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JANUARY 2020

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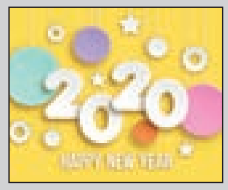

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RHJ RENTAL HOUSING JOURNAL
INSIGHT FOR RENTAL HOUSING PROFESSIONALS

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Published in association with Multifamily NW and Rental Housing Alliance Oregon

The Rental Housing Decade: 12 Trends From 2010 to 2020

RENT CAFÉ

The last 10 years have been the rental housing decade so we look back at 12 important trends that have seen in rental housing and what they show us.

Some of the 12 trends below may surprise you and others you may already know from your day-to-day work in the rental housing industry.

The research team at RentCafe prepared the report using data from the U.S. Census Bureau, Yardi Matrix, PropertyShark, and the U.S. News & World Report.

"We examined a number of economic and demographic indicators to get an overview of the housing trends that shaped the country in the past ten years," RentCafe says in the report. "This past decade has transformed the relationship between America and its housing, especially when it comes to renting."

THE RENTAL HOUSING DECADE 12 TRENDS

1 In the past decade average rents nationally have increased 36 percent or $390 outpacing median home prices and median income. Of the cities with complete data for the decade, Oakland saw the highest rent growth, 108 percent. National average rent is currently $1,473.

2 The number of renters in the U.S. passed 100 million in the last 10 years. The renter population increased 9.1 percent, or two times faster than home owners at 4.3 percent. The percentage of those who rent, 34 percent, was the largest it's been since the '60s.

3 Twenty U.S .cities made the switch from a homeowner majority to a renter majority. At the end of the decade, a third of the 260 largest cities are dominated by renters. Manhattan crowns itself as THE city of renters, with no less than 77 percent of its population living in apartments.

4 More high-earning Americans are renting than ever. The number of renter households earning 150,000 a year increased two times faster, 157 percent, than that of high-income owner households at 78 percent.

5 The number of homeowner families with children dropped significantly by more than 1 million, down 5.6 percent, while the number of renting families with children was just about stagnant down slightly at 0.5 percent.

6 Renting has increased in popularity among seniors. The number of renter households over 60 rose by 32 percent outpacing younger segments and even homeowners in the same age group.

7 In a construction boom unseen since the 1980s, 2.4 million rental units were delivered this decade. A significant 40 percent of these units were classified as luxury. Texas overshadowed the rest of the U.S., with four metros in the top 20 metros which built the most units this decade.

8 The average size of newly built apartments decreased by 57square feet (the size of a medium bathroom) in the past decade, from 990 square feet to 933.

9 Suburbs added renters at a faster pace, 17 percent, compared to cities at 14 percent. In 40 of the 50 largest metro areas, suburbs eclipsed urban areas in terms of renter population growth.

10 Almost two-thirds of renters live now in multifamily units. Growth in this sector was consistent in the past decade, while single-family rentals witnessed a slowdown as the economy stabilized after the recession.

11 The nation's priciest metros, such as New York or Los Angeles have been shrinking in population, as their residents moved to more affordable areas.

12 Most of the millennials entered the job market this decade. If in 2010, the top 10 cities with the highest share of millennials were college towns, in 2018, they had been replaced by job hubs.

How Rent Control Limits Owner Profits and Maintenance in Portland, Seattle

NATIONAL APARTMENT ASSOCIATION

A new rent-control modeling study that includes Portland and Seattle shows how the combined effects of limiting rents and deterring new construction work to reduce owner profitability and can limit maintenance.

The National Apartment Association (NAA) engaged Capital Policy Analytics (CPA) to model its impacts on four metropolitan areas, all of which have had increasing calls for rent control during the past two years: Chicago, Denver, Seattle and Portland.

CPA used the Oregon rent-control legislation as a likely precedent for other governments and chose to examine the imposition of a similar limit, excluding inflation, on the amount of annual growth in rental prices. The rent growth cap in Oregon limits the increase in rent to seven percent plus inflation as measured by the Consumer Price Index (which varies widely across years and

See 'How' on Page 7

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What Are the Best Properties for a 1031 Exchange?

By Dwight Kay and the Kay Properties Team

You are about to sell your property, and your CPA tells you that there is a large tax consequence lurking around the corner. In order to avoid paying capital gains and depreciation recapture tax, you consider a 1031 exchange whereby your taxes are deferred from the sale into a new property or group of properties. The legal and financial particulars of executing a 1031 exchange can be confusing, but many potential exchangers find it more difficult to find the next property in which to invest.

How do you choose your next investment property? There are many ways to go about looking for property to exchange into, but something that I recommend to my clients is thinking about the end goal. What are you looking to get out of your next property? For example, many of those who are looking to make a 1031 exchange now likely began with an investment in real estate that they hoped would appreciate in value. Many of these types of properties can potentially be riskier but can appreciate more quickly. If this strategy is something that still seems interesting to you, then I would recommend looking into multi-family buildings. Depending on your risk profile, the geography, year built, and other factors would go into determining which properties would be a fit. Multi-family requires a lot of hands on management and could require out of pocket expenses. However, If you are looking to retire and take a less hands-on approach, then I would recommend other types of properties.

Many clients of ours that look for less management intensive investments may veer towards NNN properties. With a NNN lease, the tenant will pay for some or all costs associated with the overhead of a building. The leases are sometimes guaranteed by larger companies that have multiple stores across the United States. Although these properties tend to be more passive investments, management is still in the hands of the owners. If anything should happen to the building itself, it could be a liability to the management.

Between these types of real estate, there are a whole array of different strategies to implement. Another strategy is using Delaware Statutory Trusts to blend your real estate portfolio into a risk profile and return of your preference. With DSTs, you can purchase fractional interests of properties without having to make your whole investment count towards one property since minimums for 1031 exchange are typically $100,000 and investors have the opportunity to diversify by location, property type and asset manager by investing in multiple DSTs. You can strategize on how you would like your 1031 exchange to count depending on what your end goal is. With DSTs you can employ a passive investment strategy while having the ability to invest fractionally in properties with appreciation potential. There are risks however associated with DSTs. Like with all real estate securities, there are not guaranteed returns. Each DST will be associated with their own sets of risks tied to geography, management, and asset type. We still believe that you can employ an effective strategy depending on what your end goal is through DSTs.

Kay Properties and Investments, LLC is a national Delaware Statutory Trust (DST) investment firm with offices in Los Angeles, San Diego, San Francisco, Seattle, New York City and Washington DC. Kay Properties team members collectively have over 114 years of real estate experience, are licensed in all 50 states, and have participated in over $9 Billion of DST real estate. Our clients have the ability to participate in private, exclusively available, DST properties as well as those presented to the wider DST marketplace; with the exception of those that fail our due-diligence process.

KAY PROPERTIES & INVESTMENTS LLC

To learn more about Kay Properties please visit: www.kpi1031.com

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There are material risks associated with investing in real estate, Delaware Statutory Trust (DST) properties and real estate securities including illiquidity, tenant vacancies, general market conditions and competition, lack of operating history, interest rate risks, the risk of new supply coming to market and softening rental rates, general risks of owning/operating commercial and multifamily properties, short term leases associated with multifamily properties, financing risks, potential adverse tax consequences, general economic risks, development risks and long hold periods. There is a risk of loss of the entire investment principal. Past performance is not a guarantee of future results. Potential cash flow, potential returns and potential appreciation are not guaranteed. For an investor to qualify for any type of investment, there are both financial requirements and suitability requirements that must match specific objectives, goals and risk tolerances.

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Eugene Rents Continue Decline, Corvallis is Flat

Apartment List

Eugene rents have declined 0.5 percent over the past month, but have increased slightly by 1.0 percent in comparison to the same time last year, according to the latest report from Apartment List.

Median rents in Eugene are $820 for a one-bedroom apartment and $1,091 for a two-bedroom.

This is the third straight month that the city has seen rent decreases after an increase in September. Eugene's year-over-year rent growth lags the state average of 1.5 percent, as well as the national average of 1.4 percent.

Corvallis rents flat

Corvallis rents have remained flat over the past month, however, they are up slightly, by 1.2 percent year-over-year.

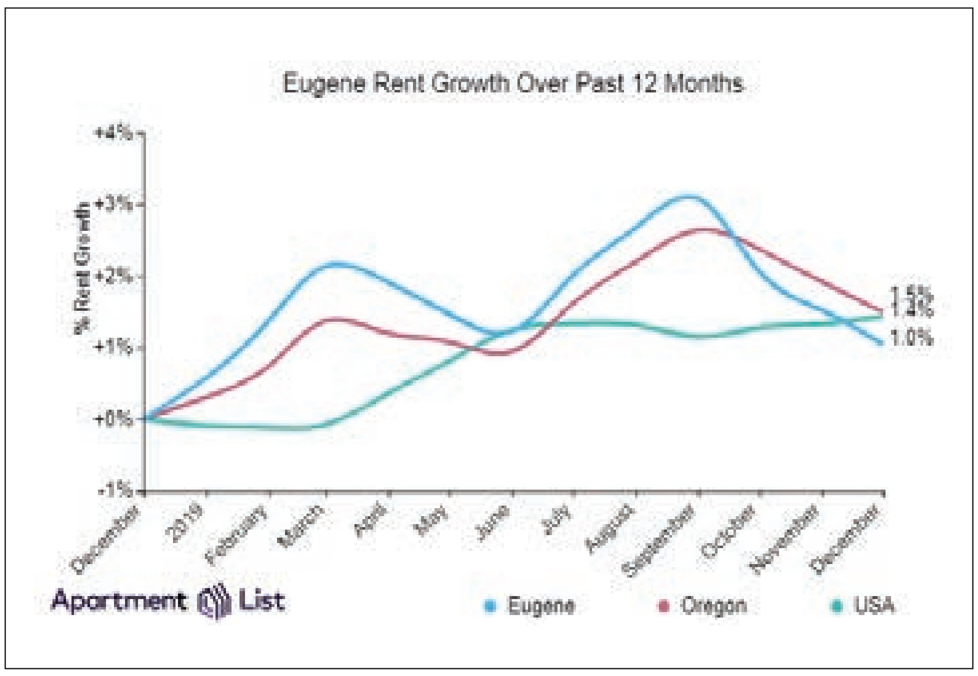
Median rents in Corvallis are $828 for a one-bedroom apartment and $1,039 for a two-bedroom.

Salem rents decline sharply over the past month

Salem rents have declined 0.7 percent over the past month, and have decreased moderately by 0.8 percent in comparison to the same time last year.

Median rents in Salem are $808 for a one-bedroom apartment and $1,062 for a two-bedroom.

This is the third straight month that the city has seen rent decreases after an increase in September.



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Website
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Mailing Address
4500 S. Lakeshore Drive, Suite 300
Tempe, AZ 85282

Email
info@rentalhousingjournal.com

Phone
(480) 454-2728 - main
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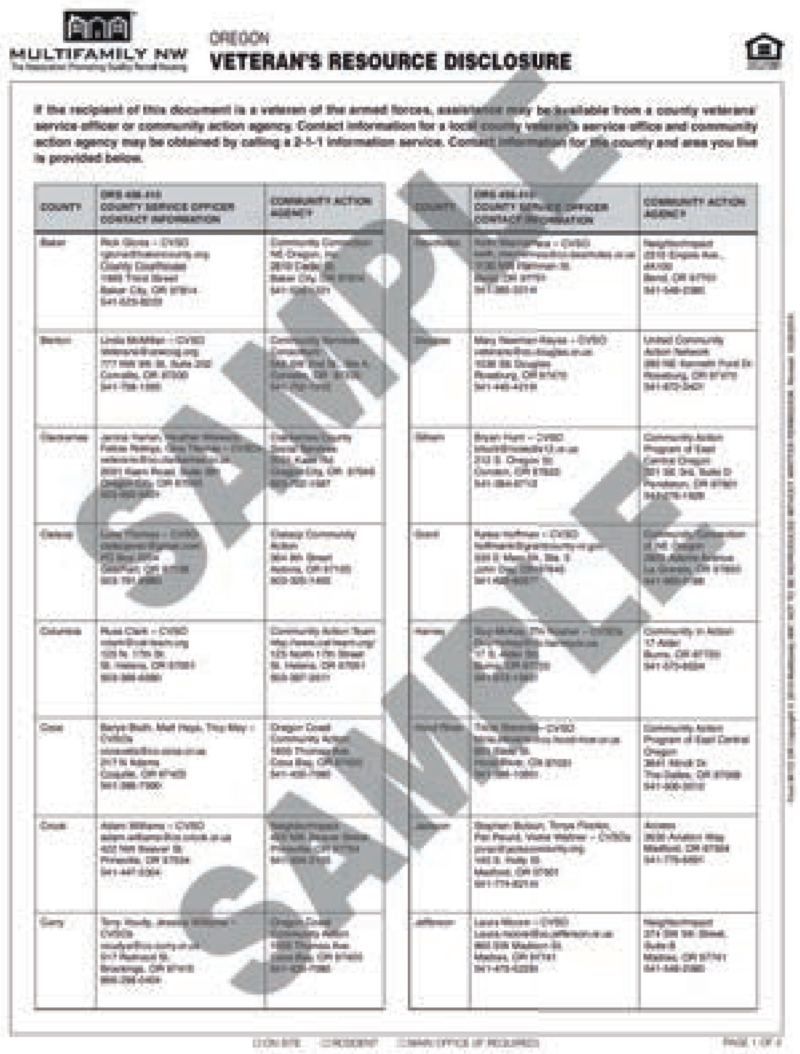
MULTIFAMILY NW

The Association Promoting Quality Rental Housing

FORM OF THE MONTH

M172 OR Veteran's Resource Disclosure



This is a NEW FORM and beginning January 1, 2020 it's required to be served alongside any notice of termination in Oregon. In the 2019 Oregon Legislative Session, HB 2530 was passed that mandated this disclosure to provide contact information for counties veterans' service officer and community action agencies.

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MULTIFAMILY NW 2020

FAIR HOUSING FAIR

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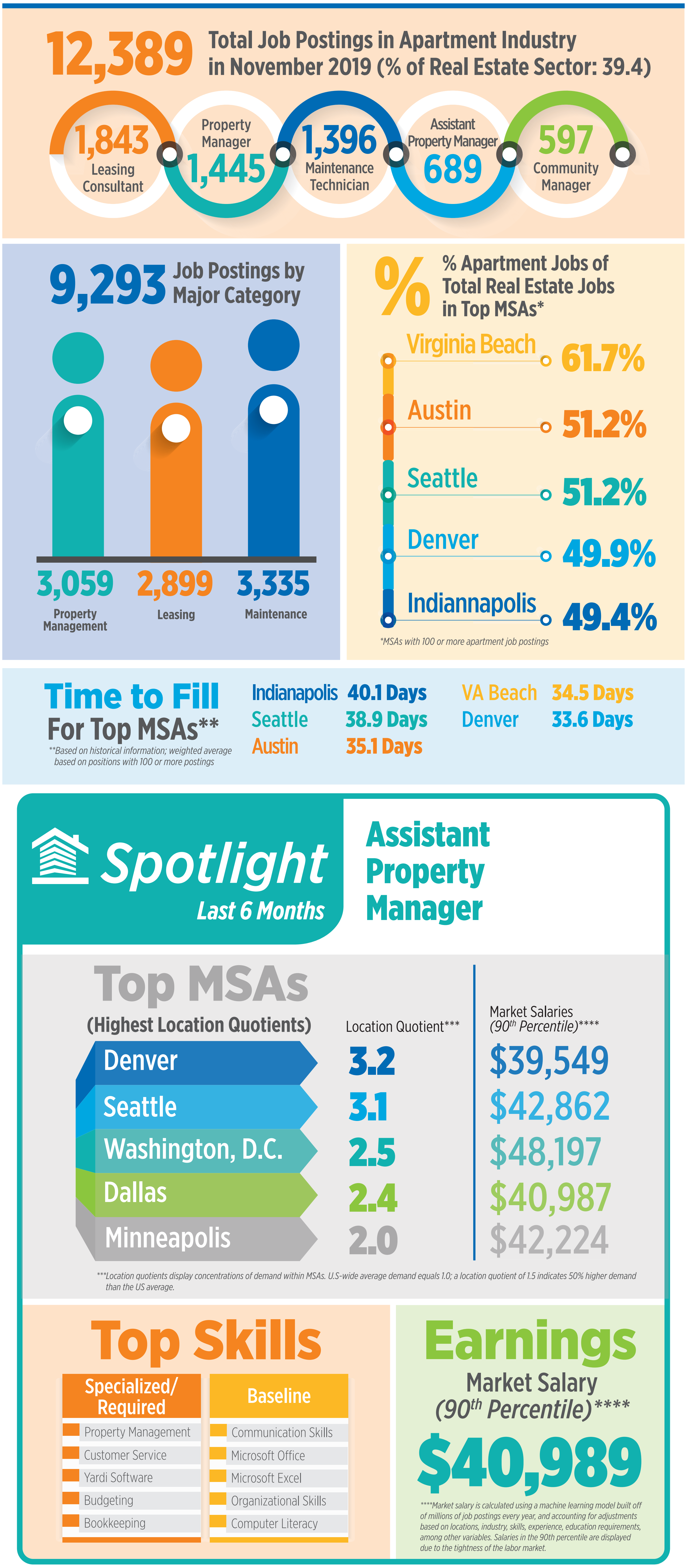
FOR MORE INFORMATION:

www.multifamilynw.org/events/fair-housing-fair-2020-housing-access-for-all

Multifamily NW Schedule

JANUARY 6	LANDLORD/TENANT PART I	1:00 PM - 5:00 PM
JANUARY 8	HR ISSUES: RECRUITMENT IDEAS	12:00 PM - 1:00 PM
JANUARY 8	LANDLORD STUDY HALL	6:30 PM - 8:00 PM
JANUARY 10	IT'S THE LAW: STARTING ON THE RIGHT FOOT	12:00 PM - 1:00 PM
JANUARY 15	PDX JANUARYUARY LUNCHEON: PORTLAND FAIR ORDINANCE	12:00 PM - 1:00 PM
JANUARY 16	CAM: FINANCIAL MANAGEMENT & INDUSTRY ESSENTIALS	9:00 AM - 5:00 PM
JANUARY 16	STRENGTHENING FRONT LINE SKILLS FOR MAINTENANCE	9:00 AM - 12:00 PM
JANUARY 20	PORTLAND'S FAIR ACCESS IN RENTING (FAIR) ORDINANCES PART 1	1:00 PM - 4:00 PM
JANUARY 27	PORTLAND'S FAIR ACCESS IN RENTING (FAIR) ORDINANCES PART 2	1:00 PM - 4:00 PM
FEBRUARY 5	LANDLORD STUDY HALL	6:30 PM - 8:00 PM
FEBRUARY 6	LAW AND RULE REQUIRED COURSE (LARRC)	1:00 PM - 4:00 PM
FEBRUARY 10	LANDLORD/TENANT PART II	1:00 PM - 5:00 PM



NAA NATIONAL APARTMENT ASSOCIATION Education Institute

Apartment Jobs Snapshot

November 2019

Jobs in Demand in Pacific NW

National Apartment Association

In the Northwest U.S., Seattle now ranks in the top five markets nationally for rental housing jobs, according to the latest jobs report from the National Apartment Association (NAA).

Apartment-job demand is high in Seattle and apartment job openings represent more than 51 percent of all real-estate-related jobs in the metro area. It takes on average about 39 days to fill those job openings in Seattle, according to the NAA's Education Institute.

Across the country, 12,389 rental housing jobs were available during November, representing over 39 percent of the broader real estate sector. Seattle emerged among the top five markets for apartment-job demand for the first time this year.

Denver ranked in the itop five for the seventh month, where time to fill available positions was only 33.6 days.

Maintenance areas were the major category of jobs with the most postings.

There was also high demand for leasing consultants.

Assistant property-manager jobs in the spotlight

Assistant property-manager jobs are in the spotlight this month in the NAA report and in Seattle; those jobs pay about $43,000 per year.

In addition to requiring property-management skills, employers are looking for individuals who have experience with customer service, Yardi Software, budgeting, and bookkeeping skills.

Market salary is calculated using a machine-learning model built off of millions of job postings every year, accounting for adjustments based on locations, industry, skills, experience, and education requirements, among other variables.

Salaries in the 90th percentile are displayed due to the tightness of the labor market.

Jobs report background

The NAA jobs report focuses on jobs that are being advertised in the apartment industry as being available, according to Paula Munger, Director, Industry Research and Analysis, for the National Apartment Association's Education Institute.

"Our education institute is a credentialing body for the apartment industry. They hear often that one of the biggest problems keeping our industry leaders up at night is the difficulty in finding talent, attracting talent and retaining talent," Munger said.

"Labor-market issues are happening in a lot of industries, certainly with the tight labor market we have." So NAA partnered with Burning Glass Technologies. "They have a labor-job posting database that is proprietary," she said, and they can "layer on data from the Bureau of Labor Statistics (BLS). We looked at that and thought we could do something that is really going to help the industry and help benchmark job titles and trends as we go forward," Munger said.

Sources: NAA Research; Burning Glass Technologies; Data as of November 30, 2019; Not Seasonally Adjusted

How Rent Control Limits Owner Profits and Maintenance in Portland, Seattle

Continued from Page 1

regions of the country).

The study says rent-growth caps affect the apartment industry in several ways, each of which is estimated in the model.

Here are some of the effects in the rent-control study

• The most direct effect is on the monthly rent for units that would have experienced a growth above seven percent in a given year.

• Limiting rent growth affects the long-term viability of building new units and performing maintenance on existing units, as it changes the expected return on investment for each of these activities.

• By limiting rents, a rent-growth cap also will affect new construction as it will change the expected return on this investment.

• The combined effects of limiting rents and deterring new construction work to reduce owner profitability.

• A cap on rent increases essentially becomes a de facto cap on the profits of building owners, and that gets negatively capitalized in the value of rental property.

"Each of these effects represent inefficient outcomes relative to allowing the market price to adjust according to supply and demand. By not allowing the market for dwellings to function properly, rent control changes the allocation of housing investment across space," the NAA study says.

Under normal conditions, rising rent levels would be met with increased building in an area, curbing long-term growth in rents.

However, rent control blunts the price mechanism, causing a misallocation of housing investment both within and across metropolitan areas.

CPA constructed several models to examine the effect of a rent growth cap on the study markets.

First, the change in expected rents was modeled through an examination of historical rent increases. Those data were used to assign a probability that an apartment owner is likely to see a spike in demand that results in a rental price increase that exceeds the seven percent cap in a given year for each area.

That expected rent change was linked to estimates of new supply and maintenance expenditures, and the outputs from those models were combined to estimate the effect of rent caps on total income and, ultimately, property values.

All estimates reflect the impact of a seven percent rent-growth cap on rental units in buildings with five or more units.

The analysis of the model outputs concluded:

The expected change in rental values across metropolitan areas ranged from two percent in Chicago and Portland to five percent in Denver and nine percent in Seattle.

• The effect on new apartment construction would also be substantial, but it varies significantly across metropolitan areas.

• Seattle would see a reduction in construction of 1,739 units per year, with 779 fewer units constructed annually.

• Denver and Chicago would see 320 fewer per year.

• Portland would see 233 fewer per year.

Maintenance spending would fall under rent control

The models estimate that annual maintenance spending would fall by:

• $5.9 million in Seattle

• $5.4 million in Chicago

• $4.5 million in Denver

• $2.7 million in Portland

The total rental income lost for apartment owners would be significant. The CPA model showed the loss would be:

• $33 million in Seattle

• $24 million in Chicago

• $23 million in Denver

• $10 million in Portland

These loss estimates include both the income lost due to restricting rents and the income lost from foregone construction.

Property taxes will fall with loss of apartment values

Also, the projected income reductions logically translate into declines in the value of apartment properties.

The model output estimated an aggregate loss of property value of $213 million in Portland, $462 million in Denver, $487 million in Chicago and $655 million in Seattle.

If property-value losses are realized in the assessment of property, then they would also be realized by lower property tax collections.

Taking the property loss estimates from the low-discount rate model and assuming that property assessments follow market-value losses, annual property-tax revenue losses would be more than $6 million annually in Chicago, with losses of more than $5 million in Seattle and Portland and $3.5 million annually in Denver.

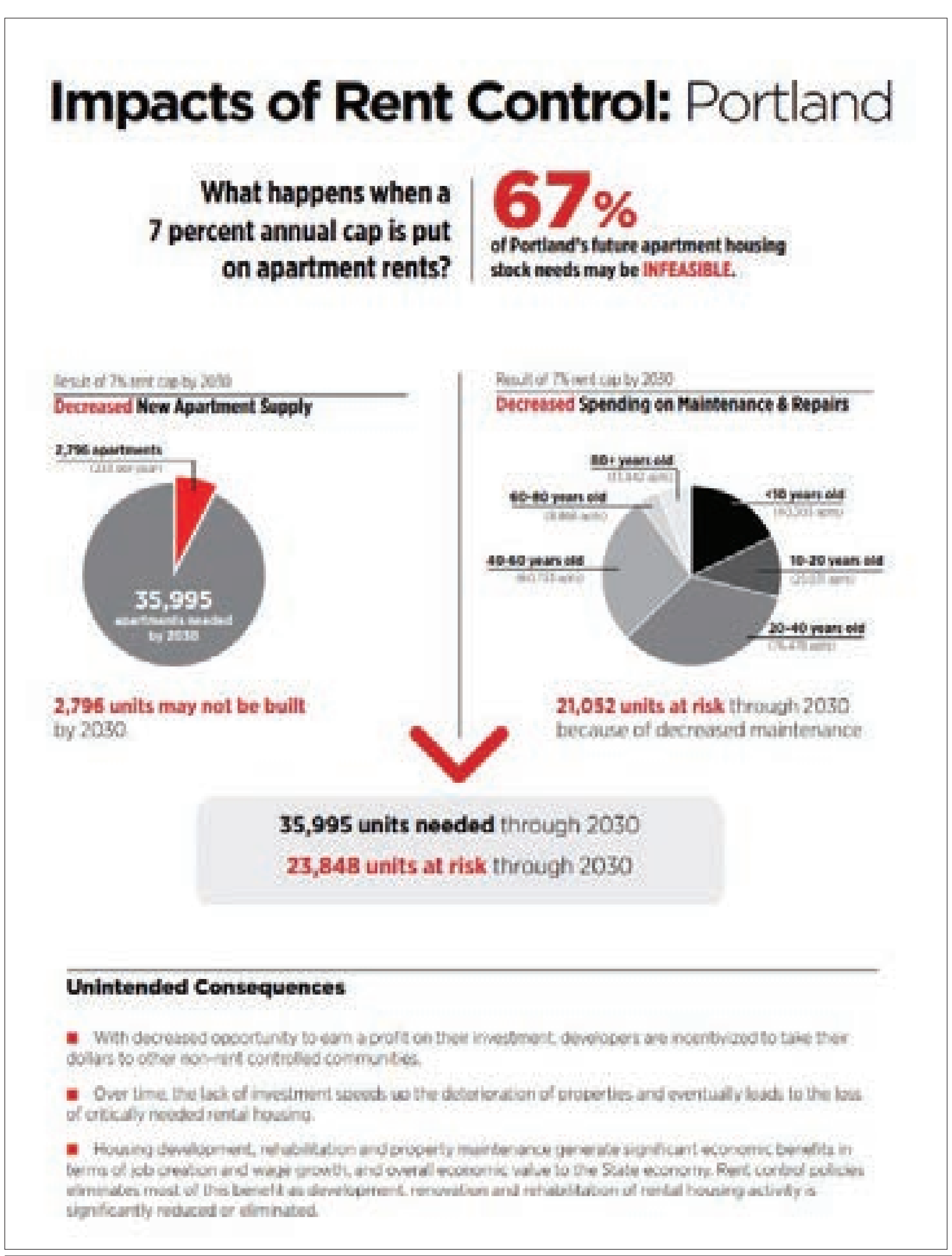
A seven percent growth cap on rents would have a substantial impact on the apartment rental market in the areas studied.

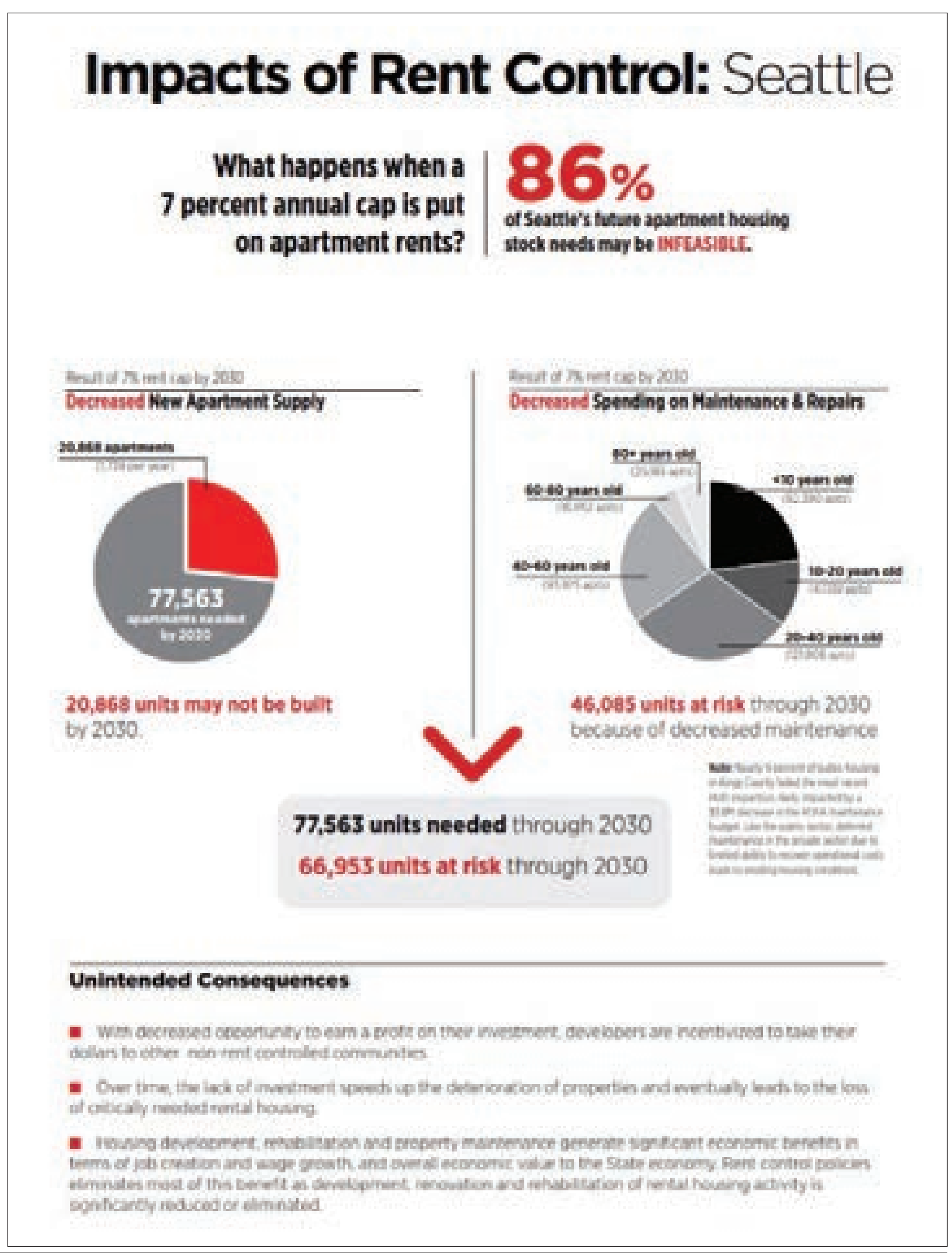
The estimates suggest that a non-trivial percentage of units would be bound by the policy and that this would lead to rent losses for building owners.

The fact that rents would not be able to fluctuate to meet market conditions in the metropolitan areas and across neighborhoods would have far-reaching implications.

A seven-percent cap would substantially reduce the amount of new unit construction and have a negative impact on maintenance expenditures.

Finally, the models show that the seven-percent growth cap would depress annual income for owners and ultimately be capitalized into falling property values. Falling property values could have further implications not explored in the study, such as declines in local wealth and public services funded by the local property tax base. Using the results of a 2017 report, "U.S. Apartment Demand – A Forward Look," produced by Hoyt Advisory Services for NAA and NMHC, we estimate the long-term effects of rent control and how it could affect vitally needed rental housing units by 2030. These figures are presented in the following charts included here.





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503-254-4723 • Fax 503-254-4821

info@rhaoregon.org
www.rhaoregon.org

RHA Oregon President's Message

Welcome 2020!

Membership Grows in Rental Housing Alliance

Ken Schriver, President

I will say that 2019 is a year I'm happy to see in my rear-view mirror. As I begin my second year as president of Rental Housing Alliance Oregon, I am optimistic about several things:

First, RHA is growing with increased membership, additional educational offerings, new office staff, and an active board including two new members and two more likely soon. I am thrilled to report that from a fiscal standpoint, we finished the year in the black, allowing us to add a full-time marketing and membership services staff person to replace the part-time position being vacated by Diana Lindemann, who (as a landlord herself) has joined the RHA board. Also welcome to the board Melinda McClellan, another small landlord like most of our members.

The board held its annual retreat in early November and set several goals for 2020. We plan to continue growth through recruitment and expanded educational offerings. We are expanding our support of affiliate and dual members that provide goods and services to our industry: we will be holding a Vendor Fair in March and will be bringing back Affiliate Member Spotlights to our dinner meetings each month. The rental housing industry, like so many others, is experiencing an increase in the use of technology to simplify operations and ensure regulatory compliance. RHA is committed to helping our members access these resources; in 2020 we are expanding our calendar to include online training sessions presented by affiliates that provide web-based services to landlords. These services can range from showing vacant units to applicant screening to arranging maintenance services to collecting rent. This will be a great year to evaluate whether adoption of a web-based service might streamline your operations as a landlord or property manager.

The rental housing industry, like so many others, is experiencing an increase in the use of technology to simplify operations and ensure regulatory compliance.

We will increase our outreach to other entities to find solutions to community housing problems. This will range from increased participation on local and state advisory boards and coalitions to support of non-profit organizations like SnowCap Community Charities and Portland Homeless Family Solutions to the backing of political candidates at all levels of government that are willing to listen to our positions and take action based on sound analysis of the evidence.

Finally, the Oregon legislative assembly in 2020 is a "short" session that will likely be focused on proposed cap-and-trade legislation. Regardless of your position on that subject, this should mean that landlords will be able to spend 2020 adapting to the several regulatory changes passed last year at the state and local levels. Nevertheless, RHA's Legislative Committee has a full agenda in 2020. As our past-president Ron Garcia is now running for Oregon's 37th House District seat, he is stepping back and I will be chairing that committee in 2020. Closely connected with the efforts of the Legislative Committee, RHA is networking with other rental housing organizations in Oregon, California, and Washington. Stay tuned for more information on how we hope to stem the tide of overly burdensome regulations on housing providers like ourselves all along the West Coast.

It's going to be a great year!