

Portland Multifamily

In the throes of one of the strongest economies and building cycles in its history, the Portland multifamily market throttled ahead during the first quarter. Even with slower than anticipated absorption levels, and increasingly aggressive concessions and competition in many close-in neighborhoods, strong demand for housing in the metro area kept rental rates and sale prices trending upward. Overall vacancies increased 83 basis points over the past year, to 4.85%, but rental rates rose to a market-wide average of \$1.56 per square foot. The market’s development pipeline reached 43,737 units at the start of the year, and 2018 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 \$186,344 per unit this quarter.

Rental rates around the Portland-metro area rose in Q1, reaching an average of \$1.56 per square foot, up from \$1.51 in the first quarter of 2017. Downtown and Northwest Portland continued to report the highest rents in the market, with asks of \$2.43 and \$2.07, respectively. Outlying areas offered more affordable apartments, showing average price tags of \$1.24 in Outer Northeast Portland, \$1.31 in Troutdale/Fairview Wood Village/Gresham and West Vancouver, and \$1.30 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 4.85% in Q1, an 83 basis point increase year-over-year. Downtown Portland had the highest vacancy rate in the market, at 6.9%, 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 Troutdale/Fairview Wood Village/Gresham were close behind at 3.8%. Three-bedroom, two-bath units are the tightest product type, showing 1.63% vacancy, while two-bedroom town house units had the highest vacancy rate at 5.15%. 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 sale transactions remain on a downward trajectory because of limited inventory in the market. Cap rates declined during the quarter, to an average of 5.45%, Portland multifamily investment transactions amassed approximately \$533

Market Forecast Trends



Average Rents Per-Month

Studio	\$1,115
1 Bed / 1 Bath	\$1,082
2 Bed / 1 Bath	\$1,152
2 Bed / 2 Bath	\$1,400
2 Bed Town House	\$1,341
3 Bed / 1 Bath	\$1,169
3 Bed / 2 Bath	\$1,507
Overall Average	\$1,180

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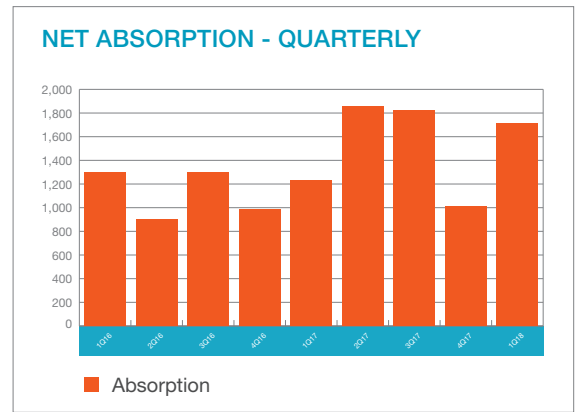
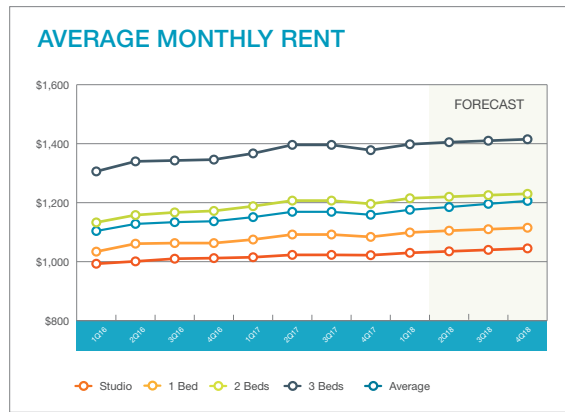
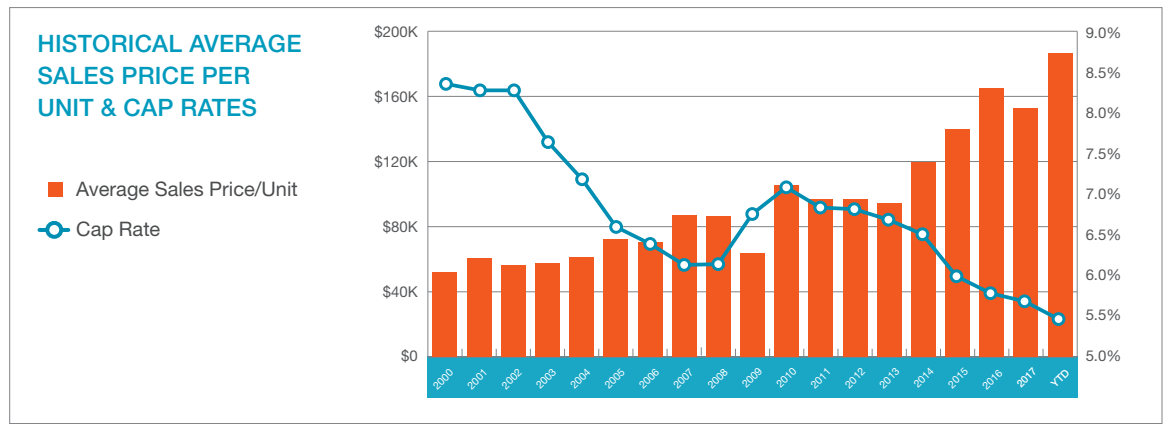
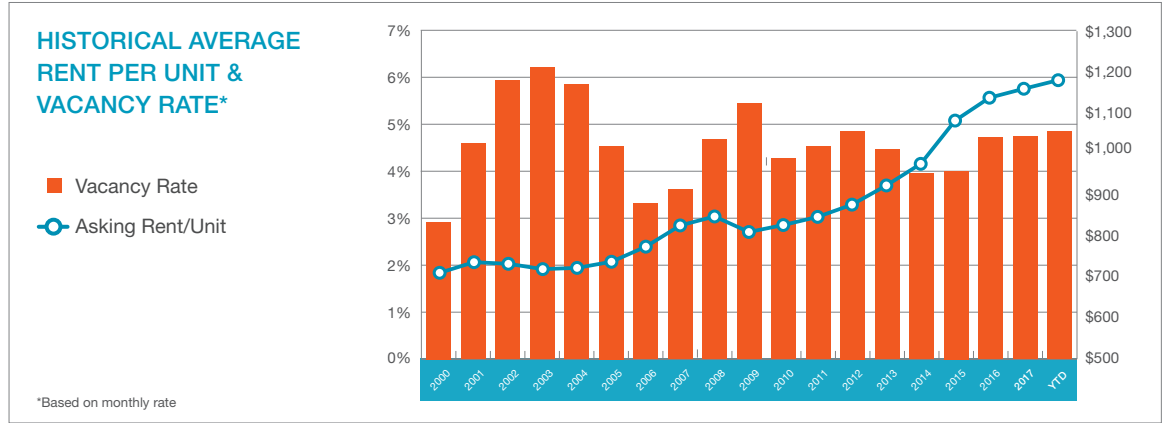
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million in dollar volume in Q1. The average price-per-unit was \$186,344 during the first quarter, up from \$165,865 at the same time a year ago.

New multifamily construction continues to rise 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, which requires 20% of new 20-plus-unit apartment projects to be set aside as

affordable. Increasing by nearly 1,600 units, the greatest pipeline increase over the quarter was the Close-In Westside, roughly equivalent to the urban portion of West Portland. 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.

Sources: MFNW Spring 2018 Report & CoStar



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