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Multifamily Marketwatch®

HFO Market Update | Summer 2026

Bringing you relevant updates all year

Portland MSA Quick Stats
CoStar July 2026, 5+ Units

93.1%	$1,674	4.65%
Occupancy Rate	Market Rent/Unit	10-Year Treasury

** Arrows indicate change since previous quarter*

In This Issue

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MARKET INTELLIGENCE

FROM OUR SPONSORS

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STEELHEAD HALL

HFO · NO. 1 MULTIFAMILY BROKER IN PORTLAND

$316.5 M
Trailing - 12mo Sales

33
Transactions

#1
In Transaction Volume

THANKS TO OUR 2026 CO-SPONSORS

THE QUIET PART OF THE CYCLE

What You May Have Missed About Portland This Quarter

Most of what reaches investors about Portland comes filtered through national headlines. This quarter, the more important story played out beneath them. Capital started moving, the supply pipeline kept shrinking, and a series of decisions in June and July cleared the way for some of the largest projects in the region's history. Taken together, the second quarter shows a market with more momentum than the narrative suggests. Here is what happened, mostly under the radar.

Real money closed real deals in June. San Diego-based MG Properties purchased two Gresham communities, Mountain High and Parkside, totaling 337 units, for $60.8 million in a transaction that closed on June 26. MG now holds 13 communities across the Portland metro and has been among the market's most active multifamily buyers. The buyer's rationale is the one we keep making: steady population growth, attainable rents, and durable housing demand in well-located suburban submarkets. HFO's Q2 sales also included the LaScala Apartment Homes, a 44-unit mixed-use community in downtown Beaverton, which traded for $12.3 million. Institutional interest continued to build around these deals. **UDR, the Colorado-based apartment REIT, publicly flagged Portland as a market where it is looking to add properties,** a signal notable enough that the firm put it in front of investors this spring, even as its Sun Belt portfolio softened and it sold assets in Seattle, Denver, Baltimore, and Tampa. When buyers of that profile start talking about Portland, others tend to follow.

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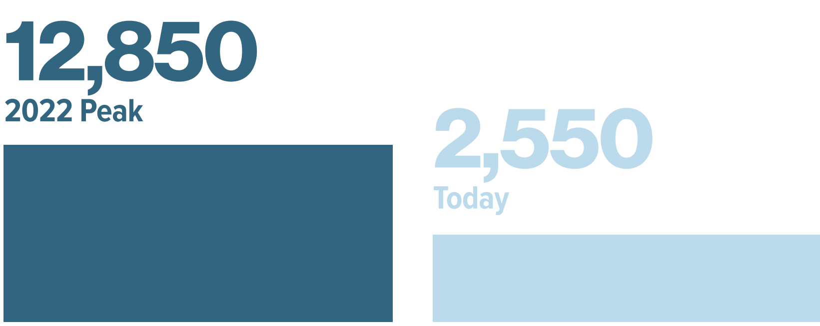
The supply floor is now visible. Units under construction across the Portland metro have fallen to about 2,550, down from roughly 12,850 at the 2022 peak. **Sixteen of the metro's 25 submarkets have no construction underway.** Statewide, across Portland, Salem, Eugene, Bend and Medford, only about 3,940 units have concrete poured against an existing inventory of more than 314,000 units.

But demand has not followed supply downward. **Renters absorbed approximately 4,800 additional units across those five markets over the past year, while only 4,340 new units were delivered.** CoStar forecasts that gap will widen through 2027 as deliveries continue to fall.

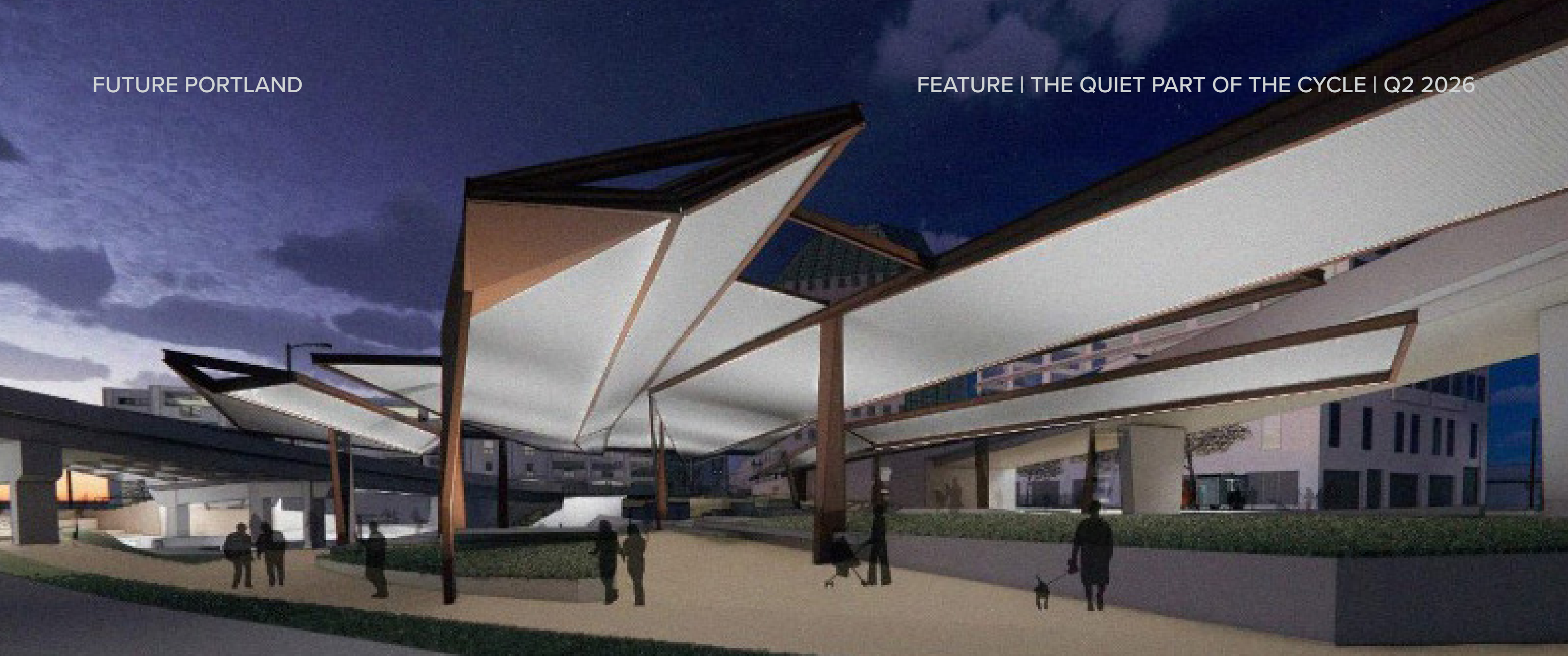
That creates a fundamentally different supply and demand setup than we have seen over the past several years. Portland's urban growth boundary limits outward expansion, the construction pipeline has nearly stopped, and demand continues to absorb units. For existing apartment owners, that supply dynamic is becoming increasingly difficult to ignore.

THE SUPPLY CLIFF

Units under construction · Portland metro · CoStar



A metro bounded by an urban growth boundary, a pipeline that has nearly stopped — and demand that has not.



Steel Bridge Old Town Skate Park opens fall 2029.

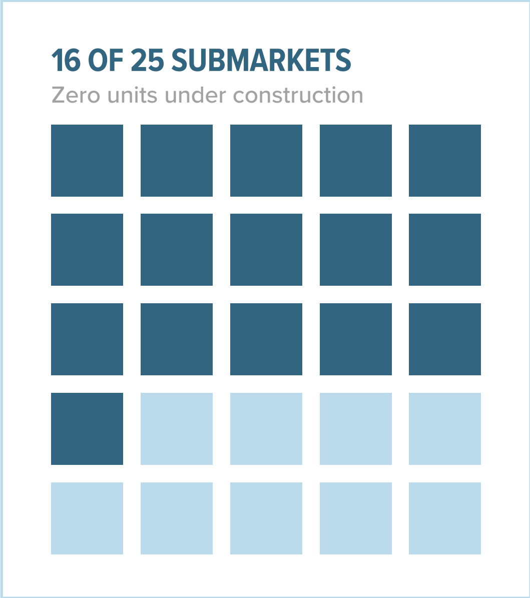
The recovery is first to land downtown

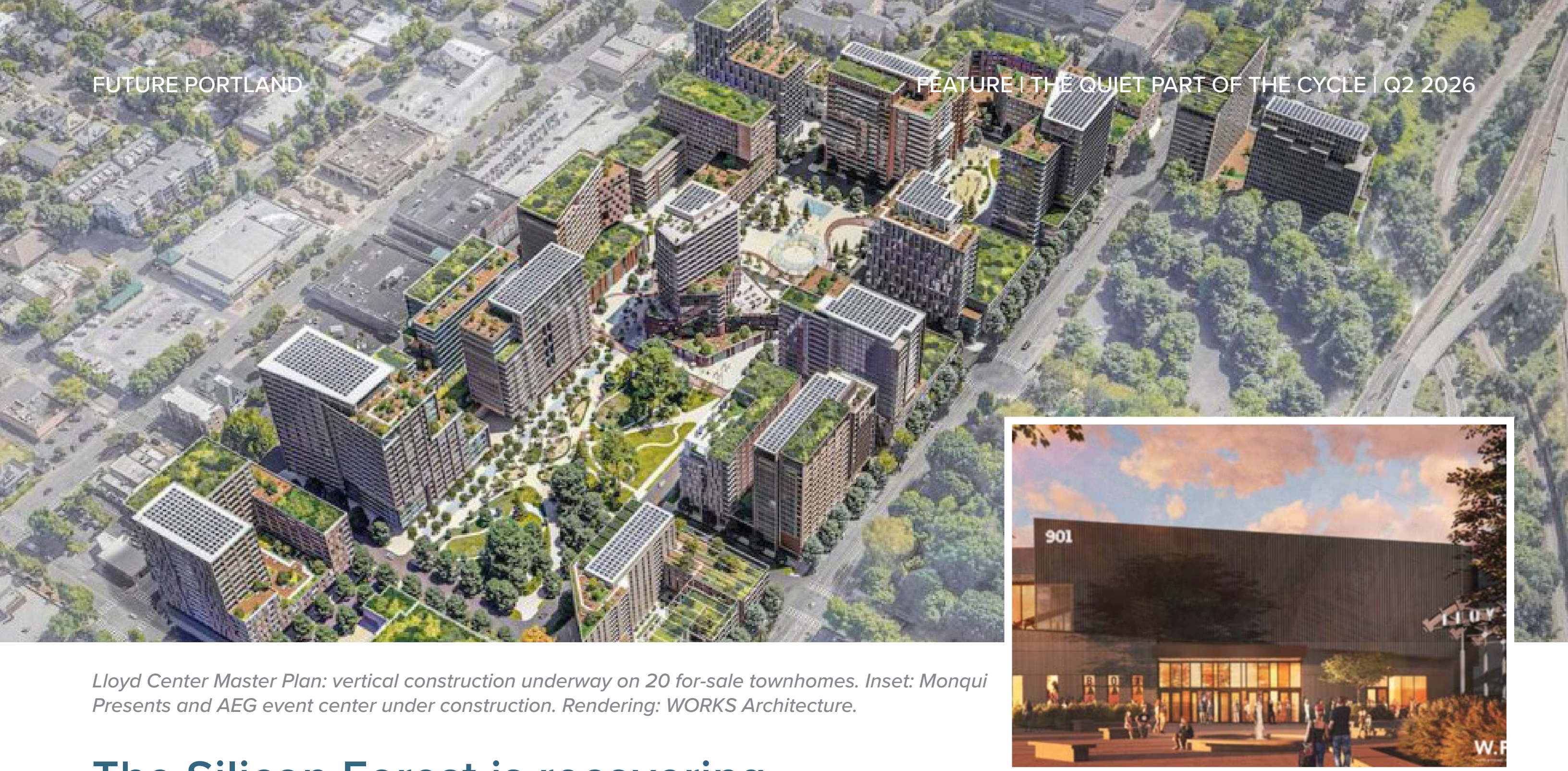
Downtown Portland vacancies have fallen from nearly 16% in 2020 to under 8% today, with no new construction, according to CoStar data. Northwest and North Portland are leading the core's recovery, each down more than 300 basis points, while Downtown and Southeast are tightening behind them and the eastern submarkets are flat. The story is block by block, but the central city's direction is no longer in question.

Sixteen of the metro's 25 submarkets have no construction underway. Zilch.

Private capital is betting on downtown's next chapter. In early June, Portland State University entered exclusive negotiations with Colas Development Group and HMS Developments, the investment firm led by Ndamukong Suh, to **build a 150-key hotel and conference center at the south end of downtown.** The agreement represents more than $70 million in private investment and anchors PSU's planned Performing Arts + Culture Center, which would **pair the hotel with a city-owned, 3,000-seat Broadway-capable theater, targeting a 2030 opening.** The full project still needs city council approval, but a locally led team committing that level of capital to south downtown is exactly the signal the core has been waiting for. The **University District** and **Goose Hollow** stand to benefit if the project advances.

Lloyd Center cleared its final hurdle. On July 8, the Portland City Council voted 10-0 to deny two appeals of the Lloyd Center Central City Master Plan, **keeping one of the largest urban infill opportunities in Pacific Northwest history on track.** The mall closes to the public on Aug. 8, clearing 20 city blocks and 1.2 million square feet for a master-planned neighborhood featuring thousands of new housing units, six acres of open space, and a reconnected street grid. **A 4,000-seat live-music venue on the site is already under construction,** and the council will take its final procedural vote on July 29. We expect short-term construction noise and a long-term driver for apartment owners in the **Lloyd District** and **Inner Northeast**.

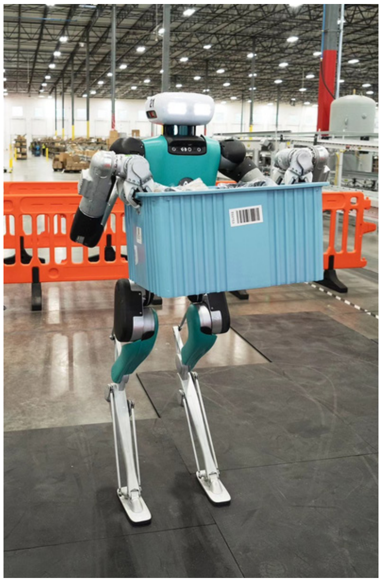




Lloyd Center Master Plan: vertical construction underway on 20 for-sale townhomes. Inset: Monqui Presents and AEG event center under construction. Rendering: WORKS Architecture.

The Silicon Forest is recovering

Intel shares have roughly tripled this year, touching an all-time high near $141 in late June before a sector-wide semiconductor pullback in early July brought the stock back to around $100 following the company's July 23 earnings report. The underlying signals improved throughout the quarter. Intel's 18A process is in high-volume production. Supply chain reports indicate the company is shifting most of its next-generation Nova Lake chip production in-house as yields improve, and prospective foundry customers are expected to make firm supplier decisions between late 2026 and early 2027. **Hillsboro sits at the center of it all. The D1X campus is Intel's premier R&D hub, home to the world's first High-NA EUV lithography systems** and the development site for the 14A process that follows. **Elon Musk toured the Hillsboro fab in May ahead of a planned Intel partnership with Tesla and SpaceX.** Despite report-related stock bumps, **Intel** and **Google** remain silent on a news report of a potential major unit processing contract ahead. Hiring lags the stock cycle, as it usually does, and analysts expect anchor stability and continued construction spending before any employment rebound. **For Westside owners, anchor stability is the point, and Hillsboro, Orenco, Tanasbourne, Cedar Mill and Beaverton** benefit first.



The story is broadening beyond Intel

Hillsboro-based **Lattice Semiconductor,** now Oregon's second most valuable public company behind **Nike**, announced in May it will acquire **Georgia firmware maker AMI for $1.65 billion**, with $1 billion in cash and roughly $650 million in stock. The deal is expected to close in the third quarter and support Lattice's path to a $1 billion annual revenue run rate by year-end. Elsewhere on the Westside, **Lam Research opened a $65 million Tualatin office last fall and is preparing a new research facility on the same campus, Microchip** says its Gresham fab has moved into recovery and is **adding Oregon employees**, and **Analog Devices put $1 billion into its Beaverton-area expansion**. Tech employment has turned the corner too. CompTIA projects Portland metro net tech employment will grow about 0.8% this year, roughly 900 jobs, after shedding 2,800 positions last year. Modest, but a turn from the bottom, and the metro's median tech wage of about $132,000 supports Class A absorption.

James Beard Public Market downtown opens 2027. Rendering: BCV Architecture + Interiors, Colab Architecture.

Salem produced a physical AI flag-bearer. Agility Robotics, the homegrown maker of the Digit warehouse robot, announced in late June that it will go public through a merger with **Churchill Capital Corp XI at a $2.5 billion** valuation, trading under the ticker AGLT. The deal is expected to raise more than $620 million, including a $200 million private placement led by **Foxconn**, with **Amazon, Nvidia** and **SoftBank** among the strategic investors. The company reports more than $300 million in contracts for its next-generation robot and **builds them at RoboFab, a 70,000-square-foot Salem factory with capacity for 10,000 units a year**, sourcing about 75% of parts in the U.S. Agility filed its merger paperwork in early July and is on track to become the first publicly traded U.S. company devoted entirely to humanoid robots. An Oregon startup reaching the public markets with **customers like Amazon and Toyota** is the kind of signal the state's tech sector has been waiting for, and **housing demand is flowing to Salem**, where supply is thin.

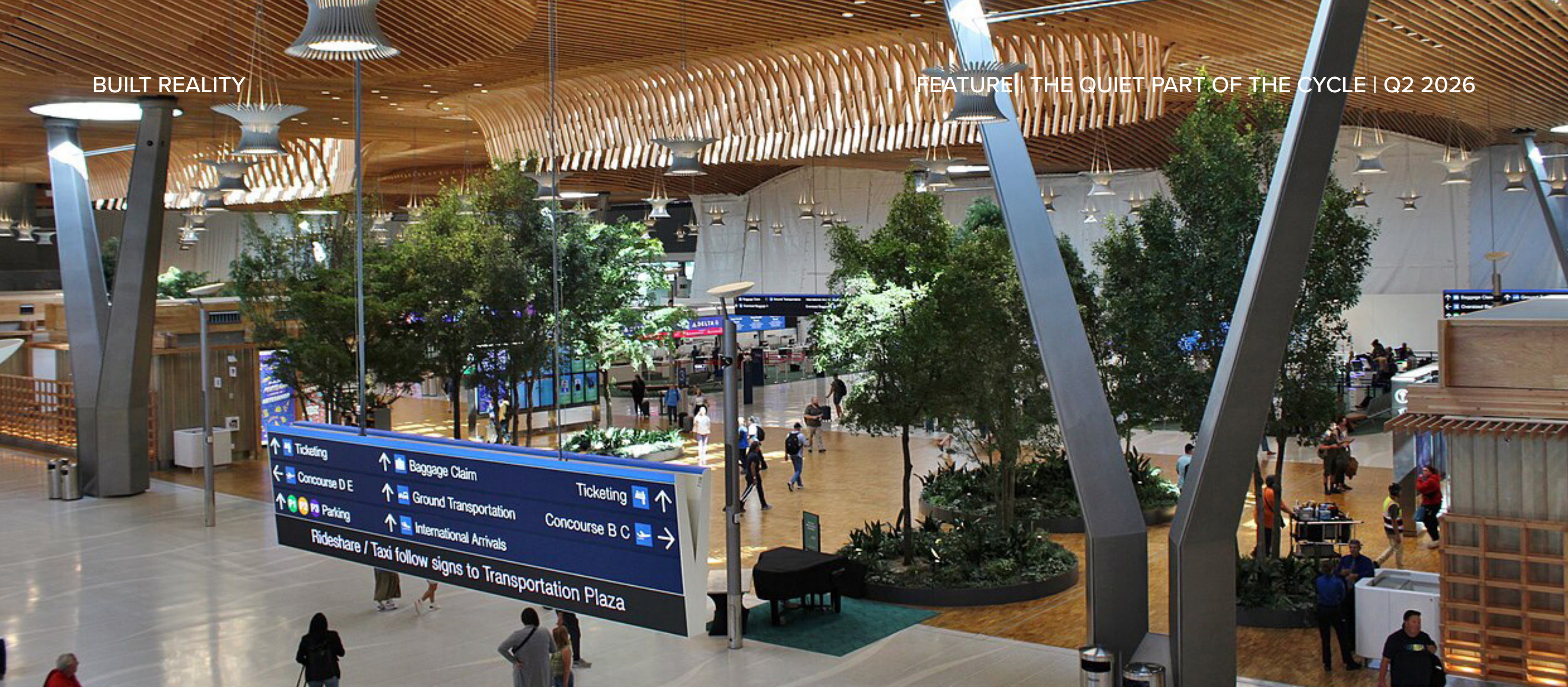
And it was not the only Oregon company headed for the Nasdaq. Tualatin-based **ZincFive**, which makes nickel-zinc battery systems that keep data centers running when the grid goes dark, announced on June 11 that it will go public through a SPAC merger with SparkLabs-backed **Spark I Acquisition Corp** at a $600 million pre-money valuation, trading under the ticker ZFIV. Revenue doubled last year to about $66.9 million. **The company has an $81 million order backlog and has shipped or contracted nearly 2 gigawatts of battery systems.** Proceeds of roughly $125 million will scale production, and the company says it is evaluating locations for a third plant in the U.S. **Two Oregon-grown companies riding the AI infrastructure wave to public listings in the same month says something about the depth of the state's technology bench.**

Lloyd Center redevelopment represents one of the largest urban infill opportunities in Pacific Northwest history.

DEMAND OUTRUNS SUPPLY

Portland Metro · past 12 months · CoStar

The gap widens through 2027 as deliveries keep falling.



PDX completed its 11-year, $2.15 billion redevelopment, the largest public infrastructure project in Oregon history. Photo: SounderBruce via Wikimedia Commons, CC BY-SA 4.0.

The big projects keep piling up

The **I-5 Bridge replacement** completed its federal environmental review on July 1, when federal agencies issued an Amended Record of Decision. The program plans to issue a request for qualifications within weeks, select a contractor in 2027, and **begin construction in 2028, with $5.7 billion** in committed local, state, and federal funding for the first phase. **PDX wrapped up its 11-year, $2.15 billion redevelopment, the largest public infrastructure project in Oregon history**, and **Alaska Airlines broke ground on June 9 on a $150 million maintenance hangar at the airport.** The 125,000-square-foot facility, set to open in 2028, will handle up to three narrowbody or two widebody aircraft at once and create more than 100 permanent jobs, including 60 maintenance positions averaging $120,000 a year, reinforcing PDX's role as a hub serving nearly 20 million annual passengers. In Eastern Oregon, **Amazon** took full control of the 1,200-megawatt Sunstone solar project for $83 million. With civic construction, a nationally celebrated airport, and short drives to the coast, the Gorge, and Mount Hood, the Oregon lifestyle that employers use to recruit keeps getting stronger.

Policy took its biggest swing in years. Governor Kotek's Prosperity Council delivered its recommendations on June 25, and the report reads like a pro-growth wish list: raise the Corporate Activity Tax threshold from $1 million to $2 million, update

WHAT OPENS WHEN · 2026 - 2030

2026

- PDX redevelopment complete
- OHSU Expansion complete
- Hops Ballpark opened

2027

- Steelhead Music Venue
- James Beard Public Market

2028

- I-5 Bridge construction begins

2029

- Kaiser Sunnyside opens
- Old Town Skate Park
- Three new Portland high schools open

2030

- PSU Performing Arts Theatre Complete

the estate tax with an emphasis on family-owned businesses, modernize R&D tax credits, set firm permitting deadlines, roll back regulatory burdens by 20%, and establish a $250 million site readiness and infrastructure fund each biennium. Kotek responded positively to most of the recommendations, provided tax changes can be made revenue-neutral, and signaled support for replacing Oregon's Climate Protection Program with a cap-and-invest system aligned with Washington and California. Whether the state follows through remains the open question. Organized labor has already signaled opposition to the tax cuts, but the direction of the conversation has shifted. Closer to home, **Portland published a Design Review Reform Report in May recommending a two-year suspension of required design review**, with council action expected late this year. Developers are candid that the change alone will not restart construction. The real barriers remain capital costs and permitting timelines. But paired with the city's three-year SDC exemption already in effect, **the signal to institutions is that Portland is working to be easier to build in.**

Everett Street Apartments | **Portland, OR**
Units: 19 | Year Built: 1910

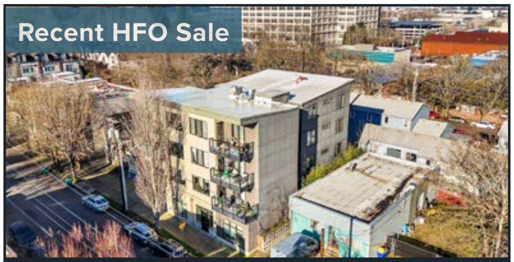
The demand math, for context. Growth keeps landing at the metro's edges, and capital is following. Vancouver has added nearly 8,500 residents since 2020 and now approaches 200,000, while Ridgefield has grown from about 10,000 to 16,200, and Clark County netted 1,600 tax filers with $282 million in combined income. Washington County led the state, with **Beaverton crossing 100,000 residents for the first time** and **Hillsboro reaching about 112,000.** The metro population held near 2.27 million, up just under 1%. Because Oregon is experiencing natural population decline, every bit of growth rides on in-migration. The **employment picture is down some, with total statewide payrolls down 0.4% from June, 2025**, though statewide payrolls remain about half a percent below a year ago. We read the spring numbers as an early signal rather than a trend reversal. A July 6th *Portland Business Journal* survey reported that **employer sentiment is firming: 77.7% of Portland-area employers say they are optimistic about the rest of 2026**, and Oregon's *Common Sense Institute* reported that **Pacific region inflation continues to run at 3.5% vs. 4.2% nationally.** Slow, positive absorption against a capped and barely-building supply base is the entire case for holding here.

Earlier in the quarter, the case was already building. OHSU opened its $650 million, 14-story Vista Pavilion on Marquam Hill on April 7, the first phase

of an expansion that will eventually increase inpatient capacity by about a third. **Hundreds of clinical hires are underway**, and **South Waterfront, Lair Hill, Goose Hollow, and Hillsdale** are the natural beneficiaries. The same day, the **Hillsboro Hops opened their $153 million ballpark**, the first major entertainment facility built in the metro in 30 years, with $112 million in private capital.

Portland-based Panthalassa closed a $140 million round led by Peter Thiel, at a valuation approaching $1 billion, to build wave-powered offshore computing platforms. Legacy opened its rebuilt **$30 million Oregon Burn Center**, the only one between Sacramento and Seattle, near its Emanuel campus in inner North Portland. **Nike** re-designated its **Beaverton** headquarters as one of two global technology hubs, a structural commitment to the Sunset Corridor, while **Adidas** continues to expand at its **North Portland** campus. A sold-out civic conference cataloged a dozen capital projects reshaping the Willamette River corridor from Oregon City to St. Johns, including massive developments at **tumwata village at Willamette Falls,** the **OMSI District,** and its **Center for Tribal Nations.** Along I-5 **between Salem and Albany, more than half a billion dollars in industrial investment around tiny Millersburg is projected to generate 400 to 575 jobs**, a concentrated demand shock that flows directly to apartment markets in **Albany, Salem,** and **Lebanon.**

Recent HFO Sale



The Aspen Apartments | **Portland, OR**

Units: 15 | **Year Built:** 2015

Bottom line: liquidity is returning before pricing catches up. That is the quiet part of the cycle, and it is exactly when the buyers above chose to move. Supply has nearly stopped, demand has not, and the institutional and private capital that waited out the correction are doing the math on a metro that cannot overbuild. The headlines on TV have not caught up to what is happening on the ground here.

This is all worth discussing with your favorite HFO broker.
Call us at (503) 241-5541.

PORTLAND MULTIFAMILY MARKET DATA

Mid-Year 2026: Portland Multifamily Finds Its Footing

The first half of 2026 did not deliver a boom. It delivered something more useful: evidence that the correction is behind us and the recovery is taking shape.

Sales activity: a slower pace, and a firmer floor

Portland recorded 91 multifamily sales totaling $478.6 million through the first half of the year, according to CoStar. That pace trails 2025, when full-year volume reached $1.3 billion (with 650M as 50%). But the composition of the activity tells a more encouraging story than the headline number.

Values held flat in 2025 after falling 4 percent in 2022 and 11 percent in 2023. CoStar's pricing index now forecasts a modest gain of 0.4 percent for 2026 as cap rates ease from recent highs. In plain terms, the market has stopped repricing downward. Buyers and sellers are selectively finding each other again.

The buyer mix is shifting in a way worth watching. Institutions and REITs, which pulled back sharply in 2023 and early 2024, were net buyers in 2025 and remain net buyers so far this year. Private owners, by contrast, have posted two straight years of net selling. Private capital still accounts for more than half of total volume, but its share is narrowing each quarter. When institutional money re-enters a market before the headlines turn positive, it is usually because the underwriting already works.

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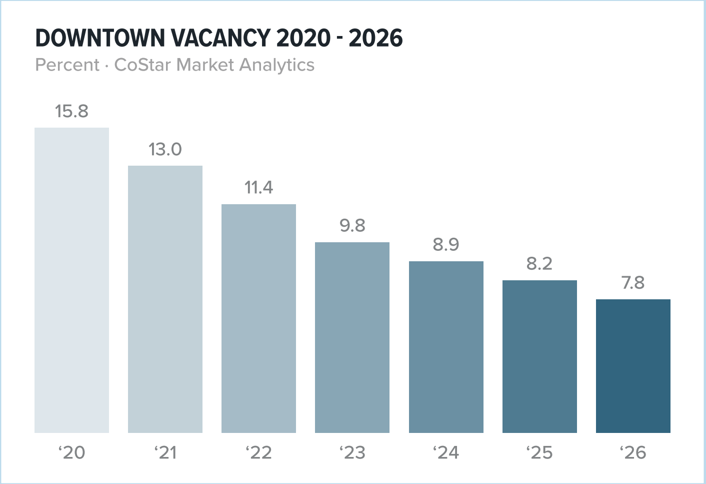


Pricing remains split by asset quality. Well-located 4 and 5 Star properties near the urban core traded at cap rates in the low to mid 5 percent range in the first half, with the largest deals topping $300,000 per unit. Boston-based Berkshire's $88 million purchase of the 265-unit Peloton Apartments in Northeast Portland, at $332,000 per unit and a reported 5.17 percent cap rate, is the clearest example. Outside the core, 3 Star assets generally trade at cap rates of 6 percent or higher and below $300,000 per unit.

Why it matters: For owners weighing a sale, the bid is back for quality suburban and workforce assets. For buyers, the window of motivated pricing is narrowing as more capital returns.

Sources: CoStar Market Analytics — Portland Multifamily Market Report, July 2026; HFO Research

Fundamentals: supply is doing the heavy lifting

Metro vacancies stand at 7.1 percent, down from the 2024 peak of 7.9 percent. Renters absorbed roughly 3,500 units over the past 12 months against 3,425 units delivered. Demand is now running slightly ahead of supply for the first time in this cycle.

Benson Apartments **Portland, OR**

Units: 24 **Year Built:** 1911

The construction pipeline explains why the trend should continue. Just 2,552 units are under construction across the metro, about 1.1 percent of inventory and a steep drop from the three-year high of 12,000 units in early 2023. CoStar forecasts roughly 2,300 completions in 2026, about half of 2025's total and the lightest delivery year in a decade. Fewer than 500 units broke ground in four of the past five quarters.

Rents have not turned yet. Asking rents are down 0.4 percent year over year, with the pressure concentrated in the 4 and 5 Star urban product still absorbing the last of the build wave. Concessions of two to three months free remain common downtown. Workforce housing tells a different story. Rents for 1- and 2-Star properties posted a modest gain of 0.3 percent, and exurban submarkets in Clark County, Yamhill County, and outlying Washington County are outperforming metro averages.

Linden Lane Apartments **Milwaukie, OR**

Units: 15 **Year Built:** 1969

Vancouver remains the standout. Vacancy there has fallen about 250 basis points since 2024 even though the submarket holds roughly half of the metro's remaining pipeline. Tax advantages and employer growth keep pulling renters across the river.

7.0% METRO VACANCY — DOWN FROM 7.9% PEAK	**2,552** UNITS UNDER CONSTRUCTION — 1.1% OF STOCK	**~2,377** 2026 COMPLETIONS — LIGHTEST IN A DECADE

Sources: CoStar Market Analytics — Portland Multifamily Market Report, July 2026; HFO Research

Plumtree | **Corvallis, OR**

Units: 17 | **Year Built:** 1975

Why it matters: With deliveries falling faster than demand, CoStar projects vacancy at 6.5 percent by late 2027 and rent growth turning positive sometime next year. The main risk is the labor market. Metro employment fell 1.1 percent over the past year, and a further slowdown in household formation would delay the recovery.

HFO second-quarter transaction highlights

HFO closed thirteen sales in the second quarter. Here are some representative sales:

Parkside and Mountain High Apartments, Gresham

$60.8M combined · 337 units

MG Properties acquired the two neighboring communities in late June.

LaScala Apartment Homes, Downtown Beaverton

$12.3M · 44 units

A mixed-use community traded family office to family office via a 1031 exchange.

The Gresham Park, Gresham

$7.65M · 51 units

Two Oregon housing providers reinvesting locally, with clear repositioning upside.

Willow Lake, Keizer

$7.65M · 57 units

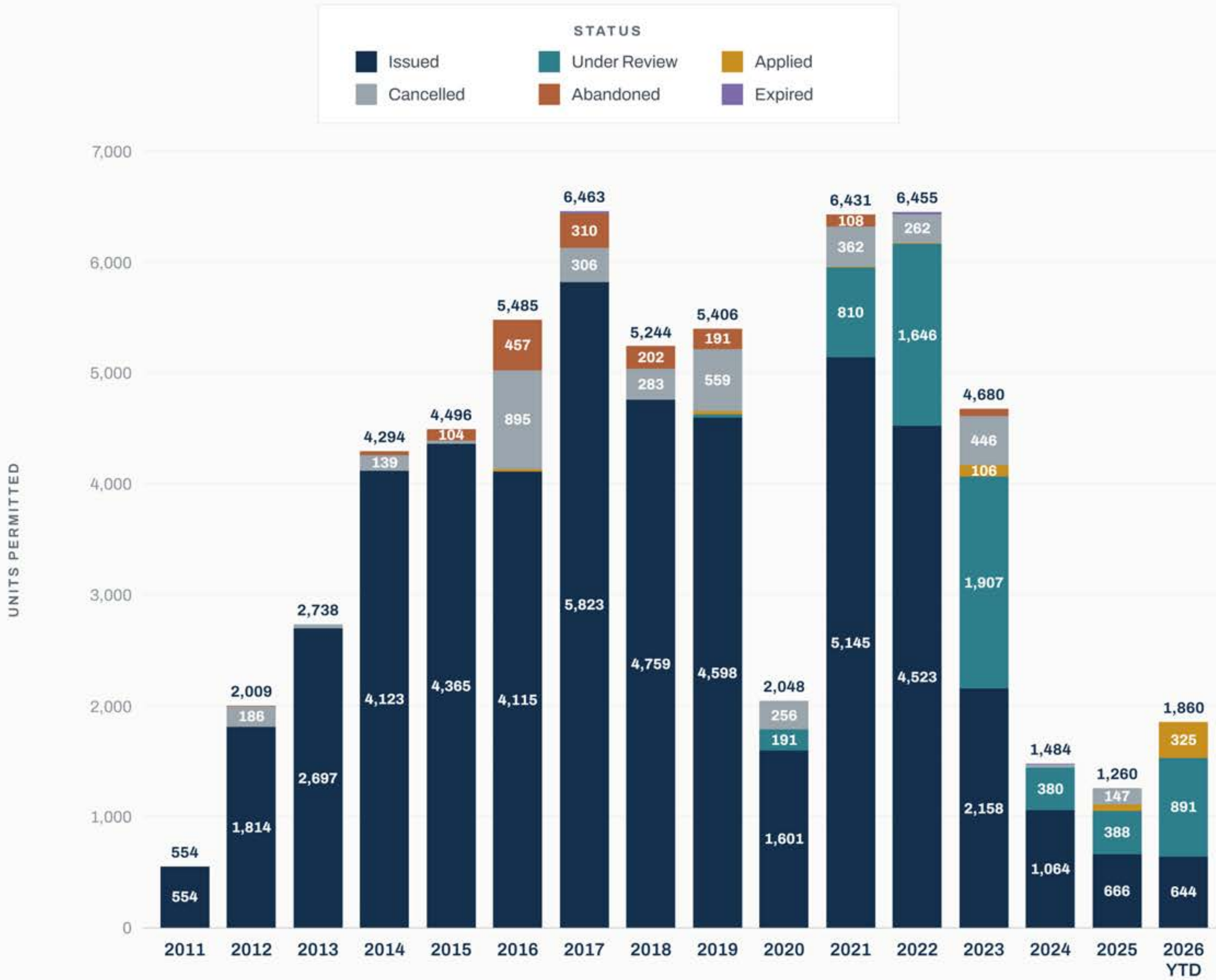
Two Oregon housing providers reinvesting locally, with clear repositioning upside.

> *"Oregon housing providers are actively buying, selling, and reinvesting in Oregon communities."*
>
> *— GREG FRICK, CO-FOUNDER, HFO*

HFO Multifamily Marketwatch®

City of Portland Multifamily Units Permitted, Projects of 5+ Units

January 2011 – July 9, 2026 YTD



Status	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	26 YTD	Total
Issued	554	1,814	2,697	4,123	4,365	4,115	5,823	4,759	4,598	1,601	5,145	4,523	2,158	1,064	666	644	**48,649**
Under Review	0	0	0	0	0	0	0	0	30	191	810	1,646	1,907	380	388	891	**6,243**
Applied	0	0	0	0	0	18	0	0	28	0	6	5	106	0	59	325	**547**
Cancelled	0	186	41	139	27	895	306	283	559	256	362	262	446	28	147	0	**3,937**
Abandoned	0	9	0	32	104	457	310	202	191	0	108	0	63	0	0	0	**1,476**
Expired	0	0	0	0	0	0	24	0	0	0	0	19	0	12	0	0	**55**
Total	**554**	**2,009**	**2,738**	**4,294**	**4,496**	**5,485**	**6,463**	**5,244**	**5,406**	**2,048**	**6,431**	**6,455**	**4,680**	**1,484**	**1,260**	**1,860**	**60,907**

- **"Final"** status indicates that construction is complete and a certificate of occupancy was issued.
- **"Approved to Issue"** status means the City's development review teams have completed their work and the permit is ready to be issued by Portland Permitting and Development once final permit fees are paid by the applicant.
- **"Issued"** or **"Under Inspection"** status indicates that construction is authorized to begin or is underway.
- A permit in **"Application"** status means that Portland Permitting and Development has not received enough information or materials from the applicant to allow the permit to advance to first review ("Under review").

*City of Portland multifamily permits have picked up from 2025, but remain at very low levels.

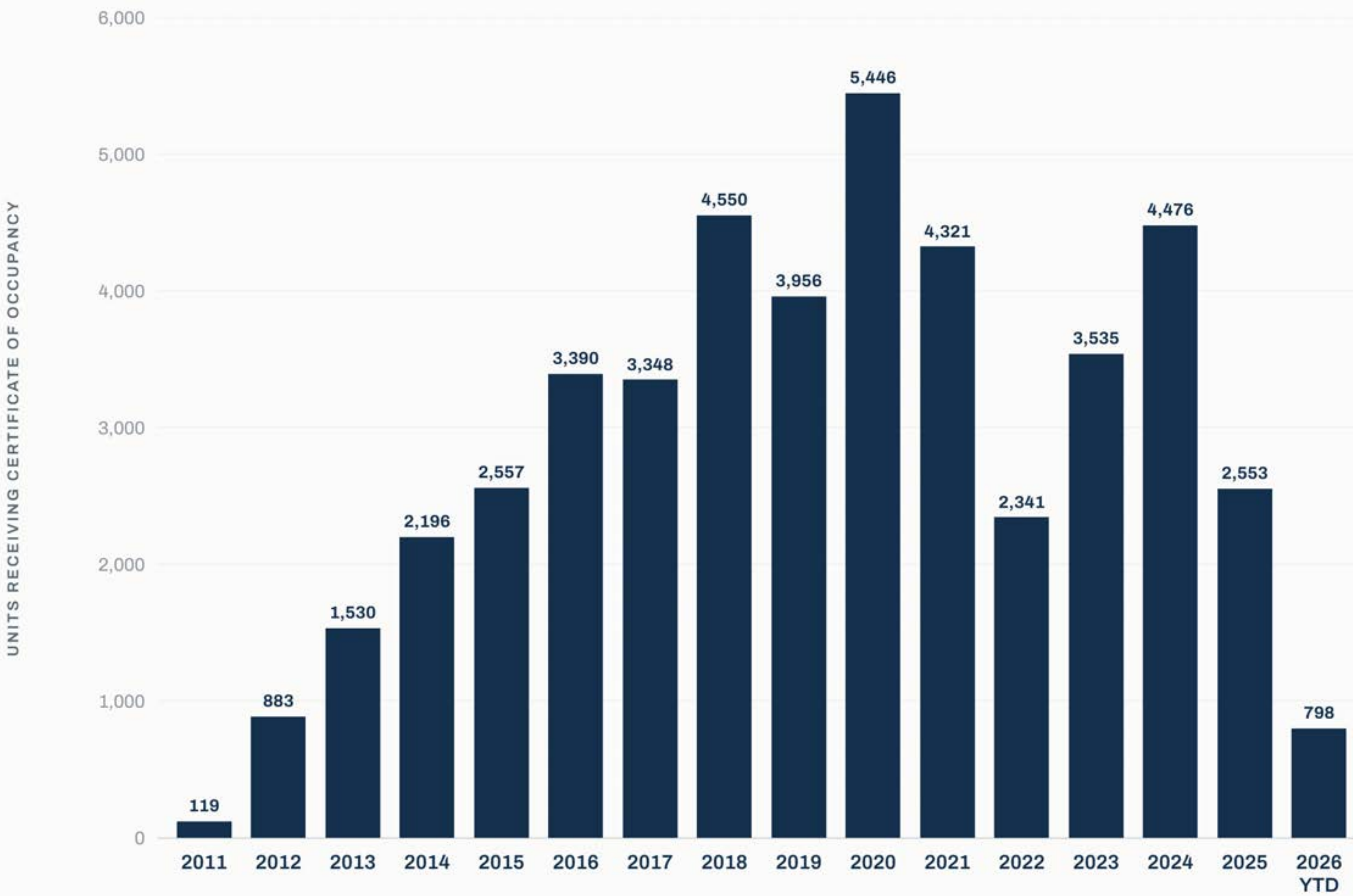
Source: City of Portland Permitting & Development

Units summed from Number of New Dwelling Units. Year assigned by Issued date when present, otherwise Application In Date. 2026 YTD through July 9, 2026.

HFO Multifamily Marketwatch®

Certificates of Occupancy Issued, by Year

City of Portland Multifamily Projects of 5+ Units | January 2011 – July 29, 2026 YTD



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	26 YTD	Total
Units	119	883	1,530	2,196	2,557	3,390	3,348	4,550	3,956	5,446	4,321	2,341	3,535	4,476	2,553	798	**45,999**
Permits	5	17	46	59	61	53	61	101	90	105	63	59	74	61	41	21	**917**

*City of Portland certificates of occupancy will not surpass 2025 levels and are forecast to remain low in the coming years.

Source: City of Portland Permitting & Development

Includes only permits with status "Final." Year assigned by Final Date. 2026 YTD through July 29, 2026.

SELECT TRANSACTIONS SOLD IN Q2 2026

Notable Sales | Q2

Property Name	Property City	Unit Count	Year Built	Sale Price
Ladd Towers	Portland	332	2009	$63,300,000
Parkside Apartment Homes	Gresham	225	1999	$40,484,764
Carriage House	Vancouver	160	1993	$34,400,000
Grant Park Quimby	Portland	167	2014	$30,700,000
Carriage Park	Vancouver	128	1994	$29,400,000
Mountain High	Gresham	112	1995	$20,315,236
The Habitat	Portland	85	1978	$18,850,000
La Scala	Beaverton	44	2016	$12,300,000
Division Terrace	Portland	68	2021	$11,350,000
Glen Ridge	Beaverton	39	1997	$8,150,000
Gresham Park Apartments	Gresham	51	1991	$7,650,000
College Park	Salem	46	1979	$6,800,000
Bezel	Portland	18	2020	$6,700,000
Willow Lake	Keizer	57	1964	$6,700,000
The Bridgecrest	Portland	35	1972	$5,425,000
Alexander Apartments	Beaverton	12	1968	$1,775,000

Source: Q2 2026 Closings Costar, 10+ Units

Capital Markets Insight

The July CPI report was largely in line with expectations, increasing 0.1% month-over-month and 3.4% year-over-year. Combined with recent softness in the labor market, the report reduced the likelihood of a September rate hike, although markets continue to price in meaningful tightening risk later this year. For CRE, moderating inflation is a positive, but continued rate uncertainty remains a headwind for borrowing costs and valuations. Despite this uncertainty, capital markets activity continues to build through what has been an incredibly active summer. *For information, contact Matt Dzbanek, Senior Director, GREA Capital Services: matthew.dzbanek@grea.com, or call (971) 430-4491.*

Source: GREA Capital Markets Insights — Multifamily Rate Sheet, July 2026.

CELEBRATING OUR TEAM

Congratulations, Greg Frick

The Oregon 250 is an annual recognition program from the Daily Journal of Commerce Oregon honoring leaders shaping the state's economy, including construction and real estate. Greg Frick, co-founder of HFO Investment Real Estate, has been recognized in both 2025 and 2026 as a Daily Journal of Commerce Oregon 250. The honor is for those considered most influential in Oregon's built environment. The recognition reflects nearly three decades of multifamily brokerage work and his standing as one of the region's most frequently cited apartment market experts.

Congratulations, Tiffany Wright MBA

COO of HFO Investment Real Estate and CEO of GREA (Global Real Estate Advisors), was named Woman of the Year at the 2026 GlobeSt. Women of Influence conference. In her first full year in both roles, Wright grew GREA transaction volume 25.5% to $2.19 billion, earned back-to-back Top 10 rankings on Multi-Housing News' top U.S. multifamily brokerages list, and launched four national specialty sector teams during one of the toughest capital markets stretches in memory. Her philanthropy spans Batten disease research, literacy mentorship, and breast cancer survivor support.

Congratulations, HFO Team

CoStar's annual rankings recognize the top-performing commercial real estate brokerages across the region, based on total sales volume and transaction activity. HFO Investment Real Estate was named among the region's Top 5 sales brokers for the 19th time, a milestone reflecting nearly two decades of consistent performance in a highly competitive market. The recognition is a testament to the deep trust of HFO's clients and proof that a focused, scrappy team can compete with anyone.

COMPLIMENTARY SEMINAR

FOR APARTMENT OWNERS

Succession Planning

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Q2 2026 Highlights

Recent HFO Closings

HFO is proud to highlight a selection of standout multifamily transactions closed in Q2 2026. These sales reflect the strength of our client relationships, deep market expertise, and ability to deliver results in a continually evolving market environment.

Parkside Apartments — **Gresham, OR**
Units: 225 — **Year Built:** 1999

Mountain High — **Gresham, OR**
Units: 112 — **Year Built:** 1995

Willow Lake — **Keizer, OR**
Units: 57 — **Year Built:** 1964

Gresham Park Apartments — **Gresham, OR**
Units: 51 — **Year Built:** 1991

LaScala — **Beaverton, OR**
Units: 44 — **Year Built:** 2016

#1 CoStar's July market report ranks HFO the top multifamily broker in Portland over the past 12 months — **$316.5 million across 33 transactions**, more than twice as many closings as any other firm.

Sources: CoStar Market Analytics — Portland Multifamily Market Report, July 2026; HFO Research

HFO RESEARCH

Clark County Multifamily Market Roundup

July 2026

Edited by Aaron Kirk Douglas, HFO Investment Real Estate Director of Market Intelligence

No one is building apartments in the part of Clark County that is really booming.

That's the whole story. If you stop reading here, that's your takeaway.

From April 1, 2025 to April 2026 the county added 7,600 residents, growing at more than double the state rate. Over the same stretch, developers proposed 220 apartment units for the entire county. Not started. PROPOSED one building.

And the growth is not showing up where the apartments are. Battle Ground, Ridgefield, and La Center all grew between 3.2-4% and have fewer than 2,000 apartment units. Vancouver grew 0.9% and it has 39,346 apartment units.

This research looks at what that gap is doing to vacancies, rents, construction, sales, and financing, and why I think it exists.

First, a word about geography

Clark County is not a single apartment market. CoStar divides them into two submarkets, which can easily be confused by the names.

The Vancouver submarket has 39,346 units. It goes east from the waterfront through Orchards, Camas and Washougal. This is where nearly all of the county's apartment inventory, construction and sales activity takes place.

The Clark County submarket has 1,934 units. It includes the rest of the county including Battle Ground, Ridgefield, La Center and Woodland. It is small, privately held and rarely trades.

Together they hold 41,280 units. Note that any figure listed as "Clark County" below is for the north county submarket and not the entire county. This is not an academic distinction. The two markets are going in separate directions.

Jurisdiction	April 2025	April 2026	Change	Growth
La Center	4,270	4,440	+170	+3.98%
Battle Ground	22,790	23,570	+780	+3.42%
Ridgefield	16,290	16,820	+530	+3.25%
Camas	27,970	28,490	+520	+1.86%
Unincorporated county	245,750	249,320	+3,570	+1.45%
Vancouver	205,100	207,000	+1,900	+0.93%
Washougal	18,360	18,490	+130	+0.71%
Yacolt	1,785	1,785	0	0.00%
Clark County	542,400	550,000	+7,600	+1.40%

Where the growth went

Clark County's population climbed to 550,000 on April 1, up from 542,400 a year earlier. That's a growth rate of 1.4%, compared with 0.75% for Washington as a whole. The county is presently the fifth largest in the state, following King, Pierce, Snohomish, and Spokane.

The 1.4% number is worth a second look. That's roughly the same annual growth rate the county council set in 2023 as its long-range planning assumption. The forecast that drew objections at the time is coming true.

La Center, Battle Ground and Ridgefield are the county's fastest growing cities. All three are located in the north countysubmarket. The submarket contains 1,934 apartment units. It delivered none in the past year, and currently has 225 units under construction. There are zero proposed units for the next two years.

Vancouver's population increase was 0.93%, a lower percentage than all the county's other towns except Washougal. Vancouver has 39,346 apartments, and it's home to nearly all of Clark County's apartment pipeline.

Two caveats: unincorporated Clark County added 3,570 residents, the largest gain anywhere in the county, and the unincorporated areas straddle both submarkets. And Vancouver's 1,900 new residents was the largest numeric growth of any city, so a low percentage on a large base is hardly stagnation.

By comparison, the state of Washington reached 8,176,300 residents, up 61,200 or 0.8%, with 72% of the growth coming from in-migration. The state added 41,000 housing units from April 2025 to March 2026, down 7,300 from the year before. Of those, 62% were multifamily.

The districts absorbing the growth charge the most to build in them

School impact fees follow district boundaries, not city lines. Fees are a cost, not the whole story: Battle Ground charges the most and still has 792 apartment units in the pipeline.

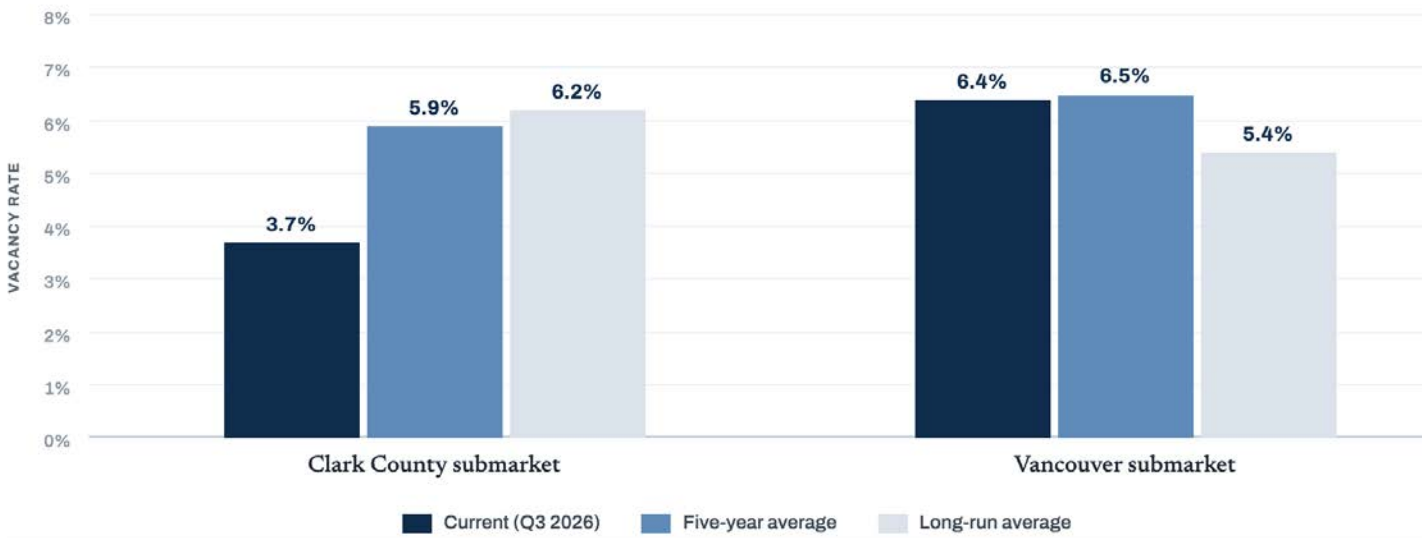
Per single-family home. Evergreen charges nothing because it projects flat or declining enrollment and has the capacity to absorb growth. Under state law a fee must be tied to capacity that growth creates.

Sources: Clark County Residential Impact Fee Summary, 2026. CoStar submarket reports, July 28, 2026, available to subscribers.

CLARK COUNTY · VACANCY

Two Clark County markets, two vacancy stories

North Clark County's vacancy is very low as Vancouver remains slightly elevated.



Source: CoStar submarket reports, July 28, 2026. Available to subscribers. Vancouver long-run average is CoStar's full-history figure; Clark County's is its 10-year average.

What it is doing to vacancy

The North Clark County vacancy rate is 3.7%, down 0.3 points from a year ago. That's considerably below its five-year average of 5.9% and its 10-year average of 6.2%. CoStar expects it to be in exactly the same place at the end of 2026, with no deliveries in the past year and none concluding before mid-2027.

Vancouver's vacancy rate is at 6.4%, down 0.3 points, and nearly exactly on its five-year average of 6.5%. That's a market that has taken a large supply surge and nearly filled it.

The softness inside Vancouver is pretty much where you'd expect. Product rated four and five stars is at 7.1% as newer buildings complete leasing and compete on concessions. Three star product is at 6.3%. One and two star units have a vacancy of 5.1%, the tightest tier in the submarket and a reminder that the actual housing shortage is workforce housing.

What it is doing to rents

Average asking rents in North Clark County are $1,771 a month, up 0.5% over the past year. Vancouver rents declined 0.1% to $1,716. The Portland metro average is $1,670, down 0.2%.

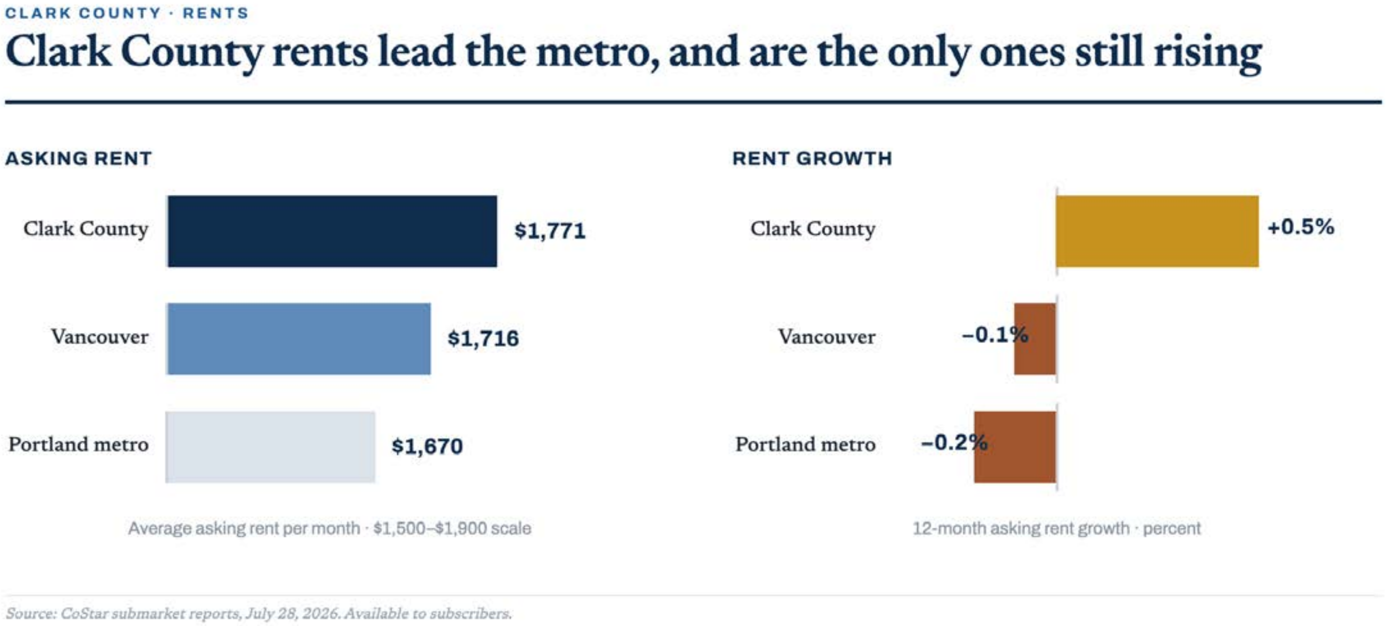
Of the three, north Clark County is the only one on the upswing, and CoStar projects it to close 2026 at 2.5% growth vs. 1% for Portland. Vancouver's flat year comes after 10 years of 30.9% rent growth vs. 24.7% metro wide, so the recent slowdown follows substantial outperformance.

Vancouver's effective rent is $1,646, or $70 less than asking. The disparity is concessions, and it's why effective rent growth is -0.3% while asking rent growth is -0.1%. Owners in lease-up are still buying occupancy.

The Washington Center for Real Estate Research (WCRER) at the University of Washington reported

What does this mean for owners?

Concession pressure is a lease-up issue, not a market issue. If you have a stabilized three-star product, your competition is shrinking, not expanding.



Clark County apartment rents averaged $1,661 across all unit types in the first quarter, up 0.2% year over year, with a vacancy rate of 5.3% among 38,239 units surveyed. The average one-bedroom price was $1,476, or $2.11 a square foot, up 0.3%. Two-bedroom homes averaged $1,689, or $1.73 a square foot, up 0.1%. Statewide, apartments averaged rents of $1,868 with a vacancy rate of 5.8% and 0.6% in rent growth. Clark County has a lower vacancy rate and lower rents than the state average.

Back in the second quarter of 2025 the same WCRER survey put Clark County one-bedroom rents at $1,474 and annual growth at 2.93%. Three quarters later the rent is $1,476 and annual growth is 0.3%. Rents moved $2 in nine months.

Two notes on reading that data. WCRER's underling numbers are from CoStar, so this is a different cut of the same data, not an independent confirmation. But, more usefully, WCRER surveys only projects of 20+ units that were built at least two years prior to the quarter. That's a filter that wipes away the lease-up product where Vancouver's vacancy is concentrated, and the outcome is a countywide stabilized vacancy of 5.3%. This verifies the softness here is narrow vs. the 7.1% CoStar read for Vancouver's four- and five-star product. This is lease-up, not the market.

Apartment List said the national median rent was $1,385 in July, down 1.2% from a year earlier, while the national vacancy rate was 7.2% down for the first time in more than four years. Submarkets in Clark County are tighter than the nation as a whole. In terms of affordability, 48% of Washington renter households pay more than 30% of their income on rent and utilities, and 23% pay more than half.

The supply response, or the lack of one

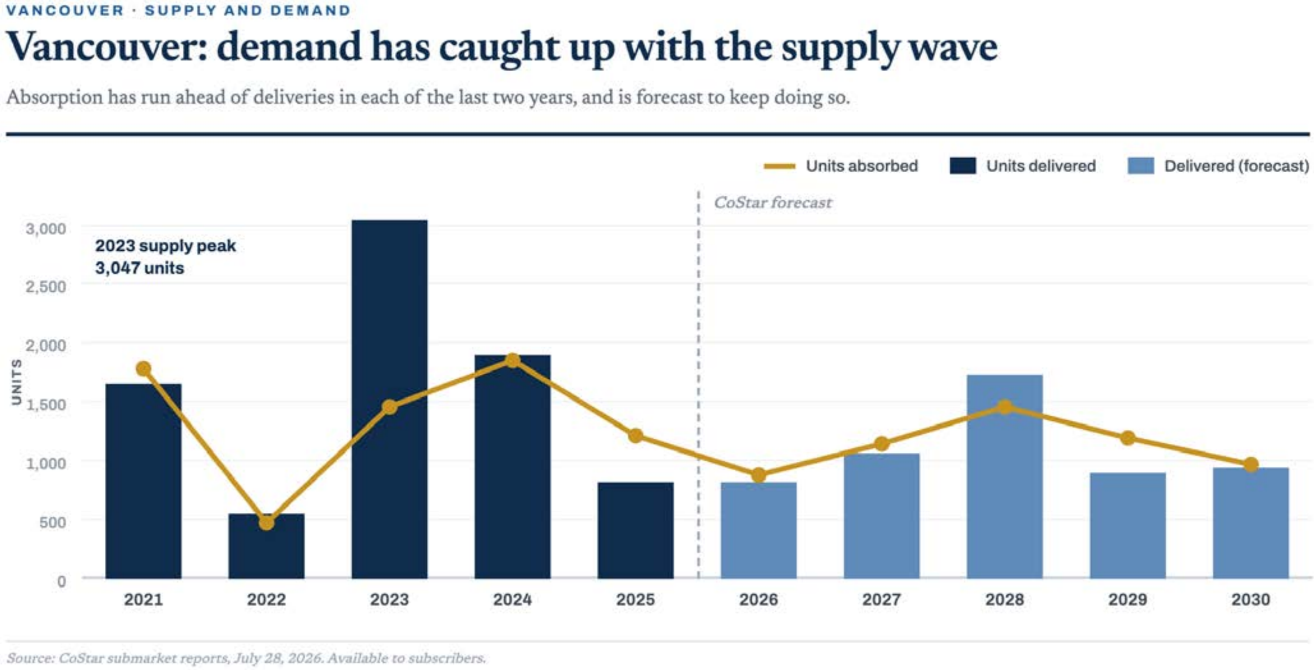
Vancouver delivered 718 units and absorbed 804 over the past year. That's the second consecutive year that leasing outpaced new supply, and CoStar projects the same trend through 2030.

What lies ahead is thinner than most owners understand.

- Under construction countywide: 1,395 units. In Vancouver, there are 1,170 among six projects. North Clark County has 225 units in a single project.
- Proposed for the next eight quarters countywide: 220 units in one single building.

Under Construction

Hyas Point on Waterfront Way is the top project in the active Vancouver pipeline. It is 276 units from RKM Development, and estimated for delivery in January. New Blueprint Partners' The VIC, 250 units, will follow in September 2027. Ellison Ridge, a 220 unit project by Ethos Development and Vance Development, is slated to open in August 2027. The pipeline also includes 12th & Main by Pahlisch Commercial, consisting of 198 units downtown, expected in January. Jailen's Pointe, 136 units from MAJ Development,



and The Ledges at Columbia Palisades, 90 units from Kirkland Development, are both estimated for August 2026. North Clark County's whole pipeline is West Main Commons, 225 units in Battle Ground by Deacon Construction, projected for May 2027.

Proposed Units

The only big proposed project is Renaissance Boardwalk, eight stories and 220 units at 111 SE Columbia Way from Kirkland Development, with an expected groundbreaking in September 2026.

Vancouver's Permit Numbers

The City of Vancouver's permit figures show us the difference between intention and delivery. The city allowed 1,483 dwelling units and saw 583 built through the first half of 2026. Of the completions, 392 were single family, 177 multifamily, 10 plex units and 4 fell into miscellaneous/other. No additional mobile home sites were added.

That's the number to remember: 177 units. Vancouver's new comprehensive plan, adopted in June, calls for 2,500 dwellings a year. The city is doing ok at a quarter of that pace for completions and multifamily is accounting for less than a third of what single family is.

What does this mean for investors?

Development math doesn't work at existing rents and expenses. That's a dilemma for innovators and an opportunity for the owners of old product. With an absorption rate of 800 to 1,200 units per year and such a small pipeline, vacancy is going to contract on its own.

The permission number goes the other way. The city has 1,483 approved units vs. 583 finished units, so it's approving about 2.5 units for every one being completed. That allows for lead completions of 18-30 months on apartments, so the gap is a forward signal. In April, city staff told councilors that 2025 production was 51% behind the city's average over the previous six years, and that downtown and waterfront development had largely dried up, with no significant apartment or mixed-use project under permitting.

Why no one's building

Analysis

I hear this question all the time, so here's my take.

There is no demand problem in North Clark County. There's a lot of demand, that's for sure. What it has is a supply problem. The supply problem is almost entirely self-inflicted.

Start with the land. Ridgefield and Battle Ground are stuck behind tight expansion boundaries under the expansion management act. And, what's left inside the lines is set aside for industrial employment. That's not an accident of local politics – it's policy. The county's comprehensive plan land use element, Chapter 1, calls for a high level of protection

of employment land. The Comprehensive Plan was approved in June of 2016 and covered 2015-2035. Today, seven months after a state deadline to update that plan, the county is still using it. The restrictions constraining housing supply in the fastest growing part of Clark County were written when they had 47,000 fewer residents.

Next, the fees.

A single-family home in Battle Ground costs $20,260.53 in impact fees alone. Add up permits, water and sewer development charges, and then tack on building and plan review, the total government cost is $29,260 to $32,260. The same property in Vancouver is $15,000-$28,000 all in. Midway, it's about $9,000 extra to build each house in an area that's expanding three times as quickly.

The school impact fees are the most interesting part of the fee schedule and they don't follow city limits. Battle Ground School District charges $10,760 in fees for every single-family home. Ridgefield School District costs $10,100, and Camas is $6,650. Vancouver School District is $2,786. **Evergreen School District is free.**

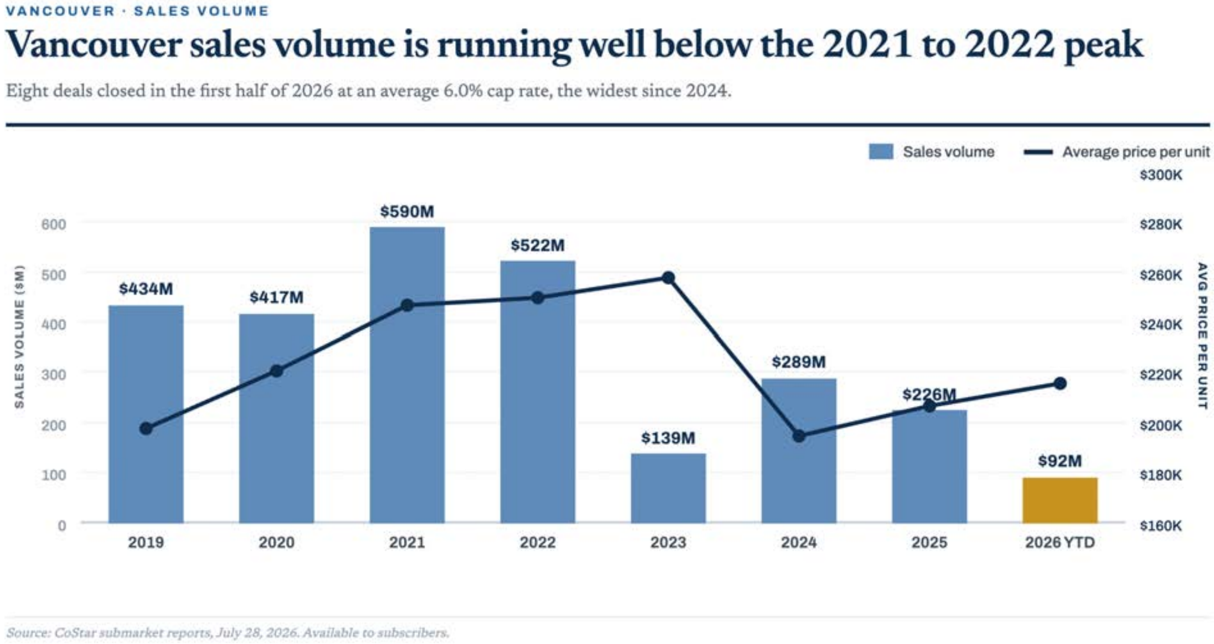
The Evergreen School District's flat or declining enrollment means zero impact fees. State law requires an impact fee to be tied to the capacity that growth really creates. Ample capacity = no cost. In every district the number has been established according to statute. The countywide outcome is still food for thought: The districts that are taking on the highest growth charge the most to develop, and the district that is not expanding charges nothing.

Next, consider the effect of a fixed fee on product mix. Ten thousand dollars is 1.5% of a $700,000 house, but it's 2.7% of a $400,000 house. The fee doesn't scale with price, so it hits exactly the homes this county says it needs most. ***The fee schedule is telling a builder who is standing on a property in Ridgefield to build the pricey thing.***

Multifamily is approximately $19,000 all in per unit in Battle Ground, compared to $16,000 to $18,000 in Vancouver. I want be frank about it: that gap is narrow. Fees are a drag on apartment development everywhere in Clark County, not just up north.

Ridgefield is the third fastest growing city in Clark County. Across everything CoStar indicates delivered, under construction or proposed, I can't find a single under construction or proposed apartment building in the Ridgefield School District. Next door, Battle Ground has 792 but charges more. It's not the schedule of fees that is holding up apartment building in Ridgefield.

I believe that's land and pipes. Much of North Clark County doesn't have the sewer and road infrastructure to support real density, so a developer either pays to extend it or doesn't build anything. Detached high-end homes can pencil but hardly anything else does.



So multifamily is frozen and the missing middle is frozen with it. These conditions make it impossible to produce the product this county needs most: work-force housing.

It's also in the vacancy figures. The submarket's tightest tier is Vancouver's vacancy rate in one- and two-star units at 5.1%. That's a normal market vacancy rate due to routine turnover.

The growth boundaries are doing what the GMA planned them to do, "halt sprawl!" And they aren't wrong. But the cost of that planning is now reflected in the vacancy figures. The county is seven months behind on revising its Growth Management Act. Currently, adoption of revisions is set for October.

This county has created a housing problem for itself, pushing aside developers.

Sales and pricing

Vancouver sales were $161 million in the last 12 months compared with a five year high of $992 million. Eighteen homes sold for an average of $211,000 a unit and an average 5.9% cap rate, ranging from 5.0% to 6.5%.

This year is all about two deals: Terra at Hazel Dell, a 206 unit complex developed in 1991, sold in January for $48 million, or $233,009 per unit. Carriage Park, which has 128 units built in 1994 and renovated in 2017, sold in April for $29.4 million, or $229,687 per unit. Jackson Square Properties sold Carriage Park to Toro Street with the property 14.8% vacant, which tells you buyers are again ready to underwrite lease-up. Two years ago they wanted steady income or nothing.

Vancouver saw eight deals close in the first half of 2026 at an average cap rate of 6.0% and $215,564 per unit. CoStar predicts Vancouver values at $250,000 a unit, down from a peak of $280,000.

There was one sale in North Clark County: Daybreak Gardens Apartments in Battle Ground. This 16 unit property was built in 2020, and sold in October 2025 for $3,873,275, or $242,079 a unit, at a 5.8% cap rate. CoStar values north county at $260,000 a unit versus a metro average of $240,000, with a 5.4% cap rate estimate vs. a metro average of 5.7%. The market with the greatest population growth and no supply has the lowest cap rates and the highest price per unit. It simply never trades.

What does this mean for sellers?

Pricing has reset but has not crashed, and cap rates in the high fives are transacting. The bid is serious for product with a strong revenue story and good location.

Capital markets and financing

The 10-year Treasury is trading near 4.3%. Agency fixed-rate multifamily debt is quoted at between roughly 5.4% to 6.4% depending on term and leverage. Multifamily CMBS conduit paper for multifamily has been quoting between the 5.5% and 6.3% range. Multifamily continues to price tighter than every other commercial property type because agency execution sets a floor.

The Federal Reserve has a goal range of 3.5% to 3.75%. That's the one to watch. Inflation was hot through spring on energy, peaking at 4.2% in May before easing to 3.5% in June as energy costs declined. Core inflation was at 2.6%. Markets had been pricing a probable hick back in September before the June report and that anticipation has eased but not disappeared.

> **What does this mean for buyers?**
> Vancouver cap rates averaged 6.0% year to date vs. agency debt in the upper fives. That's light positive leverage at best. It's about deals that pencil on going-in yield and rent recovery, not cheap money.

Operating costs

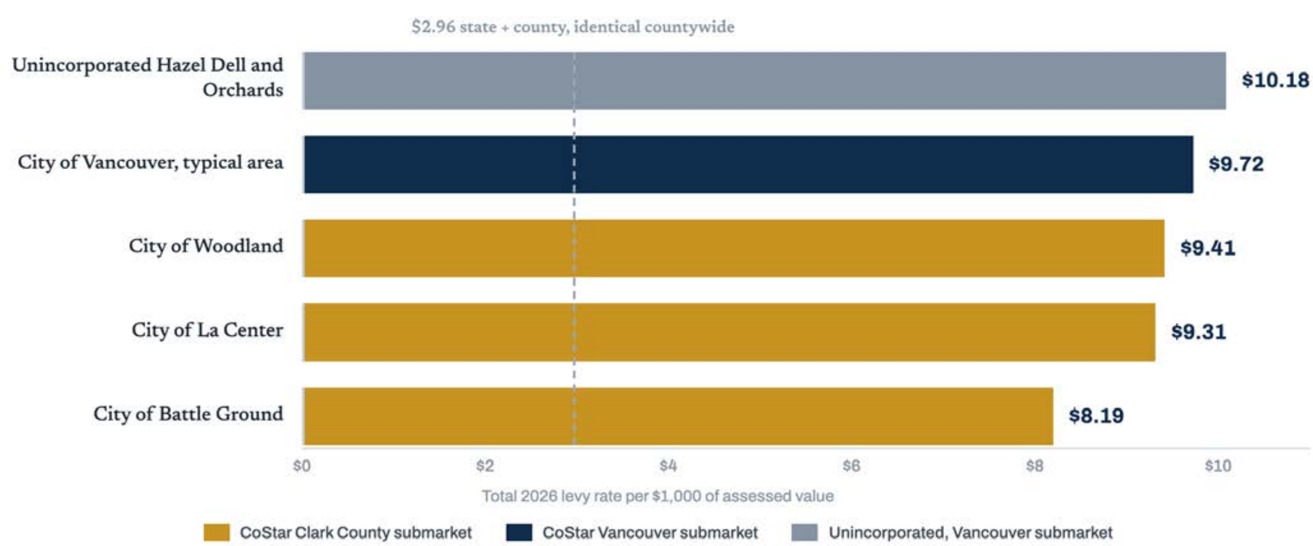
The only thing operating owners can really model is property taxes and Clark County has set both values and rates for 2026.

Every January the county assessor adjusts all property to 100% of estimated market value. Washington does not cap the increase in any one assessment from year to year. The cap is on the taxing district's overall levy budget, which can increase 1% a year without voter approval, plus new development. The Clark County Council applied that normal 1% increase to its general, road, conservation futures and parks levies. Often, owners will see the 1% as a cap on their own bill. Nope! If your assessed value grows faster than the district average, your bill grows faster than 1%.

CLARK COUNTY · PROPERTY TAX

Property tax rates favor the north county, too

Battle Ground owners pay about $1.52 per $1,000 less than a typical City of Vancouver area, on top of collecting higher rents.



Source: Clark County Assessor, 2026 Levy Rates by Tax Code Area. Rates are full totals, not the reduced senior and disabled exempt rates. Battle Ground figure is the Hockinson School District portion of the city.

Tax rates vary by tax code area because each lot falls in a different stack of overlapping districts. There are two constants countywide:

- State school levies, combining parts 1 and 2 combined: $2.2229 per $1,000
- Clark County levies, general, development disability, mental health, veterans assistance and conservation futures: $0.7416 per $1,000

Everything above that is local stuff. For the primary apartment concentrations in the county, the totals are from about $8.19 to $10.18 per $1,000 in the tax code areas. The majority of City of Vancouver areas are $9.72. Unincorporated Hazel Dell and Orchards have a higher rate of $10.1802, because unincorporated land pays the county road levy plus a fire district levy. Battle Ground is $8.1945 and La Center at $9.3138. Rates can vary within a city by school district, so check the tax code region, not the city name.

What does this mean for owners?

Value notices go out in June and September, but only to properties whose value has changed. If your assessment went up more than the district average this year, an appeal to the Board of Equalization is worth considering. Deadlines to appeal begin on the mailing date of the notice, not the date the tax is due.

What that looks like in real life: That's around $202 a month for each unit. To put that into perspective, based on what CoStar models, an apartment in Vancouver worth $250,000 a unit would have about $2,430 a year in property tax. That's about 12% of the average asking rent of $1,716. A Battle Ground unit worth $260,000 carries $2,131, or $178 a month.

So the north county owner is paying approximately $25 a unit a month less in taxes, and getting around $55 a unit more in rent. That's an $80 monthly swing per unit. It's not the entire investment case, but it runs with everything else in this report.

Two ballot measures in November: In late July, the county council opted to send two ballot measures to voters. One is a general obligation bond of up to $366M to modernize and large the Clark County Jail, add courtrooms, and create a new headquarters for the Sheriff's office. The second would be a levy lid lift, setting the county levy at $1.15 per $1,000 of assessed value starting in 2027 to pay correctional deputies, sheriff deputies, prosecuting attorney staff and other criminal justice roles. The county says the lid lift is an increase of about 4.4 cents per $1,000. Bond levies are in addition to ordinary levies so if both pass, owners would notice two additional costs on their bills.

Jobs and the economy

Clark County's unemployment rate was 4.4% in June, down from 4.8% in May. The data are not seasonally adjusted and should not be compared directly with the state's seasonally adjusted rate of 5.2% which was the same for a third straight month. The national rate was 4.2%.

Washington created an estimated 5,400 jobs in June, seasonally adjusted, but 4,000 of them were in the

public sector. On a non-seasonally adjusted basis the state shed 1,200 throughout the year, due to 5,100 public sector losses against 3,900 private sector increases. That is a flat labor market, not a recovering one.

Clark County had almost 187,000 payroll jobs this spring, according to data. The major sector remains health care and social assistance. The county's structural edge is advanced manufacturing: two-thirds of Washington's semiconductor and associated device manufacturing jobs are here.

On the state fiscal side, the June revenue forecast slashed predicted collections for the 2025-27 biennium by $427 million on poorer personal income and slower employment growth. Legislation from the 2026 session increased projected revenues through 2031, but the net picture versus the legislated budget is down, and lawmakers face a greater shortfall for 2027-29. The next forecast is Sept. 25.

Housing need and long-range planning

Clark County's population is projected to be 718,154 by 2045 at an annual growth rate of 1.4%. That equates to a countywide requirement of 103,698 more housing units by 2045:

Jurisdiction	Units required by 2045
Unincorporated urban growth areas, including the Vancouver UGA	44,038
City of Vancouver, within city limits	36,527
Battle Ground, city and UGA	6,979
Ridgefield, city and UGA	5,815
Camas, city and UGA	4,226
Washougal, city and UGA	3,735
La Center, city and UGA	2,123
Yacolt, town and UGA	150
Woodland, Clark County portion	105
Total	**103,698**

A couple of these numbers deserve a note: The City of Vancouver is 36,527 inside city borders based on the county's GMA allocation. The city's own comprehensive plan adopted June 1, aims for at least 38,000 new dwellings by 2045. The difference isn't a debate, but the result of various vintages and methodologies. However, if you see both figures stated here, that's why.

The first row is the main point: Nearly 43% of the county's housing need is allocated to unincorporated urban growth areas, not to any city. That's where the entitlement wars of the next decade will be fought.

Regulation and policy

Rent control (a/k/a "stabilization")

HB 1217 caps annual rent increases at 7% plus inflation or 10%, whichever is lower. For calendar 2026 the maximum is 9.683%. Maximum rent increases for manufactured and mobile home spaces is 5%. Rents are not controlled when a tenancy is first entered into and cannot be increased during the first year of a tenancy. The Attorney General enforces the law and can recover up to $7,500 per violation. Enforcement actions are already happening in Clark County.

The 2027 rent cap is set at 10%. Washington's Commerce department published the figure July 15, and it is the highest the law allows. The methodology is 7% plus inflation, as calculated by the June 12-month change in the Seattle area consumer price index, or 10%, whichever is lowest. The raw calculation put Seattle area inflation at 4.5% in June, which put the raw calculation at 11.53%. That exceeded the statutory ceiling, so the cap lands at a flat 10% for all of 2027. It's a slight increase from the 9.683% in effect this year and is the first time the formula has produced a number above the ceiling since the law took effect in May of 2025.

For most Clark County owners, the cap is not that relevant. It tracks Seattle inflation, not Portland metro conditions and not local rents. Vancouver asking rents fell 0.1% over the past year and north county grew 0.5%. Nobody in this market is hitting a 10% ceiling. The exemptions are what counts more. The cap does not apply to buildings under 12 years old, to subsidized affordable housing, to some properties where the owner stays on the premises, or to rent set between tenancies. The maximum rent for manufactured home space still is 5% independent of inflation (currently subject to court challenge). Owners should also know that a renter must first seek a written rectification before complaining to the Attorney General's office.

New laws from the 2026 legislative session

- Effective June 11, notices may be sent by normal first-class mail instead of certified mail.
- In general, portable cooling equipment cannot be banned by a landlord or a fee charged for installing or using one.
- And, beginning with leases made after Dec. 31, 2026, owners are required to disclose if a property is in a designated flood hazard area.

Two comprehensive plans, two very different outcomes

On June 1, the **City of Vancouver** adopted its "Our Vancouver 2026-2045 Comprehensive Plan" and a completely overhauled zoning map and law, which took effect July 31, 2026. The plan estimates 81,000 more residents by 2045 and calls for at least 38,000 more dwellings and 43,000 more jobs. The zoning code combines districts into a simpler and more flexible system intended to accommodate the state's missing middle housing requirements.

Clark County has work to do. It has not finished updating its plan that was statutorily due Dec. 31, 2025. It blew past that deadline and remains out of compliance with the Growth Management Act. The council voted 3-2 on April 28 to accept its preferred land use alternative. It is targeting an adoption date of Oct. 6, 2026, for its final plan. Until then, it continues to operate under a plan adopted in June 2016, drafted for a county with roughly 47,000 fewer residents.

Vancouver development incentives

Developers have been entitled to defer impact fees and system development charges since September 2025. Those fees can now be paid when they apply for a temporary certificate of occupancy. The city thinks it saves around 24 months of carrying costs. The multifamily tax exemption remains available for eight years for market-rate and 12 years for income-restricted projects, and the council authorized its first extension of an existing exemption in January.

What to watch

1. Whether anyone builds in north county. Three cities expanding above 3% a year, 1,934 apartment units and one project under construction. This is the biggest supply and demand imbalance in the metro.
2. Whether the 220-unit proposed pipeline grows. If it does not, 2028 vacancy compresses further than CoStar's baseline.
3. The zoning code taking effect in Vancouver, and whether new entitlements follow.
4. Clark County's aim to adopt a comprehensive plan on Oct. 6 and any urban growth area expansions that follow.
5. Two Clark County public safety measures on the November ballot, a bond of up to $366.2 million and a levy lid lift setting the county levy at $1.15 per $1,000 beginning in 2027.
6. The September Fed meeting and the Sept. 25 state revenue forecast, both of which arrive around the same time.
7. The 2027 rent cap, now set at 10%, which is a ceiling, not a guide. What's constraining Clark County owners is the market, not the statute.

What does this mean for developers?

This year, Vancouver has been focused on reducing friction: by offering deferrals on fees, simplifying building codes, waiving rules for ground floor stores, and extending a tax exemption. The unincorporated urban growth areas bear the greatest burden of the county's housing need and are subject to a 10-year-old, legally outdated plan. If you're financing land in unincorporated Clark County, take the October adoption date as a meaningful variable, not a formality.

Sources

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From Our Sponsors

Siding Failure and the Pacific Northwest's Quiet Value Killer:

Why LP Siding-Era and EIFS-Era Buildings Deserve a Closer Look

By Jay Mainella and Staff Pacific Exteriors NW

A building can look perfectly respectable from the parking lot even as moisture quietly damages the wall assembly behind its exterior finish.

Fresh paint may hide swollen siding edges. New sealant can temporarily mask failed joints. Interior drywall may remain clean long after exterior sheathing has begun to deteriorate. By the time the problem becomes obvious, what first appeared to be routine exterior maintenance may have become a much larger building-envelope repair.

This concern is particularly relevant for properties built or substantially renovated in the 1980s and 1990s. A significant share of the Portland-Vancouver area's older multifamily and commercial inventory dates to this period, when early-generation composite wood siding and exterior insulation and finish systems (EIFS or synthetic stucco) were widely used.

Not every building from this era has a problem. Not every LP product is defective, and not every EIFS assembly performs poorly. The risk lies in assuming that an exterior surface is functioning properly simply because it still looks acceptable from a distance.

This article explains why these older cladding systems warrant additional scrutiny, where hidden moisture problems are most likely to develop, and what owners should investigate before refinancing or listing a property.

Why This Era Deserves a Closer Look

Exterior cladding is often treated as a finish material: something that requires periodic cleaning, painting, caulking, and cosmetic repair. In reality, siding and EIFS are part of a much larger water-management system that also includes the weather-resistive barrier, flashing, sealant joints, windows, doors, roof transitions, decks, balconies, and wall penetrations.

A durable wall does not depend on the cladding remaining perfectly watertight forever. It depends on the complete assembly being able to manage the water that inevitably reaches it. Water must be directed outward, allowed to drain, and given a reasonable opportunity to dry.

Many older buildings were constructed before today's drainage details, installation standards, and inspection expectations became common practice. Others have been altered over time with replacement windows, added decks, new roof systems, mechanical penetrations, or isolated patches that may not have been properly integrated with the original wall assembly.

The result is a category of buildings that can carry hidden envelope risk even when there is no active interior leak and no dramatic exterior failure.

The LP Siding-Era Concern

The term "LP siding" is often used too broadly. The historic concern primarily involves earlier Louisiana-Pacific products, such as Inner-Seal oriented strand board siding, not all siding products manufactured by LP, nor the company's current product lines.

Inner-Seal was used extensively in the late 1980s and 1990s. Claims associated with the product focused on premature swelling, cracking, buckling, edge deterioration, and decay after repeated moisture exposure. A nationwide class-action settlement covered qualifying OSB siding installed before January 1, 1996.

The siding itself was not always the sole factor. Installation details could significantly affect performance. Unsealed cut edges, inadequate clearance above roofing or paving, poor flashing, missing joint protection, and repeated wetting could all accelerate deterioration.

Common warning signs include:

- Swelling along bottom edges, panel seams, or trim intersections
- Soft, crumbling, or delaminated material
- Raised or recessed nail heads
- Buckled, wavy, or distorted siding
- Paint that repeatedly blisters, peels, or fails in the same areas
- Dark staining below windows, decks, gutters, or roof intersections
- Siding installed too close to roofing, soil, concrete, or standing water
- Open joints or unsealed edges where water can enter the material

Visible deterioration should prompt investigation, not be treated merely as a painting issue. If moisture has been entering the wall for years, the underlying weather-resistive barrier, sheathing, insulation, and wood framing may also require evaluation.

Painting can improve appearance and provide temporary surface protection, but it cannot restore siding that has lost its integrity or correct a missing flashing detail behind the cladding.

The EIFS-Era Concern

EIFS is a lightweight exterior cladding typically consisting of an insulation board, a reinforced base coat, and a textured finish coat. From the exterior, it can resemble traditional stucco, but the systems are not the same.

Many early EIFS installations used a barrier-type or face-sealed approach. These assemblies relied heavily on the outer surface and sealant joints to keep water out. When water entered through a crack, a failed sealant joint, a window opening, a penetration, or a roof-to-wall connection, the wall often lacked a dependable drainage path behind the cladding.

Drainage EIFS is materially different. It incorporates a water-resistive barrier and a means for incidental moisture to drain downward and exit the wall. Oregon later prohibited most new barrier-type EIFS construction and required drainage provisions, with limited exceptions.

- Potential EIFS warning signs include:
- Cracks extending from window or door corners
- Cracked, loose, missing, or poorly bonded sealant
- Gaps around light fixtures, vents, pipes, and electrical boxes
- Impact damage or punctures in the finish
- Bulging, soft, or hollow-feeling areas
- Staining beneath windows, roof intersections, or horizontal bands
- Missing kickout flashing where a roof terminates against a wall
- EIFS extending below grade or terminating too close to roofing
- No visible drainage or weep provisions
- Patches that do not match the original system or appear to cover recurring damage

A clean exterior surface does not prove that the substrate behind EIFS is dry. Water can travel within a wall and damage sheathing at a location that is not directly behind a visible crack or failed joint.

Why the Pacific Northwest Raises the Stakes

Rain alone does not cause siding failure. Buildings are expected to get wet.

Failure occurs when water enters at vulnerable details and the assembly lacks an effective way to redirect, drain, or dry that moisture. In the Portland-Vancouver climate, repeated wetting can expose weaknesses that might remain dormant longer in a drier region.

Shaded walls may dry slowly. Landscaping can hold moisture against lower elevations. Wind-driven rain can reach joints beneath overhangs. Organic debris can collect at roof-wall intersections. Multifamily and commercial buildings also tend to have more windows, decks, breezeways, exterior stairs, utility penetrations, and transitions between materials. Each transition introduces another opportunity for water to bypass the exterior finish.

The broad, uninterrupted field of a wall is often not where the most serious problem begins. Failures usually start at details.

Where Hidden Failures Commonly Begin

- The highest-risk locations typically include:
- Window and door heads, jambs, and sills
- Deck and balcony attachments
- Roof-to-wall intersections and kickout flashing locations
- Parapets, wall caps, and horizontal trim bands
- Mechanical, plumbing, and electrical penetrations
- Transitions between siding, EIFS, masonry, and roofing
- Exterior stairs, landings, and breezeways
- Lower wall terminations near grade, paving, or landscaping
- Areas below overflowing gutters or poorly directed downspouts
- Previous repairs where new materials meet the original assembly

These details should be evaluated as part of a continuous drainage system. Flashing must be properly layered so water moves down and outward. A missing, reverse-lapped, flat, or poorly terminated flashing can direct water into the wall rather than away from it.

Age and product type are risk indicators, not a diagnosis.

Sealant is also important, but it should not be expected to indefinitely compensate for missing flashing or poor design. Sealant joints move, age, shrink, lose adhesion, and eventually require replacement. A wall that depends entirely on perfect sealant maintenance carries more risk than one with redundant drainage behind the exterior surface.

Why Envelope Risk Becomes a Property Value Problem

Exterior-envelope concerns are both construction and financial issues.

A refinance or listing brings additional scrutiny. A buyer's inspector may notice swollen siding, failed sealant, staining, or patched EIFS. An appraiser may photograph visible deterioration. A lender or investor may request a property-condition report, invasive testing, or contractor estimates. A reserve study may identify an approaching recladding project.

Once a concern is raised, the transaction can hinge on answering questions the owner may not have anticipated:

- Is the damage cosmetic or concealed?
- Is the problem isolated or building-wide?
- Does the proposed repair address the cause or only the appearance?
- What is the likely cost?
- Will permits, engineering, scaffolding, or occupant coordination be required?
- Can the work be completed before closing?
- Should funds be escrowed or the purchase price adjusted?

Uncertainty weakens the owner's negotiating position. Without reliable documentation, a buyer or lender may assume a broader repair scope than is actually necessary.

Envelope repairs can extend well beyond the visible cladding. Depending on what is discovered, the project may include siding or EIFS removal, sheathing and framing repairs, new weather-resistive barriers, window and door flashing, roof-to-wall corrections, deck or balcony repairs, insulation replacement, interior finish work, access equipment, testing, design, permits, and temporary protection.

Identifying the issue early gives the owner more control over the investigation, repair design, bidding process, budget, and schedule.

What Owners Should Inspect Before Refinancing or Listing

A standard property inspection is a useful starting point, but older LP siding-era and EIFS-era Buildings may require a more focused envelope evaluation.

1. Identify the cladding system. Confirm the manufacturer, product type, and approximate installation date when possible. Review original plans, permits, invoices, maintenance records, warranties, prior inspection reports, and photographs. For EIFS, determine whether the building has a barrier system, a drainage system, or a combination created by later repairs.
2. Inspect each elevation separately. Conditions are rarely uniform. Record findings on each side of the building, including upper stories, recessed areas, and locations difficult to see

from grade. Pay particular attention to shaded elevations, walls exposed to prevailing weather, lower siding edges, and areas beneath gutters or roof drainage.

3. Examine windows, decks, and roof connections. Do not limit the inspection to the condition of the siding surface. Evaluate head flashing, sill drainage, kickout flashing, deck ledger flashing, wall caps, roof terminations, and material transitions. Sealant joints should be checked for cracking, loss of adhesion, improper joint depth, incompatible repairs, and evidence of repeated failure.

4. Look for patterns, not just isolated defects. One swollen panel may be a localized maintenance item. Repeated swelling below multiple windows may indicate a systemic flashing problem. A single EIFS crack may be minor, while similar cracking at many window corners can point to movement, detailing, or installation concerns.

5. Perform moisture screening. Non-invasive moisture meters, infrared imaging, and interior observations can help identify suspicious areas. These tools are useful for screening, but they do not provide absolute proof of the wall's condition. Readings can be affected by materials, temperature, depth, and access. Results should be interpreted by someone familiar with the specific cladding system.

6. Use targeted exploratory testing when warranted. Small inspection openings or moisture probes may be appropriate at high-risk details or areas producing elevated readings. Testing can confirm whether sheathing is dry and sound or whether concealed deterioration is present. Openings should be selected carefully, documented, and repaired using compatible materials and proper detailing.

7. Review previous repairs critically. A patch does not necessarily mean the underlying cause was corrected. Ask why the repair was made, what materials were removed, whether damaged sheathing or framing was replaced, and whether flashing or drainage details were improved. Obtain invoices, photographs, reports, and warranties when available.

8. Develop a prioritized plan. The final assessment should distinguish among immediate water-entry repairs, routine sealant and flashing maintenance, localized cladding replacement, additional testing, phased recladding, full replacement, and ongoing monitoring. A useful report should include photographs, identified deficiencies, test locations, recommended next steps, and a realistic preliminary budget range.

A Common Misunderstanding

The presence of older LP siding or EIFS does not automatically mean a building is defective or must be reclad.

QUESTIONS WORTH RAISING BEFORE DUE DILIGENCE

- Have transitions and penetrations been evaluated as part of the drainage system?
- Are visible defects isolated, or do they form a pattern across the building?
- Is there documentation showing what previous repairs addressed?
- Would targeted moisture testing reduce uncertainty before diligence begins?
- Is the likely repair scope reflected in the property's reserves or capital plan?
- Is there time to investigate, design, bid, and complete priority repairs without disrupting the deal?

Age and product type are risk indicators, not a diagnosis. Some buildings have performed well because they were installed correctly, protected by favorable design features, and consistently maintained. Other buildings may have concealed damage even though the exterior still looks relatively clean.

The purpose of an envelope assessment is not to produce the largest possible repair scope. It is to replace uncertainty with evidence.

A well-planned investigation may show that the building needs only localized repairs and improved maintenance. It may also reveal that a broader project should be planned before a lender or buyer sets the deadline. Either outcome is more useful than waiting for a transaction to force the question.

Documentation Matters

Owners should maintain organized records of exterior maintenance and repairs. Useful documentation includes:

- Inspection reports and moisture-test results
- Photographs taken before, during, and after repairs
- Contractor proposals, invoices, and warranties
- Product information and installation details
- Permits, engineering documents, and approved repair drawings
- Sealant, painting, roofing, window, and deck maintenance records
- A log of reported leaks, stains, or recurring problem areas

Strong documentation shows that a known condition was evaluated and addressed rather than ignored. It also helps future consultants distinguish an old, corrected problem from a new failure.

The more complete the record, the easier it is to explain the building's condition to lenders, buyers, appraisers, insurers, reserve-study providers, and board members.

Final Thoughts

The quiet value killer is not always the siding itself. It is the combination of concealed moisture, incomplete information, and deferred investigation.

A building can remain functional for years while water gradually damages sheathing or framing behind the exterior finish. When the issue finally appears during a refinance or sale, the owner may have little time to determine the cause, obtain competing proposals, or choose the most appropriate repair strategy.

Here are some questions to raise before the property reaches the market or enters lender review:

- Has the cladding system and its approximate installation date been confirmed?
- Have windows, decks, roof-to-wall transitions, and penetrations been evaluated as part of the drainage system?
- Are visible defects isolated, or do they form a pattern across the building?
- Is there documentation showing what previous repairs addressed?
- Would targeted moisture testing reduce uncertainty before due diligence begins?
- Is the likely repair scope reflected in the property's reserves or capital plan?
- Is there enough time to investigate, design, bid, and complete priority repairs without disrupting the transaction?

For Portland-Vancouver owners, the best time to answer these questions is before a lender, buyer, or inspector controls the timeline. A proactive assessment allows the owner to confirm the condition, prioritize repairs, obtain competitive proposals, and assemble documentation showing that the property has been responsibly maintained.

Beyond Fire and Water: How Kennedy Restoration Handles Tenant Contents and Auto Impacts

A Q&A with Kennedy Restoration

Most multifamily owners know Kennedy Restoration for fire, water, mold, and storm recovery. But the company also handles two situations that catch many property managers off guard: restoring tenant belongings after a loss and repairing buildings struck by vehicles. Here is what owners and managers should know.

Q: A pipe bursts at 10 PM, and tenant belongings are underwater. What happens first?

A: The first step is a clear conversation with on-site management. Damage to the apartment and damage to its contents usually belong to two different parties and may be insured by two different carriers. In some cases, the tenant has no renter's insurance at all. Before anything is moved, Kennedy Restoration establishes a plan with management and gets permission to address the contents, whether that means moving items out of the way to extract water or beginning full recovery and restoration on the spot.

Q: Why does speed matter so much with contents?

A: Secondary damage begins within hours. If a tenant is away on vacation, mold can start growing on soaked belongings before anyone even knows there is a problem. Site managers need to be prepared to make quick decisions about moving furniture and other items so crews can get bulk water out of the unit.

Q: What about high-value items like art, antiques, or pianos?

A: Kennedy Restoration handles many specialty items in-house. When something calls for a higher level of expertise, such as fine art, the company draws on a network of outside specialists, including conservators who can evaluate and handle valuable pieces properly. The same approach applies to pianos, grandfather clocks, weapons, tapestries, and other items where improper handling creates liability. Knowing when to bring in an expert is part of the service.

Q: How often do vehicles hit apartment buildings?

A: More often than most people think. Common scenarios include a driver confusing the gas and brake pedals in a parking area, impaired driving combined with excessive speed, and two-vehicle collisions where one car glances off and bounces into a building. A 3,500-pound truck traveling 40 mph can cause catastrophic damage to an apartment wall or leasing office.

Q: What does the response to an auto impact involve?

A: All of it, starting with confirming everyone is safe. From there, crews evaluate the structure for collapse risk. If a vehicle has gone through an exterior wall of a two-story building, the immediate question is what is holding up the second story. Emergency board-up work recreates the building envelope so the unit can be safely occupied or secured while the tenant is relocated. Kennedy Restoration maintains a vendor pool of electricians, plumbers, and structural engineers who can respond on short notice, and it coordinates with building departments when permits are required.

Q: What is the takeaway for property managers?

A: Have a plan before an emergency. Know who owns and insures what, be ready to authorize contents handling, and keep a restoration partner on call who can manage the entire response with one phone call.

Passive Activity Rules and the Real Estate Professional Exception

Why rental losses often can't cut your tax bill

By Krista Nussbaum, CPA Tax Manager Aprio Advisory Group, LLC

One may think that a loss generated by rental real estate will offset other income, but for most real estate investors, that is not the case.

Whether the loss is derived from a property owned directly or on a K-1 from a partnership, LLC, or syndication, the tax code treats rental losses with suspicion. There are four separate hurdles that affect how a rental real estate loss is treated on your tax return. For apartment owners and other real estate investors, those rules can be the difference between a loss that reduces this year's tax bill and one that sits on the books for years, waiting for income to absorb it.

This article will explain how a rental real estate loss can be limited, the differences between passive and nonpassive activities, the tests for determining material participation, and real estate professional status.

The Four Hurdles Your Rental Loss Must Clear

The tax code applies four limitations to rental losses. Each criterion must be met before moving to the next. A loss can be suspended at any of the four levels.

1. **Basis:** Your basis is a running total of your financial investment in the activity. For a pass-through activity, such as a partnership or S corporation, your basis is increased by your contributions, previously taxed income, and debt allocated to you. Basis is generally decreased by distributions, previously deducted losses, and debt that is relieved or reduced. Without a positive basis, a taxpayer cannot deduct losses in the current year.
2. **At-risk basis:** A subset of basis tied to your actual economic exposure if the business were to fail. For example, partnership debt you personally guarantee will increase your at-risk basis. An at-risk basis lower than your tax basis can further limit your losses, even when your tax basis is still positive.
3. **Passive activity rules:** Passive losses can generally be offset only against passive income, not against wages or other active income. Without passive income, passive losses will be suspended.
4. **Excess business loss (EBL) limitation:** After the first three hurdles are cleared, the loss can still be suspended if it is large enough. An excess business loss is the amount by which total deductions exceed total gross income, plus a threshold amount indexed for inflation.

These hurdles are sequential, meaning a loss must clear each one in turn. A loss that fails at basis never gets evaluated against the at-risk rules, and so on. For investors with multiple activities or complex capital structures, working through them in order is the only way to know where a loss lands.

Passive vs. Nonpassive Activities

The passive activity rules determine what income a specific loss can be used to offset. An oversimplified definition of a nonpassive activity is an activity in which you meaningfully participate in operating the business. A passive activity is an activity in which you act as an investor and are not involved in the day-to-day operations of the entity.

The distinction is paramount because of the way losses are used to offset income. A passive loss can only be deducted to the extent of passive income. If your passive losses exceed your passive income, the excess is suspended and carried forward. If passive income exceeds passive losses, prior-year suspended passive losses might become deductible.

Material Participation

There are seven criteria for determining whether an activity is nonpassive. Taxpayers that meet at least one of the following criteria are considered materially participating. These criteria are defined in §1.469-5T as:

1. You participated in the activity for more than 500 hours during the year.
2. Your participation was substantially all the participation in the activity of all individuals for the tax year, including the participation of individuals who didn't own any interest in the activity.
3. You participated in the activity for more than 100 hours during the tax year, and you participated at least as much as any other individual, including individuals who didn't own any interest in the activity, for the year.
4. You participated more than 100 hours in the activity, making it a "significant participation activity," and your total hours across all significant participation activities exceed 500.
5. You materially participated in the activity in any 5 of the prior 10 tax years.
6. The activity is a personal service activity (e.g., health, law, accounting, etc.) and you materially participated in any 3 prior tax years, not necessarily consecutive.
7. Based on all facts and circumstances, you participated on a regular, continuous, and substantial basis during the year.

If a single activity can't meet any of these tests on its own, you may be able to group activities together for purposes of measuring material participation.

The Rental Activity Rule

Rental activities involving real property, such as buildings and other permanently affixed structures, are treated as passive by default, even if you manage the property.

There are a few exceptions where rental property isn't considered passive:

- Rentals with an average customer-use period of 7 days or less are known as short-term rentals.
- Rentals with an average customer use period of 30 days or less with significant personal services included, such as housekeeping, meals, or medical services.
- Rentals that include extraordinary services, like nursing homes or boarding schools.

The majority of long-term real estate investors' portfolios do not meet the above exceptions. By default, the activity is passive, and so are the losses.

A real estate owner can have a well-performing asset, generate positive cash flow, yet show a paper loss for the year. The most common cause of paper loss is depreciation. Many owners' natural assumption is to offset other income on their return with this loss. However, the rental loss is passive; therefore, wages and portfolio income, such as interest and dividends, are nonpassive and won't be offset. Instead, the loss is suspended and carried forward, sometimes for years, until either the owner generates enough passive income to absorb it or sells the property outright.

Suspended passive losses can remain unused for years, making active participation and real estate professional status attractive to investors seeking to utilize them.

Active Participation: A Limited Exception

The tax code offers a partial escape from the passive activity rules for taxpayers who actively participate in their rental. Active participation is not synonymous with material participation and has a lower threshold to meet the requirements. Active participation means making management decisions like approving tenants, setting rents, and approving repairs.

For those who qualify, up to $25,000 of rental losses can offset nonpassive income each year. That sounds promising, but the benefit phases out between $100,000 and $150,000 of adjusted gross income (AGI), disappearing entirely above $150,000.

Most real estate investors with meaningful rental portfolios will easily reach the upper limit of the phaseout. Which is why, for higher-income investors, the conversation turns to real estate professional status.

Real Estate Professional Status (REPS)

Real estate professional status (REPS) is determined annually and requires meeting a participation test and two time-based tests.

Qualifying as a real estate professional is the most consequential exception to the passive activity rules for real estate investors. For investors who qualify, rental losses are treated as nonpassive, meaning they can offset wages, self-employment income, and

ACTIVE PARTICIPATION — A LIMITED EXCEPTION

Taxpayers who actively participate (approving tenants, setting rents, approving repairs) may offset up to $25,000 of rental losses against nonpassive income — but the benefit phases out between $100,000 and $150,000 of AGI, disappearing entirely above $150,000.

other active income. For a high-income investor with significant rental holdings, converting rental losses from passive to nonpassive can generate substantial tax savings each year.

Participation Test

You must participate in your rental activities by meeting one of the seven material participation tests mentioned previously. This can be done activity by activity, or by making a formal election to treat all your rental real estate as a single activity for purposes of measuring material participation. The grouping election is critical for investors with multiple properties because, without it, the hours spent on each property must meet the tests separately. After the grouping election is made, total hours across all properties get counted together.

Grouping Election

Even if a taxpayer qualifies as a real estate professional, each activity is treated independently by default. Therefore, for each activity, the taxpayer must still meet material participation on a per-activity basis. To better assist real estate professionals who may have multiple entities holding real estate, taxpayers may elect to aggregate all interest in real estate as if it were a single entity. The taxpayer must meet material participation for the aggregate of all activities; otherwise, all rental activities will remain passive.

Time-Based Tests

You must also meet both of the following time-based requirements:

1. More than 50% of your total hours worked in all trades or businesses must be performed in real property trades or businesses. If you're a full-time W-2 employee in an unrelated field, this requirement will be difficult to meet. In that case, you would have to spend more time on real estate activities than on your day job.
2. You must perform at least 750 hours of services in real property trades or businesses during the tax year.

Real property trades or businesses are defined broadly and include development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, and brokerage.

Spousal Rule

For married couples filing jointly, only one spouse needs to qualify as a real estate professional, but the qualification is measured individually. One spouse's hours can't be combined with the other to meet the 50% and 750-hour tests. As long as one spouse qualifies, the couple will be able to benefit from the nonpassive treatment on their joint return.

A Common Misunderstanding

Qualifying as a real estate professional doesn't automatically make rent losses nonpassive. It removes the automatic passive classification, which means rentals are no longer treated as passive by default. However, each rental activity must still meet the material participation requirement on its own, or in the aggregate under the grouping election, to be treated as nonpassive. It is possible for a real estate investor to qualify for real estate professional status and, without the grouping election, not meet the per-property hours. In this case, there would be no material participation, and any losses would remain passive. Proper planning and organization are paramount to take advantage of REP status.

> ***The burden of proof is on the taxpayer.***

REPS analysis is annual. A taxpayer's status can change year-to-year as other work commitments change, if the taxpayer's rental portfolio grows or shrinks, or if their time allocation shifts. The qualification a taxpayer earned in years prior does not carry over automatically.

Recordkeeping Matters

The burden of proof is on the taxpayer. This means the IRS expects taxpayers to substantiate both material participation and real estate professional status, and that contemporaneous records must be kept as the work is performed, not reconstructed at filing time. The best practices include:

- Time logs showing dates, tasks performed, and hours spent.
- Travel documentation for trips to properties or related activities.
- Emails and correspondence with tenants, contractors, property managers, and others.
- Detailed receipts and credit card statements tied to the activity.

The more documentation you keep, the stronger your position will be if your classification is questioned.

Final Thoughts

The difference between passive and nonpassive treatment can quietly determine whether years of rental losses will reduce your tax bill or sit suspended on your return, waiting for income that may never come. The default passive treatment is unfavorable; the active participation exception phases out for most serious investors, and real estate professional status, while powerful, has technical requirements that are difficult to meet.

Here are some questions worth raising with your tax advisor:

- Are you currently claiming losses you're not actually able to deduct, or carrying suspended losses you didn't realize were there?
- If you have multiple rental properties, have you made the grouping election that lets you measure material participation across the portfolio?
- If you or your spouse may qualify as a real estate professional, are your records strong enough to support the position in an examination?
- Has your situation changed in a way that affects your REPS qualification this year: a new job, sale of one or more properties, a shift in how you spend your time?

Real Estate Professional Status

REPS analysis is annual, but the planning opportunities can shift year to year. If you haven't reviewed your position recently, or if you've never explicitly walked through whether you qualify, it's worth a conversation. Your Aprio tax advisor can help you understand where your losses land, and whether there is a planning opportunity available to put them to better use.

To discuss your situation,

reach out to your Aprio tax advisor or contact Aprio's real estate tax team directly at

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