MARKET REPORT

Multifamily

Portland Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

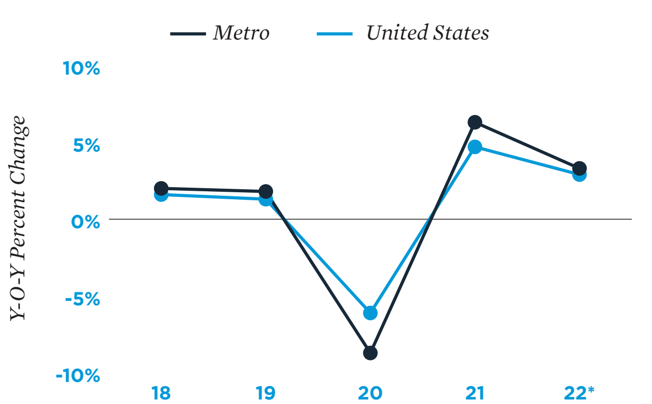
3Q/22

Lower Cost-of-Living Attracts New Residents, Heightens Initiative for Development

Population growth underscores anticipated demand surge. As of June, the average monthly rent in Portland was $350 less than Seattle, and $940 below the Northern California regional mean. As such, Portland represents a haven of lower living expenses for West Coast residents considering relocation. By year-end, Portland's household count is expected to swell by more than 19,000. Developers anticipate that this population growth will provide a considerable boost to rental demand, reflective in the sizable number of groundbreakings noted during the yearlong span ending in June. Nonetheless, only 1,700 units are slated for completion in the second half of the year, suggesting that rental conditions may tighten in the near term.

Two areas benefit from luxury and mid-tier rent gap. At $1,877 per month in June, Portland's Class A sector fetched the lowest average rate of any major market on the West Coast. In the metro, monthly top-tier expenses were also relatively comparable to mid-tier rentals, with the $170 gap between the two classes being the smallest among major U.S. metros. This disparity is providing a boost to top-tier performance, contributing to a 140-basis-point drop in Class A vacancy over the past year ending in June. Particularly, this has tightened conditions in Northwest and Central Portland, locales that each observed declines of at least 150 basis points in upper-tier availability, despite adding more than 1,600 combined units over the past year. Moreover, recent office and industrial move-ins to each area should preserve strong demand for rentals moving forward.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

40,000 JOBS
will be created

EMPLOYMENT:

Staffing improves by 3.3 percent, aided by increased investment in education and health care, and the recovery of the leisure and hospitality sector. As of June, neither sector had surpassed their pre-pandemic peaks, suggesting that further growth is imminent.

3,400 UNITS
will be completed

CONSTRUCTION:

Builders expand inventory by 1.5 percent, marking the metro's lowest annual construction volume since 2013. Still, development remains elevated in Central Portland, where a total of 840 units are expected to be delivered by end-of-year.

40 BASIS POINT
increase in vacancy

VACANCY:

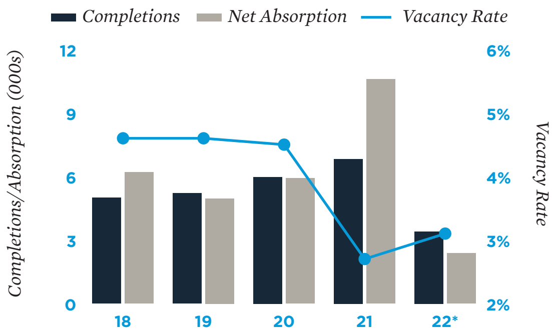
Slowed development and negative net absorption caused vacancy to climb 70 basis points through the second quarter. However, mild supply additions during the second half will help bring vacancy down to 3.1 percent.

9.1% INCREASE
in effective rent

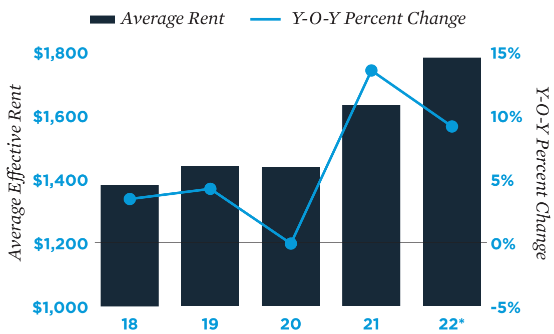
RENT:

Tight conditions and moderate development steer more renters toward existing units, aiding the pace of effective rent growth at these properties. The year-end rate of $1,780 per month places Portland just short of the overall U.S. average.

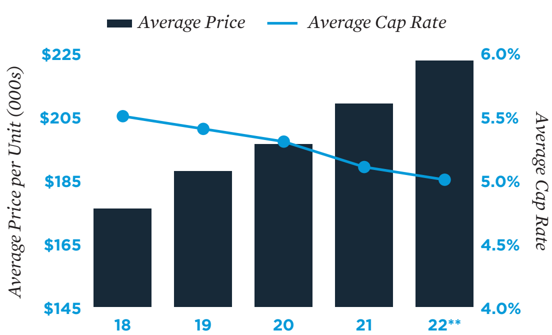
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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2Q 2022 - 12-Month Period

CONSTRUCTION

4,771 units completed

- The Central Portland submarket received the most supply additions in the metro, adding 1,310 doors through the 12-month span ending in June.
- Builders are currently most active in Vancouver, as 2,270 units are pending completion here. The submarket's active pipeline is highlighted by the 300-unit Meritum Evergreen, which is slated for delivery in January 2024.

VACANCY

10 basis point decrease in vacancy Y-O-Y

- Availability ticked down to 3.4 percent in June, as a low volume of completions were noted relative to previous years. Aside from the preceding nine months, this marks the metro's lowest rate since the same quarter of 2015.
- Central Portland recorded the steepest decline in vacancy, falling 150 basis points during the yearlong span preceding July to 5.3 percent.

RENT

13.3% increase in the average effective rent Y-O-Y

- Nine out of 11 submarkets notched double-digit rent growth over the past year, lifting the metrowide average to $1,709 per month in June.
- Class B recorded the sharpest rent gains among asset classes, rising by 13.3 percent to $1,707 per month. Central Portland and Hillsboro led this trend, recording Class B rent hikes of 18.8 and 17.0 percent, respectively.

Investment Highlights

- Trading activity surged by nearly 80 percent during the 12-month span ending in June, with lower-tier properties accounting for nearly 65 percent of all transactions over the past year. Southeast Portland drew the largest share of this activity, with first-year yields here commonly falling into the high-4 to low-5 percent band. While the focus in the area has been largely in the Class C segment, the submarket also has below-market average Class A and B vacancy rates at 3.7 percent and 3.0 percent, respectively.
- Institutions are targeting Class B listings more frequently in response to the subsector's metro-leading rent gains. In North Portland, mid-tier assets trade at a low-5 percent average cap rate. In Vancouver, buyers are accepting low-4 percent minimum yields for similar assets, with investors drawn by the area's sustained low vacancy amid elevated supply additions over the past year. Class B vacancy in Vancouver registered at 3.0 percent at midyear.
- Luxury apartment assets may be in higher demand by institutions in Central, Northwest and Southeast Portland, as well as East Beaverton, going forward. All four submarkets recorded year-over-year Class A vacancy compression of at least 150 basis points, which pushed the segment's average effective rent up by more than 6 percent in all of these locations.