Kidder Mathews

1st Quarter 2019

Real Estate Market Review

Portland Multifamily

The Portland multifamily market has had a substantial run-up in the current cycle, and that has extended into 1Q19. Vacancy rates sit at 4.95%, and each unit type has seen quarter-over-quarter and year-over-year rental rate increases. Yet some headwinds indicate that the current development and investment cycle is entering the later stages. Homeownership rates are increasing, the rate of rent growth is declining, population growth rate is subsiding, and apartment construction is beginning to slow.

Furthermore, cap rates have increased slightly since last year and median price per s.f. is down 7.4% since the end of 2018. Rental rates per s.f. increased 3.7% on average compared to 3Q18; however, concessions are becoming more prevalent. The Portland multifamily market is still strong, but many observers are nervous that the market is softening and that supply may be peaking.

The Portland-metro area multifamily average rental rates rose again to begin the year, climbing 10.5% year-over-year to $1.68/s.f. Downtown Portland still commands the highest average rents in the market but is down 3% since 3Q18 with asking rates at $2.40/s.f. to finish 1Q19. On the other hand, outlying areas such as St. John's and Outer SE had impressive average rent growth of 11% and 7%, respectively, over the same time frame. The prevalence of concessions are making apartments more affordable overall, as it is estimated that they now account for roughly 8% discounts on rental rates. Recently passed statewide rent restrictions could further slow rental rate growth in the future, but for now strong demand for apartments is keeping rental rates high.

The overall vacancy rate in Portland rose 55 basis points in 1Q19, ending the quarter at 4.95%. Northwest Portland continued to be the submarket with the highest vacancy rate, rising to 7.9% on average. Downtown Portland finished 1Q slightly higher at 6.5% vacancy. Both areas have had a large amount of new product delivered since the beginning of 2018, and thus still require some time to fully lease. Troutdale/Fairview and Lake Oswego reported the lowest vacancy rates, both coming in at 3.4% to finish 1Q. The tightest product type were two-bedroom, townhome units, which reported a 4% vacancy rate by the end of the quarter. Studio units had the highest vacancy rate, rising to 5.9% from 5.49% in 3Q18. The increase in homeownership, vacancy rates for downtown properties, and vacancy rates for studios seem to show a trend of changing preferences for Portland residents from smaller units in the city to more space in the suburbs.

Landlords are starting to feel the pressure from statewide rent stabilization legislation that would curb their ability to raise rents. While investors and developers are still being cautious, the 15-year exemption for new construction in the legislation should help alleviate concern that would prevent future development. Median price per unit is up slightly quarter-over-quarter, but on a square foot basis the median price has fallen 7.4% since the close of 2018. Investors are preferring to buy product with more total units, as the average number of units per transaction has increased

Market Forecast Trends

◀▶ VACANCY	▼ UNEMPLOYMENT	▼ NEW PERMITS
▲ RENTAL RATE	▲ NEW CONSTRUCTION	▲ SALES VOLUME

Average Rents Per Month

Studio	$1,170	$2.30/s.f.
1 Bed / 1 Bath	$1,268	$1.31/s.f.
2 Bed / 1 Bath	$1,214	$1.05/s.f.
2 Bed / 2 Bath	$1,530	$1.12/s.f.
2 Bed Town House	$1,408	$0.84/s.f.
3 Bed / 1 Bath	$1,286	$0.95/s.f.
3 Bed / 2 Bath	$1,610	$0.81/s.f.
Overall Average	**N/A**	**$1.68/s.f.**

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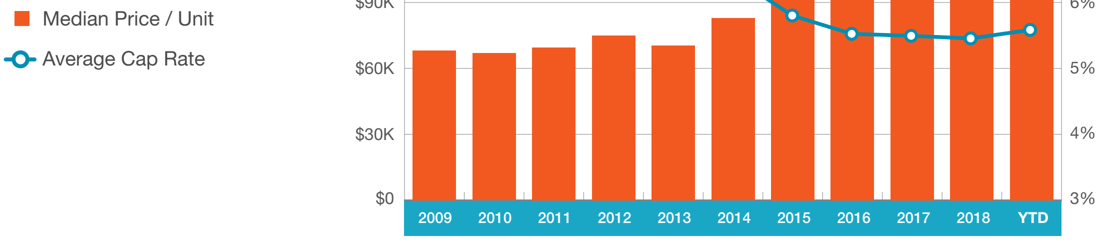
from 37 in 1Q 2018 to 45 in 1Q19. The median gross rent multiplier remains high at 12.24, but is down from its peak last year at 13.3. As the time it takes to recoup an investment on multifamily property declines, more investors may be inclined to enter the market.

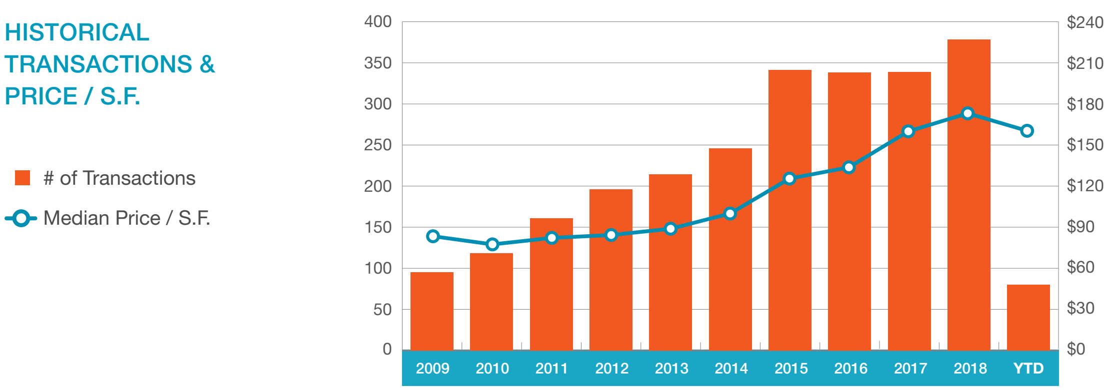
Projects started before the passage of inclusionary zoning (IZ) regulations that require 20% of new 20-plus-unit apartment projects to be set aside as affordable began delivering late last year and will continue to deliver for some time. 1Q19 saw 996 units delivered which is down from the 1,267 delivered last quarter and 2,576 delivered in 1Q18, but far more deliveries are expected over the course of 2019. With 11,682 units currently under construction this market still has some room to expand despite legitimate concerns over restrictive legislation. While some observers are worried about a slowdown, high employment and positive net migration should ensure this market remains strong for some time to come.

Sources: MFNW Spring 2018 Report & CoStar

HISTORICAL PRICE PER UNIT & CAP RATE



HISTORICAL TRANSACTIONS & PRICE / S.F.



HISTORICAL UNITS & GRM