

# Portland Multifamily

The Portland multifamily market kept on rolling during the third quarter, as strong demand for housing in the metro area kept rental rates and sale prices trending upward. Overall vacancies increased 36 basis points over the past six months, to 4.37%, but rental rates rose to a market-wide average of \$1.57 per square foot. The market’s development pipeline reached 30,000 units during the third quarter, and 2017 is on pace to be a record-setting year in permits issued for apartment construction. Apartment buyers are still facing extremely limited inventory of units for sale, and the average sale price climbed to \$184,740 per unit this quarter. Ongoing wage and population growth in Portland should preserve tight market conditions and rent growth in the coming quarters, despite the uptick in construction.

Rental rates around the Portland-metro area continued to rise, reaching an average of \$1.57 per square foot, up from \$1.51 in the first quarter of 2017 and \$1.47 at this time one year ago. Downtown and Northwest Portland continued to report the highest rents in the market, with asks of \$2.30 and \$2.09, respectively. Outlying areas offered more affordable apartments, showing average price tags of \$1.21 in Outer Northeast Portland, \$1.27 in Troutdale/Fairview Wood Village/Gresham and West Vancouver, and \$1.28 in East Vancouver. Increases in rental rates remain ahead of wage growth in the Portland market, because employment gains are producing heightened demand for residential units in the metro area.

The overall vacancy rate in Portland MSA rose to 4.37% in the third quarter, up 36 basis points from the first quarter. Downtown Portland had the highest vacancy rate in the market, at 5.7%, a reflection of a slowdown in

absorption of the Class A apartment product being delivered near the city center. Outer Northeast Portland reported a 3.4% vacancy rate, the lowest in metro Portland, while Beaverton and Oregon City were close behind at 3.6%. Three-bedroom units are the tightest product type, showing 3.6% vacancy, while studios, which comprise a larger share of the new apartments coming on line, had the highest vacancy rate at 5.3%. The vacancy trend in the coming quarters will depend on the rate of absorption of newly delivered apartments, as robust construction activity will continue to add to the market’s supply.

Portland-metro apartment sales remain on a downward trajectory because of limited inventory in the market. Cap rates rose during the third quarter, to an average of 5.77%, up 31 basis points over the past six months (partially due to a decrease in institutional sales) but virtually unchanged year-

## Market Forecast Trends



## Average Rents Per-Month

Studio	\$1,127
1 Bed / 1 Bath	\$1,173
2 Bed / 1 Bath	\$1,150
2 Bed / 2 Bath	\$1,409
2 Bed Town House	\$1,363
3 Bed / 1 Bath	\$1,258
3 Bed / 2 Bath	\$1,530
<b>Overall Average</b>	<b>\$1,240</b>

**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

**Sacramento**  
916.970.9700

**Roseville**  
916.751.3600

**Los Angeles**  
213.880.5250

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949.557.5000

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858.509.1200

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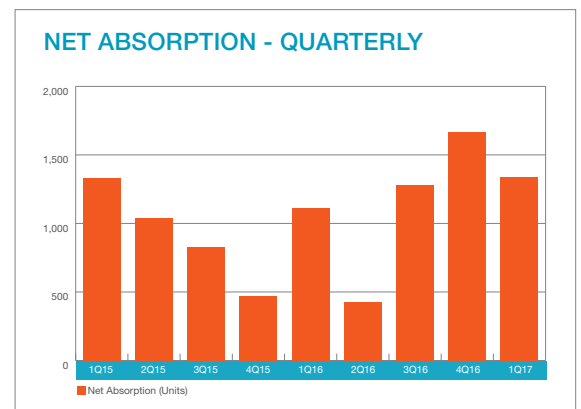
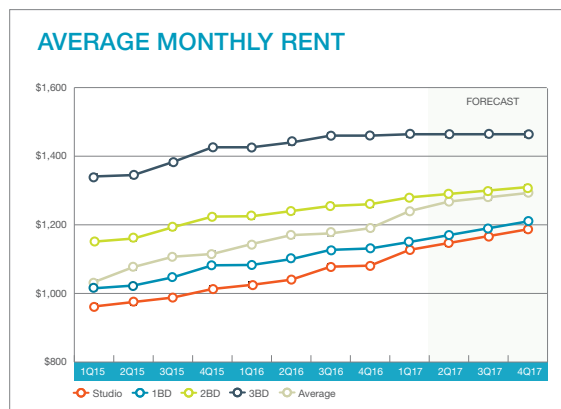
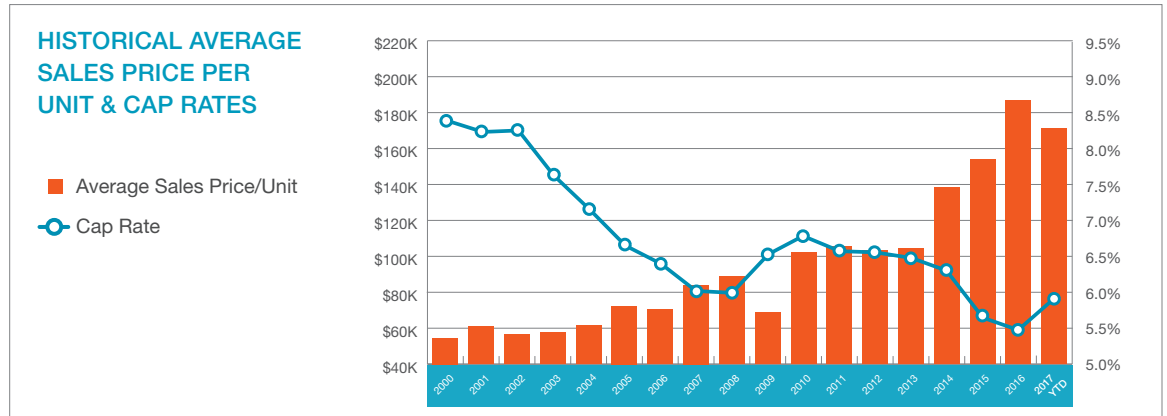
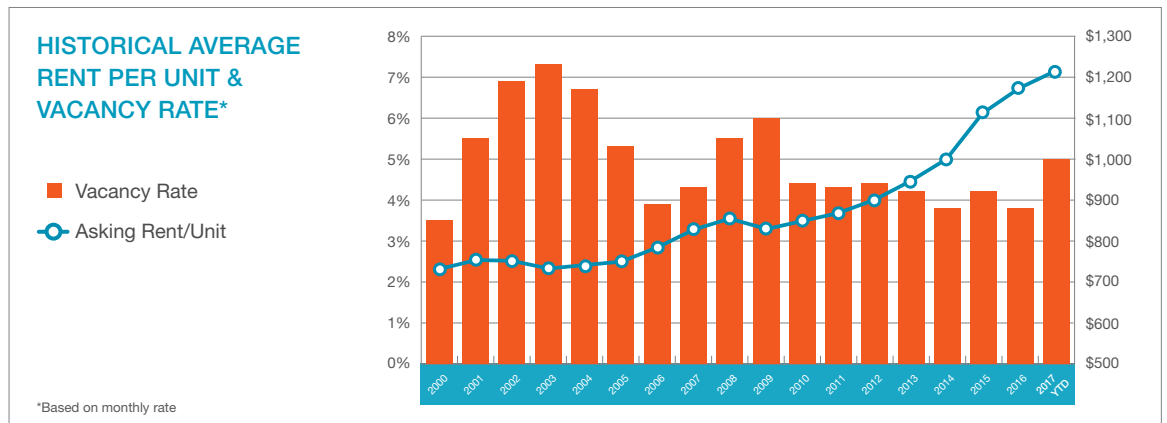
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over-year. Portland multifamily investment transactions amassed approximately \$565 million in dollar volume over the past six months, down from more than \$1 billion in the fourth quarter of 2016 alone. The average price-per-unit was \$184,740 during the third quarter, up from \$150,623 at the same time a year ago.

New multifamily construction continues unchecked in the Portland market, despite the moderate slowdown in lease-ups of newly delivered units in the Downtown area and Portland's adoption of a new inclusionary zoning (IZ) ordinance. Permits were issued for more than 6,600 units through August 2017, putting the market on

pace for nearly 10,000 units for the year, which would represent a new record for the Portland-metro area and a 2,600-unit increase from 2016. Many of these permits were obtained before the City of Portland introduced the IZ ordinance, which requires 20% of new 20-plus-unit apartment projects to be set aside as affordable, and the summer surge in approvals is consistent with the rush of applications that preceded its adoption. While new permit applications have dramatically slowed since IZ was put in place, the two-year review process for larger projects already in the pipeline means that apartment construction will continue apace through at least the middle of 2019.



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