HUD West Region – Market Data

Quick Overview of HUD's Active Markets

Dave Melanson & Chris Bellegante

Idaho

Boise:

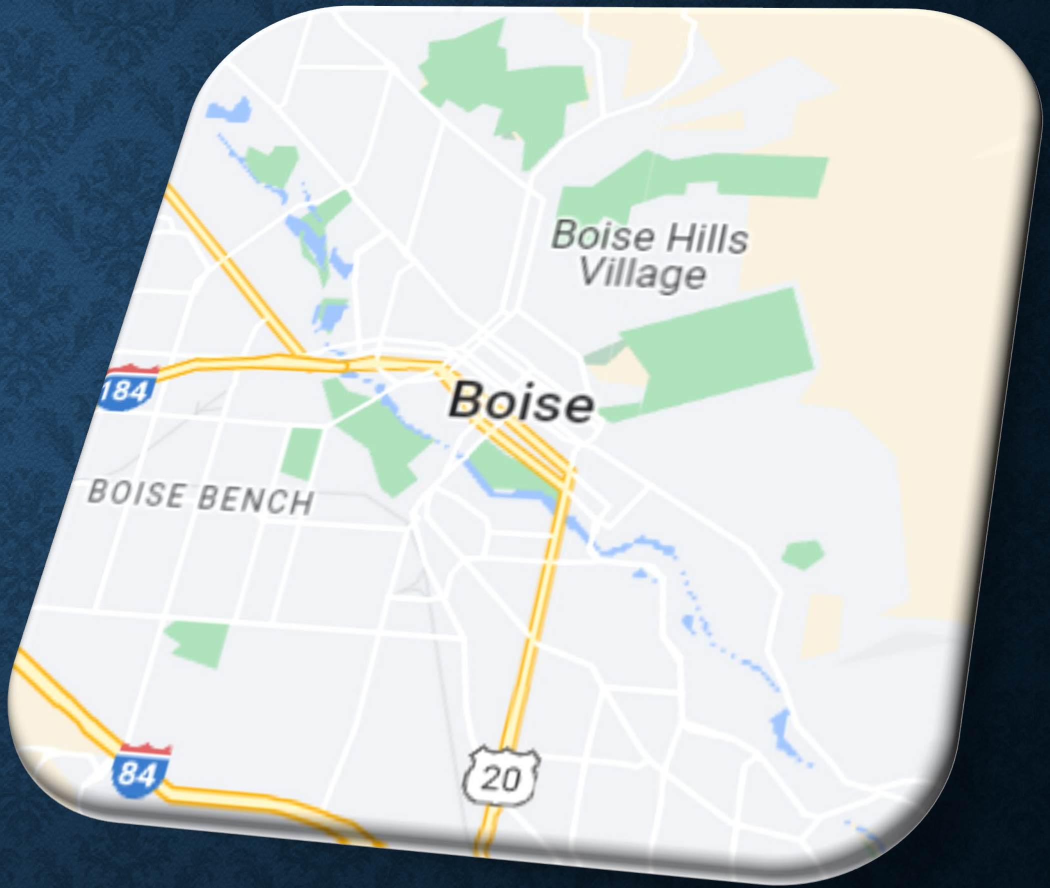
- Moderate rent growth, past and future

- Lots of deliveries in the recent past but future pipeline is lower

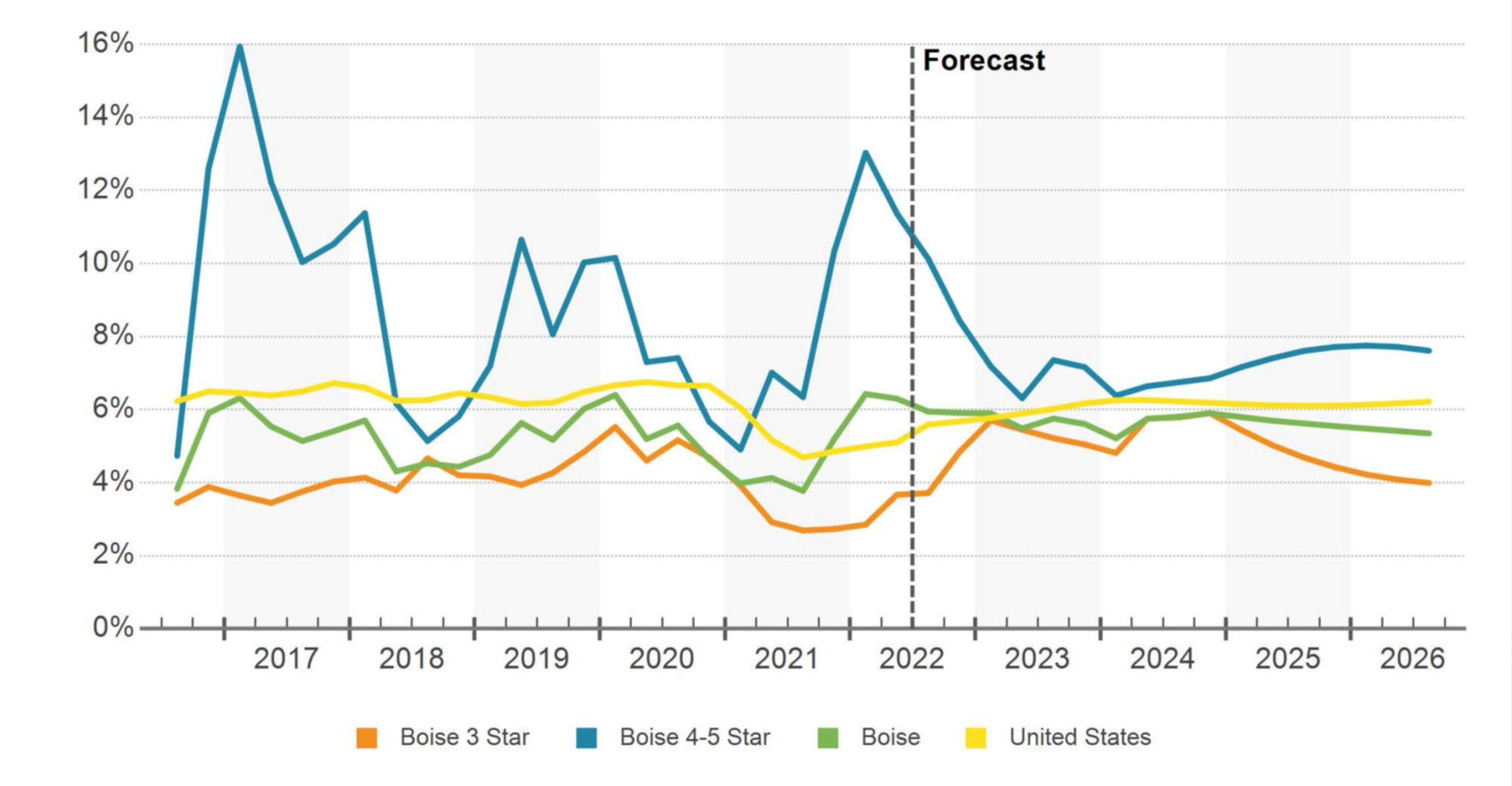
- Class A vacancy is close to 10%

- Future vacancy is in the 5% to high 7% range

- A pretty good market for the right product with minor mitigations



Idaho - Boise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Boise 3 Star
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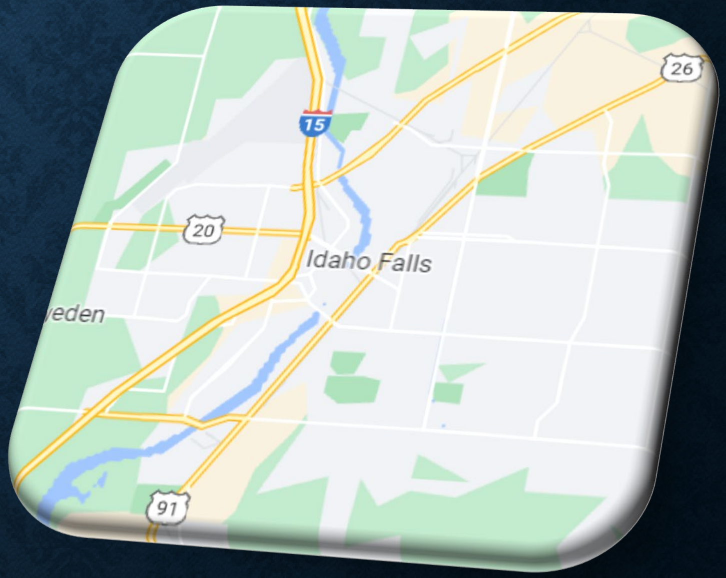
Boise
United States

Idaho

Pocatello – Large spike in deliveries in late 2021 – Class A Vacancy is currently at an astronomical 33.8% – It will go down to 19.7% by the end of the year – Thereafter it should be down between 2% and 6% – Despite the current situation, it looks good long-term

Idaho Falls – Strong deliveries last 3 quarters and in the last quarter of this year – Class A vacancy is at 8.6% – It will spike to 15.6% by the end of this year but then stay steady between 7.4% and 8.9% – Conservatism required

If predicted vacancy is above 7%, you need excellent third parties, a higher IOD, and (depending on when vacancy settles down) higher underwritten vacancy in Criterion 5



Utah

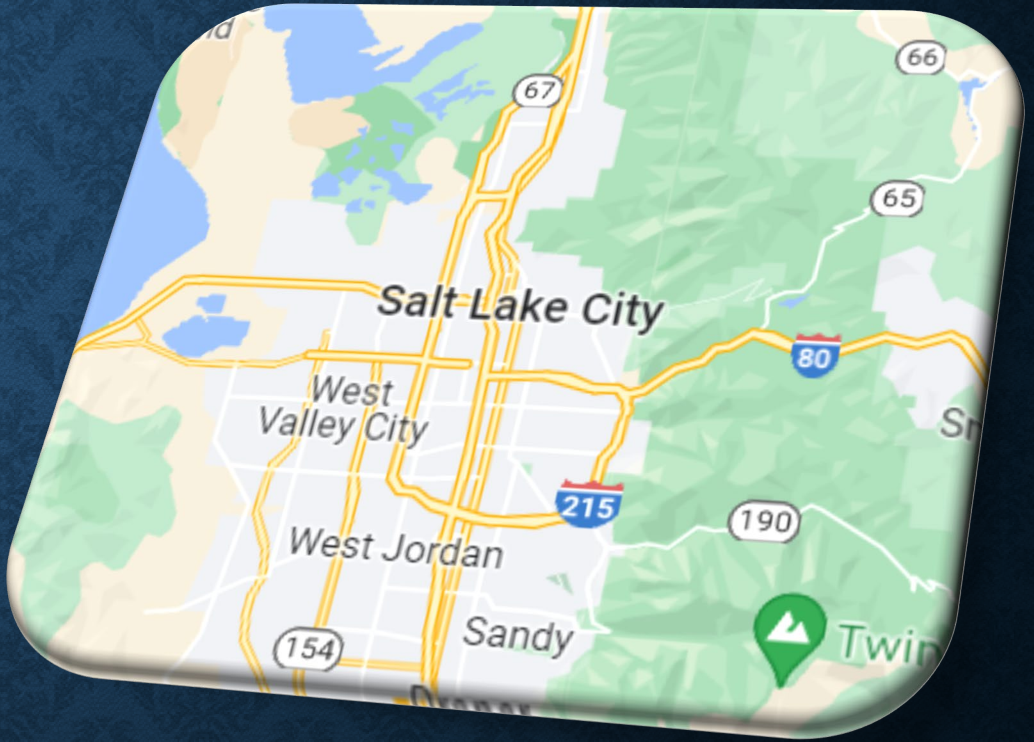
Salt Lake City/County:

- Strong rent growth past and future

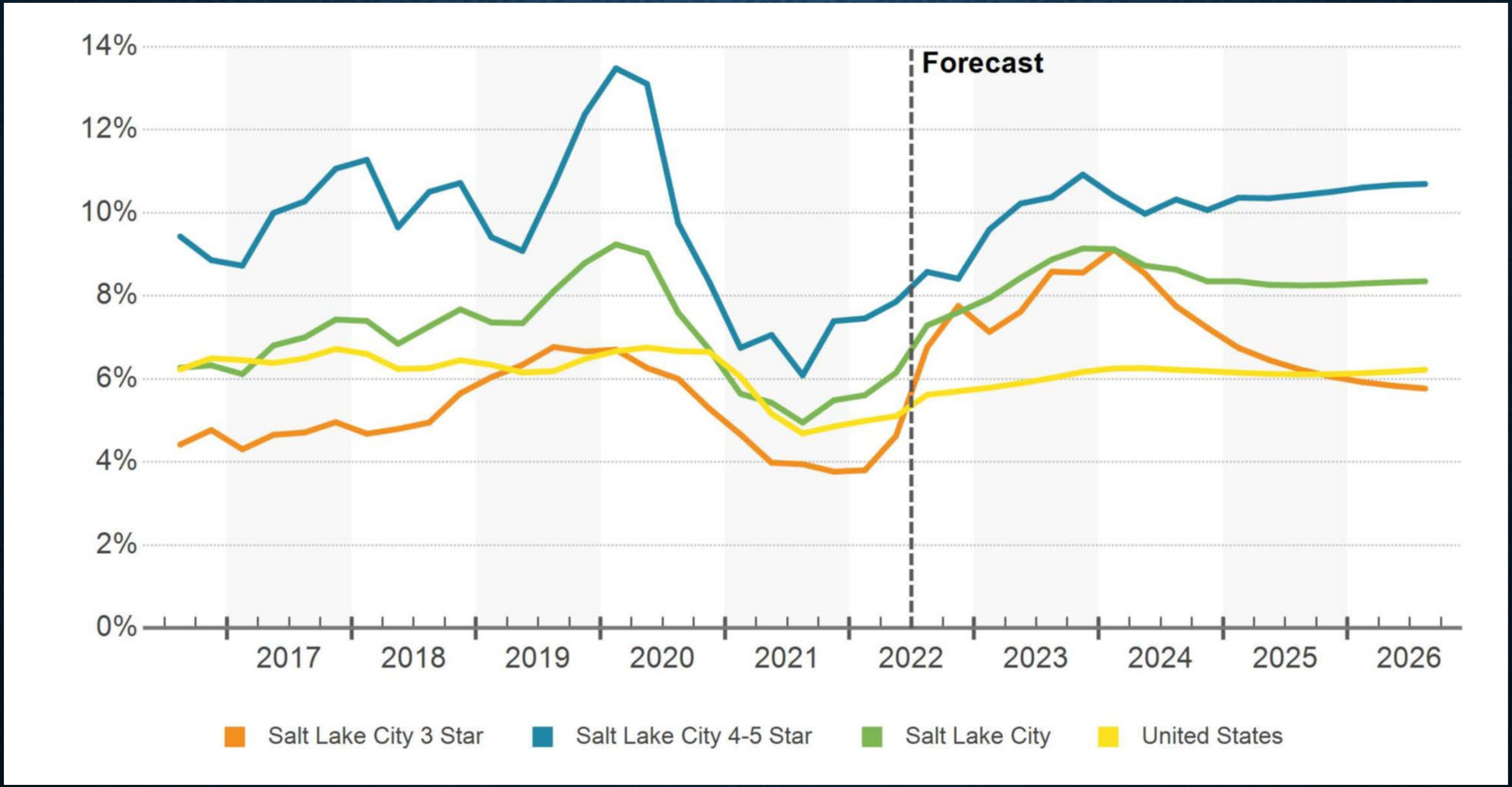
- Class A vacancy will be close to 10% – Some submarkets may vary but overall need to be cautious

- <u>May</u> be able to put an excellent property through with a great market analyst and conservative underwriting

- *If predicted vacancy is above 7%, you need excellent third parties, a higher IOD, and (depending on when vacancy settles down) higher underwritten vacancy in Criterion 5*



Utah – Salt Lake City/County



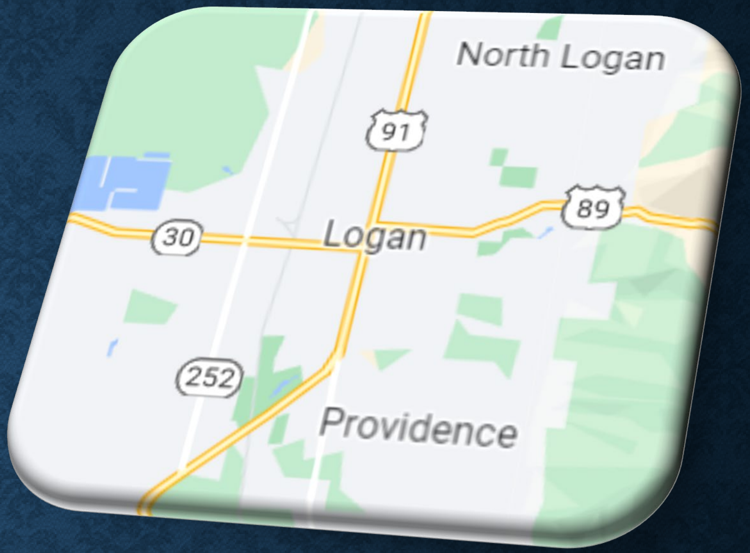
Utah

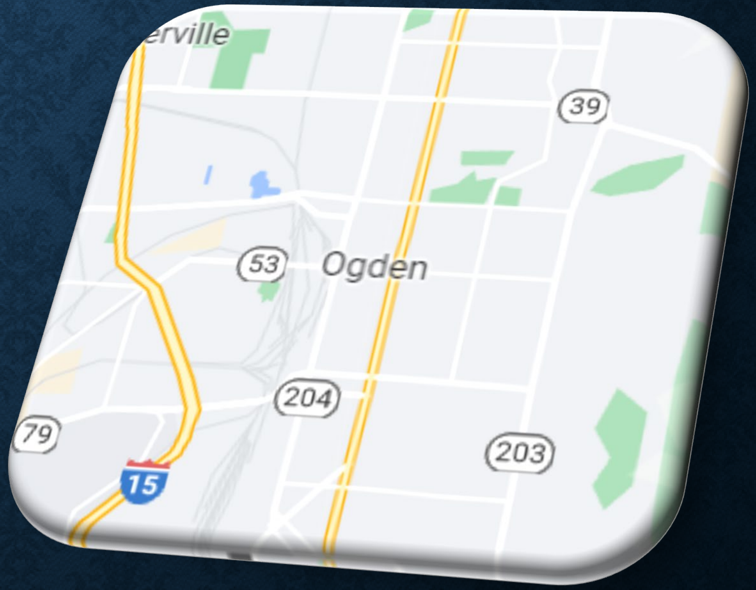
North of Salt Lake City:

- Logan – Vacancy should remain under 6% for the foreseeable future – No headwinds

- Ogden – Vacancy will be stubbornly high – between 9% and 12% for the foreseeable future – Tough to get anything done

- *If predicted vacancy is above 7%, you need excellent third parties, a higher IOD, and (depending on when vacancy settles down) higher underwritten vacancy in Criterion 5*





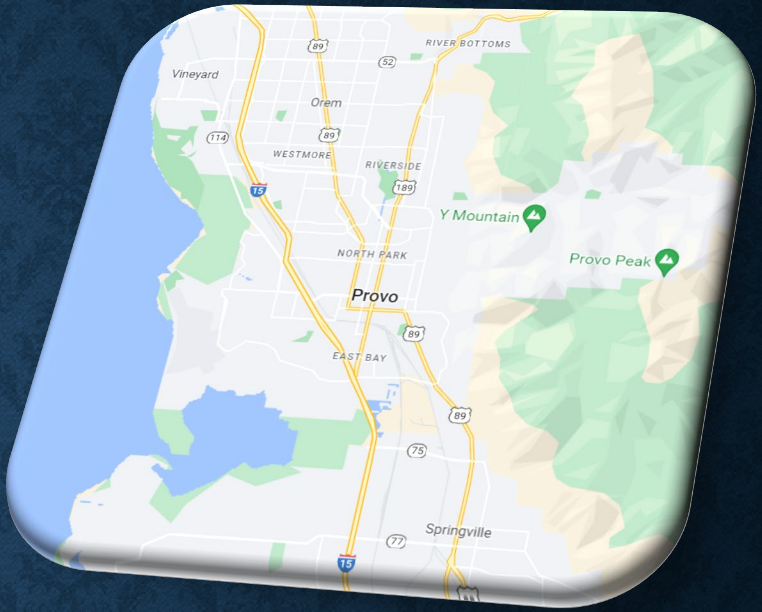
Utah

South of Salt Lake City:

- Provo & Orem – 2022 will close with Class A vacancy at 12.5% – Vacancy will drift down to the mid 8% range thereafter – Usually a good market but needs some mitigation right now

- St. George – Class A vacancy has spiked to 19% – But future vacancy should settle to between 5% and 7% until 2026 which will be at 8% – Overall workable with minor mitigation

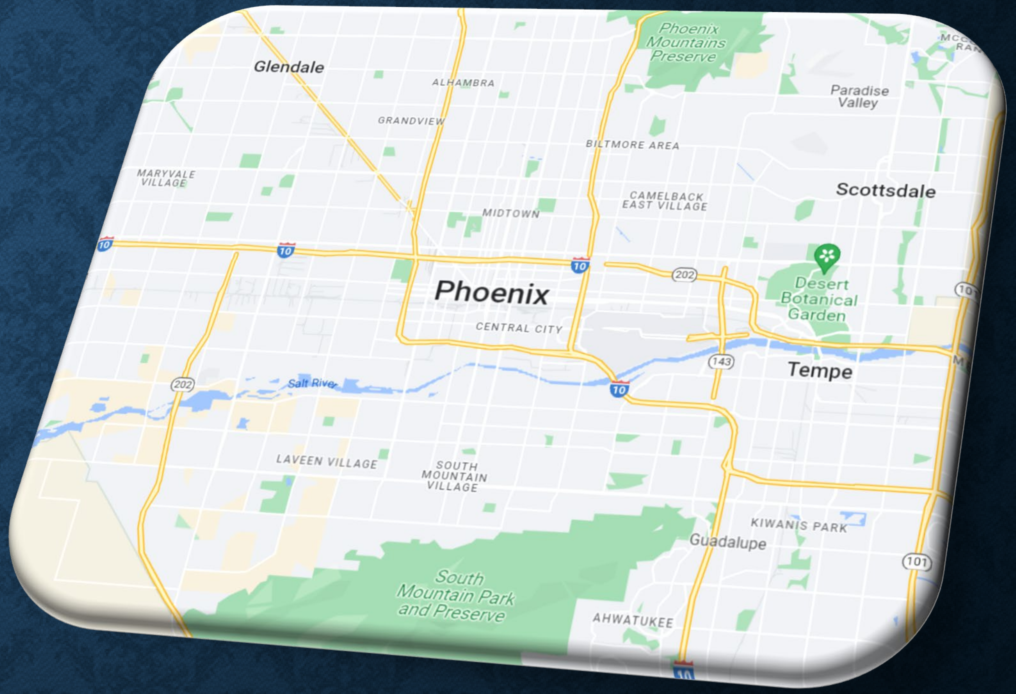
- *If predicted vacancy is above 7%, you need excellent third parties, a higher IOD, and (depending on when vacancy settles down) higher underwritten vacancy in Criterion 5*



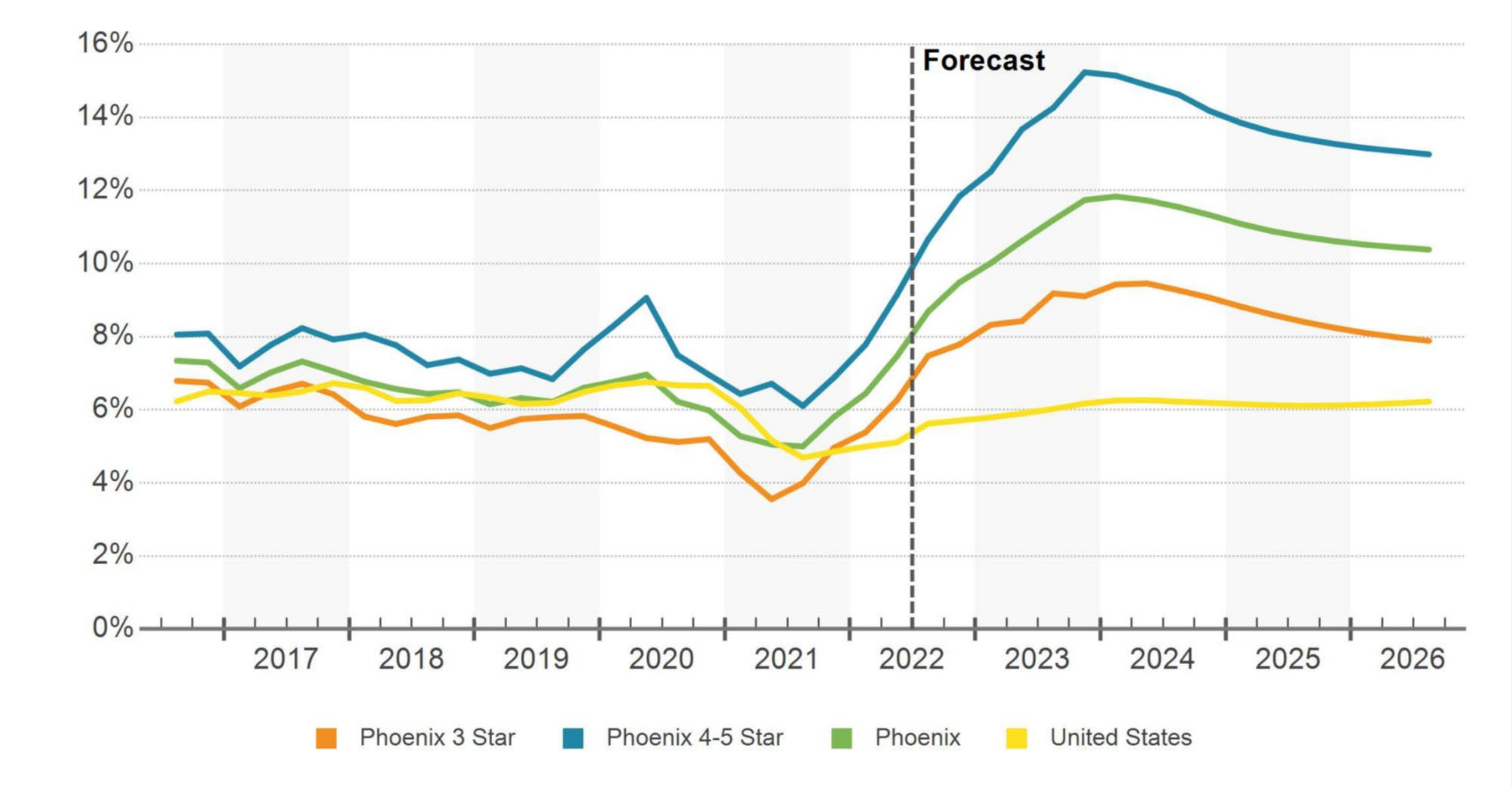
Arizona

Phoenix:

- Strong rent growth
- Class A vacancy will be above 12% for the foreseeable future due to a very strong Pipeline
- A “No Go” Market for New Construction
- Even 223(f) Refinances should account for higher vacancies to come in Criterion 5
- The appraisal should just reflect current, prevailing market vacancy rates for the Income Capitalization Approach



Arizona - Phoenix



Arizona

Tucson – Deliveries will spike in 2023 – Class A Vacancy will be 9%–10% – If there is a deal, strong mitigations will be required

Flagstaff – Class A vacancy should remain under 6% for the foreseeable future – No headwinds

Prescott – Class A vacancy will head north of 8% in 2025 and 2026 – Deals may be doable but will need conservative underwriting

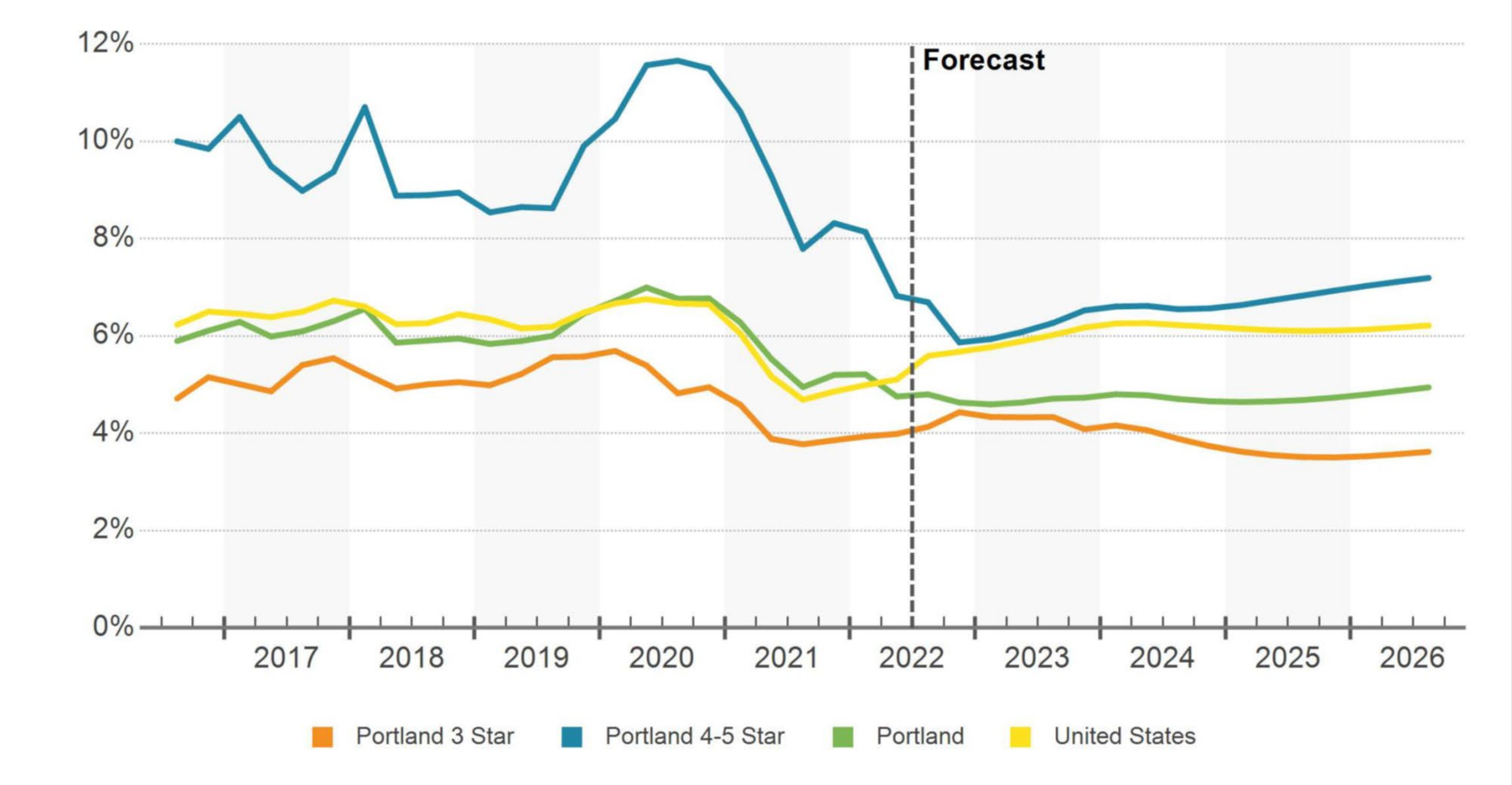
If predicted vacancy is above 7%, you need excellent third parties, a higher IOD, and (depending on when vacancy settles down) higher underwritten vacancy in Criterion 5

Oregon

Portland:

- Strong rent growth
- Deliveries had been strong, but the last few quarters and next few quarters are a bit lower than recent history
- Class A vacancy should stay where it is currently – between 6% and 7% for the foreseeable future
- Overall, a pretty good market with maybe minor mitigations

Oregon - Portland



Oregon

- Eugene – Class A vacancy is 3.2% and will rise to the 7% range for 2024–2026 – Overall doable market

- Salem – Class A vacancy is at just 4.1% – Inventory growth will push vacancy to 13.7% in 2023 – Vacancy will then float down to between 7% and 8% by 2025–2026 – Workable with some conservatism

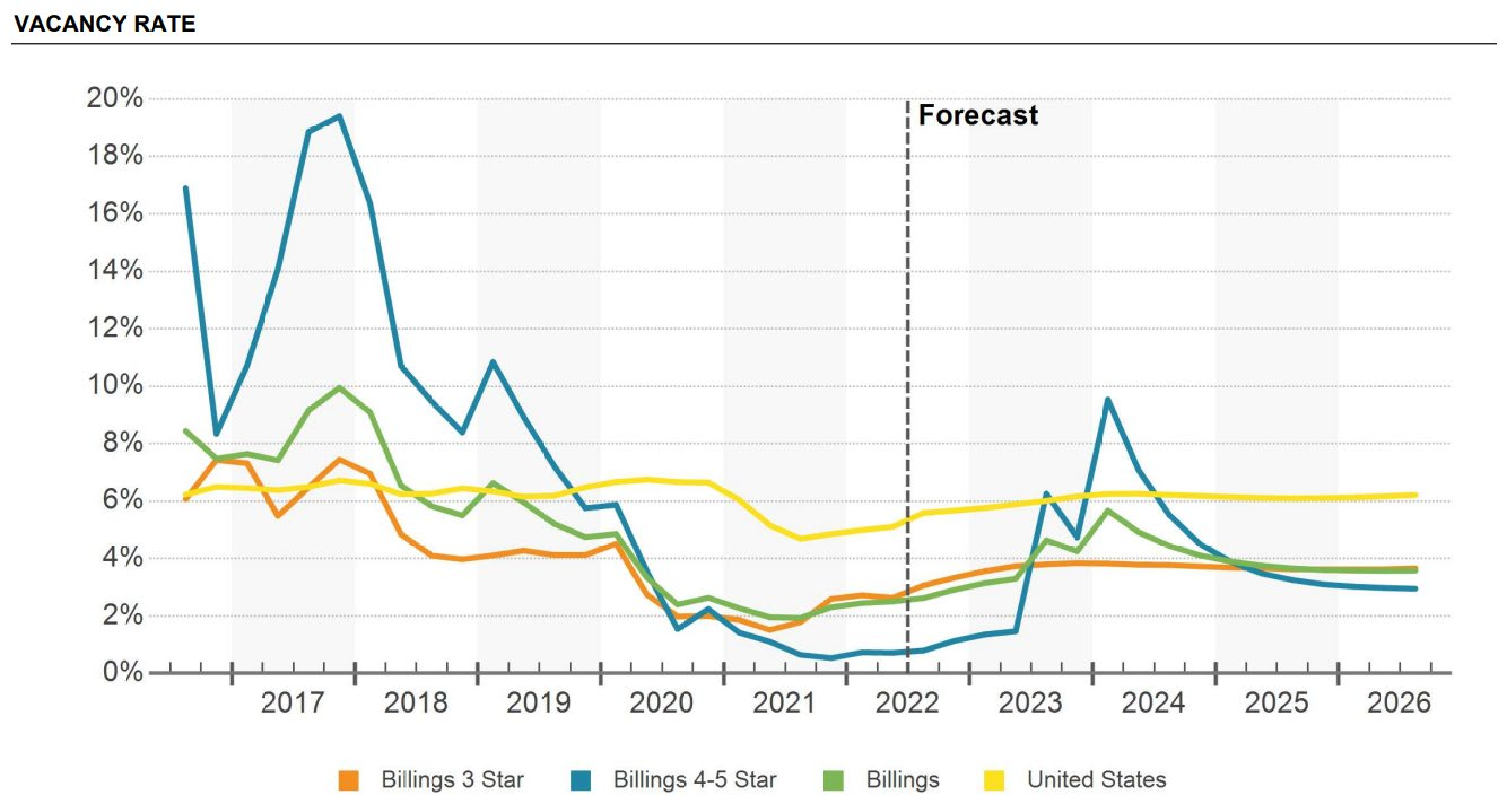
- *If predicted vacancy is above 7%, you need excellent third parties, a higher IOD, and (depending on when vacancy settles down) higher underwritten vacancy in Criterion 5*

Montana

Billings:

- Despite little change in occupancy in the last year, the vacancy rate remained low due to lack of supply pressure.
- Vacancy sits at 2.5% and remains very low for Class A developments.
- A wave of supply starting at the end of 2023 will put this to the test.

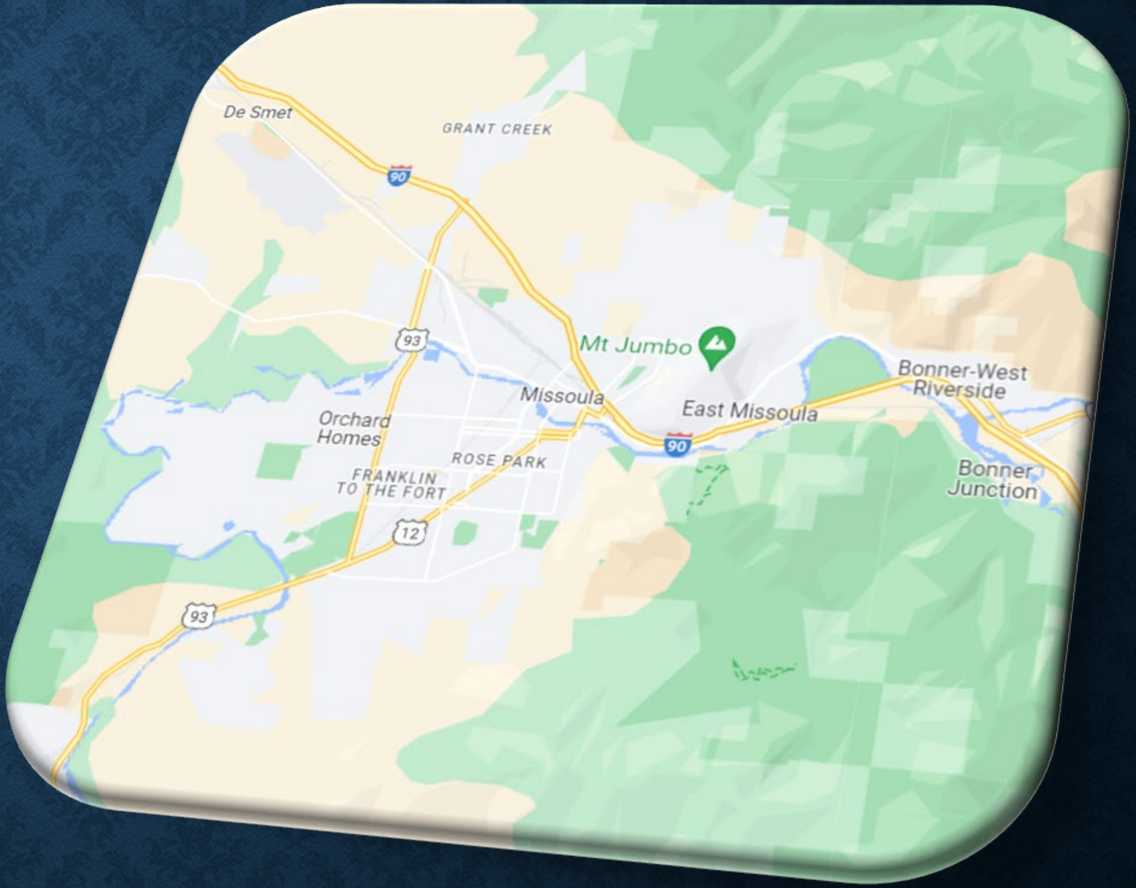
Montana - Billings



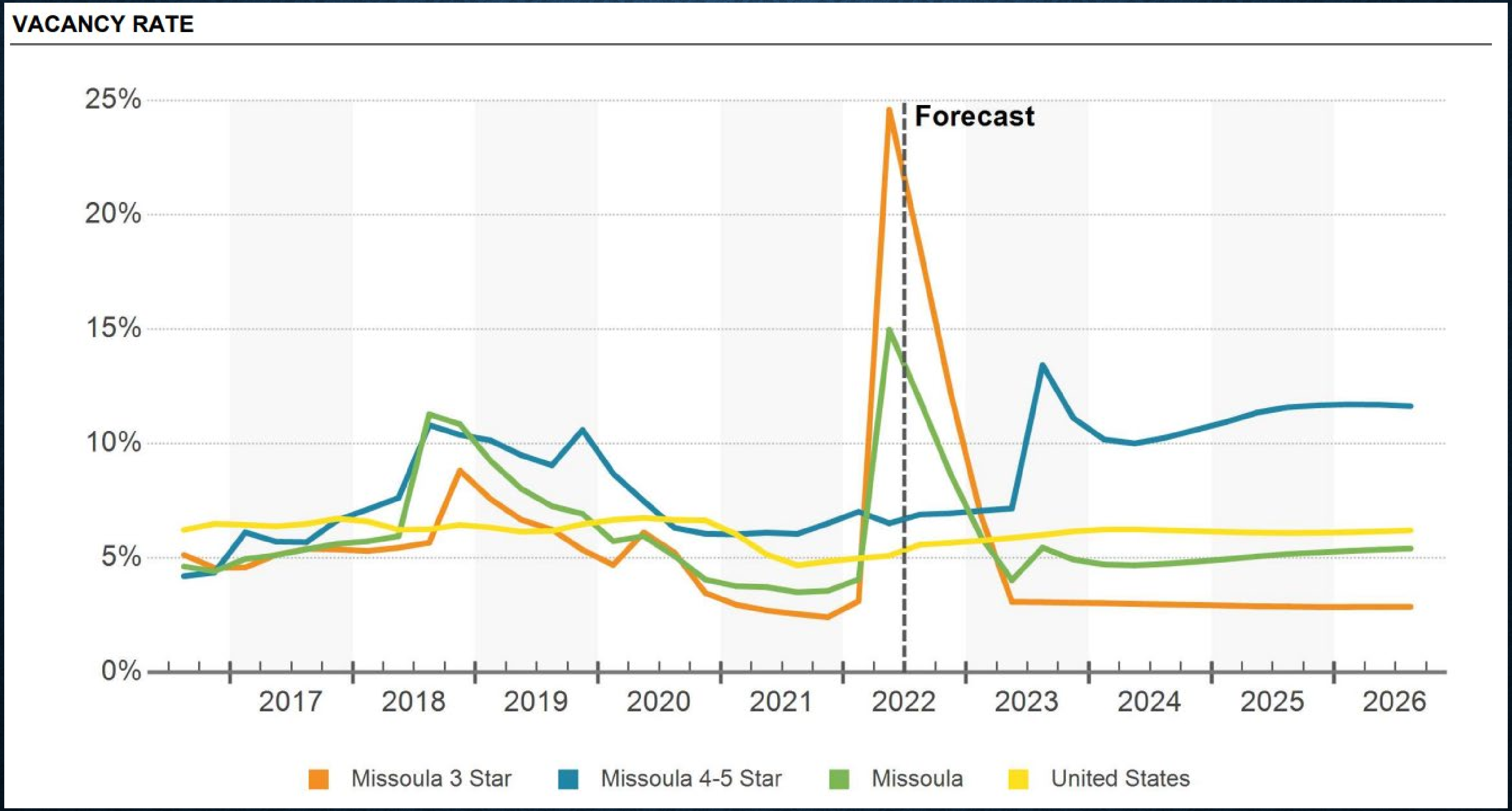
Montana

Missoula:

- Rent growth reached record levels in 2021 where growth has slowed since then but remains at historically high levels.
- The vacancy rate hit a record low last year but has risen due to new construction. Stabilized vacancy, which does not include projects in lease-up, remains much lower and hovers around 4%.
- Due to the smaller market, newly constructed units have an impact on the overall vacancy.



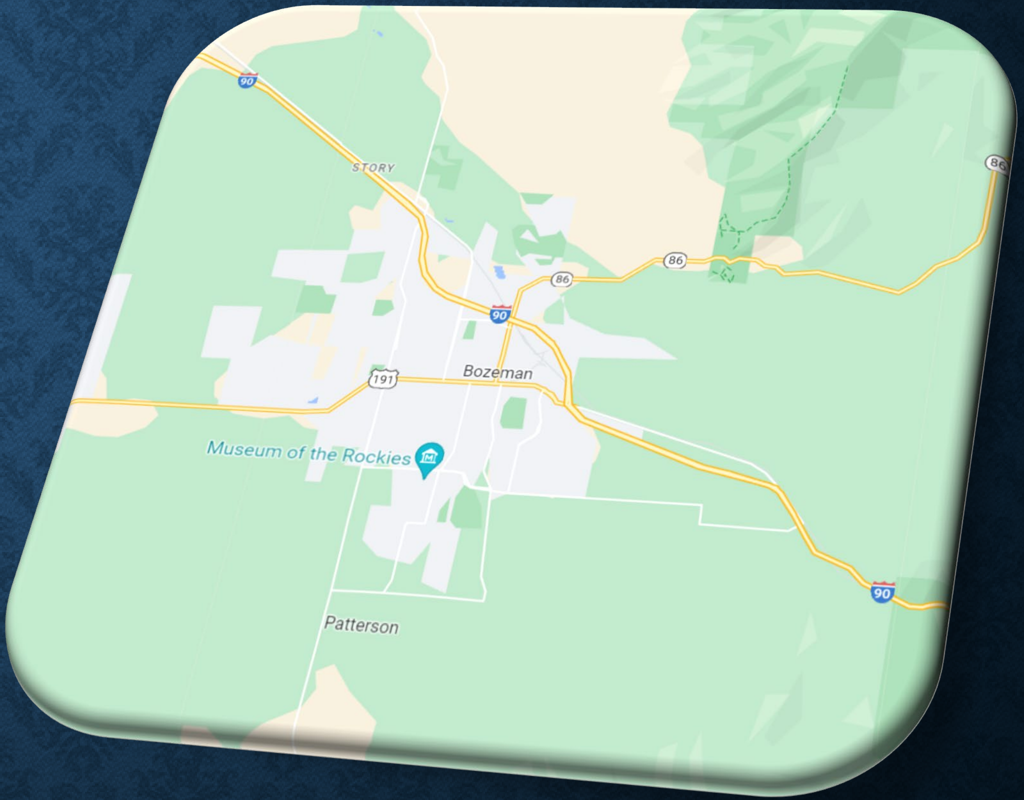
Montana - Missoula



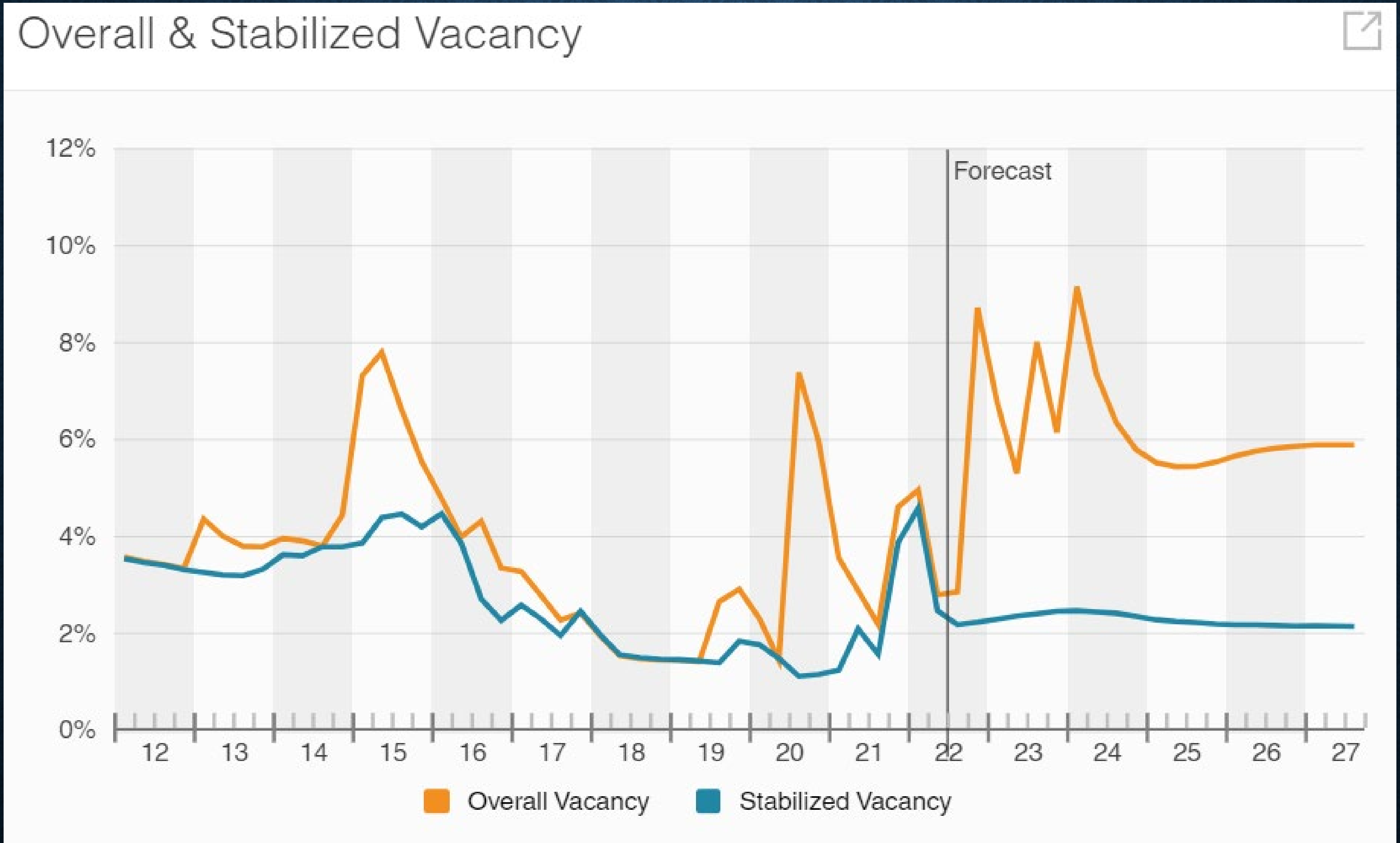
Montana

Bozeman:

- Rent growth continues to remain strong with gains of 9% since the last quarter.
- The construction pipeline will add 20% to the overall inventory, where many of those developments are committed to FHA funding.
- While the market is currently hot, the supply is strong where any new proposals in this market will depend on overall timing.



Montana - Bozeman

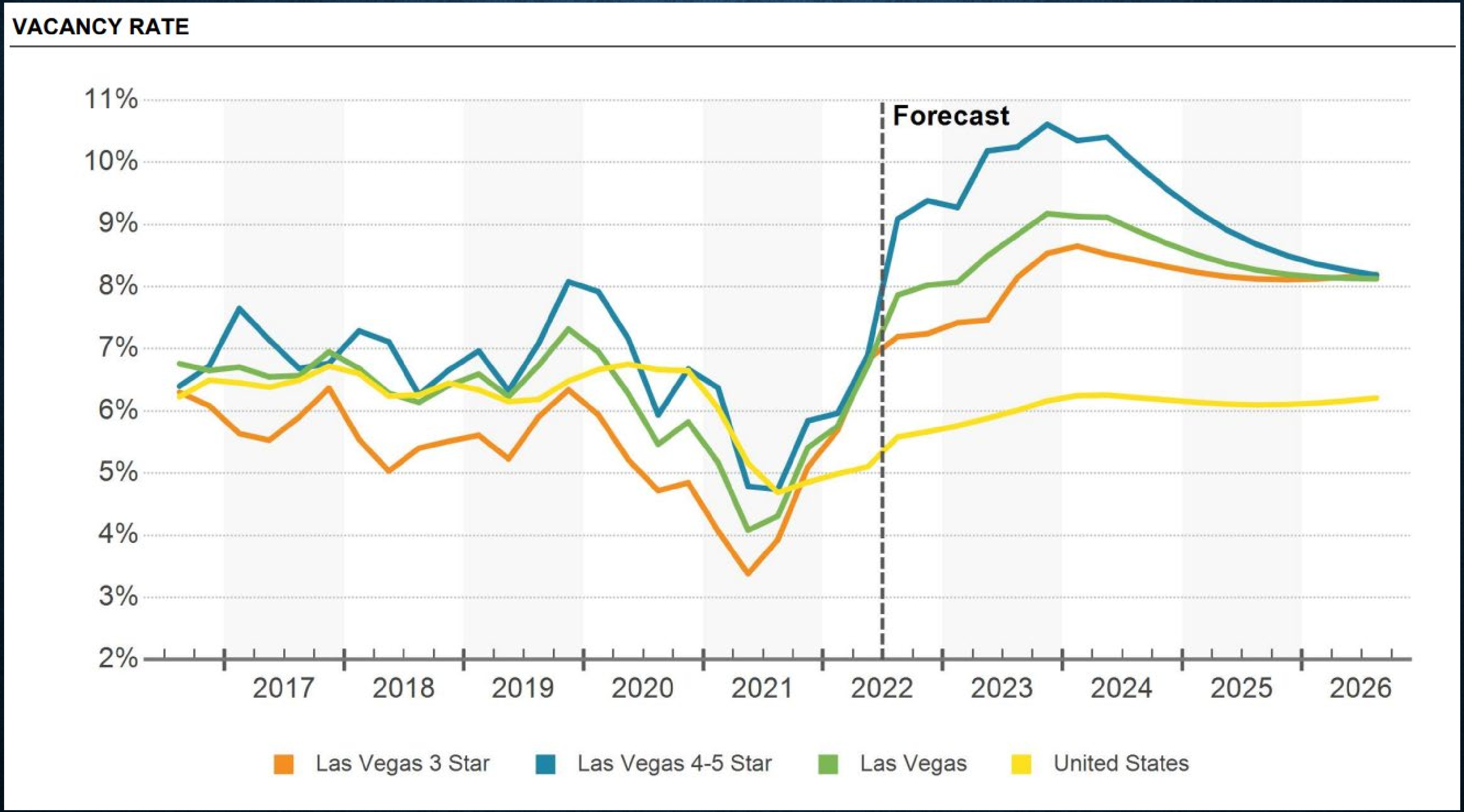


Nevada

Las Vegas:

- The market has shifted in 2022 due to supply pressure and three consecutive quarters of negative absorption.
- Around 7,400 units are under construction in the Las Vegas metro, which would expand existing inventory by 4.2% once complete.
- Vacancies have spiked to 6.9% where trends indicate vacancies will continue to climb for all property classes for several quarters averaging 8.4%.

Nevada – Las Vegas

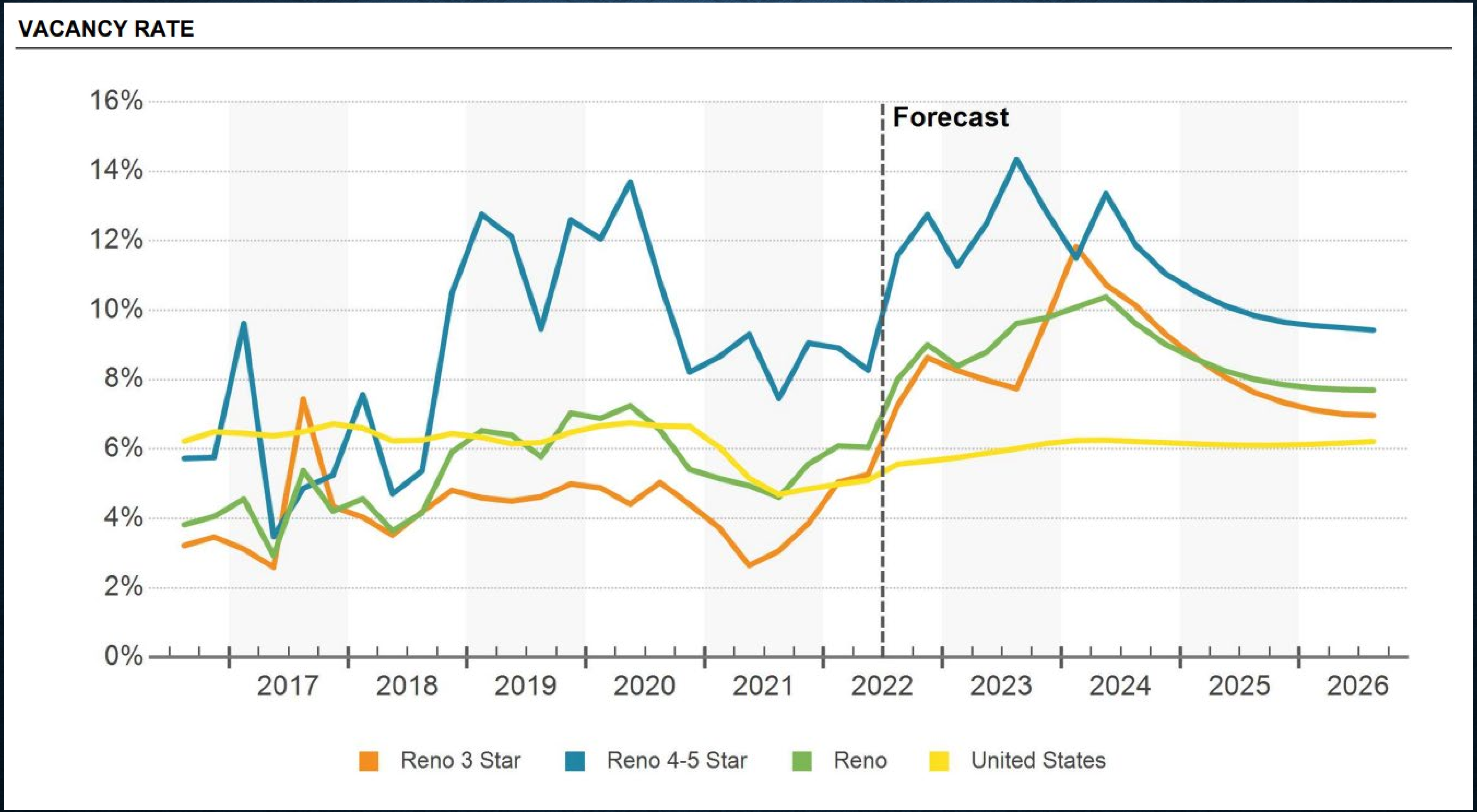


Nevada

Reno:

- Net absorption has been slow to start the year with 24 units over the past 12 months but has surpassed 1,000 units annually since 2018.
- The vacancy rate rests at 7.4% but has ticked upward in recent periods where Class A is projected at 11%.
- The question facing the market is how permanent the slowdown in demand will be. Should Reno fail to meet the increase in inventory coming over the next 12 months, there is a risk of oversupply.

Nevada – Reno



VACANCY RATE
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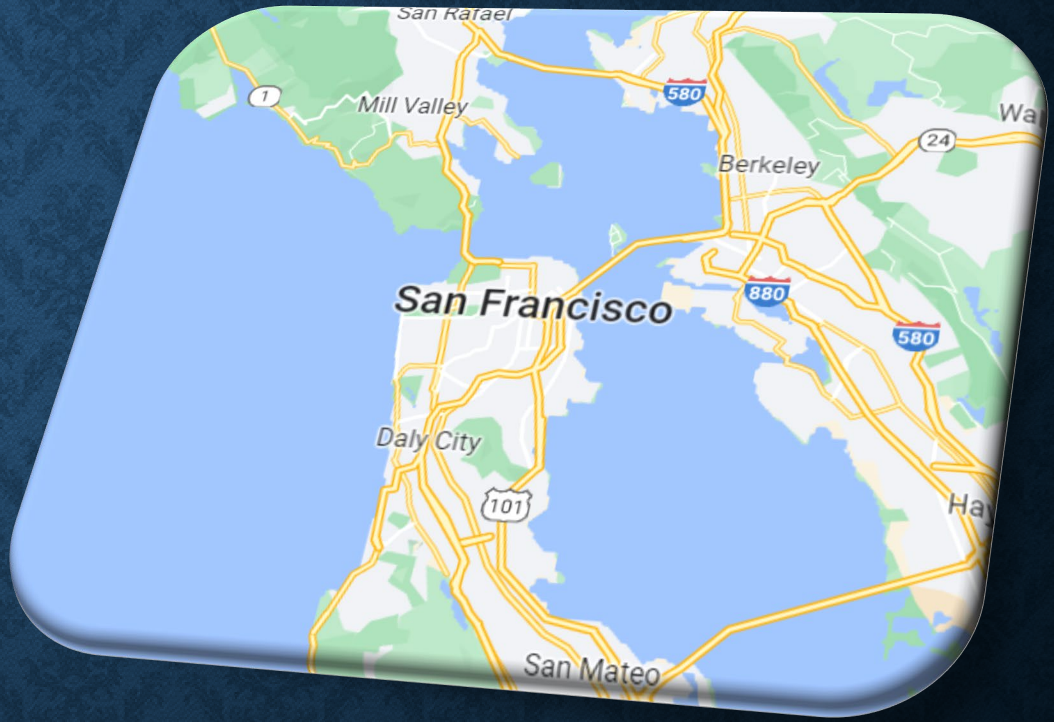
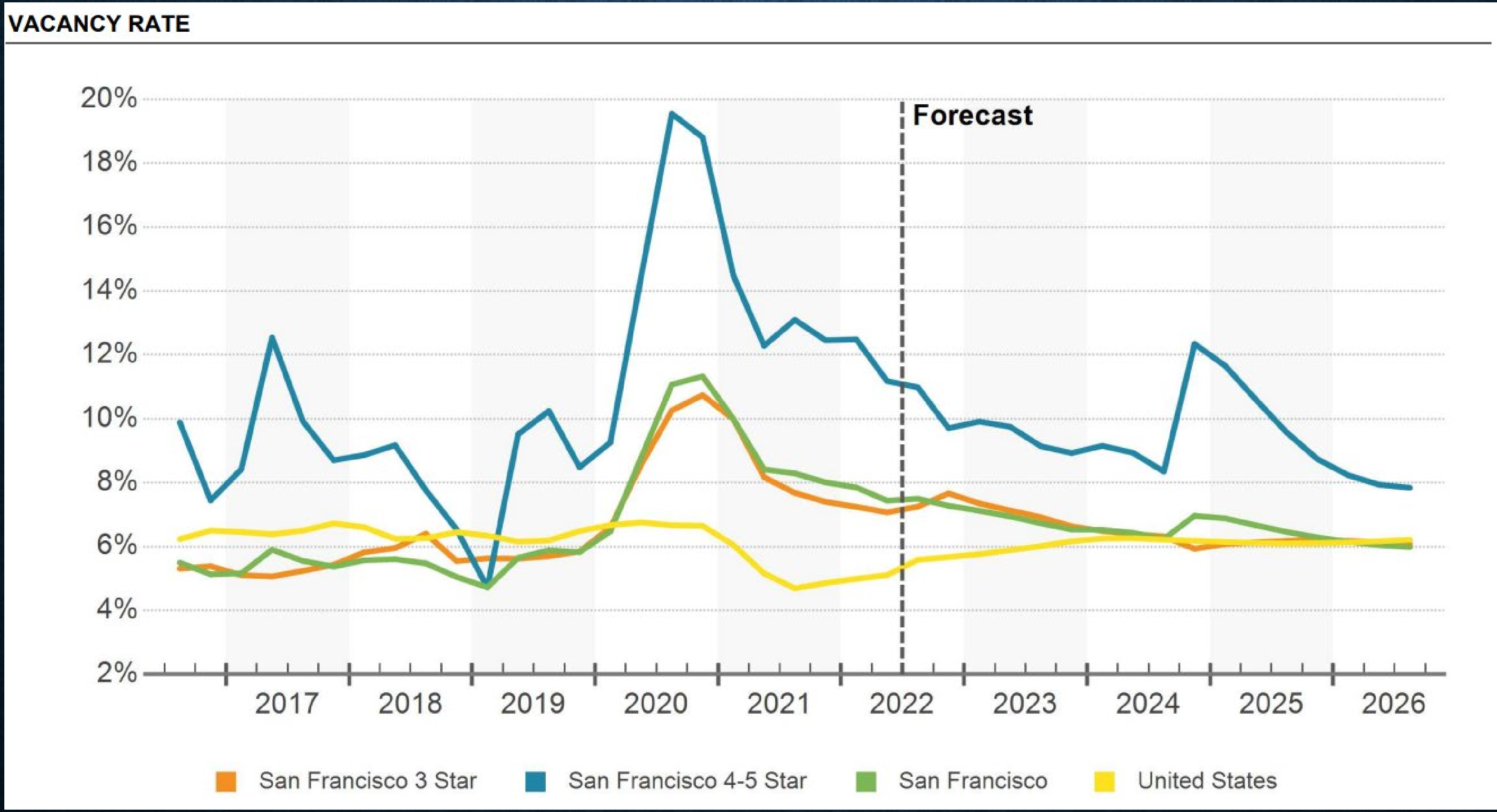
San Francisco

- The trailing 12-month absorption for market-rate apartments sits at 3,600 units, compared to a low point of negative 6,900 units since the onset of the pandemic.
- In 2020, the vacancy rate for high-end units reached nearly 20%. This has improved with the return of high-income renters in 2021, which has reduced Class A vacancy to 10.7%.

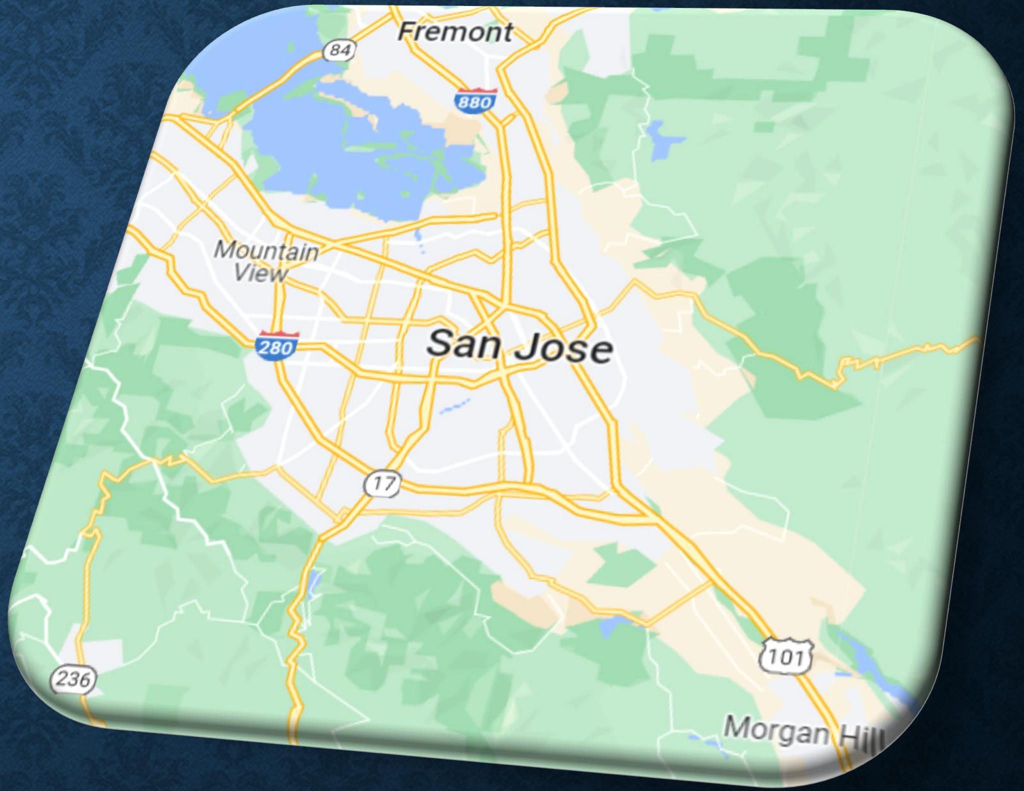


San Francisco



San Jose

- The vacancy rate in San Jose is currently at 6.8% for high-end apartments.
- There are over 9,200 units under construction, which remains elevated above historical averages.
- Upward pressure will be placed on the metro vacancy rate and especially challenging for the higher-end market segment.



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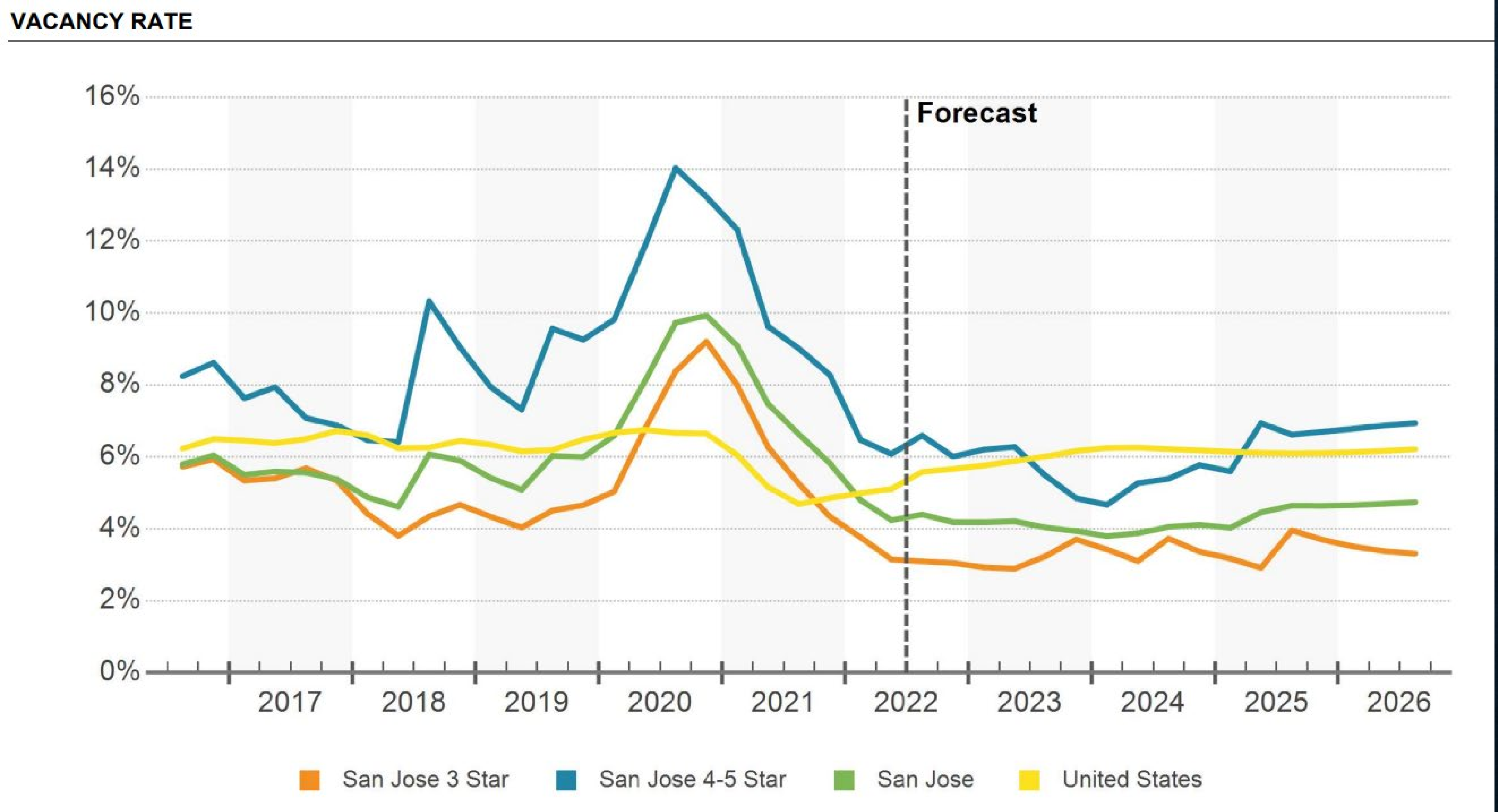
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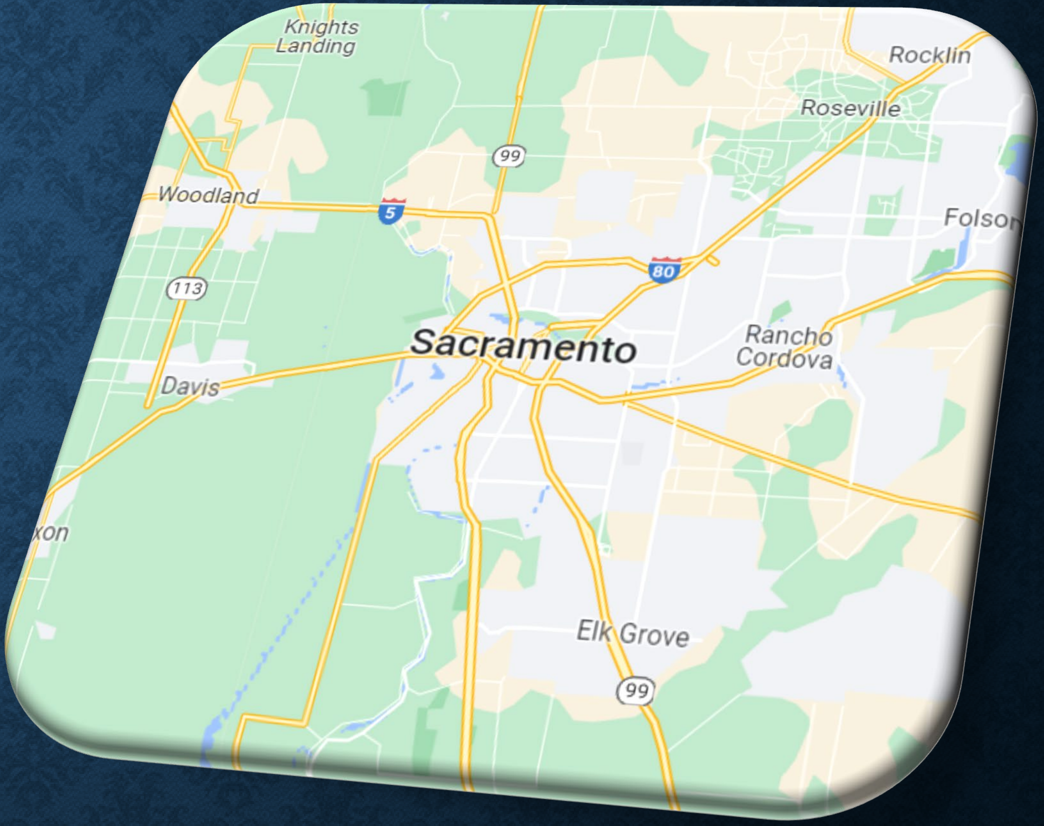
Sacramento

- Vacancy has ticked upward but is still very tight at only 4.7%.
- High-end developments are operating at 9% and expected to climb to 11% as tenants search for more affordable options.
- Sacramento's pipeline includes 4,800 units under construction, many of which will come to market before the end of the year.
- Sacramento apartment rents continue to climb with gains of 3.8% over the past 12 months.



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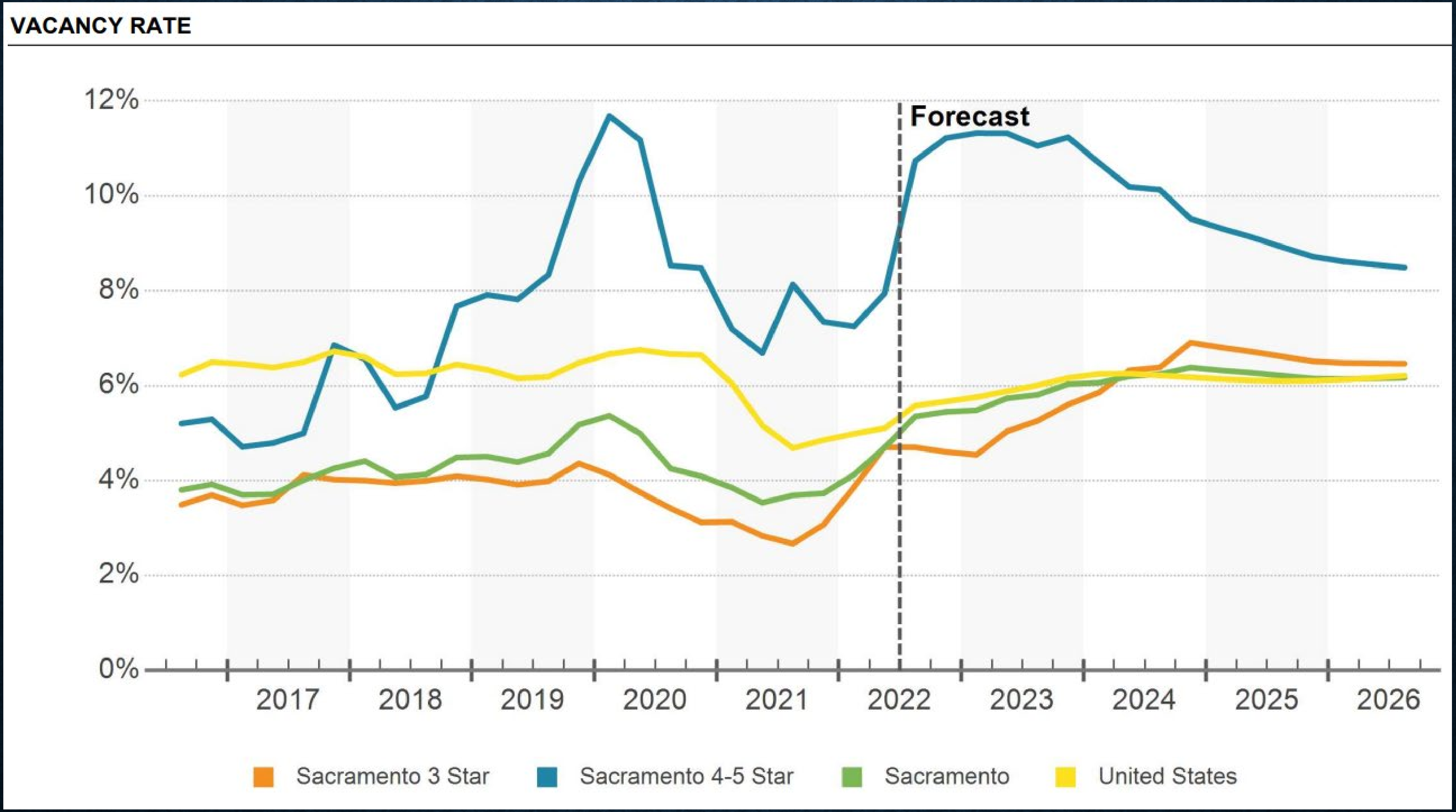

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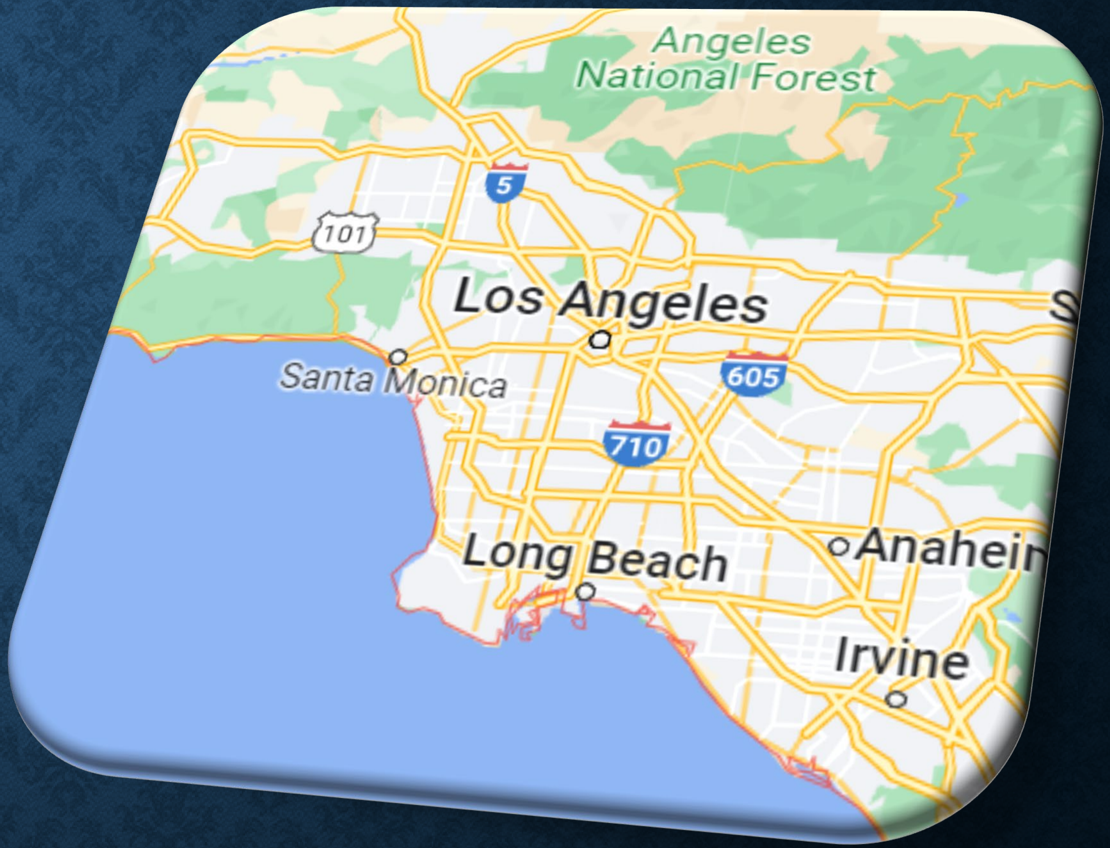
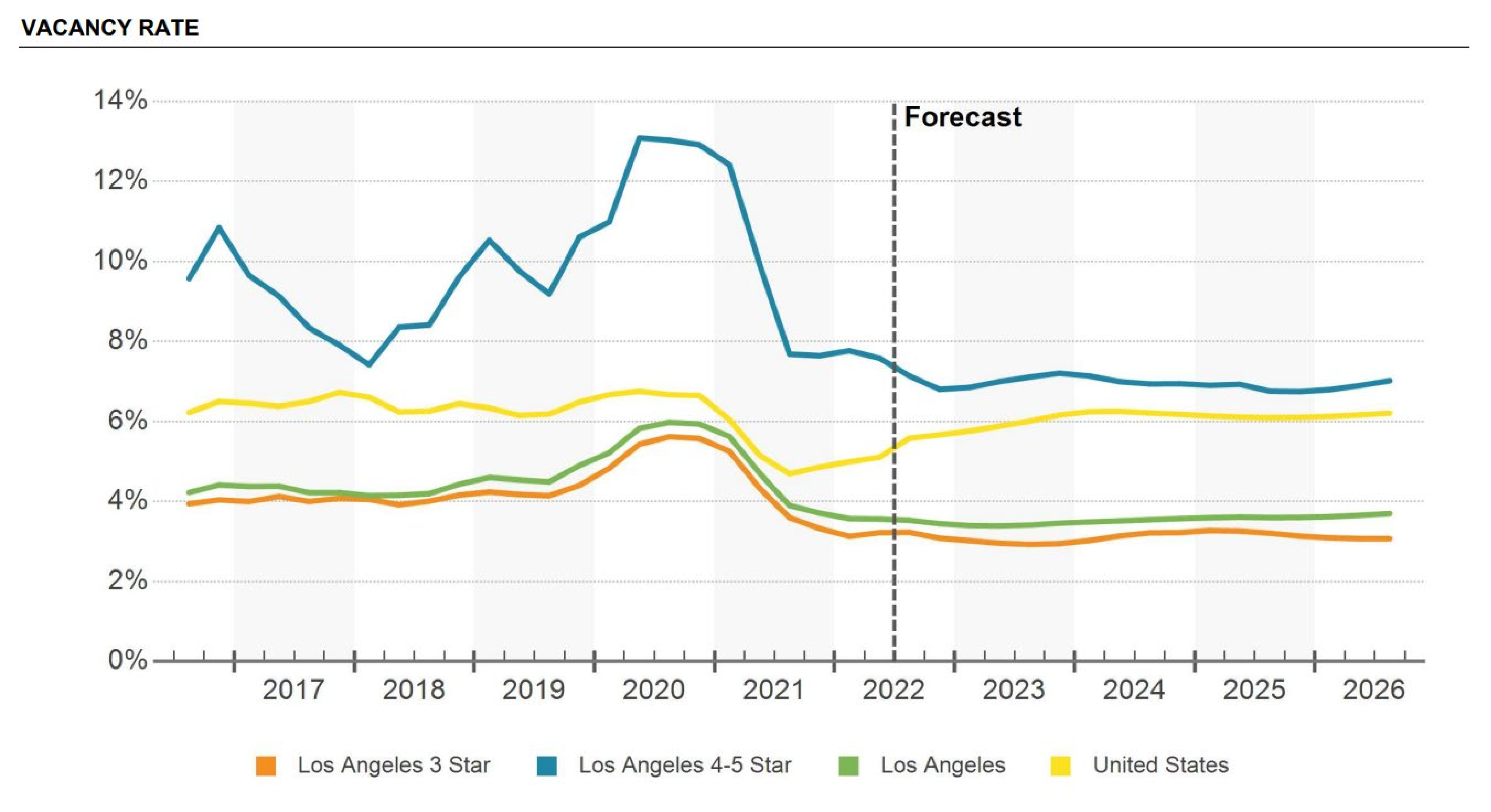
Los Angeles

- Vacancies have been trending down since peaking at the end of 2020 and are currently 3.5% where Class A developments are operating at 7% vacancy.
- Los Angeles has seen elevated construction levels for years and still has a sizable pipeline, 27,000 units, that needs to be absorbed in the coming quarters.
- Current construction levels represent 2.7% over existing inventory.



Los Angeles



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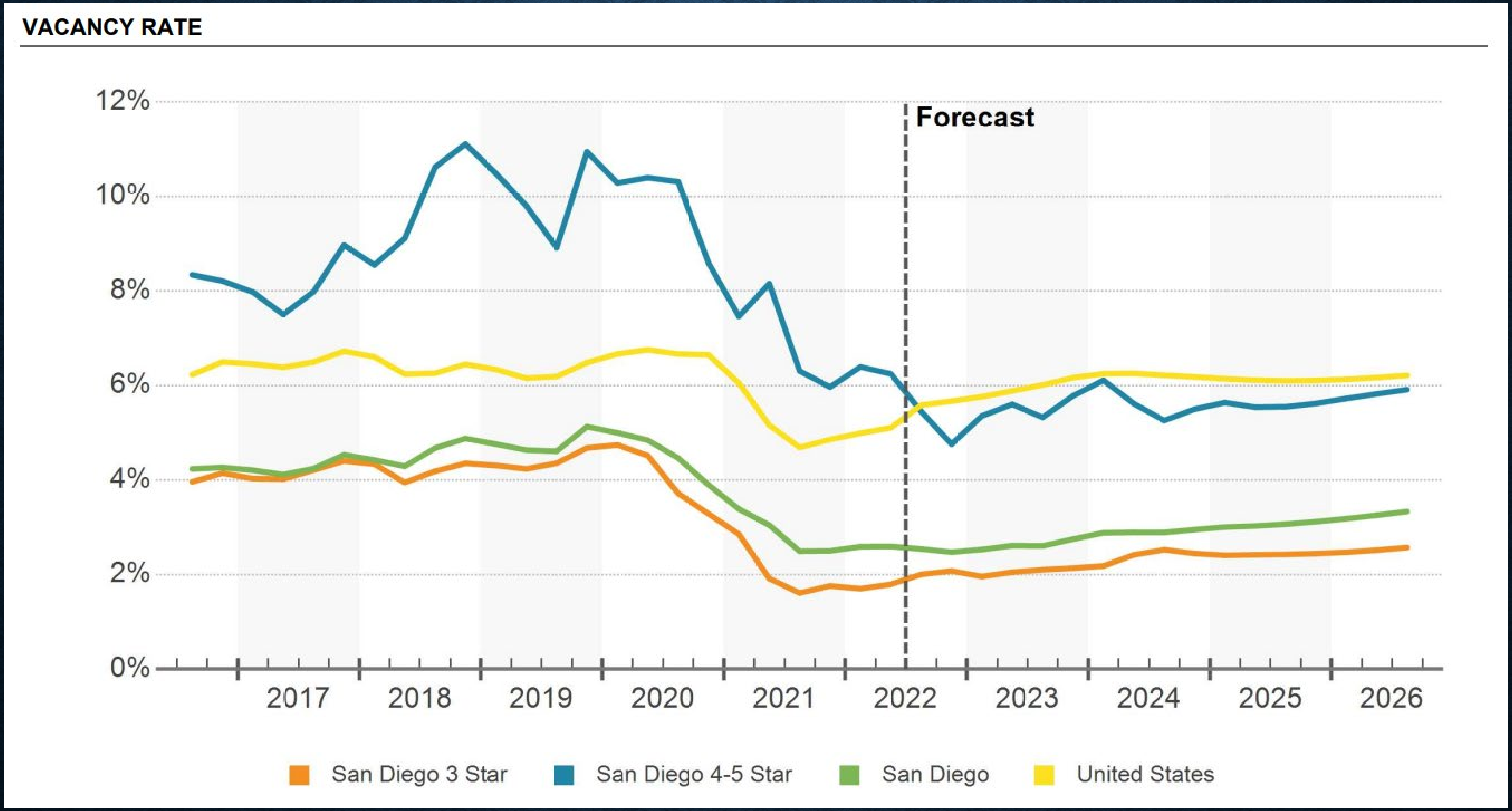
San Diego

- The vacancy rate is trending at 5.9%
- More than half of San Diego submarkets have recorded double-digit rent growth in the past 12 months.
- The current pipeline of 7,600 units will unlikely apply too much upward pressure on the overall vacancy rate given pent up demand.

San Diego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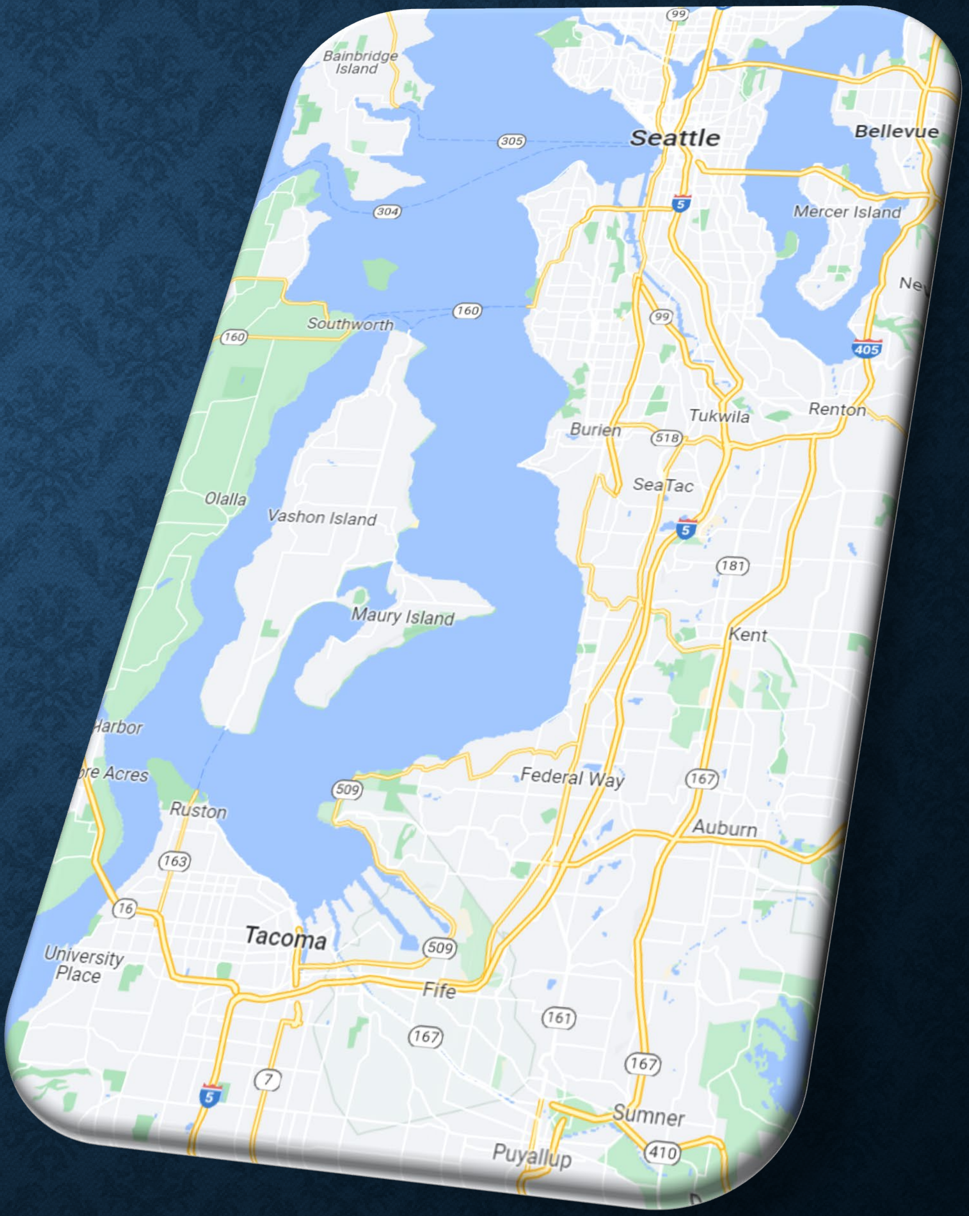
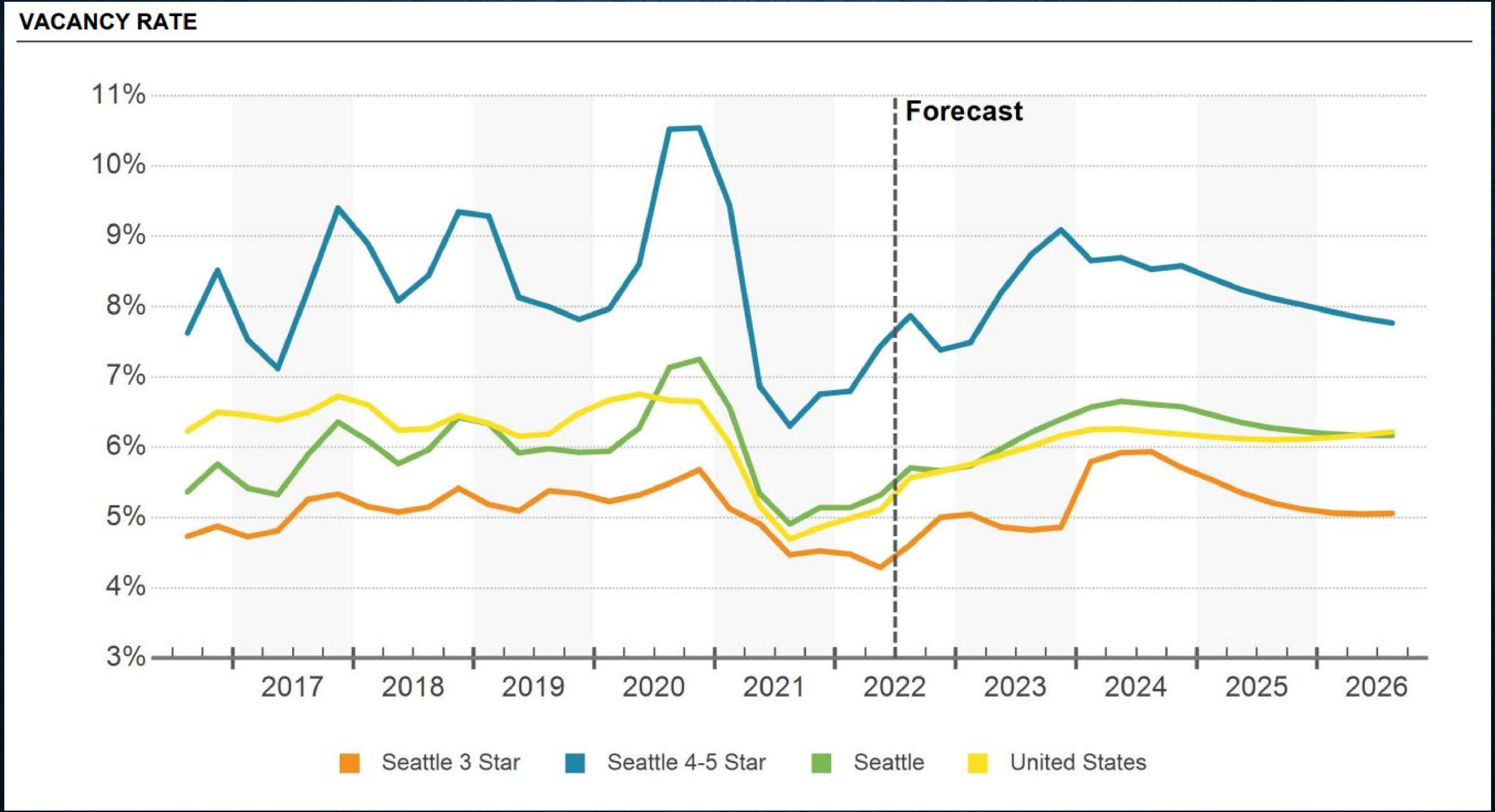
Washington

Seattle/Tacoma: Construction of new apartments remains near an all-time high. Some (Downtown Seattle and Lake Union) submarkets are seeing a wave of new units far exceeding recent demand.

- Substantial new construction activity is expected to slow overall rent growth;
- Vacancy rates are anticipated to climb above 8.5%.



Seattle/Tacoma

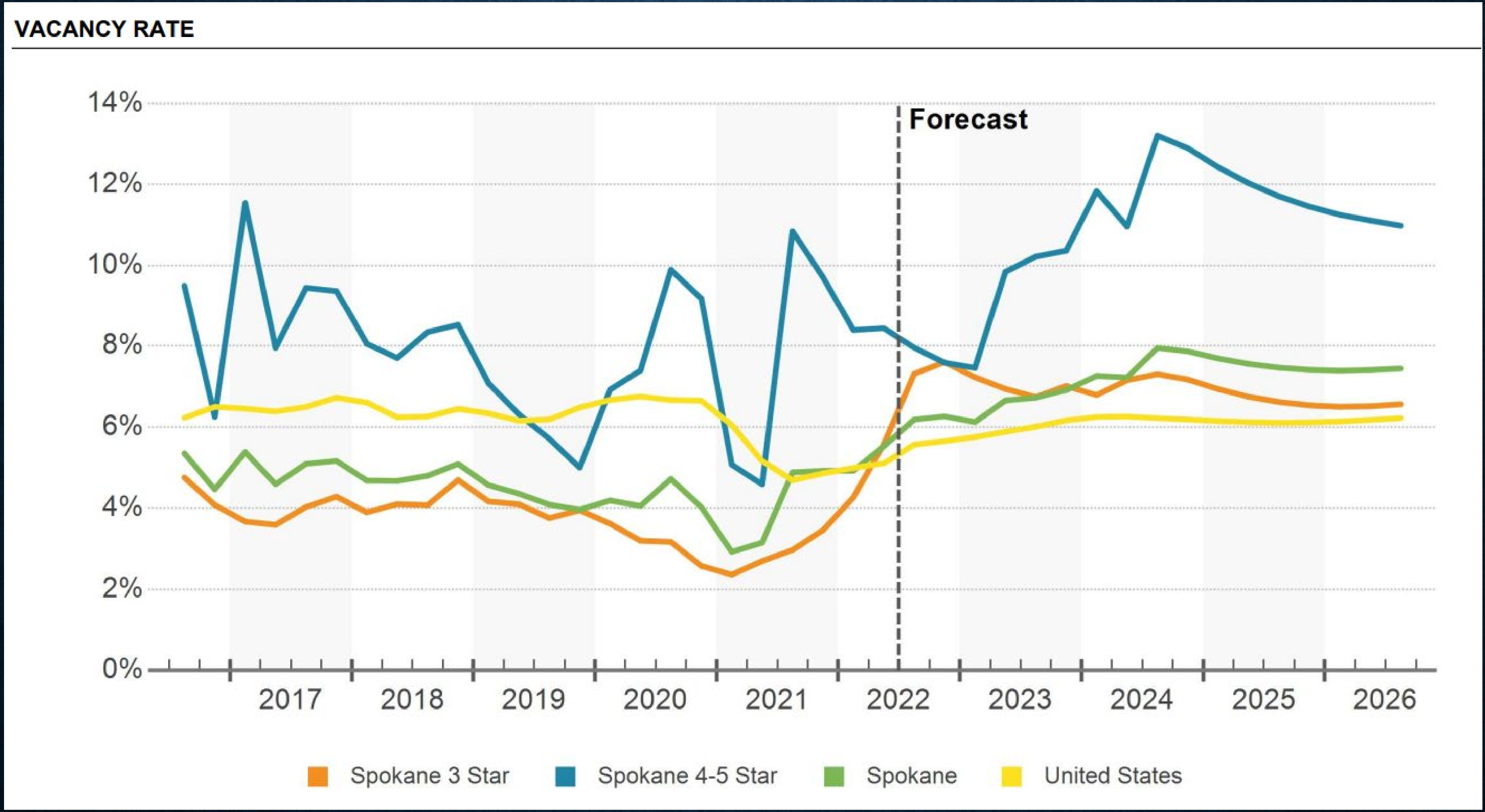


Washington

Spokane:

- The formation of apartment households has slowed in Spokane after a period of record growth.
- The vacancy rate for Class A properties is currently 8.0% and anticipated to rise above 10% due to the amount of new supply entering the market.
- Spokane recorded a 12-month trailing absorption of only 140 units.

Spokane



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