

Portland Multifamily

In the midst of one of the strongest economies, regionally and otherwise, the Portland multifamily market continued its exceptional run during the third quarter. Although permit activity has slowed since inclusionary zoning regulations commenced last year, the metro continues to experience one of the strongest building cycles in its history. Portland’s regional economy, moreover, has been outperforming nearly all other large metros across the country, causing a net migration into the area. Housing units of all types remain in high demand. As a result, rental rates and sale prices continued their upward trajectory. With CAP rates remaining steady at 5.3%, the median price per square foot was \$189 and the median price per unit was \$169,500 in Q3. Overall vacancies decreased 45 basis points over the year to 4.4%, and rental rates rose to a market-wide average of \$1.62 per square foot. In sum, just as Portland’s economy still has room to run, so does its multifamily market.

Rental rates around the Portland-metro area rose in Q3, reaching an average of \$1.62 per square foot, up from \$1.57 this time last year. Downtown and Northwest Portland continued to report the highest rents in the market, with asks of \$2.47 and \$2.11, respectively. Outlying areas offered more affordable apartments, showing average price tags of \$1.28 in Outer Northeast Portland, \$1.32 in Troutdale/Fairview Wood Village/Gresham and West Vancouver, and \$1.33 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 declined to 4.4% in Q3, a 45 basis point decrease from the spring of 2018. Northwest Portland had

the highest vacancy rate this quarter at 6.3% with Downtown Portland following suit, at 6.1% -- reflecting a slowdown in absorption of the Class A apartment product being delivered near the city center. Troutdale/Fairview Wood Village/Gresham reported a 2.9% vacancy rate, the lowest in metro Portland, while Milwaukie was close behind at 3.0%. Two-bedroom, one-bath units were the tightest product type, showing 3.64% vacancy, while studio units had the highest vacancy rate at 5.49%. 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.

Although capital remains available for investment in Portland, investors and buyers of all stripes are being extremely cautious as they bide their

Market Forecast Trends



YEAR-TO-YEAR BASIS

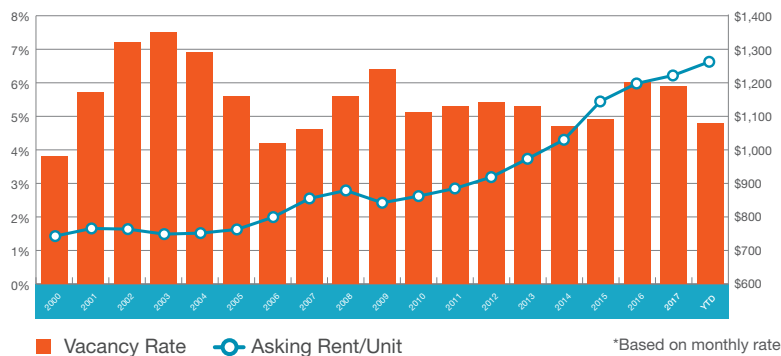
Average Rents Per-Month

Studio	\$1,120	\$2.48/SF
One Bedroom / One Bath	\$1,230	\$1.82/SF
Two Bedroom / One Bath	\$1,187	\$1.37/SF
Two Bedroom / Two Bath	\$1,463	\$1.45/SF
Two Bedroom Town House	\$1,344	\$1.29/SF
Three Bedroom / One Bath	\$1,269	\$1.22/SF
Three Bedroom / Two Bath	\$1,584	\$1.34/SF
Overall Average	\$1,180	\$1.62/SF

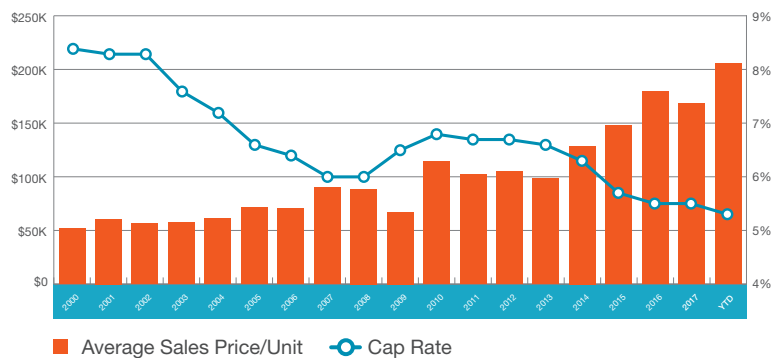
time to see how potential political headwinds might affect the metro. The number of sale availabilities, consequently, have remained flat in the Portland MSA for over a year. Even with these constraints, and just 52 sales transactions, the Portland multifamily investment market amassed over \$622 million in dollar volume in Q3. With capitalization rates remaining steady at 5.3%, the median price per square foot was \$189 and the median price per unit was \$169,500 for the quarter.

New multifamily construction has slowed in 2018, but only marginally, and the slowdown does not portend a decline in interest or demand in the Portland MF market. On an annualized basis, at 7,315 units, the number of permits issued in 2018 to construct new apartment units was the second highest in the history of the market. It was second only to the number of permits issued last year, at 10,319. It must be kept in mind, however, that the rush to permit prior to the commencement of inclusionary zoning (IZ) regulations—i.e., ordinances that require 20% of new 20-plus-unit apartment projects to be set aside as affordable—caused an artificial spike in activity in 2017. Expect new construction to continue apace for the next 12 to 24 months.

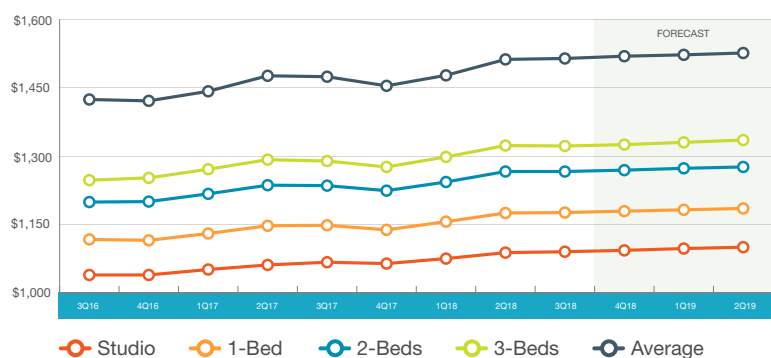
HISTORICAL AVERAGE RENT PER UNIT & VACANCY RATE*



HISTORICAL AVERAGE SALES PRICE PER UNIT & CAP RATES

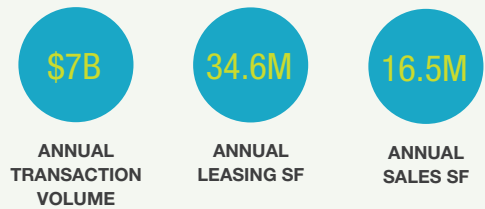


AVERAGE MONTHLY RENT



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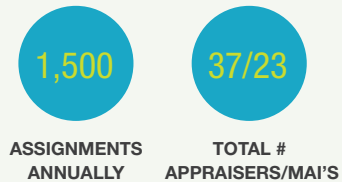
COMMERCIAL BROKERAGE



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