Summer 2020

Center for Real Estate Quarterly, Volume 14, Number 3

Portland State University. Center for Real Estate

CENTER FOR REAL ESTATE

QUARTERLY REPORT

Volume 14, Number 3 | Summer 2020

A PUBLICATION OF

Portland State University
Center for Real Estate

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impact of slope on housing development costs

A report by the Center for Real Estate
Portland State University
For the City of McMinnville, Oregon

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One of the tenets of the Oregon land use planning system is that cities will develop within urban growth boundaries (UGBs), protecting farmland, forest land, and open space, and that those boundaries will maintain land supplies representing 20 years of population and economic growth. Within the real estate and urban planning professions, these definitions have been widely debated, with some arguing that urban development can become more dense and existing UGBs can support much greater densities, extending the protections on agricultural land and open space, with others arguing that dense development can only be supported by sufficient rents and prices and that the assumed carrying capacity of the land is less than it would appear.

The City of McMinnville, Oregon asked the Portland State University research team to investigate the impact of slope on housing development within its UGB. The city is located within the Willamette Valley and much of the land within its UGB has slope and other topographic constraints that require significant contouring, site stabilization, and infrastructure improvements in order to be developed. These additional site preparation costs add to the cost of developing the sloped parcels within the UGB, requiring premium selling prices and rents in order for the development to be feasible. And when these higher price points cannot be achieved, many of these parcels remain undeveloped and do not add to the effective 20-year land supply that the state statutes promise. Moreover, the yield of housing units per acre is greatly reduced when significant slope exists, as buildings need to have less mass and greater separation to avoid the problems of stormwater runoff and landslides.

These cost barriers create urgent problems for the development of affordable housing. Affordable housing requires low site preparation costs, as well as public subsidy, in order to meet the needs of low-income households within the community. When affordable housing developers submit applications for subsidy funds, they are often (correctly) judged by the cost of construction per housing unit. When site preparation costs are high, affordable housing developers won't be able to submit competitive grant applications.

In this report, we will segment the discussion by focusing first on the impact of slope on single-family housing development, followed by the impact of slope on market-rate, multi-family development, and then by the impact on affordable multi-family development. Data for the project comes from examples throughout the Willamette Valley, supplemented by construction cost information at a national level.

1. Single-Family Development
2. Market-Rate Multi-Family Development
3. Affordable Multi-Family Development
4. Conclusion

SECTION 1: SINGLE FAMILY DEVELOPMENT AND SLOPED LAND

As part of the update to its comprehensive land use plan, the City of McMinnville sought to understand the additional cost of developing land on sites with varying slope and soil conditions. This section of the report examines the additional cost associated with building single family home developments on varying slopes. This section of the report will evaluate the effects of building on flat (0-4% gradient), moderate (5-9% gradient), and steep slopes (10% gradient and up) in terms of construction issues, the cost of infrastructure construction, home value, and yield of homes in a given development.

To do this, developers and engineers were interviewed. Additionally, this section examines two separate data sets that seek to answer the questions above. The first data set consists of 16 single family developments in the Willamette Valley built by a developer located in Washington County. The second data set consists of 12 case studies of single family developments in the Willamette Valley on varying slopes built by four distinct developers.

CONSTRUCTION ISSUES RELATED TO BUILDING ON SLOPED LAND

There are several common construction-related issues that builders experience when building on sloped land. The most prominent issues that developers and engineers referred to were earthwork, including removing soil and building retaining walls, and storm water management. All of the people interviewed agreed that building on flat ground was less expensive than building on slopes; and when building on slopes, it is less expensive to build on a downhill lot (where the slope goes down from the front to the back of the home) than it is to build on an uphill lot.

One developer in Clackamas County estimated that downhill lots were, "20% to 25% more expensive" to develop than flat lots, while uphill lots were, "25% to 30% more expensive" than flat lots. A developer in Washington County mentioned that the value of a downhill lot is, "33% less than flat lots", while uphill lots could be as much as, "40% less" valuable. One reason for the difference is that it is easier to build foundations downhill than it is to carve them out of an uphill slope. It is also easier for a builder to move soil and rock downhill, away from the street – in order to make a lot flatter – than it is to move soil and rock uphill, toward the street.

Another earthwork issue related to sloped land, according to a project engineer from Multnomah County, is that sloped land has not experienced erosion and sedimentation as much as flat land has. Because of this, there is often less topsoil on sloped land, and the soil and rock that remains is often more dense than the soil on flat land. This makes it more expensive to excavate soil on slope than soil on flat land, for example.

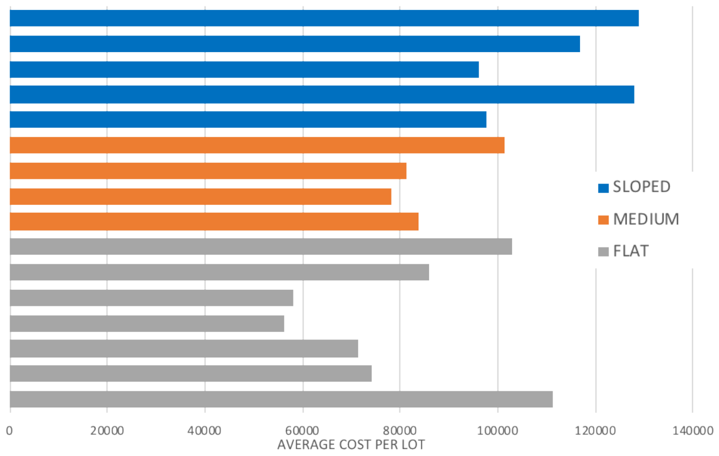
In addition to physically moving earth, creating retaining walls and terracing requires extra labor and materials. One common way to build a retaining wall is using boulders. According to a project engineer in Marion County, when retaining walls and terraces start to exceed four feet in height, a builder can no longer use boulders for retaining walls and must use steel-reinforced concrete. The project engineer estimated that the additional cost of boulders was around $25/square foot, and the additional cost of steel-reinforced concrete could range anywhere from $50/square foot to $75/square foot.

Another construction issue that most of the developers brought up was the issue of storm water management. On sloped land, storm water runoff must be managed to avoid flooding and landslides. According to a developer in Washington County, it is also more difficult to do so on sloped land because, unlike a flat development, there are no natural land features to retain the storm water. This developer, who was working on a steeply sloped development, had to install an underground water retention feature connected to a water treatment system by a pipe that was seven feet high and 190 feet long. According to the project engineer in Marion County, although the cost of treating water is similar on sloped and flat developments, the initial capital expense is much greater for sloped projects.

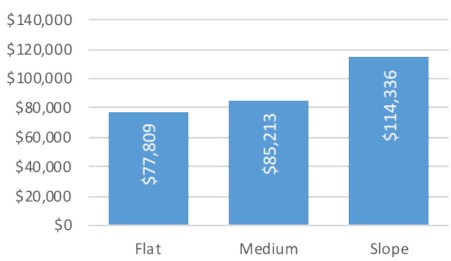
The yield of homes might also be considered a construction issue because of the infrastructure required to build homes on slope. In certain situations, homes must be single loaded on one side of the street if slopes are too great. Also, lots that are built on sloped land tend to be bigger to offset the effect of slope. In a sampling of 16 single family developments from a developer in Washington County with 328 total lots, the mean (average) lot size for homes on steeply sloped, moderately sloped, and flat developments were 4,800, 4,625, and 3,843 square feet, respectively. The median lot size for the same sample set were 4,500, 4,250, and 2,900 square feet, respectively. Five of these developments were built on steeply sloped land, four were built on moderately sloped land, and seven were built on flat land.

There were also a few minor issues that developers noted with some frequency. One of these issues was the expense of building road and sidewalk features to ADA accessibility standards. ADA standards require that all new developments have flat intersections, as well as sidewalks and curb cuts at gradients 8.3% or less. A developer in Multnomah County said that the most expensive part of ADA accessibility was ensuring that intersections are flat. Of course, many developers also recognized the importance of aligning a project's construction schedule to avoid working on any key steps in the process during the rainy season in the Willamette Valley.

LOT DEVELOPMENT COSTS BY SUBDIVISION

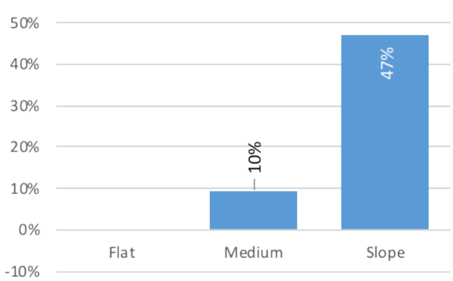


WEIGHTED AVERAGE COST/LOT



WEIGHTED AVERAGE COST PREMIUM

WEIGHTED AVERAGE COST PREMIUM



DATA SETS AND ANALYSIS

This section will draw upon two separate data sets to evaluate the effect of slope on infrastructure construction costs and home value. Data set #1 consists of 16 single family developments with 328 total lots, which were built throughout the Willamette Valley by a developer based in Washington County. Five of these developments were built on steeply sloped land, four were built on moderately sloped land, and seven were built on flat land. As discussed in the previous section, this data set illustrated that as slope increases, the yield of lots in a given development decreases. It will also show that as slope increases, infrastructure construction costs increase.

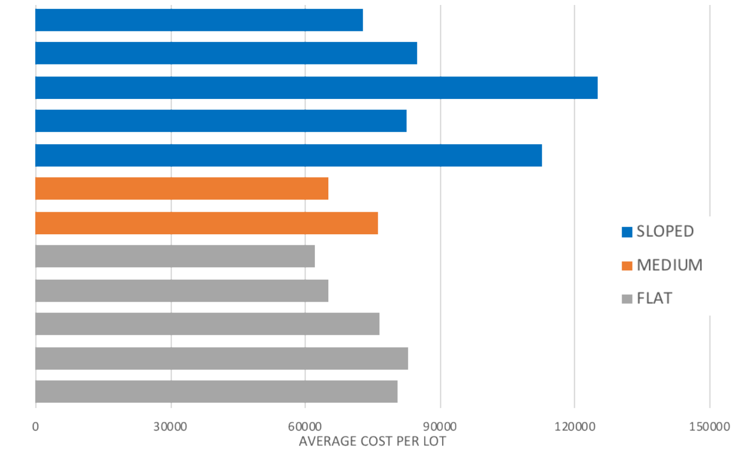
The mean infrastructure costs per lot for steeply sloped, moderately sloped, and flat developments in this data set was $114K, $86K, and $80K, respectively. Further, the median infrastructure costs per lot were $117K, $83K, and $74K, respectively. While the difference in infrastructure costs per lot between flat developments and moderately sloped developments is relatively small, the difference in costs between moderately sloped and steeply sloped developments appears to be approximately $28K to $34K per lot, based on the mean and median, respectively. The disparity becomes even larger when comparing steeply sloped and flat developments. In this case, the mean and median suggest that the difference is approximately $34K to $43K.

The following graphic summarizes total lot development costs by subdivision in this data set, broken out by degree of slope. The weighted average premium (adjusting for subdivision size) was 10% for a medium sloped property vis-à-vis a flat site, increasing to a 47% premium for a sloped site.

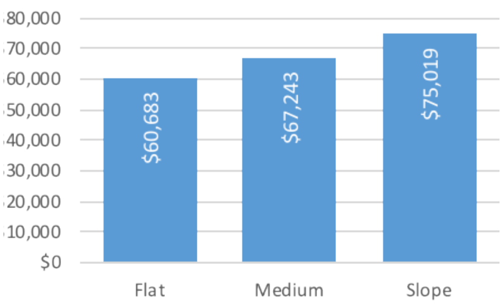
SUMMARY OF DATA SET #1

Data set #2 consists of 12 case studies of single family developments built by four separate developers. Five of these developments were built on steeply sloped land, two were built on moderately sloped land, and five were built on flat land. The mean per lot infrastructure costs for steeply sloped land, moderately sloped, and flat developments were $82K, $69K, and $62K, respectively.

LOT DEVELOPMENT COSTS BY SUBDIVISION



WEIGHTED AVERAGE COST/LOT



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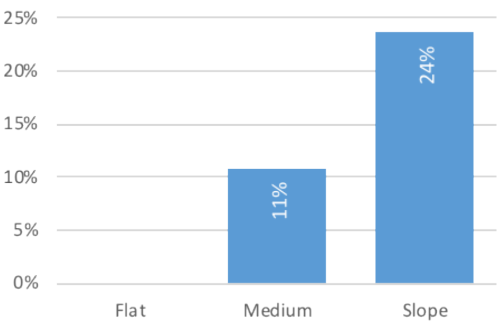


The median per lot infrastructure costs for these developments was $75K, $69K, and $63K, respectively. In terms of this data, the mean per lot infrastructure cost for steeply sloped developments was $13K higher than moderately sloped developments, and $20K higher than flat developments. The median infrastructure cost for steeply sloped developments was $6K higher than moderately sloped developments and $12K higher than flat developments.

Three of the homes in data set #2 were built by a developer who builds luxury homes and were all over $1.0 million. One of these was built on slopes of 10% to 25%, and homes in this development range in value from $1.1 to $1.3 million. The two other luxury developments were built on flat land, and the home values in these developments range from $1.15 to $2.2 million.

The remaining nine developments in data set #2 have homes that range from $348K to $685K. Of these developments, four were built on steeply sloped land, two were built on moderately sloped land, and three were built on flat land.

The lot development costs by subdivision in this data set show a similar pattern to those in the first data set, with the weighted average development cost per lot increasing as slope increases. In this case, the cost premium for a medium slope was 11%, while a higher sloped lot had a premium of 24%. While the differential was somewhat lower in percentage terms, it remains significant.

SUMMARY OF DATA SET #2

The homes built on steeply sloped land ranged from $360K to $685K, the homes on moderately sloped land ranged from $420K to $620K, and the homes built on flat land were $348K to $635K. When looking at the higher end of these ranges, it appears that developments on steeply sloped land have the homes with the highest values; however when looking at the low end of these ranges, it appears that homes on moderately sloped land have the homes with the highest values. Based on this information, it is difficult to say how sloped land affects the resale value of homes.

SECTION 1 CONCLUSIONS

The purpose of this section was to evaluate the effects of building single family developments on flat, moderately, and steeply sloped land in terms of construction issues, the cost of infrastructure construction, and home value. The main construction issues posed by building homes on sloped land were earthwork, water management, and reduced yield of homes on a given development. In terms of the cost of infrastructure and home value, there are other variables that were not taken into account such as the soil quality, materials used in construction, and the varying expenses of building in different jurisdictions. While there is evidence that building luxury homes on sloped land decreases the value of those homes, it cannot be said conclusively what the effect developing sloped land has on home value. Based on the information gathered in this report, it can conclusively be said that as slope increases, infrastructure construction costs increase significantly.

Increased lot development costs directly impact housing prices, as homebuilders purchasing lots will need to recover those costs. The typical lot accounted for 26% of final home price for all sales recorded in the Portland metropolitan area in 2019. While there is a great deal of variability between subdivisions due to differences in achievable pricing by market and land purchase price, it is common for a developer to increase their pricing by a ratio of roughly four to one to recover the additional costs and maintain their margins. The two data sets evaluated indicate a cost premium for a sloped site of between $14,300 to $36,500 per lot. Assuming that the lot price remains at 26% of home price, this would indicate an increase in home prices of between $55,000 and $140,000 per unit.

It should be noted that the final home price is a function of what the market will bear, and the loaded cost of the lot is also a function of the purchase price of the undeveloped property. As a result, these ratios may vary significantly on an individual development basis. To the extent that the market can support higher final home prices, this additional value will typically be reflected in transferred lot price. The incremental increase in costs is therefore more easily dealt with in markets that can support higher home prices, with more affordable housing less capable of absorbing these costs. While sloped sites (up to 20-25%) can be successfully developed for higher end housing, they are unlikely to have the capacity to meet the full pricing spectrum of detached housing demand.

SECTION 2: MARKET-RATE MULTI-FAMILY DEVELOPMENT AND SLOPED LAND

The research team interviewed professionals at local real estate construction firms to learn about the challenges of constructing apartment projects on sloped sites. Sloped site development often results in a project incurring additional costs and extended schedules. Development impacts include complications with overall site logistics, installation of site utilities, water retention ponds, erosion control measures, site retaining walls, and more complex stepped building foundations.

Site logistics often hamper excavation since earthmoving equipment cannot easily access the sits. For example, sloped sites may require track mounted excavators rather than bulldozers and scrapers. In addition, concrete may be required to be pumped rather than deposited by a standard chute method and aggregate fill may need to be deposited by conveyor rather than using a typical dump truck deliver method.

Surface water runoff during construction, especially during the fall and winter rainy seasons, requires additional silt fencing, temporary water retention ponds, straw waddles and hay bales as well as diligent maintenance of these temporary erosion control systems. Additionally, as these sites are developed, terraced retaining wall systems are erected for end-user accessibility and most often building structure foundation walls are taller and have more robust waterproofing systems applied in order to keep subsurface water from entering the buildings.

Sloped site development may also require complex and costly deep utility trench excavation and shoring systems. Onsite lift stations are possible, but the pump and control equipment needed for these lift stations is costly and requires regular maintenance.

Typical development costs for no slope sites range from $16 - $25 per square foot. On moderately sloped sites, those less than a 10% slope, cost impacts can increase the project site development costs by as much as 30%. Consequently, the cost increase for the site development of a moderately sloped, a 5-acre parcel may range between $1,045,000 - $1,634,000.

On steep sloped sites (those greater than 10%), cost impacts can easily increase the project site development costs by 50% or more. As a result, cost increases for site development on a steep sloped 5-acre parcel may range between $1,742,000 - $2,723,000.

DATA SETS AND ANALYSIS

To better understand the underlying development costs on sloped sites, we reached out to numerous, local general contractors, design firms, and developers to develop two data sets that looked at site development costs and total construction costs. By contacting these various firms, we gathered detailed information on market-rate, multi-family development projects in and around the Portland metropolitan area. In particular, we looked for the timeline of the project (using either the bid date or the completion date), the slope grade of each project, the total development cost of each project in a lump sum, and the site-specific development costs removed from the total project cost.

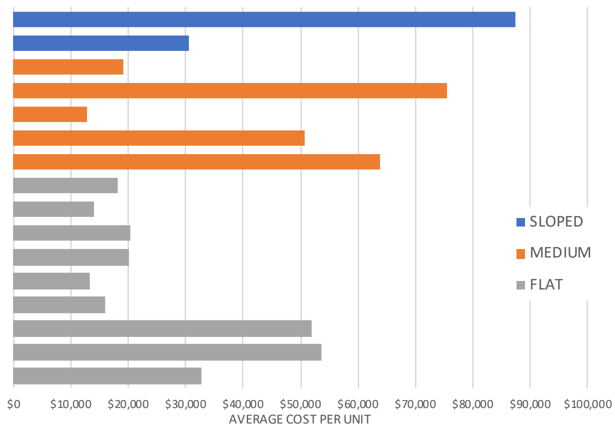
Seeking cost information for multi-family developments in the Portland metropolitan area from private firms proved to be difficult. Much of this information is confidential and important to maintaining a competitive business, so attempting to extract this information for outside research purposes was difficult. Even more difficult was getting in contact with the right personnel from each firm. Many of these firms were very busy, and the work required to extract this data is essentially extra, unpaid work for these firms. As such, in the process of gathering the data, we were unable to obtain some of the key pieces of information outlined above due to time constraints.

Another aspect of this process was converting development costs to present-day dollars in order to better compare the different developments. In this sense, it required finding the original dollar costs of each project and then adjust those costs for inflation using an inflation index dedicated to construction costs. In some cases, the providers of the data adjusted the costs to present-day dollars for convenience, but they used a different index than the one that was chosen for the project (the Seattle ENR City Cost Index). This inconsistency required going back and extracting the original data in order to adjust it with the same index as the other projects.

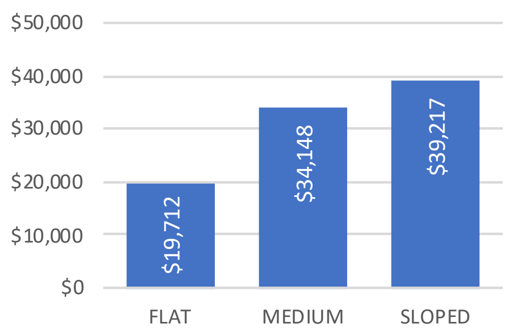
For example, one contractor provided data on completed multi-family development but was unable to extract site-specific development costs due to time constraints. Wherever possible, we attempted to fill in gaps for the key information pieces. One set of data did not provide site-specific slope grades, which required us to locate each project and determine slope grade using various mapping software.

In addition to gathering cost data, some supplemental work involved analyzing potential sites for development in McMinnville in order to determine soil anatomy. Gathering this information will ideally provide a convenient file of basic soil information for each site for future reference. Upon looking further into the soil anatomy to determine foundation requirements specific to each site, we determined that a truly useful opinion of value on foundation requirements can only be derived by an actual on-site analysis in order to get a full understanding of the soil conditions. However, researching general foundation and soil conditions, we managed to come to a general conclusion on the viability of the development on the potential sites.

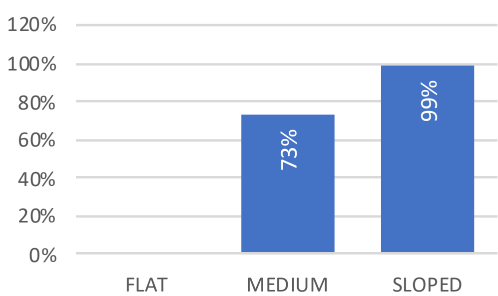
PER UNIT SITE DEVELOPMENT COSTS BY PROJECT



WEIGHTED AVERAGE COST/UNIT



WEIGHTED AVERAGE COST PREMIUM



After putting the data together on development project costs, the data was sorted according to three categories: 1) Site Development Cost/Site Area; 2) Total project construction cost/Site Area; 3) Total Project Cost/Unit.

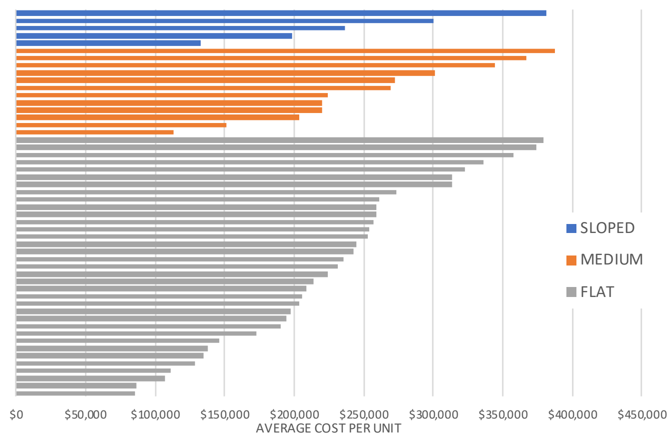
Upon sorting the data based on these units of comparison, projects with numbers that grossly exceeded the average number range of the data set were thrown out to better focus the comparison between the most similar projects. After examining the reduced data set, we found significant variation in costs, both between the categories based upon slope, as well as within those categories, given the wide variation in location, unit size, and construction type.

From this data, we found nine observations with mild or no slope (0-4%), five observations with moderate slope (5-9%), and two observations with steep slopes (10% or higher). From these observations, we computed the weighted average site development cost and found the steep sites required $39,217, the moderate sloped sites, $34,418, and the mild/no slope sites $19,712. Put differently, moderate slopes added 73% to site development costs relative to flat sites, and highly sloped sites increased site development costs by 99%.

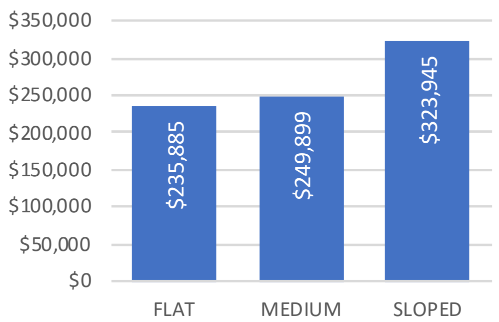
SUMMARY OF DATA SET #3

The research team had more information on total project costs, with five projects built on highly sloped sites, twelve projects built on moderate slopes and thirty-five projects built on mild slopes or flat sites. From these observations, we computed the average project cost per unit weighted by the number of units and found development costs of $323,945 per unit for highly sloped sites, $249,899 for moderately sloped sites, and $235,885 for mild slope or flat sites. Put differently, the total project cost per unit of moderate sloped sites required a 9% premium over mild slope or flat sites, and highly sloped sites required a 37% cost premium over mild slope or flat sites.

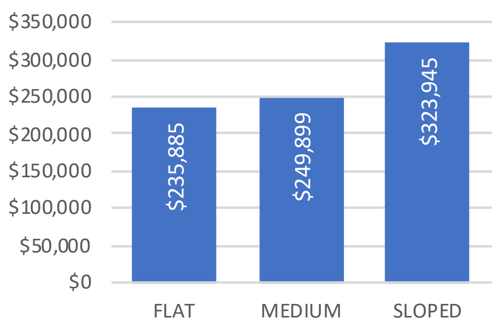
TOTAL CONSTRUCTION COST PER UNIT BY PROJECT



WEIGHTED AVERAGE COST/UNIT



WEIGHTED AVERAGE COST



SUMMARY OF DATA SET #4

As can be seen from the table above, there are many more multi-family development projects that are built on sites with little slope. While there are construction strategies for handling slope, those strategies are expensive and those sites either require a premium rent or remain undevelopable. For that reason, sloped sites are often overlooked in favor of easier-to-develop sites with mild or no slope.

SECTION 2 CONCLUSIONS

Slope and terrain remain a barrier for market rate developers. As discussed above, construction firms need to employ expensive construction techniques to excavate sites. Concrete often needs to be pumped uphill, and aggregate may require conveyor systems to deliver material where its needed. Construction firms will need more extensive retaining walls and terracing to keep their sites stable. Installing utilities and other infrastructure is also a complication with slope sites, including the management of storm water runoff and retention.

SECTION 3: AFFORDABLE HOUSING AND SLOPED LAND

The goal of this section was to determine if sloped sites had an impact on construction and development costs of affordable housing. To collect the information required for analysis, outreach began to affordable housing developers based in Oregon, with specific focus on projects built along the corridor of I-5 from Portland to Eugene. Oregon Housing and Community Services provided some starting data on projects around Oregon, and Home Forward, as well as the Housing Development Center, each provided projects in their pipeline or those that they had finished fairly recently. Other affordable developers provided data on several projects, though often neglecting to share full development or construction costs due to privacy concerns or an unwillingness to scour through their old projects for those that featured slope.

Nearly every affordable housing developer did not internally differentiate or specify their projects that were built on sloped sites, and it was often first-hand knowledge of a specific site that led to information being shared. Notably, many affordable housing developers stated outright that they do not build on sloped sites, or that developing on a sloped site is a very rare phenomenon, as it is assumed that slope would bring an additional cost to development. This posed an interesting problem for the analysis in terms of being able to collect data on sloped sites, where few appeared to exist. Additionally, several developers were willing to offer quotes for the analysis based upon conditions of anonymity:

"What we all already know, it's a lot cheaper to build on flat land rather than steep slope."

"There is an additional cost burden which sloped sites cause for such projects."

As the project was a comparison of costs based upon slope, information was collected on projects built both on sloped and flat sites as well as the gradient each site featured. Using the data provided by OHCS as a starting template, projects were defined by their location, the year they were finished, their square footage, and the total number of units in each development. Dollar amounts for total construction and development costs for each project were collected. These costs were then adjusted for inflation based upon the year they were built and using the Seattle ENR City Cost Index to bring their costs up to their value in 2020 dollars. These adjusted totals were then used to calculate construction and development costs based upon the site area, as well as total project cost per unit.

Once data was collected, an analysis was conducted to establish the impact sloped sites had on affordable housing development costs versus those built on flat sites. The data collected revealed that as slope increased, sites that featured a 20% slope gradient or above reflected higher development costs (between 40-50%) in comparison to the project's construction costs. Sites with less slope - those with

7.5% gradient or below - saw little to no impact on their development costs in comparison to sites built on flat ground. Additionally, sites that featured any gradient of slope tended to have slightly higher development costs per square foot than flat sites. Sites built more recently, those within the last 2 years as well as those currently in development, tended to feature higher costs overall regardless of their slope.

SECTION 4: OVERALL CONCLUSIONS

Land is an essential component of real estate development, and there is much variety in the quality of sites. Historically, cities developed near water ports and railroad lines, both of which tend to accommodate or require flat sites. Development tends to follow river valleys and expensive uphill transportation is avoided. As regions become congested, developers are often left to consider sloped sites, given the tendency of flat sites to be already developed. And in Oregon, our land use planning system encourages greater consideration of sloped sites inside urban growth boundaries, as the lack of available flat sites causes land prices to rise.

The research team was able to find a mix of single-family and multi-family development projects that were built on a variety of slopes. For single family development, slope sites require terracing that involves boulders or retaining walls with steel-reinforced concrete, so that individual homeowners can have relatively flat yards. In addition, slope sites require excavation and moving earth with expensive equipment. And the development of water retention ponds is complicated by sloped land, sometimes requiring underground piping systems and pumps.

In addition to interviewing construction firms and single-family development companies, we constructed two data sets to measure the impact of these additional expenses on development costs. We found that adding slope to the site led to an increase in development costs by 10% to 47% and subdivision development costs rising between 11% and 24%, depending upon the severity of the slope. These increases in development costs lead to higher prices for homeowners. And the added complexity of development on sloped sites also leads to smaller yields of housing units for a given acreage of the site. That may result in a lower density of housing units per acre, or unless achievable prices are high, no development at all.

For multi-family development, the construction challenges are magnified due to the weight of the buildings and the greater risk of settlement and landslides. We found additional problems resulting from waterproofing basements from subsurface water. Delivery of concrete and aggregate often require pumps and conveyor systems, respectively. And sloped sites experience greater challenges with water runoff and the construction of water retention systems.

Professionals in the industry advised us that moderate sloped sites could result in additional costs of $1.0 million to $1.6 million for a 5-acre site, and steep slopes would result in additional costs of $1.7 million to $2.7 million for such a site. To assess this question further, the team constructed two data sets of recently built apartment projects, adjusting those cost figures for inflation. We found an increase in site development costs ranging from 73% to 99%, depending upon whether the slope was moderate or high, leading to overall construction costs to rise between 6% and 37%, respectively.

These increases in costs create particular challenges for affordable housing developers, who depend upon a variety of funding sources and don't have the reserves to obtain and land bank flat sites for future development. Moreover, they are not able to capture the premium rents that development on sloped sites require. Given these challenges, cities need to insure a robust supply of relatively flat land to encourage the development of affordable housing.

THE RESEARCH TEAM

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economic analysis of rent control

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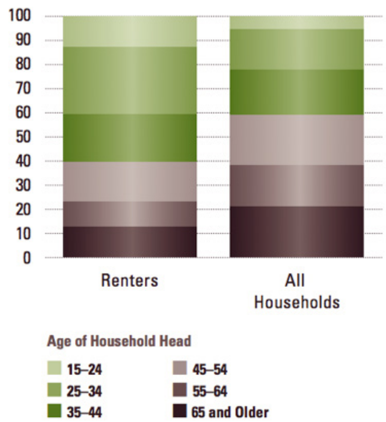
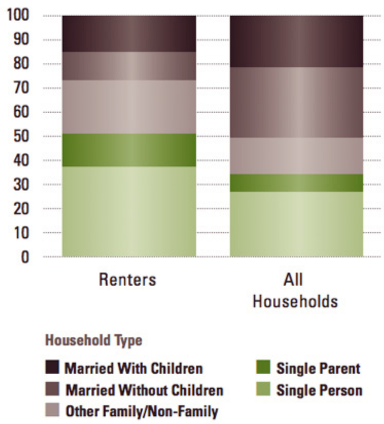
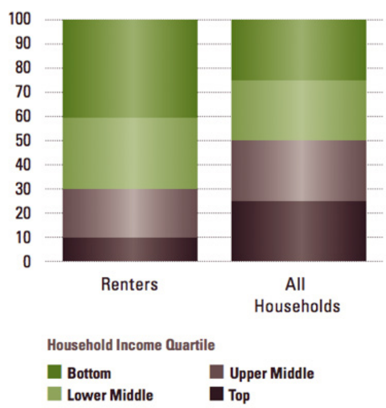
In recent articles in the Quarterly, we have reviewed and analyzed the major changes to landlord tenant law in Portland and the state of Oregon.

RENTERS REFLECT THE DIVERSITY OF US HOUSEHOLDS, BUT ARE MORE LIKELY TO BE YOUNG, SINGLE, AND LOW-INCOME

SHARE OF HOUSEHOLDS (PERCENT)







NOTES

Children are the householders' own children under the age of 18. Income quartiles are equal fourths of all households (both owners and renters) sorted by pre-tax household income. Other family/non-family includes unmarried partner households.

SOURCE

JCHS tabulations of US Census Bureau, 2010 Current Population Survey

As the regulations are new and we don't have much data to understand the effects, we are going to take a look at cities that have rent control laws and try to understand the intended and unintended effects that rent regulations can have. We will use rent control regulations as a guide to understand what Portland may expect from the recent increase of landlord and rental regulations. Rental housing is one of the largest and most important sources of housing in United States. Households of all demographics live in rental housing. New laws and regulations and their affects will be felt directly by a large part of our population. "Even during the homebuying boom of the early 2000's, [the percentage of households in] rental housing never fell below 30%" (Alexander, 2011).

Portland has enacted strict regulations on rental units and landlords, making renting very complex and risky to evict tenants and screen tenants; while also creating pricey penalties and relocation fees previously discussed in the Spring 2020 Quarterly. Senate Bill 608 enacting rent control is one of the most sweeping regulations Oregon landlords have ever seen. Statewide rent control caps rent increases to 7%+ CPI, while exempting buildings constructed in the last 15 years. The combination of state and local regulations is increasing cost and believed to be lowering the supply of multi-family development. (OLIS, 2019)

Rent control is one of the most debated ideas in real estate and housing policy. The goal is meant to help low- and middle-class income renters stay in their home and not fall victim to gentrification. We researched New York City, San Francisco, Cambridge and Los Angeles and the actual effects rent control legislation has had on these cities. It may come as a surprise but a healthy contingent of economists believe that rent control helps fuel higher rents and faster gentrification in these cities (Diamond, 2019).

Rent Control has a long and contentious history in the United States. Beginning on the East Coast in the 1920's and first appearing in New York City in the 1940's in response to the mass migration to the city during and after World War II (Gyourko, 1987). Spreading to the west coast in the 1970's with legislation passing in San Francisco and Los Angeles. In 2019 Oregon became the first state in the union to pass a statewide rent control act through senate bill 608.

The broadly stated goal of rent control has always been to protect those in need of housing from losing their home due to rising rents. Rent control is designed to act as a safety net decreasing risk for tenants, preferably lower income tenants. Ideally rent control allows those working to not worry about losing their residence. Unfortunately, this is not what happens.

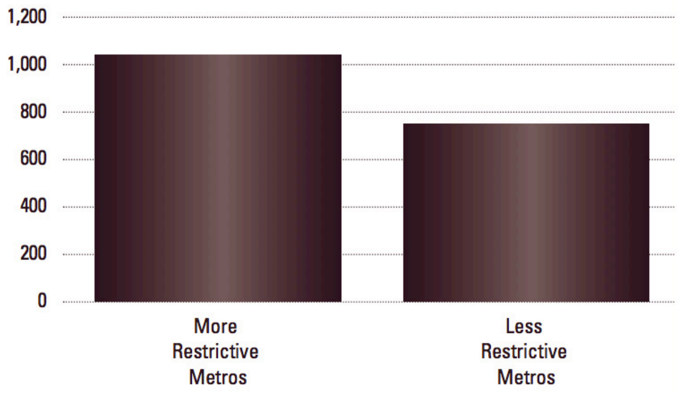
Rent control acts blindly and keeping rental rates low for anyone living in units defined as rent controlled. Income, occupation, and other personal factors are not taken into account. A study by the National Multifamily Housing Council found that "rent stabilization and control policies do a poor job at targeting benefits. While some low-income families do benefit from rent control, those most in need of housing assistance are not the beneficiaries of rent control" (Sturtevant, 2018). Adam Davidson of the NY Times points to a study by N.Y.U.'s Furman Center for Real Estate and Urban Policy, stating, "A majority of people in rent regulated Manhattan apartments make far above the poverty level." This is a common story in rent-controlled cities. The major benefit for rent control is for the households that are willing to stay put, not necessarily lower income households.

Rent control incentivizes tenants to stay in place regardless of their housing or job needs. A Stanford study of San Francisco in 2017 states, "Rent control increased renters' probabilities of staying at their addresses by nearly 20%" (Diamond, 2019). In some studies people were occupying much larger then needed units or vice versa. New young families are staying put in smaller units and possibly avoiding becoming home owners due to the cost protections afforded due to rent control (Diamond, 2019). This lack of mobilization negatively affects the supply and demand balance. Apartments that are then exposed to the market will have higher demand and high prices. Over time rent control will help far less than intended.

Additionally, rent control creates a ripple effect, taking supply off the open market and increasing the demand for unregulated apartments. The percentage of unregulated apartments varies depending upon the specifics of the city and state regulation. In Oregon, any building that is 15 years or younger is exempt from rent control. However, the unregulated sector will likely shrink over time as more apartment reach the 15-year threshold. Rent controlled units in NYC account for 45% of the total inventory, rent controlled units accounts for 75% of housing inventory in San Francisco and 80% of the inventory in Los Angeles (Katz, 2018). These restrictions on inventory are most common in the country's most expensive rental markets.

HOUSING COSTS ARE HIGHER IN AREAS WITH RESTRICTIVE LAND USE REGULATIONS

AVERAGE GROSS RENT, 2009 (DOLLARS)



As rent control decreases risk for renters, it increases risk for owners. Owners of multi-family units have less control over their investment and many studies have shown that rent controlled areas typically have high cases of deferred maintenance (Weiner, 2014). All business decisions must take into account the return on investment. Investors have a hard time justifying investing capital into properties where potential income is limited. Unfortunately, the regulation creates a Catch-22 and will lead to less desirable and neglected properties.

The long term effect of deferred maintenance is that the value of the neighborhood begins to decline. For any city, this will lead to a loss of revenue as property values and property taxes fall. We saw this direct affect when Cambridge, MA disbanded rent control. A study from Massachusetts Institute of Technology (MIT) estimated that the city had lost out on 2 billion dollars of taxable revenue over 10 years due to rent control (Autor, 2014). The income generated from this taxable revenue could be used towards schools, job training or other targeted affordable programs.

Real estate owners are business savvy and will find a way to earn a return on their investment. In many places, owners are allowed to evict tenants for a demolition of the property or can change the use of the property to for-sale condos or even creating tenancy-in-common (TICs) ownership structures. These change of uses or transfers allow the building to side step rent control. The study out of Stanford also stated that in their research, "Landlords treated by rent control reduced rental housing supply by 15%, causing a 5.1% city-wide rent increase." The obvious problem of the change of uses is that rental supply in the city is again restricted which in turn increases the demand and therefore price of rent. Could Portland see an increase in condo associations and TICs? Doubtful, but it could be possible.

In conclusion, we can see from the many studies on the subject that cities and states that enact broad rent controls end up doing more harm than good. Rent control does not specifically help the people most in need, it helps those that are able to stay put the longest, regardless of income level. Regulations such as rent control, tenant screening, and mandatory relocation fees only increase costs, decrease supply, and drive up prices. If the Portland metropolitan area and the state of Oregon want to see actual progress and equity in housing, they need to get creative and incentive the development of more housing units. The increase in supply will satisfy the demand and allow rents to moderate. More importantly, state and local leaders need to target households in actual need and help them find safe and affordable housing. Blanket policies along with vilification of developers and landlords does more harm than good.

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03 //

the impact of covid-19 regulations on portland's small landlords

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Due to new regulations enacted to protect renters during Covid-19 outbreak, small landlords have endured significant financial burdens due to the loss of rental income. Under the state's eviction moratorium, landlords have been required to continue offering their apartments to tenants since March, 2020, even if those tenants do not pay rent. Hence, the eviction moratorium has become a rent moratorium, damaging property owners' ability to pay their mortgages and, for many, limiting their retirement income. This article will discuss the new legislation that has been passed in the last year and its impact on multi-family property owners.

Sole proprietor landlords acquire residential property for various reasons - to create wealth for retirement, to provide monthly income during retirement, to fund college expenses, or provide back-up housing to the owner they become unemployed. Some landlords may have the ability to put a forbearance on their mortgage, however landlord face other costs, such as utilities, landscaping and maintenance expenses that cannot be delayed. Other landlords may have no mortgage and rely upon the income to live. Additionally, even with a loan forbearance in place many landlords struggle to maintain their rental properties or pay their property management company.

In Portland, the eviction moratorium acts in tandem with new rent control rules to impose a greater financial burden on landlords than in other jurisdictions where rent control is not in place. Many states lifted their eviction moratoriums at the end of June, 2020; you can see the range of policies at the following website: https://www.rhls.org/evictionmoratoriums/. Many landlords are concerned that the moratorium could be extended beyond September, 2020 and are uncertain regarding how to plan for the future when a moratorium extension may happen days before otherwise being scheduled to expire.

While I do not want to downplay the importance of maintaining housing for displaced workers during the pandemic, it's not clear why this social obligation should be borne by landlords instead of taxpayers as a whole. And because the state government has decided to offer rent relief through an eviction moratorium, there are no standards to helping tenants displaced by the pandemic from other tenants who have been able to adapt to social distancing. Approximately 15% of renters are not paying their rent according to an article published by the Oregonian on June 25, 2020. As a result, the benefits are not targeted, and the burden lies with property owners, rather than society as a whole.

The Covid-19 pandemic has impacted rental income for landlords, both due to a flattening of rents, as well as non-payment. Rents have flattened due to statewide unemployment rates hovering around 14%. Given the lack of demand, landlords are offering rent concessions to fill vacancies. For example, the Grand Belmont at 514 S.E. Belmont Street is offering eight weeks of free rent as an incentive to sign a lease.

The Oregon legislature extended its initial eviction moratorium on June 26, 2020, with House Bill 4213. The new law states extends the moratorium until October 1, 2020, and prevents landlords from the following actions:

- Giving a termination notice for nonpayment of rent, fees, utilities, or other charges
- Charging a late fee or penalty for nonpayment
- Giving a termination notice without cause (unless the landlord has sold the rental to someone who plans to move in)
- Starting an eviction case based on nonpayment
- Starting an eviction case based on a termination without cause
- Filing for noncompliance with a stipulated agreement in eviction court if the eviction was based on nonpayment or a termination without cause
- Reporting a tenant to a credit agency for nonpayment of rent or a late fee for any rent that due between April 1, 2020, and September 30, 2020.

Once the moratorium is lifted on October 1 (absent further actions by the legislature):

- Tenants are required to pay their rent each month under the terms of the rental agreement.
- Tenants have six months to pay back rent that built up before October. A landlord can evict a tenant for not paying rent under the terms of the rental agreement but cannot evict a tenant for not paying any rent that was deferred between April 1 and September 30. A landlord will have to wait until April 1, 2021 to evict a tenant for not paying rent that came due during the eviction moratorium.
- If a landlord violates any part of the new law, a tenant can get a court order to force the landlord to allow the tenant to move back into their home. And a tenant can also sue the landlord for three months' rent.
- A landlord can give the tenant a notice saying how much rent the tenant owes and will have to pay back by March 31, 2021.
- A landlord may give notice to the tenant requiring the tenant to tell the landlord within 14 days if the tenant plans to use the six-month grace period to pay back any rent owing.
- If a tenant does not tell the landlord that they plan to use the six-month grace period to pay back the deferred rent, the landlord can charge the tenant half a month's rent as a penalty.

THE CHALLENGES OF LANDLORD OCCUPANCY

To illustrate the burden of the new regulations, we will use an example of a property owner who sought to occupy one of her own apartments to reduce living costs during the pandemic. Prior to the Covid-19 pandemic, she was the sole proprietor owner of a duplex and had recently filed for divorce and moved into a rental apartment close to her two children's schools. Her budget was based upon steady income from accounting clients as well as income from her duplex that she rents out. The landlord had selected her rental apartment due to the extensive amenities in common areas in her complex, including ping pong tables, pool tables, lounge rooms, and gyms. Her unit is 750 square feet and provides a home for two children, a college-bound brother (whose parents are homeless) and a large dog.

Once the Covid-19 pandemic started, the landlord's client base as an accountant has diminished, creating financial stress for the family. In addition, the regulations following the Covid-19 outbreak required that the highly-desirable common areas be shut down for several months with access to the amenities and common areas greatly restricted thereafter.

With no extra-curricular activities or children attending school since March, diminished income from work and her apartment, and no response to unemployment applications filed with the state of Oregon, the sole proprietor landlord was hoping to move back into the duplex she owns.

The duplex would allow her household to live in a 4-bedroom, 2-bath home with 1,500 square ft. that includes a backyard. Her financial burden as a single mom would be reduced. However, as the owner of a duplex she may not provide a no cause order to vacate for landlord occupancy until the moratorium is lifted. The current duplex tenant who has not paid rent during the moratorium asked the landlord if she could sublet part of the house using Airbnb. The landlord replied,"No, but if you let me move in, I will lower your rent. The landlord explained her financial hardship and the need for space. The tenant replied, "No, I feel like I own this home, and I don't think I would like to share the space with my landlord."

Because of the moratorium, the landlord was not permitted provide a notice to vacate to their tenant, even if they and their family members were in need of housing, until the moratorium has officially ended. The initial moratorium was planned to end June 30, 2020. On June 26, 2020 the state of Oregon legislature passed HB 4213, extending the statewide moratorium until September 30, 2020. Once the moratorium has ended, a 90 day order to vacate may be served, which means that the property owner won't be able to move into her apartment until January, 2021.

TENANT REPAYMENT OF RENT POST MORATORIUM

In the above example, if the moratorium is over September 30th and no payments of rent are made, there will be a balance of $11,100 due. The tenant will have up to 6 months to repay this amount. 45 days prior to the tenant vacating $4,500 relocation fee is due to the tenant while a $11,100 owed by the tenant may exist. This causes undue hardship on the landlord. The only way to do a no cause order to vacate during a moratorium is to sell the duplex to a new owner who intends to inhabit the space in which case the owner or the new buyer may provide a 90 day order to vacate.

There are several concerns this landlord has.

1) If no partial payments are made over the entire 6 month moratorium period, how is the tenant going to pay rent along with the additional rent owed?

2) There has been a power shift that has become so severe that a sole proprietor owner of a duplex cannot inhabit the investment she owns for her family in financial distress.

3) It is perplexing that a landlord would be required to pay $4,500 in relocation fees when there is a balance outstanding that greatly exceeds this amount.

4) The moratorium rules may force her to sell her property in order to make ends meet or pay the relocation fee when a deficit has been created for lack of rents received. A potentially forced sale may trigger capital gains taxes if a new investment cannot be found.

THE FIFTH AMENDMENT'S JUST COMPENSATION CLAUSE prohibits the taking of private property for public use without compensating the deprived property owner. Yet, landlords during a moratorium are forced to provide a social service of free housing without compensation.

FINANCIAL ASSISTANCE FOR LANDLORDS Currently, the only financial assistance for landlords is to apply for an EIDL loan through the SBA.

THIRD PARTY MANAGEMENT COSTS Several property managers within the Portland metro area have expressed frustration at not being able to perform one of their most important duties, collect rent. Yet, depending on the property manager, a property management fee is still due monthly.

PROPERTY OWNERS SELLING & INVESTING OUTSIDE OF MULTNOMAH COUNTY Many landlords may be hesitant to sell their investment during CV-19 due to lack of rents received affecting values. However, there has been much talk amongst investors and real estate brokers that Multnomah County has taken away the power of landlords to a degree that makes investment less financially feasible and risky. While the moratorium has affected landlords nationwide, the moratorium in tandem with rent control has caused many residential investors unreasonable hardship.

A current map indicating which states have a moratorium in place may be found at: https://www.rhls.org/evictionmoratoriums/

Most landlords did not invest in rental property to provide a social service that required financial sacrifice. The moratorium in essence requires landlords to provide a social service without compensation. The burden of helping tenants during the Covid-19 pandemic should be borne by all taxpayers, not by landlords.

RESOURCES

https://www.portlandoregon.gov/citycode/article/748112

https://www.portland.gov/phb/rental-services/mandatory-renter-relocation-assistance

https://www.oregonrentalhousing.com/news/7798601

https://multco.us/chair-kafoury/covid-19-eviction-moratorium-information#:~:text=Tenants%20will%20have%20a%20six,back%20rent%20they%20may%20owe.

04 //

responding to tenant needs during COVID-19

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THE EVICTION MORATORIUM

With historic levels of layoffs during the COVID-19 pandemic, cities and states have struggled with how to limit spread of the virus and keep tenants in their residences without a stable source of income.

Responding to the crisis, Oregon Governor Kate Brown signed Executive Order 20-13 on April 1, 2020, which created a state-wide temporary moratorium on certain evictions and terminations of rental agreements and leases. This executive order was scheduled to be in effect for a three-month period until June 30, 2020.

OREGON TENANT RIGHTS DURING COVID-19

Free legal information from Legal Aid Services of Oregon & Oregon Law Center (updated April 9, 2020)

1 It is illegal for a landlord to give you an eviction notice or a notice of violation for non-payment of rent, non-payment of fees, or non-payment of utilities between now and June 30th. You need to tell your landlord as soon as possible that you cannot pay your rent. If you cannot pay your rent now, you will need to pay it after June 30, 2020.

2 It is illegal for a landlord to charge you a late fee for any kind of non- payment between now and June 30, 2020.

3 It is illegal for a landlord to give you a no-cause notice between now and June 30, 2020.

4 It is illegal for your landlord to file for an eviction based on non-payment or a no-cause notice between now and June 30, 2020.

5 Your local government may have protections. Tell your landlord in writing if you've lost income due to COVID-19, and send written proof of loss of income as soon as possible.

6 If you live in subsidized housing, your landlord cannot give you an eviction notice based on non-payment until at least July 26, 2020. Your landlord has to give you at least a 30-day notice after July 26, 2020.

ADDITIONAL ONLINE RESOURCES

For more information on tenant rights in Oregon visit:
https://www.oregon rentersrights.org/ and
https:// oregonlawhelp.org/classroom/public-health-and -coronavirus-covid-19/housing-protections

Free legal help for low-income Oregonians
If you are low-income and need legal help related to your housing, you may be able to get free legal assis- tance from a legal aid attorney. To find your local legal aid office, visit
https://oregonlawhelp.org//resource/ oregon-legal-aid-offices

Gov. Brown's Executive Order 20-13 was drafted in response to the preceding Executive Order 20-12 which required individuals to stay home to the greatest extent possible. The stay-at-home order, in turn, required Governor Brown to put protections in place against residential tenant evictions so that households didn't feel pressure to violate the stay at home emergency order in order to keep their residence. These regulations applied to both residential rent agreements and commercial rental agreements.

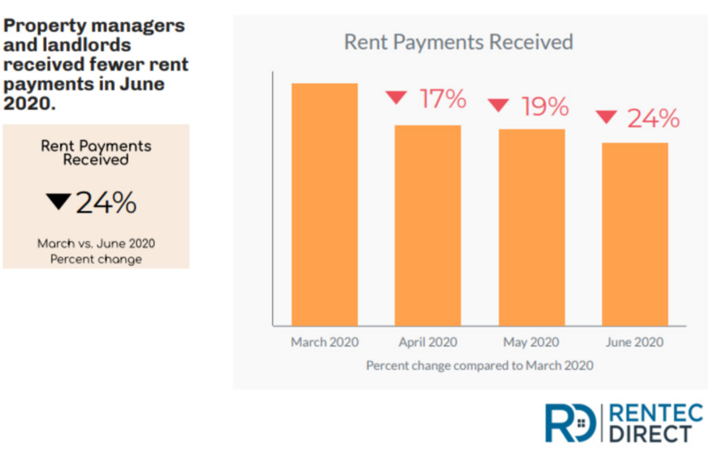
Without much sustained progress in health indicators during the three-month period, House Bill 4213 was passed by Oregon lawmakers on June 26, 2020. This legislation extended the previous eviction moratorium until September 30, 2020 and also created a six-month repayment period for tenants. The bill clarified the process for landlords to send notices about outstanding balances, offer payment plans and exercise lease terminations without a tenant-based cause.

Starting October 1, 2020, a landlord can give a notice to the tenant requiring that the tenant tell the landlord within 14 days if the tenant plans to use the six-month grace period to pay back any rent owing. It is extremely important that tenants respond to this notice. If a tenant does not tell the landlord that they plan to use the six-month grace period to pay back the deferred rent, the landlord is permitted to charge the tenant half a month's rent as a penalty.

To ease the long-term financial burden on tenants, the Oregon Housing and Community Services (OHCS) has created a Rent Relief Program to aid people who have experienced loss of income and are at risk of homelessness due to COVID-19.

The program has allocated $8.5 million for rent relief through local Community Action Agencies (CAAs). The funding for the program came to the state through the federal coronavirus relief package, known as the CARES Act, and has been distributed among 18 local CAA agencies. OHCS decided how much to allocate to each local agency using a needs-based formula, which factored in data on rent burden, poverty, homelessness, and unemployment claims. Each agency has been tasked with distributing the funds to renters who, under the statewide eviction moratorium, can delay rent but must pay it back once the moratorium ends.

Naturally, the new anti-eviction order has led to questions about the future backlog of rent that could become due all at once. A rent relief program has the potential to ensure large scale evictions will not happen. Any household with less than 50% of their local area's median income can apply. Applicants will be prioritized based on need and those with pandemic impact will be highest on the list. Renters will need to show proof of income loss, and the money given will be used to address the backlog of rent payments as well as future payments. Tenants whose applications are accepted should see the money go straight from the agency to their landlord.



As of June 10th, rent payments received nationwide by property managers and landlords are 24% lower than rent received for the same period in March, prior to the onset of the COVID-19 pandemic in the US.

Data provided by Rentec Direct property management software.

SOCIAL WELFARE ASSISTANCE

Emergency cash assistance is another avenue to alleviate financial burden on those impacted by COVID-19. In April, the Portland Housing Bureau announced a relocation of $1 million in funding to help lower income families meet financial obligations. Some of that money will distributed through the nonprofit group, 211info. The money will be given out based on a set of criteria in $250 increments. The group 211info began taking applications 0n April 27, 2020, for the Emergency Household Stabilization fund to disperse that newly acquired funding.

In addition to the CARES Act money, some families are working with local government agencies, such Home Forward, for emergency hotel vouchers. The Short-Term Rent Assistance program (STRA) is a countywide program that provides limited housing assistance of up to 24 months to Multnomah County households that are experiencing homelessness or are at-risk of homelessness.

STRA provides an alternative to living on the streets but does not address a long-term solution that most households are looking for.

Families can also apply for Low Income Housing Energy Assistance (LIHEAP), even if their financial distress is not solely-attributed to the current pandemic This long-standing program provides assistance to families that have trouble paying for energy bills with funding from U.S. Department of Health and Human Services. In 2019, nationwide eligibility was established for persons earning between $13,739 and $18,735. While not specifically designed for seniors, this program does disproportionately help seniors receive funding compared to the overall population.

Finally, the Temporary Assistance for Needy Families (TANF) program provides cash assistance to low-income families with children while they strive to become financially self-sufficient. Under TANF, the federal government provides a block grant to the states, which use these funds to operate their own programs. Cash assistance is intended to meet a family's basic needs such as food, clothing, shelter, and utilities. Most cash benefits in Oregon are issued via an Electronic Benefit Transfer (EBT) card, known locally as an "Oregon Trail Card".

MORTGAGE ASSISTANCE PROGRAMS

In early May, 2020, Fannie Mae announced a COVID-19 payment deferral option for homeowners who experienced financial hardship due to COVID-19 that had harmed their ability to pay their mortgage. This option allows homeowners up to 12 months of missed payments, with the missed payments being deferred to the end of the loan term. To be eligible, homeowners must complete a COVID-19 related forbearance plan and are able to continue making their full monthly contractual payment, while also demonstrating that they cannot afford full reinstatement or a repayment plan to bring their mortgage loan current.

Under certain Fannie Mae plans, homeowners may be able to temporarily reduce or suspend their mortgage payment while managing temporary financial problems. Besides the payment deferral option described above, these plans allow borrowers to choose between short-term repayment plans or even full repayment options so additional interest is not accrued during the life of the loan. Additionally, foreclosure and eviction relief may be available through the federal CARES Act signed into law on Friday, March 27, 2020.

Finally, Fannie Mae has created a household assistance program known as the Disaster Response Network, which offers free help with the broader financial challenges caused by COVID-19. Its HUD-approved housing counselors can create a personalized action plan, offer financial coaching and budgeting, and support ongoing financial realization for up to 18 months. This program applies to people struggling to pay back rent or mortgage obligations.

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https://www.fanniemae.com/portal/media/corporate-news/2020/covid-payment-deferral-7018.html

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https://www.opb.org/news/article/oregon-85-million-available-pay-rent-during-covid-pandemic/

https://www.oregonrentersrights.org/coronavirus

05 //

housing production in a COVID-19 economy

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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.

This introductory article serves as the foundational piece for a 3-part series in the Portland State University Quarterly Journal Housing Column to track and review Portland, Oregon MSA housing production during this historic pandemic and in the new COVID-19 economy. Since the U.S. housing industry accounts for approximately 27-percent of the investment spending and about 5-percent of the overall economy, housing production is a key economic indicator to gauge the health of the economy.

In this column, we will analyze housing production within the parameters that include the relationship between new construction permits, housing starts and completions, with regard to market rate housing; and, for-profit and nonprofit government subsidized affordable housing. In this first article, we focus on the pandemic's impact on new construction permits in market rate housing. Permit activity provides insight into the housing industry and the overall economic activity in upcoming months.

BACKGROUND

In this fifth month of the U.S. COVID-19 pandemic health crisis, uncertainty is the new normal. The efforts to slow the spread of the Coronavirus has crippled the U.S. economy, causing adverse cascading ripple effects to one of the most important economic indicators - housing starts. This creates challenges to determine clear trends and patterns. Pre-COVID, the general rule of thumb in analyzing housing starts is that sustained declines in housing starts slow the economy and can push it into recession. Likewise increases in housing activity triggers economic growth However, at the writing of this article, there is a mixed-bag of data: housing production is down, yet housing sales and investment activity are up, while historic unemployment continues, and eviction moratoriums expire.

EMPLOYMENT

As of August 2020, approximately 16.3-million people are unemployed in the United States, with a 10.2% unemployment rate - down from 14.7% in April – almost 3-times as high as the 3.5% previously steady low rate. Despite declines over the past 3 months, these measures are up by 6.7 percentage points and 10.6 million, respectively, since February. While the COVID-19 pandemic rages on, Oregon unemployed hovers at a 10.4% unemployment rate. Nationally, over 178,000 people have succumbed to COVID as have over 400 Oregonians with over 25,000 confirmed cases. At over 5.5 million, the USA which accounts for less than 5% of the world population, leads all other countries in global coronavirus infections and deaths leads all developed countries in COVID confirmed cases (Johns Hopkins University Data: 2020). With all of that stated, as the economy is being compared to the Great Depression era, there is little wonder that, compared to last year, housing production levels are down.

Contributing to record unemployment levels are many non-essential businesses which remain closed, or are struggling to survive as people practice social distancing to help reduce the effect of COVID. Especially hard-hit: commercial office retail and hospitality; hotels, restaurants, and bars . In Oregon, housing construction has been allowed to continue as an essential business. However, as the COVID pandemic continues to surge, the housing industry is not immune to its impacts as it is experiencing barriers to production with delayed building permit approval processes; decreased housing production levels; and, slowed construction completion schedules.

UNEMPLOYMENT RATE AND UNEMPLOYMENT CHANGE OVER TIME

Area	Unemployment rate			Change from	
	June 2018	June 2019	June 2020	June 2018 to June 2020	June 2019 to June 2020
United States	4.2	3.8	11.2	7	7.4
Portland-Vancouver-Hillsboro, OR-WA MSA	4	3.8	11.4	7.4	7.6
Clackamas County, OR	3.8	3.7	10.7	6.9	7
Columbia County, OR	5.3	4.7	11.3	6	6.6
Multnomah County, OR	3.8	3.6	13.4	9.6	9.8
Washington County, OR	3.6	3.4	9.9	6.3	6.5
Yamhill County, OR	3.8	3.7	9.9	6.1	6.2
Clark County, WA	4.9	4.9	10.2	5.3	5.3
Skamania County, WA	5.4	5.4	10.3	4.9	4.9

Graph Source: Bureau of Labor Statistics: June 2020

DELAYED BUILDING PERMIT APPROVAL PROCESS

Typically, City of Portland permit approvals expire three years after a final land-use decision. However, recognizing COVID's impact on the building industry , in July Portland commissioners considered amendments to the city's zoning code to extend the expiration of land-use approvals to January 1, 2024 for developments approved from July 1, 2017 to December 31, 2020.

"Due to the pandemic, the processing of permits has slowed down, construction timelines have slowed, financing is harder to obtain, and there is just a generally uncertain market condition happening now," said J.P. McNeil, a planner with the Bureau of Planning and Sustainability.

This action was critical in order to comply with the Governor's Stay-At-Home March 2020 mandate, the Portland Bureau of Development Services (BDS) implemented a Work-from-Home employee workplace, changed to a new software permit data reporting system, and created a tiered priority permit approval process . This logistical transformation forced the complete closure of the BDS building and operations from March 17-20. Limited operations resumed March 23rd at which time it accepted only limited types of permit applications based on high priority projects, minimize in-person interactions, and adjust employee workloads working from home (Ken Ray: City of Portland, BDS; July 28, 2020). New single-family residential permit applications were not accepted until the week of April 13th. Other residential alterations and multifamily housing permits (other than affordable housing projects) were not accepted until the week of April 27th. Compounding the delays, with BDS imposed an employee semi-layoff with a furlough-Friday reduced employee work schedule shortening the work week from five-days to four.

In fact, the U.S. Census Bureau issued a statement regarding COVID-19 Impact: "Due to recent events surrounding COVID-19, many governments and businesses are operating on a limited capacity or have ceased operations completely."

Even with Portland legislature's forward-thinking remedy, it took until July 20th, roughly 4-months after the initial Stay-at-Home social distancing guidelines were mandated, for BDS to be logistically-ready to begin to review all permit types. Therefore, the 4-month gap distorts the data, appearing to show a surge in housing production. When, in fact, the spike in approved new construction permits simply reflects a backlog in reviewing permits during the March through June Shelter-in-Place economic shutdown. Nonetheless, taking that gap into consideration, housing production levels are down compared to last year 2019 but July figures show that construction is starting to show a consistent level of production.

LOWER HOUSING PRODUCTION LEVELS

Nationally, according to the National Association of Housing Builders (NAHB), fueled by low interest rates single-family housing permits and starts continued to expand in July as housing demand and construction remains a "bright spot for the overall economy". It states that single-family starts in July were estimated by Census/HUD at 940,000 seasonally adjusted annual rate, after a revised estimate of 869,000 for June. However, this figure is a 34% decline from peak starts pace in February. Multifamily construction starts for 5+ units increased 57% to a 547,000 pace in July. However, this is a 11% decline compared to January. Notably, NAHB forecasts a decline in multifamily construction compared to single-family as a direct result of the 2020 economic downturn.

"The multifamily market continues to make its way back toward pre-pandemic levels, with recent starts data coming in above forecast," said NAHB Chief Economist Robert Dietz. "Demand remains subdued due to elevated unemployment rates, while on the supply-side of the market builders and developers are dealing with a significant increase in lumber prices, which could hinder further recovery of the market." (NAHB: Housing Market Survey; August 20, 2020).

In the Oregon Portland-Vancouver-Hillsboro Metro area, July single-family construction starts show a consistent upward tick in production levels since April 2020, from 376 new permits to 748. However, total new construction permits from January 2020 through July 2020 were down by 136 total units, with 4251 new permits compared to 4387 the same time last year 2019.

Likewise, new construction multifamily dwelling permits in the Portland-Vancouver-Hillsboro is up from a 77-unit February low to 1374-unit high in March. However, new permit units continue to decline April through July from 690-units to 412-units. In fact, new multifamily dwelling units declined from January 2020 through July 2020 down by 938 total units, with 3,556 new permits compared to 4,494 the same time last year in 2019.

"Builders are likely to wrestle with even more economic fallout in the coming months as COVID case counts continue to spike throughout Oregon and various parts of the nation." (Anirban Basu, ABC Chief Economist: 2020)

Whereas housing construction has resumed from the Spring 2020 pandemic-induced economic shutdown, compared to this time last year, production levels are lower overall with higher levels in single-family vs multifamily dwellings. However, what becomes an economic concern will be a high vacancy rate for both housing types.

While historic unemployment continues without a federal $600 stimulus, and federal/state eviction moratoriums expire, the next article will review the affordable housing market sector to delve deeper into the production of different housing types, geographic location of housing production, and monitor the effects of epic unemployment rates on residential vacancy rates.

CITY OF PORTLAND TIERED PRIORITY HOUSING MATRIX

Tier	Project Types	Accepted Beginning Week of
1	▪ Hospitals and clinics responding to the COVID-19 pandemic ▪ Essential infrastructure and services such as heat ▪ Shelters and transitional housing projects ▪ Essential facilities such as the PDX terminal upgrades and BES wastewater treatment plant	March 23
2	▪ Projects that are working with BDS Process Management/Major Projects Group ▪ Wireless facilities that are subject to Federal Communications Commission timeline requirements ▪ City infrastructure and facilities projects not covered by Tier 1 ▪ Food supply related projects essential to the COVID-19 pandemic ▪ Submittals associated with projects that have an issued building permit and are under construction (this includes revisions, deferred submittals, and HVAC and electrical trade permits)	March 23
3	▪ Portland Housing Bureau affordable housing projects that are not working with BDS Process Management/Major Projects Group ▪ Empowered Community Projects (Small Business Empowerment, Arts Empowerment, Empowered Neighborhoods)	April 13
4	▪ Regulated affordable housing projects with associated grant funding (that are not working with BDS Process Management/Major Projects Group) ▪ Facility Permit Program (FPP) permits	April 13
5	▪ New single family residential (NSFR) permits ▪ Demolition permits that are a requirement of an active Land Use case or are associated with development of a new structure on the same site	April 13
6	▪ Commercial and residential new construction, alterations, and additions that are not listed in any of the above tiers (the plan sets for these submittals must not exceed 25 pages and must be submitted as a PDF via an intake appointment. Commercial projects consisting of more than 20 pages may qualify for submittal via ProjectDox) ▪ Mechanical permits that require plan review	April 27
7	▪ Permits for all other projects, Zoning Permits, etc.	May 11

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economic analysis

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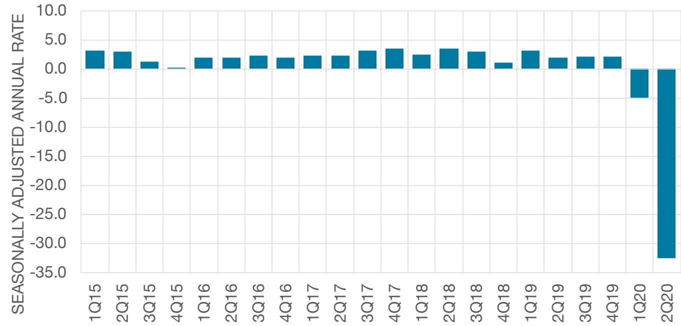
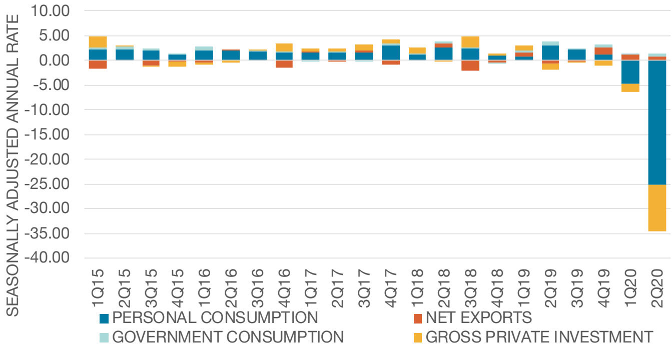
REAL GDP - PERCENT CHANGE FROM PRECEDING QUARTER



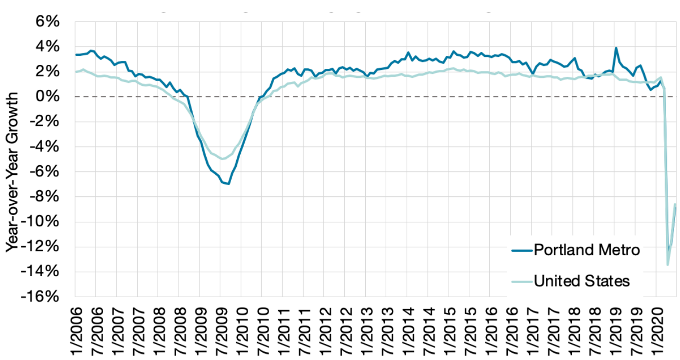
U.S. Bureau of Economic Analysis

GDP GROWTH BY CONTRIBUTING SECTOR



U.S. Bureau of Economic Analysis

RATE OF EMPLOYMENT GROWTH - YEAR OVER YEAR



Bureau of Labor Statistics

The Covid-19 pandemic continues to be the dominant force in the economic landscape, at a national as well as regional level.

As noted in a recent Federal Reserve statement on July 29:

> The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term.

In simpler terms, economic forecasting at this time is likely to be less reliable than usual.

Real GDP declined at a seasonally adjusted rate of 32.5% during the second quarter, reflecting an unprecedented decline associated with the forced closure of significant portions of the economy.

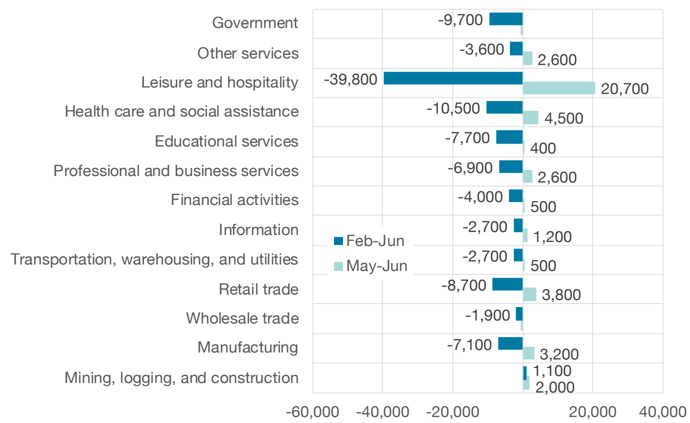
Consistent with expectations, the second quarter saw sharp declines in personal consumption and private investment, with was offset by modest increases government consumption and net exports.

Though the pandemic has had serious consequences on many levels, the economic effects have so far been less severe than many feared earlier in the year. Nationally, employment fell by 14.5% between February and April, but then rose again in May and June, limiting the job loss to 9.6%. On a year-over-year basis, June employment numbers reflect an 8.6% decline.

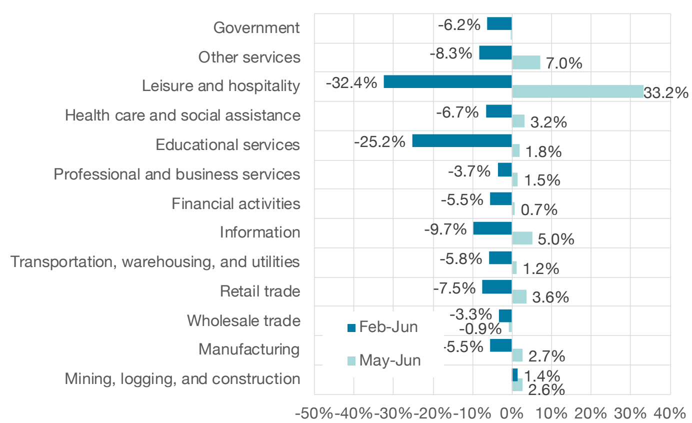
In the Portland Metro Area, the job loss was 12.8% between February and April. This represents 156,000 lost jobs, erasing nearly six years of job growth. By May, the job loss had been reduced to 12.0%, as 10,000 jobs were regained. Data is not yet available for June, but if we see the same recovery as on the national level, 40,000 jobs will have been regained in June.

In the Portland metro area, the employment sectors reporting the greatest magnitude of impact since February have been leisure and hospitality, healthcare and social assistance, and government.

EMPLOYMENT CHANGE SINCE PANDEMIC START-PORTLAND METRO

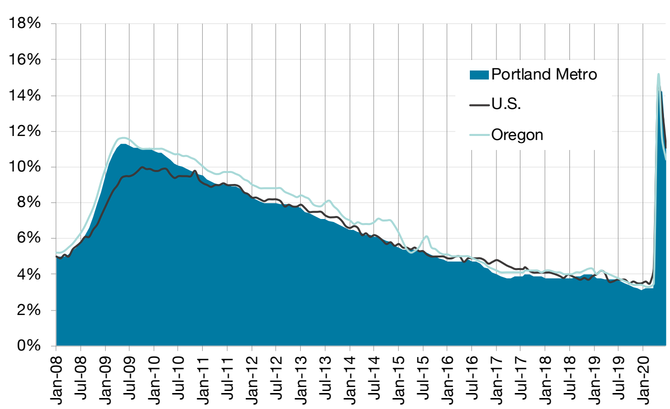


PERCENT EMPLOYMENT CHANGE - PORTLAND METRO



State of Oregon Employment Department

UNEMPLOYMENT RATES OVER TIME



State of Oregon Employment Department

On a percentage basis leisure and hospitality and educational services have shown the greatest rate of decline, although leisure and hospitality has recovered about a third of its losses since May.

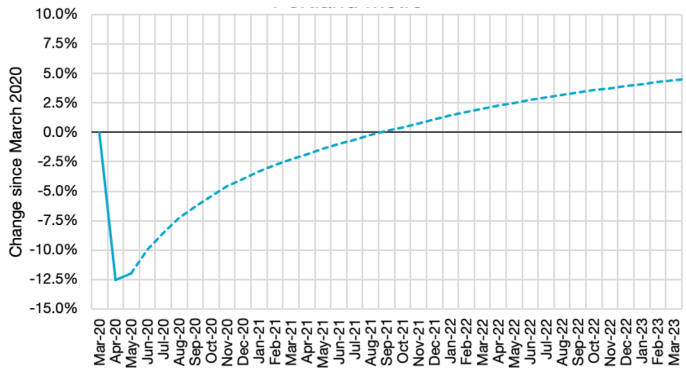
The leisure and hospitality sector lost 61,000 jobs in the Portland Metro Area and remains 40,000 jobs below its February numbers. Roughly 45,000 of these jobs were lost in the restaurant industry, while nearly 7,000 was lost in the hotel industry and 9,000 in arts/entertainment/recreation. Somewhat counterintuitively, healthcare saw significant reductions despite the pandemic, as preventative visits and elective procedures were put on hold in expectation of capacity shortages. This has bounced back somewhat but still remains 6.7% below February levels. Government employment is down, but this is almost exclusively in the local government sector and likely reflects the closure of recreational facilities. Local governments in Oregon rely heavily on property taxes, which are a revenue source that should remain stable.

Reflecting the relatively low wages in the leisure and hospitality sector, a disproportionate share of workers in this industry are apartment renters. Overall, apartments account for 29% of all occupied housing units in the region. However, census microdata indicates that 54% of the workers in leisure and hospitality who live in single-income households live in apartments, while 40% of workers in households with two or more incomes live in apartments.

The unemployment rate, which was 3.5% nationally and 3.2% regionally in February, rose to 14.7% nationally and 14.3% regionally in April. By June, the national rate had declined to 11.1%, while the May rate for the Portland Metro Area was 14.1%. Unemployment levels have been moderated somewhat by a reduction in labor force participation.

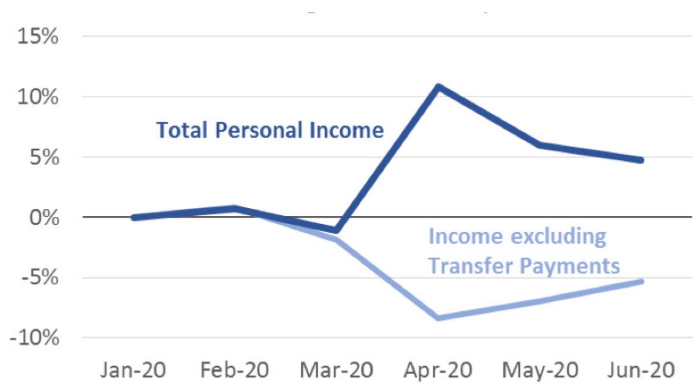
Though the economic effects of COVID-19 have been severe, many economists projected even worse conditions earlier in the crisis. The many federal initiatives, both by the government and the Federal Reserve, have undoubtedly helped mitigate the impacts.

EMPLOYMENT PROJECTIONS, CHANGES SINCE MARCH 2020, PORTLAND METRO



Bureau of Labor Statistics, JOHNSON ECONOMICS

FEDERAL AID BOOSTS US PERSONAL INCOME PERCENT CHANGE FROM JANUARY 2020



BEA, Oregon Office of Economic Analysis

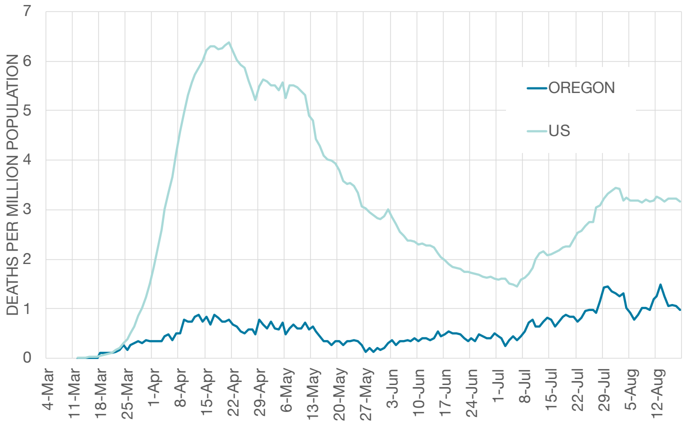
An anomaly in this recession is that the massive federal fiscal stimulus to date has actually led to a net increase in personal income, which would have declined sharply without the supplemental transfer payments. Personal income actually rose 10% in April.

Measures such as the Payroll Protection Program and supplemental unemployment benefits are expiring or largely complete, and an extended shut-down period may induce a need for additional federal intervention. As these interventions phase out, it will present headwinds that the recovery will need to overcome.

It is possible that increased infection rates will force another round of shutdowns, with additional job losses. However, on a net basis we would expect a stalled recovery rather than additional losses. The length of the recovery is heavily dependent on development and dissemination of either/or an effective vaccine or more effective treatment approaches. Our current employment forecast for the Portland Metro Area assumes a recovery of the lost jobs in 17 months, with a return to the pre-recession employment trajectory taking at least another year.

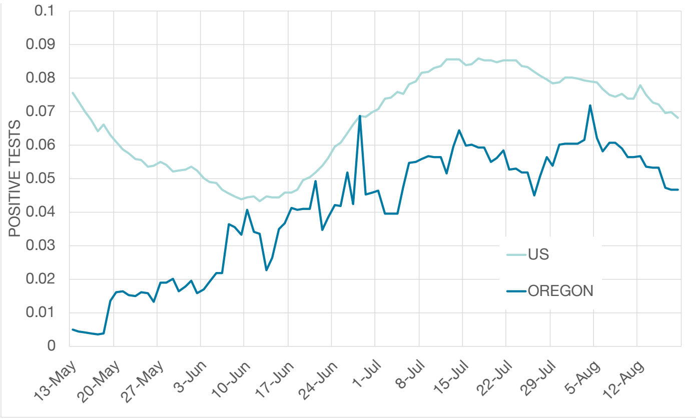
The COVID-19 pandemic and responses to it will continue to have a dominant role in the national and local economy. At the national level, the initial surge of cases was concentrated in the Northeast, most notably New York, New Jersey, and Massachusetts. Much of the remainder of the US reported a much lower number of cases and resulting deaths through early July. A second wave of outbreaks was then reported in sunbelt states and California, which appears to have generally peaked a few weeks ago.

DEATHS PER CAPITA - OREGON AND US



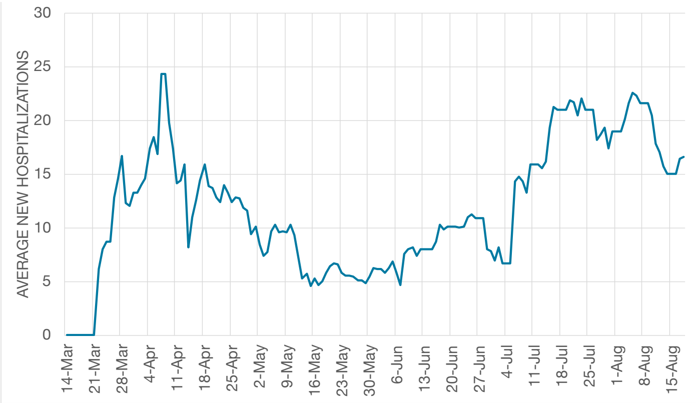
Covid Tracking Project (covidtracking.com)

POSITIVE COVID TEST PERCENTAGES - SEVEN DAY AVERAGE - OREGON AND US



Covid Tracking Project (covidtracking.com)

OREGON NEW COVID-RELATED HOSPITALIZATIONS, SEVEN DAY AVERAGE



Covid Tracking Project (covidtracking.com)

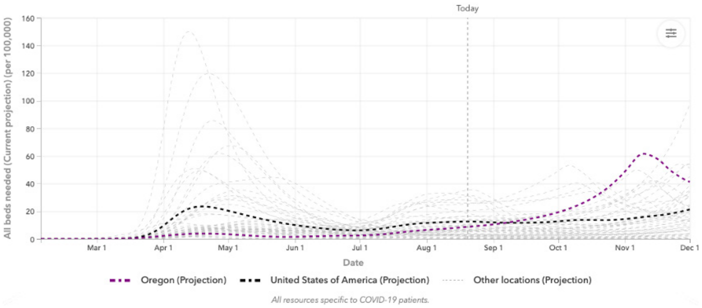
The State of Oregon has been among the least impacted states to-date, with per capita deaths remaining well below the national average despite a recent increase.

The percent of tests reporting as positive appears to have peaked in the State of Oregon during the first week of August, as have hospitalizations. Deaths should lag these trends, indicating that the number of fatalities is likely to decline in the state over the next few weeks.

While the State of Oregon has fared relatively well in terms of containing the virus to-date, it may be that we have been too successful in "flattening the curve". The intent of flattening was to assure that medical resources were not over-taxed, which we have been successful in doing to-date. The concern is that by flattening the curve at the low rate we have been able to sustain to-date, we have extended the period in which the virus remains an active threat, extending public policy responses and economic damage. While policy considerations have been dominated by public health concerns, policymakers must also consider and balance other factors such as the economic and fiscal cost, which may also have public health implications.

Current forecasts anticipate infection rates in the State of Oregon to increase through November, while states that had much higher rates of infection and deaths recover more rapidly. The duration of economic disruption will greatly impact the economy's ability to recover as structural damage to businesses and balance sheets accumulates.

HOSPITAL RESOURCE USE PER 100,000



University of Washington Institute for Health Metrics

It is important to note that the forecasts do not anticipate availability of a vaccine and/or more effective treatment methods for the virus. The availability of these may truncate these trends and by delaying the impact of the virus a lower death rate may be achieved. The news on both fronts has been promising, but the forecasts for the future are highly reliant upon when we can assume some return to normalcy in the economy.

While it is important to keep trying to develop effective forecasts, this pandemic has illustrated that epidemiological modeling is more akin to economics than a hard science. This is particularly true with a "novel" virus of which little is known. The CDC utilizes roughly twenty-five models that are considered in developing a national forecast. Of these, less than half have shown an ability to forecast more accurately than a baseline forecast that simply assumes that the next four weeks will be identical to the last. As a result, key decisions with significant implications on economic activity, in both the public and private sector, continue to be made with a high level of uncertainty.

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single family home

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The single-family housing market is typically known as one that is unpredictable with high risk levels. With that being said, the strength in sales and purchase numbers has allowed the market to be viewed as somewhat of a resilient sector in the economy. Aside from that, due to the unexpected global pandemic, COVID-19, that broke out in roughly March of 2020, the entire world experienced and continues to experience an economic downturn.

With the stay at home orders and halt of construction in Washington, home sales and inventory were largely affected. The housing market, in both Oregon and Washington, saw quite a consistent decrease in all aspects, sales, purchases, prices, and construction of new homes in Q1 2020. However, following those months, Q2 2020 reported what appeared to be an upward trend in new listings, closed sales, and average sales prices. A few credible sources have stated that mortgage rates haven't been this low in over thirty years, which could be the culprit behind this upward trend. These low rates have been serving as enticing tactics to potential home buyers and homeowners, inviting many of them to even refinance their homes. With that being said, the Portland metro area, Clark County, and Cowlitz County reported surprising numbers, given the economic condition, that seemed to be quite promising for the future of 2020's housing market.

PORTLAND METRO AREA
ACTIVE LISTINGS AND AVERAGE SALE PRICE

PORTLAND METRO AREA

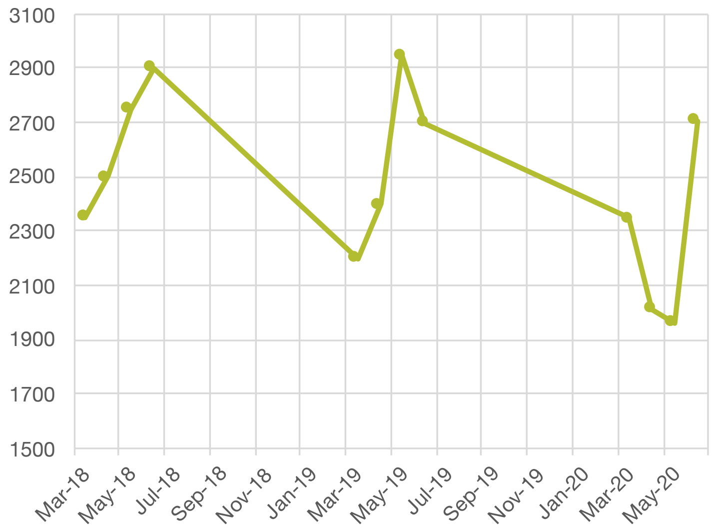
Oregon has commonly been referred to as one of the states in the U.S. with a substantial housing shortage. With the dramatic increases in population that the Portland metro area experiences yearly, the housing market has difficulty keeping up with the demand and average household sizes. According to RMLS, the Q1 and Q2 2020 reports showed decreases in listings, pending sales, and inventory. Surprisingly enough, closed sales increased in Q1 2020, but took a significant decline in April 2020 and then seemingly rose again in June 2020. New listings decreased by approximately 17.9% from March to April of 2020, more specifically from 3,468 listings in March to 2,847 listings in April.

Following these reports and a drop in pending sales, closed sales also seemingly decreased from 2,356 sales in March to 2,015 sales in April. With this 14.5% decline in closed sales, the housing market in the Portland metro area was clearly seeing the repercussions of COVID-19. Homeowners were pulling their houses off the market as a result of little to no offers coming in within the past couple months, and homebuyers weren't necessarily fond of the home sale prices considering they rose substantially.

However, towards the end of Q2 2020 the housing market started to see some positive outcomes. New listings had gone from 3,419 in May 2020 to 3,658 in June 2020, a 7% increase, and an even larger increase since April 2020. June pending sales followed suit of this increase, with a 17.4% increase, as did closed sales. There were 2,709 closed sales in June, which was a 38% jump from the 1,963 closed sales reported in May. This recent spike in closed sales could largely in part be due to mortgage rates being extremely low, therefore drawing in more and more homebuyers to take advantage of the opportunity while they still can.

With the current economic condition, average home sale prices haven't seen a dip much at all, but rather continue to gradually rise. For instance, in March 2020 the average sales price was recorded at $465,500, and in April 2020 it rose by 2.6% to an average sales price of $477,400.

PORTLAND METRO AREA CLOSED SALES

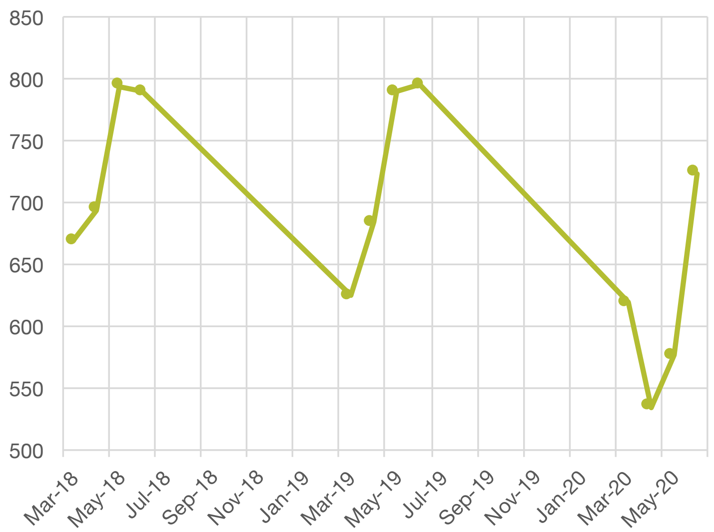


Following these months, the average sales price was $479,700 in June 2020, which was also a 2.6% increase from the previous month of May. A rough price increase of $14,000 is sizeable in a mere three months, especially in the middle of the pandemic. There are several speculations with regard to this increase. According to the article 'Can Portland's Housing Market Survive the Pandemic and the Protests?', one real estate agent stated "Our inventory is so low, and has been so low for long, and money is so cheap, neither the virus nor the uprising has had much of an impact on the market," (James). Mortgage interest rates being lower than 3% coupled with Portland's housing shortage and low inventory has resulted in the rise in home sale prices because homebuyers are still willing to pay.

In terms of active residential listings, the year over year numbers (2019 to 2020) have decreased, but the month to month numbers for 2020 have increased. For example, from January to June of 2019 the active listings ranged from 4,500 to 6,800, but from January to June of 2020 the active listings were relatively much lower as they ranged from 3,500 to 4,800 which is likely a result of COVID-19. Typically, the summer months have proven to have the highest numbers for active residential listings, which is important to take into consideration when reviewing the numbers above, as the numbers normally range from 6,000 to 7,000 listings. Overall, the Portland metro area has seen a slight uptick in the housing market for the end of Q2 2020, and it will be intriguing to see what Q3 2020 does as the unpredictability of the pandemic and the market are difficult to gauge.

CLARK COUNTY
ACTIVE LISTINGS AND AVERAGE SALE PRICE

CLARK COUNTY
CLOSED SALES

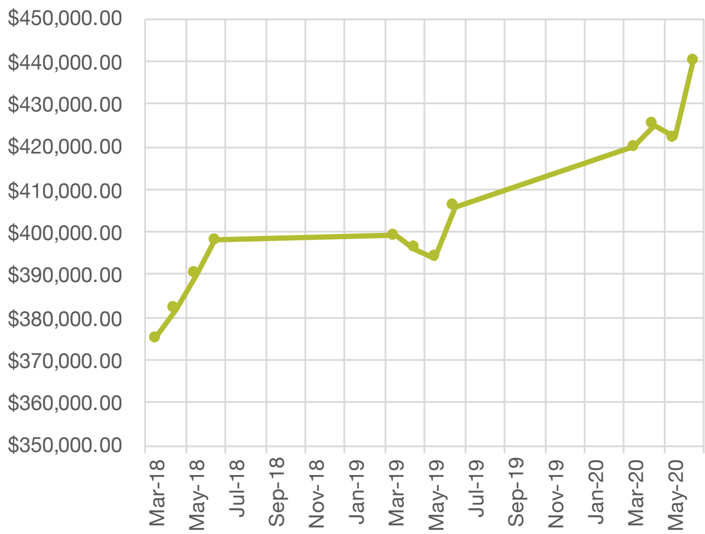


CLARK COUNTY

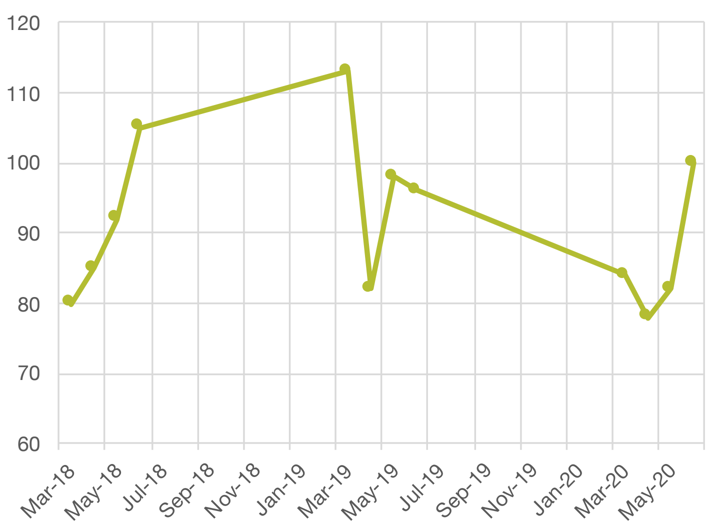
Southwest Washington has been known to follow housing market trends seen in the Portland metro area, simply due to the close proximity of the areas. Clark County has experienced both increases and decreases in closed sales, new listings, active listings and so forth. According to the RMLS report, in April 2020 there were 675 new listings, which was a significant decline from the 1,022 new listings reported in March 2020. This 34% drop was almost double the decrease that the Portland metro area experienced, which seems rather concerning. However, in relation to the population size of each area it does seem fairly reasonable. Similar to Portland in other respects, the end of Q2 2020 proved to be somewhat of a 'light at the end of the tunnel', if you will, in terms of an increase in new listings, pending sales, and closed sales. There were 979 new listing reported in June 2020, a notable increase from the 675 listings reported just a few months prior. With that being said, the inventory in months that Clark County reported was remarkably lower than what the area is used to normally seeing.

Contrary to the housing shortage that Portland experiences, Clark County typically maintains a decent inventory, as the demand is high and there's much more available land in the Southwest Washington area as a whole. Yet, with construction being halted due to the pandemic and state orders, the inventory saw a significant decline. As a result of this decline in inventory, the home sale prices went up. According to an article in the Columbian titled 'Clark County housing market continues rebound', a broker with Windermere Stellar stated, "With the strong demand and lack of inventory, it was no surprise that average prices climbed dramatically in June," (Macuk). Simply put, when there are less houses available on the market, home prices typically rise. In June 2020 the average sale price of a home was reported at $437,100, which was over a 4.5% increase from March 2020, as the average sale price was $412,800. Clearly, the lack of inventory is apparent with the price increases. In general, it's relieving to see the housing market trend upward, especially Clark County, as this area experiences numerous increases and hopefully continues to through the upcoming months of 2020.

COWLITZ COUNTY
ACTIVE LISTINGS AND AVERAGE SALE PRICE



COWLITZ COUNTY
CLOSED SALES



COWLITZ COUNTY

Cowlitz County, which is located slightly Northwest of Clark County, has also seen quite a fluctuation in their housing market. This area has a much smaller population than both Clark County and the Portland metro area, and typically has lower home sale prices as well. Nevertheless, new listings, pending sales, closed sales, and average sale prices began to increase throughout Q2 2020. In April 2020 there was a large dip in new listings reported in Cowlitz County, a mere 90 listings. However, it has picked back up since then as there were 125 listings reported in June 2020. Following this increase, pending sales skyrocketed to 135 in June 2020, the highest number the area has seen in the last three years. Closed sales therefore followed suit, as they went from 75 closed sales in April 2020 to 100 closed sales in June 2020. Surprisingly enough, the number of sales in June of this year surmounted the number of sales reported in June of 2019. Mallory Gruben, author of the article, 'Cowlitz housing market steady despite COVID-19, new realty rules', shed light on the housing market in Cowlitz County by quoting credible realtors who stated, "Despite new limitations for showing homes and growing job losses, Cowlitz County's housing market has remained relatively strong during the COVID-19 pandemic." (Gruben).

In conclusion, the single family-housing market has proven to be extremely sporadic and inconsistent for the first half of the year 2020. The early downward trends of new listings, pending sales, closed sales, and average sale prices were reliable amongst most counties between Washington and Oregon, as were the latter upward trends in late Q2 2020. As the nation still struggles through the COVID-19 pandemic and unforeseen economic conditions, it's difficult to speculate what Q3 & Q4 2020 will do. Overall, the housing market has and always will be an unpredictable aspect of the economy, but the hope is that it eventually corrects itself as it has done time and time again in the past.

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multi-family residential report

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Q2 of 2020 was the first full quarter since the start of the pandemic. This report aims to illustrate the far-reaching impact of COVID-19 across different facets of the local multifamily market from this very small period of time. It is important to note that as the quarter progressed, behaviors changed, further illustrating how inconsistent and unknown the full economic impact of this pandemic will be. We remain in a state of flux, still trying to figure out how to safely re-open the economy and continuing to deal with the looming effects of returning to school, work, and other "normal life" things that might very well be changed for quite a while to come, if not for good.

Suffice it to say, it now sounds like a broken record, but we are living in unprecedented times. However, the multifamily market continues to perform strongly compared to industry counterparts, as apartments tend to do during times of recession. The uncertainty over the looming end of the eviction moratorium in tandem with other macroeconomic events from the pandemic still cloud overall sentiment, and compared to last year, the actual number of transactions is down in a big way. Yet in closer

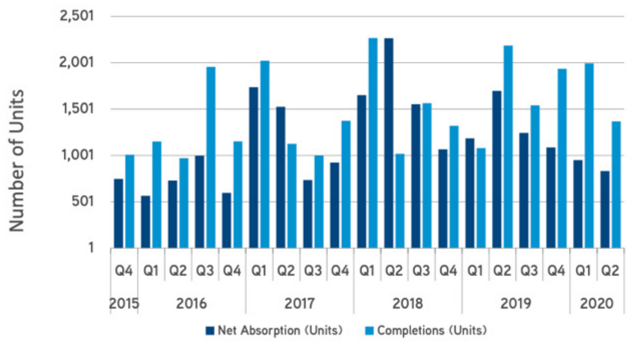
The pandemic has further emphasized that notion, with the remote working lifestyle at most companies – including many major ones such as Google and Facebook, who are headed towards permanent remote working policies – allowing young people to mass exit large cities in favor of a more user-friendly, cost-effective and "livable" environment. Furthermore, the lack of events, sports with no fans, and a drastically limited restaurant and bar scene has deeply diminished the appeal of living downtown or in the heart of a major cities such as San Francisco, New York, Los Angeles, or even Seattle. As such, cities like Portland with unparalleled outdoor amenities to offer (such as Denver or Boulder), or mid-size cities that are more affordable (such as Las Vegas or Phoenix), are finding a similar surge in recent transplants. As a whole, the remote work lifestyle fits well into apartment living in desirable cities like Portland and by consequence its surrounding suburbs, and it could actually lead to an even greater demand for multifamily units over the coming 6-12 months.

SUPPLY, PERMITTING

The pandemic had just started to have an effect on supply at the tail end of Q1, and Q2 continued this result. With sustained uncertainty, the supply pipeline will continue to slow and projects not yet under construction will likely incur delay. Most existing projects in progress during Q2 experienced some sort of delay due to a combination of a mandated shutdown (in Washington), delays in materials, or labor issues.

With the economic climate in a state of flux, many developers are waiting to get a better understanding of demand in the coming months. Banks have been reticent to provide construction loans, with many terminating deals that involve any retail product. It is likely that in the coming months we will continue to see permitted projects either put on hold or outright canceled.

NET ABSORPTION & COMPLETIONS



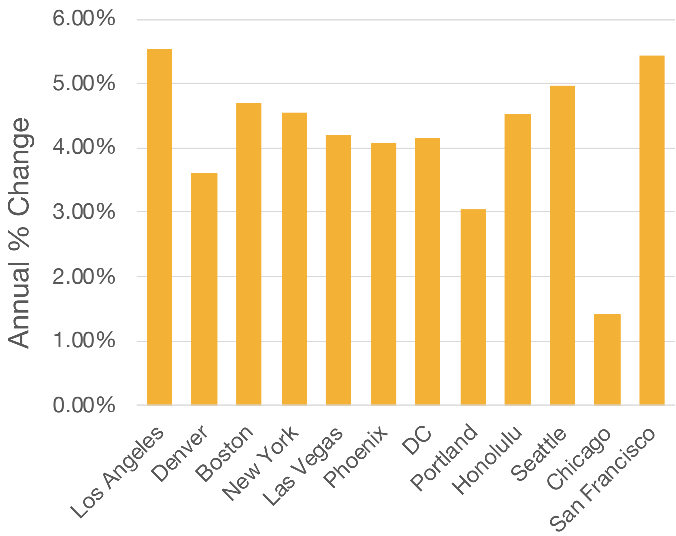
DEMAND, ABSORPTION

Occupancy rates in the Portland Metropolitan area dipped marginally during Q2 and occupancy remained relatively stable at about 93%. This includes the delivery of nearly 1400 units during this quarter, which are likely offering high concessions as a means to lease up quickly during this difficult time.

One interesting note reported from some local property managers is a trend toward the desire for larger units. If affordable, many renters are upgrading their units to a larger space with the intention of creating an office area to better accommodate remote working. The difficulties of working from home have exposed themselves, especially for multi-income households or roommates who struggle with having a productive shared workspace. This is of even greater concern as the start of the schoolyear approaches with the prospect of having to further share the workspace with children attending virtual school. As such, the need for a clearer delineation of work, school and home/family areas has led to an interesting need for more space. This is especially noteworthy as recent trends have indicated the desire for smaller spaces, the response being some buildings in downtown Portland that offer just studios and 1-bedroom units (the Westover Tower Apartments in NW Portland is a notable example). While this trend could be short-lived, remote working appears to be here to stay at least through the better part of 2021. For Portland, this could lead to a surge in demand for 2- and 3-bedrooms in a market that does not have enough large unit supply. As such, this shift in preference could also lead to a move to suburban areas where the comparable cost per square foot is less.

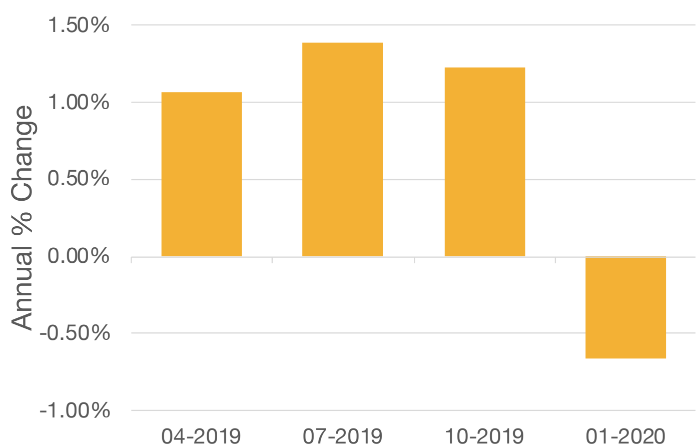
RENT & OCCUPANCY

US COMPARATIVE CONSTRUCTION COST INDEX Q2 2020



Rider Levett Bucknall Q2 2020 Construction Cost Report

PORTLAND CONSTRUCTION COST INDEX JULY 2019 - APRIL 2020



Rider Levett Bucknall Q2 2020 Construction Cost Report

RATES, COSTS

Quoted rental rates dipped slightly but remained relatively stable with an average effective rent of $1.56 PSF. As previously noted, this is likely due to the high concessions required at newly constructed units as a way to attract renters who might otherwise look for more affordable prices. In addition, with the rental market having previously been extremely strong, the fact that landlords are renewing without an increase is not as "bad" as one might think since the existing rates were relatively high to begin with.

Construction costs for Portland in Q2 dropped again for the second quarter in a row, and actually dipped 0.66% below the national average. However, in comparison to 2019, Portland has seen a decline of just 3.05% change in costs, with most cities ranging between 1-4% in declining change.

As always, a key indicator of construction costs is the employment levels of construction workers. The high volume of construction projects over the past several years has led to a high demand for skilled workers and thereby extremely high costs. However, with the pandemic hitting the US at the end of Q1 2020, Q2 was a tumultuous time during which construction unemployment hit 6.9% in March 2020 and rose all the way to 16.6% in April 2020 (the highest since March 2012) with the closure of many construction sites due to state-specific COVID-19 restrictions. As restrictions began to lift in April and May with sites starting to reopen, construction unemployment dropped accordingly, down to 12.7% in May 2020. It is clear that construction unemployment will continue to decline as the year goes on and more job sites get going; however, with the continued economic uncertainty still plaguing the start of new construction projects, it is unlikely that the construction unemployment rate will decline to where it was pre-pandemic when it dropped as low as 3.2% in Q3 2019.

SALES ACTIVITY

Unsurprisingly, multifamily sales in Portland are drastically down, nearly half of what it was just one year ago in Q2 2019. This steep drop is directly indicative of the economic plunge and continued uncertainty around the future, making underwriting future growth more challenging. However, the actual transaction values themselves grew slightly, showing a larger affinity for the high-end product by investors and indicating that this market was not affected in value as the lower end one was.
In looking at the chart below, you can see for the June 2019/2020 comparison that while the sales numbers have dropped drastically, the average price per unit, average price per square foot, and total sale value have increased.

Sales	Date	Type	Units	Price	$/Unit	SqFt/Ur	$/SqFt	Built	Cap Rate	Total Sales
20	June 2019	Average	52.4	$8,333,789.00	$171,617.00	868.8	$207.15	1983	5.71%	$166,675,785.00
12	June 2020	Average	54.6	$15,552,917.00	$284,939.00	810.1	$313.68	1996	5.39%	$186,635,000.00
-40%	% change between 2019 v		4.20%	86.60%	66.00%	-6.80%	51.40%	199600.00%	-5.50%	12.00%

Furthermore, while the transaction volume in multifamily assets has declined, overall the sector is outperforming others. The capital markets in multifamily appear to still reflect a high level of interest, especially on an opportunistic level waiting for distressed assets. The strength of the multifamily market during times of recession could be a reason for this, with higher-than-expected collection rates furthering the continued demand. As noted below, the largest sale of significant note during the 2nd quarter was for the Gossamer Portland, which is actually still under construction. Despite the construction being in progress and the pandemic-driven recession, the property sold in June for $87.5 million at a price per square foot of $440 to Virtú Investments, a private equity firm based in California.

NOTABLE Q2 2020 MULTIFAMILY ASSET SALES TRANSACTIONS

Property	Sale Date	Sale Price	# Units	Price/SF	Year Built	Seller	Buyer
Gossamer Portland **255 NW 10th Avenue Portland, OR**	6/1/20	$87,500,000	204	$440.00	2021	PGIM / Mill Creek Residential Trust	Virtú Investments
Uptown at Lake Oswego **295 3rd Street Lake Oswego, OR**	5/14/20	$16,810,000	71	$464.00	1955/ 2015	Meranda Chang Living Trust	Pacific Insurance Investment Company
Theory 33 **3325 SE Division Street Portland, OR**	6/5/20	$11,500,000	30	$479.00	2018	Urban Asset Advisors	
Irvington Apartments **1532 NE 21st Avenue Portland, OR**	5/4/20	$9,300,000	44	$271.00	1961	Pacific Insurance Investment Company	Richard A. Miller Trust
Menlo Parc **5930 SW Menlo Drive Beaverton, OR**	5/21/20	$8,200,000	41	$147.00	1976	Trion Properties	John Geyer
Westwood Green Apartments **10650 SW 121st Avenue Tigard, OR**	5/21/20	$8,000,000	53	$200.00	1977	Karen G. Gardner Living Trust	McCloud Property Acquisitions
Nicholson Road Portfolio **3525 Nicholson Road Vancouver, WA**	6/5/20	$7,500,000	25	$208.00	2019	Phil Wuest	
Oak View Village **2305-2335 SW Briggs Road Beaverton, OR**	5/15/20	$7,000,000	41	$228.00	1978	Hs Westside Properties LLC	Janet S. Yocom
Blanton Commons **16919 SW Blanton Street Beaverton, OR**	5/10/20	$6,850,000	33	$214.00	2018	Saj Jivanjee	Vanamor Investments
Jackson Square **5318 Lakeview Boulevard Lake Oswego, OR**	6/2/20	$5,600,000	28	$222.00	1970	Rick & Linda Polier	Scott Investments

Colliers International Portland Metro Q2 2020 Multifamily Report

From a property management and ownership perspective, we approach a potential inflection point with the end of the eviction moratorium imposed by Governor Brown coming up on September 30. Concerns about the deadline are already mounting, with property managers worried about mass evictions and how to deal with them legally and efficiently. It has led to an extensive response from local multifamily organizations holding numerous webinars and trainings on how to deal with the issue, what property managers can and cannot do, and the legal restrictions around all of it, some of which are very strict.

These added trainings and the stress that comes with the thought of these evictions coming up is evident across individuals in these training. However, in the grand scheme of things, multifamily assets are typically stable through both times of recession and growth, and even with the pandemic exemplifying some of the more drastic stressors on the economy in living history, the market still remains somewhat steady with strong prospects for continued transactional growth in the future.

LOOKING AHEAD

General sentiment appears to believe that the worst of the virus and need for a complete shutdown is behind us, and that while it may take a long while, things will slowly get better from here on out. The multifamily sector is actually not doing so badly, with much of the worry taking place at the start with the skyrocketing of unemployment leading to concerns over evictions and rent collection. In looking at Q2, occupancy levels and rent collection rates have been surprisingly high despite eviction moratoriums and rent forbearance, much of which is attributed to the emergency federal support that helped residents pay their bills.

On a national level, on average, rents have gone negative during Q2 for the first time since the Great Recession. With maintaining high levels of occupancy as a primary concern, landlords have renewed many of their residents' leases with little to no increase in rent. Furthermore, higher-end new build communities are having a hard time leasing up within the usual timeframe, with many residents choosing to stay put where they are for the time being or seeking less expensive options due to financial hardship. This trend appears to continue through the year with no real end in sight to the economic uncertainty and public uneasiness, but as things improve, rents are expected to as well, likely in 2021.

There is still cause for concern ahead, with unemployment levels remaining high (11.1% in June) despite most states being in some early phase of re-opening, mainly because many businesses have decided to drastically cut back or fully close due to the continued uncertainty of consumer spending and re-opening restrictions. This, of course, is in tandem with the expiration of federal financial aid, the implications which are potentially catastrophic. Small businesses in particular are hit hard, with many owners unable to survive the economic uncertainty with no end in sight. The added $600 to unemployment checks already expired in July, and for Oregon, the eviction moratorium is scheduled to expire at the end of September. As such, while it might currently be considered an "early recovery" stage for the multifamily sector, it is quite feasible for this recovery stage to continue for the next several quarters as the uncertainty continues to roil the economy.

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SMI Commercial Real Estate June 2020

Rider Levett Bucknall Quarterly Construction Cost Report Q2 2020

Colliers Portland Multifamily Report Q2 2020

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office market analysis

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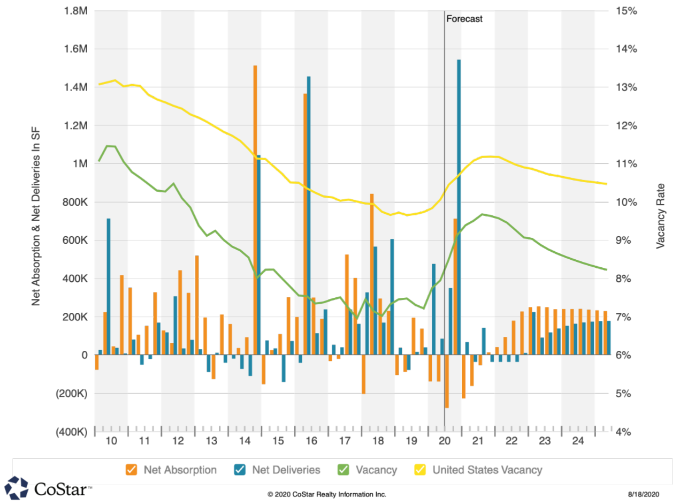
It's been five months since Governor Kate Brown issued a state-wide "Stay at Home" order, and there's still much speculation on the impacts of the COVID-19 pandemic on the Portland office market. Prior to the outbreak, the local office market was exhibiting exceptionally high sales volume and investment appeal due to competitive rates (relative to other West Coast metropolitan areas) and sustained employment growth. However, "it is [now] anticipated that leasing activity will slow and absorption will pause as tenants delay moving during the outbreak" [1].

TABLE ONE: NET ABSORPTION, NET DELIVERIES AND VACANCY



DELIVERIES

Office deliveries in the Portland Market have been volatile throughout the past decade. There have been periods of relatively low activity, followed by periods of booming growth (late 2014, mid 2016), as well as extended periods of negative net deliveries. In Q2 2020 alone, there was approximately 85,000 SF of net office space deliveries added to the market. However, there's expected to be an estimated 1.5 million SF of net office space delivered by the end of 2020. This influx of new supply in 2020 represents the largest annual market growth in Portland over the past decade. However, the COVID-19 pandemic is putting these new property owners in a predicament when it comes to finding tenants.

The top deliveries expected by the end of 2020 include the built-to-suit office expansions at the Nike Headquarters in Beaverton and the Adidas Headquarters in the Overlook neighborhood in North Portland. Combined, these office expansions account for approximately 1.4 million SF.[3]

ABSORPTION

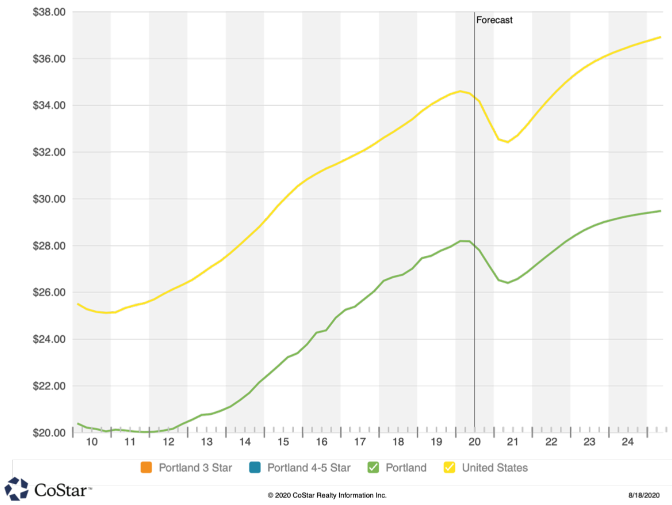
As you can see in Table 1, absorption dropped into the negative territory (approximately -130,000 SF) in Q2 2020. It should be noted that this was mostly attributable to activity in the CBD, most notably the City of Portland returning to their owned building. This effectively negates the absorption gains we saw in Q1 2020.[3]

While the negative absorption by the City of Portland was premeditated, there are several industries that are contributing the negative absorption due primarily to the effects of COVID-19. Two prominent types of tenants that are being negatively affected and forced to downsize are in the travel and tourism industry (such as AirBnB and Vacasa), as well as tenants in the coworking space industry (such as WeWork), all of which have been vacating office property in the Portland area. Travel and tourism has been hit especially hard initially when Governor Kate Brown announced her 'stay-at-home' order; however, even in the first phase of re-opening, there is still a sense of unease associated with traveling where people are choosing to cancel or postpone trips, whether for busines or pleasure.

Shared workspaces are also struggling, as many of the facilities were not designed with social distancing regulations in mind. Additionally, many workers were either laid off or furloughed, or are simply opting to work out of their homes instead of risking their health by exposing themselves to conditions in a shared working environment. Another reason co-working spaces were so quick to feel the effects of COVID-19 is because of the short-term leases that are common in that industry. Traditional office space leases are generally on the order of 10 years, so the effects of COVID-19 will likely not be felt for some time.

As with most market conditions, it's hard to accurately determine the long-term effects of COVID-19 with regards to absorption. "Although the economy has seen improvement in employment and other measures of activity since the initial collapse, the U.S. economy remains a long way from returning to pre-crisis levels of full employment."[4] Fortunately, most of the new deliveries in the Portland market are built-to-suit at corporate headquarter facilities, so it's unlikely those properties will be vacated in the near future. The next 6 months will give us a much better picture of office market absorption in the Portland Metro market.

TABLE TWO: MARKET RENT PER SF



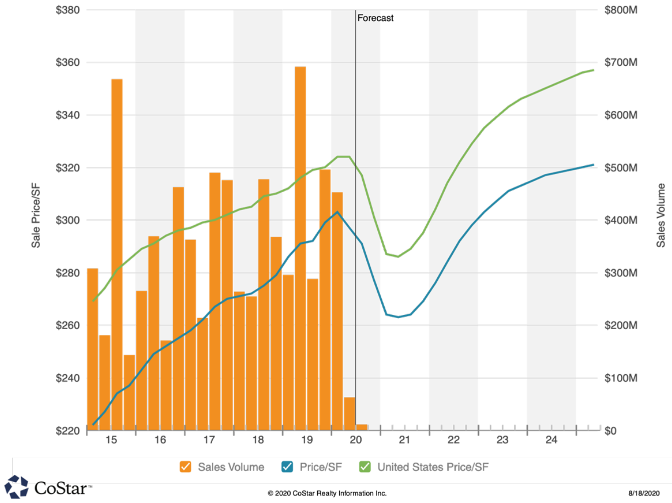
VACANCY

The 2020 boom in office market deliveries, coupled with decreasing leasing activity, is expected to have a significant impact on vacancy rates going forward. At the end of Q2 2020, the available vacancy rate for the Portland office market was estimated at 7.9%, compared to the United States available vacancy rate of 10.1%1. Over the next year, the local available vacancy rate is expected to rise to a peak of 9.7%, the highest it's been since the end of 2012, but still lower than the national rate. The fact is that while companies have continued to operate while coping with the 'stay-at-home' order, "some business leaders are learning that the bulk of their operations can be done with a fully remote workforce".[5] This is especially true for a number of businesses that are experiencing significant revenue losses due to COVID-19 In many cases, the only option for some businesses to stay in operation will be to give up their traditional office space as a means of reducing their overhead expenses, and shift to a utilizing a remote working environment.

LEASING

Market rents for office properties throughout the country have been steadily growing over the past nine years. Portland's local office market has followed the same general trend as the entire United States, but has consistently been approximately 20% below the national rate. These relatively low rates have acted as an incentive for national investors to focus on the Portland Market as an investment opportunity. In Q2 2020, when the effects of COVID-19 showed their initial impact on the office market rents, the average rental rate for office property in Portland and the United States was $28.17 per SF and $34.50 per SF, respectively. Due to the high supply and low demand for office space, rents are expected to be held stable, or maybe slightly decrease, over the next 2-4 years. In order to further stimulate leasing activities, property owners have begun offering concessions to attract office tenants. One effective concession is offering free rent, which averaged 10 months on all office leases executed throughout the United States in Q2 2020 alone, a 13.7% increase from Q1. Another effective concession is increasing tenant improvement allowances, which rose by 5.1% between Q1 and Q2 nationwide[6]. Shortening lease durations is also a way to attract tenants, as it decreases the risk of the lessee during times of economic volatility.

TABLE THREE:
SALES VOLUME & MARKET SALE PRICE PER SF



SALES

The Portland metropolitan area has been an attractive investment opportunity over the past decade due to low vacancy, a dynamic economy, and consistent growth of property values. "Portland office investment reached $450 million in Q1 2020, the highest first-quarter sales volume of the past 10 years, but investment fell sharply after Oregon's stay-at-home order was issued on March 23rd."[1] Sales volume dropped to approximately $60 million in Q2 2020, an 86% decrease quarter-over-quarter, and the worst quarter since 2011. With regards to price per square foot, Portland office space is currently selling at an average of $297, which is below the national average of $324 per square foot. Due to the inherent risks of buying during volatile economic conditions, and the tenant-favorable leasing opportunities, the sales price for office space across the country is expected to continue to decrease for at least the next year.

CONCLUSION

It's speculated that the dense nature of the CBD will become less attractive for office tenants in the future, and the relatively open, suburban options will become more sought after by potential office tenants.

High supply and decreasing demand will lead to increase in vacancy. In order to cope with this, property owners are expected to maintain rental rates at their current levels, but include additional concessions such as free rent and shorter lease obligations in order to incentivize leases.

While the Q2 data has given us more clarity on the short-term effects of COVID-19, there still remains significant uncertainty on the long-term effects given that the pandemic is ongoing, and expected by many to increase in severity in the coming fall and winter months. "The second half of 2020 will set the tone for what a recovery may look like and how a global pandemic may forever change how we view office space."[7] Existing lease commitments will likely mask the longer term impacts, with emerging location and space usage patterns becoming more clear when lease renewals come up.

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industrial market analysis

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Of all the real estate sectors, the industrial market was considered to be able to best withstand the difficulties brought on by the Covid-19 pandemic. This assessment appears to be supported as industrial real estate, although still taking a hit, has fared much better than the other sectors during this time.

With rental rates remaining level and construction continuing to come into the pipeline, the industrial market seems like it has been able to cope with the impact of the virus relatively well. Because of industrial building's large floorplates, tenants have been more able to social distancing mandates for employees, allowing them to continue working and processing without being shut down or forced to close for periods of time like other businesses have had to do. Additionally, because almost all ecommerce requires industrial space for distribution and fulfillment, industrial space has still been in need with distribution centers still processing high volumes of product as consumers turn to online retail.

Yet, as the effects of Covid-19 continue to be seen as this year progresses and we enter into the third quarter, the future of the industrial market is in flux. One question is what will happen to distribution centers once brick and mortar stores begin to open back up? It is possible that there will be a reversion to previous shopping patterns, which would in turn lead to a decrease in the demand for distribution centers causing a need to retract. This would lead to negative absorption and the possible decline of rental rates. On the other hand, it is entirely possible that online shopping will remain popular even once brick and mortar retail opens back up, and the increased market capture by online retailers reflects a simple acceleration of trends we have been seeing over the last decade. This means that the need for distribution centers will continue to grow as more people turn to online shopping.

Beyond this, much of Portland's industrial space consists of manufacturing space. In almost all Portland submarkets, Central City, Westside, North/Northeast, and Southeast, vacancy has actually decreased since last quarter for manufacturing space.

All this indicates that the Portland industrial sector is still strong and will likely continue to be so even as the pandemic progresses. Although it is possible for the space to see rent decline and a slight vacancy increase, industrial is likely to remain a strong real estate sector throughout the pandemic.

INDUSTRIAL RENTS

Industrial rents have been increasing to record highs in the most recent years. Prior to the pandemic, industrial market rents were increasing at a rate of about 6% year over year. This had pushed market rents to $9.47 per square foot in the second quarter of 2020. This growth is likely to reverse in the coming quarters as the effects of the pandemic begin to be fully realized in the industrial market. This will account for the first decline in industrial rental rates in over ten years. Despite this decline, the increasing development and construction of industrial properties throughout the Portland metro area point to Portland's growing status in the industrial real estate sector.

Of course, much of this growth has been due to large distribution warehouses that have come to completion in the last couple years around the Portland area. Many companies are beginning to see Portland as an opportunity for growth and expansion due to its relatively low prices as compared to the other major west coast cities such as San Francisco and Seattle. It is for this reason that vacancy has remained relatively tight in the industrial sector at about 4.4% even during the midst of the pandemic. This is only up slightly from its average of 3.5% in the past three years when it had the lowest recorded vacancy in the past 10 years. This minimal vacancy increase is likely due to the industrial sector's resiliency against the pandemic. For instance, online shopping has increased by $19 billion dollars year over year. This increase in online shopping requires high volumes of industrial space in order to store, manage, and distribute the merchandise. Additionally, the companies that often take up the most industrial square footage are the ones that have been best positioned to take advantage of the increased online shopping activity. As the report from Colliers puts it, "Users occupying more than 100K SF fare much better than smaller tenants due to e-commerce tailwinds, better balance sheets, and smaller reliance on the service industry, which is indicative of depressed leasing activity for requirements under 30K SF."

That all being said, the effects of Covid-19 on the industrial real estate market have taken their toll. For instance, in a survey created by the PSU Center for Real Estate, participants were asked "Overall, how long are you currently expecting COVID-19 to seriously impact your business operations?" Participants answered according to their various sectors. For the industrial market, the largest percentage of individuals (37.04%) believed that Covid-19 would impact their business for more than 12 months. This as compared to the 9.26% who said between 1-3 months expresses many industrial real estate market professional's opinions on the virus and its impacts.

ABSORPTION AND VACANCY

In terms of absorption, industrial real estate has seen solid growth in the second quarter of 2020. In fact, net absorption has increased dramatically since last quarter which had negative absorption of 230,000 square feet. In this current quarter, absorption was at 1.2 million square feet. This is the highest rate of absorption that has occurred since the third quarter of 2018 when two 858,000 square feet Amazon distribution centers were delivered. This high amount of absorption is exceptional when recognizing how much of the new construction is speculative development. There is over 2 million square feet of speculative development underway. Despite this, absorption has been able to maintain.

Another evidence of the strength of this submarket is the vacancy level which is at 4.25%. This is incredibly low considering that the market was at 4.23% in the first quarter of 2018 when the market was at its peak.

NOTABLE BUILDS AND TRANSACTIONS

Although construction on industrial projects has slowed as real estate professionals take time to assess how to best react to the pandemic, it has not stopped and there are actually some notable projects that are in progress.

The first and most notable is the expansion of Intel's D1X. This 1.5 million square foot expansion is "set to be the largest industrial development of the decade." This project is so large that an article in the Oregonian estimated that the cost of the entire fabrication of the project including construction and equipping the facility is likely to range somewhere "between $4 billion and $5 billion." Another build-to-suit that is dwarfed in comparison to D1X, but is still relatively large for the Portland area is the 236,000 square foot expansion of the Subaru Distribution Center. These two projects along with two other large 550,000 square feet projects for Columbia Distributing and United Natural Foods, account for a large portion of the construction happening in the second quarter of 2020.

In addition to these build-to-suits, there has also been a large amount of speculative development that is currently under construction. Trammel Crow's Blue Lake Corporate Park development consisting of two buildings that totaled 464,000 square feet were completed in this quarter. Additionally, as pointed out in the last quarter's industrial article, Bridge Development is still constructing their Bridge Point i5 project on Airport Way. This 677,000 square foot footprint is set to be delivered in quarter three of 2020.

Speculative development has represented a significant part of Portland's industrial development in the current business cycle. And although these large developments have generally been successful and sold quickly, they are not always leased up as quickly. But owners and developers seem unconcerned about this as more speculative development comes into the pipeline. According to CoStar, there is over 2 million square feet of industrial space under construction in the second quarter of 2020. It is still left to be determined what will happen to this speculative space as the economy and market progress into the third quarter and the effects of the pandemic become more pronounced.

CONCLUSION

Coming into the pandemic, the industrial real estate market was red-hot. Properties were being developed at such an extent that, according to CoStar, "the metro had more space under construction than at any other point in the past decade." As the pandemic hit and the economy contracted sharply, so too did many real estate market sectors. Yet, out of all of the major sectors, industrial has been the most durable in withstanding the downward market forces. This is displayed in the comparatively steady vacancy rate, the high amount of absorption, and the relatively large amount of construction that is still progressing even as the pandemic continues to shut down the economy. There are many reasons for this, but two stand out as especially important – the high proportion of activities within an industrial space that is deemed "essential" and the increased online retail traffic. The proportion of "essential" activities is higher in the industrial sector as opposed to retail. Additionally, this sector is less reliant on the public in order to be sustainable. Secondly, the increase in online shopping has led to an ever-increasing need for industrial space to distribute these materials. With these situations in place, the industrial real estate market is likely to remain resilient as the market and economy fluctuate under the forces of this pandemic.

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retail market analysis

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The previous Quarterly article left off with a high level of uncertainty regarding the future of commercial real estate in the wake of Covid-19. The impacts have begun to become clearer as the months have progressed and the market has continued to crawl through the pandemic. The question is no longer how long will it take for retail to make money again. It is now, how much longer will retailers, landlords, and lenders be able to remain solvent through this recession.

The effects of the virus have now made their way through the real estate chain to all involved in commercial real estate. Unfortunately, this has been nowhere truer than in the retail market. Last quarter, sales had dropped off a cliff and were still bottoming out. Now, in the second quarter, sales are mixed, but are showing signs of rebounding. In fact, according to the US Census Bureau, retail sales were actually higher in June this year than in June 2019. The Bureau reported about $12 billion in increased sales year over year with June of 2020 have $530 billion in sales. This as compared to April's sales in 2020 which totaled at $410 billion marks an almost 30% sales increase.

Although this overall increase indicates very positive sales numbers and a very encouraging trend, it is important to specify and indicate which sectors are thriving and which are still struggling. For instance, when the pandemic hit its sales trough in April, clothing and accessories stores were one of the submarkets that were hit the hardest. They reported only $2.9 billion in sales. In June, this number had skyrocketed almost 450% to $15.8 billion from their April lows! Some of these numbers may be partially due to a reduced base or deferred purchases. But primarily, it is likely that this sales boom indicates a strengthening market that is adapting to the virus. Similarly, sporting goods, hobby, and bookstores increased sales by almost 200% between April and June. These and other submarkets such as building material and garden stores and food and beverage stores have actually had their June sales actually show growth year over year. And of course, nonstore retailers that work through online shopping have sales that are substantially more than what they were last year.

The market trends seem to be positive in most aspects for retail as it continues to come back from its early losses. It should be mentioned though, that everything is not back to normal. Many retail stores are still closed and show no signs of opening up for a while. Additionally, although the path of growth is a strong one, many retail submarkets such as furniture and décor, electronics and appliances, gas stations, and food services and drinking places all still have decreased year over year sales. And, due to the many governmental restrictions that prohibit or deter individuals from going to such places, their sales are likely to continue to be damaged as the virus continues to take its toll. R. Christopher Whalen, head of Whalen Global Advisors, attributed social distancing to a sort of "financial Armageddon for commercial real estate and municipalities"

RENT

Despite the continuing growth in retail sales, the retail real estate market is still having a difficult time. Evidenced by the dismal rent collection in this past quarter, retail has been struggling to stay on its feet during this trying time. Portland historically has been a strong retail market due to its constant influx of new residents, high median income, and lack of sales tax. This contributed to consistent rental rate growth for almost ten years. But, in the second quarter of 2020 rental growth had essentially stopped, and according to projections, is likely to report a 6% decrease. This is no surprise as many people predicted that June would be when the full effect of the virus would reach retail markets. In fact, according to a study by Datex Property Solutions, "nearly half of retail rents were not paid in April or May." In fact, between April and May, only about 56% of rents were paid. This has been a major blow to all involved in the industry, especially when landlords were relying on historical rent payments like that of March 2020 which were just above 90%.

This variation between the growing and increased sales recognized by the Census Bureau and the lack of rent being paid is likely due to a few contributing factors. The first and most obvious is that the rental payments will always trail the sales. It will take a while for retailers to build back their sales and infrastructure in order to be fully recovered from the pandemic. The president of NewMark Merrill Cos. pointed out that, although some tenants are now better able to pay rent, many are still not there. He said, "Our tenants are still hurting. They need time to build back clientele. It really doesn't matter. So even if my rent collection is 100%, we still have a long way to go." In other words, tenants being able to pay rent is not the only indicator of that tenant's ability to make it through the pandemic. The second reason for the lack of rental payments is that many of the large retailers, especially restaurants, are still not paying rents. For instance, some of the large national chain restaurants within the Portland metro area have simply said that they will not be paying rent during this time. This makes it incredibly difficult for a landlord to collect a large portion of rent when an anchor tenant simply says that they will not be paying rent. The last major reason that there is a discrepancy between increased sales and rental payments is Oregon's legislation banning evictions for not paying rent that lasts through the end of September 2020. With the extension of the Oregon Eviction ban, tenants now do not have to worry about any repercussions if they do not pay rent. This is likely to cause some, especially large national chains who have already said that they will not pay full rent, to continue to not pay rent.

Overall rental rates in Portland are likely to continue to decline into the third quarter of 2020 as the pandemic and governmental regulations have come together to create the perfect storm for tenants, landlords, and lenders. And although Portland rents still are about $.90 per square foot above the national average of $21.73, this number is declining for all. As the pandemic drags on, so too will the retail stores struggle to generate sales and increase revenue in order to meet rental payments and all the other associated bills.

LEASING

The Portland retail real estate market has been dealt a major blow in terms of leasing. Although Portland has historically been a strong retail leasing market, the pandemic has caused that to all but stop. In fact, this quarter has reported the highest negative net absorption for Portland in the last ten years at -276,000 square feet. This has been the third negative absorption quarter in the past four quarters with the fourth quarter of 2019 only being slightly positive at 59,000 square feet. This negative trend is likely to continue over the next few quarters as retailers try to build their infrastructure back in order to begin to expand once more. One of the most notable leases that did occur this quarter was Ashley Homestore's lease of 24,000 square feet in Tigard. This is one of the few positives in a quarter that has been dominated by leasing difficulty. For instance, Lloyd Center, a shopping mall that has had a difficult time since losing both Nordstrom and Sears in the past five years, was set to get these vacant spaces leased up with a concert venue and a movie theater. These plans have been put on hold due to the pandemic. All of these things contribute to the rising vacancy within the overall and Portland market. In the second quarter of 2020, vacancy is at 3.64%, up almost 75 basis points from its low in 2019 quarter one. More specifically, vacancy rates specifically in the neighborhood and strip center submarkets are averaging 5.7%. These numbers are all expected to go up in the next couple quarters as markets continue to adjust to the pandemic and its effects begin to sink into the real estate market. While the vacancy rates still reflect a robust market, the high level of collection loss and eviction restrictions are hiding significant weakness. It is important to note though, that in terms of the national retail real estate market as a whole, Portland still outperforms. Despite increasing vacancy and decreasing rental rates, the Portland market still has vacancy at 1.2% less than the national average of 4.9% and has rent that is still slightly above the average.

NEW DEVELOPMENT AND SALES

New development and construction within the Portland market for retail is still occurring, albeit at a slower pace than before. This may be due simply to the construction industry lag that often occurs in situations such as this Covid-19 pandemic. Many of these construction projects had already been in the pipeline and were established prior to the pandemic but are now in the process of being constructed. This is the case with the small retail development in Fairview right off of Interstate 84. Another project that was supposed to begin construction this quarter was the Riverwalk near Willamette Falls at the old Blue Heron Paper mill, but it has been postponed and will need to pick up at a later date due to the pandemic. Because of this, there were only about 55,000 square feet of retail construction started in the second quarter of 2020 in the Portland metro area. This is less than half of that started in the first quarter.

Thus, in a sector such as retail which had already been experiencing declining new deliveries since 2014, the pandemic has only expedited that decline. Additionally, the pandemic has shifted both the consumer's and developer's mindsets in terms of where the future of retail is going. Prior to the pandemic, there was an influx of experiential based retail development such as the 125,000 square foot Sherwood development that was anchored by Langers, a family fun center. Places such as Bridgeport Village in Tualatin were being hailed as the new transition for malls and centers. But now with the pandemic in mind, developers and consumers have begun to shift toward less involved shopping and activities in favor of online shopping and touchless delivery. Although this pandemic is not likely to stop the move to experiential based retail, it is likely to slow it and cause developers to assess their plans in order to assuage people's fears about interaction. The full effects of this are yet to be seen, but it will be an interesting story to follow as retail development begins to pick back up slowly.

CONCLUSION

The retail real estate market for Portland in the second quarter of 2020 has shown slow but consistent growth as attempts to begin to come back from the major dip that was created by the Covid-19 pandemic. As the pandemic continues, there are indications that retail has reached its bottom and is now on the way up. One of the biggest signs of this is the increase in retail sales that have happened between April and June. Every retail submarket's sales have increased in that time, with some submarkets having increased by 200% or more. And, although this is not the case with many of the retail submarkets, in June some of the submarkets have actually grown in the year over year sales at that time. With this being said, the pandemic is far from over, and many retailers are still having difficulty paying their rent. This is likely to continue due to several factors such as the case that even though sales are increasing, there is no security in the retail market because no one knows what will happen next in regard to the pandemic. Additionally, government intervention has had mixed results in its effects on the retail market. Granted, the government is explicitly trying to stop the spread of the virus. Unfortunately, some of the byproducts of these decisions have created more difficulty for retailers and their sales generation.

Because of this decline in the retail market, there has been a parallel decline in terms of leasing with very few leases occurring in the second quarter. And with the decrease in rent collection and leases, there has also been a decrease in square footage of retail space under construction as developers and contractors wait to see what happens next before they put their money and time into new retail space.

With all this being said, it does seem that the retail market is beginning to rebound from its April trough. There is still a long way to go before things get anywhere close to where they had been pre-Covid, but the steps are being made to progress, and it is likely that in the coming months, there will continue to be slow and steady growth in the retail sector.

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