

Portland Apartment

Market Forecast

		Projection
Construction	6,000 units	↑
Rental Rate	\$1.24/sf*	↑
Cap Rate Trends	flat	↔
Concessions	limited	↓

* all ages and classes

Highlights

The current vacancy rate within the Portland metro area is 3.1%, a decrease of 16% from the second half of 2014 at 3.7%.

Local and national investor demand continues for all apartment types.

The forecast is for capitalization rates to remain stable with continued, but slower, rental rate increases. ■

According to the spring 2015 multifamily NW report, overall Portland vacancy decreased to 3.1% from 3.7% in the fall 2014 report. Rental rates are rising and occupancy continues to increase despite new units being constructed. Continued value increases and demand for product is causing owners, who might not typically consider selling, to bring properties to the market.

According to discussions with market participants, 2015 will be the strongest year in recent history for total apartment sales volume.

Vacancy & Market Trends

Total vacancy decreased to 3.1% from 3.7% in fall 2014, and it is anticipated this decline will continue even with supply additions coming online, although at a moderated pace compared to the last several years. The Portland market continues to have one of the lowest overall vacancy rates in the nation according to statistics reported by U.S. Census Bureau, and remains the number one moving destination in the U.S. according to the Allied Van Lines Report.

The lowest current submarket vacancy within Portland is West Vancouver, at 1.5%. The highest is downtown Portland at 5.1%, primarily due to new inventory coming online.

Based on discussions with several property owners and management companies, a typical vacancy in rent ready condition should have several applications within 48 hours or less, and be rented in less than one week.

→ Continued, page 2

Area Review

3rd Quarter 2015 Portland/Vancouver Metro Area Apartment Market Data

	Spring 2015 Report	Fall 2014 Report	Change	Studio	1 Bed/ 1 Bath	2 Bed/ 1 Bath	2 Bed/ 2 Bath	2 Bed/ TownH.	3 Bed/ 1 Bath	3 Bed/ 2 Bath
Total Average Market Vacancy Rate	3.09%	3.67%	-0.6%	4.28%	3.08%	2.33%	3.73%	2.93%	\$3.49	2.94%
Total Average Rent/SF	\$1.24	\$1.22	\$0.02	\$2.05	\$1.39	\$1.09	\$1.11	\$1.04	\$1.02	\$1.04
Total Average Rent/Unit Type				\$939	\$944	\$983	\$1,126	\$1,023	\$1,033	\$1,239
Total Sum of Properties Surveyed	721	787		161	573	486	226	110	95	182
Total Sum of Units Surveyed	51,886	55,331		2,974	17,231	13,646	11,927	2,050	634	3,424

SOURCE: SPRING 2014 MULTIFAMILY NW APARTMENT REPORT.

Rental Trends

The total average per square foot rental rate within the Portland market increased from \$1.22 to \$1.24, or 1.6%, since fall of 2014. Rents appear to be increasing more than the statistics show. Overall rents are increasing in most areas of Portland. Many owners, not currently aware of the extent of increases, are behind in raising rents for individual properties.

While currently experiencing the highest overall vacancy, the downtown Portland submarket currently has the highest average PSF rental rate in Portland, at \$2.12. The lowest is outer NE Portland at \$0.93.

Although rental rates continue to increase, Portland remains affordable when compared to other major west coast markets such as San Francisco, Los Angeles, and Seattle.

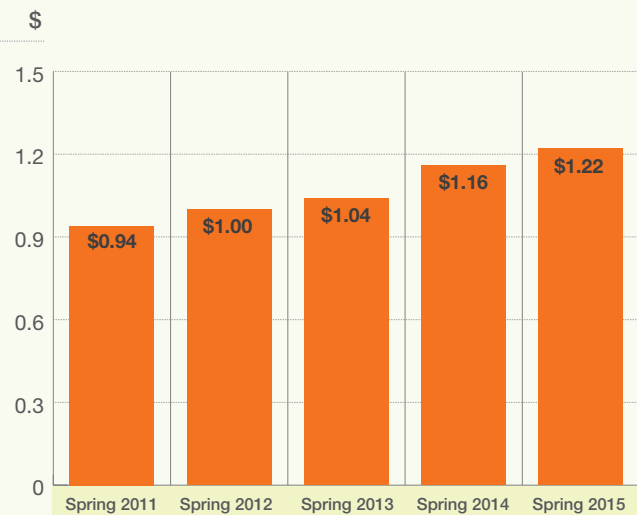
New Construction

Year-to-date there have been 2,833 permits issued in the Portland metro area. While slightly off from 2014 numbers, it's expected that the year end permits will meet or exceed 2014 permits issued. There are numerous, smaller in-fill projects at various stages of development. These projects typically sit on 5,000-15,000

Metro Area Historical Vacancy Rates

Spring 2015	3.1%
Year end 2014	3.5%
Year end 2013	3.1%
Year end 2012	3.7%
Year end 2011	3.6%
Year end 2010	4.5%

Apartment Average Quarterly Rent Per SF



Significant First Half 2015 Transactions

Property	City	# Units	Sale Price	Price/Unit	Sale Date	Cap Rate
Element 170	Beaverton	237	\$39,000,000	\$160,494	Feb-15	–
Jory Trail at the Grove	Wilsonville	324	\$59,000,000	\$182,099	Jan-15	6.00%
Canyon Creek Apartment Villages	Wilsonville	372	\$49,500,000	\$133,065	Apr-15	5.50%
Museum Place	Portland	140	\$59,500,000	\$425,000	Jun-15	5.40%
Powell Valley Farms	Gresham	228	\$27,750,000	\$121,711	Jun-15	–
Wyndham Park I & II	Beaverton	423	\$63,900,000	\$151,064	Jun-14	4.90%

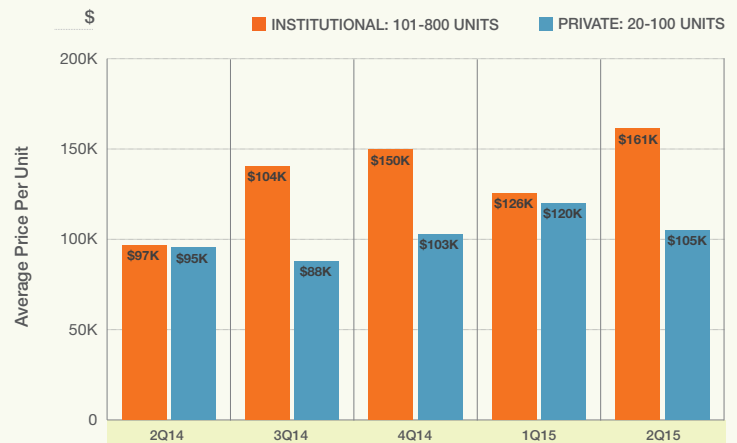
square foot lots and are located close to the downtown core. Some notable, larger projects include the 8th at Hassallo—which is slated to come online this fall. When completed it will consist of 679 units. Also, in the Lloyd Center market, it was recently announced that the Regal Lloyd Theatre Center movie theatre in NE Portland will be redeveloped with nearly 1,000 new units, construction beginning in late 2016.

Investment Activity

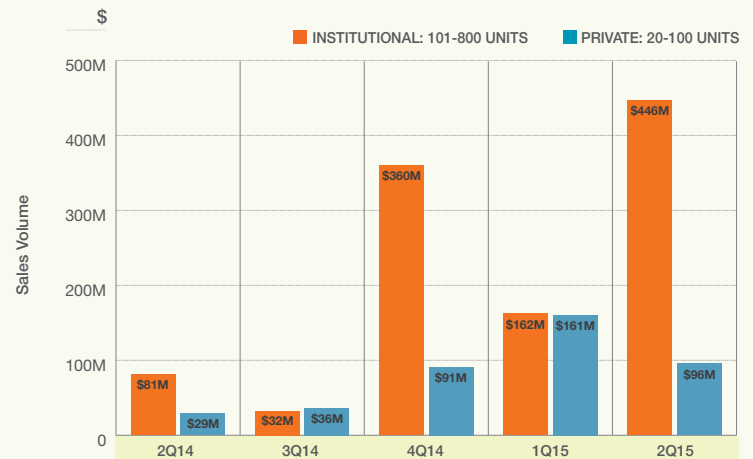
The apartment brokerage community is anticipating 2015 will be the strongest year in recent history for apartment sales volume within the Portland MSA. Sales velocity continues to be strong with properties going into contract with less than one week marketing times, and often without being openly exposed to the market. It is not uncommon to see well located properties have multiple offers with aggressive terms, such as no financing contingency.

Demand for institutional grade properties is being driven by well capitalized, larger investment funds, and many investment groups from California who see Portland as a viable, and better priced alternative to San Francisco, Los Angeles, or Seattle.

Apartment Average Quarterly Price Per Unit



Apartment Quarterly Sales Volume



kiddermathews.com

Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

San Diego
858.509.1200

Phoenix
602.513.5200

Contact

Steven Klein
Senior Vice President
Managing Partner
503.221.9900
sklein@kiddermathews.com

During the first half of 2015, capitalization rates for seasoned apartments under 100 units averaged 6.19% and 5.06% for newer projects under 100 units. For properties over 100 units, capitalization rates were 5.43% for newer projects and 5.68% for seasoned properties.

Summary

Conditions within the Portland apartment market continue to improve, with vacancy decreasing, rental rates increasing, and overall values and sales volume

increasing. Although several projects are currently under construction, or in the planning phases, it is anticipated these projects will be absorbed well and vacancy will remain at healthy levels for the foreseeable future. Absent a dramatic market correction or significant interest rate hike, investment activity will remain strong due to Portland's solid apartment market fundamentals and the low cost of capital.