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CONTENTS

UNREINFORCED MASONRY BUILDINGS AND THE CITY OF PORTLAND: UPDATE

DENIZ ARAC
Portland State University

Many of the historic buildings in Portland are defined by their brick exteriors. Neighborhoods, such as the Pearl District, encourage new developments to maintain a similar look and feel to these historic buildings. While the intent to keep these historic buildings intact have merit, the city has acknowledged that due to the construction methods of the time of building, which are categorized as unreinforced masonry buildings (URMs), therein lies a major public safety issue if there were to be a large earthquake. A quick Google image search of "Christchurch Earthquake", from the 6.3 magnitude earthquake in Christchurch, New Zealand that killed 185 (Heritage, 2012), shows just how devastating one of these earthquakes could be, and how these buildings perform in a seismic event.

Approximately nine percent of the building stock in Portland falls under the categorization of an URM building and Portland sits atop the Cascadia subduction zone, thus there is a sense of urgency to retrofit our existing building stock to protect public and businesses. I will discuss why URMs pose a hazard, a very brief history of the city's URM efforts and then detail what Resolution Number 37364, which was adopted by City Council, means to the public, buildings owners and our community. This issue has many different stakeholders with conflicting motivations and does not lend itself to a one size fits all solution.

Figure 1: - The Maddox Building, Pearl District (Loopnet, 2018)

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UNREINFORCED MASONRY BUILDINGS

An unreinforced masonry building is "a building with one or more walls that are made of adobe, clay, brick or blocks, with no steel reinforcement inside" (URM Building Policy Committee , 2017). Before 1945, most of the brick buildings were built in a way that roof and floors were built to be resting on the brick exterior, which are load bearing, but were not mechanically fastened to the exterior (Schofield, 2017). Under normal circumstances this does not present a hazard. In the event of an earthquake however, as the lateral movement from the ground travels up the exterior walls, the walls, floors and roofing that were not connected to the exterior start to separate, see Figure 2.

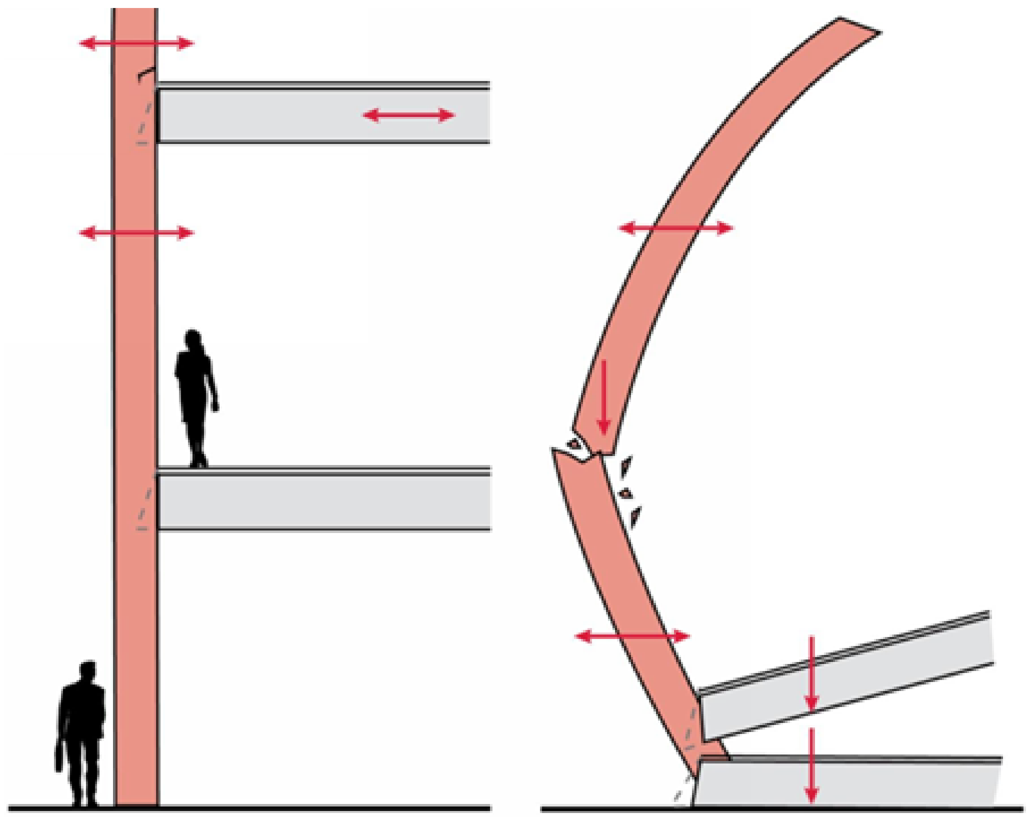

Figure 2: URMs Performance in an Earthquake (Schofield, 2017)

To retrofit the URM buildings to become resilient to earthquakes, the floors and roof need to be tied into the exterior. Additional vertical supports and cross bracing also help transfer the loads to let the building withstand earthquakes. Figure 3 illustrates what these retrofit upgrades look like.

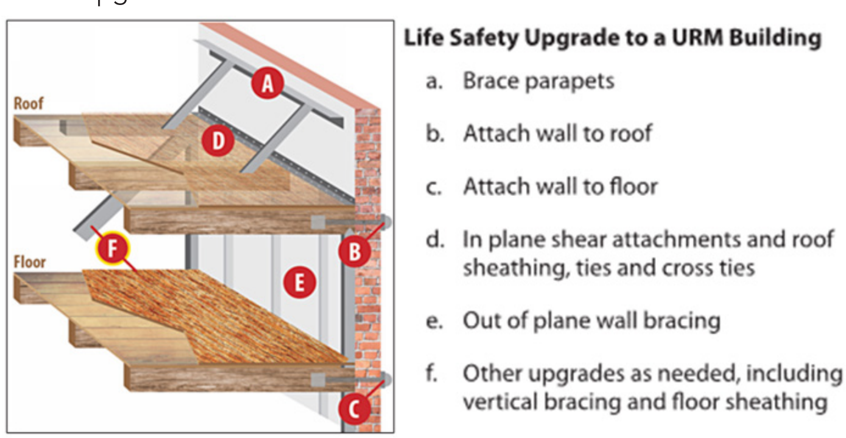

Figure 3: URM Building Seismic Upgrades

BRIEF HISTORY

The city of Portland first introduced URM retrofit requirements in 1995 and was later updated in 2004 (City of Portland, 2014). Under Title 24.85 the structural and life safety requirements for existing URM buildings changing occupancy or having alterations performed were set out. This only affected buildings that had building permits applied for. Therefore, the URM buildings grandfathered in, and that were not performing permittable work in their buildings, did not have to perform any seismic upgrades. Building owners were not incentivized to volunteer to do these upgrades, so the burden of costs and disruption to their tenants outweighed the life safety benefits for the majority of building owners. Since 1995, only about 15 percent of the building stock had been upgraded.

City council recognized that the threat of a sizable earthquake and the impacts of it on our city would be too great to stand by and allow building owners use their discretion to upgrade their URM buildings. In 2014, City Council directed the staff to research other cities' programs and report back by the summer of 2016 with code change recommendations and incentives to align the upgrades with the Oregon Resiliency Plan. Three advisory committees were formed to lead the efforts, they were as follows; a Retrofit Standards Committee, an Incentive Committee and a Policy Committee. All of these efforts culminated in December of 2017 when the Policy Committee came out with their "Unreinforced Masonry Building Policy Committee Report" which laid out the groundwork for how a mandatory program would look.

POLICY COMMITTEE REPORT RECOMMENDATIONS AND RESOLUTIONS

The Unreinforced Masonry (URM) Building Policy Committee Report had a few recommendations, and were adopted by City Council per Resolution Number 37364 on June 13, 2018. The committee had a year to create code language and requirements for the URM program. The recommendations that were accepted are below.

The first recommendation was a mandatory URM building retrofit policy, that required upgrades based off of classification, uses and services of each building (URM Building Policy Committee , 2017). Figure 4 below summarizes the building classes, the proposed standard, and the number of buildings that fall into each category.

Proposed Standard	Building Class	Approx. # of Buildings
Immediate Occupancy	1: Critical Buildings + essential facilities	6
Damage Control	2: Schools, community centers, high occupancy structures	94 44 schools, 37 churches, 13 other
Collapse Risk Reduction	3: All URM buildings not in 1,2, or 4	1,332 Plus 37 churches and other buildings owned by non-profits (but not schools) may choose this standard.
Parapet bracing only	4: 1 and 2-story buildings with 0-10 occupants.	201

Figure 4: Building Class and Standards Summary (URM Building Policy Committee , 2017)

Associated with each building class are timelines to complete partial and full retrofits. The timeline for each building class are below:

- Class 1: 10 years to complete all steps.
- Class 2: 10 years to tie-in parapets (which typically require a new roof as well) and 20

POLICY COMMITTEE REPORT RECOMMENDATIONS AND RESOLUTIONS

years for the full retrofit

- Class 3: 20 years for parapet bracing but no timeline for wall to floor attachments
- Class 4: 20 years for parapet bracing

Class 3 buildings are most prevalent URMs in Portland and will have the most impact on the most amount of building owners. A cost estimate was provided, see Figure 5, to perform a benefit cost analysis.

Estimated Class 3 Building Retrofit Costs	**COST RANGE PER SQUARE FOOT**		
COST COMPONENT	Min	Max	Median
Existing Ownership Expense			
Re-roofing	$ 31	$ 36	$ 34
Existing Code Requirement			
Parapet Bracing	$ 1	$ 7	$ 2
Roof-to-wall attachment	$ 1	$ 8	$ 2
New Code Requirement			
Sheathing	$ 8	$ 9	$ 9
Floor-to-wall attachment*	$ 3	$ 5	$ 2
Total Estimated Cost Per SF	$ 43	$ 65	$ 48

*Only required on multi-story buildings

Figure 5: Class 3 Retrofit Estimate (URM Building Policy Committee , 2017)

The second recommendation was to support URM building owners financially. The cost burden of the retrofit has prevented many building owners from pursing a voluntary retrofit. The following are the main potential funding sources:

- Seismic C-PACE Program: Authorized under Senate Bill 85, requires investment in retrofit to support the payoff of the loan. Funds are already set aside for this program.
- Property Tax Exemptions: Up to 15 years of tax exemptions, program would need to be created for URM specifically. The program was authorized by the 2017 Oregon Legislature in SB 311, but Multnomah County and Portland Public Schools must agree to forego property tax income.
- State Seismic Tax Credit: Being explored, would provide a 20 percent of seismic expenditure state tax credit exemptions for all private owners of URMs.
- State Historic Tax Credit: Did not pass in 2017 originally, but will be attempted again. Main proponents include the City of Portland and Restore Oregon.
- Revolving Loan Fund: Proposal to be proposed within a year.

POLICY COMMITTEE REPORT RECOMMENDATIONS AND RESOLUTIONS

The third recommendation included different types of special hardships for affordable housing, schools, and religious/non-profit uses. These hardships included extending the timelines and requirements for buildings falling under these categories. This group did include historic structures at one point, but since historic buildings benefit from other incentives already, they would not receive additional hardships.

The fourth recommendation was modifications to the building code. This includes the following:

- Building Owner Notice: URM building owners must be notified of the City's determination that a building is URM and provided access to information regarding the determination. This will include an appeal process and timelines for retrofitting.
- Additional Triggers: reroofing greater than 50 percent of total roof area within a 15-year period will trigger parapet bracing. Alternatively, if over a 5-year period building alterations or repairs are more than the building value, the parapet bracing will be triggered.
- Public Notice: Lease agreements will be the vehicle to notify tenants that the building is a URM and has a potential to collapse in an earthquake. Building owners will also be required to add a placard at the entrance that states "This is an unreinforced masonry building. Unreinforced masonry buildings may be unsafe in the event of a major earthquake. The City's Policy Committee did not favor placarding of a building unless the building was significantly out of compliance.

CONCLUSION

With City Council allowing more relaxed timelines on the retrofit of class 3 and 4 URM buildings, there is some relief to building owners. However, this will just allow building owners to kick the can down the road per se. The group Save Portland Buildings estimated that financial assistance will need to cover at least 80 percent of the total costs of a retrofit for many of the building owners to be able to afford taking on the upgrades (Save Portland Buildings, 2017). Although the June 13 proposal seemed to be a reasonable compromise, the resolution published on June 25 had language that was not discussed in the meeting, which further angered those not in favor of the mandate (Classen, 2018)

The elephant in the room is what happens when a building owner cannot afford the upgrades, even with financial assistance. The rhetoric around town has been that the building owners will just decide to demolish or sell their buildings to developers, who would likely look at the best and highest use at each site, which typically includes demolition, which could eliminate a substantial number of affordable housing units.

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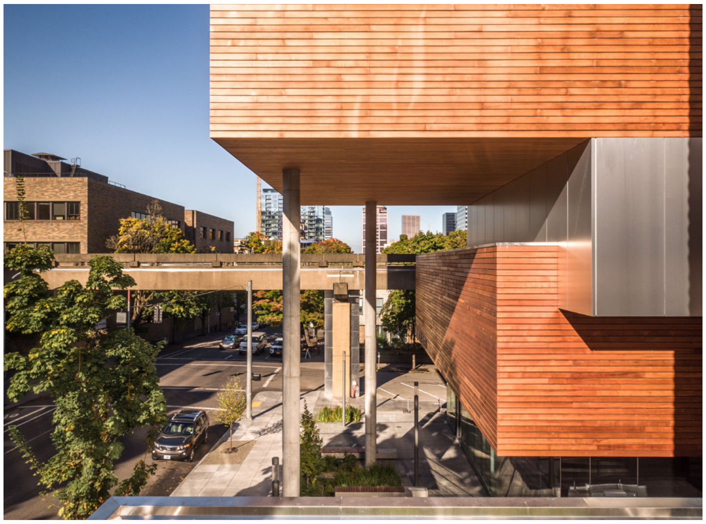
THE STATE OF THE ECONOMY

SPENCER WEILLS
Portland State University

The United States economy remained strong through the second quarter of 2018 adding an average of 224,000 jobs each month according to the Bureau of Labor Statistics. This was an increase of about 35,000 over the same period last year. One of the highlights of the strong job growth has been the construction industry which has added over 300,000 jobs in 2018, a growth rate of 4.5 percent annually, according to BLS. Another industry that has contributed to improving employment is the oil and gas industry. The industry bounced back in the last year and a half adding nearly 90,000 jobs since the beginning of 2017, from a low point of under 600,000 jobs at the bottom of the oil price dip. This total is still well below numbers see in 2014 of nearly 850,000 but will likely continue to grow if oil prices continue to rise. Unemployment ended the second quarter at a historical low of 3.9 percent.



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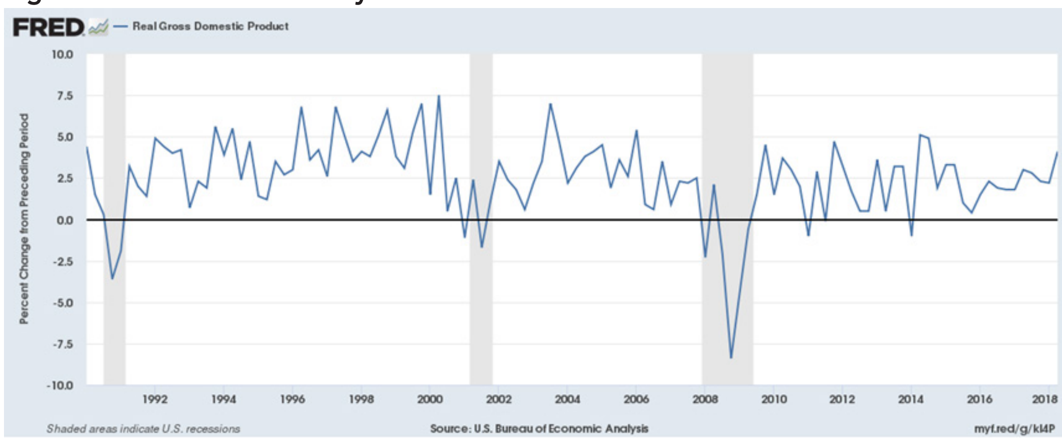
US ECONOMY

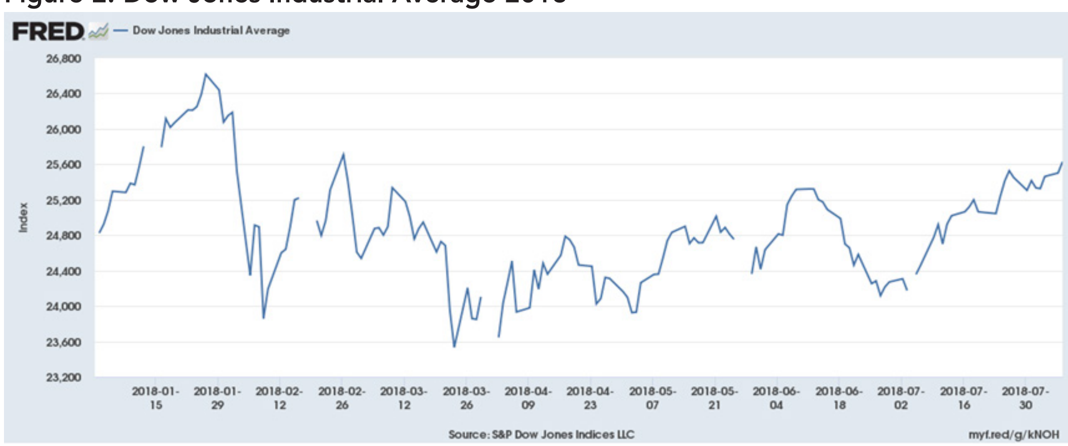
The second quarter saw a very strong growth in GDP, achieving a 4.1 percent annualized growth rate, the highest rate since 2014.

Figure 1: Real GDP Quarterly Growth Since 1990



The stock market continued on the mostly horizontal path that it has followed for 2018. This is to be expected after 10 years of growth after the Great Recession but could be a worry for investors if this trend continues.

Figure 2: Dow Jones Industrial Average 2018



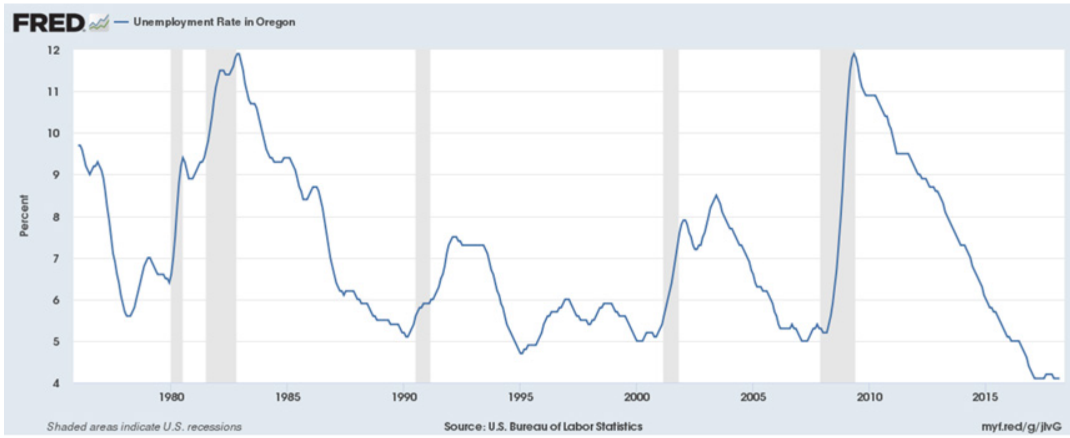
Wages rose by just over 2.7 percent in the second quarter of 2018 according to the Atlanta Fed. This is a positive sign but with inflation hovering just above 2 percent, workers are seeing little real value added to their paychecks.

Figure 3: Wage Growth, 2010-2018

OREGON ECONOMY

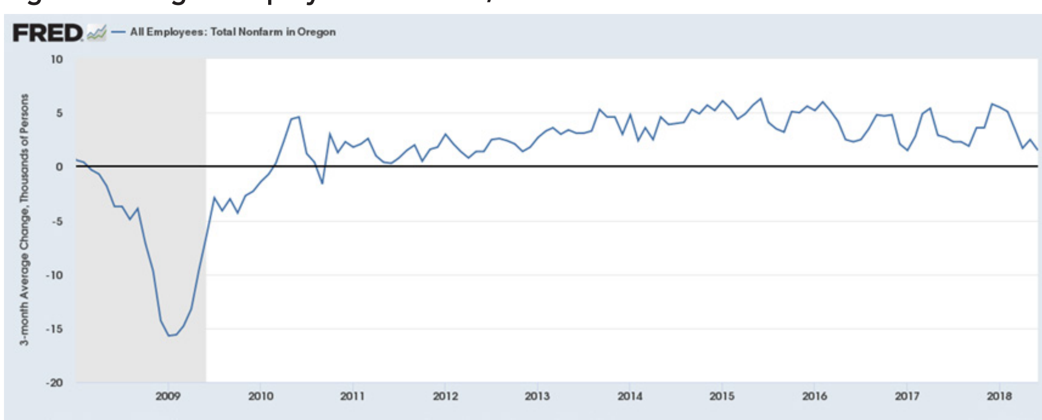
Oregon's economy continued growing in the second quarter of 2018. The unemployment rate dropped to 4 percent, the lowest it's been in over 30 years. While there are still concerns about income inequality in the state, the low unemployment rate should help to push wages upwards.

Figure 4: Oregon Unemployment Rate, 1976-2018



Oregon's number of jobs continued to grow but the pace of growth dropped off in the second quarter of 2018. The first quarter saw over 14,000 jobs added while the second quarter saw only 5,700 new jobs added. It is unclear if this slower growth is because businesses are hiring less or the low unemployment rate is making it harder to find workers.

Figure 5: Oregon Employment Growth, 2008-2018



PORTLAND ECONOMY

The Portland-Vancouver-Hillsboro metro area ended the second quarter of 2018 with an unemployment rate of 3.8 percent having dipped down to 3.4 percent in the month of May. These numbers continue to impress. The labor market is tight in Portland and qualified candidates continue to find well-paying jobs relatively easily.

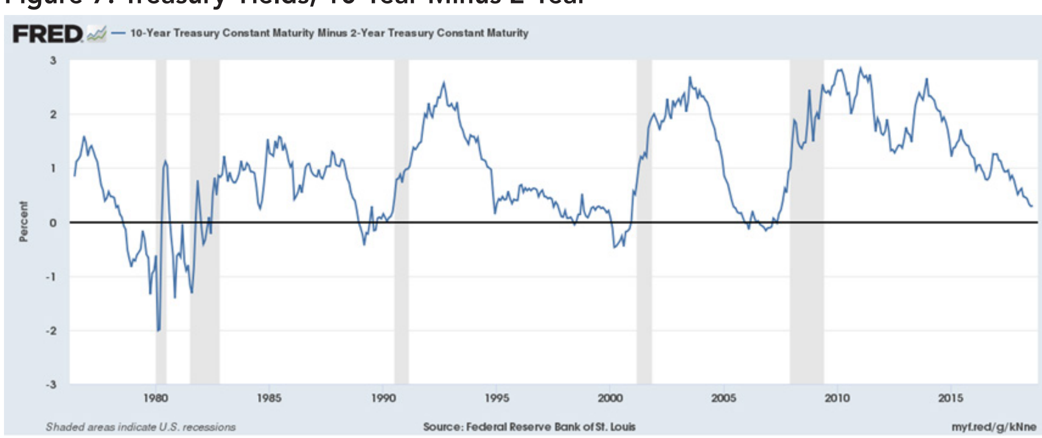
Figure 6: Portland Metropolitan Area Unemployment Rate, 2007-2018

YIELD CURVE

A potentially worrying sign for the economy is the flattening of the yield curve. The yield curve is a commonly referenced economic indicator that represents the difference between the 10 year and 2 year treasury yields. Typically, longer term bonds have a significantly higher yield than shorter term bonds, reflecting greater uncertainty over longer time horizons.

Lately, however, the 10 year treasury yield has been stubborn to move and the difference between the 10 and 2 year notes is nearing zero. In general U.S. recessions have been proceeded by a flattening yield curve as can be seen in the chart below with recessions shown in grey.

Figure 7: Treasury Yields, 10-Year Minus 2-Year



The time between the yield curve inverting and the beginning of a recession has been variable throughout history (it has typically been one to two years). No economic indicator is perfect but it is a potential sign of worry on the horizon. However, the Fed Reserve's policy of low interest rates is likely to have disrupted the relationship between longer term and shorter term Treasury yields.

MORTGAGE INTEREST RATES

Mortgage interest rates have been relatively stable in the second quarter of the year, after rising one-half of one percentage point in the first quarter. At the end of the second quarter the rate on a 30-year fixed rate mortgage loan was 4.55 percent.

Figure 8: Mortgage Rate, 30-Year Fixed, 2007-2018

The recent stability in interest rates is expected to be a boost to residential real estate transactions. However, a dearth construction and other supply constraints have acted as a counter balance to the interest rate environment. Looking forward, the Fed is expected to raise interest rates in the last half of the year, which could dampen real estate activity.

RESIDENTIAL MARKET ANALYSIS

JENNIFER VOLBEDA
Portland State University

For the past few years, the Spring quarter has been represented by significantly more transactions, higher prices, and sales within very few days—a quick paced, cut-throat market where if a house had been for sale longer than a day it was likely already gone. Whether due to the continued increase in cost of construction, higher cost of land, a higher number of rental units available, or a mixture of all three, the market appears to be slowing a bit.

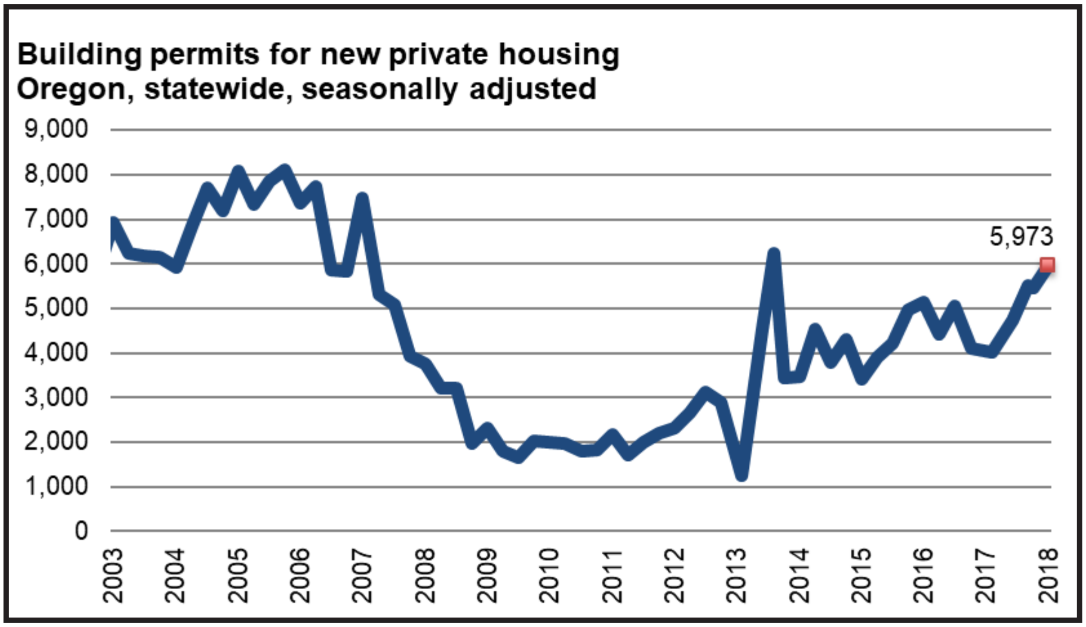
The costs to build single family homes have increased over the past few years, and even more so recently. Tariffs on lumber from Canada in and of themselves are responsible for an estimated $9,000 in additional costs for single-family homes throughout the United States, according to the National Association of Homebuilders. Outside of hard costs of construction, land prices have also continued to increase. Mike Tharp, associate vice president for Colliers Portland, has seen these land prices trend upwards for the last 24 months, with prices being between eight and ten percent higher now than this time last year. Lastly, with the construction of multi-family units within the market, rents increases have begun to slow, which may have given renters time to breath and press pause on their search for a home.

In all, Portland, Vancouver, Salem and Eugene have all seen rising prices but significantly fewer transactions this quarter than in years past. Some have speculated that prices have grown beyond what potential homebuyers can afford.

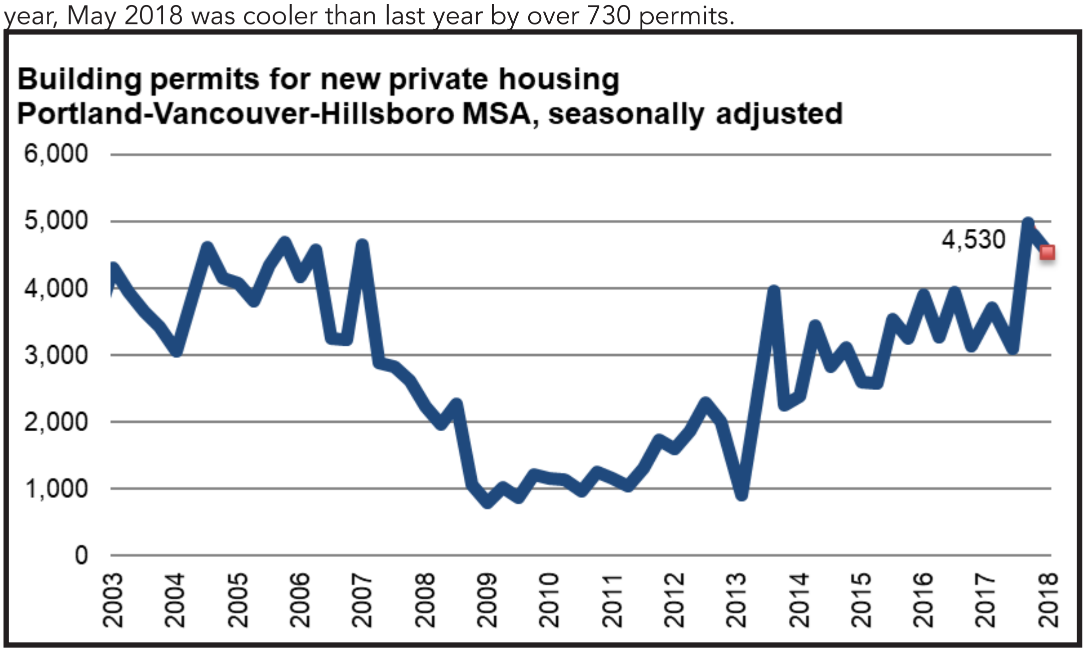
Jennifer Volbeda is a candidate for the Masters in Real Estate Development degree and currently works as a tenant coordinator/project engineer for Harsch Investment Properties within the retail portfolio. Any errors of omissions are the author's responsibility. Any opinions are those of the author solely and do not represent the opinions of any other person of entity.

LOCAL PERMITTING

For the month of April 2018, a total of 1,648 permits were authorized for new private housing within the state of Oregon, while May saw 1,360 permits authorized. When compared to last year, April saw an increase of 55 percent, while May was cooler, by 21

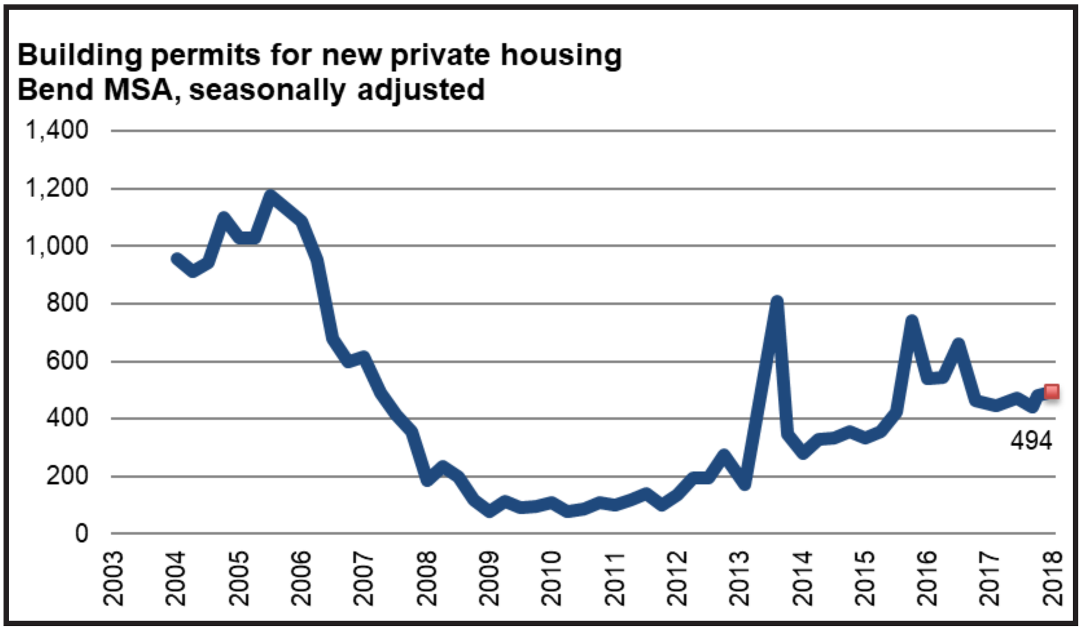


The Portland-Vancouver-Hillsboro metropolitan area had 1,360 building permits for new private housing authorized throughout the month of April, as well as 861 permits throughout the month of May. While this reflects a 56 percent increase from April of last year, May 2018 was cooler than last year by over 730 permits.

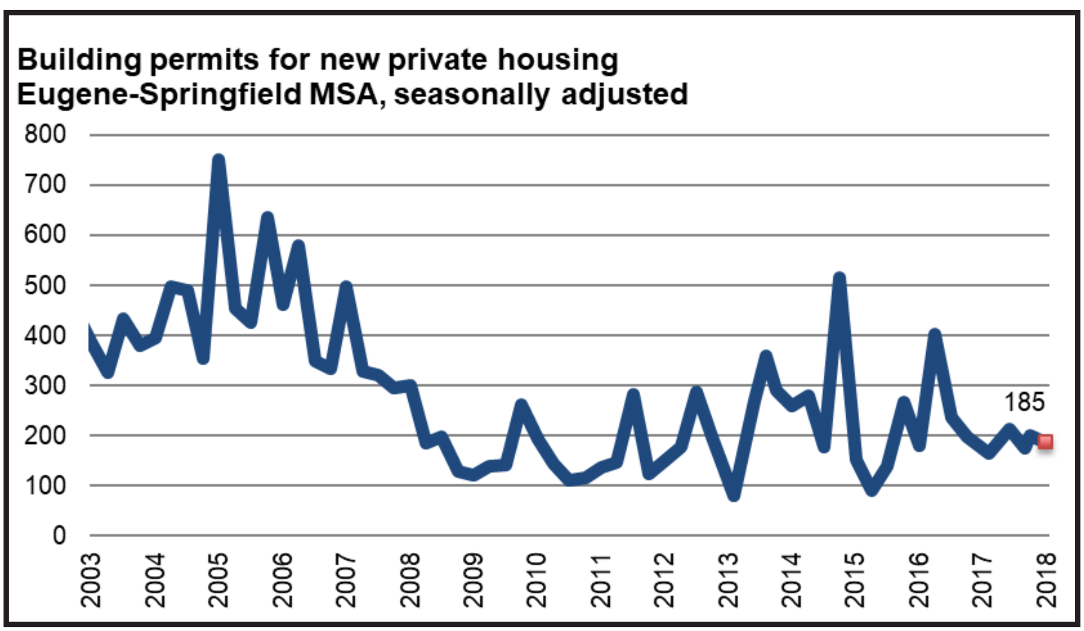


LOCAL PERMITTING

The first two months of the second quarter of 2018 in Bend had a total of 307 permits authorized for new private housing. Much like the city of Portland, April saw a nine percent increase in authorized permits than in April of 2017, whereas May was cooler by three percent.

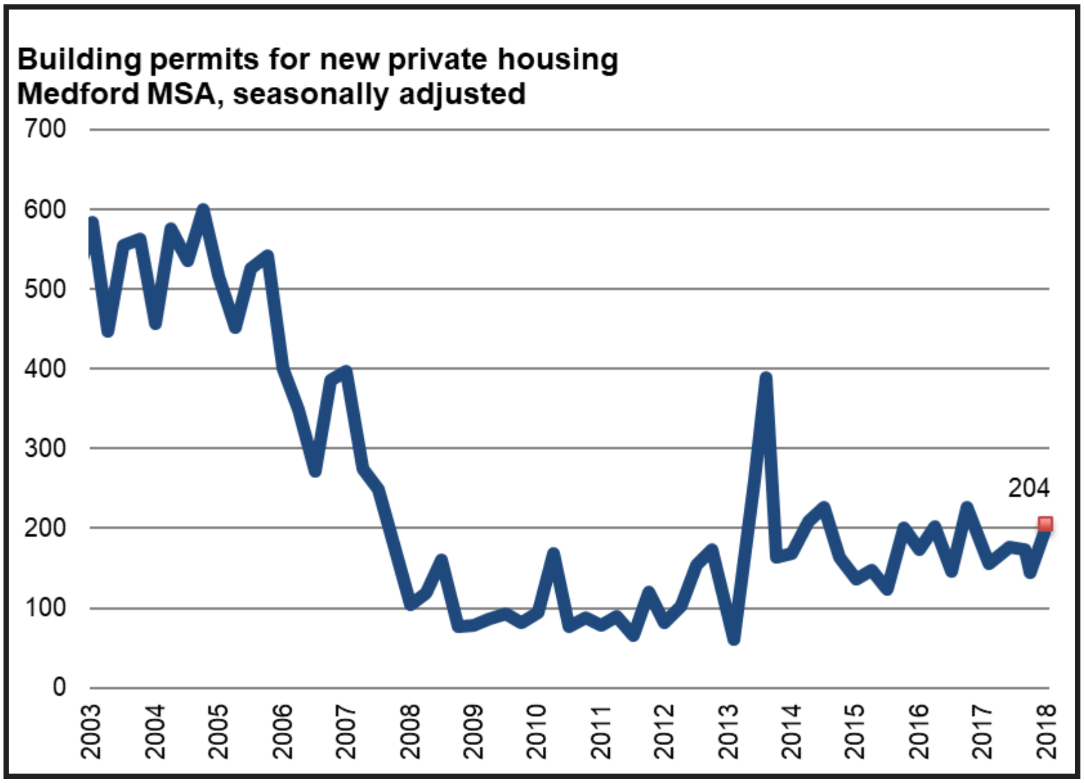


Eugene had a total of 126 permits authorized within April and May of 2018. April saw 57 permits issued, a 30 percent increase from the 44 that were authorized April of last year. There were 69 permits authorized within May of 2018, which reflects about a nine percent decrease from May of 2017.



LOCAL PERMITTING

Medford had fewer permits authorized in both April and May of 2018 than were in 2017. With about 18 fewer permits in April, and 16 fewer in May, both months are hovering around a 30 percent decrease year-over-year.



PORTLAND TRANSACTIONS

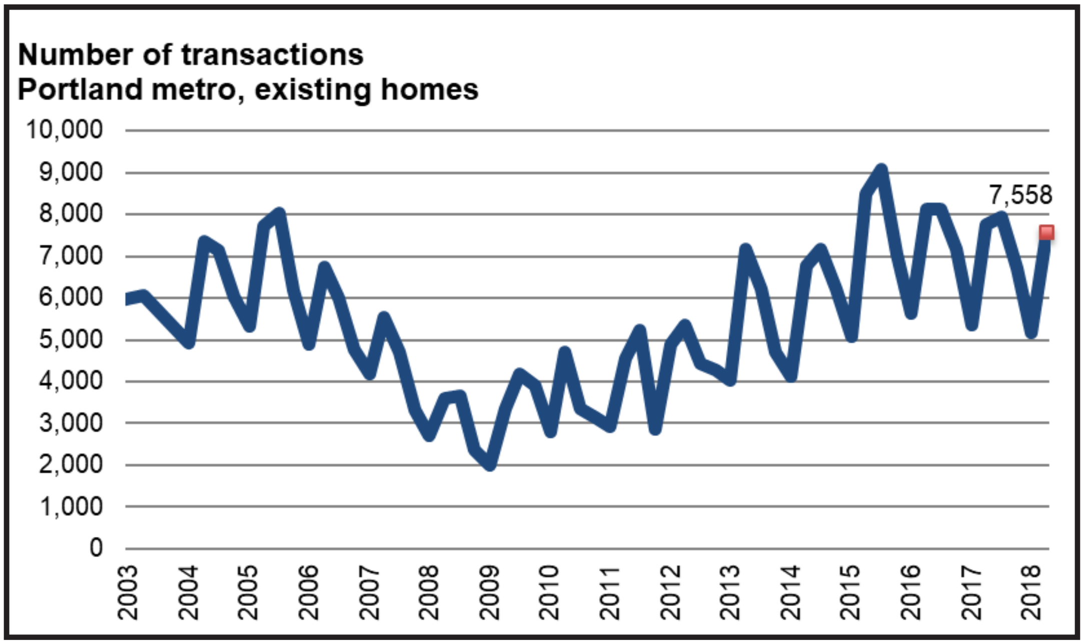
Information provided by RMLS indicates the second quarter showed signs of a slightly cooling market within the Portland metro. There were 7,558 transactions of existing homes within the Portland metro, a 46 percent increase from the first quarter of 2018. While an increase compared to last quarter, this reflects a 2.6 percent decrease from the same period last year, and an even more sizable seven percent decrease from the second quarter of 2016.

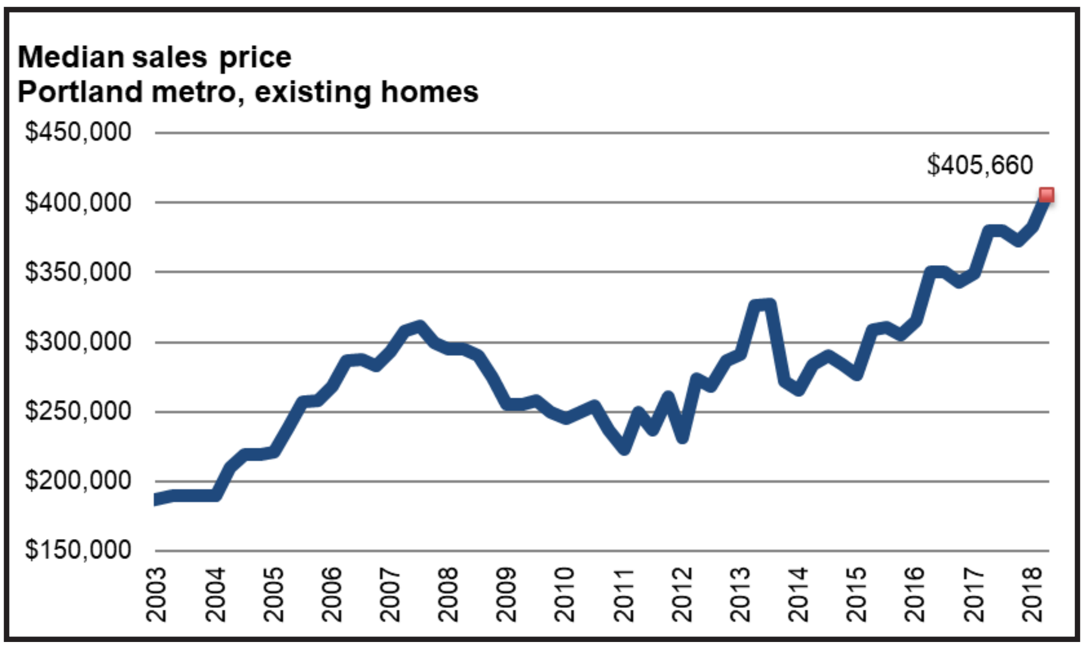
Similar to the last few quarters, the sales price of existing homes within the Portland Metro area continue to rise while the number of transactions cooled slightly. Portland metro saw the median sales price increase by 6.8 percent from the second quarter of 2017, landing at $405,660 for 2018. When compared to 2016, this increase reflects nearly a 16 percent increase in price.

Typically seen during the second quarter are higher transaction counts, higher prices, with fewer days on the market. This quarter was no different. With an average of 27 days on market, the Portland metro existing housing market is in line with the past couple of years.

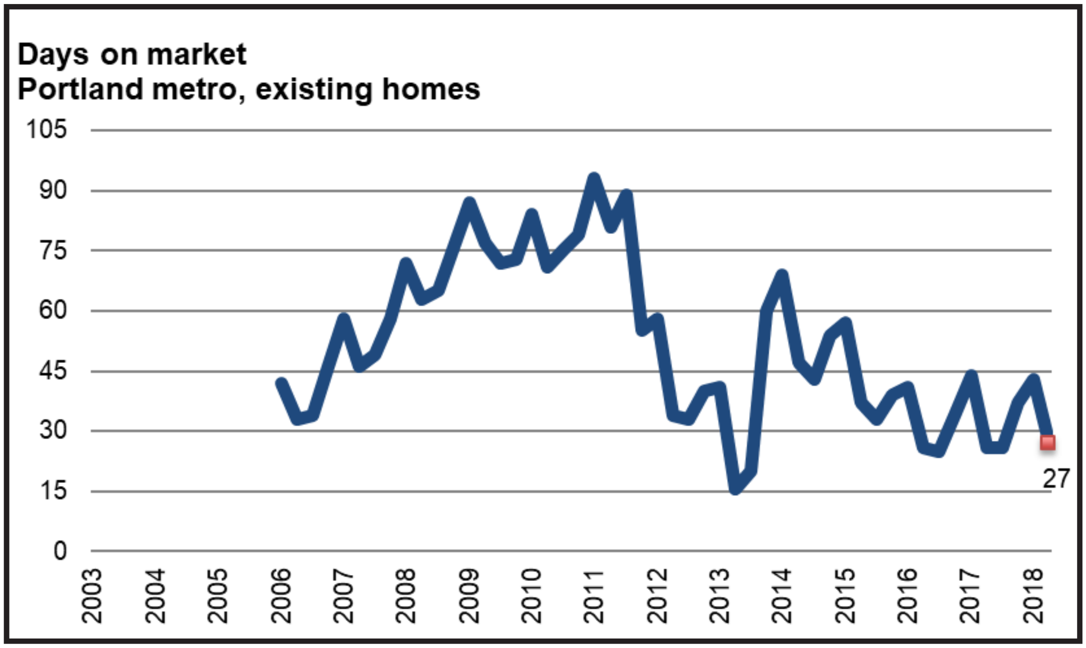
The ratio of sales price to list price continues to increase during the second quarter compared with the rest of the year. For the past four years, the second quarter has had a ratio of sales price to list price at or over 100 percent. At 100.3 percent this quarter, the pattern continues.

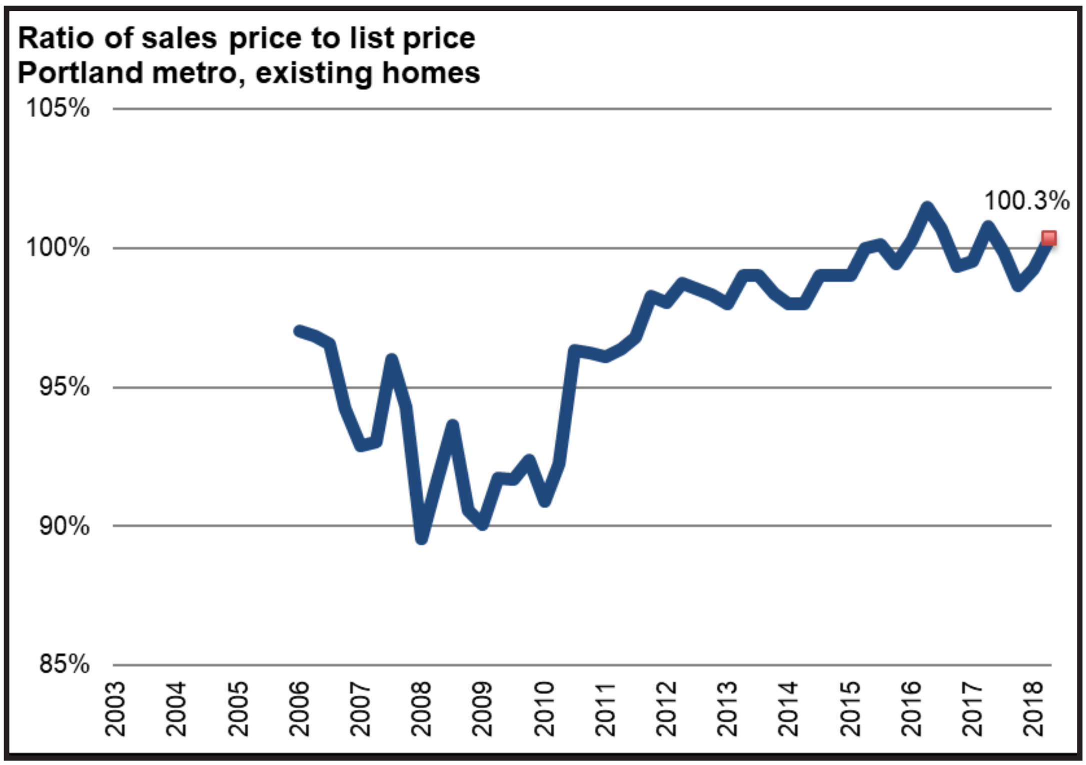
PORTLAND TRANSACTIONS





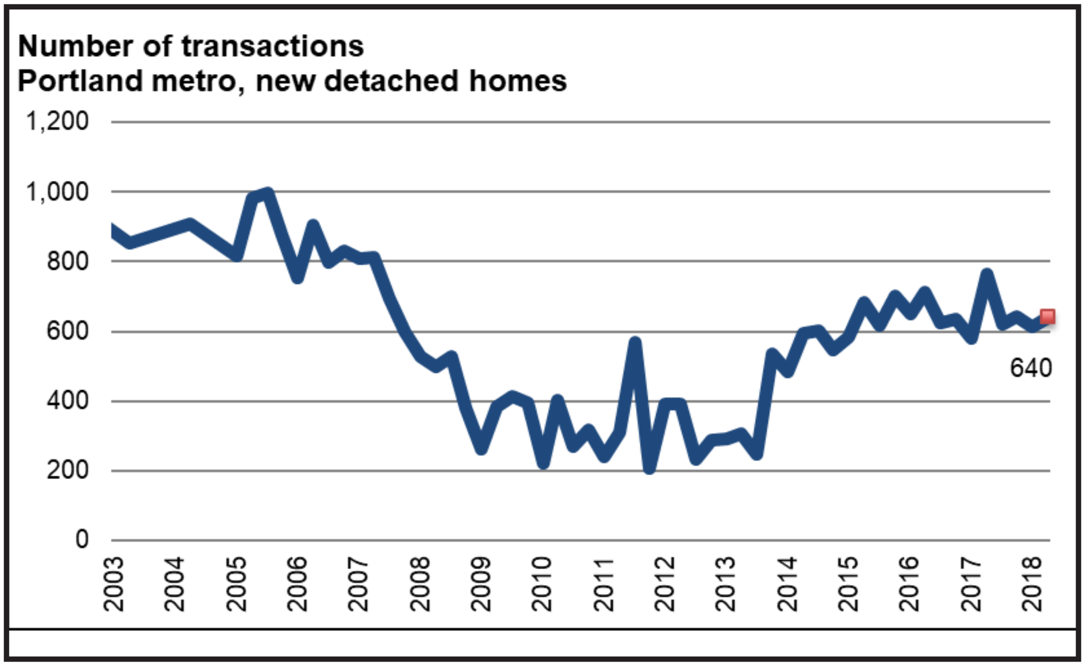
PORTLAND TRANSACTIONS





The second quarter of 2018 concluded with 640 transactions of new detached homes within the Portland metro area. This number represents a 16.5 percent decrease from the number of new homes that were sold in the same quarter of 2017. While the count of transactions were significantly fewer than the same quarters of years past, the median sales price rose seven percent from the second quarter of 2017 to $528,615.

PORTLAND TRANSACTIONS



VANCOUVER AND CLARK COUNTY TRANSACTIONS

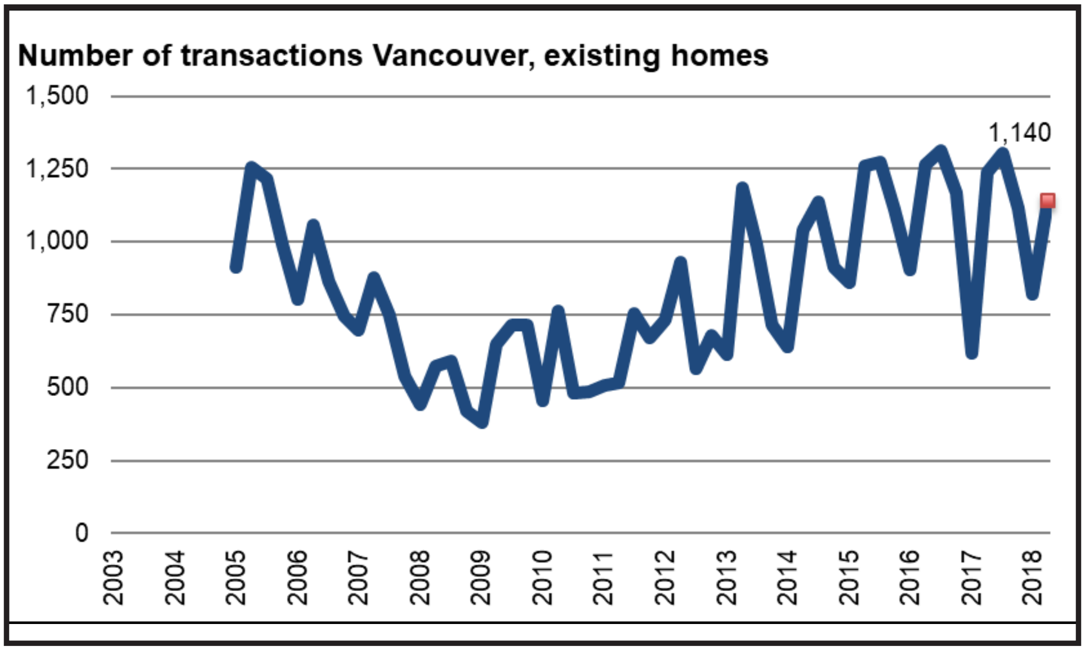
Vancouver had 1,140 transactions of existing homes during the second quarter of 2018; more than eight percent fewer transactions than in the same quarter of 2017. The median sales price for existing homes in Vancouver continue to rise; reflected by an 8.9 percent increase from the second quarter of 2017, the median sales price this quarter has risen to $326,750.

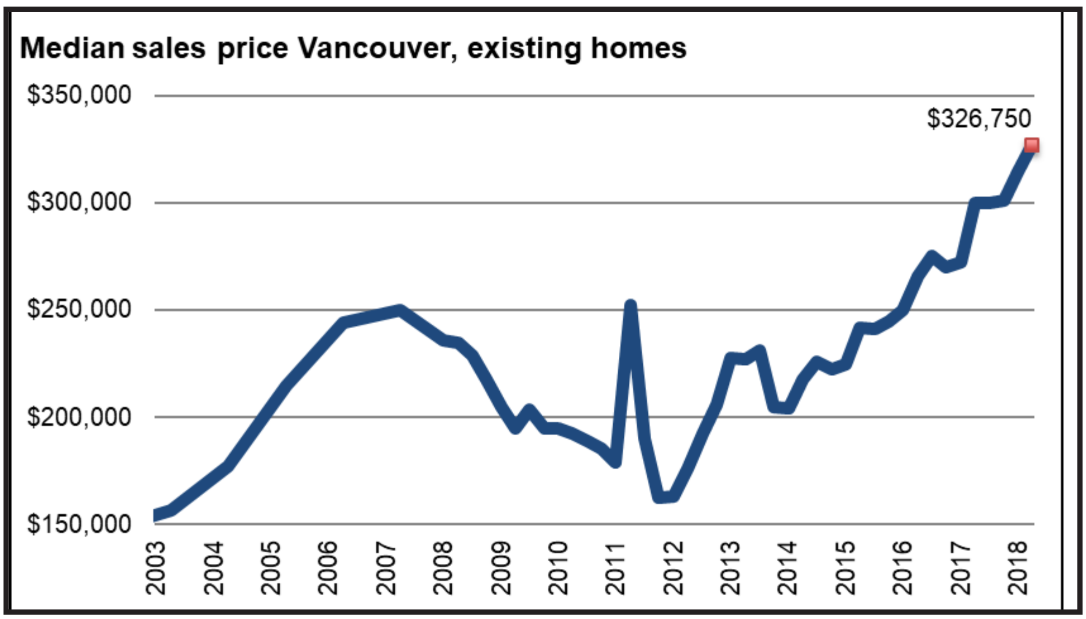
Vancouver existing houses continue selling as fast as ever, with the days on market hitting a low of only 21 days. Since PSU records began in 2005, the average days on market has never been so low. Existing housing during the second quarter of 2018 remains on market for an average of 21 days, a 12.5 percent decrease from 2017 and 22 percent decrease from 2016.

In contrast to both Portland and Vancouver, Clark County saw an increase in both transactions and sales price in the second quarter of 2018 compared with the same quarter of last year. With 942 transactions, the quarter saw a five percent increase from the same period last year. Median sales price within Clark County rose 9.5 percent over the past year, landing at $380,000.

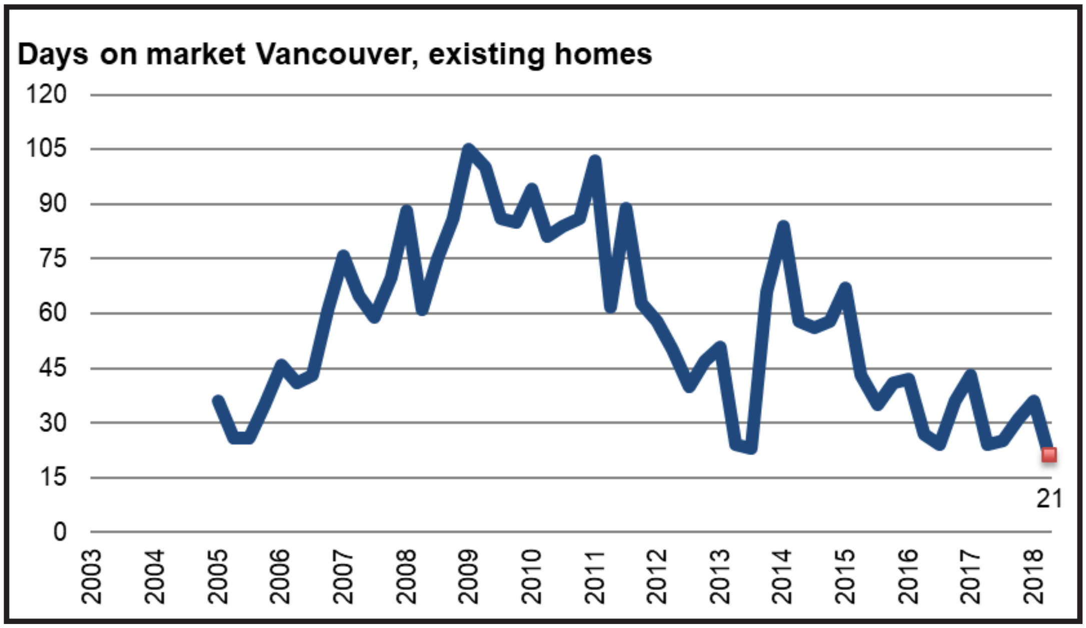
While housing stayed on the market for fewer days in the second quarter than in the first, when compared to same quarter of 2017, Clark County saw a 5.7 percent increase, or two days longer. Clark County housing remained on the market for an average of 38 days during the second quarter.

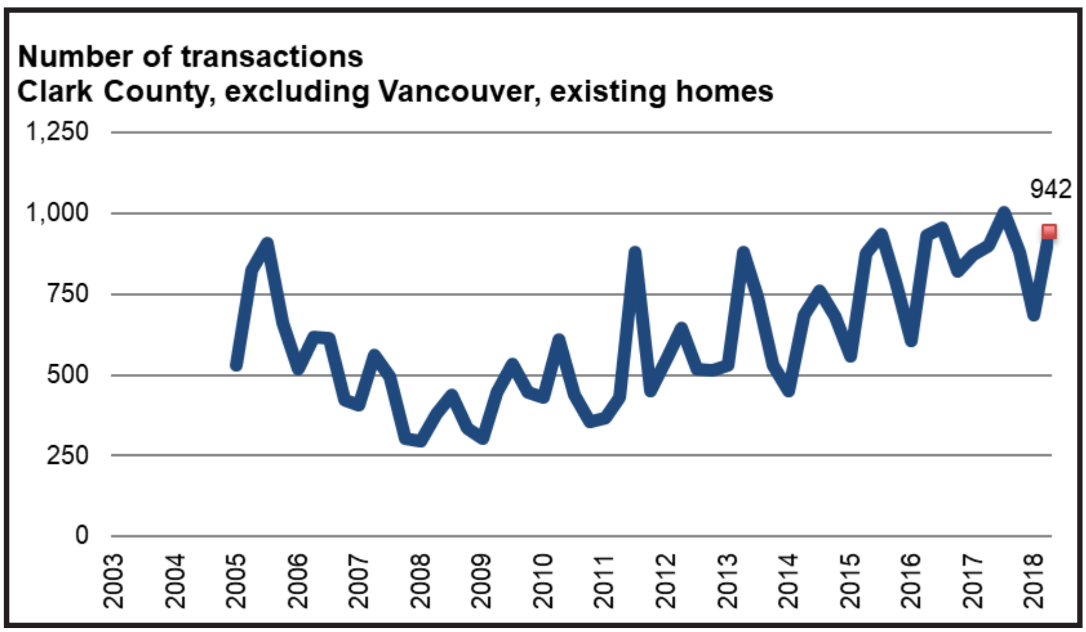
VANCOUVER AND CLARK COUNTY TRANSACTIONS



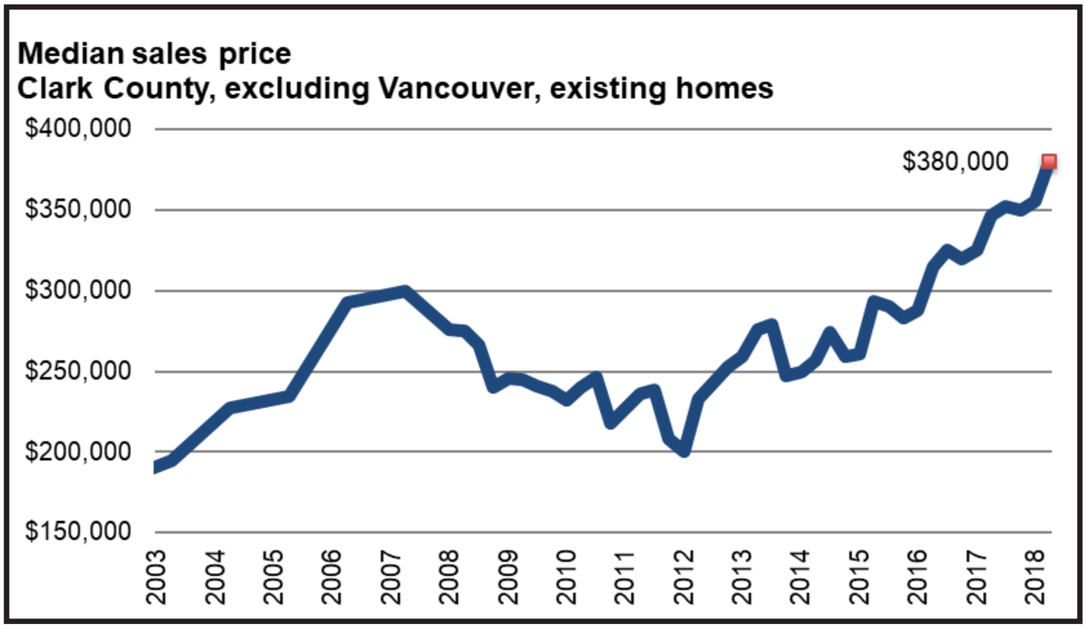


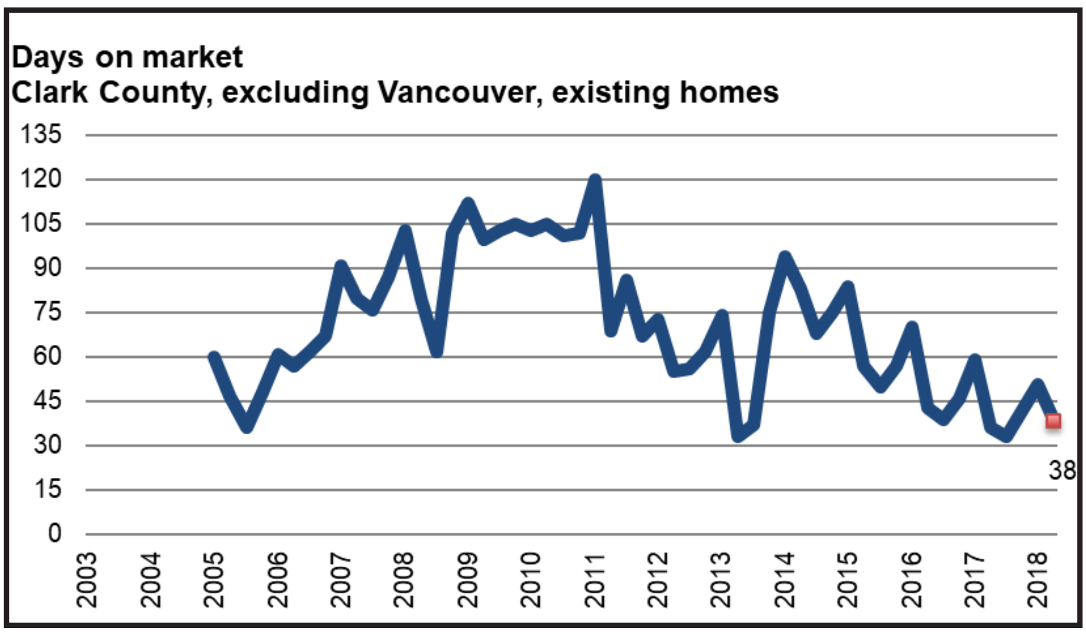
VANCOUVER AND CLARK COUNTY TRANSACTIONS





VANCOUVER AND CLARK COUNTY TRANSACTIONS



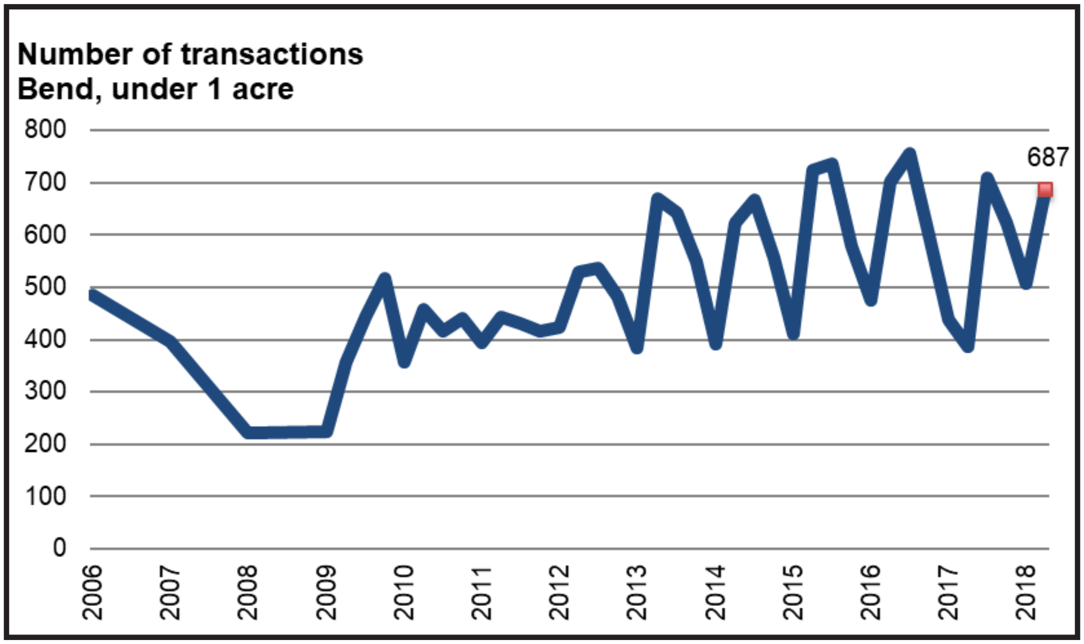


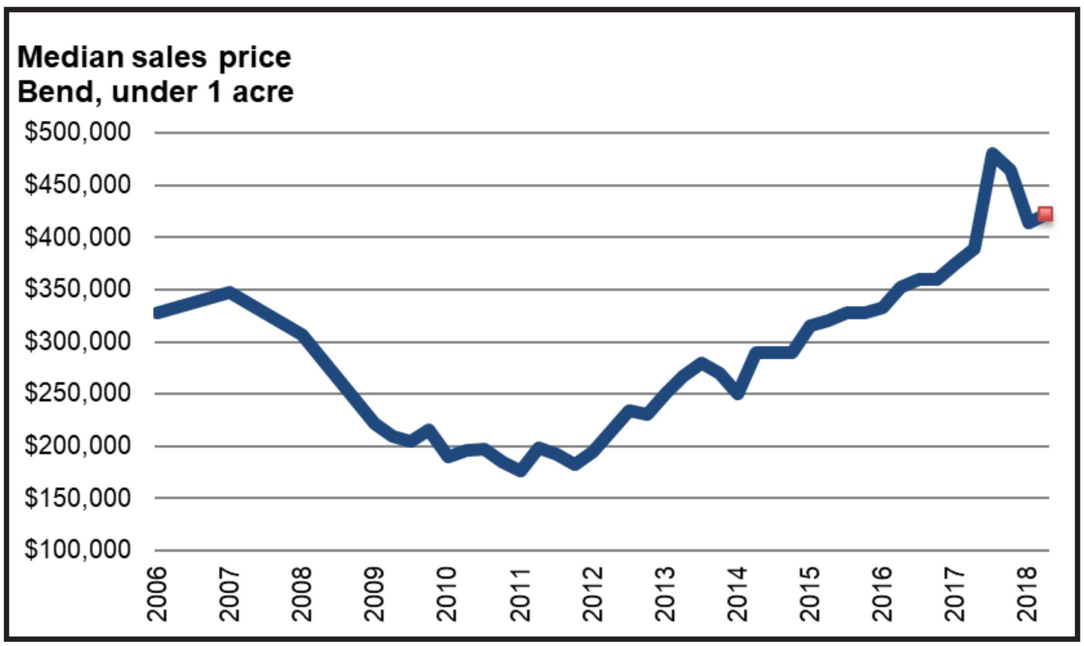
CENTRAL OREGON TRANSACTIONS

According to the Central Oregon Association of Realtors, Bend had 687 transactions during the second quarter of 2018, nearly a 78 percent increase than the number of transaction in the same quarter of 2017. The median sales price of existing homes in the area have increased by 8.3 percent from the previous quarter, with a price of $422,300. With 107 average days on market, Bend saw a slight improvement from the same quarter last year marked by a 1.8 percent decrease.

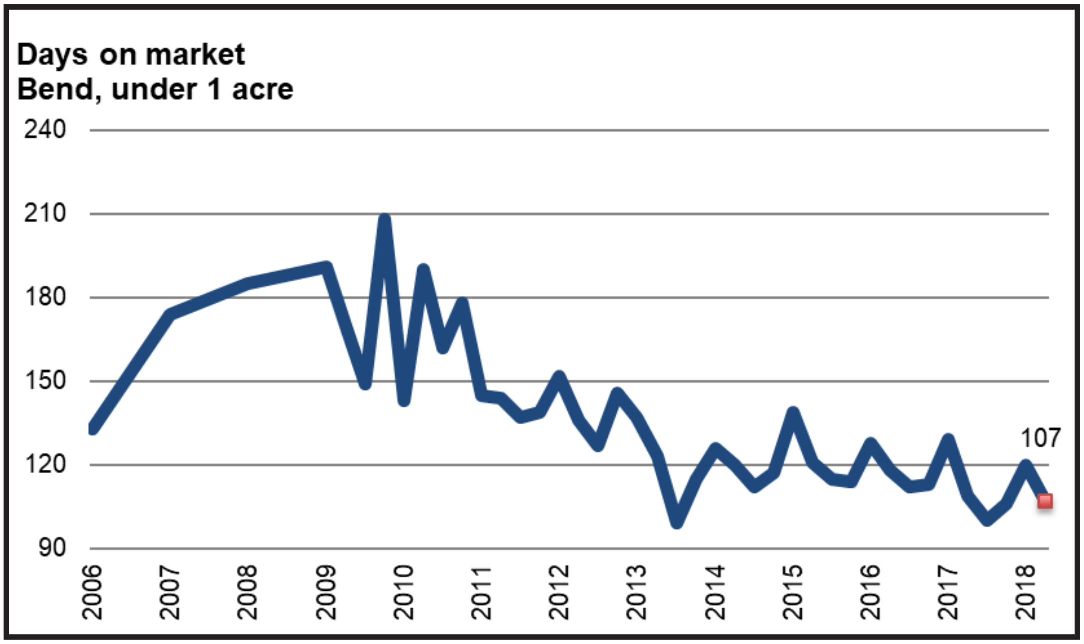
Redmond continues to mirror Bend for the second quarter regarding the number of transactions, median sales price, and average days on market. The number of transactions increased from the same quarter last year, coming in at 270 total for the second quarter of 2018. Median sales price increased from the same quarter of 2017, by 3.5 percent and came in at $289,900, and the average days on market decreased 9.5 percent from the second quarter of 2017 to 105 days.

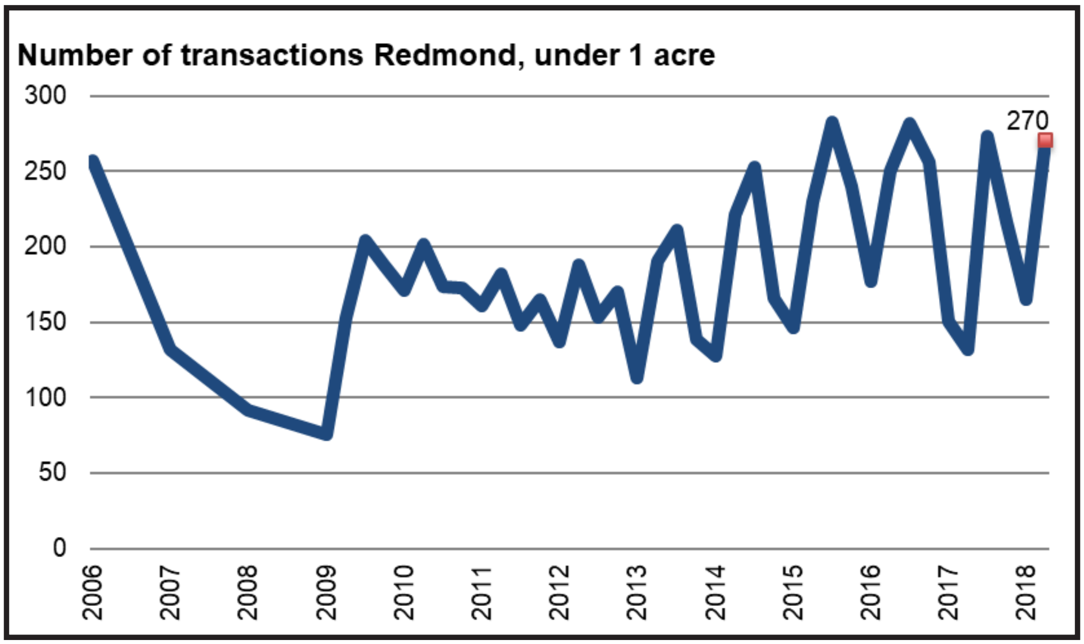
CENTRAL OREGON TRANSACTIONS



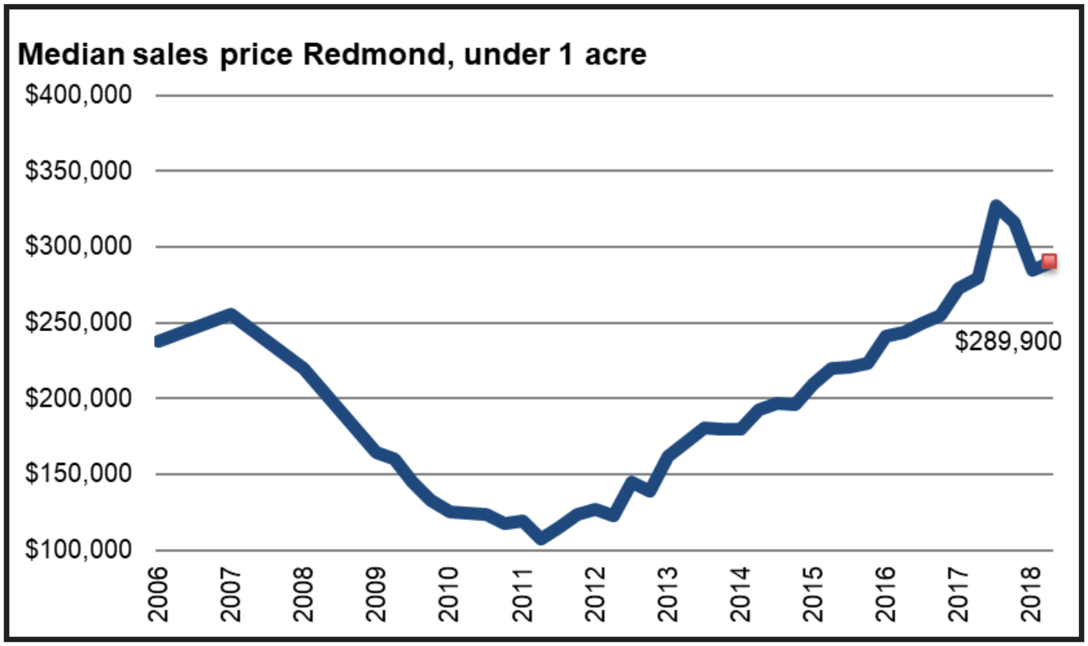


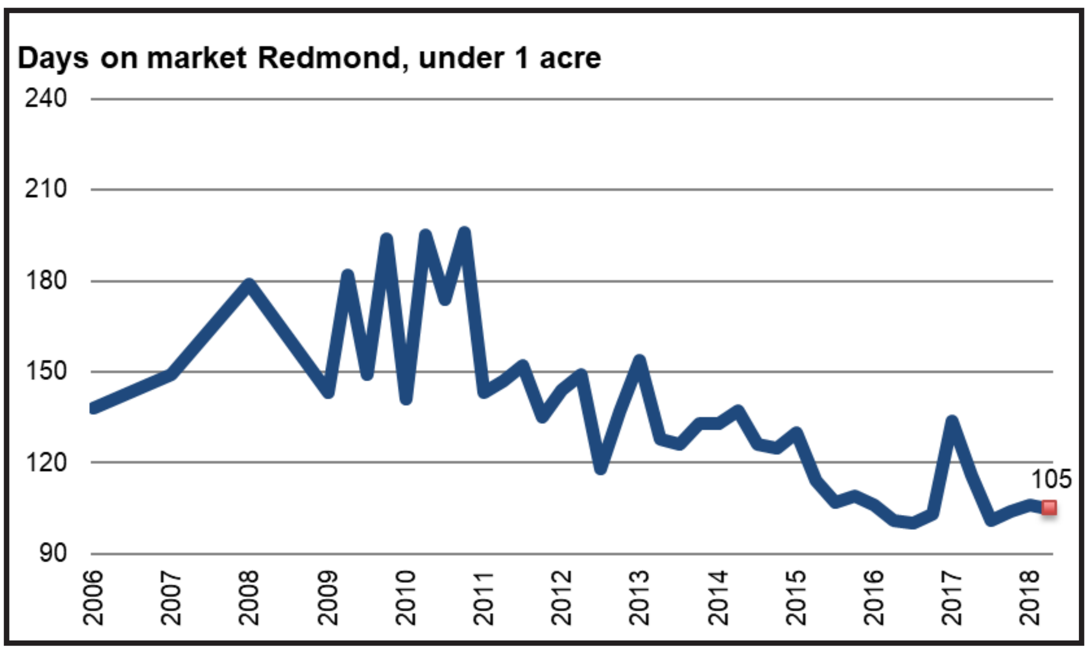
CENTRAL OREGON TRANSACTIONS





CENTRAL OREGON TRANSACTIONS

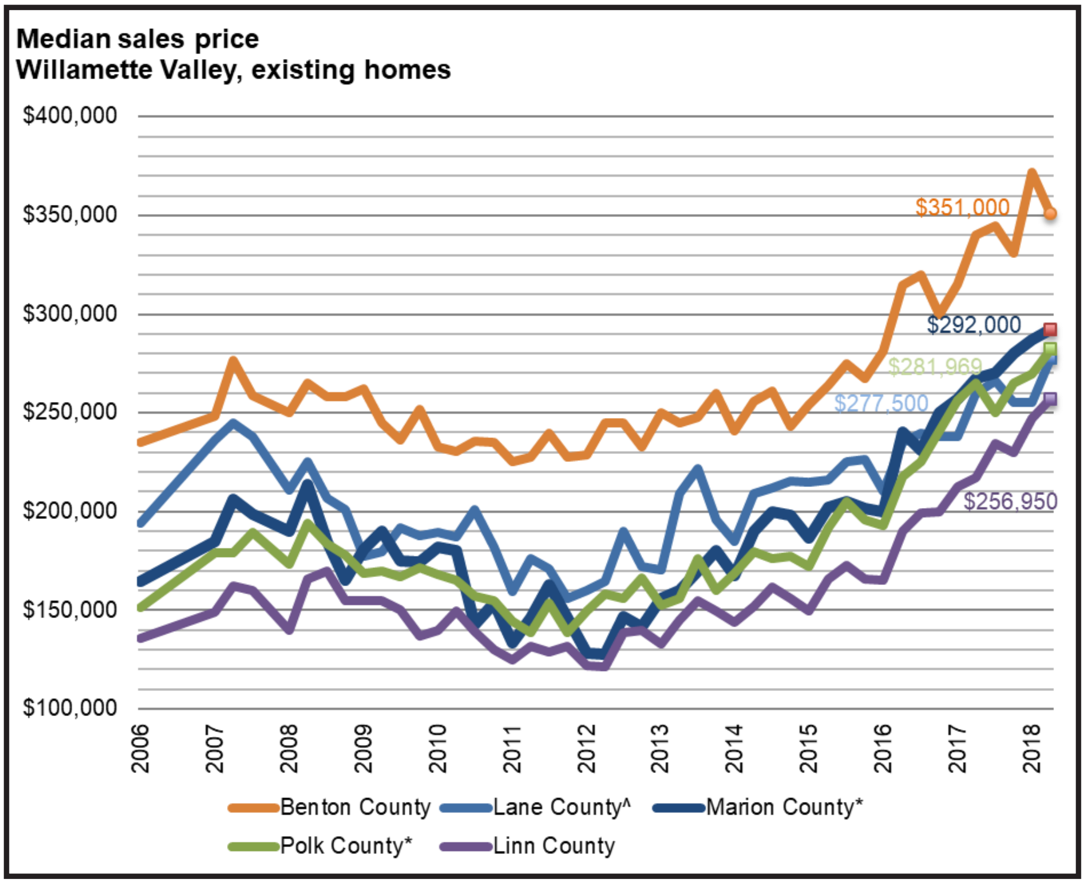




WILLAMETTE VALLEY TRANSACTIONS

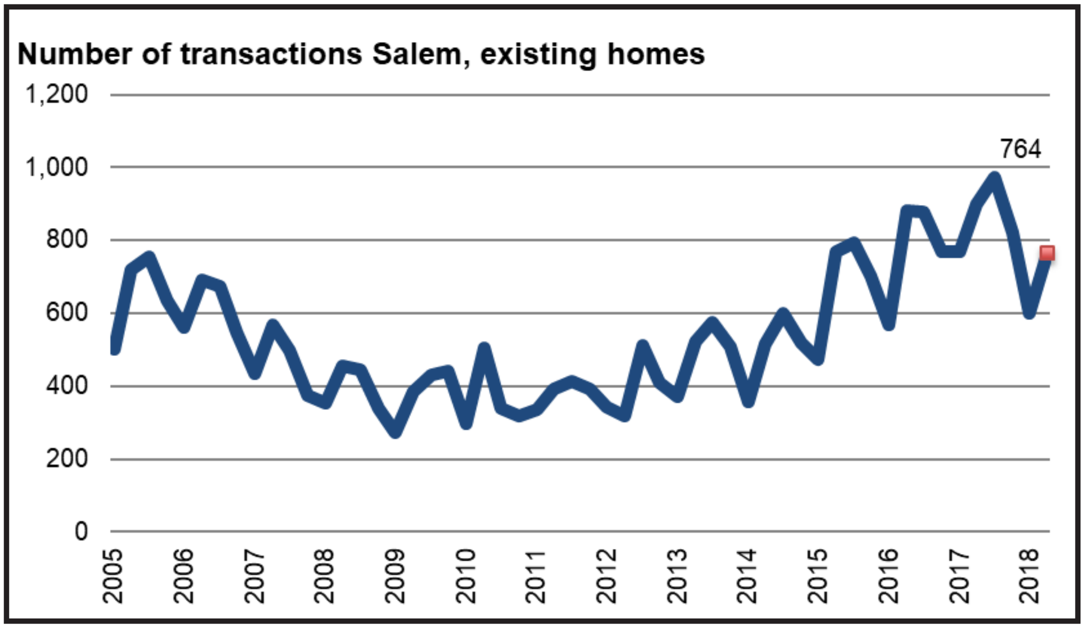
According to the Willamette Valley Multiple Listing Services, the Willamette Valley saw increased median sales price nearly all around. For Lane County, Marion County, Polk County and Linn County, median sales prices rose from both last quarter as well as the same quarter last year. While the median price for Benton County displayed a 6.7 percent increase from the second quarter of 2017, this was a drop in over eight percent from last quarter.

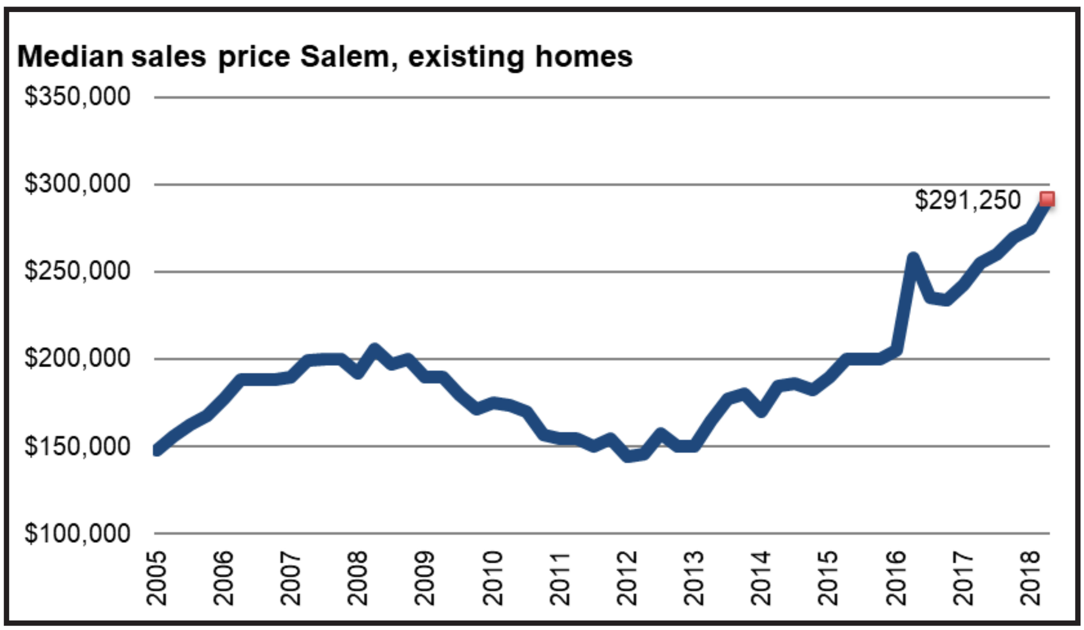
- Benton County: $351,000 median price, a 5.6 percent decrease from the first quarter and a 3.2 percent increase year-over-year.
- Lane County (excluding Eugene): $277,500 median price, an 8.8 percent increase from the first quarter, and a 6.7 percent increase year-over-year.
- Marion County (excluding Salem): $292,800 median price, a 1.8 percent increase from the first quarter, and a 9.3 percent increase year-over-year.
- Polk County (excluding Salem): $281,969 median price, a 4.6 percent increase from the first quarter, and a 6.4 percent increase year-over-year.
- Linn County: $256,950 median price, a 4 percent increase from the first quarter, and an 18.4 percent increase year-over-year.



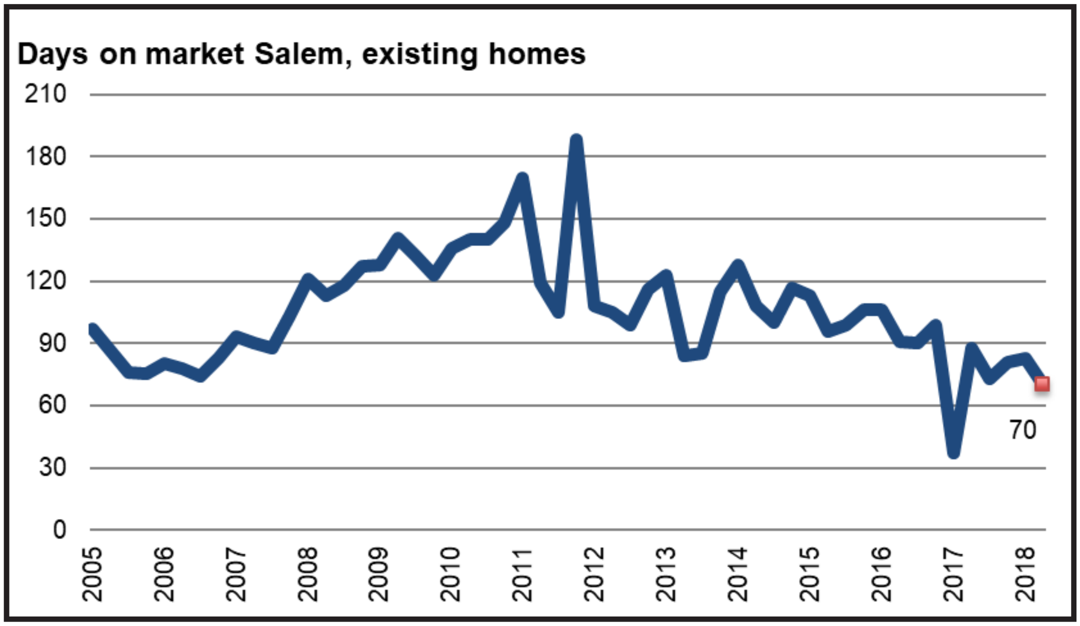
SALEM TRANSACTIONS

The second quarter of 2018 in Salem had 764 transactions of existing homes, a 15 percent decrease from the second quarter of 2017. The median sales price for existing homes has continued to trend upwards; with a median sales price of $291,250, second quarter prices are approximately 14 percent higher than those in the same quarter last year. Salem existing homes had an average of 70 days on the market.



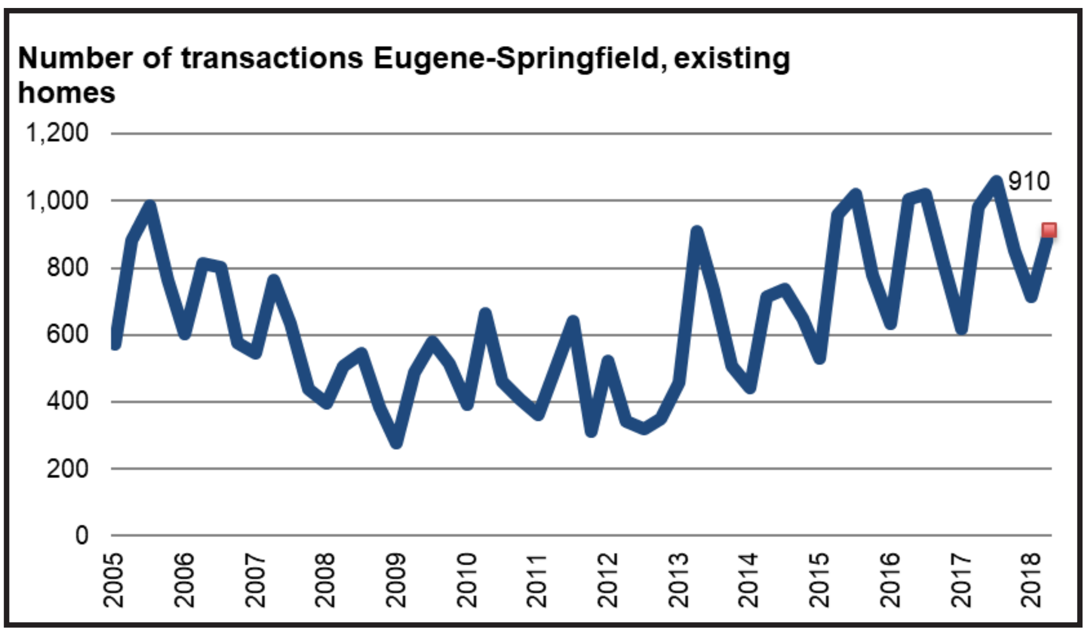


SALEM TRANSACTIONS

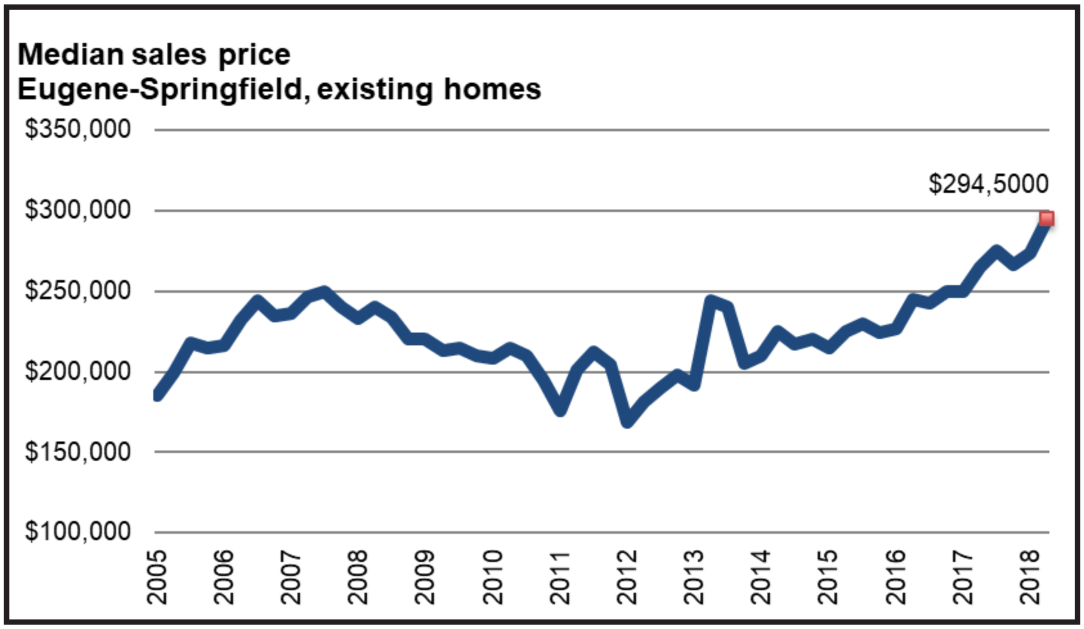


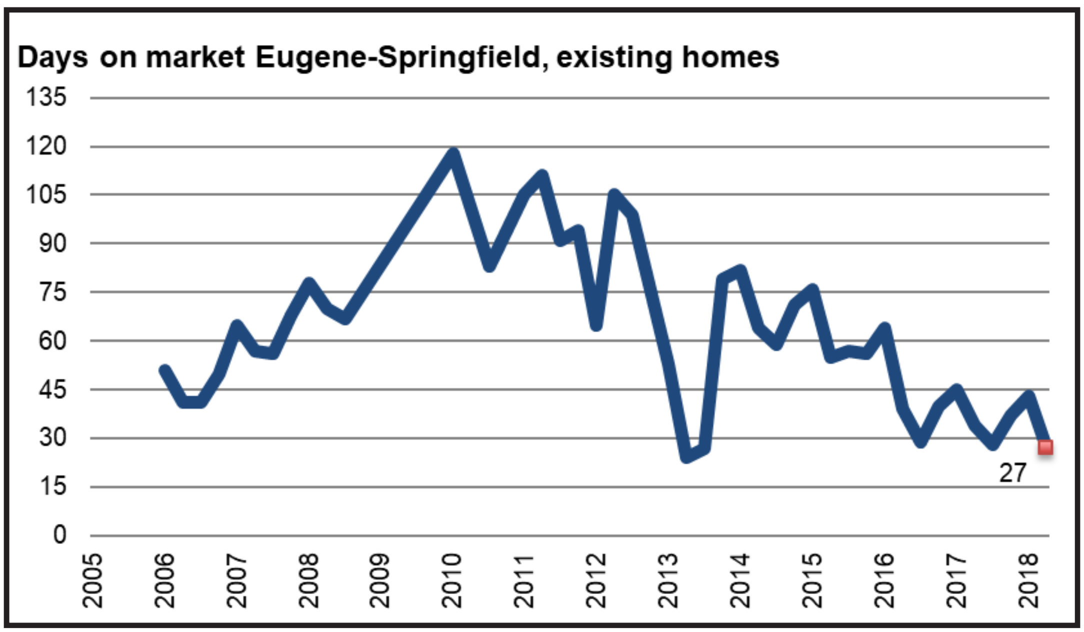
EUGENE TRANSACTIONS

Eugene had 910 transactions throughout the second quarter of 2018. While an increase of 195 days from the previous quarter, this is reflective of downward trend over the past few quarters in transaction count. While the transaction count trends down, the median sales price continues its upward swing; at $294,500, an 11 percent increase from the same quarter last year, and over a 20 percent increase from 2016. Housing remained on the market for 27 days, a decrease of 16 days from the first quarter of 2018, which is also a week shorter than the average from the second quarter of 2017.



EUGENE TRANSACTIONS

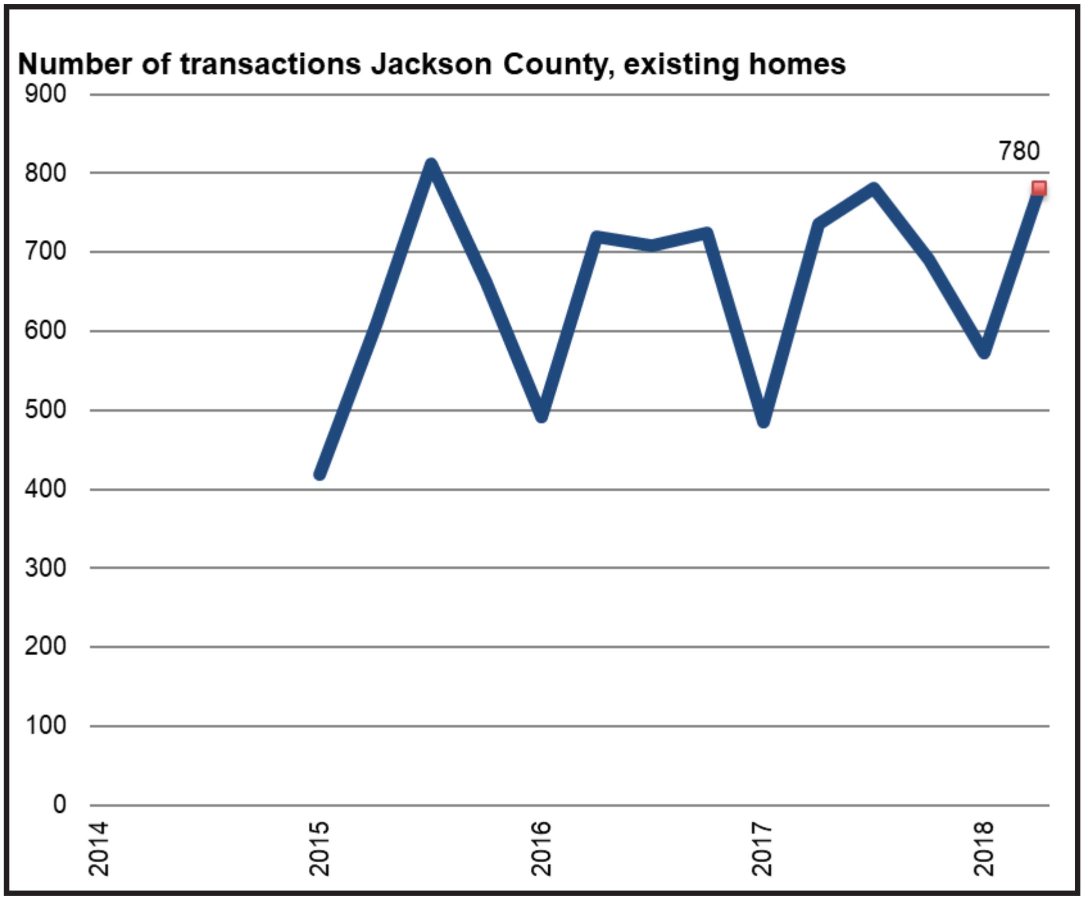




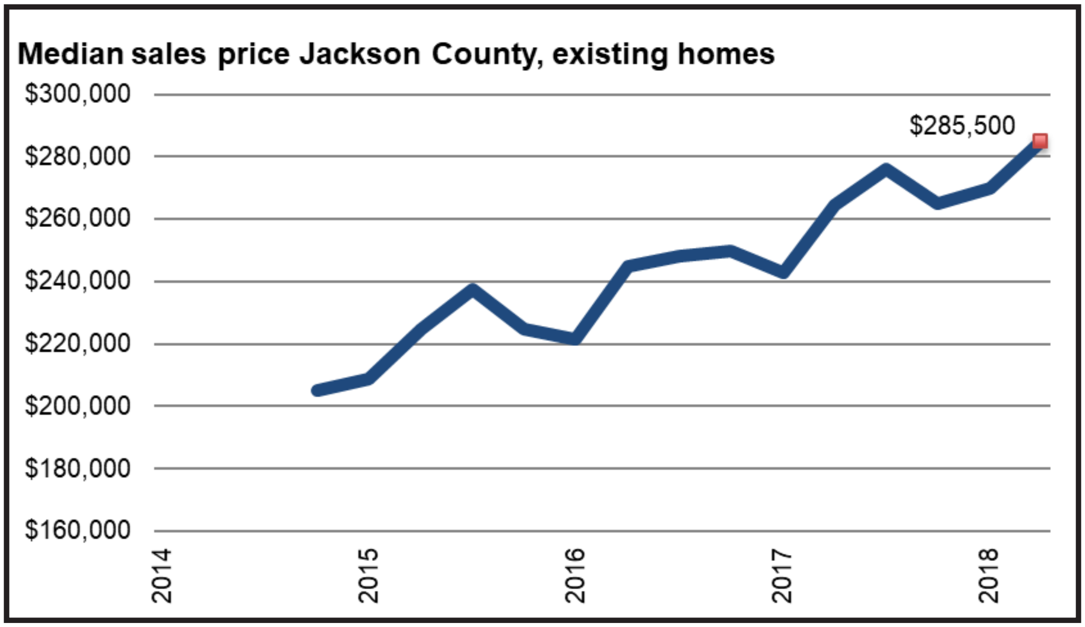
SOUTHERN OREGON TRANSACTIONS

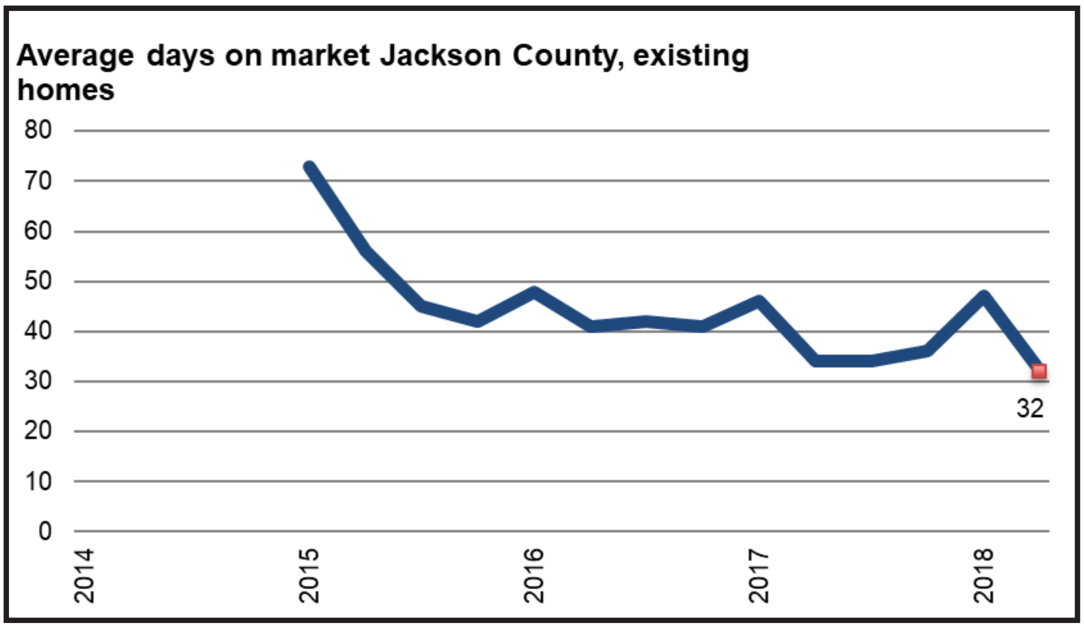
Consistent with the past few spring seasons within the county, the second quarter in Jackson County saw many more transactions, at higher prices, for a much shorter time. With a 36 percent increase from last quarter, and nearly a six percent increase from last year, Jackson County had 780 transactions of existing single family houses, according to Rogue Valley Realtors. In addition to more transactions, the median sales price increased over 7.7 percent from same quarter last year, landing at $285,000 for the second quarter of 2018. Average days on market decreased nearly 6 percent, or two days fewer than the second quarter of 2017.

Josephine County had a very similar quarter to Jackson County, with the exception of having fewer transactions than the same quarter of last year. There were 155 transactions of existing houses made during the second quarter, an 18 percent decrease from the same period last year, and nearly an 11 percent decrease from 2016. On the other hand, Josephine County saw a nine percent increase in median sales price, as well as six days fewer on the market for the second quarter.

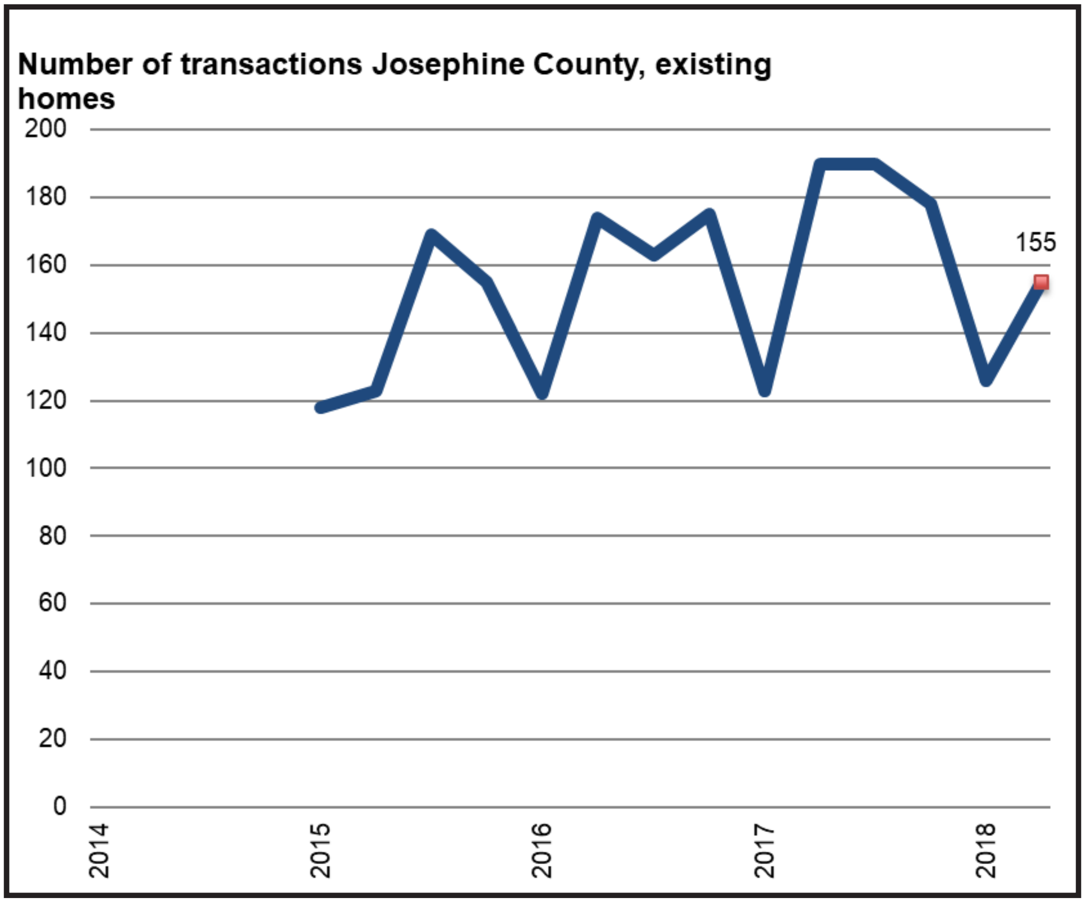


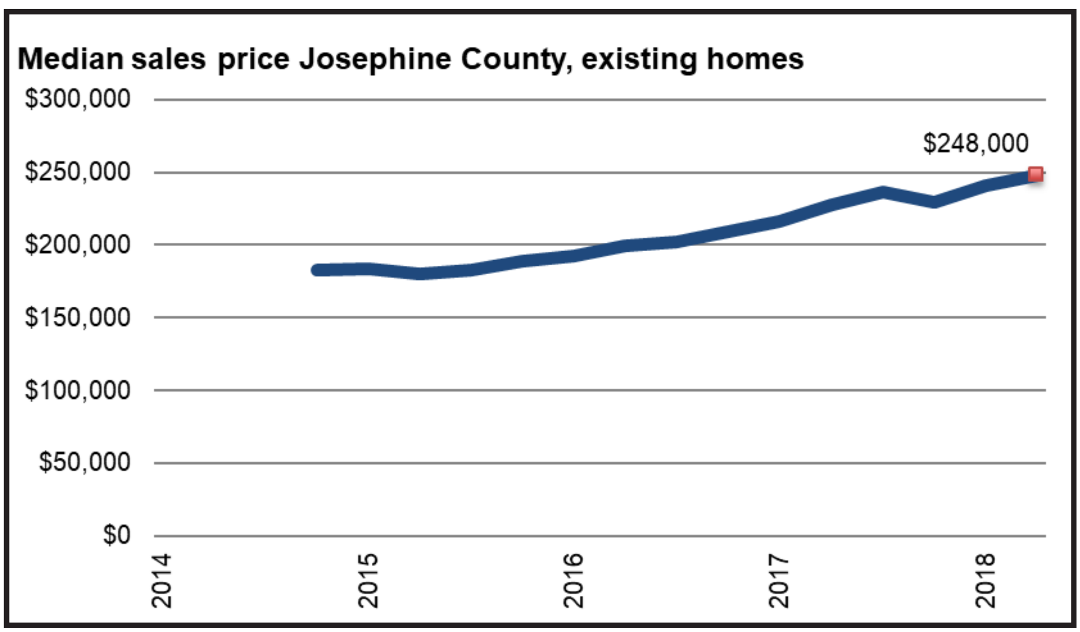
SOUTHERN OREGON TRANSACTIONS



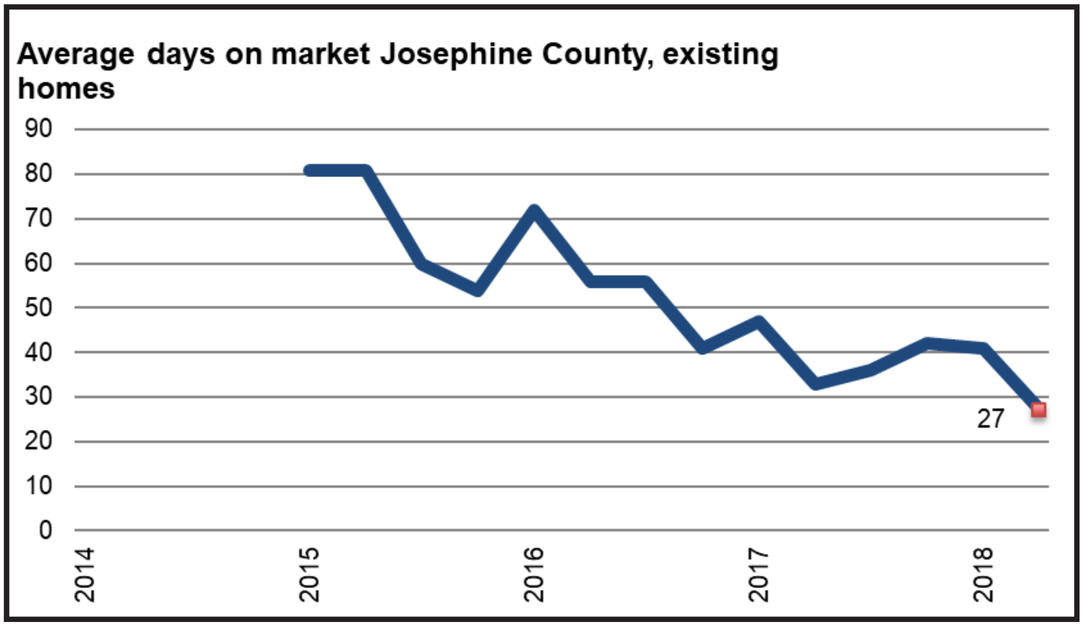


SOUTHERN OREGON TRANSACTIONS





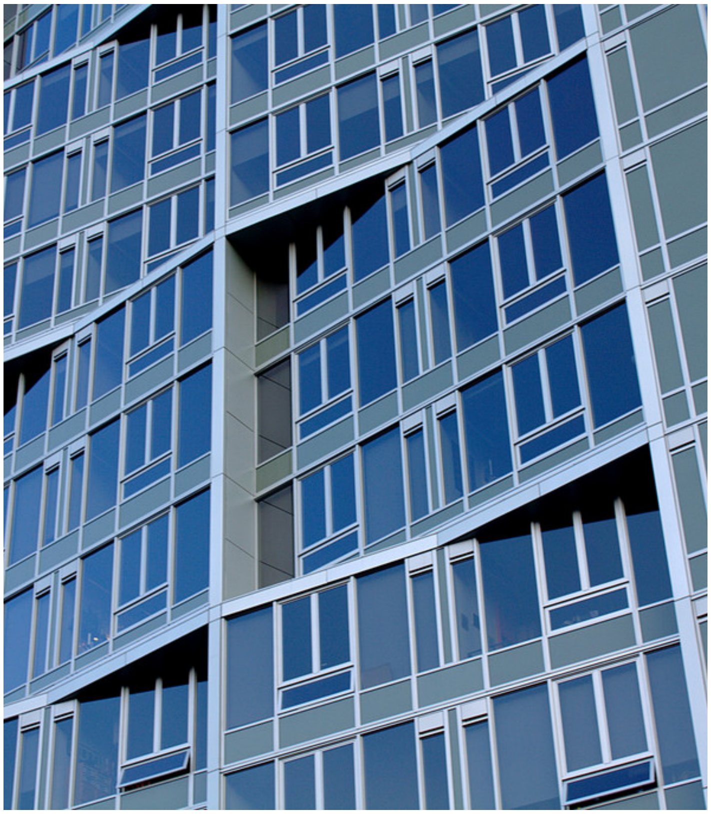
SOUTHERN OREGON TRANSACTIONS



MULTIFAMILY MARKET ANALYSIS

JASON KARAM
Portland State University

Over the past few years Portland has seen dramatic growth in both its economy and population, however it appears that the growth is slowing. While a high rate of growth is not sustainable forever, Portland is not necessarily experiencing a crash either, merely a regression to the mean. High land values, rising interest rates, increasing construction costs, and public policy are all working against new development. Nevertheless, a strong economy, increasing population, and low vacancy rates are still enough of a driver for some new construction.



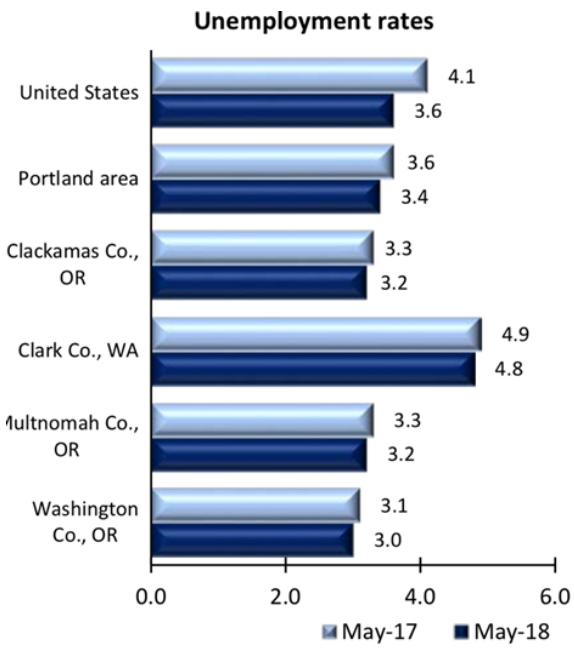
Jason Karam is a candidate for the Masters in Real Estate Development degree and currently works as an architect for BLRB architects. He was awarded the SIOR Fellowship at the Portland State University Center for Real Estate. Any opinions are those of the author solely and do not represent the opinions of any other person of entity.

ECONOMY

Portland's economy has grown rapidly since the Great Recession and economists expect this growth to continue, albeit at an abbreviated pace. As noted in this issue's State of the Economy report, Portland's unemployment rate has dropped to near all-time lows and is currently lower than the national unemployment rate. Large companies such as Amazon and Adidas are expected to continue to drive this growth moving forward.

Something to take note of however, is that there is a large uneven distribution of wealth within the city. West Portland is currently seeing average wages of a full-time worker at $102,209 per year while wages for a full-time worker living east of 82nd Avenue roughly a third of that at $44,328 per year. These higher wage jobs are typically held by college educated individuals who typically live on the west side. As west Portland reaches capacity, development will likely continue spreading east past 82nd Avenue toward less affluent households.

Figure 1: Unemployment Rates, U.S. and Oregon Metropolitan Areas



ource: U.S. BLS, Local Area Unemployment Statistics.

PERMITS AND SUPPLY

Prior to the implementation of Portland's inclusionary zoning (IZ) program, there was a push of more than 10,000 units to permit, which the City reports to be roughly a year or two of supply. The Spring 2018 Barry Apartment Report predicts approximately 12,000 to 18,000 units to come online during 2018 and 2019, much of these being pre-IZ. Since the inception of IZ, roughly 1,000 new units subject to IZ have received permit applications. This is a dramatic drop off from 2017, however the large push to intake projects likely skewed this number slightly.

Much of the construction activity is still situated in the inner east and west sides, which are generating the highest rents. Roughly less than half of proposed projects are realized in construction.

PERMITS AND SUPPLY

Figure 2: Portland Metropolitan Area Multifamily Permits

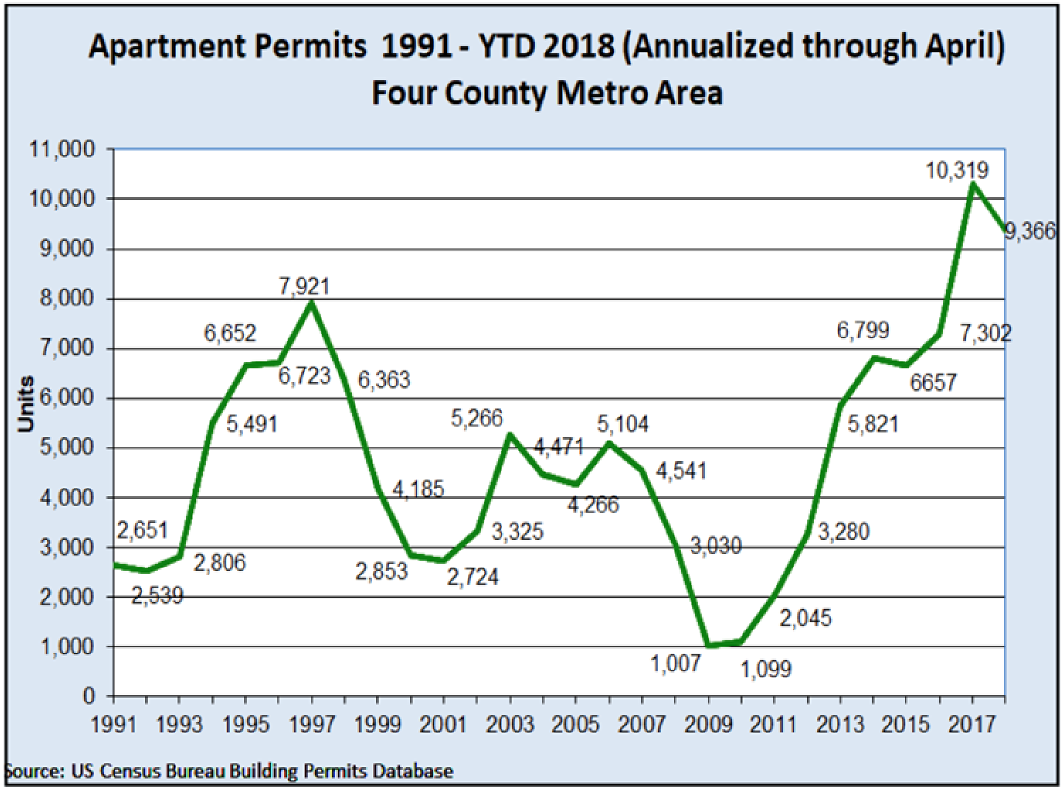
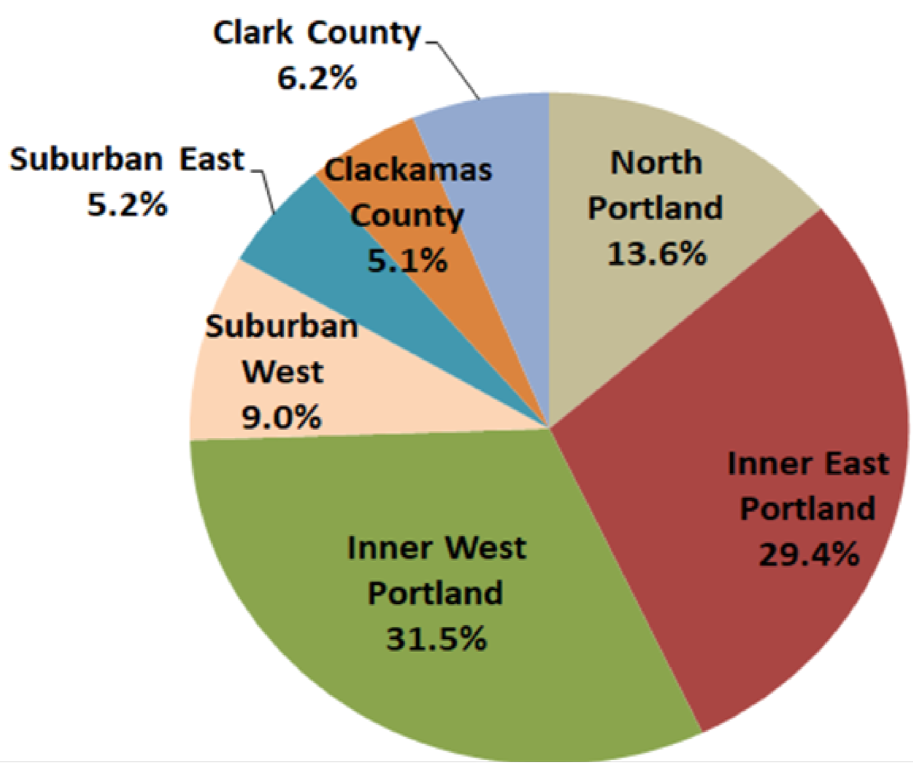


Figure 3: Multifamily Units Under Construction by Location



PERMITS AND SUPPLY

Figure 4: Total Proposed and Under Construction Projects

	Proposed	UC	Total
North Portland	72	32	**104**
Close in East Portland	143	59	**202**
Close in West Portland	78	34	**112**
Suburban West	22	10	**32**
Suburban East	57	9	**66**
Suburban South	10	4	**14**
Clark County	42	8	**50**
Total	**424***	**156**	**580**

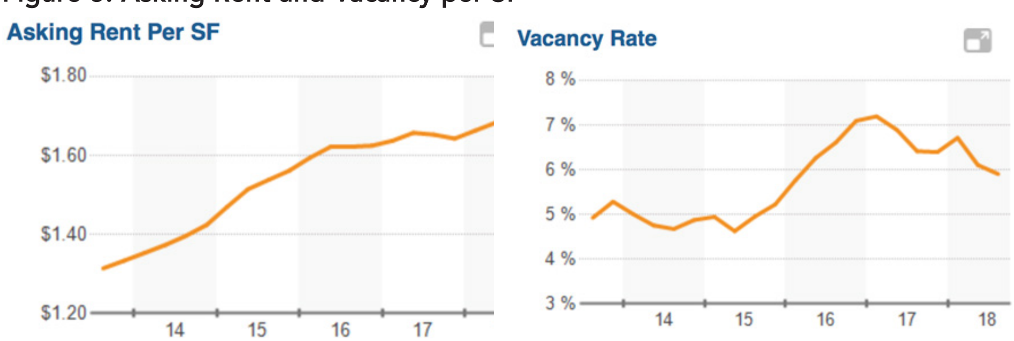
CONSTRUCTION COSTS

Construction costs continue to rise as there remains a shortage of labor in the area and subcontractors are spread thin among many large projects. For now, consider escalating construction costs by 10 percent a year rather than the typical 5 percent rate. It should be noted though that Portland's $240 per square foot multifamily construction costs rank among the lowest in major U.S. metropolitan areas. By way of comparison, with Phoenix has average costs of $210 per square foot and Seattle's are $270 per square foot.

RENTS AND VACANCIES

While 2010-2015 saw vacancies around 5 percent, vacancies increased dramatically to 7 percent at the end of 2016. This increase was likely because of annual rent growth of approximately 10 percent a year. Since 2015, rents have only increased 2 percent a year and vacancies have been trending back down and currently sit just below 6 percent. Costar reports that through the first quarter of 2018, concessions are offered 25 percent of the time which is likely assisting in lowering vacancies. Typical concessions include up to a month's free rent to a $1,500 gift card.

Figure 5: Asking Rent and Vacancy per SF



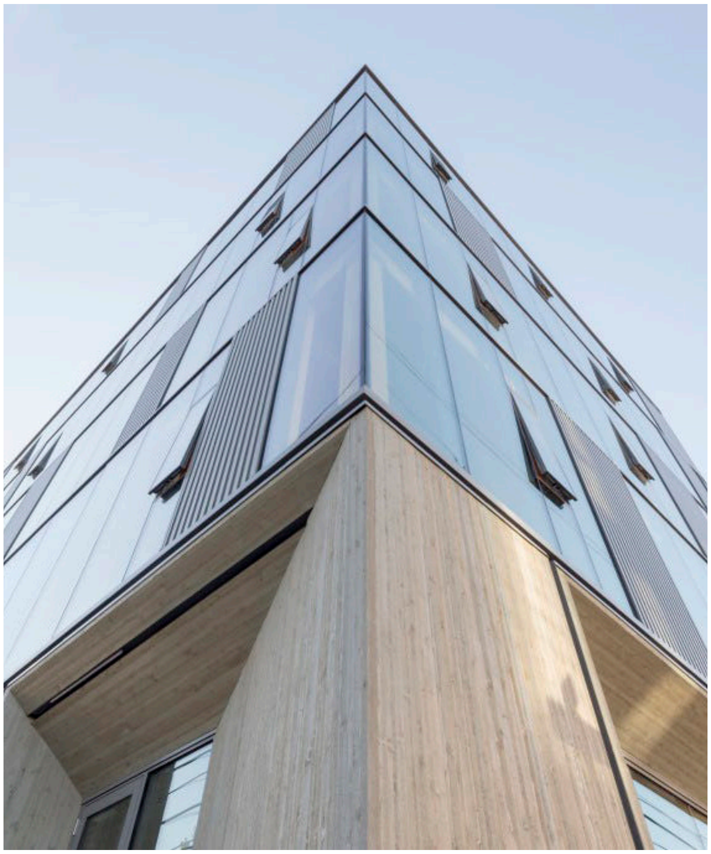
As of the time of this publication, average rents in Portland are $1.68 per square foot. Studios are averaging $1,029, one bedroom apartments are at $1,214, two bedrooms are at $1,395, and three bedrooms are slightly higher at $1,441. All of these averages are well above their five year average. One bedroom and studios are seeing higher vacancy rates, likely due to higher turnover than two and three bedroom units.

OFFICE MARKET ANALYSIS

MELISSA MEAGHER
Portland State University

The national office market has positive momentum heading into the second half of 2018. Robust job growth continues to increase demand and contribute to this year's national construction list, which holds the largest amount of new square footage in nearly a decade. Office deliveries totaled 18 million square feet, almost doubling the 10.8 million square feet delivered in the first quarter. According to Cushman & Wakefield's US Office MarketBeat Snapshot, the second quarter of 2018 produced "a total of 22 markets [that] reported a new construction pipeline of 2.0 million square feet or more, the largest number of markets with more than 2.0 million square feet that Cushman & Wakefield has ever reported."

Despite increased construction, the national vacancy rate holds at 13.4 percent with all signs pointing toward tenant opportunity. Portland's office market follows the national trend, with an overall vacancy rate of 11.7 percent, highlighting the position of the market and ongoing demand. With market conditions favoring the tenant, approaches to creative office development are shifting, especially in Portland's downtown office market. In order to remain competitive, new construction and innovation rank first for developers catering not only to the tech industry, but now to other industries as well.



Melissa Meagher is a Masters of Real Estate Development candidate through a joint program of Portland State University's School of Business Administration and School of Urban Studies and Planning. In addition, Melissa received her Bachelor's of Arts from U.C. Berkeley and is an asset manager for market rate and affordable housing, specializing in the marketing and design of innovative mixed-use projects. She is the 2018 Society of Industrial and Office Realtors Fellowship recipient and scholar. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

According to Newmark Knight Frank, approximately 1.1 million square feet of net absorption of office space occurred from 2013 to 2017. Portland's economy became more robust as an increasing technology community sparked a new type of demand. The Brewery Blocks, which were delivered to the market in 2002, were one of the first creative buildings in Portland, however the true creative office boom was driven by the technology sector from 2012 to 2016.

In a recent snapshot looking back at the fourth quarter of 2014, JLL noted that the Class A office space in the CBD had a vacancy rate of 6.4 percent—an all-time low. With creative spaces all leased up, the M Financial building was the only large block of creative space available for lease at that time. This shortage spurred a creative movement with efforts to renovate and reposition older buildings. Four years later, there is now record amount of ground up construction being built out as creative. JLL's Research Manager, Tim Harrison, noted there are currently 15 Class A new developments or redevelopments larger than 30,000 square feet with space available in the CBD that are catering to creative tenants. "Demand for creative space is now also coming from other professional service industries like advertising and marketing, architecture, engineering and co-working," Harrison added.

HFF also emphasized the recent trend of turning new creative space into recognized value. Logan Greer, office investment advisor for HFF, described a win/win situation for both tenants and property owners: "All types of tenants in the market are looking for a creative type of office; they want the space to be a tool for branding and to keep their talent happy." On the other side, "Landlords are continuously recognizing the value of it—the second-generation utility—that should a tenant occupy the space—it can easily be backfilled."

Noting the increased rents in the area, Newmark Knight Frank reinforced Portland's metro demand as steady, emphasizing a confidence in continued demand of tenants seeking premier Class A locations. They noted that the Portland metro's unemployment rate continues to track the national unemployment rate and will continue to do so into the second half of 2018. CBRE's recent report also supported these positive trends:

> The region outperformed the nation in job growth with professional services, finance and healthcare leading the charge. Demand in the Portland office market was spurred by tenants looking for the best value to establish or expand their business. Investors focused on space in Portland stimulating activity and further evolving the region.

With a positive outlook moving into the rest of 2018, Portland's office market continues to sit at the forefront of possibility and attract a significant amount of institutional investor interest. HFF Research Analyst Devin Kopas confirmed, "There has been a renaissance of venture capital pouring into Portland." With this hype, a record number of new office construction has been added to the pipeline. A total of 1.5 million square feet of new office space is under construction and to be delivered by the end of 2018, solidifying tenant opportunity but also raising new questions about whether the right type of tenants exist to fill them.

VACANCY

Vacancy rates this quarter saw a large variance among reporting brokerage firms. The Portland office market vacancy rose slightly in the first quarter of the year to end at 11.7 percent according to JLL, contrasting from last quarter's 10.7 percent. Tim Harrison of JLL notes: "While absorption remains stable in the urban core, the delivery of construction in the second half of 2018 and the soon-to-be-vacated Wells Fargo Center means that

VACANCY

we will see an increase in vacancy and a general shift in market conditions toward the tenant."

Newmark Knight Frank and CBRE's vacancy predictions line up similarly to JLL's while Colliers and Kidder Mathews see a lower vacancy rate at 9.7 percent and 7.1 percent, respectively. In an article from Portland Business Journal, Jon Bell states, "Despite the seeming slowdowns, no one is writing off Portland by any stretch. All of the attractiveness that's made the Rose City popular with office tenants from near and far in recent years – relative value, cool and creative spaces, a talented workforce – remain in place. It may just take a little longer, or a shift out of the summer slowdown, to kick things back up."

Table 1: Total Vacancy Rates by Brokerage House and Class, Second Quarter 2018

Brokerage	Total	CBD	CBD Class A	CBD Class B	CBD Class C	Suburban
Colliers	9.7%	12.5%	10.8%	13.9%	15.4%	-
JLL	11.7%	10.9%	8.5%	13.8%	12.6%	-
Kidder Mathews	7.1%	10.2%	8.8%	9.8%	11.4%	6.1%
Newmark Knight Frank	10.3%	10.9%	-	-	-	-
CBRE	11.0%	10.9%	-	-	-	11.1%

Source: Colliers, JLL, Kidder Mathews, CBRE, and Newmark Knight Frank

RENTAL RATES

Rental rates ranged throughout 2017, however remained steady in the first half of 2018. The market's average among brokerage houses ranged from $25.56 to $29.41, while Portland's CBD range was higher, going from $31.56 to $33.67. According to Colliers, the second quarter's Class A CBD average rental rate had a 10.4 percent annual change, while Class A Suburban had a four percent annual change. This contrasts last quarter's 9.9 percent annual change for Class A CBD and 3.4 percent for Class A Suburban.

Newmark Knight Frank noted that "year-over-year, rents have experienced a growth rate of seven percent, largely because of buildings incorporating improved and innovative amenities, attracting top-of-the-line tenants." The biggest jump the firm saw was in the Class A CBD sector with a first quarter average rental rate of $32.56 jumping to $34.93 to end second quarter.

Table 2: Average Direct Asking Rates ($/sf FSG) by Brokerage House and Class, Second Quarter 2018

Brokerage	Market Average	CBD	CBD Class A	CBD Class B	CBD Class C	Suburban
Newmark Knight Frank	$27.90	$32.05	$34.93	$31.53	-	-
Kidder Mathews	$25.56	$31.56	$34.92	$29.88	$26.04	$22.56
Colliers	$26.22	$32.01	$35.75	$30.27	$26.34	-
CBRE	$29.41	$33.67	-	-	-	$24.75

Source: Colliers, CBRE, Kidder Mathews and Newmark Knight Frank

ABSORPTION AND LEASING

While Portland's urban core continued to do well with 65,000 square feet in positive absorption the second quarter, the suburban submarkets were hit with large downsizes. Jacobs Engineering in Kruse Way, SureID in the Sunset Corridor, as well as Covergys's call center in the I-5 South Corridor were all significant downsizes/closures. However, JLL noted:

Activity in the suburbs remains positive and the relocation and expansion of some large tenants in the Sunset Corridor, Kruse Way, and the 217 Corridor/Beaverton should reverse most of the negative absorption experienced thus far in 2018.

The second quarter included Aerotek's lease of 28,323 square feet in the 217 Corridor/ Beaverton submarket at 8300 SW Creekside Place. Underwriters Laboratories leased 26,033 square feet at 14301 SE 1st Street and the 41,070 square foot space in Tigard at 12123 SW 69th Ave was also leased to Rocky Mountain Cancer Center.

Table 3: Net Absorption (in square feet) by Brokerage House and Market Area, Second Quarter 2018 as well as First Quarter 2018 Comparables

Brokerage	Overall	Prior Quarter Overall	CBD	Prior Quarter Overall
Colliers	268,674	(171,273)	246,729	(439,917)
JLL	(143,726)	(10,030)	(11,391)	(1,992)
Kidder Mathews	1,181,619	(383,850)	202,976	(569,792)

Source: Colliers, JLL, and Kidder Mathews

Table 4: Net Absorption (in square feet) by Brokerage House, Year to Date

Brokerage	Overall
Colliers	(230,671)
JLL	(165,485)
Kidder Mathews	(383,850)

Source: Colliers, JLL, and Kidder Mathews

With so many options in the marketplace for tenants, several development firms with large spaces are holding out for the right tenant in terms of size, as opposed to dividing the space up for smaller clients. In a recent article, Field Office's partner Jonathan Ledesma with the development firm project^ said, "We have large floor plates, and for a city like Portland, that's something it needs, but it's not something that we have a steady stream of tenants for. There are always three or five large tenants hovering, but lately we've seen, citywide, that that's been a little lower." project^ continues to wait for the right tenant for their 150,000 square foot east space.

Table 5: Notable Lease Transactions, Second Quarter 2018

Tenant	Building/Address	Market	SF
Rocky Mountain Cancer Center	12123 SW 69th Ave	Tigard	41,070
nLight, inc.	5408 NE 88th Street	Vancouver	26,350
Aerotek	8300 SW Creekside Place	217 Corridor / Beaverton	28,323
UL Underwriters Laboratories	14301 SE 1st Street	Cascade Park	26,033
Stantec	Moda Tower	CBD	21,664

Source: Colliers, Kidder Mathews, Newmark Knight Frank, and CoStar

SALES TRANSACTIONS

Last quarter brought 803,481 square feet of sales, totaling $166,546,842 in 15 office transactions. Melvin Mark and Becker Capital purchased the Five Centerpointe's 114,000 square foot building from Seattle's Urban Renaissance Group. URG bought the property for $20.3 million back in 2012 and sold it for $27.85 million. In addition, Menashe Properties purchased Unitus Plaza, located at 1300 S.W. 6th Ave, which is a 94,000 square foot building that is fully leased.

In an article from the Portland Business Journal, Jordan Menashe described his experience of the sale, "[We're] extremely blessed to have the opportunity to acquire a full city block with a building and parking in an area that is nothing less than booming thanks to many great institutional firms that have planted their flag in the immediate area." Referring to neighbors like the nearby Wells Fargo Center, the Broadway Tower, and PacWest Center, Menashe's comments mirror the trend of increased institutional interest in and outside of the primary market.

In addition, NKF Capital Markets arranged the sale of the 100-year-old renovated and repositioned Towne Storage building, which set a new high-water mark for price per square foot. Nick Kucha, vice chairman of NKF, found "the sale of Towne Storage [to be] a testament to Portland's ongoing appeal to institutional investors' appetite for best-of-class investment opportunities." The building was fully leased to Autodesk and purchased by CBRE Global Investors. While appealing to CBRE Global Investors, Autodesk's Stacy Doyle also shared their perspective of the space, calling it "a more attractive—and visible—place to work," describing the historic renovation a space that "embodied the future of making things."

Table 6: Notable Sales Transactions, Second Quarter 2018

Building/ Address	Buyer	Seller	Market	Price	Price / SF
Five Centerpointe	Becker Capital Investment	Urban Renaissance Group	Kruse Way	$27,850,000	$243.70
Towne Storage	CBRE Global Investors	Westport Capital Partners	Lloyd District	$62,750,000	$627.36
Unitus Plaza	Menashe Properties	Erikson Realty, Ltd.	CBD	$26,000,000	$288.89

Source: Colliers, Kidder Mathews, and Newmark Knight Frank

DELIVERIES AND CONSTRUCTION

New construction deliveries included Field Office—East by project^ at 165,653 square feet as well as the 35,000 square feet project located at 2424 SE Ninth Avenue by SolTerra Systems. The 9North building, expected to complete in September of this year, will bring 172,000 square feet of new office space to the market. Although it is not leased, Williams & Dame Development and Global Miller Properties as well as APEX Real Estate Partners, representing the deal remain confident in their product.

DELIVERIES AND CONSTRUCTION

Table 7: Notable Development Project Deliveries, Second Quarter 2018

Building/Address	Developer	Market	SF	Delivery Date
Nike North Expansion Building A	N/A	Sunset Corridor/Hillsboro	412,000	Q2 2018
Broadway Tower	BPM Real Estate - Office	CBD	177,800	Q4 2018
Field Office - East	Project^	Northwest	119,275	Q2 2018
Heartline	Security Properties	CBD	70,702	Q2 2018
7 SE Stark	Harsch Investment Properties	Central Eastside	70,000	Q1 2019
2422-2424 SE 9th Ave	N/A	Southeast	35,000	Q2 2018

Source: Colliers and CoStar

Figure 1: Press Blocks, Office Space Set to Deliver July 2019

Source: Mithūn

There was 2,503,330 square feet of office space under construction at the end of the second quarter, which included mostly ground up construction built for innovation. The Press Blocks, developed by Urban Renaissance Group is set to deliver its new 142,000 square foot creative space by July 2019. In addition, the Oregon Museum of Science and Industry selected Gerding Edlen to be the developer for its 18-acre riverfront campus, a hub the group is calling an "Innovation Quadrant." Jill Sherman, partner at Gerding Edlen, expressed in a release: "Our team has been truly energized by OMSI's vision and the opportunity to participate in the creation of a new, innovative and sustainable district that will benefit the winder community." This project adds another layer to the innovation wave of diversified industries making changes in Portland's office market.

DELIVERIES AND CONSTRUCTION

Table 8: Notable Under Construction Projects, Second Quarter 2018

Building/Address	Developer	Market	SF	Delivery Date
Nike North Expansion Building B	Gerding Edlen	Westside	1,003,585	Q2 2018
Block 29 Center for Health & Healing	Oregon Health & Science University	Southwest	360,000	Q3 2018
Knight Cancer Institute Research Building	Oregon Health & Science University	Southwest	320,000	Q3 2018
9North	Williams & Dame Development	CBD	202,853	Q3 2018
Broadway Tower	BPM Senior Living Company	CBD	177,800	Q4 2018
The Press Blocks—Office	Security Properties + Urban Renaissance Group	Southwest	142,000	Q2 2019
7 SE Stark	Harsch Investment Properties	Lloyd District	100,000	Q1 2019
Waterfront Block 6	Gramor Development	Clark County	77,000	Q3 2018

Source: CoStar

Tim Harrison of JLL summarizes Portland's current place in the business cycle after second quarter, "As a city we've delivered record construction for three solid years and almost all of that is creative. With rising construction and input costs and vacancy increasing, development will start tapering off pretty significantly towards the end of 2019 and into 2020. After that we'll likely just start the cycle all over again once the availabilities have been absorbed." The second half of 2018 will reveal how these availabilities will be absorbed and the type of tenants that will continue to utilize Portland for its creativity and inventive appeal.

INDUSTRIAL MARKET ANALYSIS

SPENCER WEILLS
Portland State University

Portland's Industrial market picked up the pace again in the second quarter of 2018 after a brief slowdown in the first quarter. Net absorption jumped up to just under half a million square feet according to JLL. The outlook for the rest of the year looks very strong as well with JLL reporting nearly four million square feet of industrial product currently under construction of which 1.3 million square feet is speculative. These numbers indicate that 2018 is likely to continue the rapid pace of development that the Portland industrial market has grown accustomed to over the last few years.

Lower delivery in the second quarter saw another drop in the vacancy rate for the industrial market with Kidder Mathews reporting a drop to 3.7 percent from 4 percent in the first quarter. This rate demonstrates the competitive market that is driving industrial developers to continue developing new projects.

The gross square footage leased and sold both dropped in the second quarter to 1.68 million and 758,000 respectively according to Kidder Mathews from values of 2.43 million and 1.23 million respectively in the previous quarter.

The largest lease deal of the quarter, signed by Georgia Pacific Corp, was a renewal of 607,000 square feet in the Rivergate submarket.

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VACANCY AND RENTS

Industrial rents in Portland dropped slightly in the second quarter to an average asking price of $0.66 per square foot. This will be welcome news for companies looking for industrial space in the region but likely represents increased supply more than a drop in demand. Vacancy rates continued to drop to an average rate from the brokerages surveyed of 3.8 percent from the previous average rate of 4.0 percent in the first quarter.

Q1 2018 Vacancy Rate & Avg. Rent

	Vacancy (%)	Rent ($/SF)
Cushman Wakefield	3.9	0.73
JLL	3.6	0.63
Colliers	4.0	0.64
Kidder Mathews	3.7	0.64
Average	3.8	0.66

ABSORPTION AND DELIVERIES

After a slow first quarter for absorption of industrial space in Portland, the second quarter jumped back to the trend of 2017. The second quarter saw 944,000 square feet absorption according to Kidder Mathews. The fourth quarter of 2017 had seen 1.02 million square feet. Developers still appear to be confident for the future as well, with 2.65 million square feet of industrial land currently under construction by Kidder Mathews figures.

The NE Columbia Corridor continues to be the strongest sub-market for absorption in the metro area. The net absorption for the Corridor was 182,000 square feet in the second quarter according to JLL. The Eastside sub-market experienced the largest negative absorption of 62,000 for the quarter.

SALES & CAP RATES

The sales side of the market saw 758,202 square feet sold in the second quarter of 2018. This was a significant decrease from the first quarter which saw 1.2 million square feet sold. The average sale price per square foot was $114, an increase over the previous quarter. Cap rates for sales in the second quarter ranged between five and six percent, a historically low number that has become the new normal in the Portland metro area.

RETAIL MARKET ANALYSIS

MELISSA MEAGHER
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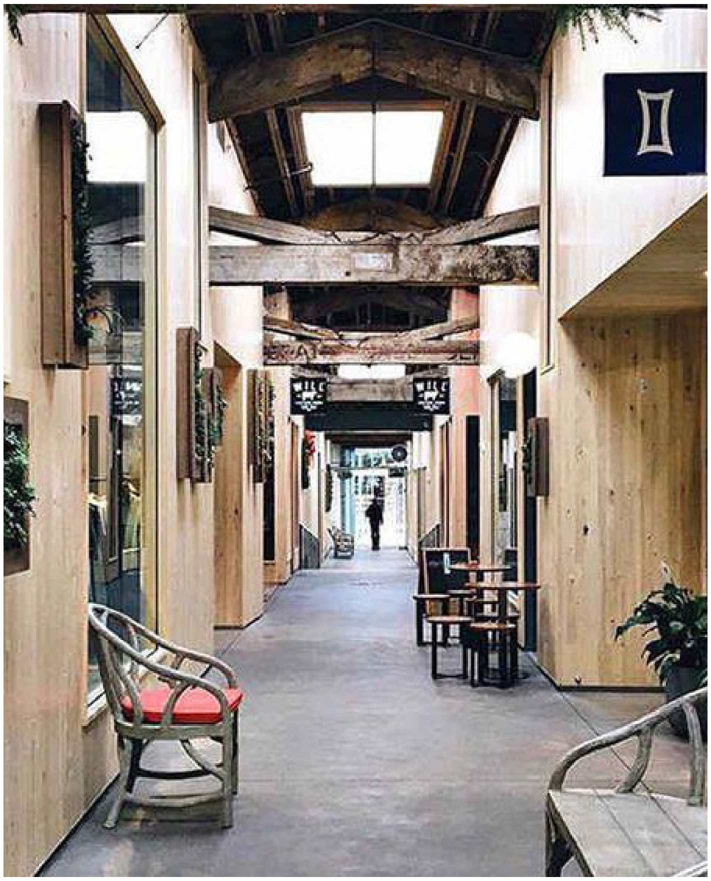
In the second quarter of 2018 the idea of success in the national retail landscape is continuing to be redefined. Last quarter, the looming idea of retail disruption came into focus with the downfall of Toys R Us, the closing of several Sears stores, as well as Albertson's push to acquire the drug store chain Rite-Aid. However, despite the notion of a retail apocalypse physical retail is still alive and well. The only difference is: the trends now point toward an emphasis on "experience per square foot," rather than product sales and price.



A retail trend report by KPMG finds that physical space will continue to be successful if it offers a customer experience that far surpasses customer expectations. By 2020, millennials driving digital technology use will make up 40 percent of consumers in the United States, putting instant consumer gratification and shareable experiences at the top of the list. In an article about the shifts of retail, Joe Mach, President of Veritone North America, states:

> For younger generations, the purchasing experience tends to supersede the purchase itself; rather than trips to just make purchases, shoppers are drawn to in-store experiences that are digitally-connected and personal. Merchants are seeing success by making the in-store experience worthy to write home about—redefining the in-store experience by blending online with in-store.

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The national retail market supports this evolving trend of physical space with a 6.1 percent vacancy rate with a message for merchants: physical space is there, it is just adapting. In its most recent CRE Research report, Trepp notes that "opportunities exist for the rise of new players with unique product offerings to fill their space [and] service-oriented retailers continue to dominate while niche lifestyle brands find new ways to expand into the physical realm."

According to Cushman & Wakefield's U.S. MarketBeat, the second half of 2018 will continue to see a widening gap between shopping mall classes. Class A malls will focus on new ideas at market rents, while Class B will search for non-traditional mall tenants and innovation to survive. Strategies to appeal to the growing millennial consumer base by creating customer experiences and building brand awareness will remain vital.

In its partnership with Live Nation to reinvent the former Nordstrom space, Portland's Lloyd Center Mall is an illuminating example of out of the box retail capturing experience per square foot. Bob Dye, General Manager of the Lloyd Center Mall, states:

Lloyd Center's metamorphosis began in 2015 … and continues in 2018 with the redevelopment of the former Nordstrom's into a premier concert venue in the Pacific Northwest and the development of an all new, luxury seating 14-plex Regal Cinema and IMAX in the former Sears building. These are essentially the "bell cows" for other leasing, with a major focus on local cuisine. When you step back, what exactly are we creating? When you pair food, entertainment, retail and local services you create an experiential product. We are dedicated to adapting not only in current times but for the future as well. Bottom line? We're not going anywhere and are focused on providing even more to our community.

This type of push toward nontraditional, inventive spaces has kept Portland's vacancy rate at 3.2 percent at the end of second quarter. The market experienced 83,327 square feet of positive absorption, with an average asking rent of $18.96, above the national average asking rate of $17.01 per square foot. With construction picking up, options to redefine the definition of retail is at the hands of those who seek to match today's constantly moving sphere of technology and innovation.

VACANCY

At the end of the second quarter, the vacancy remained strong at 3.2 percent, with little change to the retail market. However, Portland's vacancy rate continued to decrease from 3.8 percent in 2017. The largest change in vacancy rate involved the CBD market, seeing a drop from 10.5 percent to 5.8 percent in the second quarter.

General retail properties' vacancy rates remained strong with rates lower than two percent at the end of the quarter. Malls also saw a slight decrease from 3.9 percent to 3.8 percent in the past quarter.

VACANCY

Table 1: Portland Retail Vacancies by Submarket, Second Quarter 2018

Submarket	Q2 2018 Vacancy Rate	Q1 2018 Vacancy Rate	Change from Previous Quarter
CBD	5.8%	10.5%	(4.7%)
Clark County/ Vancouver	4.4%	4.8%	(0.4%)
I-5 Corridor	3.9%	4.6%	(0.7%)
Lloyd District	3.5%	3.0%	0.5%
Northeast	2.4%	3.1%	(0.7%)
Northwest	2.2%	2.3%	(0.1%)
Southeast	3.0%	3.1%	(0.2%)
Southwest	3.1%	3.4%	(0.3%)
Sunset Corridor	2.5%	2.2%	0.3%
Total	3.4%	3.7%	(0.3%)

Source: Kidder Mathews

Table 2: Portland Retail Vacancies by Product Type, Second Quarter 2018

Property Type	Q2 Vacancy Rate	Q1 Vacancy Rate	Change from Previous Quarter
Malls	2.5%	2.2%	0.3%
Power Centers	2.0%	2.4%	(0.4%)
Shopping Centers	5.9%	6.1%	(0.2%)
Specialty	0.0%	0.0%	0.0%
General Retail	2.2%	2.6%	(0.4%)

Source: Kidder Mathews

ABSORPTION AND LEASING

Ending last quarter with a positive 282,830 square feet of absorption, the market is still seeing a net absorption positive of 83,327 square feet in quarter two. The shopping center, power center and mall sectors all reported positive absorption with 15,340 square feet, 17,214 square feet, and 7,983 square feet, respectively. Specialty centers experienced the only negative net absorption in second quarter with negative 3,042 square feet.

ABSORPTION AND LEASING

Table 3: Portland Retail Absorption, Second Quarter 2018 and YTD

Submarket	Q2 2018 Net Absorption	YTD Net Absorption
CBD	12,137	14,660
Clark County / Vancouver	(6,403)	130,505
I-5 Corridor	20,405	29,471
Lloyd District	(28,614)	11,567
Northeast	66,821	140,179
Northwest	35,720	8,042
Southeast	32,194	123,997
Southwest	35,281	(39,869)
Sunset Corridor	(10,981)	(27,887)
Total	127,621	277,293

Source: Kidder Mathews

RENTAL RATES

Rental rates remained relatively stable from first quarter to second quarter. According to Kidder Mathews, the average asking lease rate was $18.96, a 1.28 percent increase from the end of the second quarter in 2017. Most notably, average rental rates increased $21.02 in first quarter to $22.44 in second quarter in the CBD submarket.

Table 4: Second Quarter Average Rental Rates by Firms

Brokerage	Kidder Mathews	Cushman & Wakefield	Norris & Stevens	Costar
Q2 Average Rental Rate	$18.96	$18.99	$17.35	$17.24

Source: CoStar, Cushman & Wakefield, Kidder Mathews, and Norris & Stevens

Table 5: Portland Retail Asking Rents by Submarkets, Second Quarter 2018 v. First Quarter 2018

Submarket	Q2 Avg Rental Rate	Q1 Avg Rental Rate	Change from Previous Year
CBD	$22.44	$21.02	$1.42
Lloyd District	$20.52	$24.44	($3.92)
I-5 Corridor	$18.36	$19.66	($1.30)
Clark County	$18.12	$18.29	($0.17)

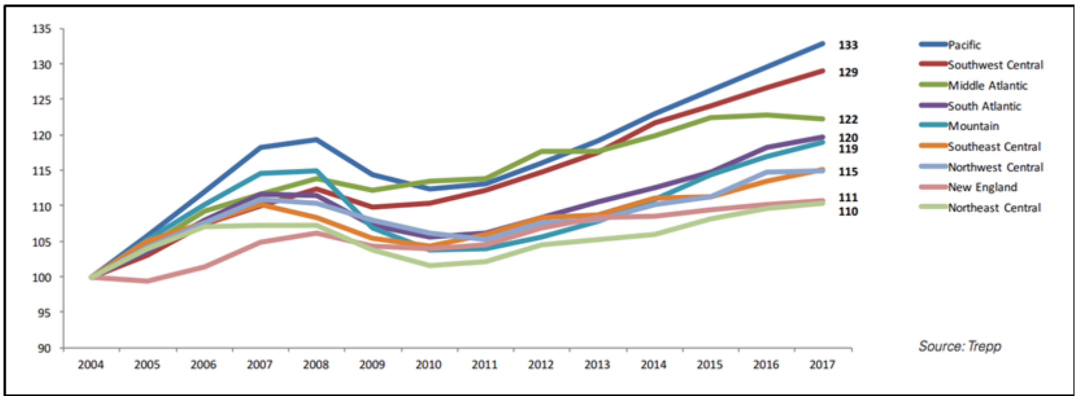
Source: Kidder Mathews

SALES TRANSACTIONS

Portland's opportunity for continued growth is apparent and leasing activity continues to be robust. Trepp noted Portland's prime positioning in terms of current and future growth:

> Boosted by rising population levels and robust economic growth, the Pacific US ranks first in retail NOI growth (+33 percent) for the time framed analyzed and was the region with the greatest NOI increase for the 2017 fiscal year (+2.4 percent). With budding tech hubs and travel hotspots in areas like Silicon Valley, California; Portland, Oregon; Seattle, Washington; Anchorage, Alaska; and Honolulu, Hawaii, Pacific region states draw in tourists from all over the world, as well as millennials seeking high-paying employment and desirable urban lifestyles.

Figure 1: NOI Growth Index by U.S. Region



Source: Trepp

In second quarter, the Southeast and Northeast submarkets had the most leasing activity at midyear with 120,000 square feet. Natural Grocers opened its fifth Portland location at 5029 NE Martin Luther King Jr. Blvd. WinCo Foods leased the 60,673 square foot former Haggen Food and Pharmacy in Oregon City. VRTech Arena also leased the 14,000 square foot space at 9360 SW Beaverton Hillsdale Hwy in the 217 Corridor/Beaverton submarket. As opposed to the previous lease that included the Valley Theater, VRTech is a technology company specializing in interactive events. Lastly, Live Laugh Art, an art activity center, leased the 8,297 square foot space at 9120 SW Hall Blvd in the Tigard Market. The business emphasizes its fun, collaborative workshops attempting to cater to the growing consumer sector hoping for memorable experiences.

Table 6: Select Top Retail Leases – Based on Leased Square Footage for Deals Signed in the Second Quarter 2018.

Building	Submarket	SF	Tenant Name
1. 19701 Highway 213	Oregon City	60,673	WinCo
2. 9444 N Whitaker Rd	Airport Way	34,000	N/A
3. 5029 NE MLK Blvd	Northeast	25,000	Natural Grocers
4. Menlo Park Plaza	East Columbia Corridor	22,019	N/A
5. 3265 SW Sundial Ave	East Columbia Corridor	15,600	N/A
6. Valley Plaza – Bldg 2	217 Corridor/Beaverton	14,000	VRTech Arena
7. 555 NW 12th Avenue	CBD	9,971	N/A
8. 11745 SW Pacific Hwy	217 Corridor/Beaverton	9,772	N/A
9. 9120 SW Hall Blvd	217 Corridor/Beaverton	8,297	Live Laugh Love Art
10. 800 NW Eastman Pky	Gresham	6,550	Schmizza Public House

Source: Costar & Commercial Realty Advisors

DELIVERIES AND CONSTRUCTION

A total of seven retail projects were delivered this quarter, which added 55,011 square feet to the market. This adds to the 357,363 square feet of retail space constructed in the last four quarters, according to Norris & Stevens. The 901 NW 21st Avenue project broke ground in the first quarter of 2017 and was delivered to the market with 35,200 square feet.

Retail inventory in the Portland market area totaled 189,755,970 square feet in 18,309 buildings and 1167 centers at the end of the second quarter of 2018. Currently, there is an additional 1,129,274 square feet of retail under construction across the market and new development remains strong. According to Costar, much of the retail being constructed in Portland is already 100 percent pre-leased, which continues to reflect healthy tenant demand.

Table 7: Notable Developments Currently Under Construction, Second Quarter 2018

Building	Market	SF	Preleased	Delivery Year
Avery Park	1-5 Corridor	39,115	100%	Q4 2018
Cornelius Place	Westside	30,000	100%	Q4 2018
Sideyard	Lloyd District	20,000	73%	Q4 2018

Source: CoStar

SALES TRANSACTIONS

Sales volume at the end of the second quarter lowered to below one million square feet; however, with an average cap rate of 6.4 percent in the Portland market, investors remain confident. Trading for $179.85 per square foot, the 732,542 square-foot Jantzen Beach Center still remains 2018's largest sale. However, in second quarter, March Hare LLC and McMincenter, LLC acquired the 135,873 square-foot McMinnville Plaza at 2400-2420 NE OR-99W for $17.4 million. In addition, the 139,831 square foot Wood Village Town Center was sold for $26.6 million to Wood Village Retail I, LLC and was the company's first retail acquisition in the Pacific Northwest. The 93,864 square foot former Fred Meyer site at 5253 SE 82nd Avenue also closed, bringing a rare redevelopment opportunity for new owner Terry Emmert.

SALES TRANSACTIONS

New opportunities for consumer experience leave plenty of options for retail spaces to thrive. As Jeffrey Boerebach, Research Analyst, finds in his latest Industry Sector Series for ICSC, the new retail state of mind is "the need to enjoy," rather than the "need to buy." He concludes, "Retail will become less focused on transactions and more about connecting with the consumer. Location and shop quality will become even more important." The second half of 2018 will reveal the future winners and losers in their realization and ability to create an unforgettable experience amidst this constantly evolving retail market.