 to 49%	1.75%	2.78%	2.27%	6.12%	4.00%	0.00%	4.76%	5.88%
50 to 59%	7.02%	5.56%	2.27%	10.20%	16.00%	18.75%	9.52%	11.76%
60 to 69%	5.26%	8.33%	9.09%	10.20%	12.00%	18.75%	14.29%	11.76%
70 to 79%	8.77%	2.78%	9.09%	10.20%	4.00%	12.50%	9.52%	11.76%
80 to 89%	29.82%	25.00%	25.00%	26.53%	24.00%	12.50%	23.81%	23.53%
90 to 99%	22.81%	27.78%	27.27%	14.29%	20.00%	12.50%	14.29%	8.82%
100%	7.02%	5.56%	6.82%	4.08%	8.00%	12.50%	9.52%	8.82%
NA/Unsure	10.53%	19.44%	11.36%	12.24%	12.00%	12.50%	9.52%	5.88%

	Healthcare - Med Office	Healthcare - Sen Assist Living	Healthcare - Hospitals	Healthcare - Other
Less than 10%	0.00%	0.00%	0.00%	0.00%
11 to 24%	5.41%	0.00%	0.00%	25.00%
25 to 49%	8.11%	10.00%	0.00%	0.00%
50 to 59%	10.81%	10.00%	12.50%	0.00%
60 to 69%	10.81%	0.00%	12.50%	0.00%
70 to 79%	10.81%	10.00%	0.00%	0.00%
80 to 89%	16.22%	20.00%	12.50%	0.00%
90 to 99%	21.62%	20.00%	12.50%	0.00%
100%	10.81%	10.00%	25.00%	25.00%
NA/Unsure	5.41%	20.00%	25.00%	50.00%

NOTE

165 respondents identified as landlord or professional representing landlords (property management). For hotel and healthcare sub-property types, frequencies are based on only a few responses.

WHAT PERCENTAGE OF TENANTS IN YOUR PROPERTIES HAVE APPROACHED YOU REGARDING RENT REDUCTION, RELIEF AND/OR LEASE MODIFICATIONS FOR MAY?

	All	Apartment - Affordable	Apartment - Luxury	Apartment - Other	Office - CBD	Office – Suburban
0%	8.90%	12.90%	8.11%	10.00%	3.33%	3.39%
1-10%	23.29%	29.03%	40.54%	32.50%	21.67%	25.42%
11-24%	25.34%	25.81%	10.81%	25.00%	30.00%	22.03%
25-49%	11.64%	3.23%	5.41%	10.00%	15.00%	10.17%
50-74%	7.53%	6.45%	10.81%	7.50%	5.00%	11.86%
75-99%	7.53%	6.45%	8.11%	2.50%	8.33%	6.78%
100%	3.42%	3.23%	2.70%	2.50%	1.67%	5.08%
NA/Unsure	12.33%	12.90%	13.51%	10.00%	15.00%	15.25%

	Industrial - Warehouse	Industrial - Manufact.	Industrial - Flex	Retail - Neighbor	Retail - Regional	Retail - Power	Retail - Lifestyle	Retail - Other
0%	3.51%	2.78%	4.55%	2.04%	4.00%	0.00%	0.00%	2.94%
1-10%	22.81%	22.22%	22.73%	10.20%	12.00%	12.50%	9.52%	11.76%
11-24%	31.58%	22.22%	29.55%	18.37%	16.00%	12.50%	19.05%	29.41%
25-49%	10.53%	11.11%	9.09%	14.29%	4.00%	12.50%	4.76%	14.71%
50-74%	7.02%	8.33%	9.09%	16.33%	24.00%	25.00%	23.81%	11.76%
75-99%	8.77%	8.33%	9.09%	18.37%	20.00%	18.75%	23.81%	17.65%
100%	3.51%	5.56%	2.27%	6.12%	8.00%	6.25%	9.52%	5.88%
NA/Unsure	12.28%	19.44%	13.64%	14.29%	12.00%	12.50%	9.52%	5.88%

	Healthcare - Med Office	Healthcare - Sen Assist Living	Healthcare - Hospitals	Healthcare - Other
0%	5.41%	0.00%	25.00%	25.00%
1-10%	16.22%	10.00%	25.00%	0.00%
11-24%	18.92%	10.00%	0.00%	0.00%
25-49%	8.11%	0.00%	0.00%	0.00%
50-74%	18.92%	20.00%	0.00%	0.00%
75-99%	16.22%	20.00%	12.50%	0.00%
100%	8.11%	10.00%	12.50%	25.00%
NA/Unsure	8.11%	30.00%	25.00%	50.00%

WHICH TENANT STRATEGIES ARE YOU CONSIDERING RIGHT NOW WHEN WORKING WITH YOUR TENANTS?

Rent deferrals/abatements	26.49%
Requesting financials and/or proof of distress	17.40%
Adjustments to term (e.g. extending term in exchange for rent relief)	14.81%
Adjustments to rent (e.g. lower rent or partial rent payments)	12.21%
Asking tenants about their business interruption insurance	9.87%
No adjustments to in-place contracts at this time	7.01%
Helping tenants applying for SBA loans	6.23%
Financial assistance (e.g. helping apply for unemployment or other help)	3.38%
Other[2]	2.60%

2 *rent credits; amortizing missed payments over the balance of the year.; Applying security deposit and then require repayment in a few months giving them a few months to repay.; Discounted rent in April 10% if paid on time. Discounted rent 5% in May if paid on time.; Providing tenants access to a resource online link listing all potential sources of assistance we have identified.*

WHAT ESTIMATED PERCENTAGE OF PREVIOUSLY NEGOTIATED LEASES OR NEW LEASE LEADS DID YOU LOSE AS A RESULT OF THE COVID-19 CRISIS?

	All	Apartment - Affordable	Apartment - Luxury	Apartment - Other	Office - CBD	Office – Suburban
0%	16.67%	13.33%	13.51%	17.50%	11.67%	16.95%
1-10%	25.69%	20.00%	29.73%	20.00%	26.67%	20.34%
11-24%	14.58%	10.00%	13.51%	15.00%	18.33%	13.56%
25-49%	8.33%	13.33%	5.41%	5.00%	11.67%	6.78%
50-74%	6.25%	16.67%	5.41%	10.00%	6.67%	10.17%
75-99%	6.25%	0.00%	2.70%	2.50%	5.00%	8.47%
100%	3.47%	6.67%	5.41%	7.50%	3.33%	5.08%
NA/Unsure	18.75%	20.00%	24.32%	22.50%	16.67%	18.64%

	Industrial - Warehouse	Industrial - Manufact.	Industrial - Flex	Retail - Neighbor	Retail - Regional	Retail - Power	Retail - Lifestyle	Retail - Other
0%	17.54%	11.11%	13.64%	10.20%	16.00%	6.25%	9.52%	5.88%
1-10%	15.79%	5.56%	13.64%	14.29%	8.00%	6.25%	19.05%	26.47%
11-24%	19.30%	27.78%	20.45%	18.37%	16.00%	18.75%	14.29%	14.71%
25-49%	12.28%	13.89%	11.36%	14.29%	16.00%	18.75%	9.52%	8.82%
50-74%	8.77%	8.33%	11.36%	10.20%	8.00%	12.50%	9.52%	11.76%
75-99%	8.77%	8.33%	6.82%	10.20%	12.00%	6.25%	14.29%	8.82%
100%	1.75%	2.78%	2.27%	6.12%	8.00%	12.50%	9.52%	8.82%
NA/Unsure	15.79%	22.22%	20.45%	16.33%	16.00%	18.75%	14.29%	14.71%

	Healthcare - Med Office	Healthcare - Sen Assist Living	Healthcare - Hospitals	Healthcare - Other
0%	10.81%	10.00%	25.00%	0.00%
1-10%	24.32%	10.00%	0.00%	0.00%
11-24%	10.81%	0.00%	12.50%	0.00%
25-49%	10.81%	30.00%	0.00%	0.00%
50-74%	8.11%	10.00%	12.50%	0.00%
75-99%	10.81%	0.00%	0.00%	0.00%
100%	8.11%	0.00%	0.00%	25.00%
NA/Unsure	16.22%	40.00%	50.00%	75.00%

HAVE YOU APPROACHED YOUR LENDER REGARDING LOAN MODIFICATIONS AND/OR RELIEF?

	All	Apartment - Affordable	Apartment - Luxury	Apartment - Other	Office - CBD	Office – Suburban
Yes	37.27%	42.31%	43.75%	38.24%	43.18%	35.71%
No	62.73%	57.69%	56.25%	61.76%	56.82%	64.29%

	Industrial - Warehouse	Industrial - Manufact.	Industrial - Flex	Retail - Neighbor	Retail - Regional	Retail - Power	Retail - Lifestyle	Retail - Other
Yes	29.27%	18.18%	27.59%	48.57%	33.33%	46.15%	42.86%	59.26%
No	70.73%	81.82%	72.41%	51.43%	66.67%	53.85%	57.14%	40.74%

	Healthcare - Med Office	Healthcare - Sen Assist Living	Healthcare - Hospitals	Healthcare - Other
Yes	46.43%	14.29%	0.00%	50.00%
No	53.57%	85.71%	100%	50.00%

WHICH LOAN ADJUSTMENTS ARE YOU CONSIDERING WITH YOUR LENDER?

NA/Unsure	28.76%
Periods of interest-only payments and deferral of principal payments	18.95%
No adjustments	17.65%
Delaying payments and amortizing them over the remainder of the term	13.73%
Requesting tenants pursue SBA loans	5.88%
Extension of loan periods	4.58%
Requesting tenants use business interruption insurance	3.92%
Changes to loan term covenants	3.92%
Adjustments to interest rates	1.96%
Other	0.65%

IMPACT OF COVID-19 ON TENANTS

HAVE YOU APPROACHED YOUR LANDLORD(S) REGARDING RENT REDUCTION, RELIEF AND/OR LEASE MODIFICATIONS?

	All	Office	Industrial	Retail	Healthcare
Yes, I approached some of my landlords	32.35%	38.30%	35.48%	34.00%	29.17%
Yes, I approached all of my landlords	11.76%	6.38%	6.45%	14.00%	4.17%
No	41.18%	42.55%	41.94%	36.00%	58.33%
Not applicable/Unsure	14.71%	12.77%	16.13%	16.00%	8.33%

WHICH OF THE FOLLOWING HAVE YOU NEGOTIATED WITH YOUR LANDLORD(S) REGARDING EXISTING LEASES?

No adjustments to in-place contracts at this time	30.30%
Rent deferrals/abatements	27.27%
Adjustments to term (e.g. extending term in exchange for rent relief)	14.14%
Adjustments to rent (e.g. lower rent or partial rent payments)	12.12%
Providing financials and/or proof of distress	9.09%
Helping with applying for SBA loans	3.03%
Other	2.02%
Using business interruption insurance	1.01%
Financial assistance (e.g. helping apply for unemployment or other help)	1.01%

HOW WOULD YOU ASSESS YOUR DEMAND FOR SPACE IN THE NEXT THREE (3) MONTHS?

	All	Office	Industrial	Retail	Healthcare
Highly decreased	38.81%	36.96%	29.03%	40.00%	26.09%
Somewhat decreased	25.37%	23.91%	32.26%	28.00%	26.09%
Unchanged	26.87%	30.43%	25.81%	22.00%	39.13%
Somewhat increased	0.00%	0.00%	0.00%	0.00%	0.00%
Very increased	0.00%	0.00%	0.00%	0.00%	0.00%
NA/Unsure	8.96%	8.70%	12.90%	10.00%	8.70%

NOTE

71 respondents identified as tenant or professional representing tenants. Due to the limited number of responses, results are presented for overall property types as opposed to sub-property types.

IMPACT OF COVID-19 ON LENDERS

WHAT PERCENTAGE OF YOUR BORROWERS APPROACHED YOU REGARDING MORTGAGE PAYMENT RELIEF AND/OR MODIFICATION OF LOAN TERMS?

	All	Apartment	Office	Industrial	Retail	Hotel	Healthcare
0%	16.00%	22.22%	17.65%	15.38%	17.65%	0.00%	11.11%
1-10%	8.00%	11.11%	5.88%	7.69%	5.88%	0.00%	0.00%
11-24%	28.00%	27.78%	29.41%	38.46%	29.41%	40.00%	44.44%
25-49%	24.00%	16.67%	23.53%	30.77%	23.53%	40.00%	22.22%
50-74%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
75-99%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
100%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
NA/Unsure	24.00%	22.22%	23.53%	7.69%	23.53%	20.00%	22.22%

WHICH LOAN ADJUSTMENTS ARE YOU CONSIDERING RIGHT NOW WHEN WORKING WITH BORROWERS?

Periods of interest-only payments and deferral of principal payments	20.00%
No adjustments	13.33%
Extension of loan periods	13.33%
Delaying payments and amortizing them over the remainder of the term	11.11%
NA/Unsure	11.11%
Changes to loan term covenants	8.89%
Other	8.89%
Requesting borrowers have tenants pursue SBA loans	6.67%
Requesting borrowers have tenants use business interruption insurance	4.44%
Adjustments to interest rates	2.22%

NOTE

Twenty-five respondents identified as lenders. Due to the limited number of responses, results are presented for overall property types as opposed to sub-property types. For hotel and healthcare, frequencies are based on only a few responses.

HAVE YOU TIGHTENED YOUR LENDING AND UNDERWRITING STANDARDS AS A RESULT OF THE COVID-19 CRISIS?

	All	Apartment	Office	Industrial	Retail	Hotel	Healthcare
Yes	66.67%	64.71%	70.59%	76.92%	70.59%	80.00%	77.78%
No	12.50%	11.76%	5.88%	7.69%	5.88%	0.00%	0.00%
NA/Unsure	20.83%	23.53%	23.53%	15.38%	23.53%	20.00%	22.22%

HOW?

selected responses

CASH RESERVES/LIQUIDITY

Higher liquidity/reserve requirements; more scrutiny on borrower liquidity; more reliance on cash reserves.

BORROWERS

More cautious. Mostly working with existing customers. not taking new prospects.

PRICING AND UNDERWRITING

Underwriting more conservatively, increased spreads for retail properties; lower LTV; requiring higher DSCR, enhance focus on durability of cash flow; tightening criteria; less risk, higher rates, less cash out and interest only.

TENANTS

Just with regard to retail. Rent rolls are looked at carefully to determine tenant status. This is also somewhat true of apartments.; more scrutiny on tenant creditworthiness, short term rollover costs; no retail, look at tenants closer.

DOCUMENTATION

Changes to loan docs; loan applications now require three months statements for cash verification.

OTHER

Hard money lender converting to equity placement.

IMPACT OF COVID-19 ON DEVELOPERS

WHAT PERCENTAGE OF THE DEVELOPMENT PROJECTS IN YOUR PIPELINE HAVE BEEN PUT ON INDEFINITE HOLD OR BEEN CANCELED SINCE THE START OF THIS CRISIS IN MARCH?

	All	Apartment	Office	Industrial	Retail	Hotel	Healthcare
0%	25.00%	14.29%	31.03%	23.08%	25.00%	37.50%	33.33%
1-10%	1.67%	2.38%	0.00%	0.00%	0.00%	0.00%	0.00%
11-24%	8.33%	11.90%	10.34%	15.38%	7.14%	12.50%	0.00%
25-49%	11.67%	16.67%	17.24%	23.08%	14.29%	12.50%	16.67%
50-74%	8.33%	2.38%	6.90%	7.69%	7.14%	12.50%	16.67%
75-99%	13.33%	9.52%	10.34%	7.69%	14.29%	12.50%	8.33%
100%	20.00%	26.19%	20.69%	23.08%	21.43%	12.50%	25.00%
NA/Unsure	11.67%	16.67%	3.45%	0.00%	10.71%	0.00%	0.00%

WHAT PERCENTAGE OF THE CONSTRUCTION PROJECTS YOU ARE WORKING ON ARE CONTINUING WITHOUT SIGNIFICANT (90+ DAYS) DELAYS?

	All	Apartment	Office	Industrial	Retail	Hotel	Healthcare
Fewer than 50%	28.81%	34.15%	31.03%	23.08%	28.57%	37.50%	33.33%
50 to 59%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
60 to 69%	8.47%	9.76%	3.45%	0.00%	0.00%	0.00%	0.00%
70 to 79%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
80 to 89%	3.39%	2.44%	3.45%	0.00%	3.57%	12.50%	0.00%
90 to 99%	8.47%	4.88%	10.34%	15.38%	10.71%	0.00%	0.00%
100%	30.51%	26.83%	34.48%	30.77%	35.71%	25.00%	33.33%
NA/Unsure	20.34%	21.95%	17.24%	30.77%	21.43%	25.00%	33.33%

NOTE

61 respondents identified as developers. Due to the limited number of responses, results are presented for overall property types as opposed to sub-property types. For hotel and healthcare, frequencies are based on only a few responses.

IMPACT OF COVID-19 ON INVESTORS

WHAT PERCENTAGE OF TRANSACTIONS IN YOUR PIPELINE HAVE BEEN PUT ON INDEFINITE HOLD OR BEEN CANCELED SINCE THE START OF THIS CRISIS IN MARCH?

	All	Apartment	Office	Industrial	Retail	Hotel	Healthcare
0%	11.83%	13.11%	12.00%	8.33%	7.27%	12.50%	20.00%
1-10%	8.60%	4.92%	14.00%	11.11%	7.27%	6.25%	0.00%
11-24%	5.38%	4.92%	4.00%	8.33%	7.27%	0.00%	0.00%
25-49%	8.60%	9.84%	8.00%	11.11%	7.27%	0.00%	8.00%
50-74%	12.90%	11.48%	14.00%	13.89%	18.18%	18.75%	24.00%
75-99%	11.83%	11.48%	14.00%	16.67%	12.73%	25.00%	12.00%
100%	21.51%	24.59%	20.00%	22.22%	25.45%	31.25%	24.00%
NA/Unsure	19.35%	19.67%	14.00%	8.33%	14.55%	6.25%	12.00%

HOW WOULD YOU RATE THE CONCERNS OF INVESTORS YOU ARE WORKING WITH (E.G. LIMITED PARTNERS) REGARDING THEIR INVESTMENTS?

	All	Apartment	Office	Industrial	Retail	Hotel	Healthcare
Not at all concerned	2.15%	0.00%	2.00%	0.00%	0.00%	0.00%	8.00%
Mildly concerned	7.53%	4.92%	8.00%	11.00%	7.27%	6.25%	4.00%
Somewhat concerned	30.11%	27.87%	38.00%	38.89%	30.91%	25.00%	36.00%
Very concerned	55.91%	62.30%	48.00%	44.44%	56.36%	68.75%	52.00%
No opinion/Unsure	4.30%	4.92%	4.00%	5.56%	5.45%	0.00%	0.00%

NOTE

93 respondents identified as investors. Due to the limited number of responses, results are presented for overall property types as opposed to sub-property types. For hotel and healthcare, frequencies are based on only a few responses.

HAS YOUR INVESTMENT STRATEGY CHANGED AS A RESULT OF THE COVID-19 CRISIS?

	All	Apartment	Office	Industrial	Retail	Hotel	Healthcare
Yes	65.59%	70.49%	58.00%	63.89%	67.27%	68.75%	52.00%
No	25.81%	21.31%	32.00%	30.56%	23.64%	18.75%	40.00%
NA/Unsure	8.60%	8.20%	10.00%	5.56%	9.09%	12.50%	8.00%

HOW?

selected responses

PRICING

Adjusting cap rates by 10-15% down; risk analysis has changed, and pricing is uncertain.

CAPITAL ACCESS

Access to capital has dried up.

CAPITAL PRESERVATION

Capital preservation versus growth; holding cash; more conservative approach. More cash reserves.

PROPERTY TYPE

Changed targeted property type; focus on tenant categories; limiting retail/office investment until we understand what COVID-19 will do to those industries and demand.

NEW DEALS

General freeze in pipeline. Approaching new deals with extreme caution; hold on all speculative deals and waiting for the current employment news to stabilize before looking to do new deals.; more of a wait and see approach for the next 60-90 days. Increased initial stress testing to financial proformas and added risk premium for uncertainty to return expectations.; wait and see.

RISK APPETITE

Hesitant, cautious to invest; how can you make any LT capital decisions in this environment?; I am done.; more cautious; Looking at alternative investment approaches such as preferred equity.; unsure of the future, so very cautious.

ASSETS

Currently seeking distressed assets; Looking at more stabilized assets, or distressed sellers; looking at buying over building …waiting on lending developments; may build instead of selling raw land. Lease up would start in 18 months.; less risk=greater appeal.

BUYING OPPORTUNITIES

Looking at opportunities that were not available prior to crisis.; looking for better deals; not such high prices.; looking for price reductions/more attractive pricing on acquisition; looking for values to drop due to defaults which equates to buying opportunities.

IMPACT OF COVID-19 ON BROKERS

WHAT PERCENTAGE HAS YOUR BUSINESS DECLINED AS A RESULT OF THE COVID-19 CRISIS?

	All	Apartment	Office	Industrial	Retail	Hotel	Healthcare
0%	3.90%	6.45%	4.55%	5.26%	3.64%	11.11%	4.76%
1-10%	3.90%	0.00%	2.27%	0.00%	1.82%	0.00%	0.00%
11-24%	12.99%	9.68%	13.64%	21.05%	16.36%	11.11%	4.76%
25-49%	18.18%	12.90%	18.18%	21.05%	20.00%	0.00%	23.81%
50-74%	23.38%	22.58%	29.55%	26.32%	27.27%	22.22%	38.10%
75-99%	23.38%	22.58%	20.45%	21.05%	23.64%	55.56%	19.05%
100%	3.90%	9.68%	2.27%	0.00%	1.82%	0.00%	4.76%
NA/Unsure	10.39%	16.13%	9.09%	5.26%	5.45%	0.00%	4.76%

WHICH STRATEGIES HAVE YOU EMPLOYED TO ASSIST YOUR CLIENTS (E.G. INVESTORS, TENANTS, LANDLORDS) IN THE COVID-19 CRISIS?

Increase the communication and information shared	24.32%
Increase my role as advisor	22.01%
Assist in rent or lease term renegotiations with tenants or landlords	17.37%
Provide additional market research and other analyses	15.06%
Develop innovative ways to tour spaces (e.g. virtual tours)	10.81%
Add COVID 19 clauses to contracts (e.g. purchase or lease)	7.34%
Other	1.16%
Not applicable/Unsure	1.16%
Reduce fees	0.77%

NOTE

78 respondents identified as brokers. Due to the limited number of responses, results are presented for overall property types as opposed to sub-property types. For hotel and healthcare, frequencies are based on only a few responses.

RESPONDENT INFORMATION

WHAT IS YOUR BACKGROUND?

Real estate investment - Institutional	5.21%
Real estate Investment - Non-Institutional	13.45%
Real estate development	12.27%
Lending	4.54%
Property and asset management	15.29%
Corporate User	1.34%
Brokerage - Investment Sales	8.40%
Brokerage - Tenant representation	7.39%
Brokerage - Landlord representation	8.24%
Valuation/Appraisal	4.20%
Consulting/advisory and research	8.57%
Architecture and Design	3.19%
Urban planning	1.18%
Legal, insurance or tax services	2.35%
Other	4.37%

IN WHICH COUNTY/COUNTIES IN OREGON AND SW WASHINGTON ARE YOU ACTIVE?

Multnomah County	18.80%
Washington County	15.50%
Clackamas County	14.15%
Columbia County	4.55%
Yamhill County	5.43%
Clark County, WA	10.17%
Skamania County, WA	2.23%
Marion County	5.91%
Linn County	4.94%
Benton County	4.17%
Lane County	5.23%
Deschutes County	4.07%
Douglas County	2.71%
Other	2.13%

WHICH PROPERTY SUB-TYPES DO YOU FOCUS ON?

Apartment – Luxury	6.15%
Apartment – Affordable	5.22%
Apartment – Other	6.34%
Office – CBD	8.95%
Office – Suburban	8.76%
Industrial – Warehouse	7.74%
Industrial – Manufacturing	5.59%
Industrial – Flex	6.80%
Retail - Neighborhood shopping centers	6.99%
Retail - Regional shopping center	4.01%
Retail - Power centers	2.80%
Retail – Lifestyle	4.19%
Retail – Other	4.66%
Hotel – Luxury	2.89%
Hotel – Economy	2.24%
Hotel – Budget	1.58%
Hotel – Other	1.96%
Healthcare - Medical Office	5.78%
Healthcare - Senior and assisted living	2.70%
Healthcare – Other	1.58%
Healthcare - Hospitals or specialized surgical facilities	2.14%
Not applicable	0.93%

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rent control in the western states

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Rent control is a broad term which defines regulatory mechanisms the state/public enacts to regulate the housing market. Generally rent control has two interrelated goals: to maintain existing affordable housing and to limit disruptions caused by rapid rent increases.

Through evolution they have become more market friendly as to allow landlords to receive enough compensation to maintain their properties and earn a reasonable profit; further those objectives can get coupled with protecting tenants from unjust eviction, creating mixed-income neighborhoods, and decreasing tenant turnover. Economic pressures such as real wage stagnation, racial disparities, and large housing price increase in cities across the US has caused local governments to increasingly adopt laws and regulations that try to reduce inequalities in access to housing and improve economic opportunities through lessening the housing burden for their residents. There is an inherent power struggle inside of the tenant-landlord relationship which can be described in part in the language of economics: landlords have an enormous information advantage over tenants. Further, there is a deeper asymmetry at play; for the landlord it is a lease and profit, for a tenant it is home and an economic burden. In order to mitigate this power inequality federal, state, and local governments have stepped in at different points throughout history. Due to this, politics also play a large role in rental regulations. In this paper we will first explore the general history, differing ideological positions on rent control, dive into two state incubators, and look at the current environment for the 6 major western states.

HISTORY OF RENT CONTROL IN THE US

In US history there have been successive phases of rent control. The very first iteration of rent control occurred during World War I, due to low vacancy rates and massive labor-market restructuring for war production; 82 cities established "Fair Rent " committee of landlords, tenants, organized labor, and the general public. They pushed for restrictions to be imposed, but they lacked legal power. The fair rent committees were successful at reaching settlements with tenant-landlord conflicts. They leveraged threatening a variety of things in order to be heard; most notably shutting off fuel supplies and expulsion from real estate boards.

Most people's assumptions of rent control come from the 1940's which was the period of first-generation rent control. The Emergency Price Control Act of 1942 was a U.S. statute which was passed and imposed an economic intervention as a restrictive measure to control inflationary spiraling and pricing elasticity of goods and services while providing economic efficiency to support the United States national defense and security . The statute included rent control laws which were tied to buildings constructed before a certain year, and restricted landlords from raising rents or evicting a tenant as long as the tenant remained or passed on the apartment, the rent could not increase. The state enacted these laws post-depression because while the Great Depression kept rental rates low, as the economy came out of recession demand increased. The rent freeze covered approximately 80% of the nation's rental housing stock, and lasted through the 1940's. In 1951 the federal rent control program was set to be phased out. This was due to a housing boom where most cities abandoned the strict rent control laws. The only state that adopted its own similar system to keep some version of rent control in place was New York.

The '60s and '70s saw a resurgence of rent control laws that are called second-generation, or rent-stabilization, laws. Rent regulation measures came in conjunction with another international conflict. This period's rental regulation came in the form of rent stabilization. President Richard Nixon instituted a wage and price control program called the Economic Stabilization Act of 1970, from August of 1971 to January of 1973 with the intent of easing the rapid inflation accompanying the Vietnam conflict. It included a rent stabilization element that tenants found appealing. The late 1970's saw a resurgence as rent regulation campaigns re-emerged as a result of the ongoing inflation from the oil crisis and increased political activism. This second generation of rent regulations typically permitted an automatic percent rent increase, included vacancy decontrol, had some units unregulated based upon age, and allowed landlords to petition to pass some of the costs of capital improvements and building remodels onto the tenants.

IDEOLOGIES

The institution of rental regulations has had proponents and opponents throughout history. The general arguments against rental regulations come in the form of economics; which view it as an insufficient way to manage the issues between supply and demand. The other argument is in favor of rental regulations and regularly cites societal good derived from the presence of rental regulation. These two arguments are, then, generally along political lines; which tends to mean there is political struggle over the subject in any city, county, and state. In this section we will discuss the two broad positions on rental regulations.

ECONOMIC LENSE

In a competitive market, it is assumed that demand will cause an increase in supply. In a market without controls on prices, if the amount demanded is larger than the amount supplied, prices rise to eliminate the shortage through bringing forth new supply and by reducing the amount demanded by price increase. This means that the market is answering the needs of the population. If a price control is instituted then the literature cites an array of issues arising.

The first of those is a loss in the number of housing developments being constructed. This is due in part to the fact that in an unregulated market there is a potential to make great returns on a real estate investment, but in a regulated one it becomes more difficult; thus shifting development from residential to commercial . Further, because most rent regulations exclude new buildings from the rent regulation laws, developers mostly choose to produce higher end units for the luxury market, causing only rich people to see an increase in supply, and the developers to also increase their earnings. There is also a hypothesised effect on the units that have already been built; due to a reduced ability to make a profit the owner or landlord may choose to allow units to go in disrepair, and halt renovations. Thus, people in the lower and middle classes begin experiencing deteriorated housing, with no new units entering the market . The people who are able to get a rent controlled unit, know that they must hold onto it, as most rent regulations prohibit vacancy decontrol and allow a unit to be priced at market value when a tenant leaves. This causes hoarding; tenants know that if they stay put they will be able to pay about the same rent, with capped increases for a long time, which in turn limits the supply for new renters even more . This isn't as large of an issue in states such as Orgeon, who's rental cap is very high and which does not cause this hoarding mentality because the rental increases are fairly normal to what the market would provide. Dysregulation of the housing units is another way in which the supply will dwindle. Due to lowered profitis, landlords will take housing off the market through various loopholes including but not limited to using the entire building as a residence for a certain number of years. Rent control can cause discrimination because if there are more applicants the landlord has an incentive to choose tenants based on other factors . A landlord may more carefully examine applicant's credit history and income, which is a standard practice, but could lead to biases against younger applicants; further landlords may not rent to all races, may prefer young women, and dislike families. Thus, rent control could exacerbate segregation problems because landlords choose not to rent to people who would change the demographics of an area.

To take a citywide lense on the issue rent control can be seen to limit mobility. Duration of residence in rent controlled apartments has been seen to be three times as long as duration in market rate apartments; thus the incentive to hoard acts also as a disincentive to relocate . This immobility can drastically hamper residents to relocate closer to better employment. This in turn has effects on regional growth and adaptation. The limited supply of housing makes it harder for a newcomer, who is in search of a place to live, but also acts as a powerful disincentive for businesses to locate here due to the inability to attract skilled workers. Employers may then decide to relocate to other cities, if their recruits cannot find consistent good housing. The lowers the city and regions attractiveness and ability to take in tax revenues; halting growth . Further issues surrounding taxes include rent control reducing the market value of regulated rental property, this negatively affects the assessed property value relative to unregulated properties, decreasing overall property tax revenues and budening market properties disproportionately ; which in turn acts are further disincentive to develop.

SOCIAL LENSE

The societal arguments question all the above statements and look at the social response to rent control. The philosophy behind rent control is repositioned in this argument; it is seen as a way to protect the moral rights of occupancy, and that long-term tenants who contribute to the neighborhood being a desirable place to live have a legitimate interest in staying in their apartments. This argument falls in line with ideas of anti-displacement and how to reduce gentrification of neighborhoods and cities. The societal lense postulates that renters are often maligned for not investing in their neighborhoods or houses ; as well as an inherent asymmetry in power between the tenant class and the landlord and development class.

A main argument is that when rent control is discussed the automatic assumption is that there is a hard ceiling on rent control, with a very low percent increase allowed. This is the typical economic model which presents the aforementioned ideas, and leads to development fleeing the city. The reality of most new rent regulations is that they are rent stabilization measures; and are aimed mostly as anti-gouging methods. This inherently means that the ceilings are not as low, and the measure is there more as a preventive way of decreasing the gentrification of a neighborhood, city, state, or region. This argument suggests that renters who have a better sense of stability in their neighborhoods and homes would take more care to become invested in both. The economic argument that demand will drive supply is also questioned; in tight markets with restrictive zoning codes, exploitative development fees, and little to no affordable housing measures such as bonds will not see the positive side of all the demand; rather prices will continue to rise in a way that puts the renter in an increasingly worse position. Rental rate exploitation thrives in those markets; as the ability to charge higher is a simple decision, but the ability to afford those higher rents may be unattainable.

These two arguments play out across all cities, states, and regions that consider rent control. The historical precedence of rent control shows that it is usually instituted in dire circumstances, where the popular good is the primary objective. In order for rent control to be passed there tends to be a large civic movement and support from non-profits, for-profits, and leaders in politics. This dynamic conversation is constantly evolving as the affordable and missing middle housing crisis continues in the United States. Below the paper reviews state histories and the current rent control policies enacted in New York, California, Oregon, Arizona, Colorado, Nevada, and Washington.

STATE HISTORY AND PRESENT

NEW YORK: HISTORICAL PRECEDENT

New York City's rent control program is the longest running in the United States. It began with the Fair Rent campaign; people were frustrated with the predatory landlords in the city after World War I, leading to major rent strikes that led to stabilization that lasted nearly a decade but ended when it was determined the rent "emergency" was over. In the 1940's the rent freeze went into effect on a federal level, but once it was phased out federally, New York adopted its own similar rent control in its place. There were some limited deregulations for high-rent luxury units, but the vast majority of New York rental units were rent controlled during this time. There are fewer than 30,000 rent-controlled units left in the city from this first generation of rent regulation. The rent stabilization period came in 1960, and was enacted by Mayor John Lindsay due to dropping vacancy rates and widespread complaints of unchecked price increases. The new law covered units built between 1947 and 1969. Rent stabilization was envisioned as a more flexible and market-friendly version of rent regulation than rent control. The key difference was that under rent control the tenants right to stay in their apartment was not governed by a private contract between landlord and tenant (lease) but rather it was a matter of state law. Therefore, the right to stay in the apartment was based on the state statute, not a lease which the landlord could choose to renew or not. Rent stabilization allowed for automatic yearly increases. The law initially prescribed rent increases of no more than 10% for 2 year lease, and 15% for 3 year lease. The rent stabilization law was effective in keeping most rental units in the city controlled or regulated, and most tenants could expect secure tenancy without worrying about rent gouging.

This ended in the 1970's when the legislature passed "vacancy decontrol"; which mandated that any stabilized or controlled unit that became vacant immediately be deregulated. It was intended to be the slow death of rent control; as the whole city would slowly return to a market rate. The bill also enabled Urstadt Law, which prohibited cities and other local governments from enacting any rent regulation that was stricter than the state law.

The Emergency Tenant Protection Act of 1974 brought those percentages down. The rent stabilization in New York today is still based on that law. The EPTA immediately ended vacancy decontrol and placed all units that had been deregulated back under rent stabilization. The entire premise for New York's rent stabilization laws is based on vacancy rates being at a crisis level, and that they may be lifted if the crisis abates; but that has not happened, and is doubted to ever occur .

This has left a legacy in New York; where units in buildings with 6 or more apartments built before 1974 are generally rent stabilized. The rent laws have been adjusted a number of times, and in some cases for the better. In 1984 the Omnibus Housing Act brought the whole system under state administration and strengthened tenant protections through rent registration. During 1974-1993 tenants in New York enjoyed the right to a lease renewal and rent increases that were capped by the rent guidelines board. Things began to change in 1993 when the state legislature renewed rent regulation, but allowed landlords to deregulate vacant apartments that had a legal rent over $2000; this was then codified into state law in 1994. The 1994 vacancy deregulation allowed a slow, but eventually dramatic and precipitous decline in the amount of rent regulated housing in New York.

WEST COAST

CALIFORNIA: THE INCUBATOR

In this section we will discuss California, who has been an incubator for rent control laws. Each county, city, and the state went through the first two phases of rent control laws; here we pick up in Sacramento, San Francisco, and Los Angeles during the rent stabilization era, which sets the context for modern-day regulations in these cities and the state. Many cities in California including Santa Monica (1979), East Palo Alto (1986, 2010), and Berkeley (1980) as well as city council ordinance, including in Beverly Hills (1978), Hayward (1979), San Jose (1979), and West Hollywood (1985) passed rent control regulations both through ballot measures and City. We then dive into the statewide measures, which do not preempt the local measures if those measures are more stringent than the statewide measure.

SAN FRANCISCO

San Francisco enacted rent control in 1979, with Mayor Dianne Feinstein. There was political pressure to pass such a law due to high inflation rates nationwide, strong housing demand in San Francisco, and the recently passed Proposition 13, which limited annual property tax increase for owners. Due to political lobbying, many tenants believed that the benefits from that would be passed down to renters, and when this wasn't realized political pressure increased tenfold. The 1979 rent control law capped annual nominal rent increases to 7%, and covered all units built before June 13th, 1979 that had 4 units or less. The small multi-family buildings made up around 30% of the rental housing stock in 1990. The law focused on the small multi-family buildings because it was believed they were not as profit driven as the larger scale corporate landlords, and were more similar to the renters; therefore they pushed back less. Though well intended, a loophole was found, and large corporations purchased the small multi-family buildings. This caused a new ballot initiative in 1994, which removed the small multi-family exemption. The ballot barely passed. It stipulated that beginning in 1995, all multifamily structures built prior to 1980 remain rent controlled today, while all those built from 1980 or later were not subject to rent control.

LOS ANGELES

Los Angeles experienced a "bull market" in their single family housing market running from January 1975 to September 1980, where the overall rate of increase in home prices for all of Los Angeles County, adjusted for inflation, was 69%. These increased home values quickly translated to large increases in property tax bills. This kindled a bicentennial tax rebellion, which rolled property tax assessments back to their 1979 values through Proposition 13. The rent control movement, similarly to San Francisco, occurred before this and was sparked by the reaction from property owners who raised rents to try and make a profit even with the new property taxes. Los Angeles went through a battle to get rent control in place. They were defeated in 1976, 1977, until it passed in 1979 with a rollback and moratorium on rent increases was approved, and the City of Los Angeles enacted a one-year-only Rent Stabilization Ordinance (RSO), which was renewed annually until April 1982 when it was made permanent. The RSO sought to balance the needs of the renters and the landlords by allowing rents to rise annually, in accordance with limits the city put in place, as well as the allowance to increase rents for capital improvements, various utilities, and special needs. When a tenant moves, the landlord may then raise the rent to market-price rent, through vacancy control/decontrol. Some units were excluded, such as single family homes, luxury units, and apartments built since the ordinance went into effect in October 1978. The ordinance has gone through many amendments to keep up with the times, and address both landlord and tenant interests.

SACRAMENTO

The Sacramento Tenant Protection and Relief Act went into effect September 2019.The protections apply to all renters in Sacramento who live in apartments, duplexes, mobile home parks, and single room occupancy hotels built prior to February 1st 1995. It applies to tenants who signed leases that are month-to-month or longer. The law also put into effect restrictions around evictions. All tenants who had been living in their unit for more than a year cannot be evicted unless they stop paying rent, are charged with a crime, are illegally selling drugs, fail to give landlords access to the units, or otherwise violate their leases. The bill that was passed was in part supported because it was a softer and less costly measure than a ballot approved for March 3, 2020; which had received 44.000 signatures. That ballot was led by Housing4Sacramento and would have been more restrictive than the bill that was passed. The ballot measure would prohibit a rent increase of more than 5%, with inflation not factored in. It would also create an elected rental housing board that would operate independently of the city; the board would have the power to determine the annual rent adjustment. Further, if a landlord wants to do substantial repairs, owner-occupy, take the unit off the housing market or delimish it they would need to pay at least $5,500 to displaced residents. Other activists are still supporting this measure and reject the city's version. Activists do not approve of the back door proceedings of the bill that was passed, and believe that it is the opposite of open and transparent government.

STATE

The Costa-Hawkins Rental Housing Act, a California state law, was enacted in 1995. It placed limits on municipal rent control ordinances. It prohibited cities from establishing rent control over certain kinds of residential units, ie. single family dwellings, condominiums, and newly constructed apartment units. It also prohibited "vacancy decontrol", also called "strict" rent control. Vacancy decontrol denies or limits an owner's ability to increase rent to new tenants. This state law was enacted to manage the power of California cities to regulate their rental markets.

California has been experiencing extreme pressure in its housing market and is experiencing a housing crisis; that has created political pressure. In 2016 Mckinsey & Co. estimated that California needed around 3.5 million more homes by the middle of the next decade. This is in part due to the longest economic expansion in history, where the U.S.. has been building far fewer houses than it usually does, and pushing prices further out of reach for vast portions of the population. Housing has become a lower and middle class problem in California. The local jurisdiction in California holds a very large ability to sway what gets built. NIMBYism is rampant, and many developments get stalled. To make this issue worse, the planning and zoning do not allow for the densification that needs to occur; for example, ¾ of the residential land in Los Angeles is restricted to single-family homes, and as much as 95% in San Jose according to UrbanFootPrint. As people are pushed further out, there are severe environmental consequences, and residents are residing in forest fire prone areas.

To address all of this, in 2019, there were roughly 200 bills that addressed the state's worsening housing crisis. Most of those bills got nixed by the end of May. Some people refer to this period as the worst month in California's housing policy history. The bills that lost were widespread; assembly bill 1706, which was a proposal to provide incentives for developers to build middle income housing in the Bay area, and Assembly Bill 1481 which would have extended "just cause" protections which would prevent frivolous evictions for all California rents was dismissed with a vote, and many never even reached the floor. Among the other losses was Senate Bill 5, which was designed to fill in the affordable housing gap created by the dissolution of redevelopment agencies was vetoed on Governor Gavin Newson's desk, and Senate Bill 50, which would have done away with some zoning limits to allow for taller, denser housing near mass transit and job centers was banished and is ineligible for a vote until 2020.

Though many bills died, some lived on; including Assembly Bill 1482, the Tenant protection Act of 2019. The bill is designed to prevent the most egregious rent hikes across California, and is effectively the second statewide rent control law passed. The rent control only allows landlords to increase rents by 5% plus inflation each year until 2030, it retroactively applies to increases on or after May 15th, and it bans landlords from evicting tenants without cause. In an attempt to satisfy both parties, pro-and-anti rent control lobbyists, lawmakers wrote in exemptions that drew key support or repelled deadly opposition to the bill. Through the exemption of buildings constructed in the last 15 years, with a rolling date, building trade unions afraid of losing contracts declined to oppose the bill, as did the California Building Industry Association, which represents developers. Through pledging to exempt single-family rental homes not owned by corporations, law markers kept the California Association of Realtors off their backs, though they ended up opposing the bill in the long run. As in Oregon, to help satisfy the tenants groups, lawmakers also tied rent stabilization to a just-cause eviction proposal. In the end the finer details of the exact percentage of the rent cap was determined by Governor Newsom who sat down and negotiated with the California Apartment Association. As the following quote states they "Wanted to strike a balance between tenants having some predictability and allowing landlords to earn a fair rate of return, and that number was a number that the apartment associations did not oppose because they agreed it reflected a balance. That ended up being the sweet spot and the magic number that got this done." Further stipulations included the bill not overriding local rent control laws. Counties such as San Diego, who have never had a countywide rent cap, will have to institute rent control for the first time . The rent control law does cover units that are not already covered. If the landlord wants to convert the apartments into condos or substantially remodel the property, then they will have to pay relocation fees equal to one month of rent. California's statewide rent control will last 10 years, and then it will be up for renewal.

OREGON

In 2015, a tenants activist group called the Community Alliance of Tenants (CAT), in Oregon, announced a Renters State of Emergency. This became the catalyst for Senate Bill 608. Signed on February 28, 2019, created two major changes to the Oregon Residential Landlord Tenant Act by limiting the scope of termination notices without stated cause, and the implementation of a 7% plus inflation rental increase cap. The cap is calculated using the consumer price index for western states as the measure of inflation; each year in September, state economists will calculate the rent increase cap for the next Calendar year. The bill exempts new housing (anything built in the last 15 years) and subsidized housing. If a unit is vacant the landlords are free to raise rents if tenants leave of their own accord; if the tenant is evicted without cause or their lease is not renewed after the first year, the rent increase cap stays in place . Executive Director, Katrina Holland, stated that success in getting the bill passed lies in building a diverse coalition of supporters who educated their members on the issues and who lobbied the statehouse hard throughout the process. Their agenda was named “Fair Shot”, and included the Urban League, Asian Pacific Network of Oregon, immigrants rights groups, trans rights groups, caregivers, and labor unions such as the service workers, grovers, teachers, and government employees. They attributed the bill being passed by the multi-sectoral coalition that drove the narrative that doing nothing was not an options, and repeating the mantra of the trifecta: protect tenants from being evicted, preserve affordable housing, and produce new housing .

ARIZONA, COLORADO, NEVADA, WASHINGTON

Arizona’s state law A.R.S 33-1329, gives the state the sole power to control rents on private residential property . Cities and towns are precluded from the imposition of rent control.

Since 1981 Colorado has had a statewide ban on rent control policies; it was enacted in response to a citizen initiative in Boulder to allow rent-controlled housing. Due to Colorado's massive influx of residents, housing has become exorbitantly expensive. Demand is consistently outpacing supply; causing the average cost of renting to increase from $820 to $1410 . Senate Bill 19-225 attempted to dismantle the statewide ban on rent control policies. It would have given governments a tool to rein in rents; with an amendment stating “it does not create, and is not intended to create a statewide rent control policy” .The bill did not pass the 2019 legislative session.

In 2019 Nevada had several proposals go to the Senate to address home prices, homelessness surge, and a dwindling inventory of affordable housing for the state's poorest. Senator Julia Ratti, took up the crusade for these measures during Nevada’s latest legislative session. Several measures went before the legislature; SB 448, SB 398, SB 256, SB 103, SB 104, SB 473, SB 425.

SB 448 would create a four year pilot project that would provide up to $10 million in annual, state approved tax credits for builders of rent restricted housing units; experts predict this would boost the affordable housing output by 60-80%. The tax credits would also be able to apply to renovating existing affordable housing, raising concerns that developers may just use the bill to renovate. SB 398 would give cities and counties the freedom to come up with their own solutions to combat the housing crisis, up to and including rent control. The bill allows builders to buy their way out of certain affordable housing mandates with a fee paid to local governments, and amendment to this requires officals to use those fees to develop low income units. SB 256 sought to prevent landlords from evicting tenants on the basis of late fees, allowing the tenant a chance to request a chance to fix issues that could cause them to lose part of their security deposit, and gives renters 5 days to gather their items before being evicted. SB 151 would make landlords wait longer (7 days)before evicting a tenant, removing the ability ro evict 5 days after the renter received a notice of default. SB 74 would allow either the tenant or the landlord to appeal an eviction order. SB 103 would allow local governments to slash or eliminate fees charged to affordable housing developers. Supporters say eliminating sewer, impact and permitting charges would expedite much-needed construction of new low-income units. SB 104 sought to expand the scope of an existing low-income housing database. SB 473 was a clean up bill that sought to clarify and expand the state's definition of affordable housing to include housing attainable by individuals making up to 120% of their country's gross median income. The laws passed include SB 256, 448, 151. The rent control bill was effectively blocked.

Washington has experienced a 31% increase in "cost burdened" renters since 2000. Washington's state law requires 30 days written notice to change a term of tenancy, but requires 60 days written notice for any rent increase. The city of Seattle has a law where a tenant is entitled to 60 days prior notice for an increase of 10% or more in a 12-month period. Rent control is illegal in Washington according to RCW 35.21.830; meaning landlords can raise rent as much as they want as long as they comply with the appropriate notice period and have not issued the notice to discriminate or retaliate against the tenant. Tacoma has TMC 1.95, enacted November 2018. It aims to protect tenants and give specific guidance to landlords who operate residential rental businesses in Tacoma. The requirements for landlords are as following: 120-day notice to vacate and relocation assitance for low-income tenants when a landlord intends to change use, rehabilitate substantially, or demolish a dwelling unit, 60-day notice to vacate for no-cause termination of tenancy, 60-day notice requirement for rental increases, and a requirement that landlords distribute information about tenant rights as well as landlord-tenant responsibilities . The new tenant protections included prohibiting retaliation against tenants for exercising their rights under RCW 59.18, allows installation payments for various deposits and fees, codification of relocation assistance when the city declares a building uninhabitable, provides relocation assistance for qualifying termination of tenancy of low-income tenants, and allows tenants to file a complaint for the City of Tacoma to investigate and enforce code.

CONCLUSION

States' response to the housing crisis is varied, and the choice to institue rental regulations is diverse. The above discussion of the topic aimed at describing the historical evolution of rental regulations, explaining current ideological beliefs surrounding the topic, as well as historical and current choices on rental regulations. The implications of rent control in Oregon and California will play out over the coming years; and hopefully inform future decisions around addressing affordability for all in the housing market. As urban areas grow there may be more incentive and political push to come up with a market and socially conscious plan.

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landlord-tenant law in the western states

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Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

Across the Western United States, major legislative changes are taking place regarding housing, and by extension the rights of landlords and tenants. As rents and the number of homeless individuals continues to grow across the western U.S., legislatures are passing measures to try and address the crisis. This paper will address some of the major legislative changes in six of the western states and their cities, both in terms of where the laws regarding tenant and landlord stand now, as well as proposed legislation that may change the landscape of residential real estate.

State	Total Adult Homeless	Per 100k	Total Student Homeless	% Couch Surfing (Doubled Up)
Arizona	10,007	137	24,399	63%
California	151,278	383	263,058	84%
Colorado	9,619	167	22,369	75%
Nevada	7,169	232	20,685	75%
Oregon	15,876	415	23,141	75%
Washington	21,577	283	40,112	74%

US Interagency Council on Homelessness, 2020

HOMELESSNESS

Homelessness continues to be a problem across the United States. Over half a million people in the United States are homeless on any given night (White House, 2019). The U.S. Department of Housing and Urban Development (HUD) conducts a yearly count of the homeless living on the streets. However, many advocates argue that the way the count is conducted results in an undercount of homeless individuals, as it fails to accurately capture people living in temporary housing (Boone, 2019). An example of this discrepancy is the difference between the HUD count, and the count the Department of Education conducts yearly on the number of homeless children in schools. The Department of Education count includes children that are living in temporary housing, such as couch surfing or living in motels or cars, and its findings suggest a much higher rate of homelessness beyond those living on the street (Boone, 2019). The assumption is that adults will find a way to keep their children off of the street through use of temporary housing methods. The graph below illustrates the results of 2020's homeless count from HUD and the Department of Education.

OREGON

In recent years Oregon has passed a number of laws focusing on landlord-tenant rights and responsibilities. 2020 has already become quite a notable year for Oregon housing law, as a number of recent bills, changes, and city ordinances have come into effect.

Rent control continues to be a divisive topic around the United States. Oregon recently passed Senate Bill 608 in February of 2019, the first state in the nation to pass a rent control bill. The bill prohibits landlords from raising rents more than 7%, plus the change in the consumer price index, in a year. Properties younger than 15 years old are exempt, as are those subsidized by the government. Strict penalties exist for breaches of the law, landlords must pay tenants up to 3 months of rent and damages. The city of Portland imposes additional rent limitations on top of the new State law. Under the city ordinance (30.01.085), landlords must give 90-days' notice for any increase in rent over 5%. Tenants may receive relocation assistance of up to $4,500 from their landlord if their rent has increased over 10% (Oregon State Bar, 2020).

There is no maximum limit to what a landlord may charge for a screening fee in Oregon, however, a recent change to state law came into force at the start of 2020, amending ORS 90.295. The change created a more rigorous process for charging a tenant screening fee and makes it illegal to charge an applicant more than once, regardless of how many units the applicant applied for. The fee must be refunded if the unit is filled before screening the applicant, or if the applicant is not screened for any reason. Landlords are only allowed to charge the amount to cover the screening costs and must provide a receipt.

Portland took applicant screening a step further and passed the Fair Access In Renting (FAIR) ordinance which came into effect in March 2020. FAIR made changes to how landlords may consider tenant applicants, requiring landlords to wait 72 hours after posting a listing before considering tenants, and stipulates that applications must be prioritized in the order they were received. Landlords are prohibited from looking at criminal histories past a certain amount of time (3- 7 years) and cannot require monthly income more than 2x monthly rent. The ordinance does not apply to duplexes or accessory dwelling units, but does apply to low-income housing, which has many providers worried that the ordinance may place an extra burden on low-income people (Sorenson, 2020). FAIR also set limits on security deposits, in most cases reducing the amount of that can be charged to 1 or 1.5x monthly rent and accepting installment payments. Landlords are required to only use the deposit for repairs or replacements, must prepare itemized lists, and must repay the amount of the deposit not withheld within 31 days.

Discrimination law in Oregon was updated in 2016 to include sexual and gender identity as protected classes (Fair Housing Council of Oregon, 2016). Additionally, Oregon goes beyond Federal requirements to protect people from discrimination in housing due to their source of income (including Section 8 voucher recipients), marital status, service animals and mental handicaps (Home Forward, 2014).

With the occurrence of the Covid-19 pandemic, Oregon initiated a moratorium on residential evictions until the end of June 2020. Landlords may still file for evictions, though they are required to provide notice to the tenant of up to 30 days depending on the type of eviction. In Portland, no cause evictions under a year require 90 days' notice. Senate Bill 608 prohibits landlords from performing 'no cause' evictions if tenants have lived in the unit for longer than 1 year.

Homelessness and eviction are growing problems in Oregon, particularly in the Portland Metropolitan area (Griffith, 2019). HUD estimates that Portland is home to some 15,000 homeless people, about 12% of whom are young adults or family units, and about 5,000 of whom are chronically homeless (U.S. Interagency, 2020). The 2019 Point In Time Count identified a much lower number of homeless individuals, around 4,000, though credits this partially to the difficulty of tracking individuals with living arrangements other than the shelter or street. A relied-upon statistic in this area is the Department of Education's public school count, which tries to capture a more accurate picture of children's living situations. It is estimated in Oregon that some 23,000 students experience homelessness in 2019, 1,200 of whom are living in motels, while 17,000 were doubled up or 'couch surfing' (U.S. Interagency, 2020). The situation has led to a number of laws passing in 2019, including SB 608, as well as SB 5512, which set aside roughly $50 million for Oregon to address the crisis. The 2020 Oregon Legislature has a number of proposed housing bills to address the crisis, including HB 4002 to fund a study into long term rental assistance programs, and HB 4001, which would allocate $120 million into increasing emergency shelter capacity and building affordable homes (Oregon Housing Alliance, 2020). Oregon has also been seeking to meet additional housing need by passing bills such as HB 2001, which allows for duplexes in single family zoned areas.

WASHINGTON

Washington has been steadily changing its landlord-tenant laws over the past few years to address the State's housing crisis. Washington state law is in some regards remarkably different to its neighbor to the south, though on many counts it shares similar characteristics.

Housing discrimination law in Washington is very similar to Oregon's for example. Sexual orientation and gender identity as protected classes, as well as creed, marital & military/veteran status. Additionally, there are protected classes under city laws, including ancestry in Seattle & Tacoma, and political ideology in Seattle (Fair Housing Center of Washington, 2020). Washington has also passed laws prohibiting landlords from discriminating against Section 8 housing voucher recipients.

There are no maximum limits on what a landlord may charge for a security deposit, though the deposit must be returned 21 days after tenant moves out. Seattle requires the deposit to be paid back in full if no move-in checklist was filled out with the tenant. Washington law forbids landlords to charge a fee to have tenants placed on a waiting list. Recent legislative changes in 2020 to RCW 59.18.280 allows tenants to pay installments for deposits, nonrefundable fees, and the last month's rent. Installments are not required if the total amount for deposits and non-refundable fees does not exceed 25% of the first month's rent, and landlords that break the law are liable for a one month rent plus attorney fees paid by the tenant. State law allows landlords to charge a screening fee that covers the exact amount of the cost of screening and tenants must be provided a receipt and acknowledge via a signed consent form. Move in fees are capped at up to 10% of the first month's rent. In 2018, Seattle passed the Fair Chance Housing Act which prohibits a landlord from considering criminal history by running criminal background checks during the screening process (Keshner, 2018).

Rent control is a hot topic in Washington, with the most recent legal development occurring in 2019 under HB 1440, requiring landlords to give 60 days notice of any rental increase greater than 10% in Seattle and Tacoma (Lloyd, 2019). Interestingly, under RCW 35.21.830, rent control has been illegal under state law since 1981, and therefore, no restrictions exist on how much landlords may raise the rent so long as they meet the new notice requirement (Tenants Union, 2020). Despite the Democratic super-majority in Washington's State Legislature, doubt has been expressed that the rent control restriction will be lifted any time soon (Bertolet, 2019). However, the state did pass a number of laws in 2019 such as HB 1406, which allows a portion of the state's sales tax to be used to fund housing programs, and SB 5334, which encourages condo building, in order to start addressing some of Washington's urgent housing needs. Rents in the Seattle area for example, have risen by 69% over the last 10 years, causing large number of evictions, and more than 23,000 people in the Seattle area to pay more than half their income in rent (City of Seattle, 2020).

Washington's eviction laws mandate that tenants receive 10-14 days' notice for breach of lease, and 14 days' notice for vacation of the property under SB 5600 (Tenants Union, 2020). State law allows for 'no cause' evictions, as a House bill designed to change this died last year. However, Washington has currently issued a moratorium on residential and commercial evictions due to Covid-19 until the beginning of June (Gabobe, 2020). Seattle law prohibits 'no cause' evictions and requires that landlords must provide tenants with housing relocation assistance if they are under 50% of the median income, or if their building is to be redeveloped (City of Seattle, 2020). Similar to the other west coast states, Washington State is facing a homeless crisis, with an estimated 21,000 people, and some 40,000 school age children experiencing homelessness (U.S. Interagency, 2020). To address the crisis, lawmakers passed a number of bills last year directing a portion of sales tax proceeds to fund affordable housing programs and has been focusing this year on expanding housing capacity (HB 2343) and relaxing rules around ADUs (HB 2630, SB 6617).

COLORADO

Colorado has not passed tenant-landlord laws as stringent as those in Oregon or Washington. However, the past two years has seen a number of bills pass to extend tenant rights, and to begin to address the number of homeless in the state. No form of rent control exists in Colorado though discussion is beginning to take place around the topic. The Colorado Supreme Court ruled in the early 2000s that it is illegal for cities to impose rent control under a 1981 State Law that bans rent control practices (Pankratz, 2000). In 2019, a bill to limit rents and repeal the state ban on rent controls was introduced in the Colorado Senate but failed to pass (Wingerter, 2019). In Denver, 60 days' notice must be given on proposed rent increases.

Colorado recently passed the Rental Application Fairness Act (2019) which made several changes to the screening process for tenants. Landlords may only charge the cost of the screening, must provide a receipt, and are required to make a "good faith effort" to return any of the unspent fee money. The Act prohibits landlords from considering convictions older than five years (except for sexually related offences), allows them to review only the prior seven years of a tenant's credit history, and prevents them from considering non-conviction related arrests (Klazema, 2019). This legislation represents a significant change to housing law in Colorado, as there were previously no limits on what a landlord could charge to screen a tenant. Security deposits follow a similar vein, as there are no limits on what landlords may charge. Deposits must be returned within one month of a tenant moving out, and deductions are allowed for unpaid rent, damages, or unpaid bills (Eberlin, 2019). Colorado discrimination law closely mirrors that of Washington's. Sexual orientation, ancestry, creed, and marital status are all additional protected classes (Colorado Department of Regulatory Agencies, 2020). Unlike Washington and Oregon however, there are no protections for Section 8 housing voucher recipients.

Eviction in Colorado must be initiated through a court order and 'no cause' evictions are illegal. The Colorado legislature changed eviction law in 2019 under HB19-1118 which extended the notice of residential eviction for non-payment from 3 days to 10. A notable exception was for landlords who own 5 or less single-family homes, who may provide a shorter 5-day notice. HB19-1170 expanded the definition of a 'habitable' home in Colorado to include mold and broken appliances as determining whether a property is fit to abide in. A number of proposed bills for the 2020 legislative session seek to bring Colorado more in line with the other western states, including limiting the amount of late fees a landlord may charge (HB20-1141), the right for the tenant to appeal an eviction (HB20-2234), and the right for the court to suppress a tenant's eviction record from future scrutiny (HB20-1009). Colorado issued an eviction moratorium for 30 days at the end of April due to Covid-19 (Konnoth, 2020).

The homeless situation in Colorado has not been as drastic as that of other western states, though the 2019 count registered approximately 9,600 homeless individuals, and 22,000 homeless students (U.S. Interagency, 2020). Colorado law prohibits camping on the street, and the city of Denver enforces this through the sweeping of homeless encampments (McCormick, 2020). The Colorado legislature has started to address the homeless problem through a number of affordable housing bills. In 2019 the legislature increased the tax credit allocation for affordable housing (HB1228) to $10 million and passed legislation (HB1322) to expand affordable housing by $30 million per year through the acquisition, construction, and refurbishment of housing. The 2020 session is considering bill HB20-1035 to build a better statewide housing supportive service as well as a possible income tax credit for the Colorado Homeless Project (HB20-1335).

ARIZONA

Compared to the other states analyzed for this report, Arizona has not been as active in changing its existing housing laws.

Arizona state law prohibits discrimination based upon the classes identified under the Federal Fair Housing Act. Phoenix city laws protect additional classes which include including pregnancy, sexual orientation, domicile of a minor, and gender identity and expression (City of Phoenix, 2020). Arizona possess a similar stance to rent control as Colorado by specifically reserving rent control powers for the state and prohibiting cities from creating their solutions (A.R.S. § 33-1329). As a result, there is no form of rent control in Arizona. Additionally, there is no limit on what a landlord may charge for a screening fee, and landlords may consider evictions, credit ratings, and income in their screening process (City of Phoenix, 2020). Security deposit amounts are limited to 1.5x the monthly rent and must be returned 2 weeks after tenant moves with an itemized list included.

Arizona eviction law allows tenants between 5-10 days to cure their breach of the lease, and certain illegal acts performed by the tenant (homicide, prostitution) allow the landlord to end the lease immediately. Arizona requires residential landlords to ensure that the property is habitable for humans, including requiring that ventilation and air-conditioning are properly working. Landlords are prohibited from removing an essential service to the tenant to force them to act in a certain way, including shutting off the air conditioning. The tenant may pursue damages in such cases. Additionally, Arizona allows landlords to issue an unconditional 10 day right to quit in cases where a tenant has not provided information of prior criminal convictions during screening (Community Legal Service, 2020).

Recent legislative proposals such as HB 2115 have sought to create uniform renting standards across Arizona and have faced fierce debate between proponents for clearer legislation, and opponents who argue that such uniformity will not work in Arizona (Fischer, 2019). The bill has passed the Senate and the House, but as of the time of writing, has not been signed by the Governor. Arizona like many of the western states is also facing an affordable housing crisis, with homelessness increasing to around 10,000 individuals, as well as 24,000 school children (U.S. Interagency, 2020). Members of the state legislature introduced several bills to address the crisis, including creating a state tax credit for affordable housing, as well as expanding additional tax exemptions on low-income housing (Arizona Department of Housing, 2019).

NEVADA

Nevada law protects the additional classes of pregnancy, sexual orientation, domicile of a minor, ancestry, and gender identity/expression from discrimination (Clark County, 2020). The state currently has no form of rent control and possess a similar stance to rent control as Colorado and Arizona, namely reserving the power to pass rent control laws for the state rather than the cities. Last year, the Nevada legislature proposed and killed Senate Bill 398 that would have allowed cities to create their own rent control laws (DeHaven, 2019).

Nevada requires landlords to give 45 days' notice of any rent increase and stipulates that there is no limit on what a landlord may charge for a screening fee, though late fees are capped at 5% of the rent (N.R.S. Chapter 118A). Security deposits are limited to 3 months' rent and must be returned up to 30 days after the tenant moves out. Tenants may use a surety bond for the deposit, and landlords may only use the deposit for unpaid rent, damages, or a reasonable cleaning fee (O'Connell, 2020).

Nevada recently changed its eviction laws in 2019. Under SB 151, an eviction notice must be served by a professional (attorney, constable, or sheriff) and limits late fees charged to the tenant to no more than 5% of the monthly rent. Tenants now have 7 days to pay rent after being served notice, followed by a second 5-day notice to then vacate the property. No-cause evictions are legal in the state, however they require a 30-day notice. Landlord must allow tenants to access property up to 5 days after eviction to reclaim any property. Nevada law allows for summary evictions which can only be used when the issue is possession of the rental unit (NRS 40.253 & NRS 40.254). Summary evictions result in a hearing, and under Senate Bill 74 (2019), tenants now have the right to appeal. Requisites for a summary eviction are for tenants to be in 'Unlawful Detainer' of property, possessing it without a legal right to do so, and that the tenancy must have been legally terminated. Nevada has passed a moratorium on evictions for the length of the state of emergency due to Covid-19.

Nevada faces a similar affordable housing shortage as Arizona. The most recent count of homeless people in Nevada found approximately 7,100 adults were in some form of homelessness, as well as 20,000 students, 75% of whom were couch surfing (U.S. Interagency, 2020). It is estimated that Nevada has a shortage of more than 73,000 homes for low-income residents, though the legislature passed SB 448 last session to try and address this. Most affordable housing money in Nevada comes from HUD, and SB 448 created a $10 million per year tax credit, the first new source of money for affordable housing since 1995 (Segall, 2019). Additionally, the Nevada congress passed SB 151 on evictions, and SB 103, which gives greater flexibility to Clark and Washoe counties to reduce or subsidize building permit fees to try and encourage affordable housing.

CALIFORNIA

In addition to federal housing discrimination law, California State law includes state protections under the Unruh Civil Rights Acts from discrimination against ancestry, citizenship/immigration status, primary language, age, mental & physical disability, sexual orientation, gender identity, genetic information, marital status, source of income (including Section 8), and military/veteran status (California Department of Fair Employment and Housing, 2020). California limits the amount of money that may be charged for a screening fee to a maximum of $35. This maximum fee is updated annually based upon the consumer price index and must be refunded if not fully utilized. Landlords are prohibited from charging a fee if no unit is available. Recent passage of AB 110 now requires 90 days' notice before a landlord may increase the rent more than 10%. Up to 60 days' notice are required for evictions in California (California Courts, 2020).

Security deposits in the state are limited to 2x monthly rent if unfurnished, or 3x monthly rent if furnished. An exception exists for active service members, who may pay half the required deposit. Deposit must be returned within 21 days of a tenant leaving the unit. Under San Francisco law, landlords are required to pay tenants interest accrued upon their security deposit. Tenants have additional protections under the California Public Utilities Code than are found in many other states. Where utilities are sub metered but paid by the landlord, the tenant has right not to have utilities shut off even if landlord stops paying. The Utilities Code specifically prohibits landlords from price-gouging shared or sub-metered utility bills, and tenants are given the right to apply for reduced utility bills if they have life-supporting equipment in their homes.

A new statewide rent control law, Assembly Bill 1482, 'Tenant Protection Act 2019', came into force at the start of 2020. The bill ended 'just cause' evictions and made rent increases of greater than 5% plus the local rate of inflation illegal, though it exempts properties that are younger than 15 years old and does not replace many existing city laws (Chandler, 2020).

Cities in California have long been hindered from passing their own rent control legislation by the Costa Hawkins Rental Housing Act from 1995 that set limits on what kind of rent control policies they may adopt. Costa Hawkins sought to protect the rights of the landlord by allowing them to raise rents of units to market rate after a tenant vacates, and by prohibiting rent control measures on units built after 1995. It also exempts single-family homes and condos from rent control legislation. There is a growing call for the act to be repealed, and the initiative has successfully qualified for California's ballot in November 2020 (Chiland, 2020). As a result, cities such as Los Angeles and Santa Monica have some form of city rent control, but the laws apply only to units built before 1979. Sacramento created headlines by passing a city ordinance on rent control last year, limiting rent increases to no more than 10%, but only for buildings built before 1995 due to the limitations of the Costa-Hawkins Act.

California is the worst hit state for homelessness in the United States, with over 150,000 homeless people, and over 200,000 homeless children (U.S. Interagency, 2020). Los Angeles is the center of the crisis, with an estimated 59,000 homeless people, which has led to a number of successfully passed measures over the past few years, both to buy new housing for homeless people (Proposition HHH 2016) and to increase city sales tax to fund housing initiatives (Measure H 2017) (Lozano, 2020). The California legislatures 2020 session is working on several initiatives to address the housing crisis. SB50, which would have eased zoning restrictions to allow greater density, failed to pass the Senate, though a number of other bills have garnered much attention, including the now approved SB899, which would allow churches and nonprofit hospitals to build affordable housing on their land. Notably SB902 seeks to expand upon the failed SB50 and eliminate single family zoning across the entire state. Dozens more housing bills are included in this year's legislative session, primarily focusing on zoning, fees, and ADUs. California has issued a moratorium on evictions due to Covid-19, however, work is underway in the legislature to offer more permanent relief to tenants, mainly through bills such as AB828 which would allow tenants to have a court reduce their rent by up to 25%.

CONCLUSION

It is clear that many of the western states are facing the same problems. Rising rents, lack of affordable housing, and growing homeless populations are causing legislatures to seek solutions. California continues to be the state worst hit by these problems and is working to address them with a large number of bills. States such as Arizona and Nevada are influenced by the solutions of their neighboring states and have begun to update their existing tenant rights and programs to build affordable housing.

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housing supply constraints in the western states

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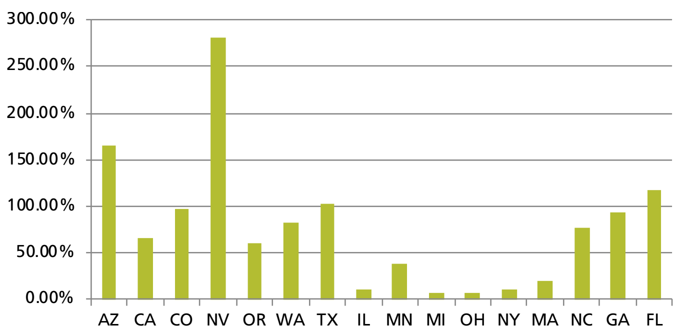
Housing policies have been a central focus of many local, state, and even federal regulations to address issues of access and affordability. These policies are many and wide in range; everything from tax policies to zoning laws create long-term, ripple effects in the housing market. Some legislatures are actively adding more barriers to development; perhaps it is a function of different interpretations of what causes inequity in housing affordability. The complexity of the issue of housing affordability is made even more convoluted when considering the heterogeneity of each individual market, and how overreaching federal policies can have positive effects in some markets and quite negative effects in others. Since the market for housing is driven by demand and more often than not, the private sector delivers the supply, the effectiveness of housing policies relies on a particular market's ability to produce more supply.

FIGURE 1.1
POPULATION GROWTH BY STATE, 1980 - 2019



This paper will seek to analyze housing policies in select major markets in six western states— Arizona, California, Colorado, Nevada, Oregon, and Washington— and to what extent rising land prices, home prices, and rental rates are a response to regulatory barriers to housing production, demand shocks, and geographical constraints. This analysis will include an assessment of existing policies that create barriers to housing development in each state and local jurisdiction by analyzing rates of production, price trends, and population growth, both over time and variations within the market. Additionally, this paper will discuss current legislatures that are actively adding or removing barriers to development and how these policies might affect forecasting prices and rates of production.

INDIRECT EFFECTS OF SUPPLY ELASTICITY ON WESTERN MARKETS

These six western states have seen a combined population increase of 82% since 1980, 37% higher than the nationwide growth rate, and a 30% share of the total national growth during the same period (FRED). Figure 1.1 displays total population growth by each state, from 1980 to 2019, and includes other states that contain cities in the 20-city composite Case-Shiller Indices for comparison. Fundamental urban economics suggests that strong growth in local populations typically elicit a response of increased production of housing, however responses to demand shocks vary from market to market. Economists Edward Glaeser and Joseph Gyourko argue that the conditions of local housing markets can be roughly categorized into three different classifications: markets with high demand and low production rates; many markets found on the coasts; high demand and high production rates; major markets of the south; and low demand with low production rates; some markets in the south as well as the Midwest (Glaeser & Gyourko, 2008).

In markets where demand is high, housing will typically respond with increased pricing, but this response can be temporary or permanent depending on a market's ability to react to the demand with an increased production of supply. The S&P/Case-Shiller Indices provide an excellent resource in measuring the growth of median home values in 20 select metropolitan regions in the U.S. By comparing median value growth rates of select cities over time along with their respective rates of construction, the indices can help demonstrate how rates of housing production correlate to the rate of increase in median home values.

Table 1 displays the growth rates of median home prices of the 20 cities in Case-Shiller indices at intervals of 10 years from 1990 to 2020, where the year 2000 is normalized to a value of 100 in order to compare growth

TABLE 1

Market	Y-o-Y MHP Growth Rate (1990 -2019)	Y-o-Y MHP Growth Rate (2000 - 2019)	Median Home Value as of Q4 2019	Construction rate as a % of total inventory 2000 - 2018	Construction rate as a % of total inventory 2008 - 2018
Seattle	5.06%	4.82%	$ 528,800	32.53%	14.87%
PDX**	5.46%	4.55%	$ 410,900	29.66%	12.47%
SF**	4.44%	5.03%	$ 990,000	13.91%	6.67%
LA*	3.62%	5.45%	$ 722,650	11.57%	5.49%
SD	3.93%	4.98%	$ 655,000	18.16%	6.89%
Phoenix	3.74%	3.53%	$ 295,400	47.76%	12.26%
LV	3.23%	3.42%	$ 309,300	65.19%	13.01%
Denver	5.29%	4.14%	$ 458,000	37.63%	14.83%
Dallas	N/A	3.34%	$ 268,600	45.55%	19.77%
Chicago**	2.48%	1.83%	$ 254,700	15.00%	3.87%
MSP	3.51%	2.99%	$ 287,000	22.68%	8.60%
Detroit**	N/A	1.29%	$ 194,700	10.85%	3.23%
Cleve.	2.26%	1.20%	$ 159,400	8.98%	3.07%
NY***	3.12%	3.60%	$ 409,800	12.97%	6.61%
Boston**	3.85%	4.13%	$ 482,800	12.68%	6.25%
DC	3.16%	4.38%	$ 436,200	36.02%	13.61%
CHA	2.82%	2.61%	$ 258,500	56.50%	19.91%
Atlanta**	N/A	2.22%	$ 232,000	49.81%	11.92%
TB	3.41%	4.14%	$ 248,000	35.03%	11.76%
South Fla.**	3.87%	4.63%	$ 368,500	21.24%	6.48%

rates of home values across heterogeneous markets. Additionally, the table displays median home values in real dollars for each metro region as of the fourth quarter of 2019, sourced from the National Association of Realtors (NAR) local market reports, and the rate of construction calculated from data extracted from the Department of Housing and Urban Development building permit portal. The selected cities of the Case-Shiller indices represent major markets across the United States, including the west and east coasts, the south and the Midwest. Of the 20 cities, 8 of the biggest western markets that will be discussed in this report are represented, while some of the secondary markets in the six states of this study are not represented, such as Reno, Nevada; Tucson, Arizona; Sacramento, California; Tacoma, Washington--however this last city is represented as an incorporation of the Seattle Metropolitan Statistical Area (MSA).

It should also be noted that the Case-Shiller data reports repeat-sales of homes, as the sale of new homes cannot demonstrate value-growth until they have been sold to a second owner. Secondly, the median values reported by the NAR also reflect only existing home sales and rely on realtors to report transactions to a local multiple-listing service (MLS), and as such do not report for-sale-by-owner transactions.

Finally, as noted on the table, the Case-Shiller metro regions differ slightly in geographic boundaries than the MSA's defined by the NAR, and even further, neither may fully correspond to the number of building permits issued in total county numbers as reported by HUD, but the comparison of the data will at least provide insight into any patterns that may emerge between rates of construction and rate of median value growth. Hypothetically, if all the markets had zero barriers to building and the production of housing responded to demand without the presence of external factors, those markets with the highest rates of growth should be complemented by higher rates of construction.

As the table demonstrates, 4 out of the top 5 cities with the highest growth rates in median value over 30 and 20 years are on the west coast, with South Florida being the exception in the 20-year period, and Denver being the exception over the 30-year period, although Denver reflected similar growth patterns as many western cities and is considered part of the western regional market.

The rate of construction was calculated by dividing the cumulative building permits issued between 2000 - 2018, as well as 2008-2018, by the total inventory in the housing market area to determine the percentage amount being produced over an 18 and 10-year period, respectively. Despite the fact that western west coast cities like Seattle, Portland, San Francisco, Los Angeles and San Diego have some of the highest median home prices, highest rates of price growth, and positive population growth, construction rates in these cities reflect the inverse. Cities with the highest production rates tend to have lower overall median home prices. Markets like Charlotte, Atlanta, Dallas, Las Vegas, and Phoenix, where demand is also strong, have all produced roughly half of their total housing stock in the last 18 years, and between 10%-20% of total stock within the last 8. These markets all have median home prices around $300,000 or less.

The indices imply that there are external factors on home values such as land use laws, infrastructure availability, zoning restrictions, tax policies, geographical constraints, and various other factors that may be restricting the ability for builders to produce more housing, limiting the supply and driving prices upwards, which will be assessed from market to market later in this report.

If markets had no regulatory barriers or geographical constraints, hypothetically the rate of construction should also correspond to the rate of population growth. Figure 1.2 outlines population growth, compared to the relative rates of construction. Despite the fact that western states had some of the highest growth in the last 40 years, Figure 2 demonstrates that the actual, major markets located in these states reflect different levels of demand, possible reflecting rising prices. Western markets that typically have higher regulatory barriers to construction, such as the California markets, Portland, and Washington have seen far less growth in the last 20 years than inland western markets like Las Vegas and Phoenix, that typically have a more elastic supply of housing.

Lastly, it is important to note the relationship between renting and owning a home. Typically, rising home prices will price out the lower end of demand for sales housing which increases competition in the rental markets and would then have the effect of increasing rental rates, and

FIGURE 1.2
POPULATION GROWTH & CONSTRUCTION RATES

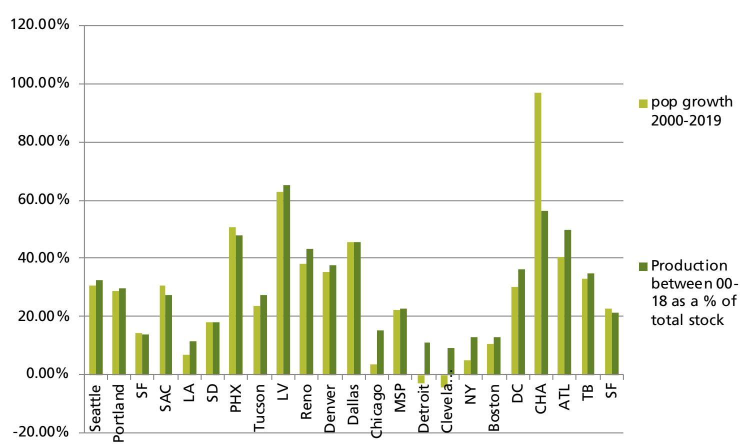


FIGURE 1.3
MEDIAN HOME VALUES, Q4 2019

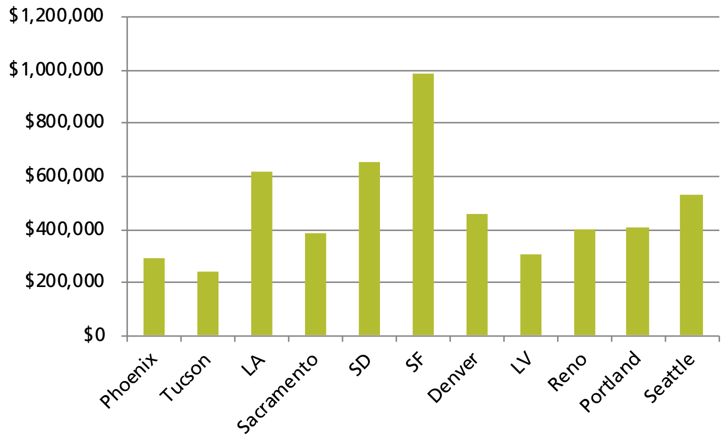


FIGURE 1.3
MEDIAN RENTAL RATES, Q4 2019

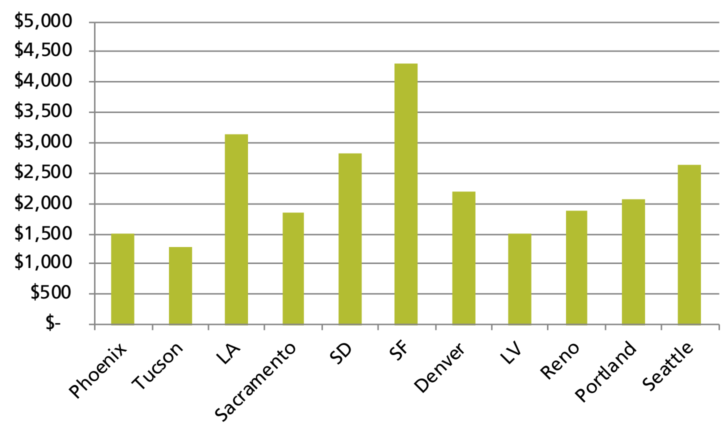
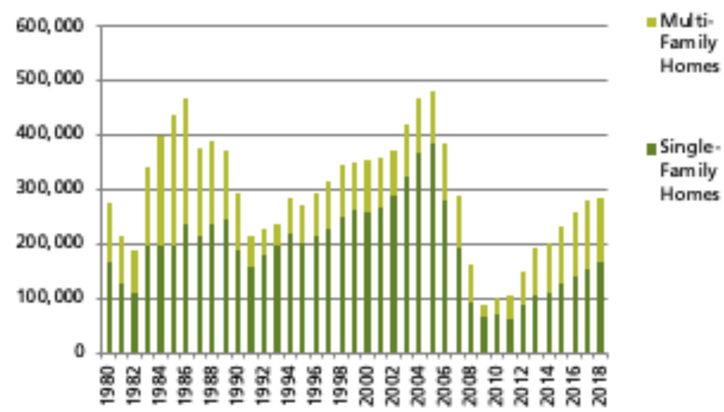


FIGURE 1.4
COMBINED PRODUCTION BY UNIT TYPE 1980 - 2018



vice versa. While this is not always the case, it is typically rare to see otherwise. A simple side-by-side graph comparison can illustrate the proportional rental market response to sales home prices (Figure 1.3). Data for median sales home values were sourced from local market reports from the National Association of Realtors (NAR), while median rental rates were sourced from the Zillow Rental Index, both are priced to date as of the fourth quarter of 2019.

Geographical constraints will be addressed by assessing the type of building being produced, assuming that a response to constraints would be to produce more multi-family units. Analyzing the type of unit being produced helps to clarify how markets respond to land supply constraints, if local housing policies favor single-family units to multi-family units, and how this affects total supply. Geographical constraints likely became an issue over time, as the majority of housing production consisted of single-family, detached residential units, which take up more square footage per resident. Figure 1.4 represents the combined-total units of housing produced between 1980 - 2018 for all six western states, separated by multi-family and single-family units. Nearly 50% or more of total annual housing production were single-family units.

Policies that favored single-family units lead to decreased land supply and strong communities, increasing the overall land values by decreasing total available supply per resident. Logically, it is understandable why single-family units are typically in higher demand, as increased values benefit homeowners, despite creating higher costs overall. Additionally, tall urban structures cost more per square foot, which would incentivize cheaper short-term production of single-family homes if demand is high, despite creating future supply constraints that will drive land prices up in the long term.

This report will now assess the various regulations, land use laws, tax policies and geographical constraints that may be directly affecting western markets' ability to build and indirectly affecting prices as a result. This report will move in state-alphabetical order, starting with Arizona.

ARIZONA

The state of Arizona recorded a population of 7,278,717 as of 2019, about a 30% increase in population from 2000 and double the population increase nationwide, which was roughly a 15% increase (FRED). Despite the state doubling the growth rate of the national average, median home prices according to Zillow's Home Value Index (ZHVI) record Arizona's median home value at $277,574, or 10% higher than the national median home value. Zillow's Rental Index (ZRI), recorded rental rates just 4% lower than the national rate at $1,529/month. These figures demonstrate that despite strong regional growth in the state, prices reflect that the rate of housing production is maintaining pace with demand in the region, comparative to the surrounding housing markets nationwide.

Possibly the most notable housing policies in the state are centered around the Uniform Residential Landlord and Tenant Act of 1972 (URLTA), which sought to standardize landlord/tenant relations nationwide. So far, of the six states in this study, only Arizona, Oregon, and Washington have adopted these guidelines. Other notable legislation in the state includes HB 2115 and 2358, both of which relate to landlord/tenant relations in the state. HB 2115 sought to establish statewide, standardized landlord/tenant laws, keeping local jurisdictions from being able to regulate and alter the uniform code after December 31st, 2018. This bill, which passed in February 2019, allows local jurisdictions to maintain differences in landlord/tenant laws passed previous to the issuing of the bill.

HB 2358, signed in June 2019, further specifies landlord rights in stating that rent payments subsidized by rental assistance organizations are acceptable, provided that the full rent payment is still covered; partial payments are still considered grounds for eviction. Lastly, SB 1471 redirects property tax revenue on land sold and owned by the state to outside investors into a housing trust fund. This last bill doesn't increase property tax revenues per se, so theoretically it would have limited impact on investor sentiment in the state, but it does indicate that attention aimed specifically toward buyers from out-of-state reflects a large amount of investment in the Arizona real estate sector. The senate bills regarding landlord and tenant laws let landowners exercise greater power over their income streams, indicating a property-ownership-friendly environment.

PHOENIX MSA

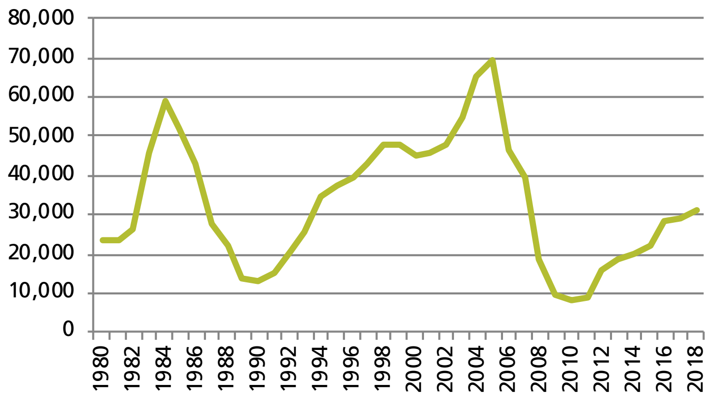
The Phoenix MSA, which includes Maricopa and Pinal Counties, contains nearly 5 million residents and 68% of the population share of Arizona. According to census data, the two counties have seen an average growth rate of 16.5% since 2010, and have averaged a year-over-year growth rate of 2.08%, though the area has seen weaker growth overall post-recession, at a rate of 1.64% (FRED). NAR recorded an average median home price of $295,400 as of the 4th quarter of 2019, and 108% of the national median. Rental rates were just over $1,500 dollars in January 2020, on pace with the national median (ZRI, 2020).

SUPPLY ELASTICITY & PRODUCTION RATES

Phoenix, and Arizona in general, have typically been considered business-friendly environments, which have attracted enormous growth to the region over the last ten and twenty years. During the years leading up to the great recession, the state of Arizona passed Proposition 207 in 2006, which declared 'just compensation' for any reduced value caused by the local regulatory environment, initially titled the Private Property Rights Protection Act. The act also allows the government to grant waivers in lieu of compensation if the challenged regulation does not apply to the property 90 days after the claim is filed.

Additionally, the law prevents the state from exercising eminent domain on behalf of a private party, which prevents the government from using police power to increase tax revenue. This law has exceptional impacts on the city of Phoenix, which was the fastest growing metro region from 2000- 2019 among the 11 metro regions in this study (see Figure 2). Proposition 207 essentially allows landowners to negotiate the rezoning process with city and state officials, indicating that a good amount of control in the built environment lies with landowners. A survey published by the National Apartment Association (NAA) from 2019 indicates that the largest constraints to production in Phoenix were land constraints and infrastructure costs, followed by construction costs, the entitlement process, and community involvement.

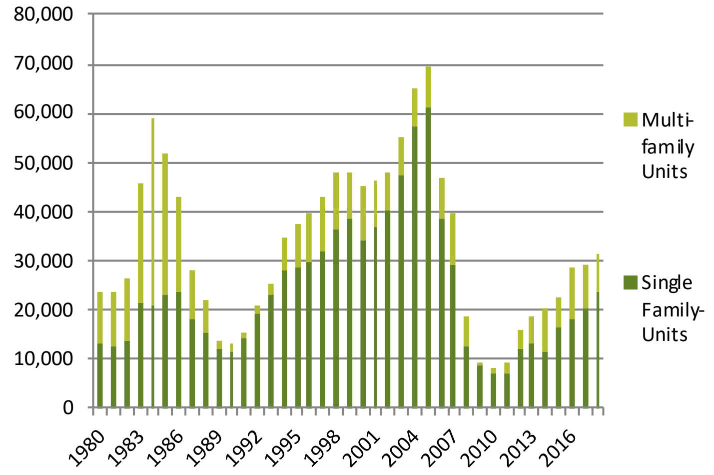
FIGURE 2.1
TOTAL PERMITS PHOENIX MSA



Despite strong incentives for housing development, as of 2018, the Phoenix metro has only produced about 43% of its peak production numbers in 2005, which may be contributing to rising home prices in the region (Figure 2.1). However, the population increased 4.33% from 2004-2005, while growth from 2018 -2019 was just 2.04%, indicating that supply is largely keeping pace relative to demand in the Phoenix housing market area (HMA). The 3.53% year-over-year median home price increase coupled with a lower percentage of new housing starts suggests that available, developable land in the region is becoming increasingly limited. Indeed, a recent study by Metrostudy, a residential data provider, indicates that vacant, developed land has dropped 5.1% from 2019, which suggests that the market is absorbing much of the abundant, new home supply provided in the early 21st century, driving prices up as available land within HMA boundaries dissipates (Sowers, 2020).

However, the absorption of new homes into the Case-Shiller repeat-sales indices and the median home values recorded by the NAR reveal that despite rising home values since the recession, the Phoenix MHV remains the lowest of the eight western cities covered in the index, maintains the second lowest median value growth rate, and has produced nearly half of its total housing stock between 2000 - 2018, indicating strong elasticity in the HMA (HUD). Relatively low home prices and rental rates indicate that the builders in the Phoenix HMA are addressing these land-supply constraints with increased multi-unit structures relative to single-family structures. The annual rate of permits for multi-family structures have bounced back to pre-recession levels, averaging around 7-8,000 permits annually, while single-family production remains only about 38%

FIGURE 2.2
PERMITS BY UNIT TYPE, PHX



of the pre-recession numbers, as demonstrated in figure 2.2. At any rate, multi-family production makes up an average of 30% of total production from 2012-2018, nearly double the share of total production from 2000-2007, which averaged 16% of the total production share.

Overall, the market maintains strong production relative to demand, though less overall production is leading to temporary price increases. The charts indicate that production is picking up again, reflecting strong elasticity in the market. Limited land supply may be resulting in decreased single family home production, and may also account for the increased share of multi-fam production. Land costs are also likely contributing to rising home prices, but overall, the amount of building has maintained relatively low prices. Additionally, investors are pumping more money into Phoenix again, who is reluctant to over-build after getting hammered in the recession, which could be a factor in limited building.

TUCSON MSA

The Tucson MSA, which is located entirely in Pima County, recorded a population of 1,047,279 and 14% of the population share of Arizona, as of 2019. The area has seen a 5.96% rate of growth over the last 10 years and an average year-over-year growth of 1.06%, but like Phoenix, the average rate of growth was about 0.65% post-recession (FRED). Median home values were at $242,700 as of Q4 of 2019, 89% of the national median (NAR). Tucson also saw strong growth in home values post-recession, seeing stronger spikes in appreciation in 2017, appreciating about 10% per quarter during the year. Despite these gains in median value, Tucson remains largely affordable by nationwide standards, with median rental rates just under $1,300 as of 2020, 81% of the national median rental rate (ZRI, 2020).

SUPPLY ELASTICITY & PRODUCTION

David Godlweski, president of the Southern Arizona Homebuilder's Association, accounts for this spike in home value growth to the city streamlining the permitting process and cutting down excess time on development approval, according to local publication Inside Tucson Business (Boan, 2018). Additionally, the city of Tucson has been investing more in road and infrastructure improvements, which has attracted larger businesses such as Caterpillar, a construction equipment manufacturer, and the expansion of Raytheon Facilities, a technology firm (Boan, 2018). As such, Regulatory barriers are few and far between, as Tucson has not seen quite the same demand as Phoenix, and therefore housing production has not run into heavy supply deficits over the last twenty years. While Phoenix had slowed production

FIGURE 2.4
TOTAL PERMITS TUCSON MSA

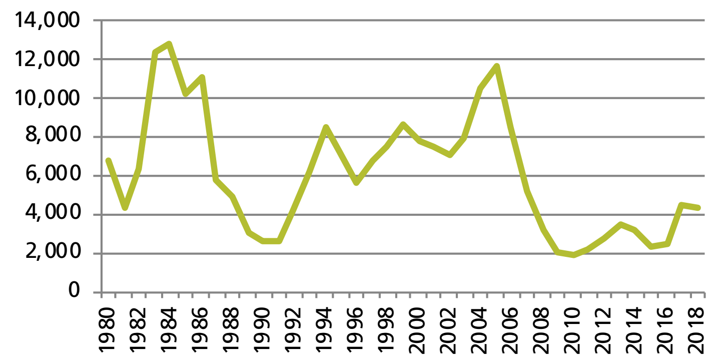
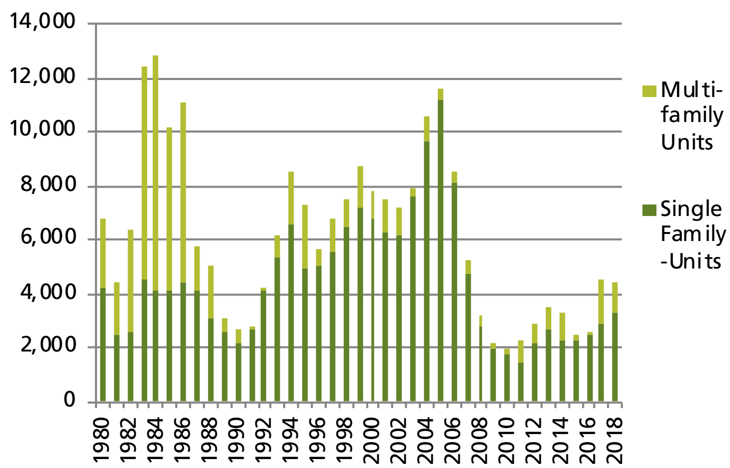


FIGURE 2.5
PERMITS BY UNIT TYPE, TUC



post-recession, building only one home per 4-5 new residents a year from 2011-2015, Tucson has maintained a production ratio of 2.20, which may contribute to lower overall home values in the region (HUD, FRED).

Some barriers in the region might include environmental impact regulations, such as the rainwater harvesting ordinance of 2008 (10597), Solar readiness ordinance of 2008 (10549), and the greywater landscape piping ordinance of 2008 (11089). These all create more added requirements for builders, though there is no strong evidence to suggest that these ordinances alone cause any serious supply constraints, and indeed offer alternative solutions to costly infrastructure expansion.

Figure 2.3 demonstrates total building permits in the Tucson MSA from 2000-2018, indicating similar patterns to Phoenix; The area has been building significantly less after post-recession as well, but on the whole, has produced nearly 30% of its housing stock in the last 18 years, indicating high elasticity to demand shocks. Figure 2.4 depicts the single-unit/multi-unit structure ratio, building mostly detached-single family homes, with an increase in total production in the years of 2017 and 2018, corresponding with recently relaxed government regulation toward building and infrastructure investment.

On the whole, the state of Arizona has had the second strongest regional growth out of the six states in this study, with the Phoenix metro adding 1.5 million people from 2000 to 2018 (Figure 1.2). The state, and its largest city, Phoenix, have had strong production rates and low regulatory barriers relative to other western states, contributing to lower median home prices and rental rates. The low regulatory environment and high rate of building exposes the state to large housing bubble risks, but permitting data indicates a slower overall production of housing in the wake of the 2008 recession. Though recent trends indicate rising values, the state is likely to maintain current production levels in light of possible geographic constraints and to avoid risking another mortgage crisis.

CALIFORNIA

The state of California recorded a population of 39,512,223 as of 2019, about a 14% increase in population since 2000 and approximately 1% less than the national growth rate (FRED). Despite maintaining a similar growth rate to the national average, California's median home price is around $578,000 as of March 2020, and roughly 57% higher than the national median home value, according to the ZHV Index. As of January 2020, California's median rental rate was $2,657, or 40% higher than the national median (ZRI, 2020). The high price of living and middling growth rate of California with respect to surrounding western states imply that housing supply is relatively inelastic.

Land use laws and policies in California are renowned for their restrictive nature, involving environmental agencies and advocacy groups that have had a strong history of styming development in various housing markets. Perhaps the policy with the longest-lasting effect is Proposition 13 from 1978, which has indirectly affected high prices and low supply in the state. Proposition 13 is a tax provision that benefits long-time homeowners at the expense of everyone else, in that it restricts property tax increases on homes until they have been sold or remodeled, which burdens newly-constructed homes with increased tax rates to offset the loss from existing homes. This tax provision also creates fiscal incentives for municipalities to build commercial properties over residential construction to recoup lost tax revenue from housing, further exacerbating supply deficits according to Bloomberg Analysts Noah Buhayar and Christopher Cannon (Buhayar & Cannon, 2019).

Another large policy-issue in California that creates inelasticity stems from the inception of the California Environmental Quality Act (CEQA), and to a lesser degree, the California Coastal Commission (CCC). Both agencies were created with the goal of preserving the California landscape from excessive environmental harm, but have histories of abuse by local communities looking to prevent further development for personal interests. A study from 2015 by environmental and land use law firm Holland & Knight analyzed all CEQA lawsuits between 2010- 2012 and revealed that less than 15% of lawsuits were filed by organizations with a history of environmental advocacy (Hernandez, 2015), and also found that 80% of lawsuits were filed against infill development, which is typically considered more environmentally-friendly than suburban greenfill sites.

Another report by the California Legislative Analyst's Office in 2016 reported that CEQA appeals delayed projects an average of 2.5 years in California's 10 largest cities (Taylor, 2016). Various other news sources have cited the abuse of CEQA from other politically-motivated groups from anti-abortion activists to labor unions. The CCC also has strong political power over development in cities like San Diego, Los Angeles, and the Bay Area, where many of the metro regions are centered close to the coast. Most land along the coast is not zoned for infill development, further exacerbating housing supply issues in critical locations.

FIGURE 3.1
TOTAL PERMITS 1980 - 2018

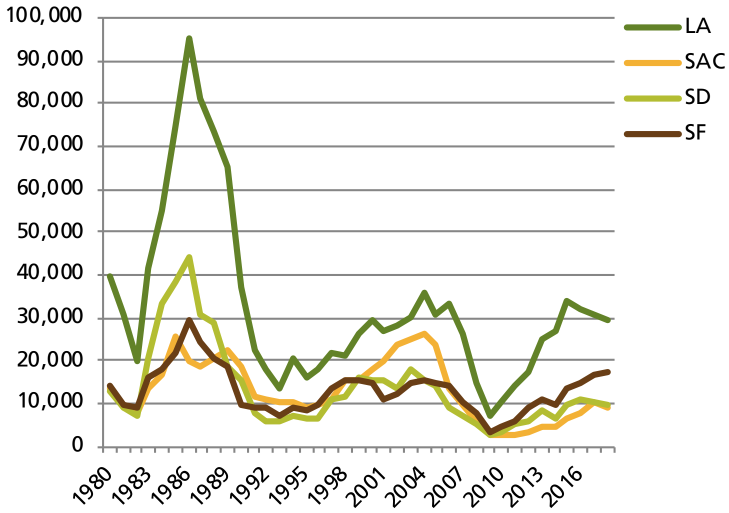


Figure 3.1 displays permitting levels over time from 1980 - 2018 in California's four largest markets: Los Angeles, Sacramento, San Diego, and San Francisco/ Bay Area. Between the years 2000 - 2018, these four large markets have only produced 50 - 75% of the housing produced between 1980 - 1999, essentially building less as the population grows. Permitting trends seem to be both direct and indirect effects from these policies, indicating strong barriers to development as housing production between 2000 - 2018 slowed to an average of 17% of total inventory among the four markets. After analyzing municipal barriers and unit-type production in relation to rising home prices, this study will assess current state legislation and the possible impacts it will have on production and prices.

LOS ANGELES MSA

The Los Angeles MSA, which includes Los Angeles and Orange Counties, contains a little over 13.2 million residents, about one-third of the entire population of California. Despite its population wealth, the LA Basin has only seen an aggregate growth rate of 2.5% from 2010- 2019, and an average year-over-year growth rate of 0.32% from 2000- 2019, one of the lowest rates of metro regions in this study (FRED). Average median home price between LA and Orange Counties is around $700,000; Los Angeles County at $617,300 and Orange County at $828,000, 227% and 304% of the national median (NAR). Median rental rates ranged between $2,800 - $3,100 between the two counties (ZRI).

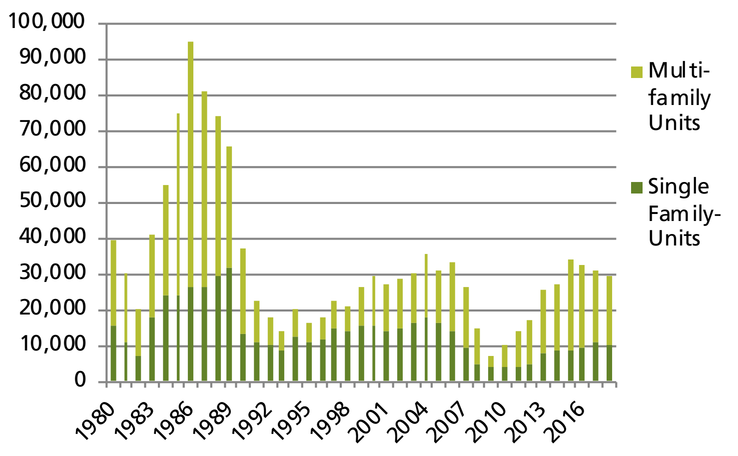
SUPPLY CONSTRAINTS & PRODUCTION

According to Urban Footprint, an urban market data provider, and by way of Bloomberg, three quarters of residential land in Los Angeles is restricted to single-family zoning (Buhayar & Cannon, 2019). Most supply constraints in the Los Angeles MSA are a result of extensive, single-family residential zoning, and even as much as half to three-quarters of the land in the state is zoned only for single-family housing, according to UC Berkeley's Terner Center of Housing via the L.A. Times (Dillon, 2019). The 2019 NAA survey cites the biggest constraint to building in the L.A. HMA as being land supply, followed by construction costs and affordable housing requirements (NAA, 2019).

Despite median home prices and rents nearly double the national median, and possibly in response to it, the Los Angeles HMA is starting to see increased production, especially in multi-family housing as the area turns to infill development to accommodate a growing demand in a limited space (Figure 3.2). However, construction permit data in Figure 3.2 demonstrates that production numbers still remain far below annual production rates from the 1980's. Despite slowing demand and population growth since the 1980's and 1990's, the population has steadily been rising at a year-over-year rate 0.32%, while the median home price has been growing at a year-over-year rate of 5.45%, from 2000 - 2019 (FRED). Median prices outpacing demand growth at this rate indicate that slow, but steady annual demand of 32 basis points is being met with an annual price increase of 545 basis points, which would further imply a shortage in available supply of housing.

However, the percentage of housing production in multi-family units has gone from just under half the total annual production in 2010 to 66% of total production in 2018, indicating that the L.A. HMA is responding to supply constraints with greater density (HUD). Additionally, single-family unit construction permits only saw

FIGURE 3.2
PERMITS BY UNIT TYPE, LA



two years between 1980 and 1999 that produced less than 10,000 permits, while the period between 2006 - 2017 saw no annual production rates of single-family units over 10,000, reflecting geographical constraints on some level preventing further greenfill development.

The recent increase in applications for single-family permits can possibly be attributed to the State legislation reducing restrictions on utility-connection fees and other barriers against building smaller, secondary backyard homes, known as Additional Dwelling Units (ADU) hoping to infill in the expansive single-family residential neighborhoods in the L.A. HMA. According to the L.A. Times, the city has seen abou 13,300 applications to build ADU's since 2017 (Dillon, 2019).

SACRAMENTO MSA

The Sacramento MSA includes seven counties; El Dorado, Placer, Sacramento, and Yolo Counties make up the Sacramento-Roseville-Folsom CMSA, while Yuba, Sutter, and Nevada Counties make up the peripheral areas of the metropolitan statistical area. The MSA contains 2,215,770 residents and approximately a 6% share of the total state population. The Sacramento metro has seen an 8.78% rate of growth in population from 2011- 2019, and has averaged a year-over-year growth rate of 1.35% from 2000 - 2019. Median home prices as of Q4 of 2019 were $385,000, 140% of the national median (NAR). Median rental rates as of 2020 were at $1,842, 15% higher than the national median (ZRI, 2020).

SUPPLY CONSTRAINTS & PRODUCTION

The Sacramento metro region is affected by many of the same elements that affect other California metro regions, in that it suffers from land constraints within urban boundaries and a high proportion of single-family homes relative to the population. Many of the causes of Sacramento's rising housing prices are similar to that of many metro regions in that it is still recovering from a housing deficit after the recession of 2008. As the economy began to recover, demand for homes caused the median home price in Sacramento to increase 45% from 2012 to 2013 from a low of $149,250 in 2012, according to a housing review from the City of Sacramento (2013). Otherwise, perhaps the most prominent policy constraints include fees to incentivize affordable housing. Chapter 15.40 of West Sacramento's municipal code contains inclusionary zoning, charging fees of $6,476 per unit in lieu of providing inclusionary housing. Section 22.35.050 of the Sacramento County Code charges a fee of $2.92 per square foot of each market-rate unit provided, forcing the private sector to subsidize affordable housing in the region.

FIGURE 3.3
PERMITS BY UNIT TYPE, SAC

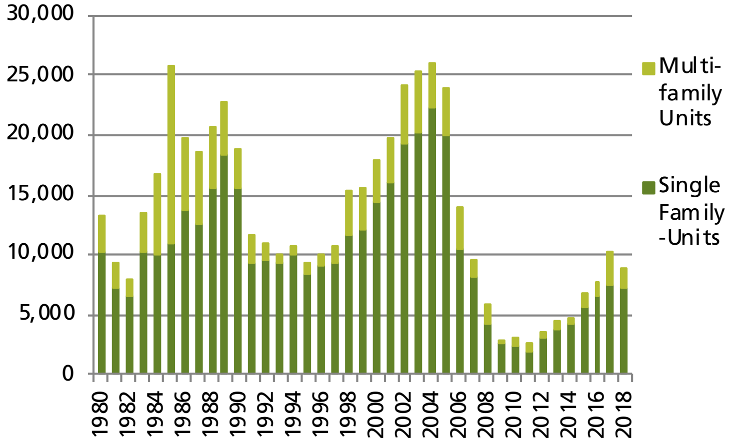


Figure 3.3 displays permitting by unit-type in the Sacramento MSA, indicating that the market strongly favors single-family homes in the area, with the largest share of production of multi-family homes reaching 33% in 1987 (HUD). While Sacramento has been largely building single-family homes, it is clear that permits for multi-family homes have decreased in recent years, potentially due to increased fees for the affordable housing fund set up by the county. The numbers from HUD also suggest a weakness to housing recessions in the Sacramento market, as it saw huge spikes in production before the recession in the early 90's as well as the recession of 2008.

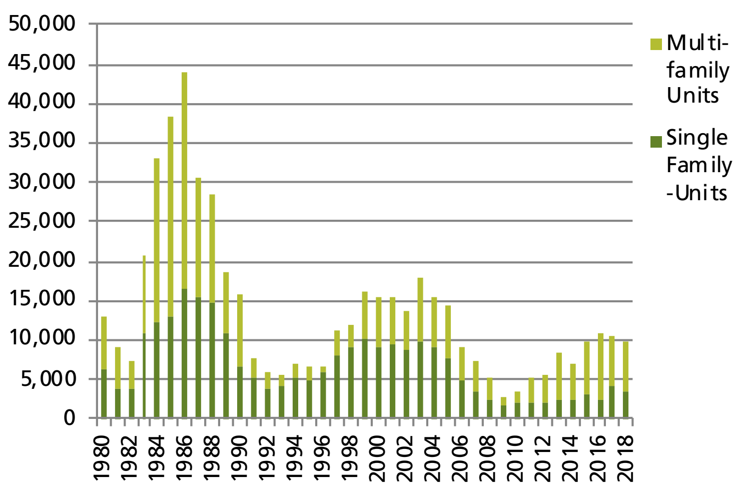
SAN DIEGO MSA

The San Diego MSA is completely encompassed in San Diego County, and recorded a population of 3,338,330, an 8% share of the state-wide population. The San Diego market saw a population growth rate of 6.41% from 2011- 2019, and averaged a year-over-year growth rate 0.84% from 2000 - 2019, seeing similar trends as the Los Angeles market, though with slightly stronger demand. Median home prices have reached $655,000 as of Q4 of 2019, 241% of the national median (NAR). Rental rates were just over $2,800 as of 2020, 75% higher than the national median rental rate (ZRI).

SUPPLY CONSTRAINTS & PRODUCTION

Many of the supply constraints in the San Diego area revolve around a variety of factors, but mostly due to the land development code and the airport land use compatibility plan. The San Diego metro is ringed with 16 naval and military installations, in addition to San Diego International Airport. The proximity of the airport to San Diego's downtown, along with topographical constraints, have limited height and density in key neighborhood areas close to the central city core, according to the City of San Diego's Housing Element (2010). Additionally, the majority of these neighborhoods contain planned development covenants that restrict changes to the area, which has forced much of the development outward rather than upward.

FIGURE 3.4
PERMITS BY UNIT TYPE, SD



Strong suburban development from the late 90's to the years before the recession of 2008 made up, on average, 64% of total development (1996-2006) with the maximum share at 85% ('96) and the minimum share at 52% ('06) (HUD). Figure 3.4 demonstrates similar numbers in single-family production throughout the 1980's, but these numbers are offset by a greater share of production going toward multi-family units. It isn't until about 2011 that the San Diego market sees multi-family units make up the majority share of housing production, although the overall numbers have shrunk considerably from earlier years, as we have seen as the common trend in most western markets. The San Diego HMA produced 18% of the total housing stock from 2000 - 2018, which matched with an 18% increase in total population during the same period (FRED). However, the Case-Shiller indices report that the San Diego market had the 3rd highest year-over-year growth rate in median home value at 4.98%, indicating that matching rate of production with population increase is only maintaining current housing deficit levels. Indeed, the 2019 NAA survey indicated that the main barriers to production in San Diego were land supply, environmental restrictions, community involvement, and construction costs.

SAN FRANCISCO MSA

The San Francisco MSA consists of Alameda, Contra Costa, Marin, San Francisco, and San Mateo Counties, recorded a population of 4,729,484, and a 12% share of the state-wide population. The San Francisco MSA has seen its population grow 7.65% from 2011 - 2019, and has an average year-over-year growth rate of 0.67% (FRED). The MSA includes San Francisco, Oakland, and other parts of the northern bay area, and has by far the highest median home price in this study at $990,000, 364% of the national median, and actually down since Q2 of 2019 from 1.05 million (NAR). Median rental rates as of March 2020 were around $4,312, about 270% higher than the national median (ZRI). Only Santa Clara County, which compromises the southwestern bay area, recorded higher median home prices in Q4 of 2019, at $1,246,000. The Bay Area has attempted to respond to these prices with various housing policies and increased density production.

SUPPLY CONSTRAINTS & PRODUCTION

The Bay Area has seen prices fall from the first half of 2019 to the second half of 2019, though it is unclear whether this reflects slowing demand because of unattainable prices or an efficient supply increase of denser housing. The effects of rising prices in the San Francisco MSA are not limited to housing production, but also various municipal measures that have limited growth in the past. Proposition M was approved by voters in 1986, declaring that developers cannot build more than 875,000 square feet of office space within a 12-month period (Smith-Tenta, 2020).

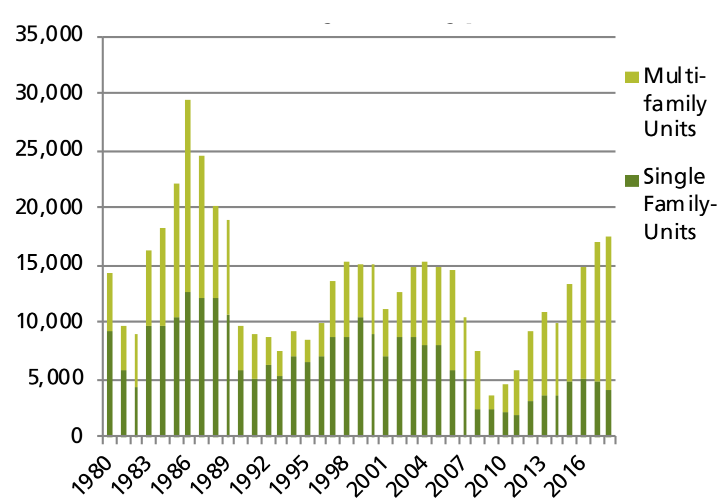
Anti-development measures have continued into the 21st century, with recent office development regulations now affecting the housing market. The recent approval of Proposition E ties the amount of developable office space to the city's affordable housing goals, capping office development in order to incentivize affordable housing production. According to Costar analysts, 2,042 units of affordable housing would need to be produced in order to allow 875,000 square feet of office space (Smith-Tenta, 2020).

Proposition D, which passed on March 3rd, 2020, sought to tax landlords on vacant storefronts, with the intent on providing support to small businesses. The measure seeks to block landlords from removing small and medium-sized retailers, and resulting tax revenues would go to a fund to help small businesses. San Francisco has also recently altered their zoning to mandate mixed-use in core-city areas, but real estate analysts suggest this measure might disincentivize mixed-use production if landlords risk taxes on vacancies in addition to the lost income (PYMNTS, 2020).

In addition to rent control and inclusionary zoning, these measures introduced by the municipal government involve altering the equilibrium of supply and demand in the free market, and may see negative effects in their policy if development is not incentivized to build in the region. Restricting certain types of development to encourage others may result in an unequally-tighter supply of space, exacerbating prices. The 2019 NAA survey also suggests that in addition to political complexity, construction costs, land supply, affordable housing requirements, approval timelines, infrastructure constraints, environmental restrictions, and community involvement have all contributed to barriers in apartment construction.

The San Francisco MSA seems to have also met its threshold for single-family homes, as Figure 3.5 illustrates. From 1980 to 2007, single-family unit construction permits ranged between a minimum of 5,000 to 10,000 permits. Over a 30-year period (1990-2019), the San Francisco HMA has seen a year-over-year growth rate in median home price of 4.44%, and a rate of 5.03% from 2000 to the present, indicating that strong, single-family home production has had effects on land supply, and possibly, higher prices, indirectly (FRED). While the graph also demonstrates a high production of multi-family units, The city of San Francisco contains 4,972 people per square mile, according to 2018 estimates by the U.S. census. The high level of density on a limited land supply and high levels of single-family production imply indirect effects on increased housing prices. Local, anti-large-scale-development policy as an attempt to mitigate higher prices in the region may also be contributing to lack of production and indirectly affecting prices, though there is no true objectively analytical process to measure this. However, 2013-2018 saw higher overall production rates of multi-family construction, making up 66-75% of total annual production share, which may have recently helped to ease rising prices in the region (HUD).

FIGURE 3.5
PERMITS BY UNIT TYPE, SF



State-wide policies on the table for the next legislative cycle in California will likely include a number of altered bills introduced in their last session, many of which were tabled as municipal governments were reluctant to adopt aggressive, state-level housing policies that may not account for heterogeneous factors within each market. The UC Berkeley Terner Center for Housing has archived many of the recent updates in California legislation, and the following information is a courtesy of their 2019 California Housing Legislation Roundup.

Perhaps the bill that would have had the biggest effects on California's housing production was SB 50, proposed by State Senator Scott Weiner and backed by Governor Gavin Newsom.

SB 50 was a proposal to upzone near transit centers and allow the construction of four-plexes in single-family, residential neighborhoods, but so far has been tabled three times because many local politicians fear it removes too much control from local government. Advocates for affordable housing were also against it, for fear that the bill may spur gentrification and displacement (Dillon, 2020). The bill had been amended to include affordable housing components, but still hasn't passed in the Senate.

Other notable bills in the California legislative session of 2019 include AB 1763, which expands density bonuses for 100% affordable housing projects, especially transit-oriented-development projects. AB 1763 passed, as well as AB 68, 881, & 670, which were bills advocating for infill development by eliminating restrictions to ADU development in single-family homes and restricting homeowner's associations from banning ADU development.

SB 330, SB 13, and AB 1483, are all more or less alterations to earlier bills that have helped to reduce impact fees, make the approval process more transparent and organized, and expedite building permit processes. Lastly, AB 1485 creates more flexibility for Bay Area projects, increasing the median income percentage for IZ requirements. Additionally, funds have been established to bring in revenue for more affordable housing projects.

While many proposed housing bills were stalled in the state legislative session of 2019, incremental changes to encourage infill development have been successful, though will likely not produce the number of units that are necessary to achieve equilibrium in the housing supply, relative to demand. The ADU bills create infill mostly on a voluntary basis, and do not provide large-scale supply immediately. Bills that have created processes to expedite development projects may help California see some increase in production, but many restrictions remain in place; CEQA requirements, Inclusionary Zoning, and Rent Control tend to offset some of the other deferrals in permitting, according to the Building Industry Association of Southern California, the Los Angeles/Ventura chapter in their 2019 Emergency Housing Response Kit. The report argues that all types of development needs to be encouraged at this stage, and not just transit-oriented development and affordable housing (BIASC, 2019).

As a result, housing production may see some increase in production, but unless state laws can align more closely with municipal interests, or if municipal governments took more aggressive action, it is unlikely that California will see massive increases in housing production if restrictions continue to deter developers. As the charts demonstrated, building production in the 21st century hasn't reached high numbers seen in the 1980's, indicating earlier levels of development and demand than a state like Arizona, which saw much higher rates of construction from the mid-90's to the mid-00's. California's historical housing production data provides some insight into the long-term fallout of certain housing policy choices.

COLORADO

The state of Colorado recorded a population of 5,758,736 as of 2019, about a 25% increase in population since 2000 and approximately 10% higher than the national growth rate (FRED). The steady growth rate in Colorado has seen prices rise with demand, with the state's median home price reaching to about $403,000 as of March 2020, or 38% above the national median (ZHVI, 2020). Median rental rates are $2,012 as of 2020, seeing a particularly high increase between 2014 and 2016 (ZRI, 2020). The current median rate is 21% higher than the national median. Despite the western half of the state being occupied by a large portion of the Rocky Mountain Range, the state has little geographic barriers to development to the east, indicating inelastic supply and possibly policy constraints on development.

While the 2019 legislative session focused largely on Tenant/Landlord Law which will be covered in a specialized study on the subject, the 2014 state legislative session saw a few bills enacted and a few stalled regarding valuation, construction, and affordable housing components. SB 14-080 loosens restrictions on appraisal credential requirements, which could possibly reduce costs for developers, but also exposes developers to risk of improperly valued properties. HB 14-1165, if not postponed indefinitely, would have required 95% of all construction costs due on the date of invoicing, with exceptions to projects under $150,000, single-family home construction, buildings with 4 or fewer residential units, or projects with public entities. This bill would have reduced flexibility to large-scale developers and increased incentive to build single-family homes.

With regards to the affordable housing component, SB 14-216 and 14-219 were both stalled, and would have required the Colorado Department of Housing (DOH) to design a proposal for statewide incentives for affordable housing development and assemble an affordable housing analysis as well. The trends in statewide legislation demonstrates the state's unwillingness to address affordability as well as showing limited interest in increasing housing production.

The 2016 legislative session saw minor alterations in zoning in various municipalities that allow the development of tiny homes, and the 2017 legislative session introduced more affordable housing options, with the state electing to largely fund assistance through housing vouchers, which typically give lower-income people more mobility than in-kind assistance to housing. SB 17-021 approved the housing voucher program, while HB 17-1309 and SB 17-085 were attempts to increase fees to finance a statewide affordable housing fund, both of which were postponed. Despite anti-growth sentiment in many Colorado, communities, legislation points toward a developer-friendly environment.

DENVER MSA

The Denver MSA includes Adams, Arapahoe, Broomfield, Clear Creek, Denver, Douglas, Elbert, Gilpin, Jefferson, and Park Counties, and recorded a population of 2,967,239, approximately half of the statewide population share. The population has grown at a cumulative rate of 14% from 2011 - 2019, and has seen an average year-over-year growth rate of 1.52% from 2000 - 2019 (FRED). Median home prices have grown 4.14% year-over-year from 2000 - 2019, and 5.29% since 1990 (FRED). As of 2019, median home prices were $458,000 as of Q4 of 2019, 168% of the national median (NAR). Median rental rates were $2,176 as of March 2020, approximately 137% of the national median (ZRI).

FIGURE 4.1
TOTAL PERMITS DENVER MSA

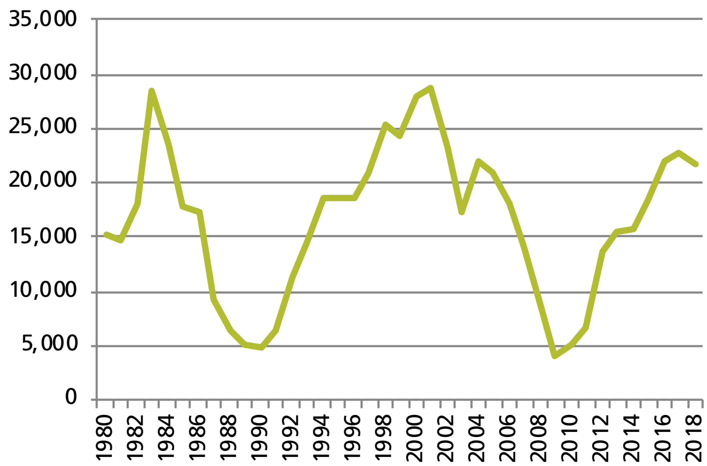
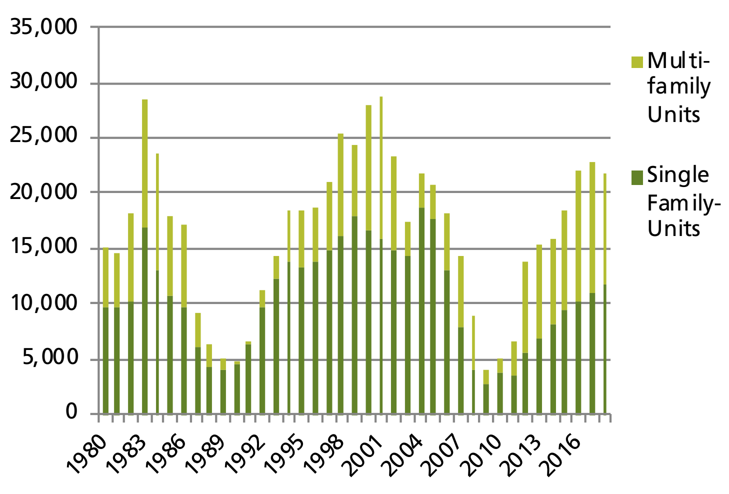


FIGURE 4.2
PERMITS BY UNIT TYPE, DEN



SUPPLY CONSTRAINTS & PRODUCTION

The Denver Metro has become increasingly anti-growth, despite seeing strong population gains in recent years. Most notably, the City of Lakewood passed Question 200 in 2019, which limits housing growth in the city to 1% annually; this would restrict building to approximately 700 units per year, according to the Denver Post (Aguilar, 2019). Boulder has a similar measure, and the city of Golden has had a growth cap since 1995. This pattern almost escalated into a proposed ballot measure called Initiative 122, which would have allowed for voter-approved limits on housing growth, for all municipalities, but was recently shut down (Karlik, 2019).

Other issues involve the various metro districts within the Denver HMA, which are agencies designed to finance public improvements that are not otherwise being offered. These metro districts often finance public improvements through increased property taxes, according to the Colorado Association of Homebuilders (2019). Developers in the region tend to use the bonds to finance these improvements for large-scale planned communities, and as a result, current homeowners often receive property tax increases to fund new developments. This might explain anti-growth sentiment in many Denver neighborhoods.

The Denver HMA has seen two major waves of housing production similar to other western markets over the last 40 years-- one in the 1980's, and one from the mid-90's to the mid-00's before the 2008 recession, as evident from figure 4.1. These two waves saw a 50% or larger share of single-family homes (figure 4.2), which may be exacerbating the overall developable land supply, which is noted by the NAA as being the chief barrier to housing production according to their survey (2019). In addition to the growth limits imposed by satellite cities, the year-over-year median home price growth of 4-5% from 1990-2019 seems to reflect these constraints, as median home values in Denver are the 3rd fastest in growth over a 30-year period and tied for 8th in price growth with the Tampa market over a 20-year period out of the 20 markets included in the Case-Shiller indices (FRED).

Although it is tied with the Tampa market in price growth, median prices in Tampa are $248,000, nearly 84% lower than median prices in the Denver HMA. The similar growth rates yet different median values imply barriers to production in housing in Denver, likely due to anti-growth sentiment in the community and extreme caps on housing growth ordained by many of the satellite communities in the Denver market. Despite this, multi-family unit structures have increased in production share post-recession, and might indicate a response to available land by building upward. However, increased building heights typically require higher income streams to subsidize the construction costs, which were listed as the second largest barrier in the NAA survey, which might be responsible for increased rent prices as well.

NEVADA

The state of Nevada recorded a population of 3,080,156 as of 2019, about a 34% rate of growth since 2000 and roughly 20% higher than the national growth rate (FRED). Nevada, along with Arizona, was one of the fastest growing states in the beginning of the 21st century prior to the great recession of 2007. Despite a minor slow down in the ensuing years, the state has seen a quick economic recovery. Median home rates in Nevada have climbed to $305,000 as of 2020, surpassing the national median growth rate in 2013 and quickening its pace since. Though the median home price is 19% higher than the national median, the median rental rates in the state are approximately $30 lower than the national median, around $1,560 (ZHVI, ZRI, 2020).

Nevada, like Arizona, is a state that has seen strong growth in recent years as other western markets have priced out many residents from their respective housing markets. Markets like Las Vegas and Reno have provided affordable options, and the state of Nevada is typically known for being a business-friendly environment. Gambling and tourism are top employers, but are being eclipsed in this respect by large technology firms that have located in the state, presumably also seeking cheaper land for business extensions. Additionally, the state of Nevada has no income tax, which puts more money in people's pockets. Perhaps the most notable legislation regarding housing in the state of Nevada occurred during the most recent legislative session in 2019.

Critical bills include SB 448, which essentially builds off of the state's tax-credit fund for affordable housing, allocating more tax credits from state funds to increase supply of affordable housing units. One housing bill that did not pass was SB 398, which would have deferred housing policy to local governments. Don Tatro, head of the Northern Nevada Builders Association backed the opposition to SB 398, worrying, along with others in opposition, that the passage of the bill might encourage laws like rent control and inclusionary zoning, which essentially require developers to subsidize affordable housing (DeHaven, 2019). Lastly, SB 103 passed, which allows local governments to reduce fees charged to affordable housing developers.

The Nevada state government has responded largely to affordability issues in the state with developer-based incentives, reducing fees and allocating tax credits rather than forcing developers to subsidize housing with rent control and inclusionary zoning policies. These types of developer-incentive policies tend to increase more production overall, mitigating rising prices to short-term periods of demand increase or other external factors like interest rates and incomes. However, unless legislation addresses density incentives, the market will dictate the types of units being produced, and many developers may find that single-family homes, while cheaper to build, will drive land costs up in the long term as developable land dwindles.

LAS VEGAS MSA

The Las Vegas MSA is located entirely in Clark County, Nevada, and is typically known as the Las Vegas Valley. The Las Vegas metro recorded a population of 2,266,715 as of 2019, and accounts for a 74% share of the statewide population. The population has grown at a cumulative rate of 15.54% from 2011- 2019, and has seen a strong, average year-over-year growth rate of 2.46% from 2000 - 2019 (FRED). Median home prices as of Q4 of 2019 were $309,300, 114% of the nationwide median (NAR). Median rental rates in the Las Vegas metro were around $1,500 as of January 2020, 94% of the national median (ZRI). Despite strong population growth, the Las Vegas HMA has only seen a year-over-year median growth rate of 3.42%, ranking it 13th in median price growth out of the 20-city index, implying strong production numbers.

FIGURE 5.1
TOTAL PERMITS LAS VEGAS MSA

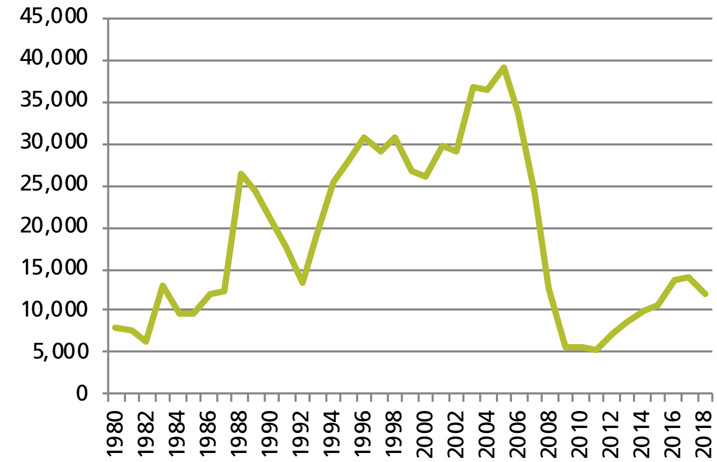
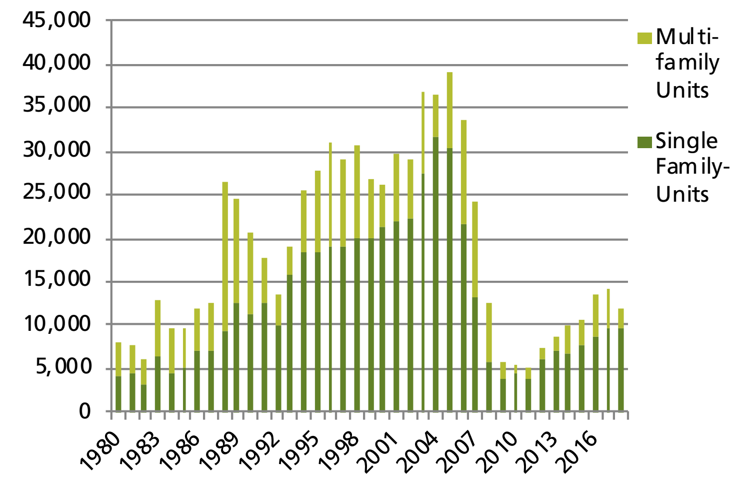


FIGURE 5.2
PERMITS BY UNIT TYPE LV



SUPPLY CONSTRAINTS & PRODUCTION

Las Vegas was one of the many HMA's that was hit hard from the 2008 recession due to a strong production of housing in the years leading up to it. Markets like Las Vegas tend to be prone to overbuilding when market demands are high, but it also means that they tend to recover quickly because of elastic supply regulations to housing production. Despite the senate bills that increased incentives for developers to build by transferring the housing subsidies to local municipalities statewide, AB 421 passed in the 2019 legislative session, which has the capacity for increasing insurance costs for developers because the bill increases buyer's power with regards to litigation in construction defects. While the previous period for filing a claim was 6 years, the bill increased the period to 10 years, which may have an effect on costs for developers and subsequently will increase risk for developers and may lower overall production.

Production numbers in the Las Vegas HMA indicate that the building industry has been favoring single-family unit production, which has made up no less than a 50% share of total production since 1980, with the exception of a few years between 1982 - 1984 and 2008 (figure 5.1 & 5.2). However, production rates between the mid-90's and mid-00's increased dramatically, exceeding peak production numbers from the 1980's by 38%; this contrasts with other western markets in California for instance, where production numbers have yet to exceed numbers from the 1980's in the four comparable markets of this study, with the exception of Sacramento (HUD). Like Phoenix and other high-production markets during the early 2000's, the Las Vegas HMA is still recovering from the recession, but has seen increased production, exceeding 10,000 permits in 2015 for the first time since 2009 (HUD). Prior to 2009, the last time Las Vegas saw annual permits below 10,000 was 1985. Strong production increases can be expected as long as market conditions remain relatively healthy, as LV continues to maintain an elastic supply of housing in response to demand shocks.

RENO MSA

The Reno MSA consists of Washoe and Storey Counties in Northern Nevada, and recorded a population of 475,642 as of 2019, a 15.4% share of the state population. The Reno MSA population has increased 11.16% from 2011 - 2019, and has had a year-over-year average growth rate of 1.62% from 2000 - 2019 (FRED). Median home prices in the Reno HMA reached $398,100 in the fourth quarter of 2019, about 146% higher than the national median, and nearly $100,000 more than homes in the Las Vegas HMA, despite having about one-fifth of the population (NAR). Median rental rates have reached $1,875 as of January 2020, nearly 18% higher than the nationwide median (ZRI).

SUPPLY CONSTRAINTS & PRODUCTION

Rising home values have become prevalent across the region due to a variety of factors, including developable land constraints, costly permitting fees, poor infrastructure, and construction labor shortages, leading to higher construction costs (Hidalgo, 2020). According to Don Tatro, the CEO of the Builder's Association of Northern Nevada, luxury housing developments are the main source of permit numbers in single-family units, as sales housing is seeing a similar problem with financing; most production can only finance the costs with higher sales prices (Hidalgo, 2020). Mayor Schieve blames lack of infrastructure investment on statewide policies to attract new business that didn't account for city expansion to accommodate growth, resulting in development capacity that has been stretched thin (Mueller, 2020). However, the Mayor has initiated permit fee deferrals and sewer connection fee deferrals in order to incentivize more development as of 2020, in order to create a more elastic supply of housing.

The Reno MSA has seen strong growth in the housing market over the course of the decade. According to data provided by the Zillow online real estate database, prices for homes have doubled since 2011, rising to approximately $400,000 in Reno and Sparks, and 46% above the national average (ZHVI). Economic growth has both resulted in and been a factor of the rising population in the Reno HMA, however figure 5.3 suggests that it hasn't quite rebounded to pre-recession levels-- Nevada was hit especially hard because of a strong increase in the production of housing prior to 2007, however has been steadily recovering since 2010. HUD data from 2018 suggests that sales units under construction make up a little less than 20% of the estimated demand, while rental units under construction make up 74% of demand, indicating the shift in demand from home-purchasing to renting, likely due to rising home values in the region (HUD).

FIGURE 5.4
TOTAL PERMITS, RENO MSA

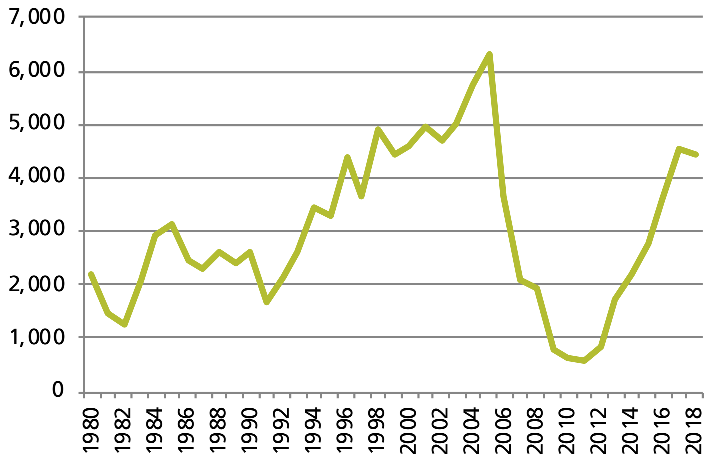


FIGURE 5.5
PERMITS BY UNIT TYPE RENO

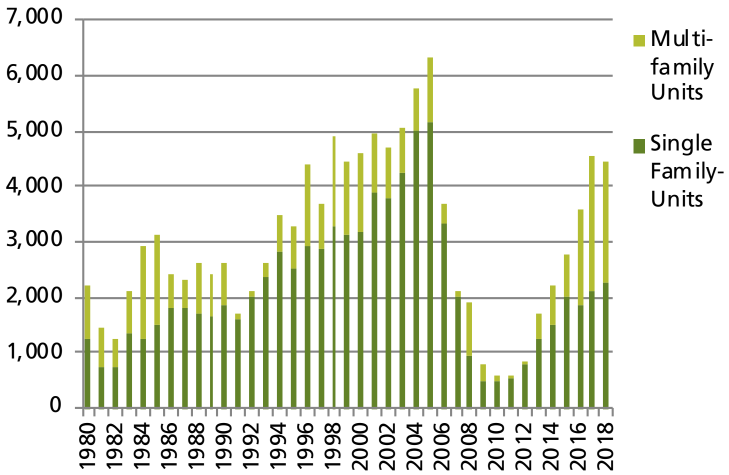


Figure 5.4 outlines the trend of building permits for multi and single-unit residential property types in Washoe County, indicating a growing demand for multi-family units over time due to rising home prices beyond levels pre-recession. However, HUD market reports from 2018 record a large percentage of single-family homes being used as rental units, about 37%, so the contraction of single-family building permits indicates increasing land prices rather than sales prices; the graph demonstrates that multi-family housing is making up a larger share of production, about 50% since 2016 as cheap single-family units become increasingly difficult to pencil on a fixed supply of land with proper infrastructure (HUD). Year-over year production rates for Washoe County record a 14% increase in production from the end of 2018 to the end of 2019. This was a large margin of increase in issued permits compared to 2018, which saw a 3% decrease in production from the calendar year 2017 (HUD, 2020). Nationally, the U.S has averaged a 5% year-over-year rate of housing production from the end of 2017 to the end of 2019, as many in-demand metros struggle to increase their housing stock on pace with the demand in their respective HMAs (Trading Economics Database, 2020).

The volatility of production in the Reno HMA suggests numerous factors at play, namely fluctuations in housing prices and rents as the local government continues to modify regulations and fiscal incentives for building. Rising construction costs and a tight labor pool that have not quite recovered to the numbers before the great recession have also continued to create strain on prices and housing development, exacerbating a tightening supply as the local economy continues to expand.

OREGON

The state of Oregon recorded a population of 4,217,737, about a 19% rate of growth since 2000 and about 4% higher than the national growth rate (FRED). Oregon maintains a steadily increasing median value, capping around $372,000 as of March 2020 as it continues to absorb migrants from surrounding states, maintaining a median price around 33% higher than the national median, only a slight increase from 2010 (ZHVI, 2020). The state's rental rates rapidly increased as it began to break away from the national median in 2014, sitting around $1,800 as of 2020, a 25% increase in 6 years (ZRI, 2020). Since then, the state issued the first statewide rent control law in 2019 in response to the soaring rental rates.

The state of Oregon has seen immense regulatory increases since the 1980's and 1990's, with the last decade or so seeing rent control, inclusionary zoning requirements, and the elimination of single-family residential zoning. SB 608 was the historic statewide rent control bill, signed into law in 2019 prohibiting rental increases by more than 7% in a given year, plus inflation. Oregon also enacted HB 2001, effective August 2019, which removes residential, single-family home zoning (R1) from local zoning codes, allowing duplexes up to four-plexes on one lot in cities with a population of 25,000 or more. Additionally, HB 2700 was not enacted, which would have extended the tax credit payment period another 10 years. HB 3349-A was also not enacted in 2019, which would have removed mortgage interest deductions from taxes on properties other than principal residences. Perhaps one of the biggest bills passed was SB 1533 in 2016, which allowed municipalities to enact inclusionary zoning regulations, and also ended a statewide ban on construction excise taxes.

While the state of Oregon battles affordability issues with housing, the 2016 and 2019 legislative sessions introduced a fair amount of proposals aimed at addressing these issues. Certain bills, such as HB 2001 create more supply elasticity in the state, allowing increased density and construction, while bills like SB 1533 offset this elasticity by discouraging development through reduced feasibility of projects by decreasing rental revenues and increasing taxes. Many other bills were passed on the topic of affordable housing pilot programs and tenant protections. Oregon's rent control law, though restrictive, is actually fairly liberal, since 7% is actually quite a large margin of increase compared to most rental increases, which typically just increase with inflation. According to Costar Analytics, Annual rent growth moderated to about 2.5%, both in 2019 and in 2018, performing far below the rent cap passed at the beginning of the year. Areas in Portland with the lowest rent growth include all three neighborhoods with the strongest construction pipelines, including Northwest, Southeast and downtown Portland. (Anderer, 2020).

Another impediment to increased supply in the state involves the urban growth boundaries set on cities to preserve farmland and natural resources. Although the intent is to increase infill development within urban areas, often times, the market can't deliver projects that generate revenues profitable enough to build in areas that cities designate for infill. Additionally, it creates inequities in land values along the boundary and leads to speculative development leading up to years that the boundary is scheduled to expand. While the state is looking to address housing issues, many policies address demand-side issues while little, with the exception of tax credits and HB 2001, address supply.

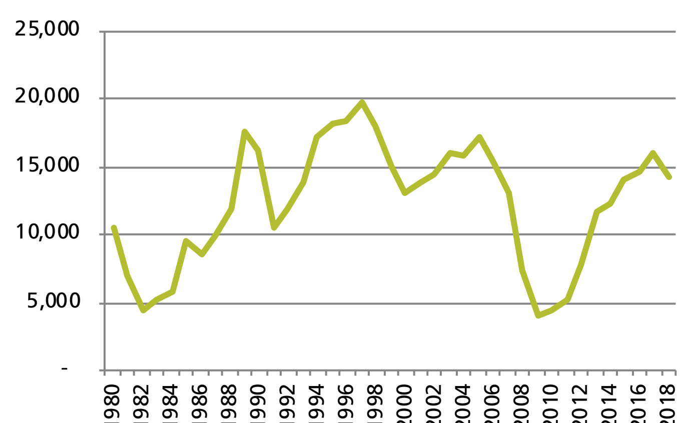
PORTLAND MSA

The Portland MSA includes 5 counties from Oregon and two in Washington across the river to the north, and recorded a population of 2,492,412 as of 2019, a 59% share of the state population. The Portland Metro population has grown at a rate of 10.15% between 2011-2019, and has seen an average year-over-year growth rate of 1.27% from 2000 - 2019 (FRED). The median home price was $410,900 in the fourth quarter of 2019, 151% of the national median home price (NAR). Median rental rates have risen to $2,049 as of January 2020, a 16% increase since the fourth quarter of 2014 and 129% of the national median rental rate (ZRI).

SUPPLY CONSTRAINTS & PRODUCTION

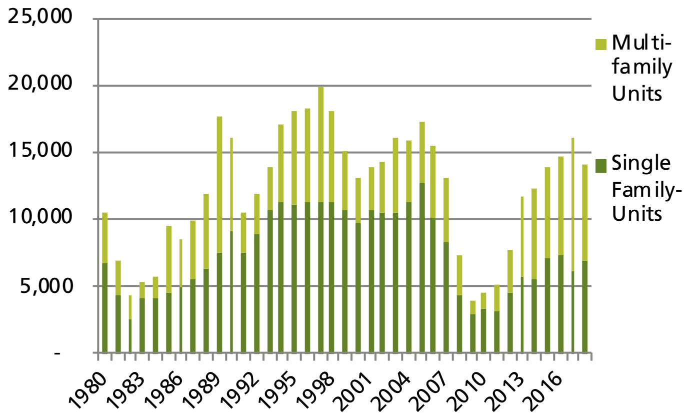
Housing production in the Portland metro is fairly inelastic compared to other markets, which is a result of rapid population growth in the last 20 years and policy responses to the correlating rise in prices. Much of Portland's housing policy rests on the urban growth boundary in addition to recent statewide policies such as inclusionary zoning and rent control. Many local variations of these policies make it even more difficult to produce housing and include extra regulations that slow down the permitting process such as bird-safe window glazing which add extra costs on development and a strong, historical preservation commission which has had political power over design and size of new construction when the site is within the realm of a historical landmark (Tenny, 2020). As of 2020, supply-side housing policies are limited to tax credits for affordable housing development and FAR bonuses to increase density, but have had little overall effect on production rates, which actually decreased by 12% from 2017 to 2018. Additionally, the 2019 NAA survey cited land supply constraints as the largest barrier to construction, followed by infrastructure constraints and community involvement.

FIGURE 6.1
TOTAL PERMITS PORTLAND MSA



The Portland metro has a population of roughly 2.5 million people, which is comparatively similar to the Las Vegas MSA, which has a population of about 2.25 million people. Despite this, the Case-Shiller indices indicate that median home prices in Portland are nearly $100,000 dollars more than median home prices in Las Vegas, and additionally, the Portland HMA has seen the highest year-over-year growth in median home price of the entire 20-city index over a 30-year period (1990 - 2019) and the 5th highest year-over-year growth in a 20-year period (2000 - 2019, FRED). Figure 6.1 might explain this effect, which demonstrates that Portland saw a record high of annual housing permits of 19,780 in 1997, while the record high annual permit numbers in Las Vegas were nearly double that at 39,237 in 2005 (HUD). Despite having

FIGURE 6.2
PERMITS BY UNIT TYPE PDX



roughly 250,000 more people than the Las Vegas MSA, Portland has produced about 35% of the housing that Las Vegas has produced between 1980 - 2018. Other factors notwithstanding, the Portland metro simply has a smaller stock of housing per resident, which might be contributing to higher prices in the region.

Figure 6.2 displays housing units produced by type, and indicates that the Portland metro, like many western markets, has produced largely single-family homes, with recent increases in multi-family unit production share. While supply got hit hard in 2008 like all the cities in this study, production numbers bounced strongly back in 2013, seeing a surge in multi-family housing shortly after in 2014 and 2015 when rental rates escalated to record highs. Portland's highest median rental rate was in the fourth quarter of 2016, which recorded a rate of $2,067, and has since seen rates drop to lows of $1,900 in between then and the current rate at $2,049 (ZRI). This indicates that the increased supply in response to high rental rates seemed to have alleviated price increases-- temporarily, at the very least.

WASHINGTON

The state of Washington recorded a population of 7,614,893 as of 2019, a 22% increase since 2000 and about 7% higher than the current national growth rate (FRED). Like many of the other western states, Washington has maintained higher median home prices than the national median over the last decade, sitting around $426,000 as of 2020, about 42% higher than the national median (ZVHI, 2020). Median rental rates in Washington have also been high relative to the national median, recording a rate of $1,973 as of 2020 (ZRI, 2020). Also like other western states, the general gap in prices and rents between Washington and the national median has been increasing over the last decade, indicating a diminishing housing stock relative to the demand in the region.

Like Oregon, the state of Washington heavily regulates the housing market through various policies. Perhaps the most notable policy is the State Growth Management Act (GMA) which was adopted by the state in 1990 and acts as a non-geographically-designed urban growth boundary. The GMA requires state and local governments to develop comprehensive plans and implement them through capital investments and development regulations. The act is designed for local governments to comply within a statewide framework while allowing local governments to implement plans and regulations that protect and preserve natural resources. The GMA has had similar effects to California's CEQA in that local communities have used the GMA to enact moratoriums on building in order to prevent the types of development that are deemed undesirable (Clark, 2018).

Aside from the GMA, the 2019 legislative session introduced a suite of bills aimed at tackling housing affordability in the state, focusing specifically on adding more supply, creating more funding opportunities for affordable housing development, and tenant/landlord protections. On the supply side, the state has passed a handful of bills that subsidize developers to incentivize infill. The bills likely to have the largest impact on increased housing production start with HB 2673, which exempts infill development from SEPA (State Environmental Policy Act) review in urban growth areas, that also acts as a similar policy to California's CEQA (Bertolet, 2020). The new bill redefines "infill" to include more development options. Secondly, HB 2630 and SB 6231 passed as well, which extends the 3-year property tax exemption on home improvements to also apply to newly constructed ADU's. The last impactful, supply-side bill to pass the recent legislative session was HB 2343 and SB 6334, which extends density and limits parking requirements around transit hubs (Bertolet, 2020).

Other impactful bills died in either the state senate or house, but bring to light other policies that could be enacted in future sessions. Most notably, HB 2452 and SB 6201, which would have set graduated real estate excise taxes to the lowest rate (1.28%) regardless of the total property value. SB 6364 and SB 6388 would have scaled down impact fees based on house size and prohibit higher impact fees on multi-family homes vs. single-family homes. Other bills sought to relegalize middle-housing on single-family residential zoned areas and add density in other forms, but did not pass.

SEATTLE MSA

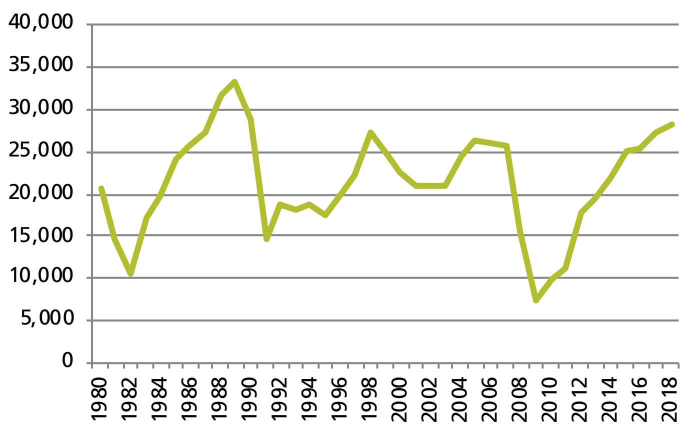
The Seattle MSA includes King, Snohomish, and Pierce Counties, and recorded a population of 3,979,845 as of 2019, a 52% share of the statewide population. The Seattle metro has seen a cumulative growth rate of 13.58% between 2011- 2019, and has had an average, year-over-year growth rate of 1.34% from 2000 - 2019 (FRED). Median home values were $528,800 as of Q4 of 2019, and is 194% of the national median home price (NAR). Rental rates in the Seattle metro were last recorded at $2,630 as of January 2020, 65% higher than the national median rental rate (ZRI).

SUPPLY CONSTRAINTS & PRODUCTION

The Seattle MSA specifically will be worth keeping an eye on as statewide bills take effect, since the metro region has had strong rental increases over the last 20-30 years, despite seeing strong production rates. Local communities have had large impacts on development; as an article sourced from the Master Builder's Association of King and Snohomish Counties outlines, moratoriums are often used in satellite cities to recalibrate growth goals, but are more often used as a tool for communities to hand-pick developments that are considered desirable. These are typically cited under reasons concerning capacity and infrastructure, but do not typically offer solutions in the wake of shutting down production.

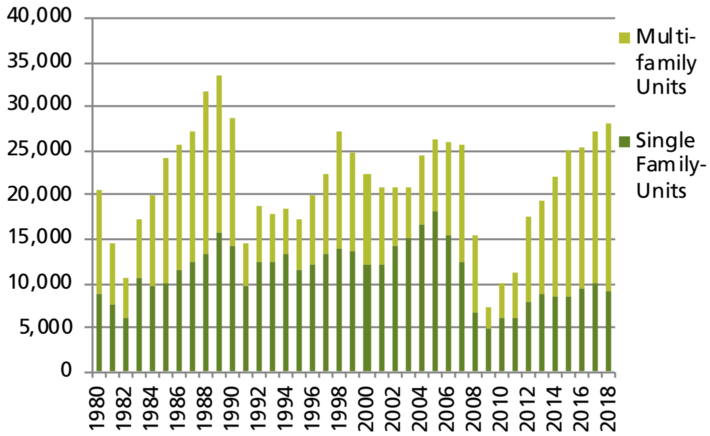
The Puget Sound region also has geographical constraints, with ocean on the west end and a mountain range to the east, which has historically been dealt with by way of denser construction. Yet, population demand has tested these limits, as the NAA 2019 survey listed land constraints as the number one barrier to more construction, followed by construction costs and timeline impacts (NAA, 2019). Indeed, Figure 7.1 demonstrates that despite rapidly increasing median home rates, in recent years, the Seattle MSA has reached production rates close to its high of 33,000 permits annually in 1989, receiving just over 28,000 permits in 2018 (HUD).

FIGURE 7.1
TOTAL PERMITS SEATTLE MSA



Production does not seem to be an issue in Seattle, but the increased cost of building density comes with the increased price for units in a high demand area. As mentioned previously, the Seattle HMA grew nearly 15% in the last 10 years, despite heavy regulation and high prices, putting it on an average growth rate with more affordable markets like Phoenix and Las Vegas. Figure 7.2 illustrates the share of housing production in multi-family housing vs. single-family housing, demonstrating an average share of 46% multi-family housing production over a 40-year period, consistently higher than most markets in this study from 1980 - 2018 (HUD). Since

FIGURE 7.2
PERMITS BY UNIT TYPE SEA



2012, multi-family housing has made up over 50% of total annual production, yet the Case-Shiller indices indicate that Seattle has seen the 3rd highest year-over-year increase in median home price over a 30-year period, and 4th highest over a 20-year period (FRED).

The data seems to indicate that housing prices are both an indirect effect of land availability and housing policy. The Seattle metro has met demand with a large supply of multi-family housing, yet arguably more would be built if there were less regulations in place that allow municipalities to place moratoriums on building for 6-month periods. This regulation is perhaps the most strict, as it allows municipalities to stall all and any construction for the set period, and even allows extensions, if necessary. Recent legislation provides options to subsidize developers by reducing fees and creating affordable housing funds from tax credits rather than forcing developers to subsidize affordable housing through inclusionary zoning, so it may be possible that recent laws could spur even more development in a high-demand market, which in turn might cool prices and rents.

08 //

economic analysis

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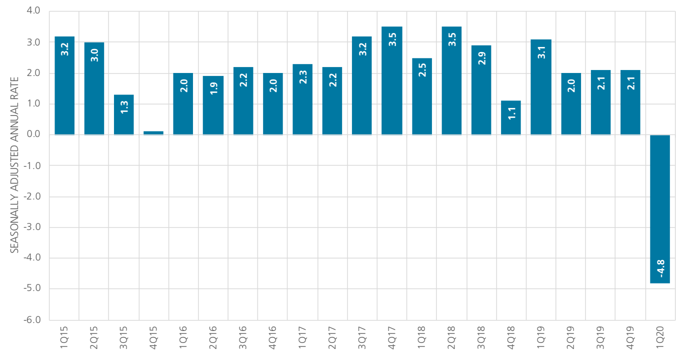
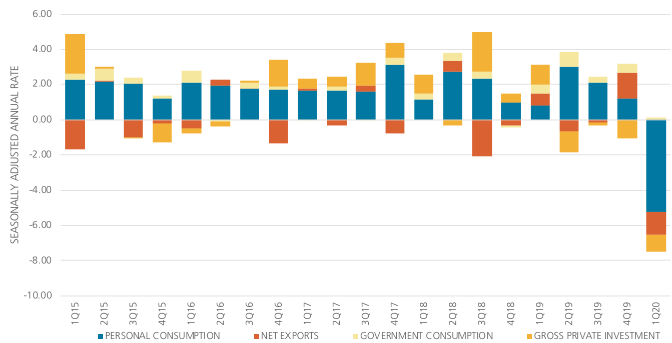
REAL GDP - PERCENT CHANGE FROM PRECEDING QUARTER



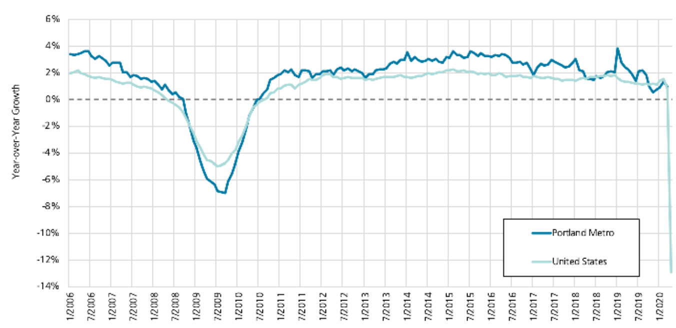
U.S. Bureau of Economic Analysis

GDP GROWTH BY CONTRIBUTING SECTOR



U.S. Bureau of Economic Analysis

RATE OF EMPLOYMENT GROWTH - YEAR OVER YEAR



Bureau of Labor Statistics, JOHNSON ECONOMICS

The first quarter of 2020 started out quite promising, with steady growth through February following by a severe shock associated with the Covid-19 pandemic. While we will discuss the quarterly performance, the ongoing projected impact on the economy and real estate markets will be the focus of this summary.

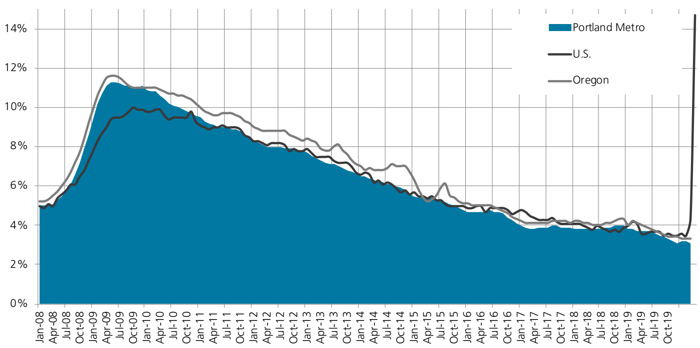
The expansion cycle at the national level ended abruptly in the first quarter of 2020, with real GDP estimated to have declined 4.8% during the quarter. The rapid decline can be attributed to actions taken throughout the nation and world in May to contain the spread of the virus and "flatten the curve" to assure that adequate capacity was available in the medical care system. The actions taken included a lockdown of many sectors of the economy. Governor Brown's order took effect on March 23rd, and immediately shut many businesses including shopping malls, theaters, restaurants (sit down dining options), barber shops, and gyms. Further restrictions on travel have led to sharp declines in travel and leisure industries.

Drops in personal consumption, net exports, and private investment accounted for the decline in GDP during the first quarter, and are expected to be even more significant in the second quarter.

Employment levels in the Portland MSA were running roughly 24,000 higher year-over-year through February, began to decline in March, and have likely collapsed in April. The Portland metro area has largely followed and outperformed the national average in terms of employment growth during the expansion cycle. While local numbers are not yet available through April, the preliminary national levels indicate a decline of close to 13% in April. The May numbers are likely to be worse as the impacts of the shut-down filter through more sectors of the economy.

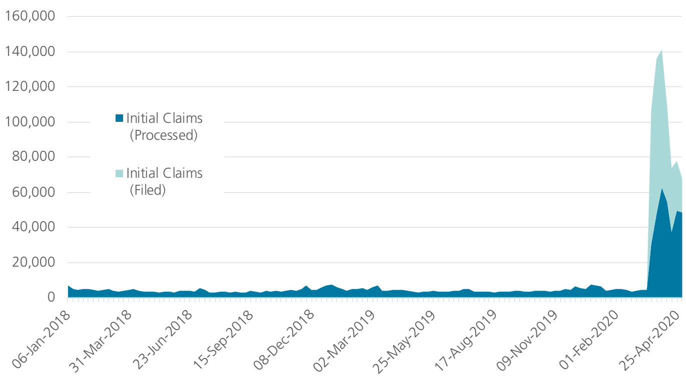
Only last quarter our primary concern was labor supply. No longer. The most recent unemployment estimate at a national level is 14.7%, and the local levels are expected to exceed that in short order. Initial claims have shot up dramatically in the State of Oregon in March and April, and will start showing up in unemployment rate statistics that are projected to exceed 20%.

UNEMPLOYMENT RATES OVER TIME



Local Area Unemployment Statistics (LAUS)

INITIAL CLAIMS FILES - STATE OF OREGON



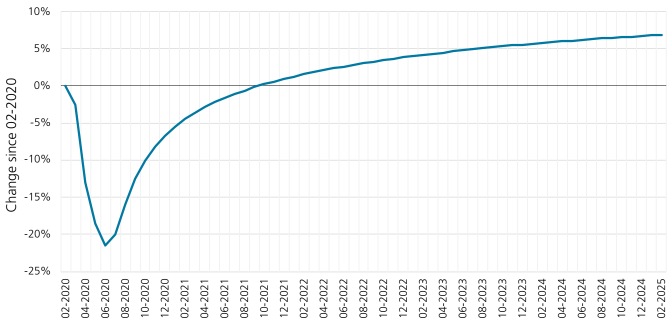
Oregon Employment Department

The State of Oregon hasn't released an April unemployment estimate yet, but the level of claims indicates that projected jobs losses will exceed 400,000 for the State of Oregon. Losses in the Leisure and Hospitality sector are expected to approach 130,000 jobs, representing about 60% of overall employment in this sector. Health care is expected to lose 64,000 jobs (24% of total employment), retail trade is expected to lose over 50,000 jobs (24% of total), and professional/business services is expected to lose 32,000 (12%). The overall anticipated job loss is estimated at 21% of total employment based on March 2020 levels, with significant losses seen in every sector.

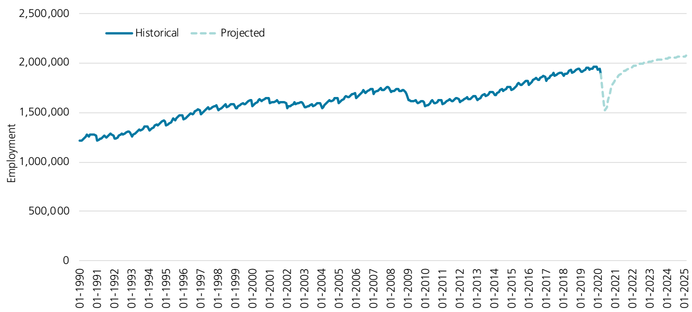
Forecasting a recovery scenario from this sharp downturn is complicated by uncertainty regarding how long stay-at-home orders remain in place and the nature and duration of precautionary measures that businesses will be forced to contend with that reduce their productivity. These measures are dictated by the spread of the virus, the access to protective equipment, and the development of effective treatment. Because of the many unknowns, and the unprecedented nature of this crisis, economists struggle to model the economy's trajectory. Estimates of the depth and duration of this downturn vary widely, but have generally become more pessimistic as the crisis has unfolded. We have charted a tentative anticipated trajectory for the Oregon economy on the next page, with the Portland metro economy expected to follow a similar path. We expect to make many revisions to this forecast over the coming months.

The tentative projection assumes that nearly 22% of all jobs will be lost by June this year. For reference, 337,000 unemployment claims above the historical average for the period have been registered with the State through the end of April. Though many of these likely represent reduced hours rather than layoffs, there are also a large number of additional 27,000 claims waiting to be processed. We will therefore assume that the April employment numbers, which are based on payroll during the first half of the month, will reflect a job loss of 13% from the February level. By June, we project that 415,000 jobs will have been lost statewide, and 280,000 in the Portland Metro Area. Again, we emphasize that these are tentative estimates associated with an unusual level of uncertainty.

FORECASTED EMPLOYMENT PATTERN, OREGON

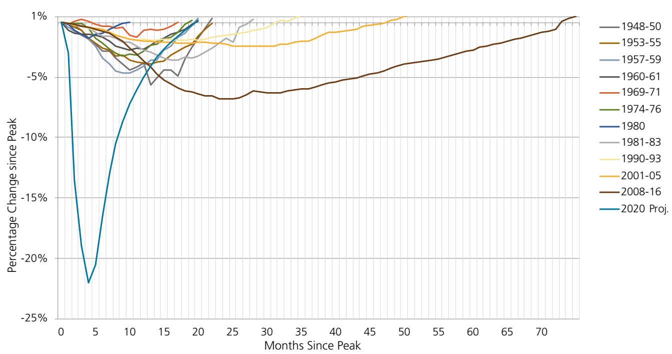


HISTORIC AND PROJECTED EMPLOYMENT LEVELS, STATE OF OREGON



Johnson Economics

COMPARISON OF RECESSIONS, POST WWII



Johnson Economics

The timing of the bottom and the subsequent recovery are dependent on the restrictions that remain in place as businesses are allowed to reopen. We expect the lifting of the restrictions to be gradual, in order to prevent a new wave of infections. During this reopening phase, job losses are likely to continue in some industries while others begin to hire. A complete return to normal may not happen until a vaccine is in place.

The projection indicates that we will have regained the lost jobs by October 2021 – a 20-month recovery – and that we will need at least another year to return to the pre-crisis growth trend. When compared to previous recessions, this would be a remarkably quick recovery for a downturn this deep. However, this crisis is very different from previous downturns. A rapid recovery is possible as long as we find ways to safely reopen businesses and avoid a financial meltdown. Much of this is dependent upon the duration of the shut-down and the nature of any precautionary requirements or limitations. The structural damage to the economy increases significantly over time, leading to a much less robust recovery scenario. The level and pace of job losses is unprecedented, and many businesses will likely be unable to weather the storm.

IMPACT ON REAL ESTATE MARKETS

The economic turmoil is expected have a profound impact on the local real estate markets, both in the short as well as long term. While the articles in this quarterly will address impacts on individual sectors, the following is a brief discussion of several areas of potential impact.

For all market types, short-term collections are likely to be impacted. The significant financial damage associated with the downturn will impact both businesses and household, which will likely be reflected in higher vacancy and collection losses. This will impact the property owner's ability to service debt and other obligations. In addition, a number of tenants are likely to be lost, and that space will need to be re-tenanted in a much more competitive environment.

For office, industrial, and retail space, has the nature of the business needs and space requirements changed substantively? A large number of restaurant and bar tenants will likely not survive this downturn, and new restaurants may have different space preferences. It is uncertain if the public will retain the same level of interest in public dining, and delivery services may account for a greater share of restaurant traffic. The shift from brick and mortar to online retail has been ongoing over the last decade, but the quarantine may have accelerated the shift to on-line retail.

In the office market, telecommuting has been undergoing a broad market test and may be performing better than anticipated. Time will tell if market preferences shift with respect to recent concepts such as open office space, work-space hoteling, and coworking spaces. The shift to online retail has implications for the industrial market, with a greater focus likely on fulfillment and inventory systems.

The residential markets will be impacted by many variables that need to be closely monitored. The level of in-migration into the Portland metro area has been one of the region's key advantages, and a key driver of residential demand. In a period of highly elevated unemployment rates, it is unlikely that recent levels can be maintained. In addition, the high unemployment rate will also likely lead to a reduced level of household formation. The tenure split between owner and renter will also likely be impacted, as lower anticipated levels of income reduce the ability to own. Long term preferences may also be impacted. Key drivers of recent development activity such as access to transit and urban amenities may lose some comparative luster, while access to outdoor spaces and lower-density solutions may have increased relative appeal.

Looking forward, the real estate markets are largely expected to be impacted by a reduction in demand. Lower levels of employment imply reduced space needs for commercial and industrial space, and demand for residential units is likely to be impacted by slower in-migration and lower household formation rates.

09 //

single family home

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COVID-19 IMPACTS 2020

The single-family housing market has managed to remain consistently strong throughout the last couple of years. Despite enduring a few ups and downs in the market, the overall pace of residential sales and purchases proved to be resilient.

After the success in the fourth quarter of 2019, many sources predicted the first quarter of 2020 would continue to rise in terms of residential sales, purchases, and construction of single-family homes. While the market looked promising there remained an element of risk and unpredictability. No one could have anticipated the drastic economic downtown that was coming in March of 2020. The complete halt of the economy due to COVID-19 has had disastrous effects on the economy in all aspects. In late March of 2020, COVID-19, also known as the coronavirus, forced government officials of each state within the United States, as well as numerous foreign countries, to largely shut down. This pandemic has required individuals to follow the stay at home orders implemented by each state's governor, which has been addressed on a case by case basis. In short, all non-essential businesses have been forced to close their doors until the stay at home order has been lifted, but the list of 'essential' businesses identified is somewhat vague. These orders began around March 15, 2020 initially lasting for thirty days; however, it has since been extended to May 31st. Washington and Oregon have had slightly different views in handling these orders and regulations, especially surrounding construction and essential businesses, which as one can imagine, has had traumatic effects on the real estate market.

Seattle, Washington began as one of the largest epicenters for the coronavirus, forcing Washington State as a whole to initiate the shutdown. The governor deemed construction a non-essential business, making Washington only 1 of 2 states in the United States to do so. Oregon followed suit with the stay at home order, however, construction was deemed an essential business. So how has this affected the real estate market? Considering the stay at home orders are still in place and businesses still remain closed, we don't know the extent of the impacts yet, but can speak to the results that have been recorded for April and May of 2020. According to an article titled 'How COVID-19 Has Changed The Real Estate, So Far', the Washington Post stated that "The National Association of Realtors estimated a 10 percent reduction in sales for 2020." The author goes on to add that this is all dependent upon the unemployment rate and where that trends, which as of just recently has been reported at the highest the United States has seen since the Great Depression, surpassing 15% unemployment. During this time, residential home statistics have been difficult to gather in both the Oregon and Washington areas, however, virtual home tours have surged and hit an all-time high according to a few credible sources. How has this affected home sales and purchases though?

PORTLAND METRO AREA

Surprisingly enough, home sales in Oregon and Southwest Washington have risen. Janet Eastman, author of the article "Home sales across Oregon and Southwest Washington rise during the coronavirus: Check your area's value", stated that brokers and sellers still managed to sell and make profit from residential properties, even during this unprecedented time. Oregon has also been reported as "the state with the largest housing shortage in the nation." Freddie Mac illustrated the housing stock deficit state by state, and although a total of 29 states have a housing shortage, Oregon still conveyed the highest. Despite the lower number of houses available to be purchased, brokers have noticed that buyers who have still maintained a consistent income and a profitable job are the ones seeking to purchase. Many of those individuals hope to capitalize on the decrease in home prices and the low mortgage rates. The low mortgage rates have been extremely enticing to home buyers and homeowners, inviting many to even refinance their homes. Refinancing has become quite popular during this time as homeowners want to take advantage of the low rates while they still can. With that being said, reports of sales rising are a relative term, and reports from RMLS show the statistics being somewhat sporadic and inconclusive.

According to RMLS, the Q1 2020 report for the Portland metro area showed decreases in listings, pending sales, and inventory, yet closed sales seem to have increased. New listings decreased by a mere 1% in March of 2020, compared to March of 2019, which seems reasonable as individuals were no longer putting their houses on the market once COVID-19 struck. This also affected the pending sales as they decreased 14.3% in March of 2020 compared to March of 2019. It's important to note that most of this decreasing percentage occurred after February offers were accepted, but sales did not follow through, therefore causing pending sales to fall 7.9% between February and March of 2020. Many sources speculate that home buyers were retracting their offers in March of 2020, due to the pandemic, the uncertainty of the market, and their income. With all of these declines, closed sales seemed to prevail in comparison to 2019. In the Portland metro area closed sales increased 7.9% in March of 2020 compared to March of 2019, and 24.2% in February of 2020 compared to February of 2019 (RMLS). This statistic seems somewhat counterintuitive, however, this could be another explanation as to why pending sales decreased, as they became closed sales. There are various thoughts and theories as to why there was an increase in closed sales in 2020 relative to 2019, especially as the coronavirus emerged, but it's difficult to pinpoint an exact cause.

CLARK COUNTY

The Southwest Washington area, also commonly referred to as Clark County, has also experienced many of these decreases and increases in terms of sales and listings. In March of 2020 new listings dropped in Clark County by 0.6% compared to March of 2019, and also dropped by 31% compared to February of 2019, which is a drastic decrease. Following this, pending sales decreased, as did closed sales. According to the RMLS report, closed sales decreased by 3% in March of 2020 in comparison to March of 2019. It's quite interesting that closed sales declined in Clark County during this time, as opposed to the increase that was reported in the Portland metro area. The decrease in sales could potentially be due in part to increase in the average sale price. The Southwest Washington area has been on the rise in terms of increased housing, allowing sellers to hike up their prices, prior to COVID-19. Also, as was addressed earlier, the stay at home orders and essential businesses in Oregon and Washington were different, specifically in terms of construction. With construction being non-essential in Washington for nearly a month and a half, all residential and commercial projects were stalled, which did and will continue to have a huge impact in the months to come during recovery. On the contrary, Oregon listed construction as an essential job, therefore all projects could continue, without stalls. Overall, it's clear that between the Portland metro area and Clark County, there were decreases in both listings and sales, which can largely be attributed to the pandemic (RMLS).

COOS COUNTY

Coos County has also seen some of the major changes in the single-family housing market toward the end of Q1 of 2020. Coos County includes areas of Oregon, including Lakeside, Bend, and Coos Bay, which have all experienced growth in their communities and residential markets. However, a few sources noted the decrease in demand for housing in this county as a whole in 2019, alluding to a potential trend for 2020. Despite this prediction, new listings seemingly increased by 7.5% in March of 2020 compared to March of 2019. This could be a result of COVID-19 and homeowners putting their houses on the market due to recent unemployment, inability to pay mortgage payments, the need to pay off debt, or downsizing during this difficult time, etc. Similar to the Portland metro area, this was followed by an increase in closed sales. Closed sales increased in Coos County by 1.3% in March of 2020 compared to March of 2019, and 8.6% in February of 2020 compared to February of 2019 (RMLS). It's challenging for analysts to theorize on why the increases during such a trying time and the start of a traumatic pandemic. In Q4 of 2019, this area saw a decrease in new listings, pending sales, and closed sales, and Q1 of 2020 was the opposite, which is ironic considering the circumstances. The average sales price continued to rise as well, but that didn't seem to deter home buyers by any means. The Portland metro area, Clark County, and Coos County all seemed to endure different ebbs and flows of the residential market in the first quarter of 2020, allowing for much speculation.

In conclusion, the single-family housing market is an unpredictable and challenging aspect of the economy. The analysis of sales and purchases in 2019, allowed for educated guesses and speculations on the Q1 2020 sales, however, the unexpected coronavirus through all of those forecasting's out the window, for lack of a better phrase. The increases and decreases in listings, pending sales, closed sales, and inventory were somewhat sporadic in different counties between Oregon and Washington, making it difficult to identify the "why" behind the results. With the COVID-19 crisis still occurring, it's nearly impossible to predict where the housing market will end up and how it will recover, as the full impacts have not even been recognized. This pandemic is unchartered territory and is something that has affected all aspects of the economy. All in all, the hope is that the housing market eventually recovers and stabilizes as it has done time and time again.

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multi-family residential report

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Channa Kim is a graduate student in the Master of Real Estate Development (MRED) program and a TigerStop Real Estate Student Fellow at the Center for Real Estate.

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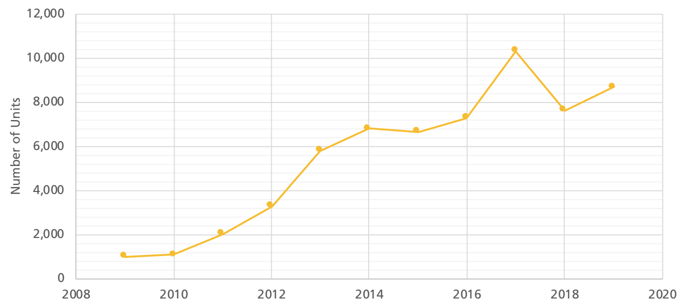
Typically, the Q1 report provides a brief glance at how the previous year concluded with a focused examination on the first quarter of the new year. This year, however, is anything but typical. While the year started off as expected with continued rent escalation, high occupancy, high construction and labor costs and a healthy supply pipeline, news from around the globe about a novel coronavirus spreading across borders started creeping into the mainstream media in February. As March began, the virus started spreading rapidly in the US, gaining steam mid-month and leading to an unprecedented about-face halt to the US economy.

It is a startling contrast to look at the first 2.5 months of the Quarter in comparison to the state of the economy today. By all intents and purposes, 2020 was off to a roaring start, with murmurs of a recession still lingering in the background. However, on March 11th, the World Health Organization officially declared COVID-19 a pandemic, which is defined as the global spread of a new disease. This led to a shutdown of economic activity in major segments of the economy. With people quarantined in their homes to help curb the spread of COVID-19, the real estate market is feeling the effects of the deep uncertainty in the public realm about what will happen and how the world will look on the other side of this, with no precedent upon which to turn.

The following sections will first examine the multifamily housing data from the first quarter, where many of the reports do not yet indicate the effects of COVID-19 pandemic, then provide a brief update of the effects of COVID-19 in the last 4-6 weeks. With the drastic change of where the economy is today, it would be remiss not to deliver a real-time update in order to convey a more layered and current report on the state of the multifamily market in the Portland Metropolitan region and beyond.

APARTMENT PERMITS 2009-2019 FOUR COUNTY METRO AREA



The Barry Apartment Report Spring 2020

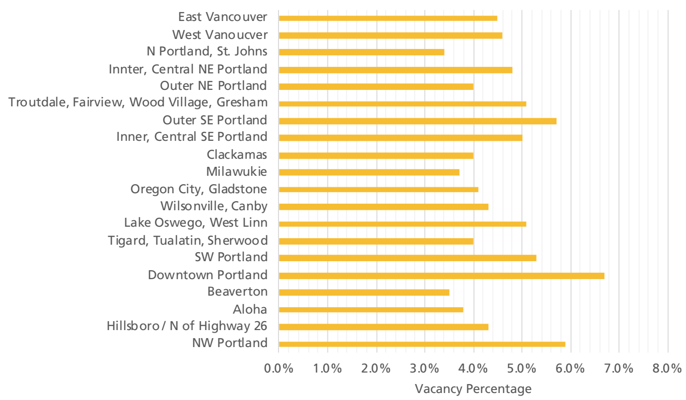
SUPPLY, PERMITTING

The previous year ended strongly with apartment construction continuing at a brisk pace, with permits in for nearly 8,700 units at Year End 2019, up 14% from the previous year. Along those lines, 2019 also ended with a surge of completions at 6,500 units delivered, indicative of the last wave of approved projects prior to the Inclusionary Zoning policy adopted in early 2017. In looking at Q1 2020, there are approximately 7,100 units under construction in the Portland Metro Area.

However, on the 1st day of the second Quarter, we see a very different picture. Most construction projects in the planning stages are delayed, with some early-stage projects on indefinite holds. Many are in "wait-and-see" holding patterns, with developers and investors choosing to see how the economy recovers – and waiting to better understand how long that might take – before moving dirt. Still others were legally hamstrung by the construction stop-order in the state of Washington, deemed as a non-essential business, greatly affecting projects in the Vancouver portion of the greater Portland Metropolitan area. However, on 4/24/20, Governor Inslee eased up on his state's construction ban by allowing sites to reopen with strict social distancing protocols, allowing construction to start back up in the state. In general, though, the construction moratorium in Washington lasted over a month, and these types of holdups all compound the supply constraints in the coming months, with each week of delay pushing projects back weeks, months and possibly even years.

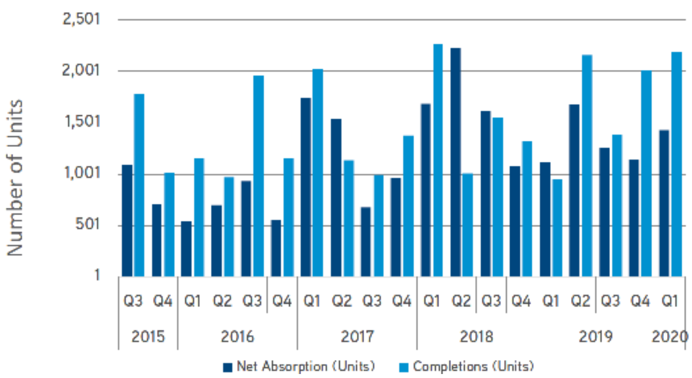
Conversely, the projects in Oregon lucky enough to already be under construction at the time of the shelter-in-place order have continued without pause. Certain changes are evident, with social distancing requirements and strict sanitization protocols being enforced across job sites by superintendents and OSHA alike. Friction appears mostly in the form of supply chain issues in delays on materials deliveries, with added complications when shipping from other parts of the country where manufacturing facilities and factories have been affected by shutdowns. As an example, it has been difficult to extract orders, supplies and labor from neighboring Washington due to their strict shelter in place order, leading to schedule delays and some scrambling to find alternate suppliers. In reaction, many project managers are frantically stockpiling needed items early – especially those with already-long lead times such as cabinets, windows, etc. – in anticipation of even greater supply chain delays as things start to reopen and projects rush to get their orders produced. However, in general construction that is already underway appears to be continuing smoothly throughout the quarantining period and many still claim they will be delivering on time later this year.

AVERAGE MARKET VACANCY RATE PERCENTAGE



Multifamily NW Apartment Report Spring 2020

NET ABSORPTION & COMPLETIONS



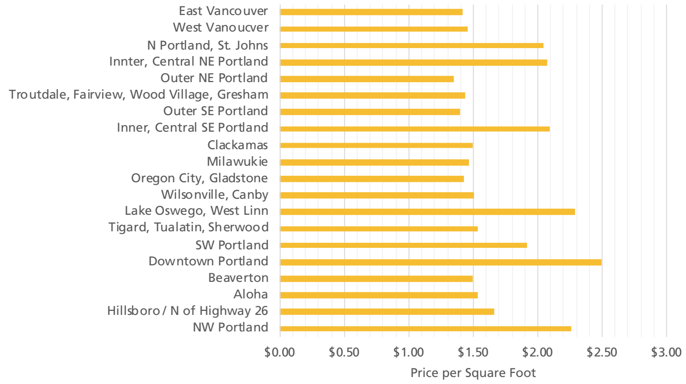
Colliers International Portland Metro Q1 2020 Multifamily Report

DEMAND, ABSORPTION

In 2019, there was a slight dip in absorption at around 5,150 units, with completions outpacing absorption leading to increased vacancies across the Metro area. Vacancy overall increased slightly in Q1 standing at 4.69%. The newer and more expensive Class A apartment properties bear relatively more vacancies than others, with the steep prices accompanying new-construction units creating longer lease-up periods.

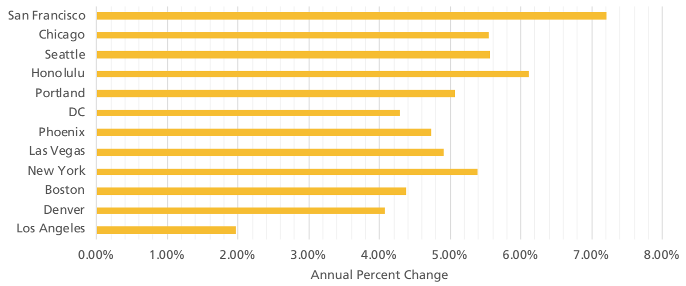
With most of the country on government-mandated stay-at-home guidelines and no tangible end date in sight, it will be difficult to know the full impact on the housing market as it depends largely on how long the regulatory restrictions remain. This goes not only for those quarantining at home, but also in regard to emergency measures put in place by jurisdictions to curb the effects of the spiking unemployment rate and plunging economy, such as eviction moratoriums on commercial and residential tenants. While the hope is that the remainder of 2020 will be enough time to recover with a healthy 2021 on the horizon, it will largely depend on consumer confidence returning to “normal” flow and spending, and how long it might take to return to the pre-pandemic booming economy. As such, it will require several more months to see the true effect on absorption in the rental market. The previously mentioned 7,100 units under construction in Q1 2020 are in a very difficult position, especially those in the lease-up phase. One caveat is that with the expectation that the economy will need at least the rest of 2020 to fully recover if not longer, apartments historically do well during down periods, as people put-off buying homes and remain renters, or move “down” to more affordable units. As such, there is a strong possibility that absorption will remain strong. However, those that may suffer losses are the newer expensive properties which the market is typically too weak to support in recovery periods.

AVERAGE RENT PER SQUARE FOOT



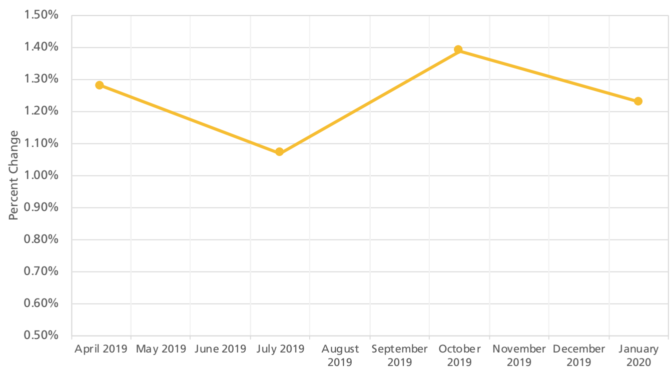
Multifamily NW Apartment Report Spring 2020

US COMPARATIVE COST INDEX – PORTLAND CONSTRUCTION COST INDEX



Rider Levett Bucknall Q1 2020 Construction Cost Report

CONSTRUCTION ACTIVITY CYCLE



Rider Levett Bucknall Q1 2020 Construction Cost Report

RATES, COSTS

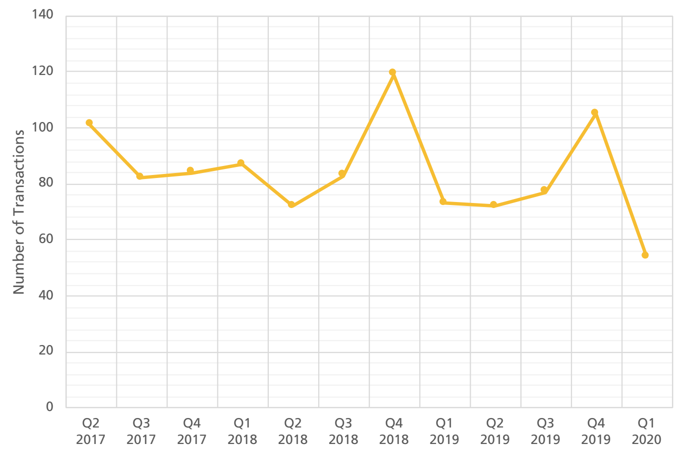
Rental rates did not move much in Q1, staying relatively constant within the previous quarter. Some regions experienced overall decline, but minimally. Certain areas saw marginal growth, with the Southeast Portland, Lake Oswego and St. Johns areas seeing 4-6% rental rate increases. Per Colliers, the greater Portland Metro region's average rent per square foot was at $1.58 PSF for the Quarter, with the highest rates coming from the Downtown area at $2.49 and the next highest in Lake Oswego at $2.29.

Costs in Q1 dipped marginally compared to Q4 2019, not enough to be of marked interest. By contrast, cities like New York and San Francisco experienced jumps in construction cost in Q1 2020.

In examining the graphic below, you can see that Portland is on the declining side of the activity cycle, with NY and SF still in the early peak area.

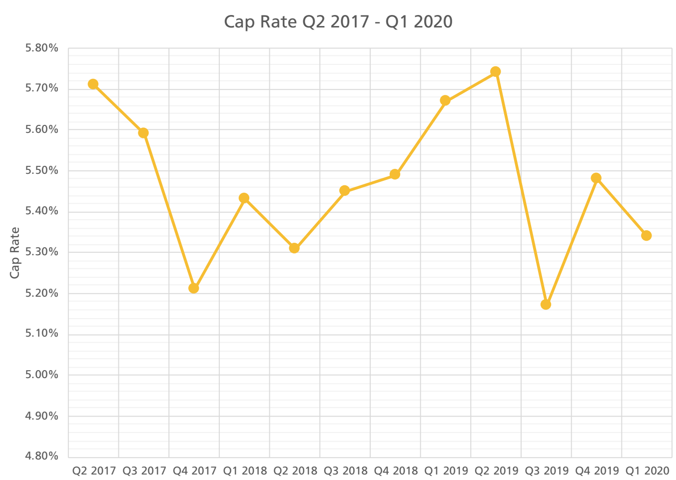
As previously noted, the pandemic has put many construction projects on hold. We suspect most of those that fell through outright were on the periphery of penciling out financially and the volatility of the market made it too risky to take on. Looking ahead, concerns about how the recession will affect supply chain manufacturers of goods and equipment for construction projects is a key potential roadblock in the months ahead. The supply chain freeze in China in Q1 that led many to scramble for alternative suppliers was a good reminder about the importance of flexibility and diversification of materials sources beyond China and across the region to provide more options in the case of supply chain disruptions in the future.

NUMBER OF TRASACTIONS Q2 2017- Q1 2020



Multifamily NW Apartment Report Spring 2020

CAP RATE Q2 2017 - Q1 2020



Multifamily NW Apartment Report Spring 2020

SALES ACTIVITY

There is some conflicting information regarding transactions in Q1 in the Portland Metro region, but overall, they are down compared to the previous Quarter. This is likely due to numerous deals working in late February or March that paused until the economic uncertainty of the pandemic has passed. In any case, the number of transactions dipped precipitously in comparison to the previous Quarter.

Looking past the uncertainty of COVID-19's current hold on the economy, there is hesitation about how the capital markets will react and rebound from this. Large portfolio owners and institutions will be focusing on how to rebalance their operations and recover from the effects of the stifled economy, so there is a likelihood that their spending will pause until they've stabilized their assets. Those nimbler with less debt will likely see the down market as an opportunity to dive in and capitalize, but there is a chance they self-select into smaller deals. One example where this is being capitalized – on a massive scale – is private equity firm Blackstone Group, which has seen Q1 losses on its portfolio values due to the pandemic, but has $21 billion in capital reserves dedicated to investment in US real estate and ready to deploy, with an additional $41 billion available to invest globally. They are well-positioned to use their unmatched reserves to their advantage by investing in properties where the prices have fallen due to the health crisis. It will be interesting to observe the transactions closing over the course of 2020 as the fallout of the pandemic leads to a plunge in valuations and a lucrative opening for opportunistic investors.

NOTABLE Q1 SALES TRANSACTIONS

Property	Sale Date	Sale Price	# Units	Price/SF	Year Built	Seller	Buyer
The Terraces at Tanasbourne 1900 NW Evergreen Parkway Hillsboro, OR	1/16/20	$99,025,000.00	373	$272.00	1986	The Blackstone Group L.P.	Bridge Investment Group
The Club at Tanasbourne 2323 NW 188th Avenue Hillsboro, OR	1/16/20	$91,000,000.00	352	$304.00	1988	The Blackstone Group L.P.	Bridge Investment Group
Maybeck at the Bend 13830 SW Chinn Lane Bull Mountain, OR	2/5/20	$24,635,000.00	120	$243.00	1998	Hamilton Zanze & Co.	Freshwater Investments
Barberry Village 220 SE 188th Avenue Gresham, OR	1/9/20	$21,500,000.00	189	$140.00	1974	Culver Family L.P.	Cooper Street Capital
Hidden Village 4001 Robin Place West Linn, OR	2/13/20	$18,755,000.00	98	$215.00	1989	George Nylen	Guardian Real Estate Services
Hollycrest South Apartments 700 Eastman Parkway Gresham, OR	2/1/20	$16,500,000.00	100	$183.00	1992	Hollycrest Apartments LLC	Vista Investment Group
Valley Park Plaza 4925 SW Jamieson Road Beaverton, OR	2/21/20	$12,000,000.00	71	$217.00	1962	Cary Coe	Gerding Edlen
The Astoria Apartments 1913 NE 73rd Avenue Portland, OR	1/3/20	$12,000,000.00	68	$325.00	1950	West Valley Properties	JEMS Corp
459 Rock Apartments 459 SE 192nd Avenue Gresham, OR	2/27/20	$10,980,000.00	36	$217.43	1971	Sunrise Development	459ROCK LLC
Garthwick Apartments 1278 SE Marion Street Portland, OR	1/22/20	$8,630,000.00	24	$283.00	2018	Mark Gossage	Aaron Klein

Colliers International Portland Metro Q1 2020 Multifamily Report

From a property management and ownership perspective, the sheer uncertainty of how jurisdictions will react to the economic turmoil is enough to make many investors take pause. Concerns about the eviction moratorium are already mounting, with property managers worried about having to deal with mass evictions later in the year once the moratorium is up. With no precedent, it is equally tricky trying to predict how the courts will react to lawsuits regarding this strange period when evictions were banned and unemployment skyrocketed, although Oregon does have a long history of siding with residents on these matters. In any case, it adds many layers of insecurity that devalue properties at this time, making it a good market for those looking to buy low with hopes that the economy will turn around quickly to the hot market of just a few months ago.

With the economy roiling in an abrupt recession and struggling to figure out how to return to some semblance of normalcy once the shelter-in-place orders are lifted, there is regulatory ambiguity about operations in the new world, and the uncertainty around that is troubling. From a lending standpoint, the expectation is that lenders will revert back to the stringent standards following the Great Recession with tighter underwriting and a favoring of deals with a greater equity requirement.

LOOKING AHEAD

It is tough to imagine what this report will look like when examining Q2 2020 simply because we are living in unprecedented times and the economic fallout as a result of the pandemic is continuing to shock the world and worsen. Multi-Housing News' Paul Fiorilla published an article on 4/23/29 noting that per the National Multifamily Housing Council's latest weekly survey, 89% of renters across the US made April's rent payments at only 5% down from the same period the previous year, much to the surprise and delight of landlords. However, May's rental payments expect to look very different, with the belief that most paid April rent with March wages, and the impact of the layoffs fully taking effect in April will severely hurt May's collection prospects. Furthermore, it remains a tough balancing act for landlords between renters who can't afford rent and those who can but might withhold due to eviction moratoriums. In general, the longer businesses remain shut down, the more difficult rent collections will become as unemployment continues to go up.

To bring it down locally, the Portland Metropolitan area appears to reflect similar data, if not a bit higher. Jamie Goldberg of the Oregonian published an article on 4/15/20 reporting that 89.3% of renters in the greater Portland region had paid their rent by April 5th. However, older Class C apartment properties and affordable housing properties are experiencing disproportionately lower collection rates compared to the larger market. With potential supply delays and a lack of movement in existing residents, the pandemic is expected to further exacerbate the already-critical housing crisis.

One Washington County property manager who oversees 300+ apartment units across multiple properties reported an April collection rate of 94%, noting that the average for Portland comps appeared to be around 5% delinquency, going up to 10% depending on the property. She mentioned that a large percentage did not pay on time and in fact many residents paid between the 5th and the 10th of the month, presumably with a "wait and see" attitude at the start of the month. However, she indicated that many residents in the recent weeks leading into May have signed up for payment plans, with a large uptick in sign-ups once they sent out information about signing up online through their resident portal. She explained that Yardi's RentCafé platform recently rolled out a payment plan option in response to the pandemic, and this option has been popular for residents preferring a more "anonymous" way to sign up online rather than in-person or even over the phone. We expect tools like this to continue appearing in the coming weeks and months as concerns mount about the state-wide eviction moratorium in place and what the ugly truth about what collections – and evictions – will look like later in the year once that policy is lifted.

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office market analysis

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The last quarter, the last year and the last decade were all wrapped up with a good note. On the last quarter publication we stated "The Portland Office Market is expected to remain robust in the next quarter due to sustained employment growth". In an unpleasant turn, the sustained employment growth took a nose dive this quarter as the pandemic sends its shock waves across the globe. The unfolding global COVID-19 crisis has negated all forecasts and expectations of the global economy and Real Estate is not an exception.

Early on economists and forecasters expected this will be a short term phenomena and once the lockdowns and the economic shut offs are lifted the economy will rebound quickly. As of the end of the first quarter of 2020 the shut downs are going strong and unemployment rate is increasing at unprecedented rate. Total nonfarm payroll employment fell by 20.5 million in April, and the unemployment rate rose to 14.7 percent, the U.S. Bureau of Labor Statistics reported. The same report shows the number of unemployed persons who reported being on temporary layoff increased about ten-fold to 18.1 million in April. The number of permanent job losses increased by 544,000 to 2 million. In the first quarter the white collar jobs of office users have not shown a significant loss as compared to other sectors, of the 20.5 million losses 2.5 million were in education and health services and 2.2 million professional and business services. Most of the job losses in professional and business services were in temporary help and in services to buildings and dwellings . The biggest question in the Office Market remains, would the job numbers in this sector sustain? How will the market fundamentals perform in the upcoming quarters and year? And what are the short and long term implications of the pandemic economic crisis on the Portland office market fundamentals?

The first quarter started strong as predicted at the end of 2019. Office market fundamentals generally remained stable despite a slight increase in the overall vacancy rate and drop in U.S. office leasing activity. As the virus spread West and stay at home orders were being contemplated, most offices started moving their operations to home offices by the conclusion of quarter. Almost all States has declared state of emergency and issued Stay at Home orders and social distancing, which forced businesses to move to home offices and online at the end of March 2020 . A drop in U.S. office leasing activity, as well as a significant increase in lease renewals, were two major signs of COVID-19's early impact on office markets in Q1 2020.

In comparison, the U.S office market has endured the coronavirus outbreak better than other commercial real estate sectors, but a CoStar analysis of worse-case economic projections shows this sector could end up being badly battered as well . Overall, it is predicted that the next quarter will be more devastating to the local and national economy. Economic forecasters predicts that the second quarter of 2020 will see one of the largest real GDP declines in U.S. history .

NET ABSORPTION

Net Absorption	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020p
U.S. Office Markets United States	5839968	12521815	13489098	15334031	4135561
Portland, OR	191800	-34295	63035	-176631	-94607

Cushman Wakefield, US-Office-MarketBeat-Q1-2020

THE SHORT-TERM AND LONG-TERM IMPACTS OF THE PANDEMIC ON OFFICE FUNDAMENTALS

DEMAND SHOCK

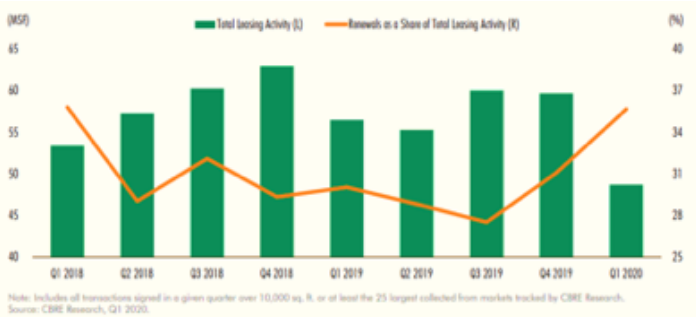
Nationally, demand for office space and rents are expected to continue to decline over the next 12 months. The Federal and State governments has put economic measures to curb further economic fallout, however as the unemployment numbers continue to climb it's uncertain how it will prevent some businesses from shuttering altogether and others from contracting significantly. It is likely that leases will become more short-term, and businesses may move to smaller office spaces. Some shifts in practice by employers will inevitably affect the demand in office space. Whether it will be a negative, positive or net zero effect remains to be seen. Some of the changes being discussed are: dual-hub solutions to accommodate both urban and suburban locations, flexible work schedules, private office spaces, new office layouts conforming to the 6 feet physical distancing requirement and increase in teleworking . A New York Times article reports, a CEO of a real estate company is mulling reducing its footprint, the company has 32 branches across the city and region .

Q1 2020 Portland office market demand remained relatively stable as compared to the national trend and 2019. Nationally absorption took a big dip in the first quarter. Despite the pandemic the Portland number shows a negative 94,607 which is a better number than reported in Q4 2019. However it is important to note that 3 deliveries recorded in Q1 2020 were delayed deliveries from Q4 2019.

CO-WORKING AND FLEXIBLE SPACES

In January 2020, Cushman & Wakefield predicted an increase in occupier demand for space flexibility and versatility as more employees utilize flex/co-working space based on their research showing 90% of real estate executives expect to have some of their employees utilize cowering/flex office by 2024. In the face of the pandemic JLL in the 2020 forecast series, predicts that co-working will likely decline as tenants are expressing interest in private spaces over public spaces and corporate culture over co-working. The most current survey by the National Association of Realtors also show, demand for co-working space may fall as freelances decide to just work from home rather than in co-working spaces. Coworking giant WeWork said in a March investor presentation it expected Covid-19 to hurt its financials.

LEASING INDICATORS



JLL's first quarter report names coworking as the largest cause for concern in the office sector. The industry cluster is responsible for 38 percent of total U.S. net absorption over the past 2 years. In this regard, Portland is somewhat insulated as coworking and executive suites account for just 1.5 percent of total office inventory . Though Portland's coworking share is small the effects are felt as companies are putting a brake on expansion plans. A Seattle-based coworking company is looking to sublease its Southeast Portland hub as it taps the brakes on national expansion plans for now .

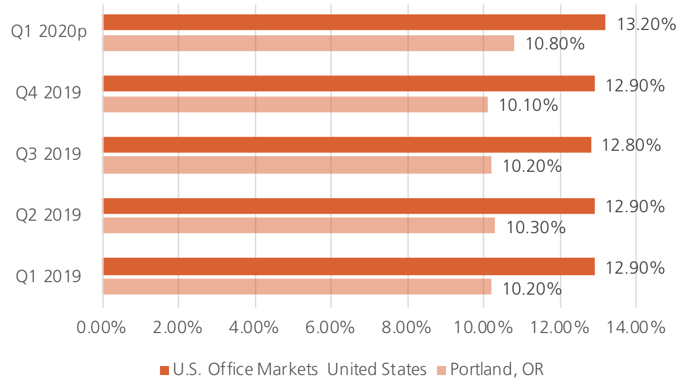
LEASING ACTIVITIES

Leasing activities recorded a decline across the nation. According to the SIOR CRE Index, —an index that is based on 10 indicators of sales/acquisitions, leasing, and development compiled from a survey of SIOR members, the office index dropped 29%. In the office class A market, 21% of respondents reported an increase in leasing activity, down from 39% in the prior quarter.

Overall the Portland market leased 559,582 SF in the first quarter of 2020. Notable leases include, Square leasing 64,000 SF at Aspect on Sixth, Tanner Point leased the top two floors a total of 40,100 SF to Ampere . Apple also leased 30,669 SF of the new creative office space of Seven Southeast Stark.

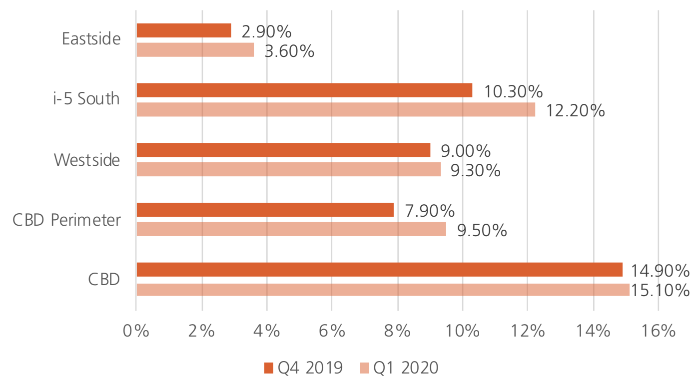
SIOR respondents reported weaker leasing activity and more landlords giving tenant concession, thus rent growth is expected to moderate. In Oregon the Governor ordered Commercial Eviction Moratorium for 90 days to protect businesses from eviction. At the same time the order puts expectations on commercial tenants to pay rent if they are able to pay. This implies that the use of PPP (Payroll Protection Program) or other funds to pay rent is expected. The assumption is that commercial tenants will pay their rent if and when they have secured the loans. At the conclusion of the first quarter most rents were paid in Portland. As reported on the Portland Business Journal, missed rent payments were in the single digits as of April, 2020 . It is however expected to decline in upcoming months further impacting revenue and property values. To minimize the impact and legal risk landlords are trying to be creative.

VACANCY RATE



Cushman Wakefield, US-Office-Market ; Beat-Q1-2020; Colliers

VACANCY RATE BY SUBMARKET



Cushman Wakefield, US-Office-Market ; Beat-Q1-2020; Colliers

VACANCY

Overall vacancy rates on the national level increased 30 basis points as compared to 70 basis points for the Portland market. The percentage variations year over year was more stable in 2019. Vacancy is one fundamental that showed immediate impact from the Covid-19 crisis in the first quarter both at the national and local level. The short term impact on vacancy rate coupled with the incremental decline in job growth will have a long term negative impact on the sector from decline in demand, which in turn slows down or potentially stop supply (reflected in construction and deliveries).

Vacancy in the near-term is likely to increase considerably. The Portland market showed a 70 basis point leap in vacancy rate as leasing activities notably preleasing activities has died down due to the pandemic. The biggest increase in vacancy rates was recorded for the CBD perimeter and I-5 south submarkets.

Q1 2020 PORTLAND KEY DELIVERIES

Building/Address	Developer	Submarket	SF	Delivery Date	Pre lease
7 SE Stark	Harsch Investment Properties	Lloyd District	70,000	Q1 2020	42%
District Office	Beam Development	Southeast	90,778	Q1 2020	70%
Tree Farm	Guerrilla Development	SE Close-in	33,750	Q1 2020	26%
250 Taylor	Third & Taylor Development LLC	CBD	190,825	Q1 2020	100%

Colliers

Q1 2020 PORTLAND KEY SALES TRANSACTIONS

Property	Submarket	Seller/Buyer	SF	Price/$PSF
1800 SW 1st Ave	Central Core	Oregon Pacific Investment & Development / GEM Realty Capital, Inc. & Libertas Co., LLC	187,199	$52.8M/$282.05/SF
Broadway Tower	Central Core	BPM Real Estate Group / Principal Real Estate Investors		$132.3M/$756/SF

DELIVERIES

Three of the four deliveries that came on the market were delayed deliveries from the last two quarters. As shown on the chart below almost all had significant preleasing activity that has contributed to a higher absorption this quarter. 482,673SF delivered this quarter and 871,712 SF under construction. Oregon's governor deemed construction as essential business and construction continued in the Portland market. The construction market has not been significantly affected in this immediate quarter. However as demand continues to decline constructions will and deliveries will continue to decline through the end of the year.

SALES

The Covid-19 crisis as brought an abrupt stop on sales and transactions nationwide. NAR's latest commercial Real Estate Trends & Outlook reported that in the office class A market, only 15% of respondents reported an increase in sales volume (22% in the prior quarter) .

In terms of sales volume, Portland recorded decade-high office investment in 2019. Due to the fact that the pandemic did not hit until the end of the quarter it has not substantially affected sales volume for this quarter, however it is yet to be seen how the pandemic will affect future sales.

The biggest question remains how quickly the economy rebound? I would like to conclude by quoting Don Ossey, a Portland real estate leader, "In real estate, (cycles) don't happen like the equities markets or securities markets where things change in (a) matter of hours. Real estate's a longer-cycle process. But I think there'll be a recovery that will be maybe slower. The pace of leasing, the pace of acquisitions will not be typical" .

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industrial market analysis

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Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

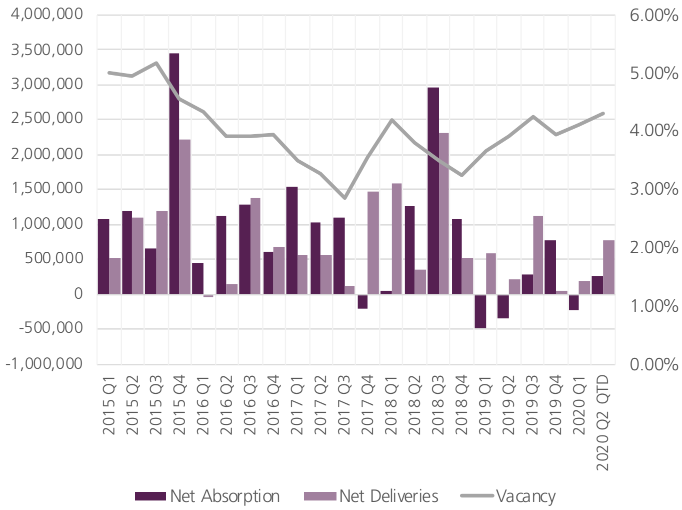
Prior to the first quarter of 2020, the industrial real estate market in the Portland metro area had been strong. The fourth quarter of 2019 had been one of growth coming off of a time of development and acquisitions by a number of large companies, most notably Amazon. This had been preceded by years of expansion coming out of the Great Recession. This upward trend has shifted slightly in 2020, primarily due to the effects of Covid-19. As a result of the pandemic, markets across the world have grinded to a halt in an effort to slow or stop the spread of the virus by mitigating the amount of people interacting with each other and moving around. This has significantly impacted most sectors of the economy, and the industrial real estate market is no exception.

CURRENT STATE OF THE MARKET

The vacancy rate in industrial space has increased to 4.3%, which is up from 3.8% one year ago. Although this is still quite a bit below the national average (5.4%), it marks a shift in the industrial market trend. Prior to this quarter, industrial real estate had been enjoying a sustained period of impressive growth in the Portland metro area, gaining 50% in asking rates in the past 10 years. This is more than any other real estate sector. Much of this growth is due to some key factors that make Portland unique in terms of industrial real estate. The first of the three factors that should be noted is Portland's location. Being on a port with deepwater access and having a large airport both set Portland up as an ideal distribution and manufacturing area for industrial purposes. Secondly, Portland's central location along the I-5 corridor allows it freedom to easily ship goods throughout the country. Lastly, Portland is cheap compared to other similarly positioned cities. For example, Portland industrial rents are $9.39 per square foot on average compared to Seattle which is $14.48. Because of these factors, Portland has been well positioned to take advantage of this economic growth.

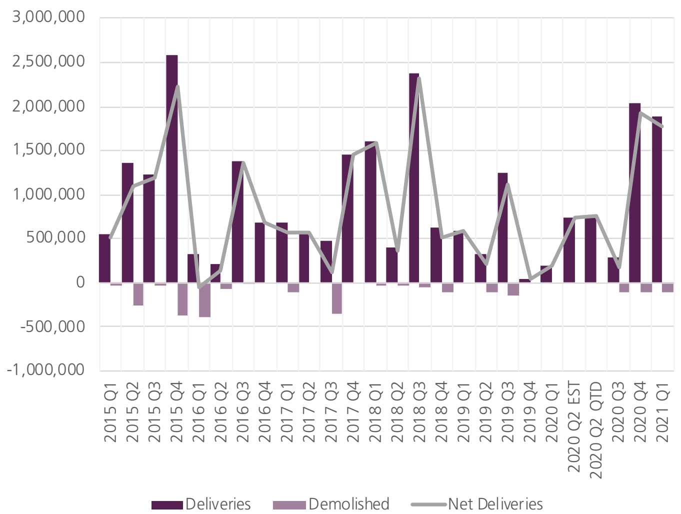
Despite the region's advantages for industrial development, the Covid pandemic has taken its toll on the industrial real estate market. Leasing activity has slowed considerably. In the first quarter of 2020 there has been a negative net absorption of over 230,000 square feet. This lack of incoming tenants is likely due to several reasons, but the Covid pandemic is likely a significant contributing factor. With such economic uncertainty, companies and individuals are wary to spend and risk the capital to move their operation into a new building. They are preferring instead to stay in place and see what happens before they expend cash. Additionally, there is a delay in industrial construction. So as the 566,000 square feet of buildings come online in the first quarter of 2020, the tenants that were expected are simply not there. This reflects the fact that people who were looking for new industrial space prior to this pandemic are holding onto their cash for the moment. According to an article from the Portland Business Journal that referenced Patricia Raicht, a senior director for JLL, "On the industrial front, some transactions have closed, but seekers who were more inside the exploratory phase have generally paused their searches…" This pause is likely to cause difficulty for those looking to find tenants for their speculative developments. There is currently 6.2 million square feet of industrial space under construction in the Portland metro area. Of this 6.2 million, half of it is build-to-suit with the remaining half being speculative. This means that there is 3.1 million square feet of speculative industrial space set to come online in the upcoming quarters. When looked at

NET ABSORPTION, NET DELIVERIES, AND VACANCY FOR THE PAST FIVE YEARS



CoStar

DELIVERIES AND DEMOLITION



CoStar

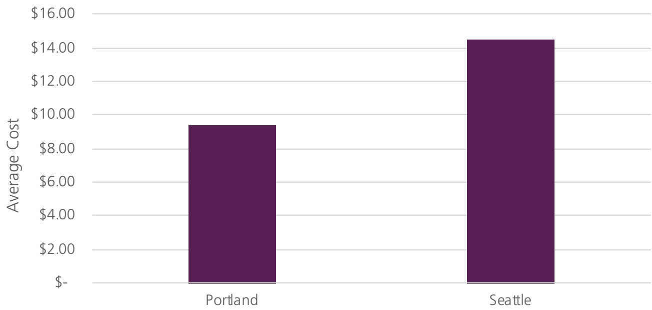
after seeing the 230,000 square feet of negative absorption in the Portland market during the first quarter, it is likely that prospective tenants may begin to search for concessions in their discussions with leasing agents. According to Mark Childs of Capacity Commercial Groups, "Owners and Landlords are certainly motivated to do deals, maybe conceding in areas they might not have last year, such as use, financials, term, maybe even a spiff in TIs or months free." These possible concessions are something that have not been common in the Portland metro recently due to the strength and desirability of its industrial market. Overall, the industrial real estate market has taken a major hit due to the Covid-19 pandemic and will likely see an increase in vacancy and owner concessions in the upcoming months which is likely to make the second quarter especially bad.

INDUSTRIAL REAL ESTATE'S ABILITY TO BOUNCE BACK

Despite the above negative observations about Portland's industrial real estate market, the region's market is well positioned to recover. This pandemic has drawn attention to the extent that our goods are produced in China, which can leave the United States economy vulnerable to issues in our supply chain. This, in turn, may cause some companies to spread out production and bring some of it back within the United States in order to diversify the production of goods. Because of the reasons previously stated in this article, such as Portland's proximity to a seaport and major airport and its relatively cheap industrial real estate, Portland could have a bump in industrial production due to this.

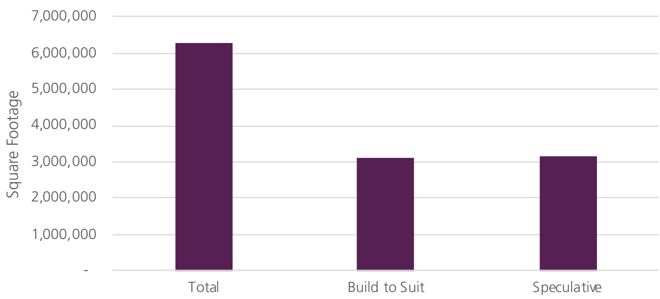
Another reason that industrial real estate will bounce back is that it simply has not been hit as hard by the pandemic as other market sectors. Whereas other markets such as retail have dropped in sales by as much as 50% in some areas, industrial production has only dipped slightly. Industrial production itself is innately more steady than that of other markets which has allowed it to weather the economic uncertainty much better than other sectors. This is why industrial real estate rents have leveled out instead of dipping like all other real estate sectors. It is industrial production that creates face masks, hand sanitizer, wipes, toilet paper, and everything else. People need industrial production. In fact, this virus has caused many people to stop shopping from retail shops and instead to turn to online shopping that holds its product in large warehouses and fulfillment centers. It is much less discretionary than retail and it requires people to physically be at the building as opposed to office which can become remote. These things give cause for optimism in regard to the industrial real estate market. Additionally, the government stimulus provided through the CARES Act

AVERAGE COST PER SQUARE FOOT FOR INDUSTRIAL SPACE



Digsy

SQUARE FOOTAGE OF INDUSTRIAL SPACE UNDER CONSTRUCTION



Capasity

Portside Logistics Park in Vancouver, Washington by Specht Development https://spechtprop.com/specht_property/portside-logistics-park/

Bridgepoint I-5 in the East Columbia Corridor off of Marine Drive by Bridge Development http://www.sierraind.com/projects/bridge-point-i-5/

and the PPP Loan will likely be a major help to industrial businesses. Mark Childs points out that "the result of this will be that companies will be a little more flush, and that translates into buying things and hiring people." When companies are buying things and hiring people, this will spur production which needs industrial space.

So, despite the issues that Covid-19 has caused for the industrial real estate sector, it is the sector best positioned to bounce back. With the possibility of some production being moved back into the United States in order to protect itself in the event of another such pandemic, there will likely be increased demand for industrial real estate space. Portland is well suited to fulfill that need with 3 million square feet of its industrial square footage of under construction being speculative and ready to lease soon. The other 3 million square feet that is being constructed build-to-suit points to the industrial sectors strength even through the pandemic. These things along with the government stimulus that is arriving to help many of these industrial businesses to continue to produce throughout this pandemic points to positive growth for the industrial real estate market once this pandemic is over.

NOTABLE BUILDS AND TRANSACTIONS

Lastly, some of the notable builds and transactions that have occurred in Portland's industrial real estate market should be noted. The first building of note that is under construction is Portside Logistics Park in Vancouver by Specht Development set to be delivered in the second quarter of 2020. Specht development has been doing quite a bit of development throughout the Portland metro lately, especially in the East Columbia Corridor, and this project continues that trend in the Vancouver area. Another unique development is Bridgeport I-5 near Marine Drive in the East Columbia Corridor by Bridge Development. This development required quite a bit of unique planning in moving and storing all of the water onsite due to its location near the Columbia River. It is set to be completed in the third quarter of 2020.

Along with these buildings under construction, there has also been large purchases and leases of industrial real estate in quarter one of 2020. The largest purchase was Downton Development Group's acquisition of 3099 NE 172nd Avenue. They purchased 360,000 square feet of space from Panattoni Development Group for $47 million. BKM Capital Partners purchased 12242 SW Garden Place from The Blackstone Group for $42 million as part of a multi-market portfolio. One final transaction was the leasing out of 243,000 square feet of space to Core-Mark by Trammell Crow at 17225 SE 120th Avenue.

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retail market analysis

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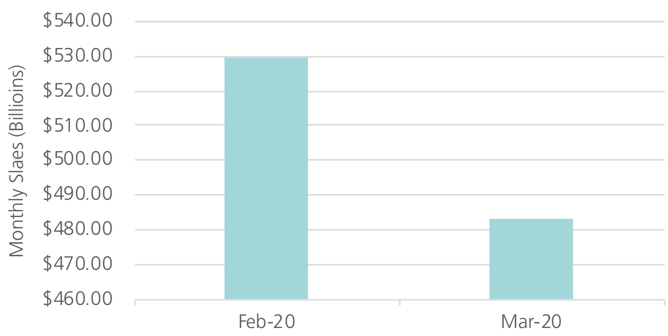
In the last issue of this publication, the story of the retail real estate market had been one of slight growth throughout the nation overall and slightly above average growth for the Portland metro area market. It seemed that most people had an idea that retail was changing, but no one could foresee what was on the horizon. The Covid-19 pandemic has effectively changed the way that the entire country operates. This virus has served to be the catalyst that disrupted the unprecedented economic growth that the United States had been experiencing.

Jerry Johnson, the Managing Principal of Johnson Economics, said it best in the Winter edition of the PSU Quarterly. He wrote, "Economic expansion continued through the fourth quarter of 2019, with the current GDP estimate indicating a 2.1% rate of growth during the quarter. The duration of the current cycle is now greater than 10 years, with the previous trough in June 2009. While the expansion cannot continue in perpetuity, there has been no apparent trigger for the next correction. The current coronavirus pandemic is likely to serve in that role." In terms of its effects on the retail industry, Johnson's words could not have been more true. According to the US Census Bureau, an April 10, 2020 report stated that retail sales in March were down 8.7% compared to the previous month. Retail patterns and thereby the retail real estate market changed dramatically.

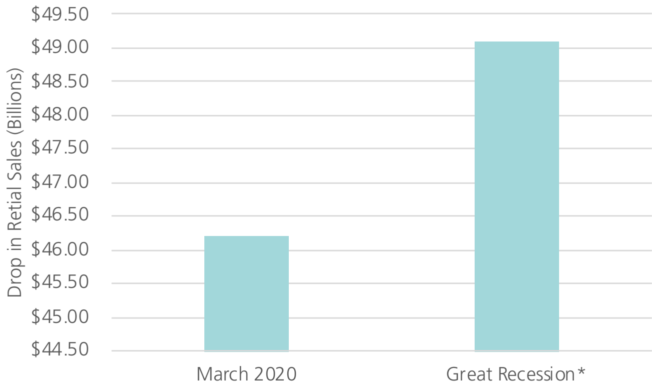
MONTHLY SALES FOR RETAIL AND FOOD SERVICES



COVID-19 EFFECTS ON RETAIL

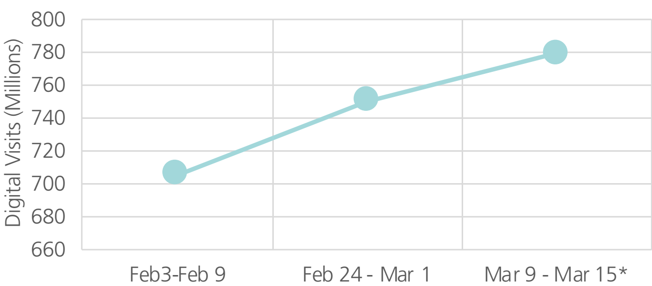
The effect of Covid-19 on retail has not been spread evenly across the market. There are multiple reasons for this. For one, the virus has caused most of the US population to stay home and avoid people. Because of this, businesses that thrived on social interaction and discretionary spending have suffered immensely as people have avoided these places in order to protect themselves. Yet, businesses that hold essential items and are considered "necessary" have performed extremely well. This leads into the second factor that has caused the uneven spread of Covid-19 effects – the government. Many state governments have created lists of "essential" and "non-essential" businesses. Although these lists often vary by state, they generally are split by the same general principle – "is the business 'life-sustaining'?" Life-sustaining, in this question, is used in a very broad sense and seems to include everything that is necessary for everyday life. For retail, this is grocery stores, liquor stores, pharmacies, and other similar retailers. Because of this, many of those retailers that have been deemed essential have done incredibly well during this time. The US Census Bureau reports that sales for Food & Beverage Stores have gone up 12.2% from 2019. So, while some retailers have actually gotten a boost in sales during this pandemic, others have suffered tremendously. As previously mentioned, those businesses that rely on discretionary spending like restaurants, bars, antique shops, clothing retailers, and other similar retailers have lost most of their business. Even if these businesses still had customers that desired to purchase goods from them, in an abundance of caution, governments have ordered them to temporarily close or severely limit their operations to prevent unnecessary spread of the virus. The effects of this can be seen in a report put out by the NRF which shows that the sales of clothing stores dropped by 50.5% from February while furniture and sporting goods stores' sales decreased by 26.8% and 23.3% respectively. These numbers emphasize the intense impact that Covid-19 has had on the retail economy which has been a story of winners and losers. While much of the impact was initially in response to government mandates, consumer preferences have likely shifted as well. If these preference shifts are sustained over a longer period they may continue to impact the retail market well beyond the current pandemic. The recent shift may reflect an acceleration of current trends from brick and mortar to online sales, with the marginal shift in sales sustained after the health crisis.

DROP IN RETAIL SALES DUE TO COVID VS THE GREAT RECESSION



* sixteen month peak-to-trough decline in Great Recession

TOTAL DIGITAL RETAIL VISITS FOR TOP RETAILERS (AMAZON, TARGET, WALMART)

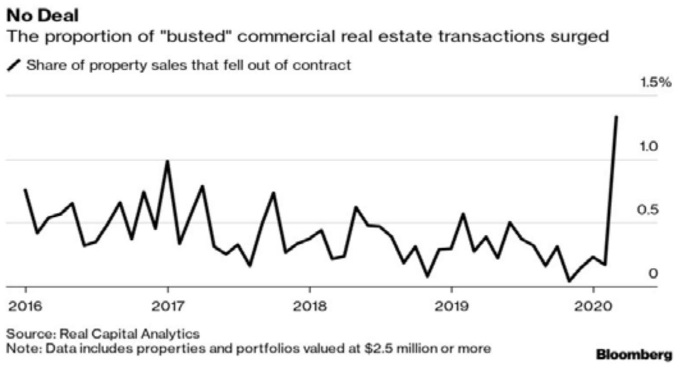


*highest week of retail visits in 2020

Sources such as LoopNet and CoStar suggest that with the impact that this virus is having on the retail market there are likely to be many stores that will not reopen, with the majority of their sales going online. According to LoopNet, there are likely to be at least 100,000 closures of retail stores in the next five years. Although the story of brick and mortar retail stores closing and transitioning online is nothing new, Covid-19 has sped up this process significantly. According to one broker, "COVID-19 has crushed commercial real estate. The retail market was slow before coronavirus, and this enhances and expedites the upcoming recession." Another commented that," A large majority of retail tenants will be behind rent or forced to vacate. The retail vacancies will significantly impact the value of buildings. The amount of vacancies will bring down asking rents and projected rents, lowering investors' projections." Because of the virus, people are now going online to order what they need. This has led to significant increases in traffic volume and sales on the websites of companies such as Target, Amazon, and Walmart.

RENT COLLECTION

With all of these widespread problems created for retailers, there has been a focus on the landlords and what they will do in order to help their tenants. This is especially true when it comes to the landlords of restaurants. Restaurants already operate on small margins, and now that they have to either shut down or move their business to completely takeout and delivery, many of them cannot afford to pay themselves, much less pay their rent. According to the Wall Street Journal, only about 46% of retail rents were collected this quarter in New York. Although these numbers could not be obtained for the Portland market, it can be assumed that the numbers are also dismal. Within this sad news, there is a glimmer of hope for many restaurant owners in Portland which has long been known for its friendly inhabitants who pride themselves on local goods. Many landlords have forgiven rents for their tenants in an effort to protect their tenants. Kevin Cavenaugh of Guerilla Development forgave rent for all 32 of his restaurant and retail tenants while many other landlords are finding creative ways to help their tenants through this time. While this is a genuinely helpful act for the tenants, this also will benefit landlords who hope to hold onto their tenants. Other owners are cutting rent and then amortizing it at some date later in the future without interest. These steps have been effective thus far, but the question remains how long can this last.



LEASING

With retail showing signs of decline even before the pandemic, landlords and tenants will need to be creative in order to maintain occupancy and leases. Not only are leases being broken, Bloomberg reports that the number of commercial real estate deals that have been broken in March have increased sixfold from February. Another sign of distress that Covid-19 has caused for the real estate retail industry comes through the news that Macy's is looking to back the selling of new bonds with their real estate holdings. This is yet another sign of the failing of larger format stores in the United States.

With this effective collapse in the retail market, two large questions arise for the real estate side of retail. The first is what will the future effects of this virus be? And the second is what should landlords and tenants currently be doing in light of these economic circumstances? In regard to the future effects of the virus, one should look at the trends preceding it in order to get a better understanding. For the retail real estate market, the trend for the past five years or longer has been one of minimal growth. According to CoStar, "Sluggish growth for mall space impacted retail rent growth in 2019. Cumulative rent gains for Portland retail at 25% are far below the performance of office, industrial and multifamily rents over the past decade." Unsurprisingly, retail has been performing poorly compared to every other major real estate sector in Portland with its growth primarily coming from Portland's strong economy. With so many people moving to Portland and the area's median income consistently increasing, discretionary spending has continued to increase in Portland. With the virus having shut down most discretionary retail spending, the demand for retail services has been shut off for a significant portion of time. This bodes poorly for the retail sector which has always relied on this spending to stay afloat. The impact of this is expected to be persistent and the retail sector will take time to recover. The devastation on retail has been immense. According to Reuters, "The $46.2 billion decrease in sales in March was almost equal in a single month to the $49.1 billion peak-to-trough decline that unfolded over 16 months in the Great Recession." With the problems being both a conglomeration of government bans, consumer caution, and the virus, it seems quite plausible that the problems for retail will only be exacerbated in the future.

EFFECT OF COVID-19 ON THE FUTURE OF RETAIL

If this is the case, and the future of retail and thereby the future of retail real estate is in question, what then should tenants and landlords be doing? As pointed out previously, many landlords are giving their tenants either complete rent forgiveness or cutting the rent and allowing the tenants to amortize out the payments on a later date. Paul Del Vecchio, founding principle of Ethos Development, said "It's the right thing to be doing to give tenants relief, whether it's commercial or residential, we're going to be the buffer, and we're prepared to be. We've proactively cut rent and told our businesses to pay their employees first. We want them to come out the other side." This policy of tenant relief may be a good one to follow if the property owner has adequate capacity. By giving tenants relief, both the tenant and the landlord benefit. The tenant is able to have a break on rent payments which allows them to use what little funds they have to pay themselves and their staff. The landlord is able to keep a tenant and not have to deal with the cost of finding a new tenant in this tough climate. The question though, is how long this can continue. Marc Strabic, Director of Leasing for Gramor Development, put it this way, "This entire situation boils down to how long retail deemed non-essential needs to remain closed and what limitations will be placed on it when it is allowed to open. Obviously, the longer the closure and more stringent the operating limitations, the worse the impact. On the ownership side, it is better to be invested in grocery/hardware anchored than fashion right now. Investment exposure to local retail is also of concern. Gramor is doing what we can to help these tenants, but this situation is acutely difficult for local retailers." How long can tenants ask for rent concessions from landlords and landlords ask for debt-service concessions from lenders? Only time will tell if the government policies such as the Paycheck Protection Program and CARES Act will benefit retail.

IN CONCLUSION

With retail sales being down as much as 50% in some sectors, rent being collected from only 46% of tenants in some areas, and overall retail sales down 8.7% compared to the previous month, retail and retail real estate is struggling. For an industry that was already experiencing less growth than any other in real estate, retail has little reason for hope except for food and beverage which has gone up 12.2% compared to 2019. Tenants are looking to their landlords for rent relief and landlords are looking to their lenders for debt-service relief. One of the primary drivers for retail sales was Portland's strong in-migration, but that may be severely affected in the wake of this pandemic. This is the first time that the state of retail real estate is not reflected in a statistic of rental prices, but rather in a statistic of tenants paying or not paying rent. Where there is encouragement is in seeing how local landlords such as Guerilla, Beam, Ethos and many more have stepped up and found creative ways of protecting their tenants.

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